

Downtown Nashville Market Study and Entitlements Analysis

Executive Summary – Fall 2024



Background

The Downtown Code (“DTC”) Bonus Height Program (“BHP”) was adopted alongside the DTC in 2010. It was designed as a voluntary program, available to properties zoned DTC, that allows development proposals to earn increased building height by providing public benefits. Today, there are nine bonus options available for projects to earn bonus height. By including any combination of these bonus options within a development plan, a proposal can yield a corresponding amount of bonus height. When adopted in 2010, these bonus options reflected the identity and needs of Downtown Nashville (“Downtown”) at the time as a central business, entertainment district, and emerging residential neighborhoods.

As Downtown has evolved, it is evident that the incentives offered as part of the 2010 BHP were outdated. In March 2023, Metro Nashville Planning Department (“Planning”) Staff presented to the Metropolitan Planning Commission (“MPC”) proposed a new approach to the BHP. The presentation included an overview of the BHP’s patterns and trends since 2010, as well as preliminary thoughts on a future amendment. In April 2023, Planning Staff released a survey to gauge stakeholders’ current and future priorities related to Downtown development.

In May 2023, Planning Staff released a draft amendment to the BHP – introducing the concept of prerequisite requirements and refreshing the menu of bonus options. This draft included content that better aligned with Downtown’s current and future priorities; however, it did not include updated calibrations (i.e. how much bonus height would be awarded by providing the public benefit) or other entitlements-related content.

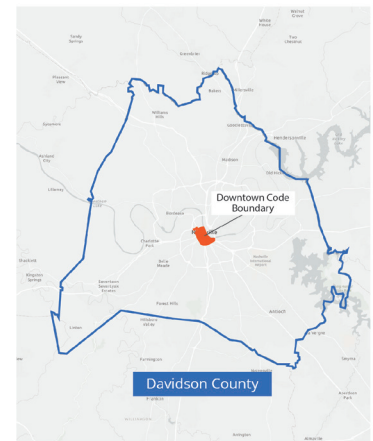
Following the release of the draft, Planning Staff spent several weeks gathering stakeholder feedback. A common theme among the development community was concerns over how the BHP amendments would impact current and future market conditions.

To understand this, Planning Staff brought on a consultants, HR&A Advisors and Gensler, to conduct the *Downtown Nashville Market Study and Entitlements Analysis* (“Market Study”) to help provide well-informed recommendations for the subsequent draft of the BHP amendment.

