A publication of the
Nashville Downtown Partnership
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RESIDENTIAL REPORT: July 2009
Downtown Nashville

Short-Term Challenges; Long-Term Opportunities

Downtown Nashville is a very different environment than it was twelve months ago. The sudden downturn in the nation's economy, especially in the housing and financial markets, caused a substantial slowdown in the development of many highly anticipated projects. Developers have been flexible, adjusting their strategies and finding new and creative sources of funding while meeting tougher financial criteria, or simply putting their projects on hold until the market rebounds. Reflecting national trends, downtown Nashville has also experienced a decline in sales volume.

<u>Nashville Housing Forecast</u>

In the midst of the national news about foreclosures, falling housing prices and the credit crunch, there is room to be optimistic. While Nashville has not been immune from the economic challenges and housing stress facing many areas of the country today, it tends to be weathering this down cycle quite well compared to other cities. Nashville home sales data released in July by the Greater Nashville Association of Realtors shows signs of potential market stabilization. The number of closings in one month exceeded 2,000 for the first time since September 2008 and there are more than 2,000 sales pending for the second consecutive month. Condo sales, although down from a year ago, tend to be stabilizing. [1] (Figure 19)

<u>Nashville: National Forecast</u>

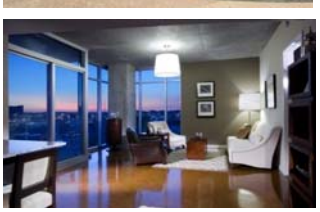
Nashville has been rated one of the ten most stable real estate markets in the nation, according to PMI Mortgage Insurance Company's second quarter economic report. Being 10th on the risk index means that there is a 16.6% chance that homes in Nashville will lose their value at the end of two years. By comparison, California and Florida cities had the highest index ratings at 99.9%. The PMI report found that 85% of 381 metropolitan statistical areas are facing increased risk of lower home prices in 2011, but Nashville is not one of them. [2]

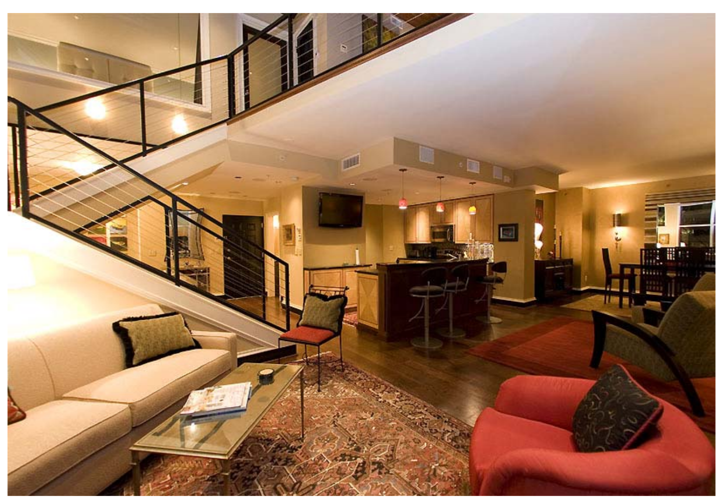
Brookings Institution's economic data released in June tracked America's 100 largest metro areas for stability of the real estate market, and Nashville ranked #25 with home price increases of 0.9% in the first quarter. [3]

<u>Downtown Strengths</u>

While this has clearly been a tough year for economic development across the nation, downtown Nashville has had economic growth in the area of retail, which is a strong indication of vitality in the current economy. Thirty-two local and national retailers such as Urban Outfitters, Cantina Laredo, Nashville Clothing Co., and The Painted Cupcake have opened or announced so far this year – over twenty-two stores in the downtown core and ten in The Gulch.

Also this year, The Gulch has been certified as the first green neighborhood in the South and one of some two dozen neighborhoods internationally. The official "LEED for Neighborhood Development" (LEED ND) certification is based on criteria such as smart growth, new urbanism and green building. [4] The Gulch has become a model for sustainable community design in the region. In May, *Men's Journal* ranked The Gulch as "One of the Best Neighborhoods in the Southeast," [5] and the New York Times calls it a "Hot Hood." [6] All of these things together help lay the groundwork for growth of the residential market when the housing market recovers.





Downtown Nashville: Overview

Historically, Nashville has taken a slow-growth approach, particularly in the residential environment—which one could argue is the reason the city is not suffering housing stress to the extent of other cities across the nation. Downtown Nashville was void of residential zoning until the mid 1990's, causing it to be decades behind other cities in residential development. The Downtown Living Initiative[7] released in 2003 by the Mayor's Office, the Nashville Downtown Partnership, and several partnering organizations, served as a catalyst for many developers, and prompted them to follow the lead of developers in downtowns across the nation.

Many of Nashville's peer cities including Memphis, Charlotte, St. Louis, and Indianapolis are several decades ahead in numbers of residents living within the downtown environment. (Figure 1) Currently, St. Louis and Charlotte have over twice the number of downtown residents and Memphis and Indianapolis have over four times the number.

All of the cities listed in Figure 1 and 2 except St. Louis do not have projections for residents or housing units in 2011. Once the recession began in 2008, many developers put projects on hold because of lack of financing, a deceleration in the sales sector, and tightening of the credit market. Nationwide, many cities are in a "holding pattern" until the economy rebounds. This will enable demand to catch up with supply, and balance downtown residential markets.

Because downtown Nashville was behind other cities in its residential development timeline, many projects were planned and delivered at approximately the same time. Growth in the number of available units jumped 40% in 2008, representing 25% of the 2009 end-of-year residential inventory downtown. (Figure 3)

Of the five projects that delivered over 900 units in 2008, 80% of those units are contracted or closed. The remainder of the units delivered in 2008 and units that have or will be delivered in 2009 will take time to sell due to converging economic factors. The fundamental point is that even in the best of economies, one would expect some slow-down in sales when such a large number of units enters the market concurrently. (Figure 4)

Nashville holds a 92% occupancy rate in 15 rental properties with 1,049 units. This rate does not include for-sale properties that have been rented out by their owners.

Figure 1—Projections– End-of–Year Downtown Residents

	2009	2010	2011
Nashville	5,566	5,730	*
Memphis	27,000	28,800	*
St. Louis	11,800	12,200	12,500
Indianapolis	24,951	26,986	*
Charlotte	11,489	13,512	*

Figure 2—Projections - End-of-Year Downtown Housing Units

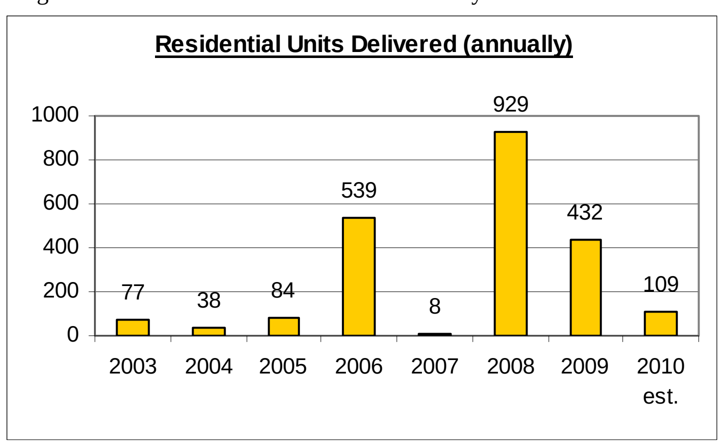
	2009	2010	2011
Nashville	3,711	3,820	*
Memphis	12,452	13,091	*
St. Louis	8,221	8,424	8,615
Indianapolis	13,343	14,430	*
Charlotte	6,758	7,948	*

*Information provided by: Charlotte City Center, Downtown St. Louis Partnership, Memphis City Center Commission, Indianapolis Downtown Inc, (July 2009)

Figure 3—Nashville Housing Growth

Year	End-of-Year Unit Totals	Unit Growth	%
2001	1,572		
2002	1,604	32	2%
2003	1,681	77	5%
2004	1,719	38	2.3%
2005	1,803	84	5%
2006	2,342	539	30%
2007	2,350	8	0.3%
2008	3,279	929	40%
2009	3,711	432	13%
2010 est.	3,820	109	3%

Figure 4—Residential Units Delivered Annually



Why Live Downtown?

