ApartmentResearch
MARKET REPORT

Marcus & Millichap

Las Vegas Metro Area *Fourth Quarter 2014*

Recession Tumult Giving Way to Solid Growth in Las Vegas

Rising visitor volume and growing payrolls in higher-paying professional and business services fields provide momentum to the expanding Las Vegas economy. Since hiring bottomed four years ago, local employers have added 100,000 jobs, generating new demand for rental housing. Construction payrolls remain well below the prior peak, but other employment sectors continue to come back respectably and new large-scale projects are emerging that will provide future employment opportunities. Development of new sports complexes will begin soon and a $4 billion casino project from the Genting Group has restarted following a sale of the site by the original developer. Signs of growth are evident in non-tourism segments. These include the $350 million downtown redevelopment spearheaded by Zappos that aims to create a live-work-play environment that would attract businesses and young workers to the area. Also, several power-generating stations for solar facilities are being developed in the Southwest submarket. Overall, the outlook for the metro's apartment sector remains positive, with additional declines in vacancy forecast this year and next. Rising multifamily construction is a factor, though residents thus far have demonstrated a willingness to pay up for new amenity-laden rentals.

The market's upswing in property operations and brighter prospects are encouraging investors. Listings are insufficient to meet demand, however, and transaction velocity rose only modestly over the past year as a result. Las Vegas increasingly receives considerable attention from out-of-state investors from core primary markets, where pricing has jumped and cap rates have compressed. Potential upsides exist in Las Vegas as the economy finds its footing, and investors in Class A assets remain highly motivated. Cap rates start in the low-5 percent range for top-caliber assets, offering a sizable premium over yields on similar properties in core markets. At the opposite end of the asset spectrum, first-year returns on complexes with deferred maintenance or operational challenges can start at 9 percent, providing a potential value-add play for local buyers.

2014 Annual Apartment Forecast

2.8% increase in total employment

Employment: Las Vegas employment will rise by 24,000 jobs, or 2.8 percent, in 2014. The biggest gains come from the leisure and hospitality sector, but strong growth will also made in education and health services, and professional and business services. The metro generated 24,500 jobs in 2013.

1,200 units will be completed

Construction: Developers will add 1,200 rentals in 2014, including approximately 890 market-rate units and 280 seniors apartments. In 2013, 673 units were completed in the metro.

80 basis point decrease in vacancy

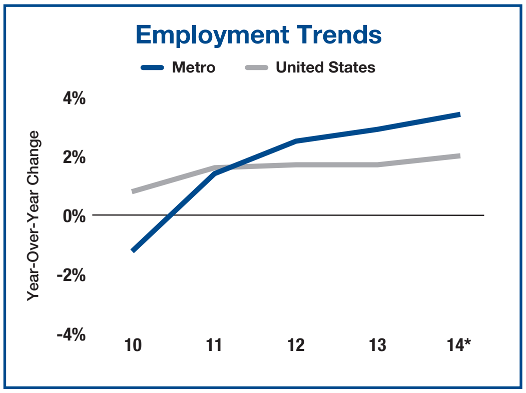
Vacancy: The vacancy rate will decline to 6.6 percent in 2014, 80 basis points less than the year-end 2013 level. Vacancy plunged 170 basis points in 2013.

3.9% increase in effective rents

Rents: With occupancy firming and concessions down to their lowest levels in years, property operators will increase rents 3.9 percent to $769 per month in 2014. The average rent rose 2.8 percent in 2013.

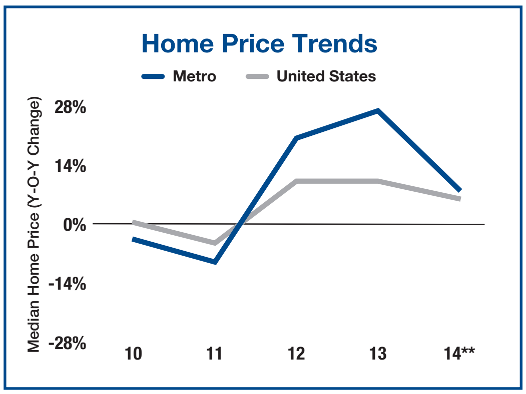
Economy

- Employment growth remained steady over the past 12 months, with headcounts increasing by 2.7 percent, or 23,000 jobs. Metrowide employment grew by 3.0 percent, or 24,900 jobs, during the previous 12 months.
- Job gains were led by the trade, transportation and utilities segment, which added 7,500 jobs over the past year. The growth occurred principally in retail trade, where store openings created 6,700 new posts.
- The 1.6 million-square foot Downtown Summerlin mall opened in October, creating 2,000 jobs. Several retail projects are under construction in Southwest Las Vegas, offering residents additional employment opportunities.
- **Outlook:** Las Vegas employment will rise by 24,000 workers, or 2.8 percent, in 2014.



