A panoramic view of the Nashville skyline at sunset. The sky is a mix of orange, red, and blue. The city is filled with various buildings, some with illuminated signs. In the foreground, there's a river with a walkway and some greenery.

**YARDI**<sup>®</sup> Matrix

# Nashville's Supply Side Shines

Multifamily Report Spring 2017

**Construction Activity Fuels Sector Growth**

**Transaction Volume Tops \$1 Billion**

**Significant Deliveries Keep Pace with Demand**

## Market Analysis

Spring 2017

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## Music City Remains Sound

Nashville's multifamily fundamentals continue to be solid on most levels. With strong demand fueled by robust population gains and consistent job growth, the market remains a hot ticket for investors, which acquired more than \$1 billion in apartments in 2016. Nashville's booming economy is broadening the labor force at a rate well above the national average, helping to drive demand for housing.

Nashville's knowledge-based economy thrives due to growth-oriented industries, such as health care, which continues to attract a highly educated workforce. Overall, employment is healthy, with 24,300 jobs added in 2016. The construction sector grew the most, due to the glut of supply that has come online in recent years. Nashville Metropolitan Transit Authority approved nMotion, a \$6 billion transit plan that will develop a large number of high-capacity and rapid transit services over the next 25 years. Public-private collaborations, such as the Partnership 2020 initiative that aims to create economic growth in the region, are also drawing investors to the area.

In response to strong population growth, developers are ramping up construction, with more than 30,000 units in progress. Due to Nashville's vibrant employment market, which is driving strong rental demand, we forecast a 4.5% rent increase for the full year.

## Recent Nashville Transactions

The Landings of Brentwood



City: Brentwood, Tenn.  
Buyer: Steadfast Cos.  
Purchase Price: \$110 MM  
Price per Unit: \$151,933

Charlotte at Midtown



City: Nashville  
Buyer: MAA  
Purchase Price: \$62.5 MM  
Price per Unit: \$224,014

The Artessa



City: Franklin, Tenn.  
Buyer: Security Properties  
Purchase Price: \$57.5 MM  
Price per Unit: \$230,000

The Venue at Glenbrook



City: Hendersonville, Tenn.  
Buyer: Sentinel Real Estate  
Purchase Price: \$52.7 MM  
Price per Unit: \$168,910

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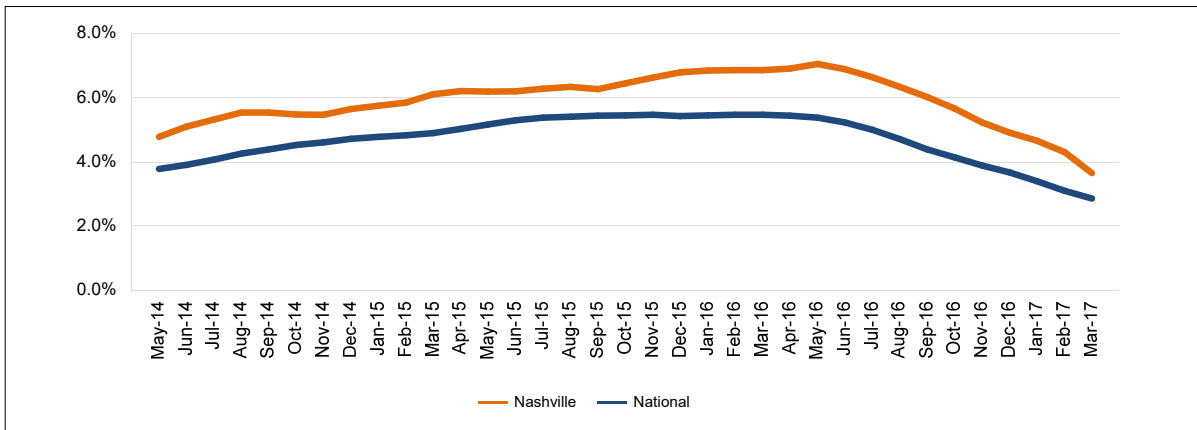
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## Rent Trends

