

RESIDENTIAL REPORT: JULY 2018

Condo Prices Continue to Rise Downtown while New Rental Product Leases at a Moderate Pace

Pent-up demand for downtown rental product appears to be met in the short-term due to a significant amount of product delivered to the market at same time. However, demographic shifts of large generational cohorts preferring urban living combined with Nashville's hearty economic strength, significant projected residential growth, and a thriving cultural, dining and entertainment scene will continue to drive demand for rental product going forward. The lack of for-sale product keeps demand high, and prices escalating, even with the delivery of additional units to the market. The current inventory of resale units is a 3.25-month supply, and has been at this level or below for the past six years. With only 71 purchase units under construction (already 60% sold) to deliver in 2019, and another 181 purchase units in speculative projects, demand will continue, pushing prices higher, making home ownership in downtown Nashville out of reach for a large portion of the market.

Nashville Housing Market: The Greater Nashville Association of Realtors' mid-year report states that closings for the month of June were up 3.8% compared to closings in June 2017, and data from 2Q 2018 closings were up .6% over 2Q 2017. The report states that "the market is heating up. With the rising temperatures, we are seeing homes sell in an average of 26 days and for a slightly higher selling price than in previous months." Nashville's median single-family price increased 7% from \$293,753 last year to \$324,900 this year, and condo sales prices increased 11% from \$199,350 to \$221,850.¹ Furthermore, according to a report released by Freeman Webb, the Nashville MSA needs more than 13,000 rental units to reach equilibrium with the demand for apartments.²

ATTOM Data Solutions ranked Nashville's real estate market as the 4th strongest out of 20 cities in the United States.³ According to Zillow, Nashville is one of the 10 Hottest Housing Markets of 2018 list, with a forecast of 3.8% home value appreciation, 3.5% income growth and a 2.2% unemployment rate. Zillow looked for places with quickly rising home values and rental prices, low unemployment rates, steady income growth, and strong job opportunities with lots of people moving to the area.⁴



¹ Greater Nashville Association of Realtors, "June Temperatures Bring Healthy Home Sales," July 9, 2018

² Freeman Webb, "First Quarter Nashville Regional Apartment Survey," 1Q 2018

³ <https://www.rejournals.com/will-housing-market-sway-amazon-toward-nashville-20180530>

⁴ <http://zillow.mediaroom.com/2018-01-09-San-Jose-and-Raleigh-are-Zillows-Hottest-Housing-Markets-for-2018>

Nashville Economic Environment

Nashville was ranked one of the twenty happiest cities to work right now by Forbes, based on work-life balance, employee relationships, work environment, average compensation, opportunities for career advancement, company culture, and resources.⁵ In addition, Forbes ranked Nashville as the 3rd Best Big City for Jobs in the U.S. based on the region's number of jobs and job growth rate for 2017⁶, and as the 7th Fastest Growing City of 2018 (a move from 20th on the 2017 list).⁷ The Milken Institute also ranked Nashville as the eighth best performing city of 2017, based on job creation and economic opportunity.⁸

According to ACBJ Economic Index, and assessment of the economic health of the nation's 100 largest metros, Nashville is ranked #4 in American City Business Journal 2017 Economic Index. Nashville held the tenth place the past two years before jumping to fourth leading the country with a five-year jump of 27.1 percent in financial-activities (banking) jobs.⁹ The study looks at growth in employment opportunities, wages, and technology. The job search site ZipRecruiter, recently analyzed its database of more than eight million active jobs, and ranked the twenty fastest-growing tech markets based on year-over-year data. Nashville ranked #8 on the list, where growth in tech jobs YOY was 114%.¹⁰ And it's no surprise that SmartAsset ranked Nashville #6 best city for young professionals. The study looked at unemployment and labor force participation rates of young adults, median rent, number of fun establishments, job diversity, median earnings for full-time workers, and rent as a percentage of income.¹¹

Nashville has received national accolades in areas beyond economic health, job opportunities and housing market strength. The Penny Hoarder created a list of the top 25 coolest and most affordable cities for millennials. The rankings are based on a local housing and price analysis, young population growth, walkability, unemployment data and community assets. Nashville ranked #7 due to its affordability, healthy economy and hip local food and music scene.¹² Nashville ranked the 3rd best city for college grads¹³ and the #1 Minor League Baseball City by SmartAsset.¹⁴



⁵ <https://www3.forbes.com/leadership/the-20-happiest-cities-to-work-in-right-now/6/>

