

RESIDENTIAL REPORT: JULY 2013

Downtown Nashville's High Residential Market Demand Yields Escalating Rents, Low Vacancy and Record Sales Prices

The past year has shown continuing high demand for residential property in downtown Nashville. Developer-owned condo inventory is depleted, and rental occupancy is still holding at 98% from last year, even with the addition of new rental product. Record low long-term mortgage rates were still available through the beginning of June, and with no new for-sale product in the pipeline, the market has shifted in favor of the seller.



Nashville Housing Market: The Greater Nashville Association of Realtors mid-year report states that for the first time ever, the median sales price for a single-family home in Nashville surpassed \$200,000 in June. The previous high for a single-family home was \$196,000 in June of 2007. There is approximately only a four-month supply of homes on the market, and over 3,000 of them have contracts pending.¹



Metrostudy, a national housing market research firm, reported in May 2013 that Nashville has seen 35 consecutive months of positive job creation, and that the Nashville MSA unemployment rate of 6.4% has routinely exceeded the national and state average. Jason Brown, Regional Director of Metrostudy's Nashville Market says that these factors combined with the absence of new home inventory, a tight supply of for sale listings and stable home values will result in increased activity in the new home market through the remainder of 2013.²



While Nashville has been on the national radar for several years, recent accolades have placed the city in a whole new league. *The New York Times* touted Nashville as the latest "it" city due to job growth, tech start-ups, a growing food scene and strong



¹ Greater Nashville Association of Realtors, "Greater Nashville Home Sales Increase at Mid-Year," July 9, 2013

² Metrostudy, <http://metrostudy.com>, May 20, 2013

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real estate market.³ Aol.com named Nashville America's "New Boomtown City" because of its robust health care industry, cultural diversity, and business friendly environment.⁴ Bloomberg ranked Nashville #8 on a list of top American Boomtowns due to population growth in its GDP⁵, and *Condé Nast Traveler* listed Nashville as one of five "must see" cities worldwide in 2013.⁶ The other four cities included were Amsterdam, Seoul, New Orleans and Toronto.

While pent-up demand for downtown housing and record low interest rates over the past 18 months have been a catalyst for increased sales and leasing activity, Nashville's continued strength in overall economic recovery has been the foundation for growth. According to Brookings Institution's 2013 *Metro Monitor*, Nashville ranks #12 out of 100 largest metropolitan areas in the United States in overall economic recovery.⁷ *Metro Monitor* tracks performance in four key areas –jobs, unemployment, gross product and home prices. Nashville ranks #2 Best City for Jobs according to a *Forbes* study released in May. Rankings are based on recent growth trends, mid-term growth, long-term growth and the region's momentum.⁸ According to revised data recently provided by the Bureau of Labor Statistics, the Nashville area led the nation in job growth in 2012.⁹

A strong indicator of economic vitality of an area can be seen through retail development. Retailers choose locations based on current and future customer numbers, purchasing power of those customers and potential for growth. Thirty-one local, regional and national retailers have announced or opened their doors in downtown Nashville in 2013. Twenty-four of these retailers are local and six have multiple locations in the Nashville area. Interestingly, eight of these new stores fit into the traditional retail model, which tends to be more residential-oriented retail. Four of these new retail establishments would be considered national retailers and three have a regional presence.



³ *The New York Times*, "Nashville's Latest Big Hit Could be the City Itself," January 8, 2013

⁴ <http://jobs.aol.com/articles/2013/05/07/new-boomtown-city-nashville/>

⁵ <http://www.bloomberg.com>, "The Top 12 American Boomtowns," April 24, 2013

⁶ *Condé Nast Traveler*, "Best Places to Go in 2013," January 1, 2013

⁷ Brookings Institution, 2013 *Metro Monitor*, June 2013

⁸ *Forbes*, "The Best Cities for Jobs 2013," May 6, 2013

⁹ *The City Paper*, "Revised Labor Stats Show Nashville Led Country in 2012 Job Growth," May 1, 2013

Peer City Comparison

Continuing to trail peer cities in both residential units and population, downtown Nashville plans to have over 7,200 residents and 4,554 units by the end of 2013. Lack of residential zoning until the mid-1990's put downtown Nashville behind in urban residential development.

Figure 1 Year End Projections–Downtown Residents

	2012	2013	2014
Nashville	6,320	7,286	7,544
Memphis	23,600	23,800	24,500
St. Louis	14,000	14,300	14,600
Charlotte	15,365	15,499	15,859

Figure 2 Year End Projections–Downtown Housing Units

	2012	2013	2014
Nashville	4,273	4,554	4,715
Memphis	13,775	13,825	14,250
St. Louis	9,062	9,400	9,530
Charlotte	9,594	9,706	10,006

Although downtown Nashville has fewer residents and housing units than its peer cities, it continues to grow at a faster pace in both categories. From 2012 through year-end 2013, the residential population of downtown Nashville will grow 15%, compared to <1% in Memphis, 2% in St. Louis and <1% in Charlotte. Housing units during the same time period will grow 6.5% in Nashville versus <1% in Memphis, 4% in St. Louis and 1% in Charlotte.

Figure 3 Rental Occupancy Rate

	2013
Nashville	98%
Memphis	95%
St. Louis	90%
Charlotte	96.5%

*Information provided by Charlotte City Center, Downtown St. Louis Partnership, Memphis Center City Commission (June 2013)

Nashville has had consistently higher rental occupancy rates over the past four years compared with peer cities (fig. 3). A survey of property managers was conducted in May 2013, and evaluated 1,907 units in 24 properties. Seventeen of the properties are 100% occupied and several have waiting lists. Rental properties not included are 27 units on the first floor of Market Street Apartments (not available since the May 2010 flood), Residences at 315 due to their short-term leasing status, and Pine Street Flats, still under construction during the survey. This occupancy rate also does not include for-sale properties that have been rented out by their owners.



Downtown Housing Categories

Currently there are 4,554 downtown residential units of which 49% are rental, 46% are condo and 5% are single family units. Market rate housing constitutes 92% and affordable 8% of the housing mix. From 2000 through 2012, downtown has seen 222% population growth. This is 17 times the percentage growth in Nashville and the Nashville MSA, and over 16 times in the State of Tennessee during the same time period (fig 4).

