



SOUTHERN NEVADA REAL ESTATE REPORT



2014 2nd Quarter
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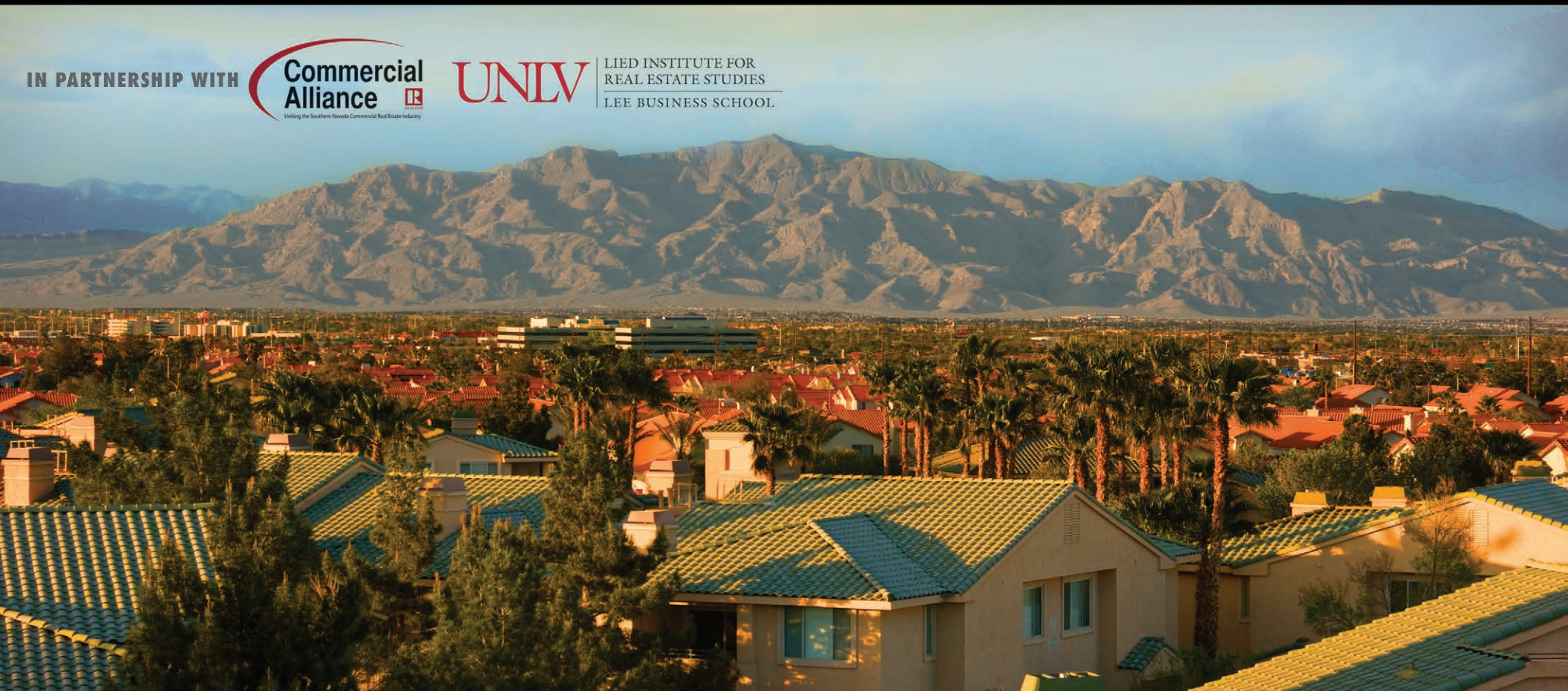
An Overview of Local Residential and Commercial Real Estate Conditions

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LIED INSTITUTE FOR
REAL ESTATE STUDIES
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EXECUTIVE SUMMARY

Southern Nevada continues to create jobs and more people are employed now than prior to the recession. As of the second quarter of 2014, the total number of jobs was 911.93 thousand jobs, nearly four thousand more than the peak in 2008. In the second quarter of 2014, the unemployment rate in the Las Vegas metropolitan area fell to 7.73 percent, more than one percentage point lower than the first quarter of 2014. However, those that are employed in Southern Nevada are making less money as average weekly earnings fell by 0.6 percent this quarter.

Despite the decline in average weekly earnings, consumers are spending more now than in recent history. Expenditure on motor vehicles and parts increased 17 percent this quarter (\$1,039 million) from last quarter (\$888 million). Taxable sales in Clark County slightly increased this quarter and are at \$8,620 million. These increases in consumer spending signal increased consumer confidence which is good news for the real estate market.

Southern Nevada also saw increased tourism numbers and more visitors this quarter than any other quarter prior to the recession. This is good news for the commercial real estate market as tourism heavily influences the commercial real estate market in Southern Nevada. This is also good news for the residential real estate market as residential high-rise units are often purchased by tourists. As long as tourism continues to increase, economic conditions in general should increase for Southern Nevada.

Southern Nevada's housing market continues to show signs of improvement. Over 1,700 more homes were sold through the Greater Las Vegas MLS system this quarter (9,830) than the previous quarter (8,139). Out of all the homes sales in the second quarter 2014, 79 percent were traditional sales while short sales at 11 percent and real estate owned (REO) sales at 10 percent were minority sale types. Unlike last quarter, more

homes were financed with conventional loans (33 percent) than cash (32 percent).

Investors continue to maintain a high presence in the market despite the substantial home price appreciation that has happened over the past two years. There were 4,725 non-owner occupied home sales in 2014 Q2. Among these investors, cash investors are beginning to show less of a presence in the housing market. More people are financing home investments as opposed to investing in a home with cash.

Home prices continue to steadily increase each quarter, according to the Case-Shiller Home Price Index for the Las Vegas metropolitan area. However, home prices are still well below what they were prior to the recession. According to the GLVAR, the median price of existing single-family homes in Las Vegas has been around \$200,000.

The rental market has seen remarkably large gains throughout all of 2014. This quarter, the average rent for non-apartments increased to \$0.72 per square foot and average apartment asking rent increased to \$775. Average rent for apartments and MLS residential homes are about 5 percent greater than they were this time last year. Simultaneously, rental vacancies for non-apartments fell to 10.5 percent and the vacancy rate for apartments fell to 8.9 percent.

