

RESIDENTIAL REPORT: JULY 2017

Over 10,000 Residents and Growing: Downtown Leases Up New Rental Inventory and Awaits More Purchase Units

Rental rates and condo prices continue to rise downtown, even as additional rental projects have delivered over the past 12 months. Demographic shifts toward urban living, significant population growth over the last decade and a robust economy have resulted in a pent-up demand for housing that the increased supply has not yet met. Rental occupancy is strong at 95%. This is the eighth consecutive year that downtown rental occupancy has been at that mark or above. Significant rental product delivery is expected to continue over the next few years, beginning to relieve some of the pent-up demand. Housing prices have increased significantly over the past 36 months, as inventory remains at a limited 2.6-month supply of resale units. With only 71 purchase units in the pipeline (already 40% sold) to deliver late 2018, and another 445 purchase units in speculative projects, a growing demand for purchase units leads to the continuing escalation of housing prices. Downtown will remain a sellers' market until existing rental product or pipeline projects convert uses.

Nashville Housing Market: The Greater Nashville Association of Realtors' mid-year report states that closings for the month of June (compared to May numbers) were flat due to the imbalance between supply and demand in the market and the second quarter was "our housing market's strongest on record." Nashville's median single-family price increased 13% from \$260,148 last year to \$293,753 this year, and condo sales prices increased 7% from \$186,495 to \$199,350.¹ Also, according to a report released by Freeman Webb, the Nashville MSA is in need of more than 18,000 rental units to reach equilibrium with the demand for apartments.²

Freddie Mac says that Nashville's housing market continues to be the healthiest in the country. The government-sponsored entity focused on mortgages puts Nashville at the top of the list of the Multi-Indicator Market Index, which is used to compare the nation's one hundred largest cities.³ And, according to Zillow's 10 Hottest Housing Markets list, Nashville is ranked #1 with a forecast of 4.3 percent home value appreciation, 1.1 percent income growth and a 4.0 percent unemployment rate.⁴



¹ Greater Nashville Association of Realtors, "Strongest Second Quarter on Record for Nashville Area Housing Market," July 7, 2017

² Freeman Webb, "Second Quarter Nashville Regional Apartment Survey," 2Q 2017

³ Nashville Post, "Freddie Mac says Nashville still hottest housing market in U.S.," December 1, 2016

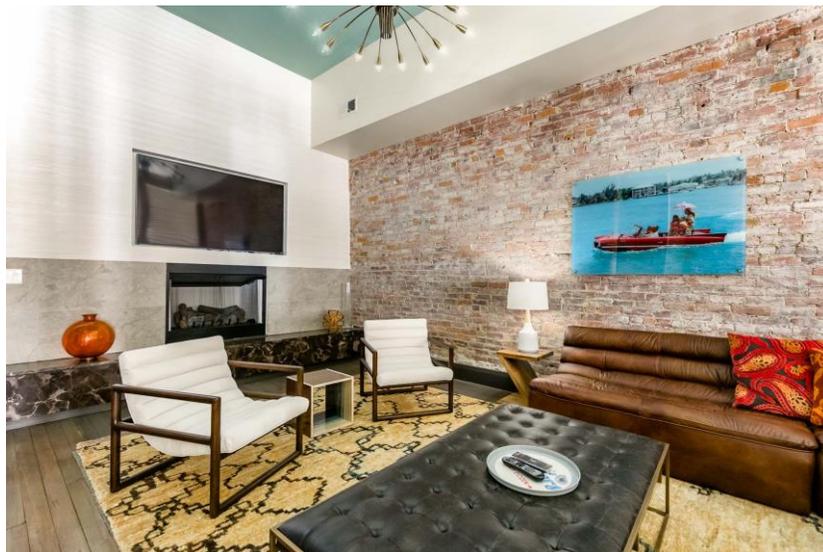
⁴ <https://www.zillow.com/blog/hottest-housing-markets-2017-209986/>

RESIDENTIAL REPORT: JULY 2017 DOWNTOWN NASHVILLE

Nashville was ranked as one of the top cities for job seekers in 2017, according to Nerd Wallet. This report analyzed U.S. Bureau of Labor Statistics and U.S. Census Bureau data for the 100 largest U.S. cities to determine where Americans will find opportunities and also where their paychecks will go further.⁵ Forbes.com recently reported that Nashville is one of the top 10 cities Americans are moving to, based on data from Realtor.com and the U.S. Census Bureau.⁶ Another study by Forbes.com reveals that Nashville has had a 30% increase in tech jobs, taking fourth place behind Austin, Raleigh and San Francisco for areas with the greatest increase in technology jobs from 2010-2015.⁷