Figure 4 Population Growth Comparisons

Population Growth	2000	2012	% Growth
Downtown	1,960	6,320	222%
Nashville	569,891	643,432	12.9%
Nashville MSA	1,453,577	1,645,513	13.2%
Tennessee	5,689,283	6,470,033	13.7%

Source: Nashville Downtown Partnership, EMSI 2012

Rental Market

The 2,250 rental units within 26 properties in downtown Nashville make up 49% of the current downtown housing mix. In response to the demand for rental opportunities, there are three rental projects under construction and five additional projects planned/announced that could deliver 1,599 units by 2017. If all planned projects come to fruition, the total number of rental units' downtown will rise to 3,849, increasing rental product to 63% of the downtown housing mix.

Downtown apartments have had some of the highest occupancy rental rates in the Greater Nashville area since 2007. Currently, downtown has an occupancy rate of 98%, holding strong from 2012 even with the addition of new rental product entering the market. Occupancy rates remained at 92% or above even through the economic downturn (fig 5). According to the May 2013 survey* of property managers), Rolling Mill Hill is 100%, the downtown core is 98%, Rutledge Hill/SoBro is 98% and The Gulch is 95% occupied.

**This survey does not include Pine Street Flats which was still under construction at the time of the survey, Residences at 315 due to short-term rental status and 27 rental units at Market Street Apartments that have not been renovated and delivered back to the market since the May 2010 flood.*

Figure 5 Rental Occupancy Rate Comparisons

Rental Occupancy Rate– Year	Downtown	Greater Nashville
2007	95%	94.84%
2008	93%	90.60%
2009	92%	90.20%
2010	95%	92.54%
2011	96%	93.36%
2012	98%	95.41%
2013	98%	95.16%

Source: 1Q 2013 Greater Nashville Apartment Association Market Study, NDP Property Manager Survey May 2013

According to a market study released by the Metropolitan Development and Housing Agency (MDHA) in December 2012 and conducted by Randall Gross of Development Economics, downtown can absorb 700 housing units each year for the next five years (through 2017).¹⁰ If all of the planned/under construction developments yielding 1,599 units are delivered, there will still be a shortfall of units.

¹⁰ Randall Gross/Development Economics, *Market Analysis: SoBro/Downtown*, December 2012

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In addition to the high downtown rental occupancy rate, the shadow market units (i.e., investor units within condominium properties) continue to steadily rent, and many properties have waiting lists. A conservative estimate of an additional 400+ investor units currently can be classified as rental property. Most condominium properties have capped percentages for investor units and strict monitoring by property management aids in identifying this number.

Trulia, a national real estate firm, reported in its May 2013 snapshot that Nashville rents were rising at the highest rate in the nation. Rents in the Nashville metro area have risen by 15.5 percent in the last year, followed by Lakeland, Florida's 12.9 percent gain. The nation's top 100 metro areas had an average rent increase of 2.3 percent.¹¹

Downtown has seen rising rents and expanding rental options over the past two years. The delivery of affordable units with income restrictions to the market (i.e., Nance Place and Ryman Lofts) is reflected in the decrease in starting rents for one-, two- and three-bedroom units in 2013. Aside from this change, apartment rents increased over the past 24 months across all categories with the exception of Live/Work units. The most significant increase can be seen in the studio apartment rents that increased by 9% on the low end and 10% on the high end and one- and two-bedroom rents increased by 12% on the high end. Three-bedroom rental rates stayed the same. The 378 affordable rental units in five properties make up 17% of the rental market.

Figure 6 – Rental Rate Comparisons

Rental Market	2011	2012	2013
SIZE	419 - 4,500 SF	419 - 4,500 SF	419 - 4,500 SF
MARKET CATEGORY			
Studio	\$540 - \$1,185	\$570 - \$1,300	\$590 - \$1,300
1 bedroom	\$600 - \$1,700	\$681 - \$1,700	\$624 - \$1,899
2 bedroom	\$790 - \$2,500	\$822 - \$2,700	\$787 - \$2,799
3 bedroom	\$1,400 - \$4,000	\$1,400 - \$4,000	\$853 - \$4,000
SIZE	1,129 - 1,664 SF	1,129 - 1,664 SF	1,129 - 1,664 SF
Live/Work Units	\$1,694 - \$2,496	\$1,694 - \$2,496	\$1,400 - \$2,100

According to a survey of property managers and leasing agents in downtown rental properties, the most popular units are the studios and smallest one-bedroom units, which also fetch the highest square foot prices. Two rental properties in The Gulch receive the highest square foot prices: 430 SF, \$2.32 per SF; 442 SF, \$2.81 SF; 535 SF, \$2.61 SF.

Evidence of a flourishing rental market is evident through investor interest in rental properties downtown. Over the past twelve months, two properties sold at record prices. Velocity in The Gulch, a once distressed condo project that was converted to a rental property, sold for \$37.5 million equating to \$170,000 per unit.¹² Eleven North Apartments, while still under construction, sold for \$58.7 million or \$195,000 per unit, setting a record price per unit for a Nashville apartment transaction.¹³ In early July, The Cumberland, a 24-story apartment/retail building, sold to New York Life for an undisclosed purchase price.¹⁴

¹¹ Tennessean, "Report: Nashville rents rising fastest in the nation," June 7, 2013

¹² *Nashville Business Journal*, "Velocity in The Gulch sells for \$37.5M," August 31, 2012

¹³ Tennessean, "\$58M Eleven North sale sets a new record," November 21, 2012

¹⁴ *Nashville Post*, "New York Life acquires The Cumberland for undisclosed sum," July 19, 2013

The eight rental projects that are either under construction or planned, could deliver over 1,600 units by 2017.

A 23-story luxury apartment tower at 12th Avenue South and Laurel in The Gulch is currently under construction and will deliver 312 units in late 2014. This is the first high-rise rental project that has been under construction downtown in over a decade. Units will offer condo-quality finishes including floor-to-ceiling windows, hardwood floors, stainless steel appliances and granite countertops. Amenities will include a 7,000 SF restaurant, sky terrace with a community kitchen and saltwater pool, game room with billiards, gym and a 24/7 concierge and security. This project will cater to the "rent-by-choice" demographic who seek high-end accommodations in addition to the flexibility that leasing provides.



Rendering of 12th & Laurel luxury high-rise

The final project of Rolling Mill Hill's Phase I includes a market rate rental project that is currently under construction. The project will deliver 102 units to the market in mid-to-late 2014, and will include amenities such as a pool, fitness center, rooftop public area, two levels of underground parking and clubhouse.



Rendering of SoBro

The former Federal Reserve Building at 301 Eighth Avenue North is currently being converted to a 61-unit apartment complex. The property is undergoing interior demolition and plans are to name the project Lofts at the Reserve. All units will have one bedroom, ranging from 600-900 SF. The project also includes a pool and workout facility. Delivery is expected in 2014.

