

A nighttime aerial view of Las Vegas, showing illuminated buildings, streets, and palm trees against a dark blue sky. The city lights create a vibrant, glowing effect across the urban landscape.

Yardi® Matrix

# Gambling On Growth In Las Vegas

Multifamily Report Winter 2018

**Completions Continue at Strong Rate**

**Employment Gains Spur South Nevada**

**Rent Growth Exceeds Expectations**

## Market Analysis

Winter 2018

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## Cranes Keep the Strip in Growth Mode

With rents rising at the second-fastest rate in the nation by the end of October, the Las Vegas multifamily market is enjoying a strong spell across the board. Employment growth is driving significant population gains, resulting in more development. The city's much-maligned housing market is nearing a full rebound to pre-downturn levels, on the back of household creation in rentals. A relatively low average rent of \$974 has helped strengthen Sin City's newfound appeal.

Following a silent spell for significant real estate development in the Las Vegas Valley, the market is now flooded with major projects that the construction sector is struggling to deliver. As it prepares for the relocation of the National Football League's Raiders franchise to a \$1.9 billion stadium in Paradise, Nev., the metro is also gearing up for several other large-scale ventures, including the Las Vegas Convention Center, Resorts World Las Vegas and the expansion of the MGM Convention Center. To the northeast, Reno—still hot off its Tesla GigaFactory deal—is enjoying a strong run in attracting tech giants Apple and Google, with both companies aiming to expand or develop data center projects in the area.

Going forward, Las Vegas is poised to add new inventory at a stronger rate, as 4,700 units were underway as of October while another 11,000 units were in the planning and permitting stages. As a result, it is unlikely that rent growth will continue at such a strong rate, although it is expected to top 5.0% in 2017.

## Recent Las Vegas Transactions

Elysian West



City: Las Vegas  
Buyer: LivCor  
Purchase Price: \$107 MM  
Price per Unit: \$228,541

Mountain Gate/Trails



City: Las Vegas  
Buyer: LivCor  
Purchase Price: \$83 MM  
Price per Unit: \$153,989

Veritas



City: Henderson, Nev.  
Buyer: Charles B. Duff  
Purchase Price: \$77 MM  
Price per Unit: \$177,906

Villas at Green Valley



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

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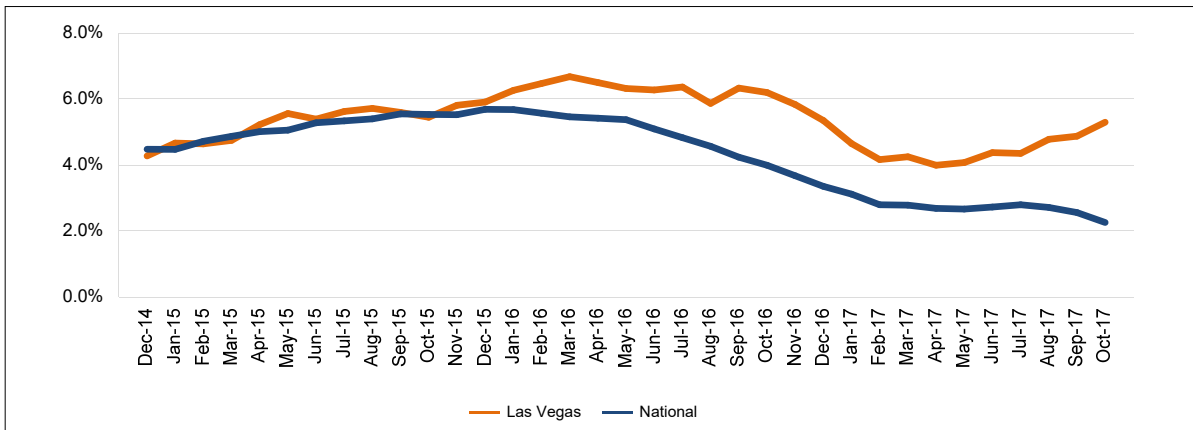
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## Rent Trends

