



MULTIFAMILY REPORT

# Knoxville's Spotty Growth

September 2023



Rent Growth Leads US  
YoY Occupancy Declines  
Investment Volume Drops

# KNOXVILLE MULTIFAMILY



## Rent Gains Endure, Other Indicators Moderate

Knoxville's multifamily fundamentals were a mixed bag in July, with solid rent and supply growth, as investment activity nearly halted and occupancy slid. Rents rose 0.5% on a trailing three-month basis through July, outperforming the 0.3% U.S. rate. But with the average asking rent at \$1,446, the metro remained in the affordable category, nearly \$300 below the national average. Although occupancy declined 130 basis points year-over-year as of June, to 96.5%, Knoxville held its status as one of the tightest rental markets in the nation.

Unemployment in Knoxville stood at 3.6% in June, on par with the U.S. rate and trailing the state (3.2%) and Nashville (3.0%). Meanwhile, the employment market was up 3.3% year-over-year as of May, having added 12,900 positions, outperforming the 2.8% national rate. During this period, all sectors added jobs, except for information, which lost 100 positions. Professional and business services (3,900 jobs) and education and health services (2,700 jobs) led gains.

Developers brought 529 units online in 2023 through July and had another 2,629 units under construction. Deliveries and underway projects tilted heavily toward the upscale segment. Investment activity plummeted, with just \$29 million in multifamily assets trading through July. Just value-add plays sold during the period, for a price per unit that stood at \$121,694.

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## Market Analysis | September 2023

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### Recent Knoxville Transactions

#### Hillside Place



City: Knoxville, Tenn.  
Buyer: Standifer Capital  
Purchase Price: \$8 MM  
Price per Unit: \$85,938

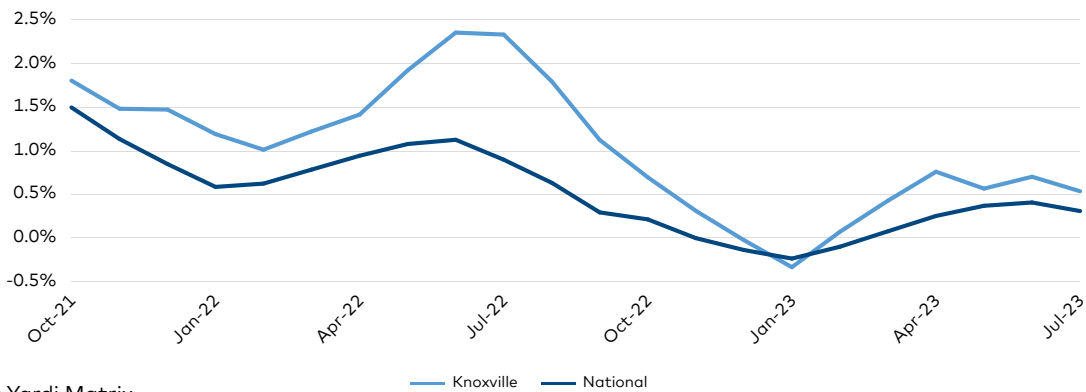
## RENT TRENDS

- ▶ Knoxville rents rose 0.5% on a trailing three-month (T3) basis through July, 20 basis points above the U.S. rate. Rents in the metro continued to outperform the national rate for all but one of the last 25 months. January 2023 marked the only exception, when rent growth turned negative. Moreover, on a year-over-year basis, rents in the metro were up 5.1% in July, well ahead of the 1.6% U.S. rate. Still, Knoxville remained among the least expensive major metros, with the average at \$1,446 as of July, trailing the \$1,729 national figure.
- ▶ Rent gains were slightly stronger in the upscale Lifestyle segment, up 0.6% on a trailing T3 basis through July, to \$1,816, while Renter-by-Necessity rents rose 0.5%, to \$1,254. Overall, rates grew by an average 0.4% in each segment year-to-date.

The occupancy rate in stabilized properties declined 130 basis points year-over-year as of June, but remained tight, at 96.5%. The decrease was nearly equal across asset classes, down 130 basis points, to 96.4%, in the RBN segment and 140 basis points, to 96.8%, in the Lifestyle class.

