

# East Tennessee Housing Market Trends + 2023 Forecast

December 2022

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**Knoxville Area Association of REALTORS®**



# 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

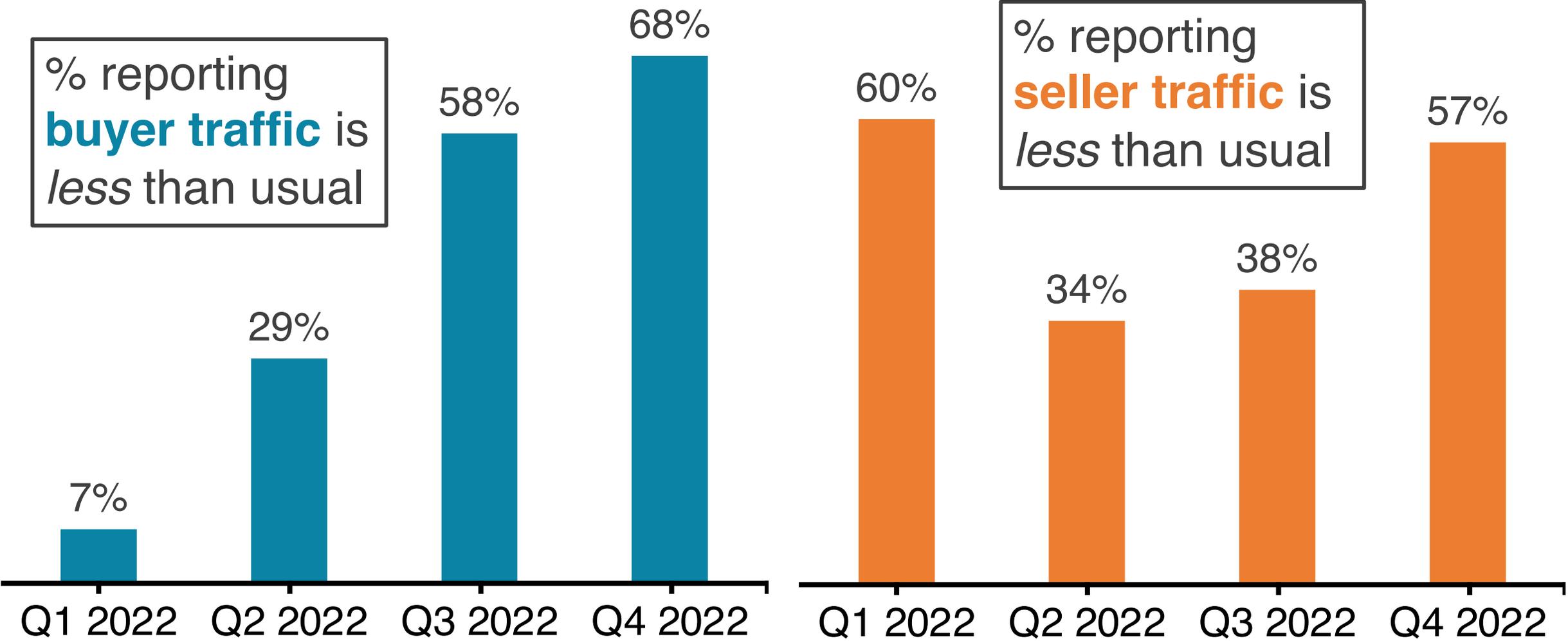


A row of colorful houses with a dark semi-transparent banner overlaid containing white text. The houses are in various colors including red, blue, and white. The sky is blue with white clouds. The text is centered and reads: State of the Market: What REALTORS® Are Saying.

# 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

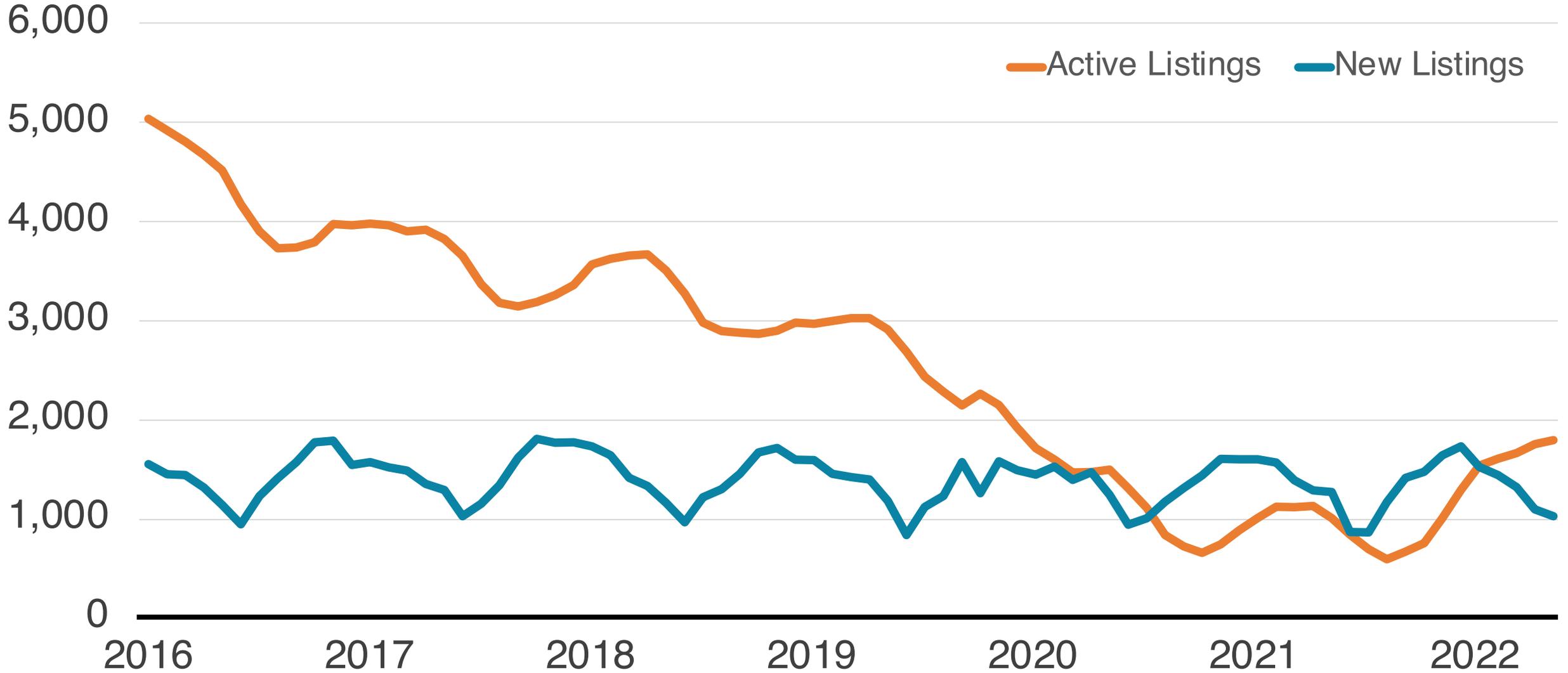


A photograph of a row of colorful houses under a blue sky with white clouds. The houses are in various colors, including red, blue, and white. A dark semi-transparent banner is overlaid across the middle of the image, containing the text "State of the Market: What the Data Says" in white. The houses have gabled roofs and some have shutters on the windows. There are trees and bushes in front of the houses, and a white fence is visible in the foreground.

