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July Housing Starts: Less To The Headline Number Than Meets The Eye

- > Total housing starts rose to an annualized rate of 1.211 million units; total housing permits fell to an annualized rate of 1.152 million units.
- > Single family starts rose to 770,000 units while single family permits fell to 711,000 units (annualized rates).
- > Multi-family starts rose to 441,000 units and multi-family permits rose to 441,000 units (annualized rates).

Total housing starts jumped to an annual rate of 1.211 million units in July, the second fastest rate posted in the current expansion and well ahead of expectations. Single family starts were modestly higher, with an annual rate of 770,000 units, while multi-family starts leapt to an annual rate of 441,000 units. Total housing permits fell modestly, to an annual rate of 1.152 million units with single family permits falling sharply and multi-family permits posting a significant advance.

As always, our main focus is on the not seasonally adjusted data, which show total housing starts of 114,000 units in July, ahead of our forecast of 109,100 units. The mix of starts, however, was quite different than we had expected, with 41,000 multi-family units started and 73,000 single family units. The permit data are, frankly more than a bit disappointing. On a not seasonally adjusted basis, there were 96,000 total permits issued in July, well below our forecast of 111,000 units. Single family permits fell sharply, to 61,000 units, while multi-family logged a less severe decline. On a 12-month moving sum basis, our preferred way of looking at the housing market data, total starts stood at 1.155 million units in July, the highest total since May 2008. Over the past 12 months there have been 1.159 million units permitted and while this figure has actually been falling over the past few months, that simply reflects last summer's surge in permits in the Northeast washing out of the data. It is the single family segment, however, that we find concerning, as the running 12-month total for single family permits flat lining over the past few months, counter to what had for some time been slow but steady increases.

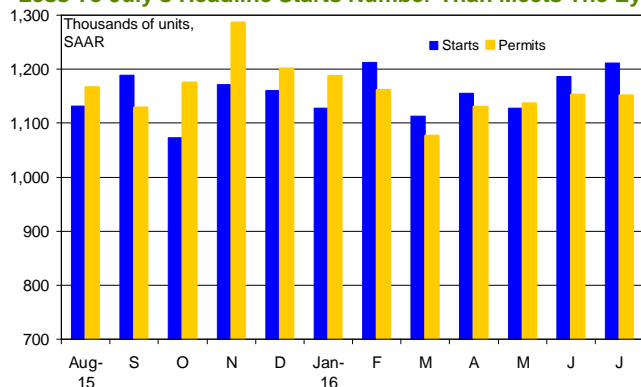
The not seasonally adjusted data show multi-family starts fell in the West region but rose in the other three Census regions. Single family starts rose in the West region but fell in the three remaining regions. Single family permits fell in all four regions in July while multi-family permits rose in the Midwest but fell in the other three regions. It is, at this point, hard to interpret the sharp decline in single family permits seen in July – were the decline concentrated in one geographic region

we could look for an more localized explanation, but the decline in all four Census regions is harder to account for. The decline is at odds with yesterday's release of the NAHB survey on builder sentiment and comes when, while off of their recent lows, mortgage interest rates remain highly favorable. We continue to believe the impediments to a faster pace of single family activity are more on the supply side – shortages of lots, labor, and material, as well as a more cumbersome and costly entitlement process – than on the demand side. Either way, the not seasonally adjusted single family permit number is the one number in the construction data to keep an eye on over coming months.

Coming in a close second, though certainly not silver medal worthy, is the number of multi-family units under construction. Sure, we've been harping on this one for a while now, but the imbalance between multi-family starts and completions continues to grow. As of July, there were 598,000 multi-family units under construction in structures with five or more units, the highest number since October 1974. To be clear, this is not us questioning what has been steady growth in demand for multi-family rental units nor us forecasting a sharp and sudden decline in that demand. It is us questioning whether there is enough demand to fill all of the units now under construction and, given that multi-family permits continue to linger at a high level, those units that will be started over coming months. We are already hearing the commercial real estate research vendors tell of rising vacancy rates on Class A units, while asking rents on new Class A units are, in many markets, easily ahead of what a monthly mortgage payment would be. Our concern is that when greater numbers of these multi-family units come on line many markets across the U.S. will suddenly be faced with far more supply than they can absorb, and the implications for rent growth are not good.

There is less than meets the eye to the headline number on the July report on residential construction, with cause for concern in both the single family and multi-family segments. To us, this makes the permit data over coming months more critical to watch.

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Less To July's Headline Starts Number Than Meets The Eye



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Multi-Family Completions Still Lagging

