ECONOMIC UPDATE

REGIONS

September 21, 2021

August Residential Construction: Multi-Family Does The Heavy Lifting

- Total housing starts rose to an annualized rate of 1.615 million units; total housing permits rose to an annualized rate of 1.728 million units
- Single family starts fell to 1.076 million units and single family permits rose to 1.054 million units (seasonally adjusted annualized rates)
- Multi-family starts rose to 539,000 units and multi-family permits rose to 674,000 units (seasonally adjusted annualized rates)

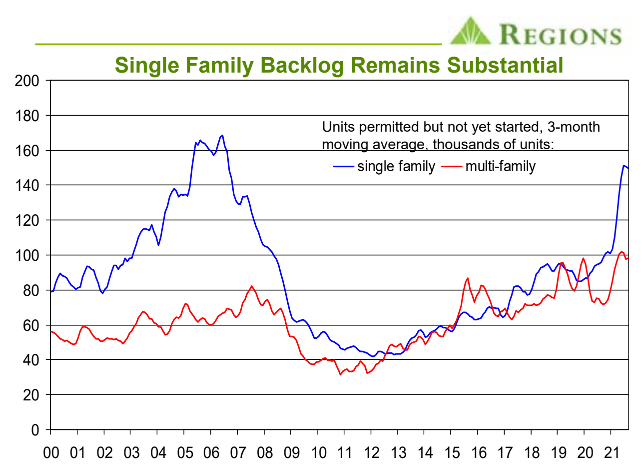
Total housing starts rose to an annualized rate of 1.615 million units in August, a bit shy of our forecast of 1.628 million units but easily ahead of the consensus forecast of 1.550 million units. Total building permits jumped to an annualized rate of 1.728 million units, topping both our forecast of 1.655 million units and the consensus forecast of 1.600 million units, though most of the increase in total housing permits is due to an outsized increase in multi-family permits. While single family completions increased in August, so too did the backlog of single family units which have been permitted but not yet started. With constraints on materials supplies showing no signs of letting up, however, the pace of single family completions will remain somewhat slow and uneven and it is unlikely that builders will make significant headway in clearing what are sizable backlogs of unfilled orders. As such, the pace at which builders lift self-imposed caps on sales will remain at best gradual, which will be reflected in a somewhat uneven pace of new single family home sales in the months ahead.

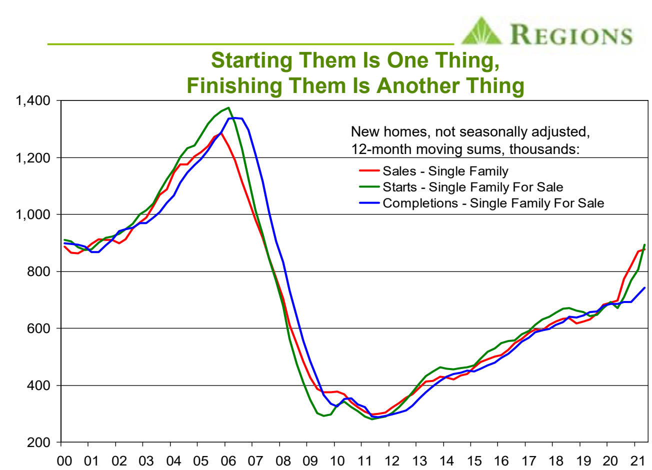
On a not seasonally adjusted basis, there were 144,000 total housing starts in August, slightly ahead of our forecast of 143,300 starts. The mix of starts, however, was more tilted toward multi-family units than our forecast anticipated, with unadjusted single family starts of 96,600 units. At 60,600 units, single family starts in the South region in August were little changed from July, when there were 60,800 single family starts, while single family permits in the South were also little changed. While this does not mean there were no impacts from Hurricane Ida in the August data, it does seem more likely there will be more visible effects in the September data given how late in the month Ida struck. Single family starts in the West region fell to 18,200 units in August, that region's lowest monthly total since January. There were 47,400 multi-family units started in August, the highest monthly total since June 1987. There were large increases in the Midwest and Northeast regions, though these seem to be simply smoothing out what were sizable declines in multi-family starts in these regions in July; multi-family starts were lower in the South and West regions in August.

On a not seasonally adjusted basis, there were 153,300 housing units permitted in August, easily outdistancing our forecast of 141,300 units. Our miss is due to multi-family permits jumping to 61,300 units, the highest monthly total since June 2015, as single family permits matched our forecast of 94,000 units. Even though single family starts fell shy of our forecast, they did top single family permits, making August the fourth consecutive month in which this was the case.

As we've discussed in recent months, that single family starts are outpacing single family permits reflects builders being more focused on paring down sizable backlogs of unfilled orders. Constraints on supplies of materials and labor, however, are making this challenging, and we're seeing this in two different places in the data. First, the number of single family units permitted but not yet started rose in August and continues to hover at levels last seen in 2006. Second, the number of single family units under construction has risen significantly while the rate of single family completions has increased only modestly. In other words, it is taking longer to complete single family units once they have been started, and many builders are citing difficulty in procuring cabinets, windows, and doors as holding up construction. The most recent industry commentary suggests no end in sight for these supply chain issues, which will sustain what remains a meaningful imbalance between supply and demand that continues to push home prices higher.

The backlog of under construction single family units is no match for that in the multi-family segment. As of August, there were 702,000 multi-family units under construction, the most since August 1974. The sizable multi-family backlog is nothing new, with the number of under construction units topping 600,000 since 2016. We've for some time noted the low ratio of starts to permits and the slow pace of completions in the multi-family space, making the jump in multi-family permits seen in August even more notable. While we've never questioned the vigor of multi-family demand, we continue to question where the demand to fill all of the units now under construction will come from.





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