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The Long Way Home

Housing recovery a mixed bag of contradictions

BY HUBBLE SMITH

Longing to escape freezing winters in Oklahoma, Dale Brown wants to find a good deal on a second home in Las Vegas or Phoenix, maybe two bedrooms for about \$150,000.

He looked at a condominium at Lake Las Vegas during a recent trip here, but it needed \$15,000 in repairs and he was worried about future increases in homeowners' association fees.

"I talked to two Realtors and they're trying to sell you what they've got," Brown said. "That gal's responsibility is to get rid of condos at Lake Las Vegas, and there are some great deals out there."

Like many overinflated U.S. housing markets where the bubble has burst, Las Vegas appears ripe for the picking. People got buried when home values collapsed and will spend years digging out of their holes. About one in 13 will become a foreclosure statistic.

Despite encouraging reports of increased sales and stabilized prices, the housing crisis is far from over, both locally and nationally, real estate analysts and consultants said.

Rising unemployment and the nation's highest foreclosure rate present huge obstacles to recovery in Las Vegas, said Marta Borsanyi, principal of Concord Group, a Newport Beach, Calif.-based real estate advisory firm.

There's a significant



Bill Hughes | Business Press
Rob Jenson, founder and chief executive officer of the Jenson Group, shows a luxury home in The Ridges to Holli Lienau. Jenson said he's starting to see more buyers coming from California. Some are looking to move their businesses to Las Vegas and buy homes in the \$500,000 to \$1 million range.



Bill Hughes | Business Press
Rosen and Company Realtor Heather Peck is worried about banks flooding the market with foreclosed homes. If home prices plummet further, "We would become Detroit junior," she said.

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oversupply of available new units, estimated at 42,000 units for the entire market, including standing inventory, available lots and recently built homes in foreclosure, she reported. That also includes 8,000 high-density units, the majority of which are condo-hotels and rentals.

Still, median existing-home prices in Las Vegas rose 0.7 percent in July from the previous month and annual sales are up 63 percent from a year ago, Las Vegas-based SalesTraq reported.

New-home sales increased nationwide for the fourth consecutive month in July, which further suggests that the housing market may finally be stabilizing, reports Hanley Wood Market Intelligence, an independent housing-industry research firm. The annual pace of new-home sales is now at its highest level since September 2008.

Existing-home sales also continued to rise in July, buoyed by increased affordability and the homebuyer tax credit, which is set to expire Dec. 1. Annualized sales of total existing homes in July jumped 7.2 percent from June levels to 5.24 million units. It was the first time since 2004 that existing-home sales have risen for four consecutive months.

Borsanyi said any measurable improvement means the market isn't declining further, supporting her prediction at the beginning of the year that Las Vegas would lead the nation's housing recovery.

"Even if it just idles for a while in the bottom of the market, as long as it doesn't go further down, that's about what we're expecting," she said. "It looks like we've stopped the fall and there are signs toward recovery."

Housing industry cheerleaders point to the 532,000 existing homes nationwide sold in July, up 11,000 from the previous month. That's only 220 more sales for each state, said Andrew Jakabovics, associate director for housing and economics at the Center for American Progress, a Washington, D.C.-based think tank.

"Is that more activity than in June? Yes, but it hardly seems to be evidence that the worst is behind us, especially considering foreclosure activity in July also hit a new record high," Jakabovics said. "Given the



Bill Hughes | Business Press Realtor Jacquelyn Reiter shows a house in the Paseos of Summerlin to Robert Horn. Horn has a Summerlin condo in escrow for about \$150,000 and plans to rent it out.

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record rates of delinquent mortgages and foreclosures, it's hard to argue that a slight uptick in existing home sales indicates the housing crisis is over."

The bursting of the housing bubble ignited the current recession, which has assumed a role as housing's main obstacle to recovery, Borsanyi said in a second-quarter Las Vegas housing report from Concord Group. Current sales, median prices and economic performance reveal a market struggling to find traction, she said.

Price drops have brought affordability below the normal ratio to Las Vegas, though oversupply and macroeconomic conditions will likely lead to an additional 5 percent overcorrection, she said.

A steady improvement in housing prices for at least six months is key to a sustained recovery, Las Vegas real estate consultant John Restrepo said. When this will happen remains unclear, he added.

The Greater Las Vegas Association of Realtors showed a 13.6 percent drop in August sales and 2.4 percent decline in median prices from July.

RealtyTrac reported 16,798 foreclosure filings on Las Vegas properties in July -- one in every 47 housing units -- more than 7.5 times the national average and the highest foreclosure rate among metropolitan areas with populations of at least 200,000.

