

HOUSING

T E N N E S S E E

2nd Quarter 2018

Tennessee dashboard 2nd quarter 2018

(percent change over the year)

Weekly Unemployment Claims	▼	-11.59	Total Home Permits*	▲	+2.43
Total Nonfarm Employment*	▲	+1.46	Mortgage Tax Collections	▲	+5.66
Unemployment Rate (percentage points)*	▼	-0.63	Real Estate Transfer Tax Collections	▲	+9.67
Homeowner Vacancy Rate (percentage points)	▲	+0.10	Home Prices*	▲	+8.03
Rental Vacancy Rate (percentage points)	▲	+1.90	Mortgages Past Due (percentage points)	▼	-0.02
Single-Family Home Permits*	▲	+6.66	Foreclosure Rate (percentage points)	▼	-0.03

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

Economic Overview

State indicators show continued growth in the second quarter

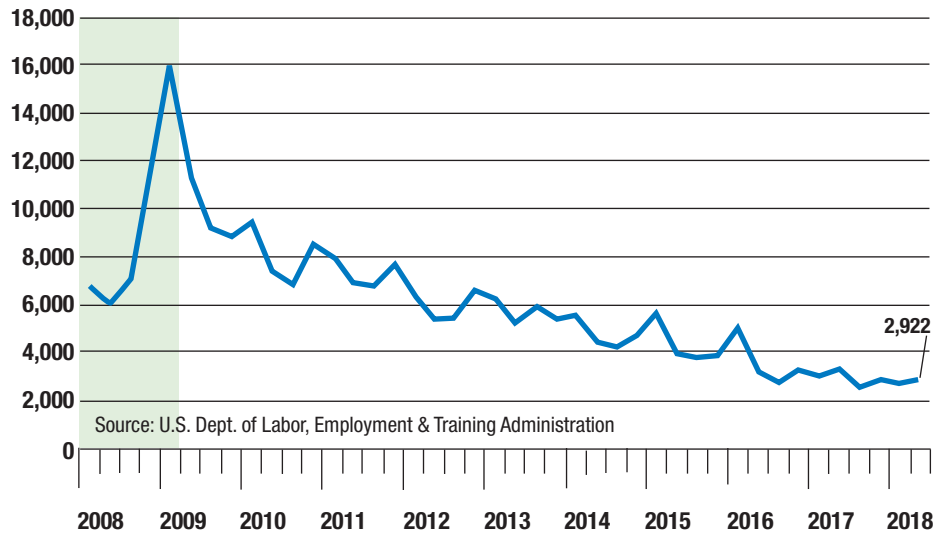
Tennessee's economic indicators continue to showcase a strong economy and overall growth in the housing market in the second quarter of 2018. Weekly unemployment claims decreased 11.59% from this time a year ago. The total labor force has increased by 58,000 people since last year, and estimated total employment has increased 77,000. Combined with an

unemployment rate of 3.47% (0.63% lower than one year ago), the employment indicators illustrate a vibrant and thriving workforce in the state.

Similarly, housing market indicators for Tennessee are positive this quarter. Both single-family home permits and total home permits bounced back from their short dive last quarter. Single-family home permits increased by 6.66%, while total home permits increased by 2.43%. Only two indicators, homeowner and rental vacancy rates, show fluctuations.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



Weekly unemployment claims decreased 11.59% from this time a year ago

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2017.2	2017.3	2017.4	2018.1	2018.2
Employment by industry (nonfarm)					
Total nonfarm	3,013	3,024	3,026	3,041	3,057
Goods-producing sectors	473	471	473	475	476
Manufacturing	348	346	348	350	350
Services-providing sectors	2,540	2,552	2,553	2,567	2,581
Labor force	3,180	3,159	3,220	3,222	3,238
Total employment	3,049	3,058	3,113	3,113	3,126
Unemployed	131	102	106	109	112
Unemployment rate	4.10%	3.23%	3.30%	3.37%	3.47%

Source: Bureau of Labor Statistics

Tennessee employment indicators illustrate a vibrant and thriving workforce

Vacancy Rates

Tennessee has maintained homeowner vacancies below 2% since 2016

Homeowner vacancies in Tennessee dropped half a percentage point from the first quarter. The 1.3% homeowner vacancy rate is below the national average of 1.5%. However, rental vacancies in Tennessee spiked 1.3 percentage points upward from last quarter to the highest level (9.4%) since 2014.

