

# A surge in construction pushes vacancy higher

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **22,607**

UNITS DELIVERED **3,698**

## MARKET FUNDAMENTALS



VACANCY RATE **6.5%**

YEAR-OVER-YEAR CHANGE **+220bps**

ASKING RENTS **\$1,689**

YEAR-OVER-YEAR CHANGE **+1.9%**

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$214,900**

## HIGHLIGHTS

- While absorption levels picked up in Nashville in recent months, apartment deliveries spiked during the first quarter, pushing the vacancy rate higher. Rents rose at the start of 2023 after retreating in the second half of last year.
- Local vacancy has been trending higher for more than a year, and the rate rose 70 basis points in the first quarter to 6.5 percent. Year over year, vacancy has increased by 220 basis points.
- Following two consecutive quarters of rent declines, apartment rents rose at the start of 2023. Asking rents increased 1.6 percent in the first quarter to \$1,689 per month. During the past 12 months, rents have advanced 1.9 percent.
- Fewer multifamily properties sold during the first quarter, and prices have come down from the peak. The median sales price was \$214,900 per unit, with cap rates averaging 5 percent.

## NASHVILLE MULTIFAMILY MARKET OVERVIEW

Property performance metrics in Nashville were mixed during the first quarter as apartment rents pushed higher, even as the vacancy rate continued to rise. Recent vacancy increases have been the result of an accelerating pace of deliveries, as multifamily developers completed nearly 3,700 units across the region in the first quarter. While renter demand did pick up slightly from recent periods, absorption levels continued to trail supply growth. This is a continuation of a recent trend; the number of delivered apartment units has now outpaced net move-ins for six consecutive quarters. This supply-demand imbalance has pushed the local vacancy rate to its highest level in more than two years. This sort of volatility is fairly common in markets recording rapid population expansion as developers move projects through the pipeline to meet current and anticipated renter demand.

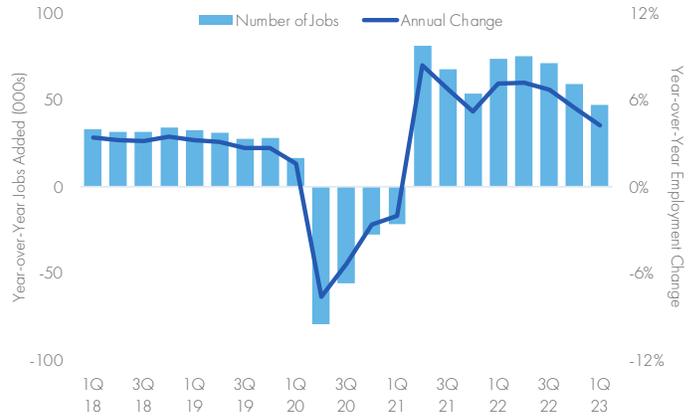
The Nashville multifamily investment market cooled at the start of the year as the pace of transactions continued to slow and pricing declined slightly. Heightened interest rates and more cautious underwriting standards have hampered deal flow in recent months as buyers try to find opportunities that pencil in the current environment. The number of sales in the first quarter in Nashville was down 65 percent from the same period last year. In addition to fewer properties changing hands, pricing also came down from last year's all-time highs. The median sales price to this point in the year is \$214,900 per unit, down nearly 9 percent from the median price in 2022. Nonetheless, newer properties continue to command strong per-unit pricing, although Class B and Class C assets have accounted for the greatest share of transactions.

## EMPLOYMENT

- Employers in Nashville continued to add workers to payrolls in recent months with the addition of 12,000 jobs in the first quarter. Year over year, the local labor market expanded by 47,400 positions, an annual gain of 4.3 percent.
- Nashville’s professional and business services sector has remained a leading source of growth in the market. During the past 12 months, this sector grew by 10,500 jobs, advancing 5.5 percent.
- Oracle recently tripled its downtown office space to 100,000 square feet and is now leasing three floors of temporary space until the company develops its \$1.35 billion riverfront campus on the East Bank of the Cumberland River. Oracle is expecting to employ 8,500 workers in Nashville by 2031.
- **FORECAST:** Total employment in Nashville is projected to continue to grow in the remainder of the year. Local employers are forecast to add 20,000 jobs in 2023, a 1.7 percent increase.

