

EAST TENNESSEE

Housing Market Outlook

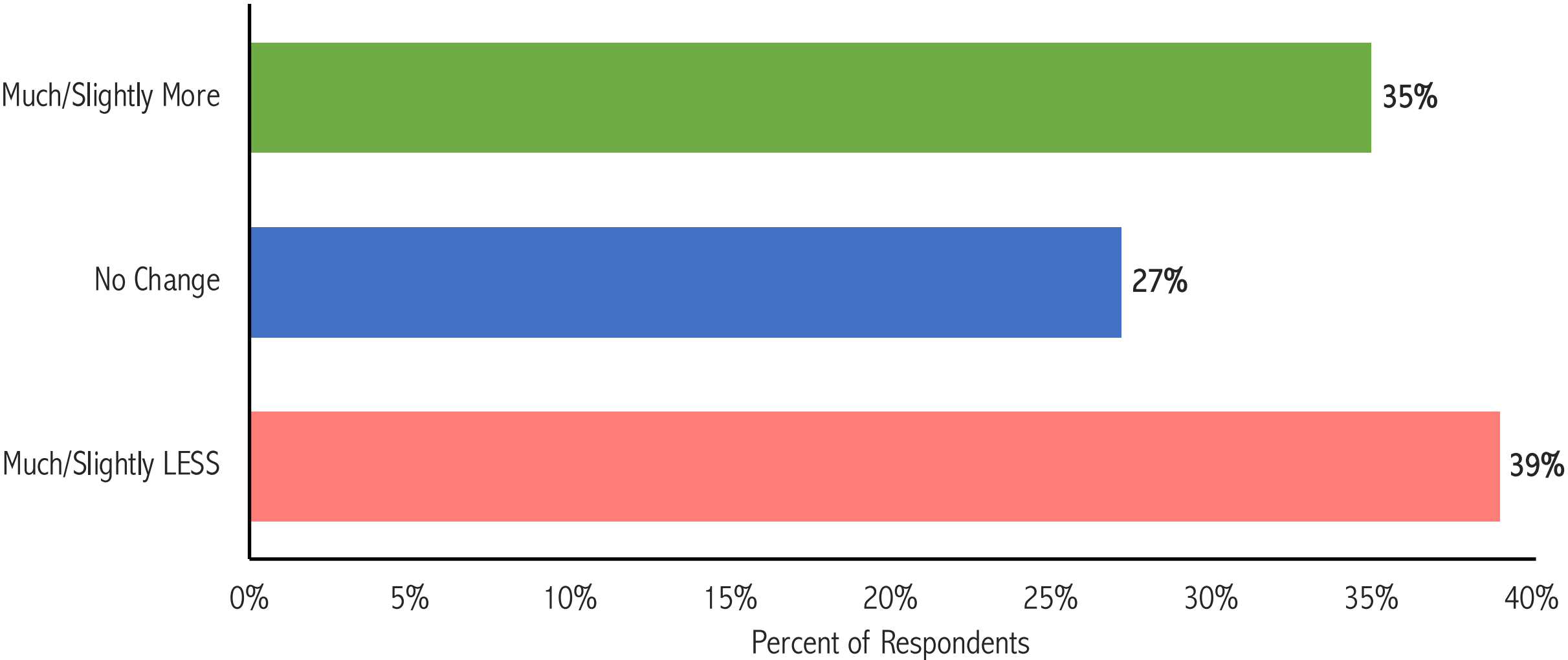
Q4 2021

Hancen Sale

Governmental Affairs and Policy Director, Knoxville Area Association of REALTORS®

How Did Knoxville REALTORS Fare Financially in 2020?

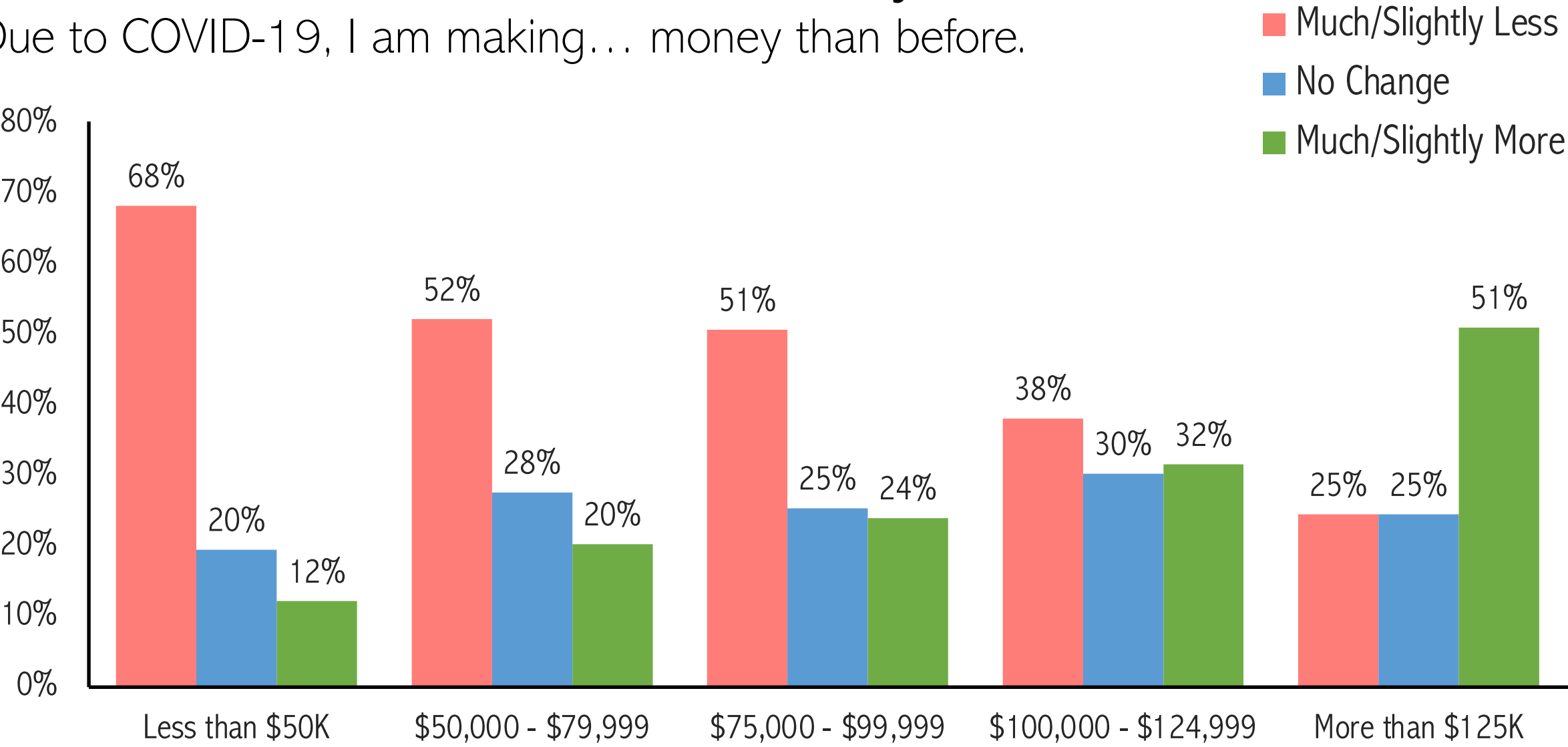
Due to COVID-19, I am making... money than before.



Source: Knoxville Area Association of REALTORS; Howard H. Baker Jr. Center for Public Policy

How did Knoxville REALTORS fare financially in 2020?

Due to COVID-19, I am making... money than before.



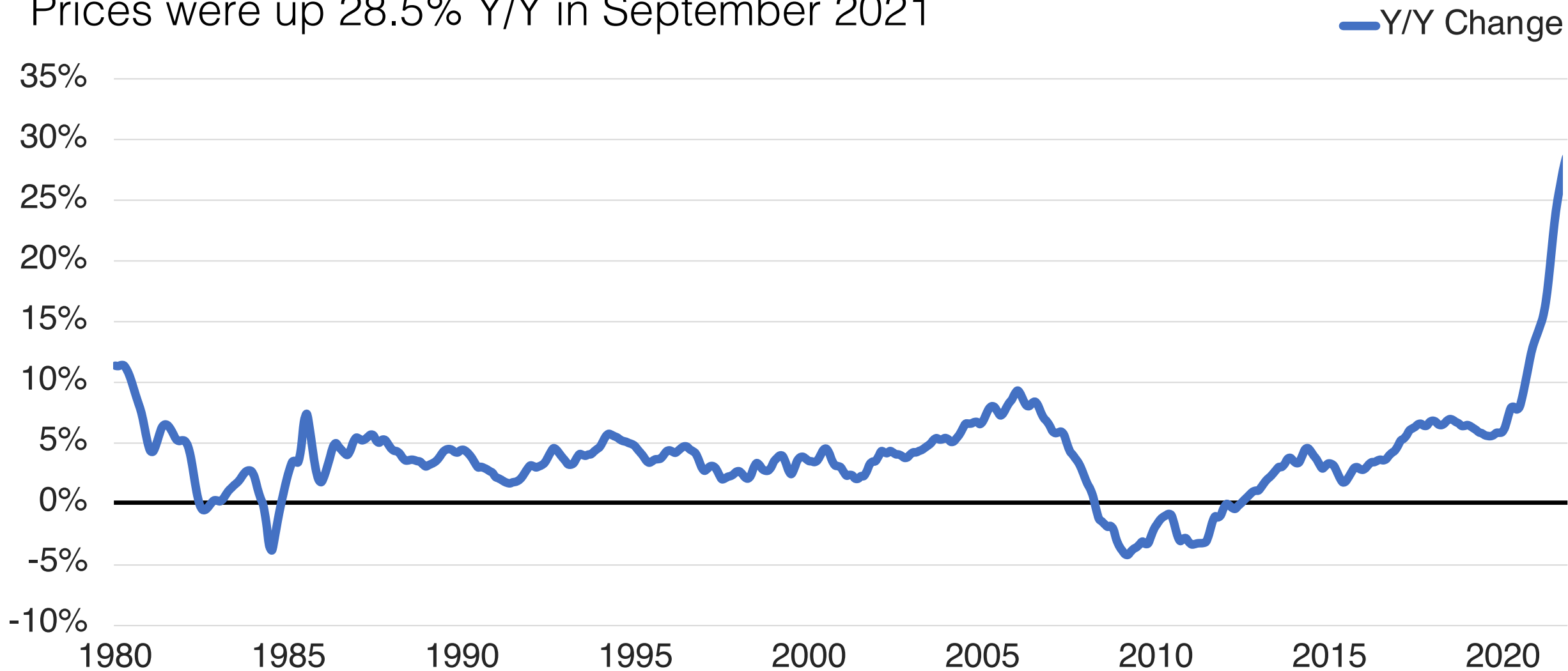
Source: Knoxville Area Association of REALTORS; Howard H. Baker Jr. Center for Public Policy

Outline

- **Historical context**
- **Market fundamentals**
- **Looking to history for insight**
- **Predictions**

Knoxville Home Prices Growing Faster Than Ever Before

Prices were up 28.5% Y/Y in September 2021

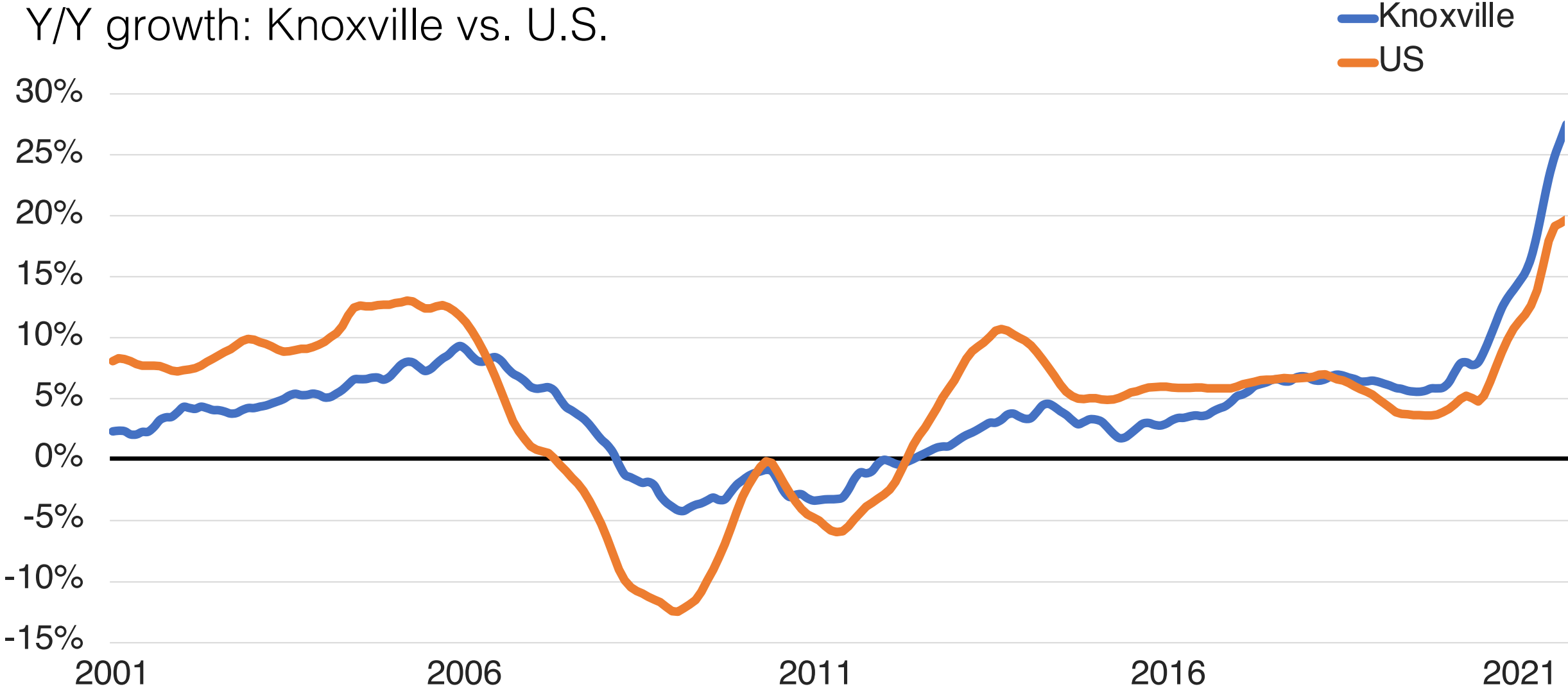


Source: Freddie Mac House Price Index, September 2021

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Knoxville Housing Market Running Hot

