Q1 2015

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

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Current **Assessment**

Nevada's housing market was a little less stable in the first quarter of 2015, as the Nevada Housing Stability Index ("NHSI") dropped slightly to a "C" grade. Overall the composite index fell modestly to 2.26, but the NHSI remained slightly higher than the 2.17 index reported one year ago. Median home prices statewide slipped slightly from the fourth quarter, with the median price falling 1.2 percent statewide, 3.6 percent in Clark County, and 2.6 percent in Washoe. Notably, the drop in prices directly impacted two index components, and potentially lured further investor purchases in the area. Despite some modest period-to-period adjustments in most recent quarter, conditions overall appear more stable than at any point since the past economic downturn.

Positive **Signs**

The only measure to earn an increase in grade level was the new-to-resale price ratio. The metric that measures that gap between median new home prices and resale prices demonstrated the distance between the two is shrinking. The ratio during the first quarter was 156.3 percent (new-to-resale), which was down from the last quarter and prior year. This change increased the index component's grade from a D- to a D. In Las Vegas, the ratio stood at 157.8 percent, while northern Nevada posted a 139.0 percent value. Southern posted a decline of 4.5 percentage points while Reno fell 3.8 points. Even with the larger improvement, new homes in Las Vegas command a higher premium than those in Reno. On the supply-side of the housing equation, statewide availability has remained relatively flat in recent quarters. However, it is worth noting the number of effective months of inventory in the northern Nevada market has started to trend down at 3.5 months, compared to 4.5 months one year ago. Assuming the demand side of the equation expands in response to new investments taking place in the northern end of the state, overall pricing has the potential to rise given tightening availability trends.

Negative **Signs**

The share of homes sold to investors (cash buyers) increased in the current quarter, rising to 34.3 percent of all homes sold. Las Vegas drove the increase as northern Nevada witnessed a decline in the share of cash buyers (from 23.0 percent in Q4 2014 to 18.7 percent in Q1 2015). The introduction of additional non-occupants in southern Nevada has the potential to create instability in the housing market down the road when these investors wish to sell their investments. In addition, the premium for renting versus owning a home increased nearly 9.5 percentage points from the prior quarter. Meanwhile, the housing affordability ratio fell slightly during the quarter, signaling that the cost of a mortgage relative to local wages has grown too small, and that there is room for pricing growth. Finally, there were fewer new employees in the state for each housing unit permitted, with the ratio falling to 2.58 new jobs for each additional new home, but remaining at an A- grade overall.

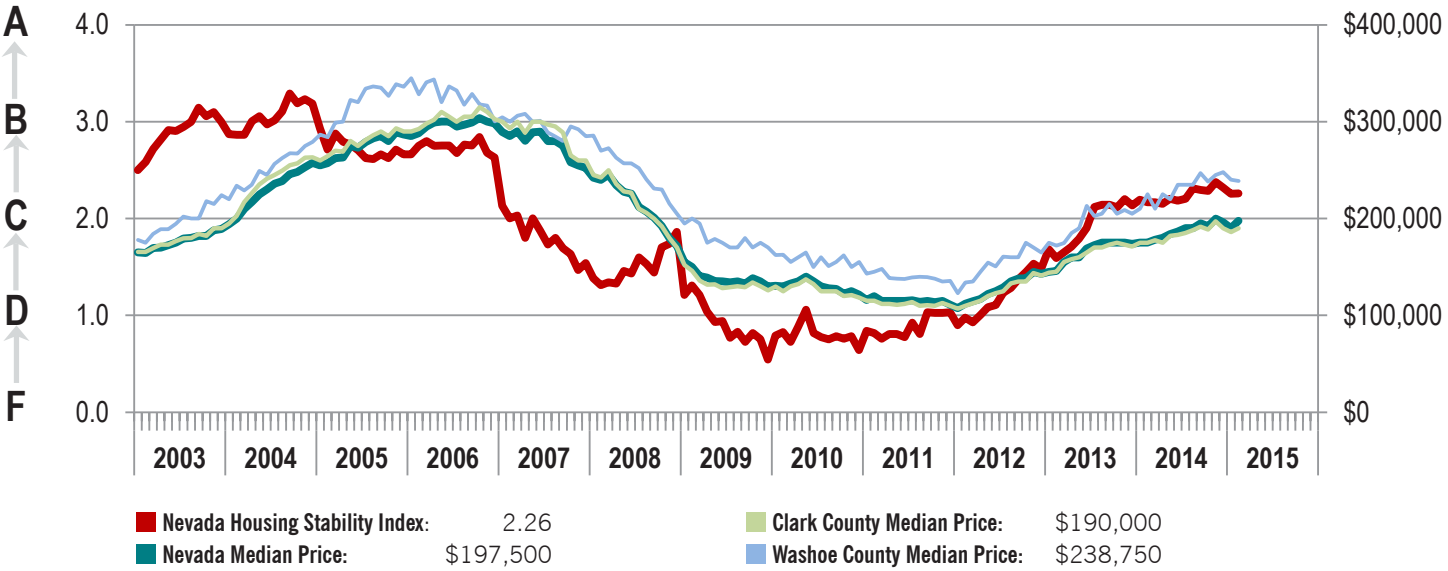
1	Underwater Loan Percentage 24.2%	B	◀▶
2	Community Borrowing Ratio 38.9%	F	◀▶
3	Foreclosure Volume 2.2%	C-	◀▶
4	Distressed Home Sales 16.8%	A-	◀▶
5	Investor Purchase Share 34.3%	C+	▼
6	Delinquency Rate 5.2%	C-	◀▶
7	Housing Turnover Rate 0.4%	D	◀▶
8	New-to-Resale Price Ratio 156.3%	D	▲
9	Resale Housing Availability 6.2	C	◀▶
10	Rent vs. Cost to Own 112.8%	B+	▼
11	Housing Affordability Ratio 22.9%	A-	▼
12	Employment and Housing Construction Stability 2.58	A-	▼
	AGGREGATE INDEX VALUE 2.26	C	▼

