



Tennessee Housing Market

Business and Economic Research Center • David A. Penn, Director • Jennings A. Jones College of Business • Middle Tennessee State University

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Economic Overview

The Tennessee economy experienced another difficult quarter. Unemployment continued to rise, job losses accelerated, and retail sales plummeted—in all, an ugly quarter. However, amid the assortment of negative indicators, two mildly positive signs emerged: (1) the pace of decline has slowed for some indicators, and (2) single-family home construction may have reached bottom.

The job market continues to offer bad news for Tennessee: nonfarm employment lost 46,000 jobs from the fourth quarter, mostly in manufacturing and construction, and all major sectors lost jobs except for healthcare (Table 1). The unemployment rate jumped to 9.1 percent, with more increases certain this year.

A faint positive sign can be found with initial claims for unemployment insurance. This figure represents the number of work-

ers laid off in a particular week who file for unemployment insurance benefits. Following a very large increase in the fourth quarter, initial claims leveled off in the first quarter (Figure 1) but remain very high. This means that the unemployment rate will continue to rise but not as fast as in the first quarter.

Housing Construction

Housing construction continued to plunge in the first quarter, with total permits down 13.7 percent from the fourth quarter and 45.0 percent over the year. Similar declines occurred in the South and the United States (Table 2). All of the decline for Tennessee can be attributed to multifamily construction, including apartments and condominiums. In fact, multifamily permits are down 49.1 percent from the previous quarter and 51.2 percent over the year.

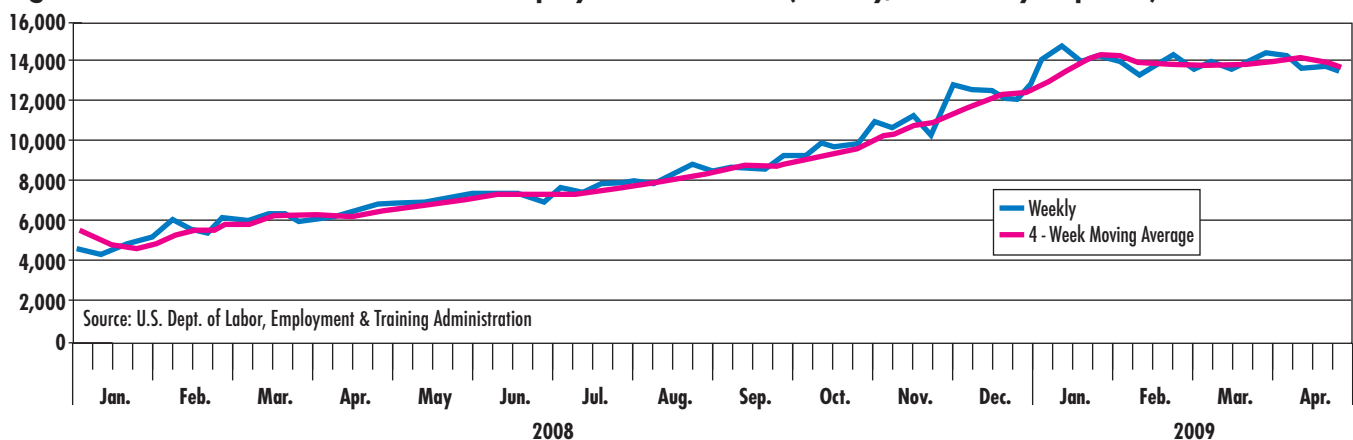
By contrast, single-family permits posted a rare gain, one of the few signs of improvement for the Tennessee economy. The number of permits issued for single-family homes rose 6.1 percent in the first quarter, the first gain in nine quarters—more clearly indicated by the monthly figures (Figure 2). The trend suggests

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

	2008.1	2008.2	2008.3	2008.4	2009.1
Employment by industry (nonfarm)					
Total nonfarm	2,804	2,793	2,768	2,742	2,695
Goods-producing sectors	508	502	493	478	448
Manufacturing	370	367	360	350	331
Services-providing sectors	2,296	2,290	2,275	2,263	2,247
Unemployed	168	189	204	221	276
Total employment	2,866	2,853	2,839	2,827	2,766
Labor force	3,033	3,042	3,042	3,047	3,042
Unemployment rate (%)	5.5	6.2	6.7	7.2	9.1

