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BBVA Research

U.S. Housing Outlook 2019

Creating Opportunities

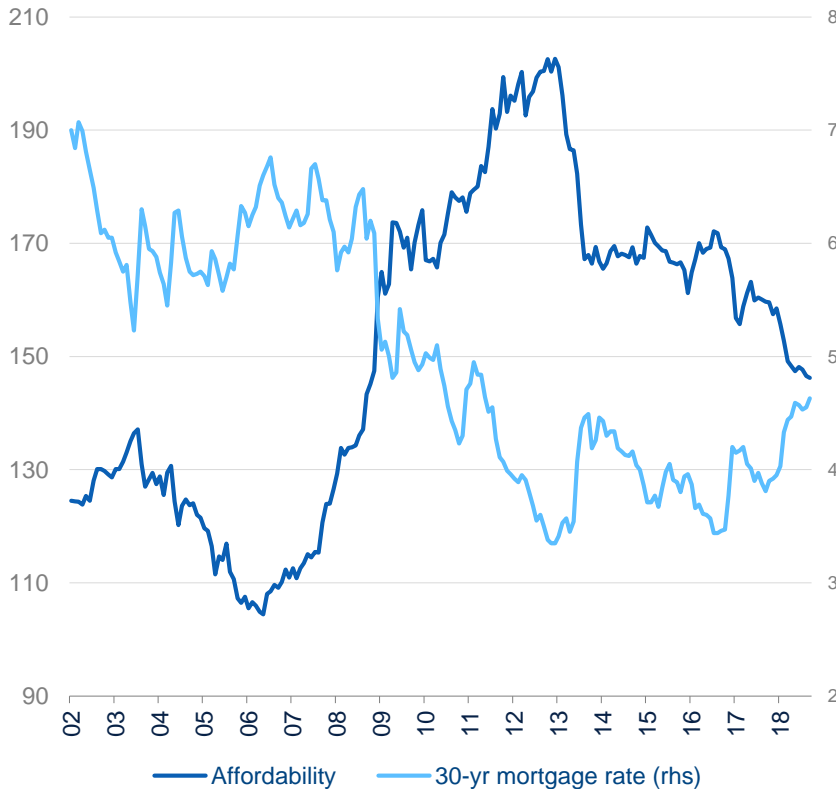
Housing Outlook

- Housing market activity slowed in 2H18 in response to higher mortgage rates. Existing and new home sales declined, while new construction and home prices slowed down
- Despite affordability remaining an issue going forward, demographic trends will continue to support housing demand
- Home price appreciation will continue to decline, but will remain above inflation in the short to mid-term due to a suboptimal supply of new and existing homes for sale
- Tighter financial conditions will balance out some of the regional disparities built up over the last decade
- The attractiveness of large coastal knowledge-intensive metro areas will remain, but the lack of affordable housing will drive some residents to smaller metro areas away from the coasts
- Demand for apartments in attractive areas will remain strong, driven by the strength of the local economies and lack of affordable ownership options
- Mid-size metro areas that can attract young families are likely to benefit from the rebalancing in the housing market in the wake of lower affordability

Affordability has decreased recently due to higher interest rates after a period of prices outpacing income

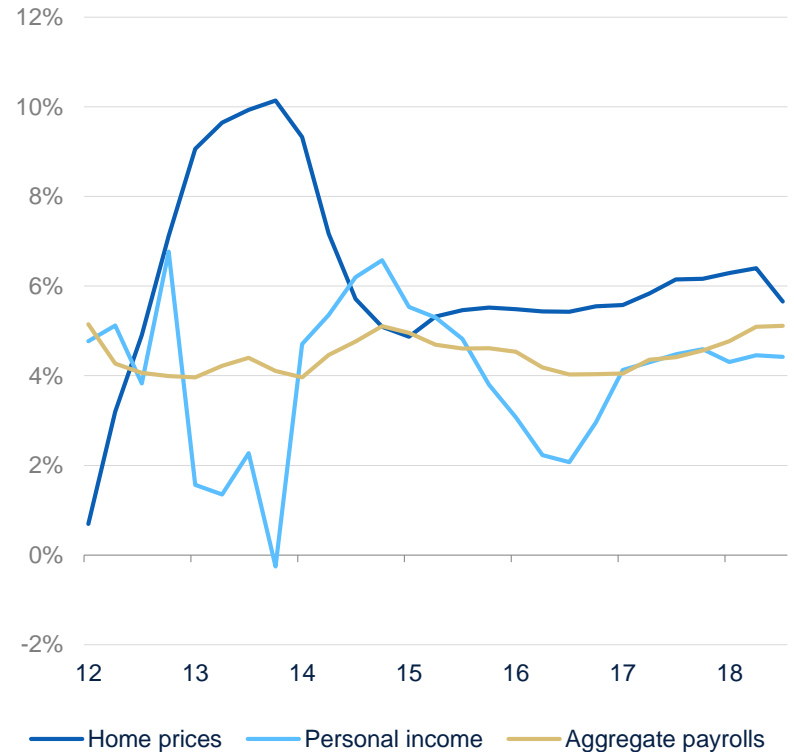
Housing affordability index and 30yr fixed mortgage rates

