Yardi® Matrix

Blue Skies Ahead In Las Vegas

Multifamily Report Summer 2018

Rising Demand Deepens Affordability Issues

Rent Growth Among Fastest in the US

Hiring Rate Outpaces Nation

LAS VEGAS MULTIFAMILY

Yardi® Matrix

Market Analysis

Summer 2018

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Demand Outstrips Supply

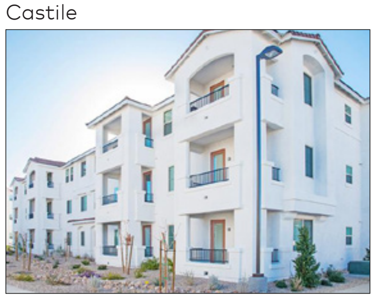
After a decade of at times sluggish recovery, Las Vegas' economy promises blue skies. Having one of the most affordable business climates in the U.S., the metro attracts businesses and residents alike, mainly from neighboring Southern California. This builds up multifamily demand, which has been outpacing supply over the past decade. Rent growth is the second-largest in the country, up 5.8% year-over-year through July, to $1,108, but still trailing the $1,409 national average.

Government and trade, transportation and utilities led job growth, with the addition of a combined 12,100 jobs. Construction was also strong, up by 3,900 jobs and will likely hold the trend, as more than $10 billion in development projects are underway in Las Vegas. However, the biggest uncertainty is related to the state of trade, which could directly impact the city's hospitality sector, still very much the local economy's cornerstone.

Multifamily transaction activity picked up pace, with roughly $1.1 billion in assets trading through June. The boost in rent growth effused into the price-per-unit amount, which rose 14.6% year-over-year through July, to $126,200, still trailing the $148,902 national average. With almost 3,800 units under construction in the metro as of July, and only 1,655 units delivered, Yardi Matrix expects rents to grow by 3.6% in 2018.

Recent Las Vegas Transactions

Castile



City: Henderson, Nev.
Buyer: Thompson Michie Communities
Purchase Price: $100 MM
Price per Unit: $200,000

Solis at Flamingo

City: Las Vegas
Buyer: ConAm
Purchase Price: $72 MM
Price per Unit: $137,405

Xander 3900

City: Las Vegas
Buyer: Blackstone Group
Purchase Price: $70 MM
Price per Unit: $144,792

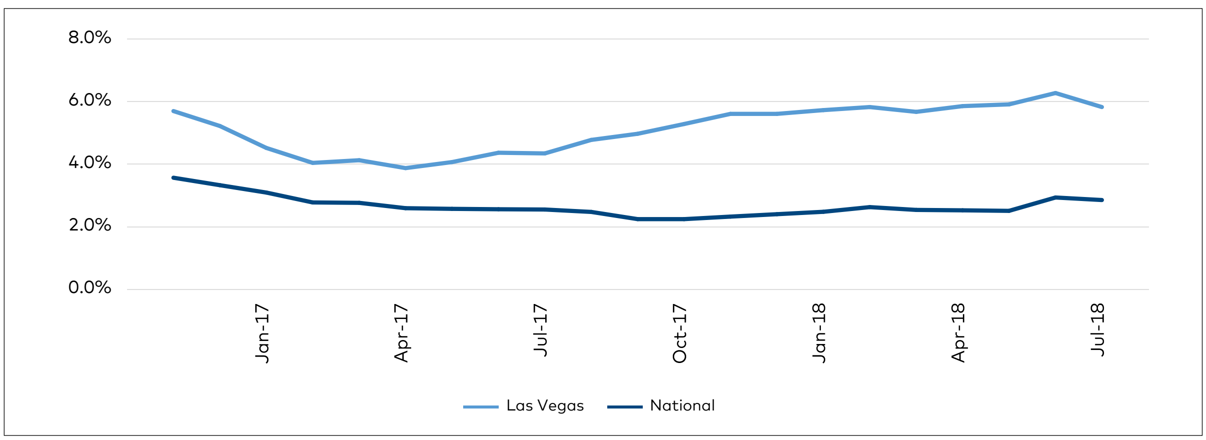
Aviata

City: Las Vegas
Buyer: TruAmerica Multifamily
Purchase Price: $67 MM
Price per Unit: $146,811

