

HOUSING

T E N N E S S E E

3rd Quarter 2014

Tennessee dashboard 3rd quarter 2014

(percent change over the year)

Weekly Unemployment Claims	▼ -15%	Total Home Permits*	▼ -7%
Total Nonfarm Employment*	▲ +2%	Mortgage Tax Collections	▼ -8%
Unemployment Rate (percentage points)*	▼ -1.1	Real Estate Transfer Tax Collections	▲ +13%
Homeowner Vacancy Rate (percentage points)	▼ -0.4	Home Prices*	▲ +5%
Rental Vacancy Rate (percentage points)	▲ 1.8	Mortgages Past Due (percentage points)	▼ -1.06
Single-Family Home Permits*	▲ +15%	Foreclosure Rate (percentage points)	▼ -0.1

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

Economic Overview

Compared with the previous quarter, Tennessee's economy continued its upward trend in the third quarter. Overall, the state's economic performance improved with nonfarm employment up 17,800, including an addition of 15,000 in services-providing sectors and 2,800 in goods-producing sectors. In total, nonfarm employment rose 0.6 percent.

How did Tennessee perform compared to a year ago? Over the year, Tennessee added 62,500 nonfarm jobs, a 2 percent increase. Most gains, 52,230, are in services. Goods-producing industries, including manufacturing and construction, accounted for 1,300 jobs.

Nonfarm employment rose 0.6 percent.

The labor force (total employment and unemployment) decreased 0.33 percent to 2.987 million for the quarter. The unemployment rate, up slightly at 6.6 percent, is down 1.1 percentage points over the year.

Reported by the U.S. Department of Labor, initial claims for unemployment insurance in Tennessee declined to their lowest weekly rate since before 2007, 4,189 per week (Figure 1). The data on new layoffs in Tennessee show a declining secular trend.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



Initial claims for unemployment insurance were the lowest since before 2007.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2013.3	2013.4	2014.1	2014.2	2014.3
Employment by industry (nonfarm)					
Total nonfarm	2,761.4	2,781.7	2,790.5	2,806.1	2,823.9
Goods-producing sectors	434.8	429.4	432.2	433.3	436.1
Manufacturing	318.3	321.2	322.8	323.1	325.5
Services-providing sectors	2,335.6	2,352.3	2,358.4	2,372.8	2,387.8
Labor force	3,045.1	3,020.1	3,007.1	2,996.8	2,986.9
Total employment	2,812.1	2,805.3	2,810.7	2,801.6	2,789.0
Unemployed	233.0	214.9	196.4	195.2	197.9
Unemployment rate	7.70%	7.10%	6.50%	6.57%	6.60%

Source: Bureau of Labor Statistics

The state's unemployment rate is 1.1 percent lower over the year.

Vacancy Rates

Third-quarter homeowner vacancy rates showed falling rates for both Tennessee and the United States. For the state, rates decreased 2 percent to 2.3 percent vacancy, while the nation decreased 5 percent to 1.8 percent vacancy. Over the year, the rate is up 0.40 percentage points for the state compared to the country's decline of 0.10 percentage points. The housing market in Tennessee is not as tight as the national housing market.

In contrast, vacancy rates for rentals showed a steep increase for the state compared to a small drop

The housing market in Tennessee is not as tight as the national housing market.

for the nation. Rental vacancy rates for Tennessee increased 2.10 percentage points from the second quarter to 10.10 percent vacancy. For the nation, the rental vacancy rate dropped to 7.40 percent, a 0.10 percentage-point fall. Over the year, the rental vacancy rate increased for the state and decreased for the U.S.

