

Yardi® Matrix

# Hard Knox Life

Multifamily Report Winter 2018

**Rent Growth  
Continues**

**Inventory Expansion  
Set for Boost**

**Employment Market  
Takes Serious Hits**

## Market Analysis

Winter 2018

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## Going With the Flow

As rents continued to grow at a steady rate in 2017 (2.6%), while inventory expansion remained limited, the local multifamily market is facing the need to navigate nascent affordability issues. Continued demand due to recent population gains is generating further need for housing, which this year is set to lead to the delivery of more units than the cycle average. In a trend that has become prevalent across the U.S., the spillover effect is an important driver for growth in smaller markets, as amplifying demand and economic development in nearby Nashville are pushing rents higher in a number of Knoxville submarkets.

Although local employment gains have slowed to a halt, the metro's unemployment rate is the lowest among important markets across the state, while industries such as manufacturing continue to improve. Japanese automotive manufacturer Denso has lined up a \$1 billion expansion at its Maryville facility, where it is set to add 1,000 new jobs once the project is complete. Where development and infrastructure are concerned, 2017 marked a new high for the total value of projects underway in the metro, pointing to further growth.

Continued rent gains and growing occupancy—96.1% as of November—have led to a multifamily pipeline of 1,600 units under construction, with a further 2,300 units in the planning and permitting stages. Going forward, rents are poised to continue their climb, with Yardi Matrix expecting a 2.8% growth in 2018.

## Recent Knoxville Transactions

### The Metropolitan



City: Knoxville, Tenn.  
Buyer: Goldelm  
Purchase Price: \$48 MM  
Price per Unit: \$92,307

### Walden Legacy



City: Knoxville, Tenn.  
Buyer: Bluestone Properties  
Purchase Price: \$31 MM  
Price per Unit: \$130,932

### Viera Cedar Bluff



City: Knoxville, Tenn.  
Buyer: Michaelson Group  
Purchase Price: \$18 MM  
Price per Unit: \$96,739

### The Views at Elm Grove



City: Knoxville, Tenn.  
Buyer: Brookside Properties  
Purchase Price: \$6 MM  
Price per Unit: \$43,024

### To Subscribe

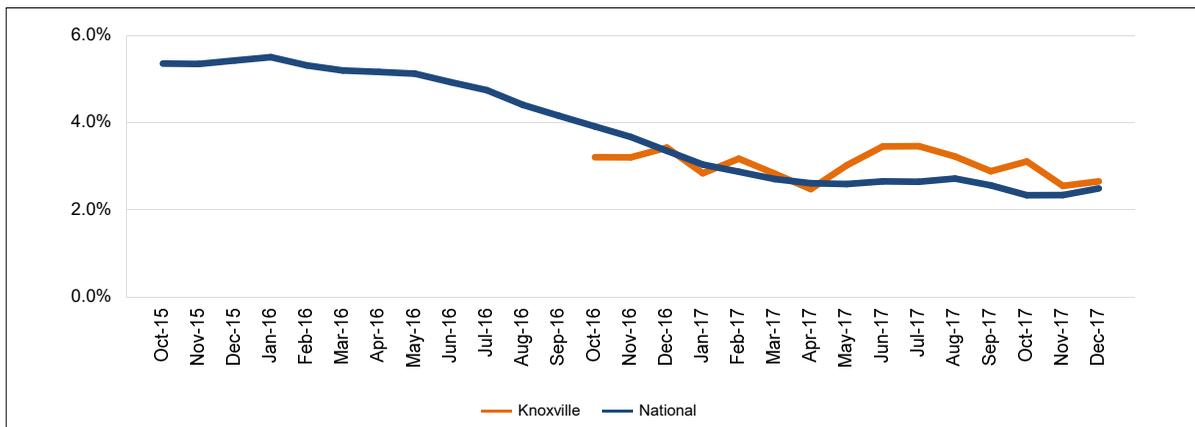
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## Rent Trends

