



Yardi® Matrix

# Knoxville Seeks Its Footing

Multifamily Report Winter 2019

Manufacturing Leads Job Gains

Tepid Supply Sustains Rent Growth

Transaction Volume Hits Cycle Peak

## Market Analysis

Winter 2019

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## Reshuffling Knoxville's Economy

As the cycle stretches further and further, Knoxville's multifamily market is finally showing signs of growth: A slow pace of construction combined with healthy demand put pressure on occupancy rates, which rose to 96.6% as of November, as well as on the metro's average rent, which moved up 3.3% year-over-year through December, to \$980.

Employment gains were spotty, with half of the sectors expanding, while the other half contracted. The metro added 900 jobs in the 12 months ending in October, a 0.5% growth rate. Manufacturing, the metro's leading sector in employment gains, expanded by a solid 2,300 jobs and is likely to keep growing, as Denso International America opened Plant 204 in Maryville, a \$1 billion development where 1,000 people will be hired over the next four years. The trade, transportation and utilities sector added 2,000 positions in 2018 and shows signs of sustained growth, as Knoxville's McGhee Tyson Airport is undergoing a \$108 million runway lengthening and upgrade, slated for completion in 2021.

Multifamily sales activity had its best year this cycle, as about \$300 million in assets traded last year, at an average per-unit price of \$110,482. Supply is scarce, with only 1,313 units underway, which will put further pressure on rents in Knoxville in 2019.

## Recent Knoxville Transactions

Briarcliff at West Hills



City: Knoxville, Tenn.  
Buyer: Legacy Capital Partners  
Purchase Price: \$25 MM  
Price per Unit: \$65,292

The Tower at Morgan Hill



City: Knoxville, Tenn.  
Buyer: Trinity Property Consultants  
Purchase Price: \$22 MM  
Price per Unit: \$91,667

River Hill Townhomes



City: Louisville, Tenn.  
Buyer: Legacy Capital Partners  
Purchase Price: \$8 MM  
Price per Unit: \$95,125

British Woods

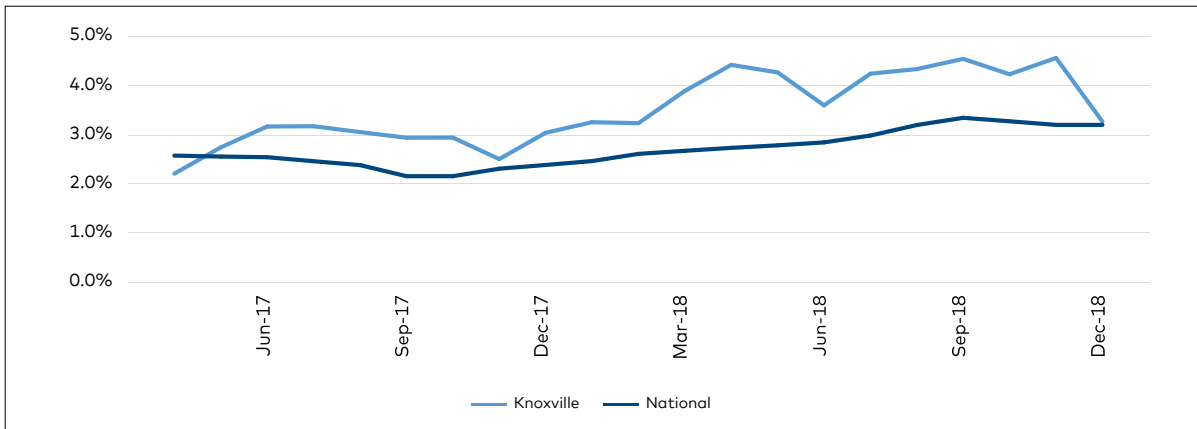


City: Oak Ridge, Tenn.  
Buyer: Prime Property Investors  
Purchase Price: \$8 MM  
Price per Unit: \$59,808

