



Yardi® Matrix

# Nashville Plays It Forte

Multifamily Report Summer 2019

Rent Rate Rises 4.1%

Job Growth Tops US Average

Population Gains Sustain Demand

## Market Analysis

Summer 2019

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## Employment Growth Pushes Up Demand

Boosted by a diversifying economy, Nashville is recording unprecedented population growth and major job announcements. These are reshaping the urban core and impacting the multifamily industry: Music City was one of the top 10 major U.S. metros for rent growth in the 12 months ending in June, with the average rate rising 4.1% year-over-year. And despite last year's development cycle peak, occupancy in stabilized properties dropped just 10 basis points over 12 months, to 95.0% as of May.

Job growth is robust, with employment recording a 2.9% year-over-year uptick as of May, well above the 1.6% U.S. rate. The metro gained 23,200 jobs, with leisure and hospitality leading the way (6,900 jobs). The professional and business services sector is poised for continued increase, boosted by company relocations and expansions. Amazon's \$230 million investment is set to bring 5,000 high-paying jobs to the city; AllianceBernstein, relocating from Manhattan, has already filled 250 of the 1,050 positions announced; SmileDirectClub's \$217 million investment will more than double the company's footprint in the metro.

Roughly \$470 million in apartments traded in the first half of 2019, with investors bullish on value-add assets. With 7,427 units underway and matching demand, we expect Nashville rents to maintain their 4.1% rise in 2019.

## Recent Nashville Transactions

The Gossett on Church



City: Nashville, Tenn.  
Buyer: CBRE Global Investors  
Purchase Price: \$102 MM  
Price per Unit: \$276,574

865 Bellevue



City: Nashville, Tenn.  
Buyer: Hamilton Zanze & Co.  
Purchase Price: \$57 MM  
Price per Unit: \$173,773

The Highland on Briley



City: Nashville, Tenn.  
Buyer: Harbor Group International  
Purchase Price: \$51 MM  
Price per Unit: \$124,079

ARIUM South Oaks

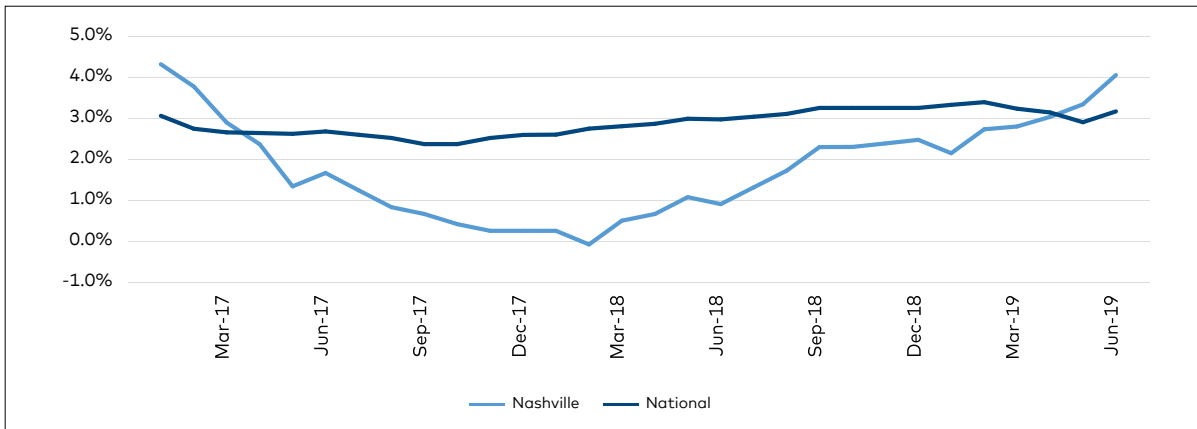


City: Nashville, Tenn.  
Buyer: Carroll Org.  
Purchase Price: \$50 MM  
Price per Unit: \$154,954