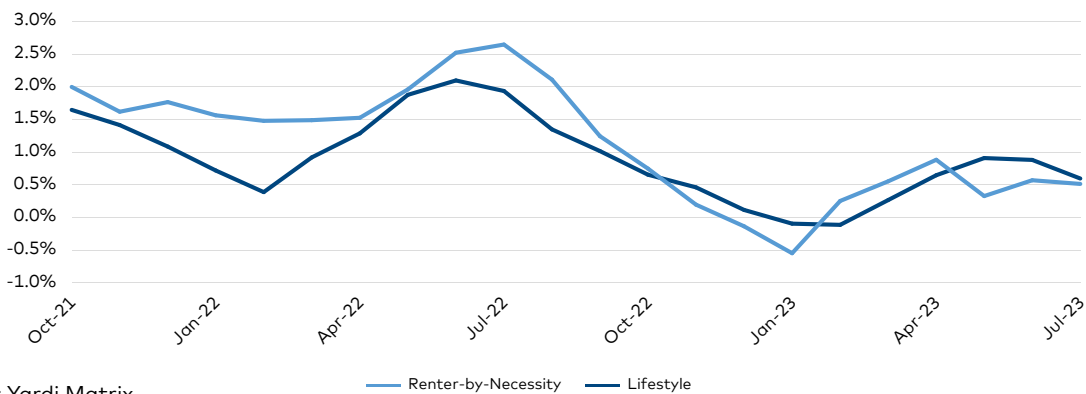
- ▶ Rents fell in two submarkets year-over-year through July, with the largest drop recorded in Knoxville-West (-4.0% to \$1,173). In six of the 17 submarkets tracked by Yardi Matrix, growth remained in the double digits. The list included Downtown, the metro's most expensive area (up 10.5% to \$1,870).
- ▶ The SFR segment posted solid performance, with rents rising 8.0% year-over-year through July. Meanwhile, occupancy dropped 100 basis points.

### Knoxville vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

### Knoxville Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

## ECONOMIC SNAPSHOT

- ▶ Knoxville's unemployment rate stood at 3.6% in June, a 130-basis-point increase from April, when the rate marked the lowest level recorded since 1990, according to data from the BLS. The June rate placed the metro on par with the U.S., slightly ahead of Chattanooga (3.8%), but trailing the state (3.2%) and Nashville (3.0%).
- ▶ The employment market in Knoxville expanded 3.3%, or 12,900 jobs, in the 12 months ending in May, and although it has been on a moderating trend since June 2022, it fared better than the 2.8% U.S. rate. All sectors gained jobs, except information, which lost 100 jobs during the interval.
- ▶ Professional and business services led gains, adding 3,900 jobs. Next in line were education and health services (2,700 jobs) and trade, transportation and utilities (2,000 jobs).
- ▶ Several projects are underway in the metro, slated to generate auxiliary positions during construction, and upon completion, to add specialized jobs and attract new businesses in their respective areas. Among them are 3M's manufacturing facility expansion at the Eagle Bend Industrial Park (estimated 585 jobs once operational in 2025) and the Tennessee Smokies stadium, set to generate 3,000 jobs during construction and 400 permanent jobs when finalized. The stadium is expected to open in 2025.

### Knoxville Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	74	16.8%
65	Education and Health Services	59	13.4%
40	Trade, Transportation and Utilities	86	19.5%
90	Government	60	13.6%
70	Leisure and Hospitality	47	10.7%
30	Manufacturing	48	10.9%
15	Mining, Logging and Construction	22	5.0%
80	Other Services	17	3.9%
55	Financial Activities	21	4.8%
50	Information	7	1.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Knoxville gained 12,022 residents in 2021, for a 1.3% population expansion, while U.S. demographics inched up just 0.1%.
- ▶ The first year of the pandemic marked a slightly stronger population increase, up 1.4% year-over-year, well ahead of the 0.4% U.S. rate.

