

HOUSING

T E N N E S S E E

3rd Quarter 2018

Tennessee dashboard 3rd quarter 2018

(percent change over the year)

Weekly Unemployment Claims	▼	-12.81	Total Home Permits*	▲	+2.67
Total Nonfarm Employment*	▲	+1.62	Mortgage Tax Collections	▼	-5.79
Unemployment Rate (percentage points)*	▲	+0.34	Real Estate Transfer Tax Collections	▲	+6.26
Homeowner Vacancy Rate (percentage points)	▲	+0.30	Home Prices*	▲	+7.65
Rental Vacancy Rate (percentage points)	▲	+1.50	Mortgages Past Due (percentage points)	▼	-0.34
Single-Family Home Permits*	▲	+4.18	Foreclosure Rate (percentage points)	▼	-0.03

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

Economic Overview

Most Tennessee indicators tracked in this report exhibited growth

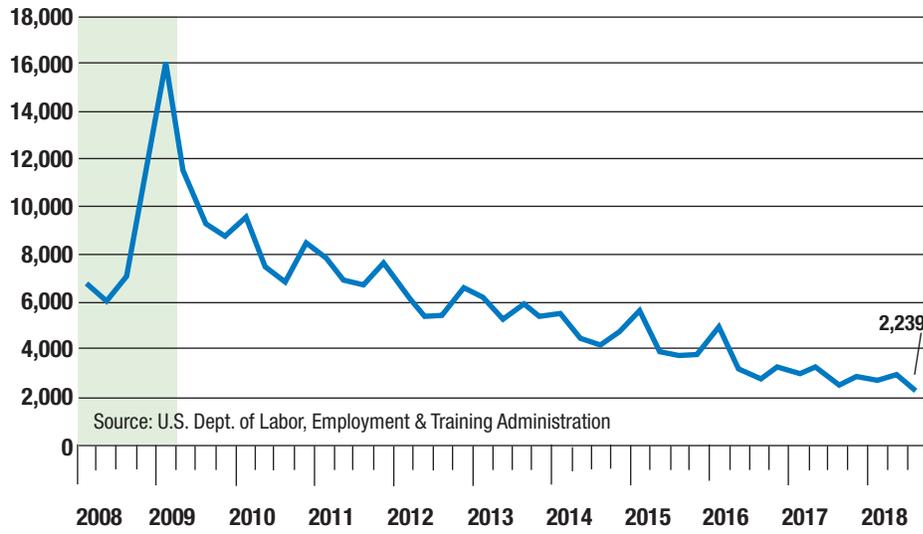
Overall, Tennessee's economy displayed further evidence of durable growth in most indicators tracked by this report. However, some economic indicators revealed negative effects on the economy, such as increasing vacancy rates and mortgage tax collections. On the positive side, the state's labor force has seen continued growth in total employment and nonfarm industry employment. Unemployment claims for the quarter are at the lowest level in over a decade. Unemployment claims have been declining consistently

in 2018 for a 12.81% decrease from last year. These indicators show Tennessee has managed to support a strong workforce and foundation of employment.

A trend related to employment in the state worth attention is the average unemployment rate, which has steadily increased in small increments over the year. In other areas, home prices have remained on par with trends shown throughout the year, up 7.65% from last year. Despite all of the positive growth, Tennessee saw increases in rental vacancies of 1.50 percentage points and homeowner vacancies of 0.30 percentage points from last year. In addition, mortgage tax collections this quarter were down 5.79% over the year.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



Unemployment claims for the quarter are at the lowest level in over a decade

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2017.3	2017.4	2018.1	2018.2	2018.3
Employment by industry (nonfarm)					
Total nonfarm	3,024	3,026	3,041	3,057	3,073
Goods-producing sectors	471	473	475	476	480
Manufacturing	346	348	350	350	354
Services-providing sectors	2,552	2,553	2,567	2,581	2,592
Labor force	3,159	3,220	3,222	3,238	3,254
Total employment	3,058	3,113	3,113	3,126	3,138
Unemployed	102	106	109	112	116
Unemployment rate	3.23%	3.30%	3.37%	3.47%	3.57%

Source: Bureau of Labor Statistics

The state's labor force has seen continued growth in total employment and nonfarm employment

Vacancy Rates

Tennessee's homeowner and rental vacancy rates registered minimal changes

The homeowner vacancy rate in Tennessee increased 0.30 of a percentage point from this time last year but remained at the same rate as last quarter. Tennessee's rental vacancies dropped a percentage point from last quarter but increased 1.5 percentage points from last year.