Source: Bureau of Labor Statistics

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



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

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.
2007.2	29.6	540.7	1,052.3	7.0	202.0	429.0	36.6	742.7	1,481.3
2007.3	27.5	482.0	931.7	6.2	172.0	403.7	33.7	654.0	1,335.3
2007.4	22.1	399.7	764.0	9.0	169.7	396.0	31.2	569.3	1,160.0
2008.1	18.1	351.7	647.3	5.6	163.3	341.0	23.8	515.0	988.3
2008.2	17.6	331.7	633.3	3.2	141.0	399.3	20.9	472.7	1,032.7
2008.3	15.6	288.7	558.3	5.7	157.3	308.0	21.4	446.0	866.3
2008.4	9.7	213.7	416.0	5.4	100.7	214.7	15.1	314.3	630.7
2009.1	10.3	198.3	363.3	2.8	82.0	173.7	13.1	280.3	537.0
Change from previous quarter	6.1%	-7.2%	-12.7%	-49.1%	-18.5%	-19.1%	-13.7%	-10.8%	-14.9%
Change from previous year	-43.1%	-43.6%	-43.9%	-51.2%	-49.8%	-49.1%	-45.0%	-45.6%	-45.7%

Source: Census Bureau

that single-family permits have leveled off at an annual rate of 10,000. Whether the first quarter marks the beginning of recovery for single-family permits is not clear, but the indications are encouraging.

Real Estate Transactions and Mortgages

The total value of taxable real estate transactions fell for the eighth consecutive quarter, down 19.5 percent from the fourth quarter (Figure 3). In fact, the rate of decline has increased

greatly from the previous two quarters (-12.8 percent and -7.8 percent, respectively). Over the year, the value of transactions is down 41.6 percent for Tennessee. Keep in mind that some of the decline can be attributed to falling real estate prices, with the rest caused by fewer properties changing hands.

By contrast, mortgage tax collections rose sharply in the first quarter, up 19.9 percent from the previous quarter (Figure 4). Extremely low mortgage rates create very favorable conditions

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

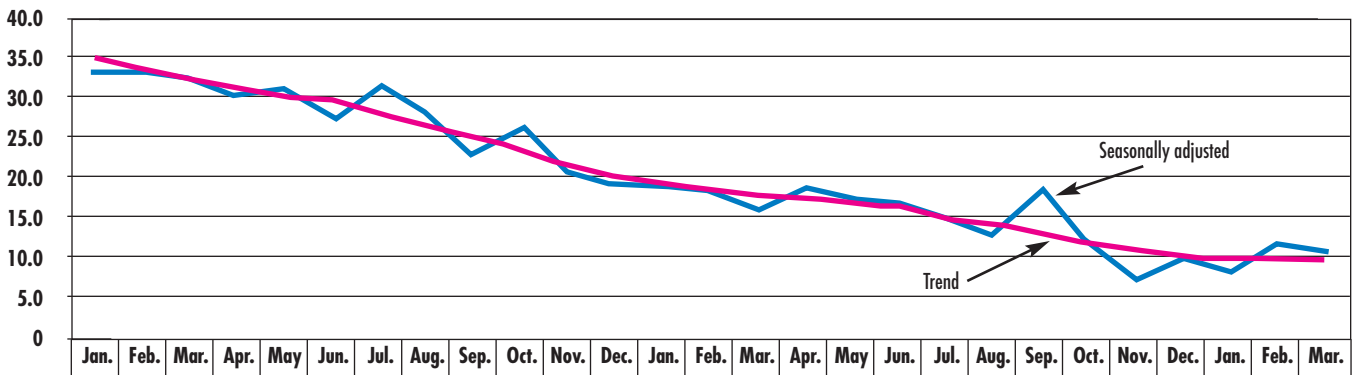
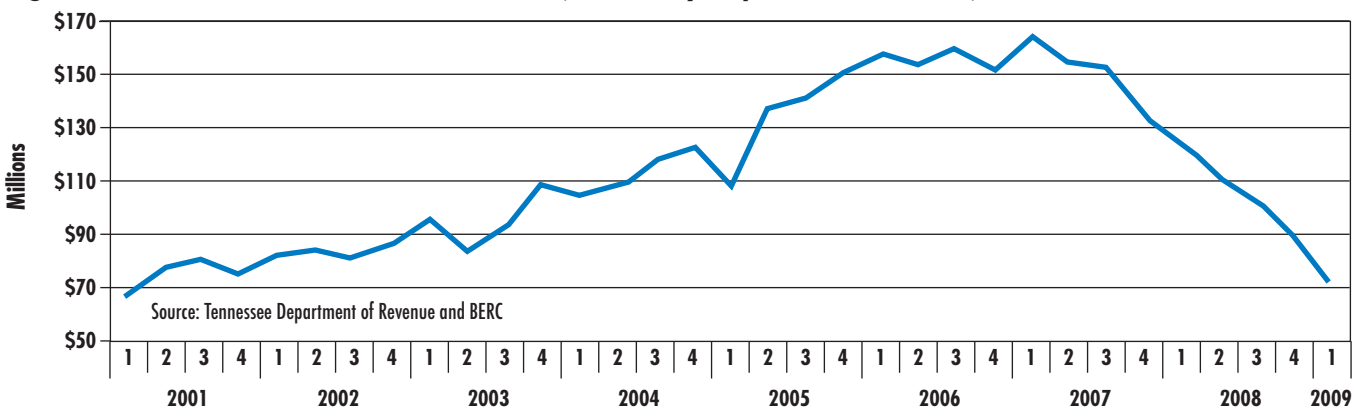
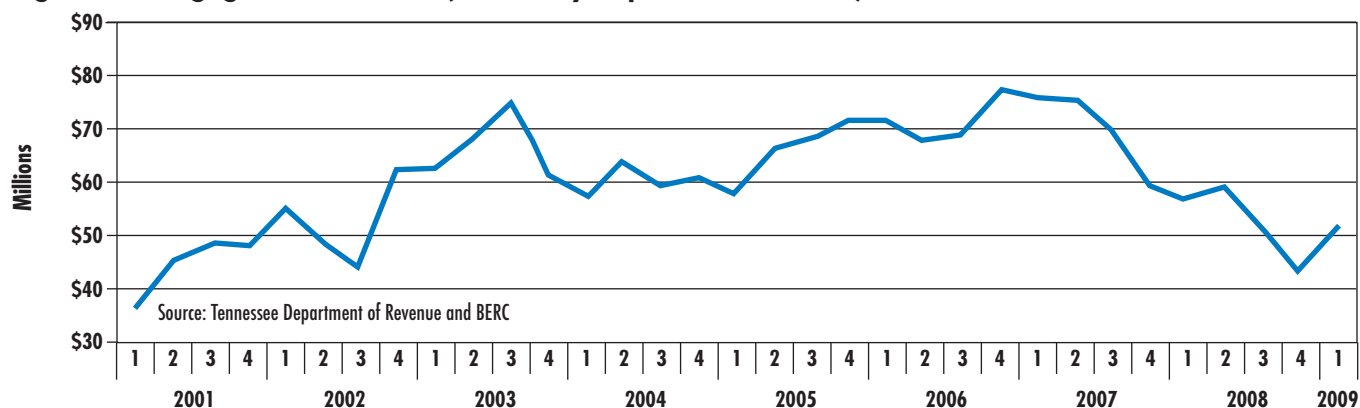


