Apartment Insider

LAS VEGAS MULTIFAMILY MARKET REPORT

ISSUE 18 | 2018

CUSHMAN & WAKEFIELD

GOLDEN KNIGHTS 2017 / 2018
Artist: Devon Almarinez
instagram.com/devonalmarinez

Key Metrics

Las Vegas Multifamily Market
Performance for Quarter 2, 2018

$981
Average Rent

5.6%
Vacancy Rate

203,864
Total Units

Asking rents in Vegas are up 2.13% on the quarter and 6.3% year over year:

AVERAGE RENT

1 x 1 **$863** AVERAGE RENT

2 x 1 **$888** TWO BEDROOM

2 x 2 **$1,047** TWO BED | TWO BATH

3 x 2 **$1,218** THREE BEDROOM

National Outlook

Multifamily volumes continued their recovery from the sharp fall-off in the first quarter, incresing 12% quarter-quarter and 4% year-over-year, bringing year-to-date volumes roughly in-line with the overall market for 2017, down 10% to the market's 9%. These figure are skewed by large entity-level transactions in the second and third quarters - most recently the $4.4B acquisition of Monogram Residential Trust by Greystar Growth and Income Fund. Excluding such transactions, mulitfamily volumes nonetheless increased 13% quarter over-quarter, led by particularly strong growth in the single asset transactions (+18%). Year-to-date volumes (ex. entity-level) are down 13% compared to 8% for the overall market.

RECENT MULTIFAMILY SALES

Property Name	Units	Built	Price	Sale Date
Decatur Pointe Townhomes	100	1978	$8,200,000	2018-04
Cypress Springs	144	1994	$15,000,000	2018-06
Gramercy, The	160	2008	$45,750,000	2018-05
Las Brisas De Cheyenne	176	1999	$12,425,000	2018-06
Silver Creek Apartments	224	2002	$26,000,000	2018-06
Winsome West Apartments	228	1989	$24,000,000	2018-04
Adobe Ranch	234	2003	$42,705,000	2018-05
Elysian at Southern Highlands	255	2013	$64,250,000	2018-06
Sandpebble Village	280	1980	$21,100,000	2018-05
Desert Ridge	304	1990	$30,750,000	2018-04
Montecito Pointe	336	2006	$59,250,000	2018-05
Estates at Westernaire	336	1995	$29,900,000	2018-06
Aviata	456	1998	$67,000,000	2018-05
Xander 3900	480	1996	$69,500,000	2018-05
Castile	498	2017	$99,600,000	2018-04
Foothill Village	512	1980	$50,000,000	2018-06
Solis at Flamingo	524	1992	$72,000,000	2018-06

	Transaction Volume	Units Sold
Q1 - 2018	$386,083,410.00	3735
Q2 - 2018	$763,530,000.00	5671

1998 v. 2018:

Past Trends

Market trends can tell us a lot about the future of the market, whether that's the car market, the retail market, or the multifamily market. In 1998 gas-guzzling big-body BMW's were the car of choice for executives, but now the all-electric, 800 horsepower Tesla is in. Boutique firms used to make a killing, but now they are out the door, and powerhouse companies like Amazon and Cushman & Wakefield are in control and easily accessible. So, what has changed in Las Vegas, and how has the market progressed over the past 20 years? Here are the stats.

