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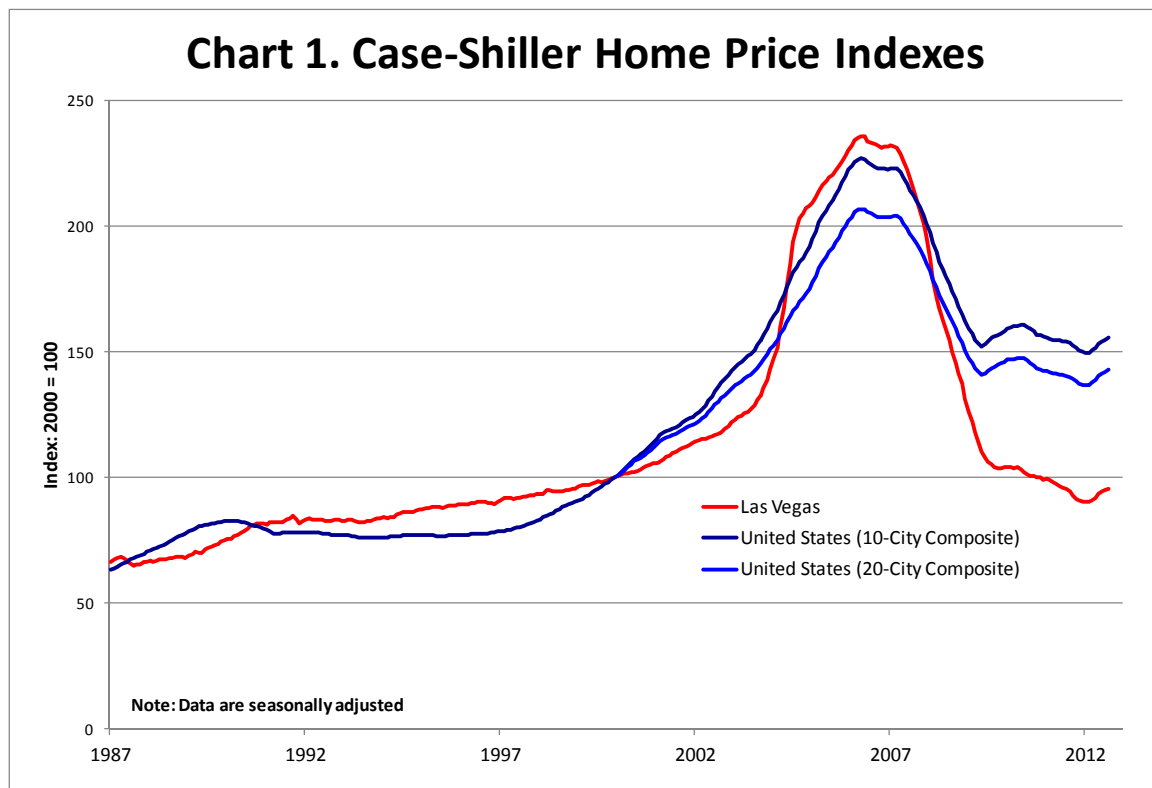
Southern Nevada Housing Market Shows Signs of Recovery

Stephen P. A. Brown

After about six years of sliding, Southern Nevada housing prices are on the rise. Most Las Vegas consider that a good sign. A lack of supply is contributing to the rise, and prices look set 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