## Rent Trends

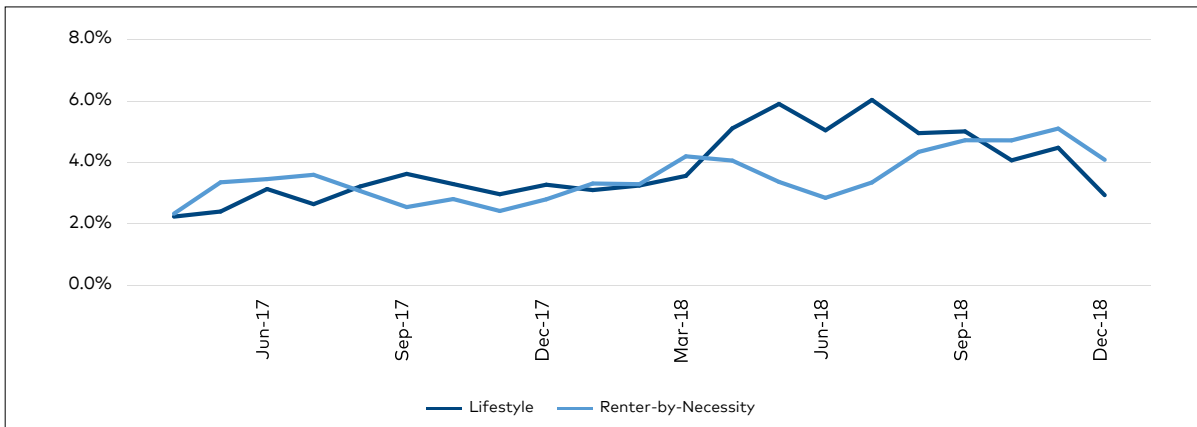
- Rents in Knoxville rose 3.3% year-over-year in December, 10 basis points above the national growth rate. The metro's average rent climbed to \$980, well behind the \$1,419 national figure. Compared to Nashville, Tennessee's major real estate market, Knoxville's rental rates remain affordable.
- Even though completions picked up significantly in 2018, mirroring the national trend, the bulk of new stock came in Lifestyle assets, putting more pressure on Renter-by-Necessity rates, up 4.1% year-over-year through December, to \$841. Assets in the Lifestyle segment saw a 2.9% year-over-year rent growth through December, to \$1,299. With the two segments evolving in near lockstep, demand for multifamily assets remains high across the quality spectrum.
- The biggest increases in rent growth were seen on the western side of the metro: in Middlebrook (up 6.7% to \$893) and Karns (up 5.2% to \$1,047). In December, eight Knoxville submarkets posted rents above the \$1,000 mark, with the highest amounts in Seymour (up 1.9% to \$1,678), Knoxville-Downtown (down 0.1% to \$1,308) and Knoxville-West (up 3.5% to \$1,275). The most affordable submarkets were distant Anderson (\$643), Oakridge (\$728) and Maryville (\$796).