### Knoxville vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Knoxville	885,356	892,544	905,153	917,175

Source: U.S. Census

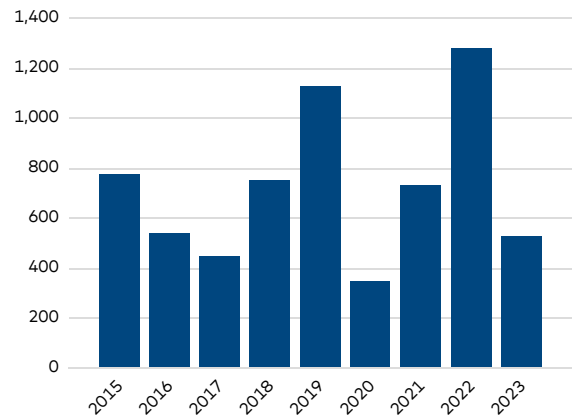
## SUPPLY

- ▶ Knoxville's multifamily inventory expanded by 529 units across four projects in 2023 through July, accounting for 1.3% of existing stock, 40 basis points above the U.S. rate. Two of the four properties delivered during this period were Renter-by-Necessity projects, one of which was an 80-unit fully affordable community. The bulk of deliveries, some 343 units, were in the Lifestyle segment.
- ▶ Developers had 2,628 units under construction as of July and another 4,900 in the planning and permitting stages. Roughly 70% of the construction pipeline consisted of Lifestyle units, while fully affordable communities accounted for the remaining pipeline.
- ▶ Development has slowed down in the metro, with the number of projects breaking ground in 2023 through July dropping to two properties totaling 408 units, down from 1,294 units across six properties during the same period last year. Overall, the number of construction starts in Knoxville last year amounted to 1,920 units across nine properties.
- ▶ Of the 17 submarkets tracked by Yardi Matrix, nine had at least 50 units under construction.

Maryville led all other areas with 808 units underway, followed by Farragut with 638 units.

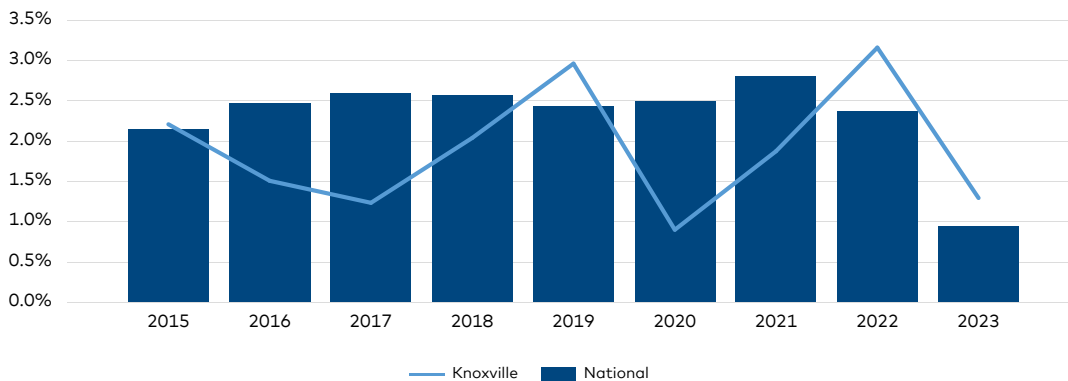
- ▶ The largest project delivered through July was the 265-unit Universal at Town Creek in Loudon. Owned by Universal Living, the asset is subject to a five-year unsubordinated net ground lease, held by Health, Educational and Housing Facility Board of the City of Lenoir City, which expires in March 2028.

