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Nevada Housing Market Showing Signs of Life

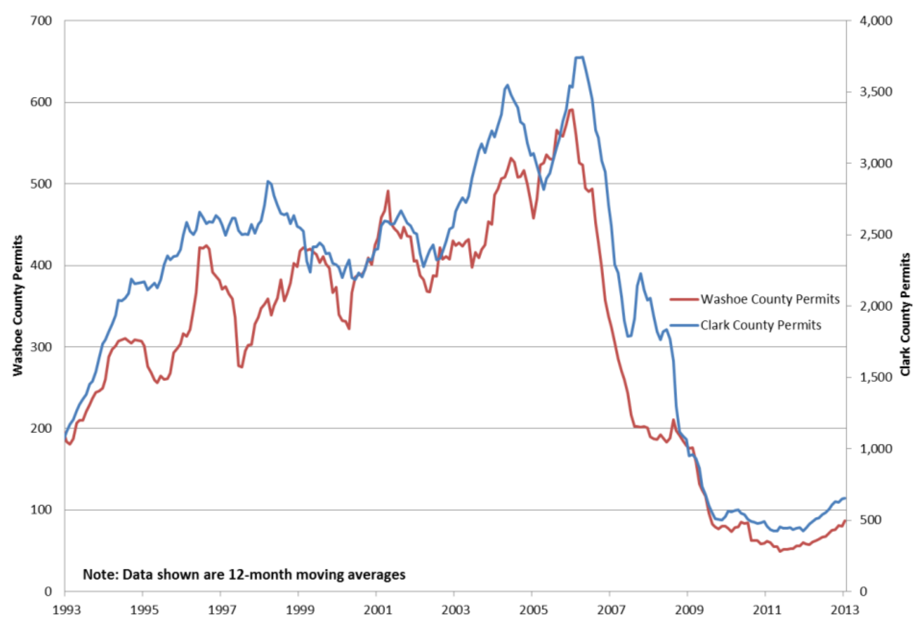
Ryan T. Kennelly

Much of the strain on the Nevada economy during the Great Recession came from the burst of the housing bubble, as real estate and construction are both vital to the health of Nevada's economy. While growing tourism and hospitality has led to some improvement, Nevada is behind a majority of the country in achieving a full economic recovery, mostly the result of weak real estate and construction sectors. The good news is that the Nevada housing market is beginning to show signs of a recovery.

Housing Permits on the Rise

Housing permits for Clark and Washoe Counties reached their peaks in mid-2006, at 3,746 and 591 permits per month, respectively, as shown in Chart 1. After that point, the number of permits per month fell drastically due to the collapse of the housing market. Both series bottomed out in mid-2011, falling by about 90 percent in the five-year period. Since the trough, Clark County housing permits have increased by 55.0 percent, while Washoe County housing permits have risen by 77.5 percent. Although these numbers are encouraging, the market is still far below its prerecession peak.

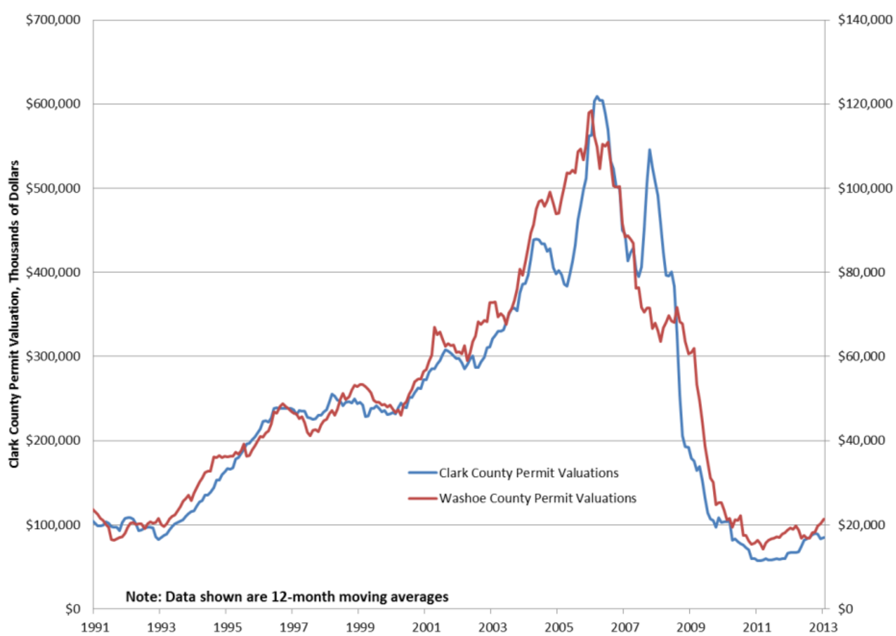
Chart 1: Nevada Housing Permits by County



Source: Center for Business and Economic Research, UNLV

For another perspective on construction activity in Nevada, an aggregate series of permit valuations is presented in Chart 2. The advantage to using permit valuations is that it measures the dollar value of each permit. A month with permits for five $100,000 homes will not have as much of an economic impact as a month with a couple of multimillion dollar homes, although it will appear better in terms of the total number of permits. Looking at the percentage drop from peak to trough, permit valuations fell by 90.7 percent for Clark County and 87.0 percent for Washoe County. Since then, valuations have increased in both Clark and Washoe Counties, by 49.7 and 38.0 percent, respectively. The permit valuation approach implies a slightly less robust recovery than suggested by the total number of permits approach.

