



SIFF Market Analysis The Las Vegas Real Estate Opportunity

Different markets are attractive for different types of investors. Las Vegas is one market with conditions that provide an excellent opportunity for investors looking for aggressive additions to their portfolio. There are two important reasons why Las Vegas has the potential to become a prime investment opportunity. First, there are a large number of properties, almost all single-family homes, on the market today due to an overbuilding in this “hot” market spurred by “get rich quick” speculative schemes and subprime lending. Second, there is continuing economic growth despite the national decline.

Las Vegas has been hit hard with the third highest foreclosure rate among the nation’s 100 largest metropolitan areas. There was one foreclosure filed for every 31 households during the first half of 2007¹. In addition, Las Vegas’ home sales are dropping; new home sales are down 44.3% this year², and existing homes sales have slowed by 20.4% compared to last September³. Large numbers of houses have been dropped into the market as banks and mortgage lenders foreclosed, and we can expect increased numbers of properties from these sources. “The change in the market over the last three years has gone from an extreme hyper lack of supply to a severe glut,” Sean Brown, CEO of the National Association of Residential Real Estate Investment Advisors (NARREIA), said. “We’ve gone from [a] market where it was a cash flow positive, below national median house price...to something where you’re going to have negative cash flow...unless you do some bizarrely creative financing on it, which has gone away with the implosion of the lending industry.”⁴

Nonetheless, the Las Vegas economy is healthier than many other locations in the US. While it certainly is not booming, and in fact is showing a declining growth rate, it is still growing. Local economist Keith Schwer, director of the University of Nevada, Las Vegas' Center for Business and Economic Research, states that the economy “keeps moving sideways, with a downturn in the residential market buoyed by \$30 billion in Strip investment and 40,000 new hotel rooms coming online by 2009”⁵. MGM alone is investing billions into its *MGM Mirage’s CityCenter Las Vegas* on the strip. The principal industry, tourism, continues to expand even in economic drought and as companies invest in the city, many more jobs are created. More jobs lead to housing needs and, as some economists have predicted, could bring housing shortages by 2009⁶.

Often with the greatest risk come the greatest rewards. The current Las Vegas market is not for the conservative investor. There are no sure guarantees that the market will follow the predicted trends, but, if a savvy investor is patient and willing to take the time and energy, it is highly likely that the work will pay off. The kind of investor who should be playing the Las Vegas market is the risk taker who knows a good gamble when he sees one. The Las Vegas housing market will change, as it has in the past. At some point it is likely to shift to the more normal levels it sustained in the early 2000s. If the predicted housing shortages occur, the shift will bring higher returns. However, it is clear that there is no quick turnover, no fixing and “flipping” homes in this market in the near future. The period for generating earnings in this market will be measured in years, not months.

The Las Vegas market can provide great opportunities, but it is important to understand the market, including its macro and micro markets as well as individual neighborhoods. SIFF has watched the Las Vegas real estate market over time, staying current with the news in local business and real estate publications. They have developed relationships with SIFF Certified Partners (real estate professionals, mortgage lenders and property managers) who are intimately familiar with the Las Vegas real estate market.

In order to take advantage of the current market so that potential investors make the best investments they can in this changing market, SIFF recommends the following investment strategy.

1. Location, always the key in buying real estate, it is crucial in investment buying. SIFF works with SIFF Certified Partners to research the micro markets, looking for good neighborhoods—ones with current tenant demand and ones that will fit with the investor’s goals and criteria.
2. Patience, in negotiation with the bank or mortgage lender. They are likely looking at a paper loss, and will not want to take a low offer initially. It may be necessary to keep going back and making the offer to have your price finally accepted.
3. Aggressive property management, marketing the investor’s property to potential quality tenants to guarantee that while equity is building the property is earning its keep. SIFF certifies property managers who are willing not only to keep your investments tenanted, but who will keep the properties well maintained to ensure the resale value.

In order to be successful in real estate investment in Las Vegas, or any locality, it is absolutely key that potential investors take the time to research the property, including site visits, reports on local economy, rent levels, resale values and where the market may be moving. Investors can expect to spend time negotiating to secure a desired price, especially when trying to get a price below market. Once the property is purchased, the investor will need to find and hire a property manager. Again, there will be homework; the investor will want to hire a persistent marketer with the investor’s best interest in mind. All of this takes a lot of time, effort and money.

Many prospective investors that want to take advantage of the growth potential of real estate do not have the time, the extra money to invest in research, or even the expertise to know what to look for in making a strong property investment.. This is where the emerging investment consulting businesses can help. Real estate investment consulting companies, such as SIFF Investment Services, do the homework on promising markets. They know the area, in this case Las Vegas, from macro markets to micro markets all the way down to the individual neighborhoods. They enlist trusted professionals whose businesses are local to the area and who understand the investment strategy to assist in finding and investigating suitable properties through negotiations and loan package commitments and beyond. The need to know the market does not stop with the purchase but requires ongoing monitoring the investment to maximize the investment return. In addition to market trends, property management that keeps the units filled and ensures maintenance is performed to preserve the investment is critical, and someone – either the investor or the advisor must oversee the situation.

With any investment, it is important to have all of the key facts before investing and also to keep track of the investment as markets and situations change. Real estate investment advisors are able to simplify the investment process by providing quantitative and qualitative information that supports decision-making – and then by following through. There are no guarantees in real estate or any other investment, but having qualified professionals assisting in providing analyses as to how regions and specific properties may achieve investment goals certainly ups the chances of success.

1. “Stockton, Detroit, Las Vegas Post Top Foreclosure Rates” *RealtyTrac*, August 4, 2007,
<http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=773&acct=64847>
2. “Home Sales Continue Falling While Jobless Rate Rises” *Las Vegas Business Press*, October 27, 2007
http://www.lvbusinesspress.com/articles/2007/10/27/news/iq_17448858.txt
3. “Modest Recovery for Existing-Home Sales in 2008 as Credit Crunch Subsides” by Walt Maloney on realtor.org
http://www.realtor.org/press_room/news_releases/2007/modest_recovery_for_existing_home_sales.html
- 4 “Gambling on Las Vegas Real Estate” by Beth Anderson of *NuWire Investor*, December 12, 2007 <http://www.nuwireinvestor.com/articles/gambling-on-las-vegas-real-estate-51373.aspx>

5 “Economist: modest growth for Southern Nevada” by Hubbell Smith of *Las Vegas Review-Journal* from the Center for Business and Economic Research, University of Nevada, Las Vegas, December 19, 2007 <http://cber.unlv.edu/outlook-news-annual.html>

6 “Data Point to Workplace Housing Shortage In 2009” by Brian Wargo of *In Business Las Vegas*, December 2007 <http://www.inbusinesslasvegas.com/2007/12/14/realdev.html>