ApartmentResearch
MARKET UPDATE
Marcus & Millichap
Las Vegas Metro Area *Third Quarter 2009*

Buyers Awaiting Deep Discounts as Conditions Deteriorate

Las Vegas apartment fundamentals will continue to weaken this year as persistent job losses and a supply glut push vacancy levels to historic highs. A stalled economy has forced builders to place some large-scale commercial developments on hold, eliminating close to 19,000 construction workers in the past 12 months and dragging on renter demand. Furthermore, lingering stresses from rampant residential overbuilding during the boom years have resulted in an excess of alternative housing options competing directly with apartment properties, especially in the far northwestern stretches of the metro. Construction activity will remain relatively steady this year as builders finalize several significant apartment projects, along with thousands of high-end condo units that could come online as rentals, given the dismal housing market. Although fundamental weakness will persist, roughly 12,000 positions are expected to be generated from the highly anticipated opening of CityCenter in late 2009, which will help to prop up demand for rental housing in nearby communities.

Sales activity has come to a near standstill in recent months as investors wait on the sidelines in light of projections for further fundamental deterioration. Reduced buyer demand will continue to place upward pressure on cap rates. Currently, top-tier properties are closing with initial yields in the low- to mid-7 percent area, and lesser-quality assets are trading roughly 100 basis points to 150 basis points higher. This year, a lack of out-of-area buyers will allow savvy local players who were absent from the market during the height of the expansion cycle to re-enter the investor pool, with many expected to target deeply discounted assets from operators under distress. Core properties in the West and Spring Valley submarkets are also likely to garner buyer interest, especially those near affluent master-planned communities where projections for long-term growth will support renter demand in the years ahead.

2009 Annual Apartment Forecast

7.0% decrease in total employment

Employment: Job losses will deepen in 2009 as local employers eliminate 63,000 positions, a 7 percent drop. Last year, approximately 36,800 workers were cut.

2,500 units will be completed

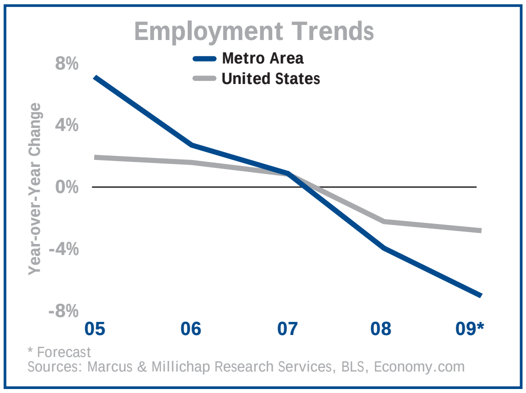
Construction: Builders are on pace to deliver 2,500 units this year, expanding inventory by 2 percent. In 2008, 2,600 units came online.

280 basis point increase in vacancy

Vacancy: The metro's supply/demand imbalance will drive vacancy to a projected 10.7 percent in 2009, a 280 basis point jump. Last year, vacancy increased 180 basis points.

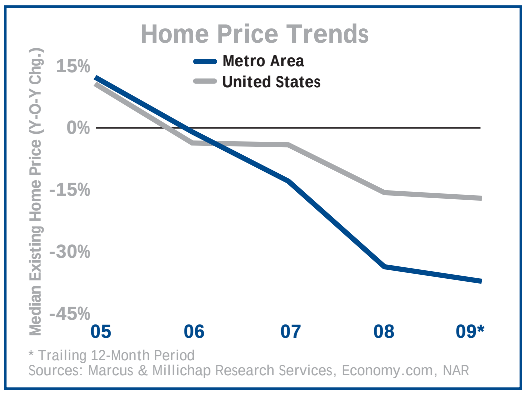
2.8% decrease in asking rents

Rents: This year, asking rents are forecast to retreat 2.8 percent to $841 per month. Owners will widen concessions in response to weakened occupancy levels, driving down effective rents 5.6 percent to $779 per month.



