

Market Insights

Las Vegas Multifamily 3Q 2021



Construction Activity



4,786

Units under construction

633

Units delivered (YTD)

Market Fundamentals



3.0%

Vacancy

-140bps

Year over year change

\$1,347

Asking Rent

+15.5%

Year over year change

Transaction Activity



\$171,500

Median sales price per unit (YTD)

4.1%

Cap rates (YTD)

Vacancy Posts Sharp Decline, Rents on the Rise

Highlights

- The Las Vegas apartment market is on an upswing, with property fundamentals improving and businesses bringing back workers. The outlook for 2022 has brightened, with more business and trade show travel expected, which should support the local economy.
- After holding mostly steady for more than a year, the local vacancy rate has improved significantly in each of the past two quarters. The rate fell 80 basis points to 3 percent in the third quarter; year over year, vacancy is down 140 basis points.
- Rents rose nearly 8 percent in the third quarter, building on healthy gains in the preceding three months and reaching \$1,347 per month. In the past year, rents have advanced 15.5 percent.
- Investment activity has been elevated in each of the past two quarters. The total transaction count for 2021 has already topped levels from all of last year. Prices are rising in response to heightened investor demand and improving property fundamentals. The median price in sales thus far in 2021 is \$171,500 per unit, while cap rates have averaged 4.1 percent.

Las Vegas Multifamily Market Overview

The Las Vegas multifamily market posted strong operational performance in the third quarter, with rents rising at a very rapid clip and vacancies tightening to their lowest levels in several years. The region is benefitting from a rapid rate of economic recovery, as well as a lifting of the uncertainty that dragged on the market throughout much of 2020. Renter demand is gaining momentum as the economy reopens, resulting in a sharp rise in rents. Developers are rushing to meet the demand by pulling permits for new units and moving additional projects into the development pipeline. Vacancy in the large West Las Vegas submarket has been cut nearly in half in recent years, and the submarket is expected to be an active location for new development in the next several quarters.

With property fundamentals strengthening, investment activity has gained momentum in 2021, a trend that continued in the third quarter. Investment demand has pushed prices higher and compressed cap rates, particularly in the months since the local economy fully reopened during the summer. The pace of transactions during the third quarter was nearly identical to levels from the previous quarter, but transaction activity to this point in 2021 is more than double what it was during the same period one year ago. The most competitive investment activity in the market has been in the Spring Valley area. Year to date, about 15 percent of transactions have occurred in this submarket alone, where the median sale price is nearly \$255,000 per unit and the average cap rate is 4 percent.

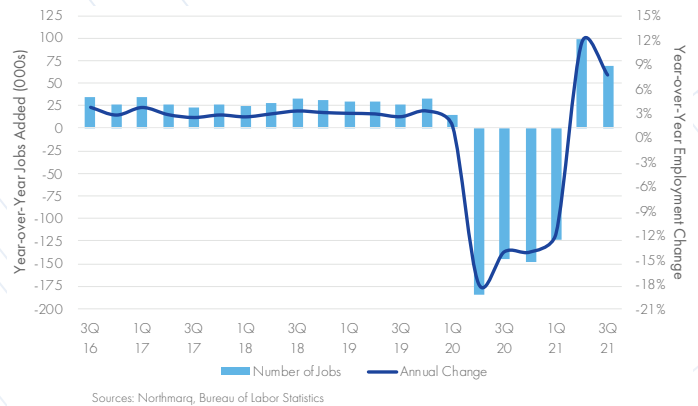
Employment

- Year over year through the third quarter, total employment in Las Vegas has expanded by 7.7 percent, with the addition of nearly 70,000 jobs. The labor market has not yet fully recovered from the job losses recorded in early 2020, however, at the current pace of growth, local employment is on pace to return to its pre-COVID peak in 2022.
- While hospitality and gaming remain the dominant industries in Las Vegas, the local economy is diversifying a bit. The professional and business services sector has been expanding at a rapid pace in recent years and is one of the top performers in 2021. Year over year, professional and business employment has increased by 11.2 percent, adding nearly 15,000 jobs.
- DraftKings recently announced the expansion of the company's Las Vegas office. The sports betting company will open a new \$400 million office in early 2022 and plans to employ an additional 1,000 workers at the new facility.
- Forecast:** Employers are on pace to expand payrolls by nearly 9 percent in 2021, adding approximately 80,000 jobs.



