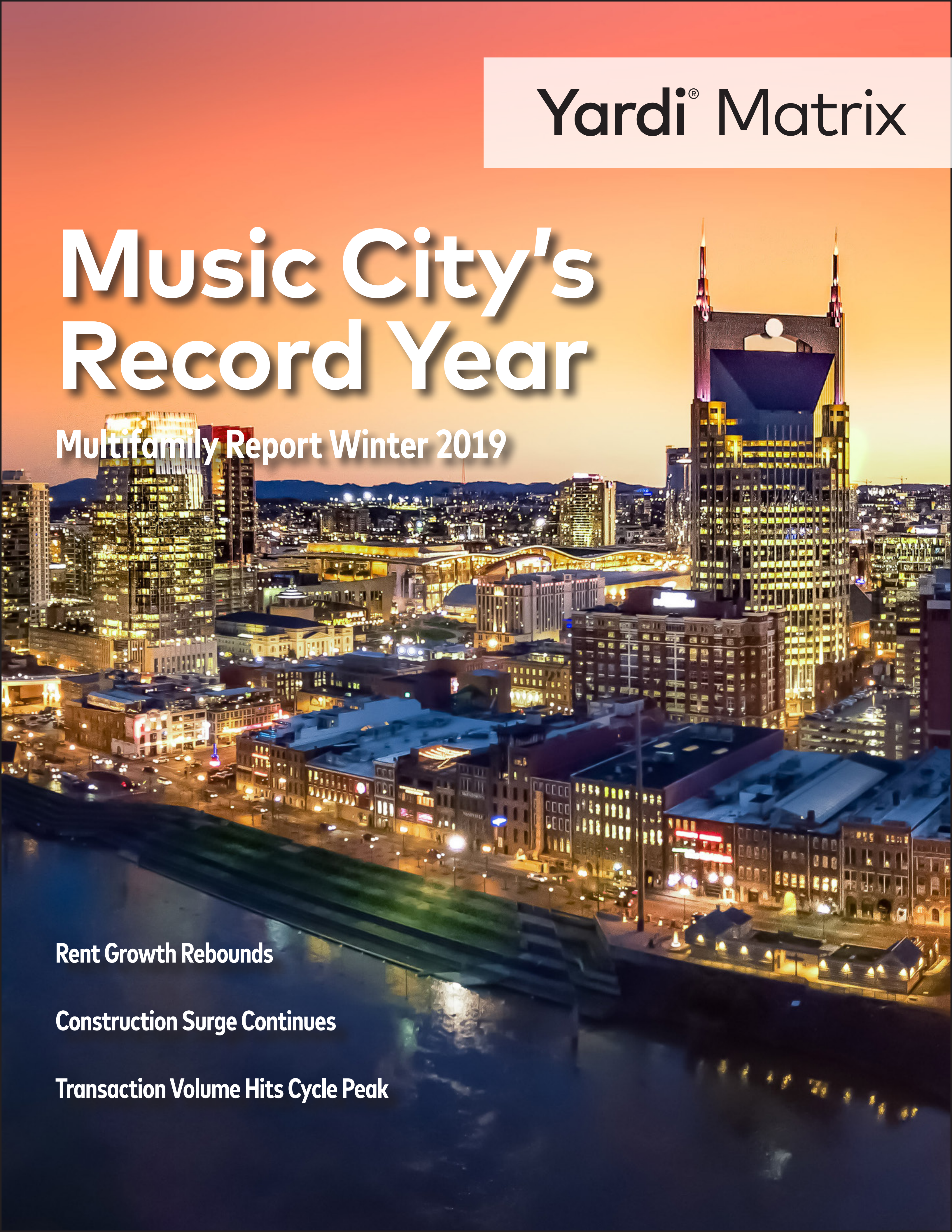
Yardi® Matrix

Music City's Record Year

Multifamily Report Winter 2019



Rent Growth Rebounds

Construction Surge Continues

Transaction Volume Hits Cycle Peak

Market Analysis

Winter 2019

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Demand Keeps Up With Supply

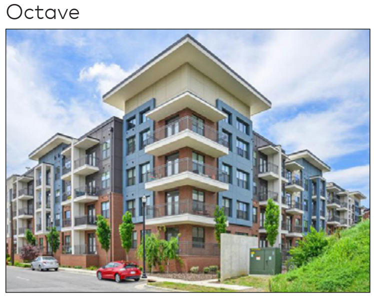
Strongly boosted by its creative class, Nashville has emerged, over the last decade, as one of the most desirable places to do business in the U.S. This continues to fuel rental demand, with supply bringing record delivery numbers in the past two years. Rents rose 2.9% year-over-year through January to $1,240, while the occupancy rate in stabilized properties inched up 20 basis points to 94.8%.

