

# MARKET REPORT

Multifamily  
Nashville Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

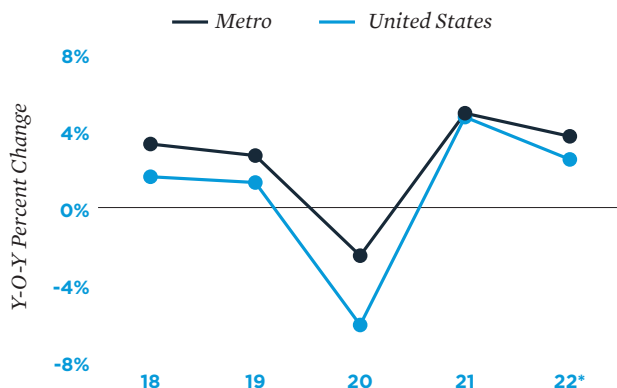
2Q/22

## Labor Market Gains Set Stage for Upgraded Outlook Across Housing Tiers

**Recovery of entertainment jobs to aid lower-tier demand.** A resurgence in the city's tourism, hospitality and entertainment sectors has fostered healthy demand for Class B/C units, even as these industries still have ground to make up from the COVID-19 shock. The metro's leisure and hospitality employment count lagged the pre-pandemic measure by 6,000 roles entering this year; however, the recovery of more than 20,800 of these jobs in 2021 helped Class C vacancy drop from 5.0 percent to just 1.5 percent last year. Hiring in the sector should escalate as large events and festivals return in full force, providing tailwinds for Class B/C property performance throughout 2022.

**Diversifying labor market spurs development.** Nashville has long benefited from growth in the entertainment and leisure and hospitality sectors; however, the metro's newfound prominence as a hot spot for corporate relocations has sparked a demand surge for apartments across property tiers. Job-related relocations have led the metro to record a faster household formation than the national average. The influx of high-skill workers has also introduced a new renter pool to the rapidly growing Class A stock, helping upper-tier vacancy slide 390 basis points year-over-year, despite a notable supply wave. The amplification of demand drivers resulted in the metro more than halving its overall vacancy rate last year, and continued vacancy compression in the face of record-setting development is expected in 2022.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

## Multifamily 2022 Outlook



**40,000  
JOBS**

*will be created*

### EMPLOYMENT:

The unemployment rate in Nashville slid to just 3.2 percent last year, and the lack of available labor is now the primary constraint on job growth. Still, the metro's year-end headcount will be roughly 60,000 positions ahead of the pre-pandemic high.



**9,000  
UNITS**

*will be completed*

### CONSTRUCTION:

Development rises in Nashville, with inventory set to expand at the second-quickest rate among major U.S. metros in 2022. Central Nashville, including downtown, Music Row and Midtown, houses more than half of the current construction pipeline.



**10  
BASIS POINT**

*decrease in vacancy*

### VACANCY:

Vacancy tightens to 2.4 percent this year, despite high inventory growth. The net absorption of more than 20,000 units since the start of 2021 will leave roughly 4,100 vacant units in Nashville. Outside of 2021, vacant stock has not been this low since 2000.



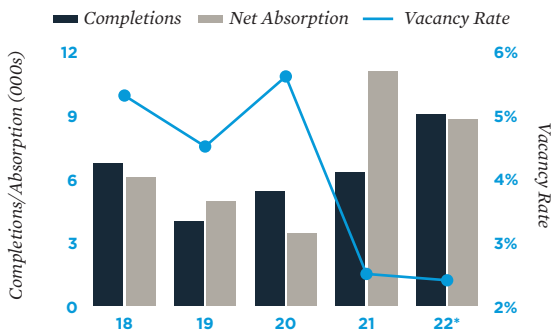
**9.1%  
INCREASE**

*in effective rent*

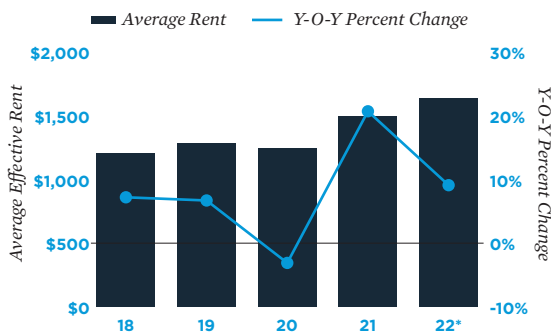
### RENT:

After climbing more than 20 percent last year, effective monthly rents will elevate to an average of \$1,633 by the end of 2022. High-end units being added to the market and tight conditions in lower-tier segments enable this rapid surge.

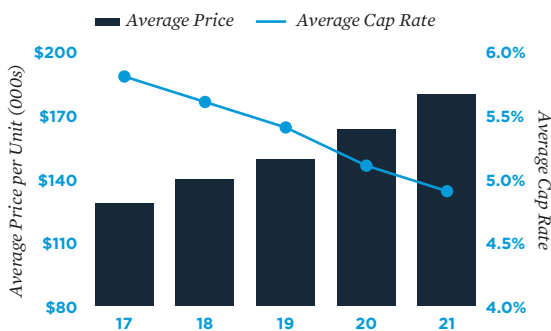
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

## 1Q 2022 - 12-Month Period

### CONSTRUCTION

**6,713 units completed**

- Builders are most active in Central and Southeast Nashville, with southern suburbs like Murfreesboro also adding significant units.
- The current construction pipeline in Central Nashville is one of the largest in the nation as a percent of inventory, adding units to a submarket that has more than doubled its total stock since 2013.

### VACANCY

**300 basis point decrease in vacancy Y-O-Y**

- The metro has grown its population of 20-34-year-olds at the seventh quickest rate of major U.S. metros, with more than 6,500 young adults added to the tally in 2021, aiding vacancy compression to 2.5 percent.
- Despite elevated completions, Class A vacancy in Central Nashville contracted to 3.7 percent last year, lower than the Class B/C rates here.

### RENT

**23.3% increase in the average effective rent Y-O-Y**

- As the majority of inventory in the core is newer and higher quality, a lack of Class C availability in Central Nashville led lower-tier rents to jump by more than 40 percent in the submarket last year.
- Leasing strength across the metro led suburban rents to climb 22.9 percent in 2021, surpassing the 22.8 percent rise in the CBD.

## Investment Highlights

- Out-of-state investors are active in the market, as population growth and favorable labor market developments fostered several years of improving performance and rising valuations. Average prices climbed nearly 10 percent in each of the last two years, reaching \$179,000 per-unit in 2021. The plethora of newer builds has also attracted larger investors and institutions to the Nashville market.
- Sales velocity escalated over the course of 2021, with the final quarter of last year recording more transactions over \$1 million than all of 2020. Rising buyer interest is the predominant factor behind the average cap rate falling to 4.9 percent in Nashville last year.
- Higher yields have traditionally lured investors to the metro, but strong fundamentals and swaths of industrial-grade stock have appealed to a new set of buyers. The largest climb in sales velocity occurred in the \$20 million and above segment. More than half of the metro's inventory was built after 2013, therefore, newer assets with premium price points make up a larger share of recorded trades. Large Class A assets in Central Nashville often command entry costs above \$300,000 per unit, with cap rates as low as 3.5 percent on these transactions.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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