



SOUTHERN NEVADA REAL ESTATE REPORT

2014 3rd Quarter
Release Date December 11, 2014



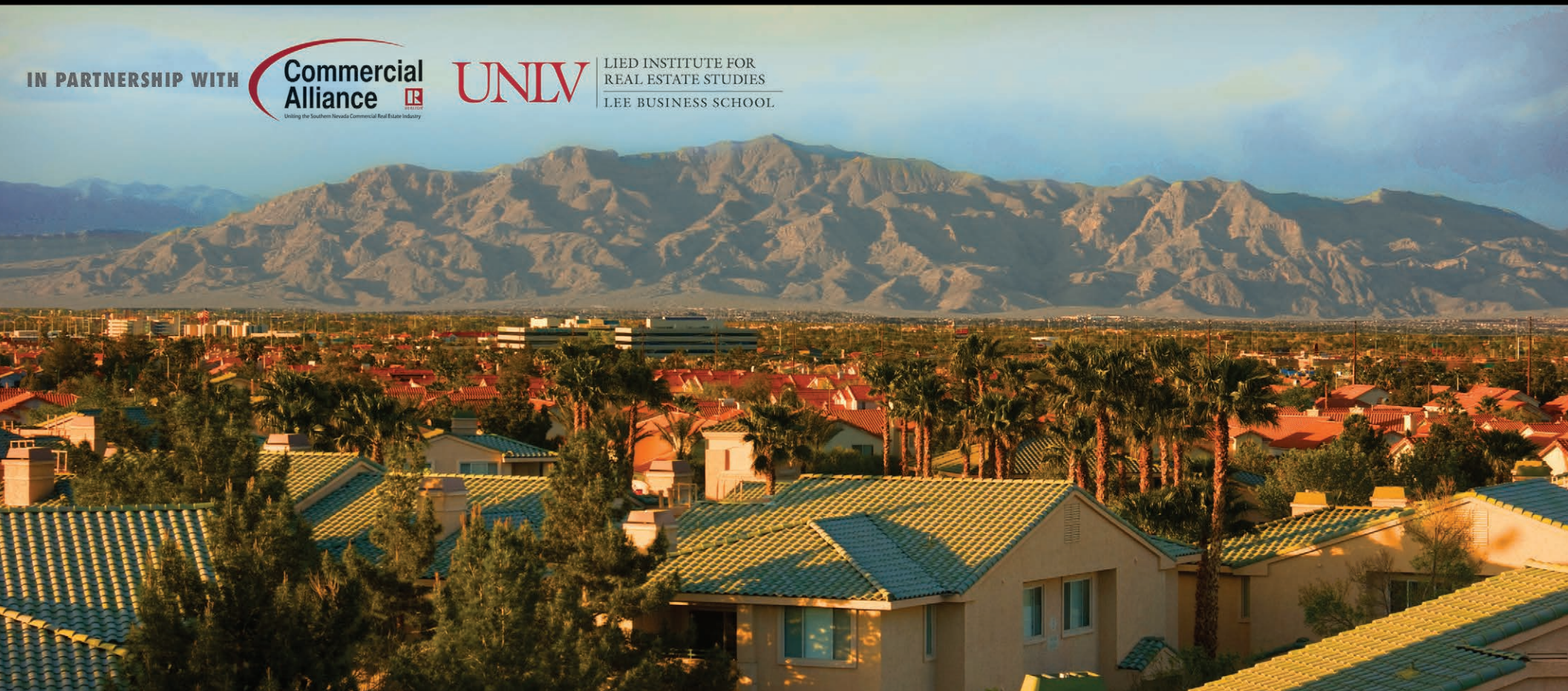
An Overview of Local Residential and Commercial Real Estate Conditions

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LIED INSTITUTE FOR
REAL ESTATE STUDIES
LEE BUSINESS SCHOOL.





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EXECUTIVE SUMMARY

Southern Nevada's employment situation continues to improve at a steady rate. This quarter saw improvements in total number of jobs, the unemployment rate, and average weekly earnings. There were over 3,000 new jobs this quarter, helping bring the unemployment rate down to 7.67%. By industry, the greatest job growth occurred in the Government industry and the largest decrease occurred in Leisure and Hospitality. Average weekly earnings increased back up to over \$700 after seeing a large drop last quarter.

Spending on local goods also continues to increase at a steady rate each quarter. Taxable sales increased to \$8,855 million on an annual basis, the highest it has been in six years. Spending on motor vehicles and car parts, in particular, increased to \$1,039 million this quarter, the highest it has been since 2006.

The tourism industry this quarter saw a large decline from last quarter. Gross Gaming Revenue, total visitors, and number of conventions all decreased from the second quarter of 2014. However, the tourism industry is highly seasonal, and the third quarter of each year is typically the slowest in terms of tourism. It is important to note that the tourism industry in the third quarter of this year performed much better than the third quarter of previous years in Southern Nevada.

Southern Nevada continues to see less distress in the housing market each quarter as traditional home sales now make up an 83.1 percent share of all homes sold through the MLS system. The share of homes being sold as REO's saw the largest decrease this quarter as the share of REO sales is now only 7.4 percent, nearly 3 percentage points less than last quarter (10.3 percent). The share of homes being sold as short sales also saw a small decrease this quarter as the share of short sales is now at 9.5 percent.

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.

Southern Nevada saw 9,420 homes sold through the MLS system this quarter, 400 less than last quarter (9,930). This decrease was driven by a large drop in single-family residence sales as sales of condos and townhomes increased slightly this quarter. There were a total of 7,590 single family residence sales and 1,830 condo or townhome sales.

Economic conditions in the commercial market improved this quarter. Most notably, employment growth increased in all three sectors: industrial, office, and retail. All three sectors also saw a modest decrease in the vacancy rate of about 0.5 percentage points. The industrial and office market also saw an increase in the asking rent rate. As long as employment in commercial real estate continues to grow annually, future demand for commercial space should increase.

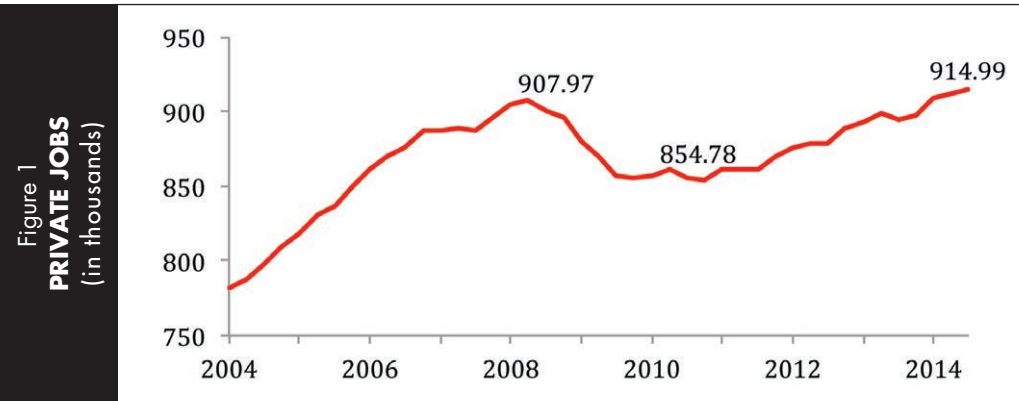
The rental market saw differing changes among the residential market and the apartment market this quarter. The vacancy rate in the residential rental market increased slightly to 10.8 percent this quarter while the vacancy rate in the apartment market decreased slightly to 8.72 percent this quarter. The average rental rate for residential rentals increased to \$0.73 per square foot this quarter and the average rental rate for apartments decreased to \$758 this quarter.