The Milken Institute ranked Nashville #7 as one of the best-performing cities of 2016. The study looks at growth in employment opportunities, wages and technology. Nashville jumped 11 spots from its 2015 ranking.⁸ *Travel + Leisure* rated Nashville the #5 city in the U.S. according to its Best Awards 2016 readers' survey. Cities are rated on sights/landmarks, culture, food, friendliness, shopping and value.⁹ And it is no surprise that Nashville is ranked #6 among the nation's top cities for real estate investing this year, according to the annual Emerging Trends in Real Estate report released by PricewaterhouseCoopers in conjunction with the Urban Land Institute. The report indicated that Nashville exudes a "hip factor" that is reflected in the high percentage of college graduates choosing to stay in the area. Other factors in the ranking include Nashville's diverse economy that is expected to create jobs and the low cost of doing business and cost of living.¹⁰

Nashville has received national accolades in areas other than job opportunities and housing market strength. Flipkey by tripadvisor.com named Nashville as one of the top 10 friendliest cities in America due to its hospitality and friendly inhabitants, stating "It's as welcoming as it is entertaining, and the festive mood here lasts year-round."¹¹ Nashville also was ranked as one of the best U.S. cities for retirement according to a study by *Kiplinger* that took into account access to health care and tax-friendliness for retirees.¹²



⁵ <https://www.nerdwallet.com/blog/finance/best-cities-job-seekers-2017/>

⁶ <http://www3.forbes.com/leadership/10-cities-americans-are-moving-to-right-now/>

⁷ <https://www.forbes.com/sites/niallmccarthy/2016/08/24/americas-hottest-spots-for-tech-jobs-infographics/#7a2b7c30612b>

⁸ <http://www.best-cities.org/best-performing-cities-2016-large-cities-rankings.html>

⁹ <http://www.travelandleisure.com/worlds-best/cities-in-us#nashville>

¹⁰ <http://www.pwc.com/us/en/asset-management/real-estate/assets/pwc-emerging-trends-in-real-estate-2017.pdf>

¹¹ <https://www.flipkey.com/blog/2016/10/20/friendliest-cities-in-america/>

¹² <https://www.personalincome.org/best-cities-for-a-healthy-happening-retirement/>

RESIDENTIAL REPORT: JULY 2017 DOWNTOWN NASHVILLE

Peer City Comparison

Downtown Nashville's population hit a milestone this year reaching 10,000 residents. Downtown's population and housing units have trailed peer cities over the years, and has finally surpassed Indianapolis with 11,035 residents and 7,313 units projected by the end of 2017. Lack of residential zoning until the mid-1990's put downtown Nashville behind in urban residential development.

Figure 1 Year-End Projections—Downtown Residents*

	2016	2017	2018
Nashville	9,064	11,035	13,009
Austin	14,001	15,000	15,390
Charlotte	14,798	15,875	18,360
Indianapolis	8,334	9,131	10,962

Figure 2 Year-End Projections—Downtown Housing Units*

	2016	2017	2018
Nashville	5,665	7,313	8,252
Austin	8,987	9,030	10,124
Charlotte	6,814	7,450	8,914
Indianapolis	5,071	5,556	6,670

Nashville's downtown population is expected to grow 18% between now and the end of 2018. Indianapolis population growth numbers will be similar with a 20% increase and Charlotte with 16% planned population growth. Indianapolis and Charlotte both expect 20% growth of housing units by year-end 2018. Nashville projects a 13% increase and Austin a 12% increase in housing units in the same time period. (fig. 1-2).

All peer cities have high rental occupancy rates, although Nashville and Charlotte dropped a few points from last year. Austin's occupancy rate dropped the most from 94% in 2016 to 87.8% in 2017. Although downtown Indianapolis is approximately 5.5 square miles, its downtown organization has started tracking stats of its downtown Square Mile (downtown core), which is more comparable to downtown Nashville, Austin and Charlotte in land area comparisons (fig.3-4).

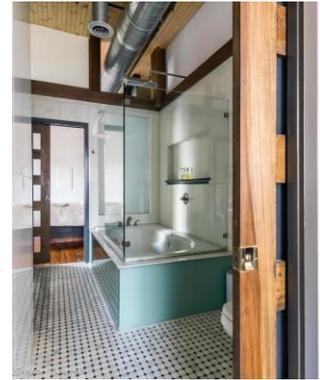
Figure 3 Rental Occupancy Rate*

	2017
Nashville	95%
Austin	87.8%
Charlotte	96%
Indianapolis	95%

Figure 4 Land Area Comparisons*

	Square Miles	Acres	Density per Acre
Nashville	1.8	1,180	8.7
Austin	1	640	21.8
Charlotte	2	1,300	10.8
Indianapolis	1	640	13.5

*Information provided by Downtown Austin Alliance, Charlotte City Center, Indianapolis Downtown Inc. (June 2017)



RESIDENTIAL REPORT: JULY 2017 DOWNTOWN NASHVILLE

From 2010 through 2016, downtown has seen 86.5% population growth (fig.5). This is 7 times the percentage growth of the Nashville MSA and 9 times of Nashville during the same time period.

