

**2018 LAS VEGAS INVESTOR OUTLOOK**



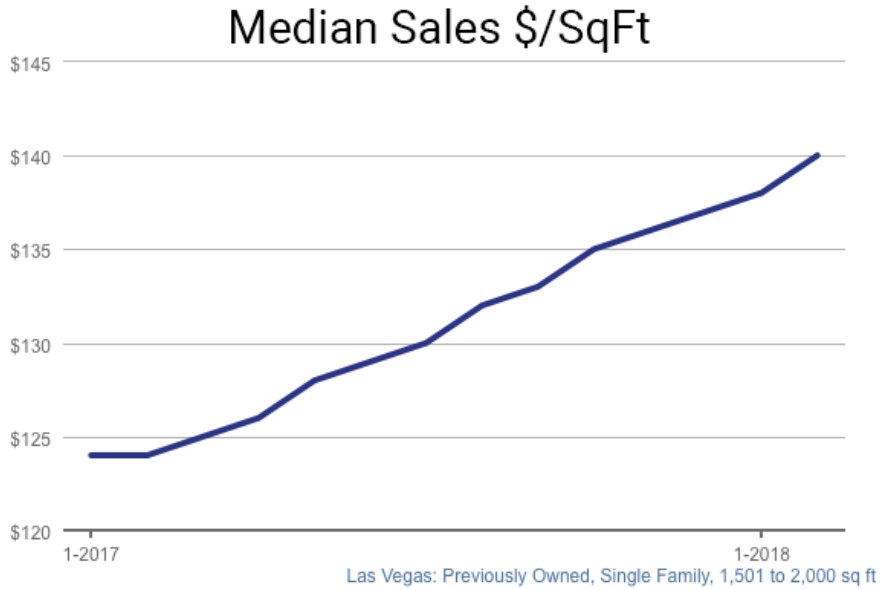
**Presented by**  
**The Las Vegas Real Estate Investment Group**

**Why Las Vegas continues to be a great place for cash flow and appreciation**

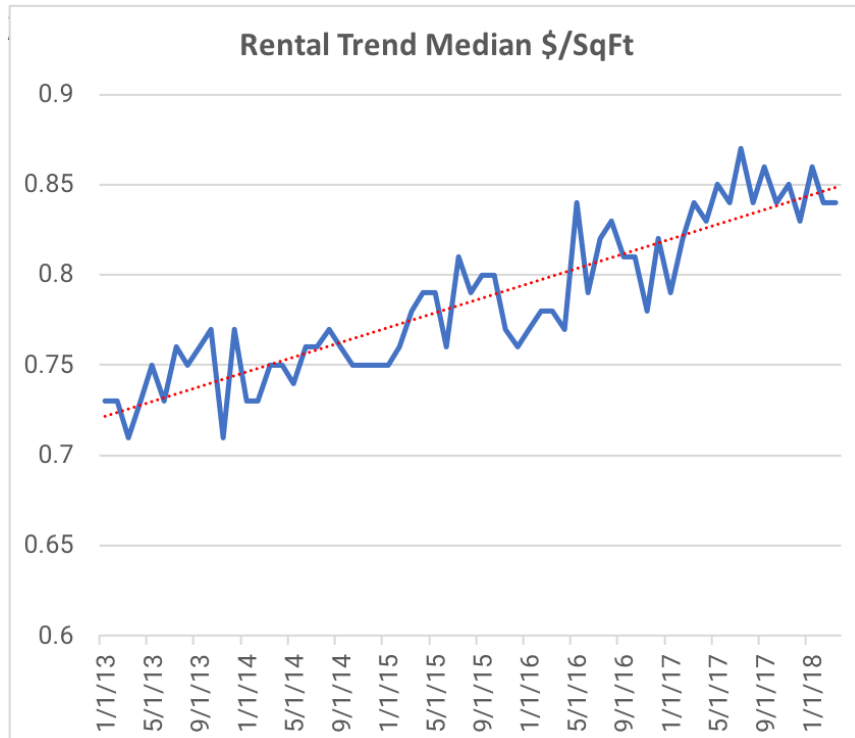
# 2018 Las Vegas Investor Outlook

## 2018 Outlook – 1<sup>st</sup> Quarter Update (04-05-2018)

Historically, rental prices trail property prices. However, the lag between increases in property prices and rent are also subject to seasonal trends. We are just ended the holiday season (Christmas, New Year, etc.) when housing prices continued to rise but rents were relatively flat (mid-November through January). Mid-February rents started rising as they have historically. See the two charts below. The information source for both charts is the Greater Las Vegas Association of Realtors.



## 2018 Las Vegas Investor Outlook



The impact of the 2018 tax changes are already starting to appear. Below are some interesting recent articles.

- [The San Francisco Housing Market Is So Dire That People Are Leaving In Droves](#)
- [Amazon adding 1000 jobs in North Las Vegas](#)
- [Northern Nevada Business News - Small Business Survey: Confidence In Nevada's Economy Swells](#)
- [CBS - US home prices post 6.2% annual gain in January](#) - "Prices rose 12.9 percent in Seattle, 11.1 percent in Las Vegas and 10.2 percent in San Francisco. Chicago and Washington D.C. posted the weakest annual gains: 2.4 percent each."

