

2024 Housing Market Forecast

Feb. 1, 2024

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A Message from the President

As the 2024 president of East Tennessee REALTORS®, I am delighted to present this year's Forecast Report. This report is particularly relevant as East Tennessee experiences extraordinary growth and change, making it vital to understand the nuances of our local housing market for the area's long-term health and prosperity.

The report provides an outlook for East Tennessee's housing market in 2024, helping REALTORS®, industry stakeholders and policymakers to better understand what to expect in the year ahead. Despite the challenges posed by the current housing crisis, the East Tennessee market is gearing up for an exciting year. This report is designed to help navigate these challenges by offering data-driven insights and essential knowledge for informed decision-making in a constantly evolving housing landscape.

East Tennessee REALTORS® has become the local resource for information regarding housing in the East Tennessee area and this forecast is an important tool providing a data-driven local perspective for the coming year. Together, we can navigate the complexities ahead and pave the way for a resilient and thriving real estate landscape in the years to come.

Justin Bailey
2024 President

2024 Local Housing Market Forecast

After a prolonged downturn spanning nearly two years, East Tennessee's housing market is expected to rebound in 2024, culminating in modest home price growth and a significant increase in annual home sales. Much of the growth in home sales can be attributed to the expected decline in mortgage rates over the next year and improving affordability conditions, which will facilitate the return of buyers who were previously priced out of the local market. By comparison, a supply-demand imbalance driven by a chronic undersupply of housing will continue to exert upward pressure on home prices. Other long-term market forces, such as favorable demographic trends, migration and changing household composition, will further stimulate market activity.

- Home price growth continues to decelerate but remains above the historic average. Home prices in the Knoxville metropolitan area rose 11.3% from the previous year in the third quarter of 2023, according to the FHFA House Price Index (HPI).
- After falling 9% and 15% year-over-year in 2022 and 2023, respectively, home sales are poised to rebound in 2024. Total home sales are expected to return to pre-pandemic levels, with home sales forecasted to increase 11.1% in 2024.
- Although affordability conditions remain near a record low, a chronic undersupply of housing continues to exert upward pressure on prices and will provide support for further growth, with home prices forecasted to increase 3.6% in 2024.
- After experiencing double-digit increases in 2022, rent growth slowed considerably in the latter half of 2023. Rents in the Knoxville metro area rose 3.9% from the previous year in the fourth quarter of 2023. This deceleration is expected to continue over the next year, with apartment rent growth forecasted to slow to an average of 3.1% in 2024.
- Knoxville's apartment occupancy rate declined throughout 2023 but nonetheless remains among the highest in the country. Occupancy is expected to continue falling as new units become available, with the occupancy rate forecasted to decline to an average of 96.4% in 2024.

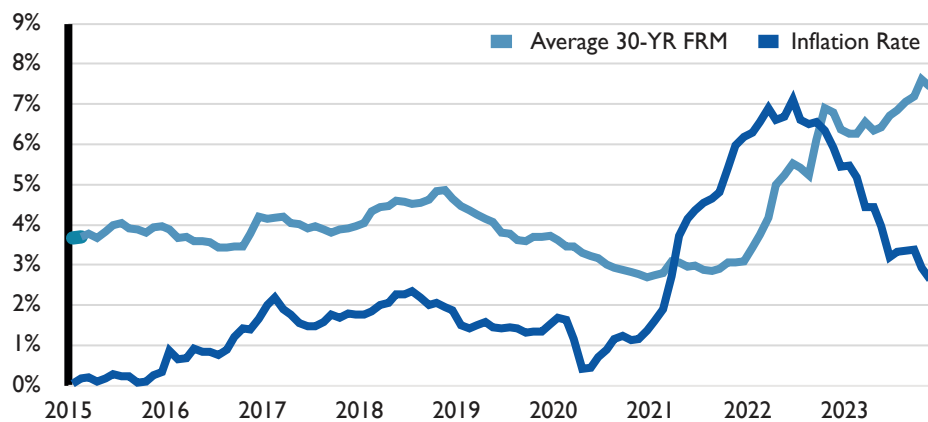
Economic Conditions

Many prominent economic analysts predicted the United States would slip into a recession at some point in 2023, but the U.S. economy consistently outpaced expectations and avoided recession. Overall, the economic outlook continues to improve, and the U.S. economy is on the verge of achieving the much talked about “soft-landing,” although the potential for overtightening by the Federal Reserve, volatility in the banking system or a spike in energy prices could put the economy at risk of a more significant slowdown.

