

YARDI[®] Matrix

Nashville's Strong Performance

Multifamily Winter Report 2017

**Growing Demand
Buoyants Rents**

**Health Care Drives
Job Gains**

**Property Values
Achieve Record High**

Market Analysis

Winter 2017

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Music City Sets Records

Nashville's multifamily market is positive on most levels. The metro's booming economy is producing job opportunities at a rate double the national average. That serves to attract an educated young workforce, which helps to drive the demand for housing.

Employment is flourishing, with 25,300 jobs added in the 12 months ending in September. Traditionally known for its entertainment industry, the city is slowly pivoting from relying solely on this sector. The health-care industry leads in job gains and is expected to reach \$5 trillion in spending by 2022. With 16 publicly traded health-care companies headquartered in Nashville, having a combined \$73 billion in global revenue, the sector is currently at its peak. Public-private collaborations, such as Partnership 2020, are working toward growing the regional economy, preparing young workers for emerging fields and improving global connectivity, as well as regional transit.

Investor appetite slowed down in 2016, as this year's transaction volume of \$834 million fell behind last year's record-breaking \$1.2 billion volume. Even so, Nashville remains a target for multifamily investors for its 18-hour city appeal, strong apartment demand, burgeoning local economy and high quality of life. 2016 has been a record-setting year for population gains, rent growth, per-unit price, median home price and development pipeline.

Recent Nashville Transactions

The Venue at Glenbrook



City: Hendersonville, Tenn.
Buyer: Sentinel Real Estate
Purchase Price: \$52.7 MM
Price per Unit: \$169,910

The Overlook



City: Antioch, Tenn.
Buyer: PASSCO Real Estate
Purchase Price: \$51.5 MM
Price per Unit: \$113,716

Grand Oak at Town Park



City: Smyrna, Tenn.
Buyer: Starlight Investments
Purchase Price: \$49.6 MM
Price per Unit: \$165,333

Stoneridge Farms at Smyrna

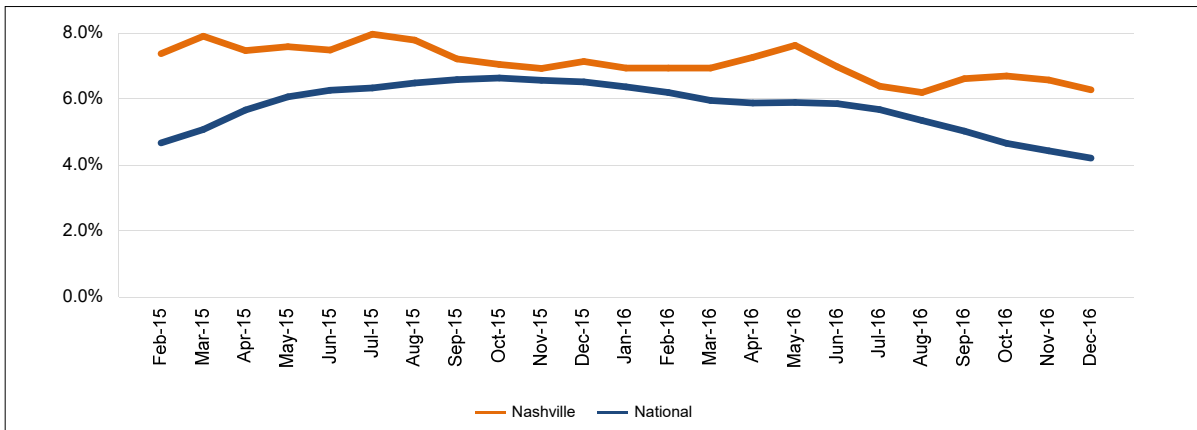


City: Smyrna, Tenn.
Buyer: Steadfast Cos.
Purchase Price: \$47.7 MM
Price per Unit: \$328,859