Rent Trends

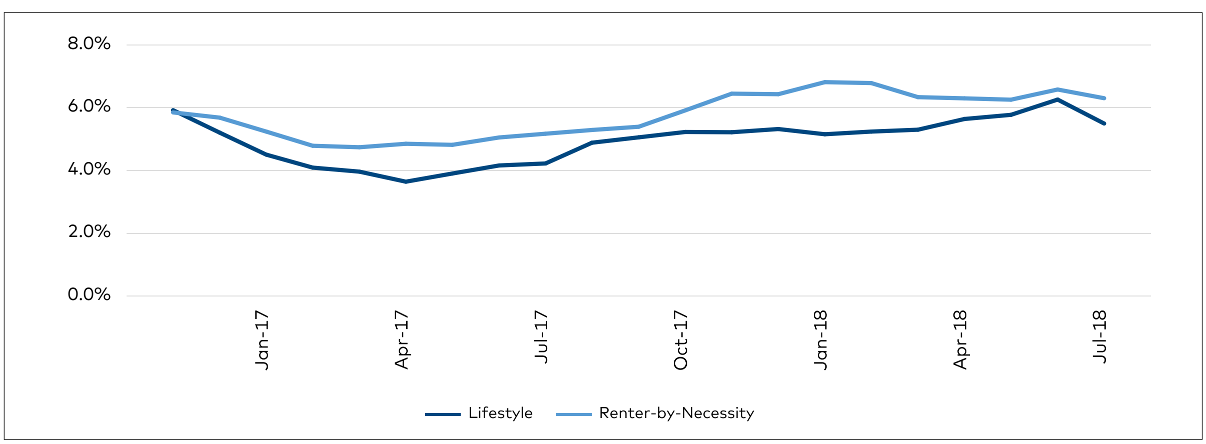
- Rents rose 5.8% year-over-year through July, more than double the 2.8% national rate through the interval. As a result, the average overall rent surpassed the $1,000 mark for the first time this cycle, rising to $1,018. Favorable economic conditions in Las Vegas have propelled rent gains on the second-highest spot in the country.
- Rent growth for assets in the Renter-by-Necessity segment has been hovering around the 6% margin since October 2017, settling at 6.3% in July, to $843. The strengthening economy fed demand for Lifestyle assets as well, with rents in this segment rising by 5.5%, to $1,171.
- Growth was positive across the map, all submarkets registering increases. The highest growth occurred in Braken (up 8.6% year-over-year) and North Las Vegas West (7.4%). The highest rental rates were in Summerlin/Blue Diamond ($1,515), where growth was below the metro's average (4.6%), mostly due to its inventory consisting of Lifestyle properties. The most affordable area in the metro was Las Vegas East, up 3.6% to an average of $816.
- Occupancy in stabilized properties dropped by 10 basis points year-over-year, reaching 95.2% in June. Yardi Matrix expects rents to rise 3.6% in 2018.

