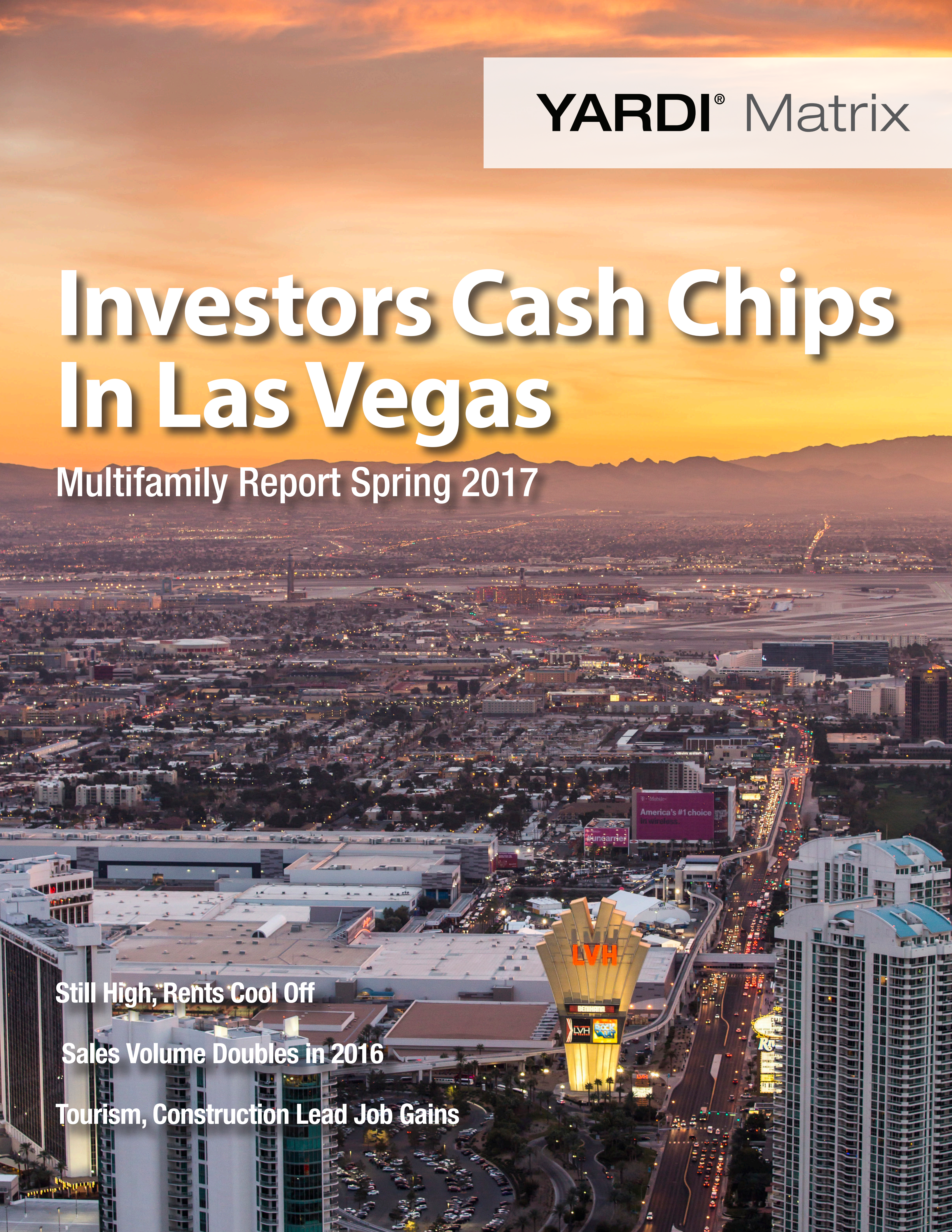
YARDI® Matrix

Investors Cash Chips In Las Vegas

Multifamily Report Spring 2017



Still High, Rents Cool Off

Sales Volume Doubles in 2016

Tourism, Construction Lead Job Gains

Market Analysis

Spring 2017

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From Recovery to Expansion

Amid accelerated hiring, demand for rentals heightened in Las Vegas in 2016. The city's economy grew at a healthy pace, due to broad-based employment gains and an increasing population. The mining, logging and construction and the leisure and hospitality segments were the most active during the past year.