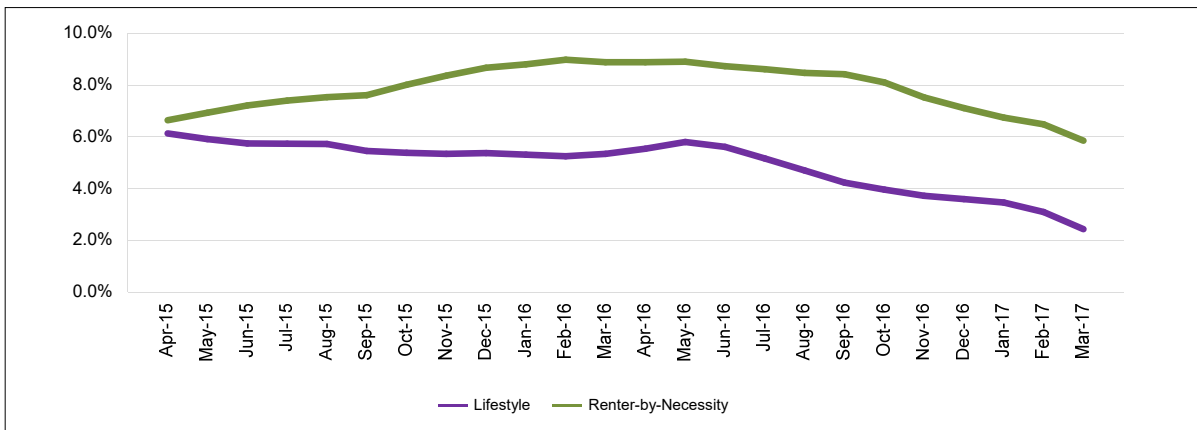
- Rents in Nashville rose by 3.7% year-over-year through March, after growth peaked at 7.0% in May 2016, according to Yardi Matrix data. Although this rate mirrors the national pattern of deceleration, the city continues to outperform the country by 100 basis points. At \$1,131, the average rent is almost \$200 shy of the national figure.
- Rent growth was greatest in the working-class Renter-by-Necessity segment, up 5.9% year-over-year to \$947, while the Lifestyle segment rose 2.4% to \$1,313. Slow absorption caused a decrease in upscale unit delivery. While that may be a short-term issue, growing wages are expected to mitigate the problem in the long term. Nashville's average occupancy in stabilized properties fell 20 basis points month-over-month to 95.4%, as the growth in new supply continues to be strong.
- Submarkets such as Antioch–South (10.7%), Gallatin (8.8%) and South Nashville (8.8%) are leading in rent growth. Midtown/Music Row (\$1,801) remains the most expensive submarket, although rents decreased by 2.5% since last year. Consistent job growth will continue to elevate demand, leading to further rent appreciation. We expect rents to rise by 4.5% in 2017.

