KNOXVILLE AREA
ASSOCIATION OF REALTORS®

2023 STATE OF HOUSING REPORT

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A Message From the President

As the 2023 president of the Knoxville Area Association of REALTORS®, I'm thrilled to share this year's State of Housing Report. With East Tennessee continuing to grow and evolve, understanding the dynamics of our local housing market is critical to ensuring the long-term health and prosperity of the region.

This annual report offers a comprehensive analysis of East Tennessee's housing market for REALTORS®, stakeholders and policymakers. It examines demographic and market trends, equipping both industry professionals and community leaders with valuable insights into our housing needs.

Despite the current housing crisis, the East Tennessee market promises an exciting year ahead. This report aims to help address our region's challenges by providing data-driven insights and the knowledge essential for informed decision-making in a dynamic housing landscape.

I would like to extend a special thanks to our association staff, community partners and Hancen Sale, our director of Governmental Affairs and Public Policy, for their hard work in creating this comprehensive and informative report. I hope it proves valuable in making a positive impact on our housing industry.

Ryan Levenson
2023 President

Housing Market Overview and Forecast

East Tennessee's housing market experienced a tumultuous year in 2022. The COVID-19 pandemic and its lingering effects continued to influence the market, with remote work trends and the desire for more spacious living environments driving demand for single-family homes and apartments alike. Low mortgage interest rates further fueled housing market activity in the first half of the year before rising at one of the fastest paces on record, crushing demand in the latter half of the year. Moreover, the supply of available homes struggled to keep pace as homebuilders faced ongoing challenges from labor shortages and escalating material costs.

This convergence of strong house price growth, rising mortgage rates and low inventory caused housing affordability to fall to its lowest level in over 40 years – prompting many buyers to put their homebuying plans on the shelf, at least for now. Rental prices also experienced a steady upward climb in 2022, with demand for rental units outstripping supply across the region, particularly in high-income areas with limited rental inventory.

Much of the growth in housing costs can be attributed to a substantial supply-demand imbalance and favorable demographic trends, while other trends were unique to the pandemic era and their impact is already waning. In other words, the pandemic-induced housing frenzy has ended. Mortgage rates are at the highest level in more than a decade and concerns about inflation are widespread.

As a result, **East Tennessee's housing market is expected to recede in 2023, while retaining most of the gains accrued over the past two years.** In other words, housing prices are likely to stay elevated and inventory is not expected to increase significantly in the near term; as a result, home sales will likely experience a downturn.

Key Findings and Expectations

- **Home price growth is decelerating but remains above the historic average.** Home prices in the Knoxville metropolitan area rose 15.9% from the previous year in Q4 2022, according to the FHFA House Price Index (HPI).
- **Rent growth remains high,** although rent increases have moderated in recent weeks, with rents in the Knoxville metropolitan area up 14.06% from the previous year in Q4 2022 – outpacing the rent growth of 6.60% nationally during the same period.
- After a record-breaking year in 2021, home sales declined 9% year-over-year in 2022. The deceleration in home sales will likely continue this year, with **home sales forecasted to decline between 10% and 12% in 2023.**
- Despite the expected decline in home sales due to deteriorating affordability conditions, **a lack of inventory continues to place upward pressure on prices, with home prices forecasted to increase between 3% and 5% in 2023.**
- Knoxville's rental market is poised to experience moderate growth in 2023, with **rents forecasted to grow around 4% next year.**
- After reaching an all-time high of 98.86% in Q4 2021, **the rental occupancy rate is forecasted to decline to an average of 96.5% in 2023.**

Economic Conditions

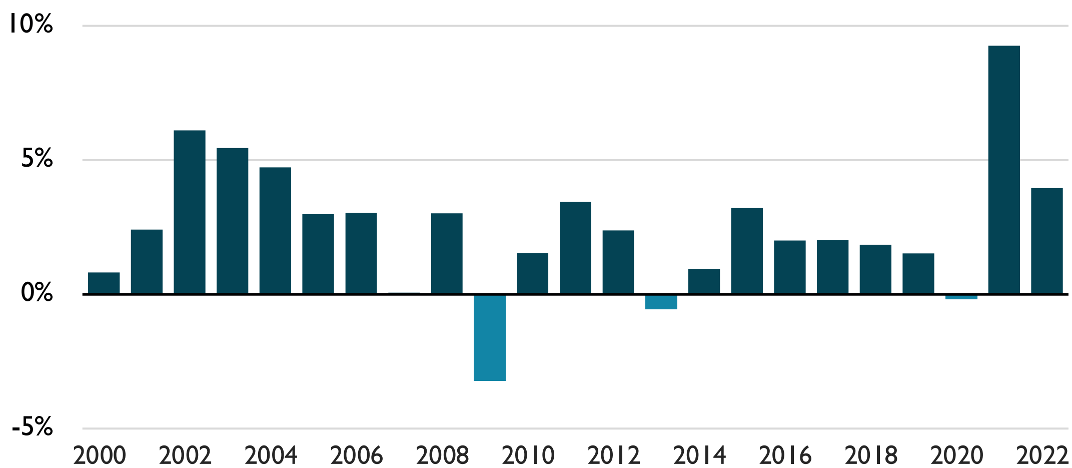
Despite modest economic growth and a tight labor market, economic conditions deteriorated considerably over the past year amid the backdrop of slower growth, higher-than-anticipated inflation and heightened economic uncertainty. Like previous periods of economic turbulence, East Tennessee's economy has displayed remarkable resilience, rebounding from challenges and maintaining steady growth. If historical trends persist and the region continues to benefit from migration and a strong job market, Knoxville is well-positioned to fare better than many other U.S. metros should the national economy slip into a recession.

Economic Output

According to Moody's Analytics estimates, from 2015 to 2019, Knoxville's inflation-adjusted gross domestic product (real GDP) grew at an average annual rate of 2.1% before plummeting 5.2% year-over-year in the second quarter of 2020. Despite the initial decline in economic activity, Knoxville experienced a robust recovery from the pandemic-induced recession with real GDP growing 9.3% in 2021 – the largest annual increase since at least 1992. Economic growth continued into the following year, albeit at a slower pace, with Knoxville's inflation-adjusted GDP estimated to have expanded by 4% in 2022.

Economic Output

Annual Change in Real Gross Domestic Product (GDP): Knoxville, TN metro



Source: *U.S. Bureau of Economic Analysis (BEA); Moody's Analytics Estimated*

Although Knoxville's fast-growing economy is expected to moderate in 2023, competitive real estate prices and a relatively low cost of doing business suggest the region will continue to outpace its in-state peers. After consecutive years of above-average growth, Knoxville's inflation-adjusted gross domestic product (real GDP) is projected to grow by 1.1% in 2023 and 2.6% in 2024. By comparison, real GDP in Tennessee is expected to grow 0.7% in 2023 and 1.6% in 2024, while U.S. real GDP is forecasted to contract 0.2% in 2023 before growing 1.3% in 2024, according to estimates from the [Boyd Center for Business and Economic Research] at The University of Tennessee.

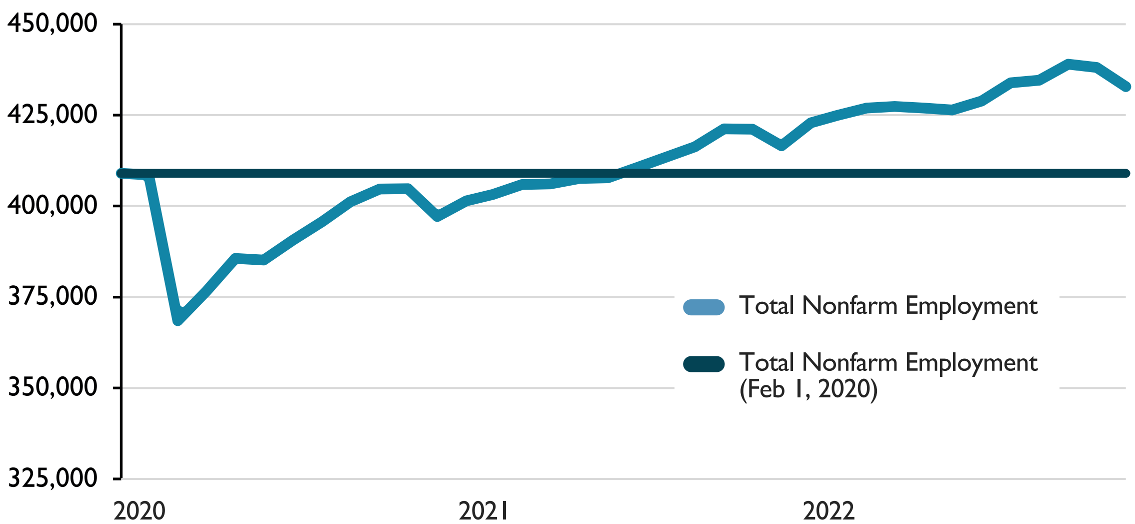
Labor Market

After losing thousands of jobs from the first to the second quarter of 2020, Knoxville's labor market has completely recovered from the pandemic and currently leads its in-state peers with the fastest nonfarm payroll growth in Tennessee. Overall, employment gains in the region have been broad-based. Total nonfarm employment in the Knoxville metro area increased by 3.7% in 2021 and 4.4% in 2022 on an annual basis, exceeding the average annual growth of 1.5% from 2015 to 2019.

However, the recovery was highly uneven across income groups. Total employment for high- and mid-wage jobs recovered to pre-pandemic levels by December 2020, while low-wage jobs – which account for roughly 50% of all jobs in the metro area – did not return to pre-pandemic levels until May 2022. In other words, higher-wage workers saw their job market recover almost three times faster than low-wage workers – a segment of the workforce for which losing a job can be especially challenging due to limited financial resources.

Total Employment

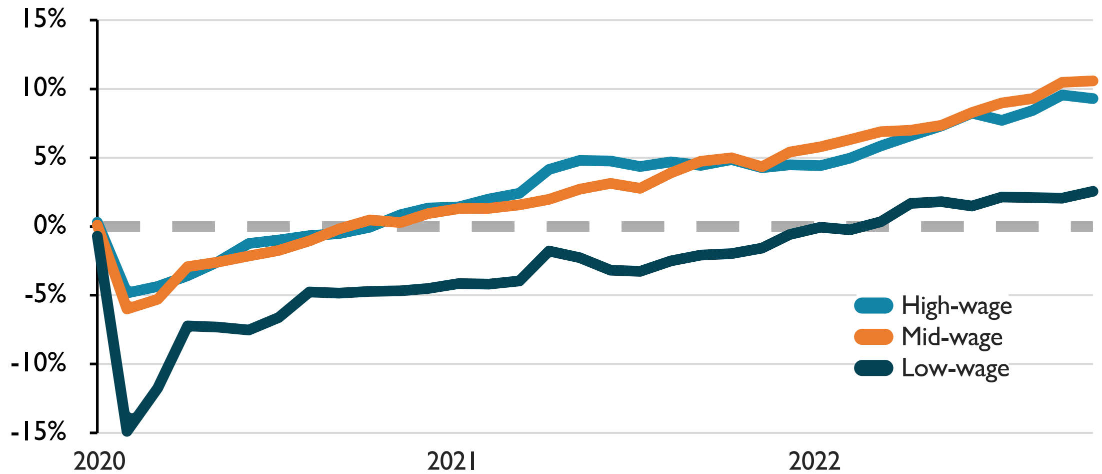
Employment Compared to Feb. 2020: Knoxville, TN MSA



Source: *U.S. Bureau of Labor Statistics (data as of December 2022)*

Employment Levels Since the Pandemic

% change in total employment since Feb. 2020: Knoxville, TN metro



Source: *U.S. Bureau of Labor Statistics (data as of December 2022)*

As of the fourth quarter of 2022, job totals in all three wage tiers had fully recovered with Knoxville's total employment base roughly 6% above pre-pandemic levels. As such, Knoxville's labor market remains historically tight. The unemployment rate fell to an annual average of 2.97% in 2022 – almost a full percentage point below the average of 3.95% from 2015-19.

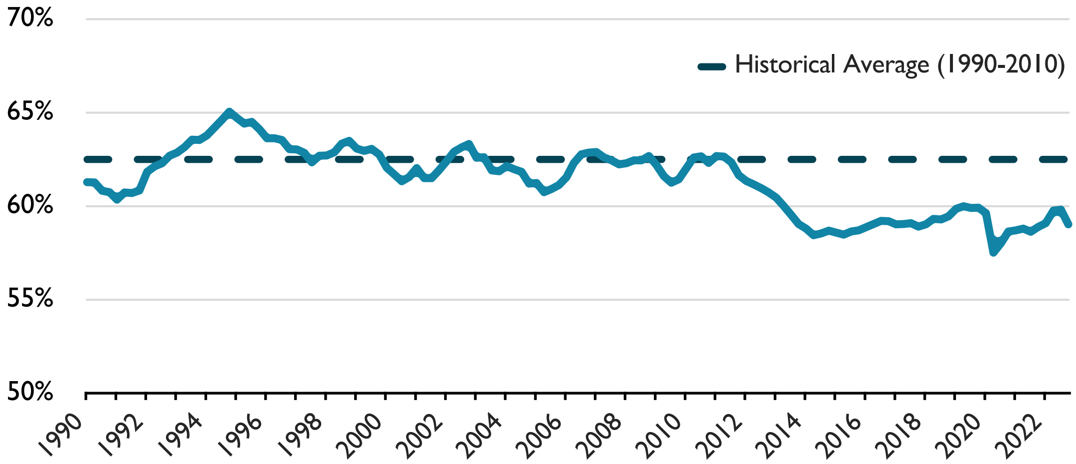
Despite aggressive action by the Federal Reserve intended to slow hiring, the demand for additional labor continues to exceed the supply of available workers. Active job postings in the Knoxville metro area were approximately 55% above the pre-pandemic baseline as of April 2023, according to Indeed Hiring Lab **data. Excess labor demand also is evident in** U.S. Bureau of Labor Statistics' **data, which indicates there are currently around two job openings for every unemployed person in Tennessee.**

Such rapid growth in job openings is the result of multiple factors, including strong inbound migration, flexible work arrangements and successful economic development efforts. While job postings are beginning to flatten, the sheer volume of unfilled jobs underscores the extent of the labor shortage and the importance of attracting and retaining workforce talent – especially among key age groups.

