

# Market Insights

Las Vegas Multifamily 3Q 2022



## Construction Activity



**6,854**

Units under construction

**2,067**

Units delivered (YTD)

## Market Fundamentals



**2.6%**

Vacancy

**-40**bps

Year over year change

**\$1,513**

Asking Rent

**+12.3%**

Year over year change

## Transaction Activity



**\$275,000**

Median sales price per unit (YTD)

# Low Vacancies Driving Additional Development Activity

## Highlights

- The multifamily market in Las Vegas recorded a healthy third quarter as vacancy dipped to an all-time low. Rents have posted strong annual gains, but only inched higher in recent months. Renter demand remains elevated, pushing multifamily developers to ramp up the pace of deliveries.
- Vacancy rates in Las Vegas trended lower again in the third quarter, dropping 20 basis points to 2.6 percent. The rate has retreated 40 basis points year over year.
- During the past 12 months, asking rents have spiked 12.3 percent, but the pace of growth has slowed considerably in the second half of 2022. Rents ticked up less than 1 percent in the third quarter to \$1,513 per month.
- The Las Vegas multifamily investment market recorded a mixed performance during the third quarter, as sales velocity slowed but prices pushed higher. The median sales price to this point in the year is \$275,000 per unit, up 35 percent from the median price in 2021.

## Las Vegas Multifamily Market Overview

The Las Vegas multifamily market is being fueled by a rapid recovery in local labor conditions. Additional employment gains are likely in the coming months, as population growth to the region has resumed at a heightened rate, and the all-important leisure and hospitality sector is poised for further expansion in 2023. To this point in the cycle, renter demand is outpacing supply growth, driving the vacancy rate to new lows. During the third quarter, vacancy tightened to just 2.6 percent, although the rate will likely trend higher. The pace of deliveries is expected to accelerate in the coming quarters as the number of units under construction is up more than 40 percent in the past year and multifamily permitting is ahead of the 2021 pace.

The Las Vegas multifamily investment market showed signs of cooling during the third quarter. Sales velocity slowed in the last three months, a trend that is occurring in many high-growth markets across the country, as investors assess the impact of rising interest rates on underwriting acquisitions. Transactions are still getting done, despite the more challenging capital markets climate, with Class B assets accounting for the majority of the transaction mix during the third quarter. Prices have also pushed higher; the median sales price year to date reached \$275,000 per unit, up 35 percent from the 2021 figure. While transactions have occurred throughout the metro area to this point in 2022, there was a concentration of activity in the University District in recent quarters.

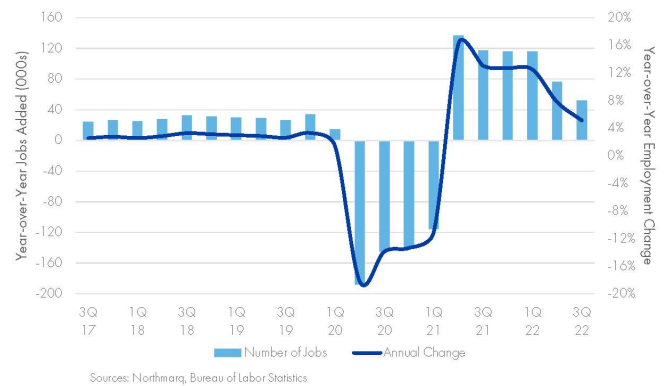
## Employment

- Employment growth in Las Vegas continued to rebound during the third quarter, with additional gains expected in future periods. Year over year, area employers added nearly 52,000 workers to payrolls, an increase of 5.1 percent although unemployment rates remain elevated.
- Growth in the leisure and hospitality sector slowed from the second quarter to the third quarter, but this industry continues to be the driving force in the local economy. Year over year, the sector expanded by 6.2 percent with the addition of 16,300 workers. Employment in the sector remains about 18,500 workers below the pre-COVID peak, suggesting additional gains may be recorded as travel volumes rebound.
- Hotel brand and management company, Dream Hotel Group, recently broke ground on the Dream Hotel & Casino. Located on the Las Vegas Strip, the new project will total 531 rooms and will create more than 2,000 new jobs when it opens in late 2024.
- **Forecast:** Employers are forecast to expand payrolls by about 4.5 percent in 2022, adding more than 46,000 jobs. Total employment in the market topped the 2020 high in the middle part of this year and should continue to expand in year ahead.



