

Las Vegas Multifamily

Job Losses Linger, but Vacancy Holds Steady

Highlights

- > The Las Vegas multifamily market has held relatively steady, despite the local economy facing significant headwinds. Quarterly vacancy figures have been stable throughout much of the year, and rents have posted modest gains.
- > The local vacancy rate finished the third quarter at 4.4 percent, unchanged from the past two quarters. Year over year, vacancy is up 10 basis points.
- > Rent trends have been uneven, declining in the second quarter before inching higher in the third quarter. Local asking rents finished the third quarter at \$1,166 per month, up 2.5 percent year over year.
- > Multifamily property sales gained momentum during the third quarter, following minimal activity in the preceding months. Pricing has closely tracked levels recorded in 2019, while cap rates compressed and averaged approximately 4.7 percent.

Las Vegas Multifamily Market Overview

Property fundamentals in the Las Vegas multifamily market have fared better than originally expected since the COVID-19 outbreak, despite steep job losses and sharp declines in visitor volume and convention traffic. Prior to the health crisis, Las Vegas was posting strong job and population growth, outpacing national averages. That momentum has stalled, and the local economy is being weighed down by its dependence on tourism. Despite the clear economic challenges, local apartment vacancies have remained essentially flat, although monthly rent collections dipped below 90 percent at the end of the third quarter.

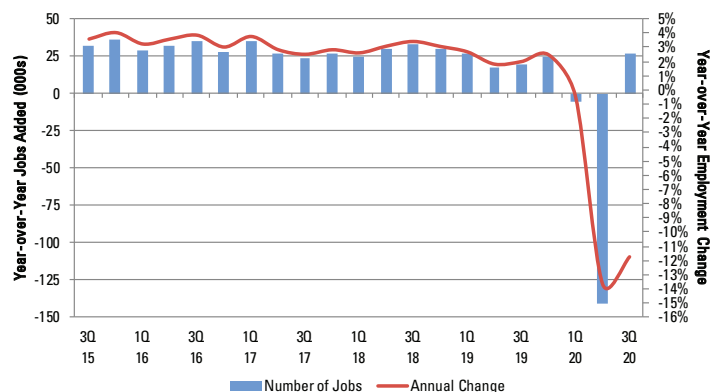
Q3 Snapshot	Las Vegas Market
Market Fundamentals	
Vacancy	4.4%
- Year Over Year Change	+10 bps
Asking Rent	\$1,166
- Year Over Year Change	+2.5%
Transaction Activity	
Median Sales Price Per Unit (YTD)	\$154,400
Cap Rates (Avg YTD)	4.7%
Construction Activity	
Units Under Construction	3,981
Units Delivered YTD	540

Sales of apartment buildings in 2020 are down nearly 60 percent from 2019 levels, but activity gained momentum during the third quarter. Investors are assessing the impact of the current economic conditions on property performance. Many initial forecasts called for deep property pricing discounts, but to this point, the median price in Las Vegas has remained essentially unchanged from 2019 levels and cap rates have actually compressed. There has been minimal property distress among existing owners, with many taking a wait-and-see approach.

Employment

- > Las Vegas was one of the hardest-hit labor markets in the country during the COVID-19 economic shutdown, but employers have begun to bring back workers in recent months. Losses totaled more than 245,000 jobs in the spring and 125,000 jobs have since been regained. Year over year, employment is down roughly 11.8 percent from one year earlier.
- > The hospitality sector has been the primary drag on local employment. At the beginning of the year, the leisure and hospitality sector accounted for 28 percent of all jobs in Las Vegas, a figure that was nearly three times the national average. Year over year, employment in leisure and hospitality services is down 25 percent.
- > Financial activities accounts for approximately 55,000 jobs in Las Vegas, and the sector has posted modest gains even during the downturn. Financial employment has grown by 1.3 percent in the past year with the addition of nearly 1,000 net new jobs.
- > **Forecast:** Employers in Las Vegas are expected to add back workers at a gradual pace in the fourth quarter. For the full year, employers are expected to cut payrolls by about 10 percent, or approximately 100,000 net jobs.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Losses totaled more than 245,000 positions in the spring, and 125,000 jobs have since been regained

Vacancy

- > While the local economy has recorded steep job losses, apartment vacancy rates have proven to be quite stable through 2020. The local vacancy rate was 4.4 percent in the third quarter, matching the figure from both the first and second quarters.
- > A consistent pace of population growth is supporting renter demand for apartments. Year over year, the vacancy rate is up just 10 basis points. The rate reached a cyclical low below 3 percent in mid-2017 and has crept slightly higher as construction activity has ramped up.
- > After a sluggish first half of the year, multifamily absorption started gaining momentum during the third quarter. Net absorption during the past three months outpaced the combined total from the first two quarters.
- > **Forecast:** The pace of new construction is forecast to accelerate by the end of the year, while job losses are expected to linger for a few more quarters. After holding steady for much of 2020, vacancy is forecast to trend higher, ending the year at approximately 4.9 percent.

