

# TENNESSEE HOUSING MARKET

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**T**his quarterly series is supported by a Tennessee Housing Development Agency grant.

## Economic Overview

The Tennessee economy moved ahead during the fourth quarter following little change in the previous quarter. Nonfarm employment, based on a monthly survey of employers, gained 9,700 jobs from the previous quarter, nearly all in the services-providing industries (Table 1). Employment in the goods-producing sectors, including construction and manufacturing, was slightly lower, returning to the same level as the second quarter.

Unemployment fell by 3,000, pushing the unemployment rate down to an average of 9.4 percent. While still very high, the unemployment rate is considerably lower than the year-earlier figure of 10.7 percent. The labor force rose during the quarter,

driven by employment gains. Initial claims for unemployment insurance drifted lower to an average of 7,600 per week, still substantially higher than the pre-recession level of 6,000 per week but consistent with modest job growth (Figure 1).

Sales tax collections continued to rise in the fourth quarter, suggestive of increasing consumer confidence and modest job market improvements. Collections are 4.4 percent higher over the year and 1.2 percent higher from the previous quarter, after seasonal adjustments.

## Housing Construction

Permits issued for single-family home construction were little changed during the fourth quarter, down just 0.8 percent from the previous quarter (Table 2). The current figure of 10,100

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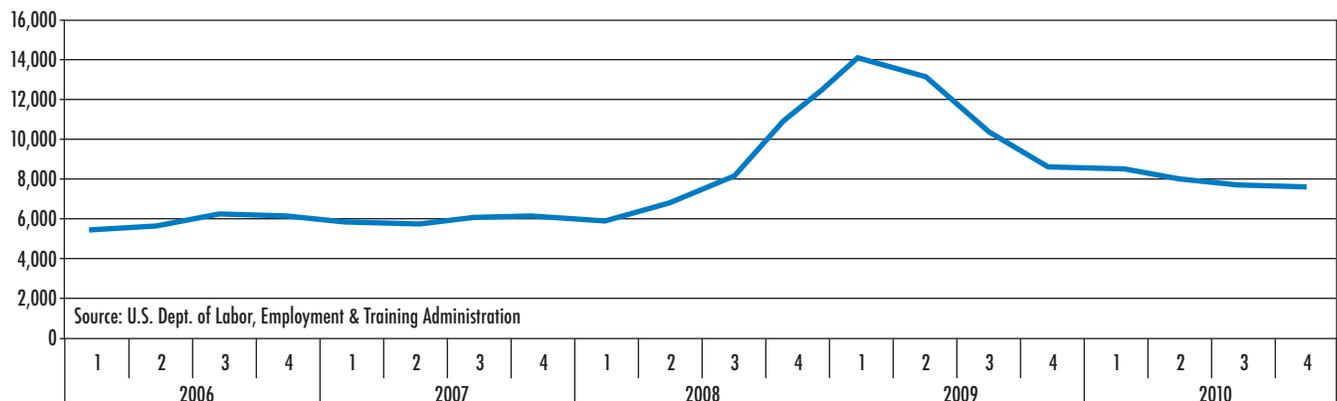
**Table 1. Selected Tennessee employment indicators** (thousands, seasonally adjusted)

Employment by industry (nonfarm)	2009.4	2010.1	2010.2	2010.3	2010.4
Total nonfarm	2,593	2,594	2,610	2,607	2,616
Goods-producing sectors	405	403	407	408	407
Manufacturing	301	301	303	306	304
Services-providing sectors	2,188	2,191	2,203	2,199	2,209
Labor force	2,995	3,002	3,034	3,038	3,063
Total employment	2,674	2,682	2,721	2,747	2,775
Unemployed	321	320	312	291	288
Unemployment rate	10.7%	10.7%	10.3%	9.6%	9.4%

Source: Bureau of Labor Statistics

**Figure 1. Tennessee initial claims for unemployment insurance**

(quarterly averages of weekly data, seasonally adjusted)



