



SOUTHERN NEVADA **REAL ESTATE** **REPORT**



2014 1st Quarter
Release Date July 21, 2014

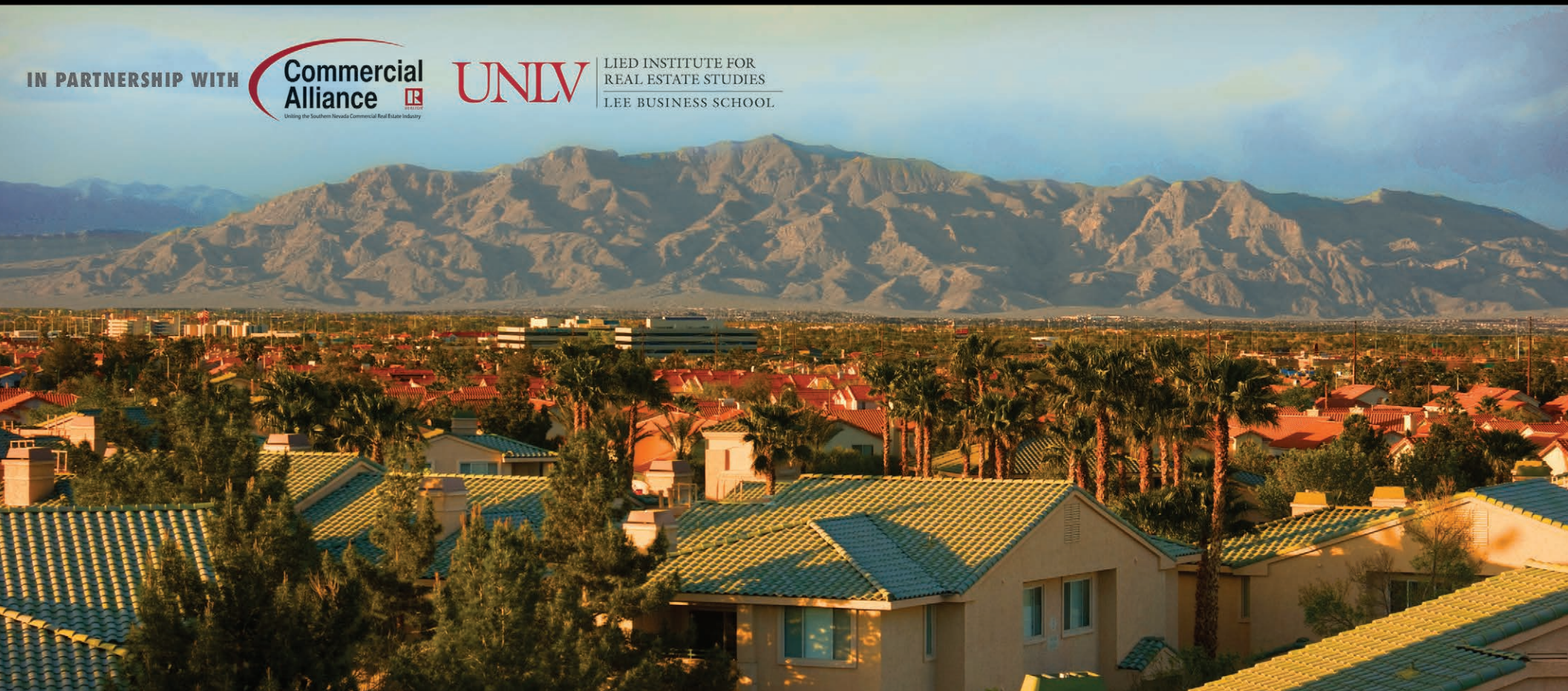
An Overview of Local Residential and Commercial Real Estate Conditions

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EXECUTIVE SUMMARY

THE MARKET UPDATE

Southern Nevada's employment situation grows closer to pre-recession levels. In the first quarter 2014, private employment in the Las Vegas metropolitan area increased by 1.3 percent since last year to a quarterly average of 904.03 thousand jobs. In the second quarter 2008, there were about 907.97 thousand jobs. Meanwhile, the unemployment rate fell this quarter to 8.8 percent (seasonally adjusted). By industry, the greatest job growth occurred in the Leisure and Hospitality industry and the Education and Health Services industry.

Besides job growth, average weekly earnings went up 3.4 percent since last year. These positive conditions bolster consumer spending, which has been gaining momentum since early 2010. The most recent quarterly statistics show that in 2013 Q4 there were \$8.4 billion in taxable sales. Even more recently, in January 2014 and February 2014, there were \$5.29 billion collectively in taxable sales. This implied that more than \$3.58 billion in taxable spending was needed in March for a continuous quarterly increase of consumer spending.

Expenditure on Motor Vehicles and Parts, on the negative side, is showing a slowdown in consumption of big ticket items, but remains higher than last year. This metric fell to \$887.87 million in 2013 Q4 –this is the latest quarterly estimate available. This sluggish behavior in consumer spending is not too worrisome since declines are typical in the winter.

Southern Nevada's housing market continues to show signs of improvement. Out of all the homes sales in the first quarter 2014, 75 percent were traditional sales while short sales (at 14.2 percent) and real estate owned (REO) sales (at 10.8 percent) were minority sale types. Without much difference since last quarter, most of these home sales were financed with cash (44 percent) or conventional loans (30 percent).

Investors continue to maintain a high presence in the market despite the substantial home price appreciation that happened over the past two years. Notably, there were 5,148 non-owner occupied home sales in 2014 Q1– representing a market share of 63.3 percent.

Home prices remained strong throughout the first quarter 2014, according to the Case-Shiller home price index for the Las Vegas metropolitan area. This may not be the case for the near future. Other sources have begun to show fluctuation in home prices. Recently, GLVAR's median home price for both single family homes and multifamily homes fell in April 2014. Fluctuations of this kind, nevertheless, are normal in healthy markets.

The non-apartment rental market has been behaving similarly to the resale market in terms of price trends. This quarter, the average rent increased to \$0.70 per square foot and there was a remarkably high volume of leases – over 9,300 residential units were leased. Simultaneously, rental vacancies fell to 11.2 percent. This describes a strengthening rental market. Apartment rents also increased in 2014 Q1, but their vacancy rate grew to 9.68 percent.

Economic conditions from the commercial real estate market are beginning to appear more prosperous. Employment in sectors that pertain to industrial, office, and retail type jobs grew in 2014 Q1. This signals growing confidence in those sectors and foreshadows future demand for commercial space. Moreover, these three markets held drops in vacancy rates. The office market stood out with a drop from 22.94 percent in 2013 Q4 to 15.68 percent in 2014 Q1.

Luis A. Lopez, Data Analyst, Lied Institute for Real Estate Studies

SOUTHERN NEVADA ECONOMIC SITUATION

HOUSEHOLD SECTOR

Subsequent economic growth links to growth in private employment. Principally, when people find jobs, more savings take place that finance later investments in homes or business ventures. Immediate spending may occur as well, benefiting businesses directly.

