Four of five Las Vegas mortgages "underwater"

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Las Vegas, Nevada leads the nation in so-called underwater mortgages. With home values continuing to plummet, four of every five homeowners in the Las Vegas area, with a population of almost 2 million, now hold mortgages that exceed the value of their homes.

According to the Seattle-based Web site Zillow.com, 80.2 percent of Las Vegas mortgages are now underwater, and the figure is rising. This is more than 12 percent higher than second-place Phoenix, Arizona.

Zillow chief economist Stan Humphries commented: "While not unexpected, the unceasing declines in home values signal that we're in for a long bleak winter of continuing troubles for the housing market. The length and depth of the current housing recession is rivaling the Great Depression's real estate downturn and with encouraging signs fading, will easily eclipse it in the coming months."

The precipitous decline in home values in the Las Vegas valley is all the more stark given the boom in housing sales and home values before the latest crisis. In the 10 years leading up to the financial collapse in 2008, home values in southern Nevada doubled and trebled. From the peak in 2006, those values fell more than 56 percent to the third quarter of 2009 and have suffered further declines this year.

Larry Murphy, the president of research firm SalesTraq, told msn.com: "If you bought a home in Las Vegas since 2004 up to about 2007, whatever you bought—I don't care if you bought a big house or a little house, in a great neighborhood or a crummy neighborhood—it's worth about half what you paid for it."

Murphy predicts that it may take 20 years for some of these home values to get back to the levels they reached at the peak of the housing boom. Some homeowners now have negative equity in the hundreds of thousands of dollars.

According to the web site HousingWire, the number of homes in foreclosure in Las Vegas had been falling but is now increasing again. In October, 2,949 single-family units were in foreclosure, a decrease of 15.5 percent from a year ago but an increase of 9.8 percent from September. In the first 10 months of this year, 25,018 houses and condo units were foreclosed in the region.

Zillow economist Humphries was quoted in the *Las Vegas Sun* saying: "The high percentage of homeowners in negative equity … represents a huge number of people who are not only more vulnerable to foreclosure but who are essentially trapped in their current homes and are prevented from selling and buying a new home. This has profound implications for future demand and will be a millstone around the neck of the housing market."

SalesTraq reported that new-home building permits fell to 343 in September, down 20 percent from the same month a year ago. The number of home sales has also fallen steeply in the last year. Single-family home sales are down 26.5 percent from October 2009, with median prices falling 4.4 percent over the last year, and 1.5 percent from September.

According to the Greater Las Vegas Association of Realtors, inventory has increased 7.5 percent, with 22,570 homes now on the Multiple Listing Service, up from 20,998 last year. GLVAR President Rick Shelton predicted the numbers will get worse, saying, "We can also expect less activity in the coming months as we head into what is traditionally our slowest season for home sales."

Fully 39 percent of home sales in September this year were for a loss, a figure that is 20 percent higher than last year and 12 percent higher than the national figure. Nearly half of homes sold that month were foreclosure sales, compared to one fifth nationally.

In the meantime, speculation by institutional and wealthy investors continues to play a large part in the Las Vegas home market, with 46.5 percent of all home sales in October being made on a cash basis, which is 1.2 percent higher than September.

Bank evictions of homeowners who are behind on their mortgages have caused a major deterioration of communities in and around Las Vegas. Joe Boteilho, chief code enforcement officer for Clark County, which includes Las Vegas, told the *Las Vegas Sun* that many homes are sitting vacant and are not being maintained. “The owners have moved out because they were evicted by banks for not making payments,” Boteilho said, “but the properties are still in their names because lenders have yet to foreclose.” Some homes had broken windows and unsecured doors, he added, while landscaping was not being maintained and unkempt pools had become a breeding ground for mosquitoes. Some of these homes also had squatters.

The actions of the banks that evict families who owe on their mortgages—but who do not assume responsibility for the properties—has prompted Clark County to introduce a $1,000-a-day fine on homeowners whose properties are deteriorating. The county has given itself the right to place a lien on the property if the penalties are not paid. Last year, 1,000 homes were cited under the new code.

Banks have expressed concern about the impact of the new code on property values. Bill Uffelman, president of the Nevada Bankers Association, warned that if the fines and fees were imposed on the defaulted borrower, it would make the problem worse. Areas would become more blighted and property values would decrease. And if the fines were attached to the house, he asked, “Is anybody going to buy it?”

Alan Ellis, inspection services manager for Henderson, a city in the southern suburbs of Las Vegas, said banks’ unwillingness to foreclose and take possession of the property after they evict the owners is the problem. He said it appeared to be a strategy to save themselves money by avoiding maintaining the properties and paying homeowners association and other fees.

The crisis in housing has spread through the regional economy. As of September, Las Vegas had the highest unemployment rate in the country of cities with 1 million inhabitants or more. The biggest contributor to this has been the loss of construction jobs. According to the Associated General Contractors of America, the collapse in construction jobs has been worse in Nevada than in any other state.

Again, this is a sharp turnaround from the years leading up to the financial crisis. Nevada state demographer Jeff Hardcastle told the Associated Press last month that the percentage of construction jobs in Nevada had been as high as 88 percent above the national average when it peaked in July 2006. More than half of those jobs no longer exist, and construction workers make up half of the state’s unemployed.

Many workers have stopped looking for work. Unemployment in Las Vegas stood at 14.1 percent for October, down .9 percent from a record high of 15 percent in September. When those who have stopped looking for work and those who are underemployed in part-time jobs are counted, the number rises above 20 percent.

Homelessness is also on the rise. Las Vegas has seen an increase in its homeless population to 14,000, with more than 3,000 homeless children enrolled in the area’s schools. With fewer than 1,000 beds in shelters, hundreds of residents have even taken refuge in the 200 miles of flood tunnels under the city’s casinos.

People are now starting to move out the state that was once a magnet for population growth. State demographer Hardcastle estimated that 70,000 people have left the state in the last year, including 50,000 from Clark County.

Jeremy Aguero, principal of the consulting firm Applied Analysis, told the *Las Vegas Sun* that he has been somewhat surprised that more people haven’t left. His survey data show people have stayed because they are locked in underwater mortgages, or they’ve decided there is nowhere else to go.