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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 was one of the only industries to see a decrease in jobs this quarter. Trade, Transportation & Utilities and Government saw considerable increases that helped increase the total number of jobs in Nevada.

Table 1
JOBS IN LAS VEGAS SINCE APRIL 2014
(in thousands)

Industry	2014					
	APR	MAY	JUN	JUL	AUG	SEP
Natural Resources & Mining	0.3	0.3	0.3	0.3	0.3	0.3
Construction	42.3	42.3	43.1	43.5	43.2	43.6
Manufacturing	21.2	21.3	21.4	21.4	21.6	21.8
Trade, Transportation & Utilities	160.3	161.2	162.2	162.6	162.7	164.7
Information	9.4	9.5	9.7	9.5	9.6	9.9
Financial Activities	43.5	44.1	44.1	44.4	44.5	44.5
Professional & Business Services	118.2	117.0	117.8	115.2	117.7	116.7
Education and Health Services	82.0	82.4	83.6	84.2	85.2	85.3
Leisure and Hospitality	273.1	274.5	274.4	274.6	271.9	271.1
Other Services	24.6	24.9	25.0	25	25.1	25.1
Government	97.5	99.1	93.3	91.1	91.4	96.1

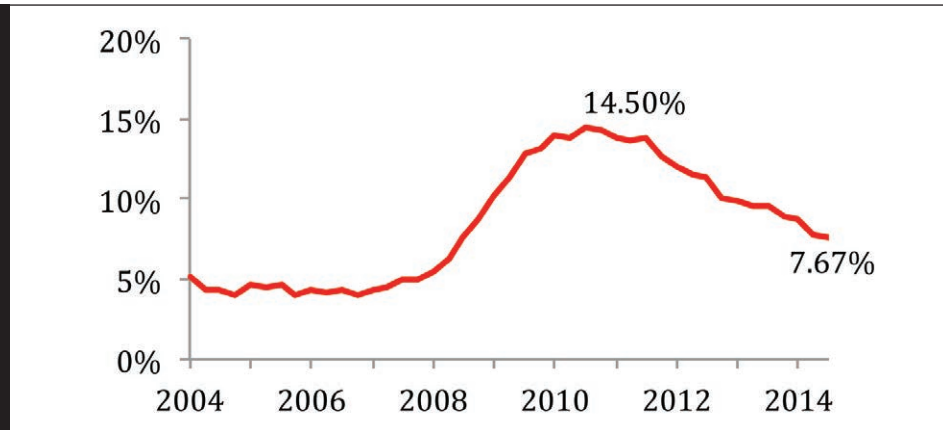
* Total may not add up to the reported private employment due to rounding. This includes workers with multiple jobs.
Source: DETR

SOUTHERN NEVADA ECONOMIC SITUATION

HOUSEHOLD SECTOR

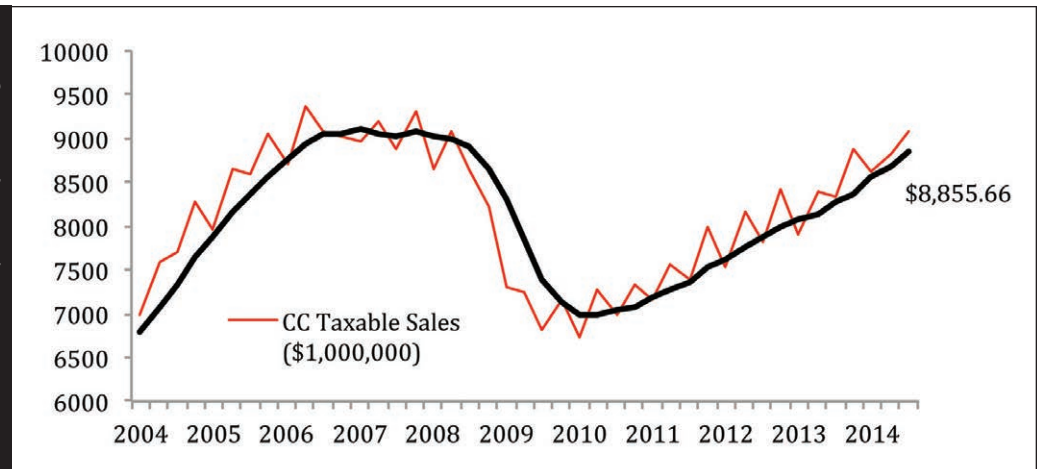
The unemployment rate measures the proportion of adults in the labor force without a job. To be counted as unemployed, the person must be able and willing to work and actively searching for a job. High rates prevent markets from reaching their full economic potential. In a healthy economy, the unemployment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



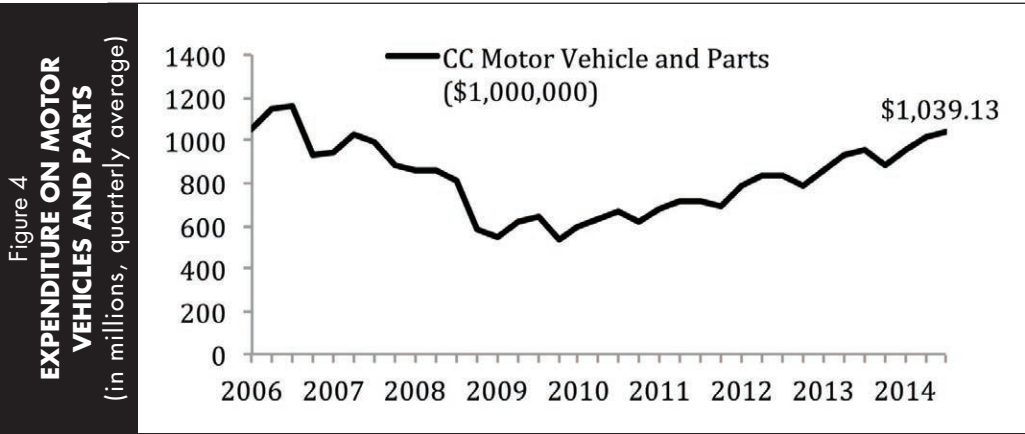
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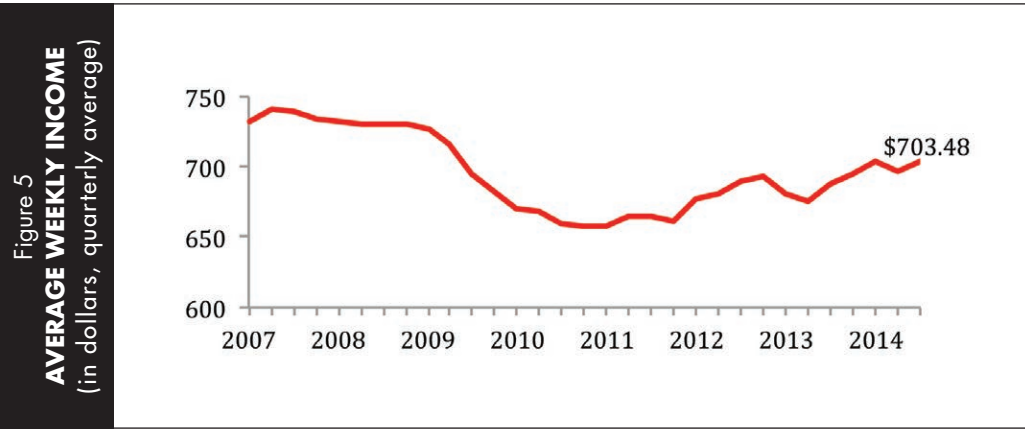
SOUTHERN NEVADA ECONOMIC SITUATION

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.



