

# Housing Watch

United States

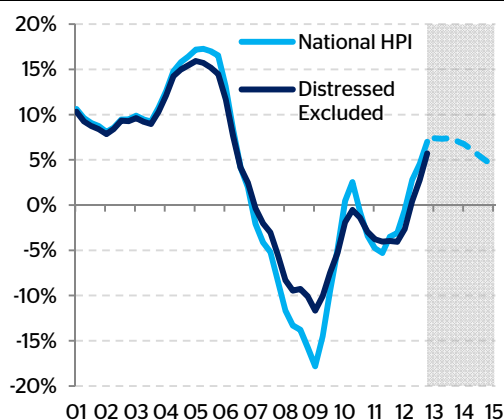
Houston, February 20, 2013  
Economic Analysis

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## Low Inventory Boosting Home Prices

- Inventories of both new and existing single family homes for sale are at historic lows. Months' supply is down to levels not seen since 2005
- Prices are rising at double-digit rates in hot markets, bolstered by job and wealth creation in the energy and technology industries
- Asset quality remains a challenge for many banks; improving slowly

Chart 1  
Core Logic Home Price Indexes, YoY % Change

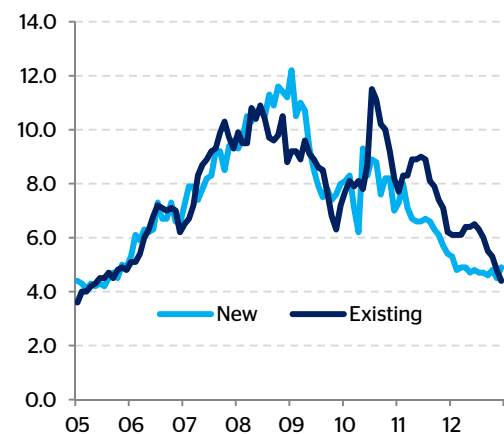


Source: CoreLogic / Haver, BBVA Research

Housing price indexes increased rapidly at the end of 2012 primarily driven by low inventories. The pace of sales of both new and existing homes remains well below pre-recession levels, but is increasing slowly and steadily.

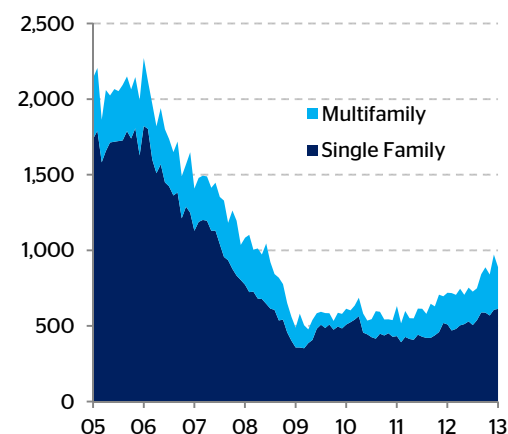
Housing starts dropped slightly in January, but this was largely due to a pullback in multi-family starts. Single-family starts are strengthening, and rising building permits will support further construction activity.

Chart 2  
Months' Supply of Single Family Homes for Sale



Source: National Assoc. of Realtors / Haver

Chart 3  
Housing Starts, by Type, Thousands of Units, SAAR



Source: National Assoc. of Realtors / Haver

### Key Mortgage Market Indicators

Residential loan delinquency rates remain stubbornly high at the largest banks, and thus credit remains tight.

Tight credit is holding back the pace of home sales, as interested buyers may not be able to obtain a mortgage.

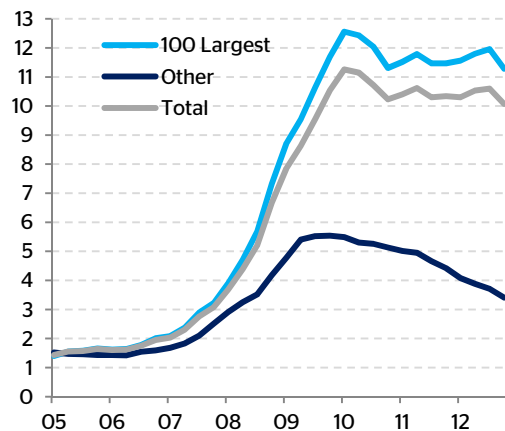
Affordability remains favorable for homebuyers, as rock bottom interest rates are expanding the set of eligible buyers.