**Knoxville Completions** (as of July 2023)



Source: Yardi Matrix

**Knoxville vs. National Completions as a Percentage of Total Stock** (as of July 2023)



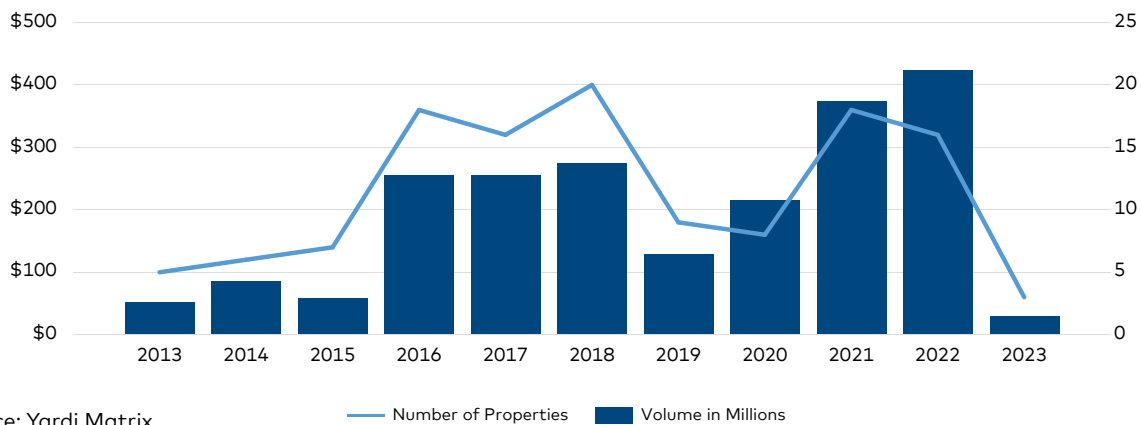
Source: Yardi Matrix

## TRANSACTIONS

- ▶ Transaction activity nearly came to a halt in 2023, with just \$29 million in multifamily assets trading in Knoxville through July. This comes on the heels of the metro's record year for investment activity, as last year's volume had exceeded \$422 million, with an average price per unit of \$185,535.
- ▶ All properties that changed hands in Knoxville in 2023 through July were RBN assets, thereby heavily skewing per-unit averages, at \$121,694.

That's down 34% compared to last year's average price, but comparing the figure to just RBN per-unit averages in 2022, the price is actually 16.1% higher than the \$104,777 figure recorded for the prior year. Meanwhile, the national overall per-unit price marked an 11.8% decrease from December's value, to \$184,996, in July.

### Knoxville Sales Volume and Number of Properties Sold (as of July 2023)



Source: Yardi Matrix

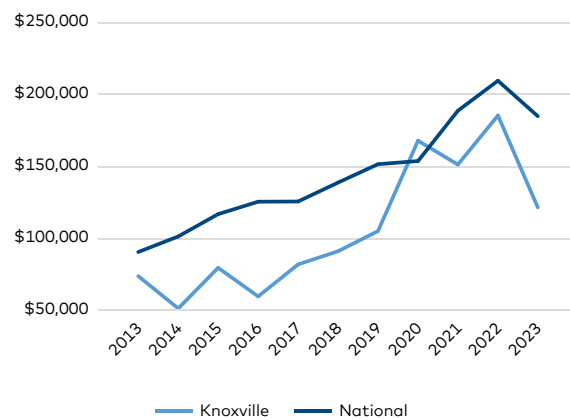
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Cedar Bluff	57
Oakridge	52
Middlebrook	36
Knoxville-West	8

