

Las Vegas Multifamily

Vacancy Likely to Dip as Fewer Units are Delivered

Highlights

- > The Las Vegas multifamily market steadied during the first quarter, with vacancy leveling off and deliveries slowing. Population growth remained strong, fueling employment expansion, and supporting renter demand for units.
- > Vacancy in Las Vegas was flat in the first quarter, holding at 4.2 percent. The rate is 100 basis points higher than one year ago.
- > Rent growth has been strong in recent quarters, although the pace slowed modestly during the first quarter. Asking rents reached \$1,112 per month, up 8.4 percent year over year.
- > Newer properties accounted for approximately half of the transaction activity during the first quarter, resulting in higher prices in closed deals. The median price reached \$174,500 per unit, while the average cap rate compressed to 4.9 percent.

Las Vegas Multifamily Market Overview

The Las Vegas multifamily market was more stable in first-quarter 2019, following a year of volatility in 2018. Last year, rents rose at one of the fastest rates in the country, but vacancy also increased in the second half of the year. During the first three months of this year, however, the vacancy rate steadied and rent growth slowed to a more sustainable pace. These trends are likely to continue in the year ahead, particularly with supply-side pressures easing as fewer units come online. Renter demand will continue to be supported by a healthy employment market, which has been expanding at an average rate of nearly 3 percent per year since 2016.

Market Indicators

Quarterly Changes	1Q/2019
Vacancy	➔
Rents	⬆
Transaction Activity.....	➔
Price Per Unit.....	⬆
Cap Rates.....	⬇

Summary Statistics

Las Vegas Market

Vacancy Rate.....	4.2%
- Change from 1Q 2018 (bps).....	+100
Asking Rents (per month).....	\$1,112
- Change from 1Q 2018 (bps).....	+8.4%
Median Sales Price (per unit YTD).....	\$174,500
Average Cap Rate (YTD).....	4.9%

Las Vegas Multifamily Market Overview (cont.)

The local multifamily market got off to a strong start in 2019. Transaction levels from the end of last year carried over to the beginning of this year, prices rose, and cap rates compressed. Investment demand is being fueled by the strong year-over-year rent growth being recorded across

the Las Vegas market. Cap rates have compressed during the past 24 months, with the average during the first quarter of 2019 below 5 percent. Anticipated rent increases are likely offsetting some buyers' concerns about lower cap rates.

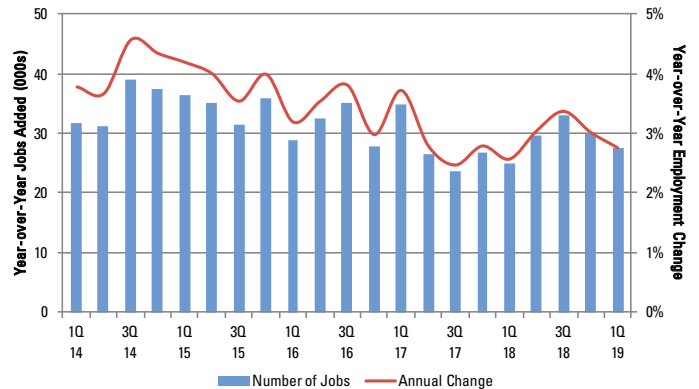
Submarket Statistics

Submarket Name	1Q 2019 Vacancy	1Q 2018 Vacancy	Annual Vacancy Change (BPS)	1Q 2019 Rents	1Q 2018 Rents
East	2.3%	2.3%	-	\$900	\$865
North	2.6%	2.4%	20	\$956	\$909
University	3.7%	3.9%	(20)	\$817	\$786
Spring Valley	3.9%	2.7%	120	\$960	\$900
North Central	4.0%	1.9%	210	\$866	\$809
Henderson/Southeast	4.5%	3.7%	80	\$1,273	\$1,200
West	5.7%	4.6%	110	\$1,355	\$1,279
Northeast	8.3%	3.9%	440	\$816	\$789