Nevada Housing Stability Index

	INDEX VALUE			GRADE		
	Current Period	Preceding Period	Prior Year Period	Current Period	Preceding Period	Prior Year Period
Index Component	Q1 2015	Q4 2014	Q1 2014	Q1 2015	Q4 2014	Q1 2014
1. Underwater Loan Percentage[1] *(Share of Loans with Negative Equity)*	24.2%	24.6%	29.5%	B	B	B-
2. Community Borrowing Ratio *(Loans-to-Employment Ratio)*	38.9%	39.4%	41.3%	F	F	D
3. Foreclosure Volume *(Share of Mortgages in Foreclosure)*	2.2%	2.2%	2.8%	C-	C-	D+
4. Distressed Home Sales *(Distressed Sales as a Percentage of Total)*	16.8%	18.4%	24.3%	A-	A-	B+
5. Investor Purchase Share *(Cash Purchases as a Percentage of Total)*	34.3%	29.8%	44.0%	C+	B	D+
6. Delinquency Rate *(Share of 90+ Day Delinquencies to Total Loans)*	5.2%	5.5%	7.0%	C-	C-	D+
7. Housing Turnover Rate *(Resales Closings as a Percentage of Total Homes)*	0.4%	0.4%	0.4%	D	D	D
8. New-to-Resale Price Ratio *(New Home Prices as a Percentage of Resale Prices)*	156.3%	160.1%	159.6%	D	D-	D-
9. Resale Housing Availability *(Effective Months of Availabilty)*	6.2	6.1	6.4	C	C	C
10. Rent vs. Cost to Own *(Average Rents as a Percentage of Mortgage Costs)*	112.8%	103.2%	107.4%	B+	A-	A-
11. Housing Affordability Ratio *(Mortgage Costs as a Percentage of Average Wages)*	22.9%	24.5%	23.0%	A-	A	A-
12. Employment and Housing Construction Stability *(Employment Change-to-Permits)*	2.58	2.85	3.11	A-	A	A
Aggregate Index Value (4-Point Grading Scale)	**2.26**	**2.38**	**2.17**	**C**	**C+**	**C**