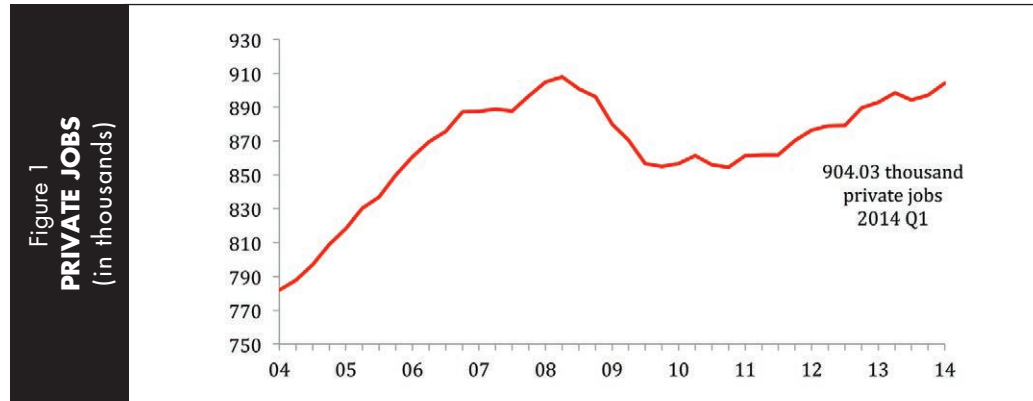


Table 1
JOBS IN LAS VEGAS BY INDUSTRY
(in thousands)

| Industry | 2013 | | | 2014 | | |
|-----------------------------------|-------|-------|-------|-------|-------|-------|
| | OCT | NOV | DEC | JAN | FEB | MAR |
| Natural Resources & Mining | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Construction | 42.9 | 41.6 | 40.9 | 39.7 | 40.7 | 41.0 |
| Manufacturing | 20.9 | 20.8 | 21.0 | 20.8 | 20.9 | 21.0 |
| Trade, Transportation & Utilities | 160.0 | 166.7 | 166.7 | 161.5 | 160.4 | 160.6 |
| Information | 9.8 | 9.7 | 9.7 | 9.6 | 9.7 | 9.6 |
| Financial Activities | 44.2 | 44.4 | 44.0 | 43.5 | 43.4 | 43.6 |
| Professional & Business Services | 111.5 | 112.9 | 113.0 | 115.4 | 116.8 | 117.5 |
| Education and Health Services | 80.2 | 80.8 | 81.4 | 80.3 | 80.2 | 81.3 |
| Leisure and Hospitality | 268.7 | 268.3 | 265.8 | 266.0 | 268.0 | 272.6 |
| Other Services | 24.4 | 24.1 | 24.0 | 23.8 | 23.9 | 24.3 |
| Government | 96.7 | 96.9 | 97.5 | 94.2 | 97.2 | 98.2 |

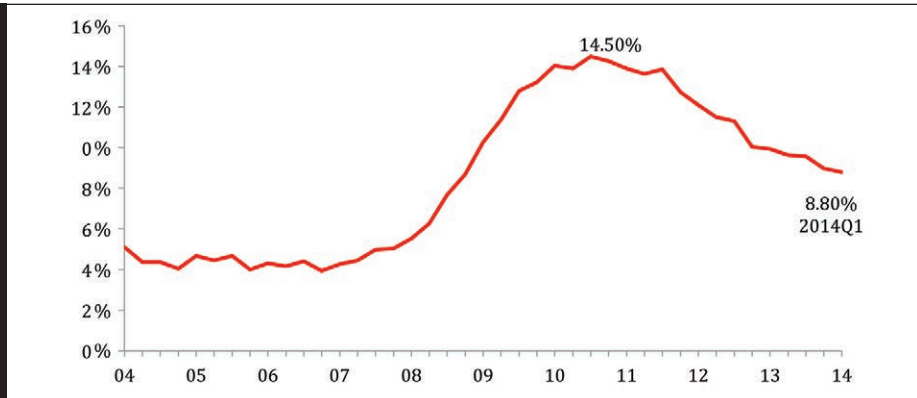
* Total may not add up to the reported private employment due to rounding. This includes workers with multiple jobs.
Source: DETR

SOUTHERN NEVADA ECONOMIC SITUATION

HOUSEHOLD SECTOR

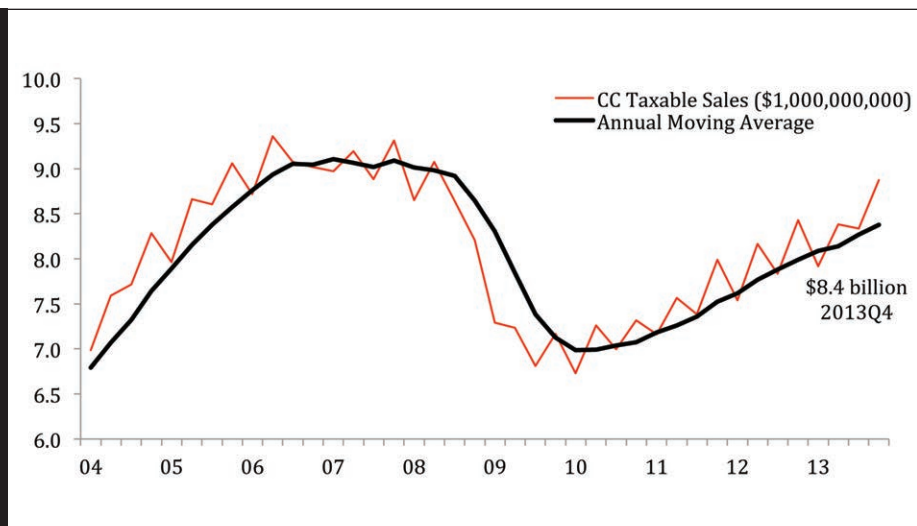
The unemployment rate measures the proportion of adults in the labor force without a job. To be counted as unemployed, the person must be able and willing to work and actively searching for a job. High rates prevent markets from performing their full economic potential. In a healthy economy, the unemployment rate should fall between 5 and 6 percent.

Figure 2
UNEMPLOYMENT RATE
(quarterly average)



The volume of taxable sales provides a gauge of consumer demand for local goods and services. If growth occurs in taxable sales, opportunities for new businesses tend to improve and motivate entrepreneurs to enter the market. This is a crucial statistic to forecast demand for commercial retail space.

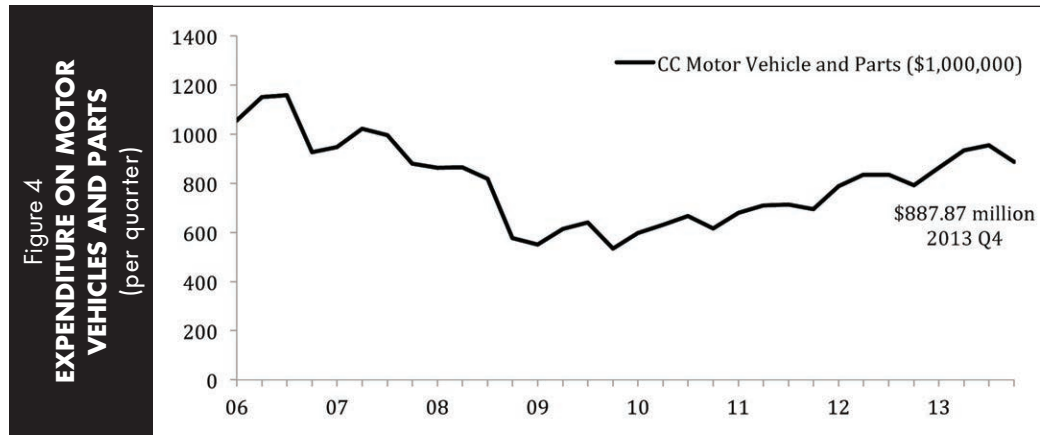
Figure 3
TAXABLE SALES IN CLARK COUNTY
(per quarter)



