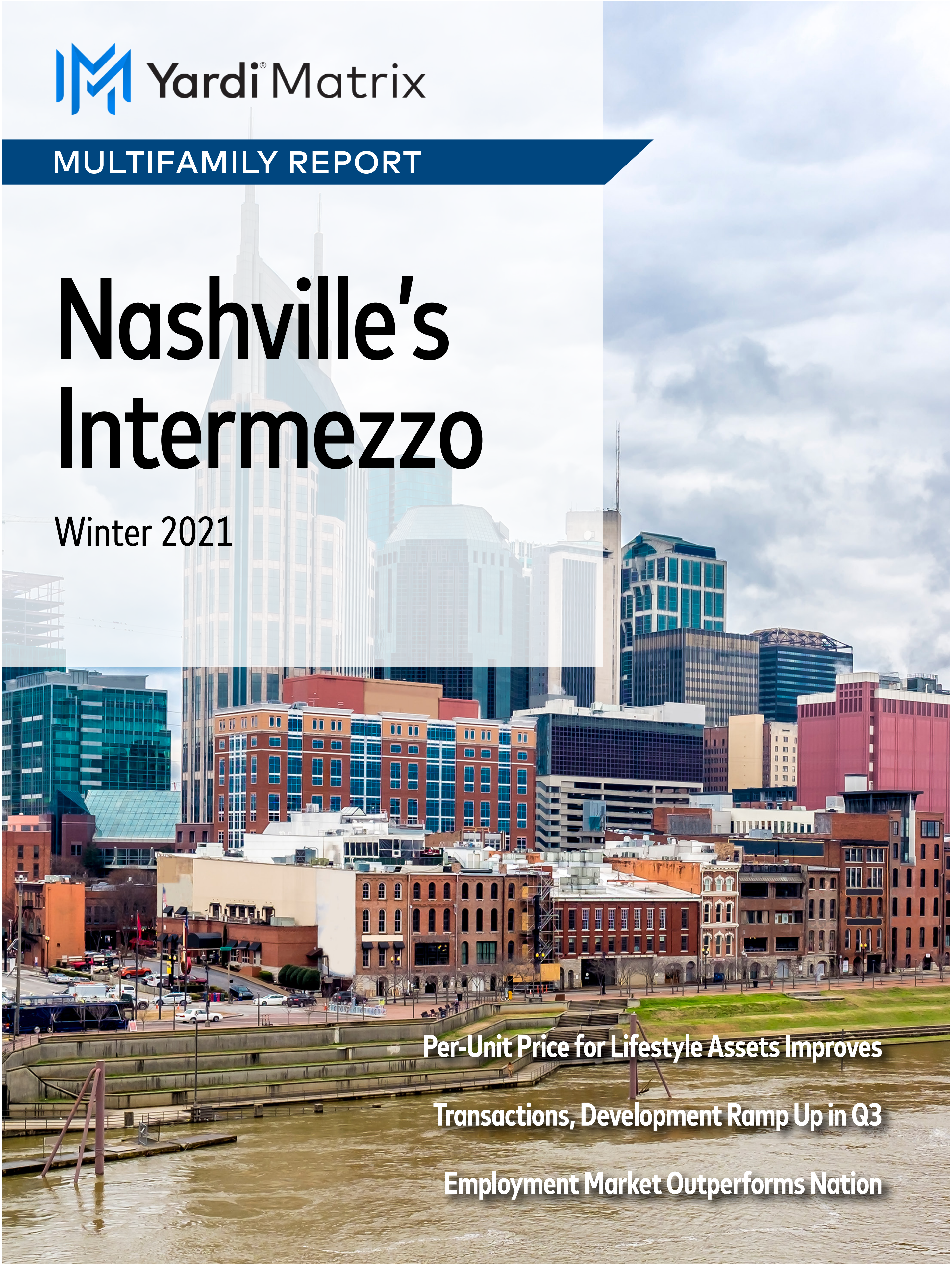
Yardi Matrix

MULTIFAMILY REPORT

Nashville's Intermezzo

Winter 2021



Per-Unit Price for Lifestyle Assets Improves

Transactions, Development Ramp Up in Q3

Employment Market Outperforms Nation

NASHVILLE MULTIFAMILY

Yardi Matrix

Economy Posts Promising Prospects

Nashville's economy has advanced consistently in the past cycle, helping it withstand current volatility and mitigating some of the multifamily market's current woes, at least when compared to larger, coastal metros. The average rent slid 0.2% on a trailing three-month basis through November, to $1,276. Meanwhile, the $1,465 U.S. average remained flat on a T3 basis for the fourth consecutive month.

