NASHVILLE

LODGING MARKET

Will the Party Bus Run Out of Gas, or Will the Good Times Roll?

The thriving Nashville lodging market has experienced 15 to 20 years of exceptional performance fueled by several key factors - employment and population growth levels that have outpaced the national average by more than a factor of two; robust tourism and leisure demand growth including event-driven demand; a deep and diverse corporate demand base; convenient airlift; and perhaps most importantly, the addition of the Music City Center in 2013. Together, along with the touch of southern flair the city offers, these factors have made Nashville appealing across the hotel demand spectrum. The question is: have supply and demand reached a state of equilibrium, or is there still room to grow?

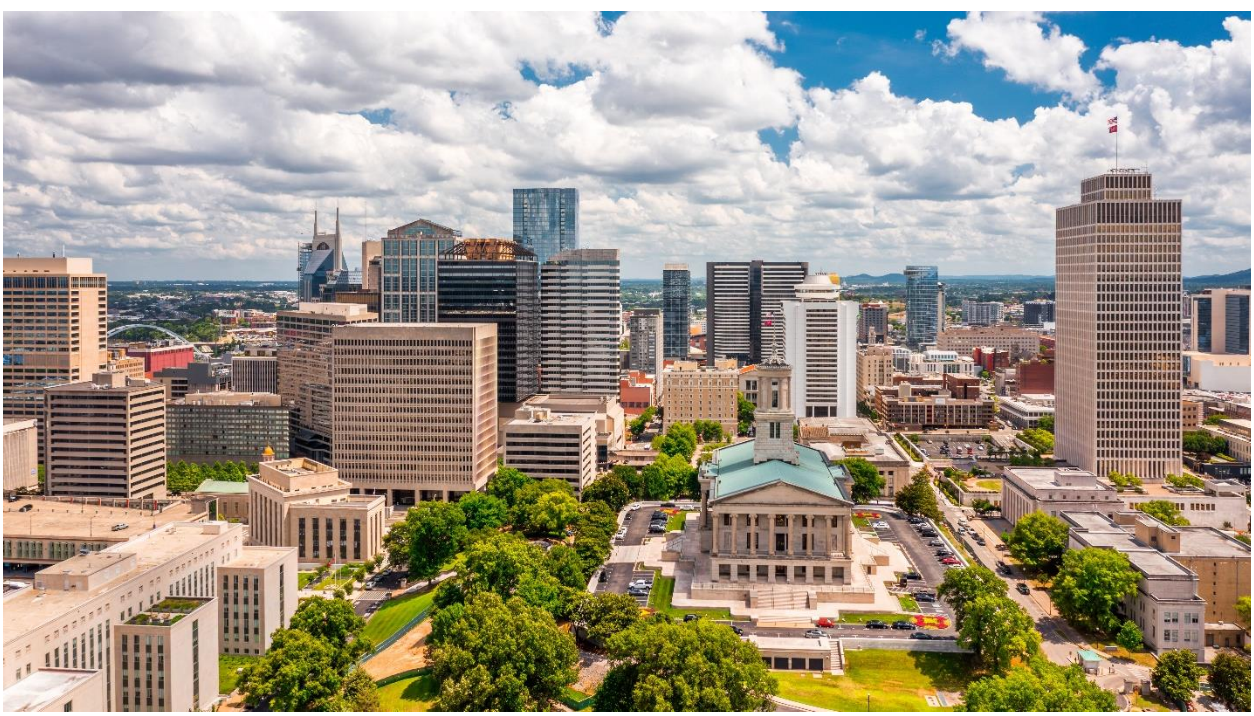
Examining the past 24 years, the city's remarkable expansion from a southeastern regional hub into a secondary gateway market has been mirrored by a significant expansion of its hotel sector. From 2000 through 2023, Nashville added over 15,000 hotel rooms within the CBD/Downtown and Nashville West/Midtown submarkets (as defined by CoStar/STR). This reflects a more than 225% increase in room supply or almost 5.3% per year on average, well above the long-term national average of just over 1.1% per year. Even more impressive, this substantial increase in supply was outpaced by demand, which increased more than 275% from 2000 through 2023 or just over 5.9% per year on average. Combined with annual average daily rate (ADR) growth of 4.6% per year, revenue per available room (RevPAR) levels for these two core submarkets grew at an average annual rate of 5.2%, nearly double the national average during this period.

