



Construction Report

Washoe County, 2nd Quarter 2009

2009 has been a tough year for most industries, but few have suffered as much as the construction trades.

Except for *natural resources and mining* jobs, which remained flat, every major industrial category in the Reno MSA lost jobs over the year, and some of the losses were huge. By mid-2009, the Reno-Sparks area had earned the dubious distinction of leading the nation in percentage loss of *construction* jobs, which were down 5,800 in June compared to a year earlier – a 33% decline in an industry that has already shed over half of its jobs since the market's peak. Washoe County's construction employment peaked at 25,500 jobs in June 2006; in June 2009, there were just 11,600 construction jobs.

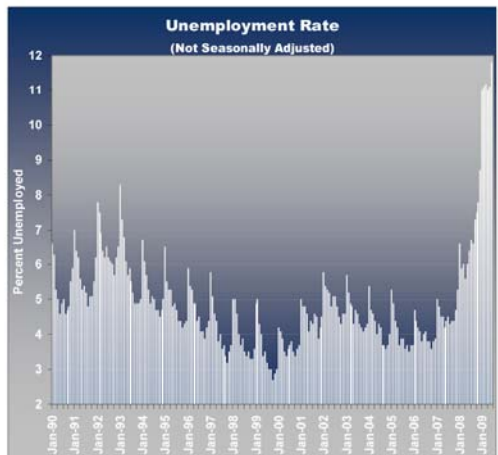
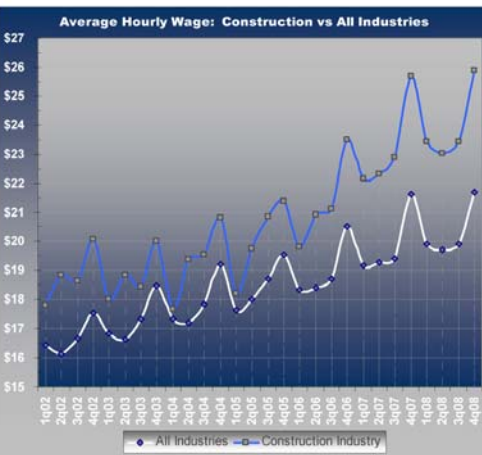
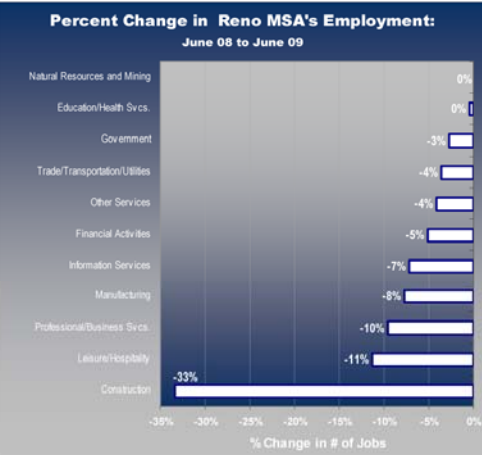
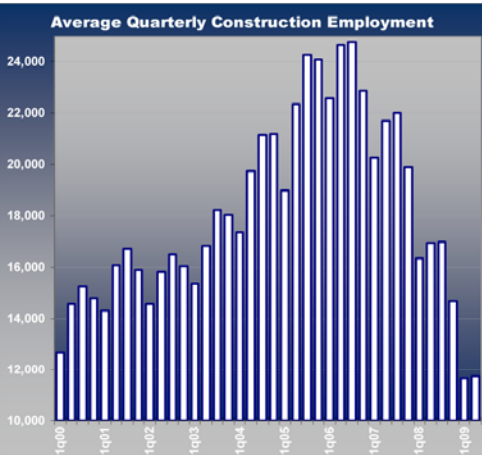
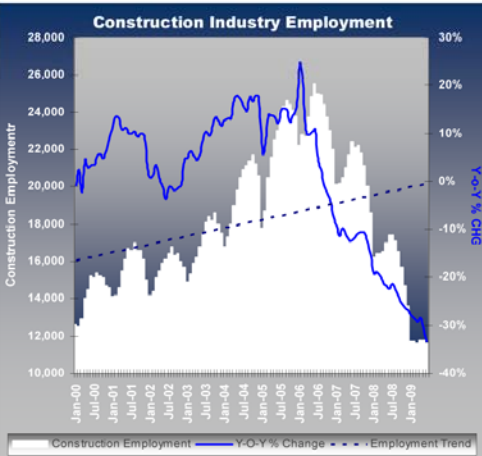
In 2006, *construction* employment in the Reno area accounted for 11% of all jobs – almost double the percent in June 2009. Once new home sales begin to pick up during the next few years, this share of employment will increase slightly (although not likely to its 2006 peak any time soon). Nationally, 5% of all jobs are in the construction industry.

