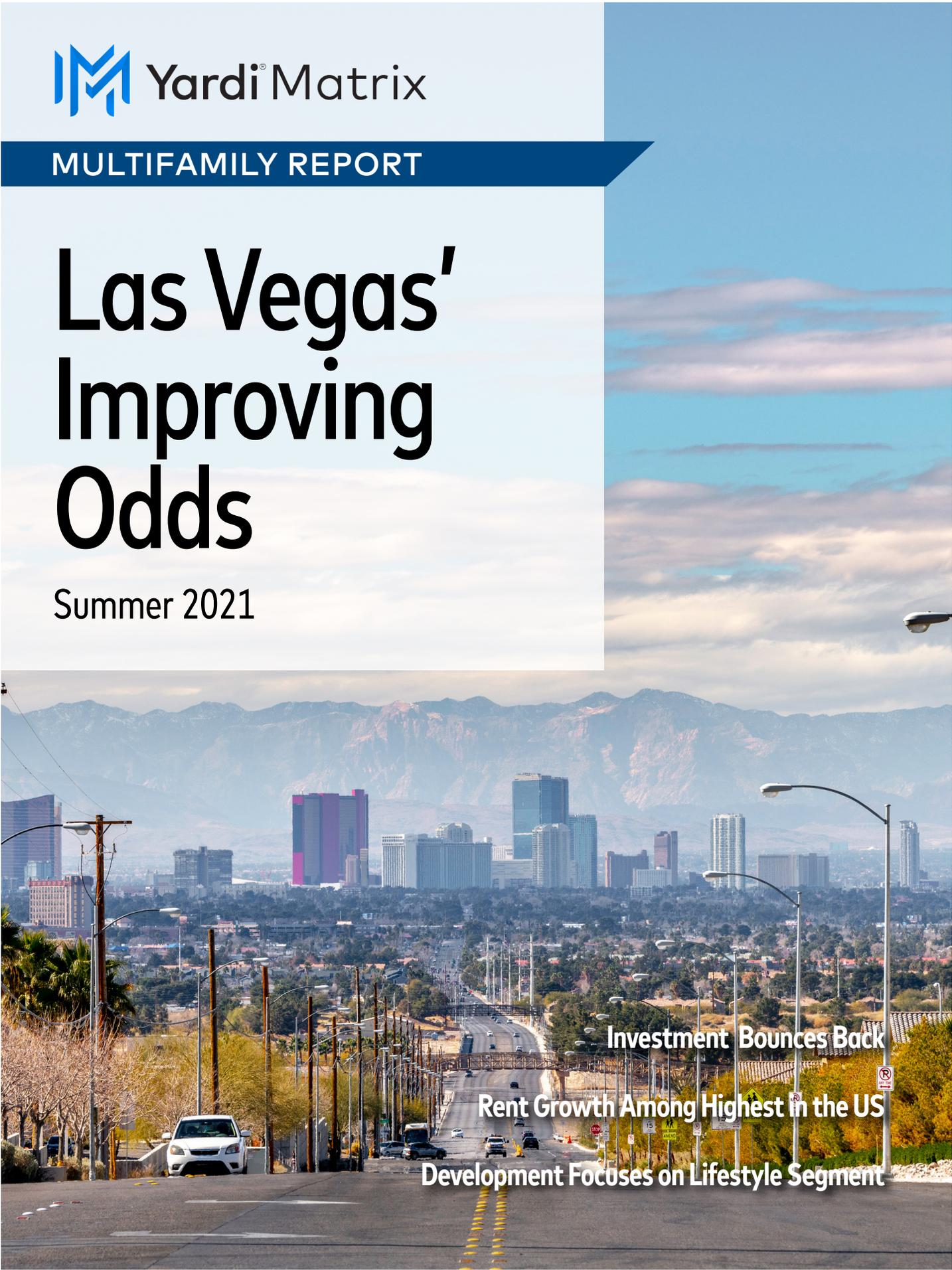




MULTIFAMILY REPORT

Las Vegas' Improving Odds

Summer 2021

A wide-angle photograph of the Las Vegas cityscape. In the foreground, a multi-lane road with yellow dashed lines runs towards the city. The middle ground shows a dense urban area with various high-rise buildings, including a prominent pink and purple tower. In the background, a range of rugged mountains is visible under a blue sky with scattered white clouds. The overall scene is bright and clear.

