Northmarq

MARKET INSIGHTS

Development activity gaining momentum

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	7,282
UNITS DELIVERED	1,277

MARKET FUNDAMENTALS

VACANCY RATE	6.8%
YEAR-OVER-YEAR CHANGE	+400bps
ASKING RENTS	$1,484
YEAR-OVER-YEAR CHANGE	+1.7%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$218,600

Las Vegas Multifamily
1Q 2023

HIGHLIGHTS

- Operating conditions in the Las Vegas multifamily market were impacted by the January 2023 expiration of Clark County's rental assistance program. The vacancy rate, which had remained near all-time lows for more than a year, spiked at the start of this year.
- Vacancy spiked 410 basis points in the first quarter to 6.8 percent. The rate had maintained artificially low levels throughout nearly all of 2022. The region's long-term rate is between 4 percent and 5 percent.
- Asking rents declined at the start of 2023, following rapid increases in recent years. Rents fell by 2.3 percent in the last three months to $1,484 per month. Year over year, asking rents advanced by 1.7 percent.
- The investment market cooled at the start of the year with fewer properties selling during the first quarter. The median price year to date reached $218,600 per unit, while cap rates ranged from 4.75 percent to 5.5 percent.

LAS VEGAS MULTIFAMILY MARKET OVERVIEW

Following several consecutive periods of extremely strong performance, the Las Vegas multifamily market reacted to the elimination of local rental assistance programs during the first quarter. The near-term result was a spike in the local vacancy rate, which had been held artificially low by a handful of tenant support initiatives. The trends that emerged during the first quarter are expected to be isolated and the market should stabilize after the one-time disruption. Market conditions were also impacted by an increase in new supply; developers delivered nearly 1,300 units at the start of 2023, or more than half of the total for the full year in 2022. The supply-demand imbalance negatively impacted rents, which had been on a steep upward climb since 2021.

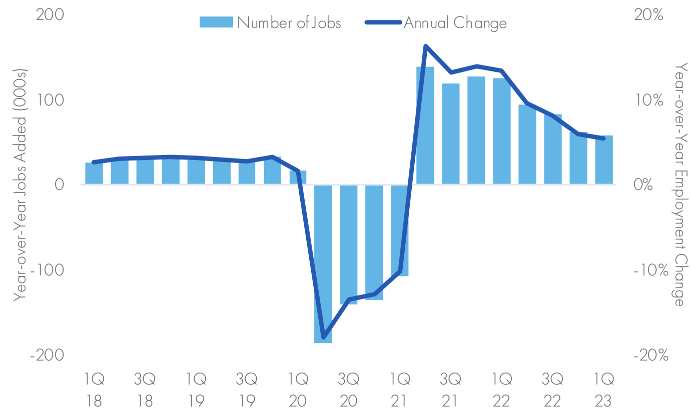
Multifamily transaction activity slowed at the start of 2023, a continuation of a trend that emerged in the second half of last year. Only a few significant properties changed hands during the first quarter, with transaction levels restricted by tighter debt markets and economic uncertainty. The lack of significant sales volume and a greater percentage of Class C properties that sold resulted in some volatile pricing and cap rate trends. The median sales price to this point in 2023 is $218,600 per unit, 12 percent lower than the median price in 2022. Cap rates ranged from about 4.75 percent to 5.5 percent in the first quarter, which reflects the mix of properties that sold as well as the changing capital markets.

EMPLOYMENT

- Employers in Las Vegas continue to add workers to payrolls. During the first quarter, 15,100 new jobs were created, and year over year, total employment expanded by 5.5 percent with the addition of 58,100 positions.
- The healthcare and social assistance sector in Las Vegas has been one of the top-performing industries in recent quarters. Employment in this sector grew by 10,000 workers during the past 12 months, expanding by nearly 10 percent.
- The Oakland Athletics have entered into an agreement to purchase the Tropicana Hotel site with plans for a new $1.5 billion ballpark. Although development details have not yet been released, the site could be finished within the next five years. Upon completion, the team's potential move to Las Vegas would create several thousand jobs in the region.
- **FORECAST:** The pace of growth in Las Vegas will likely be stronger than in most other markets in the country in 2023. Continued demand for leisure and business travel should support the region's key industries. Employers are forecast to add roughly 30,000 workers to payrolls in 2023, an annual increase of 2.7 percent.

