Yardi Matrix

MULTIFAMILY REPORT

Growth Is Back In Nashville

June 2023

Rent Improvement on Par With US

Employment Gains Decelerate

Investment Volume Sinks, PPU Drops

NASHVILLE MULTIFAMILY

Yardi Matrix

Spring Brings Rate Uptick

The start of a new leasing season has aided Nashville's rental market. After five months of declines, multifamily asking rents rose 0.2% on a trailing three-month basis through April, to $1,659, on par with the national figure. Meanwhile, the single-family rental sector recorded strong gains, up 22.5% year-over-year through April. Softening demand was reflected in Nashville's occupancy rate in stabilized properties, down 1.3% in the 12 months ending in March to 94.9%, with a steeper decline in the Lifestyle segment.

Nashville's labor market is tight, with unemployment at 2.5% in March, surpassing Knoxville (2.8%), Chattanooga (3.0%), the state (3.4%) and the U.S. (3.5%). Job expansion continued to decelerate, clocking in at 5.6%, or 49,000 jobs, in the 12 months ending in February, still well ahead of the 3.4% national figure. All sectors expanded, with leisure and hospitality in the lead with 11,800 new jobs, boosted by the tourism industry's record activity in 2022, which is expected to continue through 2023. Professional and business services gained 9,700 positions, while the office sector had 4.6 million square feet of space under construction.

Developers delivered 1,659 units in 2023 through April and had another 22,446 underway, but construction starts are lagging. Yardi Matrix anticipates an annual 5.1% stock expansion. Meanwhile, investment amounted to just $285 million in the first four months of the year, for a price per unit that dropped 12%.

Market Analysis | June 2023

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Anca Gagiuc
Senior Associate Editor

Recent Nashville Transactions

Richland Falls

City: Murfreesboro, Tenn.
Buyer: Freeman Webb
Purchase Price: $59 MM
Price per Unit: $214,855

Hunters Creek

City: Lebanon, Tenn.
Buyer: TriWest Development
Purchase Price: $41 MM
Price per Unit: $215,625

The Falls at Mill Creek

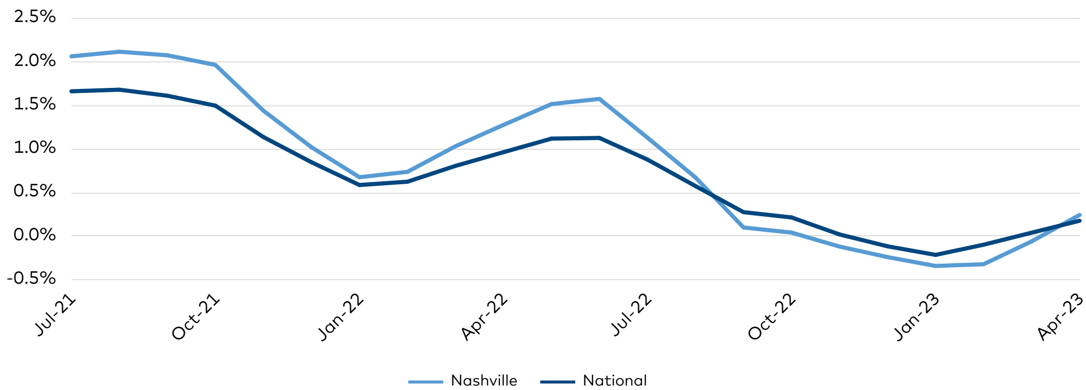
City: Nashville, Tenn.
Buyer: JSB Capital Group
Purchase Price: $35 MM
Price per Unit: $171,569

