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SUBJECT: Housing Market & Residential Density

This memo is intended to brief City Council members on the state of the housing market in Knoxville area, including a market update for the calendar year 2020 and the role density can play in bolstering the housing stock. All market data, unless specified otherwise, is drawn from KAAR's 12-county region Multiple Listing Service (MLS), which does not include off-market real estate transactions.

## HOUSING MARKET UPDATE

Despite an economic downturn induced by the COVID-19 pandemic, the Knoxville area housing market outperformed expectations with homes sales experiencing strong year-over-year growth. Broadly speaking, Knoxville's booming housing market is driven by a limited supply of homes, especially those priced under \$200,000, and remarkably high demand — especially in light of the on-going pandemic.

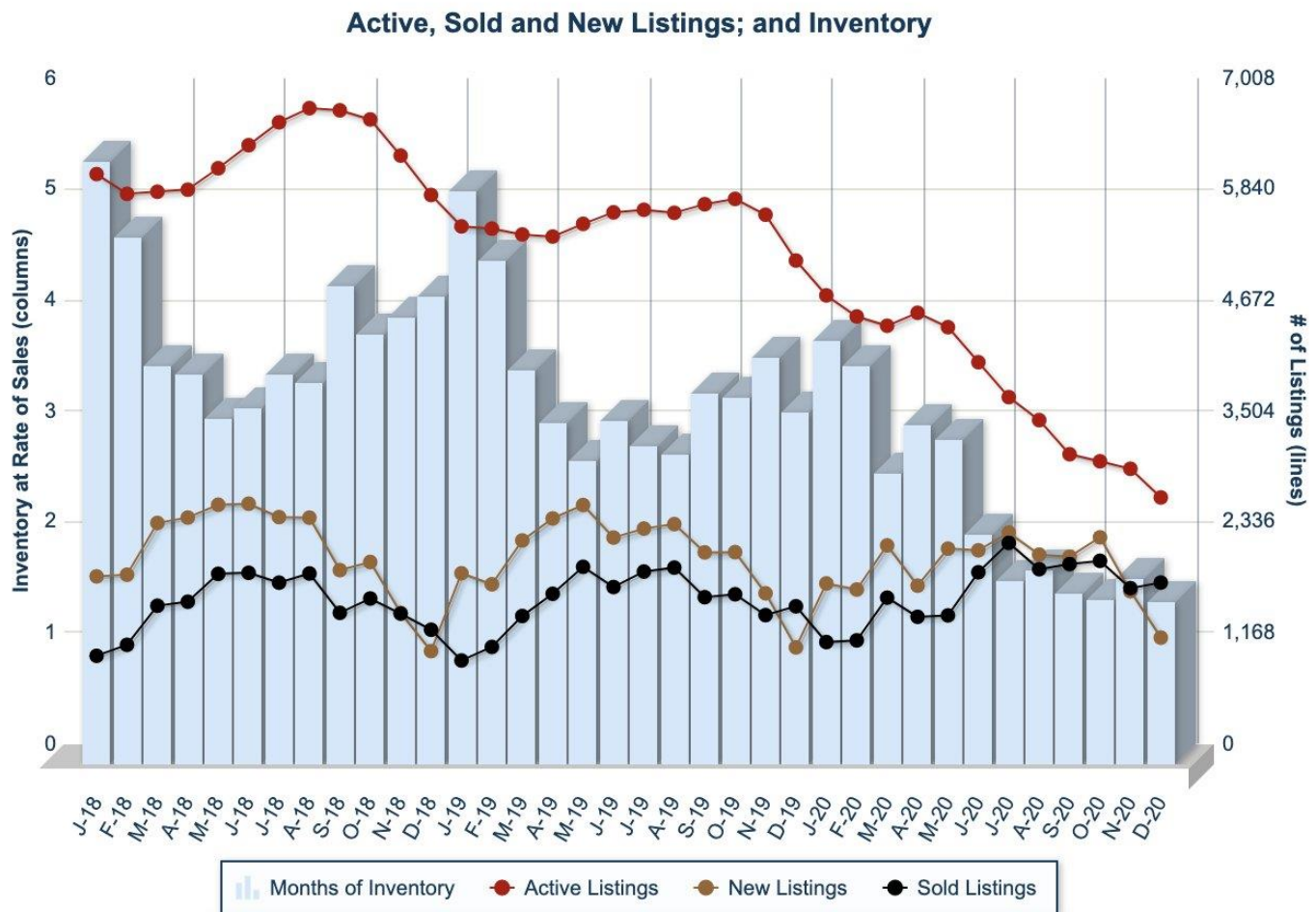
For the year, overall residential housing inventory (which includes detached single-family homes, condos, and townhomes) declined 37 percent. It is important to note the declining housing inventory is part of a long-term trend fueled, in part, by a slowdown in new home construction resulting from the 2008 financial crisis. But this trend intensified considerably in the last two years with residential housing inventory down 53 percent compared to December 2018. Months of inventory — the number of months it would take to exhaust active listings at the current sales pace — reached a two-year low in December.