Like the broader U.S. economy, East Tennessee’s economy also outperformed expectations in 2023. According to Moody’s Analytics estimates, inflation-adjusted gross domestic product (real GDP) in the Knoxville metropolitan area expanded by 3.5% in 2023, outpacing average annual growth of 2.3% over the past two decades. After three years of strong growth, however, Knoxville’s real GDP is projected to slow to 2.2% in 2024 amid subdued consumer spending and softening labor market conditions.

Inflation and Mortgage Rates

Average 30-YR FRM vs. Inflation Rate



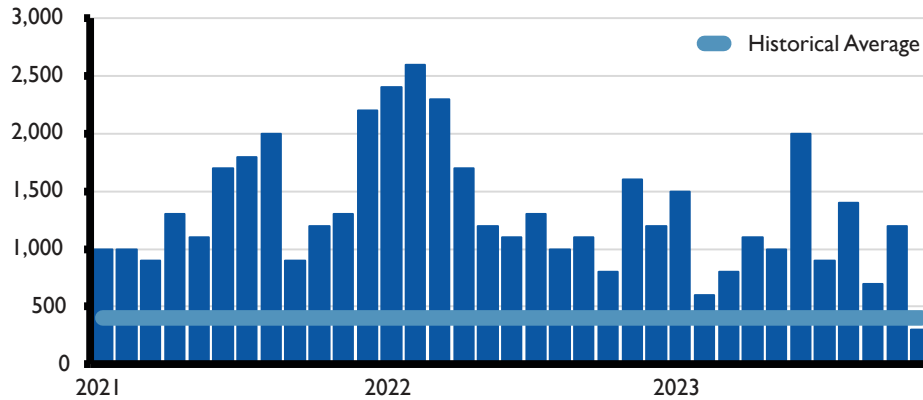
Source: U.S. Bureau of Economic Analysis; Freddie Mac

Inflation, which reached a 40-year high in the summer of 2022, declined throughout 2023 in the wake of an aggressive cycle of interest rate hikes by the Federal Reserve. The annual rate of inflation, as measured by the PCE Price Index, declined from a cyclical high of 7.1% in June 2022 to 2.6% in November 2023 – the lowest level since the first quarter of 2021 and just 60 basis points above the Fed’s 2% target. If inflation continues its gradual downward trajectory, the Federal Reserve is likely to forgo additional policy tightening and hold rates at their current level throughout the first half of 2024.

Due to the lagged effects of monetary policy, however, the cumulative impact of the Fed’s rate hikes has yet to be fully realized. As the effect of higher interest rates continues to ripple throughout the regional economy, there are clear signs of cooling in the labor market. Job growth across the region continues to slow, with monthly job gains in November falling below the long-run average for the first time since July 2020. Moreover, the metro’s unemployment rate increased to 3.2% in November, which is slightly higher than October but still exceedingly low by historical standards.

Pace of Monthly Job Gains

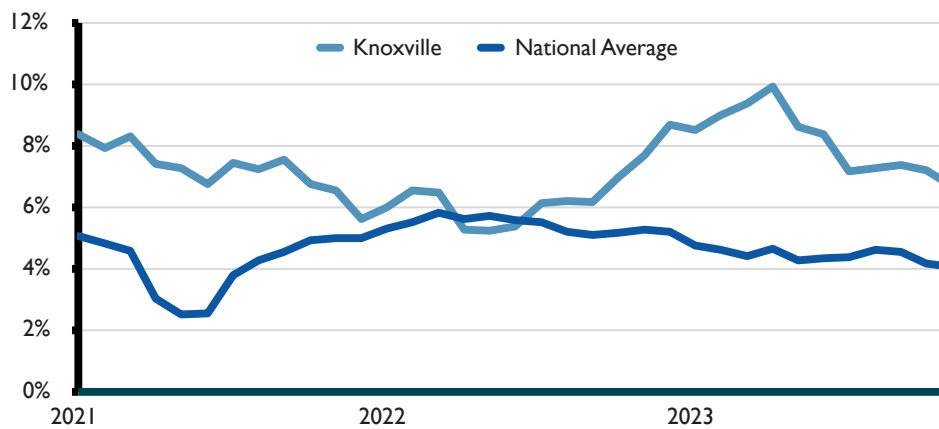
3-month average of monthly change: Knoxville, TN MSA



Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of St. Louis

Nominal Wage Growth

3-month average of annual change in average hourly earnings: Knoxville, TN MSA



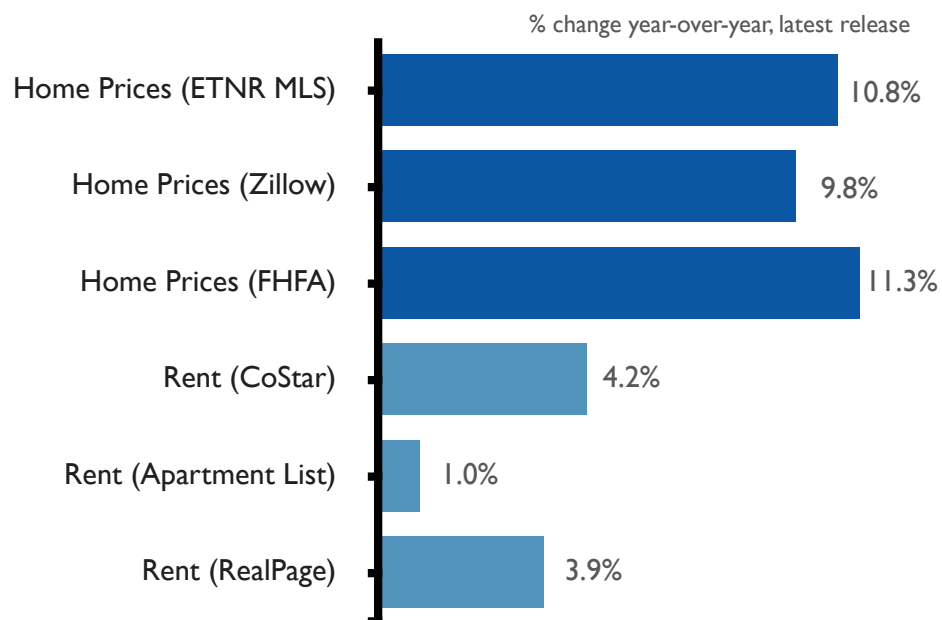
Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of St. Louis

In contrast to slowing job growth and rising unemployment, wage growth has been particularly strong across East Tennessee owing to the region's tight labor market. Wages, as measured by average hourly earnings, in the Knoxville metro area increased 5% percent from November 2022 to November 2023, outpacing the national average of 4% during the same period, according to data from the U.S. Bureau of Labor Statistics.

Housing Affordability

Housing affordability conditions deteriorated throughout 2023, pricing thousands of potential homebuyers out of the housing market which, in turn, provoked a substantial decline in home sales. Demand remains suppressed because a growing share of households cannot afford to purchase a home considering prevailing mortgage rates and home prices.

Growth in Measures of Housing Costs Knoxville, TN Metro Area



Elevated borrowing costs, which manifest in the form of higher monthly mortgage payments, drove the decline in affordability over the past year. The median sale price in the East Tennessee region rose by a modest 5.6% from 2022 to 2023, but higher interest rates resulted in the monthly payment increasing more than 20% over the same period. As a result, the annual income needed to afford the median-priced home rose from \$78,254 in 2022 to \$94,191 in 2023, meaning roughly two-thirds of residents cannot afford the typical home.

Housing Affordability: 2022 vs. 2023

	2022	2023	Change (%)
Interest Rate (%)	5.34	6.81	1.47 (+27.5%)
Median Sale Price	\$320,000	\$338,000	\$18,000 (+5.6%)
Down Payment & Closing Costs	\$41,600	\$43,940	\$2,340 (+5.6%)
Monthly Principal & Interest Payment	\$1,606	\$1,985	\$379 (+23.6%)
Total Monthly Owner Costs	\$1,956	\$2,355	\$398 (+20.4%)
Annual Income Needed	\$78,254	\$94,191	\$15,937 (+20.4%)

