Yardi® Matrix

Nashville's Fine Tuning

Multifamily Report Summer 2018

Transaction Volume Softens

Growing Supply Puts Cap on Rent Growth

Professional and Business Services Drive Job Gains

Market Analysis
Summer 2018

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Construction Surge Stalls Rent Growth

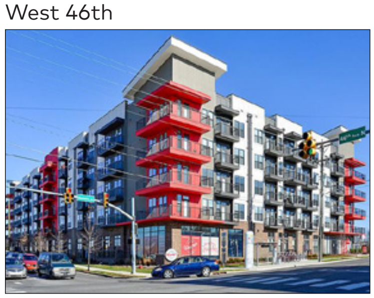
Solid in-migration, sustained job growth and business expansions have contributed to Nashville's development. The rental market is growing, posting historically high levels of completions last year, which could result in limited rent growth and a drop in occupancy, already down 160 basis points year-over-year to 94.3%. Rents rose 0.8% to $1,196 through April, trailing the 2.4% national average.

Music City's economy, mostly sustained by the entertainment industry, is branching out: The professional and business services sector expanded by 7,300 jobs in the 12 months ending in February, as companies relocate to Nashville, encouraged by its favorable business environment, which now also includes Google Fiber. Asurion and ServiceSource Corp. are adding 850 jobs combined, while health-care giant Philips plans to build a health IT center and create 800 positions over the next few years.

Investor demand has softened: By April, some $144 million in multifamily assets had changed hands, almost all of them in the RBN segment, which cut the per-unit price down to $103,354. About 2,600 units were delivered by April, of the 5,600 that are expected to be delivered this year. Some pockets of oversupply have surfaced, which combined with a supply imbalance will likely limit rent growth. We expect rents to rise 2.1% in 2018.

Recent Nashville Transactions

West 46th



City: Nashville, Tenn.
Buyer: Venterra Realty
Purchase Price: $34 MM
Price per Unit: $198,830

City Side Flats

City: Nashville, Tenn.
Buyer: Emma Capital
Purchase Price: $25 MM
Price per Unit: $122,139

Hickory View

City: Nashville, Tenn.
Buyer: Prominent Realty Group
Purchase Price: $14 MM
Price per Unit: $120,000

Fawnwood

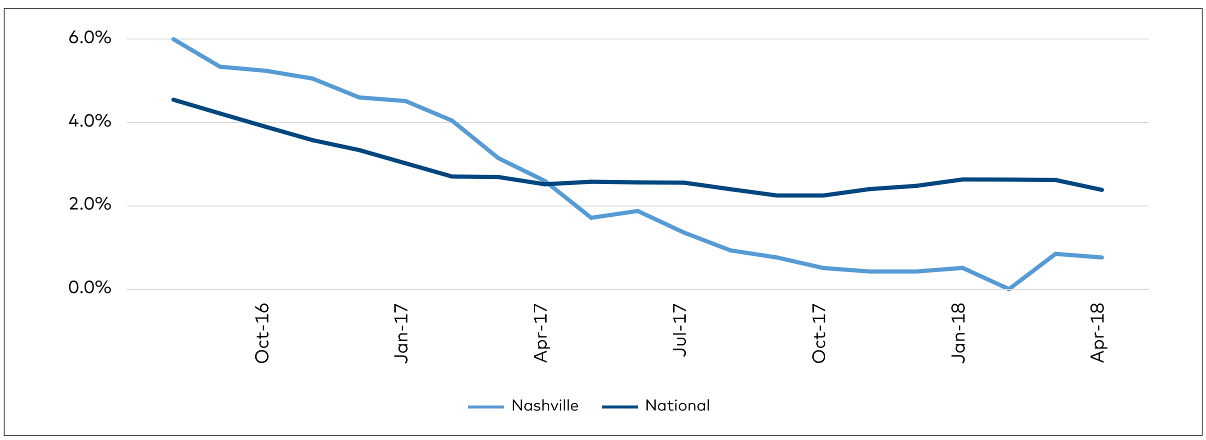
City: Madison, Tenn.
Buyer: MACC Properties
Purchase Price: $14 MM
Price per Unit: $90,506

