

**YARDI**® Matrix

# The New Las Vegas

Multifamily Spring Report 2016

**Global Business District One Big Step  
Toward Economic Diversification**

**Upscale Lifestyle Rents  
Drive Rate Improvements**

**Investment Strong; Development  
Finally Turns Upward**





## Market Analysis

Spring 2016

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## Diversifying the Economy

Following a few years of solid job growth, Las Vegas is seeking to broaden its identity, pivoting away from the Sin City image to a more convention-centric, diversified economy that will hold up better during cyclical valleys. However, the leisure and hospitality sector continues to be the main economic driver, employing nearly a third of the workforce. With projects such as Genting's \$4 billion Resorts World Las Vegas in the works, the sector will clearly remain the metro's economic cornerstone.

Efforts to diversify include the new Global Business District, although it has been disappointing so far. Tourism remains high, and visitor spending is increasingly shifting from gambling to entertainment and restaurants. The continued growth of the Union Health Village project in Henderson is boosting healthcare employment. The image shift applies throughout the state, with Reno, for example, in the midst of a growth surge due to the arrival of large employers such as Tesla, Switch and Apple. Supply in Reno's small apartment market is not keeping up with demand, leading rents to grow by nearly 9% over the past year.

Demand for units in Las Vegas is growing with the population, leading to a surge in the pipeline, which has roughly 11,000 units in some form of development. We expect rents will continue their moderate path, and grow by 4.2% in 2016.

## Recent Las Vegas Transactions

### Domain



City: Henderson, Nev.  
Buyer: Hines  
Purchase Price: \$58 MM  
Price per Unit: \$188,961

### The Boulder at Lone Mountain



City: Las Vegas  
Buyer: ConAm  
Purchase Price: \$55 MM  
Price per Unit: \$142,784

### Montego Bay



City: Henderson, Nev.  
Buyer: TruAmerica Multifamily  
Purchase Price: \$51 MM  
Price per Unit: \$121,667

### Solis at Flamingo

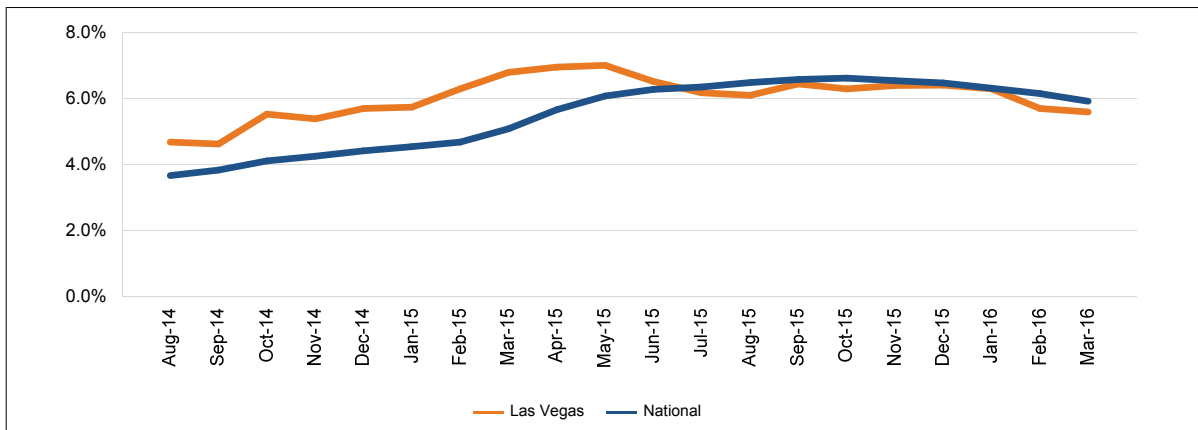


City: Las Vegas  
Buyer: TruAmerica Multifamily  
Purchase Price: \$51 MM  
Price per Unit: \$96,374

