

CONTENTS

Selected Economic Conditions.....	1
Resort Industry Impact on Las Vegas.....	2
Market Diversification	3
Apartment Market Outlook	4
Appendix.....	7
Housing Demand Estimates	7
Housing Supply Estimates.....	8

PURPOSE AND METHODOLOGY

Since the formation of The Bentley Group (TBG), our Commercial Report series has become known throughout the industry as a key source of information for property owners, investors and financial institutions. Our latest publication, *Las Vegas Outlook*, provides a brief review of 2007 and our longer-run outlook, with a concentration on the multi-family apartment sector within the dynamic Las Vegas economy. While TBG, its professionals, and analysts are preparing a comprehensive analysis of market conditions and longer-range forecasting, we have taken this opportunity to provide insight into key market trends as we enter 2008.

SUMMARY OF FINDINGS

The Las Vegas economy has managed to remain resourceful and resilient through national, regional and local economic downturns. Recessionary periods during the early 1990s, post-September 11, 2001 and other declines have been relatively short-lived as record-setting levels of population and employment growth have pressed the market forward through difficult times.

For those looking on the outside, it is difficult to understand what decades of 5.5-percent annual growth means. Just 30 years ago, the Las Vegas market was home to just over 400,000 full-time residents and that number has increased five-fold as Las Vegas currently maintains a population base of 2.0 million people. These figures exclude another 40 million annual visitors to southern Nevada, equating to an additional 17-percent full-time equivalent population.

The current wave of nearly \$35 billion in investment activity within the tourism industry will more than double all capital invested to-date for Las Vegas Strip casinos, but it will also continue to generate demand for housing and services. The market has, and will continue to, respond.

- There is clear evidence the impact of major resort projects will ripple throughout the economy and generate demand for new residents and housing (page 2).

- Despite strong hotel and gaming employment projections, the sector will represent a smaller share of the overall employment base compared to just a decade ago as diversification continues (page 3).
- The performance of major resort operators will also diversify as revenue distributions will continue to shift from a model that was dominated by gaming to an amenity-filled experience attracting a more diverse cross section of consumers (page 3).
- Despite continued market expansion, Las Vegas homeownership statistics ranking near the bottom of the list will continue to impact the for-sale sector, while the affordability gap between ownership and rental housing options has increased in recent years (page4).
- Relatively recent price increases in the for-sale residential market have created opportunities in other areas, including the for-rent sector (page 5).
- The market is expected to demand 177,500 total housing units during the next five years, with approximately 25 percent (or 44,500 units) demanded within the apartment sector of the Las Vegas market (appendix).
- Supply shortages in the residential sector may begin to emerge by the close of 2009 with the apartment sector reporting material shortages (appendix).

SELECTED ECONOMIC CONDITIONS

For-Sale Residential Market Impact

In the for-sale residential market, conditions continued to erode during 2007 while supply levels remain elevated. Additionally, sales activity declined while the rate of foreclosures reached all-time highs. The current swell of over 25,000 homes on the resale market has signaled to potential buyers the market may be poised for further price cutting, moving many to the sidelines. This condition has slowed market demand, while homeowners with high leverage are unable to refinance or find value in their homes. We expect this trend to persist for another 12 months, while non-residential sectors will put upward pressure on demand, which should move the market in a positive direction.

