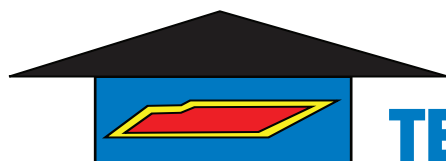


1st Quarter 2011



TENNESSEE HOUSING MARKET

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Economic Overview

First-quarter job growth picked up somewhat in Tennessee with nonfarm employment gaining 9,000 jobs compared with a revised 5,000-job gain in the previous quarter (Table 1). The base of job growth was broad, with goods-producing sectors (construction and manufacturing) generating one-third of the new jobs and the remaining produced by the services-providing sectors. Manufacturing held steady at 296,000 jobs.

The labor force increased more than employment, reflecting an increase in the number of job seekers. Consequently, the unemployment rate ticked higher to 9.5 percent from 9.4 percent in the previous quarter. The number of unemployed workers rose

but can be attributed to a rise in those reentering the labor force. Initial claims for unemployment insurance declined again, falling to an average of 7,191 per week, down from 7,655 in the previous quarter, for the eighth consecutive quarterly decline. Falling initial claims suggests downward pressure on the unemployment rate in future quarters (Figure 1).

Sales tax collections increased but at a slower pace during the first quarter, rising 0.4 percent from the previous quarter. Very poor weather may be part of the reason for the much lower increase in sales. Collections are 5.7 percent higher over the year after seasonal adjustments.

Housing Construction

Building permits issued for single-family home construction rose 4.8 percent in the first quarter to 10,600 units (annualized

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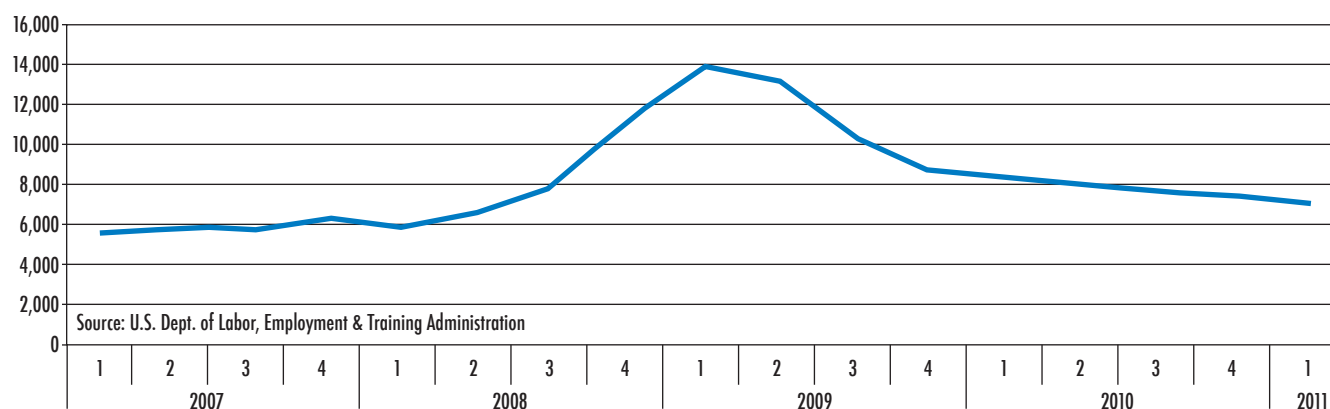
Table 1. Selected Tennessee employment indicators (thousands, seasonally adjusted)

Employment by industry (nonfarm)	2009.4	2010.1	2010.2	2010.3	2010.4	2011.1
Total nonfarm	2,595	2,596	2,616	2,616	2,621	2,630
Goods-producing sectors	404	400	406	404	403	405
Manufacturing	299	297	300	298	296	296
Services-providing sectors	2,191	2,197	2,210	2,212	2,219	2,225
Labor force	3,039	3,057	3,057	3,051	3,060	3,088
Total employment	2,720	2,741	2,758	2,763	2,773	2,795
Unemployed	320	315	299	288	287	293
Unemployment rate	10.5%	10.3%	9.8%	9.4%	9.4%	9.5%

