

# Yardi® Matrix

MULTIFAMILY REPORT

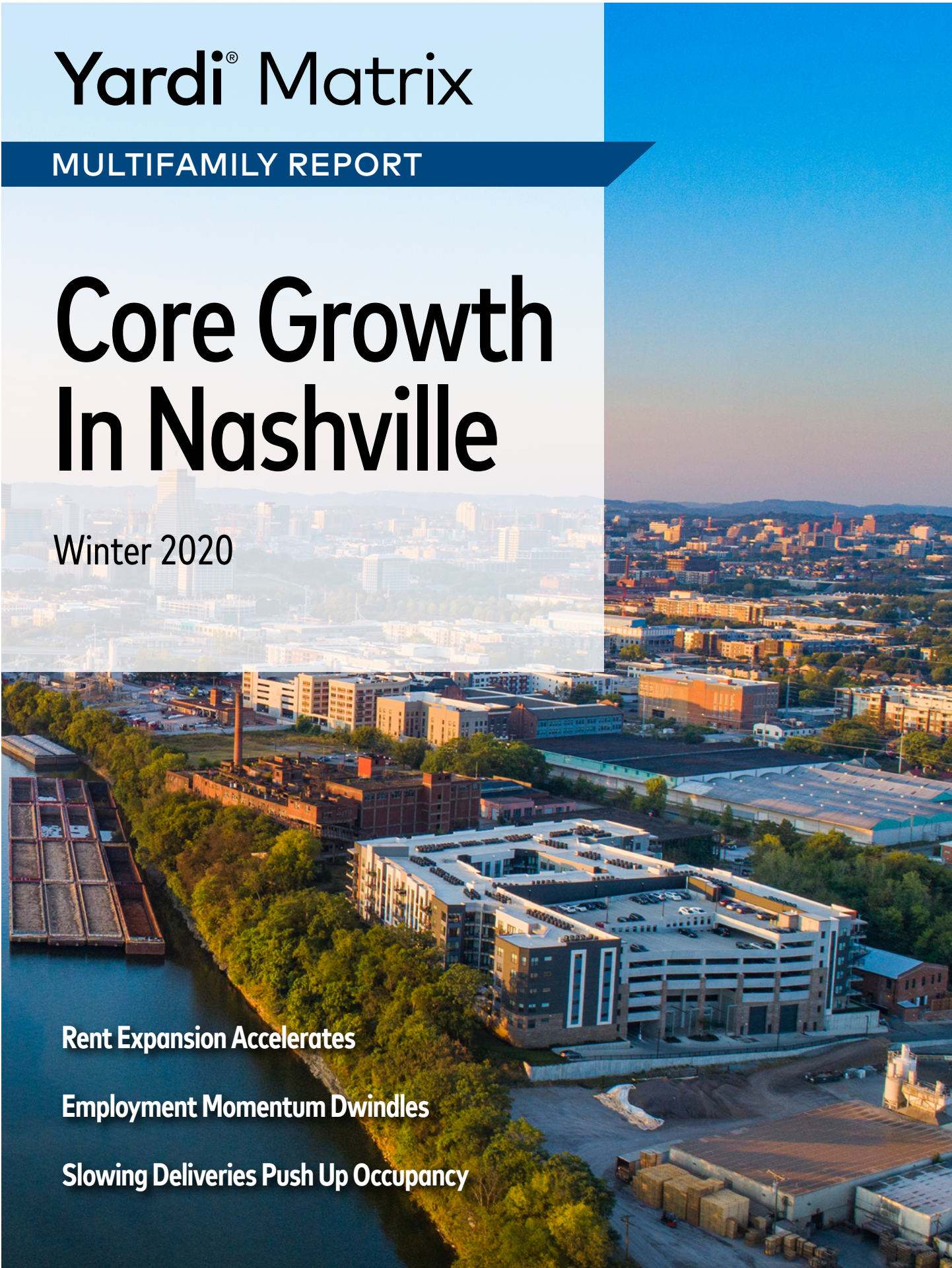
# Core Growth In Nashville

Winter 2020

**Rent Expansion Accelerates**

**Employment Momentum Dwindles**

**Slowing Deliveries Push Up Occupancy**





# NASHVILLE MULTIFAMILY

Yardi® Matrix

## Decelerating Deliveries Favor Rent Growth

Nashville's multifamily market closed 2019 on a high note, boosted by economic and population advancement that is transforming the metro, especially within its urban core. After several years of heavy building, multifamily developers tempered their activity last year. This tipped the supply-demand scale, maintained rent expansion rates that were among the highest in the country and put pressure on occupancy. Rents were up by 4.5% year-over-year through January to an average of \$1,283, while occupancy in stabilized properties rose 40 basis points over 12 months, to 95.1% as of December.

