

HOUSING

T E N N E S S E E

1st Quarter 2015

Tennessee dashboard 1st quarter 2015

(percent change over the year)

Weekly Unemployment Claims	▲ +0.5%	Total Home Permits*	▼ -2%
Total Nonfarm Employment*	▲ +2%	Mortgage Tax Collections	▲ +21%
Unemployment Rate (percentage points)*	No change	Real Estate Transfer Tax Collections	▲ +12%
Homeowner Vacancy Rate (percentage points)	▲ +0.5	Home Prices*	▲ +5%
Rental Vacancy Rate (percentage points)	▼ -0.7	Mortgages Past Due (percentage points)	▼ -0.85
Single-Family Home Permits*	▲ +24%	Foreclosure Rate (percentage points)	▲ +0.07

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

Economic Overview

Lower unemployment rate and more jobs but higher initial unemployment claims.

On the employment front, Tennessee's economy started the first quarter on a positive note. The unemployment rate dropped to 6.5 percent, lower than the previous quarter, unchanged over the year. Overall, job gains continued the previous quarterly trend with nonfarm employment up 6,300.

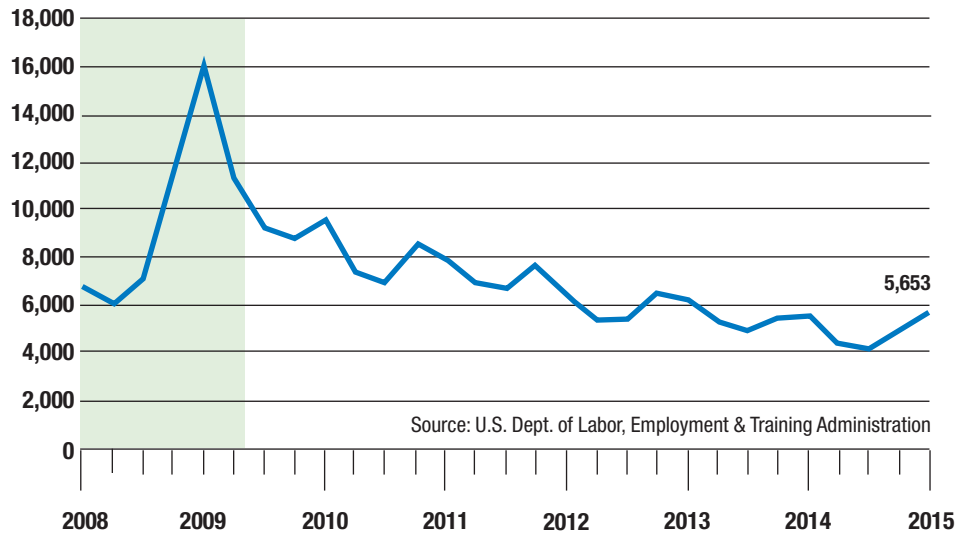
Over the year, Tennessee gained 59,000 nonfarm jobs, up 2%. Most of the gains, 42,500, are in services, while goods-producing industries, including manufacturing and construction, produced 14,900 new jobs.

The labor force, the sum of total employment and unemployment, is up 54,000 since the fourth quarter and up 30,000 since the first quarter of 2014. The unemployment rate declined to 6.53% in the first quarter due to job growth.

The U.S. Department of Labor reported that initial claims for unemployment insurance in Tennessee, following the trend started in the fourth quarter of 2014, rose to an average of 5,653 per week (Figure 1)—one of the few weak spots in the current quarter.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



Initial claims for unemployment insurance rose for the second consecutive quarter.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2014.1	2014.2	2014.3	2014.4	2015.1
Employment by industry (nonfarm)					
Total nonfarm	2,790.5	2,806.1	2,823.9	2,843.4	2,849.7
Goods-producing sectors	432.2	433.3	436.1	442.5	447.1
Manufacturing	322.8	323.1	325.5	329.0	332.1
Services-providing sectors	2,358.4	2,372.8	2,387.8	2,400.8	2,409.9
Labor force	3,007.1	2,996.8	2,986.9	2,983.2	3,037.2
Total employment	2,810.7	2,801.6	2,789.0	2,786.2	2,839.2
Unemployed	196.4	195.2	197.9	196.9	197.9
Unemployment rate	6.53%	6.57%	6.60%	6.60%	6.53%

Source: Bureau of Labor Statistics

Over the year, Tennessee gained almost 59,000 nonfarm jobs, increasing 2%.