A record number of visitors passed through Sin City last year, contributing $25.5 billion to local tourism—a 16.3% increase from 2015. The Lucky Dragon Hotel and Casino opened in December 2016. Construction continues on Genting's $4 billion Resorts World. The office market is expected to achieve a second consecutive annual increase in rents, further strengthening its performance. More than 100,000 square feet of space is slated for delivery in 2017. In Reno, Tesla Gigafactory has begun producing batteries and will employ several thousand people.

Multifamily fundamentals are strong: Occupancy for stabilized properties was 94.9% as of February. Apartment construction slowed in 2016 to 2,000 new units, likely because of oversupply of single-family home rentals. But the development looks promising, with more than 4,500 units under construction. Many of the new deliveries are focused in the Lifestyle segment, accentuating the city's affordability issues. Transaction volume rose 50% year-over-year to $2.4 billion, marking a peak in the current cycle.

Recent Las Vegas Transactions

The Avondale

City: Las Vegas
Buyer: Bascom Group
Purchase Price: $88 MM
Price per Unit: $157,589

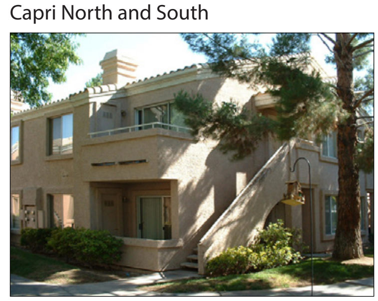
Sky Pointe Landing

City: Las Vegas
Buyer: Shopoff Realty Investments
Purchase Price: $73 MM
Price per Unit: $116,346

Villas at Green Valley

City: Henderson, Nev.
Buyer: Investcorp
Purchase Price: $71 MM
Price per Unit: $116,174

Capri North and South



City: Las Vegas
Buyer: Bascom Group
Purchase Price: $69 MM
Price per Unit: $110,577

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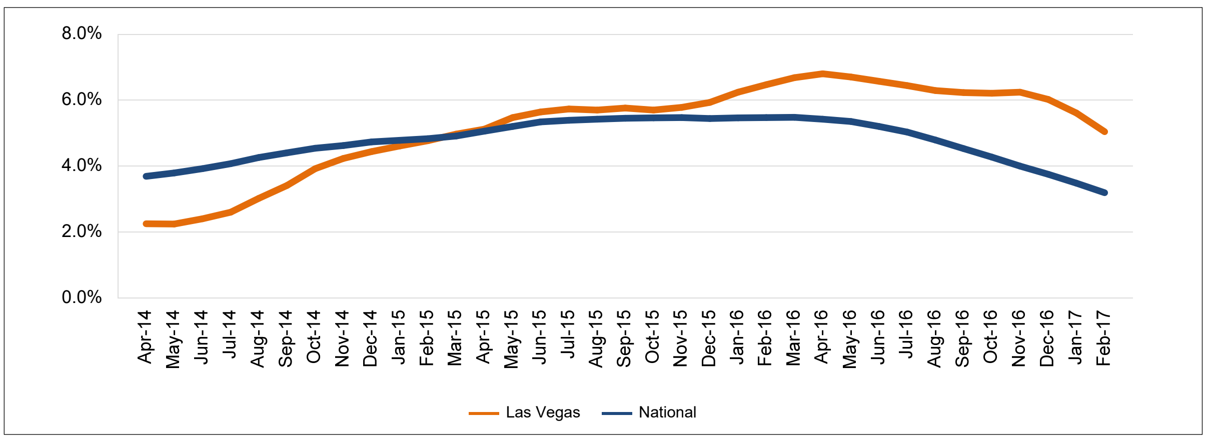
Rent Trends

