

# TENNESSEE HOUSING MARKET

David A. Penn, Director • Business and Economic Research Center • Jennings A. Jones College of Business • Middle Tennessee State University

**T**his quarterly series is supported by a Tennessee Housing Development Agency grant.

## Economic Overview

The first quarter was relatively good for the Tennessee labor market: job growth accelerated, and unemployment continued to decline. Nonfarm employment, from the survey of employers, rose 18,700 during the quarter and 50,600 over the year with job gains occurring in most sectors (Table 1). The goods-producing sectors, including mining, construction, and manufacturing, added 4,400 jobs from the previous quarter while the services-providing sectors added 14,300. Most of

the gains in nonfarm employment occurred in the three largest metropolitan areas: Nashville, Memphis, and Knoxville.

Falling unemployment is obviously a good thing when job creation is soaking up unemployed workers. However, unemployment can also decline when workers stop searching for work because job growth is insufficient. The first quarter shows a mix of the two effects: unemployment declined 21,000 from the fourth quarter, but employment rose just 5,000 with 16,000 workers leaving the labor force, at least temporarily.

The trend for initial unemployment insurance claims (Figure 1) is positive, with new claims falling to the lowest level in four years.

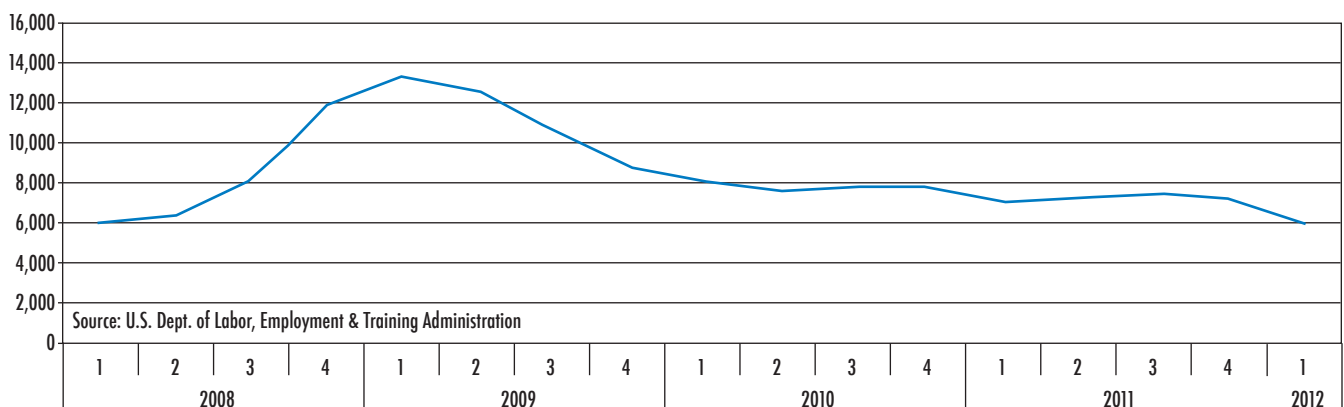
continued on page 2

**Table 1. Selected Tennessee employment indicators** (thousands, seasonally adjusted)

|                            | 2011.1 | 2011.2 | 2011.3 | 2011.4 | 2012.1 |
|----------------------------|--------|--------|--------|--------|--------|
| Total nonfarm              | 2,640  | 2,650  | 2,660  | 2,672  | 2,691  |
| Goods-producing sectors    | 408    | 412    | 417    | 419    | 423    |
| Manufacturing              | 303    | 304    | 305    | 306    | 308    |
| Services-providing sectors | 2,232  | 2,237  | 2,243  | 2,253  | 2,267  |
| Labor force                | 3,130  | 3,131  | 3,130  | 3,138  | 3,123  |
| Total employment           | 2,833  | 2,837  | 2,842  | 2,866  | 2,872  |
| Unemployed                 | 297    | 294    | 289    | 272    | 251    |
| Unemployment rate          | 9.5%   | 9.4%   | 9.2%   | 8.7%   | 8.0%   |

