U.S. & Nevada Las Vegas Economic Briefing

Russell Bedford

26th Annual Conference – Las Vegas, Nevada

October 22, 2009

Prepared by:

RESTREPO CONSULTING GROUP LLC

The National Economy

The Great Recession

- **Only two positions today: "cash or fetal"**
- **Recession in full swing, with mixed signs of recovery**

  Technical indicators improving, but job market extremely weak

- **The culprits**

  Real estate asset collapse, cheap & easy credit, job losses, consumer confidence/spending, debt loads

- **What's next?**

  Are we at bottom or is it just a case of "Premature Exhilaration"?

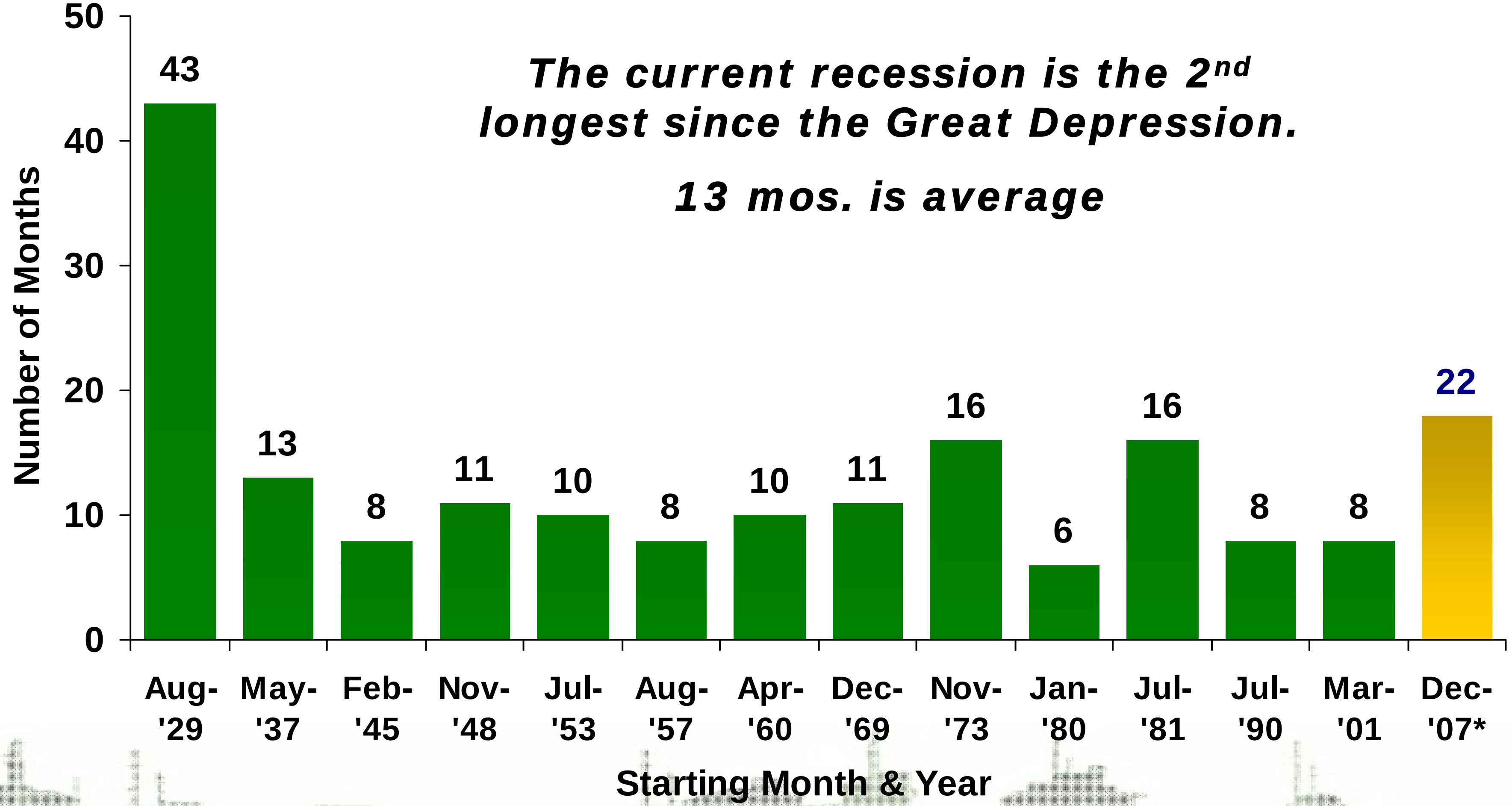
RESTREPO CONSULTING GROUP LLC

Some Important National Indicators

- **Length of Recession: 22 months**
- **Case-Shiller Index: Up 144.23 in July. 184.96 – 12/07**
- **Up to $35B in Option ARM & $20B in Alt-A Resets in 2010-2011**
- **Unemployment Rate: 9.7% (August 2009)**
- **Change in GDP (Q2, 2008 - Q2,2009): -2.4%**
- **ISM Manufacturing Index (8/08 - 8/09): +7.3%**
- **Consumer Conf. Index (9/08 - 9/09): -13.5%**
- **Personal Savings Rate (7/08 - 7/09): +61.5%**
- **DJIA (9/08 - 9/09): -10.2%**
  From low (2/08 – 9/09): +37.9%

RESTREPO CONSULTING GROUP LLC

How Bad Is This Recession? Number of Months, By Recession Starting Month: Aug. 1929 – Dec. 2007*

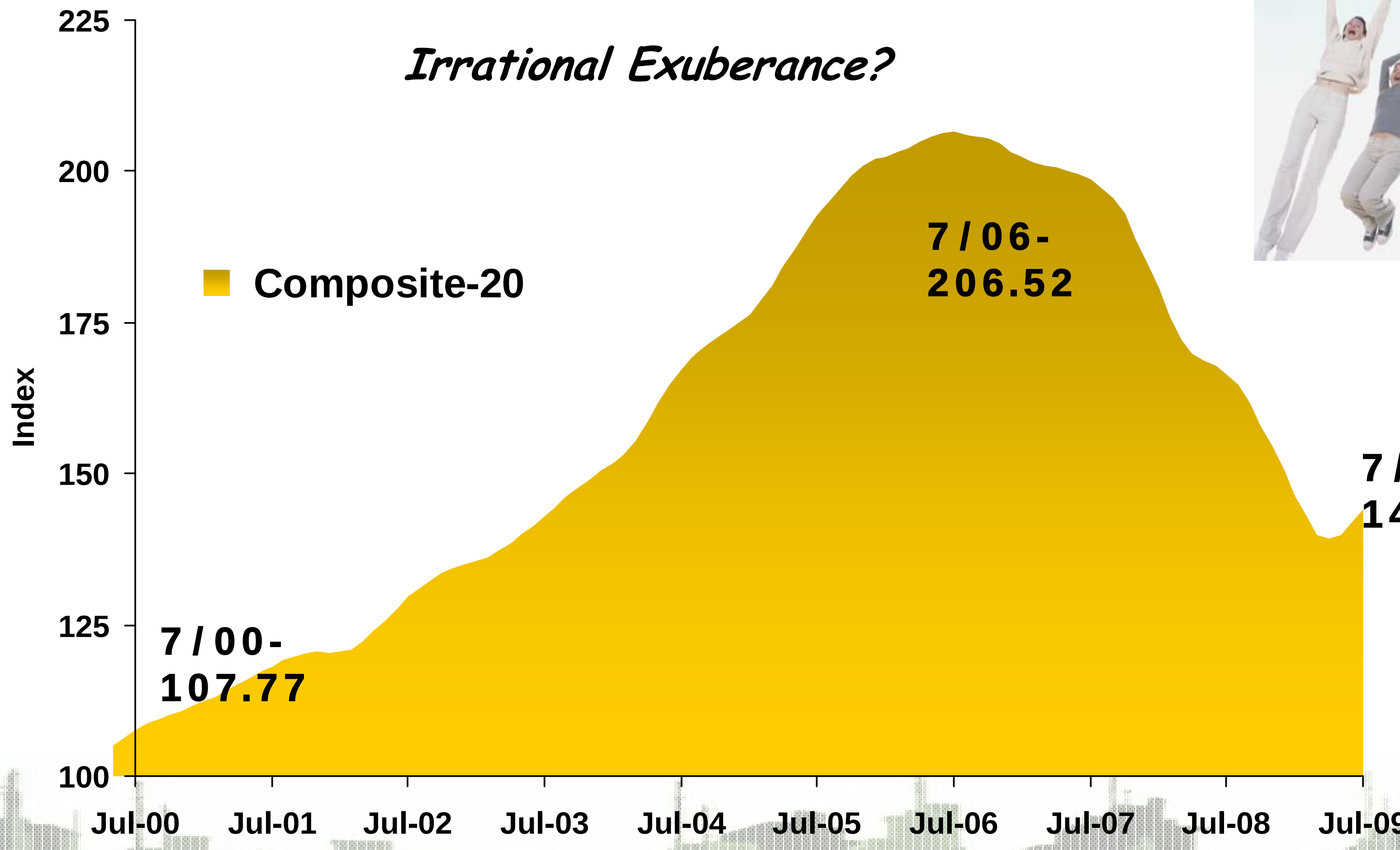


RESTREPO CONSULTING GROUP LLC

*As of October 2009.

Source: National Bureau of Economic Research.

S&P / Case-Shiller Housing Price Index
20-City Composite Index: 7/2000 – 7/2009

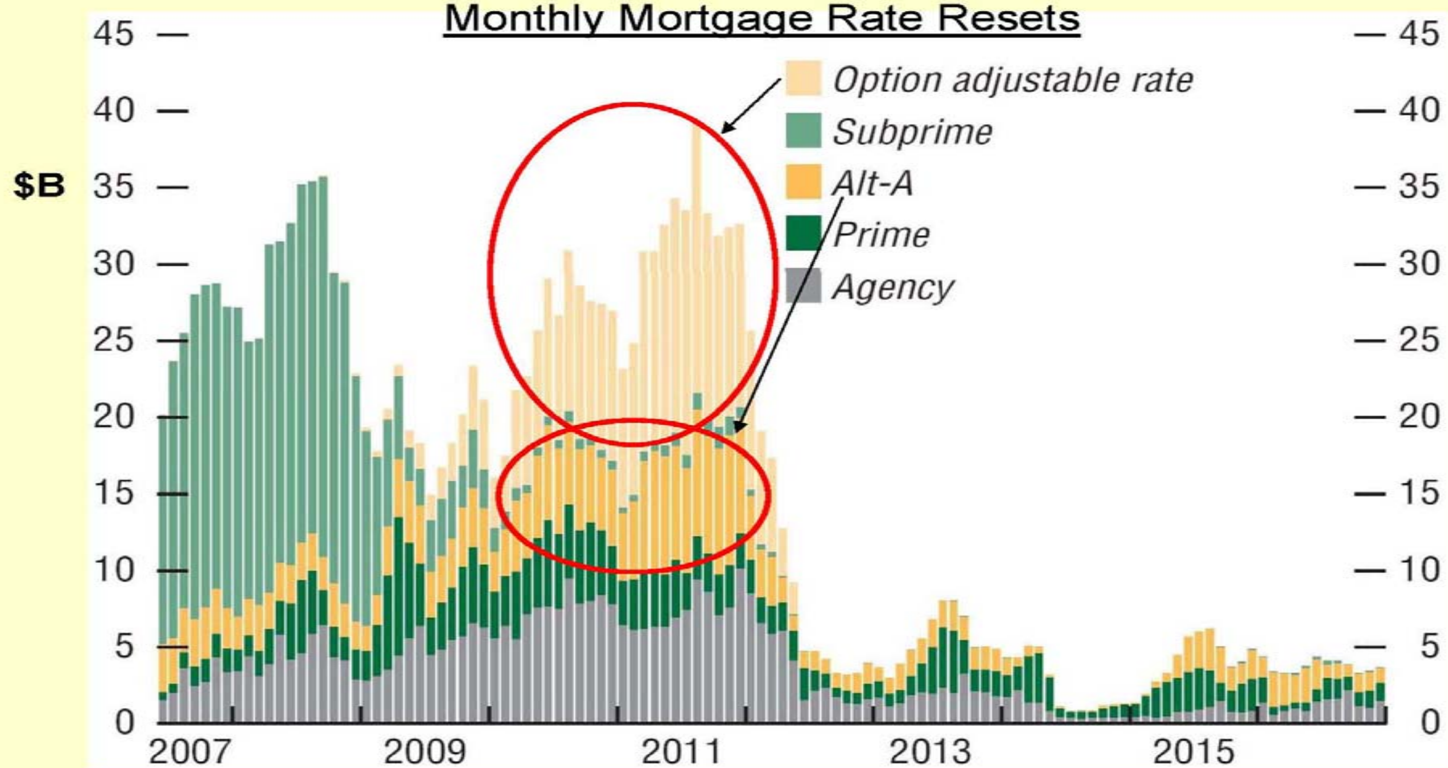


RESTREPO
CONSULTING
GROUP LLC

Source: Standard and Poors.

Mortgage Resets: 2010-2011

The Chart on the Previous Page Misses the Fact That Alt-A and Option ARM Resets Will Surge in 2010-11

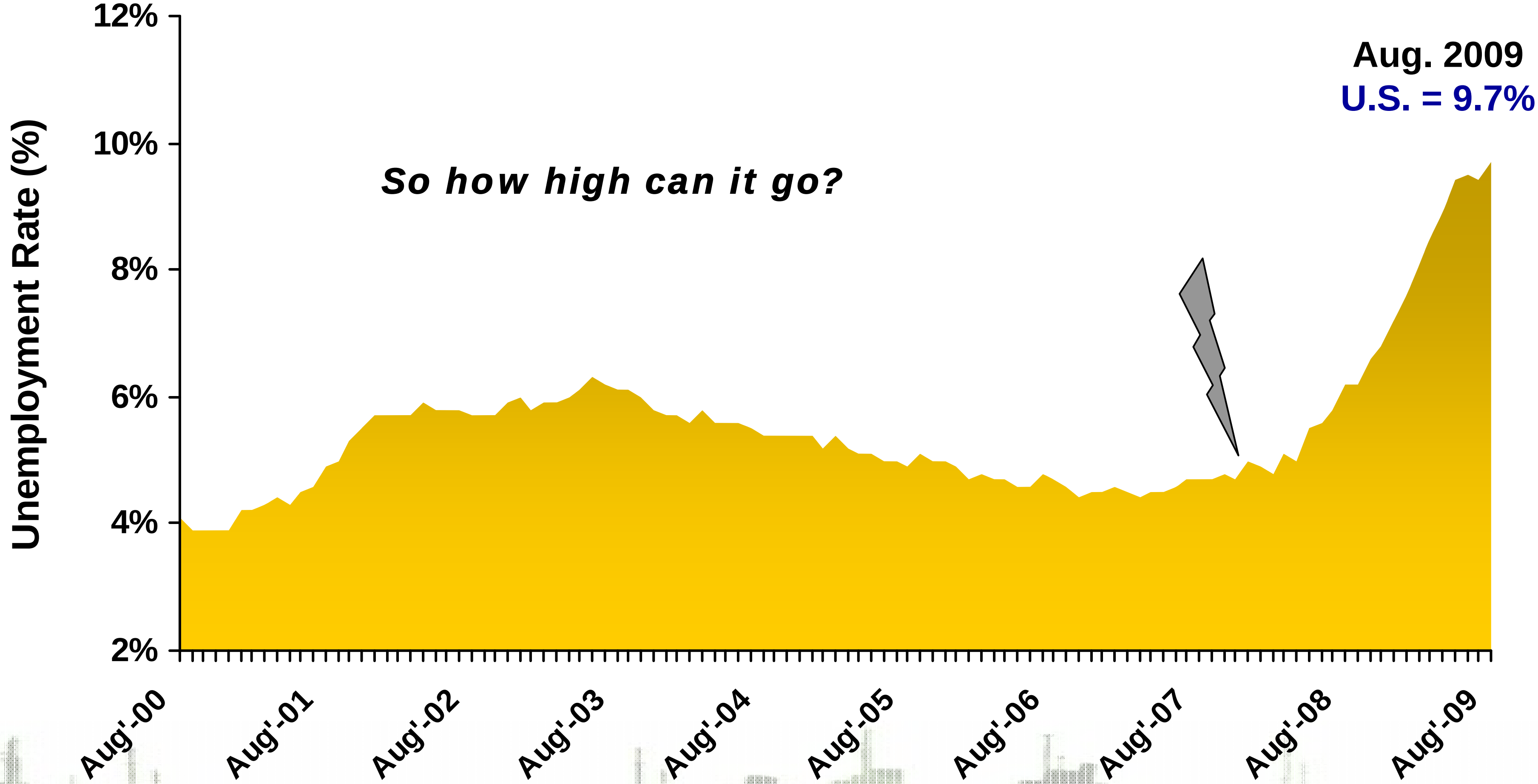


Source: Credit Suisse.