⁶ <https://www.forbes.com/pictures/5aeb741fa7ea436b547c2f66/the-best-big-cities-for-j/#5a789ea949b1>

⁷ <https://www.forbes.com/sites/samanthasharf/2018/02/28/full-list-americas-fastest-growing-cities-2018/#76482a297feb>

⁸ <http://markets.businessinsider.com/news/stocks/milken-institute-releases-index-of-best-performing-cities-1012826659>

⁹ <https://www.bizjournals.com/buffalo/news/2017/10/20/metro058.html>

¹⁰ <http://time.com/money/4812479/top-20-cities-tech-jobs/>

¹¹ <https://smartasset.com/mortgage/the-best-cities-for-young-professionals>

¹² <https://www.thepennyhoarder.com/life/best-cities-for-millennials/>

¹³ <https://smartasset.com/mortgage/the-best-cities-for-new-college-grads-in-2017>

¹⁴ <https://smartasset.com/mortgage/best-minor-league-baseball-towns-2017>

RESIDENTIAL REPORT: JULY 2018 DOWNTOWN NASHVILLE

Peer City Comparison

Downtown Nashville's population hit a milestone in 2017 reaching 10,000 residents. By the end of 2018, there will be over 11,800 residents, a 16% increase. Downtown's population and housing units have trailed peer cities over the years, and has finally surpassed Indianapolis, at least in the short-term. Lack of residential zoning until the mid-1990s put downtown Nashville behind in urban residential development.

Figure 1 Year-End Projections—Downtown Residents*

	2017	2018	2019
Nashville	10,240	11,874	12,200
Austin	14,085	15,000	16,000
Charlotte	15,875	18,360	20,000
Indianapolis	9,131	10,962	12,379

Figure 2 Year-End Projections—Downtown Housing Units*

	2017	2018	2019
Nashville	6,400	8,256	8,640
Austin	9,390	10,580	12,056
Charlotte	7,450	8,914	9,714
Indianapolis	5,556	6,670	7,962

While Nashville's downtown population will grow significantly this year, there will only be a 3% increase between end-of-year 2018 and 2019. Indianapolis population growth numbers through the end of 2019 lead the group with a 13% increase, followed by Charlotte with 9% planned population growth. Indianapolis and Austin will both have double digit percentage growth in housing units over the next 18-months. Indianapolis expects 19% growth of housing units by year-end 2019 and Austin expects 14%. Charlotte projects a 9% increase. (fig. 1-2).

Both Austin and Indianapolis have rental occupancy rates in the low 90s, while Nashville and Charlotte's rates have both dropped into the 80s. Over the past year, Downtown Nashville's rental housing units increased 29% and Charlotte's increased 20%. The occupancy rates reflect this delivery of many units over a short period of time. While overall occupancy rates have decreased in both of these cities, the occupancy rate of established rental properties in downtown Nashville and Charlotte are both at 95%. (fig.3-4).

Figure 3 Rental Occupancy Rate and Average PPSF*

2018	Occupancy Rate	AVG PPSF
Nashville	84.3%	\$2.29
Austin	92%	\$2.58
Charlotte	80%	\$2.04
Indianapolis	93.3%	\$1.52

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 2018)



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From 2010 through 2018, downtown has seen 94% growth (fig.5). This is over six times the percentage growth of the Nashville MSA and nine times of Nashville during the same period.

Figure 5 – Population Growth Comparisons (2010 – 2017)

Population Growth	2010	2017	% Growth
Downtown	5,155	10,200	94%
Nashville	626,681	691,243	10%
Nashville MSA	1,670,890	1,903,045	13.8%
Rest of Tennessee	4,675,215	4,812,939	3%

Source: Nashville Downtown Partnership 2017, US Census Bureau

Downtown Housing Categories

Currently there are 7,351 downtown residential units, up from 5,968 one year ago or 23%. Sixty-four percent are rental, 33% are condo and 3% are single family units. Market rate housing constitutes 96% and affordable 4% of the housing mix.

The Greater Nashville Apartment Association 2Q survey shows that downtown has a rental occupancy rate of 84.3%. * The survey includes established properties and new rental projects that have officially completed construction, but have not fully leased-up. There have been five new properties with over 1,200 rental units and almost 200 high-rise condos delivered to the downtown market since July 2017.

Rental Market

The 4,674 rental units in downtown Nashville make up 64% of the current downtown housing mix, up seven points from last year. Currently, there are seven rental projects under construction that will deliver 1,864 units by 2020, with 905 coming online this year. An additional eight projects are announced/planned that could deliver over 2,000 additional units by 2023.

