

# Nashville: Surging Into 2015



2014 was nothing short of amazing. Investments into all sectors of commercial real estate were rewarded with record sales. Nashville made more national lists and our city leads the nation in population and job growth. Rapid job growth, low unemployment and national exposure means many opportunities lie ahead in 2015.

*How does the drop in oil and tumult in international markets affect our local market? What does that mean for our community in 2015?* Read on for further insights and my thoughts on the market.

Thus far I have seen no evidence of a slow down or negative impacts from the broader markets. I see no reduction in demand. Multifamily keeps performing even as more units are delivering. Rent growth is strong and occupancies remain high. The hotel and office sector are in the early stages of a development boom driven by high occupancies and continuing demand. All indicators are that Twelve Twelve condominium sales are going very well.

The underlying factors of our economic growth are propelling our economy forward. Job creation and population are both growing! Bridgestone's new SoBro HQ, announced in November 2014, is a great example of what is in store for Nashville. Even with a banner year in the home stretch, this impact is yet to be realized.

A different Nashville emerged from the Great Recession. Have you noticed? Keep reading and I'll explain what I see and how to best position yourself and your firm to capitalize on this red hot market.

**Kwasek**  
Commercial Real Estate

• Investment Sales

• Mortgage Brokerage



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## KEY ECONOMIC STATISTICS

### Top 10 Employers of Middle Tennessee (2014):

Source: Nashville Business Journal Book of Lists

1) State of Tennessee	-	38,341
2) Vanderbilt University	-	22,105
3) U.S. Government	-	12,179
4) Metro Nashville Schools	-	10,120
5) Nissan North America	-	10,050
6) Metro Nashville Gov't	-	8,700
7) HCA Holdings	-	7,000
7) Saint Thomas Health	-	7,000
9) Rutherford County Schools	-	5,505
10) Williamson County Schools	-	4,735

### Unemployment Rate

Source – U.S. Bureau of Labor Statistics

- U.S.A:	5.5% (Feb 2015)
- Tennessee:	6.7% (Jan 2015)
- Nashville MSA:	5.6% (Jan 2015)

### Top 20 Companies of Middle Tennessee by Revenue (2014):

Source: Nashville Business Journal Book of Lists

1) HCA Holdings Inc	-	\$34.2 Billion	(public)
2) Dollar General Corp	-	\$17.5 Billion	(public)
3) Community Health Systems, Inc.	-	\$15.1 Billion	(public)
4) Delek US Holdings Inc.	-	\$8.7 Billion	(public)
5) Tractor Supply Co.	-	\$5.2 Billion	(public)
6) LifePoint Hospitals Inc.	-	\$3.7 Billion	(public)
7) Brookdale Senior Living Inc.	-	\$2.9 Billion	(public)
8) Cracker Barrel Old Country Store	-	\$2.6 Billion	(public)
9) Genesco Inc.	-	\$2.6 Billion	(public)
10) Iasis Healthcare	-	\$2.4 Billion	(private)
11) Ardent Health Services	-	\$2.3 Billion	(private)
12) Louisiana-Pacific Corp	-	\$2.1 Billion	(public)
13) Corrections Corp of America	-	\$1.7 Billion	(public)
14) Sitel Corp	-	\$1.4 Billion	(private)
15) Noranda Aluminum Holdings Corp	-	\$1.3 Billion	(public)
16) Clarcor Inc.	-	\$1.3 Billion	(public)
17) Emdeon	-	\$1.2 Billion	(private)
18) AmSurg Corp.	-	\$1.1 Billion	(public)
18) OHL	-	\$1.1 Billion	(private)
20) Ryman Hospitality Properties	-	\$954.6 Million	(public)

### Fast Fact: In 2013, Nashville's gross domestic product topped \$100 billion

Source: Bureau of Economic Analysis via Nashville Business Journal

## Multifamily Market Snapshot (Third Quarter 2014)

### Construction Completed by Year:

<u>Year</u>	<u>Units</u>
2008	558
2009	1,689
2010	2,062
2011	1,375
2012	966
2013	3,035
2014 (Q3)	1,741

Source – Greater Nashville Apartment Association

For third quarter 2014, the GNAA reported a market wide occupancy rate of 96.63%. The average rent for all units was \$934 per month or \$0.99 per square foot. The West End/ Downtown submarket leads Nashville with an average rent of \$1.66 per SF.

