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RESIDENTIAL REPORT: July 2010
Downtown Nashville

Downtown Housing Market: Exceeding Expectations

The continuing effects of the downturn in the national economy, especially in the housing and financial markets, coupled with a natural disaster – a historic flood in May – have presented numerous challenges in downtown Nashville and throughout the region. However, the downtown residential market has proven to be resilient, yielding consecutive increased sales month-to-month over the first two quarters of 2010.

Nashville Housing Market: Although much of the nation continues to face depressed economic climates and declining housing markets, Nashville's overall housing recovery has been relatively strong. According to home sales data released in July by the Greater Nashville Association of Realtors, the local housing market has not only stabilized, but has shown increases in home sales for nine consecutive months. This is encouraging news considering that prior to the last nine months the local market had not experienced positive home sales growth in 35 months, or since October 2006. [1]

While tools such as the homebuyer tax credit and low interest rates have served as a stimulus to reverse the downward trend of home sales, the strong local economy should also be acknowledged as an underlying force in this recovery. Nashville's economic strength was recognized by POLICOM Corporation in its annual economic strength ranking for 2010. Nashville ranked #13 out of 366 metropolitan areas for its "long-term tendency to consistently grow in both size and quality." Because this study measures twenty-three different economic factors over a twenty-year period to create the rankings, the end choices reflect areas that have the best economic foundations, and not the latest trendy hot spots or boom towns.[2]

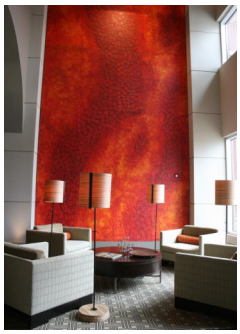
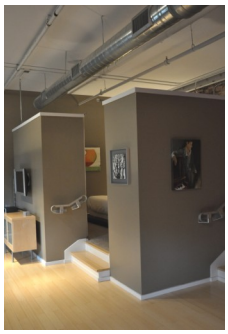
Forbes.com also ranked Nashville 19th out of 100 metropolitan areas as one of "America's Fastest Recovering Cities" based on diversified industries and relatively stable housing that give residents a measure of economic security.[3]

Nashville continues to receive top rankings for its residential environment. Two studies revealed that Nashville was in America's Top Places to Live in 2010—RelocateAmerica.com ranked Nashville in the top 100[4], and *Men's Journal* magazine named it one of the top 25 cities.[5]

Downtown Strengths: Residential sales in downtown Nashville have shown signs of recovery in 2010. Fifty units were sold in January 2010 compared with five units in January 2009, a 900% increase. The first quarter this year yielded 77 closings compared with 19 in 2009, a 305% increase. Total closings in 2009 were 166 compared to 131 closings in just the first six months of this year.[6]

Economic growth in downtown retail, a strong indicator of the economic vitality of an area, continues into 2010. Twenty-two local, regional and national retailers have announced or opened in the first two quarters of this year. Seventeen of the retailers are local, and several already have a strong presence in the Nashville area. The fact that retailers are opening multiple locations in the Nashville market emphasizes their confidence in the local economy.

Another indicator of the state of the downtown market is the cost and scope of projects underway in 2010. Construction has or will be commencing this year on at least nine public and private development projects with a total investment of over $680 million.


[1] Greater Nashville Association of Realtors, *Nine's Fine: June Home Sales Up,* June 2010, http://www.gnar.org.
[2] POLICOM Corporation, *2010 Economic Strength Ranking Press Release*, May 13, 2010.
[3] Forbes.com, *America's Fastest Recovering Cities*, November 2009.
[4] RelocateAmerica.com, *"America's Top 100 Places to Live in 2010,"* April 20, 2010.
[5] Men's Journal, *"Best Places to Live in 2010,"* March 18, 2010.
[6] RealTracs Property Search, http://www.realtracs.net.

Downtown Residential Overview

Downtown Nashville was void of residential zoning until the mid 1990's, causing it to be decades behind other cities in downtown residential development as can be seen in downtown resident and housing units numbers (Figures 1 and 2). Currently, peer cities such as St. Louis and Charlotte have over twice the number of downtown residents, and Memphis has over four times the number.

Because downtown Nashville was lagging behind other cities in residential development, once the tools and momentum were in place to move forward, many developers planned and executed projects that delivered a significant amount of product around the same time period. This resulted in the market being flooded with units at one time, causing it to appear overbuilt, when in fact it was only a timing issue. Growth in the number of available units jumped 39% in 2008, with 905 units coming on the market at once. (Figure 3). Unit growth in 2010 will be 3% with one rental project delivery. There are no units scheduled for delivery in 2011.

Over the past decade, downtown residential development has been a product of the demand for urban living options. Developers and buyers of downtown housing units had access to financing until the national economy went into recession mode, producing job losses, tightening of credit markets, foreclosures, and inevitably the decline of projected residential unit growth rates of cities. Nashville's peer cities were not immune to the slowing housing sales over the past year few years, and population estimates for comparable cities had to be scaled back across the board. Developers put projects on hold once the recession began in 2008 due to lack of available financing and a deceleration in the sales sector. As a result, cities did not deliver previously projected housing units in 2010 or 2011. There will only be a 3% increase in housing units in Memphis and Nashville from 2010 to 2011, and even less for St. Louis (1.6%) and Charlotte (.6%).

Compared with other cities, Nashville holds the lead in rental occupancy rates. (Figure 4) A survey of property mangers was conducted in July 2010. The survey evaluated a total of 975 units in 15 properties. One rental property (74 units) that was damaged in the May flood was excluded from the survey. This rate also does not include for-sale properties that have been rented out by their owners.

Figure 1—Projections-Downtown Residents

	2009	2010	2011
Nashville	4,986	5,155	5,536
Memphis	22,000	23,013	23,450
St. Louis	11,800	12,500	12,700
Charlotte	14,686	15,377	15,918

Figure 2—Projections - Downtown Housing Units

	2009	2010	2011
Nashville	3,445	3,713	3,822
Memphis	12,452	13,385	13,795
St. Louis	7,816	8,149	8,279
Charlotte	10,124	10,734	10,800

*Information provided by: Charlotte City Center, Downtown St. Louis Partnership, Memphis City Center Commission, (July, 2010)

Figure 3—Downtown Nashville Housing Growth

Year	Units	Unit Growth	%
2006	1,802	539	30%
2007	2,341	8	0.30%
2008	2,349	905	39%
2009	3,254	459	14%
2010	3,713	109	3%
Estimated 2011	3,822	0	0%

Figure 4—Rental Occupancy Rate

	2010
Nashville	95%
Memphis	92%
St. Louis	89%
Charlotte	85%

Condominium unit at Church Street Lofts

Clubroom at Viridian Condominiums, 31st floor

Downtown Housing Categories

There are currently 3,713 residential units of which 28 percent are rental, 66 percent are condo, and 6 percent are single family units. At present, the estimated downtown residential population is 5,048. Over the last decade, downtown has seen a 158% population growth. (Figure 5) This is over twelve times the growth in Nashville, over fourteen times the growth in the Nashville MSA and over thirteen times the growth in the State of Tennessee over the same time period.

