



MULTIFAMILY REPORT

# Knoxville Stays Solid

Spring 2021

Rent Growth Outperforms Nation

Company Expansions Promise New Jobs

Increased Demand Triggers Development

# KNOXVILLE MULTIFAMILY



## Demand Keeps Fundamentals Healthy

Knoxville's solid fundamentals helped its real estate sector weather the effects of the health crisis well. Its multifamily market saw rents advance, up 0.4% to \$1,099 on a trailing three-month basis as of February. Positive in-migration and limited inventory expansion pushed up the occupancy rate in stabilized properties by 160 basis points year-over-year through January, to 97.4%.

The unemployment rate dropped to 4.3% in November, with preliminary data for January pointing to a 30-basis-point increase. The employment market saw a 2.2% contraction in the 12 months ending in December, outperforming the national rate by 420 basis points. Three sectors gained jobs, two of which serve as Knoxville's main economic drivers: Professional and business services and education and health services expanded by 5.4% and 3.0%, respectively. Knoxville's largest employment sector—trade, transportation and utilities—shrunk by just 0.7% and points to recovery.

Developers delivered 267 units in 2021 through February and had 1,269 underway. Last year, 292 units came online in Knoxville. Investment activity picked up in the final quarter of 2020, with \$190 million in multifamily assets—of the \$260 million total—trading for a price per unit that rose by a substantial 58.5% to \$169,514.

## Market Analysis | Spring 2021

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### Recent Knoxville Transactions

#### Amberleigh Bluff



City: Knoxville, Tenn.  
Buyer: Steadfast Cos.  
Purchase Price: \$60 MM  
Price per Unit: \$178,571

#### Heritage Lake



City: Knoxville, Tenn.  
Buyer: Timberland Partners  
Purchase Price: \$51 MM  
Price per Unit: \$192,748

#### The Village at Westland Cove



City: Knoxville, Tenn.  
Buyer: Wilkinson Real Estate Advisors  
Purchase Price: \$47 MM  
Price per Unit: \$195,833

#### The Willows of West Hills

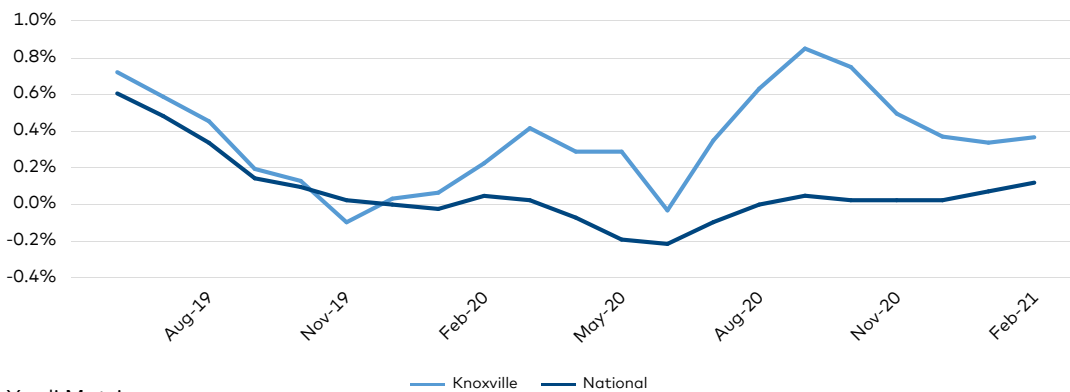


City: Knoxville, Tenn.  
Buyer: Kibo Capital Group  
Purchase Price: \$38 MM  
Price per Unit: \$150,000