The desire and demand to live in downtown Nashville is attributable to many factors, some of which are urban environment, walkable community, cultural and sporting events and convenience. Other influencing factors include Nashville's continued rankings on a national level. Nashville metro was named "America's Hottest City" for Expansions and Relocations two years in a row (2005, 2006) by *Expansion Management*.[8] Since then, Nashville has been ranked among the friendliest cities (*Travel+Leisure*)[9], best places for business and careers (*Forbes*)[10], best large city for relocating families (Worldwide ERC & Primacy Relocation)[11] and artists (*Business Week*)[12], and a top adventure (*National Geographic*)[13] and sporting town (*Sporting News*)[14] to name a few. All of these rankings are from 2007- 2008. See Figure 5 for 2008-2009 rankings.

28% of downtown residents moved from out-of-state

The downtown area enhances Nashville's economic competitiveness by attracting a significant number of professional, well-educated new residents across all age groups who bring with them vitality, fresh ideas, and new skills. Fifty-five percent of downtown residents moved from outside the city and 28 percent moved from out-of-state. In addition, 90% of downtown residents hold a college or postgraduate degree.

Figure 5

NATIONAL SPOTLIGHT (abbreviated list)

Nashville Metro Ranks #1 Quality of Life, #6 Best Cost of Living & #9 Economic Growth Potential Nashville receives high rankings in *Business Facilities'* Magazine cover story. August 2009 Issue

Nashville Ranks 14 on Next Cities Listing Super City Category Next Generation Consulting announced its "Next Cities" rankings—the best places to live and work for young professionals. June, 2009

Nashville's The Gulch Rated One of the Best Neighborhoods in the Southeast (best 8 neighorhoods**)** *Men's Journal*, May 2009.

Nashville Ranked 5th for "Economic Strength" POLICOM Corporation ranks the 366 Metropolitan and 574 Micropolitan Areas. This is the long-term tendency for an area to consistently grow in size and quality. May 2009

Top 10 Greatest Low-tax Places to Retire *U.S. News & World Report* ranked Nashville in the Top 10 U.S. places that have relatively low taxes but also offer amenities important to retirees, such as reasonable cost of living and fine recreational and cultural choices. 2,000 locales were studied. January 2009.

America's Favorite Cities Nashville ranked 2nd most affordable and 4th friendliest city in a survey that asked travelers to rank 25 top U.S. cities in 45 categories, ranging from food and shopping to people, culture, nightlife and more. *Travel + Leisure and CNN Headline News*, September 2008

America's Friendliest Cities *The Today Show* named Nashville one of America's five friendliest cities. May 2008

100 Best Places to Live and Launch Nashville is ranked No. 79 on business friendliness and lifestyle offerings. CNNMoney.com, April 2008

Kauffman Index of Entrepreneurial Activity Tennessee Ranked No. 4 based on entrepreneurial startups over the past decade. Ewing Marion Kauffman Foundation, April 2008.

Top Cities for Cultural Amenities Nashville ranks nationally as the No. 3 best city in terms of cultural amenities behind New York City and San Francisco. *bizjournals.com*, January 2008

Top 100 Places to Live Nashville ranked among the top 100 places in live in America based on education, employment, economy, crime, parks, recreation and housing. *Relocate-America*, 2008

Retail Development

In 2007, the Nashville Downtown Partnership commissioned a downtown retail study by Economics Research Associates, Downtown Works division. A comprehensive Retail Strategy and Merchandising Mix plan was created and a Retail Recruiter hired in January 2008.

Retail follows rooftops, and it is certainly happening in downtown Nashville. In 2008, sixteen retail stores opened and thirty-two have announced or opened since the beginning of 2009, filling over 100,000 square feet of downtown retail space. Over 85,000 square feet is existing retail space and 17,000 square feet is newly constructed space.

Of the new retail that has come online in the past eighteen months, twenty-five are local, five are regional, and two are national.   The substantial interest from local retailers in the downtown market underscores the confidence there is that downtown is a growing, vital neighborhood.

Retailers having success:

- Cantina Laredo's location in The Gulch had the biggest grand opening celebration of any of their locations in 11 states
- Copper Kettle's location in downtown Nashville has surpassed their Green Hills location in sales
- American Apparel, located on lower Broadway, leads all of the chain's southern stores in sales

Testimonial:
The Rymer Gallery, 233 5th Avenue North

"The excitement and support surrounding Nashville's Fifth Avenue of the Arts is at an all-time high. We are building a reputation of people acquiring fine art in Nashville. More people are recognizing that they don't have to travel to New York to find great art. Nashville is known for being down to earth, original, and hard to forget. The same applies to our art."

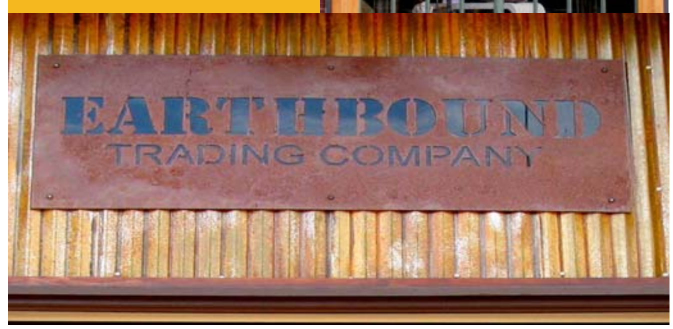
Herb Williams, Curator

Art & Cultural Amenities

As Nashville's cultural mecca, downtown is home to seventeen art galleries, four museums and six theaters which is a huge draw for downtown living. In fact, arts and cultural events (#5) ranked in the top ten reasons that most positively influence downtown living in the 2009 residential survey.

Downtown's artistic environment has received national acclaim in the past several years, earning a ranking in the "Top 25 Art Destinations" in *AmericanStyle* magazine[15] and "#7 Best Places for Artists in the U.S."[16] in *Business Week.*

Urban Outfitters is <u>exceeding</u> expectations for their first Tennessee location!
2009



The Rymer Gallery

LIVE IT UP! Downtown Home Tour

The Nashville Downtown Partnership and the Nashville Civic Design Center created the LIVE IT UP! Downtown Home Tour to showcase and promote urban living. In six years of the event, over 6,500 people have attended and the economic impact realized has been over $45.8 million in sales and leases.

For the past three years, middle Tennessee realtors were offered an opportunity to learn about downtown living and sales opportunities through a complimentary class on “How to Sell a Downtown Condo,” as an educational component added to the home tour festivities. In 2009, a continuing education credit course was offered to realtors titled “The Green Revolution and What it Means for Nashville’s Real Estate Market.” This course was taught by two experts trained in the sustainability field, showcasing downtown “green” projects and why simply living downtown is a green way of life.