Population Growth	2000	2010	% Growth
Downtown	1,960	5,048	158%
Nashville	569,891	642,166	12.6%
Nashville MSA	1,453,577	1,606,719	11%
Tennessee	5,689,283	6,353,052	11.6%

Source: Nashville Downtown Partnership, Nashville Area Chamber of Commerce, 2010 Figure 5

Rental Market

There are currently 1,049 rental units within 16 properties in downtown Nashville. Rental units make up 28% of downtown housing. Since the beginning of 2000, 275 new rental units have been added to the downtown inventory, and another 109 units will be added by the end of 2010. This most recent rental project to deliver downtown was The Stahlman in 2006 with 142 units. Another 272-unit rental project is in the pipeline for future development, although it is uncertain when this project will be delivered. Rental units make up only 10% of total units delivered to the downtown market since 2000.

The boom in the housing market from 2000-2006 as well as the availability of financing for both developers and buyers and the demand for urban living options in a downtown residential market in its infancy provided great opportunity for developers to build for-sale housing. During these years, developers were bypassing the rental market to fill the market demand for purchase property in downtown.

Downtown apartments have had some of the highest occupancy rental rates in the Greater Nashville area in recent years. Occupancy rates have remained at 92 percent or above even through the recession.(Figure 6) The Downtown Core and The Gulch have the strongest occupancy rates at 95% and 97% respectively. Rutledge Hill has an occupancy rate of 92%. One important factor to note is that Market Street Apartments – located in the downtown SoBro neighborhood- is not included in the occupancy survey due to damage sustained during the flood in May 2010.

Rental Occupancy Rate– Year	Downtown	Greater Nashville
2007	95%	94.84%
2008	93%	90.6%
2009	92%	90.2%
2010	95%	*91.57%

*Average of 1Q and 2Q percentages Figure 6

Source: Greater Nashville Apartment Association, NDP Property Manager Survey, 2010

Rental properties downtown. Left to right: Mercury View Lofts, The Cumberland, The Stahlman.

Demand is strong for rental property in downtown Nashville. In addition to the high occupancy rate, the capped percentages of investor units in various condominium projects are quickly rented out, and some have waiting lists. Many of these properties have exceeded their cap allowances (Figure 7), permitting "hardship leases." This common practice is a clause written into Master Deeds allowing Homeowner Association Boards some flexibility for residents in difficult situations to lease their units. This measure can ultimately be beneficial to both the residents and Association by potentially avoiding the possibility of foreclosures. An estimated additional 380+ units (a conservative number) can be classified as rental property at this time. The percentage of purchase property (condo and single family) in downtown had grown to 72% of total downtown housing, and part of the increase in demand for rentals is the market naturally balancing itself out.

Property	% Capped
Art Avenue Lofts	30%
Kress Lofts	30%
Church Street Lofts	30%
The Exchange	30%
Viridian	25%
Encore	25%
Velocity	20%
ICON	20%
Harrison Square I & II	20%
District Lofts	15%
Terrazzo	10%

Source: Survey of Property Managers, 2010 Figure 7

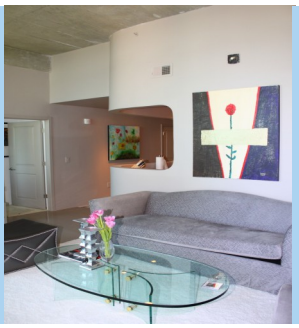
Another reason for the strength and growth of the rental market is a culmination of decreasing home sales due to market conditions and increasing demand for urban housing. The economic downturn, tight credit markets and emergence of the first wave of Generation Y into the housing market have all set the stage for a higher demand for rental property. Homeownership has been more difficult to accomplish because of instability in the financial market and a decrease in credit and financing options. According to Robert Charles Lesser & Co. consumer research, 41% of Generation Y plan to rent for at least three years upon entering the housing market[7], and 77% of them plan to live in an urban core. By 2012, they will make up one in five households in the U.S. overall.[8]

Rental Market	
SIZE	425 - 4,500 SF
MARKET VALUE	
Studio	$540 - $1085
1 bedroom	$600 - $1,700
2 bedroom	$790 - $2,500
3 bedroom	$1,400 - $4,000
SIZE	1,129 - 1,664 SF
Live/Work Units	$1,694 - $2,496

Source: Survey of Property Managers, 2010 Figure 8

A comparison with the 2009 cost ranges for rental properties shows changes in the studio and two-bedroom categories. In 2009, the price range for a studio apartment was $650 - $985. The low-end of studio prices dropped in 2010 to $540, a decrease of 17%. The high-end of this category increased from $985 (2009) to $1,085, an increase of 10%. Two-bedroom rental prices also changed. The low-end increased 2% from $775 (2009) to $790, and the high-end decreased 12% from $2,850 (2009) to $2,500. All other rental range categories stayed consistent with 2009 figures. (Figure 8)

A publication titled *Housing in America: The Next Decade* (Urban Land Institute) suggests that emerging trends and consumer behavior will be major drivers of new housing opportunities, resulting in a monumentally different residential market than the one that existed before the recession. The rising numbers of foreclosures and mortgages that hold loan amounts higher than the current value of the home are causing disillusionment over homeownership. An increasing number of consumers choose to walk away from home mortgages, which indicates a fundamental change in the long-held assumption that homeownership is the ultimate American Dream. A key conclusion from the study is that homeownership will decline from the current rate of 67% to 62% over the next decade.[9] Those entering the housing market in the future are more likely to rent for a longer period of time, and purchase housing merely for a place to dwell rather than for investment purposes.[10] This bodes well for continued high rental occupancy rates and encourages additional development of rental product in downtown Nashville.

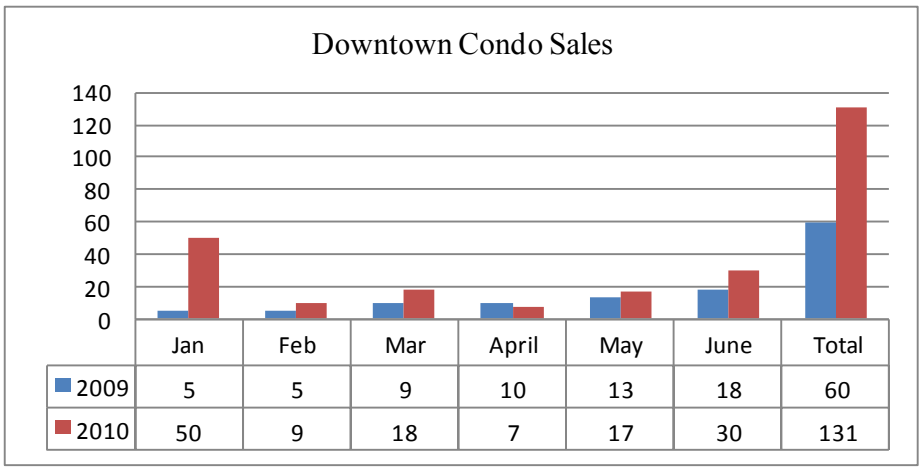

Purchase properties downtown. Left to right: District Lofts, Viridian, ICON

[7] Robert Charles Lesser & Co., *Generation Y in the Marketplace*, June 17, 2009, 6
[8] Robert Charles Lesser & Co., *The Future of Real Estate: Economic and Demographic Influences,* October 2008, 37
[9] Urban Land Institute, *Housing in America: The Next Decade*, March 2010, 20
[10] *Housing in America*, 15

Condominium Market

There are currently 2,460 condo units within 41 properties in downtown Nashville. Condominium units make up 66% of downtown housing, and no other condominium projects are in the pipeline at this time. Approximately 29% of the purchase units are located in the downtown core, 30% in The Gulch, 20% in North Capitol, and 18% in SoBro. Seventy-two units (3% of the purchase housing units) are located within three properties at Rolling Mill Hill. These units are in receivership awaiting a buyer, and not available to purchase at this time.

