



The Unbloody Streets of Las Vegas

by Doug French

The temperature has been especially hot this year in Las Vegas. Day after day, by late afternoon thermometers hit 110 degrees or more. For those of us who have been here a while, we may be annoyed, but resign ourselves to dealing with the dry heat, and congratulate ourselves for not having to shovel snow in the winter.

For the 200 people per day that move here the heat is shocking: especially for the 35 percent that move in from temperate California. There is no lonelier day than the day a person moves to Las Vegas in the summer: a glaring sun, oppressive temperature, and a rental truck full of furniture that must be toted to an upstairs apartment from a parking lot a football field away, and no new neighbors offering to help. Las Vegas doesn't start easy for anyone, and for some it gets no better. A few years ago a study found Sin City one of the top five most stressful cities in the United States, with the highest suicide and divorce rates in the study, as well as a great deal of alcohol use.

But people continue to migrate to Las Vegas, immigrants from the economic mismanagement of states both near and far away. Economists over at UNLV, Keith Schwer and Bob Potts, estimate that 50,000 jobs were created in Las Vegas last year. And more jobs are on the way as the LV Strip's latest building boom begins to bear fruit starting this December with the opening of LV Sands' \$1.8 billion, 3,025-room Palazzo. By 2012, 45,000 more hotel rooms will be constructed on the Strip.

With the demographic winds at their backs, casino operators aren't worried about filling the rooms with tourists, but finding employees will be a challenge. According to a report authored by Deutsche Bank Securities, the casino industry will need 113,500 more workers to fill the spots created by the new resorts that are now under construction. Unless the city's population growth begins to accelerate, 25,000 of these jobs will go unfilled according to the investment bank report.

By the time MGM Grand's massive \$7.4 billion City Center project comes on line in late 2009, competition for employees could be keen, and the gaming giant will have 12,000 spots to fill at the multi-use project. A year later, Boyd Gaming's Echelon Place will come on line and they will be looking for over 10,000 workers.

Despite a red-hot economy and prospects for more of the same, to read the financial press and listen to Wall Street pundits the Las Vegas housing market couldn't be colder. But is it? In many ways the Las Vegas housing market is just simply returning to normal after the irrational exuberance of 2005 when just short of 39,000 new homes and condos were sold and 58,522 resale homes changed hands.



Back not so long ago in 2000, with the Venetian not a year old and Steve Wynn buying the Desert Inn property with only an idea in his head, new home sales in Las Vegas were 20,520 and resales totaled 29,515.

Through June of this year, 10,395 new homes and 14,556 used homes have been sold. If this pace continues, just short of 50,000 homes will change hands in 2007, an almost identical amount of sales to the number in year 2000, a year that was considered at the time a strong housing year.

Back in 2000 there were 130 builders selling homes in the Las Vegas market, according to Home Builders Research, Inc., but by last year the number was down to 77. And all but one of the top ten builders last year were large publicly traded builders, with the top ten accounting for nearly 56 percent of all new home closings. Thinking the boom would never end, these public builders bid up the price of land hoping to gain or maintain market share and now, according to Larry Murphy at SalesTraq, there are 572 different competing subdivisions in the market, nearly twice as many as the 295 when the boom was just beginning in 2003.

With housing market *en fuego* in 2005, 60-70 people a week visited each subdivision. Now MetroStudy says only 20 per week are bothering to look for a home. So, instead of the average subdivision selling two to three homes per week, now builders feel fortunate to sell that number in a month.

Builders are pulling out all the stops to rid themselves of inventory, giving away thousands in incentives and in some cases lowering prices. With significant drops in the prices of lumber and other materials, combined with a very hungry subcontractor workforce, decent profits can be had selling new homes at \$150 per square foot and below. At the end of June, builders had only 2,164 units in standing inventory, a one-month to six-week supply according to SalesTraq's Larry Murphy.

Meanwhile the Multiple Listing Service reached a record 23,642 homes in June, with reportedly 40 percent of those homes sitting vacant. No doubt, speculators bought many of these homes in 2005 for \$200 per square foot believing housing prices could never decline.

