

RESIDENTIAL REPORT: 2020 ANNUAL REVIEW

Downtown Housing Demand Continues Despite 2020 Challenges Development Not Slowing, Condo Prices Increase

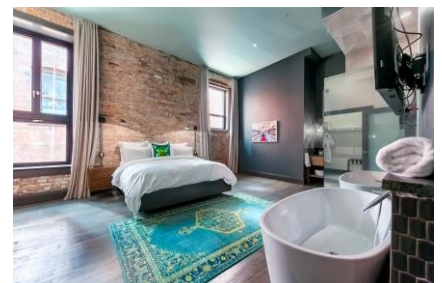
Downtown Nashville Housing Market: All indicators point to continued demand for downtown housing, despite multiple challenges that downtown faced in 2020 – Covid-19, tornadoes, civil unrest, and the Christmas Day explosion. The end-of-year occupancy rate for downtown pre-existing rental units is 93.37%, and inventory of resale units is only a 4.7 month supply. In addition, price per square foot in each of downtown's seven high-rises increased year-over-year from 2019 to 2020.



Nashville's economic strength, business-friendly environment, creative talent, weather, culture, and cost of living continue to attract business and corporate relocation and has fueled the region's population growth and escalated demand for housing. The low supply of for sale product keeps demand high and prices elevated. There are two for sale projects under construction that will deliver 178 luxury units to downtown by mid-year 2022.



Nashville Housing Market: The Greater Nashville Association of Realtors' reports that in December 2020, housing sales showed a year-over-year increase of 22%. In addition, sales pending at the end of December were up 24%, median price for a single family home was up 6.5% and for a condo, up 9.8%. The Nashville area realized a 6% increase in overall total homes sold in 2020 from 2019. Even with the challenges Nashville saw in 2020, Nashville's housing market continued to thrive. The report states that "Many people continue to choose the Greater Nashville area as their home. Our low cost and high quality of living will continue to be a huge selling point for our community."¹



Nashville Economic Environment: U-haul reports that Tennessee had the largest net gain of inbound shipments of any state in 2020, the first time the state had topped that ranking, with East and Central Tennessee enjoying the biggest gains.² And, according to the most recent calculation by The Research Center at the Nashville Area Chamber of Commerce, the Nashville region gains 81 net new people per day.³ Policom ranked Nashville #4 in



¹ <https://www.greaternashvillerealtors.org/news/2021/01/07/home-sales-release/despite-uncertain-times-2020-housing-market-thrived/>

² <https://www.uhaul.com/Articles/About/22746/2020-Migration-Trends-U-Haul-Ranks-50-States-By-Migration-Growth>

³ Nashville Area Chamber of Commerce, Research Department, January 2021

RESIDENTIAL REPORT: 2020 ANNUAL REVIEW

Metropolitan Economic Strength for 2021, which is the long-term tendency for an area to consistently grow in both size and quality. This study looks at Metropolitan Statistical Areas (MSA) that have at least one urbanized area of 50K+ population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by the location of the commuting workforce.⁴ A new report by Zillow predicts that the Nashville area will be the third hottest housing market in the country this year⁵, and it also ranked #17 on the U.S. News & World Report's 125 Best Places to Live in the USA in 2020-21.⁶

A new report from the real estate investing platform Roofstock.com finds that the Nashville region is among the 10th fastest growing metros in the U.S.⁷ The Wall Street Journal ranked Nashville as the 2nd hottest job market in the country,⁸ and SmartAdvisor named Nashville the 2nd best place in the U.S. to start a business.⁹

Nashville was voted #8 of the "Best Cities in the U.S." in Conde Nast Traveler's Reader's Choice Awards¹⁰, and Nashville landed on Travel + Leisure's list of "The 50 Best Places to Travel in 2021."¹¹ The 2019 NFL Draft hosted in Nashville was named "Sports Event of the Year" in the 2020 Sports Business Awards."¹² And finally, Nashville ranked #3 in the South's best cities and #4 in the South's best food cities in Southern Living's South's Best 2020 survey.¹³



⁴ <https://policom.com/rankings-metropolitan-areas/>

⁵ <https://www.bizjournals.com/nashville/news/2021/01/19/report-nashville-expected-to-be.html>