Vacancy Trends



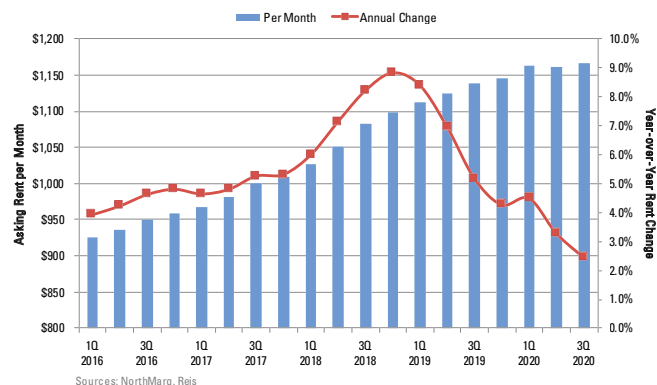
Sources: NorthMarq, Reis

Year over year, the vacancy rate is up just 10 basis points

Rents

- > Asking rents recorded a minor dip in the second quarter before returning to an upward trajectory in the third quarter. Asking rents in Las Vegas reached \$1,166 per month in the third quarter.
- > Las Vegas was one of the top performing markets for rent growth in 2018 and 2019, but the pace has slowed in recent periods. Through the third quarter, asking rents are up 2.4 percent from one year ago, the lowest annual increase since 2014.
- > After several years of robust gains, annual rent growth in Class A properties lagged the overall market during the past year. Class A rents ended the third quarter at \$1,333 per month, up just 1 percent from last year.
- > **Forecast:** Asking rents in Las Vegas are forecast to rise approximately 2 percent in 2020. Rent growth averaged nearly 6 percent per year from 2015 to 2019.

Rent Trends

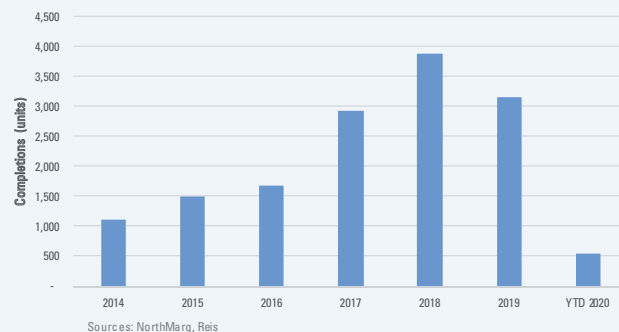


Asking rents reached \$1,166 per month in the third quarter

Development and Permitting

- > Multifamily development has been modest this year, and developers have brought just 540 units to the market through the first three quarters of 2020. Apartment construction was far more active in 2019.
- > While the pace of deliveries has slowed in recent months, activity is forecast to pick up before the close of this year. There are approximately 15 projects under construction in the Las Vegas market, totaling nearly 4,000 units.
- > Multifamily permitting dipped from last year's levels. Developers have pulled permits for approximately 1,500 multifamily units year to date, down more than 40 percent from the same period in 2019.
- > **Forecast:** After some construction delays in the second and third quarters, apartment deliveries are forecast to accelerate at the close of this year. Developers are expected to deliver approximately 2,000 units in 2020, after completions topped 3,100 units in 2019.

Development Trends

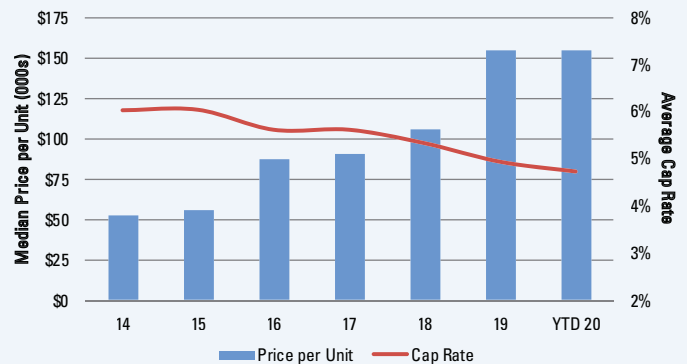


There are currently 15 projects under construction in Las Vegas totaling nearly 4,000 units

Multifamily Sales

- > Quarterly sales activity has been uneven in 2020. Transactions slowed to just a few deals in the second quarter before picking up in the third quarter. Sales velocity thus far in 2020 trails the pace from last year by nearly 60 percent. Transaction activity is slowing, in part, because of a lack of available properties being marketed for sale.
- > Prices held steady even as activity dipped. In transactions that have closed this year, the median price has reached \$154,400 per unit, nearly identical to the median in 2019.
- > Despite some economic uncertainty, cap rates have compressed in response to low borrowing costs. Cap rates have averaged approximately 4.7 percent year to date and have been compressing for several consecutive years.