*Year over year, the local labor market expanded by 47,400 positions.*

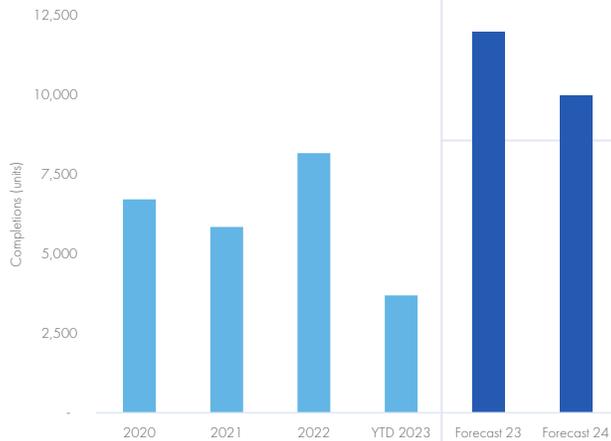
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

*Nearly 3,700 units were completed in the first quarter.*

### DEVELOPMENT TRENDS



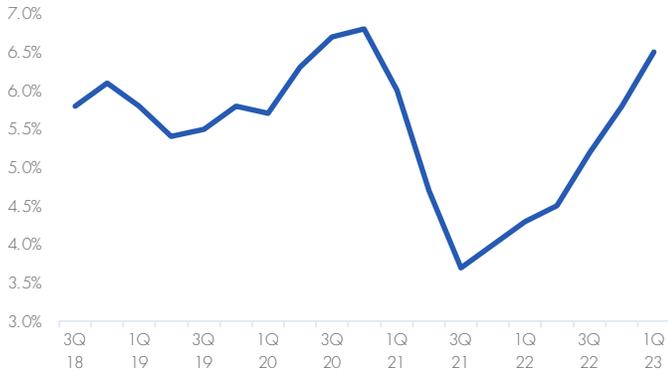
Sources: Northmarq, CoStar

## DEVELOPMENT & PERMITTING

- Multifamily development activity gained momentum in recent months as nearly 3,700 units were completed in the first quarter. The number of deliveries to this point in 2023 is up 45 percent year over year.
- Projects totaling more than 22,600 units are currently under construction throughout the region, an 8 percent increase from one year ago. While nearly half of the development pipeline total is located in Downtown Nashville, activity picked up in the Madison/Rivergate and Southeast Nashville submarkets in recent months.
- Developers continued to pull permits for new rental units, but the pace has slowed. Permits for approximately 2,500 multifamily units were issued in the first quarter, down from quarterly averages of about 3,000 permits in 2022. Multifamily permitting fell 17 percent from levels recorded during the first period of last year.
- **FORECAST:** Apartment developers will remain active in the coming periods with projects totaling approximately 12,000 units slated to come online in 2023. Looking further ahead, developers are scheduled to complete roughly 10,000 units in 2024.

Absorption in the first quarter totaled approximately 1,000 units.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

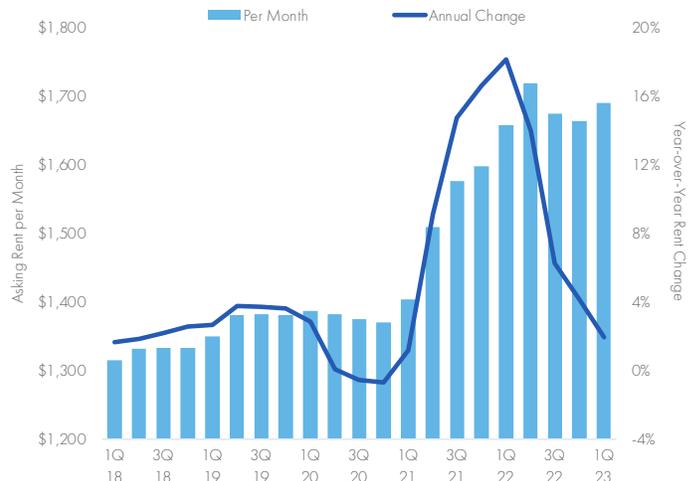
- The vacancy rate in Nashville trended higher in recent months, rising 70 basis points during the first quarter to 6.5 percent. The rate has now increased for six consecutive periods after falling to a cyclical low in 2021. Year over year, local vacancy is up 220 basis points.
- Absorption in Nashville during the first quarter totaled approximately 1,000 units, down 48 percent from the same period last year.
- Area vacancy remains tightest in Class C properties, as affordability continues to be a primary concern for local renters. The vacancy rate in lower-tier units dipped 10 basis points from one year ago, finishing the first quarter at 5.4 percent.
- **FORECAST:** New supply is projected to outpace demand in the remainder of the year, pushing the vacancy rate higher. Local vacancy is expected to finish 2023 at 7 percent, up 120 basis points for the year.