On the cover: Photo by Jeremy Poland/iStockphoto.com

RENT TRENDS

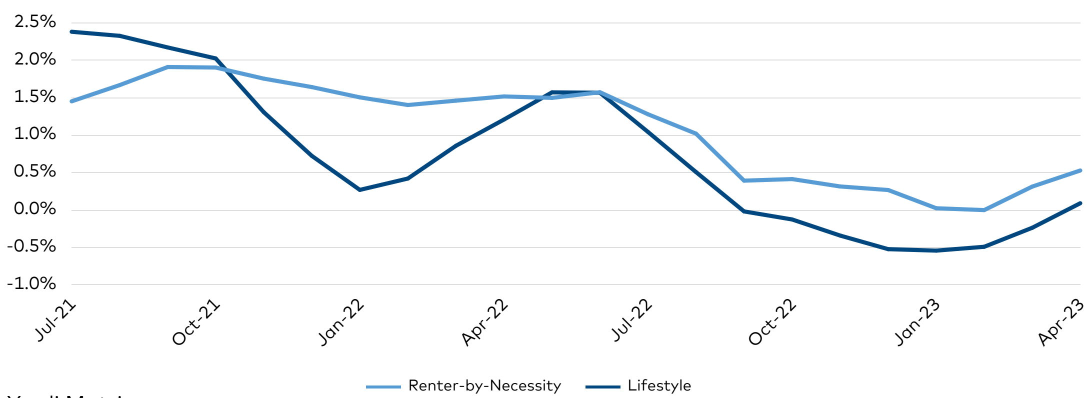
- Rents rose 0.2% on a trailing three-month (T3) basis through April, marking the first increase after five months of losses. At $1,659, Nashville's average asking rate was just below the $1,709 national figure. Overall growth in the metro was aligned with the U.S., at 3.2%, on a year-over-year basis.
- The working-class Renter-by-Necessity segment led rent gains, up 0.5% on a T3 basis through April, to $1,402. Meanwhile, Lifestyle figures inched up 0.1% to $1,830, marking the first increase after six months of depreciation.
- The occupancy rate in stabilized properties decreased 1.3% in the 12 months ending in March, to 94.9%. Mirroring rent performance, occupancy in the Lifestyle segment lagged, down by 1.4% to 94.8%, while RBN occupancy slid 1.1% to 95.0%.
- Rents decreased in four submarkets on a year-over-year basis, with the biggest decline registered in Nashville–Central South (-2.4% to $1,811), followed by Nashville–Vanderbilt (-2.0% to $2,153) and Nashville–Central (-1.3% to $2,057). Only Downtown Nashville had an average rate higher than the latter two, at $2,370, following a 3.5% increase.
- Nashville single-family rentals posted the highest increase in rent gains among the top 34 markets tracked by Yardi Matrix, up 22.3% year-over-year through April. Meanwhile, the national rate was up just 2.3%. Nashville SFR occupancy, however, was down 1.6% during the 12 months ending in March.

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

- Nashville unemployment fell to its lowest rate since December 2019, according to data from the Bureau of Labor Statistics. In March, the rate stood at 2.5%, 30 basis points below February according to data from the BLS. The metro outperformed Knoxville (2.8%) and Chattanooga (3.0%), as well as the state (3.4%) and the U.S. (3.5%). Nashville recouped the jobs lost during the height of the pandemic fairly quickly, with expansion underway since November 2021.

- Job growth remained on a decelerating trend, at 5.6%, or 49,000 jobs, in the 12 months ending in February, well above the 3.4% U.S. rate. All sectors added jobs, led by leisure and hospitality (11,800 jobs). Nashville tourism posted record activity in 2022, with 9.5 million hotel room nights sold and visitor spending estimated at $8.8 billion, according to Nashville Convention & Visitors Corp. The metro has several large-scale events planned this year, expected to generate $9.3 billion for the year, up 5% from 2022.

- Professional and business services gained 9,700 positions and is poised for continued growth. Although office deliveries slowed down across the metro, as of January, Nashville had 4.6 million square feet of office space under construction, including the $1 billion mixed-use Nashville Yards, the 535,000-square-foot Circle South, and the 370,000-square-foot mixed-use project at 5 City Blvd., slated to come online in 2024.

Nashville Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	125	10.9%
60	Professional and Business Services	201	17.5%
40	Trade, Transportation and Utilities	227	19.8%
65	Education and Health Services	168	14.6%
90	Government	125	10.9%
15	Mining, Logging and Construction	59	5.1%
50	Information	33	2.9%
30	Manufacturing	87	7.6%
80	Other Services	47	4.1%
55	Financial Activities	76	6.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Nashville gained 17,498 residents in 2021, for a 0.9% expansion, well above the 0.1% U.S. rate.

