

HOUSING

T E N N E S S E E

1st Quarter 2018

Tennessee dashboard 1st quarter 2018

(percent change over the year)

Weekly Unemployment Claims	▼	-8.65	Total Home Permits*	▼	-9.34
Total Nonfarm Employment*	▲	+1.10	Mortgage Tax Collections	▲	+18.72
Unemployment Rate (percentage points)*	▼	-1.90	Real Estate Transfer Tax Collections	▲	+25.68
Homeowner Vacancy Rate (percentage points)	▲	+0.20	Home Prices*	▲	+7.66
Rental Vacancy Rate (percentage points)	▼	-0.70	Mortgages Past Due (percentage points)	▼	-0.17
Single-Family Home Permits*	▼	-2.00	Foreclosure Rate (percentage points)	▼	-0.03

*seasonally adjusted ▲ positive outcome for economy ▼ negative outcome for economy

Economic Overview

The first quarter of 2018 showed positive growth in nearly all categories.

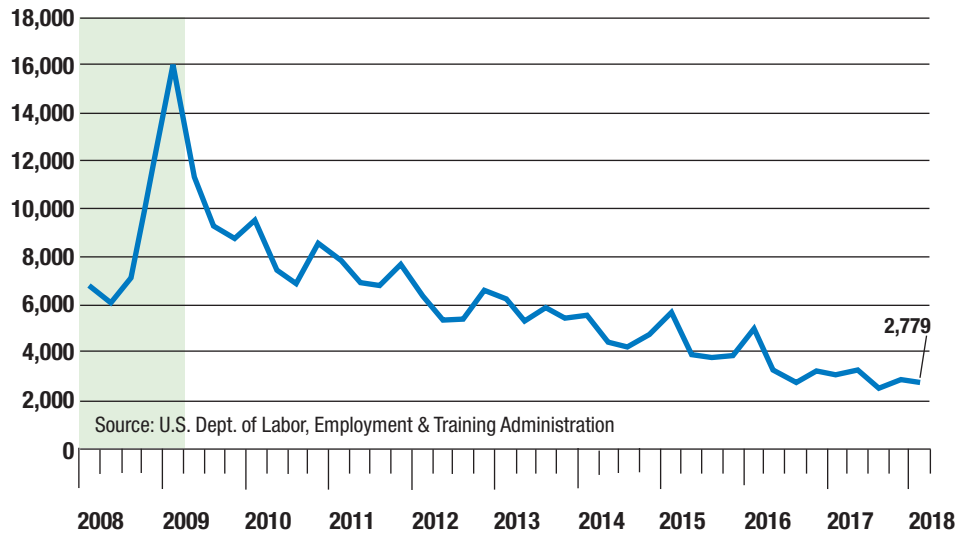
Tennessee's economic indicators continue to illustrate a favorable economic environment overall. Nearly all categories covered by this report suggest positive growth. The unemployment rate showed a slight uptick to 3.37 percent from last quarter's 3.3 percent yet remains among the lowest rates experienced in the state over the past five years. Compared to last year, the unemployment rate has dropped by 1.9 percent, an indication of strong, upward-trending economic dynamics. Weekly unemployment claims are down 8.65 percent, and

overall the labor force across Tennessee sustained growth of nearly 1 percent. As seen in Table 1, total nonfarm employment increased 1.1 percent with most of the yearly increase in the services-industry sector.

The first quarter of 2018 showed primarily positive indicators. However, negative growth year-over-year was observed in a decrease in housing permits issued. Single-family home permits decreased by 2 percent from the previous year, and total home permits decreased by 9.34 percent.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



Over the year, weekly unemployment claims are down 8.65 percent, and Tennessee’s labor force sustained growth of nearly 1 percent.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2017.1	2017.2	2017.3	2017.4	2018.1
Employment by industry (nonfarm)					
Total nonfarm	3,008	3,013	3,024	3,026	3,041
Goods-producing sectors	473	473	471	473	475
Manufacturing	347	348	346	348	350
Services-providing sectors	2,535	2,540	2,552	2,553	2,567
Labor force	3,194	3,180	3,159	3,220	3,222
Total employment	3,026	3,049	3,058	3,113	3,113
Unemployed	168	131	102	106	109
Unemployment rate	5.27%	4.10%	3.23%	3.30%	3.37%

Source: Bureau of Labor Statistics

Compared to last year, the unemployment rate has dropped 1.9 percent.

Vacancy Rates

Tennessee's rental vacancy rate saw a 0.7 percentage point decrease over the year.

