

Nashville: Adjusting To Changes

Summer 2020



Employment Expansion Declines

Transactions Nearly at Standstill

Construction Activity Goes On

NASHVILLE MULTIFAMILY



Hospitality Struggles Avoid Rental Sector

The pandemic struck Music City's tourism industry hard, but its multifamily market has shown some resilience. The average rent contracted by 0.2% on a trailing three-month basis, 10 basis points above the U.S. slide, to an overall average of \$1,281. Developers kept supply in check in 2019, delivering some 4,000 units, or half the volume of the previous year. This shielded the occupancy rate for stabilized properties, which dipped only 80 basis points in June to 94.6%.

The extremely tight labor market at the start of the year loosened following the coronavirus outbreak, with the unemployment rate jumping from 2.8% in January to 15.2% in April, and sliding down to 11.1% in May. June preliminary data pointed to a sustained recovery, with the rate at 10.2%, but an increase in the number of COVID-19 cases in June prompted Mayor John Cooper to extend the modified Phase 2 through early July. The leisure and hospitality sector shrunk by 34.4% in May, followed by manufacturing, which contracted by 19.5%. Since mid-March, more than 770,000 unemployment claims have been filed across the state.

Development activity was robust, with 10,531 units under construction and 2,043 units delivered by midyear. Meanwhile, sales volume decreased by 23% relative to last year, amounting to just \$493 million through July. We expect rents to rise 0.1% in 2020.

Market Analysis | Summer 2020

Contacts

Jeff Adler
Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern
Director of Research
and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author
Anca Gagiuc
Associate Editor

Recent Nashville Transactions

Paxton Cool Springs



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

Commonwealth at 31



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

Haven



City: Nashville, Tenn.
Buyer: Lion Real Estate Group
Purchase Price: \$32 MM
Price per Unit: \$144,091

Avana Bellevue

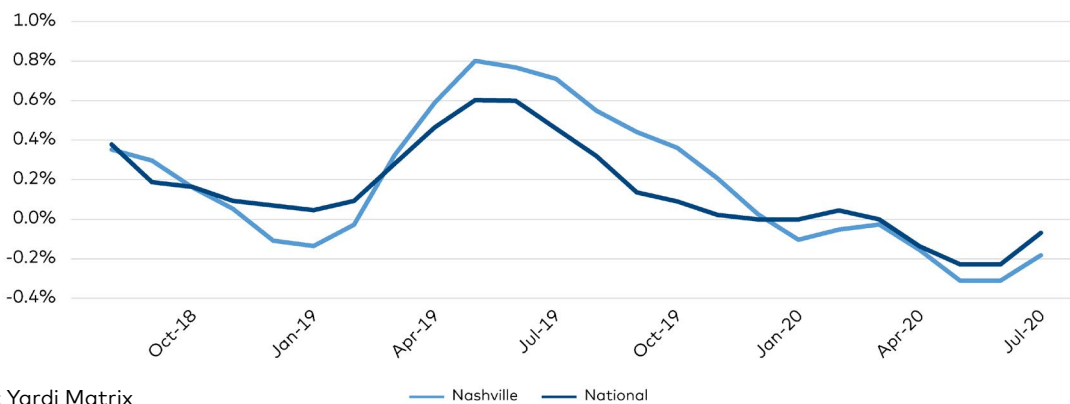


City: Nashville, Tenn.
Buyer: Greystar
Purchase Price: \$28 MM
Price per Unit: \$155,556

