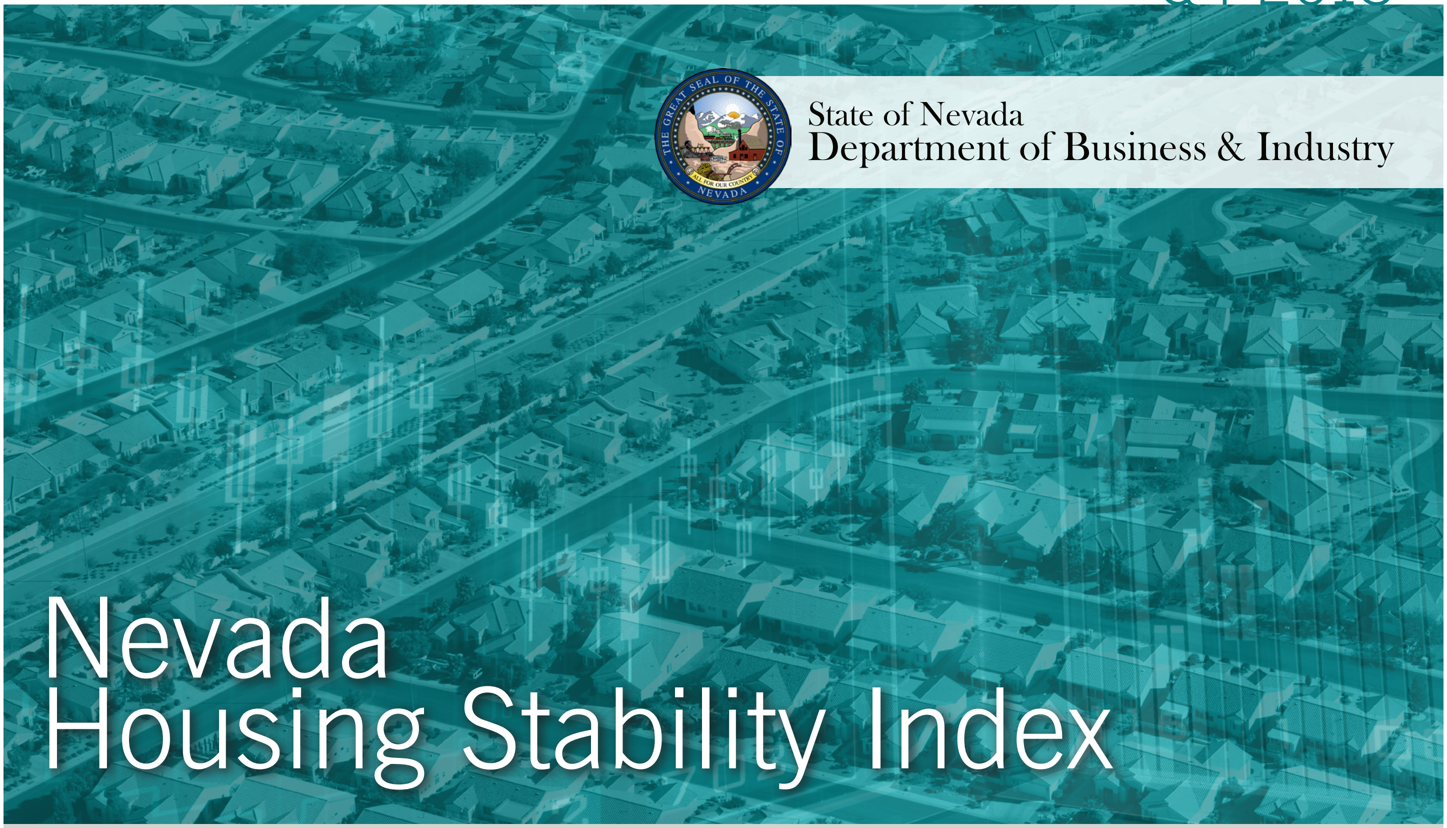
Q4 2013



State of Nevada
Department of Business & Industry

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

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Current **Assessment**

Overall stability in the Nevada housing market edged up slightly by the close of the final quarter of 2013. The Nevada Housing Stability Index (NHSI) rose from a composite score of 2.00 in the third quarter to 2.03 in the fourth quarter. The index maintained a C grade for the second consecutive quarter, while the latest scorecard was up from a D+ in the fourth quarter of 2012. Price gains in the residential market continued in the latest quarter, albeit at a slower rate than the balance of 2013. Recent price dynamics have resulted in improved personal balance sheets, trimmed investor purchases and fewer distressed home sales. Mortgage delinquencies and foreclosure activity remain on the watch list. The housing profile heading into 2014 has improved from one year ago.

Positive **Signs**

Resale housing availability continued to climb in Nevada, with 6.0 months of effective inventory. The ratio of resale units available to the number of monthly resale closings has moved away from recent lows. Southern Nevada drove much of the increase as Clark County reported 6.5 months of inventory (+31.6 percent) while the Washoe County area posted a significantly lower 3.9 months (+14.9 percent) during the fourth quarter. The statewide slowdown in sales volumes has allowed more traditional homebuyers to enter the market as investors have become a smaller piece of the puzzle; properties acquired with