MARKET REPORT | 3Q/2018

Las Vegas Multifamily

NORTHMARQ

Rents and Prices Rising as Job Market Strengthens

Highlights

- The Las Vegas multifamily market is posting strong performance. The vacancy rate is low, even as new units come online, and rents are on the rise. Employment growth across a far-reaching range of industries should continue to support the local apartment market.
- The local vacancy rate rose 20 basis points to 3.6 percent, up 30 basis points year over year.
- Asking rents continue to push higher, reaching $1,055 per month in the third quarter. Current asking rents are up 6 percent from one year earlier and additional increases are expected in the coming quarters.
- Sales of apartment properties accelerated in the middle of 2018 but were down slightly from 2017 levels. Prices rose; the median price reached approximately $104,800 per unit, 13 percent higher than the 2017 median price.

Las Vegas Multifamily Market Overview

The Las Vegas multifamily market remains on an extended run of strong performance. One of the primary indicators of the health of the market is the surge in asking rents. Rent growth has averaged approximately 4.5 percent per year since 2015, and rents are forecast to spike by more than 7 percent in 2018, one of the largest increases in the country. For-sale housing prices are also supporting the upward trend in rents. Year over year, Las Vegas has posted the strongest single-family home price appreciation of the 20 markets in the S&P/ Case-Shiller Home Price Index, advancing by more than 12 percent.

Market Indicators

	3Q/2018
Vacancy	↑
Rents	↑
Transaction Activity	↑
Price Per Unit	↓
Cap Rates	↓

Summary Statistics

	Las Vegas Market
Vacancy Rate	**3.6%**
- Change from 3Q 2017 (bps)	**+30**
Asking Rents (per month)	**$1,055**
- Change from 3Q 2017	**6.0%**
Median Sales Price (per unit YTD)	**$104,800**
Average Cap Rate (YTD)	**5.2%**

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Las Vegas Multifamily Market Overview (cont.)

After a bit of a slower start to 2018, multifamily investment activity gained momentum in the third quarter. There was a diverse mix of properties that changed hands during the quarter, leading to a wide range in per-unit prices. On the whole, prices have pushed higher in 2018, with the median price exceeding $100,000 per unit. Cap rates have compressed a bit as prices have pushed higher. Cap rates have compressed into the mid-4 percent to mid-5 percent range for much of 2018. This has been a consistent trend over the past several years, but it is more likely that cap rates will level off in 2019 rather than continue to compress.

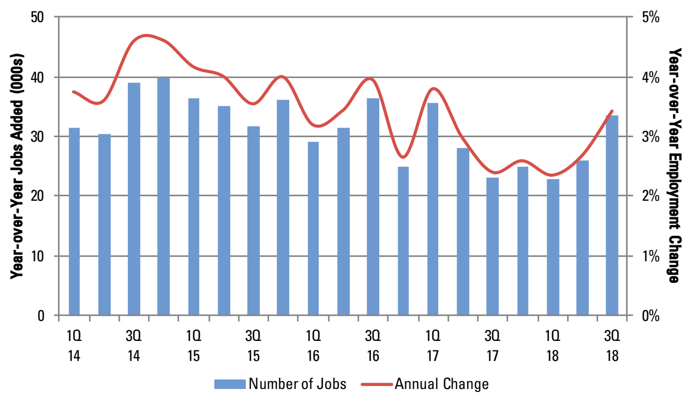
Submarket Statistics

Submarket Name	3Q 2018 Vacancy	3Q 2017 Vacancy	Annual Vacancy Change (BPS)	3Q 2018 Rents	3Q 2017 Rents
North	2.2%	2.7%	(50)	$956	$909
North Central	2.2%	2.2%	-	$866	$809
East	2.3%	2.9%	(60)	$900	$865
Spring Valley	2.8%	3.3%	(50)	$960	$900
Northeast	3.8%	3.6%	20	$816	$789
University	3.9%	4.2%	(30)	$817	$786
Henderson/Southeast	4.0%	3.5%	50	$1,273	$1,200
West	6.4%	4.2%	220	$1,355	$1,279