Vacancy Rates

In recent years, homeowner and rental vacancy rates for the U.S. have shown a fairly smooth trend, but rates for Tennessee have shown large variations.

Homeowner vacancy rates for the state increased almost 1 percentage point from the fourth quarter to 2.70%. U.S. homeowner vacancy rates remained the same as the fourth quarter at 1.90%.

Over the year, homeowner vacancy rates for Tennessee increased half a percentage point, while the nation's rate decreased a tenth of a percentage point.

Tennessee's homeowner vacancy rates increased, while rental vacancy dropped to the lowest level since before 2005.

Tennessee rental vacancy rates fell slightly from last quarter to 7.4%, the lowest rate since before 2005, suggesting a tightening housing market in the rental segment. Rates for the country were almost unchanged, increasing just slightly to 7.1%.

Figure 2. Homeowner vacancy rate

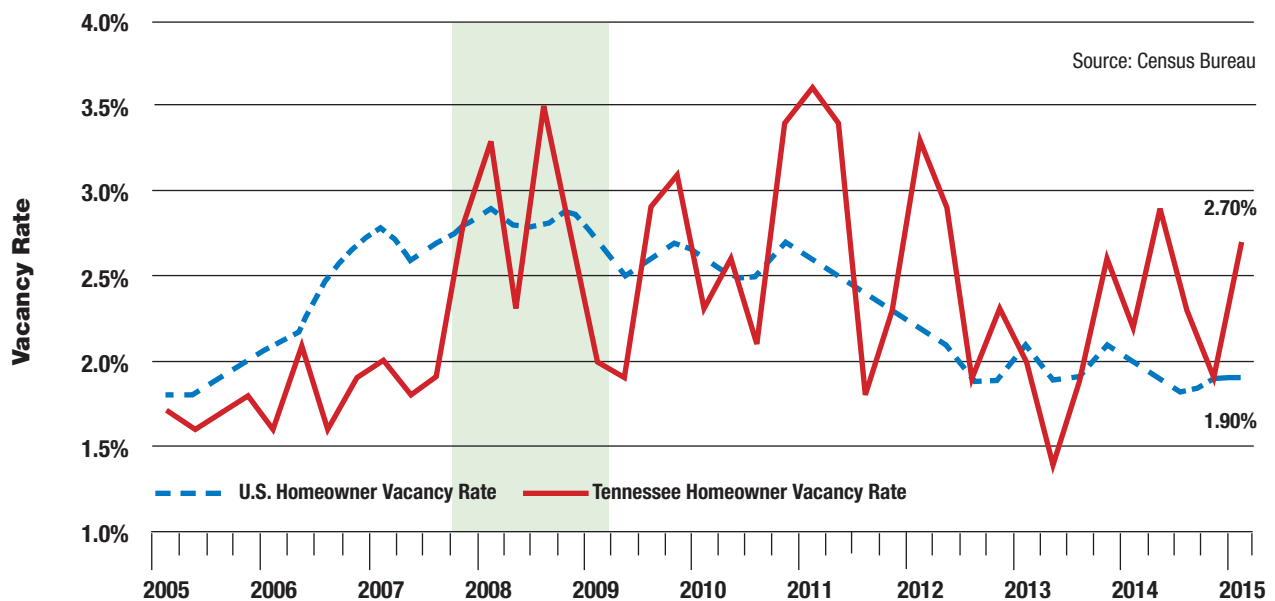
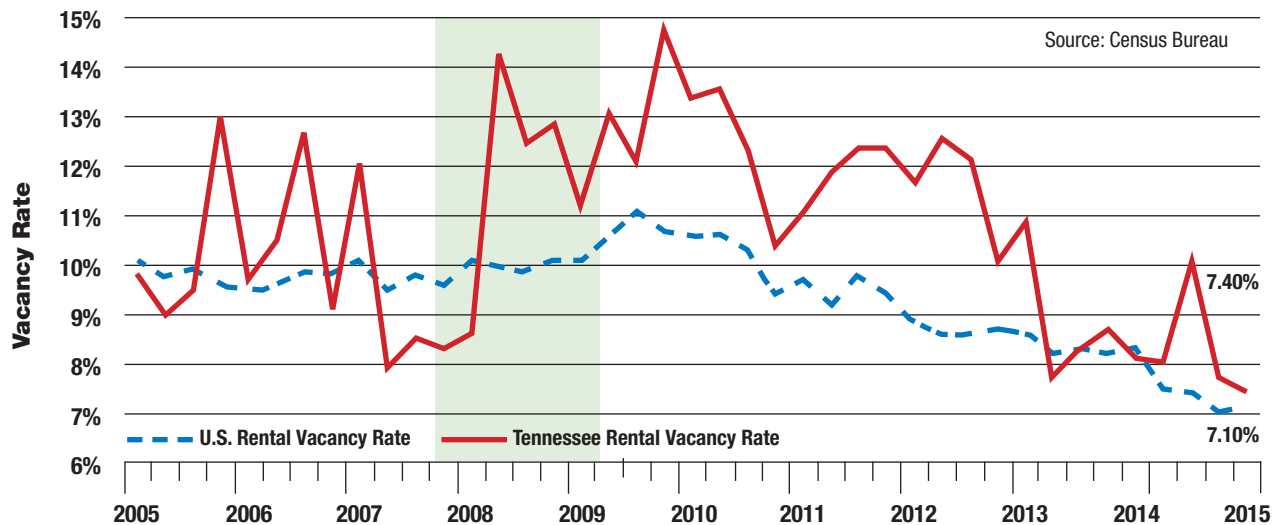