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

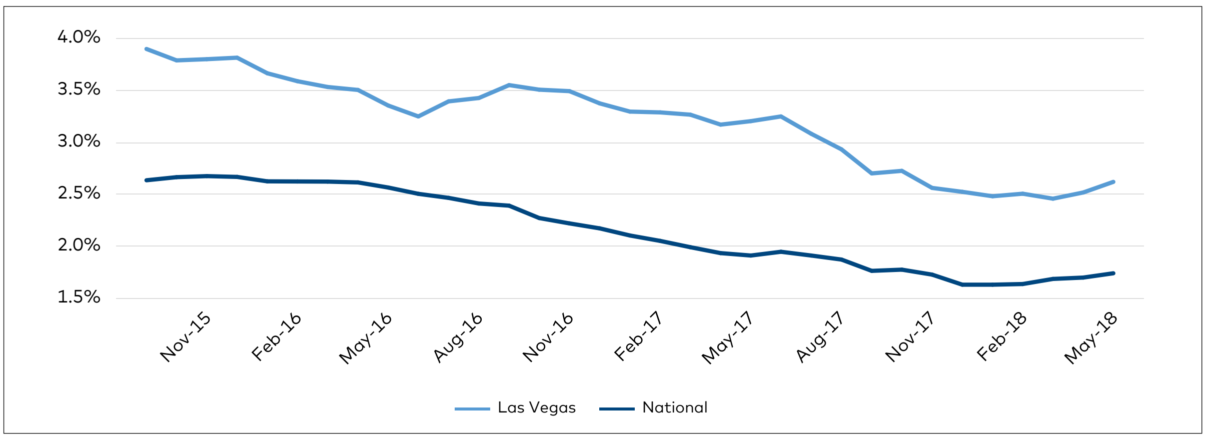
Economic Snapshot

- Las Vegas' employment market continued at a strong rate. About 27,700 new jobs were added in the metro year-over-year through May, up 2.6%, well above the 1.7% U.S. rate. Growth occurred across most industries, except the information sector, which contracted by 700 jobs. The unemployment rate in the metro dropped to 4.4% in May, trailing the 3.8% national average.

- The government sector led growth, with the addition of 6,200 jobs, in part due to the Clark County School District that restarted hiring licensed personnel and substitute teachers, and also thanks to the Las Vegas Metropolitan Police Department, in need of filling 600 officer positions in 2018. Trade, transportation and utilities expanded by 5,900 jobs. The construction sector grew by 3,900 jobs, thanks to numerous development projects, including the $1.9 billion NFL Stadium, the $1.4 billion expansion of the Las Vegas Convention Center and an 18,000-seat spherical arena on the Strip. About $10 billion worth of investments will open for business in the city by 2020.

- Interest in the Las Vegas office market has pushed vacancy to about 14% to 16%, with nearly 300,000 square feet of net absorption in 2018. The pipeline is strengthening, with almost 325,000 square feet underway. The Howard Hughes Corp. is developing the space in two properties: the six-story Two Summerlin and the two-building Aristocrat Technologies Campus, both located in Summerlin.

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	%
90	Government	109	10.8%	6,200	6.1%
40	Trade, Transportation and Utilities	178	17.7%	5,900	3.4%
15	Mining, Logging and Construction	63	6.3%	3,900	6.6%
65	Education and Health Services	100	10.0%	3,800	4.0%
70	Leisure and Hospitality	296	29.5%	2,600	0.9%
80	Other Services	33	3.3%	1,800	5.7%
60	Professional and Business Services	140	13.9%	1,700	1.2%
55	Financial Activities	52	5.2%	1,300	2.6%
30	Manufacturing	24	2.4%	1,200	5.2%
50	Information	11	1.1%	-700	-5.9%

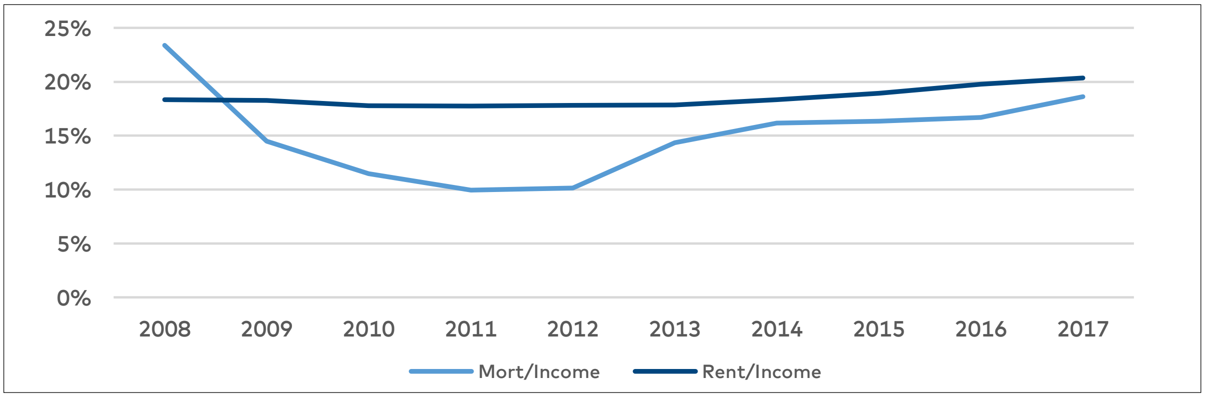
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

