ApartmentResearch
MARKET REPORT
Marcus & Millichap

Las Vegas Metro Area *Fourth Quarter 2015*

Assets Brought to Market Met by Competitive Buyer Bidding

Steady employment gains bolstered by the metro's robust resort and gaming industry will keep apartment demand elevated through 2015. Since the recession, the Las Vegas economy has seen consistent and incremental growth, as improving visitor numbers flow tourism dollars back into the metro. The resurgent local economy, coupled with strong market operations, has encouraged elevated development. Builders will focus new construction on the Southwest Las Vegas submarket, where average rents are high and land is available. New deliveries will reach a five-year high in 2015, greatly expanding available inventory. Residents will more than absorb the new supply due to the slow recovery of the Las Vegas housing market as well as the relative affordability of renting rather than buying. Heavy demand has put downward pressure on the metrowide vacancy rate, which fell to one of the lowest levels since the downturn. These tight market conditions have accelerated the pace of rent growth, pushing rates to the greatest level seen since late 2008.

Demand for multifamily assets will intensify through 2015 from out-of-state buyers drawn to the metro by higher first-year yields. Listings have been limited in recent years, although property owners are finally beginning to sell again. Many investors seek properties they can do minor renovations on to extract small rent increases. More invasive value-add plays that involve heavy repositioning are few and far between. Foreign investors have also been looking to Las Vegas real estate as a source of stability from the volatility of the global financial environment. These buyers bid aggressively on available listings, helping push the average price per unit up to a post-recession high. This has prompted many sellers to list assets again and take profits or reshuffle into other product types. Cap rates have compressed in the last 12 months with Class A assets trading in the low-5 percent range. Lower-tier properties, particularly in the southwestern portion of the metro, will have first-year returns 75 to 100 basis points higher.

2015 Annual Apartment Forecast

2.9% increase in total employment

Employment: In 2015, the labor force will grow by 2.9 percent with the addition of 26,000 positions. A gain of 3.8 percent was realized last year, driven by employment growth in the leisure and hospitality and professional and business services sectors.

2,200 units will be completed

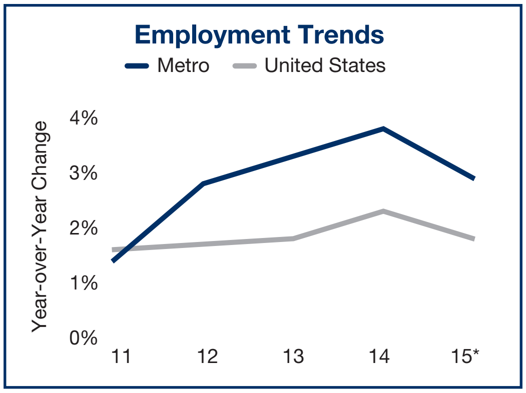
Construction: In 2015, more than 2,200 apartments will be completed, expanding inventory by 1.1 percent. This represents the greatest jump in inventory in the last five years. Last year, builders delivered 1,430 units.

80 basis point decrease in vacancy

Vacancy: As new construction comes online in the fourth quarter, the vacancy rate will climb to 5.9 percent this year. On an year-over-year basis this constitutes a drop of 80 basis points. In 2014, a decrease of 70 basis was registered on 2,360 units of net absorption.

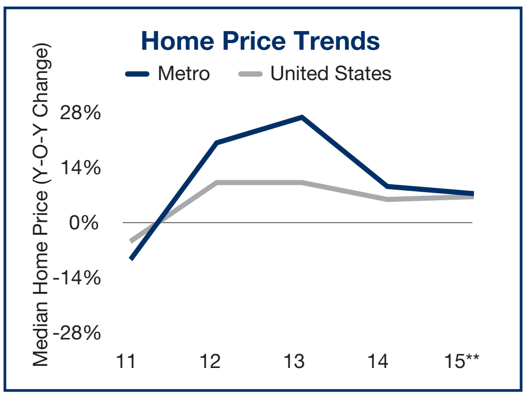
7.8% increase in effective rents

Rents: Rent growth will continue through the end of the year. The metrowide average rent will jump 7.8 percent in 2015 to $827 per unit. Last year, a rent hike of 3.6 percent was registered.