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

Nevada Housing Stability Index

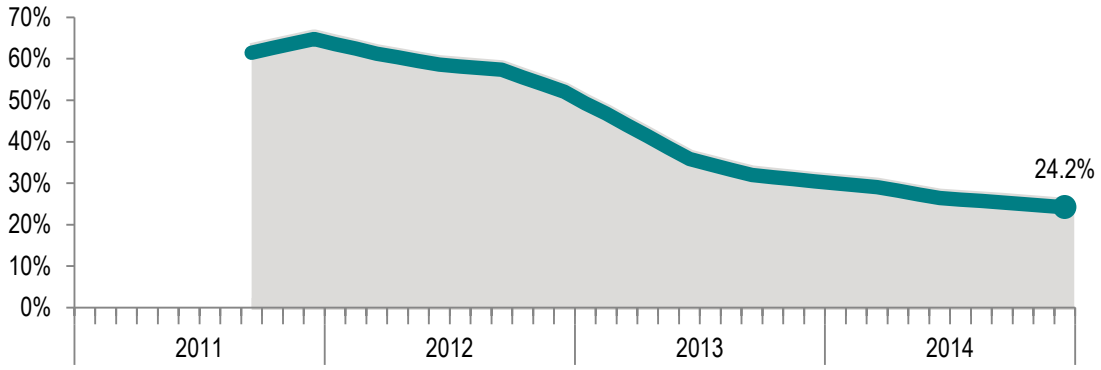


[1] The Underwater Loan Percentage data sourced to CoreLogic lags other indicators in term of timing.

Note: Median home prices are sourced to CoreLogic.