Some anecdotal evidence of the market trend:

- We run analytics each morning and are consistently seeing more properties coming on the market each day than we did over the prior three months.
- The ratio of good investment properties to all available properties is still in the 1/2000 range.

Everything still indicates that Las Vegas investors will have a very good year. My major concern is rising interest rates which are more likely to occur later in the year.

As always, we welcome your feedback.

# 2018 Las Vegas Investor Outlook

## 2018 Investor Outlook (01-20-2018)

"Trying to predict the future is like trying to drive down a country road at night with no lights while looking out the back window." ...Peter Drucker

Around the 1st of January each year we publish our outlook for the coming year. In prior years, writing the outlook took me two to three days. This year, it was closer to 3 weeks. So many events are occurring that will impact Las Vegas, especially the 2018 tax changes, that I found it very difficult to consolidate everything that is occurring. Unfortunately, my normal source of such information (CNN Business, Wall Street Journal, Financial Times, Bloomberg, etc.) were so heavily politicized that their conclusions concerning the tax changes were largely worthless. It took time but I discovered that the foreign press and foreign businesses did a much better job than US news. Three examples:

- China Morning Post ran a headline, "Trump's tax cut plan poses a new threat to China".<sup>1</sup> In an effort to limit US companies moving operations back to the US, China is even offering US companies tax incentives to stay.<sup>2</sup>
- Germany is concerned that US investment is expected to rise by €39 billion.<sup>3</sup>
- The EU is concerned that tax changes will incentivize companies to move to America.<sup>4</sup>

What I learned from the fears and speculations of these foreign entities was what is likely to have the greatest impact on the US and Las Vegas. This information combined with observations on the impact of capping SALT in high tax states like California and New York enabled me to narrow my focus and write this year's outlook.

Below are my conclusions as to what I believe is very likely to occur in 2018. I divided my conclusions into two categories: Upside, what is likely to positively impact Las Vegas and Downside, what is likely to negatively impact Las Vegas. After my conclusions, the rest of this document contains the basis for my conclusions.

### Upside

- Realtor.com named Las Vegas the number 1 real estate market in the nation for 2018.<sup>5</sup> This article alone will bring more focus by investors to Las Vegas and will increase competition for the limited supply of properties. This will likely drive up

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<sup>1</sup> [South China Morning Post - Trump's tax cut plan poses a new threat to China](#)

<sup>2</sup> [New York Times - China Offers Tax Incentives to Persuade U.S. Companies to Stay](#)

<sup>3</sup> [Handelsblatt - Germans fear huge loss of jobs from US tax reform](#)

<sup>4</sup> [DW - US tax reform breaks global rules, EU says](#)

<sup>5</sup> [Realtor.com - The New Gold Standard: 10 U.S. Housing Markets That Will Rule 2018](#)

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property prices but not as rapidly as in 2017. I cannot determine whether rents or sales prices will rise faster.

- As property prices rise, fewer people will be able to purchase homes, which will increase rental demand and drive up rental rates.
- The impact of new homes will not be a significant factor for investors in 2018. In August 2017, the median new home price was \$340,000<sup>6</sup>. However, it is not the price of new homes that makes them uncompetitive, it is the much higher \$/SqFt without a corresponding increase in rental rates.
- Millennials will increase demand for smaller, less expensive housing options. This may open up new opportunities for investors. I will write more about this in a future article.<sup>7</sup>
- I believe Las Vegas will capture a significant percentage of people leaving blue states looking for lower cost of living including no state income taxes. These people will come from areas where housing prices and rents are significantly higher than Las Vegas and will drive-up rent and sale prices at the upper end of the rental market. Currently, about \$2,200/Mo. is the peak rate for long term renters. I believe blue state "refugees" will push the \$2,200/Mo. peak to well over \$2,500/Mo. This will increase the upper end of rental investments (price range) for which there is less competition.
- The real estate market appears stable and I have not seen any indicators of a "bubble" in the foreseeable future.<sup>8</sup>

### Events that Could Derail 2018

- Rising Interest Rates - According to Bankrate<sup>9</sup> <sup>10</sup>, their guess is three more 0.25 percent rate hikes in 2018. How much interest rates actually increase is dependent on inflation and wage growth. To put interest rates into perspective for real estate investor, a 0.25% increase in mortgage rates equates to a decrease of about 0.75% in ROI for financed purchases. According to other sources, the interest rate hikes are expected to happen later in the year so the best time to buy real estate will be in the first half of 2018. Note that some or all of the impact of rising interest rates will be offset by expected rent increases.
- Terrorism - We expected the Oct. 1, 2017 mass shooting to have a significant effect on our business but there was no impact at all. We did not even get questions from our Chinese clients. However, terrorism on a larger scale would no doubt have a significant short-term impact on Las Vegas tourism and economic growth.

