

Supply growth elevated, but absorption gains momentum

CONSTRUCTION ACTIVITY


UNDER CONSTRUCTION **21,309**

UNITS DELIVERED **7,622**

MARKET FUNDAMENTALS


VACANCY RATE **6.6%**

YEAR-OVER-YEAR CHANGE **+210bps**

ASKING RENTS **\$1,705**

YEAR-OVER-YEAR CHANGE **-0.8%**

TRANSACTION ACTIVITY (YTD)


MEDIAN PRICE PER UNIT **\$178,900**

HIGHLIGHTS

- The Nashville multifamily market posted a solid performance during the second quarter, fueled by accelerating net absorption and rising rents. More than 21,300 apartment units are under construction throughout the region, with a concentration of new development in Downtown Nashville.
- The vacancy rate inched higher during the second quarter, rising 10 basis points to 6.6 percent. Year over year, the rate has increased by 210 basis points.
- Asking rents continued to tick higher in recent months, after falling in the second half of 2022. Apartment rents in Nashville rose nearly 1 percent during the second quarter to \$1,705 per month. Year over year, rents are down 0.8 percent.
- Multifamily sales activity rose in the second quarter, but year-to-date transaction activity is down 60 percent from the first half of 2022. The median sales price thus far in 2023 is \$178,900 per unit, while cap rates are between 5 and 5.5 percent.

NASHVILLE MULTIFAMILY MARKET OVERVIEW

Renter demand showed signs of strengthening in Nashville during the second quarter. Heightened absorption caused vacancy to level off and allowed operators to push rents higher. Developers are delivering new projects to meet current and future demand. Apartment completions topped 7,600 units in the first half, a cyclical high for the region. While Downtown Nashville accounted for the largest share of recent deliveries, developers also brought new projects online in Southeast Nashville, Donelson/Hermitage, Wilson County, and a handful of other submarkets.

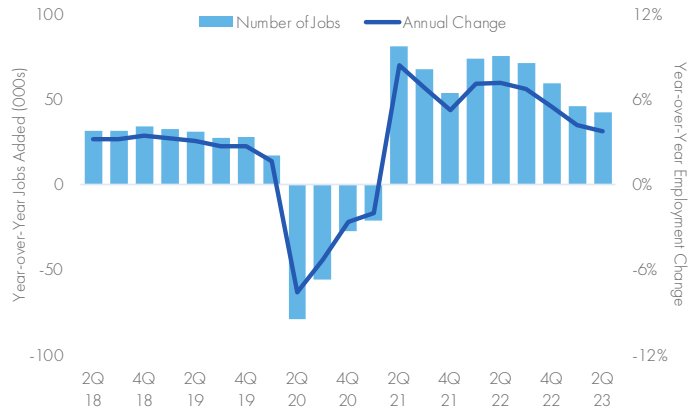
The Nashville multifamily investment market did pick up slightly from the first quarter to the second quarter, although overall sales activity year to date remains fairly sluggish. Pricing has crept lower to this point in the year, with the median reaching \$178,900 per unit, down 24 percent from the 2022 level. Price movements have been largely a function of the quality of assets changing hands, rather than a widespread decline in values. Through the first half, Class C assets have made up about half of the total transactions, up from 20 percent in 2022.

EMPLOYMENT

- Total employment in Nashville continued to expand in recent months with the addition of 9,000 jobs during the second quarter. Year over year, area employers added roughly 42,100 workers to payrolls, an annual gain of 3.8 percent.
- Nashville’s professional and business services sector remains one of the strongest industries in the region. During the past 12 months, this sector grew by 5.5 percent with the addition of 10,800 net new jobs.
- In-N-Out Burger plans to open new restaurants in Tennessee as well as a corporate hub in Franklin that will create 275 white-collar jobs. Construction on the 100,000-square-foot office building will begin in 2024 and will be located on Goose Creek Bypass in the Berry Farms area near Interstate 65. The company’s restaurants are expected to open beginning in 2026.
- **FORECAST:** After a solid first half of the year, job growth is expected to level off in the coming periods. Local employers are forecast to add 25,000 jobs in 2023, a 2.2 percent increase.

Year over year, area employers added roughly 42,100 workers.