cash (not financed), accounted for 40.8 percent of homes in the past quarter (down from 44.6 percent in the third quarter of 2013). Notably, cash purchases in Clark County accounted for 43.7 percent of sales, and Washoe County witnessed a more modest 27.2 percent of transactions involving cash buyers. Given current housing prices and incomes, a typical mortgage represents 22.8 percent of a household's wages, which remains relatively affordable. Additionally, the cost of renting versus owning struck a more balanced level at 116.9 percent.

Negative **Signs**

Monitoring the supply-demand dynamics in the Nevada housing market remains a key focus. During the past quarter, the pace of new home permitting expanded faster than growth in employment relative to where conditions stood in the preceding quarter. With an average of 1.74 new jobs created for each new home built in the past year, this metrics retreated from the 2.25 new jobs per home last quarter. While remaining in a relatively healthy position (B+), it is important to monitor these conditions going forward. Additionally, new home prices rose considerably faster than existing homes, with a 60.0-percent premium for new homes. The gap between new and resale closing prices jumped from 44.4 percent in the third quarter. By region, the gap in Washoe County outpaced Clark County (72.1 percent premium versus 53.7 percent). During the final quarter of 2013, Washoe County posted its highest median new home price ($352,750) since mid-2006. Clark County's new home prices are well ahead of a year ago but comparably lower than Washoe County, reaching a median value of $262,895.