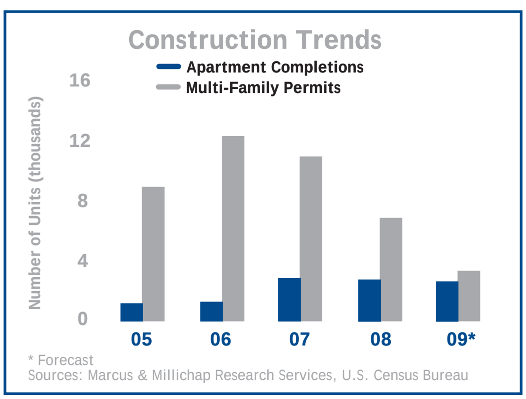
Economy

- Continued economic weakness has driven a 6.5 percent contraction in employment during the past 12 months with the loss of 59,600 jobs. Since the beginning of the year, local firms have shed 37,400 positions.
- Development activity for many commercial and residential projects has dried up recently, as the stalled economy has forced builders to place projects on hold or abandon them altogether. As such, roughly 18,700 construction-related positions have been cut in the last year, an 19.8 percent decline.
- The metro's key leisure and hospitality sector continues to struggle, as declines in tourism spending and gaming revenue have prompted hotels and casinos to reduce head counts. In the second quarter, the recently opened M Resort eliminated 100 positions, or roughly 5 percent of its payrolls.
- **Outlook:** Job losses will deepen in 2009 as local employers trim 63,000 positions, a 7 percent drop. Last year, approximately 36,800 workers were cut.



Housing and Demographics

- Ongoing struggles in the metro's housing market have reduced permitting activity, as single-family permits totaled 3,900 units through the second quarter, down 53 percent from one year earlier. Multi-family developers pulled permits for roughly 4,600 units during that time, 61 percent less than in the previous 12 months.
- Home values continue to drop as foreclosure activity soars. In the second quarter, the median price for a single-family home fell 37 percent year over year to $146,600. The median household income slipped 4 percent in that stretch but remains $16,700 more than the minimum amount required to qualify for a median-priced residence.
- Using traditional financing, the typical mortgage payment is $123 per month less than the average Class A asking rent in the metro.
- **Outlook:** Steep declines in home values and an oversupply of alternative rental housing options will hinder apartment absorption in the near term, though average household growth of 2.3 percent annually over the next five years should support tenant demand going forward.



Construction

- Developers brought 2,000 units online over the 12 months ending in the second quarter, a 1.7 percent inventory expansion and down from the previous period, when 4,100 units were delivered.
- More than 2,000 units are under way in the metro, and roughly 3,400 units are in the planning pipeline. The metro's weakened fiscal state and excess stock will likely delay the groundbreaking of some of these projects until signs of a turnaround emerge.
- Condo development has been robust, as 3,900 for-sale units are scheduled for delivery this year. Struggles in the residential market, however, will likely prompt builders to bring a portion of these units online as rentals.
- **Outlook:** Builders are on pace to complete 2,500 units in 2009, expanding stock by 2 percent. Last year, 2,600 units were delivered.

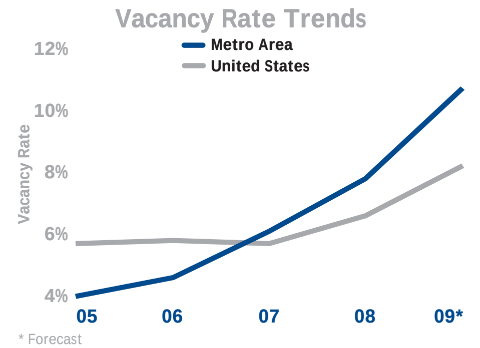
Vacancy

- Oversupply issues and contracting demand pushed up vacancy 260 basis points to 9.7 percent during the year ending in the second quarter. In the last six months alone, vacancy has climbed 190 basis points.

- The abundance of alternative housing options has driven a 230 basis point year-over-year spike in Class A vacancy to 9.7 percent.

- In the lower tiers, elevated job losses in low-paying employment sectors such as construction and leisure and hospitality have weighed heavily on renter demand. As such, vacancy has risen 290 basis points in the past 12 months to 9.8 percent.

- **Outlook:** The metro's supply/demand imbalance will drive vacancy to a projected 10.7 percent in 2009, a 280 basis point jump. Last year, vacancy increased 180 basis points.



* Forecast
Sources: Marcus & Millichap Research Services, Reis

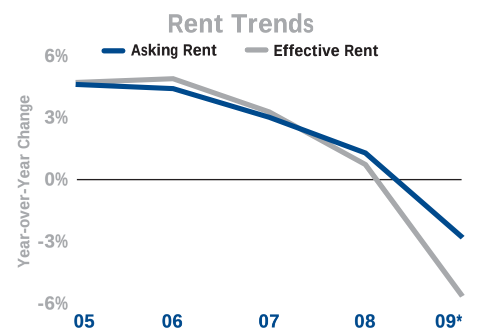
Rents

- Metrowide asking rents have slipped 1.3 percent in the past year to $855 per month, while effective rents ended the second quarter at $802 per month, a 3.4 percent drop. Since the start of 2009, asking and effective rents have declined 1.2 percent and 2.8 percent, respectively.