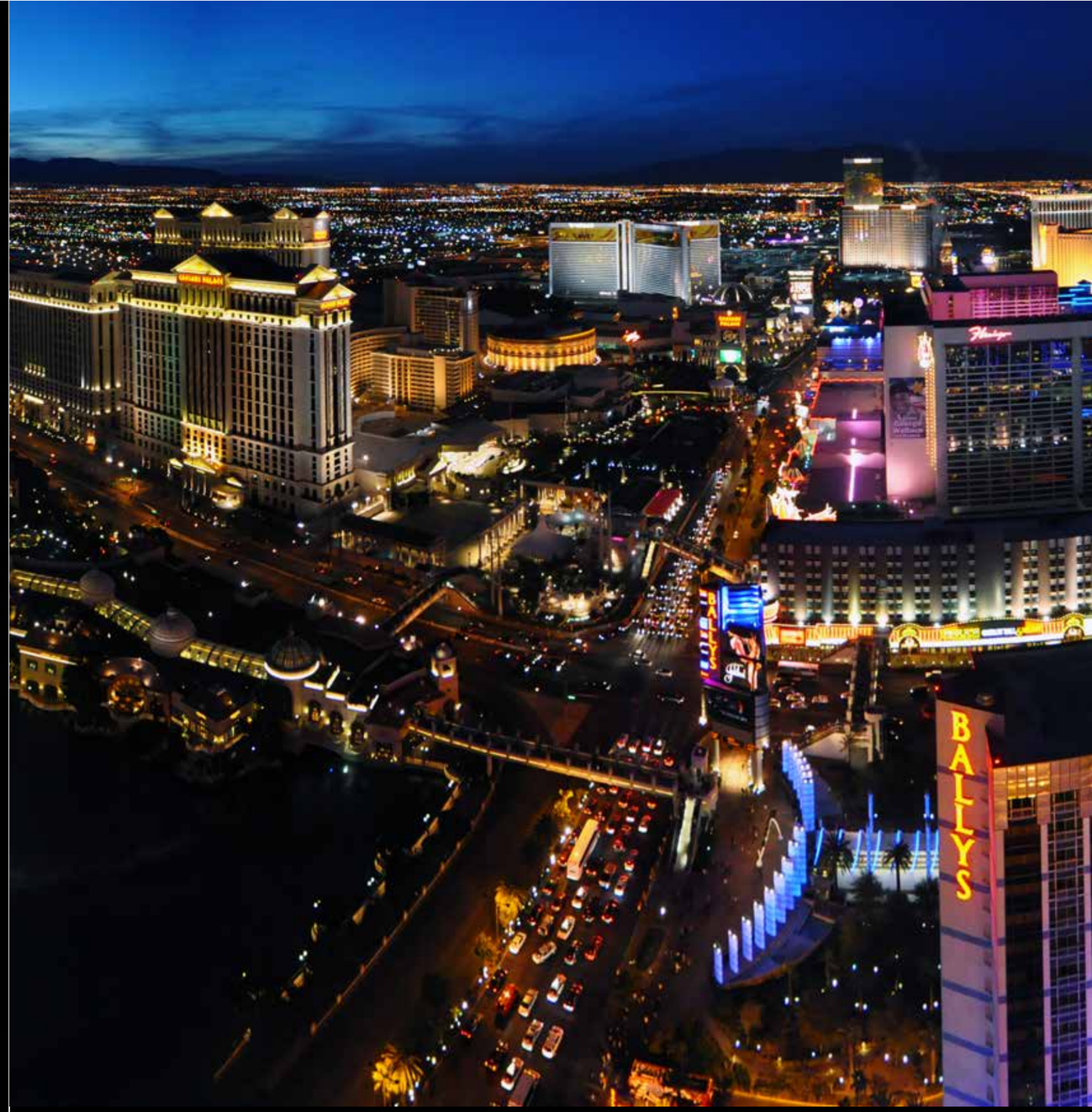
In 1998 Vegas was leading the nation in job growth and population growth. The city was growing in size at nearly 4.5% and the unemployment rate was 7.2%. The average household income was $77,101 and the median home value was $130,331.

In 2018 Vegas is still a nation leader in job growth and population growth, at 3.3% and 2.5% respectively. Wage growth is projected at 4.1% for 2018 and the unemployment rate is steady at 5%. The average household income has increased to $123,110 and the median home value is skyrocketing, with median values approaching $290,000.

In the apartment sector there were 33 major apartment sales, totaling over 9,600 units. The average price per unit was just $50,100 and the average price per square foot was about $49.98. Rent growth and occupancy rates were also lower than they are today, at 3.5% and 93.9%, respectively. New multifamily construction deliveries were even over 7,000 units! Today that number sits at just 4,800 units, with much improved absorption due to low single family residential deliveries.

North Las Vegas had an average of 5% compared to 6.9% for the Henderson area. That script has flipped now, as the upper-blue collar sector of the market is poised to provide the strongest population growth in the coming years.

While I did have a lot more hair in 1998, most of the other changes that I have undergone have been good ones. I made the jump from the 7-series BMW to the Tesla Model S, like many others. We also sold Hendricks & Partners to Berkadia and I joined Cushman Wakefield. Riding the waves and keeping up with trends is important, and overall, we're optimistic for the future, and to see what another 20 years holds for us!



