

Developers active, particularly in Downtown Nashville

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **22,897**

UNITS DELIVERED **8,177**

MARKET FUNDAMENTALS



VACANCY RATE **5.8%**

YEAR-OVER-YEAR CHANGE **+180bps**

ASKING RENTS **\$1,663**

YEAR-OVER-YEAR CHANGE **+4.1%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$235,400**

HIGHLIGHTS

- Operating conditions in the Nashville multifamily market softened during the fourth quarter as absorption levels dropped, vacancy rose, and asking rents ticked lower. Apartment developers remain active as both the annual delivery total for 2022 and the construction pipeline reached cyclical highs in recent months.
- The vacancy rate trended higher for its fifth consecutive quarter, rising 60 basis points in the last three months. The rate increased 180 basis points in 2022 to 5.8 percent.
- After a sharp decline in the third quarter, local asking rents inched lower in the final three months of the year, dropping less than 1 percent to \$1,663 per month. Despite the recent declines, average rents rose 4.1 percent for the full year.
- The multifamily investment market slowed at the end of the year with investors trading fewer properties than in recent quarters. The median sales price through the end of 2022 was \$235,400 per unit, up 33 percent from the median price in 2021.

NASHVILLE MULTIFAMILY MARKET OVERVIEW

Renter demand in Nashville cooled as net absorption during the fourth quarter fell to its lowest level in more than a decade. Fewer than 200 units were absorbed in the last few months of 2022, bringing the total for the full year to nearly 4,200 units. This marked an approximately 25 percent reduction from the market's recent average levels. Projects totaling more than 1,750 units came online in the final few months of 2022, with the annual total reaching roughly 8,175 units. Approximately half of all the recent deliveries were located in the Downtown Nashville and Southeast Nashville submarkets. With net renter demand slowing during a period of active supply growth, the vacancy rate rose for the fifth consecutive quarter to close 2022.

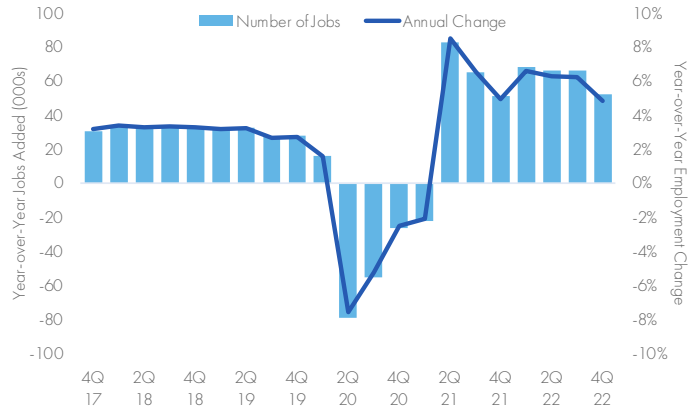
Fewer multifamily properties changed hands in Nashville during the final three months of 2022, as operating conditions continued to ease, and uncertainty rose throughout the market. The number of deals fell 50 percent from the third quarter to the fourth quarter. Prices did show some decline at the close of 2022 but remained elevated from the 2021 figure. The median sales price through the end of 2022 was \$235,400 per unit, up 33 percent from the median price in 2021. There were a handful of older, Class C properties that sold in recent months, particularly 1960s- and 1970s-construction. Cap rates continued to tick higher and averaged between 4.75 percent and 5.5 percent during the fourth quarter.

EMPLOYMENT

- The pace of job growth slowed at the end of the year as employers added 5,500 new positions during the fourth quarter. Year over year, the local labor market added 52,300 jobs, a gain of 4.8 percent.
- Nashville’s healthcare and social assistance sector was one of the strongest-performing industries in 2022. This sector added 9,000 jobs during the past year, an annual increase of nearly 7 percent.
- South Korean chemical company, LG Chem, recently announced plans to build a \$3.2 billion cathode manufacturing plant in Clarksville to support the electric vehicle battery supply chain. Located at the Allensworth Farm property in Montgomery County, the state-of-the-art facility will create more than 850 high-paying jobs upon completion in 2025.
- **FORECAST:** Employers in Nashville are projected to continue to add workers to payrolls in the new year but at a more modest pace. Total employment is expected to grow 1 percent in 2023 with the addition of 11,500 jobs.