RENT TRENDS

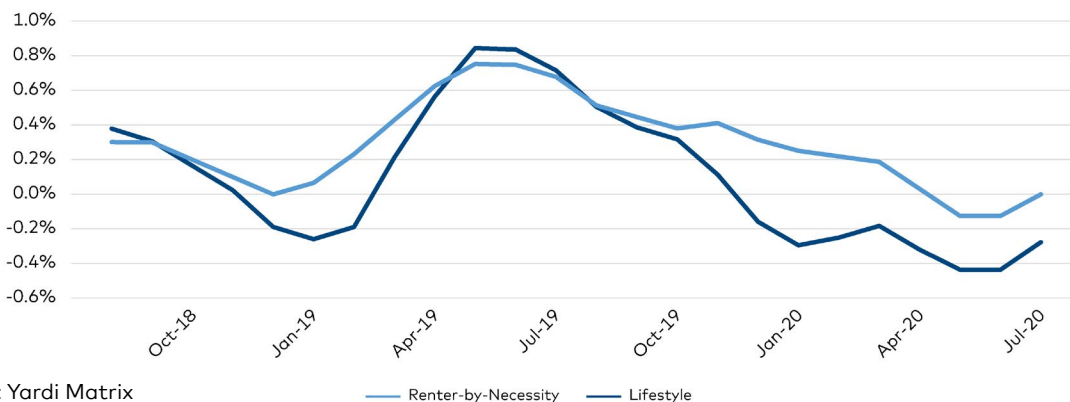
- ▶ Nashville rents were affected by the COVID-19 pandemic, and contracted by 0.2% to an average of \$1,281 on a trailing three-month (T3) basis through July. Following two months of a slight decline, the average in the Renter-by-Necessity segment remained flat in July at \$1,066, while Lifestyle rents decreased by 0.3% on a T3 basis to \$1,438. The 94.6% occupancy rate in stabilized properties marked an 80-basis-point decrease in the 12 months ending in June.
- ▶ Throughout the last cycle, Nashville has steadily turned into an attractive market for investment and business relocation. This has kept in-migration and demand for apartments high. This dynamic has encouraged developers to bet on upscale projects, leading to a supply imbalance.
- ▶ By July, rents were below the \$1,000 mark in just three submarkets, with Southeast-West posting the most affordable average after a 3.6% year-over-year increase to \$952.
- ▶ At the other end of the spectrum, the most expensive areas in Nashville remained Downtown-North (up 0.7% to \$1,831), Midtown/Music Row (down 1.7% to \$1,781) and West End/Green Hills (up 9.1% to \$1,718). The latter also marked the highest performance in the metro, while Midtown/Music Row was among the top submarkets for development activity. The lowest-performing submarkets were the East End (down 8.3% to \$1,384), Mount Juliet (down 4.1% to \$1,360) and North Nashville/Bordeaux (down 3.1% to \$1,501).

Nashville vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Nashville Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ Nashville started the year with a record 2.8% unemployment rate, which rose to its highest point in April at 15.2% and decreased to 11.1% in May. Preliminary data for June pointed to another decrease, with the rate dropping further to 10.2%. Although the local economy has seen some bounce back, the extent of the financial hit has not yet been fully realized. From May 15 through August, more than 770,000 unemployment claims were filed across Tennessee.
- ▶ In May, job growth moved into negative territory for the first time since the pandemic began, contracting by 1.7% year-over-year, while the U.S. average registered a decline of 3.3% during the same interval. All sectors contracted, with leisure and hospitality (down 34.4%) in the lead. Manufacturing saw the second-largest contraction—19.5%. Nashville's main economic drivers trade, transportation and utilities (20.6% of total workforce) and education and health services (15.1%) reported lower declines of 2.1% and 8.2%, respectively.
- ▶ Tennessee Gov. Bill Lee has announced \$168 million more in COVID-19 relief for small businesses, agriculture, tourism and workforce development through federal coronavirus relief funding.

Nashville Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
15	Mining, Logging and Construction	48	5.1%
50	Information	23	2.4%
55	Financial Activities	69	7.3%
90	Government	119	12.6%
40	Trade, Transportation and Utilities	194	20.6%
80	Other Services	36	3.8%
65	Education and Health Services	142	15.1%
60	Professional and Business Services	160	17.0%
30	Manufacturing	68	7.2%
70	Leisure and Hospitality	81	8.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Nashville gained 28,534 residents in 2019, for a 1.5% uptick. Although the rate is 10 basis points below the 2018 expansion rate, it is five times the 0.3% U.S. average.
- ▶ Between 2016 and 2019, the metro gained more than 92,000 residents, for a 5.0% increase.

