

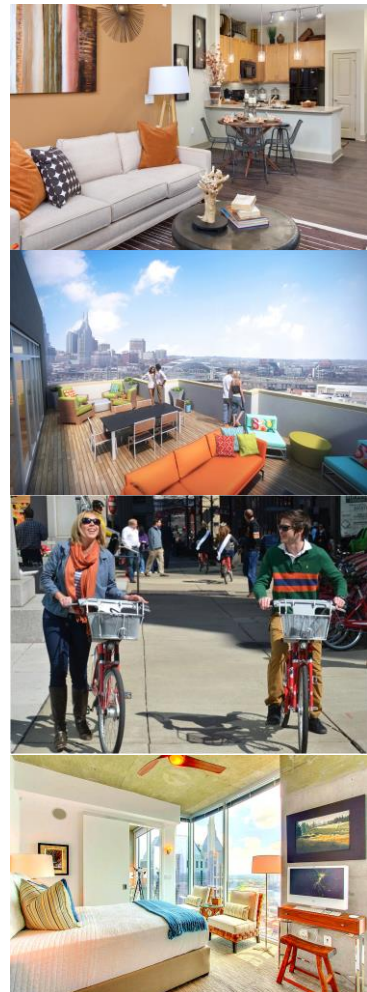
RESIDENTIAL REPORT: JULY 2014

Low Vacancy and High Demand Continue as New Residential Product Makes its Way to Downtown Nashville

Downtown Nashville is currently experiencing unprecedented demand for residential product. Rental occupancy has remained at 98% for the third consecutive year. Record sales prices for condos continue and there is only a negligible (2-month) supply of re-sale units. Even with some new residential product on the horizon pent-up demand, demographic shifts toward urban lifestyle preference and continued area job growth will perpetuate housing shortages for the near future.

Nashville Housing Market: The Greater Nashville Association of Realtors mid-year report states that the June, second quarter and year-to-date figures are all up compared to the same periods last year. "Median prices are up nearly \$20,000 over last year for single-family residential homes and condominiums."¹ Nashville currently only has a five-month inventory, which is one month shy of what experts see as a "healthy market." Sustained price increases should be expected as inventory remains low, especially in the more desirable parts of the city.

Nashville is now one of the 25 largest cities in the U.S. according to recent Census data.² Nashville's net job growth ranked in the top 6 nationwide in 2012 and again in 2013. POLICOM, an independent research firm that analyzes local and state economies, has ranked Nashville the fifth strongest economy out of 381 U.S. Metropolitan Statistical Areas (MSAs) on factors such as per capita income and wage growth.³ And, in a report released in June by the United States Conference of Mayors, Nashville's economy ranks as one of the fastest-growing in the country, joining other booming cities like Austin and San Jose.⁴



¹ Greater Nashville Association of Realtors, "Greater Nashville Home Sales Increase at Mid-Year," July 8, 2014

² <http://www.census.gov/newsroom/releases/archives/population/cb14-89.html>, May 2014

³ POLICOM Corporation, Economic Strength Rankings, June 2014

⁴ *Tennessean*, "Is Nashville the Nation's Next \$100 Billion City?" June 20, 2014

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In addition to economic strength and job growth, Nashville's competitiveness is boosted by national recognition in a variety of other areas. According to the 2013 America's Best Performing Cities study conducted by the Milken Institute, Nashville is one of the top 15 cities that are driving the future based on data from both long- and short-term growth in jobs, wages, salaries and technological output.⁵ Nashville also ranked as one of the "15 Cities for Creative 20-Somethings (that aren't New York or Los Angeles)" based on factors of livability quotient, artistic community, resources and activities.⁶ Nashville is also included in MSN Real Estate's list of the "10 Most Popular Cities for Millennials,"⁷ and NerdWallet.com's "Best Cities for Recent College Graduates."⁸ Also considered one of America's new Brainpower Cities, Nashville ranked 4th among towns where college graduates are settling.⁹

Nashville's continued strength in overall economic recovery has been the basis for growth. According to Brookings Institution's 2014 *Metro Monitor*, Nashville ranks #5 out of 100 largest metropolitan areas in the United States in overall economic recovery.¹⁰ *Metro Monitor* tracks performance in four key areas –jobs, unemployment, gross product and home prices. Nashville ranks #6 in Best Cities for Jobs according to a Forbes study released in April. Rankings are based on recent growth trends, mid-term growth, long-term growth and the region's momentum.¹¹ And, Nashville ranked 6th on New Geography's list of the best large cities for job growth in 2014.¹²

According to Axiometrics, the nation's leading supplier of apartment data and research, Nashville's rental prices that have steadily increased over the past couple of years, are not showing any signs of slowing. Nashville continues to exceed the national average for rising rental rates and the national annual effective rent growth of 3.3 percent and occupancy of 95 percent. Currently Nashville's annual effective rent growth is 5.3 percent and the region's occupancy rate is 96.2%.¹³ Jay Denton, Axiometrics' Vice President of Research commented that "Nashville's apartment numbers are unsurprising, given this is an MSA that has been consistent with its job growth.... Also a region with constrained supply, so demand is that much higher."¹⁴



⁵ <http://www.milkeninstitute.org/pdf/Best-Performing-Cities-Report-2013.pdf>

⁶ PolicyMic, "15 Cities for Creative 20-Somethings (That Aren't New York or Los Angeles)," May 28, 2014

⁷ <http://realestate.msn.com/10-most-popular-cities-for-millennials#2>, January 8, 2014

⁸ <http://www.nerdwallet.com/blog/cities/best-cities-recent-college-graduate/>, May 2, 2014

⁹ New Geography, "America's New Brainpower Cities," April 3, 2014

¹⁰ Brookings Institution, 2014 *Metro Monitor*, June 25, 2014

¹¹ <http://www.forbes.com/sites/joelkotkin/2014/04/28/the-best-cities-for-jobs-2014>, April 29, 2014

¹² New Geography, "Largest Cities Rankings – 2014 Best Cities for Job Growth," June 3, 2014

¹³ Axiometrics Inc., "Apartment Market Has Strongest Quarter Since 2000," June 30, 2014

¹⁴ *Tennessean*, "Nashville Rental Rates Show No Signs of Slowing Down," July 3, 2014

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Peer City Comparison

Downtown Nashville's residential units and population continue to trail peer cities with over 7,600 residents and 4,803 units by the end of 2014. Lack of residential zoning until the mid-1990's put downtown Nashville behind in urban residential development.

