

HOUSING

T E N N E S S E E

2nd Quarter 2016

Tennessee dashboard 2nd quarter 2016

(percent change over the year)

| | | | |
|--|----------|--|---------|
| Weekly Unemployment Claims | ▼ -18% | Total Home Permits* | ▲ +2% |
| Total Nonfarm Employment* | ▲ +2.45% | Mortgage Tax Collections | ▲ +13% |
| Unemployment Rate (percentage points)* | ▼ -1.6 | Real Estate Transfer Tax Collections | ▲ +21% |
| Homeowner Vacancy Rate (percentage points) | ▼ -1.2 | Home Prices* | ▲ +6.3% |
| Rental Vacancy Rate (percentage points) | ▲ +0.5 | Mortgages Past Due (percentage points) | ▼ -0.99 |
| Single-Family Home Permits* | ▲ +3% | Foreclosure Rate (percentage points) | ▼ -0.08 |

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

Economic Overview

Tennessee saw its lowest quarterly unemployment rate in 15 years.

Tennessee's economy continued to make strides in the right direction in the second quarter of 2016. One notable highlight of this quarter is the lowest quarterly unemployment rate since the first quarter of 2001—4.17 percent, over three-quarters of a percentage lower than the previous quarter.

Looking at the trend over the year, the economy is performing quite well. Overall, total nonfarm employment is up 2.5 percent, or 71,000 jobs, with the greatest increases in the goods-producing and manufacturing areas. The unemployment situation

is also drastically improved. In the second quarter of 2015, Tennessee had 177,000 unemployed people and an unemployment rate of 5.8 percent. Now the number unemployed is down 46,000, or 26 percent, while the unemployment rate is down 1.63 percentage points.

This quarter, initial claims for unemployment insurance plunged to a weekly average of just 3,227—a stark contrast to the previous quarter, when the rate jumped to its highest level in more than 12 months. Over the year, the rate is down more than 18 percent to a new post-recession low.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



Over the year, initial claims are down more than 18 percent to a new post-recession low.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

| | 2015.2 | 2015.3 | 2015.4 | 2016.1 | 2016.2 |
|---|--------|--------|--------|--------|--------|
| Employment by industry (nonfarm) | | | | | |
| Total nonfarm | 2,878 | 2,903 | 2,929 | 2,952 | 2,948 |
| Goods-producing sectors | 448 | 452 | 457 | 466 | 463 |
| Manufacturing | 332 | 333 | 336 | 341 | 343 |
| Services-providing sectors | 2,430 | 2,451 | 2,472 | 2,485 | 2,485 |
| Labor force | 3,055 | 3,052 | 3,063 | 3,117 | 3,142 |
| Total employment | 2,878 | 2,881 | 2,892 | 2,964 | 3,011 |
| Unemployed | 177 | 171 | 172 | 154 | 131 |
| Unemployment rate | 5.80% | 5.60% | 5.60% | 4.93% | 4.17% |

Source: Bureau of Labor Statistics

Nonfarm employment is up. Greatest increases are in the goods-producing and manufacturing areas.

Vacancy Rates

Homeowner vacancy rates experienced a slight decline this quarter with Tennessee's rate falling 0.10 percentage points to 1.7 percent vacancy. Comparatively, the rate for the United States remained the same, also 1.7 percent.

Over the year, the percentage of homeowner vacancies fell significantly for the state: 1.2 percentage points. However, the United States as a whole remained relatively unchanged. After several years of fluctuations, the rates for Tennessee and the nation finally converged in this quarter.

The rental vacancy rate continued its downward trend that began in the fourth quarter of 2015. Since the

Tennessee quarterly homeowner and rental vacancy rates declined.

first quarter of 2015, the rate has fallen 0.6 percentage points for the state, reaching 7.0 percent, and 0.3 percentage points for the nation, reaching 6.7 percent, the lowest rate in over 10 years.

Compared to a year ago, the rental vacancy rate exhibits a different trend. In the second quarter of 2015, Tennessee's rental vacancy rate was at a post-recession low of 6.5 percent. Although the current rate is 0.5 percentage points higher, it is still at a significantly low rate.