Employment

- > After expanding by more than 3 percent in 2018, the pace of employment growth in Las Vegas cooled modestly. Year-over-year as of the first quarter, employment has expanded 2.7 percent with the addition of 27,500 net new jobs.
- > The construction sector continues to expand at a healthy pace. More than 6,500 construction positions have been added during the past 12 months, an annual increase of 10.8 percent.
- > White-collar employment has been on the rise. The professional and business services sector posted an annual increase of nearly 4 percent with the addition of 5,500 new jobs, while the financial activities sector grew by 5.9 percent as 3,100 positions were created.
- > **Forecast:** The Las Vegas employment market is forecast to grow about 2.6 percent in 2019, expanding by 27,000 jobs. Employers have added an average of 28,000 workers annually during the past three years.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

The construction sector continues to expand at a healthy pace

Vacancy

- > Apartment vacancy was flat from fourth-quarter 2018 to first-quarter 2019, with the rate holding steady at 4.2 percent. Vacancy averaged 3.1 percent from the beginning of 2016 to the middle of 2018 before rising in the second half of last year.
- > Vacancy is 100 basis points higher than one year ago. This marks the third straight quarter where the vacancy rate has posted a year-over-year increase of at least 100 basis points. Deliveries accelerated in 2018, putting upward pressure on the local vacancy rate.
- > Vacancy in Class A units ended the first quarter at 4.7 percent, 90 basis points higher than one year ago. Class A vacancy rates are unlikely to trend much higher; vacancy in Class A units has not topped 5 percent in nearly five years.
- > **Forecast:** After rising in 2018, the Las Vegas vacancy rate is forecast to dip 20 basis points in 2019, ending the year at 4 percent. Local vacancy has averaged 3.6 percent since 2015.

Vacancy Trends



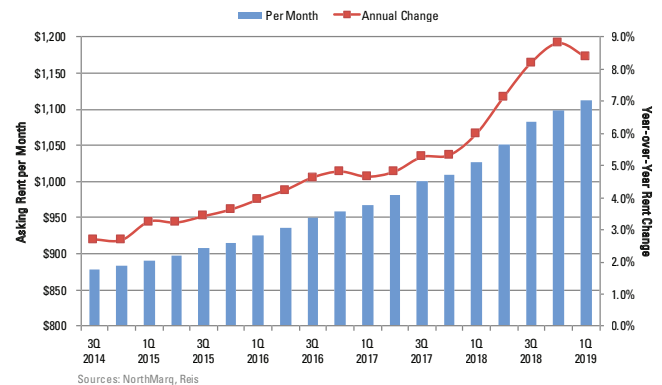
Sources: NorthMarq, Reis

Deliveries accelerated in 2018, putting upward pressure on the local vacancy rate

Rents

- > Rent growth accelerated in the second half of last year and the momentum has been sustained thus far in 2019. Asking rents ended the first quarter at \$1,112 per month, up 8.4 percent from one year ago.
- > Rent growth was quite strong in 2018 but tailed off during the first quarter. Asking rents rose 1.1 percent in the first quarter of this year, compared to a 1.6-percent increase in the first quarter of 2018.
- > Asking rents in the Class A segment of the market have increased by nearly \$100 per month in the past year, ending the first quarter at \$1,281 per month. Year over year, asking rents in Class A buildings have spiked 8 percent.
- > **Forecast:** Asking rents are forecast to increase by 4.5 percent in 2019, ending the year at approximately \$1,150 per month.