U.S. homeowner vacancy rates saw no change from last year but an increase of 0.10 of a percentage point from last quarter. The nation's rental vacancy rate increased by 0.30 of a percentage point from last quarter but decreased by 0.40 of a percentage point over the year.

Figure 2. Homeowner vacancy rate

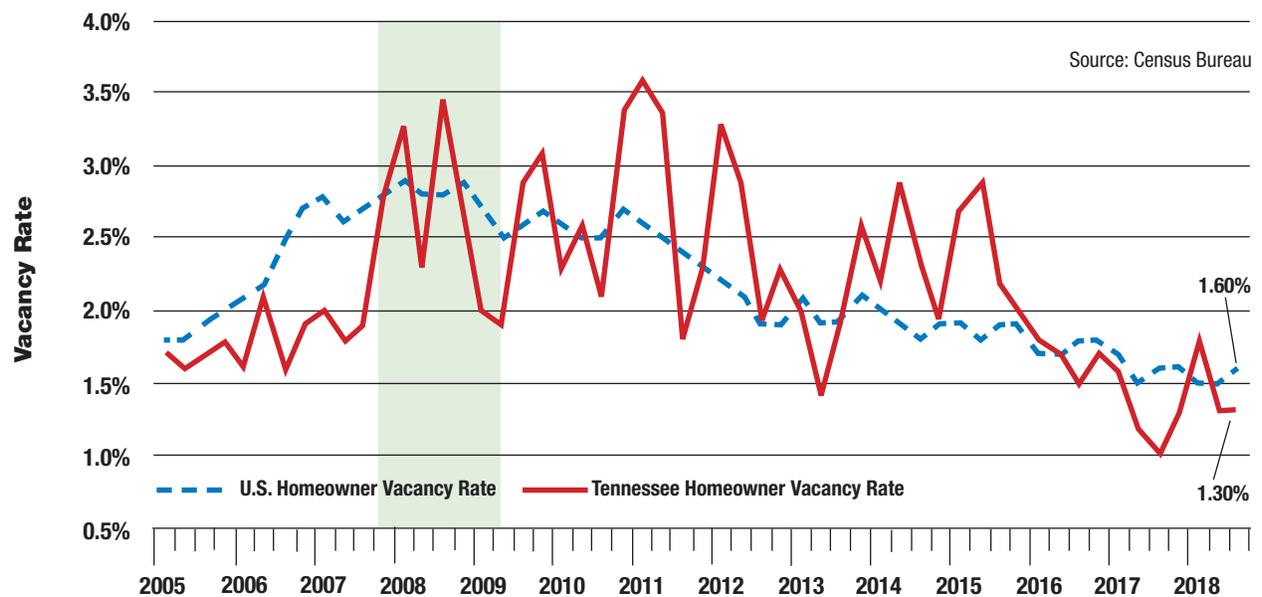
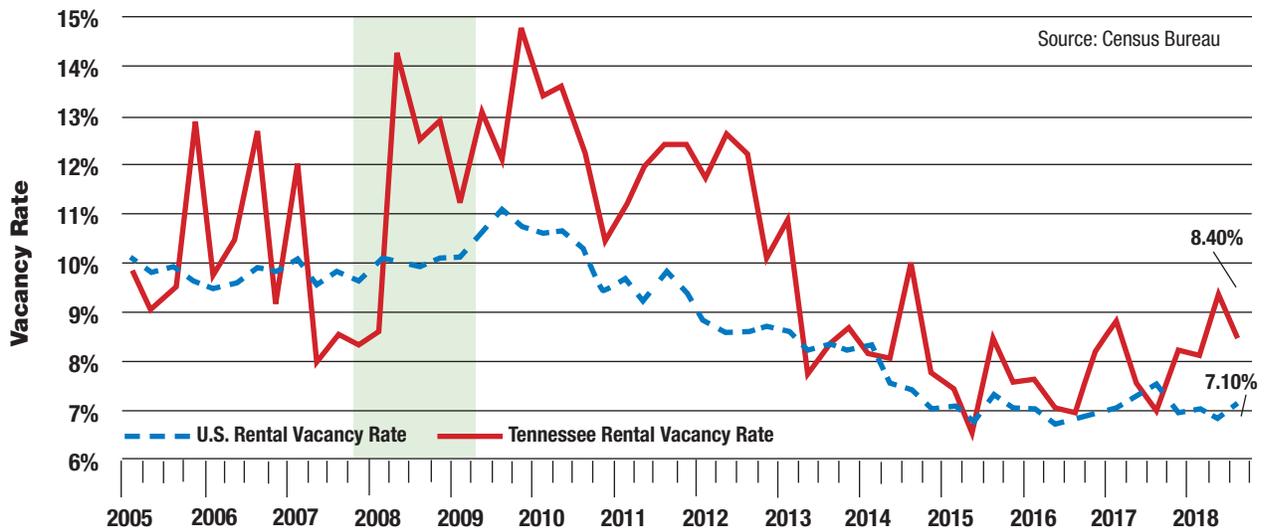