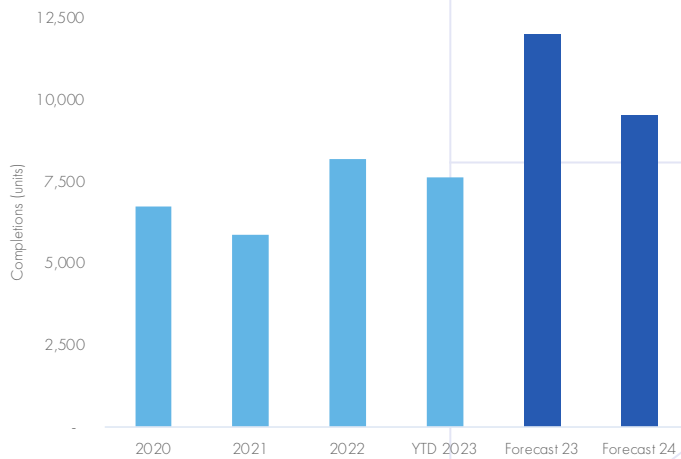
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

More than 7,600 units have been completed in the first half.

DEVELOPMENT TRENDS



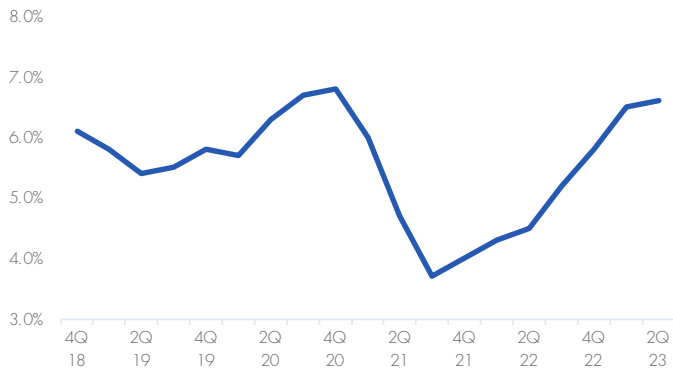
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily developers remained active during the second quarter with the completion of roughly 3,900 units in the last three months. Projects totaling more than 7,600 units have been completed in the first half of 2023, doubling levels recorded in the second half of 2022.
- Projects totaling more than 21,300 units are currently under construction throughout the region, a 7 percent decrease from one year ago. Downtown Nashville remains the most active area for new development with nearly 9,600 units currently under way in the city core.
- Developers continue to pull permits for multifamily units. Year to date, multifamily permit issuance has topped 6,000 units, up 5 percent from the pace recorded during the first half of 2022.
- **Forecast:** Apartment developers will continue to bring new projects online at a healthy pace for the foreseeable future. Developers are on track to complete roughly 12,000 units in 2023 and an additional 9,500 units in 2024.

Vacancy rose 10 basis points during the second quarter.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

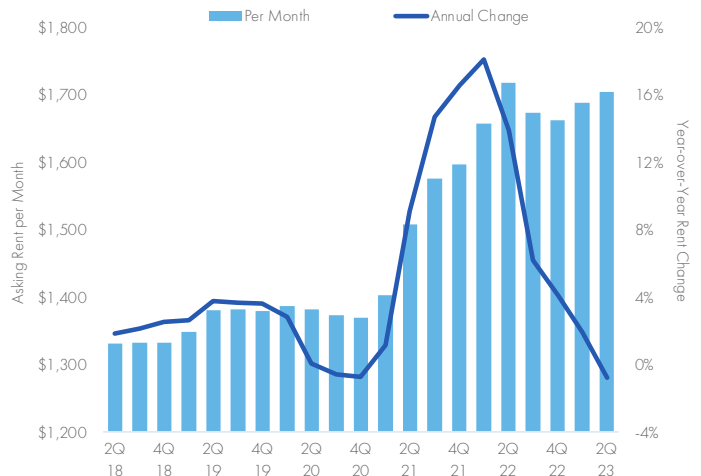
- The vacancy rate in Nashville inched higher in recent months, after a steeper rise at the start of the year. Local vacancy rose 10 basis points during the second quarter to 6.6 percent. Year over year, the rate is up 210 basis points.
- Renter demand gained momentum during the second quarter, allowing the vacancy rate to largely stabilize. Net absorption in Nashville totaled more than 2,400 units in the last three months, doubling levels recorded in the previous period.
- While vacancy has trended higher across much of the market in recent periods, increases have been more modest and the overall vacancy rate is lower in Class C properties. The vacancy rate in lower-tier units rose 110 basis points during the past 12 months to 5.5 percent.
- **FORECAST:** The vacancy rate in Nashville is projected to inch higher in the second half. Area vacancy is forecast to finish 2023 at around 6.8 percent, up 100 basis points for the year.