## Rent Trends

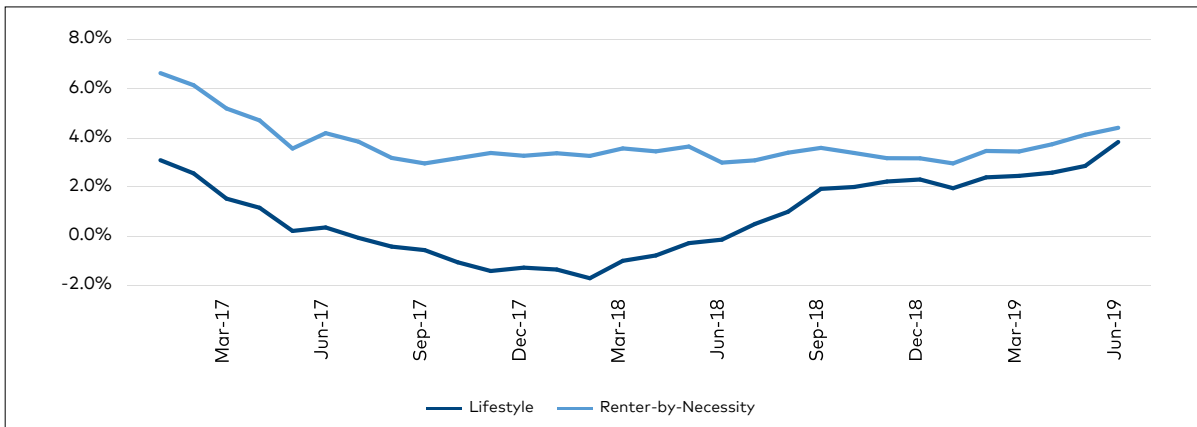
- Nashville rent gains trailed the U.S. average for 25 months, even briefly dipping to negative numbers at the beginning of 2018. Nonetheless, growth picked up slowly but steadily, reaching 4.1% year-over-year through June, 80 basis points above the national rate. The average Nashville rent reached \$1,282 as of June, below the \$1,465 U.S. figure.
- Rents in the working-class Renter-by-Necessity segment led growth, up 4.4% year-over-year to \$1,043. Rents for Lifestyle assets rose 3.8%, to \$1,464. Multifamily demand is strong in Nashville and is bound to remain so, supported by new high-paying employment opportunities announced by Amazon and AllianceBernstein.
- Downtown–South registered the strongest rent gains year-over-year as of June, with the submarket's average rate up 6.5% to \$1,324. The most expensive areas in the metro remained Downtown–North, where rents were up 0.3% to \$1,779, and Midtown/Music Row, up 1.2% to \$1,761. Only six submarkets posted average rents below the \$1,000 threshold, Southeast–West being the most affordable (\$890).
- Although development remains elevated, the metro's fast-paced economic and demographic expansion is slated to continue boosting demand. We expect the average Nashville rent to rise 4.1% this year.