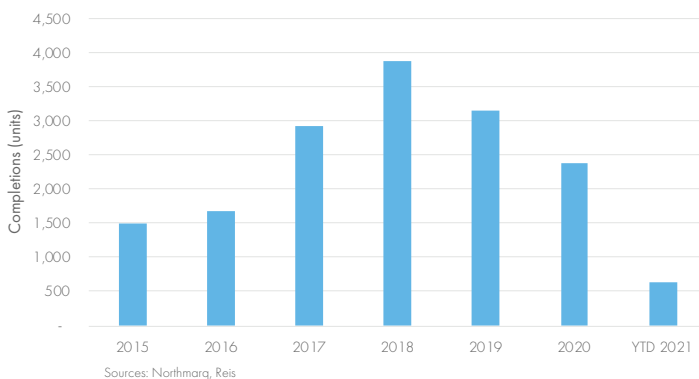
Year over year, total employment in Las Vegas has expanded by 7.7 percent.

Employment Overview



Deliveries are forecast to reach 1,450 units in 2021.

Development Trends



Development and Permitting

- After peaking in 2018, apartment construction has slowed in recent years, with activity restricted by rising materials costs and a labor shortage. Developers delivered approximately 630 units through the first three quarters of this year, down 40 percent from 2020 levels.
- With economic activity picking up, developers are bringing new projects into the construction pipeline to meet demand. At the end of the third quarter, projects totaling nearly 4,800 units were under construction. The number of units under construction is up 20 percent from one year ago.
- Permitting for multifamily projects has accelerated in 2021. Developers have pulled permits for approximately 2,500 units through the third quarter, up nearly 30 percent from year-ago levels. Multifamily permitting averaged approximately 3,400 units per year from 2016 to 2020.
- Forecast:** While apartment deliveries have remained modest to this point in 2021, there are several large projects expected to be delivered by the end of the year. Deliveries are forecast to reach 1,450 units in 2021, after more than 2,000 units came online last year.

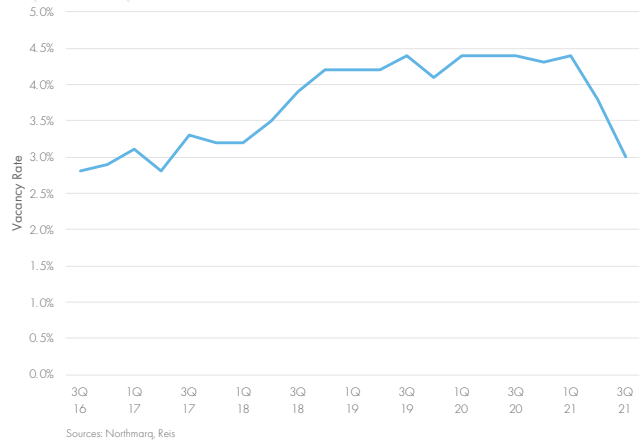
Vacancy

- After a sharp decline in the second quarter, vacancy in Las Vegas posted another significant improvement during the third quarter. The rate dropped 80 basis points in the third quarter, falling to 3 percent.
- The current vacancy rate is 140 basis points lower than the figure from one year earlier. The 3 percent rate is the lowest quarterly figure in the market since mid-2017. Local vacancy has averaged 4.3 percent since the beginning of 2019.
- Class A units in Las Vegas, which make up the majority of inventory in the market, posted a 2.8 percent vacancy rate in the third quarter, down 80 basis points from levels during the second quarter. Absorption in the Class A segment totaled nearly 950 units in the third quarter.
- **Forecast:** Renter demand is forecast to remain elevated through the remainder of this year and well into 2022, as the economy recovers at a rapid pace. Vacancy is forecast to end 2021 at 2.9 percent, 140 basis points lower than one year earlier and the lowest year-end rate since 2016.



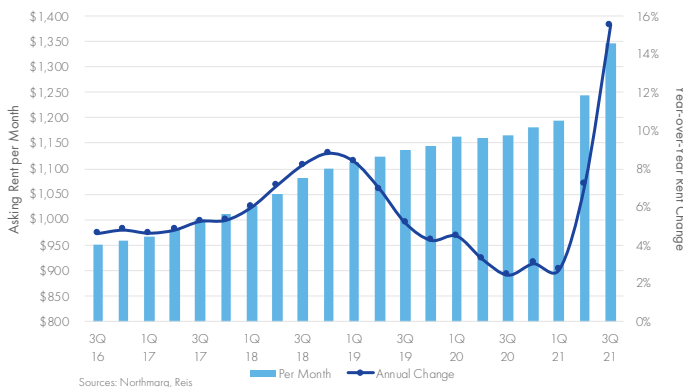
Vacancy dropped 80 basis points in the third quarter, falling to 3 percent.