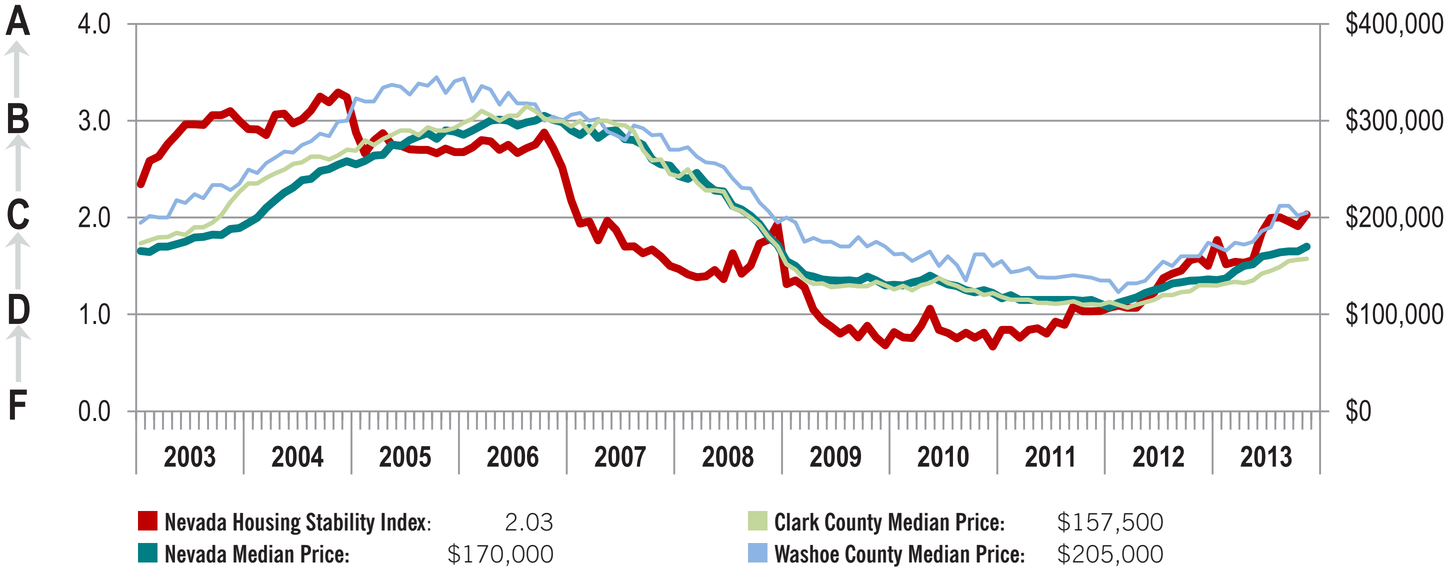
1	Underwater Loan Percentage	32.2%	C+	◀▶
2	Community Borrowing Ratio	42.0%	D	▼
3	Foreclosure Volume	3.1%	D	◀▶
4	Distressed Home Sales	27.3%	B	▲
5	Investor Purchase Share	40.8%	C-	▲
6	Delinquency Rate	7.7%	D+	▲
7	Housing Turnover Rate	0.4%	D	◀▶
8	New-to-Resale Price Ratio	160.0%	D-	▼
9	Resale Housing Availability	6.0	C	▲
10	Rent vs. Cost to Own	116.9%	B+	▲
11	Housing Affordability Ratio	22.8%	A-	▲
12	Employment and Housing Construction Stability	1.74	B+	▼
	AGGREGATE INDEX VALUE	2.03	C	◀▶

Nevada Housing Stability Index

	INDEX VALUE			GRADE		
	Current Period	Preceding Period	Prior Year Period	Current Period	Preceding Period	Prior Year Period
Index Component	Q4 2013	Q3 2013	Q4 2012	Q4 2013	Q3 2013	Q4 2012
1. Underwater Loan Percentage[1] *(Share of Loans with Negative Equity)*	32.2%	33.5%	53.9%	C+	C+	D+
2. Community Borrowing Ratio *(Loans-to-Employment Ratio)*	42.0%	42.6%	45.9%	D	C-	A-
3. Foreclosure Volume *(Share of Mortgages in Foreclosure)*	3.1%	3.6%	4.8%	D	D	D-
4. Distressed Home Sales *(Distressed Sales as a Percentage of Total)*	27.3%	30.7%	44.8%	B	B-	C
5. Investor Purchase Share *(Cash Purchases as a Percentage of Total)*	40.8%	44.6%	47.7%	C-	D+	D
6. Delinquency Rate *(Share of 90+ Day Delinquencies to Total Loans)*	7.7%	8.4%	11.2%	D+	D	D-
7. Housing Turnover Rate *(Resales Closings as a Percentage of Total Homes)*	0.4%	0.4%	0.3%	D	D	D-
8. New-to-Resale Price Ratio *(New Home Prices as a Percentage of Resale Prices)*	160.0%	144.4%	146.4%	D-	C-	D+
9. Resale Housing Availability *(Effective Months of Availabilty)*	6.0	4.7	5.5	C	D	D+
10. Rent vs. Cost to Own *(Average Rents as a Percentage of Mortgage Costs)*	116.9%	120.5%	159.5%	B+	B	D+
11. Housing Affordability Ratio *(Mortgage Costs as a Percentage of Average Wages)*	22.8%	22.6%	16.0%	A-	B+	D
12. Employment and Housing Construction Stability *(Employment Change-to-Permits)*	1.74	2.25	2.66	B+	A	A
Aggregate Index Value (4-Point Grading Scale)	**2.03**	**2.00**	**1.58**	**C**	**C**	**D+**

