Yardi® Matrix

Music City Is Sound

Multifamily Report Summer 2017

Growing Supply Limits Rent Growth

Working-Class Segment Drives Demand

Developers Focus on Live-Work-Play Assets

Market Analysis

Summer 2017

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Population Growth Sustains Demand

Riding a wave of economic and population growth, Nashville's multifamily market continues to display stable fundamentals. However, due to sustained levels of new apartment deliveries over the past three years, rent growth has moderated during the first half of 2017, reaching 1.5% in July.

The city is slowly diversifying its economy, venturing from reliance on the entertainment industry. With 6,400 jobs added in the year ending in June, the professional and business services sector led growth, as companies are drawn by a friendly business environment and educated workforce. At the same time, the metro has become a major health-care employment center. There are 18 publicly traded health-care companies headquartered in Nashville, having a combined employment of more than 500,000 people, as well as $84 billion in global revenue.

Strong fundamentals and growth potential are attracting institutional and private investors, which acquired more than $1 billion worth of apartments last year. Nashville remains a target for investors, due to its 18-hour city appeal, high quality of life and burgeoning local economy. In response to the growing demand, developers are ramping up construction, with more than 13,000 units underway as of July. Although rent growth significantly decelerated in the first half of the year, Nashville's strong employment market is bound to keep demand up. Yardi Matrix expects the metro's average rent to increase by 3.8% in 2017.

Recent Nashville Transactions

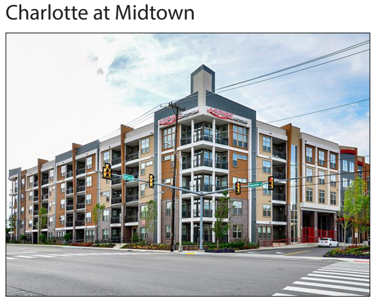
IMT Cool Springs

City: Franklin, Tenn.
Buyer: IMT Capital
Purchase Price: $98 MM
Price per Unit: $205,696

Brandywine I & II

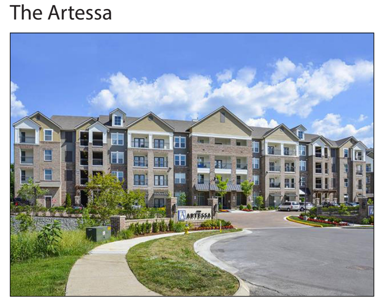
City: Nashville, Tenn.
Buyer: Starwood Capital Group
Purchase Price: $76 MM
Price per Unit: $120,000

Charlotte at Midtown



City: Nashville, Tenn.
Buyer: MAA
Purchase Price: $63 MM
Price per Unit: $224,014

The Artessa



City: Franklin, Tenn.
Buyer: Security Properties
Purchase Price: $58 MM
Price per Unit: $230,000

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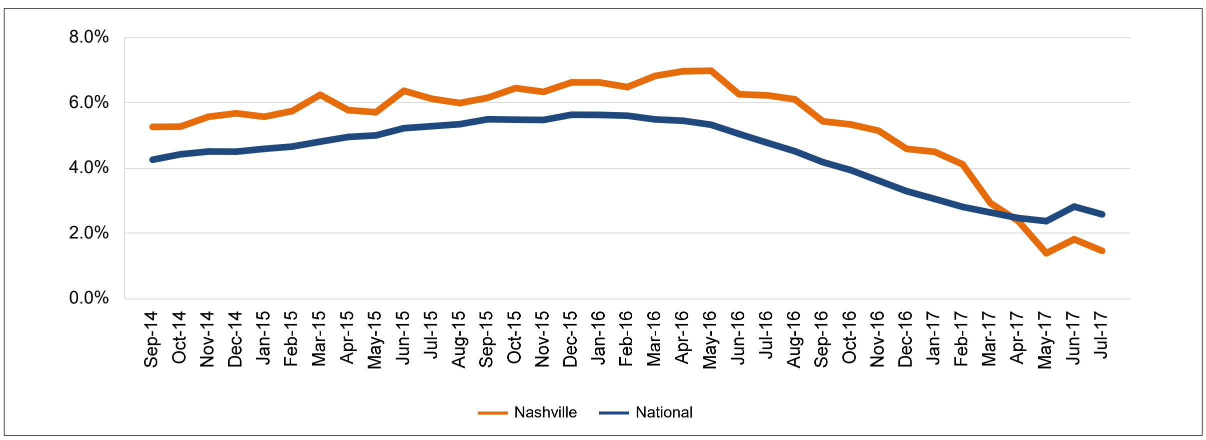
Rent Trends