Music City gained 16,800 jobs in 2019 for a 1.9% expansion, slightly above the national rate. Leisure and hospitality led gains with 6,700 positions, with the metro receiving roughly 16 million visitors in 2019—a 7.0% increase over 2018. Construction in the hospitality sector has also risen, with 37 assets underway totaling more than 6,600 rooms combined. Education and health services followed, with the addition of 3,600 jobs, boosted by the metro's colleges and universities and strong health-care industry.

Multifamily sales topped \$1.4 billion in 2019, marginally above 2018's cycle high, with investors slightly favoring value-add plays. The average per-unit price rose by 8.5% to \$171,070, remaining above the national average for the second consecutive year.

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## Market Analysis | Winter 2020

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### Recent Nashville Transactions

#### Crossroads at the Gulch



City: Nashville, Tenn.  
Buyer: Security Properties  
Purchase Price: \$81 MM  
Price per Unit: \$339,286

#### The Shay



City: Nashville, Tenn.  
Buyer: Carter-Haston Real Estate  
Services  
Purchase Price: \$81 MM  
Price per Unit: \$292,000

#### Eastside Heights



City: Nashville, Tenn.  
Buyer: Steadfast Cos.  
Purchase Price: \$64 MM  
Price per Unit: \$258,871

#### Rivertop

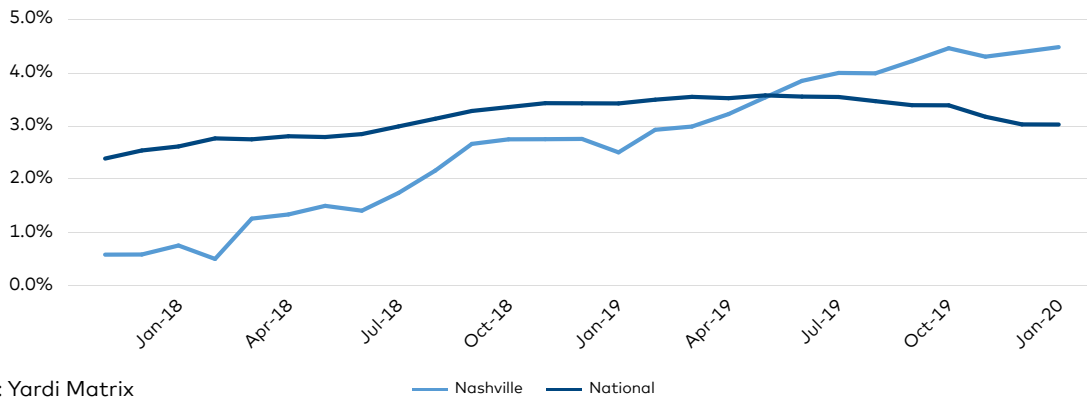


City: Nashville, Tenn.  
Buyer: Cantor Fitzgerald  
Purchase Price: \$57 MM  
Price per Unit: \$255,000