## Rent Trends

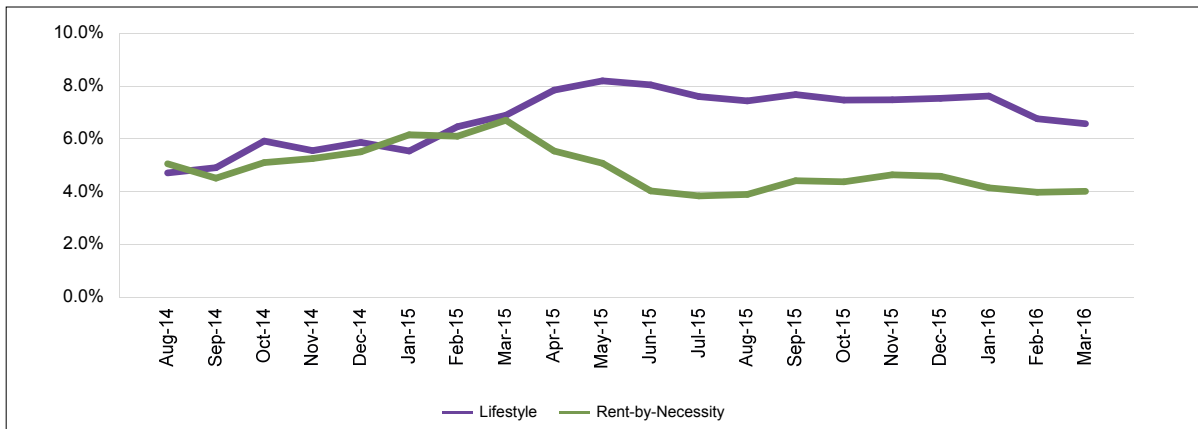
- Rents are continuing to rise, although the rate is beginning to slow. Rents were up 5.6% year-over-year as of March to an average of \$850. Nationally, rents were up 5.7% to \$1,181.
- Rents in the upscale Lifestyle segment have driven growth, up 7.0% year-over-year to \$975 as of March, compared to 4.0% for the working-class Renter-by-Necessity segment. This bucks the national trend in which Lifestyle property rent growth trails RBN in most markets. Why? For one thing, the stock in Las Vegas is heavily tilted toward decades-old properties, which lack the amenities that appeal to today's renter base. As a result, occupiers are willing to move to higher-priced apartments built more recently. Tenants can do this because rents in Las Vegas are generally inexpensive to begin with, so they can afford to upgrade.
- That said, RBN rents grew by 1% on a trailing-three-month basis, which highlights how much demand there is for affordable units as more people move to the metro to take working-class jobs in segments such as construction and hospitality.
- Although new supply is creeping up, demand should remain high, so we expect moderate rent growth of 4.2%—in line with the national average—in 2016.