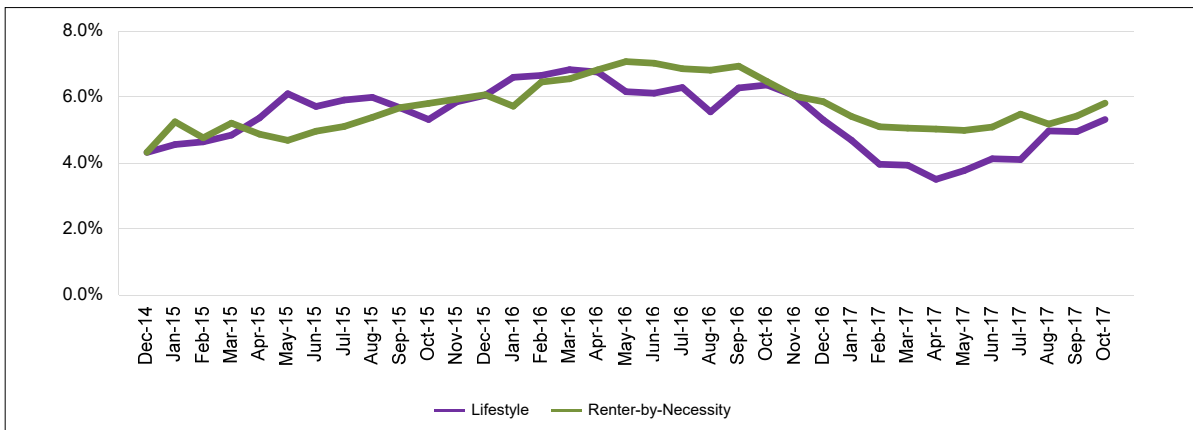
- Rents rose 5.3% year-over-year through October, more than double the 2.3% national average. Las Vegas has an average overall rent of \$973, making it one of the most affordable cities in Western U.S. The metro's average rate for upscale units was only \$1,108, establishing Las Vegas as a cheap alternative to the more expensive Northern California and Arizona. Rising employment is driving above-average population growth, pushing the city's development pipeline to some of the highest levels of the current cycle.
- In a dynamic rarely met across major markets, the divide between the Lifestyle and working-class Renter-by-Necessity segments is small. RBN rents were up 5.8% year-over-year, leading improvement in the Lifestyle segment by only 50 basis points. The average occupancy rate in stabilized properties was 95.2% as of September, showcasing housing demand's new-found strength. Stabilized assets in the underserved RBN segment operated at an average occupancy rate of 95.4% as of October, as the bulk of completions is in upscale suburban units serving Henderson and Spring Valley.
- Submarkets with the highest rent growth included North Las Vegas East (7.4%), Las Vegas East (6.6%), South Las Vegas (6.2%), Paradise Valley East (5.2%) and Spring Valley East (5.2%). The metro has exceeded expectations in 2017 and is likely to end the year at more than 5.0% rent growth.

