



MULTIFAMILY REPORT

Rents Still Up In Knoxville

April 2024

Limited Supply Sustains Rent Growth

Investment Records Solid Year

Occupancy Tight at 96.5%

KNOXVILLE MULTIFAMILY



Occupancy Slides, But Rental Market Still Tight

Knoxville's multifamily market had a steady year in 2023, with healthy demand that kept rents up and occupancy well above the U.S. average, while 2024 also got off to a steady start. The average rent increased 0.1% on a trailing three-month basis through February to \$1,459, outperforming the U.S. rate, which was down 0.1%, to \$1,713. The occupancy rate in stabilized properties declined 40 basis points year-over-year through February, to 96.5%.

In the 12 months ending in December, Knoxville's employment market added 11,400 jobs, up 3.1% and outperforming the 2.0% national growth rate. The metro has been outpacing the U.S. since August 2022. The unemployment rate stood at 3.3% in January, surpassing the U.S. (3.7%) and the state (3.5%), and trailing Nashville (2.8%). In 2023, information (-400 jobs) and leisure and hospitality (-100 jobs) contracted, while financial activities remained flat. Job gains were led by education and health services (4,700 jobs), government (2,800 jobs) and professional and business services (2,200 jobs).

The market had 3,573 units under construction in February, while last year just 517 units were delivered. The volume of new construction increased last year, favoring Lifestyle properties. Meanwhile, transaction activity picked up in the second half of 2023, climbing to \$303 million in what was a solid year. In 2024 through February, only one asset changed hands.

Market Analysis | April 2024

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Recent Knoxville Transactions

One Riverwalk



City: Knoxville, Tenn.
Buyer: Passco Real Estate
Purchase Price: \$124 MM
Price per Unit: \$409,474

Views at West Town



City: Knoxville, Tenn.
Buyer: Covenant Capital Group
Purchase Price: \$31 MM
Price per Unit: \$161,082

Rocky View

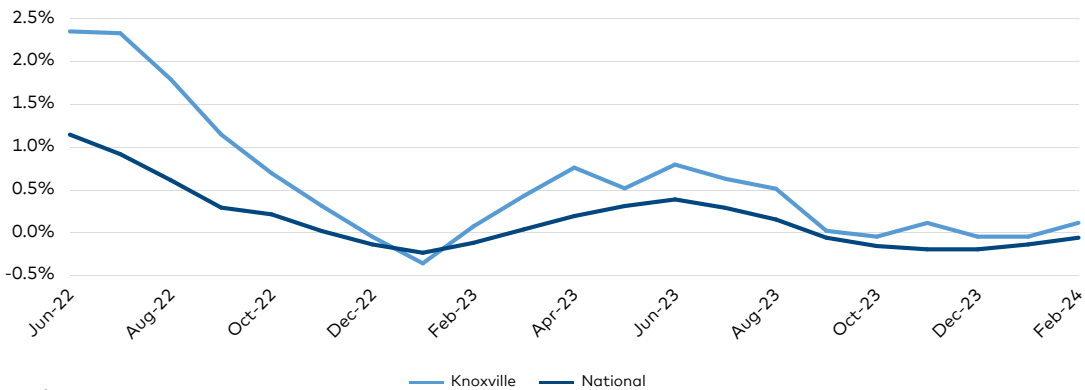


City: Knoxville, Tenn.
Buyer: Jake & Gino
Purchase Price: \$7 MM
Price per Unit: \$75,521

