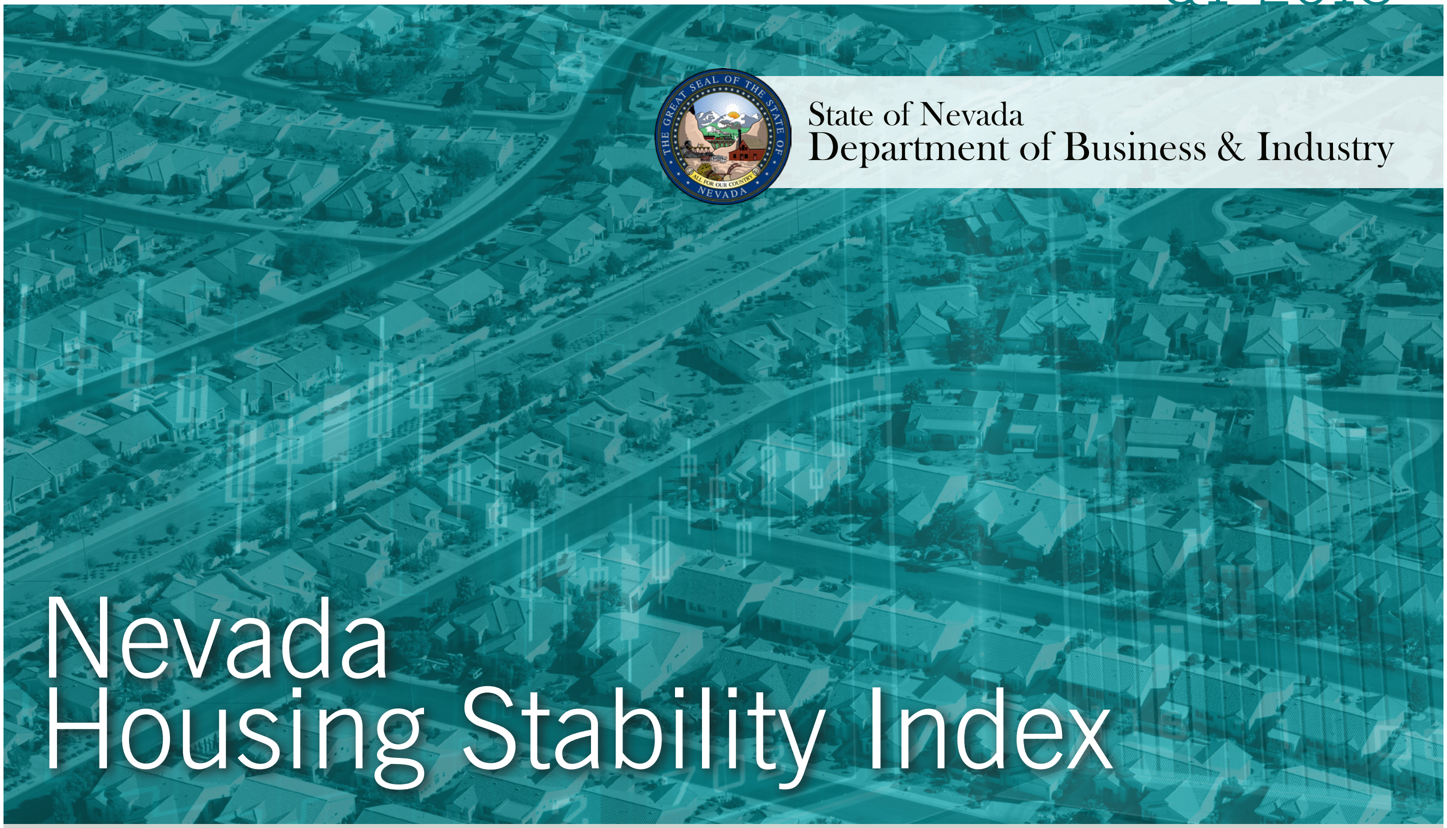
Q1 2013



Nevada Housing Stability Index

OVERVIEW

The Nevada Housing Stability Index (NHSI) is intended to monitor the overall health of Nevada's housing market as opposed to simply the movement in home prices. While directional movements in median home prices are a critical component to evaluating the housing sector, they only depict part of the picture. Pricing may move up or down for any number of reasons. In situations where availability is artificially limited, prices may rise. Similarly, when prices extend well beyond consumers' ability to pay commensurate mortgage payments, the market may be viewed as unstable.

