

East Tennessee Housing Market Trends + 2023 Forecast

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2022 Market Overview

- Economy + housing market are cooling
- Inventory has increased but remains far below pre-pandemic levels

MEDIAN SALES PRICE



HOME SALES



ACTIVE LISTINGS



30-YR FIXED MORTGAGE RATE

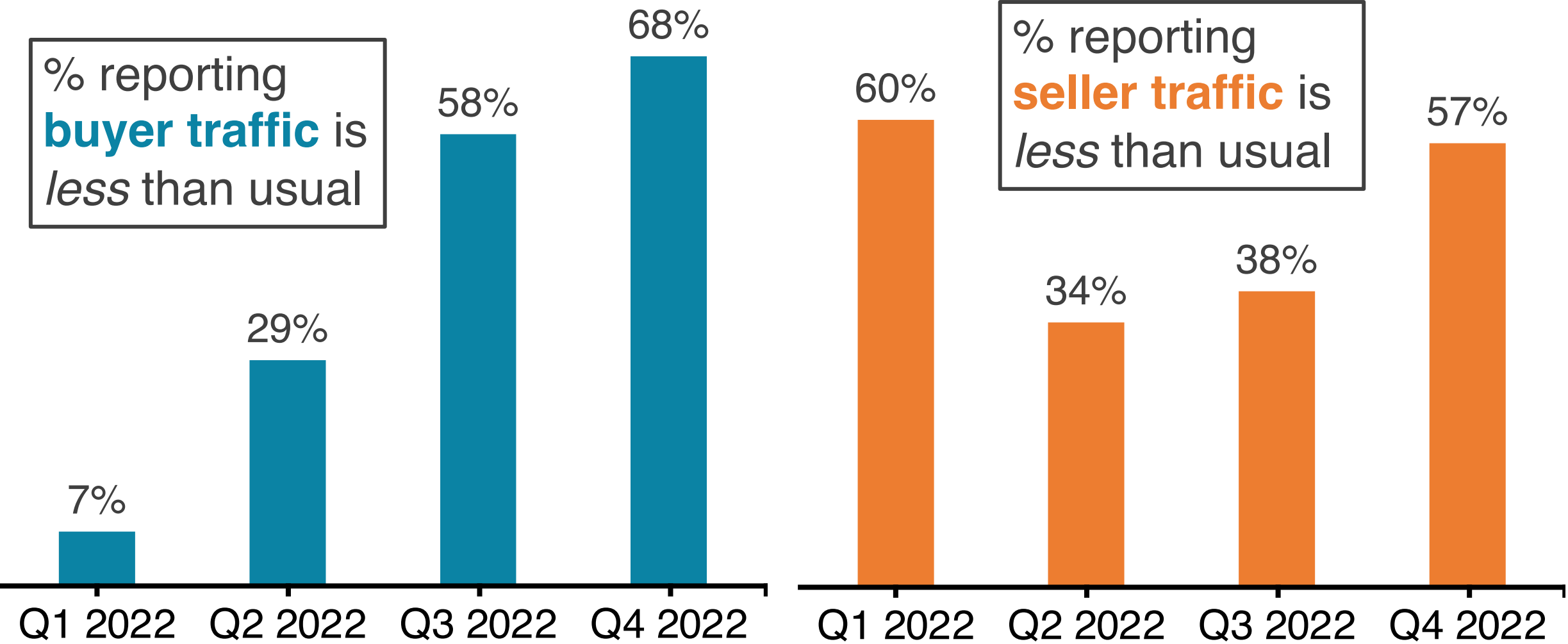




State of the Market: What REALTORS® Are Saying

Buyer and Seller Activity Declining, Per REALTORS®

KAAR's Buyer-Seller Traffic Index



Source: KAAR Market Pulse Survey

Other Key Findings

- Fewer problems with appraisals + shrinking appraisal gaps
- More local buyers
- Declining investor activity
- Homes sold in Q3 received an average of 2.5 offers (compared to 6 offers in Q1)
- More contract delays, terminations due to home inspection issues
- Less competition

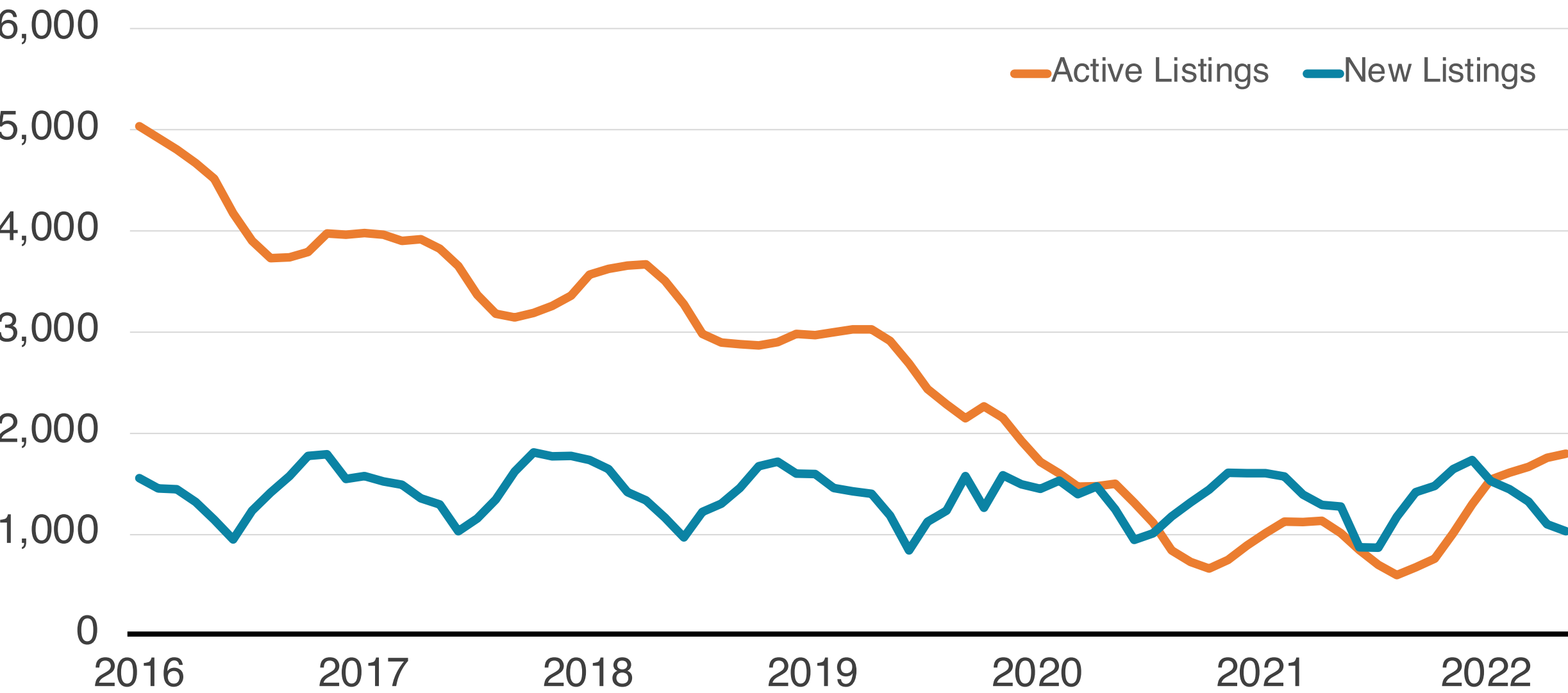


A photograph of a row of colorful houses (red, blue, and white) under a blue sky with white clouds. A semi-transparent dark grey rectangular box is overlaid across the middle of the image, containing the title text in white. The houses have gabled roofs and multiple windows. In the foreground, there are green bushes and a white picket fence with a rope running along it.