### 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)

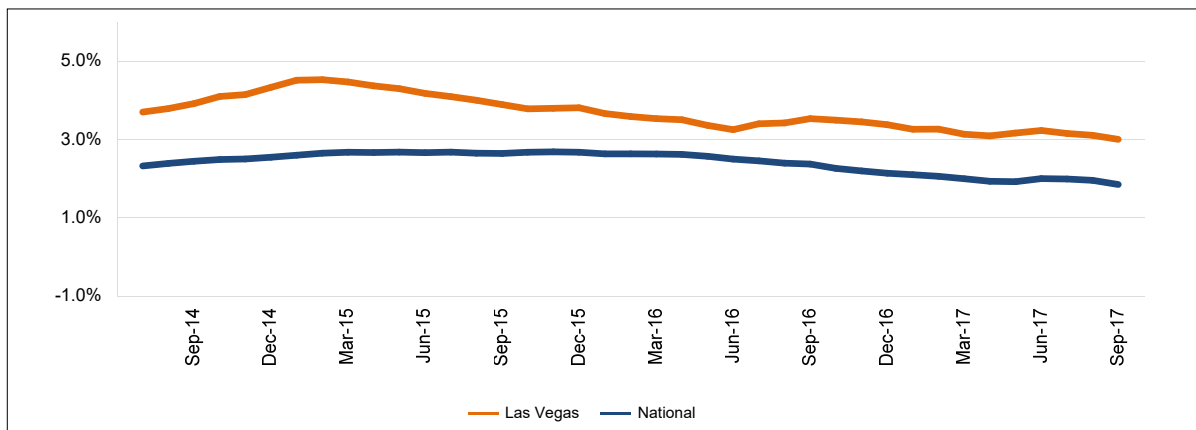


Source: YardiMatrix

## Economic Snapshot

- Las Vegas added 23,400 jobs in the 12 months ending in September, up 3.0% year-over-year and 110 basis points above the national average. This job addition rate is one of the highest in the nation, leading to sustained population growth in the Las Vegas Valley. A rapidly developing multifamily pipeline is contributing to an already full plate of development projects on the Strip. Although the construction sector added 10,200 positions, some estimates place the labor shortage at around a quarter of what is needed in Las Vegas.
- Demographic expansion throughout the cycle has pushed the need for significant growth in education and health services, leading to the addition of 3,900 jobs and a 4.2% year-over-year improvement rate, second only to construction. Union Village, the nation's largest health-care project, continues to add facilities and staff, driving growth for the sector. On the education front, University of Nevada, Las Vegas is having its best fundraising year, pushing new infrastructure projects meant to accommodate UNLV's largest-ever enrollment total—roughly 30,000.
- A strong 2017 for the city's office market has led to a vacancy rate of below 16.0% for the first time this cycle. Although new supply is coming in at one of the highest rates this decade, demand has maintained a positive net absorption rate, with an estimated 1 million square feet being taken up by the market over the past year.

### 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	%
15	Mining, Logging and Construction	67	6.8%	10,200	18.1%
60	Professional and Business Services	142	14.4%	5,100	3.7%
65	Education and Health Services	97	9.9%	3,900	4.2%
90	Government	104	10.6%	2,600	2.6%
70	Leisure and Hospitality	292	29.7%	2,300	0.8%
55	Financial Activities	50	5.1%	1,500	3.1%
80	Other Services	33	3.4%	900	2.8%
30	Manufacturing	23	2.3%	600	2.7%
50	Information	11	1.1%	-100	-0.9%
40	Trade, Transportation and Utilities	167	17.0%	-3,600	-2.1%

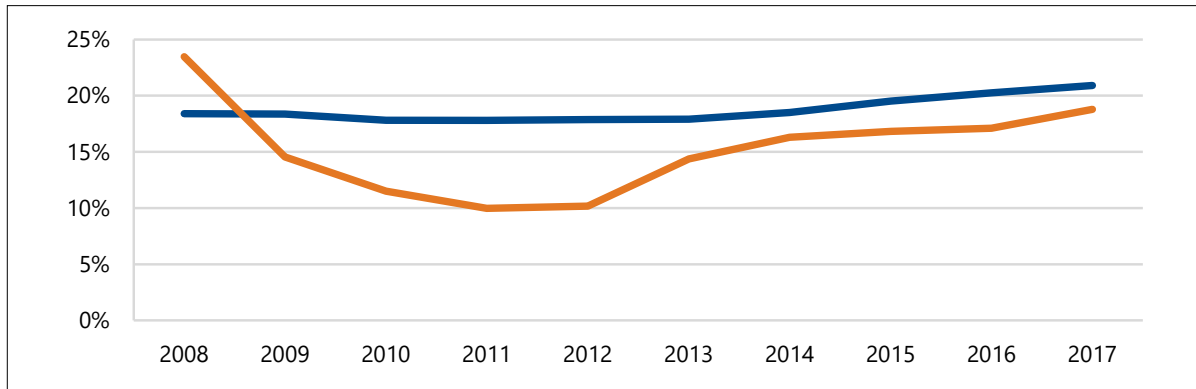
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