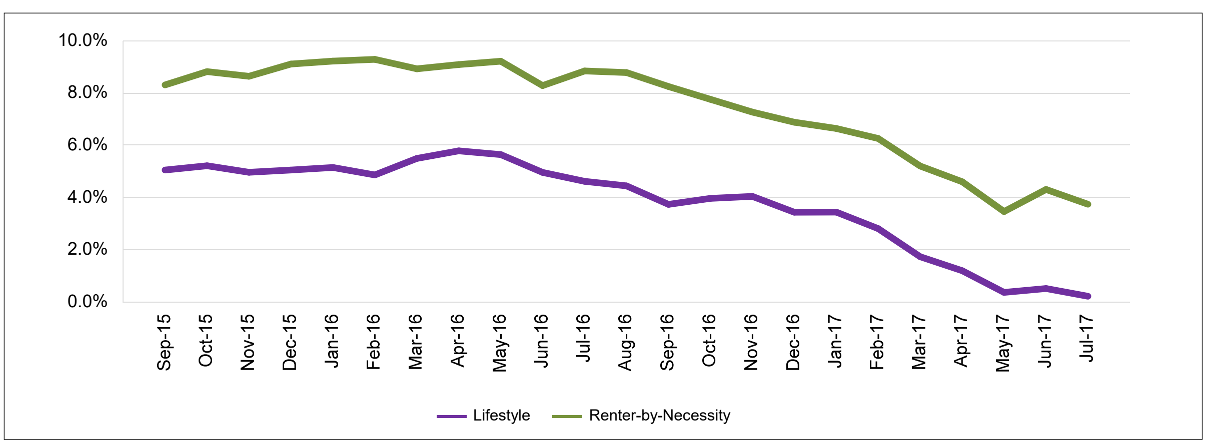
- Nashville rents were up 1.5% year-over-year through July, as the growth rate has steadily decelerated from 6.2% one year prior. After consistently outperforming the U.S. post-recession, the metro's rent growth is returning to historical levels. Nashville's average rent stood at $1,177 as of July, $173 below the national average.
- Rent growth has moderated across all asset classes, mainly due to high levels of new supply. Most deliveries are in the luxury Lifestyle segment, which rose only 0.2%, to $1,362. Demand was higher in the working-class Renter-by-Necessity segment, which was up 3.7% year-over-year to $970, underpinning a need for new affordable stock.
- Less expensive submarkets, with predominantly working-class stock, continue to lead growth. The list includes East Nashville/Inglewood (11%), Gallatin (9.6%), Goodlettsville–South (8.0%) and South Nashville (7.1%). At the other end of the spectrum, rents in most core submarkets are either flat or contracting. The top two most expensive submarkets are also the ones with the largest rent drops: Midtown/Music Row ($1,848 average rent; -2.4% year-over-year) and Downtown–North ($1,756; -4.1%). As population growth and job gains continue to fuel demand, rent growth is likely to rebound, albeit at more sustainable levels. We expect rents to grow by 3.8% 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