Demand for new construction on both the residential and non-residential sides has fallen off a cliff as the market struggles to absorb the excess capacity already on the market. For residential construction, most home builders would rather not compete with all of the bank-owned homes on the market and are holding off with much of their plans until the economy begins to recover. A quick scan of the planning commission minutes in any locale reveals a steady stream of builders applying for time extensions to keep their tentative maps from expiring.

Record levels of *unemployment* in Washoe County have been the hallmark of 2009 after ramping up significantly during 2008. The Truckee Meadows began 2009 with a 9% unemployment rate – itself a shocking number -- and steadily increased to 12% by mid-year. Compared to the average rates in 2006 (4%) and 2007 (4.6%) Washoe County's rising unemployment is certainly cause for alarm because the degree of uncertainty people have about their jobs directly impacts their spending in the economy, putting more pressure on businesses' ability to maintain staffing, and starts a vicious cycle that's difficult to break.

The number of people fully exhausting their unemployment benefits without being able to find a new job was up 174% from June of last year...over twice as many people (10,323 people statewide) were unable to find alternate employment before their unemployment benefits ran out in June 2009. Construction occupations remain the fastest growing and overall largest contributors to the pool of people seeking *unemployment insurance*.

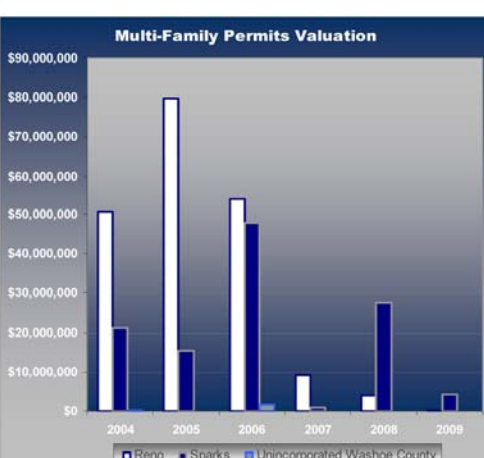
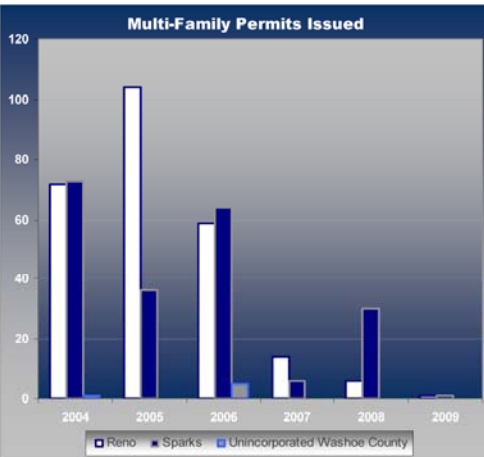
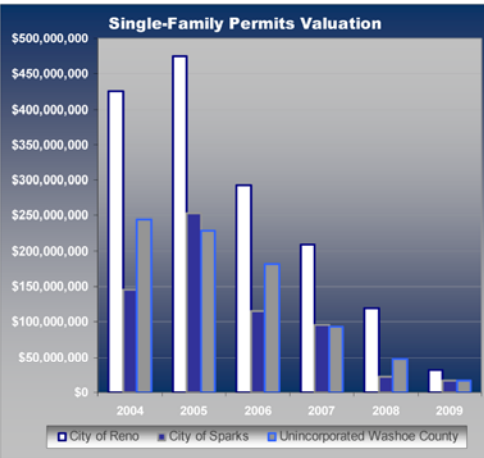
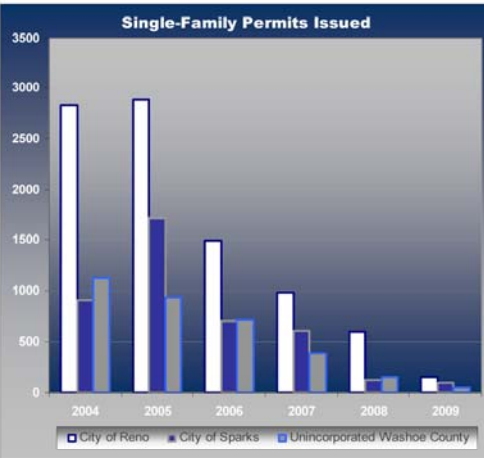
The skyrocketing *unemployment* rate in Nevada will ultimately add fuel to the foreclosure fire, which will prolong the economic malaise. With many households dependant on two incomes to pay the bills, all it takes is one wage earner losing a job or having hours cut to put the family in a bind. In many cases, this second wave of foreclosures will be on properties in middle to upper class neighborhoods with prime mortgages – a far different client than those involved with the first wave of foreclosures over the past two years.





