

NEVADA'S Economy

A monthly report produced for COMMERCE REAL ESTATE SOLUTIONS by Stephen P. A. Brown, PhD, Center for Business & Economic Research University of Nevada, Las Vegas

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SOUTHERN NEVADA HOUSING MARKET SHOWS SIGNS OF RECOVERY

Southern Nevada housing prices are on the rise and most Las Vegas residents consider that a good sign after housing prices began to slide about six years ago. A lack of supply is contributing to the rise and prices are looking to increase over the next few years as the Southern Nevada economy improves. Nonetheless, the overhang of property held in weak hands seems likely to prevent a sharp acceleration in either home prices or construction.

Southern Nevada Housing Prices on the Rise

According to the Case-Shiller index, housing prices in the Las Vegas metropolitan area and the United States both hit bottom in January 2012.¹ Las Vegas house prices have risen by 5.7 percent since then. U.S. housing prices have risen only 4.4 percent.

Dramatic price movements have characterized the Las Vegas housing market since 2000. The nationwide housing boom took U.S. housing prices upward by 60 percent from 2000 to 2006. Over that same period, housing prices throughout the West rose by 91.5 percent. In Las Vegas, housing prices rose by 231 percent.

A big difference was also seen in the decline. Las Vegas housing prices fell by 61.1 percent from January 2007 to January 2012. During that period of time, U.S. housing prices fell by only 32.9 percent. In third quarter 2012, housing prices in Las Vegas were about

where they were in 2000. For the West as a whole, housing prices were 35.2 percent higher in third quarter 2012 than in 2000. For the United States as a whole, the comparable figure is 33.9 percent.

Prices for existing homes in Clark County dropped more than those for new homes during the decline. They also rose much more sharply in recent months. Prices for new homes are tethered by construction costs, but prices for existing homes are not.

Southern Nevada Housing Market Mirrors Its U.S. Counterpart

The timing of the recovery in the Las Vegas housing market matches that of the U.S. housing market. The U.S. housing market is coming into balance. Based on recent sales, the current houses listed on the U.S. market provide only about 4.5 months of supply, which is well below the historic average of 6.2 months. Back

¹ Produced by Standard and Poor's, the Case-Shiller index is considered one of the better measures of housing prices because it uses prices from repeat sales, which more accurately captures quality than a more commonly used measure, such as median home price.

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in April 2010, the homebuyer tax credit temporarily pushed the supply of houses down to 6.2 months. Nothing similar is at work today. We are seeing market-driven declines in the supply of houses, which suggests that home prices are likely to continue rising, nationwide.

A Lack of Supply in Southern Nevada

A lack of available supply also is pushing up prices for single-family homes in Las Vegas. For listed homes, the months of supply is down to 5.6. The decline is coming from a lack of listings. In addition, only 38.3 percent of the listings are vacant.

Prices began rising in Las Vegas when the months of supply fell below 6.2. In 2006, prices did not begin slipping until months of supply rose above 7.3. Probably, the built-up momentum carried Las Vegas home prices upward even after excess supplies were becoming evident.

Although we are seeing some gains in residential construction, builders are not likely to rush into the Las Vegas market, yet. Despite recent gains, prices for existing homes are below construction costs. Prices for existing homes probably need to rise about 25 percent before homebuyers rush to the builders.

Concerns about Shadow Inventory

Despite recent price gains, concerns about a shadow inventory continue to overhang the Las Vegas housing market. Figures from Clark County Comprehensive Planning place the months of supply of vacant homes—including listed and unlisted homes—at 14.7. Add to that homes in foreclosure and homeowners who are in arrears on their mortgages and the potential months of supply are about 20. With banks taking an orderly approach to foreclosure, however, these excess supplies seem more likely to be dribbled rather than flooded onto the market.

Many Nevada Homeowners with Negative Equity

The most recent data (second quarter 2012) from CoreLogic® shows 58.6 percent of the homeowners in Nevada had negative equity. Another 5.0 percent were close to a negative equity position. These developments

represent a slight improvement over first quarter 2012. In that quarter, 61.2 percent of the homeowners in Nevada had negative equity, and another 4.9 percent were close to a negative equity position.

At more than 2.5 times the national average of 22.3 percent, Nevada remains the state with the highest percentage of homeowners in a negative equity position. Other states rounding out the top six include Florida, Arizona, Georgia, Michigan and California at 42.7 percent, 39.7 percent, 35.8 percent, 32.8 percent and 29.0 percent, respectively.

At the national level, delinquencies on real estate loans are falling, which is some indication that we are seeing a resolution of the national real estate crisis. The improvements are concentrated in commercial real estate. However, delinquencies in the residential real estate market remain relatively unchanged.