Year over year, total employment expanded by 5.5 percent.

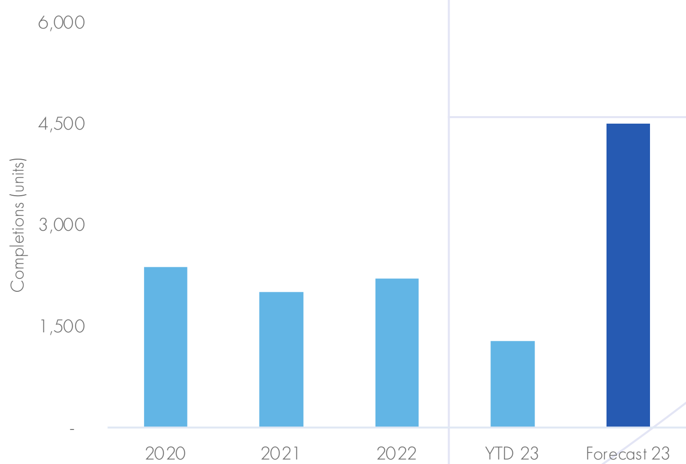
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling nearly 7,300 units are currently under construction.

DEVELOPMENT TRENDS



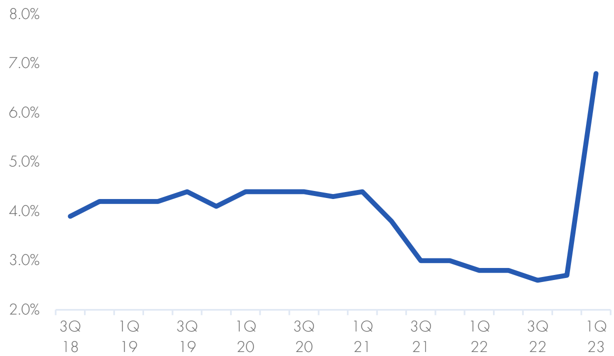
Sources: Northmarq, Reis, CoStar

DEVELOPMENT & PERMITTING

- Projects totaling approximately 1,275 units came online during the first quarter, after fewer than 150 units were delivered in the final few months of last year.
- Construction activity remains elevated with projects totaling nearly 7,300 units currently under construction throughout Las Vegas, up 32 percent from one year ago. Approximately one-third of projects in the construction pipeline are located in the Spring Valley submarket. Approximately 2,000 units have been delivered in Spring Valley since 2019.
- Multifamily permitting slowed during the first quarter with developers pulling permits for approximately 700 units to start the year, down 40 percent from the same period in 2022. Levels have remained elevated since 2016, averaging nearly 3,500 permits per year in that time.
- **FORECAST:** Multifamily developers will maintain a strong pace of deliveries for the remainder of this year, as projects totaling roughly 4,500 units are forecast to come online in 2023.

The region's long-term average range is between 4-5 percent.

VACANCY TRENDS



Sources: Northmarq, Reis, Yardi

VACANCY

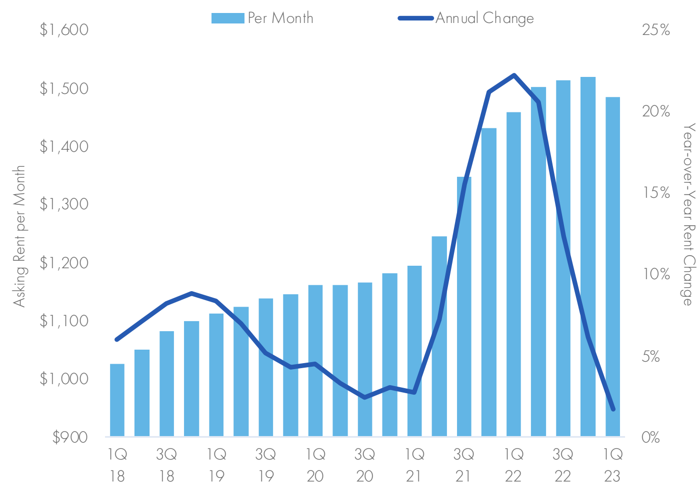
- The suspension of renter assistance programs at the beginning of this year resulted in a spike in the vacancy rate, which had previously remained near record lows for more than a year. During the first quarter, the vacancy rate surged 410 basis points, reaching 6.8 percent.
- The spike at the beginning of 2023 resulted in a year-over-year vacancy increase totaling 400 basis points. The region's long-term average range is between 4 percent and 5 percent.
- Even as new units have come online, renter demand remains elevated for the area's top-tier properties. The vacancy rate in the Class A segment ended the first quarter at 2.1 percent, 30 basis points lower than one year ago.
- **FORECAST:** Vacancy is forecast to end the year at 6 percent, after remaining below 5 percent since 2015.

