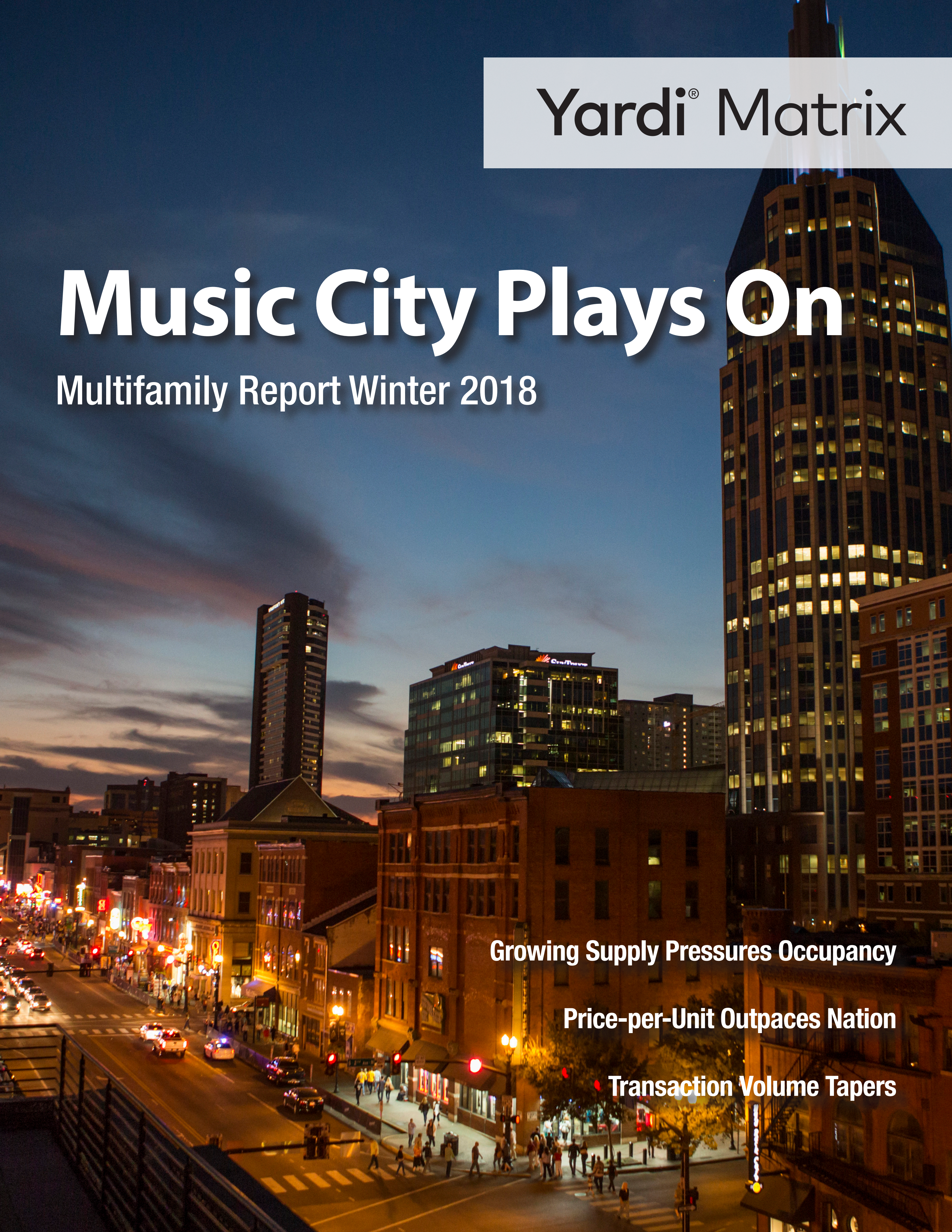
Yardi® Matrix

Music City Plays On

Multifamily Report Winter 2018



Growing Supply Pressures Occupancy

Price-per-Unit Outpaces Nation

Transaction Volume Tapers

Market Analysis

Winter 2018

Contacts

Paul Fiorilla

Associate Director of Research

Paul.Fiorilla@Yardi.com

(800) 866-1124 x5764

Jack Kern

Director of Research and Publications

Jack.Kern@Yardi.com

(800) 866-1124 x2444

Author

Anca Gagiuc

Associate Editor

Supply Moderates Rent Growth

Nashville's growing population and booming economy, driven by its professional and business services and its leisure and hospitality sectors, are maintaining healthy housing demand. Although rent growth has slowed, the average rent rose 0.5% year-over-year through November, trailing the national rate by 200 basis points. The lack of affordable units and record deliveries are dampening growth.

Employment gains are diversified, occurring across all sectors except information. Music City added 29,900 jobs through September, up 3.3% year-over-year and well above the 1.9% national average. The metro's business climate and its well-established health-care sector will likely support the trend, with global health technology company Royal Philips announcing the addition of 800 positions to its local team in the upcoming year.

Healthy fundamentals and the potential for economic growth are drawing developers and investors alike. Some $890 million in multifamily assets changed hands through October 2017, marking a slight drop in transaction volume after 2015's cycle high. Despite a slight deceleration in investment totals, the metro's per-unit price rose by 23.2% year-over-year to $138,145, surpassing the national average for the first time this cycle. Apartment construction is robust, with about 4,150 units delivered in 2017 through November and nearly 12,000 units underway, laying the groundwork for tepid growth.

Recent Nashville Transactions

IMT Cool Springs–201 Gillespie Drive

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

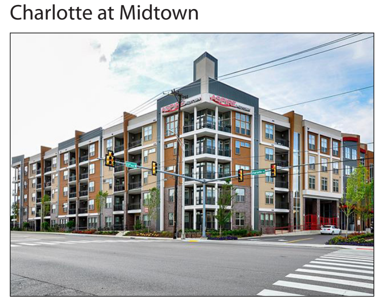
IMT Cool Springs–101 Gillespie Drive

City: Franklin, Tenn.
Buyer: IMT Capital
Purchase Price: $85 MM
Price per Unit: $221,114