RENTS

- Apartment rents in Nashville have recovered to this point in the year after declining during the second half of 2022. Local asking rents rose less than 1 percent in the last three months to \$1,705 per month. Year over year, rents dipped by 0.8 percent.
- Downtown Nashville continues to record the most expensive rents in the region, although current rents in the submarket are lower than one year ago. Asking rents in the city center ended the second quarter at \$2,237 per month, down 3.8 percent in the past 12 months.
- While asking rents ticked lower in middle-tier and upper-tier units during the past year, Class C units recorded a moderate increase. Apartment rents in lower-tier properties rose 1.2 percent during the last 12 months to \$1,348 per month.
- **FORECAST:** With absorption expected to remain healthy, local rents are expected to trend higher in the coming quarters. Average rents are forecast to rise 2.8 percent in 2023, ending the year at roughly \$1,710 per month.

Average rents are forecast to rise 2.8 percent in 2023.

RENT TRENDS



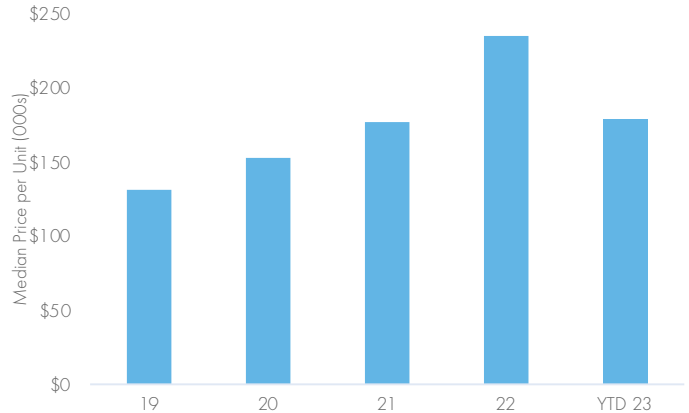
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- Multifamily sales activity bounced off of very low levels in recent months as deal volume increased 40 percent from the first quarter to the second quarter. Despite the recent uptick, sales velocity in Nashville is still limited year to date. The number of transactions through the first half of 2023 is down 60 percent from the same period in 2022.
- Pricing has trended lower year to date, due in part to an increased share of Class C properties in the transaction mix. The median sales price to this point in the year is \$178,900 per unit, down 24 percent from the median price in 2022.
- To this point in the year, Class C properties have accounted for approximately half of the transactions that have sold, compared to about a 20 percent share of transactions in 2022.
- Class A properties have generally traded at prices between \$300,000 per unit to \$350,000 per unit. Class C assets have generally been selling for between \$150,000 per unit and \$175,000 per unit.
- Cap rates have increased during the past year. Most properties are trading with cap rates between 5 to 5.5 percent.

Cap rates have increased to between 5 and 5.5 percent.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

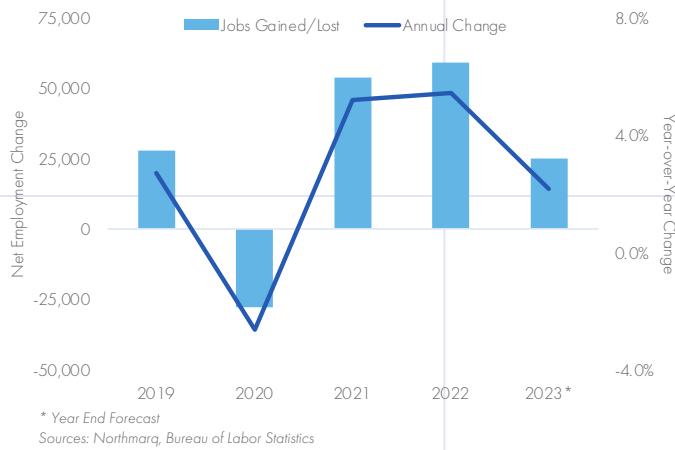
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
The Guthrie North Gulch	600 11th Ave N., Nashville	271	\$96,500,000	\$356,089
Summerlake	207 National Dr., Murfreesboro	176	\$28,050,000	\$159,375
Green Wood	790 Green Wave Dr., Gallatin	164	\$26,800,000	\$163,415
The Avery Apartments	914 Winthorne Dr., Nashville	160	\$23,000,000	\$143,750
Cedar Ridge	100 Madison Dr., La Vergne	150	\$22,100,000	\$147,333