Figure 2. Homeowner vacancy rate

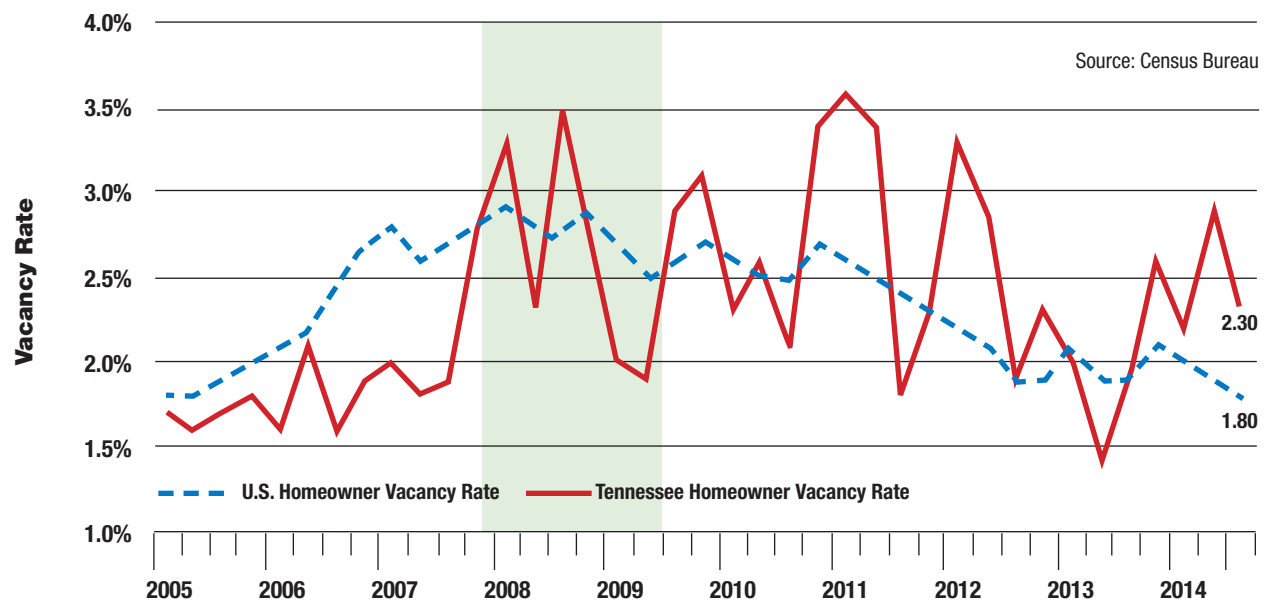
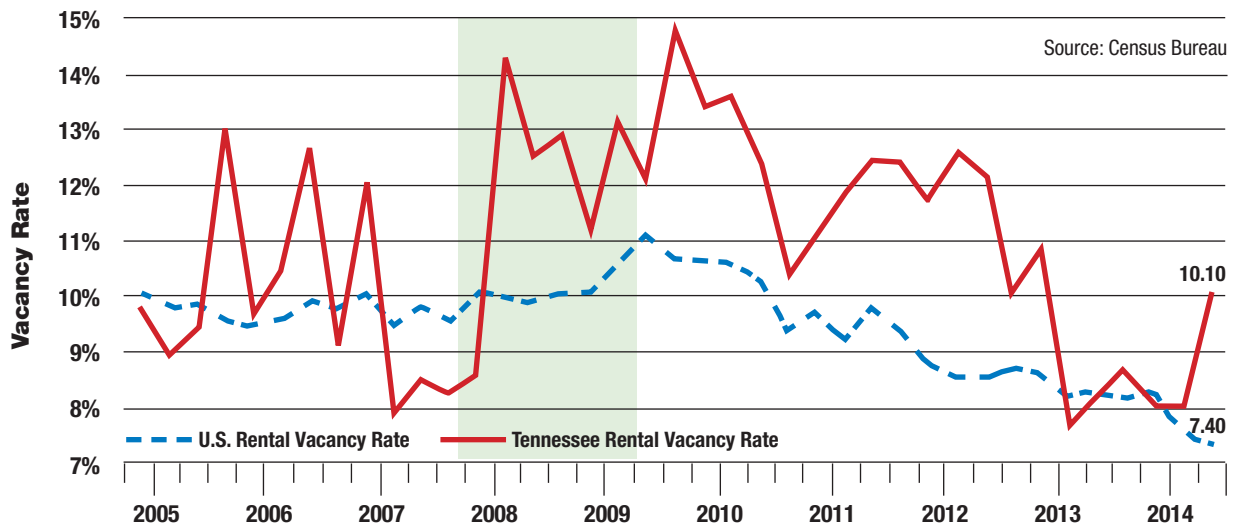