Nashville vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Nashville Metro	1,866,873	1,900,584	1,930,961	1,959,495

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

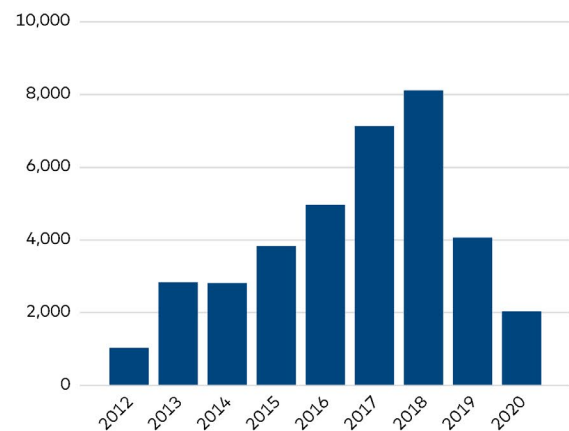
SUPPLY

- ▶ Nashville had 10,531 units underway as of July, with the vast majority being in upscale projects. Since the beginning of 2016, more than 26,000 units have come online across the metro.
- ▶ Developers delivered 2,043 units in the first half of 2020. That amounted to 1.5% of total stock, and 20 basis points above the U.S. rate. And while construction hummed along, disruptions brought by the health crisis are slated to slow down deliveries, at least through the remainder of the year. As such, we expect a total of 4,831 units to come online across Nashville in 2020.
- ▶ While the bulk of new deliveries continues to target Lifestyle renters, even as workforce housing displays sturdier demand, the metro's long-term prospects remained relatively positive. As a secondary market that registered strong growth during this past cycle, Nashville continued to display steady underlying fundamentals, despite the strong hit COVID-19 dealt the leisure and hospitality sector.
- ▶ As of July, half of the construction pipeline was clustered in just four submarkets: Downtown-North (2,346 units underway), Lebanon

(1,162), Midtown/Music Row (1,074) and North Nashville/Bordeaux (1,029).

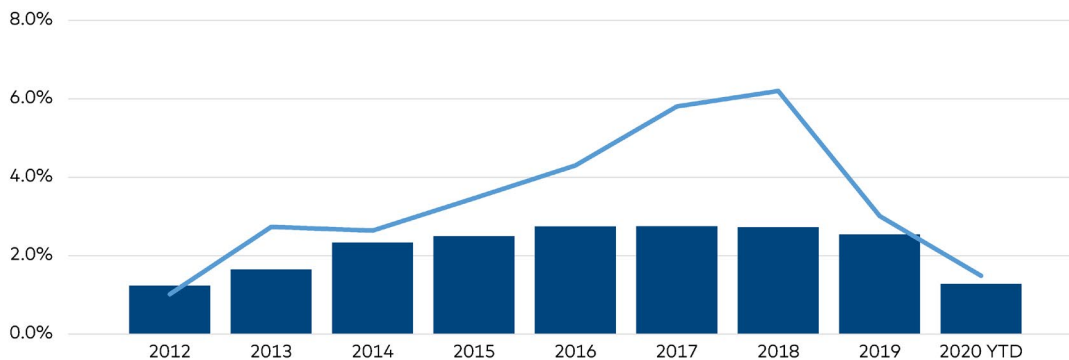
- ▶ The largest project delivered through July was Gross Residential's The Revere at Hidden Creek, a 444-unit asset. The 15-building property is located in the Hendersonville submarket and was built with the aid of a \$36 million construction loan issued by PNC Bank.

Nashville Completions (as of July 2020)