The spike in rental vacancies marks a nearly two-percentage-point increase in Tennessee compared to last year, representing an opposite trend from the nation's half-percentage-point decrease over the year. Both the U.S. and Tennessee have maintained homeowner vacancies below 2% since 2016.

Figure 2. Homeowner vacancy rate

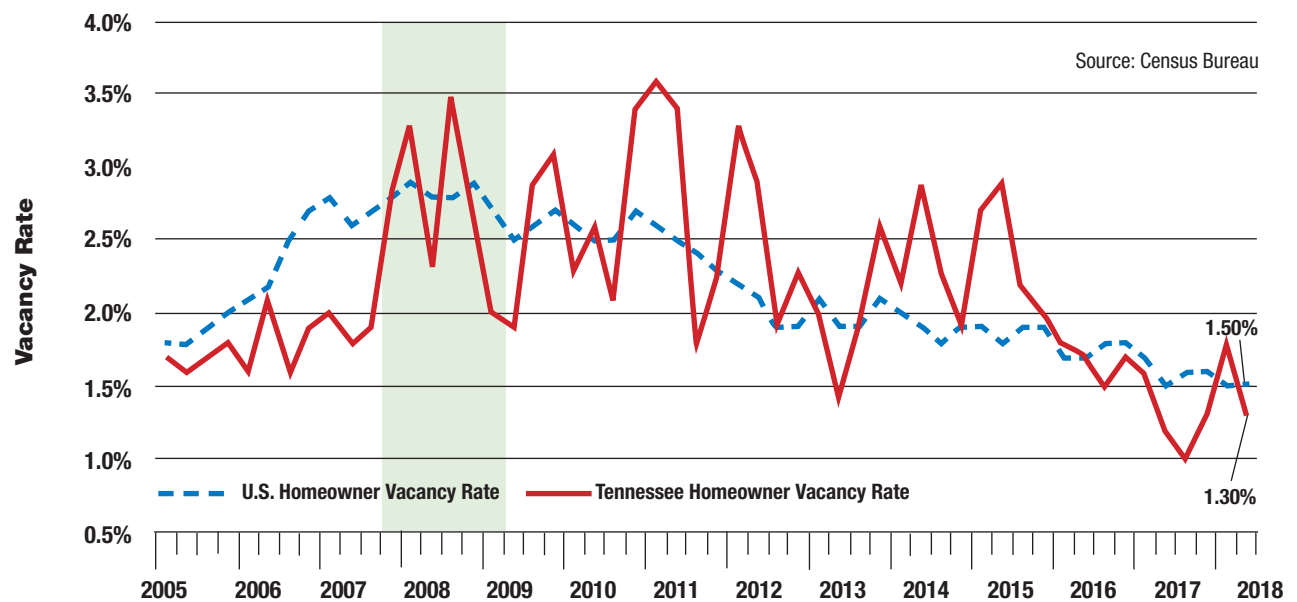
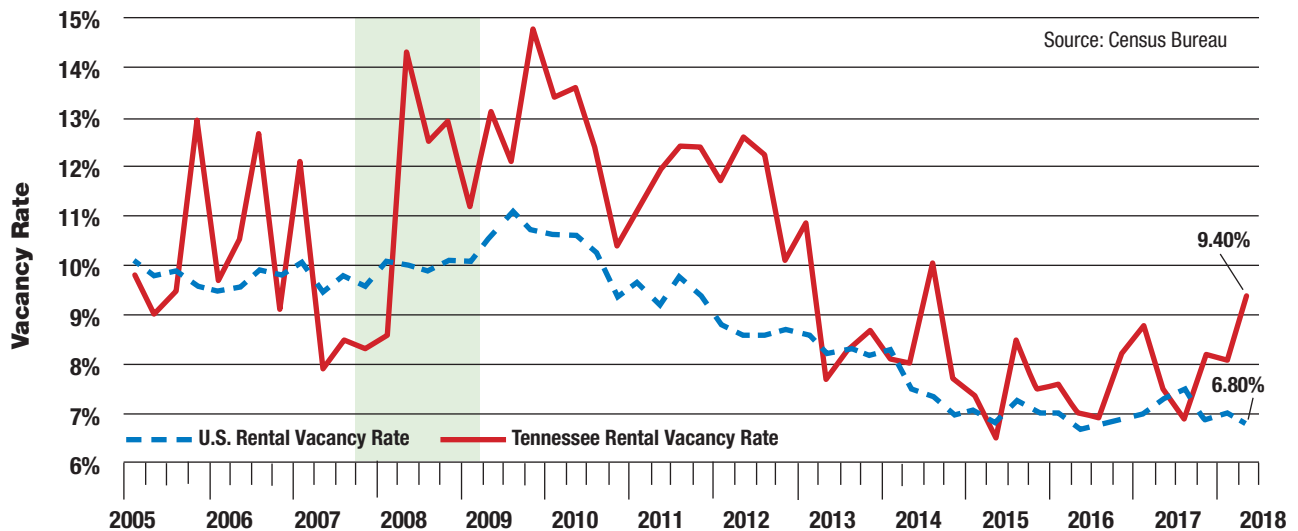