Figure 5 – Population Growth Comparisons (2010 – 2016)

Population Growth	2010	2016	% Growth
Downtown	5,155	9,619	86.5%
Nashville	626,681	684,410	9.2%
Nashville MSA	1,670,890	1,865,298	11.6%
Rest of Tennessee	4,675,215	4,785,896	2.3%

Source: Nashville Downtown Partnership 2016, US Census Bureau

Downtown Housing Categories

Currently there are 5,968 downtown residential units of which 57% are rental, 39% are condo and 4% are single family units. Market rate housing constitutes 96% and affordable 4% of the housing mix.

A survey of property managers conducted in June 2017 evaluated over 2,700 rental units in 16 properties. Downtown Nashville's rental occupancy of established rental properties is 95%, and has remained at this rate or above for the past seven years (fig. 6). The 2017 rate does not include four projects that have delivered to the market within the last year and are currently leasing. One project completed construction in April and another is still under construction. A healthy lease-up period for a property is typically 12-18 months. All four of the properties surveyed fall within healthy lease-up parameters. The occupancy rate does not include for-sale properties that have been rented out by their owners.

Rental Market

The 3,388 rental units within 37 properties in downtown Nashville make up 57% of the current downtown housing mix, up eight points from last year. Currently, there are nine rental projects under construction that will deliver 2,213 units by 2018, with 1,345 coming online this year. An additional eight projects are announced/planned that could deliver over 2,300 additional units by 2019.

Downtown apartments have consistently had high occupancy rental rates. According to the June 2017 survey of property managers, the downtown core is effectively full at 95%, Rolling Mill Hill is 97%, and The Gulch is 94% occupied.

Figure 6 – Downtown Nashville Rental Occupancy Comparisons

Rental Occupancy Rate– Year	Downtown	Greater Nashville
2010	95%	92.54%
2011	98%	95.41%
2012	98%	95.41%
2013	98%	95.16%
2014	98%	95.93%
2015	97%	95.33%
2016	97%	95.32%
2017	95%	92.69%

Source: 1Q 2017 Greater Nashville Apartment Association Market Study, NDP Property Manager Survey June 2017

RESIDENTIAL REPORT: JULY 2017 DOWNTOWN NASHVILLE

In addition to the high downtown rental occupancy rate, individually owned condominium investment properties continue to rent at high market rates. There are at least 550 condo units that are utilized as rental property. Most condominium properties have capped percentages for rental units with strict monitoring by property management.

Lack of sufficient inventory of hotel rooms and a rise in popularity of Airbnb and VRBO options have served as a catalyst for a growing short-term rental market downtown. Due to a significant growth of Short-Term Rental Properties (STRP) in recent years, the City of Nashville passed Ordinance No. BL2014-951 and Ordinance No. BL2014-909 to regulate this practice through a permit process. A STRP is "defined as a residential dwelling unit, containing not more than four sleeping rooms and that is used and / or advertised for transient occupancy."¹³ The law applies to all properties (including rooms and guest houses) that are rented for less than 30 consecutive days to the same occupant. According to the Metro Nashville Codes Department, as of July 6, 2017, there are 340 short-term rental permits issued to downtown dwelling units. This is over twice the number of permits issued last year at this time (141 permits), and quadruple the number from 2015 (75 permits). An increase in acquired permits can be seen within multifamily rental properties this year. Seven substantial rental properties hold 150 permits collectively, which equates to 4% of downtown rental units. Although difficult to track, it is more likely that STRP are conversions from rental units by property owners than from owner-occupied condos due to strict homeowner's association rules and lack of provisions for this type of use in Master Deeds for large residential properties.

Figure 7 – Downtown Nashville Market Rate Rental Comparisons

Rental Market	2012	2013	2014	2015	2016	2017
SIZE	419 - 4,500 SF	419 - 4,500 SF	419 - 4,500 SF	419 - 2,059 SF	419 - 2,059 SF	419 - 2310 SF
MARKET RATE CATEGORY						
Studio	\$570 - \$1,300	\$590 - \$1,300	\$630 - \$1,300	\$630 - \$1,900	\$655 - \$1,500	\$655 - \$1,846
1 bedroom	\$670 - \$1,700	\$700 - \$1,899	\$730 - \$2,000	\$730 - \$2,200	\$755 - \$2,060	\$755 - \$2,299
2 bedroom	\$822 - \$2,700	\$858 - \$2,799	\$878 - \$3,114	\$878 - \$3,300	\$955 - \$3,399	\$855-\$3,399
3 bedroom	\$1,400 - \$4,000	\$1,400 - \$4,000	\$1,400 - \$4,000	\$1,400 - \$3,200	\$1,425 - \$3,700	\$1,425 - \$5,399

According to a survey of property managers and leasing agents for downtown rental properties, over the past year rental rates have not increased on the low end, but have risen on the high end in most bedroom size categories. New product delivery to the market has been a factor in rising rates due to recent construction costs as well as properties providing state-of-the-art building amenities. Overall, units that yield the highest square foot prices are studios ranging from 419–600 SF in newer rental properties that are walkable to restaurants and amenities. (fig 7).