Figure 3. Rental vacancy rate



Housing Construction

Permits issued for single-family home construction have steadily increased since the first quarter of 2014. The third quarter recorded strong growth with the seasonally adjusted annual rate up 11 percent. The total of 18,200 permits is the highest since the recession.

Tennessee, the South, and the U.S. all experienced positive growth in the annualized rate of single-family home permits. Tennessee’s growth, up 15 percent, is considerably higher than the South and the nation.

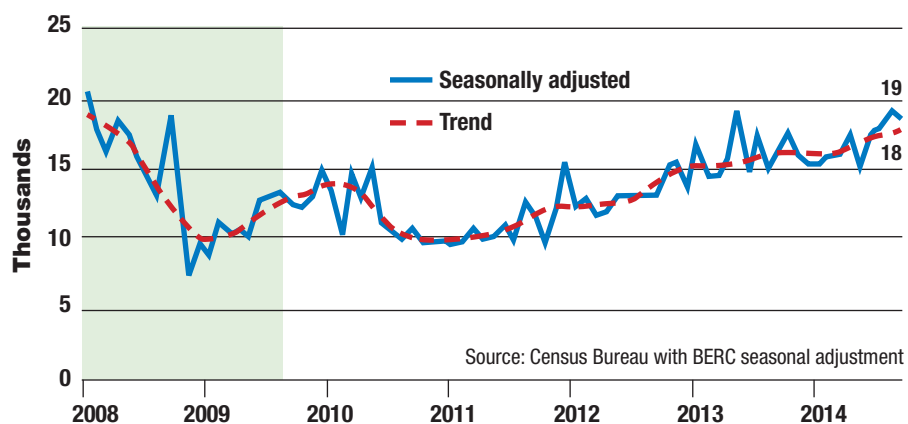
Activity for multi-family home construction shows much variation over the three regions. Compared with third-quarter growth of 10 percent for the nation, the

South grew only 4 percent. However, in Tennessee the annualized number of permits fell 33 percent. Rates for the South and the United States are the highest since 2011. Over the year, the level of multi-family construction activity is substantially higher for the South, 22 percent, and the nation, 20 percent. Rates for Tennessee fell 46 percent.

Total permits for Tennessee decreased 7 percent over the quarter and 5 percent over the year due to the large drop in multi-family permits. The South and the United States experienced modest gains, up 6 percent and 4 percent, respectively. Over the year, the South increased 11 percent, and the nation increased 8 percent.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



The third-quarter total of 18,200 total permits is unprecedented since the recession.

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.
2011.3	11.0	219.9	403.7	5.2	94.1	201.8	16.5	315.1	619.8
2011.4	12.9	241.4	447.6	3.8	97.2	227.2	15.3	336.3	651.1
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
Change from previous quarter	11%	5%	3%	-33%	4%	10%	-7%	6%	4%
Change from previous year	15%	6%	2%	-46%	22%	20%	-5%	11%	8%

