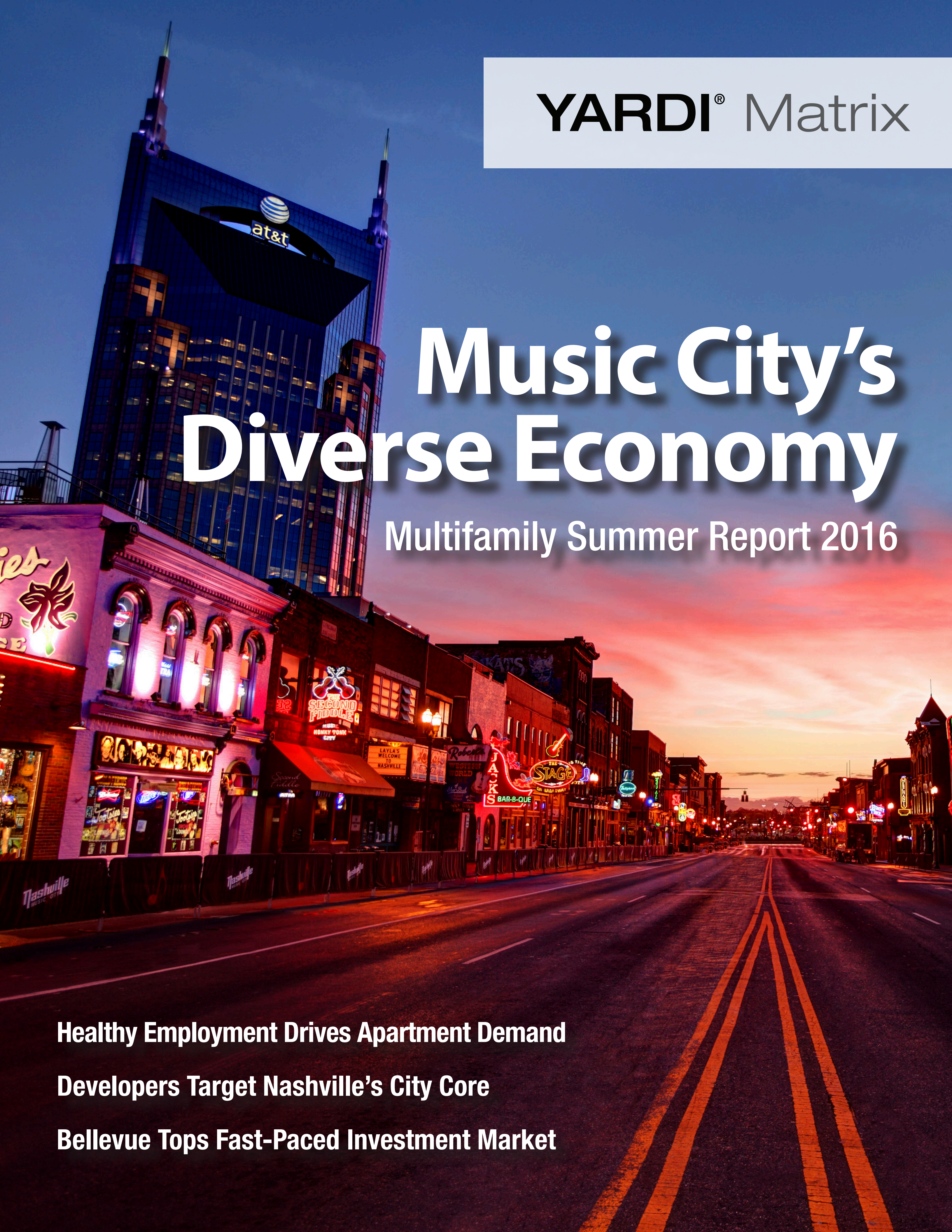
YARDI® Matrix

Music City's Diverse Economy

Multifamily Summer Report 2016



Healthy Employment Drives Apartment Demand

Developers Target Nashville's City Core

Bellevue Tops Fast-Paced Investment Market

Market Analysis

Spring 2016

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Growth Through Diversification

Driven by a diversified economy led by its iconic entertainment industry and a first-rate healthcare sector, the Nashville/Knoxville metro is becoming one of the nation's most attractive secondary markets for developers and investors, even if rent growth is in the middle of the pack nationally. Nashville's population growth, healthy employment sector and cost-friendly business climate are driving corporate expansions and relocations in industries such as auto manufacturing.