Terrazzo in The Gulch

Urban lifestyles consume less of a carbon footprint than their suburban counterparts[25]

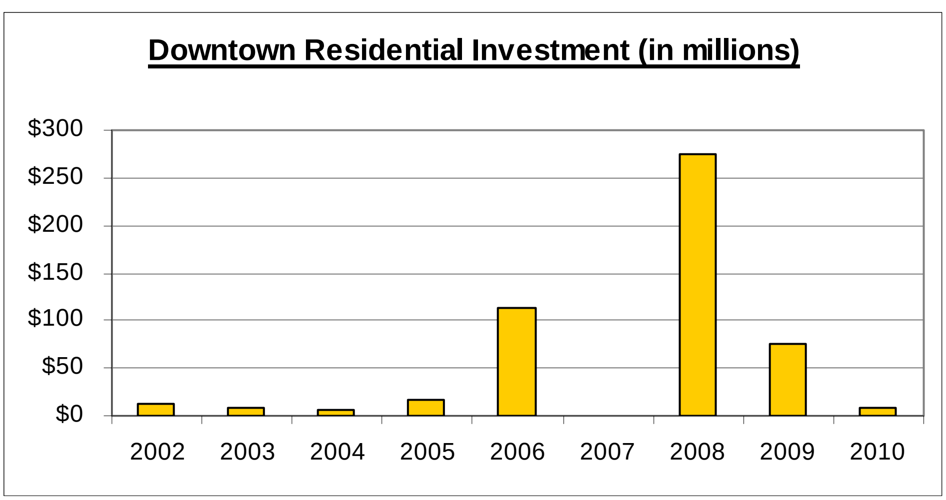
Design of Residential Space
is the #5 reason that most positively influenced residents’ continued living downtown

Source: 2009 Residential Survey

Downtown Investment

More than $3 billion has been invested in over 100 public and private downtown projects involving new construction, major renovations or adaptive reuse of historic buildings since 2000. There is $517 million invested to date in downtown residential projects (Figure 6) and over $285 million on projects that are planned. Close to one-third of the investment (current and planned) from 2000 to 2013 is in residential development.

The continued investment in downtown is a primary indicator of public and private confidence in the economic vitality of downtown, which includes a 24-hour residential population.



Note: Investment numbers exclude single family housing in Hope Gardens neighborhood

Figure 6

PROFILE OF STUDY AREA

Geographic Area

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. (Figure 7)

Downtown Residential Areas

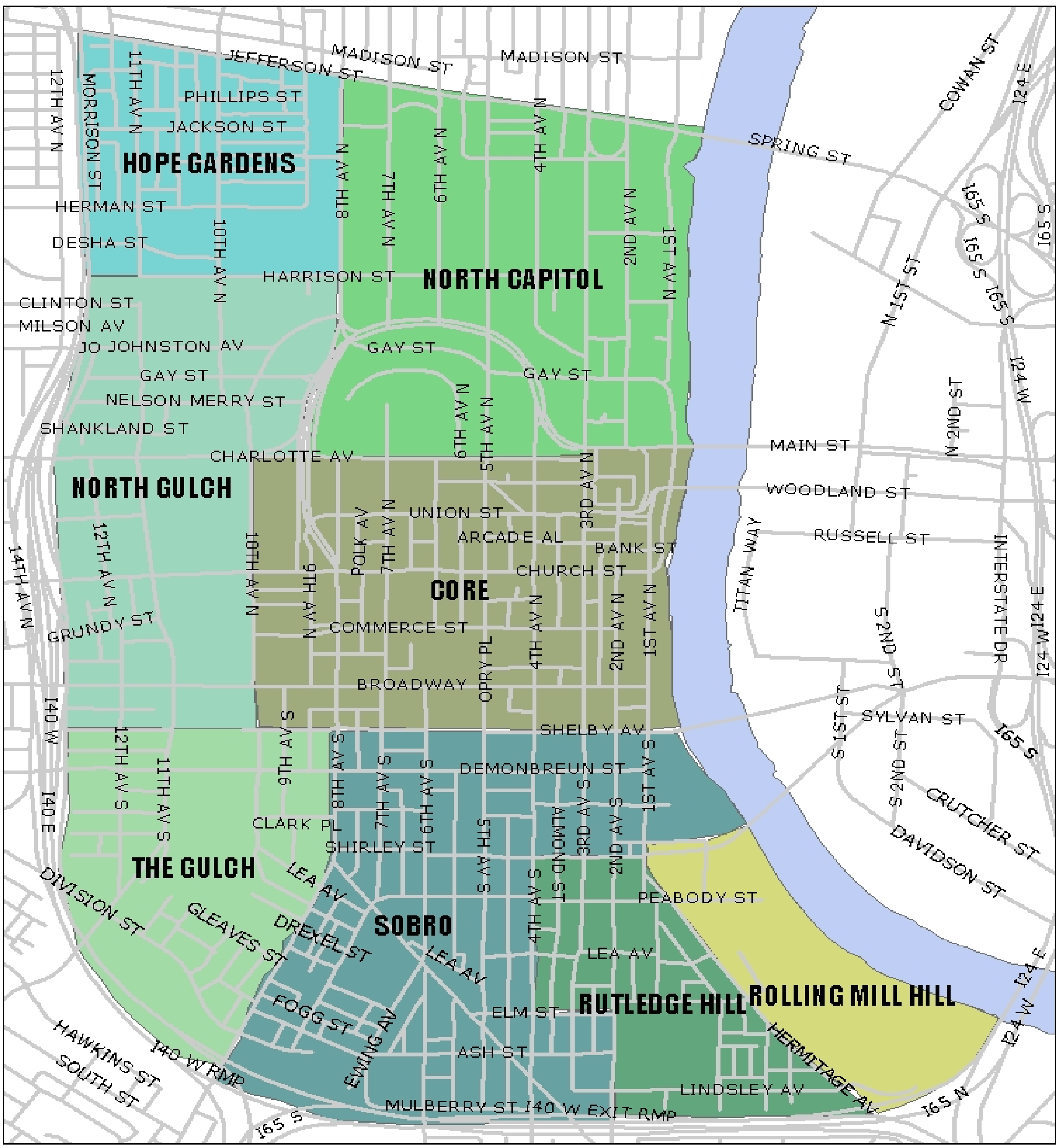


Figure 7

ACTIVITY SNAPSHOT - DOWNTOWN NEIGHBORHOODS

After almost a decade of investment, downtown's residential reemergence has begun taking shape as a collection of distinct neighborhoods. In addition to well-defined geographic borders, each neighborhood manifests its own distinct character.

Downtown Core

The heart of the city includes a diverse mix of office employees, residents and visitors. This mixed-use center is the home of cultural and entertainment destinations in Nashville including the First Saturday Art Crawl that continues to gain popularity with more than 600 people attending monthly. Live on the Green, a free fall concert series promoted by the city, will be held at Public Square and will promote environmentally-conscious entertainment. Twenty-nine new retail locations have opened in the core since 2008.

First Saturday Art Crawl, Tinney Contemporary, 237 5th Avenue

The Gulch

Once a 60-acre industrial area, The Gulch is now touted as one of the city's hottest urban neighborhoods. Velocity, a mixed-use neighborhood that offers 265 condos beginning in the $160's and over 20,000 square feet of retail space, began closings in July. The project will finish construction in the fall. Eleven retail establishments have opened or been announced in The Gulch since 2008.

Velocity in The Gulch with downtown skyline view

North Capitol

This formerly industrial area is now being transformed into a residential neighborhood with an abundance of park space, Cumberland River access, greenways and bike paths. The area now has close to 300 residential units. The Nashville Farmers' Market has undergone over $1.5 million in renovations, and offers a wide variety of restaurant and shopping options. The Museum of African American Music, Art and Culture, a $30 million project, is planned for this area.

Fresh produce at The Farmer's Market in the North Capitol neighborhood

SoBro

The area south of Broadway, named for its geographic location, is fast becoming an extension of the downtown core. The Pinnacle at Symphony Place, a $170 million, 29-story state-of-the-art office tower with 520,000 square feet of office and retail space is approaching completion and tenants will be moving in by the end of 2009. Planning for Music City Center, the new $635 million downtown convention center, is underway and is slated for completion by 2013.

The Pinnacle at Symphony Place, 29-story Class A office tower

Rutledge Hill

One of the oldest downtown neighborhoods, Rutledge Hill has over 500 condos, town homes and apartments that have been in existence since the mid-to-late 1980's. This well-established area has sweeping views of the downtown skyline and is sprinkled with unique owner-operated retail. Crema coffee shop just celebrated its two-year anniversary, and the Copper Kettle Restaurant is planning an expansion in the coming months.

Rolling Mill Hill

Seventy-two residential units have been delivered to this mixed-use residential neighborhood in 2009, and a workforce housing apartment project called Nance Place is scheduled to be completed by late 2010.