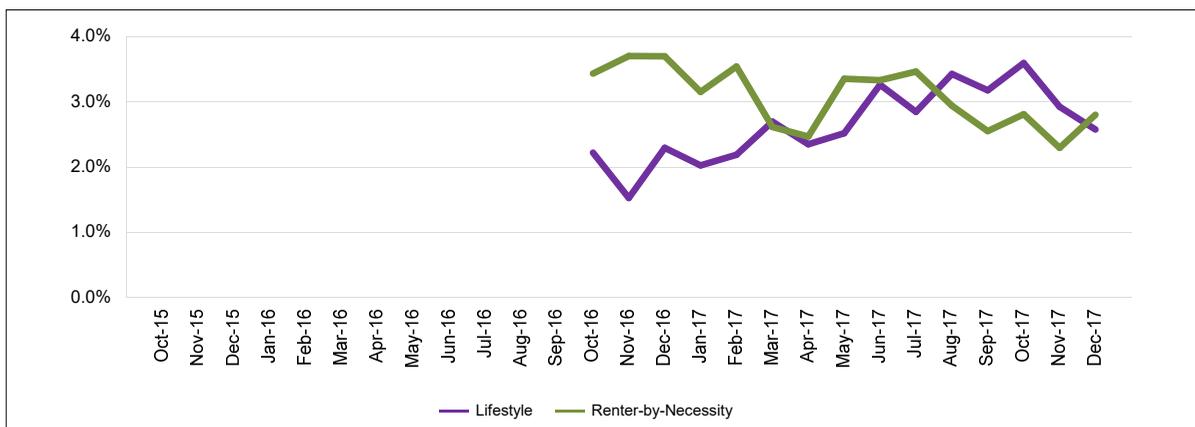
- Knoxville rents rose 2.6% year-over-year in December, only 10 basis points above the national growth rate. The overall average was \$930 at the end of 2017, roughly \$250 below the rate of nearby Nashville. Proximity to the rapidly growing Nashville market has generated improvement in Knoxville, where the occupancy rate in stabilized properties stood at 96.1% as of November 2017, the lowest level among the largest metros in the state of Tennessee.
- Rents grew in both working-class Renter-by-Necessity and Lifestyle assets, as limited inventory in both segments pushed appreciation across the board. RBN rents were up 2.8% year-over-year to an average of \$807, while Lifestyle rents grew 2.6%, to \$1,234.
- Areas registering the highest rent growth rates were either located in the metro core—South Knoxville (5.3%) and Knoxville–West (5.1%)—either fringe submarkets situated along major thoroughfares of the Nashville corridor or within easy reach of the city center—Corryton (4.9%), Maryville (4.7%), Oakridge (4.6%) and Loudon (4.5%).
- We expect rents to continue their growth at a similar rate, with a 2.8% appreciation forecasted for 2018.