Investment Bounces Back
Rent Growth Among Highest in the US
Development Focuses on Lifestyle Segment

LAS VEGAS MULTIFAMILY



Rent Growth Pushes Property Values

The second quarter of 2021 posted unprecedented rent growth in Las Vegas, with the rate marking a 1.7% increase on a trailing three-month basis through June, to \$1,278. On a year-over-year basis, rents marked a 14.6% jump. The combination of a rapidly expanding population and limited supply pushed up the occupancy rate in stabilized properties by 110 basis points in the 12 months ending in May, to 96.0%, pointing to sustained demand, especially for Lifestyle units.

The unemployment rate improved to 8.9% in May, according to preliminary data from the Bureau of Labor Statistics, trailing the 5.8% national rate. The employment market posted a 4.4% contraction in the 12 months ending in May, surpassed by the -1.9% national rate. Yet with the reopening of the economy, Las Vegas is rebounding: Leisure and hospitality expanded by 70.4% year-over-year through May, adding 89,400 jobs. Visitor volume has been on an upward trend, as hotels and casinos opened at full capacity in June. Resorts World Las Vegas also opened to the public in June.

Investment sales have rebounded, having already exceeded 2020's overall transaction total during the first half of the year, totaling \$1.4 billion. With property values climbing, companies on both sides of transactions will likely reevaluate their positions.

Market Analysis | Summer 2021

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On the cover: Photo by 4kodiak/iStockphoto.com

Recent Las Vegas Transactions

Tuscan Highlands



City: Las Vegas
Buyer: Keller Investment Properties
Purchase Price: \$115 MM
Price per Unit: \$378,289

Vue at Centennial



City: Las Vegas
Buyer: LivCor
Purchase Price: \$112 MM
Price per Unit: \$301,075

Firenze



City: Henderson, Nev.
Buyer: Keller Investment Properties
Purchase Price: \$100 MM
Price per Unit: \$216,991

Norterra Canyon

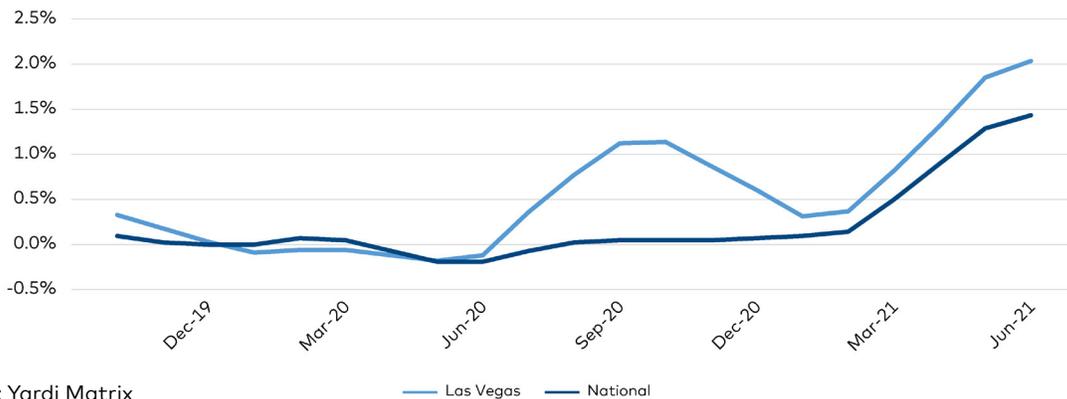


City: Las Vegas
Buyer: Buff Management
Purchase Price: \$87 MM
Price per Unit: \$203,052

