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RESIDENTIAL REPORT: July 2012
Downtown Nashville

Exceeding Expectations: Condo Sales and Rental Occupancy

What a difference a year makes. Downtown Nashville's residential market is exceeding expectations after showing resiliency through the economic recession and the housing market's slow but steady return. Developer-owned condo inventory is nearly depleted while rental occupancy is at its highest ever at 98%. Long-term mortgage rates are at record lows and have stimulated activity, allowing the pent-up demand for downtown living to re-emerge in a tangible way.

Nashville Housing Market: The Greater Nashville Association of Realtors mid-year report states that home sales in June are on an "upswing" with a 21% increase over June, 2011. The year-to-date sales are up 24.5% and the median residential price for a condominium is up 7% from last year.[1] Metrostudy, a national housing market research firm, concludes that the Nashville housing market is in a much better position than most metros nationwide. Compared with 43 other markets, Middle Tennessee ranks in the top 10 across three categories: total inventory supply, finished vacant inventory and vacant developed lot supply.[2]

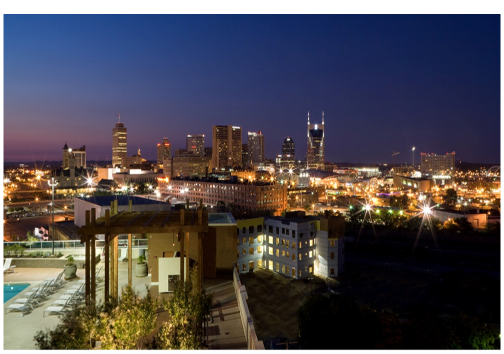
While record low interest rates are a catalyst for increased sales activity, overall economic recovery in Nashville has also played a leading role. According to the Brookings Institution's *2012 Metro Monitor*, Nashville's overall economic recovery is ranked #11 out of 100 metropolitan areas in the United States.[3] POLICOM Corporation recognized Nashville in its annual economic strength ranking for 2012. Nashville ranked #4 (up from #8 in 2011 and #13 in 2010) out of 366 metropolitan areas for its "long-term tendency to consistently grow in both size and quality." This study measures 23 different economic factors over a 20-year period to create the economic strength rankings.[4]

Business Insider ranked Nashville #9 on a list of the "15 hottest American cities of the future."[5] Judging criteria included job growth, population growth and demographics, affordability, livability and the health and well being of residents. Another consideration was the city's level of innovation in terms of technology, sustainability, culture and its ability to attract young, creative types.

Downtown Market: Residential sales in downtown Nashville are strong and consistent in 2012. The first two quarters of this year yielded 114 closings compared with 99 closings the first two quarters of 2011—an increase of 15%.[6] The downtown developer-owned condo inventory is diminished, with no planned for-sale developments in the pipeline. Due to apartment construction, the residential population has grown 17% since 2011 and is expected to grow another 12% by the end of 2013.

Rental market strength is evident in both the highest occupancy rates ever in downtown (98%) and developer activity. Three rental projects are currently under construction and three additional projects are planned for delivery in 2014, with a combined price tag of over $200 million.

Retail development is a strong indicator of the economic vitality and perceived future growth of an area. So far in 2012, 29 local, regional and national retailers have announced or opened their doors in downtown Nashville. Seventeen of these retailers are local and six have multiple locations in the Nashville area. Interestingly, ten of these new stores fit into the traditional retail model, which tends to be more residential-oriented retail.



[1] Greater Nashville Association of Realtors, "Home sales hit mid-year on an upswing*,"* July 3, 2012*,* http://www.gnar.org.
[2] Metrostudy, http://www.metrostudy.com, May 2012
[3] Brookings Institution, *2012 Metro Monitor*, June 2012
[4] POLICOM Corporation, "2012 Economic Strength Ranking Press Release," June 1, 2012
[5] *Business Insider*, "The 15 hottest American cities of the future," June 2012
[6] RealTracs Property Search, http://www.realtracs.net, July 2012

Downtown Residential Overview

Downtown Nashville continues to trail peer cities in residential population and housing units. Void of residential zoning until the mid-1990's, downtown Nashville is decades behind in its urban residential development. Peer cities continue to hold significant leads in their downtown residential population and units. St. Louis and Charlotte both have over twice as many residents and Memphis has close to four times the residents (fig. 1, 2).

Although Nashville has significantly fewer residents, its housing units and residential population are growing at a faster pace than its peer cities. From 2011 to end of the year 2012, the residential population of downtown Nashville will grow 23%, compared to 2% in Memphis, 4% in St. Louis and 3% in Charlotte. The same holds true for residential units. Downtown Nashville's housing units will increase 11% between 2011 and 2012, while the units in peer cities will only increase 2% in Memphis, 1% in St. Louis and 3% in Charlotte.

Nashville has held the lead in rental occupancy rates over the past three years compared to other peer cities (fig. 3). A survey of property managers was conducted in June 2012. The survey evaluated a total of 1,487 units in 18 properties. Thirteen of the 18 properties are 100% occupied and several have waiting lists. Rental properties not included are 27 units on the first floor of Market Street Apartments (not available since the May 2010 flood), Residences at 315 due to their short-term leasing status, and rental units that came online in the second quarter of 2012 at Eleven North Apartments. This occupancy rate also does not include for-sale properties that have been rented out by their owners.

Figure 1—Year End Projections-Downtown Residents

	2011	2012	2013
Nashville	5,155	6,320	6,742
Memphis	23,800	24,200	24,600
St. Louis	13,500	14,000	14,300
Charlotte	15,095	15,595	16,415

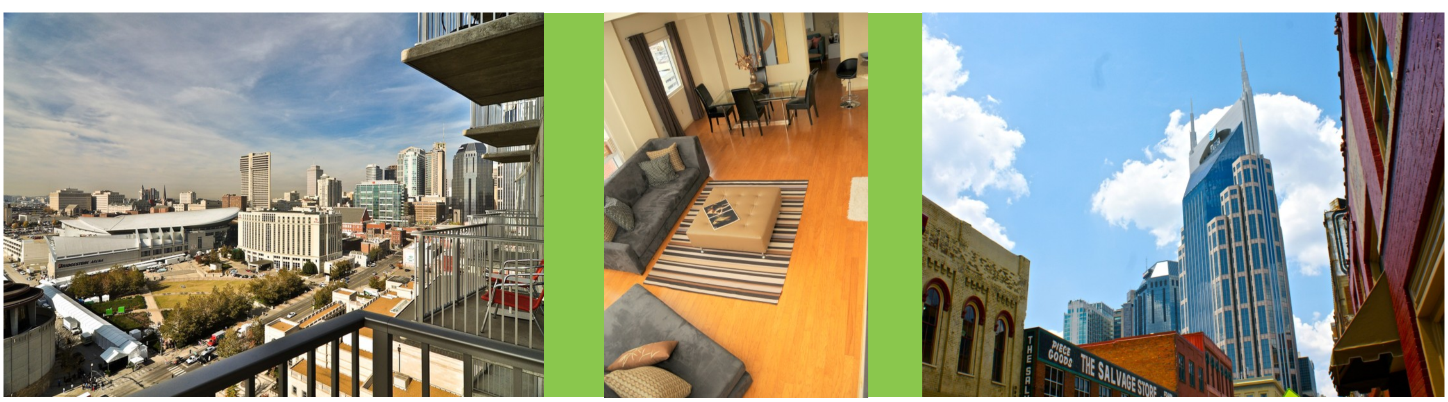
Figure 2—Year End Projections - Downtown Housing Units