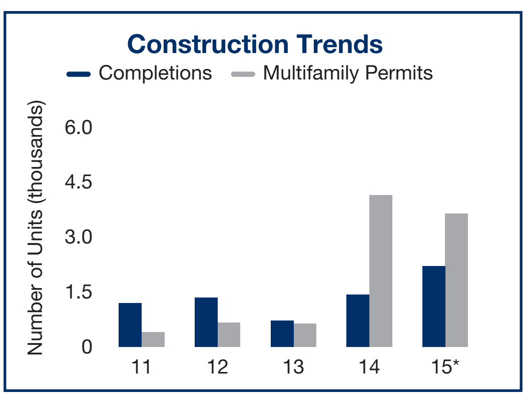
Economy

- In the last four quarters ending in September, Las Vegas employers added 20,800 workers to staff, a 2.3 percent increase. This is down from the previous period when the workforce grew 4.7 percent through the creation of 40,500 new jobs.
- The leisure and hospitality sector had the greatest employment gain, due to expanding hotels and entertainment venues. Employment for these organizations increased by nearly 6,800 workers, or 2.4 percent. The professional and business services sector also realized healthy growth, up 5.6 percent this year.
- The unemployment rate has fallen 50 basis points in the last 12 months to 6.8 percent, the lowest level since the recession. This is more than 170 basis points higher than the national average. In the previous 12 months, a 180-basis-point drop was registered.
- **Outlook:** In 2015, the labor force will grow by 2.9 percent with the addition of 26,000 positions. A gain of 3.8 percent was realized last year, driven by employment growth in the leisure and hospitality and professional and business services sectors.



Housing and Demographics

- Multifamily completions jumped 53.9 percent in the last 12 months, indicating confidence in the market. During the same period, single-family completions increased 23.7 percent. The pipeline remains healthy with multifamily permitting up 24.2 percent in the last three months.
- Following an 11.5 percent rise in the previous period, the median home price jumped 7.4 percent in the last four quarters to more than $216,000. Meanwhile, the median household income reached more than $54,000 in September, a 2.5 percent boost.
- The average mortgage payment for a single-family home based on traditional financing is more than $1,125 per month, compared with an average rent of $989 per month for apartments built since 2000, representing a $136 affordability gap.
- **Outlook:** The relative expense for owning rather than renting will encourage residents to seek multifamily options. Renters also prefer to live near employment centers in the urban core where home prices are very high.



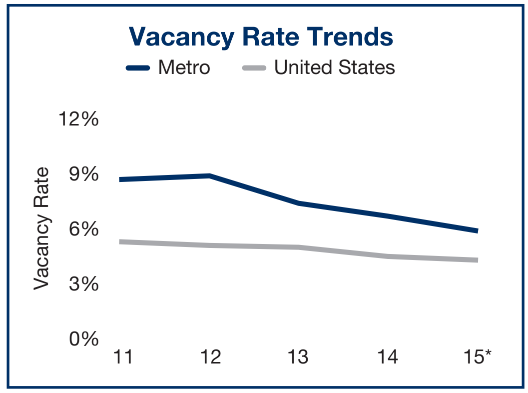
* Forecast
** Trailing 12-month period through 3Q

Construction

- Las Vegas builders have completed 1,260 units in the most recent annual period, growing the apartment inventory 0.6 percent. This is a slowdown from the same span a year earlier when developers brought more than 1,660 rentals to market.
- The South Las Vegas submarket was especially sought after, receiving nearly 660 units this year.
- Developers have more than 3,350 apartments currently underway, about one-third of which will be delivered in 2015. The high-rent Southwest Las Vegas submarket attracted the most attention with more than half of all construction projects located here.
- **Outlook:** In 2015, more than 2,200 rentals will be completed, expanding inventory by 1.1 percent. Last year, builders finalized 1,430 units, more than 40 percent of which came online in the Southwest Las Vegas submarket.

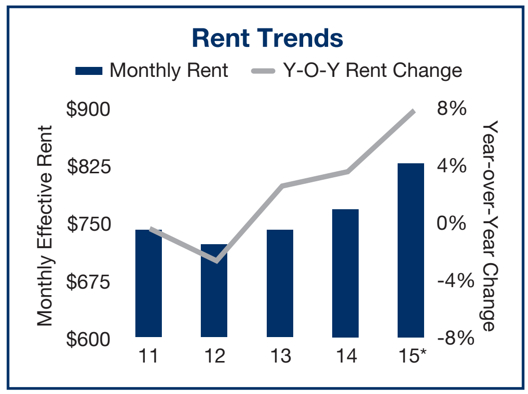
Vacancy

- Continued market tightening contributed to a 110-basis-point drop year over year to 5.6 percent in September. During the same span a year earlier, the metrowide vacancy rate fell 100 basis points.
- Renters prefer the amenities and luxuriousness offered by new apartments. Complexes built since 2000 have the lowest vacancy rate, sliding 40 basis points to 4.0 percent in the last year. Properties built in the 1970s are the least occupied, with only 8.8 percent of space filled.
- The Henderson submarket has the tightest vacancy rate in the metro, at 3.6 percent, down 180 basis points year over year. Despite a 190-basis-point drop in vacancy, the Sunrise Manor/Northeast Las Vegas submarket continues to be the least occupied at 9.3 percent.
- **Outlook:** As new construction comes online in the fourth quarter, the third quarter vacancy rate will climb to 5.9 percent by year's end. On a year-over-year basis, however, this amounts to a drop of 80 basis points. In 2014, a decrease of 70 basis was registered on 2,360 units of net absorption.