## RENT TRENDS

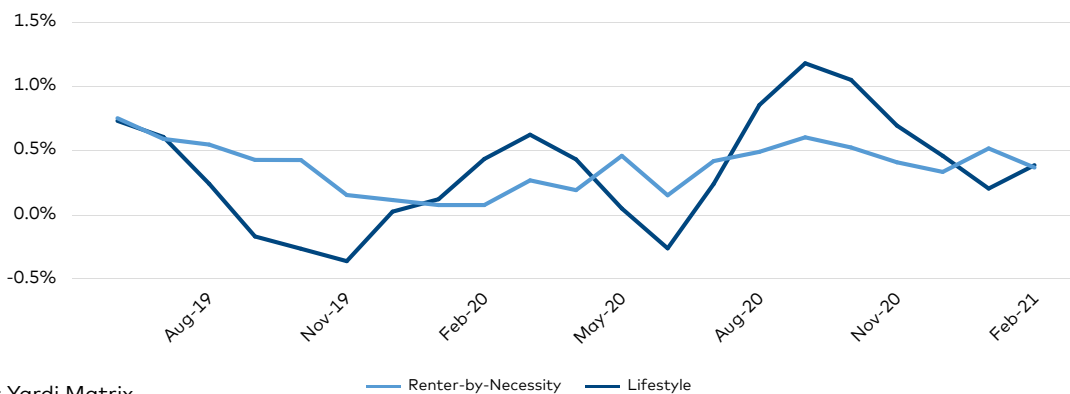
- ▶ Knoxville rents rose 0.4% to \$1,099 on a trailing three-month (T3) basis through February. Meanwhile the national rate was up 0.1% to \$1,399, marking the ninth consecutive month where the average rent increased or remained flat. On a year-over-year basis, rents in Knoxville advanced 0.5%.
- ▶ Since the onset of the health crisis, Knoxville's rent performance has proved resilient. September posted the strongest gains, when the average figure hiked 0.9% on a T3 basis.
- ▶ Limited inventory expansion coupled with positive in-migration and the metro's relative affordability generated demand for both Lifestyle and Renter-by-Necessity assets, with rents rising by 0.4% on a T3 basis through February in both segments, to \$1,477 and \$914, respectively.
- ▶ Rents rose in all submarkets, and only one-third had an average that was below the \$1,000 mark. Among the most sought-after areas was Knoxville-West (up 4.3% year-over-year to \$1,335) and South Knoxville (up 11.9% year-over-year to \$1,185). The latter also had one of the best rent performances in the metro in the 12 months ending in February, followed by Northshore, where prices increased by 9.9% to \$1,065. Meanwhile, among the most affordable submarkets were Oak Ridge (up 3.6% to \$786) and Maryville (up 5.0% to \$835).

### Knoxville vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

### Knoxville Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

## ECONOMIC SNAPSHOT

- ▶ The unemployment rate in Knoxville maintained steady improvement and dropped to 4.3% in November, with preliminary data for January pointing to a 30-basis-point increase, according to BLS data.
- ▶ The metro's employment market showed resilience and has outperformed the nation since the onset of the pandemic, at -2.2% year-over-year through December, while the U.S. rate clocked in at -6.8%. Three sectors gained jobs and a fourth remained flat. Two of Knoxville's main economic drivers—professional and business services and education and health services—expanded by 5.4% and 3.0%, respectively.
- ▶ Company expansions will likely maintain this trend, including a move by global IT and business consulting company CGI, which announced plans to open a new IT delivery center, in a \$27 million investment that will bring 300 jobs over the next five years. The metro's largest employment sector—trade, transportation and utilities—shrunk 0.7% but is well-positioned to recover, aided by Amazon Logistics, which signed a lease for a new delivery station. The facility will replace the Center Mall, feature a design scheme that meets the needs of electric delivery vehicles, and will create hundreds of full- and part-time jobs.

### Knoxville Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	69	17.0%
65	Education and Health Services	58	14.3%
15	Mining, Logging and Construction	19	4.7%
50	Information	6	1.5%
80	Other Services	16	3.9%
40	Trade, Transportation and Utilities	81	20.0%
55	Financial Activities	19	4.7%
30	Manufacturing	40	9.9%
90	Government	57	14.0%
70	Leisure and Hospitality	41	10.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Knoxville gained 9,057 residents in 2019, up 1.0%, more than three times the 0.3% national rate and 10 basis points above the 2018 figure.
- ▶ Since 2010, the metro's population has risen 6.4%, with the rate on an accelerating trend. Meanwhile, the U.S. rate increased 6.1%.