Employment growth softened gradually in 2018, sliding to 1.9% year-over-year in November, trailing the 2.1% national rate. The metro added 22,200 jobs, with professional and business services (8,900 jobs) and trade, transportation and utilities (8,200) leading growth. Circumstances, however, remain favorable for growth in Music City. Amazon's new operations hub at Nashville Yards is set to employ 5,000 people over the next seven years, Ernst & Young plans to add 600 jobs over the next five years, and the regional international airport BNA is undergoing a $1.2 billion expansion, slated for completion in 2023.

Nearly $1.3 billion in multifamily assets traded in 2018, a cycle high. The per-unit price rose 8.9% in 2018 to $152,124, even though investors mostly focused on value-add properties. With 9,260 units underway after the 7,412 delivered last year, we expect rents to rise 2.0% this year.

Recent Nashville Transactions

Octave



City: Nashville, Tenn.
Buyer: Goldman Sachs & Co.
Purchase Price: $73 MM
Price per Unit: $225,857

12 South Flats

City: Nashville, Tenn.
Buyer: Tribridge Residential
Purchase Price: $28 MM
Price per Unit: $313,889

Stone Ridge

City: Nashville, Tenn.
Buyer: Archway Holdings
Purchase Price: $19 MM
Price per Unit: $79,721

Bristol Ridge

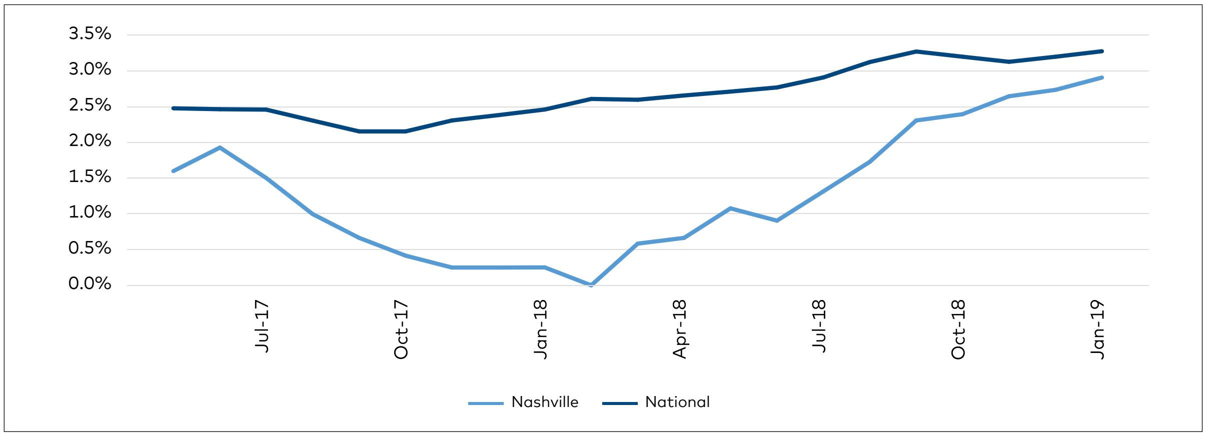
City: Nashville, Tenn.
Buyer: Archway Holdings
Purchase Price: $10 MM
Price per Unit: $80,000