Brandywine I & II

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

Charlotte at Midtown



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

To Subscribe

Hollie Zepke

Audience Development Specialist

Hollie.Zepke@Yardi.com

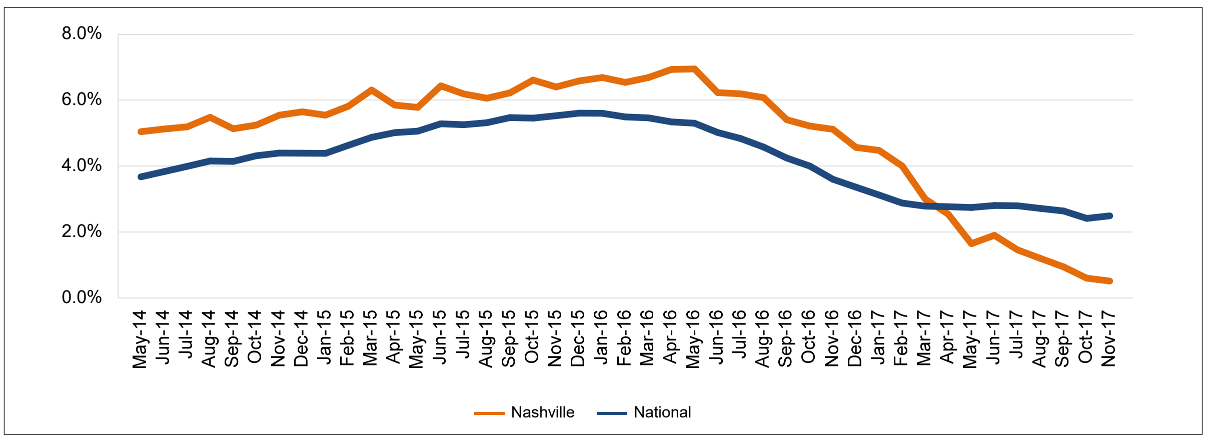
(800) 866-1124 x5389

On the cover: Photo by JTSorrell/iStockphoto.com

Rent Trends

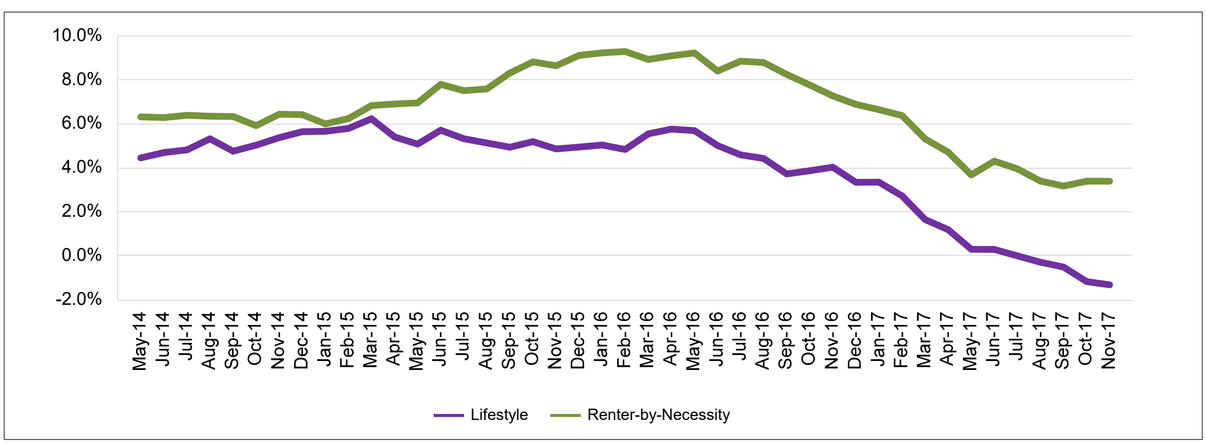
- Rents in Nashville rose a mere 0.5% year-over-year through November, to $1,177, trailing the $1,358 national average. Last year's apartment inventory boost of nearly 5,000 units tempered rent growth across the metro, which saw a soft deceleration starting with May 2016.
- Rents in the working-class Renter-by-Necessity segment led growth, up 3.4% year-over-year to $976, while rates for Lifestyle assets contracted by 1.3% to $1,351. The area's strong economy and attractive demographics—as well as the metro's three universities—will maintain consistent demand for housing, in turn pushing further rent appreciation.
- Rent growth was uneven, with roughly one third of Nashville's submarkets contracting over the past year, with Downtown–North registering the steepest drop (-4.3% to $1,659). Rents also contracted in Midtown/Music Row, the metro's most expensive submarket (-1.5% to $1,824). In Goodlettsville, the metro's cheapest submarket, rent growth was among the highest across Nashville (up 6.6% year-over-year to $772).
- The occupancy rate for stabilized properties was 95.1%, down 100 basis points in 12 months. Rising deliveries have diluted the available housing stock, as renters quickly move into new assets that are still stabilizing.

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)