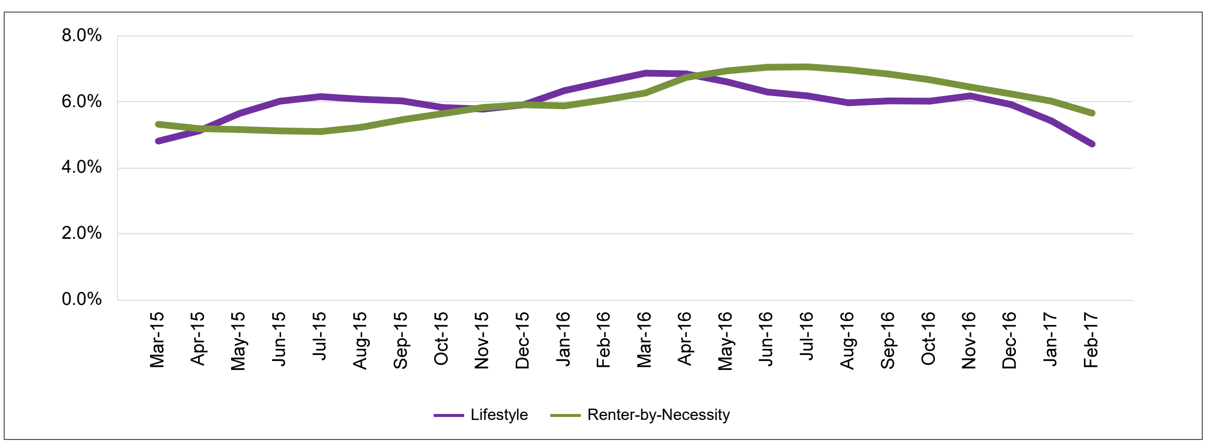
- After topping out at 6.8% last April, Las Vegas' rent growth cooled during the winter months, dropping to 5% in February, while outpacing the 2.8% national rate. Average rents rose to $916, trailing the country's $1,306 average. Diminishing affordability and a decrease in new deliveries are helping to moderate rent gains. Although new supply is creeping up, demand is expected to remain elevated. Yardi Matrix expects rents in the metro to grow 5.0% in 2017.
- The working-class Renter-by-Necessity segment experienced the highest increase in rents, which grew 5.7% to $760 per month. The expansion of low-paying construction and transportation jobs supports demand for these assets. Rent for higher-end Lifestyle assets rose 4.7% to $1,040.
- Rents grew in all but one submarket, with the largest increases occurring in Henderson East (6.6%), Winchester (6%), the Las Vegas Strip (5.5%), Sunrise Manor (5.2%) and Las Vegas Central (5.1%). Nellis dropped 0.5% year-over-year. The most affordable units are located in North Las Vegas East, where rent averages $662 per month. Rents were highest in Summerlin/Blue Diamond ($1,337), Enterprise ($1,184), Spring Valley West ($1,127), Henderson West ($1,125) and Las Vegas Northwest ($1,084).

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)

