



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

2013 4th Quarter  
Release Date March 14, 2014

An Overview of Local Residential and Commercial Real Estate Conditions

IN PARTNERSHIP WITH



UNLV

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# EXECUTIVE SUMMARY

Southern Nevada continues to recover from the Great Recession and experience slow economic growth. In the fourth quarter 2013, the unemployment rate in the Las Vegas metropolitan area fell to 8.97 percent. This decline is due to growth in private employment and drops in labor force participation. Employment, however, remains below pre-recession levels by 1.2 percent.

Spending on local goods was remarkably strong. Taxable sales increased to \$8,267 billion on an annual average basis. This includes purchases of groceries, clothes and durable goods such as car sales. Spending on motor vehicles and car parts, in particular, increased to \$956 billion this quarter. Besides employment growth, increases in local earnings encouraged this behavior.

This is good because it implies that local businesses are generating revenue and households in Southern Nevada are regaining economic strength.

These drivers of the local housing market set a positive tone even though housing distress persists. Traditional home sales prevailed in the fourth quarter 2013 at over 70 percent of the market. That is, fewer than 30 percent of all existing home sales in Clark County were either short sales or real estate owned (REO) sales. This depletion comes after statewide improvements in mortgage performance. In Nevada, the share of seriously delinquent mortgages has fallen to 4 percent in the fourth quarter 2013 from 9.3 percent in the fourth quarter 2009. Subsequent foreclosure inventory has fallen as well by 57 percent four years ago.

Opportunities for high investment returns in the housing market grow scarce. This quarter, 48 percent of the home sales were by non-owner occupants, down 64 percent from two years ago. Commensurately, the median asking rent for homes in Las Vegas has been declining since 2010. For the fourth quarter 2013, the median asking rent settled at \$0.69 per square foot from \$0.72 three years ago. This change is meaningful when considering that home sizes typically range from 1,000 to 3,000 square feet. Meanwhile, rental vacancies reached 13.5 percent, and home prices appreciated by 28.6 percent year-over-year in the third quarter 2013. As a result, there are fewer investors in the market.

Homebuyers looking to live in their purchase have better opportunities in the housing market. Average weekly earnings in Nevada have increased this year. Interest rates continue to float around historically low levels, closing at 4.46 percent in the fourth quarter 2013. Current home prices are comparable to prices last seen in 2003. Consequently, homes are still considered affordable despite recent appreciation.

In the commercial real estate market, demand for space should increase in all three major categories: industrial, office and retail. For at least three years, jobs in office and retail have gone up consistently. The industrial job market has lagged, but has enjoyed growth throughout 2013. If the local economy continues this quarter's positive trajectory, market conditions in the near future will likely offer stronger business opportunities.

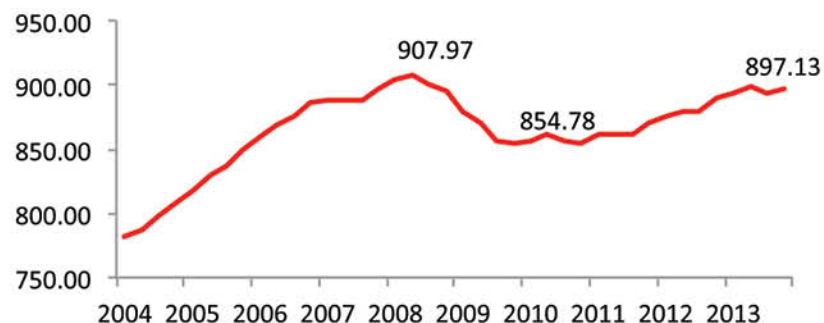
*Luis A. Lopez, Data Analyst, Lied Institute for Real Estate Studies*

# SOUTHERN NEVADA ECONOMIC SITUATION

## HOUSEHOLD SECTOR

Subsequent economic growth links to growth in private employment. Principally, when people find jobs, they can save and later invest in a home or perhaps in a business venture. Immediate spending may occur as well, benefiting businesses directly.

Figure 1  
PRIVATE JOBS  
(in thousands)



Not every industry experiences growth simultaneously. This quarter, jobs were lost in the construction industry and in the leisure and hospitality industry. Job gains in other industries, however, were enough to offset the total private job losses into gains.

Table 1  
JOBS IN LAS VEGAS SINCE JULY 2013  
(in thousands)

Industry	JUL	AUG	SEP	OCT	NOV	DEC
Natural Resources & Mining	0.3	0.3	0.3	0.3	0.3	0.3
Construction	41.0	42.4	42.4	42.9	41.6	40.9
Manufacturing	20.9	20.9	20.9	20.9	20.8	21.0
Trade, Transportation & Utilities	156.0	156.6	157.1	160.0	166.7	166.7
Information	10.0	9.7	9.6	9.8	9.7	9.7
Financial Activities	43.1	43.2	43.2	44.2	44.4	44.0
Professional & Business Services	108.8	111.2	110.2	111.5	112.9	113.0
Education and Health Services	78.8	79.4	79.8	80.2	80.8	81.4
Leisure and Hospitality	271.0	270.9	271.6	268.7	268.3	265.8
Other Services	24.8	24.7	24.6	24.4	24.1	24.0
Government	89.3	90.8	95.5	96.7	96.9	97.5

