

RESIDENTIAL REPORT: 2019 ANNUAL REVIEW

Sustained Downtown Housing Demand: Rental Occupancy Strong and Elevated Condo Prices Steady

Downtown Nashville Housing Market: Demand for downtown housing remains strong. One multifamily rental project with 378 apartments delivered units in 2019, and was 95% occupied by October, eleven months after opening. A 71-unit condominium property began delivering units in May 2019 and was 90% sold by the end of the year. The end-of-year occupancy rate for downtown rental units is 94.7%, and inventory of resale units is only a 1.4 month supply.



Nashville's continued economic strength, low unemployment and business-friendly environment has helped to attract business and corporate relocations. The city's thriving creative, entertainment and culinary scene has also been a driving force for the region's population growth, resulting in continued demand for housing. The continued low supply of for sale product keeps demand high and prices elevated, with only one project under construction that will deliver 143 luxury units in 2022.



Nashville Housing Market: The Greater Nashville Association of Realtors' reports that the 2019 housing market reached a historic high, with the most homes sold in the region since 2006, and total home sales up 7% since last year. There is also a 20% increase in the number of homes sold this past December over the number sold during the same time period last year. The report states that "this historical growth is a result of a strong local economy, corporate relocation and continued job growth across the region. Every day more people and companies make the Greater Nashville Area their home, and this boosts consumer confidence, which will move the housing market forward."¹



Nashville Economic Environment: Nashville is ranked #15 best places to live by U.S. News and World Report. 125 metro areas were analyzed based on quality of life and the job market in each metro area as well as the value of living there and the people's desire to live there.² Policom ranked Nashville #1 in Metropolitan Economic Strength, looking at Metropolitan Statistical Areas (MSA) that have



¹ Greater Nashville Association of Realtors, "2019 Housing Market Reaches Historic High," January 7, 2020

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

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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 Nashville was also ranked the #1 metro with the most change in the 2010s by ApartmentList.com based on change metrics in population growth, workforce with college degrees, and household income.⁵

SmartAdvisor named Nashville 2nd best place in the U.S. to start a business.⁶ The city also earned the number 4 spot in America to start a business by INC. due to the rate of entrepreneurship, high-growth company density, population growth, net business creation and wage growth in the Nashville Metro area.⁷

Site Selection Magazine ranked Tennessee #1 in South Central United States for regional workforce development based on the following criteria: (1) CNBC's America's Top States for Business 2018 Workforce and Education sub-ranking; (2) Forbes' Best states for Business 2018 Labor Supply sub-ranking; (3) U.S. News' 2018 Best States for Education rankings; (4) ACT National Career Readiness Certificates (NCRC) Rankings; and (5) average number of workforce development enactments passed in state legislatures.⁸

Avalanche Consulting specializes in economic and workforce development, and ranked Nashville as the #7 large metro gaining the most young professionals (ages 25-34) based on 2018 U.S. Census Bureau data.⁹ SmartAsset also named Nashville as the 3rd best city for young professionals based on nine metrics.¹⁰



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

⁵ <https://www.apartmentlist.com/rentonomics/most-changed-metros-of-the-2010s>

⁶ <https://smartadvisormatch.com/data/best-places-for-new-business-2019>

⁷ <https://www.inc.com/surge-cities/best-places-start-business.html>

⁸ <https://siteselection.com/issues/2019/jan/workforce-development-rankings-2019-regional-rankings.cfm>

⁹ <https://www.avalancheconsulting.com/2019/09/27/which-20-metros-are-gaining-and-losing-the-most-young-professionals-and-the-reason-why/>

¹⁰ <https://smartasset.com/mortgage/best-cities-for-young-professionals-2019>

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Peer & Aspirational City Comparison

Downtown Nashville's population reached a milestone at the end of 2019 with 13,000 residents. Although a win in the context of the city's growth, a review of downtown Nashville's peer and "aspirational" cities, as identified in a 2018 Market Study by Noell Consulting Group¹², reveals that downtown Nashville is still trailing all cities except for Tampa in total resident numbers. (Fig. 1-2)