Figure 3. Rental vacancy rate



Housing Construction

Tennessee saw a near doubling of multi-family building permits for the quarter

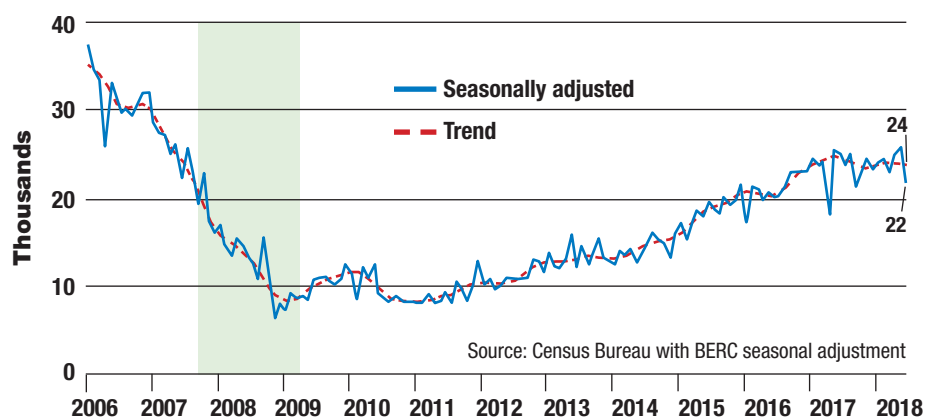
All regions covered by this report experienced an increase in permits issued from last quarter, except for multi-family and total permits in the U.S. The most significant improvement from last quarter was a near doubling of Tennessee’s multi-family building permits, leading to an 18.1% increase in total building permits. From a comparative perspective, total permits were up 7.1% in the South and down 3.5% in the U.S.

Tennessee, the South, and the U.S. all saw increases in single-family permits issued this year of nearly 7%.

The South had the highest increase over the year, with multi-family permits up 26.5% and total permits up 13.6%. Nationally, multi-family permits increased 7% and total permits 5.6% from last year. Although multi-family permits nearly doubled compared with the previous quarter, Tennessee had a 6.6% decrease in multi-family permits compared to the second quarter of last year, equivalent to a decline of 700 permits over the course of the year. Tennessee’s total permits increased 2.4% from last year.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