⁶ <https://realestate.usnews.com/places/rankings/best-places-to-live>

⁷ <https://learn.roofstock.com/blog/most-affordable-cities>

⁸ <https://www.wsj.com/articles/austin-nashville-rank-at-top-of-hottest-u-s-job-markets>

⁹ <https://smartadvisormatch.com/data/best-places-for-new-business-2019>

¹⁰ <https://www.cntraveler.com/gallery/best-cities-us>

¹¹ <https://www.travelandleisure.com/trip-ideas/best-places-to-travel-in-2021>

¹² <https://www.sportsbusinessdaily.com/Conferences-Events/2020/SBA.aspx>

¹³ <https://www.southernliving.com/souths-best>

Peer & Aspirational City Comparison

Downtown Nashville's population reached a milestone at the end of 2020 with 14,000 residents. Although Nashville's residential population is on par with Tampa and catching up to Austin, it still lags other peer cities. A Market Study by Noell Consulting Group identified Nashville's peer and "aspirational" cities, which are shown below for comparison. (Fig. 1-2)

Figure 1 Peer city downtown residents and land area comparisons*

| Peer | Residents | Area (Sq. Miles) | Acres | Density per Acre |
|--------------|-----------|------------------|-------|------------------|
| Nashville | 14,000 | 1.8 | 1,152 | 12.15 |
| Austin | 15,513 | 1.1 | 704 | 22 |
| Charlotte | 18,300 | 2 | 1,280 | 14.3 |
| Indianapolis | 29,537 | 5.2 | 3,328 | 8.8 |
| Tampa | 14,000 | 1.7 | 1,085 | 12.9 |

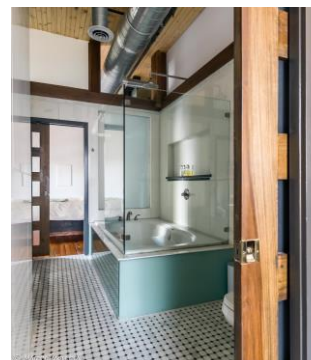


Figure 2 Aspirational city downtown residents and land area comparisons*

| Aspirational | Residents | Area (Sq. Miles) | Acres | Density per Acre |
|-----------------|-----------|------------------|-------|------------------|
| Denver | 27,012 | 2.66 | 1,702 | 15.8 |
| Midtown Atlanta | 17,000 | 1.2 | 768 | 22 |
| Seattle | 84,201 | 4.65 | 2,976 | 29.5 |



All peer cities have 90% occupancy or above, reaffirming demand for center city living. Downtown Nashville boasts the highest occupancy rate at 93.37%. Both Austin and Nashville have the highest average price per square foot for rental units (fig.3-4).

Figure 3 Peer City Rental Occupancy Rate and Average PPSF*

| 2020 | Occupancy Rate | AVG PPSF |
|--------------|----------------|----------|
| Nashville | 93.37% | \$2.39 |
| Austin | 90% | \$2.50 |
| Charlotte | 91% | \$1.83 |
| Indianapolis | 87% | \$1.53 |
| Tampa | 90% | ---- |



Figure 4 Aspirational City Rental Occupancy Rate and Average PPSF*

| 2020 | Occupancy Rate | AVG PPSF |
|-----------------|----------------|----------|
| Denver | 88.2% | \$2.20 |
| Midtown Atlanta | TBD | \$2.74 |
| Seattle | 89.6% | \$3.22 |

*Information provided by Downtown Austin Alliance, Charlotte City Center, Indianapolis Downtown Inc., Tampa Downtown Partnership, Downtown Denver, Atlanta Midtown Alliance, Downtown Seattle Association. (Jan 2021)



RESIDENTIAL REPORT: 2020 ANNUAL REVIEW

Based on the most recently available Census Data, from 2010 through 2019, downtown has seen 152% population growth (fig.5). This is over eight times the percentage growth of the Nashville MSA and fourteen times that of Nashville during the same period.