1998 Highlights

3.5% RENT GROWTH

7.2% UNEMPLOYMENT

$50,000 AVERAGE MF $ / UNIT

COWORKING

Current Trends

The flexible workplace is here to stay, as the world of work has fundamentally changed.

A new breed of flexible operators who constantly challenge the traditional business model is now disrupting the real estate industry. Bodies of evidence from all parts of the globe prove that the sector is going to remain an important segment of the real estate industry in the future. Landlords and investors are sitting up and taking note.

London has cemented its position as the global leader for flexible workplaces, easily outstripping New York in terms of both space and number of operations. The sector is still a relatively small part of the office market - currently accounting for around 4% in London. Nevertheless, take-up to the sector has increased year on year. 2017 has been the most active year for the sector, with 2.5 million sq ft of lettings completed, which was a market share over 21%. WeWork was responsible for more than half of 2017 take up.

The regional cities are evolving, with new entrants providing a different offering from the tertiary centres that have for so long dominated the regional cities. We would expect growth in the core cities to accelerate as operators turn their attention to new markets. WeWork has made its first entrance into the regions during the year with two spaces in Manchester.

Sector performance remained robust post Brexit, with increasing levels of occupancy evident around the UK. An occupancy rate of 80% is the average required to be profitable. High occupancy

combined with increasing densities are supporting profit levels across the sector. Margins will be squeezed if occupancy rates fall below this level or if the desk rate is reduced, which may occur if rents for conventional space fall in response market uncertainty.

Structural changes will continue to drive growth within the sector but a number of factors could slow the pace of expansion.

In addition, the pace of growth will be impacted by operators reaching critical mass, while the limited supply of new space will act as an inhibitor to those seeking larger spaces.

Conventional landlords are faced with a dilemma: on the one hand they recognise the benefits that having a flexible workplace provider brings to a building, on the other they are increasingly viewing the larger operators as direct competition. Landlords will look to reassess their real estate strategy.

While realistically few will enter the sector directly, due to its margin play and specialist skillsets, we envisage more property owners will collaborate with operatorswhile at the same time providing more short-term flexibility into their portfolio, to help retain their tenant base. This is a natural response to changing occupier needs and will be accompanied by the increasing provision of amenities within the building in a bid to attract an increasingly empowered workforce.

There is evidence of some operators moving into managed or enterprise solutions to accommodate larger enquiries and this segment is likely to expand with new operators targeting the UK market. There will be some casualties along the way, but that is inevitable as the flexible workplace adapts to changing demands from the customer. But that's not to say that there is not a place for increased differentiation of product.

Looking forward, the need for a wide range of flexible offers will be instrumental for the continued growth of the sector. There is a place for both mature and innovative operators; especially if the sector is to appeal to a wide range of business sectors, with a range of both price points and specifications.

Expansion will also include setting up operations in non-office buildings as landlords seek to monetise vacant daytime space. This growth is increasingly likely to include landlords' own flexible offerings, such as the Storey offering from British Land. Cushman & Wakefield anticipates that this combination could lead flexible workplaces to account for market share approaching 10% in the next ten years across the UK.

Our research shows that it is clear that the concept is no longer just about an office building, but about where and how people want to work. Real estate provides a platform for more services to be incorporated into the office. There will be more vertical integration between service offerings but this will be dependent upon scale of the operator. WeWork have set the benchmark but others are following in their wake. New technology platforms will provide opportunities for property owners to incorporate added services into their portfolio and to compete with the flexible service provision.

The research also considered the impact of the expanding sector on total supply. While conventional lettings to the sector supported total volumes post Brexit, this is viewed as effectively moving available space from one landlord to another. Occupancy rates are reportedly above

8 0 %
across the UK, and have been increasing year on year. This will insulate the traditional leasing market from this shadow space. Cushman & Wakefield has calculated the effect on vacancy rates, and as the sector has expanded so too has its impact on vacancy. Across Central London we estimate that the impact on the vacancy rate is an additional 70bp. This shadow space will rise further into 2018, as a number of prelet operations open and space taken in 2017 reaches target occupancy.