### 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)

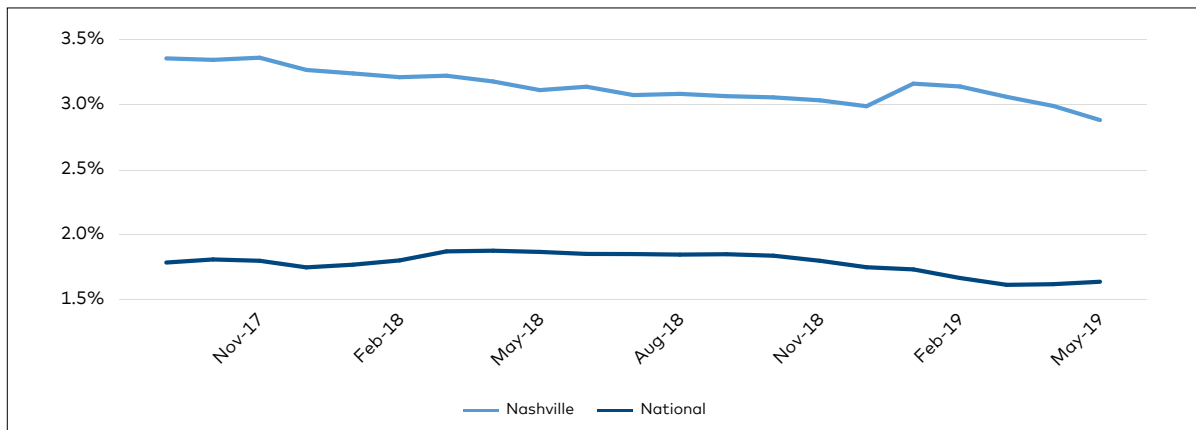


Source: YardiMatrix

## Economic Snapshot

- Nashville's strategy of investing in tourism and corporate relocations, paired with a low tax rate, turned its economy from struggling to thriving. The metro added 23,200 jobs in the 12 months ending in May for a 2.9% uptick. Even if decelerating, the pace is still well ahead of the 1.6% national rate. Unemployment dropped to 2.1% in April, way below the 3.7% U.S. figure.
- Leisure and hospitality, a Nashville staple, led job growth. Some 15.2 million people visited Music City last year, keeping the sector busy. The metro hosted the NFL draft this spring, which alone attracted more than 300,000 people. Meanwhile, trade, transportation and utilities gained 5,300 positions. With the number of passengers at nearly 16 million in 2018, up more than 50% over five years, Nashville International Airport is undergoing a \$1.2 billion overhaul, slated for completion by 2023.
- The professional and business services sector gained 3,600 positions and is poised for further growth. Amazon's expansion in Nashville is expected to generate 5,000 high-paying jobs and attract additional business. As will AllianceBernstein: The firm is relocating its headquarters from Manhattan and plans to bring 1,050 jobs in a \$70 million investment. Another notable expansion is SmileDirectClub's \$217 investment, set to generate 2,010 positions.

### 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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
70	Leisure and Hospitality	124	12.0%	6,900	5.9%
40	Trade, Transportation and Utilities	197	19.1%	5,300	2.8%
90	Government	123	11.9%	4,000	3.4%
60	Professional and Business Services	168	16.3%	3,600	2.2%
55	Financial Activities	69	6.7%	1,300	1.9%
15	Mining, Logging and Construction	47	4.6%	1,100	2.4%
50	Information	24	2.3%	700	3.0%
65	Education and Health Services	153	14.8%	600	0.4%
80	Other Services	43	4.2%	300	0.7%
30	Manufacturing	83	8.1%	-600	-0.7%

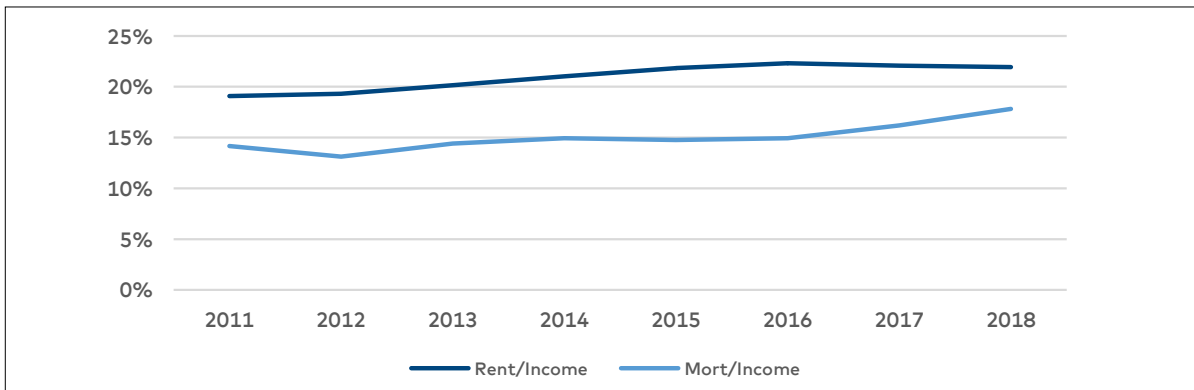
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

