MARKET REPORT

Market Intelligence Report 2013 Nashville

NOVEMBER 4, 2013

Transactions, performance, and demand are up for Nashville's lodging industry, and new supply is set to come online over the next year. Are the city's hotel demand generators prepared to keep up the pace?

The economy of Tennessee's capital city has proven indomitable over the past several years, even given the upsets in the markets and the gridlock in the federal government. The stability of state government and educational institutions, growing healthcare and automotive companies, and robust music and tourism industries continue to create billions in economic impact and maintain vibrant levels of hotel demand. The state-of-the-art Music City Center, which opened in May of 2013, has more than two dozen events booked for October alone, which will bring in an estimated 33,100 delegates. This forward momentum should translate into improving performance levels for Nashville's hotel industry, which has recovered remarkably since the recession. These factors keep Nashville among the most sought-after markets for hotel acquisitions, as well as one of the most active in terms of new development.

Economy Update

The following table illustrates historical and projected employment, population, and income data for the overall Nashville market.

HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, POPULATION, AND HOUSEHOLD INCOME STATISTICS

Year	Total Employment	% Chg	Office Employment	% Chg	Industrial Employment	% Chg	Households	% Chg	Population	% Chg	Household Avg. Income	% Chg
2000	698,330	—	198,440	—	134,743	—	517,480	—	1,329,160	—	$81,529	—
2001	687,530	(1.5) %	195,208	(1.6) %	130,582	(3.1) %	525,830	1.6 %	1,348,460	1.5 %	81,840	0.4 %
2002	694,470	1.0	197,191	1.0	128,673	(1.5)	533,590	1.5	1,367,000	1.4	84,061	2.7
2003	699,600	0.7	197,645	0.2	124,833	(3.0)	543,550	1.9	1,391,320	1.8	87,122	3.6
2004	725,200	3.7	207,543	5.0	128,598	3.0	555,600	2.2	1,420,640	2.1	90,981	4.4
2005	743,130	2.5	211,976	2.1	130,432	1.4	569,960	2.6	1,459,430	2.7	93,844	3.1
2006	753,100	1.3	214,911	1.4	128,907	(1.2)	583,280	2.3	1,496,540	2.5	99,661	6.2
2007	766,970	1.8	220,629	2.7	124,217	(3.6)	595,940	2.2	1,531,550	2.3	103,942	4.3
2008	751,300	(2.0)	218,269	(1.1)	116,916	(5.9)	606,390	1.8	1,561,270	1.9	102,971	(0.9)
2009	722,600	(3.8)	213,519	(2.2)	106,014	(9.3)	614,600	1.4	1,584,420	1.5	99,465	(3.4)
2010	743,030	2.8	222,184	4.1	107,038	1.0	624,410	1.6	1,605,420	1.3	105,509	6.1
2011	767,370	3.3	229,891	3.5	112,006	4.6	635,980	1.9	1,629,970	1.5	107,740	2.1
2012	798,170	4.0	237,861	3.5	119,957	7.1	647,080	1.7	1,656,350	1.6	112,677	4.6
Forecasts												
2013	*816,300*	*2.3 %*	*245,460*	*3.2 %*	*121,281*	*1.1 %*	*657,740*	*1.6 %*	*1,677,900*	*1.3 %*	*$115,050*	*2.1 %*
2014	*831,810*	*1.9*	*250,829*	*2.2*	*120,611*	*(0.6)*	*666,450*	*1.3*	*1,693,150*	*0.9*	*121,649*	*5.7*
2015	*856,180*	*2.9*	*258,940*	*3.2*	*122,014*	*1.2*	*675,310*	*1.3*	*1,706,250*	*0.8*	*128,805*	*5.9*
2016	*874,400*	*2.1*	*265,369*	*2.5*	*122,979*	*0.8*	*683,480*	*1.2*	*1,718,630*	*0.7*	*134,676*	*4.6*
2017	*881,590*	*0.8*	*269,058*	*1.4*	*122,532*	*(0.4)*	*691,100*	*1.1*	*1,731,100*	*0.7*	*138,666*	*3.0*
Average Annual Compound Change												
2000 - 2012		1.1 %		1.5 %		(1.0) %		1.9 %		1.9 %		2.7 %
2000 - 2007		1.3		1.5		(1.2)		2.0		2.0		3.5
2007 - 2010		(1.1)		0.2		(4.8)		1.6		1.6		0.5
2010 - 2012		3.6		3.5		5.9		1.8		1.6		3.3
Forecast 2012 - 2017		*2.0 %*		*2.5 %*		*0.4 %*		*1.3 %*		*0.9 %*		*4.2 %*

Source: REIS Report, 2nd Quarter, 2013

As part of a pro-growth and pro-business agenda, Mayor Karl Dean and the members of the Metropolitan Council have actively used city tax incentives to attract or keep companies in Nashville. This has kept Nashville's population growing and earned the city a place on many top economic growth lists, including #2 on Forbes' list of "The Best Big Cities for Jobs 2013."