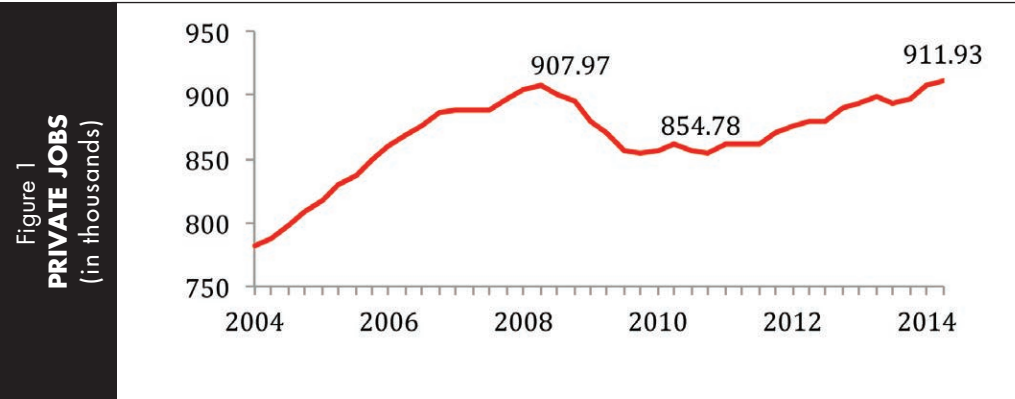
Economic conditions in the commercial real estate market fell slightly this quarter. Employment growth in industrial and retail fell slightly; however, the annual growth rate is still positive. The retail and office market also saw increases in vacancies and decreases in asking rents. As long as employment continues to grow annually, future demand for commercial space should increase.

Peter Counts, Graduate Assistant, 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.



Leisure and Hospitality remains the biggest industry in Las Vegas by a considerable amount. This industry, as well as almost all others, saw a very modest increase in number of jobs this quarter. Government was the only industry that saw a decrease in number of jobs this quarter.

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

Industry	2014					
	JAN	FEB	MAR	APR	MAY	JUN
Natural Resources & Mining	0.3	0.3	0.3	0.3	0.3	0.3
Construction	39.7	40.7	41.0	42.3	42.3	43.1
Manufacturing	20.8	20.9	21.0	21.2	21.3	21.4
Trade, Transportation & Utilities	161.5	160.4	160.6	160.3	161.2	162.2
Information	9.6	9.7	9.6	9.4	9.5	9.7
Financial Activities	43.5	43.4	43.6	43.5	44.1	44.1
Professional & Business Services	115.4	116.8	117.5	118.2	117.0	117.8
Education and Health Services	80.3	80.2	81.3	82.0	82.4	83.6
Leisure and Hospitality	266.0	268.0	272.6	273.1	274.5	274.4
Other Services	23.8	23.9	24.3	24.6	24.9	25.0
Government	94.2	97.2	98.2	97.5	99.1	93.3

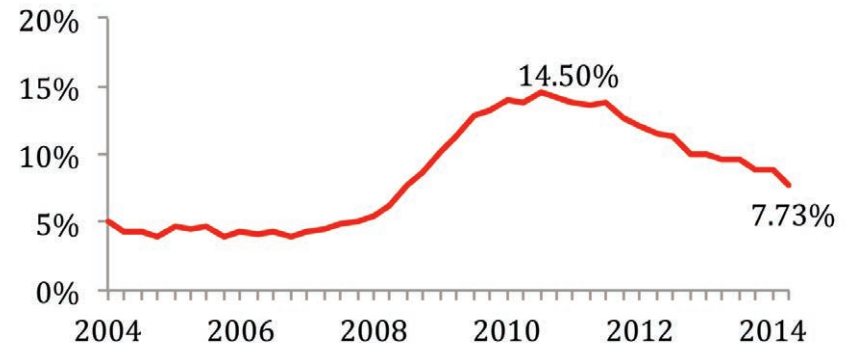
* Total may not add up to the reported private employment due to rounding. This includes workers with multiple jobs.
Source: DETR

SOUTHERN NEVADA ECONOMIC SITUATION

HOUSEHOLD SECTOR

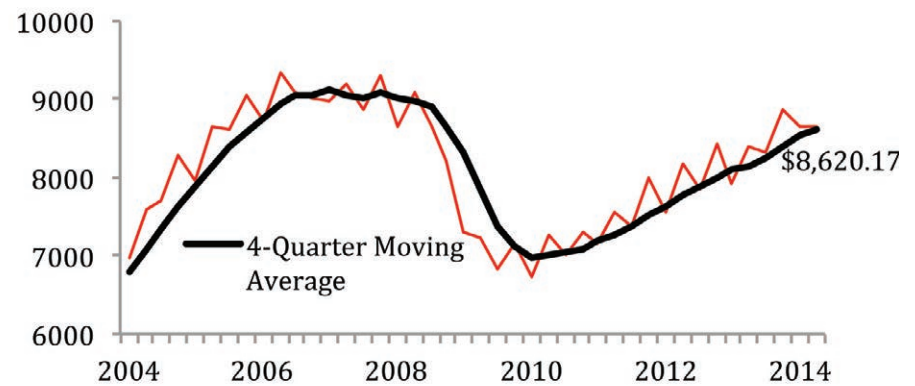
The unemployment rate measures the proportion of adults in the labor force without a job. To be counted as unemployed, the person must be able and willing to work and actively searching for a job. High rates prevent markets from reaching their full economic potential. In a healthy economy, the unemployment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

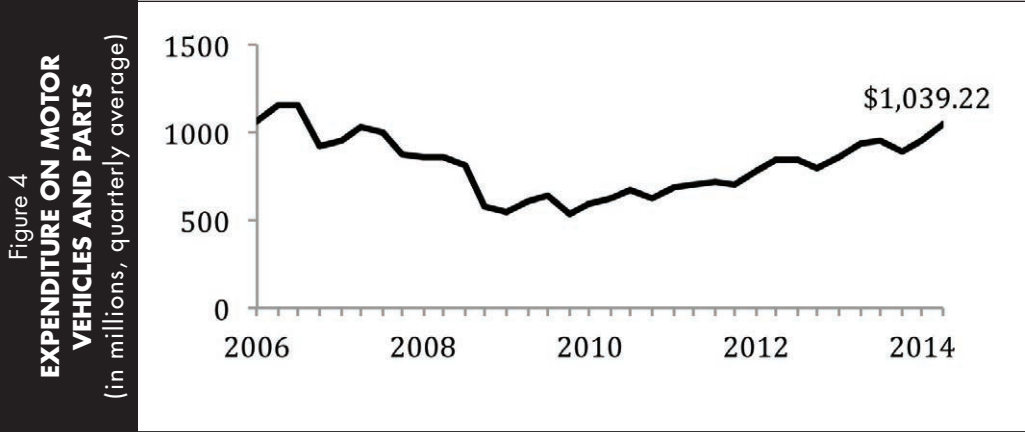
Figure 3
TAXABLE SALES IN CLARK COUNTY
(in millions, quarterly average)



