

Market Insights

Nashville Multifamily 2Q 2022



Construction Activity



22,960

Units under construction

4,040

Units delivered (YTD)

Market Fundamentals



4.5%

Vacancy

-20bps

Year over year change

\$1,718

Asking Rent

+13.9%

Year over year change

Transaction Activity



\$264,900

Median sales price per unit (YTD)

Rapid Economic Growth Supporting Investment Market

Highlights

- The first half of 2022 brought elevated activity to the Nashville multifamily market. Construction volume and investment transaction velocity were both elevated and rents continued to surge higher. Vacancy rates inched up, but absorption still reached approximately 3,200 units.
- After a sharp decline in 2021, vacancy has trended higher in recent quarters. Year to date, the rate increased by 50 basis points, including a rise of 20 basis points during the second quarter. Despite the recent uptick, the rate of 4.5 percent is still down 20 basis points year over year.
- Rent growth remained elevated during the first half with the average asking rent rising 7.6 percent to \$1,718 per month. Year over year, apartment rents advanced by 13.9 percent.
- The momentum in the investment market continued to build after a very active 2021. Multifamily transaction volume in the first half of 2022 was ahead of levels recorded during the same period one year ago. Sales prices continued to push higher with the median sales price surging 50 percent since the end of last year, spiking to \$264,900 per unit.

Nashville Multifamily Market Overview

The Nashville market has recorded some of the strongest growth metrics in the country in recent years including robust population and economic growth, as well as heightened multifamily development. The population in the Nashville metro area topped 2 million residents in 2021 and expanded by 350,000 residents in the past decade. Employment levels continue to grow at a rapid pace, fueling renter demand and sparking the construction of new multifamily properties. The development pipeline is the most active it has ever been with nearly 23,000 multifamily units currently under construction. With thousands of new units slated to be delivered before the end of this year, and an additional 7,500 units likely to be completed in each of the next two years, supply will likely outpace demand in the coming periods.

The investment market in Nashville has gained momentum throughout the first half of 2022. There were three clear signs of health in the local investment market. The first was the number of properties changing hands. Sales velocity accelerated by nearly 17 percent compared to the number of transactions recorded during the first two quarters of 2021. The second indication of the health of the market was the surge in the median sales price. In the past six months, the median price has advanced 50 percent. Lastly, cap rates have remained low despite rising interest rates. To this point in 2022, cap rates have averaged 3.9 percent, down 30 basis points from the previous year's average.

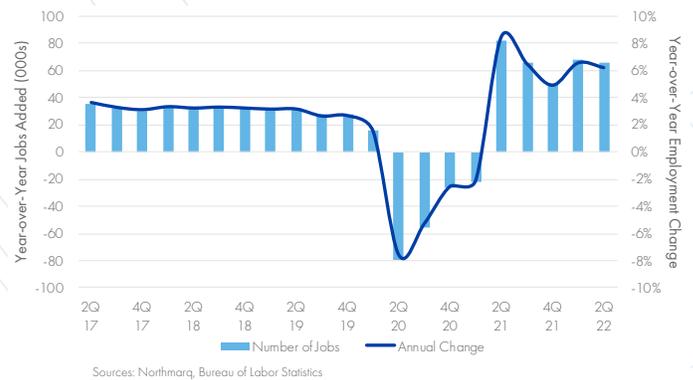
Employment

- Total employment in Nashville continued to grow at a rapid pace through the first half of 2022. Year over year, employers have expanded payrolls by roughly 6.3 percent with the addition of 65,600 jobs.
- White-collar, high-wage employment is fueling the local labor market. Employment in the professional and business services sector has expanded by 14,600 jobs in the past year, a gain of 8.1 percent.
- One of the largest technology companies in the world is making a major investment in Nashville. Oracle is expected to bring 8,500 workers to a new 60-acre campus in the River North development of the East Bank area near Nissan Stadium. Oracle's move, combined with Amazon's plans to open a new facility, will result in approximately 13,500 net new jobs in Nashville's business district.
- **Forecast:** Employers in Nashville are forecast to add approximately 50,000 net new jobs in 2022, nearly identical to the total gains recorded last year. Payroll growth is forecast to exceed 4.6 percent this year.