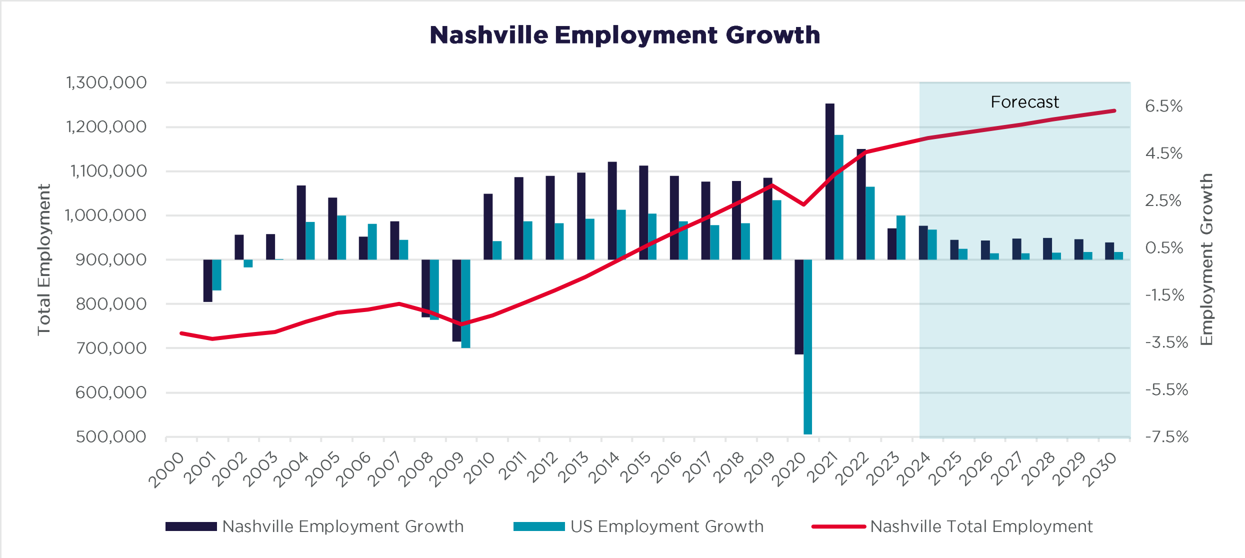
This article discusses each of the major contributors to the market's ability to absorb new supply, examines new supply over the near- to mid-term horizon, and ultimately considers whether this party bus is running out of gas, or just getting started. If you are questioning the party bus analogy, visit Nashville's Broadway at any time of day on almost any day of the year, and you will understand.

