

# Knoxville, Tennessee



U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of July 1, 2007



## Housing Market Area



The Knoxville, Tennessee Housing Market Area (HMA) is coterminous with the Knoxville, TN Metropolitan Statistical Area and consists of Anderson, Blount, Knox, Loudon, and Union Counties. The largest city in the HMA is Knoxville, which lies 45 miles west of America’s most visited national park, Great Smoky Mountains National Park.

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## Summary

### Economy

Since 2000, nonfarm employment in the Knoxville HMA has grown by 1.7 percent a year. During the 12 months ending in June 2007, large increases in the natural resources, mining, and construction sector; retail trade sector; and leisure and hospitality sector accounted for much of the growth. The unemployment rate dropped from 4.3 percent during the 12 months ending June 2006 to 3.8 percent. For the 3-year forecast period ending June 2010, estimates indicate that nonfarm employment will grow by an average of 2 percent a year.

### Sales Market

During the past year, the home sales market has softened after 3 years of tight market conditions. Currently, the sales vacancy rate is estimated at 2.3 percent. Sales of single-family homes and condominiums decreased by 10 and 6 percent, respectively, during the 12 months ending June 2007 and new construction has been slowing. During the 3-year forecast period, demand is estimated for 14,600 new homes (see Table 1).

### Rental Market

Conditions in the rental housing market are balanced, with a current vacancy rate of 6.7 percent. Apartment construction is estimated to have increased slightly during the 12 months ending June 2007 in response to increased demand. Gross monthly rents for new market-rate rentals are estimated to start at \$575 for a one-bedroom unit, \$675 for a two-bedroom unit, and \$900 for a three-bedroom unit. During the 3-year forecast period, demand is estimated for 4,200 new rental units (see Table 1).

**Table 1. Housing Demand in the Knoxville HMA, 3-Year Forecast, July 1, 2007 to July 1, 2010**

	Knoxville HMA	
	Sales Units	Rental Units
Total Demand	14,600	4,200
Under Construction	2,625	400

*Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of July 1, 2007.*

*Source: Estimates by analyst*

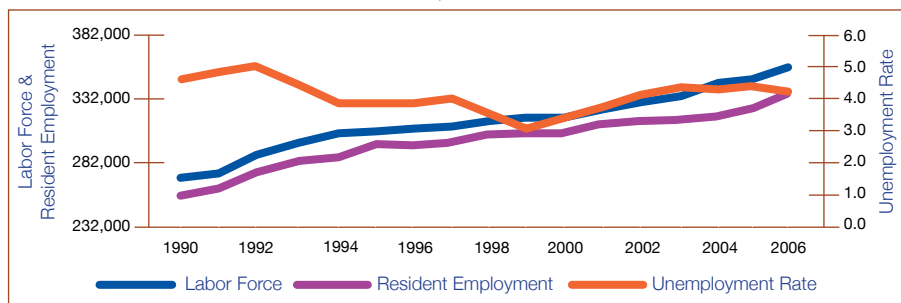
# Economic Conditions

**E**conomic growth in the Knoxville HMA was strong during the 1990s. Nonfarm employment increased by an average annual rate of 2.2 percent, and the unemployment rate was 3 percent by the end of the decade, down from 4.7 percent in 1990. Since 2000, the average annual rate of nonfarm employment growth has been 1.7 percent. During the 12 months ending June 2007, the number of jobs grew to 334,800, a 1.8-percent increase compared with the number of jobs recorded during the previous 12 months ending June

2006. During the same period, the unemployment rate dropped from 4.3 to 3.8 percent. See Figure 1 for labor force, resident employment, and unemployment trends in the HMA since 1990 and Figure 2 for the percentage of change in employment in nonfarm sectors from 1990 to the current date.