### 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)

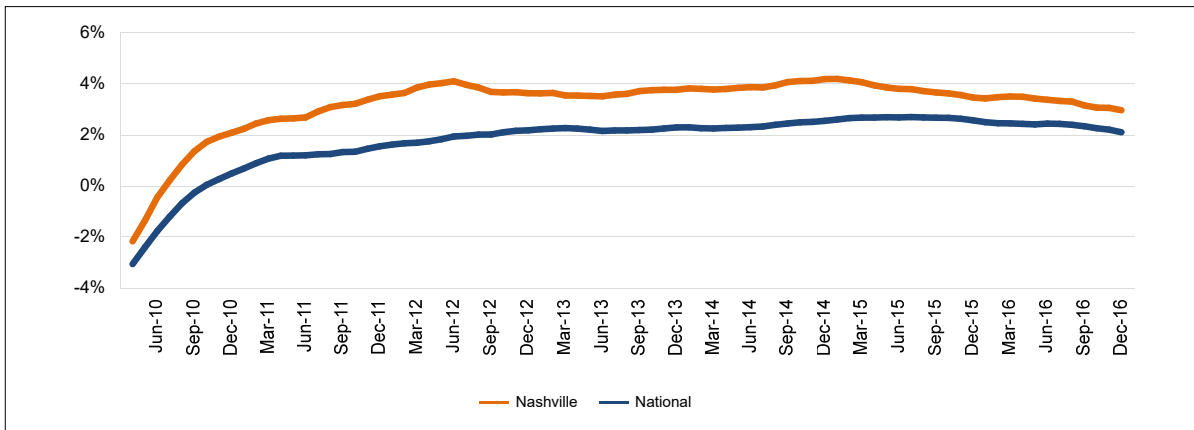


Source: YardiMatrix

## Economic Snapshot

- Nashville added 24,300 jobs in 2016, up almost 3% and well above the 2.1% national average. Its low tax burden, high quality of life and steady economic expansion led to the growth of the labor force.
- The construction sector remained active and contributed to the largest gains year-over-year, adding 5,800 positions. Projects such as the \$430 million mixed-use development Fifth + Broadway contributed to the sector's growth, along with the large multifamily and infrastructure development pipeline. Local expertise continues to support sectors such as manufacturing, which added 5,100 jobs in 2016. LG Electronics will create 600 jobs at its upcoming \$250 million manufacturing plant.
- Leisure and hospitality expanded employment by 4,500, in support of new projects, including the upcoming \$220 million JW Marriott Hotel. Its history rooted in music, Nashville has advanced to being a major health-care employment center. Approximately 400 companies in the market operate in the health-care sector, which contributed 4,200 jobs.
- Office construction is struggling to meet demand from job growth in private-services industries. Following a strong 2016, roughly 2.5 million square feet of office space will hit the market in 2017, including the \$200 million, 514,000-square-foot office building that will house Bridgestone Americas.

### 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	%
15	Mining, Logging and Construction	46	4.8%	5,800	14.3%
30	Manufacturing	86	8.9%	5,100	6.3%
70	Leisure and Hospitality	103	10.7%	4,500	4.6%
65	Education and Health Services	150	15.5%	4,200	2.9%
90	Government	119	12.3%	2,200	1.9%
60	Professional and Business Services	156	16.2%	1,700	1.1%
55	Financial Activities	62	6.4%	1,600	2.6%
50	Information	22	2.3%	600	2.8%
80	Other Services	37	3.8%	-500	-1.3%
40	Trade, Transportation and Utilities	183	19.0%	-900	-0.5%

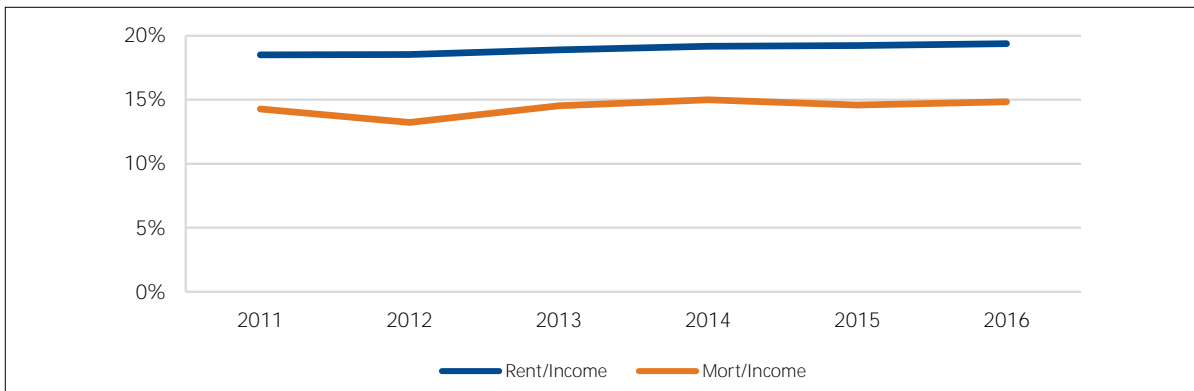
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