Source: Bureau of Labor Statistics

**Figure 1. Tennessee initial claims for unemployment insurance** (quarterly averages of weekly data, seasonally adjusted)



Source: U.S. Dept. of Labor, Employment & Training Administration



continued from page 1

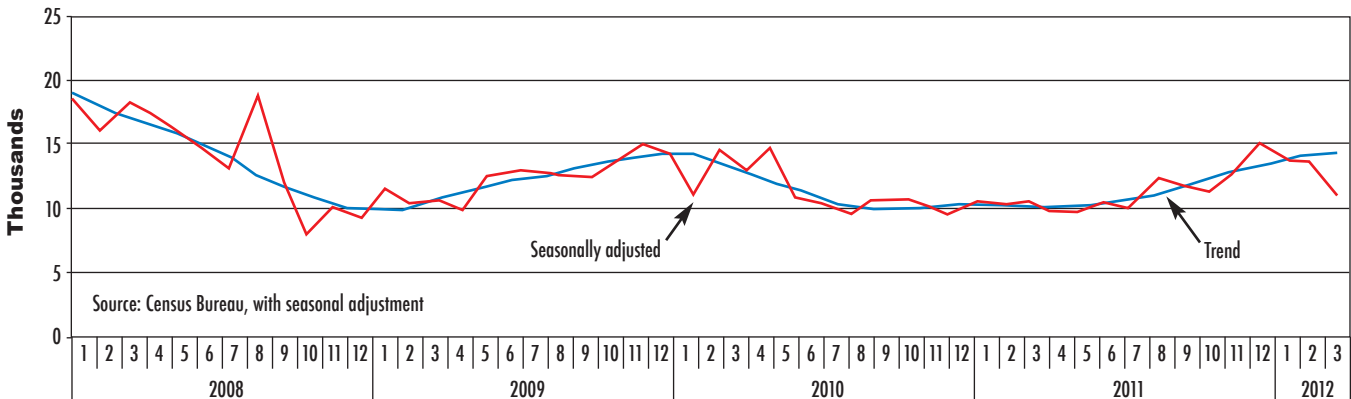
**Housing Construction**

Permits issued for single-family home construction declined 1.4 percent from the fourth quarter, dropping to an annual rate

of 12,800 units. By contrast, the South and the United States experienced gains in single-family construction (Table 2). Over the year, permits are still 21 percent higher, but this is compared to extremely low levels in 2011.