Figure 1 Year End Projections– Downtown Residents*

	2013	2014	2015
Nashville	7,258	7,685	8,112
Austin	10,274	10,741	13,536
Charlotte	15,334	15,614	15,894
Indianapolis	22,333	23,758	24,994
Memphis	23,600	24,300	24,900
St. Louis	7,445	7,967	8,300

Figure 2 Year End Projections–Downtown Housing Units*

	2013	2014	2015
Nashville	4,536	4,803	5,070
Austin	6,434	6,754	8,668
Charlotte	7,667	7,723	9,058
Indianapolis	13,288	14,306	15,189
Memphis	13,825	14,500	14,853
St. Louis	5,700	6,100	6,400

In 2013, Nashville's downtown population grew at a faster rate (15%) than its peer cities. This year, limited product delivery has slowed the stride with only a 6% population increase. Comparatively, by year-end 2014 the population growth will be 7% in St. Louis, 6% in Indianapolis, 5% in Austin, 3% in Memphis and 2% in Charlotte. Housing units during the same time period will grow 6% in Nashville versus 8% in Indianapolis, 7% in St. Louis, and 5% in both Austin and Memphis.

Housing units and residents are both expected to grow an additional 5.5% in downtown Nashville by year-end 2015. Peer cities such as Austin and Charlotte plan to have significant housing unit growth during this time of 28% and 17%, respectively.

Figure 3 Rental Occupancy Rate*

	2014
Nashville	98.3%
Austin	89%
Charlotte	93.8%
Indianapolis	95.4%
Memphis	93%
St. Louis	90%

*Information provided by Downtown Austin Alliance, Charlotte City Center, Indianapolis Downtown Inc., Downtown Memphis Commission and The Partnership for Downtown St. Louis (June 2014)



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Downtown Nashville's rental occupancy has remained at 98% for the past three years. Over the past five years, downtown has had consistently higher rental occupancy rates than peer cities (fig. 3). A survey of property managers was conducted in June 2014, and evaluated 2,202 units in 25 properties. Seventeen of the properties are 100% occupied and several have waiting lists. Rental properties not included are 27 units on the first floor of Market Street Apartments (being remodeled) and Residences at 315 (conversion to hotel rooms). This occupancy rate also does not include for-sale properties that have been rented out by their owners.

Downtown Housing Categories

Currently there are 4,536 downtown residential units of which 49% are rental, 46% are condo and 5% are single family units. Market rate housing constitutes 92% and affordable 8% of the housing mix. From 2000 through 2013, downtown has seen 272% population growth. (fig. 4) This is 13 times the percentage growth in the Nashville MSA, 17 times in Nashville, and over 19 times in the State of Tennessee during the same time period.

Figure 4 – Population Growth Comparisons

Population Growth	2000	2013	% Growth
Downtown	1,960	7,286	272%
Nashville	569,891	658,602	16%
Nashville MSA	1,453,577	1,757,912	21%
Tennessee	5,689,283	6,495,978	14%

Source: Nashville Downtown Partnership, EMSI 2013

Rental Market

The 2,232 rental units within 25 properties in downtown Nashville make up 49% of the current downtown housing mix. Currently, there are six rental projects under construction and eight additional projects planned/announced that could deliver 2,569 units by 2017. If all planned projects are realized, the total number of rental units downtown will rise to 4,265, increasing rental product to 60% of the downtown housing mix.

Downtown apartments have had some of the highest occupancy rental rates in the Greater Nashville area since 2007. Currently, downtown has an occupancy rate of 98%, maintaining this position since 2012 even with the addition of new rental product entering the market. Occupancy rates remained at 92% or above even through the economic downturn (fig. 5). According to the May 2014 survey of property managers, the downtown core is effectively full at 100%, Rolling Mill Hill is 100%, Rutledge Hill/SoBro is 98% and The Gulch is 95% occupied.

Figure 5 – Rental Occupancy Comparisons

Rental Occupancy Rate– Year	Downtown	Greater Nashville
2007	95%	94.84%
2008	93%	90.60%
2009	92%	90.20%
2010	95%	92.54%
2011	96%	93.36%
2012	98%	95.41%
2013	98%	95.16%
2014	98%	95.93%

Source: 1Q 2014 Greater Nashville Apartment Association Market Study, NDP Property Manager Survey May 2014

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In addition to the high downtown rental occupancy rate, the shadow market units (i.e. individual-owned units within condominium properties) continue to rent at increasing rates, and many properties have waiting lists. There are at least 400+ additional condo units that are leased. Most condominium properties have capped percentages for rental units and strict monitoring by property management aids in identifying this number.

