



Tennessee
Housingmarket
4th Quarter 2013

Business and Economic Research Center

David Penn, Director

Supported by Tennessee Housing Development Agency

**MIDDLE
TENNESSEE**

STATE UNIVERSITY

JONES COLLEGE OF BUSINESS

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). However, the rate of growth of nonfarm employment is concerning, as the growth rate peaked early in 2013 and fell throughout the year. For December, nonfarm employment is just 1.1% higher, a full percentage point less than in January. Slower job growth means less income growth and slower demand for housing.

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

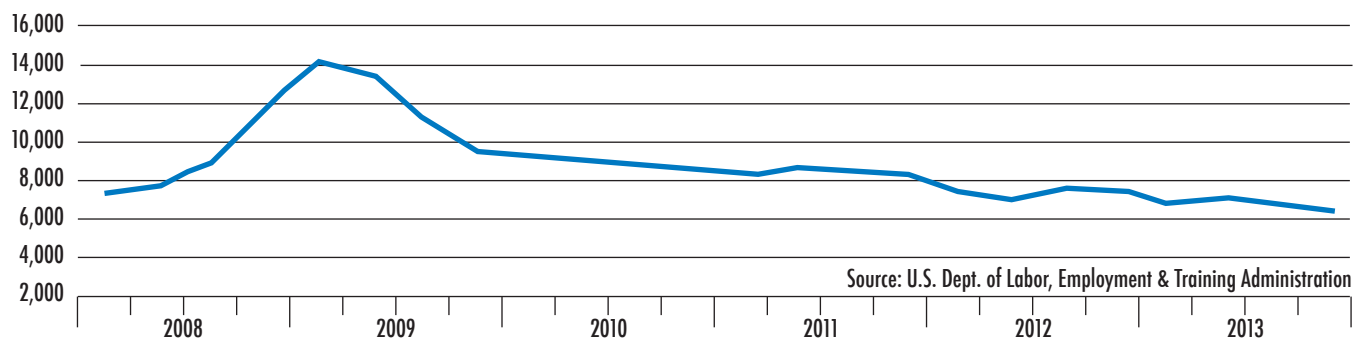


Table 1. Selected Tennessee employment indicators (thousands, seasonally adjusted)

	2012.4	2013.1	2013.2	2013.3	2013.4
Employment by industry (nonfarm)					
Total nonfarm	2,732	2,753	2,758	2,748	2,769
Goods-producing sectors	426	428	429	428	432
Manufacturing	317	320	319	320	324
Services-providing sectors	2,306	2,325	2,329	2,320	2,337
Labor force	3,121	3,130	3,128	3,109	3,061
Total employment	2,880	2,886	2,870	2,845	2,812
Unemployed	241	244	258	264	249
Unemployment rate	7.7%	7.8%	8.3%	8.5%	8.1%

Source: Bureau of Labor Statistics

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 from

the previous quarter (Table 2). Single-family permits moved from 16,800 to 16,500 at a seasonally adjusted annual rate, falling 1.8%. By contrast, both the South and the U.S.

[Housing Construction continued]

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 33 months of monthly gains dating to December 2010. Over the year Tennessee still shows a substantial increase, up 10.9% compared with 6.8% for the South and 8.3% for the U.S.

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 high relative to the post-recession period; the fourth-quarter could be considered a cooling-off from an unsustainable pace of building activity.