- Class A asking rents dipped 1.4 percent to $977 per month over the 12 months ending in the second quarter. Lower-tier asking rents also fell 1.4 percent in that time to $764 per month.

- Climbing vacancy levels have placed downward pressure on revenues, which have contracted 5.5 percent in the past year, following a 0.6 percent increase in the previous 12 months.

- **Outlook:** This year, asking rents are forecast to retreat 2.8 percent to $841 per month. Owners will widen concessions in response to weakened occupancy levels, driving down effective rents 5.6 percent to $779 per month.



* Forecast
Sources: Marcus & Millichap Research Services, Reis

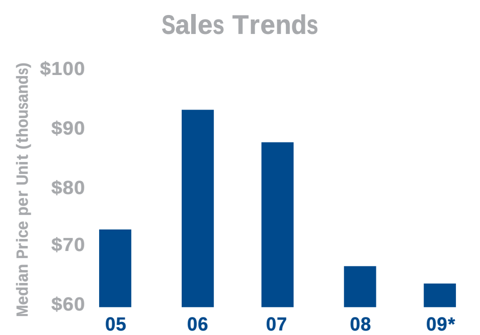
Sales Trends**

- Transaction velocity has fallen by more than 60 percent over the past year due to fewer quality listings and a disconnect between buyers' and sellers' expectations. Trading has slowed considerably in recent months, as year-to-date sales activity has declined 75 percent compared to the same period in 2008.

- In conjunction with reduced buyer demand, the median sales price has dropped 26 percent in the last year to $63,800 per unit.

- Cap rates have averaged in the high-7 percent to low-8 percent range recently, with well-located core assets trading in the low- to mid-7 percent area. Projections for further fundamental softening will likely push cap rates higher in the months ahead.

- **Outlook:** A lull in investment activity will persist in the coming quarters as buyers and sellers attempt to assess how current market conditions will affect valuations. Investors seeking stability may want to track opportunities in the University submarket, where a dense renter base and minimal threat from new supply should help to maintain relatively steady operations.



* Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

*** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.*

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Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- During the first quarter, multi-family mortgage originations were 61 percent below year-earlier levels and 79 percent lower than the late-2006 peak. Though considerable, the reduction in apartment originations remains less significant than declines among other core commercial property types, due largely to the availability of financing through Fannie Mae and Freddie Mac.

- Portfolio lenders are issuing apartment financing at all-in rates of 6.0 percent to 6.3 percent for three-year loans and up to 6.8 percent to 7.5 percent for a 10-year term. Loan-to-value requirements range from 55 percent to 75 percent.

- Agency lenders are offering five-year loans at all-in rates of 4.8 percent to 5.0 percent with 10-year mortgages available at rates averaging 5.35 percent and 5.7 percent, respectively. Maximum leverage among agency lenders ranges from 55 percent to 75 percent.

- Freddie Mac recently completed a $1 billion securitization of multi-family debt, the first issuance to hit the market since last June. The securities, dubbed "K Certificates," vary from traditional CMBS in that buyers are provided a guarantee by Freddie Mac. In addition to the potential for another similar offering, government programs designed to increase credit flows into commercial real estate could be operational by late summer/early fall.

Submarket Overview

- Buyers should be cognizant of potential supply threats that could emerge in the North submarket. Developers continue to focus on this area, as more than 1,200 rental units and 2,900 condo units are in the planning phases.

- Investors with extended horizons may want to track opportunities in the West submarket. Forecasts for above-average population and household growth are expected to drive demand for rental housing over the next several years.

- Although tourism has dwindled, some employers continue to hire. The under way expansion of the Hard Rock Hotel, for example, is expected to generate 800 new positions upon its scheduled opening early next year, helping to sustain renter demand in the University submarket.

Submarket Vacancy Ranking

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Spring Valley	6.5%	220	$829	-3.6%
2	West	8.5%	100	$956	-2.3%
3	Henderson/Southeast	9.2%	180	$920	-3.5%
4	University	9.4%	330	$697	-4.1%
5	North Central	10.0%	390	$684	-5.5%
6	East	10.1%	360	$759	-3.8%
7	Northeast	11.1%	380	$711	-2.5%
8	North	12.8%	270	$745	-2.6%

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