State of the Market: What the Data Says

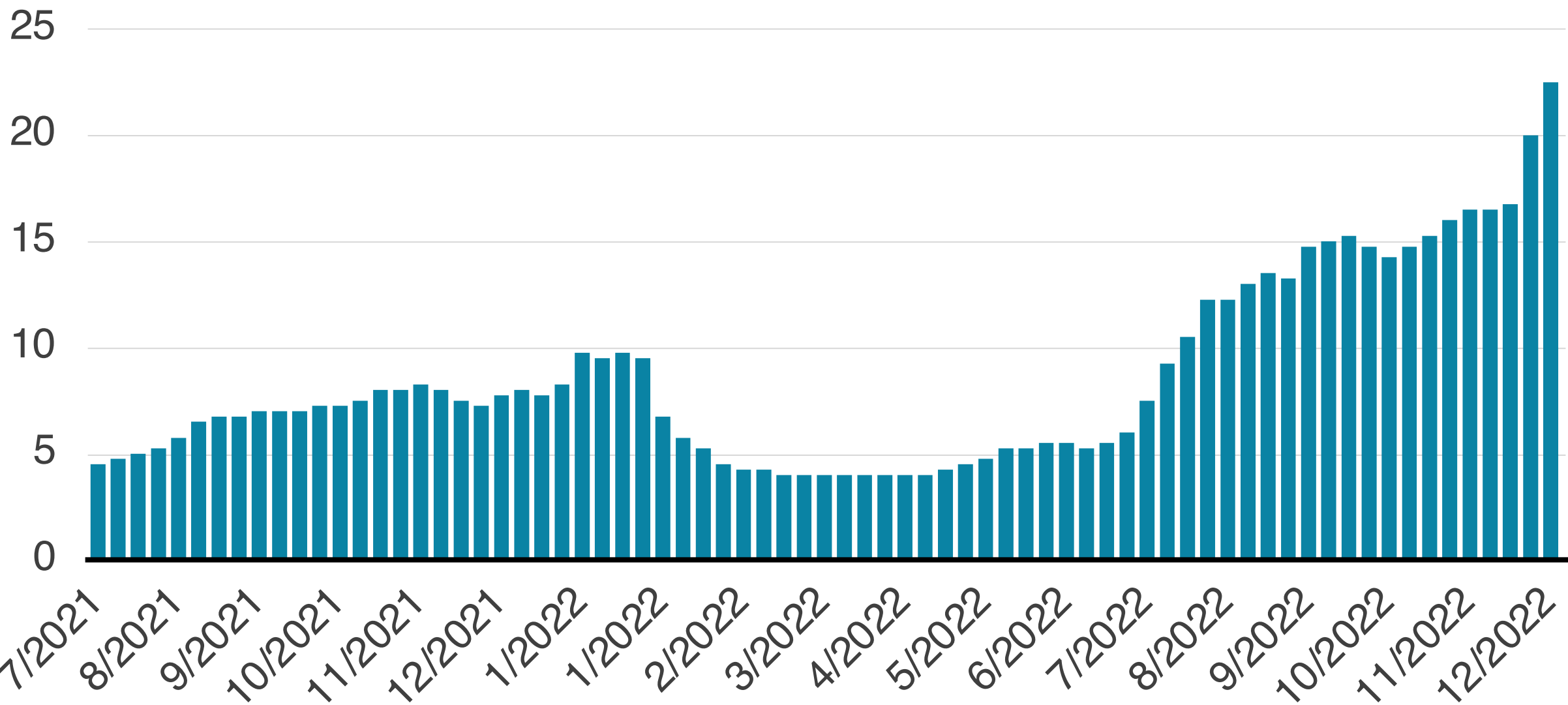
Inventory Starting To Taper Off

Active Listings: Knoxville MSA



Homes Are Staying on the Market Longer

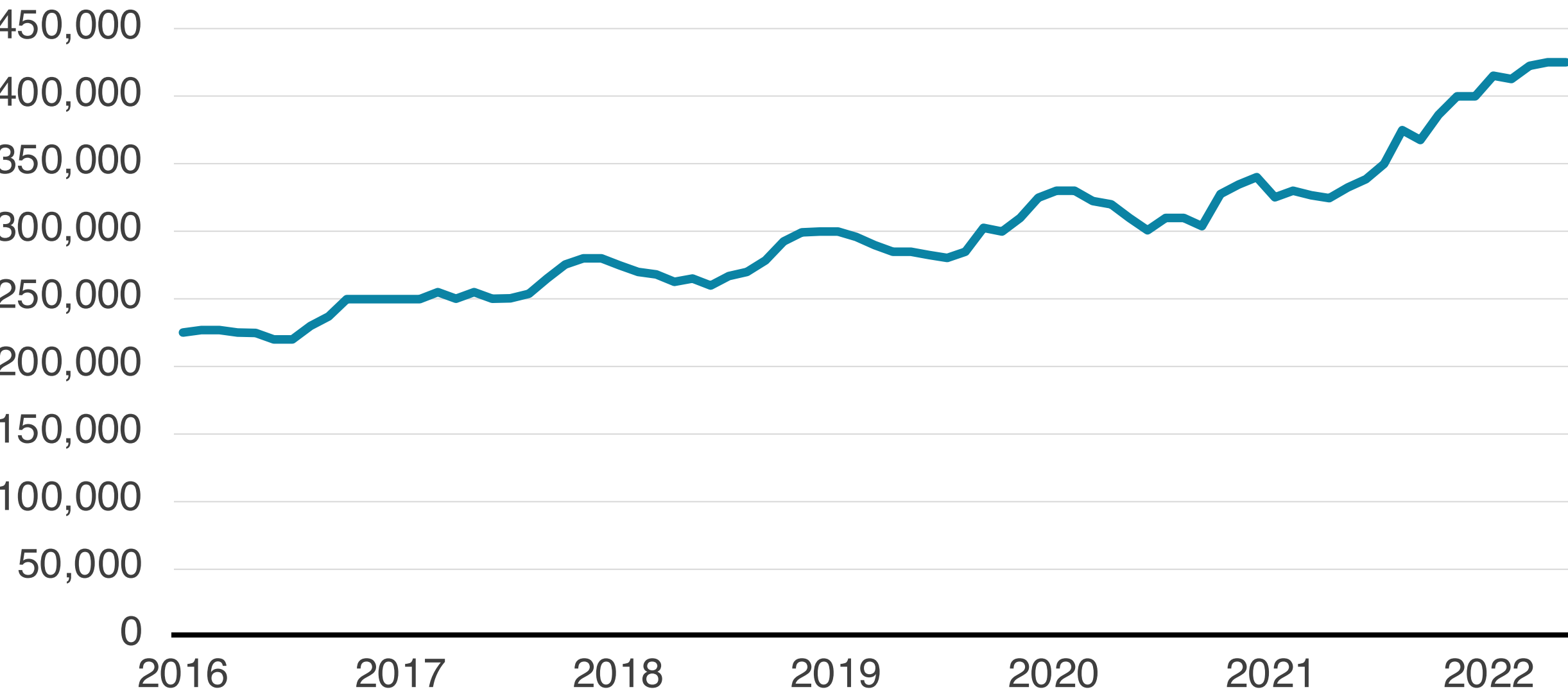
Median Days On Market: Knoxville Area



Source: Knoxville Area Association of REALTORS® MLS

Prices Are High and Rising

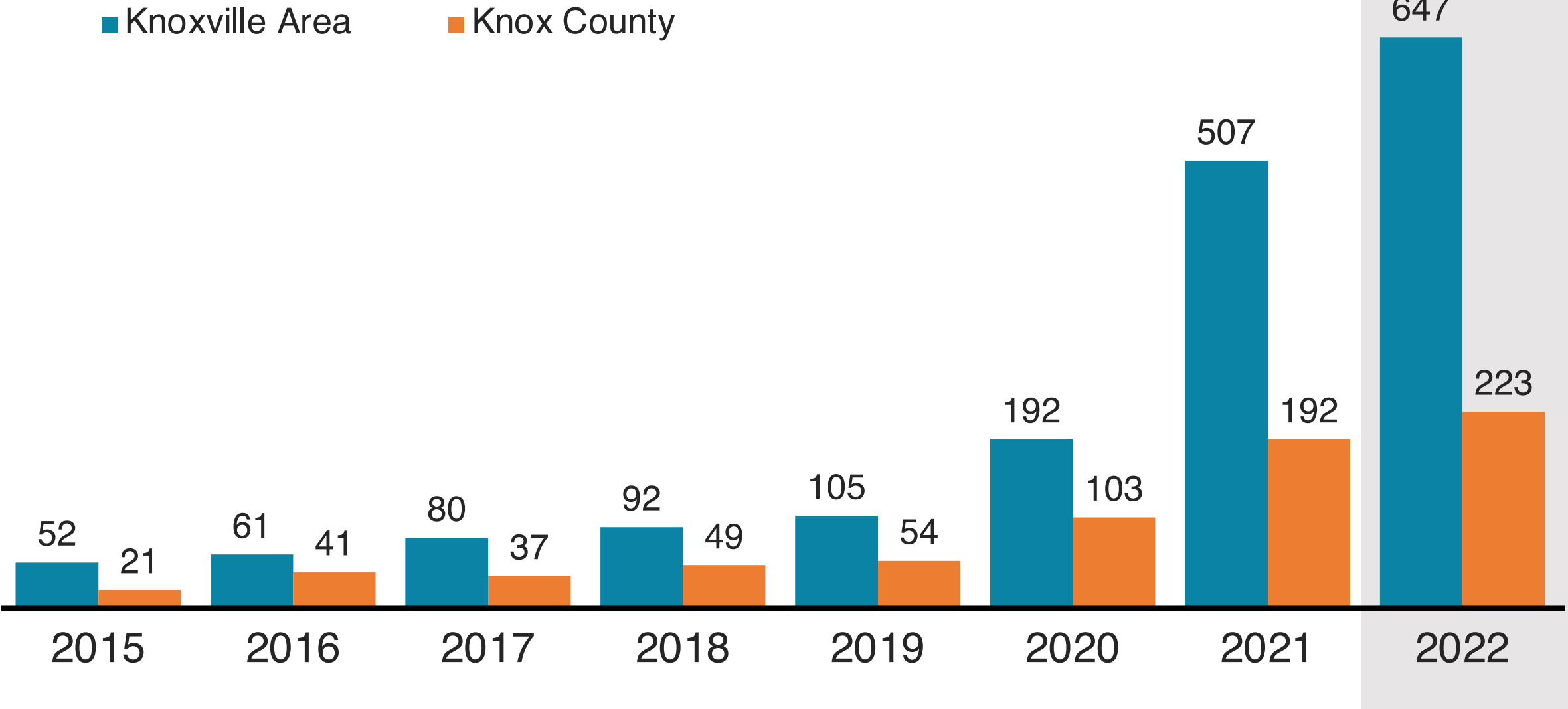
Median List Price: Knoxville MSA



Source: Realtor.com

Luxury Home Sales Remain Elevated

Total Home Sales Worth At Least \$1 Million: 2015-2022



Source: Knoxville Area Association of Realtors

Other Key Trends

- Investor home purchases down 30% YoY in Q3-2022
 - 57% decline by ibuyers
 - 27% decline by investors who own 100+ homes
 - 22% decline by small investors
- It may feel like a housing crash to anyone who entered and exited the market recently. But it's really just a reversion to the mean.
- Rise of the 2/1 buydown

A photograph of a row of suburban houses under a blue sky with white clouds. The house in the foreground is red with white trim and shutters. A dark semi-transparent rectangular box is overlaid across the middle of the image, containing white text. In the background, other houses and greenery are visible.