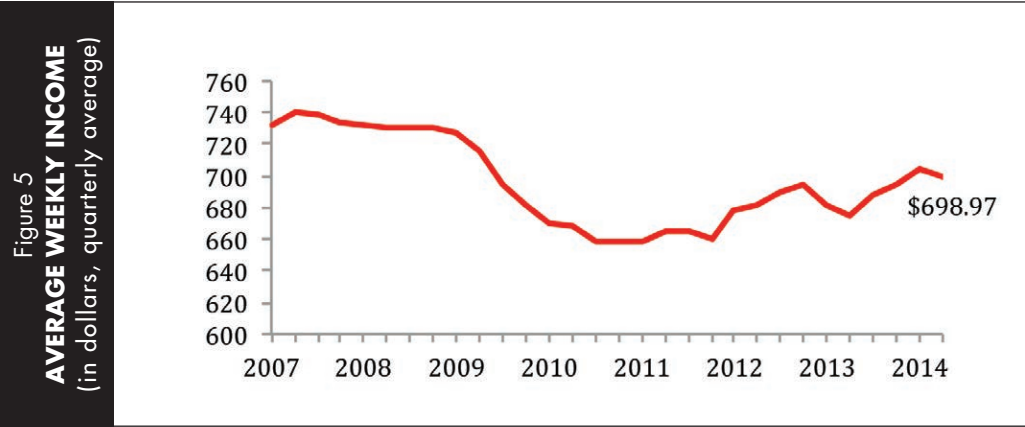
SOUTHERN NEVADA ECONOMIC SITUATION

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 in 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 more discretely. Local businesses subsequently benefit, since this tends to encourage immediate spending.



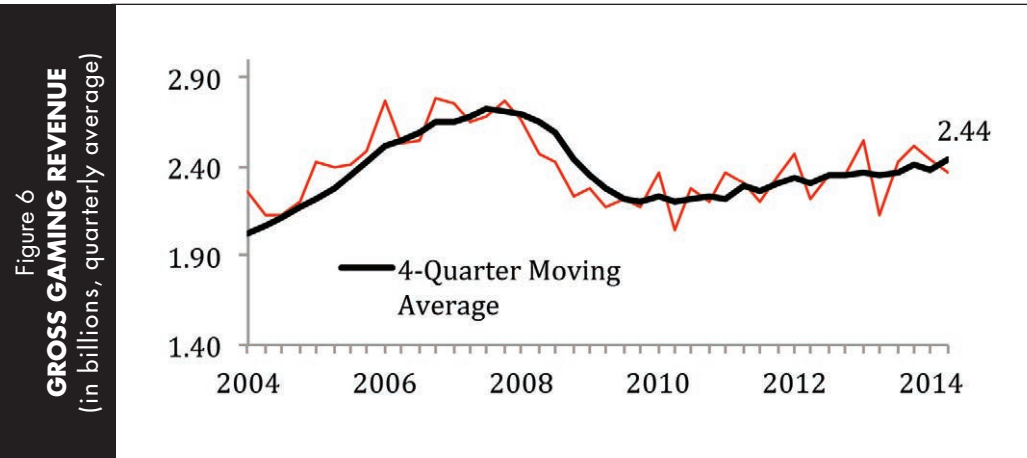
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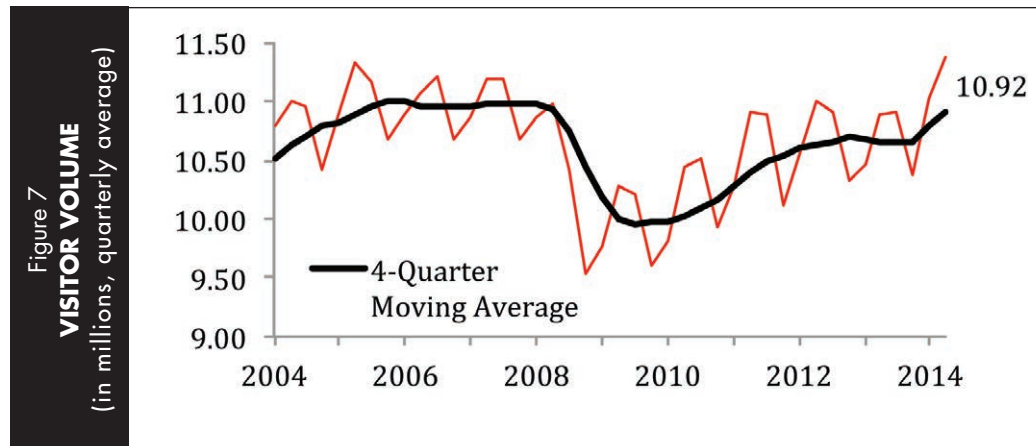
SOUTHERN NEVADA ECONOMIC SITUATION

TOURISM & HOSPITALITY INDUSTRY

Gross gaming revenue measures the quarterly amount of winnings generated by casinos. An increase in this figure signals 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, food services, and so on).

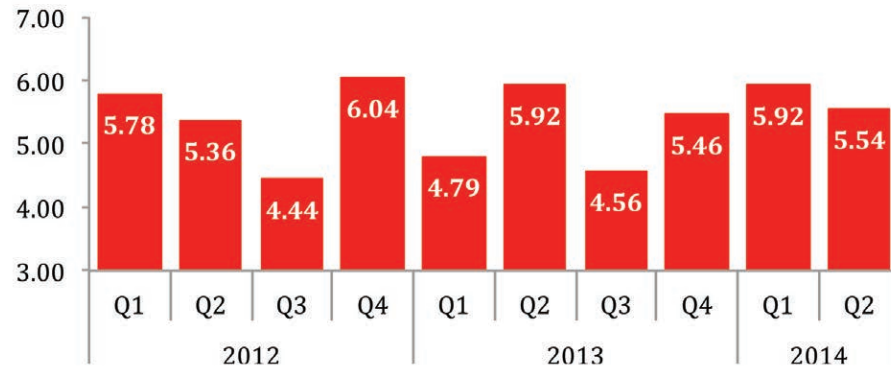


SOUTHERN NEVADA ECONOMIC SITUATION

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. The large increase in the number of Las Vegas visitors has led to large increases in Taxi Trips and McCarran Passengers. The second quarter of 2014 saw more Airline passengers and taxi trips than any other quarter since 2011.