### Deeper into the Numbers

Let's take a deeper look into the rent growth of one, two & three bedroom units within the West End/ Downtown submarket. Interestingly, three bedroom rents increased the most year over year (2013/2014). Most new projects have focused upon one (including studios) and two bedroom units. Have we neglected three bedroom units enough to where there is now a shortage?

A penthouse condominium transaction recently topped \$1,000 per SF. At some point someone will meet this demand. First, it reflects Nashville's coming of age. In the last cycle, anyone with the capability to afford higher prices tended to look suburban. Now, there is clear demand (and a very finite supply). Second, Nashville's residential pockets are growing together allowing these pockets to feel more like livable communities.

### Nashville Development Pipeline:

- Construction Underway: 8,992 units
- Speculative Construction: 9,139 units

Source – Greater Nashville Apartment Association

### Nashville Overall Market Rent Growth

<u>Year</u>	<u>Average Rent</u>	<u>% Inc</u>
2014 (Q3)	\$934	5.90%
2013	\$882	6.39%
2012	\$829	4.80%
2011	\$791	2.06%
2010	\$775	4.03%
2009	\$745	-0.80%
2008	\$751	0.13%
2007	\$750	3.88%
2006	\$722	3.14%
2005	\$700	0.72%
2004	\$695	0.72%
2003	\$690	1.62%

Source – Greater Nashville Apartment Association

### Nashville Overall Market Historical Vacancy

<u>Year</u>	<u>Occupancy</u>
2014 Q3	96.63%
December 2013	95.66%
December 2012	95.10%
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%

Source – Greater Nashville Apartment Association

**Nashville, TN**  
**Rent Growth Study**  
**Submarket: West End/ Downtown**  
**March 26, 2015**  
**For Discussion Purposes Only**

Period	Total Units		Overall				1 Bedroom				2 Bedroom				3 Bedroom			
	Reporting	Occ	\$ per SF	% Change	Avg SF	Avg Rent	\$ per SF	% Change	Avg SF	Avg Rent	\$ per SF	% Change	Avg SF	Avg Rent	\$ per SF	% Change	Avg SF	Avg Rent
Q3 - 2014	4,839	97.22%	\$1.66	3.75%	852	\$1,417	\$1.91	3.24%	679	\$1,296	\$1.44	4.35%	1,077	\$1,549	\$1.51	11.03%	1,413	\$2,127
Q3 - 2013	4,887	95.23%	\$1.60	7.38%	848	\$1,358	\$1.85	8.82%	676	\$1,248	\$1.38	6.15%	1,077	\$1,485	\$1.36	4.62%	1,413	\$1,920
Q3 - 2012	4,125	97.37%	\$1.49	2.76%	874	\$1,301	\$1.70	3.66%	682	\$1,161	\$1.30	0.78%	1,114	\$1,451	\$1.30	7.44%	1,492	\$1,938
Q3 - 2011	3,861	97.47%	\$1.45	8.21%	872	\$1,263	\$1.64	8.61%	683	\$1,119	\$1.29	5.74%	1,113	\$1,438	\$1.21	2.54%	1,498	\$1,814
Q3 - 2010	3,586	97.08%	\$1.34		873	\$1,173	\$1.51		673	\$1,013	\$1.22		1,107	\$1,349	\$1.18		1,498	\$1,771
			23.88%				26.49%				18.03%				27.97%			

\*\* Source - Greater Nashville Apartment Association



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## Investment Commentary

Increasingly, I field questions concerning Nashville's current development pipeline and the effect on Supply vs. Demand. Our pipeline is big but so is our demand. All economic indicators are positive for Nashville: multifamily rent growth, office vacancy, job growth, population growth, increasing ADR, occupancy and RevPar for hotels are all on the rise.

From a macro economic perspective I see the trend to own real assets continuing. As long as the world's central banks continue their low interest rate easy money policy, owning assets is favorable. On January 22<sup>nd</sup> 2015, The ECB announced larger than expected quantitative easing programme aimed at fighting deflation in the Euro Zone.

One concern is the effect a rising dollar will have upon the U.S. markets. Will money be attracted abroad as others countries' assets become cheaper? Most capital invested in Nashville is domestic. We are not a "global" city. Some of the large funds buying our stabilized assets might receive funding from foreign entities; however, I anticipate minimal effect.

