

Yardi® Matrix

# Knoxville Banks On Job Stability

Multifamily Report Summer 2018

Rent Growth  
Rebounds

New Supply  
Stays Tepid

Low Yields Slow  
Acquisition Pace

## Market Analysis

Summer 2018

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## East Tennessee Fights for Its Spot

Knoxville is in the midst of a rental housing revival, spurred by the metro's trend-defying economic development. The market registered limited inventory growth, while both home prices and rents continued their upward path. With occupancy in stabilized assets staying above 95.5% in both the Renter-by-Necessity and Lifestyle segments, demand continues to be strong across asset classes.

While employment growth has tapered, key sectors such as manufacturing and construction are driving record-low unemployment rates. A burgeoning hospitality pipeline has resulted in strong job growth, as the sector added 2,400 positions in the 12 months ending in February. Meanwhile, manufacturing continued to expand against type. The latest projects to boost the sector are manufacturer Protomet's \$30 million investment in Maremont's former plant in Loudon County and Scapa Tapes North America's expansion project in Knox County, which is worth an estimated \$40 million.

Knoxville's multifamily pipeline remains limited, with 1,439 units underway as of April and an estimated 700 units in this year's pipeline. Modest inventory expansion and strong occupancy will likely result in further improvement, leading Yardi Matrix to forecast around 3.0% growth in 2018.

### Recent Knoxville Transactions

The Metropolitan



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

Bridalwood at Westland



City: Knoxville, Tenn.  
Buyer: J.A. Fielden  
Purchase Price: \$35 million  
Price per Unit: \$113,636

Woodlands West



City: Knoxville, Tenn.  
Buyer: Middle Farms Capital  
Purchase Price: \$34 million  
Price per Unit: \$73,593

Walden Legacy

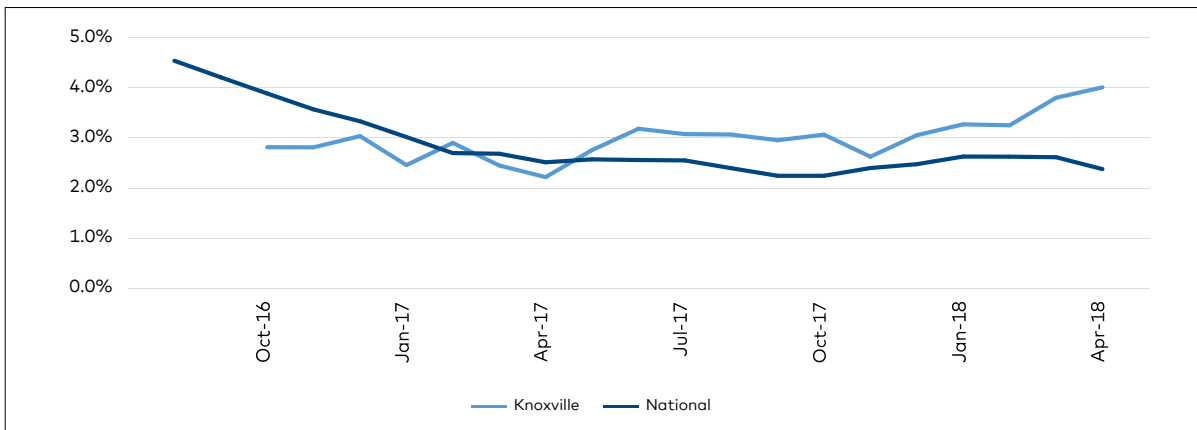


City: Knoxville, Tenn.  
Buyer: Bluestone Properties  
Purchase Price: \$31 million  
Price per Unit: \$130,932