Investors are less wary about the sector as they understand how flexible workplaces operate. We have seen both direct corporate investment and the sale of properties with a substantial flexible workplace tenant in place. Blackstone, Carlyle, Brockton are all examples of companies investing directly into the sector, and there will be other similar plays as operators seek new capital to support their business strategy and investors seek ways to increase exposure to the sector

Overseas investors have driven the purchase of flexible workplace led offices and in part this is due to weight of money targeting the London office market and the test for the sector will come when thinner investor demand is evident.

Valuation models for operational assets are evolving with recognition that buildings let to the sector need to be approached in a different way to conventional office space. For investment properties covenant strength remains an issue and a yield adjustment is typically made to reflect this where a higher percentage is let to a flexible workplace operator. Having a proportion of a building let to a flexible workplace is viewed as enhancing the office building in terms of amenity, brand and ultimately in rents that traditional occupiers are willing to pay.

In general, our research concludes that flexible workplaces will continue to be a major influence on the future direction of the UK office market, with London at the helm. It is clear that the concept is no longer just about an office building, but about where people want to work. There are opportunities for growth but a number of constraints may temper these. Nevertheless, both landlords and operators will seek to gain a larger foothold on the flexible workplace sector.

Elaine Rossall MRICS
Head of UK Offices Research & Insight
elaine.rossall@cushwake.com
Direct: +44 (0)20 3296 4297
Mobile: +44 (0)7793 808319

Hayley Armstrong
Senior Insight Analyst, UK Research
hayley.artmstrong@cushwake.com
Direct: +44 (0)20 3296 2069
Mobile: +44 (0)7850 062059

Christopher Dunn LLB
Senior Insight Analyst, UK Research
christopher.dunn@cushwake.com
Direct: +44 (0)20 7152 5700
Mobile: +44 (0)7432 700951

WHAT IS MACHINE LEARNING (ML)?

Future Trends

Can machines really learn? Yes, and they are doing it as you are reading this article.

Machine learning is more than just carrying out tasks or computing complex algorithms. It takes AI a step further, as it focuses on mimicking human decision-making processes. These processes & equations are layered primarily through a set of if this, then that (IFTTT) functions. Now, you may assume that an effecting ML is a function of the mathematical equation it is tied to, but that's not necessarily the case. In fact, having more & better data is the key. Blockchain is a PRIME example of this and offers a great case study on the decentralization of data, but we'll save that for another article.

One example of Machine Learning would be the last time you used google to search for information... did you notice the ads on the right side of the page suggesting items you may want to buy? Do you use Netflix? If so, you've notice the ever-changing suggested movies section. The data from your previous searches & behaviors are categorized and stored for analysis, and the ML is taught to adjust future suggestions based on your responses to the current ones.