On the cover: Photo by Sean Pavone Photo/iStockphoto.com

Rent Trends

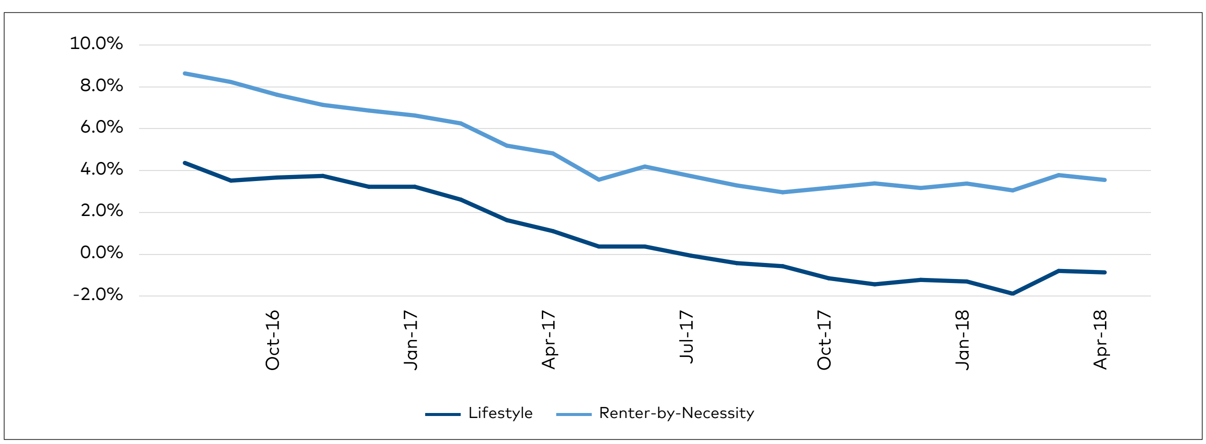
- Nashville rents rose 0.8% year-over-year through April to $1,196, trailing the $1,377 national figure. Last year, the metro saw a new cycle high in inventory growth, with 6,860 units delivered. The influx of new apartments has put a damper on rent growth across the metro, which had begun its decline after reaching its highest point of growth in May 2016. Concerns over multifamily supply exceeding demand have started to arise, signaled by the shrinking occupancy rate. If true, rent growth potential will be limited even further.
- Rents in the working-class Renter-by-Necessity segment led growth, up 3.5% year-over-year to $992, while rates for Lifestyle assets continued to tumble, contracting by 0.9% year-over-year to $1,364. Rent evolution in Nashville mirrors the metro's need for more workforce housing.
- Nearly one quarter of Nashville's submarkets have contracted over the past year. Downtown–South registered the steepest drop (-8.8% to $1,261). The metro's most expensive submarket, Midtown/Music Row, also contracted (-5.2% to $1,778), while the biggest increase occurred in Northeast Nashville (up 10.3% to $1,103). The most affordable rent in Nashville was in Goodlettsville–South (up 5.9% to $847).