continued on page 3

**Figure 2. Tennessee single-family home permits** (seasonally adjusted annual rate, thousand units)



**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.    |
| 2007.1                       | 33.8                  | 596.7 | 1,152.3 | 6.5                  | 195.7 | 454.3 | 40.3          | 792.3 | 1,606.7 |
| 2007.2                       | 28.6                  | 528.3 | 1,031.7 | 7.3                  | 204.3 | 425.0 | 35.9          | 732.7 | 1,456.7 |
| 2007.3                       | 27.3                  | 474.7 | 916.3   | 5.9                  | 163.3 | 398.0 | 33.2          | 638.0 | 1,314.3 |
| 2007.4                       | 23.1                  | 414.0 | 786.0   | 10.2                 | 175.3 | 402.3 | 33.3          | 589.3 | 1,188.3 |
| 2008.1                       | 18.4                  | 366.3 | 671.3   | 5.3                  | 170.0 | 353.7 | 23.8          | 536.3 | 1,025.0 |
| 2008.2                       | 17.1                  | 333.7 | 633.0   | 3.3                  | 152.7 | 428.0 | 20.4          | 486.3 | 1,061.0 |
| 2008.3                       | 15.5                  | 283.7 | 547.7   | 5.4                  | 162.7 | 311.0 | 20.9          | 446.3 | 858.7   |
| 2008.4                       | 10.1                  | 215.3 | 417.7   | 5.4                  | 106.3 | 221.0 | 15.6          | 321.7 | 638.7   |
| 2009.1                       | 10.4                  | 197.7 | 358.3   | 2.7                  | 82.3  | 180.3 | 13.1          | 280.0 | 538.7   |
| 2009.2                       | 11.0                  | 223.0 | 426.7   | 3.3                  | 68.7  | 132.7 | 14.3          | 291.7 | 559.3   |
| 2009.3                       | 12.7                  | 252.3 | 485.7   | 1.3                  | 53.3  | 121.0 | 14.0          | 305.7 | 606.7   |
| 2009.4                       | 13.7                  | 255.3 | 487.7   | 2.1                  | 56.7  | 135.7 | 15.8          | 312.0 | 623.3   |
| 2010.1                       | 13.2                  | 269.0 | 518.3   | 6.5                  | 59.3  | 141.3 | 19.7          | 328.3 | 659.7   |
| 2010.2                       | 12.7                  | 233.7 | 443.7   | 3.8                  | 69.3  | 156.0 | 16.5          | 303.0 | 599.7   |
| 2010.3                       | 10.2                  | 210.3 | 405.7   | 4.5                  | 77.7  | 165.0 | 14.7          | 288.0 | 570.7   |
| 2010.4                       | 10.2                  | 211.0 | 424.0   | 2.1                  | 58.7  | 159.0 | 12.3          | 269.7 | 583.0   |
| 2011.1                       | 10.5                  | 213.3 | 397.7   | 1.9                  | 76.7  | 161.0 | 12.4          | 290.0 | 558.7   |
| 2011.2                       | 10.0                  | 215.0 | 401.0   | 2.7                  | 79.3  | 195.3 | 12.7          | 294.3 | 596.3   |
| 2011.3                       | 11.2                  | 219.7 | 411.3   | 3.1                  | 84.7  | 193.7 | 14.3          | 304.3 | 605.0   |
| 2011.4                       | 13.0                  | 235.3 | 435.0   | 4.9                  | 105.3 | 230.0 | 17.9          | 340.7 | 665.0   |
| 2012.1                       | 12.8                  | 249.7 | 465.3   | 5.4                  | 121.7 | 255.0 | 18.2          | 371.3 | 720.3   |
| Change from previous quarter | -1.4%                 | 6.1%  | 7.0%    | 10.9%                | 15.5% | 10.9% | 1.9%          | 9.0%  | 8.3%    |
| Change from previous year    | 21.8%                 | 17.0% | 17.0%   | 187.6%               | 58.7% | 58.4% | 46.9%         | 28.0% | 28.9%   |

Source: Census Bureau.



continued from page 2

Multi-family units continue to rise across the nation. Permits issued for multi-family units in Tennessee rose 10.9 percent from the previous quarter. New multi-family construction has been spurred by higher occupancy rates, higher rental rates, and rising single-family home foreclosures.

Total permits (single-family plus multi-family) gained 1.9 percent in the first quarter. Multi-family permits constituted a relatively high 42 percent of all new construction in the first quarter.

**Real Estate Transactions and Mortgages**

Tax collections on real estate transactions and new mortgages jumped higher in the first quarter, indicating increased real estate activity. Real estate tax collections rose 20.4 percent from the fourth quarter (Figure 3), while the mortgage tax

