ECONOMIC UPDATE
REGIONS
April 16, 2015

March Housing Starts: Multi-Family Weighs Down Total Starts

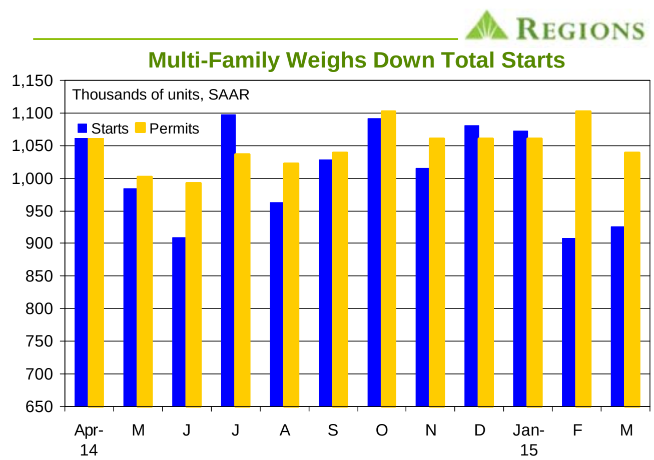
- Total housing starts rose to an annualized rate of 0.926 million units; total housing permits fell to an annualized rate of 1.039 million units.
- Single family starts rose to 618,000 units while single family permits rose to 636,000 units (annualized rates).
- Multi-family starts fell to 308,000 units and multi-family permits fell to 403,000 units (annualized rates).

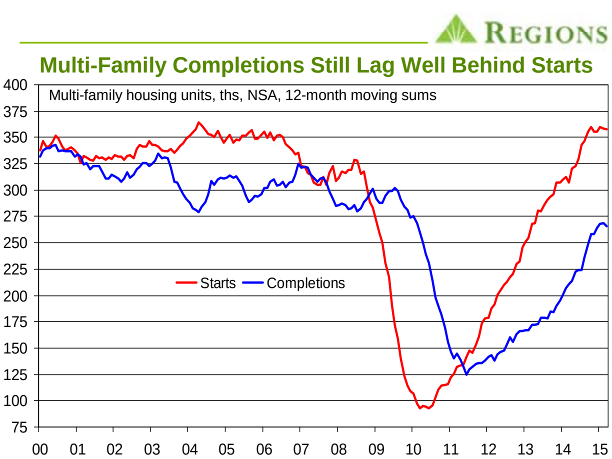
Total housing starts rose in March but yet fell well short of expectations of a significant bounce back from February's sharp decline. Total starts came in at an annual rate of 926,000 units, with single family starts rising to 618,000 units while multi-family starts fell to 308,000 units (annual rates), which marks the slowest pace of multi-family starts since September 2013. Total housing permits, which are a much better signal of underlying trends in residential construction, eased to an annual rate of 1.039 million units in March, with single family permits rising to 636,000 units and multi-family permits falling to 403,000 units (again, these are annual rates).

February's sharp slowdown in starts was attributed to harsh winter weather in the Midwest and Northeast, and indeed starts in both regions bounced back smartly in March which, along with a strong print on housing permits in February, corroborates the impact of the weather on February construction. Given these bounce backs were incorporated into forecasts for March starts, at least in our forecast, the question becomes why starts fell so far short of expectations in March. The main culprit is a sharp decline in multi-family starts in the West region which, at an annual rate of 55,000 units, fell to the lowest rate since November 2012. March actually marks the second consecutive steep decline in multi-family starts in the West though, admittedly, the pace of starts seen over the November 2014-January 2015 stretch was above what had been the trend rate. At the same time, though, multi-family permits in the West have been fairly stable, making it harder to properly interpret the dramatic swings in starts over the past two months.

Another notable data point in the March data is the significant decline in multi-family permits in the South region, which contributed to the decline seen in total multi-family permits for the month. But, this comes after a February print that was the highest annualized rate of multi-family permits in the South region since May 2007, so averaging the two months leaves multi-permits in line with what had been the run rate over the prior several months. Nonetheless, it will be interesting to see how multi-family permits fare in the April data. One thing we have pointed out on more than one occasion in these monthly write-ups is the extent to which multi-family completions are lagging starts, which can be seen in the chart below. Typically, for multi-family structures with five or more units, average time to build (i.e., from start to completion) is nine to twelve months but of late there has been a much longer lag. The concern is that with starts, or, more significantly, permits, having yet shown no signs of turning meaningfully lower, that leaves an ample pipeline of multi-family units yet to come on-line. To be sure, supply-demand imbalances are local, not global, imbalances, but to the extent such imbalances are now in the works, the implication is rent growth will slow, perhaps sharply, at some point over coming quarters.

As to the single family segment of the market, both the Midwest and Northeast regions saw starts bounce back in March as expected while there was little change in starts in the South and West regions. From October through January single family starts averaged 703,000 units (annual rate) which, as we noted, was badly out of alignment with permits, implying starts were due to slow. Casting aside the February number, the March rate of single family starts goes a long way towards realigning starts with permits. Another point we often make is with the data on new residential construction the monthly data as reported on a seasonally adjusted annualized rate basis are very jumpy and prone to seasonal adjustment issues, so our preferred means of viewing the data is to take the 12-month moving sums of the unadjusted starts and permit data. On this basis, the underlying trends remain in place despite the soft headline prints on the February and March reports. This is consistent with what has been our call on single family activity in 2015 – improvement, but at a slow and steady rate. Thus far, we see nothing to suggest the year will play out differently, leaving multi-family as the bigger question mark going forward, a question harder to answer given the noise in the adjusted headline data over the past two months.





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