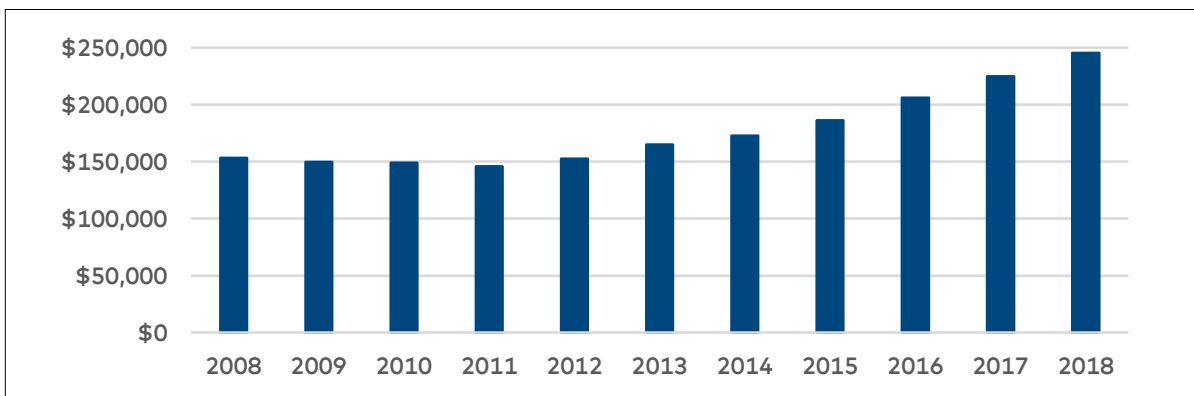
- Nashville's median home price hit \$245,479 in 2018, rising 9% in a year and 64% in a decade. Last year, the average Nashville rent accounted for 22% of the area median income, while the average mortgage payment comprised 18% of the same amount.
- As a rapidly growing secondary market, Nashville has its share of affordability issues, with the metro's affordable housing stock diminishing and employees finding it increasingly harder to access affordable workforce apartments. For that reason, the city announced the Under One Roof initiative, a \$500 million affordable housing push aiming to create at least 10,000 units over the next decade.

### 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 nearly 400,000 people over the past decade.
- The metro gained 34,190 residents in 2017 for a 1.8% expansion, nearly 100 people a day and more than double the U.S. rate.

### Nashville vs. National Population

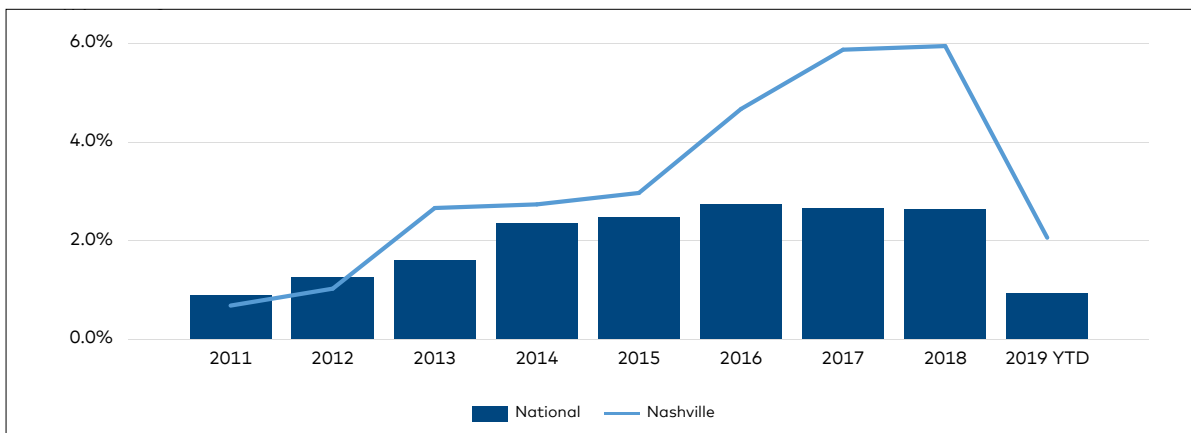
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Nashville Metro	1,757,891	1,792,756	1,829,513	1,868,855	1,903,045

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

## Supply

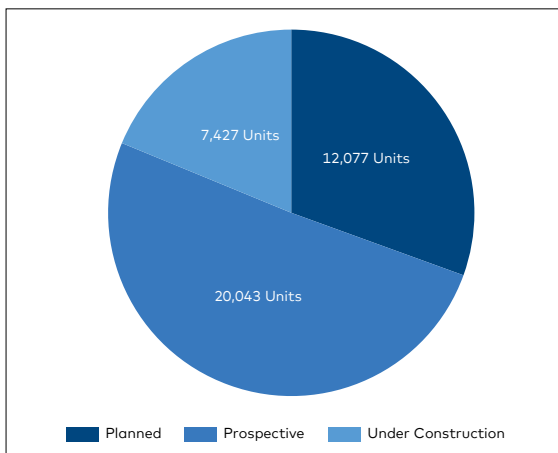
- Developers added 2,734 units in Nashville in the first half of 2019, all upscale and accounting for 2.1% of the total stock, more than double the 0.9% national rate. Following last year's cycle peak for deliveries, the occupancy rate in stabilized properties dropped just 10 basis points in 12 months, to 95.0% as of May.
- The metro had 7,434 units under construction as of June, as well as an additional 32,120 apartments in the planning and permitting stages. Development activity accelerated in recent years, especially in core areas: Developers added more than 17,600 units in the past two-and-a-half years, compared to the 16,000 apartments that came online between 2011 and 2016.
- Development was strongest in Lebanon (1,248 units), Downtown–North (944 units) and Hendersonville (888 units). Lebanon was also home to the largest project underway as of June, the 728-unit Venue at 109, scheduled for completion in 2021. The metro's largest community slated for delivery this year is McEwen Northside in Franklin, a 45-acre mixed-use project totaling 330 residential units.