NDP began utilizing Greater Nashville Apartment Association's rental market data in 3Q 2017 when its statistics committee rebranded their submarket zones to the newly adopted areas identified by the "Metro Community Plan," which identifies with the same downtown boundaries that NDP subscribes to. Downtown apartments have consistently had high occupancy rental rates, but the latest supply of market rate units delivered downtown has caused downward pressure on rates. Although most of the established rental properties have occupancy rates of 95% and above, the newer projects that have recently delivered to the market are causing the average occupancy rate to decline while properties lease-up. Although still a healthy rate, downtown rental occupancy rates dropped from 88.95% in 3Q 2017 to 84.3% in 2Q 2018. With the low base number of units, the change in occupancy percentage is impacted by the delivery of product to the market.

Figure 6 – Downtown Nashville Rental Occupancy Comparisons

Rental Occupancy Rate– Year	Downtown	Greater Nashville
3Q 2017	88.96%	93.89%
4Q 2017	87.37%	92.68%
1Q 2018	86.03%	92.41%
2Q 2018	84.3%	92.42%

Source: Greater Nashville Apartment Association Market Study, Quarterly Reports

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 to meet current demand, and a rise in popularity of Airbnb and VRBO options have served as a catalyst for a growing short-term rental market downtown.

Short-Term Rentals

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. According to the Metro Nashville Codes Department, as of July 6, 2018, there are 560 short-term rental permits issued to downtown dwelling units. This number has grown from 340 permits in 2017, 141 permits in 2016, and 75 permits 2015. An increase in acquired permits can be seen within multifamily rental properties over the past two years. 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.

Market Rate Comparisons

Figure 7 – Downtown Nashville Market Rate Rental Comparisons

Rental Market	3Q 2017	4Q 2017	1Q 2018	2Q 2018
AVG SIZE	784 SF	804 SF	797 SF	789 SF
AVG PPSF	\$2.20	\$2.16	\$2.13	\$2.29
AVG RENT	\$1726	\$1736	\$1699	\$1808
MARKET RATE CATEGORY PPSF				
Studio	\$2.48	\$2.48	\$2.49	\$2.53
1 bedroom	\$2.28	\$2.32	\$2.16	\$2.32
2 bedroom	\$2.00	\$1.99	\$2.03	\$2.18
3 bedroom	\$2.32	\$1.93	\$2.19	\$2.16

According to Market Reports released by the Greater Nashville Apartment Association for the past four quarters, slight downward pressure can be seen in price per square foot and rental rates from 3Q 2017 – 1Q 2018, due to numerous rental units delivering to the market at the same time. Rental rates and average price per square foot rebounded in the latest quarter (2Q 2018). Overall, units that yield the highest square foot prices are studios, and their price per square foot has not been affected. (fig 7).

Affordable and Workforce Housing

There are 309 affordable rental units in five properties that make up 7% of the rental market and 3% of the overall downtown housing market (fig. 8). Eleven additional units in a market rate apartment property in The Gulch are designated affordable through the Affordable Housing Incentives Program (HIPP), administered through the Mayor’s Office of Davidson County. HIPP offers grants to meet the gap between what is affordable and market rate rent, and is designed to motivate private developers to incorporate workforce units (60-120% MHI) into their apartment, condo, or housing developments. The goal is to provide housing options for working families in Nashville that would be offered at rates that do not exceed 30% of their household income. Affordable rental units in downtown have been at 100% occupancy in 1Q and 2Q 2018. (<https://www.nashville.gov/Mayors-Office/Housing/Incentive-Program.aspx>)

Condominium Market

Downtown Nashville currently has 2,453 condo units. Condominiums make up 33% of downtown housing, down 6% from last year due to a substantial number of rental units recently delivered to the market and the lack of purchase units built. Over the past nine years, there have only been three condominium projects deliver 596 units downtown - Terrazzo (2009), Twelve Twelve (late 2014), and 505 which just opened in February 2018.

As of July 13th, 505 is 30% sold and its units have yielded the highest per square foot prices seen in downtown. Penthouse 1 sold for \$5M and is 4001 SF, or \$1250 per SF. The units in the building are approximately 31% 2-bedrooms, 53% one-bedrooms, 14% studios and 2% penthouses. The average square footage of all units (without Penthouse units) is 850 and average price (without PH units) is \$650,000. Average SF with PH Units is 913 and price is \$745,000.