In an effort to assess the market's overall stability, a series of ratios and performance metrics have been developed. Each of these 12 independent series has been consolidated to create the NHSI. These measures have been weighted based on their relevance and importance to the housing market's performance. The weighted average of the above indices is then calculated to formulate a grade point average (GPA) for the housing market. Given concerns about stability in the housing market throughout recent history, it has been impracticable to achieve a 4.0 GPA, or a perfect score. An aggregate grade of a "C" represents an average quality housing market. It is important to understand the directional movements in the composite score, including the driving forces behind the changes quarter-to-quarter. This analysis is intended to provide additional insight into Nevada's housing market stability.

ABOUT BUSINESS & INDUSTRY

The Nevada State Department of Business and Industry is a cabinet level agency in Nevada State government. Our objective is to encourage and promote the development and growth of business and to ensure the legal operation of business in order to protect consumers by maintaining a fair and competitive regulatory environment. The Director's office at B&I manages a number of programs and initiatives to address the needs of small businesses, homeowners and consumers including small business advocacy, bond programs, access to capital, housing retention programs, constituent services and fraud prevention and education.

Funding provided by the Housing Data and Index Project, a joint initiative of

State of Nevada
Department of Business & Industry

UNLV LIED INSTITUTE FOR REAL ESTATE STUDIES
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Current **Assessment**

Stability in the Nevada housing market continued to improve from the prior year as the composite index rose from 1.04 to 1.45 in the first quarter of 2013. On a four-point grading scale, the market trended up from a D score to a grade of D+ during the past 12 months. Compared to the preceding quarter (Q4 2012), the index dipped after nearly breaking into market-average territory of 1.59 points, or a grade of D+. While conditions have been improving in recent quarters, concerns continue to loom given the clear dichotomy in a market leading the nation in both price appreciation and mortgage holder delinquency.

Positive **Signs**

Areas experiencing the greatest level of improvement on a year-over-year basis included foreclosure volumes, distressed sales volumes and the differential between new and resale closing prices. Foreclosures and related metrics have slowed; however this has not translated into a material improvement in the delinquency rate. Prices are rising, and the gap between new and existing home sales and rental and ownership is returning to equilibrium levels. This is a good sign, particularly for existing home owners and home builders.

Negative **Signs**

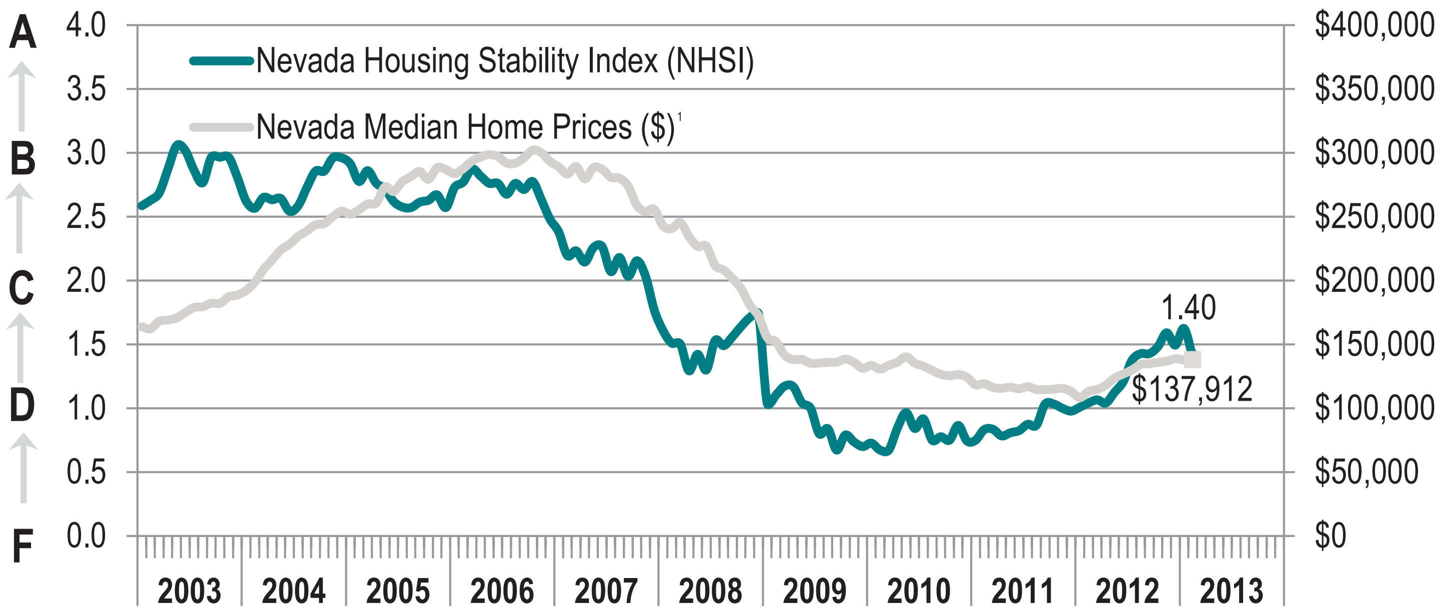
The share of homes sold to investors (cash buyers) remains elevated with nearly 6 in 10 closings taking place with cash buyers. Additionally, availability in the market has trended negatively and into an area of heightened concern. With approximately 1.3 months of effective inventory on the market, end-users are facing challenges competing with the current demand profile. This, combined with elevated foreclosure inventory, is putting upward pressure on prices that may not be sustainable.