Figure 3. Rental vacancy rate



Housing Construction

Permits issued for single-family home construction in Tennessee bounced back, rising to a quarterly rate of 20,000 from 17,900 in the last quarter of 2014, a 12% increase.

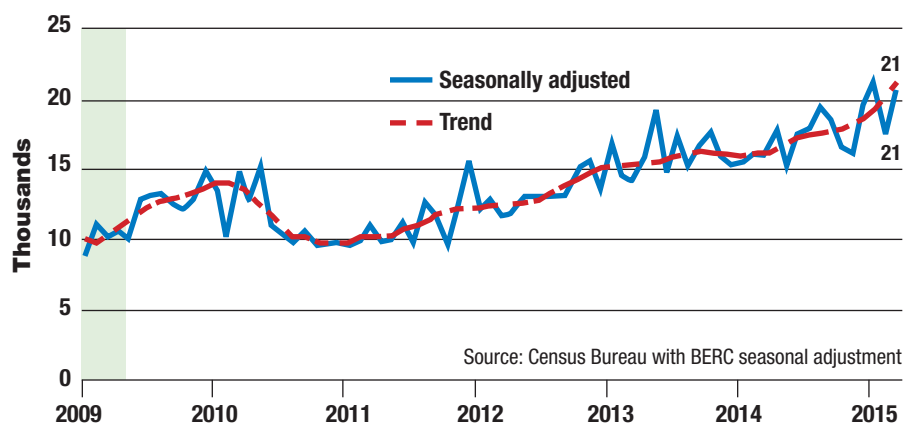
Tennessee, the South, and the U.S. all experienced increased single-family construction activity in the first quarter, rebounding from the overall decline in the last quarter. Single-family home construction in Tennessee is higher than in the spring and summer months of last year, resulting in a significant over-the-year gain of 24%. The current level of single-family permits for the state, the South, and the nation is the highest number in three years for each.

Permits issued for single-family home construction in Tennessee rose 12% for the quarter and 24% over the year.

Following very large gains in the last quarter of 2014, multi-family home construction shifted to a lower, and perhaps more sustainable, level of activity. Permits issued fell to an annualized rate of 8,300, much lower than 12,700 during the last quarter. Over the year, multi-family construction activity has fallen 17%.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



Seasonally adjusted annualized single-family home permits are above the trend line.