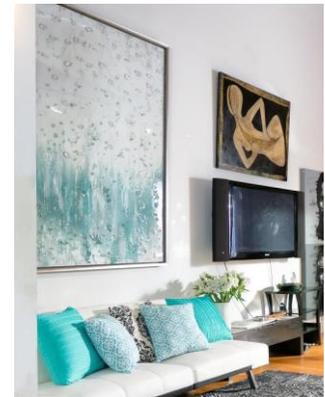
Figure 1 Peer city downtown residents and land area comparisons*

Peer	Residents	Area (Sq. Miles)	Acres	Density per Acre
Nashville	13,000	1.8	1,152	11.3
Austin	15,513	1.1	704	22
Charlotte	21,000	2	1,280	16.4
Indianapolis	29,130	5.2	3,328	8.75
Tampa	11,859	1.7	1,085	10.9



Figure 2 Aspirational city downtown residents and land area comparisons*

Aspirational	Residents	Area (Sq. Miles)	Acres	Density per Acre
Denver	25,727	2.66	1,702	15
Atlanta	17,000	1.2	768	22
Seattle	88,000	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 94.7%. Both Austin and Tampa have the highest average price per square feet for rental units, and only Indianapolis drops below \$2 average PPSF. (fig.3-4).

Figure 3 Peer City Rental Occupancy Rate and Average PPSF*

2019	Occupancy Rate	AVG PPSF
Nashville	94.7%	\$2.29
Austin	92.6%	\$2.74
Charlotte	tbd	tbd
Indianapolis	91.5%	\$1.65
Tampa	90%	\$2.72



Figure 4 Aspirational City Rental Occupancy Rate and Average PPSF*

2019	Occupancy Rate	AVG PPSF
Denver	88.8%	\$2.38
Atlanta	tbd	\$2.74
Seattle	95%	\$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. (December 2019)

¹²https://www.nashvilledowntown.com/_files/docs/le-office--residential-demand-analysis-12-5-18.

Based on the most recently available Census Data, from 2010 through 2018, downtown has seen 130% population growth (fig.5). This is over eight times the percentage growth of the Nashville MSA and twelve times that of Nashville during the same period.

Figure 5 – Population Growth Comparisons (2010 – 2018)

Population Growth	2010	2018	% Growth
Downtown	5,155	11,874	130%
Nashville	626,681	692,587	10.5%
Nashville MSA	1,670,890	1,930,961	15.5%
Rest of Tennessee	4,675,215	4,839,049	3.5%

Source: Nashville Downtown Partnership 2018, US Census Bureau

Downtown Housing Categories

There are 8,453 downtown residential units, up from 7,351 18-months ago (a 15% 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.

The Greater Nashville Apartment Association 4Q survey shows that downtown has a rental occupancy rate of 94.7%. The survey includes established properties and new rental projects that have officially completed construction, but have not fully leased-up

Rental Market

The 5,868 rental units in downtown Nashville make up 69% of the current downtown housing mix. Currently, there are eight rental projects under construction that will deliver 2,559 units by 2021, with 1,304 coming online this year. An additional ten projects are announced/planned that could deliver over 2,600 additional units by 2024.

Downtown apartments have consistently had high occupancy rental rates. When new projects deliver, slight dips occur during lease-up as illustrated in 2Q stats (Fig.6), but typically rebound quickly due to pent-up demand. Per the Greater Nashville Apartment Association, no new projects are included until they are at least 50% leased.

Figure 6 – Downtown Nashville Rental Occupancy Comparisons

Rental Occupancy Rate– Year	Downtown	Greater Nashville
1Q 2019	93.26%	93.26%
2Q 2019	84.7%	93.22%
3Q 2019	94.41%	94.11%
4Q 2019	94.73%	94.06%

Source: Greater Nashville Apartment Association Market Study, 2019 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.

Short-Term Rentals

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. It remains to be seen what impact the 6,923 hotel rooms under construction or planned have on this portion of the market.

According to the Metro Nashville Codes Department, the regulating agent of short-term rental properties, as of January 2020, there are 1,155 short-term rental permits issued to downtown dwelling units. This has grown from 560 permits in June 2018, 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 three years. Nine substantial rental properties hold 782 permits collectively, which equates to 13% of downtown rental units.

