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August Housing Starts: Slow And Steady Remains The Real Story

- > Total housing starts fell to an annualized rate of 1.142 million units; total housing permits fell to an annualized rate of 1.139 million units.
- > Single family starts fell to 722,000 units while single family permits rose to 737,000 units (annualized rates).
- > Multi-family starts fell to 420,000 units and multi-family permits fell to 402,000 units (annualized rates).

Total housing starts fell to an annual rate of 1.142 million units, below both the consensus estimate of 1.190 million units and our forecast of 1.167 million units. Both single and multi-family starts came in at a lower rate in August than in July. Total housing permits fell to an annual rate of 1.139 million units, easily below the consensus forecast of 1.164 million units but in line with our call for 1.138 million units. Both starts and permits fell in the South region while coming in flat to slightly higher in the other three broad Census regions.

As we stress each month with the data on residential construction and sales, our focus is always on the raw data, i.e., not seasonally adjusted and not annualized. We find the 12-month moving sum of the raw data to be a much more meaningful indicator of the underlying trends than is the case with the adjusted and annualized headline numbers which tend to be highly volatile from month to month. While that volatility is great for headline writers, it doesn't serve much purpose when analyzing the underlying trends. On a not seasonally adjusted basis, there were 107,000 housing permits issued and 101,000 housing starts in August, slightly below our forecasts of 110,000 units and 105,000 units, respectively. The chart below illustrates our point about the relative stability in the underlying trends.

Beneath this stability in total starts and permits there is a very subtle (far more subtle than we have expected) shift in the composition of residential construction. The data continue to show very gradual increases in single family permits and starts while multi-family permits and starts slowly recede from what will prove to be cyclical peaks. Note the recent dip in total permits simply reflects the effects of last summer's spike in multi-family permits in the Northeast (a function of expiring tax credits in New York) washing from the data.

Over the past 12 months, there have been a total of 733,000 single family housing permits issued and 758,600 single family units started nationwide. Both reflect multi-year highs, but both also reflect what has

been a grudging pace of improvement off of the extreme lows seen in the aftermath of the housing market bust. The permit data give us little reason to expect a meaningful acceleration in the pace of single family construction any time soon, as regulatory constraints and shortages of labor and buildable lots will continue to weigh on construction.

Our forecasts for single family activity have for some time been below but much closer to that mark than consensus forecasts. Where we have been wrong, however, is in the multi-family segment of the market. Over the past 12 months, there have been 433,700 multi-family permits issued while 398,700 multi-family units have been started. While we have expected a sharper deceleration in the rates of multi-family permits and starts, this has not been the case, at least not yet. One factor in our forecast has been the number of multi-family units under construction.

Sure, we've been harping on this for a while now, but the imbalance between multi-family starts and completions continues to grow. As of August, there were 594,000 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. 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.

Despite the sharp swings in the headline numbers from one month to the next, the less dramatic reality is residential construction remains fairly steady. While that comes as no surprise to us, we have been surprised at the relative stability of the mix of construction. The permit data over coming months will tell us when that will change.