Rent Trends

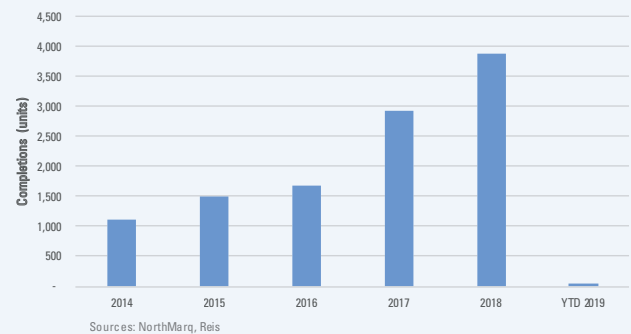


Rent growth was strong in 2018 but tailed off during the first quarter of 2019

Development and Permitting

- > More than 3,400 units have come online in Las Vegas in the past 12 months, but nearly all of the units were delivered in the final few quarters of 2018.
- > After an active last few years of new construction, the pace of development is likely to slow in the coming quarters. Projects totaling approximately 2,400 units are currently under construction, with deliveries likely to occur in the second half of this year.
- > Permitting slowed during the first quarter in response to rising land, labor and materials costs. Developers pulled permits for approximately 430 multifamily units in the first quarter, down about 40 percent from the total in the fourth quarter of last year. Permitting is also down when compared to the same period in 2018.
- > **Forecast:** Developers are expected to deliver approximately 2,000 apartment units in Las Vegas in 2019, approximately half of the total completions from 2018.

Development Trends

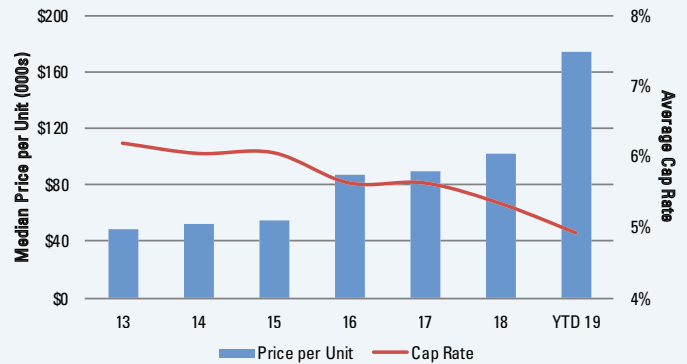


After an active few years of new construction, the pace of development is likely to slow

Multifamily Sales

- > Investment activity in Las Vegas was steady from the fourth quarter of 2018 to the first quarter of this year. There was a newer mix of assets selling during the first quarter; more than half of the complexes that sold during the first quarter had been built since 2000.
- > Prices spiked during the first quarter, with the median price reaching \$174,500 per unit. Approximately 25 percent of the properties that sold traded for more than \$200,000 per unit.
- > After ticking lower in 2018, cap rates compressed again to start 2019. Most properties traded with cap rates in the mid-4-percent to low 5-percent range. The average cap rate in transactions during the first quarter was 4.9 percent.

Investment Trends



Prices spiked during the first quarter

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

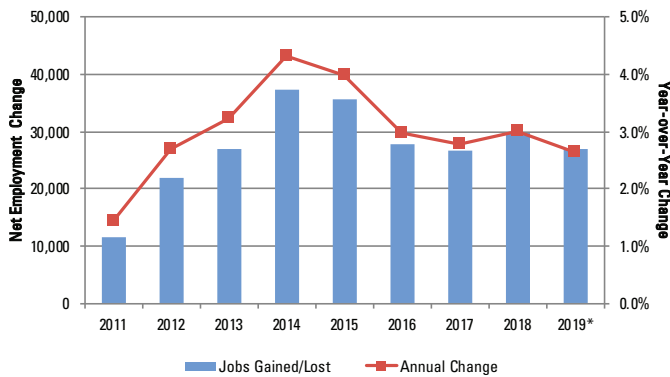
Property Name	Street Address	Units	Sales Price	Price/Unit
Ely at the Curve	6355 S Riley St., Las Vegas	455	\$87,140,000	\$191,516
Mi Casita & Pinewood Crossing	3600 Swenson St. & 764 E Twain Ave., Las Vegas	756	\$67,700,000	\$89,550
Liberty Square at Providence	7099 N Hualapai Way, Las Vegas	218	\$48,500,000	\$222,477
Willows at Town Center	9145 Echelon Point Dr., Las Vegas	188	\$37,750,000	\$200,798
Plata 47	4747 Pennwood Ave., Las Vegas	218	\$23,700,000	\$108,716
Madison at Black Mountain	640 E Horizon Dr., Henderson	124	\$19,600,000	\$158,064
Sunset Hills	2825 Bluegrass Ln., Henderson	120	\$17,800,000	\$148,333