Tennessee's total permits increased 2.4% from last 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.
2015.2	22.3	370.9	681.8	10.4	190.8	575.3	33.4	560.4	1,254.6
2015.3	23.0	379.7	700.1	8.4	182.1	431.9	31.6	569.1	1,135.4
2015.4	24.0	391.5	711.6	16.8	202.9	481.8	40.4	587.3	1,199.5
2016.1	23.8	386.1	728.0	18.5	179.4	414.5	40.2	566.2	1,142.1
2016.2	24.1	396.8	741.5	8.3	174.8	410.2	33.1	574.0	1,145.7
2016.3	25.6	403.7	744.1	8.8	181.9	450.7	34.5	592.5	1,194.4
2016.4	27.7	423.3	777.2	9.9	161.3	429.9	37.2	575.0	1,207.8
2017.1	29.1	445.7	807.1	8.6	166.2	435.0	37.5	616.1	1,242.4
2017.2	27.2	440.1	813.0	11.1	165.1	427.7	39.3	606.6	1,240.1
2017.3	28.3	440.3	824.5	14.8	169.2	435.6	43.1	615.4	1,253.3
2017.4	28.4	457.5	843.6	8.7	167.8	443.8	36.7	613.7	1,292.3
2018.1	28.6	466.9	856.8	5.3	180.4	479.7	34.1	643.3	1,357.6
2018.2	29.1	470.7	868.3	10.4	208.8	457.6	40.3	689.0	1,309.5
Change from previous quarter	1.5%	0.8%	1.3%	96.5%	15.7%	-4.6%	18.1%	7.1%	-3.5%
Change from previous year	6.7%	6.9%	6.8%	-6.6%	26.5%	7.0%	2.4%	13.6%	5.6%

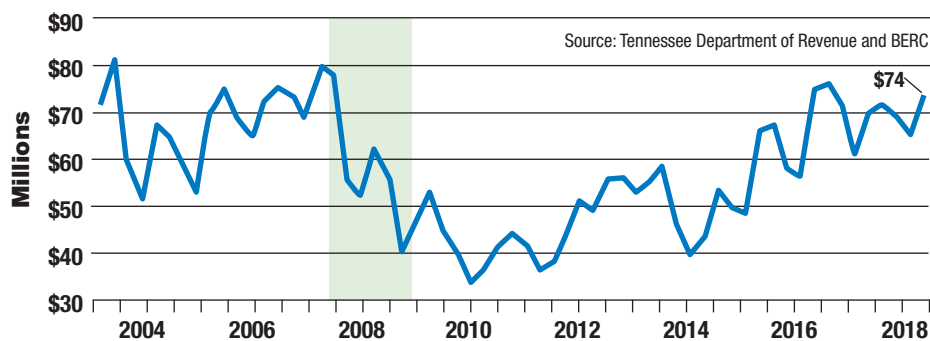
Real Estate Transactions & Mortgages

Both mortgage and real estate transfer tax collections are up compared to the first quarter. Real estate transfer tax collections showed a substantial spike, a 17.67% increase from last quarter. Mortgage tax collections also saw a spike (12.74%).

Collections of both realty transfer and mortgage taxes are among their highest post-recession rates. The annual rate of mortgage tax collections is up over 5% from \$70 million to \$74 million. Real estate transfer tax collections are up nearly 10% from last year to an annualized amount of around \$182 million.

Figure 5. Mortgage tax collections

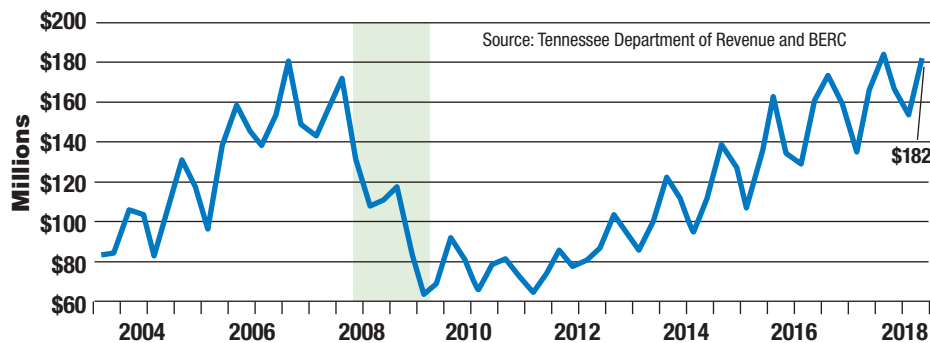
(millions, seasonally adjusted annual rate)



Both mortgage and real estate transfer tax collections are up compared to the first quarter

Figure 6. Real estate transfer tax collections

(millions, seasonally adjusted annual rate)