Figure 5 – Population Growth Comparisons (2010 – 2019)

| Population Growth | 2010 | 2019 | % Growth |
|-------------------|-----------|-----------|----------|
| Downtown | 5,155 | 13,000 | 152% |
| Nashville | 627,746 | 694,144 | 10.58% |
| Nashville MSA | 1,650,831 | 1,934,317 | 17.17% |
| Rest of Tennessee | 4,704,480 | 4,894,857 | 4.05% |

Source: Nashville Downtown Partnership 2020, US Census Bureau

Downtown Housing Categories

There are 9,511 downtown residential units, up from 8,453 one year ago (a 12.5% increase). Sixty-nine percent are rental, 28% are condo and 3% are single family homes and duplexes, triplexes and quadplexes. Market rate housing constitutes 96% and affordable/workforce 4% of the housing mix.

Downtown Nashville has a 93.37% occupancy rate for established rental properties. Occupancy rates for new to market properties is 55%.

Rental Market

The 6,913 rental units in downtown Nashville make up 72.5% of the downtown housing mix. The Place at Fifth + Broadway, Harlowe and Sixth South will complete construction this year adding almost 800 more rental units. An additional six rental projects are under construction that will deliver over 1,800 units by year-end 2022. An additional seventeen projects are announced/planned that could deliver over 6,000 additional units by 2024.



1200 Broadway



The Place at Fifth+Broadway



Residences at Capitol View

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.

Short-Term Rentals

Lack of sufficient inventory of hotel rooms and increased popularity of Airbnb and VRBO options initially accelerated demand for the short-term rental market downtown. As more hotel rooms enter the market, with 5,640 currently under construction or planned, continued demand for these units will be tested. There is one project currently under construction called Muse that is a short-term rental condominium building that will have 55 units and deliver in 2021. This is the only new construction condominium building in downtown that allows short-term rentals.

According to the Metro Nashville Codes Department, the regulating agent of short-term rental properties, there are 926 short-term rental permits issued to downtown dwelling units as of February 2021. This number decreased by 189 permits from one year ago. In addition, 33 units that held short-term permits were taken out of the inventory due to the Christmas Day explosion. Over the past four years, an increase in acquired permits can be seen within multifamily rental properties and condominium properties that do not have HOA rental restrictions. Thirteen rental and condo properties hold 695 permits collectively.

RESIDENTIAL REPORT: 2020 ANNUAL REVIEW

Market Rate Comparisons

Figure 7 – Downtown Nashville Market Rate Rental Comparisons

| Rental Market | 4Q 2020 | 3Q 2020 | 2Q 2020 | 1Q 2020 |
|----------------------------------|---------|---------|---------|---------|
| AVG SIZE | 799 SF | 822 SF | 806 SF | 802 SF |
| AVG PPSF | \$2.38 | \$2.35 | \$2.47 | \$2.45 |
| AVG RENT | \$1,902 | \$1,932 | \$1,994 | \$1,965 |
| MARKET RATE CATEGORY PPSF | | | | |
| Studio | \$2.72 | \$2.71 | \$2.85 | \$2.89 |
| 1 bedroom | \$2.35 | \$2.36 | \$2.48 | \$2.50 |
| 2 bedroom | \$2.31 | \$2.22 | \$2.35 | \$2.30 |
| 3 bedroom | \$2.80 | \$2.79 | \$2.84 | \$2.25 |

According to Quarterly Market Reports released by the Greater Nashville Apartment Association, a modest decrease was seen from 1Q to 4Q in both average rent (3.2%) and in price per square foot average (2.85%). Three-bedroom unit price per square foot rose 24% from 1Q to 4Q. This can be attributed to 1200 Broadway coming online in 2Q, offering 3-bedroom luxury apartment units, raising the average. Studio units still receive higher square foot prices than other offerings (fig 7).

Affordable and Workforce Housing

There are 309 affordable/workforce rental units in five properties that make up 4.4% of the rental market and 3% of the overall downtown housing market.

Condominium Market

Downtown Nashville currently has 2,358 condo units. Condominiums make up 25% of downtown housing. Over the past six years, there have only been three condominium projects deliver 535 units downtown - Twelve Twelve (2014), 505 (2018) and Citylights (2019). There are three projects that will deliver 233 additional condominiums by 2022 – Four Seasons Private Residences, Eve and Muse, which will allow short-term rental. In third quarter of 2020, Four Seasons Private Residences pre-sold \$80 million of property from its first roll out in one day. Most owners are local, but Nashville's draw has reached buyers from all over including California, Texas and even Japan. This tremendous demand has resulted in price increases.