Historically low interest rates are behind the wave in re-financing activity; in December, refinancing applications comprised 84% of all Freddie Mac loan applications.

The federal HARP program has been a boon for refinance activity, as HARP 2 allows higher loan-to-value ratios. Total refinancing rose throughout 2012; however, rising mortgage rates will dampen demand.

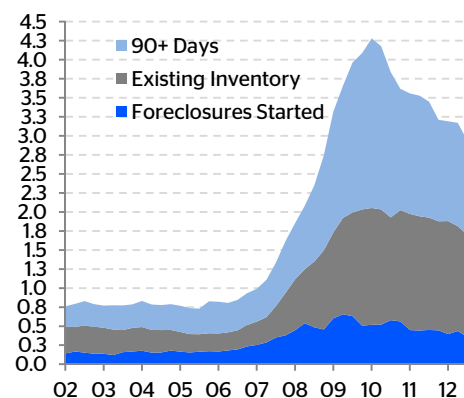
Banks have been able to capture market share in spite of tepid demand for new originations; thus, we should not expect that any falloff in refinance volume would be matched new originations in 2013.

Chart 4  
Loan Delinquency Rates, Residential Real Estate Commercial Banks, Quarterly, SA,%



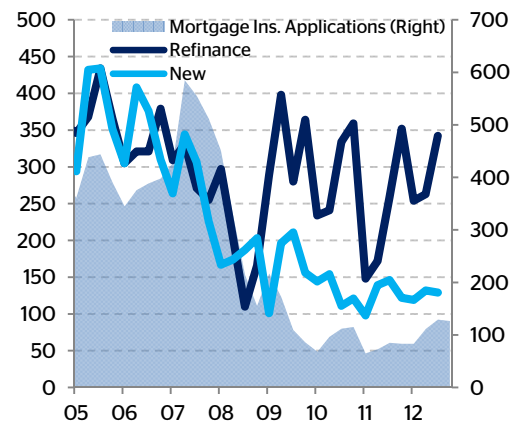
Source: Federal Reserve / Haver, BBVA Research

Chart 6  
Inventory of Foreclosures and 90-Day+ Delinquencies  
Million Units, Quarterly Data, Through 3Q12



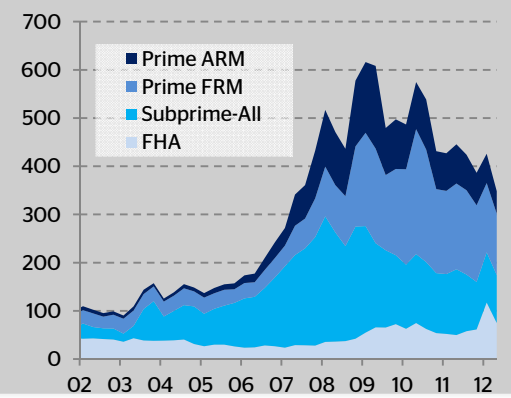
Source: BBVA Research & MBA / Haver

Chart 5  
Mortgage Originations and Applications  
Originations, Billions USD; Applications, Thousands



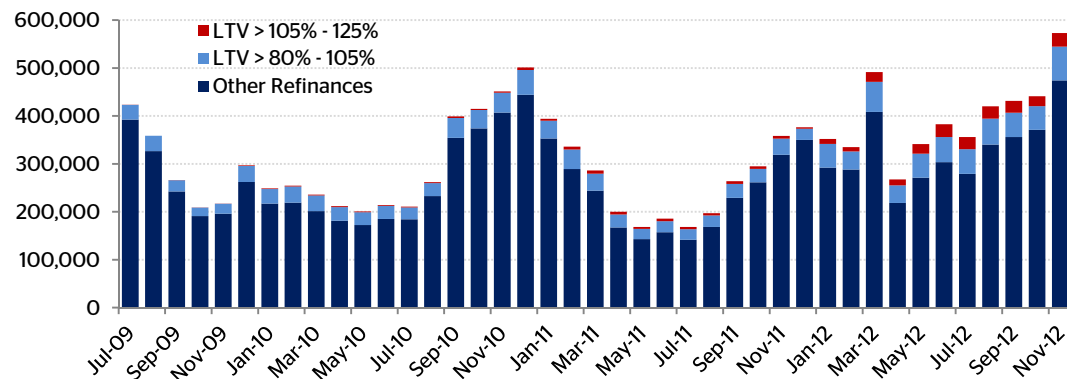
Source: National Assoc. of Realtors / Haver