Rent Trends

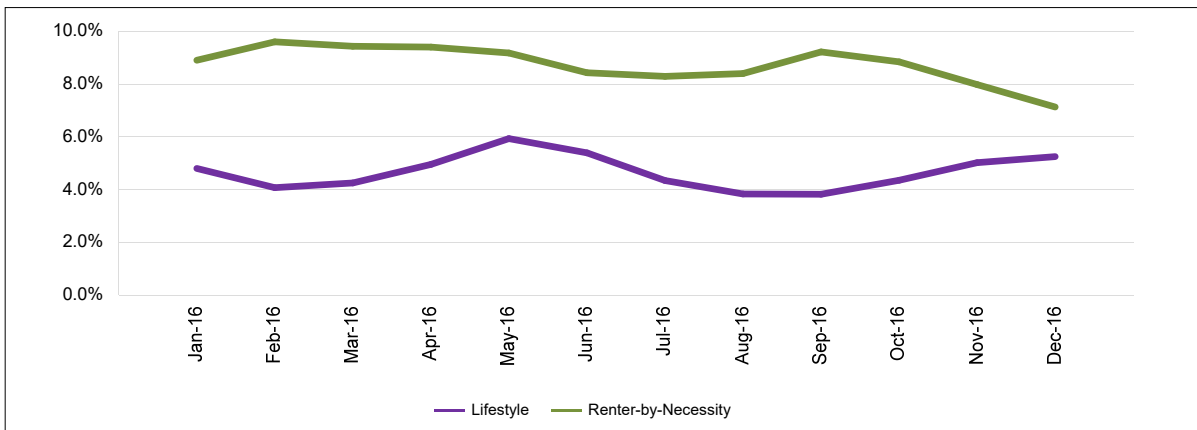
- Rents in Nashville rose by 6.5% year-over-year through November, after growth peaked at 8% in July, according to the Yardi Matrix survey. Although the rate is beginning to moderate, the city continues to outperform the 4.4% national average. Nashville's average rent of \$1,008 trails the national average of \$1,214.
- Rents in the working-class Renter-by-Necessity segment have driven growth, up 8.0% year-over-year to \$892, underpinning the need for inexpensive supply. The upscale Lifestyle segment rose by 4.9% to \$1,182.
- Demand increased more rapidly in the southeast city core, with submarkets such as Southeast (15.1%), Elm Mill/Woodbine (13.7%), Antioch (10.4%) and Clovernook (10.4%) leading when it comes to rent growth. Prices in these submarkets were at the lower end of the spectrum, bringing affordable areas of the metro to average levels.
- With Middle Tennessee's occupancy rate at 96.4% for stabilized properties as of October, the metro's limited supply in the affordable range of units and strong population gains will drive prices up in low-cost accessible areas. Upscale apartments will prosper as well, as higher-paid industries continue to attract skilled workers. We expect another strong year in 2017, with rents increasing in the 6-7% range.

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



Source: YardiMatrix

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

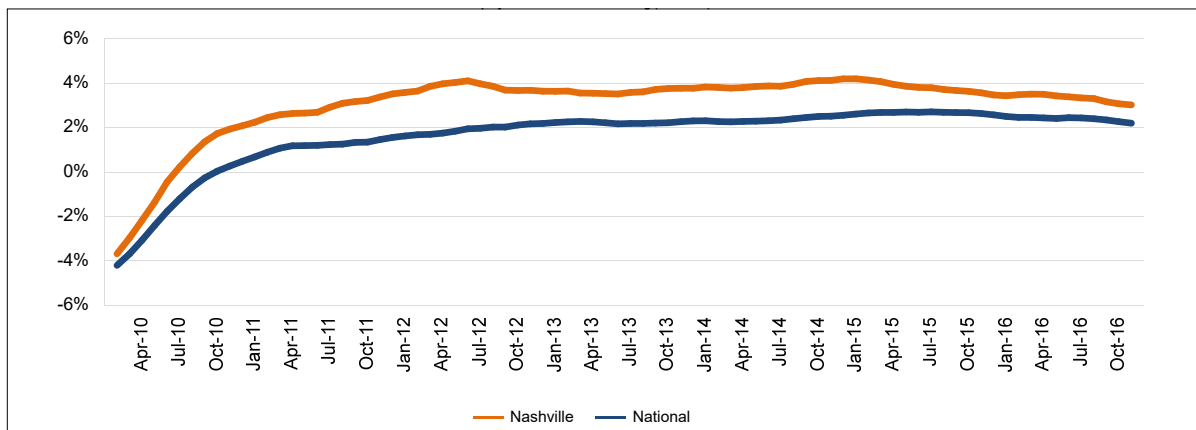


Source: YardiMatrix

Economic Snapshot

- The metro added 25,300 jobs over the 12 months ending in September, a 3.1% growth that is well above the 2.3% national rate. Nashville's economy has consistently outperformed the nation post-recession. Over the last five years, the population has grown by 7.7% because of its competitive job market, reasonable cost of living and high quality of life.
- Employment gains were led by education and health services, which added 7,200 jobs. The sector is flourishing, with 400 established health-care companies and new ones starting up. Local expertise continues to diversify in areas including addiction treatment and population health management. The manufacturing sector added 4,700 jobs, bucking nationwide trends. Automakers Nissan and General Motors are among the large employers in the sector.
- The region's central location, its influx of talented workforce and its sustained economy are giving the office market a boost. Nashville's cost of doing business, about 10% less than the nation's average, helps to attract corporate expansions and relocations. Technology and health care constitute the largest portion of leasing growth, with companies such as Google, Lyft, Microsoft and American Addiction Centers strengthening their local footprint. Office development is at a record high and vacancies are decreasing steadily.

