

TENNESSEE HOUSING MARKET

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Economic Overview

Most portions of the Tennessee economy slid sideways in the third quarter, with labor market indicators showing little or no improvement. Employment indicators are mixed, with non-farm employment (based on the employer survey) showing job growth from the previous quarter, but total employment (based on the household survey) showing job losses (Table 1). Particularly troubling is the persistently high unemployment rate of more than 9%.

Initial claims for unemployment insurance, a leading indicator for the unemployment rate, drifted lower in the third quarter, averaging 7,400 new claims per week (Figure 1). While this

level of claims is a vast improvement compared with early 2009, it still is considerably larger than the level associated with sustainable job growth of approximately 6,000 claims per week.

Sales tax collections continue to climb in Tennessee, rising 6.1% over the year and 1.5% from the previous quarter. Households are spending more on big-ticket items such as autos, furniture, and appliances, spending that typically signals improved consumer confidence.

The housing market showed some improvement in the third quarter as evidenced by rising single-family construction, rising home sales, lower inventories of unsold homes, and steady housing-related tax collections. Falling home prices remain an important issue, making recovery in the housing market ever more elusive.

continued on page 2

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

	2010.1	2010.2	2010.3	2010.4	2011.1	2011.2	2011.3
Total nonfarm	2,596	2,616	2,616	2,621	2,629	2,628	2,637
Goods-producing sectors	400	406	404	403	405	409	413
Manufacturing	297	300	298	296	296	300	302
Services-providing sectors	2,197	2,210	2,212	2,219	2,224	2,219	2,223
Labor force	3,057	3,057	3,051	3,060	3,088	3,137	3,121
Total employment	2,741	2,758	2,763	2,773	2,795	2,833	2,816
Unemployed	315	299	288	287	293	304	305
Unemployment rate	10.3%	9.8%	9.4%	9.4%	9.5%	9.7%	9.8%

