

# Knoxville, Tennessee

Multifamily Housing Update

May 2010

## EXECUTIVE SUMMARY

Recent payroll employment data show that job trends continued to improve in the first quarter. Indeed, the pace of annual payroll job attrition decelerated from -14,900 (-4.4%) in 4Q09 to only -7,600 (-2.3%) in 1Q10. Moreover, the preliminary March figure revealed a modest -4,300 (-1.3%) job year-over-year drop. A similar trend was noted in the BLS's household survey as a net of -5,703 jobs were lost y-o-y in 1Q10, comparing favorably to the -14,083 (-4.1%) job decline recorded in 4Q09. As a result, the metro unemployment rate rose only slightly, from 8.8% in March 2009 to 8.9% in the same month this year.

The breadth of the metro economic recovery also was encouraging. Although, nine of the major employment sectors posted a y-o-y job decline in 1Q10, the extent of the losses were more moderate than in the previous quarter for all but two of the sectors. Moreover, retailers actually added 200 positions to payrolls y-o-y in the first quarter, following a -1,600-job decrease in 4Q09.

Seasonally-adjusted payroll data shed a less favorable light. Employers created 1,100 net new jobs in 4Q09 but lost -900 jobs in the first quarter. On the other hand, results from the Manpower Outlook Employment Survey suggest that hiring will re-accelerate in the second quarter. In the survey conducted in March, 13% of firms indicated that they planned to add workers in 2Q10, up from 10% in December (referring to 1Q10 hiring plans). Moreover, only 7% of firms surveyed in March revealed plans to reduce staffs, much lower than the 12% from the previous survey.

**RED CAPITAL Research (RCR)** believe that y-o-y job growth will resume next year. Our econometric model predicts that employment head-

counts will fall -1,600 (-0.5%) in 2010 and advance 2,000 (0.6%) in 2011. By comparison, Economy.com expect payroll headcounts to fall -350 (-0.1%) in 2010 but rise 6,740 (2.1%) next year.

Lower home prices contributed to increased buying activity in the first quarter. The National Association of Realtors estimate that the median price of a single-family MSA home decreased -2.5% y-o-y from \$138,600 in 1Q09 to \$135,100 in 1Q10. By comparison, the Knoxville Area Association of Realtors count 1,956 single-family home sales from January to March, up 13.1% from the same period last year.

Apartment occupancy improved modestly in the first quarter, despite weak tenant demand. Property managers net leased only 16 units during the quarter, resulting in a 10 basis point increase in occupancy from 92.3% to 92.4%. Moreover, no units were completed in the metro area for the fourth consecutive quarter. Consequently, the first quarter occupancy rate was 20 basis points above the figure from the comparable period of 2009.

In addition to adding tenants, property managers increased effective rent in the first quarter. The average figure rose 0.4% sequentially, offsetting the -0.4% decline observed in 4Q09. Asking rent also advanced, albeit at a slightly slower rate. Class-A asking rent increased 0.3% sequentially to \$703, outpacing the 0.2% increase among Class B/C rentals.

Apartment sales activity was quiet over the past year. According to Real Capital Analytics only three transactions, involving properties priced at or above \$5 million, were consummated in the twelve-month period ended in March. Property sales volume totaled \$27.3 million.

## SNAP SHOT

	Y-o-y change	Projected YE 2010
Vacancy (7.6% - 1Q10)	20bps ↓	unchg ↔
Effective Rents (\$562 - 1Q10)	0.2% ↑	0.7% ↑
Cap Rate (N/A - 1Q10)	N/A ↔	↑
Employment (315.8m - 1Q10)	7.6m ↓	1.6m ↓

## KEY POINTS

- The apartment vacancy rate decreased 10 basis points sequentially and 20 basis points year-over-year to 7.6% in 1Q10. Positive net absorption was responsible as property managers net leased 16 units from January to March.
- Effective rent increased 0.4% sequentially from \$560 in 4Q09 to \$562 in 1Q10. As a result, the figure advanced 0.2% annually, comparing favorably to the -1.2% drop in the previous quarter.
- According to the National Association of Realtors, the median price of a single-family MSA home decreased -2.5% year-over-year from \$138,600 in 1Q09 to \$135,100 in 1Q10. On the other hand, the Knoxville Area Association of Realtors calculate that single-family home sales advanced 13.1% year-over-year to 1,956 in 1Q10.
- Real Capital Analytics count three transactions involving properties priced at or above \$5 million in the twelve-month period ended in March, totaling \$27.3 million in sales proceeds. The average price per unit was \$53,817, down -9.7% from the previous year.



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