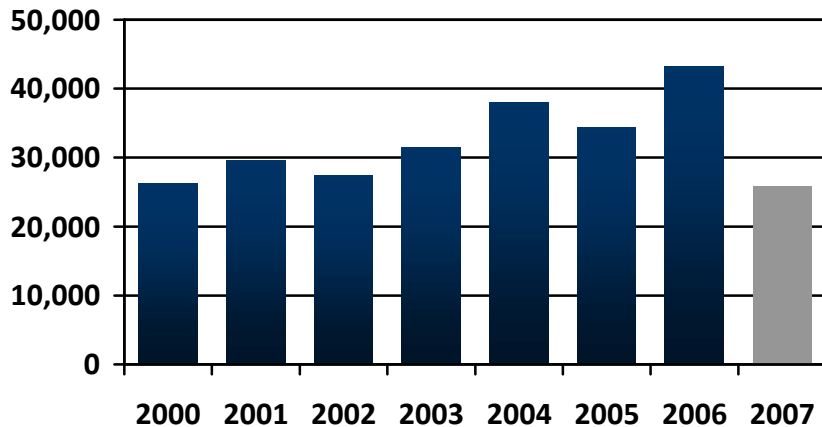
The slowdown in the for-sale housing sector has impacted consumer spending patterns as taxable retail sales figures are off the levels reported just one year ago. It is clear that consumers are maintaining a more cautious approach to their spending, whether by necessity or choice, consumption is down. Key areas impacted by the latest slowdown include the important eating and drinking places and automobile sales that point to more conservative spending on small and large-ticket items.

Commercial Market

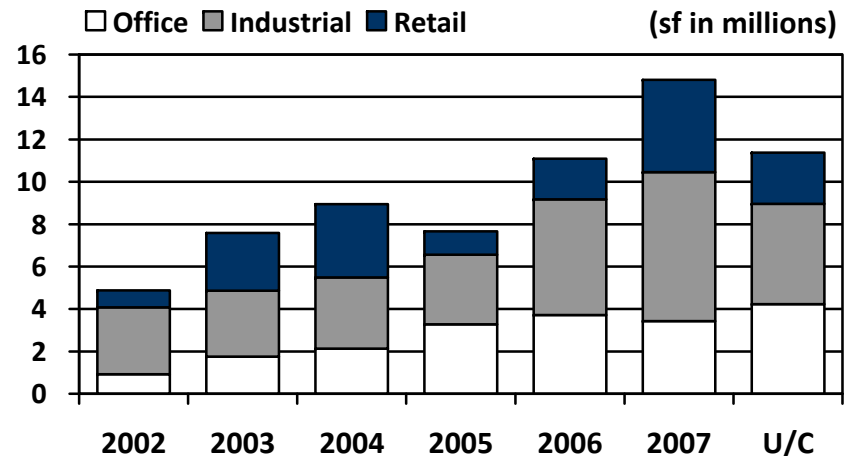
Outside of the residential sector, the market is experiencing a tremendous level of investment activity. Commercial office and retail projects remain abundant, while a record-high level of construction activity is taking place within the industrial sector. Traditional sectors are posting healthy expansions; however, the performance of individual properties may be suffering as vacancies are on the rise in selected areas.

Market indicators remain volatile, yet it is important to note that the Las Vegas economy ebbs and flows with the timing of major resort openings. Current conditions are a result of a few key factors, including unprecedented housing sales activity in 2004 and 2005, ensuing residential price appreciation, aggressive commercial development levels and a lack of new major resort openings in 18 months.

Residential Permits (Units)



Commercial Development (sf in millions)