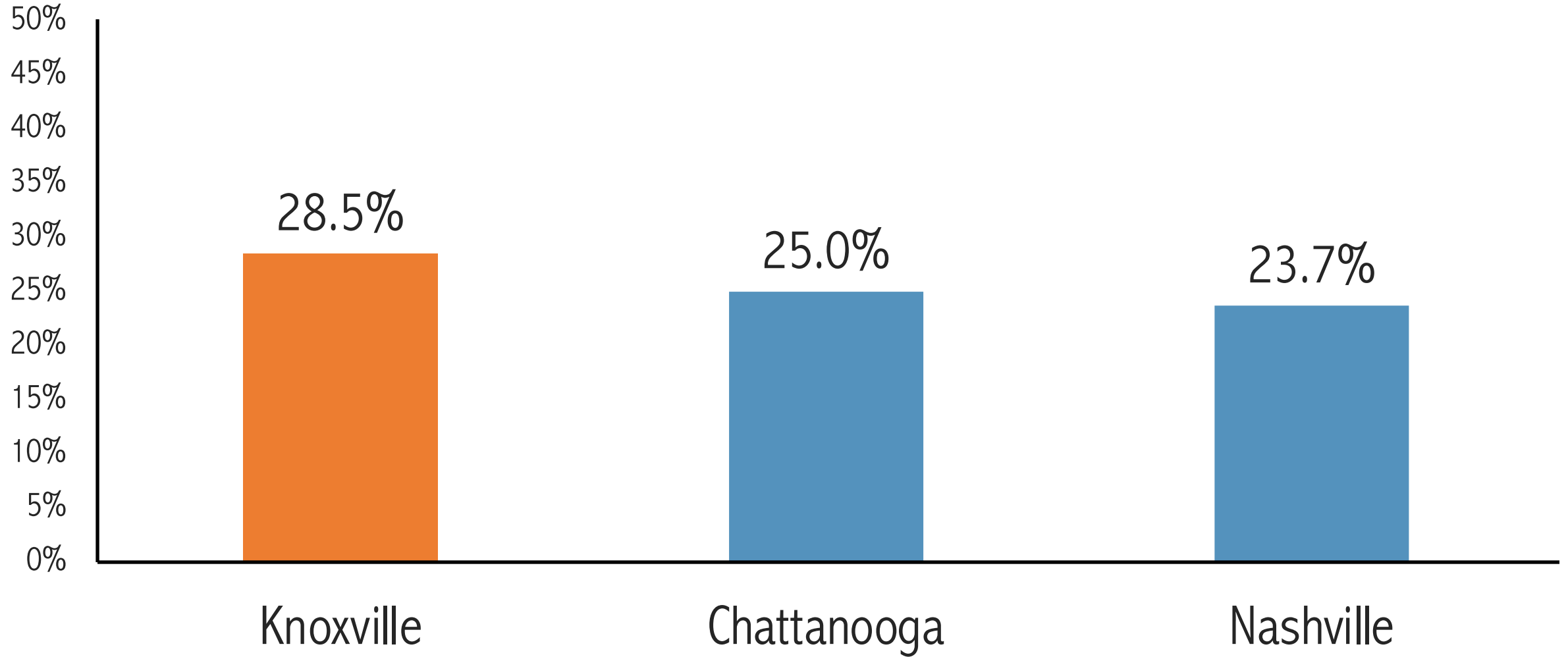
Y/Y growth: Knoxville vs. U.S.



Source: Freddie Mac House Price Index, August 2021

Knoxville Home Prices Outpacing Nashville, Chattanooga

Freddie Mac House Price Index, Year-over-year Change: September 2021

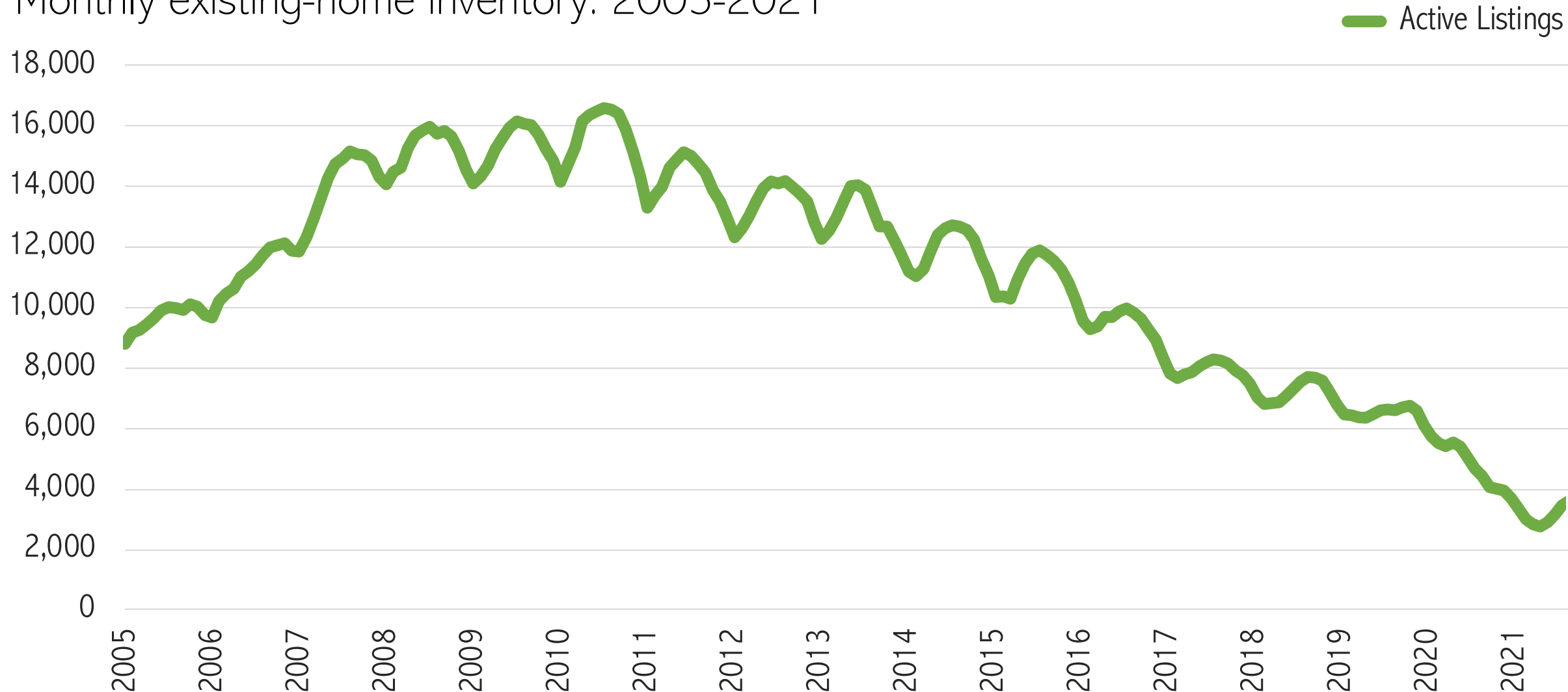


Source: Freddie Mac House Price Index, September 2021

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Undersupply of Housing Dates Back to '08 Financial Crisis

Monthly existing-home inventory: 2005-2021

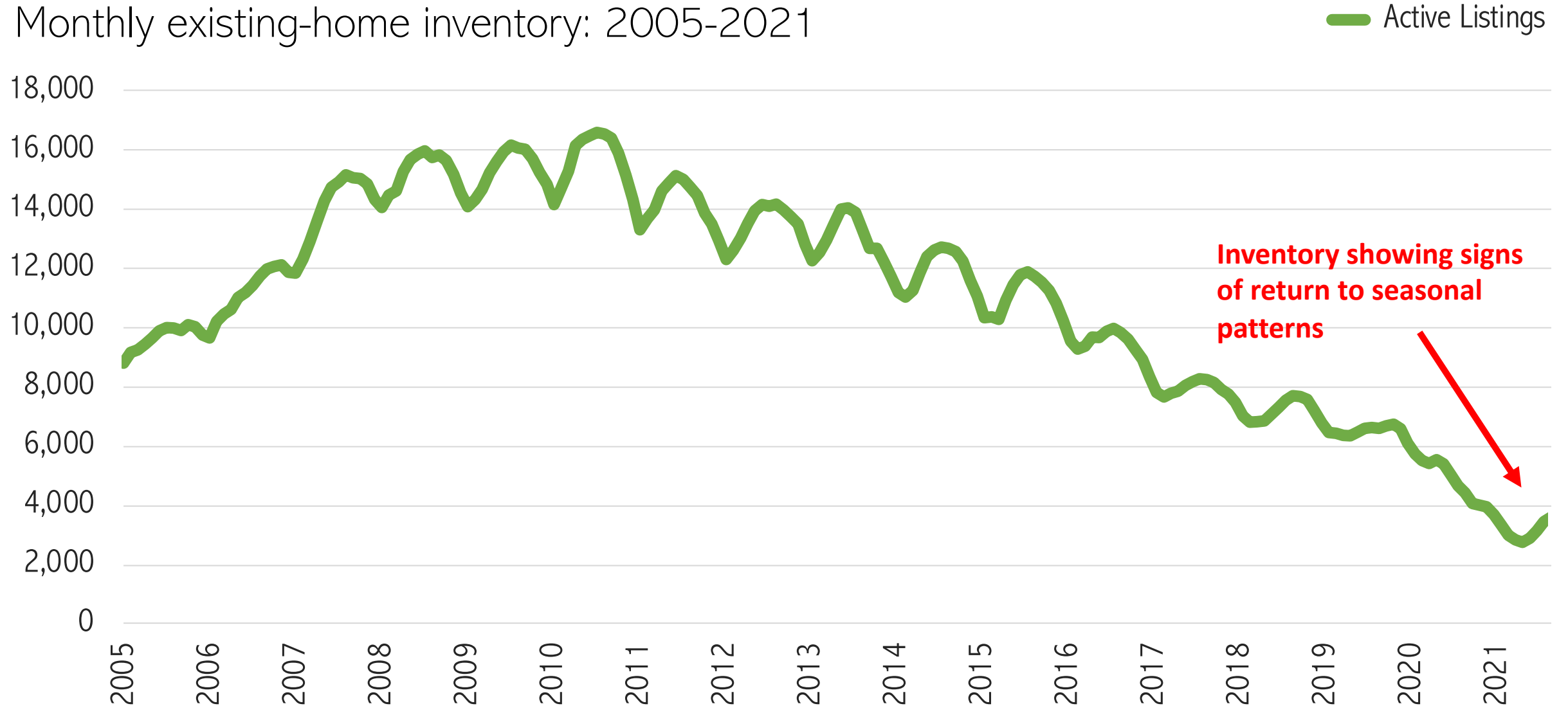


Source: Knoxville Area Association of Realtors, Regional Multiple Listing Service (MLS)