	2011	2012	2013
Nashville	3,837	4,273	4,495
Memphis	14,000	14,235	14,470
St. Louis	8,735	8,825	9,030
Charlotte	8,895	9,200	9,700

*Information provided by: Charlotte City Center, Downtown St. Louis Partnership, Memphis City Center Commission, (June, 2012)

Figure 3—Rental Occupancy Rate

	2012
Nashville	98%
Memphis	93%
St. Louis	90%
Charlotte	96.5%



Left to right: View from Private Residence at Encore Condominiums, Interior photo of home at Bennie Dillon, View of downtown skyline from 3rd Avenue South

Downtown Housing Categories

There are currently 3,837 residential units of which 40% are rental, 55% are condo, and 5% are single family units. Currently, the estimated downtown residential population is 6,056, and there will be 6,320 residents by the end of the year. Over the past twelve years, downtown has seen a 209% population growth (fig. 4). This is over 17 times the percentage growth in Nashville, over 16 times in the Nashville MSA and over 14 times in the State of Tennessee during the same time period.

Population Growth	2000	2012	% Growth
Downtown	1,960	6.056	209%
Nashville	569,891	637,926	12%
Nashville MSA	1,453,577	1,640,954	13%
Tennessee	5,689,283	6,465,554	14%

Source: Nashville Downtown Partnership, EMSI 2012 Figure 4

Rental Market

The 1,534 rental units within 19 properties in downtown Nashville make up 40% of the current downtown housing mix. In response to the demand for rental opportunities, developers have three rental projects under construction that will add 658 units by early 2013. In addition, three planned developments will add another 754 rental units by 2014. This will bring the number of rental units up to 2,946, an increase of 92% over a two-year period.

The addition of these units to the overall downtown residential market will create a new housing mix of 56% rental, 40% condo and 4% single family by the end of 2014. It is not anticipated that there will be any new for-sale developments during this time period based on current economic conditions. Of the units that are currently under construction, 607 (91%) will be built in The Gulch in two projects - Eleven North Apartments (North Gulch) and Pine Street Flats. The remaining units will be in Ryman Lofts, an affordable housing project for artists, at Rolling Mill Hill.

Downtown apartments have had some of the highest occupancy rental rates in the Greater Nashville area in the past six years, and this year, a record 98%. Occupancy rates have remained at 92% or above even through the recession (fig. 5). According to the survey of property managers (June 2012), Rolling Mill Hill, Rutledge Hill and SoBro neighborhoods all have occupancy rates of 100%. The Core and Gulch neighborhoods have occupancy rates at 98% and 97% respectively.

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%

Source: 2Q 2012 Greater Nashville Apartment Association Market Survey, NDP Property Manager Survey June 2012
Figure 5

Nance Place Apartments at Rolling Mill Hill

Ryman Lofts at Rolling Mill Hill rendering

Eleven North Apartments, located in the North Gulch, began preleasing in February 2012. As of July 25, the property is 80.5% preleased and 141 out of a total of 302 units are occupied. Construction will be completed by mid-September. One-bedroom units are 742 SF renting for $1,175 to $1,540, two-bedrooms are 1,104 SF renting for $1,885 and 1,168 SF for $1,990, and three-bedrooms are 1,320 SF for $2,790. The rental cost rises depending on location in the building. The average rental price is $1.90 per square foot. The development offers a variety of amenities including a dog park, performance stage with karaoke system, electric car charging station, rooftop lounge and a saltwater pool.[7]

Twilight rendering of Eleven North Apartments

Ryman Lofts, located at Rolling Mill Hill, will offer 60 one– and three-bedroom units, and will be Nashville's first affordable (available to people earning 60% or less of the area median income) residential community specifically for artists. The project delivers during 4Q this year and will offer unique floor plans, large windows and significant meeting spaces. The project is being designed with the goal of LEED Silver Certification.

SoBro Tower rendering

Located in the heart of The Gulch, Pine Street Flats will begin delivering units during 4Q this year. The project will include 296 units, ground-level retail, and is slated for U.S. Green Building Council LEED certification. Amenities include a saltwater pool, 24/7 fitness studio, and fully equipped clubroom. Studios are 430 SF from $999, one bedrooms are 600 SF from $1,199, and two-bedrooms are 1,070 SF from $2,199.

In addition to the high downtown rental occupancy rate, the shadow market units (i.e., investor units within condominium properties) have continued to rent easily, and many properties have waiting lists. A conservative estimate of an additional 400+ investor units can be classified as rental property at this time. Most condominium properties have a capped percentage for investor units and strict monitoring by property management aids in identifying this number.

Evidence of a robust rental market can be seen through investor interest in rental properties downtown. Velocity in The Gulch, a once distressed condo project that was converted to a rental building, is reported to set a new sales record in July.[8]

Pine Street Flats rendering

Eleven North Apartments, still under construction, is already on the market. According to HFF, a national commercial real estate capital intermediary company, the property landing on the market so quickly is a response to the strong tenant and investor demand for rental product. Managing Director Jason Nettles of HFF office in Atlanta states, "Of all the major markets in the Sun Belt, none are doing better than Nashville in rent growth and demand." [9]

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[7] TriBridge Residential, Community Manager Interview, July 25, 2012

[8] *Nashville Business Journal*, "Velocity sale more proof of Nashville's white-hot rental scene," July 6, 2012

[9] *Nashville Business Journal*, "Eleven North prepares to test Nashville Market," July 6, 2012

Rental prices are up across most categories. Studio apartment rents have increased by 5.5% on the lower end and by 10% on the high end. One-bedroom rents have increased 13.5% on the low end with no change on the high end. Two-bedroom rents have increased 4% on the low-end and 8% on the high end. All other rental range categories stayed consistent with 2011 figures (fig. 6).

Rental Market	2011	2012
SIZE	419 - 4,500 SF	419 - 4,500 SF
MARKET VALUE		
Studio	$540 - $1,185	$570 - $1,300
1 bedroom	$600 - $1,700	$681 - $1,700
2 bedroom	$790 - $2,500	$822 - $2,700
3 bedroom	$1,400 - $4,000	$1,400 - $4,000
SIZE	1,129 - 1,664 SF	1,129 - 1,664 SF
Live/Work Units	$1,694 - $2,496	$1,694 - $2,496

Figure 6

Condominium Market

Currently in downtown Nashville there are 2,302 condo units within 40 properties. Condominium units make up 55% of downtown housing, and no additional condominium projects are in the pipeline at this time. Approximately 30% of the purchase units are located in the downtown core, 25% in The Gulch, 24% in North Capitol, and 21% in SoBro.

The condo market developer-owned inventory downtown is effectively depleted. There are nine units left and seven of them are under contract as of July 25. In early July, research indicated only 36 re-sales on the market, a two-month inventory. Sales over the past 12 months have been steady and consistent (fig. 7).