Figure 3. Rental vacancy rate



Housing Construction

Tennessee saw growth in single-family, multifamily, and total construction permits

Compared with last quarter, Tennessee showed growth in single-family, multifamily, and total construction permits. The most significant increase was in multifamily permits, which saw a 35.5% boost, followed by a nearly 4% increase in total permits and a 2% increase in single-family permits.

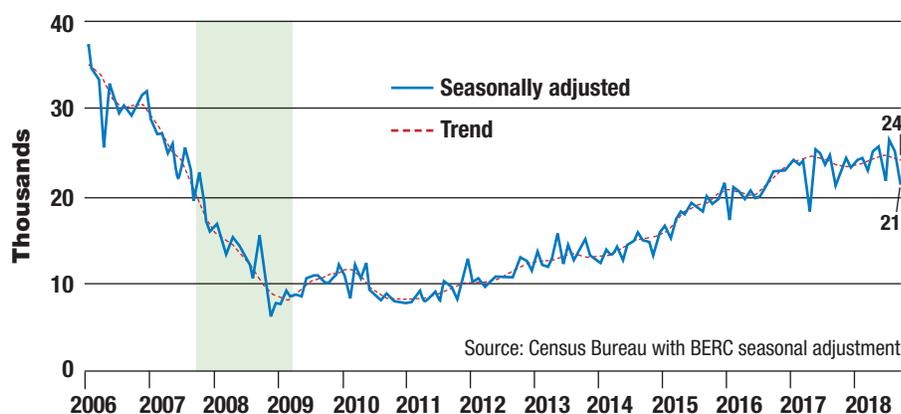
Nearly every region covered by this report has experienced growth in the number of construction

permits issued from last year. The only decline over the year was in multifamily permits issued in the United States, which saw a slight 0.6% dip.

Overall, the South experienced the most significant increases in all three categories since last year. Although the South's multifamily permits decreased 6.4% from last quarter, its multifamily permits increased 15.5% over the year.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