Sales in the downtown condo market in 2010 are higher than the 2009 numbers. Fifty units sold in January 2010 compared to 5 in January 2009. The increase in sales from 2009 continues through the first six months of 2010, and there is a 118% increase in sales for the first six months of 2010 compared with 2009. (Figure 9)

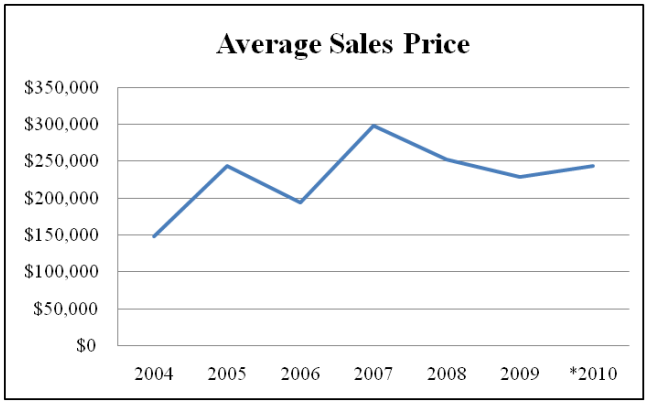


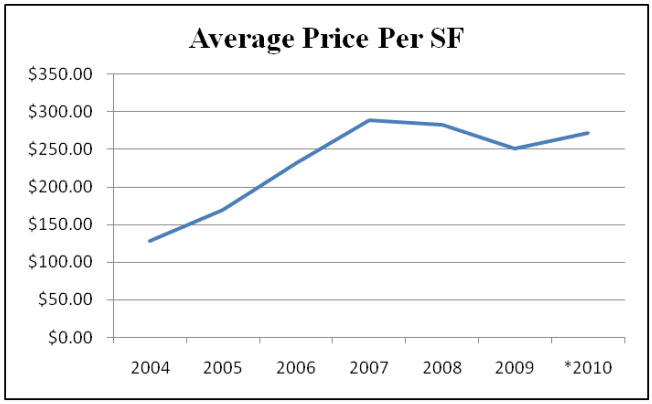
	Jan	Feb	Mar	April	May	June	Total
2009	5	5	9	10	13	18	60
2010	50	9	18	7	17	30	131

Figure 9

The homebuyer tax credit has acted as a stimulus for condo sales in the downtown area, although to what extent is unknown. In July 2010, the tax credit deadline was extended from June 30 until September 30, 2010.[11] If buyers entered into a binding contract to purchase a primary residence by April 30, closing may be extended by three months. It is expected that the housing market will drop slightly in the coming months after the tax credit "high."

As the inventory of available downtown for-sale property decreases, demand for remaining units will increase. Within the downtown boundaries, 348 units are currently available for purchase. This number does not include resales. If condos continue to sell at the average rate seen in the first six months of 2010, or approximately 22 sales per month, then the downtown inventory would be depleted in 16 months. Taking another approach and using the average rate of sales in 2009, or approximately 14 closings per month, would deplete the inventory in 25 months. Either way, there will be no new product in two years or less, and no new for-sale projects are in the pipeline. On average, it takes a minimum of 36 months for a project to go from planning and schematic stages to completion and delivery. If a developer began planning a condo project in 2010, units would most likely not be delivered to the market until 2013.





The average sales price and average price per square foot of downtown housing are both market and product driven. Since 2004 both categories have increased and decreased depending on what type of product has entered the market and what the buyer is willing to pay for that product. To some extent, the numbers mirror the nation's economic standing overall. Although 2010 numbers only reflect the first six months, it appears both categories are on the rise, signaling a leveling out and possible recovery. (Figure 10)

[11] http://www.irs.gov, July 2010

Single Family Market

Single-family homes make up 6% of downtown housing inventory. Of the 204 total homes in downtown, 202 of them are in the Hope Gardens neighborhood. Since August 2009, there have been two residential permits issued for Hope Gardens, but the sites are still undeveloped.[12] The other two single family units are located in the downtown core.

Downtown Geographic Boundaries

The Nashville Downtown Partnership's definition of downtown includes properties within the boundaries of the river on the east, the interstate 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 Capitol, Hope Gardens, Rutledge Hill, Rolling Mill Hill, and SoBro. Germantown is adjacent to downtown, but not included in the residential counts. (Figure 11)