Figure 3. Real estate transfer tax collections (seasonally adjusted annual rate)



Source: Tennessee Department of Revenue and BERCC

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



for mortgage refinancing in Tennessee and elsewhere. In fact, the Mortgage Bankers Association expects more than twice the dollar volume of refinancings compared with home purchase loans in 2009 for the national mortgage market. Refinancing to lower rates indirectly helps the housing market by reducing financial stress for households.

Home Sales and Prices

Sales of existing homes continued to decline in the first quarter but not as quickly, according to data for Tennessee from the National Association of Realtors. Existing home sales are down 3.6 percent in the first quarter, a much slower rate of decline compared with previous quarters. Over the year, for example, existing home sales are down 27 percent.

Data from real estate organizations in Memphis, Nashville, and Knoxville show no relief in the rate of sales decline. Inventories are down in Memphis and Knoxville but higher in Nashville (Figures 5-7).

Mortgage Delinquencies and Foreclosures

Figures from the Mortgage Bankers Association (fourth quarter 2008) show no sign that foreclosure activity will slow down soon in Tennessee (Table 3). The rate of new foreclosures rose

during the fourth quarter, increasing the foreclosure inventory to 1.72 percent. Tennessee continues to compare favorably, however, with the United States with fewer new mortgages started and a lower foreclosure inventory.

According to RealtyTrac, foreclosure activity improved compared with a year ago, with new filings down 10.1 percent for the first quarter. The improvement may be very short-lived, however, because the data for March show a large increase from last year. Thus, while the improvement is welcomed, the sustainability is not convincing.

