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## June Residential Construction: Multi-Family Works Its "Magic" Once Again

- Total housing starts rose to an annualized rate of 1.321 million units; total housing permits rose to an annualized rate of 1.397 million units
- Single family starts fell to 883,000 units and single family permits fell to 866,000 units (seasonally adjusted annualized rates)
- Multi-family starts rose to 438,000 units and multi-family permits rose to 531,000 units (seasonally adjusted annualized rates)

Total housing starts rose to an annual rate of 1.321 million units in June with total housing permits rising to an annual rate of 1.397 million units. In each instance, the result was modestly above the consensus forecast but unabashedly higher than our forecast. Our forecast misses mostly stem from the multi-family segment which, after a run of out-of-character stability, at least in the not seasonally adjusted data, seems to have settled back into the volatility that over the years we had come to know but definitely not love. Either way, we think the bigger story in the data is in the single family segment; as we anticipated, unadjusted single family starts and permits slipped in June, though in the former case not to the extent we anticipated. Builders of single family homes are somewhat stuck between flagging demand and elevated inventories of spec homes for sale, particularly since concessions, such as mortgage rate buydowns and price reductions, seem to be yielding smaller and smaller returns. We think this leaves considerable room for further downward adjustments in permits and starts in the months ahead.

On a not seasonally adjusted basis there were 123,200 total housing starts in June, topping our forecast of 114,000 starts with both single family and multi-family starts topping our forecasts. Our entire miss on multi-family starts stems from the Northeast region, where unadjusted starts rose from 3,300 units in May to 10,300 units in June, with nothing in the permit data to presage such a spike. This is the highest monthly total for multi-family starts in the Northeast region since August 2022. The 84,400 single family units started in June topped our forecast of 80,100 units and reflects a 1.5 percent decline from May. As of June, the running twelve-month total of not seasonally adjusted single family starts, which we think to be the most reliable gauge of the underlying trend rate of starts, stood at 976,900 units, which is the lowest such total since January 2024. If we are correct in expecting further pullbacks in single family activity, the trend rate of starts will push even lower.

The not seasonally adjusted data show total housing permits of 129,100 units, easily ahead of our forecast of 119,800 units. While the 80,100 single family permits are basically in line with our forecast of 79,800 units, there were 49,000 multi-family units permitted, quite a bit above

our forecast of 40,000 units. Most of our miss, however, stems from the South region, where multi-family permits jumped from 16,400 units in May to 23,700 units in June, the highest monthly total since August 2023. Though historically multi-family permits have tended to run well above multi-family starts, in part reflecting long-standing reporting issues, the gap between the two has been notably large for some time now, meaning that even more multi-family permits are not progressing to starts. Single family permits rose modestly in the Northeast region but fell in the three remaining Census regions. We can make the same point here that we made for the multi-family segment, which is that there is a wide, and growing, gap between single family permits and starts (not seasonally adjusted). As of June, there were 151,100 single family units which had been permitted but not yet started, marking the third straight month in which this backlog topped 150,000 units. Even prior to this, we had been pointing to what we saw as an elevated backlog of single family units awaiting starts, but that backlog has gotten larger, not smaller. While we've pointed to this backlog as one reason to expect further pullbacks in single family permit issuance, we must acknowledge that, at least thus far, this gap has not had nearly the impact on permit issuance as we've expected would be the case.

Completions fell sharply in June, down in both the single family and multi-family segments. With only a modest decline in single family starts, the drop in single family completions means that that backlog of single family units under construction rose in June. Single family completions were down in three of the four broad Census regions in June, with a particularly large decline in the South region, and up slightly in the Northeast region. The backlog of under construction units in the multi-family space was little changed in June.

While we won't make too much out of the surge in multi-family permits in June, we continue to hold that there is further downside room for single family permits and starts. Affordability constraints are unlikely to relax to any meaningful degree in the near term, meaning builders will find it harder to clear unwanted spec inventories. If so, their sole path out is to cutback further on new single family construction.