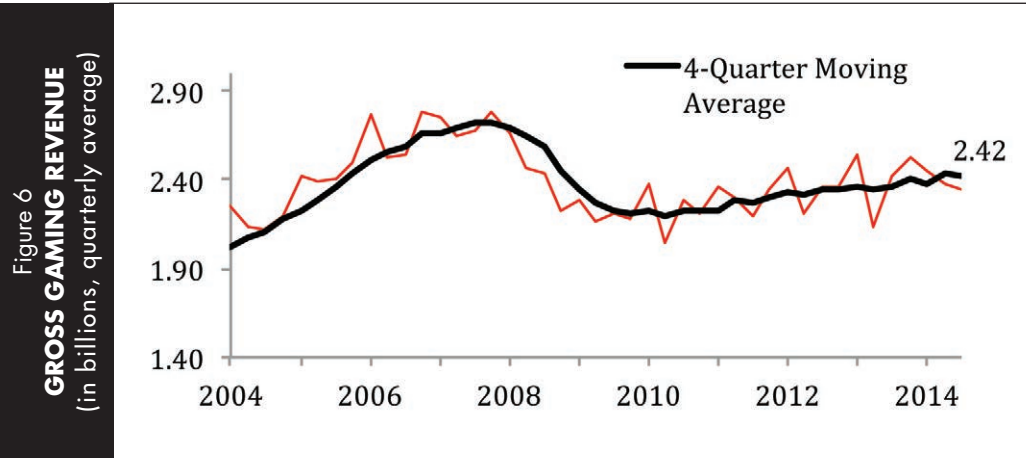
Average weekly income can provide some insight about future trends in consumer spending. Similar to the employment principle, as people earn more, they spend more discretely. Local businesses subsequently benefit, since this tends to encourage immediate spending.



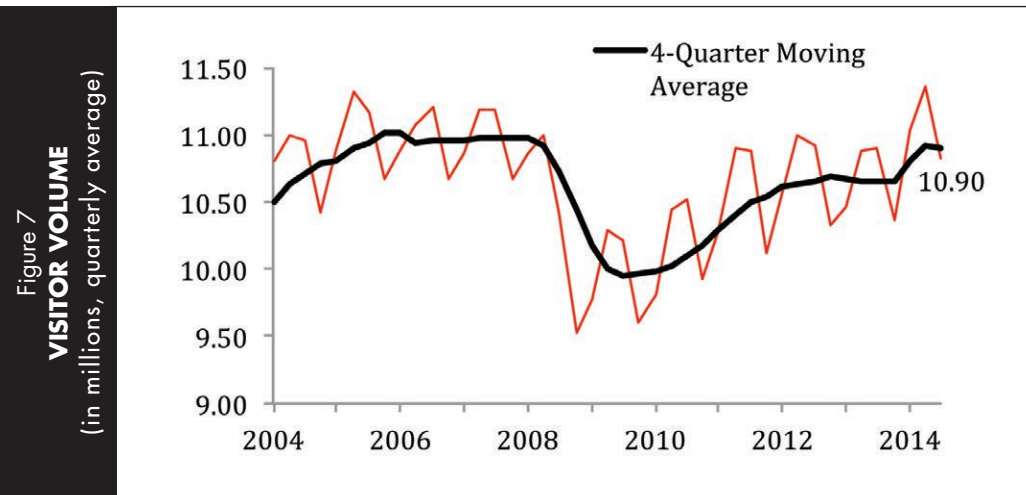
SOUTHERN NEVADA ECONOMIC SITUATION

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).



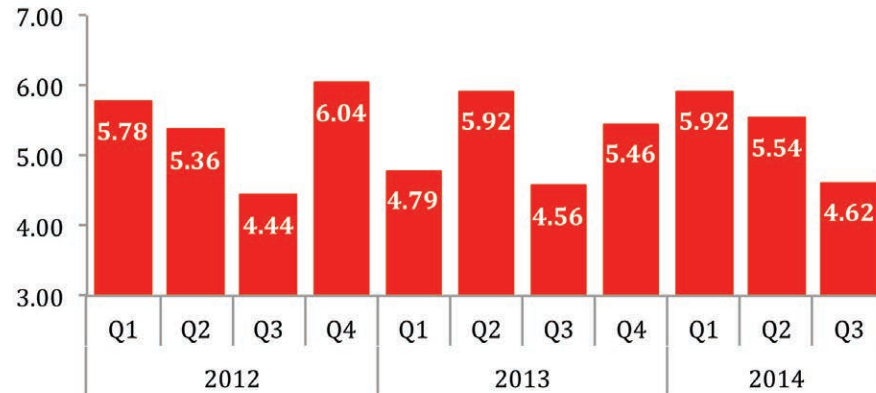
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SOUTHERN NEVADA ECONOMIC SITUATION

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. Falling number of taxi trips could signal changing spending habits among visitors like carpooling more often with local family and friends. Through three quarters, 2014 has had more airline passengers and taxi trips than in the previous few years.