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



Sources: YardiMatrix, 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	%
65	Education and Health Services	202	15.0%	7,900	4.1%
30	Manufacturing	121	9.0%	5,400	4.7%
60	Professional and Business Services	217	16.1%	4,700	2.2%
15	Mining, Logging and Construction	63	4.7%	3,900	6.6%
90	Government	178	13.2%	3,100	1.8%
70	Leisure and Hospitality	146	10.8%	2,500	1.7%
40	Trade, Transportation and Utilities	258	19.2%	2,300	0.9%
55	Financial Activities	80	5.9%	1,100	1.4%
50	Information	28	2.1%	900	3.4%
80	Other Services	53	3.9%	800	1.5%

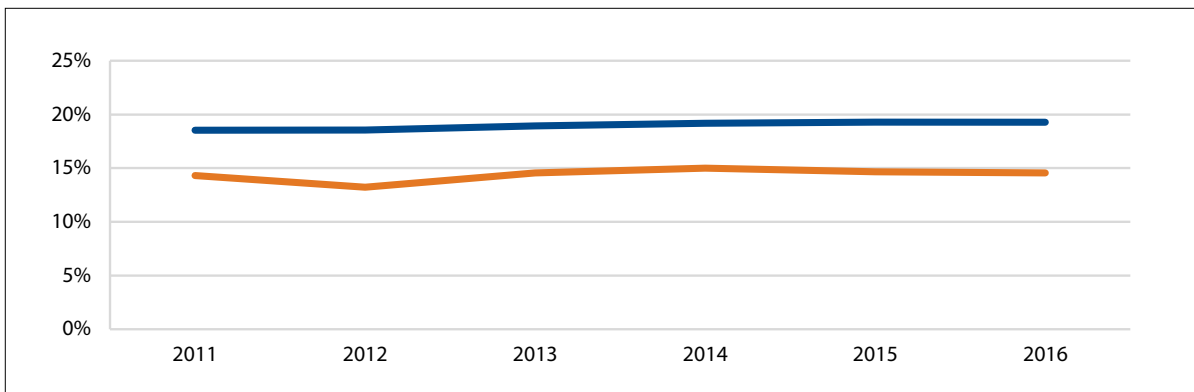
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

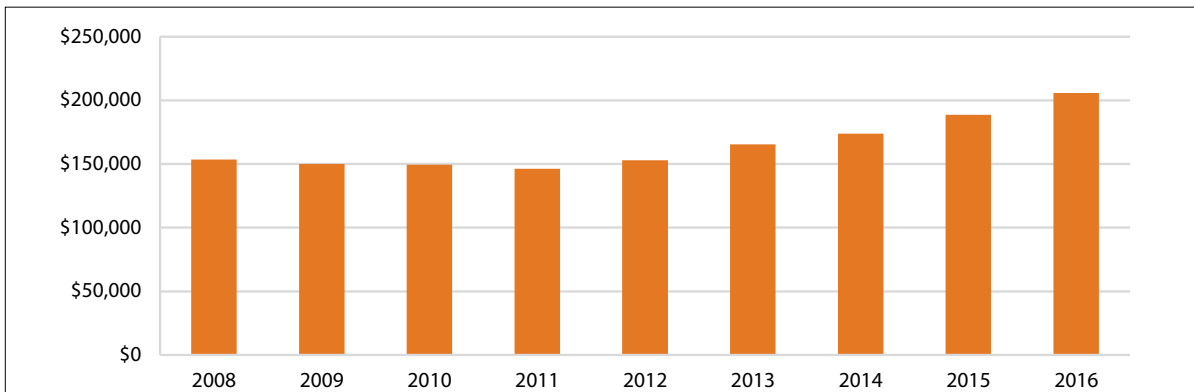
- Traditionally known as an affordable option for home buyers, Nashville is becoming less so as its economy diversifies, population increases and new supply barely keeps up with demand. The median home price reached \$205,910 in 2016, up 9.1% year-over-year and at a new record high.
- Owning remains more affordable than renting, as the average mortgage payment represents 15% of the median income, compared to 19% for the average rent.