**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)

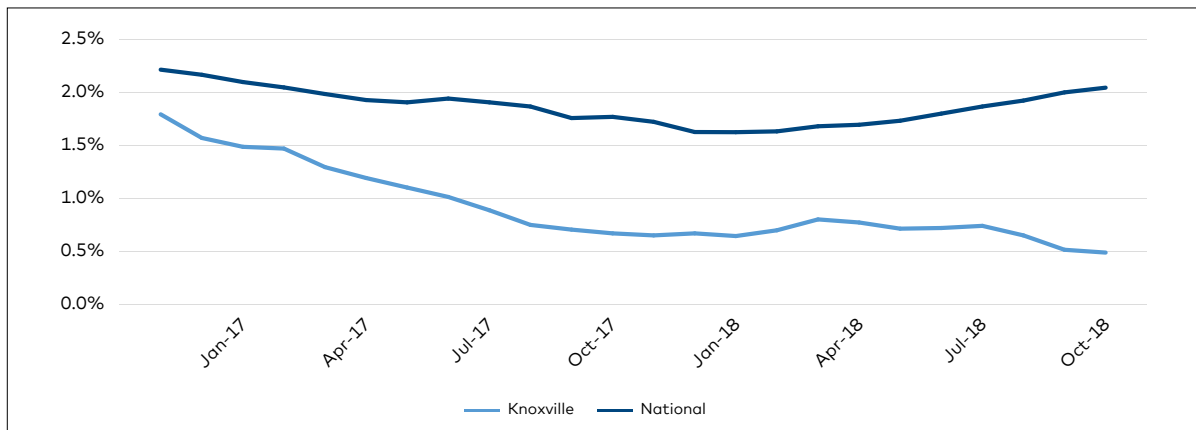


Source: YardiMatrix

## Economic Snapshot

- Knoxville added 900 jobs in the 12 months ending in October, a 0.5% rate of employment growth year-over-year, well below the U.S. average of 2.1%. The city's economic environment is readjusting: Half of the metro's sectors expanded, while the other half contracted. The unemployment rate slid to 3.5% in October, 30 basis points lower than the national figure.
- As one of the city's main economic drivers, manufacturing continued to lead growth, adding 2,300 jobs. The trend is anticipated to hold, supported by the recent opening of Plant 204, a \$1 billion Denso International America investment in Maryville where 1,000 positions will be created over the next four years. The trade, transportation and utilities sector, up by 2,000 positions in 2018, is expected to perform well, with Knoxville's McGhee Tyson Airport undergoing a \$108 million runway lengthening and upgrade, which is expected to be completed in 2021.
- The leisure and hospitality sector (up by 100 jobs) showed signs of continued growth, as Knoxville's core has 600 hotel guestrooms underway. Notable projects under construction included the \$43 million, dual-branded Courtyard by Marriott/Residence Inn (144 guestrooms and 88 guestrooms, respectively) and the 13-story William F. Conley Building, which will become a \$40 million mixed-use Embassy Suites hotel, with an anticipated date of completion set for March 2019.

### 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	41	10.3%	2,300	5.9%
40	Trade, Transportation and Utilities	80	20.0%	2,000	2.6%
15	Mining, Logging and Construction	20	5.0%	1,600	8.6%
80	Other Services	15	3.8%	200	1.3%
70	Leisure and Hospitality	43	10.8%	100	0.2%
50	Information	6	1.5%	-200	-3.5%
90	Government	61	15.3%	-500	-0.8%
55	Financial Activities	19	4.8%	-800	-4.1%
60	Professional and Business Services	64	16.0%	-1,700	-2.6%
65	Education and Health Services	52	13.0%	-2,100	-3.9%

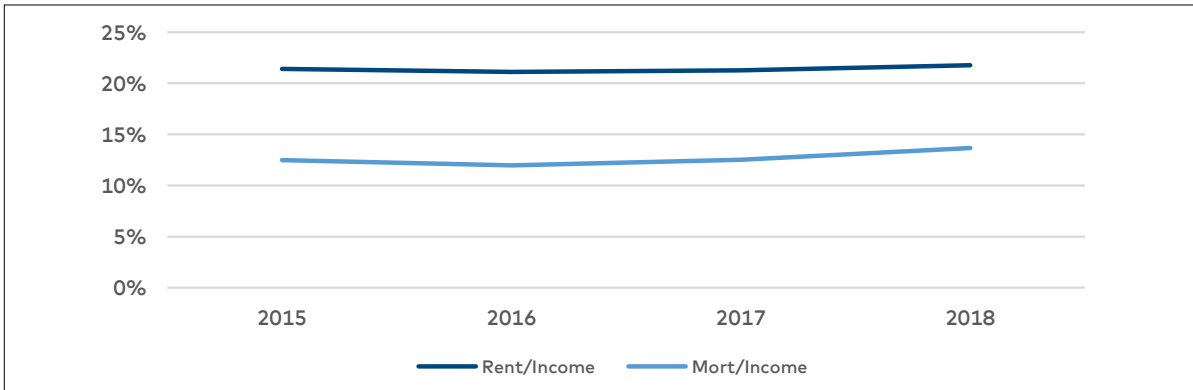
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

