

Multifamily Metro Outlook:

Nashville - Q2 2023

Overview:

- Nashville's apartment market was riding a wave of strong job and population growth prior to the COVID outbreak. While those underlying economic trends were interrupted, the metro had a strong rebound in 2022, and was a bit ahead of the nation. Late in 2022, signs of easing in both the economy and the multifamily market have popped up, and that softness has continued through mid-2023. Nevertheless, Nashville has become a city of corporate relocations and office jobs in a diverse set of industry segments, and will likely remain a growth leader among the nation's major metros.
- Despite having one of the nation's more attractive economic forecasts, the for-rent market has expectations of comparatively modest performance, though still strong. The exceptionally high level of new units held back overall rent and vacancy performance prior to 2020, though 2019 deliveries eased moderately, allowing the market to see improved performance. With attractive demographics (the area is home to three universities and an under construction Amazon mini HQ), it is positioned for new rental demand. However, concerns about a national recession and exceptionally high levels of new multifamily supply somewhat limits growth potential of the apartment market, and with a rapidly growing population, overall housing affordability is becoming a concern.

Market Strengths:

- Nashville's economy has been greatly expanding for multiple decades, which was only briefly interrupted by the pandemic. The metro's job market is forecasted to grow faster than most, with job growth expected to be nearly double the national rate through 2028. And the quality of jobs has been growing as well: in the year ending Q2 2023, professional and business service jobs grew 4.6%, compared to 1.1% nationally.
- The metro has very positive demographic trends including solid population growth and migration trends. Population growth for the year ending Q2 2023 was +1.2%, compared to +0.4% nationally.
- Nashville's demographic composition makes it an attractive place for apartment rentals: 22.0% of the population is age 20-34 (the prime renting cohort), above the national average of 20.7%.

Market Weaknesses:

- Nashville's apartment rental market is not quite as strong as its overall economic environment. Rents and vacancies have been stubbornly stable in boom times and weakened during the bust. One of the primary drivers that makes Nashville an attractive place, its low cost of living, is largely reflected in its housing affordability, though affordability has been lessening as the local economy expanded.
- With an ample supply of developable land surrounding the metro, neither the for-rent nor for-sale markets are likely to have exceptional rent and price growth, though short-term surges may occur.

Development:

- There has been significant new rental supply brought on board: since 2017 around 47,200 units were completed, and another 23,700 are underway. Condo development is currently reasonable given the demographic and economic growth in the metro: around 6,900 condo units have been delivered since the beginning of 2017, and another 1,100 are underway and are due to be completed through 2023.

Outlook:

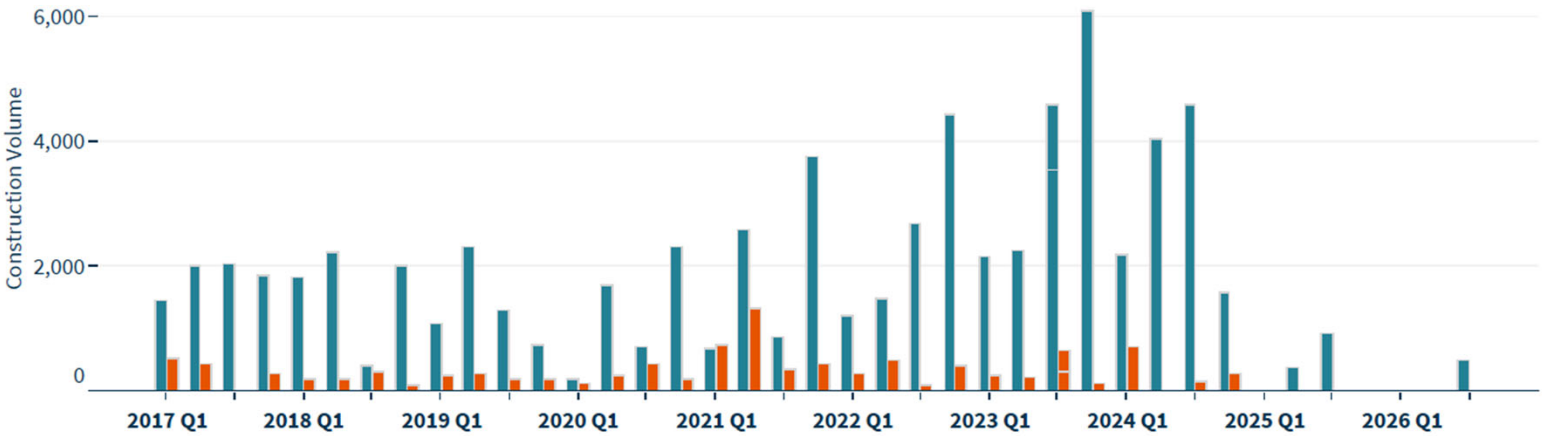
- Nashville's for-rent market was riding a wave of strong job growth and high levels of supply prior to the outbreak, and these conditions continued into mid-2022, but there have been signs of modest slowing since then. The metro's economy was among the strongest nationally during the pandemic rebound, and the new multifamily units added only slightly nudged the market to higher vacancy levels, with rent growth staying strong, though there were, and could possibly be more, brief rent contractions as a response to the recent rapid growth, robust supply, and a possible national recession. The continued addition of new apartment units may further push vacancies up in the medium-term, but the metro's strong job and population growth should allow healthy expansion in most of the metro, once national economic conditions enter into a sustained expansion.
- The metro's forecasted economic growth, which is among the more attractive forecasts nationally, will allow for the rental market to steadily expand in the long run. But the strong job growth periods that the metro will experience will likely be punctuated by the occasional contraction. The post-COVID period for Nashville's apartment market looks good, and the robust economic drivers for long-term demand for apartments will likely drive an expanding economy and apartment rental market.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

