Multifamily Research

Market Report

Fourth Quarter 2017

Las Vegas Metro Area

Heightened Development Overtakes Robust Employment Growth

Healthy job growth in office-using, hospitality sectors drives rental demand. Amid rising payrolls in the professional and business services and hospitality sectors, household growth is prompting demand for rentals. Elevated demand has prompted multiyear declines in vacancy to below 5 percent through the first half of 2017. Builders have responded to the sharp drops in vacancy, with completions set to rise to a multiyear high this year as 3,500 rentals are delivered. As a result, the three-year delivery total will top 9,100 units, which has begun to weigh on overall vacancy in the metro. While longer-term demand trends remain positive, a backup in vacancy is likely until supply moves more in line with the local need for housing.

Construction rises to multiyear high; projects proliferate in Southwest Las Vegas and Green Valley. Tight conditions are spurring a focus on multifamily and mixed-use projects, particularly in the southwestern submarkets and neighborhoods. Performance in these locations has begun to bifurcate, with many submarkets remaining tight while others struggle with new supply. The influx of properties at the high end is boosting overall rents as tenants lease at rates above the metro average.

Multifamily 2017 Outlook

3,500 units will be completed

Construction: Development reaches the highest point since 2010 as builders target locations in Southwest Las Vegas and Green Valley.

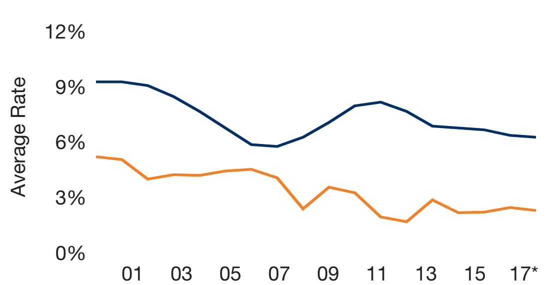
110 basis point increase in vacancy

Vacancy: The heightened completion schedule weighs on metro occupancy, pushing vacancy to 5.2 percent.

6.2% increase in effective rents

Rents: Deliveries of Class A properties support the increase in the average effective rent of 6.2 percent to $941 per month, highlighting supply growth.

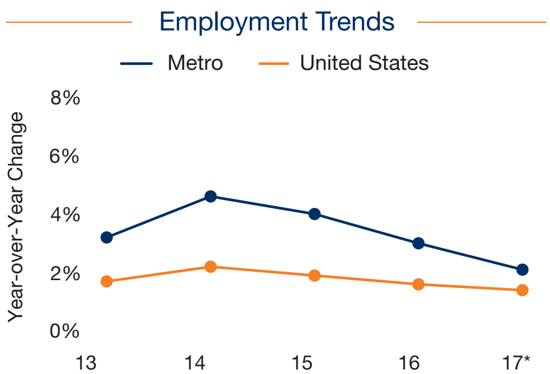
Local Apartment Yield Trends

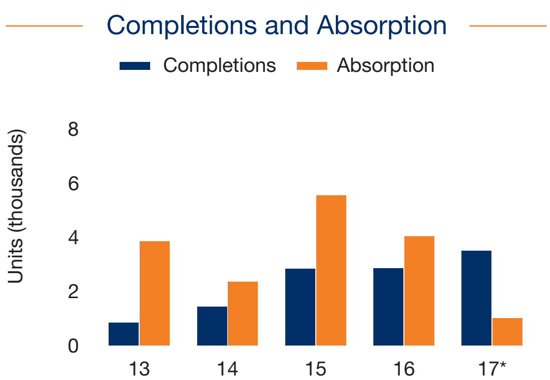


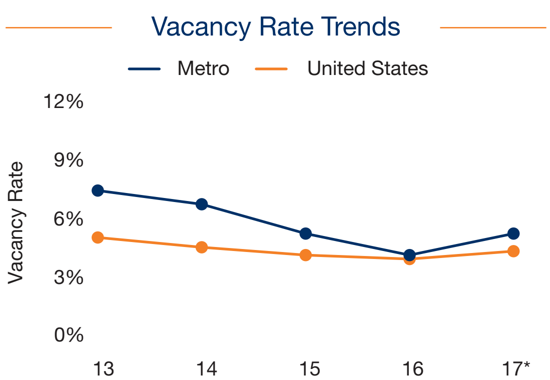
* Cap rates trailing 12 months through 3Q17; 10-year Treasury rate through Oct. 20.
Sources: CoStar Group, Inc.; Real Capital Analytics

