

A composite image featuring a night view of the Nashville skyline with illuminated buildings and a highway interchange with light trails in the foreground. The text is overlaid on a semi-transparent white box.

Yardi® Matrix

MULTIFAMILY REPORT

Nashville: Writing A New Score

Spring 2020

Per-Unit Prices Up Through Q1

Rent Growth on Par With U.S. Rate

Deliveries Subject to Delays

NASHVILLE MULTIFAMILY

Yardi® Matrix

Nashville Still Open For Business

Nashville's solid recent economic performance has resulted in growth for its multifamily market, which was underpinned by healthy demand and consistent deliveries. However, since the start of 2020, the rate of completions has tempered, with the market expected to underperform this year. Rents were up by 0.2% on a trailing three-month basis as of March, to an average of \$1,293, in line with national rates.

Music City gained 17,900 jobs in 2019 for a 1.8% expansion, on par with the U.S. rate. The COVID-19 crisis is further impacting the metro due to the global economic slowdown, and, specifically, the decline of the auto industry. The unemployment rate was low in January, but will likely rise; by April 23, some 15% of Tennessee's workforce had filed unemployment claims, with the service industry hit the hardest. Following the damage caused by severe tornadoes in March, construction was deemed an essential service, but the sector is struggling amid social distancing guidelines and supply chain disruptions.

Multifamily sales surpassed \$423 million in the first quarter of 2020, following 2019's \$1.5 billion cycle high. The average per-unit price rose by 7.0% to \$186,626, maintaining its spot above the national average. Meanwhile, developers brought some 1,012 units online. Both metrics are expected to moderate in the short term.

Market Analysis | Spring 2020

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Recent Nashville Transactions

Mosby Cool Springs



City: Franklin, Tenn.
Buyer: Starlight Investments
Purchase Price: \$83 MM
Price per Unit: \$252,591

Springfield



City: Murfreesboro, Tenn.
Buyer: Hamilton Zanze & Co.
Purchase Price: \$58 MM
Price per Unit: 215,613

Commonwealth at 31



City: Spring Hill, Tenn.
Buyer: Hamilton Zanze & Co.
Purchase Price: \$53 MM
Price per Unit: \$215,000

The Arbours of Hermitage



City: Hermitage, Tenn.
Buyer: Lion Real Estate Group
Purchase Price: \$49 MM
Price per Unit: \$138,571

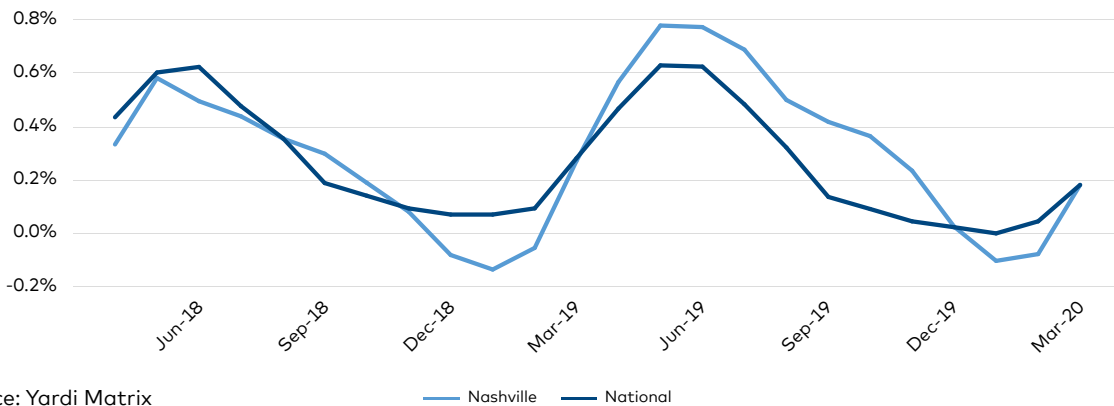
RENT TRENDS

- ▶ Nashville rents rose by 0.2% on a trailing three-month basis through March, on par with the U.S. rate. The average rent reached \$1,293, below the \$1,474 U.S. figure. The increase was driven by demand for working-class Renter-by-Necessity assets, up by 0.2% to \$1,076, while Lifestyle rents remained virtually flat at \$1,463.
- ▶ Aware of Nashville's appeal, which has attracted a significant number of company relocations and expansions, including Mitsubishi North America, Alliance Bernstein, Harrow Health and Medacta USA, multifamily operators preserved the high demand by keeping supply in check. COVID-19's impact on the rental market could be slightly offset by healthy demand and positive rent growth, albeit at a slower pace in 2020.

