



# Economics Group

Mark Vitner, Senior Economist  
[mark.vitner@wellsfargo.com](mailto:mark.vitner@wellsfargo.com) • (704) 383-5635  
 Anika R. Khan, Economist  
[anika.khan@wellsfargo.com](mailto:anika.khan@wellsfargo.com) • (704) 715-0575

## Housing Starts Begin the Year on a Positive Note

**Housing starts rose 1.5 percent in January to a 699,000-unit pace, from an upwardly revised 689,000-unit pace in December. The gain was concentrated in multifamily starts, which increased 8.5 percent.**

### Housing Starts Rise More Than Expected in January

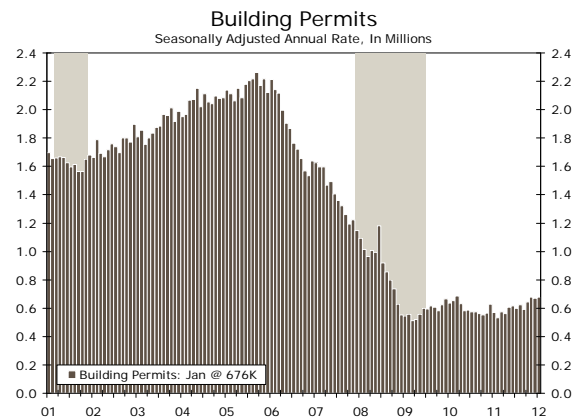
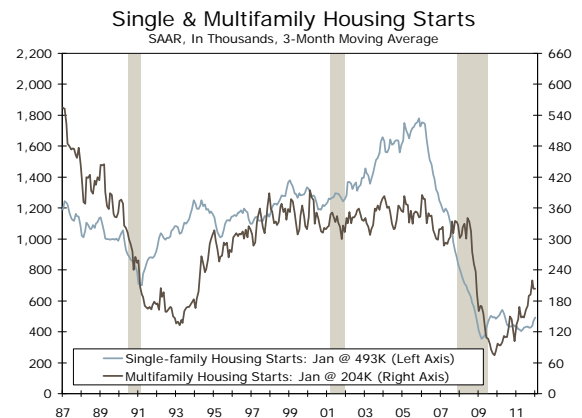
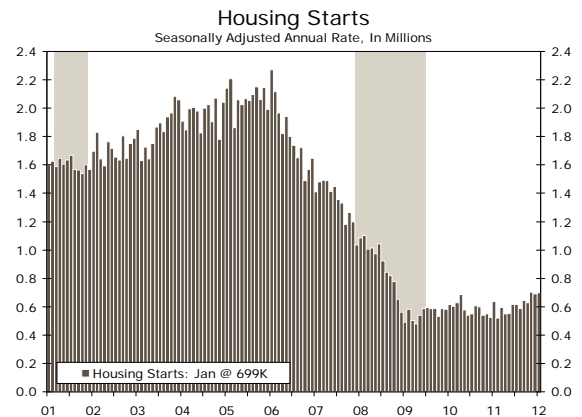
Housing starts rose 1.5 percent to a 699,000-unit pace in January, the highest level since the wake of the Lehman Brothers collapse. Another positive for today's report was the cumulative upward revision of 49,000 units to December and November starts. Much of the gain was concentrated in multifamily, which increased 8.5 percent to a 191,000-unit pace. Some of the increase in multifamily starts is likely payback from the significant retracement of 27.9 percent in December. However, while multifamily starts can be volatile on a monthly basis, the trend remains encouraging. New construction on multifamily units are up 89.5 percent on a year-ago basis. The upward momentum in multifamily construction continues to illustrate the solid recovery in the apartment market.

Apartment demand continues to benefit from the housing slump and modestly increasing household formation. This improvement has helped drive the apartment vacancy rate down to 5.2 percent in the fourth quarter from a high of 8.0 percent in early 2010. Apartment fundamentals continue to improve, with effective rent growth now positive for eight consecutive quarters and net absorption still far outpacing completions. We could begin to see a modest slowdown in the pace of new construction and rent growth for class B and C properties, however, due to the GSE REO-to-rental conversion program, which will increase the supply of rentals. That said, the labor market continues to show improvement and demographics appear favorable. Multifamily permits are up 55.0 percent on a year-ago basis and we continue to expect further gains in the coming quarters.

### Single-Family Construction Pulls Back

Single-family starts fell 1.0 percent in January, the first decline in four months. The oversupply of existing homes continues to compete with new construction and we still have a long way to go to whittle down the excess supply. The latest data suggest the inventory of existing homes is around 2.4 million units and a conservative estimate for shadow inventory is about 1.6 million units.

Builder confidence, however, is showing a glimmer of hope for new construction. According to the NAHB/Wells Fargo Housing Market Index, builder confidence rose for the fifth consecutive month. Prospective buyer traffic is also trending higher and builders' expectations for future sales also continue to improve. Another encouraging sign for single-family starts is building permits. Single-family building permits have risen in each of the past four months and are up 6.2 percent on a year-ago basis. We continue to expect further improvement in single-family starts, but the level is still well below the long-run average. As we have stated on numerous occasions, any recovery in housing will be long and slow.



## Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com
Kaylyn Swankoski	Economic Analyst	(704) 715-0526	kaylyn.swankoski@wellsfargo.com

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