The following table illustrates unemployment statistics for the City of Nashville, the Nashville MSA, the state of Tennessee, and the U.S.

UNEMPLOYMENT STATISTICS

Year	City	MSA	State	U.S.
2003	4.6 %	4.7 %	5.7 %	6.0 %
2004	4.6	4.5	5.4	5.5
2005	4.5	4.5	5.6	5.1
2006	4.2	4.2	5.2	4.6
2007	3.9	4.0	4.8	4.6
2008	5.5(S)	5.7(S)	6.6(G)	5.8
2009	8.9(S)	9.4(S)	10.5(G)	9.3
2010	8.9(S)	8.7(S)	9.8(D)	9.6
2011	8.2(E)	8.1(E)	9.3(D)	8.9
2012	6.6(E)	6.6(E)	8.0(D)	8.1
Recent Month - Jul				
2012	7.0 %	7.0 %	8.5 %	8.2 %
2013	6.7	6.8	8.5	7.4

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics

While unemployment remains above pre-recession levels, Nashville's total workforce has grown steadily over the past three years. Nashville is the second-biggest center of music production in the U.S., and Nashville's music and entertainment industry reportedly produces a $10-billion annual economic impact on the region. Nearly every major music label and many independent labels have a presence in Nashville, which is also home to Gibson Guitar Corporation, one of the world's most venerable manufacturers of guitars and other musical instruments. Rounding out the mix, festivals such as the CMA Music Festival and Bonnaroo attract thousands of visitors to the area each year.

The medical industry in Nashville employs more than 200,000, contributes more than $30 billion to the local economy each year, and comprises more than 250 companies, including HealthSpring, Hospital Corporation of America (HCA), and Vanderbilt School of Medicine. HealthSpring is currently consolidating its Nashville operations with the construction of a headquarters campus; the $54-million facility will reportedly increase HealthSpring's workforce by more than 1,300 employees by the end of 2013. Furthermore, the planned West End Summit development will house new offices for HCA and the Sarah Cannon Research Institute and bring an estimated 1,000 new jobs.

The 2013 annual state Automotive Manufacturing Strength rankings, as published by Business Facilities, underscore the importance of the automotive industry in Nashville—the state of Tennessee ranked first in the nation for the fourth consecutive year. Nissan North America completed a four-year relocation process in 2010, opening its corporate headquarters in the Nashville suburb of Franklin. Nissan, which operates its largest North American manufacturing plant in nearby Smyrna, announced in June of 2013 that it would add more than 900 manufacturing jobs for future production of the Nissan Rogue. Moreover, in 2013, Nissan began production of lithium-ion batteries for its LEAF electric car at a new $1-billion battery plant in Smyrna. Nashville is also home to Bridgestone America's Tire Operations, the North American business unit of Bridgestone Corporation, the world's largest tire and rubber company.
Recently announced business expansions and relocations are building on Nashville's solid economic cornerstones. In July of 2013, Aramark announced plans for a new $20-million facility in Nashville that will create approximately 1,000 new jobs by 2017, and UBS plans to bring 1,000 jobs to a new downtown office location over the next five years.

Office Space Market Update
The following table details Nashville's office space statistics, which are important indicators of the market's propensity to attract commercial hotel demand.

OFFICE SPACE STATISTICS – MARKET OVERVIEW

Submarket	Inventory Buildings	Inventory Square Feet	Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
1 Airport	72	5,805,000	5,021,300	13.5 %	$16.65
2 Downtown/Metrocenter	63	7,782,000	6,256,700	19.6	19.08
3 West End/Belle Meade	81	5,205,000	4,840,700	7.0	24.95
4 Brentwood/Franklin	132	8,375,000	7,646,400	8.7	21.48
5 North Nashville	22	648,000	521,000	19.6	15.10
Totals and Averages	**370**	**27,815,000**	**24,286,100**	**12.7 %**	**$20.30**

Source: REIS Report, 2nd Quarter, 2013

The overall office vacancy rate in Nashville is relatively low, and vacancy is well below 10% in Brentwood/Franklin and West End/Belle Meade; these submarkets enjoy accessible locations within the greater Nashville metropolitan area and boast established business communities, which allow them to command the highest average asking lease rates in the area. The Brentwood/Franklin submarket received a boost in early 2013 when RANDA Solutions, Inc. moved into 26,000 square feet of office space in the submarket. Additionally, the West End/Belle Meade submarket was bolstered by The Advisory Board Company's relocation into 19,000 square feet of office space. These two submarkets should enjoy continued growth, especially Brentwood/Franklin, which is expected to experience over 450,000 square feet of office space growth in 2014 as new headquarters for Tractor Supply Company and LifePoint Hospitals are completed.

