Residential Construction Picks Back Up in Nevada

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The construction industry was hit hard in 2006-2012, more than any other industry in Nevada. More than 100,000 construction jobs were lost during this time. Construction went from representing nearly 11.5 percent of the entire Nevada workforce in August 2006 to less than half of that (4.26 percent) by March 2012. This major drop comes as a result of home prices sinking and residential building coming to a halt. Conditions, fortunately, are beginning to turn around. We are now seeing consistent growth in the overall construction employment as residential construction is picking back up.

The total number of single family and multifamily permits in Nevada has shown persistent growth each month since May 2011 with few seasonal fluctuations. To put this in perspective, builders must submit to local authorities a permit per new home being sold before breaking ground to build it. The most recent numbers show that 879 of these residential permits were filed in April – that is, 400 more permits than the low that occurred in May 2011 (Chart 1). The number of residential permits being filed is still well below the 4,135 residential permits that were filed in June 2006. Current permit activity, however, is similar to that of the early 2000's when the housing market was stable.

Chart 1: Nevada Residential Permits

Sources: Center for Business and Economic Research, UNLV; Lied Institute for Real Estate Studies, UNLV
As residential permits continue to increase, we anticipate construction employment to increase further as well. Construction employment has, historically, been following a near identical growth pattern as residential permits (Chart 2). This makes sense because, intuitively, more residential building permits require more workers to build those buildings. Notably, the construction industry employs 60,000 workers as of April 2014 – up 12,000 workers from the low that occurred in March 2012. Growth of construction jobs has been modest and remains nearly 90,000 below its peak in 2006.

Chart 2: Construction Employment in Nevada

New home prices, nevertheless, are a major driver of residential permits and subsequent construction jobs. In part, the increased number of residential communities can be attributed to the high price appreciation of new homes seen over the past two years. Since January 2012, new homes have been selling at a higher average price each subsequent month (Chart 3). As of March 2014, the average price of new homes reached $304,568, almost $90,000 greater than the price in April 2012. As long as new home prices continue to grow, builders will foster motivation to develop more residential communities. Yet, builders should be cautious because prices do not grow perpetually. New home prices stumbled in
February and March 2014 as they appear to be smoothing out a period of high appreciation. Residential construction job growth, as a consequence, might smooth out as well in the short term.

**Chart 3: New Home Prices in Nevada**

Sources: CoreLogic; Lied Institute for Real Estate Studies, UNLV

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