

Nashville: Demand Slows

January 2023

Rents Slow but Outpace U.S. YoY

Transaction Volume Marks New High

Construction Starts Soften

NASHVILLE MULTIFAMILY



Softening Demand, Stable Occupancy

Nashville's economic diversification has transformed the area into a prosperous and vibrant center, attracting businesses and residents alike. In addition, the city boasts a lower cost of living compared to many metros, with an average asking rent of \$1,655, trailing the \$1,719 U.S. average. Although demand softened, occupancy in October was still solid, at 95.5%.

Nashville unemployment stood at 2.7% in October, according to the Bureau of Labor Statistics, outperforming nearby Chattanooga (3.3%) and Knoxville (3.1%), as well as Tennessee (3.5%) and the U.S. (3.7%). Employment expanded 6.1%, or 64,100 jobs, in the 12 months ending in September, well above the 4.2% U.S. rate. The information sector remained flat during the period, but no sector lost jobs. Leisure and hospitality led gains (14,300 jobs), followed by Nashville's three largest sectors, for a combined 33,900 positions. The metro's strong and diversified economy has good prospects for withstanding the next recession.

Developers delivered 6,356 units in 2022 through November, the bulk of which were in upscale properties. Another 20,212 units were underway, but the number of construction starts declined. Meanwhile, investment activity remained elevated, with the transaction volume nearing \$3.9 billion for the year, a new record. The price per unit posted a 17% year-over-year increase, to \$238,757, while the U.S. average rose to \$215,443.

Market Analysis | January 2023

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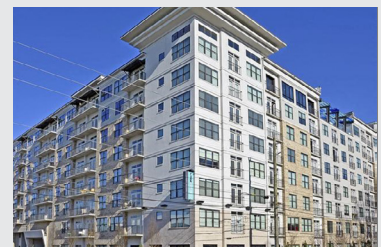
Recent Nashville Transactions

Infinity Music Row



City: Nashville, Tenn.
Buyer: CWS Capital Partners
Purchase Price: \$75 MM
Price per Unit: \$272,727

ParkCentral



City: Nashville, Tenn.
Buyer: Dinerstein Cos.
Purchase Price: \$62 MM
Price per Unit: \$307,500

The Flats at Walden Grove



City: Nashville, Tenn.
Buyer: OpenPath Investments
Purchase Price: \$36 MM
Price per Unit: \$285,714

Shadowbluff



City: Nashville, Tenn.
Buyer: One Real Estate Investment
Purchase Price: \$35 MM
Price per Unit: \$160,591

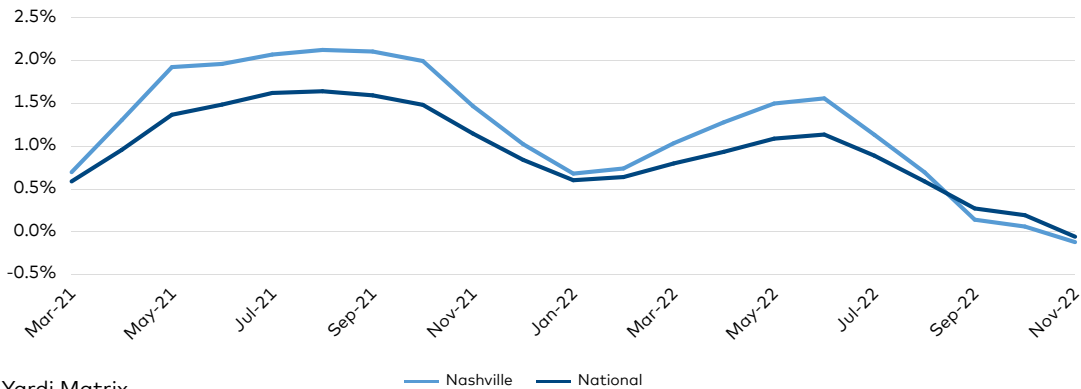
RENT TRENDS

- ▶ Nashville rents contracted 0.1% on a trailing three-month (T3) basis through November, on par with the national average. On an annual basis, rates were up 8.7%, above the 7.0% U.S. figure. Nashville's average asking rent rose to \$1,655, still trailing the \$1,719 national rate.
- ▶ Lifestyle rates marked the second-consecutive month of negative growth, down 0.4% on a T3 basis through November, to \$1,838. Meanwhile, rents in the working-class Renter-by-Necessity segment posted a 0.4% T3 increase for the third straight month, to \$1,383 in November.
- ▶ The slowdown in in-migration and robust deliveries have dented the occupancy rate in stabilized properties, down by 90 basis points in the 12 months ending in October, to 95.5%.