- Between the 2010 census and 2021, population growth in the metro was at a substantial 21.6%, nearly triple the 7.3% national rate.

Nashville vs. National Population

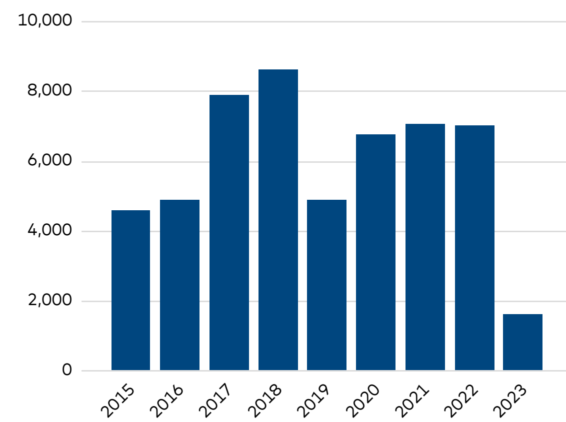
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Nashville	1,931,811	1,958,610	2,020,285	2,037,783

Source: U.S. Census

SUPPLY

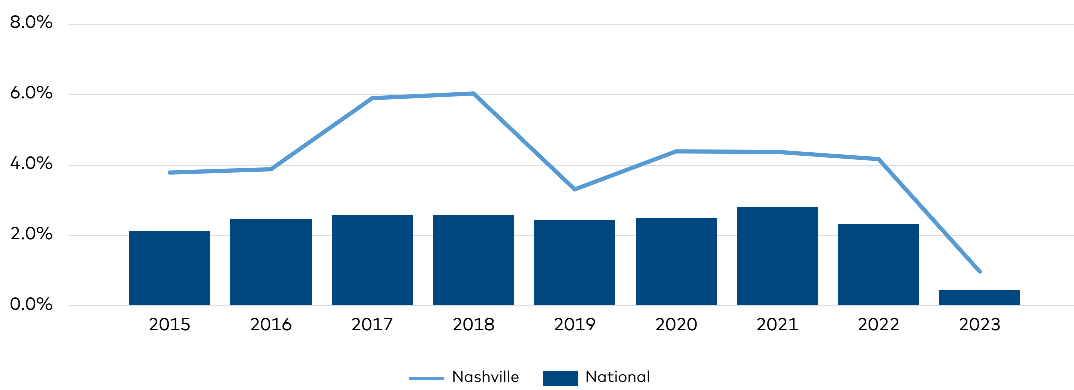
- Developers delivered 1,659 units in 2023 through April, 1.0% of total stock and double the U.S. rate. All six projects completed were Lifestyle communities.
- Nashville's pipeline comprised 22,446 units underway and another 75,000 in the planning and permitting stages as of April. Of these, 13,000 units have 2023 completion dates, but current economic and logistic challenges will likely cause delays. Yardi Matrix estimates that Nashville's stock will grow by 8,693 units (5.1% of existing inventory) in 2023, outperforming the annual stock expansion of the past three years. Pipeline composition was heavily tilted toward the Lifestyle segment, accounting for 86% of all units under construction. Of the remaining 14%, 10% were units in fully affordable communities.
- New construction nearly came to a halt in 2023 through April, with just 302 units breaking ground, well behind the 4,147 units that started construction during the same period of 2022. Last year holds the record for construction starts, with 11,711 units in 43 properties.
- Development was limited to 21 of the 40 submarkets tracked by Yardi Matrix. Of these, eight had at least 1,000 units underway, equal to nearly 70% of the pipeline. Downtown (3,394 units), Nashville Central (2,132 units) and Nashville–Central South (2,050 units) led the pipeline.
- The largest project delivered through April was The Harper, a 328-unit Lifestyle property in Franklin, built by Embrey Partners with aid from a $54.5 million construction loan originated by Texas Capital Bank.