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<sup>6</sup> [Las Vegas Review Journal - 2017 seen as 'very good year' for Las Vegas new-home sales](#)

<sup>7</sup> [US Census - The Changing Economics and Demographics of Young Adulthood: 1975-2016](#)

<sup>8</sup> [Las Vegas Sun - It's not a bubble: Local real estate's rebound is solid, from sought-after neighborhoods to those hit hardest](#)

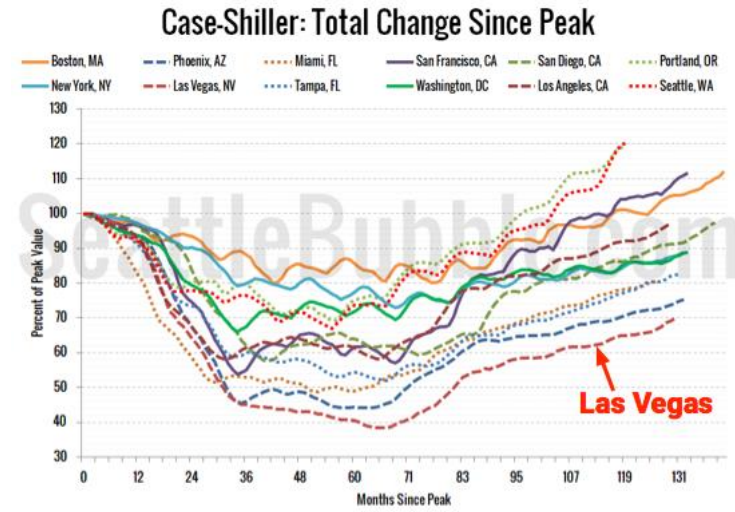
<sup>9</sup> [Bankrate - Interest rates are going up again in 2018](#)

<sup>10</sup> [Kiplinger - Rates Due for Moderate Increase](#)

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## 2017 Lookback

2017 was a great year for Las Vegas investors. "Rents increased 3.7 percent in 2017 with an average effective rent of \$964 in the fourth quarter of 2017, according to research firm Reis Inc."<sup>11</sup>. Homes prices rose an incredible 12.4% in 2017, second highest of any metro area in the nation. Yet, Las Vegas home prices still have the farthest to go to reach peak prices as you will see in the chart from Case-Shiller below.<sup>12</sup>

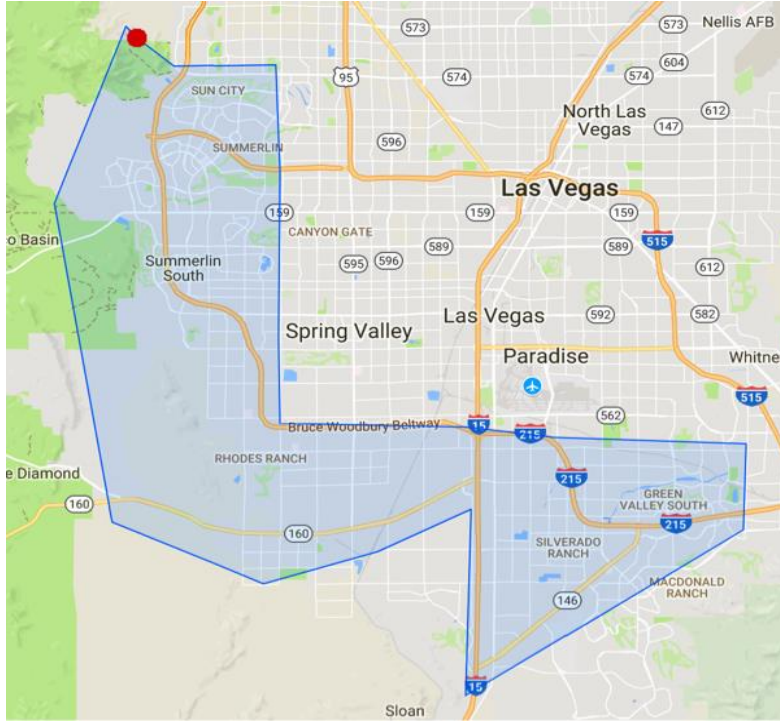


Note, all rental and housing data in the following section is based on single-family homes with 3+ bedrooms, 2+ baths, 2+ garage, built after 1985 in the area marked in blue on the map below.