Challenge #1: Consumer Pessimism

Consumers Are Very Bearish

Percent of respondents who say it is a good time to buy



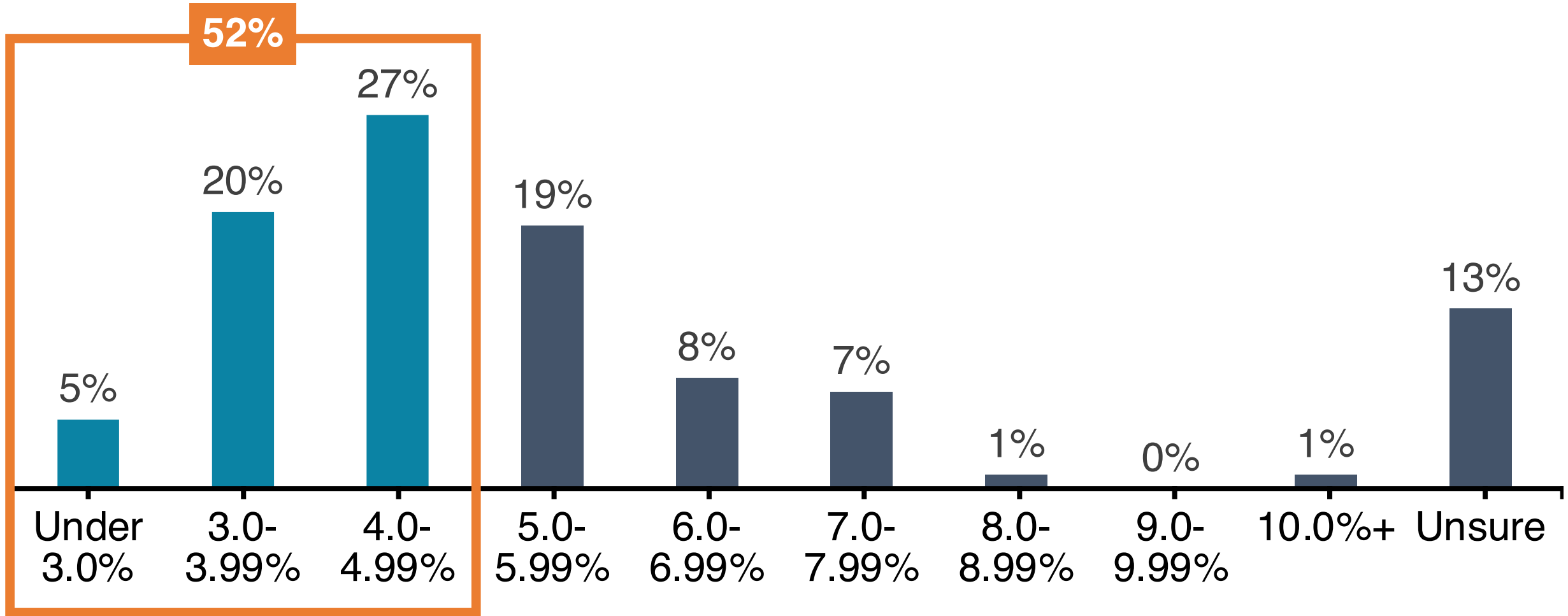
Source: Fannie Mae Home Purchase Sentiment Index® (HPSI)

Fannie Mae's Home Purchase Sentiment Index reached an all-time low in October 2022.

Nearly 4 in 5 Americans say it's a bad time to purchase a home.

Mortgage rate range considered to be historically “normal”

Share of homeowners & single-family renters with income of \$50,000+



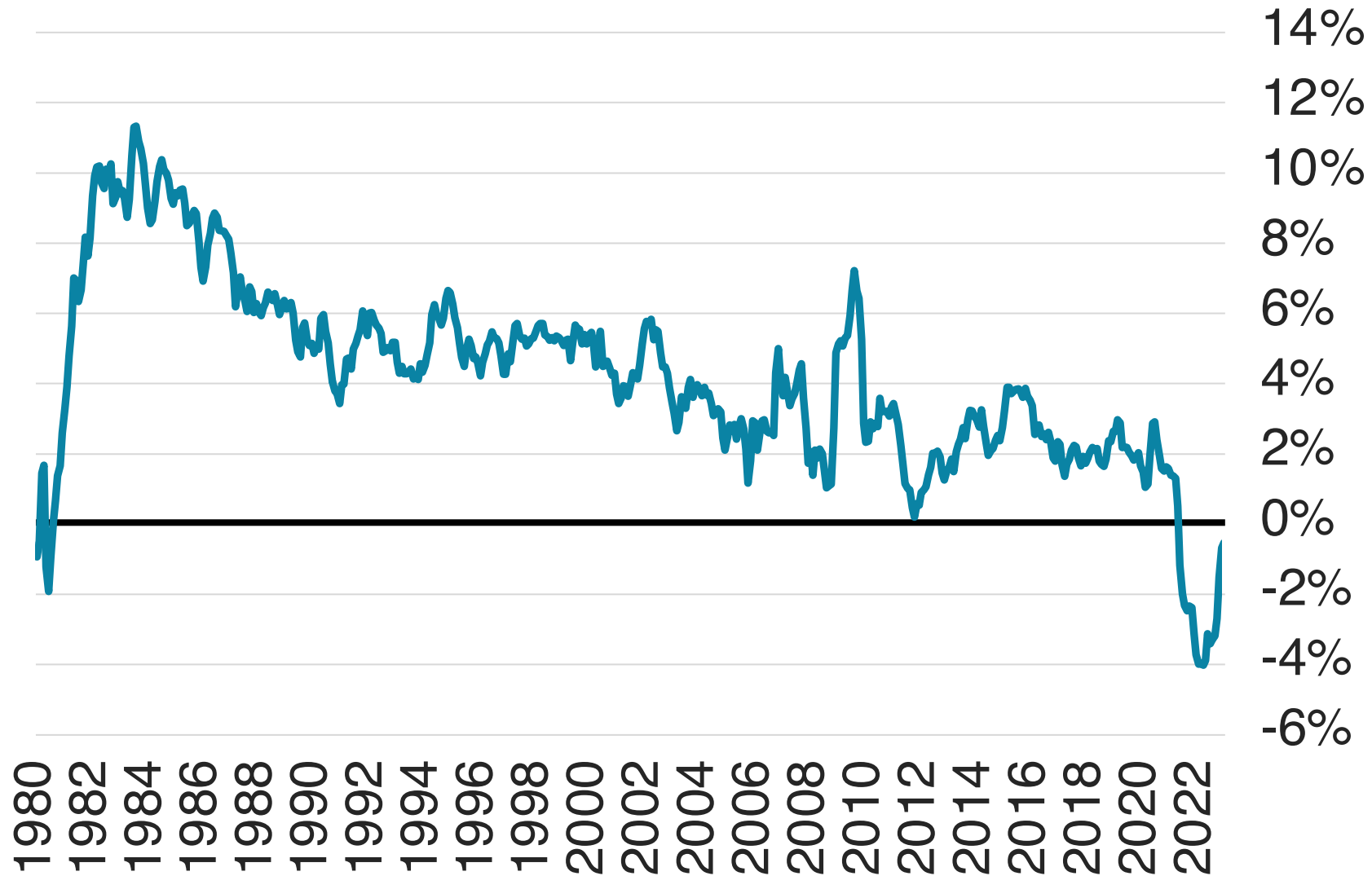
Source: New Home Trends Institute; John Burns Real Estate Consulting

A photograph of a row of colorful houses, including a prominent red one with white trim and a white one with a garage. The sky is blue with white clouds. A semi-transparent dark banner is overlaid across the middle of the image, containing the title text.