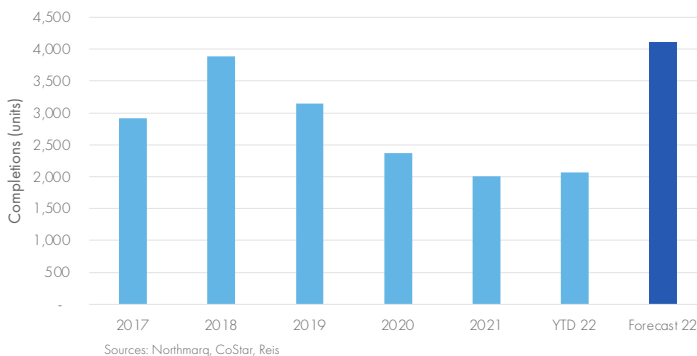
Year over year, area employers added nearly 52,000 workers to payrolls.

### Employment Overview



Year to date, projects totaling more than 2,000 units have been delivered.

### Development Trends



## Development and Permitting

- The pace of multifamily completions accelerated with 1,280 units coming online in the last three months. Year to date, projects totaling more than 2,000 units have been delivered, similar to the full-year total inventory growth in 2021.
- Construction activity for apartments in Las Vegas gained momentum in recent months, and there are now more than 6,850 units under construction in the region. One year ago, approximately 4,800 units were under construction.
- Multifamily permitting slowed during the third quarter following above-average permitting levels in recent periods. Permits for more than 600 units were pulled during the past three months. Year to date, permits have been issued for more than 2,850 units, up 15 percent from levels recorded during the same period last year.
- **Forecast:** Multifamily development is expected to gain momentum in the final months of 2022. Projects totaling approximately 4,100 units are forecast to be delivered this year, the highest annual total in Las Vegas in nearly a decade.

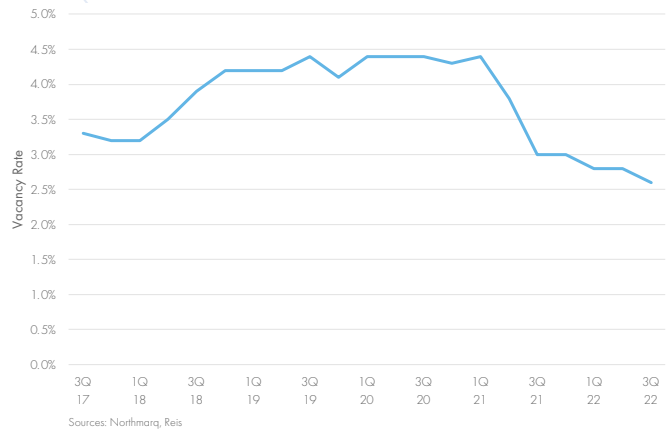
## Vacancy

- Local vacancy trended lower to start the second half of the year, reaching a record low for the region. The vacancy rate fell 20 basis points during the third quarter, tightening to just 2.6 percent. With supply growth likely to accelerate and with economic growth forecast to slow, area vacancy is expected to trend higher in coming periods.
- Year over year, vacancy is down 40 basis points. The North Central submarket recorded the largest improvement from the second quarter to the third quarter, falling 40 basis points to 2.8 percent.
- During the last 12 months, local vacancy has tightened the most in the top tier. Year over year, the vacancy rate in Class A apartments fell 50 basis points to 2.2 percent. These low-vacancy conditions are expected to continue to support additional development in the coming quarters.
- Forecast:** Vacancy is expected to push higher in the final few months of the year as the pace of deliveries accelerates. The rate is projected to finish 2022 at 3 percent up, matching the year-end 2021 figure.



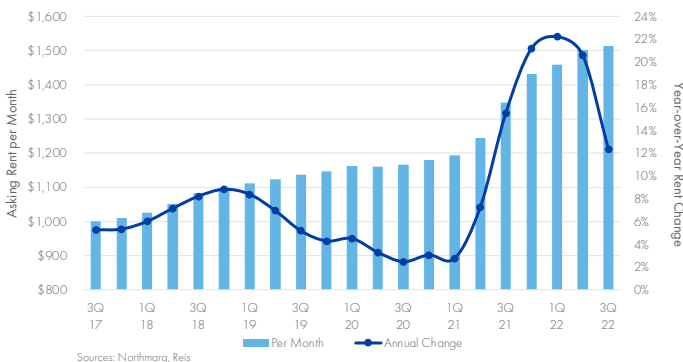
Year over year, vacancy is down 40 basis points.