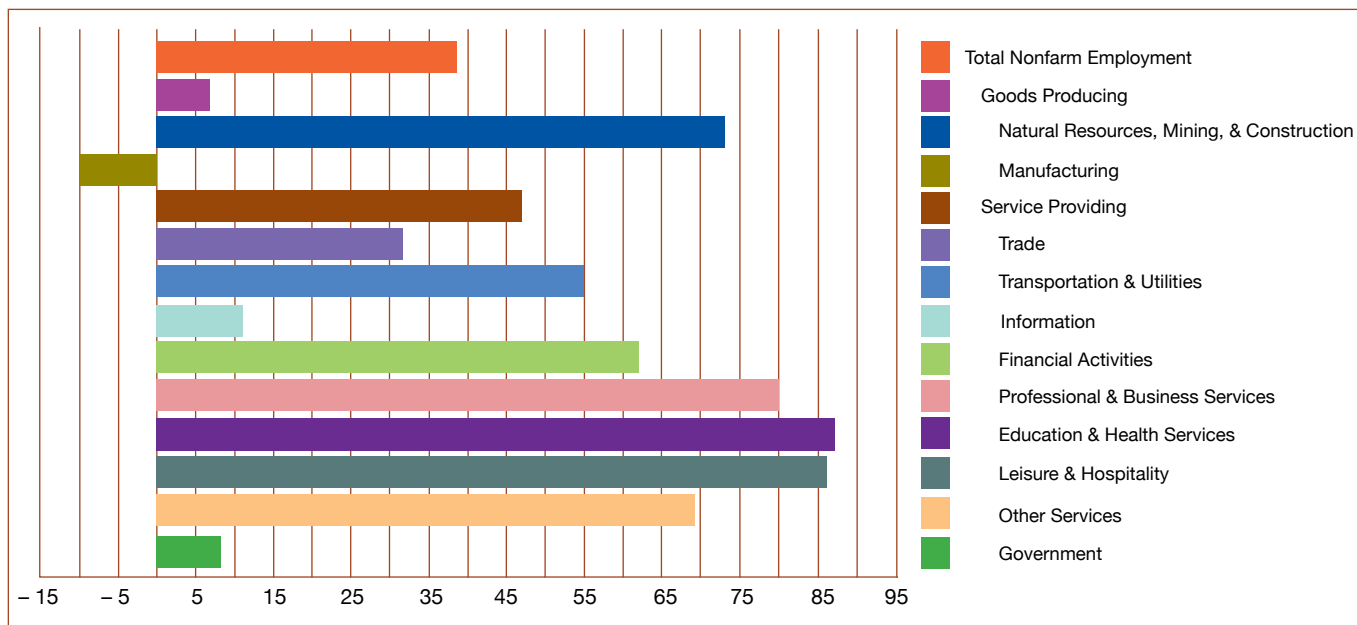
Since 1990, employment growth in the goods-producing sectors has been led by the natural resources, mining, and construction sector, which increased by 1,500 jobs to a total of 18,700 during the 12 months ending June 2007 (see Table 2). Although residential construction decreased during that same 12-month period, employment in the sector remains high due to commercial development of new retail, lodging, and office space. Employment in the service-providing sectors increased by 4,700 jobs during the 12 months ending June 2007. The largest percentage

**Figure 1.** Trends in Labor Force, Resident Employment, and Unemployment Rate in the Knoxville HMA, 1990 to 2006



Source: U.S. Bureau of Labor Statistics

**Figure 2.** Sector Growth in the Knoxville HMA, Percentage Change, 1990 to Current



Note: Current is based on 12-month averages through June 2007.

Source: U.S. Bureau of Labor Statistics

increases occurred in the leisure and hospitality sector, transportation and utilities sector, and trade sector. The leisure and hospitality sector continues to grow due to increased demand for new and existing lodging. According the East Tennessee Development District, sales receipts from lodging in the HMA increased by 10 percent from \$156 million in 2004 to \$171 million in 2005. The trade sector contains the highest percentage of jobs in the HMA, at 18 percent (see Figure 3).

The economy of the HMA is stable because of the presence of major employers such as the U.S. Department of Energy (DOE), Covenant Health, and the University of Tennessee (UT). The leading employer in the metropolitan area is DOE, which includes the Oak Ridge National Laboratories (ORNL) and the Y-12 National Security Complex. DOE provides a total of approximately 12,000 jobs in the HMA, including jobs for contractors. DOE was established in the HMA during World War II for the Manhattan Project and has made the area a regional center for science and technology employment. The second leading employer is Covenant Health, which employs 8,650 people in 10 area hospitals and other medical facilities. The third leading employer is UT, with approximately 8,300 employees, a student enrollment of 26,560, and an annual budget of more than \$1 billion. The university is a partner in UT-Battelle, a division of ORNL, in which students and staff participate in science and energy research. See Table 3 for a list of the major employers in the HMA.