An economic pillar for the market, the entertainment industry contributes nearly $10 billion a year to the local economy, while the healthcare sector's economic impact has reached $38.8 billion. The metro is also developing into an up-and-coming locale for entreprenurial ventures: Investors poured more than $280 million into startup businesses last year, with a total of $1 billion statewide since 2012.

The outlook for multifamily fundamentals is favorable, as strong demand will help fill the 3,300 units completed in 2015, though the 13,400 units currently under construction will put a damper on rent increases once they hit the market. The metro's growing prominence as a top Southern secondary market is attracting investors, helping transaction volume reach $1.4 billion in 2015, the highest in the current cycle. In-migration and healthy employment will continue to drive rent gains, but heavy new supply and affordability should moderate rent growth from the 7% range in 2015 to 4.2% in 2016.

Recent Tennessee Metro Transactions

The Landings of Brentwood

City: Brentwood, Tenn.
Buyer: Steadfast Cos.
Purchase Price: $110 MM
Price per Unit: $151,934

The Lexington

City: Nashville
Buyer: PASSCO Real Estate
Purchase Price: $96 MM
Price per Unit: $160,654

The Flats at Taylor Place

City: Nashville
Buyer: Eaton Vance Investment Managers
Purchase Price: $71 MM
Price per Unit: $250,000

Bellevue West

City: Nashville
Buyer: Bascom Group
Purchase Price: $63 MM
Price per Unit: $112,946

On the cover: Photo by Denis Tangney Jr/iStockphoto.com

Rent Trends

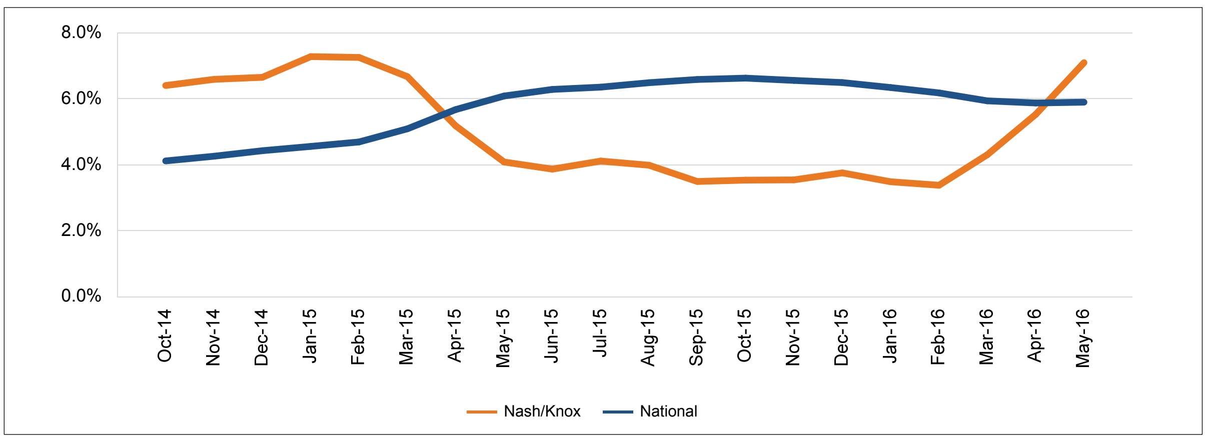
- Rents in Nashville/Knoxville grew 7.1% year-over-year through May to an average of $961 per month, well over the 5.9% national increase, according to the Yardi Matrix survey. Nashville has been among the better-performing metros in the U.S. for several years due to population growth and a healthy employment sector, which fuel high demand for apartments.

- All property quality types posted solid increases, but growth has been higher in the working-class Renter-by-Necessity segment, which rose by 6.1% to $841 per month. The higher-end Lifestyle segment rose by 4.7% to an average of $1,163. The accelerating rent growth is creating affordability issues for low-wage hospitality and entertainment workers.