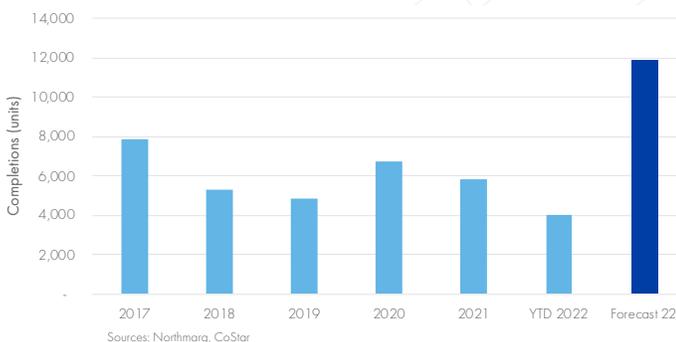
Year over year, employers have expanded payrolls by roughly 6.3 percent.

Employment Overview



Projects totaling nearly 23,000 units are currently under construction.

Development Trends



Development and Permitting

- The pace of apartment deliveries accelerated during the first half of 2022 with more than 4,000 new units coming online. During the same period last year, approximately 2,400 units were delivered throughout the Nashville area.
- Developers are also ramping up construction activity as projects totaling nearly 23,000 units are currently under construction, up more than 75 percent compared to one year ago. Current construction levels are above trend; since the beginning of 2017, the market has averaged nearly 12,600 units under construction.
- While development activity and deliveries have increased, the pace of permitting has slowed in recent months. To this point in 2022, developers have pulled permits for approximately 2,300 multifamily units, down from long-term averages and recent spikes. Multifamily permitting averaged 6,850 units per year from 2015 through 2019, before spiking in 2020 and 2021.
- **Forecast:** With construction activity heightened, the pace of deliveries is expected to remain elevated throughout the rest of 2022. Nearly 12,000 units are scheduled to be delivered by the end of the year, doubling the number of units that were completed in 2021.

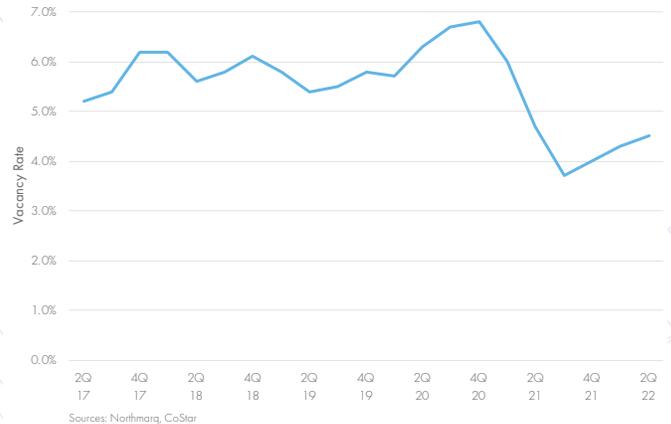
Vacancy

- After falling 270 basis points in 2021, vacancy has trended higher to this point in 2022. During the second quarter, the vacancy rate rose 20 basis points to 4.5 percent. Year to date, vacancy increased by 50 basis points.
- Despite the modest increases that have occurred during the first two quarters of this year, current vacancy levels are lower than one year ago. Area vacancy has averaged 5.5 percent since 2017.
- The pace of absorption has slowed to a more modest level in 2022. After renter demand reached an all-time high last year, net absorption totaled approximately 3,200 units through the first half of the year, down from the 5,500 units that were absorbed during the first six months of 2021.
- **Forecast:** New supply growth is expected to outpace renter demand for the remainder of the year. This will cause a slight uptick in the vacancy rate, which is forecast to rise 20 basis points in the coming quarters, ending 2022 at 4.7 percent.