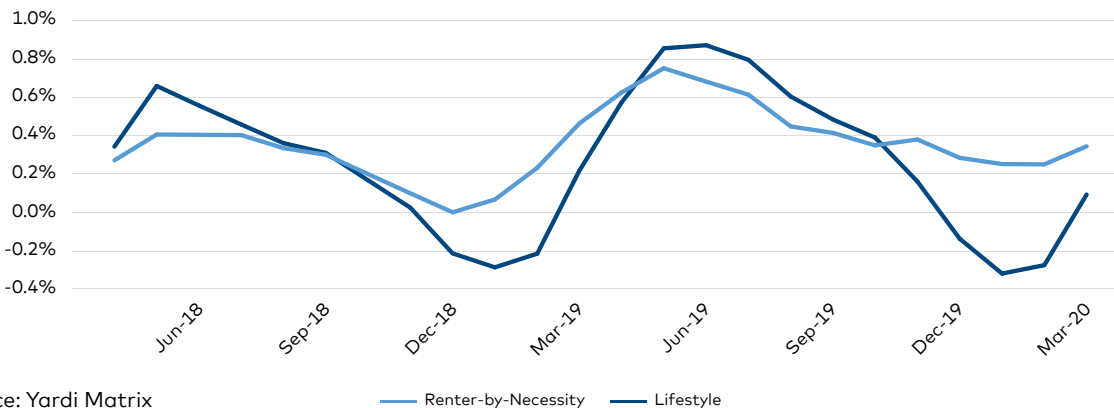
As a measure of protecting renters through the peak of the pandemic, evictions in Tennessee have been halted for the month of April.

- ▶ Downtown-North posted the highest rents in March after another 9.0% year-over-year increase to \$1,878, followed by neighboring Midtown/Music Row (up 4.3% to \$1,823) and West End/Green Hills (up 1.6% to \$1,545). The latter is also one of the submarkets that posted the third-lowest performance in the metro, after Ashland City (flat at \$993) and Downtown-South (up 0.6% to \$1,307). With the future impact of the novel coronavirus crisis looming, the outlook for these submarkets may change significantly.

Nashville vs. National Rent Growth (Trailing 3 Months)



Nashville Rent Growth by Asset Class (Trailing 3 Months)



ECONOMIC SNAPSHOT

- ▶ Nashville's employment rate has been decelerating since the start of 2019, at 1.8% year-over-year in December, on par with the national rate. This downward trend will likely continue as the initial uncertainty surrounding trade policies, the global economic slowdown and the decline in automobile sales are now accentuated by the pandemic.
- ▶ The unemployment rate stood at 2.8% in January, and will continue to rise; by April 23, 15% of Tennessee's population had filed unemployment claims. The service industry has been hit especially hard; although restaurants were allowed to open for dining in most counties on April 27, they must follow certain guidelines, such as operating at 50% capacity, placing tables six feet apart and keeping bar areas closed.
- ▶ Leisure and hospitality led gains in 2019 with 6,900 jobs, but is estimated to have lost \$870 million in revenue across the state as of March. At-risk jobs in Nashville are estimated to account for one-third of employment.
- ▶ A stay-at-home order was in effect through April 30, but following the damage caused by the tornadoes in March, construction was deemed an essential business. This should increase jobs in the construction sector, which contracted by 2,300 positions in 2019.

Nashville Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	124	11.8%
40	Trade, Transportation and Utilities	208	19.7%
60	Professional and Business Services	174	16.5%
55	Financial Activities	72	6.8%
65	Education and Health Services	156	14.8%
30	Manufacturing	85	8.1%
50	Information	24	2.3%
90	Government	124	11.8%
80	Other Services	42	4%
15	Mining, Logging and Construction	45	4.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Nashville gained 30,377 residents in 2018, a 1.6% expansion and nearly triple the 0.6% national rate.
- ▶ The metro's diversifying economy attracted 101,614 new residents between 2015 and 2018, for a 5.6% uptick, well above the 2.0% U.S. rate during the same period.

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

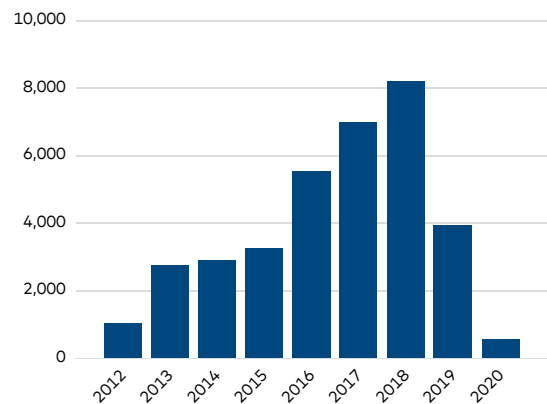
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ The year started strong for Nashville's construction industry, with 1,012 units delivered by March, and another 11,140 units under construction—most of them in Lifestyle projects. Of those underway, more than 7,000 units were initially slated for completion by year's end. Another 34,600 units were in the planning and permitting stage.
- ▶ Development seemed to pick up again after last year's abrupt slowdown in deliveries, when new stock accounted for 3.0% of rental inventory—half the rate of 2018—but the pandemic's impact on the economy is rearing its head. Supply chain disruptions and social distancing guidelines will most likely cause significant delays moving forward.
- ▶ Nashville officials deemed construction an essential service, which will curb some of COVID-19's negative effects and help rebuild the properties affected by the tornadoes that struck in early March, causing an estimated \$1 billion in damages.

