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## November Residential Construction: The Bigger Story Is Single Family Permits . . .

- › Total housing starts fell to an annualized rate of 1.289 million units; total housing permits rose to an annualized rate of 1.505 million units
- › Single family starts rose to 1.011 million units and single family permits rose to 972,000 units (seasonally adjusted annualized rates)
- › Multi-family starts fell to 278,000 units and multi-family permits rose to 533,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annual rate of 1.289 million units in November which, as these things go, didn't work out all that well for us, what with our above-consensus forecast anticipating an annual rate of 1.447 million units. Our forecast of total housing permits – an annual rate of 1.552 million units – either went a bit better or a bit less badly, depending on one's perspective we suppose, as total permit issuance came in at an annual rate of 1.505 million units. As is often the case, it was the never dull and often volatile multi-family segment that did in our forecast of total housing starts; at an annual rate of 278,000 units, November's rate of multi-family starts joins this March's rate as the lowest since the depths of the pandemic in 2020. At the same time, however, there was a spike in multi-family permits, suggesting the plunge in multi-family starts was another instance of the noise in the multi-family data that we've come to know but definitely not love over the years. Single family starts and permits came in closer to our not all that good let alone great expectations, as the combination of elevated mortgage rates and what for many builders are uncomfortably high spec inventories is weighing on new single family construction. Barring a much more substantive decline in mortgage interest rates than we think is plausible, assuming the broader economy holds up, we do not expect the dynamic in the single family segment of the market to change much over coming quarters, meaning that it will likely take further declines in single family starts to arrive at a balance builders are comfortable with.

On a not seasonally adjusted basis, there were 98,000 housing units started in November, well short of our forecast of 111,700 units. Our miss, however, largely stems from unadjusted multi-family starts dropping to 22,200 units, which is 10,000 fewer than our forecast anticipated. The Midwest and South regions saw sharp declines in multi-family starts, which in the case of the former could reflect what were bouts of harsh winter weather during November, but without the state level data (not yet available) it is hard to know if the decline in the South region reflected lingering effects from the fall hurricanes. Keep in mind that the multi-family data are reported in the number of units, not the number of structures, so starts on a few large multi-family structures

being delayed would have had a more pronounced impact on multi-family starts than would be seen with single family starts. The 75,800 single family starts in November were fewer than our forecast anticipated but, interestingly enough, single family starts in the South region came in a touch ahead of our forecast. At the same time, single family starts in the West region fell to their lowest level since March 2023 with starts in the Midwest and Northeast also falling.

On a not seasonally adjusted basis, there were 108,400 housing units permitted in September, lower than our forecast of 115,400 units. Our miss here is solely due to single family permits falling to 66,400 units, down 21.3 percent from October, much larger than the typical decline seen in the month of November. Single family permits fell in each of the four broad Census regions, with the declines ranging from 19.2 percent in the South region to 28.6 percent in the Midwest region. That permits fell off so sharply could reinforce our point about further declines in single family starts being, in the absence of steep declines in mortgage interest rates, needed to help remedy what for many builders are uncomfortably high spec inventories. In contrast, there were 42,000 multi-family units permitted in November, easily ahead of the run rate seen over the past several months.

It is too soon to make any definitive judgment, but it could be that with elevated mortgage interest rates and high prices making affordability constraints more binding for more prospective buyers, developers are sensing greater opportunities in the multi-family space. Perhaps one factor behind any such assessment is that the backlog of multi-family units under construction has been pared down significantly over the past several months. As of November, there were 797,000 multi-family units under construction, the fewest in any month since February 2022. Though taking longer than we had anticipated in getting underway, the pace at which the backlog of under-construction units is being pared down has picked up. That said, the backlog remains sizable and should we a sustained increase in single family starts after what we assume was noise in the November data evens out, that could threaten the strides toward market balance seen over the past several months.