# State of the Market: What the Data Says

# Inventory Starting To Taper Off

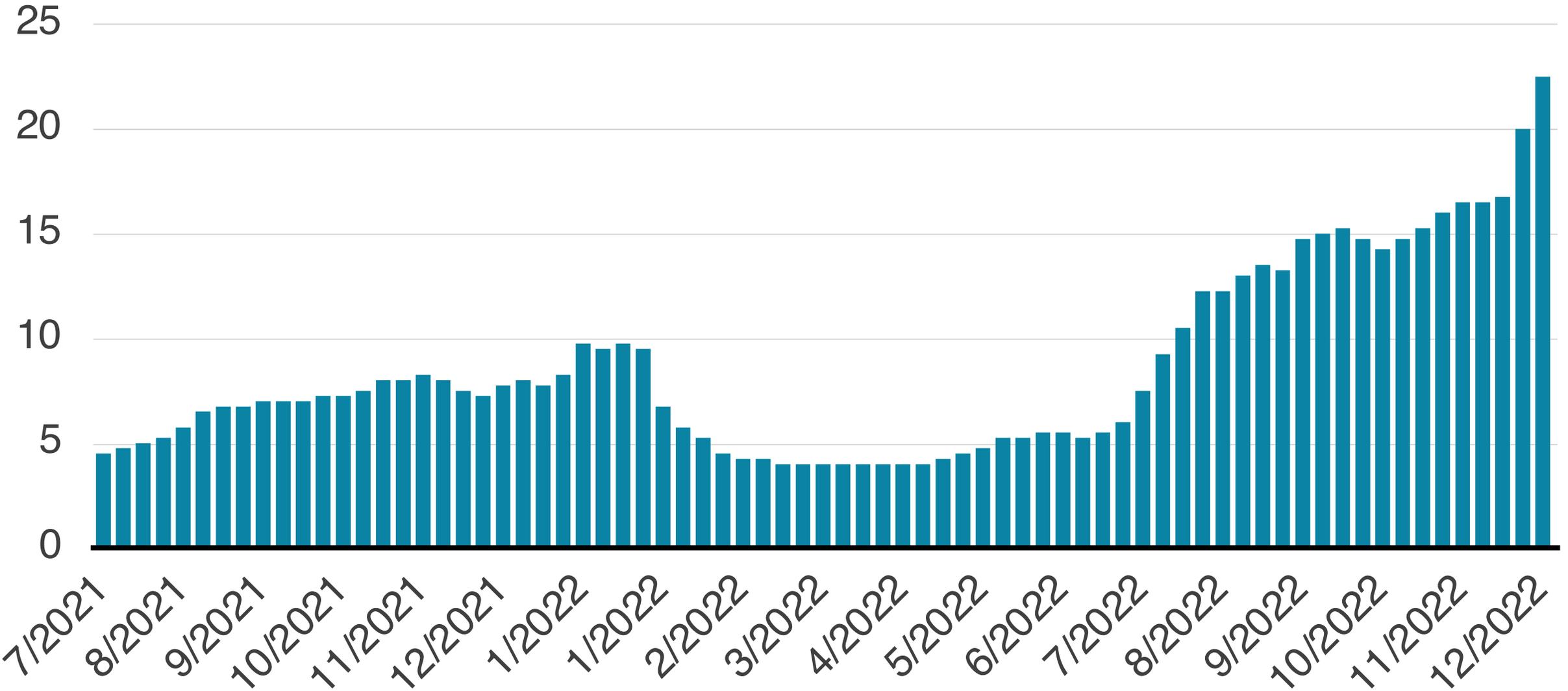
Active Listings: Knoxville MSA



Source: Realtor.com

# Homes Are Staying on the Market Longer

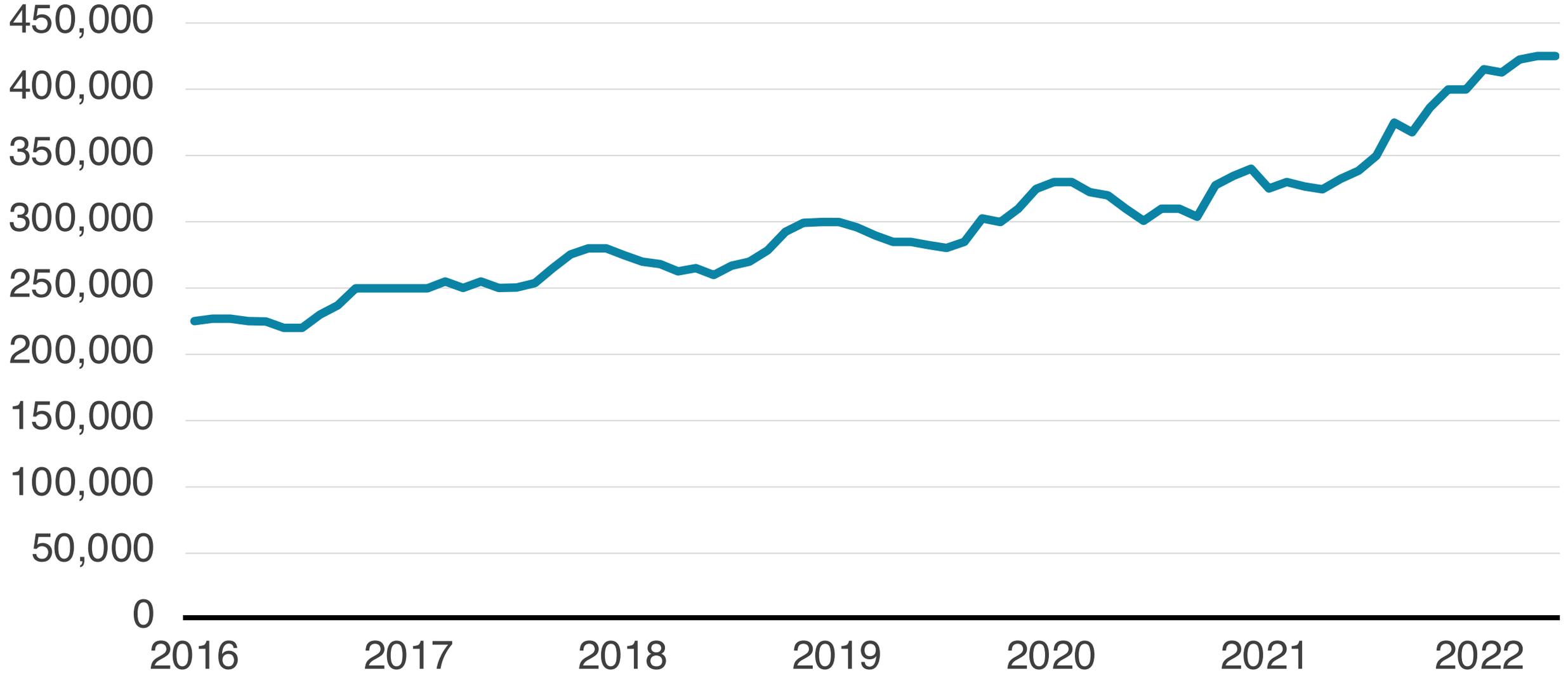
Median Days On Market: Knoxville Area



Source: Knoxville Area Association of REALTORS® MLS

# Prices Are High and Rising

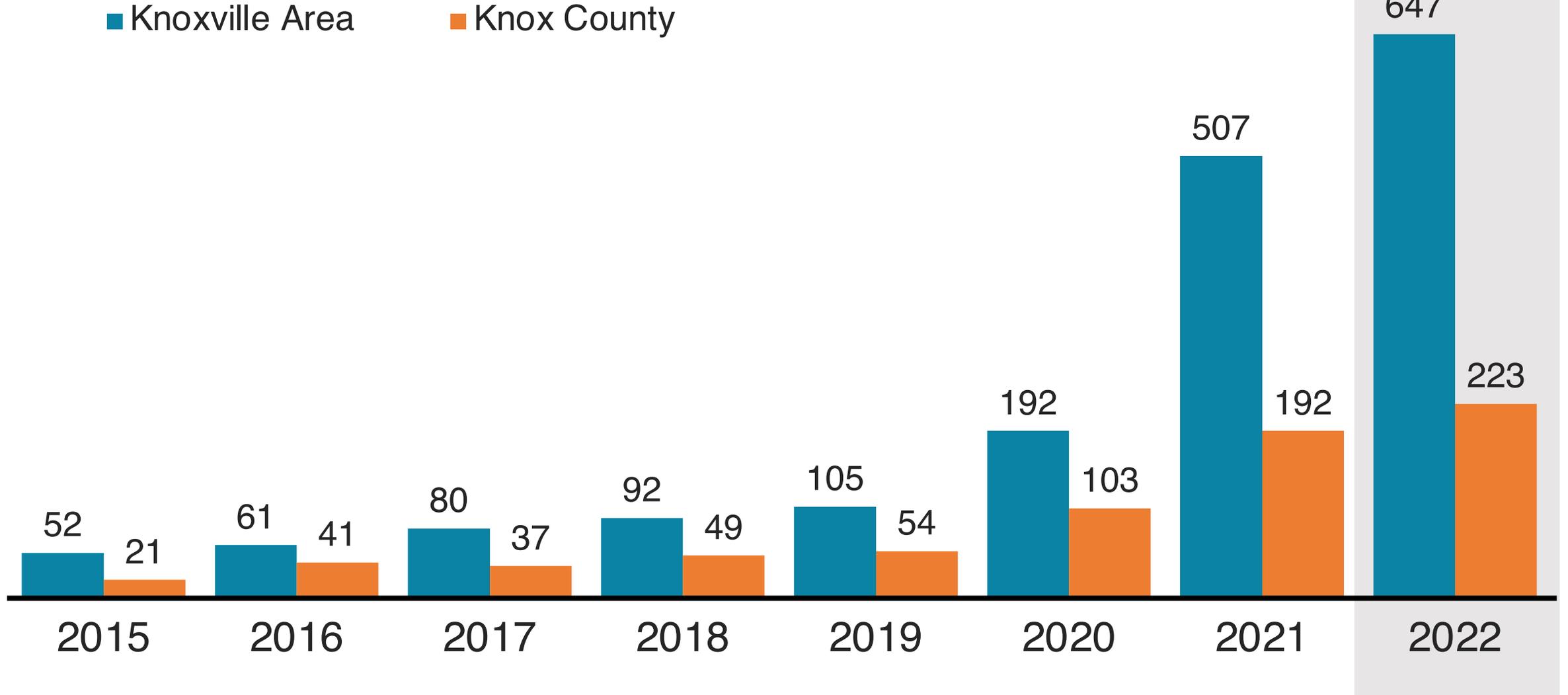
Median List Price: Knoxville MSA



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 colorful houses under a blue sky with white clouds. The houses are in various colors, including red, blue, and white. The foreground shows a brick driveway and a white fence. The text "Challenge #1: Consumer Pessimism" is overlaid in white on a dark semi-transparent background.