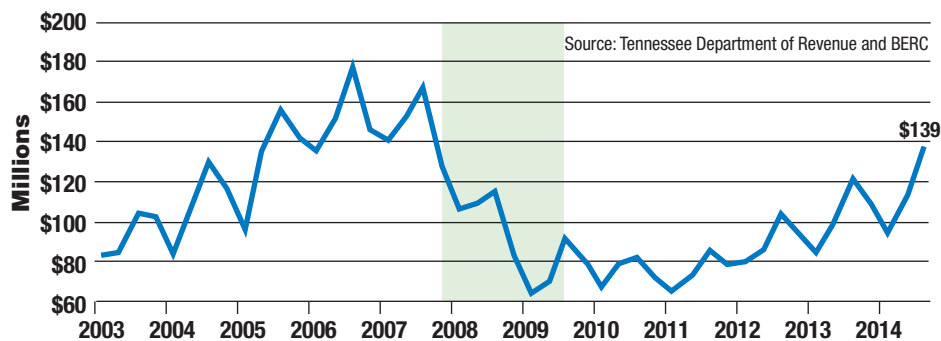
Source: Census Bureau

Real Estate Transactions & Mortgages

In line with increased single-family housing construction and sales, state taxes collected on real estate transactions and new or refinanced mortgages rose during the third quarter (Figures 5 and 6). Transfer tax collections jumped more than 24 percent from the previous quarter. Mortgage tax collections rose nearly 25 percent during the quarter, but over the year collections are down nearly 9 percent.

Figure 5. Real estate transfer tax collections

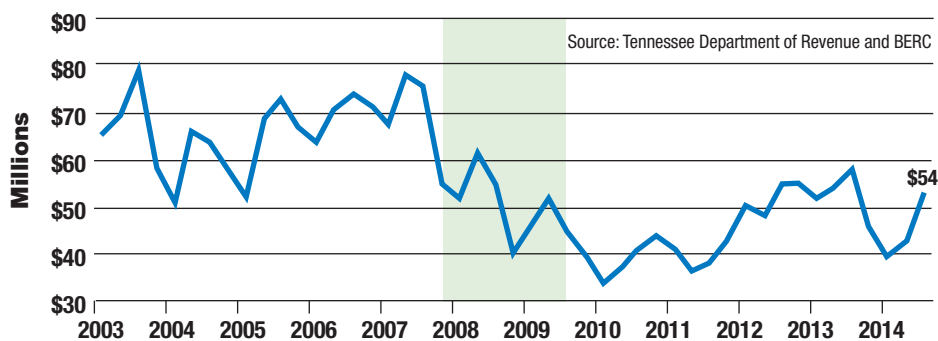
(millions, seasonally adjusted annual rate)



Transfer tax collections jumped more than 25 percent.

Figure 6. Mortgage tax collections

(millions, seasonally adjusted annual rate)



Mortgage tax collections rose nearly 25 percent.

Home Sales

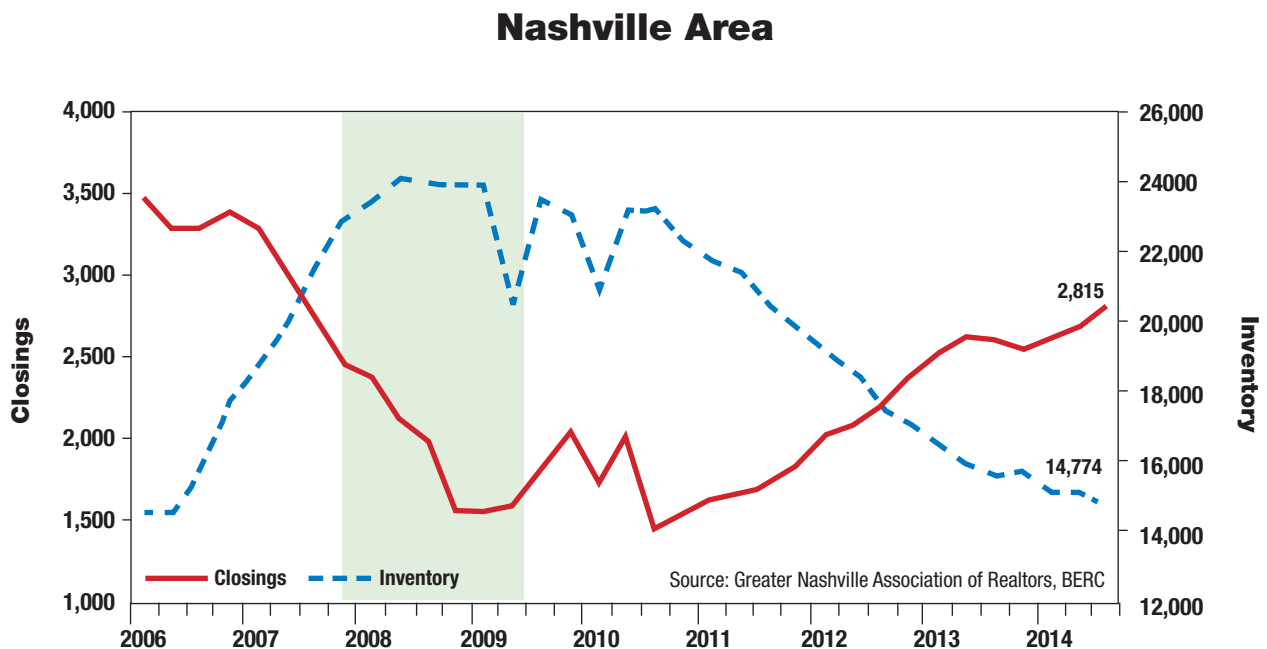
All three MSAs have shown a steady trend of declining inventories.