Index SA, median income = qualifying income and %



Home prices and income

% YoY

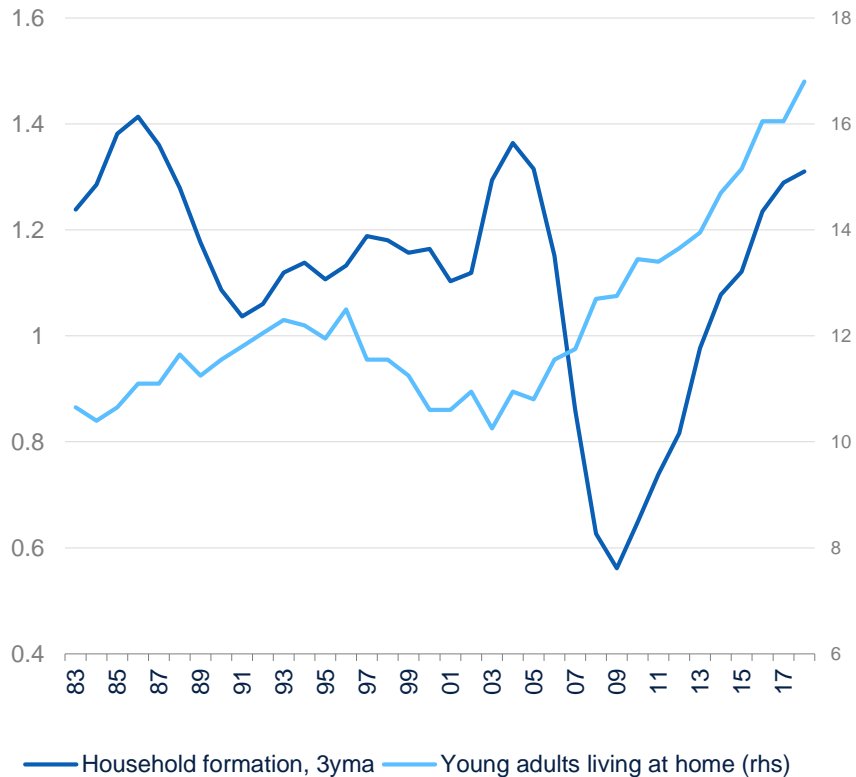


Source: BBVA Research, FHLMC, NAR, CoreLogic, BEA and BLS

But demographics remain supportive due to suppressed household formation and construction after the Great Recession

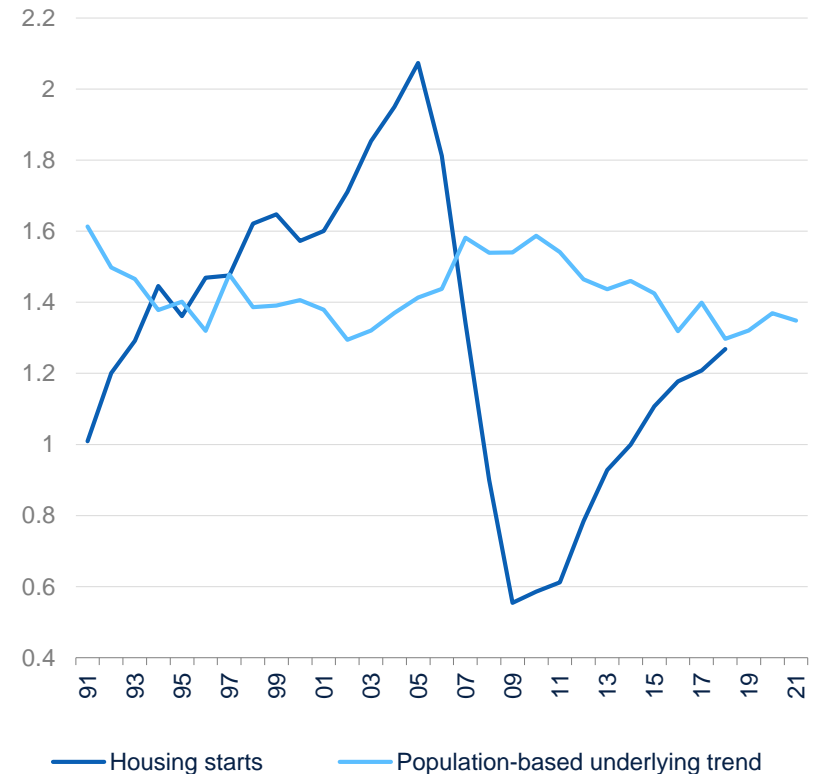
Household formation and share of young adults living at home