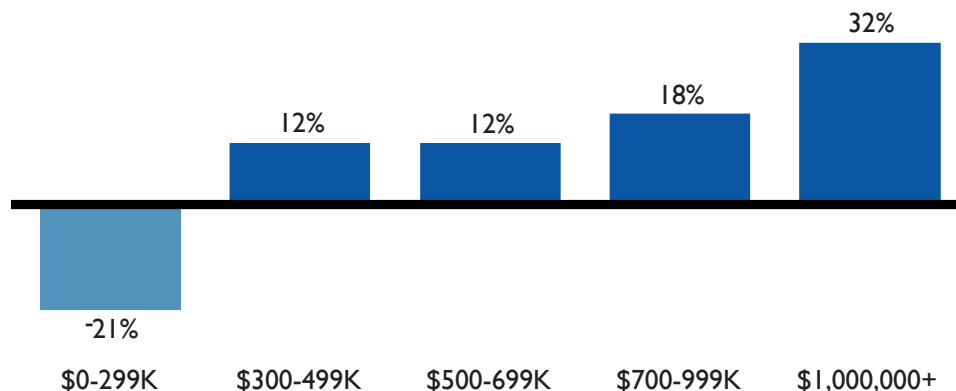
Source: East Tennessee REALTORS® analysis of Freddie Mac, FHFA and MLS data; Atlanta Fed

Note: Data for 2023 are preliminary and subject to revisions. Estimates assume a 10% down payment on a 30-year fixed-rate loan with zero points, 3% closing costs, 0.5% property taxes, 0.40% property insurance, 0.558% private mortgage insurance and a maximum 30% debt-to-income ratio.

Affordability concerns also center around the price distribution of the housing supply, which remains roughly 50% below pre-pandemic levels. Housing inventory has nevertheless shown signs of improvements in recent months, with the number of available listings increasing by 3.5% from November 2022 to November 2023. However, the number of homes priced below \$300,000 was down 21% during the same period – meaning a sizable share of inventory gains are at higher price points.

Shortfall of More Affordable Homes

Year-over-year change in active listings by price range: East Tennessee



Source: East Tennessee REALTORS®

Trends To Watch

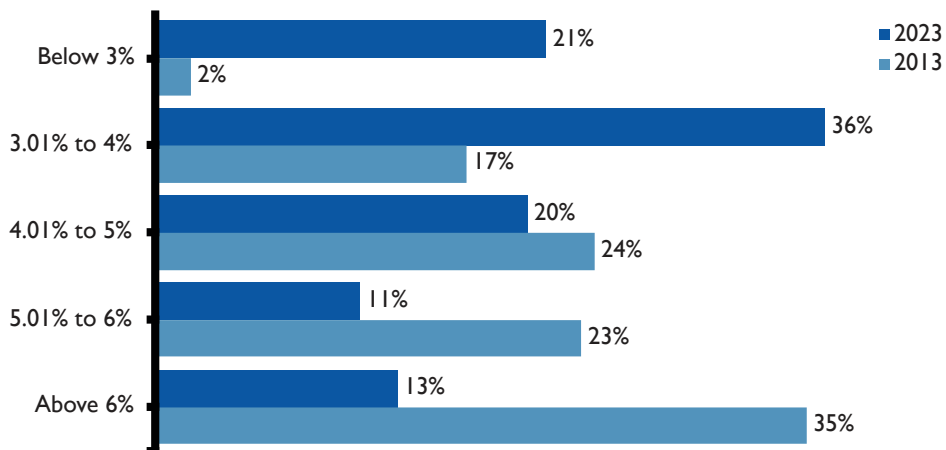
Mortgage rates and “returning” buyers. The mortgage rate environment is a critical determinant of housing market activity. Lower mortgage rates make borrowing cheaper, which increases the affordability of homes for potential buyers. This often leads to higher demand for housing, as more people find it financially feasible to purchase a home. Conversely, when mortgage rates rise, the cost of borrowing increases, reducing demand as fewer people can afford the higher monthly payments. Thus, the outlook for East Tennessee’s housing market in 2024 hinges upon the trajectory of mortgage rates and whether the expected decrease in rates is realized.

With inflation edging closer to the 2% target and the Federal Reserve signaling an end to rate hikes, mortgage rates plummeted in the final quarter of 2023 and are poised to decline even further in 2024. If the 30-year fixed mortgage rate falls to 6.5% in 2024, approximately 16,734 households in the Knoxville metro area will once again be able to afford the median-priced home, according to a recent [report](#) by the National Association of REALTORS®. This rise in demand resulting from lower borrowing costs is likely to create upward pressure on home sales.

The mortgage rate “lock-in” effect. During the pandemic years, notably 2020 and 2021, homeowners capitalized on the unprecedented low-interest-rate environment, refinancing or initiating mortgages at rates significantly below the long-term average. As a result, over 56% of homeowners with a mortgage in Tennessee have rate below 4% compared to just 19% in 2013.