Nashville Completions (as of April 2023)



Source: Yardi Matrix

Nashville vs. National Completions as a Percentage of Total Stock (as of April 2023)



Source: Yardi Matrix

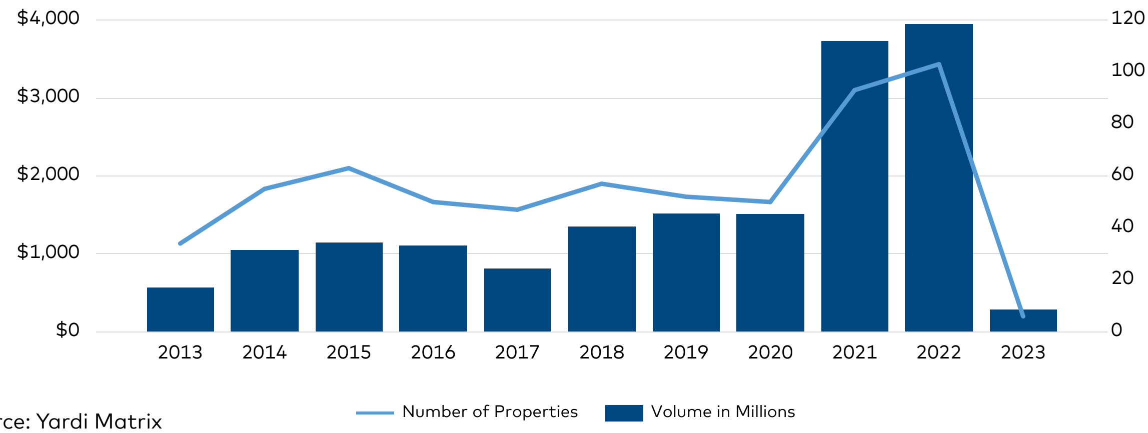
TRANSACTIONS

- Nashville investment activity moderated in 2023, with just $285 million in multifamily assets trading through April, $1 billion short of the volume recorded during the same interval last year. Lingering financing woes will likely keep transactions limited in the short term.

- Although nearly two-thirds of sales comprised Lifestyle units, the price per unit decreased by 12% this year through April. PPU reached $197,903, shrinking the gap between the metro and the $178,275 U.S. average. This was the first time since 2020 that the price fell below $200,000.

- The largest sale recorded in Nashville through April was HHHunt's acquisition of Abberly Riverwalk. The 304-unit asset was sold by Wood Partners, and the buyer paid $106 million, or $348,684 per unit, with aid from a $63 million loan originated by Asia Capital Real Estate.

Nashville Sales Volume and Number of Properties Sold (as of April 2023)



Source: Yardi Matrix

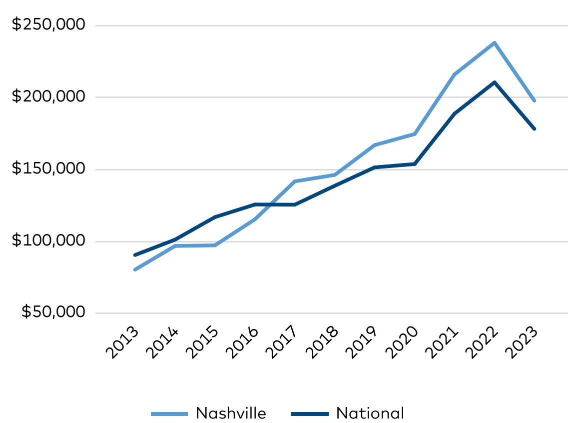
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Murfreesboro	442
Nashville–Vanderbilt	422
Nashville–Southeast	332
Nashville–Central North	326
Nashville–South	191
Nashville–West	169
Nashville–Airport	147

Source: Yardi Matrix

[1] From May 2022 to April 2023

Nashville vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

Is It Too Late to Invest in Opportunity Zones?

By Beata Lorincz

The Opportunity Zone program took off relatively slowly in 2017, but 2022 was the strongest year for OZ investment since its inception. And as interest for projects with social impact continues to rise, there's still room for growth for this economic development tool. Noah Weiss, managing director & CEO of Atlas Real Estate Partners, weighs in on the program's benefits and shares details about the company's experience with OZ investment.

