MARKET REPORT

Multifamily

Las Vegas Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

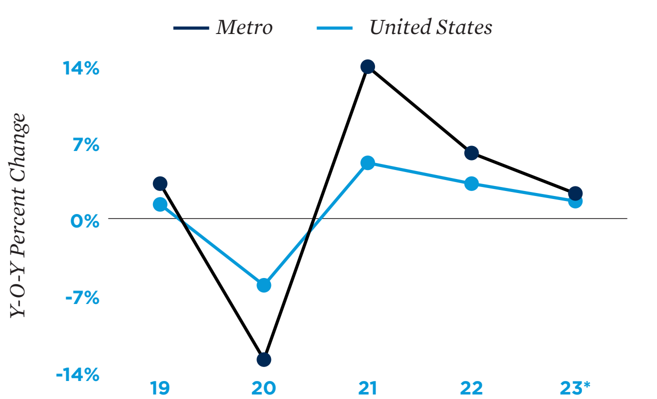
3Q/23

Record Delivery Slate to Extend into Next Year as Developers Bet on Long-Term Demand Drivers

Bevy of larger deliveries will take time to absorb. Las Vegas entered the second half with its highest vacancy since late 2014. This rate is poised to escalate over the near-term, as at least 18 projects, averaging 265 units in scope, are scheduled to deliver all or a portion of their apartments during the remaining six months of 2023. Rentals whose completion dates are pushed into next year will join another nearly 3,800 units that are currently underway and slated for 2024 addition. Several factors, however, suggest that newly-built units should be absorbed over time. As of June, the gap between the mean Class A rent and the typical monthly mortgage payment on a median priced home stood at roughly $1,160 per month. This dynamic is likely to place more prospective homeowners into the rental pool. Further driving demand for newly-built units, the metro is projected to add more than 20,000 households annually for the foreseeable future.

Demand for lower cost apartments apparent. Central Las Vegas, the metro's third-largest submarket by stock, is home to the tightest local vacancy by a wide margin. Comprising Downtown Las Vegas and suburbs just west of Interstate 15, the area ended June with a 4.9 percent rate, which is 230 basis points below its long-term average. In contrast, all other submarkets entered the second half with 6-plus percent vacancy, with 10 of 11 sporting a rate above their long-term average. Central Las Vegas' mean effective rent — the lowest among submarkets — alongside its scant pipeline, indicate that the area should continue to register standout conditions in the near term.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

25,000 JOBS
will be created

EMPLOYMENT:

Seven of Las Vegas' 11 employment sectors noted job gains in the first half of 2023. The pace of hiring, however, is expected to slow over the coming months, equating to an annual employment growth rate of 2.3 percent.

5,600 UNITS
will be completed

CONSTRUCTION:

For just the second time since 2000, developers add more than 5,000 units during a calendar year, expanding apartment inventory by 2.5 percent. This delivery volume exceeds that of three Southern California markets.

100 BASIS POINT
increase in vacancy

VACANCY:

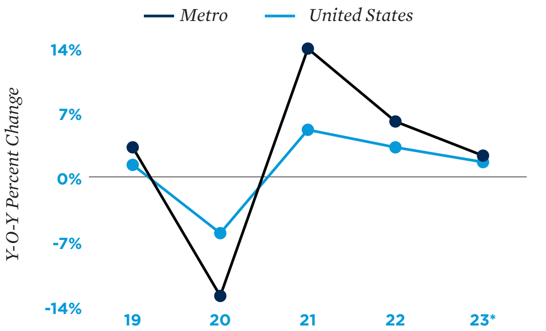
Completions nearly double demand during 2023, placing year-end vacancy at 7.3 percent. While elevated, a rate of this size is not uncommon for Las Vegas, as from 2009-2013 vacancy hovered between 7.9 and 9.7 percent.

1.1% DECREASE
in effective rent

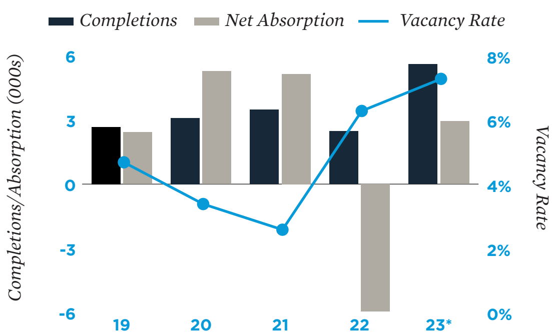
RENT:

Vacancy at a 10-year high ends an extended stretch of positive rent growth. At $1,470 per month, Las Vegas' average effective rate is lower than all Mountain and West Coast markets, apart from Tucson.

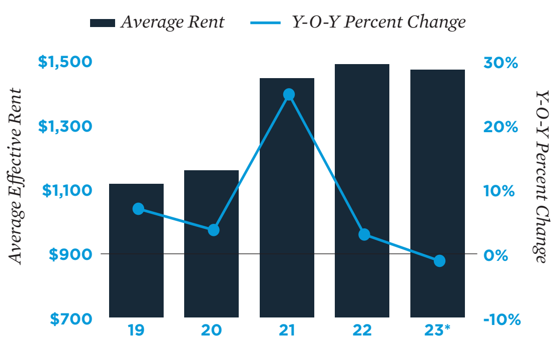
Employment Trends



Supply and Demand



Rent Trends



** Forecast ** Through 2Q*

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

IPA Multifamily
John Sebree
Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research
Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: $250

2Q 2023 - 12-Month Period

CONSTRUCTION

3,317 units completed

- Highlighted by the delivery of 1,007 units in the second quarter, Las Vegas' rental stock grew by 1.5 percent over the 12-month span ending in June.
- Of the apartments completed during the past year, approximately 30 percent were located in Southwest Las Vegas, increasing local stock by 5.8 percent. As of August, another 2,900 rentals were underway in the area.

VACANCY

260 basis point increase in vacancy Y-O-Y

- The number of units available for rent rose by 6,050 during the yearlong interval ending in June, placing metrowide vacancy at 6.8 percent.
- All Las Vegas submarkets noted vacancy increases of at least 120 basis points, with the largest adjustment — 470 basis points — registered in North Las Vegas. Here, rental inventory grew by 3.2 percent annually.

RENT

2.4% decrease in the average effective rent Y-O-Y

- After reaching a record mark of $1,521 per month in the third quarter of 2022, the metro's average effective rent declined by 3.1 percent over the subsequent nine months, placing the rate at $1,474 per month in June.
- While rent declined in nine submarkets, Central Las Vegas, Sunrise Manor-Northeast Las Vegas and University-The Strip each notched growth.

Investment Highlights

- Deal flow in Las Vegas was muted during the first six months of 2023, with the number of closings representing the slowest first half for sales velocity in 13 years. The metro's average price point, however, has more than doubled since 2017, suggesting more owners may consider listing assets to collect on that appreciation.
- Out-of-state investors are active in Las Vegas, despite the overall decline in sales volume. California-based buyers were responsible for more than half of the Class B trades made over the past year ending in June, with a focus on larger properties in Southwest and Central Las Vegas that warrant commitments in excess of $20 million. These investors should continue to comb the metro for opportunities as Las Vegas' average price point of $184,700 per unit is half that of Orange County, San Diego and several Bay Area markets.
- Chances to acquire newer luxury rentals have been sparse of late, despite a recent delivery influx. In response, institutional buyers may consider larger Class B assets built this century. The all-time high gap between Class A and Class B rents, nearly $300 per month, suggests some luxury renters may drop down into the mid-tier segment, aiding sector fundamentals.