## Rent Trends

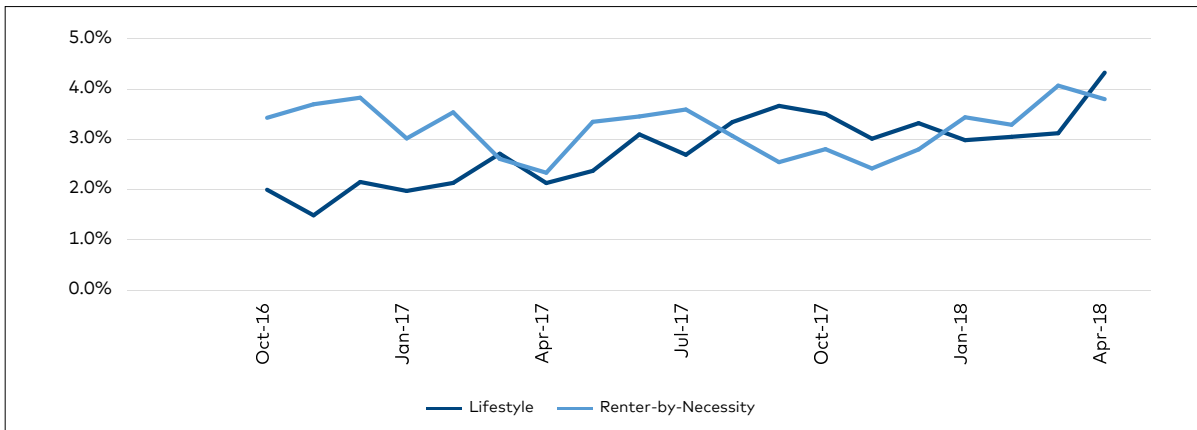
- Knoxville rents rose 4.0% year-over-year through April, 160 basis points above the national rate. The average rent was \$959, well below the \$1,377 U.S. trend and a considerably more affordable alternative to Nashville, the state's largest metro.
- Improvement in the metro's rental market was driven by assets in the upscale Lifestyle segment, where rents were up 4.3% as of April, at an average of \$1,301. That is largely contrary to the national trend, where the scarcity of affordable housing is driving demand and growth in lower-rated rental assets. Year-over-year growth in the working-class Renter-by-Necessity segment trailed by 50 basis points, up 3.8% to \$819.
- With the two major segments growing in near lockstep, average occupancy in stabilized assets is displaying a similar dynamic. Both Renter-by-Necessity and Lifestyle properties had an average occupancy rate of 95.5% as of March, a rare trend among major metros.
- Rents grew the fastest in Knoxville–Downtown (up 6.9% year-over-year), Powell (6.6%), Northshore (6.6%), Cedar Bluff (6.3%) and Loudon (5.6%). The only submarket to register contraction was Karns, where the average rent slid 3.1% year over year.