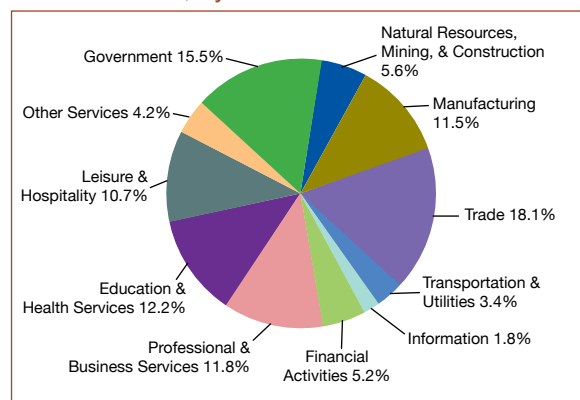
**Table 2. 12-Month Average Employment in the Knoxville HMA, by Sector**

	12 Months Ending June 2006	12 Months Ending June 2007	Percent Change
Total Nonfarm Employment	329,000	335,000	1.8
Goods Producing	55,900	57,300	2.5
Natural Resources, Mining, & Construction	17,200	18,700	8.7
Manufacturing	38,700	38,600	-0.3
Service Providing	273,000	277,700	1.7
Trade	59,100	60,600	2.5
Transportation & Utilities	11,000	11,300	2.7
Information	6,000	6,000	0.0
Financial Activities	17,300	17,500	1.2
Professional & Business Services	39,300	39,500	0.5
Education & Health Services	40,000	40,800	2.0
Leisure & Hospitality	34,600	35,700	3.2
Other Services	13,800	14,000	1.4
Government	52,000	52,400	0.8

Notes: Based on 12-month averages through June 2006 and June 2007. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

**Figure 3. Current Employment in the Knoxville HMA, by Sector**



Note: Based on 12-month averages through June 2007.

Source: U.S. Bureau of Labor Statistics

**Table 3. Major Employers in the Knoxville HMA**

Name of Employer	Employment Sector	Number of Employees
U.S. Department of Energy	Government	12,000
Covenant Health	Health Services	8,675
University of Tennessee	Government	8,300
Wal-Mart Stores, Inc.	Retail Trade	4,475
State of Tennessee	Government	3,725
St. Mary's Health System	Health Services	3,525
K-VA-T Food Stores, Inc.	Retail Trade	3,425
University Health System, Inc.	Health Services	3,375

Notes: Excludes public school systems. Numbers are rounded.

Sources: Knoxville Chamber; U.S. Department of Energy

During the forecast period, nonfarm employment is expected to grow by about 2 percent a year. Increases in the goods-producing sector will slow as employment in the natural resources, mining, and construction sector grows at a decreased rate and

employment in the manufacturing sector continues to decrease. Growth in the service-providing sectors will be strongest in leisure and hospitality, education and health services, and retail trade.

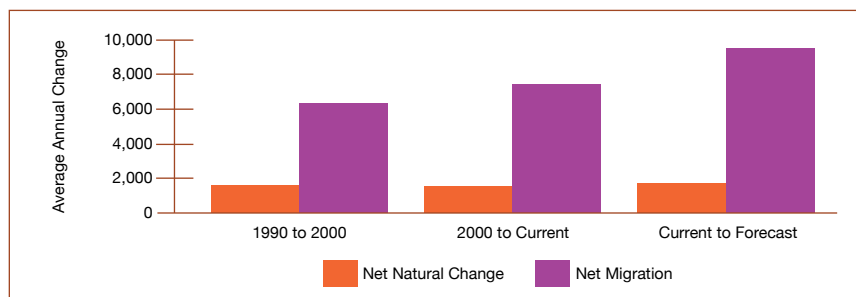
## Population and Households

The Knoxville HMA is the third largest metropolitan area in Tennessee, with an estimated population of 681,400 as of July 1, 2007 (see Table DP-1). The population has increased at an average annual rate of 1.4 percent, or 9,000, since 2000 compared with an average gain of 8,125 a year during the 1990s. Most of the population growth since 2000

has occurred during the past 4 years, when the population grew by an average annual rate of 1.6 percent. Although the average annual net natural increase (resident births minus resident deaths) from 2000 to the current date was slower than it was in the 1990s, increases in net in-migration to the HMA have resulted in a greater level of population growth since 2000. Net in-migration has increased nearly every year since 2000 as job opportunities have grown and has averaged 8,775 people for the past 4 years. See Figure 4 for components of population change in the HMA from 1990 to the forecast date.