LOOKING AHEAD

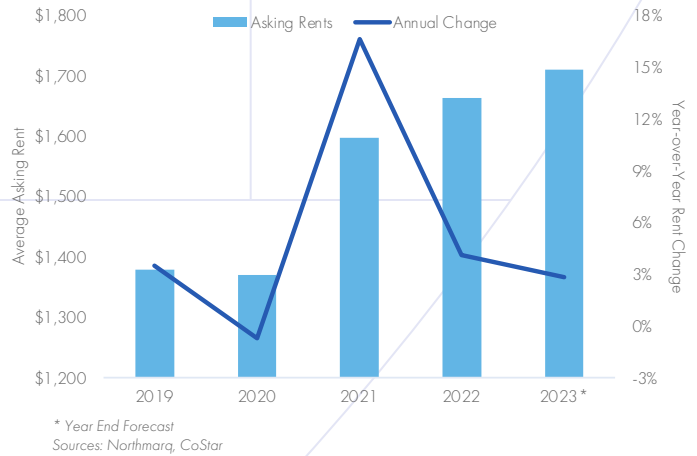
Developers are on pace to deliver approximately 12,000 units in 2023, a cyclical high for the region. This figure will more than double the market’s average annual deliveries during the past decade. Current delivery projections will expand the total apartment inventory in Nashville by more than 7 percent this year, faster than the rate of population growth or new household formation. This will result in supply-side pressures that will push the local vacancy rate higher in the near term. Vacancy increases will be mostly concentrated in Class A properties, particularly in Downtown Nashville, where much of the new development is located. After rising 2.5 percent year to date, local apartment rents are expected to inch higher at a modest pace in the second half of the year.

Although the number of transactions picked up slightly from the first quarter to the second quarter, overall deal flow remains limited in Nashville. Heightened interest rates and strict underwriting standards have hampered sales activity in recent periods, a trend that is expected to continue in the second half of 2023. Pricing trends to date have been influenced by the mix of assets changing hands. If activity picks up in the sale of Class A and Class B assets in the coming periods, the median price should tick higher but will remain below last year’s peak. Cap rates, which have averaged between 5 percent and 5.5 percent, are unlikely to trend much higher than the current range, and as rates stabilize, sales velocity could gain momentum.

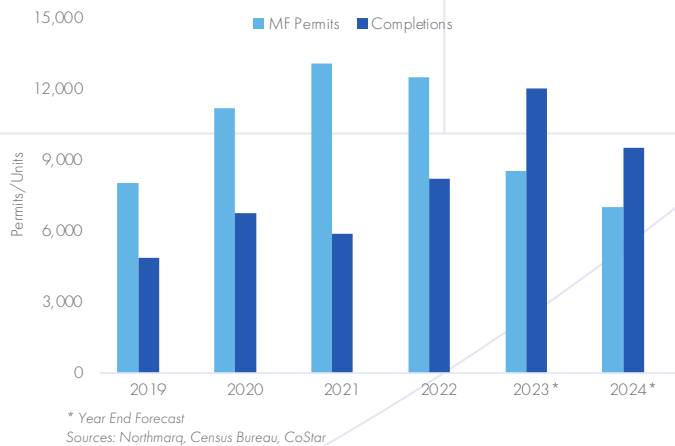
EMPLOYMENT FORECAST



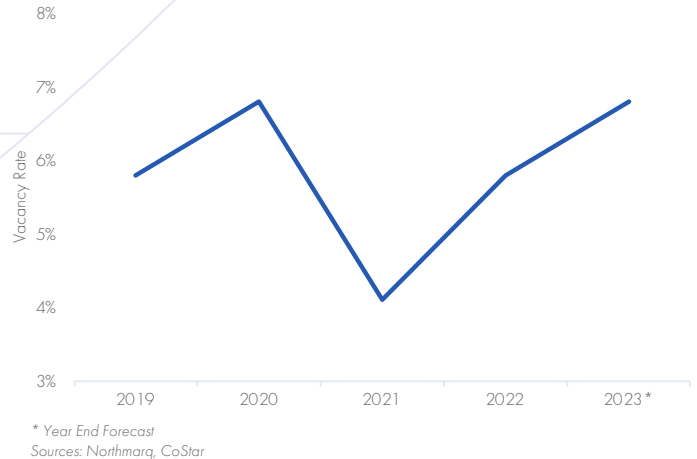
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





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