Is Nevada’s Housing Market Really Recovering?
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Is Nevada’s Housing Market really recovering? For 11 straight months, home prices in Las Vegas have been rising, and the rest of the state appears to be following. If so, then this is a positive indicator for Nevada, as well as for the entire country.

Nevada accounts for less than 1% of the nation’s economy, but we accounted for a much larger proportion of the financial crisis which created the Great Recession. The housing bubble began on the coasts, especially in the behemoth to our west. Nevada benefitted as homeowners, retirees and investors began looking for cheaper alternatives. Construction became one of our state’s major industries, propelling growth and interstate migration even as our famous gaming industry was waning. Assisted by easy credit and speculative behavior, home prices rose by 120% from 2000 to 2006, a 90% increase relative to inflation.

When the bubble popped in 2006, housing prices plummeted more in Nevada than in any other state, though some suburban pockets elsewhere had similar experiences. In California, as in the country as a whole, the average decline in the housing market brought prices more or less back in line with where they had been in 2000, adjusting for inflation. In Nevada, however, the correction was much more severe. Home prices dropped by two-thirds relative to inflation, and still remain 30% below where they were for several decades before the bubble. From a historical perspective, homes became a real bargain.

More than half of Nevada’s total job losses in the Great Recession came in the construction sector, and the fact that this sector was twice the size of the national average almost entirely explains why Nevada’s unemployment rate became the highest in nation – until, finally, last month.

With the highest unemployment rate, the largest drop in personal income, the highest percentage of newly occupied homes, and the biggest fall in housing prices, it is no surprise that two-thirds of homeowners had negative equity by 2011 – the highest in the nation, of course – and the highest foreclosure rates, roughly 5000 per month at their peak. Many homeowners found it very difficult to sell their homes and impossible to refinance them, so many walked away out of choice or necessity. One in seven homes was left vacant, although a low level of new home construction continued for the small number of buyers who preferred their houses unused.

Banks got a little hurried and careless in processing all these foreclosures, and in 2011 the state legislature responded to abuses by passing AB 284, amending state law to prevent “robo-signing” and fraudulent foreclosures. On the surface this may have been innocuous, as the law required a signed affidavit from the bank official, but in practice it led to a dramatic 57% drop in the number of foreclosures. More Nevada homeowners then remained in their homes – some estimate 50,000 or more – even after they stopped making their mortgage payments, instead of sending their keys in “jingle mail” to their banks.

On one hand, keeping more people in their homes – even those not paying their mortgages – led to fewer empty houses in neighborhoods where such vacancies affected the home values of their neighbors who kept paying their own. On the other hand, it reduced the supply of cheap homes on the market, constricting the real estate market, and may have created an artificial “mini bubble” in the local market.

In 2010, many properties were available on the courthouse steps at cheap prices for buyers with cash, and foreclosures accounted for half of all home sales. By early 2012, however, anecdotes told of bidding wars for the few properties coming to market, and prices began to turn around. Some credited the number of unforeclosed properties with the rise in retail sales, especially for automobile purchases, while personal income barely kept up with inflation and population growth. Based on available data, however, it is not likely that these unpaid mortgages exceed 1% of Nevada’s personal income in total, while taxable sales in Nevada rose by 6% in 2012 over the prior calendar year.

There appears to be much more going on than can be explained by AB 284, or by the construction defect law known as Chapter 40, a decade-old law which profited some law firms at the expense and risk of construction firms. Foreclosures decreased in 2012 nationwide, perhaps discouraged by the Mortgage Settlement Agreement between 49 state attorneys general and the five biggest mortgage servicers.
The national market is showing the same signs of market recovery as we see in Nevada. Vacancy rates are beginning to drop, and the Census Bureau calculates that home ownership rates have dropped from 69% to 66%, roughly where they were in 1997, before the bubble began.

The inventory of homes on the U.S. market has dropped from a 12 month supply to 4 months, the lowest levels since 1994. Builder confidence fell this month for a very unusual reason: there is too much demand for new houses, relative to the available land, labor, and building supplies. Housing starts are beginning to recover from their record lows, and the number of construction workers building homes nationally has actually risen, albeit only a little, for two years in a row. According to Fannie Mae, a majority of Americans now think home prices will continue rising. This confidence is essential.

Nevada is lagging the national market in the short supply of housing, not leading it. Construction employment has continued to fall, even though state population has continued to grow in spite of expectations otherwise. The share of homes underwater has fallen from two-thirds to one-half, still highest in the nation but a big improvement.

So far, most of the real estate activity has been in the lower price ranges. In Washoe County, fully two out of three homes sold over the last two years has been priced below $200,000, the range where foreclosure rates have been higher. In Las Vegas, foreclosures now account for fewer than 10% of sales. Many homeowners who might have put their homes on the market have been waiting for prices to start rising, and many buyers have been nervous about buying a home at a price which they feared might continue to fall. It has been hard to compete with the sale of distressed properties. But all this is starting to change, and the share of homes sold at the upper end is starting to rise. Once we actually see firm data on this, we can breathe easier.

There are still a substantial number of mortgages more than 90 days past due, especially in Nevada, and once these hit the market there may be a drag on price increases. The number of bank-owned properties is down considerably over the last year, though the number of mortgages in the preliminary stages of foreclosure is up. But these effects are likely to be dwarfed by both pent-up demand and supply, as the market finally starts returning to normal and home prices are still far below long-run values. If so, we can expect a little upward pressure on mortgage interest rates to begin, and we can expect to finally see the end of the deleveraging process which has led to this long, long recession.

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