Market Insights

Las Vegas Multifamily 2Q 2022

Northmarq

Construction Activity

5,425

Units under construction

787

Units delivered (YTD)

Market Fundamentals

2.8%

Vacancy

-100bps | Year over year change

$1,501

Asking Rent

+20.6% | Year over year change

Transaction Activity

$241,700

Median sales price per unit (YTD)

Rapid Pace of Hiring Spurring Renter Demand

Highlights

- Operating conditions were strong during the second quarter as asking rents rose and the vacancy rate remained at a five-year low. The pace of apartment completions accelerated in recent months, a trend that should continue for the remainder of the year.
- Local vacancy tightened at the start of the year and held at a steady rate of 2.8 percent through the second quarter. Year over year, the rate has improved by 100 basis points.
- Asking rents rose 2.9 percent during the second quarter, reaching $1,501 per month. During the past 12 months, rents are up 20.6 percent, one of the fastest rates of increase of any major market in the country.
- The Las Vegas investment market has gained momentum to this point in the year with prices pushing higher and deal volume increasing. The median sales price thus far in 2022 is $241,700 per unit, up 19 percent from the median price in 2021.

Las Vegas Multifamily Market Overview

The Las Vegas multifamily market posted a strong second quarter, fueled by a fully recovered local economy. As total employment reached an all-time high in the last three months, renter demand remained elevated throughout the region. Developers are actively constructing new units to keep pace with demand. After three consecutive years of annual declines in completions, deliveries are on schedule to accelerate, and more projects are entering the development pipeline. This trend is consistent with the larger trend throughout Las Vegas, with several large commercial projects completed in the past few years, and additional projects breaking ground thus far in 2022. Vacancy remains at a five-year low, allowing multifamily operators to push rents higher.

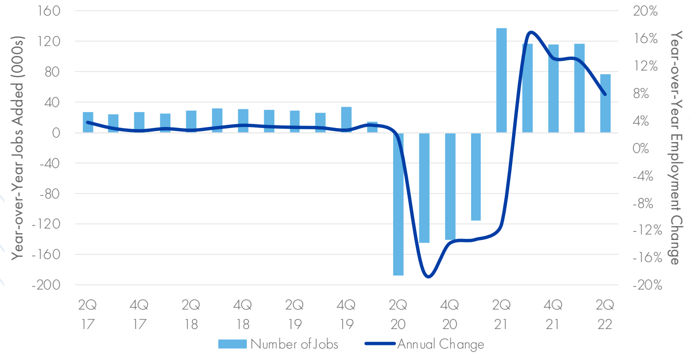
The healthy fundamentals of the local multifamily market have been reflected in the strong performance of the investment market in recent months. Transaction volume remained elevated in both the first and second quarters, and sales velocity through the first half of 2022 reached a five-year high. Prices have continued to rise at a rapid pace; the median price topped $240,000 per unit during the first half, up 19 percent from 2021 levels. The combined forces of elevated investor demand and the expectation for rising rents have kept cap rates low, even as interest rates rose. Cap rates averaged approximately 3.5 percent during the second quarter. Early indications at the start of the third quarter showed a widening expectations gap between buyers and sellers due to rising interest rates.

Employment

- Total employment in Las Vegas reached an all-time high in recent months with the addition of 15,500 jobs during the second quarter. Year over year, employment expanded by 76,500 workers, a 7.8 percent growth rate.
- The rebound in the leisure and hospitality sector has fueled the region's employment recovery. During the past 12 months, this sector—the largest in Las Vegas—added 28,000 positions and grew by 11.3 percent. During the second quarter alone, leisure and hospitality employment grew by nearly 8,500 jobs.
- Station Casinos, the Las Vegas-based hotel and casino company, recently began construction on the Durango Casino & Resort, which is expected to open in late 2023. Located just south of Beltway 215 on South Durango Drive, the site will feature a 200-room hotel tower and an 83,000-square-foot casino. Upon opening, the property will create more than 1,500 jobs.
- **Forecast:** The Las Vegas job market has recorded rapid growth in recent periods, as the local economy reopened, and employers expanded payrolls. Total employment is forecast to grow by 4.7 percent during 2022 with the addition of approximately 48,000 jobs.