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
	Q3	32,244,512	21,323,870

RESIDENTIAL TRENDS

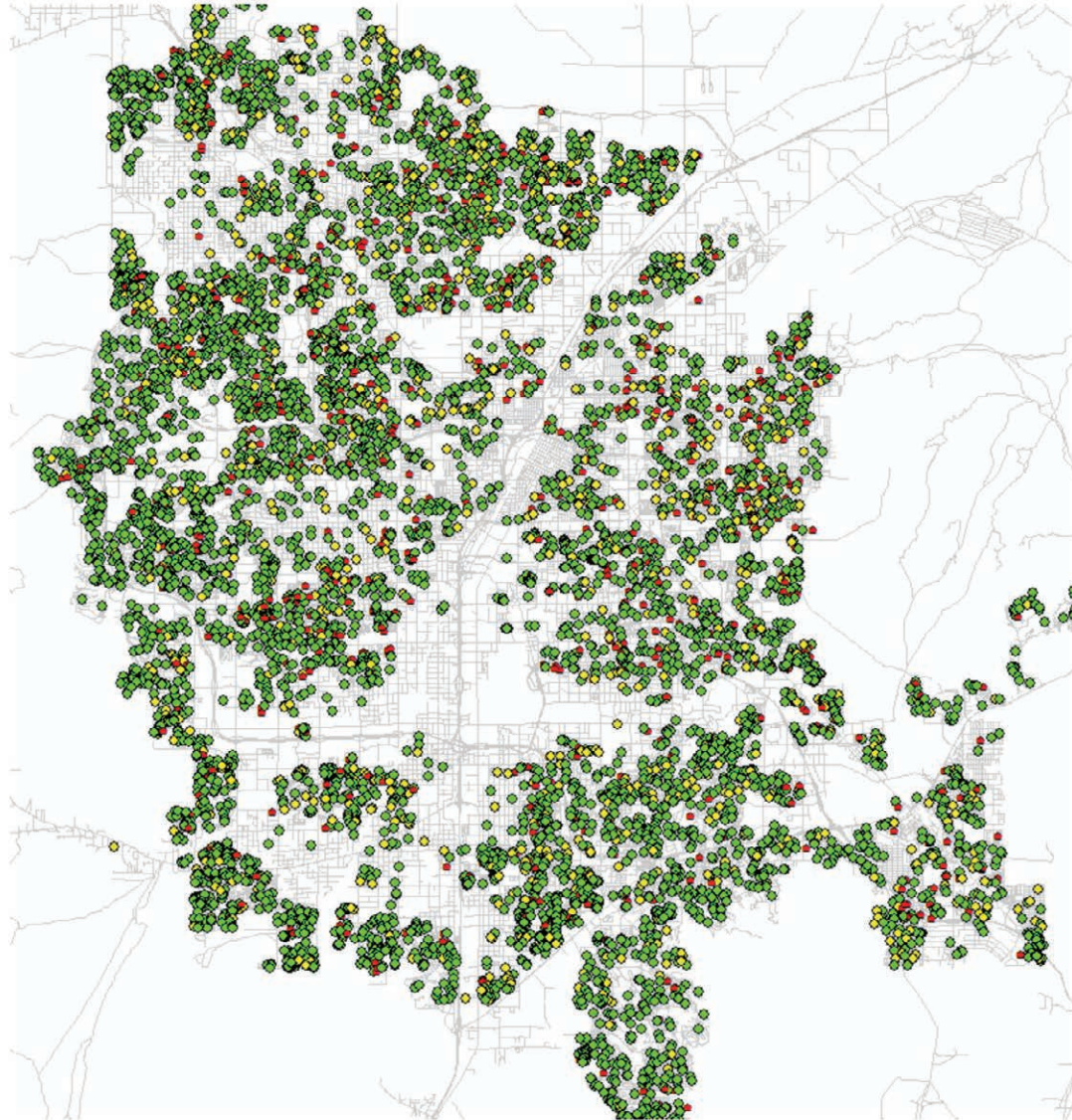
EXISTING HOME SALES

Figure 9
LAS VEGAS MLS HOME SALES

9,420
Homes Sold
2014 Q3

Market Share Distribution

- Traditional Home Sales 83.1%
- Short Sales 9.5%
- REO Sales 7.4%



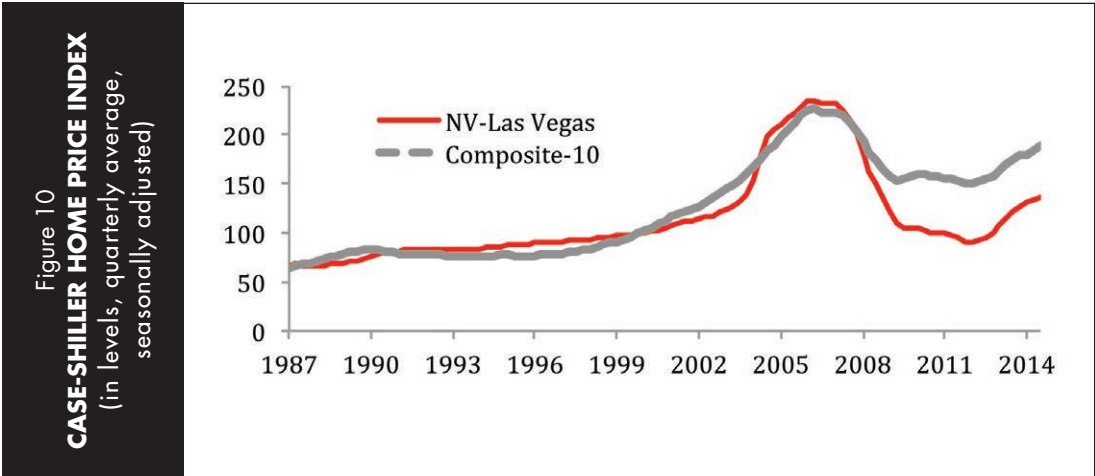
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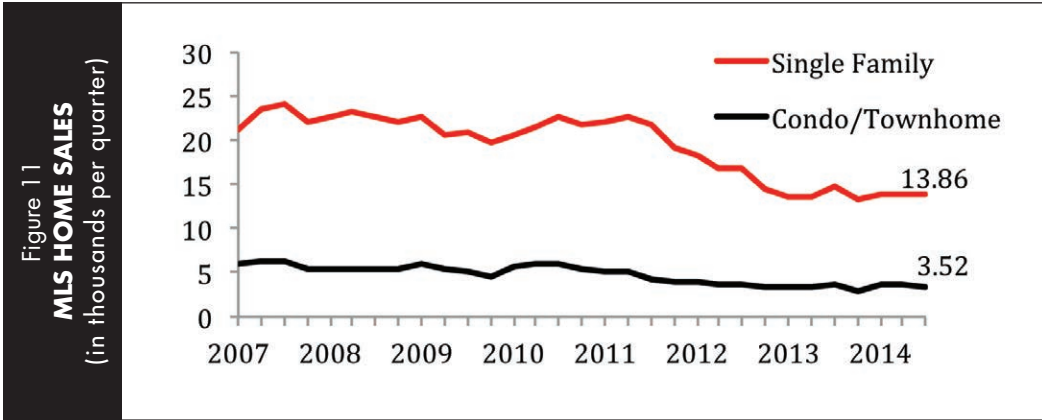
RESIDENTIAL TRENDS

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.



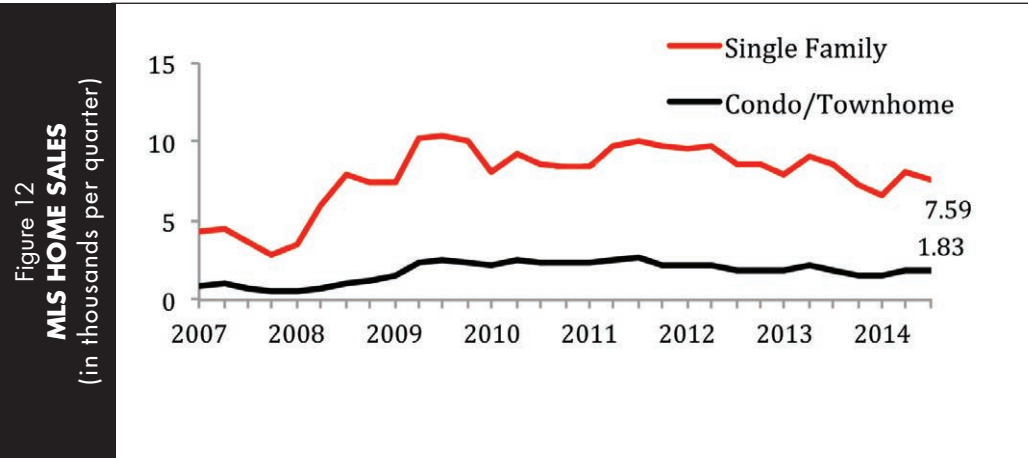
The number of homes for sale is a strong indicator of future home sales. It counts the number of homes real estate agents list on the local MLS. It includes homes that still need a buyer and homes that are pending their closing date. After higher numbers of homes for sale, the following months can anticipate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