Note: Data from prior reports are subject to revision based on the latest information available.

Nevada Housing Stability Index

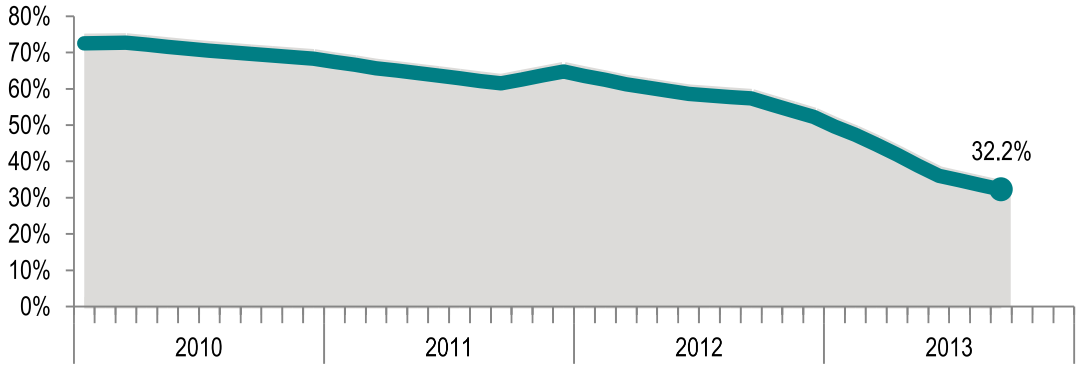


[1] Due to a timing change by CoreLogic, the underwater loan percentage metric reflect values from an earlier period.

Note: Median home prices are sourced to CoreLogic.

