

July 18, 2007
Section: BUSINESS
Edition: ONLINE

As Midstate apartment market tightens, rents increase

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Housing isn't cheap. Just ask Middle Tennessee's renters.

Rents in the Nashville area have jumped 5 percent since the winter of 2005 and are on pace to rise another 5 percent by spring, according to the latest figures from the Greater Nashville Apartment Association.

The average apartment in the Nashville area now costs \$736 a month, up nearly \$30 from last summer's rates, and apartment managers are having little trouble finding renters at the higher prices.

Since spring, the occupancy rate in the region's 60,000-unit apartment market has risen above 94 percent, one of the highest rates since a late-1990s building splurge sent vacancies soaring.

Investors and analysts say it's uncertain whether Nashville's apartment complexes have become so full that a round of new construction is inevitable. Developers of multifamily buildings continue to be enamored of condominium projects, which offer a better return on investment than apartments, though for considerably more risk.

"They're going to do condos instead of apartments until the market crashes," said Kent Burns, president of Freeman Webb Investments Inc., a Nashville firm that owns 30 apartment complexes in Middle Tennessee.

The occupancy rate has risen nearly a percentage point since spring and is approaching the 95 percent threshold, the point at which apartment managers say they generally have too few units available to meet demand.

Options are fewer

The high occupancy rate leaves new tenants with fewer options. Mike Rose, a retired mortgage broker who moved into the Lakeshore Apartments complex in Hendersonville recently, said he had little trouble choosing where to live, but he didn't have many choices as to the type of unit.

"I don't think there's a shortage," Rose said. "But you're not going to find four, five, six, eight apartments in a complex."

Those who stay in their apartments may also feel the pinch. Rents are up in every Middle Tennessee submarket except the Wilson County cities of Mt. Juliet and Lebanon.

In most areas, the increases are relatively modest, no more than \$30 or so. But in a few neighborhoods, rents have exploded.

Along Nolensville Road, the average rent for an apartment has jumped \$60 to \$653 a unit since last winter. In Smyrna and La Vergne, rents are up \$72 to \$680.

And in downtown and midtown Nashville, rents have rocketed up \$175 to \$1,121.

Condos affect market

One cause of that rise has been developers' eagerness to build condominiums. Some complexes, such as the Blair House apartments on Chesterfield Avenue, have been razed to make way for new projects.

Condo construction has also indirectly deterred new projects, investors and brokers said. Prices for land in high-density neighborhoods are high, and multifamily developers have tended to choose the quick return of condo construction to recoup their investments over the slower returns of building apartments and collecting rents.

Those condos may soon have another impact on the apartment market. Over the next year, more than 1,000 condos in the downtown alone will be delivered to owners.

Those units could suppress demand for apartments, as people move out of rental housing and into condos. Or it could inflate the supply, as investors attempt to rent out units until they are able to resell them.

"I think there's a possibility of competition," said Charlie Biter, president of Nashville-based Continental Property Management LLC.

Apartments may return

As occupancy rates and rents climb higher, the odds increase that Nashville developers will turn their sights again to apartment construction.

One sign that may soon occur can be found in the Stahlman office building. Last summer, a joint venture between two local development companies reopened the 100-year-old tower on Third Avenue North as a 142-unit apartment building.

Occupancy there now approaches 90 percent, with most units leasing for \$900 to \$1,500, said Bert Mathews, president of The Mathews Co., a partner in the project.

Already two of Nashville's most prominent multifamily developers — Crosland LLC and Bristol Development Group — are planning to build apartments next. Both have major condo projects in the Gulch under construction, and both are now planning to build 150-unit apartment buildings in that same area.

"It's doing way better," said Steve Massey, a broker in the multifamily investment practice at CB Richard Ellis. "Now the market's getting tight."

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