Source: Yardi Matrix

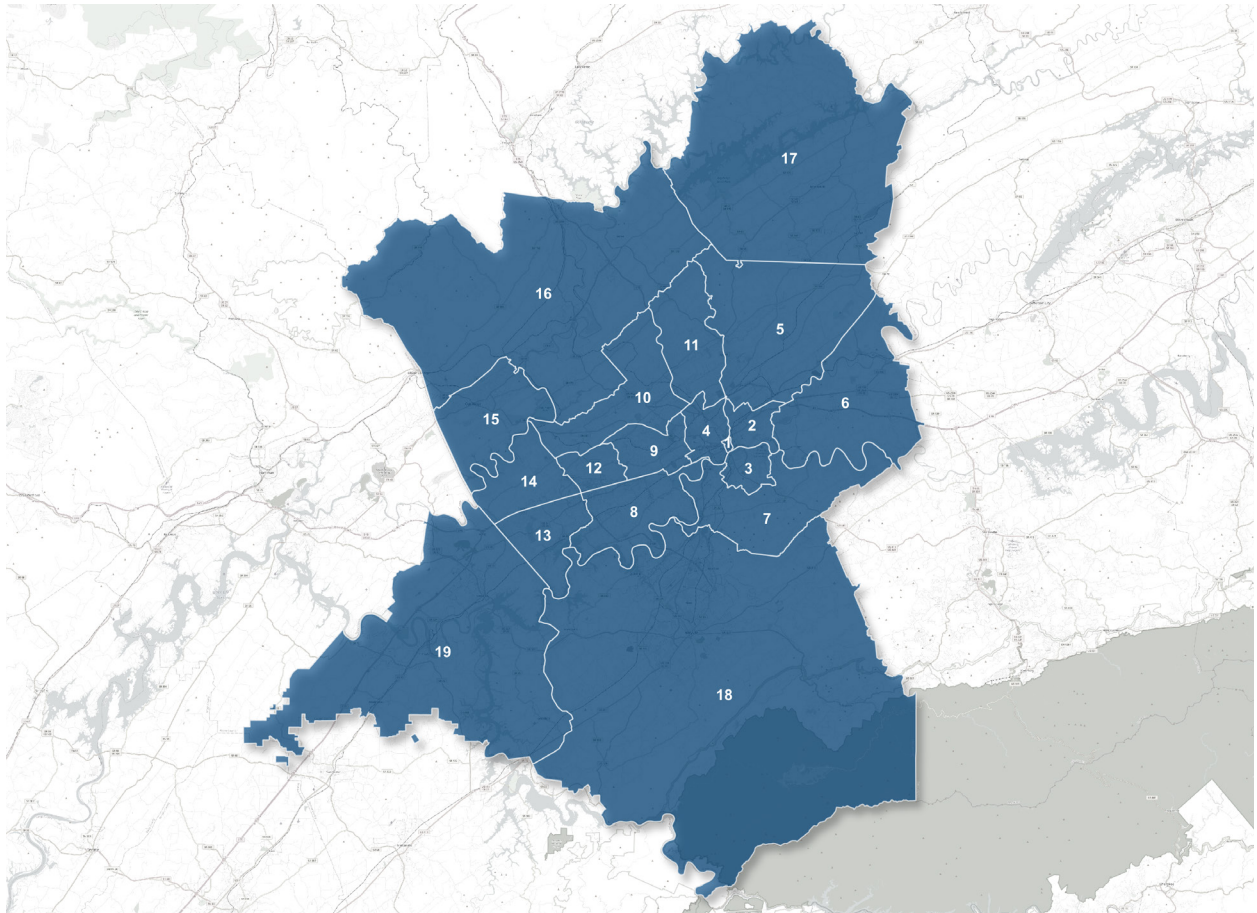
<sup>1</sup> From August 2022 to July 2023

### Knoxville vs. National Sales Price per Unit



Source: Yardi Matrix

## KNOXVILLE SUBMARKETS



Area No.	Submarket
1	Knoxville-Downtown
2	Knoxville-East
3	South Knoxville
4	Knoxville-West
5	Corryton
6	Strawberry Plains
7	Seymour
8	Northshore
9	Middlebrook
10	Karns

Area No.	Submarket
11	Powell
12	Cedar Bluff
13	Farragut
14	Hardin Valley
15	Oakridge
16	Anderson
17	Union
18	Maryville
19	Loudon

## 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 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 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, 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.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.





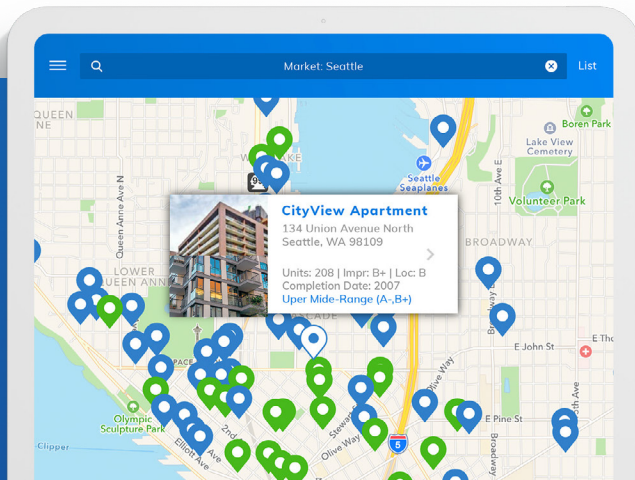
# Yardi<sup>®</sup> Matrix

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- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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