Million and %



Housing starts (estimated for 2018) and population-based trend

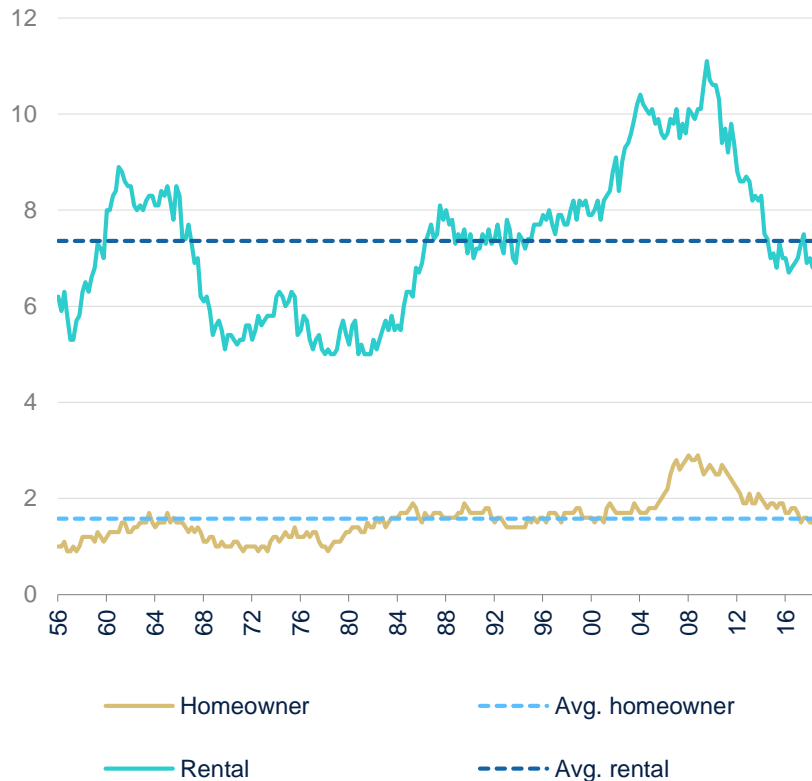
Million



Vacancy rates are at or below trend and declining within metropolitan areas

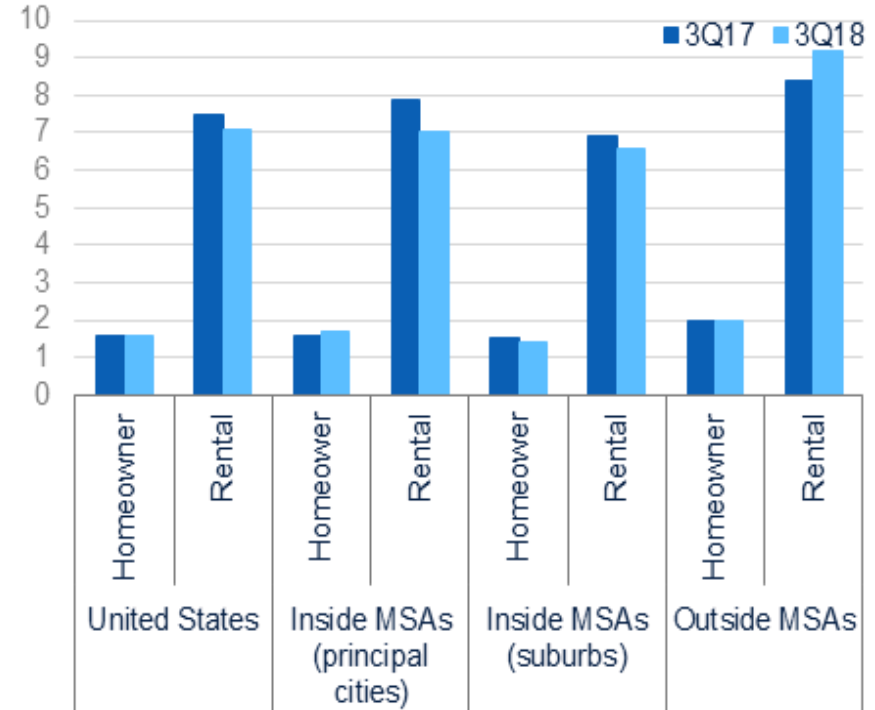
Vacancy rates

%



Vacancy levels

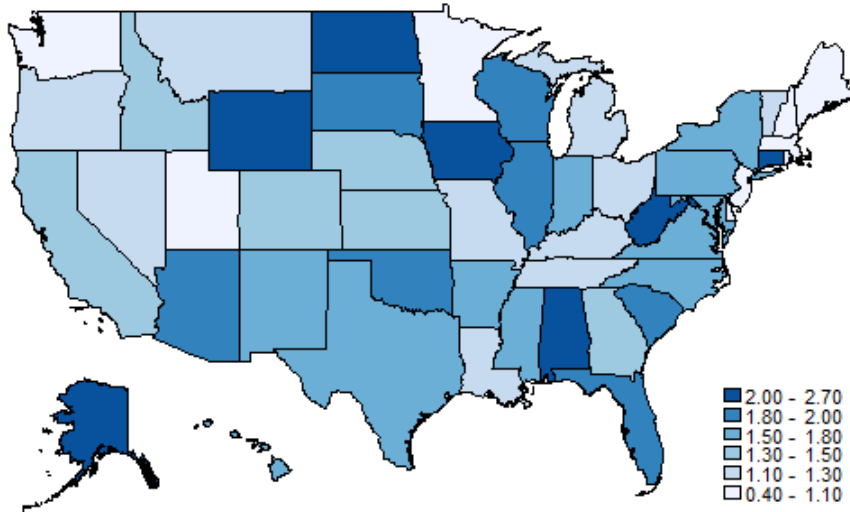
Million



Vacancy rates are low in the West and New England and high in states affected by the energy downturn

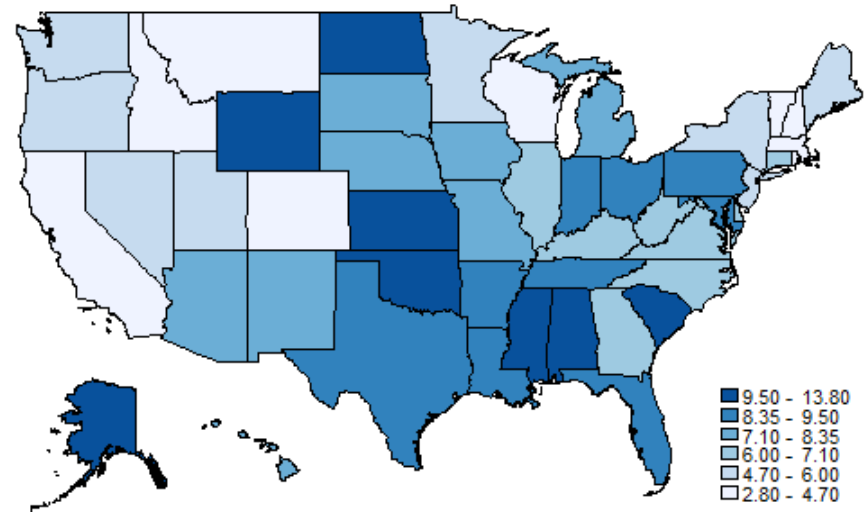
Homeowner vacancy rates

%



Rental vacancy rates

%



MSAs with low vacancy rates have solid economies, while many industrial mid-size MSAs continue to struggle

Homeowner vacancy rates, largest MSAs, 3Q18

%

Lowest 15		Highest 15	
Grand Rapids	0.2	Charleston	3.9
Minneapolis	0.5	Sarasota	2.9
Salt Lake City	0.5	Pittsburgh	2.9
San Antonio	0.6	Cape Coral	2.8
Cleveland	0.6	Hartford	2.8
San Diego	0.6	Toledo	2.7
Nashville	0.6	Rochester	2.7
Omaha	0.7	Tulsa	2.6
San Jose	0.7	Tampa	2.6
Las Vegas	0.7	Richmond	2.4
Greensboro	0.8	Orlando	2.3
Raleigh	0.8	Houston	2.2
Seattle	0.8	Bridgeport	2.0
Atlanta	0.8	Oklahoma City	1.9
Detroit	0.9	Knoxville	1.9