> Total employment in Las Vegas reached an all-time high in recent months.

Employment Overview



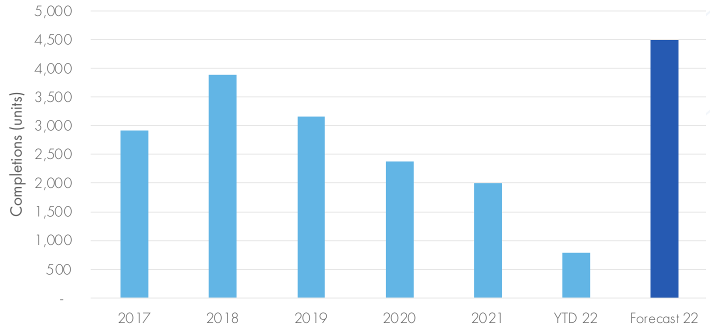
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

- The pace of apartment deliveries accelerated as approximately 640 units were completed during the second quarter. Nearly 790 units have come online to this point in the year.
- Projects totaling roughly 5,550 units are currently under construction in the Las Vegas region, more than double the number of units from one year ago. Roughly two-thirds of the projects currently being developed are scheduled to be delivered by the end of 2022.
- After a strong start to the year, the pace of multifamily permitting slowed in recent months; during the second quarter, more than 1,000 multifamily permits were pulled, a 15 percent decline from the start of the year. Despite the recent dip, the number of permits issued in the first half of this year is up nearly 27 percent from the same period in 2021.
- **Forecast:** Multifamily developers are expected to deliver the largest number of units in more than a decade in 2022, with projects totaling roughly 4,500 units scheduled to come online. This follows declines in annual completions in each of the past three years.

> Projects totaling roughly 5,550 units are currently under construction.

Development Trends



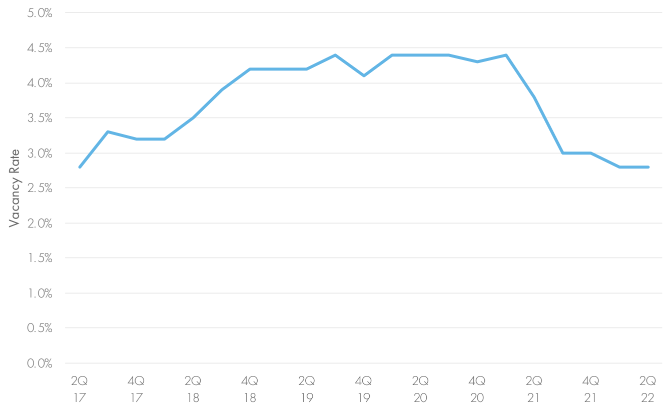
Sources: Northmarq, CoStar, Reis

Vacancy

- One factor fueling an increase in development is a consistently low vacancy rate. Vacancy dipped in the first quarter and then held steady at 2.8 percent in the second quarter. This matched the market's five-year low vacancy rate.
- Fueled by continued demand, vacancy conditions have tightened throughout the Las Vegas market. The vacancy rate ended the second quarter down 100 basis points from one year earlier. Vacancy in Henderson/Southeast, the region's most populous submarket, fell 140 basis points year over year to 2.5 percent.
- Vacancy rates are low across property classes. Class A vacancy ended the second quarter at 2.9 percent, 80 basis points lower than one year earlier. The combined vacancy rate in Class B and Class C units dropped 110 basis points during the past 12 months to 2.8 percent.
- **Forecast:** Local vacancy is expected to inch higher during the coming months as construction activity gains momentum. Vacancy is forecast to rise 30 basis points in 2022, finishing the year at 3.3 percent.

> Vacancy held steady at 2.8 percent in the second quarter.