Market Rate Comparisons

Figure 7 – Downtown Nashville Market Rate Rental Comparisons

Rental Market	4Q 2019	3Q 2019	2Q 2019	1Q 2019
AVG SIZE	791 SF	788 SF	795 SF	782 SF
AVG PPSF	\$2.54	\$2.49	\$2.38	\$2.27
AVG RENT	\$2,012	\$1,961	\$1,893	\$1,776
MARKET RATE CATEGORY PPSF				
Studio	\$3.00	\$2.83	\$2.69	\$2.61
1 bedroom	\$2.62	\$2.55	\$2.42	\$2.35
2 bedroom	\$2.34	\$2.33	\$2.25	\$2.08
3 bedroom	\$2.32	\$2.30	\$2.29	\$2.01

According to Market Reports released by the Greater Nashville Apartment Association, average price per square foot and rent have increased each of the last four quarters. From Q1 to Q4, average rent in downtown has increased 13%, and PPSF of studio units increased 15%. Units that yield the highest square foot prices continue to be studios, and their price per square foot continues to increase. (fig 7).

Affordable and Workforce Housing

There are 309 affordable/workforce rental units in five properties that make up 5% of the rental market and 4% of the overall downtown housing market (fig. 8).

Condominium Market

Downtown Nashville currently has 2,345 condo units. Condominiums make up 28% of downtown housing. Over the past five years, there have only been three condominium projects deliver 535 units downtown - Twelve Twelve (2014), 505 (2018) and Citylights (2019).

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As of January 27, 505 is 85% 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. Penthouse 2 sold for \$5.5M and is 4329 SF or \$1270 per SF. The units in the building are approximately 36% 2-bedrooms, 53% one-bedrooms, 10% 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 latest condo project to deliver in 2019 is 90% sold. According to the sales team at Village Real Estate, the average PPSF has been \$608, average square footage is 1,820 and average condo price \$1,365,642.

Research in early January indicates that there are 60 resale units available to purchase across downtown (25 under contract) which results in a 1.4 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 seven downtown high-rise properties shows that the weighted average price per square foot of condos consistently increased each year from 2015 until 2018, then had a negligent 2% decrease in 2019. Although some of the high-rises show slight decreases in average PPSF, they have remained relatively stable across the board. In fact, in the past five years the weighted average PPSF has increased 26%. (fig. 9-10).

Figure 9 – High-Rise Square Foot Comparisons

PPSF By Building	2015	2016	2017	2018	2019
Viridian	\$411	\$427	\$435	\$453	\$480
Encore	\$412	\$439	\$465	\$499	\$499
ICON	\$445	\$442	\$498	\$541	\$518
Terrazzo	\$445	\$412	\$436	\$428	\$425
Twelve Twelve	\$510	\$575	\$588	\$699	\$634
505				\$867	\$774
CityLights					\$608
Weighted Average	\$487	\$490	\$497	\$630	\$615