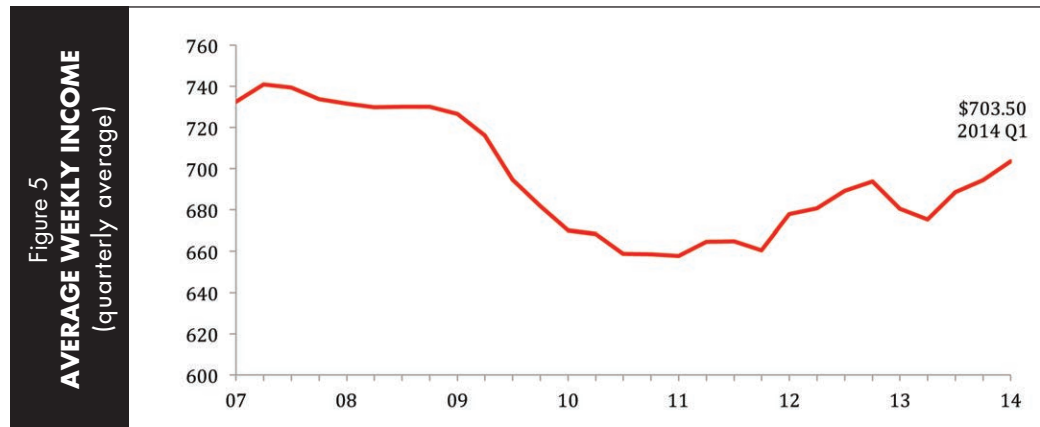
SOUTHERN NEVADA ECONOMIC SITUATION

HOUSEHOLD SECTOR

Expenditure on Motor Vehicles and Parts consist of durable goods that are generally more expensive than other consumer products and sometimes require financing with loans. Growth in this category signals strengthening consumer confidence, especially about the future.



Average weekly income can provide some insight about future trends in consumer spending. Similar to the employment principle, as people earn more, they spend with more discretion. Local businesses subsequently benefit, since this tends to encourage immediate spending.



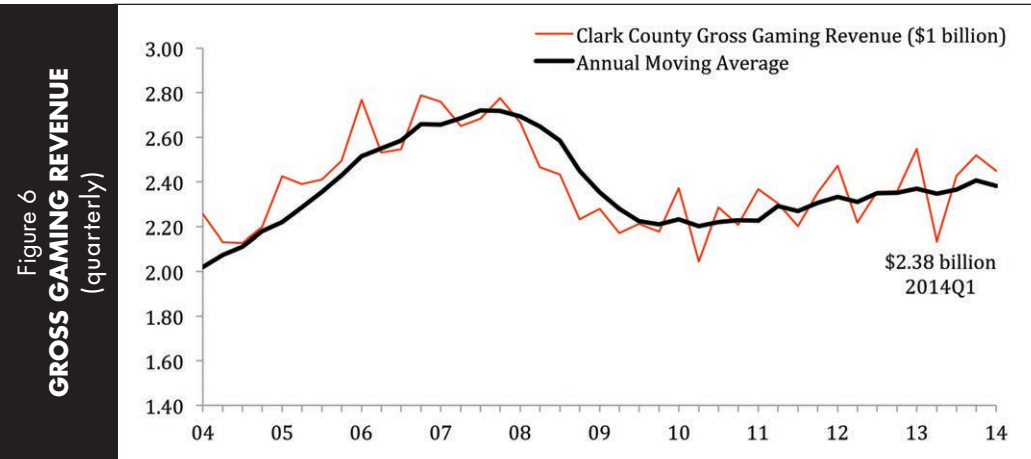
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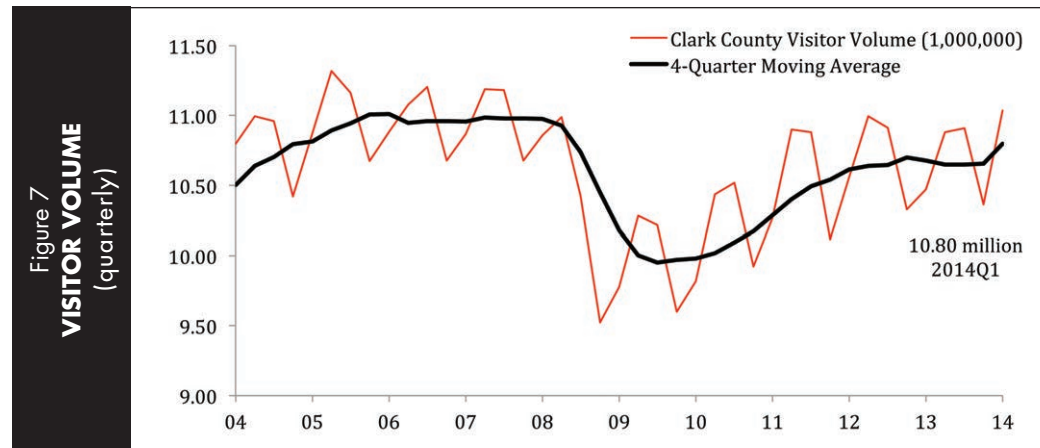
SOUTHERN NEVADA ECONOMIC SITUATION

TOURISM & HOSPITALITY INDUSTRY

Gross gaming revenue measures the quarterly amount of winnings generated by casinos. Increases in this figure signal growth in the tourism and hospitality industry, meaning that local employment could grow and further business opportunities may arise.



Between 8 and 12 million people visit Southern Nevada every three months. Most visit during the summer. This propels the economic performance of several industries in Southern Nevada (i.e., transportation, retail and food services).

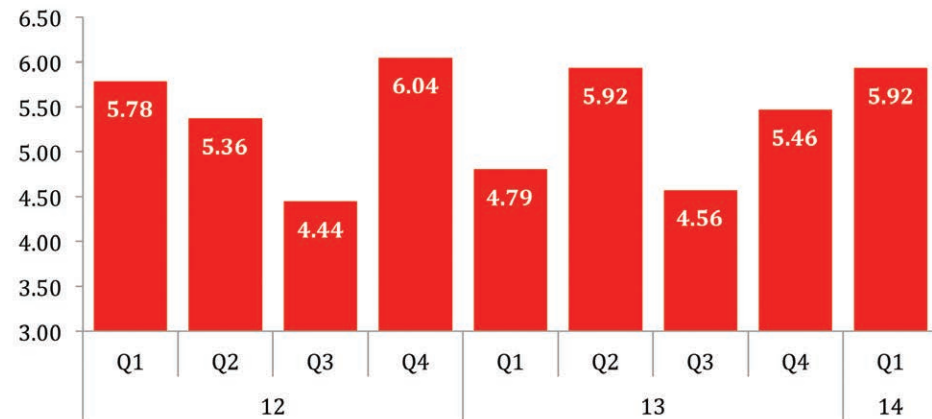


SOUTHERN NEVADA ECONOMIC SITUATION

TOURISM & HOSPITALITY INDUSTRY

Conventions bring hundreds of thousands of guests to Las Vegas every year. Besides attending to their business necessities, these guests eat out, see a show or two, and sometimes enjoy the Vegas nightlife. Low numbers of conventions held could impose indirect economic stress on small local businesses.

Figure 8
LAS VEGAS CONVENTIONS
(in thousands per quarter)



Two major service providers that benefit from visitors are Airlines and Taxis. These figures may be used as a sign of visitors' spending behavior. A falling number of taxi trips could signal changing spending habits among visitors like carpooling more often with local family and friends. Notice that every year the total number of taxi trips has been declining whereas the total number of McCarran passengers has been increasing.

