MARKET REPORT

Multifamily

Las Vegas Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

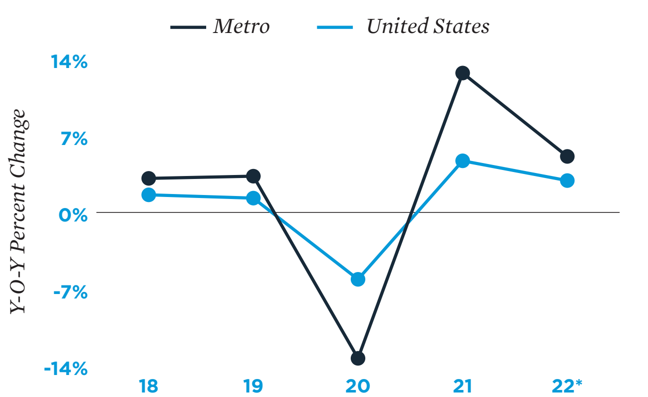
3Q/22

Growth Expectations Elicit Stack of Project Starts; Lowest-Cost Submarkets Outperform

In-migration projections overshadow recent correction. Las Vegas entered 2022 with record-low vacancy; however, since that time, unit availability has risen by 160 basis points. Fortunately, the metro will add its fewest number of new rentals in eight years, aiding existing properties that are noting declines in lease renewals following rapid rent growth. Longer term, the market is expected to add an average of nearly 47,000 residents annually over the next five years. Developers are counting on this population growth to fuel demand for newly-built rentals, evidenced by the 16 groundbreakings recorded over the past 12 months ended in June. Together these project starts account for 4,500 units, suggesting that an influx of new apartments are slated for completion in the coming two years.

Lone locale notes modest shift in first half vacancy. In-metro relocations to areas of lower rents are benefiting fundamentals in the University-The Strip submarket. During the 12-month period ended in June, the area recorded a 140-basis-point decline in vacancy, placing availability at a metro-low of 3.1 percent. Las Vegas' largest submarket by stock, the locale boasts a sizable Class B inventory, with units of this classification commanding an average monthly rent of under $1,200. This is attractive to cost-conscious renters during a period of elevated inflation. Moving forward, available units in the submarket are likely to remain in high demand, as a mere 200 units were underway at the onset of July.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

52,000 JOBS
will be created

EMPLOYMENT:

Nearly every sector notched positive job growth during the first half of 2022, translating to the addition of 26,900 positions. The metro's 5.2 percent unemployment rate in June and improving tourism suggest further gains will be recorded this year.

1,550 UNITS
will be completed

CONSTRUCTION:

Annual inventory growth in Las Vegas ranks among the lowest nationally, as developers expand local stock by 0.7 percent. During the previous half-decade, builders finalized an average of nearly 3,200 apartments per year.

250 BASIS POINT
increase in vacancy

VACANCY:

Unit availability nearly doubles on a year-over-year basis, as Las Vegas' vacant stock swells by more than 5,600 rentals. Still, the metro's year-end rate of 5.1 percent is 100 basis points below its long-term average.

10.9% INCREASE
in effective rent

RENT:

After climbing by 7.7 percent in the first six months of 2022, the pace of rent growth tempers as concession usage increases alongside rising vacancy. The year-end effective rate of $1,600 per month ranks lowest among major Mountain markets.

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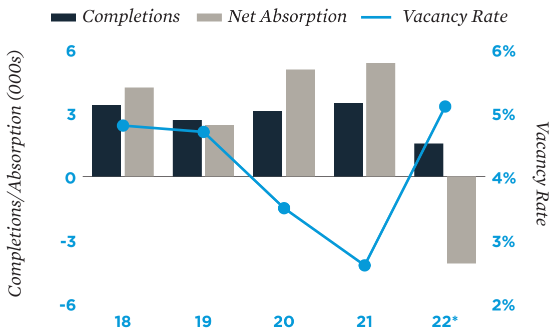
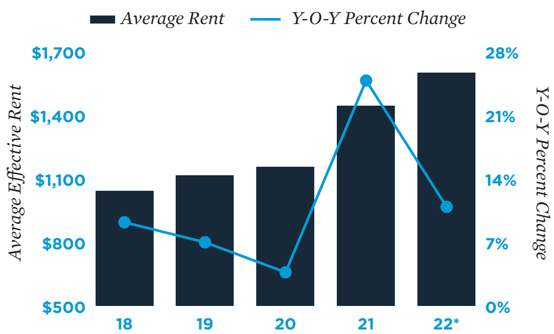
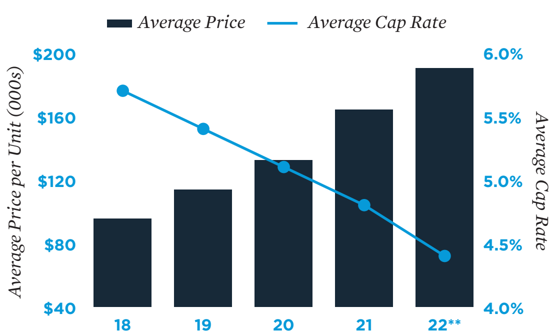
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

2,187 units completed

- Deliveries over the 12-month period ended in June fell by nearly 2,000 units when compared to the prior yearlong interval. Central Las Vegas was the only submarket to add more than 500 units during the recent stretch.
- Southwest Las Vegas has the largest active pipeline among submarkets, with at least 2,900 rentals underway as of July.

VACANCY

90 basis point increase in vacancy Y-O-Y

- Las Vegas' vacant stock grew by roughly 3,600 units during the first half of 2022, increasing unit availability to 4.2 percent in June.
- Vacancy rose by at least 110 basis points in 10 of 12 submarkets during the first six months of 2022. Still, availability is sub-4 percent in four of these locales, a list that includes Central, West, South and Southwest Las Vegas.

RENT

24.6% increase in the average effective rent Y-O-Y

- Despite rapid rate growth, Las Vegas' average effective rent of $1,554 per month is nearly $1,100 below the Southern California regional mean.
- All submarkets registered rent growth in excess of 16 percent, with six locales notching gains above 20 percent. Across all metro areas, the mean Class B rate climbed 19.1 percent to $1,503 per month.

Investment Highlights

- A collection of out-of-state institutional investors are acquiring properties with triple-digit unit counts. This activity supported a nearly 80 percent rise in deal flow over the past 12 months ended in June, highlighted by a pronounced increase in transactions priced above $20 million. The additional institutional purchasing is also driving property valuations, with the metro's average price point elevating roughly 28 percent over the recent yearlong span to $190,400 per unit. This surge in pricing compressed the mean cap rate 50 basis points to 4.4 percent.
- Properties featuring upwards of 200 apartments are trading across rental tiers, with Class A complexes built within the past five years fetching minimum cap rates in the low- to mid-3 percent range. Larger 1980s- to early 2000s-built Class B assets are providing investors with high-3 to low-4 percent yields, with Summerlin-Spring Valley representing the most active locale for both upper- and mid-tier trades.
- Institutions with a preference for assets in the areas with the lowest Class A vacancy rates gravitate to Sunrise Manor-Northeast Las Vegas and West Las Vegas. Upper-tier rents are relatively moderate here, averaging below $1,400 per month, which should help keep demand strong amid inflation pressures.