

Market Insights

Nashville Multifamily 3Q 2022



Construction Activity



20,562

Units under construction

6,420

Units delivered (YTD)

Market Fundamentals



5.2%

Vacancy

+150bps

Year over year change

\$1,674

Asking Rent

+6.2%

Year over year change

Transaction Activity



\$266,000

Median sales price per unit (YTD)

Long-Term Growth Prospects Favorable, Despite Recent Cooling

Highlights

- The Nashville multifamily market continued to cool during the third quarter, as asking rents ticked lower, and the vacancy rate rose. Despite mixed conditions in recent months, construction activity remains heightened with more than 6,400 units already delivered to this point in the year.
- After reaching an all-time low one year ago, the vacancy rate has risen in each of the past four quarters. Local vacancy increased 70 basis points during the third quarter to 5.2 percent; year over year, the rate has advanced 150 basis points.
- Asking rents fell slightly in the last three months, dropping 2.5 percent to \$1,674 per month. Year over year, average rents are up 6.2 percent.
- The multifamily investment market performed well during the third quarter, as sales activity gained momentum, and per-unit pricing remains well above last year's figure. The median sales price to this point in the year is \$266,000 per unit, a 50 percent increase from the median price in 2021. Cap rates inched higher, averaging 4.4 percent in the third quarter.

Nashville Multifamily Market Overview

The Nashville multifamily market recorded some cooling during the third quarter with vacancies rising and rents trending lower. This pattern of property performance is common in high-growth markets, particularly in periods when the economy begins showing signs of slowing, while the pace of new apartment inventory growth remains elevated. These conditions prevailed in Nashville in recent months but will likely be a minor disruption in a longer-term period of strengthening. The current vacancy rate is only marginally higher than the all-time low recorded just four quarters ago, and rents have still advanced by nearly \$100 per month year over year.

While property operating fundamentals demonstrated some signs of easing up in recent months, the investment market in Nashville gained momentum. The number of properties sold increased from the second quarter to the third quarter, and per-unit pricing remained elevated. Sales velocity in the third quarter recorded its highest level of activity since the rapid spike in transactions that occurred at the end of last year. As more properties are changing hands, prices have pushed higher throughout the region. The median sales price to this point in the year reached \$266,000 per unit, up 50 percent from the median price in 2021. Cap rates inched higher in recent months, now averaging in the mid-4 percent range.

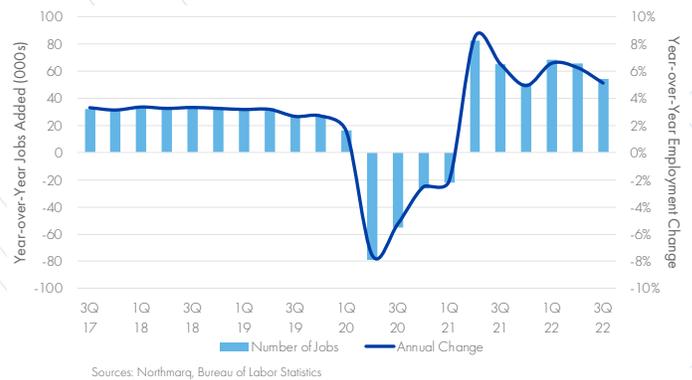
Employment

- After the local labor market expanded at a robust pace during the past two years, employment growth slowed in the third quarter with the addition of only about 1,000 net new jobs. Year over year, total employment advanced by nearly 55,000 workers, a 5.1 percent growth rate.
- The healthcare and social assistance sector has recorded steady growth in recent quarters and continued to add jobs in the last three months. Year over year, this industry—which is fueled by population expansion—added 8,600 workers to payrolls, a gain of 6.6 percent.
- South Korean tire manufacturer, Hankook Tire & Technology Co., will invest \$1.6 billion into its third major manufacturing expansion at its Clarksville campus. The new expansion, which will double the company’s local annual output, will create nearly 1,200 additional jobs by 2026.
- **Forecast:** Employers in Nashville are expected to continue to add jobs through the remainder of this year. Total employment is projected to grow by 38,000 positions in 2022, a 3.5 percent expansion.