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	18.5	366.3	671.3	5.1	170.0	353.7	23.6	536.3	1,025.0
2008.2	17.2	333.7	633.0	3.6	152.7	428.0	20.9	486.3	1,061.0
2008.3	15.5	283.7	547.7	5.5	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	10.5	202.7	366.7	2.4	83.0	179.0	12.9	285.7	545.7
2009.2	11.0	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	13.7	254.0	491.3	2.0	56.3	134.7	15.7	310.3	626.0
2010.1	13.3	270.7	524.7	6.1	57.3	130.0	19.4	328.0	654.7
2010.2	12.5	235.0	447.7	4.6	60.7	141.3	17.1	295.7	589.0
2010.3	10.3	207.0	403.7	4.1	69.3	155.3	14.4	276.3	559.0
2010.4	10.1	206.0	421.0	2.1	53.3	153.3	12.2	259.3	574.3
2011.1	10.6	213.7	400.3	1.6	76.7	160.3	12.2	290.3	560.7
Change from previous quarter	4.8%	3.7%	-4.9%	-24.0%	43.8%	4.6%	-0.1%	12.0%	-2.4%
Change from previous year	-20.2%	-21.1%	-23.7%	-73.9%	33.7%	23.3%	-37.0%	-11.5%	-14.4%

Source: Census Bureau

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rate) from a very low level in the previous quarter (Table 2). A similar increase occurred in the Southern states, but the U.S. experienced a drop in single-family construction. Overall, single-family permits have changed little during the past three quarters, suggesting a modest degree of stability. Monthly figures show that single-family permits have been stable to slightly increasing since late summer of 2010 (Figure 2).

The number of total permits issued in Tennessee (single-family plus multi-family) was unchanged from the previous quarter, due to a decline in the number of multi-family permits. It is noteworthy that the South experienced a large rise in multi-family

permits during the first quarter, suggesting increased demand for apartments as an alternative to home ownership.

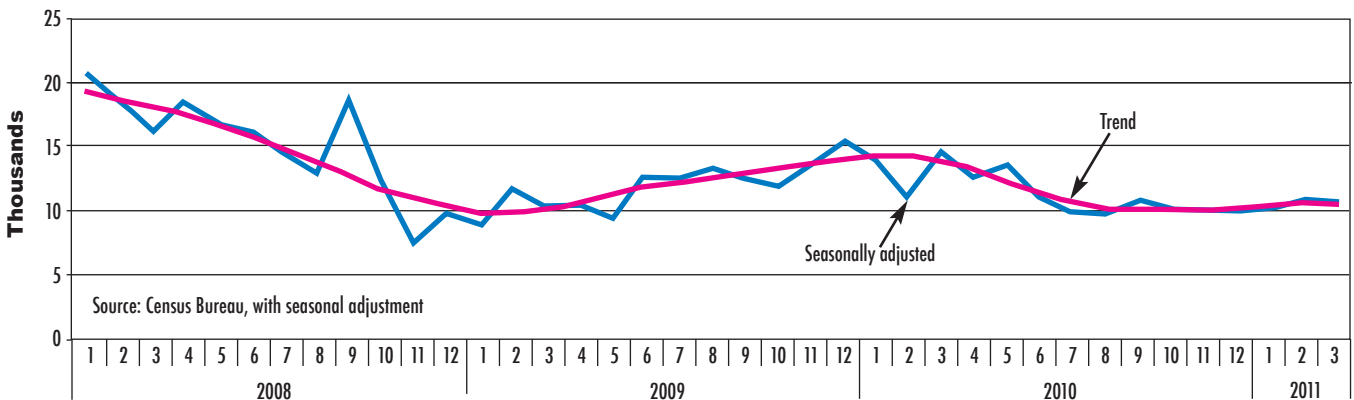
Real Estate Transactions and Mortgages

Note: Fourth-quarter 2010 data in Figures 3 and 4 in the previous report are incorrect. Corrected fourth-quarter data are shown here in Figures 3 and 4. The result is that the fourth quarter was much stronger than previously reported.