Employment posted a 7.7% decline in the 12 months ending in September, outperforming the -9.3% national rate. Although leisure and hospitality shrunk by nearly one-quarter during that time frame, construction and financial activities added jobs, expanding by 0.4% and 1.1%, respectively. The metro's largest sectors—trade, transportation and utilities and professional and business services—withstood the pandemic's blows and lost only a respective 0.1% and 3.1% of their workforce. Professional and business services is also poised for growth, as several companies moved ahead with relocations and expansions. Meanwhile, the unemployment rate dropped to 6.1% as of October, from the 15.2% April peak.

Both transactions and development rebounded in the third quarter of 2020. Nearly $1.1 billion in multifamily assets traded last year through November for a per-unit price that rose 13.2%, while developers had 13,809 units underway through December.

Market Analysis | Winter 2021

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Recent Nashville Transactions

Octave

City: Nashville, Tenn.
Buyer: TIAA
Purchase Price: $86 MM
Price per Unit: $268,224

Cross Creek at Murfreesboro

City: Murfreesboro, Tenn.
Buyer: The Connor Group
Purchase Price: $40 MM
Price per Unit: $162,339

Waterford Place of Murfreesboro

City: Murfreesboro, Tenn.
Buyer: The Connor Group
Purchase Price: $28 MM
Price per Unit: $150,056

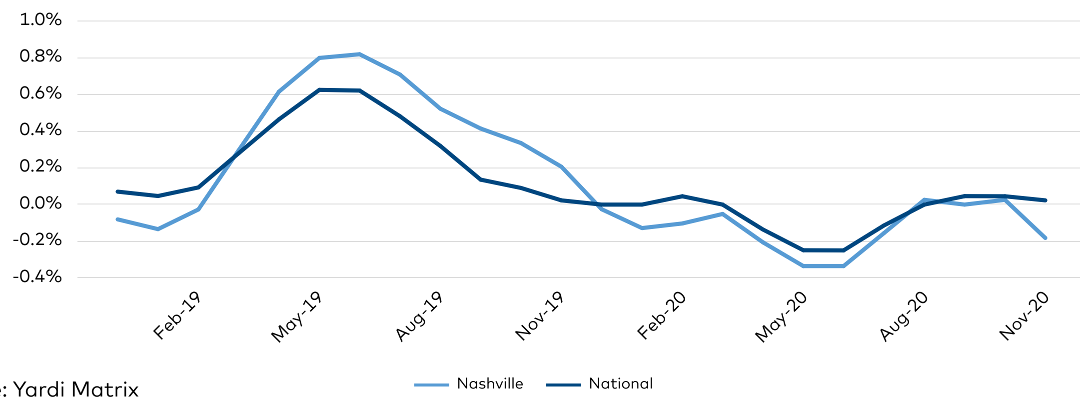
Charleston Hall

City: Smyrna, Tenn.
Buyer: Magma Equities
Purchase Price: $27 MM
Price per Unit: $139,175