RESTREPO CONSULTING GROUP LLC

Source: Credit Suisse.

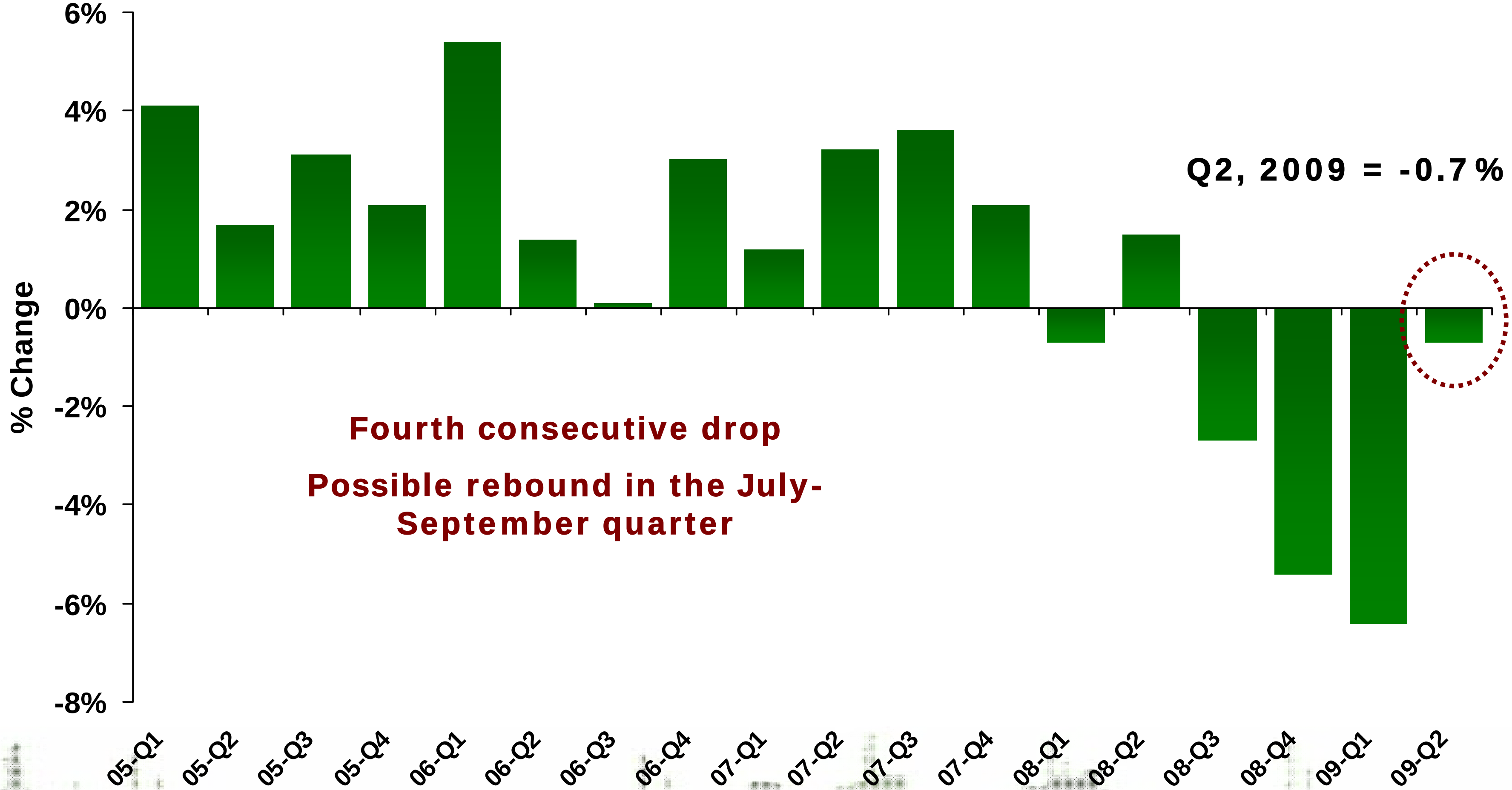
U.S. Unemployment Rates:
8/2000 – 8/2009



Source: Nevada Department of Employment, Training and Rehabilitation.

RESTREPO CONSULTING GROUP LLC

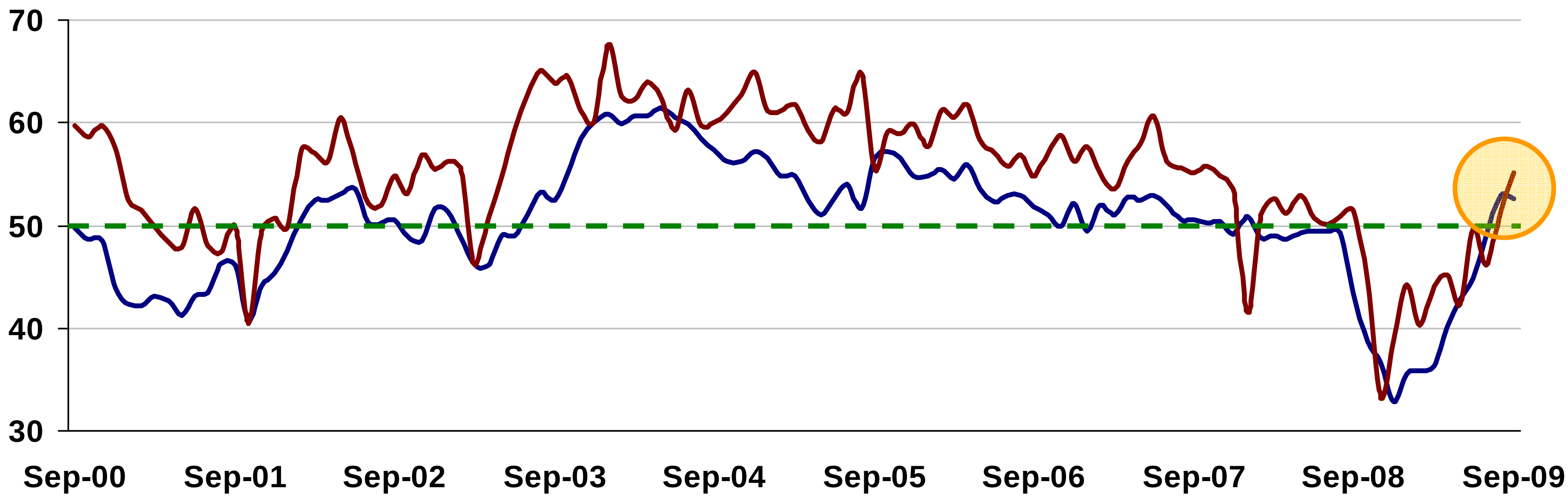
Growth in U.S. Real GDP
Q2, 2000 – Q2, 2009



RESTREPO CONSULTING GROUP LLC

Sources: Bureau of Economic Analysis; U.S. Department of Commerce.

Institute for Supply Management U.S. Purchasing Manager's Indices (MFG PMI & Non-MFG BAI): 9/1990 – 9/2009



MFG Purchasing Managers Index

Sep. 2009 = 52.6

- Above 50: Manuf. & economy expanding

- 43 to 50: Manuf. contracting; economy may be still be growing

-Below 43: Manuf. & economy likely in recession

Non-MFG (Services) Business Activity Index Only

Sep. 2009 = 55.1

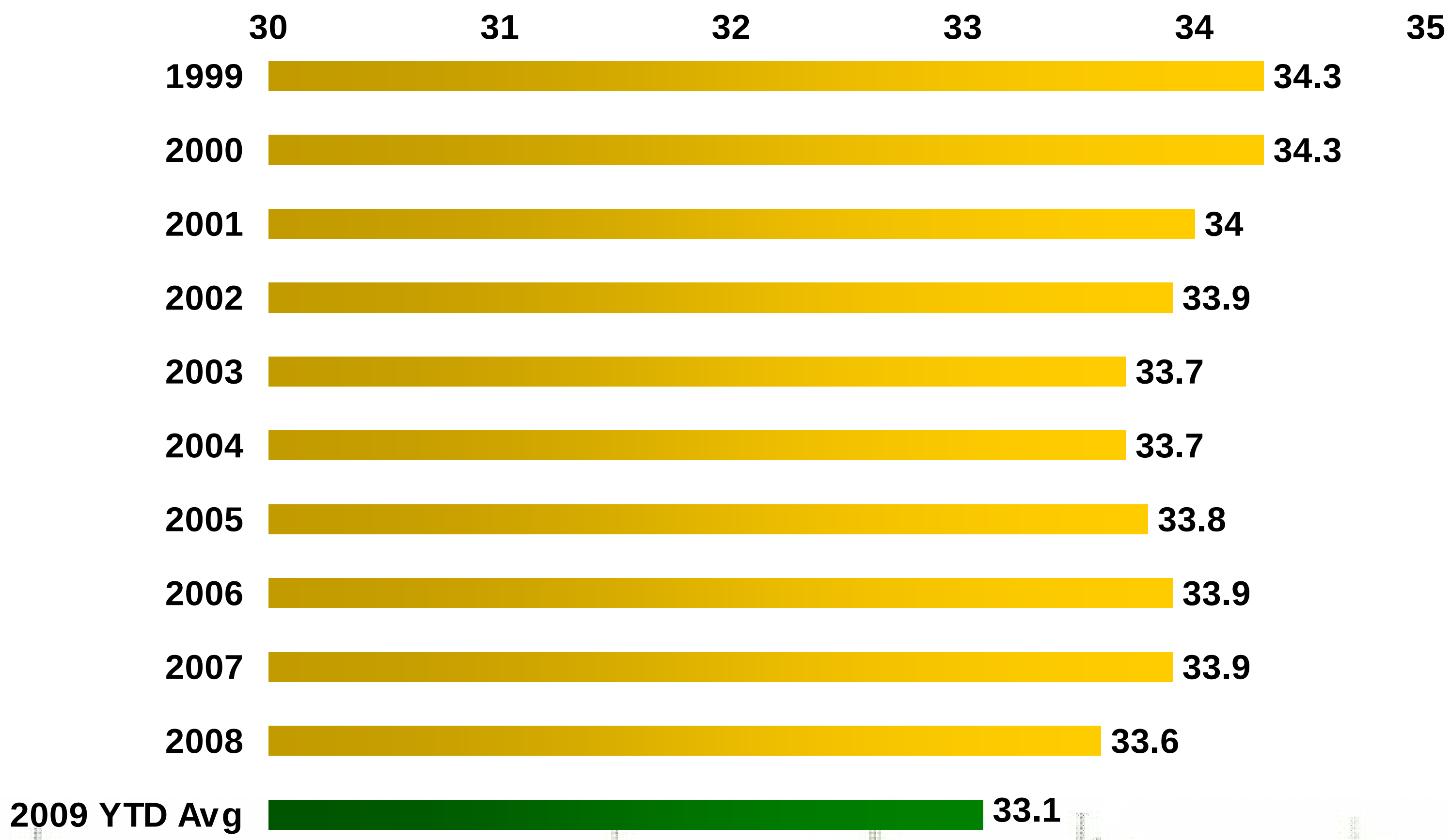
-Above 50: Indicates growth in business activity

-Below 50: Indicates contraction in business activity

RESTREPO CONSULTING GROUP LLC

Source: Institute for Supply Management (ISM) Manufacturing Survey.

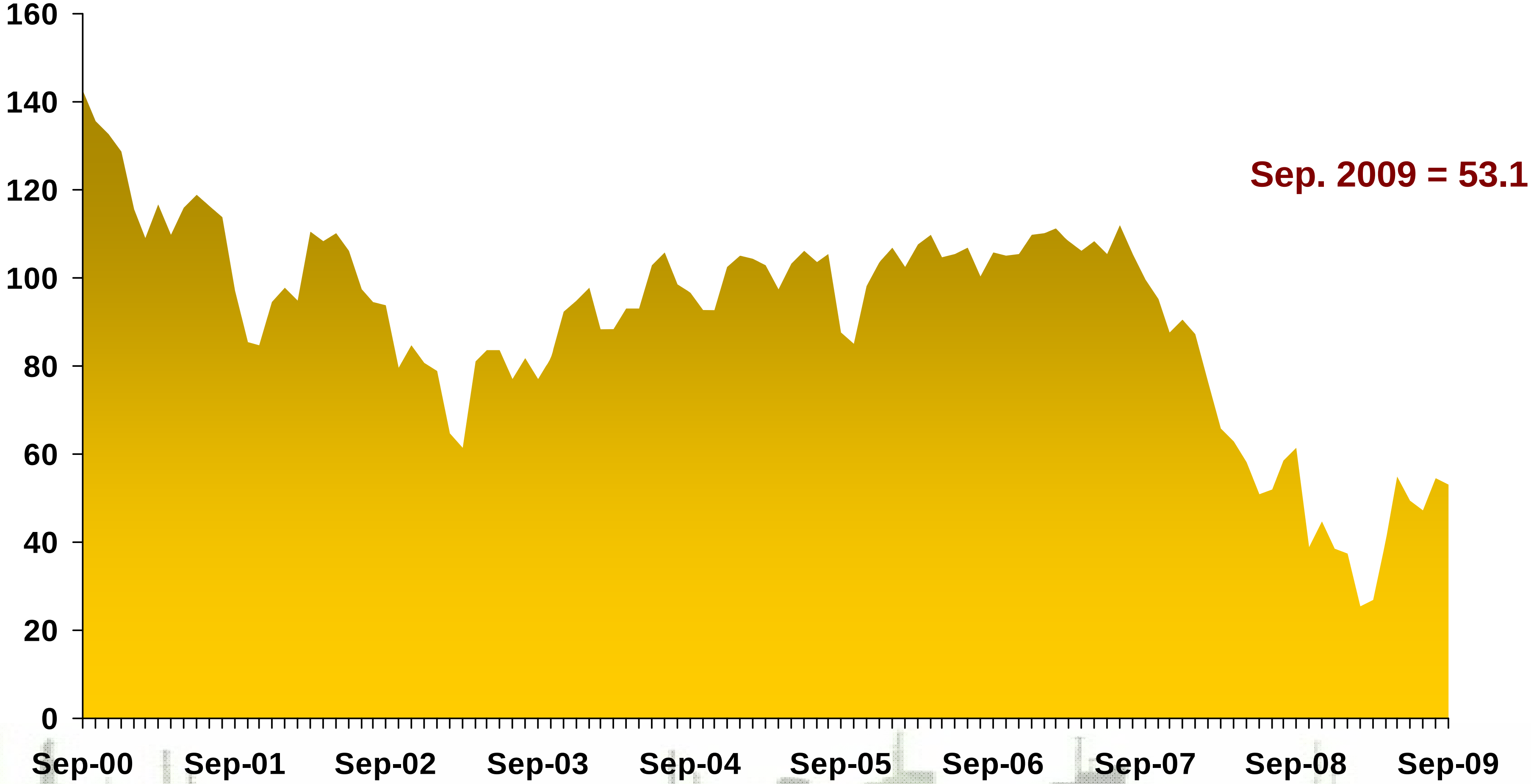
Private Sector Average Weekly Hours: 1999-2009 YTD



RESTREPO CONSULTING GROUP LLC

Source: U.S. BLS.

