ECONOMIC UPDATE

REGIONS

October 20, 2015

September Housing Starts: Multi-Family Drives Swings In Headline Numbers

- Total housing starts rose to an annualized rate of 1.206 million units; total housing permits fell to an annualized rate of 1.103 million units.
- Single family starts edged up to 740,000 units while single family permits fell nominally to 697,000 units (annualized rates).
- Multi-family starts rose to 466,000 units and multi-family permits fell to 406,000 units (annualized rates).

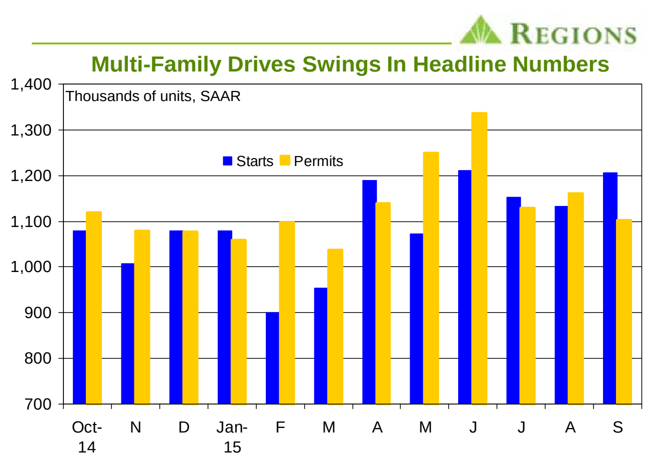
Total housing starts jumped to an annualized rate of 1.206 million units in September from an upwardly revised rate of 1.132 million units in August. In contrast, September saw a decline in the total number of housing permits issued, with an annualized rate of 1.103 units permitted compared to August's rate of 1.161 million units. These shifts in the headline numbers, however, cover what by now are familiar patterns in the single family and multi-family segments of the housing market. The single family segment saw more of the same, with both starts and permits little changed from August but consistent with the trend of steady, albeit slow, improvement, while the multi-family segment continues to exhibit a good degree of volatility. On a year-to-date basis through September, single family starts are up 11.0 percent over 2014 while multi-family starts are up 13.7 percent.

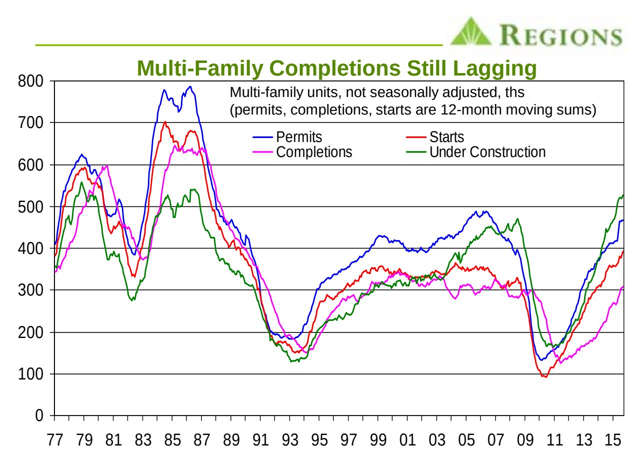
Total housing starts were down in the Midwest region but up in the Northeast, South (nominally), and West regions, while total permits were up in the Northeast and lower in the Midwest, South, and West regions. The West region saw sizeable increases in both single family and multi-family starts while in the Northeast and South regions higher multi-family starts offset lower single family starts. It is worth noting that in the South region the decline in single family starts in September comes off what in August was the fastest rate of single family starts since December 2007. On a year-to-date basis single family starts are up 13.3 percent in the South and 14.4 percent in the West from last year's pace, with the Midwest and Northeast posting much smaller gains.

On the multi-family side, on top of what is an inherently high degree of volatility in the month-to-month data, we are still seeing the effects of this summer's spike in activity in the Northeast region, which was tied to expiring tax credits in New York City. Multi-family starts jumped in the Northeast in September and on a year-to-date basis are up 41.8 percent from last year's pace. At the same time, however, multi-family permits in the region have settled back into a pace consistent with the longer-term run rate, though on a year-to-date basis are up 71.9 percent.

Aside from the noise from region-specific factors there is an underlying trend in the multi-family data that bears watching. We have for some time been noting the rate of multi-family completions is lagging well behind the rates of permit issuance and starts, more so than has typically been the case in the historical data. As seen in the chart below, there is little evidence that completions are catching up as the number of multi-family units under construction continues to climb. As of September, in structures with five or more units there were 518,000 multi-family units under construction – the fifth consecutive month in which this metric has topped the half-million mark, a streak not seen since the mid-1970s. 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.

While slow and steady may not feel all that satisfying that nonetheless remains the story in the single family segment of the housing market. Over the past 12 months, 702,500 single family units have been started, the most over any 12-month period since 2008. Sure, this remains well below the rate we would see in a fully healthy housing market, and it will still be some time before we get back to "normal" (around 1.25 million single family units). That said, slow and steady improvement is better than no improvement, and we see little to cause us to change our outlook for continued gradual improvement. We see more of the same over coming quarters, with continued job and income growth and what will remain favorable mortgage interest rates. Our single family call has for some time been below consensus but, at least to date, our call is more in line with the data than has been the consensus outlook.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com