The following table illustrates a trend of office space statistics for the overall Nashville market.

HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET

	Nashville Market						
Year	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2000	24,109,000	—	21,914,000	—	9.1 %	$17.94	—
2001	24,940,000	3.4 %	21,546,000	(1.7) %	13.6	17.66	(1.6) %
2002	25,528,000	2.4	21,500,000	(0.2)	15.8	17.72	0.3
2003	25,507,000	(0.1)	21,708,000	1.0	14.9	17.62	(0.6)
2004	25,669,000	0.6	22,237,000	2.4	13.4	17.81	1.1
2005	25,438,000	(0.9)	22,740,000	2.3	10.6	18.17	2.0
2006	25,856,000	1.6	22,995,000	1.1	11.1	18.89	4.0
2007	26,658,000	3.1	23,869,000	3.8	10.5	19.48	3.1
2008	26,814,000	0.6	23,991,000	0.5	10.5	19.84	1.8
2009	27,552,000	2.8	23,779,000	(0.9)	13.7	19.82	(0.1)
2010	27,512,000	(0.1)	23,679,000	(0.4)	13.9	19.91	0.5
2011	27,512,000	0.0	23,730,000	0.2	13.7	20.03	0.6
2012	27,777,000	1.0	23,975,000	1.0	13.7	20.25	1.1
Forecasts							
2013	*28,018,000*	*0.9 %*	*24,495,000*	*2.2 %*	*12.6 %*	*$20.44*	*0.9 %*
2014	*28,240,000*	*0.8*	*24,647,000*	*0.6*	*12.7*	*20.81*	*1.8*
2015	*28,563,000*	*1.1*	*24,882,000*	*1.0*	*12.9*	*21.27*	*2.2*
2016	*29,026,000*	*1.6*	*25,335,000*	*1.8*	*12.7*	*22.21*	*4.4*
2017	*29,593,000*	*2.0*	*25,768,000*	*1.7*	*12.9*	*23.01*	*3.6*
Average Annual Compound Change							
2000 - 2012		1.2 %		0.8 %			1.0 %
2000 - 2007		1.4		1.2			1.2
2007 - 2010		1.1		(0.3)			0.7
2010 - 2012		0.5		0.6			0.9
Forecast 2012 - 2017		*1.3 %*		*1.5 %*			*2.6 %*

Source: REIS Report, 2nd Quarter, 2013

The amount of available office space in Nashville has realized negligible growth over the past three years. Vacancy rates rose slightly in 2009 and 2010, but remain relatively low and below the prior peak in 2002; lease rates are likewise holding strong. Forecasts for Nashville's office market reflect a resumption of construction and modest growth in available space, balanced by continuing demand increases.

Outlook on Hotel Market Occupancy and Average Rate

Nashville's overall economic health has fortified the city's lodging market. During the peak of the last market cycle (2006/07), strong performance across the market had brought many new hotel developments to the drawing board. Though financing for most froze up during the recession, hotel demand levels took only a minor hit in Nashville compared with other markets across the country. Occupancy levels at area hotels began to rise in 2010, and rates soon followed suit. Healthy demand continued in 2011, and overall demand levels reached new heights in 2012; average rate growth also continued through 2012.

The Nashville hotel market benefits from an extremely stable base of demand generated by its leisure, government, and commercial entities, providing strong occupancy in the mid-80s to high 90s on nearly every night of the week, especially Friday and Saturday, from February to October each year. The lack of recent hotel development and the continued expansion of the local demand base have increased the premium for existing hotels among both guests and investors.

Recent Hotel Transactions

The following table summarizes hotel transactions in Tennessee since January of 2012.

