Yardi® Matrix

No End In Sight For Nashville Measure

Multifamily Report Fall 2019

Rent Growth Moderates

Another Development Surge

Robust Economy Boosts Demand

Market Analysis

Fall 2019

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Healthy Job Growth Keeps Demand High

Nashville's strong economic and demographic boom is mirrored by its thriving core, which also boosts the rental sector. Rents rose 3.6% year-over-year through September, 40 basis points above the national average. Despite a strong delivery pace, the occupancy rate in stabilized properties rose 20 basis points over 12 months, to 95.3% as of August.

Music City gained 23,000 jobs in the 12 months ending in September, for a 2.5% expansion, 80 basis points above the national growth rate. Leisure and hospitality led gains with 6,200 positions, while professional and business services maintained momentum with the addition of 4,600 jobs. Several companies announced Nashville relocations and expansions, including Mitsubishi Motors North America, Amazon, AllianceBernstein, Ernst & Young, and JPMorgan & Chase.

Multifamily sales totaled $872 million in the first three quarters of 2019, with investors mainly focused on value-add plays. The average per-unit price rose 5.3% to $161,479. Some 3,000 units were delivered in the first nine months of the year, with an additional 8,879 apartments underway as of September. The bulk of this pipeline falls under Lifestyle projects. Nashville's healthy fundamentals will likely keep rent growth above the national average going into the first quarter of 2020.

Recent Nashville Transactions

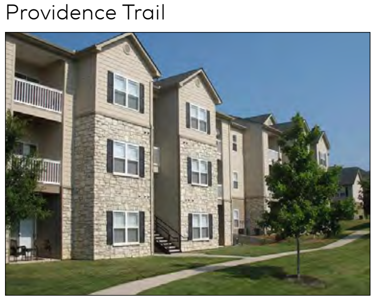
IMT at the Galleria

City: Franklin, Tenn.
Buyer: IMT Capital
Purchase Price: $88 MM
Price per Unit: $243,767

Novel Lockwood Glen

City: Franklin, Tenn.
Buyer: AEW Capital Management
Purchase Price: $69 MM
Price per Unit: $286,611

Providence Trail



City: Mount Juliet, Tenn.
Buyer: Bluerock Real Estate
Purchase Price: $69 MM
Price per Unit: $205,090

Arbors of Brentwood

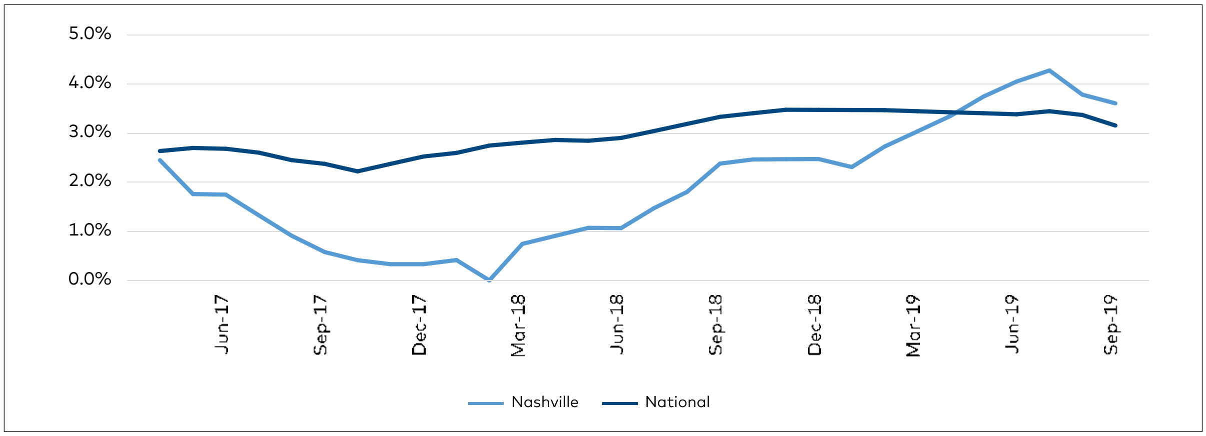
City: Nashville, Tenn.
Buyer: Highland Capital Management
Purchase Price: $62 MM
Price per Unit: $179,913