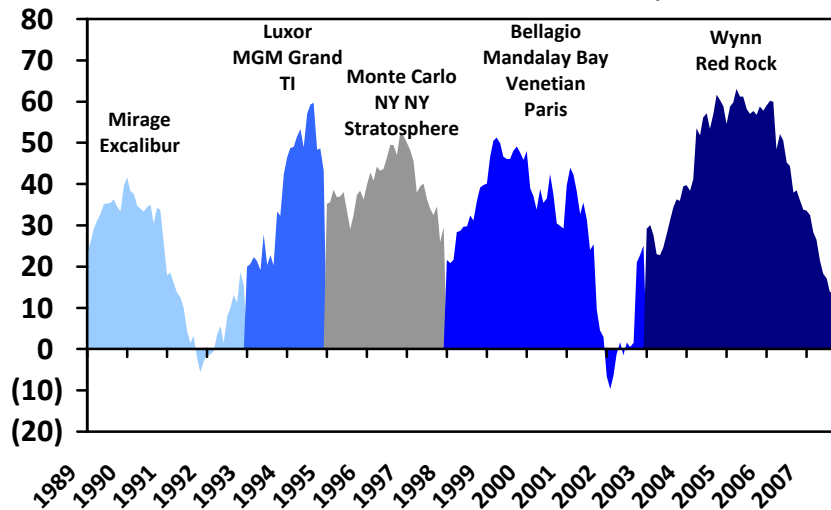


RESORT INDUSTRY IMPACT ON LAS VEGAS

Key Driver of Demand

The resort industry, construction, and selected business services sectors remain key drivers of the Las Vegas economy. It is clear that historical investments in the resort industry have expanded the overall market. The following depicts total employment growth, not just growth taking place within the resort industry. Employment growth continues to ebb and flow with major project openings. It is worth noting the relatively short-lived periods of negative growth during the Iraq war of the early 1990's and the period following September 11, 2001. The current slowdown in growth is expected to be similarly short-lived as major projects remain on the horizon. It is also worth noting the current downswing is timed during an oversupplied for-sale residential market, which has raised concerns about a for-sale housing market imbalance.

**Annual Employment Growth
(in thousands)**



Resort Industry Growth

Resort industry investments are at all-time highs with nearly \$35 billion in projects in the pipeline. This would more than double the current level of capital invested on the Las Vegas Strip today. Development activity includes the most expensive privately-funded development in North America – MGM MIRAGE's CityCenter located on 76 acres in the heart of the Las Vegas Strip. Other projects included branded properties and expansions of existing facilities (Wynn's Encore). With a large share of projects developed by publicly-traded enterprises, we expect those already underway to complete construction. Predicting the current business cycle's bottom is a near impossibility. Respecting this reality, we believe the economy will begin to see signs of improvement by late 2008.

Core Industry Investment 2007 - 2010

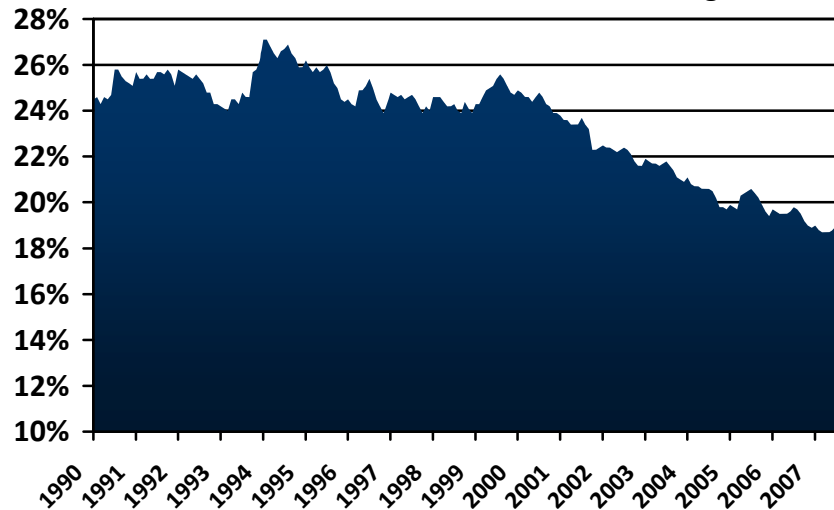
Projects	Date	Cost	Projects	Date	Cost
Palazzo	2007	\$1.8 B	Planet Hollywood	2009	\$0.8 B
Palms Place	2008	\$0.7 B	Fontainebleau	2009	\$2.9 B
Aliante Station	2008	\$0.6 B	Hard Rock Exp.	2009	\$0.8 B
Trump	2008	\$0.6 B	Grand Hyatt.	2010	\$2.4 B
Encore at Wynn	2008	\$2.1 B	Echelon	2010	\$4.8 B
CityCenter	2009	\$7.4 B	Convention Ctr.	2010	\$0.9 B
M Resort	2009	\$0.7 B	Other Projects	07-10	\$7.5 B
Projects Completed or With Announced Completion Dates					\$34.0 B
Additional Announced Projects					\$13.1 B
Combined Investment					\$47.1 B

MARKET DIVERSIFICATION

Employment Will Continue to Diversify

The base of employment continues to respond to the latest market conditions, while the source of growth is much more diversified than it has been. The following depicts the share of hotel and casino employees as a percentage of the total employment base dating back to 1990. Representing a high of over 27 percent in 1994, hotel and casino employment pulled back to 19 percent of the total today. Combined with strength in non-tourism related industries has allowed Las Vegas to move from a one-horse town to a diversified place to do business.