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



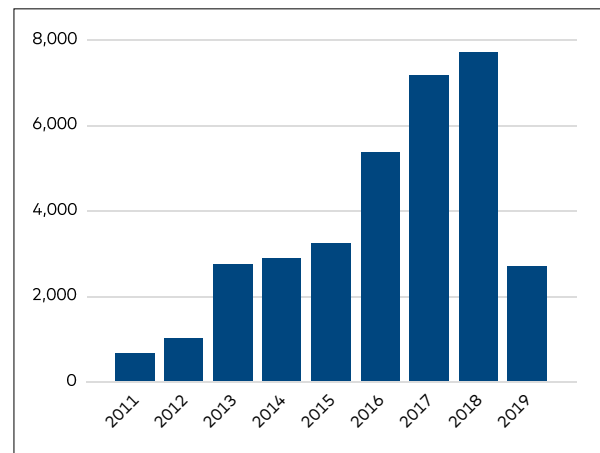
Source: YardiMatrix

**Development Pipeline** (as of June 2019)



Source: YardiMatrix

**Nashville Completions** (as of June 2019)

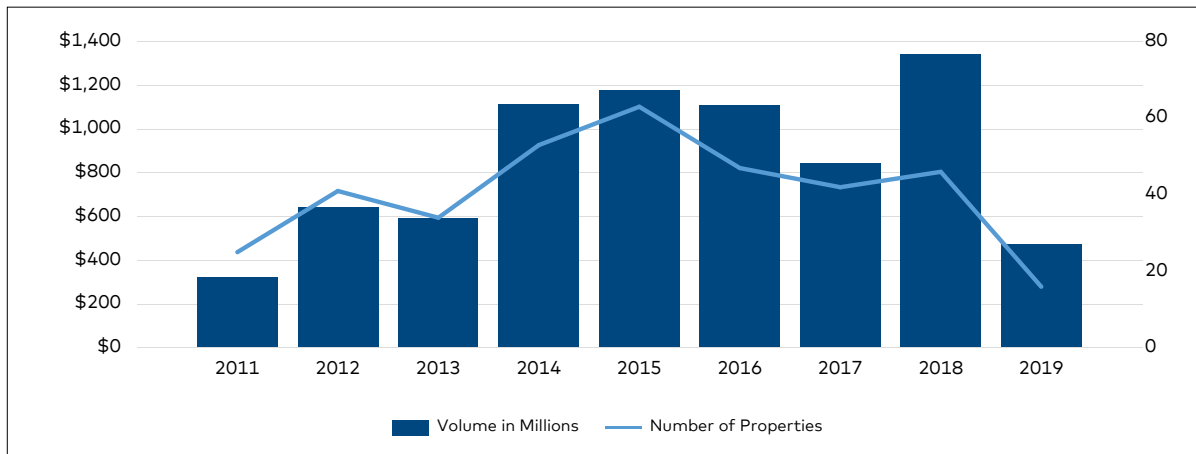


Source: YardiMatrix

## Transactions

- A total of \$472 million in multifamily properties traded in Nashville during the first half of the year. Value-add plays continued to be a popular choice among investors, as three-quarters of the properties that sold this year through June were Renter-by-Necessity assets.
- Deal distribution left a mark on unit prices, with the average dropping slightly in the first half of the year to \$143,352, below the \$157,028 U.S. figure. The per-unit price for RBN assets mirrors investors' interest, rising a solid 26% to \$119,069.
- Morgan Properties was one of the metro's most active buyers over the past four quarters, having bought a total of 1,358 apartments. The company entered Tennessee last year with the acquisition of a four-property, 826-unit portfolio from Cardone Capital for \$91 million, or roughly \$110,000 per unit.