Collections of both realty and mortgage taxes are among their highest post-recession rates

Home Sales

All three regions have experienced growth in home closings over the year

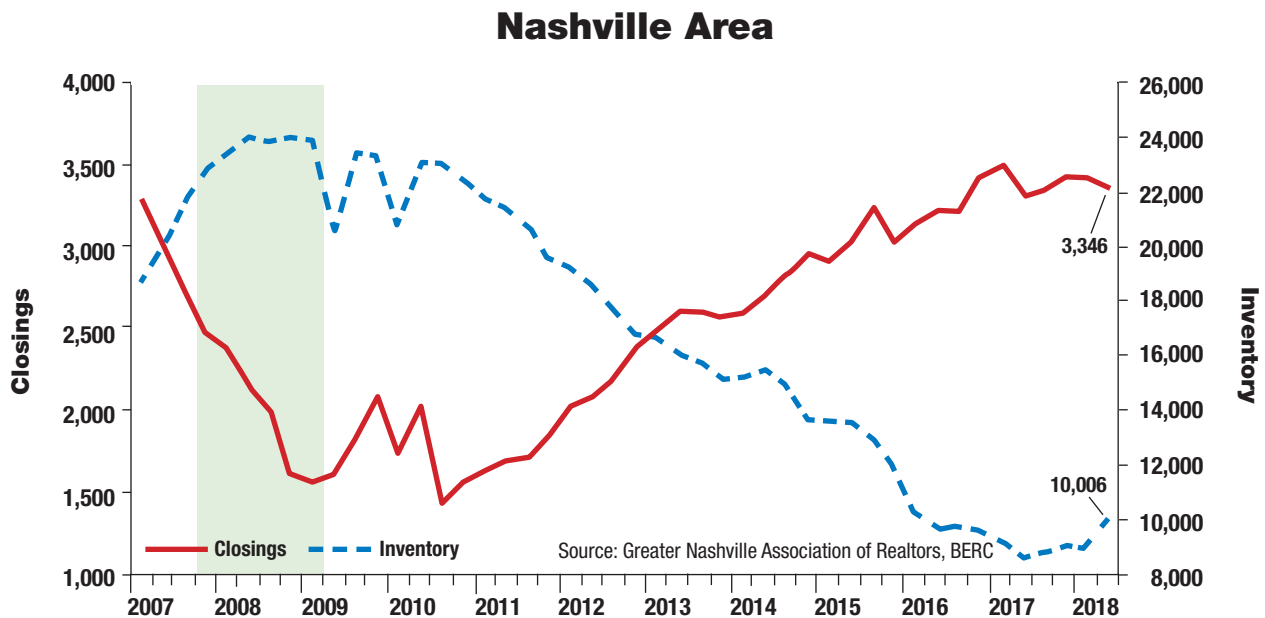
The data indicate that home closings in both Knoxville and Memphis have slightly increased from last quarter, while Nashville's closings mirrored an equally marginal decrease in closings.

Inventories in both Knoxville and Memphis decreased from last quarter. Knoxville decreased its housing stock by 5%, while Memphis decreased by almost half a percent. However, Nashville had a nearly 11% increase in home inventory from last quarter. The yearly change