Employment

- Employment in Las Vegas has been accelerating in recent quarters. The economy added 33,600 jobs year over year through the third quarter, a 3.4 percent spike. At the same time one year ago, the annual rate of growth was 2.4 percent.
- Growth in leisure and hospitality employment has rebounded after being essentially flat in 2017. During the 12-month period ending in the third quarter, leisure and hospitality employment expanded by 2.3 percent with the addition of 6,600 net new jobs.
- Construction employment is surging as the local housing market gains momentum. During the past year, 7,600 construction jobs have been added, a growth rate of 12.7 percent. Additions in construction have accounted for more than 20 percent of all new jobs in Las Vegas during the past 12 months.
- **Forecast:** Employers in Las Vegas are forecast to add approximately 38,500 net new jobs in 2018, an increase of 3.9 percent. This would mark the strongest year of employment growth since 2014.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

> *Growth in leisure and hospitality employment has rebounded after being essentially flat in 2017*

Vacancy

- Apartment vacancy in Las Vegas is low, ending the third quarter at just 3.6 percent. The rate has risen 30 basis points year over year. Vacancy was at a cyclical low between 2016 and 2017 but has inched higher in recent quarters as development activity has accelerated.
- The inventory of Class A units has risen by approximately 4.5 percent in the past year, and vacancy has inched up at the same time. Vacancy in Class A properties rose 60 basis points year over year, ending the third quarter at 4.4 percent.
- The vacancy rate in more affordable units has been very stable over the past few years. Combined vacancy in Class B and Class C buildings ended the third quarter at just 2.8 percent, unchanged from one year earlier. The vacancy rate for Class B and Class C buildings has been below 3 percent for the past 11 quarters.
- **Forecast:** The vacancy rate in Las Vegas is forecast to end 2018 at 3.6 percent, an increase of 40 basis points from year-end 2017. Vacancy has averaged 3.4 percent since 2015.

Vacancy Trends

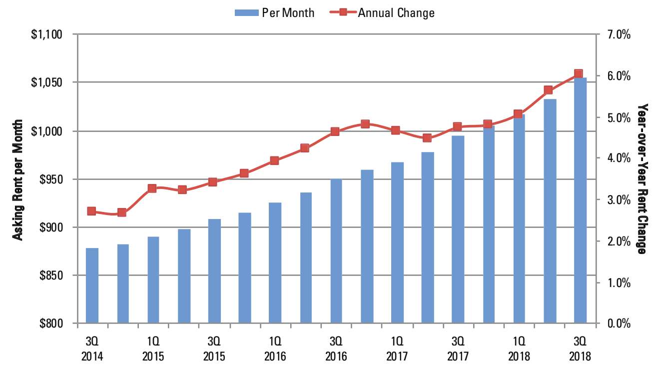
Sources: NorthMarq, Reis

> *The vacancy rate in more affordable units has been very stable over the past few years*

Rents

- Rents have been trending higher in Las Vegas, and the pace of gains is accelerating. Asking rents ended the third quarter at $1,055 per month, up 6 percent from one year earlier. Last year at this time, asking rents had posted a 4.7 percent gain.
- Asking rents posted a 2.1 percent spike in the third quarter alone, building on a 1.5 percent rise in the preceding three months. Year to date, asking rents are up 4.7 percent.
- Rents in the West submarket continue to rise. Asking rents in this submarket are the highest in the Las Vegas metro area, and at $1,355 per month, are up 5.9 percent from one year ago.
- **Forecast:** Low vacancy and strong renter demand should continue to support elevated rent growth in Las Vegas. For the full year of 2018, asking rents are forecast to increase by 7.4 percent, reaching $1,079 per month.