RENT TRENDS

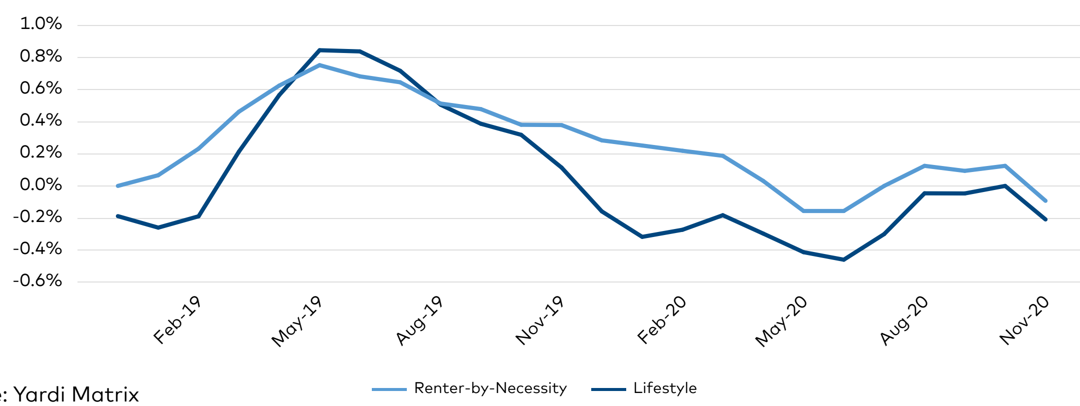
- Nashville rents slid 0.2% on a trailing three-month (T3) basis through November to $1,276. Meanwhile, the U.S. average remained flat on a T3 basis for the fourth consecutive month, at $1,465.
- Lifestyle rents were down 0.2% on a T3 basis through November to $1,429, while the average working-class Renter-by-Necessity rate inched down 0.1% to $1,065.
- In 2020 through November, the average Nashville rent was down 1.8%. Despite strong in-migration greatly boosting rental demand, a robust pipeline in recent years and the effects of the health crisis have put a damper on growth across many submarkets.
- Nashville's rent performance was spotty across the map, with 14 of its 37 submarkets posting declines year-over-year through November 2020.
- Downtown-North (-6.3% to $1,744) and Midtown/Music Row (-5.3% to $1,737) remained the most expensive areas in Nashville, but also posted the steepest rent contractions year-over-year through November.
- Meanwhile, West End/Green Hills (average rent up 8.0% to $1,694), Murfreesboro-South (6.9% to $1,167), Donelson/South Hermitage (4.7% to $1,333) and Lebanon (4.3% to $1,112) recorded some of the strongest gains.

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

- Despite an initial shock, Nashville's economy entered the pandemic in a somewhat favorable position. The metro's lower cost of living and substantial talent pool materialized into 29 new company relocations and 35 corporate expansions for a combined 5,700 new jobs between July 2019 and June 2020, according to the Nashville Area Chamber of Commerce. This performance was mirrored by the metro's unemployment rate, which, as of October, had rebounded to 6.1% from a 15.2% April peak.

- Employment marked a 7.7% decline in the 12 months ending in September, faring better than the -9.3% national rate. While Nashville's leisure and hospitality sector lagged—having contracted by nearly one-quarter during the period—construction (up 0.4%) and financial activities (up 1.1%) added jobs. Nashville's second-largest sector—professional and business services—lost just 3.1% of its workforce, sustained by the industry's ability to continue operations through remote work.

- Several organizations announced further expansion in Nashville in 2020, including roadside-assistance company Agero (900 jobs), QTC Management (410 jobs over the next five years) and Ramsey Solutions (600 jobs and a new office building underway).

Nashville Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	73	7.3%
15	Mining, Logging and Construction	50	5.0%
40	Trade, Transportation and Utilities	202	20.3%
90	Government	119	11.9%
50	Information	23	2.3%
80	Other Services	42	4.2%
60	Professional and Business Services	173	17.4%
65	Education and Health Services	150	15.0%
30	Manufacturing	72	7.2%
70	Leisure and Hospitality	94	9.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Nashville gained 28,534 residents in 2019 for a 1.5% expansion and five times the national rate of growth.

- The metro's population has been on a steady upward trend over the past decade, marking a 16.9% increase since 2010.

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

- Developers brought online 3,317 units in 2020 through November, accounting for 2.4% of total stock and rising 40 basis points above the U.S. average. In the middle of the fourth quarter, the development pipeline consisted of 13,809 units underway and another 50,646 in the planning and permitting stages.

