



## Economics Group

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# Las Vegas's Housing Recovery Built on Nontraditional Buyers

*Falling inventories and an influx of cash buyers have given Las Vegas home prices a boost. Housing market fundamentals are also improving, albeit at a slower pace than prices.*

## Las Vegas Housing Market: Speculators Still Rule

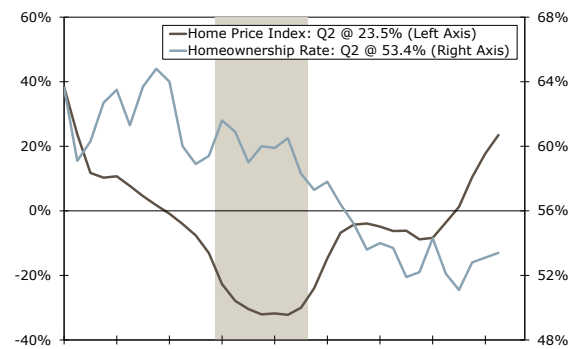
Speculators generally feel right at home in the Las Vegas housing market, which has seen prices jump up over the past year even as the homeownership rate remains low. The S&P/Case-Shiller home price index is up 23 percent over the past year. While the run-up in prices is welcome news, it also likely provides a misleading sense of how much improvement has actually taken place. A large proportion of recent buyers have been investors or absentee owners. Demand from traditional buyers has been lacking, probably due to still sluggish job and income growth. Traditional buyers are having a great deal of trouble competing with all cash bids offered by investors and foreign buyers.

Overall home sales in Las Vegas have risen 12 percent over the past year, with cash buyers accounting for nearly 60 percent of all purchases in July, according to DataQuick. Investors, foreign purchasers and cash buyers have typically been more active in Las Vegas but not to the degree seen recently. Las Vegas has historically had a lower rate of homeownership than the nation. The homeownership rate fell dramatically during the recession and its aftermath and is currently 53.4 percent, or 11.6 percentage points below the national average. The drop reflects both the carnage in housing sector, which saw a peak-to-trough price decline of 62 percent and an unusually deep recession that affected the gaming and convention business. Economic conditions have improved a bit recently, and the homeownership rate rose 0.3 percentage points in the second quarter. Las Vegas still has a long way to go before getting fully back on track. The state as a whole has added 12,200 jobs over the past year, and the unemployment rate has fallen 1.7 percentage points to 9.5 percent. Nevada still has the highest unemployment rate in the nation.

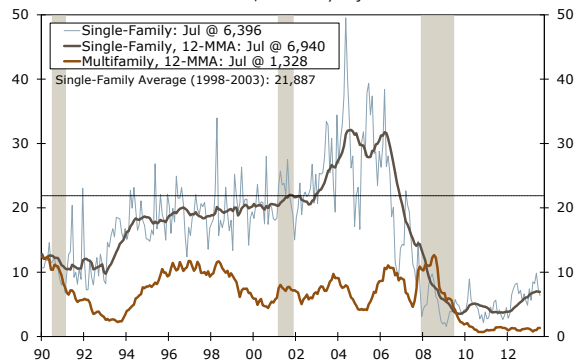
Although an influx of investors and slowly improving economy is a shaky foundation on which to build a housing recovery, the increase in home buying has produced some tangible benefits and set the stage for a more enduring recovery. Investors and foreign buyers have provided the necessary liquidity to help clear excess inventories. Investors have bought up much of the deeply discounted homes and condominiums, and median and average home prices have soared as higher-priced properties now account for a larger share of overall sales. The S&P/Case-Shiller Home Price Index has risen 30.5 percent from its trough. The rise in prices has helped reduce the number of homeowners that owe more on their mortgage than their home is worth from 62.0 percent one year ago to 39.3 percent.

With a dearth of new construction, even the modest economic recovery seen to date has been enough to cut apartment vacancy rates down to 5.9 percent. But with many homes and condos converted to rentals, a major uptick in construction still appears to be years away.

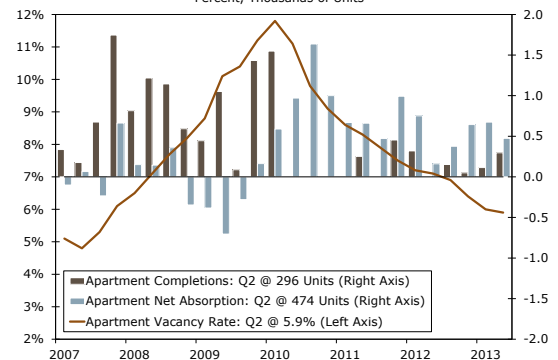
Las Vegas S&P Case Shiller HPI vs. Homeownership Rate  
Year-over-Year Percent Change, Rate



Las Vegas MSA Housing Permits  
Thousands of Permits, Seasonally Adjusted Annual Rate



Las Vegas Apartment Supply & Demand  
Percent, Thousands of Units



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