DEMOGRAPHIC PROFILE AND TRENDS

The Nashville Downtown Partnership performed the 2009 Downtown Residential Survey in June. Two thousand surveys were distributed to homeowners and renters by email and direct mail, through building and condo managers and door-to-door delivery. The survey focused on residents who live in Nashville's greater downtown area defined by these boundaries: Jefferson Street on the north, Cumberland River on the east and the interstate loop on the south and west. The Partnership received a 17% response rate.

Household Status

Of the respondents, 50% are single, 34% are married, 9% are separated or divorced, and 7% have a domestic partner. (Figure 8) The high number of singles corresponds with the Tennessee data from the 2000 U.S. Census that shows a significant increase in the live-alone population (26%) and two-person households (32%). The Census also indicated that from 1990 to 2000, average household size dropped from 2.46 to 2.40.

Age and Gender

Respondents reflected the broad cross section of age groups who currently live in downtown. The age distribution closely mirrors the 2008 responses. Well over half of the residents living downtown are ages 43 and under (66%), 27% are Baby Boomers between the ages of 44-61, and 7% are over 62 years of age. (Figure 9)

The male population has dropped slowly over the past three years (2007 - 55%; 2008 - 50%; 2009 - 45%) while the female population has slowly increased (2007 - 45%; 2008 - 50%; 2009 - 55%). The increase in females living in downtown may correspond with the increased perception that downtown is "safe" (68%) and "clean" (62%).

Of the downtown residents 28 and under, 63% are female and 37% male, while the 29-43 category is 48% female and 52% male. Females comprise 58% of the 44-61 age category. Adults 62 and above are represented by 38% female and 62% male.

Household Income

Approximately 48% of residents earn between $60,000 and $150,0000 per year while 32% earn between $20,000 and $60,000 per year. Seventeen percent of residents earn more than $150,000 and 3% earn less than $20,000 annually. (Figure 10)

Residential Households

The average number of persons per household is 1.5. Seven percent of households reported having children, and of those who have school age children, 58% attend public school and 42% attend private school.

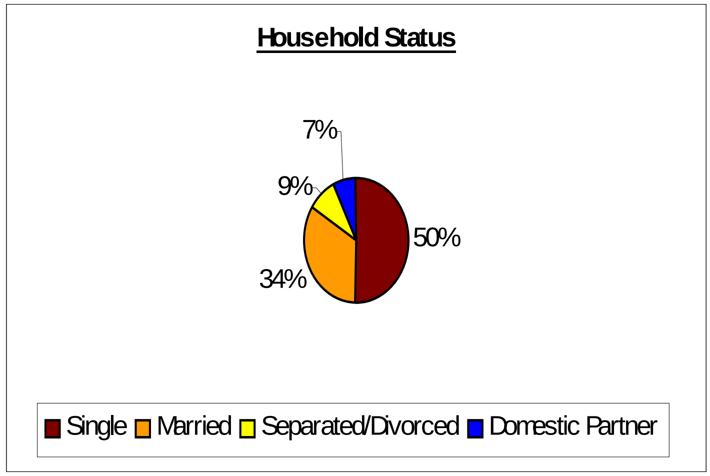


Figure 8

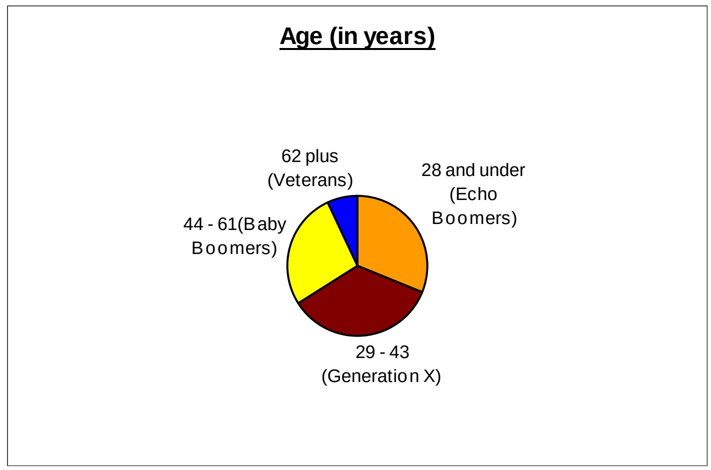


Figure 9

42% of downtown residents own pets

Source: 2009 NDP Residential Survey

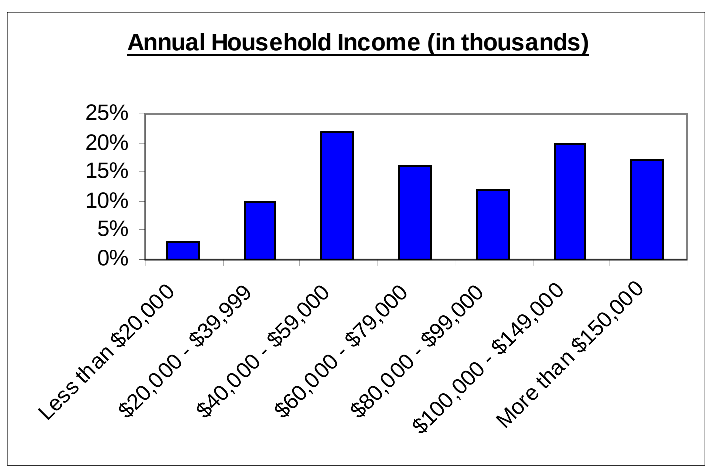


Figure 10

Level of Education Completed
63% of downtown residents have a college education and an additional 27% hold postgraduate degrees. (Figure 11)

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

Work/School – Location
46% of residents responded that their office is located downtown. The number has dropped over the past two years (50% in 2007, 48% in 2008). While being close to work is ranked #3 (#2 in 2008) as a positive influence for residents to live downtown, other increasingly appealing influences that continue to attract residents to the downtown area.

Where Residents Moved From
38% of residents moved downtown from somewhere in Davidson County. 23% moved from the MSA, 28% moved from another state, 4% moved from somewhere in Tennessee (outside of MSA), and 7% moved from another location in downtown.

Residential Ownership
At the beginning of 2004, 17% of the greater downtown existing residential units were purchase and 83% were rental. Currently, the greater downtown has 30% rental and 70% purchase units. With future planned residential developments taken into account, the estimated percentages by 2010 and beyond will be 33% rental and 67% purchase. (Figure 13)

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* (56%), *central location* (55%), *being close to work* (34%), and *nightlife* (31%). Urban experience has been the #1 element for the past three years. Being close to work and nightlife have continued to remain in the top four. (Figure 14)

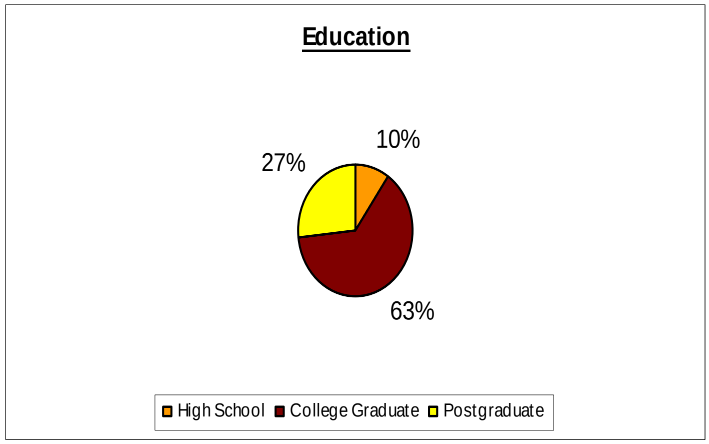


Figure 11

	College Degree	Graduate or Professional Degree
Downtown	63%	27%
Davidson County	20%	10%
Nashville MSA	17%	8%

