Multifamily Research
Market Report

First Quarter 2018

Las Vegas Metro Area

Las Vegas Labor Market Resilient As Development Slides From Cycle High

Housing demand underpinned by robust job growth. Boosted by significant hiring as the late recovery fully engaged in Las Vegas, housing demand has risen considerably over the past several years. Payrolls in the metro are expanding much faster than the national average, providing a tailwind to both rental housing and single-family homes. However, the majority of affordable single-family homes require much longer commutes to employment hubs, generating elevated demand for apartments. Despite the largest development pipeline of the cycle in 2017, vacancy contracted to the lowest level in over a decade. The trend shows little signs of slowing, providing large increases in the average asking rent as demand remains robust.

Builders eye sites along I-215 in Southwest Las Vegas for development. Seeking to supply the workforce housing necessary in the metro, construction sites along I-215 have emerged as popular locations for new projects. Roughly a third of this year's completions will be along the freeway southwest of the core. These new units in suburban locations provide numerous amenities and quick access to major employers. Solid net absorption in these areas will promote above-average rent growth as 2018 progresses.

Multifamily 2018 Outlook

3,280 units will be completed

Construction: Development declines moderately from the cycle-high completions mark reached in 2017.

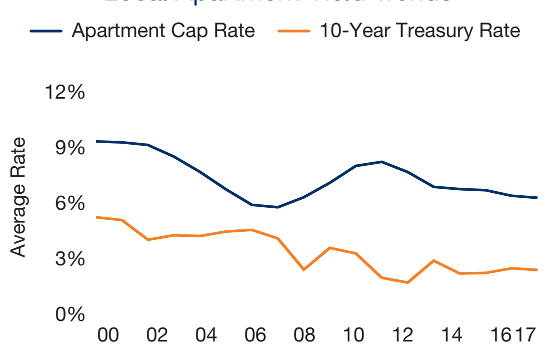
30 basis point decrease in vacancy

Vacancy: Slowing completions and continued labor market expansion produce net absorption in excess of supply, contracting vacancy to 5.2 percent.

5.8% increase in effective rents

Rents: The average effective rent climbs to $1,010 per month this year, eclipsing the previous cycle-high by nearly $200 per month.

Local Apartment Yield Trends



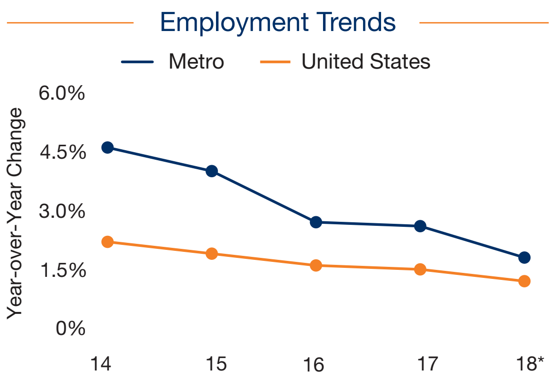
Sources: CoStar Group, Inc.; Real Capital Analytics

Investment Trends

- Coastal buyers from California continue to be drawn to Las Vegas multifamily assets. Cap rates that can exceed their home markets by more than 200 basis points are encouraging both institutional and private investors to scour the metro for quality long-term holdings.
- While new construction is targeting suburban locations, investors have overwhelmingly allocated to the core, where development is much more benign. Cap rates in these areas can also provide additional yield, with opportunities to realize higher rents through facility modernization.
- Lower competitive bidding on properties in the northern first-tier suburbs created a wide gap between prices realized there relative to the rest of the metro. Yet, the high-5 percent cap rates in this area will draw more income-oriented buyers throughout 2018.