Source: <http://realtracs.net>, Jan 2020



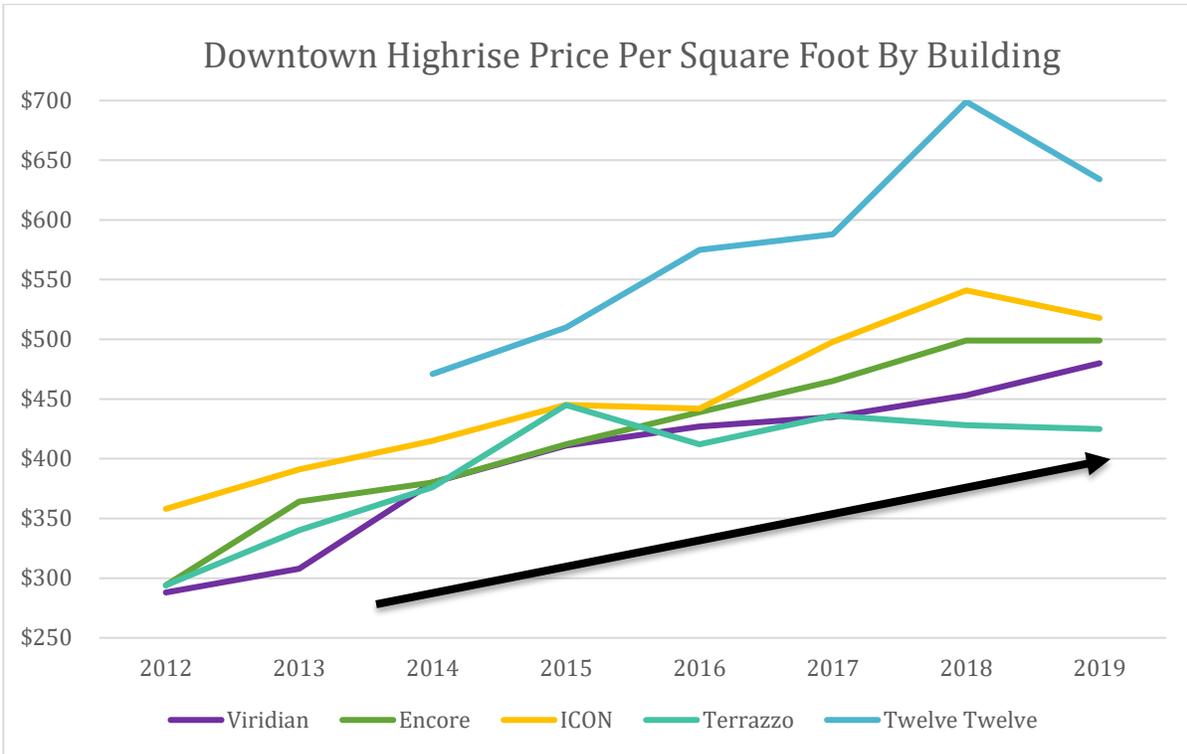


Figure 10 – Downtown High-rise Price per Square Foot Comparison by Building

The five highrises – Viridian, Encore, Terrazzo, Icon and Twelve Twelve – trend together in an upward trajectory. Citylights and 505 will be included after the third year of activity.

Sales data from 2018/2019 reveals that 505 has the highest PPSF of any residential project in downtown Nashville. Since sales began, thirteen units have sold for >\$1,000 per square foot. The highest square-foot prices for resales in 2019 have occurred at Twelve Twelve for \$1,090 and \$960 and at 505 for \$1,106 and \$952.

According to statistical data provided by the principal broker and partner of Village Real Estate who tracks all sales and resales at Twelve Twelve, the average resale delta for the project year-over-year is as follows: \$175,000 in 2019, \$121,887 in 2018, and \$102,348 in 2017.



Citylights exterior



505 exterior

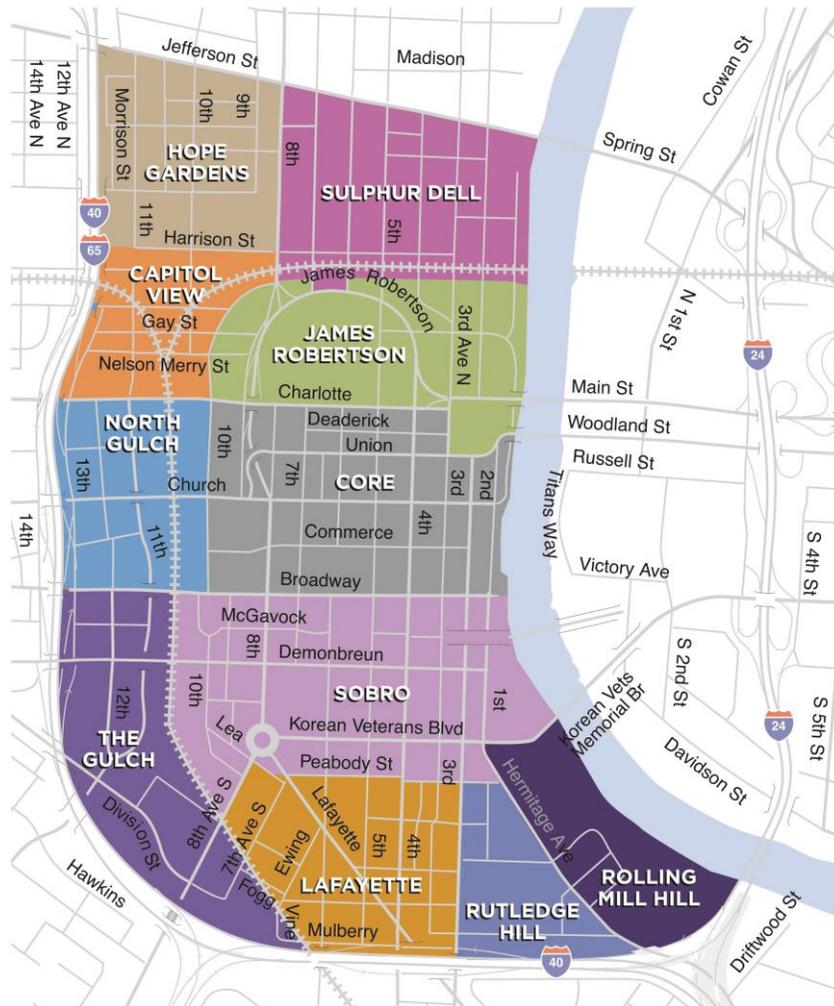
Single Family/Duplex, Triplex and Quadplex Market