### Las Vegas vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

### Las Vegas Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

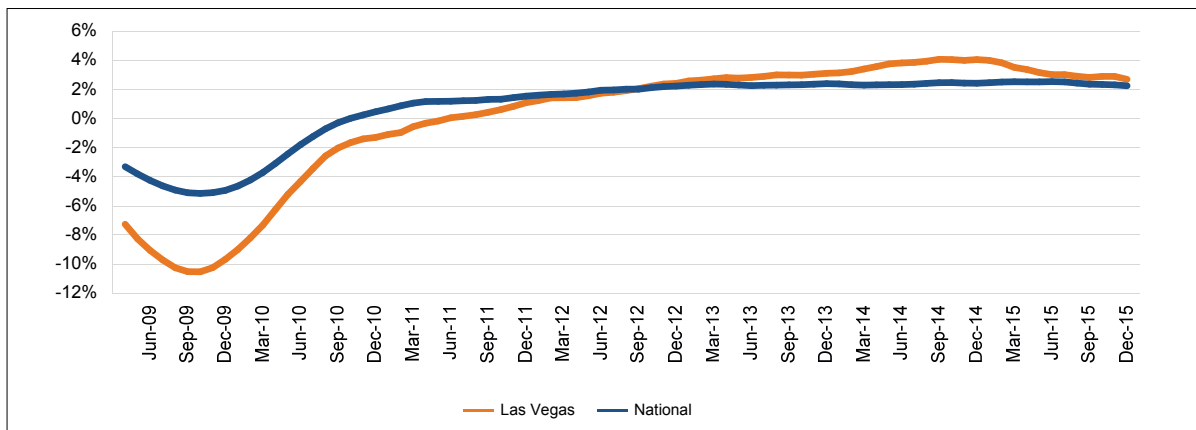


Source: YardiMatrix

## Economic Snapshot

- The metro has beaten the national job rate in recent years, and 2015 was no exception. Las Vegas added 18,200 jobs in 2015, matching the 2.7% national rate. As a result, unemployment has dipped across the state over the past year by more than 120 basis points.
- The entire state has enjoyed something of an economic resurgence, with the Reno metro area completing a few very high-profile moves, including securing a new Apple data center and the much-discussed Tesla Gigafactory, which will produce batteries for the electric car maker. Tesla's \$10 billion project will create roughly 6,500 new jobs when fully functional, as well as a large number of construction jobs in the interim. This was possible due to the state offering investors substantial tax abatements over the coming 20 years.
- After taking a beating in the wake of the last recession, construction is booming in Las Vegas. Some 5,400 positions were created in 2015, up 11.1% year-over-year. The new development is a mix of badly needed housing and commercial. Projects, which include the development of the MGM Arena and the upcoming Genting Resorts World, will keep activity strong for several years.
- The financial activities sector lost 3,300 jobs, a significant tumble of about 7.5% year-over-year, as the expansion of the Convention Center and the development of a new Global Business District are not meeting expectations.

### Las Vegas vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### Las Vegas Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	89	9.7%	5,700	6.8%
15	Mining, Logging and Construction	54	5.9%	5,400	11.1%
70	Leisure and Hospitality	284	30.9%	3,700	1.3%
90	Government	102	11.0%	3,100	3.2%
60	Professional and Business Services	121	13.2%	2,900	2.4%
80	Other Services	27	2.9%	800	3.1%
50	Information	11	1.2%	500	4.9%
30	Manufacturing	22	2.4%	200	0.9%
40	Trade, Transportation and Utilities	169	18.4%	-800	-0.5%
55	Financial Activities	41	4.4%	-3,300	-7.5%

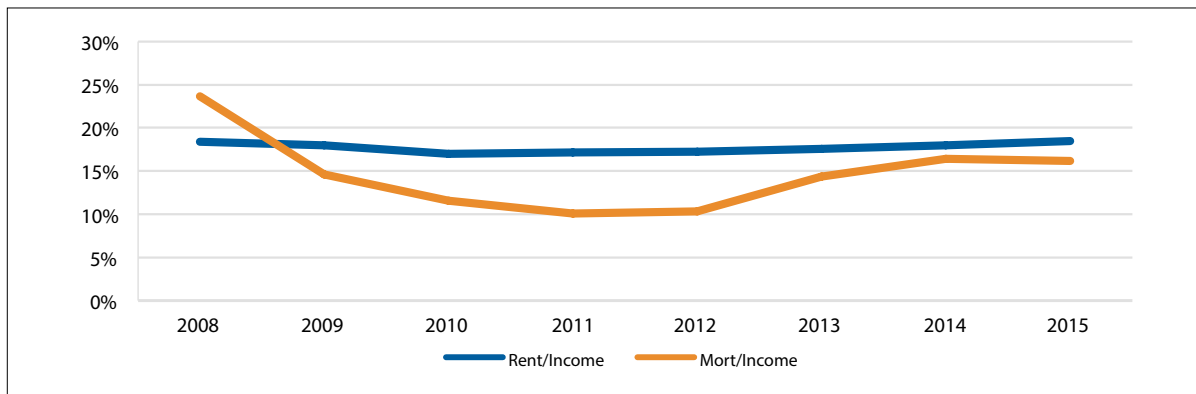
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