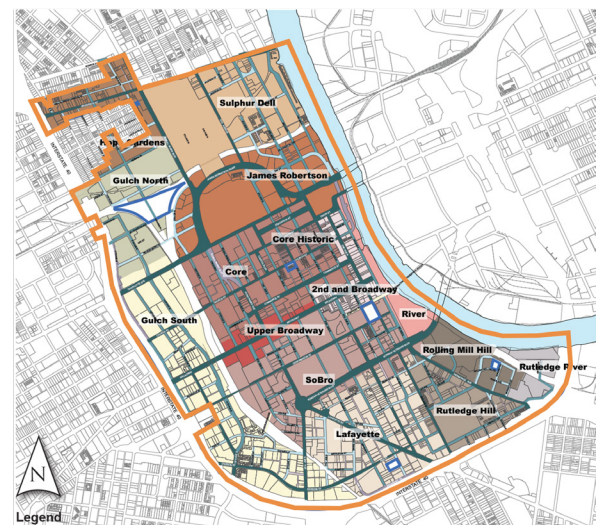
Introduction

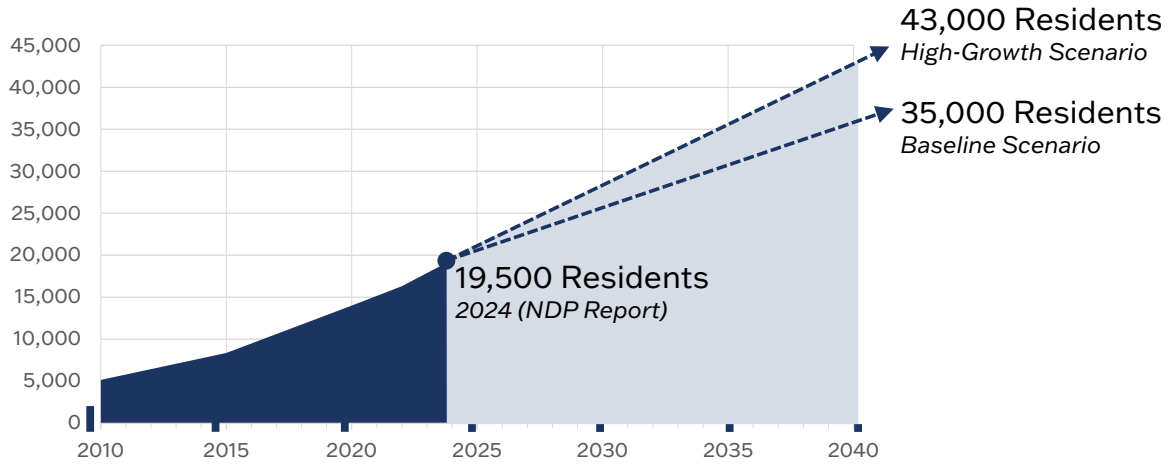
HR&A and Gensler supported Planning Staff in the evaluation of potential updates to the DTC and BHP, with an aim to optimize provision of public benefits and enable growth in Downtown. The first phase of the study consisted of a market analysis that assessed key trends across residential, office, retail, and hospitality sectors in Downtown, projected the demand for each use. The conclusions from this analysis guided the second phase of the study, which evaluated the financial impacts of the benefits incentivized by the existing BHP and its proposed amendment. The last phase of the study identified alternate scenarios for modifying the existing DTC and BHP, and the associated impacts on growth within Downtown. HR&A and Gensler then provided a final set of recommended changes to the DTC and BHP that maximized public benefits delivery and growth.

Davidson County



Map of Subdistricts in Downtown Nashville



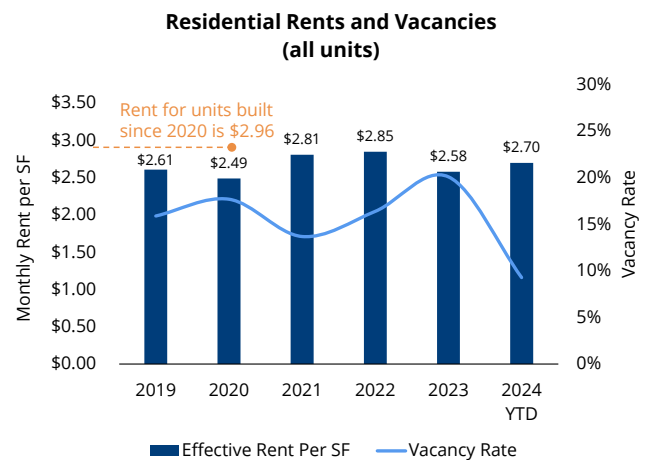


Market Scan

Since 2010, the population and economy of the DTC area has grown significantly, with population tripling and jobs growing by 33%.¹ The DTC area is anticipated to continue experiencing strong growth in population, employment, and visitors.

RESIDENTIAL (MARKET RATE FOR-RENT UNITS)²

The inventory of market rate rental units has experienced a major expansion in the last five years (45% since 2020) and now stands at 10,375 units. Currently, 3,242 additional units are under construction and 6,887 are planned for development. The expansion in the supply of rental units has resulted in a 9.5% decrease in average rents in 2023 and a 4% increase in the vacancy rent, with landlords lowering rents and offering concessions to attract tenants and occupy new units. The market is recovering in 2024, with vacancies declining from 20% in 2023 to 9% as of 2024 Q1, indicating that 2023 deliveries are being absorbed.



Several factors are expected to decrease the pace of development of market rate rental housing in the near term, including increases in land prices Downtown and macroeconomic conditions leading to high construction and financing costs. However, long-term fundamentals for the residential rental market remain strong, given the recent and projected in-migration of new residents.

RESIDENTIAL (MARKET RATE FOR-SALE UNITS)³

The condo market in Downtown Nashville is smaller compared to the rental market. Only 280 condo units have been delivered since 2020, making up just 6% of the total 4,780 residential units delivered during the same period. However, recent trends indicate a growing demand for condo units, as evidenced by the sale prices of new condo developments which have been able to achieve upwards of \$1,000 per square foot. The development opportunity of the condo market in Nashville is further underscored by several developments in Downtown, such as The James in The Gulch and 505 on Church Street, where rental units have been converted to for-sale units.