On the cover: Photo by Jonathan Ross/iStockphoto.com

Rent Trends

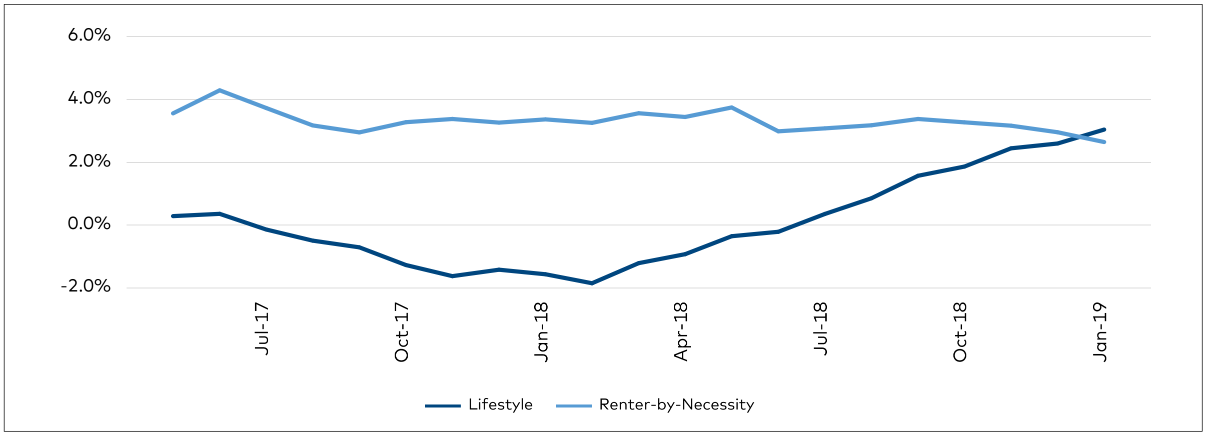
- After slow growth in the first half of the year, 2018 ended on a higher note in Nashville, with rents up 2.9% year-over-year through January to $1,240—$180 below the U.S. figure. Solid inventory expansion kept rent growth relatively tepid: In the past two years, 14,767 units came online in the metro.
- Lifestyle properties led growth, with rates up 3.0% to $1,421. Rents in the segment started to pick up in July after 11 months of contractions, with the previous performance partially due to high delivery levels over several quarters and new communities mostly catering to high earners. Rent growth in the working-class Renter-by-Necessity segment was above the 3.0% mark throughout 2018. As of January, rents advanced 2.6%, to $1,008.
- Rent growth was uneven across the map, with average rates contracting across nearly one-third of submarkets. Drops were prevalent in core submarkets, with the sharpest slide registered in Midtown/ Music Row (-6.2% to $1,743). Meanwhile, Northeast Nashville registered the strongest increase (9.9% to $1,086). Downtown–North is the metro's most expensive submarket, with rates averaging $1,761.
- High-paying jobs continue to boost the metro's demographic expansion, strengthening rental demand. With demand and supply almost in balance, we expect Nashville rents to appreciate 2.0% in 2019.

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

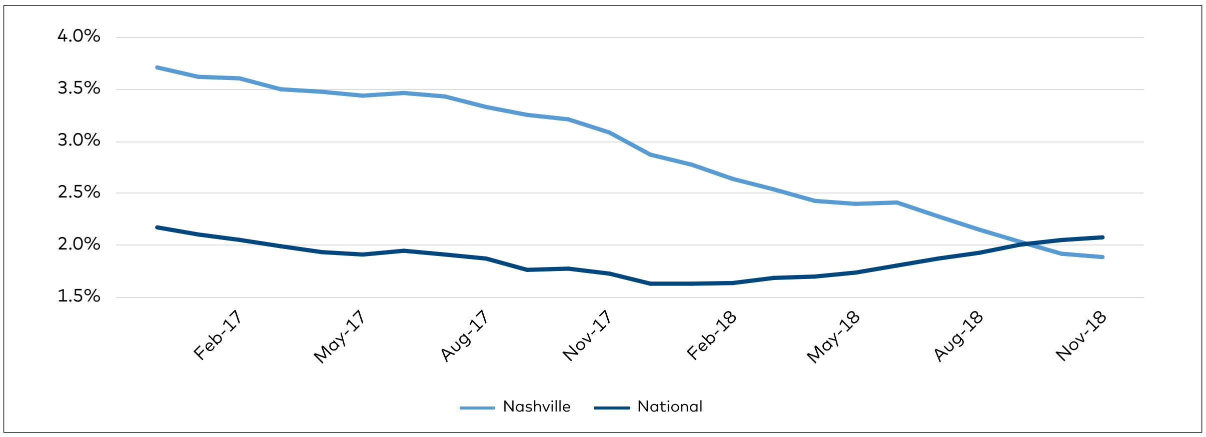
Economic Snapshot

- The economic boom of 2016-2017, when Nashville's employment growth rate was in the 3.0% to 4.0% range, has lost some of its vigor. The metro added 22,200 jobs in the 12 months ending in November for a 1.8% expansion, trailing the 2.1% U.S. rate. However, the unemployment rate slid to 2.6% in November, from 2.9% a month prior.