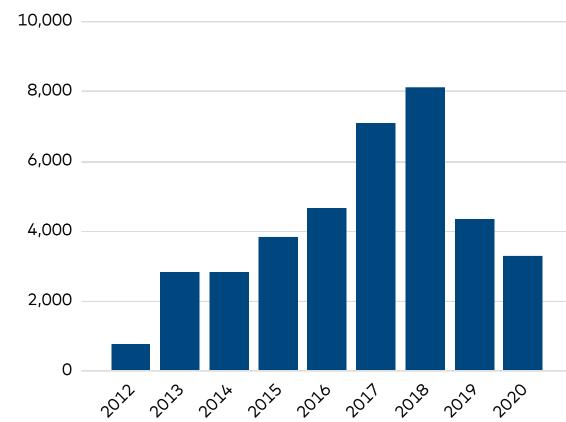
- Construction was impacted by safety measures spurred by the health crisis, and reflected in the slowdown registered in the second quarter when only 678 units in two projects came online. That came on the heels of 1,557 units in six developments being delivered in the first quarter. Development picked up once again in the third quarter, however, with 1,082 units delivered in five properties.

- Although construction added jobs in the 12 months ending in September, the sector faces its share of issues. According to Nashville's Metro Public Health Department, construction sites account for the second-highest number of COVID-19 clusters, after long-term care facilities.

- Mirroring a nationwide trend, deliveries and the underway pipeline continued to heavily lean toward the upscale segment. Of the 13 projects completed in 2020 through November, only two assets were fully affordable, totaling 262 units.

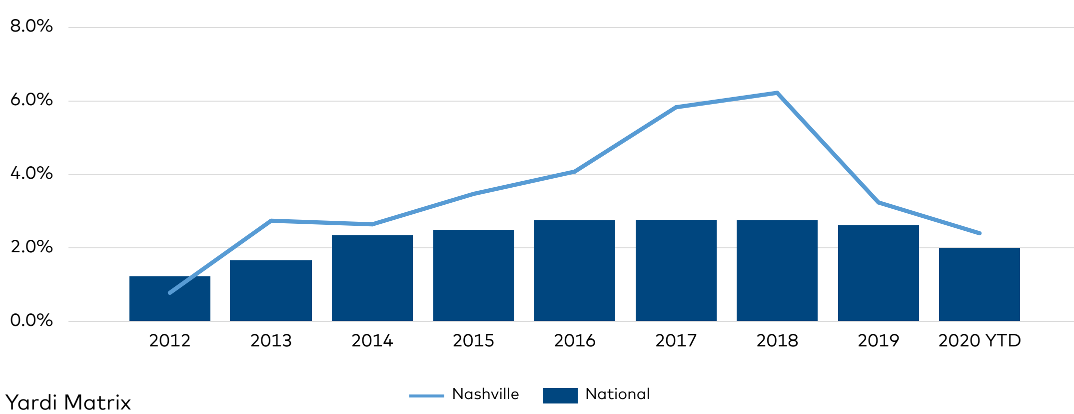
- Development was most intense in Downtown-North (3,795 units underway), with another four submarkets each having more than 1,000 units under construction.

Nashville Completions (as of November 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

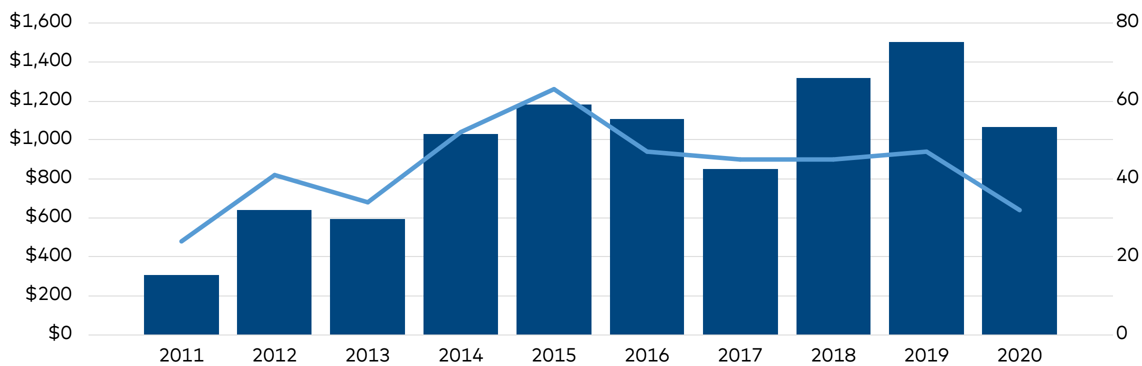
TRANSACTIONS

- After a strong first quarter and a lukewarm second quarter, transaction activity picked up in the second half of the year. Overall, sales volume totaled nearly $1.1 billion in 2020 through November, marking a slight slowdown when compared to the $1.3 billion in deals recorded for the same time frame in 2019.