Single-family homes and duplex, triplex and quadplex homes together make up 3% 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 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 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



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Under Construction

Nine residential projects that are under construction will deliver 2,702 units by year-end 2022. By the end of 2020, 1,304 units will open in four projects.

Four projects are scheduled to deliver completely or in part this year. 1200 Broadway (313) apartments began preleasing in 2019 and had their first move-in during the month of December. The Place at 5th + Broadway (386) will have its first model units ready in March and begin move-ins in May. Phase I of LC SoBro (217) will begin move-ins in early April. Broadstone Stockyard (334) will also open this year.

Pipeline Projects

Thirteen additional residential projects have been announced or planned that could deliver over 3,269 units to the market by 2023. (Fig. 11).



Broadstone Stockyard Rendering



The Place at Fifth + Broadway Rendering



1200 Broadway Rendering



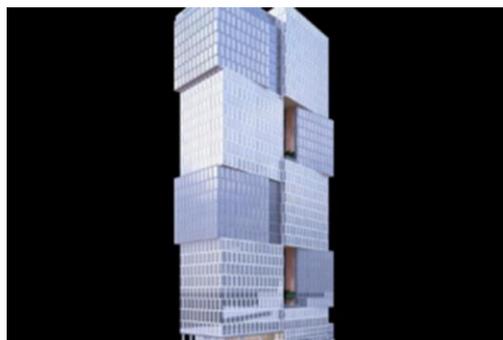
LC SoBro Rendering

	Units	Rental	Condo	Single Family/Other
Existing Residential	8,453	5,868	2,345	240
Under Construction	2,702	2,559	143	
Planned	3,269	2,977	292	
Total	14,424	11,404	3,780	240

Figure 11



805 Lea Rendering



900 Broadway Rendering



Muse Rendering

Demographic Profile and Trends

The Nashville Downtown Partnership's 2019 Downtown Residential Survey had a 11.6% response rate. In May 2019, approximately 5,800 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 24% moved from outside the county. Thirty percent moved from Nashville and nine percent moved from another location in downtown.

Household Status

Of the respondents, 42% are single, 42% are married, 11% are separated or divorced, and 5% have a domestic partner (fig.12).