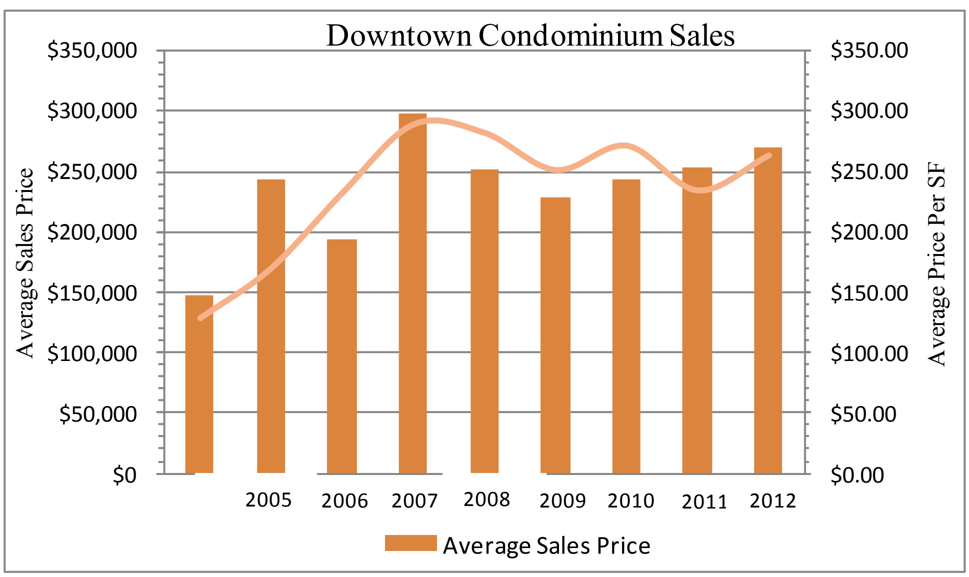

Figure 7

There are no new for-sale projects in the pipeline, and if there were, it would take a minimum of 36 months for a project to go from planning and schematic stages to completion and delivery. Demand for units is expected to increase, resulting in an increase in prices.

The first six months of 2012 show that the average unit price is up to $270,071 (from $253,142 in 2011) and has increased by 18% since 2009. The average price per square foot increased from $234.34 in 2011 to $263.60, an increase of 12%. The highest square foot prices so far this year occurred in January with the sale of two units at ICON in The Gulch. They sold for $498.08 and $466.75 per square foot.[10]

[10] http://www.realtracs.net, July 2012

Single Family Market

Single-family homes make up 5% of downtown housing inventory. Of the 208 total homes in downtown, 206 are in the Hope Gardens neighborhood. Two single-family residential permits were issued for Hope Gardens in October 2011, but the sites are still undeveloped.[11] The other two single family units are located in the downtown core.

Downtown Geographic Boundaries

The Nashville Downtown Partnership's definition of downtown includes properties within the boundaries of the river on the east, the interstate on the south and west, and Jefferson Street on the north. This geographic area is termed the *Greater Downtown,* which includes the Central Business 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 (fig. 8).

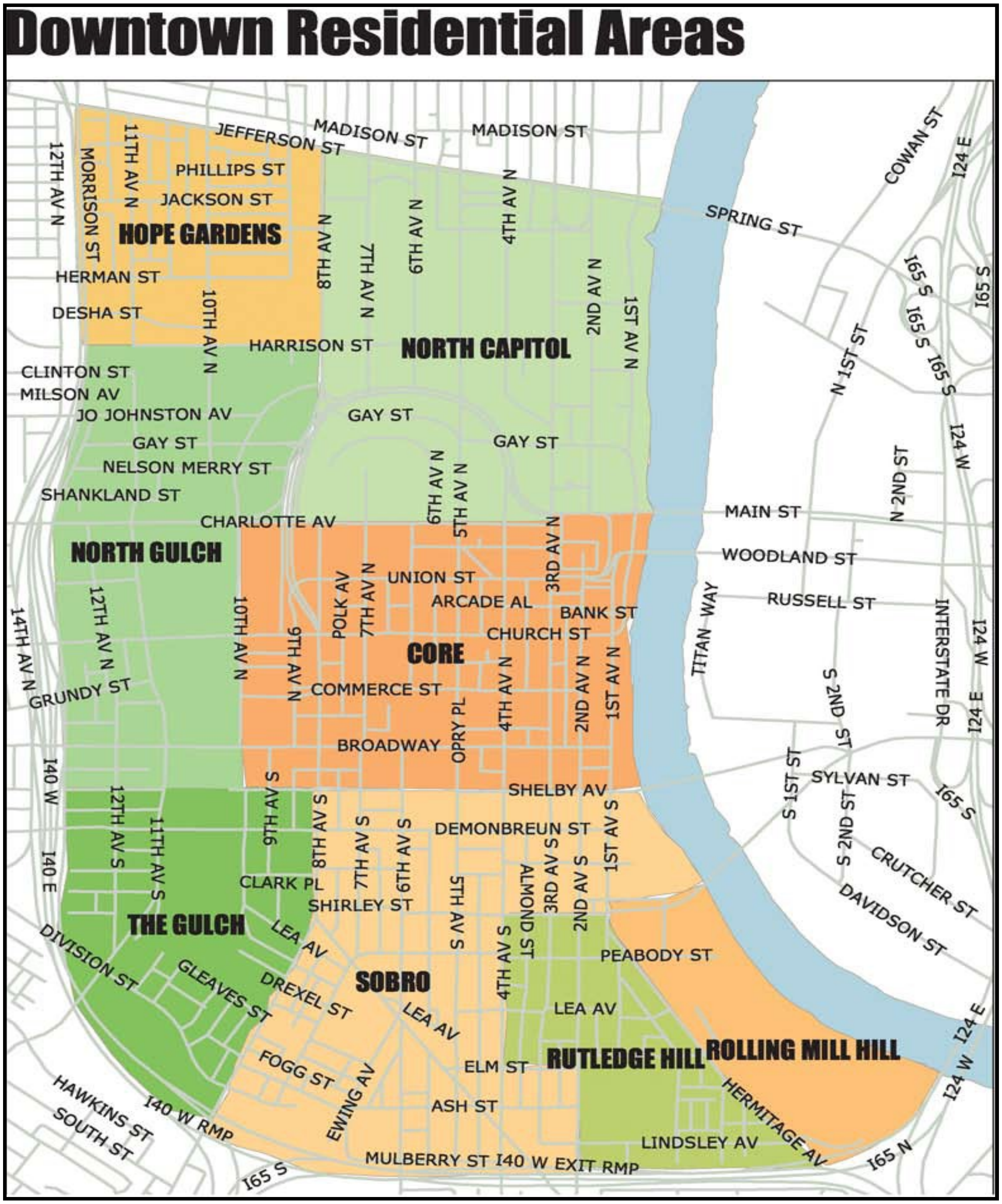

Figure 8

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[11]Davidson County Metropolitan Government, Metropolitan Planning Organization, July 2012

Demographic Profile and Trends

The Nashville Downtown Partnership's 2012 Downtown Residential Survey had a 16% response. In June, 3,000 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 west.

The downtown area continues to attract professional, highly educated residents from across all age groups, enhancing Nashville's economic competitiveness. Thirty-two percent of downtown residents moved there from outside the city and 28% percent moved from out-of-state. In addition, 86% of downtown residents hold a college or postgraduate degree.

Household Status

Of the respondents, 49% are single (up 2% from 2011), 31% are married (down 5% from 2011), 11% are separated or divorced, and 9% have a domestic partner (up 2% from 2010) (fig. 9).