1	Underwater Loan Percentage	67.3%	D
2	Community Borrowing Ratio	37.6%	D+
3	Foreclosure Volume	4.5%	D-
4	Distressed Home Sales	47.3%	C-
5	Investor Purchase Share	59.4%	F
6	Delinquency Rate	10.6%	D-
7	Housing Turnover Rate	0.62%	C
8	New-to-Resale Price Ratio	134.8%	B-
9	Resale Housing Availability	1.3	F
10	Rent vs. Cost to Own	235.7%	D-
11	Housing Affordability Ratio	17.2%	D
12	New Construction Supply-Demand Balance	2.42	A
	AGGREGATE INDEX VALUE	1.40	D+

Nevada Housing Stability Index

Index Component	INDEX VALUE Current Period Q1 2013	INDEX VALUE Preceding Period Q4 2012	INDEX VALUE Prior Year Period Q1 2012	GRADE Current Period Q1 2013	GRADE Preceding Period Q4 2012	GRADE Prior Year Period Q1 2012
1. Underwater Loan Percentage *(Share of Loans with Negative Equity)*	67.3%	65.9%	74.5%	D	D	D-
2. Community Borrowing Ratio *(Loans-to-Employment Ratio)*	37.6%	39.0%	41.2%	D+	C-	C+
3. Foreclosure Volume *(Share of Mortgages in Foreclosure)*	4.5%	4.8%	5.2%	D-	D-	F
4. Distressed Home Sales *(Distressed Sales as a Percentage of Total Sales)*	47.3%	51.9%	74.6%	C-	D+	F
5. Investor Purchase Share *(Cash Purchases as a Percentage of Total)*	59.4%	52.1%	53.2%	F	D-	D-
6. Delinquency Rate *(Share of 90+ Day Delinquencies to Total Loans)*	10.6%	11.2%	12.9%	D-	D-	D-
7. Housing Turnover Rate *(Resale Closings as a Percentage of Total)*	0.62%	0.69%	0.48%	C	C	D+
8. New-to-Resale Price Ratio *(New Home Prices as a Percentage of Resale Prices)*	134.8%	138.4%	176.8%	B-	C	F
9. Resale Housing Availability *(Effective Months of Availabilty)*	1.3	1.5	2.2	F	D-	D+
10. Rent vs. Cost to Own *(Average Rents as a Percentage of Mortgage Costs)*	235.7%	160.9%	179.4%	D-	D+	D-
11. Housing Affordability Ratio *(Mortgage Costs as a Percentage of Average Wages)*	17.2%	16.2%	14.9%	D	D	D-
12. New Construction Supply-Demand Balance *(Employment Change-to-Permits)*	2.42	2.66	1.95	A	A	A-
Aggregate Index Value (4-Point Grading Scale)	**1.40**	**1.59**	**1.04**	**D+**	**D+**	**D**

