

ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

Las Vegas Metro Area

Third Quarter 2010

LAS VEGAS RECOVERY LAGS NATION; BUYERS FOCUS ON DISTRESS

Strengthening employment and apartment fundamentals at the national level will set the stage for a recovery in Las Vegas, though the local economy will rebound more slowly due to its reliance on travel and discretionary spending. While visitor volume picked up in the first half of 2010, hotel operators continue to face headwinds as travelers limit expenses. During the second quarter, for instance, the Wynn and Encore resorts laid off a total of 260 workers in an effort to maintain their bottom lines. Supply-side pressures from shadow stock also threaten the pace of recovery, as the metro posts one of the highest foreclosure rates in the nation, and greater availability of affordable houses has lured some renters who meet tightened underwriting standards into homeownership. Although apartment vacancy rates remain elevated, net absorption recently turned positive for the first time since late 2008. The uptick in leasing activity likely stems from pent-up demand from renters who doubled up during the recession and households displaced by foreclosures. Resumed hiring also aided absorption, with the government and trade, transportation, and utilities sectors adding a total of 6,000 positions year to date. While owners will continue to trim rents until signs of a more meaningful recovery emerge, concessions will steady this year at approximately 26 days of free rent.

Investors remain focused on distressed apartment properties, which will continue to surface in the Las Vegas market well into 2011 as lenders remove nonperforming assets from balance sheets. As such, sales activity will accelerate in the second half as depressed prices attract bargain-seekers; in the first half of 2010, the median price per unit fell nearly 50 percent, driving up sales velocity approximately 30 percent. Cap rates currently average in the low- to mid-8 percent range for well-located, quality assets, while some lower-grade properties trade at first-year yields near 10 percent.

2010 ANNUAL APARTMENT FORECAST



Employment: Total employment will increase 0.3 percent this year with the addition of 2,500 jobs, a dramatic improvement from 2009, when employers eliminated 70,300 positions.



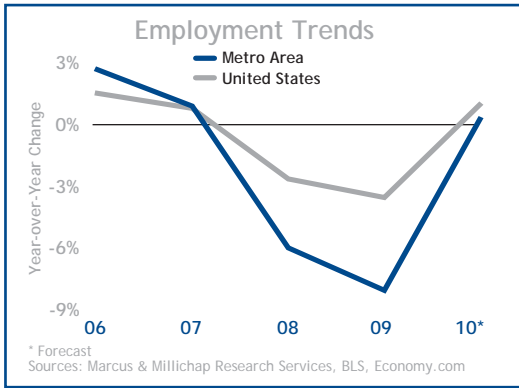
Construction: Developers will deliver 1,500 apartment units to the Las Vegas market in 2010, after completing 1,700 units last year. Over the past five years, annual additions averaged 2,200 units.



Vacancy: As hiring resumes, demand for apartments will pick up this year. Vacancy will end 2010 at 11.5 percent, rising just 30 basis points from last year, when the rate surged 300 basis points.



Rents: Owners will continue to trim rents this year, but the pace will slow as leasing activity increases. In 2010, asking rents will drop 2.1 percent to \$804 per month, while effective rents will decrease 1.6 percent to \$746 per month. Last year, asking and effective rents fell 5.1 percent and 8.1 percent, respectively.

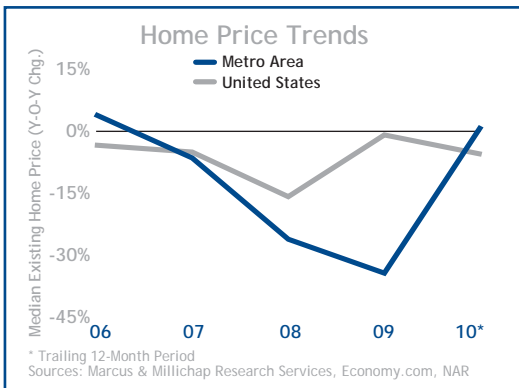


ECONOMY

- ◆ Employment levels contracted by 5,200 positions in the first half of 2010, or 0.6 percent. Most of the losses occurred in the first quarter, with payrolls expanding by 2,100 jobs in the second quarter.
- ◆ Las Vegas visitor volume continues to rise as hiring resumes nationally and hotel operators offer discounted room rates. Growing tourist traffic bodes well for the local leisure and hospitality sector, which accounts for more than 30 percent of total employment.
- ◆ The metro's economic recovery will lag that of the nation due to its reliance on discretionary spending. As of the second quarter, Las Vegas had one of the highest unemployment rates in the country at 14.2 percent.
- ◆ **Outlook:** Total employment will increase 0.3 percent this year with the addition of 2,500 jobs. In 2009, employers eliminated 70,300 positions.