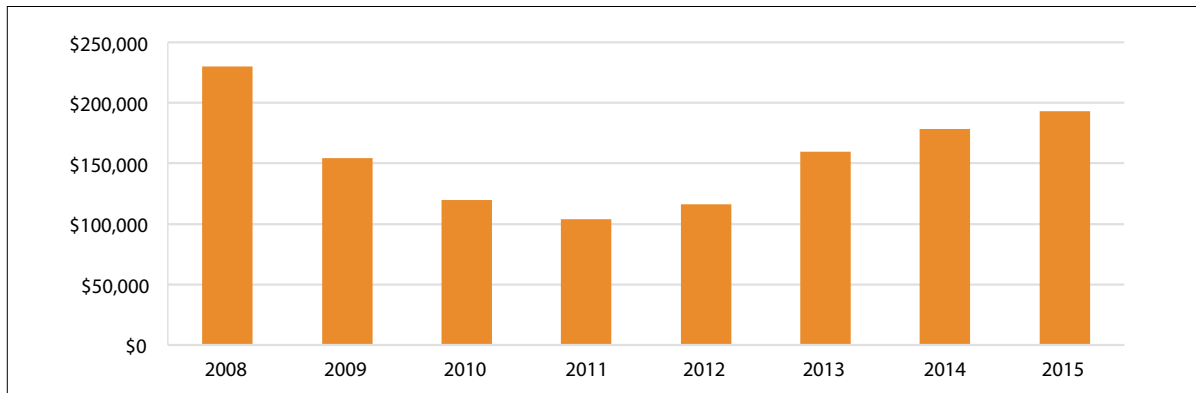
- Median home prices ended 2015 at \$193,189, up 86% from the market bottom in 2011. The metro has had to claw back through a few years, during which it consistently topped mortgage delinquency charts and led foreclosure rankings across the U.S. However, full confidence in the market has not returned yet and owning continues to be the less costly option.
- Median income growth has matched rent increases, so affordability has not been affected in a meaningful way. With average rents now at \$850 and moving closer to pre-downturn levels, affordability may become a larger issue.

### Las Vegas Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Las Vegas Median Home Price



Source: Moody's Analytics

### Population

- During the current cycle, the MSA has reached and expanded well above the two million mark, with housing demand increasing as a direct result.
- Since 2010, the MSA has grown by roughly 6%, incentivizing developers to increase their output.

### Las Vegas vs. National Population

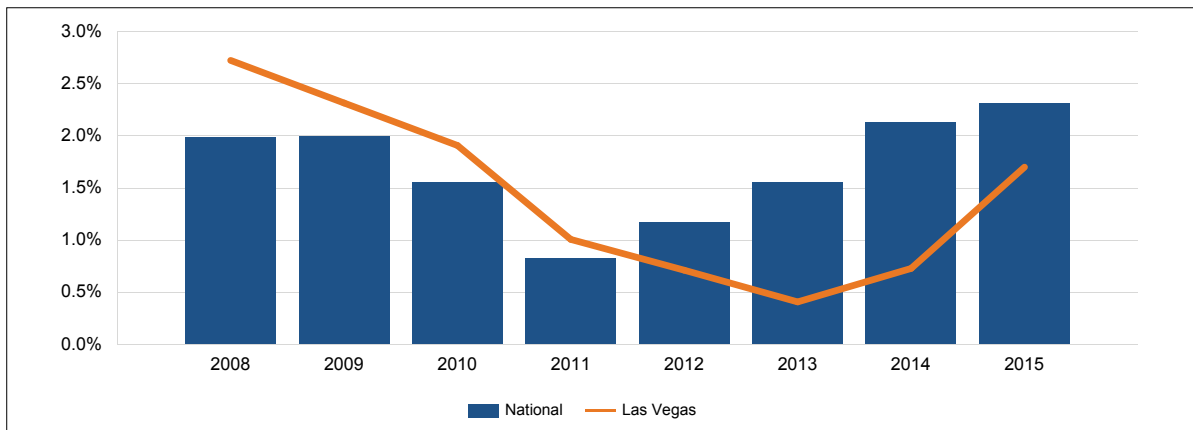
	2010	2011	2012	2013	2014
National	309,347,057	311,721,632	314,112,078	316,497,531	318,857,056
Las Vegas	1,953,263	1,967,159	1,998,646	2,029,316	2,069,681