Las Vegas Housing Now a Good Deal

Right now, Las Vegas housing is a very good deal. According to the Housing Opportunity Index, which considers both price and income, Nevada housing is more affordable than the national average. In the 1990s and early 2000s, Las Vegas had housing that was quite affordable by national standards—which helped propel its growth. By 2006, Las Vegas lost that advantage.

Although we tend to think of low housing prices as indicative of a depressed market, low housing prices will help the Las Vegas economy grow. Affordable housing is one of the primary reasons that many long-term forecasts show strong population gains for the region, some of which are driven by projected retirements.



The Southern Nevada Housing Market Outlook

A lack of supply is contributing to rising house prices in Southern Nevada. Extrapolating recent trends, prices look set to increase over the next few years as the Southern Nevada economy improves, and builders

do not rush into the market to build new homes. Nonetheless, the overhang of property held by weak hands could dampen any acceleration in home prices—which will postpone any sizable gains in construction.

Nevada Economic Conditions

The pace of U.S. economic growth picked up in third quarter 2012, but the rate of growth remained well below the average established in the previous 50 years. Nevada's employment and the tourism and gaming industries show some of the effects of a slowing national economy, but retail spending remains relatively robust. Nevada's construction sector remains mired at relatively low levels. The Nevada, Clark County and Washoe County unemployment rates all fell in September.

U.S. Economy Showing Signs of Improvement

The U.S. economy is showing signs of moderate improvement. Estimates of U.S. real GDP for third quarter 2012 show an annualized growth rate of 2.0 percent. Although higher than the tepid 1.3 percent growth rate for second quarter, the third quarter rate is well below the average growth rate of 3.4 percent the U.S. economy experienced from 1947 to 2007. Growth in U.S. real GDP during third quarter 2012 was driven by increases in personal consumption expenditures, federal government spending, and resident fixed investment, *Table 1*.

Much of the federal government spending came from defense—a possible reaction to the potential sequestration of spending in the fourth quarter. We could see corresponding decreases come fourth quarter. Nonresidential fixed investment, private inventory investment, and net exports all made negative contributions.

U.S. nonfarm employment continues to rise, gaining 171,000 jobs from September to October. The unemployment rate rose from 7.8 to 7.9 percent in the same time period, as labor force participation

increased. Housing starts are up substantially year-over-year and housing prices continue to rise. Auto/truck and retail sales increased for September as well. Consumer sentiment and consumer confidence increased substantially in September. The Kansas City Financial Stress Index remained near its long-run average in October, which suggests no financial headwinds, but bankers say regulators are inhibiting business lending. Business surveys and anecdotal reports show businesses delaying investment until after a number of policy uncertainties, including the fiscal cliff abate.

Nevada Economy Continues Showing Mixed Signs

The Nevada economy showed mixed signals for September. Seasonally adjusted, statewide employment increased by 7,100 jobs (0.6 percent) from August to September. The Nevada unemployment rate decreased slightly from 12.1 percent to 11.8 percent. Nevada is

Story continues after graphs



Table 1	U.S.	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M10	million, SA	133.755	133.584	0.1%	131.806	1.5%
	Unemployment Rate*	2012M10	%, SA	7.9	7.8	0.1%	8.9	-1.0%
	Consumer Price Index	2012M09	82-84=100, SA	231.4	230.1	0.6%	226.9	2.0%
	Core CPI	2012M09	82-84=100, SA	230.6	230.2	0.1%	226.1	2.0%
	Employment Cost Index	2012Q3	89.06=100, SA	116.3	115.8	0.4%	114.2	1.8%
	Productivity Index	2012Q3	2005=100, SA	111.4	111.0	0.4%	109.9	1.4%
	Retail Sales	2012M09	\$billion, SA	412.9	408.3	1.1%	391.9	5.4%
	Auto and Truck Sales	2012M09	million, SA	14.88	14.46	2.9%	13.09	13.6%
	Housing Starts	2012M09	million, SA	0.872	0.758	15.0%	0.647	34.8%
	Real GDP***	2012Q3	2005\$billion, SA	13,616.2	13,548.5	2.0%	13,306.9	2.3%
	U.S. Dollar	2012M10	97.01=100	98.907	99.242	-0.3%	98.886	0.0%
	Trade Balance	2012M09	\$billion, SA	-41.545	-43.790	-5.1%	-44.467	-6.6%
	S and P 500	2012M10	monthly close	1,412.16	1440.67	-2.0%	1253.30	12.7%
	Real Short-term Rates*	2012M09	%, NSA	-3.19	-3.50	0.3%	-3.29	0.1%
	Treasury Yield Spread*	2012M10	%, NSA	1.65	1.61	0.04%	2.13	-0.48%