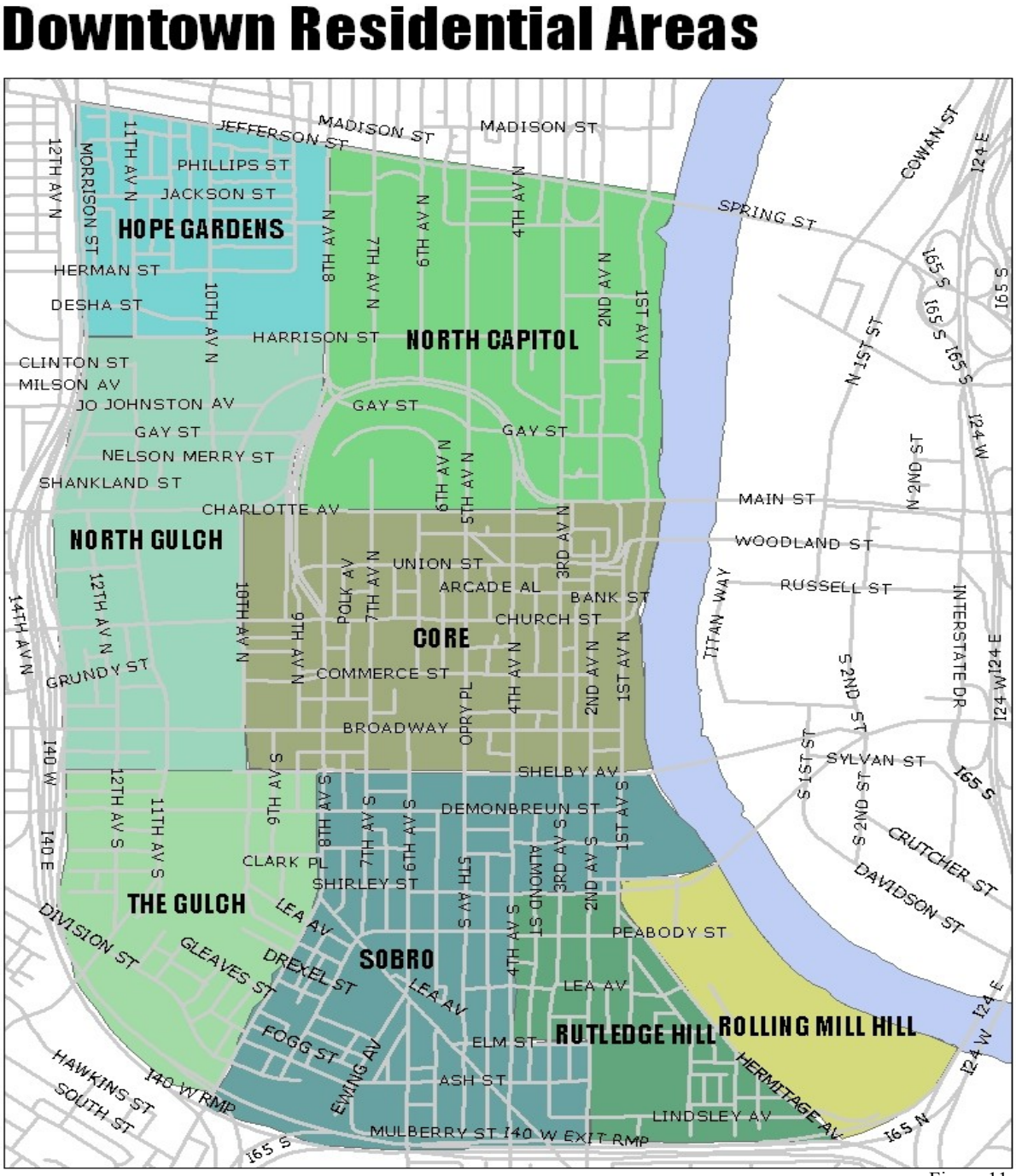


Figure 11

[12]Davidson County Metropolitan Government, Metropolitan Planning Organization, July 2010

Demographic Profile and Trends

The Nashville Downtown Partnership had a 17% response rate to its 2010 Downtown Residential Survey. In June, 2,200 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 west.

The downtown area continues to attract professional, highly-educated residents from across all age groups, enhancing Nashville's economic competitiveness. Fifty-four percent of downtown residents moved from outside the city and 26% percent moved from out-of-state. In addition, 88% of downtown residents hold a college or postgraduate degree.

Household Status

Of the respondents, 49% are single, 34% are married, 10% are separated or divorced, and 7% have a domestic partner. All categories have shown approximately the same percentages over the past three years. (Figure 12) The high number of singles corresponds with the Tennessee data from the 2000 U.S. Census that shows a significant increase in the live-alone population (26%) and two-person households (32%). The Census also indicated that from 1990 to 2000, average household size dropped from 2.46 to 2.40.

Age and Gender

Respondents reflected the broad cross section of age groups who currently live in downtown. Over half of the residents living downtown are ages 45 and under (61%). There are two distinct age distribution shifts from 2009 responses. Generation Y (ages 29 and under) dropped since last year –from 31% to 25%. The Baby Boomers (46-63) group increased from 27% to 33% of the downtown population. (Figure 13)

The downtown male population has regained some percentage points this year, increasing to 49% from 45% in 2009. The female population is still in the lead at 51%, dropping from 55% in 2009. The decrease in the female population is not necessarily statistically significant. Male and female percentages continue to vary consistently over the past five years. (Figure 14)

Of the downtown residents 29 and under, 57% are female and 43% male, while the 30-45 category is 51% female and 49% male. Males and females each comprise 50% of the 46-63 age category. Adults 62 and above are represented by 32% female and 68% male.

Household Income

Approximately 50% of residents earn between $60,000 and $150,0000 per year while 30% earn between $20,000 and $60,000 per year. Eighteen percent of residents earn more than $150,000 and 2% earn less than $20,000 annually. (Figure 15)

Residential Households

The average number of persons per household is 1.5. Six percent of households reported having children, compared to 7% in 2009.

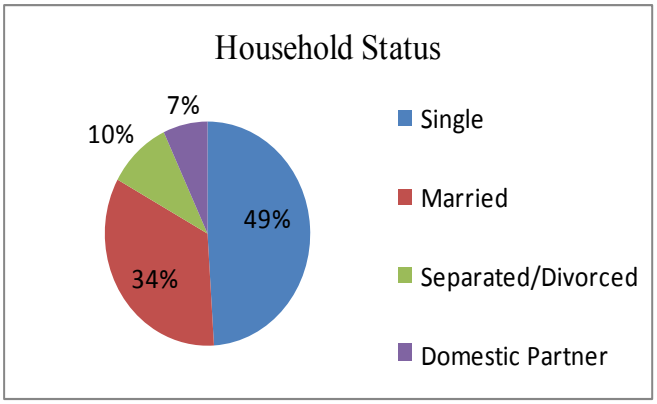
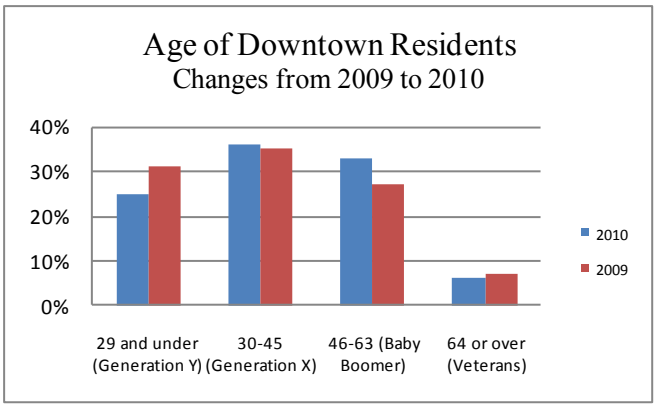


Figure 12



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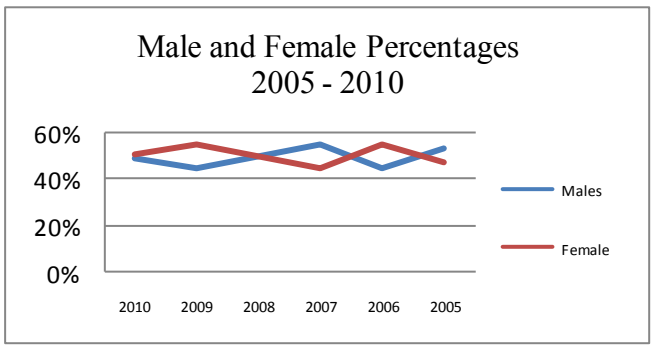


Figure 14

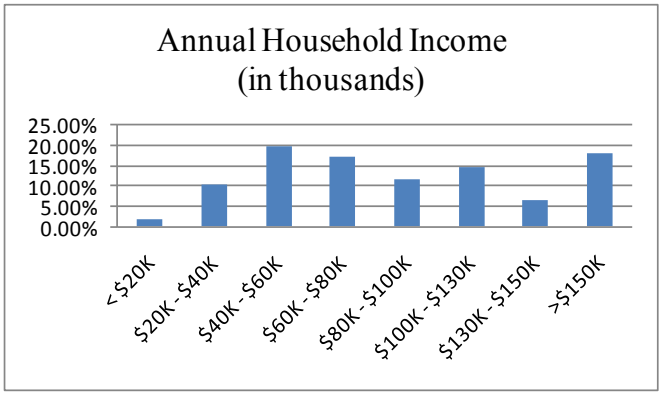


Figure 15

Level of Education Completed

Sixty-three percent of downtown residents have a college education and an additional 25% hold postgraduate degrees. (Figure 16)

Downtown has a highly educated workforce in comparison with Nashville and the Nashville MSA as a whole. (Figure 17)

Where Residents Moved From

Thirty-six percent of residents moved downtown from somewhere in Davidson County. Twenty-five percent moved from the MSA, 26% moved from another state, 3% moved from somewhere in Tennessee (outside of MSA), and 10% moved from another location in downtown.