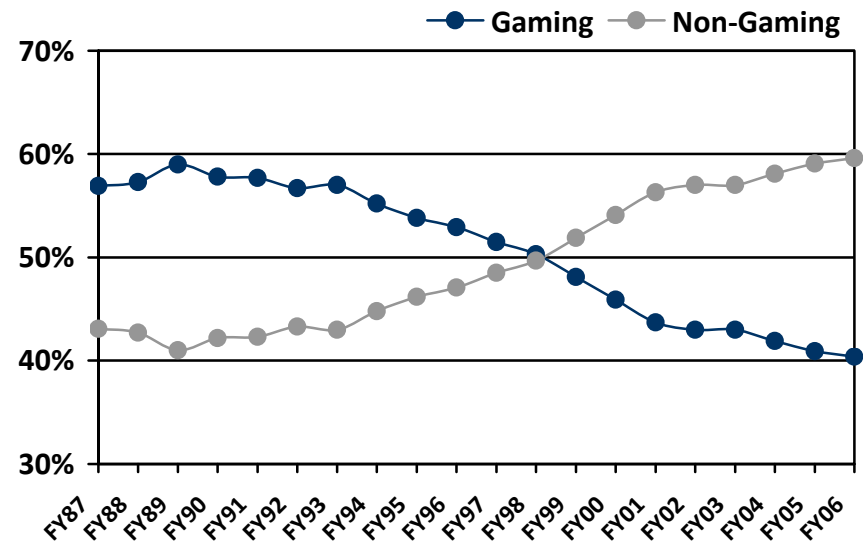
**Casino Hotels and Gaming Employment
As a Percentage of Total**



Gaming Industry Revenue Shift

Revenues at hotel-casinos located on the Las Vegas Strip have continued to expand a relatively healthy pace. During the past 20 years, revenues expanded at a compound annual growth rate (CAGR) of 8.7 percent. During the same period, gaming revenues expanded at a 6.9 CAGR, while non-gaming revenue growth was 10.5 percent. Currently, gaming revenues represent 40.4 percent of total revenues at Las Vegas Strip properties, down significantly from 57.0 percent two decades ago. The operating performances suggest consumers are demanding a more diverse product offering, while casino developers and operators are creating a more diversified experience. Retail shopping, entertainment, dining and luxury hotel accommodations have elevated Las Vegas to yet another level.

Las Vegas Strip Revenue Distribution



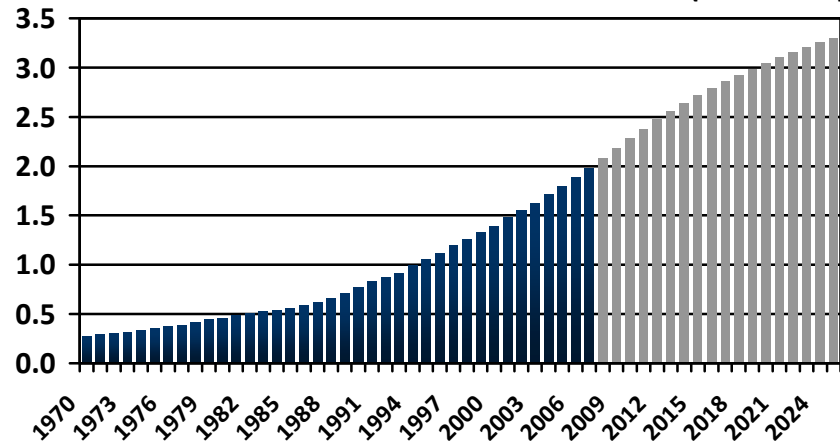
APARTMENT MARKET OUTLOOK

Population Growth is Expected to Continue

There is no question Las Vegas remains one of the most robust economies in the nation when measured in terms of population growth, employment growth, aggregate income growth and overall economic activity. The latest statistics from the U.S. Census Bureau ranked Nevada the fastest-growing state, placing it at the top spot in 20 out of the past 21 years. It is worth noting that Las Vegas represents over 70 percent of the statewide population base.