Rental vacancy rates, largest MSAs, 3Q18

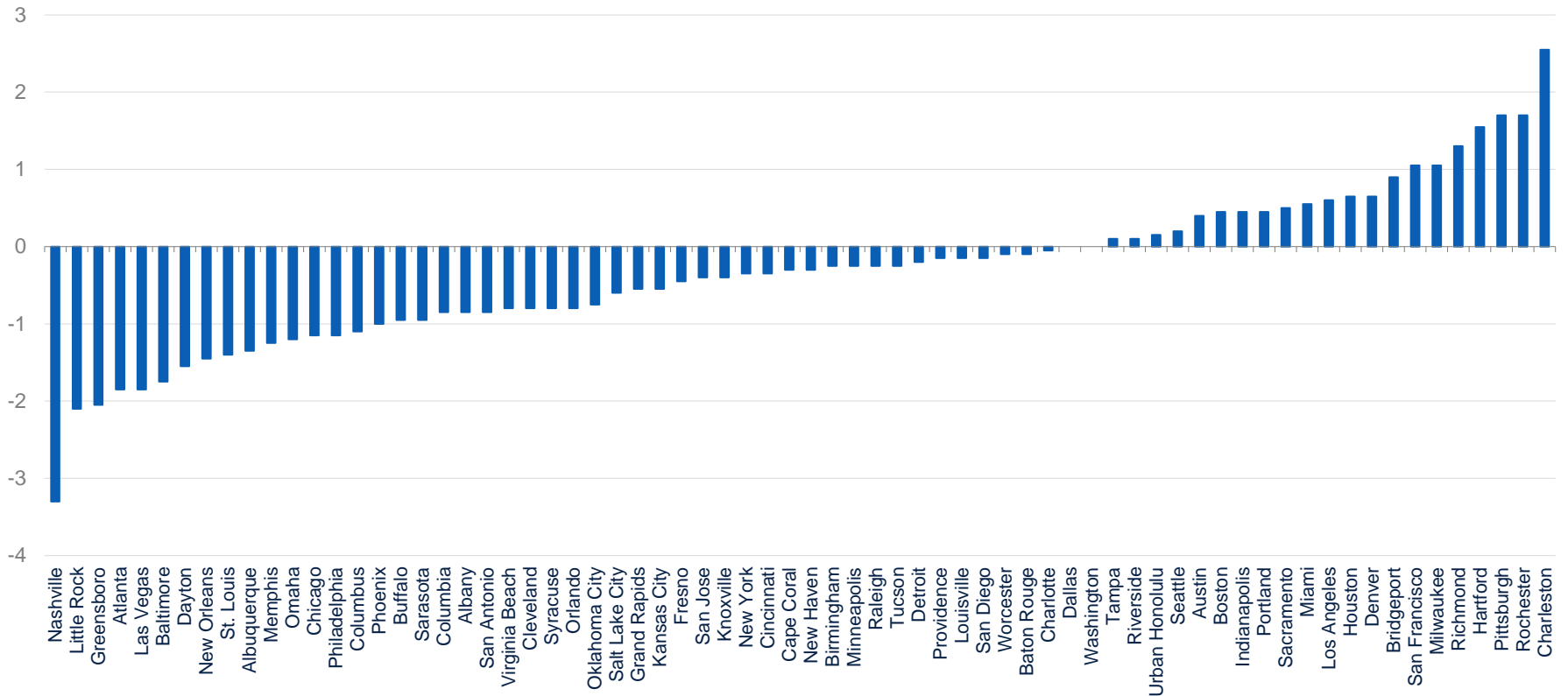
%

Lowest 15		Highest 15	
Fresno	2.0	Charleston	17.6
Worcester	2.3	Toledo	15.5
Denver	3.2	Oklahoma City	13.5
Boston	3.6	Dayton	13.5
Cincinnati	3.6	Birmingham	12.6
Cape Coral	3.7	Tulsa	11.2
San Jose	3.7	Albany	11.0
Allentown	3.9	Little Rock	10.8
Los Angeles	4.0	Memphis	10.4
Grand Rapids	4.4	Tampa	10.4
Sacramento	4.4	Greensboro	10.3
San Diego	4.4	Columbia	10.2
Syracuse	4.5	Baltimore	10.2
Minneapolis	4.6	New Orleans	10.1
Providence	4.6	Houston	9.4