The “Lock-In” Effect

Distribution of Outstanding Mortgages By Interest Rate: Tennessee



Source: East Tennessee REALTORS® analysis of National Mortgage Database (NMDb) data

The subsequent rise in mortgage rates since 2022 triggered the mortgage rate “lock-in” effect, whereby a sizable portion of homeowners have a financial incentive to stay in their current home because moving would require taking on a new mortgage with a higher rate and thus paying substantially more in interest costs. This financial incentive is substantial, with [research](#) by Freddie Mac indicating the typical U.S. homeowner with a fixed-rate mortgage is saving an average of \$66,000 in interest costs by keeping their current low-rate mortgage. 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.

While the ubiquity of low-rate mortgages will have an enduring impact on housing inventory, falling interest rates and the record amount of home equity accrued by homeowners in the past three years could help lessen the rate “lock-in” effect. Another mitigating factor is the growing share of homeowners who own their home without a mortgage, making them relatively immune from this effect. Homeowners who own their home outright amounted to 44% of all owner-occupied homes in Knoxville metro area in 2022, up from 38% in 2012.

Work from home. The Covid-19 pandemic changed the nature of work across the globe, with many employers shifting to hybrid and fully remote work arrangements. East Tennessee was no exception and, like most areas across the United States, experienced a dramatic rise in work-from-home rates. Before the pandemic, just 6.1% of the Knoxville metro area workforce regularly worked from home or remotely but that number rose to 13.0% by 2022 – leaving the metro with roughly 31,000 more remote workers.

Much of the rise in the remote workforce locally can be attributed to an influx of remote workers who moved to Knoxville from more expensive metros, but data show Knoxville-based businesses also are turning to alternative work arrangements, especially in areas with a higher concentration of workers in the professional and business services sector. Although likely to fluctuate in 2024 as labor market conditions soften, work-from-home rates are nonetheless expected to remain elevated as flexible work arrangements prove to be a long-term solution for a subset of businesses and industries.

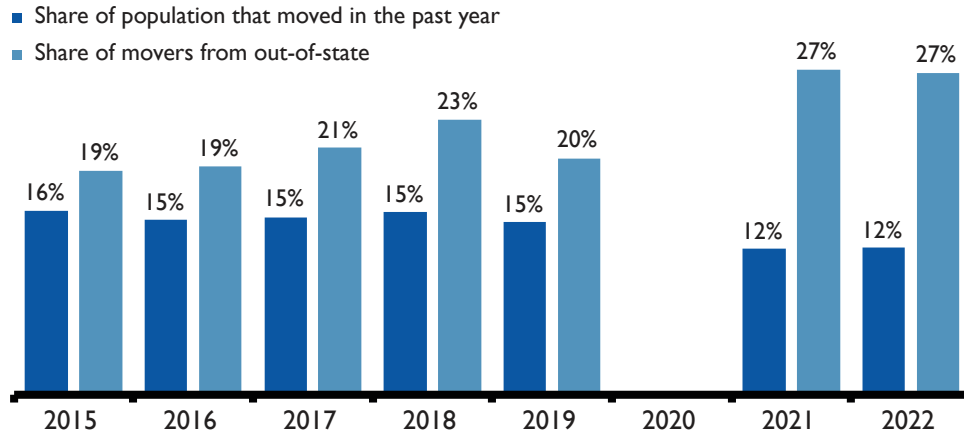
Consumer pessimism. Consumer confidence in the housing market and broader U.S. economy has plateaued at one of the lowest levels since 2011, according to Fannie Mae’s [National Housing Survey](#). The latest survey data shows that 7 in 10 Americans in December said they think the economy is on the wrong track, with 83% saying they believe it is a bad time to purchase a home. Therefore, much like in 2023, overcoming mounting consumer pessimism will prove to be a significant challenge for East Tennessee’s housing market in 2024 that will require addressing core concerns around housing affordability and emphasizing the long-term value of homeownership.

Migration. While pandemic-driven migration is waning, local housing markets across East Tennessee continue to feel the effects of above-average net migration, driven by the region’s reputation as a relatively low-cost area with no state income tax and a wealth of natural beauty.