RENT TRENDS

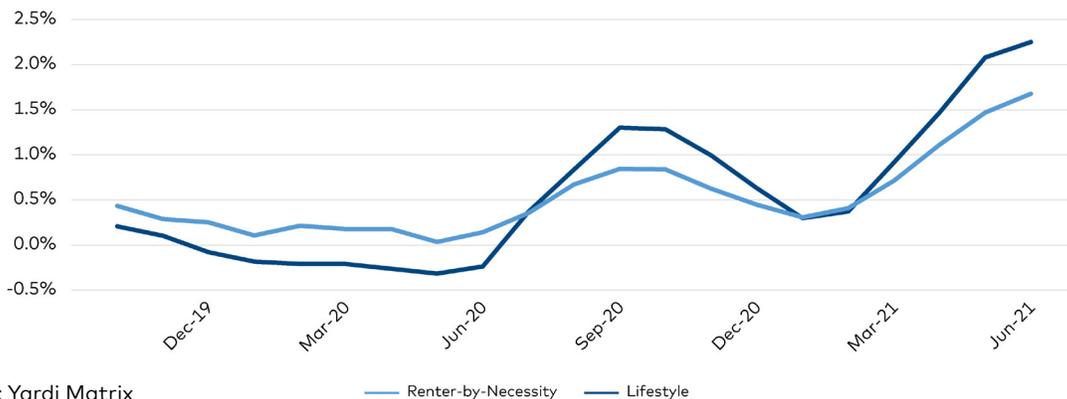
- ▶ Las Vegas rents rose 2.0% on a trailing three-month (T3) basis through June to \$1,278, while the national average posted a 1.4% increase to \$1,482. On a year-over-year basis, the average rent in the metro improved 14.6%, which kept it among the best performers in the nation, only trailing Phoenix, the Inland Empire and Tampa.
- ▶ Lifestyle assets led growth, with the average rent in the segment rising 2.3% on a T3 basis, to \$1,469. This substantial rate improvement resulted from limited inventory expansion and the vast number of residents relocating from California who can afford these price increases and who are seeking less dense living environments. Demand for Renter-by-Necessity units was also strong, with rents marking a 1.7% increase to \$1,046.
- ▶ In June, 19 of the 22 submarkets tracked by Yardi Matrix posted average rents above the \$1,000 mark, up from just 12 a year ago. Moreover, 19 submarkets recorded rent gains in the double digits, with Summerlin/Blue Diamond—the metro’s most sought-after area—registering the best rent performance, rising by a solid 24.6% year-over-year through June, to \$1,871. Enterprise—the area with the highest number of units under construction—saw a 13.7% increase in the average rent, to \$1,482.
- ▶ Considering current market dynamics, Yardi Matrix expects rent growth to soften slightly in 2021 and rise 6.2% by the end of the year.

Las Vegas vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Las Vegas Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ The unemployment rate in Las Vegas improved to 8.9% in May, according to preliminary data from the Bureau of Labor Statistics, trailing the 5.8% national rate. Even so, the metro has posted robust gains from the 33.3% unemployment rate recorded in April 2020.
- ▶ The job market registered a 4.4% contraction in the 12 months ending in May, trailing the -1.9% U.S. rate. While it will likely take longer for the local economy to reach pre-pandemic levels, things are looking up: Leisure and hospitality, severely impaired by the health crisis last year, marked a 70.4% expansion year-over-year through May, gaining 89,400 jobs. During the

first five months of the year, visitor volume surpassed 10.5 million, according to the Las Vegas Convention and Visitors Authority, while room occupancy has been steadily rising, clocking in at 70.9% in May from 31.6% in January. In June, hotels and casinos opened at full capacity; this will likely support further employment growth in the sector. In addition, conventions are scheduled for September, which will further boost travel and room occupancy.

- ▶ The second-largest sector—trade, transportation and utilities—expanded by 25.6%, or 39,800 positions. Construction was the only sector that contracted during the period, down 1,700 positions.