## RENT TRENDS

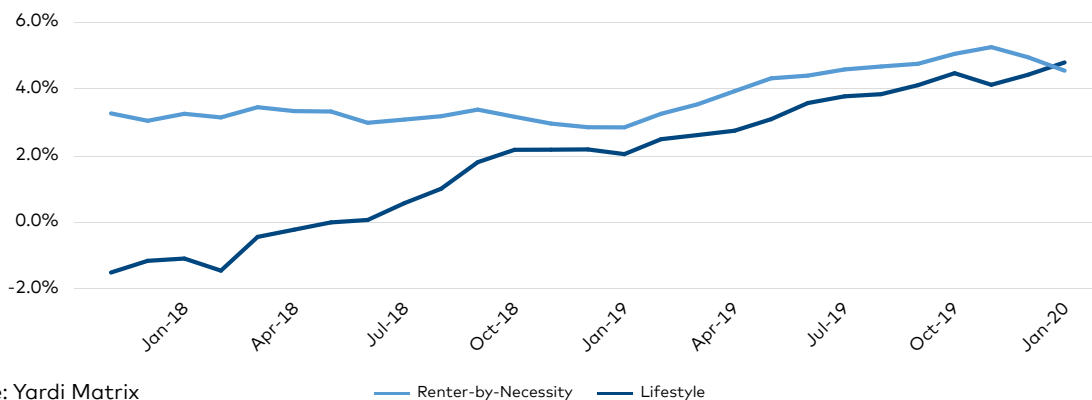
- ▶ Rent gains in Nashville accelerated last year, rising by 4.5% year-over-year through January, to \$1,283. The metro's rate was a solid 150 basis points above the national figure at the start of 2020. With Nashville serving as the poster child for economic development, rental demand remained well ahead of supply across the quality spectrum, especially after last year's completions, which totaled less than half of 2018's new stock.
- ▶ Unlike most metros, the demand for Lifestyle assets led rent growth by a small margin, sustained primarily by the expansion of high-paying employment sectors. Prices in the upscale segment rose by 4.8% to \$1,462. Meanwhile, working-class Renter-by-Necessity rates rose by 4.6% to \$1,056.
- ▶ Downtown-North was the most sought-after submarket; this area registered the highest rent gains year-over-year through January (13.7% to \$1,885), remained the most expensive region and had the largest development pipeline with more than 2,200 units underway in early 2020. La Vergne/Smyrna (average rent up 10.0% to \$1,192) and Goodlettsville-South (9.7% to \$951) rounded out the top three.
- ▶ Considering Nashville's decelerating job growth and already tight employment market, demand is likely to shift down a gear this year, slowing rent gains. Yardi Matrix data predicts that the average rent will advance by 2.3% this year.

### Nashville vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

### Nashville Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

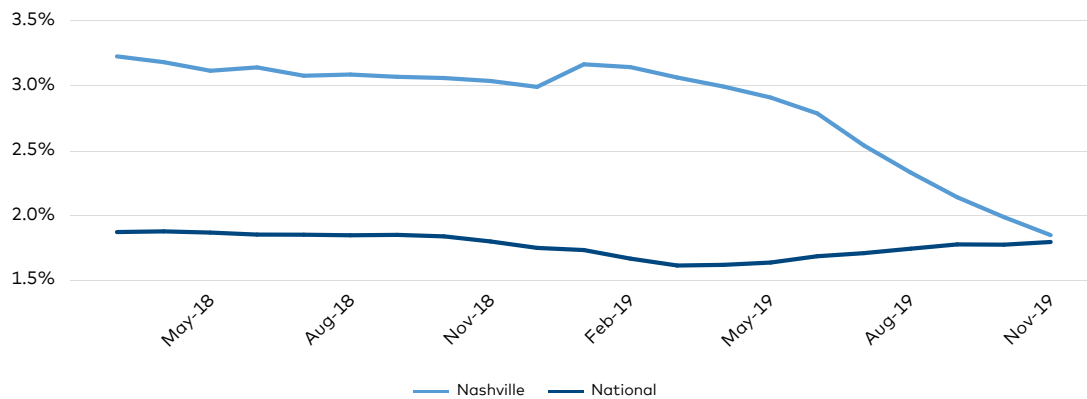
## ECONOMIC SNAPSHOT

- ▶ Nashville gained 16,800 jobs in the 12 months ending in November for a 1.9% uptick, 10 basis points above the national average. The rate has been decelerating since the start of 2019, when it stood at 3.2%. Uncertainties surrounding trade policies, the global economic slowdown and the decline in automobile sales will likely prolong the softening of the metro's economic growth. Hiring is also expected to remain low, as the metro's unemployment rate stood at 2.4% in November.
- ▶ Leisure and hospitality led gains with 6,700 jobs. The metro welcomed 16 million visitors in the 2019 fiscal year (up 7.0% year-over-year), according to the Nashville Convention and Visitors

Corp. This led to \$7 billion in visitor spending. At the close of 2019, there were 37 hospitality assets—totaling 6,634 rooms—underway across the metro, according to Lodging Econometrics.