Source: U.S. Census

## Supply

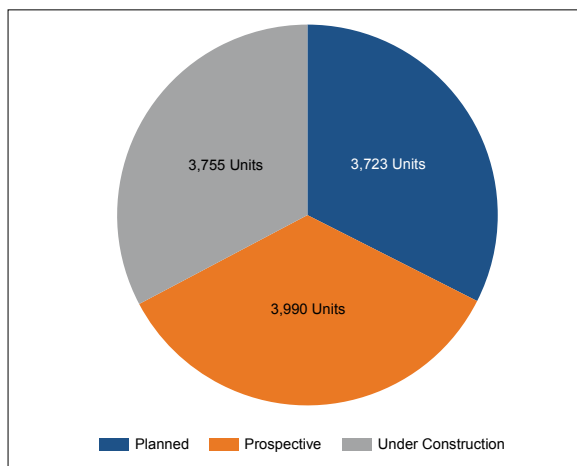
- After several years of dismal inventory growth, the pipeline in Las Vegas is finally on the upswing. Nearly 3,000 units were completed in 2015, up 1.7% and just shy of the number of units that came online in the three previous years combined.
- Developers are trying to cater to the growing population and demand for new units with modern amenities. As a result, the pipeline has grown to more than 11,000 units in various phases of development, 3,755 of which are under construction.
- Submarkets to the West and South of the Las Vegas Strip are most attractive to developers, and are in areas that fetch the highest rents. Spring Valley West is the top submarket based on pipeline, with almost 2,000 units currently under construction. Summerlin and Henderson West are also seeing a surge in planned projects. The Calida Group's Elysian West is the largest residential development project that's set to take shape in the metro. The community will add 466 upscale units by November 2017 in Spring Valley West.
- Despite rapidly growing population and a surge in new jobs, only 500 units came online in Reno in 2015, and the forward pipeline is not strong.