Figure 2. Homeowner vacancy rate

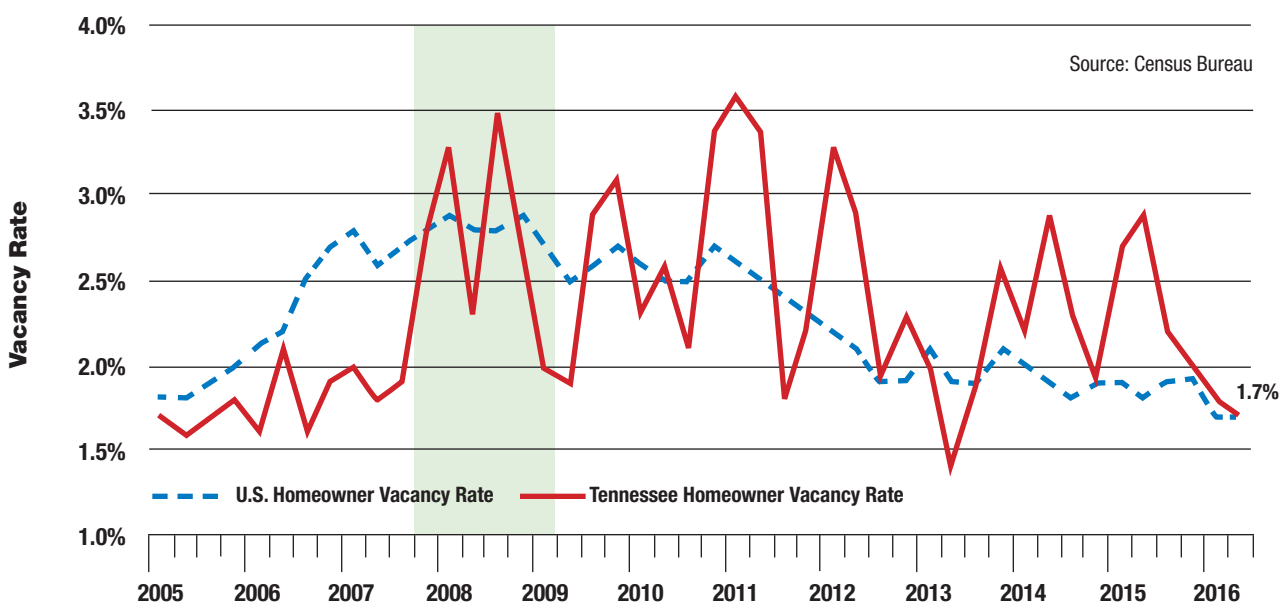
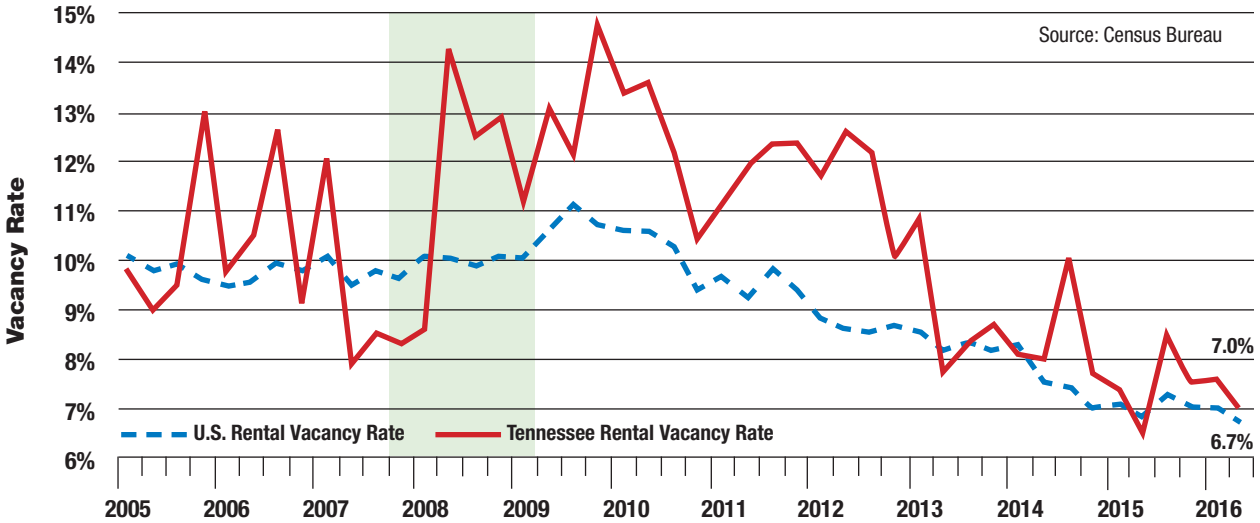