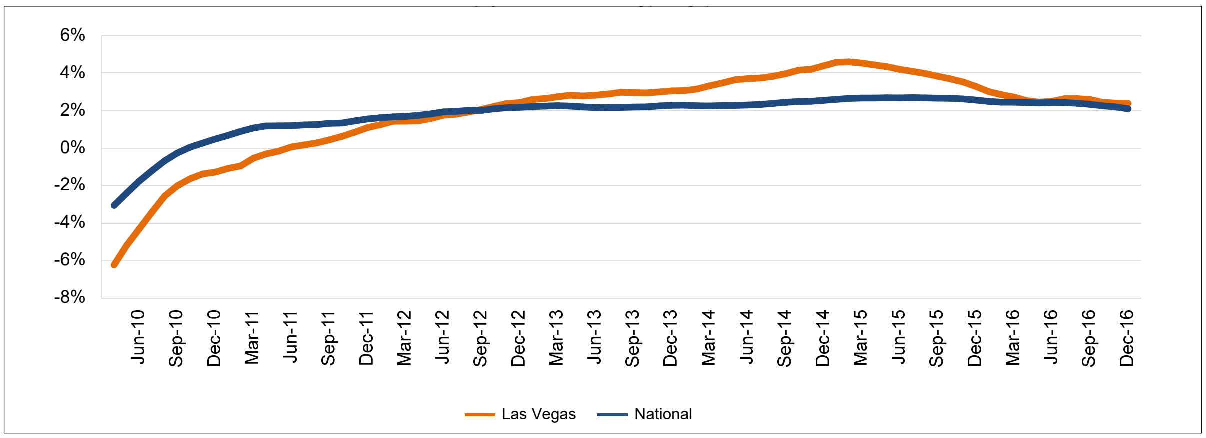


Source: YardiMatrix

Economic Snapshot

- Las Vegas added more than 24,000 jobs during the 12 months ending in December, a 2.4% change year-over-year and slightly above the 2.1% national average. Its economy remains focused on the tourism industry. In 2016, a record number of visitors spent $35.5 billion—16.3% more than in 2015.
- Mining, logging and construction expanded the most—16.4% year-over-year—thanks to the addition of 8,800 jobs. Lucky Dragon Hotel and Casino opened in December 2016, but work is still ongoing on Genting's Resorts World, which postponed its completion to 2019.
- The Las Vegas office market is poised to achieve a second consecutive annual increase in average rent. Moreover, limited supply additions amid growing demand will cause vacancy to drop and strengthen office performance. Construction will likely remain slow in 2017, with a single project of more than 100,000 square feet slated for delivery. In 2016, 170,000 square feet of space came online. Medical office properties, which saw an uptick in trading, could turn into a stable source of revenue for investors with affinity for low-risk assets.
- Nearly 30% complete, the Tesla Gigafactory in Reno began battery production in January. Tesla and Panasonic will hire several thousand employees, and at peak production, the Gigafactory will directly employ 6,500 people and indirectly create between 20,000 and 30,000 additional jobs in the surrounding regions.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
15	Mining, Logging and Construction	63	6.6%	8,800	16.4%
70	Leisure and Hospitality	284	29.8%	8,000	2.9%
40	Trade, Transportation and Utilities	181	19.0%	4,200	2.4%
65	Education and Health Services	95	10.0%	3,500	3.8%
90	Government	103	10.8%	1,400	1.4%
55	Financial Activities	46	4.8%	1,100	2.5%
80	Other Services	26	2.7%	900	3.5%
30	Manufacturing	22	2.3%	500	2.3%
50	Information	9	0.9%	-1,500	-13.9%
60	Professional and Business Services	123	12.9%	-2,100	-1.7%