Challenge #2: Inflation and Mortgage Rates

Negative Interest Rates

Inflation-Adjusted 30-Year Fixed Mortgage Rate



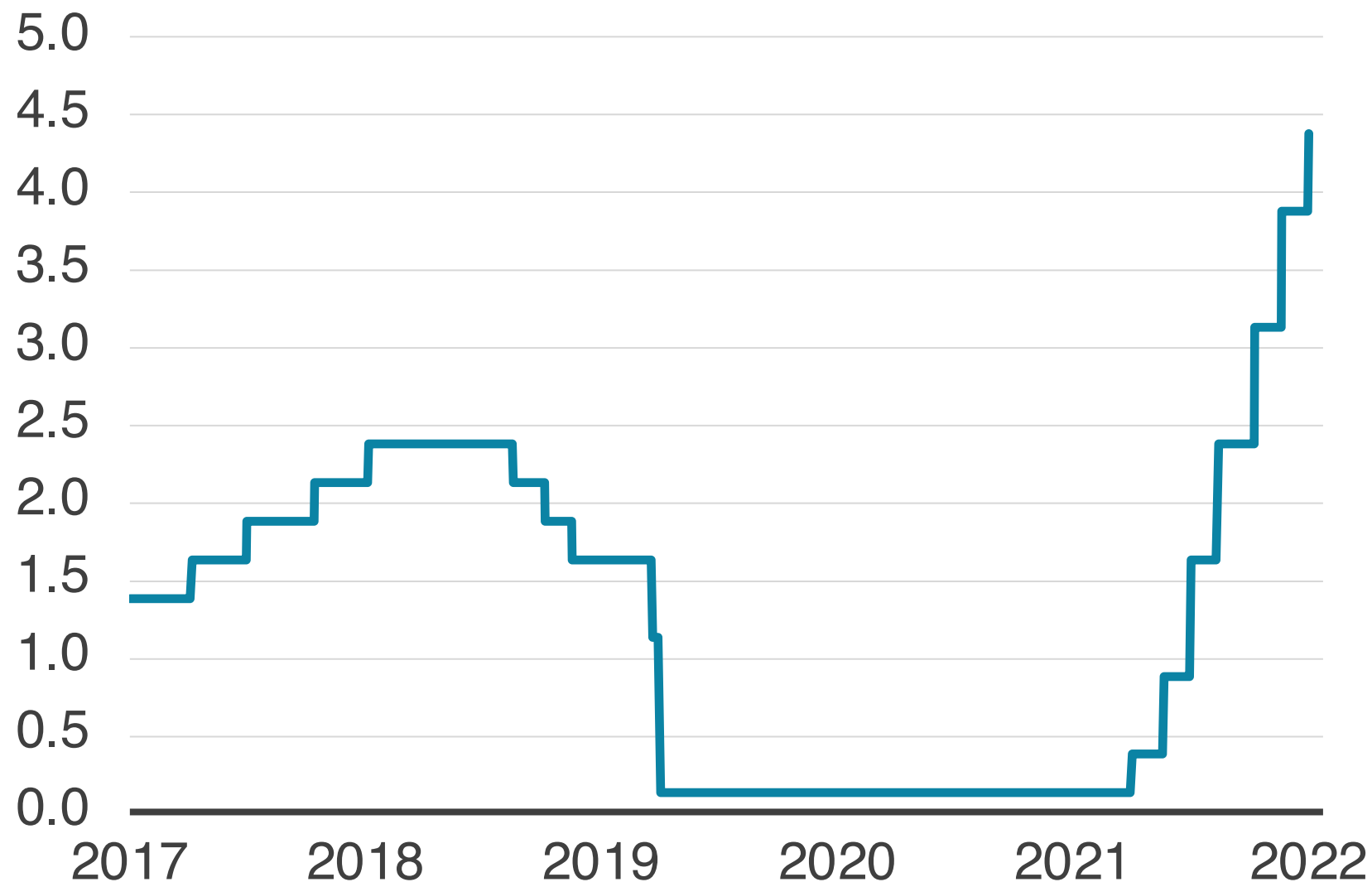
Real mortgage rates (i.e., adjusted for inflation) have turned negative.

In other words, the cost of borrowing money is below zero.

Source: Freddie Mac; U.S. Bureau of Labor Statistics

Inflation and the Fed's Response

Federal Funds Target Range (Mid-Point)



Source: Board of Governors of the Federal Reserve System (US); BEA

Most aggressive Fed action in 40 years, with target range up 4.45 pp since March.


Fed Funds impacts lending and spending.

Many lenders have already factored in expected rate hikes, but continued rate increases should keep mortgage rates elevated.

A photograph of a row of colorful houses, including a prominent red one with white trim and a white one with a red roof. The houses are set against a blue sky with white clouds. A semi-transparent dark banner is overlaid across the middle of the image, containing the text "Challenge #3: Housing Affordability".

Challenge #3: Housing Affordability

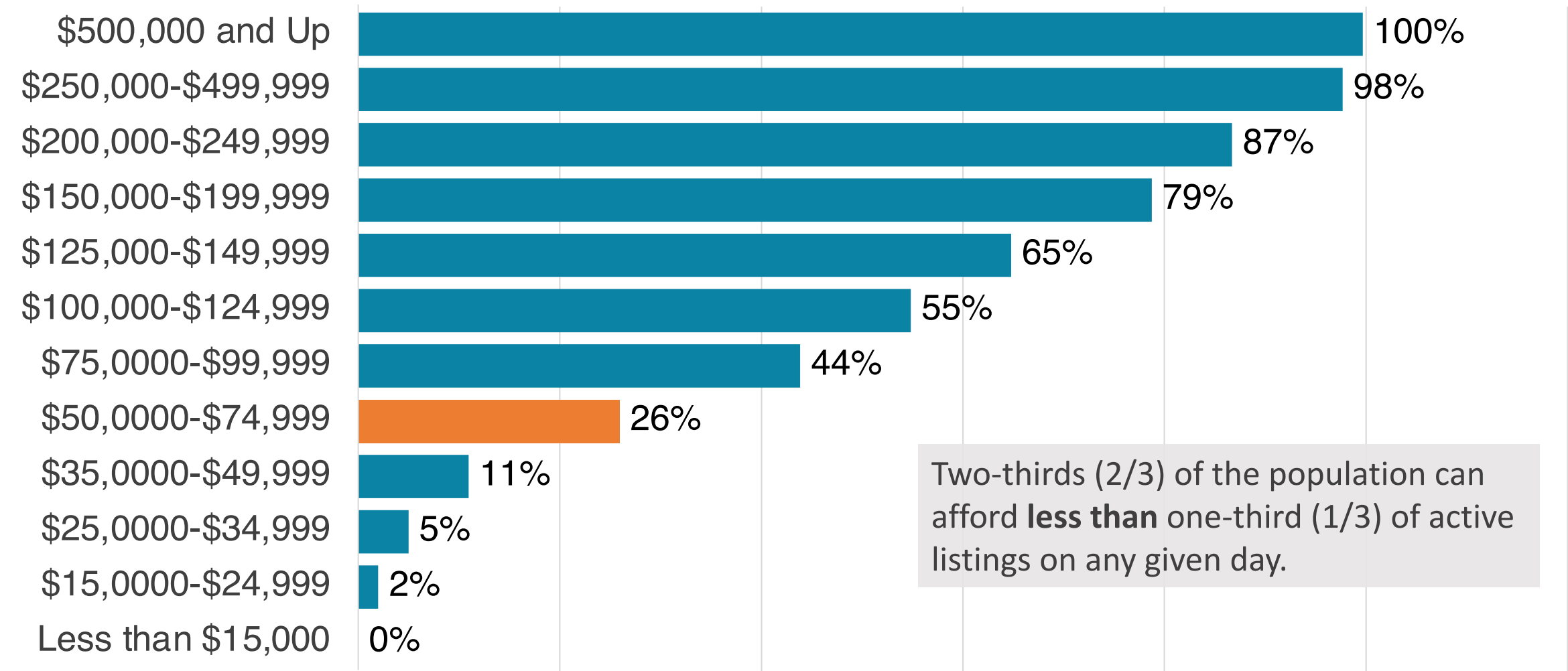
Higher Interest Rates Driving Affordability Decline

| | October 2021 | October 2022 | Change 2021-2022 |
|-----------------------------|--------------|--|------------------|
| Interest Rate (Percent) | 3.07 | 6.9 | 3.83 |
| Median Sale Price | \$285,000 | \$315,000 | \$30,000 |
| Downpayment & Closing Costs | \$22,800 | \$25,200 | \$2,400 |
| Total Monthly Owner Costs | \$1,491 | \$2,346 | \$855 |
| Annual Income Needed | \$59,656 |  \$93,850 | \$34,195 |

Source: Knoxville Area Association of Realtors®

Majority of Residents Can Afford Only Small Portion of Listings

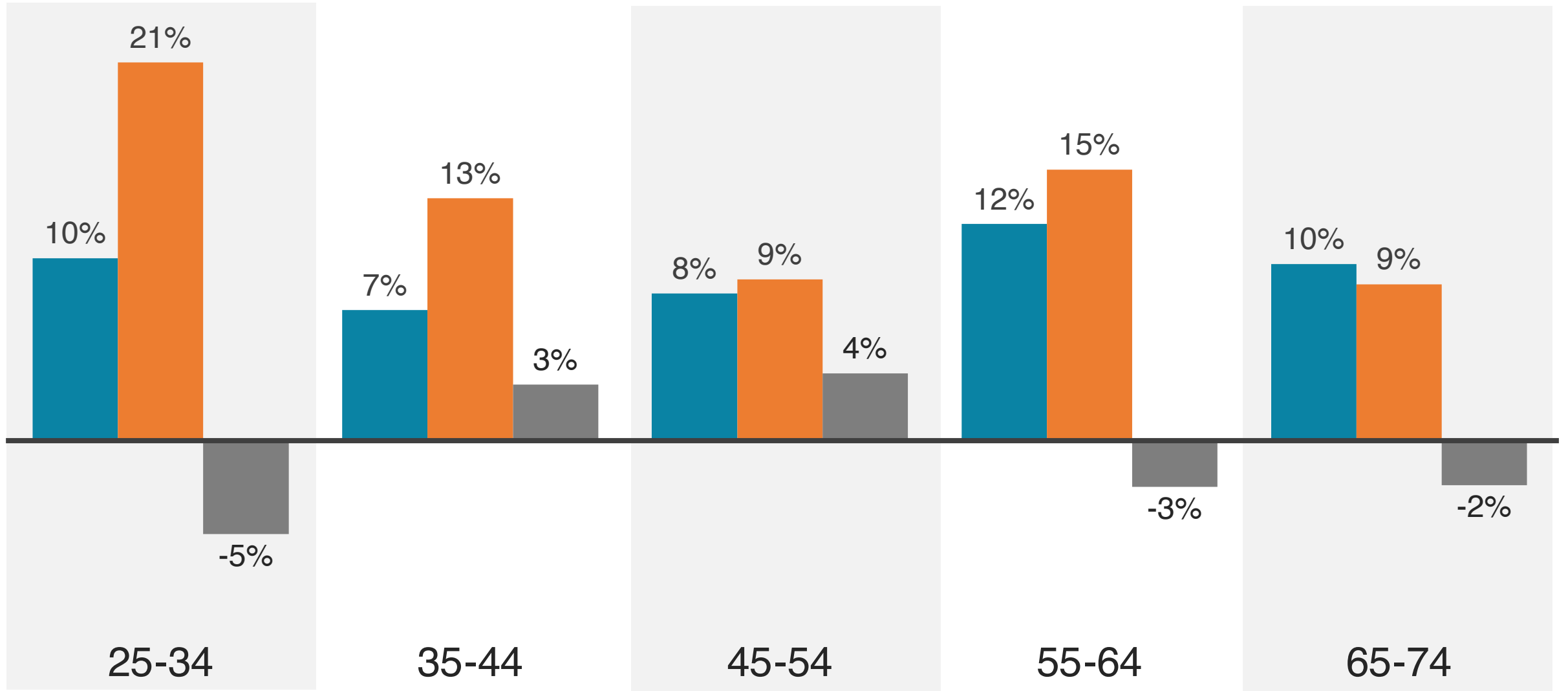
Share of Listings That Are Affordable, By Income Level: Knoxville, TN metro