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

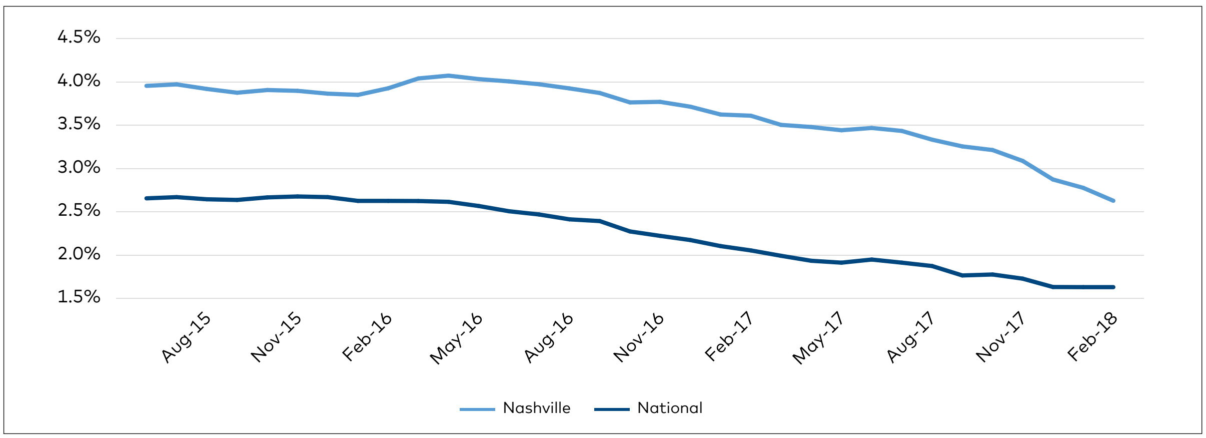
Economic Snapshot

- The metro added 21,700 jobs in the 12 months ending in February, led by the professional and business services sector, which increased by 7,300 jobs. Nashville's economy stayed buoyant, with the metro's employment growth continuing to outpace the nation, up 2.6% in February, 100 basis points above the U.S. rate. The unemployment rate—at 2.7%—is one of the lowest among the country's top metro areas. Forbes recently ranked Nashville third among its Best Big Cities for jobs in 2018.

- Incubators like Nashville Entrepreneur Center, Launch Tennessee, Nashville Capital Network and TNInvestCo. have fueled additional momentum to make Music City a desirable place for startups and growing companies alike. A variety of companies choose Nashville, as they are being priced out of larger metros. Among them, global asset management firm AllianceBernstein will relocate its New York headquarters to Nashville along with its 1,000 employees into an office tower that's slated for delivery in 2021. Consumer electronics insurance firm Asurion will add 400 information technology jobs to its headquarters downtown, where ServiceSource Corp. also plans to expand with 450 positions.

- Nashville's office market has 2.1 million square feet of space underway, but no completions in the first quarter. By year's end, 720,000 square feet are scheduled for delivery. Some 290,000 square feet of negative absorption marked the first quarter, when office investment sales totaled $225 million.

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	162	16.4%	7,300	4.7%
40	Trade, Transportation and Utilities	188	19.1%	5,500	3.0%
65	Education and Health Services	153	15.5%	4,600	3.1%
70	Leisure and Hospitality	110	11.2%	3,900	3.7%
55	Financial Activities	67	6.8%	1,800	2.8%
80	Other Services	41	4.2%	1,200	3.0%
90	Government	118	12.0%	-200	-0.2%
15	Mining, Logging and Construction	41	4.2%	-200	-0.5%
50	Information	23	2.3%	-600	-2.6%
30	Manufacturing	83	8.4%	-1,600	-1.9%