Nashville Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Nashville Median Home Price



Source: Moody's Analytics

Population

- Nashville's creative culture, sustained hiring and favorable cost of living are attracting young people.
- The metro added 36,000 residents in 2016, up 2% and more than double the national rate.

Nashville vs. National Population

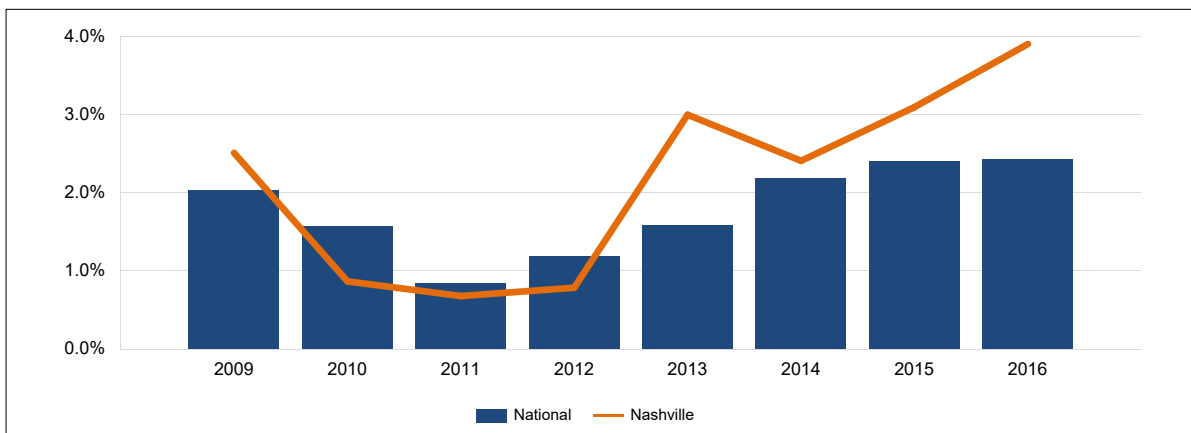
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Nashville-Davidson--Murfreesboro--Franklin, TN Metropolitan Statistical Area	1,698,475	1,727,473	1,759,034	1,793,910	1,830,345

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

Supply

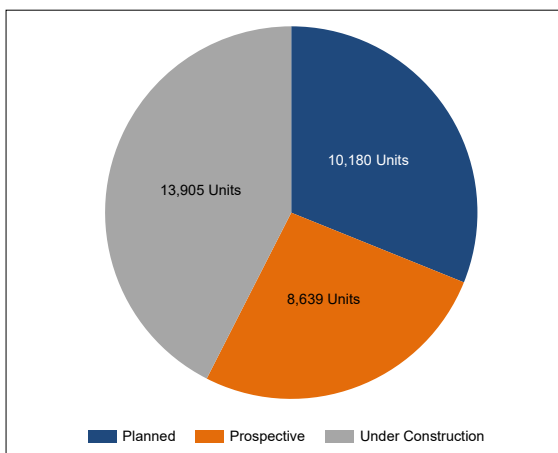
- Nashville's strong population gains and demand for housing are fueling a significant amount of new construction. Some 4,400 units came online through November of 2016, which increased stock by more than 4%, about double the national average.
- Supply is not slowing down, as the total pipeline consists of 32,400 units. About 14,000 of those units are currently under construction and nearly 10,000 units are in the planning and permitting stages, which suggests that housing stock will continue to expand during coming years.
- The metro's net absorption rate is high, as new units are being filled almost immediately. Occupancy rates remain consistent, at 96.4% for stabilized properties as of October, according to Yardi Matrix.
- The metro's 18-hour city appeal is attracting Millennials into urban-area submarkets. Supply growth is concentrated in downtown North, which has 3,700 units in the pipeline. Other submarkets with a large pipeline include Midtown/Music Row (3,000 units), Murfreesboro (1,000 units), Franklin (1,000 units) and East End (900 units). The 550-unit 505 community in downtown Nashville is the largest project currently under construction and is set for completion by the end of 2017.