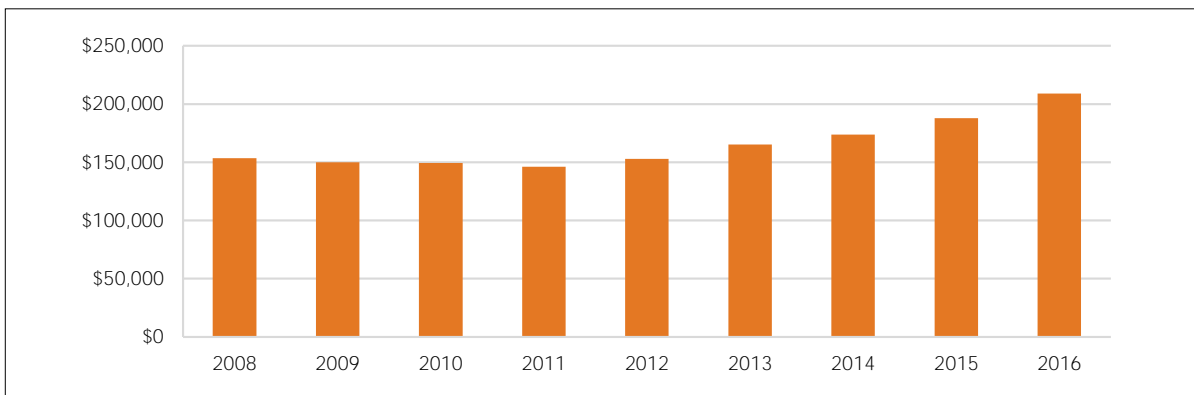
- The median home price peaked at \$209,106 in 2016, representing a new cycle high. Despite increasing home prices, owning continues to be more affordable than renting: Nashville rents account for 19% of the median income, compared to 15% for the average mortgage.
- The city council awarded \$10 million to the Barnes Fund for Affordable Housing, implementing a voluntary pilot program that would offer financial incentives totaling \$2 million to affordable housing developers.

### 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 added 36,435 residents in 2015, up 2% and more than double the national rate. In-migration thrives, due to employment opportunities, relatively affordable housing and an attractive lifestyle.

### Nashville vs. National Population

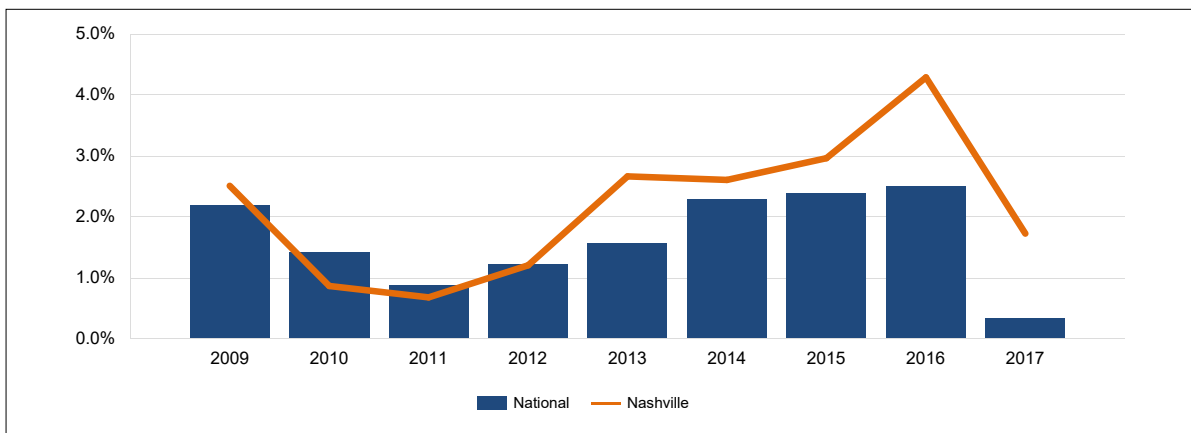
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Metropolitan Statistical Area	1,698,475	1,727,473	1,759,034	1,793,910	1,830,345