The decline was relatively even across property segments—RBN occupancy declined 80 basis points to 95.5% and in the Lifestyle segment the rate decreased 100 basis points, also to 95.5%.

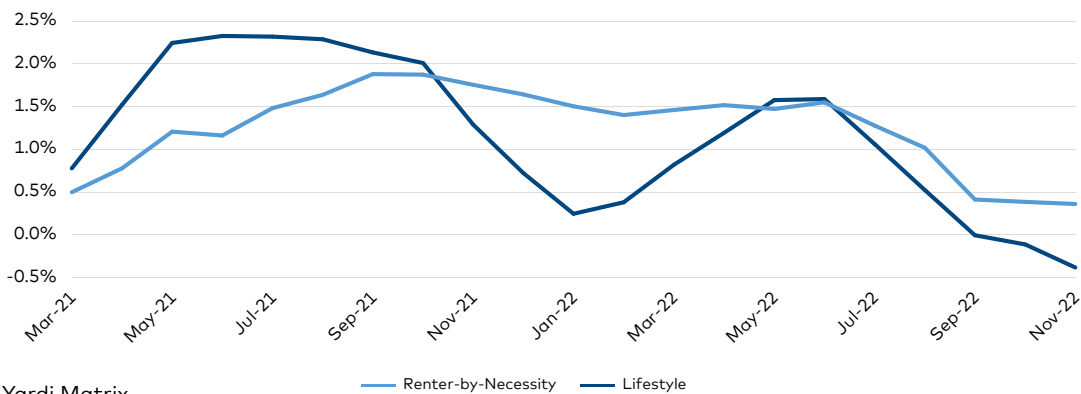
- ▶ Of the 40 submarkets tracked by Yardi Matrix, 16 posted double-digit rent increases, but growth tempered in the most expensive areas—Downtown (7.9% to \$2,390), Vanderbilt (3.1% to \$2,195) and Central (2.6% to \$2,083). Green Hills was the fourth submarket with an average above the \$2,000 mark (4.6% to \$2,039).
- ▶ The single-family rental segment posted one of the slowest performances among major metros, with rents declining 0.4% year-over-year in November, and occupancy dropping 1.2% in the 12 months ending in October.

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

- Except for a brief spike above the 3.0% mark, Nashville's unemployment remained in the 2.0% to 3.0% band throughout 2022, clocking in at 2.7% in October, according to BLS data. The metro performed better than the state (3.5%) and the U.S. (3.7%), as well as Chattanooga (3.3%) and Knoxville (3.1%).
- Employment growth gradually softened from the 9.2% peak in September 2021, posting a 6.1% expansion in the 12 months ending in September 2022, well above the 4.2% U.S. rate. Although leisure and hospitality led gains (14,300 jobs), professional and business services (13,000) and education and health services (11,600 jobs) were not far behind. Over the past decade, the metro outgrew and diversified its once hospitality-based economy, which, combined with less regulation, helped boost its appeal to businesses and residents alike. This proved especially beneficial during the pandemic, as the metro's affordability, paired with the work-from-home lifestyle, propelled Nashville among the country's preferred cities for Millennials.
- Nashville's welcoming tax-base structure and fast-growing infrastructure are complemented by a state government that is keen on attracting businesses. Amazon and Oracle have already opened large offices here and continue to expand. This will support the city's transformation, which targets luxury tourism development.

Nashville Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	129	11.4%
60	Professional and Business Services	196	17.3%
65	Education and Health Services	170	15.0%
40	Trade, Transportation and Utilities	219	19.4%
15	Mining, Logging and Construction	58	5.1%
30	Manufacturing	84	7.4%
90	Government	125	11.1%
55	Financial Activities	77	6.8%
80	Other Services	45	4.0%
50	Information	28	2.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Nashville gained 17,498 residents in 2021, up 0.9% year-over-year. That marked a good performance but was still sharply down from the 3.1% expansion registered in 2020.
- However, compared to the 0.1% national rate in 2021, the metro's growth was remarkable.