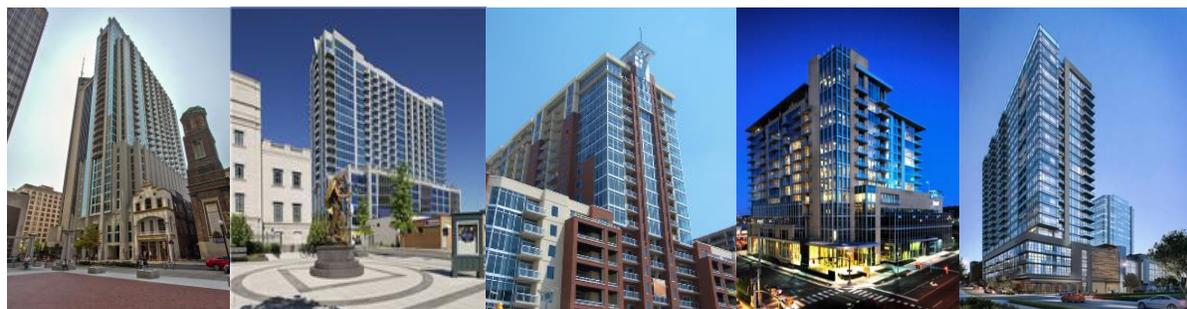
Citylights, the only condo project under construction, will deliver 71 units in 2019 and is 60% sold. Research in early July indicates that there are resale units available to purchase across downtown (46 under contract) which results in a 3.25-month supply. A balanced market has a six-month supply of units. Inventory supply of resale units has remained at three months or less since 2012.

An assessment of five downtown high-rise properties shows that the weighted average price per square foot of condos has consistently increased annually since 2012. This is a 59% increase from 2012 through second quarter of 2018. Most all properties have seen price per SF escalations since 2012, indicating the demand for this product. ICON, Terrazzo and Twelve Twelve, the newest downtown condominium projects, all have price per square foot increases over the past 18-months. Twelve Twelve shows an impressive 18% increase, while ICON has a 7% and Terrazzo has a 5% increase. (fig. 9-10).

Figure 9 – High-Rise Square Foot Comparisons

PPSF By Building	2012	2013	2014	2015	2016	2017	2018 (Jan-June)
Viridian	\$288	\$308	\$380	\$396	\$441	\$460	\$450
Encore	\$294	\$364	\$380	\$406	\$435	\$460	\$438
ICON	\$358	\$391	\$415	\$442	\$460	\$487	\$521
Terrazzo	\$287	\$343	\$366	\$409	\$397	\$423	\$445
Twelve Twelve			\$471	\$498	\$560	\$558	\$658
Weighted Average	\$323	\$360	\$405	\$472	\$479	\$482	\$515