Sales of single-family homes increased in all three metropolitan areas tracked by this report in the third quarter, rising 5 percent in the Nashville area, 3 percent in the Memphis area, and 2 percent in the Knoxville area, all after seasonal adjustments. Over the year, Nashville sales increased 9 percent, Memphis fell 8 percent, and Knoxville fell 5 percent.

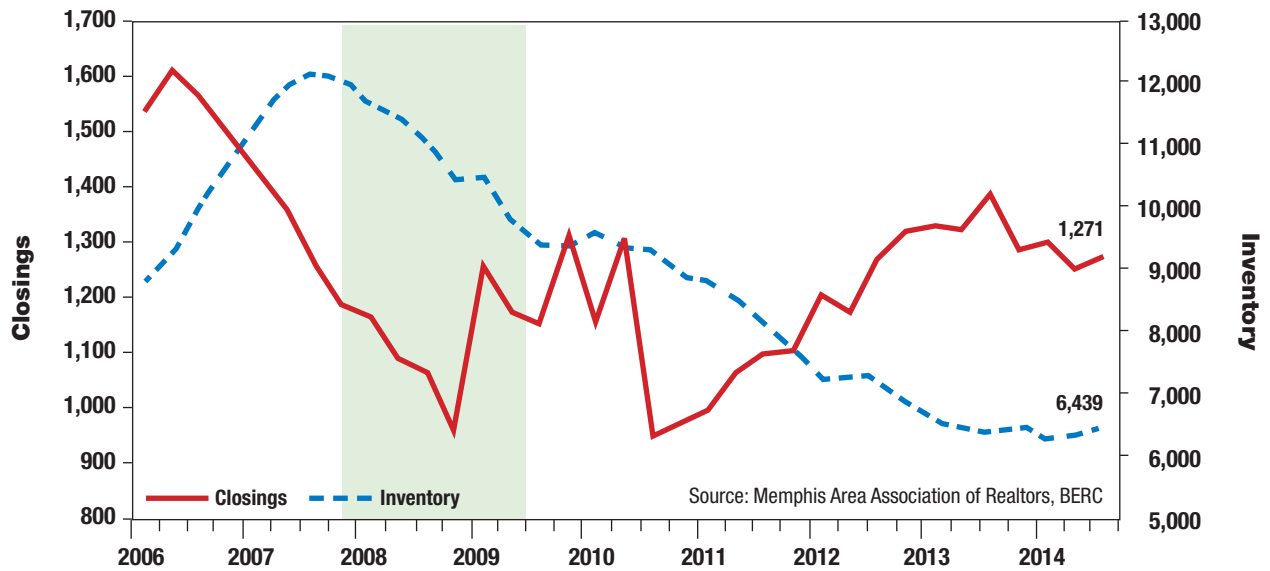
All three MSAs have shown a steady trend of declining inventories in the recent past. However, while the Nashville MSA continued to reduce its housing inventory by more than 2 percent, the Knoxville area remained unchanged, and the Memphis MSA showed a 2 percent increase for the quarter.