Nashville vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Nashville	1,931,811	1,958,610	2,020,285	2,037,783

Source: U.S. Census

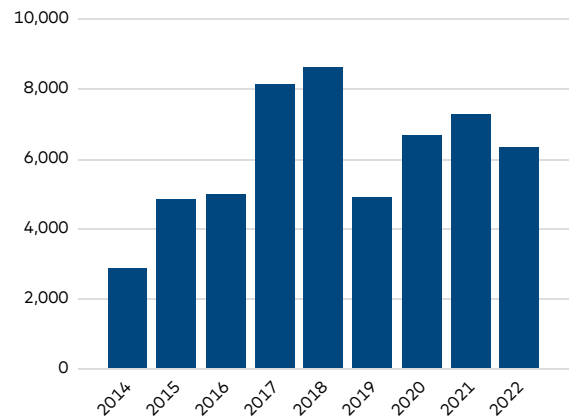
SUPPLY

- ▶ Developers delivered 6,356 units in 2022 through November, 3.7% of existing stock, nearly double the 2.0% U.S. rate. In response to market demand for upscale apartments, of the 29 properties delivered through November, all but one were high-end Lifestyle communities.
- ▶ The construction pipeline consisted of 20,212 units underway and 72,000 units in the planning and permitting stages at the start of December last year. Despite lingering housing demand, the number of construction starts dropped in 2022 to 5,901 units through November, well below the 8,847 apartments that broke ground during the same interval of 2021.
- ▶ At the end of the year, the pipeline was still primarily comprised of upscale units, accounting for 85% of all units under construction. Of the remaining portion, nearly two-thirds were in fully affordable communities.
- ▶ Construction activity was broad but uneven across the map, with 24 of the 40 submarkets tracked by Yardi Matrix having at least 50 units underway. More so, eight submarkets had more than 1,000 units under construction, led by Downtown (2,359 units), Nashville-Central

South (1,920 units) and Nashville-Southeast (1,631 units).

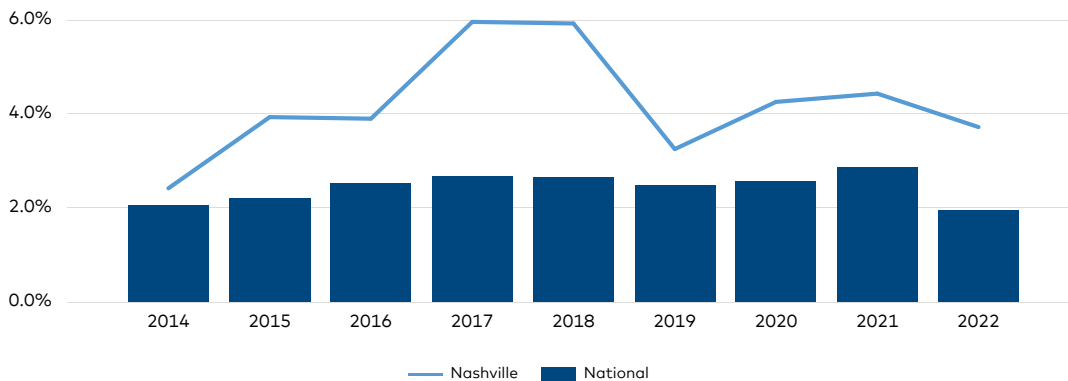
- ▶ The largest project delivered in 2022 through November was the 375-unit 805 Lea in Downtown Nashville. The Brian Gibbs Property Management asset includes retail space on the first floor and was built with aid from a \$106 million construction loan funded by Goldman Sachs.