The labor participation rate, which represents the share of the working-age population that is either working or actively looking for work, is another useful way to measure the condition of a region's labor market. Unlike many metros across the country, Knoxville's labor force participation rate has largely returned to pre-pandemic levels and stood at 59% in the fourth quarter of 2022. In line with national trends, however, Knoxville's labor force participation rate has experienced a sustained downward trend since the 2007-08 global financial crisis, falling short of the long-run average of 62.5% from 1970-2010.

Labor Force Participation

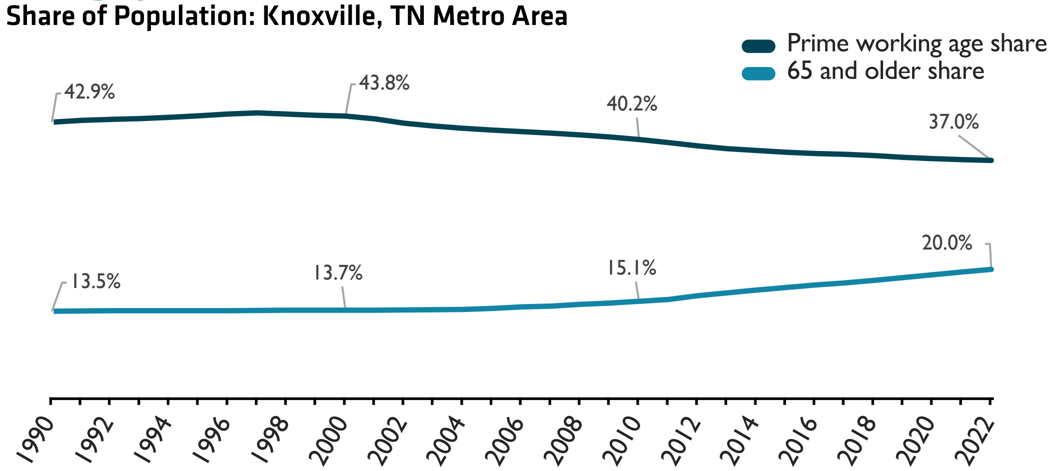
Labor Force Participation Rate: Knoxville, TN Metro Area



Source: *U.S. Census Bureau*

Demographic Headwinds

Share of Population: Knoxville, TN Metro Area



Source: *U.S. Census Bureau: Knoxville Area Association of REALTORS®*

Notwithstanding strong employment growth, Knoxville's labor market is facing major demographic headwinds due to its aging population, a major driver of the decline in overall labor force participation over the past decade. The share of the population aged 25 to 54 (also known as prime-age workers) fell to 37% in 2022 – the lowest level since the 1990s – while the population share aged 65 and older increased from 13.5% in 1990 to 20% in 2022.

These demographic trends accelerated in recent years. Since 2019, the prime-age worker population in the Knoxville metro area grew by just over 1,000 people but the 65-and-older group increased by nearly 14,500 people, with the 65+ age group accounting for the majority of Knoxville's overall population growth from 2019 to 2022. Because the prime-age worker population is far more likely than seniors to be in the labor force, these population growth trends have important implications for the labor supply.

Looking ahead, East Tennessee is likely to maintain a strong and dynamic labor market, ensuring its position as an attractive destination for job seekers and businesses alike. The region's diverse economic base – which includes industries such as advanced manufacturing, healthcare, technology and education – is expected to support continued job growth and attract new businesses, and the ongoing efforts to foster a thriving entrepreneurial ecosystem will further contribute to the creation of new job opportunities. Though historically boasting a high concentration of low-wage jobs, Knoxville's labor market will increasingly favor workers as slowing population growth and the high share of 65+ residents is likely to exacerbate labor shortages and place upward pressure on wages.

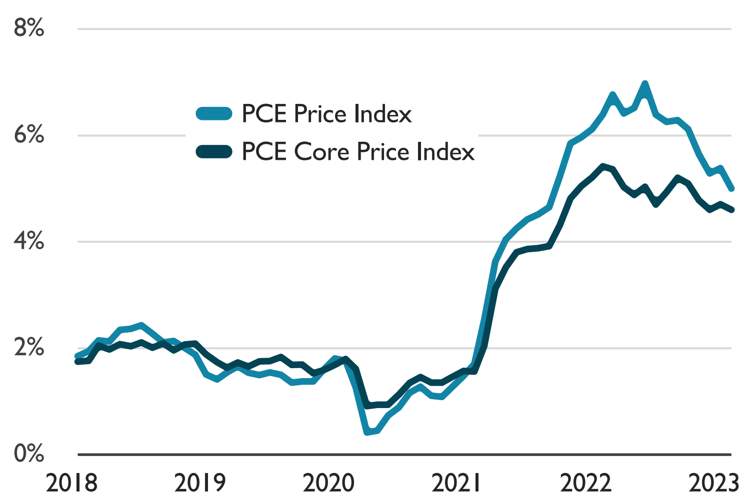
Inflation

Following the pandemic-induced recession and the subsequent reopening of the U.S. economy, inflation began trending upward in the early months of 2021. At the time, policymakers indicated price pressures were "transitory" – reflecting temporary supply and demand imbalances caused by the pandemic's impact on global supply chains and the labor market. But price pressures ultimately proved more persistent and broad-based than expected, with inflation surging to the highest level since the 1980s in June 2022.

High inflation in turn provoked aggressive action by the Federal Reserve's Federal Open Market Committee (FOMC) intended to soften labor market conditions and ease price pressures. The results, however, have been limited and despite the fastest pace of monetary policy tightening on record, convincing progress on slowing inflation has yet to fully materialize.

Personal Consumption Expenditures (PCE) Price Index

Change From One Year Ago



The PCE Price Index is the Federal Reserve's preferred measure of inflation.

Core PCE inflation – which excludes volatile food and energy prices – is generally considered a better indicator of future inflation.

Source: *Author's calculations; U.S. Bureau of Economic Analysis*

Consumer price inflation – as measured by the 12-month change in the personal consumption expenditures (PCE) price index – was 5% in February 2023, according to the U.S. Bureau of Labor Statistics. Although down from a peak of 7% last summer, underlying inflation levels are still more than double the Federal Reserve's goal of 2% inflation over the long run.

In other words, while some progress is evident, the latest available data indicate inflation continues to outpace expectations and labor market conditions remain extremely tight, causing wages to grow at a faster pace than what would be consistent with 2% inflation. These trends, combined with relatively strong consumer spending, could compel the Federal Reserve to keep interest rates at a higher level and for longer than previously anticipated.

Overall, the path ahead for inflation remains highly uncertain, especially in light of potential risks to the banking sector exposed by the collapse of Silicon Valley Bank (SVB) and Signature Bank, which could change the FOMC's outlook with regard to policy tightening. However, even while the FOMC abandoned its commitment to "ongoing rate increases" at its March 2023 meeting, policymakers at the Federal Reserve continue to signal that additional rate hikes could be warranted to achieve a stance of monetary policy that is sufficiently restrictive to return inflation to the 2% target rate.

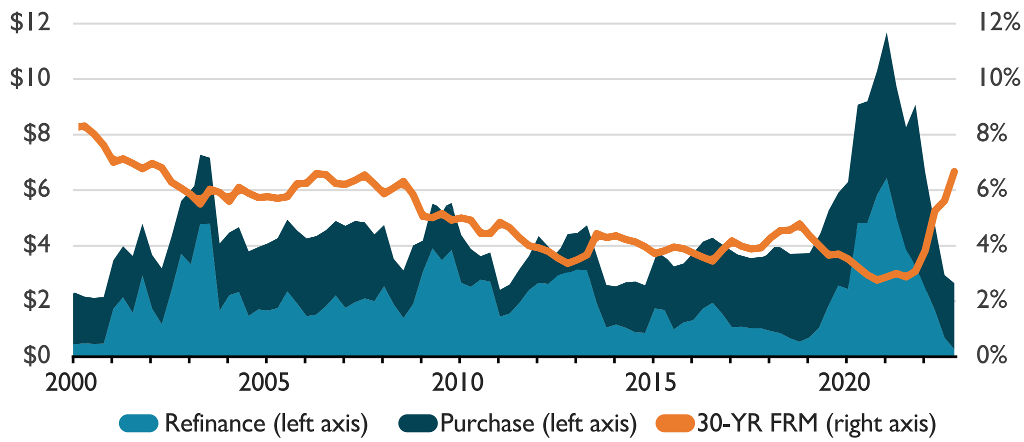
Mortgage Rates

Inflation trends and monetary policy play a crucial role in shaping mortgage rates by influencing short-term and long-term interest rates, inflation expectations and overall economic conditions. The Federal Reserve's primary tool for implementing monetary policy is adjusting the target for the federal funds rate, which is the interest rate at which banks lend to each other on an overnight basis.

The Federal Reserve's Federal Open Market Committee (FOMC) has raised the target range for the federal funds rate by 5.0 percentage points since March 2022, prompting mortgage rates to increase more than twofold from 2021 to 2022. In the first quarter of 2022, the average 30-year fixed mortgage rate was 6.38% according to Freddie Mac – more than 2.5 percentage points higher than the previous year.

Mortgage Market Trends

Mortgage Originations (Bil. USD, SAAR): Knoxville, TN Metro Area



Source: *Home Mortgage Disclosure Act; Freddie Mac; Moody's Analytics*

The rise in borrowing costs provoked a sharp decline in mortgage lending from 2021-22, with the dollar volume of purchase mortgages in the Knoxville metro area falling 41% annually, to $2.86 billion. On the refinancing side, the dollar volume of mortgage originations fell 71.6% annually in 2022.

Summary of Key Economic Indicators

Knoxville, TN Metro Area	2019	2020	2021	2022	2023	2024
Gross Metro Product (Bil. Ch. 2012 USD)	41.6	41.6	45.5	47.2	47.7	49.0
% change	1.5%	(0.2%)	9.3%	4.0%	1.1%	2.6%
Total Employment (Ths. #)	405.4	394.8	409.6	427.6	438.9	441.5
% change	1.4%	(2.6%)	3.7%	4.4%	2.6%	0.6%
Unemployment Rate (%)	3.2	6.2	3.5	2.9	3.1	3.6
Personal Income Growth (%)	6.9	7.8	8.5	3.8	2.9	3.4

Source: Moody's Analytics; Author's calculations

Housing Market

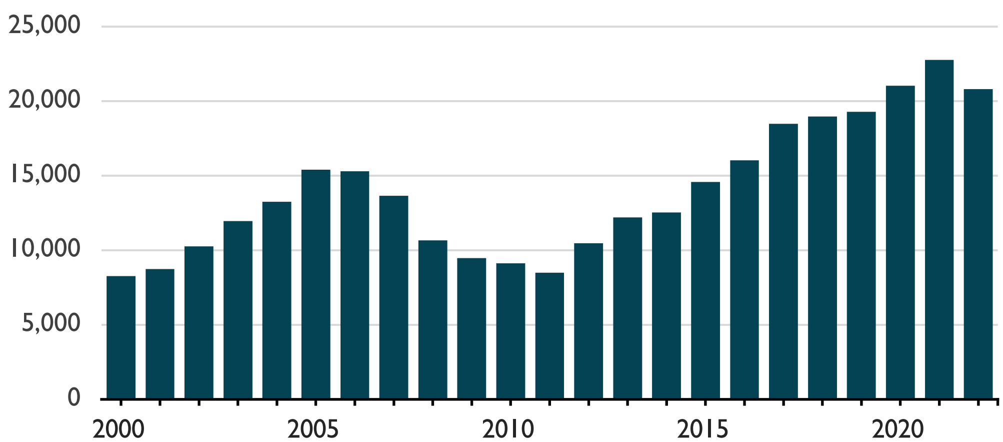
After two consecutive years of record-breaking growth, the East Tennessee housing market took a step back in 2022 as higher home prices and sharply rising mortgage rates pushed many buyers and sellers to the sidelines. Despite the decline in sales, limited available inventory and strong economic trends continued to place upward pressure on home prices.

Home Sales & Prices

Total residential home sales in the Knoxville area declined 9.1% from total sales of 24,007 in 2021 to 21,825 in 2022, the largest year-over-year decline since 2009. Single-family home sales declined 8.6% from the previous year, while condo sales declined 10.6%. In dollar terms, total residential sales volume increased 5.7% from $7.9 billion in 2021 to $8.4 billion in 2022.

