June 2013

Report on Nevada's Housing Market

This is the first of a series of reports on Nevada's Housing Market co-presented by the Lied Institute for Real Estate Studies at the University of Nevada, Las Vegas and the State of Nevada Department of Business & Industry. These reports will provide monthly updates with quarterly commentary on housing market trends for stakeholders throughout Nevada, which will be crucial as Nevada embarks on a path of housing recovery.

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State of Nevada Department of Business & Industry

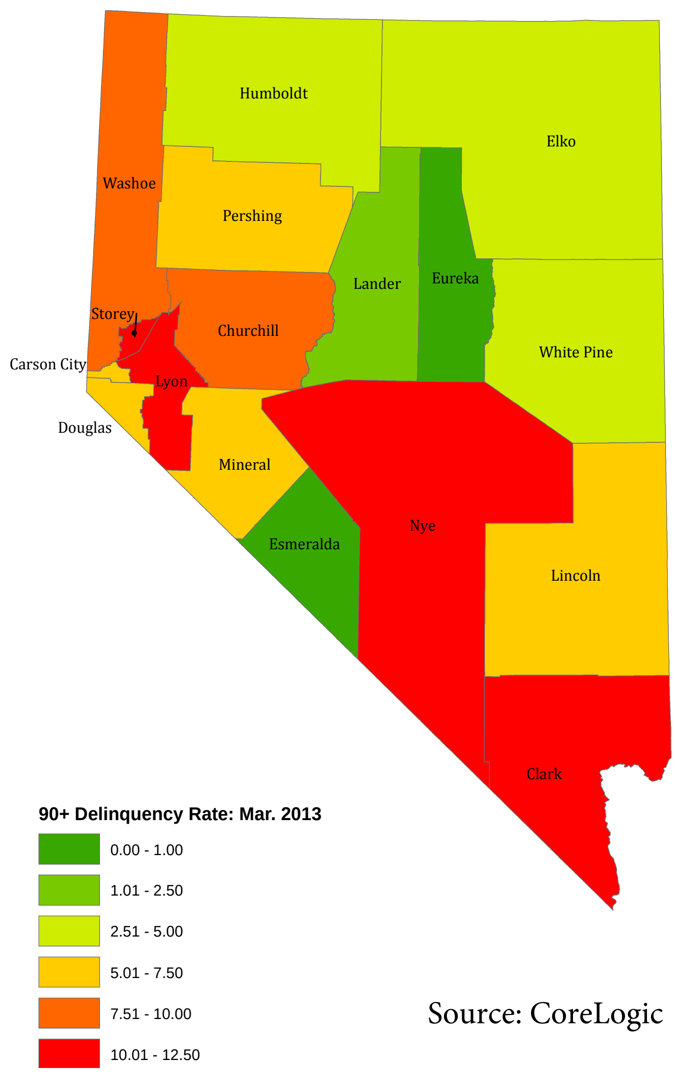
Nevada's housing market shows positive signs of expansion as the nation recovers from the Great Recession. According to data from the Bureau of Economic Analysis, as of the first quarter of 2013, residential investment contributed to the increase in real gross domestic product (GDP). That is, spending on construction of new homes and/or apartments increased nationally. Nevada, meanwhile, experienced a drop in mortgage delinquencies, a slowdown in foreclosures, and an increase in home prices. These events all contribute to the strengthening of the Nevada housing market. Rising home prices, for example, elevate homeowners' equity levels and, hence, increase their personal wealth. Nonetheless, challenges in the Nevada housing market still exist. Homes in Nevada are considered to be the most underpriced nationwide, and real estate agents are having difficulty finding homes to sell, because of the still low level of willing and able home sellers.

Foreclosure Trends

Foreclosure trends in Nevada show that delinquencies and subsequent foreclosures have fallen from the unprecedented levels of 2008-2011 to a healthier, though still troubled, environment. With employment levels growing, mortgage delinquencies declined over the past three years. As of March 2013, about 10.26 percent of all outstanding Nevada mortgages are 90 days or more delinquent, according to CoreLogic data. This represents a 16.31 percent decline on a year-over-year basis. Throughout Nevada, rural counties (e.g., Lander, Eureka, and Esmeralda) experienced lower delinquency rates, while the more populated counties (e.g., Clark and Washoe) experienced higher delinquency rates. Figure 1 shows the 90 plus days delinquency rate for each county.