RENTS

- Asking rents dropped in recent months, marking the first quarterly decline since mid-2020. Area rents retreated by 2.3 percent during the first quarter to $1,484 per month.
- Despite the decline at the beginning of this year, average asking rents are up 1.7 percent during the past 12 months. The recent slowing follows robust rent increases in 2021 and 2022.
- Asking rents advanced in nearly all of the Las Vegas submarkets during the past year. Rent growth was fastest in the Henderson/Southeast submarket, one of the more expensive parts of the region. In this submarket, rents rose 3.2 percent during the past 12 months, reaching $1,805 per month.
- **FORECAST:** Despite a slow start to the year, demand is expected to be strong enough to support modest rent increases in the second half of 2023. For the full year, asking rents are forecast to tick higher by 0.4 percent, finishing 2023 at $1,525 per month.

Asking rents are up 1.7 percent during the past 12 months.

RENT TRENDS



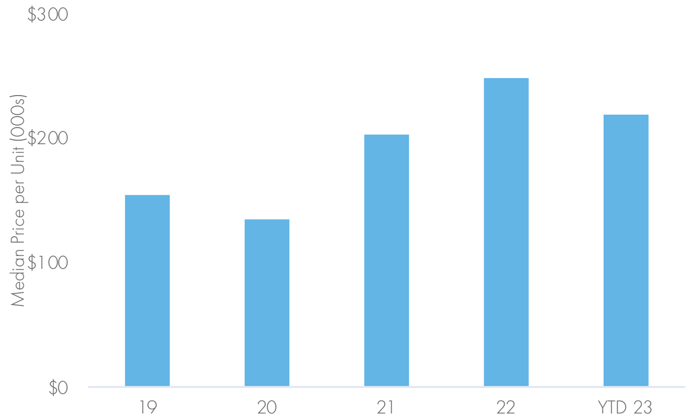
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Multifamily transaction activity was limited at the start of the year, as sales velocity in the first quarter slowed by more than 60 percent from the previous quarter. Following a strong first half of 2022, rising interest rates have restricted transaction volume in recent quarters.
- In the first quarter, only three properties consisting of 100 units or more traded. During the same period in 2022, there were 18 sales in this size range.
- With only a handful of properties trading in recent months, per-unit pricing trends were more volatile than during prior periods when a higher volume of transactions smoothed out market pricing. The median sales price thus far in 2023 is $218,600 per unit, down 12 percent from the median price last year.
- In the transactions that closed during the first quarter, cap rates were generally between 4.75 percent and 5.5 percent. One year ago, cap rates were closer to 3.5 percent.

The median sales price thus far in 2023 is $218,600 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

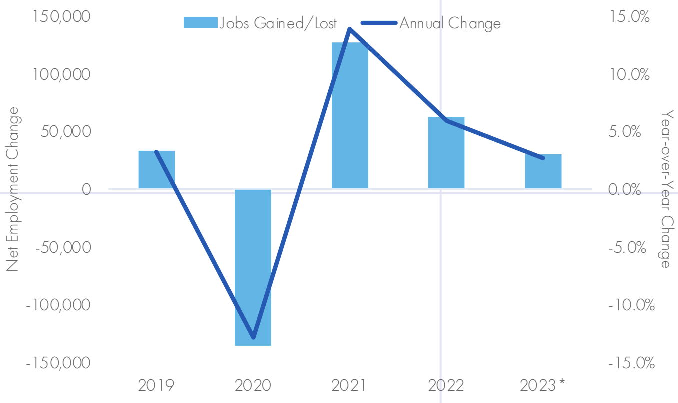
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Tribeca North Luxury Apartment Homes	3825 Craig Crossing Dr., North Las Vegas	312	$81,000,000	$259,615
Vista Del Rey Apartments	6701 Del Rey Ave., Las Vegas	192	$34,100,000	$177,604
Bonanza Apartments	1720 W Bonanza Rd., Las Vegas	138	$13,320,000	$96,522