City Lights on Rutledge Hill (corner of Rutledge Street and Lea Avenue) is planned as an 8-story structure with 203 rental units and more than three levels of parking. Project amenities include a roof terrace, party room and fitness center with unique views of the city. Approximately 80% of the units will be one-bedroom apartments, and rents are projected to be around \$2.20 SF. Estimated delivery is 2015.

SoBro, a planned 32-story over 300 apartment high-rise south of Broadway would include over nearly 20,000 square feet of Class A, ground-level retail space and over 500 parking spaces.

Artisan Lofts, a rental project across from the Farmers Market on Rosa L. Parks Boulevard, will offer 232 market-rate rental units by late 2014/early 2015, and two more projects planned for Rolling Mill Hill could deliver a combined 389 additional rental units by 2017.



Rendering of rental project at Rolling Mill Hill

Condominium Market

Downtown Nashville currently has 2,095 condo units within 38 properties. Condominiums make up 46% of downtown housing and no for-sale residential projects are in the pipeline at this time. The condo market developer-owned inventory is depleted and research in early July indicated that there were only 65 re-sales on the market, a three-month supply.

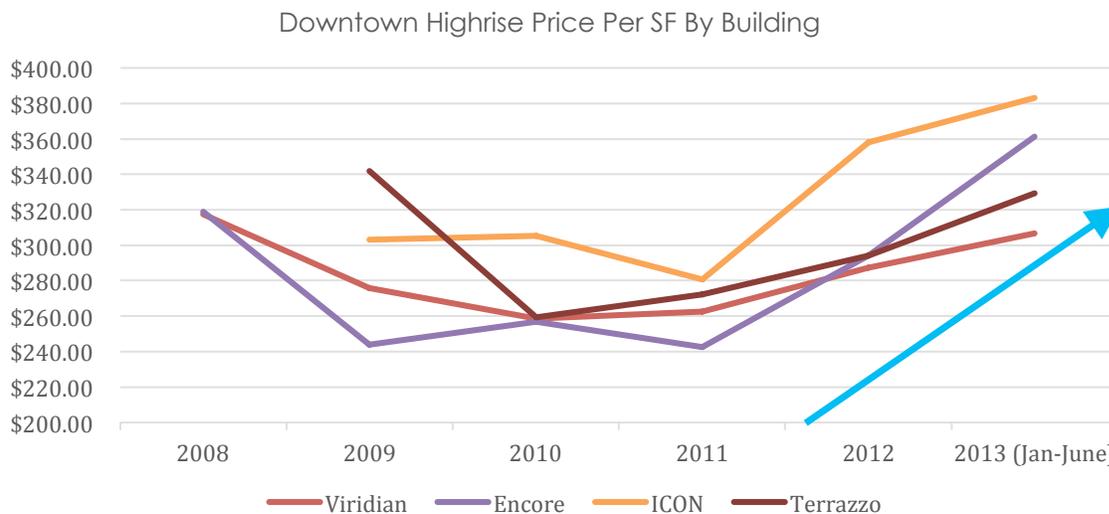
An assessment of four downtown high-rise properties shows that prices of condos have not only recovered since the recession, but price per square foot has increased in all four properties since 2011, and dramatically over the past 18 months (fig 7). With demand increasing and no new supply coming online, prices are expected to increase.

Figure 7 – High-rise Condo Price Comparisons

PPSF By Building	2008	2009	2010	2011	2012	2013 (Jan-June)
Viridian	\$317.71	\$275.91	\$258.64	\$262.74	\$287.51	\$306.78
Encore	\$319.06	\$243.89	\$256.90	\$242.53	\$294.08	\$361.46
ICON	**	\$303.14	\$305.23	\$280.69	\$358.06	\$383.09
Terrazzo	**	\$341.84	\$259.18	\$272.43	\$294.10	\$329.31
Cumulative By Year	\$319.21	\$295.62	\$292.88	\$274.57	\$325.89	\$355.79

Source: <http://realtracs.net>, July 2013

Figure 8 – High-rise Price per Square Foot by Building Comparison Chart



Aside from price spikes at their start, all properties have seen price increases (fig 8). Encore has seen the largest price increase of 48% since 2009. The highest square foot prices so far this year occurred in May and June at ICON in The Gulch. The units sold for \$496.82 and \$571.37 per square foot. The first six months of 2013 show the average overall sales price downtown is \$304,090, up 11% from \$274,419 in 2012.¹⁵