Although official government data isn’t yet available, numerous private market data sources indicate positive net migration across the region continued in 2023. For the third consecutive year, Knoxville ranked among the top 25 U.S. metropolitan areas on United Van Lines list of top [inbound destinations](#) in 2023, with a 64% inbound mover rate. Knoxville also claimed a spot on similar lists of top growth cities produced by the moving and storage companies [U-Haul](#) (No. 17) and [PODS](#) (No. 7), further solidifying East Tennessee’s status as a top destination for U.S. homebuyers and renters alike.

Although the region continues to experience positive net migration – meaning the number of people moving to the region exceeds the number moving away – U.S. Census data indicate the overall moving rate has declined since the onset of the pandemic in 2020.

Mobility Rates Knoxville, Tennessee



Source: U.S. Census Bureau, ACS 1-Year Estimates

From 2015 to 2019, an average of 15% of residents in the Knoxville metro area reported having moved to a different residence within the past year. Yet that share fell to 12.3% in 2021 – a record low – before rising to 12.4% in 2022. Of those residents who did move, however, a growing share moved to the region from somewhere outside of Tennessee, with out-of-state movers representing roughly 20% of movers from 2015 to 2019 compared to more than 27% since 2021.

East Tennessee Migration Trends: Where Are Movers Coming From and Going To?

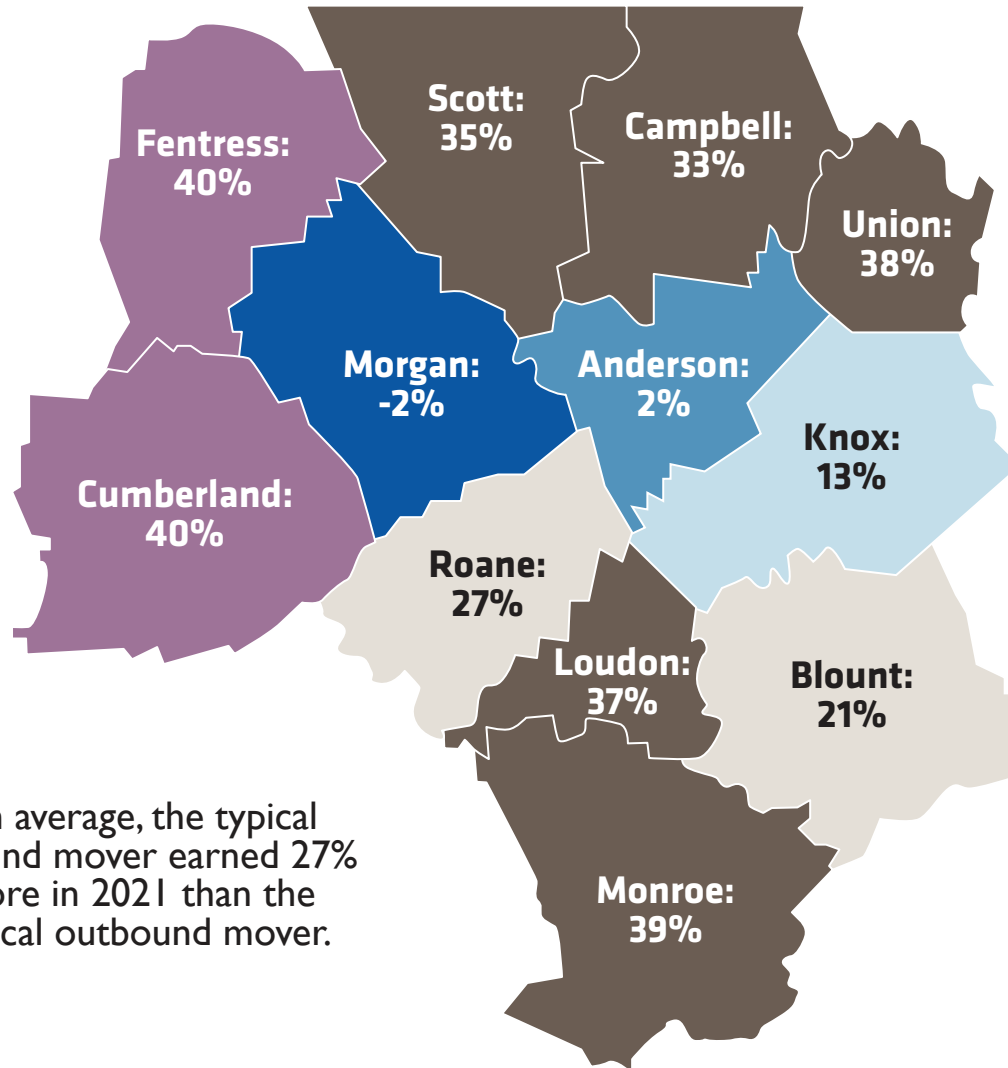
Top Origin Metros	Top Destination Metros
Chicago	Nashville
Nashville	Chattanooga
Washington, D.C.	Johnson City
Atlanta	Atlanta
Los Angeles	Kingsport-Bristol