Homeowner vacancy rates have decreased significantly in many affordable MSAs

Homeowner vacancy rates, largest MSAs, change 1H2015 – mid-2018

Percentage points

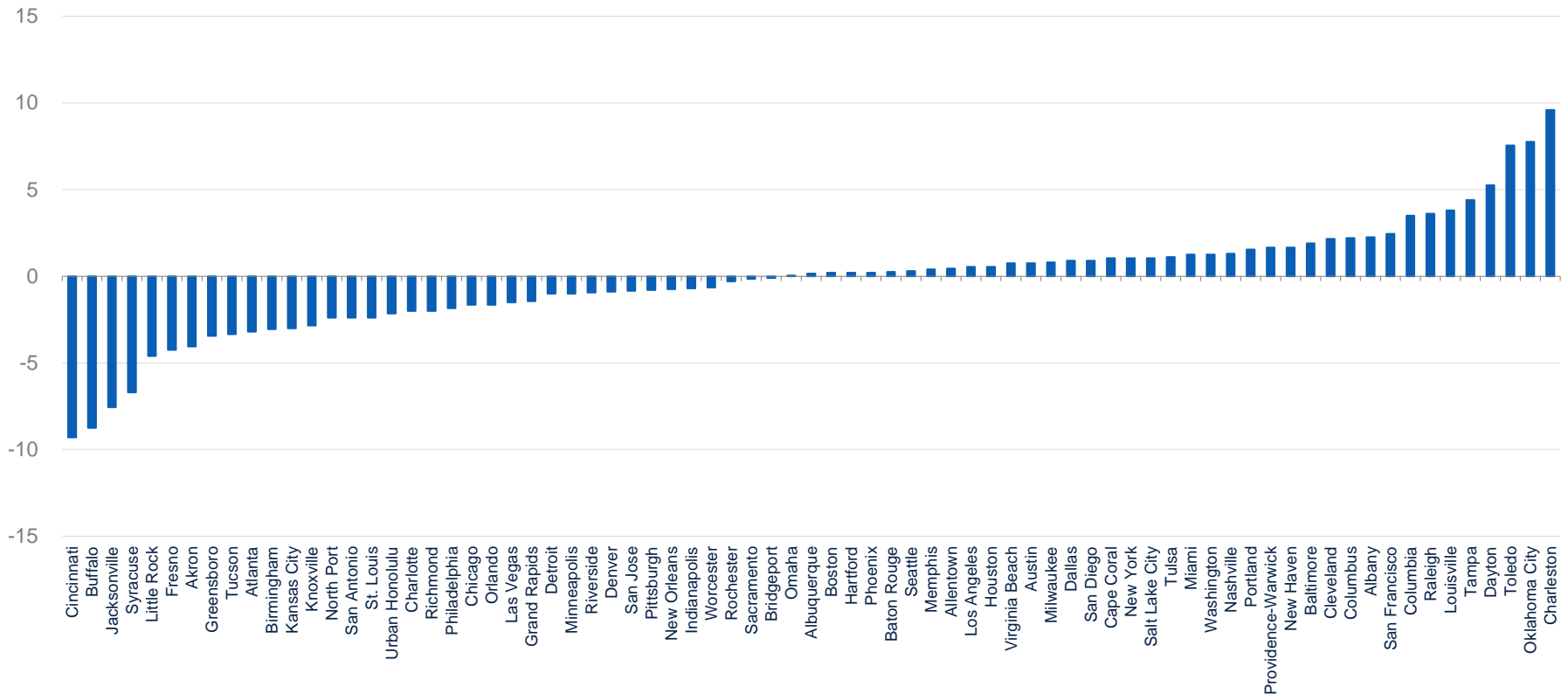


Source: BBVA Research and Census Bureau

Rental vacancies have also decreased strongly in mid-size MSAs with solid economic fundamentals and lack of new construction

Rental vacancy rates, largest MSAs, change 1H2015 – mid-2018

Percentage points

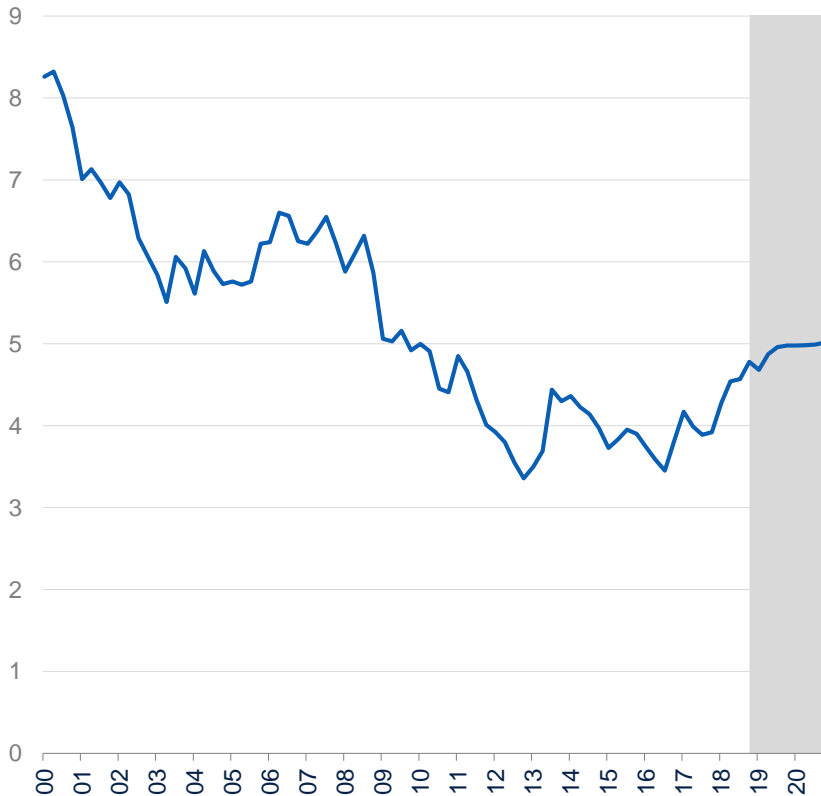


Source: BBVA Research and Census Bureau

Demand will be supported by leveling off of interest rates and an increase in income