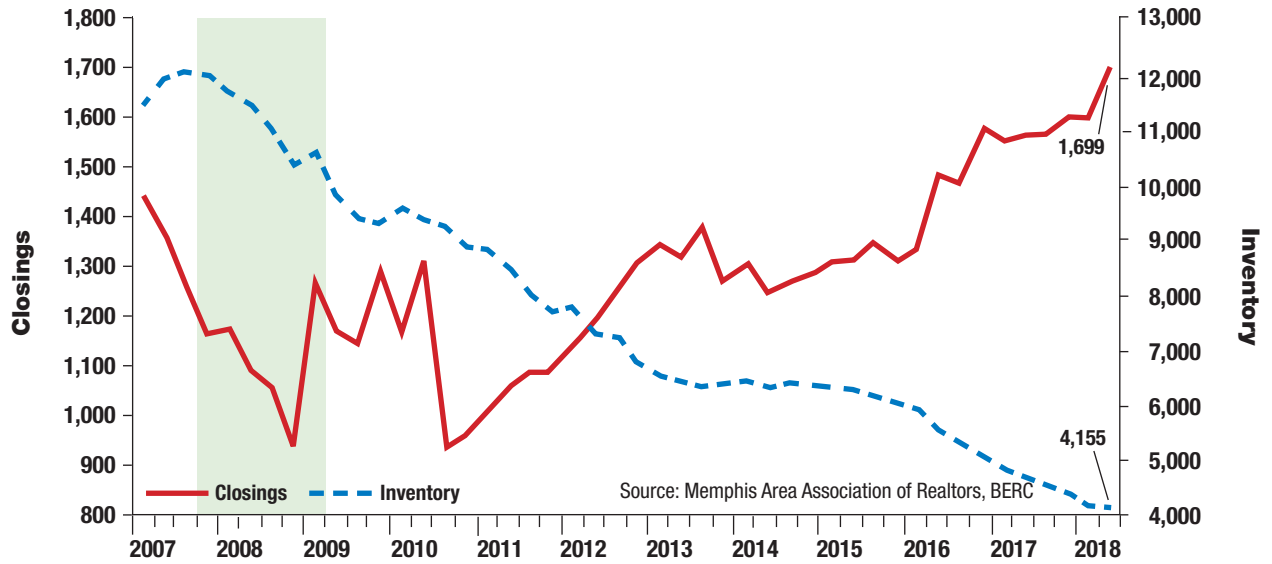
tells a similar story, as Knoxville saw a 4.5% decrease, Memphis an 11% decrease, and Nashville a 15% increase in home inventories since 2017.

All three regions have experienced growth in home closings over the year. The most significant yearly growth was in Knoxville home sales, up 15.7%. Memphis was second with an 8.5% increase, followed by Nashville with a 1.1% increase in home closings from last year.

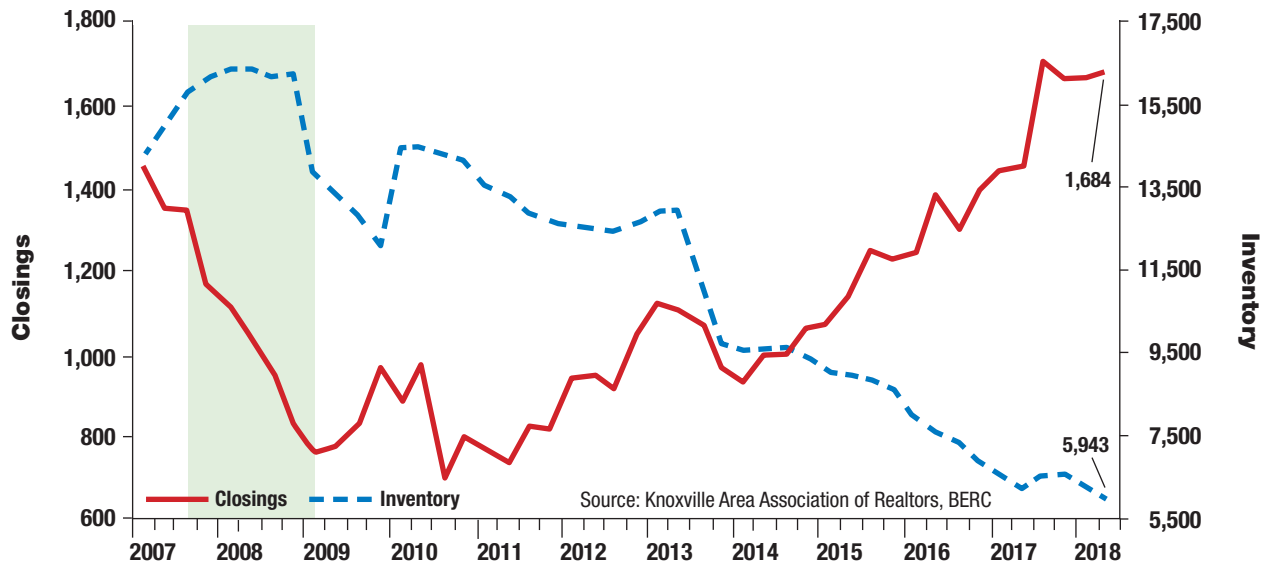
Figure 7. Single-family sales and inventory



Memphis Area



Knoxville Area



Home Prices

Home prices continued their positive trend across the state

Home prices across Tennessee continued their positive trend with another increase of 8% over the year. The increase in home prices remains above the national average, which has fluctuated around 6.5% over the past two years. Significant areas of increase include Nashville at 9.7%, Clarksville at 9.7%, and Cleveland at 8.1%.