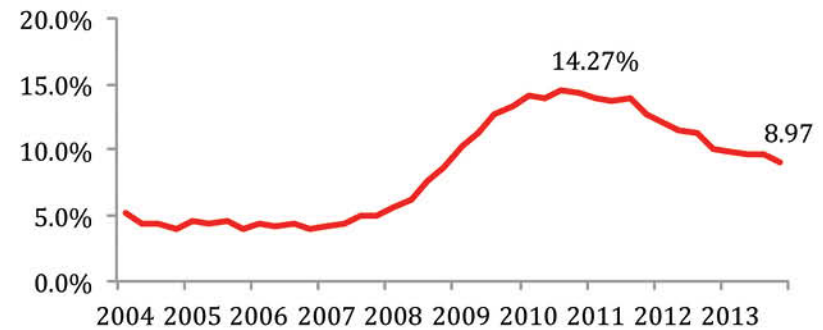
\*Total may not add up to the reported private employment due to rounding. This includes workers with multiple jobs.  
Source: DETR

# SOUTHERN NEVADA ECONOMIC SITUATION

## HOUSEHOLD SECTOR

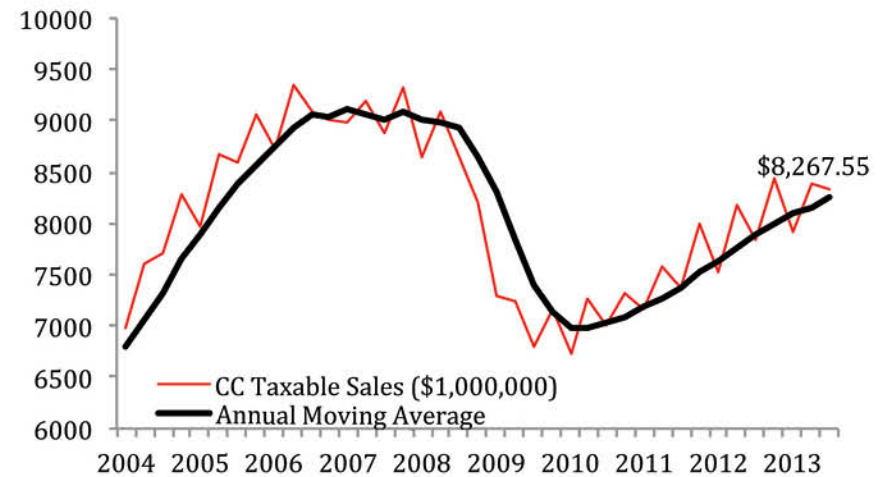
The unemployment rate measures the proportion of adults in the labor force without a job. To be counted as unemployed, the person must be able and willing to work and be actively searching for a job. High rates prevent markets from performing to their full economic potential. In a healthy economy, the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

Figure 2  
**UNEMPLOYMENT RATE**  
(annual 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 increase 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 \$billions, annual average)



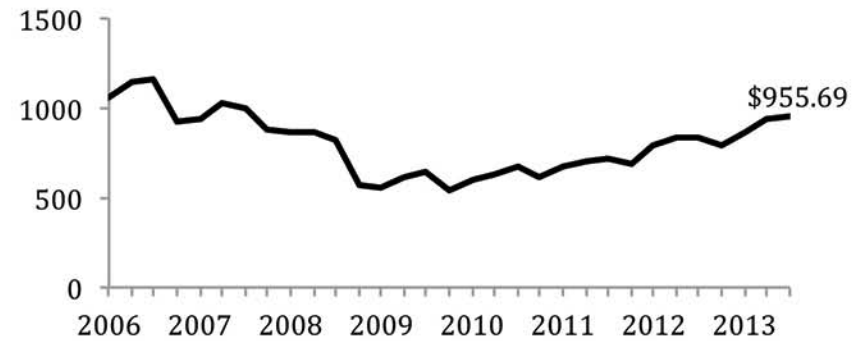


# SOUTHERN NEVADA ECONOMIC SITUATION

## HOUSEHOLD SECTOR

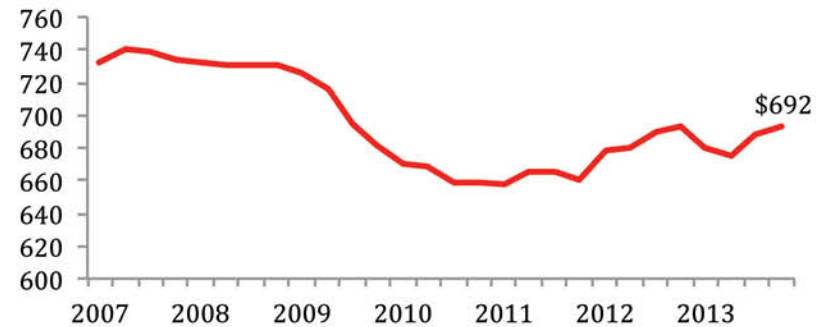
Expenditure on Motor Vehicles and Parts consist of durable goods that are generally more expensive than other consumer products and sometimes require financing with loans. Growth in this category signals strengthening consumer confidence, especially about the future.

Figure 4  
**EXPENDITURE ON MOTOR VEHICLES AND PARTS**  
(in \$billions, annual average)



Average weekly income can provide some insight about future trends of 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.

Figure 5  
**AVERAGE WEEKLY INCOME**  
(in \$dollars, annual average)