Age and Gender

Respondents reflected the broad cross section of age groups who currently live downtown. Sixty percent of the residents living downtown are ages 45 and under. Generation Y (age 29 and under) and Baby Boomers (ages 46-63) stayed the same. Generation X (ages 30-45) decreased by 1 percent while Veterans (ages 64+) increased by 1 percent. There has been no major shift in the percentage of age groups since 2010.

Male residents make up 49% and female residents make up 51% of the downtown population. Gender percentages continue to remain relatively constant.

Of the downtown residents 29 and under, 60% are female and 40% male, while the 30-45 category is 45% female and 55% male. Females lead the 46-63 category at 54% while males dominate the 64+ age category at 62%.

Household Income

Seventy-two percent of resident households earn over $60,000 per year. Forty-seven percent earn over $100,000 annually, up 3% from 2011. Twenty-four percent earn more than $150,000 annually, up 4% from 2011 and up 6% from 2010. Two percent earn less than $20,000 annually (fig.10).

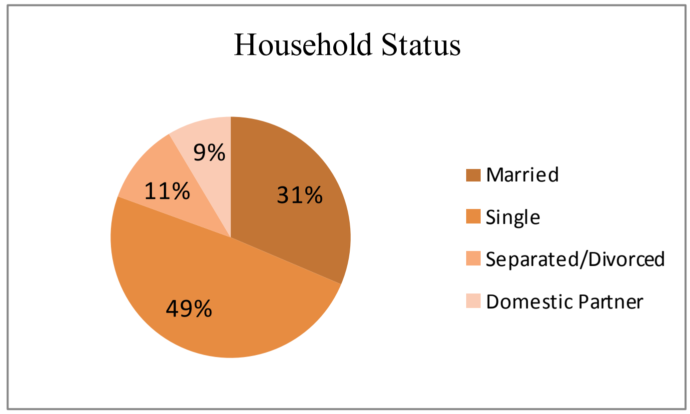


Figure 9

99% of survey respondents said downtown is a fun place to live!

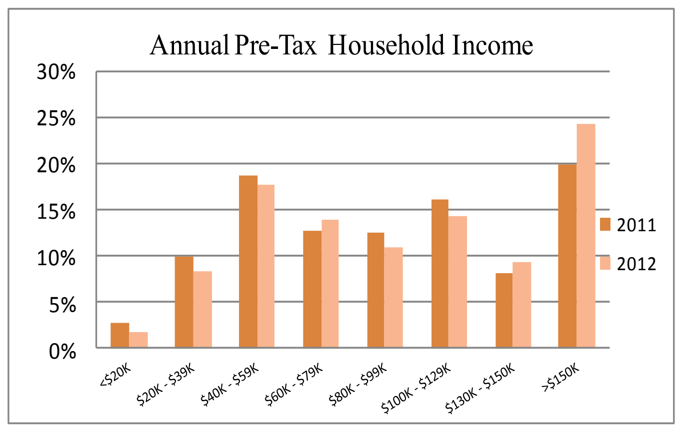


Figure 10

Skyline view from a bedroom at Encore Condominiums

Level of Education Completed

Fifty-five percent of downtown residents have a college education and an additional 31% hold postgraduate degrees (fig. 11). The percentage of college-educated residents has dropped by 8 points since 2010, but residents with postgraduate degrees increased by 6 points over the same time period.

Downtown has a highly educated workforce in comparison with Nashville and the Nashville MSA as a whole (fig.12).

Where Residents Moved From

Thirty-four percent of residents moved downtown from somewhere in Davidson County. Twenty-four percent moved from the MSA, 28% moved from another state, 8% moved from somewhere in Tennessee outside the MSA (up 2% from 2011), and 6% moved from another location in downtown.

Work Location

Sixty-one percent of residents responded that their office is located outside of downtown. This percentage is up two points from 2011, and has steadily increased from 39% in 2005. Being "close to work" has been in the top four positive influences of living downtown since the first survey conducted in 2005 when it was the #1 influence. It dropped to #2 in 2006 and stayed there until it fell to #3 in 2009. Since 2010 it has held the #4 spot. Although being close to work continues to be an important factor in the choice to live downtown with close to one-third of residents citing its importance, more compelling reasons to live downtown have evolved.

Quality of Life Factors

When residents were asked what four elements most positively influence their **continued** downtown living, the top responses were the *urban experience* (51%), *central location/convenience* (44%), *nightlife* (34%), and *being close to work* (28%). The "urban experience" has held the spot as the #1 element for six years straight with the exception of 2011 when it dropped to #2. Being close to work and nightlife have continued to be in the top four (fig. 13).

Ownership/Rental Changes

According to the survey, 63% of residents responded that they own their homes, down from 75% in 2010. Respondents that said they rent is up 12 points from 2010. Homeownership grew steadily each year from 2008 through 2010. The economic recession precipitated a higher demand for rental, which corresponds with the drop in percentage of ownership between 2010 and 2012. In addition, more rental developments have come online and 292 condominium units were converted to rental in 2011 (fig. 14).

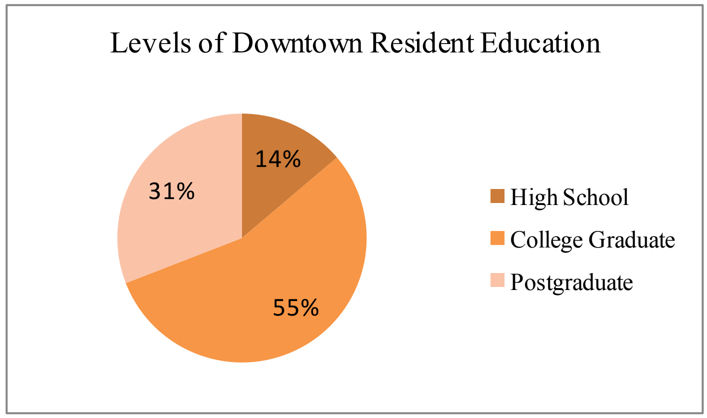


Figure 11

	2 or 4 Year Degree	Graduate or Professional Degree
Downtown	55%	31%
Nashville	27.9%	12.2%
Nashville MSA	26.5%	9.9%
Source: 2012 Residential Survey, EMSI 2012		

Figure 12

Elements that Influence Continued Downtown Living	
Urban Experience (#1)	51%
Central Location/Convenience (#2)	44%
Nightlife (#3)	34%
Close to Work (#4)	28%