**Knoxville vs. National Rent Growth** (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

**Knoxville Rent Growth by Asset Class** (Sequential 3 Month, Year-Over-Year)

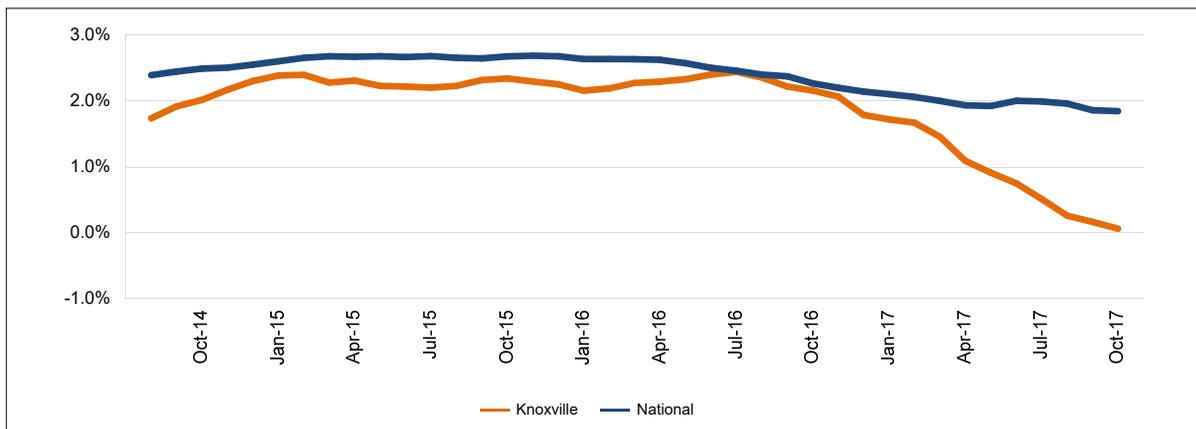


Source: YardiMatrix

## Economic Snapshot

- Knoxville lost 2,200 jobs in the 12 months ending in November, as the employment market continued to tumble. Although the job market is down, the slump is mostly due to substantial drops in the trade, transportation and utilities and the professional and business services sectors, which collectively contracted by 3,600 positions. However, Knoxville still has the lowest unemployment rate among major metros in the state of Tennessee, at about 2.6% as of last fall.
- One of the few sectors to have actually experienced a strong year was manufacturing, which netted 700 jobs over that timeframe. Japan-based auto-parts company Denso's announced \$1 billion expansion project in Maryville is set to add 1,000 jobs and new facilities to the company's 194-acre campus. Further south in Athens, E&E Manufacturing is moving forward with the 76,000-square-foot expansion of its automotive facility, laying the groundwork for 123 jobs in McMinn County.
- Going forward, the local economy may well benefit from the acquisition of Scripps Networks Interactive by Discovery Communications, for a reported \$14.8 billion. The company aims to create a National Operations Headquarters in Knoxville, pointing to further growth for the information sector, as well as for the metro's office market.

### Knoxville vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### Knoxville Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
30	Manufacturing	39	9.8%	700	1.8%
70	Leisure and Hospitality	43	10.8%	700	1.6%
90	Government	63	15.8%	300	0.5%
80	Other Services	15	3.8%	100	0.7%
55	Financial Activities	20	5.0%	100	0.5%
65	Education and Health Services	54	13.5%	-	0.0%
15	Mining, Logging and Construction	18	4.5%	-200	-1.1%
50	Information	5	1.3%	-300	-5.3%
40	Trade, Transportation and Utilities	80	20.1%	-600	-0.7%
60	Professional and Business Services	62	15.5%	-3,000	-4.7%

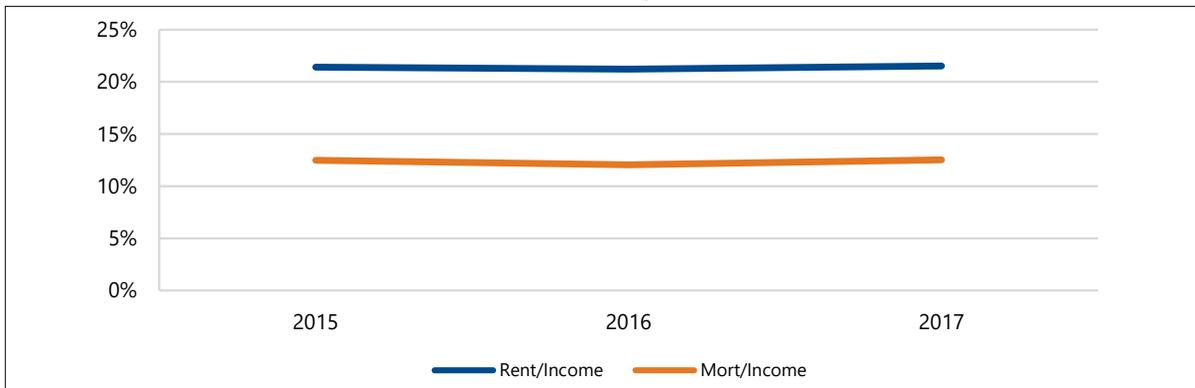
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

