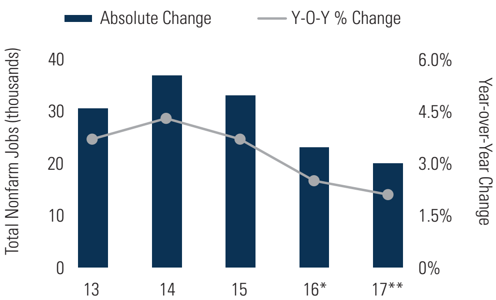
IPA

# Vacancy Rate Climbing in Nashville Amid Period of Rising Stature With Investors

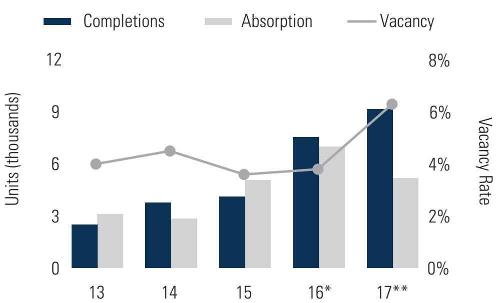
**Hiring in service-related industries supports demand outlook.** Expansions in the healthcare sector and building trades will support job creation in excess of the U.S. rate of increase this year and generate new demand for rental housing. Graduates from local colleges entering tech or healthcare fields will find employment opportunities in Nashville and join a steady flow of new residents relocating from other areas to form a sizable pool of potential renters. New rental demand, though, will not keep pace with completions this year. Projects slated for delivery in 2017, largely comprising luxury units, will be located in neighborhoods including Music Row, Downtown and the East End. The Class A vacancy rate is most likely to rise as new rentals lease up, but low vacancy in Class B/C complexes will persist as new jobs at hotels and in retail generate new demand.

**Nashville's economy and prospects garner investor consideration.** Assets trade at cap rates averaging in the high-5 percent range, with properties in outlying and expanding cities including Murfreesboro commanding first-year returns in the high-6 to 7 percent band. Many large investors targeting new Class A properties throughout the metro will provide a potential exit strategy for merchant builders. At the other end of the price spectrum, tight vacancy and growing rents in the Class B/C segment will stoke greater interest among capital sources that include smaller institutions, larger private entities and well-capitalized individuals. Properties in the northern, southern and southeastern sections of the city will emerge as the focus of these investors. In centrally located neighborhoods undergoing revitalization and an expansion of retail options, investors seeking potential upsides will upgrade assets and raise rents to attract tenants who cannot afford luxury rental housing.

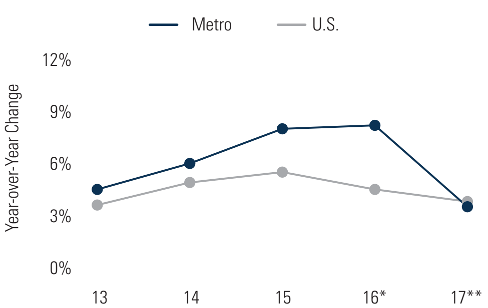
### Employment Trends



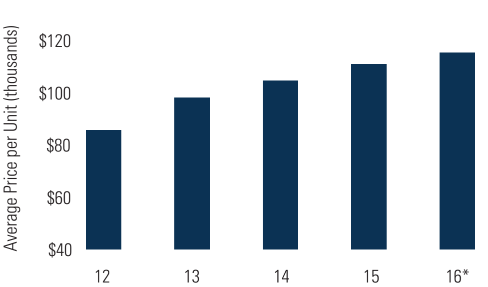

### Supply and Demand




### Effective Rent Trends




### Sales Trends




* Estimate ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## 2017 Market Forecast

**NMI Rank** 29, down 8 places — Concerns of oversupply drop Nashville eight rungs in this year's Index.

**Employment** up 2.1% — Nashville employers will add 20,000 workers during 2017, increasing headcounts 2.1 percent; 23,000 positions were created last year.

**Construction** 9,100 units — Roughly 9,100 units will come online during 2017, marking the high point of this cycle. More than 15,000 rentals were placed in service over the past three years.

**Vacancy** up 250 bps — Projected net absorption of 5,100 units lags completions, supporting an increase in the vacancy rate this year of 250 basis points to 6.3 percent.

**Rent** up 3.5% — Rising vacancy will temper rent growth, with the average effective rent increasing 3.5 percent this year to $1,155 per month.

**Investment** — The completion of multiple Class A projects in the next 24 months will create numerous opportunities for well-capitalized investors seeking newly built, primarily mid-rise complexes.