Figure 3. Rental vacancy rate



Housing Construction

Over the year, Tennessee housing permits outperformed the South and the U.S.

Overall, housing permits in Tennessee are up this quarter after a decrease in total permits in the first quarter. Single-family permits are up 3 percent for the state, while the South and United States lag behind with 1 percent and 2 percent growth, respectively.

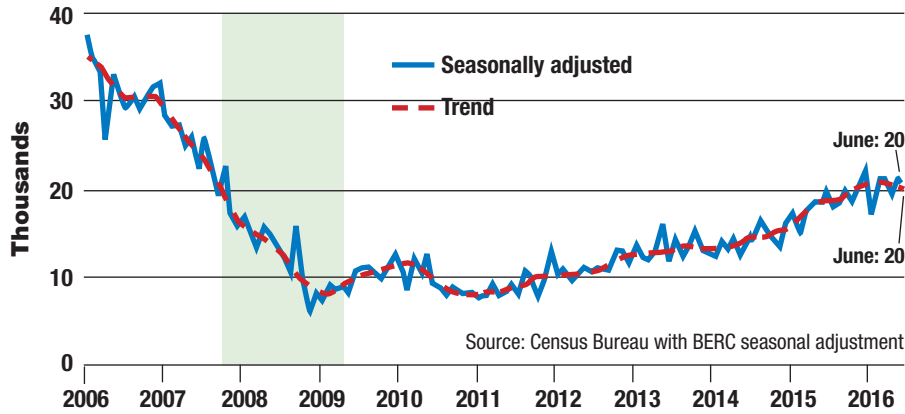
In terms of multi-family home permits in the second quarter of 2016, all three geographies tracked by this report recorded falling numbers. Tennessee’s seasonally adjusted annualized rate fell by 10 percent, followed by 4 percent for the South and 5 percent for the nation.

However, the number of total permits increased 2 percent this quarter compared to decreasing rates for the South and the United States.

Over the year, Tennessee housing permits are up significantly: annualized single-family home permits are up 7 percent, multi-family permits 52 percent, and total permits 11 percent. This is substantially different from the South and the United States, which showed no growth or falling rates in the areas of multi-family and total permits.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



Housing construction permits are performing significantly higher 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. |
| 2013.2 | 16.3 | 336.1 | 626.3 | 6.9 | 160.9 | 343.7 | 25.1 | 496.6 | 960.7 |
| 2013.3 | 15.8 | 326.8 | 620.0 | 7.9 | 141.1 | 347.6 | 24.4 | 470.5 | 968.4 |
| 2013.4 | 17.0 | 325.6 | 616.2 | 6.5 | 161.0 | 379.3 | 22.3 | 487.2 | 998.2 |
| 2014.1 | 16.4 | 325.0 | 605.5 | 9.6 | 170.1 | 388.9 | 24.6 | 493.1 | 976.8 |
| 2014.2 | 16.2 | 330.1 | 617.1 | 7.1 | 166.0 | 386.0 | 25.3 | 495.4 | 1,015.4 |
| 2014.3 | 18.2 | 346.9 | 633.2 | 4.3 | 172.0 | 420.5 | 23.3 | 521.3 | 1,048.6 |
| 2014.4 | 17.8 | 349.0 | 643.3 | 12.5 | 171.9 | 399.2 | 29.1 | 521.1 | 1,049.3 |
| 2015.1 | 20.3 | 358.1 | 651.5 | 7.7 | 174.9 | 432.6 | 26.4 | 532.1 | 1,076.4 |
| 2015.2 | 22.8 | 375.6 | 688.2 | 10.6 | 193.0 | 585.5 | 35.6 | 567.4 | 1,256.1 |
| 2015.3 | 22.8 | 377.0 | 696.8 | 9.7 | 188.7 | 443.4 | 33.4 | 568.3 | 1,129.8 |
| 2015.4 | 23.7 | 385.9 | 705.8 | 15.8 | 193.2 | 474.4 | 38.2 | 578.9 | 1,198.0 |
| 2016.1 | 23.7 | 388.2 | 727.1 | 17.7 | 186.3 | 419.2 | 38.8 | 572.1 | 1,153.0 |
| 2016.2 | 24.5 | 393.2 | 738.8 | 16.0 | 178.4 | 398.4 | 39.5 | 568.9 | 1,130.0 |
| Change from previous quarter | 3% | 1% | 2% | -10% | -4% | -5% | 2% | -1% | -2% |
| Change from previous year | 7% | 5% | 7% | 52% | -8% | -32% | 11% | 0% | -10% |