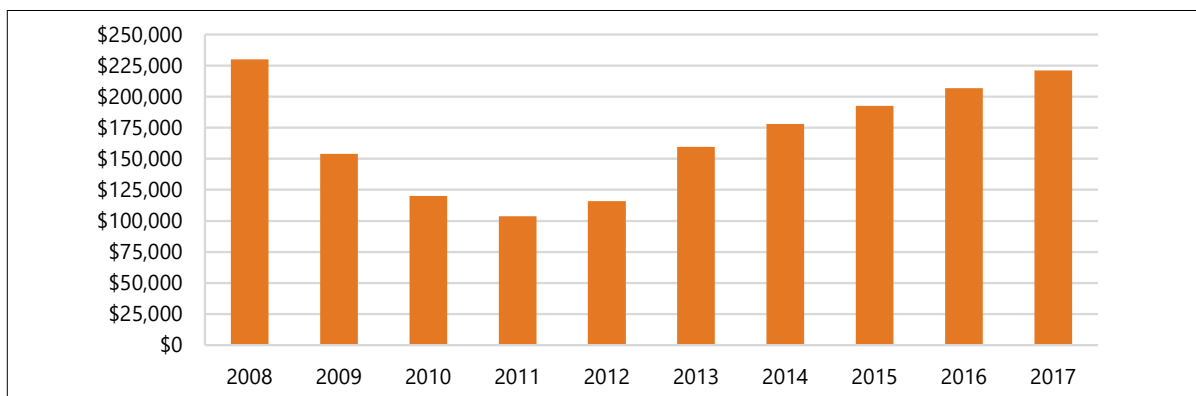
- As one of the hardest-hit U.S. housing markets, Las Vegas is still on the road to rebounding to pre-recession property values. After leading the nation in foreclosure rates, Las Vegas' median home price reached \$221,149, more than double the 2011 level, when the market bottomed out. That's still \$8,000 less than what it was in 2008. As a result, mortgages are now the less costly option, accounting for 19% of the area's median income.
- Meanwhile, rent growth has caught a second wind in Las Vegas, up 5.3% year-over-year as of October, the second-fastest rate among major U.S. metros. As rental demand became a primary growth factor over the course of this cycle, the dynamic between renting and owning has shifted compared to previous expansions.

### 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

- Las Vegas added 46,375 residents in 2016 for a 2.2% expansion, three times the U.S. rate.
- Above-average employment growth continues to drive population gains.

### Las Vegas vs. National Population

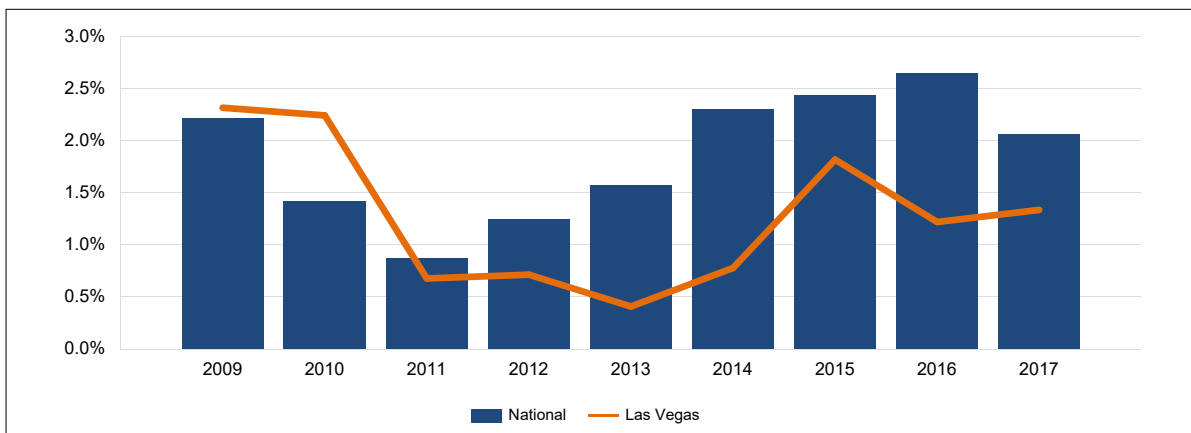
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Las Vegas Metro	1,995,815	2,025,096	2,064,899	2,109,289	2,155,664