Taxes collected on new and refinanced mortgages fell during the first quarter following two quarters of gains. Collections on

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





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real estate transactions were little changed and have shown little change since mid-2009 (Figures 3 and 4). Transactions tax collections can change when more transactions occur or when the average value of transactions changes.

Home Sales

Sales generally improved during the first quarter, rising 2.1 percent in Nashville and 17.2 percent in Memphis from the fourth quarter after seasonal adjustment. Sales in the Knoxville area show little change (Figure 5). The gains provide more evidence that the housing market continues to adjust to an environment that does not depend on the homebuyers' tax credit to shore up demand. Over the year, Nashville sales are down 3.2 percent, while Memphis is little changed at +0.7 percent. Knoxville closings are 13.4 lower from the first quarter of 2010. Inventories declined in all three areas, partially due to rising sales but also perhaps due to weaker prices.

According to the National Association of Realtors, sales for Tennessee, including single-family and condos, rose 5.7 percent from the fourth quarter to a seasonally adjusted annual rate of 96,800 units. Nationally, sales were up 8.3 percent, led by increases in the West and South. Compared with the same quarter of 2010, however, sales are down significantly, -14.5 percent for Tennessee and -0.8 percent for the United States.

Mortgage Delinquencies and Foreclosures

Note: First-quarter source data for Table 3 is not yet available.

The most recent available data for mortgage delinquencies and foreclosures in Tennessee offer a mixed message. First, the number of mortgages that are past due fell again in the fourth quarter to 9.99 percent from 10.4 percent in the previous quarter, the second consecutive monthly decline.

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

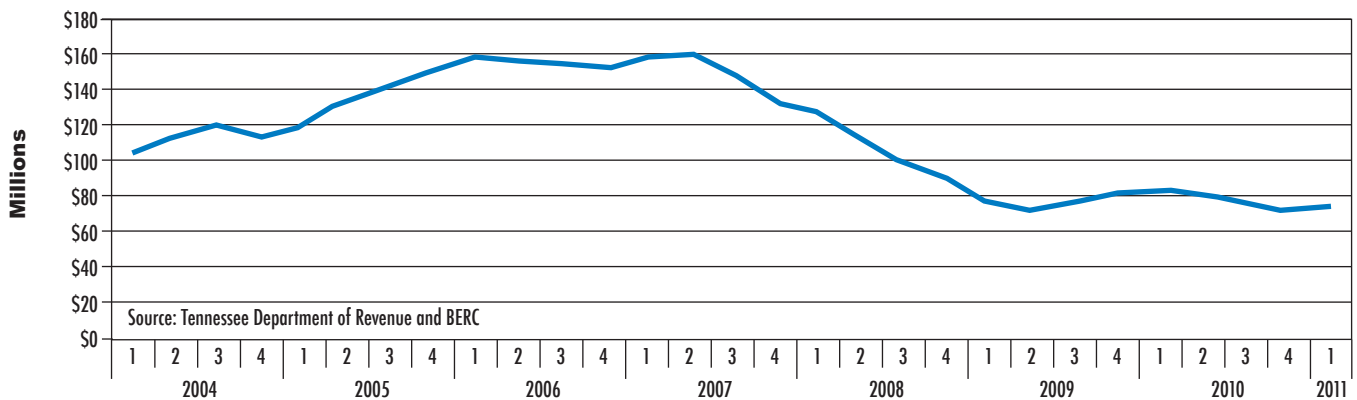
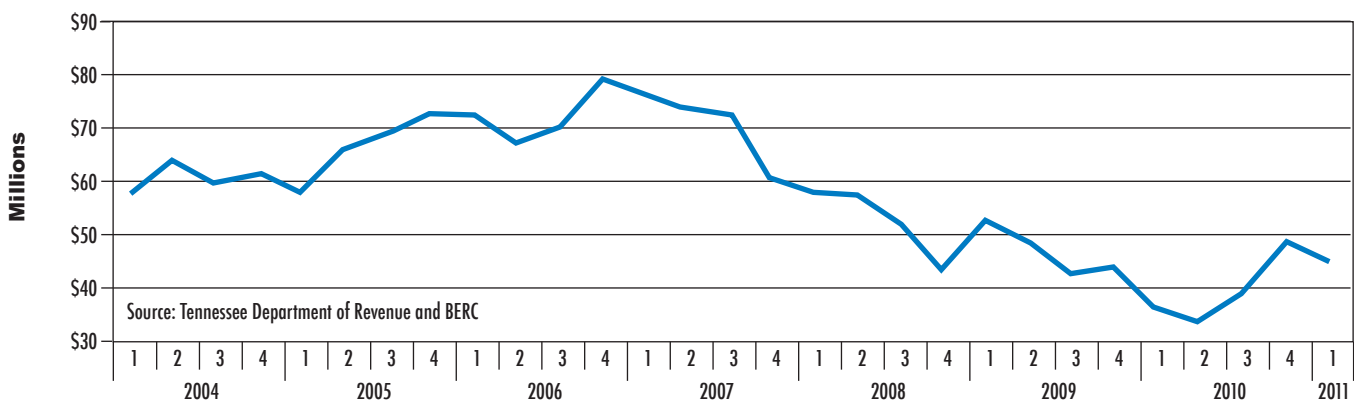