Nashville Completions (as of November 2022)



Source: Yardi Matrix

Nashville vs. National Completions as a Percentage of Total Stock (as of November 2022)



Source: Yardi Matrix

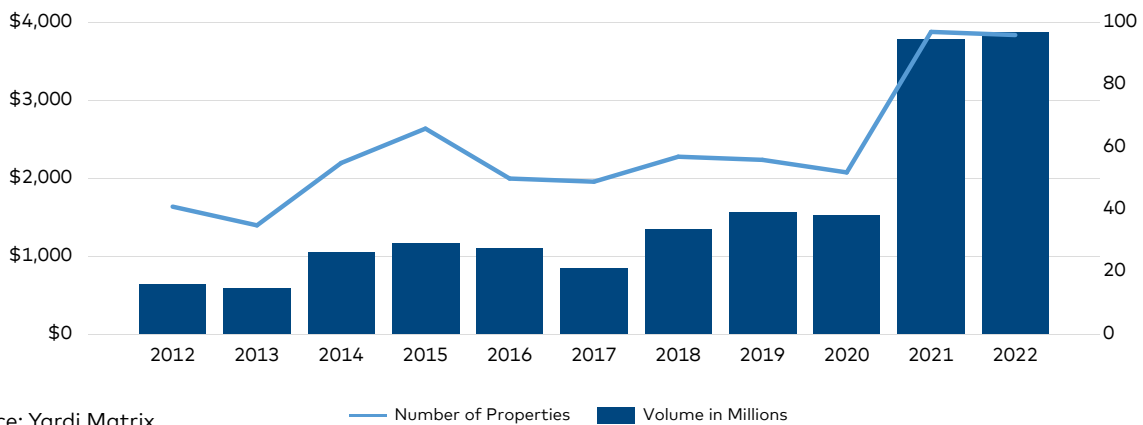
TRANSACTIONS

- ▶ Transactions clocked in at \$3.9 billion in 2022 through November, a new high. However, the metro was not immune to rising interest rates. Following a remarkable second quarter, when more than \$1.7 billion in assets traded, sales moderated in the third quarter.
- ▶ With Nashville's possibly peaking allure, investors' affinity was slightly more nuanced when it came to upscale assets, as 54% of sales registered through November were for Lifestyle prop-

erties. Combined with strong investor competition, the price per unit rose 17% year-over-year, to \$238,757, above the \$215,443 U.S. average.

- ▶ Notable transactions included the sale of Overall Creek Apartment Homes, a 384-unit property in Murfreesboro, sold by Chandler Real Estate to Denholtz Properties for \$104.5 million, or \$272,005 per unit. The sale was subject to a \$50 million loan funded by Natixis.

Nashville Sales Volume and Number of Properties Sold (as of November 2022)



Source: Yardi Matrix

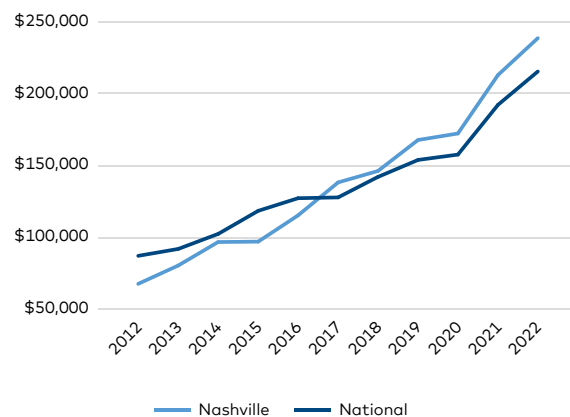
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Murfreesboro	629
Vanderbilt	470
Nashville - Southwest	422
Nashville - Southeast	373
Nashville - South	330
Nashville - West	225
Nashville - Central North	220