Conclusion

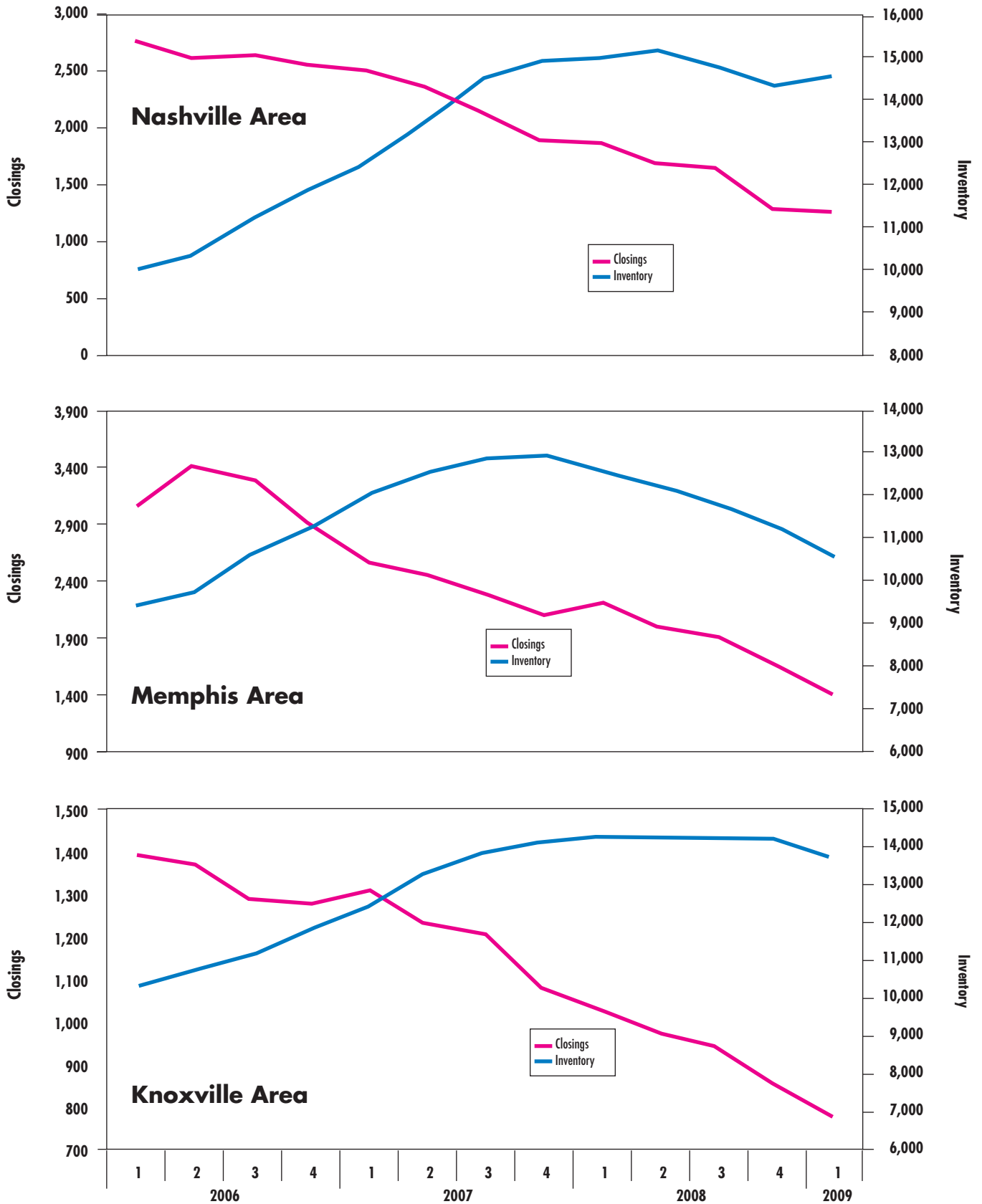
Economic conditions for Tennessee continue to deteriorate in the first quarter as indicated by large job losses and a sharp rise in the unemployment rate. Some indicators point to a slowing of the rate of contraction of the economy, but improvements may be temporary. Initial claims for unemployment insurance leveled out during the first quarter, albeit at a very high level. Permits issued for single-family home construction improved in the first quarter, although total permits declined. Very low mortgage rates will assist housing construction, but will this be enough to counteract headwinds created by rising unemployment? ■

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
2007.2	6.79	0.61	1.20	5.22	0.64	1.43
2007.3	7.42	0.69	1.29	5.57	0.78	1.72
2007.4	7.29	0.71	1.37	5.71	0.84	1.99
2008.1	7.82	0.72	1.49	6.39	0.99	2.44
2008.2	7.91	0.78	1.56	6.43	1.17	2.80
2008.3	8.43	0.78	1.59	6.98	1.06	3.02
2008.4	9.03	0.80	1.72	7.79	1.03	3.23

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