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Existing home prices have fallen so much – down another 31% through the first half of 2009 – that it has put tremendous pressure on the area’s new home builders, many of whom have simply stopped building altogether. New home sales for the first half of 2009 were down 58% from 2008, and new condo sales were down 85%. Existing home sales were up 45% in the second quarter from the previous year, and up 60% from the 1st quarter 2009. There have been consistent increases in existing home sales over the past few quarters, but the median sales prices have been falling precipitously each quarter – 2q09 median prices were nearly 1/3 lower than they were a year ago.

In spite of a strong second quarter for condo and townhouse sales relative to the first quarter, condos have been a tough sell in this market. Combined sales of new and existing condos in the first half of 2009 were down 24% from 2008, and the median sales price was down 44%. The Montage project in downtown Reno has been one notable exception, closing about 10 units per month since occupancy began earlier this spring. After the original developer defaulted on the loans, many speculated that this project would be a major disaster for downtown Reno, but so far they have been successful in closing roughly 10% of the units in just a few months.

There were 214 new homes sold in the second quarter 2009, which is 42% lower than it was a year earlier. The median sales price of new homes has been declining at a much slower rate than with existing homes as builders try to hold the line on pricing as much as possible – the median sales price of new homes in the second quarter was only 17% lower than it was a year earlier, compared to the 33% decline for existing homes.

There is no way the new home builders will be able to compete on price with the glut of foreclosures and short sales on the market, but what they DO offer is a relatively easy purchase process – something that simply cannot be said of buying a distressed property. For many families, it is just too difficult to shop for distressed properties because the negotiating process can take several months to complete, and there is always a much higher degree of uncertainty that the banks will accept the offer...meaning that the process would have start all over with another home if the bank rejected the offer.

For balance of 2009 and 2010, there will be very little growth in the Truckee Meadows. New home builders are waiting on the sidelines for the most part, building very little until they can clear out their standing inventory of nearly 1,000 already-constructed homes awaiting sale. For an area that is accustomed to absorbing 3,000 to 4,000 units per year (and 5-6,000 during the peak years), the next two years of sub-1,000 unit absorption will be particularly tough on the local builders.

Residential projects that already have tentative maps have been filing for time extensions to buy more time before having to bring the product to market, and many developers are simply letting their maps expire (effectively killing the project) before they even begin to avoid having to compete with the banks for home buyers. So long as the bank owned existing homes are flooding the marketplace, it will remain difficult for private sellers and builders to compete without dropping their prices even more than they already have.