Apartment rents increased over the past 24 months across the studio, one-, and two-bedroom categories while the three-bedroom rents stayed the same and Live/Work unit rents decreased slightly. The most significant change is the one-bedroom rent increase of almost 18% on the high end. Other notable increases are the studio apartment rents up 10.5% on the lower end, which includes units with the least square footage. Also, two-bedroom rents increased by 7% on the low-end and 15% on the high-end. (fig. 6)

Figure 6 – Downtown Nashville Market Rate Rental Comparisons

Rental Market	2012	2013	2014
SIZE	419 - 4,500 SF	419 - 4,500 SF	419 - 4,500 SF
MARKET RATE CATEGORY			
Studio	\$570 - \$1,300	\$590 - \$1,300	\$630 - \$1,300
1 bedroom	\$670 - \$1,700	\$700 - \$1,899	\$730 - \$2,000
2 bedroom	\$822 - \$2,700	\$858 - \$2,799	\$878 - \$3,114
3 bedroom	\$1,400 - \$4,000	\$1,400 - \$4,000	\$1,400 - \$4,000
SIZE	1,129 - 1,664 SF	1,129 - 1,664 SF	1,129 - 1,664 SF
Live/Work Units	\$1,694 - \$2,496	\$1,694 - \$2,496	\$1,650 - \$2,100

According to a survey of property managers and leasing agents in downtown rental properties, the most popular units are the studios and smallest one-bedroom units, which also yield the highest square foot prices. Two rental properties in The Gulch receive the highest square foot prices: 419 SF, \$2.88 per SF; 430 SF, \$2.55 per SF; 442 SF, \$2.74 SF; 535 SF, \$2.32 SF. Currently under construction and preleasing, City View Apartments, Phase II is asking \$2.12 - \$2.58 per square foot for studio units.

There are 378 affordable rental units in five properties that make up 17% of the rental market and 8% of the overall downtown housing market. (fig. 7)

Figure 7 – Downtown Nashville Affordable Rental Comparisons

Rental Market	2014
SIZE	500 - 1,554 SF
AFFORDABLE CATEGORY	
Studio	\$600 - \$664
1 bedroom	\$624 - \$794
2 bedroom	\$787 - \$947
3 bedroom	\$853 - \$904

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Fourteen rental projects that are either under construction or planned could deliver over 2,000 units by 2017.

City View Apartments Phase II at Rolling Mill Hill is currently under construction and move-ins will begin in September 2014. The project will deliver 102 units to the market and will include amenities such as a pool, fitness center, rooftop public area, two levels of underground parking and clubhouse.

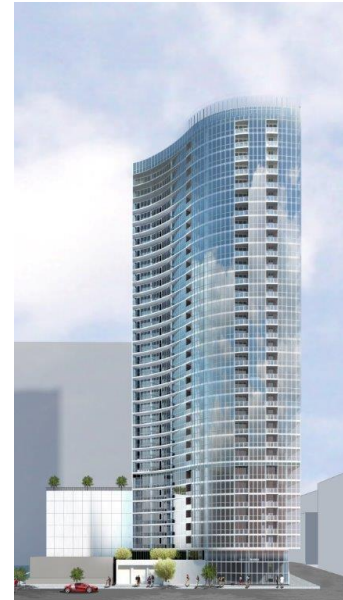
The former Federal Reserve Building at 301 Eighth Avenue North is currently being converted to a 61-unit apartment complex called Lofts at the Reserve. Construction will be complete later this summer. All units are one-bedroom, ranging from 600-900 SF. The project will also include a pool and workout facility.

SoBro, a planned 33-story 313-apartment high-rise south of Broadway would include over 18,000 square feet of Class A, ground-level retail space and over 375 parking spaces.

A rental project under construction across from the Farmers Market on Rosa L. Parks Boulevard called 909 Flats will deliver 232 market-rate rental units by April 2015.

Terra House, a mixed-use project at Rolling Mill Hill, will offer 194 rental units and over 12,000 SF of retail space. Currently under construction, Terra House will be complete in late 2015.

Other rental projects include Banner Lofts (conversion), Crescendo (high-rise, mixed-use), MDHA project on Jefferson Street, Capitol View residential, Rolling Mill Hill project, 423 Union (conversion), 1000 Division (mixed-use), and two residential projects surrounding the Nashville Sounds Ballpark that is currently under construction.



Rendering of SoBro



909 Flats rendering



City View Apartments, Phase II rendering



Terra House rendering – Hermitage and Academy views



Terra House rendering – Hermitage and Academy views

Condominium Market

Downtown Nashville currently has 2,097 condo units within 38 properties. Condominiums make up 46% of downtown housing. Twelve Twelve, the first condo project that has been built downtown since Terrazzo in 2009, is currently under construction and plans to begin delivering units September 1. Research in early July indicates that there are only 56 re-sales on the market (11 under contract) which results in a two-month supply.

An assessment of four downtown high-rise properties shows that prices of condos have recovered since the recession and increased in all four properties annually since 2011. Cumulative price per square foot over the past 6 months has risen 9%. The average PPSF at the Viridian has increased since 2013 by 34%* - with one penthouse selling at an impressive \$657.89 per square foot. The Viridian's PPSF average increase since 2013 without the Penthouse sale is still the highest of the four properties at 14%** (fig. 8-9)

Figure 8 – High-Rise Square Foot Comparisons

PPSF By Building	2008	2009	2010	2011	2012	2013	2014 (Jan-Jun)
Viridian	\$317.71	\$275.91	\$258.64	\$262.74	\$287.51	\$306.78	\$411.07* \$348.81**
Encore		\$243.89	\$256.90	\$242.53	\$294.08	\$361.46	\$365.20
ICON		\$303.14	\$305.23	\$280.69	\$358.06	\$383.09	\$409.18
Terrazzo		\$341.84	\$259.18	\$272.43	\$294.10	\$329.31	\$359.41
Cumulative By Year	\$319.21	\$295.62	\$292.88	\$274.57	\$325.89	\$355.79	\$389.03