Sources: YardiMatrix, Bureau of Labor Statistics

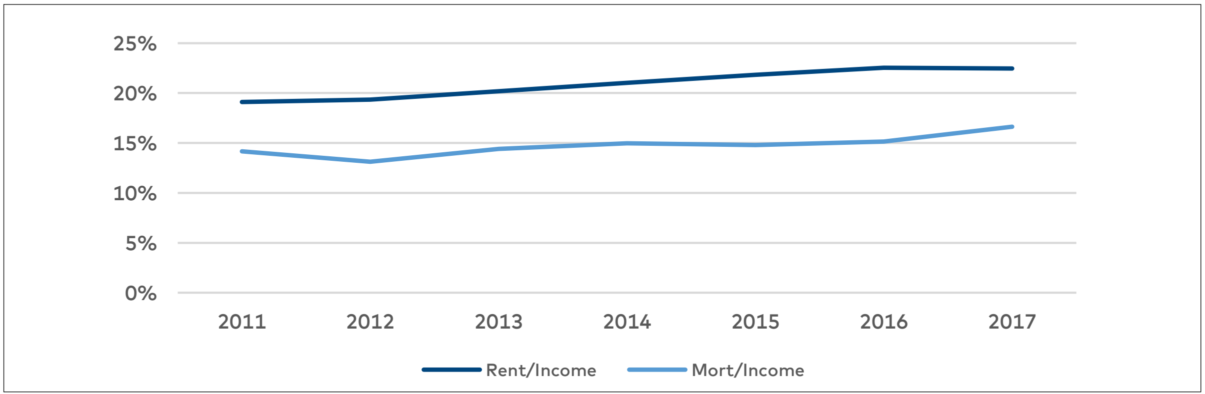
Demographics

Affordability

- Housing remains generally affordable in Nashville, when compared to the nation. The local median home price rose 10% year-over-year to $226,994, another high point in the cycle. Despite the price increase, owning is still more affordable than renting. At $1,196, Nashville rents accounted for 22% of the area's median income, while the average mortgage equated to 17%. Yet the homeownership rate is at its lowest level in 50 years, due in part to tight restrictions on mortgage credit.

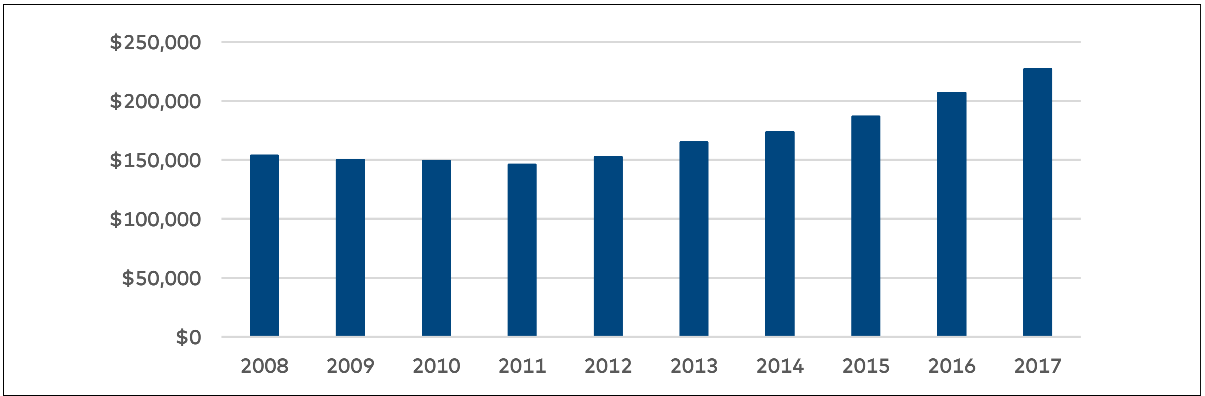
- In 2000, Nashville had a 2,000-unit surplus of affordable rental housing. By 2015, that surplus had become a deficit of 18,000 units, and by 2025, it's anticipated the gap could increase to 31,000 units.

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 34,000 residents in 2017, up 1.8% over 2016, more than double the 0.7% national rate.

- Since 2013, the metro gained 145,154 residents, a solid 8.2% increase, as economic prosperity has driven growth.

Nashville vs. National Population

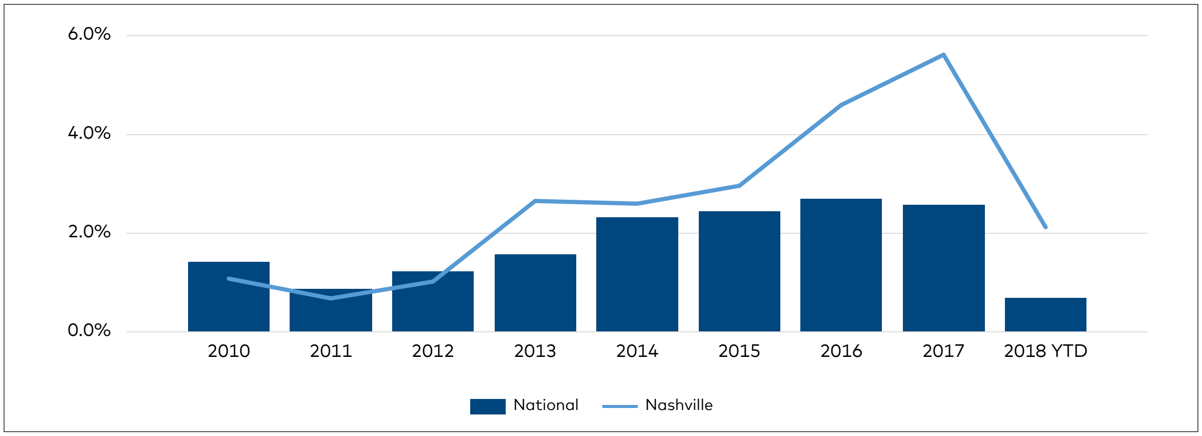
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Nashville Metro	1,757,891	1,792,756	1,829,513	1,868,855	1,903,045