Source: Bureau of Labor Statistics

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

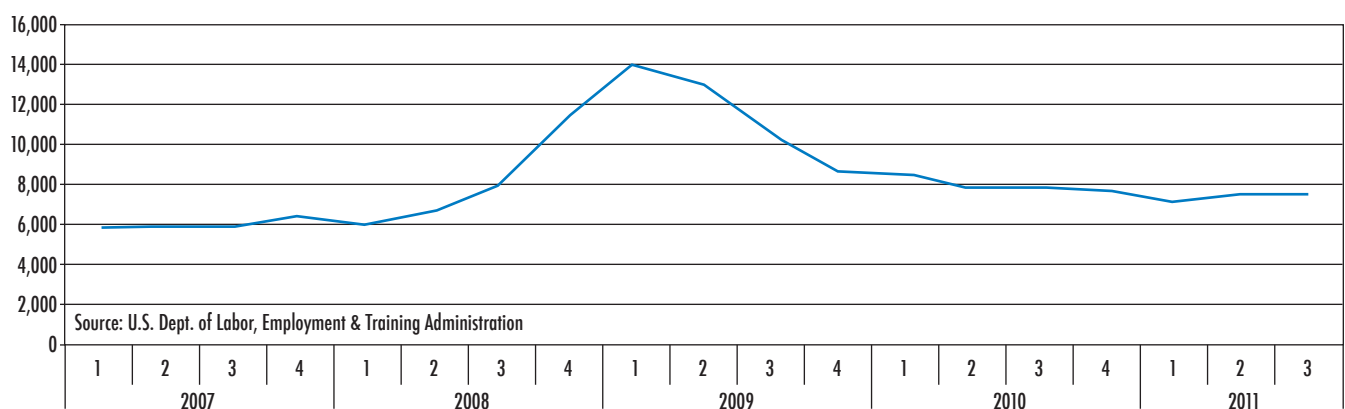




Table 2. Permits issued for privately owned new housing (thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2008.1	18.4	366.3	671.3	5.5	170.0	353.7	23.9	536.3	1,025.0
2008.2	17.0	333.7	633.0	3.3	152.7	428.0	20.3	486.3	1,061.0
2008.3	15.6	283.7	547.7	5.0	162.7	311.0	20.5	446.3	858.7
2008.4	10.2	215.3	417.7	5.8	106.3	221.0	16.1	321.7	638.7
2009.1	10.3	197.7	358.3	2.8	82.3	180.3	13.1	280.0	538.7
2009.2	10.9	223.0	426.7	3.4	68.7	132.7	14.4	291.7	559.3
2009.3	12.8	252.3	485.7	0.8	53.3	121.0	13.6	305.7	606.7
2009.4	13.9	255.3	487.7	2.6	56.7	135.7	16.5	312.0	623.3
2010.1	13.1	269.0	518.3	6.5	59.3	141.3	19.6	328.3	659.7
2010.2	12.6	233.7	443.7	3.9	69.3	156.0	16.6	303.0	599.7
2010.3	10.2	210.3	405.7	3.9	77.7	165.0	14.1	288.0	570.7
2010.4	10.3	211.0	424.0	2.6	58.7	159.0	12.8	269.7	583.0
2011.1	10.5	213.3	397.7	1.9	76.7	161.0	12.4	290.0	558.7
2011.2	10.0	215.0	401.0	2.8	79.3	195.3	12.8	294.3	596.3
2011.3	11.3	219.7	411.3	2.4	84.7	193.7	13.7	304.3	605.0
Change from previous quarter	13.0%	2.2%	2.6%	-16.2%	6.7%	-0.9%	6.6%	3.4%	1.5%
Change from previous year	10.1%	4.4%	1.4%	-38.7%	9.0%	17.4%	-3.3%	5.7%	6.0%

Source: Census Bureau

continued from page 1

Housing Construction

Construction activity gained ground during the third quarter, especially for single-family permits, rising 10.1% over the year and 13.0% from the second quarter (Table 2 and Figure 2). At an annual rate of 11,300 single-family units, the level of activity is the highest since the second quarter of 2010 but remains very low by historical standards. As shown in Figure 2, the trend for single-family permits shows very gradual improvement, rising from the recession-low level of 10,000 units per month.

While welcome, the gain in construction activity is not widespread; according to Census Bureau data, the increase is concentrated in just a few larger counties including

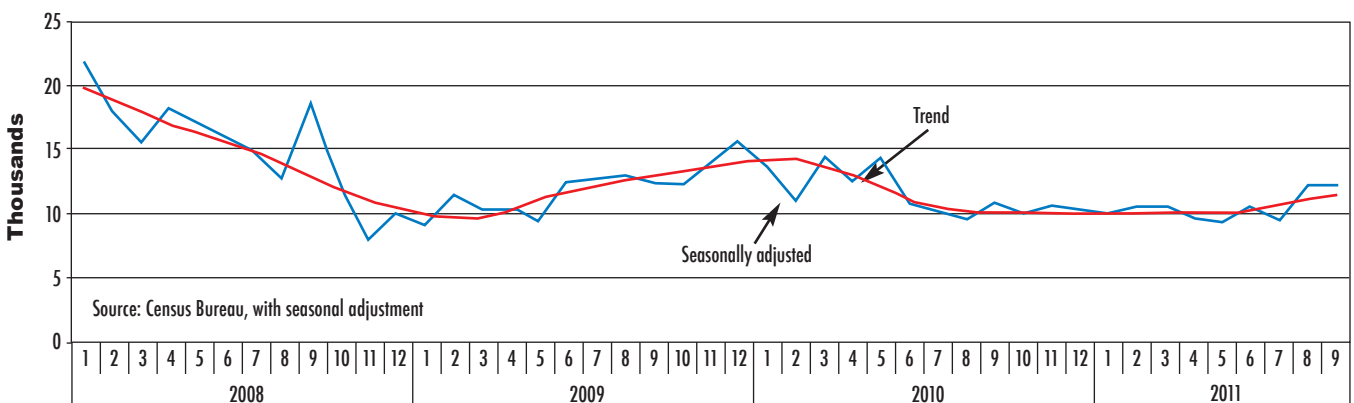
Montgomery, Davidson, Shelby, Rutherford, and Williamson. A more widespread recovery will require sustained job creation and improved consumer confidence.

As for multi-family permits (including apartments, townhouses, and condominiums), activity is lower, falling 38.7% over the year to an annual rate of 2,400 units. Multi-family housing construction typically is more volatile than single-family construction.

The drop in multi-family construction activity caused total permits for Tennessee to fall 3.3% over the year. Compare this with a 5.7% gain for the South and 6.0% rise for the U.S.

continued on page 3

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



Source: Census Bureau, with seasonal adjustment



continued from page 2

Real Estate Transactions and Mortgages

Taxes collected on real estate transfers in the state show little change from the previous quarter, but taxes collected on mortgages are higher (Figures 3 and 4). At an annualized rate of \$75.5 million, real estate transfer tax collections are virtually unchanged from the previous quarter. Mortgage tax collections rose from the second quarter but remain lower over the year.