- Rent growth has been widespread. The submarkets with the highest growth include Southeast – East (14.1%), Elm Hill/Woodbine (12.7%), Clovernook (9.8%), East Nashville/Inglewood (8.3%) and Northeast Nashville (8.2%).

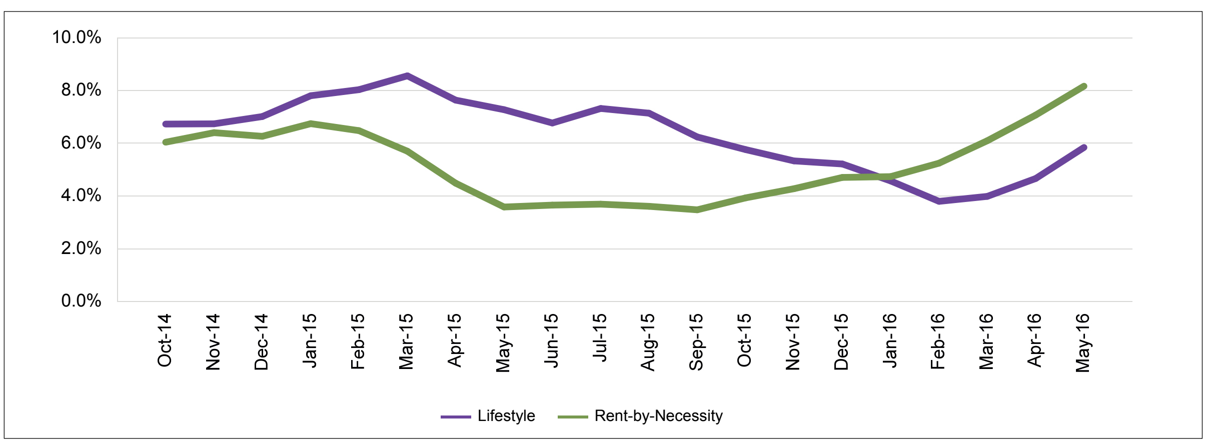
- We expect that the Nashville/Knoxville metro will continue to attract new residents, given the metro's relatively low cost of housing, employment opportunities, good in-migration and Nashville's 18-hour vibrant city appeal. Our forecast for 2016 is average rent growth of 4.2%.

Tennessee Metro vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Tennessee Metro Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Economic Snapshot

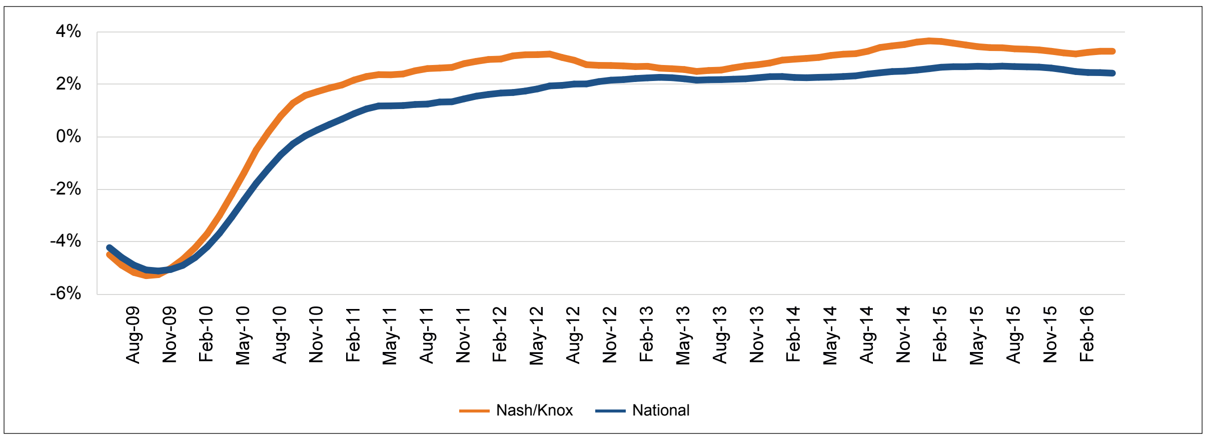
- The area's diverse economy has helped accelerate its recovery. Nashville/Knoxville added 53,300 jobs in 2015, up 3.3% year-over-year through March, well over the 2.4% national rate. As young workers and recent college graduates follow jobs in various sectors, the metro shows no signs of slowing in the near future. The employment landscape's versatility is attracting Millenials seeking 18-hour affordable cities with a vibrant entertainment scene, favorable cost of living and good public transit system.

