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Analysis of the Las Vegas, Nevada Housing Market

As of January 1, 2003

ECONOMIC RESEARCH

U.S. Department of Housing and Urban Development

Foreword

This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may be useful also to builders, mortgagees, and others concerned with local housing conditions and trends. The analysis does not purport to make determinations with respect to the acceptability of any particular mortgage insurance proposals that may be under consideration in a particular locality or the housing market area.

The factual framework for this analysis was developed by HUD's Economic and Market Analysis Division as thoroughly as possible on the basis of information available on the "as-of" date from both local and national sources. As such, they may be modified by subsequent developments. We wish to express our appreciation to those industry sources and government officials who provided data and information on local economic and housing market conditions.

This analysis takes into consideration changes in the economic, demographic, and housing inventory characteristics of the market area during three periods: 1990 to 2000, 2000 to the as-of date of the analysis ("Current date"), and from the Current date to a "Forecast date." The analysis presents counts and estimates of employment, population, households, and housing inventory as of the 1990 and 2000 Censuses, the Current date, and Forecast date. For the purposes of this analysis the forecast period is 24 months.

The prospective demand expressed in the analysis should not be construed as a forecast of building activity; rather, it presents the prospective housing production that would maintain a reasonable balance in demand-supply relationship given the market's condition on the as-of date of the analysis. This analysis was prepared by Mr. Lall B. Ramrattan, one of the Division's Field Economists in the San Francisco Regional Office, based on fieldwork conducted in December 2002. If there are questions regarding the findings and conclusions of the analysis, he may be reached at (415) 436–6571 and at Lall_B._Ramrattan@hud.gov.

Housing Market Area

For the purpose of this study the Las Vegas Housing Market Area (HMA) is defined as Clark County. The definition for the Las Vegas Metropolitan Statistical Area (MSA) includes two other counties: Nye County in Nevada and Mohave County in Arizona. However, they comprise only 12 percent of the MSA's population, and both are located some distance from the city of Las Vegas and are distinct, independent HMAs. The economies and housing markets for Nye and Mohave Counties have limited interaction with the Las Vegas economy and housing market, and are therefore not considered part of the Las Vegas HMA for purposes of this report.

Summary

The HMA will continue to have a moderate short-term rate of growth. The national economy should be recovering during the 2-year forecast period, increasing tourism and convention business to more normal levels. The Las Vegas economy is among the few areas in the nation facing the current downturn in a relatively robust, somewhat insulated manner. Since 2000 the population of the Las Vegas HMA has continued to grow, but at a lower rate than during the 1990s. In-migration is still strong.

The sales market has maintained high performance because of strong demand and low interest rates. However, the rental market has been adversely affected by the current downturn.
The volume of single-family homebuilding has increased steadily since the middle of the 1990s. Construction of new homes has been particularly strong since the beginning of 2000, averaging close to 22,000 homes a year. In response to slower conditions in the rental market developers have been reducing the level of new housing construction. Residential building permit activity, while still at high levels, is well below the peak levels of 1995 through 1998. Apartment construction is expected to recover to its potential toward the end of the forecast period. Full recovery in housing production will depend on the frequency and cost at which the Federal Bureau of Land Management (BLM) will release government-controlled land for development and what will happen to interest rates.

Overall, the Las Vegas economy continues to show strong growth, only slightly more than 1 percent below the long-term rate for the area since 1990. The rate of growth is expected to increase back to its long-term rate toward the end of the 2-year forecast period. It is estimated that there will be a demand for approximately 6,025 rental units and 20,900 units of sales housing annually during the 2-year forecast period.

Economy of the Area

The HMA's economic base is built on gaming and related activities. During the 1990s there were a significant number of new mega-casinos built. The rapid growth in the HMA in the 1990s was due in large part to building and renovation of hotels and casinos. Those activities plateaued in 2001 when the last large wave of 3,107 rooms was added. In 2002 the supply of new rooms was cut by more than half to 1,069, and is projected to reach bottom in 2003 when an estimated 746 rooms will be added. The next big wave will happen during the end of the forecast period when approximately 2,455 new rooms will be introduced.

New mega-casinos that were added in the late 1990s were designed to broaden the HMA's image as a desirable shopping, retailing, vacationing, and convention center destination. While visitor traffic slowed down with the national recession casinos and resorts have expanded efforts to attract its target population. They are advertising more and offering deeper concessions and discounts. Employment levels have been maintained by reductions in wages or the number of hours worked.

