



Tennessee Housing Market

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Economic Overview

Economic activity contracted again for Tennessee's economy in the third quarter as aggregate measures of employment continued to decline and the unemployment rate rose (Table 1). Nonfarm employment declined more than in previous quarters, with much of the decline centered in manufacturing and construction.

The unemployment rate rose slightly to 10.7 percent from 10.5 percent in the second quarter, but the small increase should not be considered a sign of improvement because total employment continued to drop. The unemployment rate did not rise much because thousands of persons without work stopped searching for employment, shrinking the labor force at least temporarily.

New claims for unemployment insurance continued to decline in the third quarter but at a slower pace compared with earlier

this year (Figure 1). The four-week moving average dropped to 10,031 during the final week of October, the lowest rate since November 2008. Falling initial claims signal that fewer layoffs are occurring, helping to reduce the upward pressure on the unemployment rate. Sustained improvements in the unemployment rate will require more than just fewer layoffs, however; net job creation is needed.

Housing construction and sales provided one of the few positive contributions for the Tennessee economy, but these gains may be tenuous. Sustainable growth in the housing market will require growth of employment and payrolls, both of which appear distant at present.

Housing Construction

Permits issued for single-family home construction continued to climb in the third quarter, rising to 12,800 units from 11,100 units, the third consecutive increase (Table 2 and Figure 2). The level of activity remains extremely low, however: less than half that of 2007. Similar increases in single-family permits occurred

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

	2008.3	2008.4	2009.1	2009.2	2009.3
Employment by industry (nonfarm)					
Total nonfarm	2,806	2,792	2,766	2,742	2,697
Goods-producing sectors	509	502	492	478	449
Manufacturing	371	367	360	350	332
Services-providing sectors	2,297	2,290	2,274	2,264	2,248
Unemployed	204	221	276	318	321
Total employment	2,839	2,827	2,766	2,722	2,692
Labor force	3,042	3,047	3,041	3,040	3,013
Unemployment rate	6.7%	7.2%	9.1%	10.5%	10.7%

Source: Bureau of Labor Statistics

Figure 1. Tennessee initial claims for unemployment insurance (weekly, seasonally adjusted)