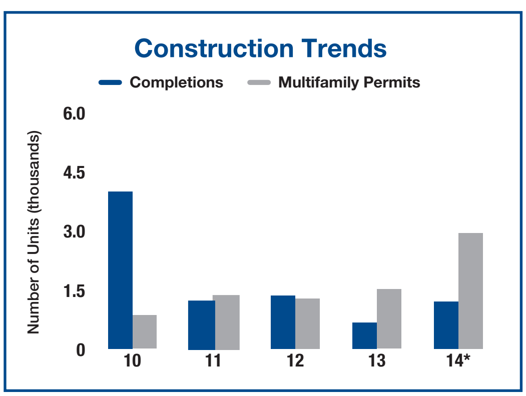
Housing and Demographics

- The number of permits issued during the past year for single-family homes slowed 10 percent to 6,400 units. Over the same time period, 2,500 multifamily units were authorized, an annual rise of 65 percent but still well below pre-recession levels.
- The median price of an existing single-family residence climbed 10 percent since the third quarter last year to $199,000. This increase partly reflects purchases by institutional investors who are buying homes to rent out.
- As a result of higher single-family home prices, rentals are increasingly more affordable than owning a home. The average monthly mortgage costs on the median-priced home based on traditional financing were $1,090 per month in the third quarter, while the average effective monthly rent is $733 per month.
- **Outlook:** The sizable difference between the cost of owning a home and renting in the third quarter is almost twice as large as one year ago. As home prices continue to climb because of limited listings and subdued new construction, apartments will become a more attractive option.



Construction

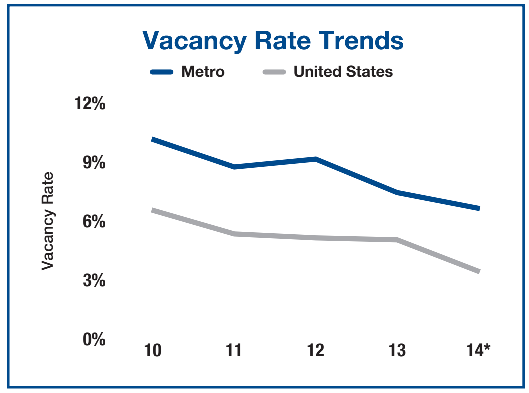
- Builders added 1,360 apartments over the past four quarters. Although the amount is more than triple the number of rentals brought online in the previous 12 months, development remains much lower compared with the market's historical average.
- Five new projects opened during the third quarter, included four seniors housing properties with a combined 279 units. Three of the age-restricted buildings are located in Summerlin/The Lakes submarket, and the other is in East Las Vegas. One traditional complex was placed in service: the 320-unit Chandler Apartment Homes in Southwest Las Vegas.
- Apartments that are under construction and scheduled to be delivered in 2015 include the nine-story, 246-unit Gramercy in Southwest Las Vegas, and two 360-unit mid-rise properties, the Southwest Hills in Southwest Las Vegas and Elysian at the District in Henderson.
- **Outlook:** Developers will bring online 1,200 units in 2014 to exceed last year's output.



* Forecast
** Trailing 12 months through 3Q

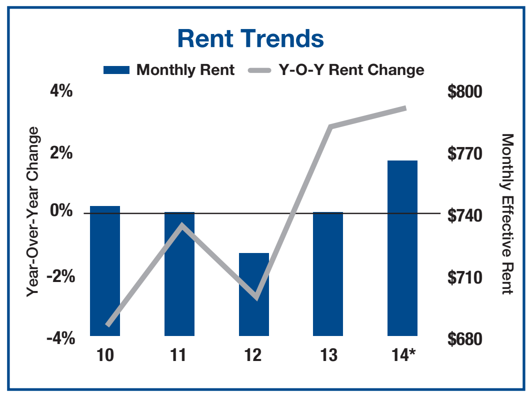
Vacancy

- The vacancy rate in the metro dropped 90 basis points to 6.8 percent during the year ending in the third quarter. A drop of 20 basis points was recorded in the preceding 12 months.
- Tenant demand at newer complexes remains vigorous. Since the third quarter last year, vacancy in properties built since 2000 fell 120 basis points to 4.8 percent, the lowest level among all property vintages.
- Absorption of older units is somewhat more subdued. In complexes built during the 1990s, for example, vacancy fell 80 basis points to 6.1 percent.
- **Outlook:** Elevated demand for new rental housing will underpin an 80-basis point drop in vacancy to 6.6 percent this year.