Young Homebuyers Struggling to Keep Up

Year-over-year change in mortgage applications

■ 2019 ■ 2020 ■ 2021



Source: KAAR analysis of HMDA data (Knox County, TN)

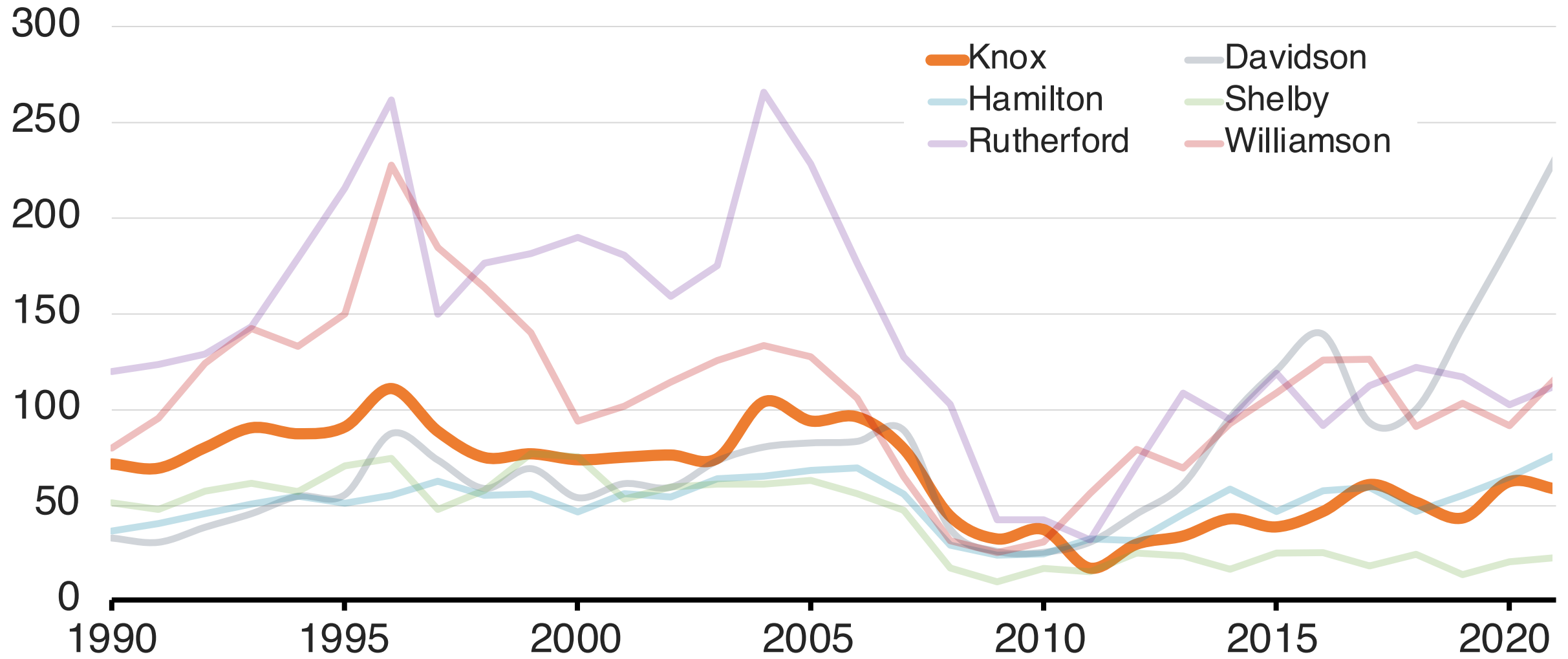
A photograph of a row of colorful houses, including a prominent red one with white trim and a white one with a red roof. The houses are set against a blue sky with white clouds. A semi-transparent dark banner is overlaid across the middle of the image, containing the title text. In the foreground, there is a brick walkway, a small tree, and a white fence with a rope railing.

Challenge #4: The Housing Shortage

How We Got Here

New Building Permits Per 10k by County

In 2021, Nashville produced new housing at 4 times the rate of Knoxville on a per capita basis.



Source: KAAR analysis of U.S. Census Bureau data

New Construction

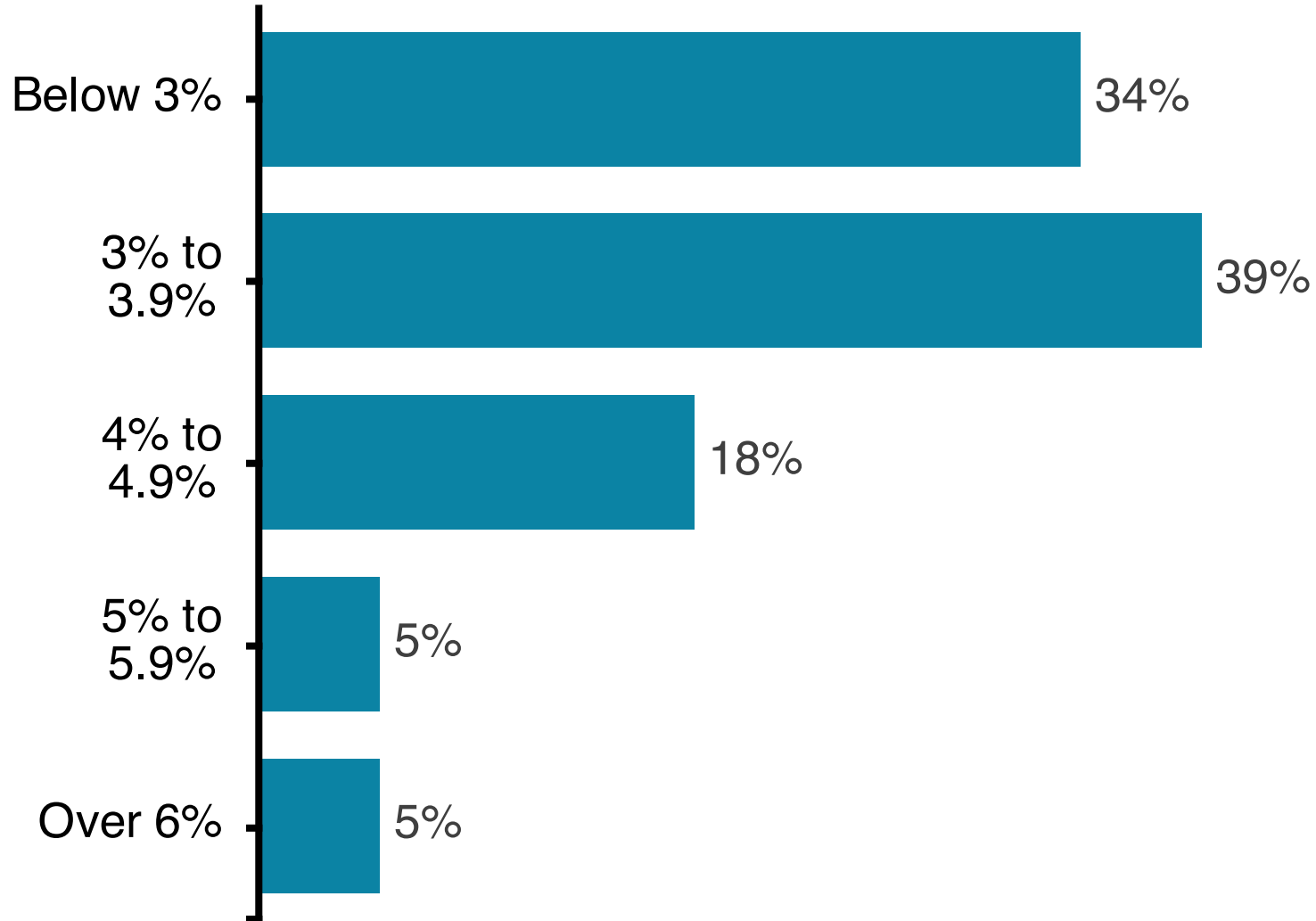
Key Metrics

- Price volatility remains prevalent, still higher than pre-pandemic
- New home prices +11%
- Finished lot prices +15%
- Wage growth +7% (YoY)
- Housing starts -12% (YoY)