Source: 2009 Residential Survey & Decision Data Resources 2004

Figure 12

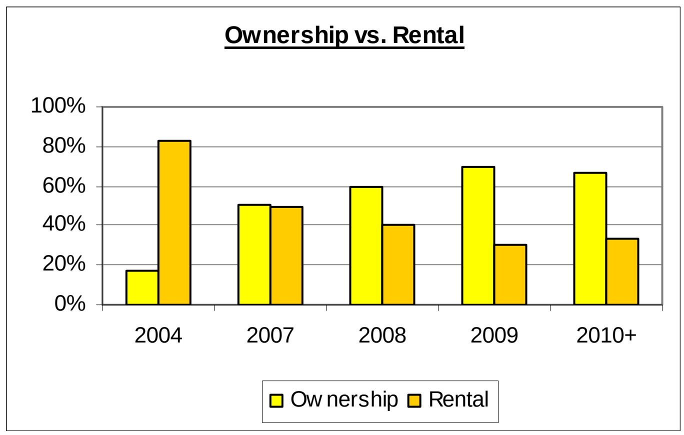


Figure 13

Top three types of restaurants residents would like to see more of downtown:

Chef-owned Local
Outdoor Dining & Wine Bar

Elements that influence continued living downtown	
Urban Experience (#1)	56%
Central Location/ Convenience (#2)	55%
Close to Work (#3)	34%
Nightlife (#4)	31%
Design of Residential Space (#5)	26%
Arts & Cultural Events (#5)	26%
Sporting Events (#6)	17%
Access to Interstate/Airport (#7)	13%

Figure 14

DOWNTOWN STATISTICS

Downtown has had 154% population growth from 2001 to 2009. This statistic is over nine times the growth in the Nashville MSA and over fifteen times the growth in Davidson County over the same time period. (Figure 15)

Population Growth	2001	2009	% Growth
Downtown	1,960	4,986	154%
Davidson County	569,891	626,144	9.9%
Nashville MSA	1,453,577	1,701,015	17%
Tennessee	5,689,283	6,214,888	9.2%

Source: Nashville Downtown Partnership & Decision Data Resources 2008

Figure 15

Rental Market

A comparison with 2008 cost ranges for rental properties shows that there has only been one increase (i.e. in the two-bedroom category). In 2008, the price range was $790 - $2500 with an increase on the high end to $2850. Two decreases in price were implemented for studios and two - bedrooms. The high end of studio prices dropped from $1085 to $985, a 9% drop, and the low end of two-bedrooms decreased from $790 to $775, or 2%.

Rental Market	
SIZE	425 - 4,500 SF
MARKET VALUE	
Studio	$650 - $985
1 bedroom	$600 - $1,700
2 bedroom	$775 - $2,850
3 bedroom	$1,400 - $4,000
SIZE	1,129 - 1,664 SF
Live/Work Units	$1,694 - $2,496

Source: Nashville Downtown Partnership Survey of Property Managers, July 2009

Figure 16

The downtown rental market has held a consistent occupancy rate above 90 percent for the past six years. Even with the new "for-sale" projects coming online, homeowners rent units out with competitive pricing and amenities.

With vacancy rates rising across the country, downtown Nashville appears to stand strong against economic forces due to not being overbuilt. There has been no new rental product introduced downtown since 2006 (The Stahlman, 142 units), and only three rental projects totaling 222 units have been delivered since 2003. Rental units make up only 10% of the total units delivered to the downtown market from 2003-2009. The majority of developers have been filling a market demand for downtown purchase property, and abandoning the rental market.

The tide may be turning now with the change in the national economy. Home ownership is harder to accomplish because of instability in the financial market and a decrease in credit and financing options. A new trend is emerging in the demographics of cities across the nation—people are renting instead of purchasing. With the insecurity in the market, many of the would-be renters are young professionals who can afford the rent and want the convenience and access to cultural amenities and nightlife while not making a long term commitment to a home. Most of Nashville's new downtown condo buildings have waiting lists for rental opportunities, and demand has grown despite premium rental prices averaging $1,400 for one bedroom and $2,100 for two bedrooms for downtown units.

Nashville's peer cities are seeing the same emerging trend. With the downturn in condo sales, developers in St. Louis were able to adapt to apartments quickly. Since the majority of the condo properties are historic, developers could tap into federal historic tax credits by going rental. Over 1,300 residential units converted to apartments over the past year, and have been filling up quickly. Downtown Charlotte is also noticing an increase in renters due to condo projects converting to apartments.[17]

The statistics released by Robert Charles Lesser & Co. further promote the demand for rental units. A large percentage of Echo-boomers (born between 1981 and 1999) will be entering the housing market beginning in 2009. Seventy-seven percent of this generation want to live in urban cores and will make up one in five households by 2012. Forty-one percent plan to rent for at least three years.[18]

A study released by Urban Land Institute in March states that multifamily could be the best option for institutional investors in the current investment climate because 1) credit is tight and fewer people will qualify for a mortgage; multifamily is the main option, 2) college graduates taking their first jobs won't jump into their first house so quickly; they will rent, 3) many homeowners with mortgage problems will be turned into renters.[19] With the nation trending toward more household renters in the next several decades, developers and planners alike should provide housing stock for this increasing demand.

Condo Market

Downtown Nashville began producing for-sale product in early 2000 and several large projects came online simultaneously in 2006 (Viridian, Kress Lofts, Church Street Lofts, Harrison Square I, Ambrose Lofts and 320 Broadway). 2008 was also a significant project delivery year. There were no new condo projects delivered in 2007 (see chart on page 15). Because of this market's infancy compared with other cities, factors such as availability of units and project timelines should be taken into consideration when analyzing the sales numbers. (Figure 17)

Looking at condo sales from the past two years, it appears that the decline begins the second quarter of 2008 coinciding with economic recession conditions. Although it is too early to make a definitive statement, it appears that since the fourth quarter of 2008 there has been a slight up-tick in sales. (Figure 18)

When comparing the downtown condo market and the Nashville condo market over the same time period, downtown Nashville shows a steady increase in sales from fourth quarter of 2007 through the second quarter of 2008. The Nashville market as a whole shows a steady decrease in sales beginning second quarter of 2007. It appears that they both tend to have a slight increase in sales in 2009, possibly signaling relief in the housing market. (Figure 18,19)

The average price per square foot of downtown condos rose steadily from 2004 to 2007. The 2008 and 2009 numbers have decreased, which could be a reflection of market conditions. The 2009 numbers only account for six months of sales. (Figure 20)

Downtown Condo Sales 2004-2009

	2009	2008	2007	2006	2005	2004
1Q	19	84	82	72	4	2
2Q	41	140	37	68	18	28
3Q	*	46	27	107	47	11
4Q	*	14	18	329	31	7
Total Sales	*	284	164	576	100	48

