

ApartmentResearch

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

Marcus & Millichap

Las Vegas Metro Area

Fourth Quarter 2009

JOB CUTS, WEAK TOURISM PRESSURING OPERATIONS

The recession is softening apartment fundamentals in Las Vegas, and further weakening is expected in the coming quarters. Visitor volume, which served as a key employment driver in the metro prior to the downturn, has declined steadily through the recession, weighing on leisure and hospitality employment. Deep job losses have caused renter demand for apartments to retreat, particularly in the lower tiers. The struggling employment market also has cooled the pace of household creation; in 2009 and 2010, fewer than 10,000 households are anticipated to be added annually in the metro, a 50 percent decrease from the first eight years of the decade. Apartment construction will ease this year, but a glut of single-family homes and condos being employed as rentals will drive a supply/demand imbalance. Despite cooling permitting activity in recent months, these competitive threats are expected to remain well into 2010, as there are currently more than 6,600 condos under construction and 17,000 for-sale units in the planning phases.

Rising vacancy and contracting revenues are restricting investment activity in the Las Vegas apartment market. Sales velocity has declined considerably over the past several quarters, and prices have fallen as fundamentals have softened. Buyers are seeking deep discounts, and owners who are not under pressure to sell are choosing to hold assets until market sentiment improves. While velocity for apartments has been limited thus far in 2009, investors are aggressively pursuing bank-owned single-family homes. As the glut of these properties works its way through the system, buyer demand for traditional rentals will re-emerge. In the few apartment deals that are being transacted, cap rates average in the mid-8 percent to mid-9 percent range. Initial yields could edge higher over the next few months as additional distressed assets come to market.

2009 ANNUAL APARTMENT FORECAST



Employment: After 36,800 jobs were eliminated last year, losses are expected to accelerate to 57,000 positions in 2009, or a payroll contraction of 6.4 percent.



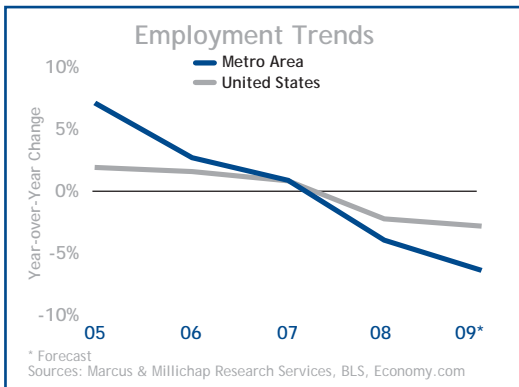
Construction: Developers are on pace to complete 2,500 apartment units this year; 2,600 units were added in 2008. Since the beginning of the decade, deliveries have averaged 2,550 units annually.



Vacancy: Metrowide vacancy is expected to increase 420 basis points to 12.1 percent in 2009 and will likely edge higher in 2010. Last year, the rate rose 180 basis points, as the impact of shadow rentals was less significant.



Rents: Following minimal gains in 2008, rents will contract this year. Asking rents are forecast to retreat 2.8 percent to \$841 per month, while effective rents will fall 5.6 percent to \$779 per month.



ECONOMY

- ◆ In the 12 months ending in the third quarter, employers in Las Vegas trimmed payrolls by an estimated 63,700 positions, a 7 percent drop. Year to date, nearly 50,000 jobs have been shed, although losses slowed to approximately 12,000 positions in the third quarter.
- ◆ The metro's steepest job cuts have been in the construction sector, which has contracted by 20,100 workers year over year, a 22.1 percent decline. An estimated 16,200 positions have been eliminated so far this year.
- ◆ Visitor volume, a key driver of the local economy, slipped for 14 consecutive months through July and is down 6 percent year to date. As a result, the leisure and hospitality sector has decreased by 15,300 positions since the start of 2009, and additional losses are forecast through year end.
- ◆ **Outlook:** After 36,800 jobs were eliminated last year, losses are expected to accelerate to 57,000 positions in 2009, or a payroll contraction of 6.4 percent.