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

## Supply

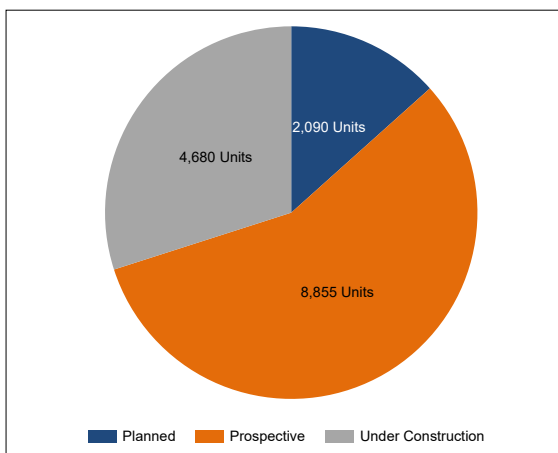
- Roughly 1,600 rental units were delivered in 2017 through October. While well below the national rate of construction, the city is poised to have one of its best years for completions since 2011, as another 600 units are slated to come online during the year's final months. The slow rate is mostly due to the ongoing reticence developers have shown in relation to building new stock in the Las Vegas Valley.
- Developers were working on 4,700 units in Las Vegas as of October, with another 11,000 in the planning and permitting stages. Approximately 85% of the units underway in the market were in the Lifestyle segment, where the average occupancy in stabilized properties was 95.0%, just under the city's overall rate. To the northeast, Reno's success in attracting the business of tech giants Tesla, Apple and Google has led to a blossoming development pipeline totaling 1,600 units under construction and more than 9,000 in all stages.
- Limited construction activity in the market's core has led to ballooning development in Spring Valley West (1,164 units underway), Henderson West (627 units) and Paradise Valley East (384 units). The Wolff Co.'s 498-unit Castile community in Henderson West was the largest Las Vegas property under construction as of October. Located at 1545 West Wigwam Parkway, the Class A asset is scheduled for completion in 2018.