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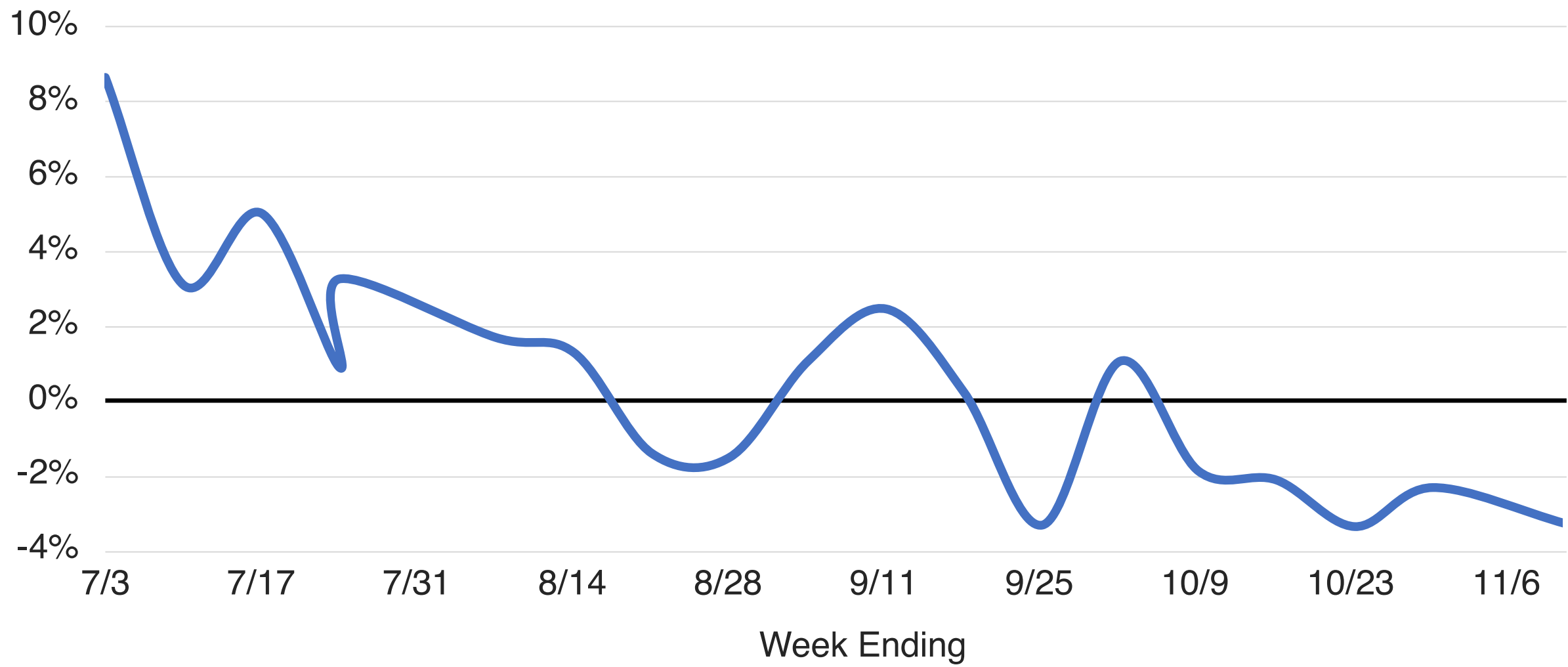
Monthly existing-home inventory: 2005-2021



Source: Knoxville Area Association of Realtors, Regional Multiple Listing Service (MLS)

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Active Listings: Percent Change From Previous Week



Source: KAAR MLS

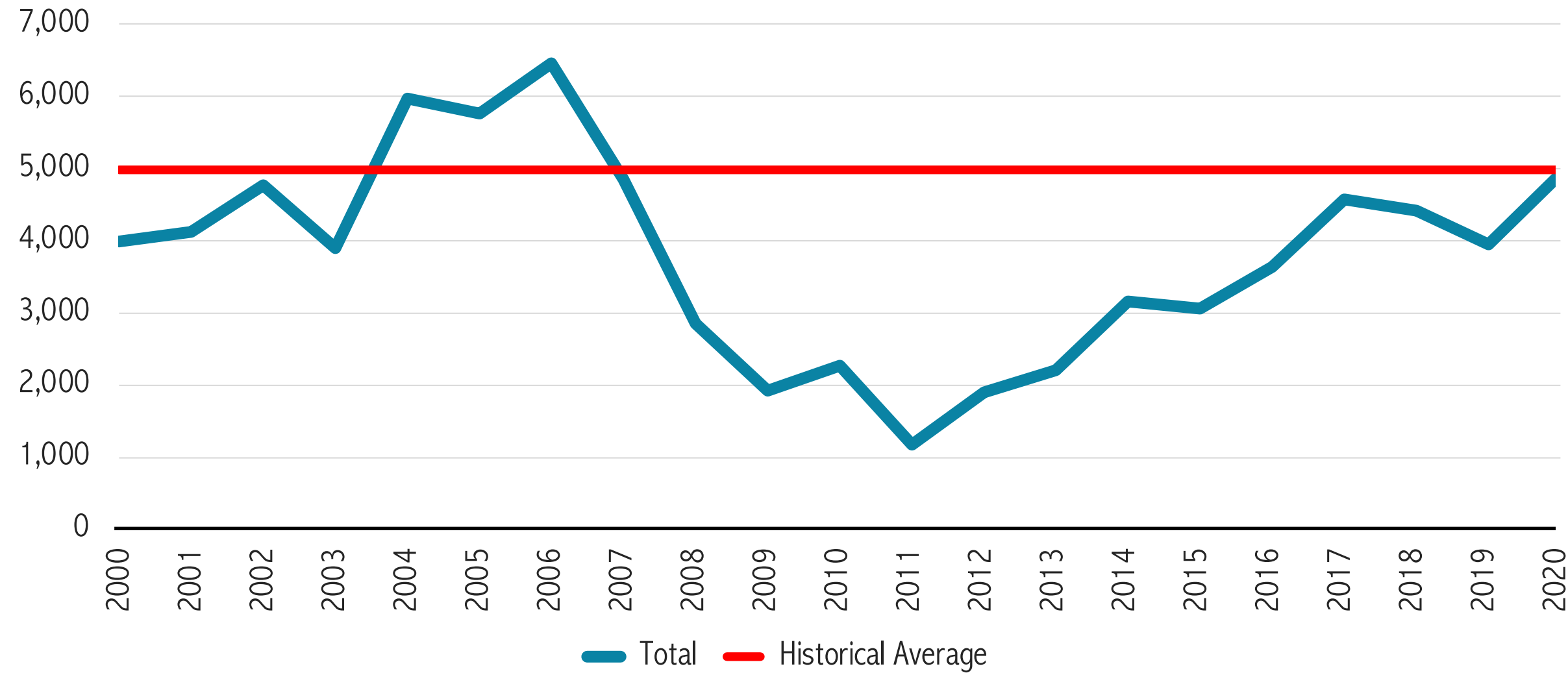
New Construction Market

- Labor shortage in construction and adjacent industry persists, steady flow of construction job openings remain
 - Total labor force still down 2.6% relative to pre-pandemic
- Building material prices remain stubbornly high, still 11.3% higher than pre-pandemic
- Bottlenecks/supply chain spurring delays in development process; record number of homes “not started”
- NIMBY-ism running the show in areas with greatest need for more housing

Construction Trends in Knoxville, TN Metro Area

Annual New Residential Building Permits (units per structure)

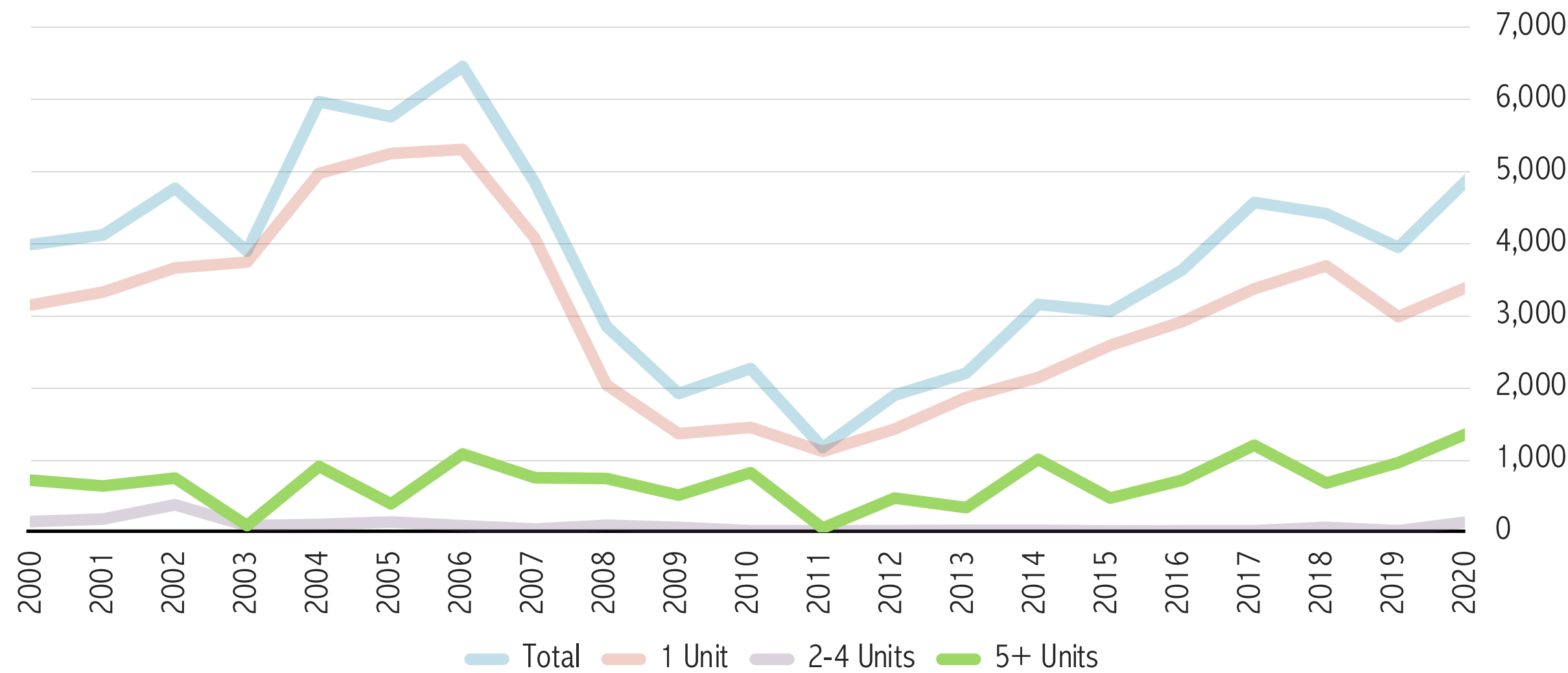
SFR permits are 40.4%
above post-2008 average;



Source: U.S. Census Bureau, Building Permits Survey

Multi-Family Building Permits Reach All-Time High

Annual New Residential Building Permits (units per structure)

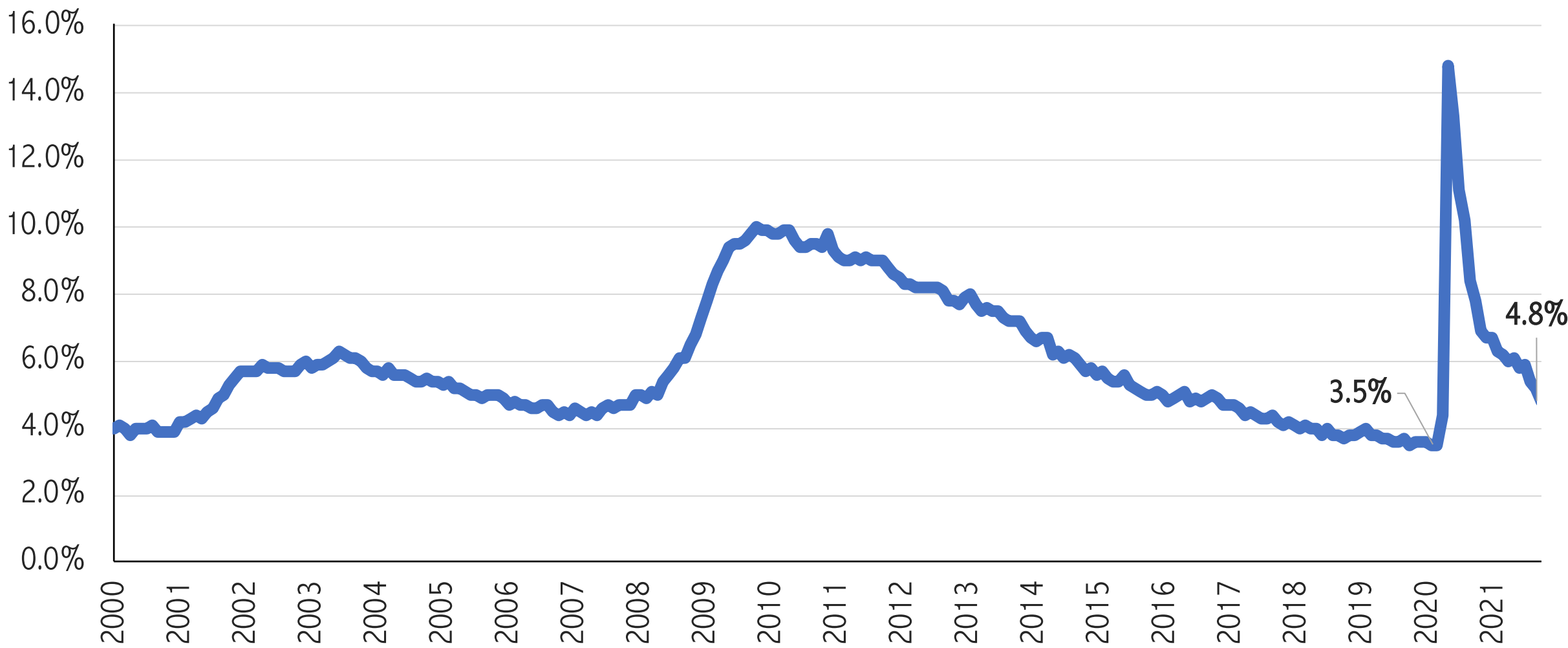


Source: U.S. Census Bureau, Building Permits Survey (Knoxville MSA)