Source: Yardi Matrix

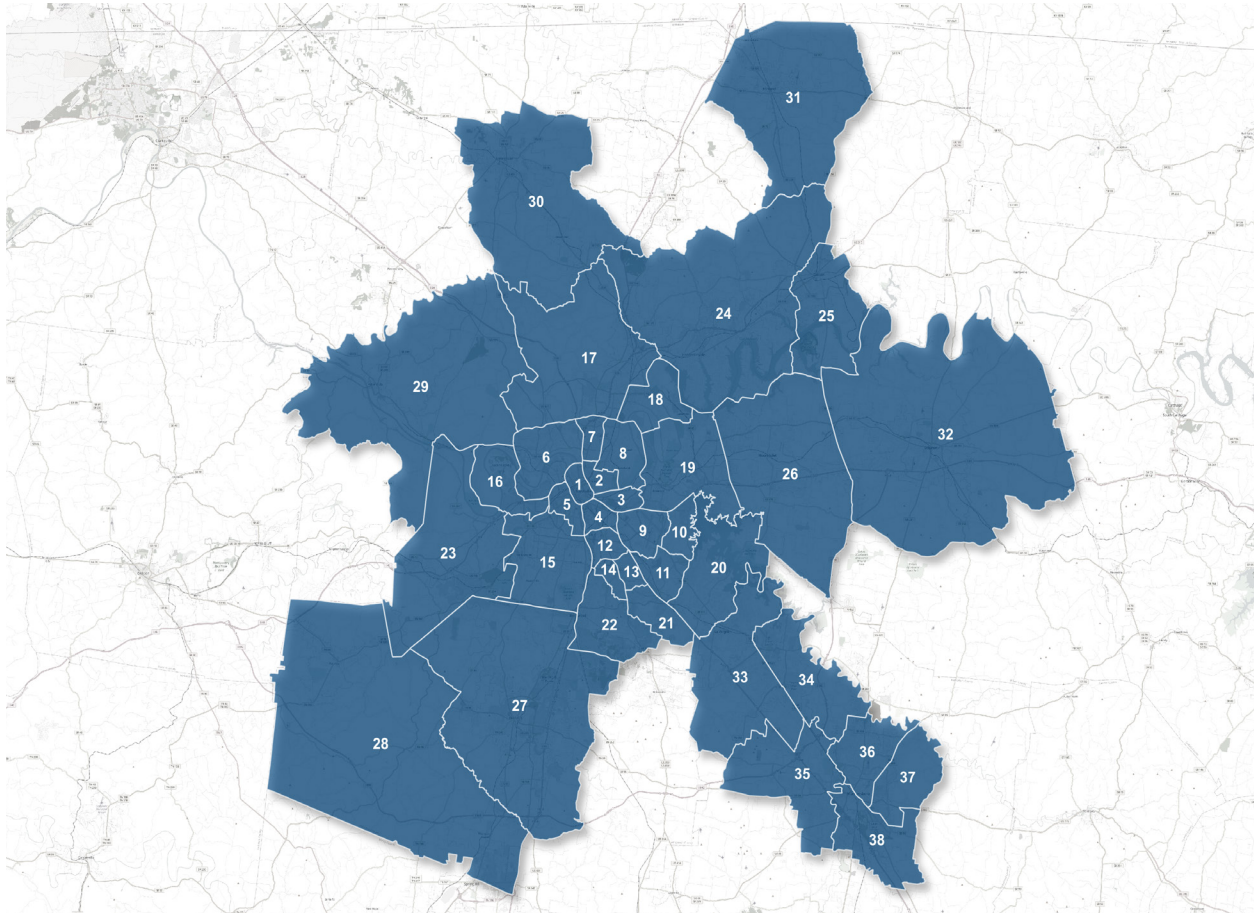
¹ From December 2021 to November 2022

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 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 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, 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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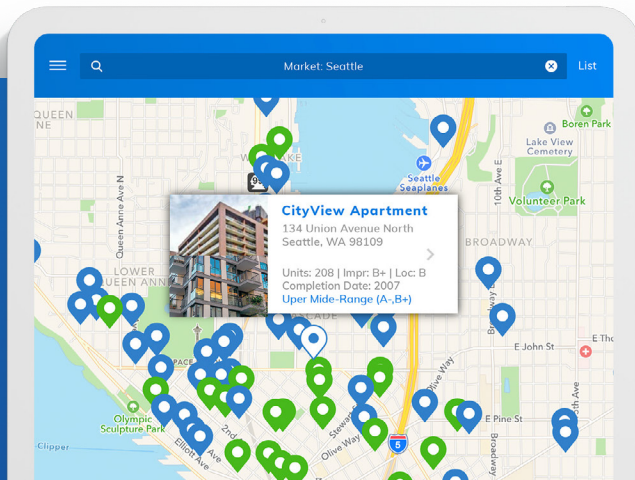
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