

'Like a bag of of popcorn:' Will Nashville real estate pop in 2023?

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REAL ESTATE



Despite a real estate boom that has launched Nashville to supernova status, developers and analysts are wondering if 2023 is the year that bursts the bubble.



"I've been doing this a long time," said Bruce McClenny, senior director of ApartmentData.com. "You think you've seen everything, and then here this comes. It is a lot of uncertainty."

While the single-family housing market takes a beating due to rising interest rates designed to pump the brakes on high home prices, developers and analysts in Nashville say they aren't too worried about the multifamily market.

Yet.

Nashville's multifamily market has seen a growth spurt in recent years, but supply has only just begun to catch up to the demand. ApartmentData.com estimated a rent growth of 13.1% in 2022 and 19.6% in 2021. Last year saw an above-average number of apartments hit the market, with 8,152 units added, according to ApartmentData.com.

A recent report from the nationwide apartment listing service RentCafe estimated that more than 9,000 new units would be delivered by the end of 2022. Estimates for 2023 show new apartment communities opening weekly.

But a fog of uncertainty still hangs over the economy, and no one can say for sure how Nashville will fare. McClenny said the long-term prospects for Nashville look good. But local developers know there are always winners and losers.

The year of the supernova

For the second year in a row, Nashville real estate reached supernova status.

That's according to the [Urban Land Institute annual report](#), released in October. Nashville was ranked No. 1 for overall real estate prospects. High job growth, housing demand and a surging population were all factors in the ranking. Dallas and Atlanta earned the No. 2 and 3 spots, respectively.

Multifamily construction in the last two years is at a 50-year high. Nashville ranks 13th among the top 20 metro areas in apartment construction over the past five years. [The downtown area in particular saw enormous growth over the past two years](#), and that growth is projected to continue in 2023. McClenny estimates The Gulch area alone will see 2,500 units delivered.



With skyrocketing demand comes issues of affordability, especially when such a high percentage of new units are on the luxury side of the market. Fewer options in the rental market and surging home prices have created a pinch for many in the Nashville area.

Renters saw some relief as growth slowed over the past three months. And while additional apartment supply is expected to come flooding in next year, early signs show a slightly weakened demand, according to Joel Sanders of Apartment Insiders.

"We've seen signs that household formation in the apartment world is slowing due to fear of recession," Sanders said. "We haven't seen 2022 college graduates enter the rental market the way we would expect."

Sanders said these early signs may show that renters are making recession-minded decisions when it comes to housing. College grads are moving back home, and many people are living with roommates, consolidating the need for additional households. When thousands of new units are delivered in 2023, Sanders said, they may not be met with the same high demand that's been putting pressure on the market recently.

"The luxury apartments are going to need to offer concessions to succeed," he said. "People are not as excited to spend on luxury things as they were in 2021."

A renter's market

An increased supply coupled with softened demand could mean one very important thing for renters in Nashville: relief.

But that easing in rent prices may be coming alongside hostile economic conditions. Sanders pointed to recent layoffs in the tech world as a cause for concern, but said small companies are also being impacted by early signs of recession.

"You'll know when a recession is coming whenever you know someone personally who has been laid off," Sanders said. "Smaller companies are doing the same thing, but they are not making the headlines."

Another key indication: Loans are beginning to dry up. Banks have less money to loan out than they did last year, and construction costs keep going up. McClenny said his advice to the industry is to hold steady through the storm.

"Overall, Nashville will settle out," McClenny said. "The industry should hold flat in 2023, considering the recession, considering inflation. Holding on to the price and having a flat year would possibly be a good strategy."

Developer: 'Take a breath'



Architect and real estate developer Jared Bradley thinks Nashville could benefit from taking a break.

"All the bad developers come to town and put up crappy buildings because the demand is so high," Bradley said. "Now there is enough supply, and it goes back to being a renter's market, which is totally fine and healthy. ... We need to do great projects that are going to stand the test of time, end of story."

Bradley is the leader of a vertically integrated developer, architecture and construction firm based in Nashville. The firm has designed and built multiple multifamily apartment complexes around the city and has also worked on projects for Fisk University. The most high-profile endeavor of late is collaborating with developers M2 on the anticipated Ritz-Carlton hotel and residences downtown.

But Bradley said Nashville's boom over the past few years has attracted too much bad design and construction work. When demand is high, almost any new apartment community will find success.

"We microwaved the city like a bag of popcorn," Bradley said. "I'm hoping people like us who care about the city can come together and do good work."

In Bradley's eyes, a flat year for real estate development might not be such a bad thing. Renters will have more choices and developers can "take a breath," he said.

"We don't chase trends in design, and we don't chase market trends," Bradley said. "We are a community-based developer, and we look at what the need is. That's how the developers in Nashville are going to make it through the next few years."