Source: Realtracs, Middle Tennessee Property Finder 2009 Figure 17

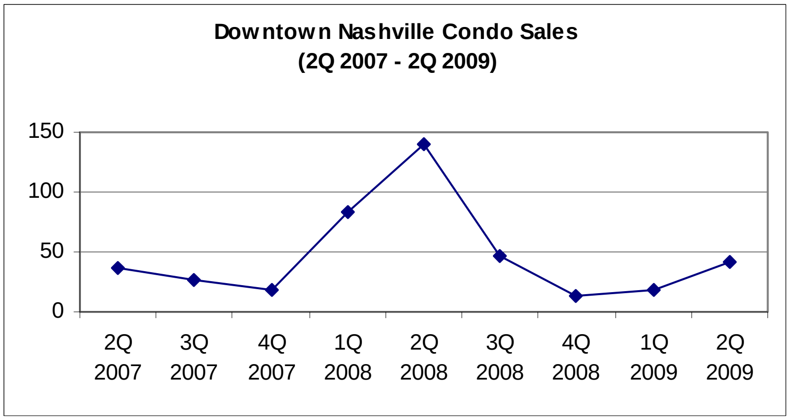


Figure 18

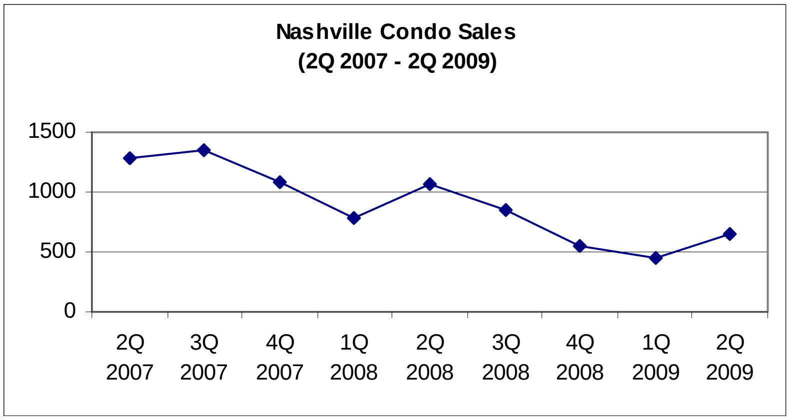


Figure 19

	Average Sales Price	Average Price Per SF
2004	$147,987	$127.76
2005	$243,108	$169.48
2006	$194,213	$232.25
2007	$298,072	$289.33
2008	$251,900	$282.35
2009*	$243,740	$243.50

Source: Realtracs Figure 20

*Only six months of statistics available at this time

**Note that numbers in the table above are representative of sales within the Nashville Downtown Partnership's Greater Downtown boundaries.

STUDY AREA HOUSING MARKET

The *Greater Downtown* has 3,446 existing residential units, and an additional 844 units are either planned or under construction.

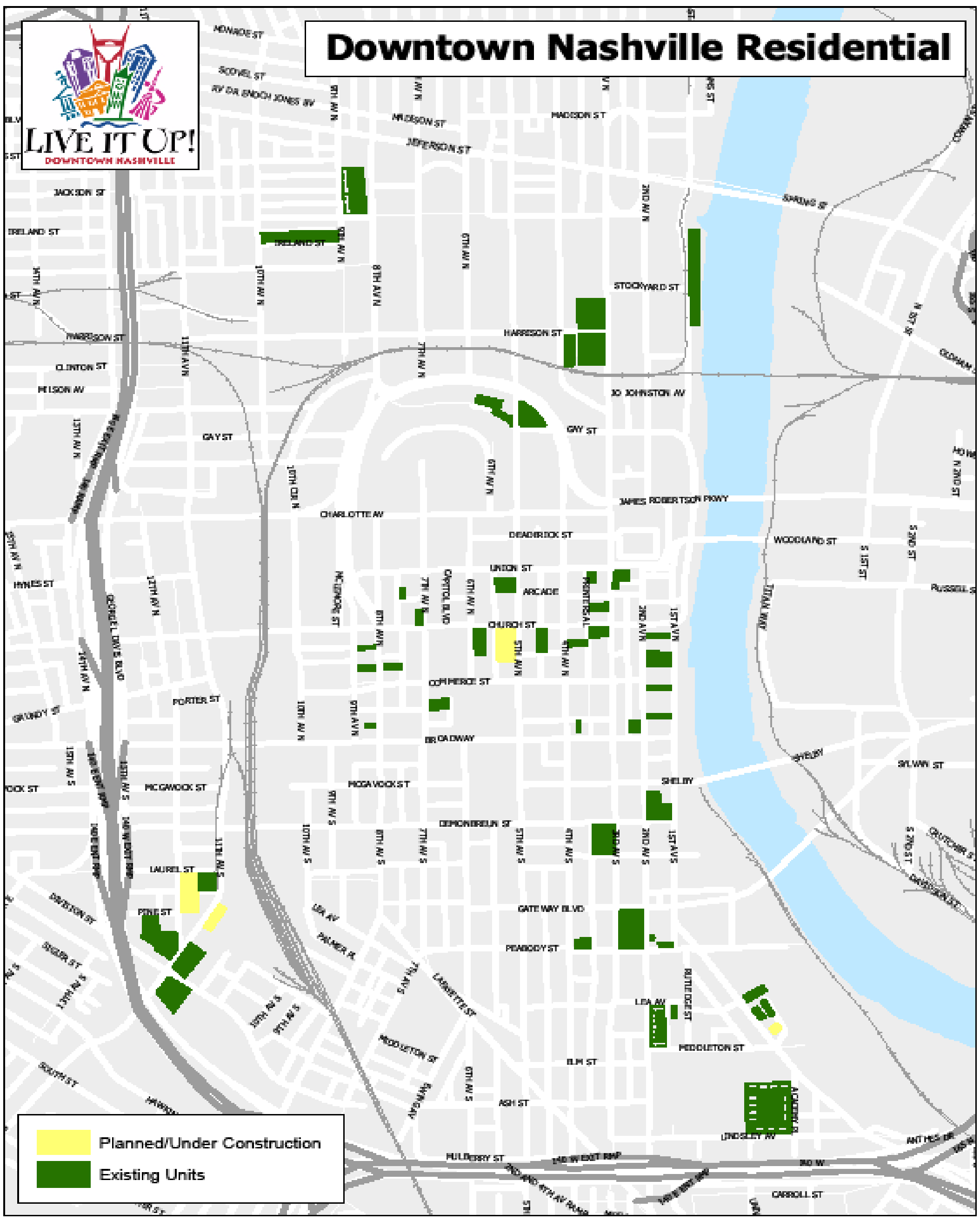
Figure 21

		# Units	Rental	Condo/SF	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	Condo
	115 Rosa L. Parks Blvd.	1	-	1	Core	115 Rosa L. Parks Blvd.	Single Family
	123 2nd Avenue	1	-	1	Core	123 2nd Avenue	Single Family
	138 2nd Avenue	1	-	1	Core	138 2nd Avenue	Single Family
	219 2nd Avenue	1	-	1	Core	219 2nd Avenue	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 Dillion Original Lofts	86	-	86	Core	700 Church Street	Condo
	Berger Building	3	3	-	Core	162 Rosa L. Parks Blvd.	Rental
	Capitol Towers	205	100	105	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	5	-	5	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	172	172	-	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 - lofts above	2	2	-	Core	210 Broadway	Rental
	Smith House	1	-	1	Core	167 Rosa L. Parks Blvd.	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 Ave.	Condo
	Westview	10	-	10	Core	179 Rosa L . Parks Blvd.	Condo
		1,716	**945**	**771**			
North	District Lofts	69	-	69	North	Corner of Harrison & 3rd Ave	Condo
	Harrison Square	15	-	15	North	Harrison & 3rd Ave. N.	Condo
	Harrison Square II	48	-	48	North	Harrison & 3rd Ave. N.	Condo
	Hope Gardens Residences	202	-	202	North	Hope Gardens	Single Family
	Ireland28	28	-	28	North	900 Block of Ireland Street	Condo
	Riverfront Condos	145	-	145	North	726 1st Ave. N.	Condo
	Row 8.9n	29	-	29	North	800 Block Rosa L. Parks Blvd.	Condo
		536	**-**	**536**			
Rolling Mill Hill	The Art Deco	24	-	24	RMH	RMH	Condo
	The Metro	36	-	36	RMH	RMH	Condo
	The Victorian	12	-	12	RMH	RMH	Condo
		72		**72**			
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 Ave. S.	Condo
	Peabody Quarters	24	24	-	SOBRO	310 - 312 Peabody Street	Rental
	Rutledge House	41	-	41	SOBRO	656 Second Ave. S.	Condo
	Rutledge Terrace	18	-	18	SOBRO	430 Second Ave. S.	Condo
		510	**24**	**486**			
The Gulch	ICON	418	-	418	Gulch	600 12th Avenue South	Condo
	Mercury View Lofts	32	32	-	Gulch	1209 Pine Street	Rental
	Laurel House Apartments	48	48	-	Gulch	1101 Laurel Street	Rental
	Terrazzo	114	-	114	Gulch	700 12th Avenue South	Condo
		612	**80**	**532**			
	TOTAL EXISTING	**3,446**	**1,049**	**2,397**			