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

Supply

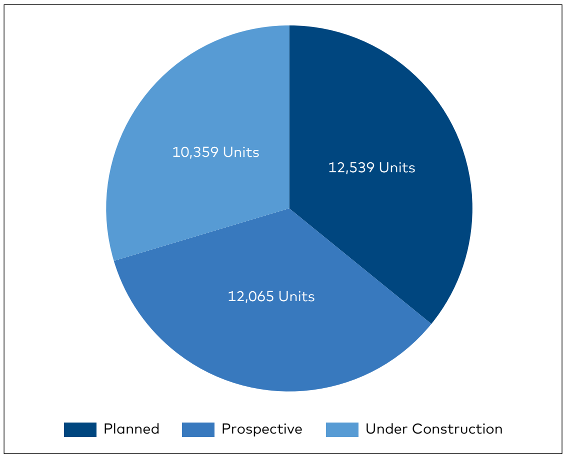
- More than 2,600 units came online in Nashville this year through April, 2.1% of total stock. Construction activity is intense and ongoing, as 6,860 units were delivered the year prior, up 29% compared to the 2016 level. We expect that roughly 5,600 units will have been added to the metro's multifamily inventory by year's end. This would be the second-highest value posted this cycle, and one of the highest delivery rates in the nation.
- There were more than 10,300 units under construction in the metro as of April, while an additional 24,600 units were in the planning and permitting stages. The occupancy rate for stabilized properties slid 160 basis points year-over-year to 94.3%, a sign that supply has started to catch up with demand. With the bulk of development focusing on the Lifestyle segment, the supply imbalance is set to continue.
- Most of the construction activity is concentrated in Downtown–North (2,266 units), Murfreesboro-West (771 units) and Midtown/Music Row (767 units). The largest delivery so far in 2018 is Pollack Shores' The Gossett on Church, a 367-unit property spread across 3.4 acres in Downtown–North.

Nashville vs. National Completions as a Percentage of Total Stock (as of April 2018)



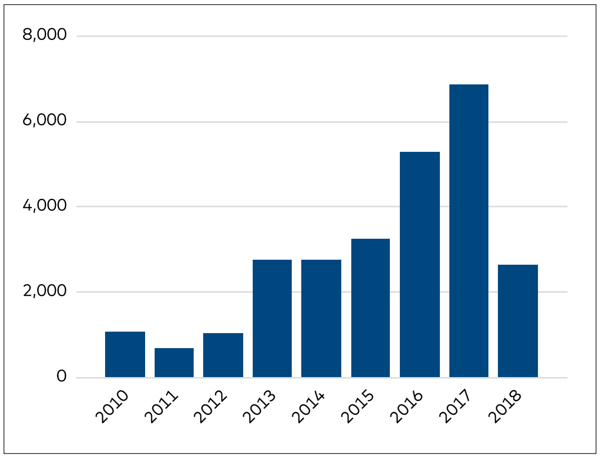
Source: YardiMatrix

Development Pipeline (as of April 2018)



Source: YardiMatrix

Nashville Completions (as of April 2018)