Looking Ahead

The Las Vegas multifamily market is poised for another strong year of property performance in 2019. Local demand drivers are in place, and the pace of new development is scheduled to moderate in the year ahead, which should result in a slight vacancy decline and another year of rising rents. There are a few areas where deliveries will be concentrated this year, specifically the West and Henderson/Southeast submarkets. More than 70 percent of the total units scheduled to be delivered in the Las Vegas metro area in 2019 are located in these two submarkets.

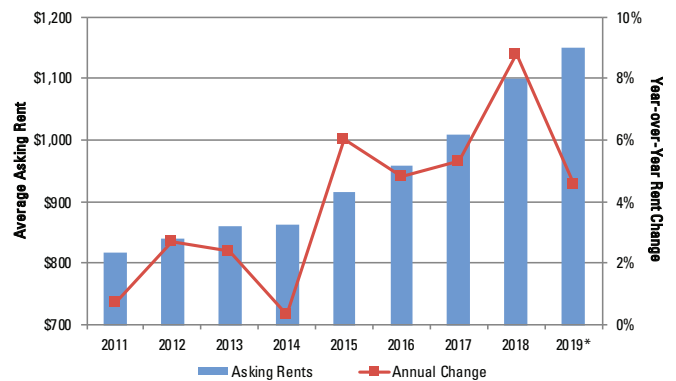
Investment momentum in Las Vegas began to build in 2016 and sales velocity has been quite consistent during the past few years. Transaction activity in 2019 is off to a steady start, and prices have pushed higher as newer properties have sold. Going forward, pricing trends should generally be positive but will also be a function of what properties are marketed for sale. If the 1980s- and 1990s-vintage units that usually account for the bulk of the sales activity return to the market, the median price will likely dip below the levels recorded during the first quarter.

Employee Forecast



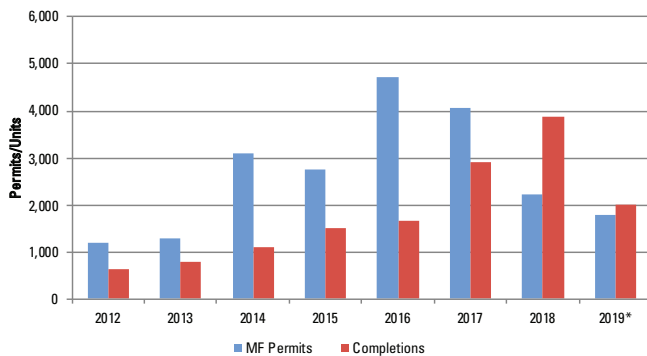
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



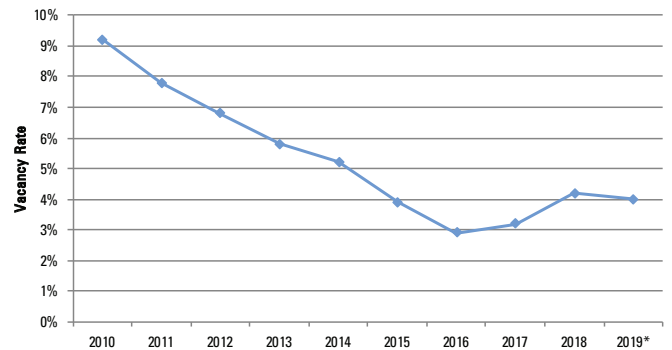
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$13 billion, loan servicing portfolio to more than \$57 billion and the multi-year tenure of our more than 550 people.

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