Las Vegas Employment Share by Sector

| Code | Employment Sector | Current Employment | |
|------|-------------------------------------|--------------------|---------|
| | | (000) | % Share |
| 70 | Leisure and Hospitality | 216 | 23.0% |
| 40 | Trade, Transportation and Utilities | 195 | 20.7% |
| 60 | Professional and Business Services | 138 | 14.7% |
| 65 | Education and Health Services | 106 | 11.3% |
| 80 | Other Services | 30 | 3.2% |
| 55 | Financial Activities | 52 | 5.5% |
| 30 | Manufacturing | 25 | 2.7% |
| 90 | Government | 103 | 10.9% |
| 50 | Information | 9 | 1.0% |
| 15 | Mining, Logging and Construction | 66 | 7.0% |

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Las Vegas gained 49,248 new residents in 2020, for a 2.2% uptick and nearly six times the 0.4% U.S. rate.
- ▶ California has played an unparalleled role in the metro's growth in recent years—Nevada is nearby, with no income tax and a lower cost of living, as well as a similar climate.

Las Vegas vs. National Population

| | 2017 | 2018 | 2019 | 2020 |
|-----------------|-------------|-------------|-------------|-------------|
| National | 325,147,121 | 327,167,434 | 328,239,523 | 329,484,123 |
| Las Vegas Metro | 2,183,310 | 2,231,647 | 2,266,715 | 2,315,963 |

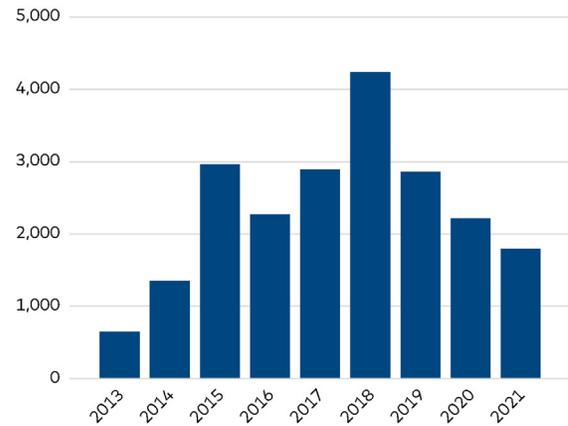
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Las Vegas' construction pipeline had 6,480 units underway as of June. Developer interest remained focused on the higher end of the quality spectrum: Besides 782 units in four fully affordable projects, the inventory under construction consisted of only Lifestyle communities. Another 25,300 units were in the planning and permitting stages.
- ▶ Six Lifestyle properties totaling 1,798 units came online in the first half of 2021, which equates to 0.7% of total stock and 20 basis points below the national rate. By the end of the year, Yardi Matrix estimates that the inventory will expand by 1.7%, or 3,008 units.
- ▶ Enterprise led in both deliveries (524 units) and number of units underway (1,177). Las Vegas Central and Spring Valley West followed with 1,055 units and 740 units under construction. The largest project delivered in the second quarter of 2021 was The Aviary, a 360-unit property located in Henderson. The project is owned by The Wolff Co., which broke ground in 2018 with aid from a \$31 million construction loan funded by Manufacturers and Traders Trust Co.

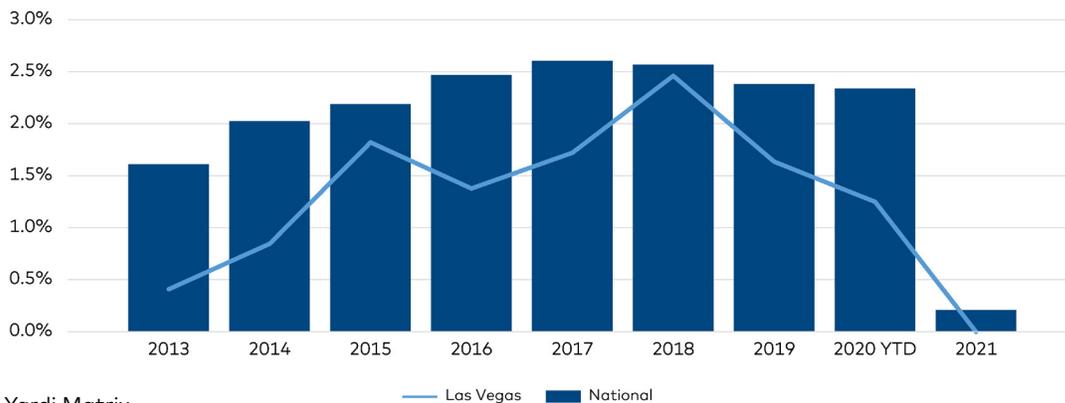
- ▶ With supply additions on a downward trend since 2018, the average occupancy rate in stabilized properties rose 110 basis points in the 12 months ending in May to 96.0%, led by Lifestyle units, where the rate climbed 140 basis points to 96.2%. Demand for RBN units was strong, too, as the rate increased by 80 basis points to 95.9% during the period.