Multifamily permits saw a 35.5% boost for the quarter

Table 2. Permits issued for privately owned new housing

(thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multifamily Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2015.3	23.0	379.9	699.7	8.0	181.9	433.1	31.6	567.5	1,136.9
2015.4	24.0	391.9	711.7	16.8	203.0	481.6	39.7	586.9	1,200.3
2016.1	23.8	386.0	728.5	18.6	179.1	414.6	40.4	568.2	1,142.3
2016.2	24.1	396.2	741.5	8.6	174.9	409.3	34.3	574.2	1,143.1
2016.3	25.7	404.4	742.9	8.5	181.8	451.9	33.9	590.4	1,196.9
2016.4	27.7	423.8	778.4	9.9	161.3	429.7	36.7	574.2	1,208.7
2017.1	29.1	445.5	807.9	8.7	166.3	435.2	37.3	619.0	1,242.5
2017.2	27.2	439.1	812.6	11.5	165.1	426.7	40.5	606.9	1,236.4
2017.3	28.4	441.3	822.9	14.4	168.9	436.7	41.9	612.8	1,257.1
2017.4	28.4	458.0	845.7	8.7	168.0	443.6	36.6	612.9	1,293.2
2018.1	28.6	466.5	857.5	5.4	180.5	479.9	34.2	646.5	1,357.7
2018.2	29.0	469.5	867.8	10.8	208.5	456.4	41.4	689.5	1,304.9
2018.3	29.6	468.8	860.3	14.7	195.0	434.0	43.0	666.3	1,288.5
Change from previous quarter	2.0%	-0.1%	-0.9%	35.5%	-6.4%	-4.9%	4.0%	-3.4%	-1.3%
Change from previous year	4.2%	6.2%	4.6%	2.4%	15.5%	-0.6%	2.7%	8.7%	2.5%

Source: Census Bureau

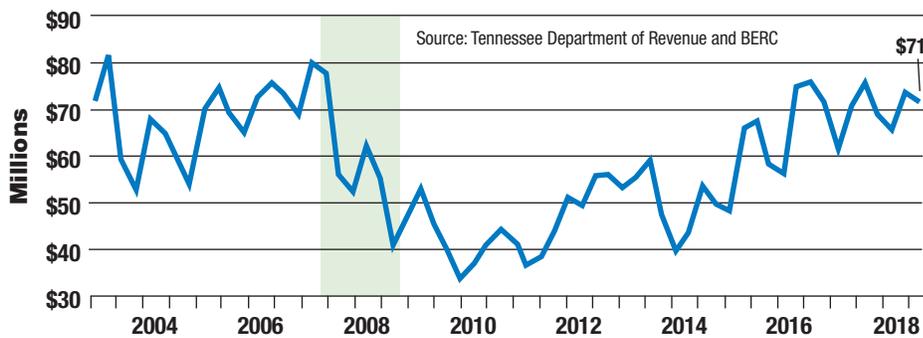
Real Estate Transactions & Mortgages

This quarter saw a slight dip in mortgage tax collections, while real estate transfer tax collections increased approximately 6% from last year and 1.66% from last quarter. This increase brought the annual collections rate for real estate transfers to an estimated \$185 million, its highest level since the recession.

Annual mortgage tax collections are at an estimated \$71 million, with an average rate of \$5.9 million per month in the third quarter. This represents a 2.97% decrease from last quarter and a 5.97% decrease over the year.

Figure 5. Mortgage tax collections

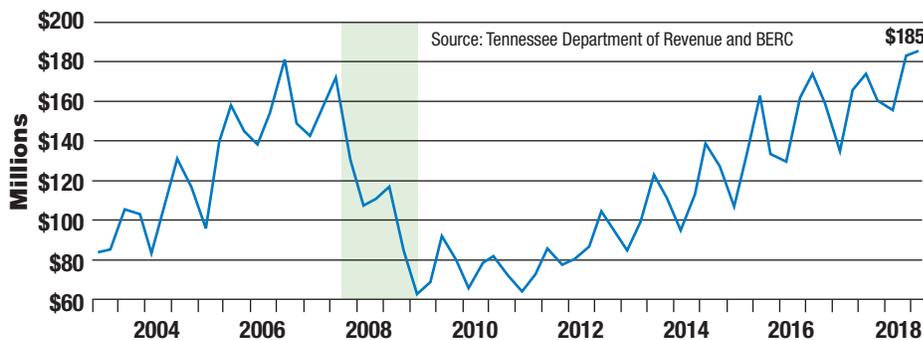
(millions, seasonally adjusted annual rate)