The trends in annual average civilian labor force and total employment and nonagricultural wage and salary employment by industry sector from 1992 through the Current date are presented in Tables 1 and 2, respectively. From 1997 through 2000 the unemployment rate was fairly stable. However, it increased by more than 1 percentage point during 2001 when the recession started. The decennial census shows that total employment expanded steadily between 1990 and 2000, adding 28,940 jobs a year, or annual rate of growth of 5.6 percent.

Nonagricultural wage and salary employment increased at an annual rate of 32,329 jobs between 1990 and 2000, or a 6.5 percent compound rate. All the sectors experienced more rapid growth during the second half of the decade than the first. Hotel, gaming, and recreation—the largest sector of the local economy—added 7,579 jobs annually between 1990 and 2000. Second was the services sector, which added 6,616 jobs annually. The retail trade sector added more than 2,000 jobs annually, much of this due to creation of shopping areas at the major new resort casinos.
The construction and service sectors added more than 1,000 jobs annually. Gains in construction employment were strong during the rapid growth period from 1995 to 1999, but activity has slowed since 2000 as new projects were put on hold.

Construction has just begun in downtown Las Vegas on the World Market Center, which is forecast to result in some 35,000 new jobs for the area. The first phase to be completed by 2005 will engage 500 construction workers and 1,000 permanent employees.

The University of Nevada at Las Vegas (UNLV) and Nellis Air Force Base (AFB) have been a stable influence on the local economy. As of fall 2003 UNLV enrollment totaled approximately 25,000 students (graduate and undergraduate), mainly in the areas of business, education, engineering, fine arts, and health sciences. UNLV currently has 3,371 employees. The number of military and military-connected civilian personnel in the HMA has remained fairly stable since 1996, averaging approximately 8,000 persons as of 2002. Direct payroll outlays for these personnel total almost $280 million annually. Most of the personnel (7,800) are stationed at Nellis AFB, the "Home of the Fighter Pilot," and the Air Warfare Center for the Air Force.

During the forecast period there should be a slower rate of employment growth at first with gradual recovery to follow. Employment is forecast to increase annually by 28,700 jobs, approximately the same rate as during the past 24 months.

Household Income

According to HUD's Economic and Market Analysis Division, the median family income in the HMA as of fiscal year 2003 was estimated to be $54,700. The HMA economy is comprised of a fairly large number of low- and moderate income service workers and retirees.

Population

The population of the HMA was estimated to be 1,575,000 as of the Current date, an average annual gain of 5 percent since 2000. This is an extremely rapid rate of growth, but is below the 6.4-percent rate recorded for the 1990 to 2000 period. The lower rate reflects the slowdown in employment that started at the end of 2001. The trends in population from 1990 through the Forecast date for the HMA are presented in Table 3.

Population change as a result of net natural increase (resident births minus resident deaths) averaged approximately 8,550 persons annually from 1990 to 2000. Data from the State Department of Vital Statistics indicate a relatively stable rate of increase in the first half of the 1990s and steady growth in the rate of increase in the second half. Net in-migration accounted for 87 percent of the population growth in the HMA during the decade. In-migration during the period averaged approximately 54,900 persons annually.

From 2000 to the Current date average annual net natural increase has increased to an average of 11,700 persons annually. In-migration during the period has averaged 60,900 persons annually, or 84 percent of the increase. The increase in net natural change and the consequent decline in the share of growth from in-migration is a reflection of the number of young families that have moved to the area since the middle of the 1990s.

During the 2-year forecast period, the population of the HMA is forecast to increase an average of 73,000 persons annually to 1,721,000, as of January 2005. This forecast assumes that the pattern of growth since 2000 will continue, with net natural increase estimated at 11,750 annually and in-migration averaging 60,875 a year.

Households

Household growth in the Las Vegas HMA has been keeping pace with population growth over the past 13 years, increasing at an annual rate of 22,500 between 1990 and 2000. Approximately 65 percent of the increase occurred within the last 5 years of the decade. This rapid growth was the cause of the residential construction boom, which continues today. As of the Current date the number of households in the HMA totaled an estimated 586,800, or an average annual increase of 27,100 since the 2000 Census. Table 3 presents the trends of households from 1990 through the Forecast date for the HMA. Growth in household formation in the HMA is the result of several factors. From 1990 to 2000 the rapid increase in employment opportunities attracted a large number of families to the area. In addition, the Las Vegas area has increasingly become a major destination market for retirees.

The impact of the military at Nellis AFB on local market conditions is not expected to change appreciably during the forecast period. Nellis AFB has approximately 1,350 units of military family housing. As of the Current date a 144-bed dormitory facility was under construction.

UNLV has a significant impact on segments of the rental market in the HMA. As of the Current date it is estimated that only 1,500 of the university's 25,000 students live on campus. Only one on-campus housing project of 466 beds is planned for next year. As the enrollment increases so will the demand for rental housing.