Las Vegas Completions (as of June 2021)



Source: Yardi Matrix

Las Vegas vs. National Completions as a Percentage of Total Stock (as of June 2021)

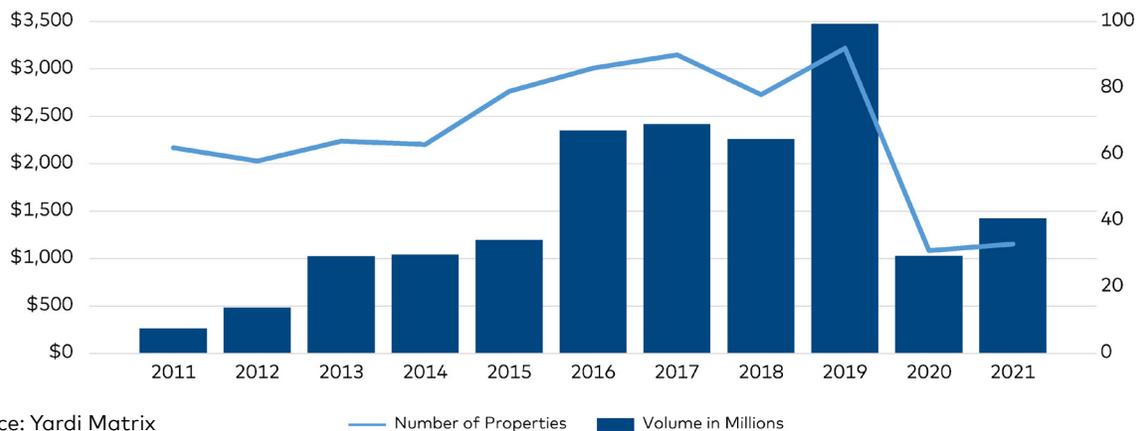


Source: Yardi Matrix

TRANSACTIONS

- ▶ With \$1.4 billion in multifamily assets trading through the first half of 2021, the metro's investment market is in the midst of a strong bounce-back, following a slow 2020. The first half of 2021 has already exceeded last year's overall volume by nearly \$400 million. Although a return to 2019 levels is unlikely, as \$3.4 billion in sales were recorded then, this year is still poised to exceed all other years from the previous decade.
- ▶ Property values have also seen a significant increase in the wake of returning investment appetite, with the average price per unit at \$184,178, significantly above the national figure, at \$172,960.
- ▶ In the 12 months ending in June, investment was mostly focused on Henderson assets, with nearly \$460 million in deals recorded in the Henderson East and Henderson West submarkets.

Las Vegas Sales Volume and Number of Properties Sold (as of June 2021)



Source: Yardi Matrix

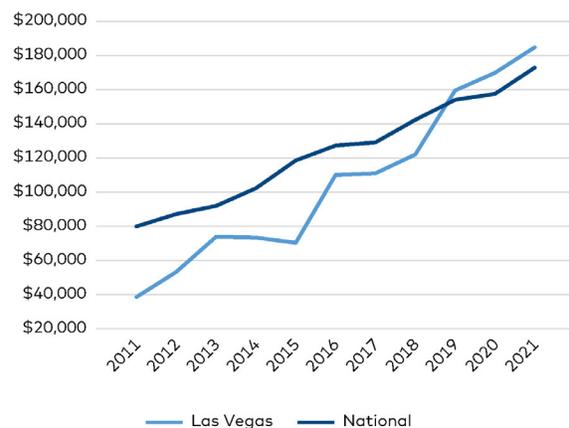
Top Submarkets for Transaction Volume¹

| Submarket | Volume (\$MM) |
|-----------------|---------------|
| Henderson East | 318 |
| Las Vegas NW | 314 |
| Sunrise Manor | 272 |
| Winchester | 152 |
| Henderson West | 142 |
| Las Vegas Strip | 134 |
| South Las Vegas | 123 |