The number of households increased by an average rate of 1.8 percent a year, or 4,125, during the 1990s, and the rate of increase slowed to 1.6 percent, or 4,350, annually from 2000 to the current date. Currently, an estimated 284,600 households are in the HMA. Figure 5 illustrates the average annual population and household growth in the HMA from 1990 to the forecast date. The current nonhousehold population represents 2.6 percent of the total population, or 17,700. UT's 13 residence halls house 37 percent of the nonhousehold population of the HMA.

**Figure 4.** Components of Population Change in the Knoxville HMA, 1990 to Forecast



Sources: 1990 and 2000—U.S. Census; current and forecast—estimates by analyst

**Figure 5.** Population and Household Growth in the Knoxville HMA, 1990 to Forecast



Sources: 1990 and 2000—U.S. Census; current and forecast—estimates by analyst

During the forecast period, employment growth will result in increased net in-migration to the HMA. The population and the number of households will grow at greater levels than they have from 2000 to the current date, increasing by

an estimated 11,550 and 5,450 a year, respectively. By the end of the forecast period, the population is expected to reach 716,000 and the number of households is expected to total 300,900.

## Housing Market Trends

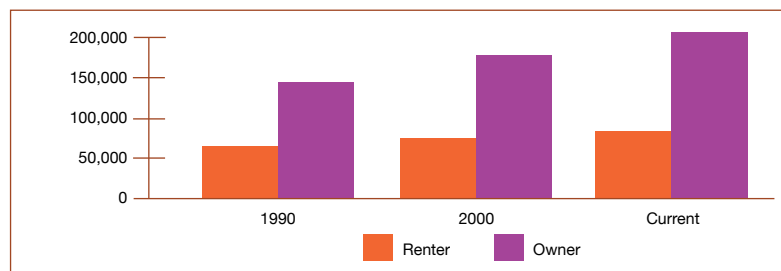
### Sales Market

Homeownership rates in the Knoxville HMA increased from 67.6 percent in 1990 to 71 percent as of the current date. The percentage of owner households is expected to stay constant during the forecast period. See Figure 6 for the number of households by tenure in the HMA from 1990 to the current date.

Since 2000, single-family construction activity, as measured by the

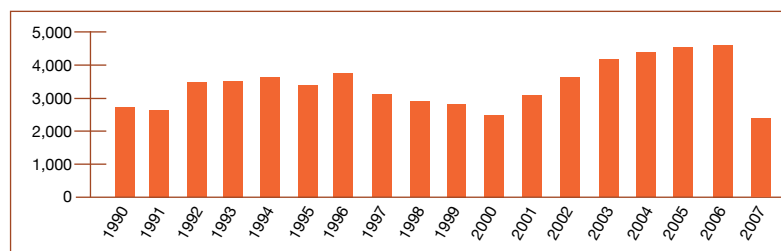
number of building permits issued, has increased each year as a strong job market and low interest rates have led to increased demand for sales housing. With 4,425 homes permitted, construction activity during the 12 months ending June 2007 remained nearly unchanged compared with the previous 12 months ending June 2006. See Figure 7 for annual single-family building permit trends in the HMA from 1990 to the current date.

**Figure 6.** Number of Households by Tenure in the Knoxville HMA, 1990 to Current



Sources: 1990 and 2000—U.S. Census; current—estimates by analyst

**Figure 7.** Single-Family Building Permits Issued in the Knoxville HMA, 1990 to 2007



Notes: Includes only single-family units. Includes data through June 2007.

Sources: Knoxville Metropolitan Planning Commission; Department of Building Safety, Blount County; The Market Edge, Inc.; U.S. Census Bureau, Building Permits Survey

Sales housing market conditions in the HMA are softening after approximately 3 years of slightly tight conditions. In 2000, the sales vacancy rate was 2.3 percent. During the past few years, sales market conditions tightened and the vacancy rate dropped below 2 percent. The sales vacancy rate has currently returned to 2.3 percent and market conditions are slightly soft.

Due to higher interest rates and tighter lending standards, new and existing home sales decreased during the 12 months ending June 2007 after reaching record highs during the 12 months ending June 2006. According to the Knoxville Area Association of Realtors®, during the recent 12-month period, the



number of single-family homes sold decreased by 10 percent to 14,325 homes and the number of condominiums sold decreased by 6 percent to 1,900 units. The inventory of unsold condominiums was up by 8 percent to 315 units as of the end of June 2007 compared with the inventory as of the end of

June 2006. The inventory of unsold new and existing single-family homes also increased, up by 18 percent to 27,625 homes. Despite the lower number of sales, the average sales price of new and existing homes sold during the 12 months ending June 2007 increased by 4 percent to \$192,500 and the average sales price of condominium units increased by 1 percent to \$165,500.