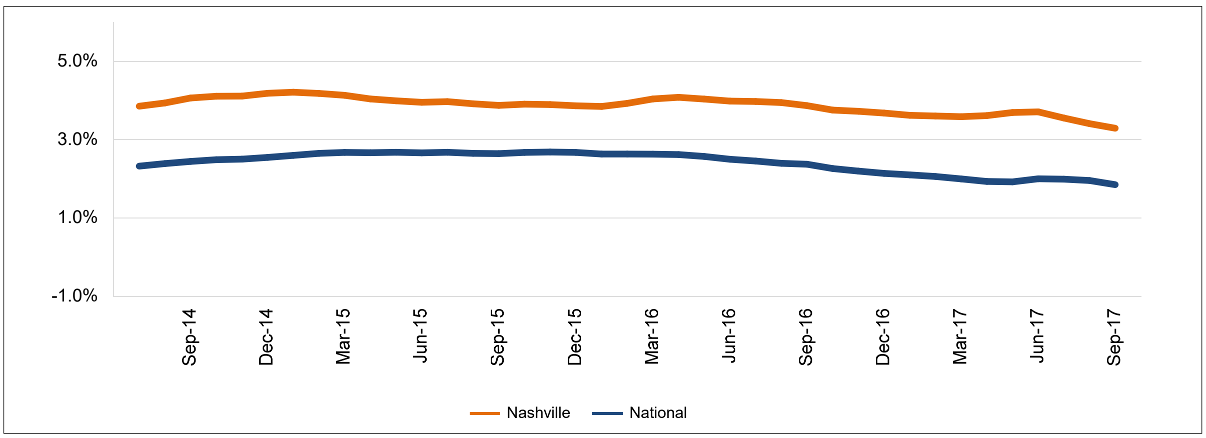


Source: YardiMatrix

Economic Snapshot

- Nashville added 29,900 jobs in the 12 months ending in September, up 3.3% year-over-year, well above the 1.9% U.S. rate. Job growth has occurred across most industries, except in the information sector, which contracted by 400 jobs. The unemployment rate was at 2.3% in October, requiring employers to seek talent elsewhere.
- Music City's booming economy was recently ranked as the third-fastest in the nation by Forbes. The metro's professional and business services sector led growth, with the addition of 6,900 positions. Since 2011, Nashville's job count in the sector has expanded by 41.5%, the highest growth rate of any major metro, thanks to low taxes and a pro-regulatory environment. Management and technical consulting, architecture and related services have led this growth. The metro has been ranking second in music production since the industry boom of the 1960s, a constant source of improvement for its leisure and hospitality sector, which added 6,800 jobs. The industry is expected to remain strong, further supported by booming tourism.
- During the first three quarters of 2017, office completions totaled 2.1 million square feet in 11 properties, per Cushman & Wakefield. About 1.8 million square feet are currently under way, six of which were slated for completion by year's end. Notable leases include Bank of America at 222 2nd Ave. North in the Central Business District and HealthStream at Capitol View-Block E.

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	165	16.6%	6,900	4.4%
70	Leisure and Hospitality	114	11.5%	6,800	6.3%
40	Trade, Transportation and Utilities	186	18.8%	5,400	3.0%
65	Education and Health Services	152	15.3%	3,800	2.6%
90	Government	121	12.2%	3,400	2.9%
15	Mining, Logging and Construction	43	4.3%	2,000	4.9%
30	Manufacturing	83	8.4%	1,200	1.5%
55	Financial Activities	64	6.5%	400	0.6%
80	Other Services	40	4.0%	400	1.0%
50	Information	23	2.3%	-400	-1.7%