Labor Market Recovering, But Not Fast Enough

Unemployment Rate, Percent, Monthly, Seasonally Adjusted

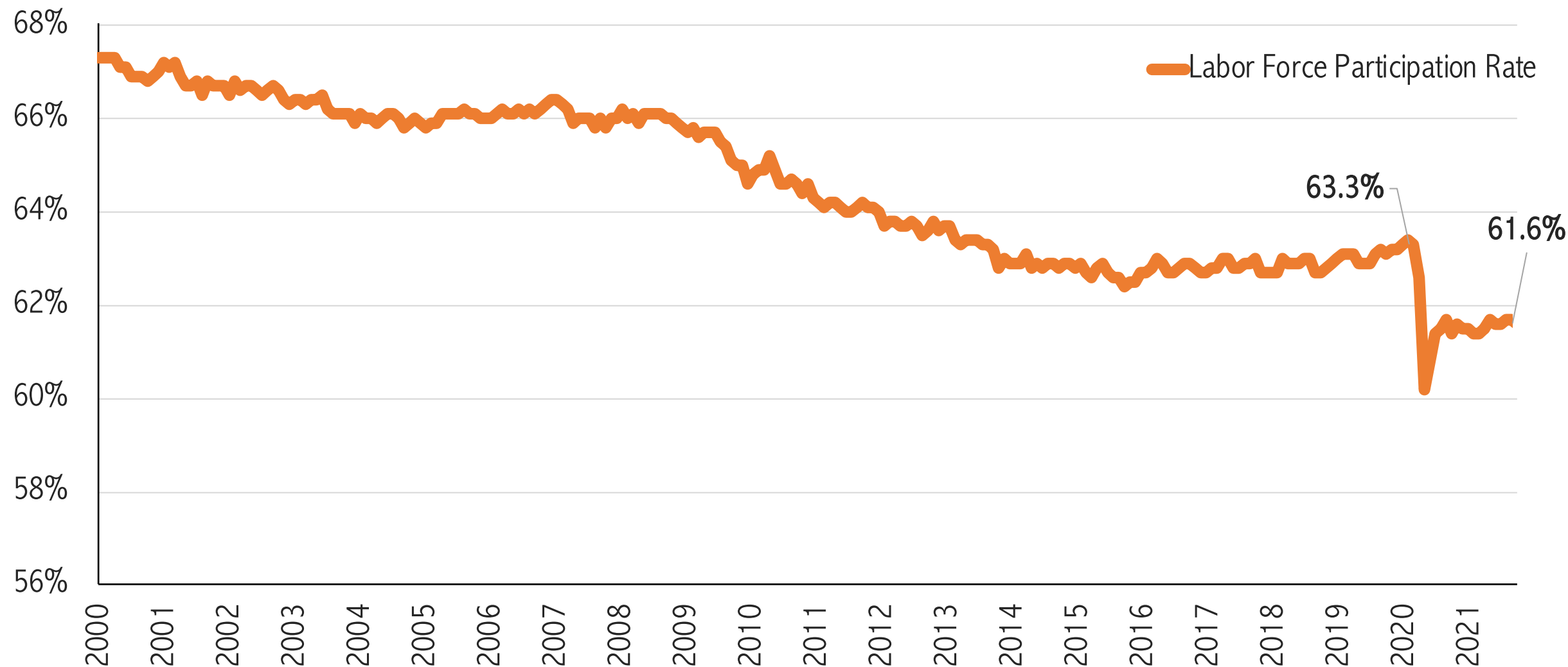
Unemployment Rate



Source: U.S. Bureau of Labor Statistics

Exodus of Workers from Labor Market Continues

Declines greatest among women; retail, restaurant, health-care workers



Source: U.S. Bureau of Labor Statistics

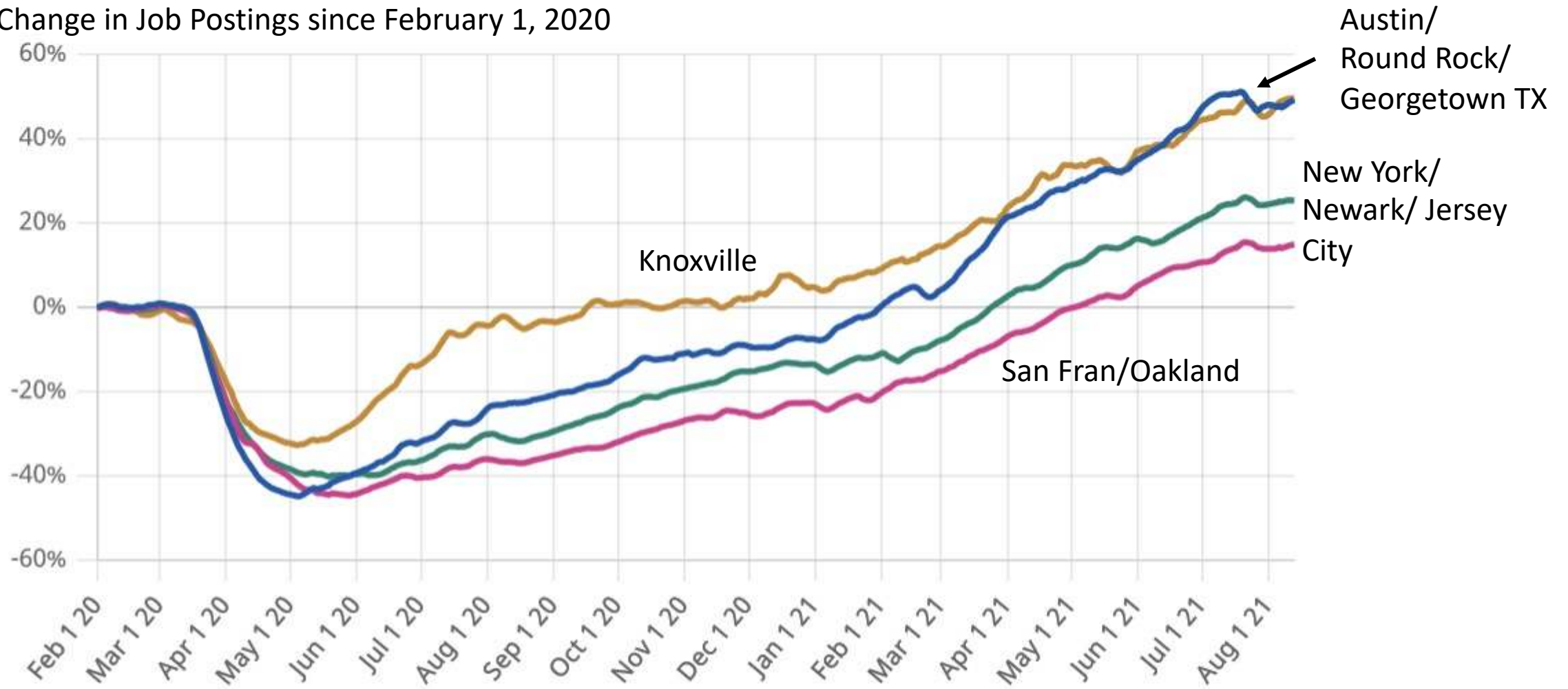
Women make up 10.9% of construction workforce

Nationwide, job openings at the highest level on record



Knoxville MSA Running Hot

Change in Job Postings since February 1, 2020



Source: INDEED HIRING LAB

Note: Seasonally adjusted as of August 13, 2021

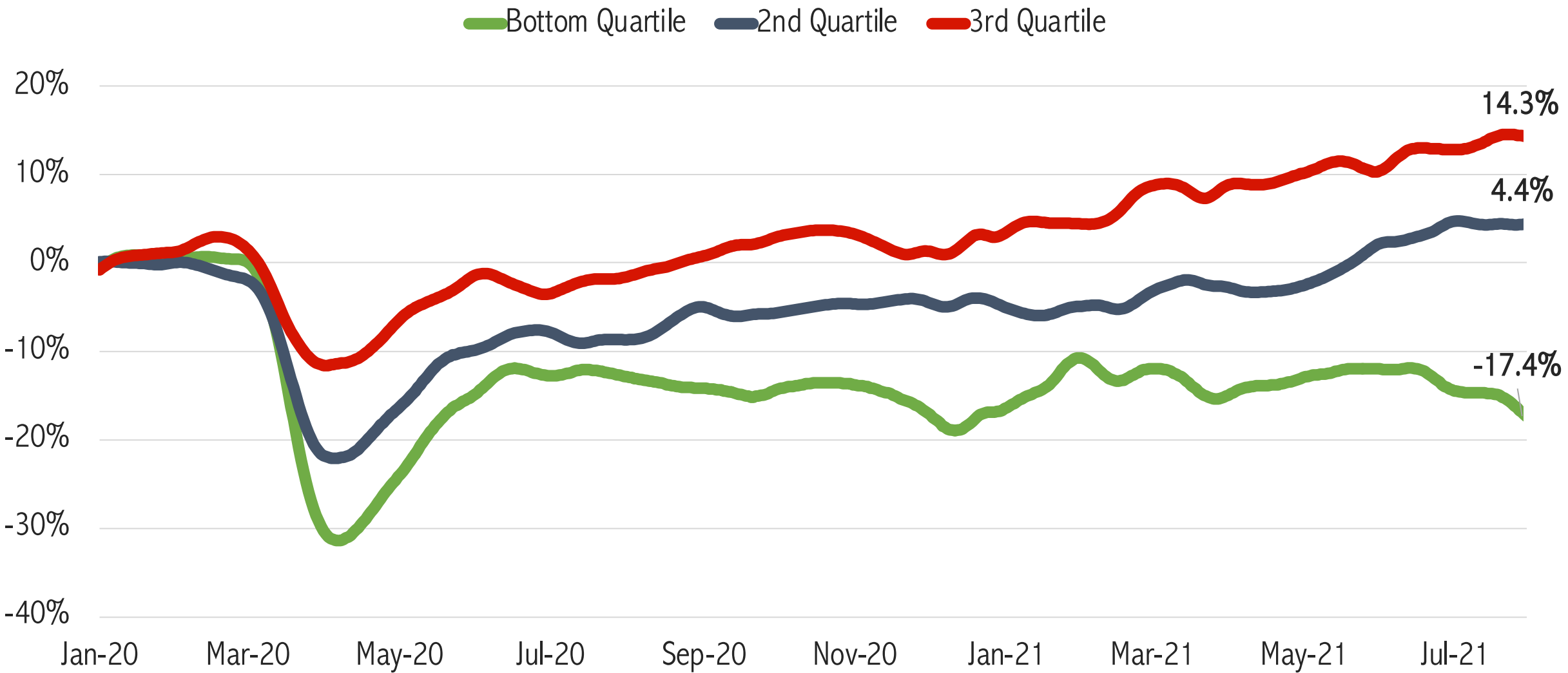
What is driving the historic housing demand?

What is driving the historic housing demand?

- Homebuyers not harmed financially by pandemic, household savings
- Above-average migration to East Tennessee, strong population growth
- Low interest rates
- Favorable demographics
 - Baby boomers nearing retirement
 - Millennials hitting the market
 - Growth in sole-person households

Pandemic Job Loss Concentrated Among Low Wage Workers, Unlikely Homebuyers

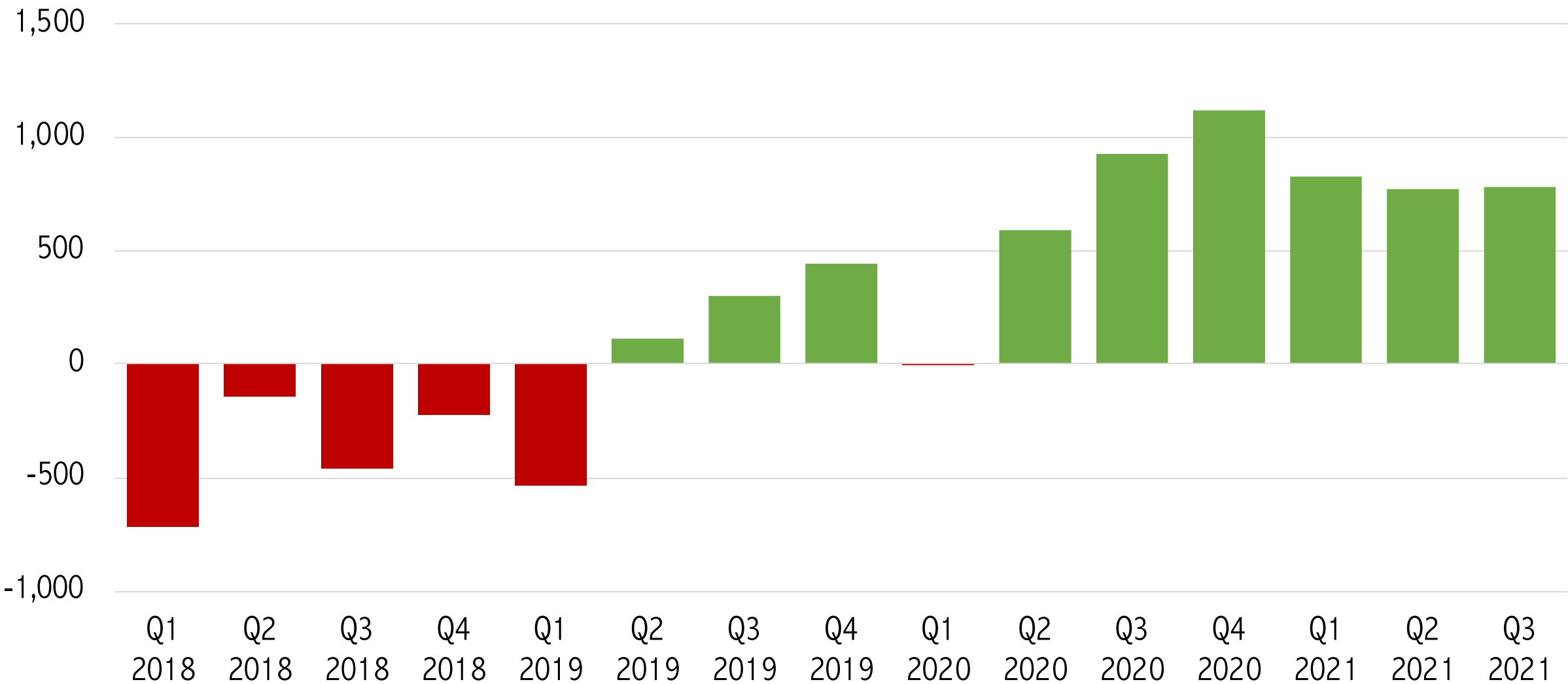
Percent Change in Employment by Wage Quartile in Tennessee Relative to Jan 2020