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.
2012.1	12.3	247.4	481.8	5.7	133.0	261.4	17.9	382.9	725.2
2012.2	12.7	250.5	474.6	4.6	132.4	262.3	18.7	381.7	762.7
2012.3	13.1	274.9	522.8	5.9	164.4	324.2	19.6	440.0	849.0
2012.4	15.1	299.5	565.8	6.1	141.8	318.4	19.4	439.2	879.4
2013.1	15.5	318.5	604.7	4.0	142.8	332.5	19.0	463.7	940.2
2013.2	16.4	337.4	626.3	6.4	159.6	335.9	24.8	495.2	953.5
2013.3	15.9	328.8	622.4	7.9	140.3	343.9	24.3	470.7	965.8
2013.4	16.9	324.2	613.4	6.7	169.1	386.9	21.4	490.9	1,004.9
2014.1	16.1	323.3	604.3	10.0	164.9	396.3	25.7	490.7	983.6
2014.2	16.5	332.3	619.8	6.4	164.1	376.6	24.9	494.1	1,006.9
2014.3	18.2	349.1	636.9	4.3	171.2	413.3	23.1	522.2	1,046.4
2014.4	17.9	347.6	639.1	12.7	179.9	412.1	28.3	525.3	1,057.5
2015.1	20.0	355.4	647.7	8.3	170.3	439.1	27.8	528.5	1,084.8
Change from previous quarter	12%	2%	1%	-34%	-5%	7%	-2%	1%	3%
Change from previous year	24%	10%	7%	-17%	3%	11%	8%	8%	10%

Source: Census Bureau

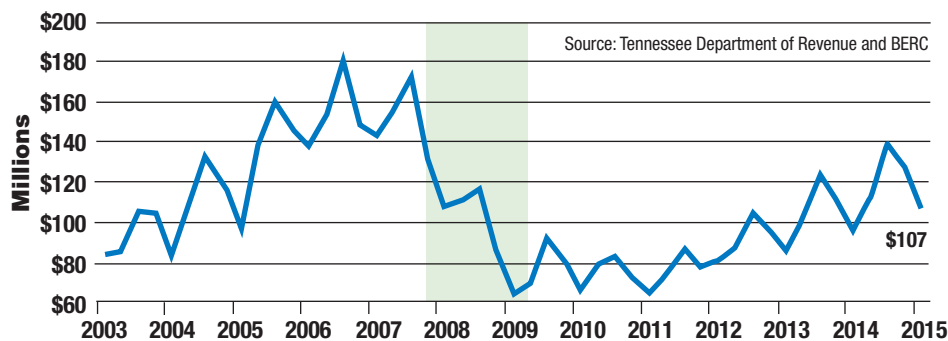
Real Estate Transactions & Mortgages

In line with the trend started in the fourth quarter of 2014, state taxes collected on real estate transactions and new or refinanced mortgages continued to fall in the first quarter (Figures 5 and 6). Mortgage tax collections fell 3% for the quarter to a seasonally adjusted annual

rate of \$48 million but are up 22% over the year. Transfer tax collections declined nearly 16% to an annual rate of \$107 million during the quarter. However, the collection of real estate transfer taxes is still significantly higher (12.4%) than in the first quarter of 2014.

Figure 5. Real estate transfer tax collections

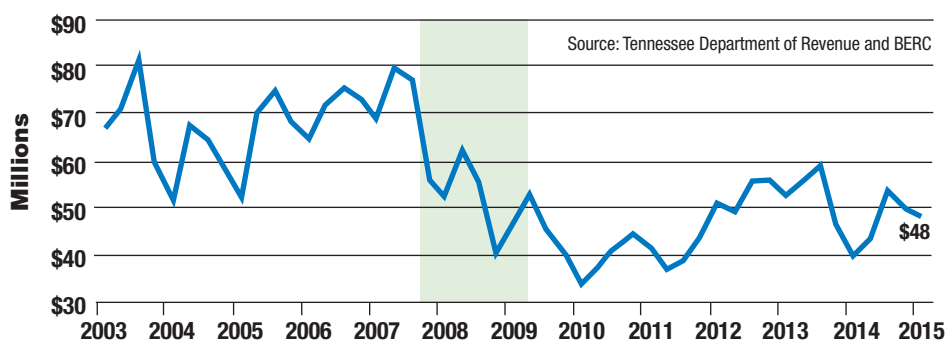
(millions, seasonally adjusted annual rate)



Transfer tax collections fell nearly 16% for the quarter but rose 12.4% over the year.

Figure 6. Mortgage tax collections

(millions, seasonally adjusted annual rate)



Mortgage tax collections were down 3% for the quarter but up 22% over the year.

