

THE TENNESSEAN

BUSINESS

As condo passion cools, rentals move in on downtown market

OCTOBER 13, 2008 - by Chas Sisk

Rental housing, that old housing standby of recent college grads and young professionals, is making a comeback with Middle Tennessee developers, in the latest sign of Nashville's shifting real estate market.

Three local developers, including two with histories as condo builders, are pitching four apartment projects this fall in fast-growing neighborhoods near the city center. With swimming pools, fitness centers and rents on the high end for Nashville's market, these buildings are aimed squarely at the downtown professionals who have been a prime target of the city's high-rises.

The apartments could serve as the leading edge of a budding trend in local development, especially as condo loans tighten up for developers and potential buyers alike.

"Developers tend to be very practical," said Kirby Davis, the president of First Management Services, a Nashville apartment firm. "They build what they can, not what they can dream about."

The projects are planned for three neighborhoods that have been hot with condo development in recent years: Germantown, East Nashville and Midtown.

They also come amid a general boom in rental housing. As of this summer, 17 apartment projects were under construction in Middle Tennessee, only three of them government-subsidized. These projects include the 410-unit Wellington Farms project in Hendersonville, the 504-unit Westbury Farms complex in Murfreesboro and the 438-unit Franklin Crest development in Franklin.

All together, more than 4,000 non-subsidized units are being built, as developers attempt to capitalize on an expected surge of demand as foreclosures, tighter mortgage rules and a slower economy combine to dampen home sales.

But, rental growth has been modest. The average rent for a Nashville apartment has edged up about 2 percent to 4 percent over the past two years, according to the Greater Nashville Apartment Association. Rents are not expected to rise sharply again until job growth and wages pick up.

"What we're seeing is more growth in occupancy than growth in rents," said Bill Freeman, a principal at the Nashville apartment firm Freeman Webb.

Upscale draws planned. The developers of Nashville's latest urban apartments hope to work around the slowing economy by building projects that are as upscale as those found in suburbs such as Cool Springs and Brentwood, but in locations that are viewed as more desirable by young professionals.

The two biggest projects will have swimming pools, and at least three will have fitness centers. Plans also call for private parking, street-level retail and, in the case of one building, a Zen courtyard with an outdoor fireplace.

Rents in the cheapest of the group, the 800 Main project in East Nashville, are projected to start at about \$850 for a 577-square-foot flat. That's about \$100 more than the price of an average Nashville apartment, regardless of size.

"We don't feel like that's an outrageous amount for rent," said Adam Leibowitz, the head of 800 Main's developer, Double A Development. "We feel like there's demand in East Nashville for this type of product."

Developers believe demand for housing in the city is growing, as gas prices remain above \$3.50 per gallon and the population of people under 30 years of age increases. Developers have tried to place their projects near downtown workplaces and commercial districts.

A project called 1700 Midtown, which is already under construction, will stand two blocks from the main entrance to Baptist Hospital. A pair planned in Germantown, called Vista Germantown and 4th & Jefferson, are to be built across the Bicentennial Capitol Mall from the State Capitol. In East Nashville, 800 Main will be built two blocks from the Five Points intersection.

Unmet Need Downtown

The closest kin to these projects are the few apartment buildings that have opened downtown since the mid-1990s, a group that includes the Stahlman on Union Street and the Cumberland on Church Street. In Germantown, Midtown and East Nashville, apartment construction has been rare since the 1960s. Recently, these areas have been focal points for condominium development.

Over the past two years, the attention of developers in these areas has shifted toward apartment construction. The change stems in part from a realization that condo deals are tougher to finance and in part from a belief that there is unmet demand for rental housing.

"Clearly I would say it's somewhere next to impossible to finance a condominium today just because of the uncertainty in the market," said Charles Carlisle, the chief executive of Bristol Development, which is building 1700 Midtown and Vista Germantown. "But it's not just because of that."

But even these apartment deals face challenges. Bristol has already started construction on 1700 Midtown, but it has not yet finalized financing for Vista Germantown. Double A also is trying to tie down financing, as is Core Development, which is planning the 4th & Jefferson project. In the meantime, developers are trying to get their projects through the planning and zoning process as fast as possible.

The two Germantown projects have already cleared the Metro Historic Zoning Commission. Double A, meanwhile, has sent its project to the Planning Commission.

"Our goal is to get the site work done by the spring," Leibowitz said. "We're interested in getting our project started before everyone else."

Chas Sisk can be reached at 615-259-8283 or csisk@tennessean.com.



Vista Germantown - Artist's Rendition



1700 Midtown - Artist's Rendition