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Economics Group

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Housing Starts Rise Modestly in September

Housing starts rose 1.9% in September, which was well-below expectations but close to our forecast. All the shortfall was in multifamily starts, which fell 16.3%. Single-family starts rose 8.5% to a 1.108-million unit pace.

Housing Starts Come in a Little Short of Expectations

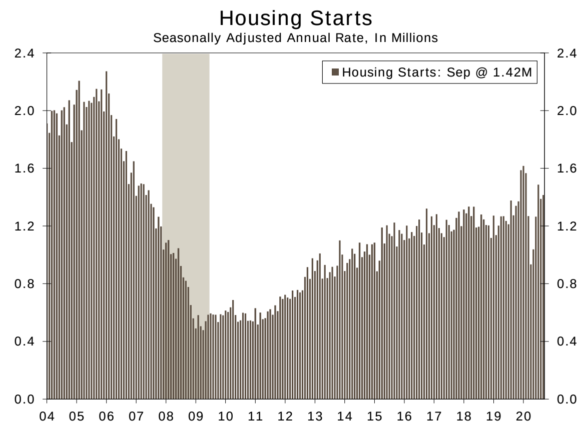
The housing sector has been an early and clear bright spots of the re-opening economy. Home sales took off immediately after the lockdowns were lifted and new single-family construction fell less and recovered sooner than any other major industry. Multifamily starts have been hit or miss on a monthly basis. Demand for apartments in large, globally-connected, dense cities has weakened considerably since the pandemic began. That part of the market had dominated apartment construction for much of the decade and is now correcting amidst an avalanche of new supply in many markets.

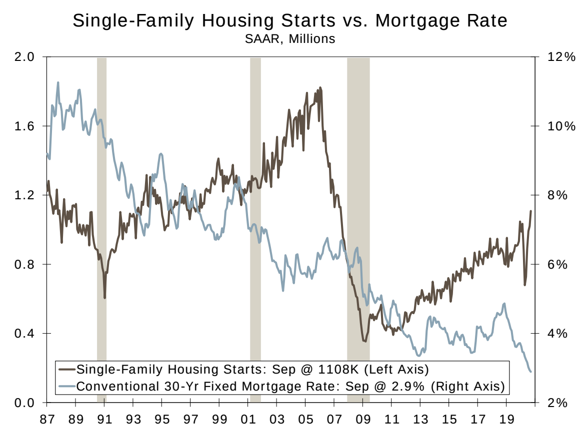
The split in the housing market was clearly evident in September, when overall housing starts rose 1.9% to a 1.415-million unit pace following a 6.7% drop the prior month. The market consensus had called for a rise closer to 1.47-million units. All of the shortfall was in multifamily units, which tumbled 16.3% in September following a 25.9% plunge the prior month. Multifamily starts are volatile on a monthly basis and even the latest back-to-back declines are not unusual for this series. Prior to the last two monthly drops, multifamily starts surged 21.6% in May, 20.6% in June and 32.4% in July. Our sense is that apartment construction is pivoting toward the suburbs, where renters have a little more living space and outdoor common areas. The overall level of starts will hold up fairly well for the year as whole.

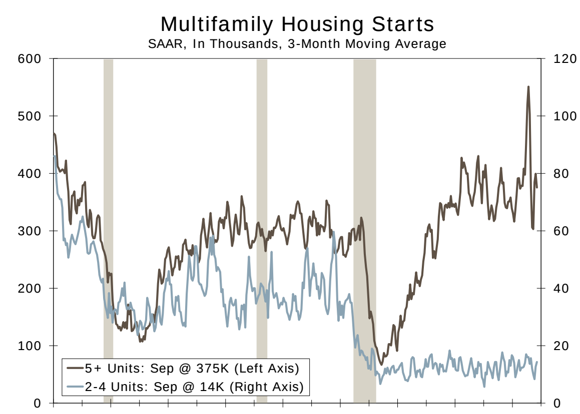
Single-family homebuilding is steadily gaining momentum. Starts rose for the fifth month in a row in September, climbing 8.5% to a 1.108-million unit pace. As has been the case in recent months, the South accounted for the bulk of the rise in single-family starts. Single-family starts rose 17.7% in the South during September. Starts rose 20.7% in the Northeast but that region accounts for only a tiny share of single-family starts. Last month's 20.7% rise brought single-family starts in the Northeast back to a 70,000-unit pace. Single-family starts fell 16.4% in the Midwest, which also means reverting back to the level that had prevailed in previous months. Single-family starts in the West rose 1.6% to a 260,000-unit pace.

There has been a great deal written about the spike in lumber prices and its impact on new construction. Framing lumber prices are currently about 65% above their year-ago level and are adding considerable expense to the price of a home. Buildable lots and labor are also in short supply and are the greatest constraint to a more dramatic rise in homebuilding. Affordability also remains a major challenge. The search for affordable housing has set off an affordability migration from the West Coast to the Mountain States and Southwest and from the Northeast to the South. Suburban and exurban areas outside of major metro areas are also seeing an influx of new residents.

One area of housing that has not received much attention is construction of duplexes and quadplexes. Starts of projects with 2-4 units averaged 38,900 a year from 1997 to 2007 but have averaged just 12,400 units since 2010. The category appears to be a victim of more restrictive zoning rules and is one of the missing pieces of the affordable housing puzzle.







Source: U.S. Department of Commerce, Mortgage Bankers Association and Wells Fargo Securities

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