¹⁵ <http://www.realtracs.net>, July 2013

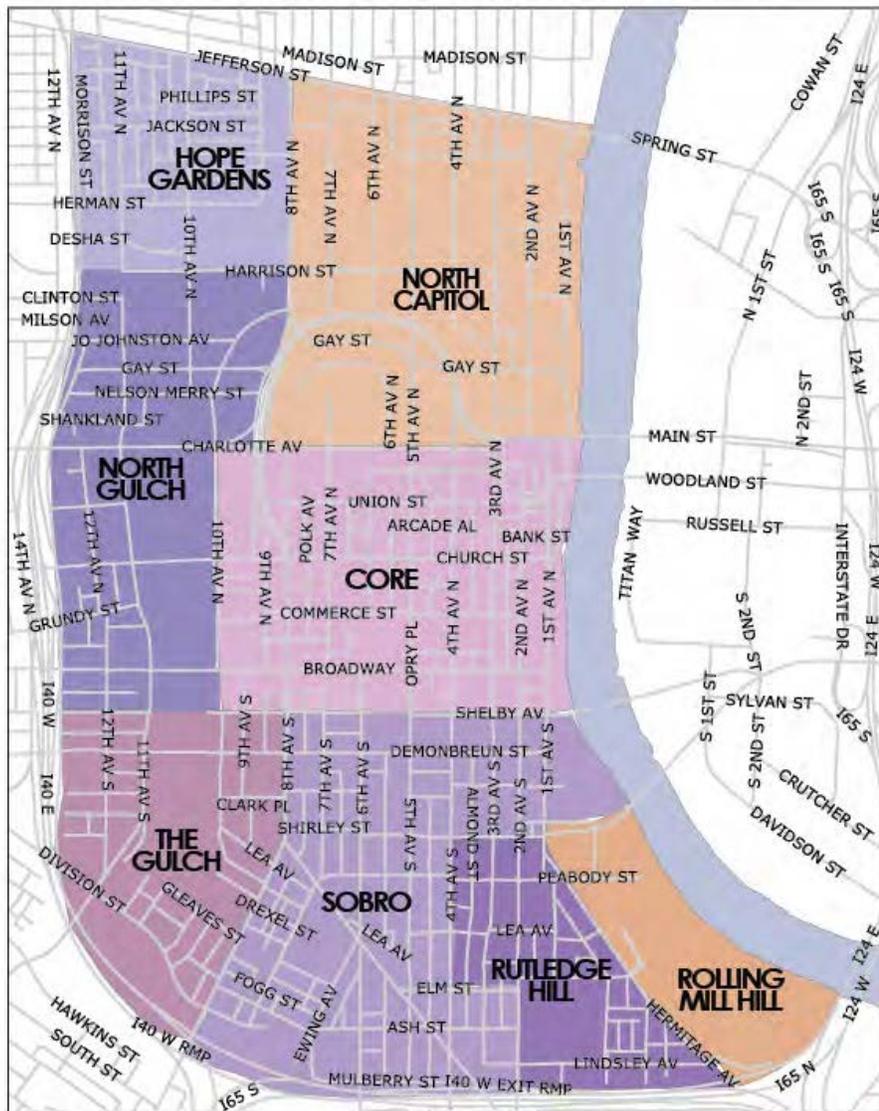
Single Family Market

Single-family homes make up 5% of downtown housing inventory. Of the 209 total homes downtown, 207 are in the Hope Gardens neighborhood. Two single-family residential permits were issued for Hope Gardens over the past 12-months, and one of the sites is still undeveloped.¹⁶ The other two single family homes are located in the downtown core.

Downtown Geographic Boundaries

The Nashville Downtown Partnership's definition of downtown includes properties within the boundaries of the river on the east, the interstate loop on the south and west, and Jefferson Street on the north. This geographic area is termed the Greater Downtown, which includes the Central Business Improvement District (Core), The Gulch, North Capitol, Hope Gardens, Rutledge Hill, Rolling Mill Hill, and SoBro. Germantown is adjacent to downtown, but not included in the residential counts.

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¹⁶ Davidson County Metropolitan Government, Metropolitan Planning Organization, July 2013

Demographic Profile and Trends

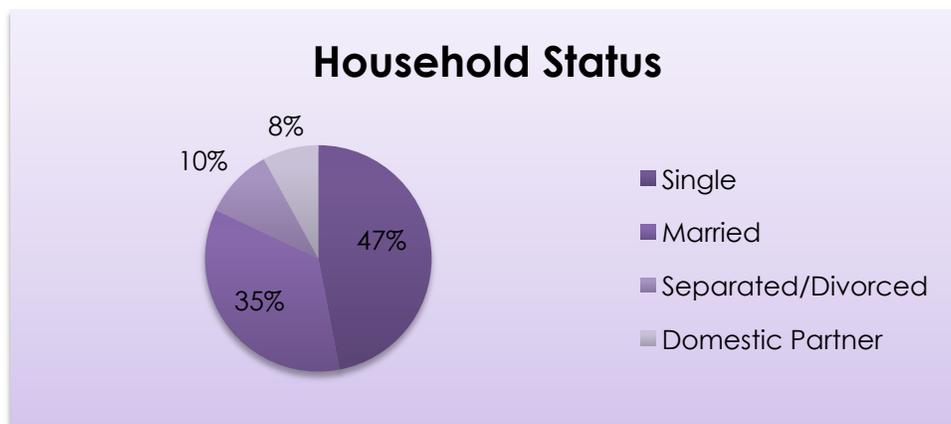
The Nashville Downtown Partnership's 2013 Downtown Residential Survey had a 16% response rate. In May 2013, over 3,000 surveys were distributed to homeowners and renters by direct email and via building and condo managers. The survey focused on residents who live in Nashville's downtown defined by these boundaries: Jefferson Street on the north, Cumberland River on the east and the interstate loop on the south and the west.

Downtown continues to attract professional, highly educated residents from across all age groups, intensifying the city's economic competitiveness. Thirty-two percent of downtown residents moved to downtown from out-of-state, up 4% from 2012. Another 27% moved from outside of the city. In addition, 89% of downtown residents hold a college or post-graduate degree.

Household Status

Of the respondents, 47% are single (down 2% from 2012), 35% are married (up 4% from 2012), 10% are separated or divorced, and 8% have a domestic partner (fig 9).

Figure 9 – Household Status



Age and Gender

Respondents exhibit a broad cross section of age groups. Thirty-one percent of downtown residents are considered to be Generation Y (age 32 and under). This group grew from 27% in 2012. In contrast, Generation X (age 33-48) represents 29% of the downtown population, decreasing from 33% in 2012. Baby Boomers (age 49-66) represent 35%, up from 33% in 2012. Generation Y and Baby Boomers will be the two generations expected to show the most increase in migration to urban areas going forward.

Male and female residents make up 50% each of the downtown population. Gender percentages continue to remain relatively constant.

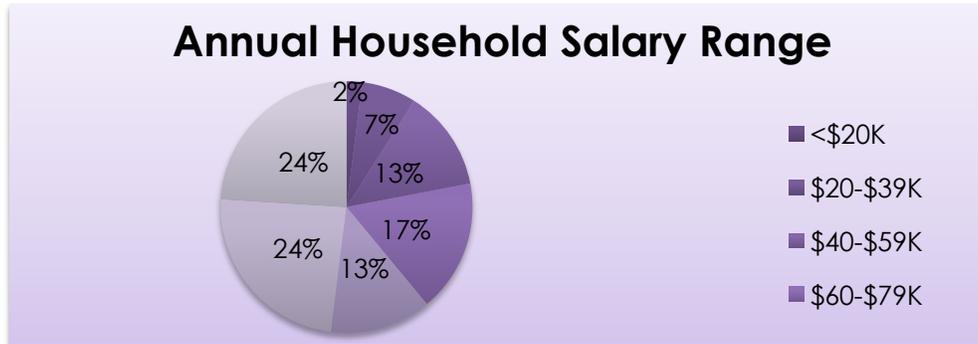
Where Residents Moved From

Thirty-two percent of downtown residents moved from elsewhere in Davidson County. Twenty percent moved from Nashville MSA, 32% from out-of-state, 7% from somewhere in Tennessee outside of the MSA and 9% moved from another location in downtown (up 2%).

Household Income

Seventy-eight percent of downtown households earn over \$60,000 annually, up 6% from 2012. Forty-eight percent earn over \$100,000 annually, and 24% earn over \$150,000 each year. Two percent earn less than \$20,000 annually (fig 10).

Figure 10 – Annual Household Salary Range



Level of Education Completed

Fifty-three percent of downtown residents have a college education and an additional 36% (up from 31% in 2012) hold postgraduate degrees (fig 11).