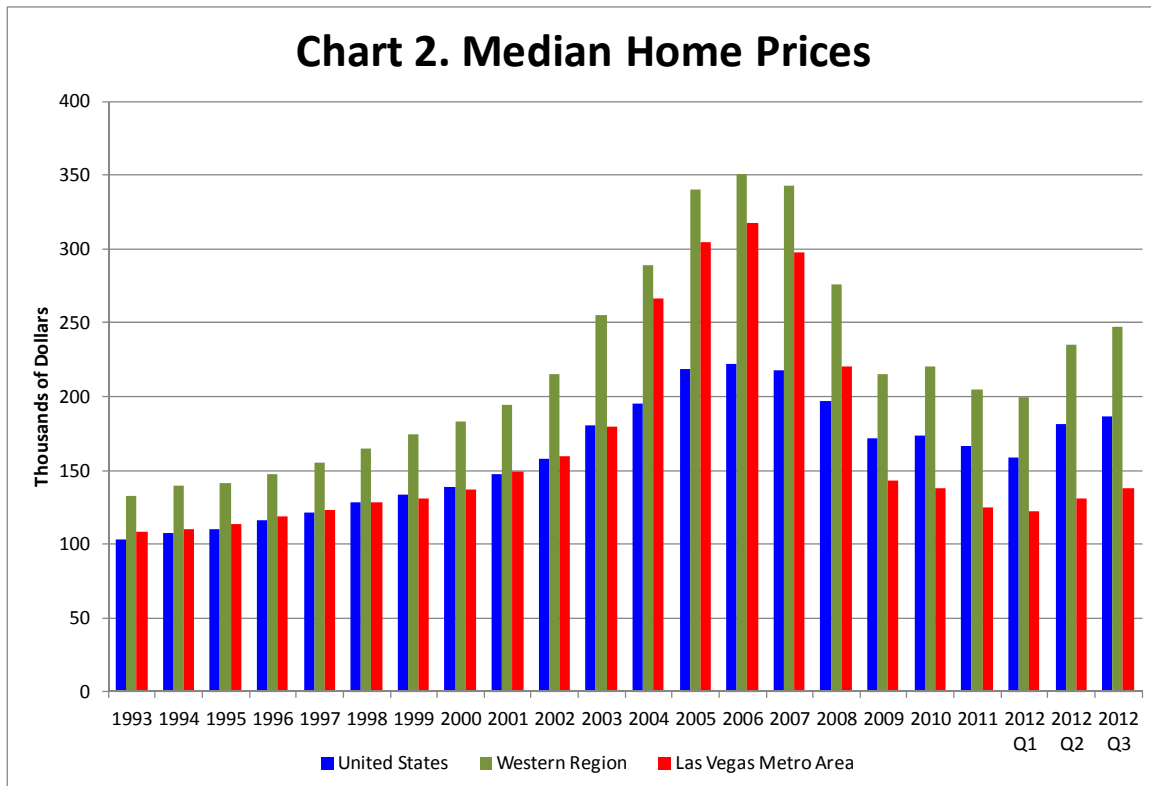
According to the Case-Shiller index, housing prices in the Las Vegas metropolitan area and the United States both hit bottom in January 2012 (Chart 1).¹ Las Vegas house prices have risen by 5.7 percent since then. U.S. housing prices have risen only 4.4 percent.



Source: Standard and Poor's

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 capture quality than more commonly used measures, such as median home price.

Dramatic price movements have characterized the Las Vegas housing market since 2000. The nationwide housing boom took U.S. housing prices upward by 60.0 percent from 2000 to 2006 (Chart 2). Over that same period, housing prices throughout the West rose by 91.5 percent. In Las Vegas, housing prices rose by 231.0 percent.