- ▶ Education and health services gained 3,600 jobs, boosted by its more than 20 colleges and universities and a strong health-care industry. In the wake of a decelerating development boom, construction lost 3,400 jobs. However, the metro's pipeline still looks promising. As of February, it included 4 million square feet of office, 1 million square feet of industrial and 450,000 square feet of self storage space, on top of hospitality, residential and infrastructure projects.

### Nashville vs. National Employment Growth (Year-Over-Year)



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

### Nashville Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
70	Leisure and Hospitality	126	11.9%	6,700	5.6%
65	Education and Health Services	158	15.0%	3,600	2.3%
40	Trade, Transportation and Utilities	206	19.5%	3,000	1.5%
55	Financial Activities	72	6.8%	2,900	4.2%
60	Professional and Business Services	173	16.4%	2,600	1.5%
50	Information	25	2.4%	900	3.8%
90	Government	124	11.7%	900	0.7%
80	Other Services	43	4.1%	-100	-0.2%
30	Manufacturing	84	8.0%	-300	-0.4%
15	Mining, Logging and Construction	45	4.3%	-3,400	-7.0%

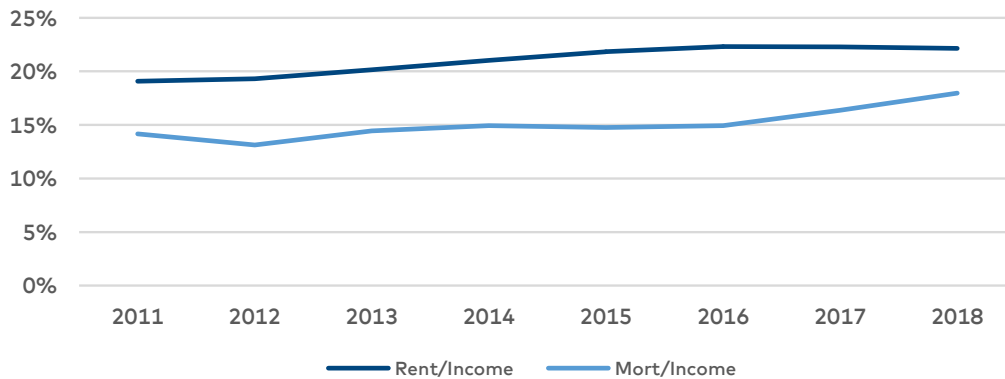
Sources: Yardi Matrix, Bureau of Labor Statistics

## DEMOGRAPHICS

### Affordability

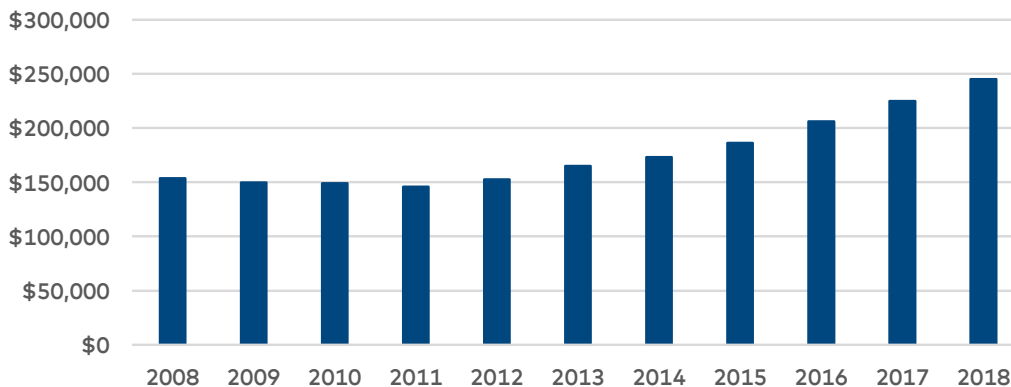
- ▶ The median Nashville home price rose by 9.0% in 2018, to \$245,245. This marked a 64.5% jump from the 2010 housing crash. The average mortgage payment accounted for 18% of the area median income, while the average rent equated to 22%.
- ▶ In 2019, only one fully affordable community totaling 267 units was delivered in the metro. At the start of 2020, 1,088 units in seven fully affordable assets were underway in Nashville. Despite increasing affordability issues, the city's budget problems have nearly halved the \$10 million annual investment pledged for affordable housing developments—a program established in 2016 by then-Mayor Megan Barry.