Employment & Population Growth

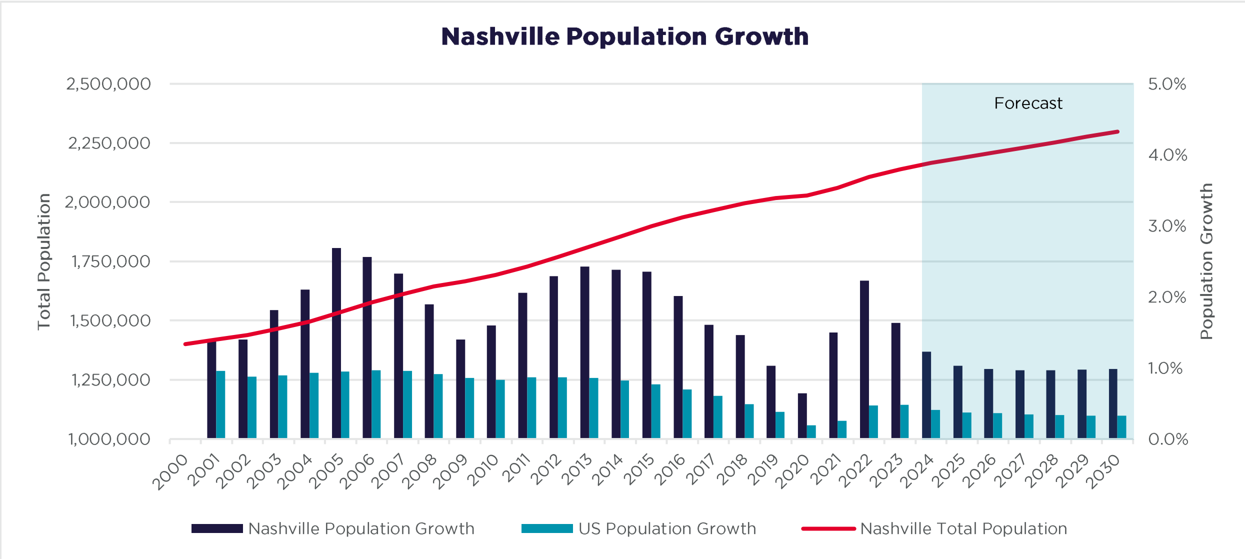
Nashville's employment and population levels have been in a positive feedback loop with growth over the past 24 years that has well outpaced the national averages. According to data from the U.S. Bureau of Labor Statistics (BLS) for the Nashville-Davidson-Murfreesboro-Franklin, TN Metropolitan Statistical Area, Nashville's seasonally adjusted employment levels grew by 2.0% per year on average from 2000 through 2023, more than double the national average of 0.7%. Apart from four annual declines in 2001 (Dot-Com Bubble), 2007 and 2008 (Great Recession), and 2020 (COVID-19 pandemic), Nashville's total employment has trended upward, surpassing 1.15 million in 2023. Current BLS estimates for 2024 through 2030 account for nearly 78,000 new jobs or an average annual growth of 0.8%, outpacing the projected national average of 0.3%.

Nashville benefits from a diverse economy with major employers from the healthcare, education, technology, finance, and music industries. With the presence of several medical centers including Vanderbilt University Medical Center, Ascension Saint Thomas Hospital, TriStar Centennial Medical Center, and the Nashville VA Medical Center, as well as major health care firms including HCA Healthcare, Brookdale Senior Living, Lifepoint Health, HealthStream, Change Healthcare, Community Health Systems, and Acadia Health, among others, Nashville is often referred to as the "Healthcare Capital of the U.S." Other notable employers in the market include Nissan North America, Vanderbilt University, Asurion, Amazon, Bridgestone Americas, and Pinnacle Financial Partners. As the Tennessee state capital and Davidson County seat, Nashville is also home to numerous state and local government offices and agencies. In April 2024, Oracle announced plans to develop a 60-acre, $1.2 billion headquarters in Nashville's East Bank, just over a mile northeast of downtown, which will house roughly 8,500 employees. Oracle said over 11,500 ancillary jobs would be created plus another 10,000 temporary jobs through construction and other support services associated with building, operating, and maintaining the proposed campus.





According to the U.S. Census Bureau, for the Nashville-Davidson-Murfreesboro-Franklin, TN Metropolitan Statistical Area, Nashville's population increased 1.9% per year on average from 2000 through 2023, above the national average of 0.7%, paralleling the MSA's employment growth. Nashville's total population exceeded 2.14M in 2023. According to the Census Bureau estimates, the population will grow by more than 150,000 through 2030, or an average annual growth of 1.0%, again outpacing the projected national average of 0.3%.



As shown, employment and population growth in tandem, well above national averages, have helped fuel hotel demand growth in Nashville. Corporate/commercial demand allows operators to maintain healthy occupancy and ADR levels on mid-weeknights. While employment and population growth projections are below historical averages, they remain well above national average projections, and should enable continued healthy mid-week operations.

Tourism & Leisure Demand Growth

Several factors contribute to Nashville's established tourism and leisure industry including a rich history in music and entertainment; famous venues including the Ryman Auditorium and Grand Ole Opry; Broadway – a.k.a. the Honky Tonk Highway – which is lined with restaurants, celebrity-owned bars, live music venues, retail outlets, and a constant parade of party buses; largescale events; major concerts, and more. Additionally, Nashville has become colloquially known as "the bachelorette capital of the U.S." Once again, cue the party buses.