Figure 11 – Education Comparisons

	2 or 4 Year Degree	Graduate or Professional Degree
Downtown	53%	36%
Nashville	26.7%	13.2%
Nashville MSA	26.1%	10.4%

Work Location

Sixty-three percent (up from 61% in 2012 and 59% in 2011) responded that their office is located outside of downtown. Being “close to work” has been in the top four positive influences of living downtown since the first survey in 2005, when it was the #1 influence. It has steadily dropped over the years, but has remained #4 on the list since 2010. Although being close to work certainly continues to be a primary factor in choosing to live downtown with close to one-third citing its importance, there are now more compelling reasons that residents choose to live in downtown Nashville.

Quality of Life Factors

When residents were asked what four elements most positively influenced their continued downtown living, the top responses were the *urban experience* (48%), *central location/convenience* (45%), *nightlife* (37%) and finally a tie for *being close to work* (27%) and *arts and cultural events* (27%). The urban experience has been cited for the 6th year as the top reason for living downtown. Central location/convenience, night-life and being close to work have been in the top four for the past five years.

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Study Area Housing Market

The Greater Downtown has 4,554 existing units, and an additional 1,599 units are either planned or under construction.

		# Units	Rental	Condo/SF	Property Address	Rental/Condo
	Existing Apartments/Condos/Single Family					
CBD (Downtown Core)	112 Second Avenue Lofts	4	4	-	112 Second Avenue North	Rental
	114 2nd Avenue	1	-	1	114 2nd Avenue North	Condo
	115 8th Avenue North	1	-	1	115 8th Avenue North	Condo
	123 2nd Avenue	1	-	1	123 2nd Avenue North	Condo
	138 2nd Avenue	1	-	1	138 2nd Avenue North	Condo
	219 2nd Avenue	1	-	1	219 2nd Avenue North	Condo
	320 Broadway	4	-	4	320 Broadway	Condo
	420 Broadway	1	-	1	420 Broadway	Condo
	425 Broadway	2	-	2	425 Broadway	Condo
	Ambrose Lofts	21	-	21	162 4th Avenue North	Condo
	Art Avenue Lofts	32	-	32	231 5th Avenue North	Condo
	Bennie Dillon Original Lofts	86	-	86	700 Church Street	Condo
	Berger Building/Nashville Toy Museum	3	3	-	162 8th Avenue North	Rental
	Capitol Towers	219	184	35	510 Gay Street	Rental/Condo
	The Cumberland/Cumberland Penthouses	289	256	33	555 Church Street	Rental/Condo
	Church Street Lofts	17	-	17	301 Church Street	Condo
	James Robertson Apartments	123	123	-	118 Seventh Avenue North	Rental
	The Kress Lofts	29	-	29	237 5th Avenue North	Condo
	Lofts above ICHIBAN	8	8	-	107 Second Avenue North	Rental
	Lofts at 160	32	32	-	160 2nd Avenue North	Rental
	Lofts at Noel Court	4	-	4	214 3rd Avenue North	Condo
	Lofts at the Exchange	47	-	47	309 Church Street	Condo
	Market Street Apartments	74	74	-	150 Second Avenue South	Rental
	Metro Manor	170	170	-	500 Fifth Avenue North	Rental
	Phoenix Lofts	6	-	6	207 3rd Avenue North	Condo
	Printers Alley Condos	4	-	4	211 Printers Alley	Condo
	Private Residence	1	-	1	226 3rd Avenue North	Single Family
	The Quarters	32	-	32	178 2nd Avenue North	Condo
	Rhea Building Lofts	11	11	-	166 2nd Avenue North	Rental
	Riverfront Studios - lofts above	2	2	-	210 Broadway	Rental
	Smith House	1	-	1	167 Rosa L. Parks Blvd	Single Family
	Stahlman Building	142	142	-	211 Union Street	Rental
	Residences @ 315 Union	18	18	-	315 Union Street	Rental
Viridian	305	-	305	415 Church Street	Condo	
Watauga House	25	-	25	222 Polk Avenue	Condo	
Westview	10	-	10	179 8th Avenue North	Condo	
		1,727	1,027	700		

Continued

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Study Area Housing Market - *continued*

Area	Location	# Units	Rental	Condo/SF	Property Address	Rental/Condo
North Capitol	District Lofts	69	-	69	Corner of Harrison & 3rd Ave	Condo
	Harrison Square	15	-	15	Harrison & 3rd Avenue North	Condo
	Harrison Square Phase II	48	-	48	Harrison & 3rd Avenue North	Condo
	Hope Gardens Residences	207		207	Hope Gardens	Single Family
	Ireland28	28	-	28	900 Block of Ireland Street	Condo
	Riverfront Condos	145	-	145	726 1st Avenue North	Condo
	Row 8.9n	29	-	29	800 Block 8th Avenue North	Condo
		541	-	541		
Rolling Mill Hill	The Art Deco	24	24	-	210 Middleton Street	Rental
	The Metro	36	36	-	210 Middleton Street	Rental
	The Victorian	12	12	-	210 Middleton Street	Rental
	Nance Place Apartments	109	109	-	8 Academy Place	Rental
	Ryman Lofts	60	60	-	100 Middleton Street	Rental
		241	241			
SoBro/ Rutledge Hill	Academy Square Condominiums	50	-	50	100-149 Academy Square	Condo
	Cardwell Place Condominiums	4		4	Lea Avenue and Rutledge	Condo
	Encore	333	-	333	301 Demonbreun Street	Condo
	Howell Park	40	-	40	401-479 2nd Avenue South	Condo
	Peabody Quarters	24	24	-	310 - 312 Peabody Street	Rental
	Room in the Inn	38	38		705 Drexel Street	Rental
	Rutledge House	41	-	41	656 Second Avenue South	Condo
	Rutledge Terrace	18	-	18	430 Second Avenue South	Condo
Big Red Lofts	20	20		527 8th Avenue South	Rental	
		568	82	486		
The Gulch	Eleven North Apartments	302	302		210 11th Avenue North	Rental
	ICON	417	-	417	600 12th Avenue South	Condo
	Mercury View Lofts	32	32	-	1209 Pine Street	Rental
	Laurel House Apartments	48	48	-	1101 Laurel Street	Rental
	Terrazzo	117	-	117	700 12th Avenue South	Condo
	Velocity	265	222	43	300 11th Avenue South	Condo
	Pine Street Flats	296	296	-	1055 Pine Street	Rental
		1,477	900	577		
	TOTAL EXISTING	4,554	2,250	2,304		