Work Location

Sixty-two percent of residents responded that their office is located outside of downtown. This percentage has increased over the past three years (52% in 2008, 54% in 2009). While being close to work is ranked #4 (#3 in 2009, #2 in 2008) as a positive influence for residents to live downtown, the trend is changing. Perhaps those that chose to live downtown to be close to work are choosing to stay although their place of employment has shifted. The increase in the percentage of residents working outside of downtown ties in with the decrease in the responses that being close to work is a top influence for choosing to live downtown. (Figure 18)

Residential Ownership

According to the survey results, 75% residents responded that they own their homes. Sixty-six percent of the downtown housing is considered purchase, 28% is rental and 6% is single-family. As more purchase opportunities have come on the market, ownership has trended upward while rental occupants have trended downward in the same manner. (Figure 19) With only two future residential developments in the pipeline for downtown—109 rental units to be delivered in 2011, and 272 rental units in the planning phases— the estimated percentages over the next few years will be 35% rental, 60% purchase and 5% single family.

Quality of Life Factors

When residents were asked what four elements most positively influence their **continued** downtown living, the top responses were the *urban experience* (54%), *central location/convenience* (43%), *nightlife* (35%), and *being close to work* (31%) and *arts and cultural events* (31%) tied for fourth place. The urban experience has been the #1 element for the past five years. Being close to work and nightlife have continued to remain in the top four. (Figure 20)

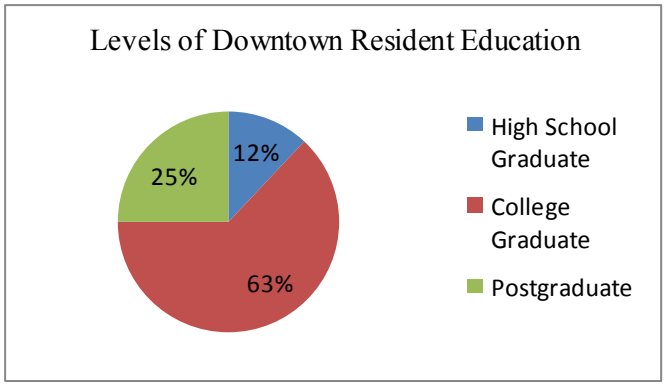
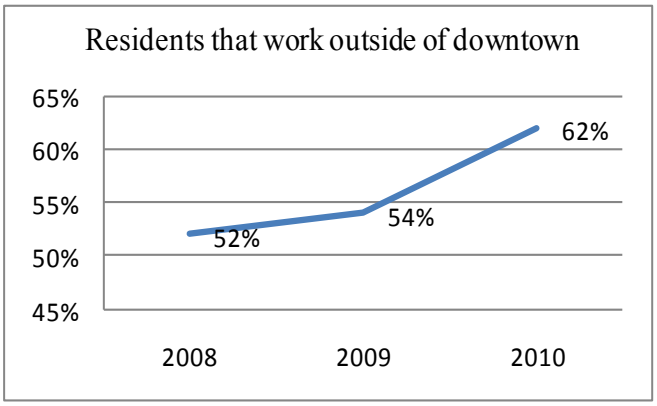


Figure 16

	2 or 4 Year Degree	Graduate or Professional Degree
Downtown	63%	25%
Nashville	27%	11.7%
Nashville MSA	25%	9.4%

Source: 2010 Residential Survey, American Community Survey 2006-2008 average

Figure 17



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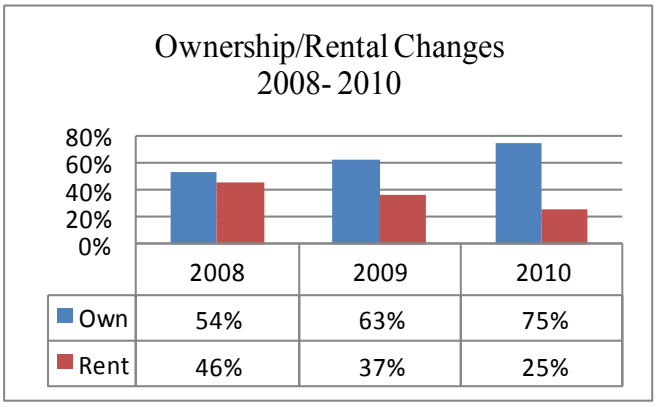


Figure 19

Elements that influence continued living downtown	
Urban Experience (#1)	54%
Central Location/ Convenience (#2)	43%
Nightlife (#3)	35%
Close to Work (#4)	31%
Arts & Cultural Events (#5)	31%

