

Las Vegas, Nevada

Multifamily Housing Update

April 2010

EXECUTIVE SUMMARY

Las Vegas is a town that's heard its share of hard luck stories, but it's rare when the story is Las Vegas itself. Last year was one long tale of woe and the road to recovery isn't shaping up to be a get-rich quick scheme or mother load.

In 2009, metro establishments eliminated 86,000 payroll jobs, a -9.4% decline from 2008, representing the largest one-year loss recorded in history by a multiple of five. Losses were most intense during the third quarter, when payrolls plunged at a 98,800-job, -10.9% pace, but did not greatly improve in 4Q, when attrition proceeded at a 77,500-job rate. Preliminary results for 1Q10 exhibit some slow progress, as cuts evolved at a slower 53,900-job, -6.3% rate.

Weak leisure travel demand was largely responsible, exacerbated by the delivery of more than 6,000 new hotel rooms to the Strip. Convention and meeting attendance fell 30% last year, as businesses grew reluctant to schedule events in resort cities. Visitor counts and McCarran enplanements dropped in thirteen consecutive months through August 2009, and hotel room rates fell by as much as 30%. This contributed to the loss of 18,800 job in the leisure and hospitality sector last year, including 10,200 in casino hotels. Retailer also suffered business losses, leading to attrition of 8,100 workers in that sector.

Hospitality industry conditions were firmer during the winter, as visitor totals increased YoY in five consecutive months through February and gaming take on the Strip increased. Metro payrolls declined by 17,500 jobs in 1Q10 anyway, according to seasonally-adjusted figures, and the unemployment rate surged to a record 13.9% in February.

The recovery of tourist volume and gaming take will proceed gradually,

and hotel occupancy and room rates will recover at a still more leisurely pace, held back by a flood of new construction. Consequently, the road back for the Vegas economy will take time. Our model suggests that YoY payroll growth should return in 2H10, holding full year losses below 15,000. Momentum will grow next year, when about 24,000 new jobs are created.

A net of -426 tenants vacated units in 4Q09, representing the fifth consecutive quarter of negative absorption. The average occupancy rate declined 30 basis points sequentially to 89.3% as a result, the lowest level ever recorded here. For the year, occupancy fell 250 bps, as delivery of 1,316 units exacerbated the effect of -2,031 net tenant move-outs. Preliminary 1Q10 reports suggest that conditions deteriorated over the winter, as occupancy declined further to 88.5% in March following delivery of five new projects consisting of 1,669 total units.

Rent trends in 4Q were among the weakest in the **RED 50**, ranking 47th. Reis report that average asking and effective rents fell -4.7% and -5.7%, respectively, last year, including declines of -2.6% and -2.0% in 4Q09 alone. M/PF Research put the figure at -8.8%. Four submarkets posted declines of -7% or more, led by the North Central submarket, where rents plunged \$59 (-9.7%) year-on-year and \$32 (-4.2%) September to December.

Supply pressures will remain an obstacle to progress. So many as five projects may debut by mid-year, adding 1,900 units to the inventory, and a sixth complex consisting of more than 400 units is scheduled to be complete by December. Consequently, occupancy is likely to fall further by year-end and rent concessions may rise from the 5.6% of gross rent revenue level recorded in 4Q09, back to 3Q09's 6.1% ratio or higher.

SNAP SHOT

	Y-o-Y change	Projected 2010
Vacancy (10.7% - 4Q09)	↑ 2.5%	↑ 0.3%
Effective Rents (\$779 - 4Q09)	↓ 5.7%	↓ 1.0%
Cap Rate (6.1% - 4Q09)	↑ 70bps	↑
Employment (815.1m - 4Q09)	↓ 78m	↓ 10m

KEY POINTS

- Las Vegas posted the highest foreclosure rate in the country during 1Q10. A total of 3.5% of Clarke County households was in foreclosure or default, up 13% from 4Q09.
- Payroll job losses slowed in 1Q10, but continued at a brisk clip. On a seasonally-adjusted basis, 17,500 jobs were trimmed, up from 4,900 jobs in 4Q09. On a year-on-year basis, attrition slowed from a 77,500 (-8.5%) job rate to a 53,900-job, -6.3% pace.
- The effects of job cuts and competition from foreclosed homes and unsold condo units further pressured apartment occupancy. A net of -426 tenants vacated units in 4Q09, reducing average occupancy by 30 bps sequentially to 89.3%. Weak demand was accompanied by heavy supply in 1Q, which sent occupancy down to 88.5% in March.
- Rent trends suffered accordingly. Effective rents slumped -2.0% sequentially and -5.7% over the year, slipping to \$779 at year end.
- While property markets heated up elsewhere in the West Region, sales velocity proceeded at a glacial pace in Vegas. Only two trades closed in 4Q09, and no sales were inked during the first sixteen weeks of 2010.



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