### Nashville Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

### Nashville Median Home Price



Source: Moody's Analytics

### Population

- ▶ Metro Nashville gained 30,377 residents in 2018, a 1.6% expansion and well above the 0.6% national rate.
- ▶ Nashville's population has expanded consistently this cycle, strongly boosted by domestic migration. The metro registered a 15.2% rise between 2010 and 2018.

### Nashville vs. National Population

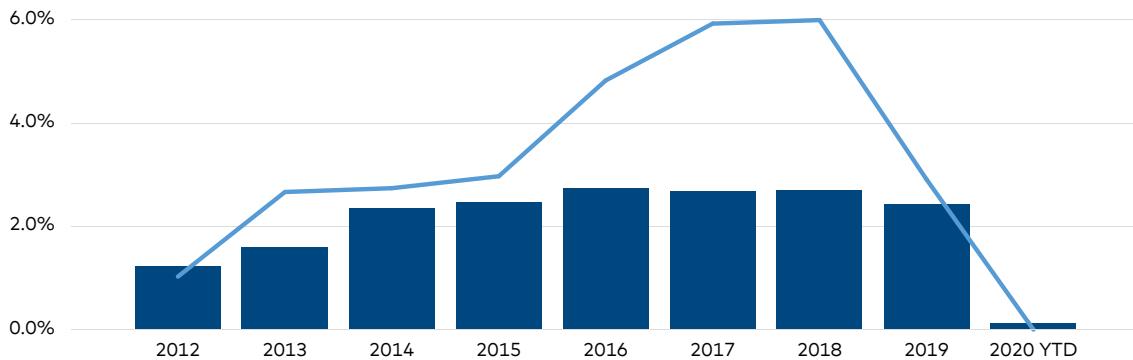
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Nashville Metro	1,829,347	1,866,873	1,900,584	1,930,961

Sources: U.S. Census, Moody's Analytics

## SUPPLY

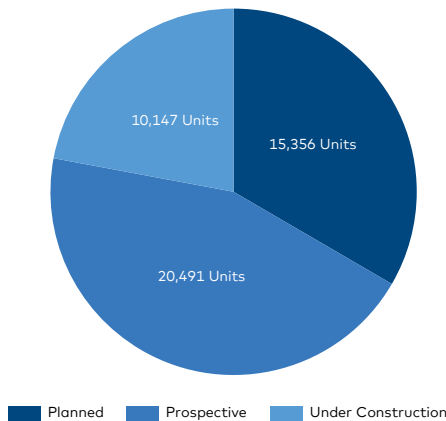
- ▶ A total of 10,147 units were under construction in Nashville as of January, most of them in up-scale developments. Nearly 3,900 apartments, or 2.9% of the total stock, were completed last year. This follows 2018's 7,806-unit cycle peak, which accounted for 6.0% of total stock and was well above the 2.7% national average.
- ▶ Last year's limited deliveries boosted the occupancy rate in stabilized properties, which rose 40 basis points to 95.1%. The dwindling pipeline also propelled Nashville's growth rate (4.5% year-over-year) onto the list of the top 10 metros in the country.
- ▶ While development is spread out across the map, nearly half of the units underway as of January were located within 3 miles of the city's core. Of the 39 projects under construction in the metro, nine were in Opportunity Zones. The Downtown-North and Lebanon submarkets led construction, holding more than a quarter of the total development pipeline, with 2,260 and 1,508 units underway, respectively.
- ▶ The largest multifamily property underway as of January was the 728-unit The Venue at 109 in Lebanon. The Carroll Homes community is slated for full completion in the summer of 2021, with 57% of units leased since the beginning of this year.

