

# Nashville: Do You Own A Development Site?

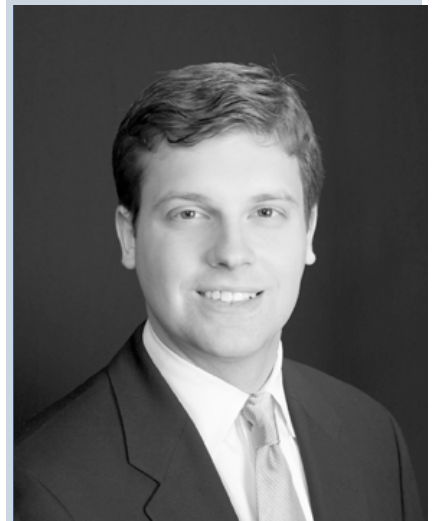


Nashville is booming! The region is attracting attention and capital from around the world.

The region set a tourism record in 2017; drawing 17.5 million visitors. The city has population and job growth, two vital ingredients to a strong commercial real estate market. Adding in the robust tourism sector is an X factor. Alliance Bernstein announced a corporate HQ relocation from Manhattan to Nashville. The company, with \$549 Billion of assets under management, plans to relocate 1,000 corporate jobs to Nashville. British Airways began operating Nashville's first direct flight service to Europe via London in May 2018, opening a new frontier of tourist and business travel for Nashville.

The Nashville CRE market is healthy. Infill multifamily is currently soft due to robust supply but will be short lived. Developers are already preparing for the next cycle. The development slowdown will put further strain on affordable housing in the next 2-5 years as Nashville continues to grow and excess supply is absorbed. The city continues to add jobs and population. Demand is still strong. The next cycle in Nashville will be just as robust.

The lifecycle of a development deal is up to four years. Let's get started today!



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## Nashville MSA Multifamily Construction Completed

<u>Year</u>	<u>Units</u>
2008	558
2009	1,689
2010	2,062
2011	1,375
2012	966
2013	3,035
2014	2,536
2015	4,523
2016	4,818
2017	7,532
2018 (Q1)	2,971

## Nashville MSA Pipeline Pipeline

Construction Underway: 12,402 units  
Speculative Construction: 12,940 units

## Nashville MSA Pipeline Estimated Deliveries

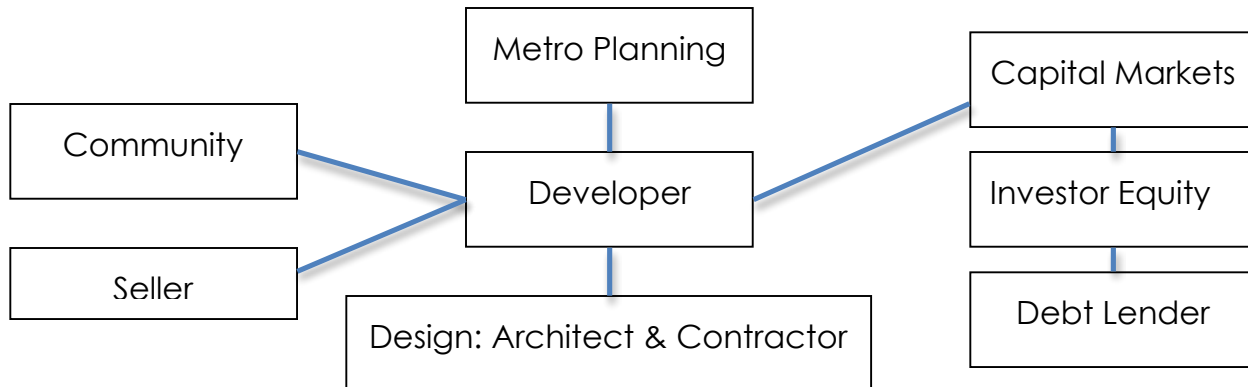
2018: 8,750 units  
2019: 3,564 units

Source – Greater Nashville Apartment Association

# The Development Process

Metro Planning has done a fantastic job of laying out the vision for Nashville. The development process is complex and time consuming. Developers draw the ire of many in the community. Sometimes it is warranted. Many times it is not. Developers have a very difficult job satisfying multiple different stakeholders. Each stakeholder has a unique set of demands.