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

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

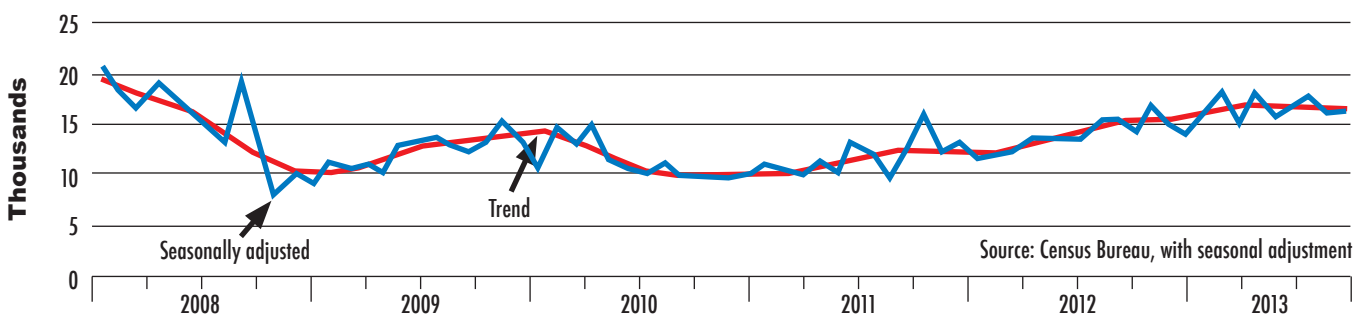


Table 2. Permits issued for privately owned new housing (thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2010.4	9.8	209.0	424.3	2.1	58.7	159.0	11.9	267.7	583.3
2011.1	10.1	216.7	399.3	2.2	81.0	167.7	12.3	297.7	567.0
2011.2	10.3	222.3	409.0	2.3	87.3	202.7	12.7	309.7	611.7
2011.3	11.6	229.0	423.0	3.1	91.3	203.0	14.8	320.3	626.0
2011.4	12.6	244.7	448.7	4.8	113.7	242.7	17.4	358.3	691.3
2012.1	12.2	257.7	474.7	5.9	132.0	271.3	18.2	389.7	746.0
2012.2	12.6	261.0	494.7	5.0	142.7	285.3	17.6	403.7	780.0
2012.3	13.5	282.0	533.0	4.5	162.0	329.3	18.0	444.0	862.3
2012.4	14.9	308.3	576.0	4.5	171.0	352.0	19.4	479.3	928.0
2013.1	15.1	316.7	595.7	4.2	145.3	323.3	19.3	462.0	919.0
2013.2	16.4	332.0	619.7	8.9	162.3	349.7	25.3	494.3	969.3
2013.3	16.8	326.7	617.0	6.8	134.3	334.3	23.6	461.0	951.3
2014.4	16.5	329.3	624.0	4.9	177.7	391.7	21.4	507.0	1,015.7
Change from previous quarter	-1.8%	0.8%	1.1%	-28.2%	32.3%	17.1%	-9.4%	10.0%	6.8%
Change from previous year	10.9%	6.8%	8.3%	7.3%	3.9%	11.3%	10.1%	5.8%	9.4%

Source: Census Bureau

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%, growing somewhat more slowly than in recent quarters but still producing a gain of 16.6% over the year (Figure 4).

Collections on new or refinanced mortgages fell 24% 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, which have been rising.

Figure 3. Mortgage tax collections (in millions, seasonally adjusted annual rate)

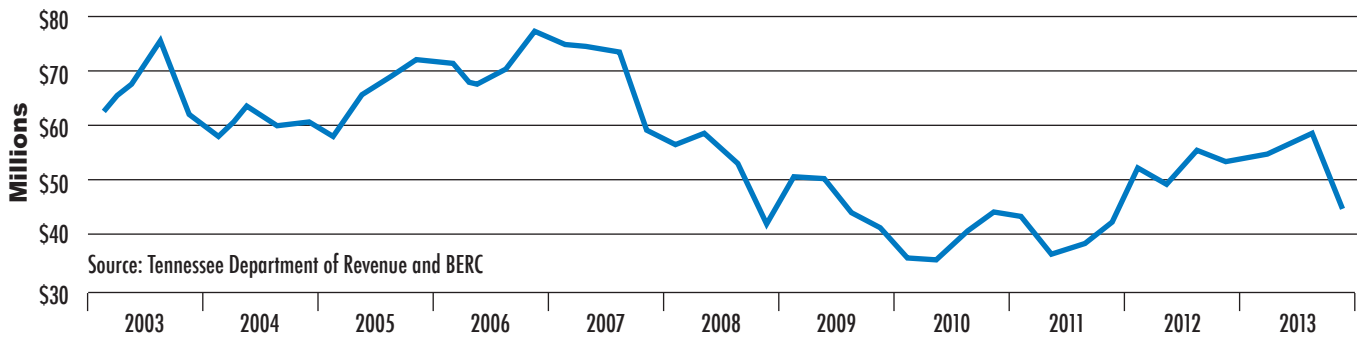
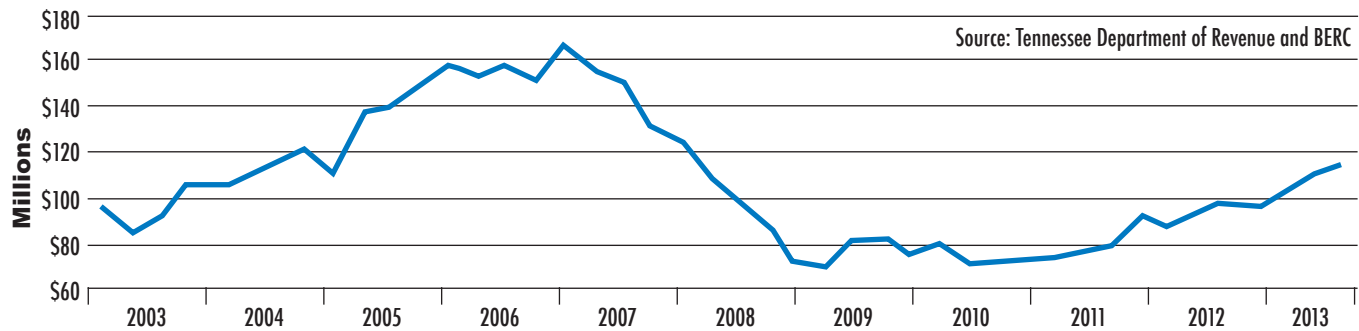