Vacancy-rate change from last quarter to the current quarter in Tennessee showed an opposite relation to the national average. In this quarter, Tennessee experienced a 0.1 percentage point decrease in rental vacancies and a 0.5 percentage point increase in homeowner vacancies, whereas the United States experienced a 0.1 percentage point increase in rental vacancies and a 0.1 decrease in homeowner vacancies.

Despite the half a percent increase in homeowner vacancy rate, Tennessee's 1.8 percent remains within three-tenths of a percent of the nation's 1.5 percent homeowner vacancy rate. Tennessee's rental vacancy rate of 8.10 percent is 1.10 percentage points higher than that of the United States. However, Tennessee's rental vacancy rate has seen a 0.7 percentage point decrease since the first quarter of last year.

Figure 2. Homeowner vacancy rate

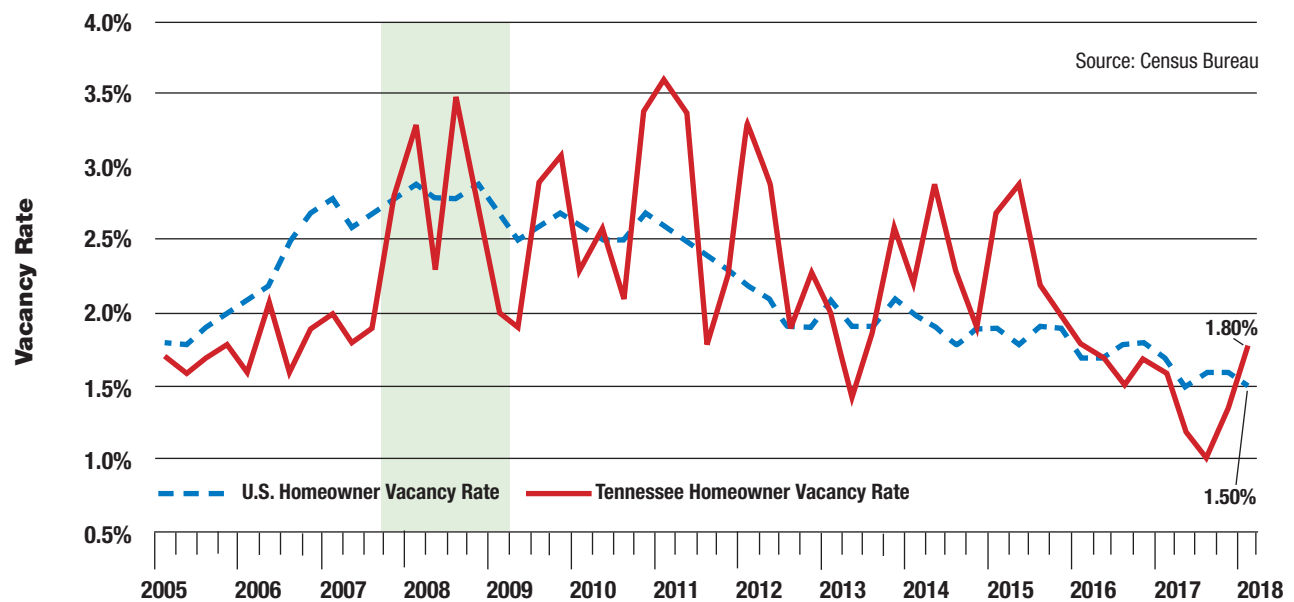
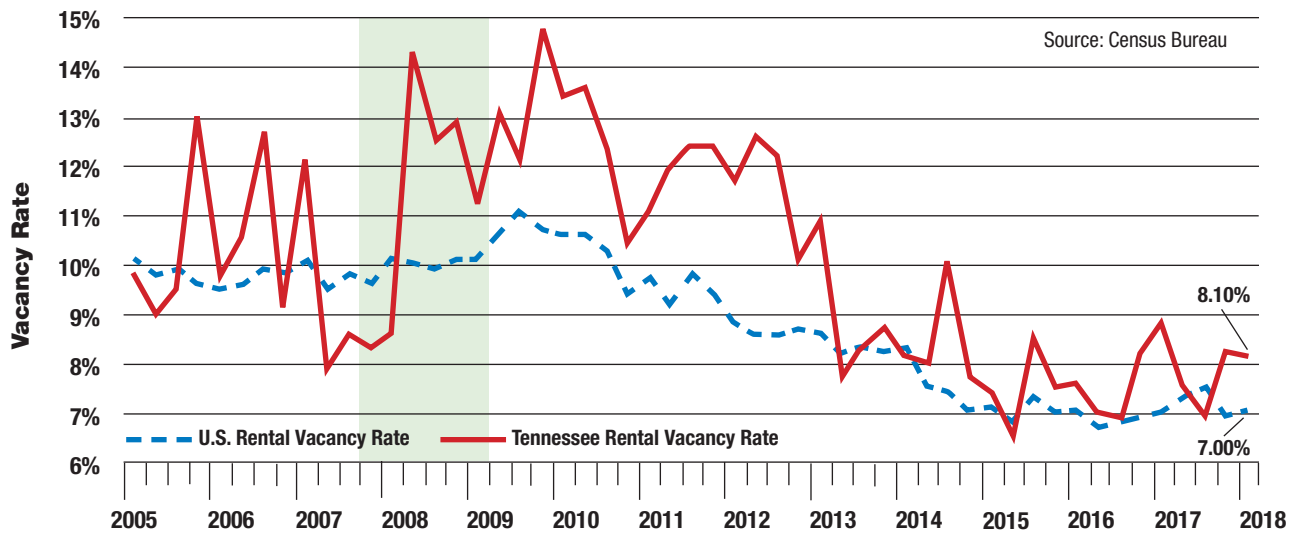