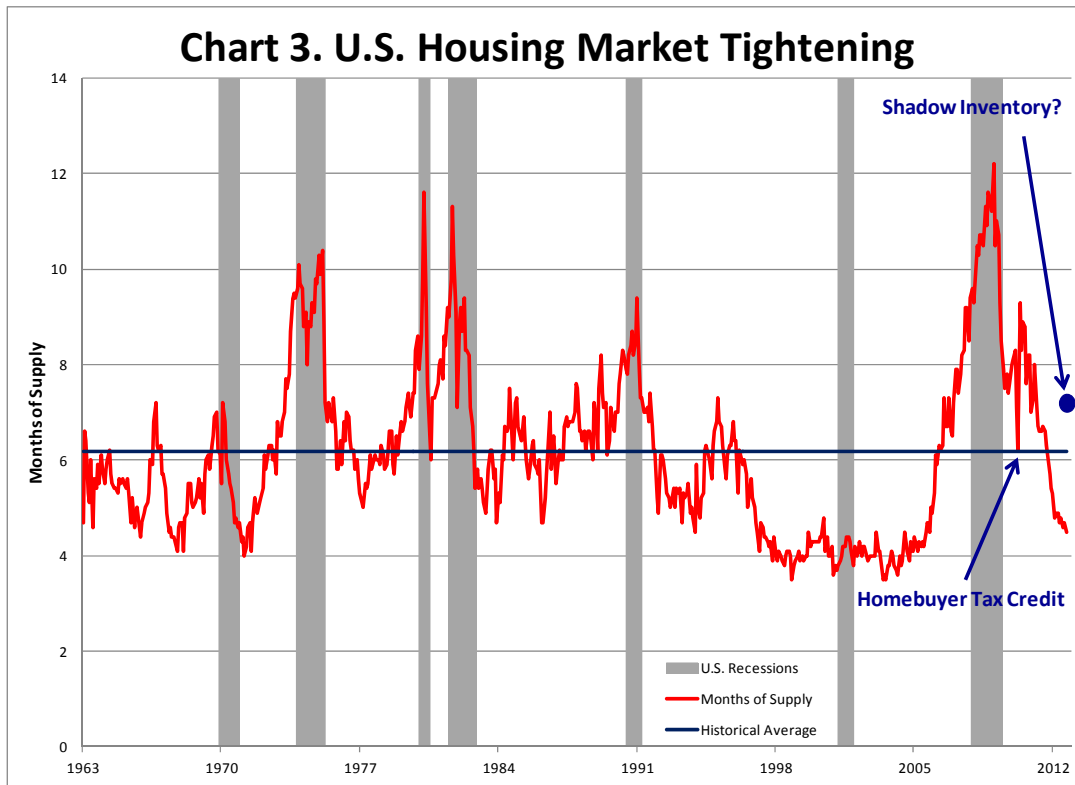
Source: National Association of Realtors

Big differences also were 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 National Trends

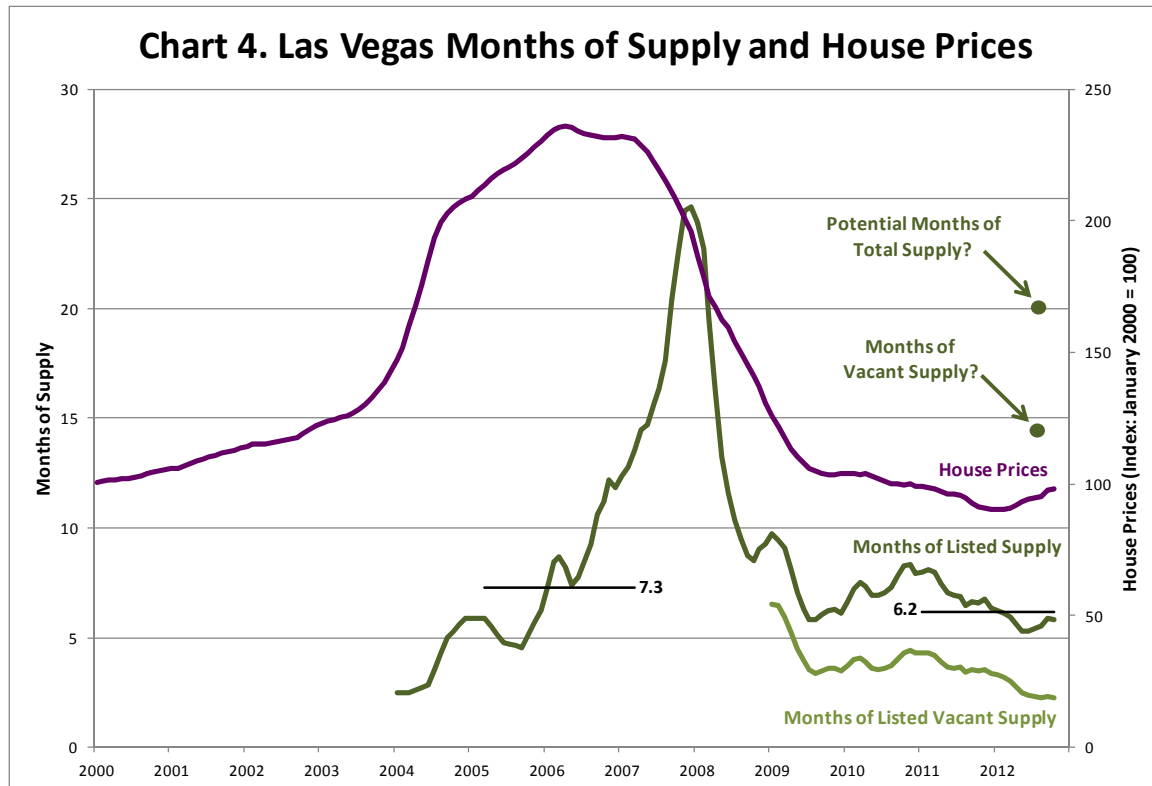
The timing of the recovery in the Las Vegas housing market matches that of the U.S. housing market. The U.S. housing market is coming into balance (Chart 3). Based on recent sales, the current houses listed on the U.S. market provide only about 4.5 months of supply, which is well below the historic average of 6.2 months. Back 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 suggest that home prices are likely to continue rising, nationwide.