All MSAs covered in this analysis showed increases from last year. The most significant improvements in quarterly growth were in the Jackson MSA, from 0.6% to 4.8%, and the Clarksville MSA, from 6.1% to 9.7%. Conversely, Johnson City and Morristown MSAs experienced a significant drop from their double-digit growth last quarter, Johnson City from 10.2% to 3.1% and Morristown from 11.1% to 2.9%.

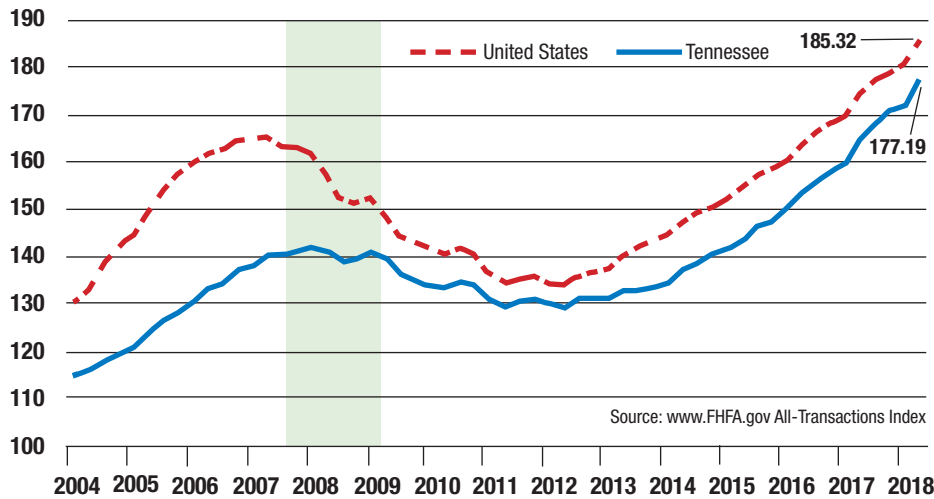
Table 3. Change in housing prices year to year

Area	2016.3–2017.3	2016.4–2017.4	2017.1–2018.1	2017.2–2018.2
Chattanooga MSA	7.4%	9.4%	6.6%	7.0%
Clarksville MSA	2.5%	2.1%	6.1%	9.7%
Cleveland MSA	5.2%	6.2%	6.2%	8.1%
Jackson MSA	3.7%	5.0%	0.6%	4.8%
Johnson City MSA	2.4%	6.5%	10.2%	3.1%
Kingsport-Bristol MSA	1.9%	3.1%	7.6%	1.0%
Knoxville MSA	5.7%	5.3%	6.3%	7.5%
Memphis MSA	7.3%	5.0%	6.3%	6.3%
Morristown MSA	5.6%	5.5%	11.1%	2.9%
Nashville MSA	10.5%	10.6%	8.9%	9.7%
Tennessee	8.0%	8.0%	8.0%	8.0%
United States	6.4%	6.4%	6.9%	6.6%

Source: FHFA All-Transactions Index

Significant areas of increase include Nashville at 9.7%, Clarksville at 9.7%, and Cleveland at 8.1%