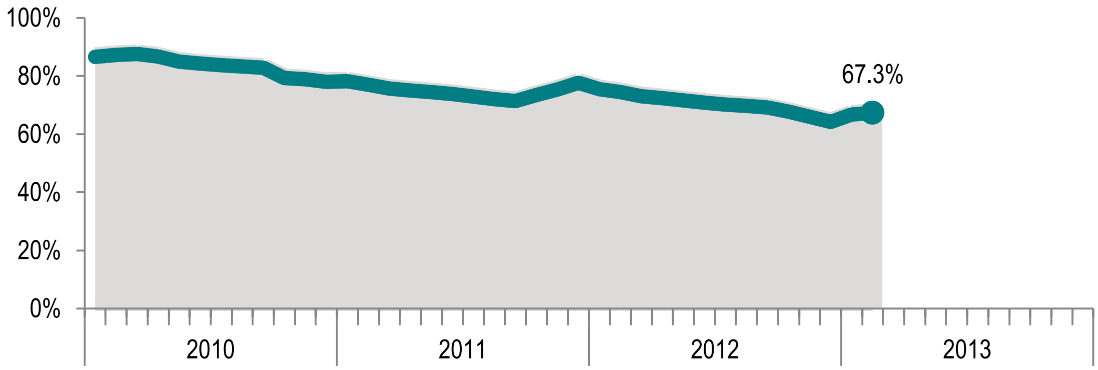
Nevada Housing Stability Index



[1] **Source:** CoreLogic

Underwater Loan Percentage

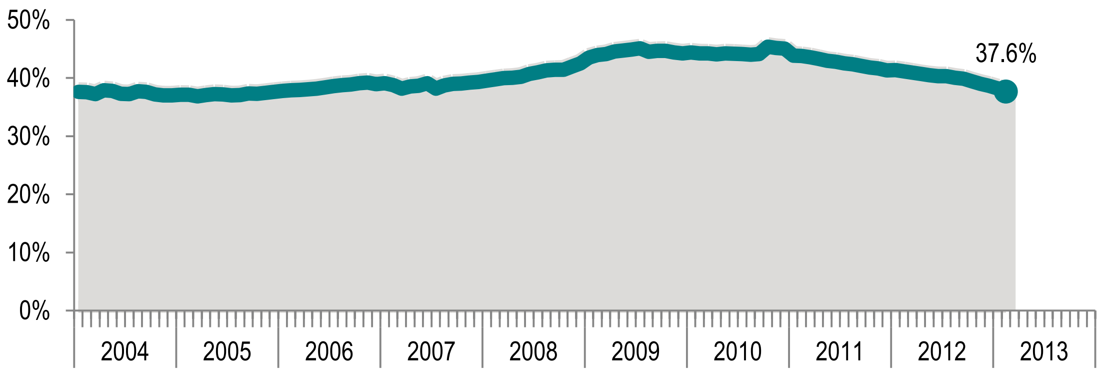
Share of Loans with Negative Equity



The ratio of homes with negative equity compared to the total number of loans in Nevada. The higher this ratio, the worse off the housing market is with more homeowners underwater on their loans.

Community Borrowing Ratio

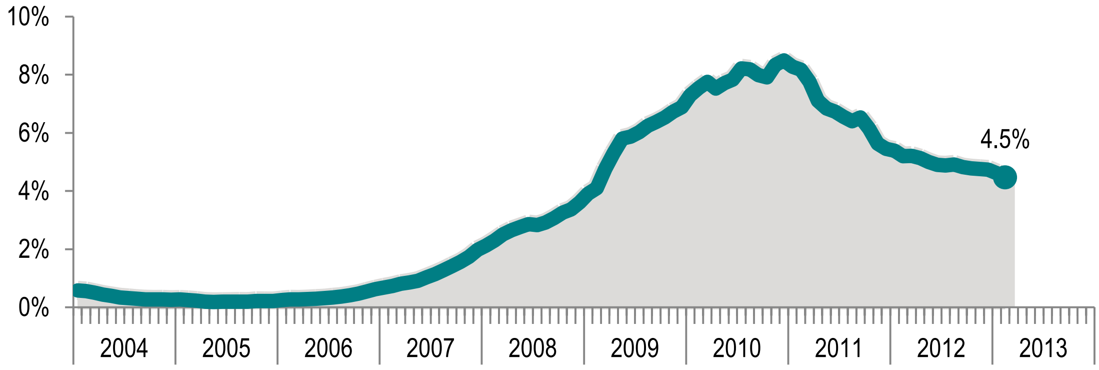
Loans-to-Employment Ratio



Measures the ratio of the total number of first home loans outstanding relative to the non-farm employment in Nevada. Ratios closest to the historical average are graded higher suggesting more balanced levels of borrowing, while a ratio too high or too low relative to the historical average suggests an unstable housing market.