In addition to the Music City Center, which will be discussed in a separate section, major destinations and event venues include the Country Music Hall of Fame and Museum, the Tennessee State Museum, Nissan Stadium, Bridgestone Arena, Gaylord Opryland, and the Nashville Symphony (Schermerhorn Symphony Center). Of note, the Tennessee Titans NFL franchise and the city of Nashville are in the process of building a new $2.2 billion stadium to replace Nissan Stadium. Sitework for the new stadium, directly adjacent to the existing stadium, began in February 2024 and completion is expected in 2027. The NFL has all but committed to hosting a Super Bowl shortly after the stadium opens.

As shown in the following table of total visitor and visitor spending statistics provided by the Nashville Convention & Visitors Corp. (NCVC), more than 16.8 million people visited Nashville in 2023, generating an estimated $10.56 billion in revenues, both of which set new records for the city. The NCVC is projecting nearly 2.0% annual growth over the next four years in terms of total visitors and nearly 3.5% annual growth in terms of visitor spending.

NASHVILLE VISITOR STATISTICS

Year	Total Visitors	% Chg.	Visitor Spending ($ Billions)	% Chg.
2018	13,729,184	----	$7.46	----
2019	15,471,933	12.7%	$7.90	5.9%
2020	9,853,236	-36.3%	$4.49	-43.2%
2021	13,914,455	41.2%	$7.37	64.1%
2022	16,192,482	16.4%	$9.97	35.3%
2023	16,831,820	3.9%	$10.56	5.9%
Avg. Annual % Change		4.2%		7.2%
NCVC Forecasts				
2024	17,121,572	1.7%	$10.84	2.7%
2025	17,518,985	2.3%	$11.23	3.6%
2026	17,817,521	1.7%	$11.63	3.6%
2027	18,137,185	1.8%	$12.07	3.8%

Source: Nashville Convention & Visitors Corp.

Tourism has been and will remain a vital aspect of the city's thriving hospitality sector. Strong visitation and visitor spending trends have been key factors in rounding out the market's impressive performance. With a deep and diverse corporate demand base filling hotels during the week, the tourism industry fills hotels on the weekends and allows operators to drive room rates. As a result, RevPAR levels in the market peak on weekend nights. This, in turn, helps fuel above average operating margins for hotels in the market.

Music City Center

First announced in early 2009, the 2.1-million-square-foot, $620 million Music City Center opened in 2013 as the city's premier event and convention center. Featuring a glass façade and a four-acre green roof, a 350,000-square-foot exhibit hall, 57,000-square-foot grand ballroom, 18,000-square-foot junior ballroom, and over 90,000 square feet of meeting space in approximately 60 smaller rooms, the center's design was inspired by the city's musical heritage.

The convention center's construction almost immediately spurred billions in new development in the SoBro neighborhood, which is now one of the city's most popular neighborhoods for office and residential towers, retail and restaurants, and, unsurprisingly, new hotels. Within just two blocks of the center, more than 4,000 hotels rooms have been developed since the convention center's delivery, including an 800-room Omni (2013), 214-room Hilton Garden Inn (2015), 456-room Westin (2016), 533-room JW Marriott (2018), 255-room Cambria (2018), 387-room Drury Plaza (2019), 230-room Holiday Inn (2019), 165-room Margaritaville Hotel (2019), 297-room Luxury Collection – The Joseph (2020), 506-room Embassy Suites (2022), and 215-room 1 Hotel (2022).

Visitation statistics for the Music City Center since opening are presented in the following table.