On the cover: Photo by Phillip Fryman/iStockphoto.com

Rent Trends

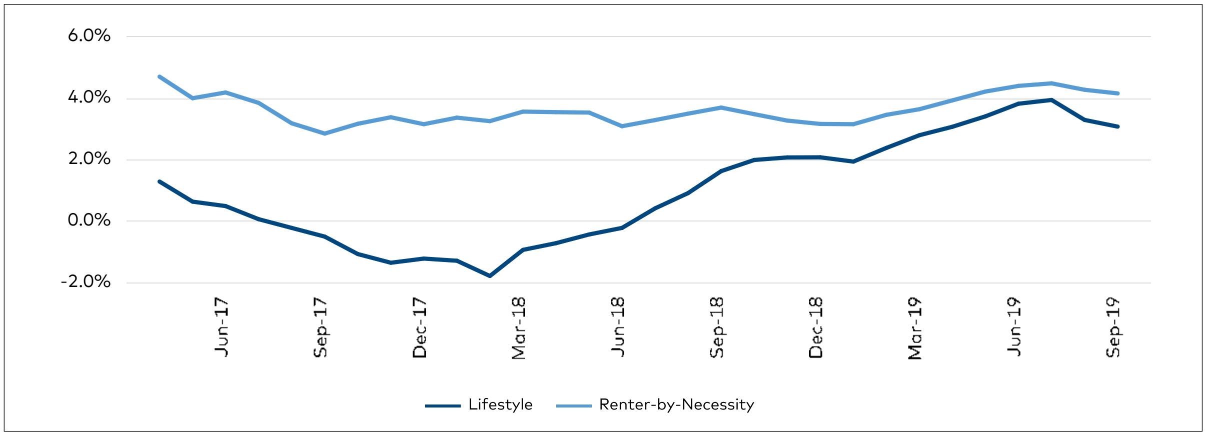
- Nashville rent growth softened toward the end of the summer, clocking in at 3.6% year-over-year through September, to $1,292. Growth was 40 basis points above the national figure, but the average rate still trailed the U.S. figure by $179. Sustained employment growth is keeping demand healthy, despite a prolonged development streak.
- Rents in the working-class Renter-by-Necessity segment led growth, up 4.2% to $1,051. Meanwhile, the domestic migration of millennials relocating to work for tech-centered businesses contributed to a 3.1% increase in the average Lifestyle rent, which reached $1,473.
- Rent growth was positive across the map—as of September, only five of Nashville's submarkets posted rents below the $1,000 threshold. The most affordable rents were in the Southeast–West (up 5.0% to $923), Goodlettsville–South (4.0% to $943) and Gallatin (0.9% to $983). Downtown–North, which also leads development, remained the priciest submarket, with rents rising 3.4% to $1,845. Midtown/Music Row rents followed closely, up 2.1% to $1,824. The sharpest rent hikes were recorded in South Nashville (7.0% to $997) and Murfreesboro–South (6.4% to $1,146). The metro's strengthening economy and healthy demographics will likely maintain rent growth above the national average for the foreseeable future.

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)