Table 2	Nevada	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M09	000s, SA	1,136.1	1,129.0	0.6%	1,130.1	0.5%
	Unemployment Rate*	2012M09	%, SA	11.8	12.1	-0.3%	13.6	-1.8%
	Taxable Sales	2012M08	\$billion	3.669	3.550	3.3%	3.410	7.6%
	Gaming Revenue	2012M09	\$million	892.75	859.24	3.9%	863.95	3.3%
	Passengers	2012M08	million persons	3.770	4.048	-6.9%	3.934	-4.2%
	Gasoline Sales	2012M08	million gallons	96.03	95.57	0.5%	96.68	-0.7%
	Visitor Volume	2012M09	million persons	4.212	4.249	-0.9%	4.156	1.4%

Table 3	Clark County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment	2012M09	000s, SA	815.7	816.4	-0.1%	810.5	0.6%
	Unemployment Rate*	2012M09	%, Smoothed SA	11.7	12.0	-0.3%	13.7	-2.0%
	Taxable Sales	2012M08	\$billion	2.600	2.539	2.4%	2.406	8.1%
	Gaming Revenue	2012M09	\$million	760.55	727.03	4.6%	733.65	3.7%
	Residential Permits	2012M09	units permitted	615	602	2.2%	323	90.4%
	Commercial Permits	2012M09	permits	3	2	50.0%	13	-76.9%
	Passengers	2012M09	million persons	3.430	3.644	-5.9%	3.553	-3.5%
	Gasoline Sales	2012M08	million gallons	64.12	64.50	-0.6%	64.80	-1.1%
	Visitor Volume	2012M09	million persons	3.582	3.600	-0.5%	3.549	0.9%

Table 4	Washoe County	Date	Units	Current	Previous	Change	Year Ago	Change
	Employment**	2012M09	000s, SA	189.1	188.3	0.4%	188.0	0.6%
	Unemployment Rate*	2012M09	%, Smoothed SA	11.6	11.8	-0.2%	13.2	-1.6%
	Taxable Sales	2012M08	\$billion	0.518	0.490	5.8%	0.469	10.5%
	Gaming Revenue	2012M09	\$million	68.84	68.08	1.1%	68.46	0.6%
	Residential Permits	2012M09	units permitted	84	40	110.0%	45	86.7%
	Commercial Permits	2012M09	permits	17	21	-19.0%	8	112.5%
	Passengers	2012M09	million persons	0.290	0.351	-17.3%	0.311	-6.7%
	Gasoline Sales	2012M08	million gallons	15.27	14.58	4.7%	15.47	-1.3%
	Visitor Volume	2012M09	million persons	0.430	0.446	-3.7%	0.417	3.0%

*Growth data represents change in percentage rate

**Reflects the Reno-Sparks MSA which includes Washoe and Storey Counties

***Recent growth is an annualized rate

Sources: Nevada Department of Taxation; Nevada Department of Employment, Training, and Rehabilitation; UNR Bureau of Business and Economic Research; UNLV Center for Business and Economic Research; McCarran International Airport; Reno/Tahoe International Airport; Las Vegas Convention and Visitors Authority; Reno-Sparks Convention and Visitors Authority; U.S. Department of Commerce; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Federal Reserve Bank.

Note: NSA = Not Seasonally Adjusted, SA = Seasonally Adjusted

seeing a slowing in the growth of tourism. Visitor volume was 1.4 percent higher in September than a year earlier. Gaming revenue was 3.3 percent higher year-over-year, mostly a result of increased action at the sports books. Taxable sales continue to show strong growth, up 7.6 percent from last year, *Table 2*.

Clark County Economy Shows Signs of Slippage

For Clark County, seasonally adjusted employment decreased from August to September by 700 jobs. The Las Vegas unemployment rate declined slightly from 12 percent in August to 11.7 percent in September. Total passengers at McCarran Airport are down 4.2 percent from a year earlier. Compared to a year ago, September visitor volume was up by 0.9 percent. Gaming revenue was 3.7 percent higher in September than a year earlier. Clark County's taxable sales for August were 8.1 percent above those for a year earlier. Residential construction permits increased slightly from August to September. Commercial construction permits remained at a low level, *Table 3*.

Washoe County Economy Shows Mixed Signs

The most recent data for Washoe County mirror those at the state level. Seasonally adjusted, Reno-Sparks' employment increased by 800 jobs (0.4 percent) from August to September. The seasonally adjusted Reno-Sparks unemployment rate declined slightly, from 11.8 percent in August to 11.6 percent in September. Compared to a year earlier, September visitor volume was up by 3.0 percent. Gaming revenues for September were up by 0.6 percent over the same period a year earlier. Residential construction permits increased in September, while commercial construction permits remained low, *Table 4*.

Nevada Economic Outlook in Brief

The U.S. economy showed stronger growth in third quarter 2012, but the rate is still significantly below the average growth for the prior half century. Consumer spending, auto sales, and the housing market are showing continued improvement. Weak growth at the national level is affecting Nevada in the form of slowing growth in tourism. Despite the slowing in tourism, taxable sales continue to make large gains. Nevada's employment is also showing relatively stable year-over-year gains.

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