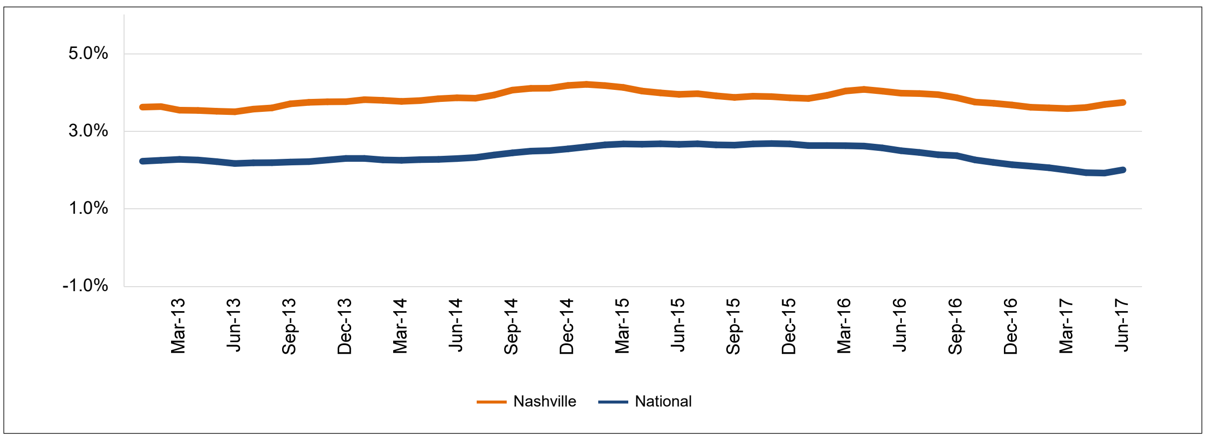
Economic Snapshot

- The metro added 34,100 jobs over the 12 months ending in June, a 3.7% growth that is well above the 2.0% national rate. Since 2012, Nashville's job growth rate has consistently exceeded the national average. The metro is an outlier in its ability to attract both young professionals and established employers, due to its strong economy and appealing lifestyle.

- The professional and business services sector led growth, adding 6,400 positions. With the tourism industry thriving, leisure and hospitality added 5,600 positions. Last year, a record number of about 14 million people visited the Nashville area, which has one of the most active hotel pipelines in the country. At the same time, the metro is a major health-care employment center, with 400 companies operating in the field and contributing to the 4,900 jobs gained in the education and health services sector.

- Office development has reached a cycle peak, with roughly 2.2 million square feet under construction, as demand for Class A space remains the primary driver. According to Colliers International, 1.4 million square feet of space is slated for delivery downtown by the end of 2017, and an additional 800,000 square feet is scheduled for completion within fringe suburban submarkets.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
60	Professional and Business Services	163	16.7%	6,400	4.1%
70	Leisure and Hospitality	114	11.7%	5,600	5.2%
65	Education and Health Services	148	15.2%	4,900	3.4%
90	Government	111	11.4%	4,700	4.4%
40	Trade, Transportation and Utilities	184	18.9%	4,400	2.5%
15	Mining, Logging and Construction	44	4.5%	3,700	9.2%
30	Manufacturing	84	8.6%	2,100	2.6%
55	Financial Activities	65	6.7%	1,900	3.0%
80	Other Services	40	4.1%	500	1.3%
50	Information	24	2.5%	-100	-0.4%