Four Seasons Private Residences (rendering)



Eve (rendering)

RESIDENTIAL REPORT: 2020 ANNUAL REVIEW

An assessment of seven downtown high-rise properties shows an increase in average price per square foot for each property from 2019 to 2020. The weighted average price per square foot of condos remained above \$600. Over the past five years, weighted average PPSF has increased 25%. (fig. 9).

Figure 9 – High-Rise Square Foot Comparisons

| PPSF By Building | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|-------|-------|-------|-------|-------|-------|
| Viridian | \$411 | \$427 | \$435 | \$453 | \$480 | \$530 |
| Encore | \$412 | \$439 | \$465 | \$499 | \$499 | \$537 |
| ICON | \$448 | \$442 | \$498 | \$541 | \$518 | \$545 |
| Terrazzo | \$445 | \$412 | \$436 | \$428 | \$425 | \$533 |
| Twelve Twelve | \$510 | \$575 | \$588 | \$699 | \$634 | \$675 |
| 505 | | | | \$867 | \$774 | \$860 |
| CityLights | | | | | \$508 | \$551 |
| Weighted Average | \$487 | \$490 | \$497 | \$630 | \$615 | \$610 |

Source: <http://realtracs.net>, Jan 2021



Sales data from 2020 reveals that 505 had a unit sell for \$4.5 million, yielding the highest annual PPSF of \$1,209. Other notable square-foot prices in 2020 occurred at Twelve Twelve for \$1,017 and \$958 and at ICON for \$920.

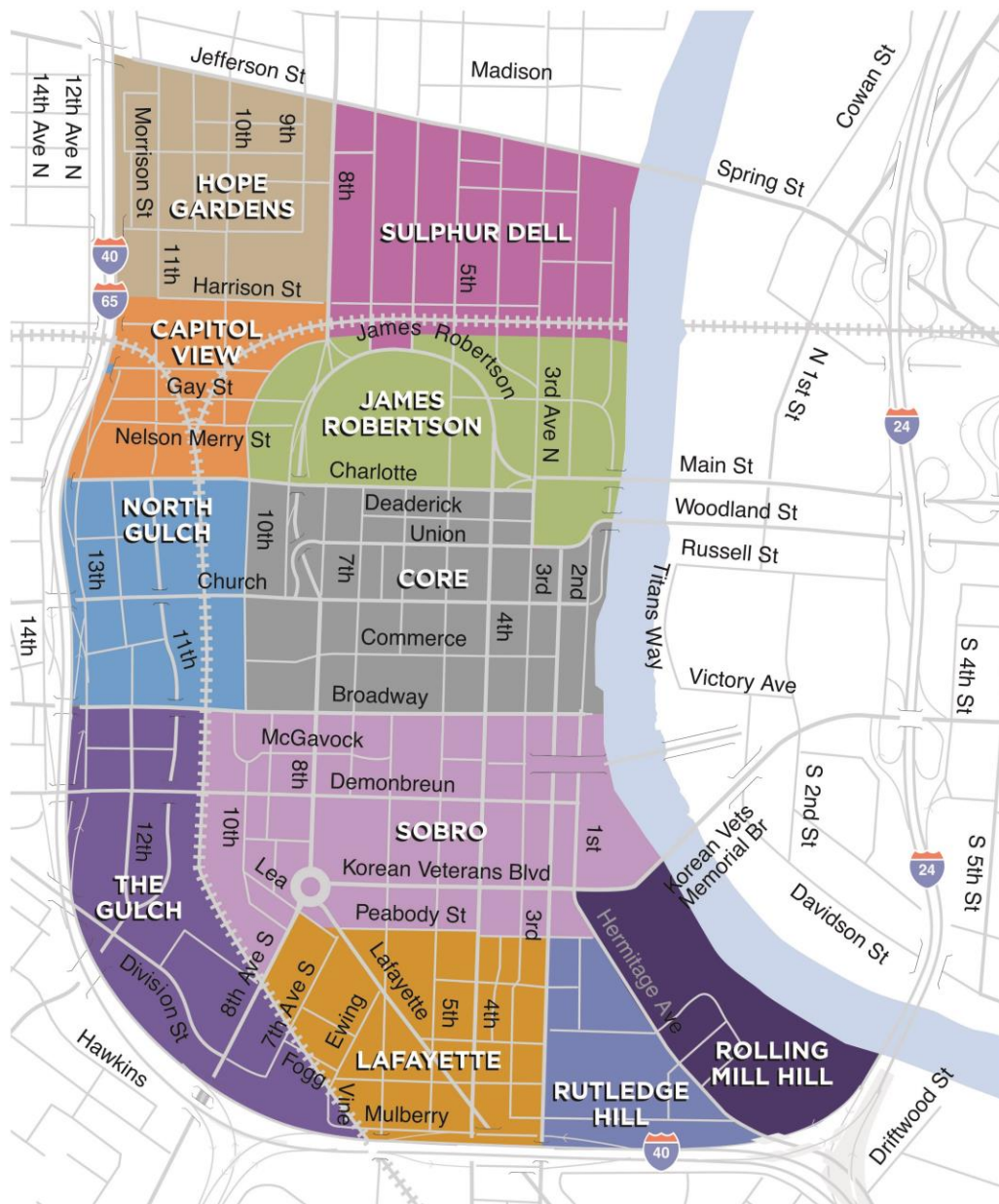
Single Family/Duplex, Triplex and Quadplex Market