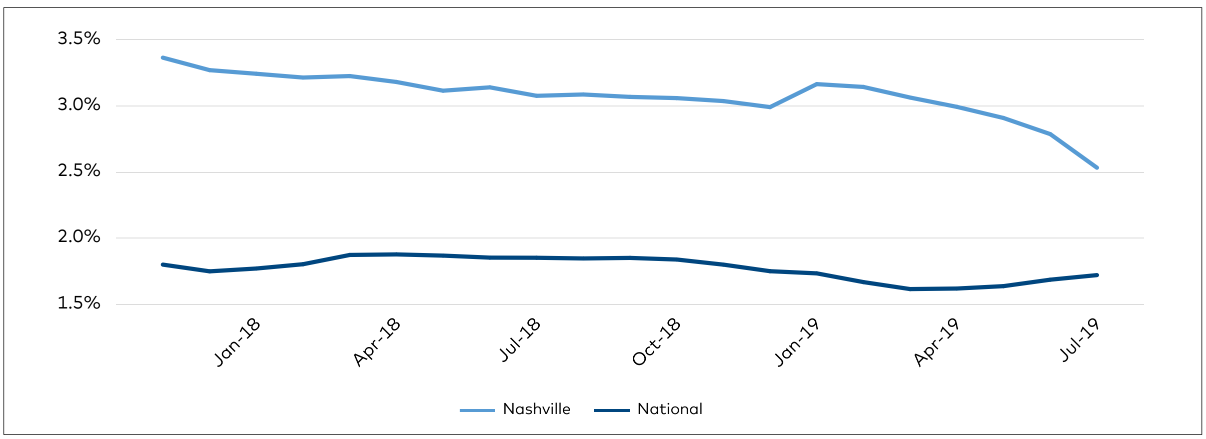


Source: YardiMatrix

Economic Snapshot

- Nashville gained 23,000 jobs in the 12 months ending in July for a 2.5% uptick. Although the rate has been gradually decelerating since the start of the year, it is still well ahead of the 1.7% national rate.
- Leisure and hospitality continued to lead job growth, adding 6,200 positions year-over-year through July. The tourism sector, the state's second largest after agriculture, set records last year, drawing 119 million domestic visitors, which generated an estimated $22 billion in spending. The high influx of visitors boosted passenger travel at Nashville International Airport by 15% last year, and it remains the fastest growing airport in the country. The $1.2 billion BNA Vision investment in the airport will enable completion of the first phase in 2023, with six new gates, new restaurants and shops opening in summer 2020. In the meantime, the trade, transportation and utilities sector gained 3,200 jobs.
- The professional and business services sector gained 4,600 jobs and all signs point to sustained growth. A number of companies announced Nashville relocations and expansions, including Mitsubishi Motors North America moving its headquarters from Cypress, Calif., to Franklin, Tenn. where it will bring some 150 new jobs. AllianceBernstein has also recently relocated from New York City and announced the creation of 1,050 jobs. JPMorgan & Chase will open a branch in downtown's ServiceSource Tower, 20 branches in the Nashville area, and launch even more branches by the end of 2021.

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 (000)	Current Employment % Share	Year Change Employment	Year Change %
70	Leisure and Hospitality	126	12.3%	6,200	5.2%
60	Professional and Business Services	169	16.5%	4,600	2.8%
40	Trade, Transportation and Utilities	197	19.2%	3,200	1.7%
90	Government	112	10.9%	2,800	2.6%
55	Financial Activities	71	6.9%	2,300	3.3%
80	Other Services	44	4.3%	1,600	3.7%
50	Information	24	2.3%	1,200	5.3%
30	Manufacturing	84	8.2%	600	0.7%
65	Education and Health Services	151	14.7%	400	0.3%
15	Mining, Logging and Construction	47	4.6%	100	0.2%

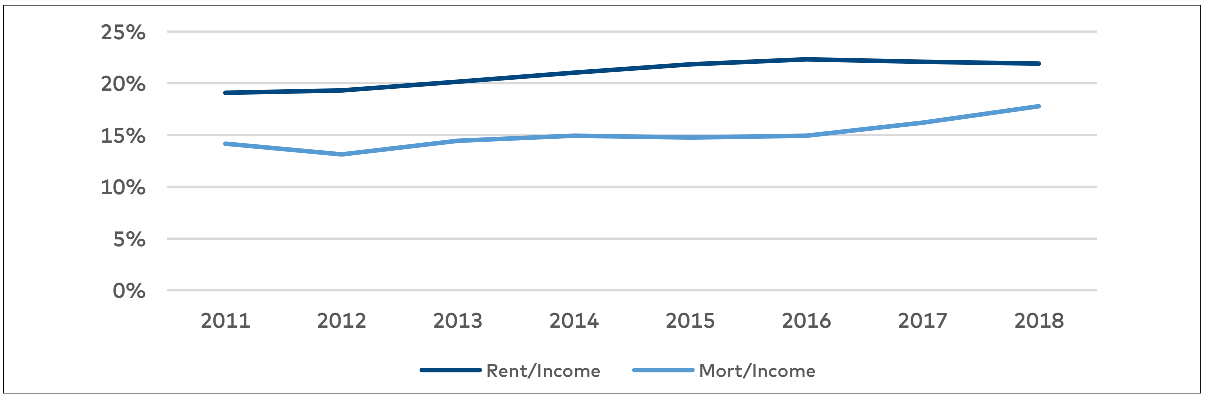
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