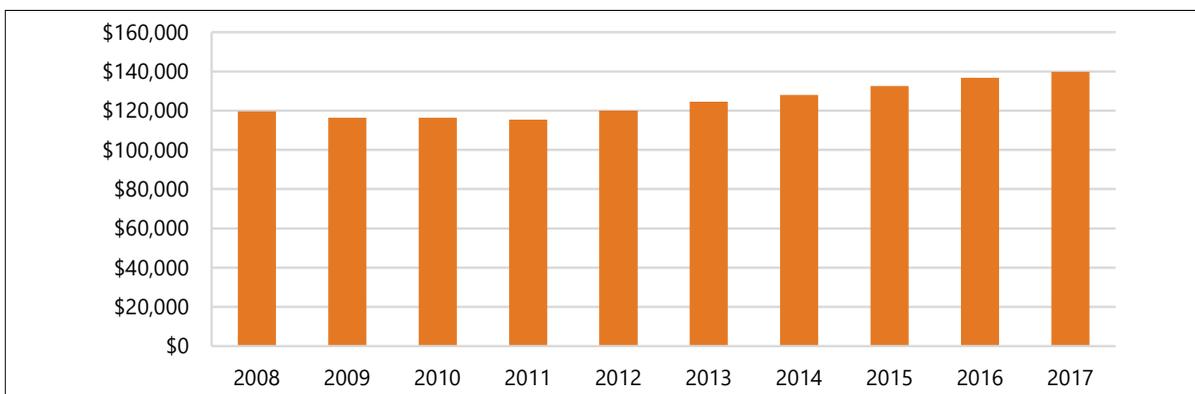
- The median home price was \$139,756 in 2017, a 2.2% uptick compared to 2016. Knoxville home prices weren't hit as hard as those in the rest of the nation following the downturn, having only dropped \$4,000 between 2008 and 2011. As a result, there was little rebound to be had, leading prices to rise at a tepid rate.
- Affordability issues are looming for Knoxville, as 2017 marked a significant reduction in available Section 8 housing, exerting more pressure on those struggling to secure housing. With rents up 2.6% in 2017 and continued gains projected for this year, these issues are bound to exacerbate.

### Knoxville Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Knoxville Median Home Price



Source: Moody's Analytics

### Population

- Knoxville added residents at a rate of 0.9% in 2016. That's significantly higher than the U.S. average (0.6%).
- The metro's population grew by 21,000 residents between 2012 and 2016, marking a 2.5% expansion.

### Knoxville vs. National Population

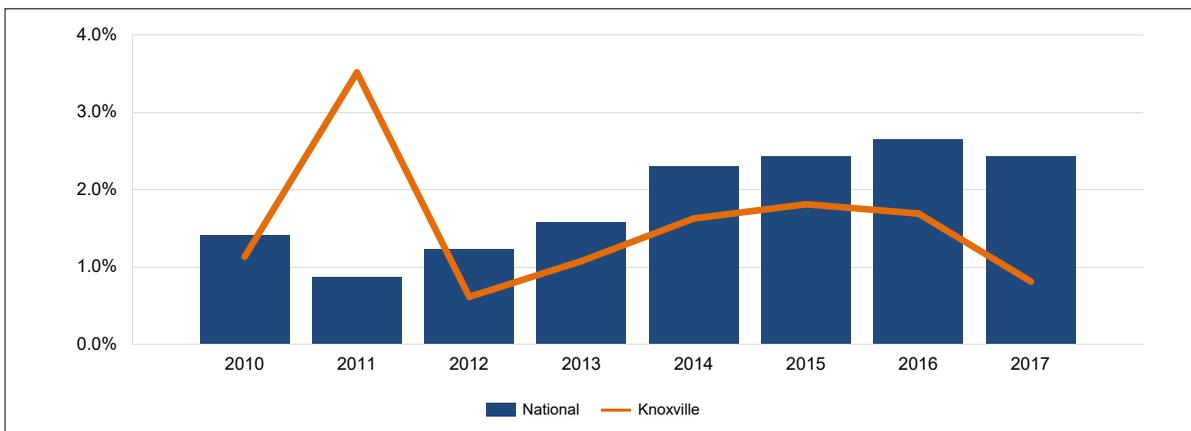
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Knoxville Metro	847,602	851,811	856,428	861,169	868,546