Foreclosure Volumes

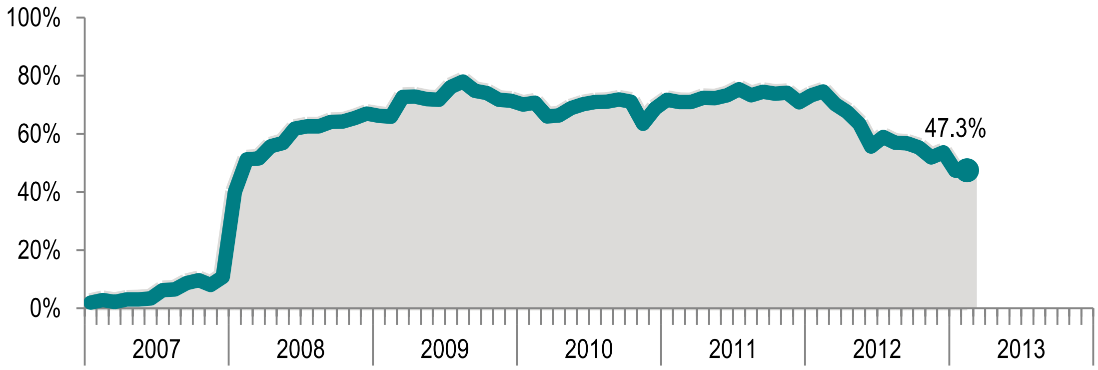
Share of Mortgages in Foreclosure



The ratio of the total number of foreclosures compared to the total number of loans in Nevada. This is graded on an exponential scale, meaning the jump from a B+ to A- is smaller than the jump from A- to A. The grading scale allows a drop in the foreclosures to be recognized with a better grade while still recognizing the market is not as healthy as it once was.

Distressed Home Sales

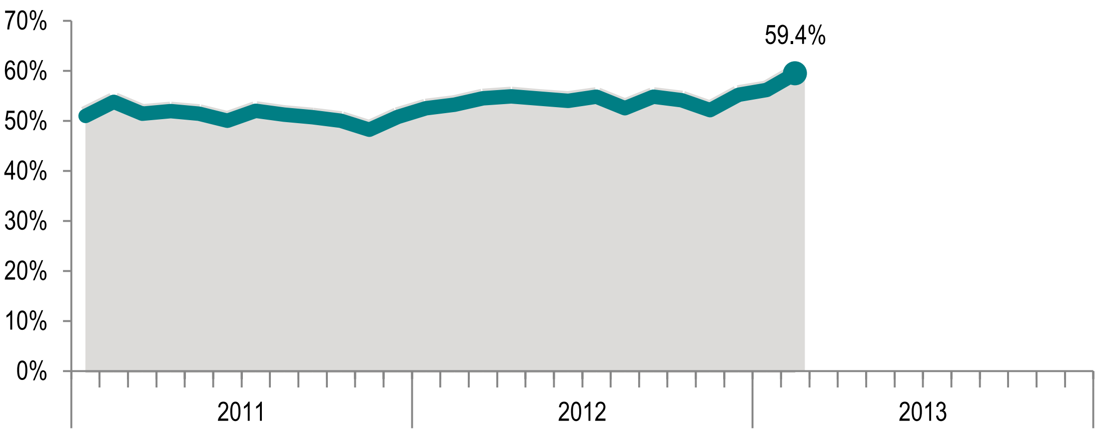
Distressed Sales as a Percentage of Total Sales



The percentage of all sales considered distressed (i.e., auction sales, short sales and bank sales). A higher percentage of homes sold in distress suggests increased instability as fewer homes are being sold without the involvement of lenders' approval. A lower rate of distressed home sales suggests conditions are trending toward increased stability.