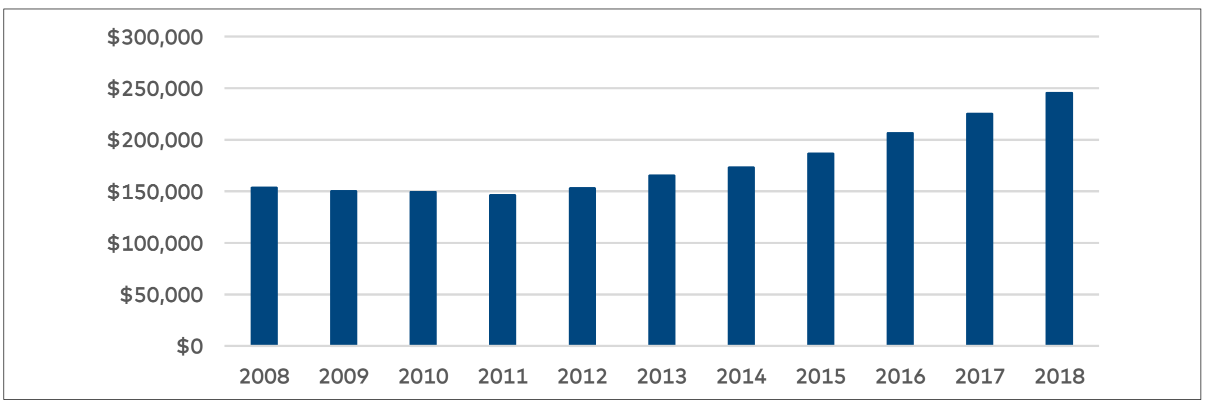
- The median home price in Nashville climbed to $245,308 in 2018, up 9% in one year and 61% since 2012, when the average mortgage payment accounted for only 13% of the area median income. Last year, the average mortgage payment in the metro took a hefty 22% of the area median income, while the average Nashville rent comprised 18% of the same amount.
- Only one fully affordable property totaling 267 units came online in the metro in the first three quarters of 2019. Another seven fully affordable assets were underway, for a combined 918 units, with deliveries expected through April 2020.

Nashville Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Nashville Median Home Price



Source: Moody's Analytics

Population

- One of the fastest-growing major metros in the U.S., Nashville posts a pattern of high domestic migration.
- The metro grew by 30,377 residents in 2018, a population expansion of 1.6%, nearly triple the 0.6% national rate.

Nashville vs. National Population

	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Nashville Metro	1,792,933	1,829,347	1,866,873	1,900,584	1,930,961