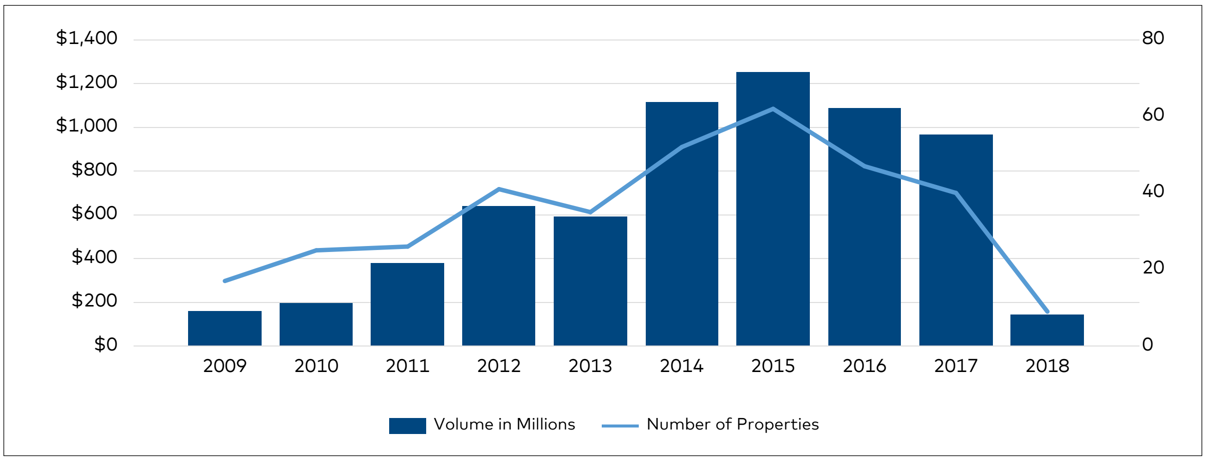
Source: YardiMatrix

Transactions

- Transaction activity continued softening, as some $144 million in assets traded in 2018 through April. This comes after 2017's $969 million transaction volume, when deals had already slowed down from 2015's $1.2 billion cycle peak, when activity was centered around core assets with high prices. In 2018, investors shifted toward value-add assets, as eight of the nine properties that traded were RBN communities.

- The price per unit mirrors investors' shift, having dropped from $151,855 in 2017 to $103,354 this year. The national average rose 4.9% to $146,694 during the same timeframe. Franklin continued to be the most heavily transacted submarket, with $183 million in total deals over the past 12 months. The metro's largest sale during that timeframe was also a Franklin asset: IMT Capital paid LivCor $97.5 million ($205,696 per unit) for the acquisition of the 474-unit IMT Cool Springs.

Nashville Sales Volume and Number of Properties Sold (as of April 2018)



Source: YardiMatrix

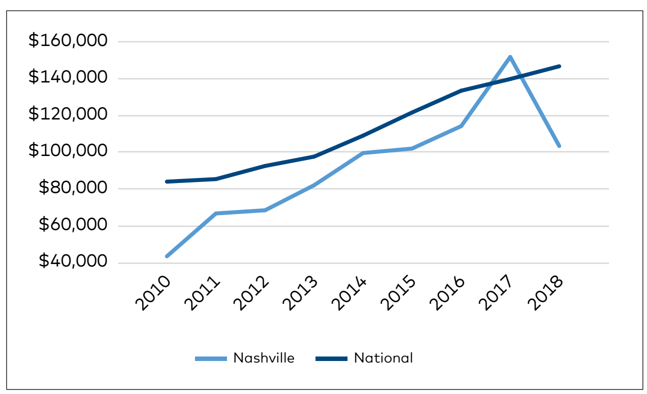
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Franklin	183
Downtown–North	104
Midtown/Music Row	72
Bellevue	70
West Nashville	61
Antioch–East	50
Murfreesboro–West	47
Smyrna–East	47

Source: YardiMatrix

[1] From May 2017 to April 2018

Nashville vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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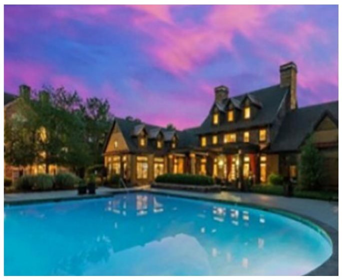
MHN
MULTI-HOUSING NEWS



IMT Capital Snags TN Community

The company purchased the 386-unit ALARA Cool Springs, located in the Nashville submarket of Franklin, from American Realty Advisors. Cushman & Wakefield represented the seller in the transaction.