REVIEW OF HOTEL TRANSACTIONS

Property	Location	Sale Date	Price	Rooms	Price/Rm
Conner Hill Motor Lodge	Pigeon Forge, Tennessee	Aug-13	$1,500,000	66	$22,727
Family Inns Of America Nashville	Nashville, Tennessee	Jun-13	1,300,000	63	20,635
Red Roof Inn Newport	Newport, Tennessee	Jun-13	1,210,000	95	12,737
Courtyard by Marriott Memphis East Lenox Corporate Park	Memphis, Tennessee	May-13	4,225,000	96	44,010
Hutton Hotel	Nashville, Tennessee	May-13	73,600,000	247	297,976
Comfort Suites Morristown	Morristown, Tennessee	May-13	2,360,500	82	28,787
Hyatt Place Memphis Germantown	Germantown, Tennessee	Apr-13	11,300,000	127	88,976
Motel 6 Newport	Newport, Tennessee	Apr-13	1,299,000	66	19,682
Holiday Inn Express White House	White House, Tennessee	Mar-13	3,600,000	70	51,429
Hampton Inn Athens	Athens, Tennessee	Mar-13	5,394,690	70	77,067
Budgetel Inn & Suites Memphis	Memphis, Tennessee	Mar-13	1,880,000	129	14,574
Reelfoot Lake Inn	Tiptonville, Tennessee	Mar-13	400,000	50	8,000
Mount Moriah Plaza Hotel	Memphis, Tennessee	Dec-12	1,250,000	194	6,443
GuestHouse Inn Jackson	Jackson, Tennessee	Dec-12	1,100,000	114	9,649
Motel 6 Crossville	Crossville, Tennessee	Nov-12	2,050,000	88	23,295
Rodeway Inn Memphis	Memphis, Tennessee	Nov-12	1,170,000	49	23,878
Embassy Suites Nashville Airport	Nashville, Tennessee	Oct-12	20,500,000	296	69,257
Super 8 Memphis Airport East	Memphis, Tennessee	Sep-12	1,325,000	48	27,604
Hilton Garden Inn Clarksville	Clarksville, Tennessee	Sep-12	13,500,000	111	121,622
Red Roof Inn Memphis East	Memphis, Tennessee	Sep-12	1,600,000	108	14,815
Wingate Cleveland	Cleveland, Tennessee	Aug-12	4,600,000	80	57,500
Sheraton Nashville Downtown	Nashville, Tennessee	Aug-12	47,500,000	472	100,636
Hampton Inn & Suites Nashville Smyrna	Smyrna, Tennessee	Jun-12	8,000,000	83	96,386
Hilton Garden Inn Nashville Smyrna	Smyrna, Tennessee	May-12	11,500,000	112	102,679
Home2 Suites by Hilton Nashville Vanderbilt	Nashville, Tennessee	May-12	16,660,000	119	140,000
Red Roof Inn Nashville Fairgrounds	Nashville, Tennessee	Apr-12	2,025,000	85	23,824
Courtyard by Marriott Nashville Vanderbilt West End	Nashville, Tennessee	Feb-12	27,500,000	226	121,681
Motel 6 Athens	Athens, Tennessee	Jan-12	725,000	43	16,860
TownePlace Suites by Marriott Nashville Airport	Nashville, Tennessee	Jan-12	9,848,413	101	97,509

Twelve of the transactions listed above represent hotels in and around Nashville, and the contracted prices per room for these sales were well above those for nearly every other area in the state. The most significant sale in terms of total price and price per room was the Hutton Hotel. This 247-room, full-service property is located approximately one mile west of major attractions such as Bridgestone Arena and the Country Music Hall of Fame.

Hotel Construction Update

With construction financing becoming more widely available, developers have been aggressively moving forward with new hotel projects. The following table lists recent and ongoing hotel development projects in the Nashville area.

DEVELOPMENT PIPELINE

Proposed Property	Number of Rooms	Development Stage
Omni Convention Headquarter Hotel	800	Recently Opened (2013)
Home2 Suites by Hilton	105	Recently Opened (2013)

[illegible]	[illegible]	[illegible]
Homewood Suites by Hilton	192	Recently Opened (2013)
Proposed Hyatt Place	255	Under Construction
Proposed Fairfield Inn & Suites by Marriott	126	Under Construction
Proposed Hilton Garden Inn	200	Broke Ground
Proposed Residence Inn/Springhill Suites West End	105	Broke Ground
Proposed Hyatt Regency	400	Early Development
Proposed Westin	400	Early Development
Propoposed Marriott	400	Early Development
Proposed InterContinental Hotel West End	230	On Hold
Proposed Residence Inn/Springhill Suites Downtown	350	Rumored
Proposed Holiday Inn Express Downtown	200	Rumored
Proposed Select Service Downtown	-	Rumored
Proposed Four Seasons	-	Rumored
Totals/Averages	**3,763**	

Even with the significant number of new hotel rooms in the pipeline, the impact of supply growth in Nashville is expected to be modest. Market participants note that even before the opening of the new convention center, the market had been routinely selling out on multiple nights per week throughout the year.

Conclusion

Now well beyond the recovery phase following the recent recession, Nashville's economy and hotel market have entered into a period of expansion. The market offers attractive opportunities for investors seeking hotel acquisitions, as well as selective opportunities for repositioning existing hotels and breaking ground on new developments. Overall, the outlook for Nashville's hotel industry is positive, with an expectation of steady growth over the near term.