Source: <http://realtracs.net>, July 2014

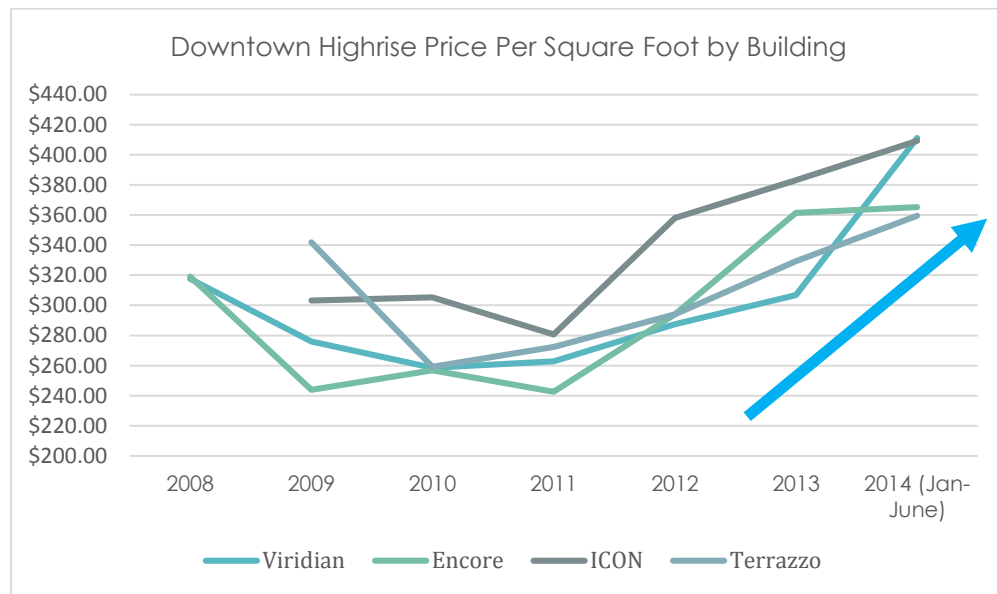


Figure 9 – Downtown High-rise Price per Square Foot Comparison by Building

With the exception of the Penthouse at Viridian, the highest square foot prices so far this year occurred at ICON in The Gulch and Encore in SoBro. The units sold for \$485.36 and \$447.66 per square foot.

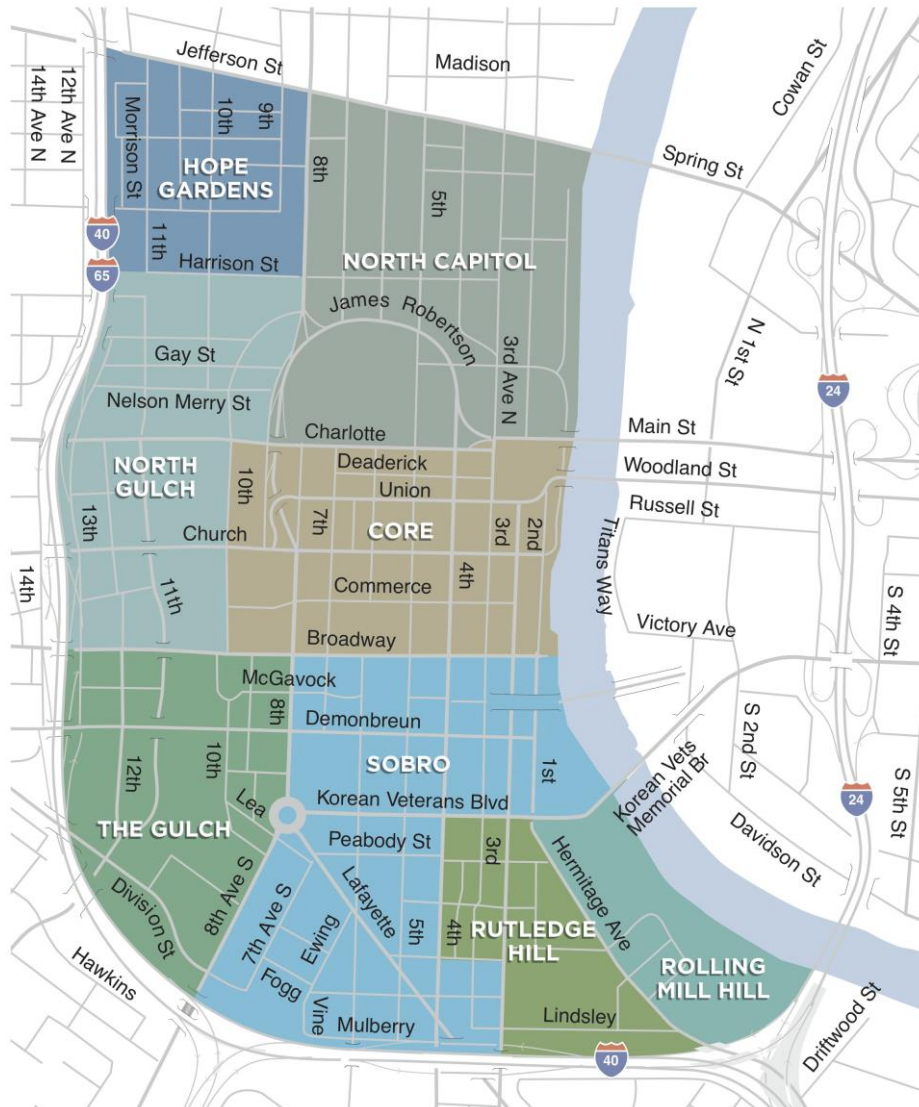
Single Family Market

Single-family homes make up 5% of downtown housing inventory. Of the 207 total homes downtown, 205 are in the Hope Gardens neighborhood. The other two single family homes are located in the downtown core. Two single-family residential permits were issued for Hope Gardens over the past 12-months, and one of the sites is still undeveloped.