Figure 13

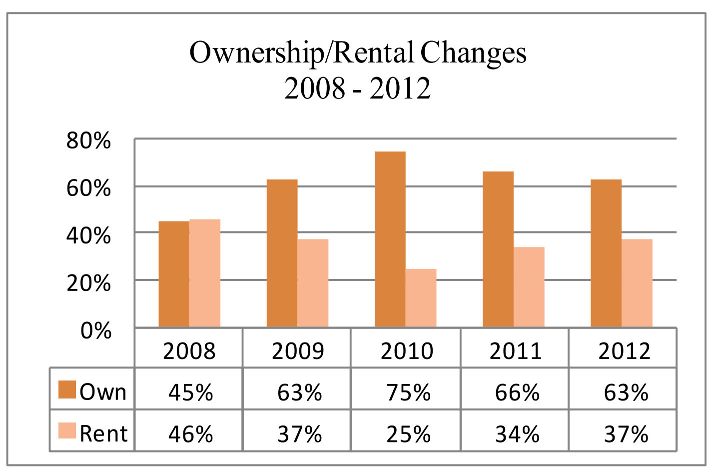


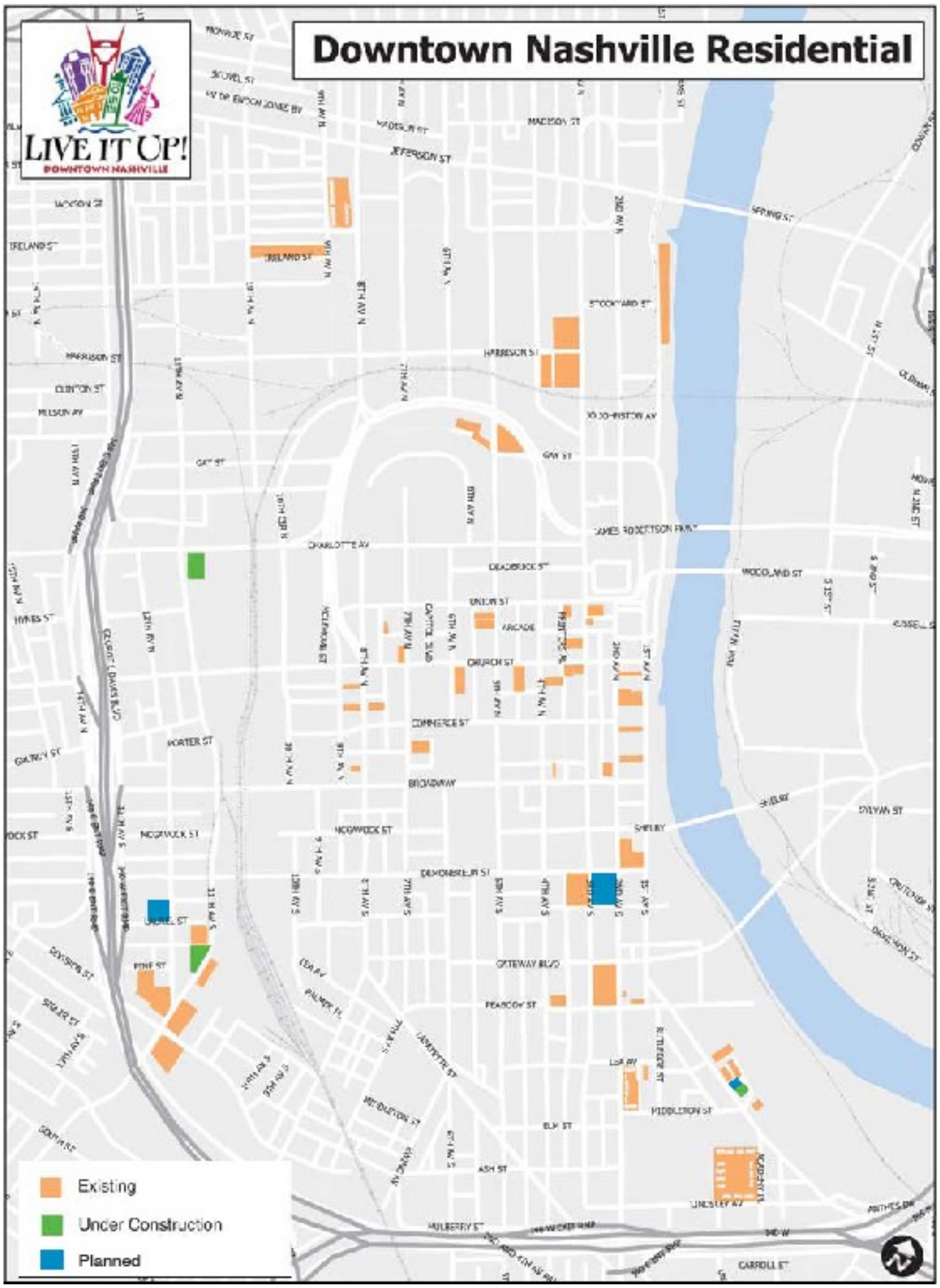
Figure 14

Study Area Housing Market

The *Greater Downtown* has 3,837 existing residential units, and an additional 1,412 units are either planned or under construction.

		# Units	Rental	Condo/ Single Family	Area	Property Address	Rental/Condo
	Existing Apartments/Condos/Single Family						
CBD	112 Second Avenue Lofts	4	4	-	Core	112 Second Avenue	Rental
(Downtown Core)	114 2nd Avenue	1	-	1	Core	114 2nd Avenue North	Condo
	115 8th Avenue North	1	-	1	Core	115 8th Avenue North	Condo
	123 2nd Avenue	1	-	1	Core	123 2nd Avenue North	Condo
	138 2nd Avenue	1	-	1	Core	138 2nd Avenue North	Condo
	219 2nd Avenue	1	-	1	Core	219 2nd Avenue North	Condo
	320 Broadway	4	-	4	Core	320 Broadway	Condo
	420 Broadway	1	-	1	Core	420 Broadway	Condo
	425 Broadway	2	-	2	Core	425 Broadway	Condo
	Ambrose Lofts	21	-	21	Core	162 4th Avenue North	Condo
	Art Avenue Lofts	32	-	32	Core	231 5th Avenue North	Condo
	Bennie Dillon Original Lofts	86	-	86	Core	700 Church Street	Condo
	Berger Building	3	3	-	Core	162 8th Avenue North	Rental
	Capitol Towers	219	184	35	Core	510 Gay Street, Suite 108	Rental/Condo
	The Cumberland/Cumberland Penthouses	289	256	33	Core	555 Church Street	Rental/Condo
	Church Street Lofts	17	-	17	Core	301 Church Street	Condo
	James Robertson Apartments	123	123	-	Core	118 Seventh Avenue North	Rental
	The Kress Lofts	29	-	29	Core	237 5th Avenue North	Condo
	Lofts above ICHIBAN	8	8	-	Core	107 Second Avenue North	Rental
	Lofts at 160	32	32	-	Core	160 2nd Avenue North	Rental
	Lofts at Noel Court	4	-	4	Core	214 3rd Avenue North	Condo
	Lofts at the Exchange	47	-	47	Core	309 Church Street	Condo
	Market Street Apartments	74	74	-	Core	150 Second Avenue South	Rental
	Metro Manor	170	170	-	Core	500 Fifth Avenue North	Rental
	Phoenix Lofts	6	-	6	Core	207 3rd Avenue North	Condo
	Printers Alley Condos	4	-	4	Core	211 Printers Alley	Condo
	Private Residence	1		1	Core	226 3rd Avenue North	Single Family
	The Quarters	32	-	32	Core	178 2nd Avenue North	Condo
	Rhea Building Lofts	11	11	-	Core	166 2nd Avenue North	Rental
	Riverfront Studios	2	2	-	Core	210 Broadway	Rental
	Smith House	1	-	1	Core	167 8th Avenue North	Single Family
	Stahlman Building	142	142	-	Core	222 3rd Avenue	Rental
	Residences @ 315 Union	18	18	-	Core	315 Union Street	Rental
	Viridian	305	-	305	Core	415 Church Street	Condo
	Watauga House	25	-	25	Core	222 Polk Avenue	Condo
	Westview	10	-	10	Core	179 8th Avenue North	Condo
		1,727	**1,027**	**700**			
North	District Lofts	69	-	69	North	Corner of Harrison & 3rd Ave	Condo
	Harrison Square	15	-	15	North	Harrison & 3rd Avenue North	Condo
	Harrison Square II	48	-	48	North	Harrison & 3rd Avenue North	Condo
	Hope Gardens Residences	206	-	206	North	Hope Gardens	Single Family
	Ireland28	28	-	28	North	900 Block of Ireland Street	Condo
	Riverfront Condos	145	-	145	North	726 1st Avenue North	Condo
	Row 8.9n	29	-	29	North	800 Block 8th Avenue North	Condo
		540	**-**	**540**			
Rolling Mill Hill	The Art Deco	24	24	-	RMH	RMH	Rental
	The Metro	36	36	-	RMH	RMH	Rental
	The Victorian	12	12	-	RMH	RMH	Rental
	Nance Place Apartments	109	109	-	RMH	RMH	Rental
		181	**181**				
SoBro	Academy Square Condominiums	50	-	50	SOBRO	100-149 Academy Square	Condo
	Cardwell Place Condominiums	4	-	4	SOBRO	Lea Avenue & Rutledge	Condo
	Encore	333	-	333	SOBRO	301 Demonbreun Street	Condo
	Howell Park	40	-	40	SOBRO	401-479 2nd Avenue South	Condo
	Peabody Quarters	24	24	-	SOBRO	310 - 312 Peabody Street	Rental
	Rutledge House	41	-	41	SOBRO	656 Second Avenue South	Condo
	Rutledge Terrace	18	-	18	SOBRO	430 Second Avenue South	Condo
		510	**24**	**486**			
The Gulch	ICON	417	-	417	The Gulch	600 12th Avenue South	Condo
	Mercury View Lofts	32	32	-	The Gulch	1209 Pine Street	Rental
	Laurel House Apartments	48	48	-	The Gulch	1101 Laurel Street	Rental
	Terrazzo	117	-	117	The Gulch	700 12th Avenue South	Condo
	Velocity	265	222	43	The Gulch	300 11th Avenue South	Rental/Condo
		879	**302**	**577**			
	TOTAL EXISTING	**3,837**	**1,534**	**2,303**			

