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U.S. Flash
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Real Estate Analysis

Home price appreciation moderates in February

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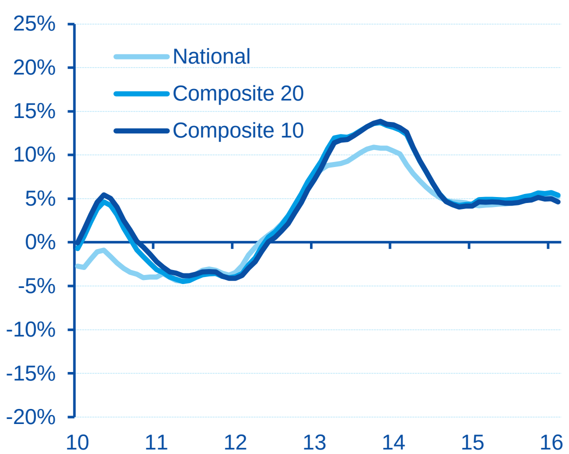
- **The S&P/Case-Schiller composite 20 house price index increased 0.7% MoM in February**
- **The annual growth rate of 5.4% in February was the weakest since October**
- **Despite some slowdown, annual growth in home prices is expected to remain solid in 2016**

The S&P/Case-Schiller composite 20 index increased 0.7% MoM on a seasonally adjusted basis, posting an annual growth rate of 5.4%, while the composite 10 index increased 0.6% MoM, hitting 4.6% YoY. The national house price index increased 0.4% MoM in February, 5.3% YoY. The February showing was in line with consensus expectations. Despite the fact that the YoY growth in February was the slowest since October (Chart 1), the growth of home prices remains solid, especially when compared with incomes.

Looking ahead to March, home prices are expected to continue appreciating. The median existing home sales price in March increased 0.6% MoM, recovering part of the decline in February, and stood 5.7% higher YoY. However, the YoY rate of appreciation of the S&P/Case-Schiller indices could again be slightly slower, as the inventory of existing and new home sales has been improving compared to the previous months. Months' supply of existing homes has increased to 4.5 in March, compared to 4.4 in February and 4.0 in January, while the seasonally adjusted months' supply of new single-family houses for sale has increased to 5.8 in March, compared to 5.6 in February and 5.5 in January. That said, the inventory of existing homes is still below any level of supply which is considered a sign of a market balanced between buyers and sellers.

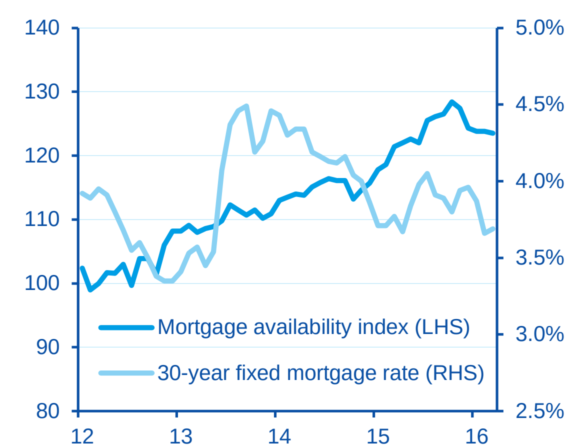
Going forward, the continued increase in home prices will be supported by gains in employment and income, ongoing improvement in lending conditions, and above average affordability due to low interest rates. Even though the Mortgage Credit Availability Index has been decreasing over the last five months (123.5 in March vs. 123.8 in February and January), it is still relatively high (Chart 2). We expect affordability to remain high, based on our projections of 3.8% average interest rate for a 30 year fixed rate mortgage in 2016.

Chart 1
S&P/Case-Schiller house price indices (% YoY)



Source: S&P & BBVA Research

Chart 2
Mortgage availability and interest rates (Index and %)



Source: S&P, NAR & BBVA Research

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