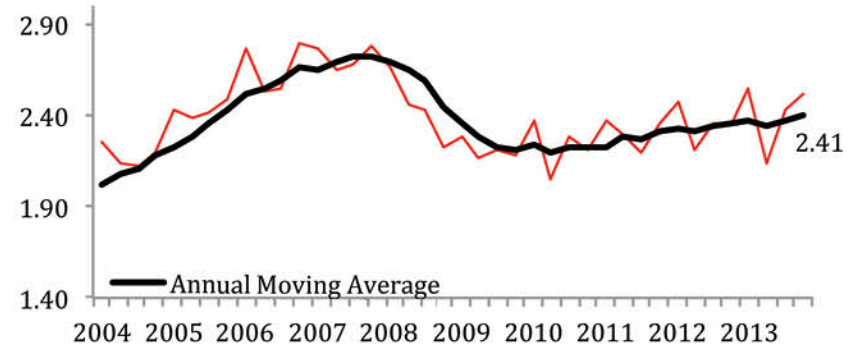


# SOUTHERN NEVADA ECONOMIC SITUATION

## TOURISM & HOSPITALITY INDUSTRY

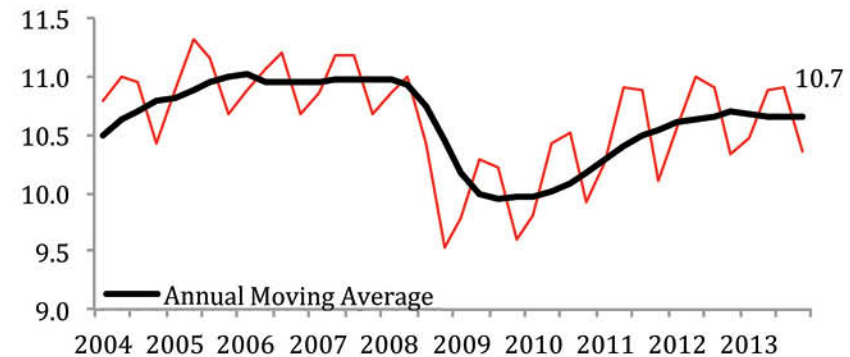
Gross gaming revenue measures the quarterly amount of winnings generated by casinos. Increases in this figure signal growth in the tourism and hospitality industry, meaning that local employment could grow and further business opportunities may arise.

Figure 6  
**GROSS GAMING REVENUE**  
(in \$billions annually)



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 service and so on).

Figure 7  
**VISITOR VOLUME**  
(in \$millions annually)

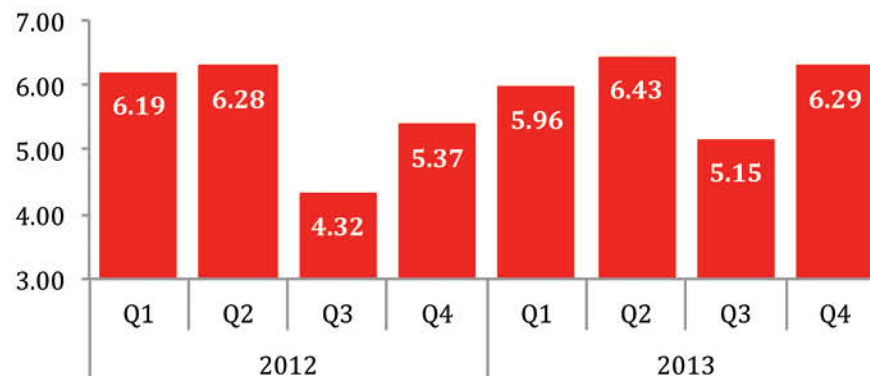


# SOUTHERN NEVADA ECONOMIC SITUATION

## TOURISM & HOSPITALITY INDUSTRY

Conventions bring hundreds of thousands of guests to Las Vegas every year. Besides attending business meetings and events, these guests eat out, see a show or two, and sometimes enjoy the Vegas nightlife. Lower 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, such as carpooling more often with local family and friends. Notice that every year the total yearly number of taxi trips have been declining whereas the total yearly number of McCarran passengers have 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