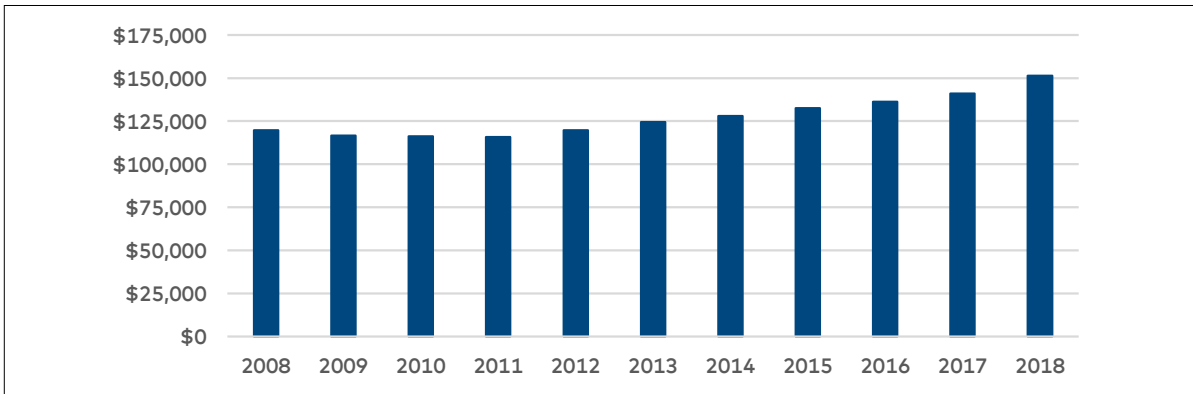
- Knoxville's median home value rose 7.3% to \$151,287 in 2018, 26.4% above the 2008 level. Despite the consistent increase in home prices, the average mortgage payment accounted for 14% of the area's median income, which is 200 basis points less than it was a decade ago. At \$980 as of December, rents encompassed 22% of the area's median income.
- At the start of 2019, Knoxville had four fully affordable properties under construction, totaling 428 units. In 2018, only 120 units in one fully affordable community were delivered in the metro.

### 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 9,234 residents in 2017, up 1.1% and 40 basis points above the national average.
- The metro's population rose by 25,727 residents over the past five years, a growth rate of 3.0%.

### Knoxville vs. National Population

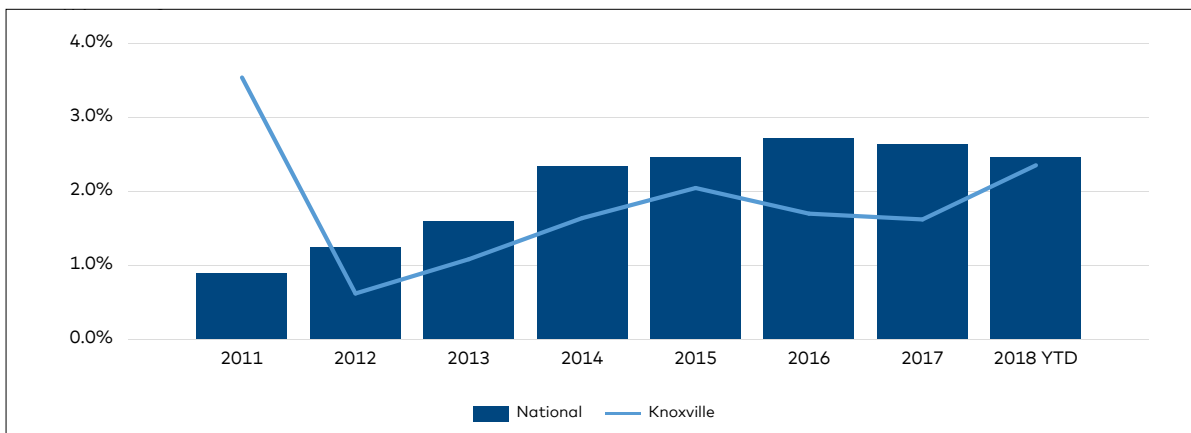
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Knoxville Metro	851,377	855,695	860,398	867,870	877,104