The resort and tourism industry provides some insight into where the market is headed over the next several years. Currently, an estimated 40,000 hotel rooms are slated to enter the market over the next five to seven years, which is expected to have profound impacts on the balance of the economy. These hotel-casino properties will demand an estimated 80,000 employees, with much larger impacts likely to ripple throughout the market.

**Historical and Project Population
(in millions)**



Home Ownership

According to the U.S. Census Bureau, Housing and Household Economic Statistics Division, Housing Vacancies and Annual Statistics report Nevada has the 6th lowest homeownership rate in the United States and the Las Vegas MSA's 63.3 percent homeownership is the 14th lowest in the United States. The demand for rental housing is significant, although rental rates have remained quite low during the past several years. Elevated housing prices will put continued downward pressure on homeownership rates, while at the same time higher construction and development costs and a distended single-family investor rental market are likely to result in a lack of multi-family housing stock by 2009.

Lowest Home Ownership Rates

Area	Home Ownership Rate	Lowest Ranking
NY-No. New Jersey--Long Island, NY	53.6	1
Fresno, CA	53.9	2
Los Angeles-Long Beach-Santa Ana, CA	54.4	3
Honolulu, HI	58.4	4
San Francisco-Oakland-Fremont, CA	59.4	5
San Jose-Sunnyvale-Santa Clara, CA	59.4	6
Dallas-Ft. Worth-Arlington, TX	60.7	7
San Diego-Carlsbad-San Marcos	61.2	8
Memphis, TN-AR-MS	61.6	9
Greensboro-High Point, NC	62.2	10
Bakersfield, CA	62.3	11
Springfield, MA	62.3	12
San Antonio, TX	62.6	13
Las Vegas-Paradise, NV	63.3	14
Houston-Baytown-Sugar Land, TX	63.5	15

LAS VEGAS APARTMENT OUTLOOK

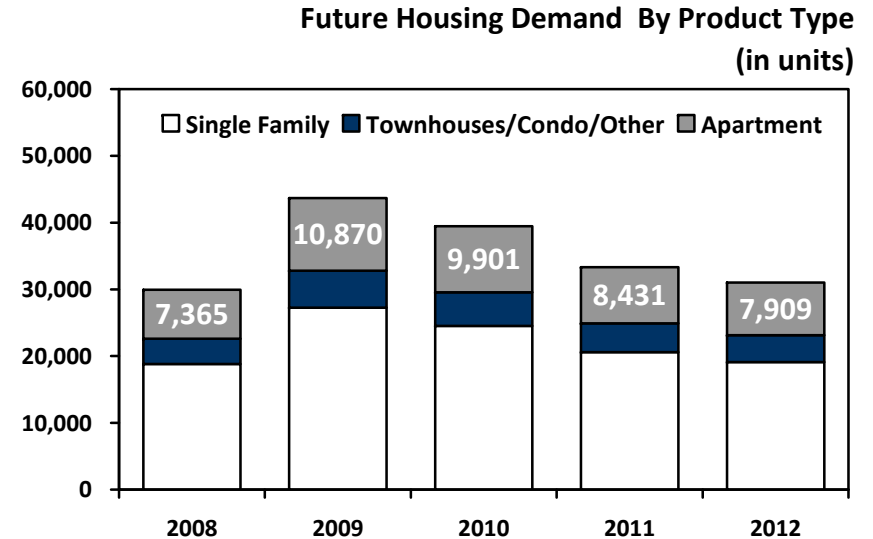
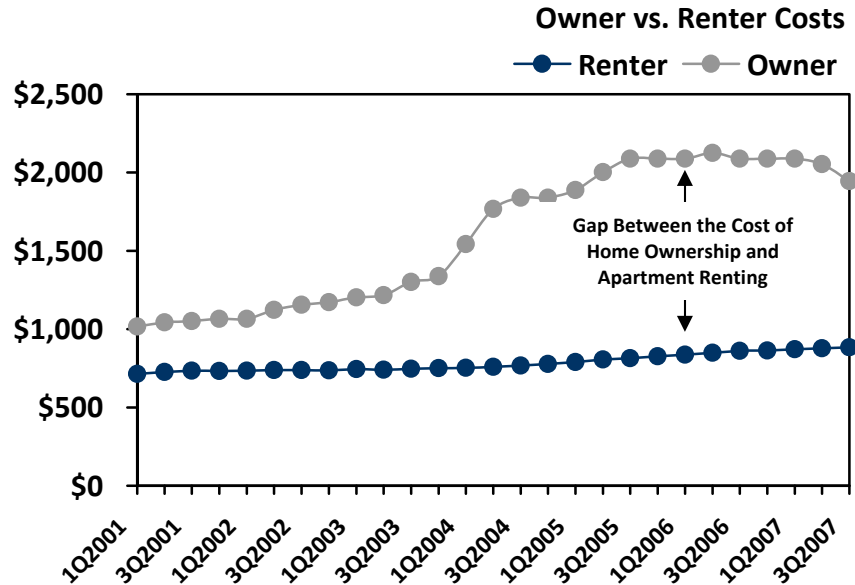
Housing Affordability Comparison