U.S. Consumer Confidence Index: 9/2000 – 9/2009

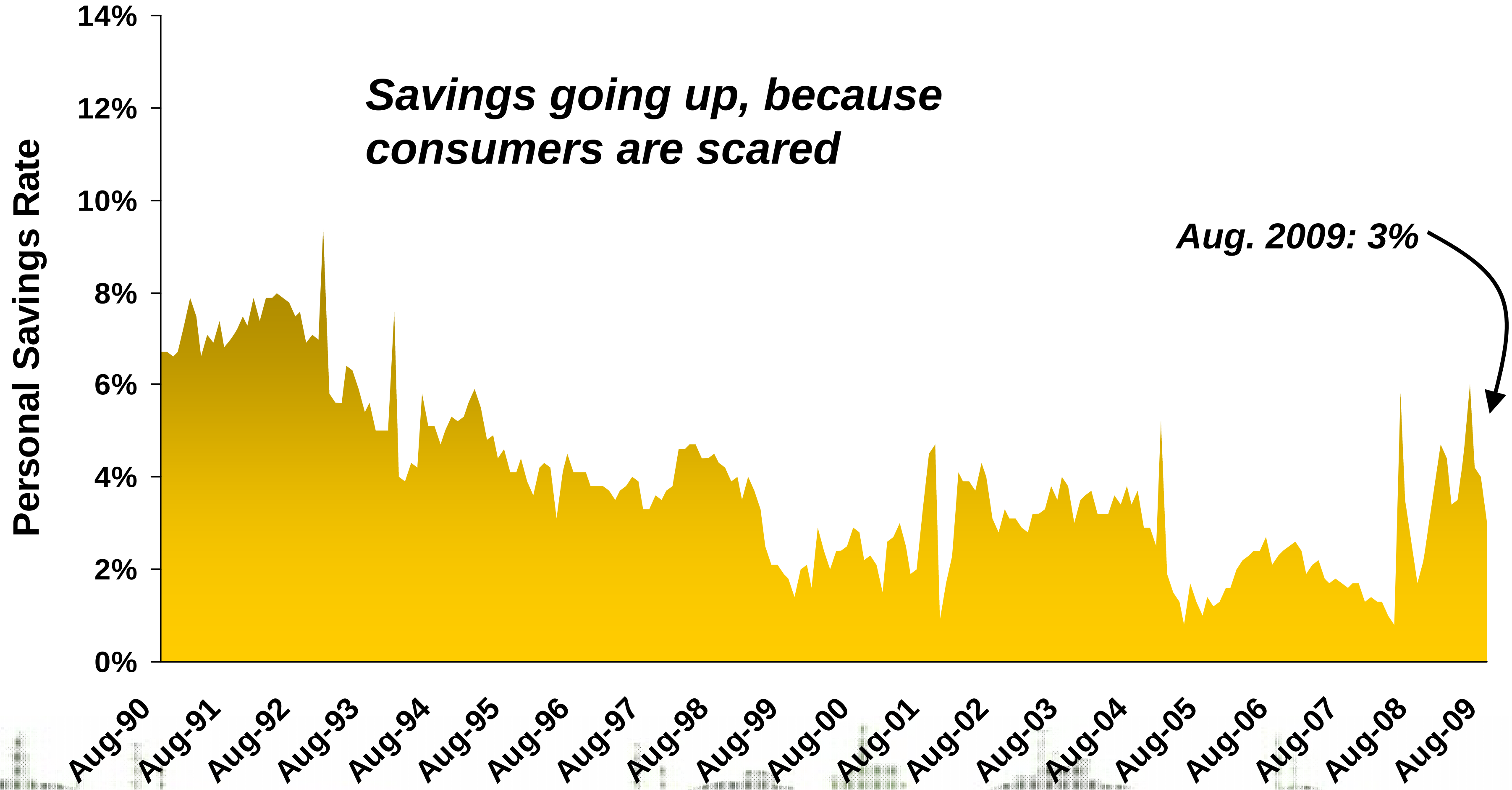


Baseline (1985): 100

RESTREPO CONSULTING GROUP LLC

Source: The Conference Board.

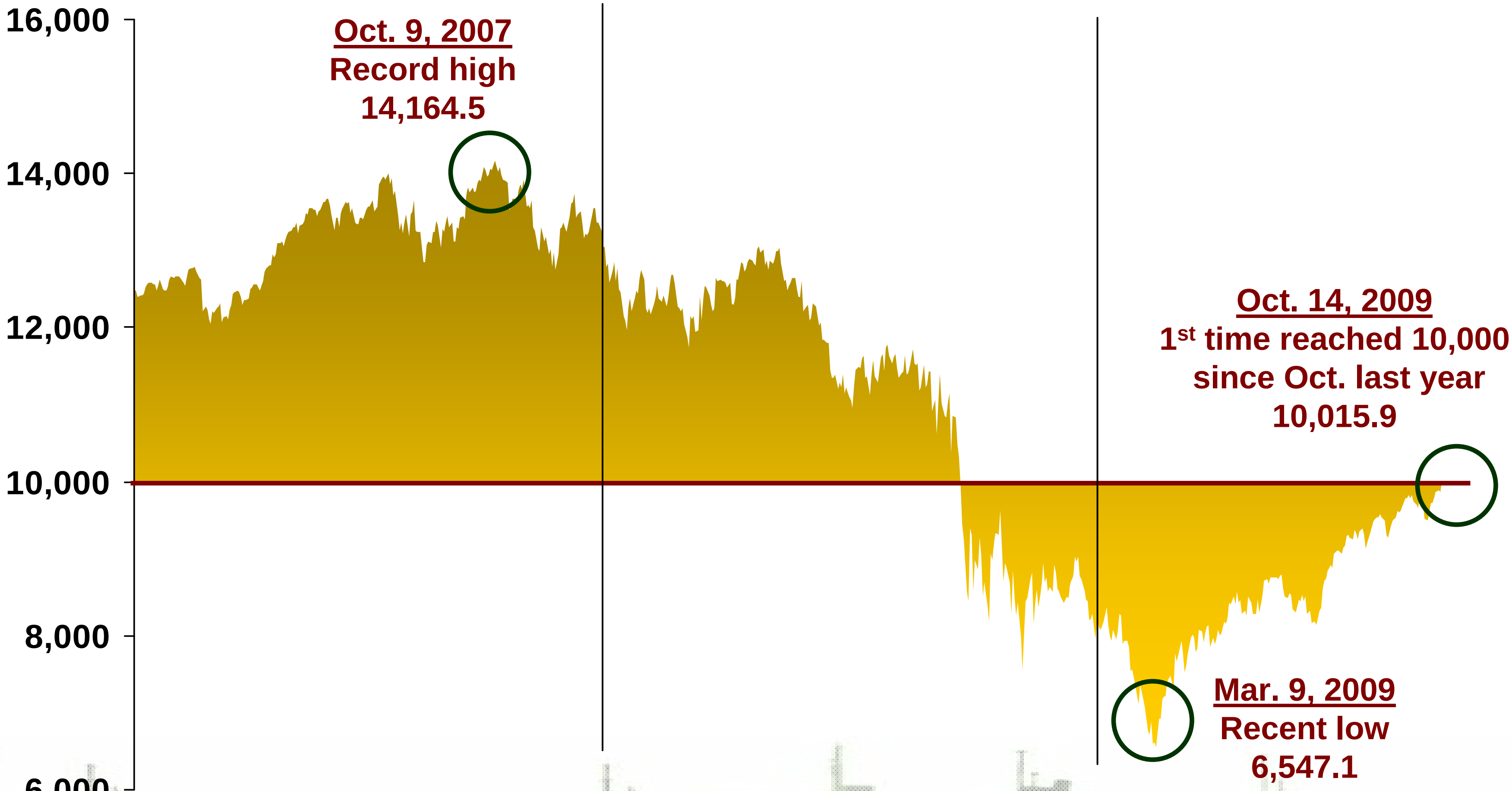
U.S. Personal Savings Rate as % of Disposable Income
8/1990 – 8/2009



RESTREPO CONSULTING GROUP LLC

Sources: U.S. Department of Commerce; Bureau of Economic Analysis.

DJIA Since October 2007
Does It Make Sense in Context of Real Economy?



RESTREPO CONSULTING GROUP LLC

Source: Yahoo! Finance.

Nevada & Clark County Economies

RESTREPO CONSULTING GROUP LLC

1995-2005: Southern Nevada's "The Gilded Age"

- **Irrational Exuberance**
- **"Chain of Blame"**
  - ***Real Estate Industry, Only One Cycle – UP!***
  - ***Valley Boosters Gone Wild***
  - ***Analysts Turned Cheerleaders***
  - ***Media Drinking The Kool-Aid***
  - ***Cheap & Easy Credit By Lenders***
  - ***Buyers & Sellers, & Last But Not Least***
  - ***All of US***

RESTREPO CONSULTING GROUP LLC

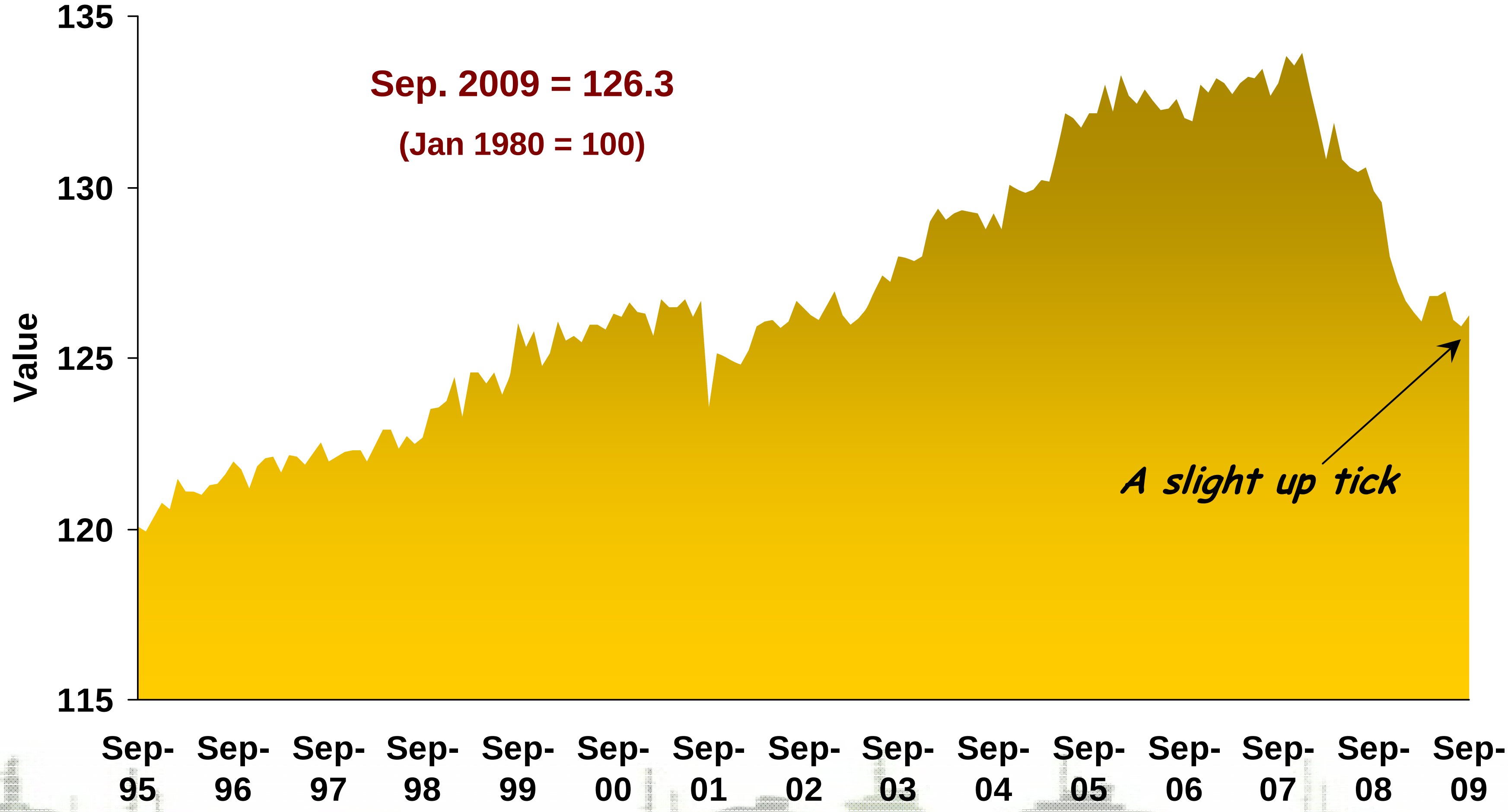
1995-2005: Southern Nevada's "The Gilded Age"

Irrational Exuberance & The Chain Of Blame

- ✓ ***Real Estate Industry***
- ✓ ***Analysts Turned Cheerleaders***
- ✓ ***Media Drinking The Kool-Aid***
- ✓ ***Cheap & Easy Credit By Lenders***
- ✓ ***Buyers & Sellers, & Last But Not Least***
- ✓ ***All of <u>US</u>***