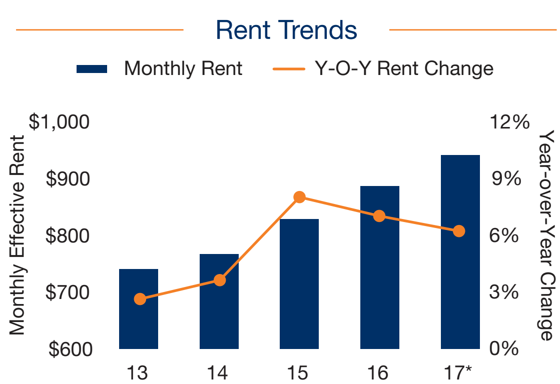
Investment Trends

- Buyers remain active in the marketplace, pursuing properties in the Class B and C space where yields remain in the low- to mid-6 percent range. Encouraging demographics and employment trends continue to spur an optimistic outlook for metro performance in the years ahead.
- Capital is flowing into the metro from California and other coastal markets as investors pursue yields that can be more than 200 basis points above their home markets. Value-add deals surrounding 1970s and 1980s construction provide strong rental rate improvement after cosmetic upgrades to kitchens, bathrooms and central common areas.
- Elevated deal flow may encourage local participants and syndicate buyers to list their assets amid rising prices and strong rent growth. Properties in Henderson and Summerlin remain the most sought after by buyers.









* Forecast

3Q17 – 12-MONTH PERIOD

EMPLOYMENT:

2.3% increase in total employment Y-O-Y

- Over the past year, Las Vegas organizations created 21,600 positions, driven by growth in the construction sector, where nearly 9,900 jobs were added. Office-using employment gains were also strong at 6,200 workers.
- Unemployment ended the third quarter at 5 percent, 50 basis points lower than the previous year.

CONSTRUCTION:

3,060 units completed Y-O-Y

- Completions remained roughly in line with the previous year, with 3,060 units delivered in the last 12 months and 3,155 rentals brought online in the previous year.
- Roughly 1,400 apartments are underway with expected delivery by year end. Nearly a third of completions will be affordable or seniors housing, while the two largest projects are conventional units in Summerlin.

VACANCY:

70 basis point increase in vacancy Y-O-Y

- Vacancy rose 70 basis points to 5.1 percent over the last year, underpinned by two quarters of negative net absorption. The East Las Vegas submarket registered the most pressure, with vacancy rising 270 basis points to 5.9 percent.
- The Central Las Vegas and Henderson submarkets remain extremely tight, with vacancy below 4 percent.

RENTS:

6.0% increase in effective rents Y-O-Y

- The average effective rent in the metro vaulted 6 percent year over year, reaching $937 per month by the end of the third quarter.
- The Northwest Las Vegas submarket recorded the fastest growth during the year, with rents climbing 8.9 percent to $974 per month. Rents are highest in the Summerlin/The Lakes submarket at $1,139 per month.

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*

290,600

3Q17 POPULATION AGE 20-34
(Percent of total population)

Metro 22%

U.S. 21%

3Q17 MEDIAN HOUSEHOLD INCOME

Metro $53,767

U.S. Median $58,218

FIVE-YEAR HOUSEHOLD GROWTH*

121,000

POPULATION OF AGE 25+
PERCENT WITH BACHELOR DEGREE+**

Metro 22%

U.S. Average 29%

2Q17 TOTAL HOUSEHOLDS

45% Rent

55% Own

*2017-2022

**2016

SUBMARKET TRENDS

Lowest Vacancy Rates 3Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
Central Las Vegas	3.7%	-30	$696	7.2%
Henderson	3.8%	-30	$1,079	4.6%
West Las Vegas	4.1%	60	$819	6.5%
South Las Vegas	4.4%	140	$1,065	2.4%
Northwest Las Vegas	4.5%	-30	$974	8.9%
Summerlin/The Lakes	4.5%	-110	$1,139	3.3%
North Las Vegas	4.7%	10	$961	6.3%
Green Valley	5.7%	120	$1,075	6.8%
East Las Vegas	5.9%	270	$843	7.4%
University/The Strip	5.9%	130	$811	3.6%
Sunrise Manor/NE Las Vegas	6.2%	70	$785	4.5%
Overall Metro	**5.1%**	**70**	**$937**	**6.0%**