Source: <http://realtracs.net>, July 2018



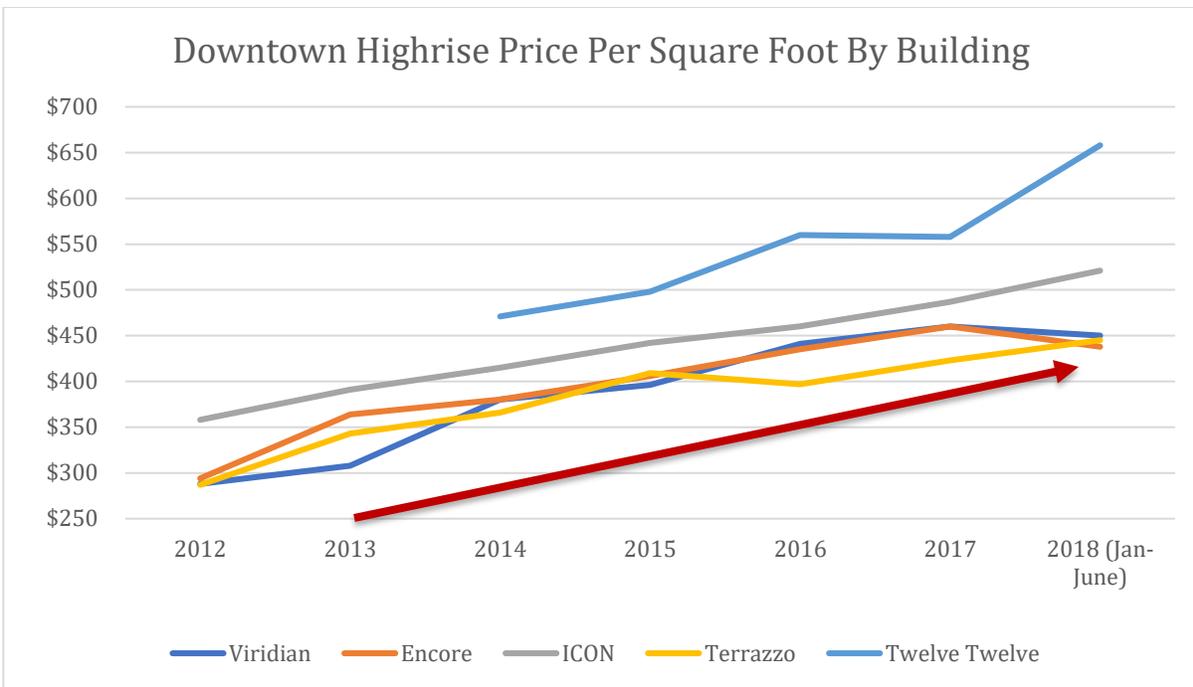


Figure 10 – Downtown High-rise Price per Square Foot Comparison by Building

The highest square-foot prices for resales so far, this year have occurred at Twelve Twelve for \$1,140 and ICON for \$1,220. Other notable prices at Twelve Twelve include \$882, \$860, \$843, \$726 and \$716. Nothing sold at this property in 2018 for less than \$520 per SF. At ICON, notable prices were \$700 and \$675, \$573 at Viridian, \$523 at Encore, and \$492 at Terrazzo.

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 resale delta in 2017 was \$102,348, or \$93.64 per SF. So far in 2018, the average resale delta is \$173,268, or \$131.09 per SF.