RENTS

- Asking rents in Nashville pushed higher at the start of the year, after retreating during the second half of 2022. Local apartment rents rose 1.6 percent during the first quarter to \$1,689 per month. While rents have not moved in a straight-line trend in recent quarters, current rents are up 1.9 percent year over year.
- Downtown Nashville continues to record the most expensive rents in the region, although asking rents in the city center dipped slightly during the past year. Apartment rents in the downtown area fell nearly 1 percent during the last 12 months to \$2,206 per month.
- Apartment rent growth in Nashville continues to be strongest in lower-tier properties. During the past year, asking rents in Class C units rose 4.5 percent to \$1,333 per month.
- **Forecast:** Local rents are expected to inch higher in the coming quarters. Average rents are forecast to rise 2 percent in 2023, ending the year at roughly \$1,695 per month.

Local apartment rents rose 1.6 percent during the first quarter.

RENT TRENDS



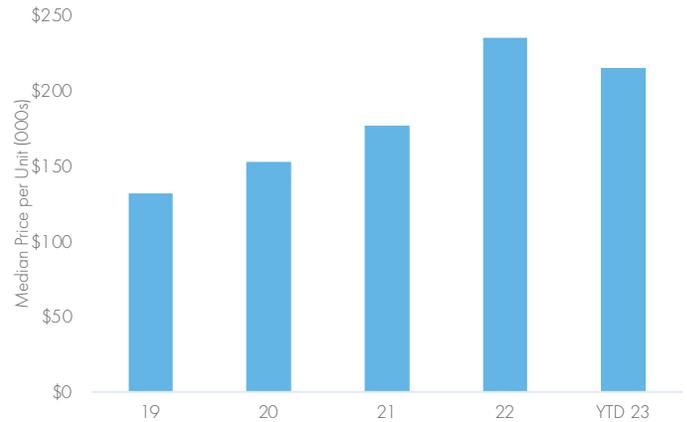
Sources: Northmarq, CoStar

## MULTIFAMILY SALES

- Multifamily transaction activity continued to slow at the start of 2023, as the number of deals during the first quarter lagged levels from the fourth quarter of last year by approximately 50 percent. When compared to one year earlier, sales velocity is down 65 percent.
- With only a handful of transactions in recent months, pricing trended lower. The median sales price thus far in 2023 is \$214,900 per unit, a 9 percent decline from the median price in 2022.
- Cap rates have increased significantly during the past year. In the first quarter, cap rates averaged above 5 percent, up roughly 150 basis points from one year ago.

The median sales price thus far in 2023 is \$214,900 per unit.