Source: Opportunity Insights

More People Are Moving To Knoxville, Fewer Leaving

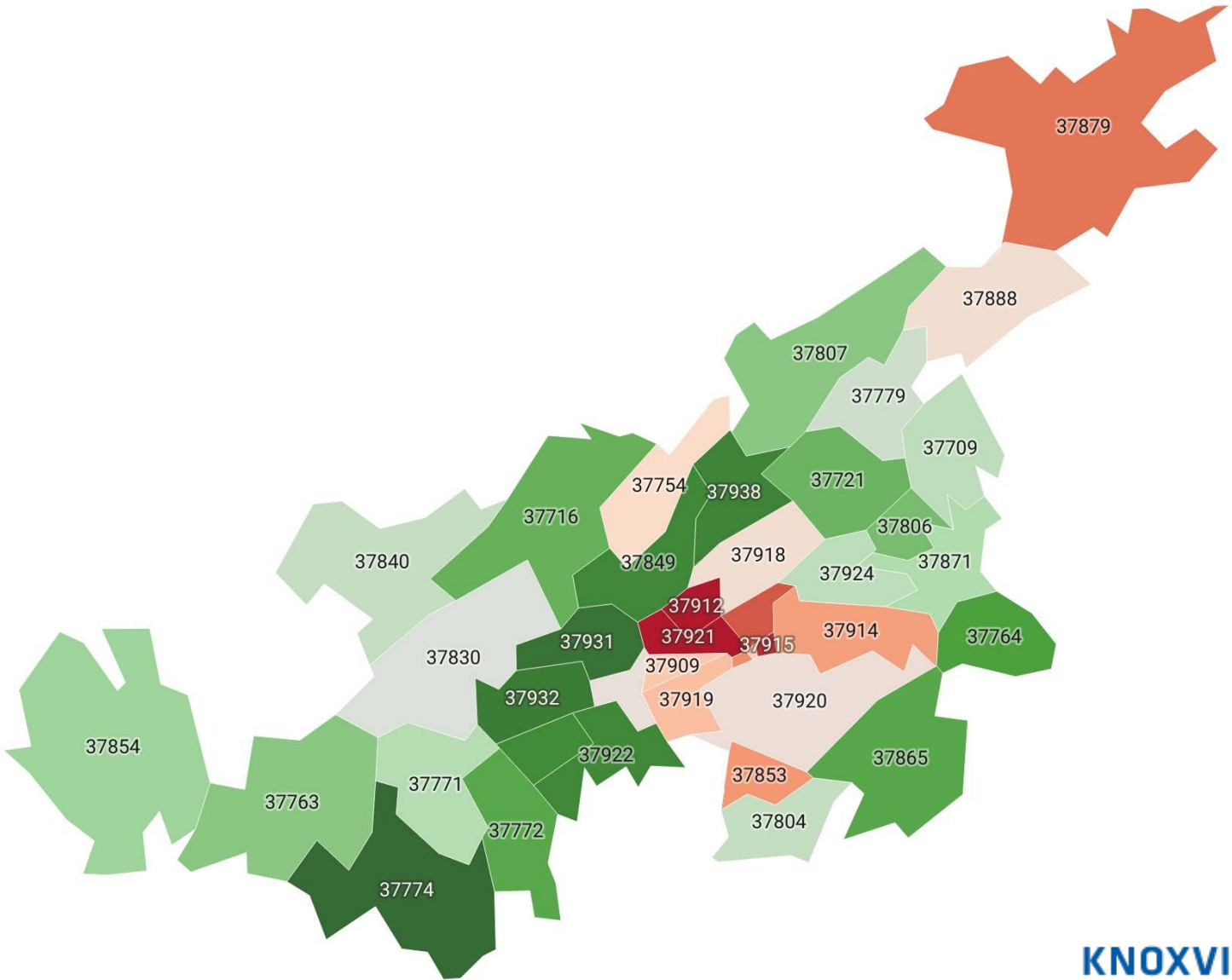
New Flow (Outflow – Inflow) to Knoxville, TN



Source: KAAR analysis of USPS change of address data

Which Knoxville Postal Codes Experienced Net Migration Gains in 2020?

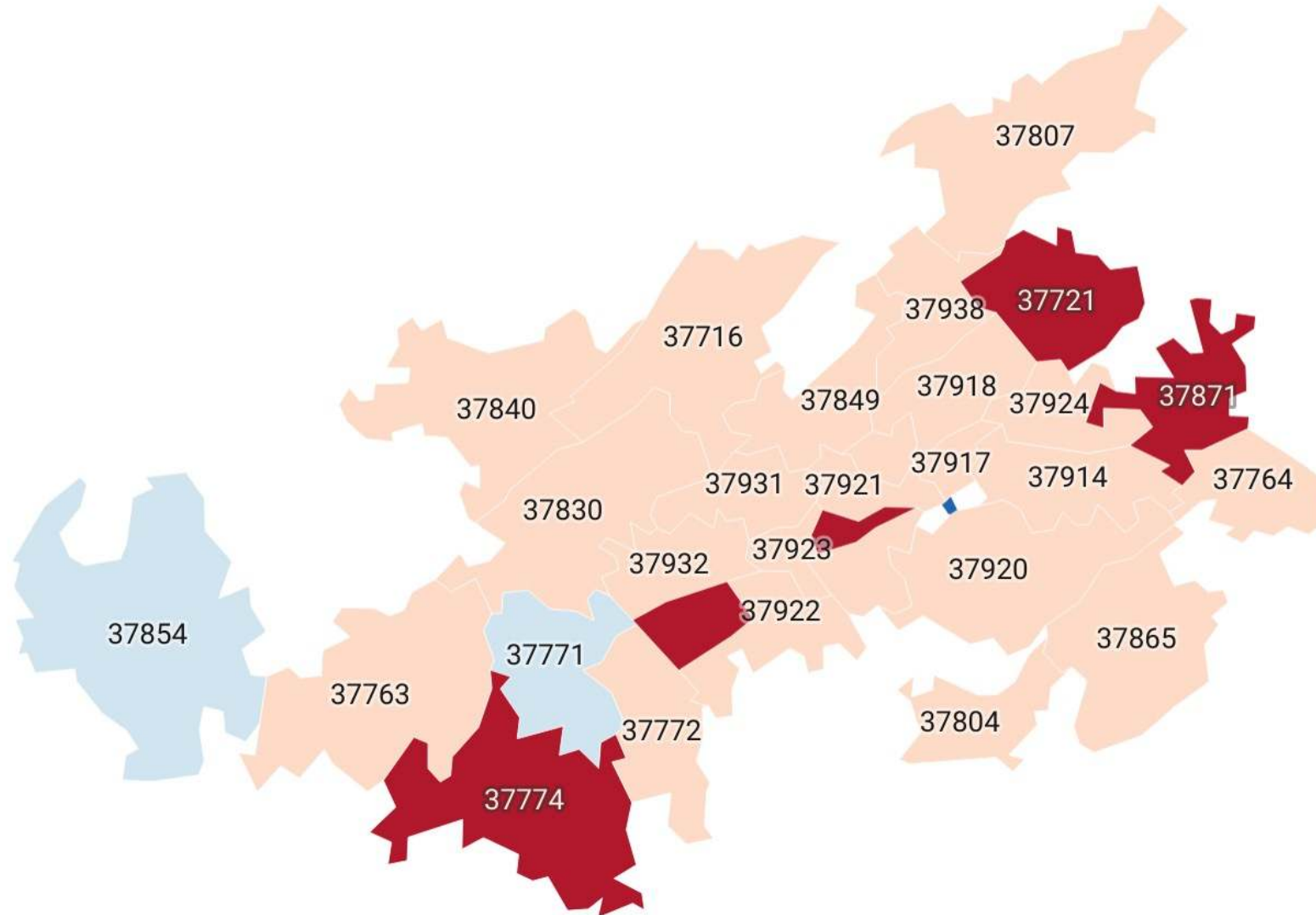
Comparison of net migration for select postal codes in the Knox County



Where is the Housing Market Hottest in Knox County?

Market Hotness Score (August 2021)

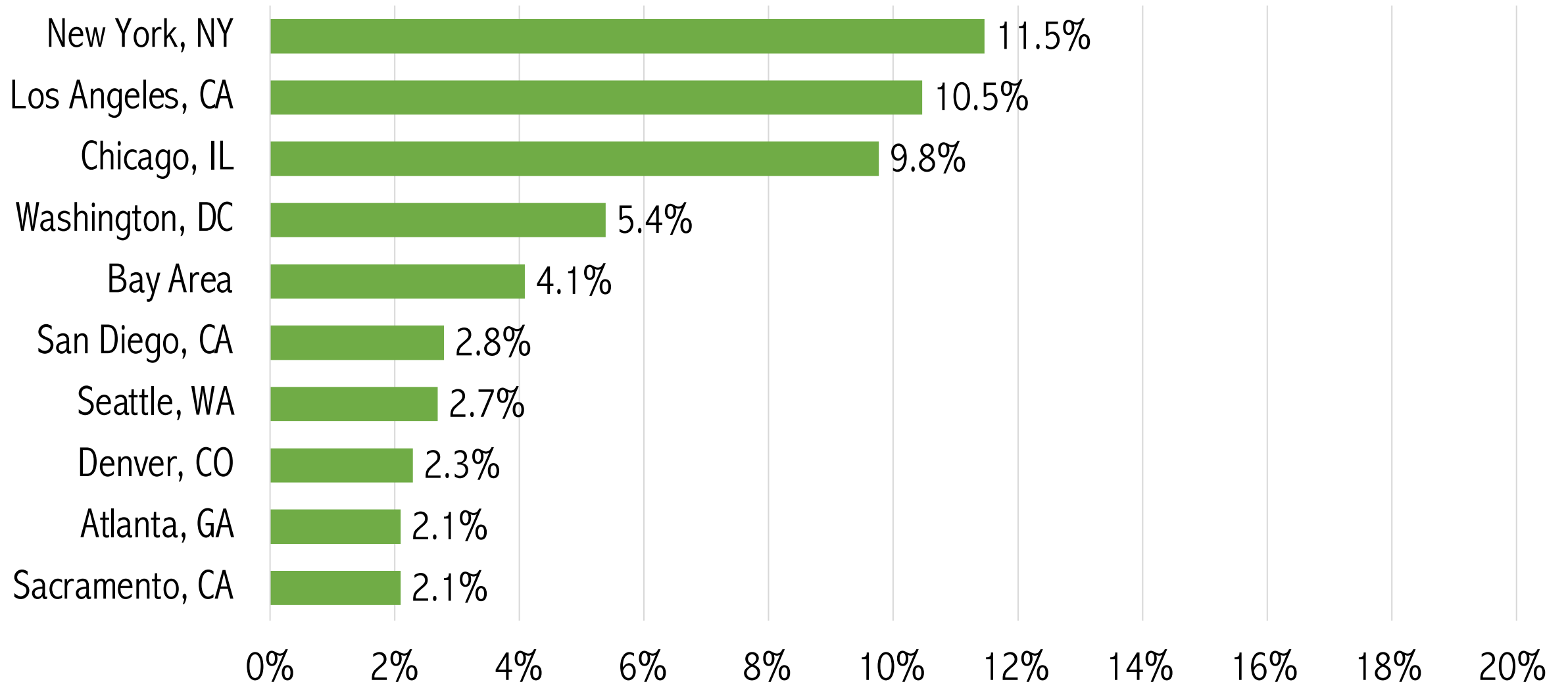
■ < 40 ■ 40-60 ■ 60-80 ■ ≥ 80



Top Five Hottest Postal Codes

- (1) 37909 - West Hills
- (2) 37721 - Corryton
- (3) 37871 - Strawberry Plains
- (4) 37934 - Farragut
- (5) 37774 - Loudon

Top 10 Origins for Homebuyers Relocating to Knoxville, TN



Source: Redfin, Q2-2021

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Primary Mortgage Market Survey[®]

