

Economic Watch

U.S.

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Economic Analysis
U.S.

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Buying a home is more affordable than renting

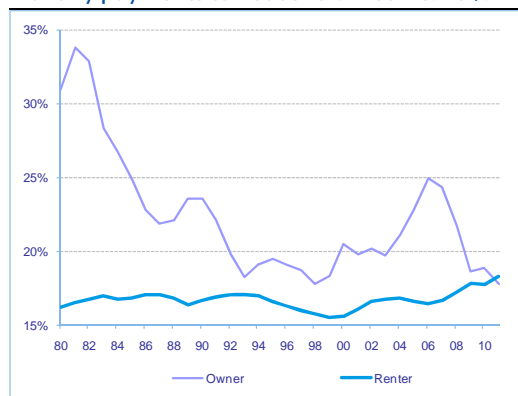
- **In the medium term, this trend could be a major boost for the purchase of homes**

In the second quarter of 2011, purchasing a home required monthly mortgage payments (*) equivalent to 17.8% of the average gross household income. For the same period, renting a standard apartment required the same household to allocate 18.3% of its gross income. This exceptional situation can be explained by the rise in apartment rents together with the downward adjustment of housing prices and the fall in mortgage interest rates. In June 2011, purchasing a home was more affordable than renting one.

The current trend indicates that this situation will extend through the second half of 2011 and 2012. The instability of the job market, the heightened excess supply of homes and the current restrictive conditions for mortgage financing suggest that home ownership will continue to lose weight to the detriment of rented homes. However, in the medium and long-term, when job recovery has been consolidated, housing prices have stabilized and the financial system overcomes the current difficulties, a significant increase will arise in the demand for home ownership. The increase in household saving and the low mortgage rates support this expansion of demand.

(*) To calculate monthly payments, a family with average income is assumed to purchase an averaged home, estimated by the National Association of Realtors (NAR), with a fixed-rate, 30-year mortgage valued at 90% of the home's value. The rent for an apartment is obtained using data from the American Housing Survey (AHS), which is updated using the shelter component of the consumer price index.

Chart 1
Monthly payments to household income. As %



Source: BBVA Research

Chart 2
Housing prices and CPI (shelter). YoY % change

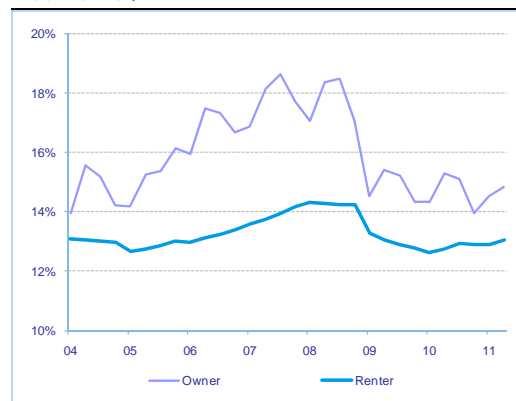


Source: NAR and Bureau of Labour Statistics (BLS)

The current gap between the cost of purchasing a home and renting in the majority of metropolitan areas where BBVA Compass is present is narrowing.

In recent years, the significant gap between the cost of purchasing a home and that of renting one has narrowed in practically all of the metropolitan areas. By applying the prices for existing homes calculated by the NAR and those of apartment rents as calculated by Property and Portfolio Research (PPR), BBVA Research has estimated the monthly cost in terms of the income that an average household would need to purchase a home or rent an apartment. No taxes or tax breaks were taken into account in this calculation. No differences in size or quality between homes for sale and apartments for rent were considered either

Chart 3
Austin (TX). Monthly payments to household income. As %



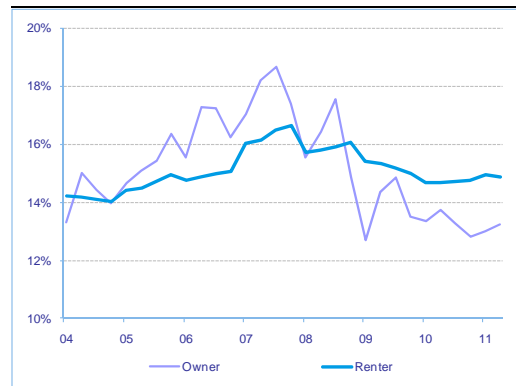
Source: BBVA Research

Chart 4
Dallas (TX). Monthly payments to household income. As %



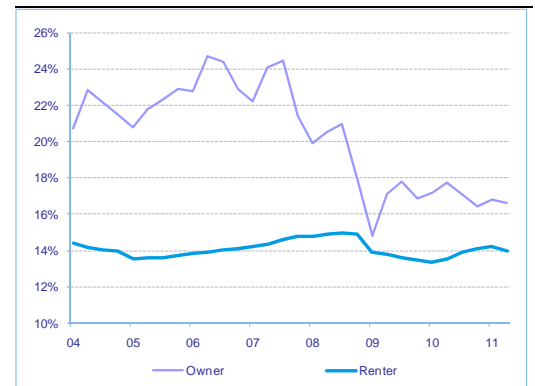
Source: BBVA Research

Chart 5
Houston (TX). Monthly payments to household income. As %



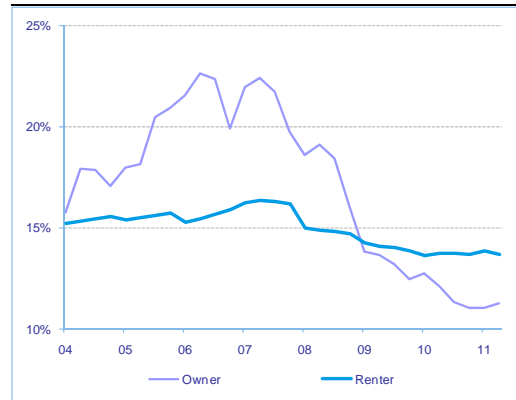
Source: BBVA Research

Chart 6
Denver (CO). Monthly payments to household income. As %



Source: BBVA Research

Chart 7
Jacksonville (FL). Monthly payments to household income. As %



Source: BBVA Research

Chart 8
Phoenix (AZ). Monthly payments to household income. As %



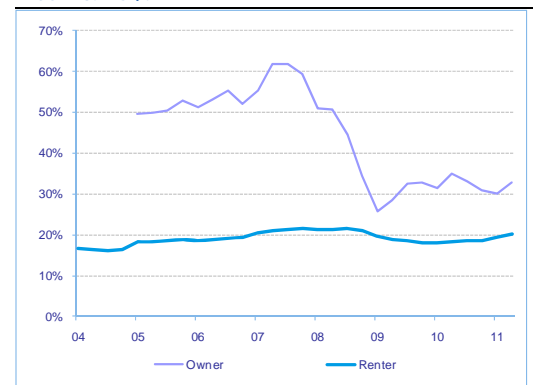
Source: BBVA Research

Chart 9
San Francisco (CA). Monthly payments to household income. As %



Source: BBVA Research

Chart 10
San Jose (CA). Monthly payments to household income. As %



Source: BBVA Research

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