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August Housing Starts: Starts Settle Into A Sustainable Pace

- > Total housing starts fell to an annualized rate of 1.126 million units; total housing permits rose to an annualized rate of 1.170 million units.
- > Single family starts fell to 739,000 units while single family permits rose to 699,000 units (annualized rates).
- > Multi-family starts fell to 387,000 units and multi-family permits rose to 471,000 units (annualized rates).

Total housing starts fell to an annualized rate of 1.126 million units in August, while at the same time the prior estimate for July was revised significantly lower. Both single family and multi-family starts were lower in August than in July. Total housing permits rose to an annualized rate of 1.170 million units, with increases in both single family and multi-family permits. On the surface the lower headline print on August housing starts following the downward revision to July may seem a step back for the housing market. But, it is important to remember the outliers here is June, the month in which multi-family permits and starts were distorted by artificially high numbers in the Northeast region, which was also true of the July starts data to a lesser degree. To us, today's report puts housing starts and permits back on what we see as a sustainable path consistent with what for some time has been the underlying theme of the housing market – steady improvement in the single family sector with much faster growth in multi-family construction.

Total housing starts were down in the Midwest, Northeast, and West regions – though only nominally in the latter – while higher in the South region. After hitting an all-time high of 180,000 units (annualized) in June, thanks to the originally scheduled expiration of New York City's 421-a tax credits, multi-family starts in the Northeast fell to an annual rate of 51,000 units in August, in line with the longer-term run rate. Multi-family permits in the Northeast have also fallen back into line with the longer-term run rate. Multi-family starts were up slightly in the South region with the West posting a larger gain. Single family starts jumped to an annual rate of 428,000 units in the South region in August, the fastest monthly starts rate since December 2007, though single family starts fell in the other three broad Census regions. On the permit side, multi-family permits rose in the Midwest, South, and West regions and fell in the Northeast, while single family permits fell slightly in the Midwest and rose in the other three broad Census regions.

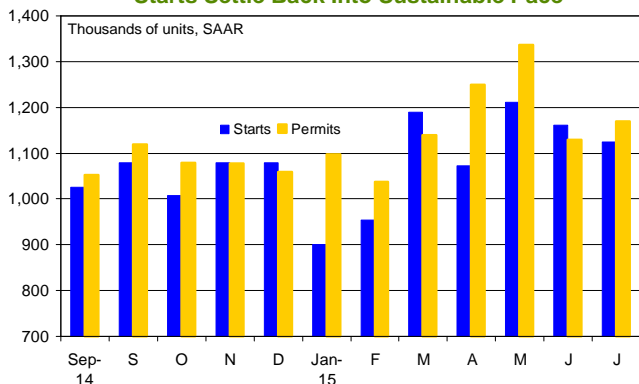
As noted above, the August data are consistent with the longer running

trends. For instance, in the multi-family segment starts continue to outpace completions to a greater extent than has typically been the case. As of August, in structures with five or more units there were 510,000 multi-family units under construction, a number last seen in 1974. We continue to harbor concerns that what today remains robust growth in market rents could be fostering an unduly optimistic outlook for the multi-family segment – at some point the rate of completions will pick up, perhaps faster than is now being anticipated, and if this is the case rent growth figures to slow, perhaps sharply. While there are those who scoff at us even bringing this up as a possibility, we nonetheless think it at least worth considering. To be sure, as we always note, while the monthly data are national aggregates, supply-demand imbalances are local, not global, occurrences, pointing to the importance of market-by-market analysis of underlying supply-demand trends.

The chart below shows single family starts on a seasonally adjusted annual rate basis (blue bars) as well as the 12-month moving sum of the not seasonally adjusted data (red line). As we consistently note, while the data are reported on the former basis we prefer the latter as the more relevant view of the underlying trend. Over the past 12 months, there have been 696,400 single family units started, the highest 12-month total since September 2008 – when starts were beating a hasty retreat from an unsustainable peak. By the same token, over the past 12 months there have been 670,100 single family permits issued, the highest 12-month total since July 2008. Though at a pace that perhaps satisfies no one, the single family segment of the housing market continues to post steady improvement. We see more of the same over coming quarters, with continued job and income growth and what, despite the FOMC beginning the process of normalizing the Fed funds rate, will remain favorable mortgage interest rates fueling steady growth in the demand for single family homes. Our forecasts for single family permits, starts, and sales have for some time been easily below the consensus, but we have yet to see any reason to change our view and, at least to date, our call is more in line with the data than has been the consensus outlook.



Starts Settle Back Into Sustainable Pace



Slow And Steady Still The Single Family Story