Over the year, Memphis inventories rose a slim 1 percent, while Nashville fell 6 percent, and Knoxville fell 15 percent. This suggests the presence of varying housing dynamics across Tennessee.

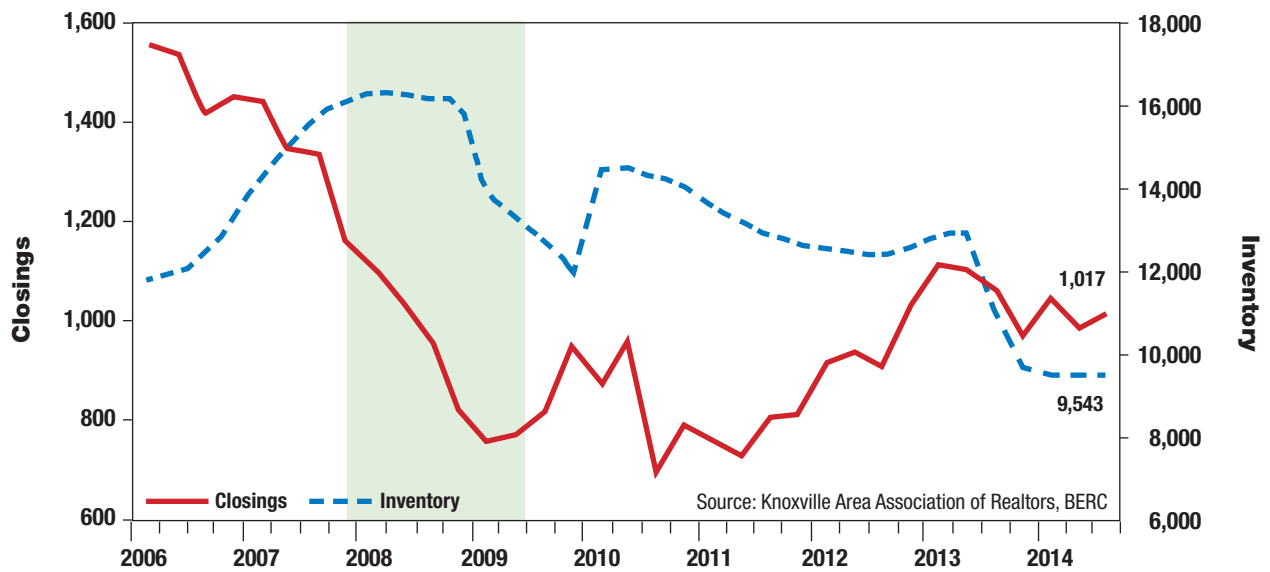
Figure 7. Single-family sales and inventory



Memphis Area



Knoxville Area



Home Prices

Nashville continues to outpace the other nine Tennessee MSAs.

In the third quarter, Tennessee's average home prices increased 5.3 percent over the year, according to the Federal Housing Finance Agency's Home Price Index (Table 3). Prices in Tennessee increased nearly as much as in the United States, narrowing the gap seen in previous quarters.

Nashville continues to outpace Tennessee's other metropolitan statistical areas, rising an impressive 8.3 percent over the year. The next largest gains are in the Cleveland and Memphis MSAs, both up 4.5 percent, while the Jackson MSA rose 4.1 percent. The weakest price gains are found in the Morristown MSA (1.6 percent) and the Clarksville MSA (0.3 percent.)