**Table 4.** Estimated Demand for New Market-Rate Sales Housing in the Knoxville HMA, July 1, 2007 to July 1, 2010

Price Range (\$)		Units of Demand	Percent of Total
From	To		
85,000	124,999	1,325	9.1
125,000	174,999	3,275	22.4
175,000	224,999	2,925	20.0
225,000	274,999	2,775	19.0
275,000	349,999	1,450	9.9
350,000	424,999	1,175	8.0
425,000	499,999	875	6.0
500,000	574,999	580	4.0
575,000	649,999	150	1.0
650,000	and higher	70	0.5

Source: Estimates by analyst

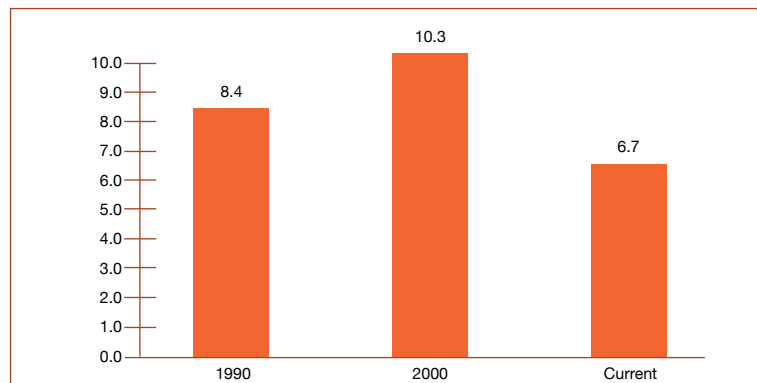
Current and anticipated sales housing market conditions will support estimated demand for 14,600 new sales units during the 3-year forecast period. A portion of this demand will be met by the 2,625 homes currently under construction and expected to be completed during the 1st year of the forecast period. Demand is expected to be strongest in the \$125,000-to-\$174,999 range (see Table 4).

## Rental Market

In the early 2000s, the level of apartment construction in the HMA increased at a faster rate than demand for rental housing did, leading to a surplus of rental units by 2004. According to the Apartment Association of

Greater Knoxville (AAGK), in the second quarter of 2004, apartment market conditions were soft, with a vacancy rate of 10.3 percent and an average rent of \$512 for a two-bedroom, one-bath unit. During the 12 months ending June 2007, apartment market conditions in the Knoxville area have tightened because of an increased demand for rental units and a decline in apartment production. As of the second quarter of 2007, the apartment vacancy rate had dropped to 6.9 percent and the average rent for a two-bedroom, one-bath unit increased to \$585. The current overall rental vacancy rate is estimated at 6.7 percent. See Figure 8 for rental vacancy rates in the HMA for 1990 to the current date.

**Figure 8.** Rental Vacancy Rates in the Knoxville HMA, 1990 to Current



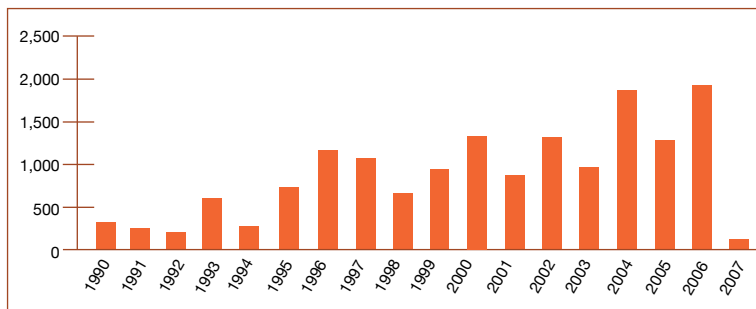
Sources: 1990 and 2000—U.S. Census; current—estimates by analyst

## Housing Market Trends

### Rental Market *Continued*

Multifamily construction, as measured by the number of units permitted, decreased during the 12 months ending June 2007 to 725 units after averaging nearly 1,700 units a year since 2003. The level recorded during these same 12 months is still higher than that recorded during the 1990s, when an average of 630 multifamily units were permitted each year. Apartments have accounted for approximately 55 percent of all multifamily units permitted during the past few years. It is estimated that the portion of multifamily units permitted for rental use has increased slightly, to 60 percent, during the 12 months ending June 2007 in response to improved rental housing market conditions. See Figure 9 for annual multifamily building permit trends in the HMA from 1990 to the current date.