During the past several years, the ratio between cost of home ownership and apartment rent for typical households in Las Vegas has changed dramatically over the course of the past several years. The typical cost of ownership (excluding utilities and assuming a five percent down payment and median-priced homes) more than doubled from a price point of less than \$1,000 per month to an estimated \$2,000 per month. Increases represented a CAGR of 10.7 percent.

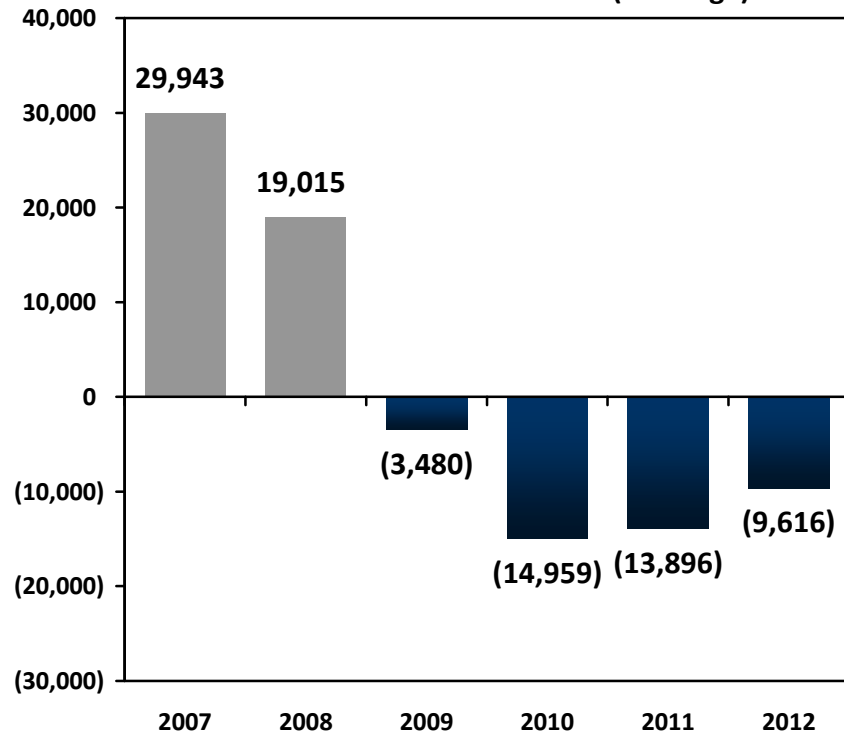
During the same timeframe, average asking rents increased from \$711 per month to a current average of nearly \$900 per month. The increase during the period represented a 3.3 percent CAGR. It is worth noting declines in pricing within the for-sale market have reduced the overall gap, yet a material variance remains.