"Clearly, the turmoil in the local housing market will continue for sometime, despite the dramatic improvements in sales volumes," Restrepo said.

Even after a 33 percent decline nationwide, home prices are still above their long-term trend, said Henry Blodget, editor-in-chief of The Business Insider. To return to normal, they need to fall another 5 percent to 10 percent. After they get there, they'll likely fall a lot more, he said.

Lower prices in Las Vegas are due to "seller circumstances" more than declining values, said Eric Horn of PMD Associates, a Las Vegas real estate firm. He identified some of the factors affecting home prices and sales in an 18-page summary of the Las Vegas housing market. For example, distressed sales are an anomaly in a normal market, but they're rampant in this market.

"In the end, current market prices are kind of false because people need to sell their house," Horn said. "A quick sale might be required to settle a divorce or to wind up an estate or to get rid of a second house payment left behind after a family transfers out of town or to free a landlord who is fed up being a landlord."

Those prices reflect not fair market value, but the seller's situation. It looks like simple supply-demand economics in terms of excessive inventory and corresponding lower prices, but the underlying circumstance is different, he said.

Many households depend on double incomes to afford a home. If one person loses a job, the family budget is stretched so tight it "blows them off the high wire," he said.

"The other thing I see as significant in this market is there will be no new (home) construction until prices rise to where it's feasible to do it," Horn said.

Some builders are staying open, but operating at a loss, he said. The number of builders pulling five or more permits a year is down to 25 from 35 a year ago and is expected to drop to 20 by year's end.

When will new-home production rebound?

"We think that has to do with prices," Horn said. "If the price of a house today is \$150,000 and the price needs to be \$200,000 in order for a new house to be profitably built, builders and their lenders will need to see market prices rise to that level before the switch turns on."

A July summary report sponsored by Inside Mortgage Finance Publications made for grim reading. Three of the 16 bullet points stood out:

- The market for home purchases can be divided into segments of 26 percent for damaged bank-owned, foreclosed homes; 23 percent for move-in-ready REOs; 14 percent for short sales; and 36 percent for nondistressed properties.
- Nearly 43 percent of homebuyers are first-time homebuyers; 29 percent are current homeowners buying relocation or retirement homes; and another 29 percent are investors.
- Only 31 percent of non-REO home-sale listings are unforced or optional; other major reasons for listings include financial stress (including short sales), long-distance relocation and divorce or estate sales.

Although investors were partly blamed for the run-up in Las Vegas home prices, Borsanyi said she's excited to see them coming back. She consulted with Las Vegas-based Montecito Cos., which started a private investment fund to acquire 100 to 125 foreclosed homes in the master-planned Summerlin and Green Valley communities.

"It's a valid business, not speculative," Borsanyi said. "Their financials are showing seven years of rental and then slowly letting them go for sale. This is a healing time. They're not overdoing it. All of those homes are on the market and nobody is building new, so it's taking supply off the market."

Robert Horn (no relation to Eric) of Olympia, Wash., has a Summerlin condo in escrow for about \$150,000 and plans to rent it out. The unit is in great condition and sold for \$425,000 in 2007, he said.

"I came down here and basically started to look at properties," Horn said. "I knew it was a great market, a great place to live and have a place. What you can get for the money, you can't pass it up."

Irvine, Calif.-based real estate consultant John Burns estimates nearly 3 million foreclosures next year, primarily from an increase in economy-related foreclosures, with little relief seen until 2014.

With foreclosures putting downward pressure on prices, historically low interest rates and an \$8,000 first-time homebuyer tax credit, people are finding homeownership more affordable than renting in places such as Las Vegas and Phoenix, he said.

What's lacking in this recession is a way to finance buying decisions, Horn of PMD Associates said.

"A consumer looking to buy a house, even if well-qualified, may stay away for fear of making the wrong financial decision," he said. "They may feel less stable making such a large commitment in the current economy. The housing needs are still there. Price and financing are simply the hurdles one has to overcome in order to have a house."

Realtor Rob Jenson of the Jenson Group said he's starting to see more buyers coming from California. Some are looking to move their businesses to Las Vegas and buy homes in the \$500,000 to \$1 million range.

His monthly report shows a 1.3 percent increase in average sales price for August at \$160,449, up \$2,057 from July. Sales fell 7.4 percent to 3,055 in August, but the number of foreclosures on the market also dropped 7.4 percent to 6,053, Jenson reported.

Nationwide, median new-home prices declined to \$210,100 in July from an upwardly revised price of \$210,400 in June, Hanley Wood reported. Increased competition from the existing-home market, especially foreclosures and short sales, has caused median new-home prices to fall back to their lowest levels since March.

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