Table 2
TRANSPORTATION SERVICE USE
IN LAS VEGAS: YEAR-TO-DATE

| Year | Industry | McCarran Passengers | Taxi Trips |
|------|----------|---------------------|------------|
| 2011 | Q1 | 9,646,201 | 6,784,221 |
| | Q2 | 20,353,297 | 13,918,670 |
| | Q3 | 31,231,628 | 20,815,591 |
| | Q4 | 41,499,146 | 27,025,832 |
| 2012 | Q1 | 9,938,640 | 6,933,999 |
| | Q2 | 20,745,383 | 14,096,588 |
| | Q3 | 31,490,406 | 20,862,268 |
| | Q4 | 41,666,428 | 26,905,307 |
| 2013 | Q1 | 9,800,189 | 6,600,717 |
| | Q2 | 20,759,083 | 13,669,677 |
| | Q3 | 31,510,048 | 20,376,154 |
| | Q4 | 41,857,009 | 26,432,053 |

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RESIDENTIAL TRENDS

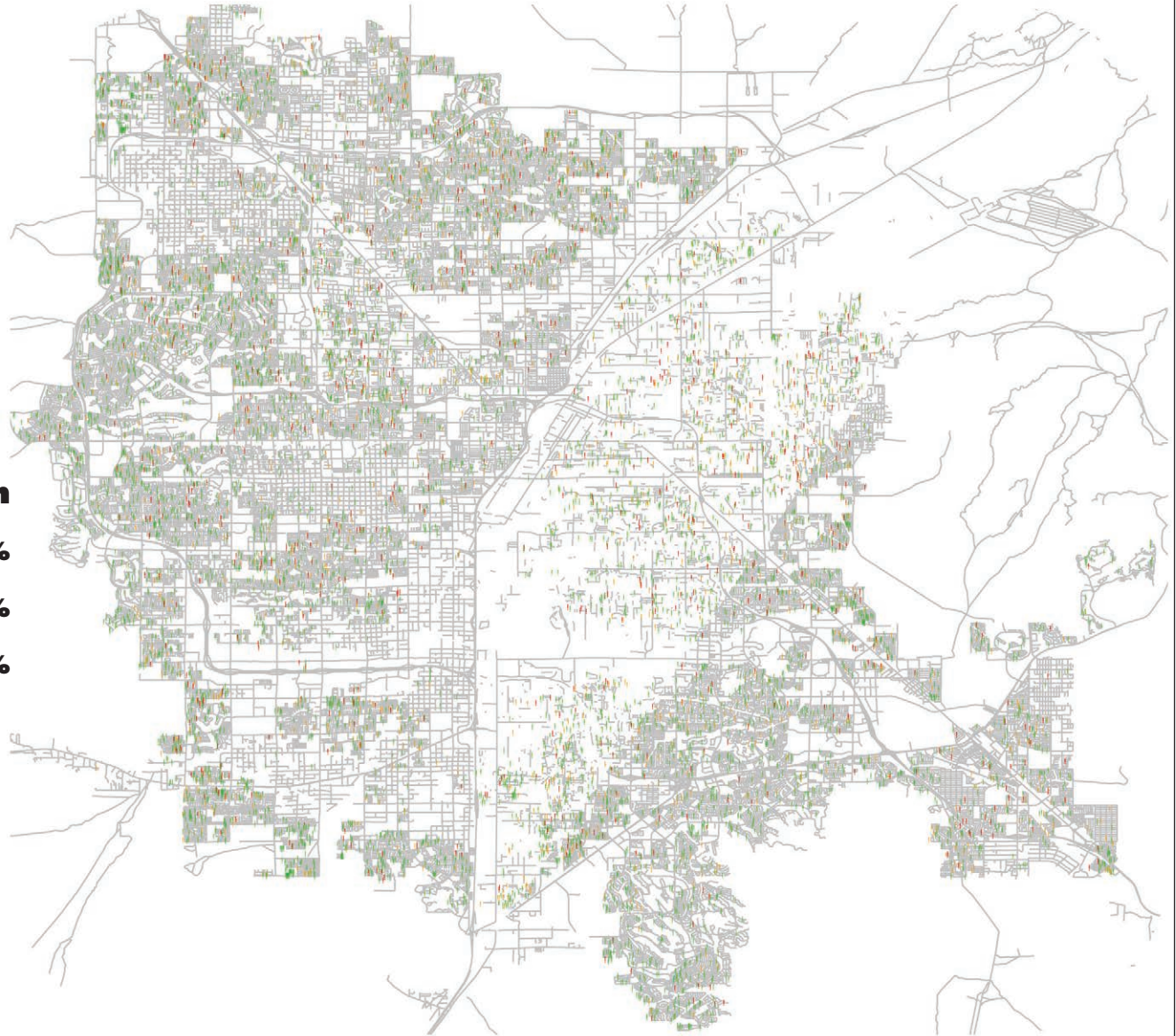
EXISTING HOME SALES

Figure 9
LAS VEGAS MLS HOME SALES

8,139
Homes Sold
2014 Q1

Market Share Distribution

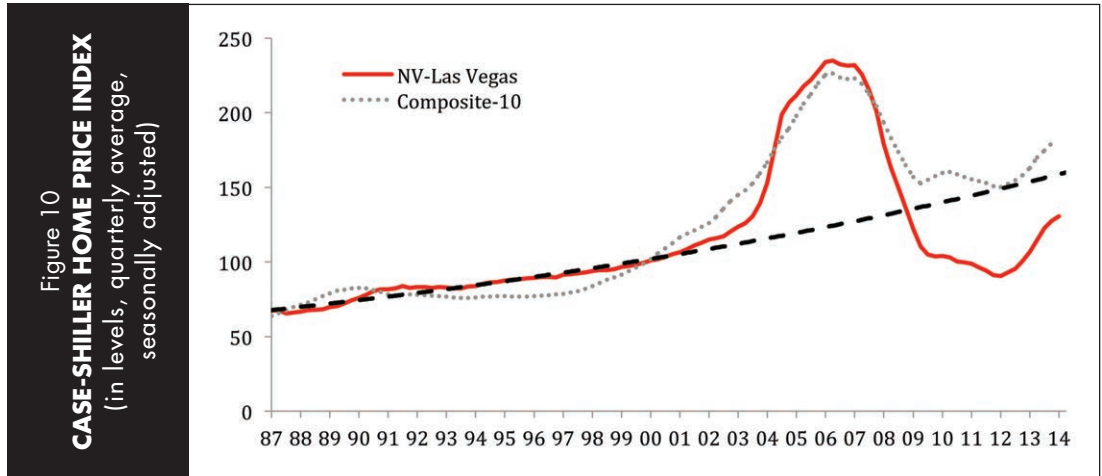
- Traditional Home Sales 75.0%
- Short Sales 14.2%
- REO Sales 10.8%



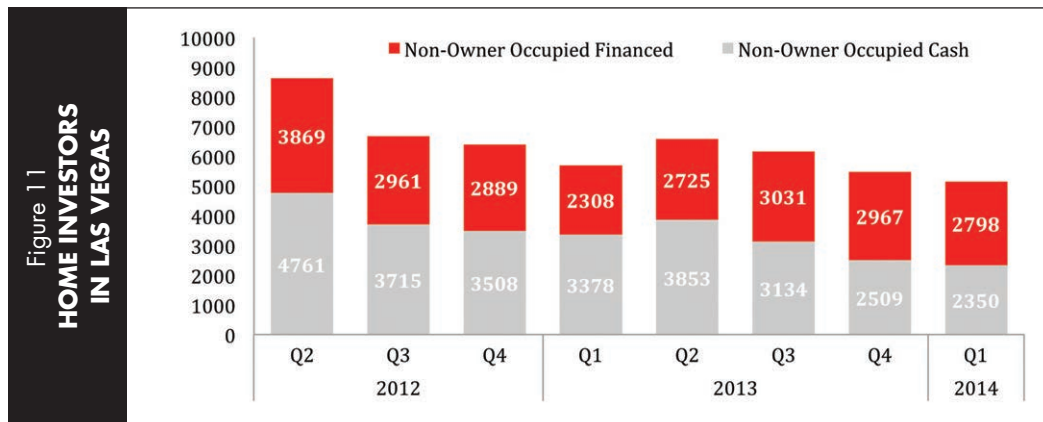
RESIDENTIAL TRENDS

EXISTING HOME SALES

The Case-Shiller Home Price Index measures home prices with 2000 as the benchmark year (=100). The index tracks the price movements using homes sold more than once to keep home quality constant. Percent changes of this index can be considered average appreciation rates. Notably, the composite-10 index benchmarks national home prices, although the Las Vegas decline when the bubble popped was much more severe.