RESTREPO CONSULTING GROUP LLC

Southern Nevada Index of Leading Economic Indicators: 9/1995 – 9/2009

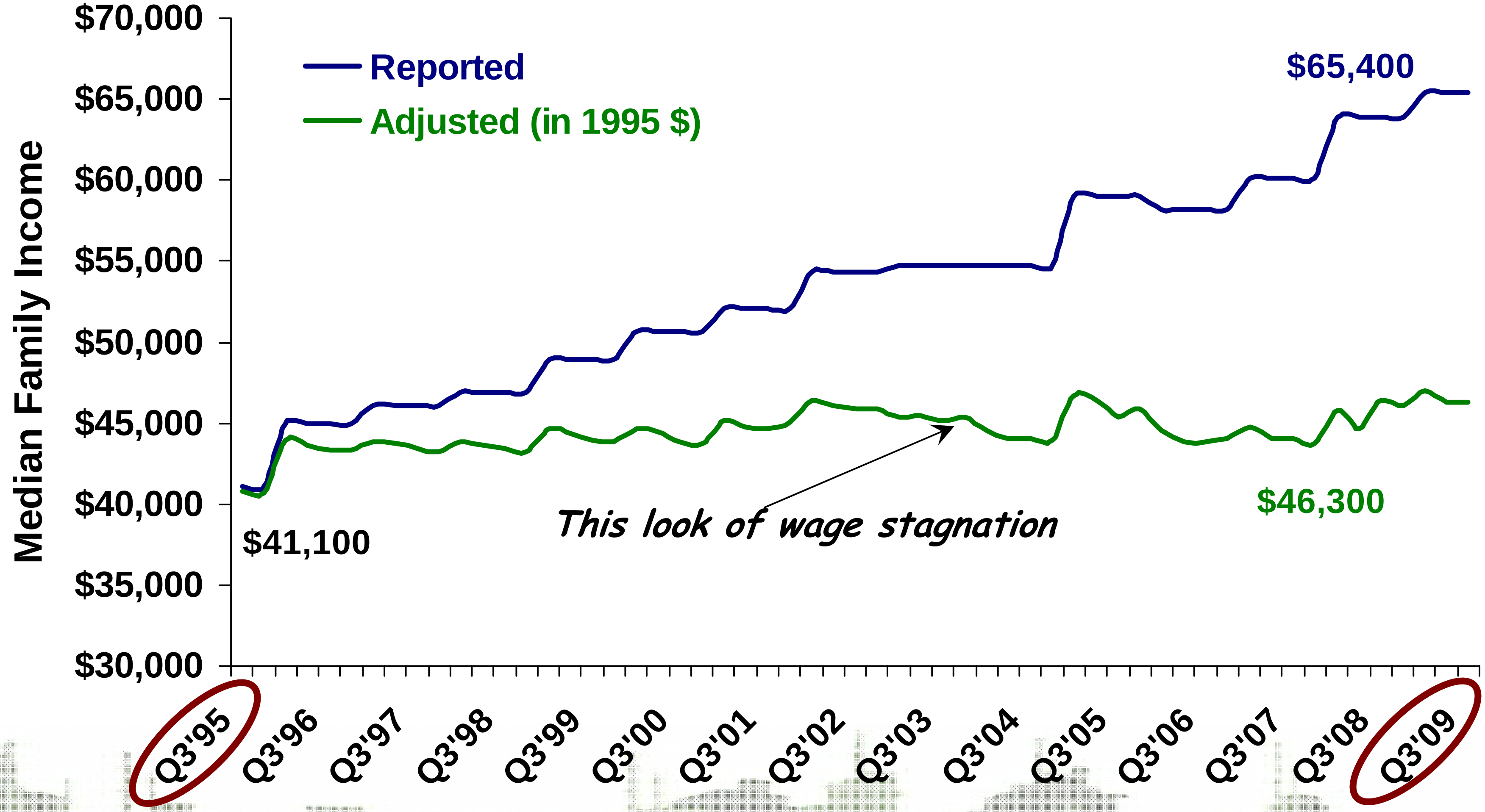


RESTREPO CONSULTING GROUP LLC

Source: UNLV Center for Business and Economic Research.

Clark County Median Family Income

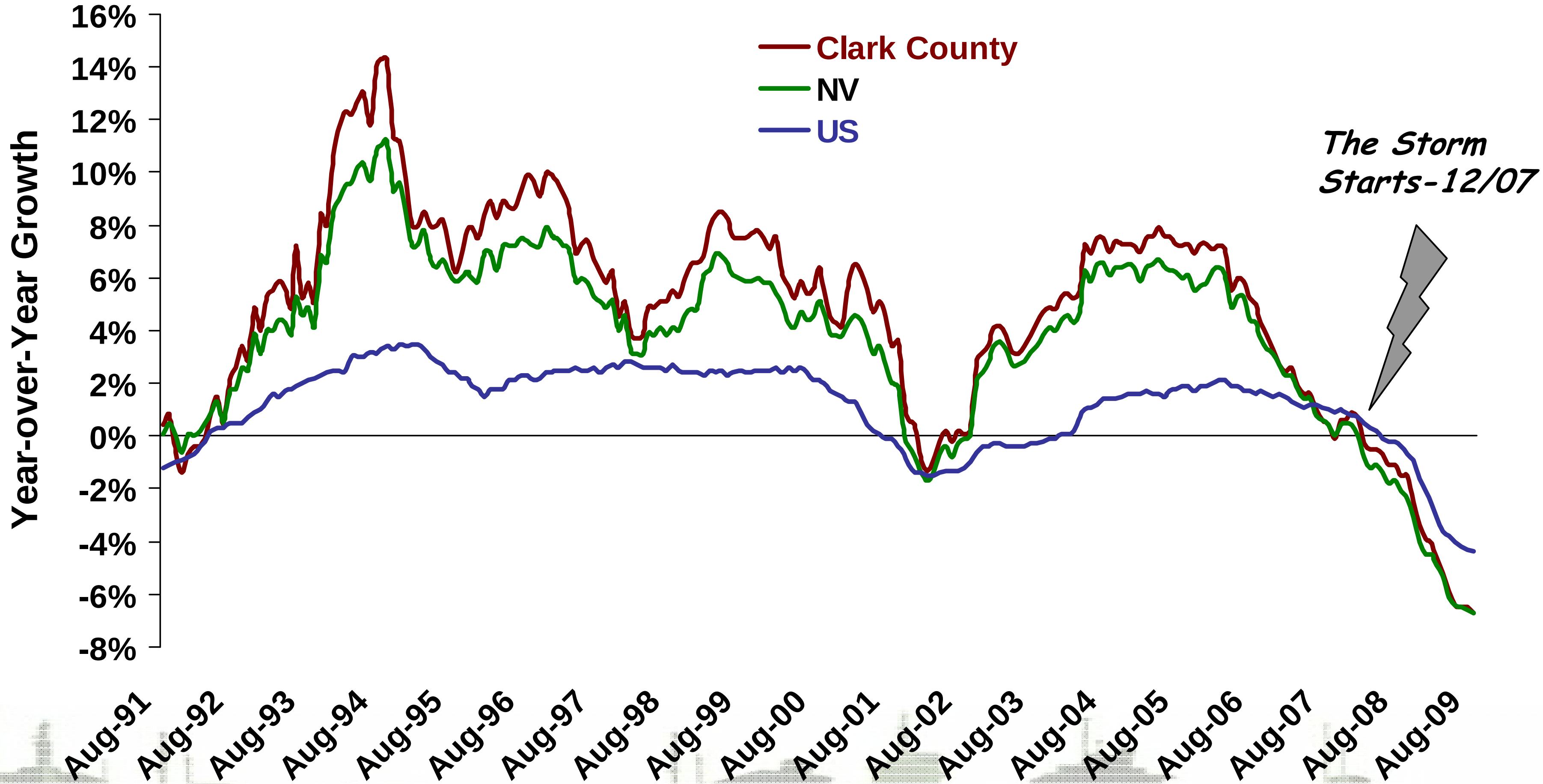
Reported vs. Inflation-Adjusted (in 1995 $): Q3, 1995 – Q3, 2009



RESTREPO CONSULTING GROUP LLC

Source: National Association of Home Builders.

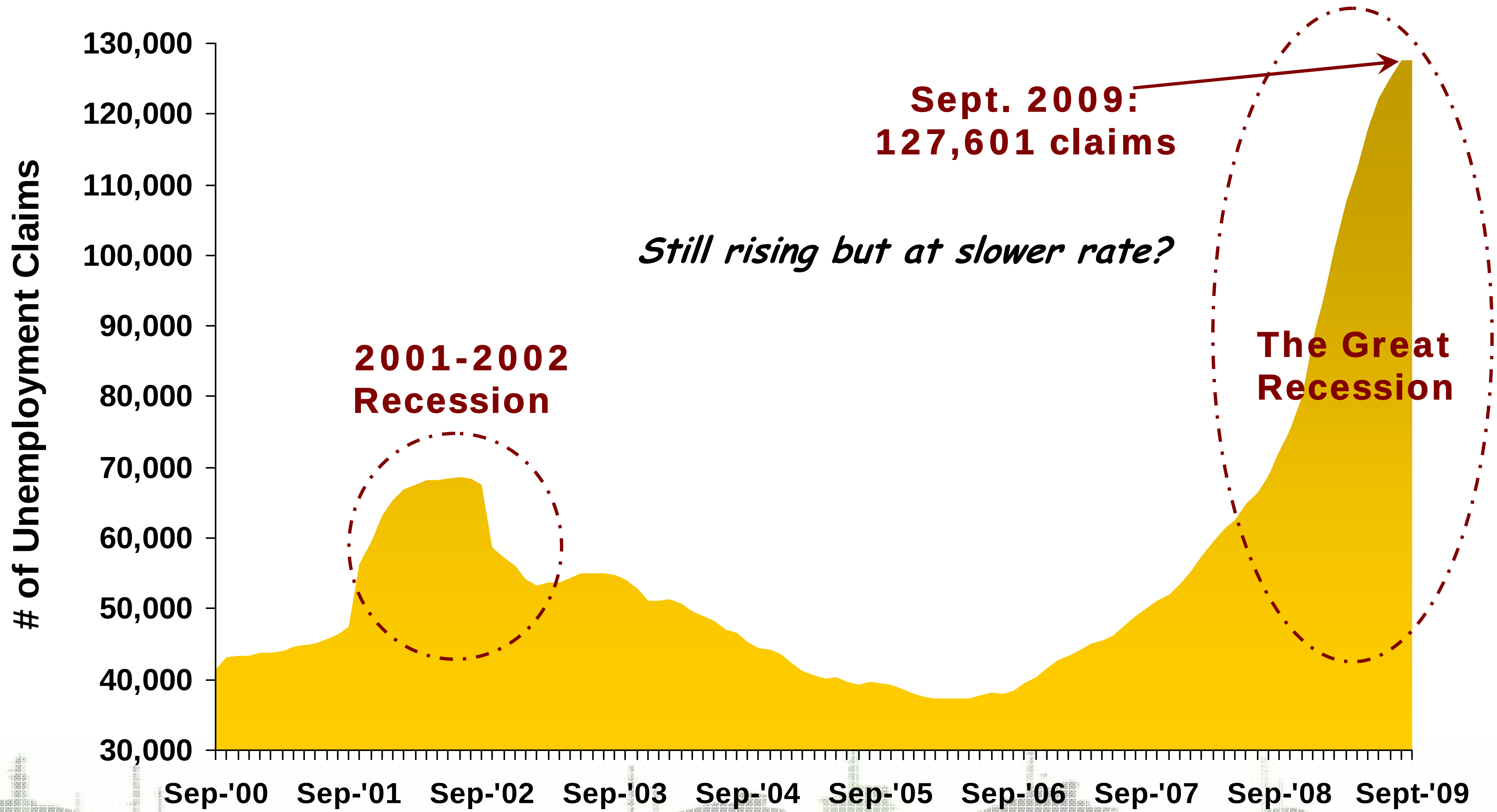
Clark County, Nevada & U.S. Job Growth: 8/1991 – 8/2009



RESTREPO CONSULTING GROUP LLC

Source: Bureau of Labor Statistics.

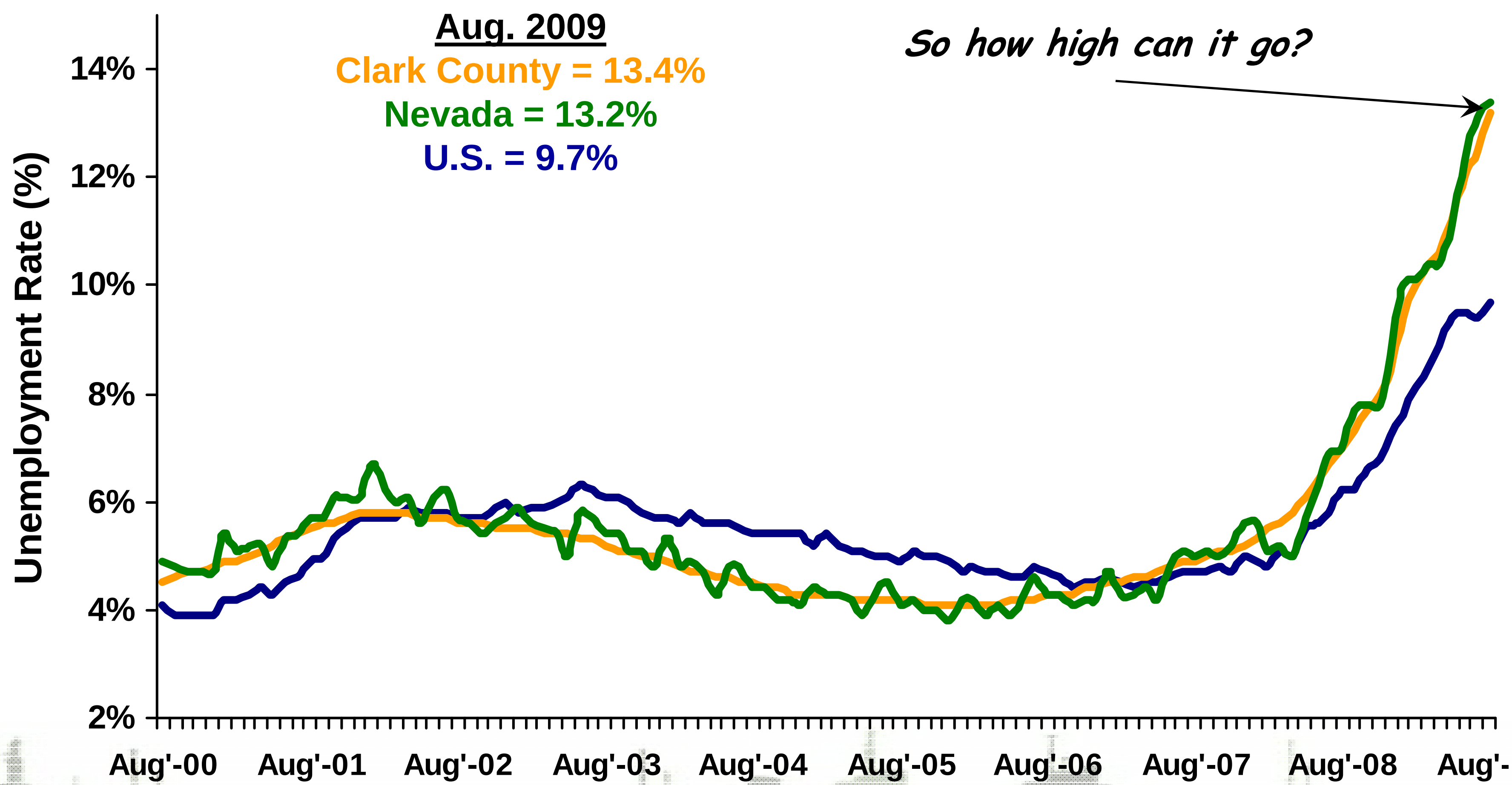
of Approved First-Payment Unemployment Claims: 7/2000 – 7/2009 (12-Mo. Annualized Totals)



RESTREPO CONSULTING GROUP LLC

Source: Nevada Department of Employment, Training and Rehabilitation.

