

# Las Vegas, Nevada

Multifamily Housing Update

March 2007

## EXECUTIVE SUMMARY

**B**y most measures, Las Vegas made the adjustment from housing boom to housing bust with relative ease: through year-end this high performing economy produced new jobs and attracted immigrants at a brisk clip. Revised Bureau of Labor Statistics data indicated that Vegas added 47,200 (5.4%) payroll jobs in 2006, down moderately from a series record 58,900 (7.2%) in 2005. This ranked Vegas 10th among US metros for total job creation and first with regard to growth rate among markets with 750,000 or more jobs.

Signs of a slowdown emerged in 4Q. Payroll growth slipped to 4.0% year-over-year, the slowest metric observed since 2Q03. December payrolls increased only 33,800 (3.7%) y-o-y, the weakest comparison recorded since June 2003. January data were no stronger, largely due to jobs cuts in the building trades. Construction employment dropped 6,200 from June to January, a 10,200-job reversal from the prior year period. More cuts will follow: SFR permitting in November to January was down 57% from the comparable period in 2005—06.

By contrast, tourism momentum was never stronger. In 2006, gaming revenue was up 9.5%; taxable hotel revpar increased 7.8%; and hotel occupancy averaged 93.2%, the second highest rate ever recorded. Trends in December were encouraging, with gaming take and McCarran enplanements up 17.1% and 6.4% y-o-y, respectively.

Apartment market conditions weakened in 4Q06, as owners experienced the softest demand since 1Q02, losing 726 net tenants after adjusting for 531 units converted to condo. Average occupancy declined 70 basis points sequentially and 60 bps y-o-y to 95.4%, the lowest level in two years. Nevertheless, Vegas occupancy ranked 12th highest in the **RED 50**.

The impact of shadow supply was partially responsible, as condo owners competed with apartments for rental tenants. Aggressive 3Q hikes that pushed effective rent up 4.9% from 12/05 also were a factor, encouraging tenants to double up or relocate to investor-owned condos. Effective rent increased \$5 (0.6%) in 4Q to \$793, while the value of the mean concession package fell \$2 to \$36 or 4.3% of asking rent, ranking Las Vegas 13th in the **RED 50** on this basis.

Reis expect the tempo of supply to pick up in 2007 and 2008, inhibiting occupancy and rent gains. Permitting trends support the assertion, as 2006 multifamily permit issue increased 50% to 11,550 units. Rents are forecasted to increase 4.2% in 2007 and an average of 3.4% from 2008 to 2011. Occupancy is projected to decrease to 95.2% in 2007 and drift below 95% by decade-end. Conditions could deteriorate further if purpose built condos enter the rental pool in greater numbers, a distinct possibility.

Investors couldn't get enough LV properties in 1H06, snatching up 32 assets for \$886mm, according to RCA. But appetite diminished in 2H06, causing proceeds and velocity to fall 44% and 13%, respectively. Greater caution exhibited by converters was primarily responsible. Prices averaged \$96,900/unit and cap rates were nearly stable, averaging 5.9%.

**RED** project expected generic asset returns of about 10% for Vegas assets, ranking as one of the best bets among the top 30 metro markets. That qualifies Sin City as an **"Accumulate"** market. But the loaded pipeline of condos and apartments is cause for concern. Reis forecasts may underestimate actual supply risks. Consequently, investors should not pursue metro options with an excess of ardor. Safety first.

## SNAP SHOT

	Y-o-y change	Projected 2007
Vacancy (4.6% - 4Q06)	↑ 60 bps	↑ 20 bps
Effective Rents (\$793 - 4Q06)	↑ 4.9%	↑ 4.2%
Cap Rate (5.9% - 4Q06)	↓ 60 bps	↔ unch
Employment (934.5k - 4Q06)	↑ 36.1k	↑ 30k

## KEY POINTS

- Las Vegas produced 47,200 payroll jobs in 2006, representing a growth rate of 5.4%. 2007 promises to be slower. **RED** project 30m jobs in 2007 and 41m in 2008.
- Job creation slowed in 4Q06, largely due to a decrease in construction headcounts. Single-family home building activity is down sharply, with permits falling 57% in the last quarter y-o-y, but developers are pressing on with a score of high rise condo developments near the Strip.
- The median home price dropped 0.8% y-o-y to \$313.5m in 4Q.
- The apartment market was unusually cool in 4Q06. Negative net absorption of 726 units was recorded, raising vacancy 70bp to 4.6%.
- After raising effective rents \$32 from Jan to Sept, owners paused, adding \$4 in 4Q.
- Gaming/Tourism business boomed in 2006. Hotels and casinos set new revenue records, boding well for the economy in 2007.



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