### Las Vegas vs. National Completions as a Percentage of Total Stock (as of March 2016)



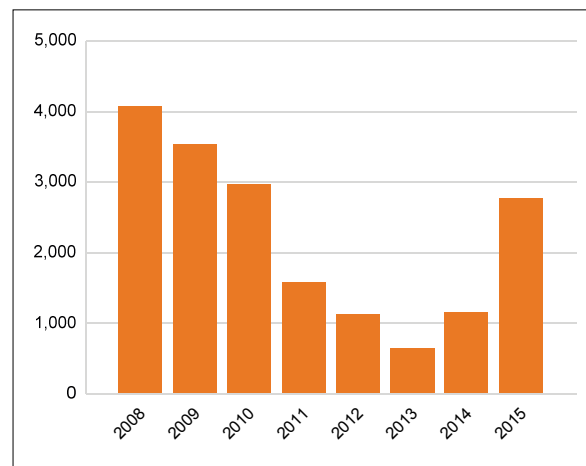
Source: YardiMatrix

### Development Pipeline (as of March 2016)



Source: YardiMatrix

### Las Vegas Completions (as of March 2016)

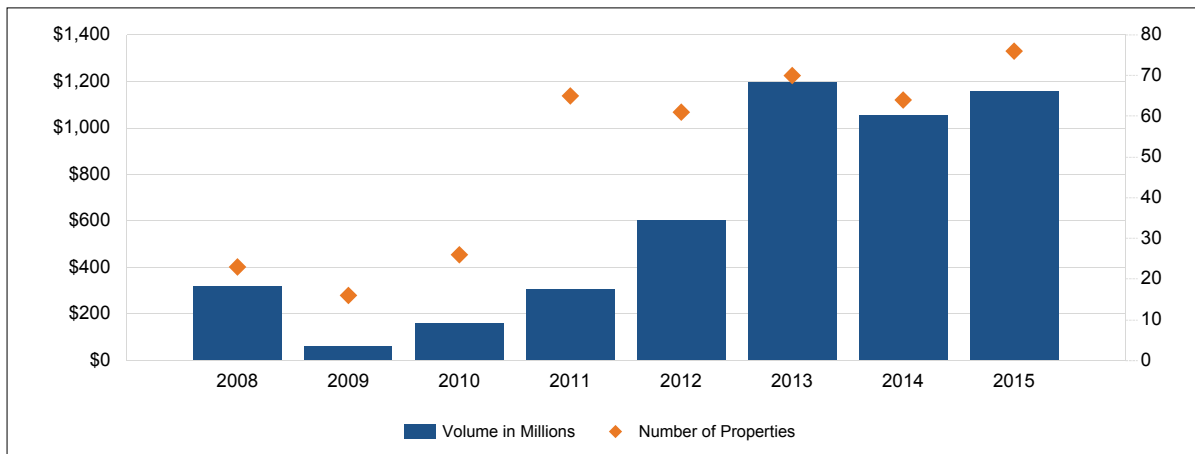


Source: YardiMatrix

## Transactions

- Transaction volume continues to be strong, with 2015 the third straight year in which investment volume exceeded \$1 billion. Although it is not a large market, Las Vegas' international reputation and potential for higher yields attract investors.
- The average per-unit price slid in 2015 to \$71,800, mostly because the properties that traded tended to be at the lower end of the quality scale than in 2014. Also, investors focused more on value-add properties, looking for older-vintage assets that could be upgraded for higher rents.
- Henderson drew the most investors, with major development projects such as Union Health Village continuing to attract interest. Hines paid \$58.2 million for the Dominion in Henderson, the metro's largest transaction in the past year.

### Las Vegas Sales Volume and Number of Properties Sold (as of March 2016)



Source: YardiMatrix

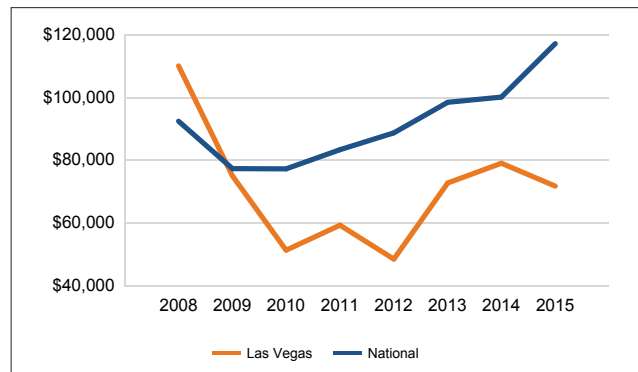
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Henderson East	239
Henderson West	182
Las Vegas Central	168
Paradise Valley East	94
Sunrise Manor NW	88
Las Vegas Strip	77
Sunrise Manor	76
Bracken	60