Sources: YardiMatrix, Bureau of Labor Statistics

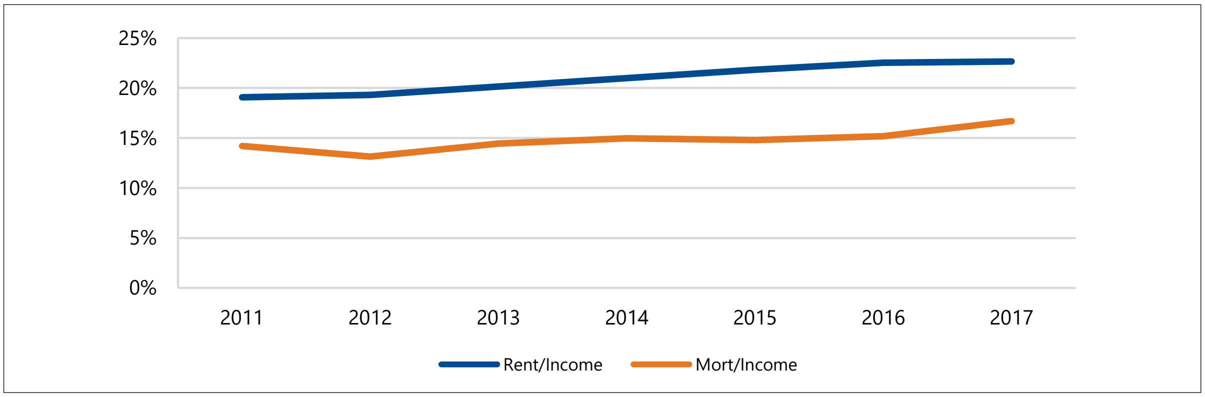
Demographics

Affordability

- The median home value continued to surge, up 54% since the 2011 trough, hitting $224,590 in 2017. Owning is less pricey than renting in Nashville, representing only 17% of the area's median income. Rents rose to $1,177 in November, accounting for 23% of the metro's median income.

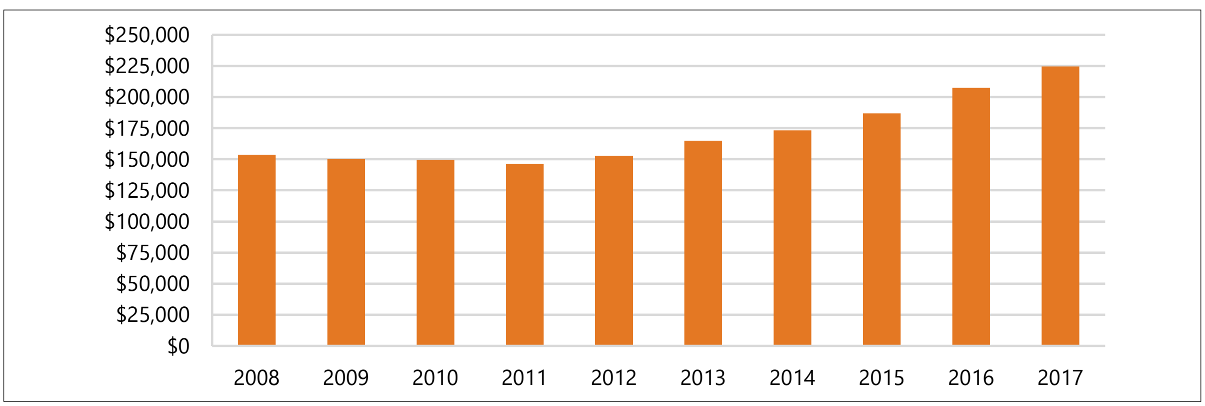
- Mayor Berry's housing report shows that 18,000 residents currently need affordable housing. Projections rise to about 31,000 by 2025. The city council approved the Mayor's plan to authorize $4.6 million from the city's Barnes Fund for Affordable Housing in November. The measure will give grants to nine non-profits to build affordable housing projects in the metro.

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 more than 189,000 residents since 2010, an 11.3% increase, well above the 4.5% national rate during the same interval.

- Last year, the metro added more than 36,000 residents.