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
2014	Q1	10,139,145	6,972,842
	Q2	21,205,372	14,332,847

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RESIDENTIAL TRENDS

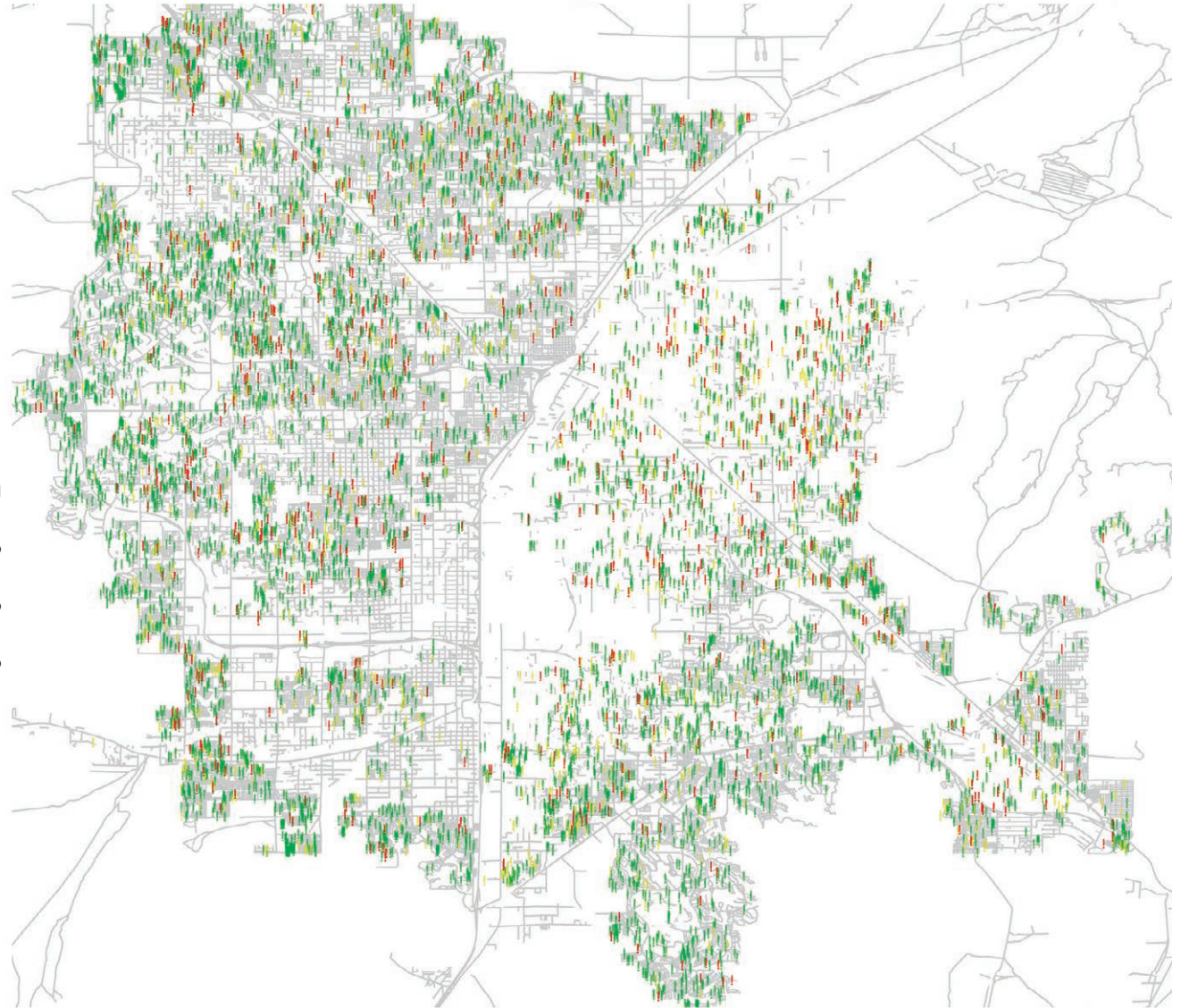
EXISTING HOME SALES

Figure 9
LAS VEGAS MLS HOME SALES

9,930
Homes Sold
2014 Q2

Market Share Distribution

- Traditional Home Sales 78.5%
- Short Sales 11.2%
- REO Sales 10.3%

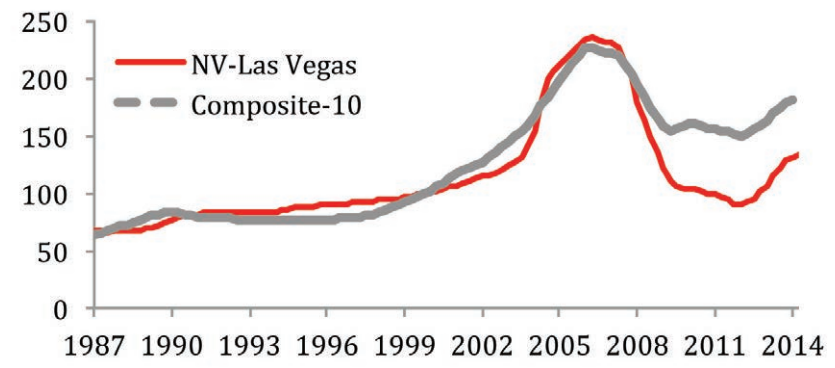


RESIDENTIAL TRENDS

EXISTING HOME SALES

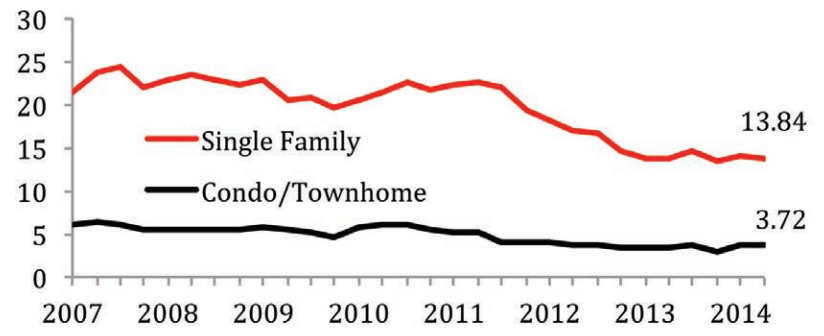
The Case-Shiller Home Price Index measures home prices with 2005 as the benchmark year (=100). The index tracks the price movements using homes sold more than once to keep home quality constant. Percent changes of this index can be considered average appreciation rates. Notably, the composite-10 index benchmarks national home prices, although the Las Vegas decline when the bubble popped was much more severe.