Source: East Tennessee REALTORS®, U.S. Census Bureau, Realtor.com®, AEI Housing Center

As shown in the table above, a disproportionate share of the inbound movers relocated to East Tennessee from larger metro areas with a substantially higher cost-of-living. This is further evidenced by an East Tennessee REALTORS® analysis of tax data from the Internal Revenue Service (IRS) which shows that the typical inbound mover to the region earned 27% more in 2021 than the typical outbound mover. This dynamic was especially pronounced in more rural, outlying areas where both home prices and incomes were especially low going into the pandemic.

East Tennessee is attracting higher-earning migrants

Difference in average income - Inbound v. Outbound movers



On average, the typical inbound mover earned 27% more in 2021 than the typical outbound mover.

Positive values indicate that the average income of inbound movers exceeds that of outbound movers. Map: Hancen Sale/East Tennessee REALTORS®. Source: Internal Revenue Service • Created with Datawrapper

Although housing demand from newcomers has significantly increased in recent years, data indicate a sizable majority of homebuyers continue to be locals who are buying and selling within the East Tennessee region.

Peer Cities Comparison

Among comparable cities with similar market characteristics (geographic, demographic, economic, etc.), Knoxville is well-positioned to outperform in 2024. Strong labor market conditions and a low violent crime rate should bolster Knoxville's housing market in 2024, while below-average housing affordability and a lower level of high-earner renters moving to the area present risks to the downside.

Metro Areas	Home Price Growth (Q3 2022 - Q3 2023)	Share of renters who can afford to buy median-priced home	Change in share of workers teleworking (2021 - 2022)	Share of listings that first-time buyers can afford (October 2023)
Chattanooga, TN	8.2%	23.6%	5.4%	16.0%
Durham, NC	2.6%	18.8%	-19.0%	7.0%
Greenville, SC	7.1%	18.7%	-10.3%	15.0%
Knoxville, TN	10.6%	18.6%	-0.5%	11.0%
Nashville, TN	0.7%	13.8%	-1.4%	5.0%
Raleigh, NC	1.8%	16.4%	-10.5%	15.0%
Winston-Salem, NC	9.3%	24.7%	-7.2%	18.0%
United States	4.0%	21.2%	-11.6%	24.5%

Metro Areas	Job Growth (September 2023)	Wage Growth (September 2023)	Share of high-earner millennial renters moving from different state	Violet Crime Rate per 100K (2022)
Chattanooga, TN	2.1%	0.9%	0.2%	516.0
Durham, NC	3.8%	12.6%	1.4%	444.8
Greenville, SC	1.4%	5.8%	1.9%	417.2
Knoxville, TN	3.3%	5.4%	1.4%	369.1
Nashville, TN	3.2%	5.1%	4.2%	556.4
Raleigh, NC	3.7%	-0.4%	5.8%	251.8
Winston-Salem, NC	3.2%	3.0%	2.1%	546.0
United States	2.0%	3.5%	2.6%	369.8

Source: National Association of REALTORS®, U.S. Census Bureau, U.S. Bureau of Labor Statistics, FHFA, realtor.com® and FBI database.

Housing Market Outlook

East Tennessee’s housing market is poised to experience moderate gains in 2024 as lower borrowing costs, more housing inventory and improving economic conditions will spur increased buyer demand. Upward pressure on home prices isn’t expected to subside, but price growth is expected to gradually decelerate throughout the year.

Mortgage Rates

Mortgage interest rates rose to the highest level in more than two decades in 2023, with the 30-year fixed mortgage rate reaching a cyclical peak of 7.79% in October 2023. However, with inflation cooling and the Federal Reserve on track to cut interest rates in the next 12 months, the 30-year fixed mortgage rate is forecasted to average 6.2% in 2024 – down from an average of 6.8% in 2023. If the current progress on inflation continues, mortgage rates could fall slightly below 6% near the end of 2024.