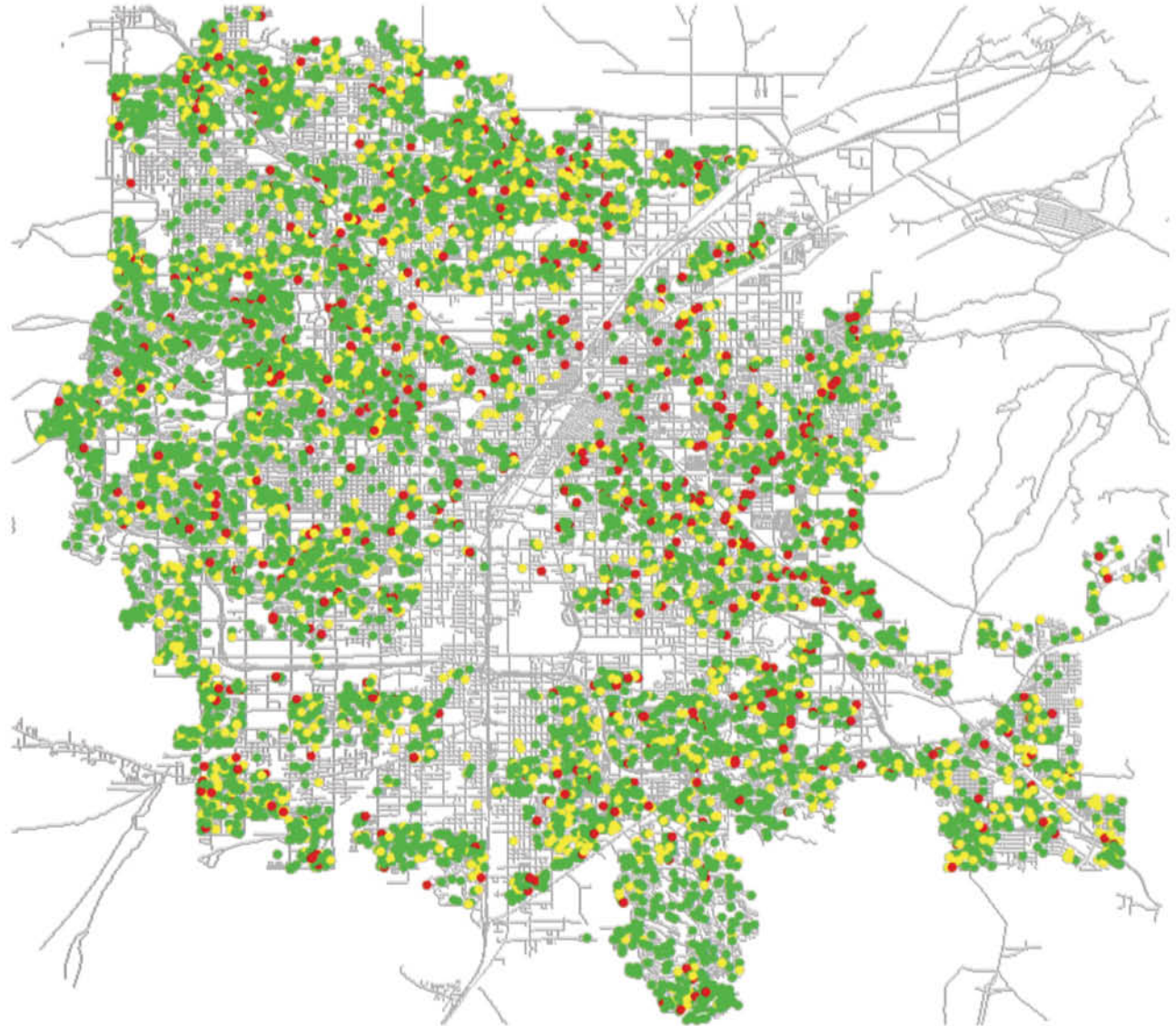
## HOME SALES

Figure 9  
**LAS VEGAS MLS HOME SALES**

**8,800**  
Homes Sold  
2013 Q4

### Market Share Distribution

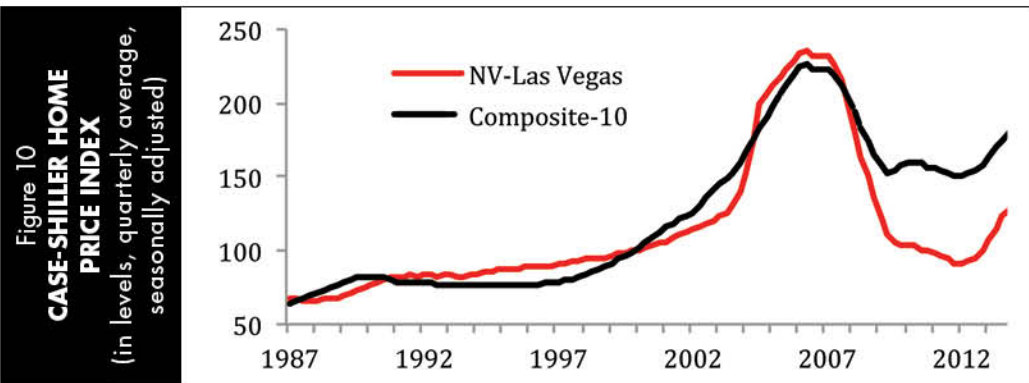
- Traditional Home Sales 71.4%
- Short Sales 21.5%
- REO Sales 7.2%



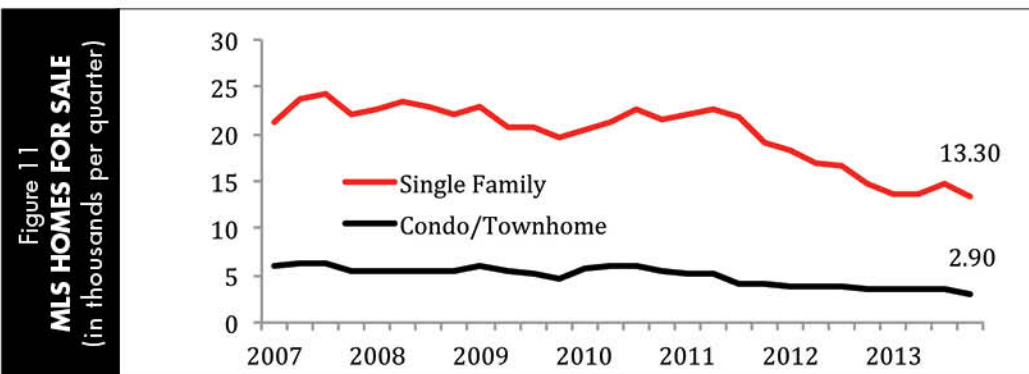
# RESIDENTIAL TRENDS

## HOME SALES

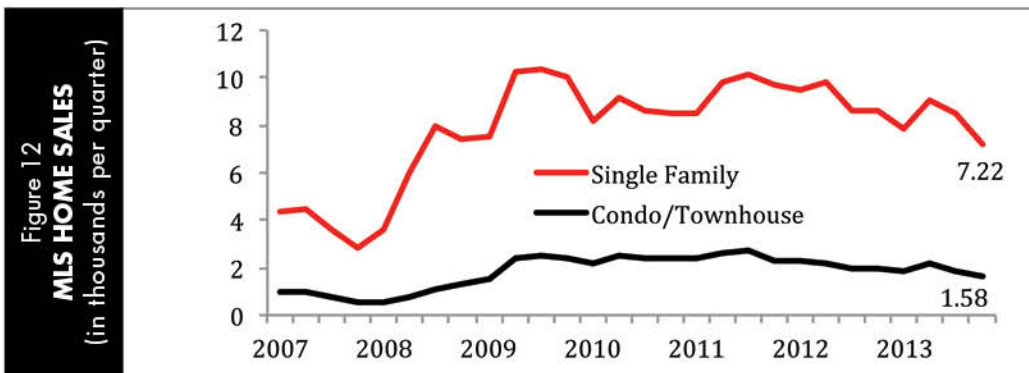
The Case-Shiller Home Price Index measures home prices with 2005 as the benchmark year (=100). The index tracks the price movements using homes sold more than once to keep home quality constant. Percent changes of this index can be considered average appreciation rates. Notably, the composite-10 index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





