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Multifamily Metro Outlook: Nashville Winter 2018

Overview

Nashville’s apartment market has experienced robust deliveries of new units in the past several years, riding a wave of strong job and population growth. While those underlying economic trends are expected to continue for the next several years, the supply of new units is growing and likely to exceed demand, which may result in lower-than-expected rent growth and an increasing vacancy rate.

Despite one of the more attractive economic growth forecasts for the nation, the for-rent market expects lackluster performance. With already attractive demographics (the area is home to three universities), it is well positioned for expanded rental demand. Single-family affordability, however, limits growth potential.

Nashville’s economy had been expanding nicely. In the year ending Q3 2017, jobs increased 2.8 percent, well above the 1.4 percent national rate, and in the important professional and business services category, jobs expanded 3.3 percent, compared to 3.0 percent nationally. The metro is forecasted to grow faster than most, with job growth expected to outpace the national rate through 2022. It also has very positive demographic trends with solid population and in-migration growth. Population growth for the year ending Q3 2017 was 2.0 percent, compared to 0.8 percent nationally. Nashville's demographic composition makes it an attractive place for apartment rentals: 22.0 percent of the population is age 20-34 (the prime renting cohort), above the national average of 20.7 percent.

Development

Though some of the recent supply replaced units lost in the floods of 2010, there has been significant new rental supply added: since 2012 over 24,000 units were completed, and another 9,800 are underway. As a result, modest rent growth, rising concessions, and increasing vacancy rates are expected in the near term.

Condo development may be a little more active in 2018 than desirable: around 12,500 condo units have been delivered since the beginning of 2006, and another 1,100 are due to be completed through Q4 2018. While condo development in the area has been focused on specialty markets, like urban lofts in Nashville's downtown, the sheer number of units is a potential concern for the rental market.

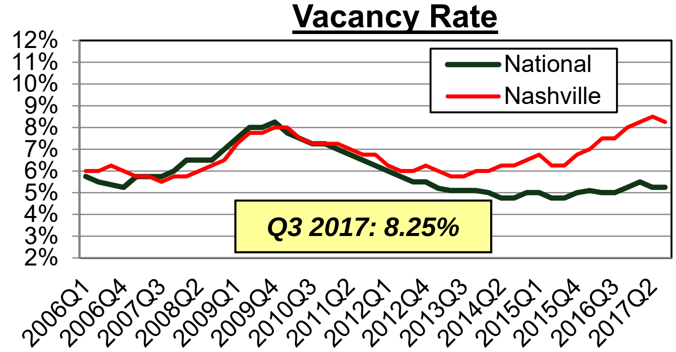
Outlook

Nashville’s for-rent market will likely soften in the near term. The metro's economy is among the strongest nationally, and new units will probably push the market to relatively high vacancy levels, although rent growth should remain positive. The continued supply of new apartment units will likely push vacancies up in the next year or two, but the metro’s strong job and population growth should allow rent levels to rise, albeit modestly.

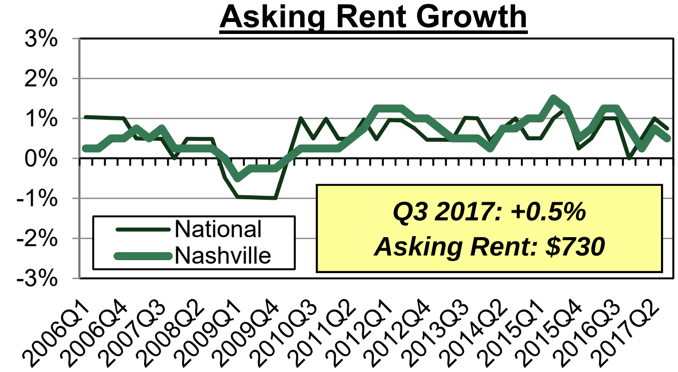
The metro’s long-term economic growth forecast, which is among the more attractive forecasts nationally, should allow for the rental market to steadily expand in the long run. But the balanced growth that the metro is likely to experience economically and in its for-sale real estate markets may prevent the for-rent market from breaking out and being an exceptional performer. The near term for Nashville looks a bit soft and unattractive, but the drivers for long-term demand for apartments should eventually allow for a steadily expanding rental market.