Better investment opportunities attract investors whether they are homeowners buying a second home to lease or big investors flipping properties. Their presence signals competition in the market and potentially drives home prices up. The number of non-owner occupied sales is a proxy for these investors. The recent trend is fewer investors as home prices have risen placing a squeeze on economic profitability of investment properties.



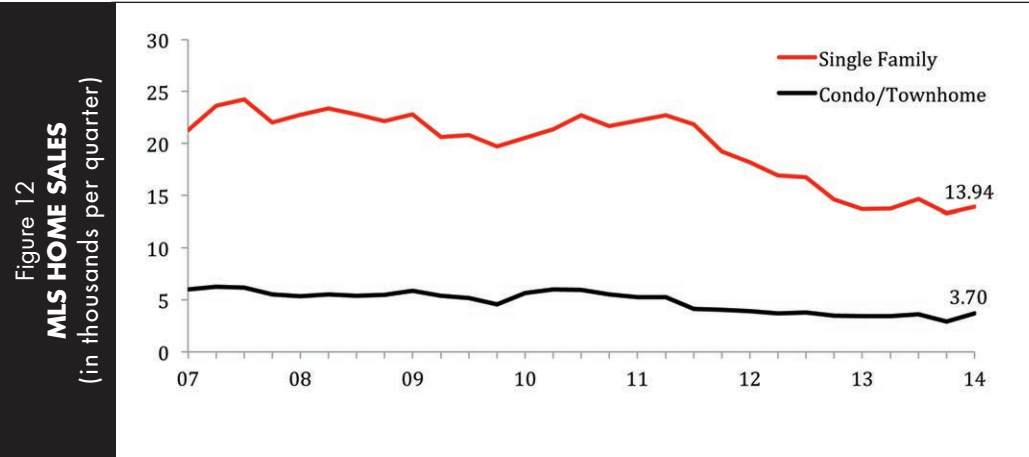
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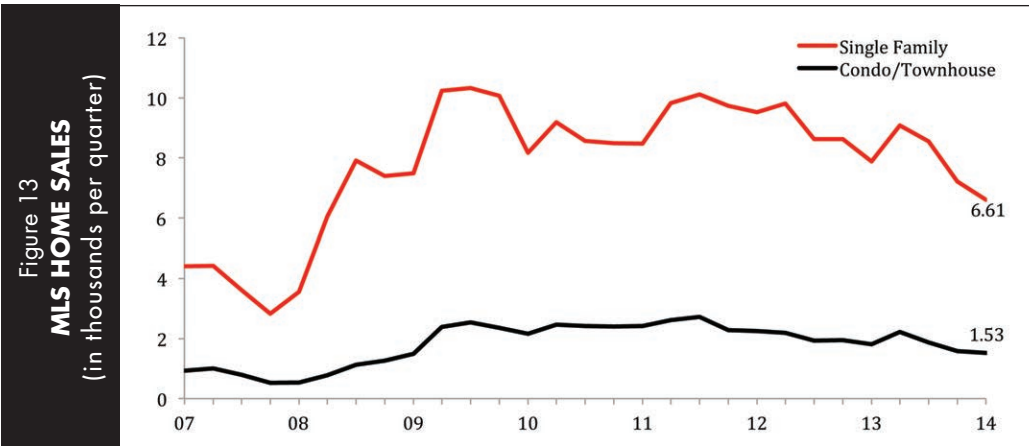
RESIDENTIAL TRENDS

EXISTING HOME SALES

The number of homes for sale is a strong indicator of future home sales. It counts the number of homes real estate agents list on the local MLS. It includes homes that still need a buyer and homes that are pending their closing date. After higher numbers of homes for sale, the following months can anticipate higher numbers of completed sales.



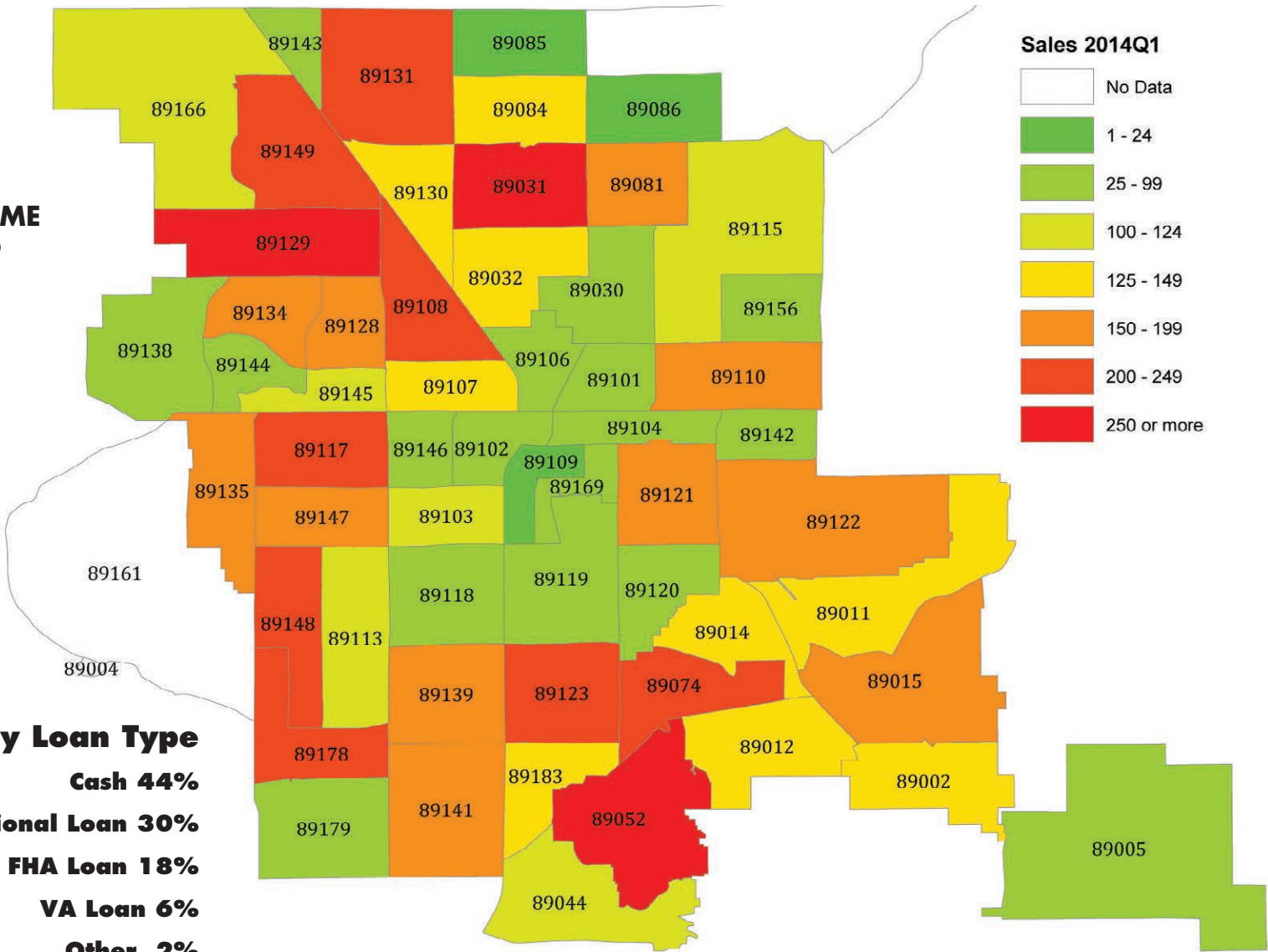
In some context, existing homes sales capture the number of homes sales by homeowners, investors, and banks. Although this series coincides with various economic events (i.e., it moves in tandem with other series), it measures market activity in residential real estate.