Twelve Twelve amenity area



ICON exterior

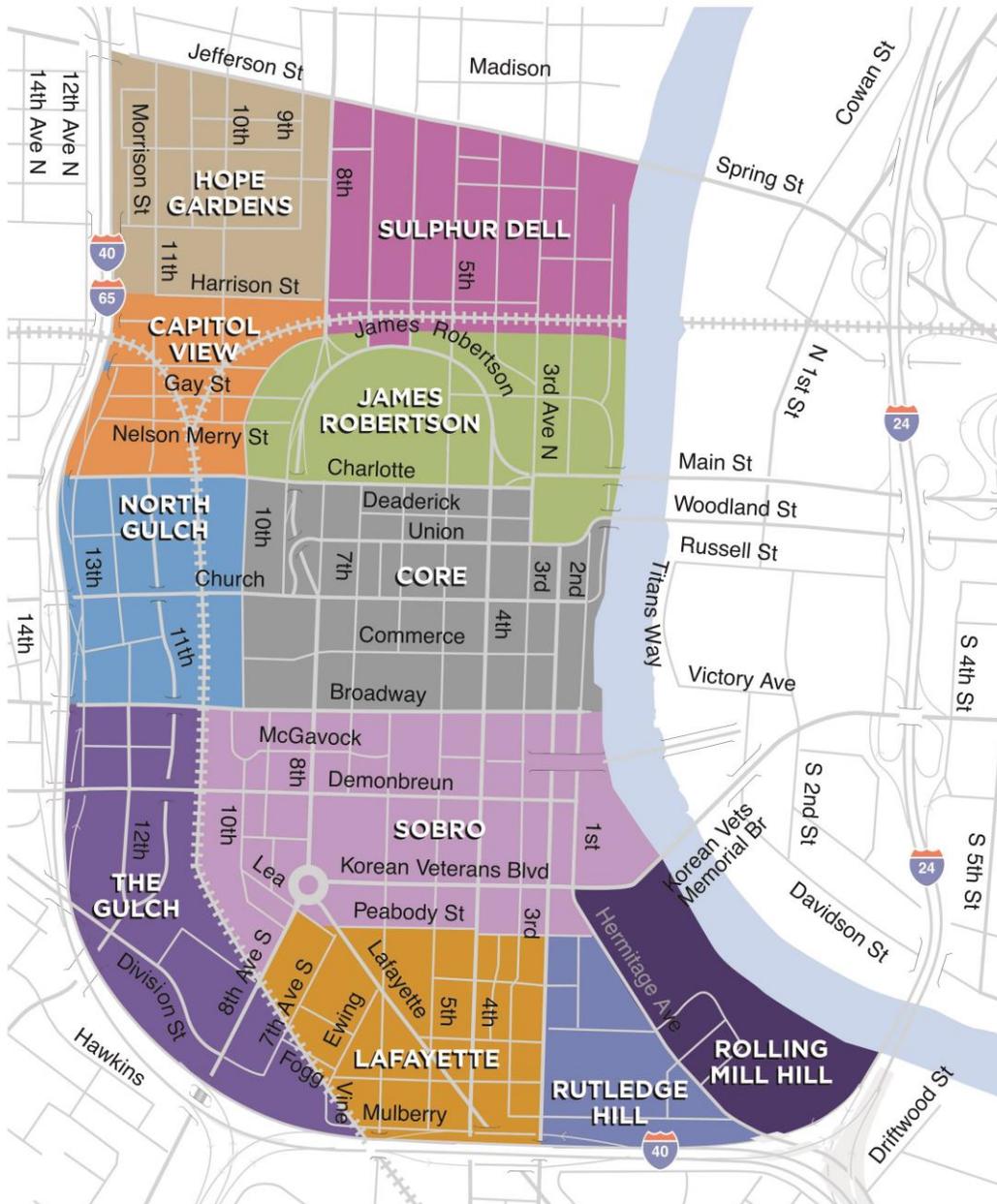
Single Family Market

Single-family homes make up 3% of downtown housing inventory. Of the 224 total homes downtown, 222 are in the Hope Gardens neighborhood. The other two single family homes are in the downtown core. Two single-family residential permits were issued for Hope Gardens in the past year, and three of the six permits that were issued for Hope Gardens last year have been completed.

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, Capitol View, Sulphur Dell (formerly called North Capitol), James Robertson, 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

Eight residential projects that are under construction will deliver 1,935 units by year-end 2020. By the end of 2018, 905 units will open in four projects.

Four projects are scheduled to deliver completely or in part this year. A mid-August construction finish is planned for Solis North Gulch (271 units), which opened in April. Two more projects will deliver in August - Studio 154 Luxury Lofts, a conversion of the 3rd floor of 154 2nd Avenue (18 units) and Broadstone Gulch (238 units). Residences at Capitol View (378 units) will open this fall. CityLights, a 71-unit luxury condominium project is slated to open in early 2019.

Other projects that are under construction but not delivering this year include Endeavor's mixed-use tower (313), Fifth + Broadway (380) and LC SoBro (266).



Solis North Gulch



Broadstone Gulch Rendering

Pipeline Projects

Eleven additional residential projects have been announced or planned that could deliver over 2,256 units to the market by 2023. (Fig. 11).



Residences at Capitol View

Figure 11

	Units	Rental	Condo/Single Family
Existing Residential	7,351	4,674	2,677
Under Construction	1,935	1,864	71
Planned	2,256	2,075	181
Total	11,542	8,613	2,929



CityLights Rendering



Endeavor Mixed-Use Tower Rendering



Fifth + Broadway Rendering

Demographic Profile and Trends

The Nashville Downtown Partnership's 2018 Downtown Residential Survey had a 13% response rate. In May 2018, approximately 5,200 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. Thirty-seven percent of residents moved to downtown from out-of-state, and another 27% moved from outside the county. Twenty-eight percent moved from Nashville and 9% moved from another location in downtown.

Household Status

Of the respondents, 40% are single (down from 49%), 44% are married (up from 36%), 9% are separated or divorced, and 7% have a domestic partner (fig.12).

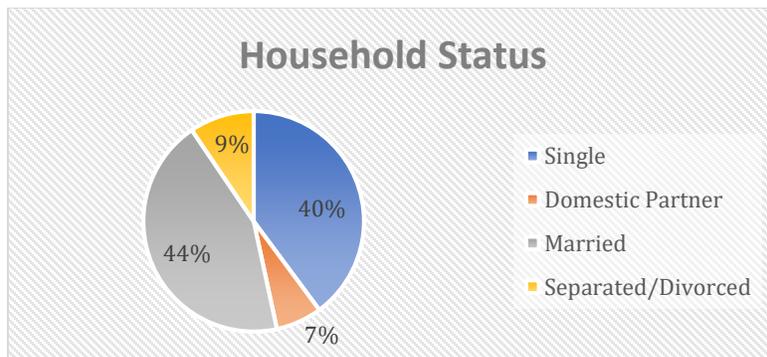


Figure 12 – Household Status

Age and Gender

Respondents exhibit a broad cross section of age groups. Forty-three percent of downtown residents are Generation Y (age 22 - 36). Baby Boomers (age 54-72) are the second largest group with 28%. 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 44% male and 56% female. Male and female percentages continue to fluctuate from year-to-year. However, having a higher percentage of female residents can indicate that downtown is perceived to be a safe place to live.