Despite the economic circumstances, the demand for homeownership remains strong. This can be attributed to a host of factors, including record-low interest rates, the transition to remote work, and the desire to add a more outdoor space. Given interest rates are projected to hover around 3% in 2021, the National Association of Realtors chief economist Lawrence Yun expects demand will continue to grow in the coming year.

The disparate economic impact of the pandemic is also driving demand. Data from Harvard University's Opportunity Insights indicates virtually all pandemic-related employment loss in the Knoxville area occurred among workers in the bottom wage quartile (those making less than \$27,000 per year). Conversely, a majority of middle and high wage households haven't experienced any job loss; therefore, the nature of a pandemic means many higher-income households accrued extra savings by staying home more often, deferring

vacations, etc. This dynamic is partly born out in the data as a larger than normal portion of the current housing inventory is at the upper end of the price range.

**Figure 1** shows active, sold, and new listings; and inventory for the Knoxville area as of December 2020.



The existing supply shortage coupled with high demand places upward pressure on prices — compared to January 2020, the median home sales price is up 18 percent and the median price for new listings up 11 percent. Many Knoxville homeowners have thus seen huge equity gains within the last year and, in all likelihood, more gains are ahead. Those already struggling to keep up with rising prices pre-pandemic are likely facing even greater obstacles.

While the Knoxville housing market was strong in 2020, there are still significant challenges ahead. Amid the backdrop of rising home prices and low vacancy rates, meeting the rising demand by bolstering the supply of housing must be a priority. This supply-side constraint underscores the importance of boosting the housing supply through the addition of new single-family homes in addition to enabling higher-density residential development within existing communities. Failing to address growing supply constraints could ultimately diminish Knoxville's affordability and ability to attract new talent and investment.

## IMPORTANCE OF RESIDENTIAL DENSITY

Beyond construction of new detached single-family dwellings, increasing residential density in appropriate locations is an important mechanism for enabling Knoxville's housing supply to keep up with population growth while maintaining affordability.<sup>1</sup> Especially in the face of strong housing demand and evolving consumer preferences, density can help bolster the housing stock and encourage a built environment that promotes more sustainable and inclusive economic growth.

Though not all areas are well-suited for higher-density residential uses, density levels are often set below what the area's market and infrastructure are capable of supporting. Locations where higher-density and mixed-density development confer the most community benefits include:

- Areas near existing transit stations or bus routes
- Pedestrian-oriented, walkable neighborhoods with access to public parks or greenways
- Underutilized commercial corridors or suburban retail centers

According to researchers from the Urban Land Institute<sup>2</sup>, evidence suggests "well-designed higher-density development, properly integrated into an existing community, can become a significant community asset that adds to the quality of life and property values for existing residents while addressing the needs of a growing and changing population." In other words, density is an important tool for managing the changing urban environment — and doing so in ways that are environmentally and socially efficient.<sup>3</sup>

Land use professionals recognize the importance of creating communities with a variety of densities, housing types, and uses as an antidote to the challenges of regional sprawl.<sup>4</sup> Additionally, addressing sprawl through targeted, mixed-density development can be cost-effective for local governments — allowing more funding to flow towards improving existing infrastructure and public services rather than the greater financial burden of expanding them.<sup>5</sup> Allowing for measured density increases in areas surrounding low-density communities, for example, can increase local government revenue "without significantly increasing the infrastructure and public service burdens."