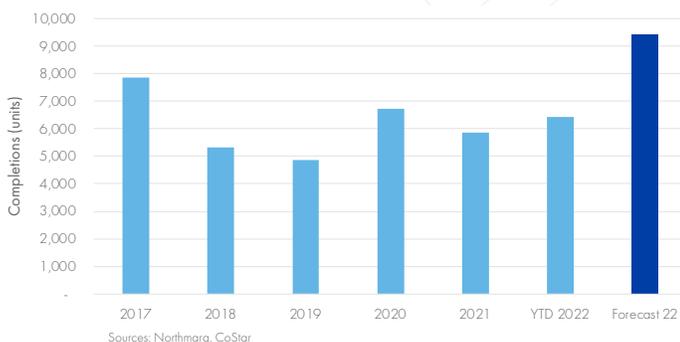
Year over year, employment advanced by nearly 55,000 workers.

Employment Overview



Year to date, projects totaling 6,420 units have come online.

Development Trends



Development and Permitting

- Multifamily construction activity gained momentum in recent months, as nearly 2,400 units were delivered during the third quarter. Year to date, projects totaling 6,420 units have come online, topping the total for all of last year.
- Projects totaling more than 20,500 units are currently under construction across the Nashville area, up 5 percent from one year ago. Although construction is ongoing throughout the region, nearly half of the projects being developed are located in the Downtown Nashville submarkets.
- While the pace of deliveries is accelerating, permitting activity has slowed significantly in 2022. Developers have pulled permits for fewer than 3,000 multifamily units year to date; permits for an annual average of 11,000 multifamily units were issued from 2019 through 2021.
- **Forecast:** Multifamily developers are expected to remain active in the final months of the year. Projects totaling more than 9,400 units are scheduled to come online in 2022.

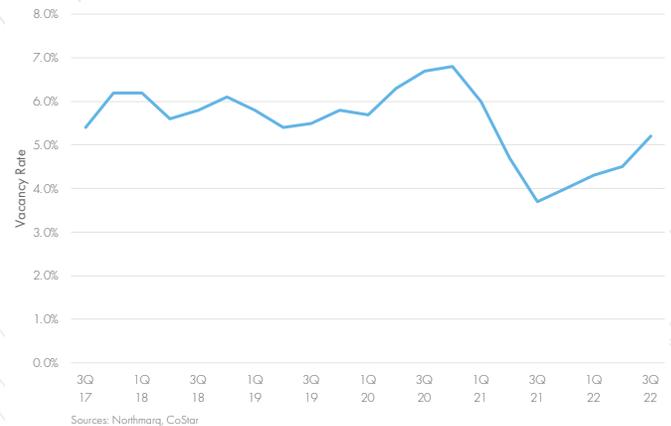
Vacancy

- Area vacancy climbed for its fourth consecutive quarter, after reaching an all-time low one year ago. The rate rose 70 basis points in the past three months to 5.2 percent.
- Year over year, local vacancy is up 150 basis points. Despite the recent increases, vacancy is still a bit lower than the historical average in the region. Area vacancy has averaged 5.8 percent during the past five years.
- While vacancy has trended higher across the quality spectrum in recent periods, Class C properties are recording the tightest rates. Vacancy in lower-tier assets rose 120 basis points in the past year to 4.7 percent. With housing affordability expected to remain a top concern in the market, vacancy rates in Class C assets will likely remain among the lowest in the Nashville area.
- **Forecast:** The vacancy rate is forecast to finish the year at 5 percent, 20 basis points lower than the current level. The rate is on pace to rise 90 basis points for the full year.



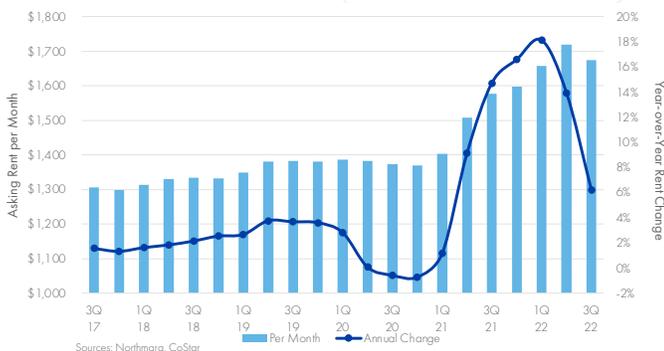
Year over year, local vacancy is up 150 basis points.

