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September Residential Construction: Another Multi-Family Miss To The Downside

- Total housing starts fell to an annualized rate of 1.221 million units; total housing permits fell to an annualized rate of 1.400 million units
- Single family starts fell to 859,000 units and single family permits fell to 845,000 units (seasonally adjusted annualized rates)
- Multi-family starts fell to 362,000 units and multi-family permits rose to 555,000 units (seasonally adjusted annualized rates)

Total housing starts fell to an annual rate of 1.221 million units in September, falling well short of what we and the consensus expected, while total housing permits declined modestly to an annual rate of 1.400 million units, ahead of what we and the consensus expected. This is the second straight month in which total housing starts came in far below our forecast, and as was the case with the August data, our miss was due to multi-family starts being much weaker than our forecast anticipated while single family starts came in pretty much in line. Last month, we chalked up the sharp and sudden decline in multi-family starts as simply reflecting the inherent volatility in the multi-family segment, thinking little of the drop in starts as it was not accompanied by a corresponding decline in multi-family permits. To that point, our forecast of the September data anticipated payback in multi-family starts, but instead multi-family starts fell even further and, once again, the permits data easily outperformed the starts data with September seeing the highest rate of multi-family permits since February. At the same time, single family starts and permits moved pretty much as we expected, with declines in both permits and starts that we think have further to run in the months ahead. The question now is what, if anything, the behavior of multi-family starts over the past two months is telling us, given the sharp dichotomy between multi-family permits and starts.

To our point above, on a seasonally adjusted annualized basis single family starts came in at a rate of 859,000 units, matching our forecast, while single family permits came in at a rate of 845,000 units, just shy of our forecast of 846,000 units. The not seasonally adjusted data show a few hundred fewer single family starts and permits than our forecast anticipated, but seasonal adjustment was a touch more generous than our forecast anticipated. The not seasonally adjusted data show 72,600 single family starts in September, down eight percent from August. This leaves the running twelve month total of not seasonally adjusted single family starts, which we see as the best gauge of the trend rate, at 910,800 units, and while this trend rate has been fairly flat over recent months, we look for it to push lower in the months ahead. To that point, the not seasonally adjusted data show a total of 69,800 single family

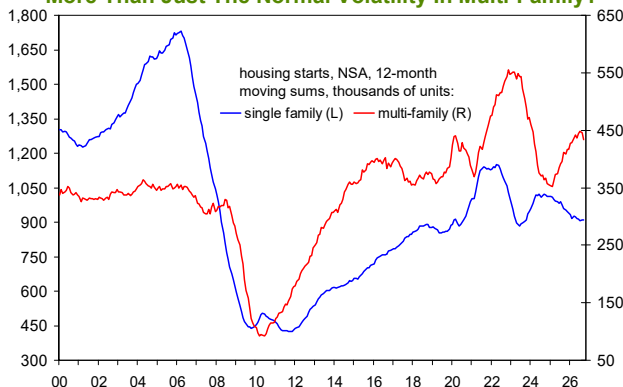
housing permits issued in September, down 5.9 percent from August and, as it turns out, down 5.9 percent year-on-year. Over the past twelve months, there have been 886,800 single family permits issued, and the trend rate of single family permit issuance has fallen off sharply over the past several months. The story here is not new; already binding affordability constraints have been made even more so by mortgage interest rates pushing to 7.50 percent, meaning builders are having an increasingly difficult time clearing already elevated inventories of spec homes for sale. On top of weaker demand, builders are also contending with labor shortages that are holding up work, and higher materials costs are adding to the margin pressures that have come with more aggressive use of incentives to help pare down spec inventories. Not seeing much relief on the mortgage interest rate front on the horizon, we look for further declines in single family permits and starts in the months ahead with little relief on materials costs or labor supply.

The not seasonally adjusted data show 31,200 multi-family starts, well below our forecast. Starts were notably weak in the Midwest and West but multi-family starts in the South were stronger than we anticipated. The sharp decline in multi-family starts over the past two months has pulled the running twelve-month total considerably lower, but at the same time the trend rate of multi-family permits has been increasing and is higher than at any point since 2024. As we've noted, there is nothing in the permits data that tipped off the sharp decline in starts seen over the past two months. Developers are facing higher financing costs and are subject to labor constraints and higher materials costs, as is the case with single family builders, but that permits have held up to the extent they have suggests developers see these conditions as easing in the not too distant future. At this point, our sense is that the drop in starts over the past two months is a bit overstated, but sharp declines in permits in the months ahead would cause us to rethink this premise.

For months, the single family story has dominated discussions of the housing market. The past two months seem like the multi-family segment reminding us not to take it for granted. Message received.



More Than Just The Normal Volatility In Multi-Family?



Builders Banking On Better Days Ahead?