Sources: U.S. Census, Moody's Analytics

## Supply

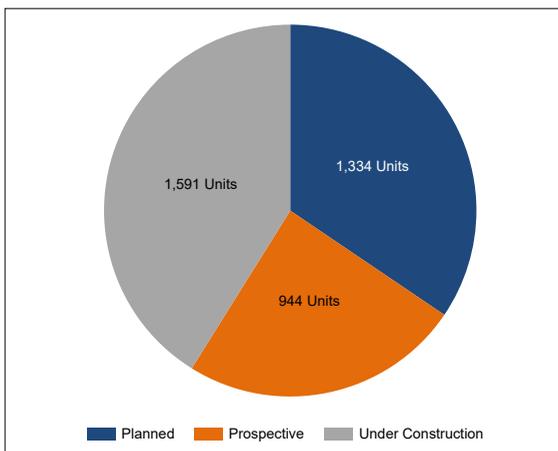
- Developers added 310 units in 2017, 0.8% of existing stock, as inventory expansion continues to lag behind national levels. Going forward, completions are likely to catch up with the national trend, as the U.S. multifamily market braces for a peak development year. Although a significant increase is expected, the Knoxville market is unlikely to outpace the cycle high of 2011, when 1,241 units were delivered to the market.
- About 1,600 units were under way in the metro as of December 2017, while another 2,300 units were in the planning and permitting stages. We forecast more than 1,000 units will be added in Knoxville in 2018, 2.8% of total stock, more than in 2015 and 2016 combined.
- Limited inventory expansion throughout the cycle and continued population growth have pushed occupancy levels higher toward the end of the year, at 96.1% as of November 2017.
- Developers are focusing on submarkets such as Hardin Valley (328 units under way), South Knoxville (315 units) and Knoxville–East (258 units). The largest community under construction in the metro was Greystone Pointe, a 328-unit multifamily asset in Hardin Valley.