Elmington Lands $24M Construction Loan

The two-year HUD loan will finance the development of Twelfth & Wedgewood, a 153-unit affordable housing project in Nashville.

JV Grabs Nashville Apartments for $45M

Admiral Capital and Security Properties purchased the 240-unit property from Venterra Realty, which had acquired the asset in 2012 for $27.7 million.

True North Sells 512-Bed TN Community

The property, which also landed new management, offers a mix of one- to four-bedroom student apartments near Middle Tennessee State University.

Luxury Multifamily Community Receives $40M Loan

KeyBank Real Estate Capital has originated a Fannie Mae loan for Peyton Stakes in Nashville, Tenn. The 249-unit property was built in 2017.

The Williams Co. Secures $18M for Knoxville Asset

The new financing package will enable the company to update the 198-unit property and pay off $16.5 million in existing debt.

Executive Insight

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MHN MULTI-HOUSING NEWS

Q&A with William Kirkland, Managing Partner, The Kirkland Co.

The Nashville metro area has experienced record-breaking growth in recent years, with the region adding 29,900 jobs in the first three quarters of 2017 alone. The population had followed suit, surging upwards by 11.3 percent since 2010.

This has impacted Nashville's multifamily housing market, with new residential construction at an all-time high. Developers delivered approximately 9,000 units in the past two years, with 12,000 more units under construction as of November of last year, according to Yardi Matrix. The Kirkland Co. opened in Nashville 15 years ago and has been increasingly active not only in central Tennessee but across the southeastern U.S. William Kirkland spoke with MHN writer Jeff Hamann.

Tell us how The Kirkland Co.'s client base has changed in the Nashville area in recent years.

We are very fortunate to have chosen Nashville as a market to cover 15 years ago. Nobody saw the growth coming the way it has, but it really might be the coolest city in America right now. Today, Nashville is a target market for many investment firms that previously felt we were too small. … Our job growth and population growth are discussed monthly by Forbes, the Wall Street Journal and numerous other national publications.

The fact is Nashville has been a top 10 market nationally for almost all of those 15 years we have been here—it's just not a secret anymore. Technology has also changed the game. In today's world, you can track buyer activity all over the country and source new potential investors with the click of a button.

How is the rapidly expanding housing inventory impacting the multifamily environment?