Source: U.S. Dept. of Labor, Employment & Training Administration



**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.
2007.2	29.2	528.3	1,031.7	7.3	204.3	425.0	36.5	732.7	1,456.7
2007.3	27.2	474.7	916.3	6.2	163.3	398.0	33.4	638.0	1,314.3
2007.4	22.5	414.0	786.0	9.4	175.3	402.3	31.9	589.3	1,188.3
2008.1	18.6	366.3	671.3	5.0	170.0	353.7	23.7	536.3	1,025.0
2008.2	17.2	333.7	633.0	3.7	152.7	428.0	20.8	486.3	1,061.0
2008.3	15.5	283.7	547.7	5.6	162.7	311.0	21.0	446.3	858.7
2008.4	10.0	215.3	417.7	5.3	106.3	221.0	15.3	321.7	638.7
2009.1	10.6	202.7	366.7	2.4	83.0	179.0	13.0	285.7	545.7
2009.2	10.9	222.7	423.7	3.9	67.3	134.0	14.9	290.0	557.7
2009.3	12.8	248.7	478.0	1.0	54.7	122.7	13.8	303.3	600.7
2009.4	13.6	254.0	491.3	2.1	56.3	134.7	15.7	310.3	626.0
2010.1	13.5	270.7	524.7	6.1	57.3	130.0	19.5	328.0	654.7
2010.2	12.5	235.0	447.7	4.6	60.7	141.3	17.0	295.7	589.0
2010.3	10.2	207.0	403.7	4.1	69.3	155.3	14.3	276.3	559.0
2010.4	10.1	206.0	421.0	2.1	53.3	153.3	12.2	259.3	574.3
Change from previous quarter	-0.8%	-0.5%	4.3%	-48.6%	-23.1%	-1.3%	-14.4%	-6.2%	2.7%
Change from previous year	-25.8%	-18.9%	-14.3%	2.1%	-5.3%	13.9%	-22.2%	-16.4%	-8.3%

Source: Census Bureau

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(annualized) is just above the recession low reached two years earlier. Compared with the South and the United States, Tennessee experienced more of a decline over the year largely due to the expiration of the home buyers' tax credit. The monthly housing construction figures show that activity appears to have leveled off after returning to the recession low (Figure 2). Multi-family permits fell during the fourth quarter to approximately half the level experienced during the previous two quarters.

**Real Estate Transactions and Mortgages**

Tennessee tax collections on both real estate transactions and new mortgages tumbled in the fourth quarter to the lowest level

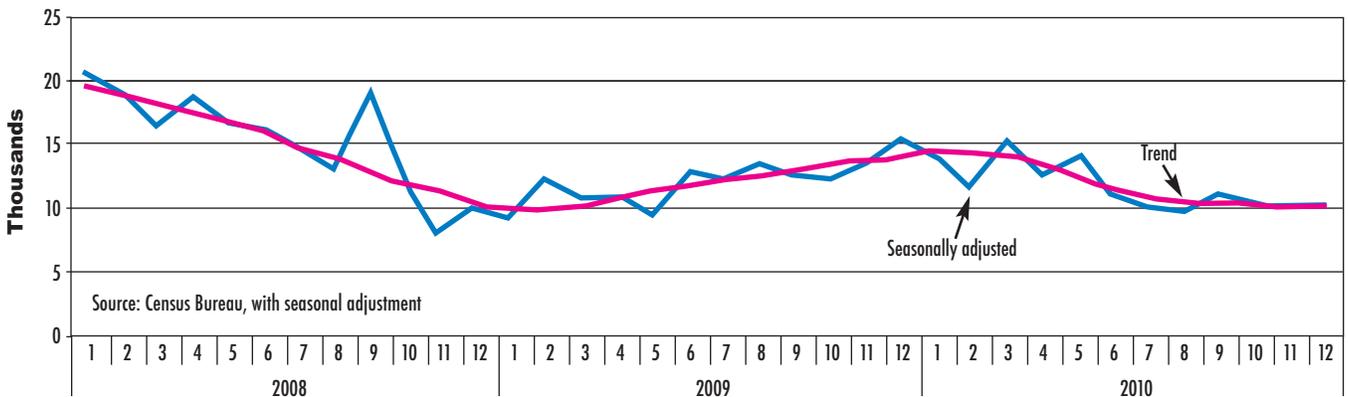
for this recession (Figures 3 and 4). Falling housing prices cause tax collections to wane even though the level of transactions may be stabilizing.