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

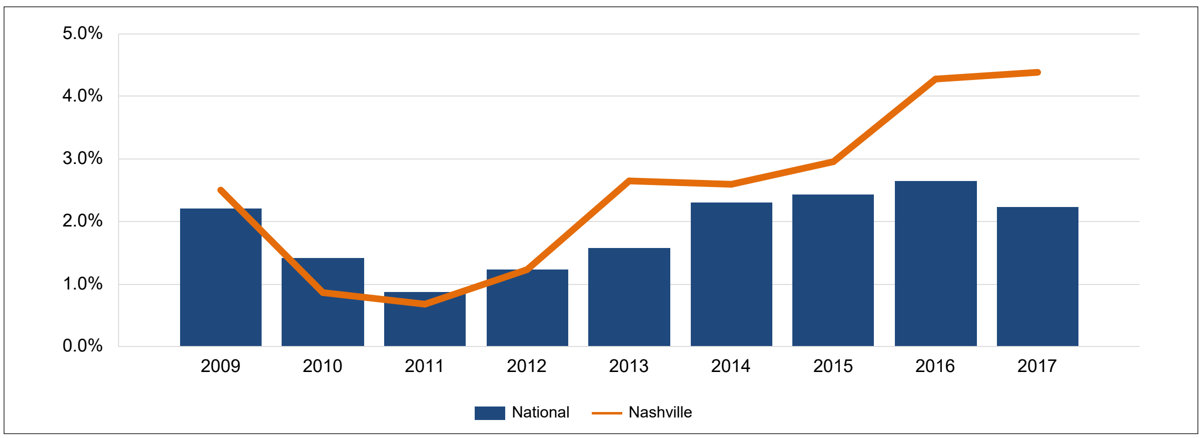
Supply

- Some 4,150 units were delivered in Nashville through November 2017, with more than 3,200 slated for completion over the following few months. That's 3.5% of total housing stock, well above the 2% national rate and roughly in line with last year's cycle high, when nearly 5,000 units came online. Demand is supported by healthy demographic and employment growth.

- The development pipeline had nearly 12,000 units under construction as of November, and an additional 23,000 units in the planning and permitting stages. Most of the construction activity is concentrated in Downtown–North (3,218 units), Midtown/Music Row (2,438 units), Murfreesboro–West (1,107 units) and Franklin (1,019 units). The fewest new apartments under construction were in East Nashville/Inglewood, where the 53-unit The Eastland is estimated to be delivered by year's end.

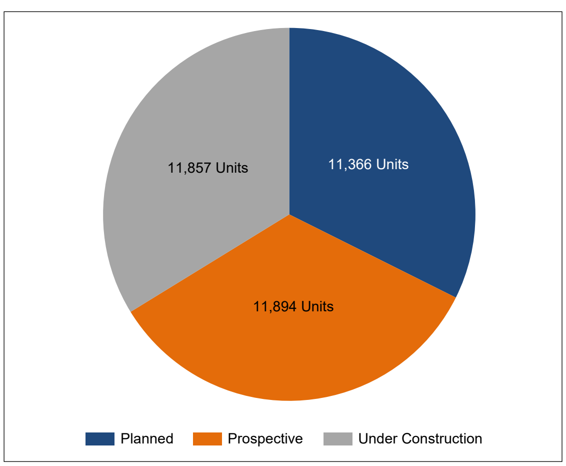
- The largest delivery in 2017 was LC Providence, a 451-unit community located in the Mount Juliet submarket, owned by Lifestyle Communities. The largest multifamily development under way was Giarratana Development's 505 project, which consists of 18 buildings with 543 units. The property is slated for completion in early 2018.

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



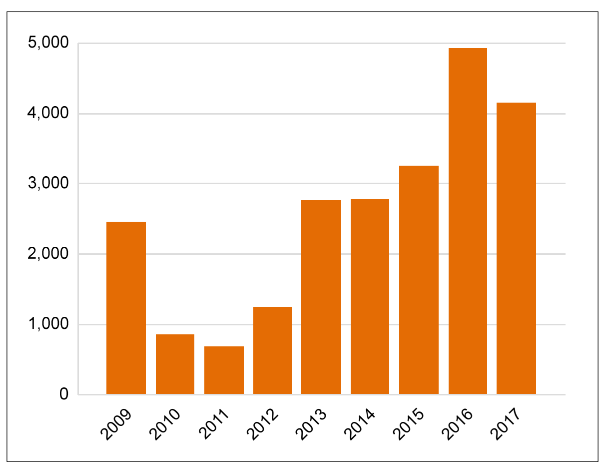
Source: YardiMatrix

Development Pipeline (as of November 2017)



Source: YardiMatrix

Nashville Completions (as of November 2017)