Home Sales

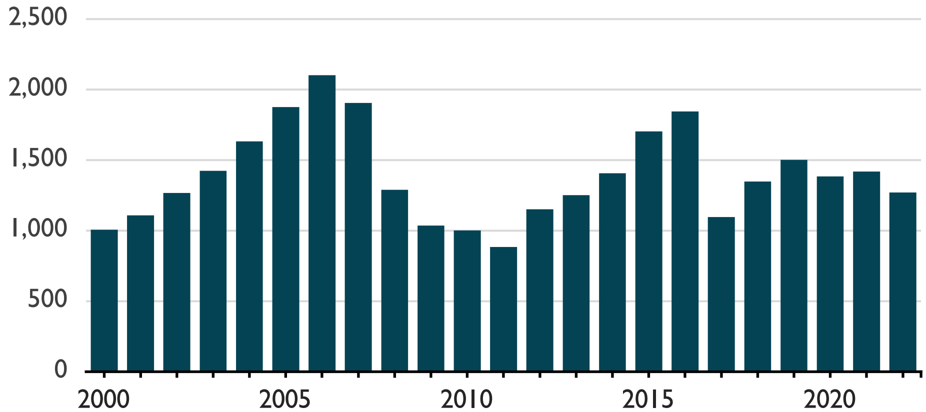
Annual Single-Family Home Sales: Knoxville Area



Source: *Knoxville Area Association of REALTORS®*

Condo Sales

Annual Condominium Sales: Knoxville Area



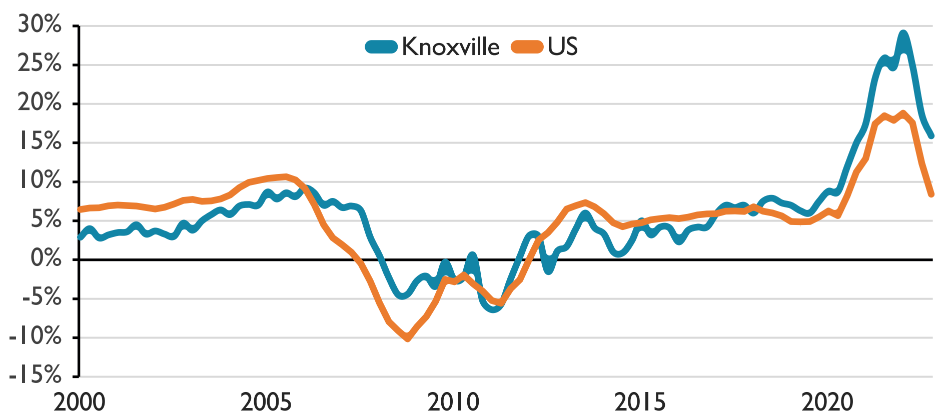
Source: *Knoxville Area Association of REALTORS®*

Despite the considerable decline in sales, home prices continued to rise at a historically strong pace across the East Tennessee region. The median sale price in the Knoxville area increased 14.5% on an annual basis in 2022, according to KAAR Multiple Listing Service (MLS) data.

By comparison, the FHFA Purchase-Only House Price Index (HPI) indicates home prices in the Knoxville metropolitan area rose 15.9% from the previous year in the fourth quarter of 2022, which amounts to the sixth-fastest price growth among the top 100 U.S. metro areas. While rapid growth in home prices isn't unique to Knoxville, house price growth in the region has outpaced the national average in every quarter since the beginning of 2018, thus making the decline in affordability especially steep.

Knoxville Home Prices Outpacing Nationwide Average

Annual House Price Growth: Knoxville vs. United States



Source: *FHFA Purchase-Only House Price Index*

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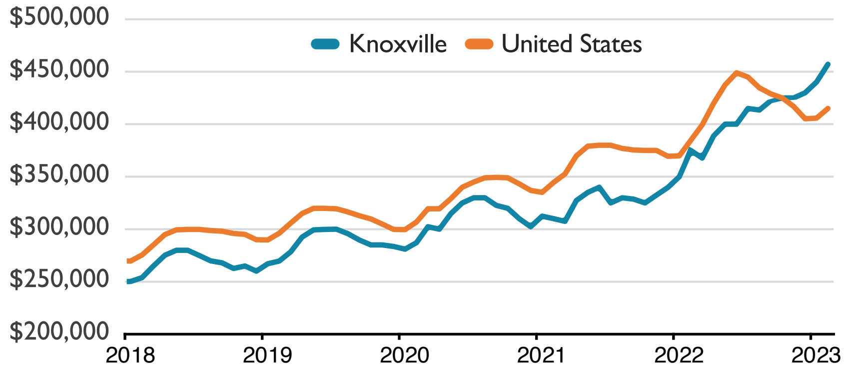
Knoxville Listing Prices Now Exceed National Average

Median Listing Price: Knoxville vs. United States



Source: *KAAR analysis of Realtor.com data*

The typical home value in the Knoxville metro area has increased 65% since 2019 – meaning that a home valued at $250,000 in 2019 was worth an average of $413,000 by the end of 2022.

Strong price appreciation in the region is further evidenced by the local median listing price exceeding the national average for the first time in 2022, according to realtor.com listing data. In the fourth quarter of 2022, the median listing price in the Knoxville area was $426,633 compared to $412,743 nationally. By April 2023, the local median listing price was approximately $50,000 higher than the national average and the 47th-highest among the top 150 U.S. housing markets.

Median Listing Price: 2021 vs. 2022

County/Region	Q4 2021	Q4 2022	Change	%Change
United States	$373,133	$415,743	+$42,610	+11%
Tennessee	$349,715	$420,000	+$70,285	+20%
Knoxville MSA	$332,375	$426,633	+$94,258	+28%
Anderson	$277,425	$344,942	+$67,517	+24%
Blount	$399,975	$479,133	+$78,158	+20%
Cumberland	$292,975	$349,933	+$56,958	+19%
Knox	$323,967	$419,542	+$95,575	+30%
Loudon	$483,333	$549,900	+$66,567	+14%
Roane	$267,717	$324,108	+$56,392	+21%

Source: KAAR analysis of Realtor.com data

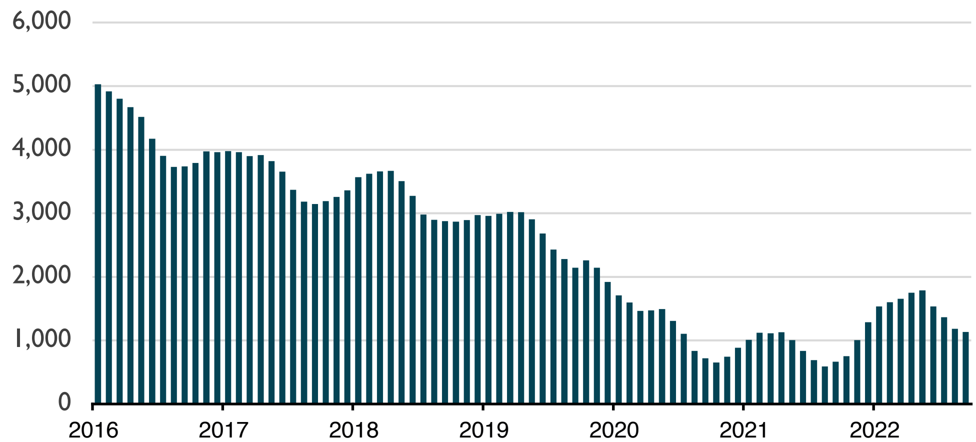
Note: Comparable data unavailable for Campbell, Fentress, Monroe, Morgan, Scott and Union counties.

Supply & Production

Knoxville continues to face a severe housing shortage stemming from over a decade of underbuilding in the wake of the 2007-08 global financial crisis. As a result, housing inventory in the Knoxville area was suppressed throughout 2022, and overall inventory levels remain significantly below pre-pandemic levels. Compared to 2018, monthly inventory levels were down 68% on average across the Knoxville metropolitan area in 2022.

Housing Inventory

Active Listings: Knoxville, TN Metro



Source: *Realtor.com*

Comparing Metro Areas: Average Monthly Active Listing Count

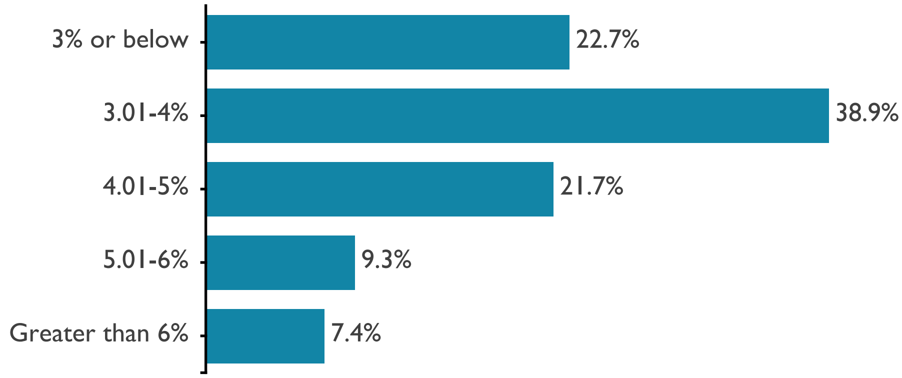
MSA/Region	2018	2022	Change 2018-2022
Knoxville	3,860	1,238	-68%
Nashville	6,962	4,342	-38%
Memphis	4,550	1,813	-60%
Chattanooga	2,266	924	-59%
Crossville	573	205	-64%
Clarksville	1,644	816	-50%
Kingsport/Bristol	1,633	345	-79%
Johnson City	928	345	-75%

Source: KAAR analysis of Realtor.com data (March 2023 release)

Despite a marginal uptick in construction activity over the past two years, housing supply is nonetheless expected to remain relatively low due to multiple headwinds, including the so-called "lock-in" effect.

The "Lock-In" Effect

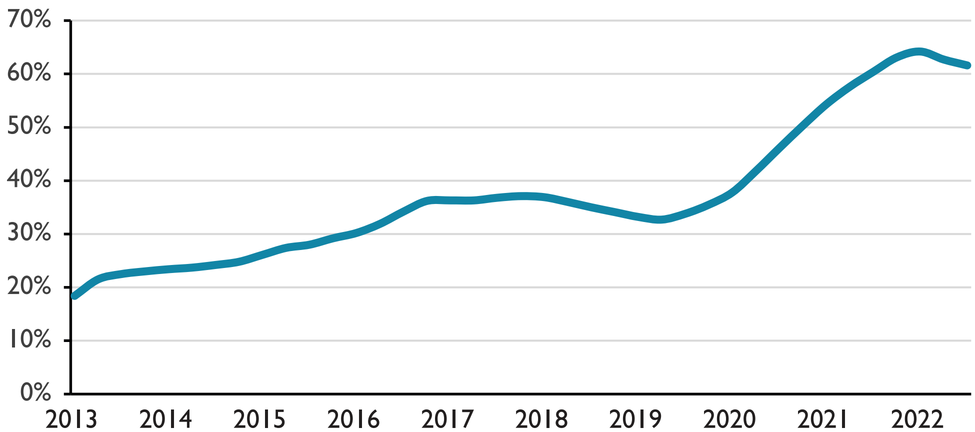
Distribution of Outstanding Mortgages in Tennessee By Interest Rate



***Source**: Federal Housing Finance Agency, Q3 2022*

Outstanding Mortgages With Low Interest Rates

Share of outstanding residential mortgages with a rate of 4% or below: Tennessee



***Source:** FHFA (Q3 2022)*

According to Federal Housing Finance Agency (FHFA) data, the average interest rate for outstanding residential mortgages in Tennessee was 3.9% – down from an average of roughly 5.4% in 2013 and well below the prevailing 30-year fixed mortgage rate in the early months of 2023. Moreover, just over six in 10 outstanding residential mortgages in Tennessee have an interest rate of 4% or below. Such a large share rate of low-rate mortgages is unprecedented and a dramatic departure from just a decade ago when around 20% of mortgage holders had an interest rate of 4% or below.

"Lock-in" Effect

- Higher mortgage rates create powerful financial disincentive known as "lock-in" effect.
- Locked-in homeowners may be wary of listing their homes for sale since they will have to trade out their existing mortgage for one with a much higher interest rate.
- Lock-in effect likely won't drive decision-making of 38% of mortgage holders with interest rates above 4%, or those who own their home free and clear.
- Rise in borrowing costs will weigh heavily on homeowners who could potentially face interest rates up to double the current rate.

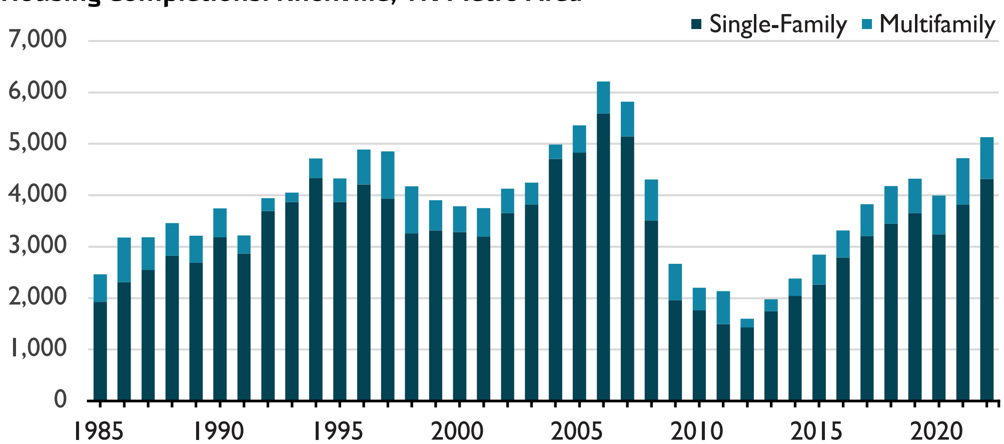
Given the ubiquity of the 30-year fixed-rate mortgage and the large share of all loans originated within the last four years, the impact of the "lock-in" effect is expected to endure as long as rates remain elevated. This is supported by recent research indicating that, even as the pandemic spurred more interest in other amenities like outdoor space or home offices, financial considerations remain the primary driver of homebuying behavior. As a result, "locked-in" homeowners will be more hesitant to list their homes for sale over the coming years and more likely to retain their current residence as an investment rental property when they do, keeping much-needed supply from hitting the market.

Quantifying the Housing Shortage

From 2010 to 2019, household formations in the Knoxville metro area outpaced housing completions by 12%. This dynamic intensified in recent years with household formations estimated to have exceeded completions by 50% in 2022 alone. This production gap helps to explain the chronic lack of housing inventory, which continues to place upward pressure on home prices and rents across the region.