Underwater Loan Percentage

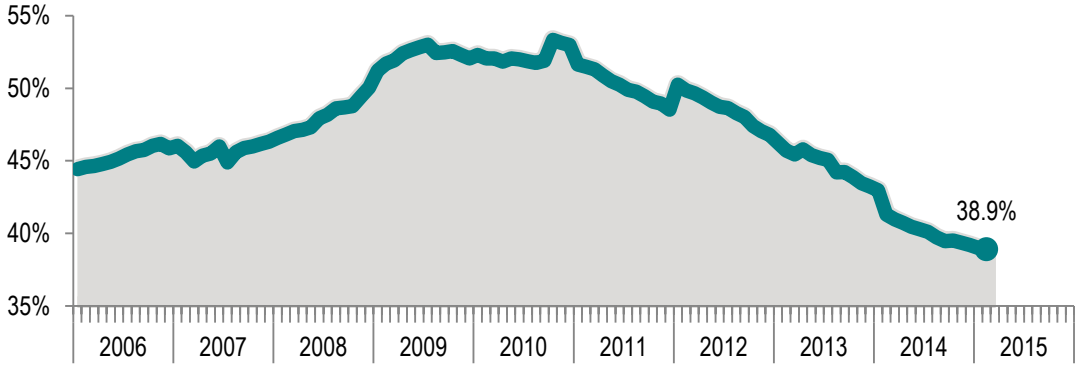
Share of Loans with Negative Equity



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

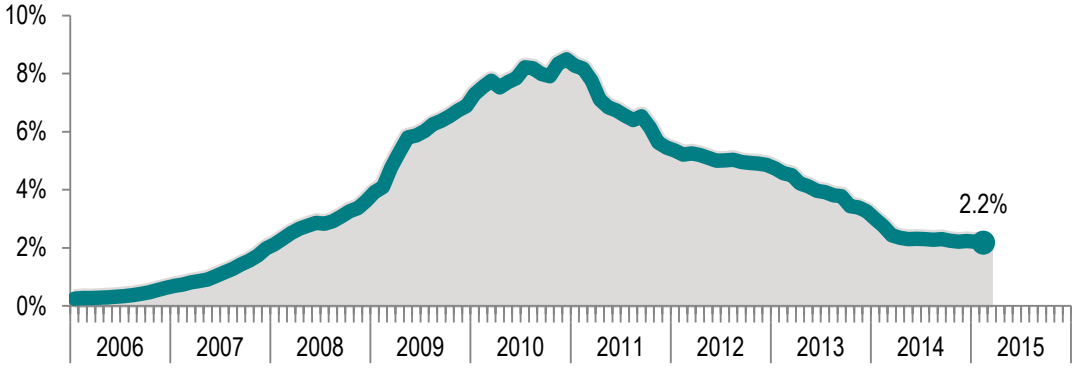
Loans-to-Employment Ratio



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

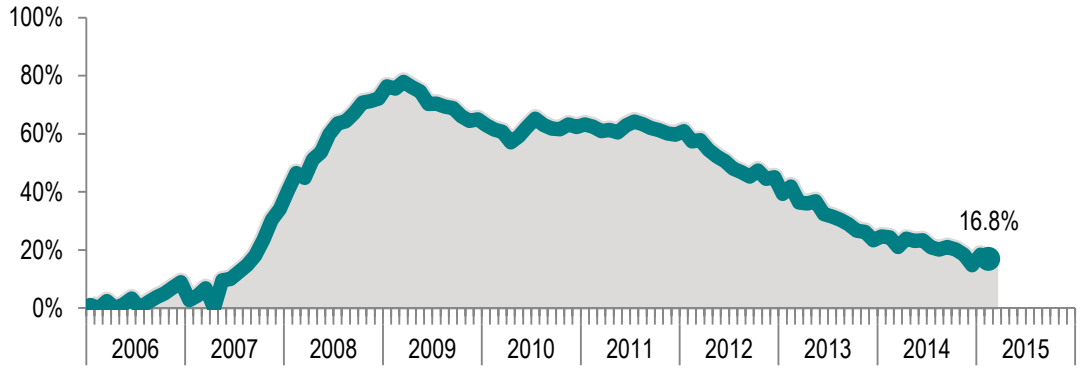
Share of Mortgages in Foreclosure



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

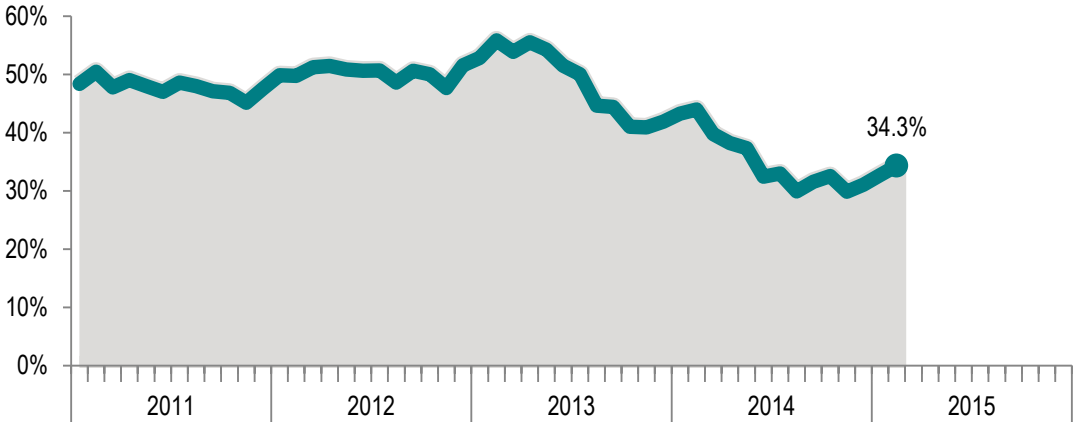
Distressed Sales as a Percentage of Total Sales