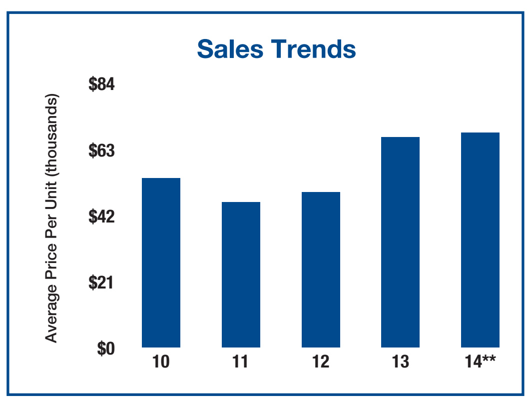
Rents

- Effective rents rose 4.4 percent year over year to $765 per month in the third quarter. Rents have increased for four straight quarters but remain 9 percent below the peak 2007 level.
- Newer, high-end units are encountering competition from single-family homes rented out by institutional owners. Over the past year, the average rent in 2000s-vintage properties rose 3.1 percent, lagging the marketwide trend. The average rent in assets built during the 1990s, however, climbed 6.0 percent over the past 12 months.
- Concessions continue to decline. The percent of units offering concessions fell slightly to 29 percent, while the average concession fell to 5.9 percent, down from 7.1 percent in the previous quarter and the lowest level registered since before the recession.
- **Outlook:** With occupancy firming and concessions down to their lowest levels in years, property operators will increase rents 3.9 percent to $769 per month in 2014. The average rent rose 2.8 percent in 2013.



Sales Trends**

- During the past 12 months, the number of sales rose only slightly over the previous period, but the level of transactions remains well above the paltry levels in the years following the recession. Property owners are motivated to sell as investors from outside the metro look for assets with high yields.
- The robust demand has prompted prices to rise. The average price per unit over the past four quarters increased to $68,300, marking a jump of 9 percent from the average price in the prior year.
- Cap rates for high-quality properties sit in the low-5 percent region, which is still above the cap rates for Class A assets in core markets nationwide. Class B/C cap rates start in the mid-6 percent range and rise according to the property's location, condition and vacancy.
- **Outlook:** Prices of apartments in top-tier metros have become frothy, prompting investors to look for product in secondary markets, including Las Vegas. Demand is likely to remain strong, which will maintain upward pressure on values in the market.



* Forecast
** Trailing 12 months through 3Q
Sources: CoStar Group, Inc.; Real Capital Analytics

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- Nationwide apartment vacancy held in the low-4 percent range through the third quarter as job growth and rising household formation continue to stimulate rental housing demand amid a cycle of increasing apartment construction. Long-term interest rates, meanwhile, remain low, as slowing economic growth in some regions of the world has supported a strong flight-to-safety flow of capital into the 10-year U.S. Treasury.
- The Federal Reserve was widely expected to complete its monthly bond purchases during the fourth quarter. The combination of the Fed's action and gathering economic momentum raises the prospects that the central bank will start lifting short-term interest rates in 2015. Once rates begin to rise, the impact on commercial real estate may be nominal. Historically, cap rates have not moved in step with interest rates.
- Fannie Mae and Freddie Mac continue to underwrite five-, seven- and 10-year acquisition loans and offer maximum leverage of 80 percent in most markets. Interest rates vary from about 3.5 percent at the low end of a short maturity loan to a range of 4.0 to 4.5 percent for 10-year debt of more than $5 million. Debt service coverage ratios remain virtually unchanged from earlier this year, at 1.2X. New agency capital has also emerged in the form of the Freddie Mac Small Balance program, which caps loan amounts at $5 million.
- Conduits are increasingly active in the multifamily sphere, providing borrowers with 10-year terms. CMBS loans are typically issued at rates varying from 4.3 percent to 5 percent and leverage from 75 percent to 80 percent. The application of interest-only financing for a portion of the term is gaining ground in this financing segment. Other active sources of apartment lending include commercial banks and life-insurance companies.

Submarket Vacancy Ranking

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y % Change
1	Summerlin/The Lakes	4.3%	-70	$926	4.2%
2	Green Valley	4.4%	-110	$867	7.8%
3	South Las Vegas	4.4%	-100	$890	2.2%
4	Southwest Las Vegas	4.7%	-50	$919	4.9%
5	Henderson	5.3%	-140	$853	3.6%
6	Northwest Las Vegas	5.7%	-240	$782	4.5%
7	West Las Vegas	6.0%	-60	$687	5.2%
8	North Las Vegas	7.5%	-110	$788	2.5%
9	East Las Vegas	8.5%	40	$703	3.7%
10	University/The Strip	8.5%	-120	$678	5.4%
11	Central Las Vegas	10.6%	20	$593	5.1%
12	Sunrise Manor/Northeast Las Vegas	11.2%	-90	$650	3.3%

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Price: $150