Tennessee's average home prices increased 5.3 percent over the year.

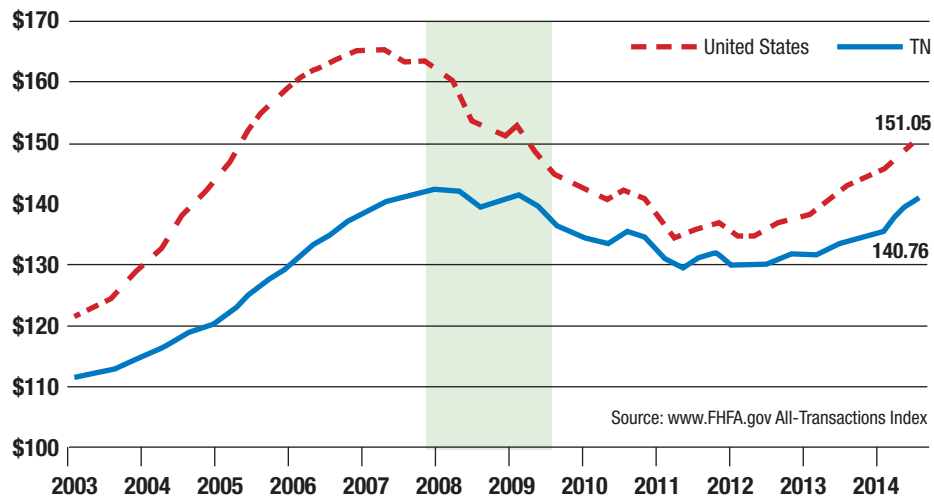
Table 3. Change in housing prices year to year

Area	2012.4–2013.4	2013.1–2014.1	2013.2–2014.2	2013.3–2014.3
Chattanooga MSA	1.7%	2.0%	1.8%	3.8%
Clarksville MSA	-1.0%	1.3%	-2.1%	0.3%
Cleveland MSA	-1.6%	0.4%	1.8%	4.5%
Jackson MSA	-0.3%	-5.1%	2.2%	4.1%
Johnson City MSA	-4.0%	0.8%	1.5%	2.4%
Kingsport-Bristol MSA	1.2%	-0.5%	-1.3%	1.8%
Knoxville MSA	1.4%	1.4%	3.2%	3.1%
Memphis MSA	0.1%	2.7%	3.9%	4.5%
Morristown MSA	-2.4%	1.0%	0.7%	1.6%
Nashville MSA	5.9%	7.2%	7.9%	8.3%
Tennessee	2.5%	3.2%	4.5%	5.3%
United States	4.9%	5.3%	5.9%	5.8%

Source: FHFA All-Transactions Index

The weakest gains were in the Morristown and Clarksville MSAs.

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



Prices in Tennessee increased nearly as much as in the U.S., narrowing the gap seen in previous quarters.

Mortgage Delinquencies, Foreclosures

Tennessee’s foreclosure rate for the quarter is one of the lowest in recent history.