### 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)

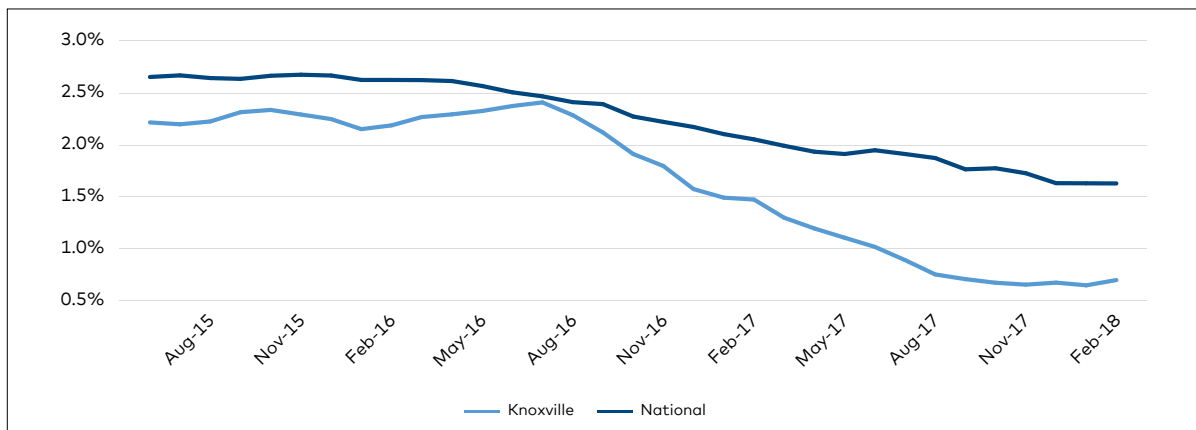


Source: YardiMatrix

## Economic Snapshot

- Knoxville added 4,200 jobs in the 12 months ending in February, for a year-over-year employment growth rate of 0.7%, 90 basis points below the national average. Meanwhile, unemployment is at among the lowest rates in the nation: 2.6% as of April.
- Leisure and hospitality added the most new positions (2,400) in Knoxville over the 12-month interval. Increased hospitality stock has somewhat diluted supply, but plateauing occupancy rates in the sector have not affected revenues, as both RevPAR and ADR are up in Tennessee's largest markets: Memphis, Nashville and Knoxville.
- The construction sector added 1,500 new jobs for an 8.6% expansion, the most significant employment growth rate through the interval. With a number of commercial projects popping up throughout metro Knoxville and a consistent multifamily construction pipeline in place, the industry is the fastest-growing employment sector in the area.
- Contrary to the national trend, manufacturing maintains a strong position as a solid economic driver, having added 1,100 jobs. Protomet's \$30 million expansion in Loudon County is a testament to that.

### 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	%
70	Leisure and Hospitality	42	10.6%	2,400	6.0%
15	Mining, Logging and Construction	19	4.8%	1,500	8.6%
30	Manufacturing	40	10.1%	1,100	2.8%
60	Professional and Business Services	65	16.4%	700	1.1%
80	Other Services	15	3.8%	100	0.7%
55	Financial Activities	19	4.8%	100	0.5%
90	Government	61	15.4%	-	0.0%
50	Information	6	1.5%	-	0.0%
40	Trade, Transportation and Utilities	77	19.4%	-400	-0.5%
65	Education and Health Services	53	13.4%	-1,300	-2.4%

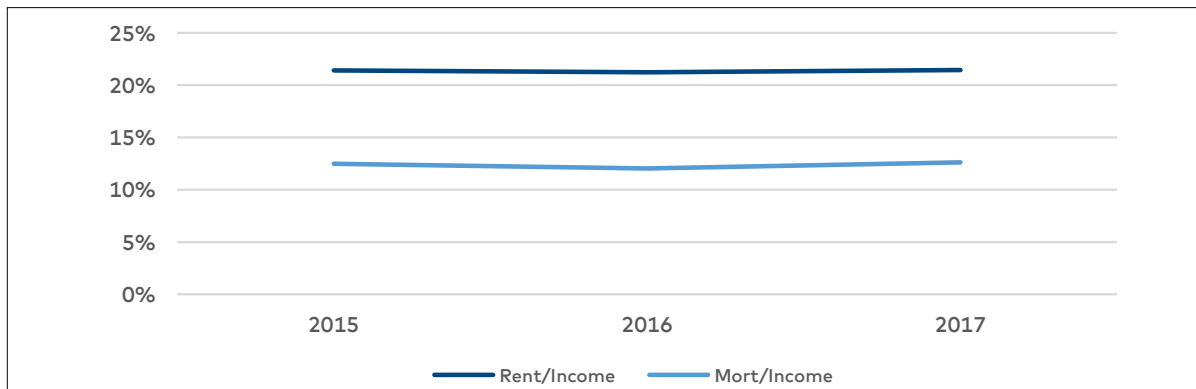
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

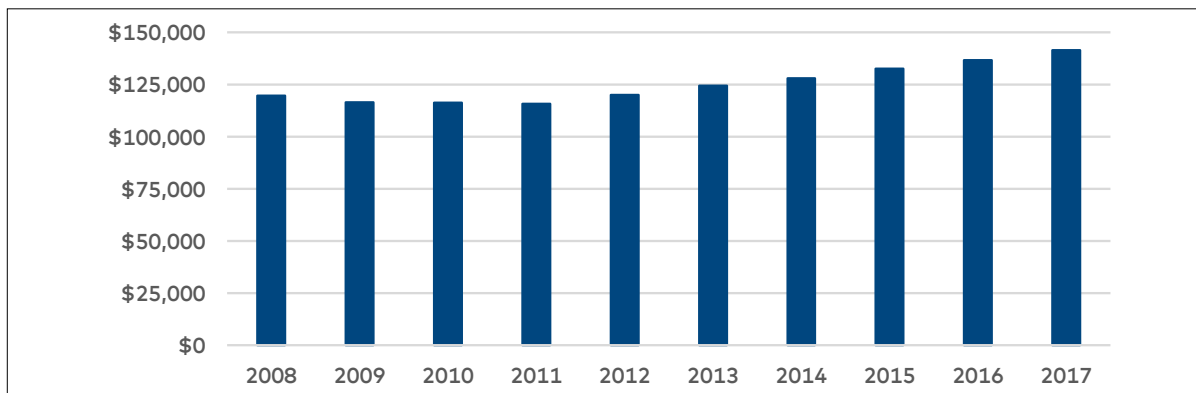
- Home prices continued their ascent in 2017, reaching a median value of \$141,510. That's 22% higher than in 2011's bottom. Although home prices have been on the upswing for the better part of the cycle, continued economic growth in the metro has moderated the effects of rising property values, as the average mortgage payment now takes up less than it did in 2008.
- Rents also rose at a compelling rate, especially over the past 12 months when growth exceeded the national average. As a result, renting remains the costlier option for Knoxville residents.