New Construction Trends

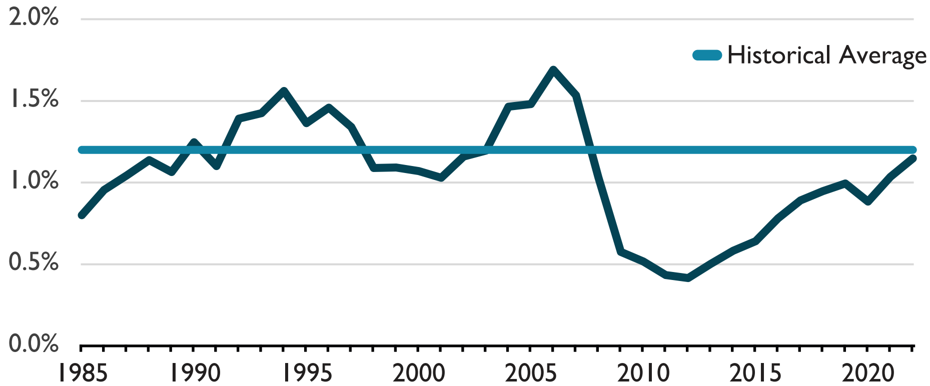
Housing Completions: Knoxville, TN Metro Area



Source: *U.S. Census Bureau (BOC): New Residential Construction; Moody's Analytics Estimated and Forecasted*

Underbuilding

Housing Completions as a % of Households: Knoxville, TN Metro Area



Source: *U.S. Census Bureau (BOC): New Residential Construction; Moody's Analytics Estimated and Forecasted*

Based on the underproduction of housing units relative to household formation, the Knoxville metro area's implied cumulative housing shortage grew to between 22,500 and 24,500 housing units in 2022 – meaning more than 20,000 additional units are needed to meet the region's long-term housing demand.

	Single-Family	Total Housing Units
Actual Completions	37,187	45,318
Needed Completions	59,831	69,802
Cumulative Gap Since 2010	22,644	24,484

Note: Needed completions are estimated using the historical average completion rate as a percentage of total households for the baseline period of 1985 to 2000.

Source: U.S. Census Bureau, Moody's Analytics; Author's calculations

Housing Affordability

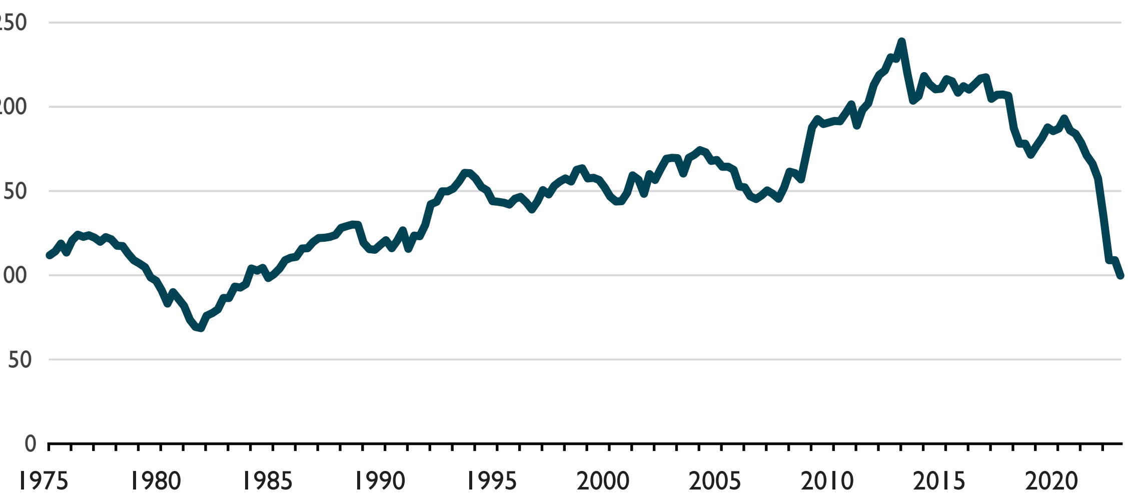
The "triple threat" of today's housing market – high home prices, rising mortgage rates and low inventory – continues to plague home buyers and seller alike, pushing housing affordability in 2022 to its lowest level since the 1980s. As such, deteriorating affordability conditions remain the primary driver behind the current softening in the housing market, a constraint that's likely to persist in the short term.

Demand is waning because a growing share of households cannot afford to purchase a home, not because they don't want to.

Worsening housing affordability reflects the growing disparity between home prices and earnings. From 2015 to 2022, the median sale price of existing single-family homes in the Knoxville metro area increased by approximately 107%, while the median household income rose just 28% during the same period. Disparities between house prices and income growth are also evidenced by the steep rise in the house price-to-income ratio (i.e., the ratio between the median sale price and the median household income). Knoxville has historically maintained an average price-to-income ratio of around 3 but, by the end of 2022, this figure rose to 5.3 – the highest price-to-income ratio in the region since at least the 1970s.

Housing Affordability Falls To Lowest Level Since the 1980s

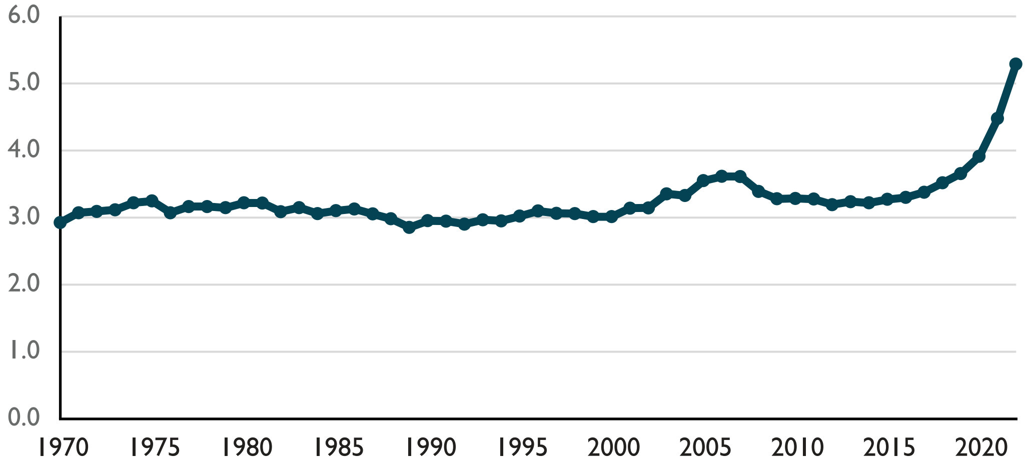
Housing Affordability Index: Knoxville, TN Metro Area



Source: *National Association of REALTORS® (NAR): Real Estate Outlook; U.S. Census Bureau (BOC); U.S. Bureau of Economic Analysis (BEA); Moody's Analytics Estimated*

Home Prices Relative to Income

Housing Price-to-Income Ratio: Knoxville, TN Metro



Source: *KAAR tabulations of MLS, Moody's Analytics data*

In addition to house price appreciation outpacing income growth, higher mortgage rates further eroded affordability over the past year, leaving homebuyers needing to earn substantially more money to purchase the same home. While the median sale price rose approximately 16% from 2021 to 2022, higher interest rates prompted monthly mortgage payments to increase 71%, outpacing the 10.8% growth in wages over the same period.

Based on the prevailing average mortgage rate, the annual income needed to qualify for a 30-year fixed mortgage loan (with a 5% downpayment) on the median-priced home in the Knoxville area rose from $55,677 in 2021 to $88,808 in 2022 – an increase of more than 59%.

Housing Affordability: Comparing 2021 vs. 2022

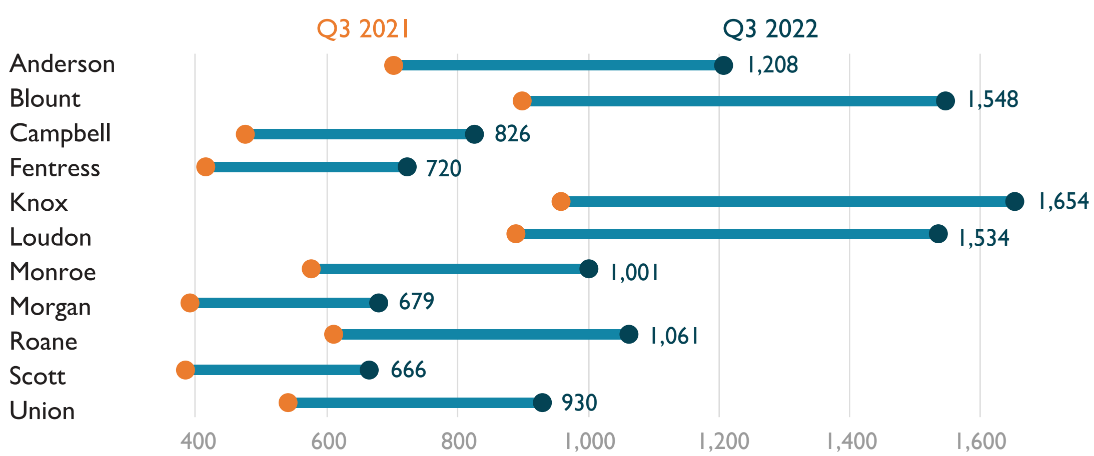
	2021	2022	Change 2021-2022
Interest Rate	3.11	6.42	3.31
Median Sale Price	$270,000	$315,000	$45,000
Down Payment & Closing Costs	$35,100	$40,950	$5,850
Monthly Principal & Interst Payment	$1,097	$1,876	$779
Total Monthly Owner Costs	$1,392	$2,220	$828
Annual Income Needed	$55,677	$88,808	$33,131

Source: Federal Home Loan Mortgage Corporation, Federal Housing Finance Agency, Knoxville Area Association of REALTORS®, Federal Reserve Bank of Atlanta; Author's calculations

Note: Estimates assume a 10% down payment on a 30-year fixed-rate loan with zero points, 3% closing costs 0.5% property taxes, 0.4% property insurance, 0.558% private mortgage insurance, and a maximum 30% debt-to-income ratio.

These trends also were evident at the county level. The monthly mortgage payment for the typical home rose by more than 70% from the previous year in the third quarter of 2022 across all 12 counties in KAAR's jurisdiction, according to the National Association of REALTORS. The largest increases were in Knox, Blount and Loudon counties, which each saw monthly payments for the typical home increase by more than $600 from the previous year.

Change in Monthly Mortgage Payment: 2021 vs. 2022



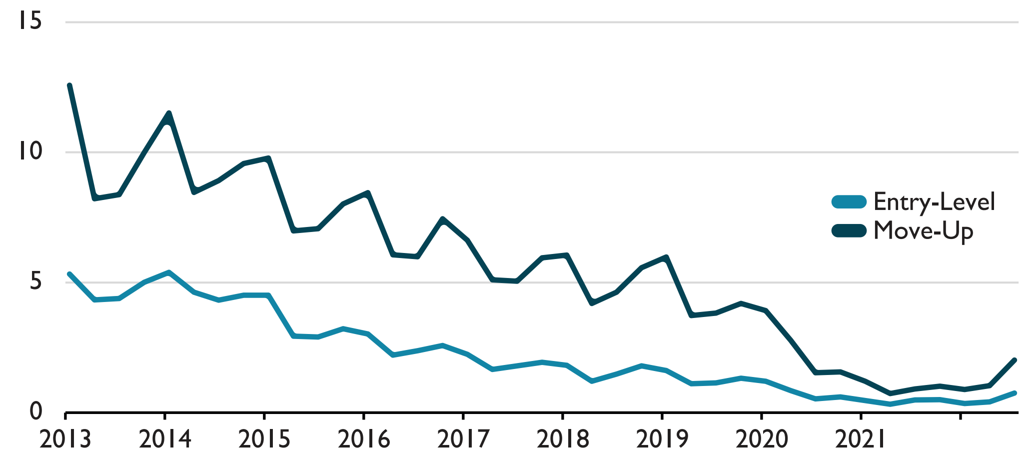
Source: *NAR tabulations of ACS; and FHFA data*

Affordability also is an enduring challenge in the new construction market, according to a report by the National Association of Home Builders (NAHB):

- Median price of new home in Knoxville metro area was $417,556 at beginning of 2023.
- Households need an annual income of $120,932 in order to afford typical newly constructed home compared to $81,161 in 2022.
- Approximately 77% of households in the Knoxville area cannot afford the median-priced new home.
- For every $1,000 price increase, an additional 418 more households are priced out of the new home market.

Affordability concerns are further compounded by the lack of available housing inventory at price points that are affordable to the typical first-time homebuyer. While supply relative to demand is significantly constrained across all price levels, inventory in the lower price range remains the most constrained segment of the market. As such, the months' supply of inventory – or the number of months it would take for the current inventory of homes on the market to sell given the current sales pace – is lowest for entry-level homes at just 0.7 months of inventory as of the third quarter of 2022. Conventional wisdom suggests a healthy housing market features around 6 months of supply.