Figure 4. Real estate transfer tax collections (in millions, seasonally adjusted annual rate)



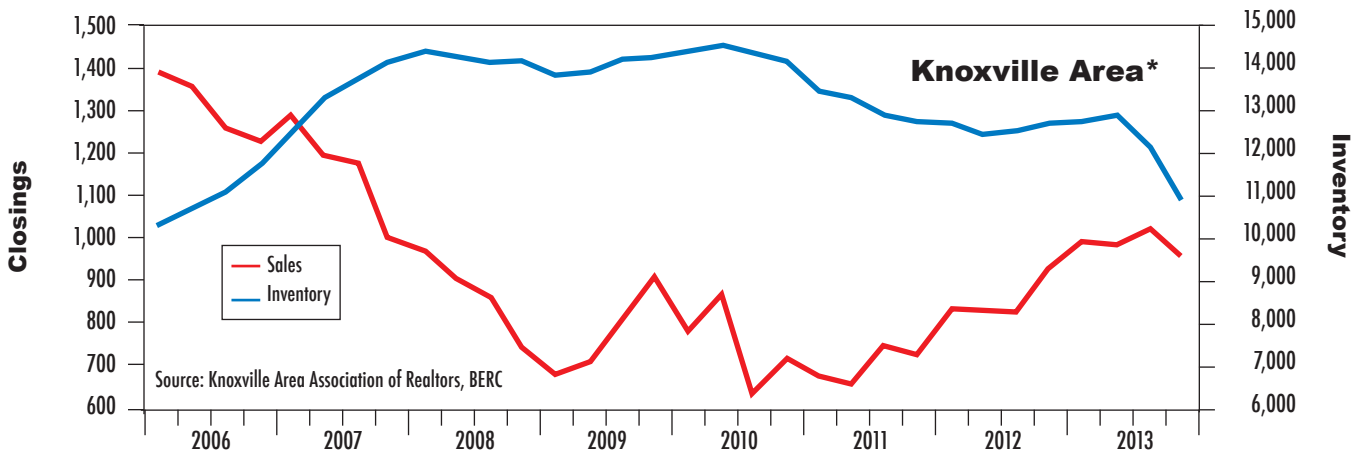
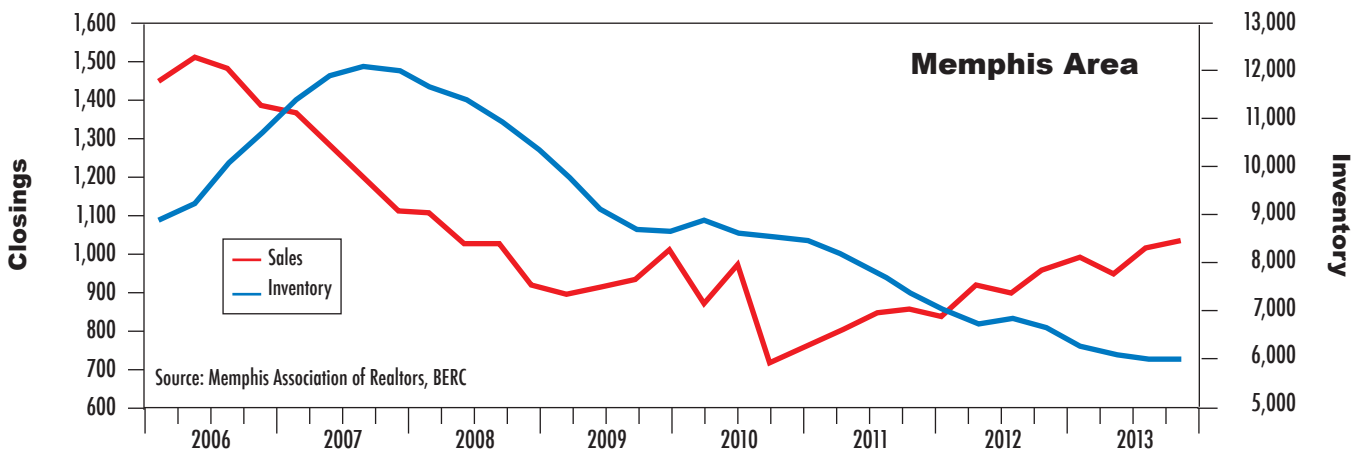
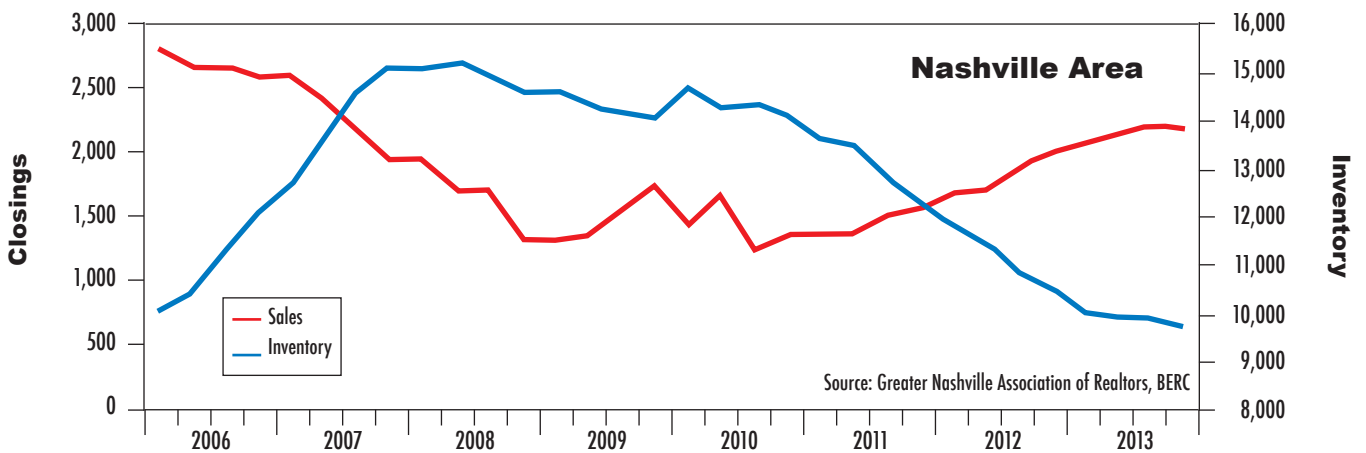
Home Sales