Source: Census Bureau

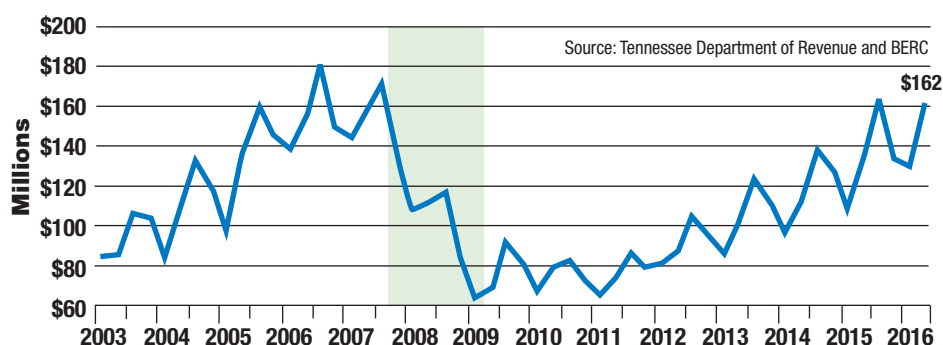
Real Estate Transactions & Mortgages

Tax collections for both mortgages and real estate transfers rose dramatically this quarter. Mortgage tax collections are up nearly 33 percent since the previous quarter to an annualized rate of \$75 million. Over the year, the annualized rate is up 13 percent.

The annualized real estate transfer tax rate increased almost 25 percent since the previous quarter to \$162 million—up nearly 21 percent, or \$28 million, from one year ago.

Figure 5. Real estate transfer tax collections

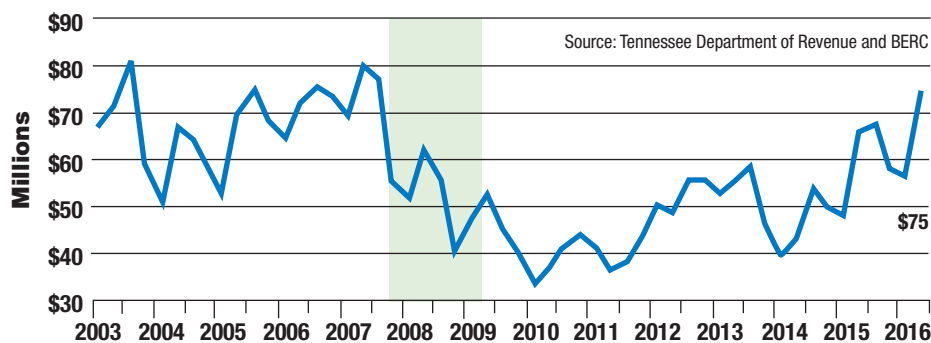
(millions, seasonally adjusted annual rate)



Annualized real estate transfer tax collections rose almost 25 percent this quarter.

Figure 6. Mortgage tax collections

(millions, seasonally adjusted annual rate)



Mortgage tax collections are up nearly 33 percent for the quarter.

Home Sales

Over the year, inventory fell and home sales rose in all three metro areas.

Housing sales this quarter indicate a strong market in Tennessee, specifically in the Nashville, Knoxville, and Memphis areas, recording moderate drops in inventory ranging from 4.7 to 5.6 percent.