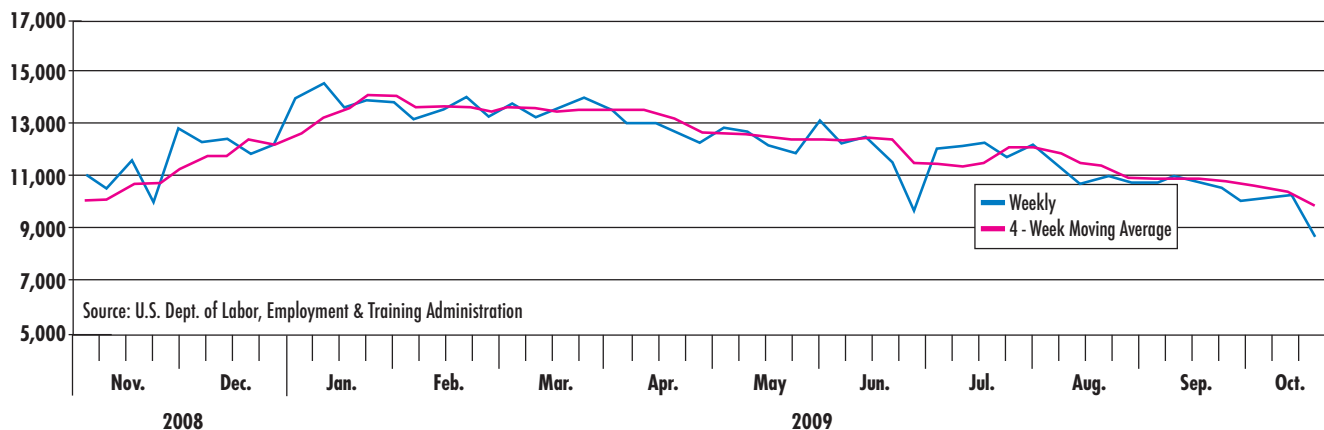


Table 2. Permits issued for privately owned new housing, seasonally adjusted annual rate (in thousands)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2007.3	27.5	474.7	916.3	6.1	163.3	398.0	33.6	638.0	1,314.3
2007.4	22.3	414.0	786.0	8.8	175.3	402.3	31.2	589.3	1,188.3
2008.1	18.4	364.0	670.0	5.5	174.0	358.3	23.9	538.0	1,028.3
2008.2	17.4	327.7	627.0	3.6	154.3	420.7	21.0	482.0	1,047.7
2008.3	15.6	286.3	550.7	5.6	159.3	311.7	21.1	445.7	862.3
2008.4	9.8	219.7	420.7	5.1	104.3	220.3	14.9	324.0	641.0
2009.1	10.5	198.7	361.0	2.7	79.0	169.7	13.2	277.7	530.7
2009.2	11.1	213.0	405.7	3.9	64.0	123.0	15.0	277.0	528.7
2009.3	12.8	242.3	459.7	1.0	46.3	113.3	13.9	288.7	573.0
Change from previous quarter	15.4%	13.8%	13.3%	-74.0%	-27.6%	-7.9%	-7.8%	4.2%	8.4%
Change from previous year	-17.6%	-15.4%	-16.5%	-81.7%	-70.9%	-63.6%	-34.5%	-35.2%	-33.6%

Source: Census Bureau

in the South and the nation. Residential construction activity has benefited from extremely low mortgage rates, the \$8,000 tax credit for first-time buyers, and increases in FHA (Federal Housing Administration) lending limits.

By contrast, permits issued for multi-family homes in Tennessee, including duplexes, apartments, and townhouses, plummeted to just 1,000 units for the state in the third quarter. The most likely cause of the collapse of multi-family construction is

the weakening of credit and lending conditions in the commercial loan market as banks prepare for higher losses on these loans.

Real Estate Transactions and Mortgages

Housing-related tax collections produced mixed results during the third quarter (Figures 3 and 4). Real estate transfer tax collections rose sharply, but mortgage tax collections dropped. Transfer taxes jumped 14.6 percent from the second quarter, the

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

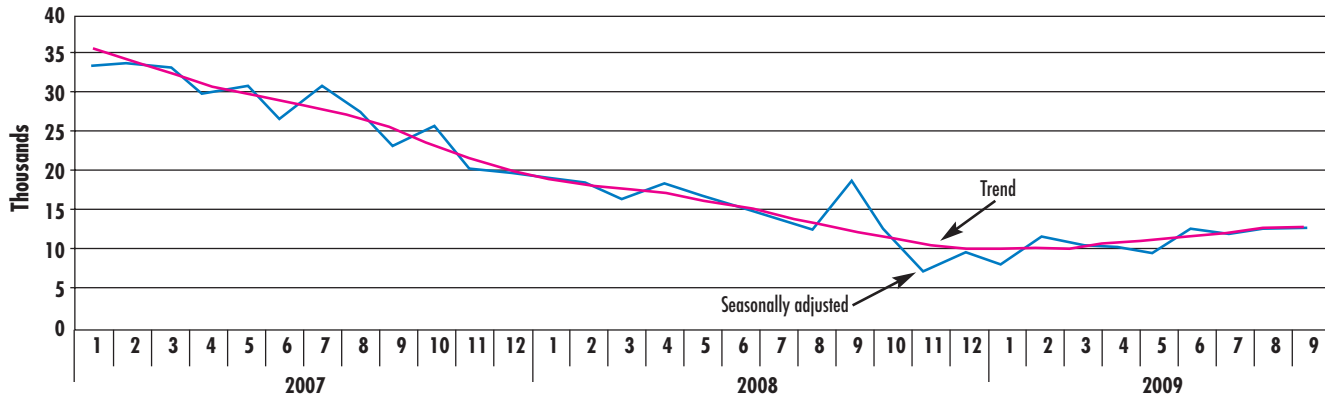


Figure 3. Real estate transfer tax collections (seasonally adjusted annual rate)

