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September Residential Construction: Single Family Construction Remains On A Roll

- › Total housing starts rose to an annualized rate of 1.415 million units; total housing permits rose to an annualized rate of 1.553 million units
- › Single family starts rose to 1.108 million units and single family permits rose to 1.119 million units (seasonally adjusted annualized rates)
- › Multi-family starts fell to 307,000 units and multi-family permits fell to 434,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annualized rate of 1.415 million units in September, between what we (1.389 million units) and the consensus (1.465 million units) expected. Total starts for August were revised lower, from 1.416 million units to 1.388 million units (annual rates), on a sharp downward revision to the initial estimate of multi-family starts. Total housing permits rose to an annualized rate of 1.553 million units, ahead of our forecast of 1.412 million units. Our below-consensus calls on both starts and permits were premised on modest increases in single family activity and sharp declines in multi-family activity. As it turns out, single family starts and permits came in higher than we expected, and while multi-family starts were weaker than our forecast, multi-family permits were well above our forecast. Whether or not that last part makes sense is another matter entirely, but the relevant takeaway here is that despite the nice run single family construction has been on over recent months, it hasn’t been enough to keep pace with demand.

On a not seasonally adjusted basis, there were 125,000 total housing starts in September, a touch higher than our forecast of 123,300 starts, but the split was much more pronounced than we anticipated. The 97,300 single family starts were well above our forecast of 89,900 starts; this is the highest monthly total since July 2007. In contrast, the 27,700 multi-family units started fell short of our forecast, and what stands out here is that the South region saw only 10,000 multi-family units started in September. While that could reflect the effects of flooding from Hurricane Sally, there are no such effects in the single family data; the 55,000 single family starts in the South region last month is that region’s highest monthly total since April 2007. On a not seasonally adjusted basis, there were 134,200 total housing units permitted in September, trouncing our forecast of 118,800 units. Both single family permits – 95,300 units – and multi-family permits – 38,900 units – outpaced our forecast.

As we noted in our weekly *Economic Preview*, September is typically a seasonally weak month for residential construction, with both permits

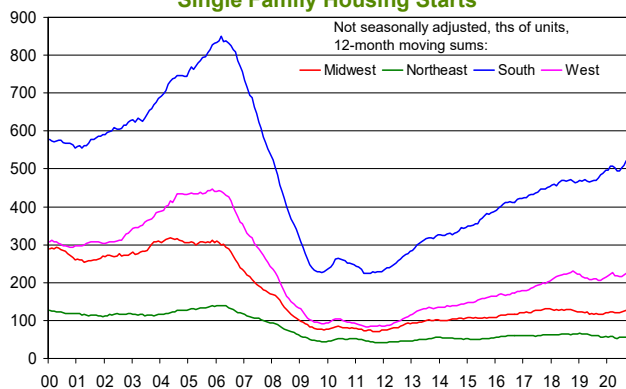
and starts tending to decline from August’s levels. While our forecast anticipated declines in permits and starts, we thought those declines would be much smaller than is typical for September. Instead, both permits and starts increased. To show how atypical this is, there was not a single year over the 2000-2019 period in which unadjusted single family permits rose in the month of September.

This simply shows how much momentum there is in new single family construction. With inventories of existing homes for sale being so low for so long, the push to the exurbs being greatly accelerated by the effects of the pandemic, including changing work arrangements, and notably low mortgage interest rates, the stars are aligned for robust growth in demand for new single family construction. As of September, the running 12-month total of not seasonally adjusted single family starts, which we see as the most reliable gauge of the underlying trend rate of construction, stood at 929,400 units, the highest such total since March 2008. Even so, builders continue to fall further behind growth in orders, with the number of single family units permitted but not yet started rising steadily over the past several months and topping the 100,000 unit mark in September. As such, builders will be busy for some time to come. Still, we do think it worth noting that, even with mortgage rates unlikely to stray very far, there are threats to demand for single family homes, with affordability constraints and a meaningful deterioration in labor market conditions the main potential threats.

The story in the multi-family segment hasn’t changed much, with few signs of progress in clearing what remains the largest backlog of under-construction units since the early 1970s. Neither multi-family permits nor starts have behaved as we would have expected in the face of this backlog, and that many of these under-construction units are in core urban areas poses an additional challenge for developers. At some point, something will have to give in the multi-family segment. What that will be and when it will be remains anyone’s guess, though occupancy rates and market rents already under pressure offer an unsettling hint.



Single Family Housing Starts



Nowhere To Hide From Multi-Family Backlog