# RESIDENTIAL TRENDS

## HOME SALES

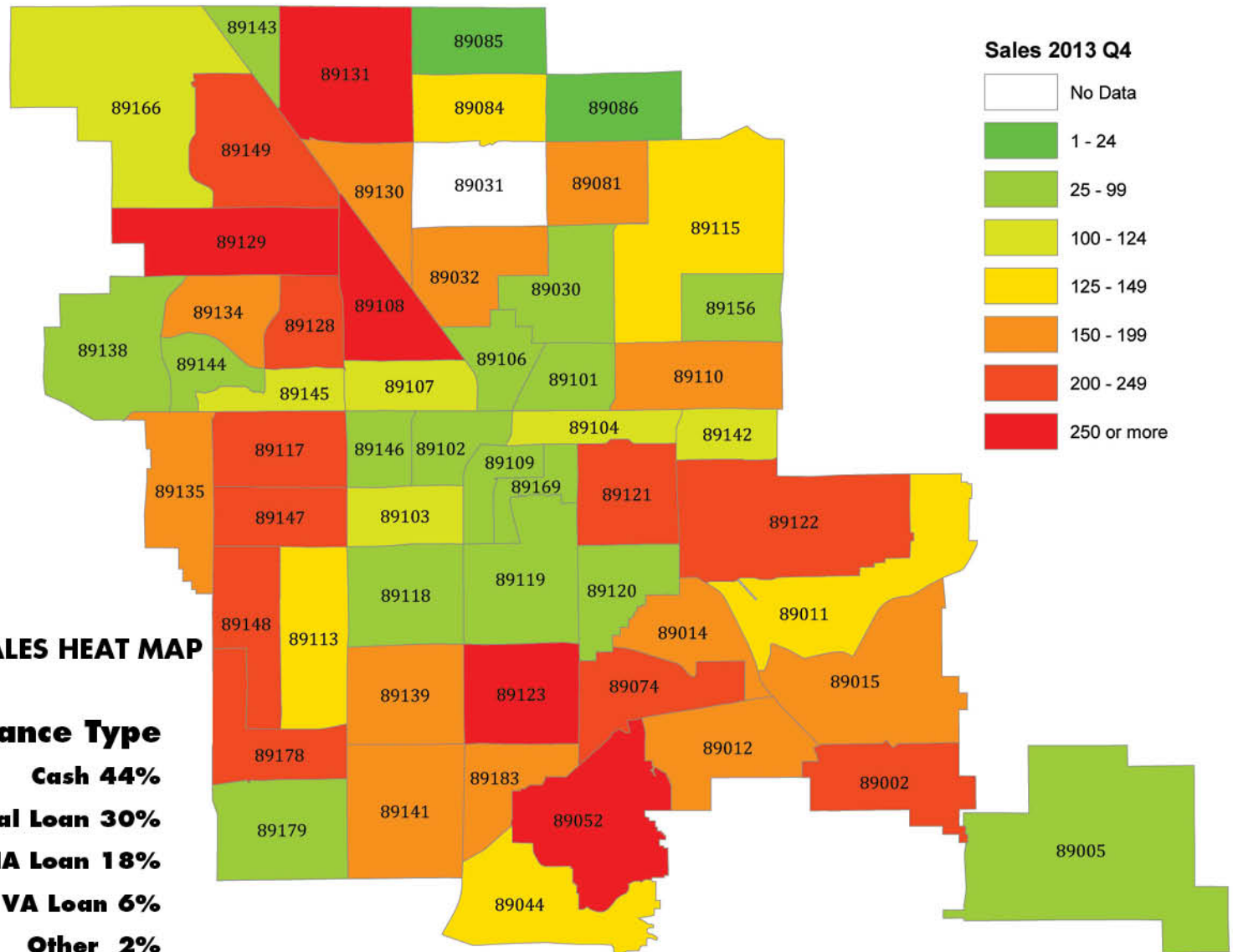
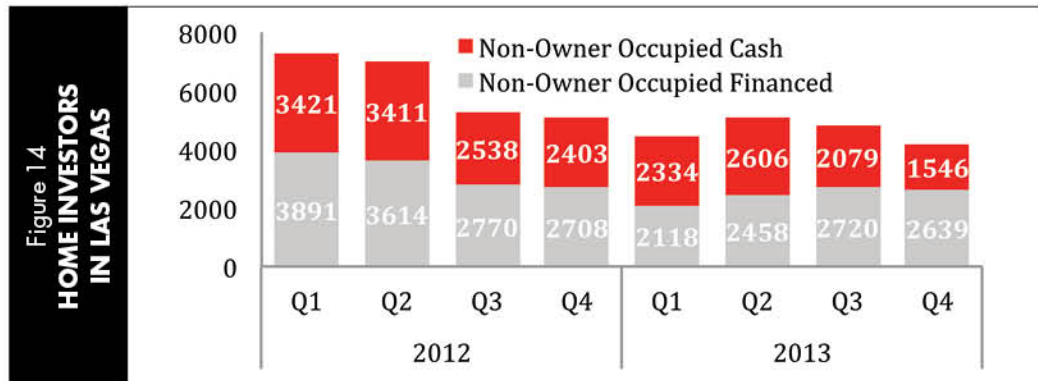


Figure 13  
**LAS VEGAS MLS HOME SALES HEAT MAP**

# RESIDENTIAL TRENDS

## HOME SALES

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.