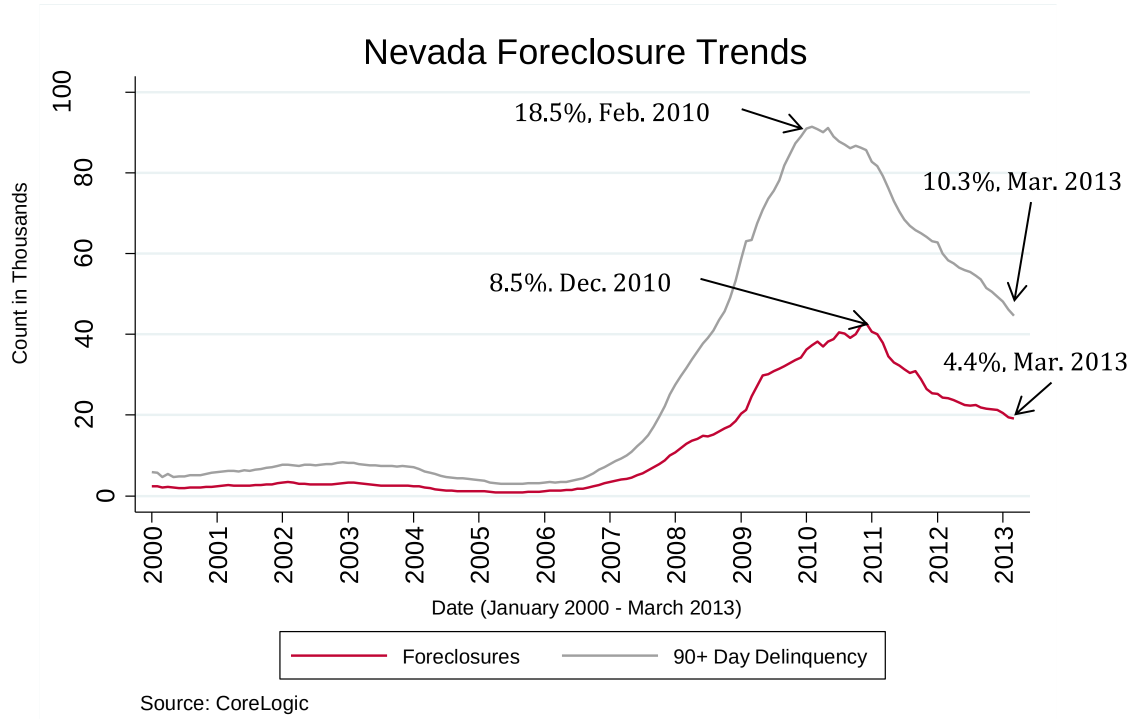
As the number of delinquent mortgages declines, the foreclosure inventory, which is the number of single-family homes in the foreclosure process, also falls. Figure 2 shows that about 4.4% of all outstanding mortgages in Nevada are in the foreclosure process as of March 2013. At this rate, Nevada continues to hold the highest foreclosure inventory among non-judicial states (where lenders can bypass courts to initiate foreclosure), according to CoreLogic. The foreclosure inventory, however, has declined significantly over the past two years. Further declines in delinquencies and foreclosures will depend on the near-term health and recovery of the Nevada economy.

Figure 1



Source: CoreLogic

Figure 2

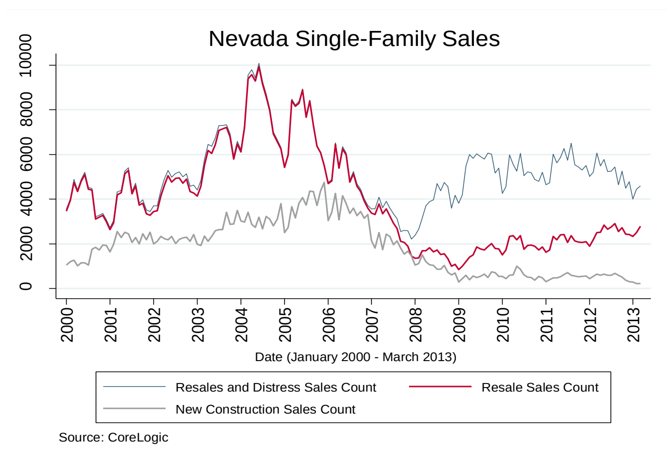


Sales Trends

After months of bidding wars and scarce inventory, recent sales trends show that Nevada home prices are rebounding to much healthier levels. This comes from a change in the types of transactions occurring within the state. As the preceding period of eroding prices passed its trough, Nevada moved from an atmosphere of high market activity with toxic assets, to one of moderate market activity with growing numbers of traditional real estate transactions. Real estate professionals may feel a need to scout for homeowners with sufficient equity to encourage them to sell.