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



The increase in home prices remains above the national average

Mortgage Delinquencies, Foreclosures

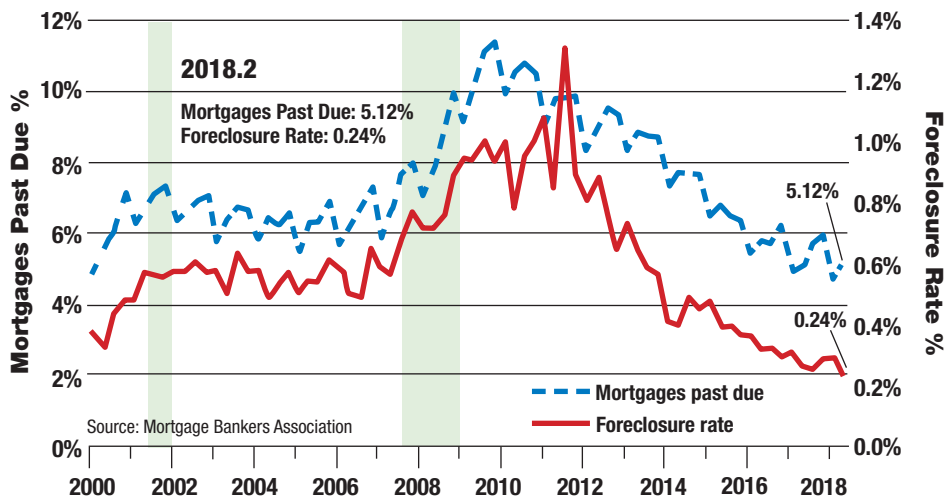
Tennessee's foreclosure rate was the lowest in at least 18 years

Delinquency rates for mortgage loans in Tennessee increased to a seasonally adjusted rate of 5.12% for all outstanding loans in the second quarter, an increase of 35 basis points from the previous quarter. Compared with the same quarter a year ago, however, the rate decreased by about 20 basis points.

The foreclosure rate in Tennessee decreased by five basis points from last quarter to the lowest rate in at least 18 years and on par with the national rate, 0.24%.

Figure 9. Tennessee mortgages past due and foreclosure rate

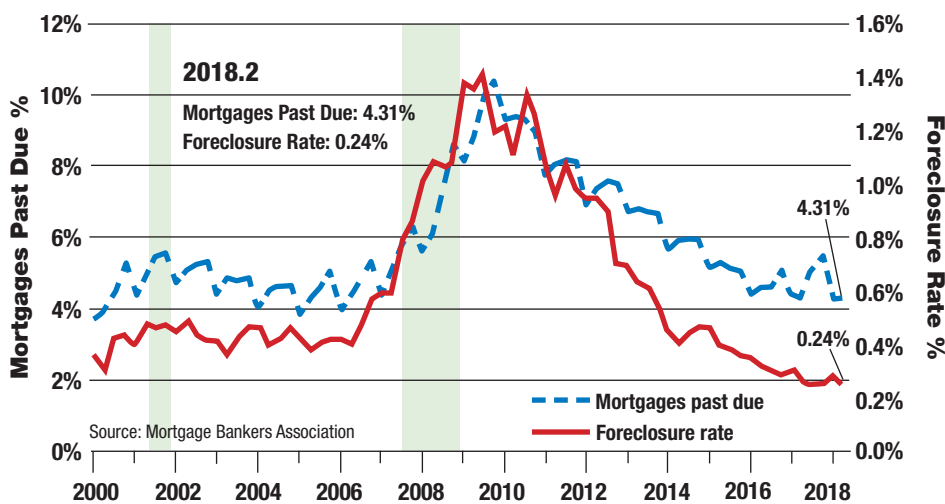
(percent of mortgages in place)



Tennessee mortgage delinquency rates increased for the quarter but decreased over the year

Figure 10. United States mortgages past due and foreclosure rate

(percent of mortgages in place)



The Tennessee foreclosure rate is on par with the national rate

Conclusion

Foreclosure rates are low, home prices are rising, and the workforce is stable

Highlights for this quarter's report include historically low foreclosure rates for both the state and the nation, home prices continuing to rise in all areas tracked by this report, and employment indicators all signaling a stable workforce. Although rental vacancies increased this quarter, homeowner vacancies dipped below the national average.

After a small hiccup in the previous quarter, housing permits seem to have recovered in Tennessee. Considering the indicators covered in this report, the economic landscape in Tennessee seems to be vibrant. Data points to watch next quarter are the relatively increasing housing inventory and decreasing total closings in the Nashville area. ■

Data points to watch next quarter are Nashville housing inventory and closings



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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)