Source: Yardi Matrix

¹ From July 2020 to June 2021

Las Vegas vs. National Sales Price per Unit



Source: Yardi Matrix



Las Vegas Is Back in Business

By Anca Gagiuc

Las Vegas is one of the nation's most beguiling cases. The market sustained massive damage inflicted to its local economy, heavily relying on the pandemic-battered leisure and hospitality sector. Yet, its rental market posted remarkable performance. Rents rose considerably since the onset of the pandemic, as did the occupancy rate. David Sloan, principal at Next Wave Investors, discusses Las Vegas' multifamily landscape.

What's your opinion on Las Vegas' overall performance over the past 15 months?

Las Vegas has performed much better than we expected. We were obviously concerned when the media reported that the unemployment rate was up to 33 percent in April 2020, but the majority of our residents continued to pay rent, so we did not experience a significant negative impact on our portfolio. Overall, demand for multifamily housing remained high across the Las Vegas market and multifamily properties continued to perform well.

How has the pandemic affected rent collection at Spanish Oaks, the community you purchased in February?

We are still seeing some delinquency, specifically of roughly 5 percent to 7 percent delinquency per month, which is a bit high. That said, we anticipate that we will see this number go down as the economy continues to reopen and more people are vaccinated.



Are you planning for any additional investments in Las Vegas this year?

We are currently under contract on one other acquisition. We would like to acquire more this year, but the competition is fierce. The word is out that the Las Vegas economy is back and the low-tax, business-friendly market is a huge draw for West Coast refugees.

Which areas are the most sought-after in the metro and why?

As a rapidly growing city, Las Vegas is continuously building new homes. The larger master-planned communities, such as Summerlin or in Henderson, attract many

of the highest-income residents. However, others prefer a more urban lifestyle and want to be downtown, which is developing a live-work-play community that is walkable.

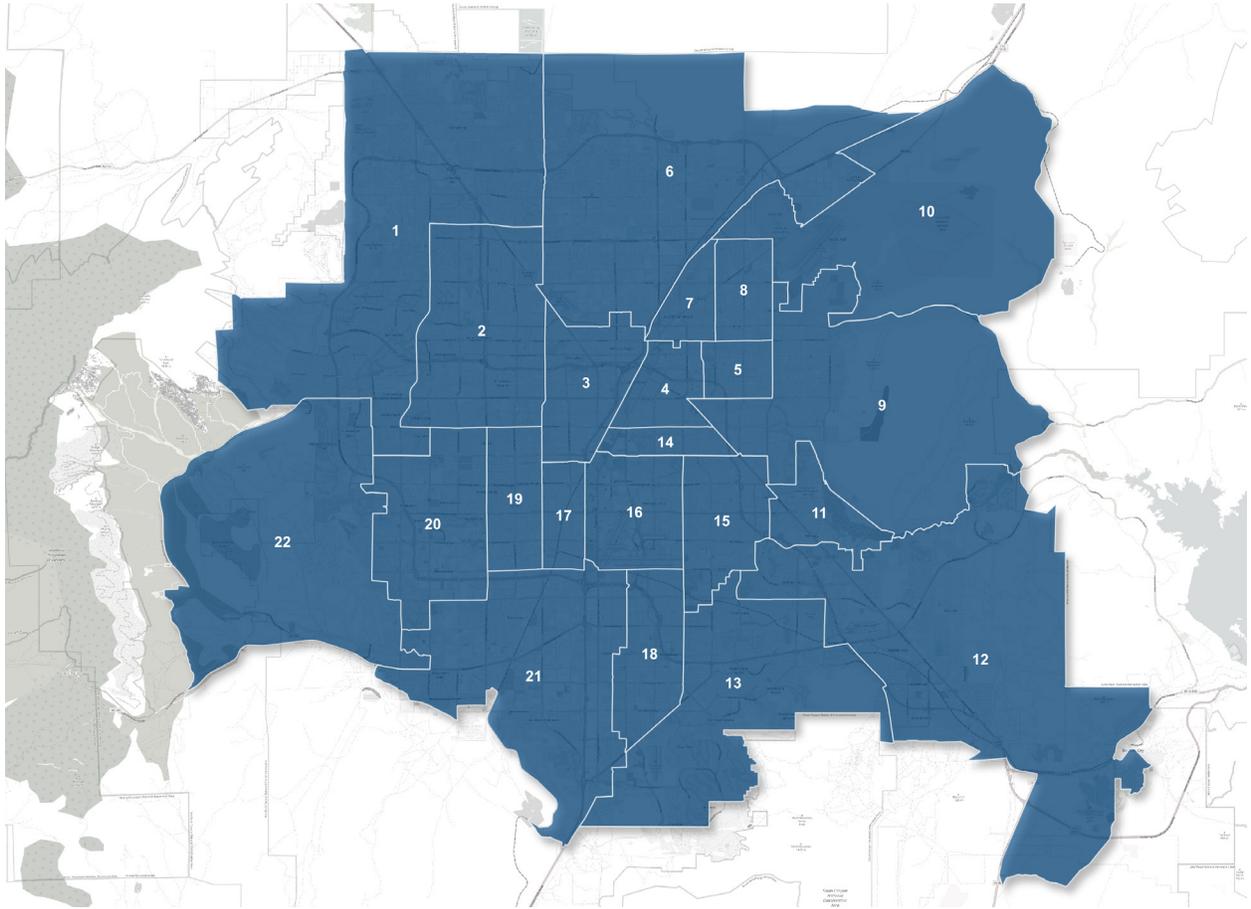
What have you found most surprising about Las Vegas since you made your first investment here?