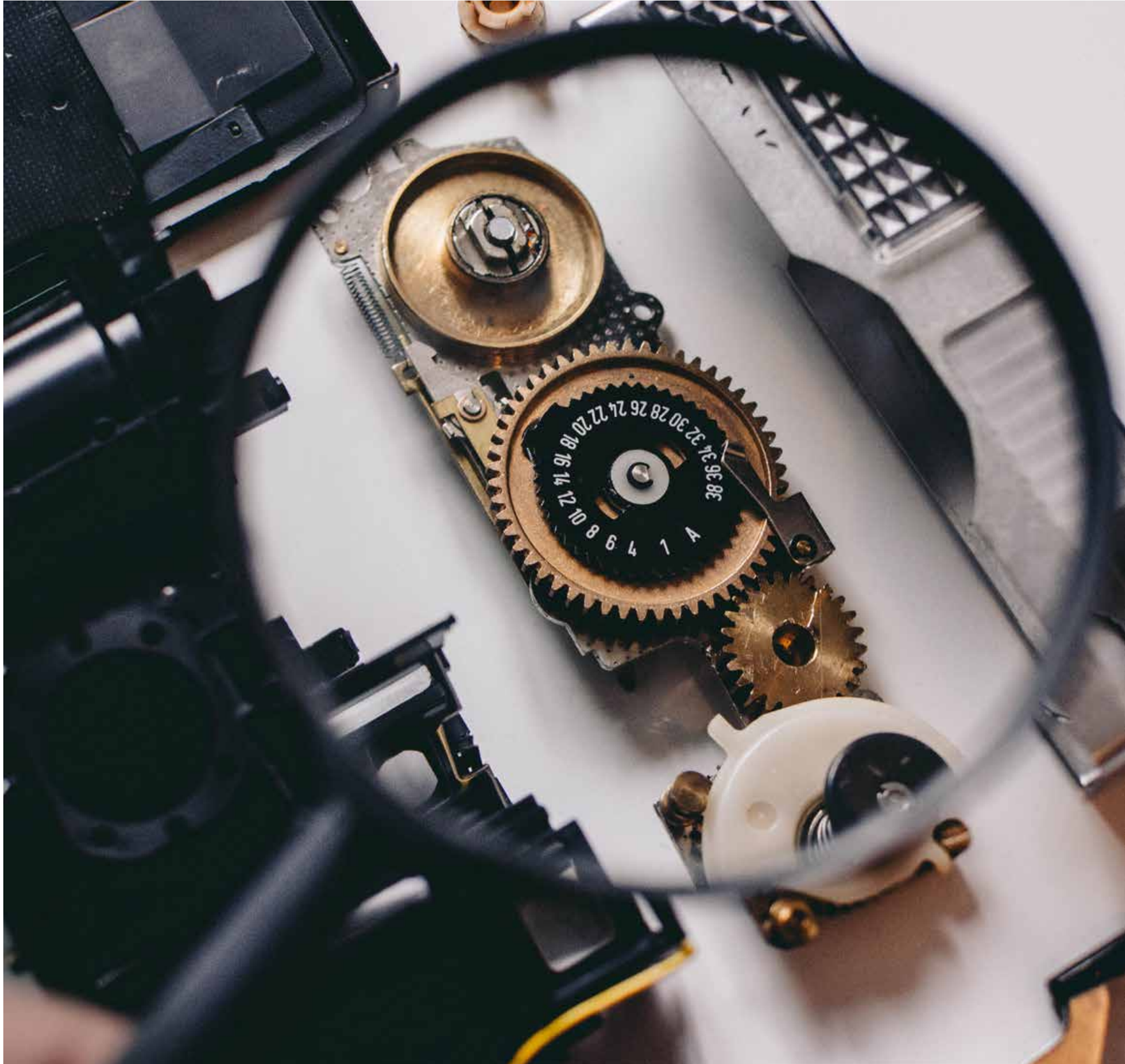
So what is machine learning and how does it work with commercial real estate? Most companies are still using small databases & basic queries. The broker will type in a request such as "who owns the Main Street apartments?" or "How many units are in the Main Street apartments?" "When was it built?", etc. These programs are simple queries and will only provide answer to specific questions. Machine Learning is different.

Machine Learning would take information from a database, combine it with past searches and results, and would reach it's own logical conclusion based on previous successful searches. For example "Who would be the most logical buyer for a 200-unit apartment project built in 1990?". Based on previous changes in the database, the machine would learn which groups tend to buy like-type assets, and then it would run a linear regression model to fine tune the model. Additionally, you could add in more limiters like "Which of these groups would pay the most?" or "find groups with 1031 exchange needs". Other deciding factors may consist of date of last purchase, amount of last purchase, number of units owned, age of units owned, etc. Potential buyers would then be notified by the ML about the new listing, and a follow-up call is made by the broker.

Taylor Sims with Cushman and Wakefield is developing Machine Learning for the valuation of apartments, to take into account the current market cap rates, sale comps, rent upside, and current operating statements.

I am currently working on a machine learning program which will complete my wife's honey to do list. This may be take me a lot of time!