CONVENTION CENTER STATISTICS - MUSIC CITY CENTER						
Fiscal Year*	**No. of Events**	**% Chg.**	**Total Attendance**	**% Chg.**	**Hotel Room Nights**	**% Chg.**
2014	342	---	491,352	---	272,917	---
2015	305	-10.8%	676,060	37.6%	389,696	42.8%
2016	293	-3.9%	685,884	1.5%	359,390	-7.8%
2017	287	-2.0%	557,870	-18.7%	317,893	-11.5%
2018	302	5.2%	538,450	-3.5%	359,838	13.2%
2019	258	-14.6%	495,934	-7.9%	381,401	6.0%
2020	187	-27.5%	320,040	-35.5%	251,739	-34.0%
2021	40	-78.6%	39,186	-87.8%	13,767	-94.5%
2022	149	272.5%	299,057	663.2%	357,550	2497.2%
2023	164	10.1%	343,622	14.9%	413,600	15.7%
Avg. Annual % Change		-7.8%		-3.9%		4.7%
**** Fiscal Year - July Though June***						

Source: Nashville Music City Center Annual Report

Despite the center's continued recovery towards pre-pandemic levels of total attendance and number of events, the convention center generated over 400,000 hotel room nights for the first time in its history during fiscal year 2023. According to the Music City Center annual report, the center had a direct economic impact of more than $530 million in 2023 and more than $3.5 billion in its first 10 years of operation. Not only has the convention center changed the urban landscape of downtown and the SoBro neighborhood, but it elevated Nashville in the national conversation of top destinations for large conventions, conferences, and events.

With world renowned convention facilities and desirable leisure attractions, the city captures large-scale, city-wide events that regularly fill hotels across the market. For example, Nashville hosted the 2019 NFL Draft in late April, which brought an estimated 600,000 attendees to the city, breaking the previous record for an NFL Draft. In 2023, major events included three Taylor Swift concerts; the SEC Men's Basketball Tournament; CMA Fest, Let Freedom Sing: July 4th in Music City; Music City Grand Prix; and the NHL Draft and Awards, as well as a full convention calendar.

Over the years, the Music City Center has also hosted the Country Music Association (CMA) Awards and related events, the National Association of Music Merchants Summer Show, the Nashville Auto Show, the Southern Baptist Convention, professional conventions and trade shows, high profile corporate events, and political events.

Nashville International Airport

Located just a few miles east of downtown, Nashville International Airport (BNA) has also played an important role in the city's rapid ascent. BNA now offers over 450 daily flights and nonstop service to more than 50 destinations worldwide. Major airlines include Delta Airlines, American Airlines, Southwest Airlines, and United Airlines, as well as Alaska Airlines, JetBlue Airways, British Airways, and Frontier Airlines.

Historical passenger statistics for Nashville International Airport are presented in the following table. In addition to tremendous 7.2% growth per year on average, total passenger levels more than doubled from 2014 to year end 2023. With passenger traffic already exceeding pre-pandemic levels by more than 4.0 million, growth in 2024 is showing no signs of slowing.