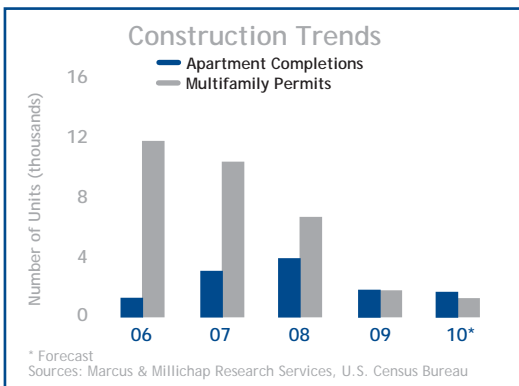
HOUSING AND DEMOGRAPHICS

- ◆ Permits for 1,100 units of multifamily housing were issued in the 12-month period ending the second quarter, down from 4,400 units one year earlier. Single-family housing permits increased 13 percent to 5,300 units in that time as the federal tax credit improved builder optimism.
- ◆ The median price of a single-family home in the Las Vegas metro area was estimated at \$143,000 in the second quarter, up 1 percent year over year. Sales velocity of single-family homes accelerated 27 percent in that time.
- ◆ Homes remain highly affordable in the metro, as the median household income of \$57,300 per year is 65 percent greater than the income needed to meet the monthly mortgage obligations on a median-priced residence.
- ◆ **Outlook:** Despite the availability of affordable homes, the outlook for apartment demand remains positive, as the metro's population of 20- to 34-year-olds, considered the prime renter age group, will increase by 10 percent, or 35,000 individuals, over the next five years.



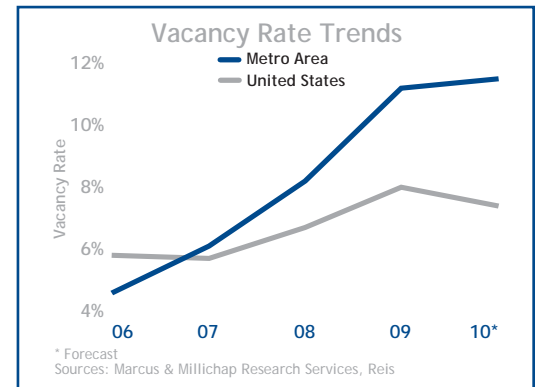
CONSTRUCTION

- ◆ Approximately 1,500 apartment units came online in the first quarter, but no additional units are scheduled in the metro for the remainder of 2010.
- ◆ Proposed projects total 4,200 units, though most may never materialize, as robust completions over the last five years have elevated vacancy rates above 11 percent.
- ◆ The Veer Towers at CityCenter were completed in the second quarter, adding 600 condo units to the market. Roughly 75 percent of the units were sold by the project's completion, as residents remain attracted to employment and entertainment opportunities on the Strip.
- ◆ **Outlook:** Developers will bring 1,500 apartment units to Las Vegas this year, after completing 1,700 units in 2009. Over the past five years, deliveries averaged 2,200 units annually.



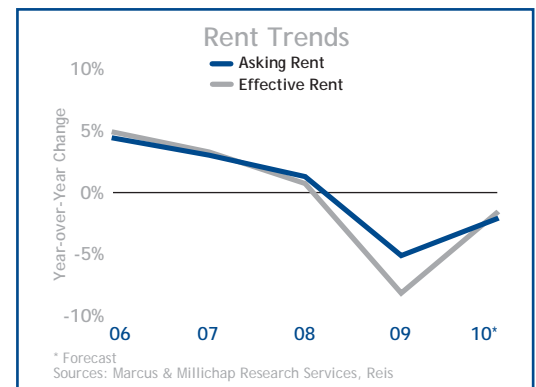
VACANCY

- ◆ Modest employment growth and stable inventory levels resulted in a 70 basis point drop in apartment vacancy during the second quarter to 11.1 percent. Approximately 900 units were absorbed in that time.
- ◆ Vacancy in Class A complexes improved 60 basis points in the first half to 10.6 percent. In the previous two quarters, vacancy increased 90 basis points.
- ◆ The vacancy rate in the lower tiers pushed up 20 basis points in the first two quarters of 2010 to 11.3 percent. Demand for Class B/C units softened due to additional cuts in blue-collar job segments, most notably construction.
- ◆ **Outlook:** As employers resume hiring, demand for apartments will continue to grow. As a result, vacancy will end 2010 at 11.5 percent, up just 30 basis points from last year, when the rate surged 300 basis points.