Nashville vs. National Completions as a Percentage of Total Stock (as of January 2017)



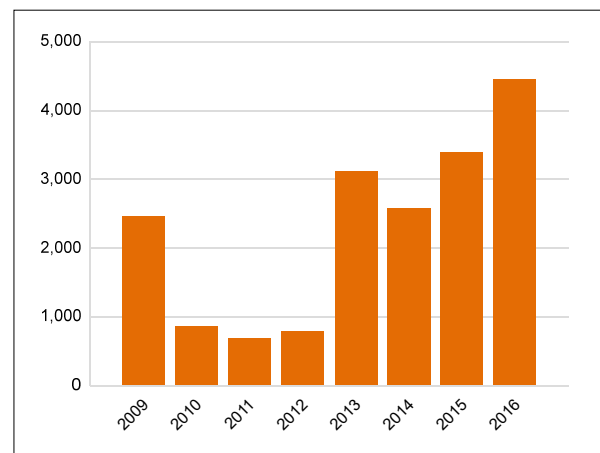
Source: YardiMatrix

Development Pipeline (as of January 2017)



Source: YardiMatrix

Nashville Completions (as of January 2017)

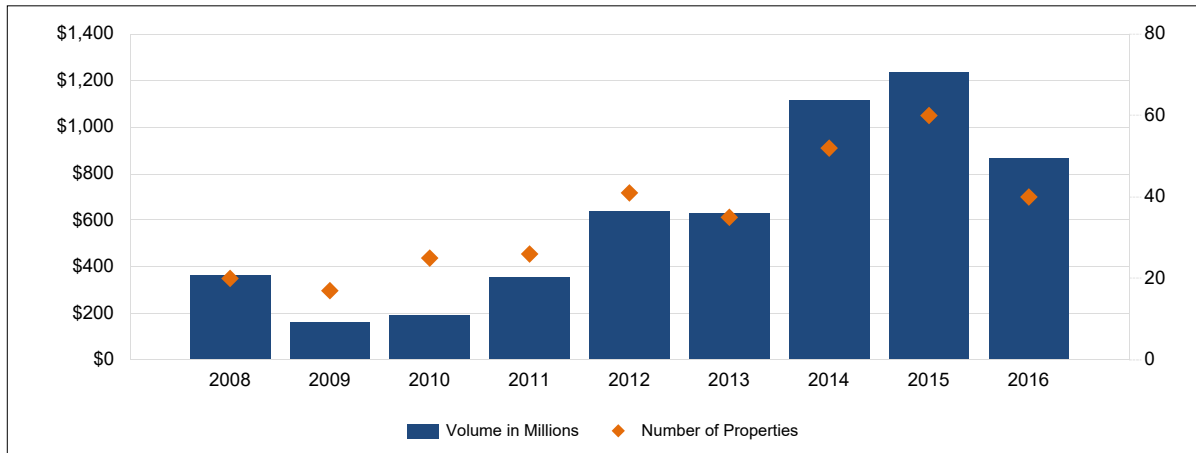


Source: YardiMatrix

Transactions

- Through November, some \$834 million worth of properties changed hands, a decline compared to the last two years, which greatly surpassed the \$1 billion milestone. Despite the drop in volume, Nashville is increasingly a target for investors looking for secondary markets with high growth prospects.
- Acquisition yields from stabilized properties are currently in the 5% range. Investment appetite is expected to strengthen in 2017 as the metro transitions to an upper-tier secondary market. Per-unit prices in Nashville reached \$119,000, a new record for the current cycle and three times higher than the low point of 2010.
- The most active submarkets for the trailing 12 months were Bellevue (\$123 million), Southeast/Brentwood (\$118 million), Midtown/Music Row (\$111 million) and Franklin (\$110 million). The largest deal of 2016 was Steadfast Cos.' \$110 million acquisition of The Landings of Brentwood, which amounts to \$151,934 per unit.

Nashville Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

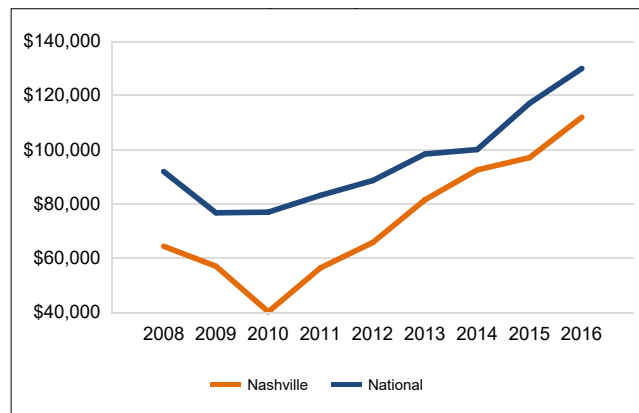
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Bellevue	124
Southeast/Brentwood	119
Midtown/Music Row	111
Franklin	110
La Vergne/Smyrna	97
Hendersonville	68
Nashville Shores/Hermitage	60
Antioch - West	51