<sup>11</sup> [Las Vegas Review Journal - Nevada saw influx of people under 35 in 2017](#)

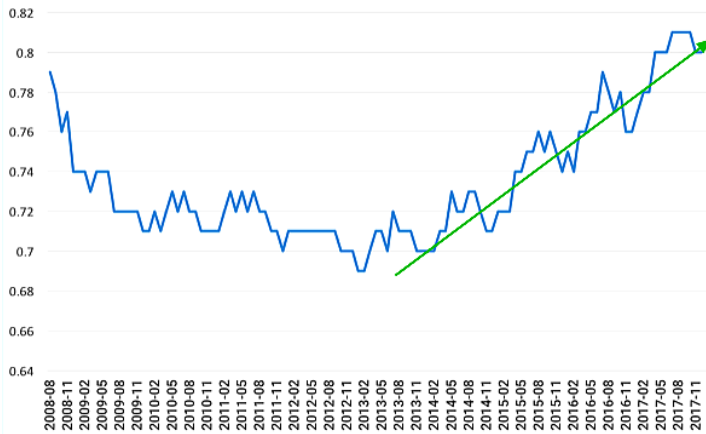
<sup>12</sup> [Seattle Bubble - Case-Shiller: Everybody get on board the Seattle real estate rocket ship!](#)

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## Rents Continue to Rise

Rents started increasing in 2013 and have risen steadily ever since. I expect rent increases to accelerate in the second half of 2018.<sup>13</sup>



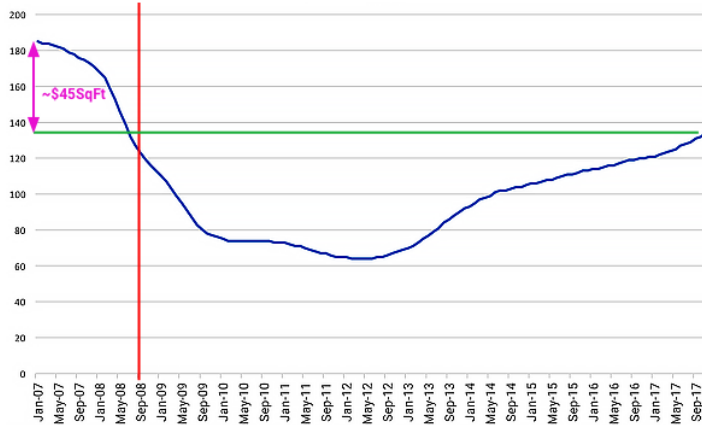
<sup>13</sup> The MLS does not have rental data online before 8/2008 so only 7 year's rental data are shown.



# 2018 Las Vegas Investor Outlook

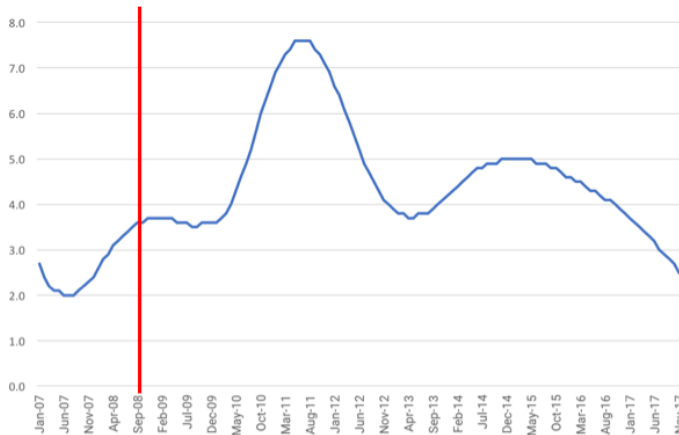
## 10 Year Median \$/SqFt Sale Price

The hottest market in 2017 was Seattle (12.7%) followed by Las Vegas (12.4%). However, Las Vegas home prices are still 27% below peak prices.<sup>14 15</sup> Prices are predicted to rise about 5.8% in 2018 but I think the 2018 tax changes will accelerate appreciation in the second half of 2018.<sup>16</sup>



## 10 Year Monthly Supply of Resale Homes For Sale

The supply of single-family resale (not new) homes steadily declined during 2017. Inventory levels are currently under two months. A balanced market is when inventory is at 3 to 6 months.



## 12 Month Data

<sup>14</sup> [Las Vegas Review Journal - Las Vegas house prices remain far below peak levels, says report](#)

<sup>15</sup> [Las Vegas Sun - It's not a bubble: Local real estate's rebound is solid, from sought-after neighborhoods to those hit hardest](#)

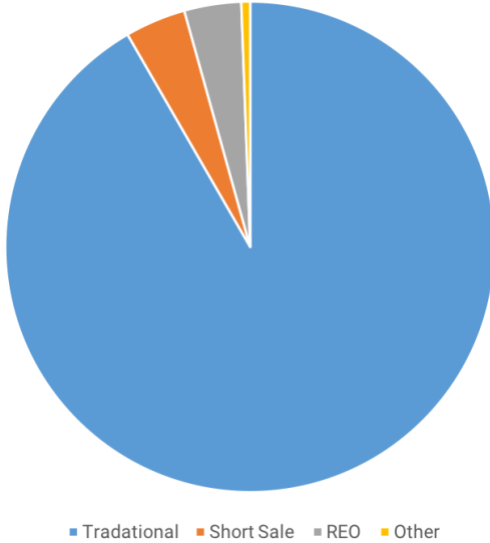
<sup>16</sup> [Metrodepth - Las Vegas, Nevada Housing Market Forecast 2018](#)



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In the previous section, I focused on long-term trends. In this section, I focus only on the preceding 12 months.