Figure 22

	# Units	Rental	Condo	Area	Propety Address	Rental/Condo
Under Construction						
Velocity	265		265	The Gulch	300 11th Avenue South	Condo
	265		**265**			
TOTALUNDER CONSTRUCTION	**265**		**265**			
Planned						
Griffin Plaza	150	150		The Gulch	12th Avenue South	Rental
Nance Place Apartments	109	109		RMH	Lea & Hermitage	Rental
Pine Street Lofts	120	120	-	The Gulch	11th Avenue South	Rental
Signature Tower	200		200	Core	5th & Church	Condo
	579	**379**	**200**			
TOTAL UNDER CONSTRUCTION/PLANNED	**844**	**379**	**465**			

Figure 23



FUTURE HOUSING DEMAND AND SUPPLY

As part of a feasibility study for the development of Rolling Mill Hill released in June 2003, Economics Research Associates identified a deficit of 4,400 residential units in the *Greater Downtown* area. ERA estimated that downtown could expect to absorb 7,500 new residents by 2010 without over-saturating the downtown market. This equates to approximately 628 units per year for seven years.

Below is a table of projects and their completion/expected completion dates through 2010.

Figure 24

TIMELINE	DEVELOPMENT	YEAR	UNITS	TOTAL UNITS DELIVERED	DEFICIT PER YEAR	CUMULATIVE DEFICIT
Year 1	Laurel House	2003	48			
	Row 8.9	2003	29			
				77	551	551
Year 2	The Westview	2004	10			
	Ireland28	2004	28			
				38	590	1,141
Year 3	Lofts at the Exchange	2005	47			
	Phoenix Lofts	2005	5			
	Lofts at 160	2005	32			
				84	544	1,685
Year 4	320 Broadway	2006	4			
	Viridian	2006	305			
	Stahlman Residences	2006	142			
	Kress Lofts	2006	29			
	Church Street Lofts	2006	17			
	Ambrose Lofts	2006	21			
	Harrison Square I	2006	15			
	Hope Gardens Single Family Residences*	2006	6			
				539	89	1,774
Year 5	Hope Gardens Single Family Residences**	2007	8			
				8	620	2,394
Year 6	Art Avenue Lofts	2008	32			
	Encore	2008	333			
	Harrison Square II	2008	48			
	ICON	2008	418			
	District Lofts	2008	69			
	The Art Deco - Rolling Mill Hill	2008	24			
	Hope Gardens Single Family Residences ***	2008	5			
				929	-301	2,093
Year 7	Lofts at Noel Court	2009	5			
	Velocity	2009	265			
	Terrazzo	2009	114			
	The Victorian - Rolling Mill Hill	2009	12			
	The Metro - Rolling Mill Hill	2009	36			
				432	196	2,289
						2,289

*1009 Warren St., 1003 Phillips St., 1107 Jackson St., 1012 Jackson St., 1017 9th Ave. N., 1109 Jackson St.
**1018 Warren St., 928 Jackson St., 921 Warren St., 1016 Jackson St., 906 Phillips St., 1003 10th Ave., N., 915 11th Ave., N., 1004 Jackson St.
***1017 Warren St., 917 11th Ave., N., 900 Phillips St.

According to the chart (Figure 24), downtown Nashville has a deficit of **2,289 residential units**. It is important to take into consideration that when ERA's feasibility study was completed over six years ago, downtown had a much different landscape.

Since 2000, downtown Nashville has had over $3 billion in public and private investment that has occurred, is occurring or is planned for the greater downtown area by 2010 and beyond, making it a more dynamic and compelling place to live. Nashville has been gaining national attention since 2006 for its many positive attributes, and this has encouraged individuals locally and from other cities to move to downtown.   There is also the growing trend of people "moving back to the cities." With all of these converging forces, it is reasonable to assume that the number of housing units that can be absorbed in downtown Nashville is considerably higher than the number provided in the ERA study.

Despite the national housing market decline that is being felt here in Nashville through the slow-down in condo sales, the downtown housing market is not overbuilt. The amount of inventory that is on the market at present is a symptom of the larger economic downturn and not due to decreased demand for downtown living.

Once the projects that are currently under construction are delivered, it is unlikely that there will be new projects built in the immediate future due to the tight credit market. So, while it may look like there is more supply than demand at present, in the years to come these units will be absorbed. As the economy and housing market recover, demand will increase and downtown Nashville will continue to have a residential deficit.

Interior Courtyard at Art Avenue Lofts - 5th Avenue

Top: Nance Place Apartments, MDHA's Workforce housing project, Next: Penthouse unit in The Cumberland, Next: Sambuca Restaurant—outdoor patio with view of downtown skyline, Bottom: Interior of 112 2nd Avenue

The Future of Downtowns

Downtowns for the most part are doing better than their suburban counterparts. Robert Bach, Senior Vice President & Chief Economist of Grubb & Ellis stated that "The global financial crisis is having an unsettling effect on America's Downtowns, but Downtowns may be better situated to handle the disruption than the suburbs or the exurbs." [20]

Christopher Leinberger, a fellow at the Brookings Institution and an Urban Land Strategist and Developer, wrote an article that chronicled movement of Americans back to the cities. "A structural change is under way in the housing market – a major shift in the way Americans want to live and work. It has shaped the current downturn, steering some of the worst problems away from the cities and toward the suburban fringes…its ultimate impact on the suburbs, and the cities, will be profound." [21]

He suggests that for over sixty years Americans have fled cities into suburbs building low-density housing and McMansion subdivisions, only now to see "the pendulum swing back to urban living." One reason for the shift is demographic changes in the U.S. During the childhood years of the Baby Boomers, more than half of all households were made up of families with children. In 2000, this type of household was one-third of the population, and by 2025, it will be closer to 25%. Generation X and the Echo Boomers are starting families later than earlier generations, and having fewer offspring while many Baby Boomers turned empty-nesters desire the urban lifestyle. [22]

Looking Forward: Time of Opportunity

A Harvard Study released in June states that Generation Y, commonly referred to most as "Echo Boomers" (born between 1981 and 1999), will help drive the U.S. housing market out of its slump and keep demand strong for rental housing and starter homes the next ten years and beyond. A large group of Echo Boomers will be entering their peak home-buying and renting ages of 25 to 44, and have more than five million more

77% of Echo Boomers
want to live in an Urban Core
RCLCO 2008

members than the Baby Boomer generation had in the 1970's.[23] Not only does this generation represent almost thirty percent of today's population, it also influences as much as half of all spending in the U.S. economy. [24]

According to Gregg Logan, Managing Director of Robert Charles Lesser & Co. (RCLCO), the Echo Boomer generation is currently renting and should be entering the buyers market by 2012. (Figure 25) There is an increasing demand for dense housing product and household sizes are shrinking. Characteristics of this generation include the aspiration to live in more urban, walkable communities, placing a strong emphasis on "environment", not just a dwelling unit, and the desire for convenience, connectivity, and a healthy work-life balance. [25]

Seventy percent of Echo Boomers do not feel they will need to move to suburbs when they have children, and only 50% feel they will need a single-family home. This generational group demands a diversity in housing types, styles, and household composition, and over 50% feel that having a home or community that meets certain "green" criteria is an important aspect in their decision to buy or rent. [26]

For this generation, affordability will be an issue for many since they will likely be entering the housing market with lower real incomes than those who purchased housing at the same age a decade before. [27] Of those moving to cities, most are choosing to do it in the South. This is most likely due to affordability issues, and bodes well for urban cores in southern cities. [28]

RCLCO Consumer Research shows:
- 41% of Echo Boomers plan to rent for at least three years
- 77% of Echo Boomers plan to live in an Urban Core