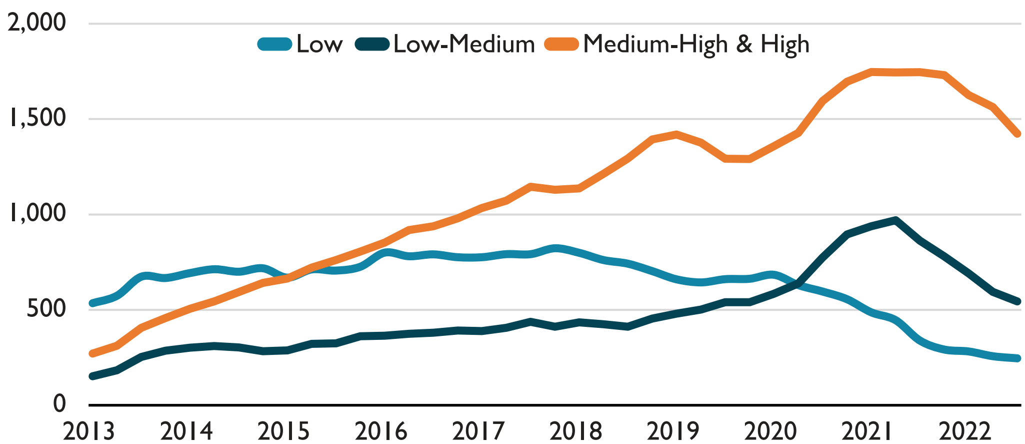
Housing Inventory
Months' Supply By Market Segment: Knoxville, TN Metro



Source: *AEI Housing Center (Data as of Q3 2022)*

New Construction Trends

New Construction Sales By Price-Tier (12-month total): Knoxville, TN Metro



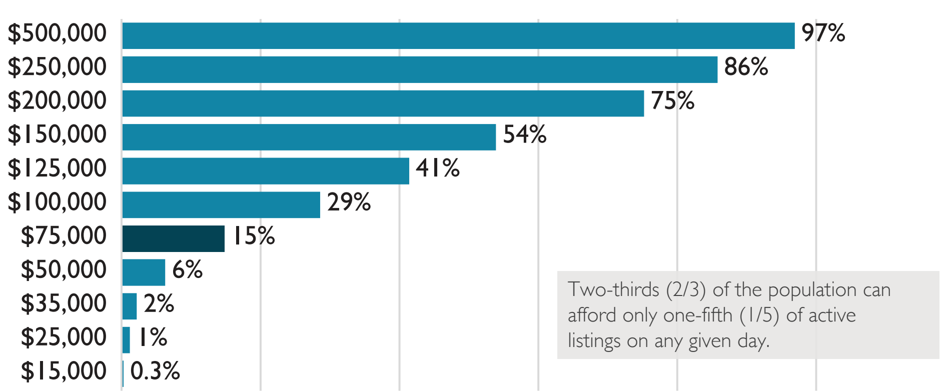
Source: *AEI Housing Center (data as of Q3 2022)*

The shortage of more affordable inventory also is evident in the declining share of homes sold for under $250,000. Homes under $250,000 represented approximately 72% of total existing home sales from 2015 to 2019, compared to just 42% in 2021 and 31% in 2022. By comparison, homes priced $500,000 or higher represented just 4.3% of total existing home sales from 2015 to 2019, compared to 15% in 2021 and 22% in 2022.

While traditional measures of housing affordability focus on the income needed to afford the typical home based on the median sale price, it's also useful to examine the affordability of homes actively listed for sale. Using this approach, a study by Redfin found that in 2022 less than one in five (17.4%) homes for sale in the Knoxville metro area were affordable for households earning the median income – down from 53.0% in 2021 and the lowest on record.

A Majority of Residents Can Afford Only Small Share of Listings

Share of Listings That Are Affordable By Income (March 2023): Knoxville, TN



Source: *Knoxville Association of Realtors®*
Note: Data as of March 2023. Assumes a 5% downpayment on a 30-year fixed-rate loan with zero points, 3% closing costs 0.5% property taxes, 0.4% property insurance, 0.558% private mortgage insurance, and a maximum 30% debt-to-income ratio.

Affordability declined even further in the early months of 2023, according to KAAR analysis of MLS data. As of March 2023, a family earning the median household income could afford fewer than one in 10 (9.7%) homes listed for sale in the Knoxville metro area, while families making $75,000 per year could afford approximately 15% of active listings[1]. To afford just half of all homes for sale in the Knoxville area, a family would need to earn more than $143,000 annually – more than twice the median household income in the region.

In sum, a variety of indicators show that East Tennessee's housing market is markedly less affordable than just a few years ago – a trend that has important implications for the region's economy and further reiterates the need for additional housing units to slow the pace of rising housing costs.

Investor Activity

Institutional investors' growing interest in the single-family housing market garnered significant media attention in recent years, with strong price appreciation and low borrowing costs turning single-family rentals into an increasingly attractive investment opportunity. However, investor activity varies substantially by geography and thus the true impact of investors on the housing market is best understood by evaluating trends at the local level.

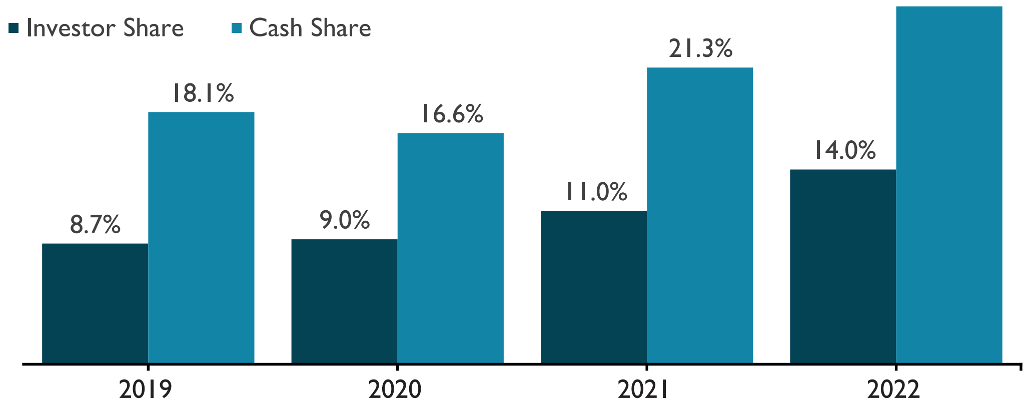
In Knox County, the investor market share rose only marginally with investor purchases accounting for 14% of home sales in 2022 – up from 11% the previous year[2]. This estimate, however, likely overstates the impact of investors as it does not distinguish between typical investors and iBuyers, who put homes back on the market and thus do not ultimately decrease the supply of available homes.

[1] Estimates assume a 5% downpayment on a 30-year fixed-rate loan with zero points, 3% closing costs 0.5% property taxes, 0.4% property insurance, 0.558% private mortgage insurance, and a maximum 30% debt-to-income ratio.

[2] Investor market share estimates are based on KAAR's analysis of public records data provided by the Knox County Register of Deeds Office. For the analysis, investor purchases are defined as county sale records where the grantee's name includes at least one of the following terms: LLC, Inc, Trust, Corp, Partners, Homes, and/or Acquisition. As a result, this data could overlook investor purchases made by independent investors using their own name to purchase the property or include home purchases made through a family trust for personal use. Properties with sales prices of less than $25,000 or more than $1,000,000 are excluded. This methodology is based on a similar analysis conducted by Redfin, a national real estate brokerage.

Investor Market Share and Cash Sales

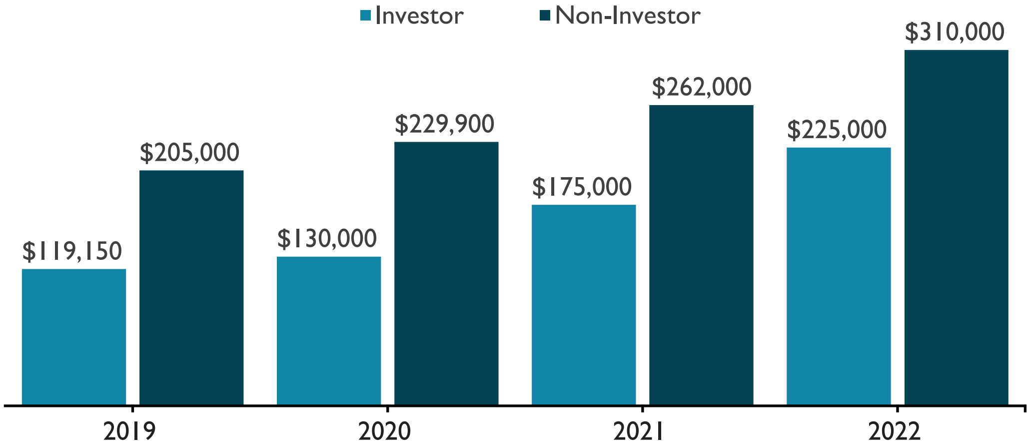
Share of home sales: Knox County, TN



Source: *KAAR analysis of public records data*

Price of Investor vs. Non-Investor Purchases

Median Price by Investor Status: Knox County, TN



Source: *KAAR analysis of public records data*

While investor activity has risen only nominally, limited housing supply appears to have provoked a shift in the type of homes purchased by investors. Though historically favoring low-priced properties, higher-priced properties accounted for a growing share of investor purchases in recent years. For example, the median price of investor purchases in Knox County rose 89% from 2019 to 2022, compared to just 51% among non-investor purchases. A sizable majority of investor purchases in recent years were properties within the bottom 25% of the price distribution, but the share of investor-purchased properties in the higher price ranges rose in 2022, suggesting investors are competing with middle-class home buyers more often.

Still, a majority of investor purchases were for low-value properties and often those in need of significant repairs. In 2022, 46% of all investor purchases were for properties valued at $200,000 or less, with properties valued at $117,250 or less accounting for one-fourth of all investor purchases. The tendency to focus on homes in need of repair is an overlooked feature of institutional buyers' impact on the housing market, as investors can often renovate these properties more quickly and efficiently than owner-occupants. This is why investors can play "an important role in the market by improving the quality of the housing stock and increasing the supply of decent rental housing," according to the Urban Institute.

Overall, investor purchases of single-family homes have increased only marginally over the past three years, and research suggests that investors have not been a significant driver of home price growth or the tight supply of available homes in recent years, despite having a relatively larger market presence.

Rental Housing

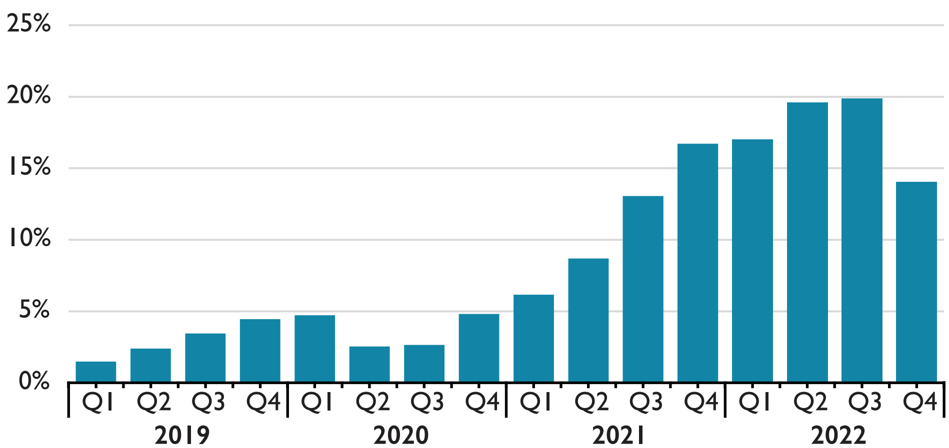
In the wake of the COVID-19 pandemic, apartment demand surged as renters increasingly considered long-distance moves to more affordable areas like East Tennessee. Consequently, 2021 saw record-high annual apartment demand, which persisted into the second quarter of 2022 before declining by year-end, with move-outs surpassing move-ins during the fourth quarter – the first such instance since early 2019. Robust construction activity and reduced household formation suggest rent growth will slow appreciably over the next year, providing renters with some much-needed breathing room.

Rents

Knoxville recorded the fastest rent growth of any U.S. metro area in 2022, according to the National Association of REALTORS®. Same-store effective rents in the Knoxville metro area were up 14.1% year-over-year in the fourth quarter of 2022, outpacing the 6.6% growth nationally, per RealPage. Knoxville rents grew nearly twice as fast as those in Nashville, which recorded 7.8% rent growth during the same period.

Annual Rent Growth

YoY Effective Rent Change: Knoxville, TN Metro



Source: *RealPage Analytics*

On average, effective rents are 48% – or $447 – higher than pre-pandemic levels. Rent growth over the past year was highest among Class A units (14.6%) and lowest among Class C units (6.8%). In the fourth quarter of 2022, average monthly rent in the Knoxville metro area stood at $1,382 – below the average of roughly $1,600 in Nashville and $1,800 nationally according to RealPage.

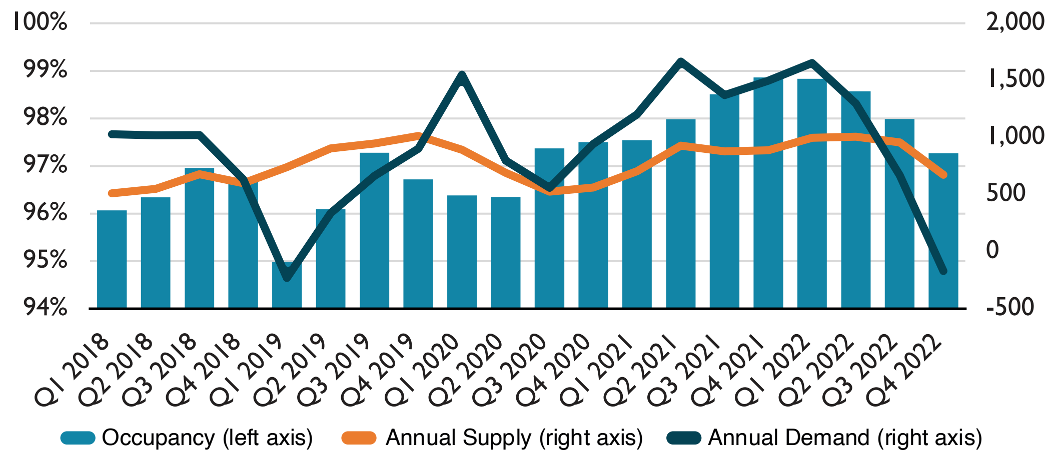
Despite the appreciable slowdown in apartment demand in the second half of 2022 due to uncertain economic conditions and lower levels of new household formation, rents continued to grow in the Knoxville area in the early months of 2023, registering the second-fastest annual rent growth among the top U.S. metros in the first quarter of 2023.

Supply & Production

Much like the for-sale housing market, Knoxville's rental market continues to face a supply shortage with demand outpacing supply by an average of 13% over the past five years. Consequently, apartment occupancy rates reached a record high of 98.9% during 2021 and remained at 97.3% as of the fourth quarter of 2022, ranking No. 9 among the top 150 U.S. markets nationally according to RealPage. Conventional wisdom suggests a healthy rental market features around 93-94% occupancy.