There are 255 affordable rental units in four properties that make up 7.5% of the rental market and 4% of the overall downtown housing market (fig. 8).

¹³Nashville, Tennessee, Municipal Code BL2014-951

RESIDENTIAL REPORT: JULY 2017 DOWNTOWN NASHVILLE

Figure 8 – Downtown Nashville Affordable Rental Comparisons

Rental Market	2017
SIZE	500 - 1,316 SF
AFFORDABLE CATEGORY	
Studio	\$637 - \$660
1 bedroom	\$690 - \$704
2 bedroom	\$843
3 bedroom	\$960 - \$971

Condominium Market

Downtown Nashville currently has 2,358 condo units within 40 properties. Condominiums make up 39% of downtown housing, down 8% from last year. Two condo projects delivered in downtown in the past eight years – Terrazzo (2009) and Twelve Twelve (late 2014). Citylights, the only condo project under construction, will deliver 71 units late 2018 and is already over 40% sold. Research in early July indicates that there are 82 resale units available to purchase across downtown (46 under contract) which results in a 2.6-month supply. A balanced market has a six-month supply of units. Inventory supply of resale units has remained at 3 months or less since 2012.

An assessment of five downtown high-rise properties shows that price per square foot of condos has consistently increased in all five properties annually since 2012, with the exception of Terrazzo which dropped \$12 per SF between 2015 and 2016 due to a single transaction in 2015 that caused the SF price to be elevated above the norm. Prices across most buildings have increased by double digits over the past 18 months, with the Viridian up 16%, Encore up 13%, Twelve Twelve up 12% and ICON up 10%. The cumulative weighted average of all five properties has increased 19% in the past 30 months. (fig. 9-10).

Figure 9 – High-Rise Square Foot Comparisons

PPSF By Building	2012	2013	2014	2015	2016	2017 (Jan-June)
Viridian	\$288	\$308	\$380	\$396	\$441	\$460
Encore	\$294	\$364	\$380	\$406	\$435	\$460
ICON	\$358	\$391	\$415	\$442	\$460	\$487
Terrazzo	\$287	\$343	\$366	\$409	\$397	\$423
Twelve Twelve			\$471	\$498	\$560	\$558
Weighted Average	\$323	\$360	\$405	\$472	\$479	\$482