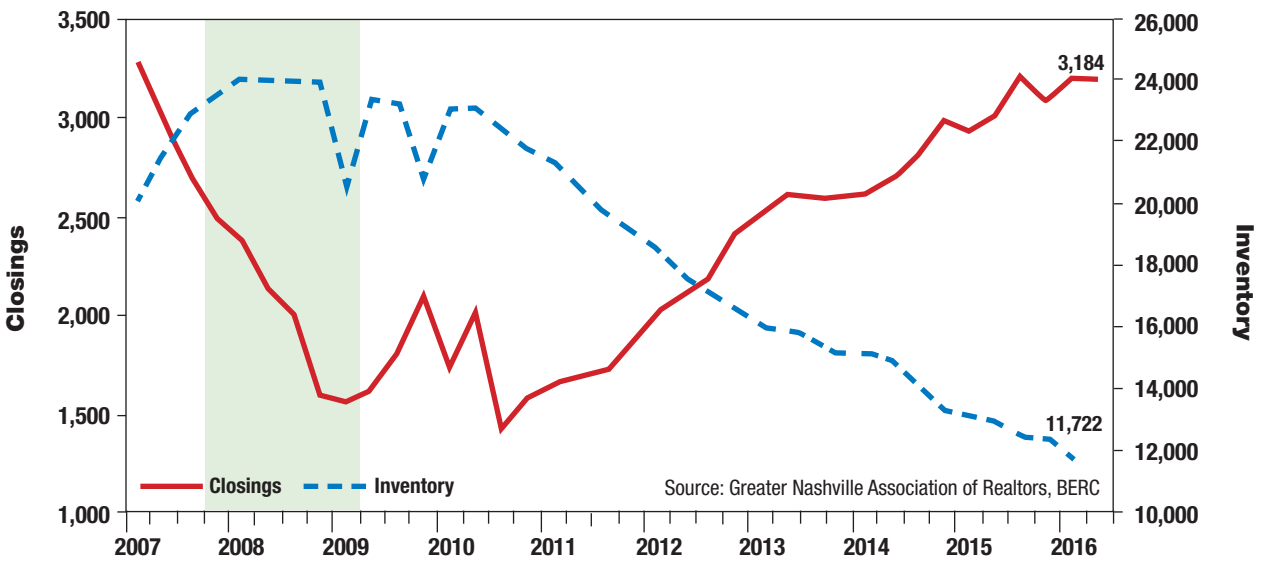
Closings this quarter showed tremendous growth in the Memphis and Knoxville areas, rising 10.6 percent and 9.6 percent, respectively, while Nashville area closings remained unchanged.

Over the year, a similar trend is seen. Inventories dropped over 10 percent in all three areas, especially in Knoxville (15.2 percent).

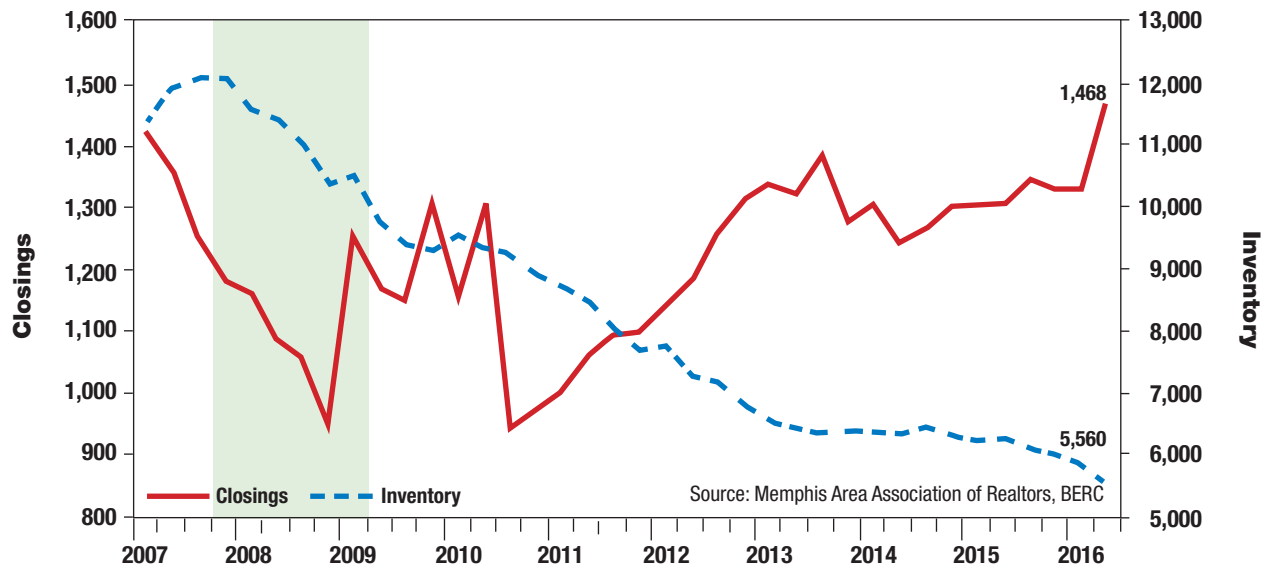
The number of seasonally adjusted closings also increased: 21.0 percent in Knoxville, followed by 12.3 percent in Memphis and 5.2 percent in Nashville.