Year over year, the local labor market added 52,300 jobs.

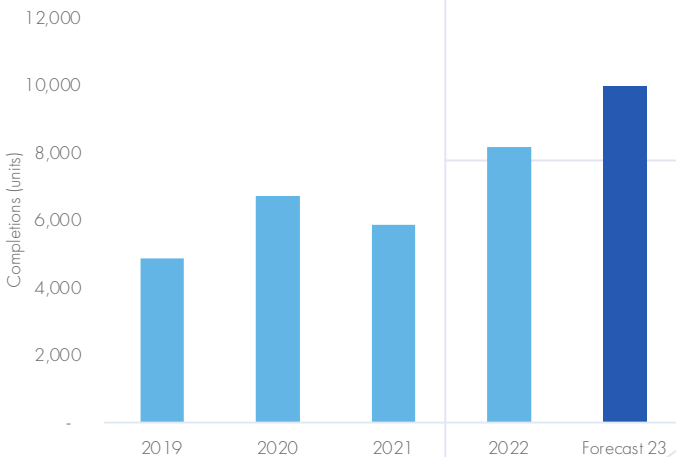
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling nearly 22,900 units are under construction.

DEVELOPMENT TRENDS



Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily developers remained active in the final months of the year as projects totaling more than 1,750 units came online during the fourth quarter. For the full year, developers completed approximately 8,175 units, a cyclical high for the region and up 40 percent from the 2021 total.
- Projects totaling 22,897 units are currently under construction throughout Nashville, up 15 percent from one year ago. Nearly 60 percent of the total units that are underway are mid-rise and high-rise development projects located in Downtown Nashville.
- Permitting slowed significantly in 2022, following two years of heightened activity. Developers pulled permits for fewer than 2,900 multifamily units during the last 12 months, down 68 percent from the market’s five-year annual average. Multifamily permitting peaked in 2021, when developers pulled permits for more than 13,000 units.
- **FORECAST:** Apartment developers will continue to bring new projects online at an active pace in the new year. Projects totaling roughly 10,000 units are slated to be delivered in 2023.

Vacancy rose 60 basis points during the fourth quarter.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

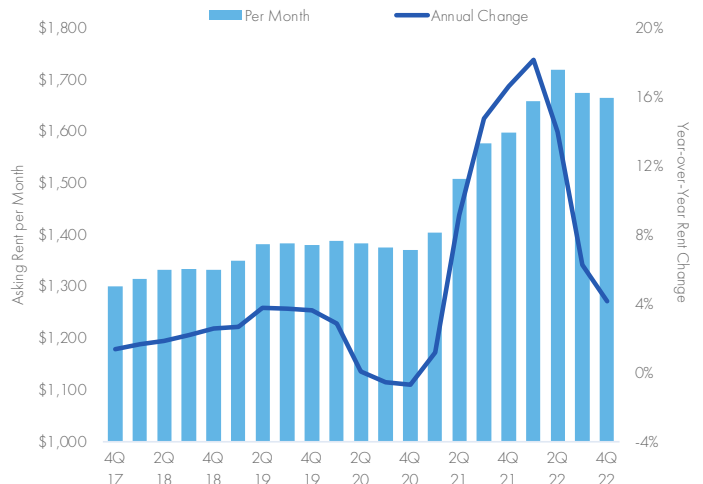
- Local vacancy continued to push higher at the close of the year, marking its fifth consecutive quarter where the rate crept higher. Vacancy rose 60 basis points during the fourth quarter to 5.8 percent.
- In 2022, the vacancy rate advanced 180 basis points. Despite the continued increases, the current rate remains in line with the market’s historical average. Area vacancy generally ranged between 4.5 percent and 6.5 percent for the past decade before falling to a cyclical low in 2021.
- Class C properties continue to record the lowest vacancy rates in Nashville, as affordability remains a primary concern for renters. The vacancy rate ended 2022 at 4.8 percent.
- FORECAST:** Local vacancy should continue to inch higher in the next year but at a slower pace than in recent quarters. The vacancy rate is projected to reach 6.2 percent at the end of 2023, up 40 basis points for the full year.