Source: <http://realtracs.net>, July 2017



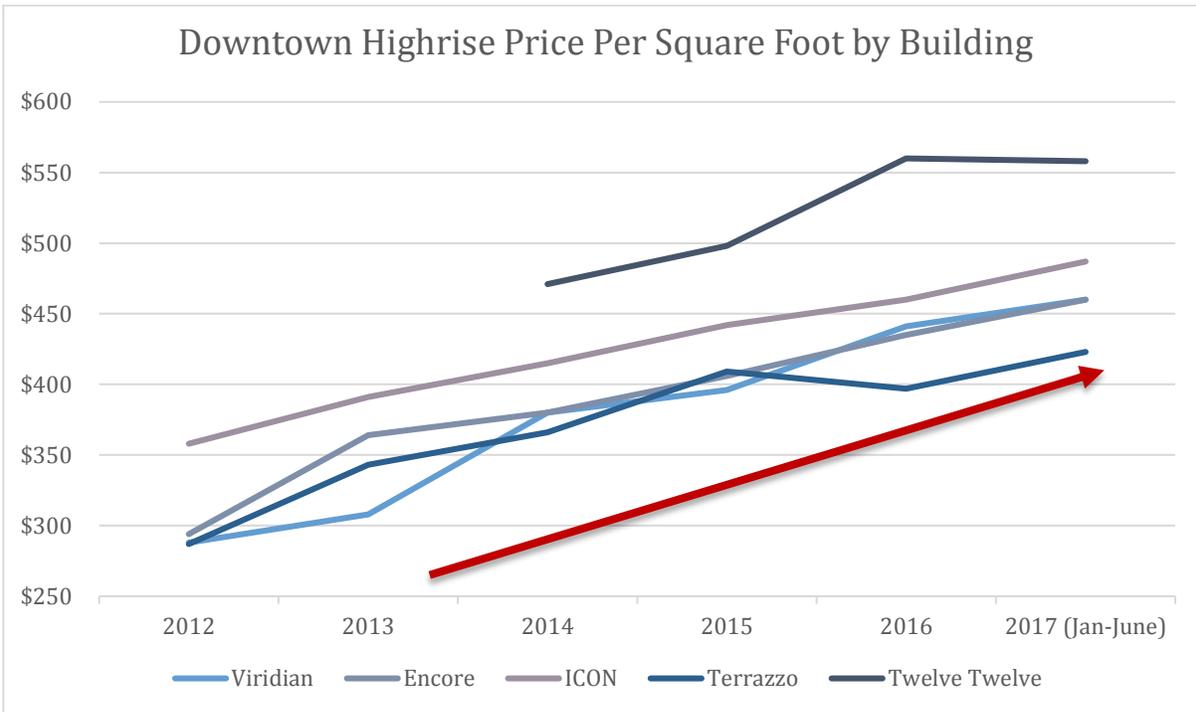


Figure 10 – Downtown High-rise Price per Square Foot Comparison by Building

The highest square-foot prices so far this year have occurred at ICON for \$832.90 and Twelve Twelve for \$675.63. Other notable prices include \$596.88 at Encore, and \$507.79 at Viridian. The highest downtown residential square foot price to date was \$1,044.46 at Twelve Twelve in October 2016. According to statistical data provided by the Managing Broker of Parks in the Gulch who tracks all sales and resales at Twelve Twelve, the average delta in 2017 between original condo sales prices and resale prices is \$91,341.26, or \$87.98 per square foot.