Figure 7. Single-family sales and inventory

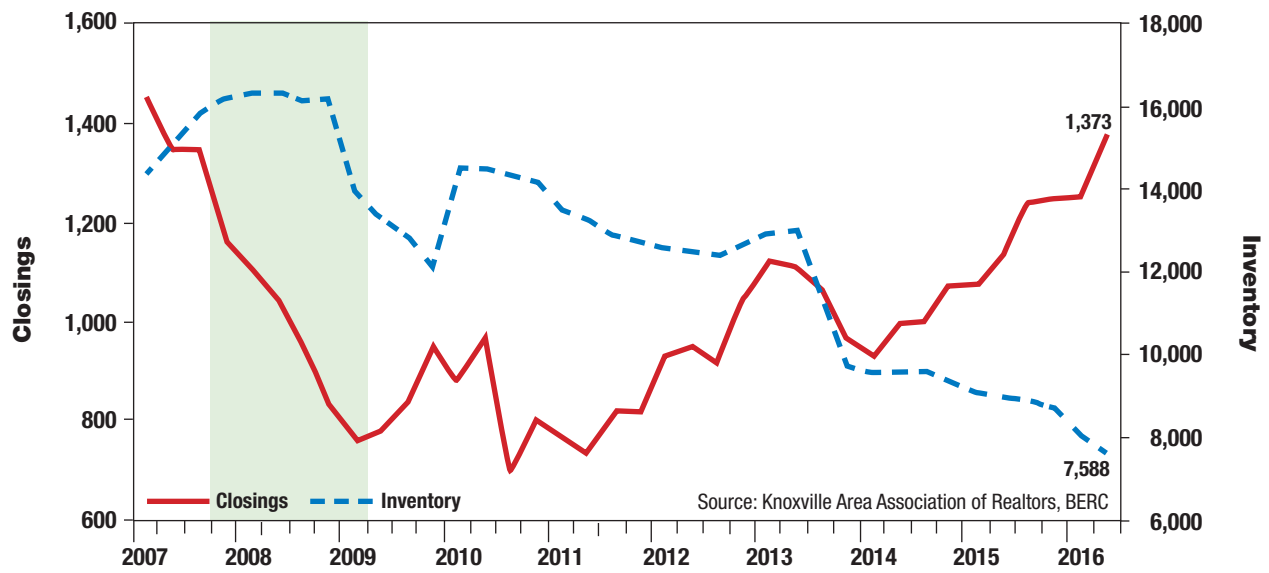
Nashville Area



Memphis Area



Knoxville Area



Home Prices

Prices are up in every area this report tracks—for the first time in over four quarters.

Housing prices increased in every area tracked by this report for the first time in over four quarters—a further sign the housing market across Tennessee, not only in a few metropolitan areas, is thriving. Major growth this quarter occurred in the Nashville MSA (up 9.8 percent), Jackson MSA (up 4.9 percent), and

Morristown MSA (up 4.6 percent). The performance of the state as a whole is quite impressive: Tennessee’s housing prices increased 6.3 percent versus 5.4 percent for the United States. For the second consecutive quarter, housing prices increased more in Tennessee than in the nation.