Rent Trends



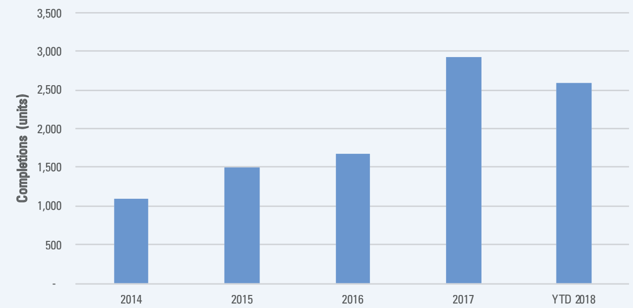
Sources: NorthMarq, Reis

Year-over-year, asking rents are up 6 percent

Development and Permitting

- Apartment construction has picked up to meet the renter demand being sparked by job growth. During the past four quarters, developers have completed approximately 3,300 apartments, including more than 1,000 units in each of the past two quarters.
- While developers have been active in recent years, the pace of new construction is likely to slow in the coming quarters. Approximately 2,200 apartment units are currently under construction, a decline of more than 30 percent from one quarter ago.
- After nearly 1,500 multifamily permits were pulled in the first half of the year, permitting slowed to approximately 350 units during the third quarter. Year to date, multifamily permitting in Las Vegas is down more than 30 percent when compared to the same period in 2017.
- **Forecast:** Multifamily builders are on pace to complete approximately 3,000 units in 2018, a slight increase from the number of new units that delivered in 2017. The pace of deliveries is expected to slow in 2019.

Development Trends



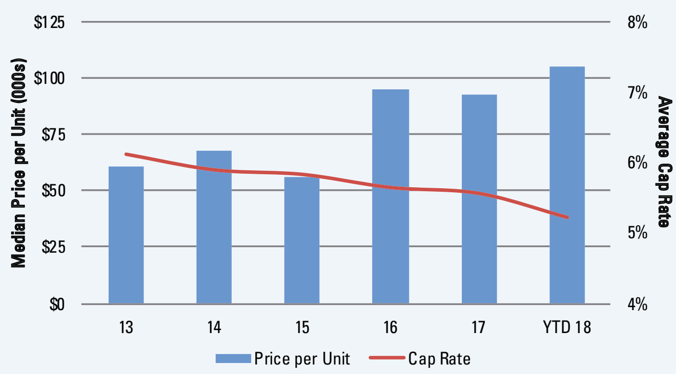
Sources: NorthMarq, Reis

The pace of new construction is likely to slow in the coming quarters

Multifamily Sales

- Investment activity in Las Vegas increased 13 percent during the third quarter, building on a similar rise during the second quarter. Sales velocity through the first three quarters of 2018 is down 6 percent from the same period in 2017.
- Multifamily properties traded within a wide range during the third quarter, with more than 25 percent of properties changing hands at more than $150,000 per unit, while a similar number of older, Class C complexes sold for less than $60,000 per unit. The median price thus far in 2018 is $104,800 per unit, 13 percent higher than the median price in 2017.
- Cap rates have compressed in 2018, as investor demand has strengthened and rents have surged. For much of 2018, cap rates were generally in the mid-4-percent to mid-5-percent range. The average cap rate in transactions during the third quarter was 5.1 percent, slightly lower than the average cap rate from the first half of the year.

Investment Trends



Investment activity increased 13 percent during the third quarter

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

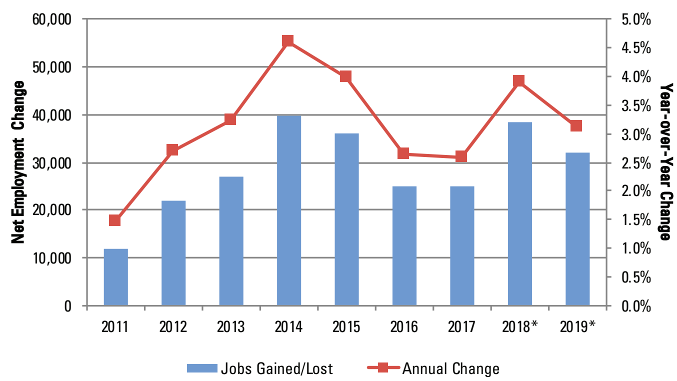
Property Name	Street Address	Units	Sales Price	Price/Unit
Crystal Creek/Boulevard/Villas at Mountain Villas	Multiple	1,028	$133,750,000	$130,107
Crossing at Green Valley & The Retreat	2312 N Green Valley Pky & 4248 Spencer St	504	$77,200,000	$153,175
Townhomes at Horizon Ridge	540 W Horizon Ridge Pky., Henderson	296	$64,100,000	$216,554
Liberty Village & Village Square	4870 & 5025 Nellis Oasis Ln., Las Vegas	1,129	$60,300,000	$53,410
Cornerstone Crossing	6666 W Washington Ave., Las Vegas	540	$49,750,000	$92,130
Pearl at St. Rose	10250 Spencer St., Las Vegas	270	$41,850,000	$155,000
Oasis Sierra	700 W Charleston Blvd., Las Vegas	208	$36,100,000	$173,558
Falcoln Landing	5067 Madre Mesa Dr., Las Vegas	198	$27,275,000	$137,753

