

Last updated: August 1, 2008 02:58pm

## Sin City's Apartment Market May Be Heaven for Investors

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LAS VEGAS-While the Las Vegas market is known for its casinos and hotels, it also emerged as one of the hottest for-sale markets during the residential boom. And like many other markets, the area saw a flood of new development of both condos and single-family residences. And like many other markets, the purchasing activity cooled as the housing market slumped, leaving an overhang on inventory.

Yet as the market continues to work out those kinks, there are promising signs for Sin City's multifamily sector. Locally based brokerage firm Bentley Group Real Estate Advisors reports performance figures for the local apartment market for the second quarter trended toward the positive, albeit slightly. Occupancy rose 20 basis points, following a 40-basis-point increase in the first quarter. At 92.9%, the midyear occupancy just shy of the 93.7% reported in the second quarter of 2007. Rents, meanwhile, rose by 1% over the quarter to \$889 per month.

However, small, the gains are still good news, says Christopher D. Bentley, president and broker of record for the firm's multifamily/hospitality division. "Since 2006, the shadow market of single-family homes has really affected apartment performance. It's affected occupancy growth significantly. But if you take rent growth, then performance was flat," he explains, adding that value-add buyers that upgraded C and D-quality product have helped push overall rents up. "So things have remained flat throughout 2006, though they haven't decreased. And 2007 was a bad year for us. We ended up with employment growth of just 9,000, compared to the 40,000 we're used to. This year isn't going to be much different."

Bentley notes that there's no way to accurately quantify the size or full impact of the shadow market since it's difficult to determine how many single-family homes are on the market as rentals. According to data from the Bentley Group, just 19% of the Las Vegas housing market consists of traditional rentals. "Other" rentals---single-family residences, condos and townhomes---account for 21% of the pie and owner-occupied households comprise the balance.

Further, the firm points out, the traditional apartment market lost a significant portion of its market share to "other" rentals and the for-sale market. In 2007 alone, 3,944 households left the apartment pool, while other rentals gained 20,173 households. Over the four-year period since 2003, the number of households in conventional apartments grew by 3,916, compared with 51,479 in "other" rentals. While most would expect the shadow market to impact the class A space, Bentley says it's the lower-quality assets--the B and C product--that are being impacted the most. "We think it's a function of multiple households moving into single-family homes," he explains.



Marty Burger, president and CEO of locally based Artisan Real Estate Ventures, says the pressure came not from condos, but from single-family homes. "It seemed like there was a condo boom here, but there really wasn't," he maintains. "It was just eight or 10 buildings comprising 7,000 or 8,000 units. For Las Vegas, that's not a lot of

Burger absorption." Plus, he adds, those units were on the high end of the quality spectrum and didn't necessarily target casino workers.

"Where there was a huge boom was in the single-family home market, but now that market has obviously slowed," he continues. "The homebuilders aren't building on spec anymore." So the huge inventory of homes in the market 18 months ago is becoming depleted. Burger anticipates the local apartment market to pick up in the near future. However the for-sale market works out its issues, Bentley agrees it will present "an opportunity because a lot of these shadow rentals will come out of the pool. The competition will dissipate" as tenants in shadow space, faced with the possibility of eviction if the homeowner is foreclosed upon, opt to return to the safety of professionally managed rental apartments. "It used to be that landlords did a credit check of a tenant. Now it's the other way around. You have to make sure the landlord's making its payments, and in Nevada, there is a 30-day notice on foreclosures and the papers are always reporting on this. That has boded well for apartments, and we think that's the main reason our occupancy has grown."

While Bentley expects this year to be flat, he says 2009 will be a year of stabilization as concessions are burned off and rent grows slightly. The market is expected to see substantial growth beginning in 2010, since most of the casinos currently under way are slated to open in late 2009.

Indeed, the city's global tourism and gaming industry is a major employment driver for the market. According to Bentley Group's data, there are 7.1 jobs--two direct and 5.1 indirect--created with every new hotel room addition. By year's end, 9,119 rooms will be added to the market. Next year will see a whopping 17,223 keys in such projects as CityCenter, Grand Hyatt and Fontainebleau Las Vegas, among others.

Historically, apartment occupancy has risen as jobs were added to the market, since the workers in these casino projects typically rent units. Burger, for one, is banking on that. Artisan is on its way to acquiring 3,500 units by year's end. Its most recent buy--the 670-unit Canyon Pointe Apartments, located just off the Las Vegas Strip--marked the sixth property in its portfolio, which now includes 1,975 units worth more than \$200 million. The company buys both core and value-add properties, and--despite the tight lending conditions--it was able to find financing for its last two deals in the form of a Fannie Mae loan through Wachovia and mezzanine debt with RCG Longview. "We've been getting to just about 80% financing, and we and our equity partners put in the rest," adds Burger.

Las Vegas continues to be one of the fastest-growing markets in terms of both population and employment, says Burger, and that is creating a supply-demand imbalance. "There's a fixed number of units here and because of construction costs, it's more difficult to build, so there's less product being developed," he relates. Further, all the casino projects "are going to have huge demands on the employment sector."

Statistics seem to support Burger's claim. With 250,000 new jobs additions slated for the next five years, Bentley is going so far as to forecast a housing shortage as soon as 2010. In 2007, the city had the largest oversupply of housing ever, at 29,027 extra units. By 2010, the housing supply is expected to fall short by 1,032 units, and then be in the red by 9,167 units in 2011. For apartments only, the inventory will fall short 9,620 units in 2010 and 13,054 units in 2011. That, maintains Bentley, will create an environment where landlords can enjoy rising occupancies and

rents, with no need to offer tenants concessions.

"Las Vegas has growth drivers you're not going to find in other markets such as Phoenix or Los Angeles," says Burger. "Based on those drivers, I believe there's going to be a spike in rents some time in the near future, and we're buying now to take advantage of those spikes."

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