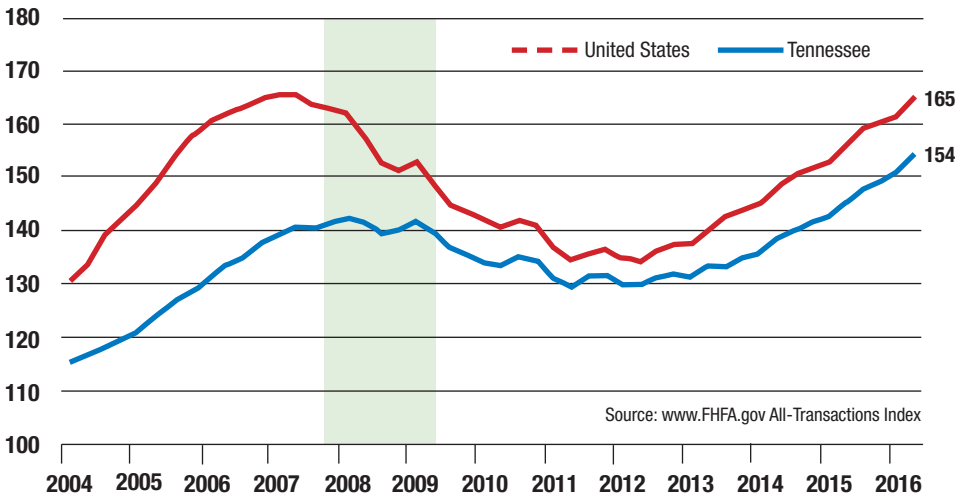
Table 3. Change in housing prices year to year

| Area | 2014.3–2015.3 | 2014.4–2015.4 | 2015.1–2016.1 | 2015.2–2016.2 |
|-----------------------|---------------|---------------|---------------|---------------|
| Chattanooga MSA | 4.3% | 4.9% | 5.6% | 3.9% |
| Clarksville MSA | 1.8% | 2.3% | 1.7% | 4.3% |
| Cleveland MSA | 2.8% | 3.6% | -1.1% | 4.3% |
| Jackson MSA | 0.2% | 2.9% | 6.9% | 4.9% |
| Johnson City MSA | 0.1% | -1.0% | -0.8% | 2.2% |
| Kingsport-Bristol MSA | 2.6% | 4.5% | -0.7% | 1.9% |
| Knoxville MSA | 3.3% | 2.2% | 2.6% | 4.5% |
| Memphis MSA | 3.6% | 3.3% | 3.8% | 3.0% |
| Morristown MSA | -0.5% | 4.3% | -0.6% | 4.6% |
| Nashville MSA | 8.6% | 8.7% | 9.2% | 9.8% |
| Tennessee | 5.6% | 5.5% | 5.8% | 6.3% |
| United States | 5.6% | 5.6% | 5.5% | 5.4% |

Source: FHFA All-Transactions Index

The Nashville, Jackson, and Morristown MSAs saw major growth in housing prices.

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



Housing prices continued to increase more in Tennessee than in the nation.

Mortgage Delinquencies, Foreclosures

Mortgage delinquency rates are down overall for Tennessee.