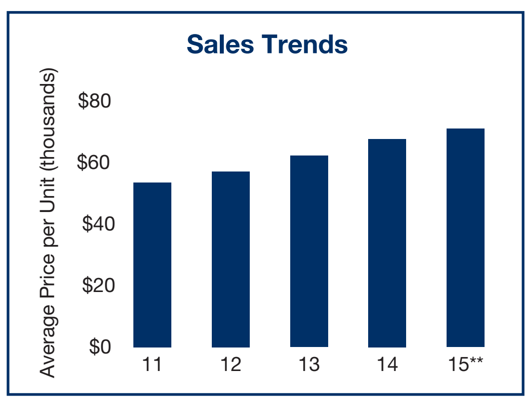
Rents

- The average rent climbed 7.3 percent in the last year to $820 per month in September as high occupancy rates encourage further rent hikes. In the same span a year earlier, rent growth reached 4.2 percent.
- Rent growth is broad-based with at least a 5.0 percent increase registered for all age tranches. The metro's oldest and newest properties had the greatest growth, up 10.1 percent and 9.3 percent, respectively.
- The most expensive apartments can be found in the Summerlin/The Lakes submarket at $1,008 per month on average. The Southwest Las Vegas submarket also commands high rent with landlords charging $1,005 per month. The Central Las Vegas area has the most affordable space in the metro at $648 per month.
- **Outlook:** Rent growth will continue through the end of the year. The metrowide average rent will jump 7.8 percent in 2015 to $827 per month. Last year, a rent increase of 3.6 percent was registered.



Sales Trends

- As property values reach a post-recession high, many owners have begun listing assets, spurring an increase in sales activity. In the last 12 months ending in September, transaction velocity has jumped 15.8 percent. In the previous 12-month period, deal flow increased 5.6 percent.
- Strong investor demand is driving up sales prices. The average price jumped 7.7 percent year over year, reaching $70,900 per unit trailing four quarters. In 2014, the sale price lifted 8.8 percent.
- Rising prices have compressed cap rates across the board. First-year returns for Class A assets have fallen to the low-5 percent range with mid-tier properties trading between 50 and 75 basis points higher. Class C complexes generally have first-year yields in the low-6 percent range.
- **Outlook:** Investor activity will remain strong through 2015 as out-of-state buyers, particularly from California, look to Las Vegas as a source of yield. The volatility in global markets will encourage international equity to flow into the United States, which will act as a store of wealth.



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

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Capital Markets

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

- The Federal Reserve continues to weigh domestic economic trends against greater volatility and softer growth overseas to guide its course on interest rates. The central bank will deliberate again on the Fed Funds rate at two additional meetings this year but may withhold its first rate hike until 2016. Initial movements by the Fed on its overnight lending rate will likely be gradual and measured in order to minimize a potential disruption in U.S. economic growth.
- The yield on the 10-year U.S. Treasury, an important benchmark in real estate lending, has hovered in the low-2 percent range throughout 2015 in response to rising demand for low-risk, fixed-income assets. Long-term rates such as the 10-year U.S. Treasury are not directly tied to short-term rates, or the short end of the yield curve, and thus will be largely insulated from the Fed's actions.
- Agency lenders are underwriting 10-year apartment loans with LTVs at up to 80 percent in select markets and rates ranging from 4.3 percent to 4.7 percent. Portfolio lenders offer similar LTVs at rates from 3.85 to 4.5 percent. Floating bridge loans are issued at LTVs of 70 percent for stabilized assets, with a spread of 250 to 400 basis points above Libor. Value-add deals, meanwhile, attract a spread of 350 to 500 basis points with dollars capped at 60 to 65 percent of cost.
- Total CMBS issuance reached $77.6 billion for all commercial properties year to date through the third quarter and lenders remain on track to issue $100 billion to $125 billion in 2015, a sizable gain from last year. In the apartment sector, CMBS lenders will issue loans at terms of up to 10 years and as much as 80 percent leverage in specific circumstances. Interest rates for good-quality multifamily product start at 240 basis points over the 10-year U.S. Treasury, and have widened slightly recently.

Local Highlights

- The Resorts World Las Vegas is under construction and has a tentative completion date scheduled for mid-2018. The $4 billion development will include a panda exhibit, retail and dining options, and an indoor water park. Apartment complexes in the area will receive economic lift upon completion.
- The biggest multifamily development currently under construction is Elysian at Hacienda. The 466-unit project in the Southwest Las Vegas submarket will be delivered in early 2016.
- A series of tax incentives approved by the Office of Economic Development encouraged two tech companies and an industrial bakery to expand into Southern Nevada. The move will create an estimated 100 jobs for the area in the next year. Apartment developments close by will benefit from the increase in employment.
- The largest apartment development completed this year was Lyric. Located in the South Las Vegas submarket, the project brought 376 units of luxury apartments to the market. Amenities include a resort pool with cabanas, a movie theater and a coffee bar.