Based on recent trends in household size, expected population growth as a result of employment increases, and increased in-migration it is forecast that the number of households in the HMA will increase by 27,400 annually during the 2-year forecast period.

Housing Inventory

In response to the rapid population and household growth the housing inventory of the Las Vegas HMA has grown significantly since 1990. The inventory of owner units increased by 15,400 units annually from 1990 to 2000, and the rental inventory increased an average of 7,100 units. As of the Current date there are an estimated 636,500 housing units in the HMA, or an average annual change since the 2000 Census of 27,900 units. The counts of housing inventory, occupancy, and vacancy by tenure for 1990, 2000, and the Current date are presented in Table 4.

Using building permits as a measure, there has been an unprecedented volume of residential construction in the HMA during the past 13 years. From 1990 through 1994 single-family building permit activity averaged 13,550 homes annually. Because of rapidly growing economy and affordable cost of housing and financing, activity increased during the 1995 through 1999 period to an average of 19,300 homes annually. The economic slowdown during the past 24 months has had little effect on the strength of demand for new homes. Single-family building permits have averaged 21,750 homes annually from 2000 to the Current date.

With the growing and diversifying economy and the significant in-migration of seniors retiring to the area, the tenure of the housing inventory has shifted dramatically since 1990. The rate of homeownership increased from 52 to 59 percent from 1990 to 2000. The rate has increased even faster since 2000 to an estimated 61 percent as of the Current date, reflecting the affordable cost of housing in the HMA, low mortgage interest rates, and the increasing numbers of existing homeowners relocating to Las Vegas. The trend of increasing homeownership rates is expected to continue during the forecast period.

The southwest area of Clarke County has been the location of much of the growth in both sales and rental housing, since other parts of the county are more constrained by the lack of infrastructure and buildable lots. The southwest area will continue to lead the HMA in single-family homebuilding. A substantial amount of the land is privately held by large entities such as Rhodes Ranch and Coronado Ranch, so developers here are not dependent on release of land from or swaps with the federal government as is the case with other parts of the HMA. Single-family detached homes continue to be the dominant preferred product in the sales market.

Single-family attached housing has a minor but stable share of the new home market, averaging approximately 4 percent of the HMA housing inventory from 1990 through the Current date.

Multifamily activity in the HMA in the first half of the 1990s averaged 5,750 units annually, while the rental market in the area continued to absorb a surplus of units as a result of overbuilding in the later half of the 1980s. However, with the rapidly expanding economy and the increased demand for rentals as a result of the boom in construction of mega-casino/hotels, activity increased to approximately 9,750 units annually from 1995 to 1999. With the slowdown in the economy and the softer market conditions in rental housing permit activity from 2000 to the Current date declined to an average of 6,600 units annually. From 2000 to the Current date much of the new apartment development was occurring in the southwest of the HMA, where the recently completed Interstate 215 freeway substantially reduced commuting time to the downtown areas. Condominiums accounted for approximately 26 percent of the multifamily construction between 1990 to 2000. Since 2000 the share of condominiums has slipped slightly, to approximately 0.5 percent.

Housing Vacancy

The vacancy rates for both owner and renter units have been stable in the HMA since 1990: around 2.6 percent and 9.8 percent, respectively in 1990 and 2000. The stablity of the owner vacancy rate and its relatively high level in comparison to other market areas in the nation, reflects the continued strong demand for new homes as a result of rapid increase of new households moving to the HMA seeking homes, the affordable price sales housing in the HMA, and low mortgage interest rates that facilitate increased homeownership for first-time buyers.

The rental vacancy rate in the Las Vegas HMA has been in the range of 9 to 10 percent since 1990. Normally a rate this high would be unacceptably high and suggestive of a severely soft market. In such a rapidly growing market such as Las Vegas, however, a rate at this level is indicative of only modest softness and should be considered as close to a balanced condition. The level of vacancies also reflects the actions of developers to continue to build during the downturns in the market in preparation for the recovery. Since the 2000 Census the rental vacancy rate declined to 9 percent as the production of new rentals has slowed.

Sales Market Conditions

Sales activity in the HMA has tracked the growth in population and households during the past 13 years. Sales activity has more than doubled between 1990 to 2002. The growth reflecting the steady increase of new households, both workers and retirees, migrating to the Las Vegas area. From 1990 through 1994 existing sales averaged 12,900 annually. From 1995 through 1999 existing sales averaged 20,300 homes annually. From 2000 to the Current date existing sales have averaged 34,200.