**Knoxville vs. National Completions as a Percentage of Total Stock** (as of December 2017)



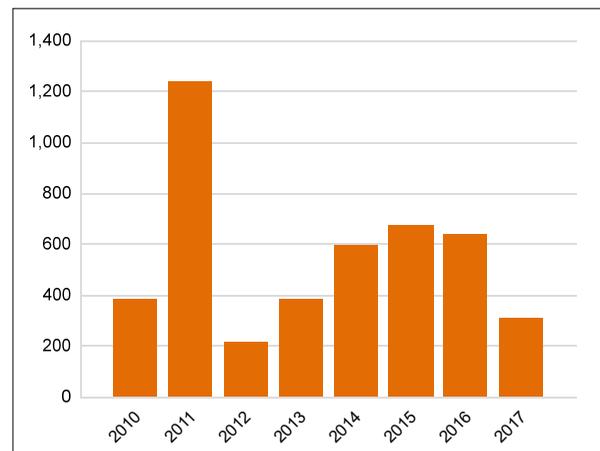
Source: YardiMatrix

**Development Pipeline** (as of December 2017)



Source: YardiMatrix

**Knoxville Completions** (as of December 2017)

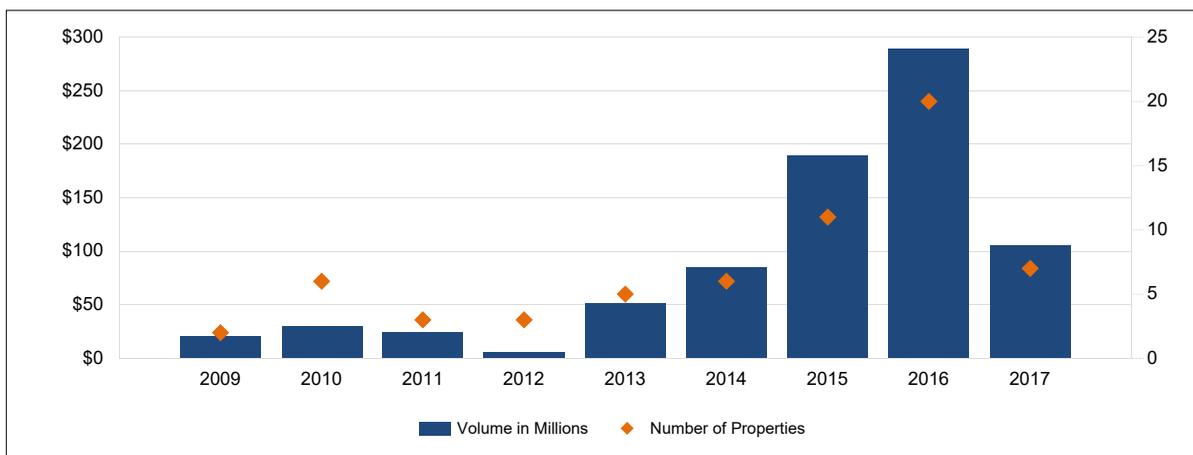


Source: YardiMatrix

## Transactions

- Investment volumes returned to more manageable levels in 2017, as \$105 million in multifamily properties traded during that interval. That is a little over a third of the total transactions volume recorded in 2016, the current cycle high.
- Per-unit prices once again trended upwards, at \$92,361 for the year, nearly \$30,000 over the 2016 level, but still way below the \$137,493 U.S. average.
- The limited number of transactions meant that only three submarkets recorded multifamily deals in 2017. The Cedar Bluff submarket had the strongest investment activity of 2017, with roughly \$97 million in properties trading there. Goldelm's \$48 million purchase of the 520-unit Metropolitan from Covenant Capital Group was Knoxville's largest transaction of 2017.

### Knoxville Sales Volume and Number of Properties Sold (as of December 2017)



Source: YardiMatrix

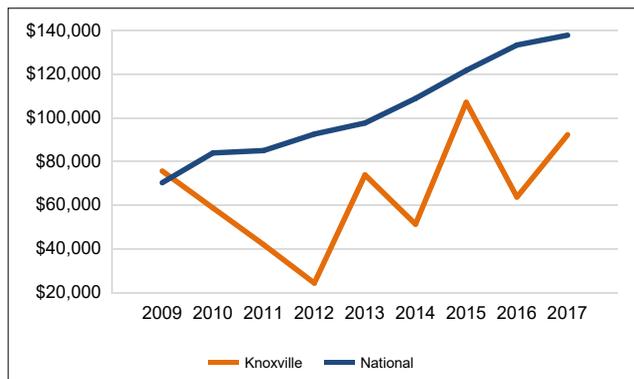
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Cedar Bluff	97
Corryton	8