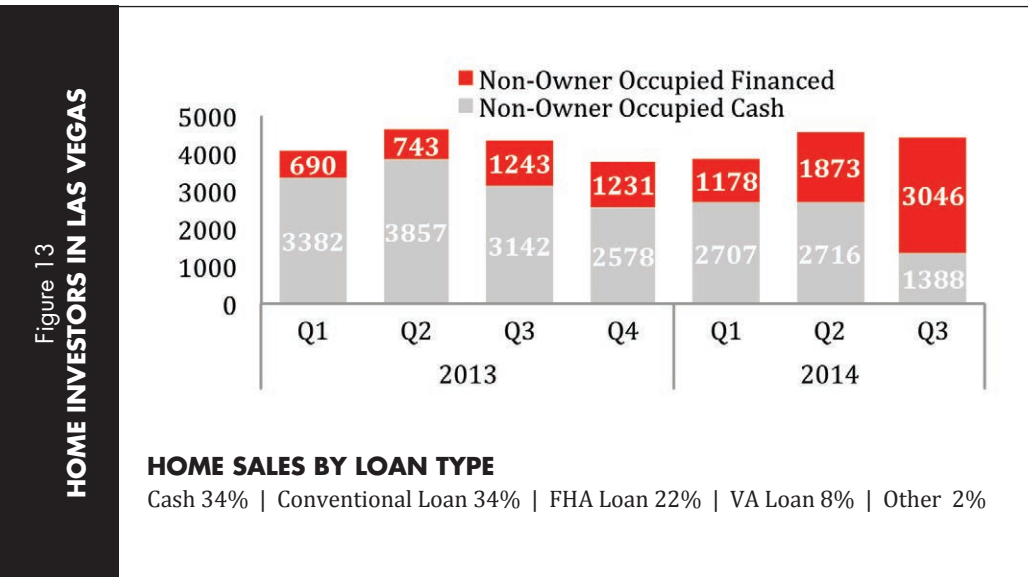
RESIDENTIAL TRENDS

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.



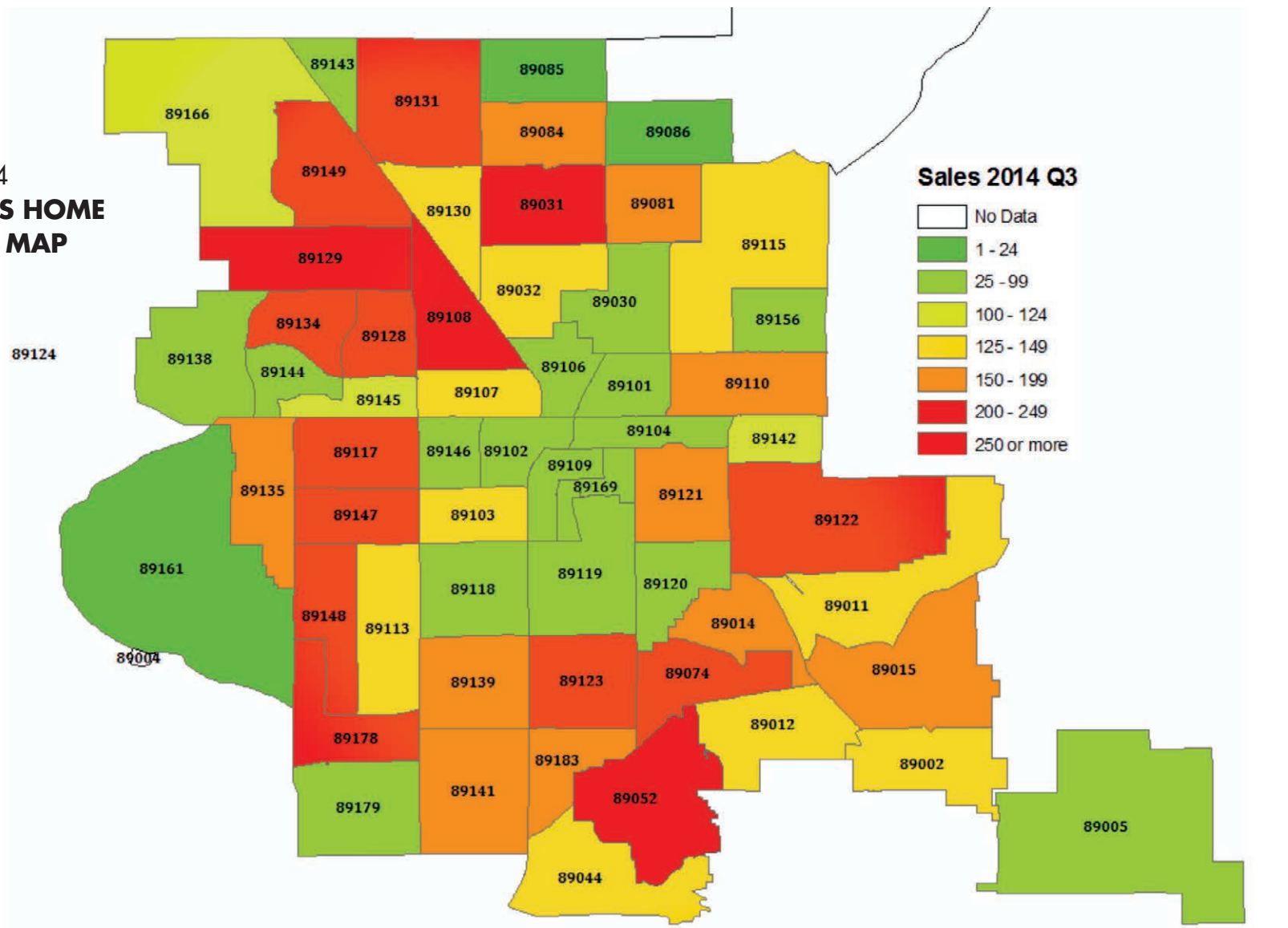
Better investment opportunities attract investors whether they are homeowners buying a second home to lease or big investors flipping properties. Their presence signals competition in the market and potentially drives home prices up. The number of non-owner occupied sales is a proxy for these investors.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



RESIDENTIAL TRENDS

EXISTING HOME SALES

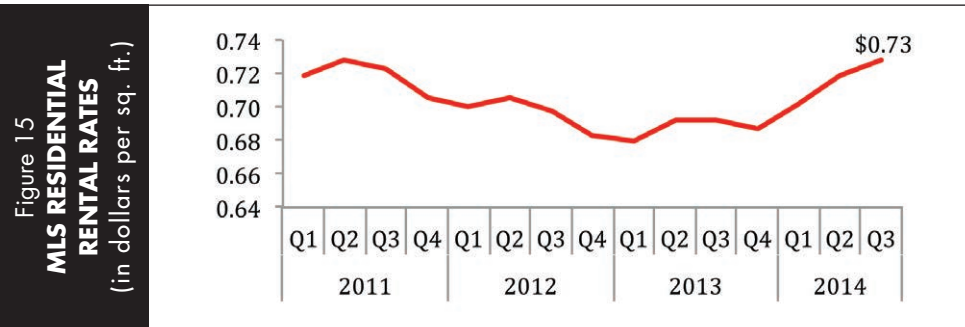
Figure 14
**LAS VEGAS MLS HOME
 SALES HEAT MAP**