- Growth was spotty, with three sectors—financial activities, construction and manufacturing—contracting by a combined 2,200 jobs. Professional and business services and trade, transportation and utilities led the expansion, adding a total of 17,100 positions.

- Despite the slowdown, several large projects are set to significantly boost the economy in the longer run. Amazon announced a new $230 million operations hub at Nashville Yards where—over the next seven years—the company plans to create 5,000 jobs with wages averaging $150,000. Ernst & Young expects to grow by 600 employees over the next five years. The city's rapid pace of growth is affecting passenger traffic at its international airport, which prompted a $1.2 billion expansion, the BNA Vision. The project includes parking, security lines and a new hotel as well as a complete overhaul of the current facilities. A six-level, 2,200-spot parking garage and sustainable amenities opened in December, while the whole renovation is slated for completion in 2023.

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	172	16.8%	8,900	5.5%
40	Trade, Transportation and Utilities	201	19.7%	8,200	4.3%
80	Other Services	44	4.3%	2,600	6.4%
70	Leisure and Hospitality	116	11.4%	2,500	2.2%
90	Government	122	11.9%	1,500	1.2%
65	Education and Health Services	154	15.1%	500	0.3%
50	Information	23	2.3%	200	0.9%
55	Financial Activities	66	6.5%	-100	-0.2%
15	Mining, Logging and Construction	43	4.2%	-300	-0.7%
30	Manufacturing	82	8.0%	-1,800	-2.1%

Sources: YardiMatrix, Bureau of Labor Statistics

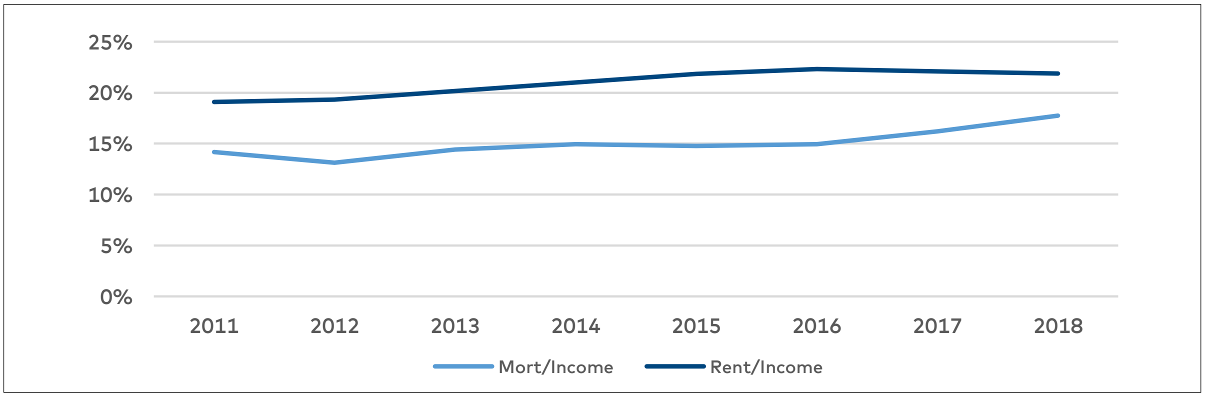
Demographics

Affordability

- The median home price climbed 8.7% in 2018. At $244,885, the value was 67% higher than in 2011, when the market bottomed out. Renting remains the costlier option: The average rent accounted for 22% of the median income, while the average mortgage payment comprised 18%. The metro's demographic and economic expansion continued to put pressure on lower-income residents.

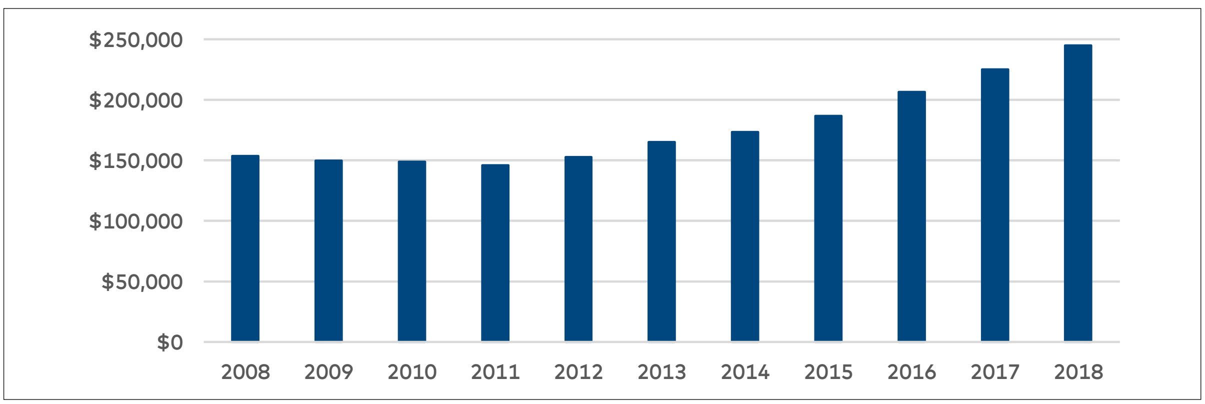
- Four fully affordable multifamily communities adding as many as 627 units came online in Nashville in 2018, with an additional 968 units underway as of February. The Paddock at Grandview, a 240-unit LDG Development asset located in north Nashville, was the largest fully affordable delivery of last year.