Note: Sources on last page • IN PARTNERSHIP WITH



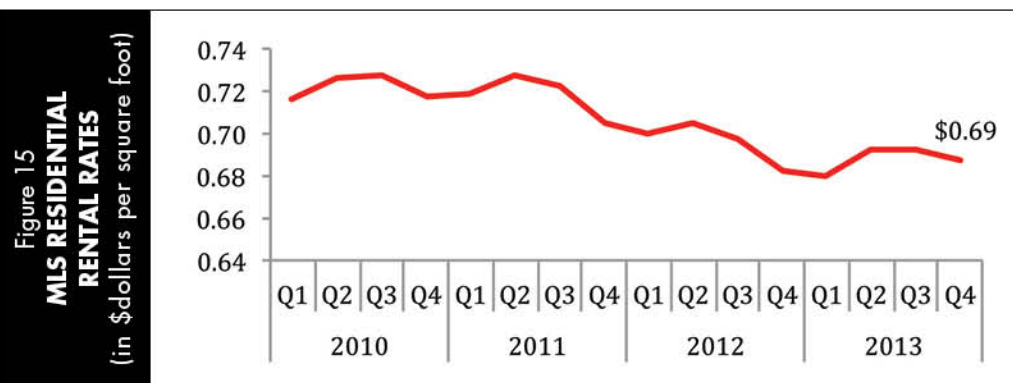
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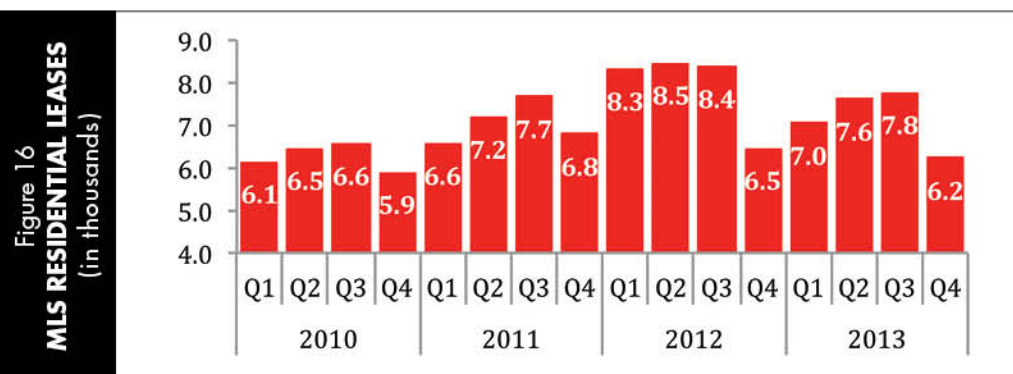
# RESIDENTIAL TRENDS

## PROPERTY MANAGEMENT MARKET

Residential rental rates measure the quarterly median rent per square foot of all homes leased through 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 the MLS.



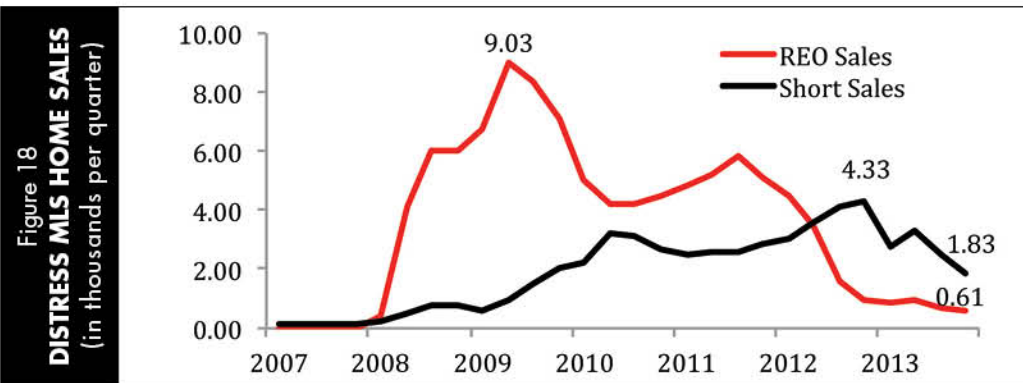
Higher vacancies will reduce rental rates and lower vacancies could trigger the opposite effect. For example, an owner losing rent each month due to a vacant unit will be more willing to reduce their asking rent.