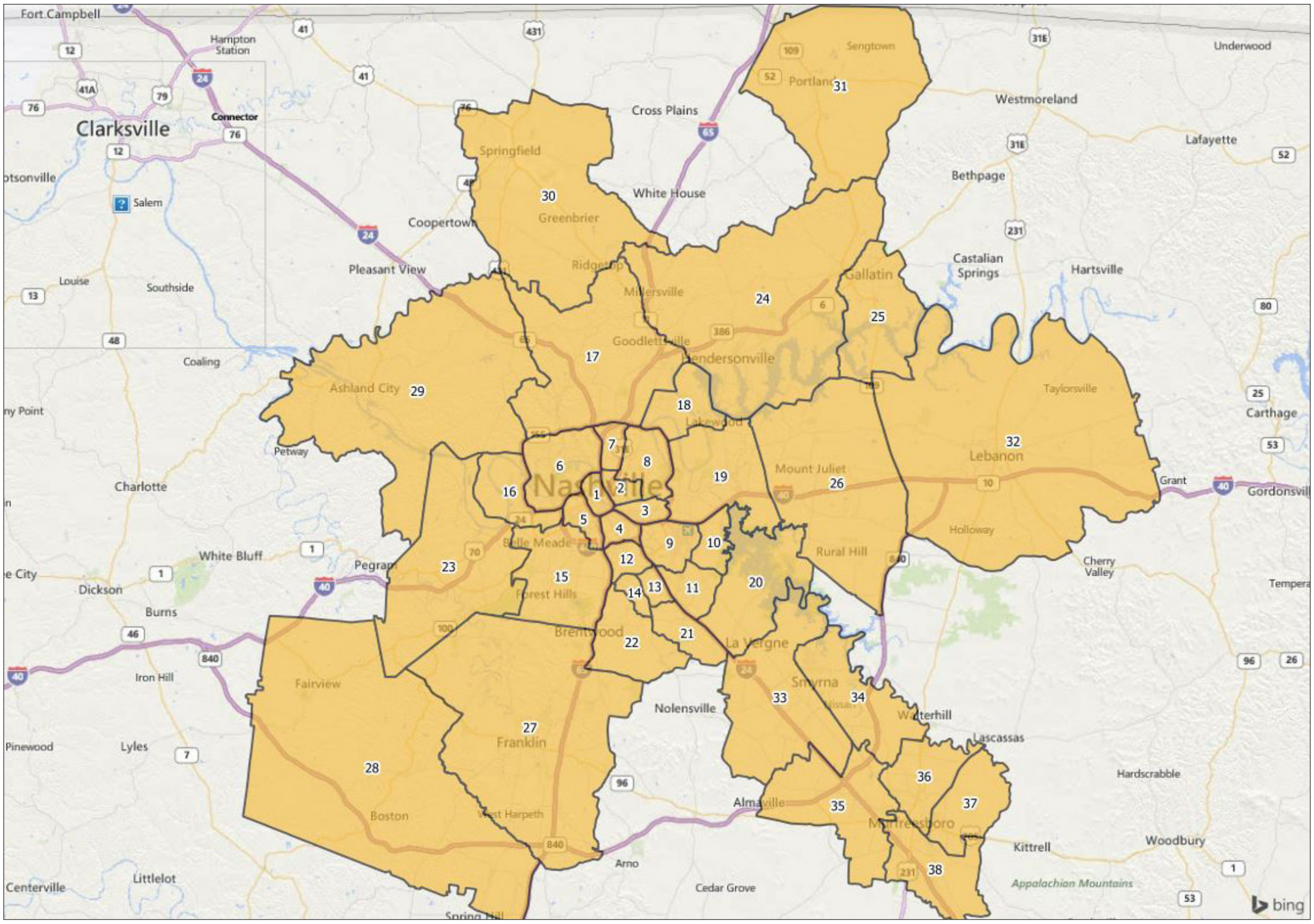
It's no secret we have delivered too many units in a few submarkets for the time being and have about 10,000 units under construction right now. It's caused some concession in a few submarkets—like Downtown, West End, Charlotte Pike and Germantown, to name a few. Nashville has also averaged about 4 percent employment growth annually since the last downturn, and we have between 75 and 100 people moving to town every day, depending on who you ask. … Leasing might be slow in some areas for a little while, but in my opinion, we are poised to absorb these units and they are still an incredible long-term play. If anything, it's created a pretty decent buying opportunity in the core Class A space for investors willing to use patient capital.

How has recent rent growth deceleration in Nashville impacted your business strategy?

It's definitely harder to sell assets when rents are going in the wrong direction, but that's only in a few submarkets around town that have been overbuilt. Nashville has such a diverse economy and so much momentum in job growth and population growth. These submarkets will absorb the slight oversupply we are experiencing, and one day we will overbuild these submarkets again. Guaranteed.

All of these submarkets, however, have remarkable long-term strength, in my opinion. As a firm, we don't want to spend a ton of time chasing product without proper seller expectations, but we believe there is good value on some of the core assets now experiencing larger concessions.

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	Antioch–West
12	Elm Hill–Woodbine
13	Southeast–East
14	Southeast–West
15	West End–Green Hills
16	West Nashville
17	Goodlettsville–North
18	Goodlettsville–South
19	Nashville Shores–Hermitage

Area #	Submarket
20	Antioch–East
21	Antioch–South
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.