Las Vegas

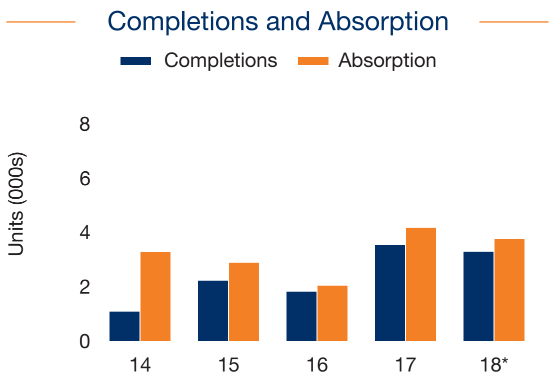
4Q17 – 12-MONTH PERIOD



EMPLOYMENT:

2.6% increase in total employment Y-O-Y

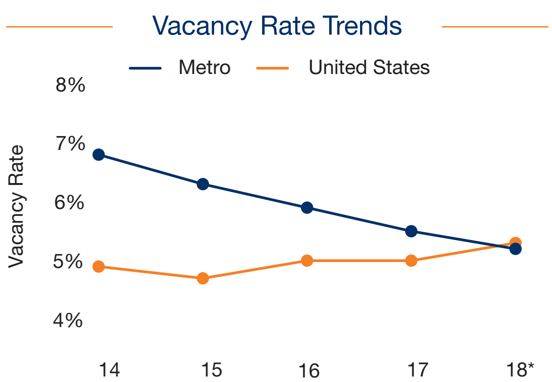
- Over the past year, Las Vegas employers created 24,900 new jobs, expanding the labor market by 2.6 percent. Growth was led by the construction sector, which accounted for one out of every four new positions.
- Office-using firms are hiring faster than the broader metro, with payrolls in the sector rising 1.9 percent during the last four quarters.



CONSTRUCTION:

3,530 units completed Y-O-Y

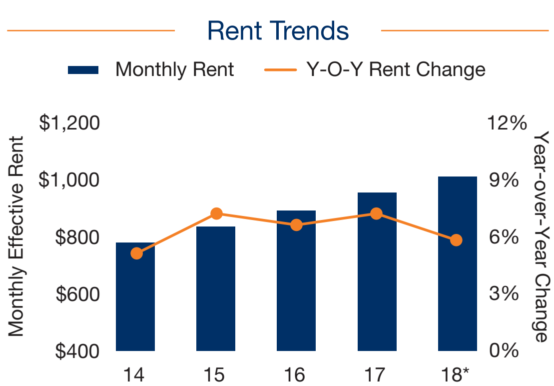
- Completions rose sharply in 2017, with projects focused primarily in the Southwest Las Vegas submarket, where 1,060 units were brought online.
- Deliveries will remain elevated throughout 2018, with 3,280 rentals expected by year end. Locations along I-215 in the southwestern portion of the metro dominate the pipeline.



VACANCY:

40 basis point decrease in vacancy Y-O-Y

- Despite the increase in new apartments, vacancy contracted 40 basis points to 5.5 percent as net absorption surpassed deliveries by more than 600 rentals.
- Absorption was strongest throughout the southern half of the metro, led by the Southwest Las Vegas submarket. Vacancy near UNLV and the Strip fell 190 basis points to 5.5 percent as no new units came online.



RENTS:

7.2% increase in effective rents Y-O-Y

- Low vacancy and accelerating net absorption fueled a substantial rise in the average effective rent last year. It rose 7.2 percent to $955 per month.
- Two submarkets outperformed the broader metro by a wide margin in 2017. The Summerlin/The Lakes and University/The Strip submarkets posted growth of 9.5 percent and 8.3 percent, respectively.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*
287,300

4Q17 POPULATION AGE 20-34
(Percent of total population)
Metro **22%**
U.S. 21%

4Q17 MEDIAN HOUSEHOLD INCOME
Metro **$55,148**
U.S. Median $58,714

FIVE-YEAR HOUSEHOLD GROWTH*
120,000

POPULATION OF AGE 25+
PERCENT WITH BACHELOR'S DEGREE+**
Metro **22%**
U.S. Average 29%

4Q17 TOTAL HOUSEHOLDS
45% Rent
55% Own

* 2017-2022

**2016

SUBMARKET TRENDS

Lowest Vacancy Rates 4Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
Summerlin/The Lakes	4.4%	-80	$1,167	9.5%
Southwest Las Vegas	4.6%	-80	$1,157	6.6%
Henderson	5.1%	20	$1,110	6.7%
Northwest Las Vegas	5.1%	-20	$986	7.1%
West Las Vegas	5.2%	0	$829	6.8%
South Las Vegas	5.3%	30	$1,183	7.3%
University/The Strip	5.5%	-190	$825	8.3%
Central Las Vegas	5.7%	20	$754	6.2%
East Las Vegas	6.0%	10	$832	4.5%
North Las Vegas	6.1%	80	$968	4.4%
Green Valley	6.6%	-50	$1,112	6.2%
Overall Metro	**5.5%**	**-40**	**$955**	**7.2%**