This quarter saw a slight dip in mortgage tax collections

Figure 6. Real estate transfer tax collections

(millions, seasonally adjusted annual rate)



The annual real estate transfer collections rate is at its highest level since the recession

Home Sales

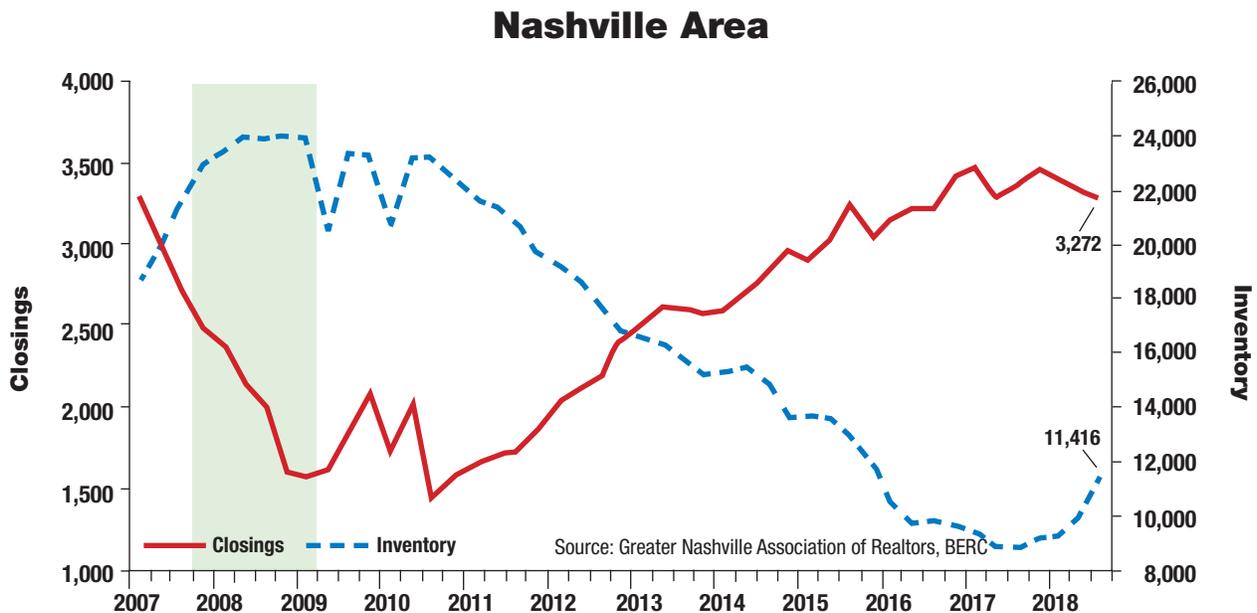
All three regions have experienced growth in home closings over the year

The data indicate slower activity in closings throughout Nashville, Knoxville, and Memphis since the beginning of 2018. Quarterly closings show marginal declines in the Knoxville (6.59%), Memphis (3.99%), and Nashville (0.02%) areas. Quarterly inventories increased in all three areas with Nashville leading at 14.26%, followed by Knoxville with 2.18% and Memphis with 3.03%. This may indicate a small correction in the market for home sales, as closings in all three areas are at a low since the beginning of this year. Nashville's closings have steadily declined