RENT TRENDS

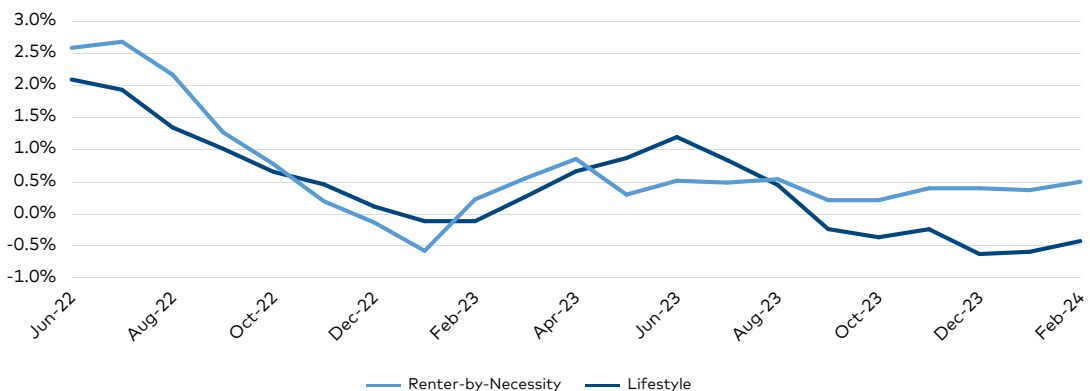
- ▶ Knoxville rents rose 0.1% on a trailing three-month (T3) basis through February, to \$1,459, while the U.S. rate contracted 0.1%, to \$1,713. Since September 2023, rents in the metro have remained flat, except for a slight 0.1% uptick in November. On a year-over-year basis, the average asking rent in Knoxville rose 3.8%, well above the 0.6% U.S. rate. Metro rents have stayed on a positive path for most of the past four years, with just a brief dip into negative territory.
- ▶ Rent growth was sustained by the working-class Renter-by-Necessity segment, up 0.5% on a T3 basis through February, to \$1,286. Meanwhile, Lifestyle rents decreased 0.4%, to \$1,784, marking the sixth consecutive month of declines.
- ▶ The limited inventory expansion not only helped keep rent growth in check, but also kept occupancy high, at 96.5% as of February, following a 50-basis-point decline year-over-year. Similar to rent growth by asset class, occupancy in the Lifestyle segment declined, down 120 basis points to 95.9%, while RBN occupancy decreased 10 basis points, to 96.8%.
- ▶ Of the 19 submarkets tracked by Yardi Matrix, seven had average rents that crossed the \$1,500 mark, and annual rent growth was negative in just two submarkets. Maryville (up 14.5% year-over-year) saw the most significant rent increase among Knoxville submarkets. Meanwhile, the submarket with the highest average rent was Hardin Valley, where the rate stood at \$1,784.

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 clocked in at 3.3% in January, outperforming the U.S. (3.7%) and the state (3.5%) and on par with Chattanooga. The metro trailed Nashville (2.8%).
- ▶ In the 12 months ending in December, Knoxville's job market expanded 3.1%, or 11,400 jobs, well above the 2.0% U.S. rate. Not all sectors added positions—information, and leisure and hospitality lost 500 jobs combined, while financial activities remained flat.
- ▶ Education and health services (4,700 jobs) led job gains. The sector was sustained by the University of Tennessee at Knoxville. The school has more than \$1.6 billion in construction projects underway, which will sustain continued expansion. Among these is the Energy & Environmental Science Research Building that is slated to open in the fall. It will provide 25 labs, 11 classrooms and a 500-seat auditorium. Another is the Croley Nursing Building, expected to open in fall of 2025. It will comprise seven classrooms, a 250-seat auditorium, 17 nursing simulator spaces and an outdoor teaching and event plaza. Other projects include a library storage facility, a chemistry building and the Jenny Boyd Carousel Theatre.
- ▶ Government (2,800 jobs) and professional and business services (2,200 jobs) rounded out the top three employment sectors in number of added jobs.

Knoxville Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	62	13.8%
90	Government	63	14.0%
60	Professional and Business Services	74	16.4%
40	Trade, Transportation and Utilities	90	20.0%
30	Manufacturing	49	10.9%
80	Other Services	17	3.8%
15	Mining, Logging and Construction	22	4.9%
55	Financial Activities	21	4.7%
50	Information	7	1.6%
70	Leisure and Hospitality	45	10.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Knoxville added 10,543 residents in 2022, up 1.2% year-over-year and three times the 0.4% national rate.
- ▶ Demographic expansion slowed in the metro, but not by much. In 2021, Knoxville's population rose 1.4%. Meanwhile, the market saw 3.6% growth between 2019 and 2022.

Knoxville vs. National Population

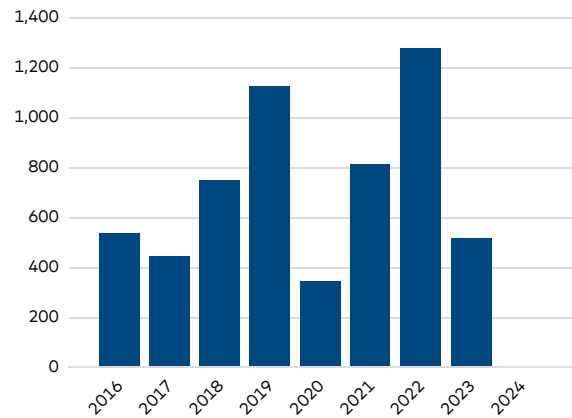
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Knoxville	853,337	861,872	873,816	884,359