Challenge #4: The “Lock-in” Effect

Distribution of Residential Mortgages By Interest Rate

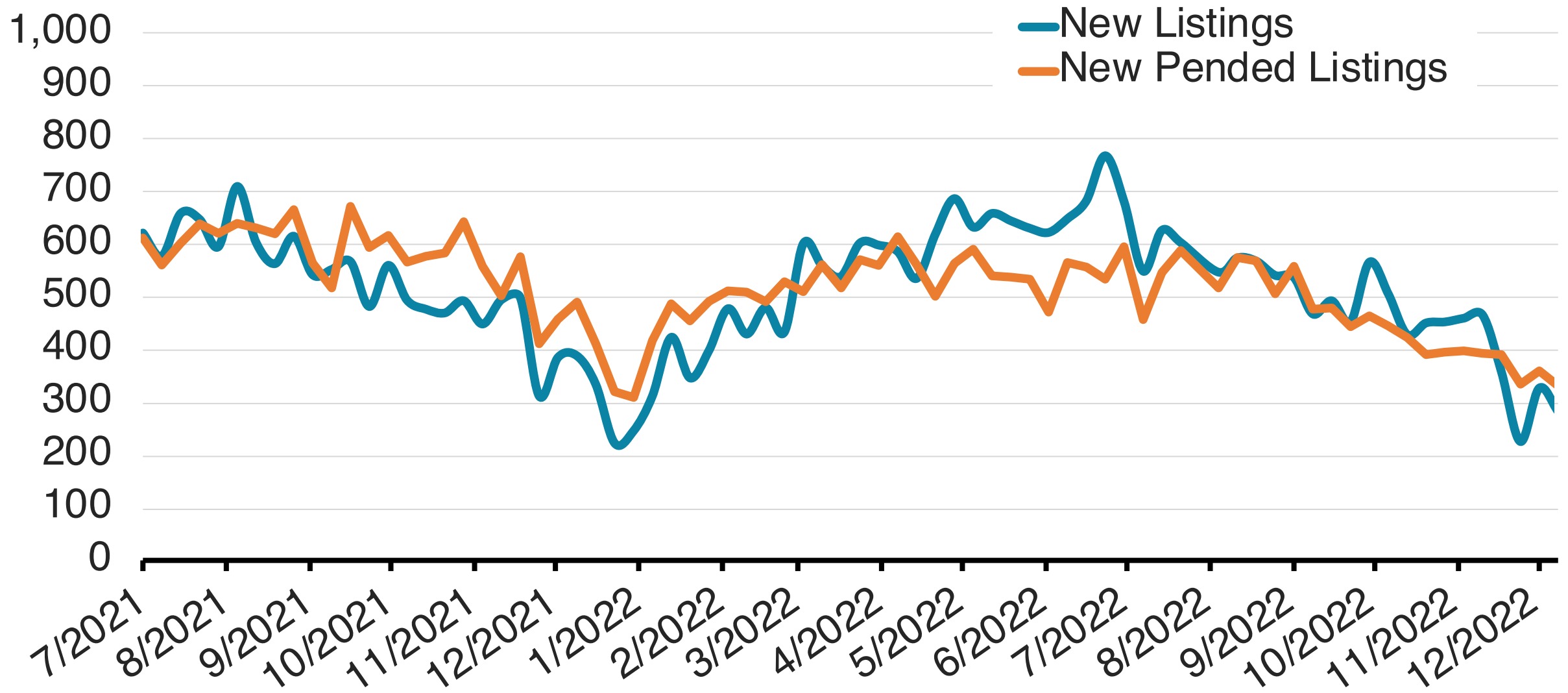


A powerful incentive to stay put or “trade-up-in-place” by remodeling.

73% of outstanding mortgages are locked in at rates below 4 percent.

Buyers and Sellers Pulling Back

Weekly New Listings and Pending Listings: Knoxville Area



Source: Knoxville Area Association of REALTORS® MLS



**This Isn't the Next Great
Recession. Here's Why.**

2022 IS NOT 2008

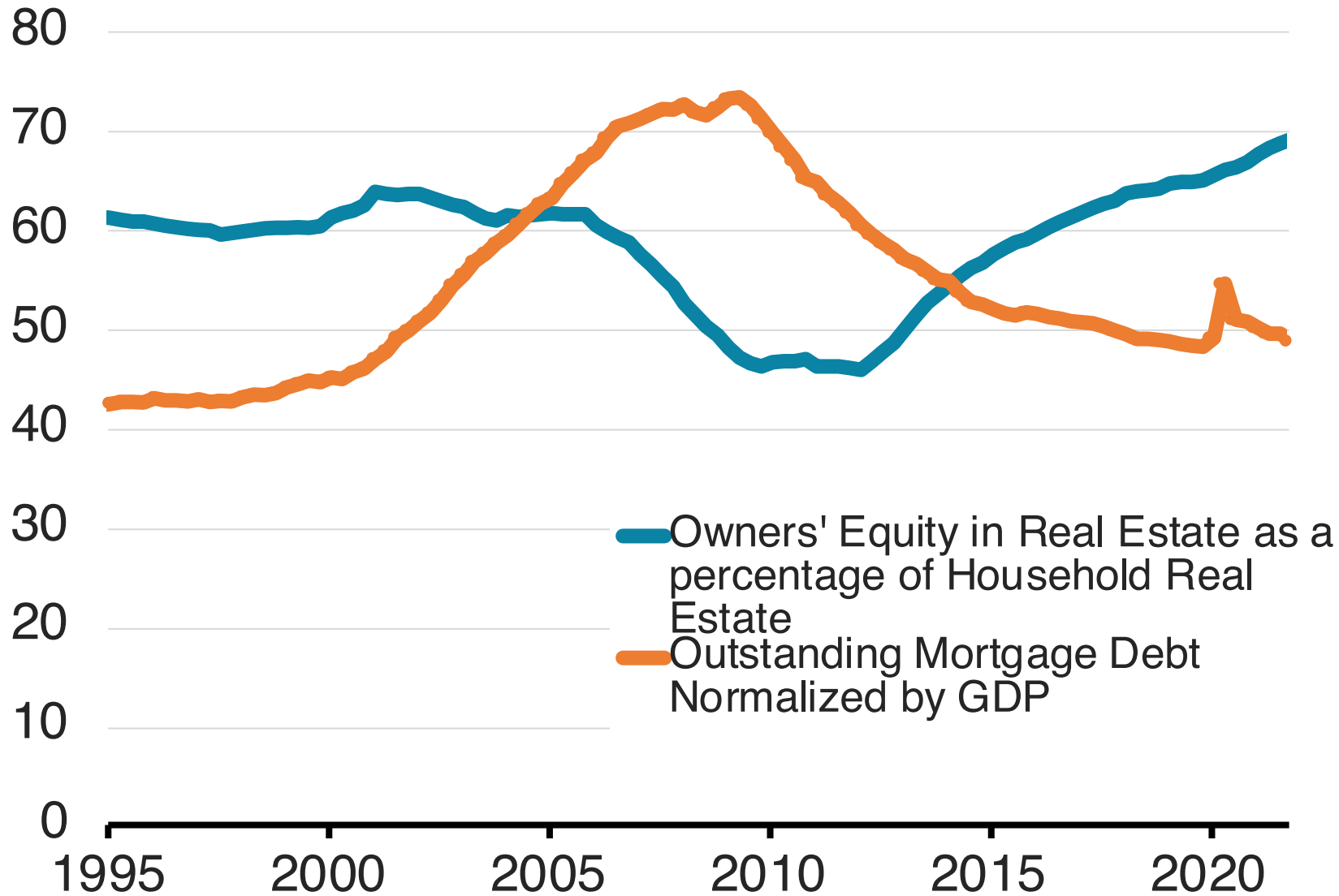
2022

- **Tight** credit standards
- **Low** share of adjustable-rate mortgages/subprime lending
- Owners' equity **high** relative to outstanding debt
- **Strong** labor market
- Few over-leveraged primary residents (**ATR/QM Rule**)
- **Low** mortgage delinquency rate

2008

- **Loose** credit standards
- **High** share of adjustable-rate mortgages/subprime lending
- Owners' equity **low** relative to outstanding debt
- **Contracting** labor market
- Many over-leveraged primary residents (**No ATR/QM Rule**)
- **High** mortgage delinquency rate

Homeowner Equity at an All-Time High



Source: Board of Governors of the Federal Reserve System (US)

Homeowners have never looked better, at least on paper.

Homeowners aren't over-leveraged.