### Vacancy Trends



During the last 12 months, rents increased by 12.3 percent.

### Rent Trends



## Rents

- Asking rents ticked higher during the third quarter, advancing less than 1 percent to \$1,513 per month. Before the rent spikes in 2021, quarterly rent growth averaged 1.3 percent from 2017 to 2020.
- During the last 12 months, average rents in Las Vegas increased by 12.3 percent. Rents trended higher throughout the metro area during the past year, with the North submarket recording the most substantial gains. Average rents in this submarket closed the third quarter at \$1,389 per month, up 13.2 percent from a year ago.
- Rent growth was strong across the quality spectrum in recent periods, but the most rapid gains have occurred in the least expensive units. The combined asking rents in Class B and Class C properties advanced 12.7 percent during the last 12 months ending the third quarter at \$1,263 per month.
- Forecast:** Rents are forecast to reach \$1,530 per month by the end of the year, marking an annual increase of nearly 7 percent. The bulk of the region's rent growth has likely already occurred and some properties may record declines in the near term.

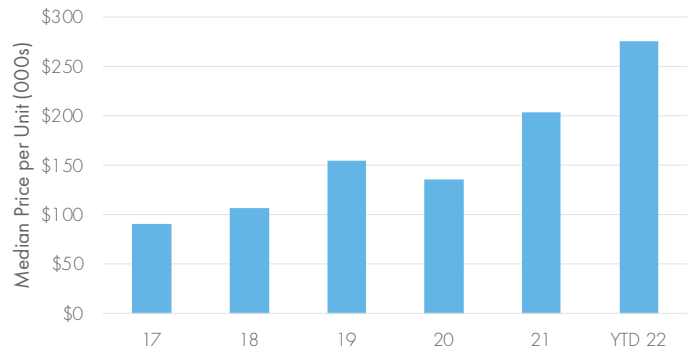
## Multifamily Sales

- Sales velocity slowed to begin the second half, as total transactions during the third quarter declined nearly 60 percent from the previous period. This marked a change of course from the first half of the year; transaction activity in the first six months of this year was off to its strongest start since 2017.
- The median sales price to this point in 2022 is approximately \$275,000 per unit, an increase of 35 percent from last year's figure. Nearly all of the properties that traded in the last three months sold for more than \$60 million. Class B assets built in the late-1990s and early-2000s accounted for more than half of the transaction mix in recent months.
- Cap rates have trended higher in connection with rising interest rates. During the third quarter, cap rates averaged roughly 4.2 percent, with most properties selling with cap rates between 4.0 and 4.75 percent.



The median price in 2022 is \$275,000 per unit.

### Investment Trends



Sources: NorthMarq, CoStar

## Recent Transactions

### Multifamily Sales Activity

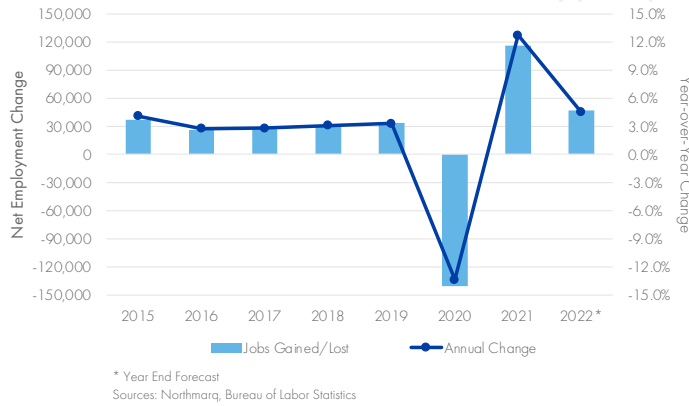
Property Name	Street Address	Units	Sales Price	Price/Unit
Alicante	4370 S Grand Canyon Dr., Las Vegas	232	\$86,800,000	\$374,138
Vue 5325	5325 E Tropicana Ave., Las Vegas	240	\$67,000,000	\$279,167
Aviara	4355 S Durango Dr., Las Vegas	184	\$65,500,000	\$355,978
Tides at Whitney Ranch	5145 Rawhide St., Las Vegas	216	\$64,500,000	\$298,611
Vantage Lofts	201 S Gibson Rd., Henderson	110	\$60,250,000	\$547,727