Vacancy Trends



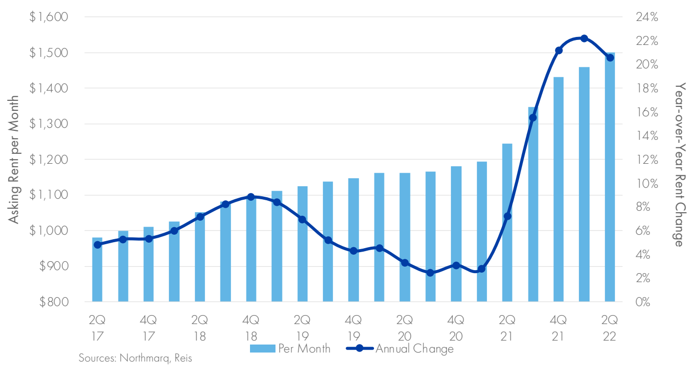
Sources: Northmarq, Reis

Rents

- Asking rents continued to push higher during the second quarter, rising 2.9 percent to $1,501 per month. This followed a 2 percent quarterly increase at the beginning of the year.
- Year over year, average rents are up 20.6 percent. At $1,902 per month, the West submarket has the most expensive rents in the area and is also posting rapid growth. During the past 12 months, asking rents in the submarket have spiked 22.6 percent.
- Class A properties are recording the steepest rent gains. Average rents in Class A units climbed 24 percent during the past 12 months, ending the second quarter at $1,741 per month.
- **Forecast:** Local apartment rents are forecast to record further growth through the remainder of the year and into 2023. Average asking rents are projected to rise 7.6 percent this year to $1,540 per month.

> Year over year, average rents are up 20.6 percent.

Rent Trends



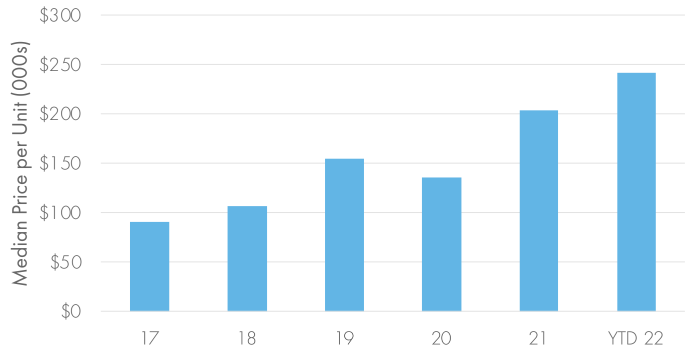
Sources: Northmarq, Reis

Multifamily Sales

- Through the first half of 2022, multifamily sales volume was off to its strongest start since 2017. Transaction activity maintained a steady pace during the second quarter, closely tracking levels from the start of the year.
- Year to date, the median sales price is approximately $241,700 per unit, nearly 20 percent higher than the median price in 2021. Activity picked up in the sale of middle-tier assets in recent months, as Class B properties accounted for more than 70 percent of the deals that closed during the second quarter.
- Cap rates in Las Vegas have remained within a fairly tight range to this point in the year, with properties trading between 3.25 percent and 3.75 percent. During the second quarter, cap rates averaged around 3.5 percent.

> Sales volume is off to its strongest start in more than a decade.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

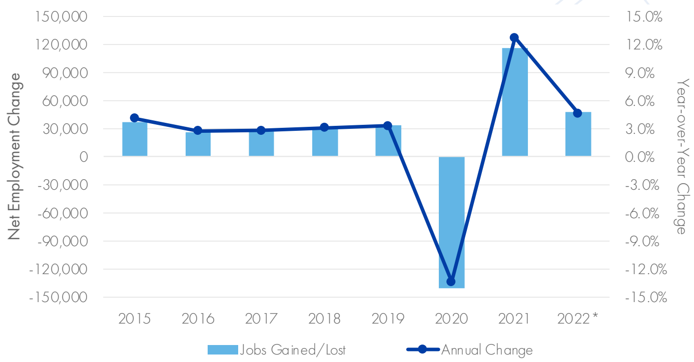
Property Name	Street Address	Units	Sales Price	Price/Unit
The Palms at Peccole Ranch	9599 W Charleston Blvd., Las Vegas	404	$148,000,000	$366,337
Verona	6765 E Tulip Falls Dr., Henderson	275	$103,500,000	$376,364
St. Andrews Club	4249 N. Commerce St., Las Vegas	336	$100,800,000	$300,000
Tides at Hacienda	5272 Tamarus St., Las Vegas	240	$65,000,000	$270,833
Flamingo Road Apartments	5795 W Flamingo Rd., Las Vegas	232	$58,000,000	$250,000
Spanish Oaks	2301 S. Valley View Blvd., Las Vegas	216	$50,000,000	$231,481
Tides at Walnut Park	3985 E Cheyenne Ave., Las Vegas	176	$40,000,000	$227,273