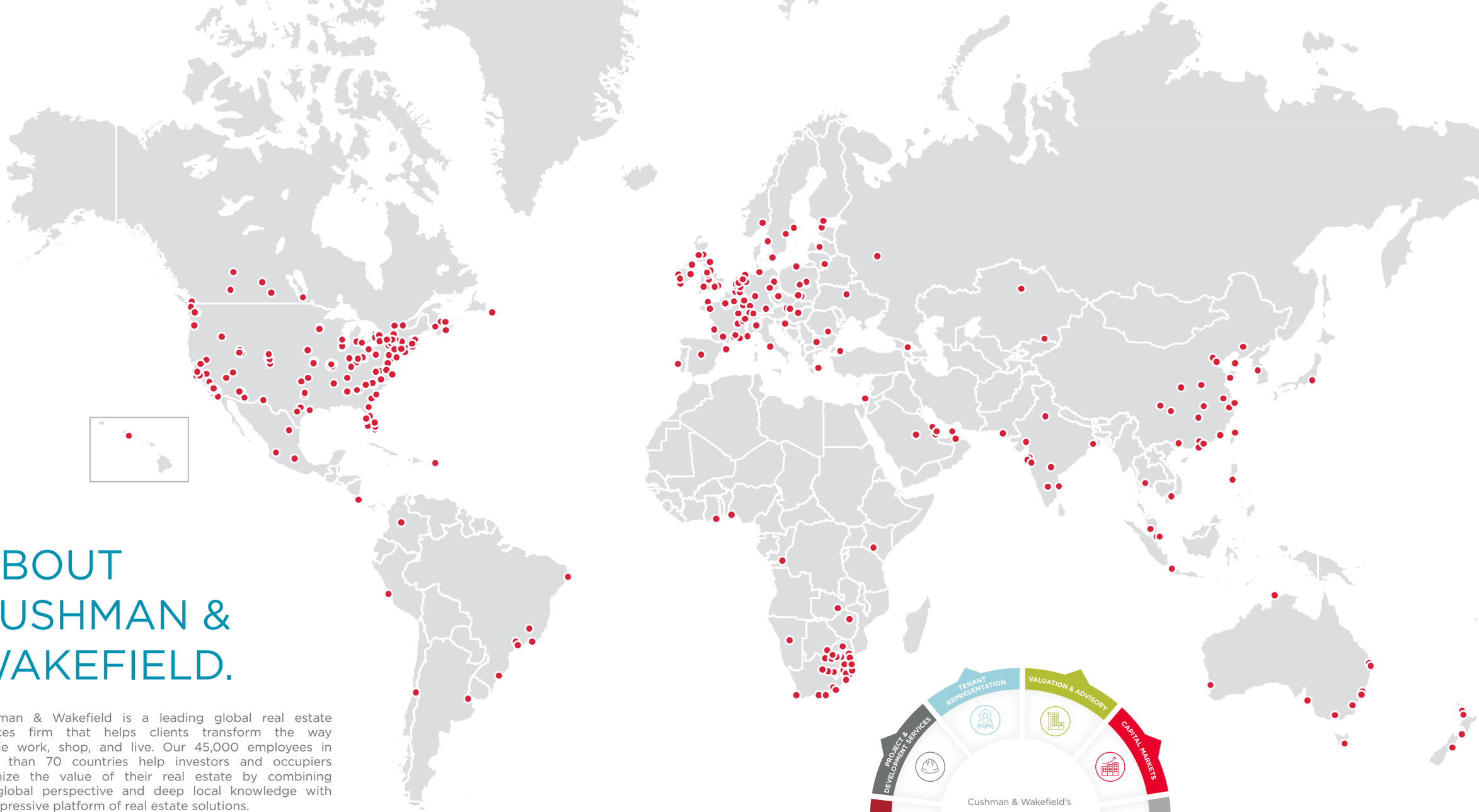
Carl Sims
Executive Director



ABOUT CUSHMAN & WAKEFIELD.

Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop, and live. Our 45,000 employees in more than 70 countries help investors and occupiers optimize the value of their real estate by combining our global perspective and deep local knowledge with an impressive platform of real estate solutions.

Cushman & Wakefield is among the largest commercial real estate services firms with revenue of $6 billion across core services of capital markets, agency leasing, asset services, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory.



EMPLOYEES IN 70 COUNTRIES	45,000
IN REVENUE	$6B
IN TRANSACTION VOLUME	$191B

Confidently Global,
Expertly Local.

CUSHMAN & WAKEFIELD

LAS VEGAS MULTIFAMILY
SALES TEAM

CARL SIMS
+1 702 688 6921
carl.sims@cushwake.com

TAYLOR SIMS
+1 702 688 6957
taylor.sims@cushwake.com

6725 Via Austi Pky. Ste. 275
Las Vegas, Nevada 89119
Main +1 702 796 7900
Fax +1 702 796 7920

MARC-ANDRÉ FLEURY 2018
Artist: Devon Almarinez
instagram.com/devonalmarinez