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



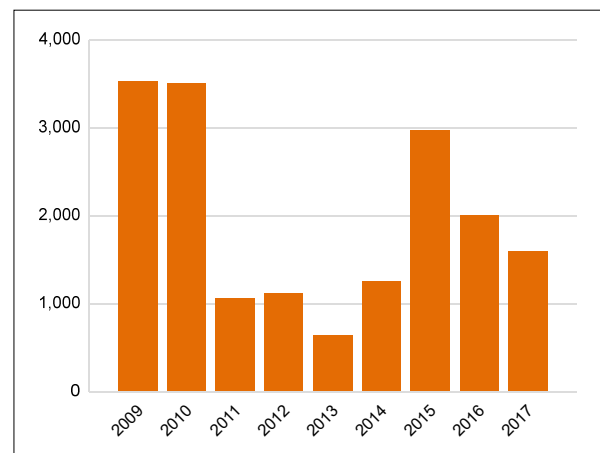
Source: YardiMatrix

**Development Pipeline** (as of October 2017)



Source: YardiMatrix

**Las Vegas Completions** (as of October 2017)

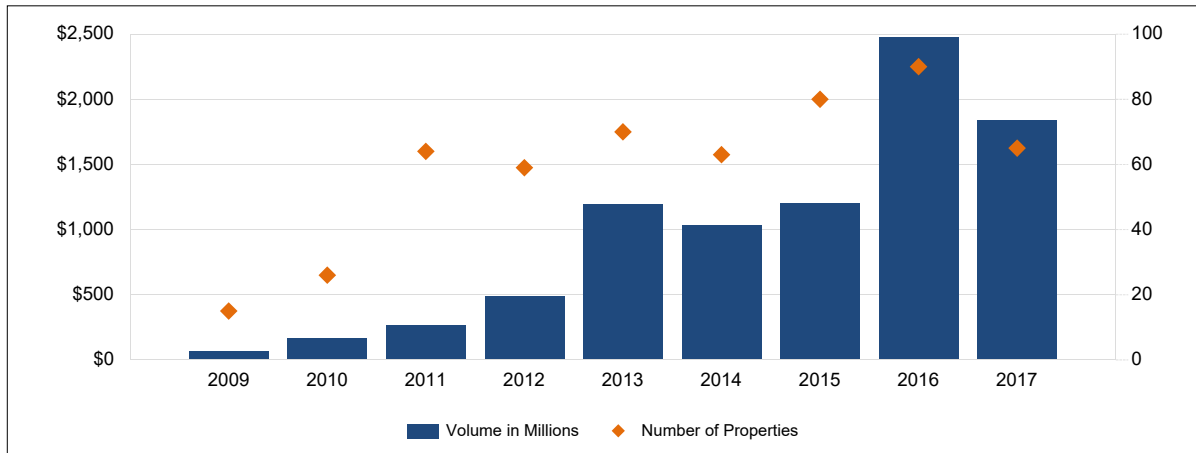


Source: YardiMatrix

## Transactions

- Roughly \$1.8 billion in multifamily properties traded during the year's first 10 months. This puts the metro on track to cross the \$2 billion-mark by year-end, but this volume is expected to stay below the 2016 cycle peak. Per-unit prices remained roughly flat in 2017, at \$108,020 as of October, with investment activity uniformly divided between Renter-by-Necessity and Lifestyle assets.
- Acquisition yields for Las Vegas-area multifamily assets have slowly compressed amid rising investment activity, with returns on stabilized suburban properties ranging from 5.0 to 5.3%. In the 12 months ending in October, transaction activity was highest in the suburbs: Spring Valley (\$481 million), Henderson (\$262 million) and Paradise Valley (\$192 million). LivCor acquired five Las Vegas-area properties in the 12 months ending in October: Elysian West, Mountain Gate/Trails, Union, SW and Dream. The company paid a total of \$360 million for the assets, or roughly \$180,000 per unit.

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



Source: YardiMatrix

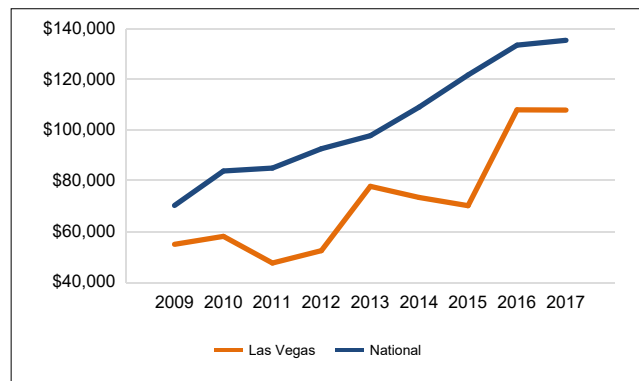
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Spring Valley West	337
Sunrise Manor	260
Las Vegas Central	206
Enterprise	198
Las Vegas Strip	187
Henderson East	154
Spring Valley East	145
Paradise Valley East	115