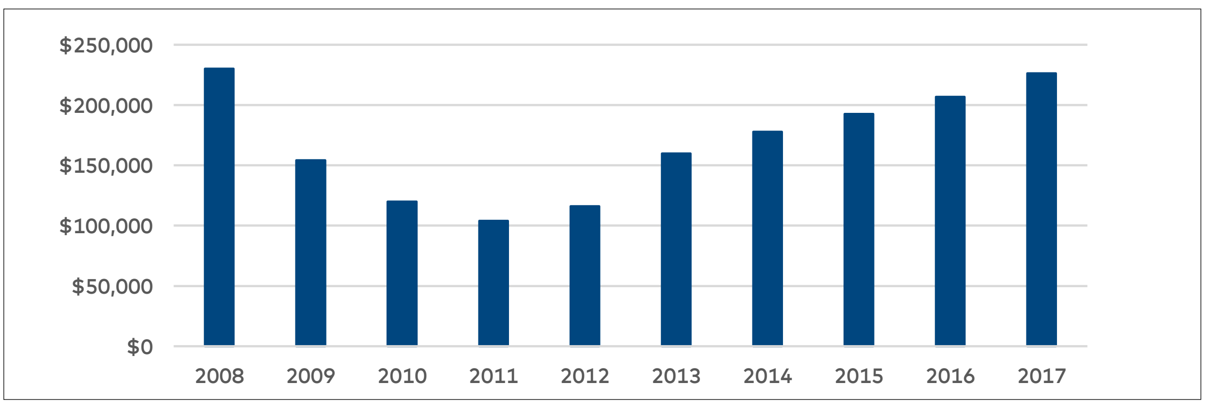
- Rising home prices, mortgage payments and rental rates, coupled with a growing demand for housing, are colliding with a shortage of available homes in Las Vegas. The dynamic is having problematic effects on the metro's affordability levels. Renting and owning are almost in lockstep, accounting for 20% and 19% of the area's median income.
- The median home value continued to rise, up 9.6% in 2017, to $226,422, a big jump when factoring in the effect it has on the large cohort of low-wage earners that makes up the bulk of those seeking housing. Relief is slow, as there were only 350 units underway in fully affordable communities.

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' population grew by 47,355 residents in 2017, a 2.2% increase, more than triple the 0.7% national rate.
- Since 2013, the metro's population expanded by 8.8%, well above the 3.0% national rate during the same period.

Las Vegas vs. National Population

	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Las Vegas Metro	2,026,056	2,064,991	2,110,330	2,156,724	2,204,079

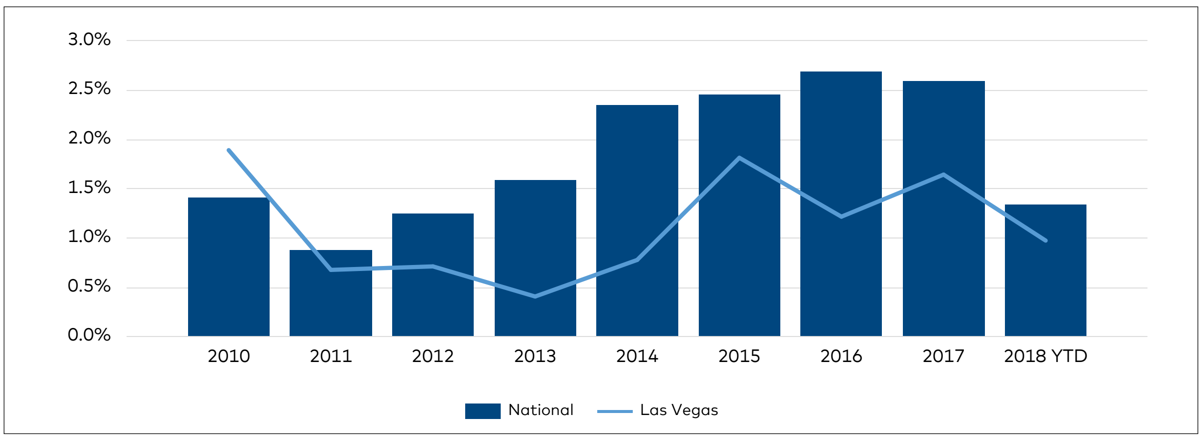
Sources: U.S. Census, Moody's Analytics

Supply

- Some 1,655 units were delivered in 2018 through July, 1.0% of total stock. That's 30 basis points below the national average. The Las Vegas housing market is picking up speed, with fast-rising prices and increased construction activity showcasing the market's improving fundamentals. While prices don't appear to be tumbling soon, developers need to further increase their output, due to rising demand. As a direct result of a sluggish development, occupancy in stabilized properties is now climbing in a trend that's adverse to the national tendency. The average rate for Las Vegas assets was 95.2%, up 10 basis points year-over-year, but more importantly, 50 basis points higher than in February.