### 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 26,000 residents over the past five years, at a population growth rate of 3.0%.
- The bulk of that expansion—totaling 10,000 new residents—occurred between 2016 and 2017.

### Knoxville vs. National Population

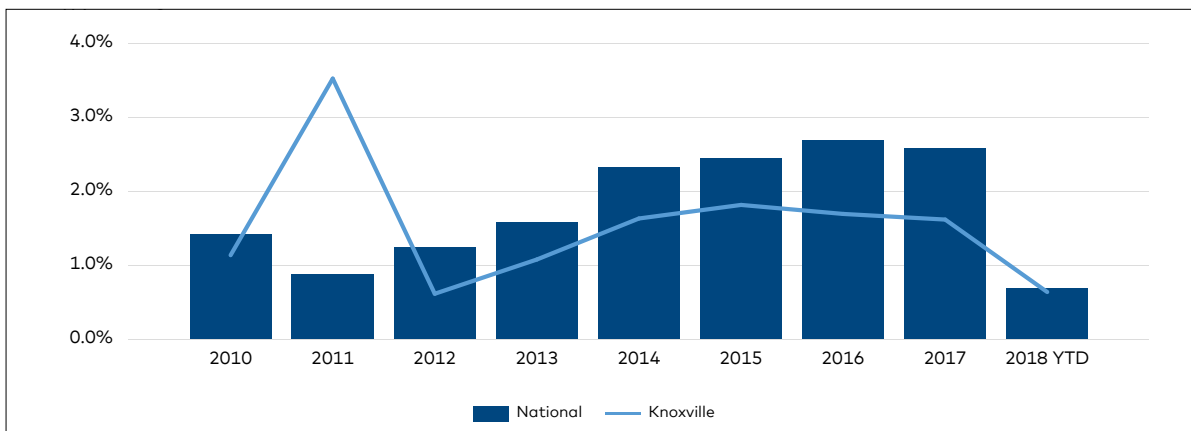
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Knoxville Metro	851,377	855,695	860,398	867,870	877,104

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

## Supply

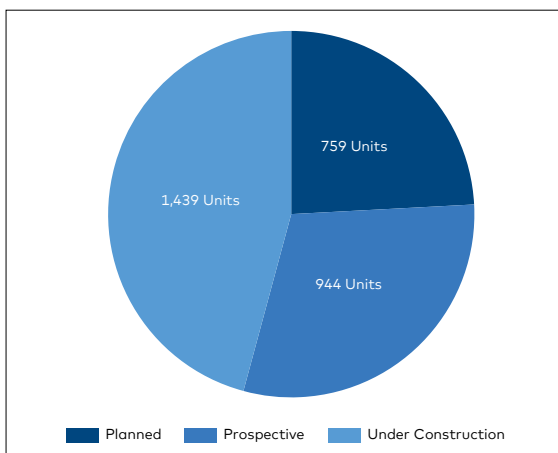
- Developers added 246 units through April, comprising 0.6% of total stock, roughly in line with the national rate. With multifamily completions expected to total 684 units in 2018, Knoxville is likely to record its seventh consecutive year of completions below 1,000 units.
- Roughly 1,400 units were underway in the metro as of April, while another 1,700 units were in the planning and permitting stages. With occupancy in stabilized properties at 95.5% as of March, the market is starting to rebound after dropping 60 basis points since last summer.
- About three-quarters of the metro's rental stock is Renter-by-Necessity and fully affordable assets. As a result, the effect of developers focusing on the upscale segment is not as pronounced.
- Construction activity was led by Hardin Valley (550 units underway) and South Knoxville (451 units). The largest assets underway as of April were Greystone Pointe (330 units) in Hardin Valley and Southeastern Development Associates' One Riverwalk (315 units) in South Knoxville.