- Employment gains were led by professional and business services, which added 14,400 jobs. Given the metro's favorable business climate and growing talent pool of young professionals, Nashville/Knoxville has lured corporate expansions from higher-cost metros.

- Growth was also strong in trade, transportation and utilities (7,000 jobs) and education and health services (6,600). Nashville is currently plotting a multimodal regional system, which might come with a long-term price tag of $5.4 billion.

- Bucking a national trend, the metro is attracting new auto manufacturing facilities, helping to boost job growth. Volkswagen's $600 million plant is expected to add 2,000 jobs, while Nissan has announced plans to employ more than 1,000 at a new $160 million supplier park.

Tennessee Metro vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Tennessee Metro Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
60	Professional and Business Services	216	16.4%	14,400	7.1%
40	Trade, Transportation and Utilities	256	19.4%	7,000	2.8%
65	Education and Health Services	198	15.0%	6,600	3.4%
30	Manufacturing	119	9.0%	5,400	4.8%
15	Mining, Logging and Construction	59	4.5%	5,100	9.5%
90	Government	178	13.5%	2,300	1.3%
55	Financial Activities	79	6.0%	2,100	2.7%
50	Information	27	2.0%	1,000	3.8%
70	Leisure and Hospitality	137	10.4%	900	0.7%
80	Other Services	52	3.9%	400	0.8%

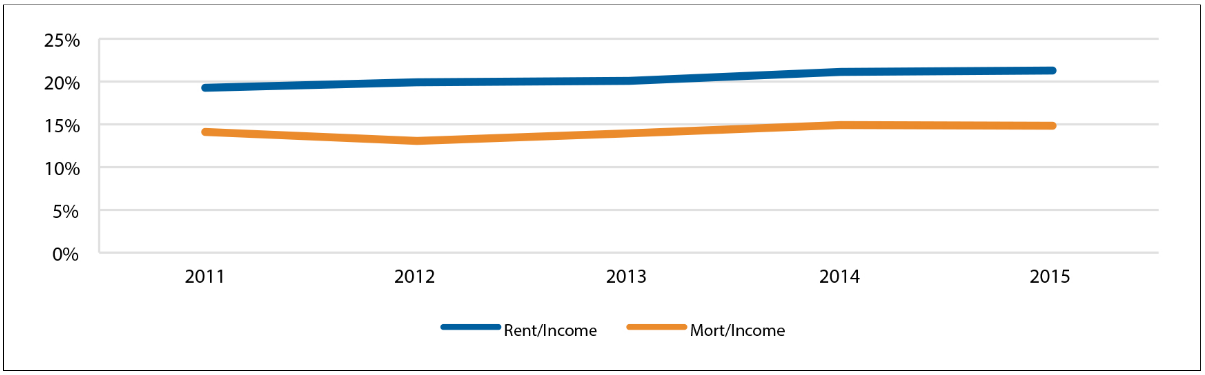
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