Home Sales

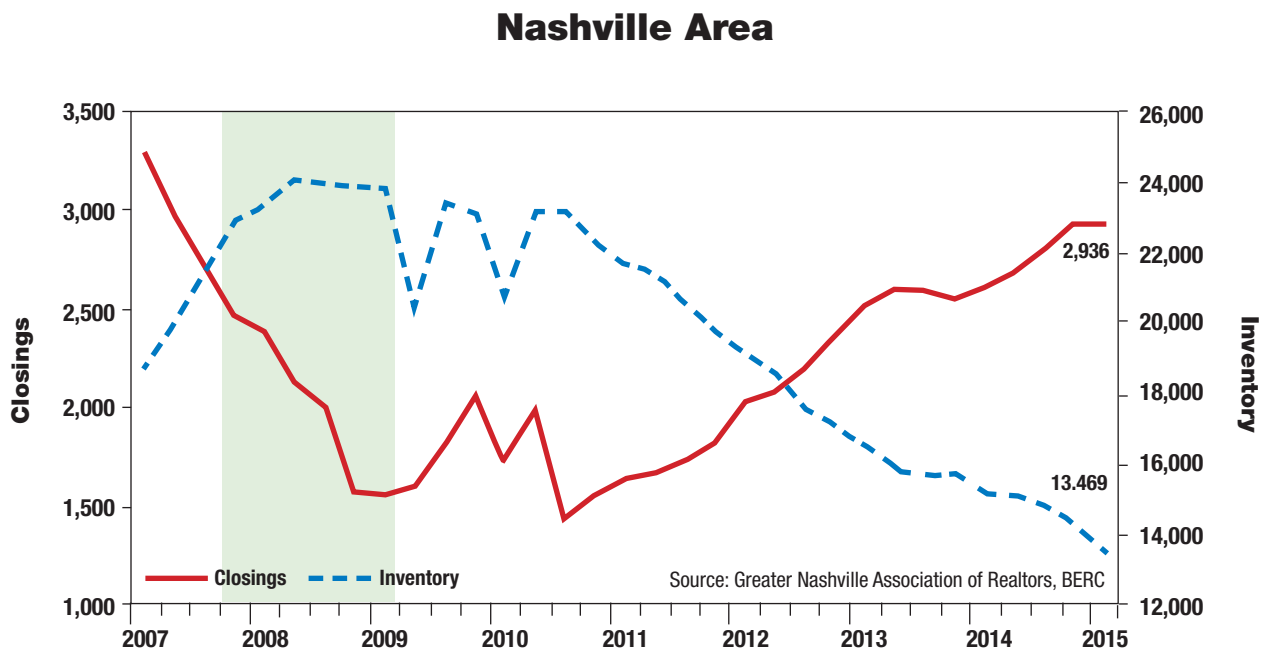
Over the year, the findings show a vibrant housing market.

Sales of single-family homes declined in two of the metro areas tracked by this report. For the quarter, sales in the Nashville area declined slightly, Memphis closings fell 2.4%, and Knoxville closings rose 0.6%.