Figure 3. Rental vacancy rate



Housing Construction

First-quarter single-family permits reached the second-highest level since 2011.

In Tennessee, the number of single-family construction permits increased by 1 percent from the previous quarter. Although there was a 2 percent decrease in Tennessee's single-family permits from the previous year, the 28.6 thousand permits issued (average seasonally adjusted) for the first quarter of 2018 represent the second-highest number of single-family permits recorded since 2011 (Table 2.)

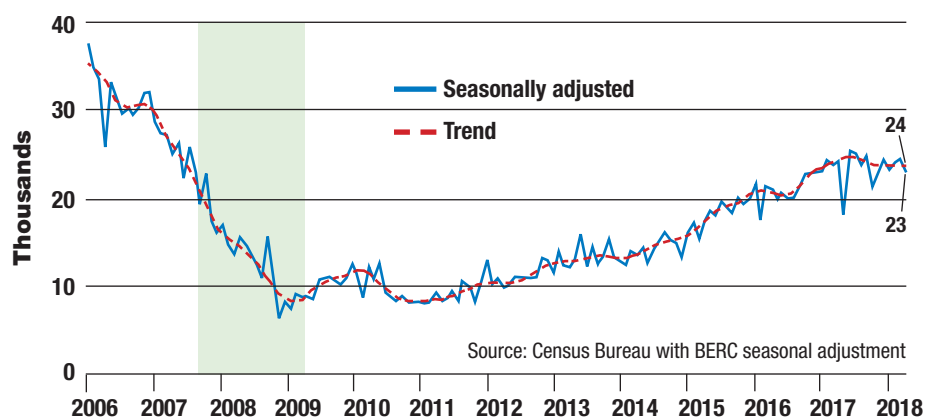
Considerable changes also occurred in multi-family permits issued, which saw a 42 percent decrease from the previous quarter and a 40 percent decrease from the previous year. This quarter marked the lowest

number of multi-family construction permits issued in Tennessee since the third quarter of 2014. Additionally, total permits issued in Tennessee dropped 8 percent from the previous quarter and 9 percent from the previous year.

The South and the United States continued their trends from last quarter, experiencing positive increases in all three categories (single, multi-family, and total permits). The largest increase was a 10 percent rise in multi-family construction permits issued by the United States and a 9 percent increase in the South. Total permits for the nation are also up 9 percent.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



Multi-family permits fell 42 percent for the quarter and 40 percent over the year.

Table 2. Permits issued for privately owned new housing

(thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2015.1	20.3	355.4	650.4	8.1	176.1	436.6	28.0	531.3	1,073.3
2015.2	22.3	370.9	681.9	10.7	191.3	574.8	33.9	561.6	1,252.1
2015.3	23.0	379.6	700.0	8.4	188.2	431.7	31.5	569.6	1,135.6
2015.4	24.0	391.6	711.2	16.7	196.4	481.6	40.2	586.4	1,201.0
2016.1	23.8	386.0	727.9	18.3	182.5	414.4	40.2	565.6	1,144.6
2016.2	24.1	396.8	742.0	8.7	176.2	410.4	33.9	575.9	1,141.8
2016.3	25.6	403.6	743.9	8.8	187.2	450.5	34.3	593.1	1,195.1
2016.4	27.7	423.5	776.9	9.8	154.8	429.9	36.9	573.8	1,209.8
2017.1	29.1	446.1	807.3	8.3	164.5	434.7	36.8	614.1	1,245.8
2017.2	27.1	439.6	813.2	11.6	167.0	428.1	40.5	609.1	1,234.9
2017.3	28.4	440.3	824.1	14.8	174.7	435.5	42.8	616.1	1,254.9
2017.4	28.4	457.8	843.4	8.6	160.4	443.7	36.3	612.3	1,294.8
2018.1	28.6	467.0	856.1	5.0	179.3	479.4	33.4	641.2	1,362.7
Change from previous quarter	1%	2%	2%	-42%	12%	8%	-8%	5%	5%
Change from previous year	-2%	5%	6%	-40%	9%	10%	-9%	4%	9%