Apartment Market Outlook

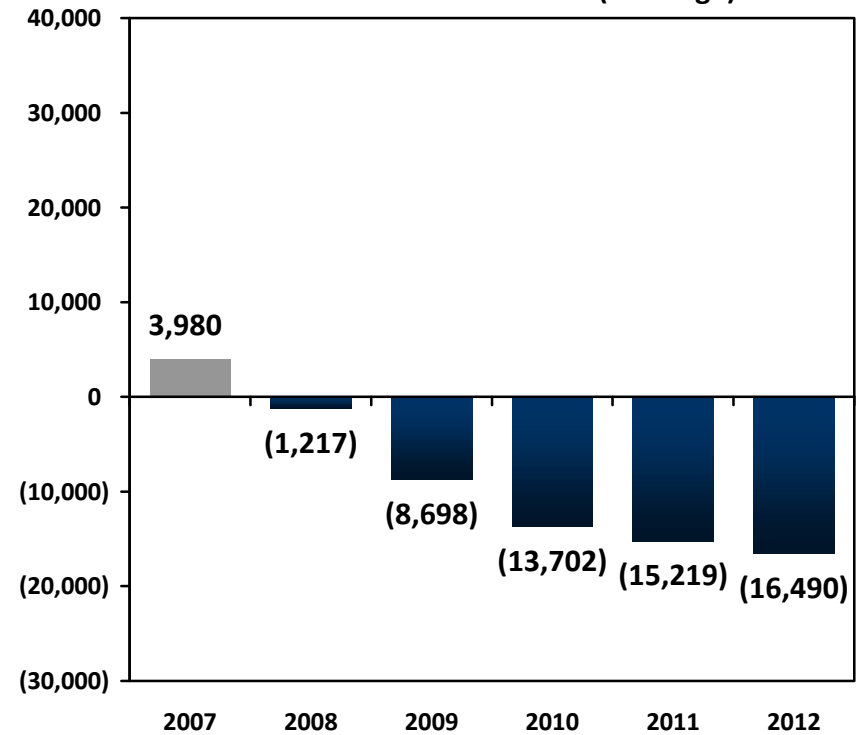
The apartment sector is expected to experience the largest shortage during the next five years. By the close of 2008, the apartment market is estimated to report a shortage of over 1,200 units, while that figure is expected to increase to nearly 8,700 units by 2009. More dramatic demand is possible starting in 2010, ultimately depending on the performance of land prices, construction costs and other factors. While it is likely that developers will respond to the anticipated supply shortage, we anticipate average annual demand for 8,900 apartment units during the next five years. The performance within the resale residential sector will continue to impact apartment demand, that having been said, a supply-constrained environment is reasonably possible during the next several years.



**Total Housing Market Equilibrium
Excess (Shortage) in Units**



**Apartment Market Equilibrium
Excess (Shortage) in Units**



LAS VEGAS APARTMENT OUTLOOK

APPENDIX

HOUSING DEMAND ESTIMATES

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
HOUSING DEMAND										
Population	1,620,748	1,715,337	1,796,380	1,874,837	1,932,957	2,004,476	2,112,025	2,212,453	2,309,800	2,403,020
Population Growth Rate	4.6%	5.8%	4.7%	4.4%	3.1%	3.7%	5.4%	4.8%	4.4%	4.0%
Population Growth	71,091	94,589	81,043	78,457	58,120	71,519	107,548	100,428	97,348	93,220
Employment	760,208	812,667	871,408	918,792	943,826	986,358	1,047,146	1,100,571	1,139,091	1,173,264
Employment Growth Rate	4.1%	6.9%	7.2%	5.4%	2.7%	4.5%	6.2%	5.1%	3.5%	3.0%
Employment Growth	30,208	52,458	58,742	47,383	25,034	42,532	60,788	53,426	38,520	34,173
Market Demand - Distribution [1]										
Single Family				63.2%	63.2%	62.8%	62.4%	62.1%	61.8%	61.5%
Apartment				24.4%	24.4%	24.6%	24.9%	25.1%	25.3%	25.5%
Townhouses/Condo/Other				<u>12.4%</u>	<u>12.4%</u>	<u>12.6%</u>	<u>12.7%</u>	<u>12.8%</u>	<u>12.9%</u>	<u>13.0%</u>
Total				100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Market Demand (Incremental) - In Units										
Single Family				20,964	13,102	18,811	27,251	24,505	20,601	19,082
Apartment				8,090	5,056	7,365	10,870	9,901	8,431	7,909
Townhouses/Condo/Other				4,117	2,573	3,777	5,551	5,055	4,304	4,037
Total Projected Housing Demand				33,171	20,731	29,953	43,672	39,461	33,335	31,028