Sources: YardiMatrix, Bureau of Labor Statistics

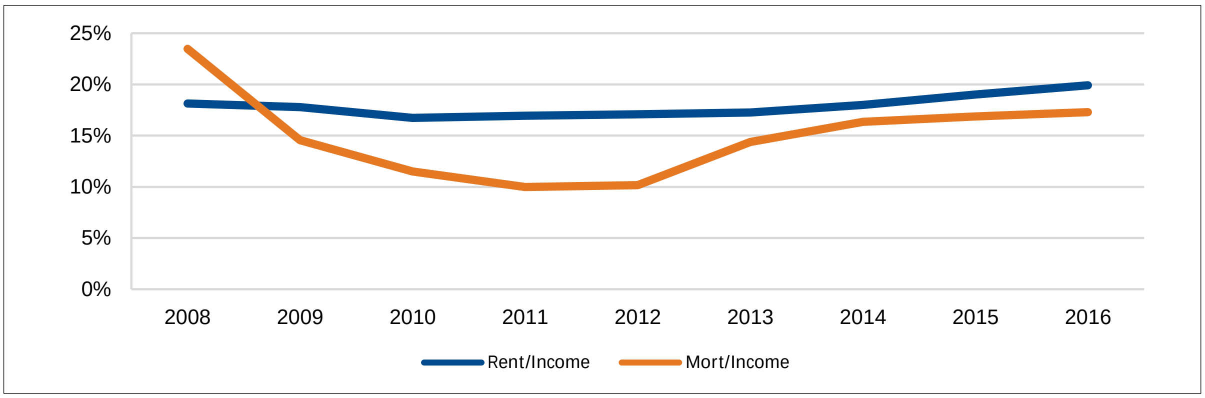
Demographics

Affordability

- The median home price rose 7.3% year-over-year in 2016 to $207,247. The average mortgage accounted for 17% of the area's median income, making ownership less costly than renting, which accounted for 20% of the median income.

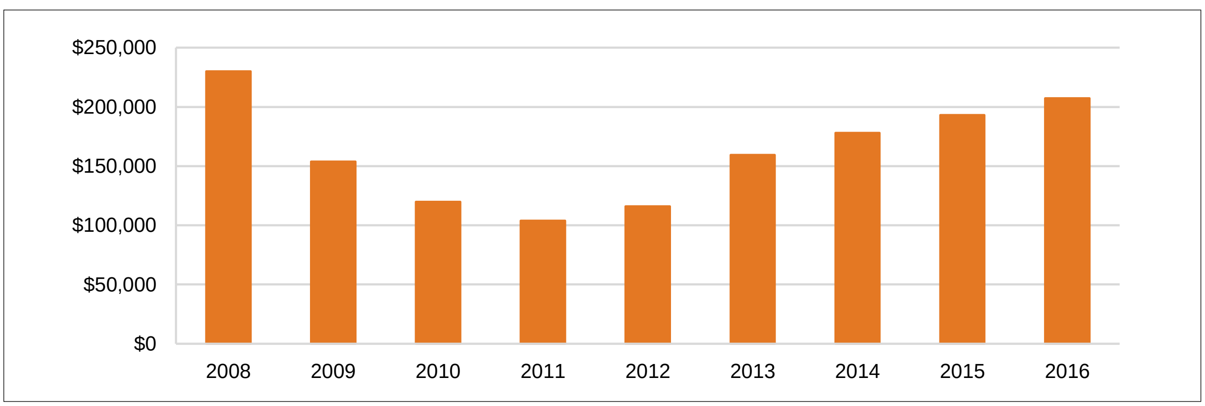
- Even though Las Vegas rents tends to lag the national average, demand for low-cost rentals still outstrips supply. In Las Vegas, there is only one affordable unit for every five extremely low-income renter households. The rarest assets are the affordable rentals big enough to accommodate larger families.

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 metro's population has surpassed the two million mark.

- Since 2011, more than 147,500 residents have relocated to Las Vegas.

Las Vegas vs. National Population

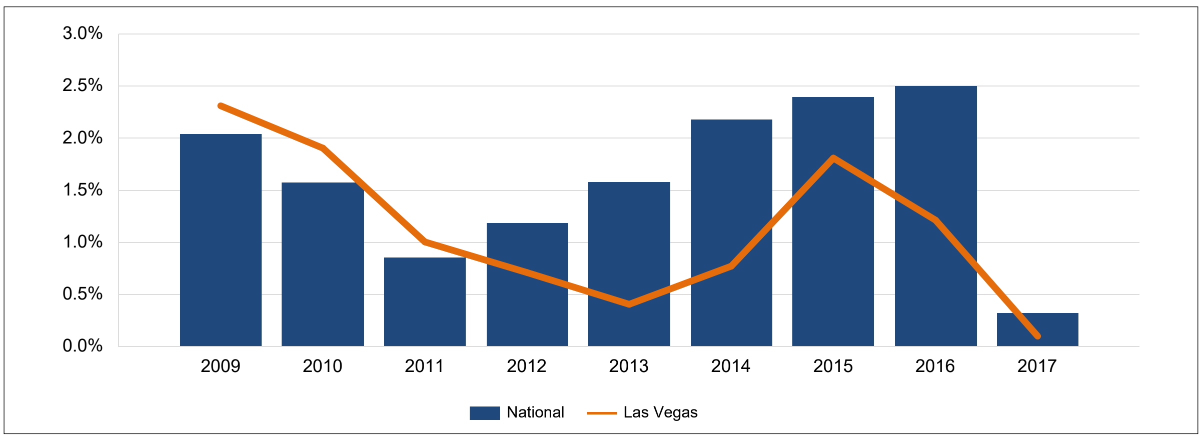
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Las Vegas-Henderson-Paradise, Nev., Metropolitan Statistical Area	1,967,290	1,998,204	2,028,421	2,069,146	2,114,801