Source: U.S. Census

SUPPLY

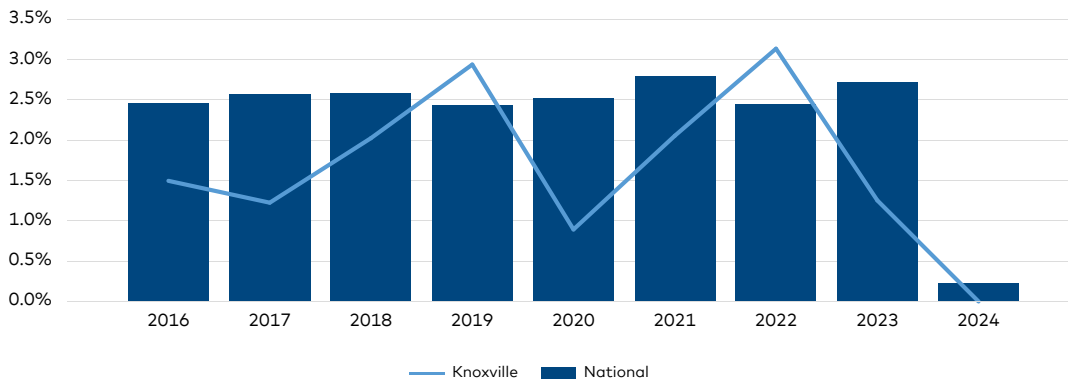
- No units were delivered in Knoxville through February. Last year, developers brought 517 units online, the equivalent of 1.3% of existing stock and well below the 2.7% national rate. The scarcity of new inventory helped keep rent growth positive. Meanwhile the national average dipped into negative territory.
- Half of last year's deliveries were units in up-scale properties, while the other half was split between RBN assets (20.5%) and fully affordable communities (28.2%).
- The construction pipeline as of February consisted of 3,573 units underway and another 4,300 units in the planning and permitting stages. The pipeline's composition displayed a major shift, heavily tilted toward Lifestyle projects (72.6%), followed by RBN (16.3%) and fully affordable projects (11.2%).
- No new projects broke ground through the first two months of 2024. However, last year, 2,866 units across 12 projects started construction, surpassing 2021's volume, when 1,824 units across nine properties broke ground.
- Maryville (798 units under construction), Knoxville-East (788 units) and Farragut (638 units) led the number of units underway as of February.
- The largest project under construction as of February was Vision, a 375-unit property owned by Omninet Capital. The project is located less than a mile away from the University of Tennessee at Knoxville and is an adaptive reuse of a 1972-completed hotel. Completion is scheduled for later this year.

Knoxville Completions (as of February 2024)



Source: Yardi Matrix

Knoxville vs. National Completions as a Percentage of Total Stock (as of February 2024)



Source: Yardi Matrix

TRANSACTIONS

- ▶ Just one asset traded in Knoxville in 2024 through February, an RBN property sold by GVA Real Estate Investments to Covenant Capital Group for \$31.3 million, at a per-unit price of \$161,082. Last year, investors traded \$303 million in multifamily assets—a solid year for the metro and the third highest sales volume over the past decade.
- ▶ Last year, the metro's average price per unit stood at \$192,684, up 6.8% year-over-year and

surpassing the \$185,662 national average for only the second time since 2010.

- ▶ The largest transaction of 2023 was Southeastern Development Associates' sale of the 303-unit One Riverwalk, located in an Opportunity Zone in South Knoxville. Passco Real Estate and Greystone acquired it for \$124 million, or \$409,474 per unit, with aid from a \$64.3 million CMBS loan issued by Walker & Dunlop.

Knoxville Sales Volume and Number of Properties Sold (as of February 2024)



Source: Yardi Matrix

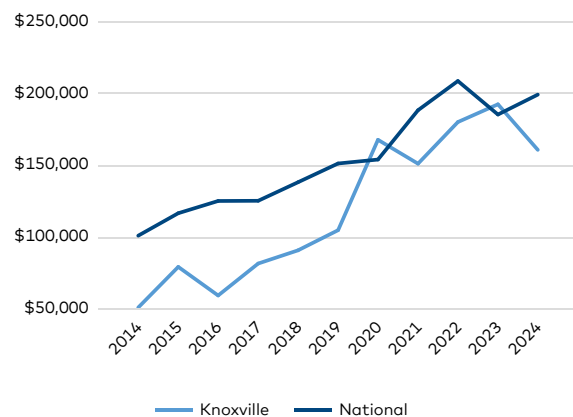
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
South Knoxville	124
Maryville	82
Knoxville–West	69
Middlebrook	52
Oakridge	6