Underwater Loan Percentage

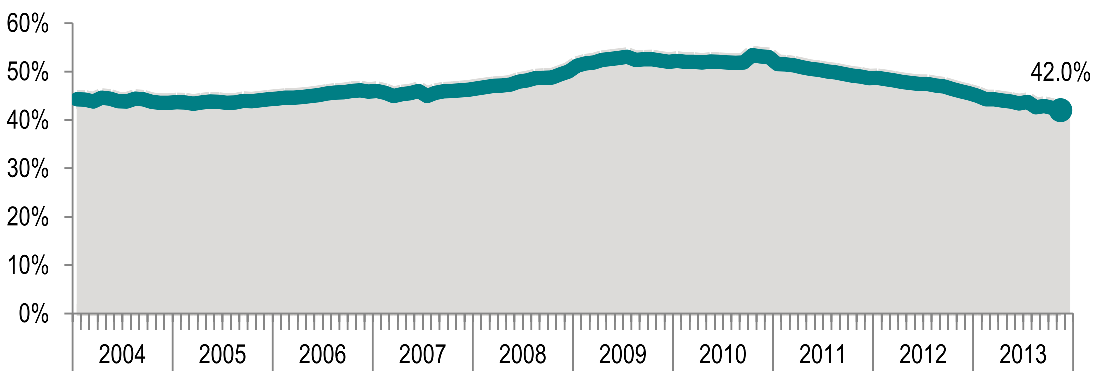
Share of Loans with Negative Equity



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

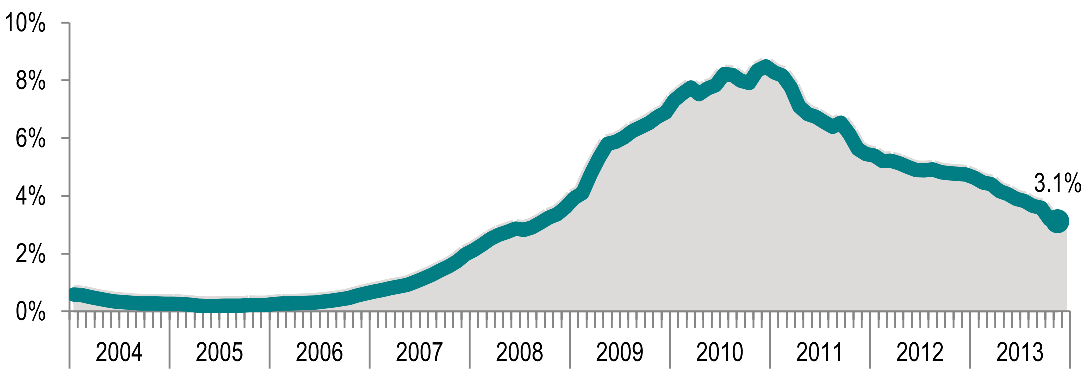
Loans-to-Employment Ratio



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 Volume

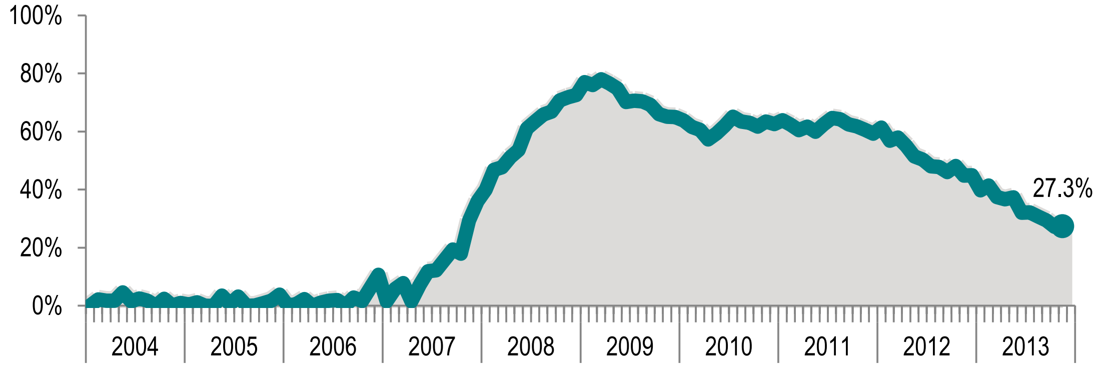
Share of Mortgages in Foreclosure



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

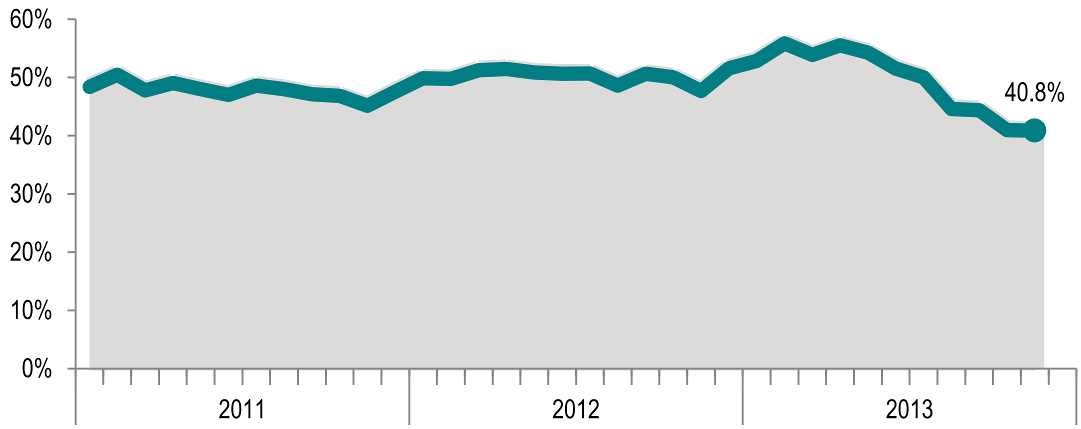
Distressed Sales as a Percentage of Total Sales