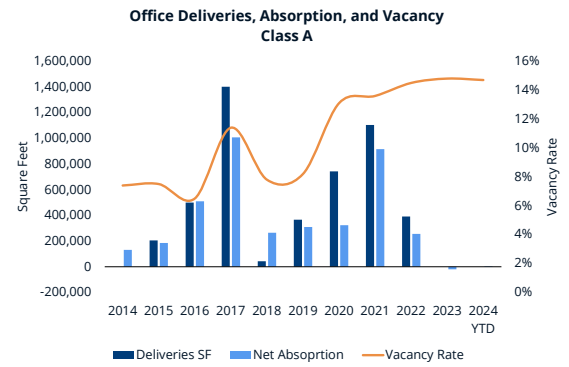
1 Boyd Center; Metro Nashville; GNRC; Lightcast; Nashville Convention & Visitors Corp.

2 CoStar, as of March 2024

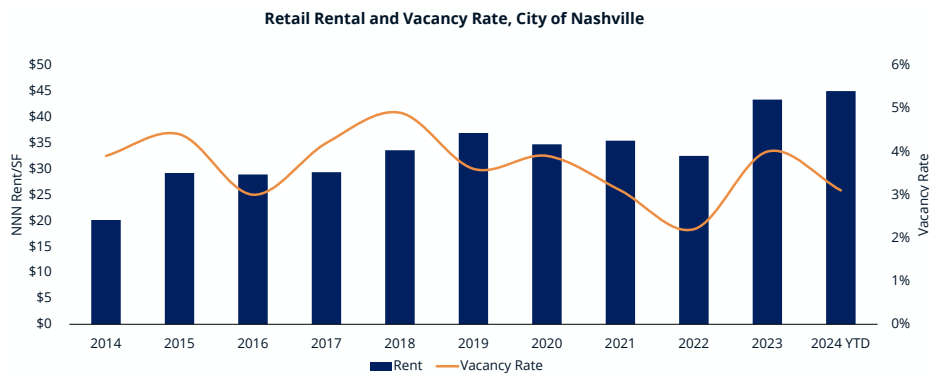
3 CoStar, as of March 2024

OFFICE⁴

While the inventory of office space has grown at a slower rate compared to residential properties over the same period, it has steadily expanded over the last decade (27% increase since 2014), and now amounts to 17.9 million square feet. An additional 2.6 million square feet are planned or currently under construction. Aligned with national post-pandemic downtown office trends, the office market in Downtown is experiencing elevated vacancies as absorption has not kept pace with deliveries. As of March 2024, vacancy rates were 15% for Class A spaces and 19% for Class B/C spaces.



Development of new office space continues, though new buildings typically are Class-A and have rents around \$40-\$60 per SF – compared to a market average of \$35 per SF. These buildings are often specifically built to attract top-of-market tenants in Downtown who seek to relocate from older buildings to secure higher quality office spaces for their employees. Conversations with developers that were conducted as part of this study reveal the expectation that this “flight -to-quality” trend will persist in the near and medium-term.



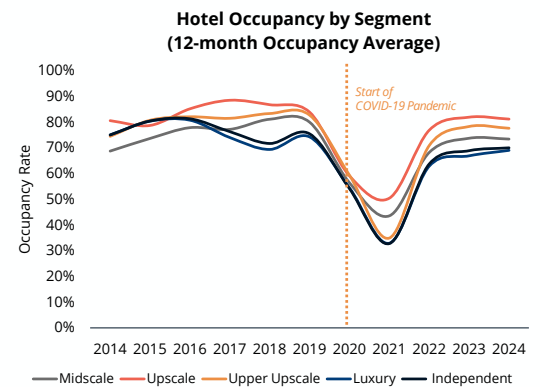
RETAIL⁵

The inventory of retail space in Downtown has increased by 23% (750,000 square feet) over the past decade, and now stands at 4 million square feet. An additional 130,000 square feet of retail is under construction with just under 5,000 square feet planned for development. Retail vacancies have remained low through the pandemic, and the city has had the largest growth in retail rents of any metro area in the country over the past five years⁶ driven by the high volume of visitors. However, it should be noted that rent levels vary widely across Downtown, depending on foot traffic and surrounding residential and office development.

HOTEL⁷

Trends in Nashville’s hotel market are driven by its strong tourism industry, as the city hit all-time highs for both number of visitors and visitor spending in 2022. The hotel market has demonstrated exceptional resilience, with occupancy levels across all segments rebounding strongly post-pandemic and stabilizing at 75%, compared to 81% in 2018.

