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### February Residential Construction: Mix Of Construction Continues To Slowly Shift

- > Total housing starts fell to an annualized rate of 1.236 million units; total housing permits fell to an annualized rate of 1.298 million units.
- > Single family starts rose to 902,000 units while single family permits fell to 872,000 units (annualized rates).
- > Multi-family starts fell to 334,000 units and multi-family permits fell to 426,000 units (annualized rates).

Total housing starts fell to an annualized rate of 1.236 million units in February, below where the consensus (1.290 million) and we (1.296 million) anticipated. Total housing permits fell to an annual rate of 1.298 million units, shy of the consensus forecast of 1.328 million units and our forecast of 1.337 million units. As is typically the case with the data on residential construction, the highly volatile multi-family segment is the main culprit in the sizeable declines in both housing permits and housing starts. While the single family segment performed pretty much as our forecast anticipated, multi-family activity came in below our forecasts. That said, the February data are in line with what has been and will remain the main storyline in residential construction, i.e., single family activity grinding higher as multi-family activity slowly, perhaps too slowly, fades.

These patterns are better seen in the not seasonally adjusted data which, as our regular readers by now know, is always our main focus in the data on residential construction. Our forecast anticipated not seasonally adjusted starts of 89,700 units, which ended up being a bit higher than the actual count of 85,900 units. While our forecast of 61,000 single family starts was in line with the actual count of 61,100 units, the 23,200 multi-family starts were below our forecast of 28,700 units. The West region saw just 6,300 multi-family starts in February, the lowest number in more than a year and well below the number of starts implied by multi-family permit issuance in the region. There were 90,500 total housing permits issued in February on a not seasonally adjusted basis, a bit shy of our forecast of 94,900 units. As with starts, our forecast of single family permits was on the mark but there were fewer multi-family permits issued than our forecast anticipated.

As we routinely point out, we consider the running 12-month sums of permits and starts to be the best gauge of underlying trends in residential construction. As seen in our first chart below, the trend rate of total starts has flattened out over the past four months and stands at 1.209 million units as of February. Again, though, this flat total masks a

persistent, if gradual, shift in the composition of activity, with single family starts rising at a steady pace as multi-family starts drift lower. As of February, the running 12-month total of single family starts stood at 857,700 units, the highest since April 2008. The past 12 months have seen a total of 351,200 multi-family starts, the lowest total since August 2014. Over the past 12 months there have been a total of 831,000 single family housing permits and 438,300 multi-family permits.

The trends in permits and starts for both the single family and multi-family can be seen in our second chart below. The question isn't so much whether these trends will persist over coming quarters – they will – the question is whether or not the pace at which activity in the respective segments proceeds will pick up. We don't look for much acceleration in the rate of growth of single family construction, given persistent labor shortages that have plagued builders (more of a constraint on single family construction than on multi-family construction) and what in many markets remains a more cumbersome and costly entitlement process than has been the case in the past.

As for multi-family, while we're not sure whether or not permits and starts will fall at a faster rate over coming quarters, they probably should. For some time now we've pointed to a swollen supply pipeline as a very large cloud looming over the multi-family segment of the housing market. The number of multi-family units under construction has been above 600,000 for the past 20 months, a run not seen since the mid-1970s and, no, we're really sorry, but there won't be enough millennials coming in to rent each of these units at the rents being asked in order for this to not be a problem. That is a matter of when, not if, because at some point this backlog will hit the market, which is one reason we look for rent growth to slow steadily over coming quarters.

In short, supply has been and will remain the main story in the housing market. As in too little in the single family segment and too much in the multi-family segment. At some point, something has to give.