Sources: YardiMatrix, Bureau of Labor Statistics

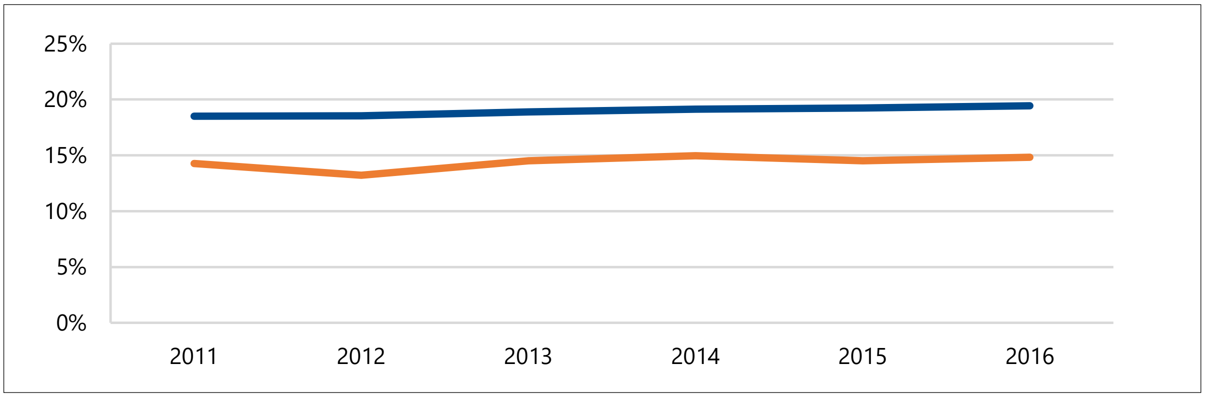
Demographics

Affordability

- The median home price hit a new cycle high in 2016, at $208,051. However, renting is less affordable than owning for Nashville residents, with the average rent of $1,177 comprising roughly 19% of the median income. The average mortgage accounts for roughly 15%.

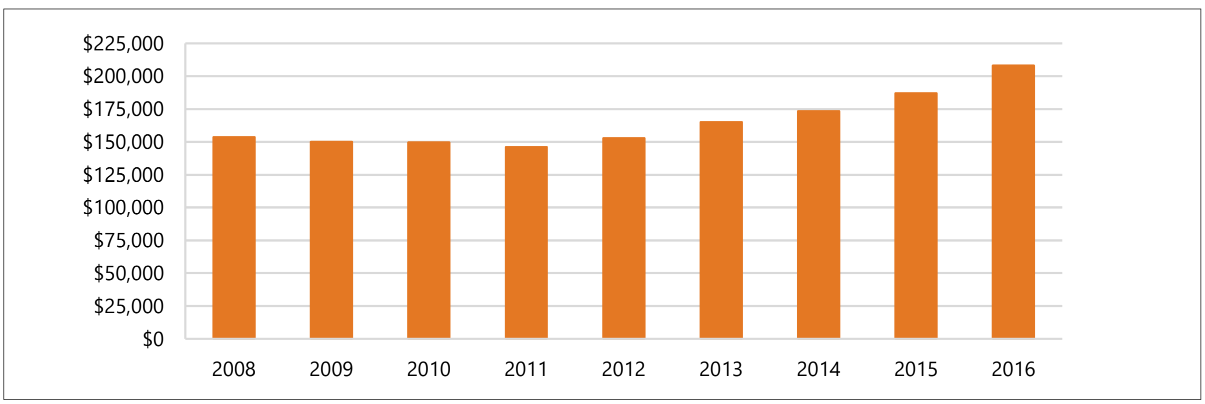
- Nashville has unveiled plans to issue $25 million in general obligation bonds to purchase and rehabilitate existing apartments as a way of preserving affordability. Other recent legislation focuses on inclusionary zoning, requiring developers to include a percentage of new affordable units in their projects when requesting variances for heights or higher-density developments.

Nashville Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Nashville Median Home Price



Source: Moody's Analytics

Population

- The metro added more than 36,000 residents in 2016, up almost 2.0%, more than double the national rate.

- Nashville's diverse economy and low cost of doing business is attracting residents at a steady pace.