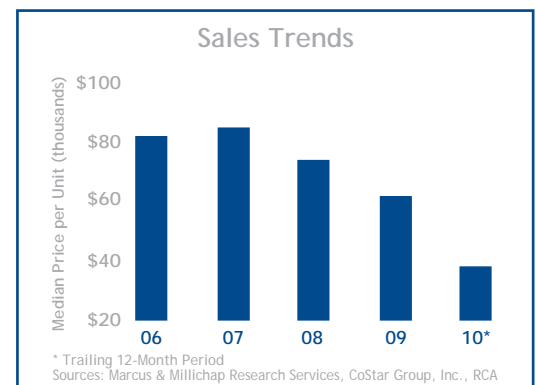
RENTS

- ◆ Over the past 12 months, asking rents declined 3.6 percent to \$812 per month, and effective rents fell 4.4 percent to \$755 per month as owners increased concessions to fill vacant space.
- ◆ Class A asking rents retreated 2.9 percent to \$930 per month year over year, while rents in the lower tiers dropped 5 percent to \$709 per month.
- ◆ Elevated vacancy rates and persistent rent reductions continue to dig into owners' bottom lines; average revenue fell 5.5 percent during the 12 months ending the second quarter.
- ◆ **Outlook:** Owners will trim rents further this year, but the pace will slow as leasing activity increases. In 2010, asking rents will slip 2.1 percent to \$804 per unit, while effective rents will decrease 1.6 percent to \$746 per unit. Last year, asking and effective rents fell 5.1 percent and 8.1 percent, respectively.



SALES TRENDS**

- ◆ Transaction velocity accelerated by 30 percent in the first six months of 2010 compared to the final two quarters of 2009. Buyer caution is fading as vacancy rates begin to stabilize and prices fall below replacement costs.
- ◆ The median price of an apartment property in Las Vegas declined 40 percent over the past 12 months to \$37,800 per unit, as an influx of distressed properties traded at deep discounts.
- ◆ Cap rates currently average in the mid- to high-8 percent range, up roughly 100 basis points year over year.
- ◆ **Outlook:** Additional distressed properties will likely emerge into 2011, as more than 60 percent of the CMBS loans backed by Las Vegas apartment assets originated between 2005 and 2007, when prices were elevated and sales peaked. Since then, prices and velocity have fallen dramatically, leaving 30 percent of owners reporting loan-to-values above 100 percent and 28 percent past due or REO.



** 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

- ◆ Mixed economic indicators, stock market volatility and concerns surrounding the European debt crisis continue to drive investors to safety. As a result, the yield on the 10-year U.S. Treasury has declined since peaking at 4 percent in April; as of late July, the yield had fallen to 3 percent.
- ◆ Capital markets loosened over the past year, with life insurance companies ramping up lending and CMBS showing renewed signs of life. Nonetheless, the agencies remain the dominant sources of multifamily lending. This trend will continue through 2010 as the GSEs' multifamily portfolios outperform their residential mortgage operations, reducing the likelihood of drastic government-mandated changes to their apartment lending arms.
- ◆ Multifamily loan originations increased 37 percent in the second quarter but remained below levels reported during the same period last year. Fannie Mae and Freddie Mac's origination volume followed a similar pattern, rising in the second quarter but falling short of year-earlier levels.
- ◆ Loan-to-values range from 60 percent to 75 percent for portfolio lenders and push up to around 80 percent for best-of-class, agency-financed deals. All-in rates for five-year agency loans fall into the low-4 percent range, while 10-year loans price between 4.75 percent and 5.15 percent. While life companies will compete at these levels for best-of-class deals, most portfolio lenders are 100 basis points to 225 basis points higher.

SUBMARKET OVERVIEW

- ◆ Roughly 650 jobs will be created upon the opening of a Forever 21 store at the Fashion Show Mall during the third quarter. These additions will help sustain renter demand in the University submarket and should bode well for the metro's elevated unemployment rate.
- ◆ In the Henderson/Southeast submarket, the delivery of 1,139 units in the first quarter contributed to raising the vacancy rate 50 basis points year to date to 9.6 percent.
- ◆ Sales activity will pick up over the next few quarters in the Northeast submarket as a glut of high-vacancy properties with loans originated during the height of the market work through the various stages of distress.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Spring Valley	6.8%	30	\$754	-7.6%
2	West	9.0%	-60	\$922	-2.0%
3	Henderson/Southeast	9.6%	40	\$867	-4.2%
4	East	10.2%	10	\$707	-5.4%
5	Northeast	11.8%	70	\$673	-3.7%
6	University	12.4%	300	\$659	-3.9%
7	North Central	12.7%	270	\$613	-8.9%
8	North	15.4%	150	\$710	-3.1%