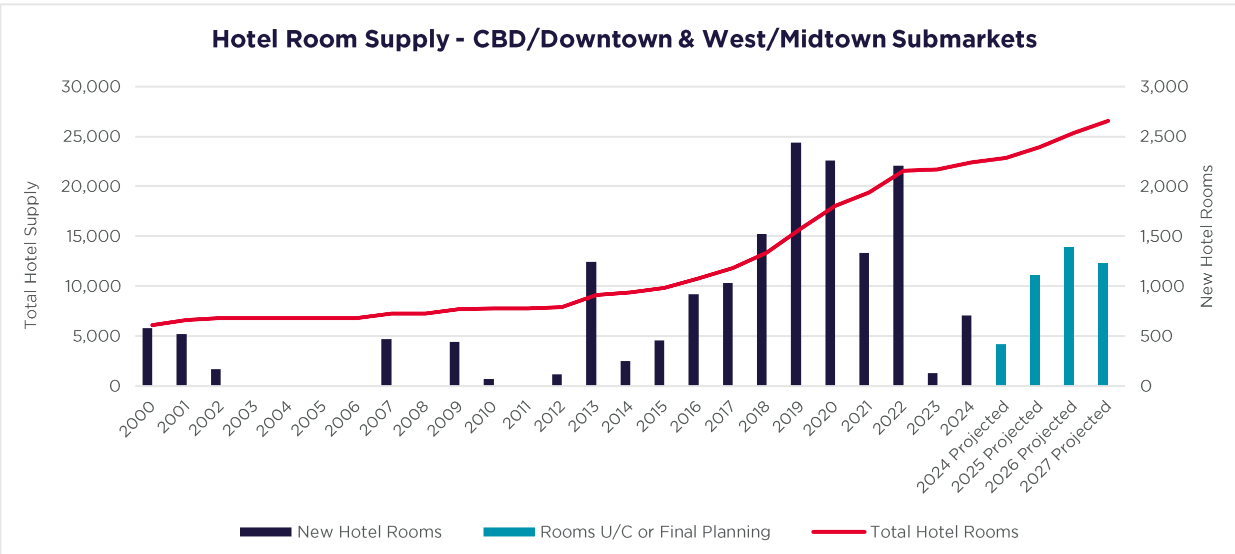
NASHVILLE INTERNATIONAL AIRPORT		
Year*	**Total Passenger Traffic**	**% Change**
2010	9,266,264	----
2011	9,689,353	4.6%
2012	10,332,043	6.6%
2013	10,627,239	2.9%
2014	11,038,148	3.9%
2015	11,670,444	5.7%
2016	12,979,803	11.2%
2017	14,134,448	8.9%
2018	15,993,931	13.2%
2019	18,273,434	14.3%
2020	8,284,570	-54.7%
2021	15,516,601	87.3%
2022	20,012,685	29.0%
2023	22,877,671	14.3%
Avg. Annual % Change		7.2%
YTD June 2023	10,956,762	----
YTD June 2024	11,790,637	7.6%

Source: Nashville International Airport

Ease of access is a top consideration of meeting and event planners as well as corporations considering headquarter relocations. BNA is largely regarded as an important asset to the city in landing both corporate relocations and major events. In February 2024, the airport completed a $1.5 billion series of projects known as BNA Vision, and laid out plans for its next $1.5 billion series of improvements known as New Horizon, which will include an extension of existing Concourse D and a complete rebuild of Concourse A. With passenger growth beyond projections when BNA Vision and New Horizon were in planning, the airport has also already begun studying its next project – Terminal 2, a project that would potentially begin in 2028 and be up and running by 2034/35.

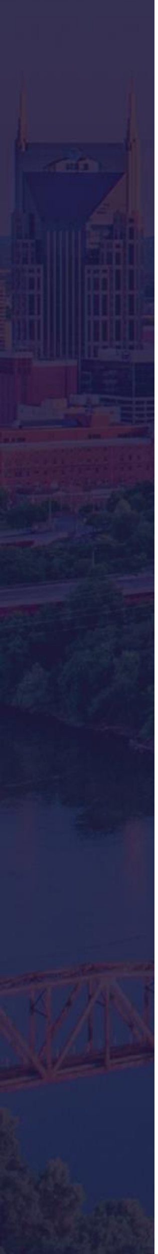
New Hotel Supply

As previously referenced, from 2000 through 2023, Nashville added more than 15,000 hotel rooms within the CBD/Downtown and West/Midtown submarkets (as defined by CoStar/STR). This reflects a more than 225% increase in room supply or almost 5.3% per year on average, well above the long-term national average of just over 1.1% per year. As can be seen, the explosion of new hotel rooms really began in 2013 – coinciding with the opening of the Music City Center – and accelerated through 2019, adding more than 7,800 rooms between 2013 and 2019. Since the beginning of 2020, the market has added another 6,600+ rooms. Of the 6,600+ rooms added since 2020, roughly 32.8% were in the luxury segment, 14.5% were in the upper upscale segment, 18.9% were in the upscale segment, 21.4% were in the upper midscale segment and 10.9% were independent. Just 1.4% were in the economy or midscale segments.



According to CoStar/STR, there are 10 hotels with a total of 1,534 rooms currently under construction within the CBD/Downtown and West/Midtown submarkets that are projected to open in 2024 and 2025. An additional 10 projects with a total of 2,880 rooms are in final planning, including a potential 700+ room Autograph Collection property near the convention center. Lastly, there are a further 28 hotels with more than 5,600 rooms proposed, including a St. Regis branded property adjacent to the JW Marriott.