Figure 10
CASE-SHILLER HOME PRICE INDEX
 (in levels, quarterly average, seasonally adjusted)



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.

Figure 11
MLS HOME SALES
 (in thousands per quarter)



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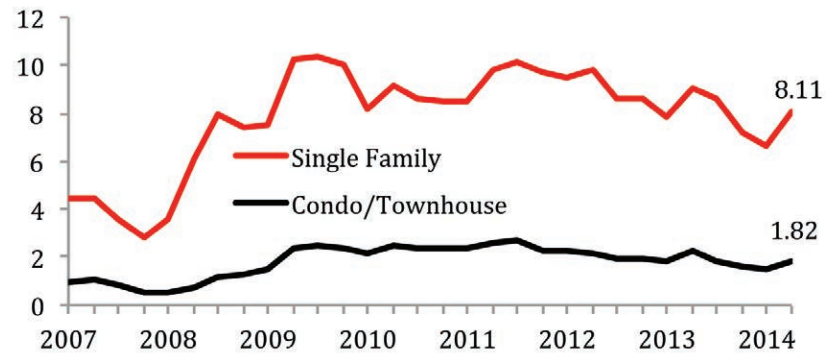


RESIDENTIAL TRENDS

EXISTING HOME SALES

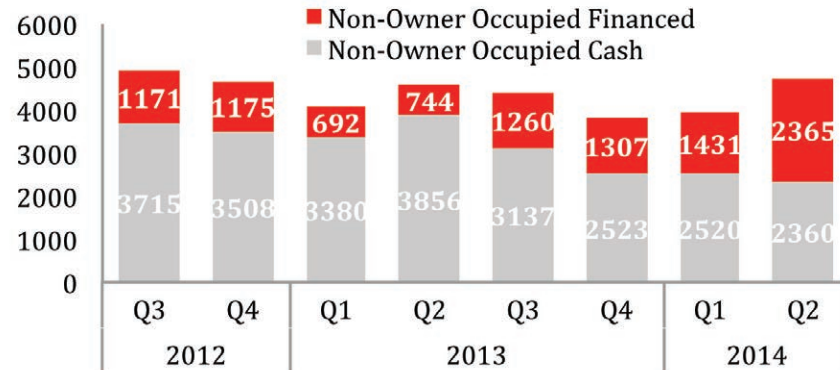
In some context, existing home sales capture the number of home sales by homeowners, investors, and banks. Although this series coincides with various economic events (i.e., it moves in tandem with other series), it measures market activity in residential real estate.

Figure 12
MLS HOME SALES
(in thousands per quarter)



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 the economic profitability of investment properties.