This recovery activity is evident in the data and reflects a changing composition of home sales. Over the past several months, the number of real estate owned (REO) sales, also known as bank foreclosed home sales, has fallen from around 2000 REO sales per month to around 500 REO sales per month, according to CoreLogic data. Short-sale transactions, also known as negative equity sales, surpassed REO sales in June 2012, and represent 26.68 percent of all single-family home sales in March 2013. In addition, the number of single-family resale sales in Nevada has been increasing towards their pre-recession levels, reaching a share of 57.8 percent of all single-family home sales in March 2013. On the murky side, new construction sales have fallen recently to a historic low without meaningful changes in new home prices. This signals that new homes are probably priced above the level necessary to compete effectively with existing

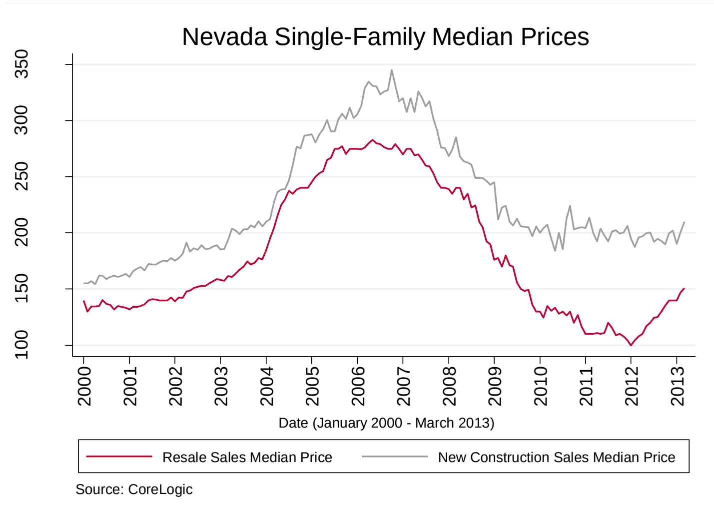
Figure 6



home sales. At some point in the recovery, this problem will correct itself.

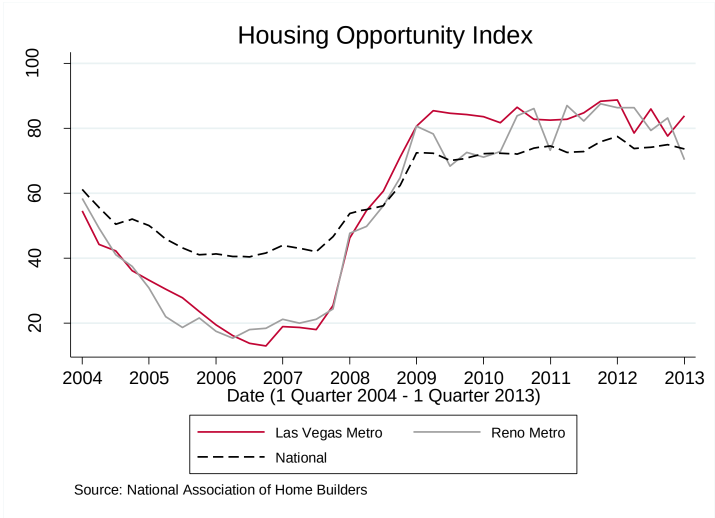
Meanwhile, the median Nevada single-family price of resale sales increased 2.59 percent from the preceding month to about $150 thousand in March 2013, according to CoreLogic data. Resale sales exclude foreclosure and short–sale transactions. This current median resale price matches prices from the pre-recession level, which suggests that the market is returning to fundamental and sustainable values (Figure 3). Furthermore, new construction sales as of March 2013 saw a median sale price that is 39.26 percent higher than the resale median price. Unlike resale sales, new construction sales over the past couple years have seen small fluctuations in the median price.

Figure 3



Despite general price increases, homes in Nevada are still affordable, according to the Housing Opportunity Index – a measure based on the proportion of affordable home sales at the local median income (Figure 4). In the Las Vegas metro area, 83.8 percent of all home sales during the first quarter of 2013 were affordable, which is substantially more affordable than in the pre-recession period and 9.8 percent above the current national level. Reno's housing affordability level drifts around the national level. As of the first quarter of 2013, Reno has an affordability level of 70.3 percent – 3.7 percentage points below the national level. As a benchmark, the median income resident should be able to afford 50 percent of the properties in a balanced market.

