Southern Nevada's Past Predicts Positive Future for Real Estate Market

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While all sectors of the Southern Nevada real estate market have faced challenges due to the subprime mortgage crisis and softening of the economy, analyzing the history of Southern Nevada's real estate market reveals a pattern that forecasts the reemergence of a healthy and robust market over the next few years.

Looking back throughout the history of the Southern Nevada real estate market, it is undeniably evident that the vitality of the local economy and real estate market is largely driven by major hotel/casino property openings.

When new resort properties open, a ripple effect occurs throughout the valley. Tourism increases, jobs are created, new residents relocate to Las Vegas, consumer spending increases and the overall economy benefits.

In 2007, no resort properties opened in Las Vegas and unsurprisingly, the valley experienced negative job growth. In 1992 and 2002, Las Vegas also posted negative job growth and similarly did not have any major property openings.

While 2007 lacked employment growth, new resort properties opening in 2008 and beyond, such as The Palazzo and MGM City Center, will create a significant amount of new employment opportunities.

In fact, 7.1 total jobs throughout the community are created by each new hotel room, and with nearly 40,000 hotel rooms coming on line over the next five years, more than 285,000 new jobs will be created.

Employment growth will increase population, which is projected to be 2.5 million by 2012. With this growth, demand for housing will increase. In the next five years, the market is expected to demand 177,500 total new housing units. The apartment market, in particular, is poised for growth and is estimated to report a shortage of more than 1,200 units by close of 2008, a figure that is expected to increase to nearly 8,700 units by 2009.

Elements within the apartment sector are already improving. The first quarter of 2008 posted performance numbers that indicate the market is stabilizing and the pendulum is slowly swinging back to a robust market.

Rental rates in the first quarter 2008 within the apartment sector have remained flat compared with the previous quarter and are up slightly, 1.8 percent, over the first quarter 2007. Similarly, occupancies have increased during the first quarter, reaching an average of 92.7 percent compared with 92.3 percent in the previous quarter.

Despite job losses in the first quarter 2008, the upward trend in apartment occupancy is proof that the apartment market is recapturing residents that were previously lost to single-family rentals. Many investment home owners lured apartment renters with lower pricing and the perception of a better value. It is now becoming obvious that the stability of a professionally run apartment complex and the services provided by professional management well outweigh the discounts given by the single-family landlord.

Las Vegas remains one of the most robust economies in the nation when measured in terms of population growth, employment growth, aggregate income growth and overall economic activity. One of the most important factors to note when exploring the city's past is that historically, it is resilient in tough economic times, being one of the first cities to recover from an economic downturn.

Stabilizing Market:

- Last year, 2007, saw the largest oversupply of housing in Las Vegas' history. Single-family home builders have reacted by adjusting their pipelines, and permit activity is at its lowest since 1994. As a result, single-family vacancies are decreasing, and it's expected the market will once again see a housing shortage. Median single-family home prices are also coming down, but it is more of a correction than depreciation.

- While declines in pricing within the single-family housing market have reduced the overall gap between the cost of owning a home and the cost of apartment rent, a material variance remains, continuing to make apartment rentals a more affordable option. Home ownership costs have increased 69 percent since 2001, while the average cost of apartment rentals have increased only 24 percent during the same period.

- With it being more difficult to buy a home, people are looking to apartment complexes with high-end amenities. New construction in the multifamily market is concentrated in A-type properties, and renters are willing to pay those prices.

- With its current population topping 2 million, Las Vegas continues to mature into a "real city" with a diversified job market, bringing more middle-income renters into the market. The gaming sector currently comprises only 19 percent of the job market, down from 27 percent in 1994.

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