RENTS

- After retreating in the third quarter, rents inched lower again to close the year. Asking rents fell less than 1 percent in the fourth quarter, ending the period at \$1,663 per month.
- Despite declines in the second half of the year, asking rents in Nashville posted a 4.1 percent annual increase in 2022. This followed a spike of more than 16 percent in 2021.
- Rents rose across all property classes in 2022, with the strongest gains recorded in the lower tiers. Year over year, rents in Class C units rose 6 percent to \$1,306 per month.
- FORECAST:** Local apartment rents are projected to hold steady in the coming months before gaining momentum by the end of 2023. Asking rents are forecast to rise more than 2 percent in the next year, reaching approximately \$1,700 per month.

Asking rents in Nashville rose 4.1 percent during 2022.

RENT TRENDS



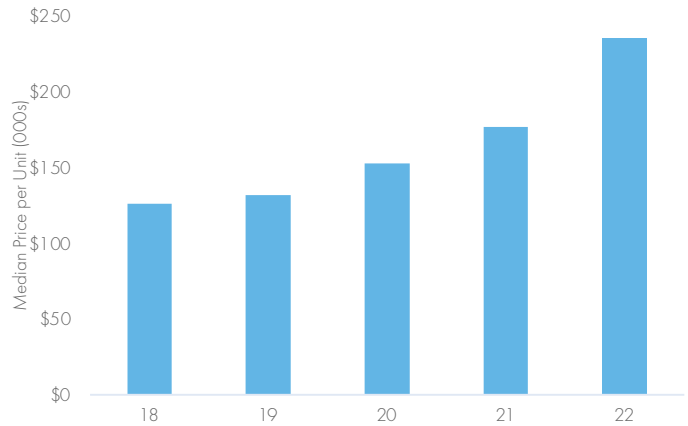
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- Apartment sales activity slowed significantly during the fourth quarter, as deal volume fell roughly 50 percent from the previous period. The stalled transactions market at the end of the year caused total annual sales velocity to drop more than 25 percent from 2021 levels.
- While deal volume declined in recent quarters, sales prices remained elevated. The median sales price in 2022 was \$235,400 per unit, up 33 percent from the 2021 figure. In properties that changed hands during the fourth quarter, the median price dipped to \$204,000 per unit.
- Cap rates trended higher in recent months, a trend that continues in many markets across the country. Cap rates averaged between 4.75 percent and 5.5 percent during the fourth quarter.

The median sales price in 2022 was \$235,400 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

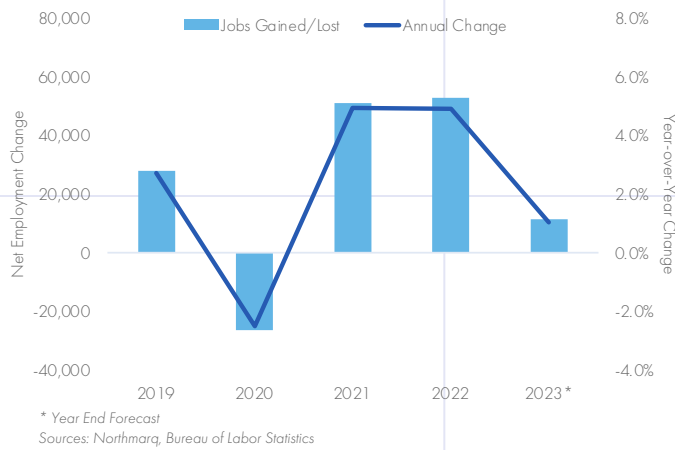
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Abberly Foundry	640 21st Ave N., Nashville	231	\$86,620,000	\$374,978
Landmark at Wynton Pointe	1000 Enclave Cir., Nashville	380	\$75,000,000	\$197,368
Park Central	220 25th Ave N., Nashville	200	\$61,500,000	\$307,500
Fairway Meadows Apartments	93 Weakley Ln., Smyrna	208	\$33,000,000	\$158,654
Nashville Christian Towers	101 Foothill Ct., Nashville	175	\$32,500,000	\$185,714
The Avalon of Hermitage Apartments	3501 Andrew Jackson Wy., Hermitage	145	\$32,200,000	\$222,069