LOOKING AHEAD

The volatility that impacted the Las Vegas multifamily market in the first quarter is not expected to linger over operations in the coming months and conditions should stabilize. The overall health of the market is strong and the long-term demand drivers remain firmly in place. Forecasts for future demand will support continued development. The market's long-term growth trajectory—fueled by in-migration from nearby, more expensive markets—was illustrated during the first quarter when the Oakland Athletics entered into an agreement for a future Las Vegas stadium and relocation of the franchise. This move is a high-profile example of the larger trend that has been supporting housing demand and above-average economic growth in the region for the past several years.

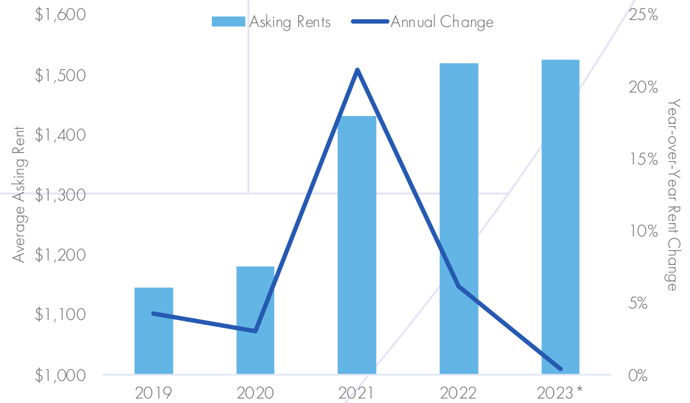
Transaction activity in the Las Vegas multifamily market will likely remain limited for the next few quarters as investors adjust expectations to the new capital environment. Las Vegas is being impacted by trends in which higher interest rates are restricting investment activity, with high-growth markets generally receiving the greatest scrutiny as buyers evaluate acquisition opportunities. While it may take a few more periods to adjust to the current landscape, the Las Vegas area is expected to eventually become a popular market for investment activity. The health of the Class A segment will be of particular interest to investors in the coming months. With delivery activity picking up, the pace of lease-up and the rents that new projects are able to capture will be key metrics for investors.

EMPLOYMENT FORECAST



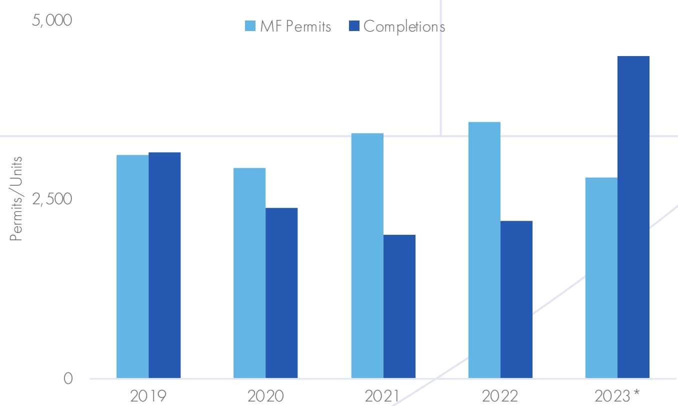
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



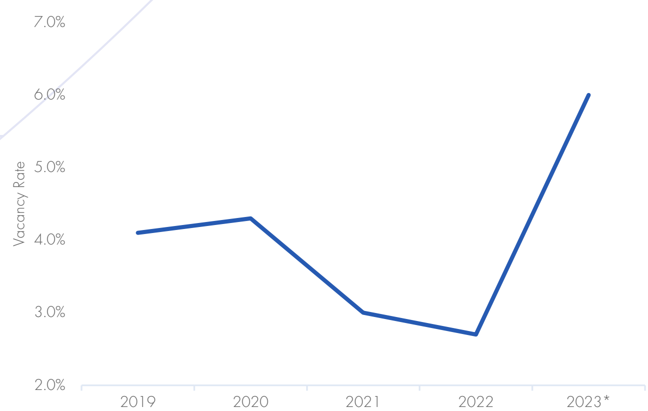
** Year End Forecast*
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, Reis, Yardi

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