Nashville vs. National Population

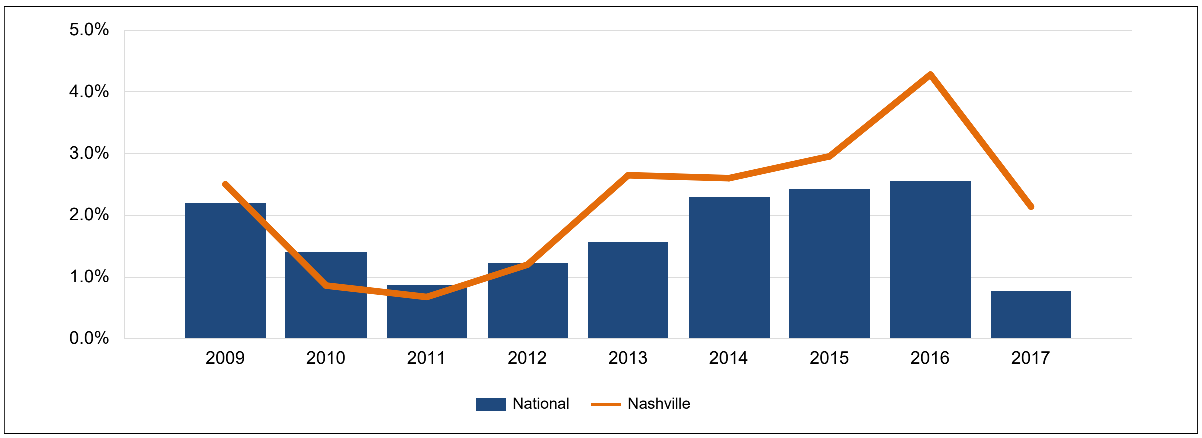
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Nashville Metro	1,727,218	1,758,292	1,793,083	1,828,961	1,865,298

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

Supply

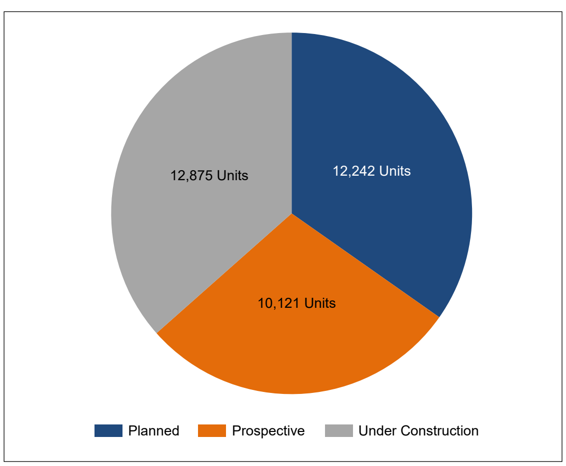
- Some 1,400 units came online in Nashville this year through July, but we expect the number of completions to reach 8,600 units in 2017. This would mark a strong cycle high and would expand stock by 7.4%, putting Nashville in the nation's top spot for deliveries as a percentage of total stock.
- There were almost 13,000 units under construction in the metro as of July, while an additional 22,000 units were in the planning and permitting stages. As supply is slowly catching up with demand, the occupancy rate in stabilized properties dropped to 95.6% during the same month, down 70 points in 12 months.
- Accelerated construction is an ongoing trend, as almost 5,000 units came online in 2016, compared to just 3,250 one year prior. With Nashville's population growing at nearly triple the national rate for the past five years, construction has been struggling to keep up with demand for the better part of the current cycle.
- The influx of highly skilled workers is sustaining demand in core live-work-play areas. More than half of the units completed last year are in upscale communities located within three miles of downtown. Most of the remaining properties delivered in 2016 are located very close to main thoroughfares, such as interstates 40 and 65 or Murfreesboro Pike.

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



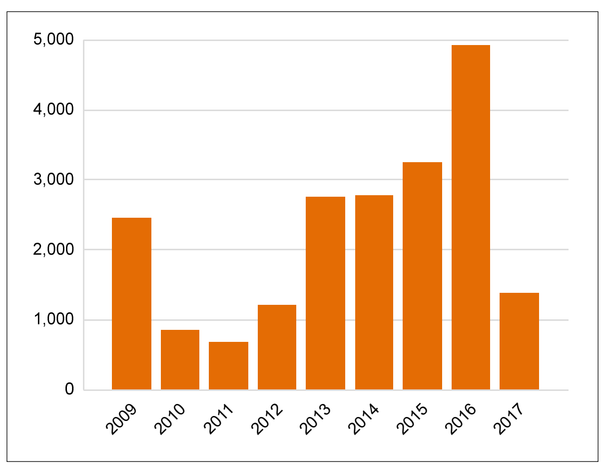
Source: YardiMatrix

Development Pipeline (as of July 2017)