Investment Trends



Sources: NorthMarq, CoStar

Cap rates have averaged approximately 4.7 percent year to date

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

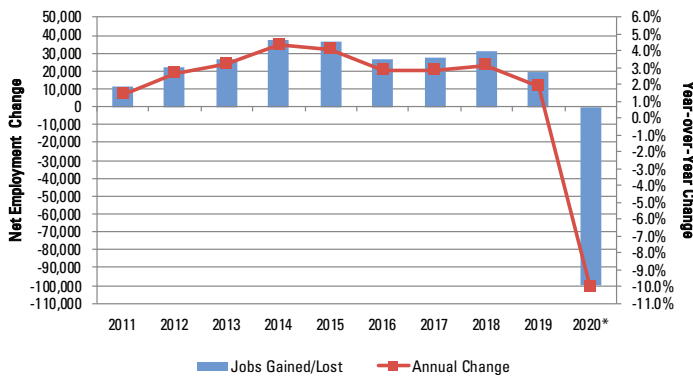
Property Name	Street Address	Units	Sales Price	Price/Unit
Gloria Park Villas/Tropicana Tower	3625 S Decatur Blvd. & 6575 W Tropicana Ave., Las Vegas	501	\$82,500,000	\$164,671
Cameron Apartments	4600 Sirius Ave., Las Vegas	317	\$32,000,000	\$100,946
Harlow Luxury Apartments	10620 W Alexander Rd., Las Vegas	98	\$21,500,000	\$219,387
Cypress Springs	3651 N Rancho Dr., Las Vegas	144	\$20,000,000	\$138,888
Toscana Apartment Homes	4550 Karen Ave., Las Vegas	128	\$19,600,000	\$153,125

Looking Ahead

The Las Vegas multifamily market faces some significant uncertainty heading into the end of 2020 and the beginning of next year. To this point in the cycle, property performance has been steady with vacancies closely tracking levels from one year ago. The Las Vegas market has been able to withstand the economic shock, but a full recovery is unlikely until a vaccine for the coronavirus is widely available and leisure and business travel resume.

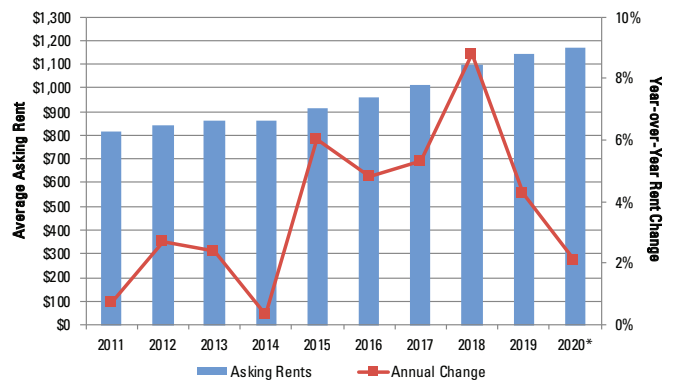
While the short-term outlook features some very real challenges, investors are expected to look to the long-term upside potential for Las Vegas when evaluating acquisition opportunities. Some signs of this trend have already started to emerge, demonstrated by a handful of low-vacancy, Class B properties that changed hands during the third quarter. Transactions are expected to continue in the coming quarters, even as investors keep a close eye on external market forces.

Employment Forecast



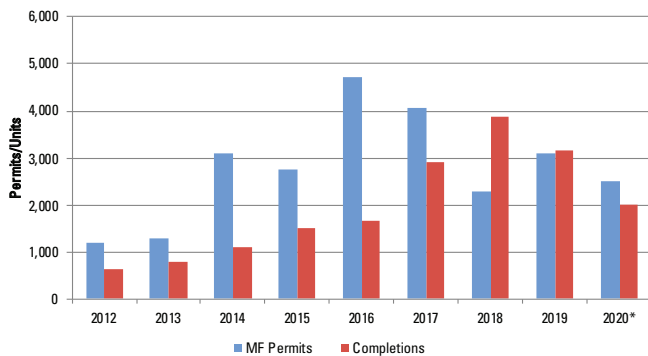
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



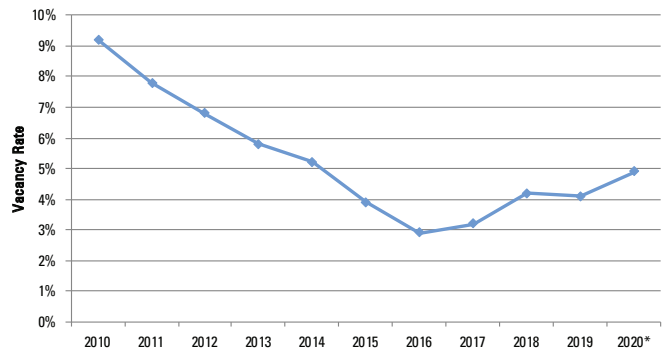
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

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 more than \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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