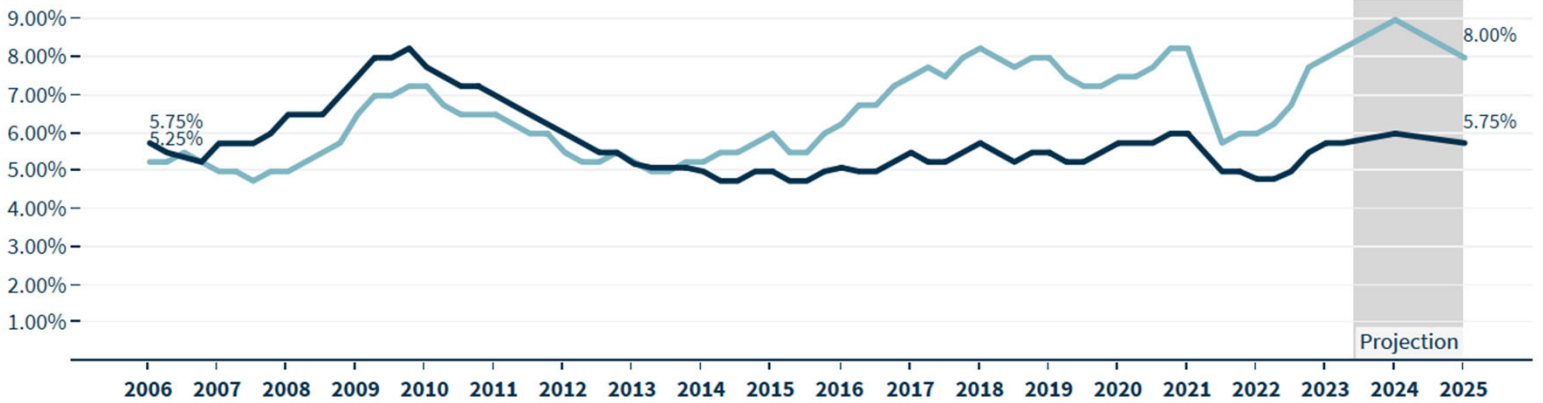
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Nashville | National

Q2 2023 Vacancy Rate:

8.25%



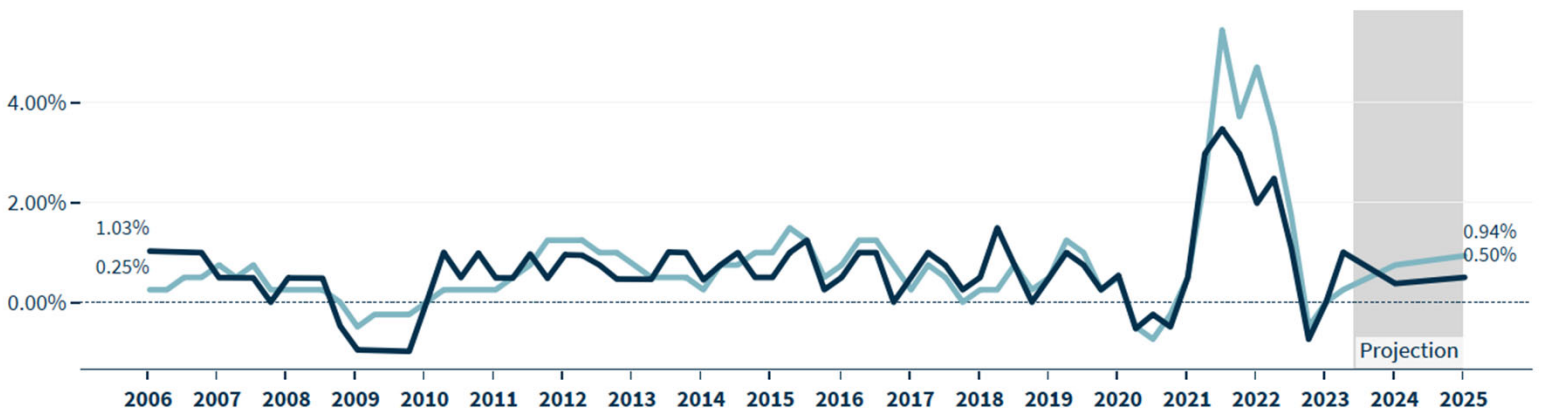
Projection

Asking Rent Growth

Nashville | National

Q2 2023 Asking Rent:

\$1,450

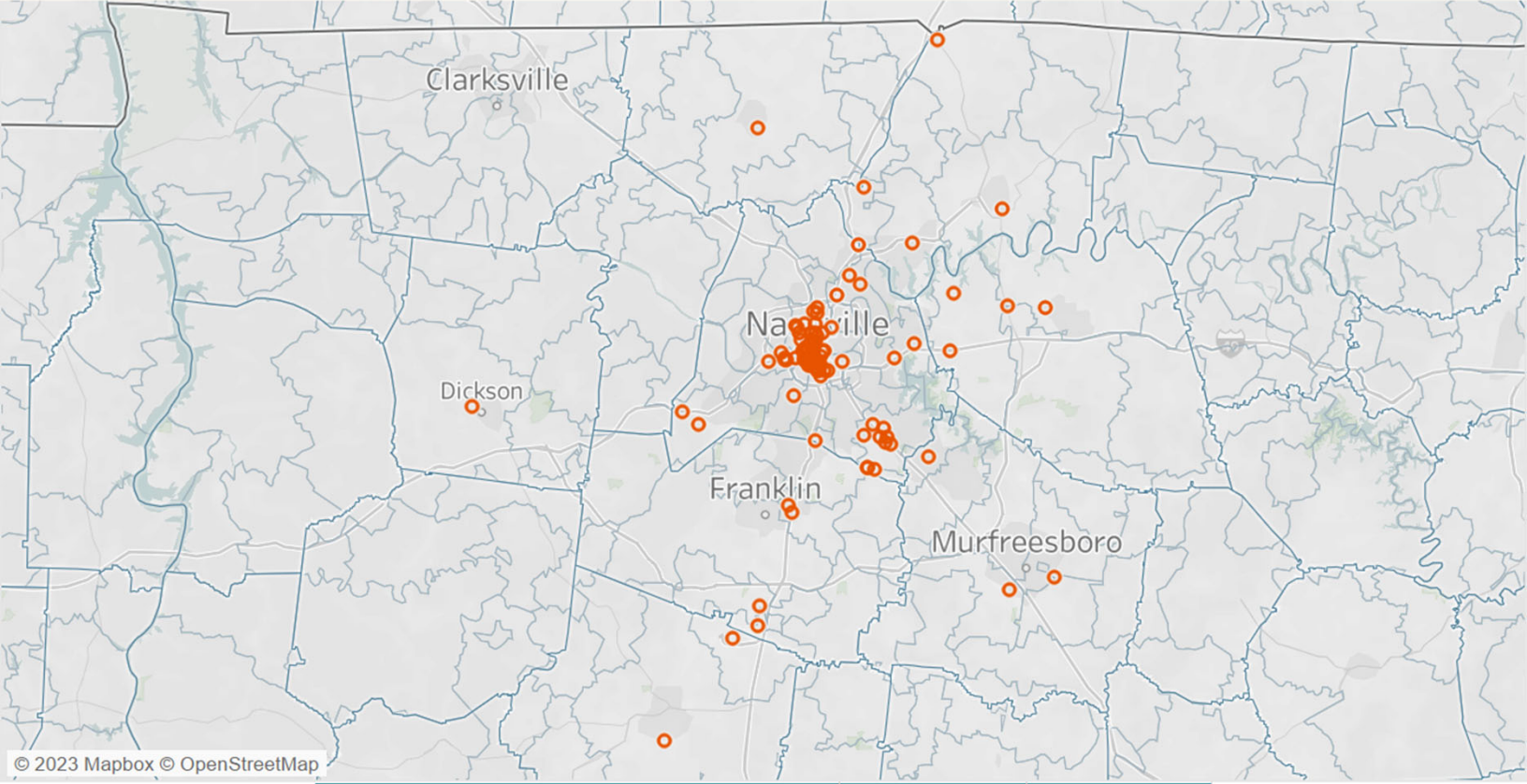


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Central Nashville	32	9,175
East Nashville	5	1,589
Franklin/Brentwood	8	1,779
Hermitage/Mount Juliet/Lebanon	5	1,490
Murfreesboro/Smyrna	3	696
North Nashville	20	3,720
South Nashville	1	328
Southeast Nashville	10	2,281
Sumner County	3	324
West Nashville	10	2,353
Grand Total	97	23,735

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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