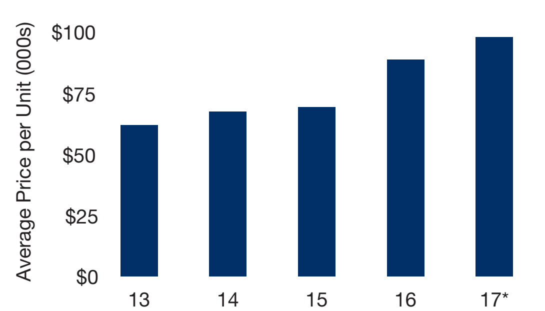
SALES TRENDS

Prices Escalate Amid Elevated Buyer Interest; Trading Dominated by Class C Assets

- The average price per unit rose nearly 17 percent to $98,200, driven by surging prices for Class A properties, particularly in Henderson and Summerlin.
- Deal flow and dollar volume are flooding into Class C properties, with transactions rising nearly 30 percent over the past year. Average first-year returns are in the low-6 percent range.

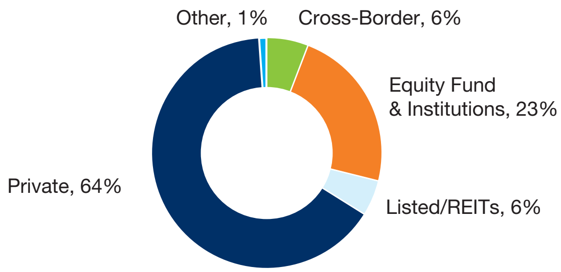
Outlook: Well-located properties near the Strip, Central Las Vegas and Henderson will attract considerable buyer attention.

Pricing Trends

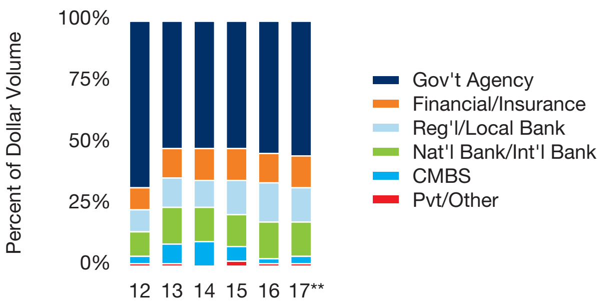


* Trailing 12 months through 3Q17
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Apartment Acquisitions By Buyer Type*



Apartment Mortgage Originations By Lender



* Trailing 12 months through 2Q17
** Through first half 2017
Include sales $2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

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

- **Monetary policy in transition.** Despite the Fed raising its benchmark short-term rate three times in seven months and signaling another rise before the end of the year, long-term rates have remained stable. The yield on the 10-year U.S. Treasury bond remained in the low- to mid-2 percent range throughout the third quarter of 2017. The Federal Reserve wants to normalize monetary policy and, in addition to raising its funds (or overnight lending) rate, has announced it will begin to taper its balance sheet by allowing an initial $10 billion in securities to mature without reinvestment. By reducing its acquisitions of securities, 10-year Treasury rates should drift upward, thereby widening the spread between short- and long-term rates.
- **Increase in interest rates over the course of the year, pushing up the cost of capital.** While commercial real estate fundamentals remain strong, rising costs associated with debt financing will tighten the spread between cap rates and lending benchmarks. This environment could weigh on transaction activity as investors evaluate their yield options. Cap rates have remained relatively stable over the last year, but upward movement in Treasury rates has amplified the expectation gap between buyers and sellers.
- **The capital markets environment continues to be highly competitive.** Government agencies continue to consume the lion's share, just slightly over 50 percent, of the apartment lending market. National and regional banks control approximately a quarter of the market. Growing uncertainty about federal policy and global geopolitical concerns are keeping long-term interest rates down with pricing residing in the 4 percent realm with maximum leverage of 80 percent. Portfolio lenders will typically require loan-to-value ratios closer to 75 percent with interest rates in the high-3 to mid-4 percent range. As uncertainty remains regarding the possibility of tax policy revision, rental demand remains strong with the national apartment vacancy at 4.5 percent.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; MPF Research; TWR/Dodge Pipeline; U.S. Census Bureau