
A WINDSHIELD VIEW OF LAS VEGAS REAL AND UNREAL ESTATE AND HOUSING

January 18, 2010

This week, we're on the go to the nation's annual home builder convention, the National Association of Home Builders' International Builders Show. We'll see some of you there, we hope. We'll be in Las Vegas, that big bowl of steamrolled desert rimmed by ridges, sprawling in all directions with Mediterranean style roof tops.

Las Vegas, which enjoyed generations of ill repute, got a good halfway through its silly money financed extreme makeover redemption and rehabilitation before the economy in about 2008 shouted, "Move that bus!" When the bus moved, well, the picture wasn't pretty like on Sunday nights on ABC.



Building Harmony Homes at Ladera

Yesterday, we arrived at McCarron, caught a bite to eat in a sports bar among Brett Favre haters and lovers alike, and took off by SUV with Rick Hildreth for a look-see, not only at what is going on, but at what's in the pipeline to occur in new residential real estate in the year or more ahead.

A word or two about **Rick Hildreth**. If you've been in a car with a knowledgeable Realtor, driving neighborhoods where he or she has been doing business for years, you probably have a good idea of what it's like touring the Las Vegas perimeter mosaic of master plans and not so master plans with Rick, who for just over six months has been the on-the-ground operative in Las Vegas for the Phoenix-based **Land Advisors Organization**.

Rick came to Las Vegas from his native Kentucky as part of a software company, one which eventually became a casualty of missteps that occurred during the great Tech bubble of the late 1990s into early 2K.

Since, Rick put in time as a land acquisitions pro for now-defunct Engle Homes (Technical Olympic USA), and later at the now-absorbed Centex Homes. As a home building company land executive, Rick made it his business to learn Las Vegas' land grid inside out, backwards, in his sleep, etc.

For example, we're driving past a tract of land that a commercial RE company paid \$1.3 million an acre for during the run up. It was a piece of land Rick coveted as a potential site for a Centex multifamily active adult community during the first half of the just-finished insane decade. He lost out to the RE company, and now the commercial project is but a skeleton of rusting beams, back with the banks.

"I remember being so angry that I lost that bid," Hildreth says, somewhat belying a mild manner you'd hardly associate with a bad temper. "I said to the seller, 'I just don't lose these bids.'"

Spend a few hours with him on L.V.'s perimeter roads—now immensely improved after years of construction and detours—and you hear him quote lots, buyers, sellers, banks, legal status, potential deals, and dynamics for every piece of dirt out there in the vast desert Valley.

We start our odyssey out at Inspirada, where you see KB Home, Meritage, and Toll Brothers valiantly making a go of an MPC that has had to weather the three whammies... an economy going upside down, a developer going broke, and several key builder partners imploding.

Still, it's a workout, and there are deals going on for the lots that had been Kimball Hill's.

This leads to the two large insights of our trip:

- 1. If you're a home builder planning to generate near-term volume and cash generation in the Las Vegas market, and you're counting on finished lot availability to get you to your numbers, think again.
- 2. Affordability — on a base sticker price and monthly payment basis — hasn't been better in the Las Vegas valley for a decade. Hildreth says that if you can sell homes in the \$100 per sq. ft. range, you can move them quickly, as residential real estate pros are clamoring for product.

These two insights come out of Las Vegas, but they illustrate the questions we need to keep asking as we look at an overall economy going sideways thanks to an over-leveraged consumer and an uncertain jobs environment.

We haven't got stability in home prices, partly because of defaults among borrowers who never should have borrowed, partly because of income and job loss, and partly because the deflation of home values is its own gravitational force.

Countering that lack of stability, we have "affordability," which describes a relative set of circumstances that compare with phantasmagoric baselines of two to three years ago.

Will and can affordability act as an economic catalyst, or will it work simply as a descriptive of a market that has finally corrected and cleansed and delveraged itself after a 15 year boom cycle that crescendoed with a bubble?

This is the question we see so clearly delineated in Las Vegas. We have an economy that relied heavily on construction and real estate speculation checking itself out as the dust settles to see what it's made of. We have billions of bubble dollars out there in cast-iron beams, rusting in the sun, waiting for multiple forms of market impasses to clear before 1 or 2 becomes the new 10.

We have natural household and job formation thrown into a limbo of questions based on whether companies are actually hiring or firing, whether incomes are actually stabilizing or losing ground, whether population growth is netting positive or negative.

But affordability is a phenomenon of noteworthy-ness now.

And the companies that run on heft and scale need to start using it or losing it, one or the other. So, Hildreth, the guy who probably knows more on a lot by lot basis about Las Vegas valley — he can tell you who sold, who bought, who flipped, who's holding, who's distressed, who's angling to buy, and where the bodies are buried for just about every piece out there right now — claims that big builders may be in for a surprise if they think they're going to be able to make their numbers by picking up finished lots in the Vegas market.

"They're all talking about opening several more stores here in the valley in 2010," he says. "They're going to find that's tougher than they think. They do that in a good year, but I don't think there's enough finished lot inventory here for them to assume that."

We'll see.

More later from our ramblings in the Valley after we go back out to Inspirada to take a closer look at what all the KB Home Open Series magic is all about.

Let us know if you're out here, and we'll try to say hello over at the Convention Center.