**Knoxville vs. National Completions as a Percentage of Total Stock** (as of April 2018)



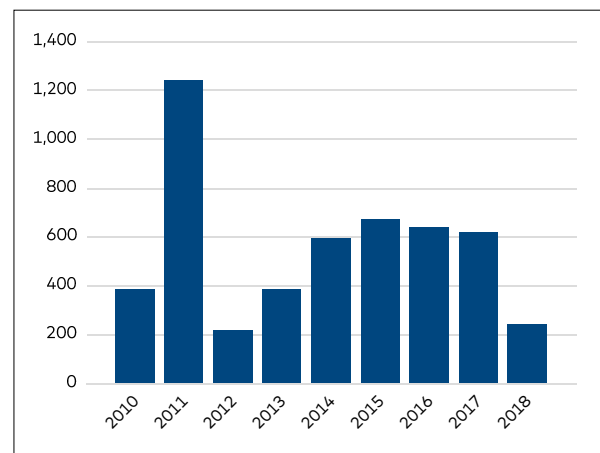
Source: YardiMatrix

**Development Pipeline** (as of April 2018)



Source: YardiMatrix

**Knoxville Completions** (as of April 2018)

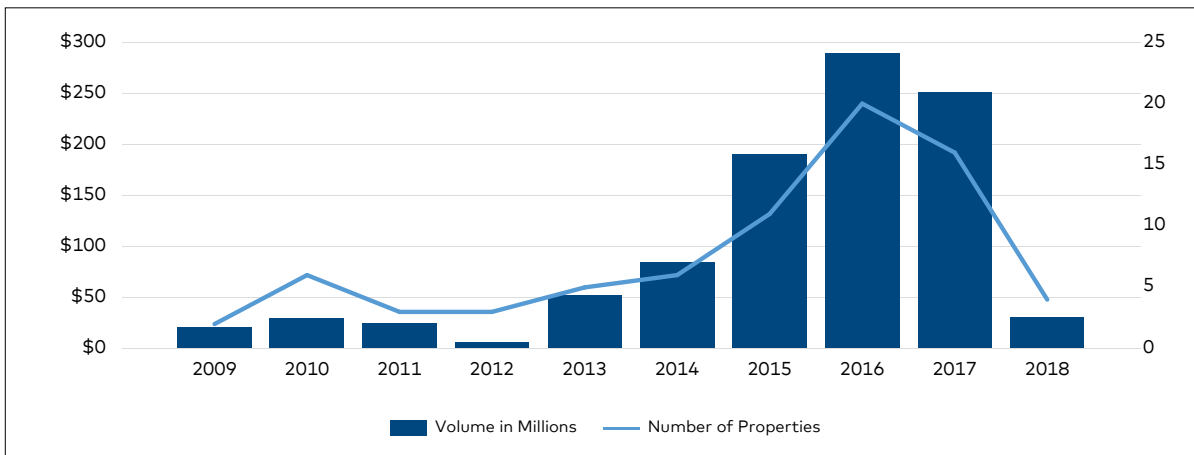


Source: YardiMatrix

## Transactions

- Investment sales kicked off the year with four transactions totaling \$31 million, in line with the wider trend of slowing deal flow in response to high valuations and low acquisition yields. The small number of deals pushed the average per-unit price to a new high through April—\$161,458.
- In the 12 months ending in April, investment activity was led by Cedar Bluff (\$131 million), Northshore (\$46 million), Middlebrook (\$40 million) and Corryton (\$31 million). The largest transaction completed over that interval is Goldelm's acquisition of The Metropolitan in Cedar Bluff. The company paid Covenant Capital Group \$48 million for the 520-unit asset in September, for a per-unit price of \$92,307. Covenant had acquired the 1986-built asset from Southern Management & Development for \$26 million in 2014, at just \$50,000 per unit.