Source: YardiMatrix

<sup>1</sup> From November 2016 to October 2017

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



Source: YardiMatrix

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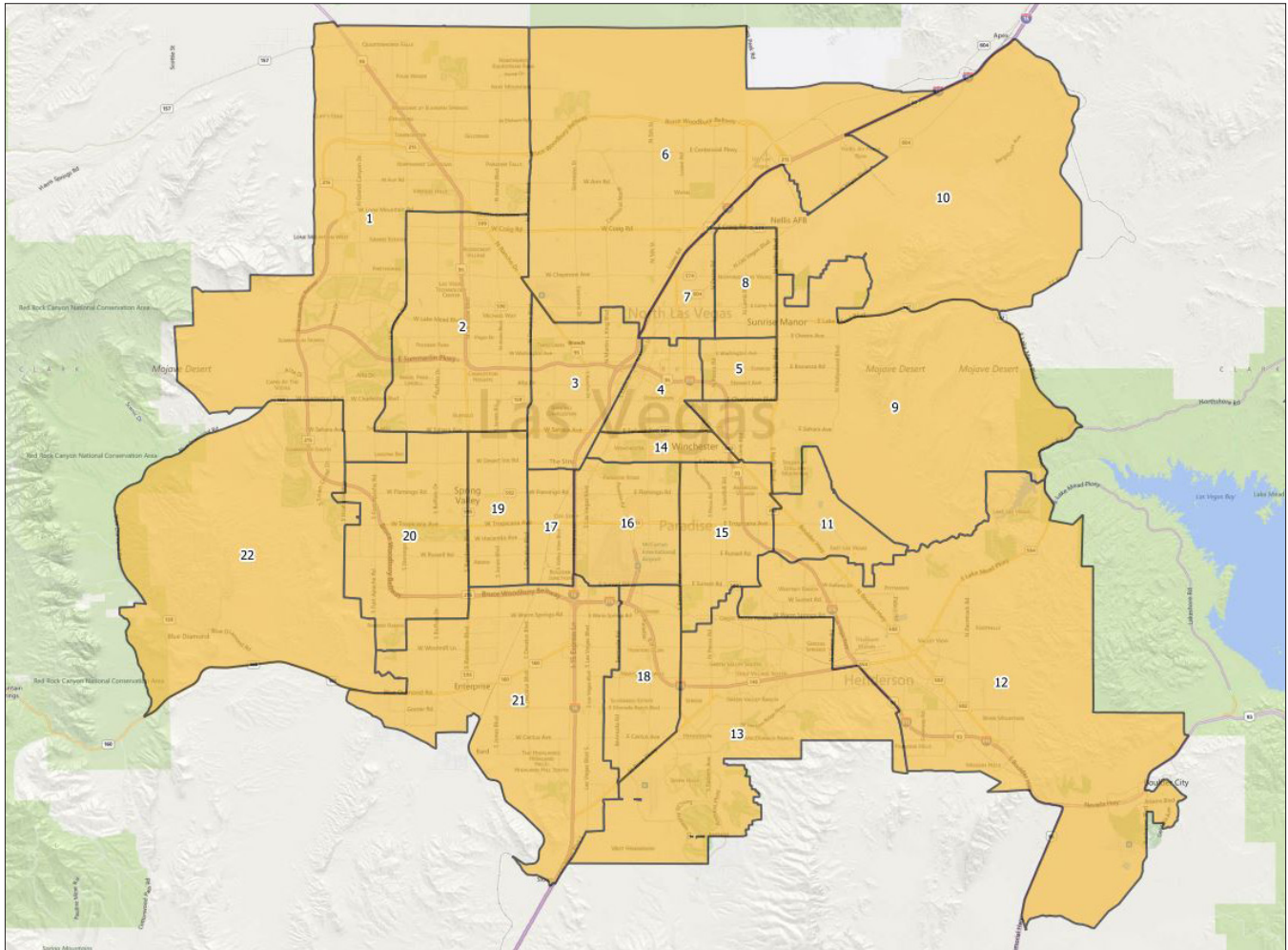
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## Las Vegas Submarkets



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

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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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