Chart 7  
New Foreclosures, By Borrower and Loan Type  
Quarterly, Thousands of Units; ARM=Adjustable; FRM=Fixed



Source: Mortgage Bankers Association / BBVA Research

Chart 8  
HARP-Backed Fannie Mae and Freddie Mac Total Refinancing Activity, Number of Loans



Source: Freddie Mac and Fannie Mae / Haver Analytics and BBVA Research

## Key Mortgage Market Indicators

Mortgage Market Indicator	Units	Obs. Date	Current	Prior Month	6-Months Ago
Core Logic Home Prices	YoY% Change	Dec	8.5%	7.3%	3.4%
Excluding Distressed	YoY% Change	Dec	7.6%	5.9%	1.2%
Existing Home Sales		Dec	4940	4990	4370
Northeast	Thousands of Units, SAAR	Dec	640	620	540
Midwest		Dec	1120	1190	1020
South		Dec	1950	2010	1730
West		Dec	1230	1170	1080
Existing Months of Supply		Dec	4.4	4.8	6.5
New Home Sales		Dec	369	398	360
Northeast	Thousands of Units, SAAR	Dec	24	34	16
Midwest		Dec	57	47	49
South		Dec	208	227	187
West		Dec	80	90	108
New Months of Supply		Dec	4.9	4.5	4.8
Affordability Index		Dec	201	200	182
Mortgage Rate	%	Jan	3.41	3.35	3.55
10-Yr Treasury (CM)	%	Jan	1.91	1.72	1.53
Spread	bp	Jan	150	163	202

Asset Quality Metrics		Obs. Qtr.	Current	Prior Qtr.	4-Qtrs Ago
Res. Loan Delinquency Rate - Top 100 Banks	%	Q4-12	11.3	12.0	11.5
Foreclosures Started	Thousands	Q3-12	376	408	470
Forclosure Inventory	Thousands	Q3-12	1700	1815	1928
Mortgages Past Due (30 Days+)		Q3-12	7.4	7.6	8.0
Alabama	% of Mortgages Serviced, MBA	Q3-12	9.6	9.6	9.7
Arizona		Q3-12	6.1	6.5	7.8
California		Q3-12	6.5	6.5	7.6
Colorado		Q3-12	4.9	5.1	5.3
Florida		Q3-12	7.7	8.0	8.6
New Mexico		Q3-12	6.1	6.1	6.3
Texas		Q3-12	7.9	8.0	8.3