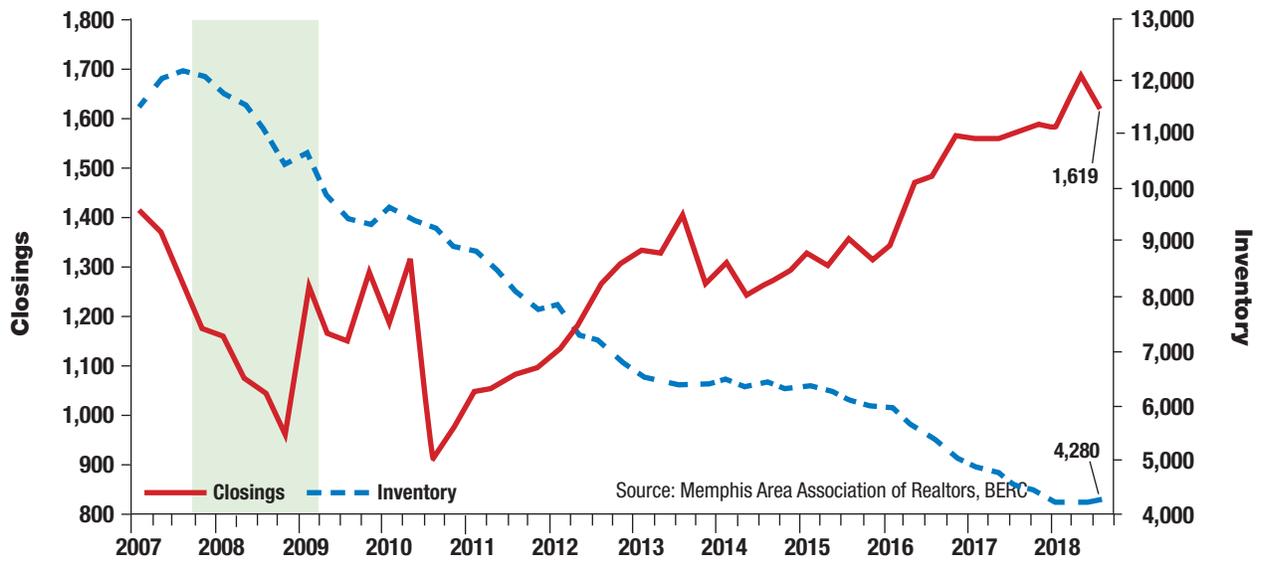
while its inventory has continually increased since the beginning of the third quarter.

Over the year, Nashville inventory also increased the most at 30.52%, compared to Knoxville and Memphis, which saw inventory reductions of 5.12% and 3.92%, respectively. In home closings over the year, two of the three areas saw declines, Knoxville a considerable 10.44% and Nashville 2.44%, while Memphis closings were up 3.03%.

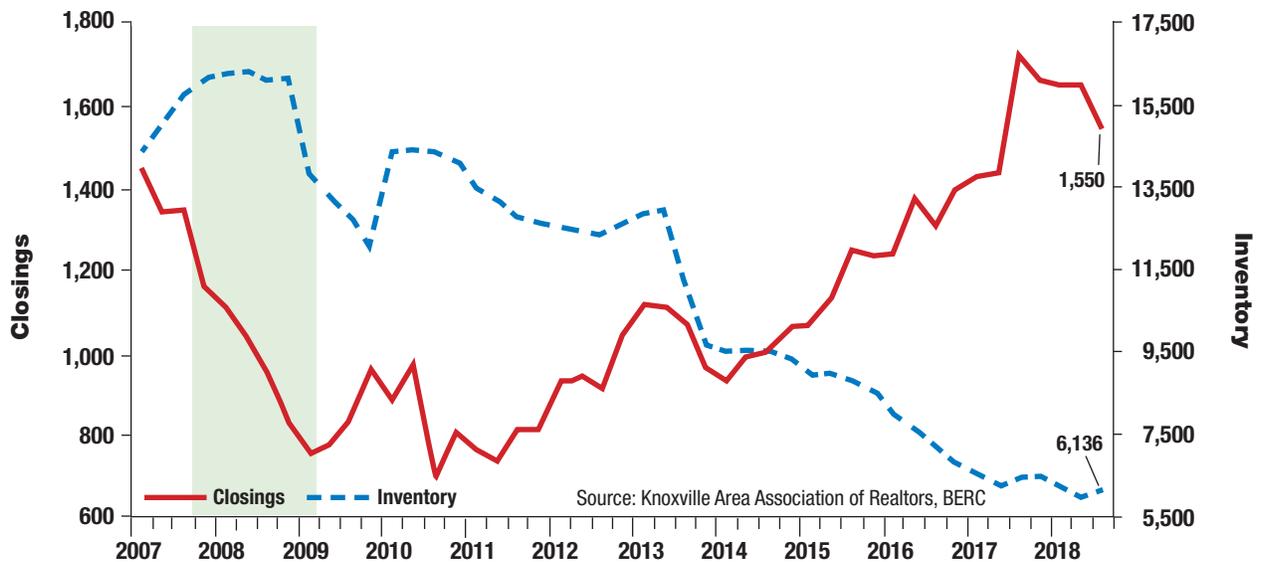
Figure 7. Single-family sales and inventory