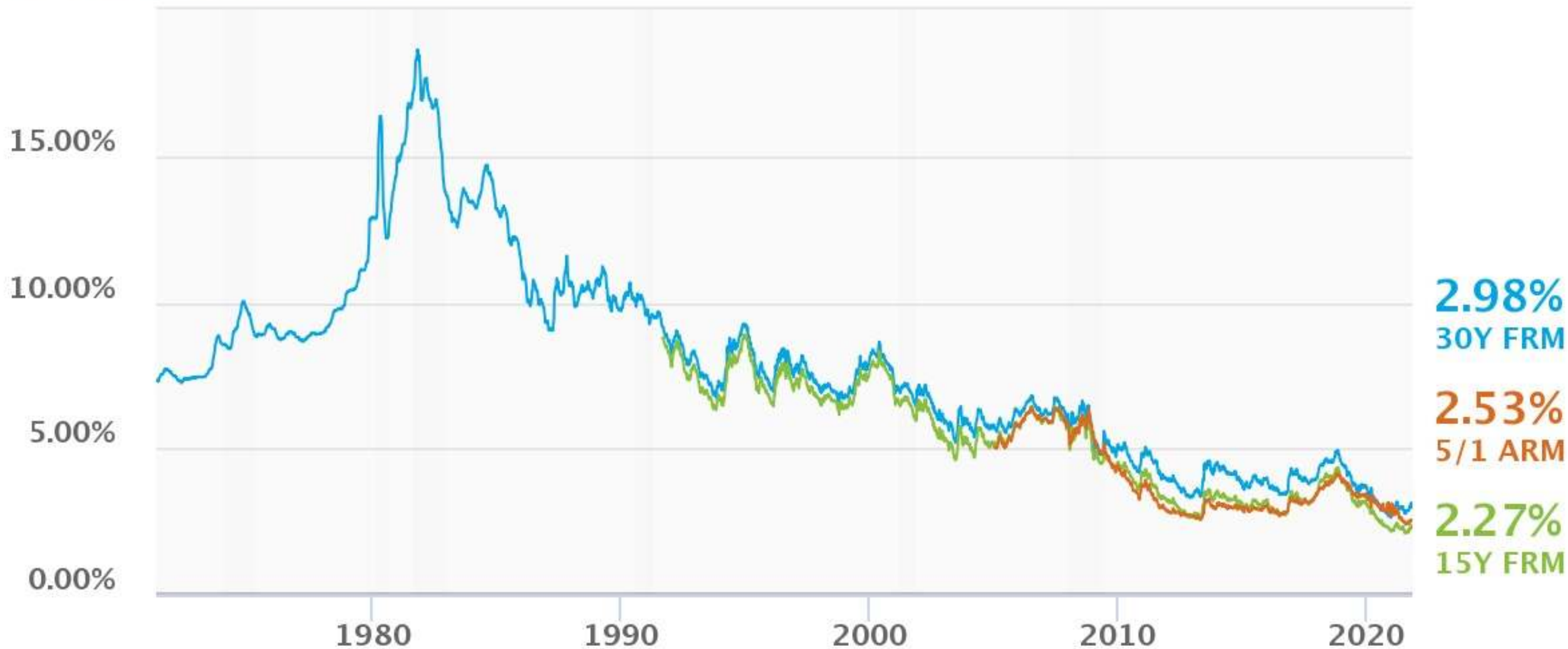
U.S. weekly average mortgage rates as of 11/10/2021





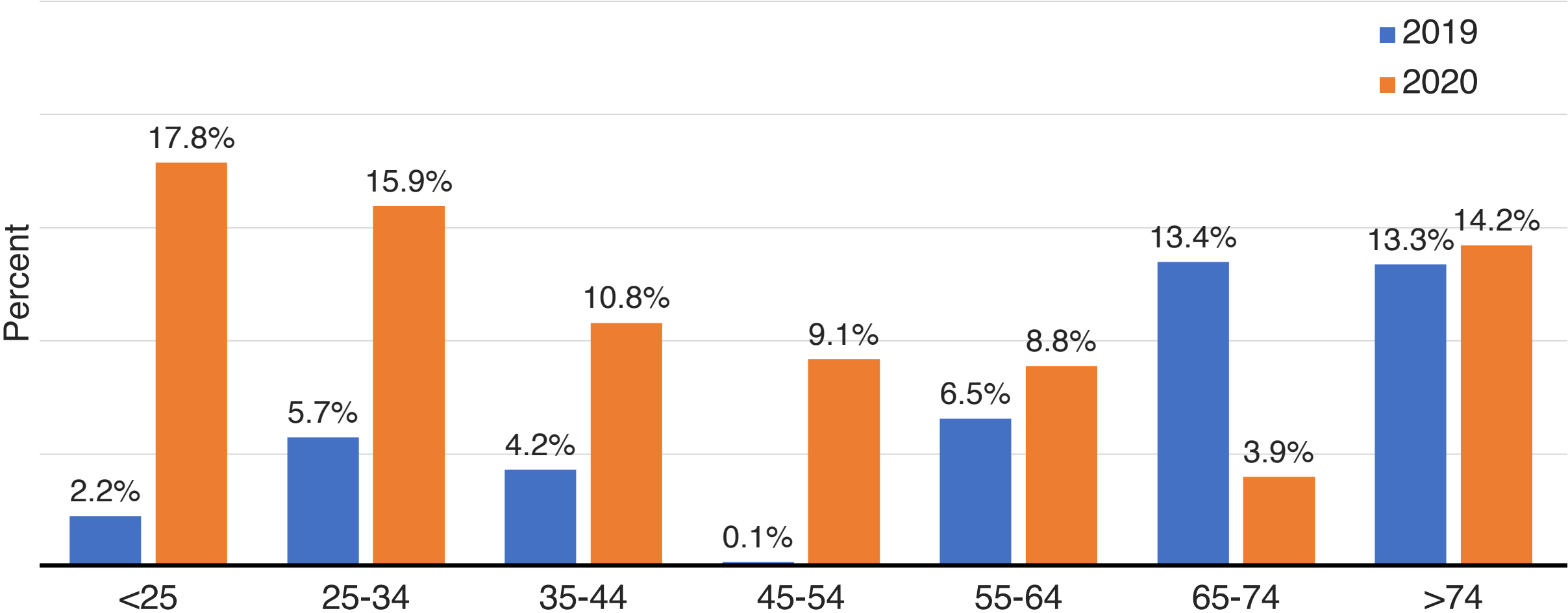
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Millennial Homebuyers Driving Knoxville's Housing Market Growth

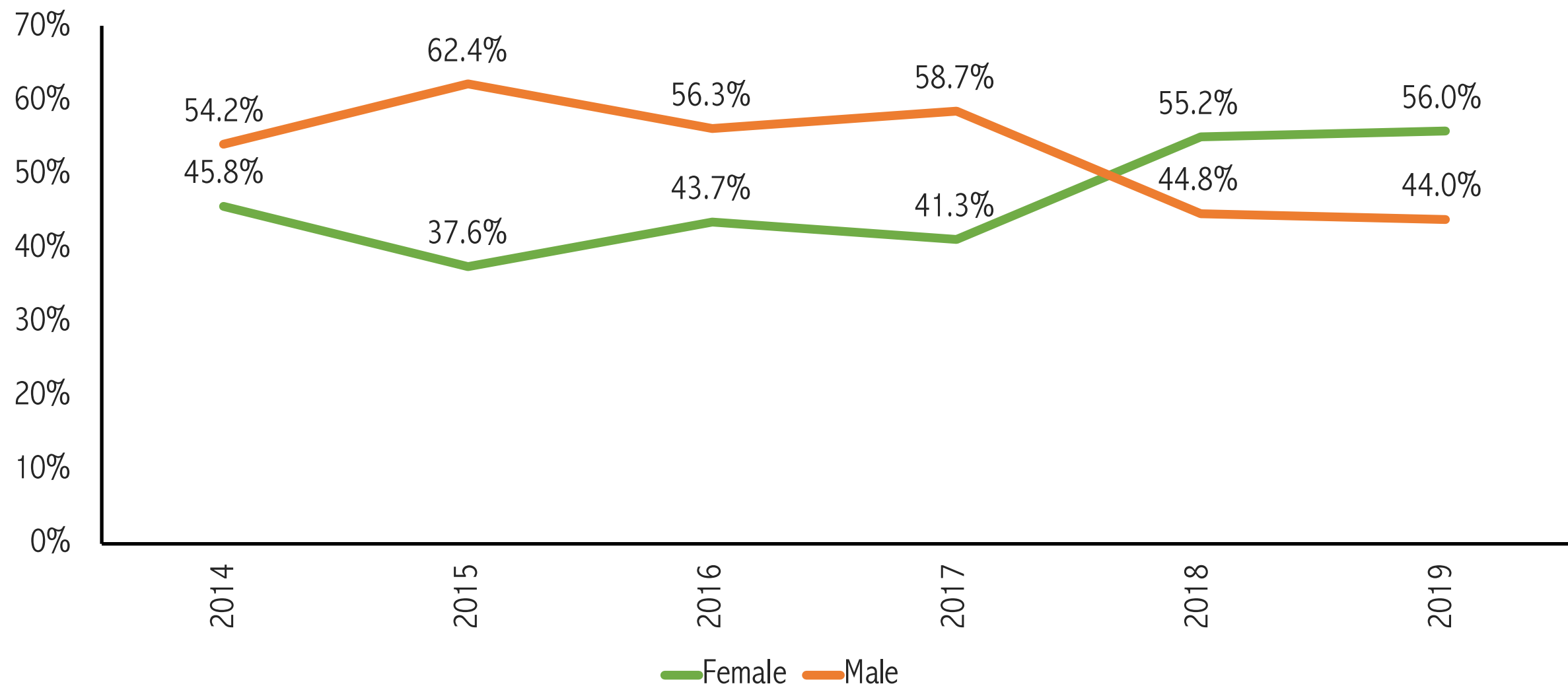
Home purchase year-over-year growth by age group: Knoxville, TN



Source: KAAR analysis of 2018-2020 HMDA data

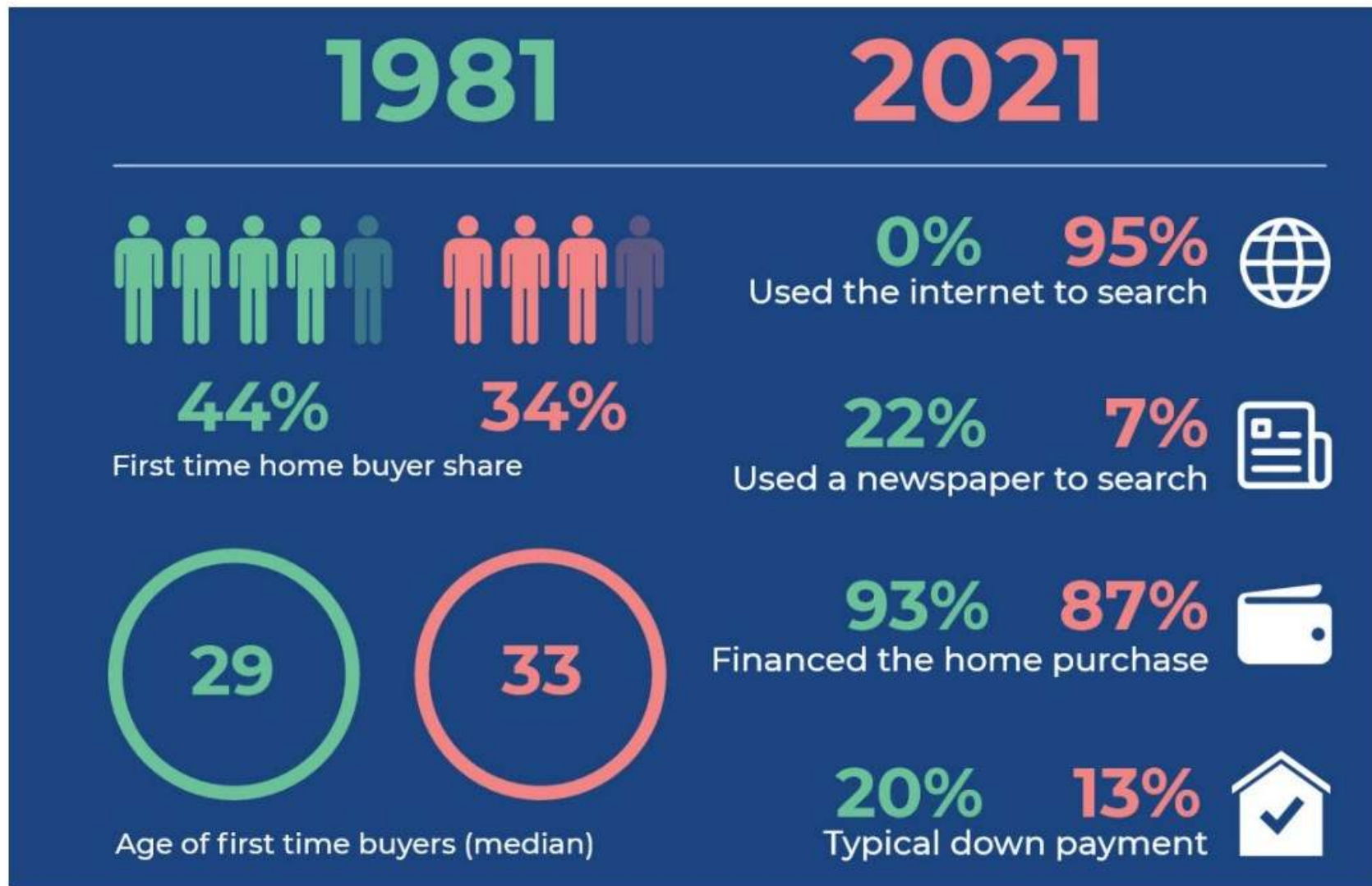
Women Comprise Majority of Knoxville Home Buyers

Home buyers by sex/year in Knoxville, TN metro area



Source: U.S. Census Bureau, American Community Survey (ACS) Public Use Microdata Sample