I am not naïve enough to suggest Nashville has figured out how to avoid the business cycle. Instead, I am looking at the facts presented and concluding we have a vibrant, diverse and prosperous economy. Where else would you rather place your investment dollars? Multiple clients have cited the great runs of Raleigh, Austin and Charlotte as Nashville's current climate. Those healthy economies were buffered from adverse external conditions as the underlying economic foundations kept them prosperous.

There is still a lot of work left to complete in Nashville. Our urban neighborhoods are only starting to rebuild after decades of neglect and flight. Even if we hit a soft patch but invest in the right areas you can weather a storm because our underlying economy is sound.

## Nashville Commentary

Emerging from the Great Recession, parts of Nashville have arisen noticeably different. Areas of Nashville once an afterthought became prime redevelopment areas as the country heels from decades of civil unrest. Nashville is a city of neighborhoods. Clustered around our central business district are commercial districts: Hillsboro Village, 12<sup>th</sup> South, Germantown, Sylvan Park, East Nashville, Melrose/ Berry Hill, Midtown, The Gulch and many more. In the past, these areas were essentially island communities disconnected from each other. As Nashville grows, these pockets are growing together. Understanding where these communities are located and where they are growing is key to making sound investment decisions.

Perhaps the most exciting emerging area is a crescent shape swath of development on Nashville's southwestern border. Starting with the riverfront redevelopment areas like Rolling Mill Hill, the Trolley Barns and Rutledge Hill are seeing progress. SoBro's growth is astonishing. Most notably is the Music City Center and the positive effect along the revamped Korean Veterans Boulevard corridor. Projects are starting to push deeper and deeper in the SoBro/ LaFayette district. The Gulch is growing in all directions and spurring development. The South Gulch is home to many new entertainment establishments. Midtown/ Demonbreun, North Gulch and Capital View are growing towards the Gulch and lines are blurring. Spurred on by the new ballpark, Germantown is also growing in all directions. Multiple new projects on the east side of the Cumberland River north of the city are now viable due to Germantown's growth. These "island" communities are coming together and making Nashville a vibrant urban landscape. A rising tide is lifting all submarkets, however, this crescent of development is most fascinating.

Where are you focusing to invest in Nashville? Is it in the path of development? Close to the demand drivers of our market? Where is the market over-heating? Where is there value still to be found? I know the market well, have brokered multiple deals (highlighted on the next page) and know where value and opportunities still exists. I can work with you to understand your needs and deliver properties that will ensure a great risk adjusted return. Please contact me to continue this discussion or to set up a meeting to review your strategy. I'm looking forward to helping grow Nashville with you!

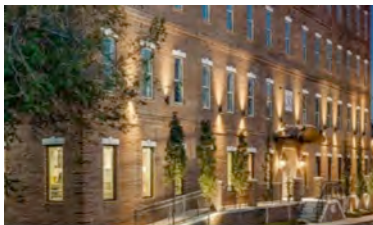
**Recent Transactions:**



**Sold:** The Federal Reserve Bank of Nashville  
**Type:** Office to Multifamily Conversion  
- 75,000+ (SF) Office  
- 61 Rental Units



**Sold:** 18<sup>th</sup> Ave Assemblage (Artisan on 18<sup>th</sup>)  
**Type:** Multifamily  
- 153 Class A Units



**Sold:** The Lofts at 30th  
**Type:** Office to Multifamily Conversion  
- REO converted into 52 multifamily units



**Sold:** 30 Music Square West  
**Type:** Office  
- 20,866+/- (SF)



**Sold:** Gish, Sherwood & Friends  
**Type:** Office  
- 24,500 (SF) Class A Office



**Sold:** Frazier Place Mixed Use  
**Type:** Mixed Use  
- 11,860+/- (SF) Retail  
- 30 Rental Units



**Sold:** 336 22<sup>nd</sup> Ave North  
**Type:** Office  
- 5,034+/- (SF)



**Sold:** Villa Louise Apartments  
**Type:** Multifamily  
- 20 One Bedroom Units

#### SERVICES OFFERED:

##### Brokerage:

With a focus upon the fundamentals of selling real estate we enhance the process and productivity of the campaign with modern technology.

- Broker Opinion of Value
- Market research
- Lease comparable research
- Lease prospecting and lease execution
- Creating pro-forma operating statements & budgets
- Asset disposition

##### Mortgage Brokerage:

- Insurance
- CMBS
- Agency
- Local Bank

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