Investor Purchase Share

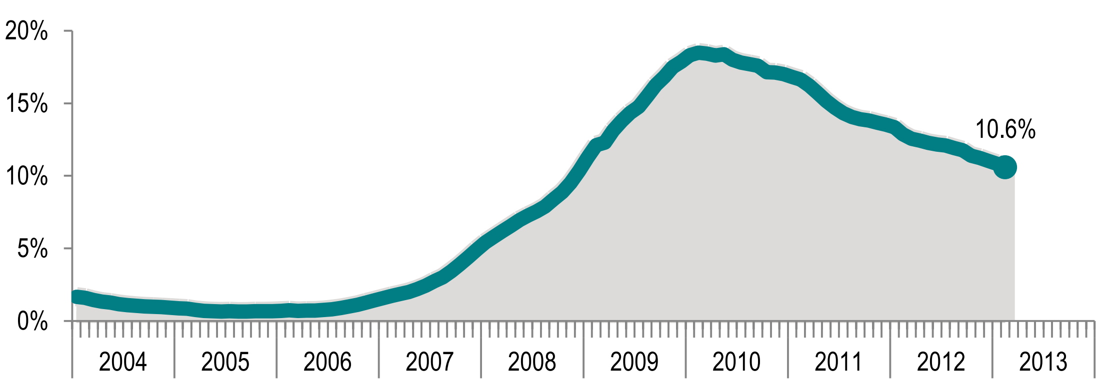
Cash Purchases as a Percentage of Total



The percentage of homes that are acquired with cash (not financed). Although investor activity in the market has some positive impacts, a higher ratio suggests fewer end-user purchases are taking place, which can create instability in the longer-run.

Delinquency Rate

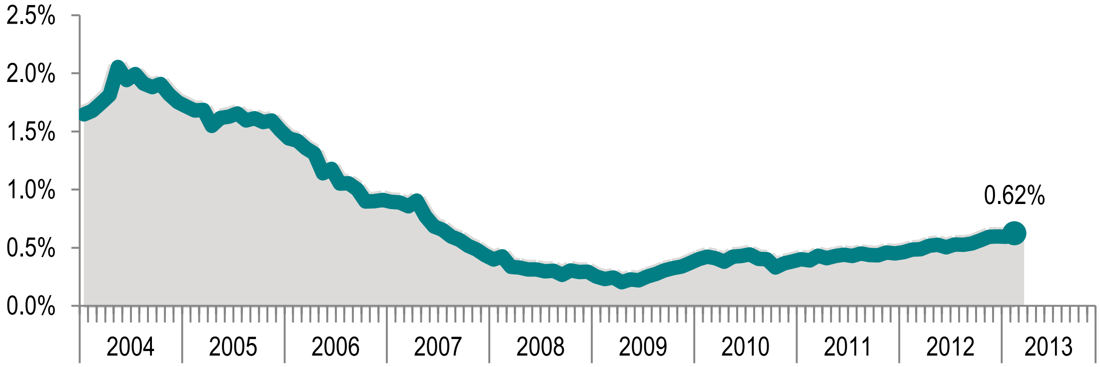
Share of 90+ Day Delinquencies to Total Loans



The percentage of homes which are more than 90 days delinquent in mortgage payments. The ratio is an important indicator both of the homeowner's equity in the house and of their income, as an underwater or unemployed homeowner is less likely to make payments. This is graded on an exponential scale, meaning the jump from a B+ to A- is larger than the jump from A- to A.

Housing Turnover Rate

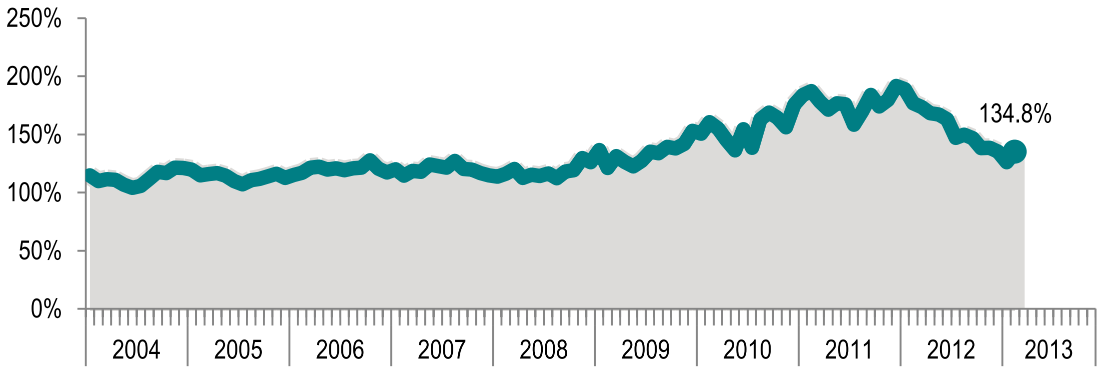
Resale Closings as a Percentage of Total



The ratio of total resale closings to the total number of loans outstanding in Nevada. The ratio gauges housing turnover in the market and suggest whether or not homeowners feel confident enough to sell in the current environment. Measured in an exponential scale; the change in ratio from an F to a D- is greater than that from an A- to an A.