**Home Sales**

Sales generally improved during the fourth quarter with Knoxville and Nashville showing increases from the previous quarter and Memphis posting a small decline (Figures 5-7). The relative stability experienced during the fourth quarter may indicate that the market has nearly succeeded in moving past the froth brought on by the temporary home buyers' tax credit. While one quarter does not make a trend, the figures are mildly encouraging. Stronger

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



Source: Census Bureau, with seasonal adjustment



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signals are to be found in statewide sales figures. According to the National Association of Realtors, sales of existing homes for Tennessee rose 12 percent from the third quarter to 93,200 units on an annual basis. Over the year, however, sales remain down substantially, -23.6 percent.

Inventories of homes for sale declined slightly in all three metropolitan areas during the fourth quarter. Inventories are likely to remain difficult to reduce, even as home sales begin to perk up a bit.

**Mortgage Delinquencies and Foreclosures**

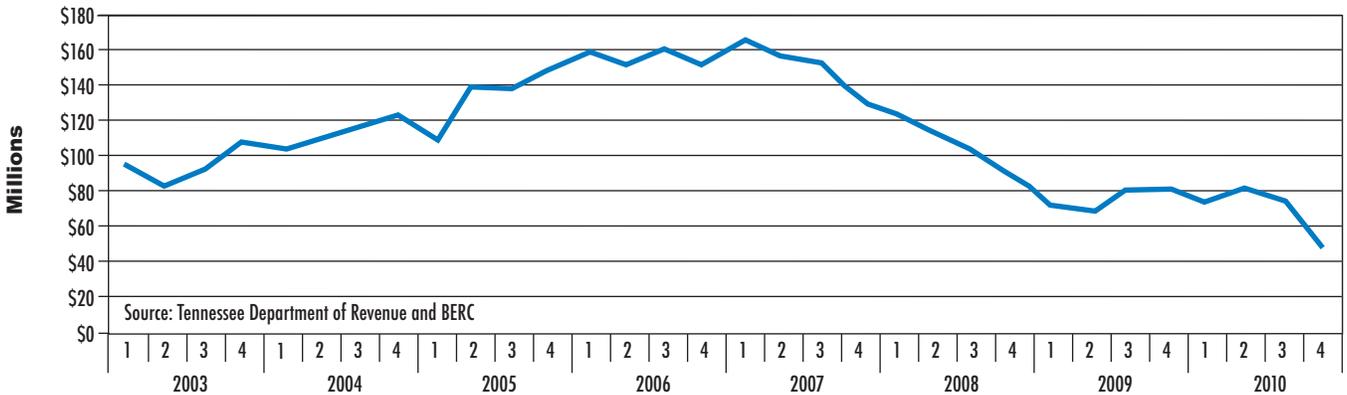
Mortgages past due fell during the fourth quarter to 10.02 percent compared with 10.34 percent in the preceding quarter (Table 3), the second quarterly decline. The trend suggests that

mortgages past due peaked in mid-2010 at 10.8 percent and will likely experience additional declines in future quarters. It is likely that modest job and income gains are improving household finances sufficiently for more householders to keep current with mortgage payments.

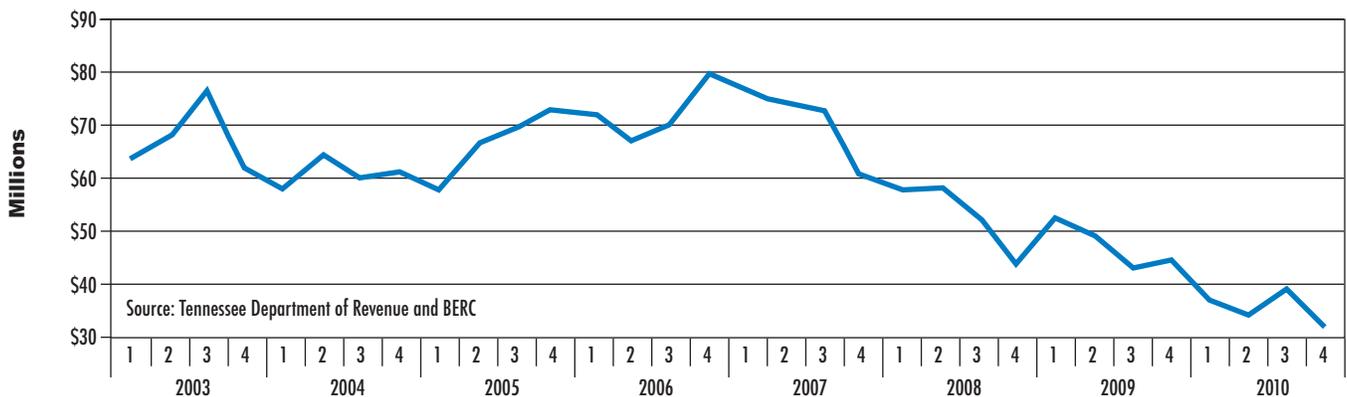
Foreclosure activity offers a somewhat more negative picture: new foreclosures for Tennessee rose in the fourth quarter to 0.99 percent from 0.95 in the third quarter. By contrast, the United States experienced a decline in new foreclosures. We should keep in mind that foreclosure activity can rise and fall depending on lending policies and the ability to process foreclosure claims. The rising number of new foreclosures caused the inventory of foreclosures in process to rise to 2.57 percent for Tennessee and 4.69 percent for the United States.