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 34,190 residents in 2017 for a solid 1.8% growth, more than double the 0.7% U.S. average.
- The metro gained 145,154 residents between 2013 and 2017, marking an 8.3% expansion.

Nashville vs. National Population

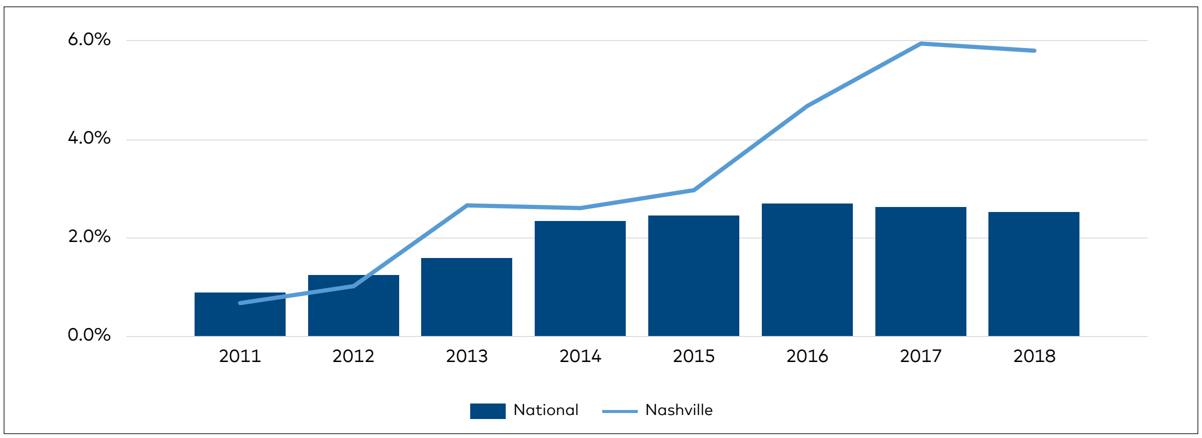
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Nashville Metro	1,757,891	1,792,756	1,829,513	1,868,855	1,903,045

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

Supply

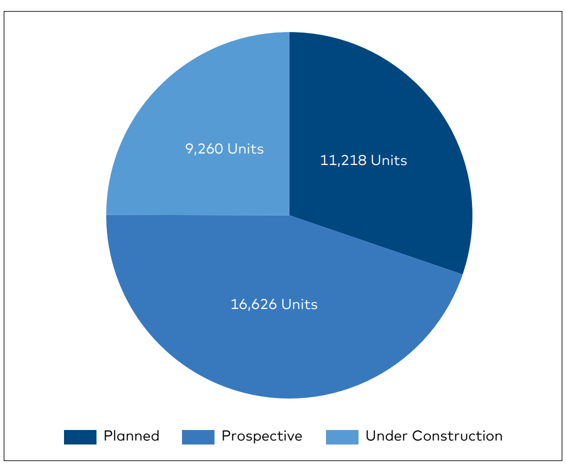
- Developers added 7,412 units in 33 properties across Nashville last year, 5.8% of total stock, marking another cycle peak. This comes after the 7,264 units brought online in 2017. With strong population growth keeping demand high, we expect 5,820 units to be added to Nashville's multifamily inventory in 2019.
- As of January 2019, the metro had 9,260 units under construction, with the bulk in Lifestyle communities and four that are fully affordable. An additional 27,844 units were in the planning and permitting stages. The occupancy rate in stabilized properties increased 20 basis points year-over-year as of December, to 94.8%, reflecting strong and sustained rental demand.
- The development pipeline includes four submarkets each with more than 1,000 units underway: Lebanon (1,248 units), Franklin (1,220), Downtown–North (1,199) and Hendersonville (1,142). Last year's largest delivery was The Gossett on Church in Downtown–North, a 367-unit asset owned by Pollack Shores. That includes 9,000 square feet of retail space and is equipped with electric charging stations.