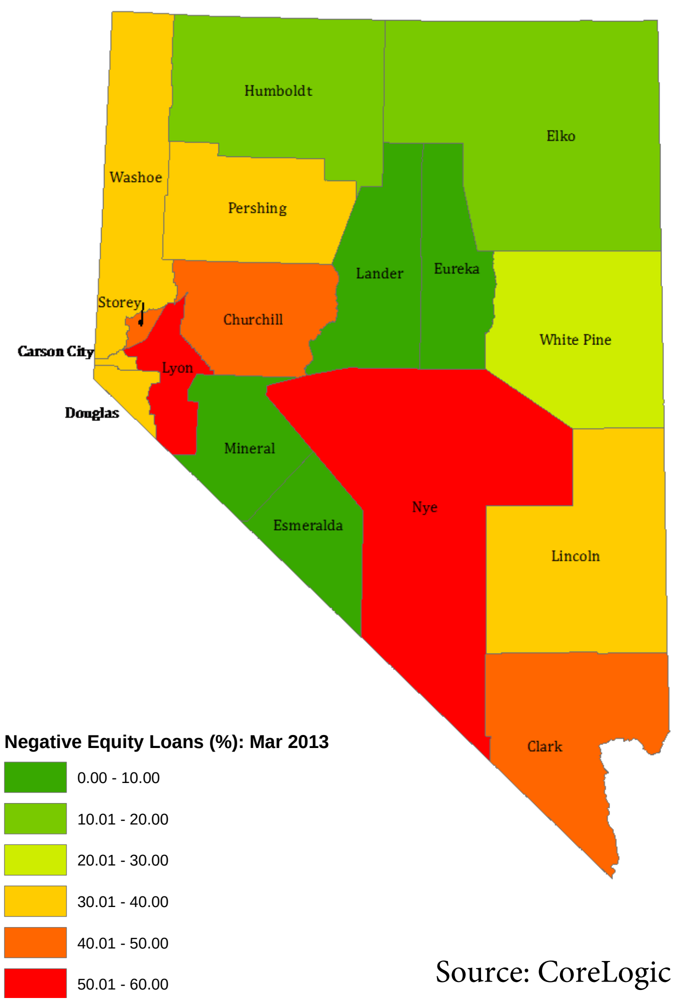
Figure 4



Under current conditions, price increases signal an improving housing market, which will assist Nevada in recovering from its significant negative equity problems. That is, price strengthens homeowners' financial situation by raising the market value of their homes. As property values increase and mortgage debt remains the same or diminishes, loan-to-value levels fall creating positive equity when property values exceed the corresponding outstanding mortgage balances. A homeowner with positive equity can more easily sell his or her home and make a profit. Many homeowners have been locked into their home during the Great Recession and its slow recovery.

In March 2013, the share of home loans with negative equity in Nevada fell to 45.39 percent, which is 15.82 percentage points lower than last year, according to data from CoreLogic. Statewide, the share of homes with negative equity (the ratio of negative equity loans compared to the total number of loans in the state) is following a healthy downward trend. Of course, Clark County influences the state's aggregate level because this county accounts for about 71.45 percent of the single-family housing stock in Nevada. For a comprehensive perspective of equity levels, Figure 5 shows the statewide distribution of negative equity shares. In Nevada, Lyon County has the worst negative equity share followed by Nye, Churchill, and Clark. On the other hand, many rural counties have negative equity shares below 20 percent such as Humboldt and Eureka.

Figure 5



Source: CoreLogic

While statewide increases in property values will diminish negative equity levels and contribute positively towards the health of the housing market, other county level variables will also play an important role in the housing market, such as the unemployment rate, real personal income, mortgage interest rates, and so on.

Southern Nevada's Housing Market

Southern Nevada's housing market performed reasonably well during the first quarter of 2013. Currently, about half of all single-family homes in Clark County have outstanding mortgages, and of those loans 48.29 percent have negative equity and 11.13 percent are ninety days or more delinquent. Those figures represent a significant decline from previous values that coincide with recent decreases in foreclosures. As of March 2013, about 1 out of every 21 mortgages is reported being in some stage of the foreclosure process – representing a 53.5 percent decline in the foreclosure rate from last year.

Following statewide trends, sales activity in Clark County responds quickly to the declines in delinquencies and foreclosures. The market has experienced fewer REO sales and shorts sales while traditional home sales have picked-up this year to 54.65 percent of all single-family homes sales, according to data from the Greater Las Vegas Association of Realtors. With prices rising and strong demand, residential building activity has been increasing despite the statewide decrease in new home sales. In Clark County during the first quarter of 2013, builders filed for 1798 single-family permits, which is a 67.9 percent increase over the previous year. Figure 7 shows the trend for single-family housing permits in Nevada.