The matrix below illustrates what a developer must navigate to complete a project. Using this matrix to learn and understand the development process from a different perspective, buyers and sellers can better understand each other's needs for a mutually beneficial relationship. Knowing the right questions to ask a potential buyer is vital to success. One must be committed to selling as the process can be long and difficult. A developer will often pay top dollar for a site but needs time for their plans to come to fruition.



**Metro Planning:** Planning department's goals are to execute the long-range plan for each community. There are often multiple layers of approval before a developer knows what they can build. What does the zoning allow? Is the building or neighborhood historic? Is it in a flood plain? Is there an MDHA overlay? How much density is allowed on the site? How much of the site can you build on? Are setbacks required? How high can one build?

This is where an experienced developer is vital. Knowing a neighborhood's vision helps a developer quickly and accurately estimate the value of the land and development potential. Many neighborhood plans are created decades in advance to foster responsible growth. Sometimes these plans are necessary to update. When a developer tries to deviate from a neighborhood plan, the local residents are asked for input. Their input goes a long way into deciding if the developer's request is approved.

**Community:** Residents of each community are asked for their input on the vision for each neighborhood. Along with metro planners they drive the vision for the neighborhood. When a developer seeks an exception to a zoning regulation, generally the community needs to agree. The local council member's opinion is an influential voice when considering rezoning requests.

**Seller:** Price is always an important deal point. Timing and length of contract are often where deals fail to materialize. Sellers want record-breaking prices as fast as possible. Developers need time to review with architects, contractors, community stakeholders, metro planners and capital market providers. This process can take months and everyone is really busy making the process even longer.

**Architect & Contractor:** Ok, so the preliminary design presented is approved by the community and planning department. Is it physically feasible? How much will it cost? Does the site have unique challenges that affect the design and cost? How long will it take to build? Land, labor and materials are increasing. Has the price continued to increase while you were in the planning stage for 6-12 months?

**Capital Markets:** It might be months before a developer can approach capital markets with an accurate pro forma for a project. Does the pro forma presented offer enough yield for the associated risk? Capital markets are always evolving. Have rising interest rates increased the cost of the debt and reduced the profitability of the project and therefore reducing the equity investor's return?



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## Unemployment Rate

National: 3.8% (May 2018)

State of TN: 3.4% (April 2018)

Nashville MSA: 2.2% (April 2018)

## Investment Commentary

I expect a portion of the forecasted 2018 deliveries to spill over into 2019. Compared to 2017 & 2018, there will be a reduction in the amount of deliveries in 2019. Many of the speculative construction units are on indefinite hold and if started now will not deliver until after 2019.

Someone with the vision and ability to start a project now will be rewarded upon completion when demand is high but supply is tight. With less anticipated supply in the near to mid term, net operating incomes will surge in 2-5 years. Those incomes will support handsome valuations upon exit.

The typical lifecycle of a development deal is up to four years. A project started today might not deliver until mid 2020.

Year One: Contract and planning

Year Two & Three: Construction (length depends upon construction type)

Year Four: Delivery and Lease Up

Do you own property that might be a candidate for redevelopment? All properties have an intrinsic value based upon the income potential. Markets affect the value but only so much. A developer backs into land value by creating a detailed pro forma. KCRE understands each aspect of that pro forma.

Ready to get started? We are experts in the development process and know how to best evaluate a site for its fullest development potential. We utilize our twelve plus years of experience to evaluate your site and represent your best interest in a complex transaction. Take a look at some of our recent transactions; they illustrate the depth of our knowledge of the Nashville market and ability to execute complicated transactions.







**Recent Transactions:**

**Sold:** 12<sup>th</sup> & Division (701 12<sup>th</sup> Ave South)

**Type:** Land for Development

- 0.48+/- (Acres)
- 20,992+/- (SF)



**Sold:** 777 8<sup>th</sup> Ave South (Broadstone Gulch)

**Type:** Multifamily Development

- 238 Class A Units
- 0.94+/- (Acres)



**Sold:** 18<sup>th</sup> Ave Assemblage (Artisan on 18<sup>th</sup>)

**Type:** Multifamily Development

- 153 Class A Units
- 1.0+/- (Acres)



**Sold:** The Federal Reserve Bank of Nashville

**Type:** Office to Multifamily Conversion

- 75,000+ (SF) Office
- 61 Rental Units



**Sold:** 30 Music Square West

**Type:** Office

- 20,866+/- (SF)