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**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
2008.1	7.72	0.71	1.50	6.35	0.99	2.47
2008.2	7.92	0.77	1.52	6.41	1.19	2.75
2008.3	8.37	0.76	1.58	6.99	1.07	2.97
2008.4	9.20	0.83	1.77	7.88	1.01	3.30
2009.1	10.01	0.93	1.98	9.12	1.34	3.85
2009.2	10.27	0.99	2.17	9.24	1.47	4.30
2009.3	10.66	1.00	2.26	9.64	1.42	4.47
2009.4	10.53	0.89	2.34	9.47	1.14	4.58
2010.1	10.79	0.99	2.41	10.06	1.17	4.63
2010.2	10.79	0.86	2.23	9.85	1.17	4.57
2010.3	10.34	0.95	2.11	9.13	1.32	4.39
2010.4	10.02	0.99	2.57	8.22	1.28	4.69

Source: Mortgage Bankers Association of America and BEREC

Note: Table includes revisions to previous quarters.

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### Home Prices

The repeat-sale index of home prices continued to decline in the third quarter, falling by 1.2 percent over the year in Tennessee, the same as the United States average (Table 4). Compared with the previous two quarters, a 1.2 percent decline is a substantial improvement and may signal the end to price declines within the next quarter or two. Indeed, three metropolitan areas in the state, Chattanooga, Clarksville, and Johnson City, experienced non-declining prices during the third quarter, compared with two in the second quarter. Stable to gently rising home prices are a must for the beginning of any recovery of the housing market.

### The Future of Fannie and Freddie

A recently released report by the U.S. Treasury and the Department of Housing and Urban Development suggests that big changes are likely in store for Fannie Mae and Freddie Mac. Over the decades, Fannie Mae and Freddie Mac have played a very large role in terms of making a market for mortgages and securitized mortgages. In short, the report signals a greatly diminished role for the federal government in the housing market in coming years and decades. Shifting of responsibilities, opportunities, and risk more to the private sector will reduce taxpayers' exposure but may also increase the difficulty and expense of obtaining a mortgage. The transition will be very important for many years to come.

### Conclusion

The housing market demonstrated a measure of stability in the fourth quarter, with increased sales, stable single-family home construction, and fewer mortgages past due. Foreclosures rose, but this may reflect processing catch-up and lenders policy changes rather than a sign of additional borrower distress. Housing prices continued to decline but not as much as in previous quarters, suggesting that price stability may be in the cards within the next two quarters. Rising mortgage rates may not be all bad if they encourage fence-sitters to buy in order to lock in what still are very low rates.