### INVESTMENT TRENDS



Sources: Northmarq, CoStar

## RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

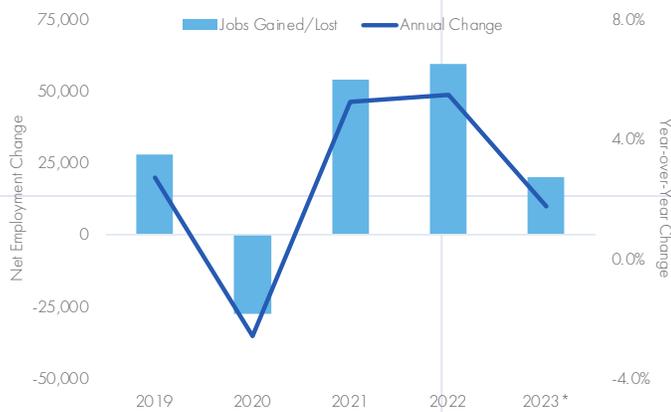
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Abberly Riverwalk	200 Cumberland Bnd., Nashville	304	\$106,000,000	\$348,684
Richland Falls Apartments	526 Dill Ln., Murfreesboro	276	\$59,300,000	\$214,855
Hunters Creek Apartments	100 Hunters Creek Blvd., Lebanon	192	\$41,400,000	\$215,625
Addison at Rossvie	200 Holland Dr., Clarksville	205	\$40,000,000	\$195,122

## LOOKING AHEAD

Operating conditions in Nashville in the remainder of the year will be largely contingent on how the market responds to elevated levels of new supply. With projects totaling more than 22,600 units currently underway throughout the region, Nashville is set for a sharp acceleration in completions in 2023. Developers are on track to deliver approximately 12,000 units this year, nearly doubling the market’s average rate of inventory recorded since 2015, and likely outpacing the demand for new units. As absorption levels trail new supply, the vacancy rate will trend higher and rise for the second straight calendar year. Vacancy increases will be mostly concentrated in Class A properties, particularly in Downtown Nashville, as nearly half of the ongoing development is located in the city center.

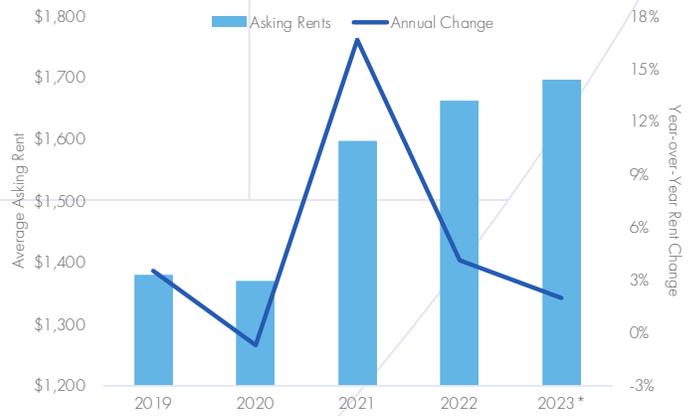
Apartment sales in Nashville are expected to remain somewhat limited in the coming months as buyers and sellers continue to adjust their pricing expectations. Some of this movement has already begun, with cap rates pushing up 150 basis points on average during the past 12 months. With most properties now being priced for cap rates at 5 percent or higher, there could be some additional acquisition activity if buyers can achieve some spread between lending rates and property yields. While newer, Class A properties can still transact at \$300,000 per unit or more, the Class B and Class C assets, which have accounted for the bulk of the sales in the market to this point, are trading with prices closer to \$185,000 per unit to \$215,000 per unit.

### EMPLOYMENT FORECAST



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

### RENT FORECAST



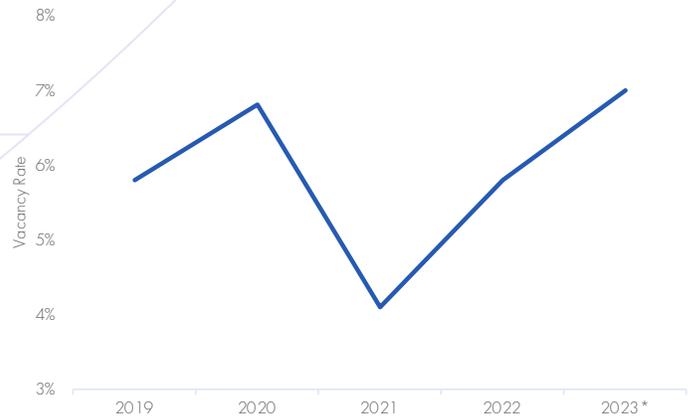
\* Year End Forecast  
Sources: Northmarq, CoStar

### CONSTRUCTION & PERMITTING FORECAST



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

### VACANCY FORECAST



\* Year End Forecast  
Sources: Northmarq, CoStar



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