Hotel inventory in Downtown is mostly concentrated in the Core Historic, Lafayette, and SoBro Subdistricts, which provide an abundance of dining options and attractions for visitors. Of the 12,200 hotel rooms in Downtown, 73% of them were built since 2010. Seventy-seven percent of the rooms built since 2010 are upscale, upper upscale, and luxury – catering to visitors who are looking for a premium place to stay. An additional 22 hotels are either under construction or planned.



4 CoStar, as of March 2024

5 CoStar, as of March 2024

6 Nashville Business Journal

7 CoStar, as of March 2024

Demand Analysis⁸

The Market Study estimated Downtown demand by 2040 for residential, office, retail, and hotel, including ranges for uses in which multiple scenarios of underlying assumptions were tested. Residential is the main driver of demand, given persistent in-migration of new residents. Demand for office space is present despite the rise of remote work, assuming Downtown continues to capture countywide job creation at the same or higher pace as in the past decade. Demand for retail and hospitality uses are strong, driven by Downtown’s competitive positioning in attracting visitors and tourism spending.

RESIDENTIAL

Residential demand is estimated at between 11,000 and 14,800 new multifamily units by 2040.⁹ In terms of the composition of this demand, it is worth highlighting that demand is split between 30% for for-sale units and 70% for rentals; demand for rental units is concentrated on the top tiers of income, in alignment with rents observed in Downtown; and that there is high demand for mid-tier condos priced between \$500K-\$800K, which are not currently supplied by new for-sale development.

OFFICE

The demand for new office space will range between 1.9 million and 2.7 million square feet between now and 2040.¹⁰ It is worth noting that, if realized, the 2.6 million square feet currently under construction and planned for could cover a large share of the estimated demand for new office space for the next 15 years.

RETAIL

The market analysis projects that 2.8 million square feet of new retail space is needed in Downtown by 2040.¹¹ Visitor spending accounts for 80% of this demand, demonstrating Nashville’s standing as a top tourism destination. While residents’ spending accounts for 15% of the demand and 5% of demand is accounted for by workers’ spending. In terms of retail type, demand is driven mostly by restaurants, grocery stores, and general stores (such as Jeff Ruby’s Steakhouse, Whole Foods, and Walgreens), which account for over 90% of demand.

HOTEL

There is demand for 3,700 – 4,300 new hotel rooms in Downtown from now to 2040.¹² The demand for hotel rooms is based on projected growth of visitors to Nashville and current trends of hotel development in Downtown.

Use	Existing	Additional Demand by 2040
Market-Rate Housing Units	10,375 Units	11,000 - 14,800 Units
Office Space	17.9 million SF	1.9 - 2.7 million SF
Retail Space	4 million SF	2.8 million SF
Hotel Keys	12,200 Keys	3,700 - 4,300 Keys

~22.6M SF

Total Development Demand through 2040

8 Boyd Center; Metro Nashville; GNRC; Lightcast; Nashville Convention & Visitors Corp.; HR&A Advisors

9 Methodology detailed on p. 19-21 of the full report

10 Methodology detailed on p. 28-29 of the full report

11 Methodology detailed on p. 40-41 of the full report

12 Methodology detailed on p. 34-35 of the full report

Scenario Testing and Development Capacity

The study assessed the overall capacity of entitlements to accommodate future growth and whether changes to the base entitlements and/or available bonus height is warranted. To understand the remaining development capacity in the DTC, the study identified soft sites – those sites with limited barriers to redevelopment in the short-term. Three future development scenarios were defined and tested – a no change scenario; a moderate change scenario (changes to bonus height maximums); and a significant change scenario (changes to both by-right height maximums and bonus height maximums).

For the purposes of understanding development capacity under each scenario, changes to entitlements were based on the results of the financial feasibility and BHP economics analyses¹³. Geographically, changes to entitlements were evaluated based on where Metro has identified a preference for steering development – mainly being the DTC subdistricts with the most available soft sites and fewer considerations on the potential urban design impacts of increased height on existing conditions (such as impacts to small-scale historic structures or views of the State Capitol building). This results in the moderate and significant change scenarios only applying to the Gulch South, Lafayette, SoBro, and Rutledge River Subdistricts.