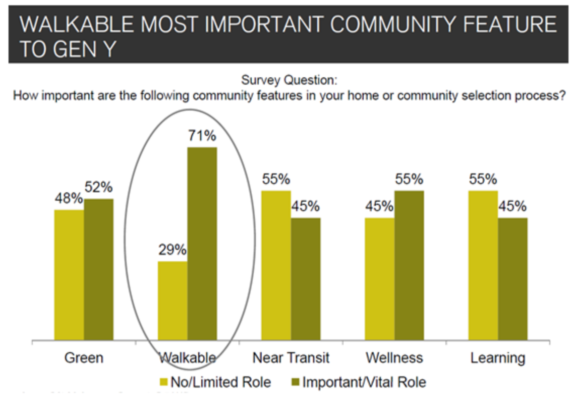
	# Units	Rental	Condo	Area	Rental/Condo
Under Construction					
Eleven North Apartments	302	302		North Gulch	Rental
Pine Street Lofts	296	296		The Gulch	Rental
Ryman Lofts	60	60		RMH	Rental
	658	**658**			
Planned					
12th & Laurel	312	312		The Gulch	Rental
RMH Rental Project	100	100		RMH	Rental
SoBro Tower	342	342		SoBro	Rental
	754	**754**			
TOTAL UNDER CONSTRUCTION/PLANNED	**1,412**	**1,412**			



Demographic Trends Affecting Future Downtown Housing Market

According to research by Urban Land Institute, Generation Y, with close to 85 million members, generates and will continue to generate immense consumer demand. This group ranging from teens through the late twenties, will dictate market potential for every housing type (with the exception of housing for seniors) in years to come.[12]

Seventy-five percent of Gen Y prefers to live in a center city or close-in neighborhood based on lifestyle preferences and social and recreational opportunities. Location is a major factor in consumer preferences. They value places with diversity, walkability and proximity to jobs. In fact, walkability is the most important community feature to Gen Y. When surveyed, 71% responded that being in a walkable environment is "vital" in choosing a place to live[13] (fig. 15).



Source: RCLCO, January 2012 Figure 15

They want to live in interesting, dynamic neighborhoods, crave social diversity, interactive environments and having fun. They are willing to trade individual living space for these characteristics.[14]

To Generation Y, "convenience is another word for time." This group wants the convenience of "living close to the things they need, the things they do, and the people they do them with." They embrace social media and want to live in dense, active areas of cities.[15] Also, when asked to rank features they consider to be the most important in choosing a neighborhood, "community character" topped the list.[16]

Interestingly, Generation Y views freedom as being car-*independent*. *The New York Times* reported in May that General Motors hired MTV's marketing arm to help battle Generation Y's lack of interest in cars. "Forty-six percent of drivers aged 18-24 said they would choose Internet access over owning a car."[17] This group would rather be a close walk to work, or on a bus or train where they can engage in work or be connected to social media or the internet.[18]

Baby Boomers are a growing market segment, second only to Gen Y in number. This group of 78 million people wants "safe urbanism," access to entertainment, retail and medical services, a convenient, low-maintenance lifestyle, and attainable prices.[19] Every year for the next 18 years 4 million baby-boomers will retire and enter the market, and 75% of them want to live in urban settings – either central cities or walkable town centers.[20]

Household Type	1970	2000	2030
With Children	45%	33%	27%
Without Children	55%	67%	73%
Single/Other	14%	31%	34%

Source: RCLCO, January 2012 Figure 16

With many Gen Y remaining single into their late thirties and Baby Boomers choosing to downsize as they become empty nesters or reach retirement age, it is not surprising that CEOs for Cities reports planners now project 86% of growth in new households will be single people or couples without children at home. They also note that neither of these groups prefer remote suburbs or large lawns.[21] A snapshot of future household types in 2030 reveals the enor-

[12] Urban Land Institute, "Generation Y, America's New Housing Wave," 2011
[13] RCLCO, "Demographic and Economic Trends Impact on Main Street," January 2012
[14] Urban Land Institute, "What's Next? Real Estate in the New Economy," 2011
[15] IDAdvantage Newsletter, "Why Generation Y is Causing the Great Migration of the 21st Century," April 9, 2012
[16] Urban Land Institute, "Generation Y, America's New Housing Wave," 2011
[17] *The New York Times*, "As Young Lose Interest in Cars, G.M. Turns to MTV for Help," March 22, 2012
[18] IDAdvantage Newsletter, "Why Generation Y is Causing the Great Migration of the 21st Century," April 9, 2012
[19] RCLCO, "Demographics and Economic Trends Impact on Main Street," January 2012
[20] RCLCO, "The Future of Real Estate: Demographic Forces Driving Change," March 2011
[21] CEOs for Cities, http://www.ceosforcities.org//the-us-initiative/connectivity/

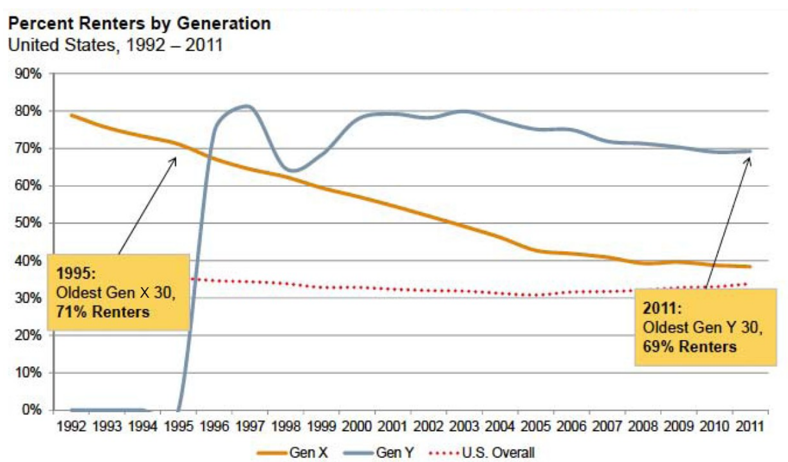
Life stage influences demand for housing. According to RCLCO, Gen Y entered the rental market in 2009 and will peak in 2013. The impact of Gen Y on home buying won't change dramatically until 2018 (fig. 17).