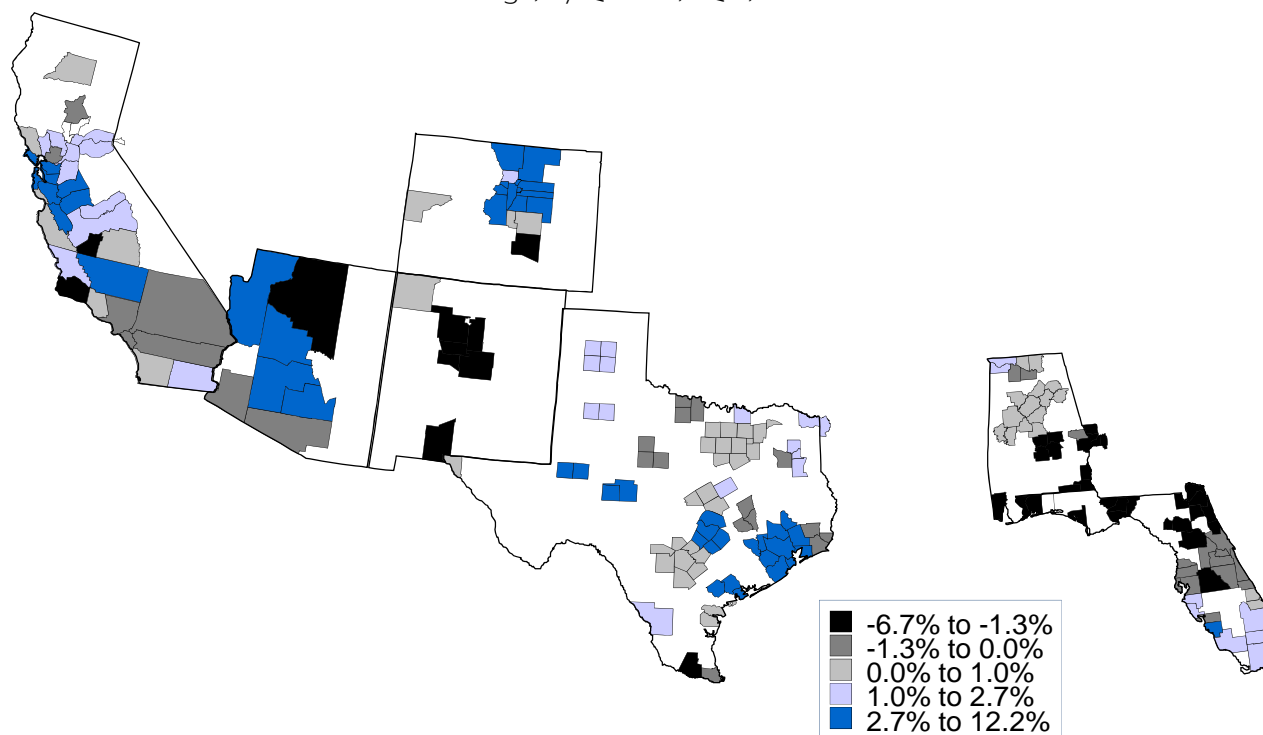
  

Labor Market	AL	AZ	CA	CO	FL	NM	TX	US
Employment Growth (Y-o-Y % Change)								
Dec-12	0.5%	2.7%	1.6%	2.3%	0.7%	-0.4%	2.5%	1.6%
Nov-12	0.7%	2.6%	2.0%	2.4%	1.2%	-0.6%	2.6%	1.7%
Dec-11	-0.1%	1.1%	1.2%	1.5%	1.6%	0.4%	2.0%	1.6%
Empl. Change, 2012, Thousands	10.2	64.3	225.9	51.3	54.9	-3.3	260.8	2170.0
Unemployment Rate (SA, %)								
Dec-12	7.1	7.9	9.8	7.6	8.0	6.4	6.1	7.8
Nov-12	7.5	7.8	9.8	7.7	8.1	6.2	6.2	7.8
Dec-11	8.1	8.1	10.1	7.9	8.5	6.3	6.6	7.9

Sources: Core Logic, NAR, Census, Mortgage Bankers Association, Federal Reserve, BLS / Haver Analytics and BBVA Research

## Metro Area Housing Prices: Across the Sunbelt

Year-over-Year % Change, by Quintile, 3Q12; FHFA All Transactions Index



### Bottom Line

Hot markets (as defined by the year-over-year percent change in the metro-area housing price index) across the BBVA Compass Sunbelt include the California coast, central Arizona, much of northern Colorado, the tech and energy hubs of Houston, Austin, Midland-Odessa and Cape-Coral/Fort Meyers, Florida. Florida is still seeing a slide in prices, as the state remains the foreclosure capital of the nation with more than 23% of nationwide foreclosures. Prices are rising sharply as the share of distressed sales declines, and low inventories have increased sellers' market power.

Investors have also returned to the housing market, as rental demand will remain elevated during the next five years. The home-ownership rate has fallen to a more sustainable level, but we expect it to continue to fall another percentage point. Thus around one million current homeowners will transition to renters. As the number of U.S. households continues to grow, the demand for rental properties will remain strong. We estimate that an additional 1 million homes will enter the foreclosure process in 2013. New foreclosures among FHA-backed loans made during the height of the recession in 08-09 have risen.

The surge in multi-family investment throughout 2012 will continue in 2013, and new rental units will come online and ease supply in tight markets. Single family construction activity is picking up sharply and will remain a contributor to growth during 2013.

S&P/Case Shiller Metro Area Home Price Indexes				
YoY% Change	Nov-12	Oct-12	May-12	Nov-11
Phoenix	22.8%	21.8%	11.4%	-3.5%
Denver	7.8%	6.9%	3.6%	-0.2%
Los Angeles	7.7%	6.3%	-2.0%	-5.4%
San Diego	8.0%	6.0%	-1.1%	-5.4%
San Francisco	12.7%	8.9%	0.6%	-5.4%
Miami	10.0%	8.5%	3.4%	-4.4%
Tampa	6.8%	5.8%	2.5%	-6.1%
Dallas	5.8%	4.6%	3.8%	-0.7%

Source: S&P/Case Shiller / Haver Analytics and BBVA Research

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