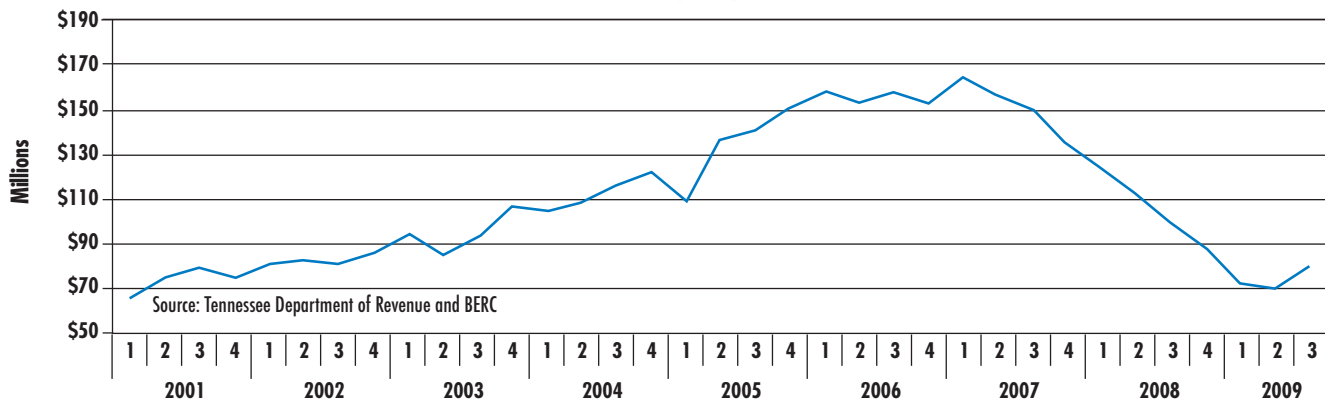
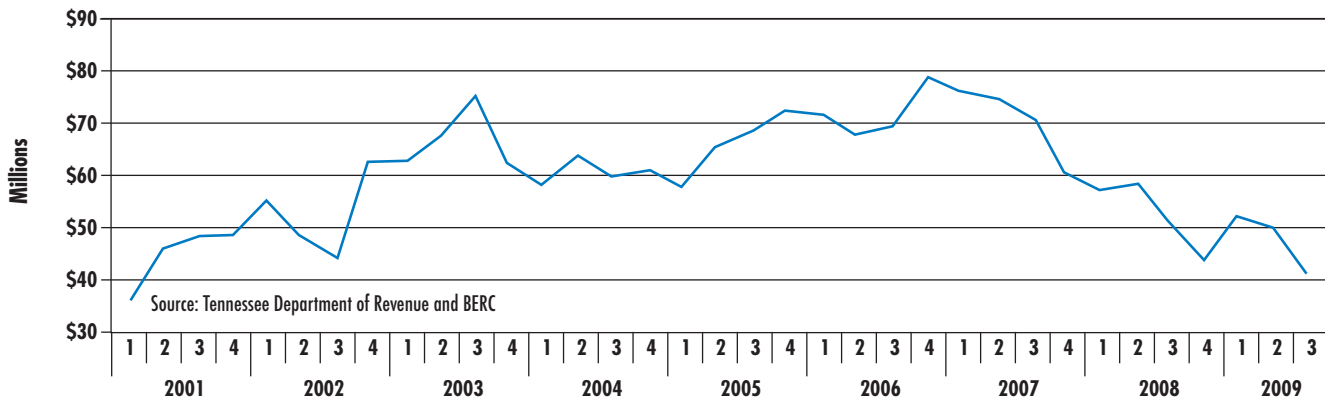


Figure 4. Mortgage tax collections (seasonally adjusted annual rate)



first increase since the first quarter of 2007. The rise in transfer taxes is consistent with the increased construction and sales activity noted in this report. The drop in mortgage tax collections is difficult to explain, given the increased sales, real estate transfer, and construction activity.

Home Sales and Prices

Residential (single-family) home sales climbed in all three metropolitan areas tracked by this report for the first time since the beginning of the recession. Sales of single-family homes rose 11.8 percent in the Nashville area, 1.2 percent in Memphis, and 12.3 percent in Knoxville, all after seasonal adjustment (Figures 5-7, on the next page). Inventories of homes on the market declined in Nashville and Memphis but rose somewhat in Knoxville. While conditions have improved, the markets still have much inventory on hand given the level of sales.

While third-quarter results are encouraging, the improvements may be sensitive to special policies such as the homebuyers’ tax credit and the Federal Reserve’s policy of supporting the mortgage lending market. The Fed has announced that it will begin to reduce purchases in the mortgage market next year, a move that could cause mortgage rates to rise. Sustained improvement in the housing market will require employment and income increases, neither of which appears to be on the horizon for Tennessee.

Mortgage Delinquencies and Foreclosures

Mortgage delinquencies and foreclosures show increased weakness in the second quarter, according to data from the Mortgage Bankers Association (Table 3). The continued weakness in mortgage loans is a consequence of the financial stress Tennessee households are experiencing as joblessness rises and household incomes fall. Mortgages past due in Tennessee rose to 10.33 percent during the second quarter, higher than 10.09 percent in the first. New foreclosures in Tennessee continued to climb, reaching 1% of all mortgages. The current inventory of mortgages in foreclosure recorded its largest increase yet, rising by 0.26 percentage points from the previous quarter.

