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Las Vegas again at top of construction gauge

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When a city tops an economic gauge for six years straight, people may wonder: "What will stop the reign?"

That's the question facing Las Vegas, which has topped the University of Central Florida's Private Construction Intensity Index every year since 1999.

The 2003 index, released in May, shows Las Vegas had a list-topping 48.11 rating, nearly 10 points ahead of second-ranked Riverside-San Bernardino, Calif. (38.81). Las Vegas' score was 17.6 percent higher than a year ago (40.9), and 17.5 percent higher than two years ago (40.11).

Las Vegas also remained atop the index's first-quarter edition, released last week, with an 11.29 score, still slightly more than 10 points ahead of Riverside-San Bernardino.

"Right now, Las Vegas is hot," said David Scott, who authored the survey for the university's Dr. Phillips Institute for the Study of American Business Activity.

The university's gauge uses the number of building permits for single and multifamily dwellings per 1,000 nonagricultural payroll jobs to gauge economic strength of 61 large metropolitan statistical areas with at least 500,000 employees.

But Scott said the gauge really measures confidence, since builders only pull permits to construct buildings they're confident they can sell.

Las Vegas' frequent No. 1 standing means builders here are confident they can turn around the next subdivision, and the next, Scott said. That leads to more investment, and in turn, a stronger local economy.

So far, permit and job statistics suggest high economic confidence in Las Vegas should continue to last through the year.

Something would have to break that confidence for Las Vegas fall from atop the index, Scott said.

The housing market would have to slow, he said, which could happen if the amount of buildable land shrank. Or the economy would have to falter. This could happen, he said, if casino gambling becomes so mainstream that other places can compete as better bastions.

Recent data suggest Las Vegas will stay atop the index in the short term. Permit applications here are rising sharply. On June 24, Home Builders Research reported local builders pulled a record 4,501 new-home permits in May, bringing the year-to-date total to 17,074, a 70 percent increase from a year ago.

Job creation is also rising, state data showed. Nevada created 8,200 jobs in May, the Department of Employment, Training and Rehabilitation said June 19. In the past year, 47,600 new jobs have been added to the state's work force, which is growing at a 4.4 percent annual rate, compared with 1 percent nationally.

That growth seems likely to continue. In its third-quarter employment outlook, Manpower reported that 30 percent of local companies polled said they expect to increase their work force, up from 20 percent in the second quarter.

Tracy Clark, an economist with the Bank One Economic Outlook Center at Arizona State University, said the Private Construction Intensity Index is good for measuring fast-growing communities' economies, because they're the ones adding housing. More mature markets, which are closer to build-out, pull fewer permits and add fewer homes, he said.

Joel Naroff, president of Naroff Economic Advisors in Philadelphia, said population growth may be keeping Las Vegas atop Scott's index: both residential building permits and job growth are closely tied to population growth. Still, he suggests that Las Vegas' maturation might someday set it back on Scott's index.

The casino building boom of the late 1990s helped redefine Las Vegas' community and economy, Naroff said; lots of big hotels were built.

But now activity may shift from building new hotels to revitalizing and refurbishing existing properties, Naroff said. Less big-hotel construction could change the job market and alter population growth.

"I see growth rates slowing down because of maturing cycles," Naroff said. "The fact is, Las Vegas is not a small city anymore."

Rising interest rates may slow home buying and, by proxy, home permitting, said Mark Zandi, chief economist for West Chester, Pa.-based Economy.com. The Federal Reserve raised a key short-term interest rate by a quarter-percentage point Wednesday. And economists predict more rate increases in the future, including one as soon as Aug. 10 when the board reconvenes.

Home Builders Research reported May's median price for new homes was \$239,145, an increase of \$38,385, or 19.2 percent, from the same month last year. The hot home price gains may have spurred speculative buying, Zandi said; some people may have bought homes only expecting to sell them, and profit quickly.

But higher interest rates, which would make borrowing for homes more expensive, might slow speculative housing, Zandi suggested. Also, higher rates could making borrowing unaffordable for some lower- and middle-income families.

Homebuilders Research President Dennis Smith said he expects permitting to stay hot as new subdivisions in southwestern Las Vegas and North Las Vegas prepare to open. He expects an average of between 3,000 and 3,500 new-home permits a month through the rest of the year. For the year's first five months, Southern Nevada is averaging 3,414 new home permits a month compared with 2,014 in the same period a year ago, he said.

"There's no model to compare it to," Smith said of the growth. "There's no market to compare it to. Las Vegas is unique."

The level won't last forever, though, Smith said. Buildable land is growing scarcer.

So, when will Las Vegas fall from atop the Private Construction Intensity Index? Naroff and Zandi suggested it might happen within the next five years. But Clark said no one really knows.

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"Nobody can tell when the party's going to be over," he said.

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