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

## Supply

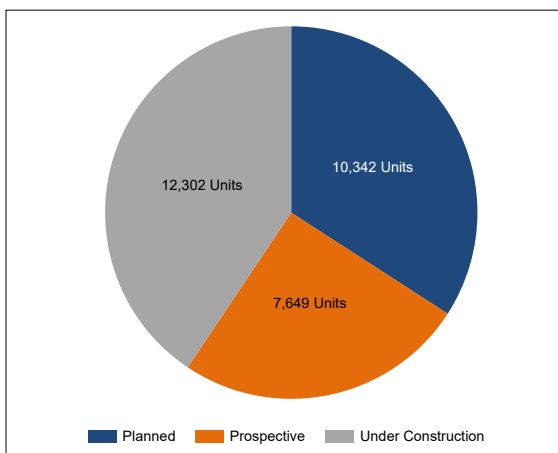
- Nashville is among the most bustling construction markets in the country. We expect nearly 7,000 units to come online this year, with total stock increasing by about 6%. Some 5,000 units came online in Nashville in 2016, expanding the housing stock by more than 4%, well above the 2.5% national growth rate.
- The housing pipeline has more than 12,000 units under construction and more than 30,000 units in some stage of development, so new supply should remain strong over the next several years. The effects of new supply are taking shape: Occupancy rates in stabilized properties dropped to 95.4%, down 90 basis points from one year ago.
- Construction activity was high in both the urban core and in fringe submarkets, with Downtown contributing almost 4,000 units to the pipeline, followed by Midtown/Music Row (2,420 units) and Franklin (976 units). Proximity to Vanderbilt University and key employers like Nissan North America and HCA Holdings may account for the high development activity in these submarkets. 505, a Giarratana Development partnership's 543-unit luxury high-rise, is one of the tallest buildings in the downtown area. It will begin renting in October, and some of the units may be sold as condominiums.