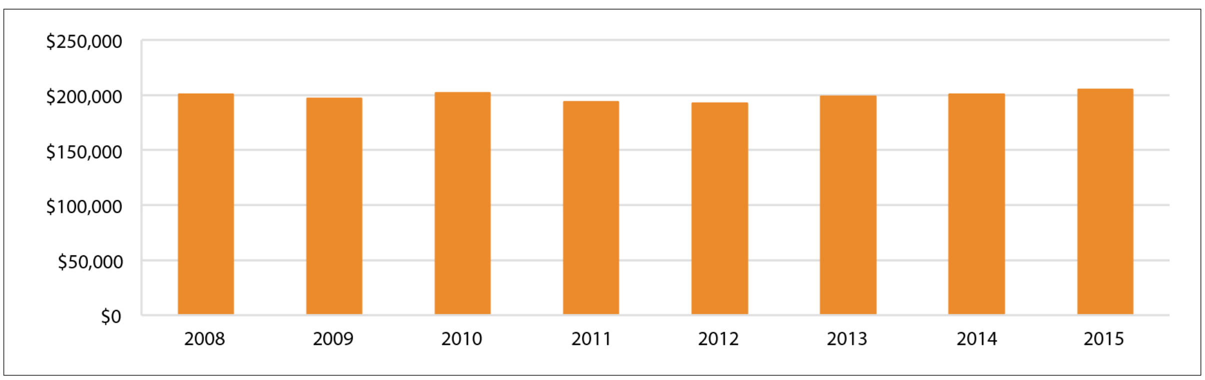
- Median home prices in the metro rose to $172,000 in 2015, reaching a new high for the current cycle. As housing prices rise and continue to outpace wage increases, affordability issues are arising in the Nashville/Knoxville area, especially for workers in the entertainment and hospitality sectors.
- Despite steady growth in home prices, owning remains a more affordable option than renting.The average mortgage payment is 15% of the metro's median income of $51,583, whereas renting comprises as much as 21%, at an average of $961. Rents are about one-third higher in city core submarkets such as Downtown North, Knoxville Downtown and Seymour.

Tennessee Metro Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Tennessee Metro Median Home Price



Source: Moody's Analytics

Population

- The Nashville/Knoxville metro continues to attract residents at a steady pace.
- In 2014, population increased by 39,706 or 1.9%, which is more than double than the national average of 0.8%.

Tennessee Metro vs. National Population

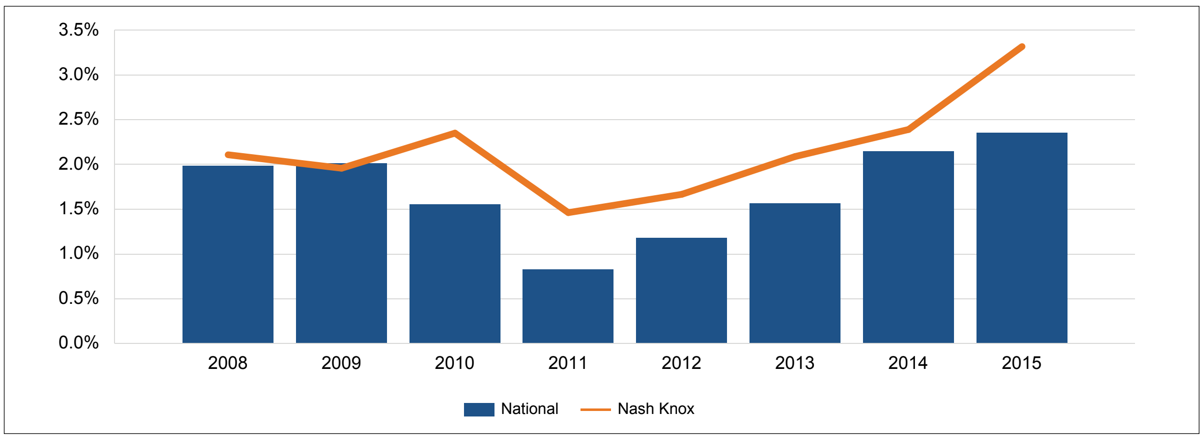
	2010	2011	2012	2013	2014
National	309,347,057	311,721,632	314,112,078	316,497,531	318,857,056
Nashville, TN Metro Area	1,675,913	1,698,288	1,727,153	1,758,577	1,792,649
Knoxville, TN Metro Area	838,687	842,785	847,817	851,951	857,585