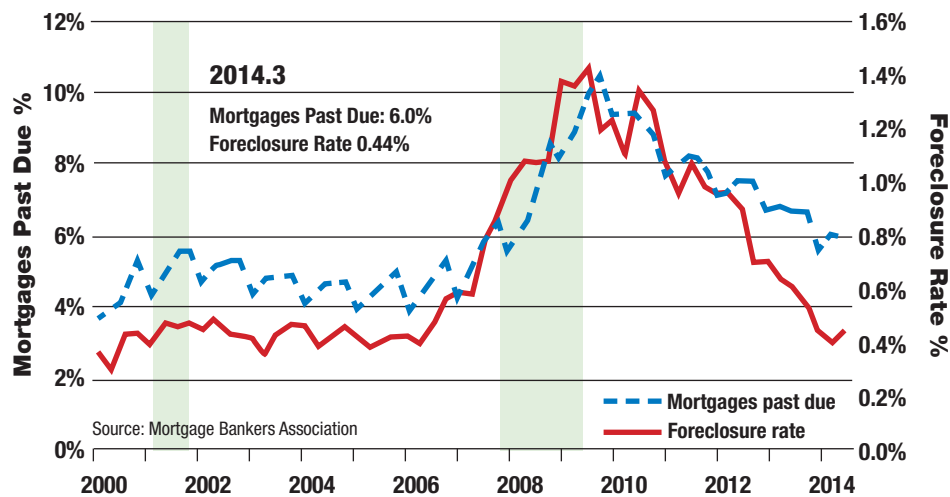
Tennessee mortgages past due remained at the same level from the second quarter at 7.7 percent (Figure 9), according to data from the Mortgage Bankers Association. In contrast, the United States averaged 6.0 percent for the quarter. The percentage of mortgages past due in Tennessee has declined steadily since the peak of 11.3 percent in 2009, suggesting significant progress toward a stabilized housing market. However, the rate is still not close to the prerecession rate.

Foreclosure starts (new foreclosures initiated during the quarter) for Tennessee made a slight upward tick to 0.49 percent during the third quarter. Despite the increase, the rate of foreclosure is one of the lowest in recent history and comparable to prerecession rates.

The U.S. foreclosure rate has been decreasing since the peak of 1.42 percent in 2009. Up slightly to 0.44 percent, it is one of the lowest since 2006.

Figure 9. United States mortgages past due and foreclosure starts

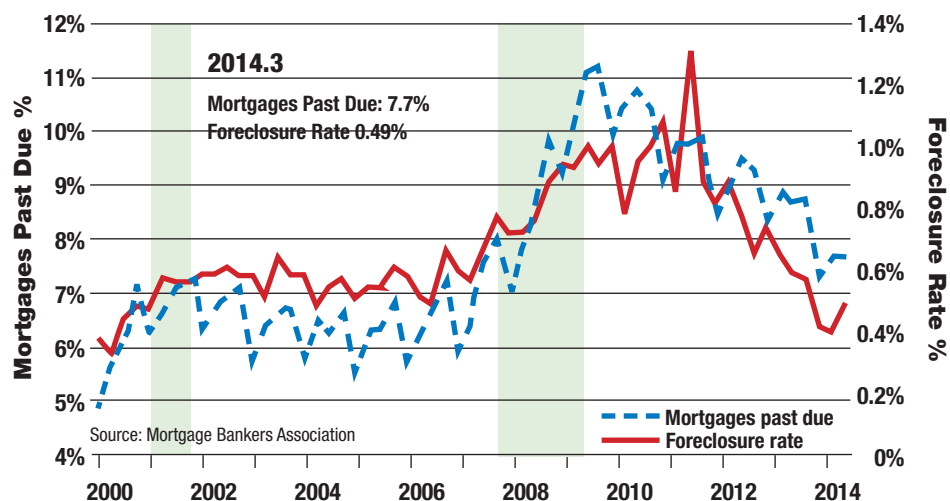
(percent of mortgages in place)



The U.S. foreclosure rate, which has been decreasing since 2009, is currently one of the lowest since 2006.

Figure 10. Tennessee mortgages past due and foreclosure starts

(percent of mortgages in place)



The percent of mortgages past due in Tennessee has declined steadily since 2009.

Conclusion

The third quarter showed an overall positive outlook for the Tennessee housing market. Unemployment claims are at a recent historical low, nonfarm employment is on the rise, and single-family housing permits have shown a significant increase from the previous quarter.

Homeowner vacancy rates decreased, and mortgage and real estate tax collections are up to prerecession annualized rates.

Despite a small uptick in foreclosure rates and a jump in rental vacancy rates, the third quarter shows a robust housing market in Tennessee. ■

The increase in Tennessee housing prices was 5.3 percent over the year, higher than in the previous four quarters.



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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)