Nashville vs. National Completions as a Percentage of Total Stock (as of January 2019)



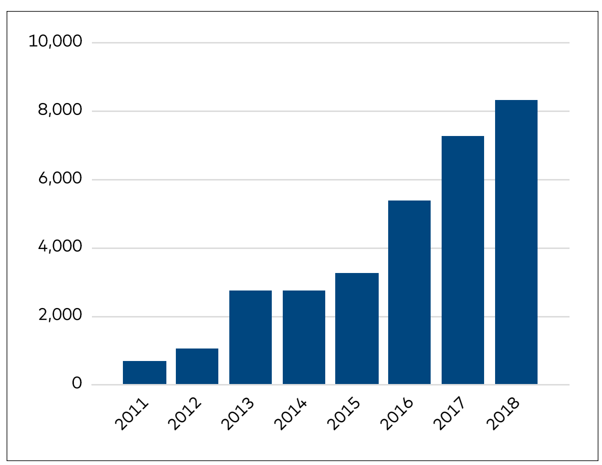
Source: YardiMatrix

Development Pipeline (as of January 2019)



Source: YardiMatrix

Nashville Completions (as of January 2019)

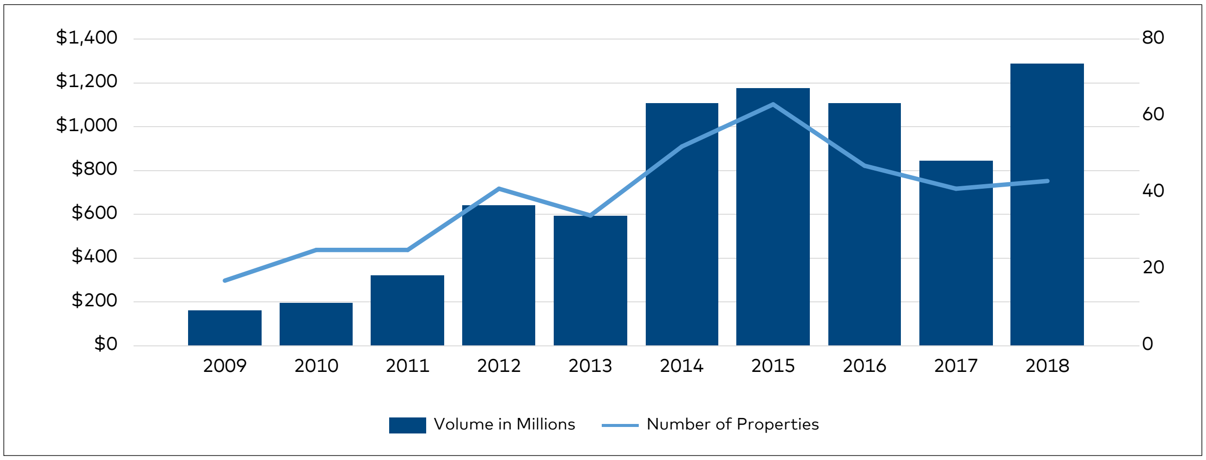


Source: YardiMatrix

Transactions

- Almost $1.3 billion in multifamily assets changed hands in Nashville last year, a solid 52% boost over 2017. Transaction activity picked up during the year's last two quarters, bringing another cycle peak. Investors showed increased interest in value-add communities: Of the 43 properties that changed hands in the metro last year, 25 were Renter-by-Necessity assets. The previous year, only 18 of the total 41 communities were RBN properties.
- The price per unit rose 8.9% in 2018 to $152,124, almost on par with the $154,634 national average, which increased 10.9% last year. Assets in the Lifestyle segment registered the biggest increase in per-unit prices, up 21.5% to $220,067, while RBN properties sold at an average of $94,475 per unit. The metro's top five submarkets totaled more than $671 million in sales, led by Franklin ($174 million), Downtown–North ($163 million) and Bellevue ($133 million).