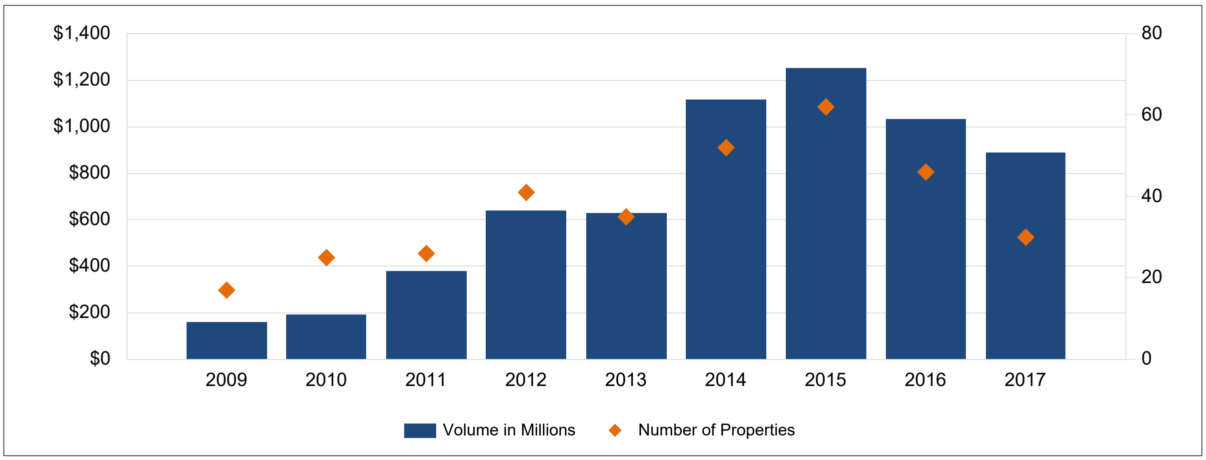


Source: YardiMatrix

Transactions

- Transaction activity continued at a strong pace, with $890 million in assets trading in 2017 through October. However, that's still well off the $1.3 billion cycle high the market hit in 2015. Despite the moderation, Nashville remained attractive to investors looking to expand in secondary markets.
- Property values continued their climb, as Nashville's price per unit rose 23.2% through October, compared to 2016. At $138,145, the per-unit price was above the national average for the first time this cycle.
- With more than $240 million in total transactions, Franklin led investor interest year-over-year through October. The submarket also tops the list of the metro's largest sales for the same period: the 474-unit IMT Cool Springs–201 Gillespie Drive, acquired by IMT Capital from LivCor for $97.5 million, traded for $205,696 per unit. Built in 1997, the property was 90.7% occupied as of October.

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



Source: YardiMatrix

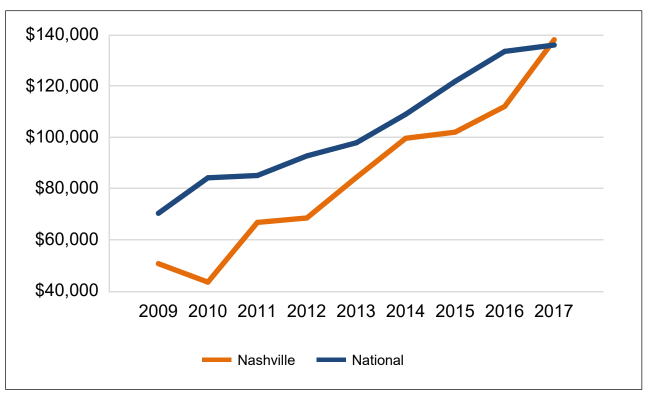
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Franklin	240
Antioch–West	140
Midtown/Music Row	86
Hendersonville	85
Southeast/Brentwood	76
Nashville Shores/Hermitage	62
Antioch–East	50
Murfreesboro–West	47