# Challenge #1: Consumer Pessimism

# Consumers Are Very Bearish

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



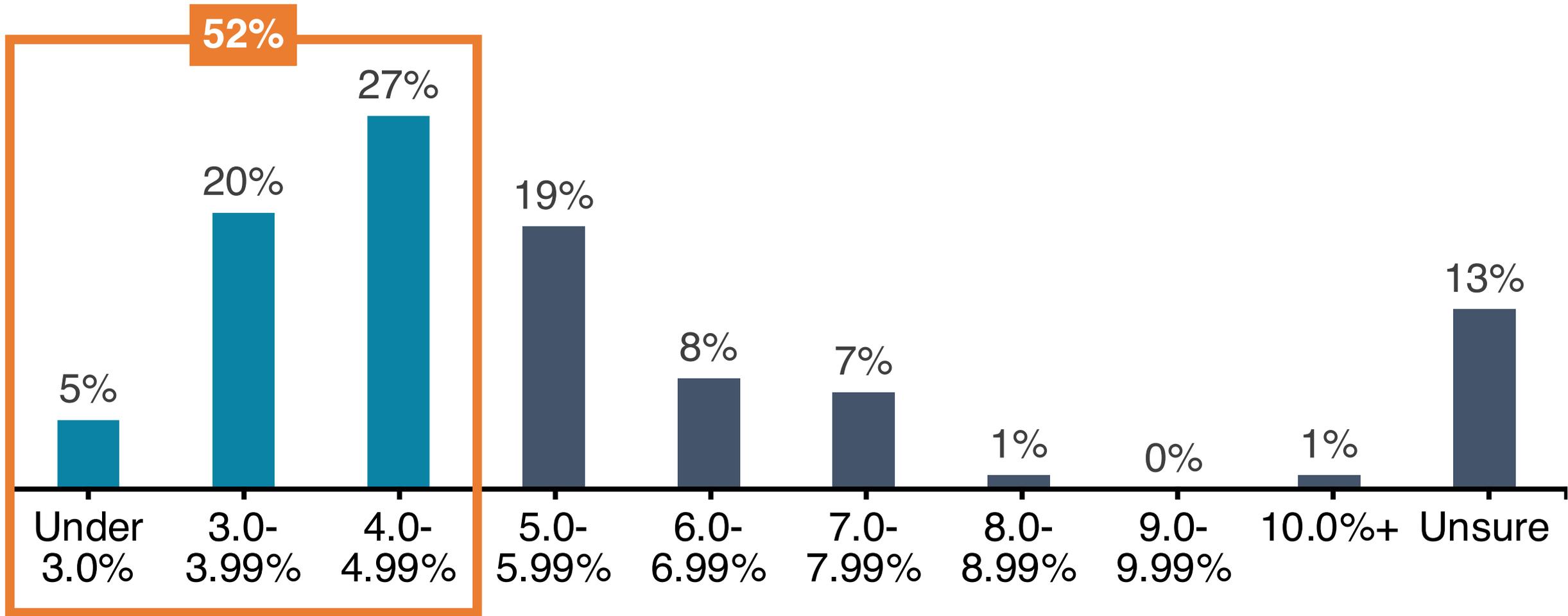
Fannie Mae's Home Purchase Sentiment Index reached an all-time low in October 2022.

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

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

# 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 on the right, under a blue sky with white clouds. A dark semi-transparent banner is overlaid across the middle of the image, containing white text.

# Challenge #2: Inflation and Mortgage Rates

# Negative Interest Rates

## Inflation-Adjusted 30-Year Fixed Mortgage Rate



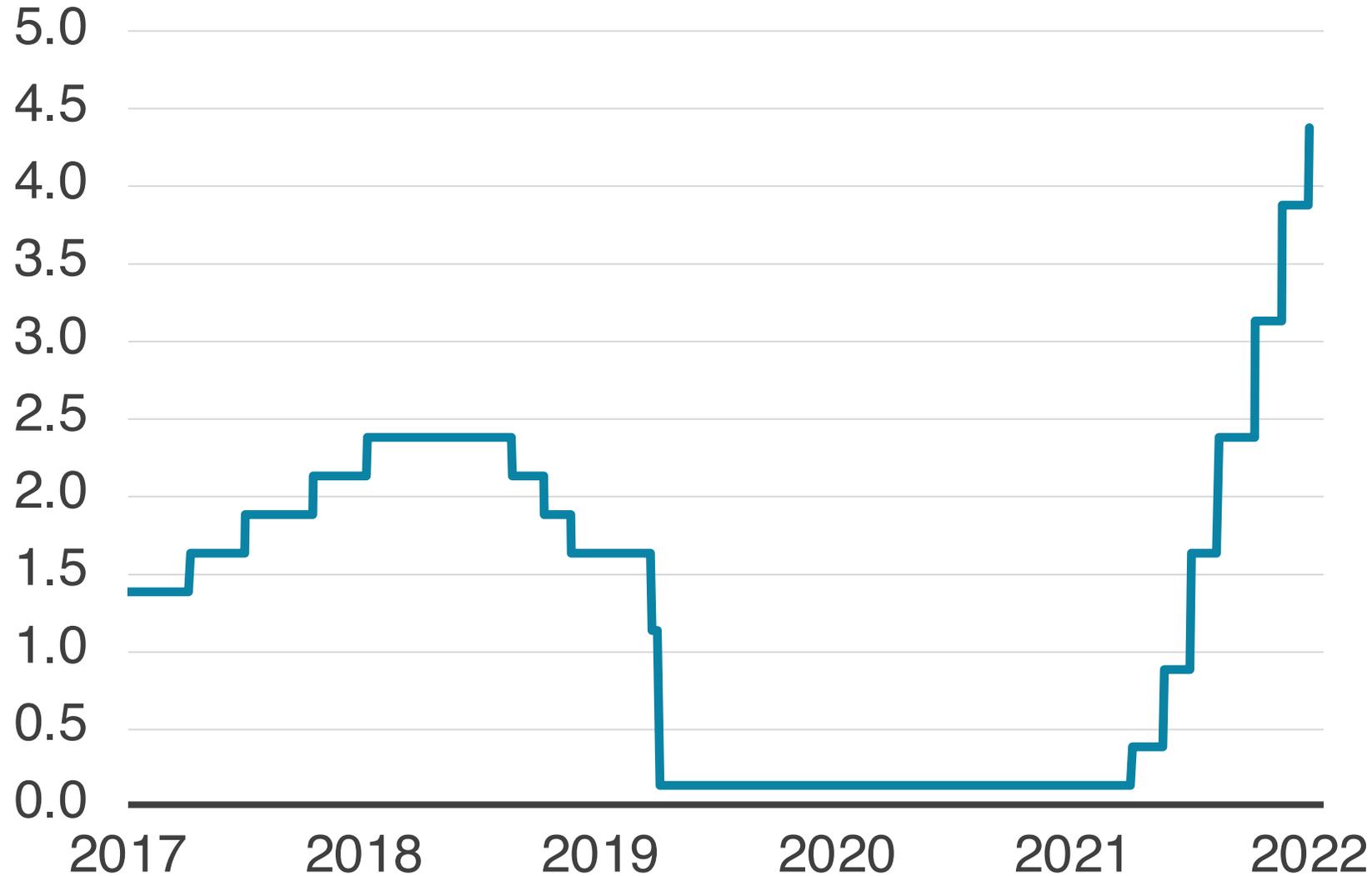
Real mortgage rates (i.e., adjusted for inflation) have turned negative.

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)



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 under a blue sky with white clouds. The houses are in various colors, including red, blue, and white. The text "Challenge #3: Housing Affordability" is overlaid in white on a dark semi-transparent background across the middle of the image.