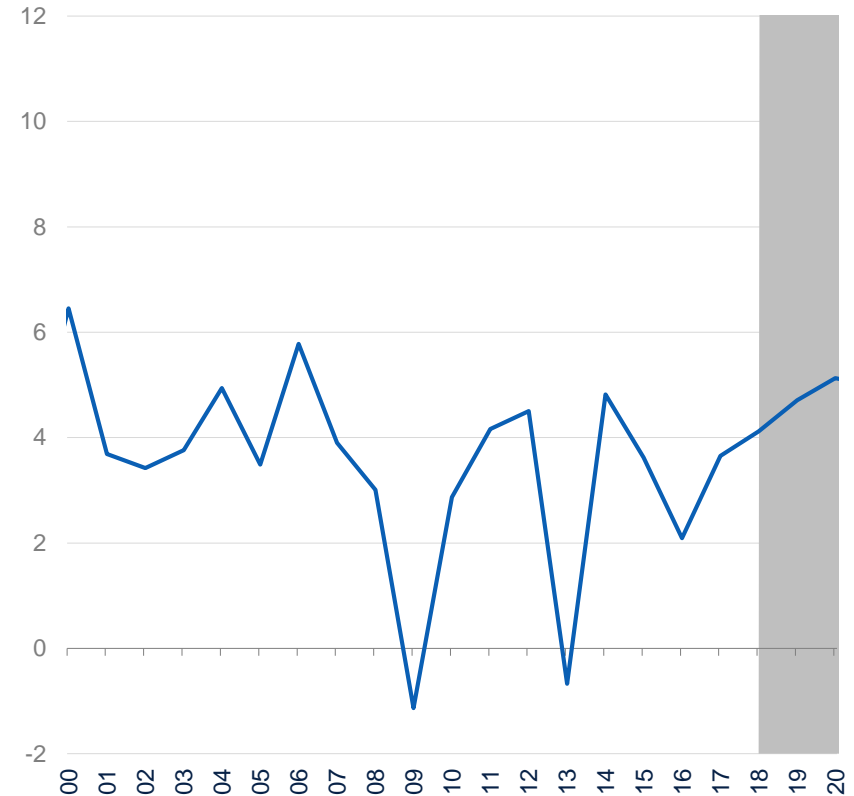
30yr mortgage interest rates

%



Personal disposable income per capita

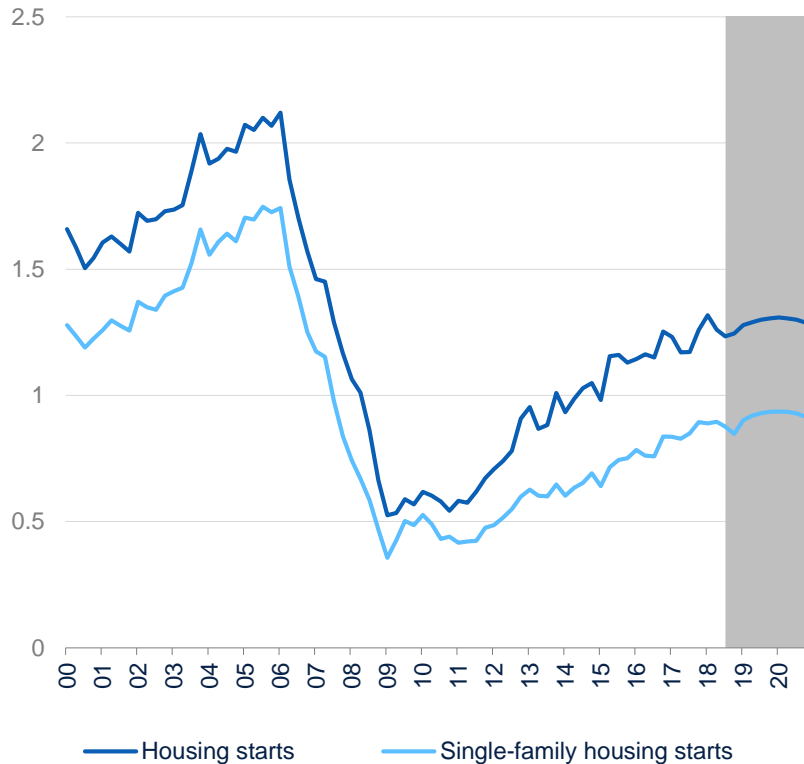
YoY%



Construction of new units will increase less than in the past due to structural factors

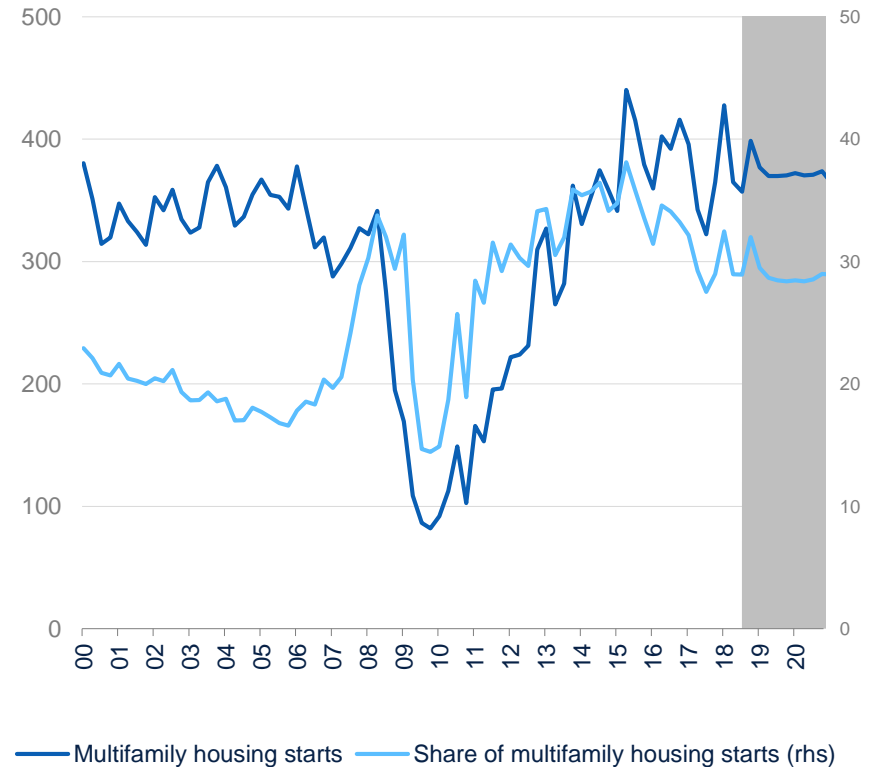
Housing starts

Million



Multifamily housing starts

Thousands and %

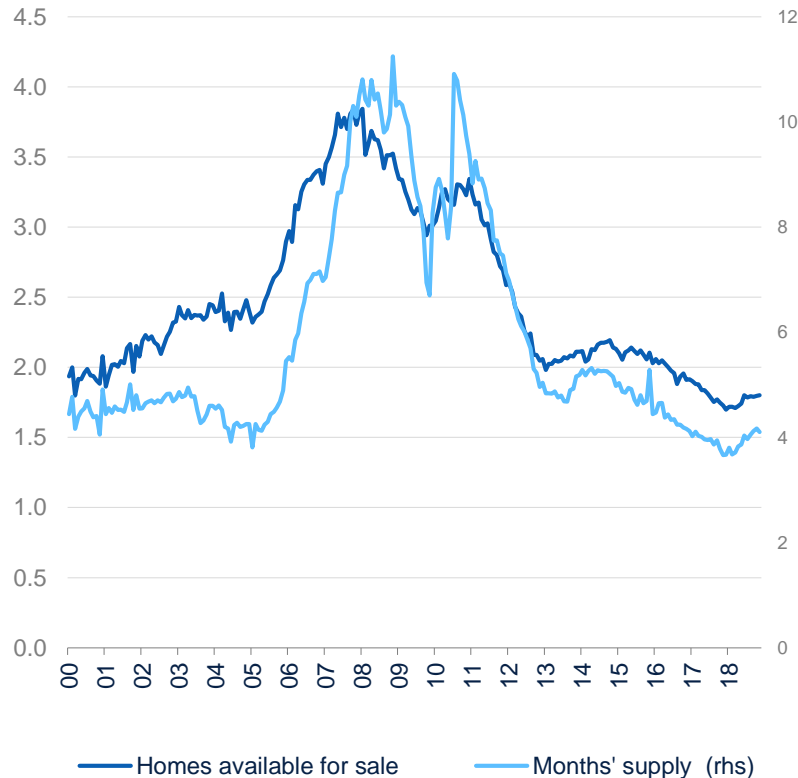


Source: BBVA Research and Census Bureau

Existing home sales will remain on a downward trend due to suppressed supply amid higher interest rates