Year	Student Housing	Rental Housing	Rent As Couple / 1st Home	Young Family Own	Mature Family Own	Buy 2nd Home	Empty Nester Downsize Own	Buy Retire Home
2010	Gen Y	Gen Y	Gen X Gen Y	Gen X	Baby B	Baby B	Baby B	Eisen Baby B
2015	Gen Y	Gen Y	Gen Y	Gen X Gen Y	Baby B Gen X	Baby B Gen X	Baby B	Eisen Baby B
2020	Gen Y Gen Z	Gen Y	Gen Y	Gen Y	Gen X	Baby B Gen X	Baby B Gen X	Baby B
2025	Gen Z	Gen Y Gen Z	Gen Y Gen Z	Gen Y	Gen X Gen Y	Gen X Gen Y	Gen X Baby B	Baby B

Figure 17

According to a report by Urban Land Institute, more Americans will rent while homeownership continues to decline. It is estimated that 6 million new renter households may emerge between 2008 and 2015.[22] Research conducted by RCLCO predicts an estimated 900,000 new high-end renter households 55-74, with income of $50,000 or more as the Baby Boomer generation retires and becomes empty nesters.[23] These households will likely be concentrated in larger markets.

The country's rental market is experiencing a cyclical shift. Of members of Generation X who were 30 in 1995, 71% were renters. In 2011, 69% of Gen Y members were renters at age 30 (fig. 18).



Source: RCLCO, May 2012 Figure 18

Generation Y first entered the rental market in 2009, and the market peak will occur in 2013.[24] The cohort will impact rentals now and for-sale later. When Gen Y reaches the estimated home-buying age it will occur between years 2008 and 2030, peaks between 2018 and 2019 for 28-year-olds, and then peaks again between 2012 and 2022 for 31-year-olds.[25]

Robert Charles Lesser & Co. states that there are several other market opportunities to think about in the rental sector – the empty nester, post-graduate dorms, single-family rentals, highly-serviced short-term rentals, and family-oriented development. The rationale for the rental opportunities for the empty nester is that it serves the high demand for the urban lifestyle, it makes economic sense for the customer, provides a richer social experience, and serves the increasing call for a no-maintenance lifestyle.[26]

[22] Urban Land Institute, "What's Next? Real Estate in the New Economy," 2011
[23] RCLCO, National Multi Housing Council, "Can We Be a Nation of Renters? Emerging Market Segmentation Opportunities in Rental Apartments," May 17, 2012
[24] RCLCO, "Demographic and Economic Trends Impact on Main Street," January 2012
[25] RCLCO, "Post Recession Housing Trends and Consumer Preferences," November 2010
[26] RCLCO, National Multi Housing Council, "Can We Be a Nation of Renters? Emerging Market Segmentation Opportunities in Rental Apartments," May 17, 2012

Talented, educated young adults are converging to city centers in increasing numbers, according to CEOs for Cities update to "The Young and the Restless," a 2005 report on the residential patterns of college-educated 25-34 year-olds. The report states that most metropolitan areas now have higher levels of educated young adults living in the urban core than in the rest of the metropolitan area. Over the past decade, this preference of this educated group increased dramatically. In 2000, young adults with four-year degrees were 61% more likely to live in close in urban neighborhoods. Now, they are 94% more likely.[27]

The density of talent within city centers is imperative to realizing economic benefits. Fifty-eight percent of any city's success, as measured by per capita income, can be determined by the percentage of the college-educated population. Further, CEOs for Cities calculated what they call the "Talent Dividend." Raising the college attainment level (four-year degree) by one percent in each of the largest 51 metropolitan areas would result in an increase in per capita income of $124 billion per year for the nation.[28]

Eighty-six percent of residents who live in downtown Nashville have a college degree or postgraduate degree. To continue recruiting and retaining this demographic, downtown Nashville must build on its successes. *GQ Magazine* calls Nashville "the most electric spot in the South" due to the creative class—designers, architects, chefs, and rock 'n rollers - moving to the area.[29] A *Wall Street Journal* news article says that Nashville "is where the action is," one of seven up-and-coming cities considered to be "innovative centers."[30] In April, *Travel and Leisure* ranked Nashville among the most "Hipster-Friendly," ranking areas on culturally relevant features like live music, independent boutiques and coffee bars.[31] *Forbes Magazine* also ranked Nashville in the "Top 10 Cities for Business and Careers," due to economic development and quality of life factors.[32]

According to analysis of the latest statistics from the Bureau of Labor Statistics, Nashville is the fifth fastest growing job market in the nation.[33] Forbes.com named Nashville the "10th Best City for Tech Jobs."[34]

[27] CEOs for Cities, "The Young and the Restless in a Knowledge Economy: Update," April 2011
[28] CEOs for Cities, http://www.ceosforcities.org/city-dividends/talent, accessed July 2012
[29] *GQ Magazine*, "Nowville," July 2012
[30] *Wall Street Journal*, "Where the Action Is," August 22, 2011
[31] *Travel and Leisure*, "Nashville Ranked Among Most Hipster-Friendly," April 12, 2012
[32] *Forbes Magazine*, "Top 10 Cities for Business and Careers," June 27, 2012
[33] *The Atlantic Cities*, "The U.S. Cities with the Fastest Growing Job Markets," March 19, 2012
[34] Forbes.com, "The Best Cities for Tech Jobs," May 17, 2012

One major advantage of cities is their intrinsic sustainability. Living in a city requires less car travel, uses less energy and generates less emissions per capita than more suburban areas.[35] Generation Y has grown up with a higher level of awareness of sustainability, and "green" permeates many aspects of their lives, including social connections.[36] This generation is going to expect the range of choices in the marketplace to include sustainable housing options. When asked by Urban Land Institute how critical walkability is to shopping and social gathering places, two-thirds of Generation Y respondents said that is was "essential" or "preferable".[37] Boomers also desire walkable neighborhoods as they are more active than their parents were at their age.   As Boomers age, those living in the suburbs will begin to realize that lifestyle is contingent upon an individual's ability to drive. "They will increasingly choose cities where they can walk or take transit."[38]

Walkability has become a chief factor in choosing where people want to live, so much so that venture clients are looking at the "Walk Score" of an address as an increasingly important part of underwriting criteria.[39] A higher Walk Score increases the value of your home, according to a study conducted by CEOs for Cities. The walkability of a city translates directly into increases in home values. In fact, homes located within more walkable neighborhoods command premiums of $4,000 to $34,000 over houses with average levels of walkability in typical metropolitan areas.[40] Ziprealty.com also finds that one point of Walk Score can be worth up to $3,000 in some metro areas.[41]

The Gen Y cohort has lower percentages of car ownership, miles driven and possession of a driver's license compared with previous generations. It is anticipated that car-sharing services will multiply across urban centers and college towns.[42] According to a survey conducted by carsharing.net, there are currently over 500,000 car-sharing members in North America. As of July 1, 2011, data provided by Susan Shaheen, University of California, reports 26 U.S. carsharing programs with 560,572 members sharing 10,019 vehicles.[43]

All of downtown Nashville's residential properties have Walk Scores that are considered a "walker's paradise" or "very walkable." (Figure 19) Fourteen out of the 15 properties located in the downtown core are considered a "walker's paradise." By contrast, some of Nashville's suburban areas have very low Walk Scores, showing they are "car-dependent"[35] (fig. 19).