Memphis Area



Knoxville Area



Home Prices

Home prices continued their positive trend across the state

Home prices in Tennessee continue to rise across all MSAs tracked by this report. Areas showing the most growth from last year are the Clarksville MSA (11.5%), the Nashville MSA (9.9%), and the Jackson MSA (7.8%). Housing prices for the state are up

7.7 percent from last year, which is 1.1 percentage points higher than the nation's yearly growth. Other areas worth noting are the Johnson City MSA and the Kingsport-Bristol MSA, which have both reported much stronger growth than in the previous quarter.

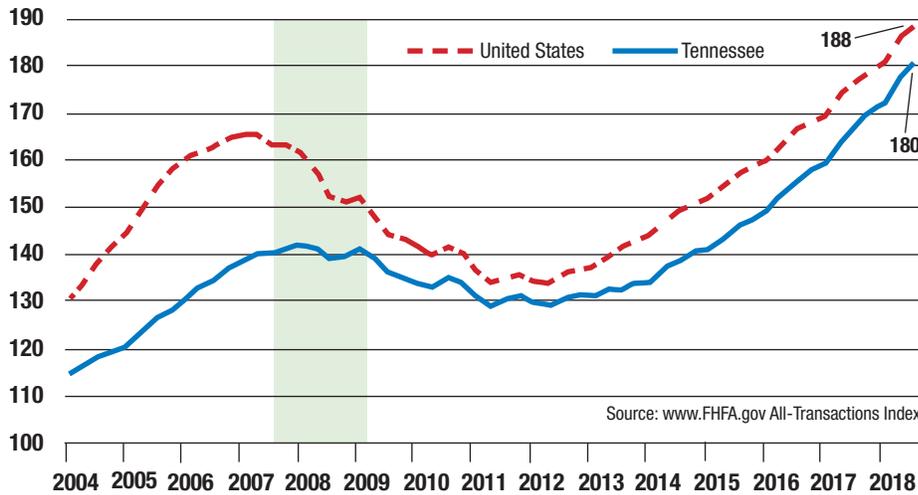
Table 3. Change in housing prices year to year

Area	2016.4–2017.4	2017.1–2018.1	2017.2–2018.2	2017.3–2018.3
Chattanooga MSA	9.4%	6.6%	6.9%	6.4%
Clarksville MSA	1.5%	6.7%	9.1%	11.5%
Cleveland MSA	6.4%	6.2%	7.7%	4.2%
Jackson MSA	5.1%	0.9%	4.4%	7.8%
Johnson City MSA	6.5%	9.6%	3.6%	6.6%
Kingsport-Bristol MSA	3.2%	7.7%	1.1%	5.0%
Knoxville MSA	5.4%	6.3%	7.8%	6.3%
Memphis MSA	4.9%	6.2%	6.5%	5.7%
Morristown MSA	4.9%	10.8%	4.6%	4.9%
Nashville MSA	10.5%	9.0%	10.0%	9.9%
Tennessee	8.1%	8.1%	8.2%	7.7%
United States	6.4%	6.9%	6.8%	6.6%

Source: FHFA All-Transactions Index

Areas showing the most growth from last year are Clarksville, Nashville, and Jackson