Source: YardiMatrix

<sup>1</sup> From April 2015 to March 2016

### Las Vegas vs. National Sales Price per Unit



Source: YardiMatrix



# Read All About It!



FirstService Residential  
To Manage 137-Unit  
Condo Community



Las Vegas Office Purchase  
Boosts Hines' Portfolio



Midby Cos. Launches \$76M  
Student Housing Redevelopment



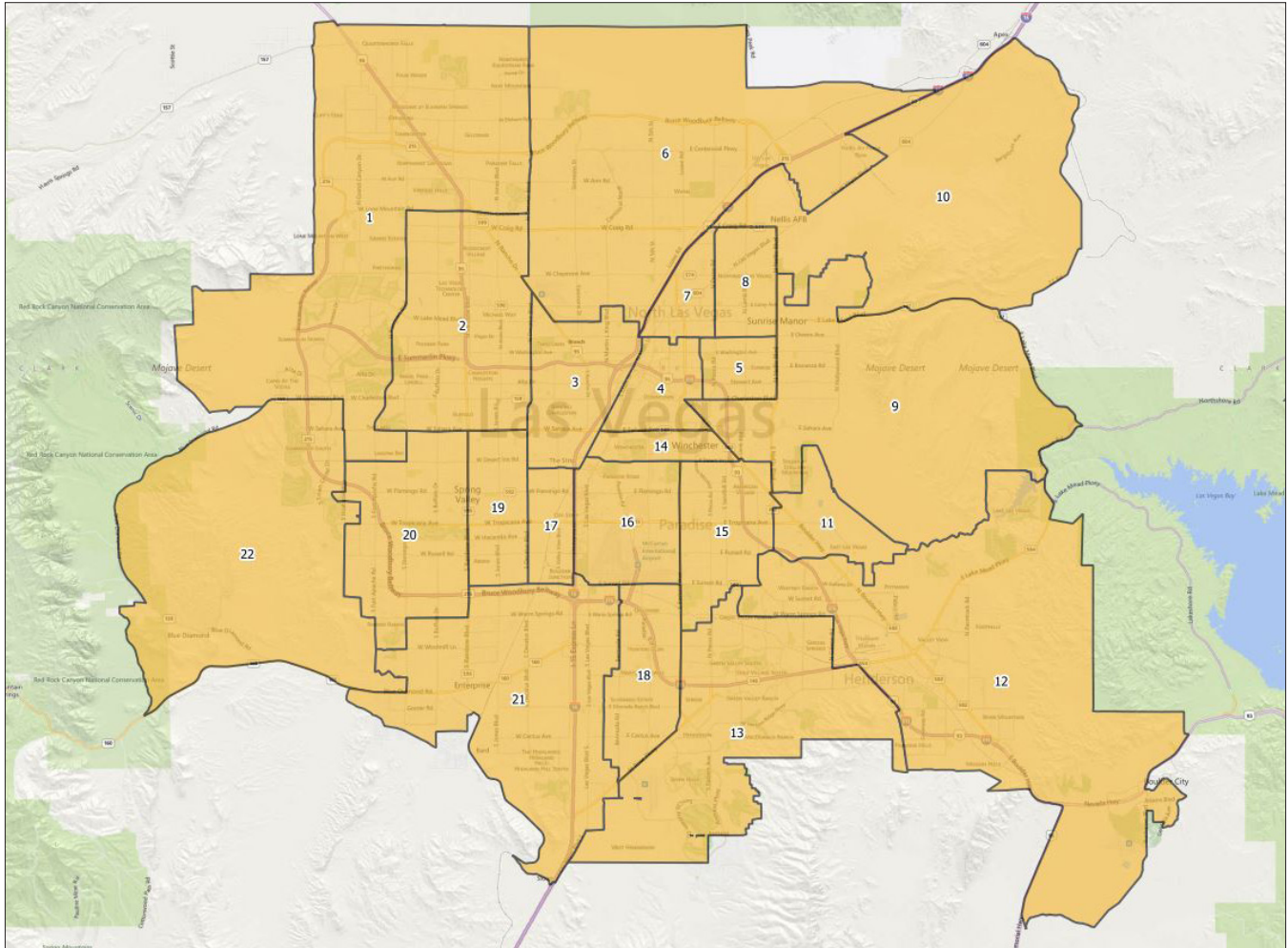
Boyd to Buy North Vegas  
Hotel-Casino for \$380M

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## Las Vegas Submarkets



Area #	Submarket
1	Las Vegas NW
2	Las Vegas Central
3	South Las Vegas
4	Downtown Las Vegas
5	Las Vegas East
6	North Las Vegas West
7	North Las Vegas East
8	Sunrise Manor NW
9	Sunrise Manor
10	Nellis AFB
11	Whitney

Area #	Submarket
12	Henderson East
13	Henderson West
14	Winchester
15	Paradise Valley East
16	Las Vegas Strip
17	Bracken
18	Paradise Valley South
19	Spring Valley East
20	Spring Valley West
21	Enterprise
22	Summerlin / BlueDiamond

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## Definitions

**Lifestyle households (renters by choice)** have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

**Renter by Necessity households** span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income (“gray collar”) households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property’s ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property’s status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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