How has new supply historically been absorbed? What is the two-step or line dance equivalent of "taken in stride?" As shown in the following table, demand growth from 2000 through 2023 outpaced supply growth – 5.9% per year compared to 5.3% per year on average. Not only did demand outpace supply growth, but ADR grew 4.6% per year. Given the number of luxury and upper upscale rooms added to the market, strong ADR growth is not as surprising. The addition of new upper-tier product often enhances a city's lodging reputation, thereby increasing the overall achievable room rate of the market – think, a rising tide lifts all boats. In fact, for the trailing-12-month period ending June 30, 2024, the entire Nashville market ranked 13th among the top 25 markets in terms of ADR and RevPAR – behind regional powerhouse hospitality markets Miami and Orlando, but above Tampa, New Orleans, and Atlanta.



MARKET SUPPLY, DEMAND, OCCUPANCY, ADR AND REVPAR - NASHVILLE CBD/DOWNTOWN & WEST/MIDTOWN MARKETS											
Year*	Rooms	Supply	% Chg	Demand	% Chg	Occ	% Chg	ADR	% Chg	RevPar	% Chg
2000	6,630	2,419,781	-----	1,550,160	----	64.1%	-----	$89.86	-----	$57.57	-----
2001	7,153	2,610,904	7.9%	1,587,946	2.4%	60.8%	-5.1%	$89.06	-0.9%	$54.17	-5.9%
2002	7,381	2,694,088	3.2%	1,628,682	2.6%	60.5%	-0.6%	$89.54	0.5%	$54.13	-0.1%
2003	7,349	2,682,508	-0.4%	1,688,131	3.7%	62.9%	4.1%	$91.70	2.4%	$57.71	6.6%
2004	7,358	2,685,670	0.1%	1,749,791	3.7%	65.2%	3.5%	$93.80	2.3%	$61.12	5.9%
2005	7,358	2,685,670	0.0%	1,867,313	6.7%	69.5%	6.7%	$99.66	6.2%	$69.30	13.4%
2006	7,358	2,685,670	0.0%	1,928,837	3.3%	71.8%	3.3%	$109.90	10.3%	$78.93	13.9%
2007	7,495	2,735,787	1.9%	1,912,683	-0.8%	69.9%	-2.7%	$121.47	10.5%	$84.93	7.6%
2008	7,687	2,805,819	2.6%	1,888,818	-1.2%	67.3%	-3.7%	$125.65	3.4%	$84.58	-0.4%
2009	7,889	2,879,399	2.6%	1,821,838	-3.5%	63.3%	-6.0%	$116.86	-7.0%	$73.94	-12.6%
2010	8,071	2,945,910	2.3%	2,031,295	11.5%	69.0%	9.0%	$117.83	0.8%	$81.25	9.9%
2011	8,085	2,951,117	0.2%	2,107,002	3.7%	71.4%	3.5%	$125.12	6.2%	$89.33	10.0%
2012	8,167	2,980,880	1.0%	2,221,671	5.4%	74.5%	4.4%	$133.59	6.8%	$99.57	11.5%
2013	8,595	3,137,216	5.2%	2,361,484	6.3%	75.3%	1.0%	$150.82	12.9%	$113.53	14.0%
2014	9,557	3,488,189	11.2%	2,733,880	15.8%	78.4%	4.1%	$174.65	15.8%	$136.89	20.6%
2015	10,098	3,685,714	5.7%	2,889,344	5.7%	78.4%	0.0%	$192.07	10.0%	$150.57	10.0%
2016	10,302	3,760,135	2.0%	3,054,281	5.7%	81.2%	3.6%	$204.21	6.3%	$165.88	10.2%
2017	11,300	4,124,499	9.7%	3,352,270	9.8%	81.3%	0.1%	$215.28	5.4%	$174.97	5.5%
2018	12,783	4,665,940	13.1%	3,735,829	11.4%	80.1%	-1.5%	$221.12	2.7%	$177.04	1.2%
2019	14,875	5,429,291	16.4%	4,285,317	14.7%	78.9%	-1.4%	$223.53	1.1%	$176.43	-0.3%
2020	16,222	5,921,111	9.1%	2,136,128	-50.2%	36.1%	-54.3%	$149.18	-33.3%	$53.82	-69.5%
2021	18,684	6,819,495	15.2%	4,063,010	90.2%	59.6%	65.1%	$196.52	31.7%	$117.09	117.6%
2022	20,520	7,489,892	9.8%	5,394,677	32.8%	72.0%	20.9%	$246.09	25.2%	$177.25	51.4%
2023	21,646	7,900,909	5.5%	5,835,891	8.2%	73.9%	2.6%	$252.02	2.4%	$186.15	5.0%
Avg. Annual % Change			5.3%		5.9%		0.6%		4.6%		5.2%
T-12 Aug. 2024	22,151	8,084,940	2.3%	5,932,270	1.7%	73.4%	-0.7%	$244.30	-3.1%	$179.25	-3.7%
YTD Aug. 2023	21,647	5,260,180	-----	3,935,058	-----	74.8%	-----	$251.73	-----	$188.32	-----
YTD Aug. 2024	22,404	5,444,211	3.5%	4,031,437	2.4%	74.0%	-1.0%	$240.37	-4.5%	$178.00	-5.5%