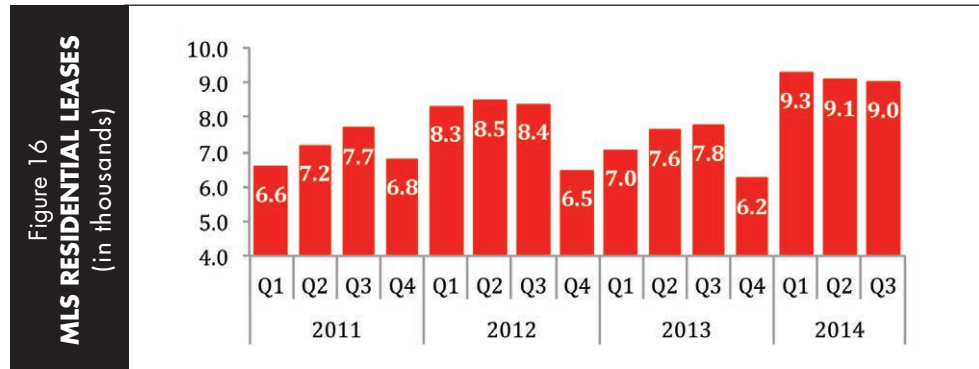
RESIDENTIAL TRENDS

PROPERTY MANAGEMENT MARKET

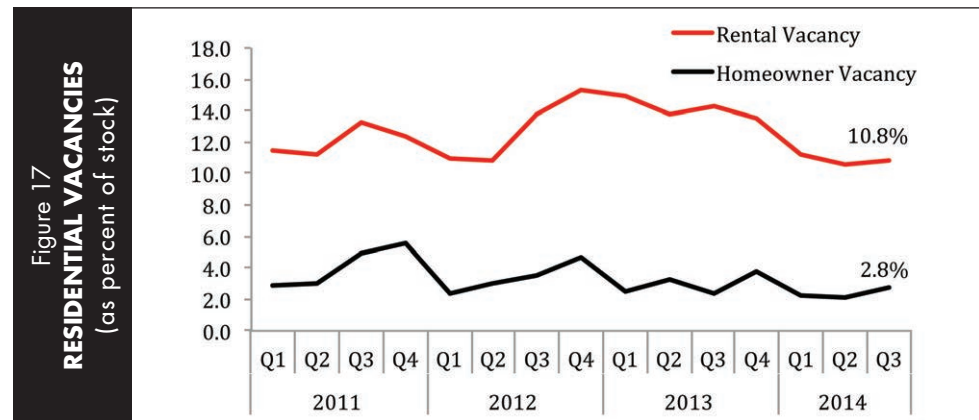
Residential rental rates measure the quarterly median rent per square foot of all homes leased through the Las Vegas MLS. This represents the lease rate for tenants signing a new lease contract. High rental rates encourage investors to purchase and lease properties, given the purchase price of homes.



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.



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.

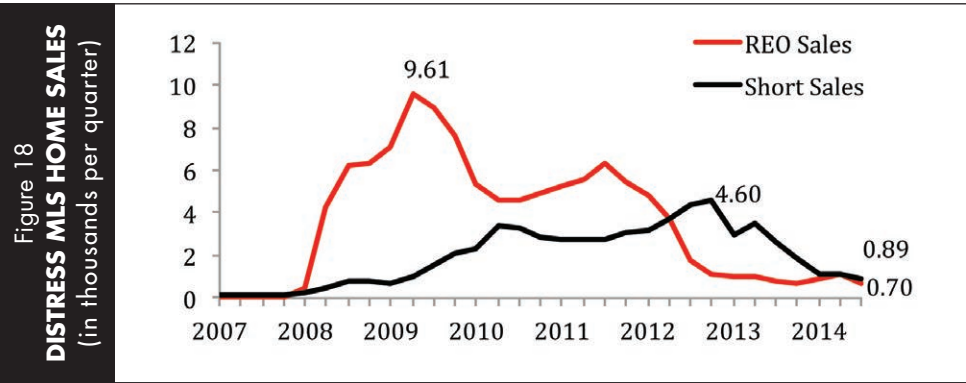


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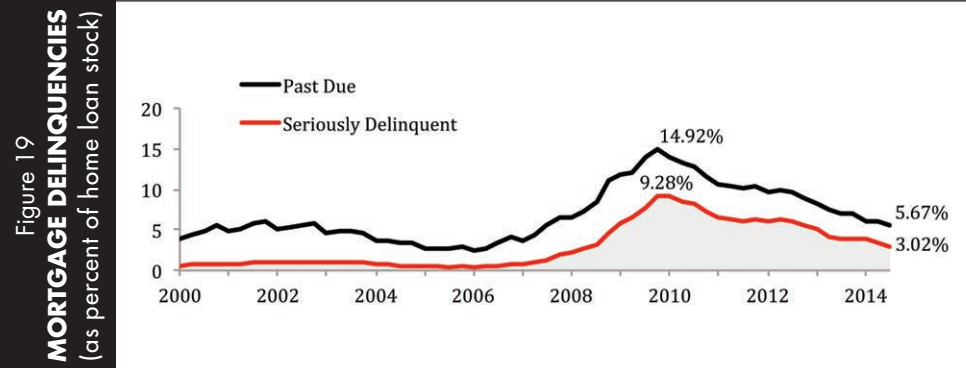
RESIDENTIAL TRENDS

FORECLOSURE SITUATION

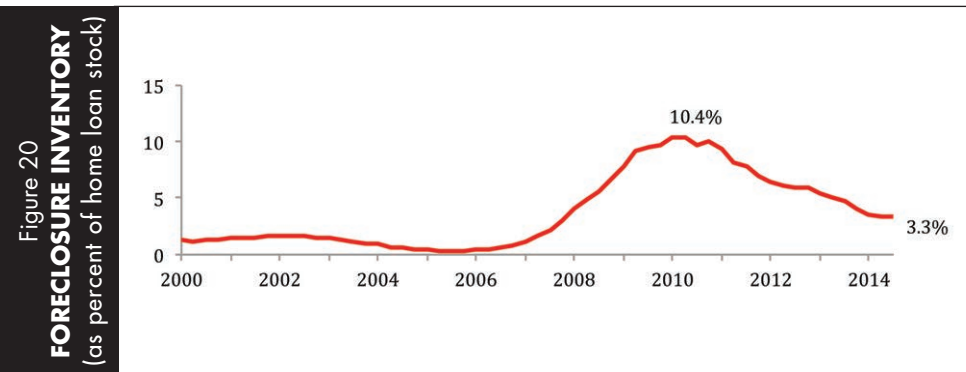
In the aftermath of the Great Recession, thousands of homeowners in Southern Nevada faced economic stresses that resulted in the loss of their homes. Some chose to short sell their home and others lost their home through foreclosure. Banks sell foreclosed homes as a real estate owned (REO) properties.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

