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April Residential Construction: Single Family And Multi-family Segments Drift Further Apart

- › Total housing starts fell to an annualized rate of 1.465 million units; total housing permits rose to an annualized rate of 1.442 million units
- › Single family starts fell to 930,000 units and single family permits fell to 872,000 units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 535,000 units and multi-family permits rose to 570,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annual rate of 1.465 million units in April, ahead of what we (1.431 million) and the consensus (1.405 million) expected. Total housing permits rose to an annual rate of 1.442 million units, again ahead of what we and the consensus expected. That total housing starts fell in April was to have been expected after the spike seen in March, which in part reflected builders catching up after atypically harsh winter weather in both January and February thru production schedules off course. What is noteworthy in the April data, however, is that total permits and starts topping our above-consensus forecasts reflects multi-family activity being stronger than we expected while single family activity fell short of our forecasts. We can't say the latter comes as much of a surprise, however, as builders already dealing with higher than desired inventories of spec homes for sale have been dealt another blow by the jump in mortgage interest rates since the start of the conflict in the Middle East, reflecting the similar spike in yields on 10-year U.S. Treasury notes. Higher mortgage interest rates have exacerbated the affordability constraints that had already been weighing on demand for home purchases. In that sense, perhaps the surprise isn't that April single family activity fell short of our forecasts but instead that it didn't do so to an even greater extent than it did. Either way, it seems likely that the downward drift in the trend rates of single family permits and starts seen over the past several months will continue, while at the same time multi-family activity will continue to trend higher.

On a not seasonally adjusted basis there were 133,400 total housing starts in April, ahead of our forecast of 129,600 units. As noted above, our miss reflects multi-family starts, at 47,700 units, topping our forecast while the 85,700 single family units started fell short of the 89,100 units our forecast anticipated. Unadjusted single family starts were down 1.8 percent in April, which marks the eighth time in the past nine months unadjusted single family starts were down year-on-year, the lone exception being March, when starts were boosted by payback from weather-related disruptions the two months prior. As of April, the running twelve-month count of unadjusted single family starts, which we see as the most reliable gauge of the trend rate of starts, sat at

923,500 units which, as our first chart below shows, puts the trend in single family starts squarely at odds with the trend in multi-family starts. As of April, the running twelve-month count of unadjusted multi-family starts stood at 442,000 units, the highest reading in over two years. We think both trends have further to run in the months ahead.

The not seasonally adjusted data show total permit issuance of 131,200 units, ahead of our forecast of 125,400 units with the gap reflecting multi-family permit issuance topping our forecast. There were 83,600 single family units permitted in April, down 5.5 percent from a year prior, which marks the sixteenth straight month in which unadjusted single family permits were down on an over-the-year basis. While we're no experts in such things, that seems suspiciously like a trend to us. At 890,000 units, the running twelve-month count of unadjusted single family permits sits at its lowest point since October 2023. In contrast, the running twelve-month count of unadjusted multi-family permits rose to 533,600 units as of April, the highest in two years.

Completions of single family and multi-family units rose in April, but despite sequential increases in March and April, completions of single family units continue to trend lower. This can be seen in both a growing string of year-on-year declines and the ongoing decline in the running twelve-month count of unadjusted completions. In contrast, the trend rate of multi-family completions has been little changed over recent months which, coupled with the rising trend rate of multi-family starts, has halted what had been a sharp and steady decline in the backlog of multi-family units under construction. At this point, there is no reason to think that this backlog is going to make another run at the one million units mark, last seen in late-2023, but this is something to watch in the months ahead. To the extent that affordability constraints continue to weigh on home purchases, that will help sustain demand for multi-family rental units, particularly with the current policy bias against single family rental construction. We also continue to monitor backlogs of units already permitted but not yet started and continue to think this will weigh on single family permit issuance in the months ahead.