Downtown Geographic Boundaries

The Nashville Downtown Partnership's definition of downtown includes properties within the boundaries of the river on the east, the interstate loop on the south and west, and Jefferson Street on the north. This geographic area is termed the Greater Downtown, which includes the Central Business Improvement District (Core), The Gulch, North Capitol, Hope Gardens, Rutledge Hill, Rolling Mill Hill, and SoBro. Germantown is adjacent to downtown, but not included in the residential counts.

DOWNTOWN RESIDENTIAL AREAS



Demographic Profile and Trends

The Nashville Downtown Partnership's 2014 Downtown Residential Survey had a 13% response rate. In May 2014, approximately 3,500 surveys were distributed to homeowners and renters by direct email and via building and condo managers. The survey focused on residents who live in Nashville's downtown defined by these boundaries: Jefferson Street on the north, Cumberland River on the east and the interstate loop on the south and the west.

Downtown continues to attract professional, highly educated residents from across all age groups, boosting the city's economic competitiveness. Twenty-nine percent of residents moved to downtown from out-of-state, and another 28% moved from outside the city. Thirty-five percent moved from Nashville, up 3% from 2013. In addition, 88% of downtown residents hold a college or post graduate degree.

Household Status

Of the respondents, 46% are single, 38% are married, 8% are separated or divorced, and 8% have a domestic partner. (fig. 10) Respondents that reported they were "married" has increased 7% since 2012.

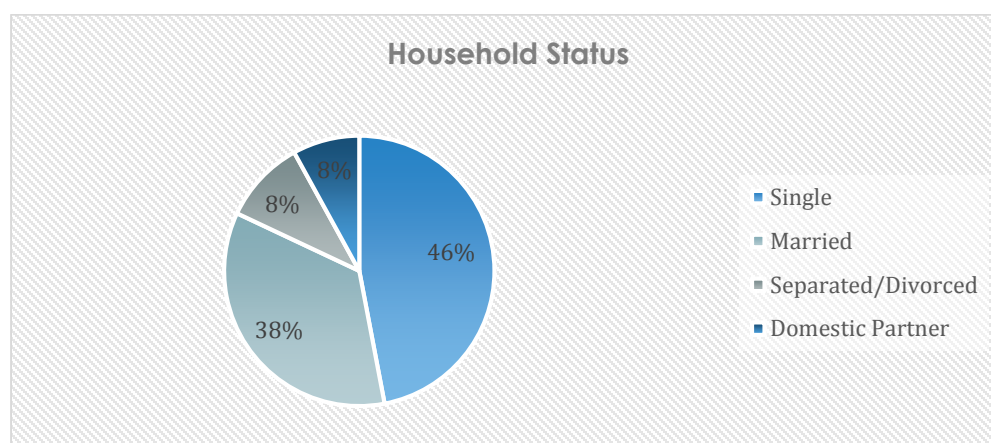


Figure 10 – Household Status

Age and Gender

Respondents exhibit a broad cross section of age groups. Thirty-two percent of downtown residents are considered to be Generation Y (age 33 and under). This group grew from 27% in 2012. In contrast, Generation X (age 34-49) represents 29% of the downtown population, decreasing from 33% in 2012. Baby Boomers (age 50-67) represent 35%, up from 33% in 2012. Generation Y and Baby Boomers will be the two generations expected to show the most increase in migration to urban areas going forward.

Downtown residents are 47% male and 53% female. Although male and female percentages continue to fluctuate from year-to-year, the 3% increase of females from 2013 confirms continuing high satisfaction with downtown being "safe or very safe" (79%) and "clean or very clean" (73%).

Household Income

Seventy-eight percent of downtown households earn over \$60,000 annually. Forty-seven percent earn over \$100,000 annually, and 25% earn over \$150,000 each year. Three percent earn less than \$20,000 annually. (fig. 11)

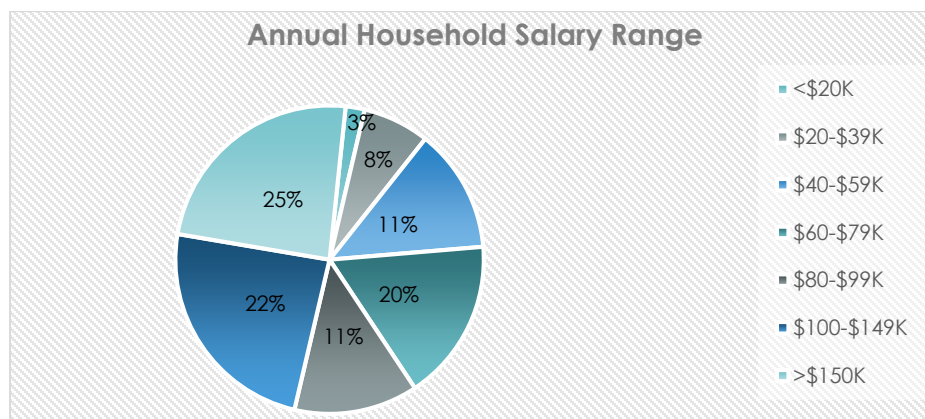


Figure 11 – Annual Household Salary Range

Level of Education Completed

Fifty-two percent of downtown residents have a college education and an additional 36% (up from 31% in 2012) hold postgraduate degrees. (fig. 12).