Single-family homes and duplex, triplex and quadplex homes together make up 2.5% of downtown housing inventory. Of the 219 single family homes downtown, 217 are in the Hope Gardens neighborhood. The other two are in the downtown core. Twenty-one duplex, triplex and quadplex units can be found in the Hope Gardens neighborhood, as well.

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 consistent with the Metropolitan Planning Department's definition of downtown, which includes the Central Business District (Core), The Gulch, North Gulch, Capitol View, Sulphur Dell (formerly called North Capitol), James Robertson Parkway, 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



RESIDENTIAL REPORT: 2020 ANNUAL REVIEW

Under Construction

Nine residential projects that are under construction will deliver over 2,300 units by year-end 2022.

Five projects are scheduled to deliver completely or in part this year. The Place at Fifth + Broadway (rental) will finish construction 2Q 2021, Harlowe (rental) begins delivery 3Q, Sixth South (rental) plans to deliver late this year, Eve (condominium) will go to market by 3Q, and Muse (condominium/STR) is slated to be completed in October 2020.

Other projects under construction include 805 Lea, Albion Nashville, Aspire Gulch, Four Seasons Private Residences, Haven at The Gulch, Modera Gulch and Vantage Gulch.

Pipeline Projects

Eighteen additional residential projects have been announced or planned that could deliver over 6,100 units to the market by 2024. (Fig. 11).



Harlowe (641 Division) Rendering



Muse Rendering



Haven at The Gulch Rendering



LC SoBro Phase II Rendering



| | Units | Rental | Condo | Single Family/Other |
|--------------------|---------------|---------------|--------------|---------------------|
| Existing | 9,511 | 6,913 | 2,358 | 240 |
| Under Construction | 3,194 | 2,961 | 233 | |
| Planned | 5,094 | 5,094 | | |
| Total | 17,799 | 14,968 | 2,591 | 240 |



805 Lea Rendering



900 Church Rendering



Vantage Gulch Rendering

Demographic Profile and Trends

The Nashville Downtown Partnership's 2020 Downtown Residential Survey had a 9% response rate. In July 2020, 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, high-income producing residents from across all age groups. Thirty-eight percent of residents moved to downtown from out-of-state, and another 18% moved from outside the county. Twenty-eight percent moved from Nashville and eight percent moved from another location in downtown.

Where Residents Moved From

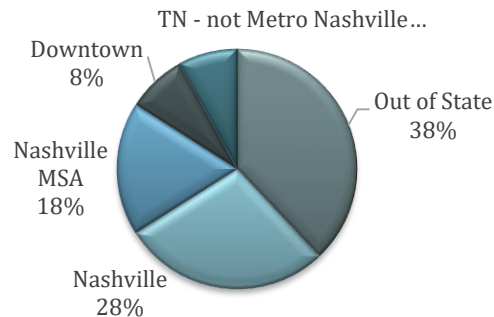


Figure 12 – Where Residents Moved From

Household Status

Of the respondents, 40% are single, 43% are married, 9% are separated or divorced, and 8% have a domestic partner (fig.12).