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



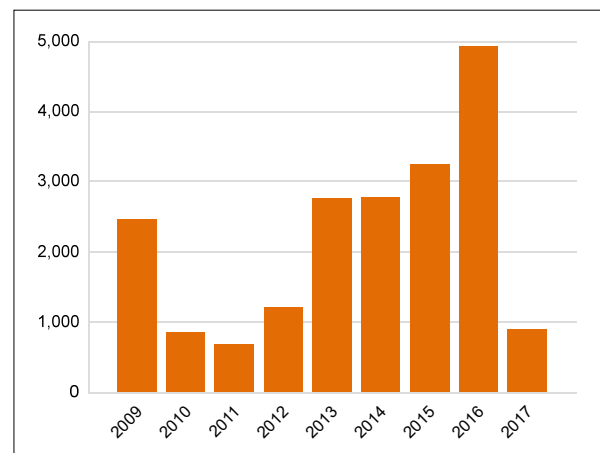
Source: YardiMatrix

### Development Pipeline (as of March 2017)



Source: YardiMatrix

### Nashville Completions (as of March 2017)

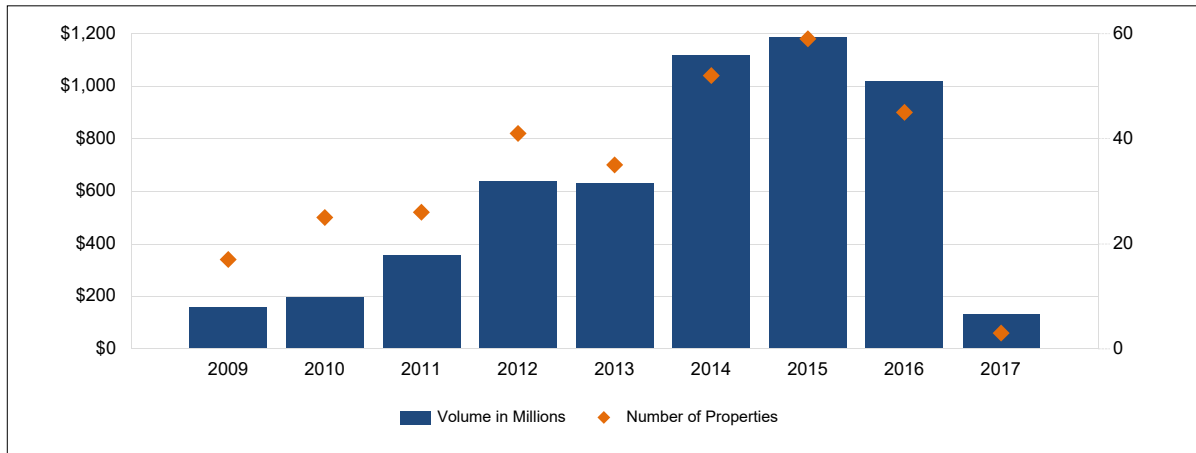


Source: YardiMatrix

## Transactions

- Investor demand has continued to grow in Nashville in recent years, with more than \$1 billion in multifamily assets trading in 2016. While only \$128 million worth of transactions were completed in 2017's first quarter, reflecting a national slowdown, the metro remains highly coveted by investors looking for slightly higher acquisition yields. Per-unit prices finished the first quarter of 2017 at just under \$200,000, a new record for the current cycle and about four times higher than the low point of 2010.
- During the past 12 months, the most active submarket was Franklin (\$204 million), followed by Midtown/Music Row (\$137 million), Hendersonville (\$109 million) and Nashville Shores/Hermitage (\$68 million). Topping 2016 transaction activity was Steadfast Cos.' acquisition of The Landings of Brentwood for \$110 million. The 724-unit property's value rose 60% compared to 2007, when Venterra Realty acquired the asset.

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



Source: YardiMatrix

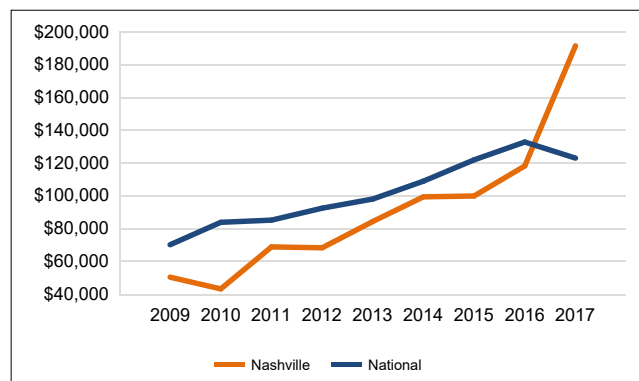
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Franklin	204
Midtown/Music Row	137
Hendersonville	109
Nashville Shores/Hermitage	68
West End/Green Hills	58
Antioch-West	51
Southeast/Brentwood	45
Mount Juliet	42