WALK SCORE	DESCRIPTION
90–100	Walker's Paradise — Daily errands do not require a car.
70–89	Very Walkable — Most errands can be accomplished on foot.
50–69	Somewhat Walkable — Some amenities within walking distance.
25–49	Car-Dependent — A few amenities within walking distance.
0–24	Car-Dependent — Almost all errands require a car.

Figure 19

Downtown Nashville's transportation options are growing. Alternate transportation options introduced over the past several years include WeCar, a car-sharing program offering four cars for use by downtown residents, businesses and employees, and the Music City Circuit, a downtown circulator by Metropolitan Transit Authority (MTA), offering free transportation from various sites in the downtown core to The Gulch and the Farmers Market in the North Capitol neighborhood. MTA is currently seeking federal funding for an East-West Connector—a bus rapid transit system (BRT) that will run along the busy 8-mile corridor that stretches from Five Points in East Nashville to White Bridge Road in West Nashville. The connector will have significant stops throughout downtown and will combine the quality of rail transit with the cost-effectiveness of rapid buses. Finally, Nashville B-cycle, a bike-sharing program managed by the Nashville Downtown Partnership, will be launched later this fall offering 100 bikes downtown and 20 rental stations across Nashville.

[35] CEOs for Cities, http://www.ceosforcities.org//the-us-initiative/connectivity
[36] Urban Land Institute, "Regional Spotlight: Green Trends," February 14, 2012
[37] Urban Land Institute, Generation Y, "America's New Housing Wave," 2011
[38] IDAdvantage Newsletter, "Why Generation Y is Causing the Great Migration of the 21st Century," April 9, 2012
[39] RCLCO, "A Market and Economic Context for Thinking About Suburban Sprawl Repair," Adam Decker, June 2011
[40] CEOs for Cities, "Walking the Walk," August 2009, 2
[41] http://blog.walkscore.com/2009/08/new-study-shows-one-point-of-walk-score-worth-up-to-3000
[42] Urban Land Institute, "What's Next? Real Estate in the New Economy," 2011
[43] http://carsharing.net

Housing Needs and Opportunities

Generation Y expects diversity in their ideal community or neighborhood. Seventy-eight percent want diverse people of different races and ethnic backgrounds, 77% want a variety of housing types and styles, and 73% want a mix of households including singles, couples and families. [44]

Providing rental options downtown for the near term is extremely important to keep up with demand. According to industry experts speaking at the National Association of Real Estate Editors' annual conference in June, the rental sector could remain healthy "for the next five or six years." The market for this type of housing is supported by robust demographics, including the major surge of young adults, particularly Generation Y, who typically rent. The consensus was that there was no jeopardy of overbuilding in the near term because there is "not yet enough capital available for developers to saturate the market with multifamily product." In addition, it takes significant time to receive approvals for apartment buildings – in some cases, two years or more. [45]

Downtown's developer-owned condo supply is depleted, and there is currently only a two-month supply of re-sales on the market. While rental projects are currently being delivered and will continue to offer living opportunities through 2014, no purchase development is in the pipeline. It could take up to 36 months for a development project of this type to be delivered to the market.

Brookings Institution, an independent research and policy institute, states that the healthiest cities have 2% of the city's metropolitan area living downtown. This idea has been coined the "2% solution," a target for creating a critical mass that will spark a cycle of growth in the city and metropolitan area overall.[46] Two percent of Nashville's MSA is 32,819. Downtown Nashville would need over 26,000 more residents in order to meet this challenge. Downtown Nashville's population growth has grown 209% since 2000, exceeding the 12% population growth of Nashville and the 13% population growth of the Nashville MSA. City leaders, developers and property owners need to continue to show commitment through investments and promotion of downtown living opportunities. Working together to overcome barriers to development and continuing to build a residential community downtown will benefit the economic vitality of the entire Metropolitan Nashville area.

Downtown has continued to keep up with trends in the market, and currently offers a variety of housing types and price points. In order to continue growth, developers and city leaders should work together to promote and build a variety of housing types, not just condos. Also, product needs to be available for first-time buyers and workforce housing. The Metropolitan Development & Housing Agency will deliver Ryman Lofts during the fourth quarter of 2012 that will offer moderately priced rental opportunities for artists. This is a great stride toward diversity of housing product downtown.

In late 2009, the Tennessee General Assembly approved changes to the tax increment financing (TIF) statute for housing and development authorities, providing flexibility for the use and scope of these funds. For the first time, TIF funds can be utilized for the cost of incorporating green design features into projects.[47] Demand for green, energy-saving housing options is on the rise, and this new mechanism can be used by developers to fund projects that urban residents want.

Conclusion

The character of a city is what drives economic prosperity. According to Richard Florida, author of *The Rise of the Creative Class*, "How people think of a place is less tangible, but more important than just about anything else."[48] Ninety-nine percent of downtown residents responded that "downtown was a fun place to live" in the June 2012 Residential Survey. The "urban experience" was also cited for the fifth year as the top reason for choosing to live downtown. In order to continue building on downtown's successes, stakeholders must continue to champion distinctiveness through creating built environments that help to fashion a sense of stewardship and belonging by residents. [48]

Downtown Nashville is undergoing tremendous growth, and is primed for job and residential growth as well as increased investment in development. Expanding urban amenities and providing diverse housing opportunities is key for upcoming generational movements of Baby Boomers and Generation Y. Strong occupancy rates, increasing transportation options and national trends of urban movement pave the way for continued success. Continued investment in public and private projects in the downtown area as well as increasing urban amenities, strong occupancy rates, increases in transportation options and nationwide trends of urban movement in several demographics set the stage for a bright future. In order to build on its accomplishments, Nashville's public officials and developers must work together to help plan and provide for a diverse housing mix geared toward changing demographics and lifestyles.

[44] RCLCO, "Demographic and Economic Trends Impact on Main Street," January 2012
[45] Urban Land Institute, "Rental Real Estate Market has Legs, Experts Say," June 29, 2012
[46] Brookings Institution, "A Two-Percent Solution for Downtown Rochester," February 2008
[47] Waller, "Tennessee's Expanded Tax Increment Financing Statute Includes Sustainability, "August 2009
[48] *The Atlantic Cities*, "Character is Key to an Economically Vibrant City," April 11, 2012