Twelve Twelve amenity area



ICON exterior

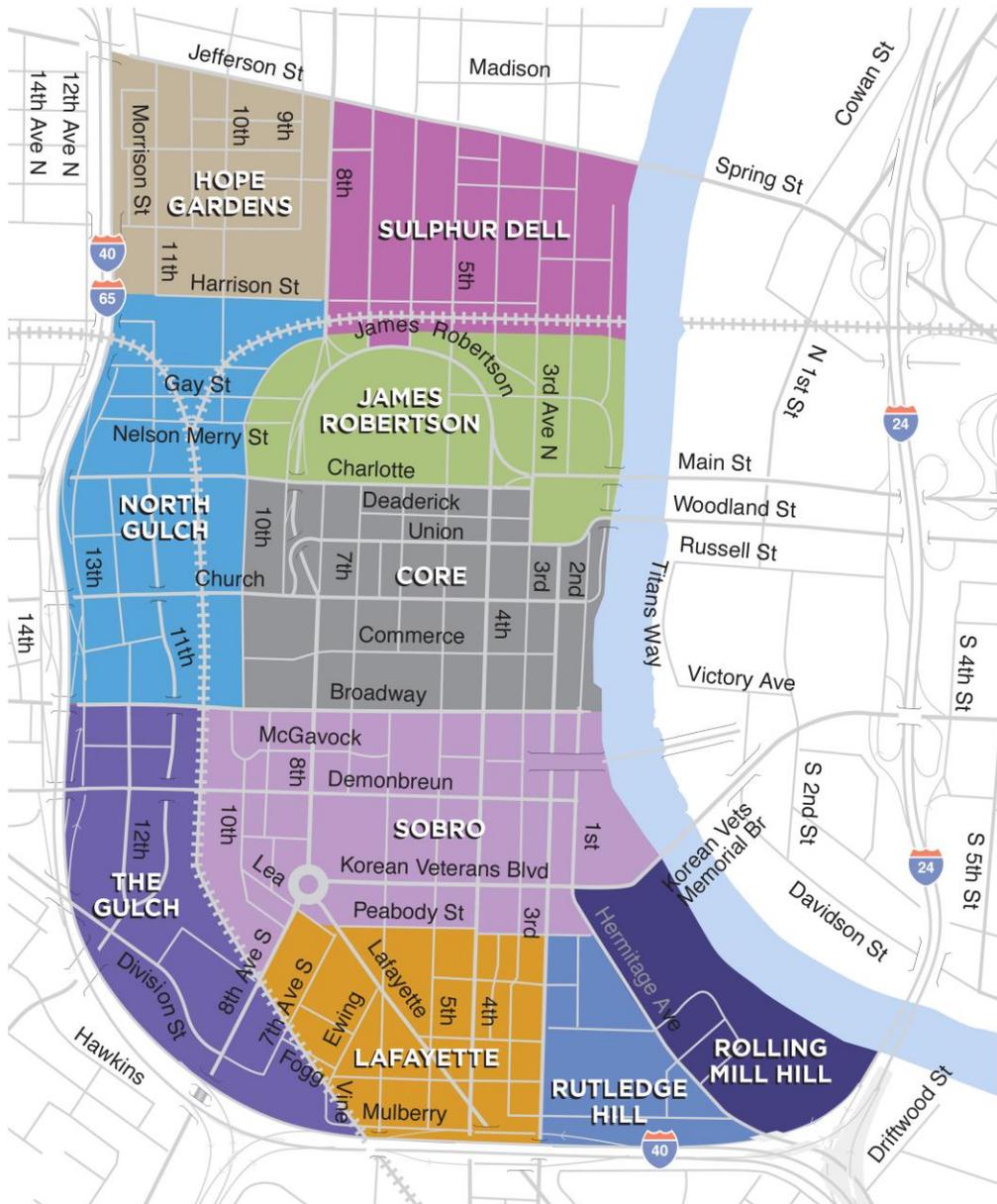
Single Family Market

Single-family homes make up 4% of downtown housing inventory. Of the 222 total homes downtown, 219 are in the Hope Gardens neighborhood. The other three single family homes are located in the downtown core. Six single-family residential permits were issued for Hope Gardens over the past 12 months, but none has been completed at this time.

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 District (Core), The Gulch, North Gulch, Sulphur Dell (formerly called North Capitol), James Roberston, Hope Gardens, Rutledge Hill, Rolling Mill Hill, Lafayette, and SoBro. Germantown is adjacent to downtown, but not included in the residential counts.

DOWNTOWN RESIDENTIAL AREAS



Under Construction

Ten residential projects that are under construction will deliver 2,522 units by year-end 2019. By year-end 2017, 1,345 units will open in six projects.

Six projects are scheduled to deliver completely or in part this year. 505, a luxury high-rise apartment building at the corner of 5th and Church is currently preleasing and will begin to deliver in October 2017. Fifty-four rental units will deliver this fall at 10th & Jefferson, an MDHA project. The Gossett on Church began move-ins during May and will complete construction on 376 units by late August.

Additionally, Olmsted SoBro will begin delivering part of its 328 rental units in October 2017, with construction continuing into 2018. River House located at Rolling Mill Hill will begin preleasing 245 units this month and plans to open in September with construction complete by the end of the year. Construction is also underway on Studio 154 Luxury Lofts, a conversion of the 3rd floor of 154 Second Avenue into 18 lofts.

Other projects that are under construction but not delivering this year include Broadstone Gulch (238 units), Capitol View (378 units), Solis North Gulch (271 units) and Citylights (71 units).

Pipeline Projects

Eight additional residential projects have been announced or planned that could deliver over 2,200 units to the market by 2019. (Fig. 11).

Figure 11

	Units	Rental	Condo/Single Family
Existing Residential	5,968	3,388	2,580
Under Construction	2,522	2,451	71
Planned	2,292	1,808	484
Total	10,782	7,647	3,135



Rendering of 505



10th & Jefferson Rendering



Broadstone Gulch Rendering



The Gossett on Church Rendering



River House Rendering



Olmsted SoBro Rendering



Solis North Gulch Rendering

Demographic Profile and Trends

The Nashville Downtown Partnership's 2017 Downtown Residential Survey had a 12% response rate. In May 2017, approximately 4,500 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.

Where Residents Moved From

Downtown continues to attract professional, highly educated residents from across all age groups, increasing the city's workforce competitiveness. Forty-one percent of residents moved to downtown from out-of-state (up from 30%), and another 26% moved from outside the county. Twenty-six percent moved from Nashville and 7% moved from another location in downtown.

Household Status

Of the respondents, 49% are single (up from 38%), 36% are married (down from 47%), 9% are separated or divorced, and 5% have a domestic partner (fig.12).

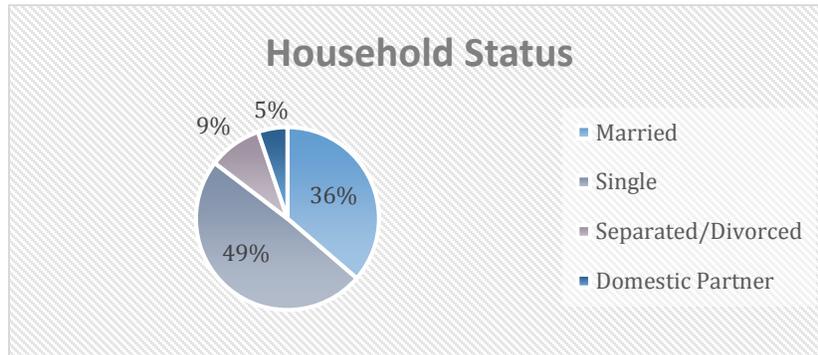


Figure 12 – Household Status

Age and Gender

Respondents exhibit a broad cross section of age groups. Forty-three percent of downtown residents are considered to be Generation Y (age 36 and under). Baby Boomers (age 53-70) are the second largest group with 31%. Generation X (age 37-52) represents 24% of the downtown population. (fig.13). Generation Y and Baby Boomers are the two generations expected to show the most increase in migration to urban areas going forward.

Downtown residents are 53% male and 47% female. Male and female percentages continue to fluctuate around the 50% mark from year-to-year.