Vacancy and Rent Composite Estimates

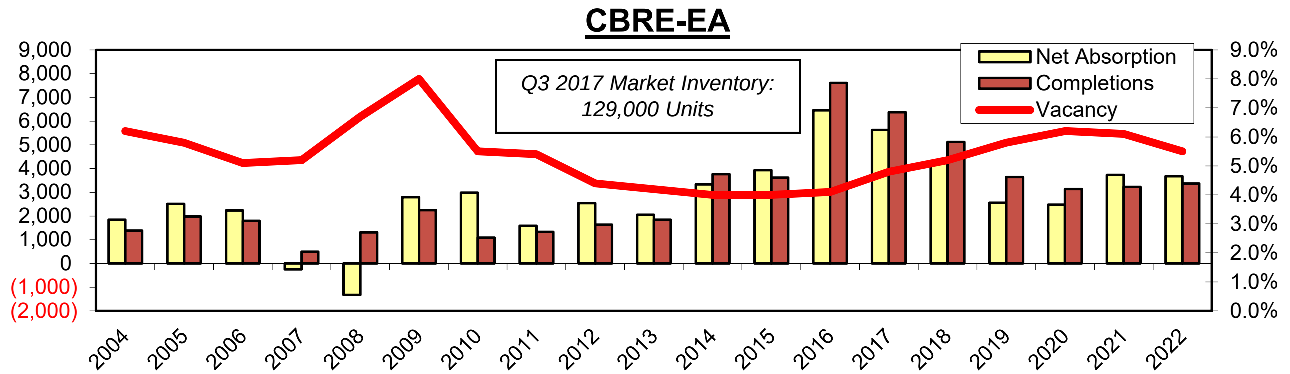
Vacancy Rate

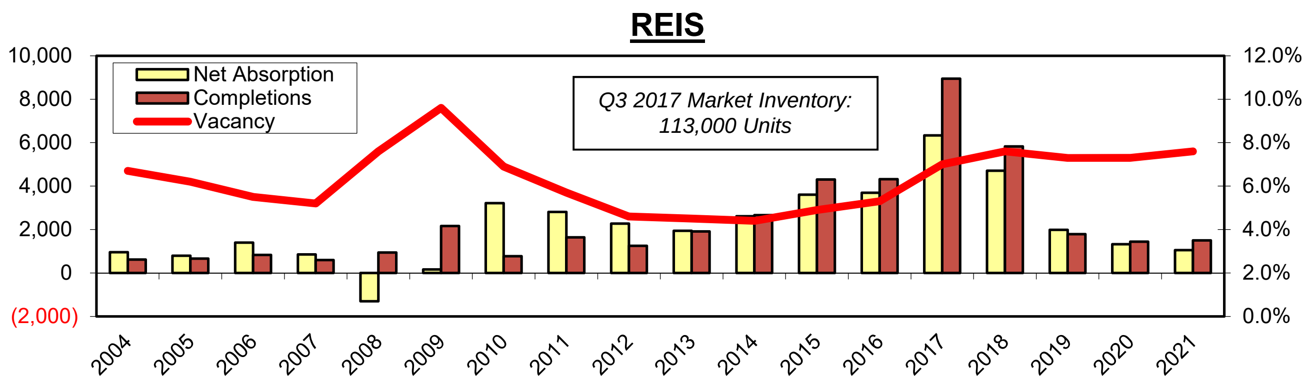


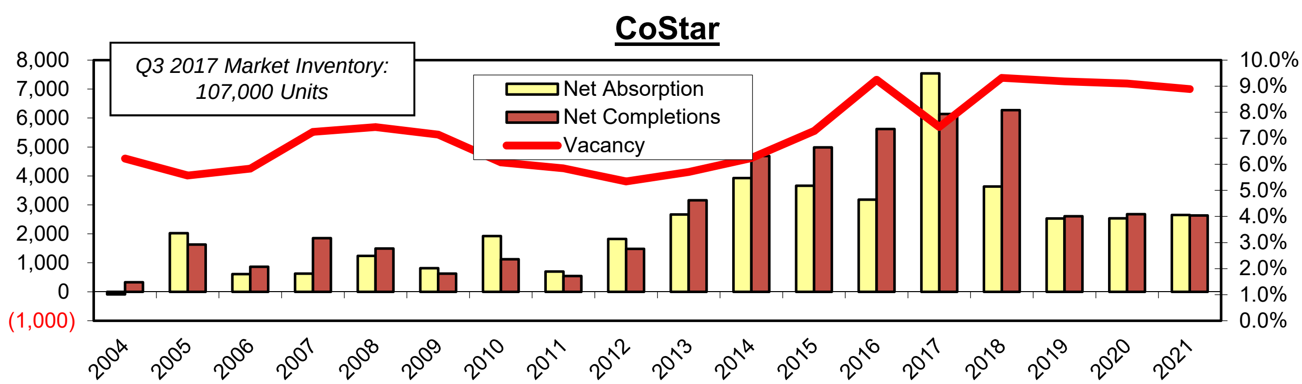
Asking Rent Growth

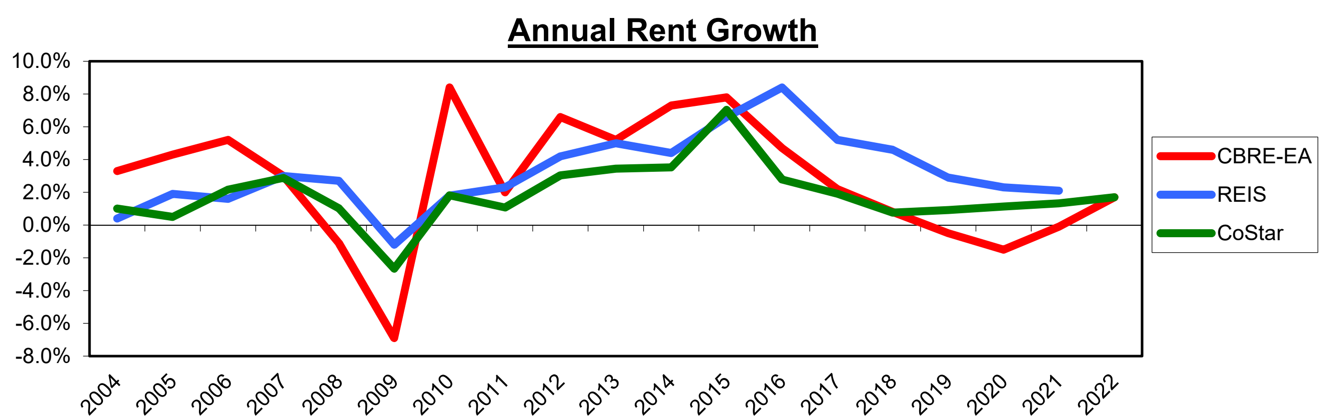


Source: Fannie Mae Multifamily and Economics Research

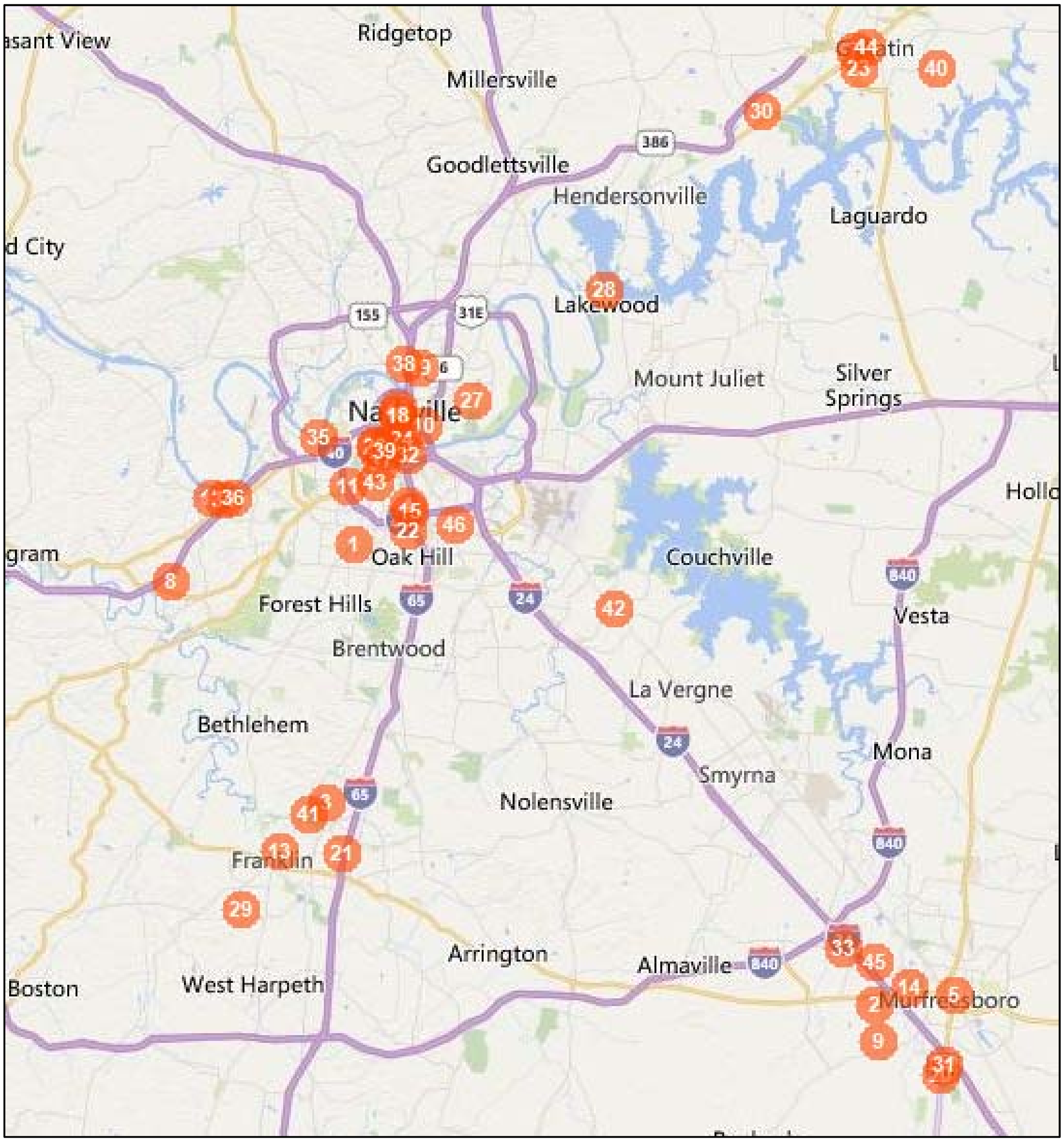

CBRE-EA
Q3 2017 Market Inventory:
129,000 Units
Net Absorption
Completions
Vacancy


REIS
Q3 2017 Market Inventory:
113,000 Units
Net Absorption
Completions
Vacancy


CoStar
Q3 2017 Market Inventory:
107,000 Units
Net Absorption
Net Completions
Vacancy


Annual Rent Growth
CBRE-EA
REIS
CoStar

Construction Bidding/Underway
(46 projects/9,800 Units/11.3 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Airport/Briley Parkway	1	92	92
Belle Meade/West Nashville	5	1558	1464
Brentwood/Williamson County	5	1195	1004
Donelson/Hermitage/Wilson County	1	147	116
Downtown/West End/Green Hills	16	4541	3652
Murfreesboro Pike/Antioch	1	166	96
Murfreesboro/Smyrna	8	1537	1462
NE/Madison/Rivergate/Hendersonville	9	2055	1932

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Fannie Mae Multifamily Economics and Market Research

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Sources Used

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.