LOOKING AHEAD

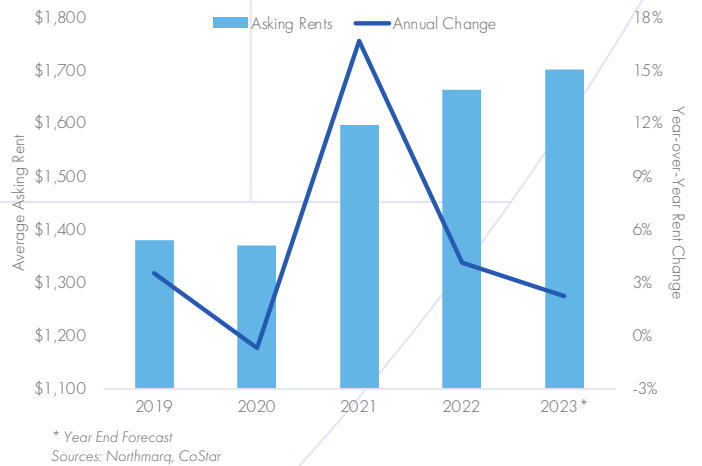
After property performance metrics softened in the second half of 2022, the Nashville multifamily market is expected to stabilize in the coming months. Early indications in 2023 show that absorption levels will rebound even as the pace of job growth softens. The accelerating rate of net absorption will still lag the number of new units scheduled to deliver in 2023. Multifamily developers are actively constructing nearly 22,900 units throughout the region, with roughly 10,000 units projected to come online by the end of the year. The 22 percent spike in new deliveries will push the vacancy rate higher, though at a more modest pace than in recent quarters. While supply-side pressures will remain in place at least through 2023, steep declines in multifamily permitting activity should provide some relief beginning in the second half of 2024.

Based on an early look into 2023, sales activity is expected to remain fairly limited in the next few months, and total sales volume in the coming quarters will likely trail levels recorded during 2021 and 2022. If interest rates begin to level off and property fundamentals stabilize, both of which are expected to occur in the second half of 2023, transaction activity could gain momentum. Downtown Nashville is expected to attract the majority of the sales activity during the next 12 months, largely due to the heavy concentration of new construction in and around the city center. Cap rates could be volatile, as uncertainty surrounding financing costs and operational performance—particularly in submarkets where new projects are concentrated—may linger well into 2023.

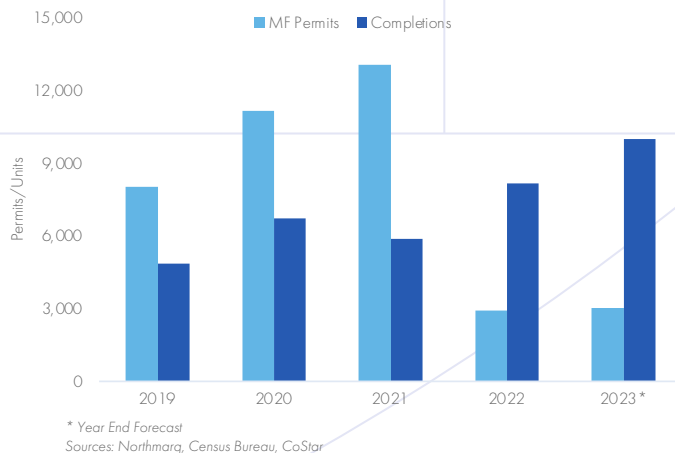
EMPLOYMENT FORECAST



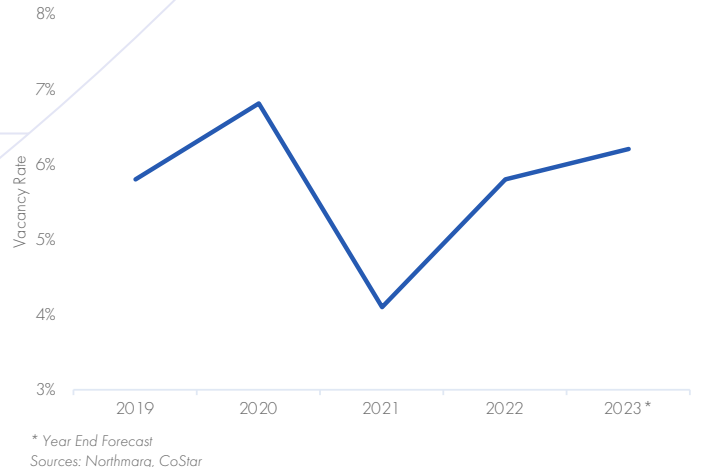
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





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