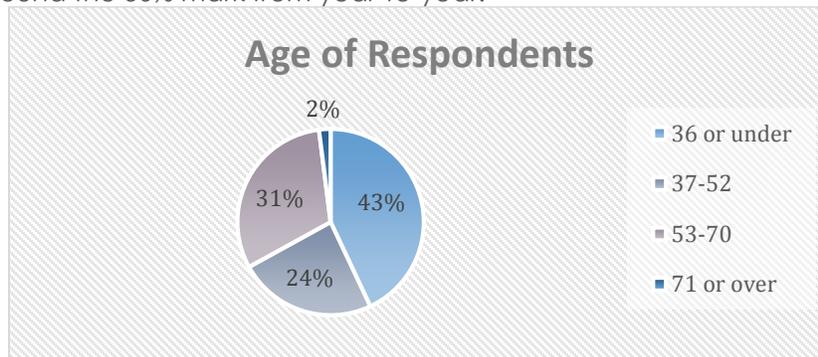


Figure 13 – Age of Respondents

Household Income

Eighty percent of downtown households earn over \$60,000 annually, and 52% earn over \$100,000 annually. Twenty-nine percent earn over \$150,000 each year. Two percent earn less than \$20,000 annually (fig.14).

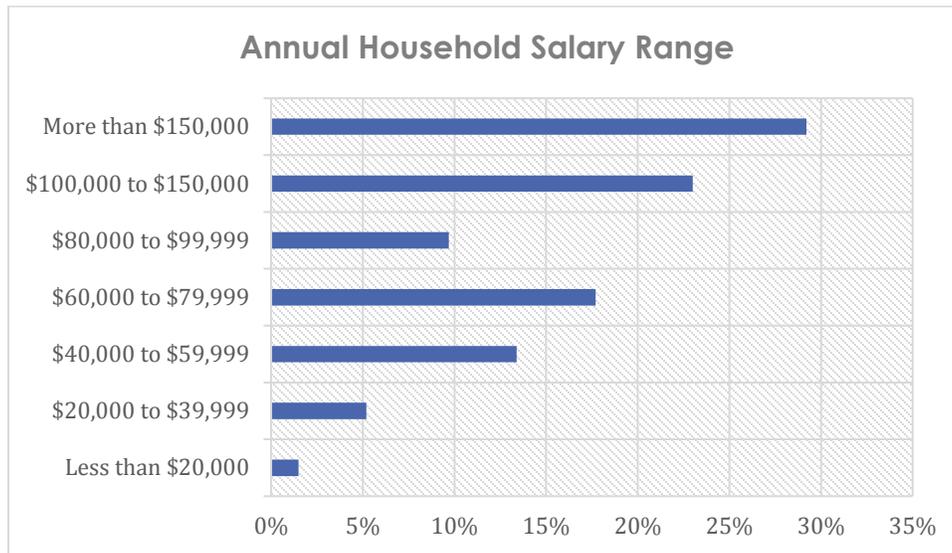


Figure 14 – Annual Household Salary Range

Level of Education Completed

Fifty-eight percent of downtown residents have a college education and an additional 31% hold postgraduate degrees (fig.15).

Figure 15 – Level of Education Completed Comparisons

	2 or 4 Year Degree	Graduate or Professional Degree
Downtown	58%	31%
Nashville	30.1%	14.8%
Nashville MSA	28.4%	12.1%

Source: Downtown Residential Survey 2017, Nashville Area Chamber of Commerce, June 2017

Work Location

Forty-seven percent responded that their office was located downtown. This number is up seven points from last year (40%). With the job growth in downtown and businesses relocating and expanding, many residents are choosing to live close to work.

Quality of Life Factors

When residents were asked what four elements most positively influenced their continued downtown living, the top response was the *central location/convenience* (50%), *urban experience* (40%) followed by being close to work (36%), and restaurant selection (30%).

Conclusion

All of the available data indicates sustained growth in the Nashville real estate market. Freddie Mac's assessment that the Nashville MSA is the healthiest housing market in the nation combined with Nashville's recent national recognition and \$3.5 billion of approved construction permits just in the past 12 months¹⁴, shows that Nashville will continue to be a city on the move. According to Census Data analyzed by the Research Center of the Nashville Area Chamber of Commerce, there is a net gain of approximately 70 people moving to the region every day.¹⁵

According to an updated study released Q1 2017 by Freeman Webb, the Nashville MSA is underbuilt with apartments, and the supply currently being delivered to the market is meeting pent-up demand for apartments. Nashville's significant population growth over the last decade combined with the demographic shift from homeownership to renting has led to this pent-up demand. And the demographic shift is affecting the need for apartments nationwide, according to the National Multifamily Housing Council (NMHC). A report released in June by NMHC states that the U.S. needs 4.6 million new apartments by 2030.¹⁶