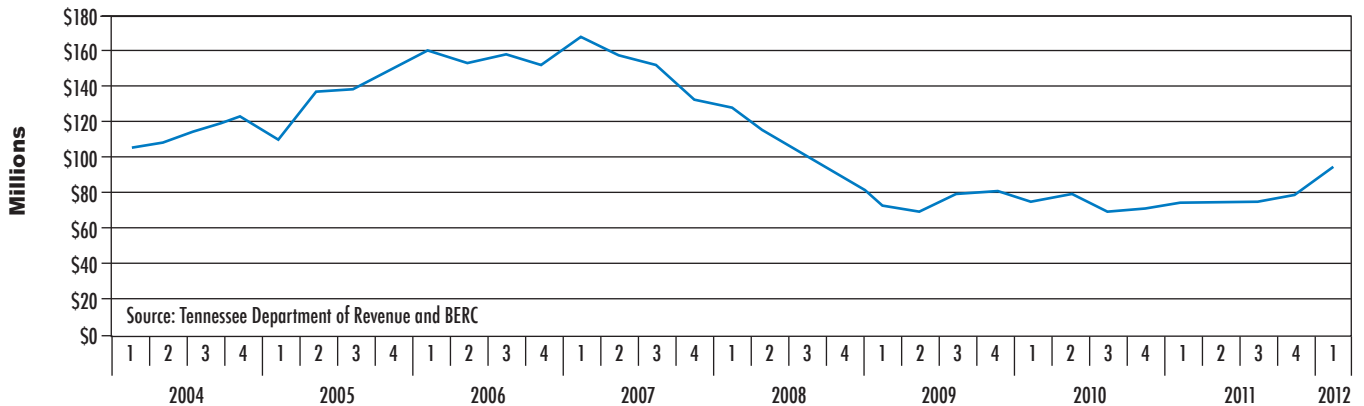
increased by 18.7 percent (Figure 4). While still far lower than the pre-recession peak, these tax collections are at their highest level since mid-2008.

**Home Sales**

Home sales rose significantly in the Nashville, Memphis, and Knoxville areas during the first quarter (Figure 5). The confluence of rising employment and incomes, improving confidence, low home prices, and very low mortgage rates creates favorable conditions for home purchases. Seasonally adjusted sales in the Nashville area gained 7.3 percent from the first quarter while Memphis increased 10.7 percent and Knoxville 17.5 percent. Over the year, Nashville area sales are 22.0 percent higher, compared with gains of 21.3 percent for the Memphis area and 24.1 percent for the Knoxville area. The current level of sales is close to the surge of sales that resulted