Figure 12 – Level of Education Completed Comparisons

	2 or 4 Year Degree	Graduate or Professional Degree
Downtown	52%	36%
Nashville	29.2%	13.5%
Nashville MSA	27.9%	10.7%

Source: Downtown Residential Survey 2014, Nashville Area Chamber of Commerce, June 2014

Where Residents Moved From

Thirty-five percent of downtown residents moved from elsewhere in Davidson County (up 3% from 2013). Twenty-one percent moved from Nashville MSA, 29% from out-of-state, 7% from somewhere in Tennessee outside of the MSA and 8% moved from another location in downtown.

Work Location

Sixty-one percent responded that their office is located outside of downtown. Being “close to work” has been in the top four positive influences of living downtown since the initial survey in 2005 when it was the #1 influence. It has steadily dropped over the years, but has remained #4 on the list since 2010. Although being close to work certainly continues to be a primary factor in choosing to live downtown with close to one-third citing its importance, there are now more compelling reasons that residents choose to live in downtown Nashville.

Quality of Life Factors

When residents were asked what four elements most positively influenced their continued downtown living, the top responses were the *urban experience* (50%), *central location/convenience* (49%), *nightlife* (30%) and finally a tie for *being close to work* (27%) and *arts and cultural events* (27%). The urban experience has been cited for the 7th year as the top reason for living downtown. Central location/convenience, night-life and being close to work have been in the top four for the past six years.

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Study Area Housing Market

The Greater Downtown has 4,536 existing units, and an additional 1,641 units are either planned or under construction.

Figure 13 – Existing Housing Downtown Nashville

	# Units	Rental	Condo/SF	Property Address	Rental/Condo
	Existing Apartments/Condos/Single Family				
CBD (Downtown Core)	112 Second Avenue Lofts	4	4	-	112 Second Avenue North Rental
	114 2nd Avenue	1	-	1	114 2nd Avenue North Condo
	115 8th Avenue North	1	-	1	115 8th Avenue North Condo
	123 2nd Avenue	1	-	1	123 2nd Avenue North Condo
	138 2nd Avenue	1	-	1	138 2nd Avenue North Condo
	219 2nd Avenue	1	-	1	219 2nd Avenue North Condo
	320 Broadway	4	-	4	320 Broadway Condo
	420 Broadway	1	-	1	420 Broadway Condo
	425 Broadway	2	-	2	425 Broadway Condo
	Ambrose Lofts	21	-	21	162 4th Avenue North Condo
	Art Avenue Lofts	32	-	32	231 5th Avenue North Condo
	Bennie Dillon Original Lofts	86	-	86	700 Church Street Condo
	Berger Building/Nashville Toy Museum	3	3	-	162 8th Avenue North Rental
	Capitol Towers	219	184	35	510 Gay Street Rental/Condo
	The Cumberland/Cumberland Penthouses	289	256	33	555 Church Street Rental/Condo
	Church Street Lofts	17	-	17	301 Church Street Condo
	James Robertson Apartments	123	123	-	118 Seventh Avenue North Rental
	The Kress Lofts	29	-	29	237 5th Avenue North Condo
	Lofts above ICHIBAN	8	8	-	107 Second Avenue North Rental
	Lofts at 160	32	32	-	160 2nd Avenue North Rental
	Lofts at Noel Court	4	-	4	214 Third Avenue North Condo
	Lofts at the Exchange	47	-	47	309 Church Street Condo
	Market Street Apartments	74	74	-	150 Second Avenue South Rental
	Metro Manor	170	170	-	500 Fifth Avenue North Rental
	Phoenix Lofts	6	-	6	207 3rd Avenue North Condo
	Printers Alley Condos	4	-	4	211 Printers Alley Condo
	Private Residence	1	-	1	226 3rd Avenue North Single Family
	The Quarters	32	-	32	178 2nd Avenue North Condo
	Rhea Building Lofts	11	11	-	166 2nd Avenue North Rental
	Riverfront Studios - lofts above	2	2	-	210 Broadway Rental
	Smith House	1		1	167 Rosa L. Parks Blvd Single Family
	Stahlman Building	142	142	-	211 Union Street Rental
	Viridian	305	-	305	415 Church Street Condo
	Watauga House	25	-	25	222 Polk Avenue Condo
	Westview	10	-	10	179 8th Avenue North Condo
	1,709	1,009	700		

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Continued...

Area	Location	# Units	Rental	Condo/SF	Property Address	Rental/Condo
North Capitol	District Lofts	69	-	69	Corner of Harrison & 3rd Ave	Condo
	Harrison Square	15	-	15	Harrison & 3rd Avenue North	Condo
	Harrison Square Phase II	48	-	48	Harrison & 3rd Avenue North	Condo
	Hope Gardens Residences	207		207	Hope Gardens	Single Family
	Ireland28	28	-	28	900 Block of Ireland Street	Condo
	Riverfront Condos	145	-	145	726 1st Avenue North	Condo
	Row 8.9n	29	-	29	800 Block 8th Avenue North	Condo
		541	-	541		
Rolling Mill Hill	City View - Art Deco	24	24	-	210 Middleton Street	Rental
	City View - Metro	36	36	-	210 Middleton Street	Rental
	City View - Victorian	12	12	-	210 Middleton Street	Rental
	Nance Place Apartments	109	109	-	8 Academy Place	Rental
	Ryman Lofts	60	60	-	100 Middleton Street	Rental
		241	241			
SoBro/ Rutledge Hill	Academy Square Condominiums	50	-	50	100-149 Academy Square	Condo
	Cardwell Place Condominiums	4		4	Lea Avenue and Rutledge	Condo
	Encore	333	-	333	301 Demonbreun Street	Condo
	Howell Park	40	-	40	401-479 2nd Avenue South	Condo
	Peabody Quarters	24	24	-	310 - 312 Peabody Street	Rental
	Room in the Inn	38	38		705 Drexel Street	Rental
	Rutledge House	41	-	41	656 Second Avenue South	Condo
	Rutledge Terrace	18	-	18	430 Second Avenue South	Condo
	Big Red Lofts	20	20		527 8th Avenue South	Rental
		568	82	486		
The Gulch	Eleven North Apartments	302	302		210 11th Avenue North	Rental
	ICON	417	-	417	600 12th Avenue South	Condo
	Laurel House Apartments	48	48	-	1101 Laurel Street	Rental
	Mercury View Lofts	32	32	-	1209 Pine Street	Rental
	Pine Street Flats	296	296	-	1055 Pine Street	Rental
	Terrazzo	117	-	117	700 12th Avenue South	Condo
	Velocity	265	222	43	300 11th Avenue South	Condo/Rental
		1,477	900	577		
	TOTAL EXISTING	4,536	2,232	2,304		