Source: YardiMatrix

Nashville Completions (as of July 2017)

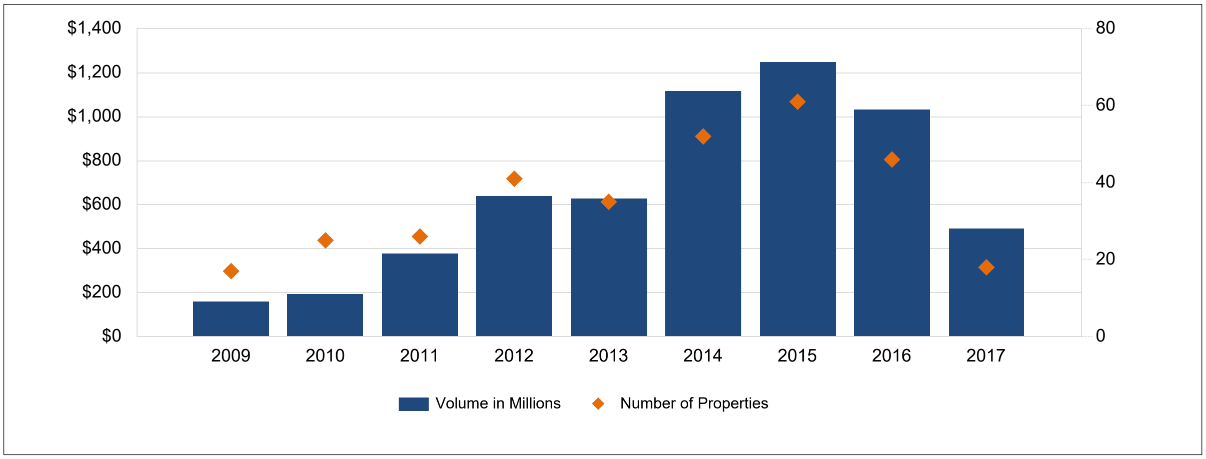


Source: YardiMatrix

Transactions

- Almost $500 million worth of assets changed hands this year through July. Nashville's thriving economy, strong population growth and favorable business climate is attracting both institutional and local investors to the city's multifamily market. As a result, acquisition yields continue to compress, ranging between 4.5% and 5.0% for stabilized Class A properties, as of the end of the second quarter.
- Per-unit prices have steadily risen, reaching a post-recession high of $125,633 for this year's first half, almost on par with the $132,542 national average.
- The largest transaction in the year ending in July was the $97.5 million sale of IMT Cool Springs in Franklin. IMT Capital acquired the 474-unit community from LivCor for $205,696 per unit. The price was 19% higher than the last time the asset changed hands, just two years prior.

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



Source: YardiMatrix

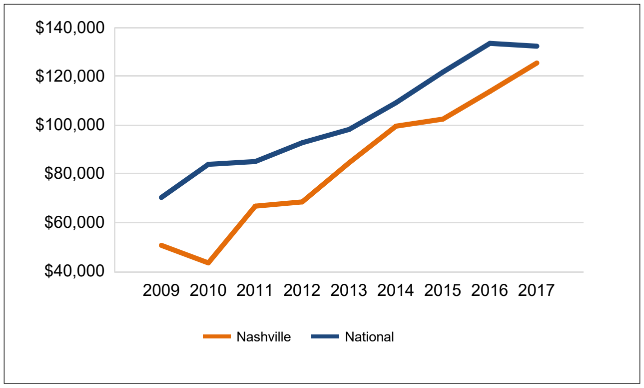
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Franklin	191
Southeast/Brentwood	121
Antioch–West	119
Midtown/Music Row	106
Nashville Shores/Hermitage	88
Hendersonville	72
South Nashville	55
Murfreesboro–West	47