Chart 2: Nevada Permit Valuations by County



Source: Center for Business and Economic Research, UNLV

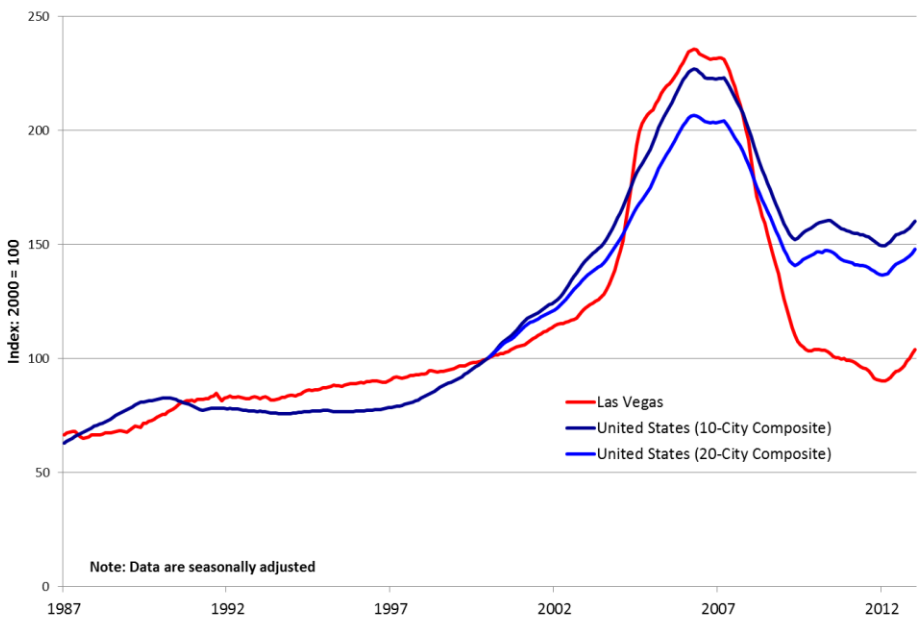
Home Prices Continue to Rise

According to the Case-Shiller index, home prices in the United States and Las Vegas reached lows in January 2012 (Chart 3).[1] From January 2012 to January 2013, housing prices in the Las Vegas metropolitan area increased by 15.3 percent. U.S. home prices rose by 7.3 percent during the same period. Despite the recent gains, prices remain well below their peak before the housing market collapse. Las Vegas home prices remain 56.0 percent below their peak, and U.S. prices remain 29.3 percent below their peak.

[1] The Case-Shiller index is considered one of the better measures of home prices as it includes prices from repeat sales. Other measures of home prices, such as median home prices, do not include repeat sales.

Las Vegas home prices have experienced extreme movements since the early 2000s. From 2002 to 2006, prices rose by 106.0 percent. In contrast, housing prices in the U.S. rose by 81.7 percent. After the housing market collapse, home prices in Las Vegas declined by 61.7 percent, while U.S. prices dropped by 34.1 percent.