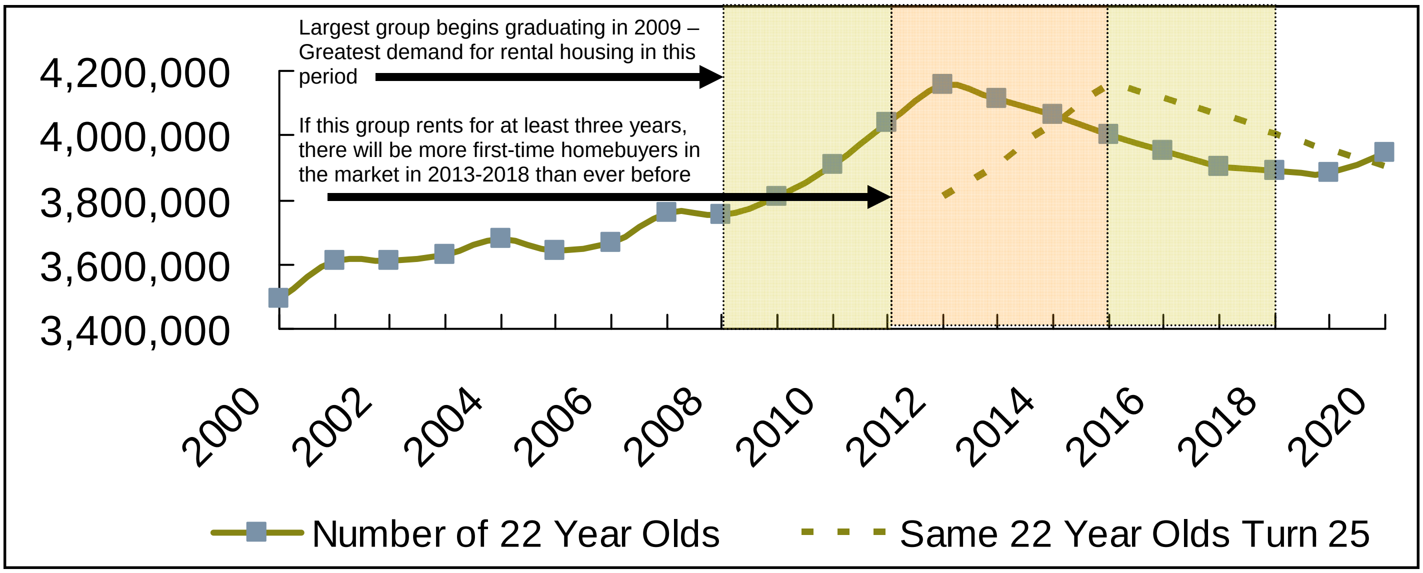


Figure 25

NOTE: Number of 22-year olds is based upon birth rate and does not factor in death rates and migration.
SOURCE: U.S. Centers for Disease Control and Prevention; RCLCO

Over the next twenty years, the constitution of housing demand will change dramatically with the accelerated growth in the population under age 45 and over age 65 – retirement of Baby Boomers. This lends to the demand for more starter homes, rentals and housing for seniors. There is also a growing market for “walkable, efficient, convenient, and green” across the board – for aging Baby Boomers, Gen X, Echo Boomers, married couples without children, singles and single parents.

Implications of the Echo Boomer generation are that renters will represent a steady stream of demand, housing product demand will be smaller and affordable, there will be a focus more on design over size and diversity, and walkability and proximity to jobs is the key to housing site selection.

This demographic information bodes well for the future of the downtown housing market. According to a study by RCLCO, 77% of Echo Boomers want to live in urban cores, and will make up one in five households by 2012. Assuming that the largest group of this generation rents for three years beginning in 2009, they will supply more first-time home-buyers in the market in 2013-2018 than ever before. When surveyed on aspects of housing location, one-third of Echo Boomers said they would pay more for housing walkable to shops, work, and entertainment, two-thirds say that living in a walkable community is very important to their location decision, and 50% will choose a less than ideal home if they can walk to work. [29]

WORKFORCE HOUSING

Workforce housing is a subset of affordable housing and continues to be a missing component of the downtown residential market. A definition of workforce housing as described in *Urban Land's* publication *Developing Housing in the Workforce: a Toolkit,* is "housing that is affordable to working households that do not qualify for publicly subsidized housing, yet cannot afford appropriate market-rate housing in their community."[30] There are varying definitions for income parameters—The Housing and Urban Development's (HUD) defines is as 80 to 120 percent of the Area's Median Income (AMI), and The Urban Land Institute defines it as 60 to 120 percent of AMI. Eighty percent of AMI would translate in Nashville to a one-person household making $34,500 annually, and a two-person household making $39,400 annually. Workforce housing is often characterized as housing for nurses, teachers, police, firemen, office workers, and early career professionals.

Many cities have their own parameters for workforce housing income depending on the cost of living in each respective area. Workforce housing in downtown Nashville defined by the Downtown Partnership's Workforce Housing Task Force is housing for those with median household income between 80 and 125 percent, or between $34,500 and $53,906. Findings from the 2008 Business Census and Survey show that downtown has 46,198 downtown employees, and that 11,386 or 25% fall between 80-125 percent AMI.

During the past decade, the Metropolitan Development and Housing Agency (MDHA) has stimulated the creation of more workforce housing in Davidson County, and in particular, the downtown market. Over nine years ago, Tax Incremental Financing (TIF) had only been a tool used for commercial, office and hotel developments. In an effort to produce more workforce housing, MDHA allowed TIF to be used in residential development, provided that 20% of the units developed would be at or below 80% of the area median income. This could be accomplished by developers offering smaller units or by riding down prices of regular-sized units in the project. This incentive has been written into Development Agreements of the following projects within downtown: Ambrose Lofts, Art Avenue Lofts, Church Street Lofts, Encore Condominiums, The Exchange, ICON, Kress Lofts, Rolling Mill Hill, Row 8.9, The Stahlman, Velocity, and the Viridian Condominiums. Although each of these projects offer 20% of their property inventory at "affordable prices," the downtown is still deficient in this valuable housing type due to rising land and material costs, and developer disinterest due to realizing little or no profit margin. The Nashville Downtown Partnership's Workforce Housing Sub-Committee is currently studying this issue and looking at current and potential incentives for this type of housing in downtown Nashville.

MDHA is currently developing a workforce rental housing project at Rolling Mill Hill called Nance Place Apartments, to include 109 one, two and three-bedroom apartments, with typical rent for a two-bedroom at $650. This project plans to achieve LEED Gold for Homes (Multi-family) certification and a green building permit. The project should be ready for occupancy by the last quarter of 2010. MDHA hopes that this project will stand as a prototype for other workforce housing projects to come.

CONCLUSION

Downtown demographics, cultural trends and continued downtown public and private investment provide the basis for confidence in downtown's residential growth. The pendulum is swinging back in favor of living in city centers instead of the former trend of suburban life that began in the 1940's. Desire to live in cities is increasing across all generations, particularly Echo-boomers who will give a powerful boost to long-term housing demand. Although the current state of the housing market is depressed nationally and locally, recent statistics show that there may be a stabilization occurring in the Nashville market. Downtown developers report having slow but steady sales, although they are realistic in their timeline of unit absorption, which may potentially extend to 2011.

It is important to be mindful of the long-term perspective, which portrays a more complete picture of downtown's continuing residential renaissance. Downtown continues to have a pent-up demand for housing units, and once the recession improves and the current inventory is absorbed, there will still be a deficit of over 2,800 units. Retail has been flowing into the market at a record pace over the past eighteen months, revealing confidence in downtown's vitality by the investors and supplying walkable amenities to the current and future resident population.

The downtown offers a great opportunity for developers and real estate brokers once the housing market returns. Various social and cultural trends are converging for downtown success. Echo Boomers are entering the market desiring to live in urban environments (77%), and people are migrating back to city centers with increased environmental awareness, cities are becoming the model "green option" for living, and a walkable, vibrant urban environment is desirable. All these trends set the stage for continued housing demand in downtown Nashville.

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