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

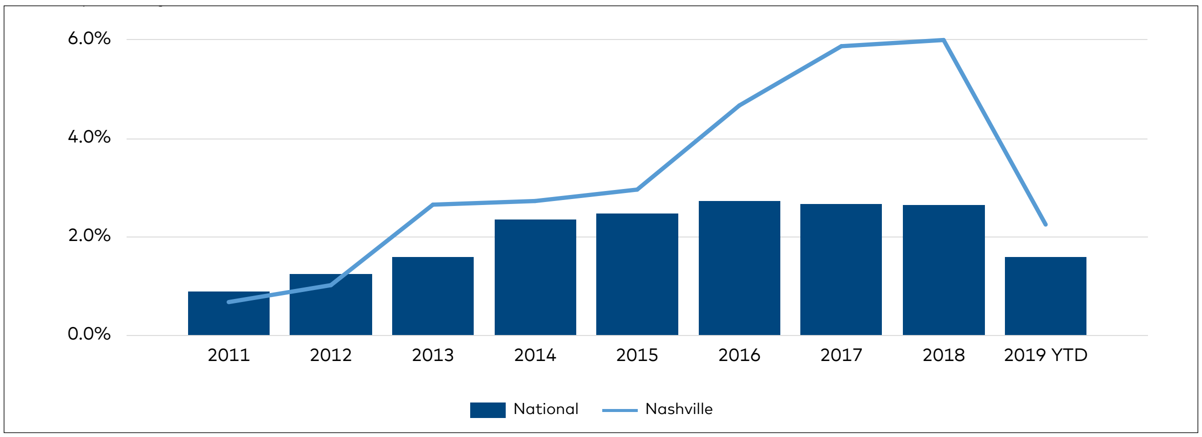
Supply

- Nashville developers brought some 3,000 units online this year through September, with nearly all additions catering to Lifestyle renters. Construction activity intensified significantly in recent years, with the metro adding more than 33,000 units since 2012—more than 23,000 of those from 2016 onward. Despite a strong pipeline over the past few years, supply struggled to keep up with demand. Occupancy in stabilized Nashville properties rose 20 basis points over 12 months, to 95.3% as of August.

- Nashville had more than 8,800 units under construction as of September, reflecting developers' interest in amenity-rich communities, as the bulk of the pipeline consists of Lifestyle properties. Another 33,000 units were in the planning and permitting stages.

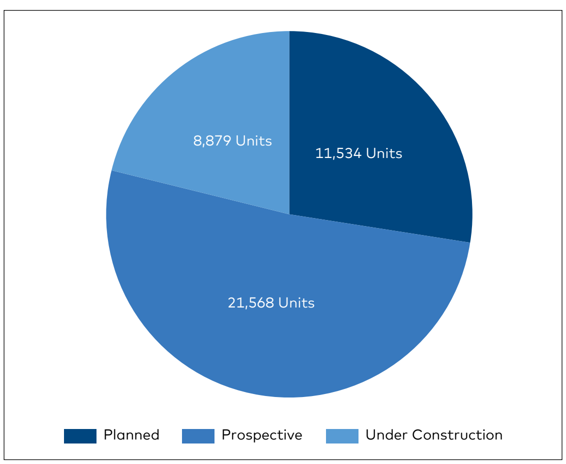
- Development intensified in Downtown–North (1,586 units under construction), continued strong in Lebanon (1,248) and picked up in Bellevue (1,061). Combined, these three submarkets accounted for nearly half of the metro's pipeline. Chandler Real Estate is one of the most active developers in the metro, with 828 units underway slated for completion by the end of first quarter 2020.

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



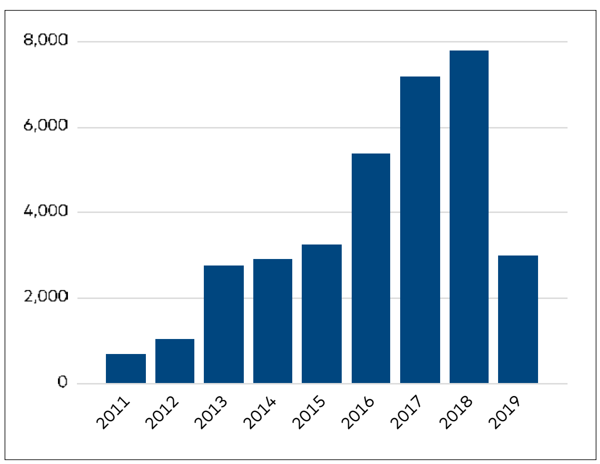
Source: YardiMatrix

Development Pipeline (as of September 2019)



Source: YardiMatrix

Nashville Completions (as of September 2019)