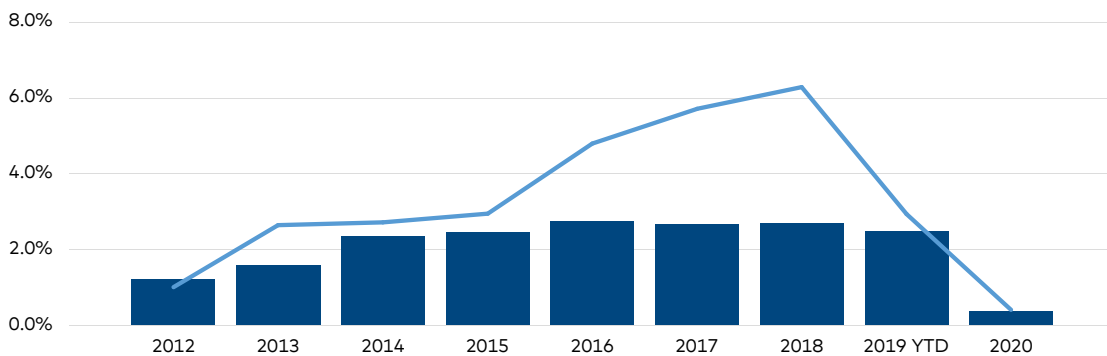
- ▶ Development is spread out across the map, with nearly half of the units underway as of March located within 5 miles of the city core. Downtown-North (2,346 units underway), Lebanon (1,412 units) and North Nashville/Bordeaux (746 units) led construction activity.

Nashville Completions (as of March 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

— Nashville ■ National

TRANSACTIONS

➤ Nearly \$423 million in multifamily assets traded in Nashville in the first quarter of 2020, following last year's cycle peak, when almost \$1.5 billion in rental properties changed ownership. The per-unit price in Nashville rose above the U.S. average and, in March 2020, was 7.0% higher than last year's figure, at \$186,626. Investors were attracted by both RBN and Lifestyle projects; of the 13 assets sold in the first three months of the year, seven were upscale prop-

erties. The confusion surrounding the current health crisis will temporarily moderate transactions in Nashville but likely won't bring deals to a complete standstill. In the short term, renting will be favored over owning.

➤ One of the most active investors in the metro was Hamilton Zanze—in the 12 months ending in March, the company spent more than \$191 million combined on four multifamily communities.

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



Source: Yardi Matrix

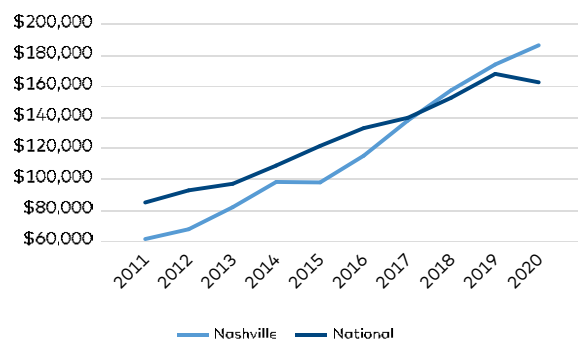
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Franklin	239
Midtown/Music Row	192
Downtown - North	182
Bellevue	137
Antioch - West	121
Southeast/Brentwood	102
Antioch - East	101

Source: Yardi Matrix

¹ From April 2019 to March 2020

Nashville vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 MULTIFAMILY TRANSACTIONS IN NASHVILLE



By Jeff Hamann

data by
Yardi Matrix

Owing to a strong population influx and rapid job gains in recent years, Nashville's multifamily market kicked off 2020 facing steady demand and rent growth outpacing the national average, according to Yardi Matrix data. Investors took note of Music City's strong fundamentals—transactions in the first quarter of the year totaled \$521.7 million, already more than one-third of the \$1.5 billion closed last year.