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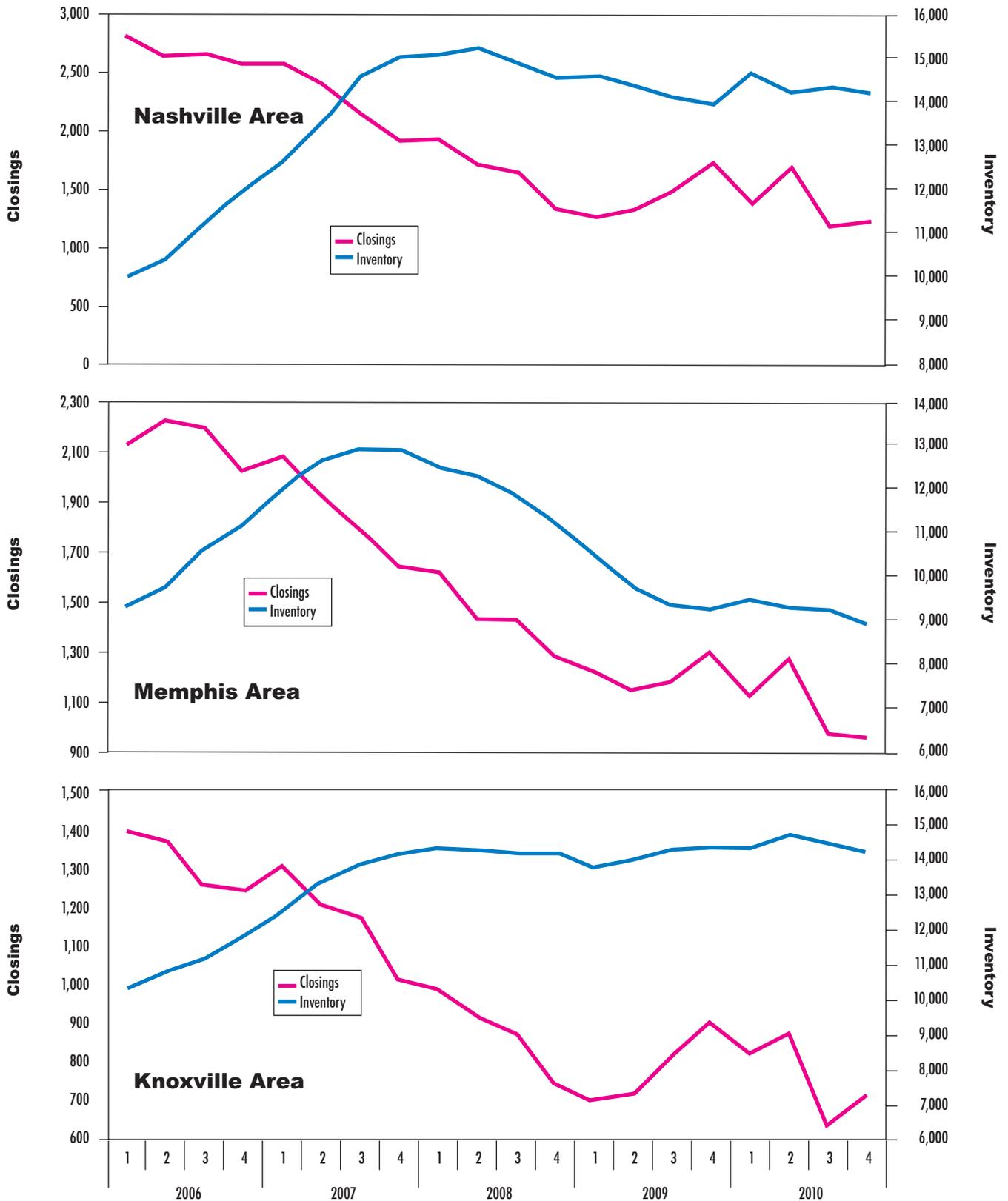
**Table 4. Change in housing prices over the year**

Area	2009.1-2010.1	2009.2-2010.2	2009.3-2010.3
U.S.	-6.5%	-4.6%	-1.2%
Tennessee	-4.5%	-3.6%	-1.2%
Chattanooga MSA	-3.5%	-2.3%	0.0%
Clarksville MSA	-0.8%	0.1%	0.8%
Cleveland MSA	-3.1%	-3.0%	-2.1%
Jackson MSA	-5.6%	-1.6%	-3.0%
Johnson City MSA	-1.7%	0.0%	1.1%
Kingsport-Bristol MSA	-1.5%	-0.9%	-1.2%
Knoxville MSA	-3.5%	-4.0%	-1.2%
Memphis MSA	-6.4%	-5.0%	-1.3%
Morristown MSA	-6.6%	-7.1%	-2.0%
Nashville MSA	-4.7%	-3.3%	-0.8%
Nonmetro areas of the state	-5.2%	-4.1%	-1.7%

Source: Federal Housing Finance Agency All Transactions Index



**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