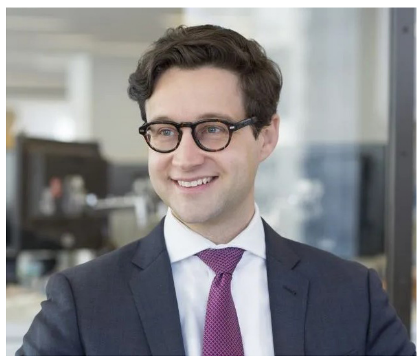
What are the main benefits of investing in OZ projects?

The two main benefits of investing in OZ projects are: deferral of capital gains tax recognition for invested capital gains until 2026 and total elimination of capital gains upon exiting after holding 10 years. In addition to the tax benefits for investors, the OZ program has accelerated developments that may not have otherwise gotten done, adding critical housing to under-invested communities.

Are OZ projects easier or harder to finance than regular residential developments?

I wouldn't say that OZ projects are easier or harder to finance than regular projects when they are high-quality, well-located multifamily assets. However, lenders do appreciate the fact that we are long-term holders that are aligned with the property for more than 10 years.

What is the top challenge in developing residential projects within OZs?



The main challenge in developing residential projects in many OZs is access to supporting retail and other residential amenities such as parks, schools etc. However, not all OZs are created equal and we are hyper-focused on developing in areas where these neighborhood comforts are either existing or on the way.

Tell us more about some of Atlas' recent OZ projects that stand out.

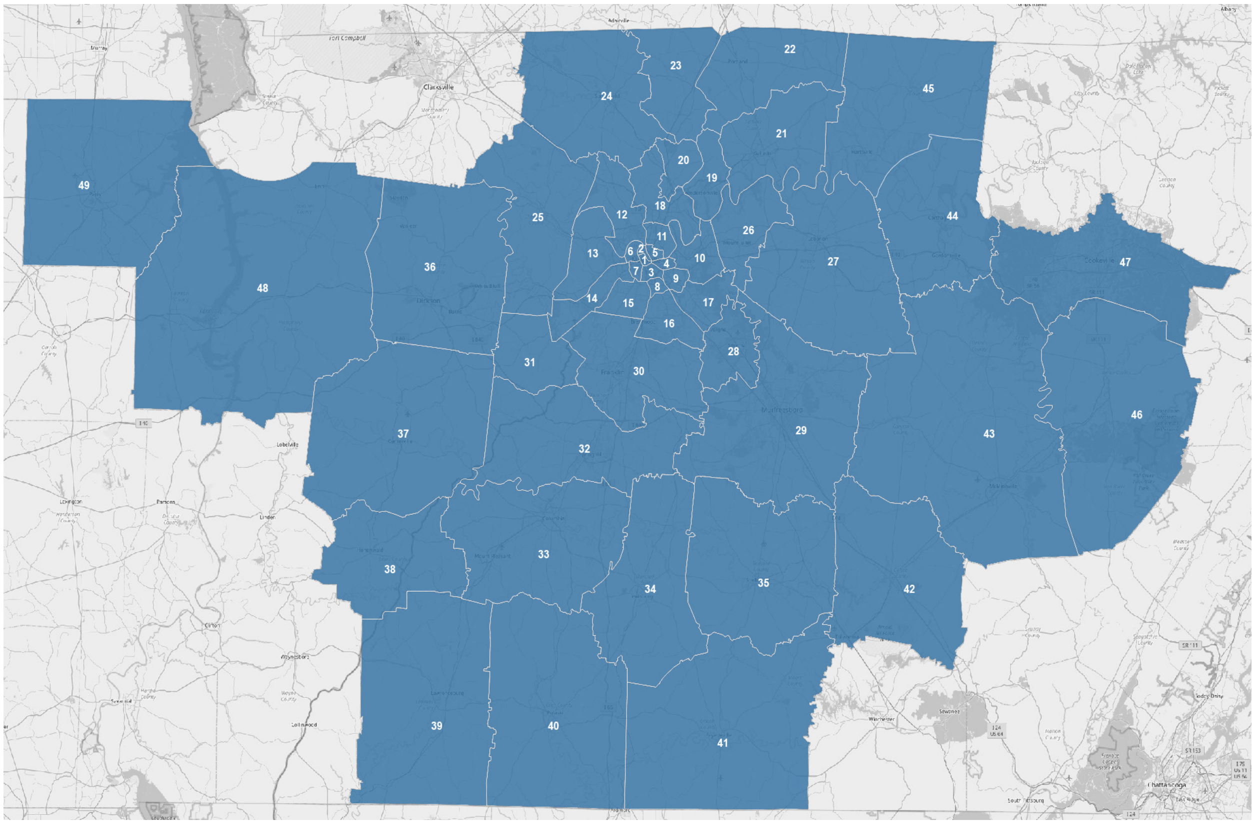
First is Westerly House, one of our Nashville projects. Westerly House arguably most embodies an "Atlas Development," which emphasizes rent attainability and walkability, while delivering best-in-class amenities and open communal design. In addition, our project in Charleston, S.C., with FIDES Development, The Darby, sticks out for its bold take on traditional mid-rise multifamily amenity design and its seamless integration with the burgeoning NoMo Creative Corridor.