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

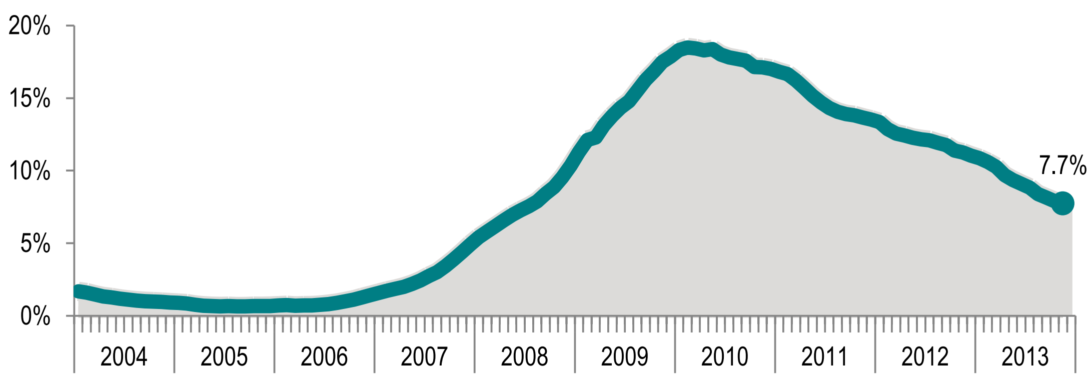
Cash Purchases as a Percentage of Total



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

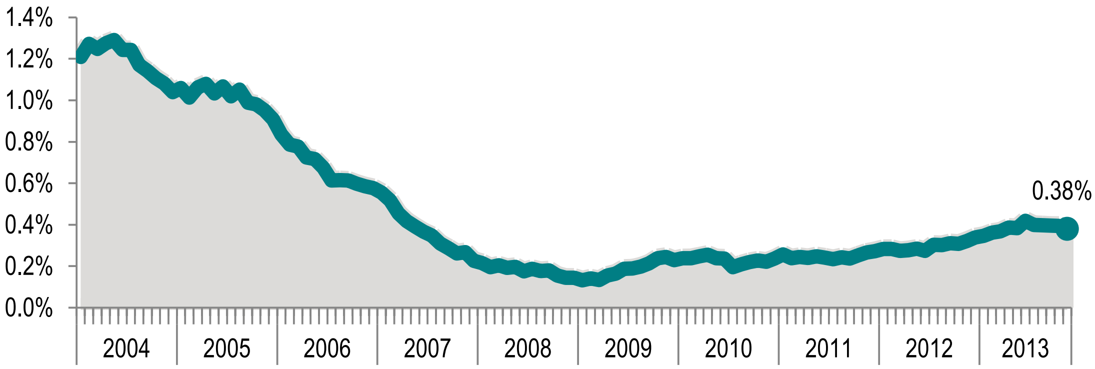
Share of 90+ Day Delinquencies to Total Loans



