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## April Residential Construction: Higher Mortgage Rates Pose Yet Another Challenge

- › Total housing starts fell to an annualized rate of 1.724 million units; total housing permits fell to an annualized rate of 1.819 million units
- › Single family starts fell to 1.100 million units and single family permits fell to 1.110 million units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 624,000 units and multi-family permits fell to 709,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annualized rate of 1.724 million units in April, between our forecast (1.651 million) and the consensus forecast (1.756 million), with total housing permits falling to an annualized rate of 1.819 million units, in line with what we and the consensus expected. The April release incorporates the annual benchmark revisions to the data on residential construction, and the revisions to the past few years worth of data are generally minor. Starts and permits in the multi-family segment were stronger than our forecast anticipated, while single family starts and permits came in below our forecasts, but the not seasonally adjusted data show single family permits declined in April while single family starts rose modestly. This is as we expected, our premise being that higher mortgage rates would be more immediately felt in the permit data while substantial order backlogs would prop up single family starts for some time. Those backlogs, however, got even larger in April, with single family starts rising modestly while single family completions fell, in part reflecting ongoing supply chain bottlenecks. Single family permits can be expected to fall further, and while single family starts will ultimately follow suit, it may be a while given the magnitude of order backlogs builders are trying to dig out from under.

The not seasonally adjusted data show a total of 154,600 housing units were started in April, ahead of our forecast of 147,300 units. At 53,700 units, multi-family starts well above our forecast thanks to notably high totals in the Northeast and South regions. In contrast, the 100,900 single family units started in April fell short of our forecast of 104,500 units. The unadjusted data show single family starts up modestly from March, but this nonetheless leaves single family starts down 9.6 percent year-on-year.

On a not seasonally adjusted basis, there were 156,300 housing units permitted in April, below our forecast of 159,700 units. As with starts, multi-family permits came in above and single family permits below our forecast. It is worth noting that over the past two months, there have been 205,700 single family permits issued and though down from

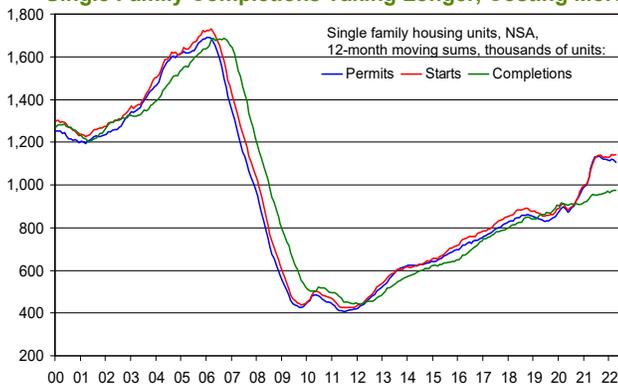
March, April's total is nonetheless far above where monthly permit issuance had been running. We've speculated that higher mortgage rates precipitated a rush of activity on the part of those prospective buyers trying to avoid even higher mortgage rates down the line but have noted that if indeed this was the case permit issuance would drop off sharply and suddenly. This leaves something to watch for in the May data, particularly with builders reporting significantly lower traffic once mortgage rates crossed 5.25 percent.

Backlogs of under construction units, both single family and multi-family, grew further in April. There were 803,100 single family units under construction in April, the most in any month since November 2006, while the 832,600 multi-family units under construction in April was the most in any month since May 1974. The combined total of 1,635,700 housing units under construction in April is the most in any month since August 1973 (the seasonally adjusted data show a record-high total, but we go strictly by the unadjusted data).

Under construction backlogs are only part of the story, the other part being the rising number of units which have been permitted but not yet started. At 157,300 units in April, the number of permitted but not yet started single family units remains at a level last seen in 2006, while the 136,000 permitted but not yet started multi-family units harkens back to the 1970s. One could make a compelling case that with housing supply having run well behind housing demand for some time now, higher mortgage rates would be pushing activity away from single family and toward multi-family development. Where we struggle with that, however, is the magnitude of the backlog of under construction multi-family units and what for the past several years has been a curiously slow pace of multi-family completions. While we've never questioned the strength of demand for multi-family units, we have questioned whether demand would be sufficiently strong to absorb the significant backlog of units under construction. At some point that question will be answered, but when that will be is its own puzzle.



### Single Family Completions Taking Longer, Costing More



### Single Family Construction: A Marathon, Not A Sprint