# Challenge #3: Housing Affordability

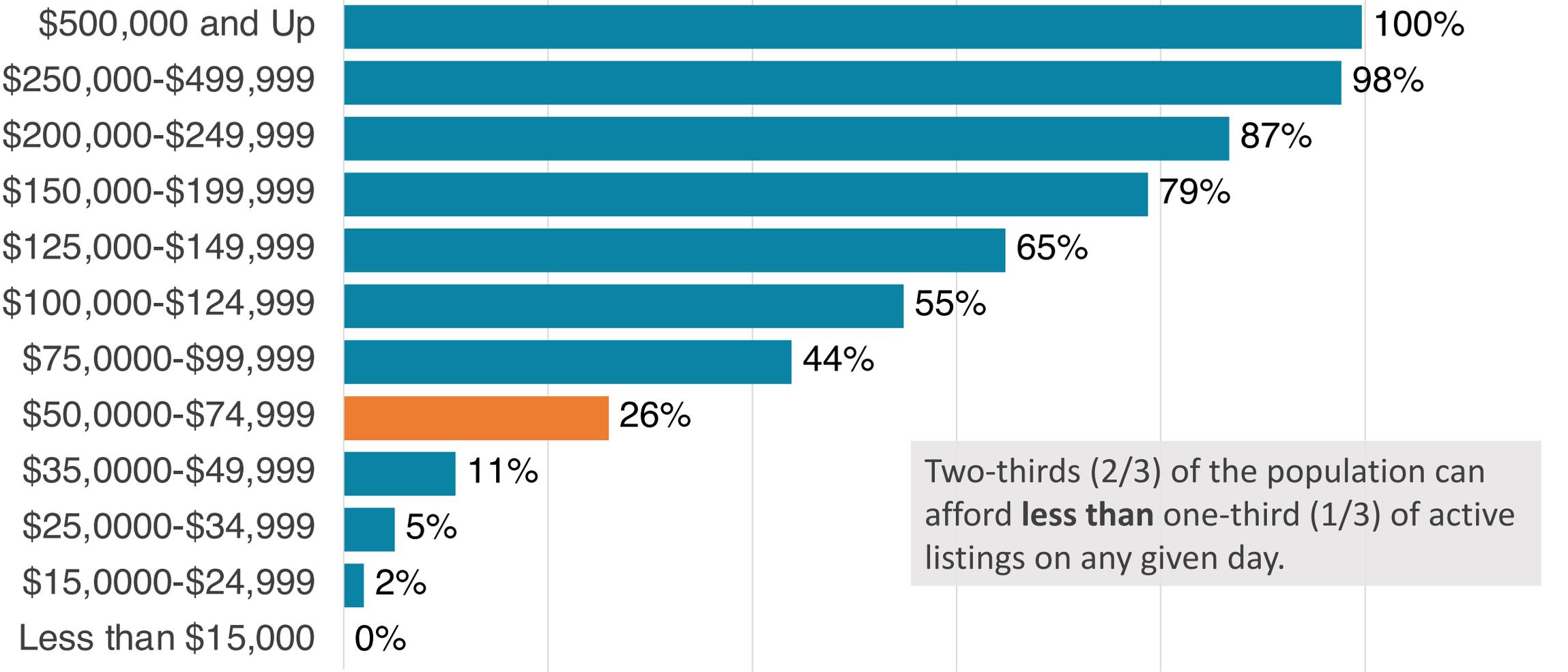
# Higher Interest Rates Driving Affordability Decline

	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

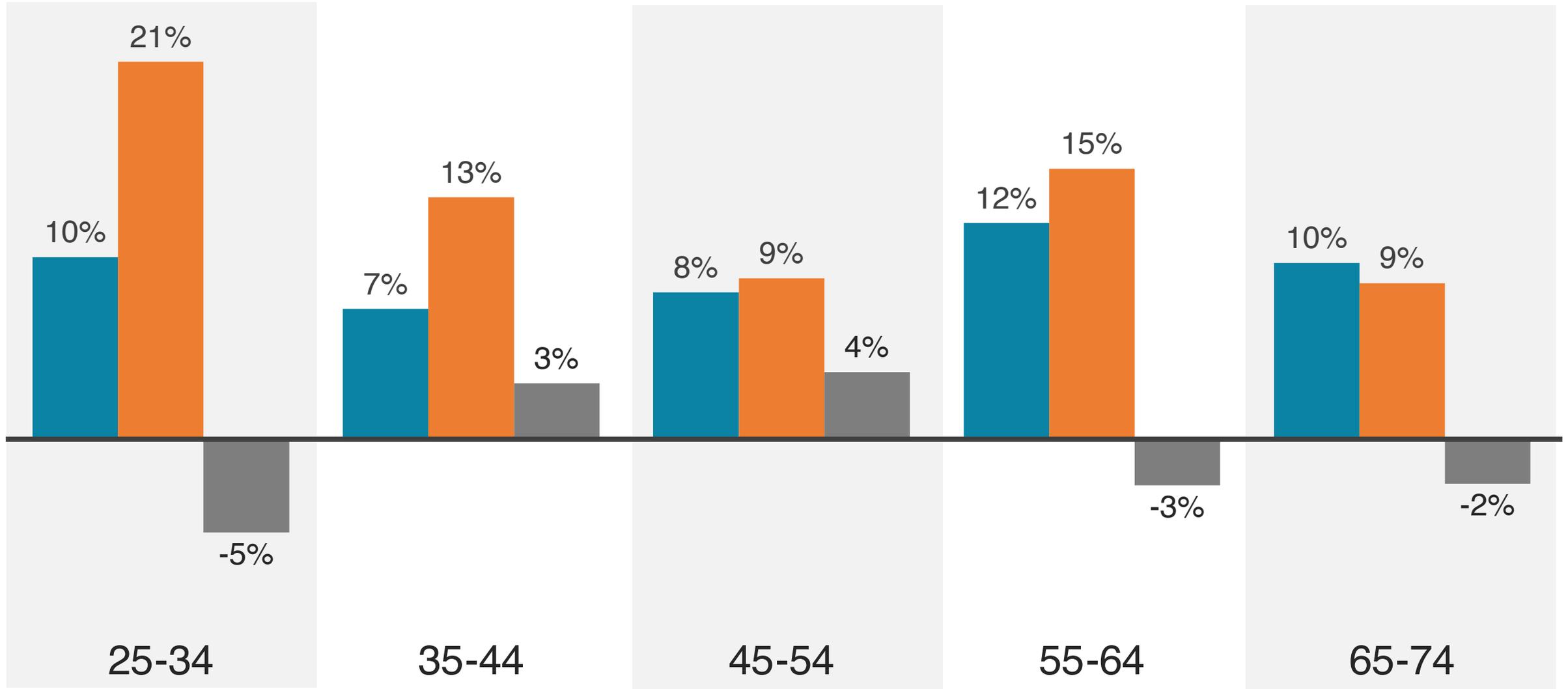


Source: National Association of Realtors®

# 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)

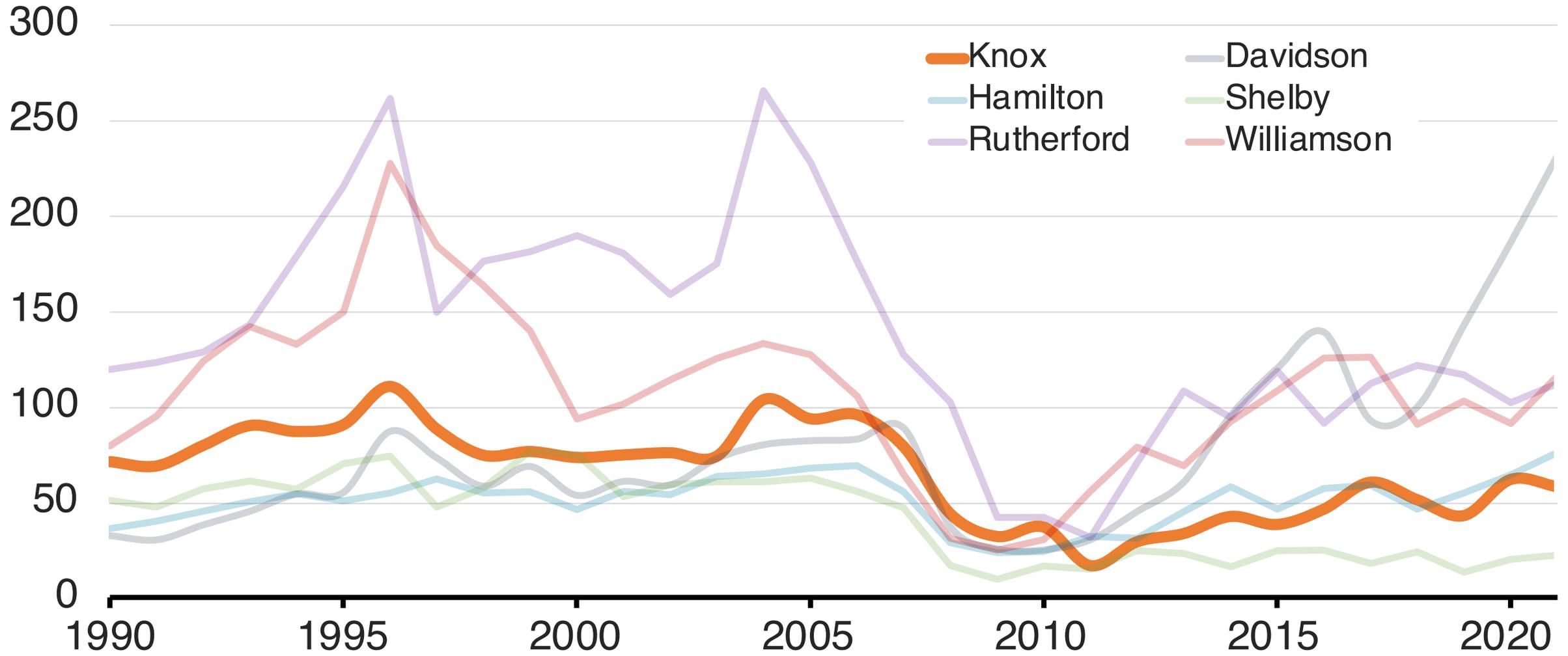
A row of colorful houses under a cloudy sky. The houses are in various colors, including red, blue, and white. The sky is blue with white clouds. The houses have gabled roofs and multiple windows. Some houses have porches and driveways. A white fence is visible in the foreground.