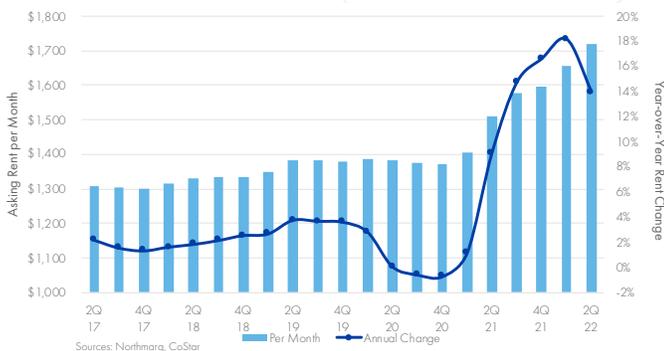
During the second quarter, vacancy rose 20 basis points.

Vacancy Trends



Asking rents advanced to \$1,718 per month.

Rent Trends



Rents

- Rents have continued to push higher at an accelerated rate during the first half of 2022. Asking rents in Nashville have advanced 7.6 percent year to date, rising to \$1,718 per month at the end of the second quarter.
- During the past 12 months, local asking rents have advanced by 13.9 percent. This marked the fourth consecutive quarter where year-over-year gains exceeded 10 percent. Rents spiked by more than 16 percent in 2021.
- There has been a surge in the development of new, Class A properties in recent periods, and rents have increased as newer, expensive units have come online. The average Class A asking rent rose 11 percent in the past year, reaching \$2,036 per month.
- **Forecast:** Rent growth is forecast to exceed 10 percent again in 2022, building on steep gains recorded during the past several quarters. Asking rents are expected to end the year at \$1,765 per month, a 10.5 percent annual gain.

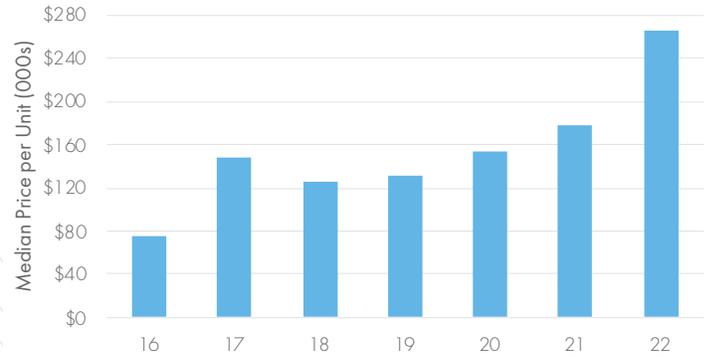
Multifamily Sales

- Multifamily investors remained active in Nashville during the second quarter with sales activity closely tracking levels from the start of the year. Total transaction volume thus far in 2022 outpaced the number of sales recorded during the first half of 2021 by 17 percent.
- As transaction activity remained accelerated, prices surged to this point in 2022. The median sales price through the first half of the year was approximately \$264,900 per unit, up 50 percent from the median price in 2021.
- With investor demand elevated, cap rates have remained low, averaging 3.9 percent year to date. Rapid rent growth has allowed cap rates to remain near recent ranges despite rising interest rates.



The median sales price through the first half of 2022 was **\$264,900 per unit.**

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

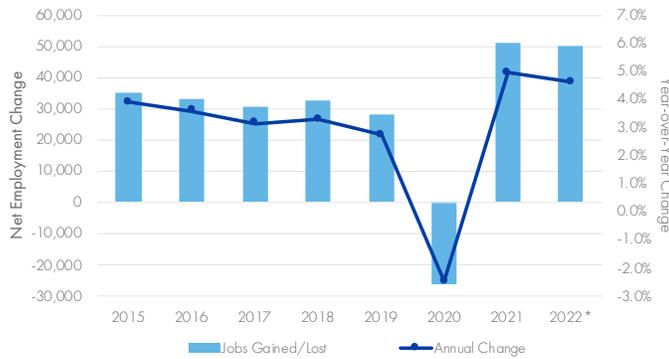
Property Name	Street Address	Units	Sales Price	Price/Unit
Elliston 23	2312 Elliston Pl., Nashville	331	\$162,000,000	\$489,426
The Harper Luxury Apartments	2200 Aureum Dr., Franklin	328	\$145,000,000	\$442,073
Glassworks	541 Great Circle Rd., Nashville	282	\$93,600,000	\$331,915
Discovery at Mountain View	5000 Mountain Springs Rd., Antioch	336	\$89,000,000	\$264,881
Scout Landing	261 Veterans Pky., Murfreesboro	278	\$65,200,000	\$234,532
Audubon Park Apartments	600 Whispering Hills Dr., Nashville	256	\$50,600,000	\$197,656