RESIDENTIAL TRENDS

EXISTING HOME SALES

Figure 14
LAS VEGAS MLS HOME SALES HEAT MAP



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RESIDENTIAL TRENDS

PROPERTY MANAGEMENT MARKET

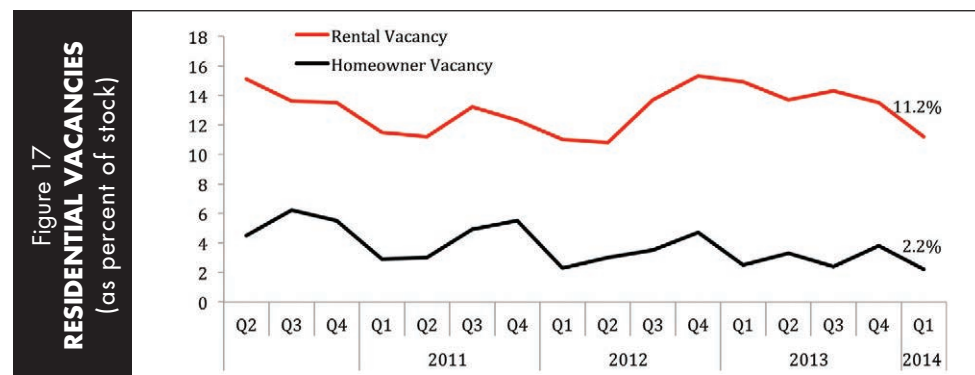
Residential rental rates measure the quarterly median rent per square foot of all homes leased through the Las Vegas MLS. This represents the lease rate for tenants signing new lease contracts. High rental rates encourage investors to purchase and lease properties, given the purchase price of homes.



Residential leases are the number of new lease contracts for residential properties that were listed in the MLS. These numbers will not include leases made by apartment complexes with on-site property managers or owners that advertise outside of the MLS.



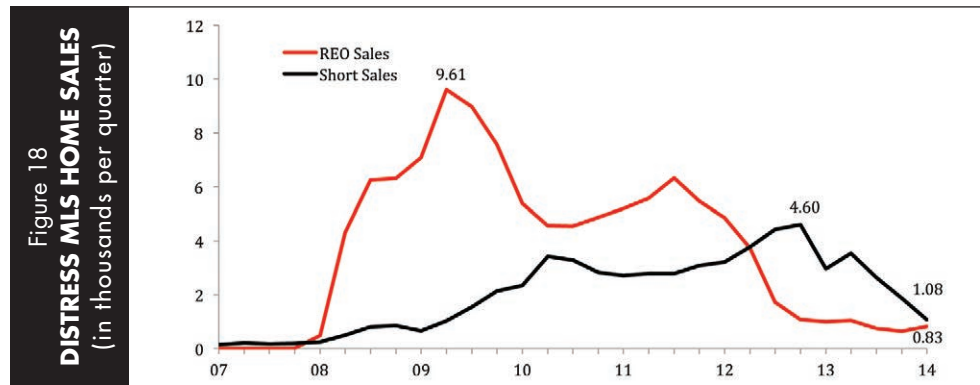
Higher vacancies will reduce rental rates while lower vacancies could trigger the opposite effect. For example, an owner losing rent each month due to a vacant unit will be more willing to reduce their asking rent.



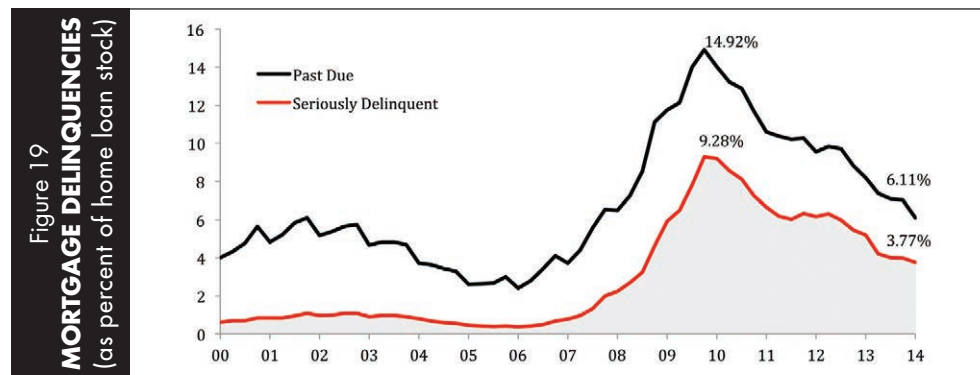
RESIDENTIAL TRENDS

FORECLOSURE SITUATION

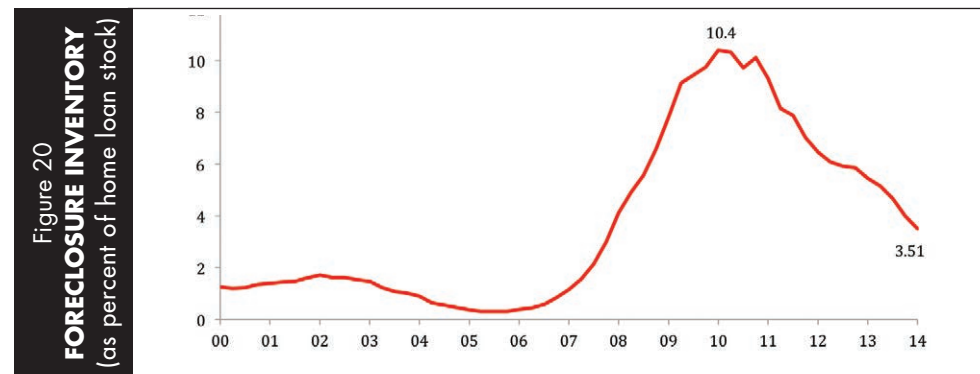
In the aftermath of the Great Recession thousands of homeowners in Southern Nevada faced economic stresses that resulted in the loss of their homes. Some chose to short sell their home and others lost their home through foreclosure. Banks sell foreclosed homes as a real estate owned (REO) property. Short and REO sales have trended down from their peaks several years ago.



Stability of the housing market can be traced to the performance of home loan borrowers. The higher the delinquency rate, the more problems we can expect in terms of future distress sales. These rates measure the proportion of home loans in Nevada that are past due and seriously delinquent (90 days or more past due).



Banks in Nevada can initiate a non-judicial foreclosure when the homeowner is seriously delinquent. This is the process of repossessing a home to re-sell and recover some portion of the outstanding mortgage debt. This foreclosure inventory includes all homes lenders reported to have commenced the foreclosure process, but have not yet been repossessed.



Note: Sources on last page • IN PARTNERSHIP WITH



COMMERCIAL TRENDS INDUSTRIAL MARKET

This measures the asking rents and direct vacancy rates of the various submarkets in the industrial real estate market for the current quarter. Numbers are based on a comprehensive market survey of properties with loading dock-grade-level doors. Note that the highest vacancy rate occurs in R&D/Flex with the highest rent, which suggest disequilibrium in its supply and demand.