### Knoxville vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Knoxville Metro	867,386	875,797	883,309	892,366

Sources: U.S. Census, Moody's Analytics

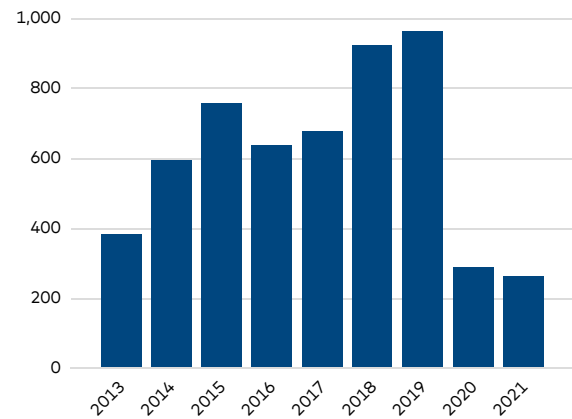
## SUPPLY

- ▶ Developers delivered 267 units in 2021 through February, for a 0.7% expansion of the total stock, more than double the 0.7% national rate. In 2020, construction activity was deeply impacted by the pandemic and only 292 units came online, totaling 0.7% of total stock and well below the 2.2% U.S. rate. Since 2013, some 5,500 units have been added to the metro's multifamily inventory.
- ▶ As of February, Knoxville's development pipeline comprised 1,269 units in eight projects under construction and another 2,600 in the planning and permitting stages. Of the units underway, 972 were slated for completion by year-end, but delays will likely occur, caused by setbacks in permitting and increases in prices for construction materials. The stock expansion is balanced between asset classes, with four Lifestyle projects, three fully affordable communities and one Renter-by-Necessity property under construction.
- ▶ The average occupancy rate in stabilized properties rose 160 basis points year-over-year through January, to 97.4%. The occupancy rate in the Lifestyle segment led growth, up by

230 basis points to 97.4%. For RBN assets, it rose 130 basis points to 97.4%.

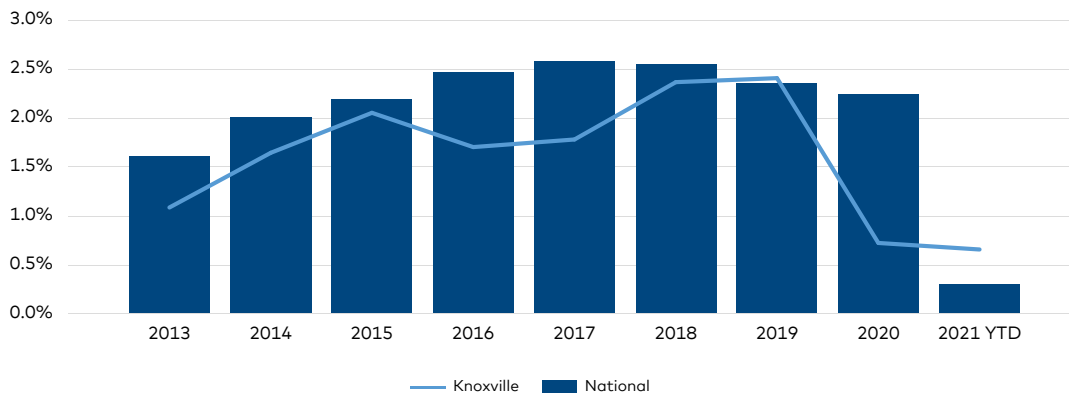
- ▶ The only project delivered in 2021 through February was Overlook at Farragut, a Lifestyle property located in Hardin Valley, built by a private investor, with aid from a \$25 million construction loan issued by State Bank & Trust Co.