Conclusion

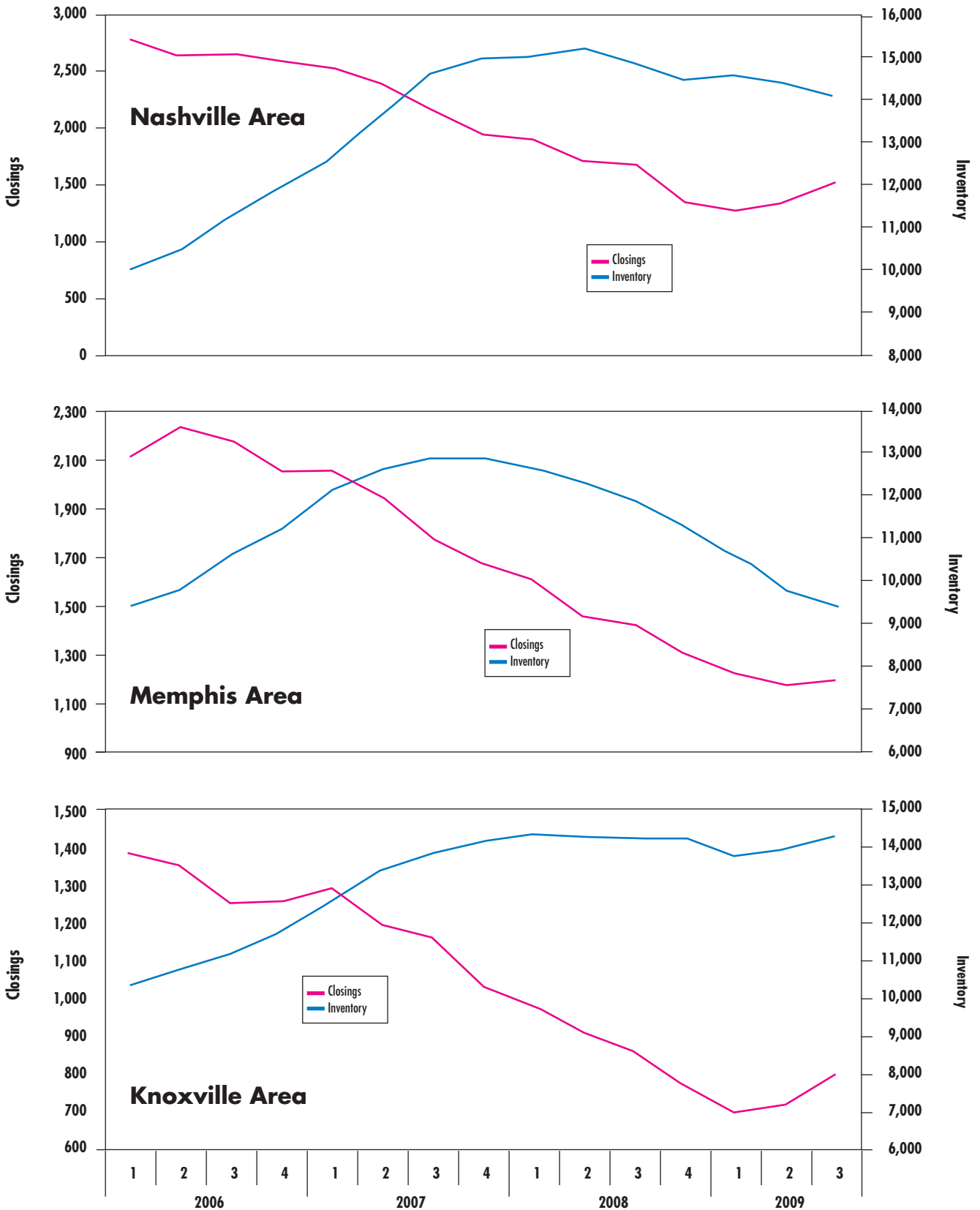
The housing market in Tennessee continued to improve during the third quarter, with increases in single-family home construction and sales of homes for the Nashville, Memphis, and Knoxville areas compared with the second quarter. Both sales and construction of single-family homes increased during the quarter, benefitting from low mortgage rates, the first-time buyers’ income tax credit, and high FHA qualifying thresholds. Aggregate measures of economic activity continued to weaken, however, as job losses continued across a variety of sectors. Achieving sustained improvement in the housing market will be difficult without job and income increases. ■

Table 3. Mortgages past due, new foreclosures started, and foreclosure inventory (% of mortgages serviced, seasonally adjusted)

Quarter	Tennessee			United States		
	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter
2007.3	7.39	0.69	1.29	5.56	0.78	1.72
2007.4	7.34	0.72	1.38	5.80	0.84	2.00
2008.1	7.75	0.72	1.49	6.26	0.98	2.44
2008.2	7.96	0.77	1.55	6.46	1.17	2.79
2008.3	8.39	0.77	1.60	6.97	1.07	3.03
2008.4	9.08	0.81	1.73	7.92	1.04	3.23
2009.1	10.09	0.93	1.96	9.12	1.33	3.80
2009.2	10.33	1.00	2.22	9.22	1.47	4.36

Source: Mortgage Bankers Association of America and BEREC

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



Source: Greater Nashville Association of Realtors, Memphis Area Association of Realtors, Knoxville Area Association of Realtors, and BEREC