Sales activity in all three metropolitan areas followed in this report declined during the fourth quarter, with Nashville down 1.1%, Memphis 2.2% lower, and Knoxville off 5.8% 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%, Memphis 1.7% higher, and Knoxville gaining 2.3%.

Inventories of unsold homes fell in Nashville and Knoxville but were little changed in Memphis.

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



* The Knoxville Area Association of Realtors initiated a new reporting system beginning with data for September 2013. A consequence of the system is that inventory figures are significantly lower compared with previous months.

Home Prices

According to data gathered by Zillow (www.Zillow.com), housing prices rose 0.6% during the fourth quarter from the previous quarter and 2.6% over the year for Tennessee, ranking the state 33rd highest in the nation (Table 3). The U.S. average over the year growth rate is 6.4% 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%), Memphis, (7.2%), and Nashville (5.5%).

Table 3. Home Values Fourth Quarter 2013

Area	Percent Change	
	Quarter to Quarter	Year to Year
Chattanooga MSA	-0.5%	0.7%
Clarksville MSA	-0.1%	-1.0%
Cleveland MSA	0.5%	1.7%
Jackson MSA	0.3%	0.4%
Johnson City MSA	-0.3%	0.0%
Kingsport-Bristol MSA	1.6%	8.6%
Knoxville MSA	0.0%	1.2%
Memphis MSA	-0.3%	7.2%
Morristown MSA	3.3%	3.0%
Nashville MSA	1.2%	5.5%
Tennessee	0.6%	2.6%

Source: Zillow.com. Not seasonally adjusted.

Conclusion

Tepid job growth and higher mortgage rates put a damper on the 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. ■

Construction and sales declined for the quarter but remain higher over the year.

Business and Economic Research Center

David Penn, Director

Supported by Tennessee Housing Development Agency



JONES COLLEGE OF BUSINESS