NEVADA STATE BANK PRESENTS

A Positive Outlook

On Housing and Bubbles

Jeremy Aguero, Consultant

APPLIED ANALYSIS

A resurgence of the local housing market has led to some mixed emotions for Southern Nevada residents. Higher prices translate into more equity for homeowners. In fact, every one percent increase in housing prices translates into $1.2 billion in new or recovered equity for the valley's single-family residential homeowners. According to the Federal Housing Finance Agency's most recent report, the Las Vegas metropolitan statistical area reported the greatest appreciation among the nation's largest 100 metropolitan areas during the past year: 17.1 percent. And, sustained gains have helped reduce the share of underwater mortgages, i.e., those where the home value is less than the home mortgage, from approximately 75 percent in 2010 to less than 8 percent today.

Recovered home equity notwithstanding, for many, nation-leading price increases are all too familiar. Residential research firm SalesTraq puts the current price of a median existing home at $260,000 and a median new home at a record $377,000. At the same time, the National Association of Home Builders reports that Las Vegas' housing opportunity index—a measure of relative affordability—has fallen from 88.7 in 2012 to 58.8 in 2018. Translation: housing prices are outstripping incomes.

Current housing trends are unsustainable. That, however, does not mean that Southern Nevada is in the midst of a housing bubble. Consider the fundamentals. Clark County was permitting more than 43,000 housing units in 2006; at present, that number is only 14,000. Between 2006 and 2007, homes listed by REALTORS© more than doubled from 13,400 to 29,000. Between January 2017 and May 2018, listings decreased from 6,600 to a very modest 5,000. Today, effective resale housing inventory stands at 1.3 months, less than half the 10-year average level of 3.1 months; and, for homes priced under $300,000, the effective inventories are measured in weeks, not months.

Combine these supply-side considerations with strong rates of population and employment growth, increasing equity in-migration from states like California, limited land availability and an improving economy where families are resurfacing after epidemic levels of joblessness, bankruptcy and foreclosure, and you have a condition where there are simply too few homes available for those wanting to buy in or buy up. The result: double-digit increases in home prices.

Southern Nevada is not in a housing bubble. We are in a strong sellers' market that could become a bubble if prices continue to escalate on their current trajectory for an extended period or if the market fails to adapt to an unanticipated shift in economic conditions (e.g., a recession). The bigger risk is not the bottom falling out of the housing market, it is a continued run up in housing prices, decreasing affordability and making housing unattainable for working families.

Ironically, the ability to attract and retain workers will be the single most important factor in Southern Nevada's ability to reach its economic potential during the next decade, and those workers will need affordable housing. Thus, ensuring housing accessibility and affordability may very well prove a critical factor in sustaining housing prices in a healthy economy.