Source: YardiMatrix

[1] From August 2016 to July 2017

Nashville vs. National Sales Price per Unit



Source: YardiMatrix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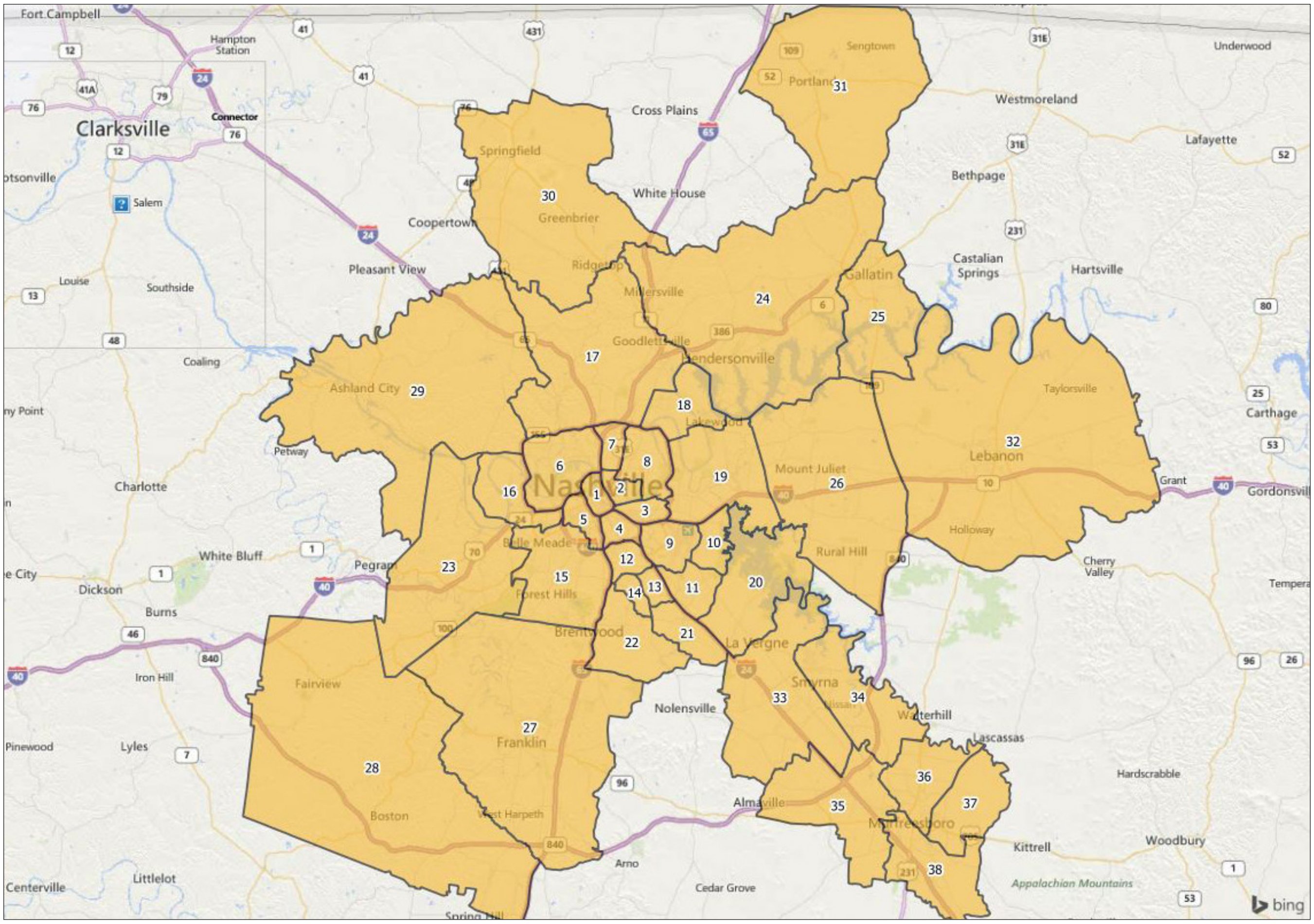
Nashville Submarkets



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

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 or call Ron Brock, Jr., at 480-663-1149 x2404.