### Nashville Sales Volume and Number of Properties Sold (as of June 2019)



Source: YardiMatrix

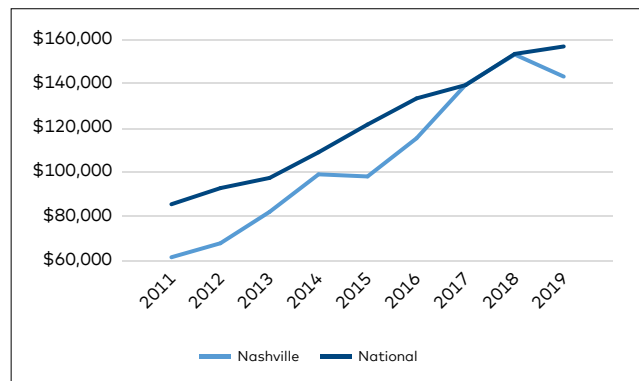
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Downtown-North	265
Bellevue	213
Midtown/Music Row	153
Franklin	140
Antioch-South	66
South Nashville	62
Hendersonville	61
Southeast/Brentwood	58

Source: YardiMatrix

<sup>1</sup> From July 2018 to June 2019

### Nashville vs. National Sales Price per Unit



Source: YardiMatrix

## News in the Metro

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### CBRE Pays \$102M for Luxury Community

The firm selected Greystar to oversee operations at the 367-unit Class A multifamily asset in The Gulch. The property opened its doors in 2018.



### Pacific Equities Sells 380 Harding Apartments

The acquisition of the 160-unit community marks the buyer's fifth purchase in the metro since 2015. Berkadia provided the new owner with more than \$11 million in Fannie Mae financing.



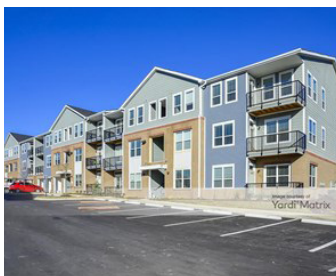
### Hawthorne Sells Class B Apartments For \$50M

The 323-unit community last changed hands in early 2015, when Global State Investments sold the property for slightly more than \$30 million.



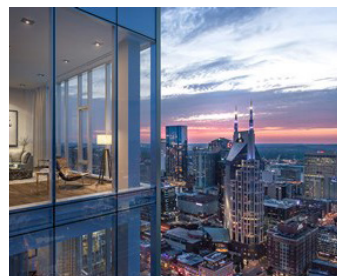
### Metro Nashville Property Receives \$80M Mortgage

KeyBank originated the Freddie Mac financing for Lifestyle Communities to refinance a 580-unit asset in Murfreesboro, roughly 35 miles from Nashville.



### Nashville Project Lands \$32M Construction Loan

Buckingham Cos.' luxury community, which opened its doors in 2017, is growing by 296 apartments. U.S. Bank provided financing for the second phase.



### Nashville Four Seasons Scores \$360M Financing

HFF arranged the funding on behalf of The Congress Group and AECOM Capital, developers of the 542-foot-tall tower that will feature luxury condominiums.



# Top 5 Multifamily Transactions in Nashville



By Jeff Hamann

data by  
**Yardi Matrix**

Investors, developers and employers have long touted Nashville, Tenn., as a city on the rise. Boasting considerable population, job and rent growth, the metro offers many opportunities, across all real estate asset types. Multifamily properties continue to perform well, as evidenced by rising rents and nearly \$500 million in deals closed in the first half of the year. The table below highlights the top five multifamily transactions closed during the first half of 2019, based on data from Yardi Matrix.

Property Name	Buyer	Seller	Units	Total Sale Price (MM)
The Gossett on Church	CBRE Global Investors	Pollack Shores	367	\$101.5
865 Bellevue & Post Ridge Apartments	Hamilton Zanze & Co.	Aimco	476	\$80.15
The Highland on Briley	Harbor Group International	Lighthouse Group	407	\$50.5
ARIUM South Oaks	Carroll Org.	Hawthorne Residential Partners	323	\$50.05
Allegro on Bell	Electra America	Cottonwood Residential	327	\$39.5