Source: Census Bureau

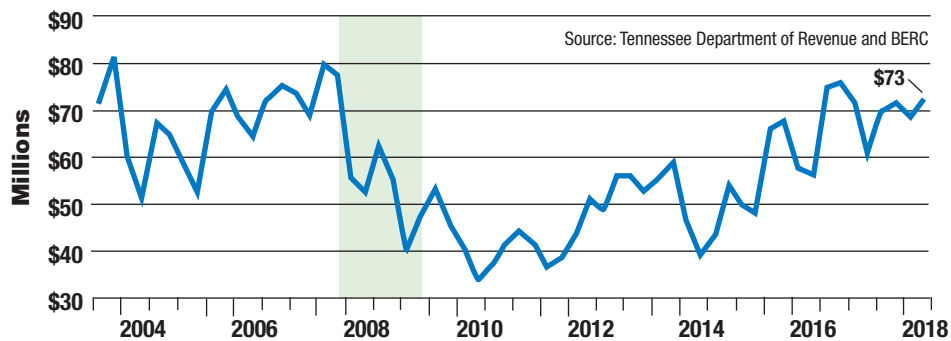
Real Estate Transactions & Mortgages

Overall, tax collections for both real estate transfers and mortgages increased this quarter. Mortgage tax collections are up by nearly 6 percent from last quarter to an annual rate of about \$73 million. Compared to the first quarter of 2017, the rate is up nearly 19 percent, or \$12 million.

Real estate transfer taxes are also up this quarter to about \$169 million, a 1.2 percent increase from the fourth quarter of last year. Compared to last year, the annualized real estate transfer tax collected is up by almost 26 percent, or \$35 million.

Figure 5. Mortgage tax collections

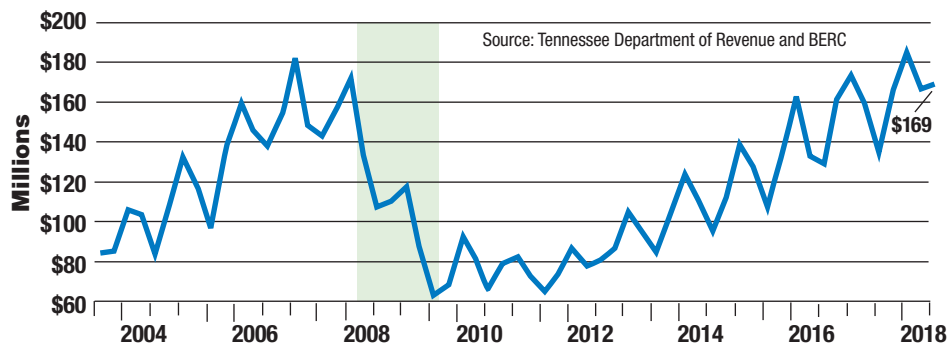
(millions, seasonally adjusted annual rate)



Mortgage tax collections are up nearly 6 percent for the quarter.

Figure 6. Real estate transfer tax collections

(millions, seasonally adjusted annual rate)



The annualized real estate transfer tax collected is up almost 26 percent.