Figure 21
INDUSTRIAL ASKING RENTS
AND DIRECT VACANCY
IN 2014 Q3

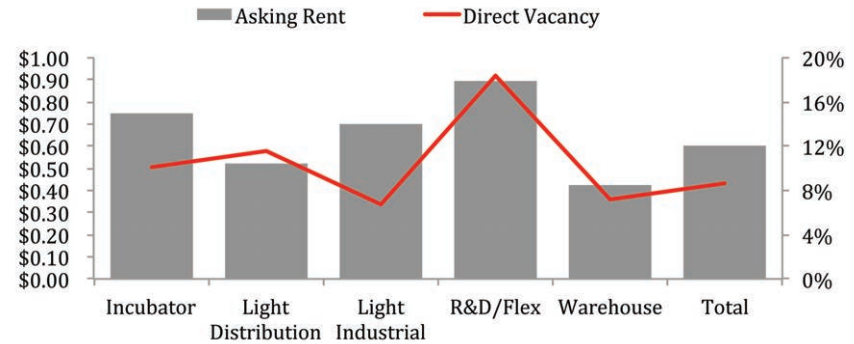
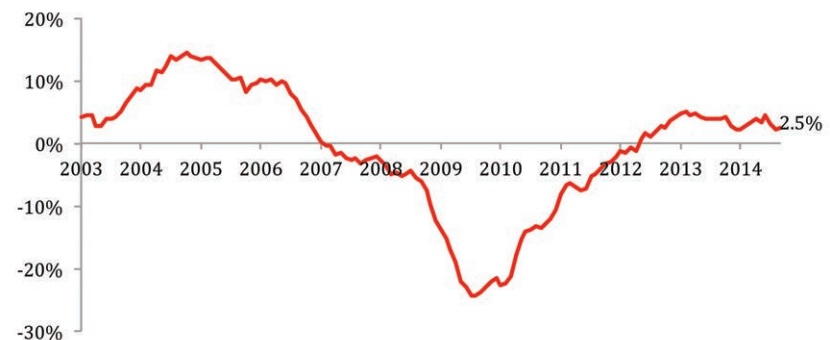


Table 3

	Asking Rent	Direct Vacancy
Incubator	\$ 0.75	10.16%
Light Distribution	\$ 0.52	11.60%
Light Industrial	\$ 0.70	6.73%
R&D/Flex	\$ 0.89	18.34%
Warehouse	\$ 0.43	7.21%
Total	\$ 0.60	8.62%

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.

Figure 22
ANNUAL GROWTH IN
INDUSTRIAL EMPLOYMENT



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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

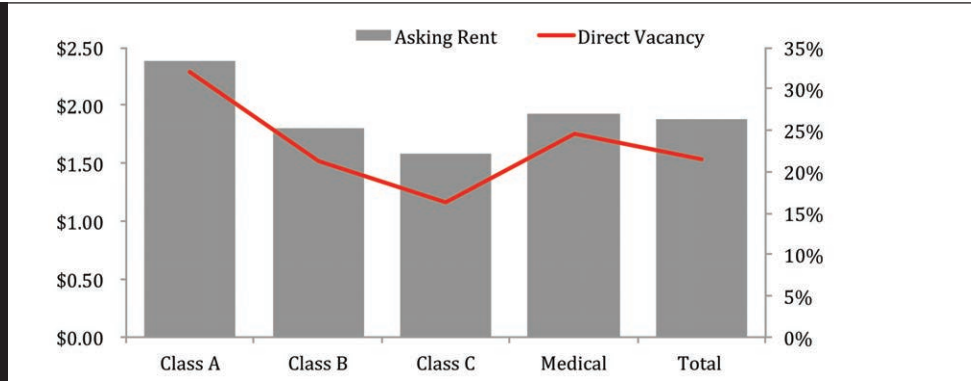
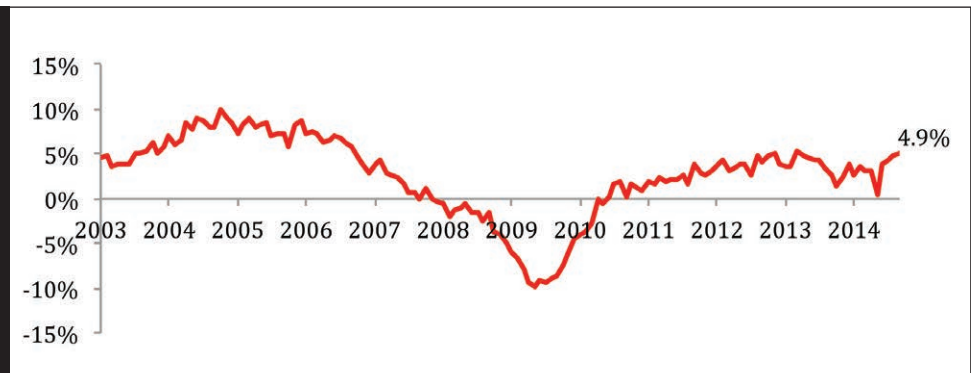


Table 4

	Asking Rent	Direct Vacancy
Class A	\$ 2.38	32.04%
Class B	\$ 1.80	21.34%
Class C	\$ 1.58	16.29%
Medical	\$ 1.93	24.60%
Total	\$ 1.88	21.60%

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



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.

Figure 25
RETAIL ASKING RENTS AND
DIRECT VACANCY

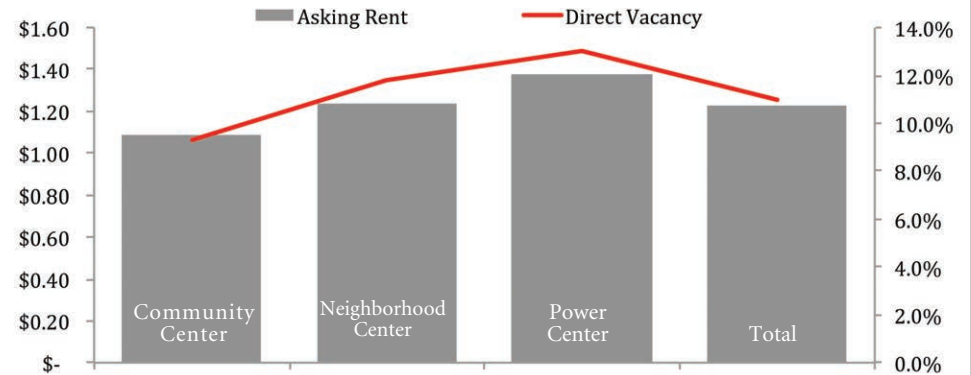
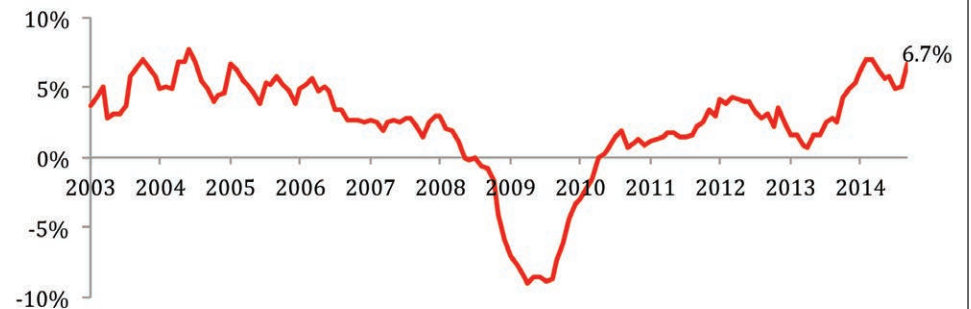


Table 5

	Asking Rent	Direct Vacancy
Community Center	\$ 1.09	9.30%
Neighborhood Center	\$ 1.23	11.78%
Power Center	\$ 1.38	13.02%
Total	\$ 1.22	11.00%

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.