continued on page 5

**Figure 3. Real estate transfer tax collections** (seasonally adjusted annual rate)



**Figure 4. Mortgage tax collections** (seasonally adjusted annual rate)

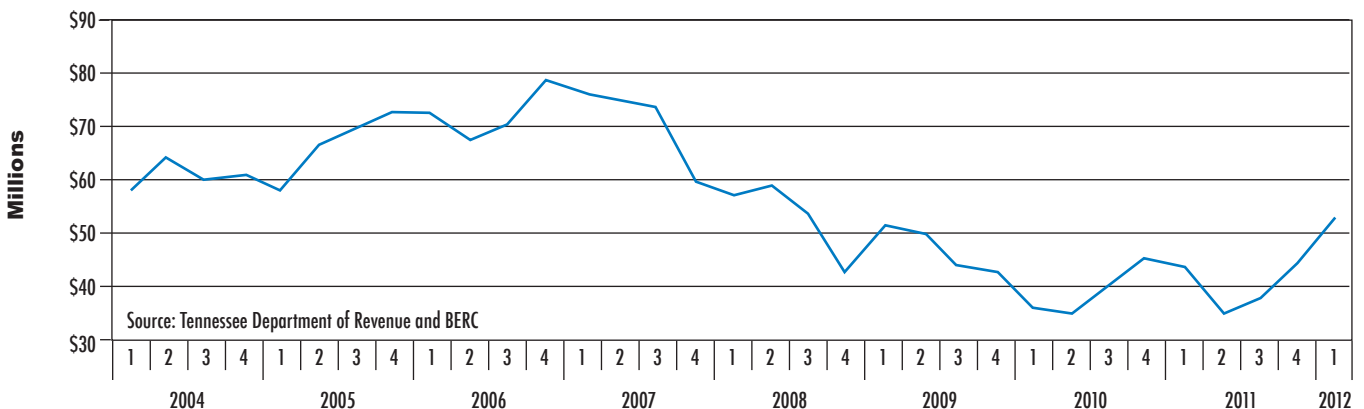
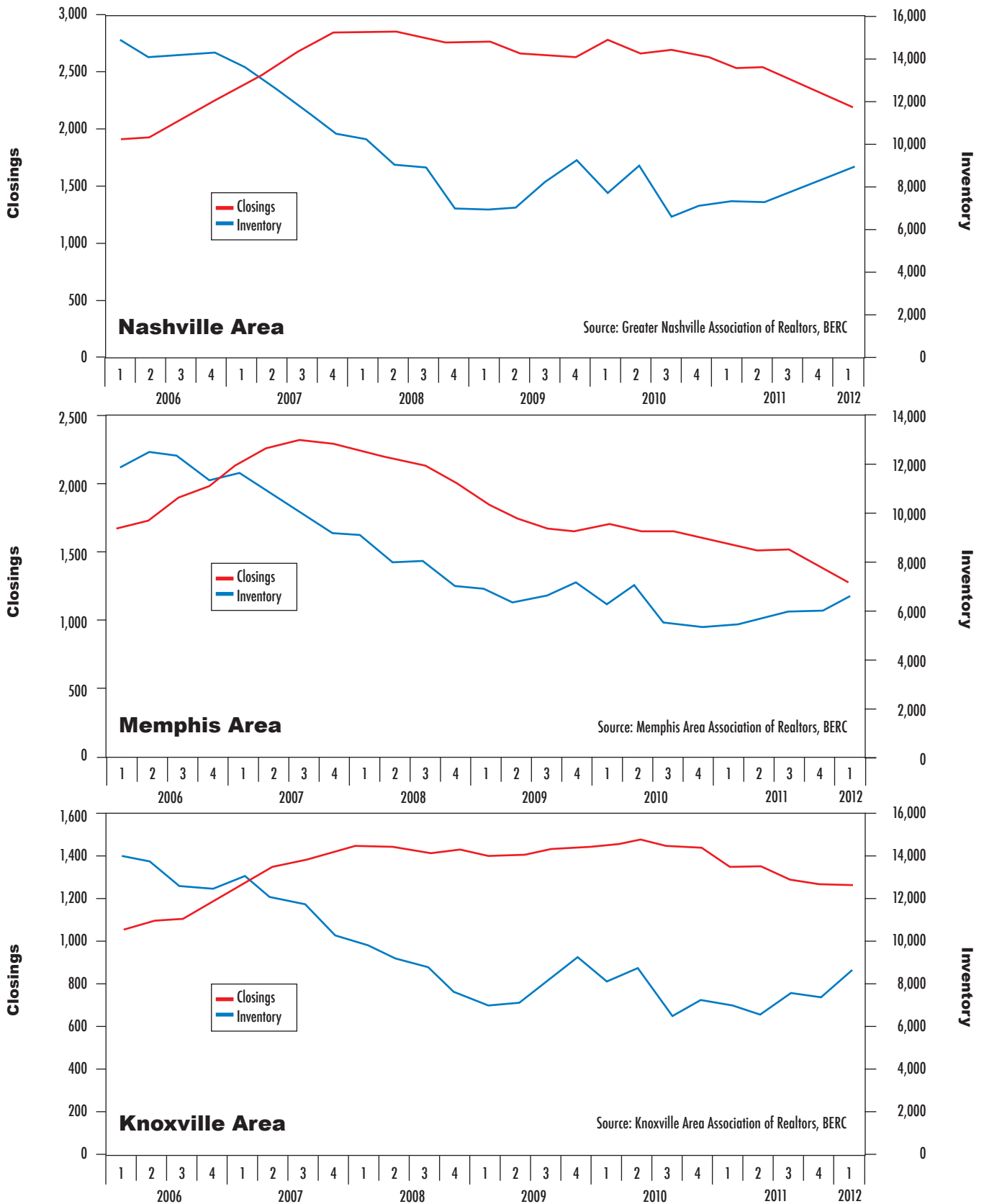




Figure 5. Single-family sales and inventory (seasonally adjusted quarterly average of monthly figures)





continued from page 3

from the new-home-purchase incentives in 2009 and early 2010. While still much lower than pre-recession levels, sales are moving in the right direction.

Inventories of homes on the market fell in all three areas, falling most in Memphis, with a moderate drop in Nashville and a modest decline in Knoxville. The inventory-to-sales ratio fell to 7.1 months for Nashville, 5.9 months for Memphis, and 14.7 months for Knoxville.