# Challenge #4: The Housing Shortage

# How We Got Here

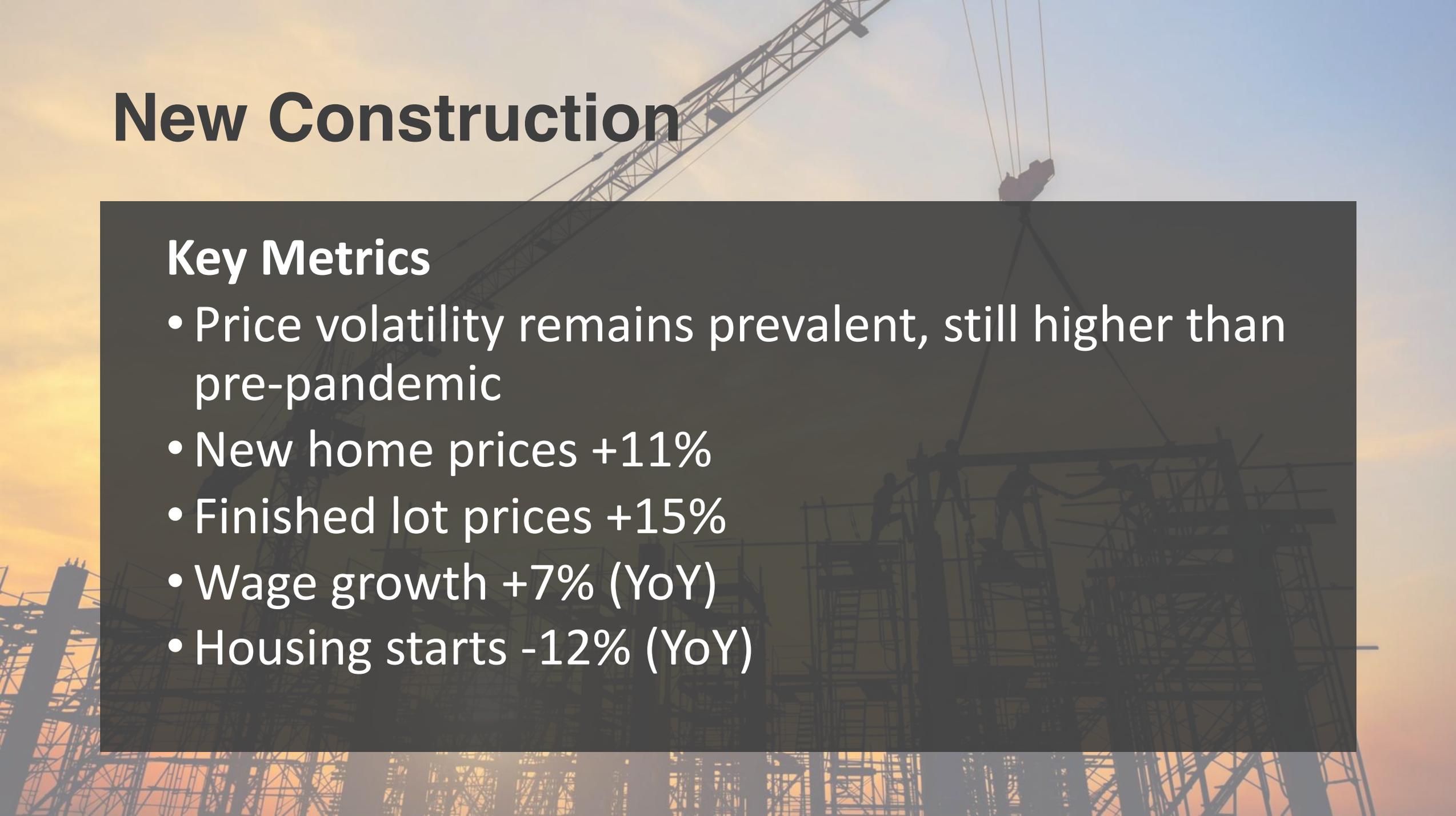
New Building Permits Per 10k by County

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

The background of the slide is a photograph of a construction site at sunset. A large crane is visible in the upper left, and the silhouettes of workers on scaffolding are visible in the lower right. The sky is a mix of orange and blue.

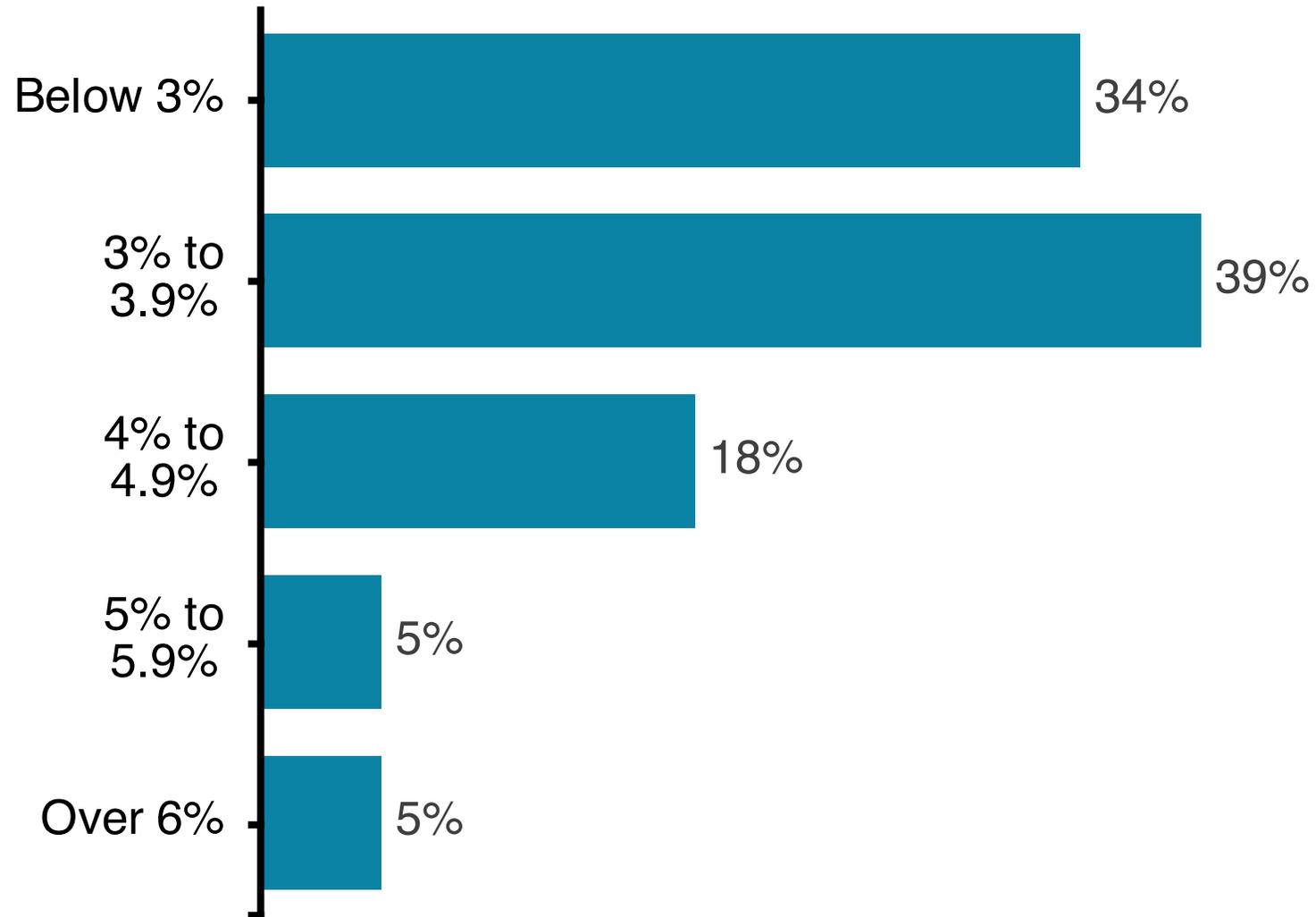
## Key Metrics

- 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)

A photograph of a row of colorful houses under a blue sky with white clouds. The houses are in various colors, including red, white, and blue. A semi-transparent dark grey banner is overlaid across the middle of the image, containing white text. In the foreground, there is a brick walkway, a white fence, and some greenery.

