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January Residential Construction: Single Family Stabilizing, Multi-Family Not So Much . . .

- › Total housing starts fell to an annualized rate of 1.309 million units; total housing permits fell to an annualized rate of 1.339 million units
- › Single family starts fell to 841,000 units and single family permits fell to 718,000 units (seasonally adjusted annualized rates)
- › Multi-family starts fell to 468,000 units and multi-family permits rose to 621,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annualized rate of 1.309 million units in January, falling well short of our above-consensus forecast of 1.416 million units, while total housing permits fell to an annualized rate of 1.339 million units, also short of our above-consensus forecast of 1.364 million units. While we missed big on our forecast of housing starts, we're not all that bothered by it, and not only because we've built up quite an immunity to forecast misses over the years. Our forecast of not seasonally adjusted single family starts was exactly on the mark, but multi-family starts came in far below our expectations, and that isn't at all a bad thing. As our long-time readers know, we have for years been more than a bit puzzled by multi-family permits and starts marching higher and higher despite a steadily growing backlog of multi-family units under construction. Given the inherent volatility in the multi-family data, it would be foolish to read too much into any given change in any given month, but January marks the second straight month in which unadjusted multi-family starts came in well below the run rate over the prior several months and comes amid sagging market rents and a sizable backlog of under-construction units. Whether this is random noise or whether developers are starting to pull back remains to be seen. That said, a still-elevated rate of multi-family permit issuance combined with increases in the number of multi-family units permitted but not yet started and under construction, the random noise explanation for multi-family starts can't be ruled out, particularly with few signs of weather-related disruptions in the January data. So, while there are signs of a bottom forming in the single family segment, even if adjustment in the multi-family segment has begun, it still has a long way to go.

On a not seasonally adjusted basis, January saw 95,600 total housing starts. As noted above, the 59,400 single family starts matched our forecast but, at 36,200 units, multi-family starts came in well below our forecast. Unadjusted multi-family starts have averaged 36,100 units over the past two months, well below the average of 48,700 units over the prior six months, which suggests starts may indeed be adjusting to current conditions and the realization that at some point increasing numbers of under-construction units will hit the market. Again, though,

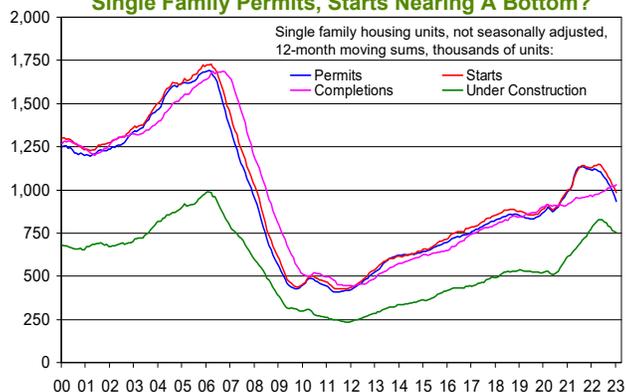
we think it too soon to draw any firm conclusions on this front. Though down slightly in January, the number of single family starts has been fairly stable over the past three months and builders had noted that orders were responding to mortgage interest rates having fallen by roughly one hundred basis points from the peak seen in October. That said, mortgage rates have jumped over the past two weeks, which will no doubt curb whatever budding interest there had been in purchases of new single family homes. As of January, the number of unadjusted single family starts was 44.7 percent below the April 2022 peak.

On a not seasonally adjusted basis, there were 100,800 housing units permitted in January, shy of our forecast of 103,700 units. As with starts, our miss is accounted for by multi-family permits falling short of our expectations. As with starts, the level of single family permits has been fairly stable over recent months, consistent with our premise of a bottom forming. By no means would that imply a rapid rebound in single family activity, but the reality is that you have to stop falling before you can get up. As we've noted, single family permits have been hit more harshly than single family starts, which simply reflects builders continuing to work down sizable backlogs of unfilled orders.

The January data bring further signs of progress on that front. The number of single family units under construction fell in January, as did the number of single family units permitted but not yet started. To be sure, both remain notably elevated but are at least moving in the right direction. The same cannot be said in the multi-family segment. January saw increases in the number of units permitted but not yet started and the number of units under construction while multi-family completions fell off sharply. This all adds up to 946,500 multi-family units under construction, the most in any month since November 1973. At some point multi-family completions have to pick up, and if that happens soon, already sagging rents in many markets will weaken further. While some have argued developers are slow-walking completions in light of market conditions, that would make more sense if we were seeing more meaningful declines in multi-family permits and starts, which we're not.



Single Family Permits, Starts Nearing A Bottom?



Will This (Finally) Be The Year?