**Nashville vs. National Completions as a Percentage of Total Stock** (as of January 2020)



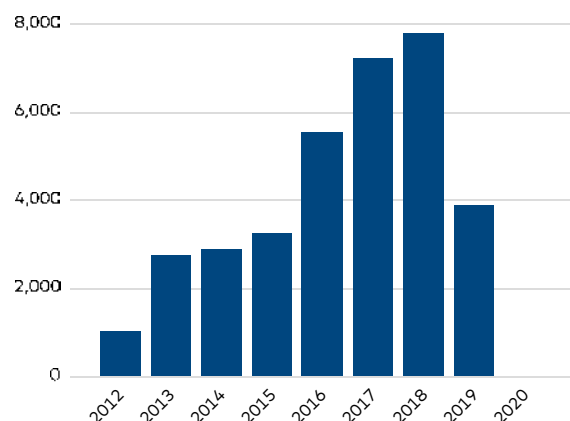
Source: Yardi Matrix

**Development Pipeline** (as of January 2020)



Source: Yardi Matrix

**Nashville Completions** (as of January 2020)



Source: Yardi Matrix

## TRANSACTIONS

- ▶ Nashville's total transactions last year matched 2018's cycle high, with more than \$1.4 billion in assets trading. The 2019 average per-unit price was \$171,070, up by 8.5% year-over-year and surpassing the \$168,177 national average for the second consecutive year.
- ▶ Investors were drawn by both RBN and Lifestyle properties last year, with the needle slightly leaning toward value-add strategies. Acquisi-

tion yields for Lifestyle assets were in the 4.5% to 5.0% range in the second part of 2019, while rates for RBN assets stayed in the low 6.0% band.

- ▶ Nashville's top five submarkets accounted for half of the total sales volume, led by Downtown-North (\$182 million). The core submarket was also the metro's strongest area, by far, for development (2,260 units underway) and rent growth (13.8% year-over-year).

### Nashville Sales Volume and Number of Properties Sold (as of January 2020)



Source: Yardi Matrix

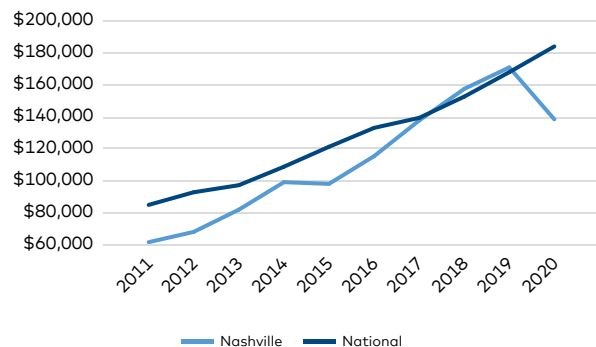
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Downtown - North	182
Franklin	157
Midtown/Music Row	140
Bellevue	137
Southeast/Brentwood	102
Mount Juliet	69
East End	64

Source: Yardi Matrix

<sup>1</sup> From February 2019 to January 2020

### Nashville vs. National Sales Price per Unit



Source: Yardi Matrix



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Hamilton Zanze Acquires 4th Asset

The firm acquired a newly built community in Murfreesboro, Tenn., about 20 miles from downtown Nashville.



Project Gets \$39M Construction Loan

Graycliff Capital Development plans to build a 364-unit Class A community in the metro's Antioch-East submarket.



Starwood Capital JV Breaks Ground On Novel Edgehill

The mixed-use project will include 270 units, coworking space and 6,000 square feet of retail.



Lion Real Estate Buys Value-Add Property for \$49M

The 45-building, 350-unit investment marks the company's third multifamily buy in the metro in the past 12 months.



Waterton Enters Nashville With \$140M Buy

The company acquired a 994-unit multifamily community from Starwood Capital Group.