Source: Yardi Matrix

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



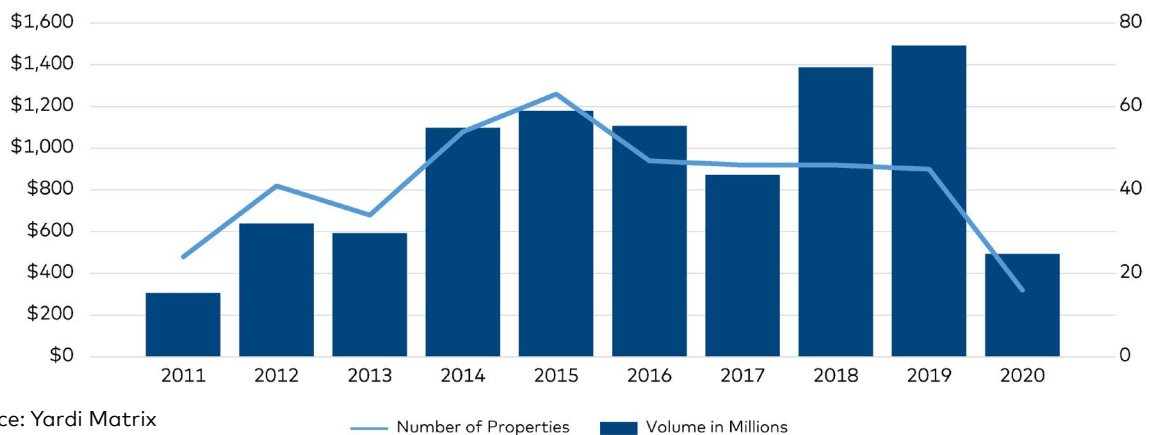
Source: Yardi Matrix

— Nashville ■ National

TRANSACTIONS

- ▶ Transactions nearly came to a halt after March. As of July, \$493 million in 16 multifamily assets traded in Nashville, only \$39 million of which was in second-quarter deals. Investors became cautious; during April and May, no multifamily properties of more than 50 units traded in the metro.
- ▶ Of the 16 assets that were traded by July, nine were Lifestyle assets and seven were geared to the RBN segment, pointing to relatively even demand across the quality spectrum. The price per unit recorded a 3.8% uptick to \$181,014, above the \$164,990 U.S. average.
- ▶ With the acquisition of the 994-unit Nashboro Village for \$140 million from Starwood Capital Group, Waterton is Nashville's largest buyer year-to-date through July. Meanwhile, Tribridge Residential's acquisition of the 2017-completed Village 21 marked the highest per-unit price. The firm paid GBT Realty nearly \$32 million, or \$313,861 per unit, for the 101-unit community.

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



Source: Yardi Matrix

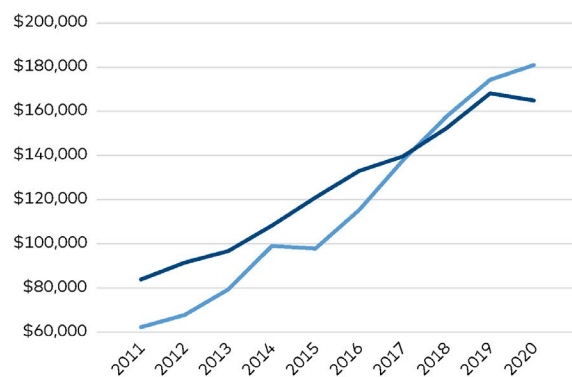
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Franklin	239
Midtown/Music Row	192
Antioch-East	101
Antioch-West	101
Bellevue	85
North Nashville/Bordeaux	83
Downtown North	81