Source: Yardi Matrix

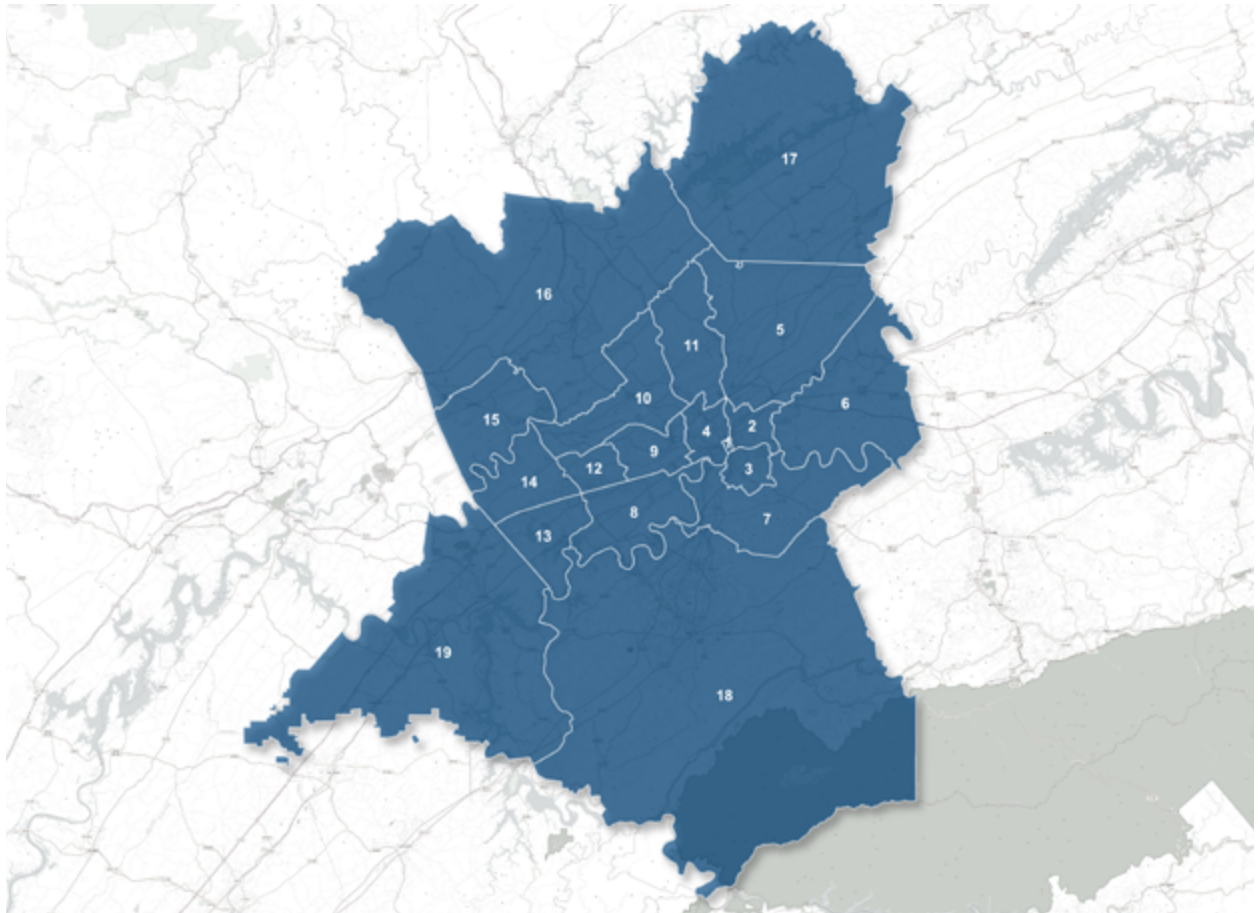
¹ From March 2023 to February 2024

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 or call Ron Brock, Jr., at 480-663-1149 x2404.



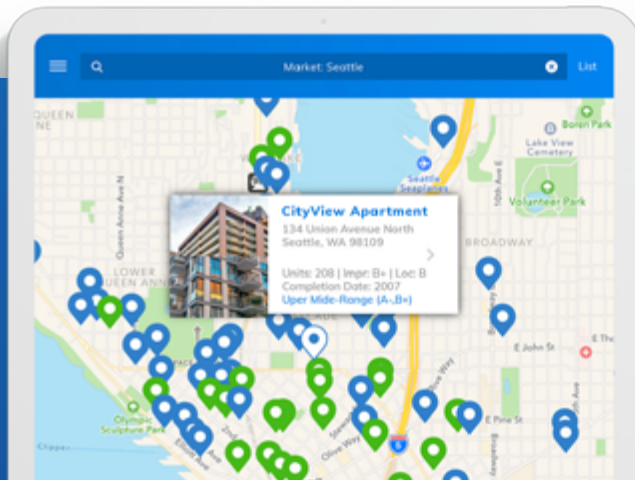
Yardi® Matrix

Power your business
with the industry's
leading data provider



MULTIFAMILY KEY FEATURES

- 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



Yardi Matrix Multifamily
provides accurate data on
19.7+ million units, covering over
92% of the U.S. population.



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