Between 2000 and the Current date the sales market has been very strong. According to the *Las Vegas Housing Market Letter* activity reached a peak in 2001 with sales of 22,940 new homes and 34,427 existing homes, increases of 11 percent and 17 percent, respectively, over the 2000 volume. The median sales price of a new home increased 9 percent to $169,414, and the median price of existing homes was up 6 percent to $138,408. Despite a slower economy sales demand increased significantly in 2002. New home sales for the year totaled 22,502, off less than 2 percent, but the median price increased to $182,832. Existing sales activity increased a dramatic 12 percent to 38,621 homes and the median price increased 8 percent.

Other forms of sales housing such as condominiums are struggling to maintain market share. Some condominium builders currently find liability insurance against construction defects lawsuits more difficult to obtain or increasingly costly. A bill is now being considered in the Nevada legislature that would address the issue. Recently, the share of condominium sales has been declining. Home Builders Research, Inc., of Las Vegas estimated that condominium sales slipped from 16 percent in 2001 to 11 percent of new sales in 2002.

Rental Market Conditions

The HMA rental market remains strong but very competitive. Apartment vacancy is currently 9 percent according to a survey of large apartment complexes by CB Richard Ellis. Concessions are common and are typically 1 month’s free rent. The rental market has held up relatively well despite the slowdown in renter demand and the increased shift of renters to homeownership. Reacting to the more competitive market conditions developers have reduced production. According to information from the firm of CB Richard Ellis, while net absorption of rentals during the downturn in 2001 reached a low point 2002 has recorded a substantial comeback in the market. CB Richard Ellis reports that net absorption during the recent downturn has averaged approximately 5,000 units annually. The result has been that the rental market has experienced a stable, but relatively high vacancy rate, along with a level of concessions that reflects the state of the economy.

Forecast Housing Demand

Because household growth is estimated to be slightly less in the forecast period than from the 2000 to the Current date, housing demand will be moderated. Annual demand is anticipated for approximately 20,900 new owner units and 6,025 new renter units over the 2-year forecast period ending January 1, 2005. This level of demand will allow for the absorption of any excess vacancy and construction and while maintaining a generally balanced market condition. This estimate of demand also reflects expectations that the recent trends in the shift of renters to homeownership will continue. Single-family detached homes will continue to comprise the dominant share of the new home market.

Table 6 presents the distribution of demand for new rental units by rent range during the 2-year forecast period. The annual rental demand forecast is approximately equal to the average annual building permit volume during the past 3 years. The distribution of forecast demand for market rate rental units by bedroom size was based on a combination of data related to the distribution of renter households by size, the distribution of the rental inventory as of the 2000 Census, the trends in production since the Census, the current pipeline, and market conditions. Most new apartment construction will continue to be in Class A market-rate developments, with a few affordable developments addressing the needs of more modest-income renters. During the forecast period two-bedroom units will comprise the largest segment of the demand. Estimated annual demand is for 2,350 two-bedroom units with minimum gross rents of $900. The remaining estimated annual demand is for 490 efficiencies, 1,770 one-bedroom units, and 1,410 units of three or more bedrooms.

Table 1

Labor Force and Employment Trends

Las Vegas HMA

1992 to January 1, 2003

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Prior 12 Mos.	Current 12 Mos.
Labor Force	450,032	473,565	508,177	525,229	557,435	593,252	624,228	649,936	688,039	719,872	717,144	741,072
Employment	420,007	439,103	476,930	496,782	527,892	569,554	598,279	621,256	659,513	680,122	679,310	698,482
Unemployment	30,025	34,462	31,247	28,447	29,543	23,698	25,949	26,680	28,526	39,750	37,834	42,590
Rate (%)	6.7	7.3	6.2	5.4	5.3	4.0	4.2	4.4	4.2	5.5	5.3	5.8