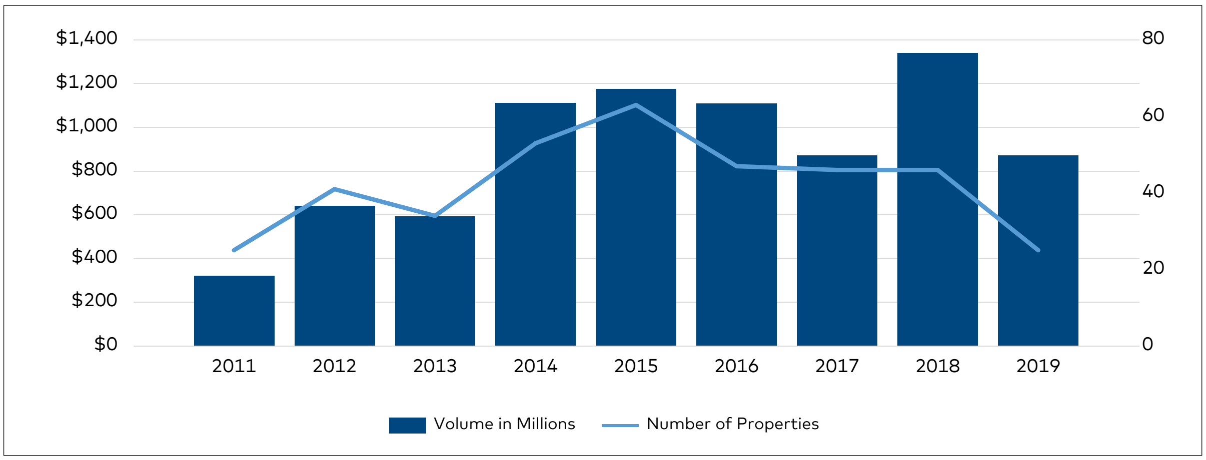


Source: YardiMatrix

Transactions

- A total of $872 million in multifamily assets traded in Nashville this year through September. Of the 25 communities that changed ownership in the first three quarters, two-thirds were value-add assets. The average price per unit rose 5.3% to $161,479, above the $158,670 national figure.
- Investors' preference for value-add strategies boosted the average per-unit price for RBN assets by a solid 28.8%, to $121,660. Meanwhile, the price per unit for Lifestyle properties rose 2.7%, to $224,099.
- In the 12 months ending in September, transaction activity was most intense in Franklin ($210 million), Bellevue ($163 million) and Midtown/Music Row ($153 million). The largest transaction of the summer was IMT Capital's acquisition of IMT at the Galleria in Franklin from Atlanta-based North American Properties. The 361-unit Lifestyle asset was completed in 2017 and sold for $88 million, or $243,767 per unit.

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



Source: YardiMatrix

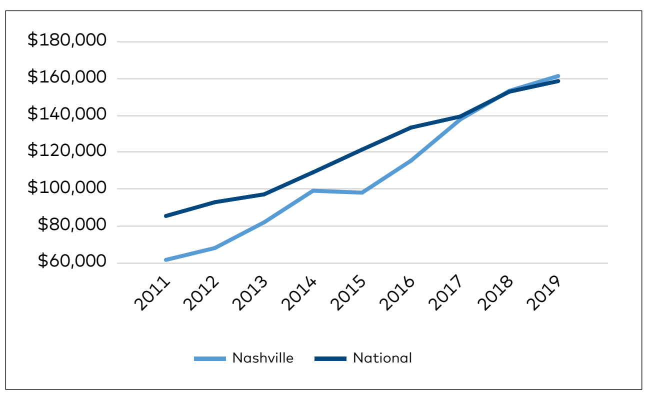
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Franklin	210
Bellevue	163
Midtown/Music Row	153
Southeast/Brentwood	120
Downtown–North	102
Hendersonville	78
Mount Juliet	69
West End/Green Hills	51

Source: YardiMatrix

[1] From October 2018 to September 2019

Nashville vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Nashville's 2nd Tallest Building Refinances

TIAA provided Giarratana Development with a $77 million loan for the high-rise, which contains 350 apartments in addition to condominium units, a hotel and retail on the lower floors.

Hamilton Zanze Expands in Nashville With $57M Buy

The company teamed up with Cantor Fitzgerald to acquire Rivertop Apartments, a 224-luxury apartment community in the Bellevue submarket.

IMT Capital Lands $53M Refi Asset In Midtown/Music Row

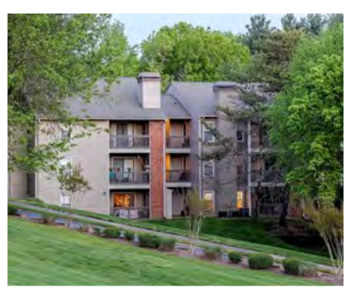
CBRE provided the Freddie Mac financing to the developer of the 330-unit community, retiring a $41.5 million construction loan.

LIHTC Pilot Hastens Affordable Financing

A Tennessee affordable housing community catering to seniors and disabled residents became the first property financed by HUD's Atlanta office under the new LIHTC Pilot program.