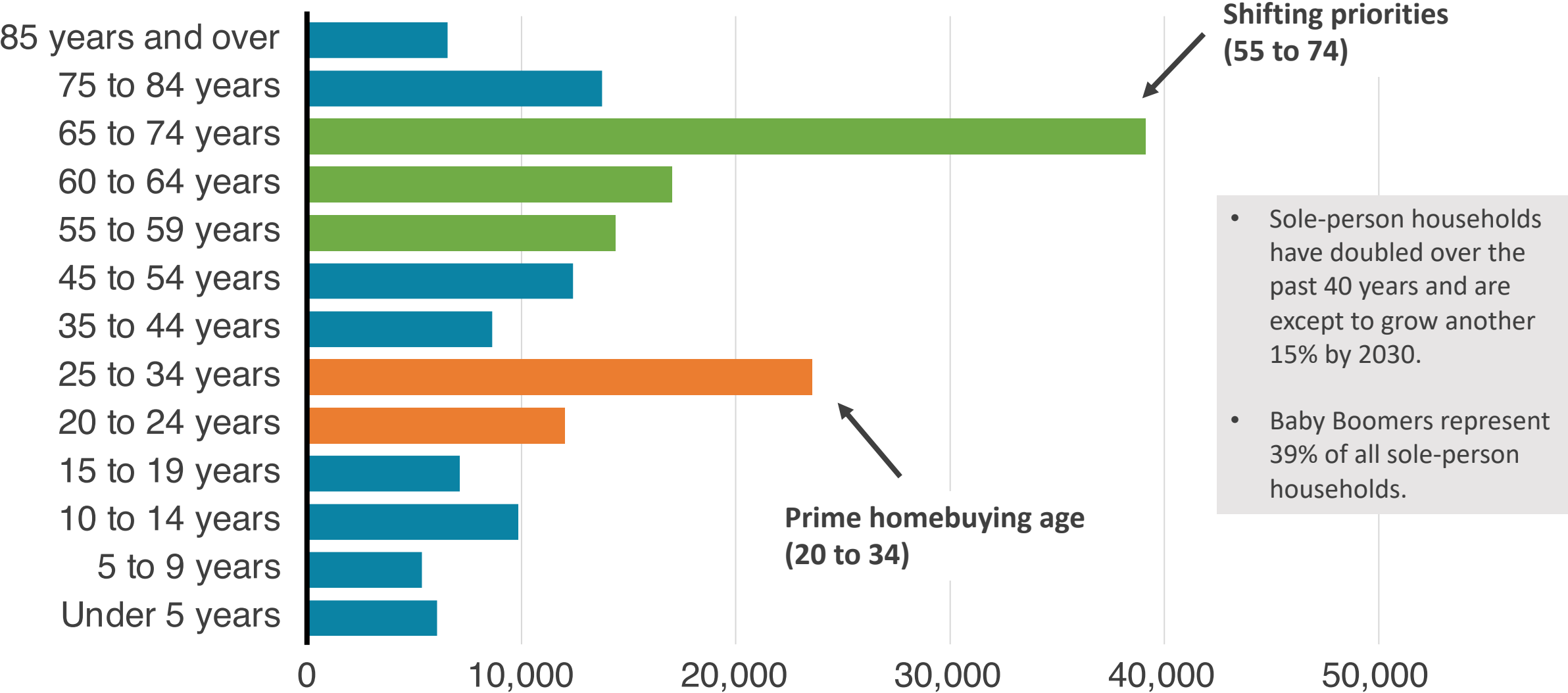
Mortgage delinquency rates near a record low.

| Change in home prices, Nov. 2022-Dec 2023 | Share of homeowners who would be underwater on their mortgage | Change in home value for the typical homeowner |
|--|---|---|
| flat | 1.6% | \$44,279 |
| -4% | 3.4% | \$27,318 |
| -8% | 6.3% | \$10,950 |
| -12% | 10.3% | -\$5,026 |

Source: Redfin

Favorable Demographics, Strong Household Formation

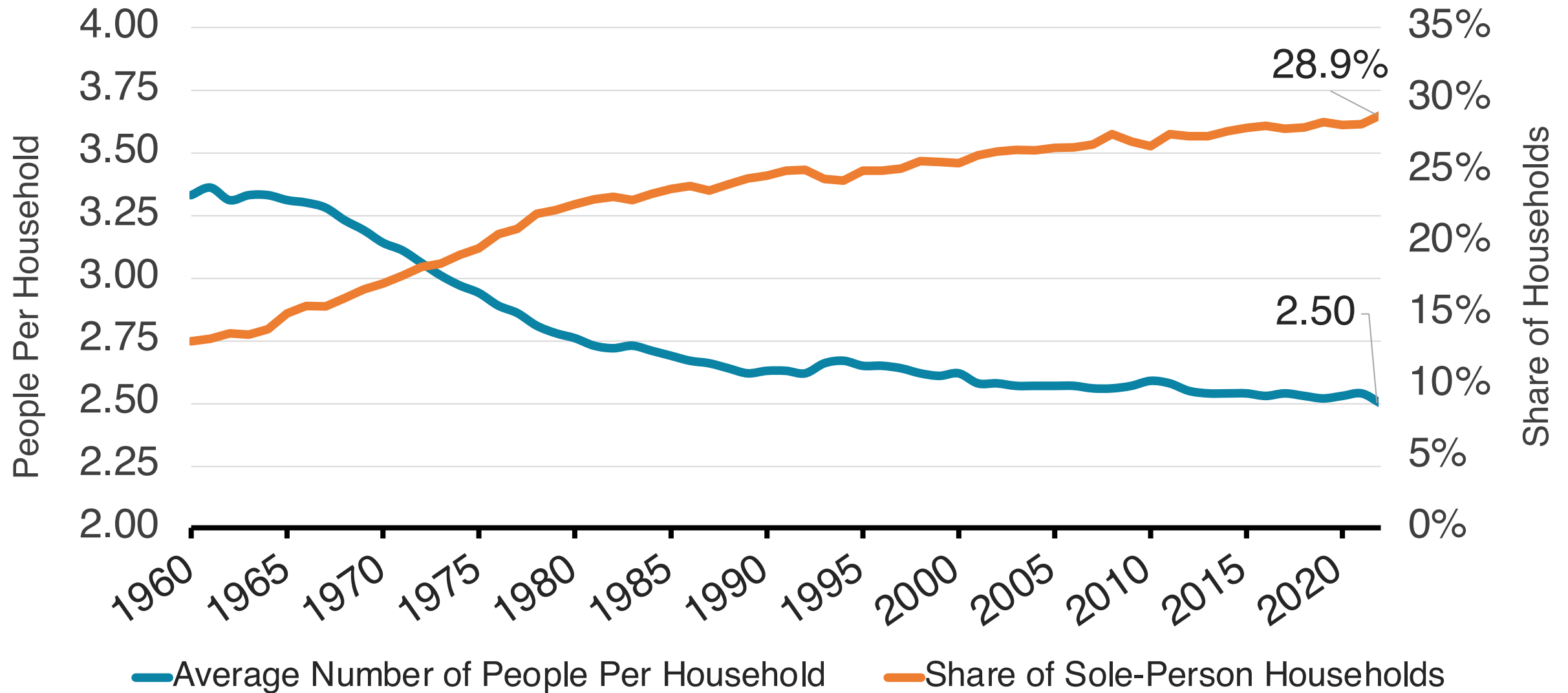
Population Change from 2010 to 2020 by Age Group: Knoxville (MSA)



Source: U.S. Census Bureau, American Community Survey 5-Year Estimates

Household Size Has Been Declining Since 1960

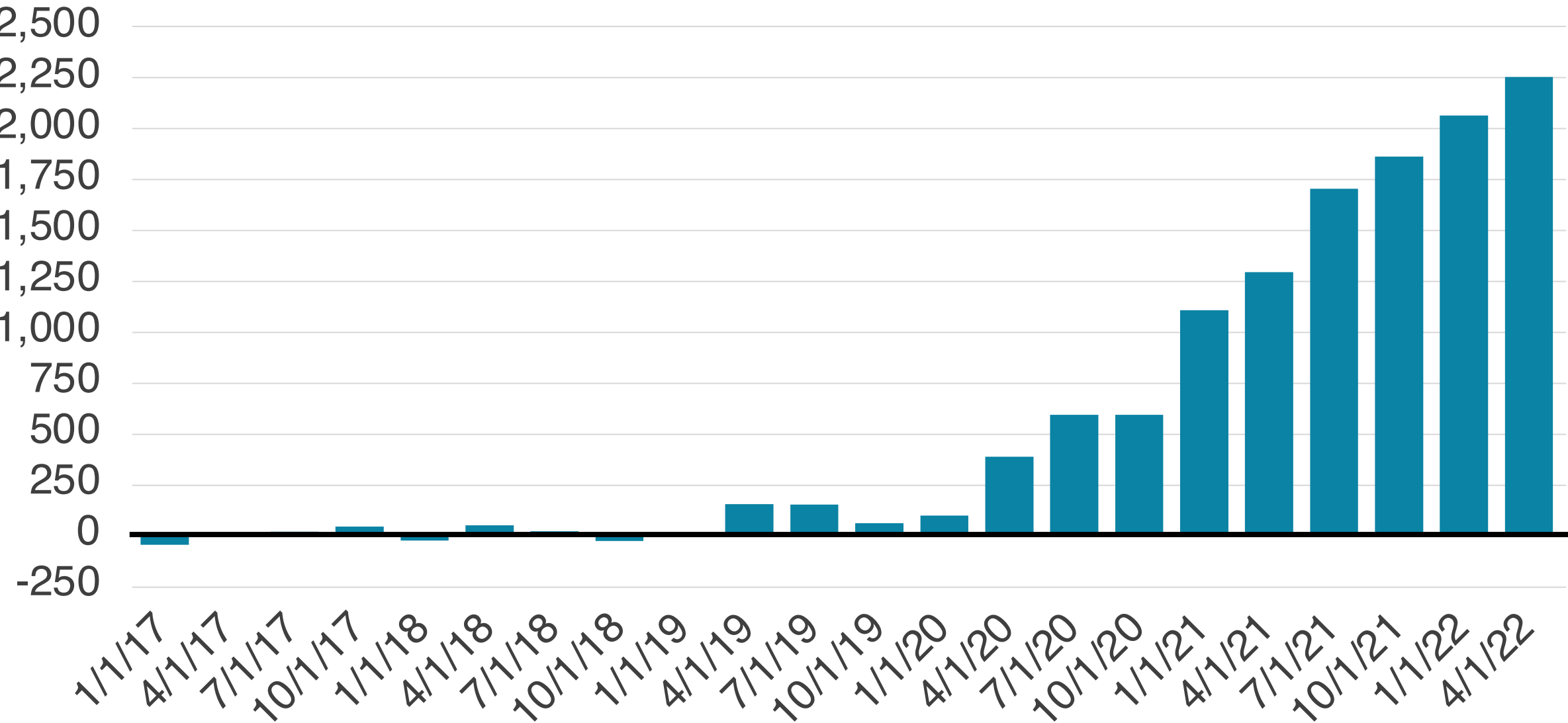
Average Number of People Per Household and Sole-Person Households



Source: U.S. Census Bureau, Current Population Survey, 1960 to 2022.