Home Sales

After falling 9% in 2022, home sales across East Tennessee declined 15% from the previous year in 2023 – marking the most substantial housing market slowdown in the region since the 2007-08 financial crisis. Consequently, the current pace of home sales is approximately 23% below the record level set in 2021, and the overall sales volume is roughly equivalent with 2016 levels. After consecutive years of declining home sales and widespread concerns about an impending recession, the U.S. economy is on the verge of achieving the elusive “soft-landing” and mortgage rates are expected to gradually decline over the next 12 months. In this environment, home sales are expected to rebound with sales forecasted to increase 11.1% in 2024 – amounting to the strongest annual expansion in more than two decades.

Home Prices

Despite continued affordability constraints and a slowing economy, limited for-sale inventory and labor market resilience will provide support for continued growth in house prices across the East Tennessee region. After three years of double-digit annual gains, home price growth is expected to edge closer to the long-run average with house prices forecasted to increase 3.6% in 2024. While some downside risks exist, a significant decline in home prices remains unlikely.

2024 Housing Market Forecast

Summary	2022	2023	2024 Forecast
30-Year Fixed Mortgage Rate	5.3%	6.8%	6.2%
Median Sale Price	+16.7%	+5.3%	+3.6%
Home Sales	-9.0%	-15.0%	+11.1%

Source: Freddie Mac; FHFA; East Tennessee REALTORS®

Note: The 30-Year Fixed Mortgage Rate denotes the annual average.

Rental Market Outlook

Knoxville’s rental market experienced remarkable growth since 2020, with the region consistently ranked among the top U.S. metro areas for both rent growth and occupancy. As of the fourth quarter of 2023, effective rents in the Knoxville metro area have risen 56% – or \$524 – since the beginning of 2020, while average earnings grew by only 3.4% during this time.

At the same time, occupancy surged to a record high in the aftermath of the pandemic, nearly surpassing 99% in the first quarter of 2022. This, in turn, provoked record investment in multifamily housing. Since 2020, the metro area has added a total of 3,127 new apartment units, increasing the number of available units by 6%. As of the fourth quarter of 2023, there were 2,529 units under construction across the Knoxville metro area, with 71% of those units scheduled for completion within the next 12 months. When completed, these units will expand the existing apartment stock by another 4.7%.

Even with the significant growth in rents and occupancy, the past three years have nonetheless marked a period of significant turbulence within the multifamily sector, featuring both the strongest and weakest absorption figures in the past decade. This volatility is compounded by several headwinds facing the multifamily sector moving into 2024, including high levels of new supply and a significant number of multifamily maturities coming due over the next 24 months.

Despite these risks, Knoxville’s rental market is expected to experience modest, positive growth in 2024 as a strong labor market, above-average renewal rates and underlying demographic trends will bolster demand in the year ahead. As a result, rent growth is forecasted to decelerate but remain positive over the next 12 months, with rents in the Knoxville metro area projected to grow 3.1% on an annual basis in 2024, while the occupancy rate is forecasted to decline to an average of 96.4% across 2024, down from 96.5% in 2023.

2024 Rental Market Forecast

Summary	2022	2023	2024 Forecast
Occupancy	98.2%	96.5%	96.4%
Effective Rent	\$1,313	\$1,442	\$1,487
Rent Growth	+17.7%	+7.7%	+3.1%

Source: RealPage; East Tennessee REALTORS®



2024 Housing Market Forecast

———— Feb. 1, 2024 ————

About the Report

Published annually by East Tennessee REALTORS®, the Forecast Report offers a high-level analysis of the latest housing and economic data and forecasts trends for the region's housing market to help REALTORS®, industry stakeholders and policymakers better understand what to expect in the year ahead.

The content and insights presented in this report are for informational purposes only and are not intended to constitute investment advice.

About East Tennessee REALTORS®

Founded in 1912 and evolving from the Knoxville Area Association of REALTORS®, East Tennessee REALTORS® has been serving the real estate interest of its members and the public for more than 100 years. The association comprises 12 counties in the region: Anderson, Blount, Campbell, Cumberland, Fentress, Knox, Loudon, Monroe, Morgan, Roane, Scott and Union. The purpose of East Tennessee REALTORS® is to unite and serve its members and to enhance the ability and opportunity of its members to conduct their business ethically, professionally and successfully and to promote the preservation of the right to own, transfer and use real property.

For more information, visit etnrealtors.com.

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