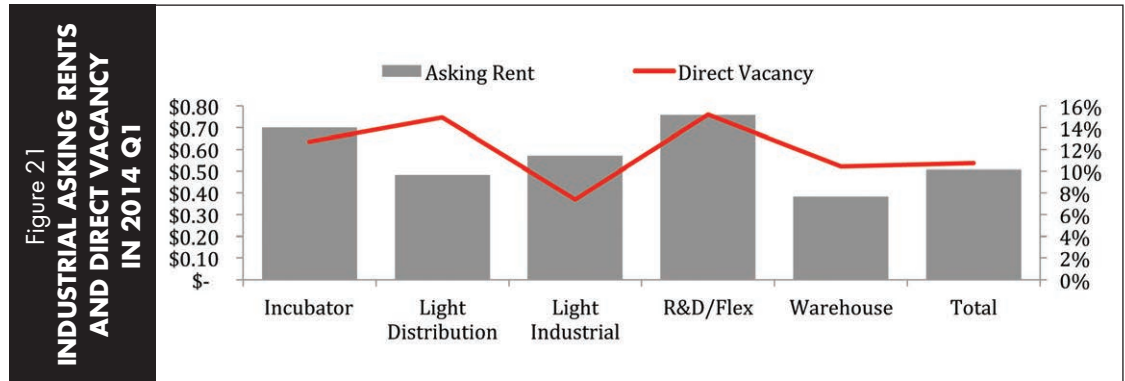
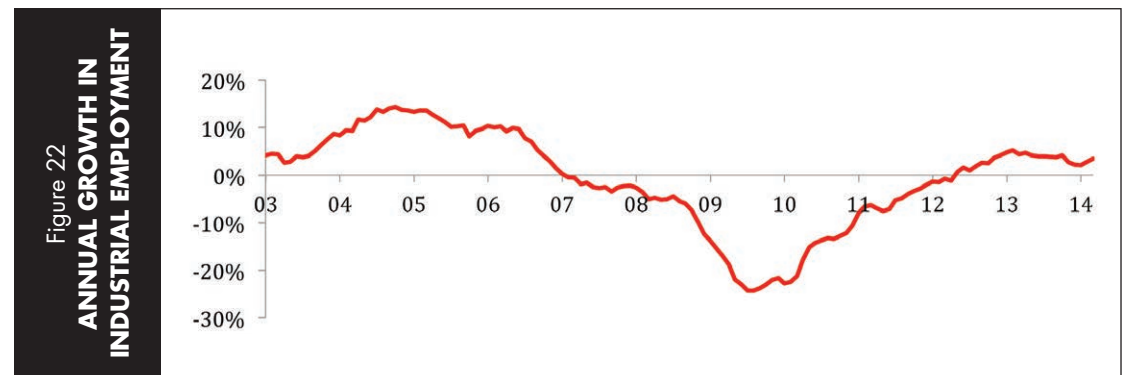


Table 3

| | Asking Rent | Direct Vacancy |
|---------------------------|-------------|----------------|
| Incubator | \$ 0.70 | 12.72% |
| Light Distribution | \$ 0.48 | 14.96% |
| Light Industrial | \$ 0.57 | 7.36% |
| R&D/Flex | \$ 0.76 | 15.21% |
| Warehouse | \$ 0.38 | 10.39% |
| Total | \$ 0.51 | 10.74% |

Demand for industrial real estate space can be observed indirectly in patterns of industrial employment. Those are local private jobs in natural resources, construction, manufacturing, wholesale and transportation industries. Positive industrial job growth particularly correlates with demand for industrial real estate space.



COMMERCIAL TRENDS

OFFICE MARKET

This measures the asking rents and direct vacancy rates of the various submarkets in the office real estate market for the current quarter. Numbers are based on comprehensive market surveys of office property buildings or building parks with at least 10,000 square feet of usable space. Similar to the industrial market, the highest vacancy rate occurs in Class A offices, which have the highest rent.

Figure 23
OFFICE ASKING RENTS
AND DIRECT VACANCY
IN 2014 Q1

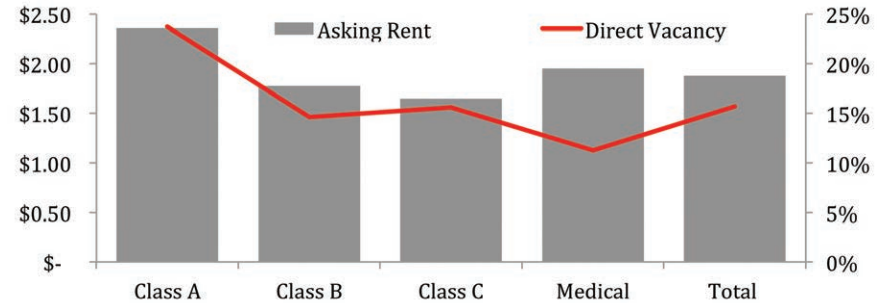
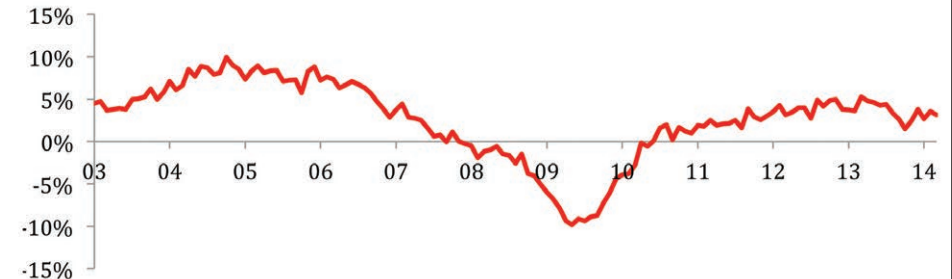


Table 4

| | Asking Rent | Direct Vacancy |
|----------------|-------------|----------------|
| Class A | \$ 2.36 | 23.71% |
| Class B | \$ 1.77 | 14.62% |
| Class C | \$ 1.65 | 15.61% |
| Medical | \$ 1.95 | 11.24% |
| Total | \$ 1.88 | 15.68% |

Demand for office real estate space can be observed indirectly in patterns of office employment. Those are local private jobs in the information, financial activities, professional business, and health or social industries. Positive office job growth particularly correlates with demand for office real estate space.

Figure 24
PERCENT CHANGE IN
OFFICE EMPLOYMENT
BY QUARTER



Note: Sources on last page • IN PARTNERSHIP WITH



COMMERCIAL TRENDS

RETAIL MARKET

This measures the asking rents and direct vacancy rates of the various submarkets in the office real estate market for the current quarter. Numbers are based on a comprehensive market survey of shopping centers that have at least 10,000 square feet of usable space. These centers have several different stores or tenants and are anchored by one or more large, national tenants.

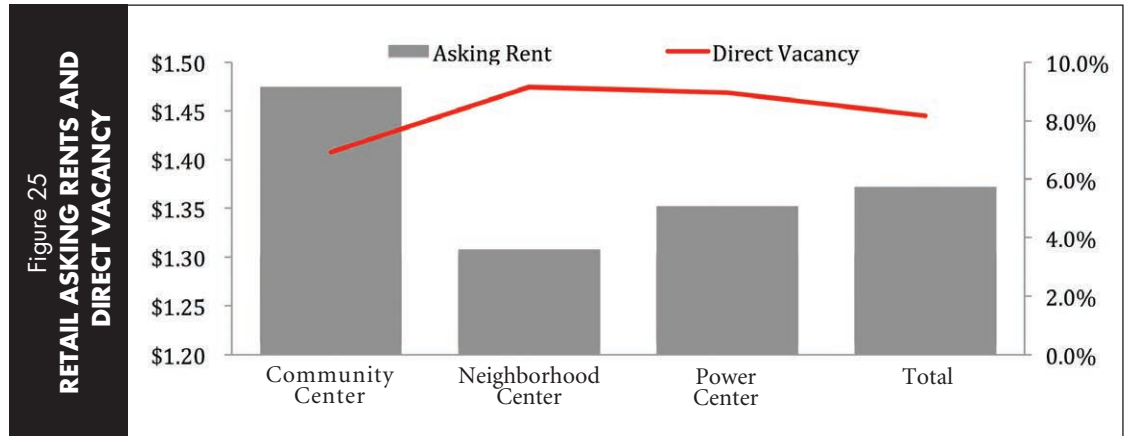
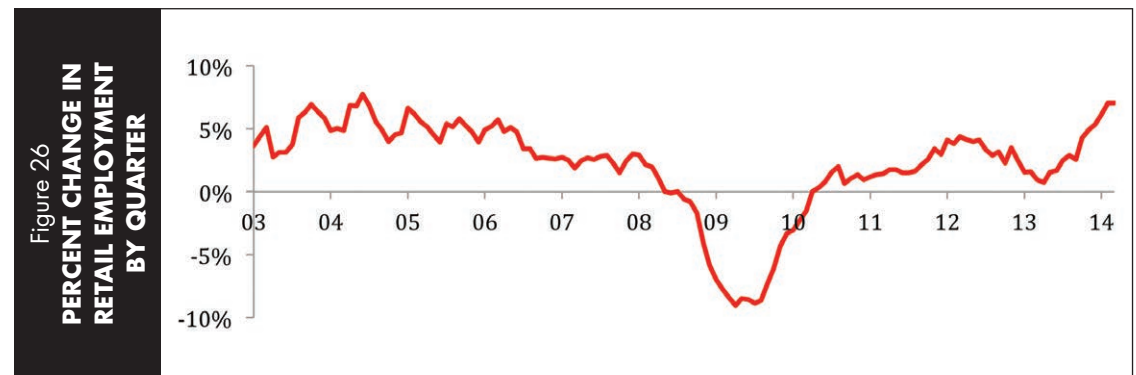