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

## Supply

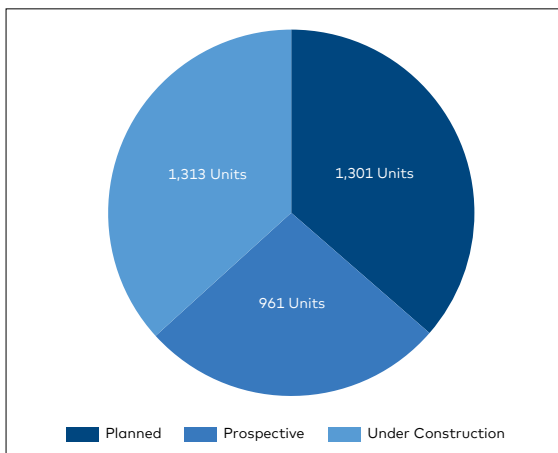
- Developers added five properties totaling 862 units in 2018, following a fairly sluggish first half of the year. Overall, completions represented 2.4% of total stock, 10 basis points below the 2.5% U.S. rate. The bulk of delivered units were in Lifestyle communities. In 2019, we expect the pace will be maintained, with total deliveries poised to exceed 800 units.
- Some 1,300 units in seven properties were under construction as of December, most of them in fully affordable communities. Another 2,600 units were in the planning and permitting stages. The occupancy rate in stabilized properties was 96.6% as of November, up 70 basis points year-over-year, which illustrates increased demand across the metro.
- Development activity, although tepid, was most intense in South Knoxville (487 units in two properties), Hardin Valley (330 units) and Northshore (240 units). The largest project under construction as of January 2019 was Greystone Pointe, a Greystone Properties asset with 330 units located in the Hardin Valley submarket. The 22-building asset was 50% pre-leased in December. Completion is anticipated for May 2019.