Vacancy Trends



Year over year, local asking rents have spiked by 15.5 percent.

Rent Trends



Rents

- Apartment rents continued an upward surge in the third quarter, rising nearly 8 percent to \$1,347 per month. The recent increase follows a 4.3 percent gain recorded during the second quarter.
- Year over year, local asking rents have spiked by 15.5 percent. This is the strongest pace of rent growth in Las Vegas in more than 20 years.
- Vacancy rates in Henderson have been tightening in recent quarters, dipping to 2.9 percent in the third quarter. The tightening conditions have sparked rent gains; asking rents in the submarket reached \$1,615 per month in the third quarter, up nearly \$200 per month from one year earlier.
- **Forecast:** The Las Vegas multifamily market is forecast to continue to record rapid rent growth for at least a few more quarters, as strong economic growth causes demand for rentals to outpace supply. Rents are forecast to rise more than 18 percent in 2021, with asking rents expected to approach \$1,400 per month by year-end.

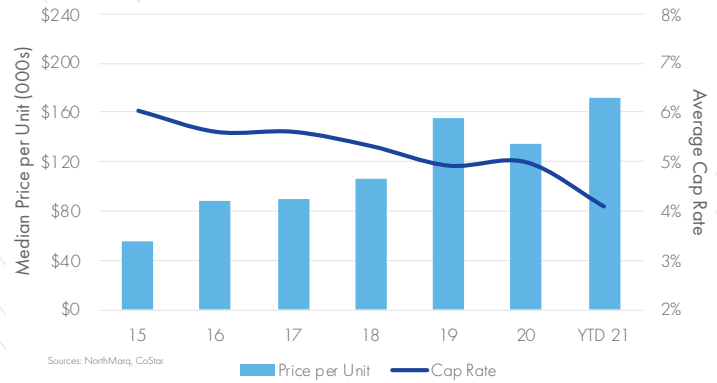
Multifamily Sales

- Sales velocity remained active during the third quarter, with the number of transactions closely tracking activity levels from the second quarter. Sales volume over the first nine months of 2021 more than doubled levels recorded in the same period last year.
- With activity in 2021 accelerating, prices are on the rise. The median price through the third quarter was approximately \$171,500 per unit, up more than 25 percent from the median price in 2020.
- Cap rates have compressed in Las Vegas as the market's economic outlook has improved. Cap rates have averaged about 4.1 percent year to date, but since May of this year, nearly all transactions have closed with cap rates at 4 percent or lower.



Since May, nearly all transactions have closed with cap rates at 4 percent or lower.

Investment Trends



Recent Transactions

Multifamily Sales Activity

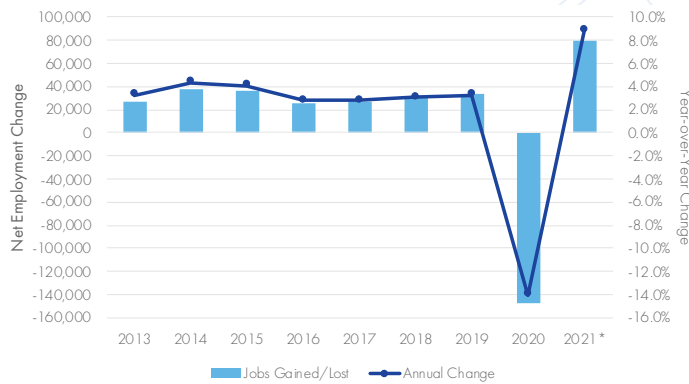
| Property Name | Street Address | Units | Sales Price | Price/Unit |
|--|------------------------------------|-------|---------------|------------|
| The Pasiley and Pointe at Centennial Hills | 5850 Sky Pointe Dr., Las Vegas | 624 | \$160,000,000 | \$256,410 |
| Ely at Spring Valley | 9750 Peace Way, Las Vegas | 180 | \$48,600,000 | \$270,000 |
| Tides on West Cheyenne | 5507 W Cheyenne Ave., Las Vegas | 180 | \$37,050,000 | \$205,833 |
| Tides at Spring Mountain | 3650 Stober Blvd., Las Vegas | 225 | \$35,500,000 | \$157,778 |
| Tides on Mountain Vista | 3950 Mountain Vista St., Las Vegas | 178 | \$29,000,000 | \$162,921 |
| Greystone Park Apartments | 2635 Karen Ct., Las Vegas | 278 | \$28,500,000 | \$102,518 |