Source: STR/Co-Star

From 2010 through 2017, demand growth exceeded or matched supply growth every year. Then, despite double-digit demand growth in 2018 and 2019, supply growth slightly outpaced demand and occupancy fell from the low-80s to the upper-70% range. In the three years following the pandemic, demand growth again exceeded supply growth as leisure demand was booming and major conventions resumed, bringing occupancy back into the mid-70% range.

For the most recent T-12 and year-to-date periods, supply growth is again slightly outpacing demand growth and ADR levels have softened. Nashville has not been immune to the softer 2024 performance that has affected other strong leisure markets across the southeast, much of which is explained by a change in leisure trends with record setting levels of outbound international travel. It is also worth noting that recently opened properties (within the last 8 to 10 months) are located outside the downtown core and/or feature a new to market brand, thereby prolonging their ramp up periods. This includes the 306-room Tempo by Hilton and the 133-room Motif on Music Row.

With the previously discussed 10 properties/1,534 rooms that are currently under construction in the market, combined with an unknown percentage of the 2,880 rooms in final planning and 5,628 proposed rooms that will materialize, supply appears to be growing at a slower rate. Growth rates for 2024 and 2025 will likely be around 5.2% and 4.9%, respectively, based on the current timelines for properties under construction. This is below the long-term average in the market of 5.9% annual growth from 2000 through 2023. Factoring for 50% to 75% of projects in final planning materializing, results in growth of 2.9% to 4.4% for 2026 and 2.5% to 3.7% in 2027.

Nashville's Momentum: The Party Bus Keeps on Rolling

Thanks to its booming population and total employment levels, its southern inspired offering of tourism and leisure destinations, and major investments from the city over the past decade, including the Music City Center and BNA expansion and improvements, Nashville has proven its ability to support new hotel development. Positive growth projections from the U.S. Census Bureau and Bureau of Labor Statistics, combined with favorable tourism projections from the Nashville Convention and Visitors Corp. point to market fundamentals that will continue to support new rooms. Growth in the group segment, currently a hot button topic as post-COVID leisure demand subsides, will be paramount to maintaining RevPAR growth over the near- to mid-term. The success of Oracle's new headquarters campus, when fully developed; the new NFL stadium; and large-scale projects like Southwest Value Partners' $1B Nashville Yards project that is nearing completion, will also play an important role in maintaining strong demand growth for the city.

Despite the slight pull back in RevPAR that occurred in the first half of 2024, it appears that Nashville is poised for continued strong performance. The market received a strong vote of confidence in early 2024 when the country's largest hotel REIT – Host Hotels & Resorts – purchased the connected 215-room 1 Hotel Nashville and 506-room Embassy Suites Nashville Downtown for just over $735,000 per key. So, throw on your cowboy boots and don your hat, because this party bus is likely to keep on rolling.

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