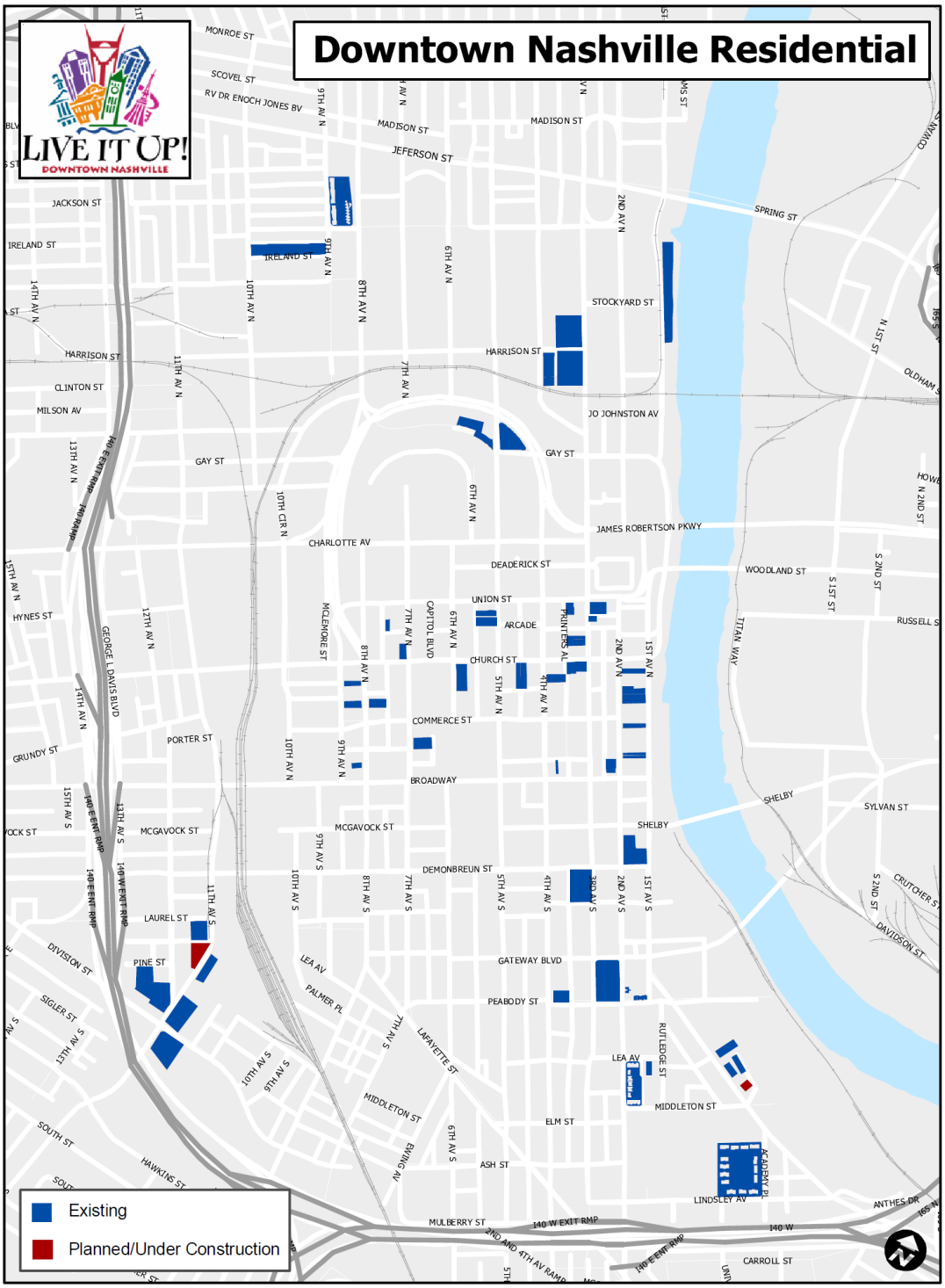
Figure 20

Study Area Housing Market

The *Greater Downtown* has 3,713 existing residential units, and an additional 381 units are either planned or under construction.

		# Units	Rental	Condo/SF	Property Address	Rental/Condo
	Existing Apartments/Condos/Single Family					
CBD	112 Second Avenue Lofts	4	4	-	112 Second Avenue	Rental
(Downtown Core)	114 2nd Avenue	1	-	1	114 2nd Avenue	Condo
	115 8th Avenue North	1	-	1	115 8th Avenue North	Condo
	123 2nd Avenue	1	-	1	123 2nd Avenue	Condo
	138 2nd Avenue	1	-	1	138 2nd Avenue	Condo
	219 2nd Avenue	1	-	1	219 2nd Avenue	Condo
	320 Broadway	4	-	4	320 Broadway	Condo
	420 Broadway	1	-	1	420 Broadway	Condo
	425 Broadway	2	-	2	425 Broadway	Condo
	Ambrose Lofts	21	-	21	162 4th Avenue North	Condo
	Art Avenue Lofts	32	-	32	231 5th Avenue North	Condo
	Bennie Dillion Original Lofts	86	-	86	700 Church Street	Condo
	Berger Building	3	3	-	162 8th Avenue North	Rental
	Capitol Towers	205	100	105	510 Gay Street, Suite 108	Rental/Condo
	The Cumberland/Cumberland Penthouses	289	256	33	555 Church Street	Rental/Condo
	Church Street Lofts	17	-	17	301 Church Street	Condo
	James Robertson Apartments	123	123	-	118 Seventh Avenue North	Rental
	The Kress Lofts	29	-	29	237 5th Avenue North	Condo
	Lofts above ICHIBAN	8	8	-	107 Second Avenue North	Rental
	Lofts at 160	32	32	-	160 2nd Avenue North	Rental
	Lofts at Noel Court	4	-	4	214 3rd Avenue North	Condo
	Lofts at the Exchange	47	-	47	309 Church Street	Condo
	Market Street Apartments	74	74	-	150 Second Avenue South	Rental
	Metro Manor	172	172	-	500 Fifth Avenue North	Rental
	Phoenix Lofts	6	-	6	207 3rd Avenue North	Condo
	Printers Alley Condos	4	-	4	211 Printers Alley	Condo
	Private Residence	1		1	226 3rd Avenue North	Single Family
	The Quarters	32	-	32	178 2nd Avenue North	Condo
	Rhea Building Lofts	11	11	-	166 2nd Avenue North	Rental
	Riverfront Studios - lofts above	2	2	-	210 Broadway	Rental
	Smith House	1	-	1	167 8th Avenue North	Single Family
	Stahlman Building	142	142	-	222 3rd Avenue	Rental
	Residences @ 315 Union	18	18	-	315 Union Street	Rental
	Viridian	305	-	305	415 Church Street	Condo
	Watauga House	25	-	25	222 Polk Ave.	Condo
	Westview	10	-	10	179 8th Avenue North	Condo
		1,715	**945**	**770**		
North	District Lofts	69	-	69	Corner of Harrison & 3rd Ave	Condo
	Harrison Square	15	-	15	Harrison & 3rd Ave. N.	Condo
	Harrison Square II	48	-	48	Harrison & 3rd Ave. N.	Condo
	Hope Gardens Residences	202	-	202	Hope Gardens	Single Family
	Ireland28	28	-	28	900 Block of Ireland Street	Condo
	Riverfront Condos	145	-	145	726 1st Ave. N.	Condo
	Row 8.9n	29	-	29	800 Block 8th Ave. N.	Condo
		536	**-**	**536**		
Rolling Mill Hill	The Art Deco	24	-	24	RMH	Condo
	The Metro	36	-	36	RMH	Condo
	The Victorian	12	-	12	RMH	Condo
		72		**72**		
SoBro	Academy Square Condominiums	50	-	50	100-149 Academy Square	Condo
	Cardwell Place Condominiums	4	-	4	Lea Avenue & Rutledge	Condo
	Encore	333	-	333	301 Demonbreun Street	Condo
	Howell Park	40	-	40	401-479 2nd Ave. S.	Condo
	Peabody Quarters	24	24	-	310 - 312 Peabody Street	Rental
	Rutledge House	41	-	41	656 Second Ave. S.	Condo
	Rutledge Terrace	18	-	18	430 Second Ave. S.	Condo
		510	**24**	**486**		
The Gulch	ICON	418	-	418	600 12th Avenue South	Condo
	Mercury View Lofts	32	32	-	1209 Pine Street	Rental
	Laurel House Apartments	48	48	-	1101 Laurel Street	Rental
	Terrazzo	117	-	117	700 12th Avenue South	Condo
	Velocity	265	-	265	300 11th Avenue South	Condo
		880	**80**	**800**		
	TOTAL EXISTING	**3,713**	**1,049**	**2,664**		

	# Units	Rental	Condo	Area	Propety Address	Rental/Condo
Under Construction						
Nance Place Apartments	109	109		RMH	Lea & Hermitage	Rental
	109	**109**				
TOTALUNDER CONSTRUCTION	**109**	**109**				
Planned						
Pine Street Flats	272	272		The Gulch	11th Avenue South	Rental
	272	**272**				
TOTAL UNDER CONSTRUCTION/PLANNED	**381**	**381**				



Assessment of the Downtown Market

Over the past decade downtown Nashville has had over $2.6 billion of investment in over 100 public and private downtown projects. Approximately $556 million has been allocated to residential development involving new construction and major renovations or adaptive reuse of historic buildings. Over 21% of the total downtown investment over the last decade has been for residential development.