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

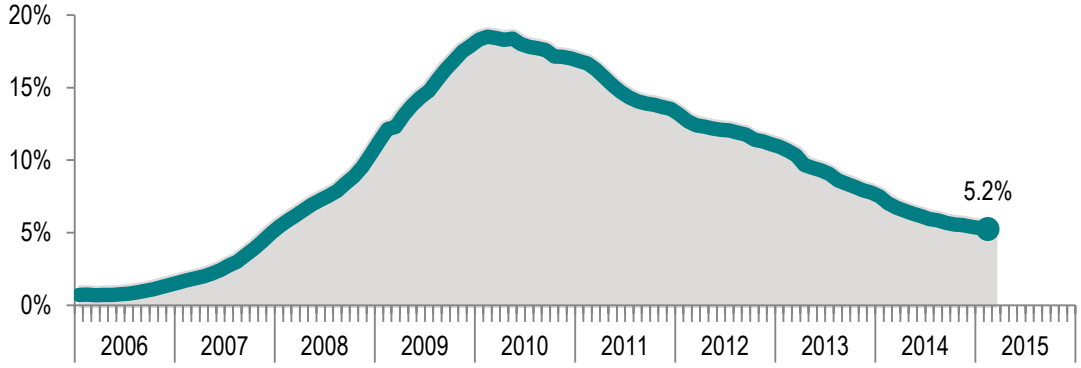
Cash Purchases as a Percentage of Total



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

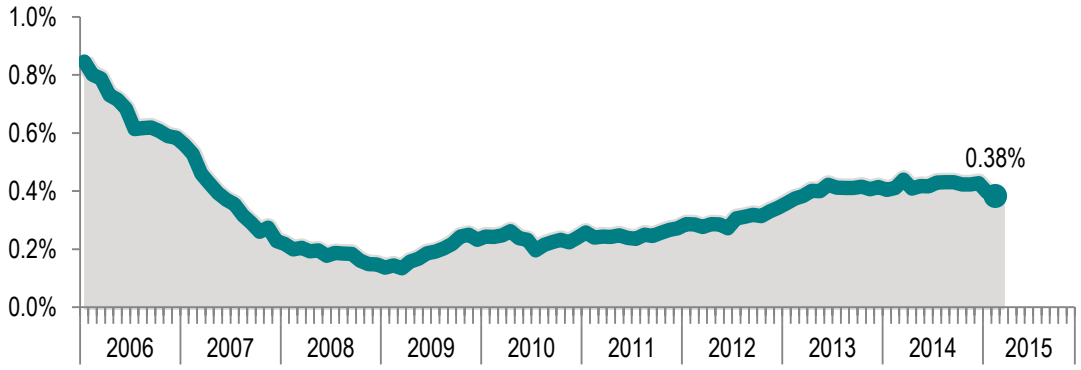
Share of 90+ Day Delinquencies to Total Loans



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

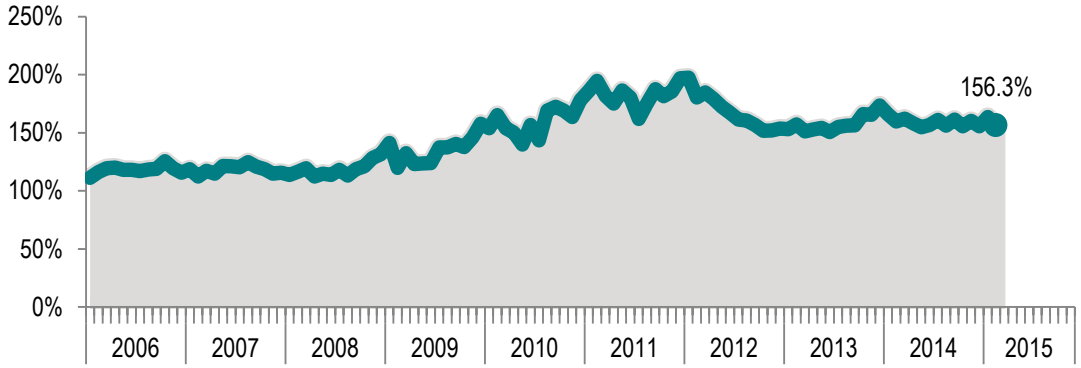
Resale Closings as a Percentage of Total Homes



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

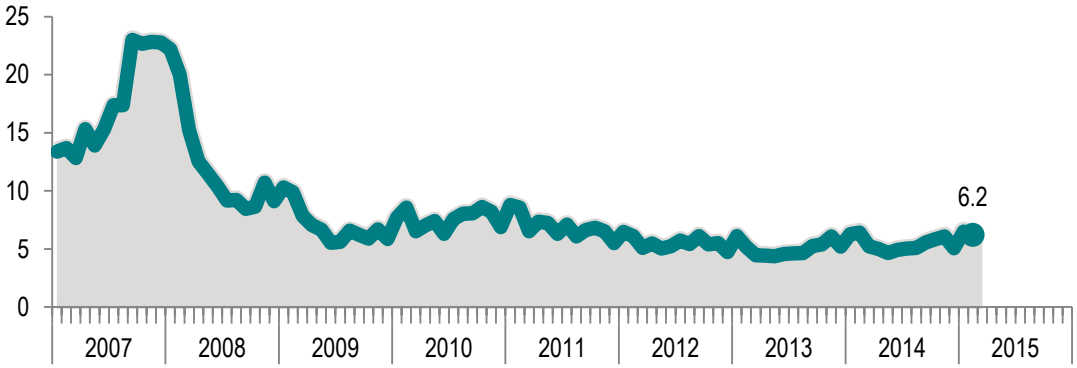
New Home Prices as a Percentage of Resale Prices