Sources: U.S. Census Bureau; National Bureau of Economic Research

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 (Chart 4). The decline is coming from a lack of listings. In addition, only 38.3 percent of the listings are vacant.



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

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. Probably, the built-up momentum carried Las Vegas home prices upward even after excess supplies were becoming evident.

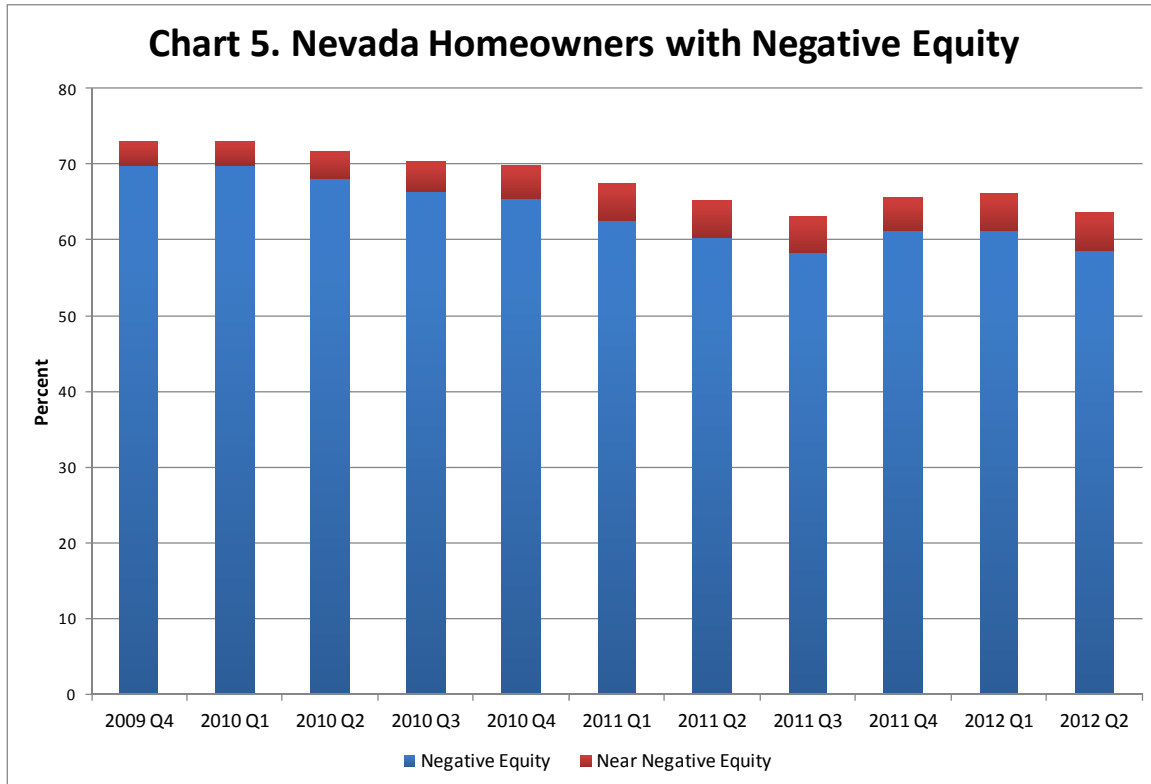
Although we are seeing some gains in residential construction, builders aren't likely to rush into the Las Vegas market, yet. Despite recent gains, prices for existing homes are below construction costs. Prices for existing homes probably need to rise about 25 percent from current levels before homebuyers 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 show 58.6 percent of the homeowners in Nevada had negative equity (Chart 5). 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.