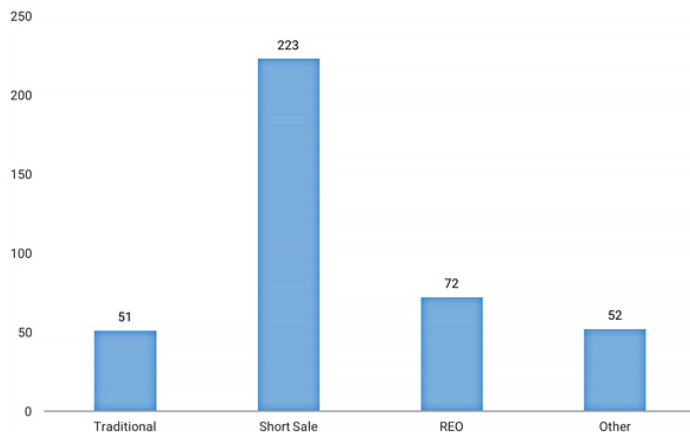
## Sales by Sales Type



REO and Short Sales remain a very small percentage of the total sales.

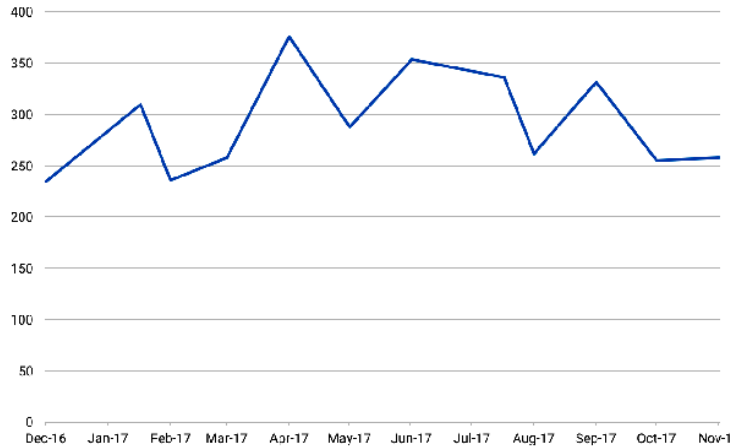
## Time on Market

The average list to close for traditional sales was fifty-one days in 2017. Typical close times for financed properties is about thirty days so the average time from list to contract is about twenty days. The properties we target usually only remain on the market 2 to 3 days before they go under contract. This is because we target the most sought-after properties in the metro area. Remember that renters and home buyers are essentially the same demographic with the exception that buyers are willing and able to obtain financing.

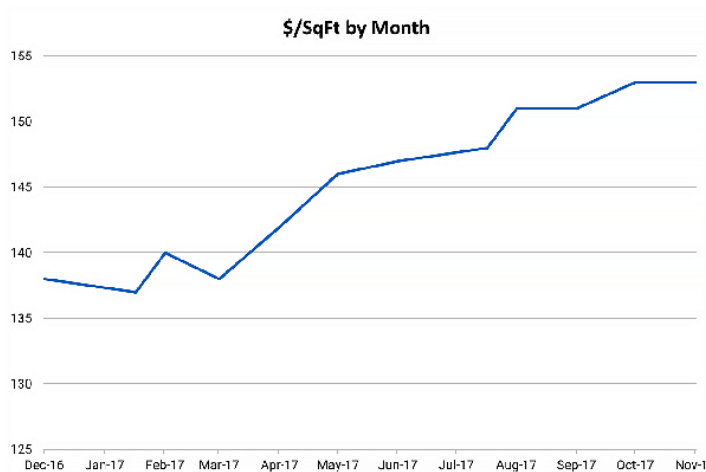


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## Sales Volume by Month



## Average \$/SqFt by Month

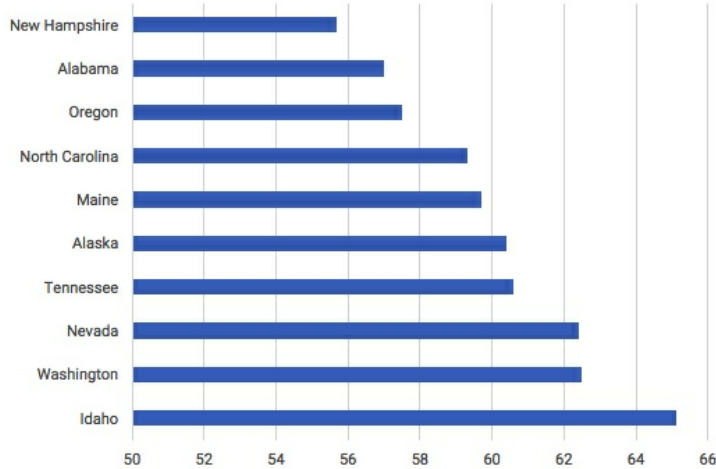


## Population Growth

Las Vegas' population grew by 2.2% in 2017. This is a healthy and sustainable growth rate. Nevada ranked 3rd in Atlas Van Lines annual migration report in terms of most popular states to move into. See the graph below.<sup>17</sup> The numbers show what percentage of moves are inbound vs. outbound from the state. Greater than 50% indicates more people moved into the state than out of the state.