Affordable Community Lands Refi

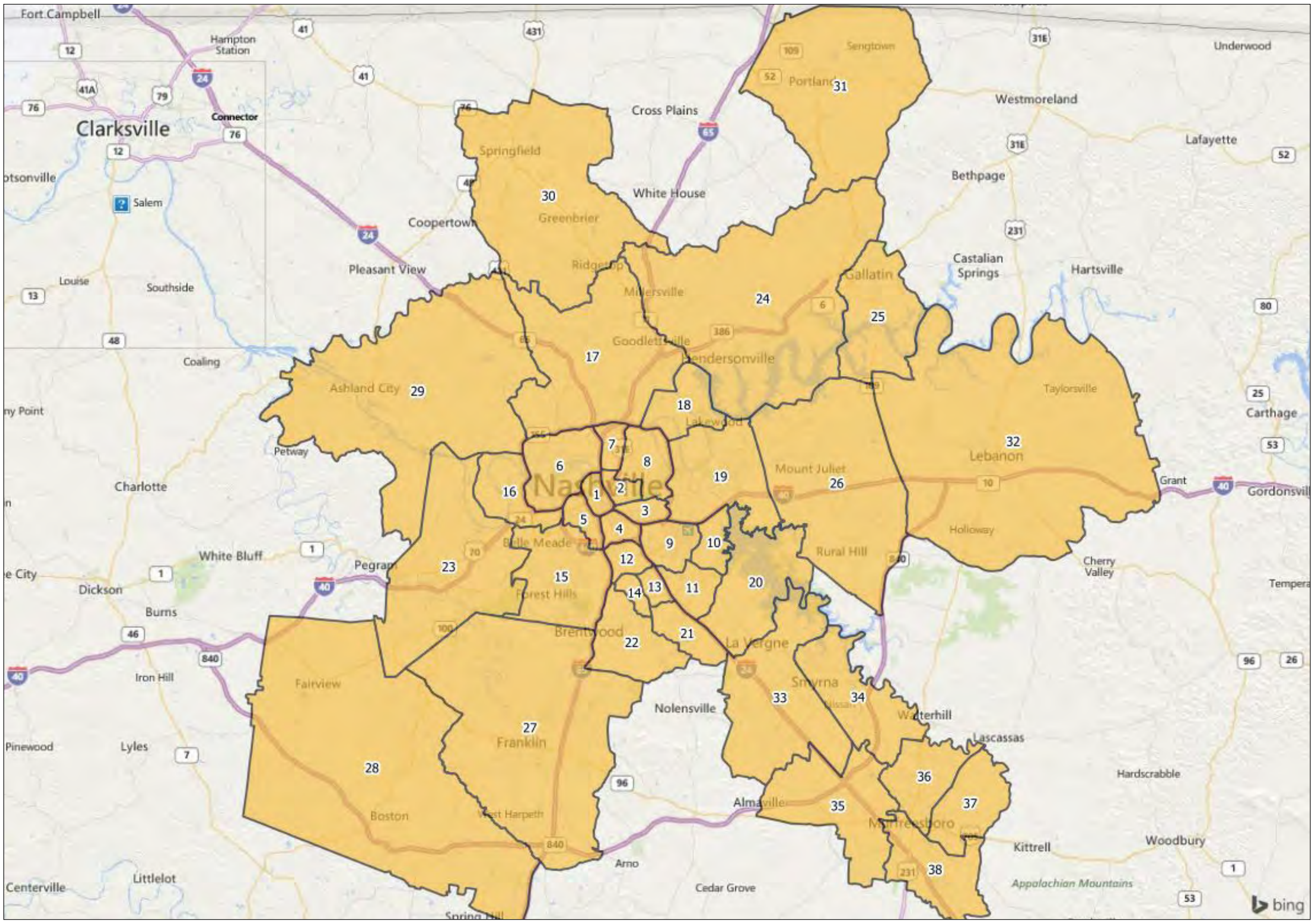
Pathway Lending originated the nearly $5 million financing package, which pays down a prior HUD loan from Greystone.



CBRE Brokers Nashville Community Sale

The company represented the seller, a joint venture between Redwood Capital Group and Investcorp, in the sale of the 20-building Arbors of Brentwood.

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

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.