Northern Nevada's Housing Market

Northern Nevada's housing market performed relatively better than the Southern market with respect to the delinquency rate and the negative equity share. Considering all loans for single-family homes in Washoe County, approximately 1 out of every 13 loans is delinquent and 1 out of every 29 mortgages is reported in foreclosure, according to CoreLogic data. Those ratios have been improving over the past two year and show values lower than in the Southern Market. In other words, Washoe County has a lower likelihood of a mortgage being in default or in the foreclosure process than Clark County.

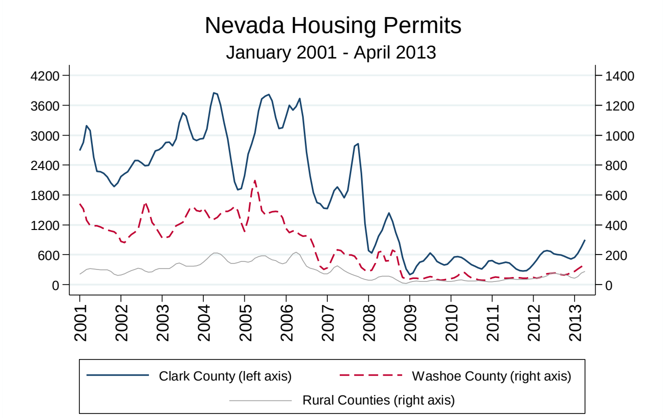
Likewise, following statewide trends, sales activity in Washoe County now includes a majority in traditional home sales. The sale shares for short sales and REO sales both fell on a month-to-month basis and on a year-over-year basis. Resale sales represent 58.99 percent of all single-family sales in March 2013, in Washoe County, according to CoreLogic data. As prices appreciated in the Northern area, building activity also picked up, but at a slower rate than in Southern Nevada. In Washoe County, during the first quarter of 2013, builders filed for 267 single-family permits, which represent an increase of 27.75 percent from the prior quarter.

Rural Nevada's Housing Market

The housing markets in Rural Nevada (all counties except Clark and Washoe) follows a path similar to Washoe County with similar figures in 90+ day delinquency rates and foreclosure rates. In Rural Nevada, however, the negative equity shows large variations with levels ranging between 6 percent and 58 percent, where the larger rural counties like Nye County and Lyon County skew the aggregate negative equity level for Rural Nevada towards the higher end.

Sale trends in March 2013 in the rural area show that the median price of resale sales does not exhibit any upward momentum as it fluctuates around $125,000, even though the proportion of non-foreclosure sales exceeds 68 percent. Short sales represent 20.33 percent and REO sales represent 11.05 percent of all single-family sales in Rural Nevada, according to CoreLogic data. Builder activity has dropped to 132 single-family permits in the first quarter of 2013, down from 175 single-family permits in the previous quarter.

Figure 7



Note: Rural Counties consist of the 14 remaining counties in Nevada. To reduce noise these series have been smoothed with a 3-span weighted mean (Hanning Smoother).

Source: U.S. Department of Housing and Urban Development

Remarks

Housing market indicators in Nevada show improvements that should broaden with a strengthening economy. Labor trends in Nevada, for example, indicate growth in employment that now reaches close to 1.24 million working residents as of April 2013. With more people employed, aggregate income in the valley should increase along with spending on residential investment. Furthermore, 30-year conventional mortgage rates continue at low levels, around 3.4 percent, so borrowing money to finance a home purchase is relatively cheap. This helps sustain the current high level of housing demand as prices remain affordable in Nevada.

- Luis A. Lopez, Data Analyst

About the Lied Institute

The Lied Institute was established in 1989 by the Lee Business School at the University of Nevada, Las Vegas to foster excellence in real estate education and research. Through partnerships with business and community leaders, the Lied Institute strives to improve the real estate business and effective public-policy practices in Southern Nevada. The institute produces relevant and timely real estate research, supports educational programs in real estate economics and finance for students and professionals, and provides community outreach and continuing education.

About the Department of Business & Industry

The Department of Business and Industry is a cabinet level agency in Nevada State government. The Department's objective is to encourage and promote the development and growth of business and to ensure the legal operation of business in order to protect consumers by maintaining a fair and competitive regulatory environment. The Director's office at Business and Industry manages a number of programs and initiatives to address the needs of small businesses, homeowners and consumers including small business advocacy, bond programs, access to capital, housing retention programs, constituent services and fraud prevention and education.

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