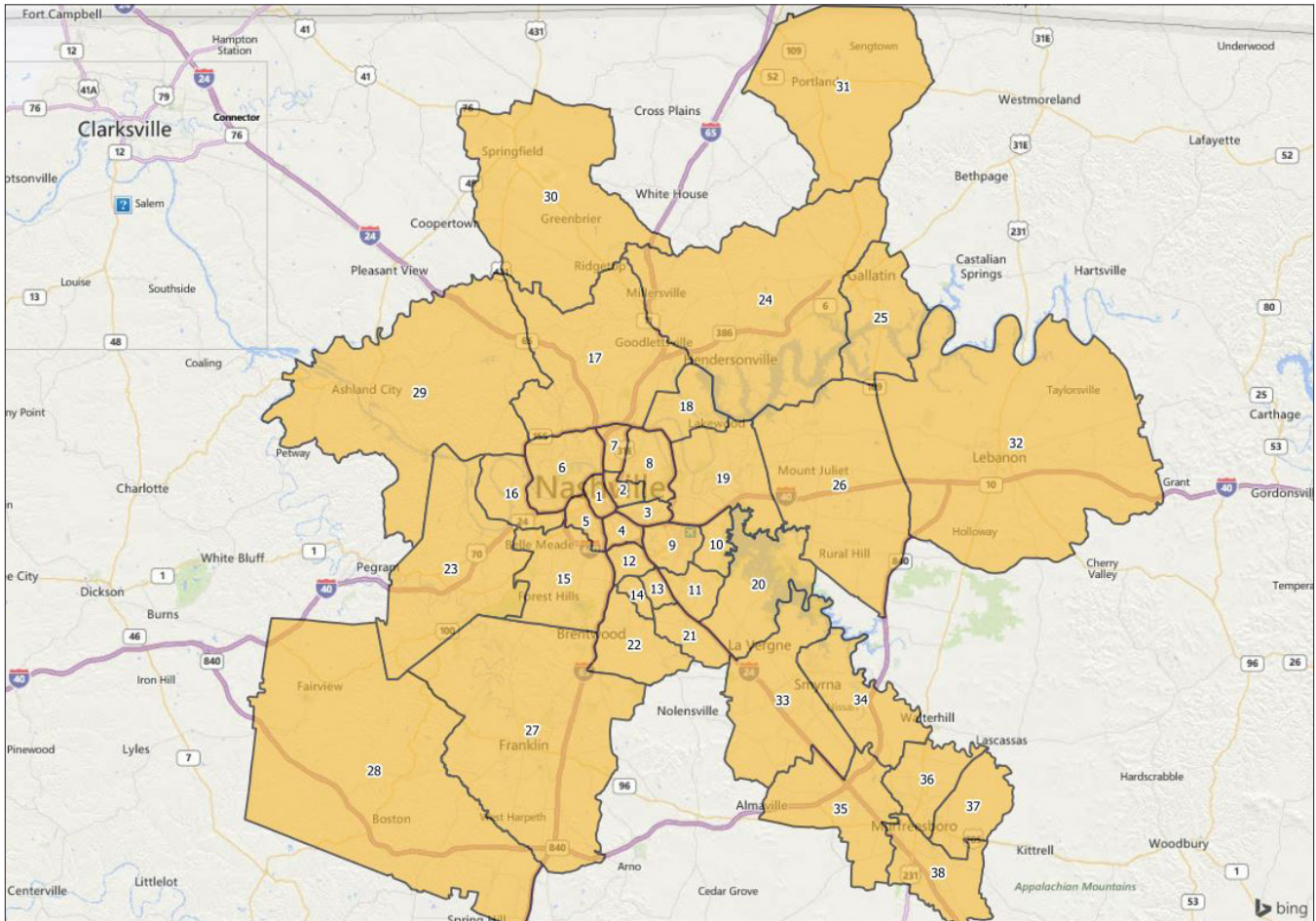
## THE GOSSETT ON CHURCH

Pollack Shores' \$101.5 million disposition of The Gossett on Church in June represented the metro's largest multifamily deal in the first half of the year. The transaction marked buyer CBRE Global Investors' first acquisition in the metro. The community opened its doors in The Gulch in early 2018, following three years of construction backed by a \$51.5 million loan.

The community contains three live-work apartments in addition to one-, two- and three-bedroom units. The property's amenity mix includes a dog park and spa, 9,000 square feet of ground-floor retail as well as electric vehicle charging stations.



## 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/Smyrna
34	Smyrna-East
35	Murfreesboro-West
36	Murfreesboro-North
37	Murfreesboro-East
38	Murfreesboro-South

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## 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](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.

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