Trends and Opportunities

Demographics in America are changing with two major factors setting the course for future housing development: aging population (Baby Boomers) and Millennials (Generation Y). These two generations will drive housing trends over the next 20 years.

Millenials "Taking Flight"

According to a study released in June by Harvard University's Joint Center For Housing Studies, Millennials are poised to move out of their parents' homes in masses and increase the number of new households formed, transforming the housing market. The recession and housing slump caused a decrease in household formation.

Many were not able to find jobs, so they chose to move back in with their parents. A large wave of this generation's group will reach the age of 30 soon – an age in which there is generally a heightened level of household formation. An estimated 24 million new households will be formed between 2015 and 2025 by this cohort, which will raise the demand for rentals and starter homes considerably.



Chris Herbert, the center's research director, says "Demographics is destiny. As Millennials gain more of a financial foothold and make their presence felt, they're going to drive a whole chain of increased demand in the housing market."¹⁵ Coupled with the fact that Gen Y has a preference for city living, and is "the most likely to live in a medium-sized or big city, and to express the preference to live in a medium-sized city in five years"¹⁶ provides an opportunity for downtowns to have an influx of residents, assuming there are enough affordable and varied housing options.

Downtown Nashville's current housing supply is minimal. According to a market demand study¹⁷ conducted by Randall Gross with Development Economics, downtown can absorb an additional 3,530 housing units by 2017. Although there are 909 residential units under construction and another 1,660 planned, if all are built by 2017, there will still be deficit of over 900 units within the downtown boundaries. There is pent-up demand for more rental and purchase units in downtown.

Smaller Household Size, Smaller Home Size Preference

From 2010 to 2040, the U.S. population will grow by 31% and more than 80% of the growth will be households without children. More than 40% of the growth will be single person households, and half of all new household demand will be for attached homes and the other half will be for small lot homes.¹⁸ In addition to households continuing to shrink over the next two decades, both Millennials and Baby Boomers have preferences for smaller homes, and want them in walkable, mixed-use communities.¹⁹

Developers and home builders are designing homes differently to keep up with modern lifestyles. Floor plans do not necessarily include space for sitting areas in master bedrooms or dining rooms, because that is not where Millennials are spending their time. Walking to a local restaurant or bar to meet friends and family is preferred over entertaining in a formal dining room.²⁰

¹⁵ *Washington Post*, "Millenials may be about to move out," June 26, 2014

¹⁶ Urban Land Institute, *Emerging Trends in Real Estate*, 2014

¹⁷ Randall Gross/Development Economics, *Market Analysis, Downtown/Sobro*, December 1, 2012

¹⁸ Nelson, Arthur C., *Reshaping Metropolitan America*, Utah: Island Press, 2013 Print

¹⁹ Urban Land Institute, *What's Next? Getting Ahead of Change*, 2012.

²⁰ *Tennessean*, "Little Houses, big demand: New generation of homebuyer decides bigger isn't better," April 18, 2014

There are several reasons for small home size preference – one of which is affordability. Increasing price per square foot in metro areas is necessitating smaller dwelling units. The young, urban cohort is willing to trade living space for location.²¹ As the Baby Boomer generation ages, many will be downsizing and choosing to live in smaller homes as well.²²

GE Appliances is preparing for these demographic changes and trends by creating a micro kitchen concept named the monoblock – an integrated unit with cooking, dishwashing and refrigeration in a single, stand-alone section that can become seamless with cabinetry. The director of industrial design for GE Appliances, Lou Lenzi, notes that there is a growing need in urban environments for micro-kitchen concepts that enhance lifestyles of those that live in decreased square footage. “As we watch what is happening in the U.S., there’s a clear trend toward smaller, more efficient living spaces.”²³

Downtown Nashville’s residential units that garner the highest demand are studios and small one-bedroom units. Currently, only 8% of the downtown housing market is considered “affordable” or “workforce.” The rest of the market continues to increase in rents and sales prices due to minimal inventory and demand for urban living. Downtown developers should consider building smaller units with unique designs, which will be more affordable due to less square footage, but still allow residents to be in a location with amenities they desire. Metro areas that are able to provide a variety of affordable, appealing and high quality options will be most attractive to Gen Y – and other generations as well. To meet the needs of the market now and in the future, smaller units for singles and two-person households should be developed, which demand a lower rent allowing entry into the downtown market.