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

Supply

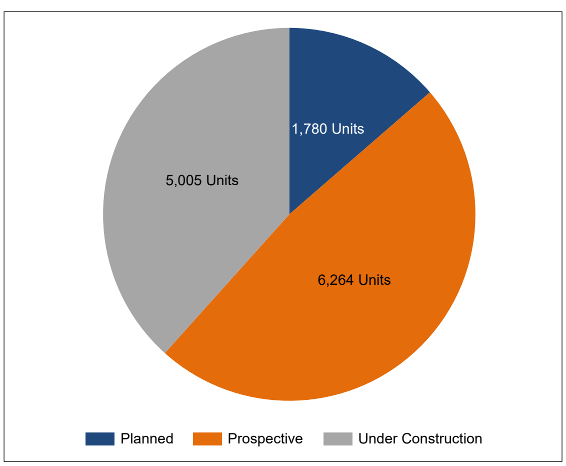
- Las Vegas' healthy fundamentals are creating sustained demand for housing. Construction activity eased considerably in 2016, when 2,014 units were delivered, representing a 47% drop from 2015. Total inventory grew by 1.2%, exactly half the 2.4% national growth rate.
- Although supply dipped in 2016, the development pipeline is active and supply should increase over the next couple of years. More than 4,500 units are under construction, with slightly more than half slated for completion by the end of the year. Occupancy of stabilized properties was 94.9% as of February, likely because of large oversupply of single-family homes available to meet renter demand.
- Developers are focusing on the higher-end Lifestyle assets, with much of the new construction revolving around Class A, resort-style communities with ample amenity packages. West and South of the Las Vegas Strip continue to be the most attractive submarkets to developers. Spring Valley West is the most active submarket, with more than 1,200 units currently under construction. Henderson West and Paradise Valley East occupy the next two ranks, with 555 units and 435 units under construction, respectively.

Las Vegas vs. National Completions as a Percentage of Total Stock (as of February 2017)



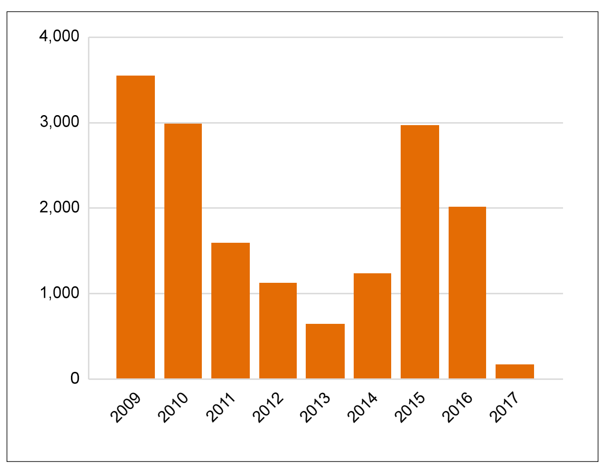
Source: YardiMatrix

Development Pipeline (as of February 2017)



Source: YardiMatrix

Las Vegas Completions (as of February 2017)

