

Tennessee Housing Market Brief

Fourth Quarter 2013

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Economic overview

The Tennessee housing market muddled along during the fourth quarter, perhaps even losing some momentum, as it attempted to make progress against the headwinds of slower job growth in the state and higher mortgage rates.

It is not that employment did not rise during the quarter. Indeed, nonfarm jobs gained 36,000 over the year (Table 1) and new claims for unemployment insurance continued to drop to very low levels in the fourth quarter (Figure 1). But it's the rate of growth of nonfarm employment that is concerning, as the growth rate peaked early in 2013 and fell throughout the year. For December, nonfarm employment is just 1.1 percent higher, a full percentage-point less than in January 2013. Slower job growth means less income growth and slower demand for housing.

Housing construction

Construction activity in Tennessee stumbled during the fourth quarter, as the number of building permits issued for both single-family and multi-family homes declined compared with the previous quarter (Table 2). Single-family permits moved from 16,800 to 16,500 at a seasonally adjusted annual rate, falling 1.8 percent. By contrast, both the South and the United States experienced modest gains. The less-volatile trend for single-family permits drifted lower during the final four months of 2013 (Figure 2). The trend achieved a peak of 16,740 units in August 2013 following thirty-three months of monthly gains dating to December 2010. Over the year Tennessee still shows a substantial increase, up 10.9 percent compared with 6.8 percent for the South and 8.3 percent for the United States.

Permits issued for multi-family units fell much more, dropping from 6,800 in the third quarter to 4,900 in the fourth. During the second and third quarters multi-family activity was very large, relative to the post-recession period; the fourth-quarter could be considered a cooling-off from a unsustainable pace of building activity.

Combining single-family and multi-family permits, Tennessee experienced a 9.4 percent decline during the fourth quarter in contrast with a 10.1 percent gain in the South and 9.4 percent increase for the United States. Most of the difference can be attributed to the decline in multi-family activity in Tennessee.

Real estate transactions and mortgages

Tax collections related to real estate transactions and mortgages behaved very differently during the fourth quarter. Real estate transactions gained 3.5 percent, growing somewhat slower than in recent quarters but still producing a gain of 16.6 percent over the year (Figure 4).

Collections on new or refinanced mortgages fell 24 percent from the third quarter in response to higher mortgage rates. We suspect that most of the decline in mortgage tax collections was due to less refinancing activity. As one would expect, mortgage tax collections are sensitive to mortgage rates.

While less refinancing activity will not affect home sales directly, it does affect the level of household spending. When refinancing is used to reduce monthly mortgage payments, income is freed up for spending on other goods and services, thus increasing the aggregate level of consumer spending in the state. When mortgage rates rise, fewer mortgages are refinanced and this potential source of additional household spending dries up.

Home sales

Sales activity in all three metropolitan areas followed in this report declined during the fourth quarter, with Nashville down 1.1 percent, Memphis 2.2 percent lower, and Knoxville off 5.8 percent from the previous quarter after seasonal adjustments. The decline in sales can be attributed to slower employment growth in Tennessee combined with higher mortgage rates. Over the year, all three areas still show positive gains with Nashville up 9.3 percent, Memphis 1.7 percent higher, and Knoxville gaining 2.3 percent. Inventories of unsold homes fell in Nashville and Knoxville but were little changed in Memphis.

Home prices

According to data gathered by Zillow (www.Zillow.com), housing prices rose 0.6 percent during the fourth quarter from the previous quarter and 2.6 percent over the year for Tennessee, ranking the state 33rd highest (Table 3). The United States average over the year growth rate is 6.4 percent during the fourth quarter.

Housing prices rose over the year in all but one metropolitan area in Tennessee, with the largest over the year increases occurring in Kingsport (8.6 percent), Memphis, (7.2 percent), and Nashville (5.5 percent).

Conclusion

Tepid job growth and higher mortgage rates put a damper on housing market during the fourth quarter. Construction activity for both single-family and multi-family homes declined and home sales in the Nashville, Memphis, and Knoxville areas are lower compared with the previous quarter. Even with this setback, both construction and sales remain substantially higher over the year.