

Nevada Housing Affordability and Implications of Construction of Defect Reform An Executive Summary

Applied Analysis evaluated supply-demand conditions in both the resale and new construction sectors of the housing market, trends in overall housing affordability, the homebuilding industry's response to affordability challenges and how construction defect reforms from the 2015 legislative sessions have impacted the industry. The results of the analysis included, but are not limited to, the following.

- Housing Trends** – Population, employment and income growth in Nevada rank the highest in the nation, supporting incremental housing demand. Home price appreciation in Nevada also leads the nation, and strong demand, relatively limited inventory and nearly \$36 billion in planned and under-construction projects statewide suggest these trends will continue. The new home market is reporting median home prices of nearly \$400,000 statewide. Elevated land values (\pm \$400,000 per acre) and rising costs in materials and labor costs suggest there is limited relief in sight. At present, builders in Nevada are permitting – or building – one new home for every 3 new jobs being created in the market. The end result is that the housing stock is falling short of meeting the demand of the community. This supply-demand imbalance is putting upward pressure on home prices.
- Housing Affordability** – Housing prices are outstripping incomes throughout most of Nevada. In Southern Nevada, the Housing Opportunity Index now stands at 46.4 – which means that just less than half Las Vegas area households can afford the median priced home. That same figure stood at nearly 89 in 2012. In Northern Nevada, the Housing Opportunity Index stands at an even lower 37.9, suggesting less than four in 10 can afford the median priced home. Each year, the National Association of Home Builders (NAHB) puts out a study of the impact of a \$1,000 increase on new homes and how many households are “priced out” of the market as a result. Utilizing current home prices of \$390,417, the NAHB model suggests 1,157 households are priced out for every \$1,000 increase. At a \$20,000 increase (+5.1 percent), 23,000 households are priced out. The rise in home prices are clearly affecting affordability, a trend that is unsustainable.
- The Builder Response** – Home builders are developing an increasing larger number of attached homes (condo/townhouse) in an effort to offer lower-priced units. The median price of new attached product is about one-third more affordable than single family residences, translating into more households able to achieve the home ownership dream. Attached product typically allows for increased densities, more efficient construction design, smaller units, and ultimately a lower price point. Based on the NAHB analysis, about a quarter million more households are able to afford an attached product versus a single family unit at today's prices. This product type was not pursued by builders until the construction defect reforms of 2015 were implemented (AB 125). Statewide, an estimated 1,300 attached units were built and sold in 2018 – this was 3 to 4 times the volume reported just one and two years prior. Importantly, builders are expecting these figures to continue to rise, with nearly 6,000 attached units – at lower price points – to be built during the next three years. By 2021, the current projection suggests 15 percent of new home product sold will be more affordable, attached homes.
- Impact of Defect Reforms** – In addition to builders opting to build more affordable units in the wake of the 2015 legislative reforms, the number of defect claims, cost of claims and time to settle claims have all come down. Quicker cure periods have benefited builders and home buyers. The costs to settle construction defect claims prior to AB 125 in 2015 was approximately \$5,000 per new home closing (taking the total cost divided by the total number of closings). That estimate was trimmed to about \$1,150 during the period after AB 125 was passed. In absence of AB 125, the cost differential of roughly \$3,850 per home would ultimately be borne by home buyers, pricing out somewhere between 4,000 and 8,000 households in Nevada. The bottom line is that legislative reforms appear to be keeping risk management costs down and allow builders to develop more affordable housing options.
- Economic Impact of Builders** – Overall, the industry has a direct economic impact of \$6.6 billion; and, when the ripple effect is considered, the industry accounts for \$11 billion of economic output, \$3.9 billion in wages for local workers and supports nearly 76,000 jobs in Nevada. In terms of size, the homebuilding industry is on par with other industries such as transportation and warehousing, manufacturing and wholesale trade. The industry remains a critical element of the Nevada economy.

For more information, please refer to the full report at www.AppliedAnalysis.com/Affordability.