Rental Market Trends

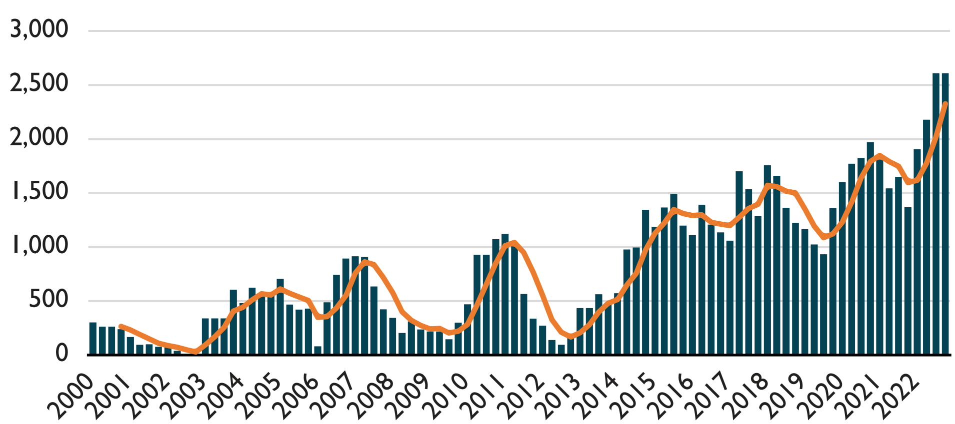
Knoxville, TN Metro Area



Source: *RealPage Analytics*

More Rental Units Are On The Way

Apartment Units Under Construction: Knoxville, TN Metro



Source: *RealPage Analytics*

However, data indicate the supply-demand imbalance in the apartment market is set to improve over the next year as a record number of units are currently under construction and slated to become available over the next 12 months. From 2018 to 2021 – a period of relative strength in the apartment market – the Knoxville metro area had an average of 825 units under construction each quarter; however, that number ballooned to 2,094 units by the fourth quarter of 2022, which is set to expand total inventory by 4%.

Even with the record number of units under construction, however, data indicate the region lags its in-state peers in terms of multifamily housing production. From 2017 to 2021, Knox County permitted new multifamily housing at a rate of 89 units per 10,000 residents. By comparison, Davidson County produced more than 5 times as many multifamily housing units per 10,000 residents as Knox County during the same period.

Multifamily Housing Production Trends: 2017-2021

County	Total Units Permitted	5-Year Permit Rate
Davidson	33,463	472 units per 10k
Hamilton	3,373	93 units per 10k
Knox	4,248	89 units per 10k
Rutherford	4,485	134 units per 10k
Shelby	4,097	44 units per 10k

Source: KAAR tabulations of U.S. Census Bureau Building Permits Survey data

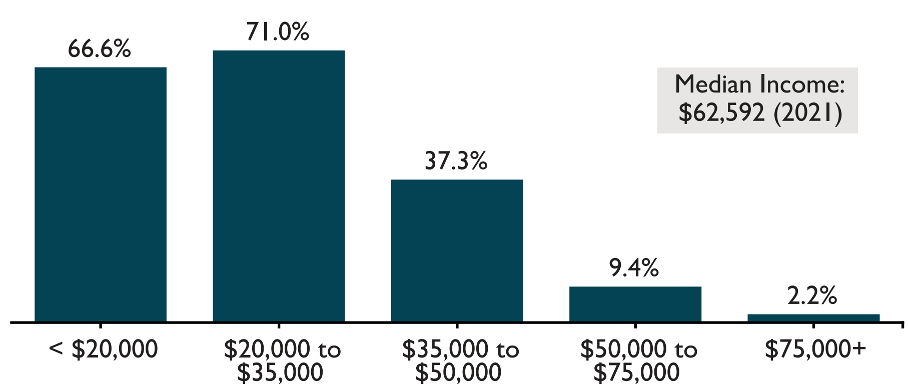
Rental Affordability

Demand for rental properties surged in 2021 and 2022, exerting strong upward pressure on both occupancy and rents at the same time as consumer prices were growing at the fastest pace since the 1980s. As a result, approximately 4 in 10 households in the Knoxville metro area spent at least 30% or more of their income on rent in 2021, compared to 42.8% of renters in Tennessee and 46% nationally.[3] While data for 2022 is not yet available, rental affordability isn't expected to improve dramatically in the near term, with the share of cost-burdened renters likely to edge higher in the coming years.

[3] *U.S. Census Bureau, 2017-2021 American Community Survey 5-Year Estimates*

Cost-Burdened Renter Households

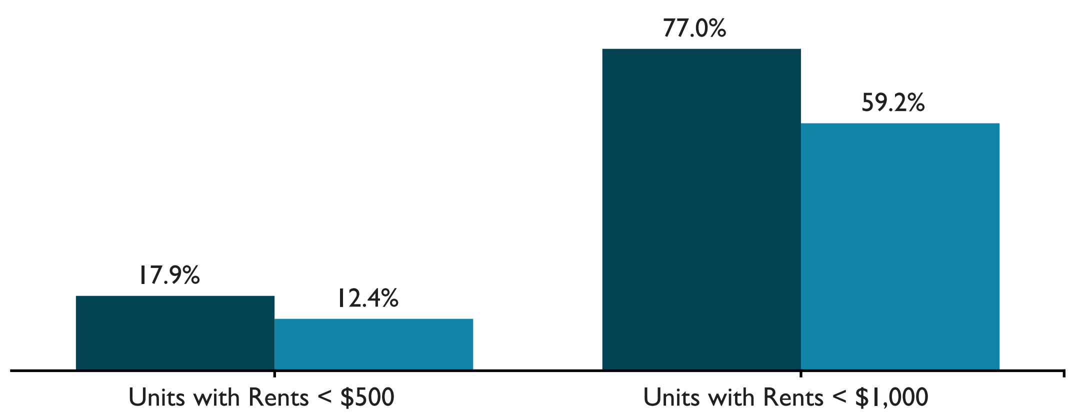
Share of cost-burdened renter households by income level; Knoxville, TN Metro



Source: *U.S. Census Bureau; PolicyMap*

Fewer Low-Cost Rental Units

Share of housing stock with low rents: Knoxville, TN Metro



Source: *U.S. Census Bureau; PolicyMap*

The high incidence of cost burdens among renters is partly due to a shortage of low-cost units, according to the Harvard Joint Center for Housing Studies. Driven by a substantial supply-demand imbalance, units with rents of $1,000 or below comprised 56.2% of Knoxville's rental housing stock in 2021 compared to just over 77% in 2016.

Even with record-breaking rent growth since 2021, however, a study by RealPage found that Knoxville had the second-lowest rent-to-income ratio in the United States in 2022, with a median market-rate renter income of $49,300 and a median rent-to-income ratio of 19.6%.[4]

In some ways, Knoxville's relatively low median rent-to-income ratio doesn't square with the fact that housing costs overall are growing much faster than household incomes. But the shifting demographic profile of renters helps place this finding into context: market-rate renter incomes have soared over the past two years, with more high-income households turning to the rental market.

Thus, while renters must spend a larger portion of their earnings on housing, data suggests strong rent growth over the past two years has not culminated in the worst-case scenario. 56.3% of tenants renewed their leases in the fourth quarter of 2022 compared to the average renewal rate of 45% from 2010 to 2019. This above-average renewal rate indicates that higher rents have not resulted in a substantial number of renters being forced to double up or move out like during previous economic downturns, according to Freddie Mac.

Other factors blunted the impact of higher rents, too. For example, the largest rent increases in 2022 were among more expensive Class A units, a segment of the market whose occupants were disproportionately able to afford higher rent payments. Nonetheless, Knoxville's rental market is markedly less affordable than pre-pandemic. As of the fourth quarter of 2022, a total annual income of $57,480 was needed to afford the average two-bedroom apartment without spending more than 30% of annual income on rent – up from roughly $40,000 in 2020.

[4] *The RealPage study was limited to renters in market rate, professionally-managed rental properties signing a new lease and thus excludes the large "mom and pop" market of small multifamily and single-family rentals. While the study isn't representative of all renters in the Knoxville MSA, it still provides useful information – especially in comparison to other metro areas.*

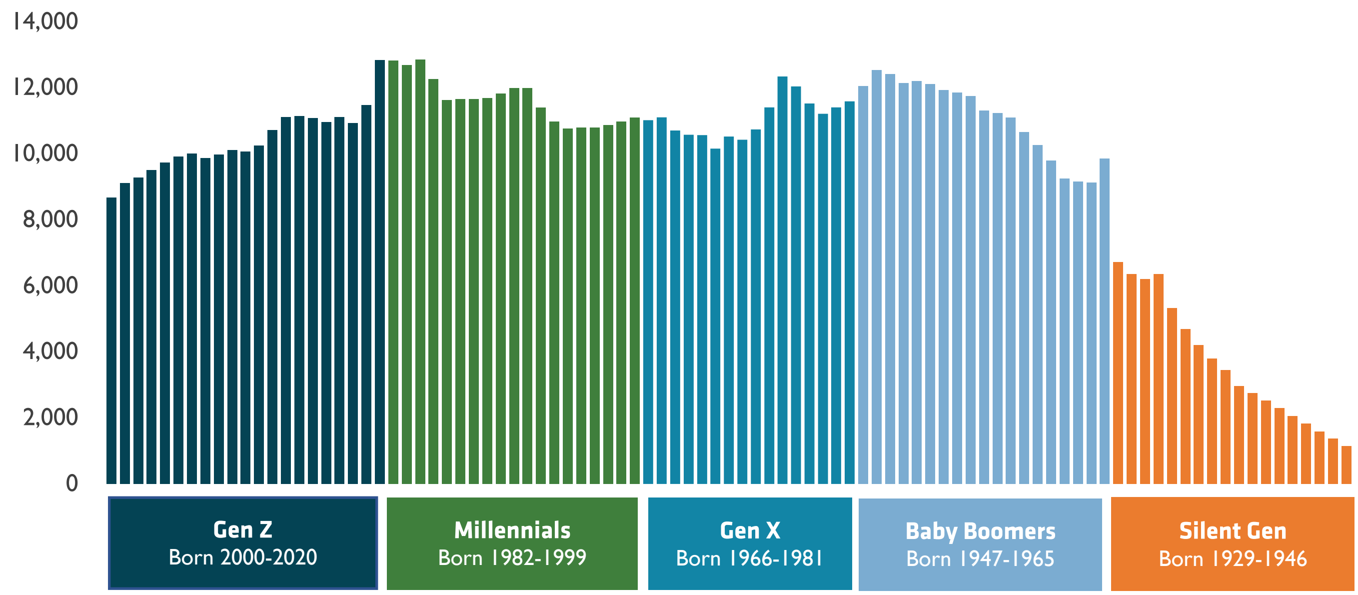
KNOXVILLE AREA
ASSOCIATION OF REALTORS®

Demographic Trends

Apart from short-term factors, such as the business cycle and interest rate fluctuations, studies show that long-run housing demand is primarily driven by underlying demographic trends. These demographic trends, such as population growth and household formation patterns, collectively contribute to the overall housing demand and shape local market dynamics.

Population By Generation

Knoxville, TN Metro Area



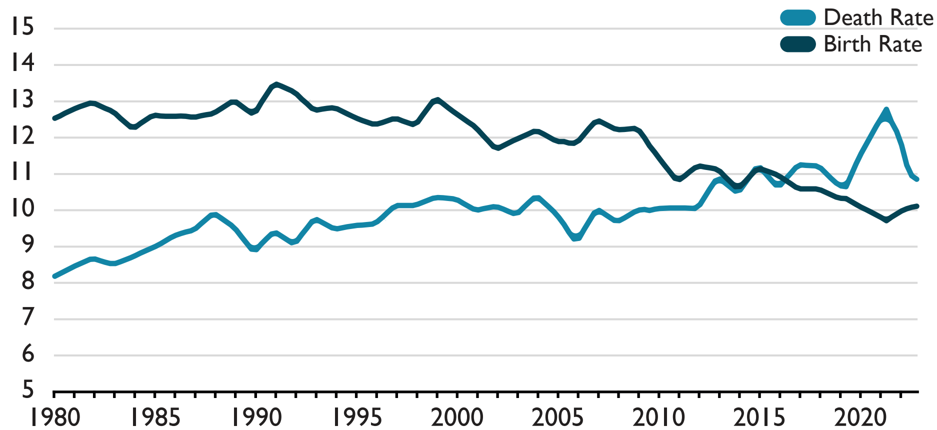
Source: *Vintage 2021 Population Estimates, U.S. Census Bureau, 2022 (via Boyd Center for Business and Economic Research, University of Tennessee, Knoxville)*

Overall, demographic trends suggest the East Tennessee region will continue to experience robust housing demand over the next 10 years, with much of the demand being driven by millennials and baby boomers, which together compromise nearly half of the metro area population. Millennials, who represent the largest living generation nationally, are entering their prime homebuying years, while a growing share of baby boomers are nearing retirement age and may soon be looking to downsize or find a more age-friendly housing option.

Beyond broader population trends, the shifting nature of American households is expected to further drive housing demand. These trends include steadily declining marriage rates, higher rates of aging in place, the rise of living alone, the growing prevalence of remote work and other lifestyle trends.