Home Sales

An improving housing market is indicated by falling inventory and rising sales. Statewide, annualized sales of single-family units, condos, and co-ops totaled 99,600 in the third quarter, down 2.7% from the previous quarter but 21.5% higher over the year, according to the National Association of Realtors.

Both the Nashville and Knoxville areas experienced rising sales and falling inventories during the third quarter. Both areas show reduced inventories of unsold homes and higher sales volumes (Figure 5, page 5). Figures for the Memphis area are not yet available from the Memphis Realtors association.

Closings in the Nashville area rose for the third consecutive quarter from the recession low of 1,215 closings per month in 2010Q3 to 1,463 for 2011Q3, a gain of 20.4% over the year. Inventories fell sharply, declining by 10.4% over the year.

The Knoxville area presents a similar situation: closings are up 18.1% over the year, while inventories are 10.0% lower. Knoxville closings had been in decline during the previous two quarters prior to the large gain for 2011Q3.

Mortgage Delinquencies and Foreclosures

Mortgages past due in Tennessee show little change in the third quarter, rising to 9.79% from 9.74% in the previous quarter according to the Mortgage Bankers Association (MBA). Over the year, however, Tennessee past-due mortgages are nearly one percentage point lower (Table 3). By contrast, past-due mortgages for the U.S. experienced a sharp drop in the third quarter, falling from 8.44% to 7.99%.

Foreclosures initiated during the quarter rose sharply in Tennessee, from 0.85% in 2011Q2 to 1.31% in 2011Q3. According to the MBA, the large increase in new foreclosures can be

continued on page 4

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

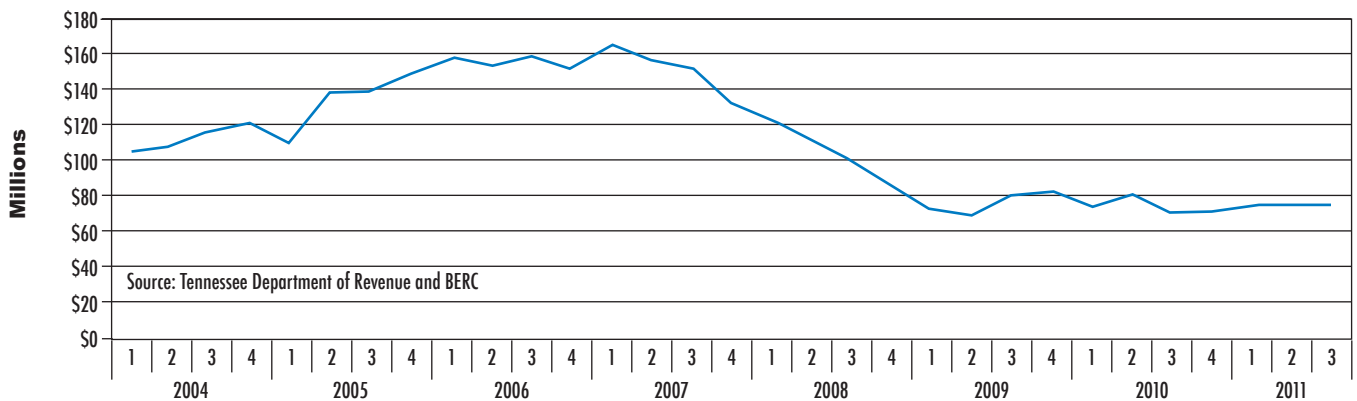
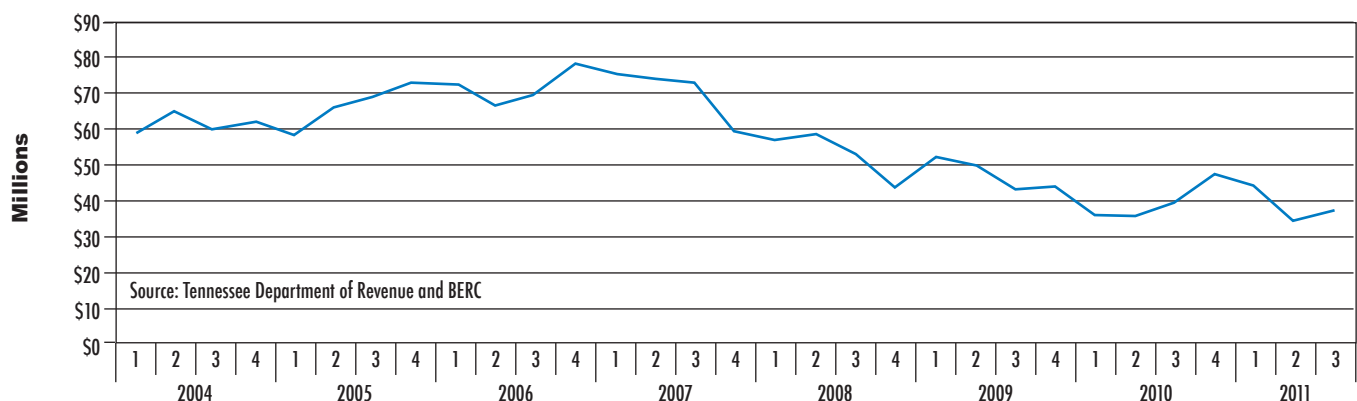