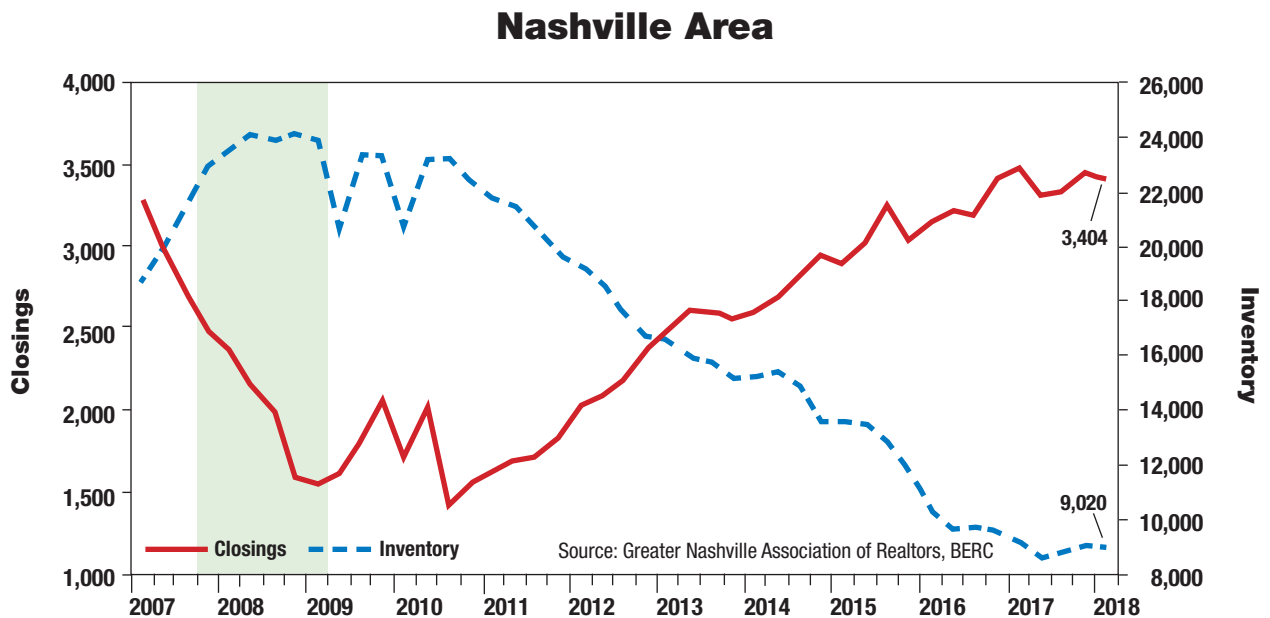
Home Sales

Home inventories have steadily decreased in Nashville, Knoxville, and Memphis.

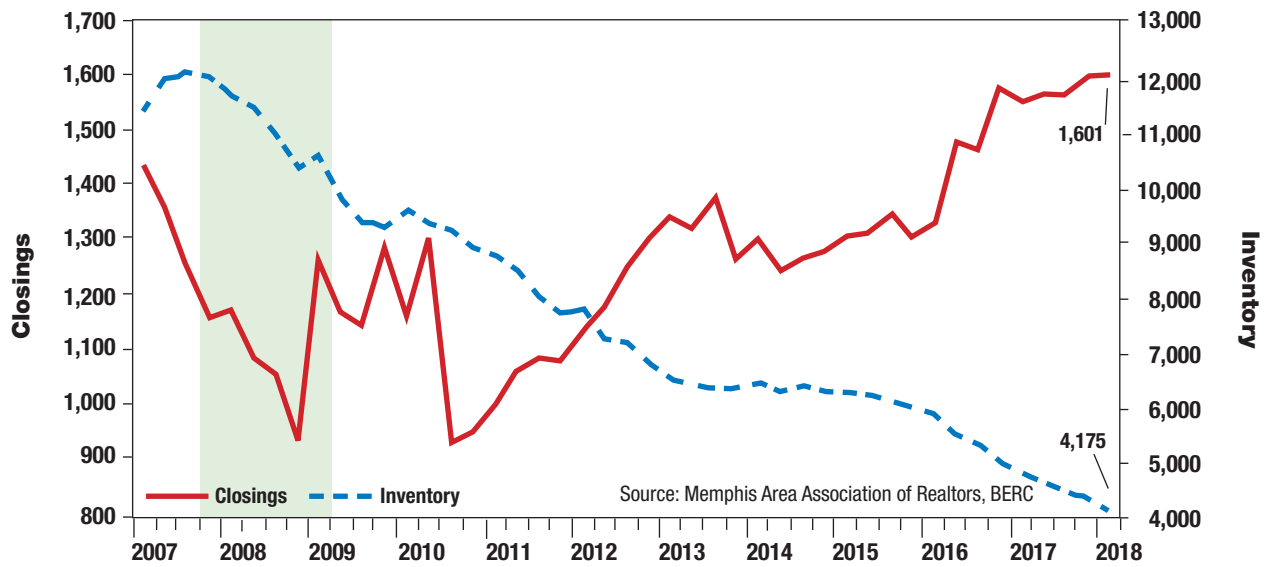
Home closings and inventories this quarter indicate an extended active housing market in the state. Home inventories have steadily decreased in all three areas covered in this report. This quarter, home inventories dropped 0.6 percent in Nashville, 4.8 percent in Knoxville, and 4.8 percent in Memphis. Over the year, the most significant inventory decrease was seen in Memphis (13 percent). Knoxville inventories are down nearly 5 percent, while Nashville inventories decreased almost 2 percent from last year.

