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December Residential Construction: Multi-Family Drives Rebound In Starts

- › Total housing starts rose to an annualized rate of 1.499 million units; total housing permits fell to an annualized rate of 1.483 million units
- › Single family starts rose to 1.050 million units and single family permits rose to 992,000 units (seasonally adjusted annualized rates)
- › Multi-family starts rose to 449,000 units and multi-family permits fell to 491,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annual rate of 1.499 million units in December, just a tiny bit closer to our forecast of 1.482 million units than to the consensus forecast of 1.323 million units, while total housing permits slipped to an annual rate of 1.483 million units, closer to the consensus forecast of 1.460 million units than to our forecast of 1.523 million units. There are two points to make here. First, as we noted in this week's *Economic Preview*, the two elements that jumped out of the November were the severe drop in multi-family housing starts and what was the largest decline in single family housing permits in any month since November 2014. Our sense was that both were more noise than signal, but we were more confident in that assessment when it came to multi-family starts than when it came to single family permits – for good reason, as it turns out. The second point to make is that the seasonal factors for the month of December tend to be most generous, in keeping with the general theme of the holiday season, and that was accounted for in our forecasts of the headline starts and permits numbers. As always, however, it is the unadjusted data that tell the story; that story is becoming increasingly less constructive in the single family segment but at the same time is offering a second wind to the multi-family segment. This pattern will likely persist in the months ahead barring an unexpectedly sharp decline in mortgage interest rates.

On a not seasonally adjusted basis, there were a total of 106,000 housing units started in December, slightly ahead of our forecast of 105,300 units, though the mix of starts was more skewed toward multi-family starts than our forecast anticipated. The 71,800 single family starts were shy of our forecast of 75,900 starts and reflect the lowest monthly total since March 2023. Single family starts fell in each of the four broad Census regions. At the same time, multi-family starts rose from 22,200 units in November to 34,200 units in December and while the West region saw another sharp decline, multi-family starts rose in each of the three remaining Census regions.

The not seasonally adjusted data show a total of 112,900 housing units were permitted in December, lagging our forecast of 114,300 units. There were 68,000 single family units permitted, up only modestly from

the 66,600 single family permits issued in November, meaning the rebound our forecast anticipated failed to materialize. That said, single family permits rose in the Northeast, South, and West regions, and it was a 16.9 percent decline in the Midwest region that acted as a drag on the national total. There were 44,900 multi-family permits issued in December, a 10.9 percent increase from November which was entirely accounted for by the Northeast and South regions.

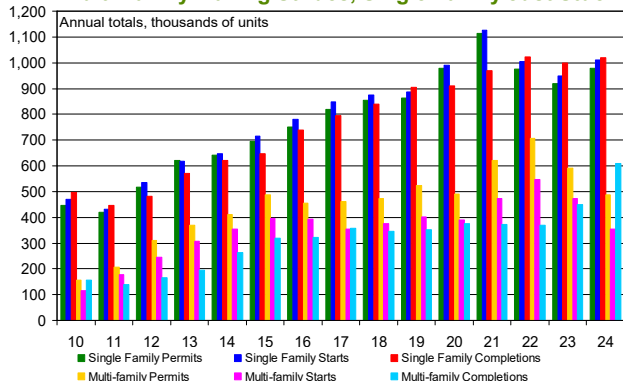
Total completions rose in December with higher counts in both the single family and multi-family segments. This underscores one of the main themes in the data in 2024, which was the sharp pick-up in the pace of multi-family completions. Along with a marked decline in multi-family starts, the faster pace of completions contributed to a meaningful reduction in the backlog of multi-family units under construction. What we'll be watching in the months ahead is whether, or to what extent, there will be further progress in paring down this backlog. It could be with the single family segment stalling out under the weight of elevated mortgage interest rates, this will be seen as an opportunity to step up the pace of multi-family development once again. Another possibility is that the smaller-but-still-large backlog of multi-family units under construction will serve as a check against a rapid pick-up in multi-family permits and starts, particularly to the extent that the faster pace at which completed multi-family units are coming on to the market weighs on rent growth. Obviously, this is a question that will be answered market-by-market over coming months, and the answer will be different in each market depending on underlying conditions.

For 2024 as a whole, the data (pending revision) show a total of 1.010 million single family starts, up from the 947,600 single family units started in 2023. That said, the pace of single family starts tailed off over the final months of 2024, and a similar loss of momentum in single family permit issuance suggests single family starts will continue to drift lower, at least over the first several months of 2025. We and others have long pointed to a shortfall in single family construction, and to the extent single family construction slips further in the months ahead, that shortfall will only get larger.



REGIONS

Multi-Family Making Strides, Single Family Just Stuck



REGIONS

Single Family Housing Starts