# Challenge #4: The “Lock-in” Effect

# Distribution of Residential Mortgages By Interest Rate



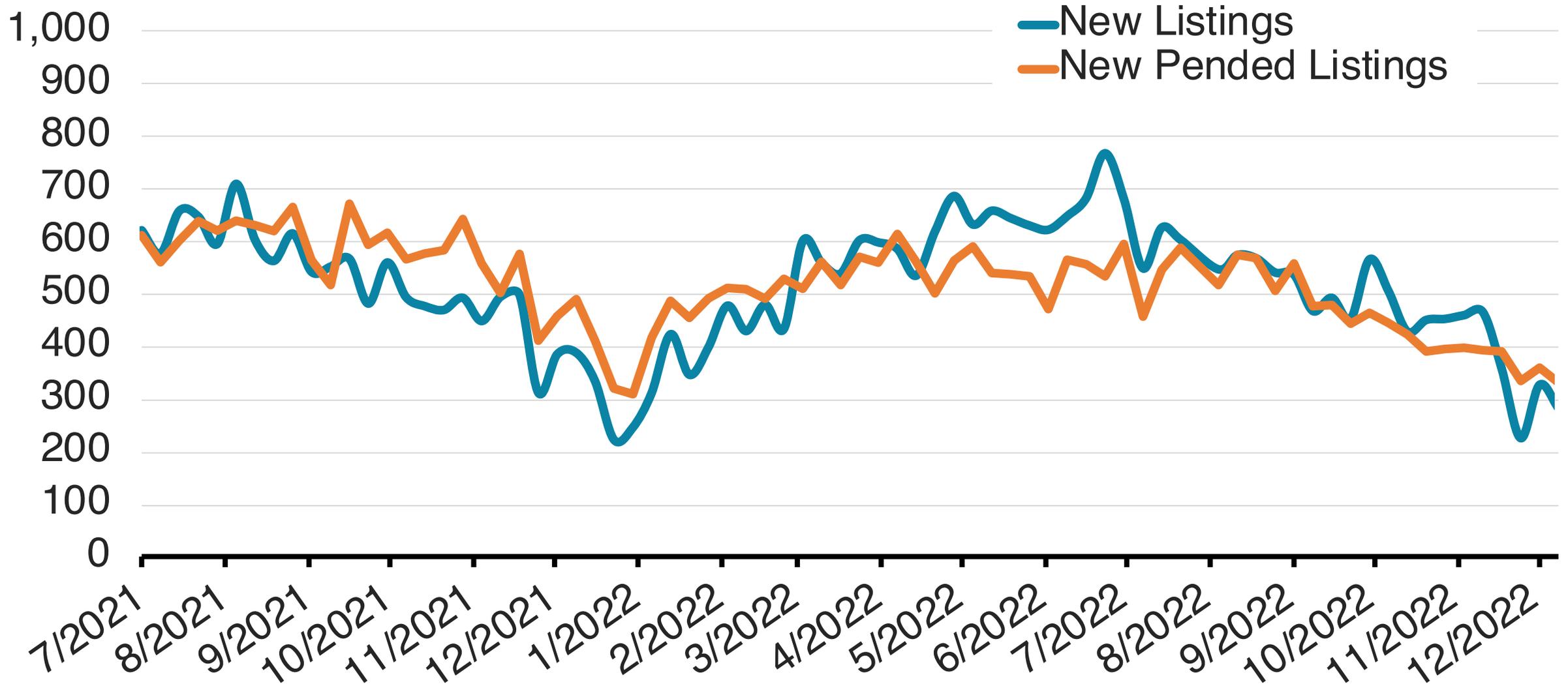
Source: John Burns Real Estate Consulting; Freddie Mac

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

A photograph of a residential street featuring a row of houses. The house in the foreground is painted a vibrant red with white trim around the windows and doors. Behind it, a blue house is visible. The sky is bright blue with scattered white clouds. A dark semi-transparent banner is overlaid across the middle of the image, containing white text.

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

# 2022 IS NOT 2008

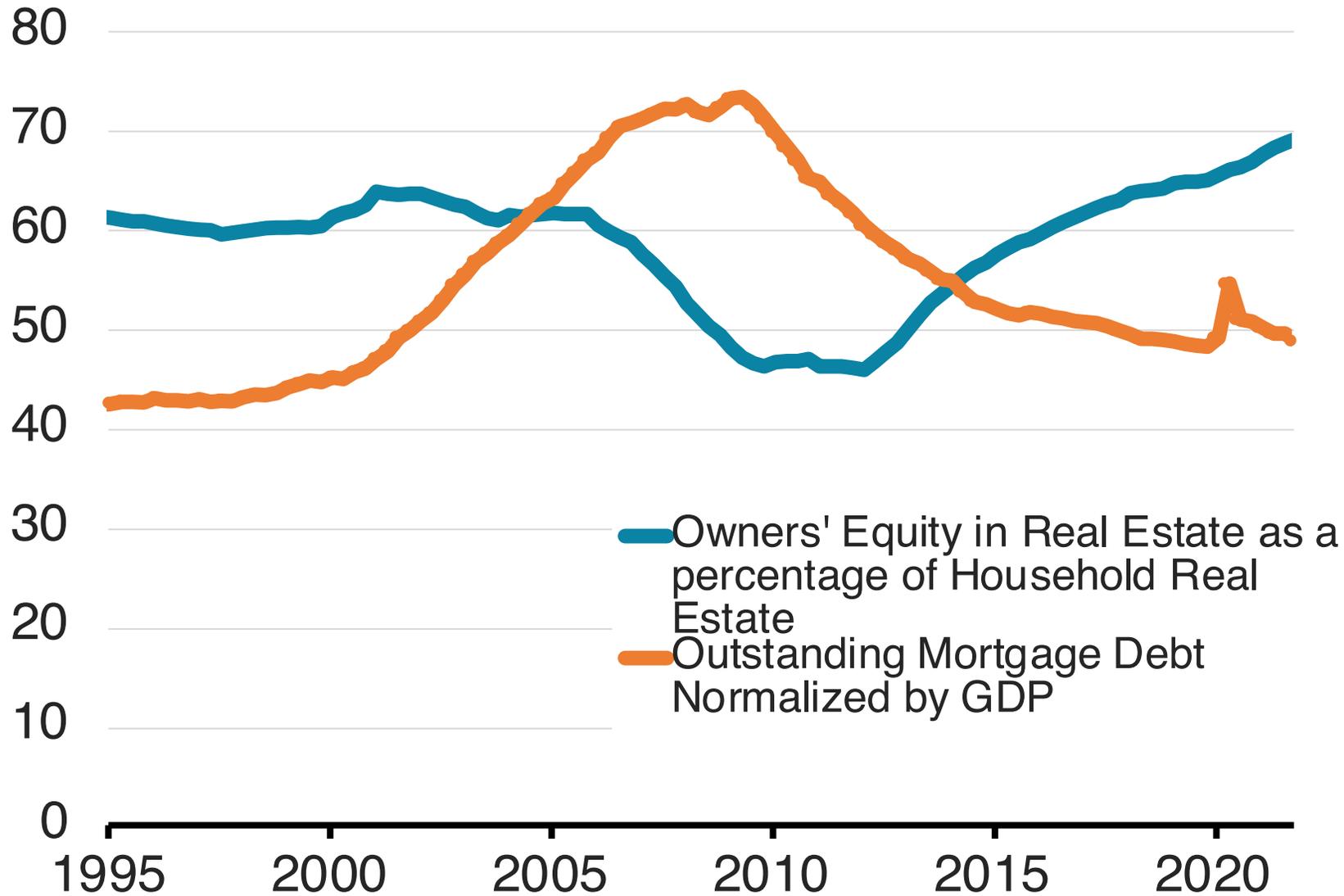
## 2022

- **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.