The abundance of residential development over the past five years has been a product of demand for urban living options. The economic downturn including the housing market recession coincided with the large number of residential units delivered to the downtown market beginning in 2008 and continuing into 2009. (Figure 21) Developers had to persevere through this time period as credit markets tightened, buyers were unable to close on their properties, and new sales slowed.

Currently, residential for-sale projects delivered since 2008 are 74% contracted or closed. This number includes 72 units at Rolling Mill Hill that are not on the market at this time.

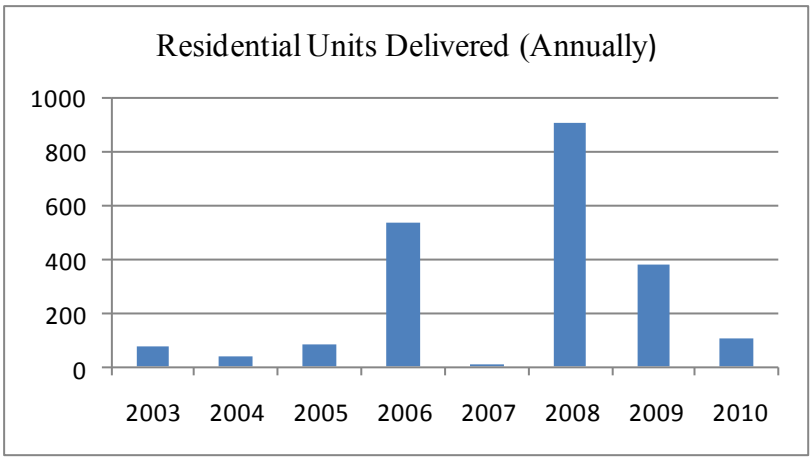


Figure 21

Downtown condo sales from late 2008 through 2010 show a slow but steady increase, signalling that the market is beginning to rebound. Sales are at the same level as they were during the first and second quarter of 2006, before the sales spike late that year. There were 539 for-sale units delivered to the market in 2006 including Viridian Condominiums (305 units), which was a sold–out project. The spike was likely caused from the Viridian closings that year. (Figure 22)

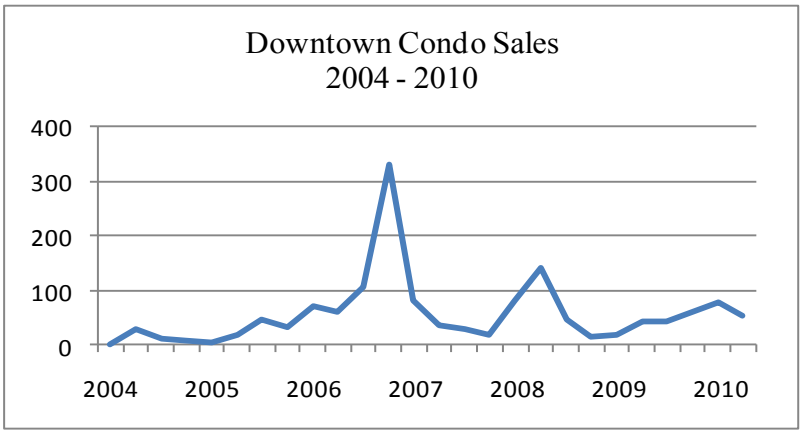


Figure 22

The annual LIVE IT UP! Downtown Home Tour and City Lights Tour created and implemented by the Nashville Downtown Partnership to showcase and promote urban living had renewed vitality in 2010. Over 1,250 people attended two downtown tours in the month of April, and the economic impact has been over $800,000 in sales and leases. Over the past seven years of the event, there have been over 8,000 attendees and the economic impact realized has been over $46 million in sales and leases.

The downtown market overall is stable, showing sales pick up in 2009, and month-to-month increasing sales during for the first six months of 2010. With the rising demand for urban living as a nationwide phenomenon and the decrease of residential units available to buyers over the next 24 months, it is expected that housing prices and demand will shift upward once the inventory is depleted.

Demographic Trends Affecting Future Downtown Housing Market

According to Brookings Institution, the United States population is expected to grow by 120 million by the year 2050. By 2030, it is estimated that the U.S. will double its built environment – homes, apartment buildings, commercial, office and retail. Changing demographics and lifestyle will contribute immensely to where and how we grow and market forces are going to advance cities and urban places to a higher level of attracting and retaining residents and businesses than any time since the 1950's.[13]

The growth and decline of cities is dependent on demographics. According to the study *Housing in America: The Next Decade,* released in 2010 by the Urban Land Institute, four major demographic waves will occur in the U.S. over the next decade: 1) aging baby boomers (mid-60's), 2) younger baby boomers (late 40's and early 50's), 3) Generation Y (children of baby boomers), and 4) immigrants, their children and grandchildren. All four of these groups will have a major impact on urban living. If current trends continue, the population of the United States will rise from 308 million today to 438 million in 2050, a 42% increase.[14]

Older baby boomers (approximately 78 million) will turn 65 in 2011 approaching retirement. Feeling healthier and more energetic than their parents did at the same age, this group is entering an "urban phase." A 2009 survey conducted by Robert Charles Lesser & Co., a real estate advisory firm, revealed that 75% of retiring boomers said they want to live in urban settings, either central cities or walkable town centers.

Younger baby boomers will be facing flat incomes, lost equity in their suburban homes, and a declining group of move-up buyers. This group is entering the prime stage for buying a second home, but most will not be able to afford one due to lack of equity on their first home and tight credit markets. The second home market will only appeal to the wealthiest of this group. Like their older counterparts, this group is interested in densely developed communities.[15]

[13] Brookings Institution, *A Two Percent Solution for Downtown Rochester*, February 2008
[14] Urban Land Institute, *Housing in America: The Next Decade*, March 2010, 11-12
[15] Urban Land Institute, *Housing in America: The Next Decade*, March 2010, 12-13

Generation Y accounts for some 80 million, and approximately 77% of them say they want to live in an urban core. They place a high value on community, dense, walkable environments and green development.[16] For this generation, affordability will be an issue since they will likely be entering the housing market with lower real incomes than those who purchased housing at the same age a decade before. This generation will live more modestly than their parents with smaller budgets for housing.[17] Of those moving to cities, most are choosing southern cities. This is most likely due to affordability issues, and bodes well for urban cores in southern cities.[18]

The 2010 Residential Survey results (Figure 13) shows Generation Y in downtown Nashville decreasing 19% from 2009. Due to economic conditions, this is not a normal year and doesn't represent long-term trends. Generation Y is set to enter urban environments now with 41% planning to rent for at least three years. The current decrease in this generation's downtown numbers could very well be due to economics—many may have moved back in with their parents. The recession has altered this generation's interest in homeownership, and they will gravitate toward renting longer, either by necessity or choice.

Immigrants account for 13% of the nation's population with 40 million. Over the past two decades, this group has moved from central cities, and are in favor of larger homes where they can have multigenerational families living under one roof. A characteristic of this population is that they generally cluster together, and want a greater sense of community.