Source: Yardi Matrix

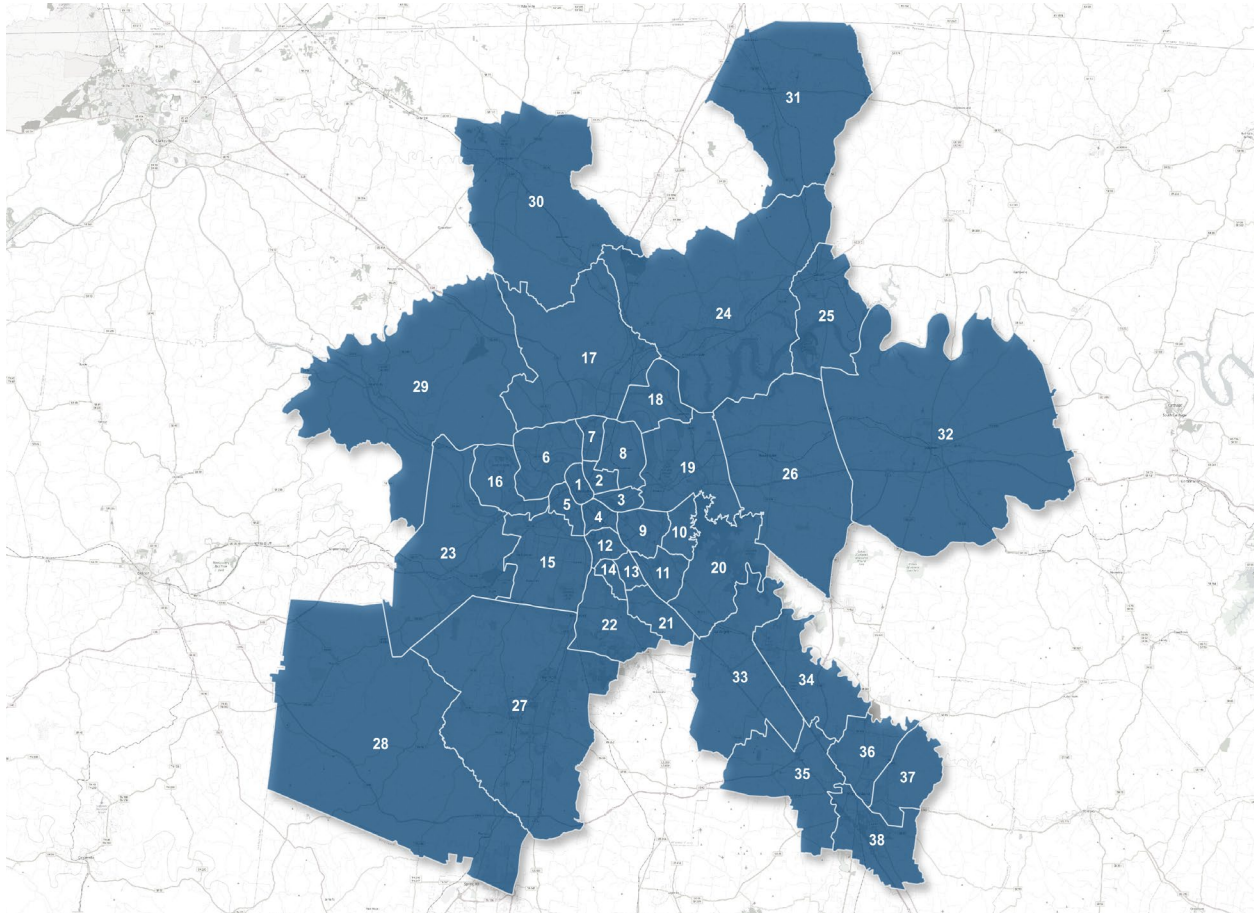
¹ From August 2019 to July 2020

Nashville vs. National Sales Price per Unit



Source: Yardi Matrix

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 July 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 July 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, July 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.

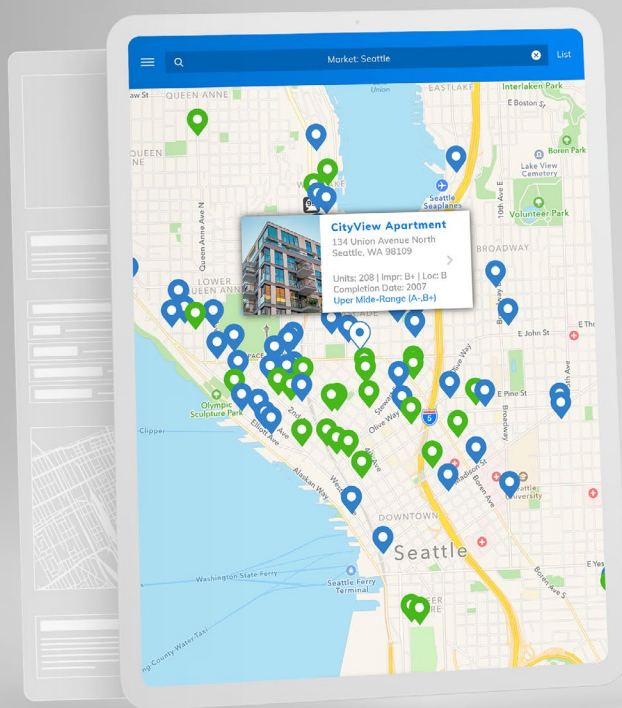
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.



Yardi[®] Matrix

Power your business with the industry's leading source for originating, pre-underwriting and managing assets for profitable loans and investments.



Yardi Matrix Multifamily provides accurate data on **18+ million units**, covering over **90% of the U.S. population**.

Key features

- Pierce the LLC every time with true ownership and contact info
- Leverage patented improvement and location ratings, unit mix, rental, occupancy and current manager information
- Gain complete new supply pipeline information at the asset, competitive set and market level
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access exclusive aggregated and anonymized residential revenue and expense comps

Get the latest market trends and forecasts at yardimatrix.com/publications

(800) 866-1144 | yardimatrix.com/multifamily

© 2020 Yardi Systems, Inc. All Rights Reserved. Yardi, the Yardi logo, and all Yardi product names are trademarks of Yardi Systems, Inc.



DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2020 Yardi Systems, Inc. All Rights Reserved.