### Knoxville Completions (as of February 2021)



Source: Yardi Matrix

### Knoxville vs. National Completions as a Percentage of Total Stock (as of February 2021)

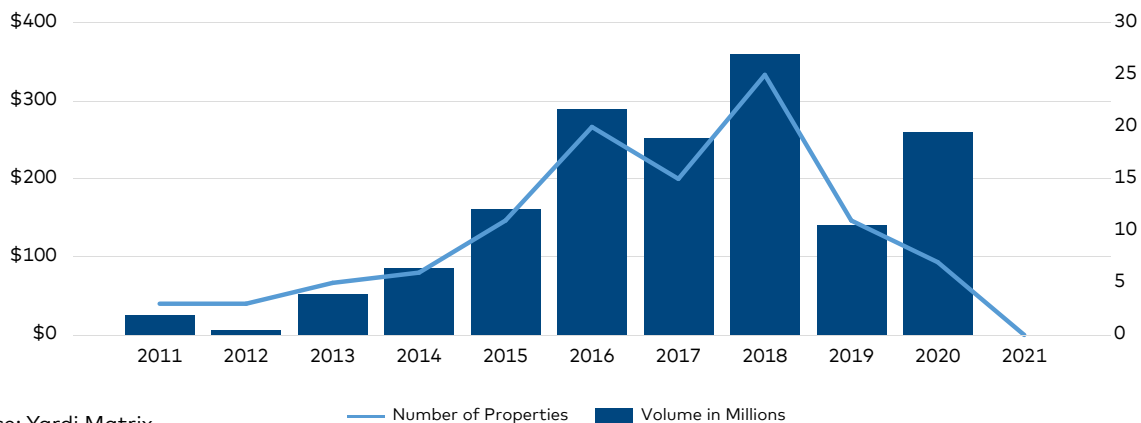


Source: Yardi Matrix

## TRANSACTIONS

- ▶ Transaction volume in Knoxville totaled \$260 million in multifamily assets in 2020, nearly double the amount of 2019. Some \$190 million of that traded in the last quarter.
- ▶ The sales composition reflected increased investor interest toward upscale Lifestyle properties, and the price per unit appreciated by a hefty 58.5% year-over-year through December to \$169,514, surpassing the \$156,953 U.S. average for the first time.
- ▶ Areas targeted by investors were southwestern submarkets Northshore (\$158 million) and Middlebrook (\$58 million). The largest deal of 2020 was Steadfast Cos.' acquisition of the 336-unit Amberleigh Bluff in Northshore. Chartwell Holdings sold the Lifestyle asset for \$60 million, or \$178,571 per unit, for which the buyer took out a \$39 million CMBS loan originated by Walker & Dunlop.

### Knoxville Sales Volume and Number of Properties Sold (as of February 2021)



Source: Yardi Matrix

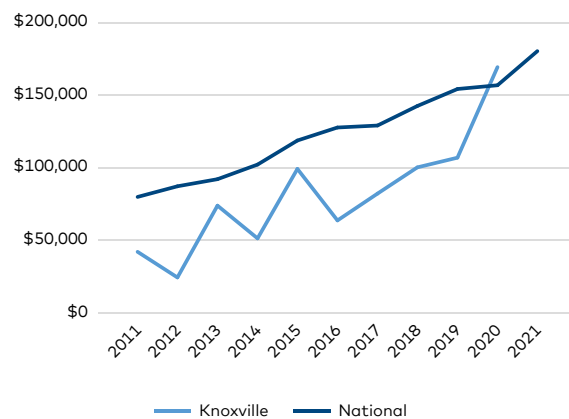
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Northshore	158
Middlebrook	58

Source: Yardi Matrix

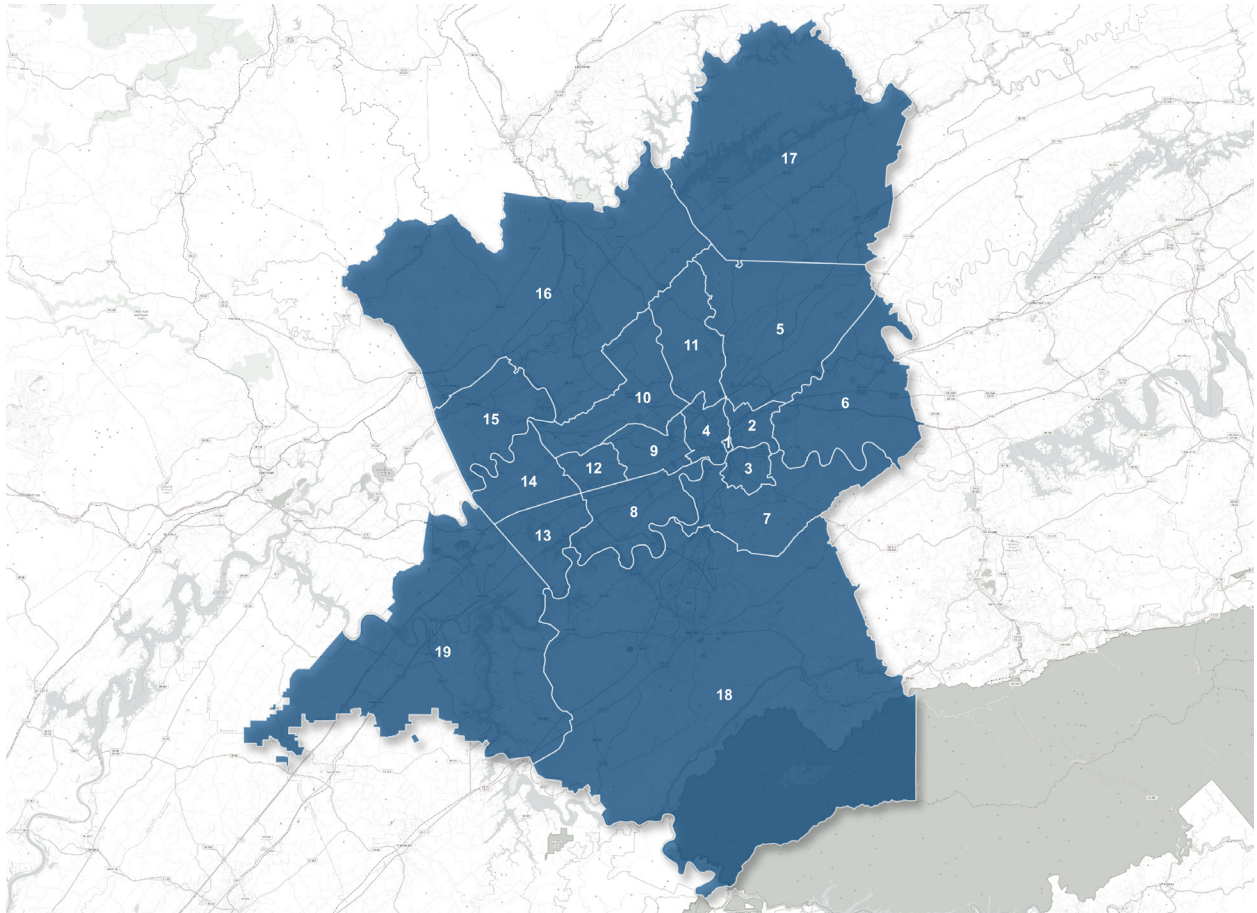
<sup>1</sup> From March 2020 to February 2021