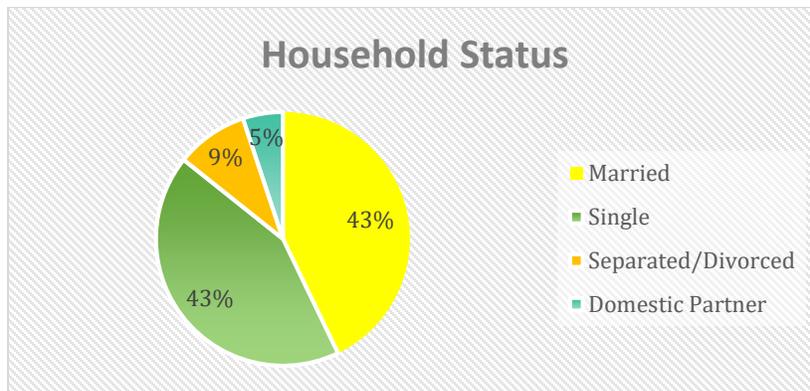


Figure 12 – Household Status

Age and Gender

Respondents exhibit a broad cross section of age groups. Thirty-nine percent of downtown residents are Generation Y (age 23 - 37). Baby Boomers (age 55-73) and Gen Xers (age 39-54) both represent 30% of the downtown population at 30% each. 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 43% male and 57% 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.

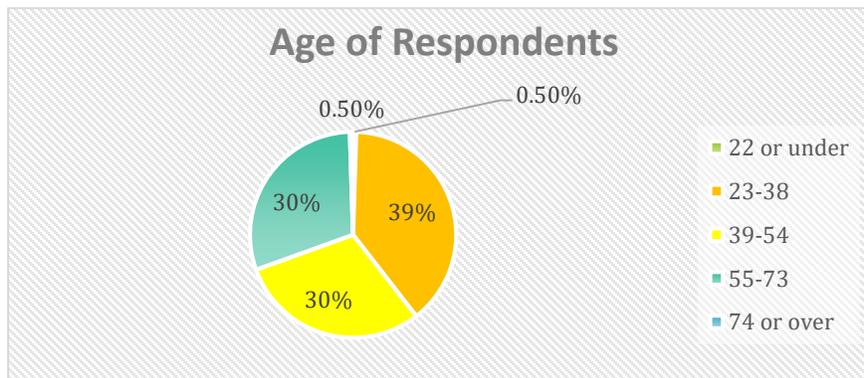


Figure 13 – Age of Respondents

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).

Annual Household Salary Range

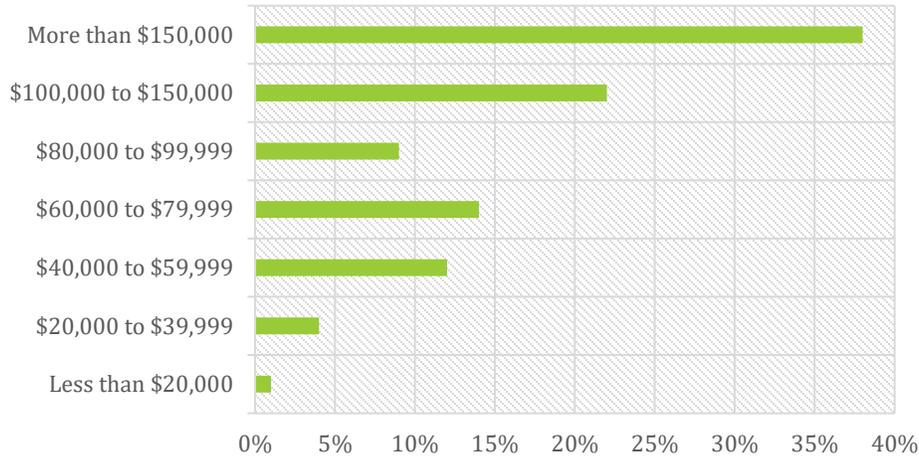


Figure 14 – Annual Household Salary Range

Level of Education Completed

Sixty percent of downtown residents have a college education and an additional 29% hold postgraduate degrees (fig.15).

Figure 15 – Level of Education Completed Comparisons

	2 or 4 Year Degree	Graduate or Professional Degree
Downtown	60%	29%
Nashville	32.2%	16.4%
Nashville MSA	30.4%	12.8%

Source: Downtown Residential Survey 2019, Nashville Area Chamber of Commerce, January 2020

Work Location

Forty-seven percent responded that their office was located downtown. This number is up six points from last year (41%). Fifty-three percent of downtown residents work outside of downtown. Due to the fluctuation of this number, a three-year trailing average results in 55% of residents working outside of downtown, and 45% working downtown.