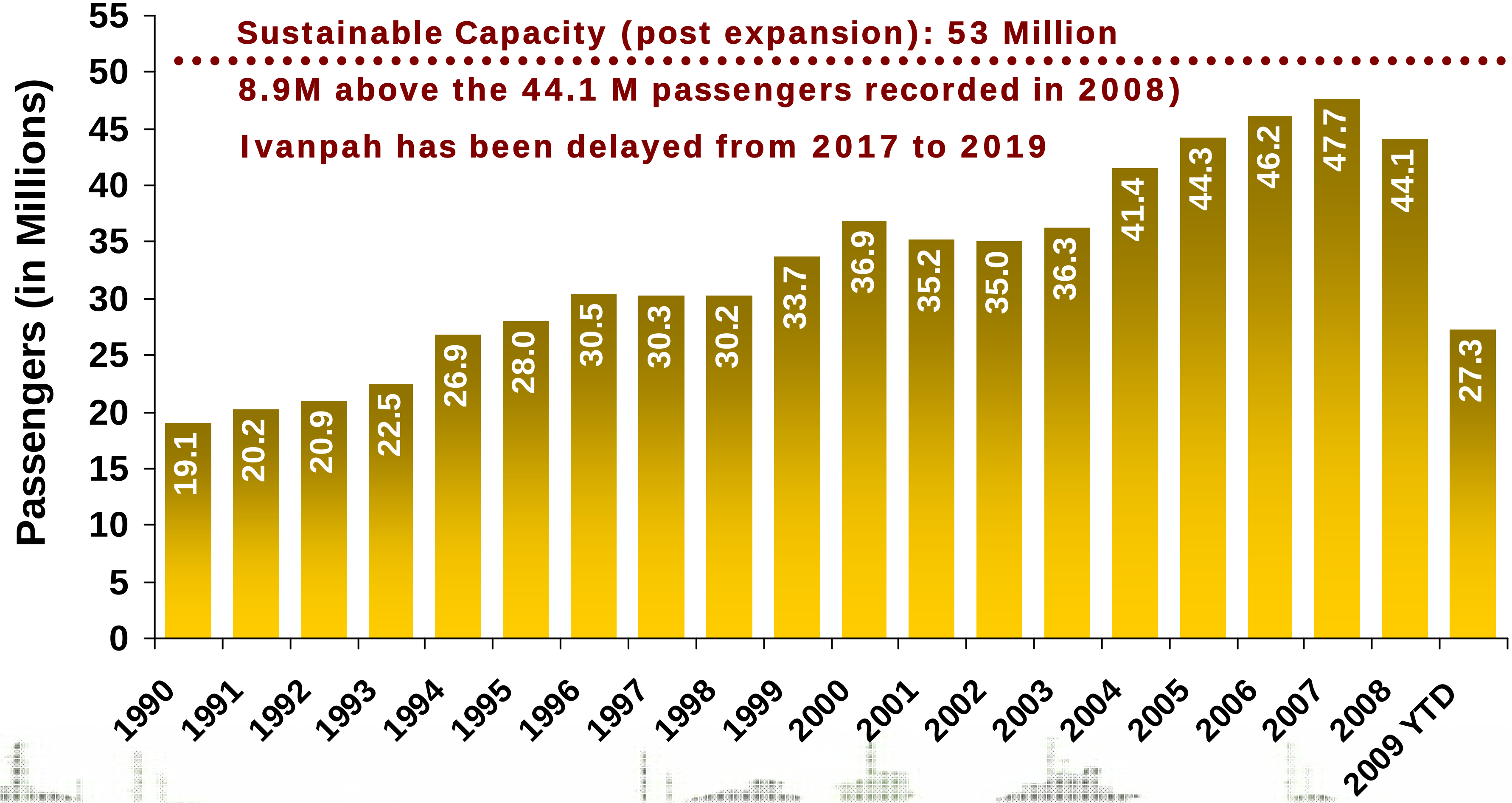
Clark County, Nevada & U.S. Unemployment Rates: 8/2000 – 8/2009



RESTREPO CONSULTING GROUP LLC

Source: Nevada Department of Employment, Training and Rehabilitation.

McCarran Annual Passengers:
1990 – 2008, & 2009 (YTD August)

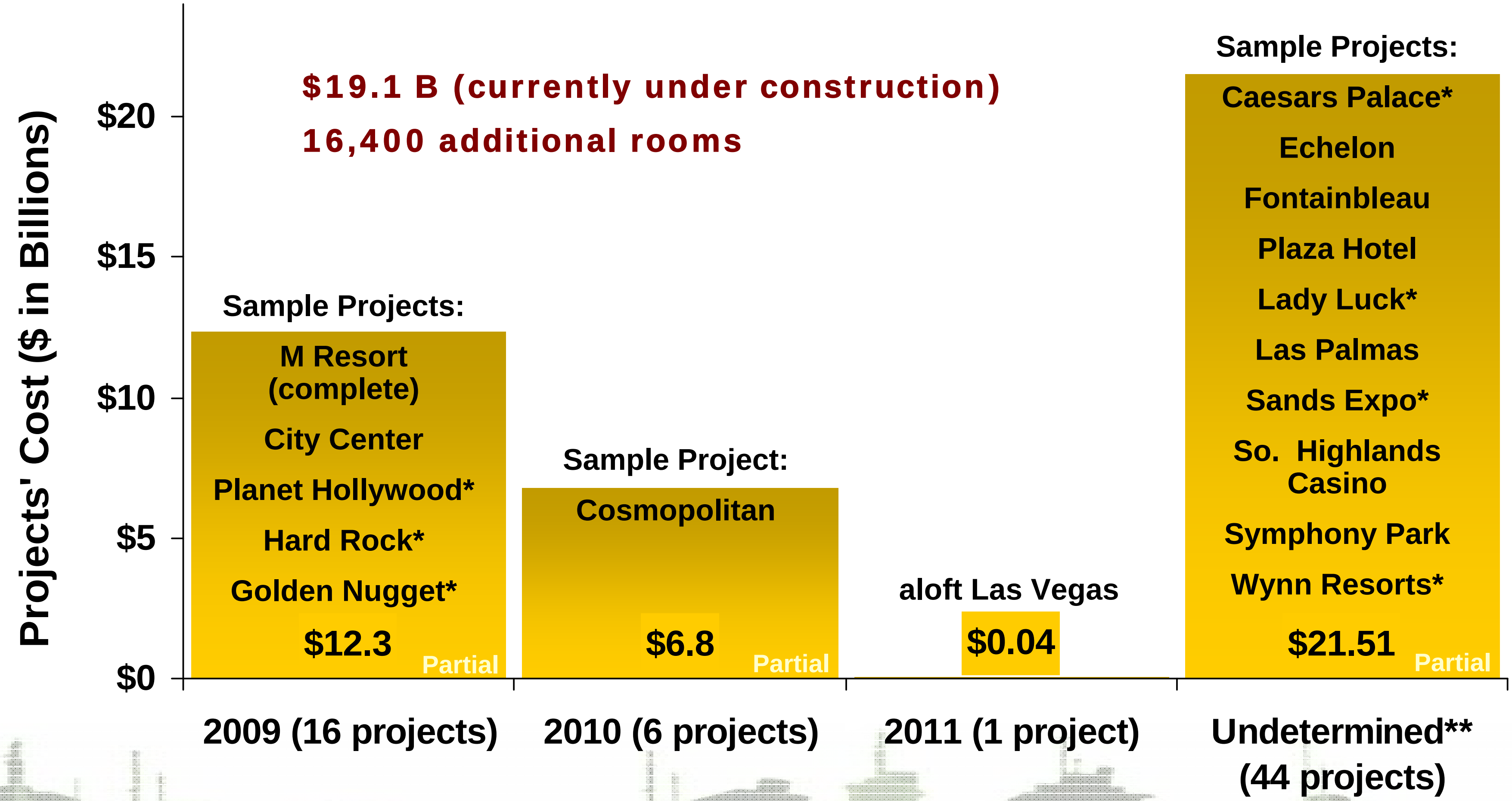


RESTREPO CONSULTING GROUP LLC

Source: McCarran International Airport; Deutsche Bank.

Resort Industry Investment: Will They Come?

Projects' Cost ($B) by Scheduled Completion Year:
2009 – 2011 & Undetermined



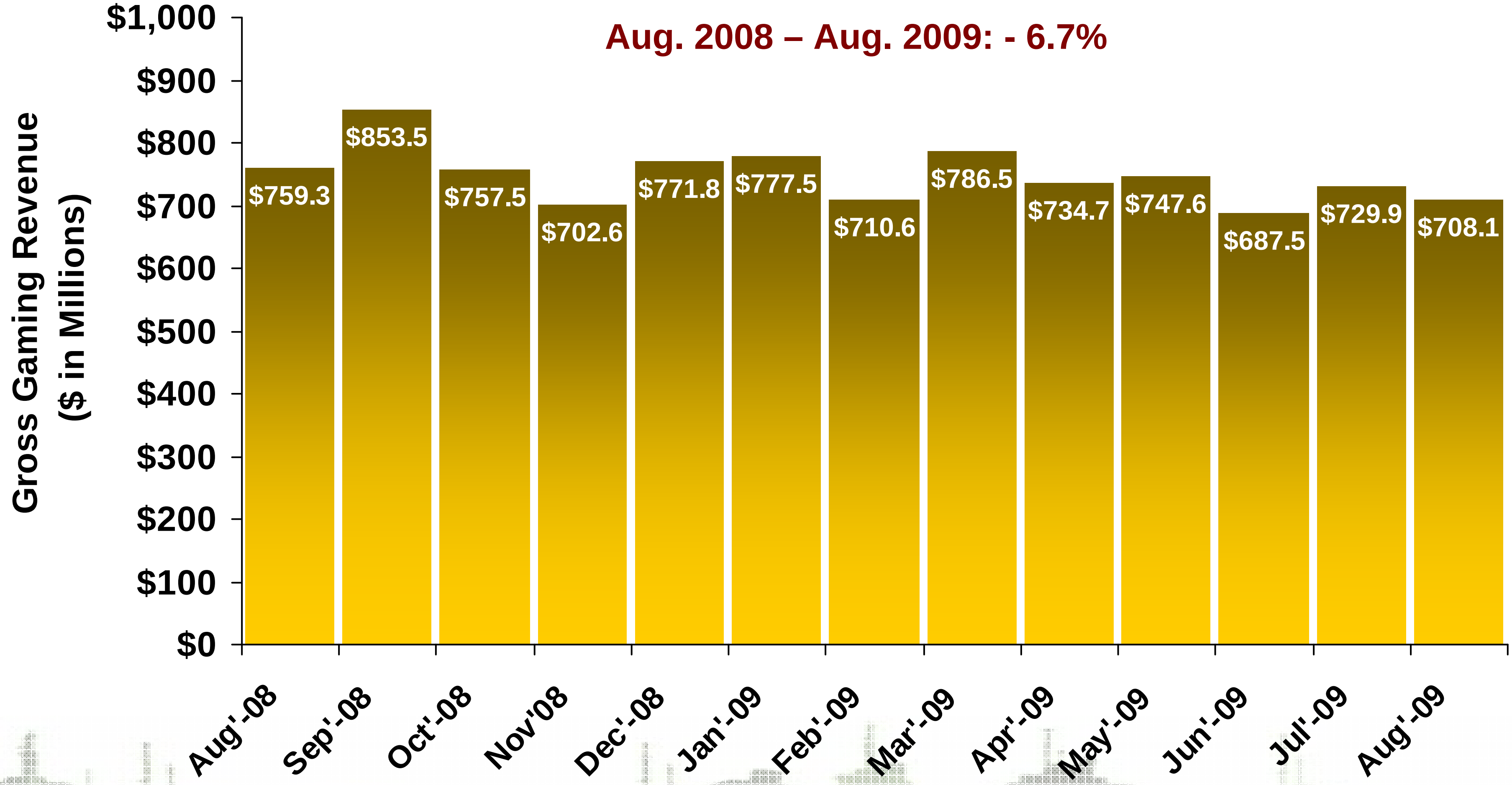
RESTREPO CONSULTING GROUP LLC

*Expansion/Redevelopment

**Initiated or proposed projects with opening dates to be determined.

Source: Las Vegas Convention and Visitors Authority (June 5th, 2009).