Source: YardiMatrix

<sup>1</sup> From April 2016 to March 2017

### Nashville vs. National Sales Price per Unit



Source: YardiMatrix

# Read All About It!



HealthStream Inks Lease  
At Nashville's Capitol View



Nashville's Largest Mixed-Use  
Project Begins Construction



Downtown Nashville Land  
Hits the Market



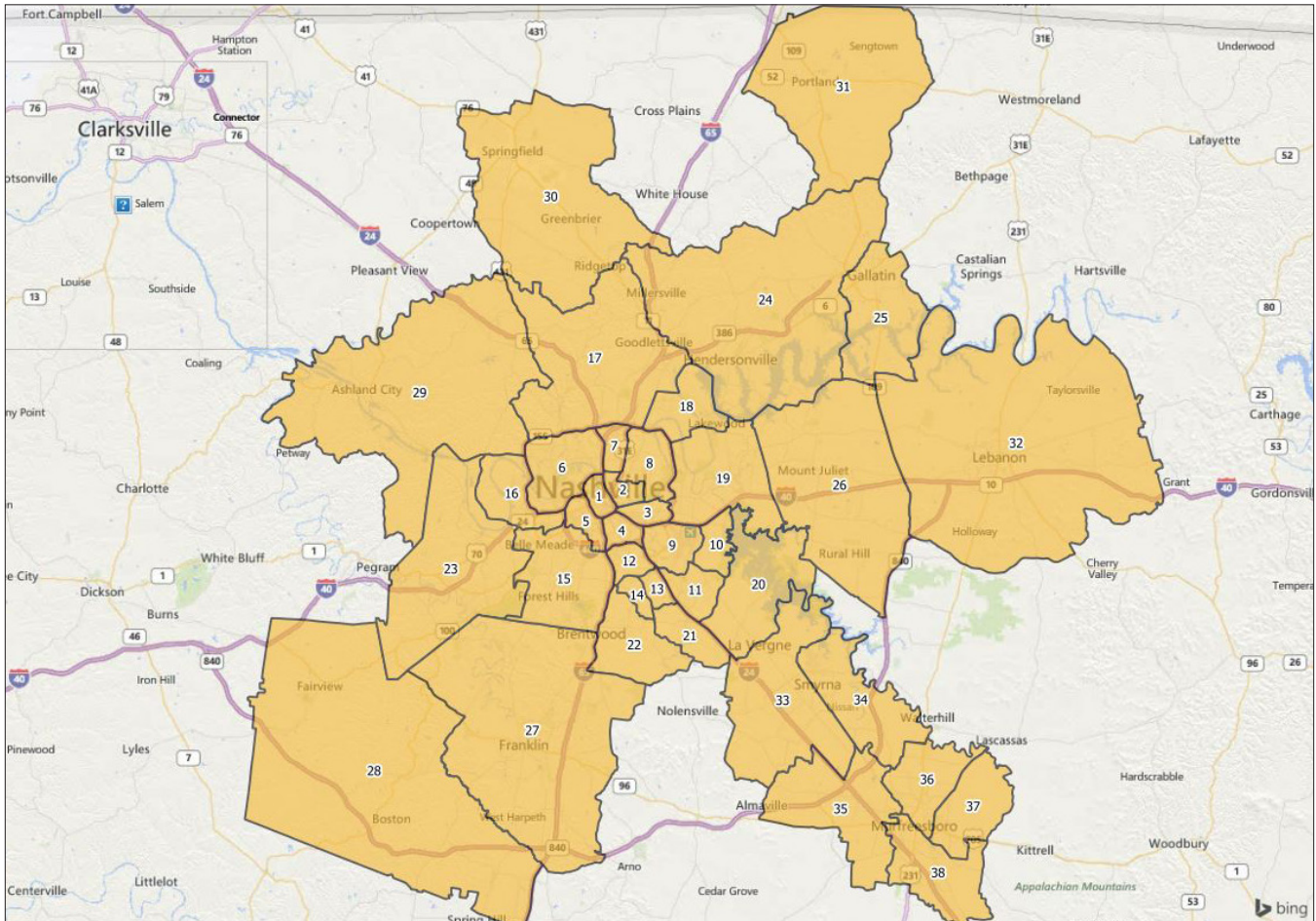
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## Nashville Submarket Map



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

Area #	Submarket
22	Southeast/Brentwood
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

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## 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.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.

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