# MARKET REPORT

**Multifamily**

*Nashville Metro Area*

IPA INSTITUTIONAL PROPERTY ADVISORS

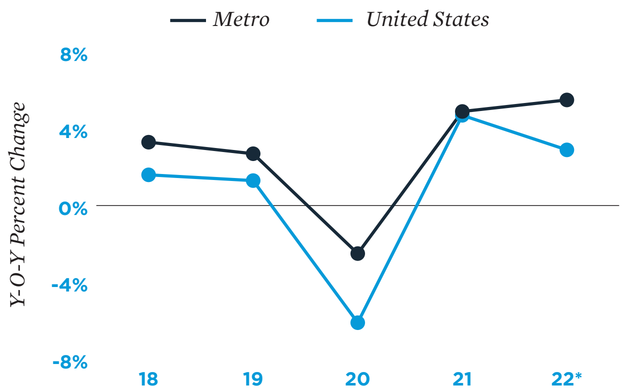
3Q/22

## Widening Affordability Gap Provides Impetus for Construction as Local Populace Swells

**Mortgage rates skyrocket, initiating rental development.** The relative affordability of apartments has reached a record in Nashville, urging a growing number of developers to bet on future rental demand gains. The difference between the metro's average monthly mortgage payment on a median priced home compared to the mean rent obligation reached an all-time high of $1,320 in the second quarter, doubling since the end of 2020. Many households will delay homebuying amid high mortgage rates, prices and inflation. At the same time, rentals offer greater flexibility via short-term leases and are often in better locations than entry-level homes. This is encouraging historic apartment development, with Central and North Nashville as the primary focal points, after recording the largest Class A vacancy contractions in recent quarters. Many young professionals favor these areas, supporting tight conditions that should allow operators to comfortably lift rates as projects finalize.

**Outlying eastern areas attract industrial expansions.** From September 2021 to July 2022, four large-scale industrial move-ins took place in the Hermitage-Mount Juliet-Lebanon area. Major operations such as these require significant staffing counts, boosting local rental demand across the quality spectrum. The limited amount of upper- and mid-tier apartments in this area has resulted in near-3 percent Class A and B vacancy rates. Developers are responding with more than 2,000 units scheduled for delivery in the submarket, helping meet demand and presenting future investment prospects.

### Employment Trends




* Forecast

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

## Multifamily 2022 Outlook

**60,000 JOBS**
*will be created*

### EMPLOYMENT:

Nashville's staffing expands by 5.5 percent, keeping unemployment near the historical low. At 2.6 percent in June, firms may have to recruit more frequently from outside the metro to fill new positions, suggesting elevated in-migration in the near term.

**7,600 UNITS**
*will be completed*

### CONSTRUCTION:

Developers will expand inventory by 4.6 percent, marking the second-fastest pace in the nation among major markets. Construction is concentrated in Central Nashville, with the area slated to receive nearly 2,900 doors in the second half.

**60 BASIS POINT**
*increase in vacancy*

### VACANCY:

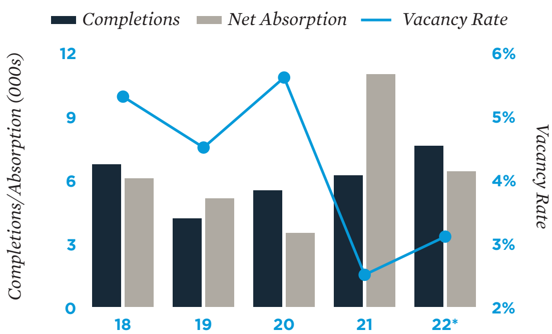
Despite lifting to 3.1 percent this year, Nashville's vacancy remains lower than any recording prior to July 2021. Construction has picked up since last year while demand has waned, placing upward pressure on availability.

**16.0% INCREASE**
*in effective rent*

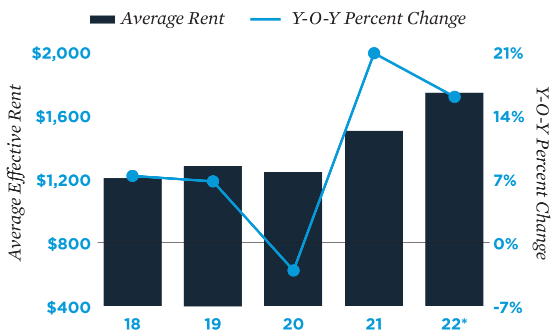
### RENT:

After recording three consecutive quarters exceeding 20 percent, annual rent growth decelerates, lifting to $1,740 per month on average. Vacancy is set to increase annually for the first time since 2020, reducing supply-side constraints for leasing.

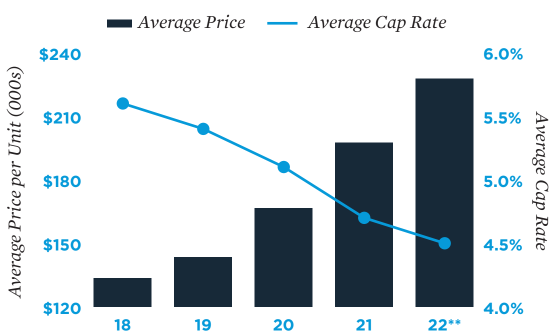
## Supply and Demand




## Rent Trends




## Sales Trends




** Forecast ** Through 2Q*

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

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*Price: $250*

## 2Q 2022 - 12-Month Period

### CONSTRUCTION

**6,639 units completed**

- Builders were most active in the Central Nashville submarket, completing 2,025 apartments in the area during the yearlong span ending in June.
- Central Nashville also has the largest active pipeline in the metro at 11,100 units, equating to roughly 43 percent of its inventory as of June. The pipeline is highlighted by the mixed-use Neuhoff, delivering in August 2023.

### VACANCY

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

- Metrowide vacancy dropped to 3.2 percent as demand significantly outpaced supply through the four quarters preceding July. During this period, vacancy rates for all three asset classes lowered at least 110 basis points.
- Availability in the Southeast Nashville submarket dropped 290 basis points to 2.7 percent, marking the starkest contraction in the metro.

### RENT

**22.9% increase in the average effective rent Y-O-Y**

- Nashville's average effective rent shot up to $1,622 per month during the yearlong span ending in June, aided by a cyclically low vacancy rate.
- Suburban rent grew at a record pace, lifting 23.1 percent to $1,542 per month on average. Among suburban areas, the South and Southeast Nashville submarkets each recorded their fastest growth to-date.

## Investment Highlights

- Drawn by the most rapid rent growth in the nation for any market not located in Florida or Nevada, investors drove sales activity to double its volume over the 12-month period ending in June. During the frame, buyers exhibited a preference for assets priced $20 million or higher. Many institutions are targeting heavily-demanded, lower-yield assets where rent hikes on expiring leases are feasible. The large volume high-dollar trades pushed the metro's average price per unit up to $228,000, while rising valuations helped pull the average cap rate down 40 basis points to 4.5 percent.
- Most acquisitions of assets priced $20 million or higher took place in Southeast Nashville, with institutions attracted to the locale's emphatic demand improvement and historical rent growth over the past year. Conditions here have tightened faster than any other area in the metro, suggesting strong pricing power for owners raising rents on expiring leases.
- Heightened competition for top-tier assets in Southeast Nashville and the urban core could lead institutions to expand their search parameters. The market-low 1.8 percent Class A vacancy rate in East Nashville could be compelling. Additionally, a 3.0 percent Class B vacancy rate in Hermitage-Mount Juliet-Lebanon amid industrial expansions may prompt attention.