## Looking Ahead

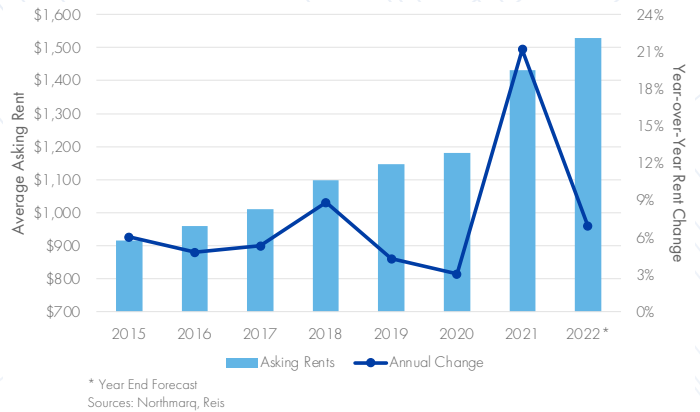
The Las Vegas region is forecast to transition from a period of strong economic recovery to more sustained steady performance. The leisure and hospitality sector is expected to continue to add back workers and with new casinos in the development pipeline, the pace of expansion should continue for at least a few more years. In addition, population growth to the region has resumed at a pace of nearly 2 percent per year, sustaining demand. After a slowing pace of deliveries in 2020 and 2021, supply growth is expected to outpace demand in the coming quarters. Deliveries are expected to surge during the fourth quarter bringing the annual total to approximately 4,100 units. This will likely cause the vacancy rate to level off around 3 percent before trending higher in 2023.

Sales velocity in Las Vegas has been uneven since 2020, with stops and starts as operators assess the pace of economic growth occurring in the region and the impact of the rising cost of capital on investment strategies. After activity slowed in the third quarter, there should be signs of a rebound set to emerge as this year comes to a close and 2023 begins. Cap rates have begun to trend higher in response to recent rises in interest rates and investors appear to be showing a preference for larger Class B assets in submarkets such as North Las Vegas, Henderson, and Northwest Las Vegas. While some degree of uncertainty will persist in the next 6-12 months, the region's long-term economic growth profile—coupled with tight operating conditions in the short term—could continue to attract capital.

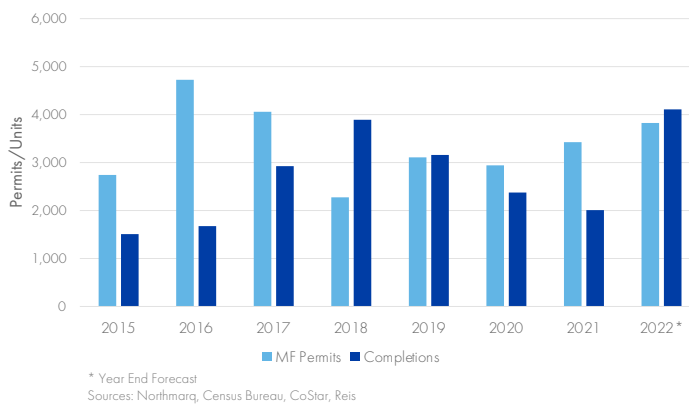
### Employment Forecast



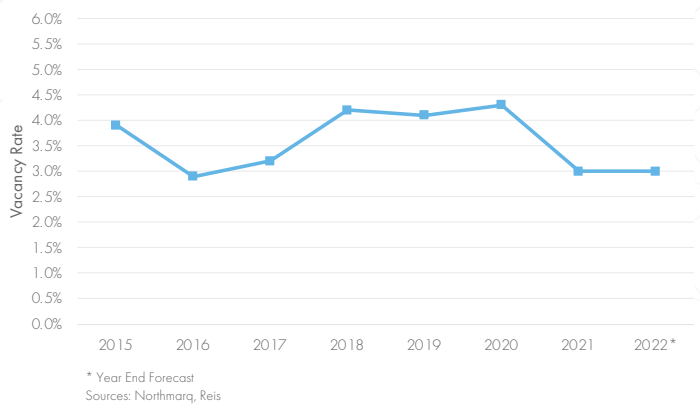
### Rent Forecast



### Construction & Permitting Forecast



### Vacancy Forecast





For more information,  
please contact:

**Thomas Olivetti**  
Managing Director—Investment Sales  
702.432.3355  
tolivetti@northmarq.com

**Scott Monroe**  
SVP, Managing Director—Debt & Equity  
702.363.3344  
smonroe@northmarq.com

**Trevor Koskovich**  
President—Investment Sales  
602.952.4040  
tkoskovich@northmarq.com

**Pete O'Neil**  
Director of Research  
602.508.2212  
poneil@northmarq.com

## About Northmarq

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