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



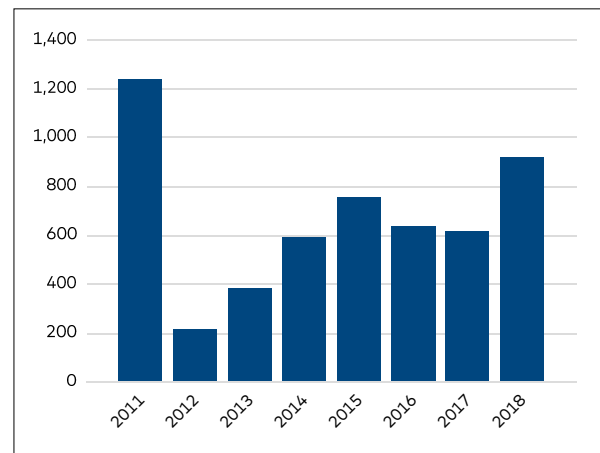
Source: YardiMatrix

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



Source: YardiMatrix

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

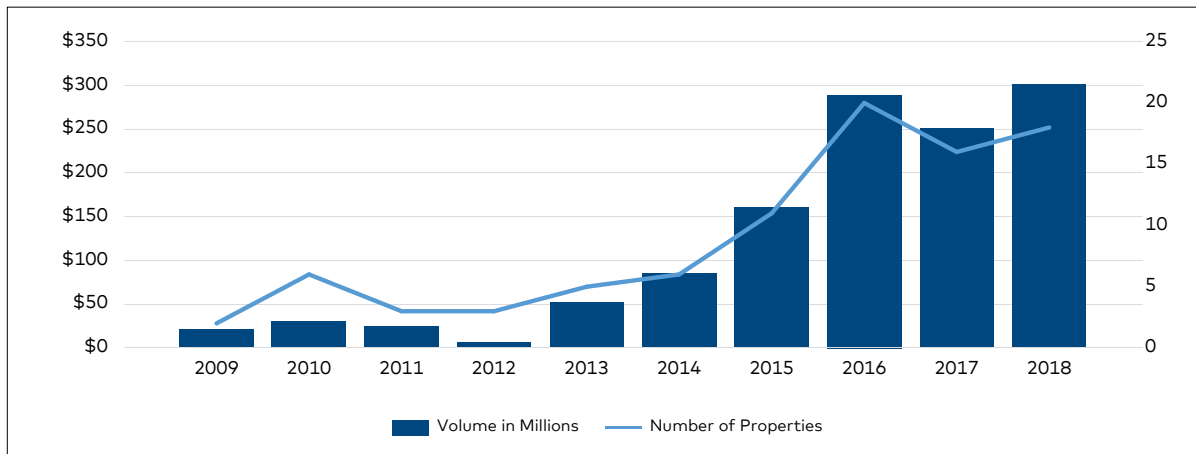


Source: YardiMatrix

## Transactions

- Transaction activity in Knoxville recorded its best year in the current cycle, with the multifamily sales volume exceeding \$300 million in 2018 for the first time ever. Between 2015 and 2018, multifamily assets trading in the metro surpassed the \$1 billion mark.
- The average price per unit rose a solid 34.4% year-over-year through December, to \$110,482, trailing the \$153,765 U.S. figure. Of the 17 properties that changed hands in 2018, one-third were in the Life-style segment, trading at an average per-unit price of \$146,093 (up 24% year-over-year), while RBN assets sold for an average price per unit of \$85,122 (up 13.2% year-over-year). Investment activity was mostly focused in Knoxville–West (\$131 million), Hardin Valley (\$66 million) and Northshore (\$25 million). Briarcliff at West Hills, a 377-unit value-add property built between 1950 and 1974, was acquired by Legacy Capital Partners for \$25 million, or \$65,292 per unit.

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



Source: YardiMatrix

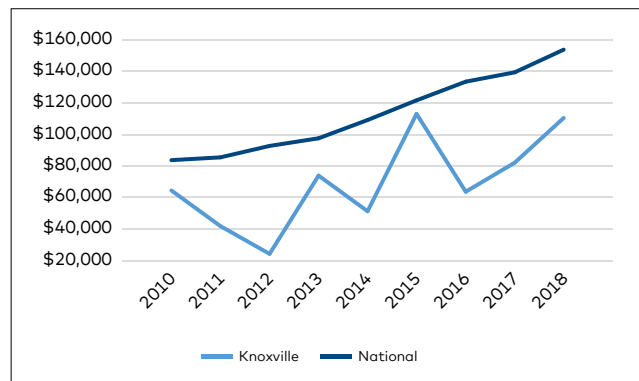
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Knoxville–West	131
Hardin Valley	66
Northshore	25
Powell	18
Seymour	17
Middlebrook	15
Maryville	14
Oakridge	8

Source: YardiMatrix

<sup>1</sup> From January 2018 to December 2018

### Knoxville vs. National Sales Price per Unit



Source: YardiMatrix

# Top Multifamily Transactions in TN in 2018



By Anca Gagiuc

data by  
**Yardi® Matrix**

Investment activity in Tennessee’s multifamily market had a solid year in 2018. In Nashville, despite a slight drop in the average per-unit price (\$148,181 as of December), total sales volume crossed \$1.2 billion. Knoxville registered its best year of the current cycle: The average price per unit rose a solid 34.4 percent to \$110,482, while the multifamily sales volume exceeded \$300 million for the first time ever.

Property Name	City	Buyer	Seller	Units	Sale Date
Ashton Brooks	Franklin	Related Cos.	The Connor Group	390	09/13/2018
Novel Bellevue Place	Nashville	Praedium Group	Crescent Communities	337	12/20/2018
IMT Germantown	Nashville	IMT Capital	Alliance Residential Co.	276	09/07/2018
Octave	Nashville	Goldman Sachs & Co.	Lennar Multifamily Communities	321	12/17/2018
Country Squire	Cordova	Birge & Held Asset Management	CLK Properties	972	06/20/2018
The Cleo	Nashville	Spyglass Capital Partners	LIV Development	291	04/30/2018
Society 865	Knoxville	Coastal Ridge Real Estate	Crowne Partners	324	03/27/2018
Elements at Chattanooga	Chattanooga	MACC Properties	Wicker Park	340	10/19/2018