**Figure 9. Multifamily Building Permits Issued in the Knoxville HMA, 1990 to 2007**



*Notes: Includes all multifamily units in structures with two or more units. Includes data through June 2007.*

*Sources: Knoxville Metropolitan Planning Commission; Department of Building Safety, Blount County; The Market Edge, Inc.; U.S. Census Bureau, Building Permits Survey*

Apartments in the city of Knoxville targeted to UT students have higher average rents than apartments in the rest of the HMA due to high demand and multiple occupancy. The average monthly rent for student apartments was \$1,096 during the second quarter of 2007, according to AAGK. During the past 3 years, condominium developments targeted to parents as investment properties have become a housing option for UT students. One property, built in 2006, presold 130 out of 143 units 4 months before completion. Sales prices were \$140,000 for a two-bedroom unit, \$175,000 for a three-bedroom unit, and \$200,000 for a four-bedroom unit. These condominiums compete with student apartments for tenants because the condominium units are typically occupied by renters.

Current and anticipated rental housing market conditions will support estimated demand for 4,200 new rental units during the 3-year forecast period. A portion of this demand will be met by the 400 units currently under construction and expected to be completed during the 1st year of the forecast period. Demand is expected to be strongest for two-bedroom units with gross monthly rents of \$675 to \$775 (see Table 5).

## Housing Market Trends

### Rental Market *Continued*

**Table 5.** Estimated Demand for New Market-Rate Rental Housing in the Knoxville HMA, July 1, 2007 to July 1, 2010

1 Bedroom		2 Bedrooms		3 or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
575	1,475	675	2,100	900	625
625	1,300	725	1,750	950	570
675	1,200	775	1,600	1,000	510
725	1,075	825	1,425	1,050	440
775	940	875	1,250	1,100	370
825	790	925	1,050	1,150	320
875	660	975	880	1,200	280
975	530	1,075	710	1,300	210
1,075	430	1,175	460	1,400	150
1,175	340	1,275	320	1,500	110
1,275	270	1,375	210	1,600	90
and higher		and higher		and higher	

Notes: Distribution above is noncumulative. Demand shown at any rent represents demand at that level and higher.

Source: Estimates by analyst

## Data Profile

**Table DP-1.** Knoxville HMA Data Profile, 1990 to Current

	1990	2000	Current	Average Annual Change (%)	
				1990 to 2000	2000 to Current
Total Resident Employment	258,161	309,723	339,115	1.8	1.3
Unemployment Rate (%)	4.7	3.0	3.8		
Nonfarm Employment	242,800	296,000	335,000	2.0	1.7
Total Population	534,917	616,079	681,400	1.4	1.4
Total Households	211,734	253,005	284,600	1.8	1.6
Owner Households	143,206	177,605	201,900	2.2	1.8
Percent Owner (%)	67.6	70.2	70.9		
Renter Households	68,528	75,400	82,700	1.0	1.3
Percent Renter (%)	32.4	29.8	29.1		
Total Housing Units	228,128	276,142	312,675	1.9	1.7
Owner Vacancy Rate (%)	1.8	2.3	2.3		
Rental Vacancy Rate (%)	8.4	10.3	6.7		
Median Family Income	NA	\$45,500	\$54,800	NA	2.6

Notes: Median family incomes are for 1989, 1999, and 2007. NA = data are not available.

Sources: Estimates by analyst; U.S. Census Bureau; U.S. Department of Housing and Urban Development



## Data Definitions and Sources

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1990: 4/1/1990—U.S. Decennial Census

2000: 4/1/2000—U.S. Decennial Census

Current date: 7/1/2007—Analyst's estimates

Forecast period: 7/1/2007–7/1/2010—Analyst's estimates

**Demand:** The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

For additional data pertaining to the housing market for this HMA, go to [www.huduser.org/publications/pdf/CMARtables\\_KnoxvilleTN\\_07.pdf](http://www.huduser.org/publications/pdf/CMARtables_KnoxvilleTN_07.pdf).

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This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

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