Chart 3: Case-Shiller Home Price Indexes



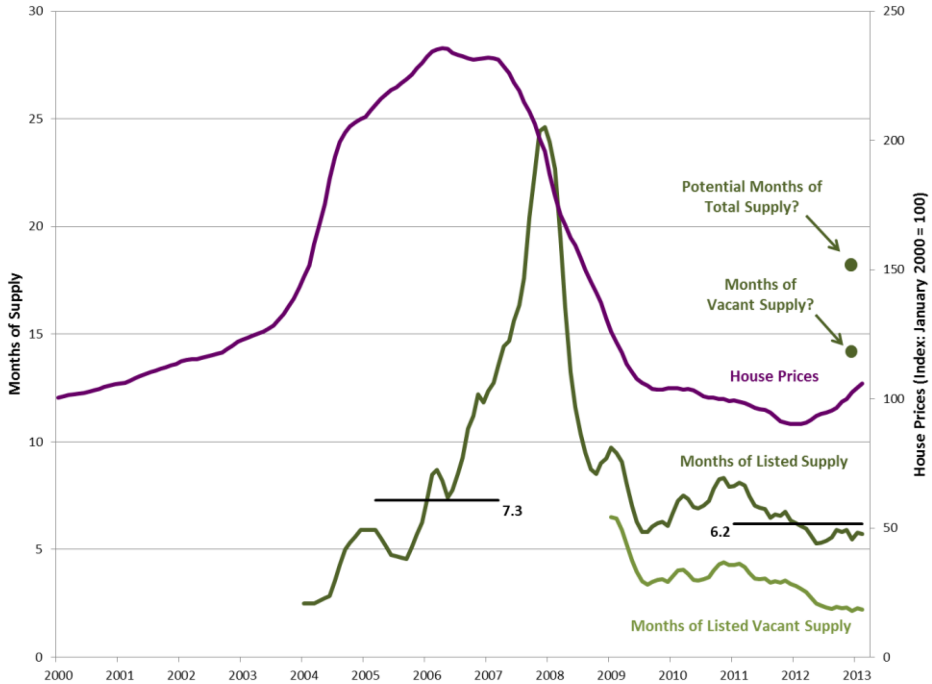
Source: Standard and Poor's

Headwinds to a Full Recovery

Contributing to rising home prices is a lack of available supply of single-family homes in Las Vegas. For listed homes, the months of supply is down to 5.7 (Chart 4). The decline is coming from a lack of listings. In addition, only 38.1 percent of the listings are vacant. Prices began rising in Las Vegas when the months of supply fell below 6.2. In 2006, prices didn't begin slipping until months of supply rose above 7.3.

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 homes with owners who are in arrears on their mortgages, and the potential months of supply are about 20. With banks taking an orderly approach to foreclosure the excess supply more likely will be dribbled rather than flooded onto the market.

Chart 4: Las Vegas Months of Supply and House Prices



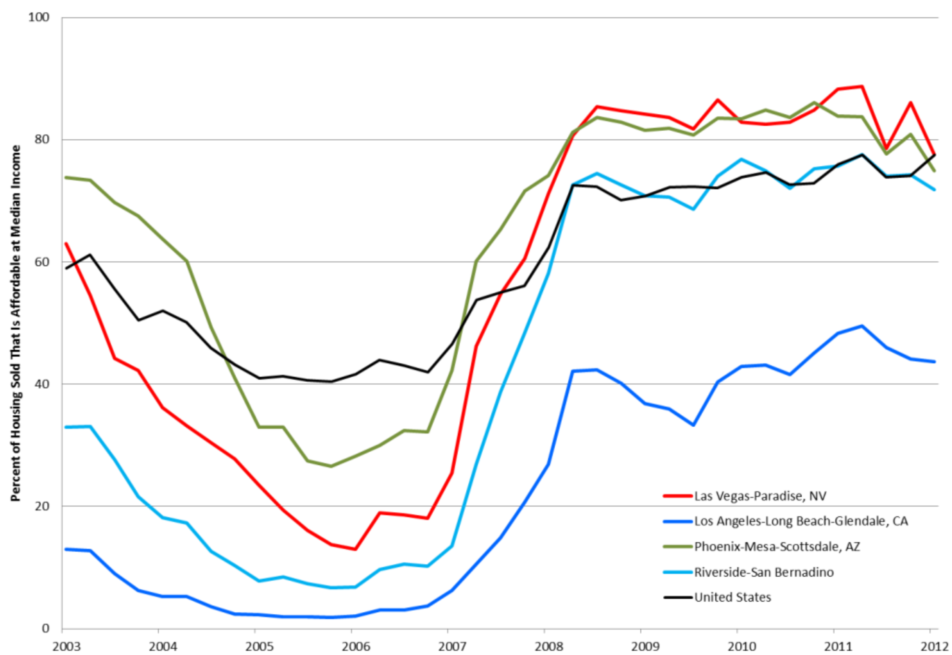
Sources: Standard and Poor's; Greater Las Vegas Association of Realtors; Residential Resources; National Association of Realtors; Center for Business and Economic Research, UNLV

Tailwinds to a Full Recovery

Las Vegas housing remains very affordable when compared to the rest of the U.S, according to the Housing Opportunity Index (Chart 5). The Housing Opportunity Index takes into account incomes and housing prices within a region. 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 Nevada 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.

Chart 5: Housing Opportunity Index



Source: National Association of Home Builders

Nevada Housing Market Outlook

The most recent data suggest that we are in the early stages of a housing market recovery in Nevada. The construction sector is slowly improving, but is still far below its prerecession levels. The real estate market has a substantial overhang of residential and commercial property. In the residential market, little of that supply is on the market. The result has been gains in residential real estate prices. With the overhang only likely to be dribbled on the market at a slow rate, residential housing prices can be expected to continue rising. Affordable housing remains a positive, as increased population will foster growth in Nevada's economy.

Ryan T. Kennelly
Economic Analyst
Center for Business and Economic Research
University of Nevada, Las Vegas