New-to-Resale Price Ratio

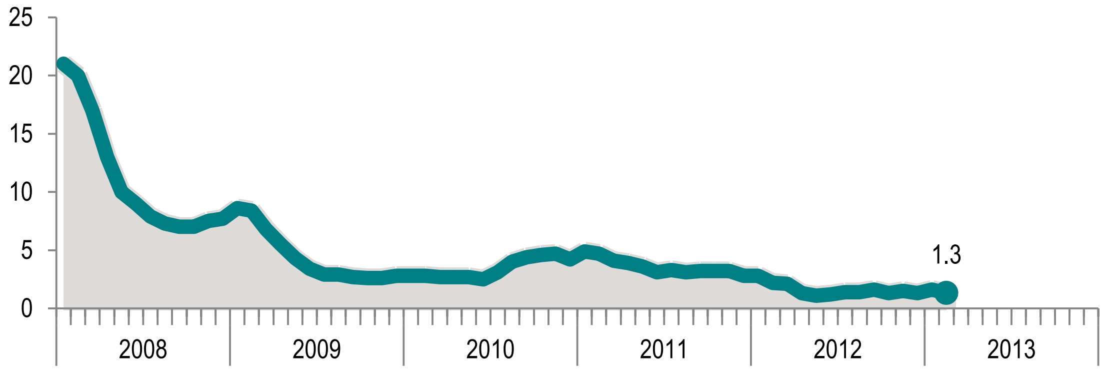
New Home Prices as a Percentage of Resale Prices



The ratio between new and resale median prices in Nevada. Historically, new home prices are 1.25 times the resale value. When the ratio is higher or lower than the long-run average, a supply and demand imbalance in the housing market is likely present.

Resale Housing Availability

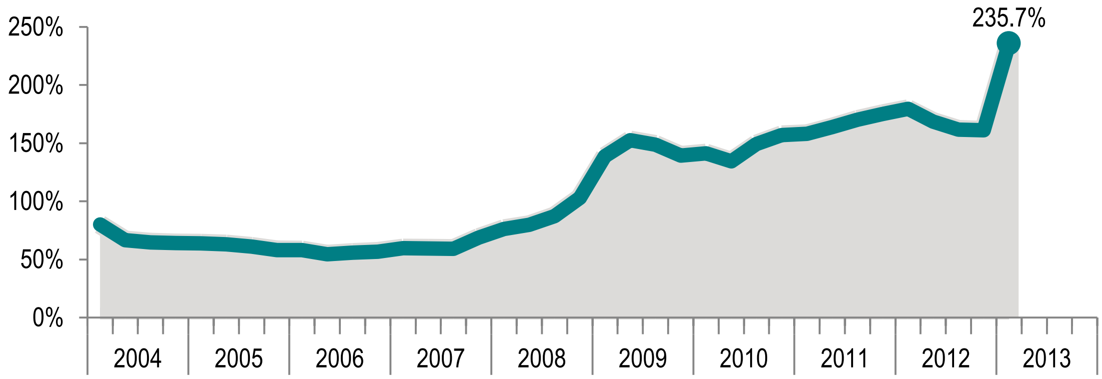
Effective Months of Availability



Measures the general availability in the housing market. Specifically, how many months of housing inventory are currently listed on the Multiple Listing System (MLS) at the current rate that existing homes are closing within the market. A number that is too high or too low represents a potential imbalance between supply and demand for housing.

Rent vs. Cost to Own

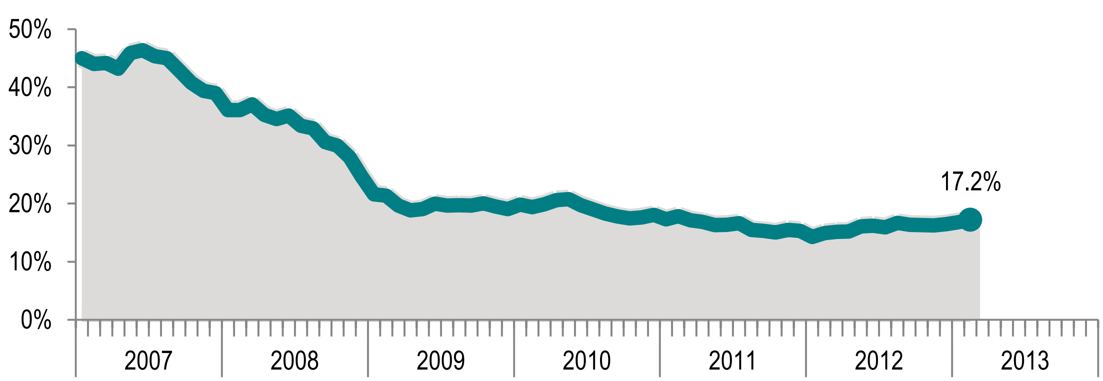
Average Apartment Rents as a Percentage of Mortgage Costs