Table 5

| | Asking Rent | Direct Vacancy |
|----------------------------|-------------|----------------|
| Community Center | \$ 1.47 | 6.91% |
| Neighborhood Center | \$ 1.31 | 9.15% |
| Power Center | \$ 1.35 | 8.96% |
| Total | \$ 1.37 | 8.16% |

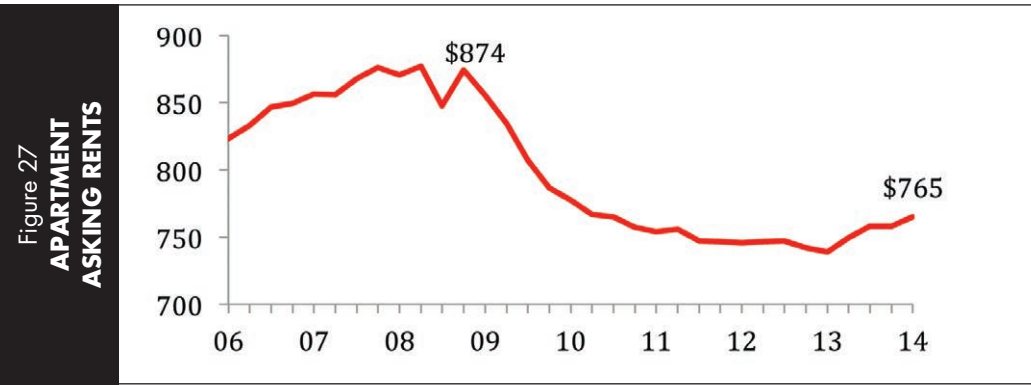
Demand for retail real estate space can be observed indirectly in patterns of local retail employment. Positive retail job growth particularly correlates with demand for retail real estate space.



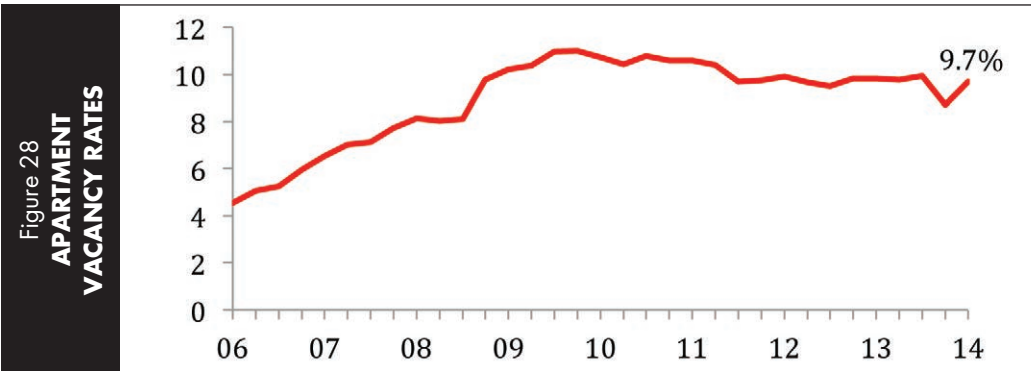
COMMERCIAL TRENDS

APARTMENT MARKET

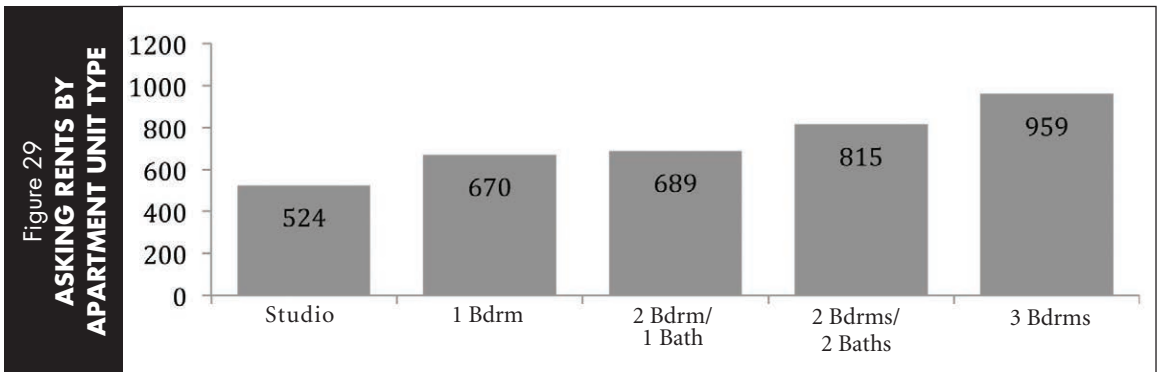
Apartment asking rents are the typical rates issued on new annual leases within apartment complexes with at least 20 residential units. Asking rents reported do not include additional costs of leasing units such as utility bills or pet premiums.



Apartment vacancy rates influence the expected returns that an apartment stakeholder can anticipate. High vacancy rates may encourage property managers to change their leasing strategies and even consider reducing rental rates.



Asking rents by apartment type provides a better perspective of typical rates for units with different numbers of bedrooms and bathrooms.



Note: Sources on last page • IN PARTNERSHIP WITH

SOURCES

Southern Nevada Economic Situation

| | |
|----------------------|--|
| Figure 1, 2 | Department of Employment, Training and Rehabilitation – Las Vegas MSA |
| Figure 3, 4, 6, 7, 8 | UNLV's Center for Economic and Business Research (CBER) – Clark County |
| Figure 5 | U.S. Bureau of Labor Statistics – Nevada |

Residential Trends

| | |
|------------------------------|---|
| Figure 9, 11, 14, 15, 16, 18 | Greater Las Vegas Association of REALTORS® MLS – Clark County |
| Figure 10 | S&P 500 Case-Shiller Home Price Index – Las Vegas MSA |
| Figure 12,13 | Greater Las Vegas Association of REALTORS® – Clark County |
| Figure 17 | U.S. Census Bureau– Las Vegas MSA |
| Figure 19, 20 | MBA National Delinquency Survey – Nevada |

Commercial Trends

| | |
|-------------------|--|
| Figure 21, 23, 25 | Lied Institute for Real Estate Studies and RCG Economics– Clark County |
| Figure 22, 24, 26 | Department of Employment, Training and Rehabilitation – Las Vegas MSA |
| Figure 27, 28, 29 | Lied Institute for Real Estate Studies and UNLV's CBER– Clark County |

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