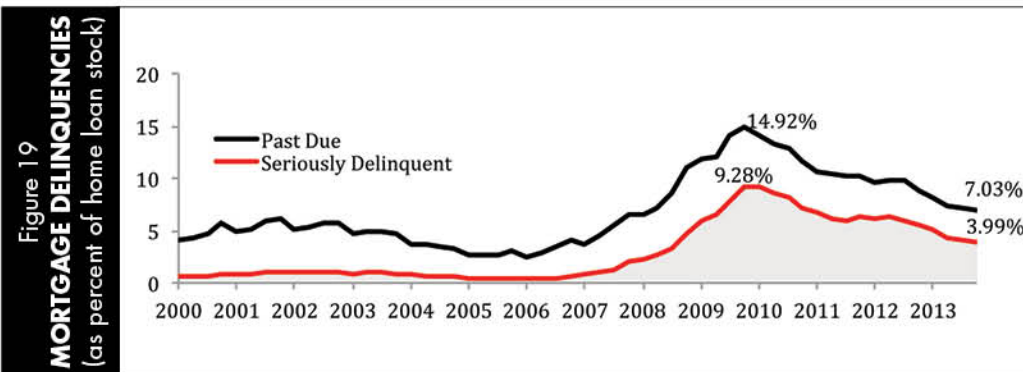
# RESIDENTIAL TRENDS

## FORECLOSURE SITUATION

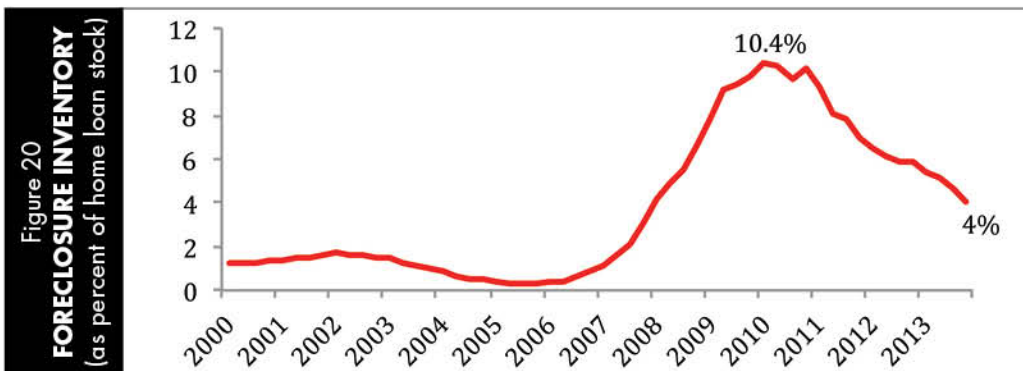
In the aftermath of the Great Recession, thousands of homeowners in Southern Nevada faced economic stresses that resulted in the loss of their homes. Some chose to short sell their home and others lost their home through foreclosure. Banks sell foreclosed homes as a real estate owned (REO) property. Short sale 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 on which lenders reported to have commenced the foreclosure process, but have not yet been repossessed.



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# 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.

Figure 21  
INDUSTRIAL ASKING RENTS  
AND DIRECT VACANCY  
IN 2013 Q4

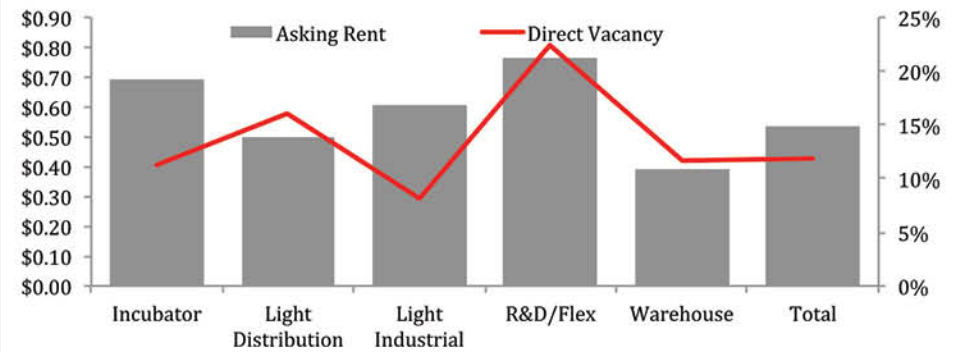
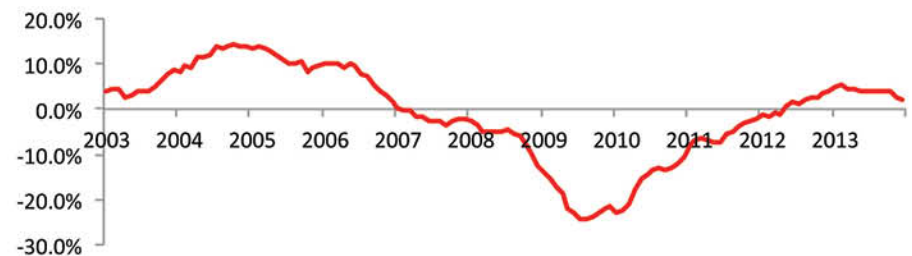


Table 3

	Asking Rent	Direct Vacancy
<b>Incubator</b>	\$ 0.69	11.32%
<b>Light Distribution</b>	\$ 0.50	15.98%
<b>Light Industrial</b>	\$ 0.61	8.15%
<b>R&amp;D/Flex</b>	\$ 0.76	22.40%
<b>Warehouse</b>	\$ 0.39	11.59%
<b>Total</b>	\$ 0.53	11.93%

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  
PERCENT CHANGE IN  
INDUSTRIAL EMPLOYMENT  
BY QUARTER



# 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  
DISTRESS HOME SALES  
(in thousands per quarter)

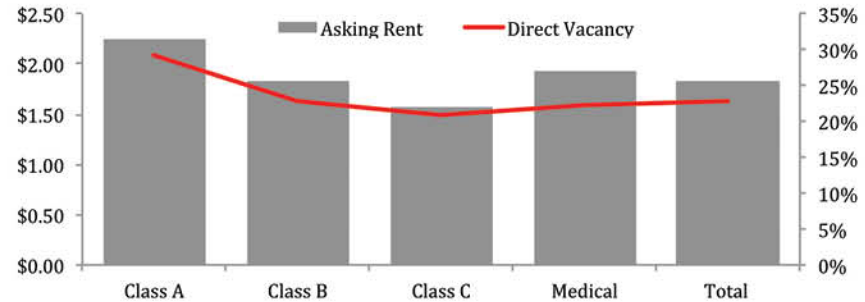
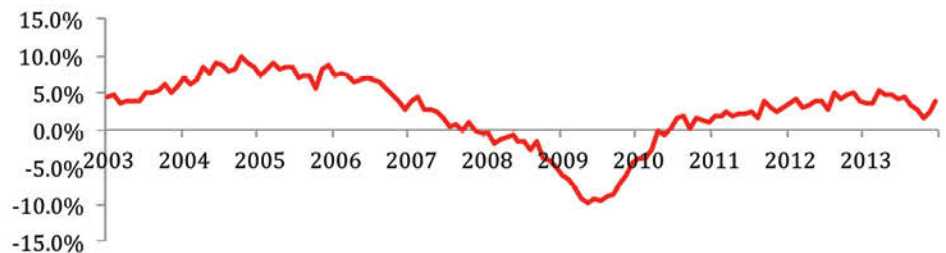