Figure 4. Mortgage tax collections (seasonally adjusted annual rate)



**Table 3. Mortgages past due, new foreclosures started, and foreclosure inventory**

(% of mortgages serviced, seasonally adjusted except foreclosure inventory)

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
2008.3	8.69	0.76	1.58	7.15	1.04	2.97
2008.4	9.92	0.88	1.77	8.14	1.12	3.30
2009.1	9.14	0.94	1.98	8.56	1.34	3.85
2009.2	9.96	0.93	2.17	9.23	1.37	4.30
2009.3	11.09	1.00	2.26	9.75	1.38	4.47
2009.4	11.31	0.94	2.34	9.85	1.25	4.58
2010.1	9.89	1.00	2.41	9.76	1.21	4.63
2010.2	10.47	0.80	2.23	9.79	1.12	4.57
2010.3	10.75	0.95	2.11	9.21	1.30	4.39
2010.4	10.74	1.04	2.53	8.45	1.32	4.64
2011.1	9.10	1.08	2.62	8.11	1.06	4.52
2011.2	9.74	0.85	2.58	8.44	1.01	4.43
2011.3	9.79	1.31	2.60	7.99	1.04	4.43

Source: Mortgage Bankers Association of America and BEREC.

Note: Table includes revisions to previous quarters.

continued from page 3

attributed to the renewed progression of mortgages through the foreclosure process by a few large mortgage servicers in certain states. This “catch-up” by the loan servicers pushed the foreclosure rate higher from a rather low rate in the previous quarter, presumably when mortgages were moving unusually slowly through foreclosure. If we assume that the third quarter represents catching up from a slow second quarter, perhaps an average of the two would be the most appropriate measure. In fact, the average rate for the two quarters is 1.08%, equal to the rate in 2011Q1 and much more consistent with the recent trend.

Home Prices

In contrast with other housing indicators, housing prices slipped substantially in Tennessee during the second quarter 2011, the most recent data available (Table 4). Prices were moving toward stability in 2010 but have slipped considerably in the first and second quarters of 2011. The same-sales Housing Price Index (HPI) produced by the Federal Housing Finance Agency shows housing prices for the U.S. down 4.7% over the year compared with a decline of 3.6% for Tennessee. Three metropolitan areas, Cleveland, Jackson, and Johnson City, show substantial acceleration of price declines, more than doubling the rate of decline compared with the previous quarter. The Knoxville MSA experienced the smallest gain, while home prices in just one MSA, Clarksville, showed improvement.

Home prices continue to fight against the headwinds of rising foreclosures and middling job growth. Accelerating job growth is necessary to increase the flagging rate of household formation. Without more household growth, demand for housing will remain weak and prices soft.

Conclusion

The housing market in Tennessee seems to be performing a bit better than the state’s economy as a whole. Single-family construction is growing, home sales are rising, and housing-related tax collections are stable to rising. Home prices weakened, however, suggesting a growing imbalance between supply and demand.