Closings are up in two of the three areas. From last quarter, Memphis and Knoxville closings increased by 0.23 and 0.21 percent, respectively. However, Nashville had a decrease of 0.92 percent from last quarter's closings. Examining yearly data, Knoxville made the most significant jump with an increase of nearly 16 percent in closings. Memphis had an increase of 3 percent, while Nashville closings decreased by 2.06 percent from last year.

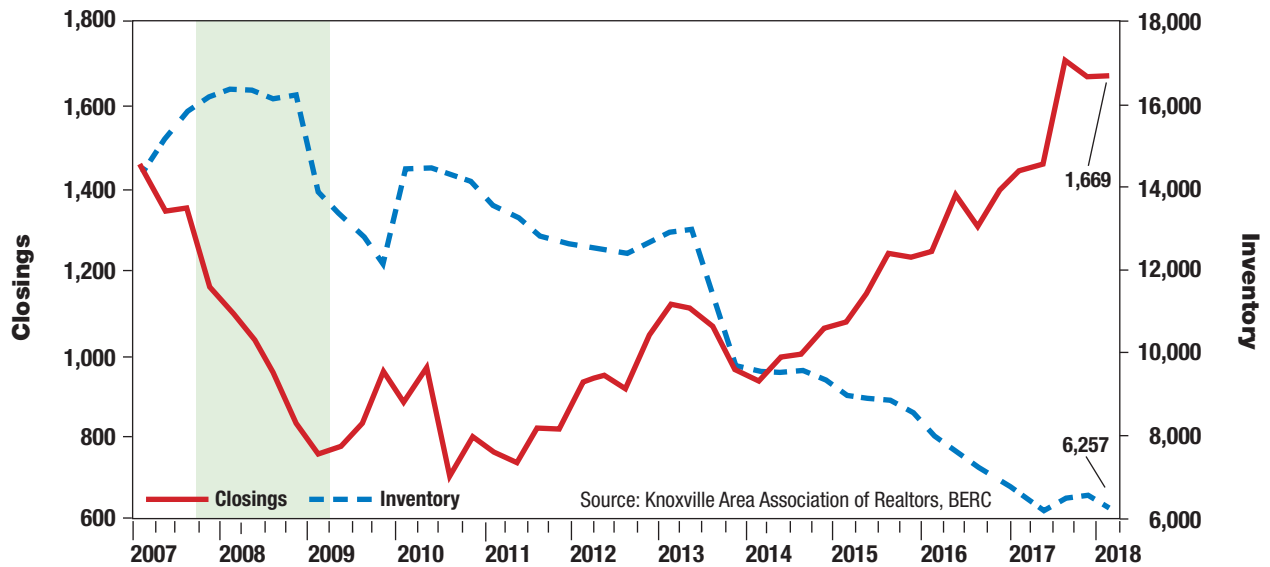
Figure 7. Single-family sales and inventory



Memphis Area



Knoxville Area



Home Prices

Tennessee home prices rose 7.7 percent over the year.

Home prices this quarter continued to grow, rising 7.7 percent over the year. Tennessee’s considerable growth in home prices surpasses the national average by 1.2 percentage points.

A sizable portion of the growth can be attributed to those MSAs tracked by this report that recorded significant increases above the state average. The highest increase was in the Morristown MSA, recording an increase from 5.8 percent last quarter to an

impressive 11.5 percent. Other significant increases were seen in the MSAs for Johnson City (10.4%), Nashville (8.6%), Kingsport-Bristol (7.8%), and Cleveland (7.0%), which all recorded higher increases than the national average.

By contrast, the Chattanooga MSA went from an increase of 10 percent last quarter to 6.1 this quarter, and Nashville MSA growth dropped from 10.3 percent last quarter to 8.6 percent for the current quarter.