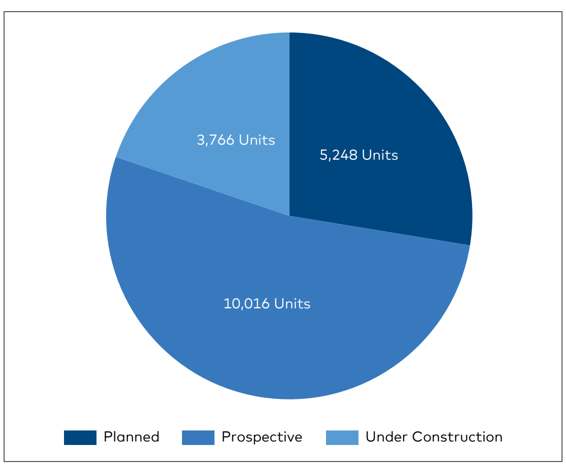
- About 3,800 units were under construction in the metro as of July, while another 15,000 units were in the planning and permitting stages. Construction activity is uniform across the map, with the top three submarkets comprising more than 2,000 units underway—Spring Valley West (1,044 units), Henderson West (536 units) and Enterprise (535 units). The largest multifamily property under construction in Las Vegas was Empire, a 536-unit community owned by Nevada West Development. The asset has a corporate housing element and is slated for completion in 2021.

Las Vegas vs. National Completions as a Percentage of Total Stock (as of July 2018)



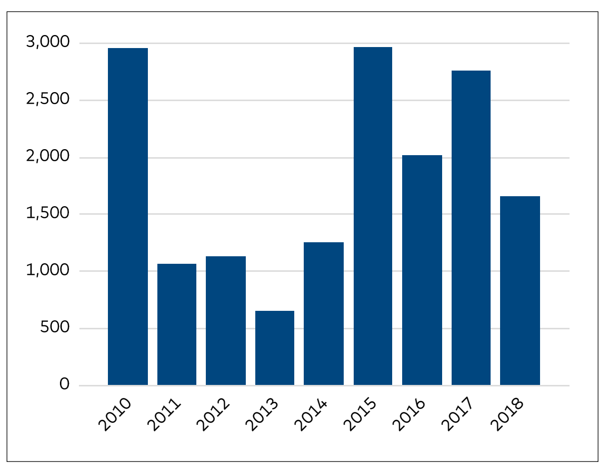
Source: YardiMatrix

Development Pipeline (as of July 2018)



Source: YardiMatrix

Las Vegas Completions (as of July 2018)