continued on page 5

Table 4. Change in housing prices year to year

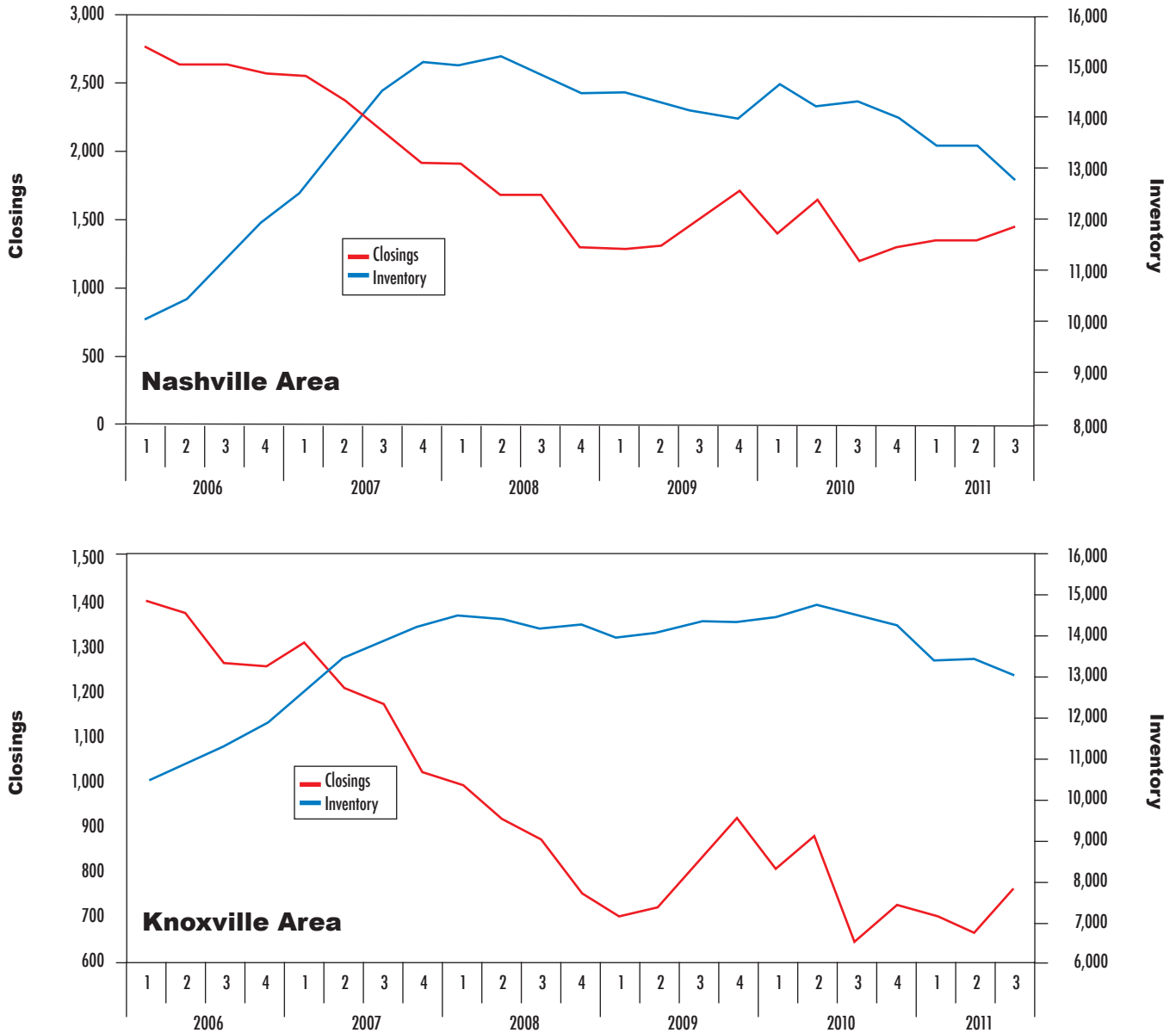
Area	2009.3-2010.3	2009.4-2010.4	2010.1-2011.1	2010.2-2011.2
U.S.	-1.3%	-1.6%	-3.1%	-4.7%
Tennessee	-0.9%	-0.8%	-1.8%	-3.6%
Chattanooga MSA	0.5%	0.2%	-1.9%	-3.1%
Clarksville MSA	1.4%	-1.8%	-1.0%	-0.2%
Cleveland MSA	-1.5%	-1.4%	-1.9%	-4.0%
Jackson MSA	-2.3%	-1.9%	-0.9%	-7.6%
Johnson City MSA	1.3%	0.5%	-1.2%	-3.6%
Kingsport-Bristol MSA	-1.1%	0.4%	-0.9%	-1.3%
Knoxville MSA	-1.2%	-0.7%	-2.0%	-2.6%
Memphis MSA	-0.7%	-2.4%	-3.8%	-6.3%
Morristown MSA	-2.0%	-3.4%	-1.2%	-1.9%
Nashville MSA	-0.6%	-0.3%	-1.7%	-2.8%
TN nonmetro areas	-1.3%	-0.4%	-0.3%	-3.4%

Source: Federal Housing Finance Agency All Transactions Index



continued from page 4

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



Source: Greater Nashville Association of Realtors, Knoxville Area Association of Realtors, and BERCC

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