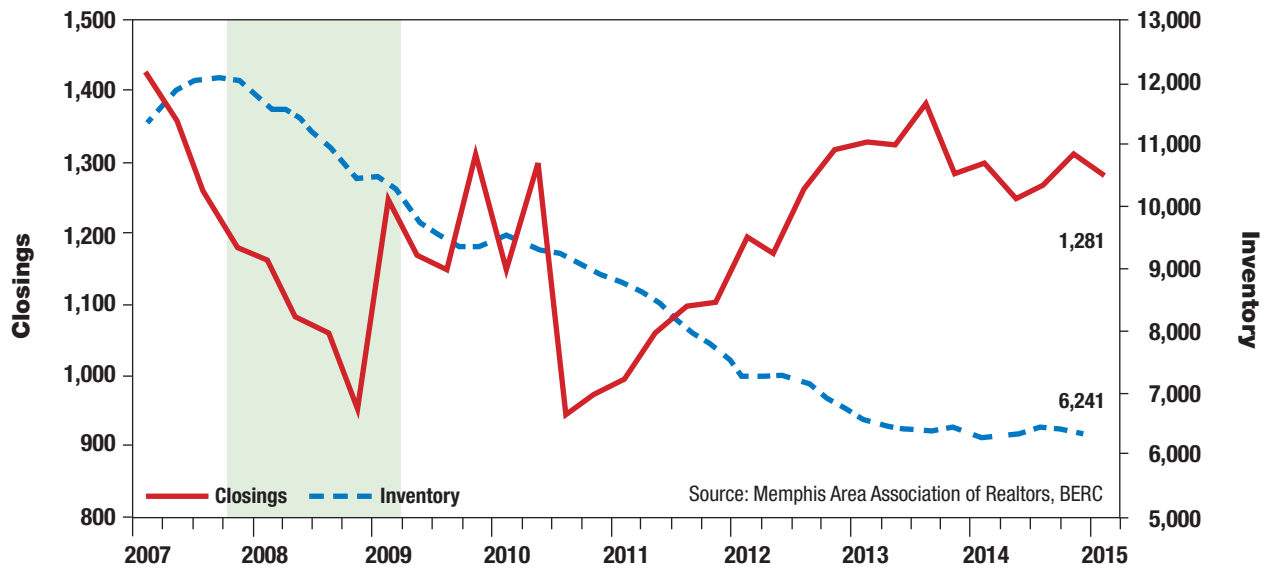
Similarly, inventories of single-family homes on the market fell in two areas, 6% in Nashville and 2% in Memphis, but rose in Knoxville (4%).

Over the year, the findings show a vibrant housing market—especially in two of the three areas tracked. In the Nashville area, inventories decreased 11%, while sales increased 12%. For Knoxville, inventories decreased nearly 6%, and sales increased 2%. The Memphis region skewed the trend slightly with a very small decrease in inventory and a decrease of just over 1% in sales.

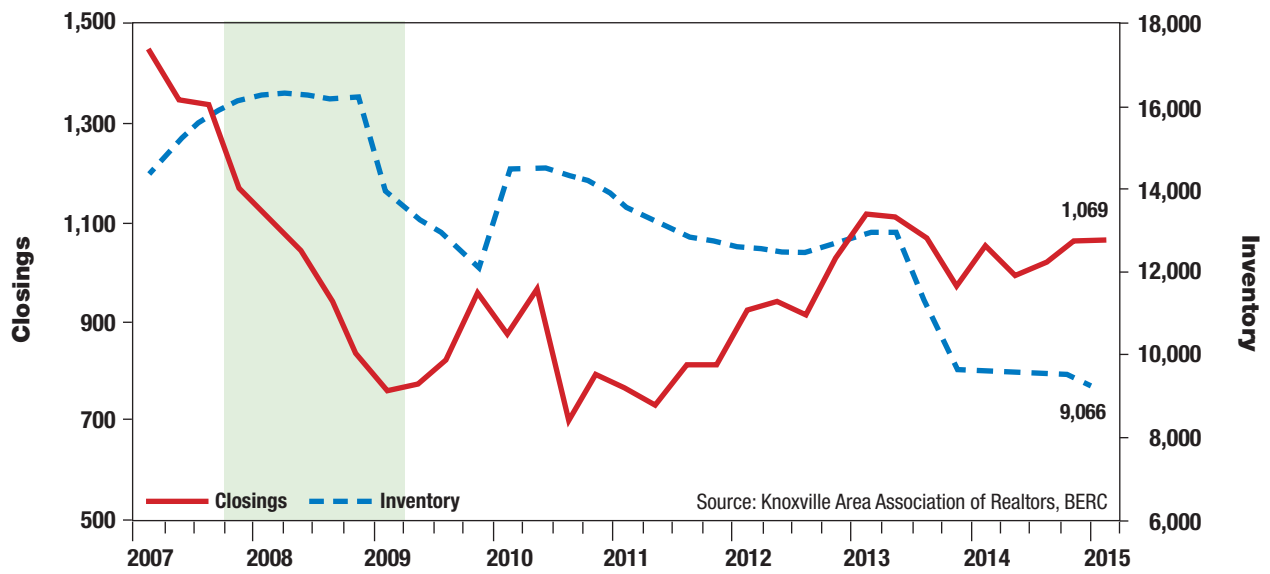
Figure 7. Single-family sales and inventory



Memphis Area



Knoxville Area



Home Prices

Prices in Tennessee increased slightly less than in the U.S.