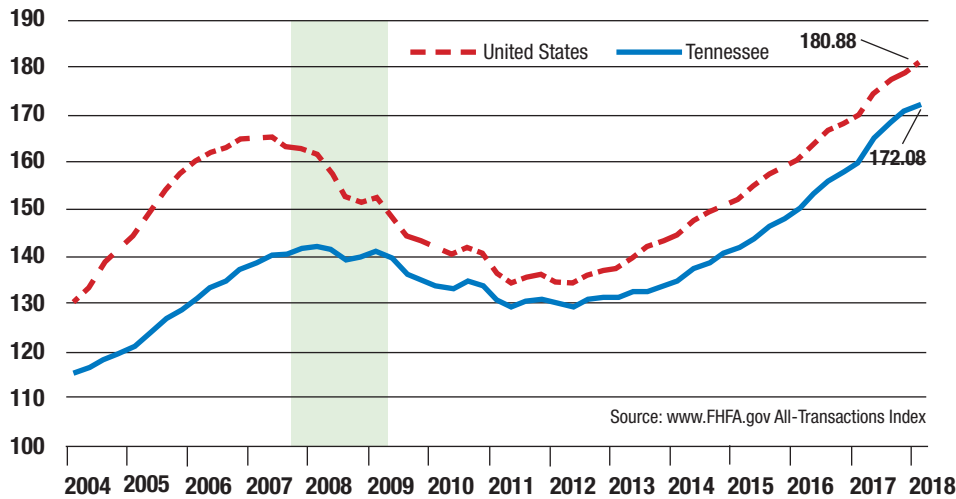
Table 3. Change in housing prices year to year

Area	2016.2–2017.2	2016.3–2017.3	2016.4–2017.4	2017.1–2018.1
Chattanooga MSA	7.1%	7.8%	10.0%	6.1%
Clarksville MSA	2.9%	3.2%	1.6%	4.5%
Cleveland MSA	4.8%	5.2%	6.1%	7.0%
Jackson MSA	2.3%	3.8%	4.7%	1.0%
Johnson City MSA	4.7%	2.3%	6.4%	10.4%
Kingsport-Bristol MSA	4.0%	1.9%	2.6%	7.8%
Knoxville MSA	5.4%	5.5%	5.3%	5.6%
Memphis MSA	6.8%	7.4%	4.8%	5.8%
Morristown MSA	5.7%	6.1%	5.8%	11.5%
Nashville MSA	10.3%	10.6%	10.3%	8.6%
Tennessee	7.6%	8.1%	7.9%	7.7%
United States	6.6%	6.4%	6.3%	6.5%

Source: FHFA All-Transactions Index

The highest increase was in the Morristown MSA, recording an increase from 5.8 percent last quarter to an impressive 11.5 percent.

Figure 8. Tennessee FHFA house price index (2000 = 100.0)



Tennessee's considerable growth in home prices surpasses the national average by 1.2 percentage points.

Mortgage Delinquencies, Foreclosures

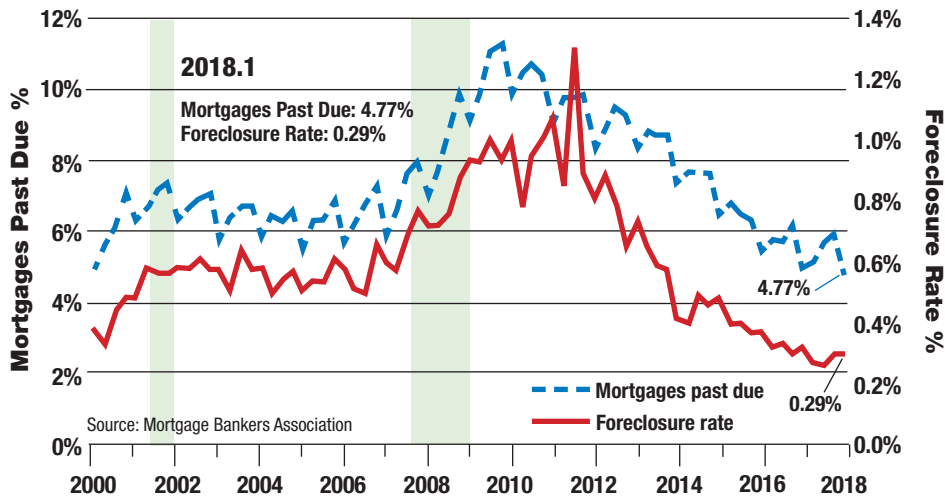
Tennessee's rate of mortgages past due was the lowest in at least 18 years.

In Tennessee, mortgages past due followed a trend from the first quarter of 2017 and took another drop this quarter, down 1.19 percentage points to 4.77 percent. In the past 18 years, this is the lowest rate recorded in Tennessee. Regarding foreclosures, the rate remained the same at 0.29 percent, which was the third lowest since 2000.