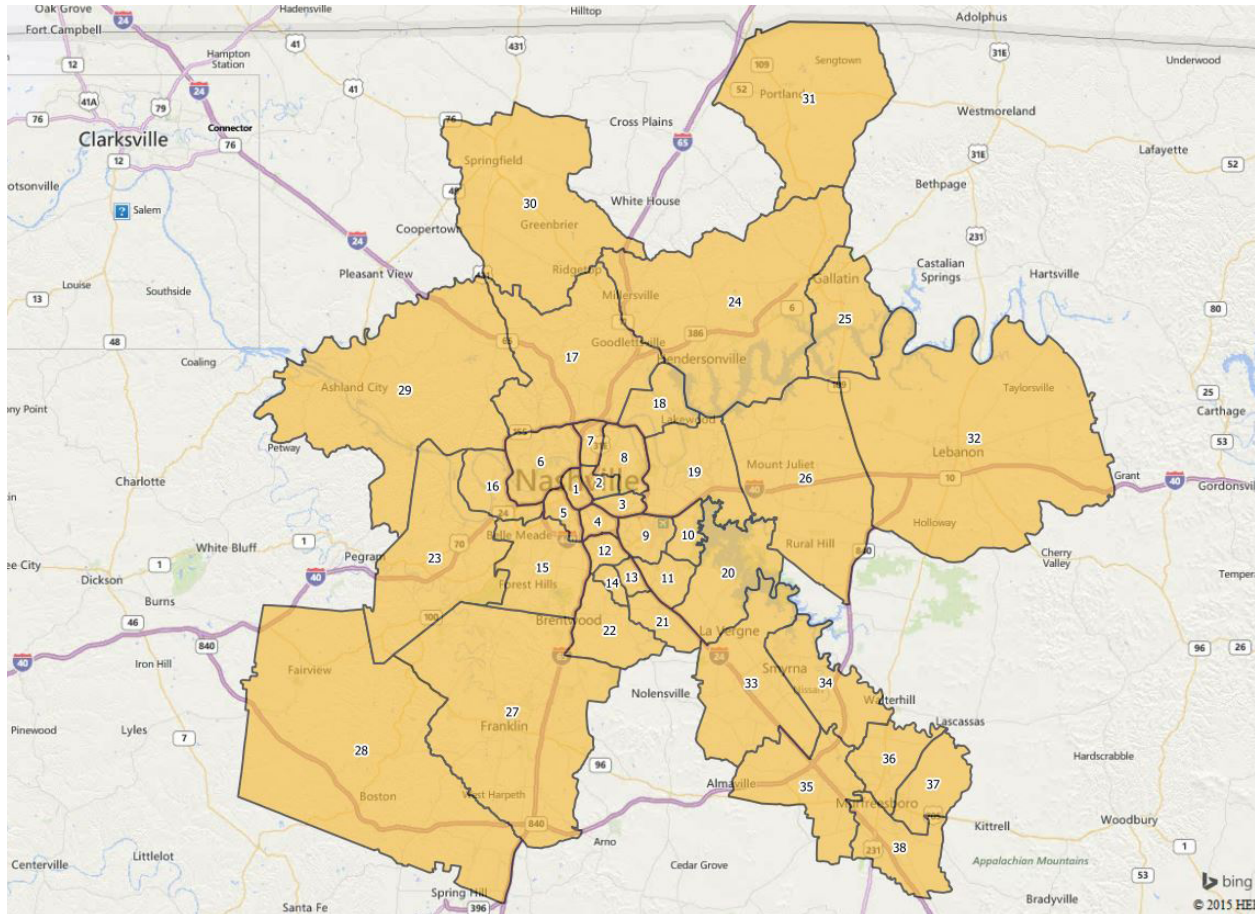
Rank	Property Name	Unit Count	Total Sale Price (\$MM)	Buyer	Seller
1	Nashboro Village	994	140	Waterton	Starwood Capital Group
2	Mosby Cool Springs	328	82.85	Starlight Investments	Middleburg Real Estate Partners
3	Springfield Apartments	269	58	Hamilton Zanze	Bonavic Development
4	Commonwealth at 31	248	53.32	Hamilton Zanze	Commonwealth Capital Partners
5	Village 21 and Belcourt Park	177	52.2	TriBridge Residential	GBT Realty

NASHBORO VILLAGE

The first quarter's largest Music City multifamily deal was Waterton's \$140 million purchase of the 994-unit Nashboro Village. Wells Fargo Bank financed the deal with three Freddie Mac loans totaling \$105 million. Seller Starwood Capital Group had acquired the property in early 2017 as part of a \$2.9 billion national portfolio deal from The Milestone Group. Constructed in five phases between 1974 and 1987, Nashboro Village's 69 acres are part of a larger, 400-acre master planned area near U.S. Highway 41.



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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