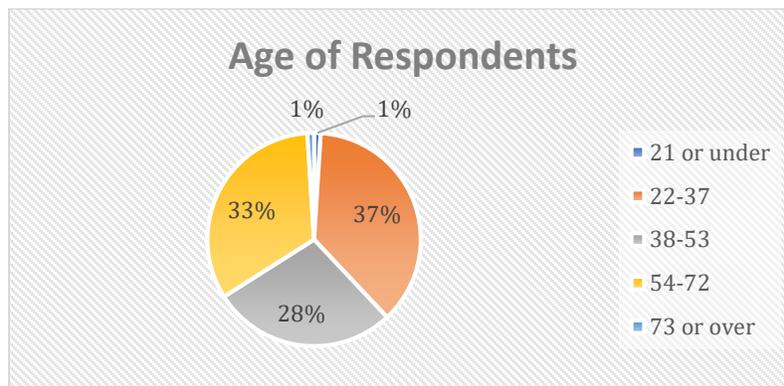


Figure 13 – Age of Respondents

Household Income

Eighty-three percent of downtown households earn over \$60,000 annually, and 59% earn over \$100,000 annually. Thirty-four percent earn over \$150,000 each year (up from 29%). Six percent earn less than \$40,000 annually (fig.14).

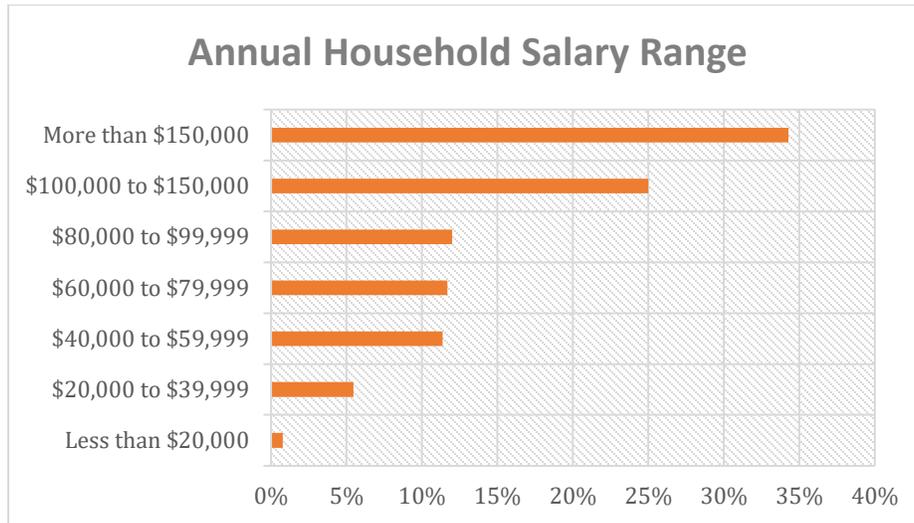


Figure 14 – Annual Household Salary Range

Level of Education Completed

Fifty-two percent of downtown residents have a college education and an additional 35% 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	30.7%	14.9%
Nashville MSA	29.4%	12%

Source: Downtown Residential Survey 2018, Nashville Area Chamber of Commerce, July 2018

Work Location

Forty-one percent responded that their office was located downtown. This number is down from six points from last year (47%). Fifty-nine percent of downtown residents work outside of downtown, revealing that there are more compelling reasons to live downtown besides being 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* (46%), *urban experience* (45%) followed by being close to work (34%), and restaurant selection (33%).

Conclusion

Nashville's real estate market continues to be strong and will sustain demand for both rental and purchase opportunities in the foreseeable future. The robust regional economy combined with job growth, and a low tax base are just part of the reason that so many people are moving to Nashville. *SmartAsset* ranked Nashville the #6 city for young professionals based on unemployment and labor force participation of young adults, median rent, number of fun establishments, job diversity, median earnings for full-time workers and rent as a percent of income.¹⁴ And, *The Penny Hoarder*, named Nashville the 7th best city for millennials due to its affordability, healthy economy and hip local food and music scene.¹⁵ According to Census Data analyzed by the Research Center of the Nashville Area Chamber of Commerce, there is a net gain of 66.4 people moving to the region every day.¹⁶

According to an updated study released Q1 2018 by Freeman Webb, the Nashville MSA is still underbuilt with apartments, and can absorb 13,800 more units by 2020.¹⁷ This recent analysis suggests this many units can be absorbed even once all existing, under construction and speculative pipeline units are delivered, to meet an equilibrium between supply and demand. This number dropped from 18,800 units in mid-year 2017, showing that recent delivery of rental projects is beginning to narrow the gap. While the Nashville MSA still shows a deficit of units, supply will outpace demand in some submarkets. This study also looks at the additional units required due to population growth and decline in homeownership.