Population Growth Trends

Deaths and Births (per 1,000 population, NSA): Knoxville, TN Metro



Source: *Moody's Analytics*

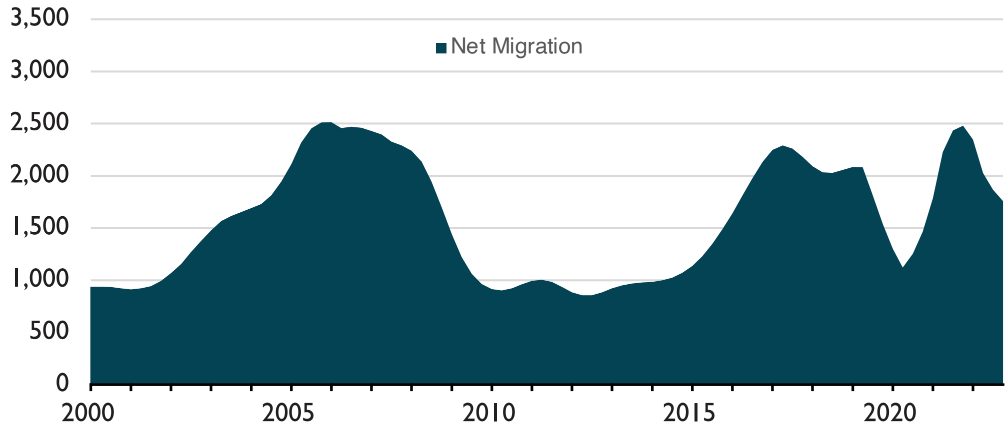
While most factors point to robust housing demand over the next decade, there are still some looming demographic headwinds. For instance, while births outpaced deaths in the Knoxville metro area by an average of 27% from 1980 to 2010, the gap between births and deaths grew smaller over the past four decades before finally converging in recent years. Since 2016, the Knoxville metro area's death rate has outpaced the birth rate by an average of 9.6%, meaning population growth in the region is being driven almost exclusively by migration.

Net Migration

U.S. homebuyers and renters alike are considering long-distance moves at a higher rate than in previous years. As a relatively low-cost area with no state income tax and ample natural beauty, Knoxville emerged as an attractive destination and continues to benefit from strong migration. Since the onset of the pandemic, Knoxville recorded positive net migration of 21,690 people – meaning inbound movers outnumbered outbound movers by nearly 22,000. Migration levels varied across the region, with the largest increases occurring in Knox, Campbell, Morgan and Roane counties.

Net Migration

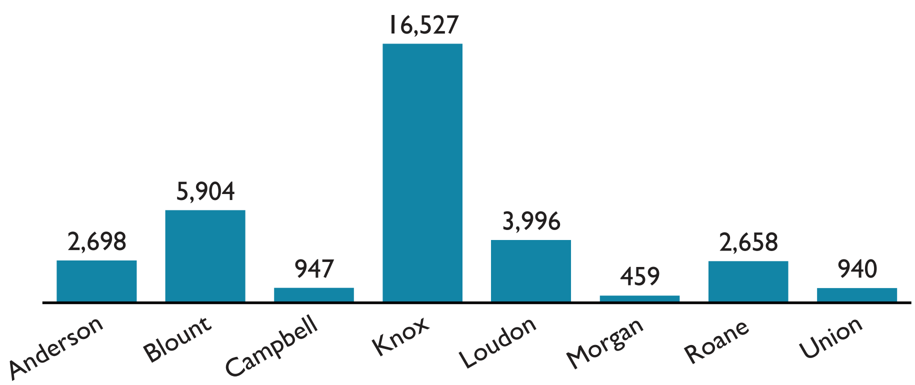
Quarterly Net Migration (4-period rolling average): Knoxville, TN Metro Area



Source: *U.S. Census Bureau (BOC); Moody's Analytics Estimated*
Note: Outliers removed and imputed using average of neighboring values

Migration Trends By County

Net Migration Since April 1, 2020



Source*: U.S. Census Bureau, Population Estimates Program*

Multiple private market data sources also indicate East Tennessee experienced a surge in migration from out-of-state in recent years – a trend that accelerated following the onset of the COVID-19 pandemic in March 2020. For the second consecutive year, Knoxville was included on [United Van Lines'] list of U.S. metropolitan areas with the highest percentage of inbound moving activity in 2022, while also landing on lists of top net migration cities from [PODS] and [Rent.com] during the past year. However, despite increased migration levels, the majority of homebuyers continue to be local residents who are buying and selling within the Knoxville metropolitan area.

Looking forward, migration levels are expected to moderate as periods of high inflation and low consumer confidence tend to slow household formation, with renters and homeowners alike more likely to stay put (e.g., current roommates are more likely to stay and renew their lease rather than split up to live on their own).

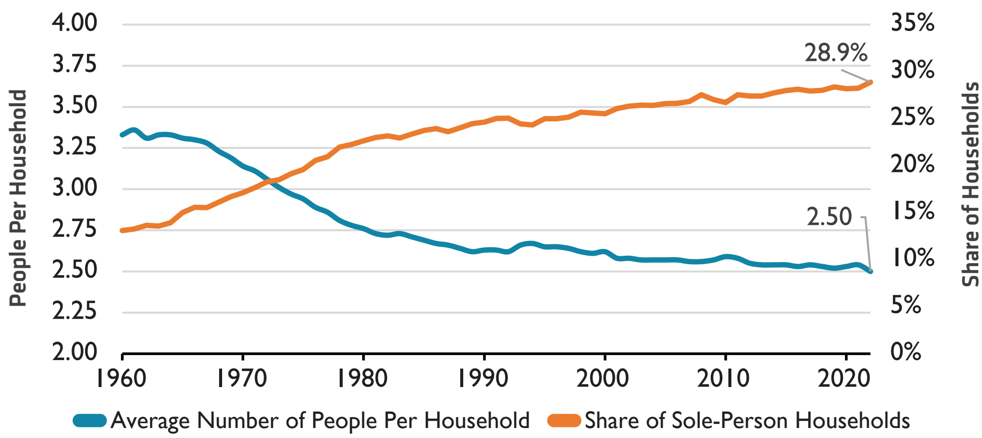
Household Composition

An increase in the number of households, either due to more people living independently, getting married or forming families, directly impacts housing demand. The average number of people per household in the nation was 2.5 in 2022, down from more than 3 people per household in the 1960s, according to U.S. Census Bureau data. This continues the downward trajectory of multi-person households across the country and more specifically in Knox County, where the average household size in 2021 was slightly lower at 2.46 people per household.

Much of the decline in household size is attributable to the growing number of individuals who are living alone. Sole-person households have almost doubled over the past 40 years, with one-person households comprising only 13% of all U.S. households in 1960 compared to nearly 29% of households in 2022. These trends aren't likely to subside with sole-person households projected to account for 42% of all new household growth over the next decade, according to Freddie Mac.

Household Size Has Been Declining Since 1960

Average Number of People Per Household and Sole-Person Households



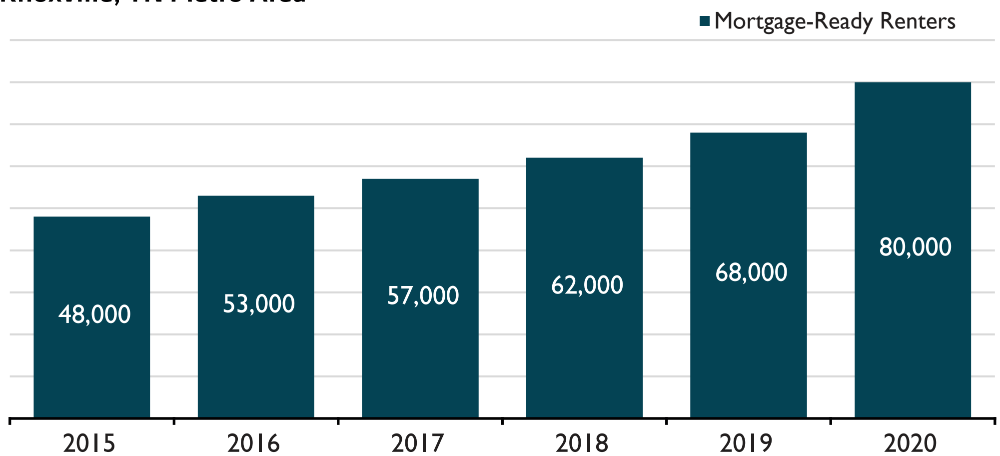
Source: *U.S. Census Bureau, Current Population Survey, 1960 to 2022.*

The changing composition of households is likely to have profound implications for the housing market, in part because smaller household sizes will increase overall housing demand even in the face of slowing population growth. Smaller household sizes also significantly impact the type of housing in demand, as the needs and preferences of sole-person households differ from those of larger families. As the number of single-person households, couples without children and empty nesters increases, there will be a growing demand for smaller, less expensive housing options that cater specifically to those living alone.

“Mortgage Ready” Renters

These demographic trends help to explain why the pool of potential homebuyers in Knoxville nearly doubled from 2015 to 2020. According to Freddie Mac’s First-Time Homebuyer Affordability Map (FFTHAM), there were approximately 48,000 mortgage-ready renters in 2015 compared to 80,000 in 2020 – an increase of 67%. Consumers are classified as “mortgage-ready” if they do not have a mortgage, are 45 or younger, have a credit score of 661 or above, have a debt-to-income ratio not exceeding 25%, have no foreclosures or bankruptcies in the past 84 months and have no severe delinquencies in the past 12 months.

Potential Homebuyers
Knoxville, TN Metro Area



Source: *Freddie Mac First-Time Homebuyer Affordability Map*

The large increase in Knoxville’s mortgage-ready renter population is a reflection of how underlying demographic trends have contributed to the growing pool of future homeowners in the region. However, affordability constraints continue to inhibit the transition from renting to homeownership as the FFTHAM indicates that less than half of the 80,000 “mortgage-ready” renters in 2020 had enough income to purchase the typical home bought by recent first-time homebuyers.

Housing Challenges

An Aging Population

America's senior population is in the midst of unprecedented growth, a demographic trend that will have an enduring impact on the country's housing market and the types of housing options in demand. This is especially true in the Knoxville metro area, where one out of every five residents is aged 65 or older, according to Moody's Analytics estimates.

The impact of a growing senior population on housing demand is likely to take many forms, according to Fannie Mae, including more seniors tapping into the equity in their homes to make renovations and improvements that allow them to age in place, or choosing to sell their home and move to a more affordable or accessible unit.

Studies also suggest an increasing number of seniors will be living alone. This is likely to drive demand for smaller, affordable homes that accommodate their needs, such as single-level homes, age-friendly designs and communities with accessible features like no-step entry and hallways wide enough to accommodate wheelchairs.

However, despite the growing need for more accessible and affordable housing options, 70% of the region's housing stock is comprised of detached single-family homes – which is oftentimes cost-prohibited for seniors living on a fixed income. Moreover, only around 10% of homes nationally are considered aging-ready, meaning the vast majority of the country's housing stock is not designed to accommodate the challenges that come with aging.

This demographic shift also will affect the rental market, as multifamily property owners may need to consider modifications to attract and retain senior tenants. Such improvements can be especially costly for smaller multifamily buildings and attached units, which research indicates are home to over a third of older renters, highlighting the need for additional government funding to facilitate aging-in-place.

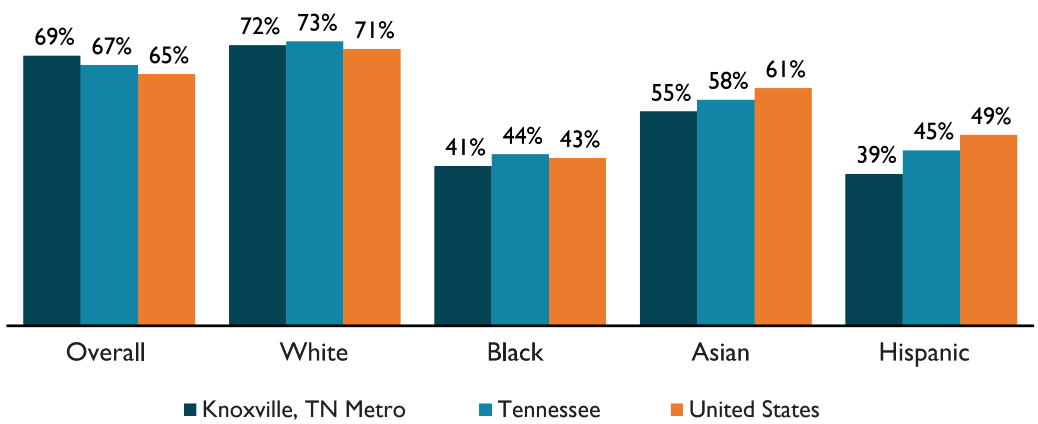
Housing Disparities

Homeownership is often viewed as a cornerstone of the American Dream and a critical component of achieving financial stability and building intergenerational wealth. However, homeownership remains elusive for many and especially those from underrepresented and disadvantaged backgrounds, highlighting the need for greater awareness and policy action to address these inequalities.

According to U.S. Census data, the homeownership rate among white households in the Knoxville metro area stands at approximately 72%, while Black and Hispanic/Latino households have significantly lower rates at 41% and 39% respectively, a gap of more than 30 percentage points.

Racial Homeownership Disparities

Homeownership Rate by Race/Ethnicity



Source: *U.S. Census Bureau, 2021 ACS 5-Year Estimates*

Differences in homeownership rates are driven in part by income inequality and disparities in the mortgage market. According to Home Mortgage Disclosure Act (HMDA) data from 2018 to 2021, mortgage applications from Black and Hispanic/Latino applicants in Knox County, were denied at nearly twice the rate of White and Asian applicants – reflecting the substantial differences in access to mortgage credit across demographic groups.

In addition, the impact of sharply rising home prices and the resulting decline in affordability was unequal across demographic groups. According to a recent Redfin study, only 3.7% of homes for sale in 2022 were affordable for the typical Black household in the Knoxville metro area, compared with 19.3% for the typical White household, 15% for the typical Hispanic/Latino household and 39.2% for the typical Asian household. The report indicates that affordability fell slightly faster for Black households than for White households.