## KNOXVILLE—SOCIETY 865

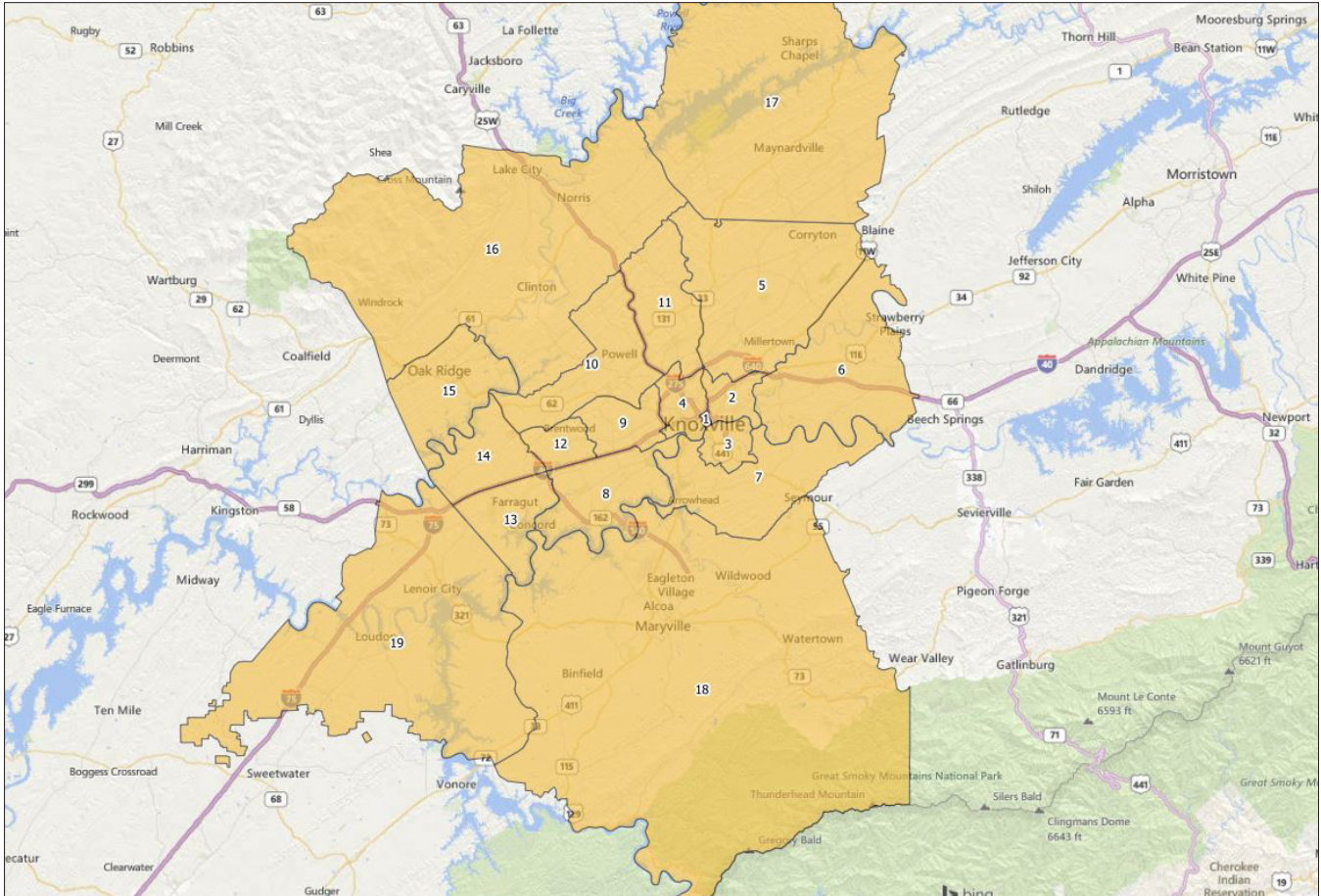
Last March, Coastal Ridge Real Estate acquired the 324-unit asset from Crowne Partners for nearly \$55 million, or \$168,981 per unit. The sale was subject to a \$40 million loan held by Canadian Imperial Bank of Commerce.

Completed in 2007, the community consists of 13 buildings spread across more than 11 acres at 2240 Grand Ave. in Knoxville, Tenn. Residents can choose from one- to three-bedroom floorplans, ranging in size from 421 to 1,352 square feet. Common-area amenities include a fitness center, a business center, a clubhouse, a swimming pool and 650 parking spaces.





## 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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