Diversifying housing options through higher-density development and growing concentrations of activity is also essential for cities like Knoxville to remain economically competitive. When implemented properly, it can help to spur economic development by helping to attract new talent and employers — many of which are increasingly looking to relocate to areas with a stable housing supply, higher employment density, and shorter commute times. Density can similarly generate benefits from higher economic productivity, higher job accessibility, and better access to services and amenities for people across the income distribution.

Much community opposition to higher-density development is born of concerns about the potential impact on property values in surrounding areas.<sup>6</sup> While most of the research examining this question relates to

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<sup>1</sup> Local Housing Solutions, "Zoning changes to allow for higher residential density." <https://www.localhousingolutions.org/act/housing-policy-library/zoning-changes-to-allow-for-higher-residential-density-overview/zoning-changes-to-allow-for-higher-residential-density/>

<sup>2</sup> Urban Land Institute, "Higher-Density Development: Myth and Fact." [http://uli.org/wp-content/uploads/ULI-Documents/HigherDensity\\_MythFact.ashx\\_.pdf](http://uli.org/wp-content/uploads/ULI-Documents/HigherDensity_MythFact.ashx_.pdf)

<sup>3</sup> Urban Land Institute, "Density: drivers, dividends, and debates" <https://knowledge.uli.org/en/reports/research-reports/2014/density>

<sup>4</sup> Urban Land Institute, "Higher-Density Development: Myth and Fact." [http://uli.org/wp-content/uploads/ULI-Documents/HigherDensity\\_MythFact.ashx\\_.pdf](http://uli.org/wp-content/uploads/ULI-Documents/HigherDensity_MythFact.ashx_.pdf)

<sup>5</sup> Smart Growth America, "As small cities struggle, a look at the high cost of low-density development." <https://smartgrowthamerica.org/as-small-cities-struggle-a-look-at-the-high-cost-of-low-density-development/>

<sup>6</sup> Thompson, Seth. "Public Opposition to Increased Housing Density in Eugene, Oregon How Opposition to Multifamily Housing Impacts the Built Environment." (2018).

subsidized housing and LIHTC development, the results are unambiguous.<sup>7</sup> Multiple studies find multifamily, affordable housing has no impact on the value or appreciation rates of nearby single-family detached homes — some even indicate a slightly positive impact.<sup>8</sup> A new study published in 2020 looking at the impact of market-rate multifamily housing comes to a similar conclusion that “multifamily housing [has] either no effect or a positive effect on sales prices for single-family homes” in the surrounding area.<sup>9</sup> The same study also finds that market-rate multifamily housing similarly has either no effect or reduces surrounding properties vulnerability to crime.

Taken together, it is clear that modifying existing zoning policies and proactively identifying locations well-suited for higher-density development can confer a myriad of community benefits and help cities like Knoxville better align housing supply with demand.

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*Please direct any questions to Hancen Sale, KAAR’s Governmental Affairs and Policy Director, at (865) 588-6350 or via email at [hancen@kaarmls.com](mailto:hancen@kaarmls.com).*

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<sup>7</sup> Freemark, Yonah. "Upzoning Chicago: Impacts of a zoning reform on property values and housing construction." *Urban Affairs Review* 56.3 (2020): 758-789.

<sup>8</sup> Galster, George C. "The effects of affordable and multifamily housing on market values of nearby homes." *Growth management and affordable housing: Do they conflict* (2004): 176-211.

<sup>9</sup> Craw, Michael. "Effects of Proximity to Multifamily Housing on Property Values in Little Rock, Arkansas, 2000-2016." *Housing Policy Debate* (2020): 1-18