Source: U.S. Census

Supply

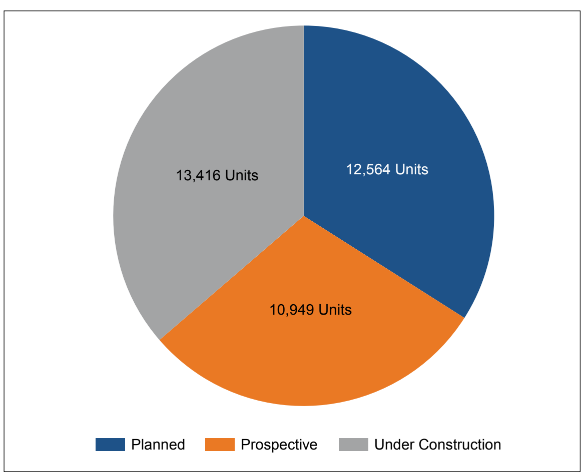
- Tennessee's population growth, strengthening employment and low vacancy rates are fueling demand for units in the metro. The occupancy rate was 96.7% as of April, according to Yardi Matrix. New development is set to meet demand in 2016, as 3,300 units were completed in 2015, adding 2.3% to total stock. Last year's expansion was in line with the 2.4% national average.
- The metro's multifamily pipeline encompasses 37,000 units in various stages of development, including 13,400 units currently under construction. About 12,600 units are already in the planning and permitting phase, pointing toward a continued pace of new supply for several years, which might put a damper on price increases.
- Developers are heavily targeting the metro's city core with new housing options. The Midtown/Music Row submarket leads supply with 2,900 units. Other submarkets with a large pipeline include Downtown North (2,600 units), Mount Juliet (1,000 units), the East End (664 units) and Franklin (615 units).
- The 550-unit community 505 in Downtown North, the largest project in the pipeline, is set for completion by year-end 2017.

Tennessee Metro vs. National Completions as a Percentage of Total Stock (as of May 2016)



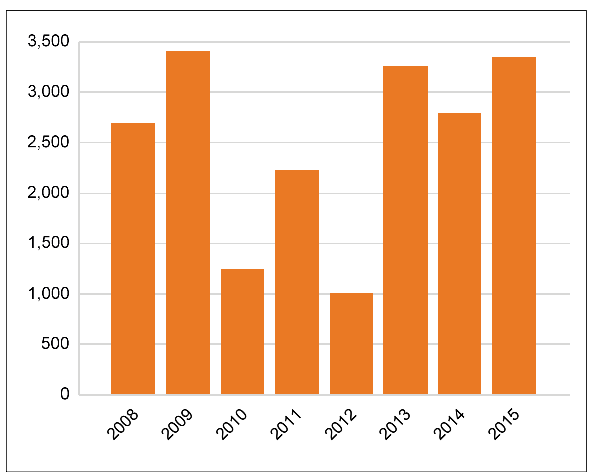
Source: YardiMatrix

Development Pipeline (as of May 2016)



Source: YardiMatrix

Tennessee Metro Completions (as of May 2016)