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	Unit #	Rental	Condo	Rental/Condo
Under Construction				
12th & Laurel	312	312	-	Rental
RMH Rental Project (2014)	102	102		Rental
Lofts at the Reserve (2014)	61	61		Rental
	475	475		
TOTAL EXISTING/UNDER CONSTRUCTION	5,029	2,725	2,304	
Artisan Lofts (2015)	232	232		Rental
SoBro (2015)	300	300	-	Rental
City Lights on Rutledge Hill (2015)	203	203		Rental
RMH Mixed-Use project (rental and retail) (2015/2016)	187	187		Rental
RMH residential (TBD)	202	202		Rental
	1,124	1,124		
TOTAL EXISTING/UNDER CONSTRUCTION/PLANNED	6,153	3,849	2,304	

Demographic Trends Affecting Future Downtown Housing Market

Demographics in America are changing with two major factors setting the course for future housing development: aging population (Baby Boomers) and Millennials (Generation Y). According to an article in the March 2013 *Planning Magazine* titled "Diversity and Aging in America," current demographic trends will drive housing trends over the next 25 years.¹⁷ Baby Boomers consist of over 75 million people, and when they retire, they have a preference for walkable communities and amenities. Millennials are 85 million strong and are trending away from suburban living in favor of walkable neighborhoods close to community amenities and are less likely to have children at home for a long time. In planning for future housing development, it is critical to understand where and how these two largest demographics want to live.¹⁸

An Urban Land Institute survey of Millennials revealed that generation could be a potential "game changer" for the U.S. real estate market. The survey found that 59% said they prefer their neighborhood to have a variety of housing types; 62% favor mixed-use developments with shops, restaurants and offices; and 52% like pedestrian-friendly neighborhoods. The survey also found that Millennials are more likely than older generations to live in apartments and in downtowns, with 54% favoring renting and 39% partial to city living.¹⁹ Patrick Phillips, ULI's chief executive, said "Generation Y is different than previous generations in that it won't fully shift later in life to living in suburban, single-family homes."²⁰

Generation Y prefers to live in central cities and urban areas far more than any other generation in history.

Source: Pew Research Center (2009)

¹⁷ *Planning Magazine*, "Diversity and Aging in America," March 2013

¹⁸ Fulton, William, Vice President, Smart Growth America (2013, April). *The High Cost of Inefficient Development Patterns*. Speaker series for NashvilleNext, Nashville, Tennessee.

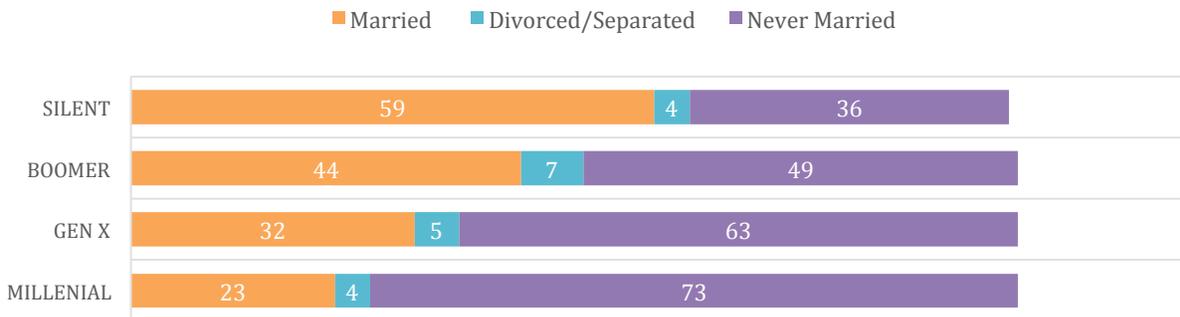
¹⁹ Urban Land Institute, *America in 2013*, May 2013

²⁰ Urban Land Institute Press Release, "Where Americans Want to Live: New ULI Report, *America in 2013, Explores Housing, Transportation, Community Preferences Survey Suggests Strong Demand for Compact Development*," May 15, 2013

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Millennials are less likely to get married at the same age as earlier generations, thus requiring smaller living quarters. Pew Research performed a study in late 2011 showing that 23% of 18- to 30 (Gen Y) year olds were married. In comparison, 32% of Generation X, 44% of Baby Boomers and 59% of the Silent Generation/Veterans were married when they were between the ages of 18 and 30. Each successive generation is waiting later in life to tie the knot.²¹

% MARRIED BETWEEN AGES 18 AND 30



Millennials are waiting later to have children as well. In 1960, 52% of households did not have children at home. The number increased to 67% in 2000, and in 2025 it is projected that 72% of households will not have children at home so the desire to have a backyard won't be an important factor in housing choice.²²

Household size is changing, too. According to Robert Charles Lesser & Co, 82% of household growth will be singles and couples without children living at home²³. Mitchell Silver, President of the American Planning Association, says that households are becoming smaller and the population is aging, which are "the two biggest dynamics" in city planning.²⁴ By 2025, the number of single person households will be equal to family households. By 2030, the predominant household will be one-person²⁵. Currently, 37% percent of Davidson County households have only one person. Projections indicate that over the next 30 years Davidson County will have the smallest household size in the region.²⁶ Comparatively, downtown Nashville's household size is 1.6.²⁷

Approximately 4 million baby boomers will turn age 65 each year for the next 17 years. The largest number of retirees will occur between 2017 and 2027, with all Boomers reaching the age of 65 by 2030.²⁸ A report released by Urban Land Institute titled "America in 2013," suggests that Boomers may choose living environments with more urban characteristics than suburban. Seventy-two percent will choose a shorter commute and smaller home. Nearly half (49%) will choose to live near mixed-use developments that offer shopping, dining and entertainment. Access to public transportation is important to 52% of Boomers.²⁹ Boomers will seek a convenient low-maintenance lifestyle with entertainment, retail and medical services nearby.

²¹ Pew Research, "The Generation Gap and the 2012 Election," November 3, 2011

²² Fulton, William, Vice President, Smart Growth America (2013, April). *The High Cost of Inefficient Development Patterns*. Speaker series for NashvilleNext, Nashville, Tennessee.

²³ RCLCO, "Impact of Demographic Trends: Generation Y," March 2013

²⁴ Changing Faces of America, Mitchell Silver

²⁵ Fulton, William, Vice President, Smart Growth America (2013, April). *The High Cost of Inefficient Development Patterns*. Speaker series for NashvilleNext, Nashville, Tennessee.

²⁶ Owens, Loretta, Background report submitted to NashvilleNext on Housing, March 2013

²⁷ Nashville Downtown Partnership, *2013 Downtown Residential Survey Results*, May 2013

²⁸ RCLCO, "Generations in Transition," September 2012.