Figure 4. Mortgage tax collections (seasonally adjusted annual rate)



**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	4.63

Source: Mortgage Bankers Association of America and BERC

Note: Table includes revisions to previous quarters.

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However, the number of new foreclosures increased again, rising to 0.99 percent from 0.95 percent in the previous quarter, the second month of increases.

Home Prices

Home-price data lag one quarter behind most other data in this report; the latest available data pertain to the fourth quarter 2010. Home prices continued to drop for both Tennessee and the U.S., but Tennessee experienced the smaller decline (Table 4), as measured by the repeat-sale price index developed by the Federal Housing Finance Administration. The steady improvement experienced by most areas of the state stalled or was reversed during the fourth quarter for several areas. Three metropolitan areas (Chattanooga, Johnson City, and Kingsport-Bristol) experienced modest price gains during the quarter. Knoxville edged closer to stability, with prices down by just 0.6 percent compared with a 1.3 percent decline in the previous quarter. On the other hand, price declines accelerated for Memphis, Clarksville, Cleveland, and Morristown. Prices continued to fall in the Nashville metropolitan area but at a slightly lower rate. Once again, stable prices are a must for the beginning of any recovery of the housing market.

Conclusion

The housing market showed marginal improvement during the first quarter, with housing construction stable and home sales up from the previous quarter. What's missing is a boost from firmer housing prices, and the data for the first quarter offer little evidence that rising prices will soon occur. Other than the housing sector, the rest of the Tennessee economy is improving a little faster, as evidenced by sustained but modest job growth.