Looking Ahead

Long-term renter demand in Nashville will be supported by ongoing economic development. Amazon recently joined the list of noteworthy companies bringing high-wage corporate jobs to the area. Amazon is opening an Operations Center of Excellence in Nashville, a move that will ultimately bring about 5,000 jobs with average salaries around \$150,000. Amazon's first office tower was completed in Downtown Nashville in 2021, and while the company announced it was pausing construction of a second tower because of a shift to more hybrid work, it remains committed to bringing the jobs to the Nashville area. New multifamily supply is elevated, but slowing permitting trends indicate that the rapid pace of development will begin to level off beginning in 2024.

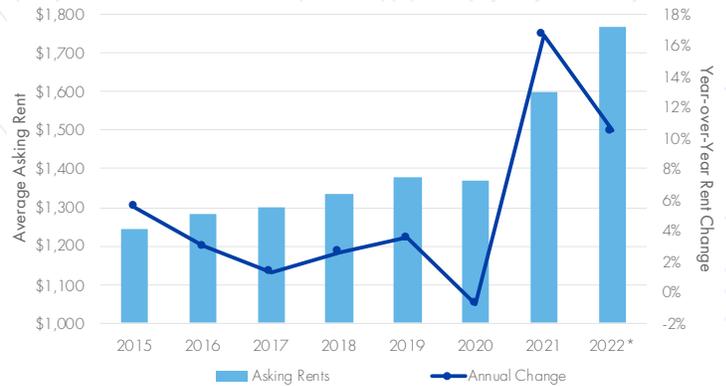
Recent investment patterns continue to support an outlook of continued investor demand in Nashville through the remainder of this year and into 2023. Investment capital is being drawn to one of the highest-growth regions in the country. Sales of multifamily properties in the first half of 2022 outpaced levels recorded during the same period last year. Historically, more deals take place in the region during the second half, although the recent rise in interest rates could cause the pace of activity to cool as buyers and sellers adjust to changes in the capital markets. The flow of new projects through the development pipeline should support additional investment activity going forward. During the first half of this year, sales of new construction projects accounted for more than 35 percent of transactions.

Employment Forecast



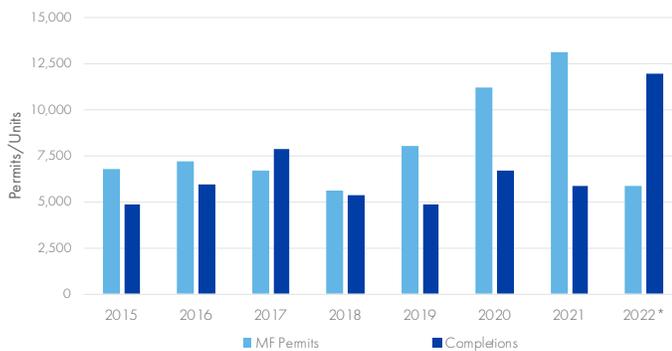
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



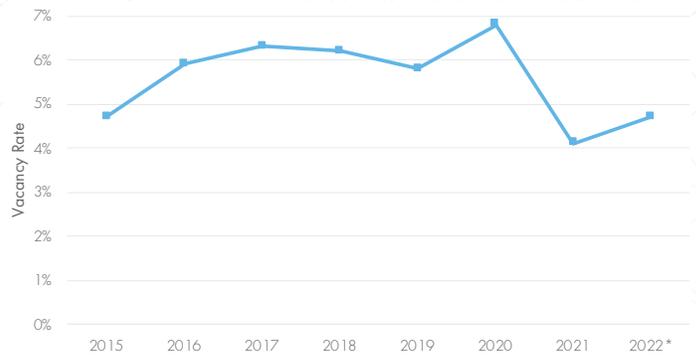
* Year End Forecast
Sources: Northmarq, CoStar

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.