On the local level, Freeman Webb's analysis suggests that the Nashville MSA will need more than 18,000 apartment units, even once all existing, under construction and speculative pipeline units are delivered, in order to meet an equilibrium between supply and demand. This study looks at the supply of units under construction or recently delivered to the market, the additional units required due to population growth and decline in homeownership, as well as speculative supply of units. Although demand is expected to outpace supply in the overall Nashville MSA, some submarkets will feel the impact as local supply may surpass local demand.¹⁷

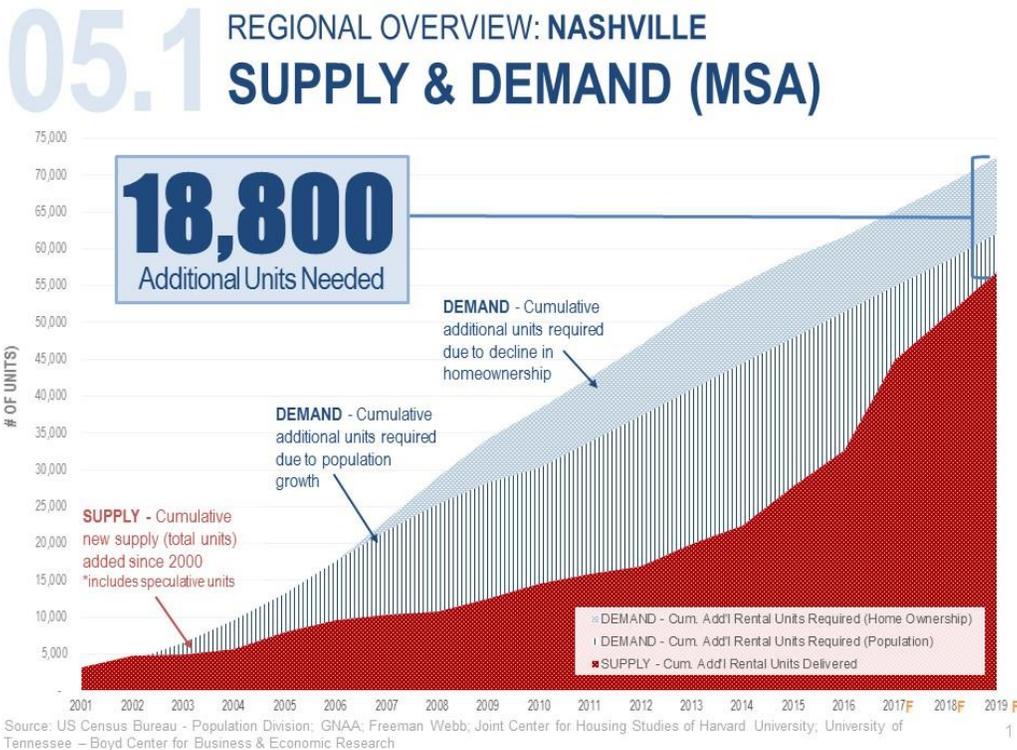


Figure 16 - Freeman Webb 1Q 2017 Market Overview

¹⁴ <https://www.bizjournals.com/nashville/news/2017/07/07/the-new-nashville-when-3-5b-of-construction-isnt.html>

¹⁵ The Research Center, Nashville Area Chamber of Commerce, July 10, 2017.

¹⁶ <http://www.nmhc.org/News/US-Needs-4-6M-New-Apartments-by-2030-to-Keep-Pace-with-Demand/>

¹⁷ Freeman Webb, "Freeman Webb 1Q 2017 Market Overview."

RESIDENTIAL REPORT: JULY 2017 DOWNTOWN NASHVILLE

Downtown residential inventory is being delivered as forecasted, and demand remains high with rental occupancy rates at 95%, while housing prices continue to escalate. The only for-sale project in the pipeline that is set to deliver late 2018 is City Lights which will add only 71 units to the market. Downtown currently has a 2.6-month supply of resale units, and has remained at 3 months or less for the past five years. Having a 6-month supply is considered a “balanced market.” Increasing land prices and construction costs amid the Nashville construction boom make building for-sale units prohibitive. Downtown will continue to have pent-up demand for purchase product unless some of the planned rental projects convert to condos.

The long-term forecast continues to indicate a shortage of residential inventory in the downtown area. Demand remains high for both rental and purchase options. The rental occupancy is currently 95% and has remained at this rate or above since 2010, even with additional product delivered to the market. Four multifamily properties that began leasing in the past 12 months are not included in the occupancy rate in order not to skew the findings. Once the properties have been leasing for 12 months, they will be considered established properties and included in the analysis. Tracking of lease-up within the four properties reveals that they are filling up at a healthy pace – all on schedule to be fully leased within a 12-18 month time period. Condo prices continue to escalate and the extremely low supply of resale units (2.6-month supply) will continue to facilitate a sellers' market.