Source: Nevada State Department of Labor

Table 2

Nonagricultural Wage and Salary Employment

Las Vegas HMA

1992 to January 1, 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Current 12 Mos.
Total	390.1	415.6	467.1	502.2	548.3	585.8	615.5	662.8	697.5	720.0	745.0
Agriculture, forestry, and fishing	2.7	2.9	3.4	4.0	4.9	5.3	5.9	6.4	6.7	7.4	
Mining	0.3	0.4	0.4	0.5	0.5	0.6	0.7	0.7	0.7	0.5	
Construction	27.1	33.6	39.1	43.8	55.1	60.7	65.2	66.3	64.9	66.0	
Manufacturing	10.9	12.7	14.5	16.4	17.8	18.9	19.4	19.9	20.9	22.1	
Tran., communications, and utilities	19.9	21.1	23.6	25.8	28.0	30.3	32.3	36.0	39.2	40.6	
Wholesale trade	13.7	13.1	14.7	16.6	17.8	19.1	20.3	21.2	21.7	21.9	
Retail trade	66.8	68.9	76.3	83.0	91.2	98.6	105.8	115.2	124.6	130.9	
Finance, insurance, and real estate	19.4	21.1	23.6	25.0	27.0	28.5	31.0	32.1	34.1	36.2	
Hotel, gaming, and recreation	117.0	123.0	142.6	147.7	155.3	162.2	164.3	182.7	189.9	188.4	
Other services	66.2	70.7	79.3	87.0	95.1	102.4	107.4	116.1	125.7	133.3	
Government	45.8	47.7	49.5	52.2	55.1	58.8	62.9	66.1	69.0	72.5	
Not classified	0.2	0.3	0.2	0.5	0.5	0.5	0.3	0.3	0.3	0.2	

Notes: Numbers may not add up to totals due to rounding.
Data for current 12 months data are not available.
Since the as-of date corresponds with the calendar year, the “Prior 12 Months” is 2001.

Sources: Nevada State Department of Labor (E202 Series)
Totals—estimates by Analyst

Table 3

Population and Household Trends

Las Vegas HMA

1990 to January 1, 2005

	April 1, 1990	April 1, 2000	Current Date*	Forecast Date	Average Annual Change 1990 to 2000 Number	Rate(%)	2000 to Current Number	Rate(%)	Current to Forecast Number	Rate(%)
Population										
Clark County	741,459	1,375,765	1,575,000	1,721,000	63,450	6.4	72,450	5.0	73,000	4.5
Households										
Clark County	287,025	512,249	586,800	641,600	22,500	6.0	27,100	5.1	27,400	4.6

Notes: *Current as of January 1, 2003.
Rate of change calculated on a compound basis.
Data do not add because of rounding.

Sources: 1990 and 2000—U.S. Census Bureau
Current and Forecast—Estimates by Analyst

Table 4

Housing Inventory Tenure and Vacancy

Las Vegas HMA

1990 to January 1, 2003

	1990	2000	Current
Total housing inventory	317,188	559,799	636,500
Occupied units	287,025	512,249	586,800
Owners	149,007	302,834	359,700
%	51.9	59.1	61.3
Renters	138,018	209,415	227,100
%	48.1	40.9	38.7
Vacant units	30,164	47,546	49,700
Available units	18,978	30,567	31,700
For sale	3,940	8,128	9,200
Rate (%)	2.6	2.6	2.5
For rent	15,038	22,439	22,500
Rate (%)	9.8	9.7	9.0
Other vacant	11,186	16,979	18,000

Note: Numbers have been rounded for comparison.

Sources: 1990 and 2000—U.S. Census Bureau
Current—Estimates by Analyst

Table 5

Residential Building Permit Activity

Las Vegas HMA

1990 to January 1, 2003

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Clark County													
Total	20,703	17,864	13,429	19,036	25,570	27813	30,935	29,176	30,644	26,856	26,234	29,707	29,153
Single-family	11,201	12,563	10,064	15,657	18,347	18,527	19,186	19,127	19,856	19,919	21,282	21,871	22,145
Multifamily	9,502	5,301	3,365	3,379	7,223	9,286	11,749	10,049	10,788	6,937	4,952	7,836	7,008

Source: U.S. Census Bureau, C–40 Series

Table 6

New Market Rate Rental Housing

Estimated Qualitative Annual Demand for
Las Vegas HMA

January 2003 to January 2005

Zero Bedroom		One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
550	490	800	1,770	900	2,360	1,050	1,410
600	420	850	1,520	950	1,960	1,100	1,150
650	370	900	1,400	1,000	1,750	1,150	1,050
700	320	950	1,230	1,050	1,500	1,200	950
750	270	1,000	1,040	1,100	1,240	1,250	840
800	220	1,050	840	1,150	990	1,300	730
850	170	1,100	660	1,200	780	1,350	630
950	130	1,200	510	1,300	610	1,450	550
1,050	100	1,300	390	1,400	480	1,550	470
1,150	70	1,400	300	1,500	370	1,650	280
1,250	60	1,500	220	1,600	280	1,750	140
1,350	40	1,600	160	1,700	70	1,850	120
1,450	30	1,700	120	1,800	20	1,950	110
1,550 or more	0	1,800 or more	30	1,900 or more	20	2,050 or more	100

Notes: Distribution above is noncumulative. Demand of fewer than 10 units is shown as 0.
Numbers have been rounded for comparison.

Source: Estimates by Analyst