- Of the 32 properties that traded through November, 18 were Lifestyle assets, which helped the per-unit price climb by 13.2% to $187,581. At the national level, the price per unit inched down 0.8% to $167,022 during the same period.

- LivCor was one of the most active buyers in Nashville in 2020, expanding its footprint by 1,080 units in four properties through November. Of these, Broadstone Stockyard had the highest sale price and the highest per-unit price. The 342-unit, 2020-completed asset—sold by Alliance Residential Co.—traded in November for $120 million or $307,018 per unit.

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



Source: Yardi Matrix

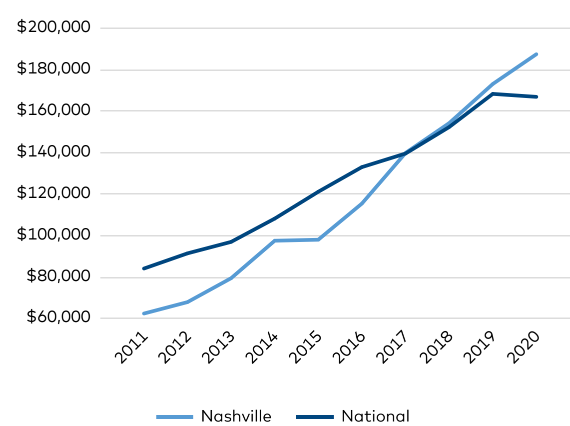
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Downtown-North	186
Franklin	166
Murfreesboro- West	149
North Nashville/Bordeaux	147
Midtown/Music Row	138
Antioch-West	72
South Nashville	72

Source: Yardi Matrix

[1] From December 2019 to November 2020

Nashville vs. National Sales Price per Unit



Source: Yardi Matrix

How the Quest for Low Population Density Is Benefiting the Sun Belt

By Laura Calugar

The economic volatility resulting from the ongoing pandemic is accelerating suburban growth, with low-density areas experiencing a large uptick in demand. Cushman & Wakefield Senior Director Tai Cohen and Executive Vice Chair Robert Stickel reveal which markets in the Sun Belt region are the most sought after, especially for those coming from high tax/high cost of living states in the Northeast and Midwest.

What is attracting investors to the Sun Belt?

Cohen: A significant amount of capital is flooding into the Sun Belt region. It's still going to the primary markets first like Atlanta and Dallas-Fort Worth, and then to secondary markets like Nashville, Tenn., and Raleigh, N.C. International investors are comfortable with cities with major airports and employment drivers.

How have Sun Belt multifamily investors responded to the COVID-19 crisis?

Cohen: There was certainly a pause in transactions between March and May while owners assessed their current portfolios and COVID-19's impact on resident job loss and bad debt. Once they felt comfortable again, everyone flooded back in, especially into the Sun Belt. Now investors are underwriting the same as they were before COVID-19.

How has the pandemic impacted the region's multifamily industry?

Tai Cohen *(left)* and Robert Stickel *(right)*

Cohen: Multifamily has come out as the winner relative to other asset types because it's proven to be fairly recession-proof. There are still hurdles with bad debt, but people will always need a place to live. A big difference in multifamily capital markets is that we have two government agencies that lend, Freddie Mac and Fannie Mae.

Investors are drawn to the Sun Belt because of the lower cost of living. The warmer weather and open cities are driving people to relocate and driving investor confidence.

What are some of your biggest concerns, nine months into the pandemic?