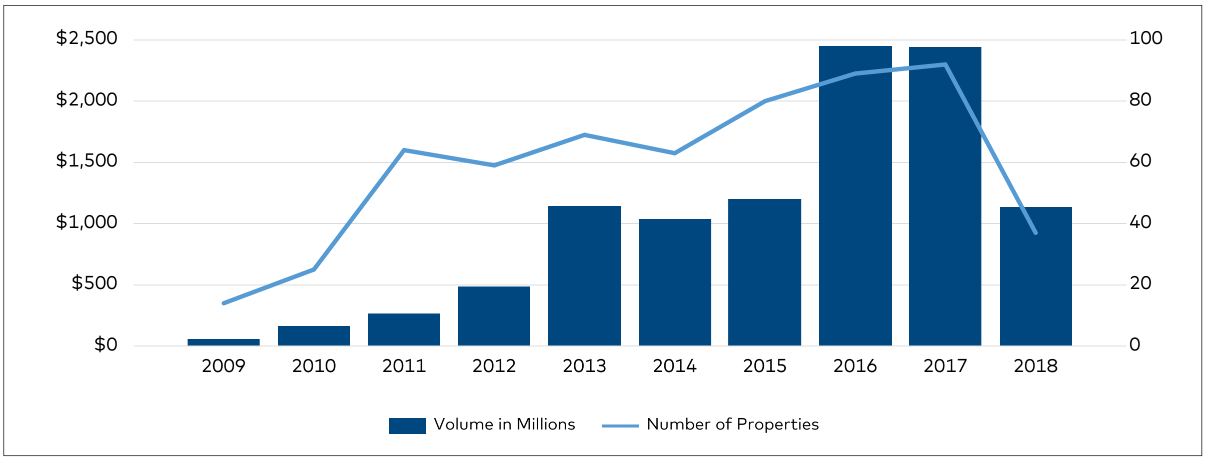


Source: YardiMatrix

Transactions

- Transaction volume exceeded $1.1 billion year-to-date through June. Of the 37 properties that traded during that time, the balance tilted slightly in favor of value-add opportunities. With the average rent rising substantially on both ends of the spectrum, average per-unit prices rose another 14.6% this year, to $126,200. Even though property values have risen substantially faster than the national rate in Las Vegas, the price per unit is well behind the $148,902 national average.
- The metro's healthy demographics and low property taxes have turned Las Vegas into a prosperous environment for investors seeking value-add opportunities, but also into a go-to place for those looking for an alternative to California's pricey properties. Sales activity remained high in some regions, with the top 5 most active submarkets totaling $1.3 billion in sales in the 12 months ending in June. Las Vegas Central ($320 million) was the most traded submarket through that interval.

Las Vegas Sales Volume and Number of Properties Sold (as of June 2018)



Source: YardiMatrix

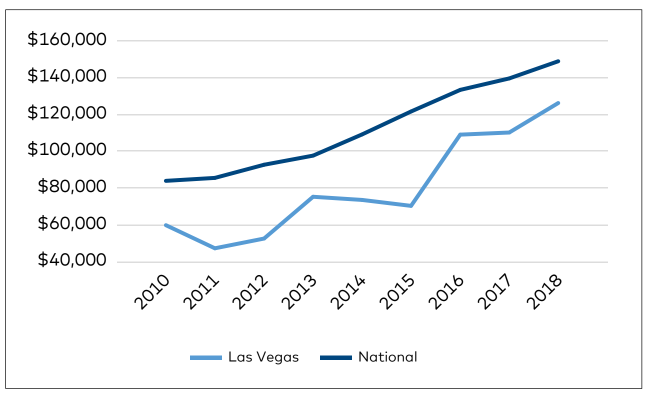
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Las Vegas Central	326
Spring Valley West	270
Las Vegas NW	250
Henderson West	241
Paradise Valley East	216
Spring Valley East	195
Sunrise Manor	179
Paradise Valley South	144

Source: YardiMatrix

[1] From July 2017 to June 2018

Las Vegas vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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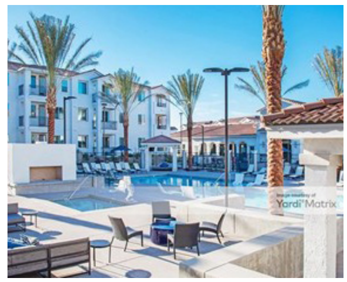
MHN MULTI-HOUSING NEWS

Lyon Capital Ventures Enters Vegas Market With $46M Buy

The company plans to add a short-stay hotel and additional units on the adjacent land, as well as renovate some features of the 160-unit Gramercy.



Las Vegas-Area Community Lands $57M Financing

Built in 2018, Castile Apartments features 498 units across 28 buildings. Thompson Michie Communities bought the asset in April for $99.6 million.

TruAmerica Sells Las Vegas Community for $72M

Solis at Flamingo comprises 524 units across 34 buildings. The asset, which recently underwent major renovations, was 94.1 percent occupied upon closing.

Alpha Wave Goes Shopping in Vegas

The company acquired Cypress Springs Apartments, located where new supply is somewhat limited compared to the metro's other areas. The firm will invest approximately $1.7 million in capital improvements.

Alliance Property Lands LIHTC Funding For Affordable Housing in Vegas

The 72-unit Owens Senior Apartments will receive sustainable upgrades, and the rehab should be complete in early 2019.