Share of Listings Affordable to the Median Income Household (2022)

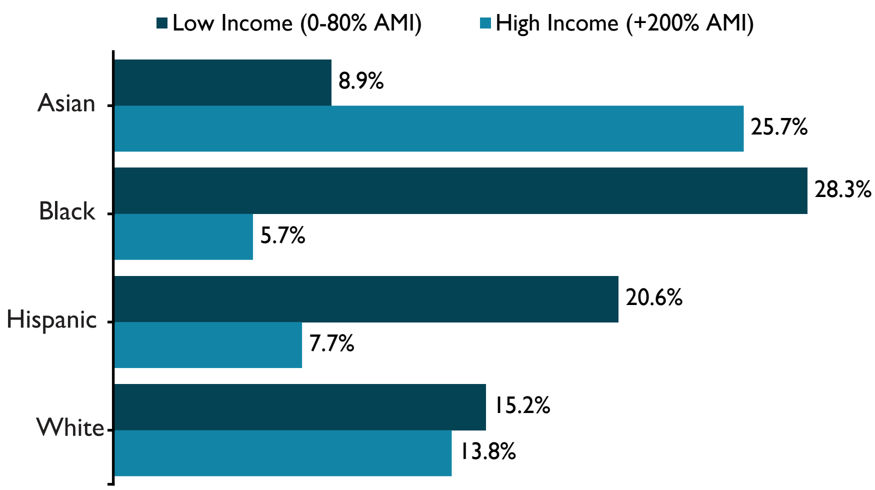
	Knoxville	Nashville	Memphis
Share affordable overall	17.4%	7.2%	35.3%
Share affordable for typical Black household	3.7%	2.4%	22.2%
Share affordable for typical Asian household	39.2%	9.3%	53.4%
Share affordable for typical Hispanic/Latino household	15.0%	3.2%	23.8%
Share affordable for typical White household	19.3%	10.4%	55.6%

Source: Redfin analysis of MLS data, U.S. Census Bureau American Community Survey; Freddie Mac PMMS

Such disparities in housing affordability oftentimes reinforce existing patterns of residential segregation, which is illustrated by the disproportionate share of minority homebuyers who submit mortgage applications for homes in very low-income neighborhoods.

From 2018 to 2021, 28.3% of all mortgage applications from Black applicants and 20.6% from Hispanic/Latino applicants were for homes in low-income areas (defined as census tracts with 0-80% AMI), while this figure amounted to just 15.2% of all mortgages for white applicants and 8.9% for Asian applicants. In other words, non-white applicants are far more likely to purchase homes in low-income neighborhoods because of affordability constraints.

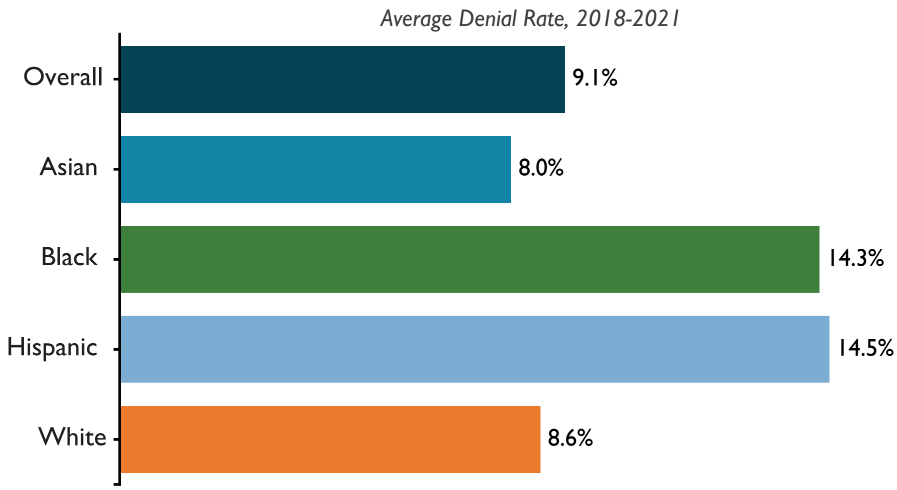
Distribution of Mortgage Applications by Neighborhood Income Level



Source: *KAAR analysis of HMDA data for Knox County, TN*

Mortgage Denial Rates Comparison

Distribution of Mortgage Applications by Neighborhood Income



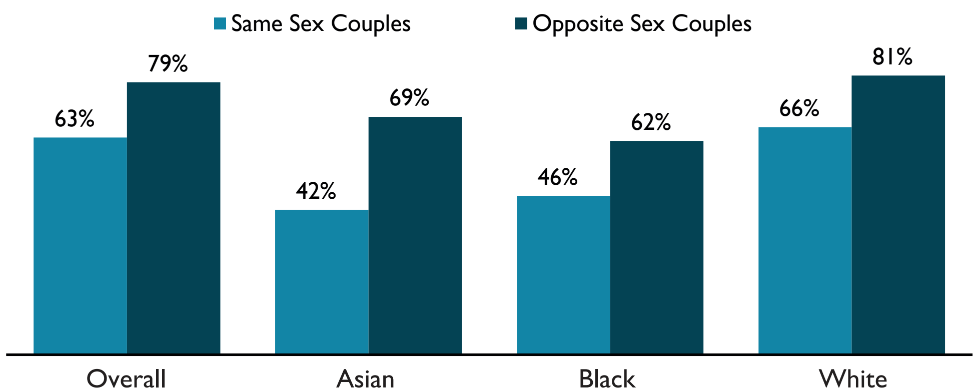
Source: *KAAR analysis of HMDA data for Knox County, TN*

While data for 2022 is not yet available, turbulent housing market conditions suggest these disparities likely worsened following the pandemic since minority homebuyers are more likely to be first-time home buyers and thus have no equity from a previous home to rely on during the home-buying process.

Access to homeownership also varies by sexual orientation. According to U.S. Census Bureau data, the homeownership rate for same-sex couples is 63% in Knox County compared to 78% for heterosexual couples. Differences in earnings partly explain the gap. The average household income for heterosexual couples is $114,363 compared to $88,862 for same-sex couples – meaning the typical heterosexual couple earns 25% more than the typical same-sex couple.

Homeownership Disparities By Race and Sexual Orientation

Homeownership Rate by Race and Sexual Orientation: Knox County, TN



Source: *U.S. Census Bureau, 2021 ACS 5-Year Estimates Public Use Microdata Sample*
Note: Non-couple households are excluded.

These disparities are even more pronounced when accounting for race and ethnicity. The homeownership rate for nonwhite same-sex couples is 41%, compared to 64% for non-white heterosexual couples. By comparison, 66% of white same-sex couples and 81% of white heterosexual couples own their home.

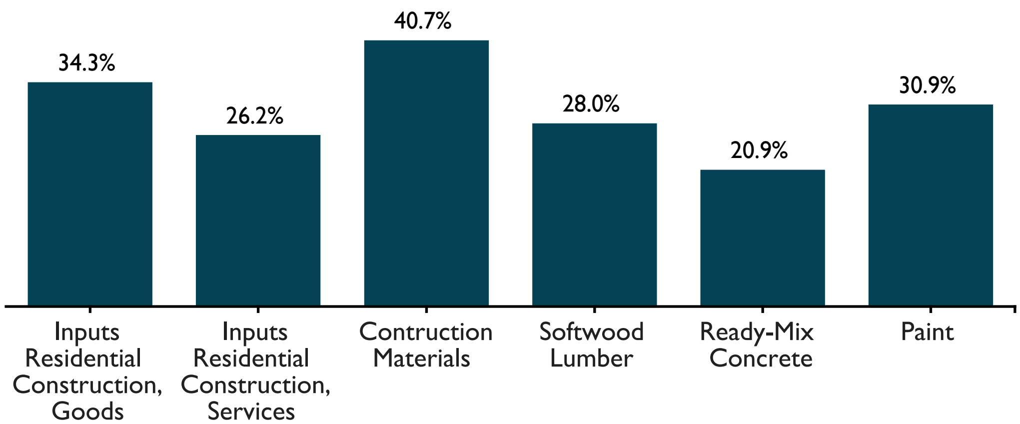
Higher Construction Costs

Supply chain disruptions, labor shortages and volatile building materials costs continue to plague the home-building industry, delaying project timelines and driving up new home prices over the past three years.

According to U.S. Bureau of Labor Statistics data, the producer price index (PPI) for inputs to residential construction excluding foods and energy (i.e., building materials) increased by 14.6% in 2021 and 15.0% in 2022. Overall, building materials prices for single-family residential construction are up approximately 34.3% from pre-pandemic levels as of the fourth quarter of 2022. By comparison, the price index of service inputs to residential construction (including legal, architectural and engineering services) rose 18.9% in 2021 and 7.7% in 2022. While still 26.2% above pre-pandemic levels, the cost of residential construction services has trended downward since reaching a peak in the second quarter of 2022.

Building Materials Prices Remain Elevated

Change in price since the pandemic: Q4 2022



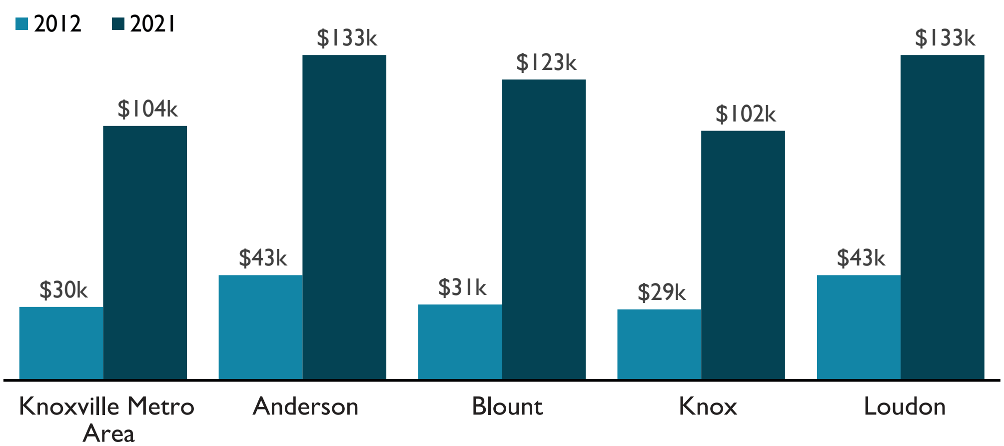
Source: *Producer Price Index, U.S. Bureau of Labor Statistics*

Moving forward, material costs and labor availability concerns are expected to improve as supply chain disruptions ameliorate. However, because homebuilding is largely a debt-financed industry, increased borrowing costs due to higher interest rates are expected to offset lower material prices. As a result, construction costs are likely to stay elevated in 2023.

In addition to the rise in labor and material costs, land prices have risen substantially over the past decade and pushed up the cost of new construction – especially in more suburban and outlying areas. Across the Knoxville metro area, the price of a ¼-acre lot rose from $29,900 in 2012 to $104,100 in 2021 – an increase of $74,200 or 248%. On average, the share of a home's overall value that is attributable to the land it sits on was 44.2% in 2021, up from 23.7% in 2012.

Land Costs By Area

Average Value of 1/4 Acre Lot (Standardized): 2012 vs. 2021



Source: *AEI Housing Center*

Housing Market Outlook

After two years of record-setting growth, East Tennessee's housing market is poised to contract in 2023 as elevated borrowing costs, higher home prices and uncertain economic conditions have slowed buyer and seller activity across the United States. While buyer demand is expected to moderate over the next year, upward pressure on home prices isn't expected to subside.

Mortgage Rates

Mortgage interest rates grew at the fastest pace on record in 2022, with the average 30-year fixed mortgage rate rising from 2.96% in 2021 to 5.34% in 2022. After reaching the highest level since 2002, the latest Freddie Mac forecast projects the 30-year fixed mortgage rate to average 6.4% in 2023.

Home Sales & Prices

Home sales are projected to decline between 10% and 12% in 2022. Despite the expected decline in home sales, housing demand continues to outpace supply, and relatively robust economic conditions provide support for home prices to increase between 3% and 5% in 2023.

2023 Housing Market Forecast

Summary	2021	2022	2023 Forecast
30-Year Fixed Mortgage Rate (%)	3.0	5.34	6.4
Home Prices	+20%	+16.7%	+5%
Home Sales	+8%	-9%	-12%
Dollar Volume	+40%	+5.6%	-8%

Source: Freddie Mac; Knoxville Area Association of REALTORS®

Rental Market Outlook

With demand hovering near an all-time high throughout 2022, Knoxville's rental market is more expensive and more competitive than ever. A wealth of new supply is slated to become available in the next 12 months which, combined with uncertain economic conditions, will place downward pressure on demand and rent growth in 2023. However, despite facing multiple headwinds, Knoxville's rental market is poised to experience modest growth in 2023.

Rents

Recent survey data indicate most landlords still plan to increase rents over the next 12 months, although the size of the increases is expected to fall from the double-digit increases experienced over the last year. As a result, rent growth is expected to moderate by mid-2023, with rents in the Knoxville metro area projected to grow 4% on an annual basis in 2023.

Occupancy

Even with supply expected to expand, inventory is poised to remain tight as renewal rates continue to hover near an all-time high. Occupancy is forecasted to decline to an average of 96.5% across 2023 – down from the all-time of 98.86% registered in the fourth quarter of 2021.

2023 Rental Market Forecast

Summary	2021	2022	2023 Forecast
Occupany	98.2%	98.3%	96.6%
Effective Rent	$1,302	$1,302	$1,355
Rent Growth	+11.2%	+18.0%	+4.2%

Source: RealPage Analytics; Knoxville Area Association of REALTORS®

MAY 2023

PREPARED BY

Knoxville Area Association of REALTORS®

The State of Housing Report is prepared by the Knoxville Area Association of REALTORS®. The material and analysis in this report are intended to provide insight into the local housing market based on information and data available at the time of publication. The report is not intended to constitute investment advice or recommendations and should not be treated as such.

ABOUT THE REPORT

The State of Housing Report is published annually by the Knoxville Area Association of REALTORS® to provide its members, community stakeholders and policymakers a comprehensive analysis of East Tennessee's housing market using the latest available data. The report explores emerging economic and demographic trends to help real estate practitioners and industry leaders better understand the region's housing challenges, guide future policy-making and inform local discussions about the region's housing needs.

About the Knoxville Area Association of REALTORS®

Founded in 1912, the Knoxville Area Association of REALTORS® is a regional trade association representing nearly 6,000 members involved in all aspects of the residential and commercial real estate industry across 12 counties in East Tennessee.