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

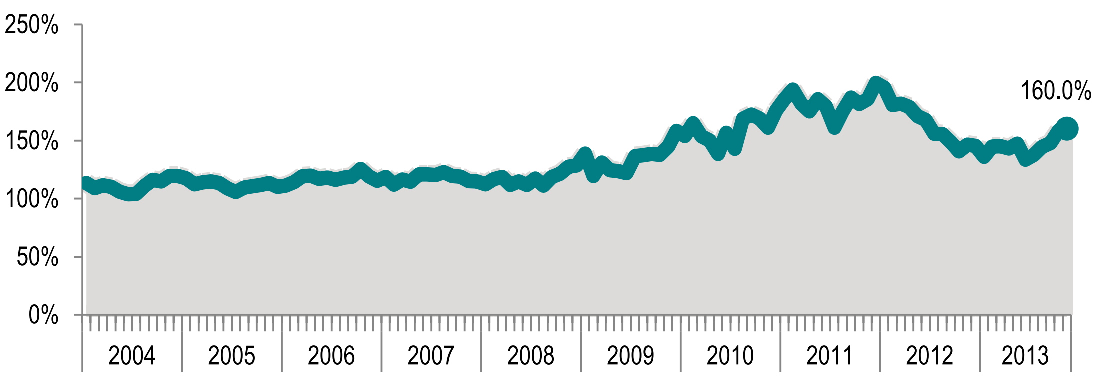
Resale Closings as a Percentage of Total Homes



The ratio of total resale closings to the total number of homes in Nevada. The ratio gauges housing turnover in the market and the willingness of buyers and sellers 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

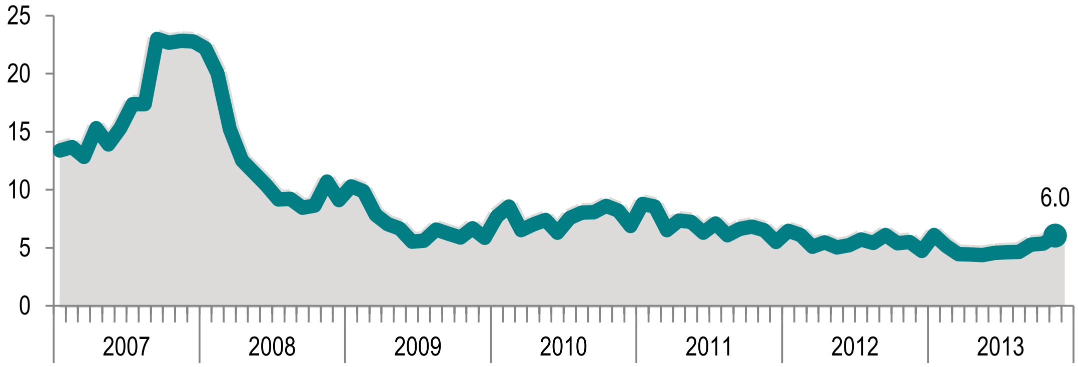
New Home Prices as a Percentage of Resale Prices



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 may be present.

Resale Housing Availability

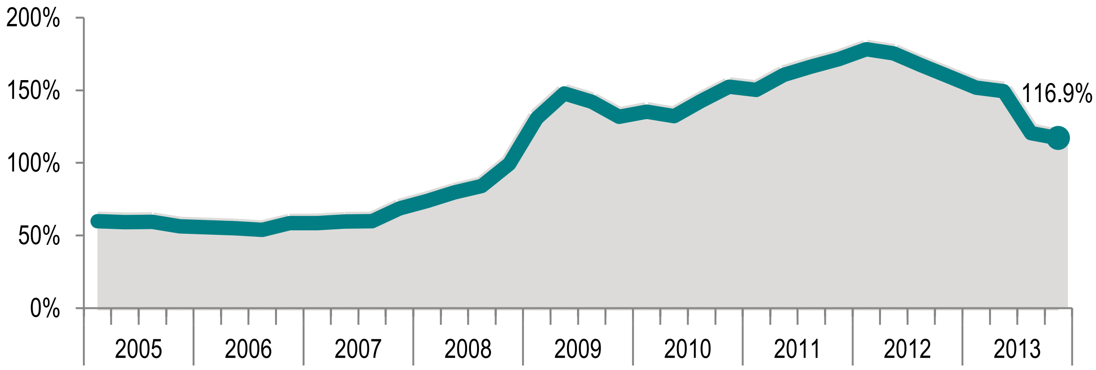
Effective Months of Availability



Measures the general availability in the housing market. Specifically, how many months of housing inventory are currently listed as available or contracted 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