**Mortgage Delinquencies and Foreclosures**

*Note: data for first-quarter foreclosures and delinquencies from the Mortgage Bankers Association are not yet available.*

Foreclosure rates from RealtyTrac show that Tennessee is above average in the prevalence of new mortgage foreclosures among the surrounding states. One in 1,080 homes entered foreclosure in March 2012, not nearly as high as Georgia (1 in 361 homes) or Arkansas (1 in 422) but worse than the other surrounding states. However, Tennessee fares much better than the United States average of one in 662 homes entering foreclosure.

RealtyTrac expects the number of foreclosures to rise in coming months as the processing logjam loosens up. Rising foreclosures will cause more downward pressure on home prices. RealtyTrac estimates that presently the average foreclosure sale price in Tennessee is at a 30 percent discount from the average sales price of all homes.

**Home Prices**

Average home prices fell again during the first quarter according to data published by the Federal Housing Finance Administration (FHFA), offering little prospect of a turnaround in the near future. The price of homes fell 2.1 percent over the year for Tennessee, compared with a 3.0 percent decline for the United States (Table 4). The Clarksville and Jackson MSAs showed the smallest declines, while the largest declines occurred in the Morristown, Memphis, and Chattanooga MSAs plus the nonmetropolitan areas of

**Table 4. Change in housing prices year to year**

| Area                  | 2010.1-2011.1 | 2010.2-2011.2 | 2010.3-2011.3 | 2010.4-2011.4 |
|-----------------------|---------------|---------------|---------------|---------------|
| U.S.                  | -3.1%         | -4.0%         | -4.0%         | -3.0%         |
| Tennessee             | -1.5%         | -2.7%         | -2.6%         | -2.1%         |
| Chattanooga MSA       | -1.6%         | -2.4%         | -3.2%         | -2.8%         |
| Clarksville MSA       | -0.8%         | 0.4%          | -1.4%         | -0.4%         |
| Cleveland MSA         | -1.8%         | -2.5%         | -1.6%         | -1.2%         |
| Jackson MSA           | 0.0%          | -6.0%         | -2.7%         | -0.8%         |
| Johnson City MSA      | -0.8%         | -4.9%         | -4.3%         | -1.2%         |
| Kingsport-Bristol MSA | -0.6%         | -0.7%         | -0.5%         | -1.2%         |
| Knoxville MSA         | -1.6%         | -1.9%         | -2.0%         | -1.8%         |
| Memphis MSA           | -3.6%         | -5.5%         | -4.6%         | -2.8%         |
| Morristown MSA        | 0.1%          | -2.9%         | 0.2%          | -3.2%         |
| Nashville MSA         | -1.7%         | -1.7%         | -2.3%         | -2.0%         |
| TN nonmetro areas     | -0.4%         | -2.9%         | -2.2%         | -2.8%         |

Source: Federal Housing Finance Agency All Transactions Index

Tennessee. Only one area in Tennessee, the Morristown MSA, experienced a price drop greater than the U.S. average.

The lone positive note is that price declines occurred at a slower pace than the previous quarter, with the exception of the Morristown MSA.

**Conclusion**

On balance, the first quarter ended with more positives than negatives for the housing market. Job growth continued in the first quarter, though at a modest rate, thus providing a more solid foundation for housing growth and trade. A declining labor force warns that job growth is much too low to accommodate the large number of job seekers. Sales in three major metropolitan areas rose as did tax collections related to the housing market, suggesting increasing levels of activity. Construction activity is growing quickly, especially for multi-family units, but still at a very low level. Little relief was evident for housing prices, and the expected increase in foreclosure activity will likely push prices down further. ■

Business and Economic Research Center  
 P.O. Box 102  
 1301 E. Main St.  
 Murfreesboro, TN 37132  
 615-898-2610



A Tennessee Board of Regents university, MTSU is an equal opportunity, nonracially identifiable, educational institution that does not discriminate against individuals with disabilities.