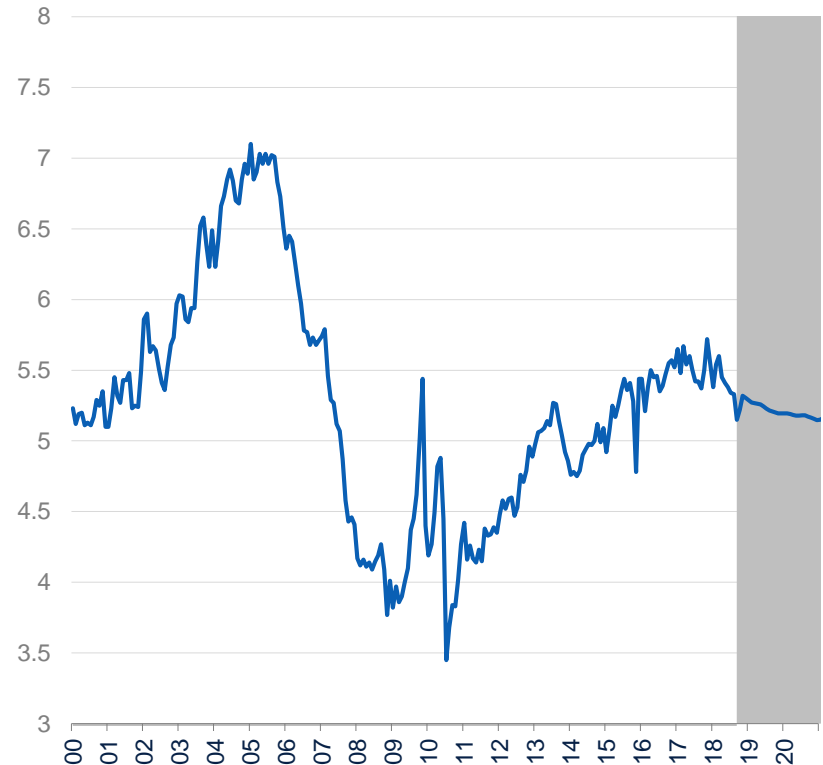
Homes available for sale and months' supply, seasonally adjusted