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



Home prices in Tennessee continue to rise across all MSAs

Mortgage Delinquencies, Foreclosures

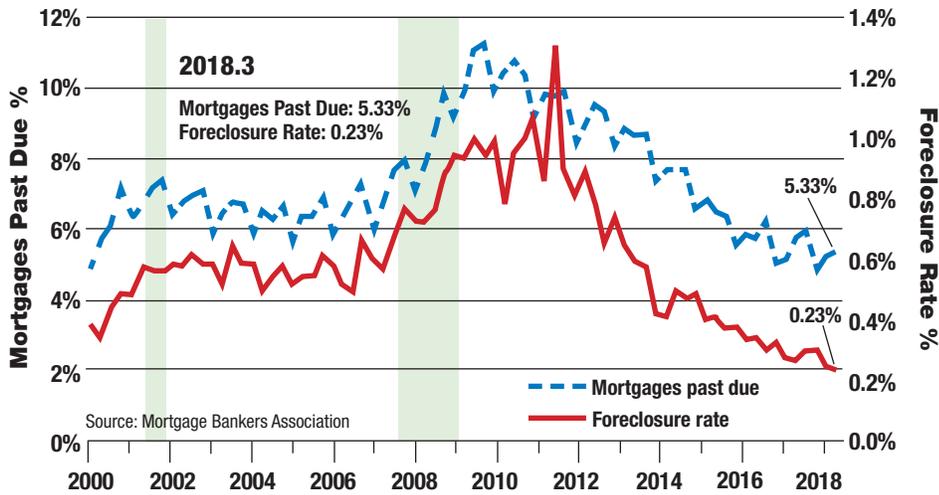
Tennessee's foreclosure rate was the lowest in at least 18 years

Foreclosure rates in the state are the lowest since at least 2000. However, mortgages past due are up this quarter compared to the second quarter of 2018. Even so, for the state of Tennessee, mortgages past due are down by 0.34 percentage points from last year. Comparatively, they are also down for the U.S. by 0.02 percentage points from the third quarter of 2017.

Though the percentage of mortgages past due is 0.79% higher for Tennessee than for the United States, the state is on par with the national percentage of foreclosure rates. Worth noting is that Tennessee's rate of mortgages past due saw a slight uptick this quarter but remains among the lowest in the state since the recession.

Figure 9. Tennessee mortgages past due and foreclosure rate

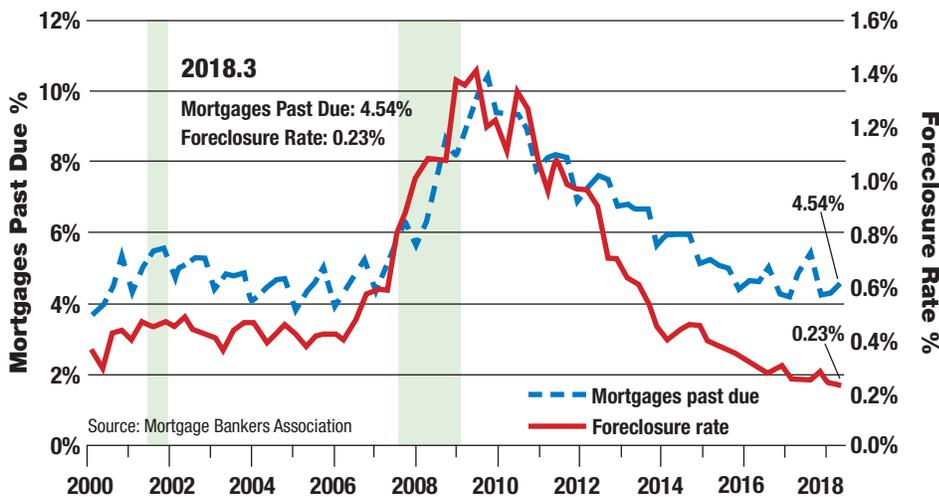
(percent of mortgages in place)



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

Real estate transfer tax collections are at their peak since 2001

The Tennessee economy in the third quarter experienced dips in more indicators than in the previous year. Such occurrences were in the state's vacancy rates, home closings, and mortgages. However, Tennessee's growth is still progressing and represents a robust working environment.

Evidence of the positive side of Tennessee's economy includes the number of quarterly unemployment claims, at a record low since this report began tracking it. Home prices continue to increase across the state and are at their highest level in the past decade. Real estate transfer tax collections are at their peak since 2001. ■



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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)