

# Does Nashville Need All These Apartments?



- Investment Sales
- Mortgage Brokerage

Does Nashville need all these apartments? While the U.S. and World economies struggle in a prolonged economic slump, Nashville is witnessing an apartment boom. There are currently 9,003 units either under construction or planning construction in the Nashville area.

- 2012 Construction Underway – 4,587 units
- 2012 Speculative Construction – 4,416 units

Recently completed units:

- 2012 YTD Completions – 426 units
- 2011 Completions – 1,375 units
- 2010 Completions – 2,062 units
- 2009 Completions – 1,689 units

*(Source – Greater Nashville Apartment Association)*

## Investment Trends

There are multiple investment themes making apartments the trendy investment for 2012. (1) Tighter credit for single family home buyers is causing more households to rent vs. own a home. (2) Uncertainty over the future of government sponsored housing programs is leading investors to multifamily investment. (3) Low yielding bonds and an uncertain equities market has investment capital seeking higher yielding multifamily assets. (4) Real assets are an inflation hedge to the central banks easy monetary policy. (5) Increased demand fueled by population growth exacerbated by a slowdown in building during the recession.



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### Nashville CMSA Historical Population

<u>Year</u>	<u>Population</u>	<u>% Increase</u>
2010	1,589,934	21.20%
2000	1,311,789	33.17%
1990	985,026	15.82%
1980	850,505	57.18%
1970	541,108	35.36%
1960	399,743	24.24%
1950	321,758	
<b>Average:</b>		<b>31.16%</b>

Source – U.S. Census Bureau

## Population Growth

The U.S. Census Bureau estimates the Nashville-Davison-Murfreesboro-Franklin CMSA to have a 2012 population of 1,670,890 people.

With all this population growth (demand), Nashville needs additional residential dwellings (supply). But how much is demanded? How much is overbuilding? What will Nashville look like in 2020? In the table to the left is Nashville's historical growth rate. Since 1950, the population has averaged a ten year growth rate of 31.16% for the Nashville CMSA.

## Population Projection

What will Nashville look like in 2020 and beyond? The U.S. Census Bureau estimates the 2020 population of the Nashville CMSA at 2,085,391 people. From 2010 to 2011 the population grew 1.71%. From 2011 to 2012 the population is forecasted to grow 3.32%. If we assume a 3% population growth rate, Nashville's forecasted population will outpace the U.S. Census Bureau's 2020 projection.

A 2020 population of 2.116+ million people represents a 33.13% decade over decade growth rate. Given the historical trends and current momentum these projections appear highly achievable.

### Nashville CMSA Population Projection

<u>Year</u>	<u>Population</u>	<u>% Increase</u>
2010	1,589,934	
2011	1,617,142	1.71%
2012	1,670,890	3.32%
2013	1,721,017	3.00%
2014	1,772,647	3.00%
2015	1,825,827	3.00%
2016	1,880,601	3.00%
2017	1,937,019	3.00%
2018	1,995,130	3.00%
2019	2,054,984	3.00%
2020	2,116,633	3.00%

Source – U.S. Census Bureau



**Nashville Overall Market  
Historical Vacancy**

<u>Year</u>	<u>Occupancy</u>
September 2012	95.84%
December 2011	93.80%
December 2010	93.30%
December 2009	90.20%
December 2008	90.80%
December 2007	93.70%
December 2006	93.20%
December 2005	93.50%
December 2004	92.70%
December 2003	92.30%
December 2002	92.60%

Source – GNAA

## Historical Vacancy

Nashville maintains a relatively low vacancy rate due to a diverse economic base, positive population growth and a challenging geography restricting new development.

As demand for apartments surge, developers have answered with many new projects. That pipeline, however, takes time to complete. In the meantime, overall market occupancy rates are 200 bps above the historical average. Will Nashville be able to maintain an overall occupancy rate of 95% once 9,000+ units are delivered?

Our opinion is the overall market occupancy will return to historical averages and might even dip below as the bulk of the supply is delivered.

## Rent Growth

While the new construction is completed, occupancy rates increase and landlords continue to push rents up. Rent growth for the overall Nashville market for a nine month period has increased 4.42%.

Will Nashville be able to maintain 4%+ annual rent growth once 9,000+ units are delivered? Historically, that is not the case. Does your investment plan need 4% annual rent growth to succeed?



**Nashville Overall Market  
Rent Growth**

<u>Year</u>	<u>Average Rent</u>	<u>% Inc</u>
September 2012	\$826	4.42%
December 2011	\$791	2.06%
December 2010	\$775	4.03%
December 2009	\$745	-0.80%
December 2008	\$751	0.13%
December 2007	\$750	3.88%
December 2006	\$722	3.14%
December 2005	\$700	0.72%
December 2004	\$695	0.72%
December 2003	\$690	1.62%
December 2002	\$679	

Source - GNAA



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Nashville has solid economic reasons for an apartment boom. The pro-growth environment continues to attract jobs. Those jobs continue to lead to population growth. The local geography continues to act as a barrier to entry that limits new supply.

As a point of caution, we do see initial signs of an investment market starting to overheat. Investment firms continue to pay aggressive cap rates for multifamily product. The rationale is (1) a 5% going in cap rate on a multifamily product beats the current yields on bonds and uncertain equities (2) forecasted increases to rental rates and net operating incomes makes these investments even more attractive on paper. Forecasted numbers do not always match up with actual numbers. A previous slide in underwriting standards amplified the negative effects for commercial real estate investors during the last downturn when their forecasted results were not realized.

There is still an entrepreneurial profit to be made by developers who can deliver product to the market. While the spread between project cost and market value is attractive, we expect developers to continue to build more units. No one can accurately predict the inflection point that will turn the market. We believe if Nashville continues to grow in population, then the market can support more units.

Bottom line; wade carefully into overheating investment waters. There are strong macroeconomic and fundamental reasons to invest in multifamily assets. Kwasek Commercial Real Estate can help to determine if you are caught up in a bidding war or buying a quality asset that will perform over the long term. We apply a fundamental, disciplined approach to review each asset, the local market and the investment market to help you make an informed decision.