Looking Ahead

The Las Vegas multifamily market is poised for continued strengthening through the remainder of this year and into 2022. Property fundamentals are already posting a very healthy performance, even as the local economy has not fully rebounded to pre-COVID levels. The latest visitor volumes are down about 10 percent from comparable periods in 2019, but with a mostly full slate of in-person trade shows scheduled for 2022, additional economic momentum is likely to build throughout the next year. This growth should fuel renter demand for apartments at a time when vacancy rates are likely to remain around 3 percent. The combination of elevated demand and minimal vacancies will allow for additional rent increases in the coming quarters.

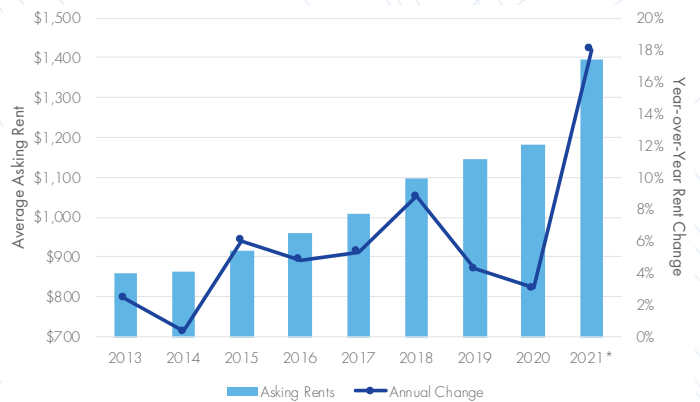
The investment market in Las Vegas will likely remain very competitive for the next several quarters, as buyers seek to acquire properties in a high-growth market where operating revenues are on the rise. The availability of interest-only financing is expected to continue to support investment activity, even at cap rates that have compressed by 100 basis points or more in the past 12 to 18 months. Transactions are being underwritten with the expectation of additional rent increases for the next several periods, with vacancies likely to remain low and resumed in-migration from other markets bolstering renter demand for units.

Employment Forecast



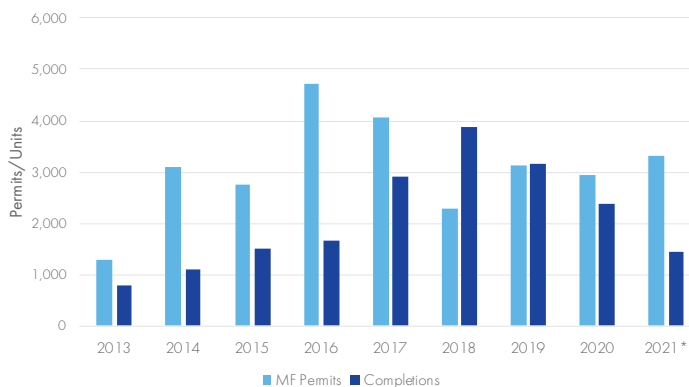
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



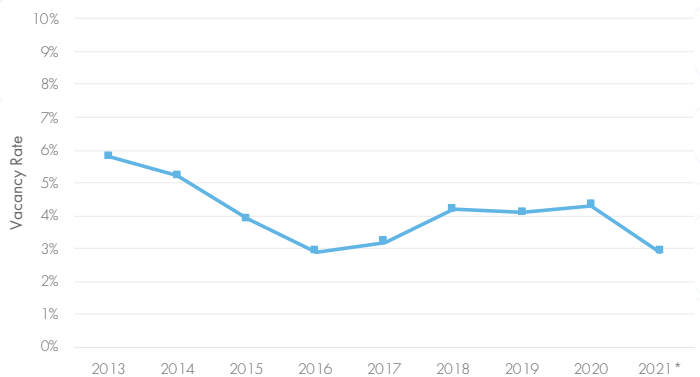
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.