Looking Ahead

The Las Vegas multifamily market recorded notable improvements during the past several quarters and should post modest gains in the second half of the year. Now that the local labor market has reached a full recovery, the pace of employment growth is expected to slow in the coming months, resulting in a less rapid pace of new renter demand for apartments. Additionally, multifamily developers are set to accelerate the pace of deliveries through the remainder of the year, after the construction pipeline reached a near standstill during much of 2020 and 2021. The result will likely be a slight rise in the local vacancy rate, which has plunged below 3 percent in recent quarters.

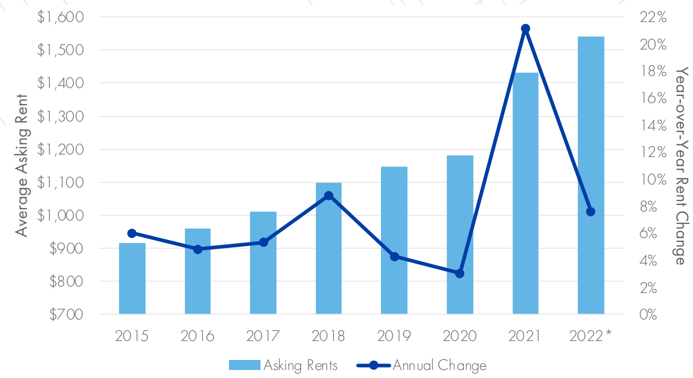
Looking to the region's longer-term growth profile, prospects for future demand remain bright. The local economy has become more broad-based in recent years, with transportation and distribution playing a larger role and providing an additional source of growth to the region's established tourism and gaming industries. This pronounced growth in the local economy and solid property fundamentals are spurring investment activity in the multifamily market. Rising interest rates are expected to put some upward pressure on cap rates in the coming quarters, although the increases will likely be modest as long as rents continue to trend higher. Preliminary indications suggest transactions in the second half of the year are likely to record cap rates closer to 5 percent.

Employment Forecast



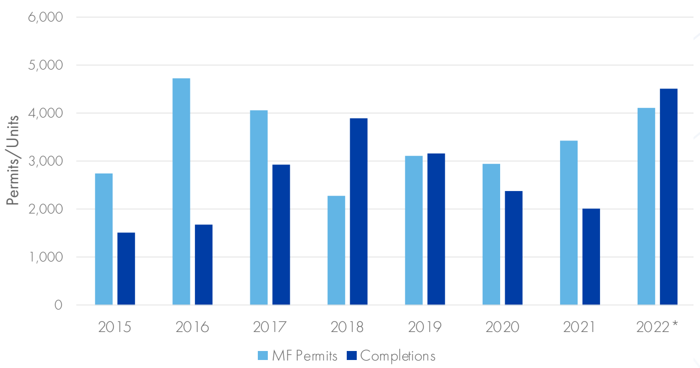
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



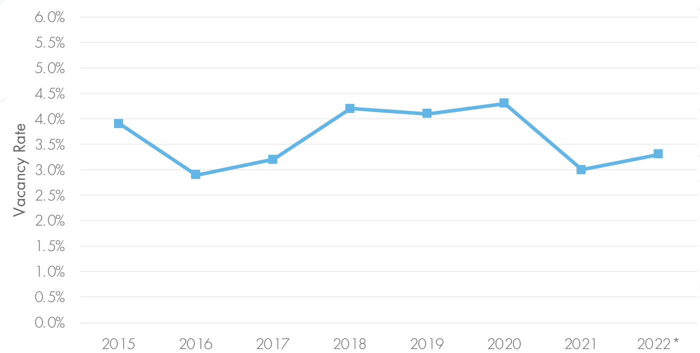
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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