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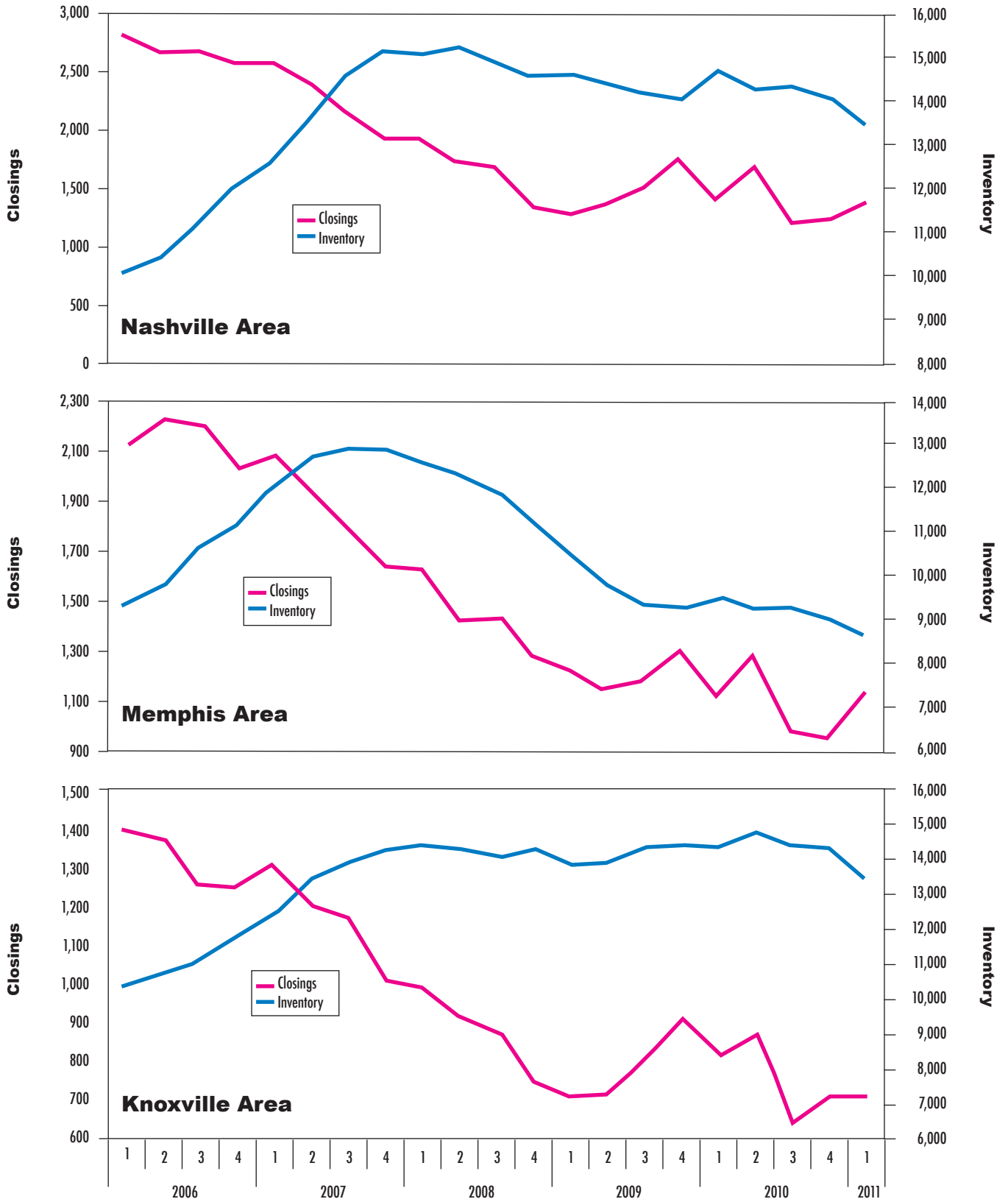
Table 4. Change in housing prices year to year

Area	2009.1-2010.1	2009.2-2010.2	2009.3-2010.3	2009.4-2010.4
U.S.	-6.4%	-4.5%	-0.9%	-1.3%
Tennessee	-4.5%	-3.6%	-0.9%	-1.0%
Chattanooga MSA	-3.6%	-2.3%	0.5%	0.4%
Clarksville MSA	-1.2%	0.2%	1.4%	-1.7%
Cleveland MSA	-3.1%	-2.8%	-1.7%	-1.9%
Jackson MSA	-5.5%	-1.5%	-2.5%	-2.5%
Johnson City MSA	-1.6%	-0.1%	1.2%	0.7%
Kingsport-Bristol MSA	-1.9%	-0.7%	-0.9%	0.5%
Knoxville MSA	-3.8%	-3.9%	-1.3%	-0.6%
Memphis MSA	-6.2%	-4.7%	-0.8%	-2.4%
Morristown MSA	-6.4%	-7.4%	-1.8%	-4.0%
Nashville MSA	-4.6%	-3.3%	-0.7%	-0.5%
TN nonmetro areas	-5.1%	-4.2%	-1.3%	-0.4%

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