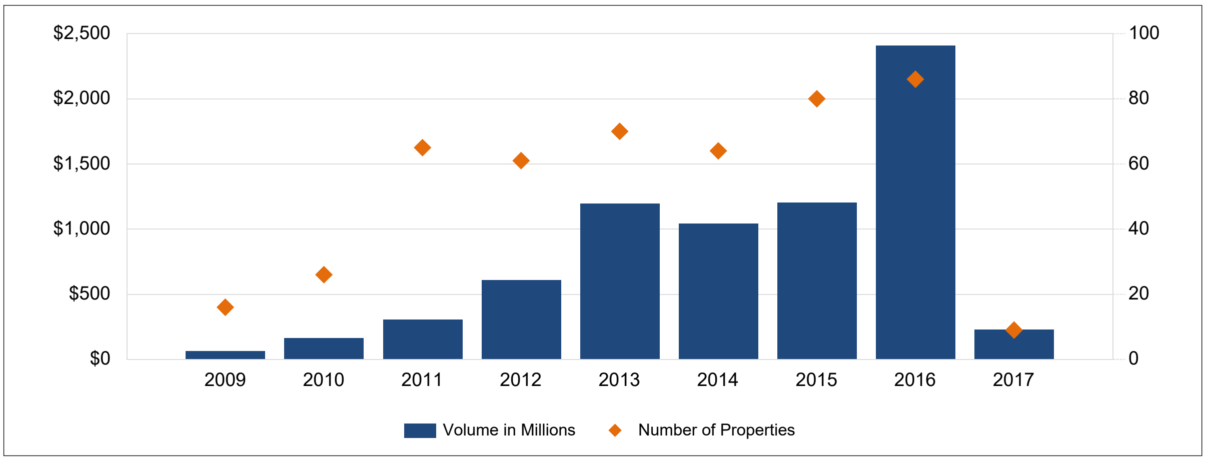


Source: YardiMatrix

Transactions

- Sales volume in Las Vegas totaled $2.4 billion during the past year, reaching a cycle high and doubling the previous year's volume of $1.2 billion. Because investors are looking for secondary and tertiary markets with higher yields, Las Vegas has gained international recognition and enjoys high expectations for growth.
- The per-unit price rose in 2016 to $110,382, still behind the $139,902 national average. Prices increased mostly because the properties that traded were at the higher end of the quality scale than in 2015.
- Las Vegas' busiest submarkets over the past 12 months were Las Vegas Central, Las Vegas Northwest, Henderson West, Paradise Valley South and North Las Vegas West. The Avondale in Las Vegas Northwest was the most expensive property to change hands in 2016. Bascom Group acquired the asset from Camden Property Trust in April for $88.2 million, or $157,589 per unit.

Las Vegas Sales Volume and Number of Properties Sold (as of February 2017)



Source: YardiMatrix

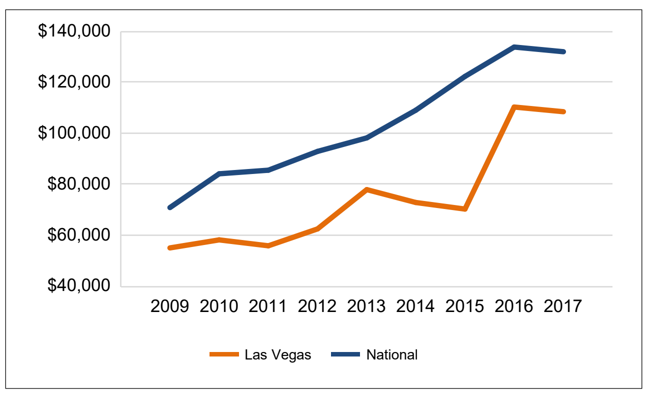
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Las Vegas Central	497
Las Vegas Northwest	311
Henderson West	217
Paradise Valley South	209
North Las Vegas West	179
Spring Valley East	158
Spring Valley West	127
Paradise Valley East	114