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

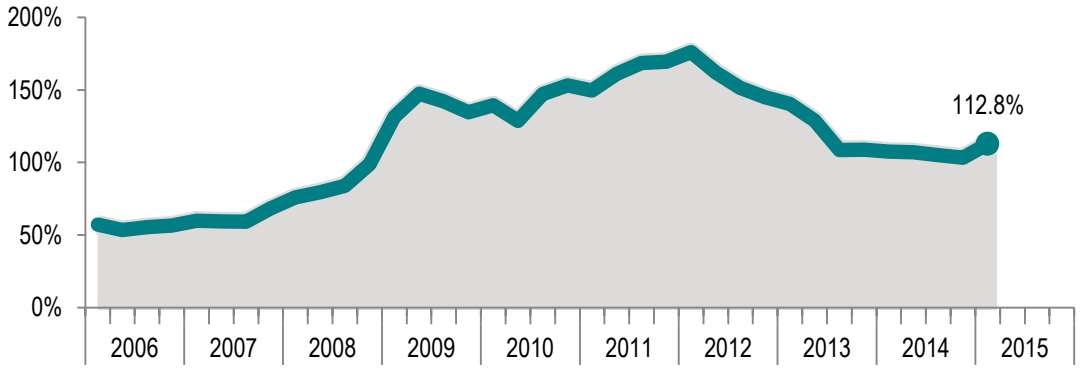
Effective Months of Availability



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

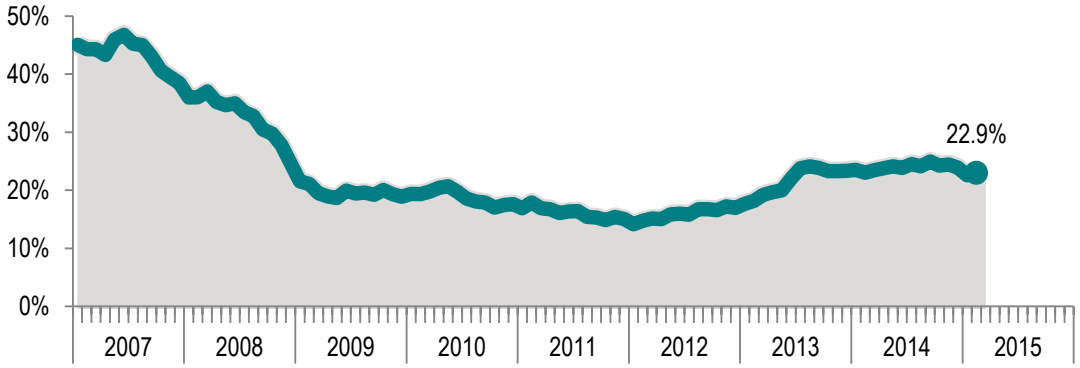
Average Apartment Rents as a Percentage of Mortgage Costs



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

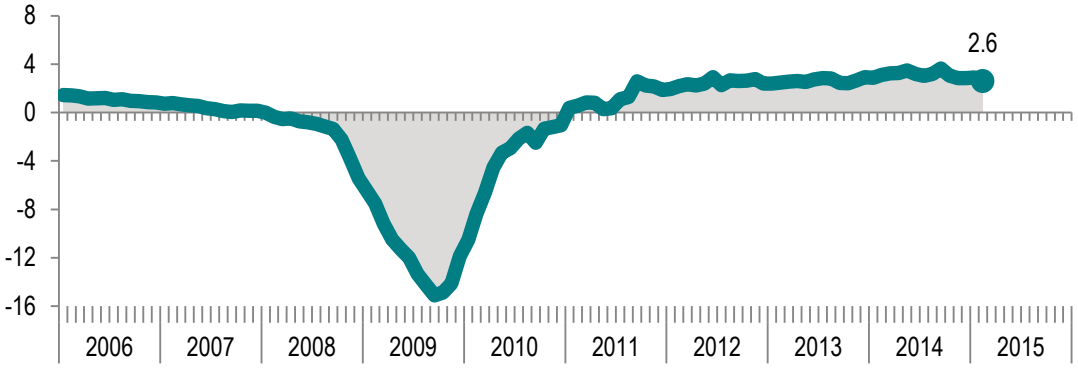
Mortgage Costs as a Percentage of Average Wages



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.

State of Nevada
Department of Business & Industry

Bruce Breslow, Director

555 East Washington, Suite 4900
Las Vegas, NV 89101

(702) 486-2750 | Business.nv.gov

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 and Washoe County availability
- **St. Louis Federal Reserve:** 30-year conventional mortgage rate and new private housing units authorized in Nevada

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.