²⁹ Urban Land Institute, *America in 2013*, May 2013.

Sixty-two percent of Americans planning to move in the next five years would prefer to live in mixed-use communities.³⁰ See below for the percentage of movers indicating a preference for community attributes:

Preferred Community Attributes

62% Close to shops, restaurants, and offices

59% Shorter commute but smaller home

52% Available public transit

50% Mix of homes

47% Mix of incomes

There is evidence that both Millennials and Boomers will be settling for smaller homes: Millennials in cities and dense, mixed-use suburban town centers, and Boomers downsizing from large houses and yards in the suburbs. Both generations say they would give up square footage in order to be closer to cultural amenities and lifestyle conveniences.³¹

Micro-unit housing is beginning to meet a growing part of urban housing markets. Cities such as Boston, New York, Denver, San Francisco and Seattle have all had micro-housing initiatives in the past couple of years. Housing size can vary between 350 – 500 square feet. Not only does this type of housing help to create density in urban cores, it also produces more affordable housing by condensing unit size. This housing is geared toward lifestyles of Gen Y entry-level professionals, empty-nesters/boomers, and is affordable workforce housing for all ages. University of Tennessee Urban Design Students working with the Nashville Civic Design Center are currently exploring the potential for micro-housing in various downtown sites, and will release a report in fall 2013.

³⁰ Urban Land Institute, *America in 2013*, May 2013

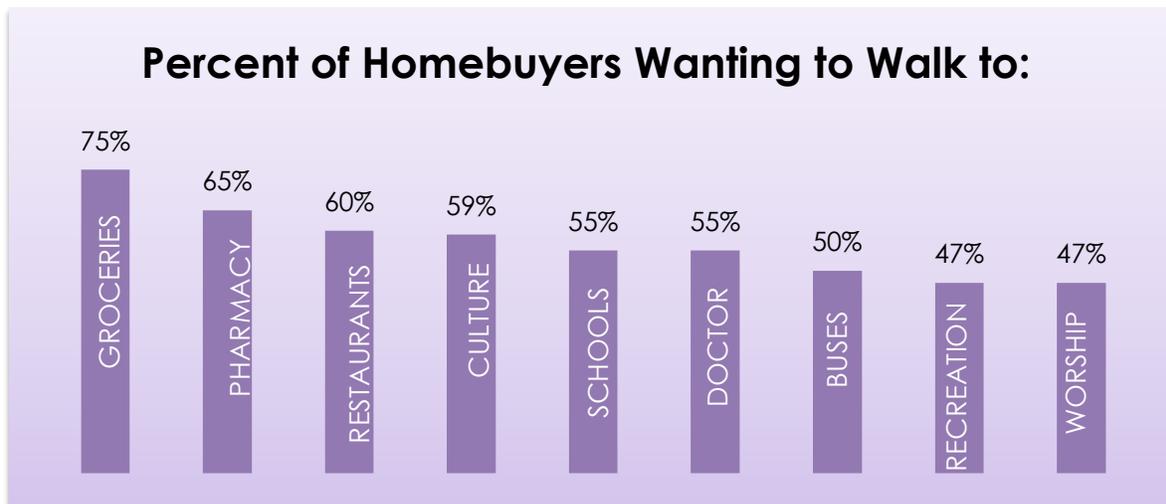
³¹ Urban Land Institute, *What's Next? Getting Ahead of Change*. 2012



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Cities are innately sustainable. Living in an urban area with compact development and with the right mix of amenities and housing requires less car travel, uses less energy, and generates less emissions per capita than suburban areas.³² Fewer Millennials want to own cars compared to previous generations. In 1995 people age 21-30 drove 21% of all miles driven in the United States; in 2009, it was 14%, despite consistent growth of the age group.³³

Seventy-six percent of Millennials place a high value on walkable communities³⁴, and in research by RCLCO, Millennials cite walkability as the most important community feature in a home or community selection process³⁵. Boomers are more active than their parents were at the same age, and also desire walkable neighborhoods. As Boomers age, and their lifestyles are contingent on an individual's ability to drive, "they will increasingly choose cities where they can walk or take transit."³⁶



Becoming increasingly important in where people choose to live, the walkability of an area or neighborhood can be translated through a "Walk Score." A higher Walk Score increases the value of your home, according to a study conducted by CEOs for Cities. A one-point increase in Walk Score is associated with an increase in home values anywhere from \$700 - \$3,000.³⁷ Brookings Institution states that homes in walkable urban neighborhoods have experienced less than half the average decline in price from the housing apex in the mid-2000s.³⁸

Source: <http://www.walkscore.com>

WALK SCORE	DESCRIPTION
90-100	Walker's Paradise — Daily errands do not require a car
70-89	Very Walkable — Most errands can be accomplished on foot
50-69	Somewhat Walkable — Some amenities within walking distance
25-49	Car-Dependent — A few amenities within walking distance
0-24	Car-Dependent — Almost all errands require a car

³² CEOs for Cities, <http://www.ceosforcities.org//the-us-initiative/connectivity>

³³ *The Atlantic*, "A Data-Driven Case for Walkability," April 13, 2012

³⁴ Urban Land Institute, *America in 2013*, May 2013

³⁵ RCLCO, "Impact of Demographic Trends: Generations in Transition," September 2012

³⁶ IDAdvantage Newsletter, "Why Generation Y is Causing the Great Migration of the 21st Century," April 9, 2012

³⁷ CEOs for Cities, "Walking the Walk, August 2009 2

³⁸ Brookings Institution, "The Next Real Estate Boom," November 2010

All downtown Nashville residential properties have Walk Scores that are considered a “walker’s paradise” or “very walkable.” Addition of restaurants and amenities throughout downtown has increased Walk Scores over the past couple of years. Thirty-four out of 36 properties located in the core are considered “walker’s paradise.”

Transportation options continue to grow in downtown Nashville. Alternative transportation options introduced in the past few years include Enterprise Carshare, a car-sharing program offering four cars in downtown and 11 total vehicles in Nashville for use by residents, businesses and employees and Nashville B-cycle, a bike-share program that offers 195 urban bikes at 21 automated kiosks throughout the urban core. In addition, the Music City Circuit, a downtown circulator provided by the Metropolitan Transit Authority, offers free transportation from various sites in the downtown core to The Gulch and The Nashville Farmers Market in the North Capitol neighborhood. MTA is currently seeking federal funding for The Amp, a proposed full-service 7.1 mile bus rapid transit system (BRT), currently being planned for a major Nashville corridor along Broadway/West End. The Amp will have significant stops throughout downtown Nashville and will combine the cost effectiveness of rapid buses with the quality of rail transit.