Figure 13
HOME INVESTORS IN LAS VEGAS



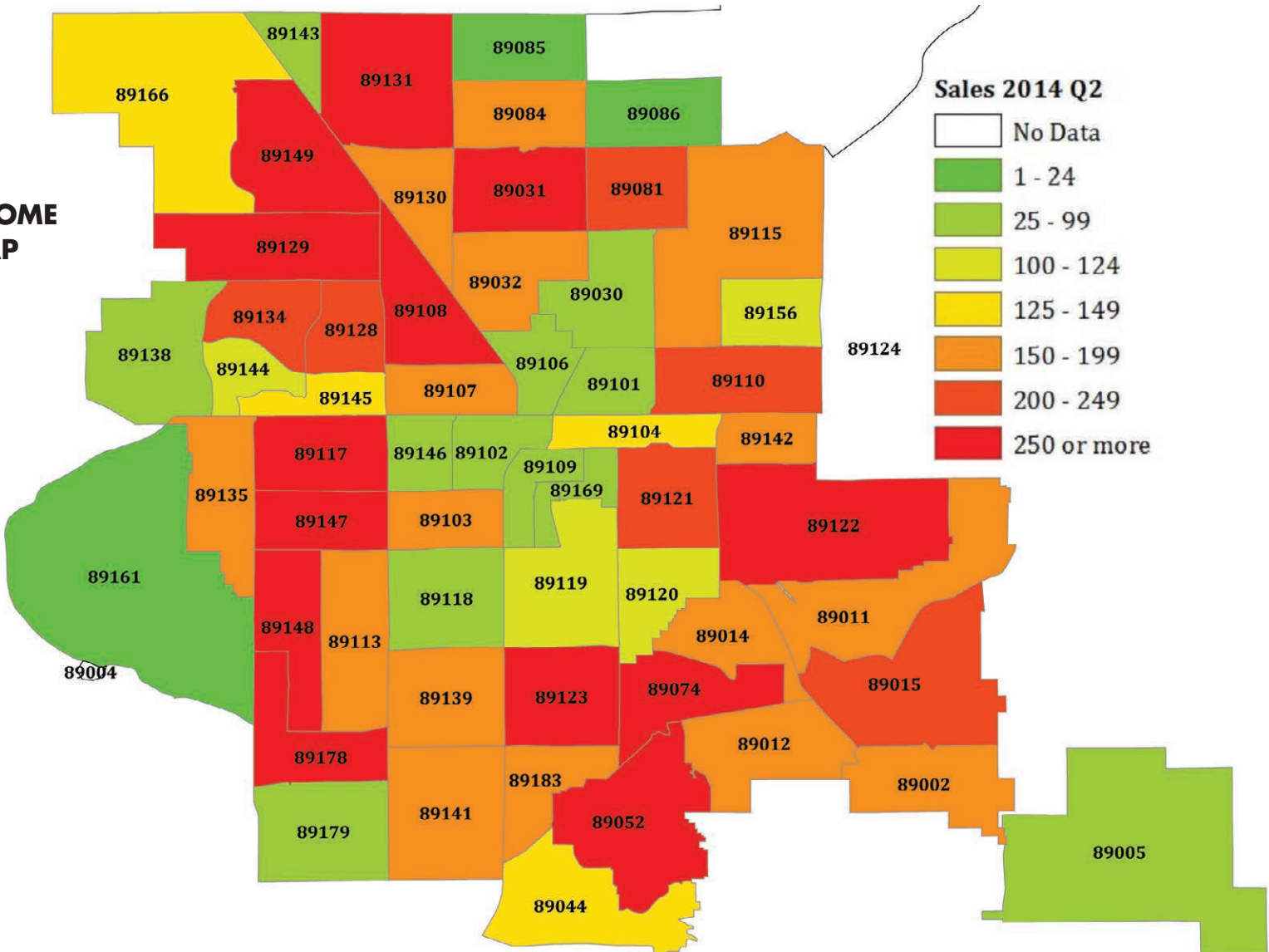
HOME SALES BY LOAN TYPE

Cash 32% | Conventional Loan 33% | FHA Loan 24%
VA Loan 8% | Other 3%

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 a new lease contract. High rental rates encourage investors to purchase and lease properties, given the purchase price of homes.

Figure 15

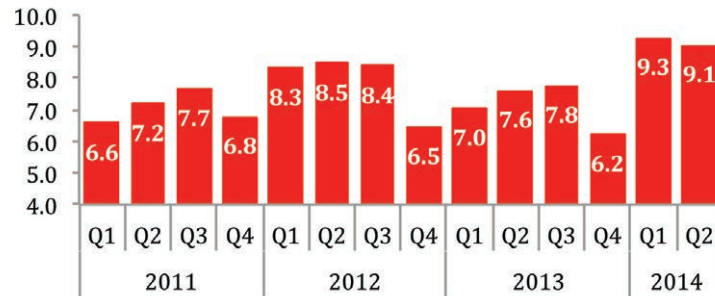
MLS RESIDENTIAL RENTAL RATES
(in dollars per sq. ft.)



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 the MLS.

Figure 16

MLS RESIDENTIAL LEASES
(in thousands)



Higher vacancies will reduce rental rates and 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.

Figure 17

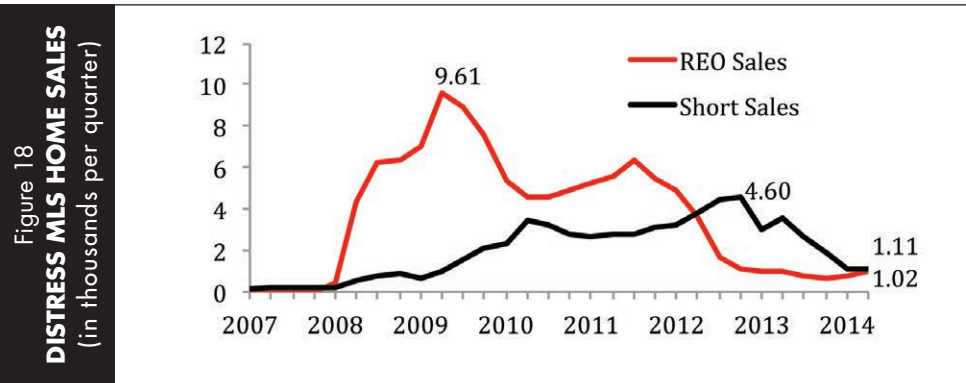
RESIDENTIAL VACANCIES
(as percent of stock)



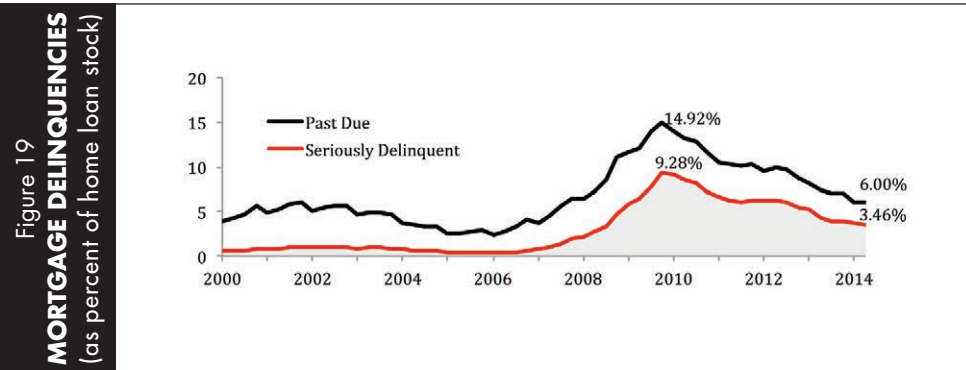
RESIDENTIAL TRENDS

FORECLOSURE SITUATION

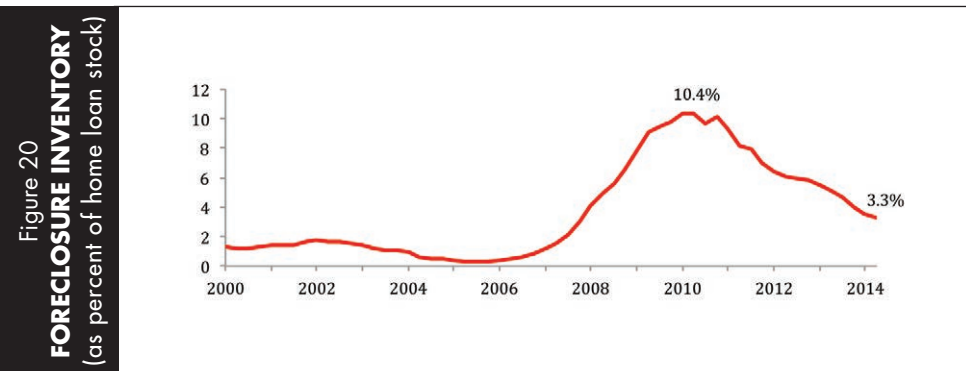
In the aftermath of the Great Recession, thousands of homeowners in Southern Nevada faced economic stresses that resulted in the loss of their homes. Some chose to short sell their home and others lost their home through foreclosure. Banks sell foreclosed homes as a real estate owned (REO) property. 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.



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 off of 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.