Age and Gender

Respondents exhibit a broad cross section of age groups. Baby Boomers (age 56-74) represent 36% of the downtown population, with Gen X (age 40-55) a close second at 35%. Generation Y (age 24 - 39) makes up 25%. (fig.13)

Generations

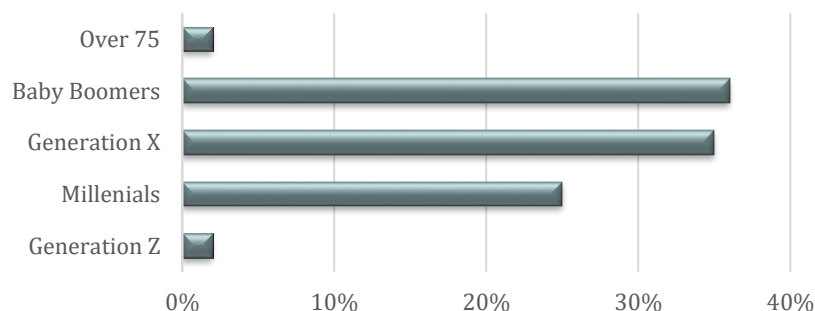


Figure 13 – Generations of downtown residents

Downtown residents are 42% male and 58% female. Male and female percentages continue to fluctuate from year-to-year.

Annual Salary Range

Ninety percent of downtown residents earn over \$60,000 annually, and 64% earn over \$100,000 annually. Forty percent earn over \$150,000 each year (up from 38%), while seventeen percent of those residents earn north of \$250,000. Ten percent earn less than \$40,000 annually (fig.14).

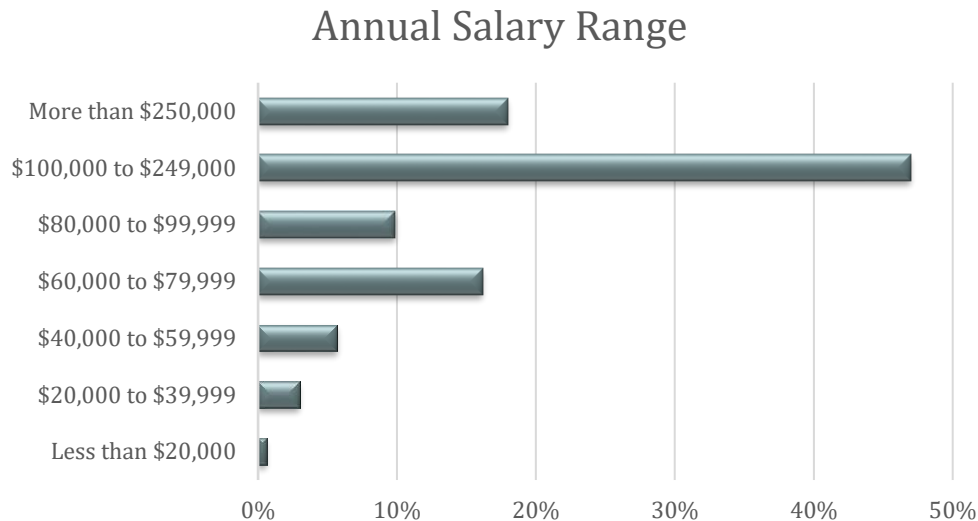


Figure 14 – Annual Household Salary Range

Work Location

Fifty percent responded that their office was located downtown. This number is up three points from last year (47%) and nine points from 2018 (41%). Fifty percent of downtown residents work outside of downtown.

Covid-19 Work Responses

Downtown residents were asked to answer what reflects their status, realizing that the COVID-19 pandemic has created workforce shifts, 41% responded they were working from home, 30% working outside the home, and 20% were retired. Seven percent responded "other" with write-in responses of being self-employed, furloughed, unemployed or having split schedules. Two percent responded they were in graduated school or college.