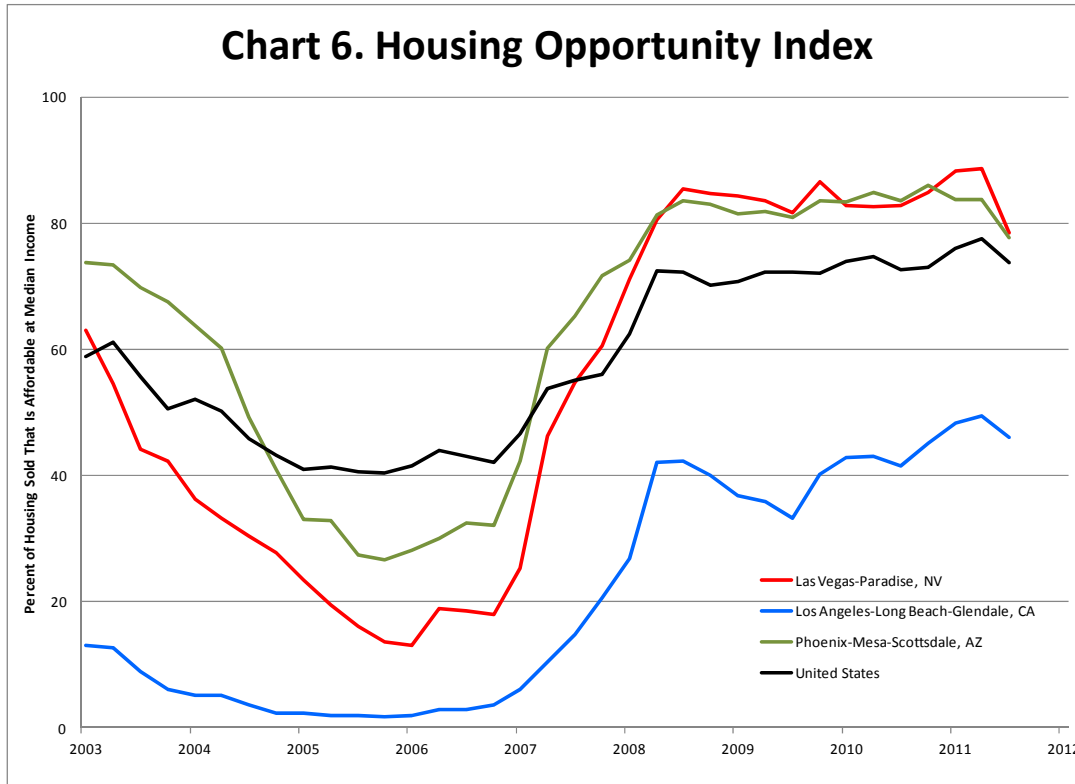
Source: CoreLogic®

At more than 2½ 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 an 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 (Chart 6). 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.



Source: National Association of Home Builders

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, home prices look set to increase over the next few years, as the Southern Nevada economy improves, and new home construction remains modest. Nonetheless, the overhang of property held in weak hands could dampen any acceleration in home prices—which will postpone any sizable gains in construction. Affordable housing will help the region's economic growth.

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