Vacancy Trends



Current rents are up 6.2 percent year over year.

Rent Trends



Rents

- Asking rents in Nashville retreated during the third quarter, after significant increases during the past several periods. Local apartment rents fell 2.5 percent in the past three months to \$1,674 per month.
- Before declining in recent months, asking rents had trended higher for six consecutive quarters. Despite the recent dip, current rents are up 6.2 percent year over year.
- Rents in Class A properties topped \$2,000 per month during the second quarter but dipped below that threshold in recent months. Asking rents in the Class A segment ended the third quarter at \$1,997 per month, up 4.7 percent year over year. Class A rents were around \$1,700 per month for nearly all of 2019 and 2020 before recording steep increases in subsequent quarters.
- **Forecast:** Asking rents may creep lower in the final months of the year before pushing higher in 2023. Average rents are expected to finish 2022 at approximately \$1,660 per month, up nearly 4 percent for the year.

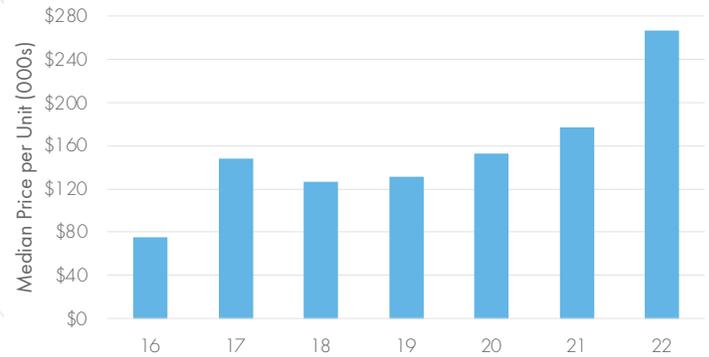
Multifamily Sales

- Sales activity picked up in recent months as deal volume jumped nearly 30 percent from the second quarter to the third quarter. Transaction activity to this point in the year is closely tracking levels recorded during the same period in 2021.
- The accelerating transaction activity has supported significant price increases. The median sales price thus far in 2022 is \$266,000 per unit, up 50 percent from the median price in 2021. Several transactions have closed near Downtown Nashville as well as in Antioch.
- Cap rates inched higher during the third quarter after compressing at the start of the year. Cap rates averaged around 4.4 percent in the last three months.



The median sales price thus far in 2022 is \$266,000 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

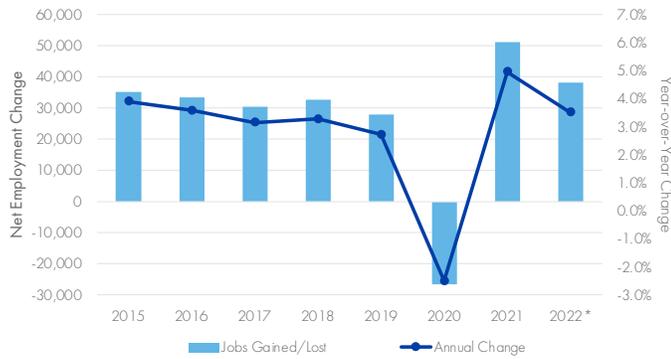
Property Name	Street Address	Units	Sales Price	Price/Unit
Overall Creek Apartments	5150 Jack Byrnes Dr., Murfreesboro	384	\$104,450,000	\$272,005
The Union	5800 Centennial Blvd., Nashville	283	\$96,500,000	\$340,989
Waterford Place of Murfreesboro	2840 S Church St., Murfreesboro	184	\$53,250,000	\$289,402
300 Hickory	300 Hickory Hollow Pl., Antioch	276	\$51,500,000	\$186,594
Radius @ Donelson	2301 Lebanon Pike., Nashville	128	\$37,000,000	\$289,063
Fairway Meadows Apartments	93 Weakley Ln., Smyrna	208	\$33,000,000	\$158,654