Average home prices increased 5.3% over the year for Tennessee in the first quarter, according to the Home Price Index published by the Federal Housing Finance Agency (FHFA, Table 3). Prices in Tennessee increased slightly less than in the U.S. (up 5.6%). While the gap between U.S. and Tennessee housing price changes had been steadily narrowing for five quarters, this quarter reverses the trend.

The Nashville metropolitan statistical area (MSA) continues to produce the largest price gain, rising 7.3% over the year. The second-highest change occurred in the Kingsport-Bristol MSA, rising 5%. This is a significant increase over the change from 2013.4 to 2014.4, when prices fell half a percent. Other regions with significant gains included the Memphis MSA (up 4.3%) and the Morristown MSA (up 4.2%).

Nashville continues to produce the largest price gain, up 7.3% over the year.

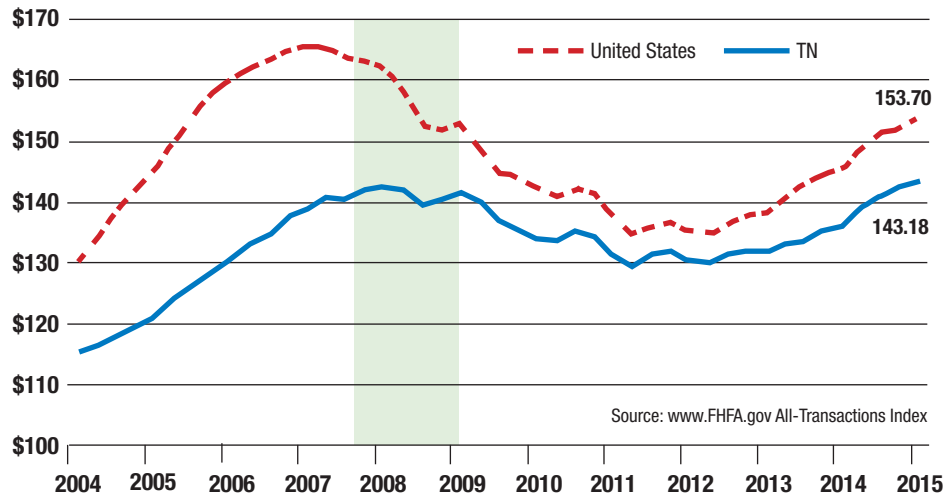
Table 3. Change in housing prices year to year

Area	2013.2–2014.2	2013.3–2014.3	2013.4–2014.4	2014.1–2015.1
Chattanooga MSA	1.8%	3.8%	2.8%	2.1%
Clarksville MSA	-2.1%	0.3%	2.8%	-0.9%
Cleveland MSA	1.8%	4.5%	1.6%	3.3%
Jackson MSA	2.2%	4.1%	-0.4%	2.4%
Johnson City MSA	1.5%	2.4%	6.6%	3.3%
Kingsport-Bristol MSA	-1.3%	1.8%	-0.4%	5.0%
Knoxville MSA	3.2%	3.1%	4.0%	3.7%
Memphis MSA	3.9%	4.5%	5.3%	4.3%
Morristown MSA	0.7%	1.6%	2.0%	4.2%
Nashville MSA	7.9%	8.3%	7.9%	7.3%
Tennessee	4.5%	5.3%	5.4%	5.3%
United States	5.9%	5.8%	5.6%	5.6%

Source: FHFA All-Transactions Index

A 5% gain over the year in the Kingsport-Bristol MSA is impressive after its previous 0.4% year-over-year loss.

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



The gap between Tennessee and U.S. home prices widened after having narrowed for the past five quarters.

Mortgage Delinquencies, Foreclosures

Tennessee mortgages past due decreased, while foreclosures started increased.