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



Source: YardiMatrix

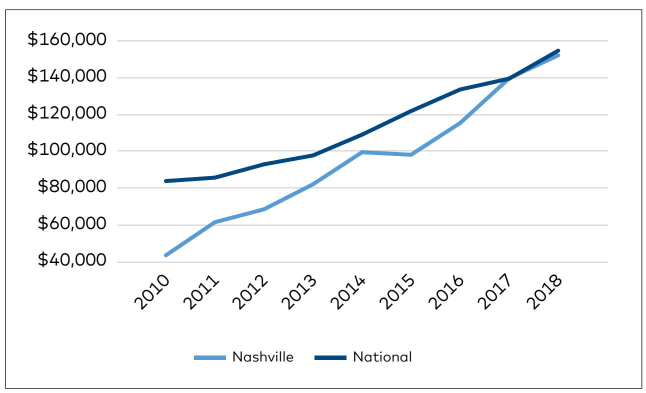
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Franklin	174
Downtown–North	163
Bellevue	133
Midtown/Music Row	101
West Nashville	100
Southeast/Brentwood	72
Donelson/South Hermitage	68
East End	67

Source: YardiMatrix

[1] From January 2018 to December 2018

Nashville vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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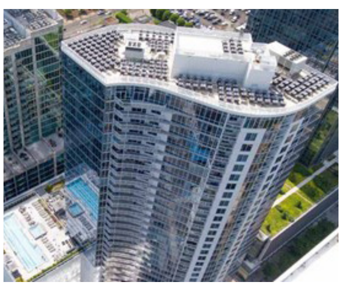
Luxury Community Sells for $80M

Crescent Communities sold the newly built 275-unit asset to Dinerstein Cos., with the property's 2.1 acres of land selling to iStar.

Praedium Group Acquires Nashville Community

The investment firm purchased Novel Bellevue, part of the newly opened, 1 million-square-foot One Bellevue Place mixed-use development.

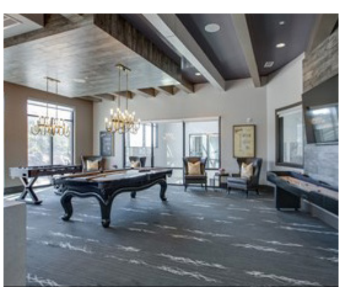


Luxury Tower Gets $90M Loan

Square Mile Capital Management originated the loan for a partnership developing The SoBro, a 313-unit community located in the South of Broadway neighborhood.

TriBridge, Stockbridge Sell The Estates At Brentwood

Olen Properties paid more than $57 million for the 254-unit Class A asset, which last changed hands in 2014 for $42.2 million.



Nashville-Area Community Opens Doors

The 328-unit Mosby Cool Springs has opened in Franklin, Tenn. Developer Middleburg Real Estate Partners secured $40 million in financing last year.

Goldman Sachs Buys Luxury Asset for $73M

The 321-unit community was sold by Lennar. The Canadian Imperial Bank of Commerce provided nearly $50 million in acquisition financing.

Top Multifamily Transactions in TN in 2018

by Anca Gagiuc

MHN MULTI-HOUSING NEWS

data by Yardi® Matrix

Investment activity in Tennessee's multifamily market had a solid year in 2018: In Nashville, despite a slight drop in the average per-unit price ($148,181 as of December), total sales volume crossed $1.2 billion.