Table 4

	Asking Rent	Direct Vacancy
<b>Class A</b>	\$ 2.25	29.35%
<b>Class B</b>	\$ 1.83	22.86%
<b>Class C</b>	\$ 1.58	20.84%
<b>Medical</b>	\$ 1.93	22.35%
<b>Total</b>	\$ 1.84	22.94%

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 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 &  
DIRECT VACANCY

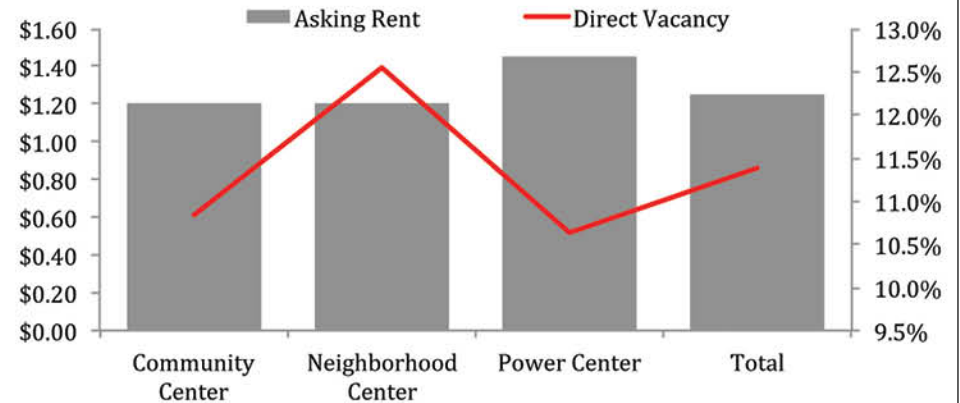
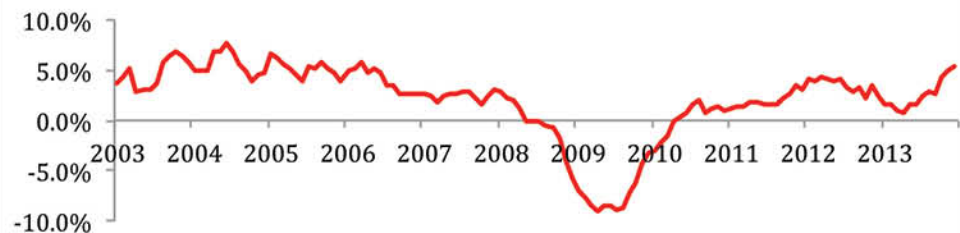


Table 5

	Asking Rent	Direct Vacancy
<b>Community Center</b>	\$ 1.20	10.84%
<b>Neighborhood Center</b>	\$ 1.20	12.56%
<b>Power Center</b>	\$ 1.46	10.63%
<b>Total</b>	\$ 1.26	11.39%

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

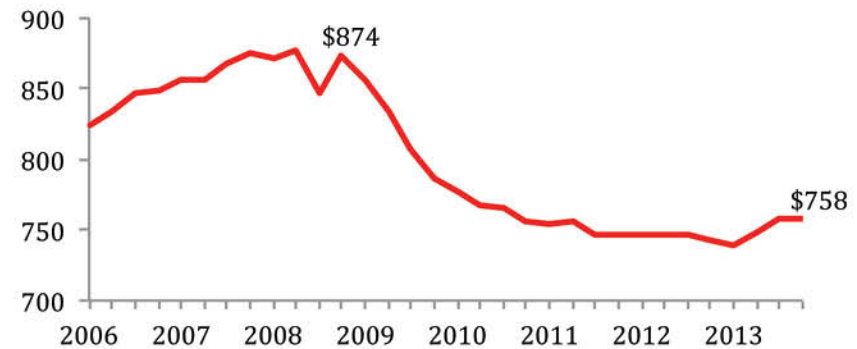


# COMMERCIAL TRENDS

## APARTMENT MARKET

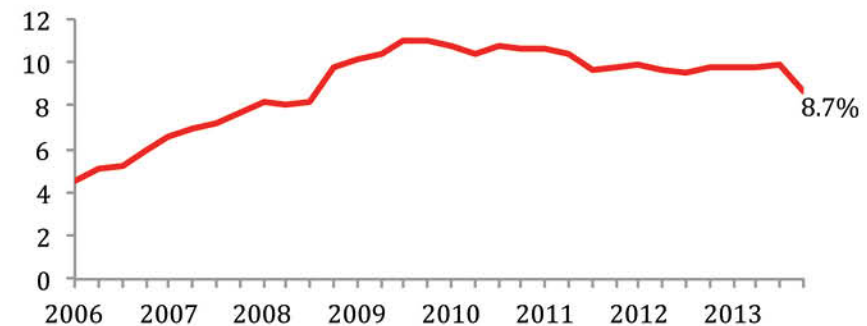
Apartment asking rents are the typical rates issued to new annual leases within apartment complexes with at least 20 residential units. Asking rents reported do not include additional costs of leasing units such as utility bills or pet premiums.

Figure 27  
APARTMENT  
ASKING RENTS



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 28  
APARTMENT  
VACANCY RATES



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

Figure 29  
ASKING RENTS BY  
APARTMENT UNIT TYPE



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# SOURCES

## **Southern Nevada Economic Situation**

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

## **Residential Trends**

Figure 9, 13, 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 11,12	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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