In the no change scenario, where neither the DTC's maximum heights nor bonus height maximums are adjusted, the combined development capacity of both base entitlements and available bonus height exceeds 66.1 million SF¹⁴. This number is almost three times what is necessary to accommodate the DTC's projected growth through 2040 (22.6 million SF). The moderate and significant change scenarios resulted in varying increases in development capacity by subdistrict, depending on the subdistrict's existing level of entitlements and available bonus height.¹⁵

Scenario	Definition and Goals	Assumptions	Total Development Capacity
No Change	-	No Changes	66.1 million SF
Moderate Change	Adjust BHP maximums	<u>Base entitlements</u> : No change <u>BHP</u> : Unlimited height bonus in "growth" subdistricts	73.5 million SF
Significant Change	Adjust base entitlements and BHP maximums	<u>Base entitlements</u> : Increase maximum height to at least 15 stories in "growth" subdistricts <u>BHP</u> : Unlimited height bonus in "growth" subdistricts	83.1 million SF

13 Assumptions detailed on p. 48 of the full report

14 Assumptions detailed on p. 49-51 of the full report

15 Full results on p. 52 of the full report

Recommendations

The Market Study's final recommendations were broken down into various topics based on the work and analysis completed throughout the study.

ENTITLEMENTS SCENARIO

The Downtown Code's existing base entitlements and available bonus height are enough to accommodate the projected development demand through 2040. However, changes in entitlements may be warranted to achieve various policy goals, such as:

1. To guide development to specific subdistricts, avoiding those with historic districts and those with views of the State Capitol, and supporting those near transportation, public amenities, and with emerging residential character.
2. To encourage the use of the BHP and increase the quantity of public benefits delivered.
3. To accommodate growth if unexpected increases in demand occur.

The study finds that there is ample development capacity available under existing zoning to support Downtown demands through 2040. However, as this area continues to see increases in demand and is appropriate for high-density, it is recommended that Metro proceed with the Moderate Change entitlements scenario.

BHP PREREQUISITES AND BONUS OPTIONS

The market study recommended the next draft of the BHP amendment include a set of prerequisites to deliver a minimum magnitude of public benefits, and a menu of bonus options with requirements that are easy to cost and comply with. As currently defined, several prerequisites and proposed bonus options can be properly calibrated to provide enough bonus height to incentivize their use. Others need to be redefined to make cost of requirements predictable or be removed from the program. Additionally, the market study recommends Metro explore an attainable housing DTC bonus option through a more robust Attainable Housing Program¹⁶ - where affordability goals can be more effectively achieved.

BONUS HEIGHT PROGRAM (GENERAL)

The following recommendations are related to the Bonus Height Program's overall function, structure, and composition:

1. If prerequisites are incorporated, they should represent minimal financial and time-consuming demands for developers to avoid disincentivizing use of the BHP.
2. Bonus options' costs should be measurable, predictable, and result in increased profit for the developer. This implies either:
 - a. Excluding certain proposed bonus options from the program.
 - b. Adjusting the definition of certain proposed bonus options.
 - c. Or recalibrating the available bonus height provided by certain proposed bonus options to incentivize their use.
3. Remove or increase bonus height maximums to encourage the use of more bonus options within the menu and increase the delivery of public benefits.

BHP INDIVIDUAL BONUS CAPS

Like Bonus Height Maximums, Individual Bonus Caps (the maximum amount of bonus height that can be achieved

¹⁶ During the Market Study process, the Tennessee General Assembly passed HB 2623/SB 2496 - authorizing local jurisdictions to create a voluntary attainable housing incentive program.

by a single bonus option) influence the potential for delivery of public benefits. Individual Bonus Caps do not necessarily reduce the incentive to use a bonus option, provided the caps are set above the minimum bonus needed for the developer to cover the costs of providing the public benefit. However, setting different caps for each bonus option can encourage the use of certain options over others, thus promoting specific types of benefits associated with those options and discouraging others. By restricting the BHP's ability to offer additional stories through a particular bonus option, Individual Bonus Caps may discourage the addition of stories that could be financially feasible but are not permitted by existing entitlements. If the caps provide enough room for the developer to accommodate the cost of providing public benefits, the decision to keep or remove them relies on Metro's decision to limit growth/height in certain areas or prioritize certain bonus options over others.

Next Steps

The Metro Nashville Planning Department has taken the recommendations from the market study, including the recommended calibration of the various BHP bonus options, and integrated them into a revised draft BHP amendment. As the Metro Nashville Planning Department worked through recommendations from the market study, as well as the work done by HR&A and Gensler, we have refined our earlier draft, including incorporating the recommended calibration of the various BHP options.