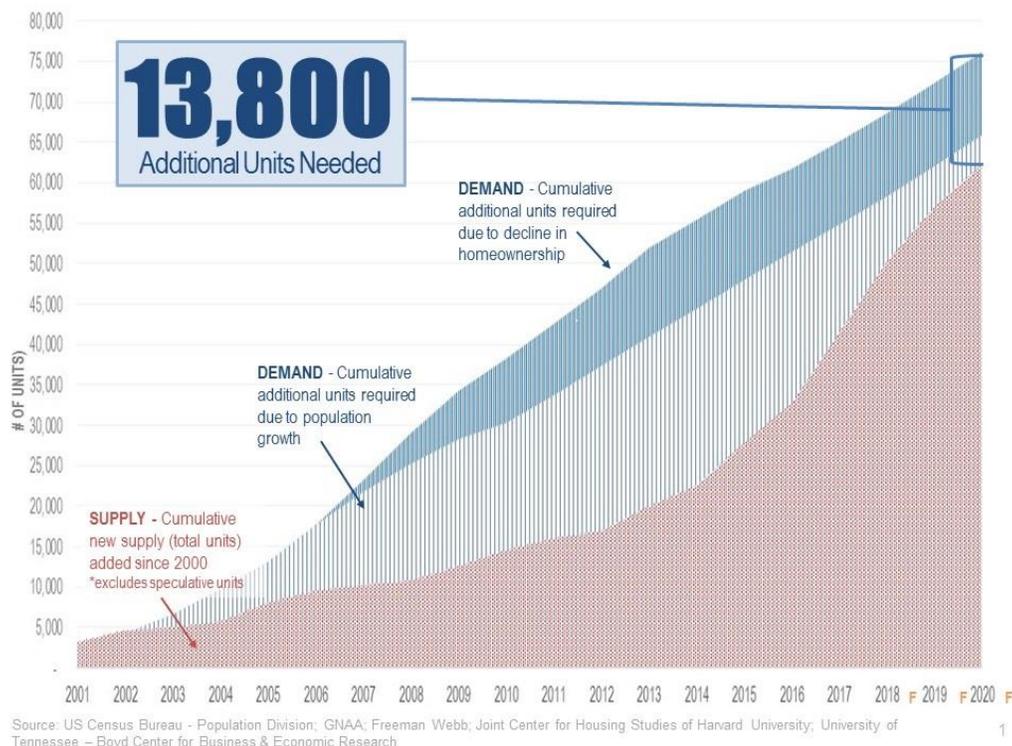


Figure 16 - Freeman Webb 1Q 2018 Market Overview

¹⁴ <https://smartasset.com/mortgage/the-best-cities-for-young-professionals>

¹⁵ <https://www.thepennyhoarder.com/life/best-cities-for-millennials/>

¹⁶ The Research Center, Nashville Area Chamber of Commerce, July 2018

¹⁷ Freeman Webb, "Freeman Webb 1Q 2018 Market Overview."

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Going forward, downtown will continue to see demand for both rental and purchase product in certain categories. While the rental occupancy rate is currently 84%, it is reflective of the large supply of units delivered to the market at the same time. A closer look at established rental properties reveals that they are 95% occupied. Lease rates and price per square foot averages decreased from 3Q 2017 through 1Q 2018, but ticked up in 2Q 2018, according to the Greater Nashville Apartment Association. The average rent is \$1,808 and the average price per square foot is \$2.29, both up from last year.

Demand for purchase product remains high while housing prices continue to escalate. 505 delivered 193 condominium units to the market in February 2018 and is 30% sold. The only for-sale project in the pipeline that is set to deliver in 2019 is City Lights which will add only 71 units to the market (60% sold). Downtown currently has a 3.5-month supply of resale units, and has remained at this level or below for the past six years. Having a 6-month supply is considered a "balanced market." With land prices in downtown escalating as well as construction costs and tight lending standards for condos, the few units that do deliver will be considered luxury, and not affordable to a large segment of the market.

While demand for downtown living exists, rising prices and elevated rental rates are excluding a large portion of potential downtown dwellers from the market. The full potential for downtown residential development may not be realized unless developers are incentivized to build affordable and workforce housing projects. Affordable housing is a nationwide issue, and as a city we need to continue to explore options and models where other cities are finding success.

