ECONOMIC UPDATE

REGIONS

July 17, 2020

June Residential Construction: How Durable Is The Single Family Rebound?

- Total housing starts rose to an annualized rate of 1.186 million units; total housing permits rose to an annualized rate of 1.241 million units
- Single family starts rose to 831,000 units and single family permits rose to 834,000 units (seasonally adjusted annualized rates)
- Multi-family starts rose to 355,000 units and multi-family permits fell to 407,000 units (seasonally adjusted annualized rates)

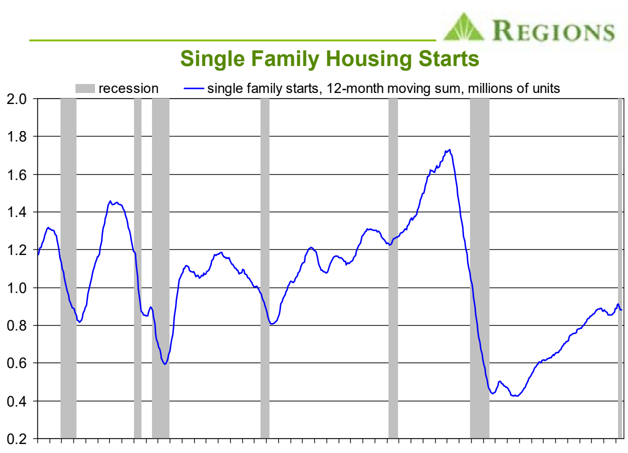
Total housing starts rose to an annualized rate of 1.186 million units in June, slightly lagging our forecast of 1.191 million units, while May's rate of starts was revised up to an annualized rate of 1.011 million units from the initial estimate of 974,000 units. Total housing permits rose to an annualized rate of 1.241 million units; while this was below our forecast of 1.288 million units, unadjusted permits actually came in ahead of our forecast, the difference simply being that the seasonal adjustment factors were less generous than we anticipated, which is nothing more than meaningless noise. The real story in the June data is how robust activity in the single family segment of the market was; the main question going forward is whether the pace of single family permits and starts set in June can be sustained. Historically low mortgage interest rates notwithstanding, there are reasons for doubt.

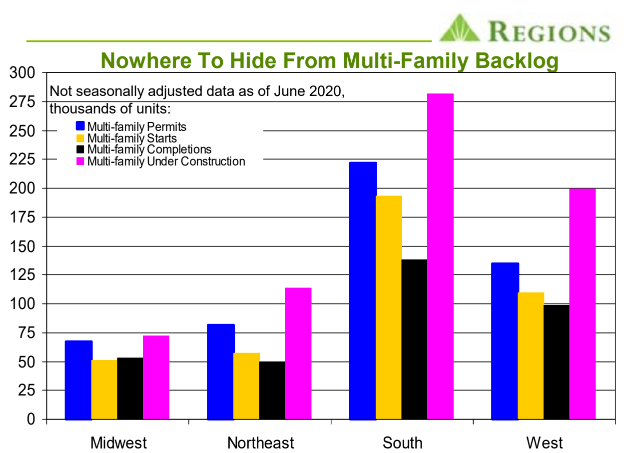
On a not seasonally adjusted basis, there were 112,200 total housing starts in June, above our forecast of 108,800 starts. While multi-family starts lagged our forecast, the 81,600 single family starts were easily above our forecast of 73,700 starts, with starts in each of the four broad Census regions stronger than we anticipated. Single family activity had been on a nice roll prior to the U.S. economy having ground to a halt due to the COVID-19 virus and the efforts to stem its spread, so to some extent the burst of activity in June reflects payback for the lull during April and much of May. As a side point, the upward revision to May housing starts mainly reflects single family starts having been revised higher – at the time of the initial May release, we expressed surprise that single family starts were not stronger than had been reported, so the revision closes some of that gap. Over the past twelve months, there have been a total of 882,000 single family housing starts; as a frame of reference, as of March the running 12-month total stood at 913,000 units, which was the highest such total since March 2008 and which can be used as a marker against which to frame the question we posed above about the staying power of single family activity.

On a not seasonally adjusted basis, there were 122,200 total housing units permitted in June, topping our forecast of 113,900 units. While multi-family permits were in line with our forecast, the 83,600 single family permits issued beat our forecast of 73,700 permits. As with single family starts, unadjusted single family permits topped our forecast in each of the four broad Census regions.

Mortgage interest rates are presently the lowest on record, which is clearly supportive of demand for home purchases, but at the same time it helps to remember why mortgage interest rates are as low as they are. Absent more meaningful improvement in labor market conditions than seen to date, let alone any backtracking due to the recent upturn in COVID-19 cases, there is only so far low mortgage rates can take the single family segment of the market. The for-sale segment of the market has been chronically undersupplied over the past several years, which has been true of both existing and new homes. One implication has been that price appreciation has been more robust than would have otherwise been the case, and low mortgage rates have acted as an important buffer in terms of affordability. Even if the stepped-up pace of new single family construction is sustained, that will alleviate but by no means eliminate inventory pressures, thus keeping upward pressure on prices.

The story is quite a bit different in the multi-family segment of the market, which continues to face the largest and most persistent backlog of units under construction in nearly 50 years. With weak labor market conditions acting as a drag on demand, any meaningful clearing of this backlog of units under construction would pressure rents. Moreover, over recent years multi-family construction has been increasingly concentrated in urban cores, and it is unclear at present whether, or to what extent, the fallout from the pandemic makes such areas less desirable for prospective renters, particularly to the extent more flexible work arrangements diminish the need to live close to a physical work location. Sure, any such changes will take time to sort through, and we're not making any sweeping predictions, only adding this to the reasons to be concerned over the multi-family construction backlog.





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