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## October Residential Construction: Single Family Sticks To Script, Multi-family Not So Much

- Total housing starts rose to an annualized rate of 1.228 million units; total housing permits fell to an annualized rate of 1.263 million units
- Single family starts fell to 865,000 units while single family permits fell to 849,000 units (annualized rates)
- Multi-family starts rose to 363,000 units and multi-family permits fell to 414,000 units (annualized rates)

Total housing starts rose to an annualized rate of 1.228 million units in October, slightly lower than our forecast of 1.236 million units, while total housing permits fell to an annualized rate of 1.263 million units, just a whisper away from our forecast of 1.266 million units. As was the case with the September data and Hurricane Florence, the October data for the South region were impacted by Hurricane Michael, though Census offers no formal commentary on this point. Data for the South (hurricanes) and West (fires) regions will be impacted over coming months as rebuilding efforts get underway. The broader point, however, is that the main themes of residential construction activity – a slow, plodding advance in single family activity and a retreat, without a great sense of urgency, in multi-family activity – seem likely to remain intact.

On a not seasonally adjusted basis, there were 107,300 total housing starts in October, slightly ahead of our forecast of 106,200 starts; the 74,600 single family starts were a bit less than our forecast (75,500) and the 32,700 multi-family starts were a bit more than our forecast (30,700). As in the September data, single family starts in the South region stand out in the October data; single family starts of 36,500 units in September 36,000 units in October are both well below the 44,000 per month average in the five months before the hurricanes struck the region, and there has been a corresponding drop in single family permits in the South region. As the South region accounts for over 50 percent of all single family permits and starts for the U.S. as a whole, any disruptions in the data for this region will in turn make it more difficult to interpret the national data over coming months as well. Something worth keeping in mind amidst the "housing is done" noise.

The not seasonally adjusted data show 112,500 housing permits were issued in October, topping our forecast of 107,500 permits, with both single family and multi-family permits bettering our forecasts – even with below-trend single family permit issuance in the South region. The unadjusted data show single family permit issuance rose in each of the four broad regions, with multi-family permit issuance slipping in the

West region and rising in the three remaining regions. What remains noteworthy in the unadjusted data is the extent to which multi-family starts continue to lag behind multi-family permit issuance. To be sure, there is an inherent gap between the two in the data, with starts perpetually lagging permits. That gap, however, has widened over the past several months – as gaps go, consider it the residential construction equivalent of *Manifest*. Or not. Either way, the main question here is whether labor shortages and/or increased difficulty securing financing are leading to widespread delays in multi-family development, or whether developers are simply not pulling the trigger on new multi-family projects due to the sizeable backlog of units under construction.

While we think labor supply and, to a lesser extent, financing issues are playing a part, we continue to point to a notably swollen supply pipeline. October marks the 28<sup>th</sup> consecutive month in which there were more than 600,000 multi-family units under construction – one has to go back to the mid-1970s to see a backlog this large for this long. As our second chart below illustrates, this backlog is spread out across the four broad Census regions, and this stubbornly large backlog is why we've been looking for a faster pace of decline in multi-family activity than we've thus far seen. As of October, the running 12-month total of multi-family permits stood at 449,300 units with the 12-month total of multi-family starts at 372,100 units, both off cycle highs but still higher than we've expected. And, because when it comes to multi-family construction one never says never, the growing backlog of units permitted but not yet started means there could be another burst of multi-family starts in the months ahead.

Between the effects of the hurricanes in the South region and the effects of the fires in the West region, the data on residential construction are likely to be noisy over coming months. Our expectation, however, is that the gradual growth in single family activity will remain intact once the data are free of these distortions. As for multi-family activity, we'll offer a more measured response – who the heck knows?