Migration, Migration, Migration

Quarterly Net Inflow of Redfin Users: Knoxville, TN



Source: Redfin

A photograph of a row of colorful houses, including a prominent red one on the right and a blue one in the center. The houses are set against a bright blue sky with scattered white clouds. In the foreground, there are green bushes and a white fence with a rope railing. A dark car is parked in a driveway on the left. The overall scene is bright and sunny.

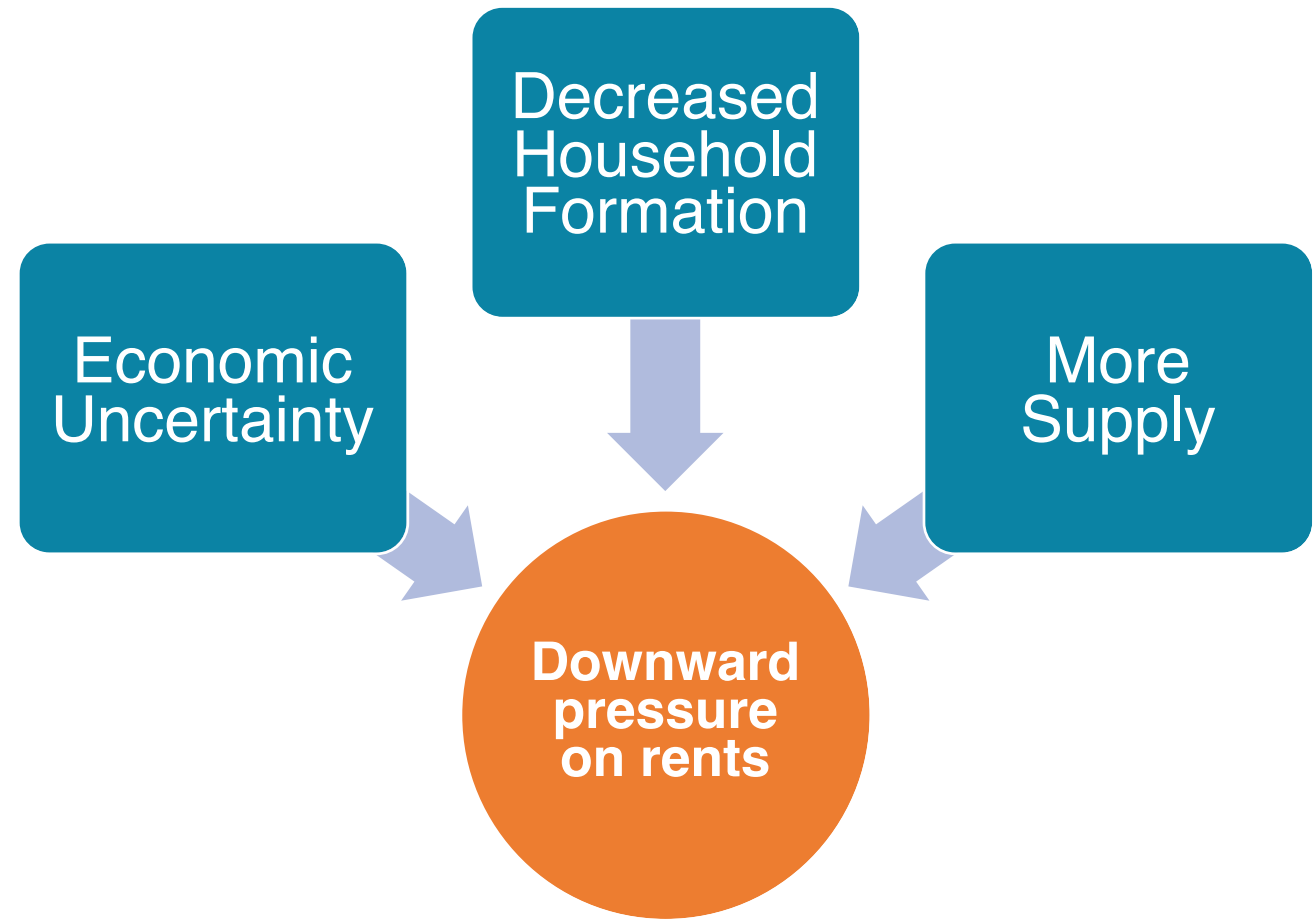
What's Next? 2023 Outlook & Forecast

Housing Market Forecast

| | 2021 | 2022f | 2023f |
|--|------|-------|-------|
| 30-YR Fixed Mortgage Rate (%) | 3.0 | 5.4 | 6.4 |
| Home Prices | +20% | +14% | +5% |
| Home Sales | +8% | -10% | -12% |
| Dollar Volume | +40% | +5% | -8% |

Rental Market Outlook

- Official inflation numbers suggest rents are still increasing, but private data tells a completely different story.
- A record number of new units are scheduled to become available over the next 12 months – there may be lease-up challenges in the short run.



Rental Market Forecast

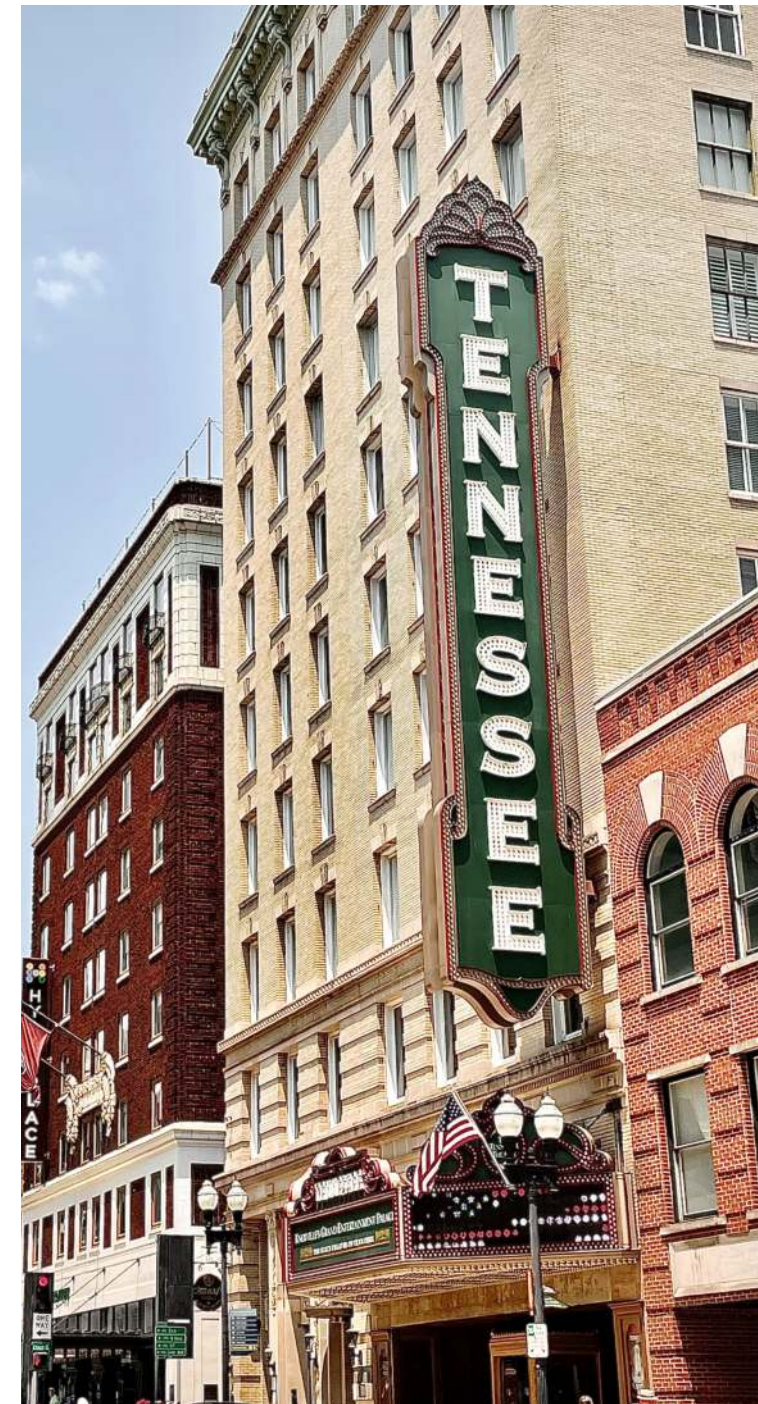
| | 2021 | 2022f | 2023f |
|----------------|---------|---------|---------|
| Occupancy Rate | 98.2% | 98.3% | 96.6% |
| Effective Rent | \$1,080 | \$1,302 | \$1,355 |
| Rent Growth | +11.2% | +18.0% | +4.2% |

Three Scenarios

| Scenario | Recession? | 30-Year Fixed Mortgage Rate | Home Prices | Home Sales |
|----------|---------------------------------|-----------------------------|-----------------------------------|------------|
| Bullish | No recession | 5-5.7% | Moderately Positive (+5% or more) | -5% |
| Baseline | No recession/ Mild recession | 5.8-6.5% | Slightly Positive (0-5%) | -12% |
| Bearish | Severe Recession | 6.6% or more | Slightly Negative (-1% or less) | -20% |

Predictions For 2023

- 1 2023 will prove to be a “nobody’s-market.”
- 2 Like the 1980s, home sales will retreat but prices will hold on.
- 3 Housing inventory will increase but remain below pre-pandemic levels across most of East Tennessee.
- 4 Affordability (and mortgage rates) will define East Tennessee’s market in 2023.
- 5 East Tennessee’s commercial real estate market will cool but stay strong 2023 driven by office, multifamily sectors.



Q&A

Access the 2023 Forecast Report:

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