Quality of Life Factors

When residents were asked what four elements most positively influenced their continued downtown living, the top response was walkability (57%), central location/convenience (38%), urban experience (34%) followed by being close to work (30%), and restaurant selection (28%).

Conclusion

Nashville's economy continues to be strong, and all signs point to sustained demand for both rental and purchase opportunities in downtown Nashville and the region. Low unemployment, job growth, company relocations, low tax base, and growing cultural and tech scenes all contribute to the continued economic vibrancy of the city. A market analysis conducted by Marcus & Millichap, a North American real estate and brokerage firm, predicts that Nashville is among the largest cities in the nation which will continue to see investment and rent growth in 2020, suggesting "rental leasing will be robust."¹³ According to Census Data analyzed by the Research Center of the Nashville Area Chamber of Commerce, there is a net gain on average of 58 people moving to the region every day.

Downtown Nashville's residential population has grown from 4,986 residents in 2009 to 13,000 in 2019, a 160% growth over ten years. Even with this substantial growth, downtown Nashville still lags peer cities in residents. 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. (fig. 16)

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 2021, and 21,000 by 2024.

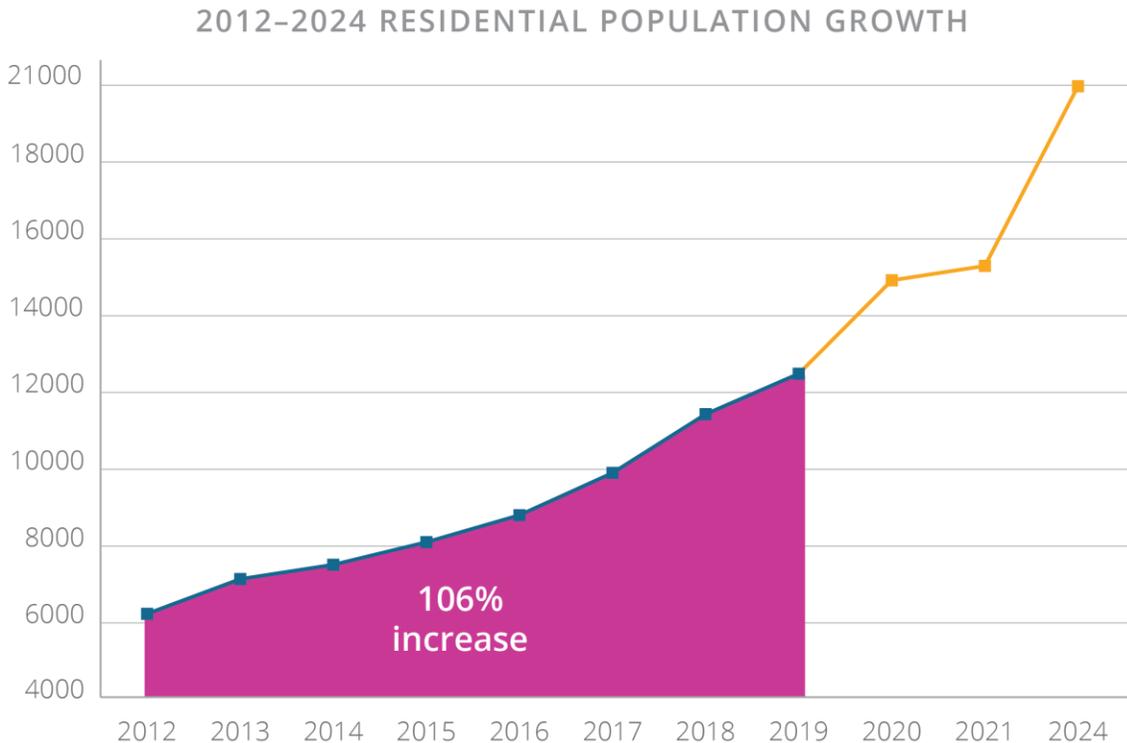


Figure 16 – 2012 – 2024 residential population growth

¹³ <https://fox17.com/news/local/market-analysis-finds-nashville-will-continue-to-see-investment-rent-rise-in-2020>
 Nashville Area Chamber of Commerce, Research Center, January 2020.