Looking Ahead

The Las Vegas multifamily market is forecast to remain on an upward trajectory in 2019. Conditions have been improving in recent years as employment growth across a wide range of sectors has been quite strong. This surge in jobs has fueled renter demand for apartments and sparked new development. Population growth will also spark demand; the pace of population growth in Nevada is leading the country, with Clark County attracting the bulk of these new residents. In 2019, the pace of deliveries of new units is likely to slow, while demand is likely to grow at a fairly consistent pace. These trends will likely combine in a modest vacancy dip and some of the strongest rent growth in the country.

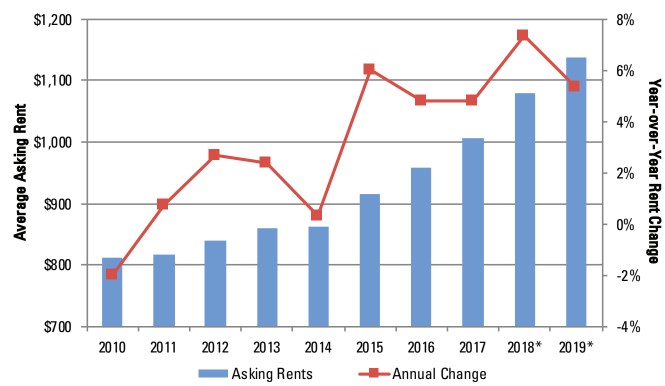
With rents rising, investors are paying higher prices and accepting lower cap rates for multifamily properties in Las Vegas. Cap rates have compressed in each of the past seven years, but it may prove difficult for continued decline in the year ahead, particularly if interest rates tick higher. A levelling off of cap rates appears most likely for 2019. Competition among buyers and strong rent growth have fueled cap rate compression to this point in the cycle, as buyers have priced properties based on anticipated strengthening pro-forma cash flows in addition to current financials.

Employee Forecast



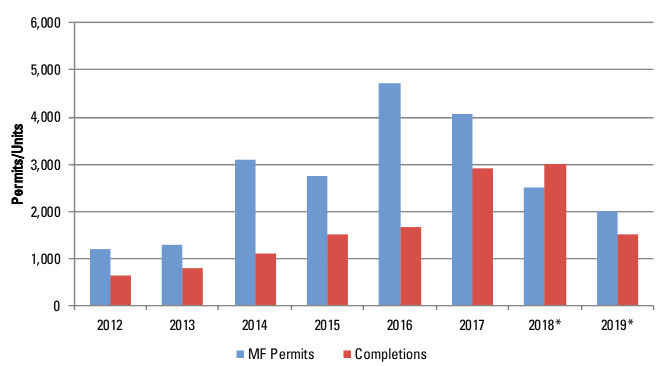
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



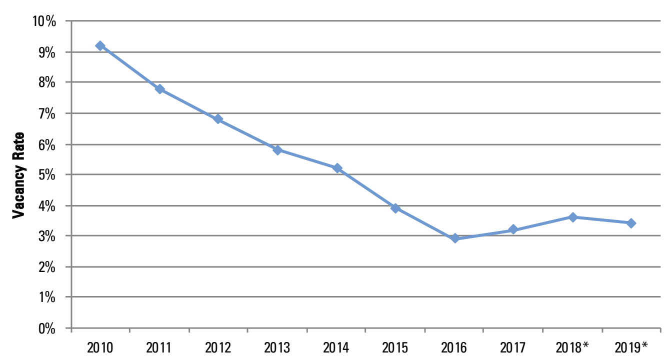
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq Multifamily

NorthMarq Multifamily has a market-leading position in multifamily property sales in markets across the U.S., offering commercial real estate investors a personalized approach to buying and selling multifamily and manufactured housing properties. These teams collaborate with NorthMarq Capital's debt and equity experts nationwide to provide a full range of capital markets services, developing innovative solutions for real estate investments.

NorthMarq Capital, the largest privately held commercial real estate financial intermediary in the U.S., provides debt, equity and commercial loan servicing through over 300 mortgage banking professionals in regional offices coast-to-coast and services a loan portfolio of more than $53 billion. For more information, please visit www.northmarq.com.

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