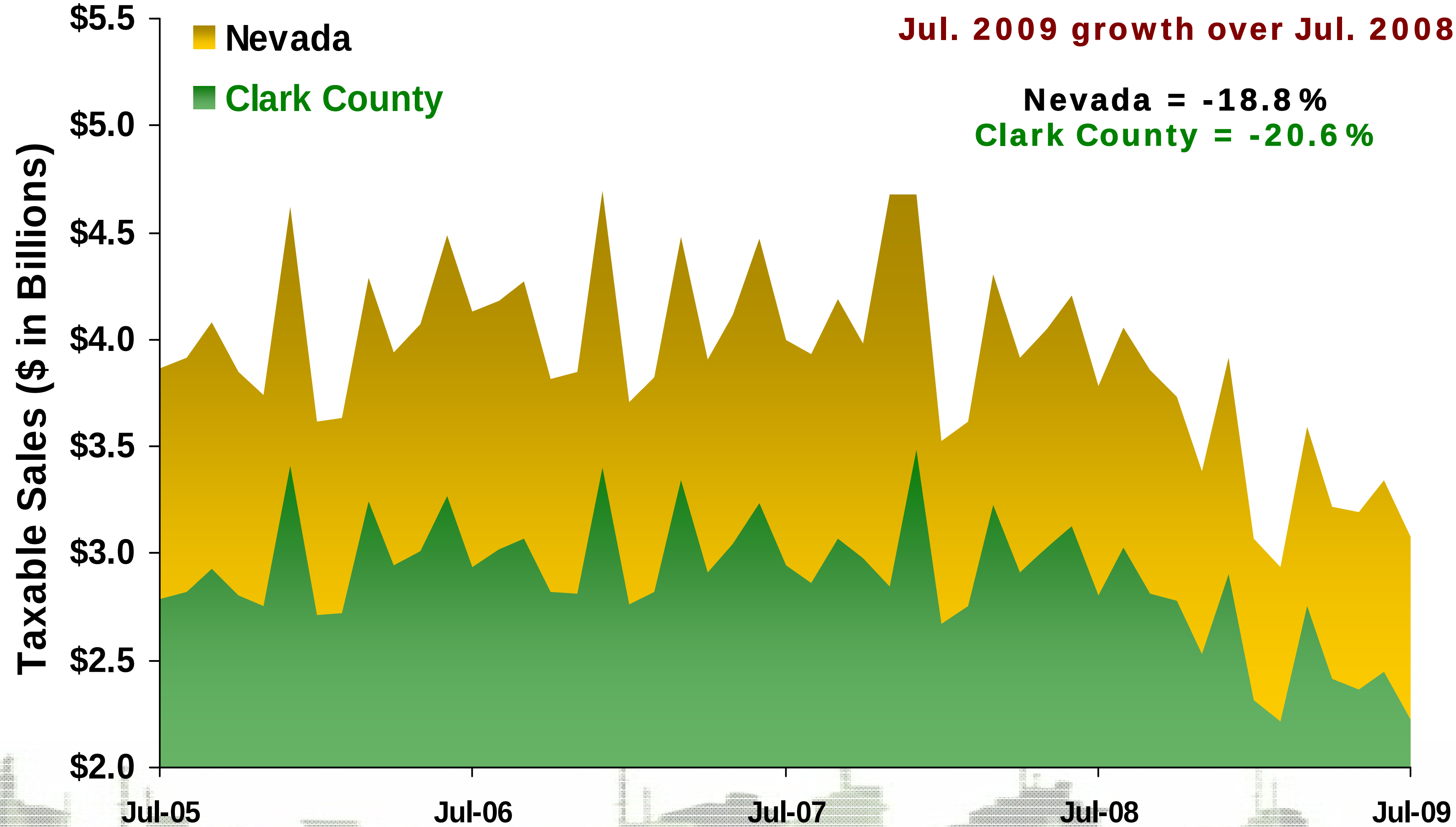
Clark County Gross Gaming Revenue: 8/2008 – 8/2009



RESTREPO CONSULTING GROUP LLC

Sources: Nevada Gaming Control Board; Las Vegas Convention and Visitors Authority.

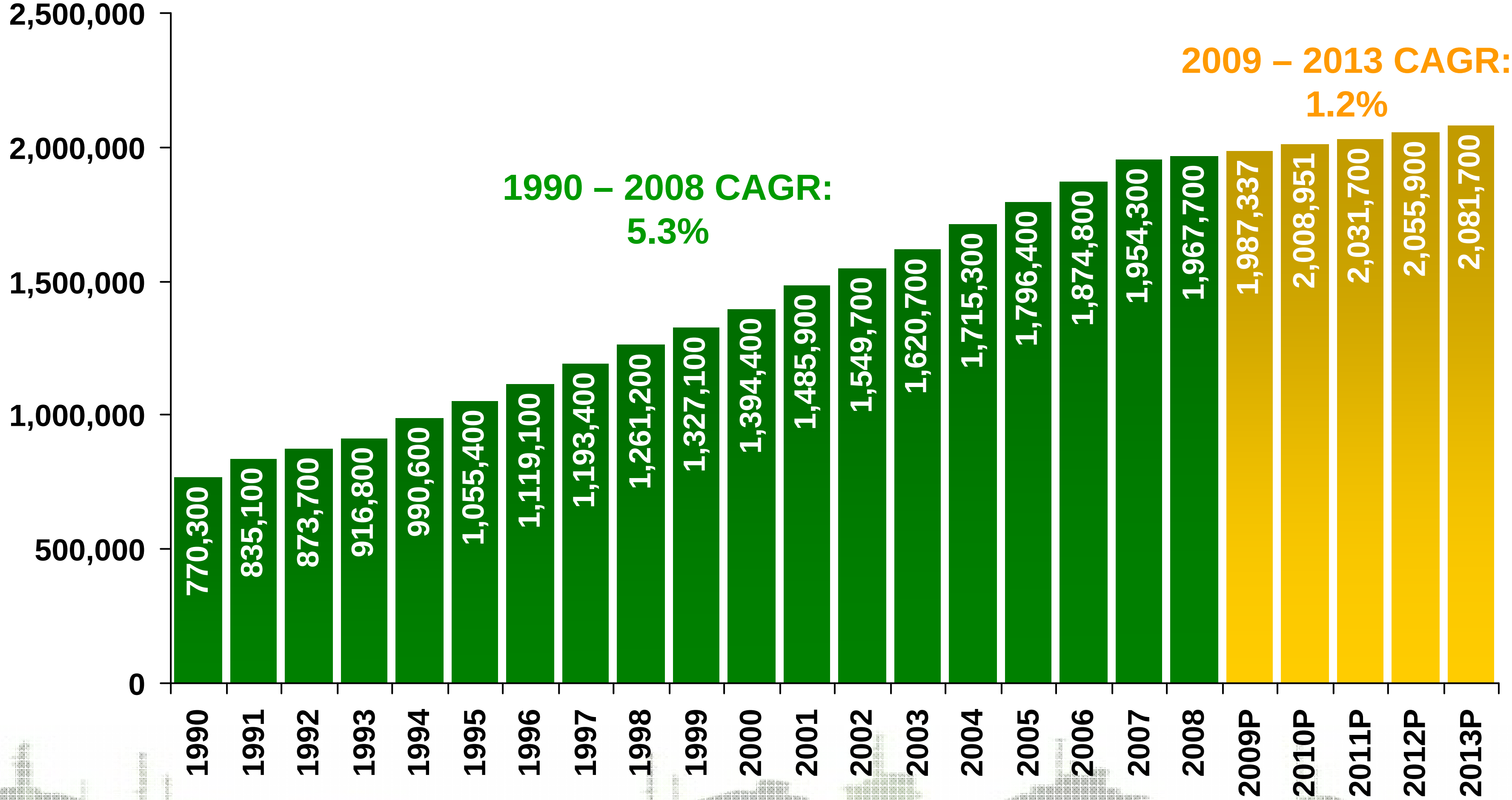
Clark County & Nevada Taxable Sales
7/2005 – 7/2009



RESTREPO CONSULTING GROUP LLC

Sources: Nevada Department of Taxation.

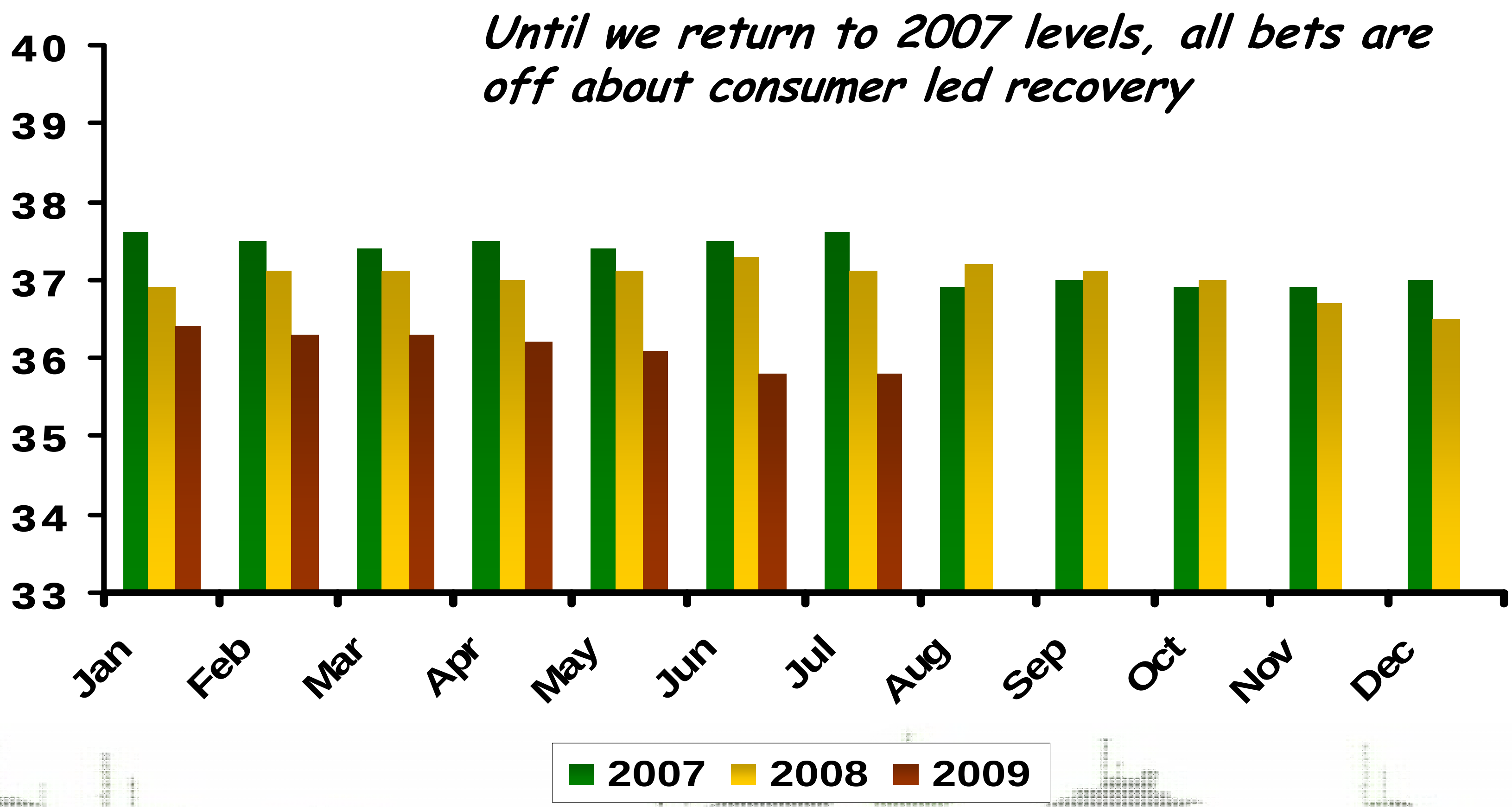
Clark County Population:
1990 – 2008 Estimates & 2009 – 2013 Projections



RESTREPO CONSULTING GROUP LLC

Sources: Clark County Comprehensive Planning Department; Nevada State Demographer.