Source: YardiMatrix

¹ From December 2015 to November 2016

Nashville vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Crescent Communities,
Pearl Street Begin
New Project in Nashville



Courtyard by Marriott
Opens in Greater Nashville



Nashville Neighborhood
Provides Artist Destination

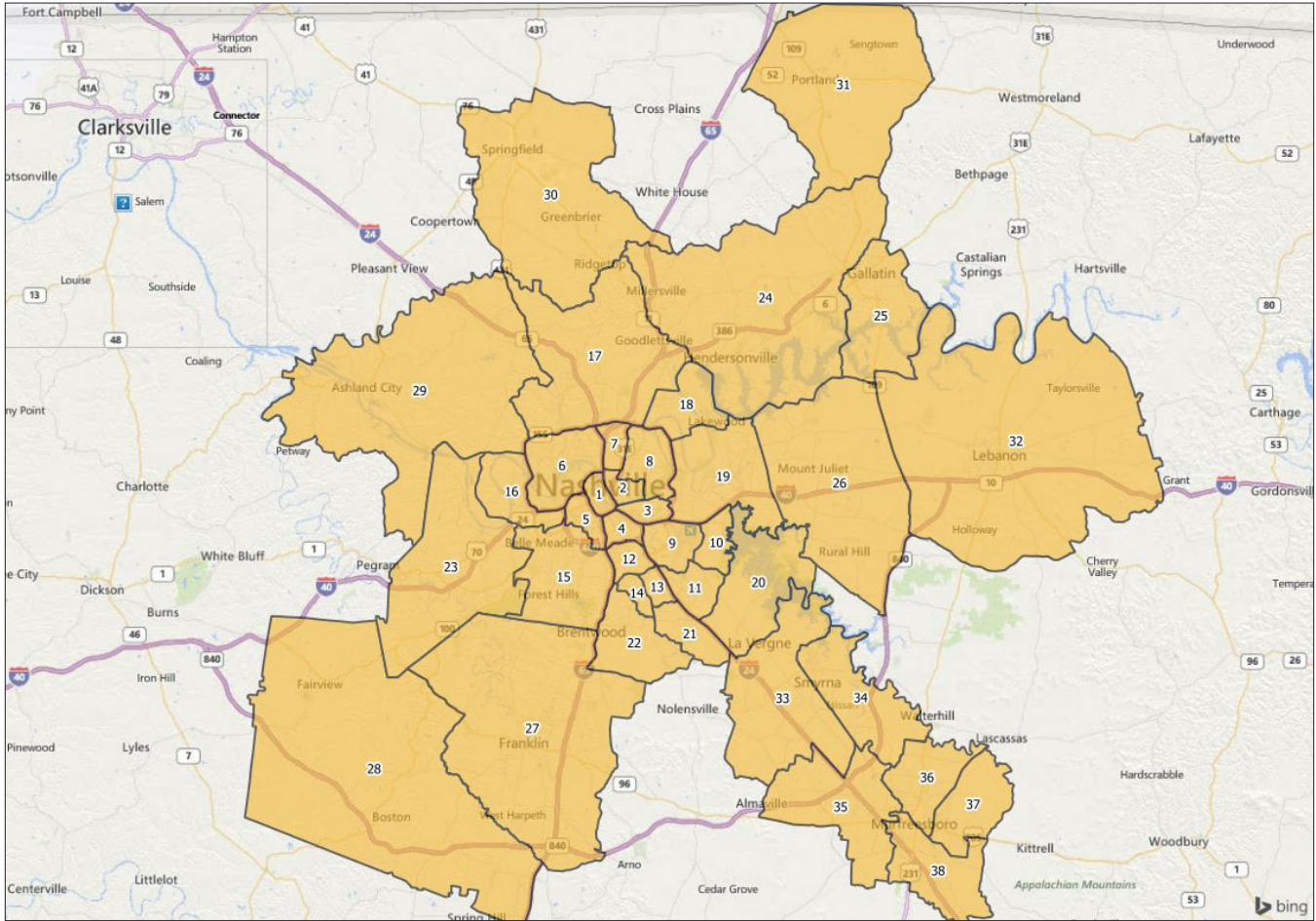


Spring 2017 Start Eyed
For Giant Nashville Project

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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

Area #	Submarket
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

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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