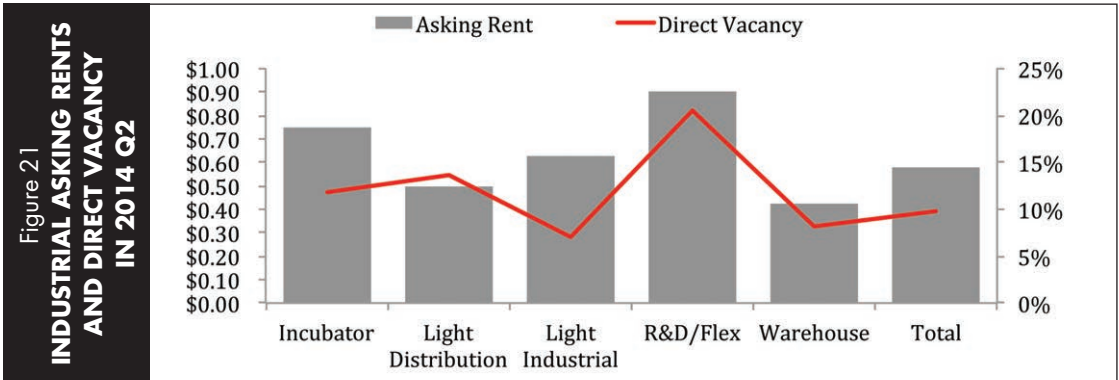
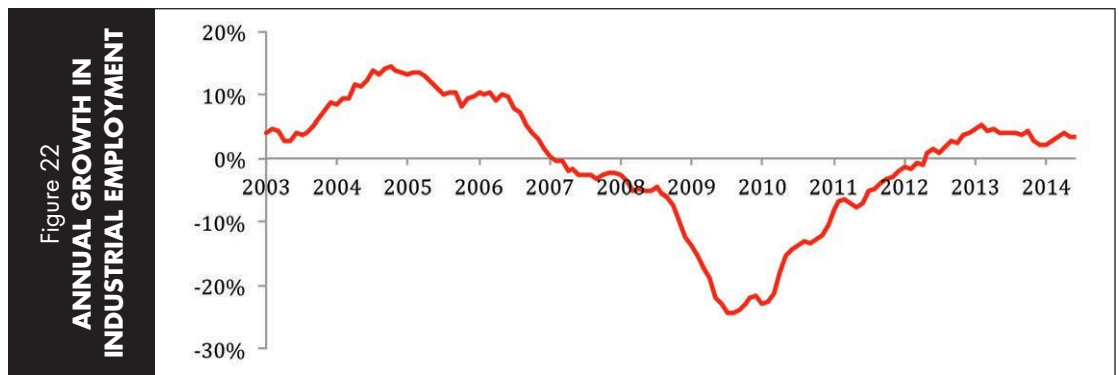


Table 3

	Asking Rent	Direct Vacancy
Incubator	\$ 0.75	11.75%
Light Distribution	\$ 0.50	13.70%
Light Industrial	\$ 0.63	7.04%
R&D/Flex	\$ 0.90	20.54%
Warehouse	\$ 0.43	8.21%
Total	\$ 0.58	9.72%

Demand for industrial real estate space can be observed indirectly in patterns of industrial employment. Those are local private jobs in the 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 off of 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

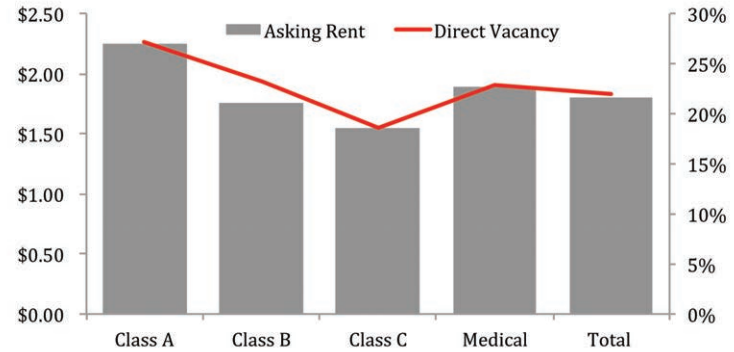
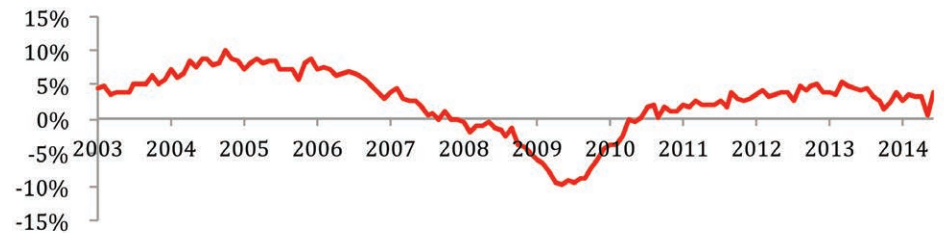


Table 4

	Asking Rent	Direct Vacancy
Class A	\$ 2.25	27.10%
Class B	\$ 1.75	23.28%
Class C	\$ 1.55	18.59%
Medical	\$ 1.89	22.83%
Total	\$ 1.80	22.03%

Demand for office real estate space can be observed indirectly in patterns of office employment. Those are local private jobs in 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.