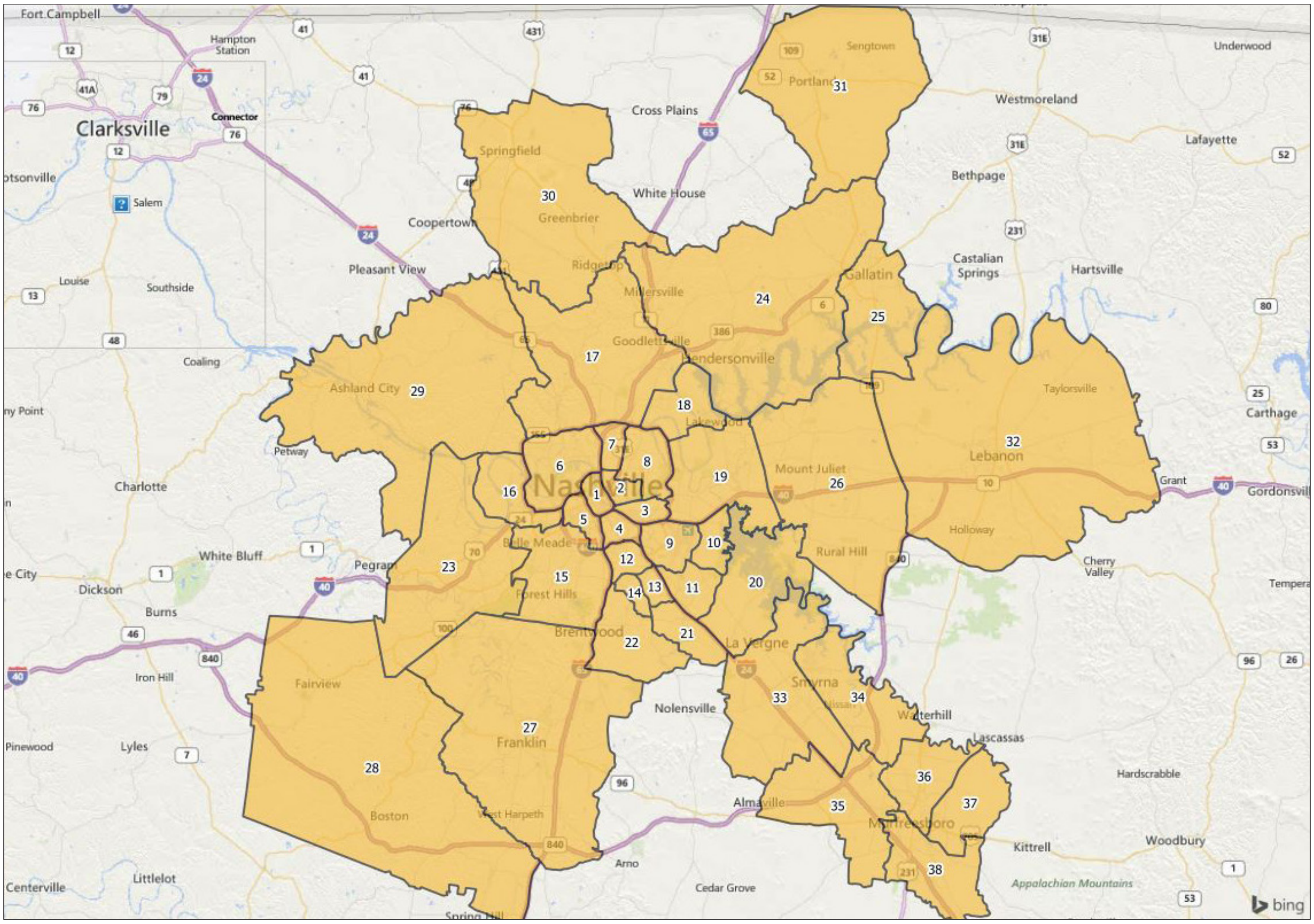
Following are 2018's largest multifamily transactions in Tennessee, excluding portfolio deals and unconfirmed sales, based on information provided by Yardi Matrix.

Property Name	City	Buyer	Seller	Units	Sale Date
Ashton Brook	Franklin	Related Cos.	The Connor Group	390	09/13/2018
Novel Bellevue Place	Nashville	Praedium Group	Crescent Communities	337	12/20/2018
IMT Germantown	Nashville	IMT Capital	Alliance Residential Co.	276	09/07/2018
Octave	Nashville	Goldman Sachs & Co.	Lennar Multifamily Communities	321	12/17/2018
Country Squire	Cordova	Birge & Held Asset Management	CLK Properties	972	06/20/2018
The Cleo	Nashville	Spyglass Capital Partners	LIV Development	291	04/30/2018
Society 865	Knoxville	Coastal Ridge Real Estate	Crowne Partners	324	03/27/2018
Elements at Chattanooga	Chattanooga	MACC Properties	Wicker Park	340	10/19/2018

ASHTON BROOK

The 390-unit luxury property changed hands in September when Related Cos. acquired it from The Connor Group for $86.5 million, or $221,795 per unit. The sale, also subject to a nearly $58 million loan held by Freddie Mac, marked the metro's largest confirmed transaction for the year. The asset had previously traded in 2013 for $60.5 million, or $155,128 per unit, reflecting a solid 43 percent increase over five years. Furthermore, according to a company statement, the annual revenue of the property increased by $1 million over the same period.

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
28	Fairview
29	Ashland City
30	Springfield–Greenbrier
31	Portland
32	Lebanon
33	La Vergne–Smyma
34	Smyma–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.