Demand for Transportation Options

Millenials have a preference for compact development, and when asked about the importance of community features, 57 percent said that “convenience to public transportation” was important. In fact, of all the generations, Gen Y is the “most likely to use transit daily, or at least once per week.”²⁴



²¹ RCLCO, “The Impact of Gen Y on Housing – The Market and Demographic Perspective, July 23, 2013

²² Wall Street Journal, “Live Large in Small Spaces with GE’s New Micro-Kitchen Concepts,” June 23, 2014

²³ Wall Street Journal, “Live Large in Small Spaces with GE’s New Micro-Kitchen Concepts,” June 23, 2014

²⁴ Urban Land Institute, Emerging Trends in Real Estate, 2014

RESIDENTIAL REPORT: JULY 2014 DOWNTOWN NASHVILLE

The Rockefeller Foundation and Transportation for America released findings in April 2014 that reveal more than half (54%) of Millennials would consider moving to another city if it had more and better mobility options, and 66% list “access to high quality transportation” as one of the top three criteria considered when deciding where to live. Almost half of respondents (46%) that owned vehicles said they would be willing to give them up if they could access a variety of transportation options, and 86 percent said that it was important for their city to offer opportunities for them to live and work without relying on a vehicle. Michael Myers, managing director at The Rockefeller Foundation, said “This survey reinforces that cities that don't invest in effective transportation options stand to lose out in the long-run.”²⁵

“Investing in Place” was released in May by the American Planning Association, and highlighted findings that both Baby Boomers and Millennials want the same things: better transportation options, walkable communities, tech-enabled cities, and housing that allows them to age-in-place. Also, 2/3 of all respondents and 74 percent of Millennials conclude that investing in schools, transportation options and walkable areas is a “better way to grow the economy than traditional approaches of recruiting companies.”²⁶

Local research by the Nashville Area Chamber of Commerce, done in conjunction with the Young Professionals Nashville, reveals that Millennials believe in order for Nashville to be a progressive city, affordable and quality housing and public transportation needs must be met. Survey results show that 41 percent say transit is a key issue that is “personally important” to them.²⁷

Downtown Nashville currently offers a variety of transportation options such as Enterprise Carshare, a car-sharing program offering four cars in downtown and 11 total vehicles in Nashville for use by residents, businesses and employees, B-Cycle, a bike-share program that offers 206 urban bikes at 23 automated kiosks throughout Nashville, and Music City Circuit, a free downtown circulator provided by the Metropolitan Transit Authority. The main hub of MTA's bus station called Music City Central is located in downtown offering 43 bus routes. Although these options are available, if we are to sustain and grow the number of people moving to downtown Nashville, mass transit must be part of the infrastructure. The Amp, a proposed full-service 7.1 mile bus rapid transit system (BRT) is currently being debated for a major Nashville corridor along Broadway/West End. If approved and implemented, the Amp will connect downtown to other areas of town, and spur more compact, walkable and amenity-rich development that is desired by Millennials and Baby Boomers.



²⁵ Rockefeller Foundation, “Access to Public Transportation a Top Criterion for Millennials When Deciding Where to Live, New Survey Shows,” April 22, 2014

²⁶ American Planning Association, *Investing in Place*, May 2014

²⁷ Nashville Business Journal, “The mind of Millennials: What they like, and don't like, about Nashville,” July 14, 2014

Conclusion

Downtowns and urban cores are increasingly becoming the country's economic generators, and are attracting the two largest generations – Baby Boomers and Millennials – to live, work and play. These two generations will continue to foster downtown population growth over the next several decades. Cities that offer jobs, affordable housing options, walkability, and desired amenities such as various modes of transportation will be favored by these two population groups.

This year Nashville ranked 12th in the top “Markets To Watch” out of 25 U.S. metropolitan-area markets in ULI's Emerging Trends in Real Estate report. “Nashville's short-term growth prospects are the best in years...Nashville's skilled workforce and diverse economy support a positive outlook, and the metro area will grow faster than the country as a whole over the long term.”²⁸ The fact that Nashville is now considered one of the largest 25 cities in the nation with the third largest economy and is ranked 6th in the nation for job growth is only going to increase its competitiveness. Nashville and the downtown core are poised for growth in population, housing, jobs and increased investment in development. Since 2000, downtown Nashville has had over \$3.6 billion of investment, with over \$720 million invested in residential development.

Over the next thirty years, there will be demand for smaller living spaces in dense, diverse and amenity-rich, walkable environments. Not only does this type of housing help to create density in urban cores, it also produces more affordable housing by condensing unit size. This housing is geared toward lifestyles of Gen Y entry-level professionals, empty-nesters/boomers, and is affordable workforce housing for all ages.

One project – Twelve Twelve – will add 286 new condos to the downtown inventory beginning September 1, 2014. This is the first new condo development downtown since Terrazzo delivered in 2009. Until then, there is only a limited two-month supply of re-sale units available. High demand and tight inventory has resulted in rising prices, which creates a barrier to entry for many who want to live downtown. Rental demand remains at 98% for the third year in a row. Developers propose to add an additional 1,606 units to the market by 2017. If all of the units are delivered, there will still be a deficit of over 900 housing units in downtown Nashville.

While downtown continues to need more rental and purchase opportunities, a missing housing product downtown is for those who earn between 80% - 150% of AMI. In order to incent this type of product, The Downtown Code²⁹, a downtown regulating plan that took effect in February 2010, offers height bonuses to downtown developers who include workforce housing in their projects. The demographic changes over the next 20+ years show decreasing household sizes with more than 80 percent of the growth in households without children and more than 40 percent of the growth in singles. This makes a strong case for development of smaller homes/units of housing.

Downtown Nashville is ready for growth. In order to continue its momentum, Nashville city officials, developers and downtown stakeholders must plan for the monumental demographic shift that will take place in this country and will have a considerable impact on our economy. Planning for a diverse housing mix and well as housing design with smaller square footage, and more affordable price tags is crucial in order to attract the demographic that desires the urban lifestyle. Cities that plan for this change in household size and preferences for smaller homes will be the ones that are most successful.

²⁸ Urban Land Institute, “2014 Markets To Watch”, 2014

²⁹ http://www.nashville.gov/Portals/0/SiteContent/Planning/docs/dtc/DTC_adopted%20document_amended_April%2002,%202013Updated.pdf