Average Weekly Hours-Nevada: 2007-2009 YTD



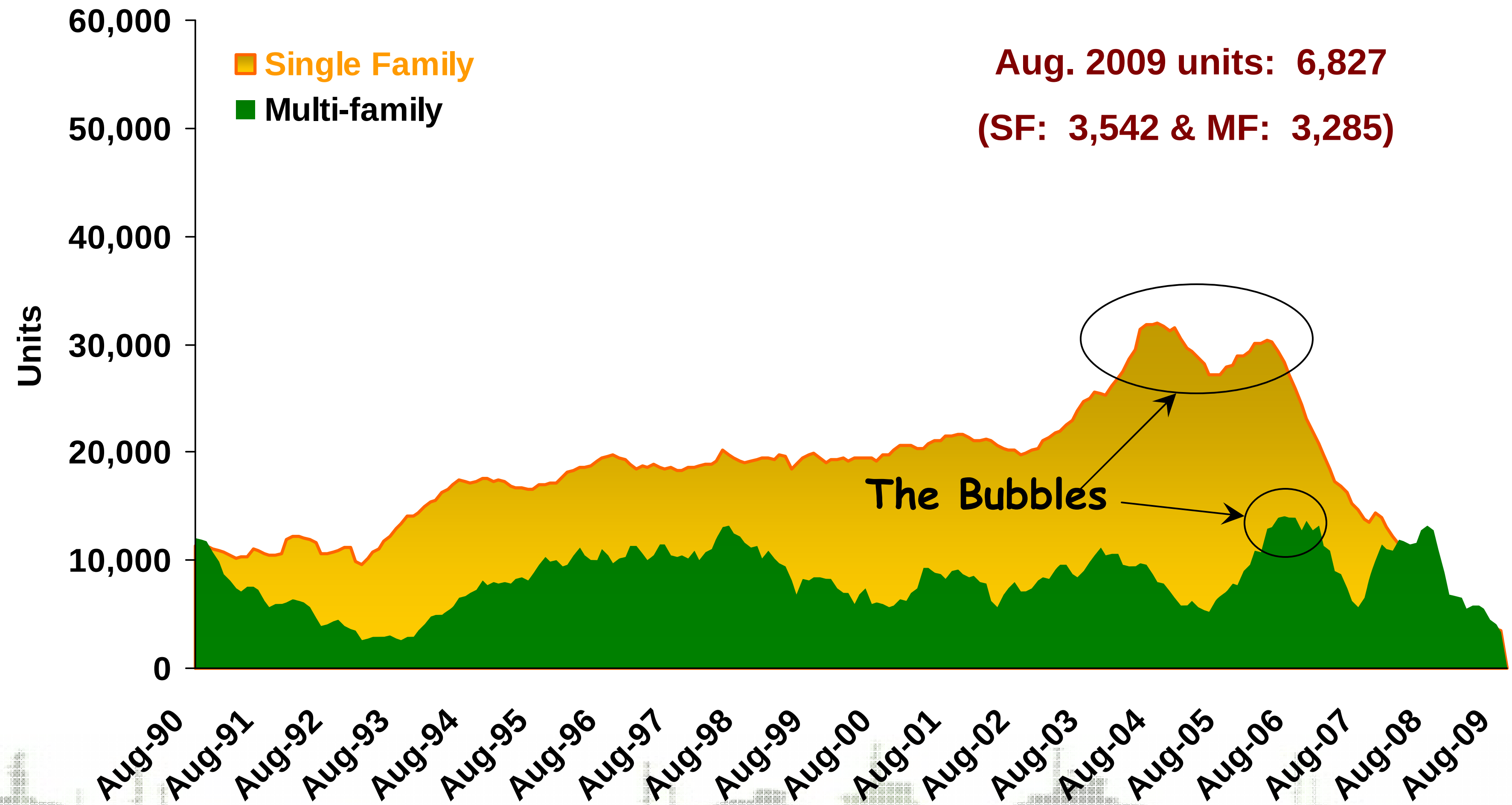
RESTREPO CONSULTING GROUP LLC

The Real Estate Markets

Residential

RESTREPO
CONSULTING
GROUP LLC

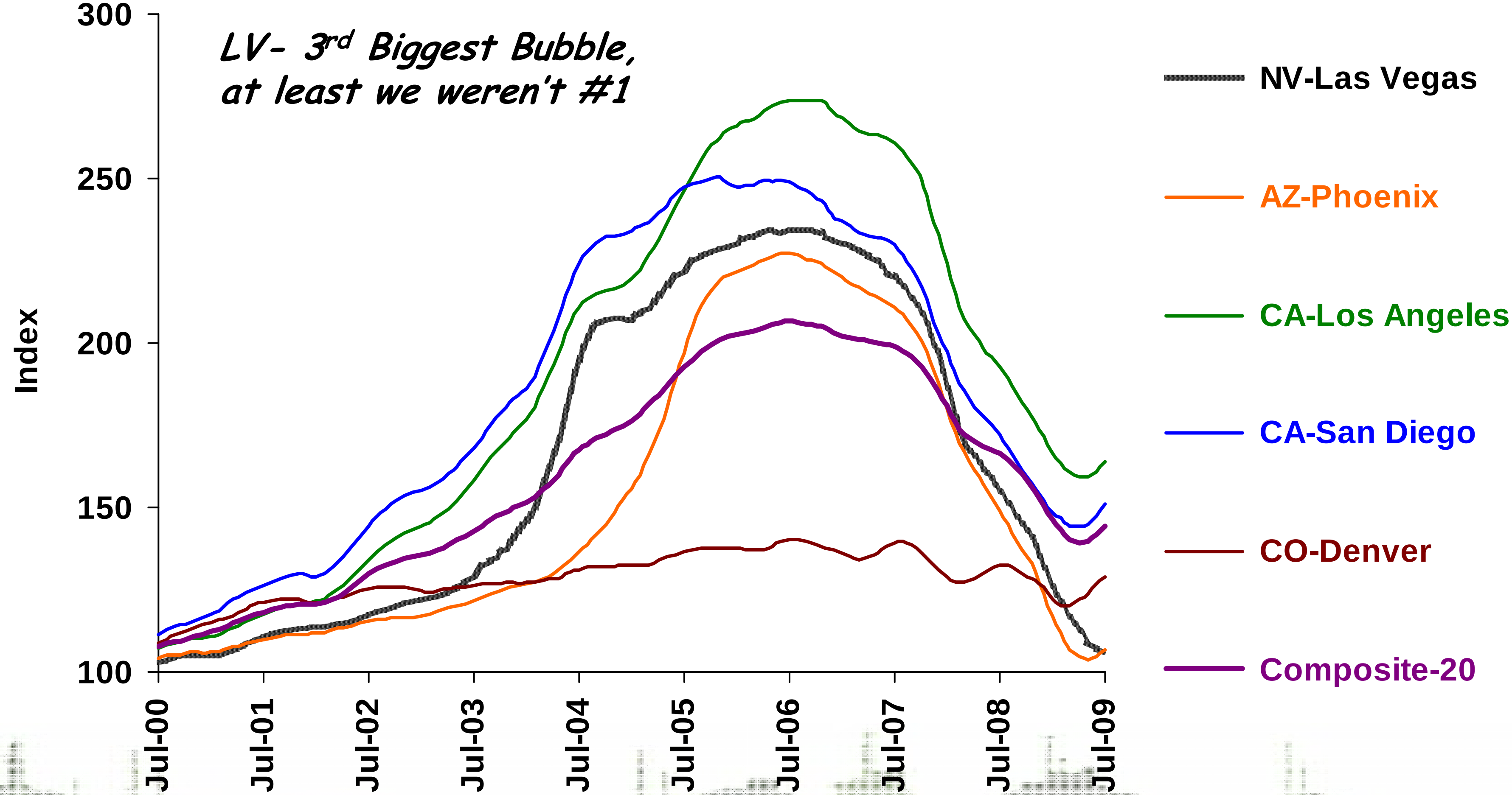
Clark County Residential Units Permitted
Single Family & Multi-family
8/1990 – 8/2009 (12-mo. Annualized Totals)



RESTREPO CONSULTING GROUP LLC

Sources: U.S. Department of Commerce: Bureau of Economic Analysis.

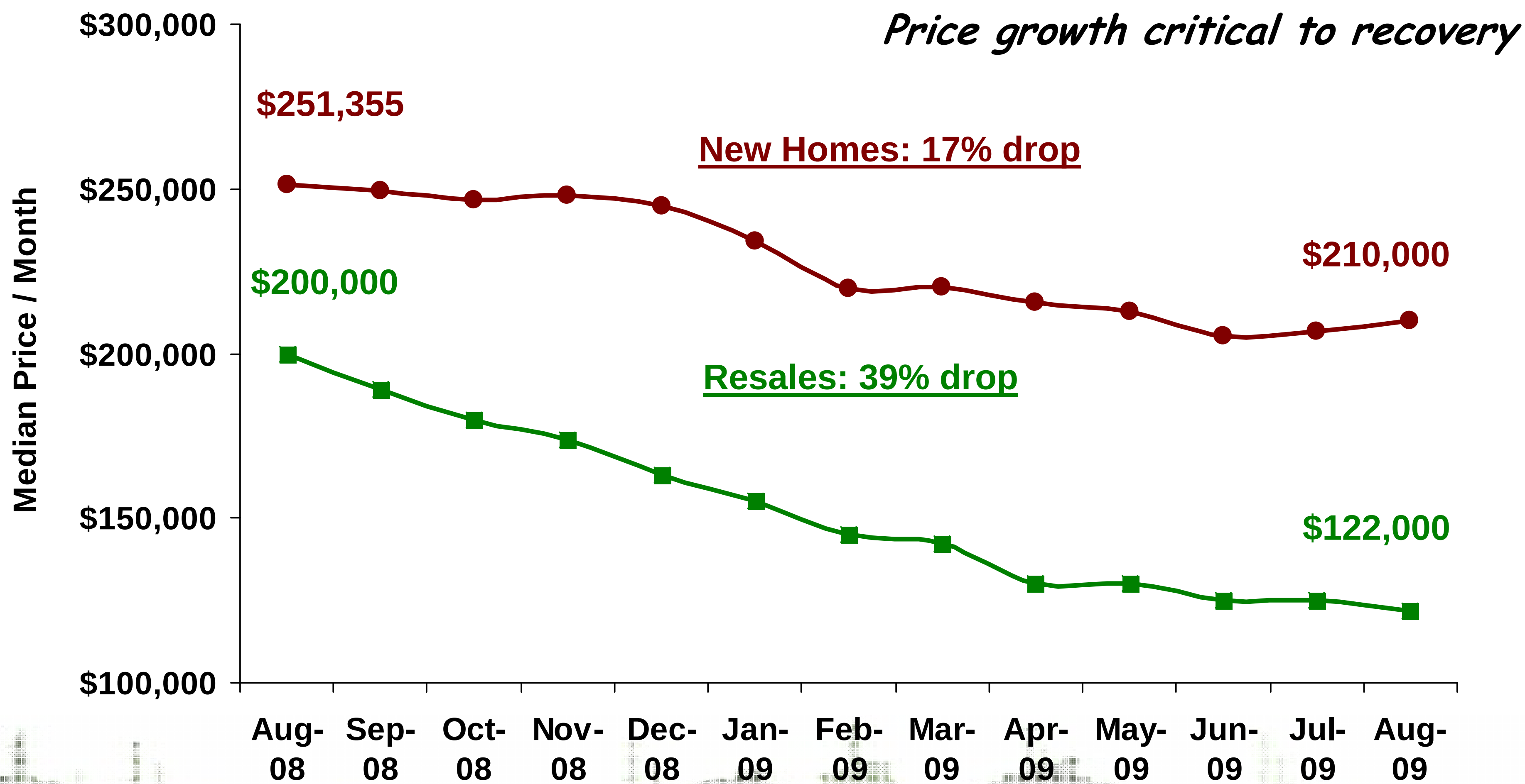
S&P / Case-Shiller Housing Price Index
Select Southwestern U.S. MSAs: 7/2000 – 7/2009



RESTREPO CONSULTING GROUP LLC

Source: Standard and Poors.

Clark County Median New Home & Resale Price
Change from Same Month Previous Year: 8/2008 – 8/2009

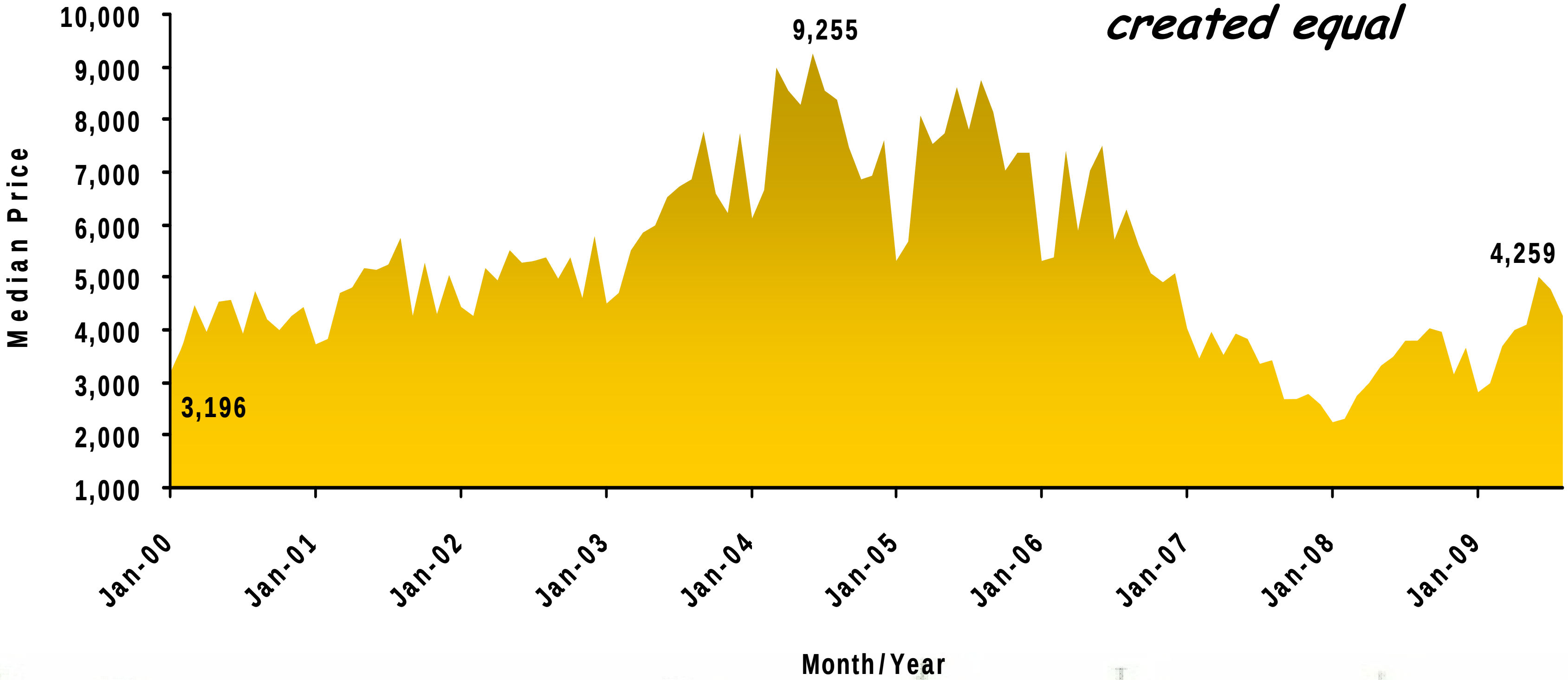


RESTREPO CONSULTING GROUP LLC

Source: Home Builders Research.

Monthly New Home & Resale Closings
2000-YTD 2009

Sales growth leads, but not all sales are created equal



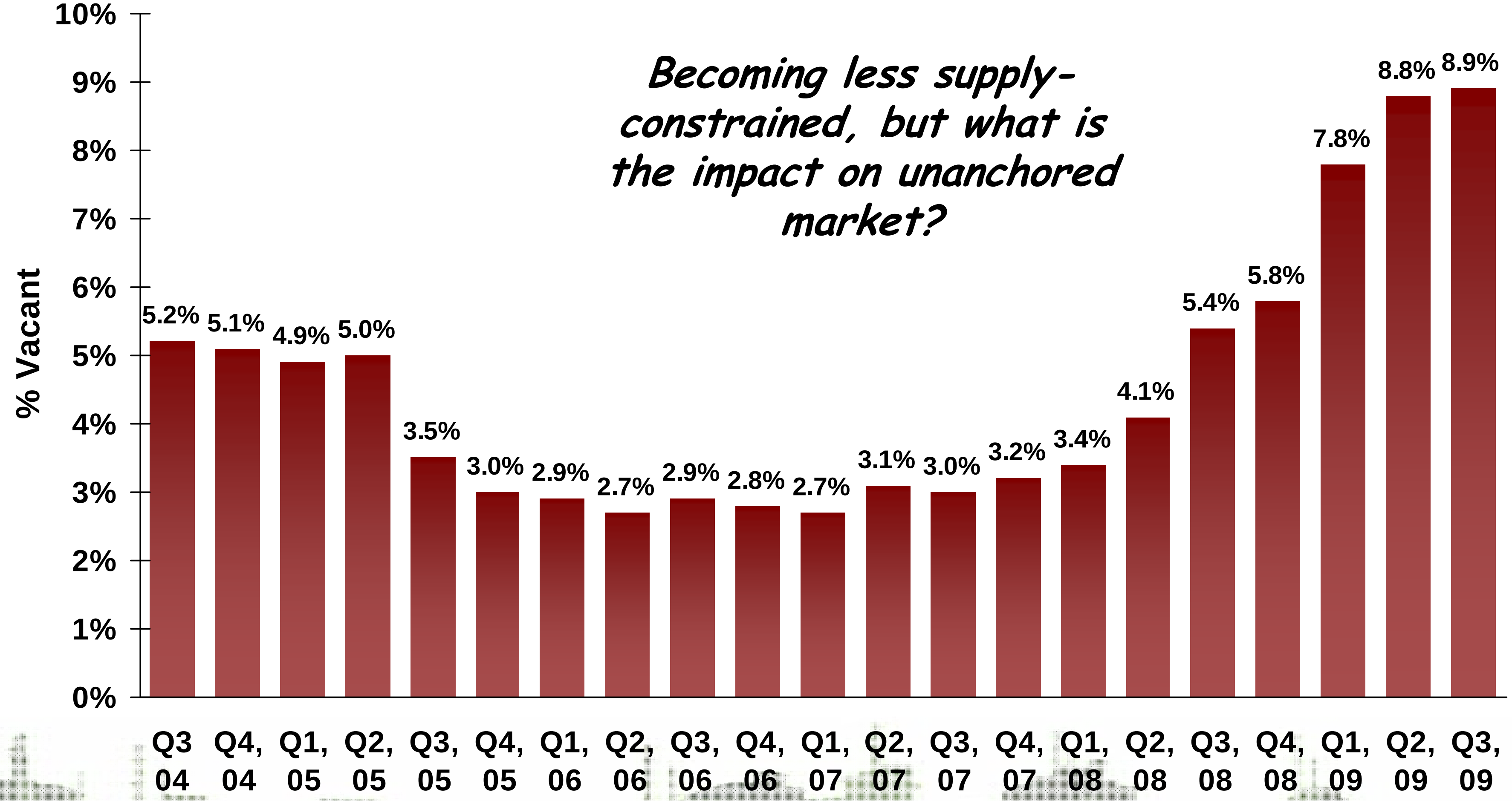
RESTREPO CONSULTING GROUP LLC

Source: Home Builders Research.