Comparing yearly changes, both Tennessee and the nation saw reductions in foreclosure rates. Tennessee's foreclosure rate decreased by three basis points, while the U.S. rate decreased two basis points. Both also had a reduction in mortgages past due from last year: the U.S. rate of mortgages past due dropped three basis points, while Tennessee's rate fell 17 basis points.

Figure 9. Tennessee mortgages past due and foreclosure rate

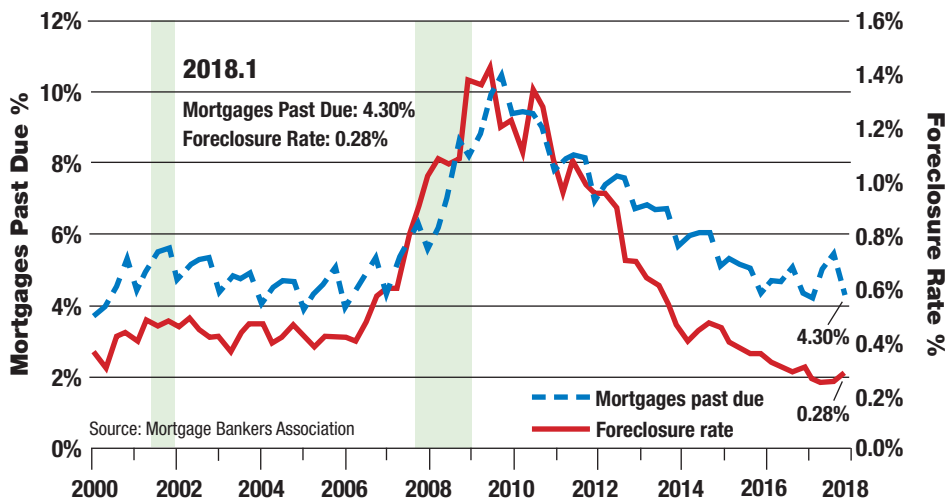
(percent of mortgages in place)



The state foreclosure rate was the third lowest since 2000.

Figure 10. United States mortgages past due and foreclosure rate

(percent of mortgages in place)



Both Tennessee and the nation saw reductions in foreclosure rates.

Conclusion

Tennessee's strong economic climate continues to support an active housing market.

Tennessee's housing market started 2018 on a positive note. In the first quarter, nearly all economic indicators covered in this report show growth in Tennessee's encouraging economic climate.

Continuing a three-quarter trend, unemployment rates remain below 4 percent and among the best in the nation. The number of unemployed in the state has

seen a 35 percent decrease over the course of a year. Tennessee also recorded the lowest rate of mortgages past due in at least 18 years. Persistent growth in home prices continued this quarter and remains above the national average. Growth in home prices was led by Morristown (11.5%), Johnson City (10.4%), and Nashville (8.6%) MSAs. ■



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Glossary

Home Closings/Inventory.

Number of houses sold/number of houses with active listings. A high number of closings and a low number of inventories would demonstrate a positive step for the economy. (Source: Greater Nashville Association of Realtors, Memphis Area Association of Realtors, and Knoxville Area Association of Realtors)

Homeowner/Rental Vacancy Rate.

Number of vacant units divided by total number of units. A high vacancy rate indicates poor market conditions, a low one strong market conditions. (Source: Census Bureau)

Labor Force.

All persons employed and unemployed but actively looking for a job. Net changes in number of people employed and unemployed are important gauges of the health of the U.S. job market. (Source: Bureau of Labor Statistics)

Mortgage/Real Estate Transfer Tax Collections.

Amount of taxes collected for realty transfers and mortgages, which together account for a large portion of privilege taxes. (Source: Tennessee Department of Revenue)

Mortgages Past Due and Foreclosures Started.

Percentage of mortgages past due and percentage of new foreclosures started, indicating individuals in financial distress. (Source: Mortgage Bankers Association)

Single/Multi-Family Home Permits.

Level of new single- and multi-family housing construction. Housing permits can be early indicators of housing market activity. New residential housing construction generally leads to other types of economic production. (Source: Census Bureau)

Total Nonfarm Employment.

Total number of paid U.S. workers of any business, excluding government, farm, nonprofit, and private household employees; one of the key economic statistics used to analyze whether the economy is expanding or contracting. (Source: Bureau of Labor Statistics)

Unemployment Insurance Claims.

Weekly average layoff figures. The smaller the number, the better the economy is performing. (Source: U.S. Department of Labor)

Unemployment Rate.

Percentage of unemployed individuals divided by the labor force, a determinant of future conditions, used to determine overall economic health. (Source: Bureau of Labor Statistics)