All four of these demographic groups show a desire to live in more pedestrian-friendly, mixed-use environments. The four factors driving urbanization according to the Brookings study include the growth of single and two-person households without children (among baby boomers and Gen Y), a freeze in baby boomers moving to suburbs, the tendency of Gen Y to rent rather than own, and public policies encouraging compact development.[19]

[16] Robert Charles Lesser & Co., *The Future of Real Estate: Economic and Demographic Influences,* October 2008, 28,37
[17] Urban Land Institute, *Housing in America: The Next Decade*, March 2010, 14
[18] Robert Charles Lesser & Co., *Market and Demographic Shifts—Boomers and Gen Y*, April 2009, 39
[19] Urban Land Institute, *Housing in America: The Next Decade*, March 2010, 11-17

Walkability has become a paramount factor in choosing where people want to live. According to the study *Walking the Walk* released by CEO's for Cities in August 2009, the walkability of a city translates directly into increases in home values. Homes with more walkable neighbourhoods can command a premium of $4,000 to $34,000 over houses with average levels of walkability in typical metropolitan areas.

The study estimated how much market value homebuyers implicitly attach to houses with higher Walk Scores. The Walk Score algorithm measures the number of standard consumer destinations within walking distance of a house, with scores ranging from 0 (car-dependent) to 100 (most walkable) (Figure 23). Findings revealed that there is a positive correlation between walkability and housing prices in 13 of the 15 housing markets studied. An additional point increase in Walk Score was associated with between $700 and $3,000 increase in home values.[20]

Consumers and housing markets attach value to living within easy walking distance of service providers, restaurants, retail, schools and parks. Higher levels of value are associated with areas where one does not have to be car-dependent, and transportation alternatives are available. Generally, places with a high level of walkability also offer a myriad of other related characteristics that are appealing: they are usually denser, offer transportation options, are more centrally located, and have a diverse mix of land uses.[21]

The study urges city leaders to use walkability as a fundamental measure of urban vitality. Downtown Nashville's residential properties all have Walk Scores that are 68 and above.(Figure 24) Fourteen out of the fifteen properties located in the downtown core are considered a "walker's paradise." The remaining properties are considered "very walkable" with only one ranked as "somewhat walkable." Nashville's average walkabillity score is 44, which is considered "car-dependent."[22]

Baby Boomers and young people prefer urban areas with transportation options, and the leading development demand over the next several years will be for closer-in locations.[23] There have been various alternate transportation options added to the downtown Nashville mix over the past several years. This year, Metropolitan Transit Authority (MTA) started the downtown circulator called the Music City Circuit, offering free transportation from various sites in the downtown core to The Gulch and the Farmers Market in the North Capitol neighborhood. WeCar, a car-sharing program offering four cars for use by downtown residents, businesses and employees, was introduced in April 2010.

Residential Property	Walkscore
Downtown Core	
Ambrose Lofts	94
Art Avenue Lofts	94
Bennie Dillion Original Lofts	95
Church Street Lofts	94
The Kress Lofts	94
Lofts at Noel Court	94
Lofts at the Exchange	94
Phoenix Lofts	94
Printers Alley Condos	94
The Quarters	92
Viridian	94
Watauga House	95
Westview	95
Capitol Towers	86
Cumberland Penthouses	98
North Capitol	
District Lofts	75
Harrison Square	75
Harrison Square Phase II	75
Ireland28	85
Riverfront Condos	68
Row 8.9n	78
SoBro	
Academy Square Condominiums	86
Cardwell Place Condominiums	89
Encore	85
Howell Park	89
Rutledge House	89
Rutledge Terrace	89
Gulch	
ICON	78
Terrazzo	72
Velocity	85

Source: http://www.walkscore.com Figure 23

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

Figure 24

[20] CEO's For Cities, *Walking the Walk*, August 2009, 2
[21] CEO's For Cities, *Walking the Walk*, August 2009, 3
[22] http://www.walkscore.com, accessed July 2010
[23] The Atlantic, *Here Comes the Neighborhood*, June 2010

Housing Needs and Opportunities

Brookings Institution states that the healthiest cities have 2% of the city's metropolitan area living in downtown. This idea has been coined the 2% solution, what cities should strive to achieve in order to create a critical mass needed to spark a cycle of growth in the city and metropolitan area overall.[24] Two percent of Nashville's MSA is 30,000. Downtown Nashville would need an additional 25,000 residents in order to meet this challenge. Property owners, developers and city officials need to continue to invest in downtown, promoting living opportunities and overcoming challenges to further development in order to increase these residential numbers. Making a commitment to meeting this target will benefit the economic vitality of the entire Metropolitan Nashville area.

Downtown is off to a good start, offering a variety of housing types and price points, but in order to sustain growth will need to continue to develop housing for first-time buyers, workforce housing and additional multifamily rental. The Metropolitan Development & Housing Agency is acting as developer and working with local architects to deliver Nance Place Apartments, a workforce housing development located at Rolling Mill Hill. It will have 109 units available in December 2010. Laurel House Apartments, developed by The Housing Fund Inc., located in The Gulch is the only other similar development in downtown Nashville. It has a cap on rental pricing and offers housing for moderate income individuals. Laurel House has remained at 100% occupancy for the past five years and continues to have a waiting list. Nance Place will be MDHA's first multi-unit housing development targeted at residents who make $20,000 per year or more.

In late 2009, the Tennessee General Assembly approved changes to the tax increment financing (TIF) statute for housing and development authorities, providing flexibility to the use and scope of these funds. For the first time, TIF funds can be utilized for the cost of incorporating green design features into projects.[25] Demand for green, energy saving housing options are on the rise, and this new mechanism can be used by developers to fund projects that urban residents desire.

Conclusion

According to Robert Charles Lesser & Co.'s Spring 2010 report, existing and new home sales declined and reached a bottom in late 2009 into the first part of 2010. In some of the more stable markets, volume is trending up and modest price increases will gain momentum through the end of 2010 and beyond. One of the main determinants of the rate at which the recovery accelerates is the area's market psychology.[26] This trend reflects what has and will occur in the Nashville downtown market, assuming the market continues to gain confidence in signals of recovery.

The short-term view of the downtown market is that it is overbuilt. After analyzing the timing of residential product delivery and economic downturn, urban living trends and peer city comparisons, it would be inaccurate to conclude that downtown Nashville is overbuilt. Nashville's downtown residential development is still in its early stages, and long-term planning strategies need to be implemented in order to meet the future demand for housing.

Downtown Nashville is poised for continued residential growth in the future based on a variety of factors: overall national trends of urban movement, population growth, strong rental occupancy rates, increasing urban amenities including the incremental growth of retail establishments over the past two years, increase in transportation options, and continued investment in public and private projects in the downtown area.

The economic downturn and housing crisis have altered the way that the housing market is structured in terms of financing and development. The market slow-down provides an opportunity to take a closer look at the housing sector and redirect energies toward more sustainable, diverse housing product geared toward changing demographics and lifestyles. Downtown Nashville must continue to meet the needs of its future residents in order to build on its successes.

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[24] Brookings Institution, *A Two-Percent Solution for Downtown Rochester*, February 2008
[25] Waller Lansden Dortch & Davis LLP, *Tennessee's Expanded Tax Increment Financing Statute Includes Sustainability*, August 2009
[26] Robert Charles Lesser & Co., *The Advisory*, Spring 2010