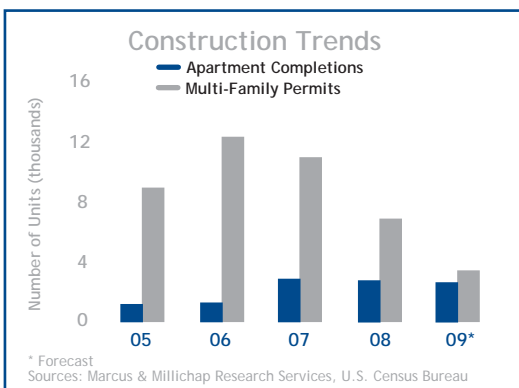
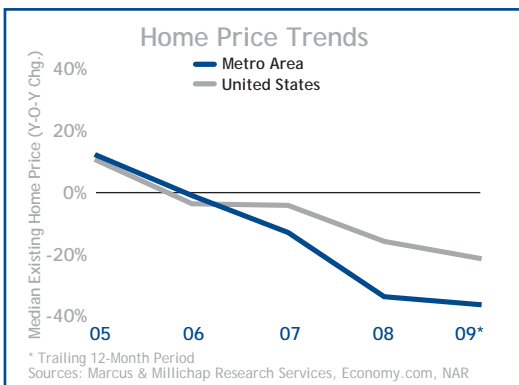
HOUSING AND DEMOGRAPHICS

- ◆ The soft economy and weak housing market are discouraging residential development. In the past 12 months, developers have pulled permits for approximately 3,050 single-family units, a 60 percent decline from one year ago. Activity has fallen more significantly in the multi-family segment, as permits for 2,950 units have been issued in the last year, a 73 percent drop.
- ◆ Bank-owned properties are accounting for approximately 70 percent of all Las Vegas housing sales, which is pushing prices lower. The median sales price of a single-family home dropped 36 percent year over year to an estimated \$134,200 in the third quarter. The median household income in the metro has declined 3.2 percent over the past 12 months to \$54,600 annually, which is more than \$20,000 higher than the amount necessary to qualify for a median-priced home.
- ◆ The average Class A asking rent is now nearly \$200 per month more than the mortgage payment on a median-priced home. Just one year ago, the mortgage payment on the median-priced home was \$340 per month more than the average Class A asking rent.

- ◆ **Outlook:** Investors are moving into the market to purchase deeply discounted single-family homes and employ them as rentals. These properties are competing with apartments, which will continue to drive both concessions and vacancy higher in the coming quarters.

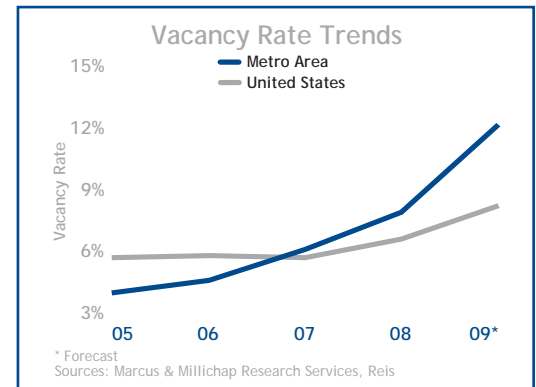
CONSTRUCTION

- ◆ Approximately 1,714 apartments have been completed in the past 12 months, down from more than 4,000 units in the previous year.
- ◆ There are 2,200 apartments under construction in the metro. Most of these units are scheduled to come online in the next six months.
- ◆ Projects totaling nearly 4,000 units, or 3 percent of metrowide inventory, are planned. The economy will likely have to show signs of improvement, however, before projects break ground.
- ◆ **Outlook:** Developers are on pace to complete 2,500 apartment units this year; 2,600 units were added in 2008. Since the beginning of the decade, deliveries have averaged 2,550 units annually.



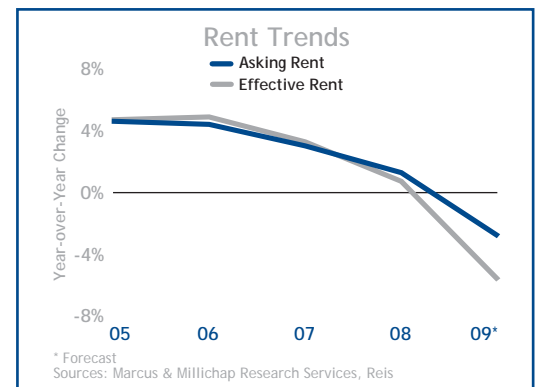
VACANCY

- ◆ During the past 12 months, the metrowide vacancy rate increased 320 basis points to an estimated 10.7 percent in the third quarter. Vacancy spiked 180 basis points in the first half of 2009 as payroll contraction peaked.
- ◆ Year over year, Class A vacancy has pushed up 290 basis points to 10.8 percent, including a 90 basis point rise in the third quarter. While construction of new units has slowed, the considerable stock of single-family homes serving as rentals will remain a source of competition for top-tier apartments.
- ◆ A wave of job losses among low wage earners has resulted in a 3.5 percent decline in demand for Class B/C apartments during the past year. Vacancy in the lower tiers has climbed 340 basis points to 10.6 percent.
- ◆ **Outlook:** Metrowide vacancy is expected to increase 420 basis points to 12.1 percent in 2009 and will likely edge higher in 2010. Last year, the rate rose 180 basis points, as the impact of shadow rentals was less significant.