I think the biggest surprise for us has been the incredible pace of appreciation. The first deals we acquired, only seven years ago, were purchased at prices of about \$30,000 per unit. These same assets now trade for prices substantially above \$100,000 per door.

What are your expectations?

I expect the market will remain strong for the remainder of this year. Las Vegas is back. All of the resorts are fully open, and the massive Resorts World development finally opened in June. It feels like the city is firing on all cylinders and we expect the investment market to be really strong.

LAS VEGAS SUBMARKETS



| Area No. | Submarket |
|----------|-------------------------|
| 1 | Las Vegas Northwest |
| 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 Northwest |
| 9 | Sunrise Manor |
| 10 | Nellis AFB |
| 11 | Whitney |

| Area No. | 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/Blue Diamond |

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 December 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 December 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, December 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.

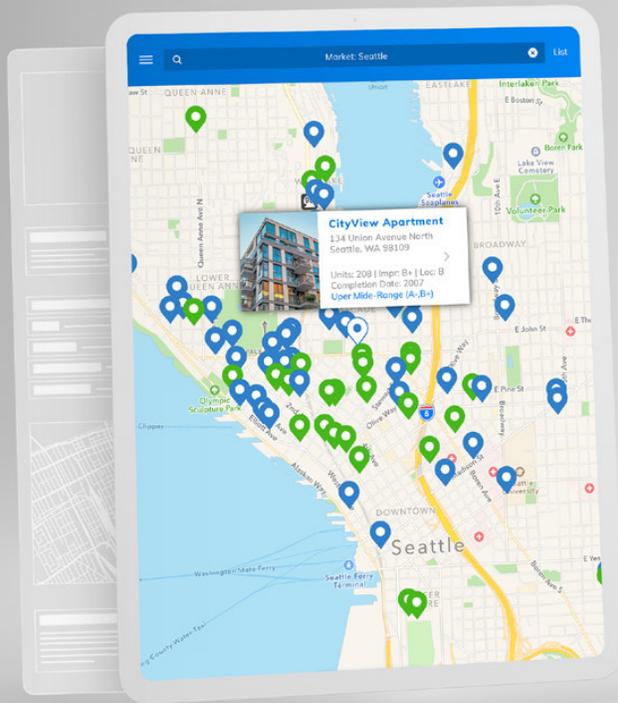
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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