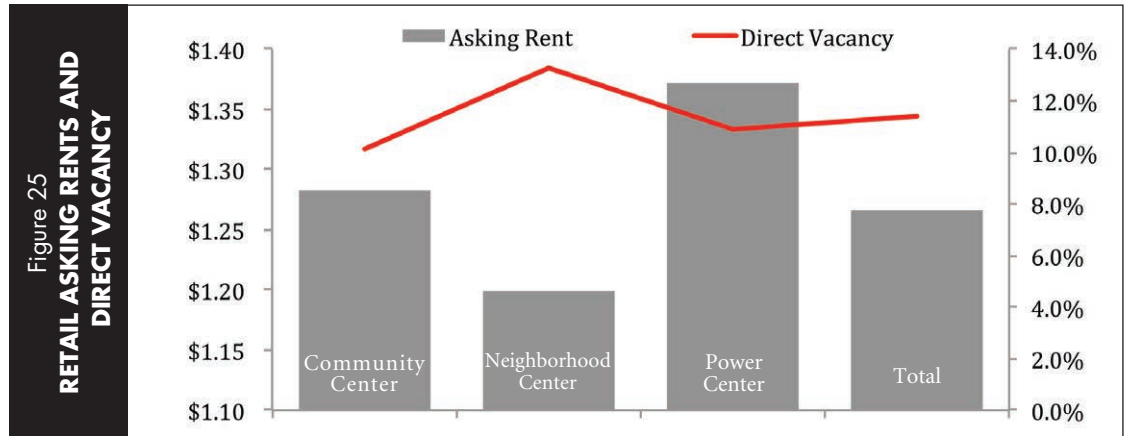
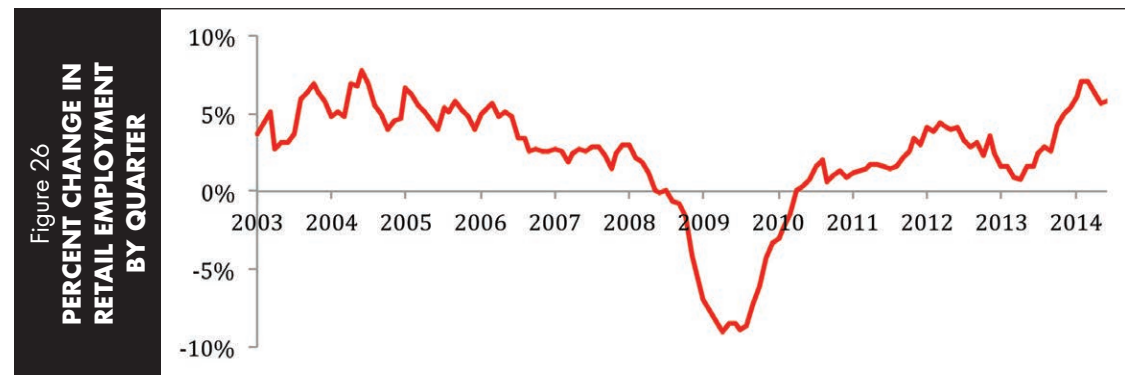


Table 5

	Asking Rent	Direct Vacancy
Community Center	\$ 1.28	10.10%
Neighborhood Center	\$ 1.20	13.31%
Power Center	\$ 1.37	10.89%
Total	\$ 1.27	11.41%

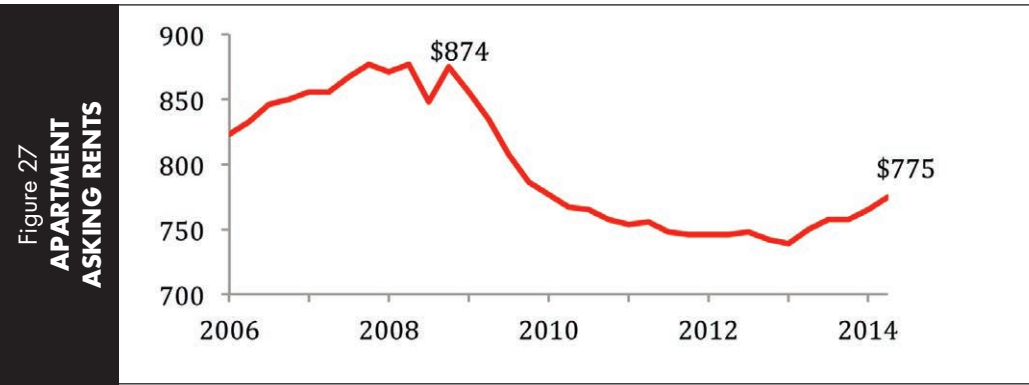
Demand for office space can be observed indirectly in patterns of local retail employment. Positive retail job growth particularly correlates with demand for retail space.



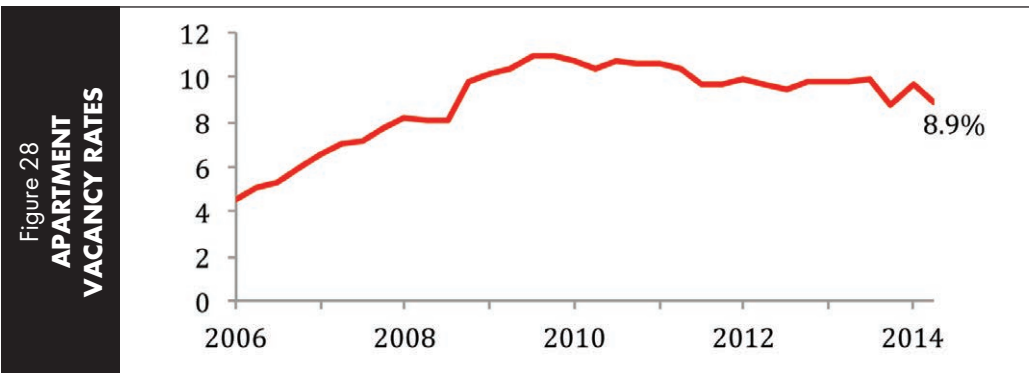
COMMERCIAL TRENDS

APARTMENT MARKET

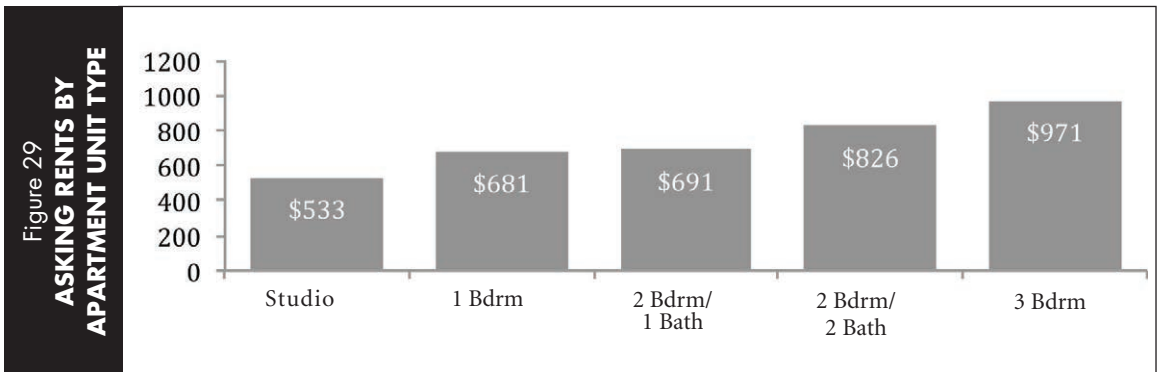
Apartment asking rents are the typical rates issued to new annual leases within apartment complexes with at least 20 residential units. Asking rents reported do not include additional costs of leasing units such as utility bills or pet premiums.



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

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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
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Residential Trends

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