Figure 26
PERCENT CHANGE IN
RETAIL EMPLOYMENT
BY QUARTER

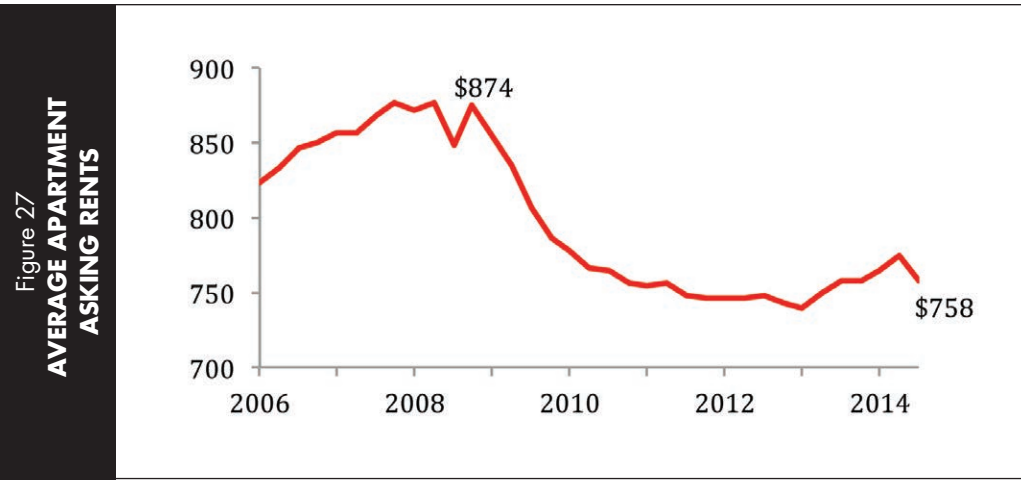


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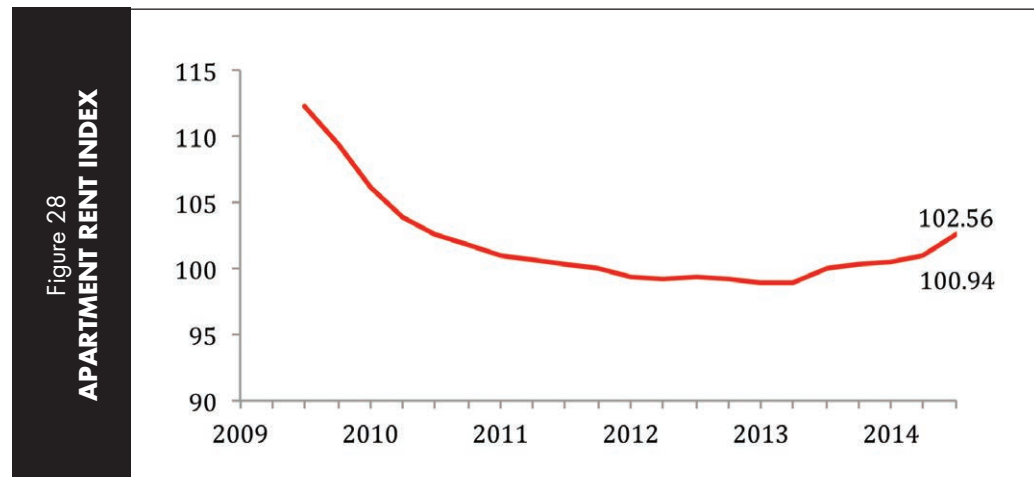
COMMERCIAL TRENDS

APARTMENT MARKET

The mean asking rent for apartments in the Las Vegas area are collected by the Center for Business and Economic Research (CBER) and reported here and in the Lied Institute's Apartment Market Survey.



The Lied Institute's newly developed Las Vegas Apartment Rent Index (LVARI), has more details in the commentary section of the Lied Institute website (www.unlv.edu/business/lied-institute/research). This index, based on the same principles as the well-known Case-Shiller Home Price Index, accounts for the fact that the raw data used in compiling the average asking rent in Figure 27 can be very inconsistent from quarter-to-quarter. Note that the index shows an upturn for the last quarter from 100.94 to 102.56, indicating a 1.7 percent increase in rents from the previous quarter.

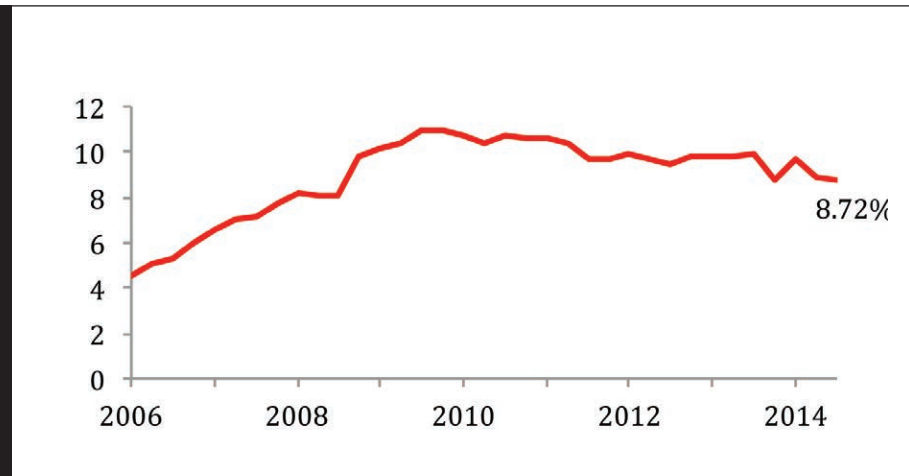


COMMERCIAL TRENDS

APARTMENT MARKET

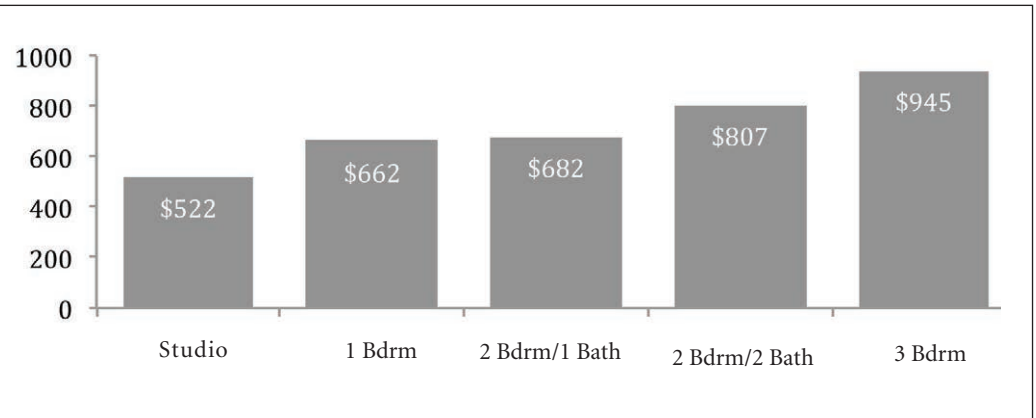
Apartment vacancy rates influence the expected returns that an apartment stakeholder can anticipate. High vacancy rates may encourage property managers to change their leasing strategies and even consider reducing rental rates.

Figure 29
APARTMENT VACANCY RATES



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

Figure 30
APARTMENT VACANCY RATES



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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Commercial Trends

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