Quality of Life Factors

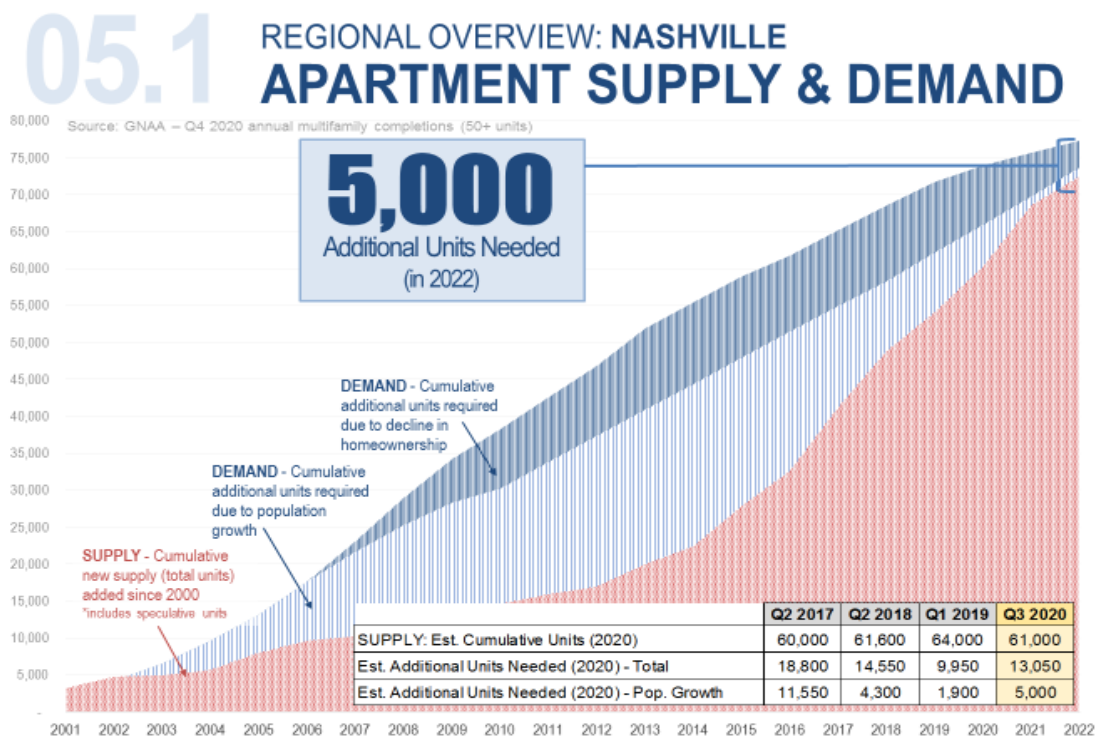
When residents were asked what four elements most positively influenced their continued downtown living, the top response was walkability (52%), *central location/convenience* (41%), close to work (29%), followed by *urban experience* (28%) and restaurant selection (28%).

Top restaurant types desired by residents include chef-owned/local (32%), Asian (24%), healthy (24%) and fast casual/affordable (23%). Retail types desired include grocery and produce (35%), movie theater (34%), home improvement/hardware store (27%) and clothes/shoes (26%).

Conclusion

Despite the challenges of 2020, Nashville's housing market continues to thrive. Corporate relocations, job growth, low tax base, and robust cultural, technology and culinary scenes all contribute to the continued economic vitality of the city. Buyer demand is exceptionally strong across the entire region, interest rates are low, and with an average of 81 ppl moving to the region every day, the area is poised for sustained growth and demand for both rental and purchase opportunities. in downtown Nashville and the region. Looking at factors such as business relocation, job growth, net migration projections, and overall demand for city living, we forecast that downtown will have 16,000 residents by 2022, and 21,000 by 2024.

An updated study by Freeman Webb reveals that although an internal analysis in 2019 suggested that supply would be close to outpacing demand for apartments across the MSA by the end of 2020, project completion timelines have been extended, resulting in fewer apartments being delivered over 2019 and 2020. As a result, occupancies have remained relatively stable across the MSA. The chart below highlights the supply and demand for Nashville MSA apartments based on RealPage's Q3 2020 data. Significant deliveries are forecasted in 2021, but also significant demand. In the final analysis, occupancy is expected to remain healthy around 95%.¹⁴



Downtown Nashville's residential population has grown from 6,320 residents in 2012 to 14,000 in 2020, a 121% growth over eight years. If all projects that are under construction and planned come to fruition, there will be 21,000 residents in 2024. Using a Brookings Institute metric, healthy downtowns have 2% of the total number in the MSA living there, which for downtown Nashville would be 38,000 people.

¹⁴Freeman Webb, 4Q 2020 Market Overview