Housing Needs and Opportunities

Downtown developer-owned condo supply is depleted, and there is currently only a three-month supply of re-sales on the market with no new purchase development in the pipeline. It could reasonably take up to 36 months for a project of this type to be delivered to the market once is it announced. High demand and tight inventory has resulted in rising prices, which creates a barrier to entry for many who want to live downtown. Rental demand continues to be high and developers propose to add an additional 1,641 units to the market by 2017. New projections from a market demand study conducted by Randall Gross with Development Economics reveal that downtown can absorb an additional 3,530 housing units by 2017.³⁹ If all projected rental units are delivered, there will still be a deficit of 1,889 housing units in downtown Nashville.



B-cycle Kiosk



Rendering of The Amp



Music City Circuit Bus



³⁹ Randall Gross/Development Economics, *Market Analysis: SoBro/Downtown*, December 2012

In addition, Gross says an extensive range of housing product downtown is necessary in order to continue to attract from diverse niche markets. "There is a broad preference among Nashville buyers and renters for building a sense of community and not just for buildings themselves. People who prefer to live downtown reference their interest in safe, urban amenity-oriented 'walk-able' neighborhoods; in the integration of live, work, and play; and in the sense of community."⁴⁰ According to Gross, consumer preferences include detached single-family homes, attached single-family/brownstones, lofts/units in mixed-use buildings, condominiums and multi-family apartments.

Brookings Institution views the healthiest cities having 2% of the city's metropolitan area living downtown, which is a target for creating critical mass that will spark a cycle of growth in the city and metropolitan area overall.⁴¹ Despite the 222% growth of the downtown market since 2000, the downtown population is still only .4% of the total Nashville MSA. Downtown would need over 25,000 additional residents to meet this target, assuming growth in the MSA remained static. City leaders, property owners and developers should continue to work together promoting downtown living opportunities and investing in residential projects. The vitality of the downtown core will directly benefit the economic success of the entire Metropolitan Nashville area.

Downtown continues to keep up with market demand and offers a variety of housing types and price points. Private developers producing market-rate rental and purchase housing for those residents earning 150% or more of area median income (AMI) are continually striving to meet demand, and this product is being absorbed quickly. In addition, development efforts led by the Metropolitan Development and Housing Agency (MDHA) have produced rental product to begin to address demand for the affordable and workforce housing demographic that earns 80% or less of AMI. The latest development delivered to the market early this year is Ryman Lofts, Nashville's first affordable housing community that offers one- and three-bedroom rental units with a specific preference for artists. Although housing for this demographic is growing in downtown, it still only makes up 8% of the total housing stock.

Initiatives are underway to provide more affordable housing in Nashville. Nashville Mayor Karl Dean proposed an initiative in May 2013 to create an affordable housing fund that will aid in renovation or construction of affordable homeownership and rental opportunities, project-based rental assistance, and other supportive efforts to encourage affordability. Legislation passed through Metro Council in July.

A presentation in April 2013 during a city planning initiative titled NashvilleNext revealed that residential property values in Davidson County are rising more quickly in areas closer to the city center due to existing infrastructure and lower cost of providing services. The presenter, William Fulton, Vice President of Smart Growth America, conducted a case study revealing a fiscal impact analysis of three development scenarios in Nashville, Tennessee. The study showed the costs and benefits of each development. The three developers included an infill development in the downtown area (The Gulch), an urban-style development in a suburban location (Lenox Village), and a conventional suburban development in a suburban location (Bradford Hills). The study found that the infill development had lower service costs on a per-unit basis, generated the most revenue per unit, and generated the largest revenue surplus for the city's general fund on a per acre basis. In fact, The Gulch generated \$115,720 in net revenue per acre, almost 1,150 times the revenue generated by Bradford Hills (\$100) and 148 times the net revenue of Lenox Village (\$780).⁴² The findings of this fiscal impact analysis study certainly provide a compelling case for smart growth, infill development as opposed to suburban sprawl

⁴⁰ Randall Gross/Development Economics, *Market Analysis: SoBro/Downtown*, December 2012

⁴¹ Brookings Institution, "A Two-Percent Solution for Downtown Rochester," February 2008

⁴² Smart Growth America, "Fiscal Impact Analysis of Three Development Scenarios in Nashville-Davidson County, April 2013

development. Not only are the demographic changes in line with urban infill, but they also provide positive fiscal impact to the city.

While downtown continues to need more rental and purchase opportunities, a missing housing product downtown is for those who earn between 80% - 150% of AMI. Tools are not available to incent this type of housing, and therefore the gap may continue to be present until the market is either overbuilt (which is not probable) and prices decrease, or this market segment demands it.

Conclusion

Reversing long-term trends, the urban core is making a strong comeback across the nation. According to Brookings Institution demographer William Frey, "Last year, for the first time in more than nine decades, the major cities of the nation's largest metropolitan areas grew faster than their combined suburbs."⁴³ Urban cores are becoming the country's economic engines. The Nashville region is leading the nation in job growth, according to newly released 2012 job growth numbers from the U.S. Bureau of Labor Statistics.⁴⁴ BusinessClimate.com ranked the Nashville MSA 10th in its list of hotspots for information technology jobs.⁴⁵ Quantum Workplace has placed Music City No. 7 on its annual "Top 10 Best Cities to Work" list⁴⁶ and Nashville is one of a dozen new American boomtowns, according to a new ranking by Bloomberg.⁴⁷ Nashville and the downtown core are poised for growth in population, housing, jobs and increased investment in development. Since 2000, downtown Nashville has had over \$3.3 billion of investment, with over \$681 million invested in residential development.

Over the next thirty years, there will be demand for smaller living spaces in dense, diverse and amenity-rich, walkable environments. Downtown is primed for growth with its exceptional public and private investment, low vacancy rates, rising housing prices, increasing urban amenities and transportation options. In order to continue momentum, Nashville city officials, developers and downtown stakeholders need to begin planning for the huge demographic shift that will have a considerable impact on our economy, and make strides to provide a diverse housing mix geared toward these changing demographics and lifestyles.

⁴³ Urban Land Institute, "Comeback City, Divided City," April 2013

⁴⁴ *The City Paper*, "Revised labor stats show Nashville led country in 2012 job growth," May 1, 2013

⁴⁵ <http://www.BusinessClimate.com>, "Game-On: Cities Attracting the Most Information Technology Jobs," May 24, 2013

⁴⁶ *Nashville Post*, "Nashville Makes Top 10 Best Cities to Work List," April 10, 2013

⁴⁷ Bloomberg, "The Top American Boomtowns," April 29, 2013