Looking Ahead

While local property performance metrics cooled during the third quarter, the long-term outlook remains positive. The total population in the Nashville area is forecast to expand by more than 500,000 residents by 2040. This rapid population expansion will fuel long-term renter demand and also continue to support an active development pipeline. In the near term, there could be some lingering softening in occupancy levels. Net absorption during the third quarter slowed to its lowest level in two years, while construction activity continued to gain momentum; a continuation of these trends would likely put upward pressure on vacancy levels in 2023. Multifamily permitting levels have slowed dramatically in 2022, suggesting supply-side pressures should ease beginning in the second half of 2024.

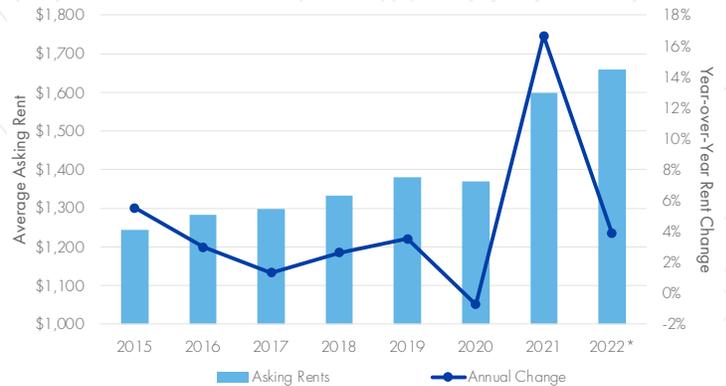
Despite a more challenging financing climate and a more uncertain economic outlook, the Nashville multifamily investment market posted healthy performance during the third quarter, brightening the outlook for the next few quarters. Nashville remains one of the top growth markets in the country and will continue to attract high levels of investment capital to the region. Persistent investor demand should sustain the pace of deals in the fourth quarter and into next year. Specifically, Downtown Nashville will continue to attract attention and account for a large portion of the transaction mix in the coming months, especially as several projects are slated to come online near the city center and along the East Bank in the coming years.

Employment Forecast



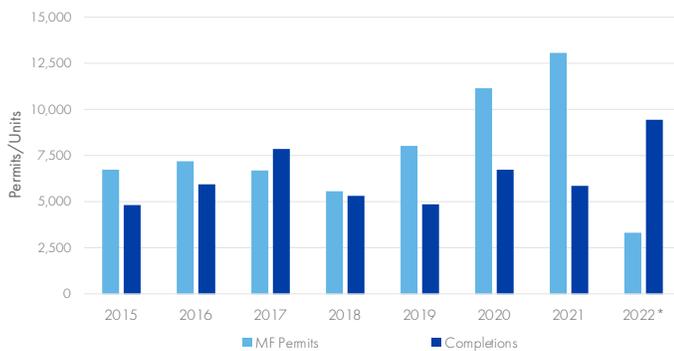
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



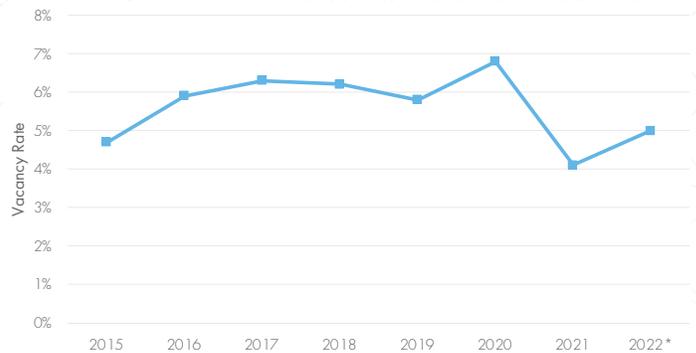
* Year End Forecast
Sources: Northmarq, CoStar

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, CoStar



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About Northmarq

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.