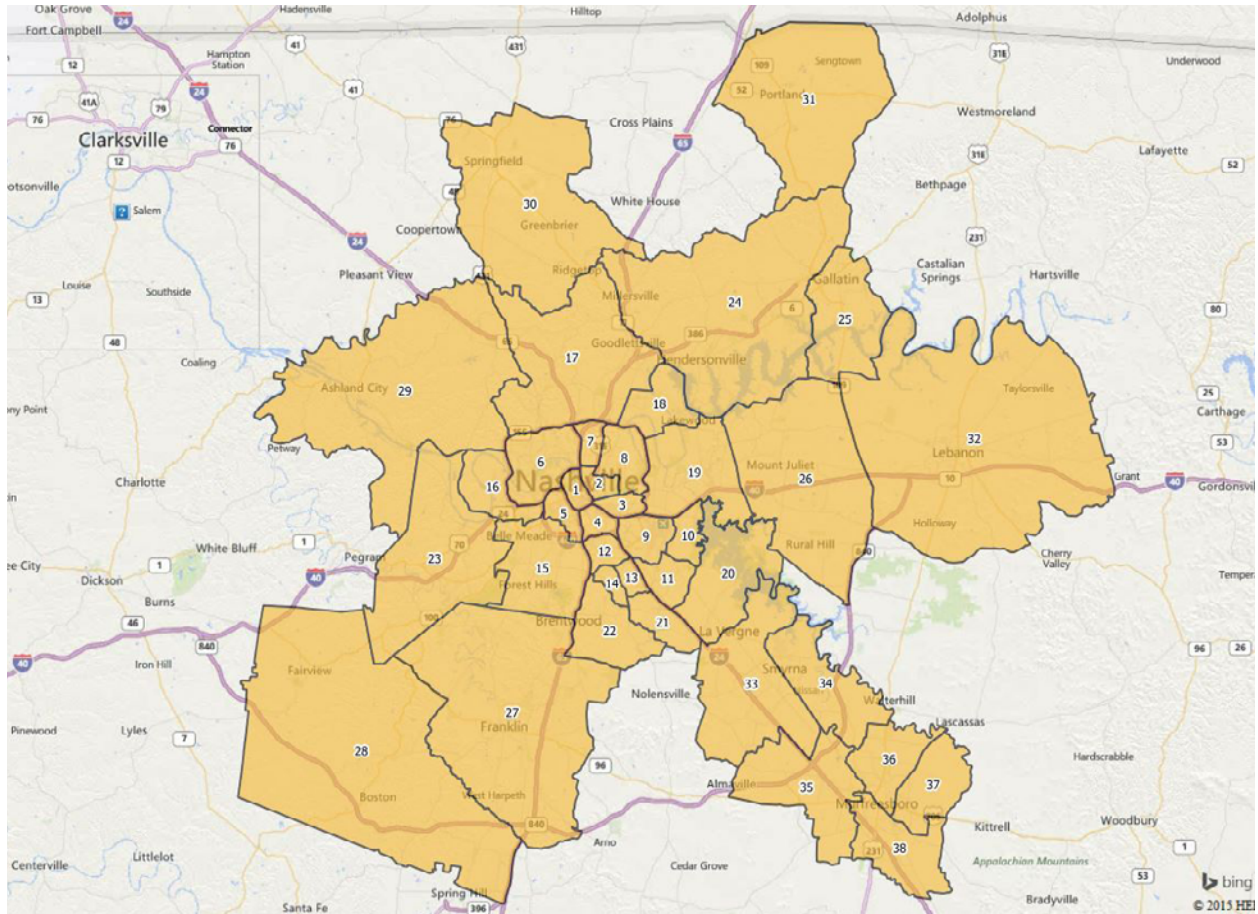


Campus Advantage To Manage 512-Bed Student Housing

The owner recently renovated the 200-unit student housing property after acquiring it in 2017.



# NASHVILLE SUBMARKETS



Area No.	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	Antioch-West
12	Elm Hill/Woodbine
13	Southeast-East

Area No.	Submarket
14	Southeast-West
15	West End/Green Hills
16	West Nashville
17	Goodlettsville-North
18	Goodlettsville-South
19	Nashville Shores/Hermitage
20	Antioch-East
21	Antioch-South
22	Southeast/Brentwood
23	Bellevue
24	Hendersonville
25	Gallatin
26	Mount Juliet

Area No.	Submarket
27	Franklin
28	Fairview
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

## 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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