<sup>17</sup> [Atlas Van Lines - 2017 Migration Patterns](#)

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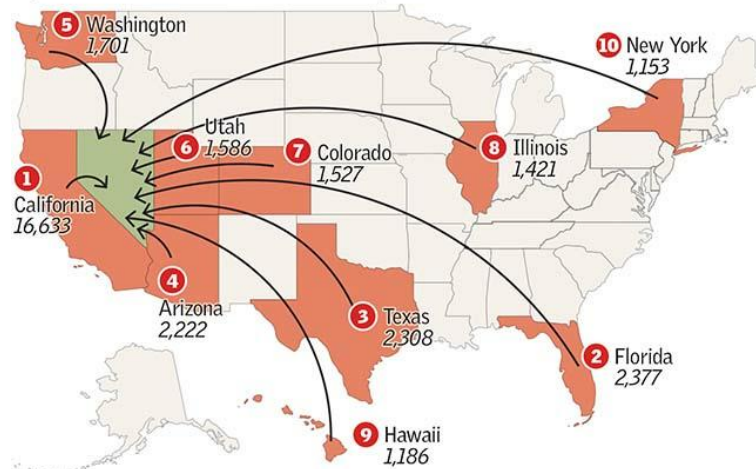
Below is a 2015 graphic (I was not able to find a more recent similar graphic) showing the top states from which people are moving to Las Vegas.<sup>18</sup>

## Millennial migration

Nevada was one of the most popular relocation destinations for people between the ages of 20 and 35 in 2015, according to a September study by SmartAsset, a financial technology company. Of the 46,505 people between the ages of 19 and 35 who surrendered driver's licenses or ID cards at the Nevada Department of Motor Vehicles in 2016, the largest group came from California.



### Top 10 states where millennials moving to Nevada are from



Sources: SmartAsset; Nevada Department of Motor Vehicles

Wes Rand Las Vegas Review-Journal

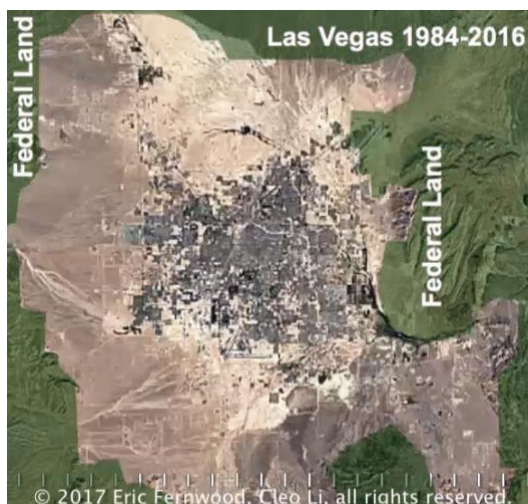
The numbers shown above may seem small, but the total population of Las Vegas is approximately 2.3M so the number of people moving in has a big impact.

<sup>18</sup> [Las Vegas Review Journal - Jobs, quality of life attracts diverse Las Vegas workforce](#)

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## Land Supply

Las Vegas is an island surrounded by federal land. Below is an image showing Las Vegas land use in 1984. Click the image and a web page will open containing an animated GIF showing an aerial video of Las Vegas between 2008 and 2016. As you will see, by the end of 2016 almost all prime land in the valley was built out. Plus, 2017 was a big growth year so a lot of land that was vacant in 2016 is now built out. It will not be long before Las Vegas' only growth path will be redevelopment of existing areas. This is one of the huge advantages to investing in Las Vegas, no urban sprawl. What this means to you is that class A properties are extremely likely to stay class A properties. If a metro area has no growth boundaries, the class A properties of today are very likely to become class B (or C) over time. To prove this to yourself, look at any metro area and you will see areas that were once the best area in town to live is now a distressed area.



## Tourism Income

After recording seven consecutive net losses, the state has recorded two consecutive years of resort revenue growth with 2017 at a record level.<sup>19</sup> Tourism drives a large percentage of the jobs in Las Vegas.

In the next sections I will discuss some of the Las Vegas 2018 economic drivers.

## Growth Driven by Major Projects

As you drive around the Las Vegas valley you see construction everywhere. In addition to all these projects, there are three large projects I wish to mention. (The mayor of Las Vegas mentioned several other projects in her State of the City address.<sup>20</sup>)

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<sup>19</sup> [Las Vegas Sun - Nevada resort revenue hits record levels in 2017](#)

<sup>20</sup> [Las Vegas Sun - New development, soccer team 'lighting up downtown,' Goodman says](#)

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## Resorts World Las Vegas



The Malaysia-based Genting Group is building a \$7.2 billion, 3,000 room, Asian themed casino/hotel. Construction is scheduled to start in 2018. Initial estimates are 3,000 construction jobs in 2018. I did not find a projection of the number of permanent jobs but I expect it to be over 5,000 when the casino opens in 2020.<sup>21</sup>

## Fontainebleau



The Fontainebleau is a large casino on the strip that was a casualty of the 2008 crash. The external shell is largely complete but the interior is just steel and concrete. In December 2017 New York developer Steven Witkoff announced plans to invest \$3B to complete the Fontainebleau resort. If this comes to pass, it will create 5,000 construction jobs and 6,000 permanent jobs.

