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## April Residential Construction: Benchmark Revisions Don't Alter The Story Line

- Total housing starts fell to an annualized rate of 1.287 million units; total housing permits fell to an annualized rate of 1.352 million units.
- Single family starts were basically flat at 894,000 units while single family permits rose to 859,000 units (annualized rates).
- Multi-family starts fell to 393,000 units and multi-family permits fell to 493,000 units (annualized rates).

Total housing starts fell to an annualized rate of 1.287 units in April, a bit ahead of our forecast of 1.277 million units but well below the consensus forecast of 1.347 million units. Total housing permits fell to an annualized rate of 1.352 million units, easily besting our below-consensus forecast of 1.318 million units. For both housing permits and starts, the declines in April reflect lower levels of activity in the multi-family segment, with single family permits and, albeit only trivially, starts rose. Still, even with the declines reported for April, the level of activity in the multi-family segment remains, at least to us, curiously high. The April release incorporates annual benchmark revisions to the recent historical data on housing permits, starts, completions, and units under construction. Those revisions were fairly modest but despite showing more multi-family permits than had previously been reported, do not alter the basic story line of the housing market – continued gradual increases in single family construction and a stubbornly high level of multi-family construction which remains sharply at odds with a mammoth pipeline of multi-family units under construction.

As always, our interest is in the raw, or, not seasonally adjusted, data, which is where one best sees the underlying trends in the data. In April, the raw data show a total of 118,600 housing permits, a bit above our forecast of 115,700 units, and a total of 117,600 housing starts, higher than our forecast of 114,100 starts. Our miss on permits reflects multi-family permits being much higher than our forecast anticipated. There were 40,000 multi-family units permitted in April, and what stands out here is that 21,000 of these units were permitted in the South region, the most in any month since March 2006. One possible explanation would be that there has been a pick-up in condominium construction given the constraints on single family construction, but the Census data on design and purpose of construction show no appreciable increase, either in the South or nationally. It is also worth noting that the rate at which multi-family permits are being issued is much higher than the rate at which multi-family units are being started, which is the case in each of the four broad Census regions.

Still, as seen in our second chart below, while multi-family starts are well off of their cyclical peak, they remain higher than would be implied by the backlog of multi-family units under construction. As of April, the raw data show 614,000 multi-family units under construction, with 602,000 of these units in structures with five-or-more units. April marks the 17<sup>th</sup> consecutive month in which there were at least 600,000 multi-family units under construction, and one has to go back to the mid-1970s to find such a large and persistent backlog. The rate of multi-family completions is increasing – over the past 12 months there have been a total of 370,500 multi-family units completed, which is actually the highest such total since May 1990 – but at a pace nowhere quick enough to suggest the end of the under construction backlog is even remotely in sight. While increased densities have led to multi-family structures being built up rather than out, even a longer time to build for high-rise structures can't account for this backlog, and it could be that builders are intentionally slow-walking projects in hopes of better timing the market (i.e., avoiding a supply glut hitting the market). This, however, would imply a more pronounced pullback in multi-family permits and starts than has been actually seen to date.

The story in the single family segment of the market is more straight forward and, at least to us, easier to comprehend. Demand for single family homes remains robust, though at some point higher mortgage rates will take a bite out of demand, but the market remains somewhat supply constrained, particularly with a shortfall in existing homes for sale. The raw data show 84,300 single family starts in April, the highest monthly total since August 2007, but builders remain hamstrung by shortages of buildable lots, labor shortages, rising materials costs, and entitlement processes that in many markets have become more costly and more cumbersome. As such, we don't hold out much hope for a materially faster pace of single family construction any time soon.

To us, then, the main question in the housing market is whether, if not when, we will see a more pronounced decline in multi-family activity.