[1] Source: Las Vegas Perspective, Claritas, Census and Applied Analysis.

LAS VEGAS APARTMENT OUTLOOK

HOUSING SUPPLY ESTIMATES

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
HOUSING SUPPLY										
Housing Stock										
Single Family	356,472	382,934	411,895	439,250	458,979	470,984	484,241	501,617	522,807	544,380
Apartment	150,237	154,166	156,577	157,986	159,200	161,369	164,757	169,654	176,568	183,206
Townhouses/Condo/Other	<u>133,792</u>	<u>140,980</u>	<u>146,107</u>	<u>153,348</u>	<u>162,561</u>	<u>167,412</u>	<u>171,944</u>	<u>177,652</u>	<u>183,947</u>	<u>191,044</u>
Total	640,501	678,080	714,579	750,584	780,740	799,765	820,942	848,924	883,322	918,630
New Units Added to the Market										
Single Family	19,193	26,462	28,961	27,355	19,729	12,005	13,257	17,376	21,190	21,573
Apartment	3,500	3,929	2,411	1,409	1,214	2,169	3,388	4,897	6,914	6,638
Townhouses/Condo/Other	4,039	7,188	5,127	7,241	9,213	4,851	4,532	5,708	6,295	7,097
Total Projected Housing Supply	26,732	37,579	36,499	36,005	30,156	19,025	21,177	27,981	34,399	35,308
HOUSING MARKET EQUILIBRIUM										
Housing Surplus (Shortage) - Annually										
Single Family						(6,806)	(13,994)	(7,129)	588	2,491
Apartment						(5,197)	(7,482)	(5,004)	(1,516)	(1,271)
Townhouses/Condo/Other						<u>1,074</u>	<u>(1,019)</u>	<u>653</u>	<u>1,991</u>	<u>3,060</u>
Total						(10,929)	(22,495)	(11,479)	1,063	4,280
Housing Surplus (Shortage) - Cumulative [2]										
Single Family					19,461	12,655	(1,340)	(8,468)	(7,880)	(5,389)
Apartment					3,980	(1,217)	(8,698)	(13,702)	(15,219)	(16,490)
Townhouses/Condo/Other					6,502	7,577	6,558	7,211	9,203	12,263
Cumulative Housing Surplus (Shortage)					29,943	19,015	(3,480)	(14,959)	(13,896)	(9,616)

[2] Excess inventory based on normalized vacancy rates and current vacancy factor.

THIS ANALYSIS UTILIZES VARIOUS DATA AND ANALYTICAL SOURCES, INCLUDING APPLIED ANALYSIS, LAS VEGAS PERSPECTIVE, CLARITAS, NEVADA GAMING CONTROL BOARD, UNIVERSITY OF NEVADA, LAS VEGAS, NEVADA DEPARTMENT OF EMPLOYMENT, TRAINING & REHABILITATION, AND LAS VEGAS CONVENTION AND VISITORS AUTHORITY. THIS INFORMATION HAS BEEN SECURED FROM SOURCES WE BELIEVE TO BE RELIABLE, BUT WE MAKE NO REPRESENTATION OR WARRANTIES, EXPRESSED OR IMPLIED, AS TO THE ACCURACY OF THE INFORMATION. REFERENCES TO SQUARE FOOTAGE OR AGE ARE APPROXIMATE. BUYER MUST VERIFY THE INFORMATION AND BEARS ALL RISK FOR INACCURACIES. ALL RIGHTS RESERVED.

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