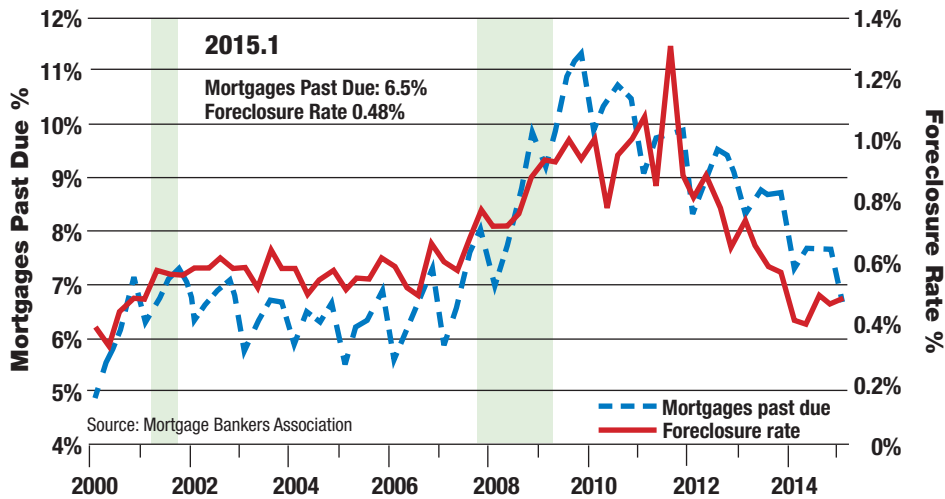
For the quarter, Tennessee mortgages past due decreased, and foreclosures started increased. Mortgages past due fell 1.16 percentage points to 6.5%, the lowest rate since the beginning of 2007. The foreclosure rate rose modestly by 0.02 percentage points to 0.48%. Over the year, the trend is similar.

Mortgages past due fell 0.85 percentage points, and foreclosures rose 0.07.

Both U.S. rates are dropping. Like Tennessee's, U.S. quarterly mortgages past due dropped 0.85 percentage points (to 5.1%, not seen since the first half of 2007).

Figure 9. Tennessee mortgages past due and foreclosure starts

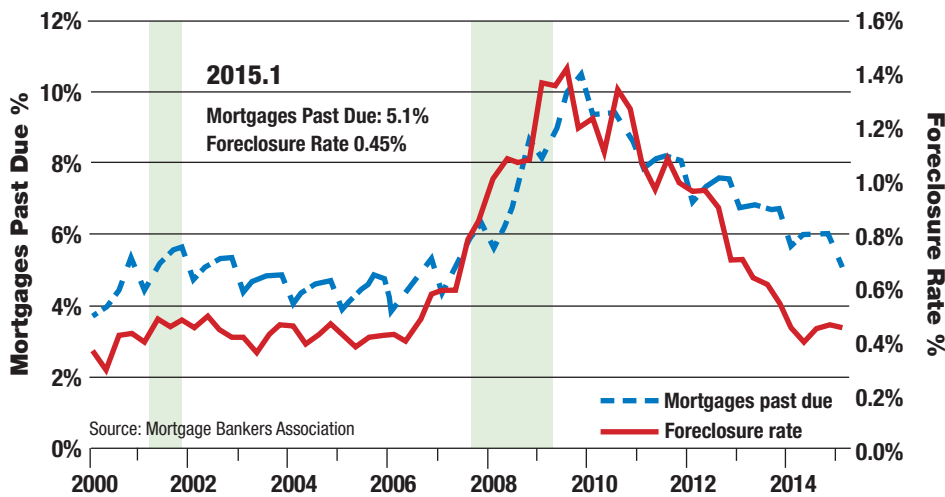
(percent of mortgages in place)



Mortgages past due in Tennessee fell to 6.5%, the lowest level since early 2007.

Figure 10. United States mortgages past due and foreclosure starts

(percent of mortgages in place)



U.S. mortgages past due dropped to 5.1%, a rate not seen since the first half of 2007.

Conclusion

Tennessee's economy showed mixed results in the first quarter. While the unemployment rate fell, the number of new unemployment claims increased from the fourth quarter. Nonfarm employment increased, with nearly all jobs added in goods-producing sectors.

Single-family housing construction in the state increased substantially. Multi-family permits took a large hit, falling more than 34% since the previous quarter. Taxes on mortgage and real estate transfers also fell.

Vacancy rates for homeowners increased quite a bit, reaching 2.7%. The rate of foreclosure slightly increased, but the percentage of mortgages past due fell nearly a whole percentage point. ■

Rental vacancy rates fell, reaching one of the lowest rates in recent history.



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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)