TruAmerica, Oaktree Snag $142M Portfolio

The joint venture acquired the 424-unit Galleria Palms in Tempe, Ariz., and the 456-unit Aviata in Las Vegas.

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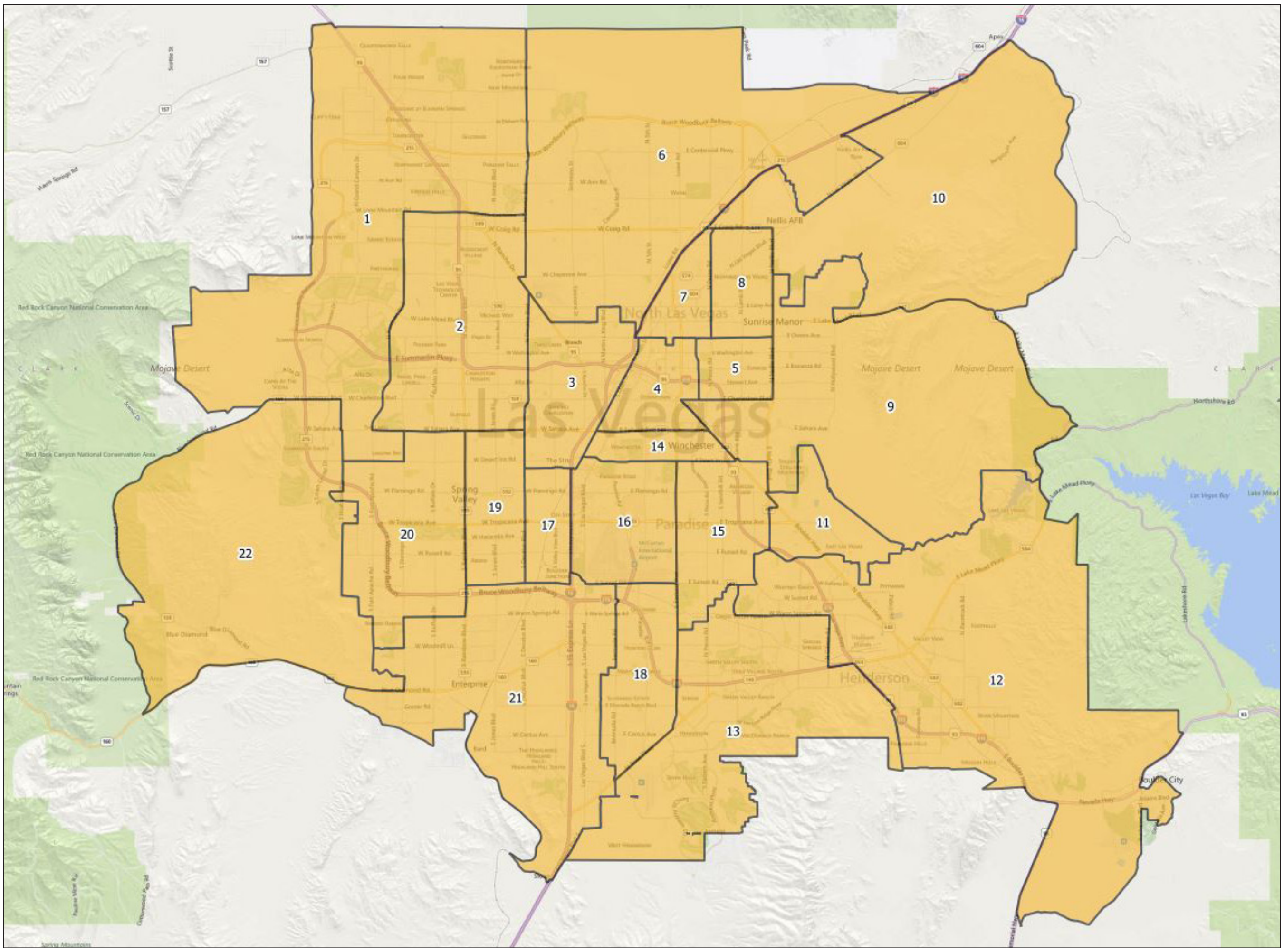
Las Vegas Submarkets



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

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.

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