Source: YardiMatrix

[1] From November 2016 to October 2017

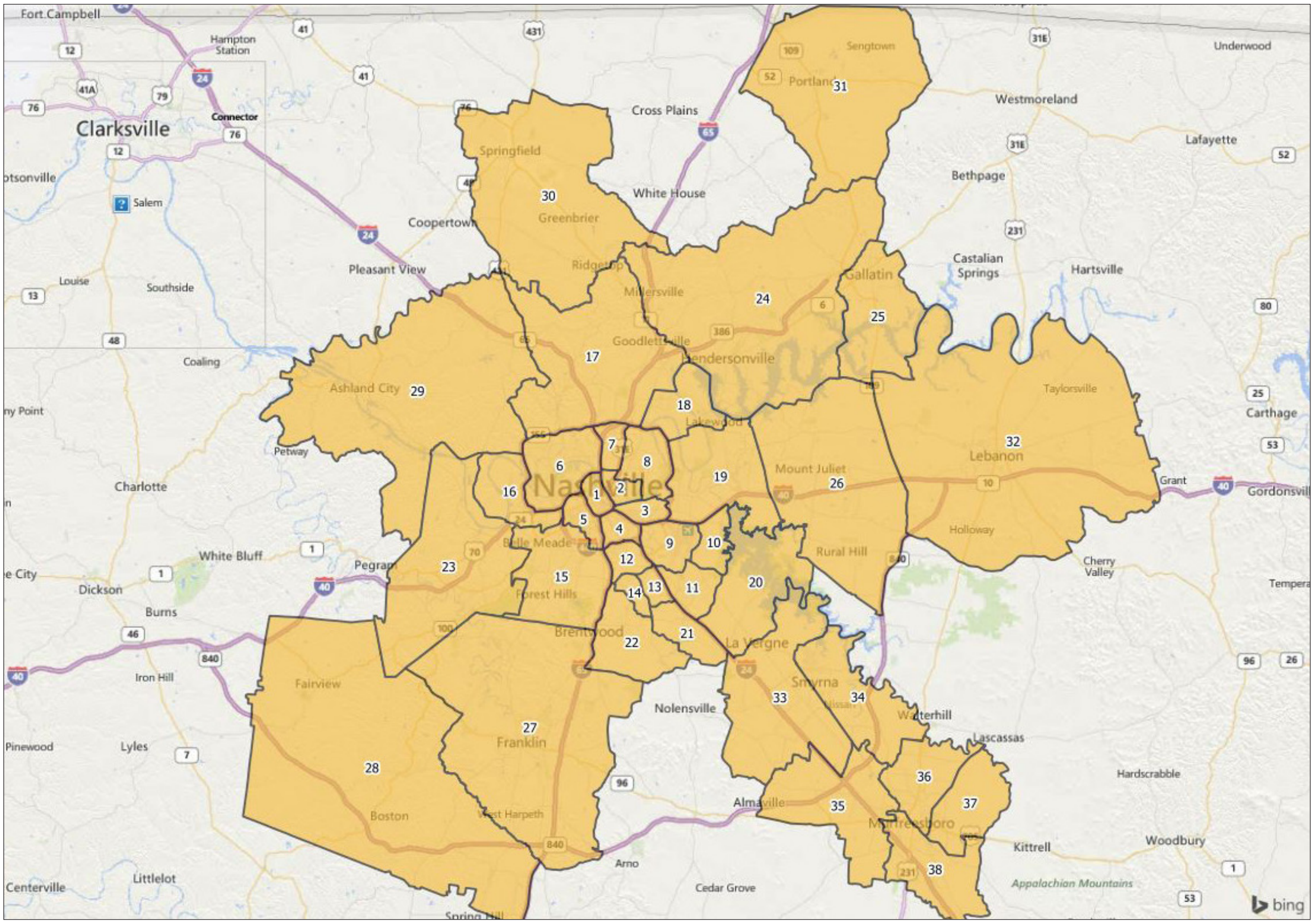
Nashville vs. National Sales Price per Unit



Source: YardiMatrix

Photo by DenisTangneyJr/iStockphoto.com

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.