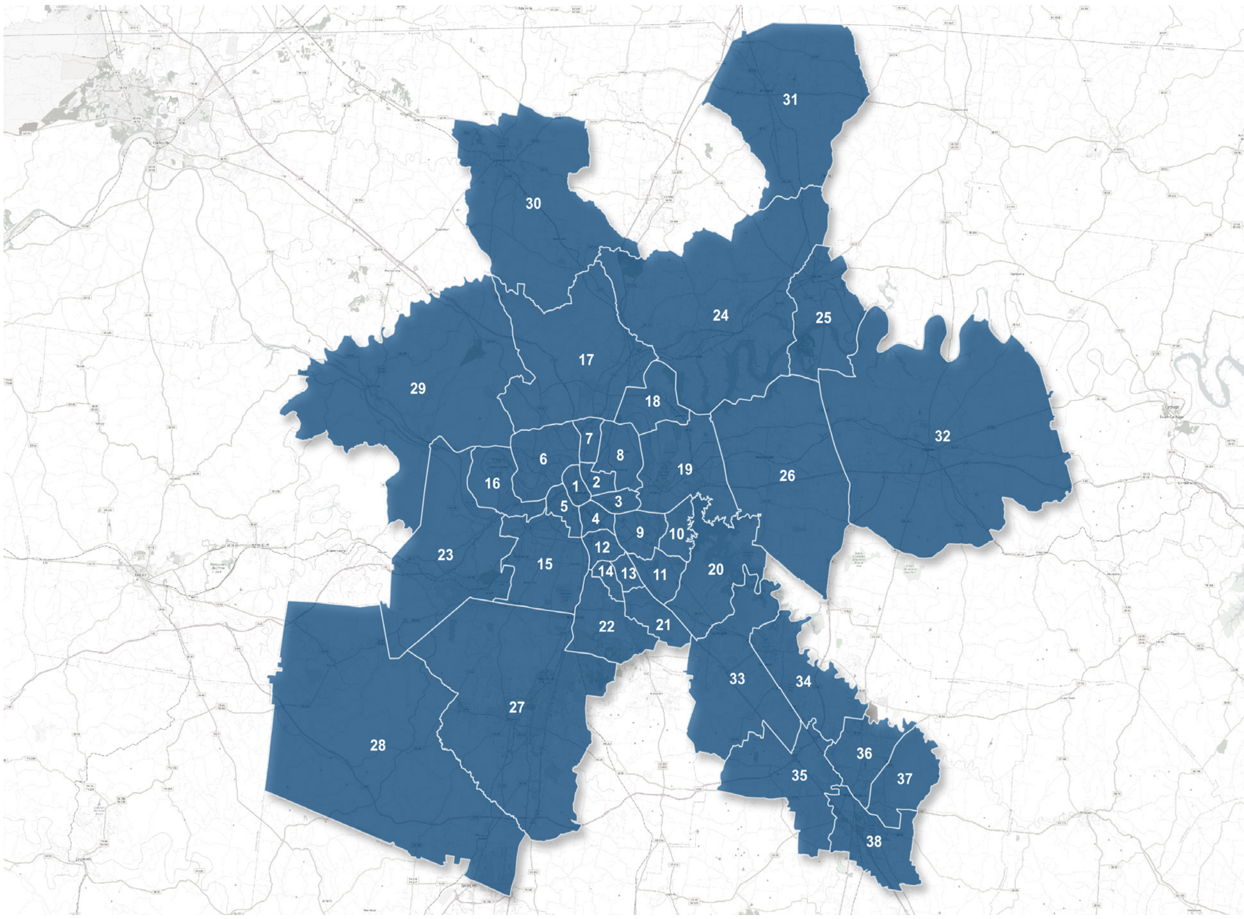
Stickel: While the pandemic has certainly been challenging for everyone in different ways, it has also created a lot of opportunities, specifically for multifamily investments in the Sun Belt region. Aside from everyone's health and safety, one concern is the ability for people to conduct business in a relational way—i.e. touring properties, market overview meetings, etc.

How do you expect the region's multifamily market to perform in 2021?

Stickel: Aside from biased optimism, I believe there are several good reasons the region will perform very favorably next year. We anticipate seeing increased capital flow from other regions of the country, while also other sectors within real estate. Transaction volume was down from 2019 to 2020, but, for our group specifically, 2020 was still better than 2017 and 2018. We believe 2021 could be onward and upward with record-setting stats.

(Read the complete interview on multihousingnews.com.)

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 November 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 November 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, November 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.