### Knoxville vs. National Sales Price per Unit



Source: Yardi Matrix

## KNOXVILLE SUBMARKETS



Area No.	Submarket
1	Knoxville-Downtown
2	Knoxville-East
3	South Knoxville
4	Knoxville-West
5	Corryton
6	Strawberry Plains
7	Seymour
8	Northshore
9	Middlebrook
10	Karns

Area No.	Submarket
11	Powell
12	Cedar Bluff
13	Farragut
14	Hardin Valley
15	Oakridge
16	Anderson
17	Union
18	Maryville
19	Loudon

## DEFINITIONS

**Lifestyle households (renters by choice)** have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

**Renter-by-Necessity households** span a range. In descending order, household types can be:

- ▶ *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- ▶ *Students*, who also December span a range of income capability, extending from affluent to barely getting by;
- ▶ *Lower-middle-income ("gray-collar") households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- ▶ *Blue-collar households*, which December barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- ▶ *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, December extend to middle-income households in some high-cost markets, such as New York City;
- ▶ *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

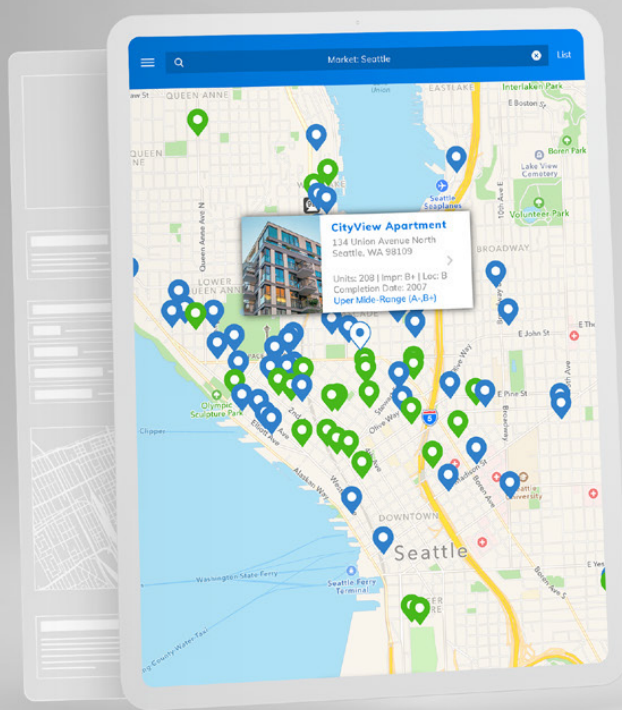
To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.





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