### Knoxville Sales Volume and Number of Properties Sold (as of April 2018)



Source: YardiMatrix

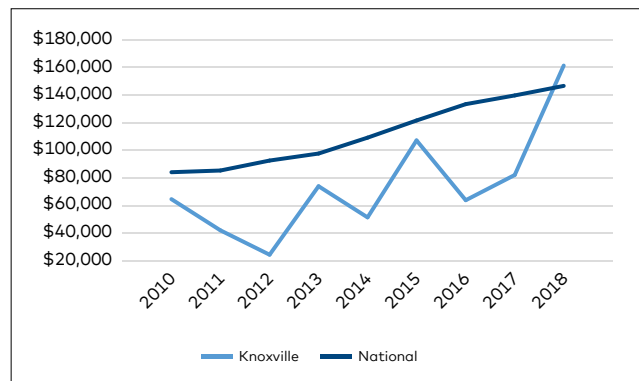
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Cedar Bluff	131
Northshore	46
Middlebrook	40
Corryton	31
Seymour	17
Knoxville–West	6

Source: YardiMatrix

<sup>1</sup> From May 2017 to April 2018

### Knoxville vs. National Sales Price per Unit



Source: YardiMatrix

## News in the Metro

Brought to you by:



### Why Student Housing Is Making The Grade

A Walker & Dunlop managing director sheds light on finance trends in the thriving niche and previews the challenges and opportunities ahead.



### The Williams Co. Secures \$18M For Knoxville Asset

The new financing package will enable the company to update the 198-unit property and pay off \$16.5 million in existing debt.



### Time Equities Acquires Eastern TN Retail Center

The shopping center—with a tenant roster including Books-A-Million, Jo-Ann Fabrics, Shoe Carnival and Catherine's—contains more than 140,000 square feet.



### Campus Advantage Scores 6 Student Housing Properties

The developments—located in Alabama, Illinois, Oregon, Tennessee and Washington—add 714 units and 1,910 beds to the company's portfolio.



### Ryman Hospitality To Open Eastern TN Venue

When completed, in spring 2019, the 16,000-square-foot Ole Red Gatlinburg venue will include a two-story bar and restaurant, performance area and dance floor.



### Coastal Ridge Buys TN Student Housing

Crowne at Campus Pointe is a 324-unit, 718-bed community in Knoxville serving the students of the University of Tennessee.



# Top 10 Multifamily Transactions in the Southern U.S.



By Razvan Cimpean

data by **Yardi Matrix**

Bolstered by an increase in transaction activity over the previous two years, more than 40 communities have changed hands in the region so far this year for a total sales volume of roughly \$650 million.

Following a period of weak investor appetite in the region, the southern U.S. has been witnessing a significant increase in deal volume over the past two years, according to Yardi Matrix data. Transactions increased by almost 16 percent during 2016 from the previous year, to a record \$4 billion. The total sales volume of multifamily assets traded in 2017 was almost on par with 2016's cycle high.