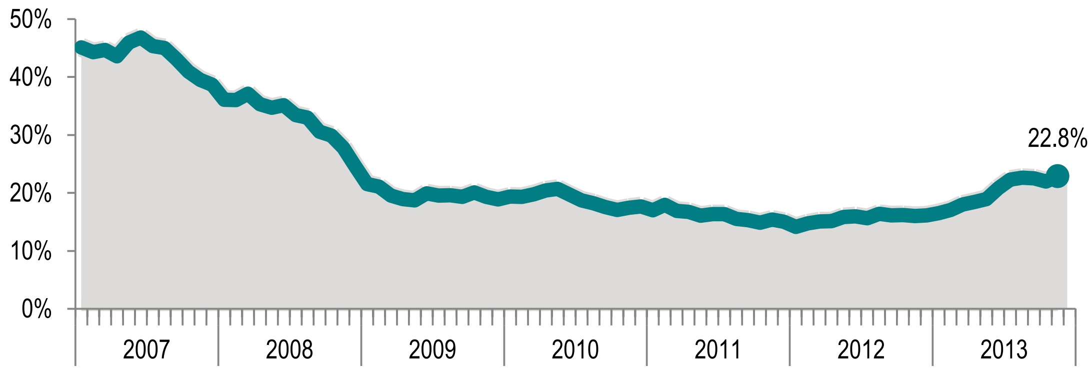
Average Apartment Rents as a Percentage of Mortgage Costs



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

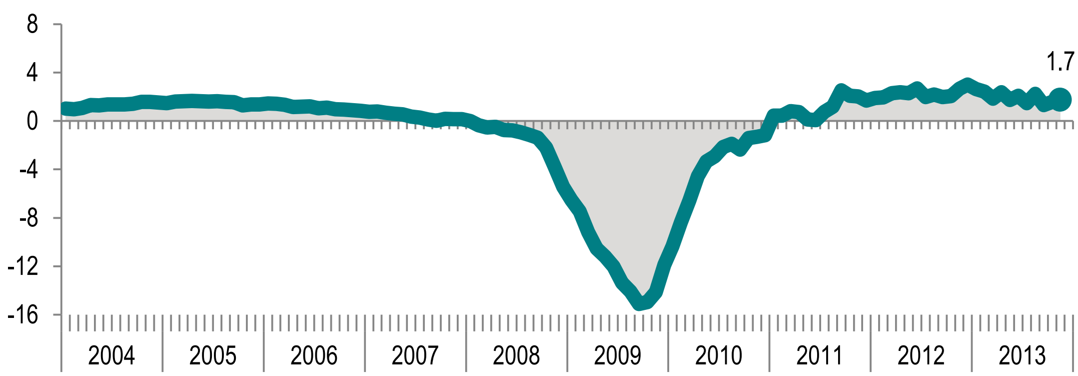
Mortgage Costs as a Percentage of Average Wages



Measures the relationship between a consumer's ability to buy a home and the cost of a typical home. More specifically the ratio compares average incomes to the average mortgage cost (median home price assuming typical financing methods). High index levels suggest the cost of housing is outstripping incomes. Very low index levels suggest the market has entered a period of overcorrection and may also be out of balance.

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.

Nevada Housing Stability Index Q4 2013

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Department of Business & Industry

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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, distressed sales, housing price, and housing volume by category (volume data has been seasonally adjusted)
- **Greater Las Vegas Association of Realtors (GLVAR):** Cash home purchases and Clark County availability
- **Reno/Sparks Association of Realtors:** Cash home purchases
- **St. Louis Federal Reserve:** 30-year conventional mortgage rate and new private housing units authorized in Nevada
- **University of Nevada, Reno Center for Regional Studies:** Washoe County availability

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.