ENTITLEMENTS SCENARIO

Based on the recommendation to implement a moderate-change scenario to DTC entitlements, Planning Staff is proposing an increase to Bonus Height Maximums in the Gulch South and Lafayette DTC Subdistricts. The proposed change would see both subdistricts 'general' Bonus Height Maximum be increased from mid-rise building height to a high-rise building height – which was deemed a financially feasible building typology during the market study. Staff is also proposing to increase the Bonus Height Maximums for sites on major corridor frontages and at key intersection in both subdistricts.

In addition to the reasoning laid out above, Planning Staff has identified the following reasons why adjusting entitlements in these subdistricts is appropriate, when the DTC already has enough development capacity to support demand through 2040:

1. To allow for high-rise buildings which are financially feasible, compared to mid- and low-rise buildings, which are financially infeasible.
2. To locate capacity in more desirable areas for development in the DTC.
3. To eliminate gap between certain DTC subdistricts and the higher density zoning available immediately outside of them (Midtown).
4. To guide future development to specific subdistricts.
5. To encourage the use of the BHP and increase the number of and quality of public benefits provided by private development.
6. To accommodate growth in the event of unexpected increases in demand.
7. To encourage the slenderizing of tower forms and massing over larger-footprint forms.

BHP PREREQUISITES AND BONUS OPTIONS

Planning Staff is proposing a menu of three prerequisite requirements and five bonus options in the updated draft of the BHP. The narrowing down of bonus options from ten (in the May 2023 draft) to five (in the forthcoming draft) allows the program to highlight and incentivize its top priorities more effectively. The omitted bonus options, based on the market study's recommendation, were those that could not guarantee the level of measurable and predictable requirements needed to calibrate a successful bonus option. One bonus that was included in this grouping – the "Exemplary and Resilient Public Spaces Bonus Option" – will see a readjusted bonus definition and requirements to improve its measurability and predictability. In addition to the changes to the bonus, the DTC's Open Space general standards (to be released alongside the forthcoming BHP draft), will be revisited.

Other evolutions of BHP bonus options from the market study process to the updated BHP draft include:

- The conversion of the “Exclusion of Vehicular Parking Bonus Option” to a “Reduction of Vehicular Parking Bonus Option” that provides bonus height for those projects that are under-parked below the DTC’s vehicular parking maximum requirements.
- The incorporation of some elements of the “Multimodal Enhancements Bonus Option” and the “EV Parking Prerequisite Requirement” into a singular “Active and Sustainable Transportation Prerequisite Requirement” which requires provisions of EV parking, additional bicycle parking requirements, bicycle commuter amenities, preferential vehicular parking, and multimodal transportation information within buildings of certain uses and sizes.

BHP INDIVIDUAL BONUS CAPS

Due to the proposed menu of bonus options having a relatively equal priority and the lack of a clear “low-hanging fruit” option, Metro has proposed that developers be able to use each bonus option to an unlimited extent, up to the site’s Bonus Height Maximum.

2010 BHP Menu (Existing)			2024 BHP Menu (Proposed)		
LEED (or equivalent)	LEED ND	pervious surface	BASELINE REQUIREMENTS: underground or lined vehicular parking green building certification active and sustainable transportation		
historic building preservation	open space	civil support space	BONUS OPTIONS: green building certification neighborhood support space reduction of parking		
upper-level garage liner	underground parking	public parking	preservation	privately-owned public space	

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Acknowledgments

ULI NASHVILLE

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Gina Emmanuel, Centric Architecture
Jack Richmond, AJ Capitol
Joe Bucher, Southwest Value Partners
Kevin Gangaware, CSDG
Kristen Heggie, GBT Realty
Laura Beene, Earl Swensson Associates

NASHVILLE DOWNTOWN PARTNERSHIP

Crissy Cassetty
Tamara Dickson
Tom Turner

CONVERSATIONS WITH DEVELOPMENT COMMUNITY

At the beginning of the project, HR&A held one-on-one and group conversations with various brokers and other development professionals to help inform the study's assumptions.

Alex Chambers, Highwoods Properties
Andrew Donchez, SomeraRoad
Anthony Sansone, JLL
Ben Farrer, The Fallon Company
Bert Mathews, Colliers
Bryan Fort, Evelyn Capital
Caroline Mullin, NAIOP Nashville
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