Source: YardiMatrix

[1] From March 2016 to February 2017

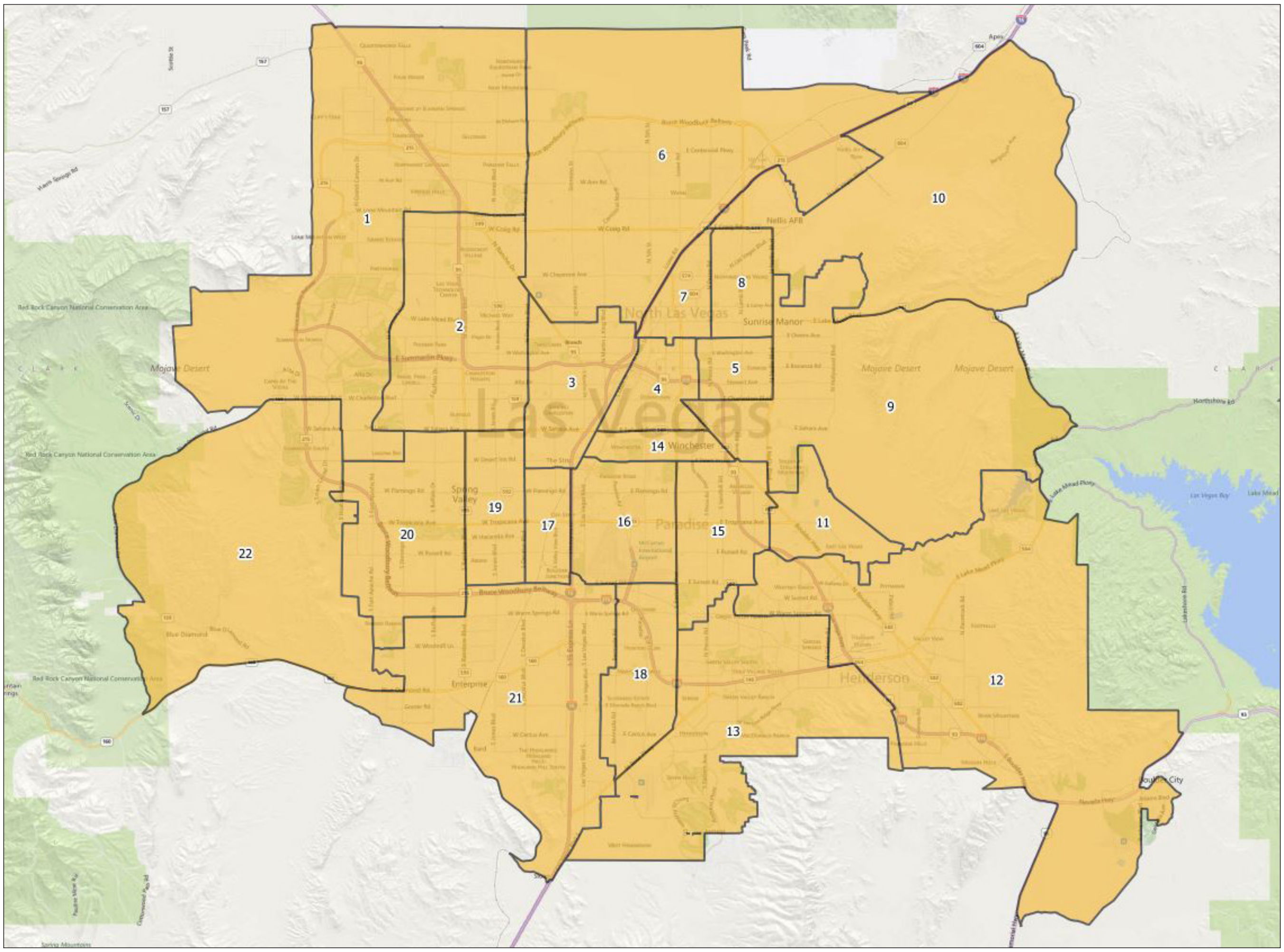
Las Vegas vs. National Sales Price per Unit



Source: YardiMatrix

Photo by oscity/iStockphoto.com

Las Vegas Submarkets



Area #	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 #	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 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.