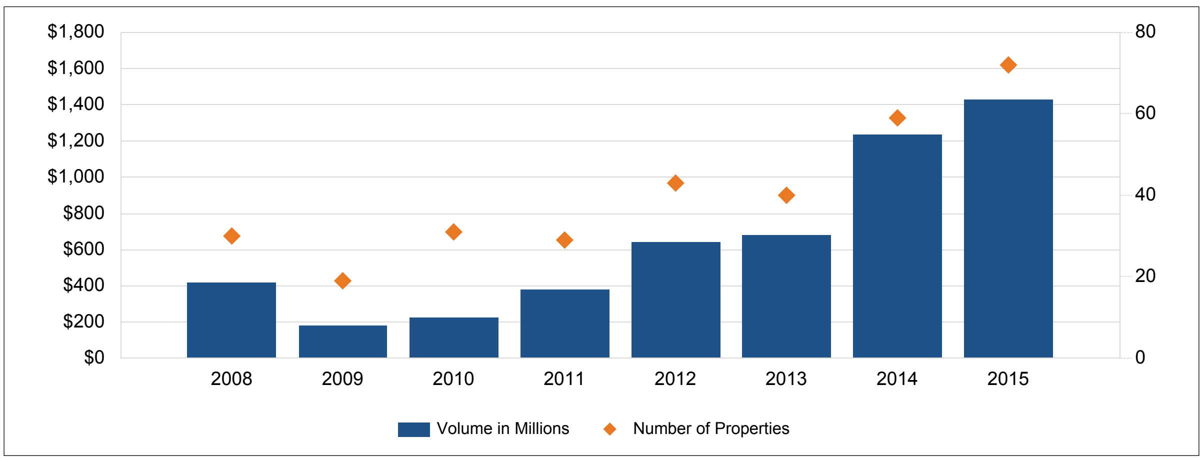


Source: YardiMatrix

Transactions

- Demand for properties in the Nashville/Knoxville metro continues to be at a record high, with 72 assets worth $1.4 billion trading hands last year. As a top secondary market, the metro is attracting institutional investors, which are paying top prices due to Nashville's booming economy, population growth and favorable business climate.
- Last year's sales volume was more than the total amount sold between 2009 and 2012. The average per unit of $96,745 was more than double 2010's average of $41,105, although it remained well below the national average of $117,157.
- During the last 12 months, volume was highest in Bellevue, with $213 million worth of properties sold. Midtown/Music Row ($126 million) and Franklin ($110 million) rounded out the top three.

Tennessee Metro Sales Volume and Number of Properties Sold (as of May 2016)



Source: YardiMatrix

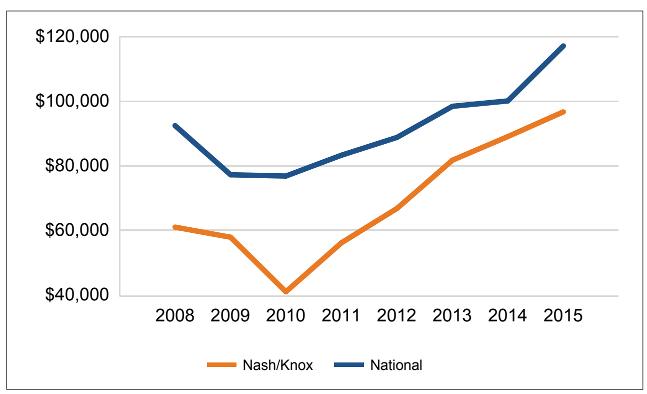
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Bellevue	213
Midtown/Music Row	126
Franklin	110
Downtown - North	104
Antioch - West	97
Southeast/Brentwood	73
La Vergne/Smyma	64
Nashville Shores/ Hermitage	49

Source: YardiMatrix

[1] From June 2015 to May 2016

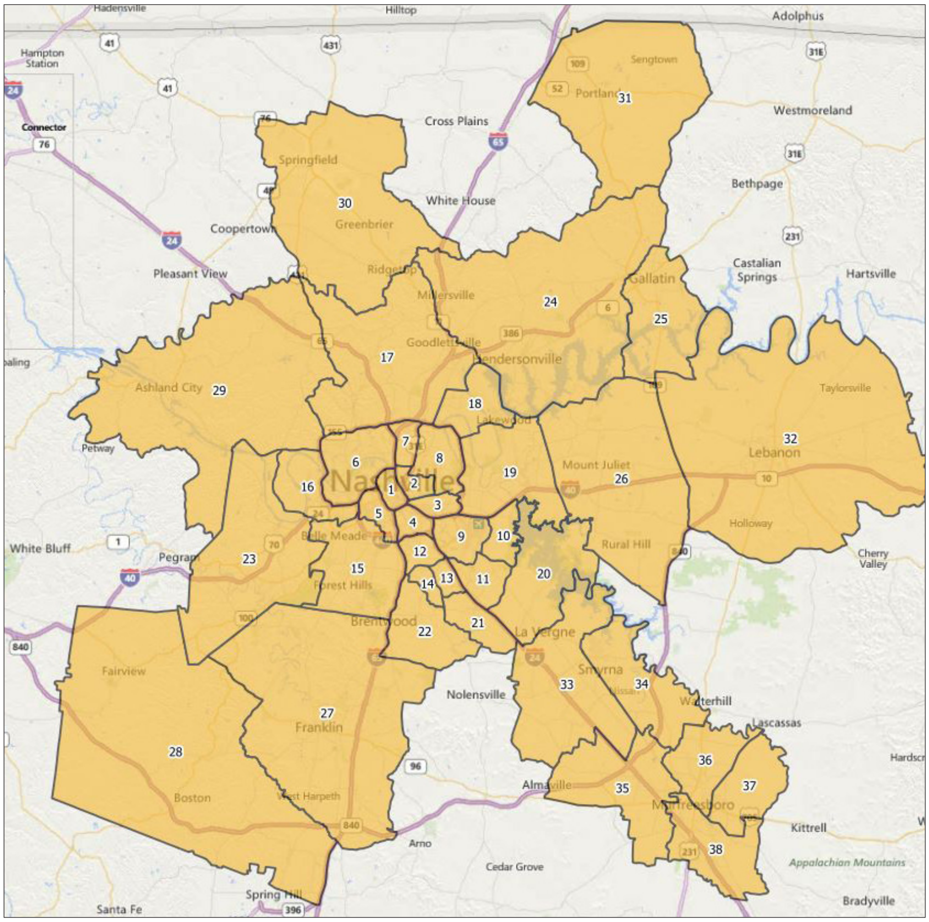
Tennessee Metro vs. National Sales Price per Unit