But while housing analysts point at Las Vegas as the poster child for the housing bust because of the number of foreclosure filings, local real estate expert, Marketing Solutions executive vice president Stephen Bottfeld points out that a review of the foreclosure filings reveals that some individual out-of-town investors have as many as 40 homes being foreclosed upon.

Dennis Smith of Home Builders Research pointed out at a seminar earlier this year, that selling homeowners are greedy and won't give away buyer incentives, while builders will move houses any way they can. Besides, most people prefer to live where no one else has



"cut their toenails," as one builder has his sales staff remind buyers, if the customers are waffling between his new product and a resale home.

With an eye on their declining stock prices the publicly traded builders have all but stopped pulling building permits and started thinning their employee ranks. According to *In Business Las Vegas* magazine, "Some major builders have eliminated more than 100 jobs or more than 40 percent of their Las Vegas workforce in the last six to nine months."

It's likely that builders in Las Vegas will pull fewer than 20,000 new home permits this year for the second year in a row. No wonder that compared to the fourth quarter of 2005, there were 39 percent fewer framing contractors, 20 percent fewer painting contractors, 19 percent fewer general single-family home construction workers, 14 percent fewer foundation contractors and 10 percent fewer plumbing and heating workers.

Before last year, the last time there were fewer than 20,000 new homes permits pulled during a calendar year in Las Vegas was 1999, when the median new home price was \$139,500. This May, the median price was just short of \$309,000, only a 4.4 percent decrease from a year ago. Real estate consultant John Burns believes home prices in Las Vegas are too high and must drop by 33 percent, or about \$100,000, before the market returns to normal conditions, given a median family income of \$50,465. But Burns shouldn't hold his breath. Hispanic families are solving the affordable housing dilemma by buying homes with one or two other families. And an angry Stephen Bottfeld told his July Crystal Ball crowd last week that there is "no way homes will lose 30 percent in value this year, or next year or the year after... or all three years put together."

The residential real estate business may be punk out in the suburbs, but on the Las Vegas Strip it's as hot as the weather. The New Frontier closed its doors forever at midnight on July 15th. El Ad Properties paid Phil Ruffin \$33 million per acre or a total of \$1.2 billion for the aging property he bought in 1998 for \$167 million. The Israeli company intends to spend \$5 billion constructing a replica of New York's famed Plaza Hotel on the property.

Condo sales are so brisk at MGM Grand's CityCenter the company has assembled 78 acres on the north Strip to do another massive mixed-use project. "Just two years ago we would never have conceived of buying more land on the Strip," company CFO and president Jim Murren told the *Las Vegas Sun*. But after selling more than a billion dollars worth of condos at CityCenter in just a few months, Murren says, "We can do this all over again."

The Nevada gaming market is rocking, setting a record in May by winning \$1.14 billion from gamblers. The majority of that win came from the Las Vegas Strip that has consolidated even more than the homebuilding market. MGM Grand and Harrah's together control three quarters of the hotel rooms on the Strip, and MGM holds an incredible 865 acres on the Strip, with 250 of the acres being undeveloped. But unlike the large homebuilders that wish they had a few less acres, Mr. Murren says, "Anyone who



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has ever sold land (on the Strip) has lived to regret it." Strip land "goes up slowly or rapidly, but it doesn't ever go down."

According to Bottfeld, "what happens on the Strip gets mirrored in the housing market." He predicts the Las Vegas housing slump that began in April of last year will begin to recover when the Palazzo opens later this year and will be fully healed by August of next year. And to the naysayers on Wall Street and beyond, who say the Las Vegas housing market slump will persist indefinitely, Bottfeld contends another Las Vegas boom is right around the corner in 2009.

The old saw repeated often by Las Vegas old timers is that if there are high-rise cranes on the Strip, it's a good time to buy real estate. Dozens of them continue to dot the skyline. Number crunchers stress that each new hotel room creates 2.5 jobs, and that each new hotel/casino job creates another 1.5 jobs off the Strip. The people who will ultimately fill those jobs don't live in Las Vegas yet. When they pull into town in their rental trucks they will need places to live.

Baron Rothschild advised that one "should invest when there is blood in the streets."

It won't be bloody in Las Vegas much longer.

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