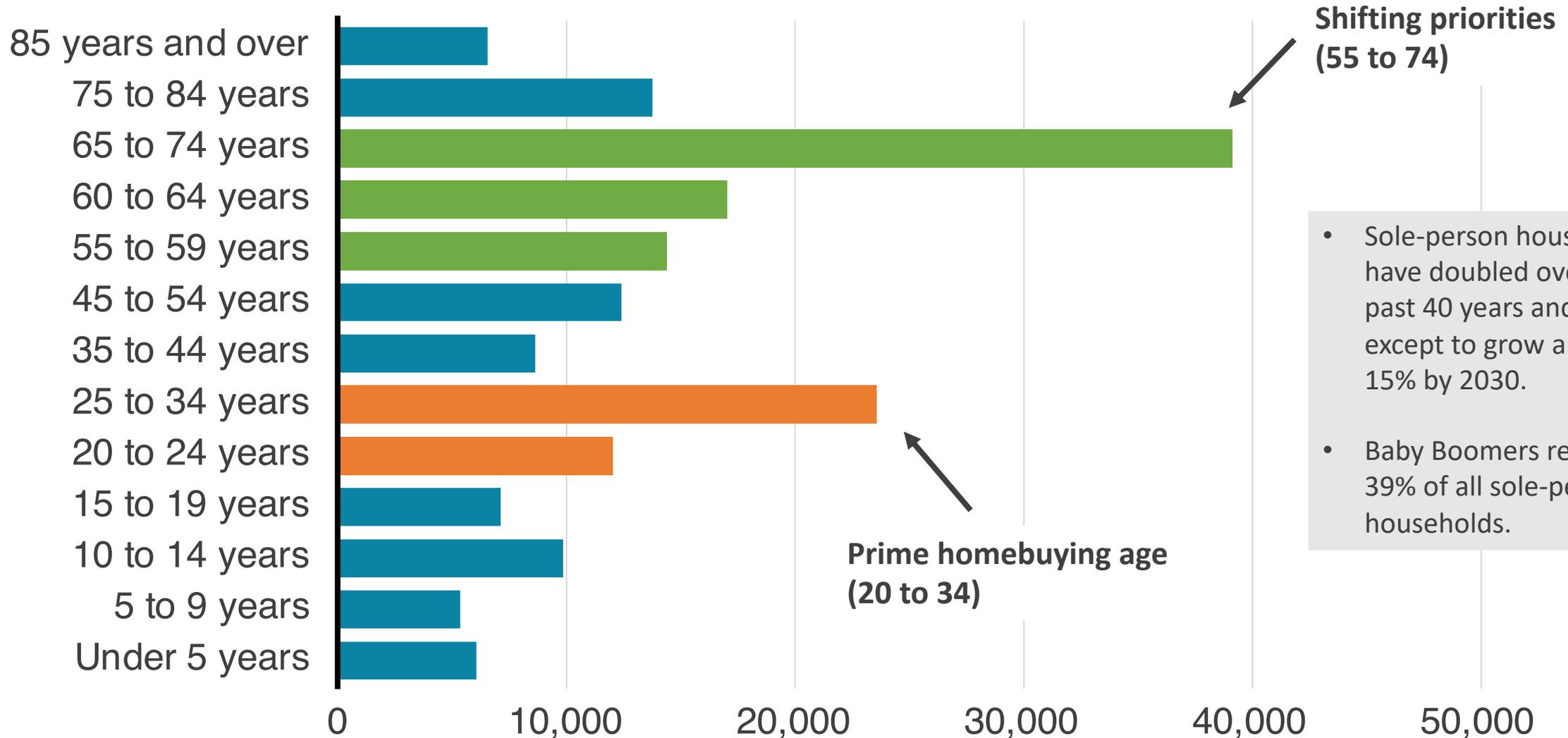
Mortgage delinquency rates near a record low.

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

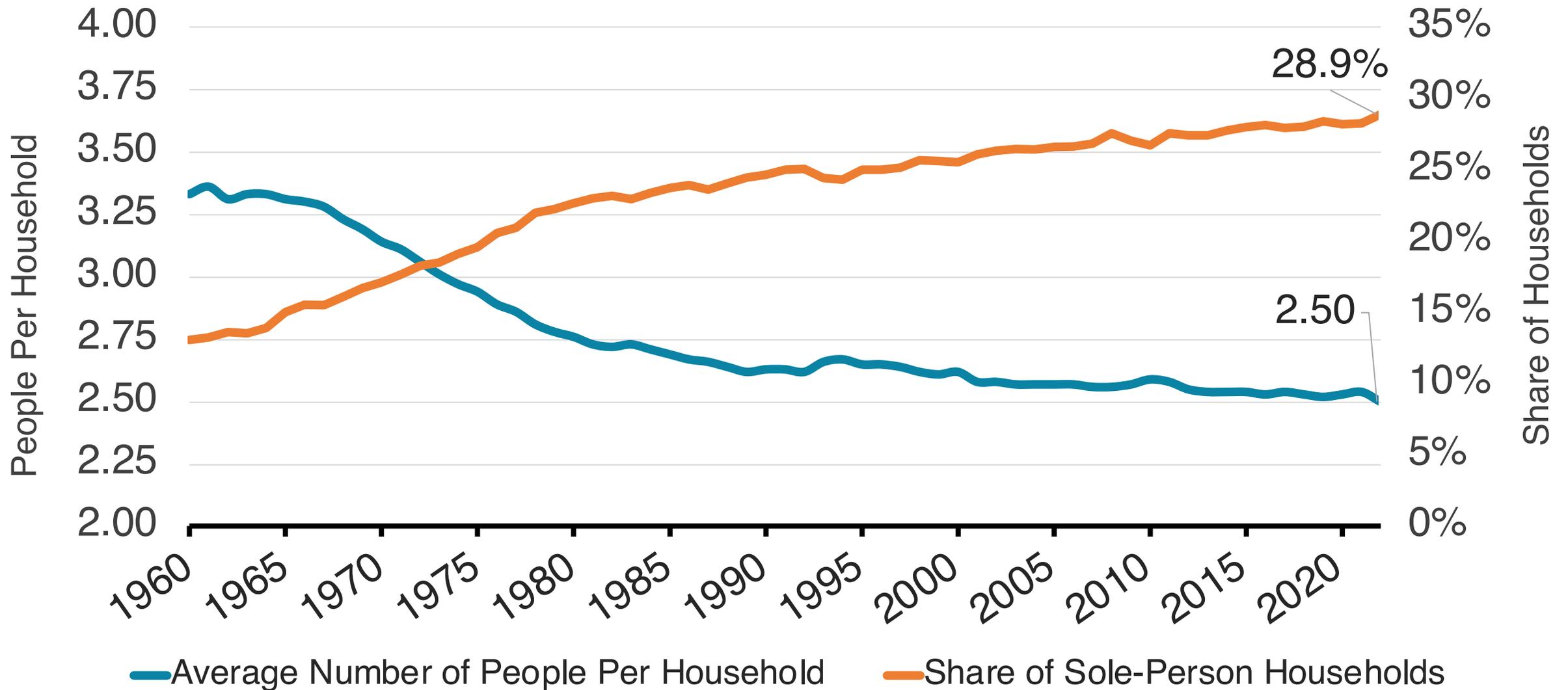
Population Change from 2010 to 2020 by Age Group: Knoxville (MSA)



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

# Household Size Has Been Declining Since 1960

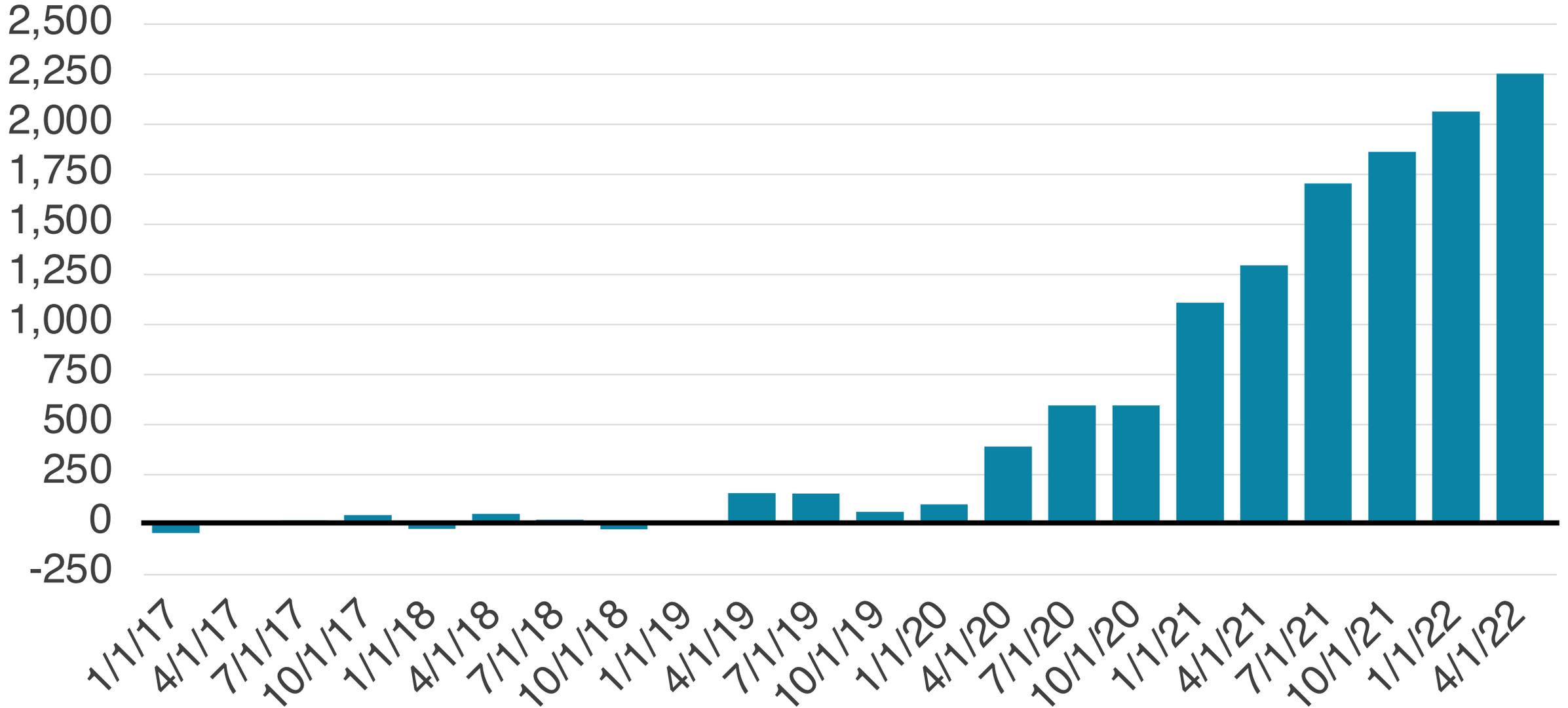
Average Number of People Per Household and Sole-Person Households