Source: YardiMatrix

Skyline photo by Davel5957/iStockphoto.com

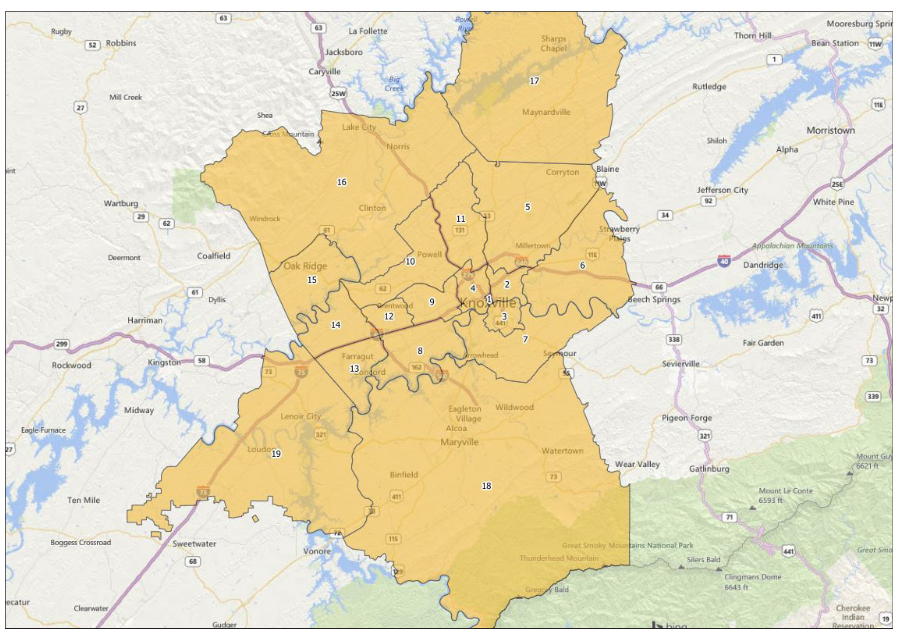
Nashville Submarket Map



Area #	Submarket
1	Downtown - North
2	East End
3	Clovernook
4	Downtown - South
5	Midtown/Music Row
6	North Nashville/Bordeaux
7	Northeast Nashville
8	East Nashville/Inglewood
9	South Nashville
10	Donelson/South Hermitage
11/20/21	Antioch
12	Elm Hill/Woodbine
13/14	Southeast
15	West End/Green Hills
16	West Nashville
17/18	Goodlettsville
19	Nashville Shores/Hermitage
22	Southeast/Brentwood
23	Bellevue
24	Hendersonville
25	Gallatin
26	Mount Juliet
27	Franklin
29	Ashland City
30	Springfield/Greenbrier
31	Portland
32	Lebanon
33	La Vergne/Smyrna
34	Smyrna - East
35	Murfreesboro - West
36	Murfreesboro - North
37	Murfreesboro - East
38	Murfreesboro - South

Knoxville Submarket Map

Area #	Submarket
1	Knoxville Downtown
2	Knoxville East
3	South Knoxville
4	Knoxville West
5	Corryton
7	Seymour
8	Northshore
9	Middlebrook
10	Karns
11	Powell
12	Cedar Bluff
13	Farragut
14	Hardin Valley
15	Oakridge
16	Anderson
18	Maryville
19	Loudon



Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter by Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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