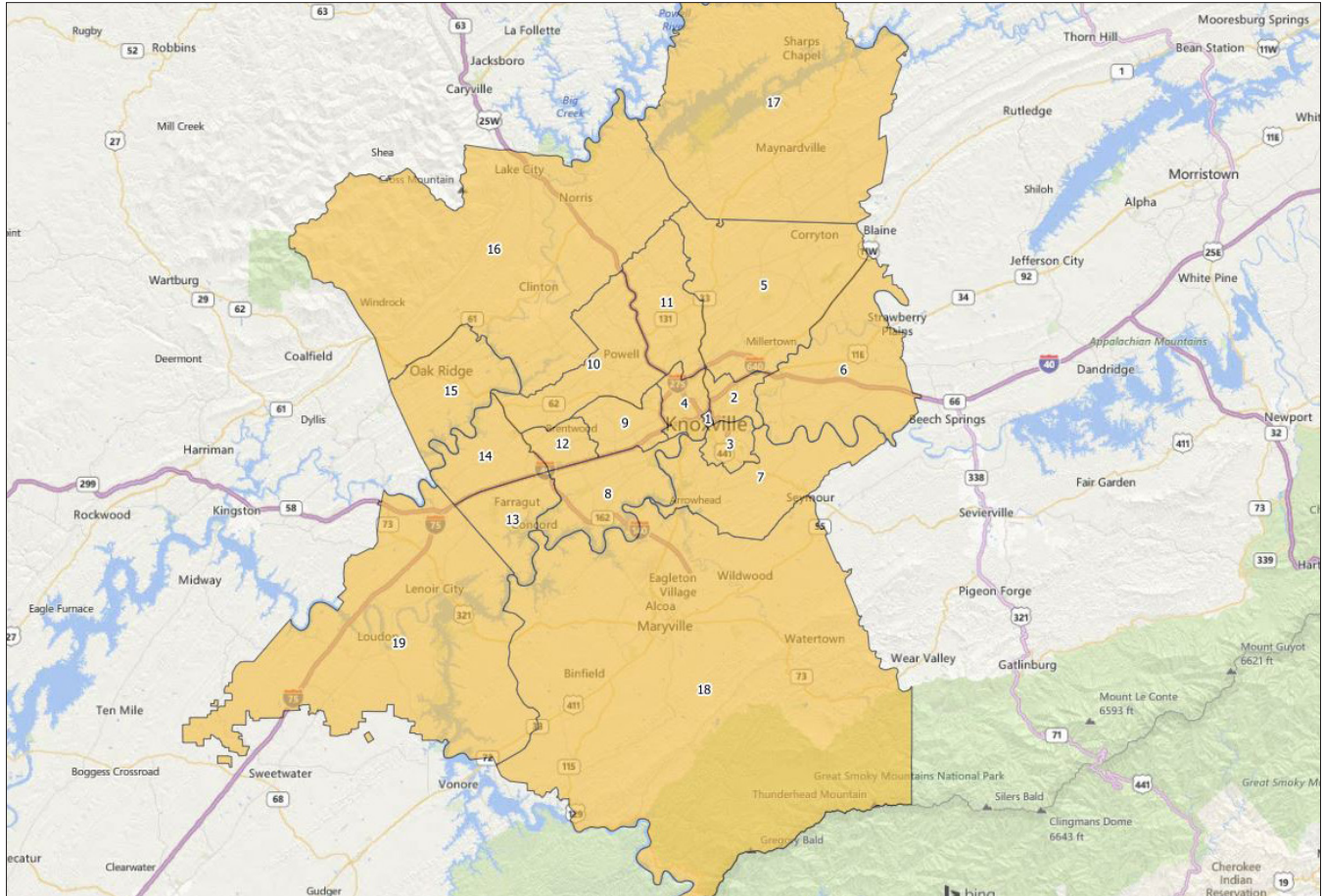
Property Name	City	Seller	Buyer	Unit Count	Total Transaction Volume
Sterling Burbank	Baton Rouge, La.	Dinerstein Cos.	Scion Group	235	\$62,000,000
The Racquet Club	Lexington, Ky.	Covenant Capital Group	Strata Equity	474	\$51,500,000
Mallgate of St. Matthews	Louisville, Ky.	Shamrock Communities	Sundance Bay	540	\$42,500,000
Riverchase Landing	Hoover, Ala.	TVO Groupe	Balfour Beatty	468	\$39,200,000
West 46th	Nashville, Tenn.	Stonehenge	Venterra Realty	171	\$34,000,000
Lexington Park	North Little Rock, Ark.	Burkhalter & Stevens	Entrepreneurial Corporate Group	288	\$24,820,000
City Side Flats	Nashville, Tenn.	Lighthouse Group	Emma Capital	201	\$24,550,000
The Villas at Oak Crest	Chattanooga, Tenn.	Hyde Capital Group	Timberland Partners	209	\$21,250,000
Villages at Fort Town	Fort Oglethorpe, Ga.	Moss, Ted C.	Roxo, Antonio	294	\$20,000,000
Shillito Park	Lexington, Ky.	Zaragon	Zinger Property Group	216	\$19,220,000

## Sterling Burbank

Topping our list is Scion Group's acquisition of the 235-unit student housing Sterling Burbank in Baton Rouge, La. Dinerstein Cos. sold the asset for \$62 million or \$239 per square foot. Designed to meet LEED Gold standards, the building was completed in 2015 and offers one-, two-, four- and five-bedroom units. Located at 4194 Burbank Drive, the five-story asset is roughly one mile away from Louisiana State University and two-and-a-half miles from Interstate 10. Community amenities include a volleyball court, a fitness center, a clubhouse, two swimming pools and a spa.



## 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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