Source: YardiMatrix

<sup>1</sup> From January 2017 to December 2017

### Knoxville vs. National Sales Price per Unit



Source: YardiMatrix

# Read All About It!



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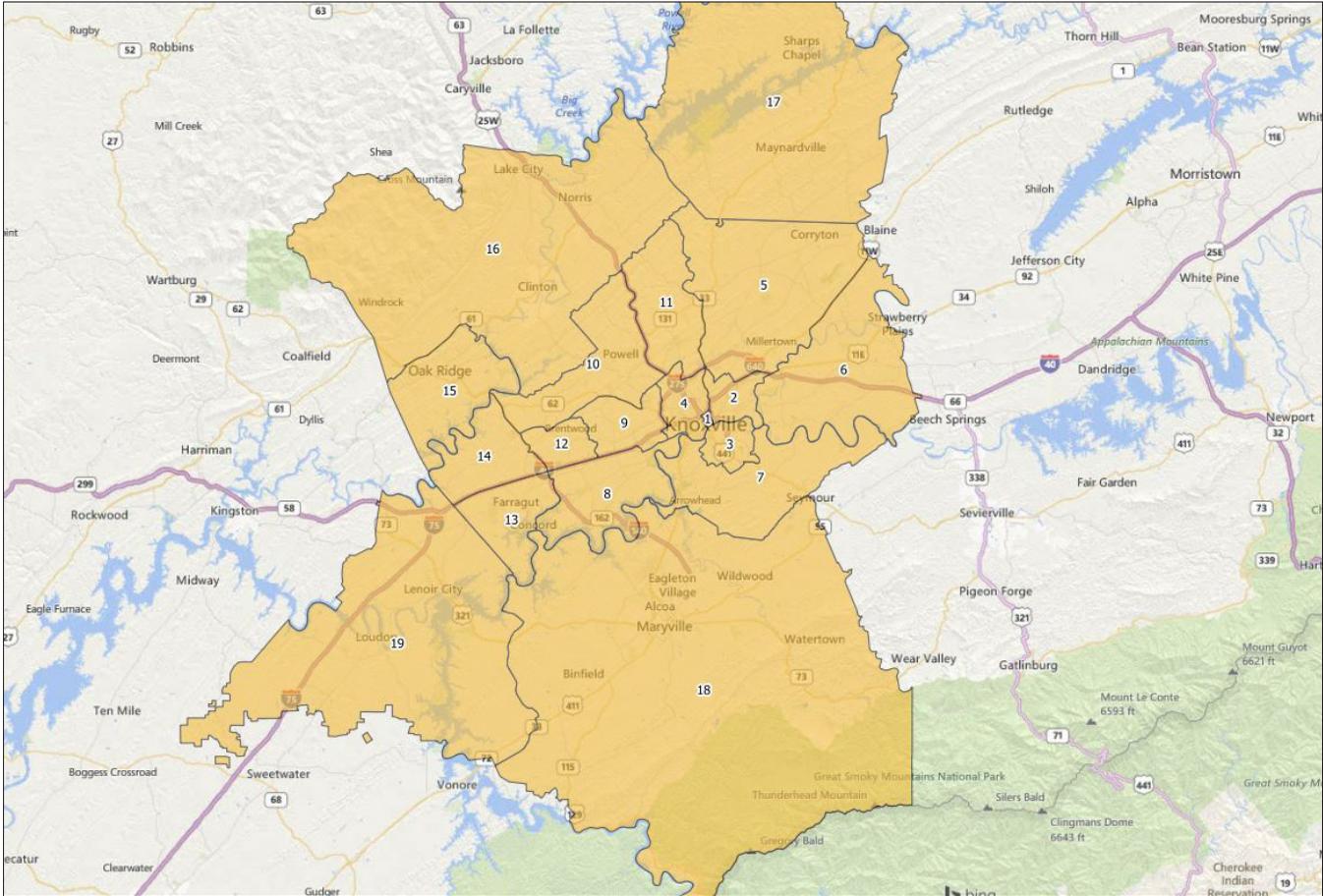


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## Knoxville Submarkets



Area #	Submarket
1	Knoxville–Downtown
2	Knoxville–East
3	South Knoxville
4	Knoxville–West
5	Corryton
7	Seymour
8	Northshore
9	Middlebrook
10	Karns

Area #	Submarket
11	Powell
12	Cedar Bluff
13	Farragut
14	Hardin Valley
15	Oakridge
16	Anderson
18	Maryville
19	Loudon

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## Definitions

**Lifestyle households (renters by choice)** have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

**Renter-by-Necessity households** span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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