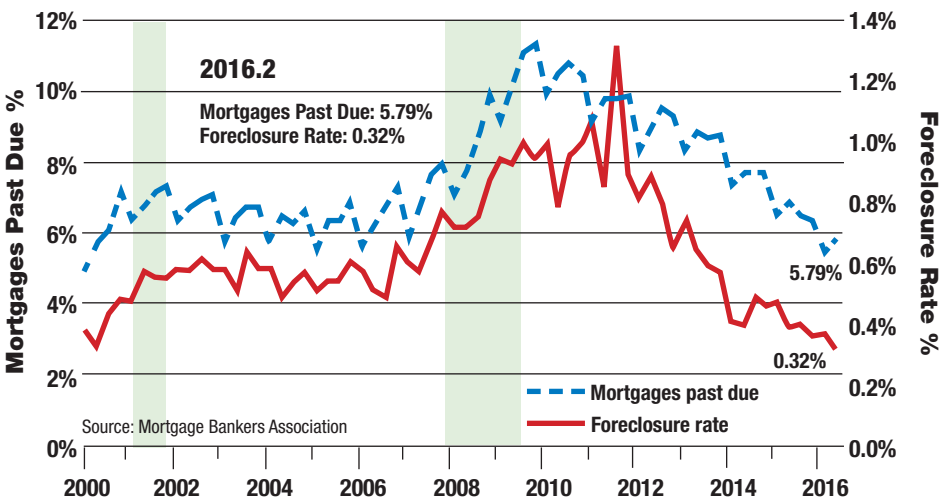
Overall, Tennessee's mortgage delinquency rates this quarter are down. The foreclosure rate is down 0.05 percentage points to 0.32 percent, the lowest rate in over 16 years. The rate of mortgages past due is slightly up by 0.33 percentage points from last quarter's 16-year low of 5.46 percent. Over the year, both rates are quite a bit lower. The foreclosure rate is down 0.08

percentage points, and the rate of mortgages past due is down one percentage point.

Similar results can be found for the nation's performance. This quarter the U.S. foreclosure rate fell by 0.03 percentage points to 0.32 percent, the same level as the state's. Like the state, the rate of mortgages past due also rose but at a slightly lower increment, 0.22 percentage points, to reach 4.64 percent. Over the year, foreclosure rates decreased by 0.8 percentage points, and the rate of mortgages past due decreased by 0.62 percentage points.

Figure 9. Tennessee mortgages past due and foreclosure starts

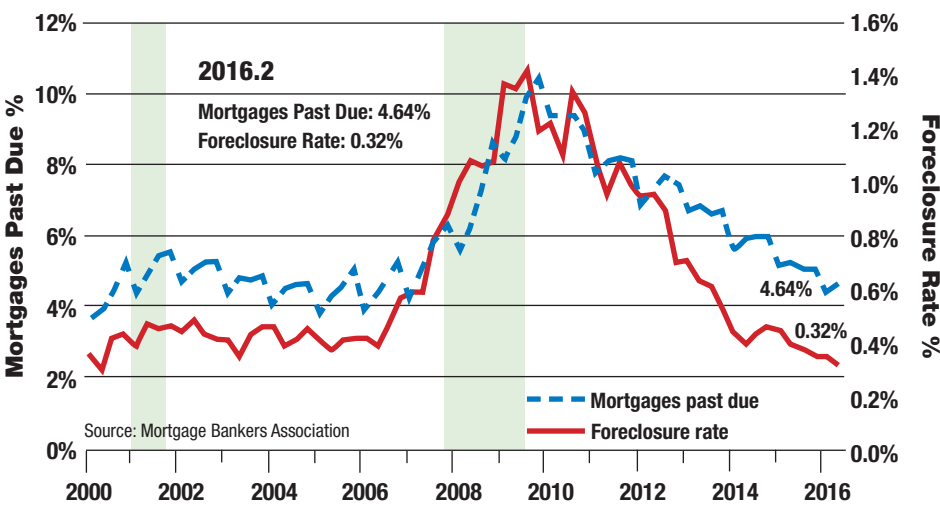
(percent of mortgages in place)



Tennessee mortgages past due and foreclosure rates.

Figure 10. United States mortgages past due and foreclosure starts

(percent of mortgages in place)



The percent of U.S. foreclosures closely followed Tennessee's trend.

Conclusion

As indicated by the quarterly benchmark, the Tennessee housing market performed remarkably well. The unemployment rate dropped to a level last seen in 2001, and initial claims for unemployment also reached one of the lowest historical levels.

Tax collections on real estate transfer and mortgages bounced back up after a sharp decline last quarter. For new housing construction, Tennessee total and single-family permits are at their highest rates in three years.

One of the highest points this quarter is in the area of home closings and inventories. Every area tracked

The housing market in Tennessee performed remarkably well in the second quarter.

in this report showed positive performance over the quarter and especially over the year.

Mortgage delinquency rates continued to decline in both Tennessee and the United States this quarter, seeing the lowest foreclosure rates in 16 years. ■



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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)