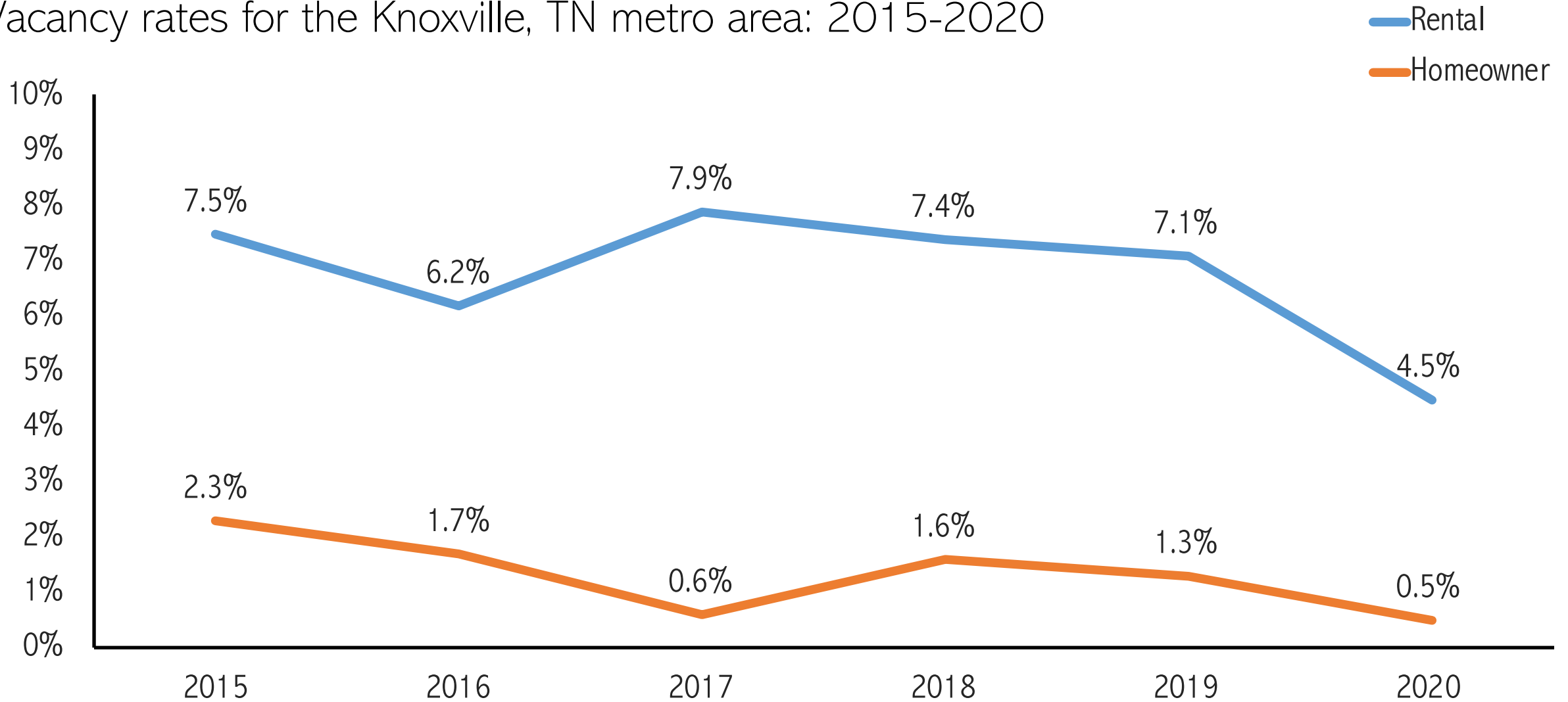
Home Buyers 1981 and 2021



Is the historic demand *real*?

Highest Ever Demand Meets Lowest Ever Vacancy

Vacancy rates for the Knoxville, TN metro area: 2015-2020



Source: Current Population Survey/Housing Vacancy Survey, U.S. Census Bureau

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Real-time Data Reveals Voters' Housing Concerns

- More than 1 in 3 registered voters in Knox County indicated **housing affordability** in the Knoxville area is a very or fairly big problem.
- Around 1 in 4 say the **availability of housing** to buy or rent in the Knoxville area is a very or fairly big problem.

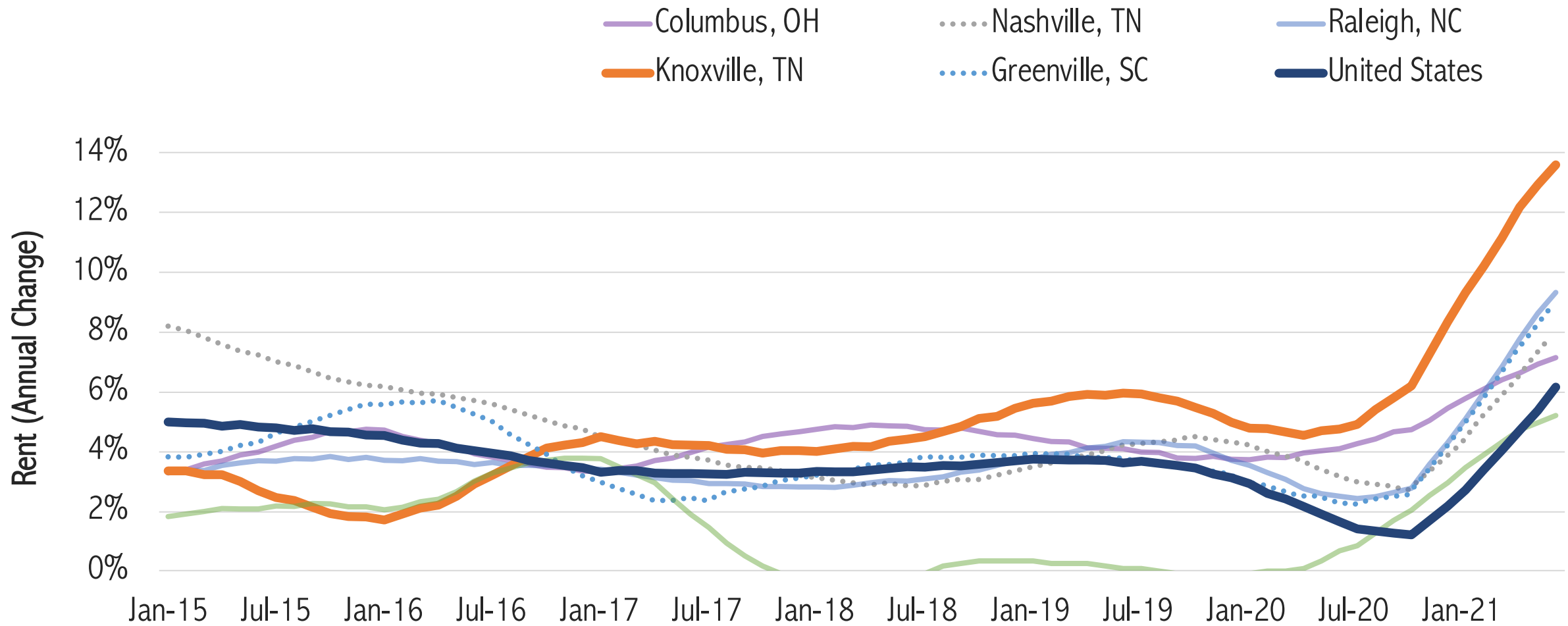
March 21-23, 2021

400 Respondents (458 Unweighted)

Margin of error: ± 4.9 percentage points

Knoxville Rents Growing Faster Than Other US Cities

Market Rate Rent Index for 40th to 60th Percentile, Y/Y Change



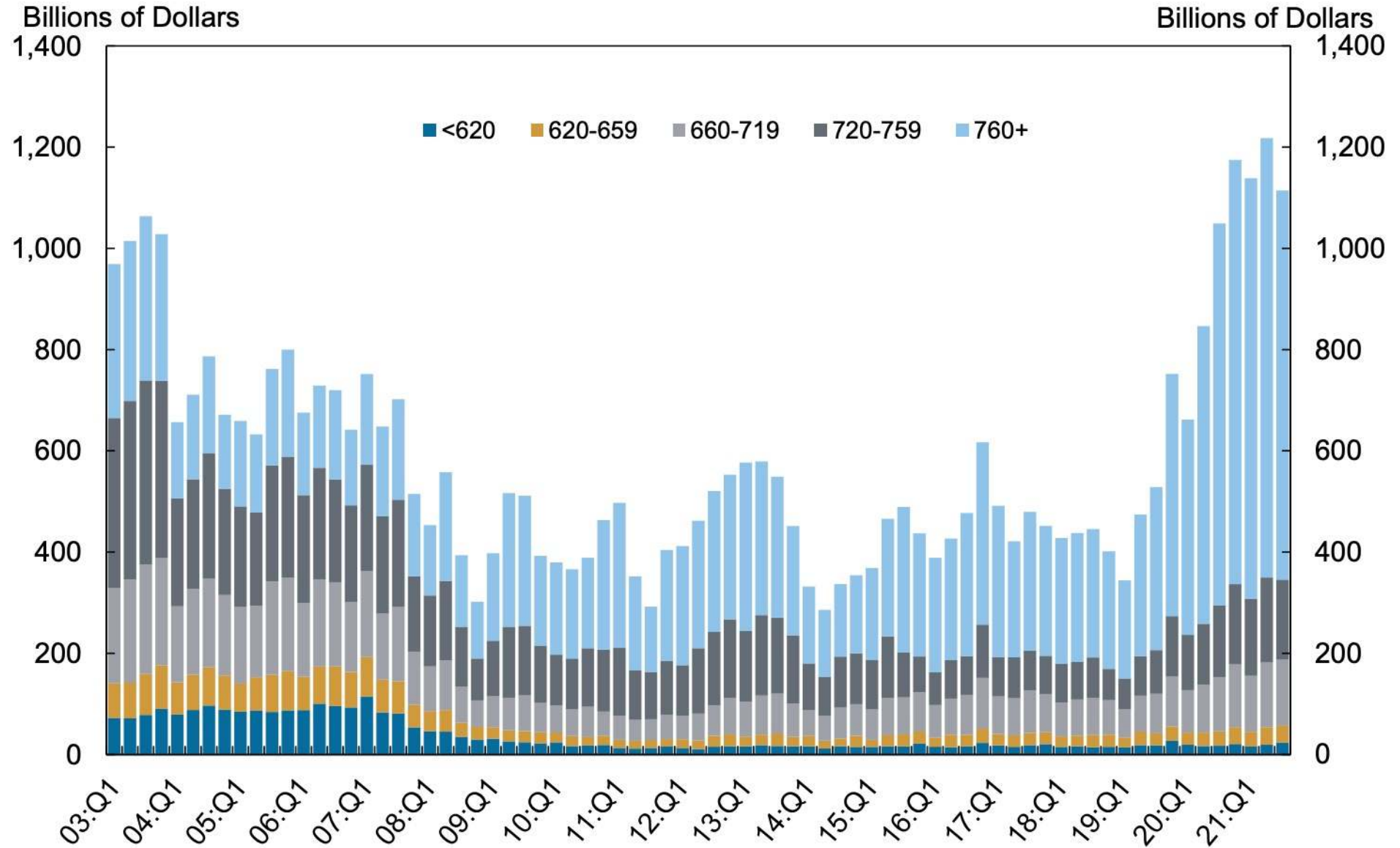
Source: Zillow Research, Zillow Observed Rent Index (ZORI)

Looking To History For Insight...

This isn't 2008. But unhealthy signs exist.

- **Lending standards are high and mortgage credit availability is starkly tighter than 2008**
 - Loans mostly going to well-qualified borrowers
- Price gains are real, no signs of widespread speculation (yet!)
- Risky loan products comprised around 40% of loans leading up to 2008 but only 2% of mortgage products today
- Home prices still in no risk of decline