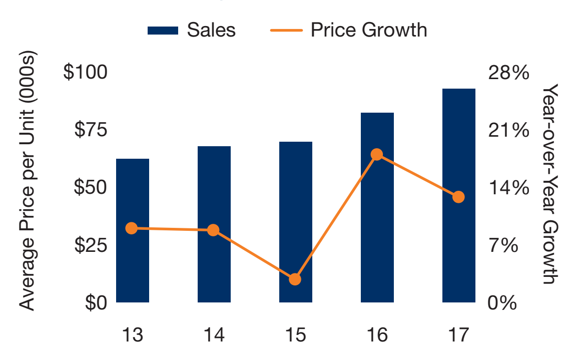
SALES TRENDS

Transaction Activity Remains Steady as Prices March Higher; Core Properties Garner Focus

- The pace of transactions was roughly unchanged over the past year, boosted by a focus on Class B and C properties. Assets near the core and the Strip comprised the bulk of the activity.
- The average price per unit advanced nearly 13 percent last year, reaching above $92,000. Properties in Northwest Las Vegas and South Paradise garnered the highest prices, exchanging ownership above $120,000 per door.

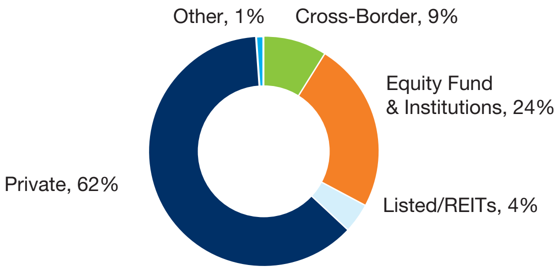
Outlook: Relative economic strength and high-5 cap rates will draw investors from the West Coast.

Sales Trends

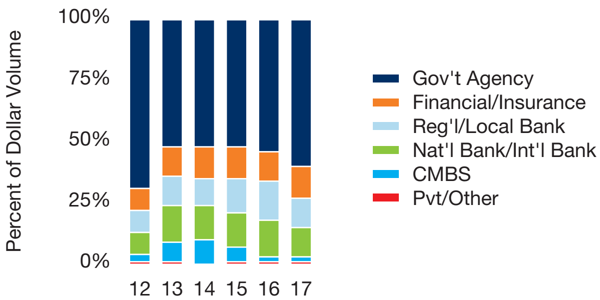


Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

2017 Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



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

- **Fed raises benchmark interest rate, plots path for additional increases.** The Federal Reserve increased the federal funds rate by 25 basis points, lifting the overnight lending rate to 1.5 percent. While the Fed noted that the inflation outlook had moderated in recent months, an upgraded economic forecast factoring in recent tax cuts and a rollback in regulation strengthened growth projections for the next two years. As a result, the Fed has guided toward two additional rate hikes this year, while setting the stage for as many as four increases in 2019.
- **Lending costs rise alongside Fed rate increase.** As the Federal Reserve lifts interest rates, lenders will face a rising cost of capital, which may lead to higher lending rates for investors. However, in an effort to compete for loan demand, lenders may also choose to absorb a portion of the cost increases. While higher borrowing costs may prompt buyers to seek higher cap rates, the positive economic outlook should provide rent growth that outpaces inflation over the coming year. As a result, sellers remain committed to higher asking prices, which has begun to widen an expectation gap as property performance and demand trends remain positive.
- **The capital markets environment continues to be highly competitive.** Government agencies continue to consume the largest share, just slightly over 50 percent, of the apartment lending market. National and regional banks control approximately a quarter of the market. Global markets and foreign central banks are keeping pressure down on long-term interest rates. Pricing resides in the 4 percent realm with maximum leverage of 75 percent. Portfolio lenders will typically require loan-to-value ratios closer to 70 percent with interest rates in the high-3 to mid-4 percent range. The passage of tax reform and rising fiscal stimulus will keep the U.S. economy growing strongly and rental demand will remain high with the national apartment vacancy rate at 5 percent at the end of 2017.

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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; Real Page, Inc.; TWR/Dodge Pipeline; U.S. Census Bureau