From the article referenced below, "Witkoff began seeking a loan to complete the project once it looked as if tax reform had a good chance of passing, according to a Bloomberg report. A provision that allows the "full and immediate expensing of capital investments" spurred his decision. He also believes that the tax bill will create long-term economic growth, which is vital when you are planning to spend \$3 billion finishing a resort."<sup>22</sup>

## Raider's Stadium

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<sup>21</sup> [Las Vegas Review. Journal - Resorts World Las Vegas announces construction manager](#)

<sup>22</sup> [Las Vegas Review Journal - Tax bill spurs Fontainebleau redevelopment](#)

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There's been a lot of publicity on this project. They broke ground on November 13th, 2017.<sup>23 24 25</sup>

It is estimated to cost approximately \$1.9B. The projections on the number of jobs that will be created are all over the board. One of the lowest estimates I found were 10,000 construction jobs and 4,500 permanent jobs. An interesting note, Nevada is providing \$750M in public funding for the stadium. Nevada and Las Vegas have demonstrated a willingness to "buy" large business opportunities.

These three projects alone will add over 15,000 jobs to the Las Vegas economy plus there is the "knock on" effect. The "knock on" effect will result in far more jobs being added in support of all these people new to Las Vegas and projects than just those directly employed. Las Vegas does not have enough workers locally so many/most of these workers will be moving to Las Vegas from other locations.<sup>26</sup> As a result of these projects, and others, the demand for homes and rental properties will drive up prices and rents.

Economic growth tends to create momentum and acts as a draw to other businesses resulting in an additional influx of new residents. We have witnessed this phenomenon time and time again, this is implicit in the growth of Oregon and Washington. This momentum will increase demand for homes and rental properties, which will further drive up sales prices and rents.

### Growth Driven by 2018 Tax Law Changes

The 2018 tax law change has many facets and, based on my research for this article, no credible news source seems to have a clue as to the impact. Because of the lack of good (or even plausible) projections I cannot make generalized comments concerning the impact upon Nevada or Las Vegas. I will comment on one specific group in

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<sup>23</sup> [Las Vegas Review Journal - Stadium Update](#)

<sup>24</sup> [NFL - Raiders break ground on new stadium in Las Vegas](#)

<sup>25</sup> [Las Vegas Review Journal - Construction Activity Begins At Las Vegas Raiders Stadium Site](#)

<sup>26</sup> [Las Vegas Review journal - Will Las Vegas have enough workers for major construction projects?](#)



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California that will have a high probability of moving to Las Vegas or a similarly low cost of living location and that is retirees.

California has about 6M retirees<sup>27</sup> who are facing increasing cost of living while their income is fixed. Capping SALT<sup>28</sup> will reduce retirees already stretched income. Also, there is another looming problem for about 500,000 retired California public employees.

California and several other states are spending an ever larger percentage of their total tax revenues on pensions. For example, CalPERS (California Public Employees' Retirement System)<sup>29 30 31</sup> has 1.6M members and over 500,000 members are already receiving pensions. The number of people who will start to receive pensions in the next few years is financially staggering and probably unsustainable. California is seeking ways to reduce the total pension load through the courts. If this occurs, many retirees will be priced out of California.

Of the 6M retired people in California, an unknown percentage will choose (or be forced) to leave the state. A small portion of these people will choose to move to Las Vegas. Below is a table I put together showing the number of people likely to move to Las Vegas, based on various percentages of the 6M people.

<b>% of Retirees</b>	<b>Homes</b>
0.10%	6000
0.25%	15000
0.50%	30000
1%	60000

If 0.25% of the 6M people decide to buy a home in Las Vegas, you are looking at approximately 15,000 incremental home purchases or rentals. To put this in perspective, the total number of single-family homes sold in Las Vegas in 2017 was 34,659. If an additional 15,000 people chose to relocate to Las Vegas, rents and property prices will rise significantly. As an example, prices of homes in Washington and Oregon rose significantly due to the influx of Californians. I believe the same will happen in Las Vegas. The only unknown for me is whether rents or home prices will rise faster.

