

Real Estate Analysis

West Region Drives New Home Sales in February

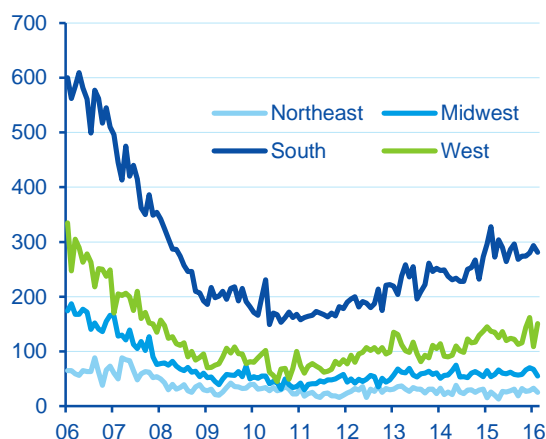
Filip Blazheski

- **New single family home sales increased 2% MoM in February, driven by gains in the West**
- **The inventory of new homes increased while price appreciation appears to be slowing**
- **New home sales are expected to rise 6.7% this year, following a 14.3% gain in 2015**

Sales of new single family houses in February were at a seasonally adjusted annual rate of 512K, up 2% from the January revised rate of 502K (the preliminary figure was 494k). However, sales fell 6.1% on a YoY basis marking the second consecutive month in negative territory (the first such occurrence since early 2011). All of the gains in home sales were due to higher sales in the West (Chart 1), with declining sales in other regions of the country likely related to transitory factors such as winter weather. Compared to a year ago, home sales were higher in the West (10.2%), mostly unchanged in the Northeast and Midwest, and significantly lower in the South (-14.3%). The large decrease in the South is a result of a statistical effect of unusually strong sales in February 2015. It is still not clear whether sales in the South are affected by a slowdown in Texas, one of the largest housing markets in the region that is currently exposed to the downturn in the oil and gas industry. On the bright side, home starts in Texas were still growing on a YoY basis in January, which wouldn't have been the case if sales had been dropping in the latter part of last year.

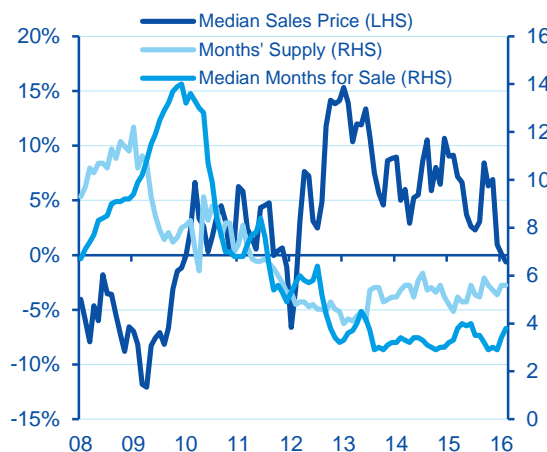
The median number of months that single family houses have been on the market has increased in the last two months (Chart 2). This coincides with the faster growth in the number of homes for sale, as the inventory increased 1.7% MoM seasonally adjusted and 17.7% YoY. The months' supply of new homes at the current sales rate remained at 5.6 seasonally adjusted, which adds to the picture of a continuously improving market, helping to moderate the growth in home prices. Median home prices rose 2.6% YoY to \$301,400, compared to the average of 3.8% YoY last year. Median home prices seem to be slowing their rate of appreciation (Chart 2) due to an increased supply in the number of homes for sale.

Chart 1
**New Home Sales, by Region
(SAAR, Thousands)**



Source: U.S. Census Bureau & BBVA Research

Chart 2
Median Price, Months' Supply and Median Months for Sale (YoY % Change in 3mma and Ratio)



Source: U.S. Census Bureau & BBVA Research

In the coming months, new home sales will also be supported by favorable mortgage rates, as in February the rate for a conventional 30-year mortgage decreased to 3.66%. The new home market is expected to perform well in 2016, despite a likely moderation in the rate of price appreciation. While the new home sales figure for February confirmed that the housing market is not roaring, it was positive and we expect this trend to continue with new home sales increasing 6.7% YoY in 2016.

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