Commercial

RESTREPO CONSULTING GROUP LLC

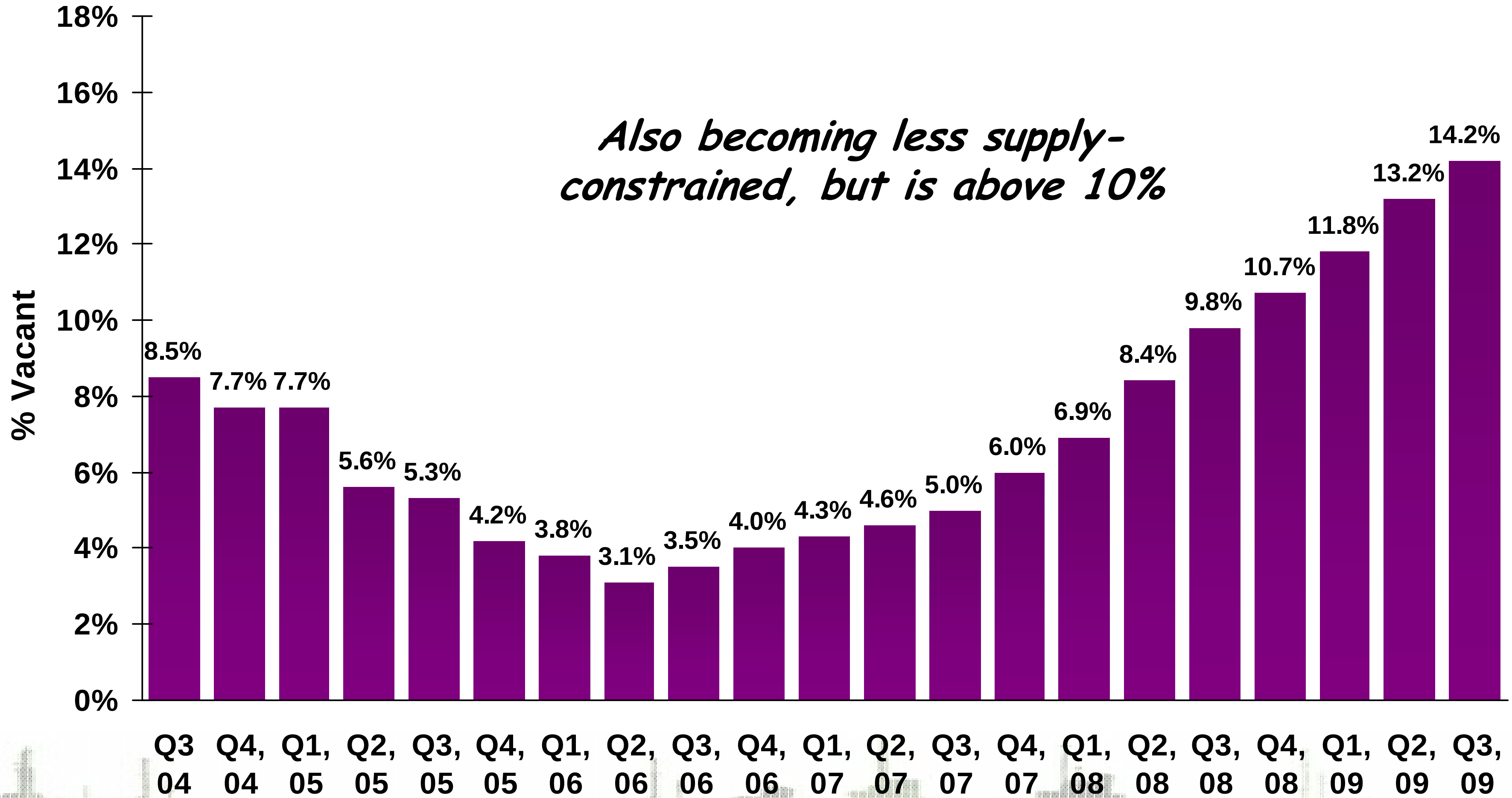
Valley Anchored Retail Vacancy
Q3, 2004 – Q3, 2009



RESTREPO CONSULTING GROUP LLC

Source: Restrepo Consulting Group.

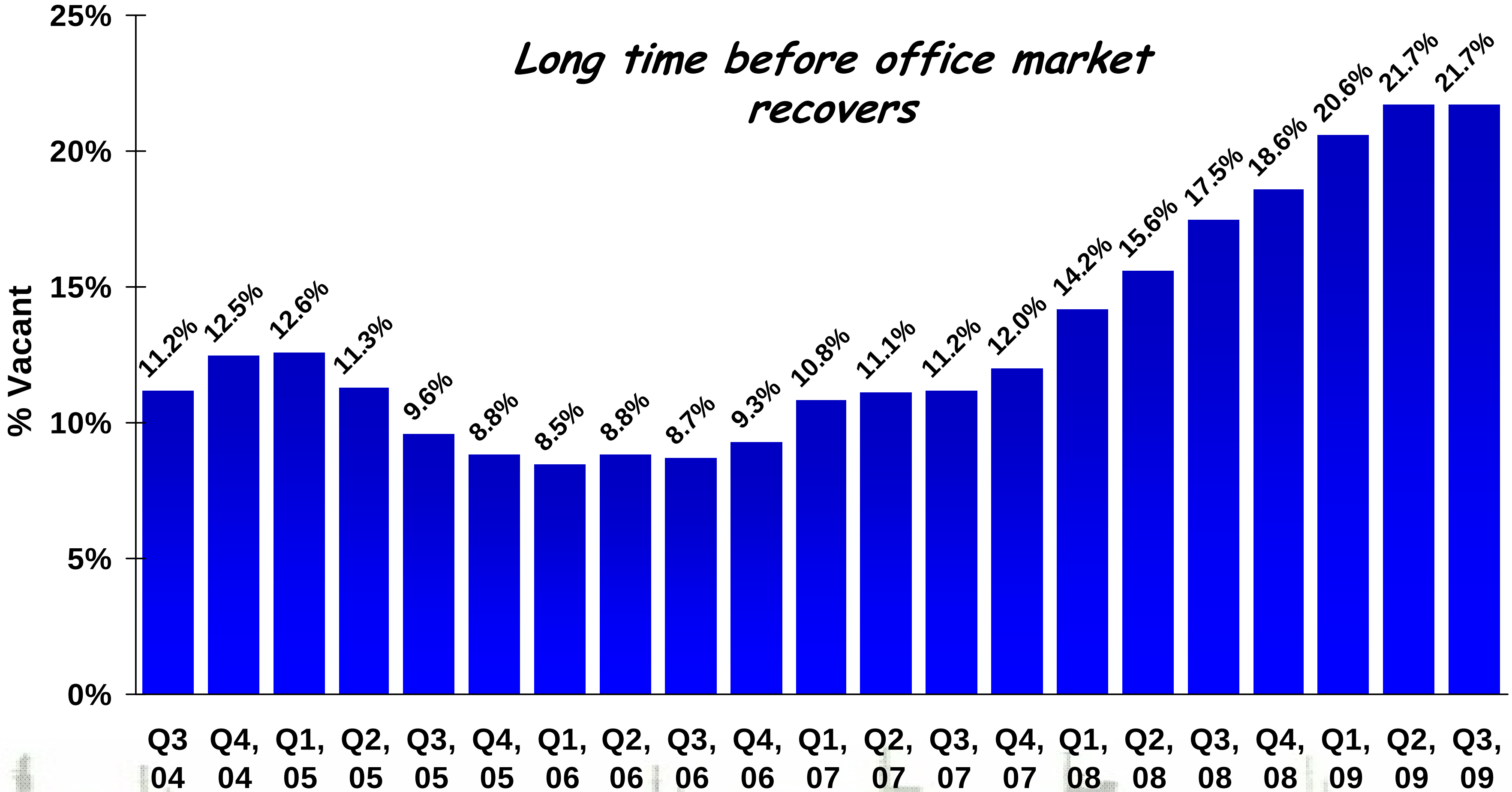
Valley Industrial Vacancy
Q3, 2004 – Q3, 2009



RESTREPO CONSULTING GROUP LLC

Source: Restrepo Consulting Group.

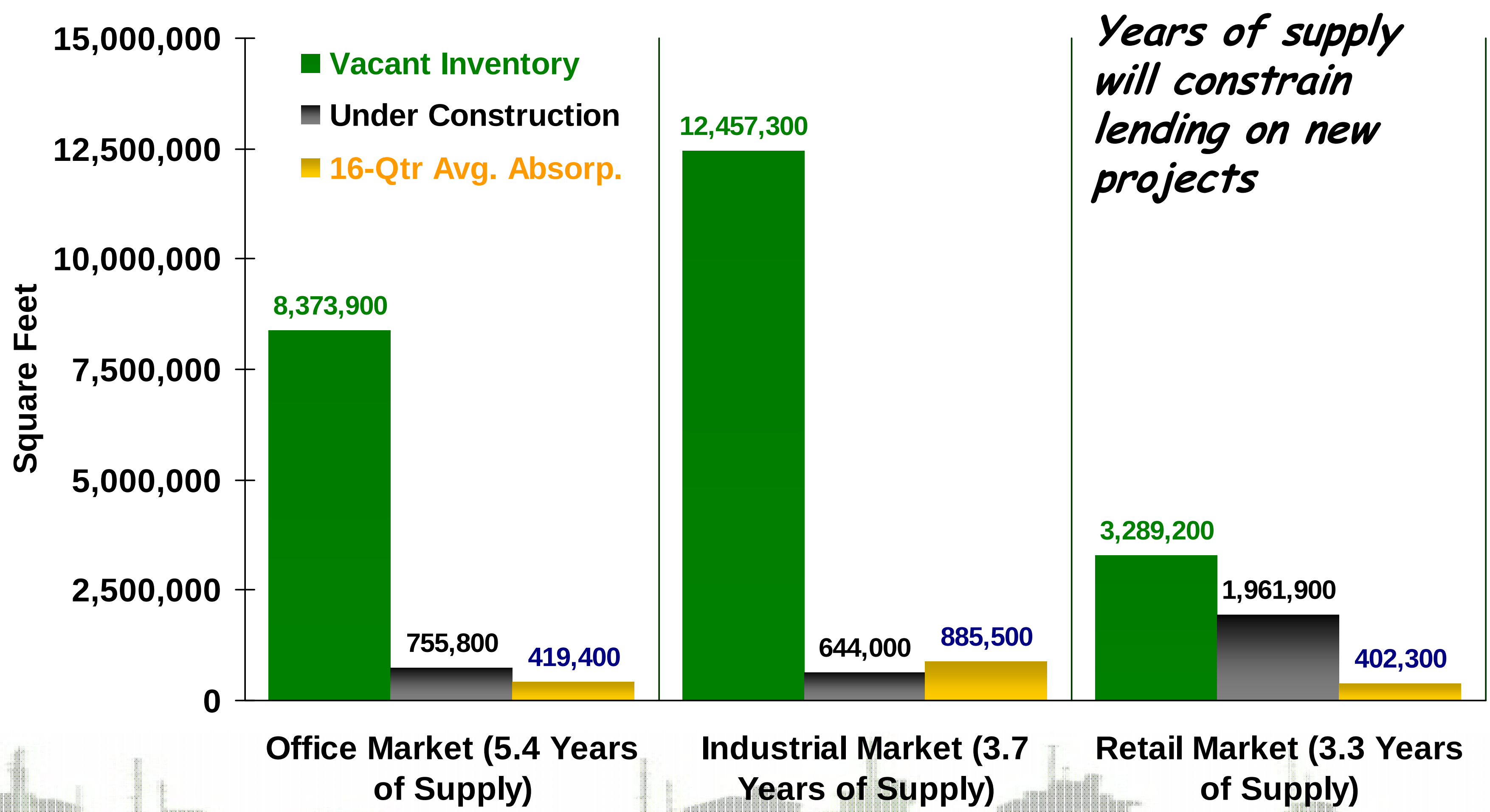
Valley For-Lease Office Vacancy
Q3, 2004 – Q3, 2009



RESTREPO CONSULTING GROUP LLC

Source: Restrepo Consulting Group.

Years of Supply
(Based on Existing Vacant & Under-Construction space, & 16-Qtr Average Absorption)



RESTREPO CONSULTING GROUP LLC

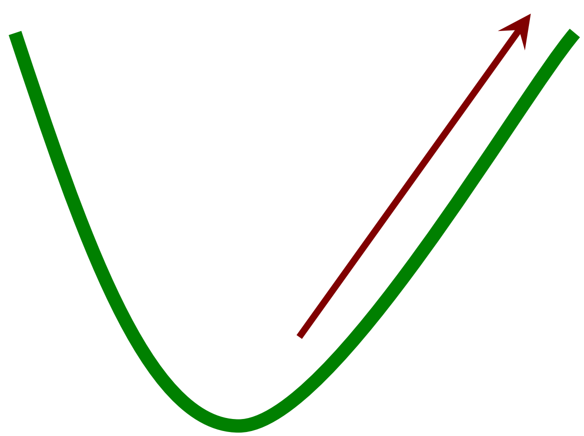
Source: Restrepo Consulting Group.

Conclusion

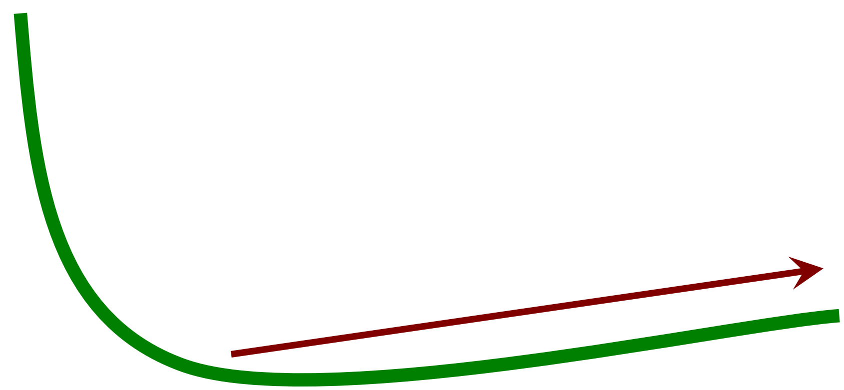
RESTREPO
CONSULTING
GROUP LLC

What The Southern Nevada Long-Term Growth Trajectory Look Like

1. The Past



2. The Future



RESTREPO CONSULTING GROUP LLC

In Conclusion

RECESSION IS HERE

- **Flat is the new "up" cycle**
- **Consumer weakness will continue into 2011**
- **The other dropping shoes: commercial r.e. & credit cards**
- **Exports are not enough**
- **Nevada budget to get worse**

WHAT KIND OF RECESSION?

- **Bad, but NOT a depression**
- **Economic in So. Nevada recovery in early-2011**
- **Sustained local housing recovery in 2012**

DON'T PANIC

- **Recovery is inevitable if delayed**
- **New opportunities will be created**
- **Low home prices are good for Nevada in long run**
- **In desperate times comes real change: Real fiscal & economic structure change**

RESTREPO CONSULTING GROUP LLC

Source: Adapted from Chris Thornberg.

RESTREPO
CONSULTING
GROUP LLC

Contact:
John Restrepo
702-967-3188
jrestrepo@rcg1.com
www.rcg1.com