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

# Migration, Migration, Migration

Quarterly Net Inflow of Redfin Users: Knoxville, TN



Source: Redfin

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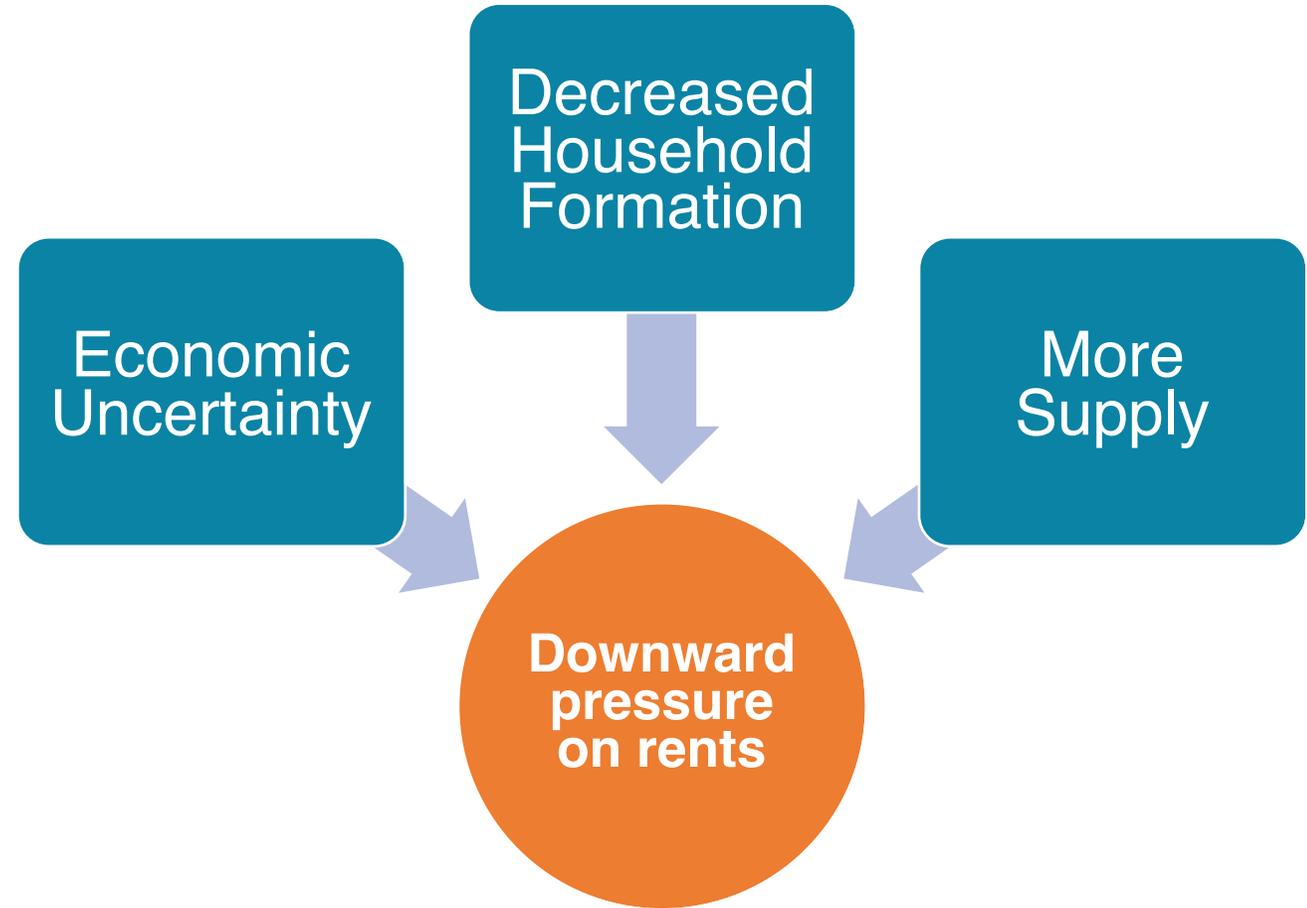
# What's Next? 2023 Outlook & Forecast

# Housing Market Forecast

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

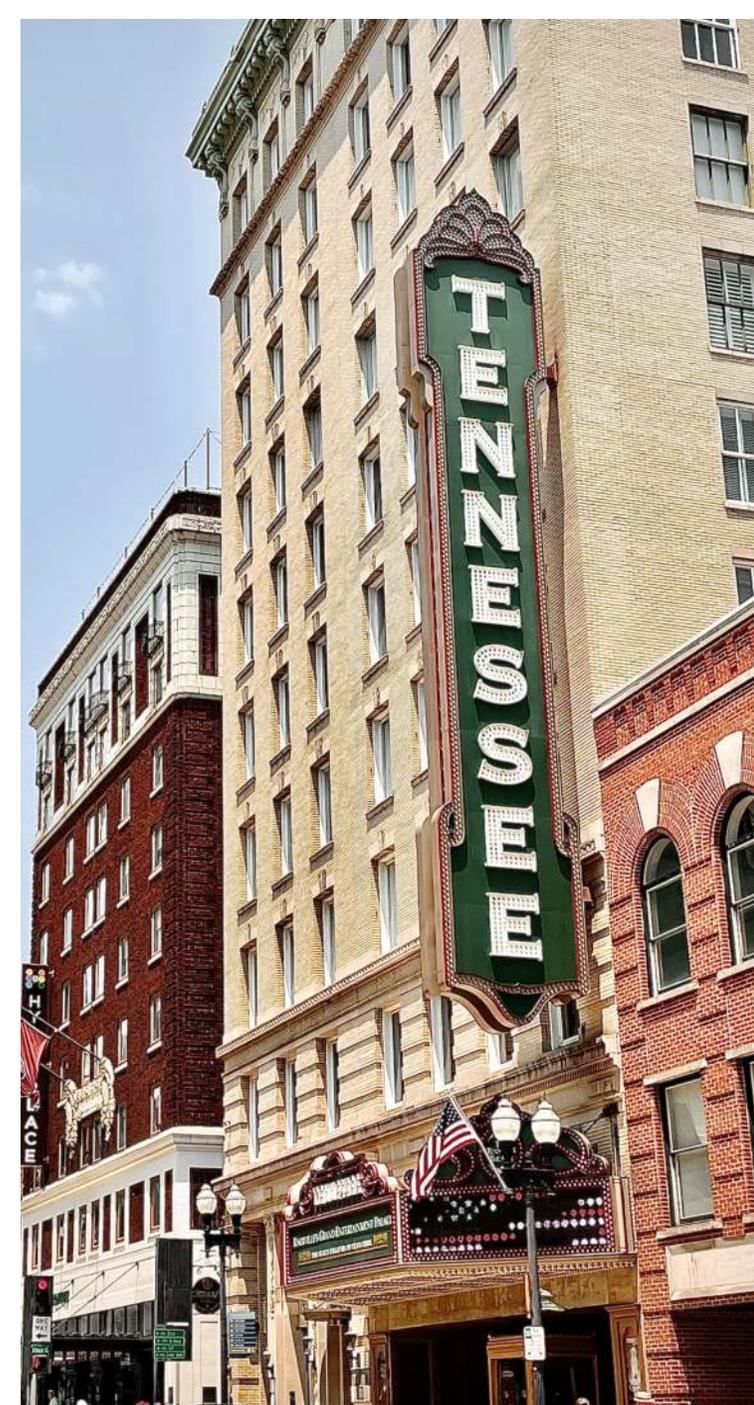
	2021	2022f	2023f
Occupancy Rate	98.2%	98.3%	96.6%
Effective Rent	\$1,080	\$1,302	\$1,355
Rent Growth	+11.2%	+18.0%	+4.2%

# Three Scenarios

Scenario	Recession?	30-Year Fixed Mortgage Rate	Home Prices	Home Sales
<b>Bullish</b>	No recession	5-5.7%	Moderately Positive (+5% or more)	-5%
<b>Baseline</b>	No recession/ Mild recession	5.8-6.5%	Slightly Positive (0-5%)	-12%
<b>Bearish</b>	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

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