What are your predictions for the future of OZ development?

Given the combination of structural rental inflation caused by the vast and growing undersupply of housing and the history of the OZ program spurring economic development through investments in quality housing in historically underinvested communities, my prediction is that the program will be extended. Once the market stabilizes and asset appreciation returns, this should spur another wave of OZ-driven development.

(Read the complete interview on multihousingnews.com.)

NASHVILLE SUBMARKETS



Area No.	Submarket
1	Nashville–Downtown
2	Nashville–Central
3	Nashville–Central South
4	Nashville–Lebanon Pike
5	Nashville–East End
6	Nashville–Central North
7	Nashville–Vanderbilt
8	Nashville–Woodbine
9	Nashville–Airport
10	Nashville–East
11	Nashville–Northeast
12	Nashville–Northwest
13	Nashville–West
14	Nashville–Southwest
15	Nashville–Green Hills
16	Nashville–South
17	Nashville–Southeast

Area No.	Submarket
18	Nashville–Madison
19	Hendersonville
20	Goodlettsville
21	Gallatin
22	Portland
23	White House
24	Springfield
25	Cheatham County
26	Mount Juliet
27	Lebanon
28	Smyma
29	Murfreesboro
30	Franklin
31	Fairview
32	Spring Hill
33	Columbia
34	Lewisburg

Area No.	Submarket
35	Shelbyville
36	Dickson
37	Hickman County
38	Lewis County
39	Lawrenceburg
40	Pulaski
41	Fayetteville
42	Tullahoma
43	McMinnville–Smithville
44	Smith County
45	Lafayette
46	Sparta
47	Cookeville
48	Waverly–Erin
49	Paris

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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

Yardi Matrix

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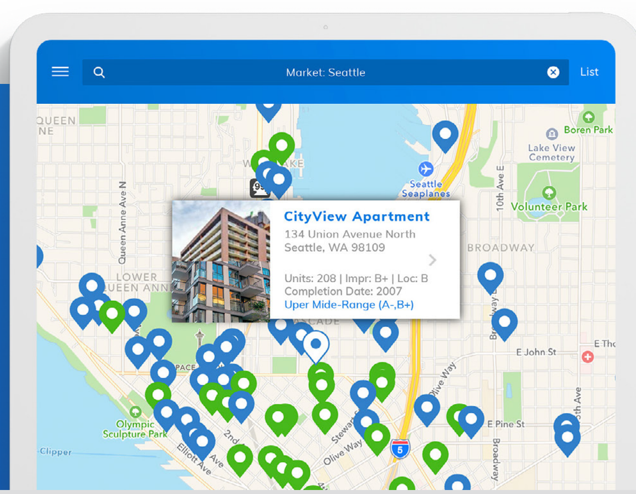
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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