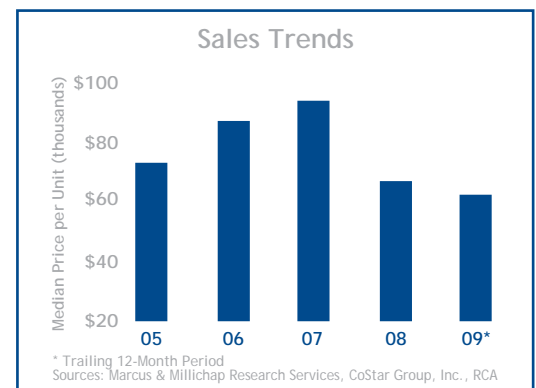
RENTS

- ◆ As the economy has softened and competition for a thinning renter pool has intensified, owners have dropped rents. During the past 12 months, asking rents dipped 2.8 percent to an estimated \$847 per month in the third quarter, while effective rents fell 5.2 percent to \$790 per month.
- ◆ In the Class A segment, asking rents are down 2.4 percent year over year at \$970 per month, while asking rents in Class B/C assets have slipped 3.2 percent to \$756 per month.
- ◆ Average revenues have declined 7.8 percent over the last 12 months due to the increased use of leasing incentives. Concessions are 25 days of free rent, up from 16 days of free rent one year ago.
- ◆ **Outlook:** Following minimal gains in 2008, rents will contract this year. Asking rents are forecast to retreat 2.8 percent to \$841 per month, while effective rents will fall 5.6 percent to \$779 per month.



SALES TRENDS**

- ◆ Following a 50 percent decline in 2008, metrowide sales velocity has slowed 68 percent thus far in 2009, as would-be buyers are remaining on the sidelines due to expectations for further fundamental softening.
- ◆ The median price has fallen 6 percent year over year to \$62,000 per unit, a level that is also down nearly 35 percent from the peak in 2007.
- ◆ Average cap rates for most properties that have changed hands so far this year have been in the mid-8 percent to mid-9 percent range. With transaction activity limited, price discovery continues to be a challenge in the marketplace.
- ◆ **Outlook:** Buyers and lenders are underwriting deals cautiously and with the assumption that revenues will decrease in the coming quarters. Owners of properties that are performing well and do not face a looming refinance challenge are choosing largely not to list assets until market sentiment improves. Investment activity is expected to remain limited as a result.



** 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

- ◆ Compared to other core property sectors, apartments have fared best due to the availability of financing through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Recent modifications to GSE guidelines will impact lender decisions, however, as borrower requirements include more substantial apartment ownership experience.
- ◆ Loan-to-value requirements range from 55 percent to 75 percent. Portfolio lenders are issuing loans at all-in rates of 6.00 percent to 6.75 percent for a five-year term and 6.9 percent to 8.0 percent for a 10-year term. Rates among agency lenders are roughly 150 basis points to 175 basis points lower. The government recently assumed full control of Fannie Mae and Freddie Mac, which may boost confidence in the GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties.
- ◆ Delinquencies will rise further as a wave of maturities approaches; however, at-risk borrowers may find lenders amenable to loan extensions/modifications. Furthermore, Freddie Mac is under way on its second securitization of multi-family debt this year, and the government's TALF program is expected to at least provide a much-needed spark to the traditional CMBS market.

SUBMARKET OVERVIEW

- ◆ Steady renter demand for apartments in and around Summerlin has limited the vacancy rise in the West submarket. The area is the only one in the metro that is forecast to record positive net absorption in 2009. Year over year, Class A vacancy in the submarket has ticked up just 60 basis points to 9.8 percent.
- ◆ Forecasts for above-average household growth continue to draw apartment builders to the North submarket, and 2009 will mark the third consecutive year where deliveries in the area outpace those in all other metro submarkets. In that time, the local vacancy rate has more than doubled.
- ◆ During the third quarter, the city council proposed a plan to donate land downtown for the purpose of opening a Cleveland Clinic satellite operation, which could be a long-term job generator in the area.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Spring Valley	7.1%	270	\$817	-5.6%
2	West	9.3%	140	\$942	-3.2%
3	Henderson/Southeast	10.1%	260	\$906	-5.5%
4	University	10.3%	410	\$687	-7.1%
5	North Central	11.0%	410	\$674	-6.4%
6	East	11.1%	340	\$748	-5.8%
7	Northeast	12.2%	420	\$700	-3.4%
8	North	14.1%	390	\$734	-4.7%