Million and months



Existing home sales

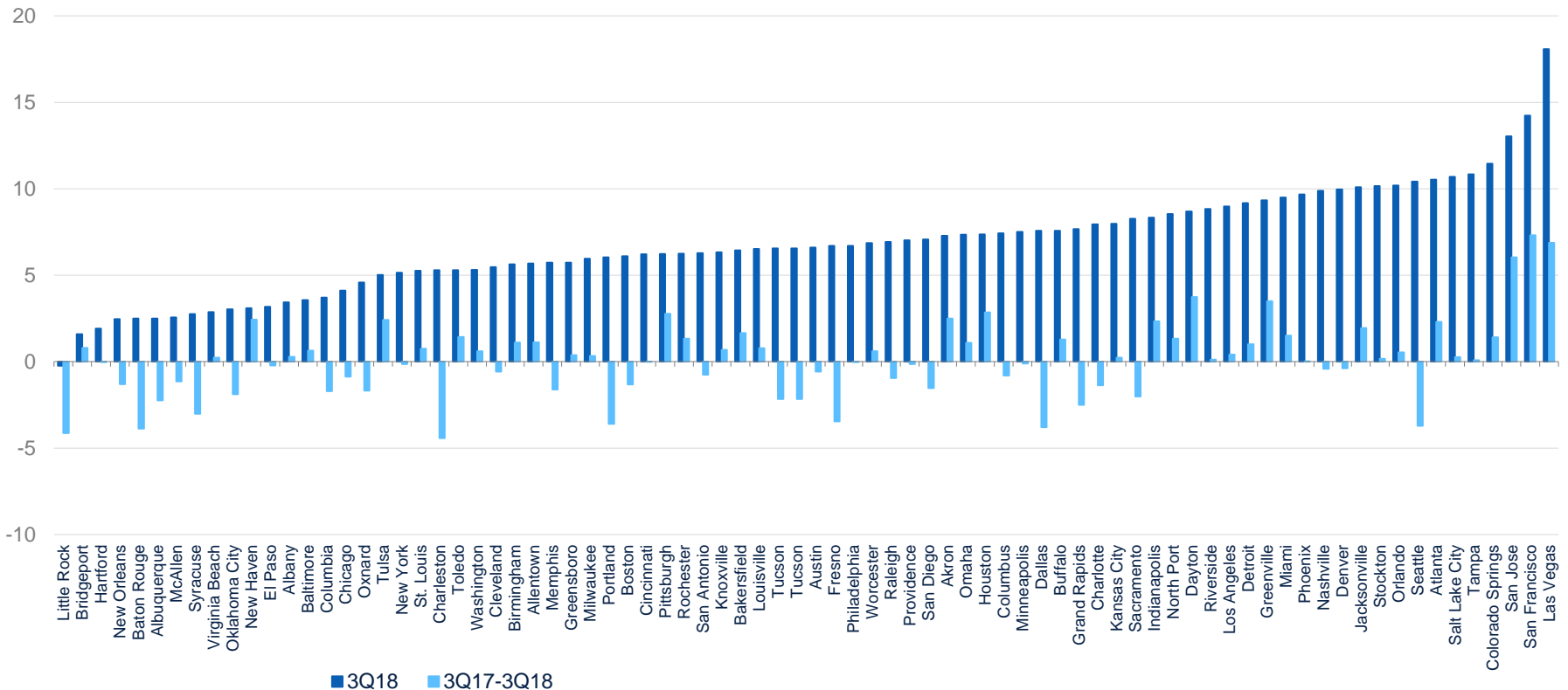
Million



Home prices are still increasing at a solid rate

Home prices, 80 largest MSAs

% YoY and percentage points change in growth YoY

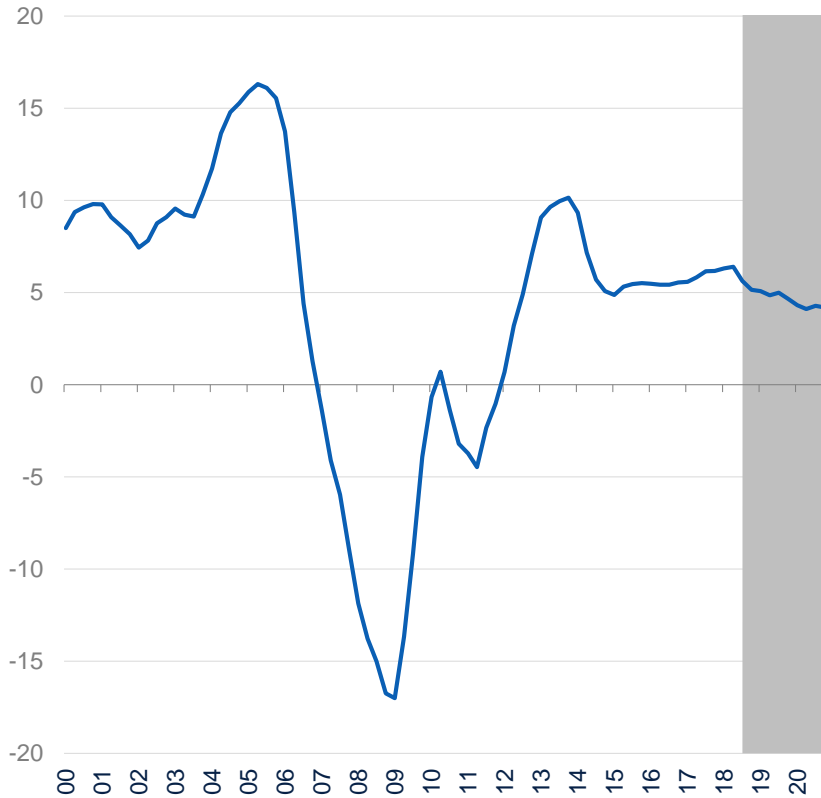


Source: BBVA Research and FHFA

But the slowdown in price appreciation will continue as a result of low affordability in many locations

CoreLogic home price index

%YoY



Source: BBVA Research and CoreLogic

BBVA Home Price Misalignment Index

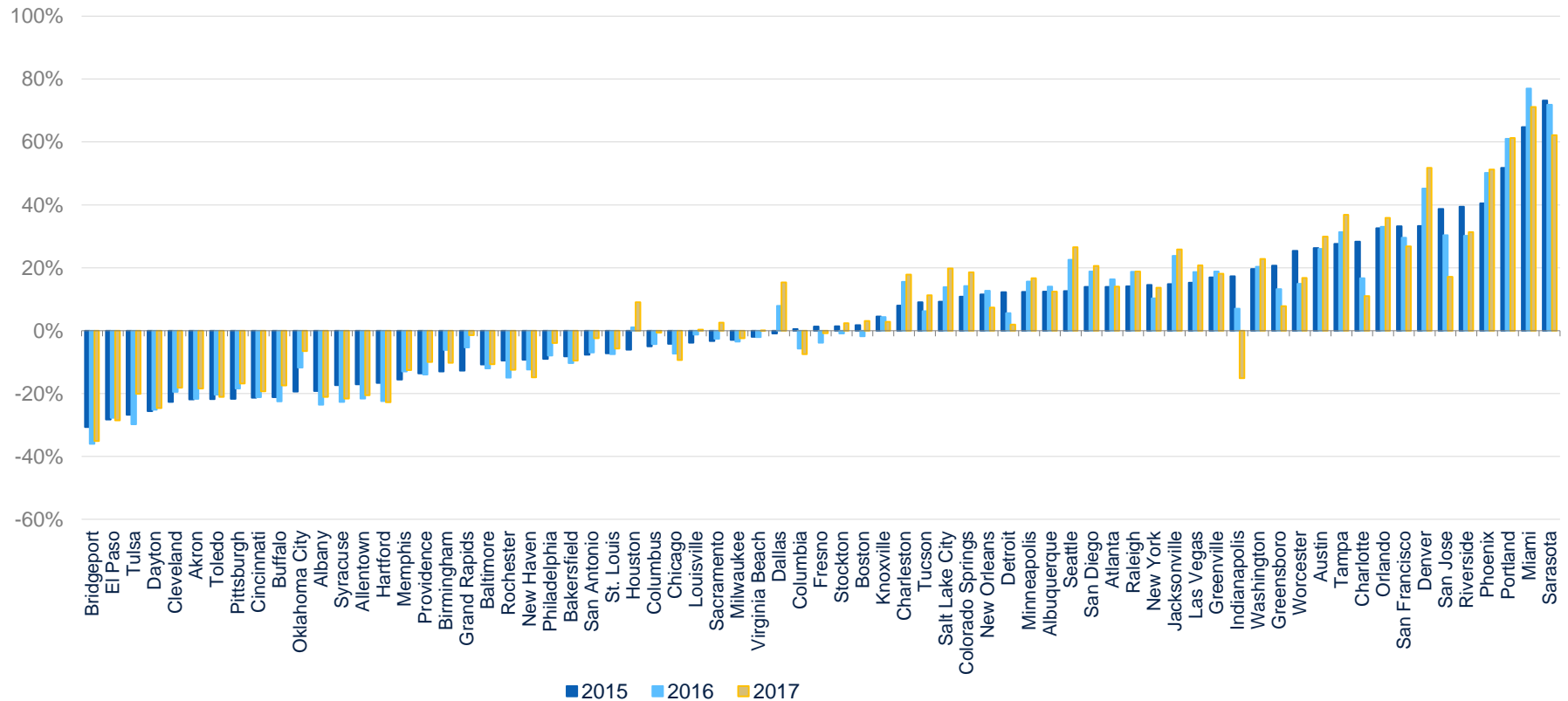
% misalignment from fundamentals



Home prices by MSA show some misalignment from their fundamentals, but the regional disparities are decreasing

BBVA Home Price Misalignment Index

% misalignment from fundamentals



Source: BBVA Research

Forecasts

	2015	2016	2017	2018 (f)	2019 (f)
Building permits (Million)	1.18	1.21	1.29	1.32	1.35
Housing starts (Million)	1.11	1.18	1.21	1.26	1.29
New home sales (Thousand)	503	560	616	627	636
Existing home sales (Million)	5.23	5.44	5.54	5.37	5.24
CoreLogic home price index (% YoY)	5.3%	5.5%	5.9%	5.9%	4.9%
Median home price (\$)	220	232	246	257	268
Affordability (Index 100=Median income qualifies for mortgage of a median priced home)	168.0	168.5	159.3	147.9	142.0
30Y mortgage rate (%)	3.9	3.6	4.0	4.5	4.9

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