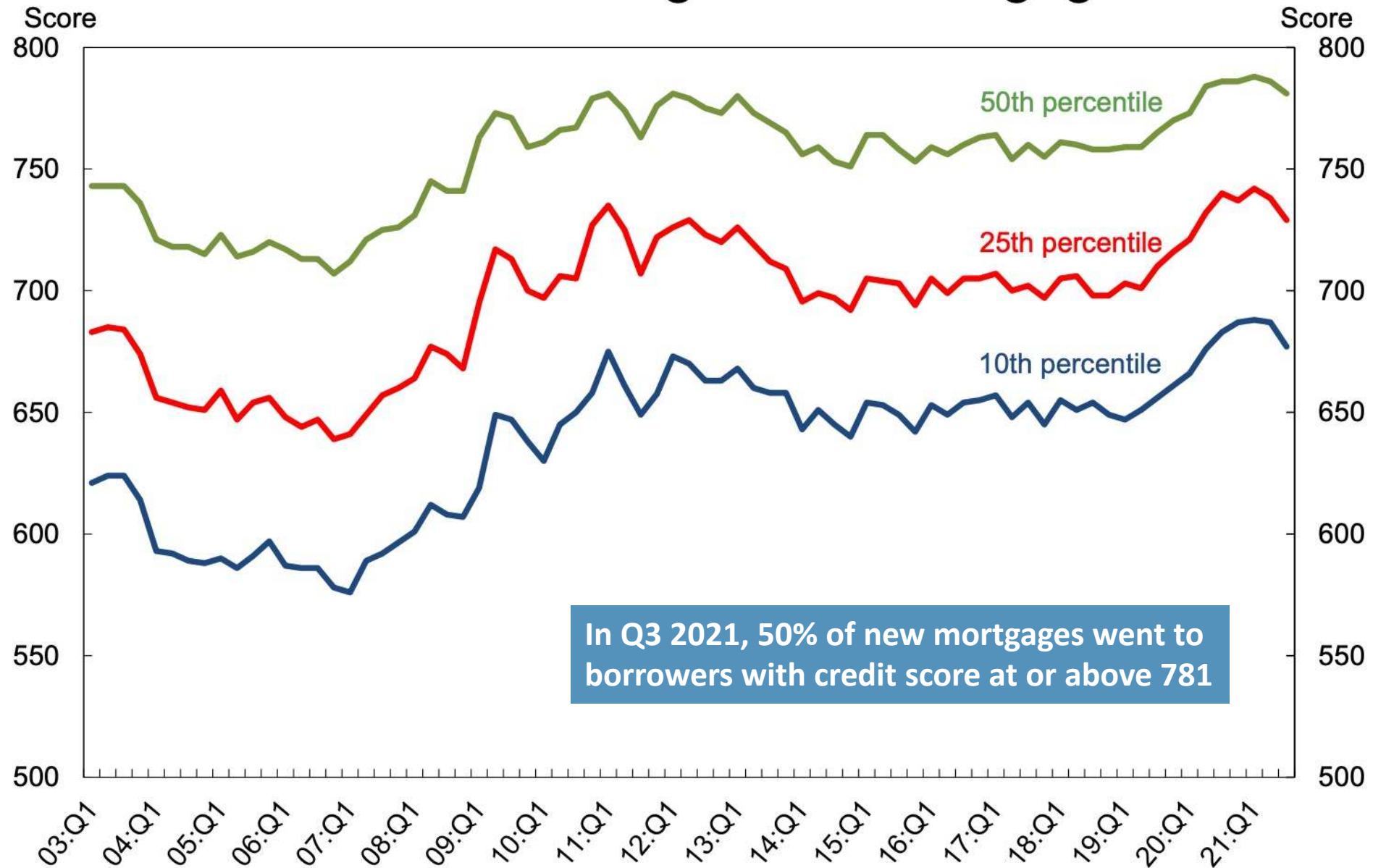
Mortgage Originations by Credit Score*



Source: New York Fed Consumer Credit Panel/Equifax

* Credit Score is Equifax Riskscore 3.0

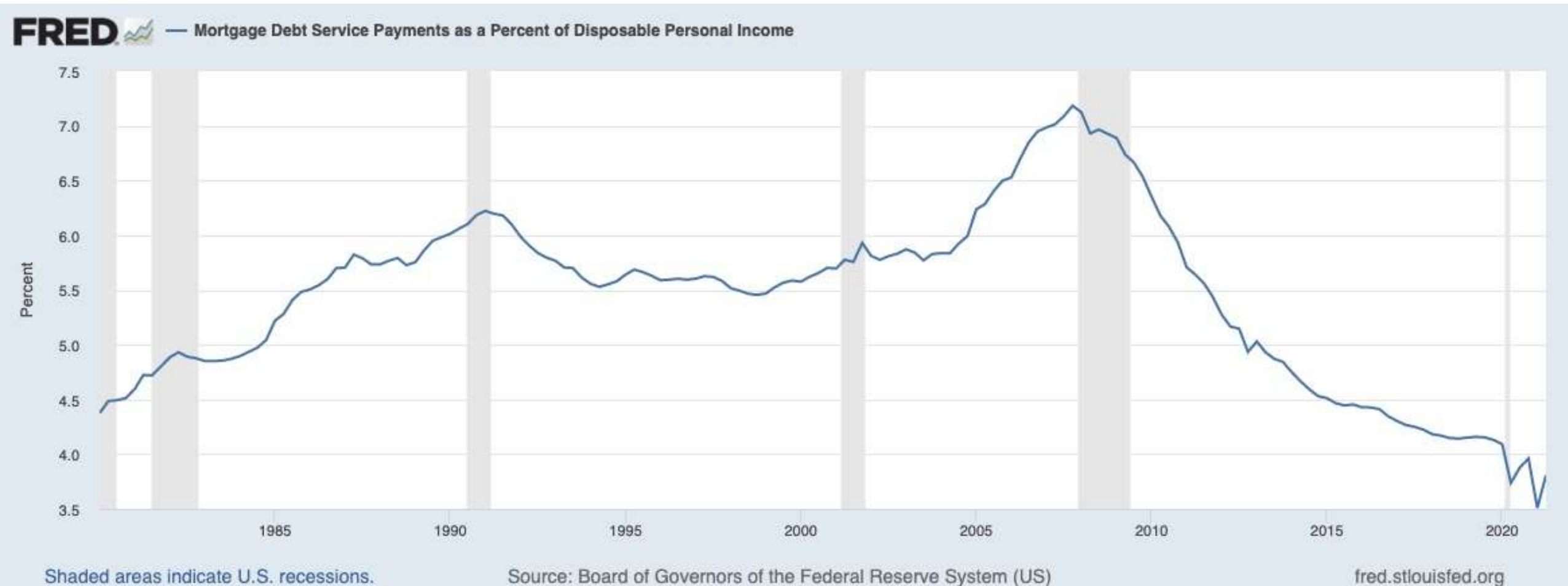
Credit Score at Origination: Mortgages*



Source: New York Fed Consumer Credit Panel/Equifax

* Credit Score is Equifax Riskscore 3.0; mortgages include first-liens only.

Unlike 2008, homeowners aren't overburdened by mortgage debt



Investor Buyer Share ... fairly normal

(What happened to Zillow and lead generation?)



Looking To History: Early 1980s

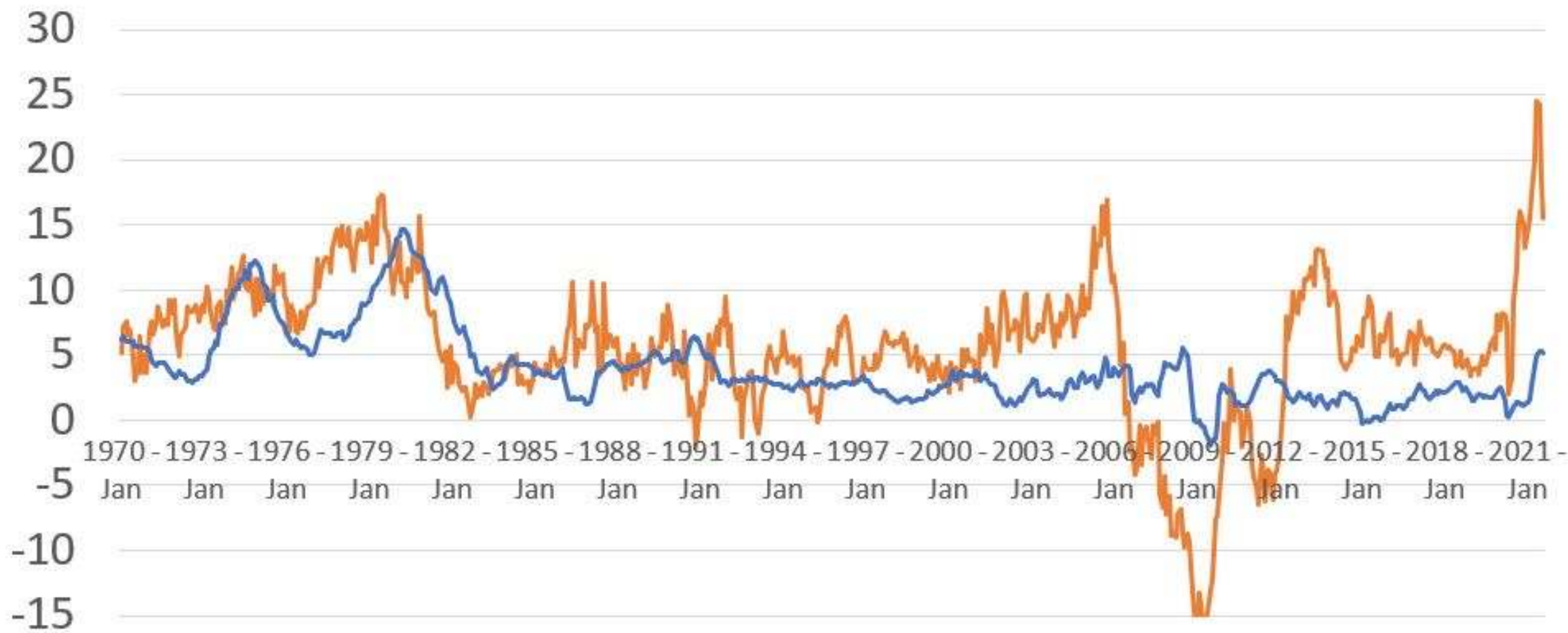
- Above average home price appreciation; soaring rents
- Widespread concerns about rising CPI, runaway inflation
- Mortgage rates skyrocketed to 18% as a result

Existing Home Sales Dropped Almost 50%



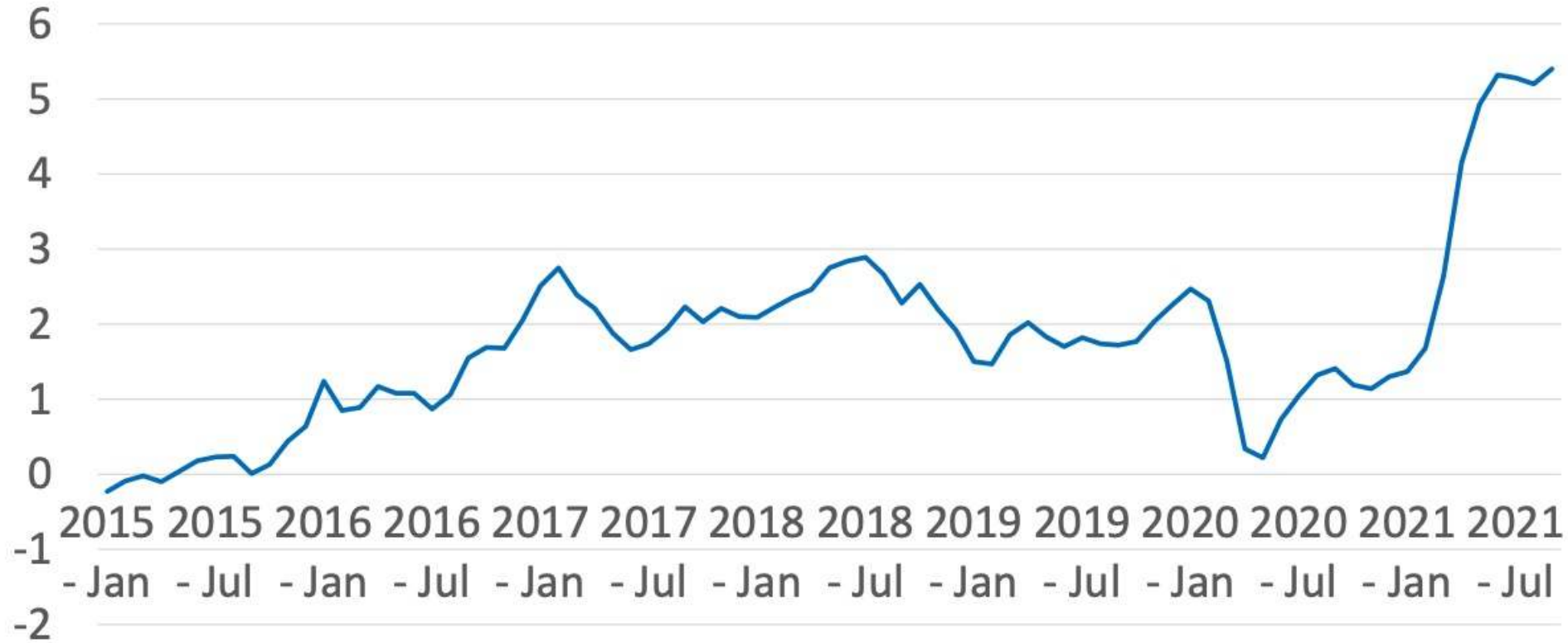
SOURCE: [TRADINGECONOMICS.COM](https://www.tradingeconomics.com) | NATIONAL ASSOCIATION OF REALTORS

Median Home Price Growth vs. Consumer Price Inflation



Source: Lawrence Yun, National Association of Realtors, MIT

Consumer Price Inflation



Is real estate a good inflation hedge?

- In the early 1980s, mortgage rates skyrocketed to 18%
- Home sales fell dramatically but home prices held on and did not decline
- Unlike income, home values outpace CPI inflation over time

Decade	Average Annual Home Price Growth	Average Annual CPI Inflation
1970s	9.9%	7.1%
1980s	5.5%	5.6%
1990s	4.1%	3.0%
2000s	2.3%	2.6%
2010s	4.9%	1.8%
2020/2021	12%	3%

Source: Lawrence Yun, National Association of Realtors, MIT

Market Forecast...

2022 Predictions: A new, higher normal

- As mortgage rates rise (which is inevitable!), home sales will fall
- Higher mortgage rates will hurt millennials, first-time buyers most
- Home prices will stabilize/flatten, not decline
- Housing inventory won't reach pre-pandemic levels for many years

Knoxville, TN Metro Market Forecast

- 30-year fixed mortgage rates projected to reach 3.2% by end of 2021 and 3.7% by the end of 2022
- Home sales projected to remain steady (or fall slightly) in 2022
- Home price growth projected to slow, not decline

Summary	2021	2022
30Y FRM (EOY)	3.2%	3.7%
Home Sales (y/y change)	+4.4%	0.0%
Annual House Price Growth	+19.1%	+7.7%

Source: Knoxville Area Association of Realtors, Freddie Mac

Q&A Session

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