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June Housing Starts: Residential Construction Ends Q2 On A High Note

- > Total housing starts rose to an annualized rate of 1.189 million units; total housing permits rose to an annualized rate of 1.153 million units.
- > Single family starts rose to 778,000 units while single family permits rose to 738,000 units (annualized rates).
- > Multi-family starts rose to 411,000 units and multi-family permits rose to 415,000 units (annualized rates).

June residential construction activity topped expectations with both starts and permits beating consensus estimates. Total housing starts rose to an annualized rate of 1.189 million units – though prior estimates for May were revised sharply lower – while total housing permits rose to an annualized rate of 1.153 million units. Single family and multi-family counts were higher for both starts and permits. Single family starts rose in each of the four broad Census regions in June, but the multi-family segment was a mixed bag with starts falling in the Midwest and South regions while rising in the Northeast and West regions.

As we routinely note in our discussion of data on residential construction and sales, we put far more stock in the raw data (i.e., neither seasonally adjusted nor annualized) as a guide to the underlying trends than we do in the headline numbers. On a not seasonally adjusted basis, there were 112,000 housing starts in June with 114,000 permits, compared to our forecasts of 110,000 units and 106,000 units, respectively, with multi-family starts and permits surprising us to the upside. Our preferred way to assess the raw data is on a 12-month moving sum basis, and in the 12 months ending with June there were 1.150 million housing units started and permits issued for 1.166 million units. These totals are lower than in prior months, but for both starts and permits the underlying pattern is the same – continued steady increases in single family activity while multi-family activity drifts lower.

To this point, over the past 12 months there have been 760,000 single family units started, up 12.3 percent from a year ago and the highest 12-month total since July 2008. Over this same time there have been 729,000 single family permits issued, up 9.3 percent from a year ago. On the multi-family side, the 390,000 units started and the 438,000 units permitted are down from what we believe to be cyclical peaks and the 12-month total of permits is down 5.8 percent from a year ago (roughly flat allowing for last June's spike in activity in the Northeast).

Our housing market forecast has for some time called for a gradual shift

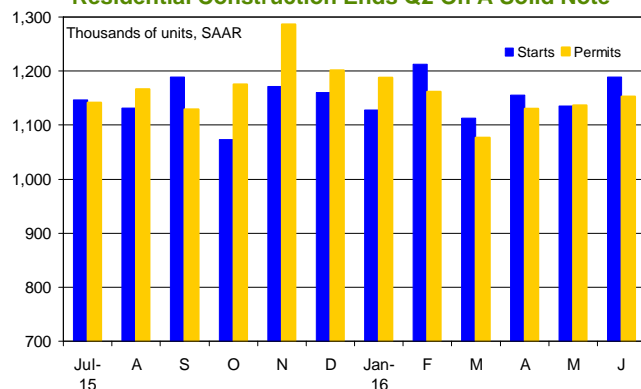
away from multi-family activity and towards single family activity, so in this sense the fading volume of multi-family permits and starts is not notable. What is concerning, at least to us anyway, is what remains a considerable backlog of multi-family units under construction. These trends are neatly summed up in the chart below, which shows the tailing off of permits and, to a lesser degree, starts, but which also shows the yawning gap between starts and completions. As such, there remains a steady increase in the number of multi-family units under construction. As of June there were 578,000 units in structures with five-or-more units under construction; one has to go all the way back to October 1974 to find a count this high (as a side note, anyone who does go back to October 1974 is strongly urged to steer clear of one of the most heinous fashion faux pas of all time – the polyester leisure suit).

Our view is this sets up a not very favorable dynamic for the multi-family segment of the market over coming quarters. In and of itself the sheer volume of units under construction raises concerns over supply gluts as more and more of these units come on line. To be sure, as we often note supply/demand imbalances are a local, not a global, concept, but our sense is that in many major metro areas across the U.S. this is a growing concern. What could make this an even greater concern, however, is the combination of heady asking rents on new multi-family construction at a time when the outlook for mortgage interest rates is pretty much the same as for interest rates in general. While "lower for longer" may not actually turn into "lower forever" it is starting to feel that way, the point being the buy-versus-rent math will tilt even more towards buying. And, lest anyone feel compelled to tell us that "the millennials don't want to own homes" do us a huge favor and just don't go down that nonsensical path.

As a result, what our forecast model has pegged as an orderly retreat in the multi-family space may turn out to be quite disorderly. At the same time, however, we continue to expect steady growth in single family construction over coming quarters.



Residential Construction Ends Q2 On A Solid Note



Multi-Family Completions Still Lagging