Measures the average apartment rent for the quarter and compares this to the quarterly average monthly payment of a 30-year mortgage at current rates for 80 percent of the median house price. A ratio too high or low indicates a potential imbalance between for-rent and owner-occupied housing alternatives.

Housing Affordability Ratio

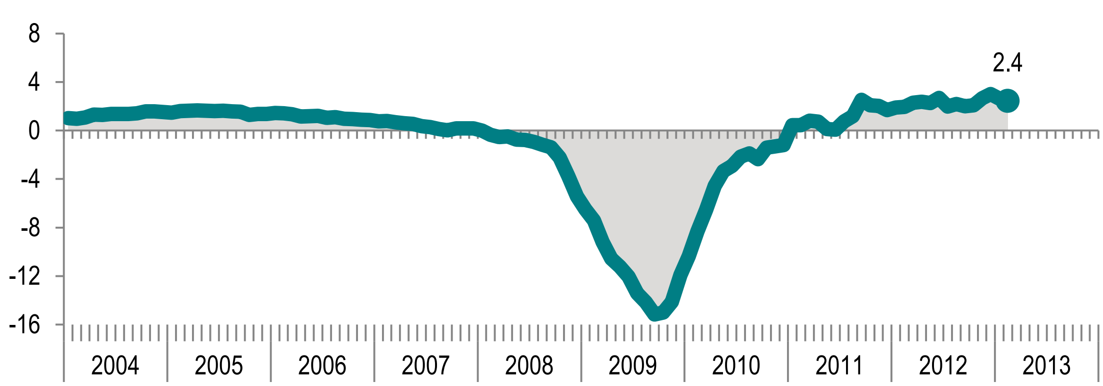
Mortgage Costs as a Percentage of Average Wages



The ratio of a 30-year mortgage payment at current rates for 80 percent of a median home price in the market, divided by monthly average income (converted from average weekly wages for the private sector). Ratios suggesting housing costs are at or below approximately one-third of income tend to suggest higher affordability.

New Construction Supply-Demand Balance

Annual Employment Change-to-Home Permitting Volumes



Measures growth in potential demand for housing (employment) compared to the change in new supply for housing (permitting) using 12-month totals. Any negative figure (when employment change is negative) should be viewed as largely a negative performance metric and is assigned a grade of at most a D. For values above zero, the grades are scaled normally to an A for the highest level.

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SOURCES

The data utilized to develop the various performance metrics have been obtained from a number of sources. Due to the proprietary nature of the data and restrictions on their release, the underlying data is not available for broad distribution. The following summarizes the sources of information:

- **Applied Analysis:** Average apartment rents
- **Bureau of Labor Statistics:** Average weekly earnings and Nevada employment
- **CoreLogic:** Total loan volumes, delinquent loans, negative equity, foreclosures, REO properties, housing price, and housing volume by category (volume data has been seasonally adjusted)
- **Federal Reserve:** Mortgage interest rates
- **Greater Las Vegas Association of Realtors (GLVAR) and SalesTraq:** Cash home purchases and effective months of inventory
- **Nevada Department of Employment, Training and Rehabilitation:** Employment
- **St. Louis Federal Reserve:** 30-year conventional mortgage rate and new private housing units authorized in Nevada
- **SalesTraq:** Distressed sales volumes

APPLIED ANALYSIS

Applied Analysis (AA) was retained by the State of Nevada Department of Business and Industry to evaluate Nevada's housing market stability. Relevant data were obtained from a number of sources, including national, regional and local data providers. In some instances, the underlying data are proprietary and subject to distribution restrictions. AA assumes the provided report format is sufficient to meet these distribution restrictions while providing sufficient detail to evaluate market conditions. While we have no reason to doubt the accuracy of any of the data reported, we have not performed an audit or assurance procedures on these data, and as such, we cannot attest to their completeness.