## Future Growth Due to Corporate Relocation and Expansion

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<sup>27</sup> [First Tuesday Journal - Boomers Retire, And California Trembles](#)

<sup>28</sup> [Tax Foundation - The State and Local Tax Deduction](#)

<sup>29</sup> [A Guide to CalPERS Pension Facts](#)

<sup>30</sup> [Wikipedia - CalPERS](#)

<sup>31</sup> [The San Diego Union-Tribune - State-crushing "California Rule" on pensions must go](#)



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Apple just made a \$38B tax payment in order to repatriate their cash held overseas. Apple also announced plans to add 20,000 US jobs.<sup>32 33</sup> Apple is only one of many companies who hold money overseas due to high US taxes (35%). With the 2018 tax changes, I believe more will follow Apple's lead. Below is a list of the top 10 US companies that have funds stashed overseas.<sup>34</sup> In total, US companies hold an estimated \$3.1T overseas.<sup>35</sup>

Company	Overseas Holdings
Apple	256B
Microsoft	126B
Cisco Systems	68B
Alphabet (Google)	92B
Oracle	59B
Johnson & Johnson	42B
General Electric	84B
Amgen	38B
Gilead Sciences	34B
Qualcomm	29B
Total	828B

If you suddenly inject close to \$1T into the US economy and it is done efficiently (not the government) this will have a huge impact on US growth. Companies will be looking to expand in the US and will be looking for new US locations. Why will companies consider operations in Nevada? Below are just some of the reasons that will attract corporations to Nevada and especially Las Vegas.

- No state income tax. This is a huge incentive to locate operations in tax free states like Nevada, Alaska, Florida, South Dakota, Texas, Washington and Wyoming. Plus, Nevada has a constitutional requirement that all tax increases must be approved by a legislative "super-majority".<sup>36</sup>
- Nevada's proximity to California is important for companies looking for new locations. After all, a one hour flight is a lot easier and less costly than a three or four-hour flight.
- Nevada is a business-friendly environment.
- Right to work state - Right to Work laws enable employees to decide for themselves whether or not to join or financially support a union. Whether you

<sup>32</sup> [CNN Tech - Apple: We'll pay \\$38B in taxes and add 20,000 jobs in the U.S.](#)

<sup>33</sup> [The Journal - Apple is shifting billions in cash funnelled through Ireland back to the US](#)

<sup>34</sup> [Bloomberg - The 50 Largest Stashes of Cash Companies Keep Overseas](#)

<sup>35</sup> [The Irish Times - US corporations could be saying goodbye to Ireland](#)

<sup>36</sup> [SW Law - Nevada - Delaware of the West?](#)

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support unionization or not, businesses want the maximum ability to generate profit. I believe that companies selecting new locations for people-intensive businesses will seek "right to work" states as Boeing and other companies already have. Currently, 28 states have enacted "right to work" legislation, including Nevada.<sup>37</sup> California is not a right to work state.

- Crime - I believe that companies looking for locations in which to set up operations will not consider cities that rank among the top 100 most dangerous cities in the US.<sup>38</sup> Las Vegas is not on this list.
- Las Vegas is one of the few metro areas with dual sources of electric power: Hoover Dam and California. This is a huge advantage for server farms, manufacturers and others who cannot afford to lose electrical power.
- Las Vegas has no severe weather: hurricanes, tornados, hard freezes, etc. This has two impacts. 1) Very little lost work or transit days due to weather. 2) Insurance costs are much lower than, for example, Texas.
- Relatively low energy cost. For example, below is a comparison between the statewide energy cost in California vs. Nevada.<sup>39 40</sup>

State	Residential	Commercial
California	\$0.17/KWH	\$0.15/KWH
Nevada	\$0.11/KWH	\$0.08/KWH

- As the world becomes more dependent on high speed information access, direct access to major fiber optic bundles becomes critical. The fiber optic lines connecting the West and East coast run under Las Vegas Blvd. The combination of easy access to this major information artery plus low energy costs and dual sources of power make Las Vegas a very attractive location for such cloud services. Switch, one of the world's largest internet switchers and server facilities is located in Las Vegas. Among Switch's clients are Amazon, eBay, JP Morgan and many others. Other information providers are likely to take advantage of the unique location and low operating costs that Las Vegas offers.

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<sup>37</sup> [National Right to Work Foundation - Right to Work States](#)

<sup>38</sup> [NeighborhoodScout'S Most Dangerous Cities - 2017](#)

<sup>39</sup> [US Energy Information Administration](#)

<sup>40</sup> [US Daily Review - Why are California's electricity rates so high?](#)

# 2018 Las Vegas Investor Outlook

## Summary

Despite the time and effort invested researching for this paper, I know several of my predictions will be wrong. Hopefully I will be correct more often than I am in error. But, based on the available information and time, it was the best I could do.

I wish to thank several people who were kind enough to read drafts and offered suggestions. I will not list their names but I will recognize their contributions by their initials: LL, HM, MW, RL, DM, TK, CL and RR. Thank you! This paper turned out much better due to your suggestions. I especially want to thank the financial adviser Cleo and I have worked with for years. He provided a lot of background information and helped me understand the probable outcome of certain events. I would thank him by name but he asked me not to do so.

Lastly, I welcome conflicting opinions. Please send them to me and I promise to read all of them. And, I will be happy to publish a revised version of this paper with any needed corrections. My goal is to provide the best information I can.

Best regards,

Eric Fernwood  
Las Vegas Real Estate Investment Group  
01-20-2018