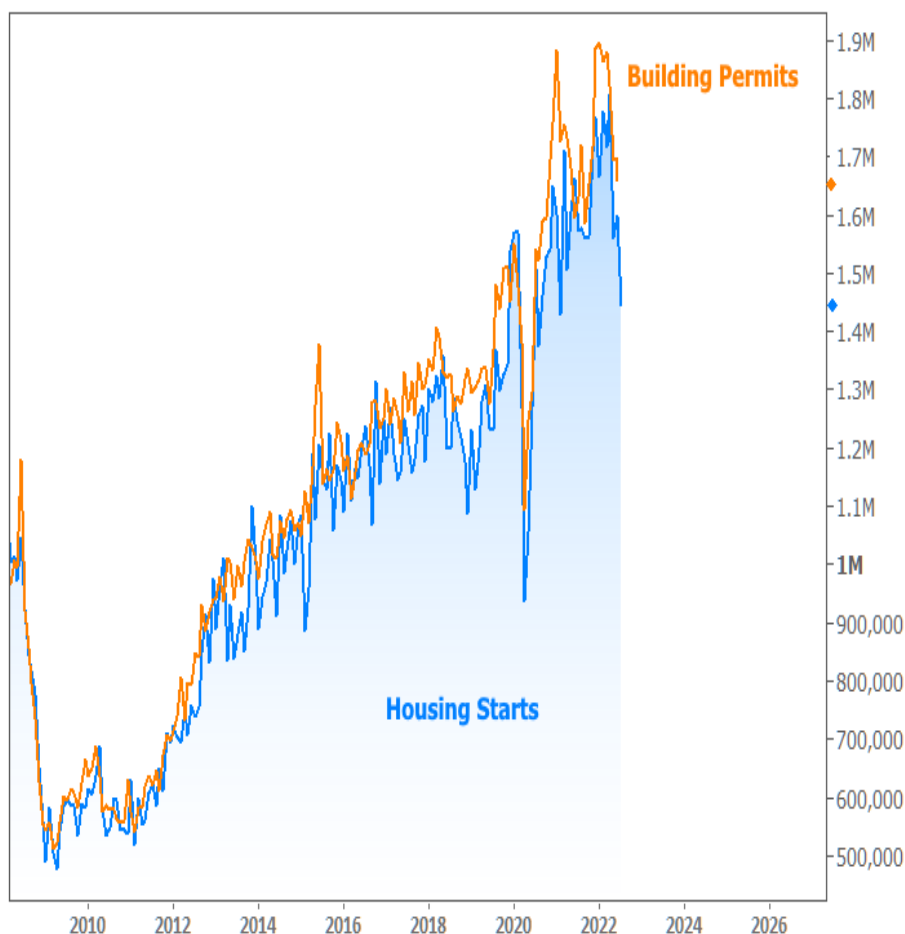




Housing Recession or Big Shift to Multi-Family? Maybe Some of Both...

Residential construction numbers fell again in July, giving credence to Monday's National Association of Home Builders' (NAHB's) report detailing a near ten-year low in builder enthusiasm about the new home market. The U.S. Census Bureau and Department of Housing and Urban Development said both the rate of permitting and construction starts fell from their June levels.

Permits for residential construction were down 1.3 percent compared to the previous month at a seasonally adjusted annual rate of 1.674 million units. The June estimate was upgraded from 1.685 million to 1.696 million units. Permitted was 1.1 percent higher than in July 2021.



Single family permits came in below the 1-million-unit rate for the second straight month at 928,000 annual units, 4.3 percent lower than in June. The permitting rate for those units is now 11.7 percent lower year-over-year. Multifamily permits were 2.5 percent higher than the prior month at 693,000, which is a 26.2 percent annual increase.

The decline in permits on an unadjusted basis was more dramatic. They dropped from 157,200 in June to 133,400 in July. Single family starts fell to 75,200 from 91,500.



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Year-to-date (YTD), permits have totaled 1.033 million, up 1.5 percent from the same period last year. However, those for single-family construction, at 642,900, are lagging 2021 by 5.9 percent. The 359,000 permits for multifamily units represent 18.4 percent year-over-year growth.

Housing starts slowed to a rate of 1.446 million in July, down 9.6 percent from June's upwardly revised rate of 1.599 million and an 8.1 percent decline from the prior July. Single family starts fell 10.1 percent in a month and 18.5 percent on an annual basis. Multifamily starts completed the sweep, falling 10.0 percent although they were 17.4 percent higher year-over-year.

For the month, there were 130,600 housing starts, 84,900 of them for single-family houses. The unadjusted numbers for June were 147,400 and 97,400, respectively.

There have been 972,600 residential units started thus far this year, a 3.8 percent increase from 2021. The 655,500 single family starts YTD are 2.1 percent fewer than last year's, while an 18.0 percent increase brought the multifamily total to 306,900.

Analysts for both *Trading Economics* and *Econoday* had expected permits for July to be at 1.65 million. The consensus for construction starts was 1.54 million in both cases.

NAHB chief economist Robert Dietz declared that "a housing recession is underway," citing an eight-month slide in builder sentiment and a five-month decline in single-family construction. The latter is, he said, "another indicator that the housing slowdown is showing no signs of abating, as rising construction costs, elevated mortgage rates and supply chain disruptions continue to act as a drag on the market."

There were 124,800 residential units completed during the month, up from 123,800 in June. Single-family completions declined to 83,400 from 88,500.

The number of completed housing units YTD edged up by 0.6 percent over last year to 775,300 and single-family completions increased by 4.6 percent to 572,300. YTD completions of units in buildings with five or more is down 9.7 percent from last year to 198,100.

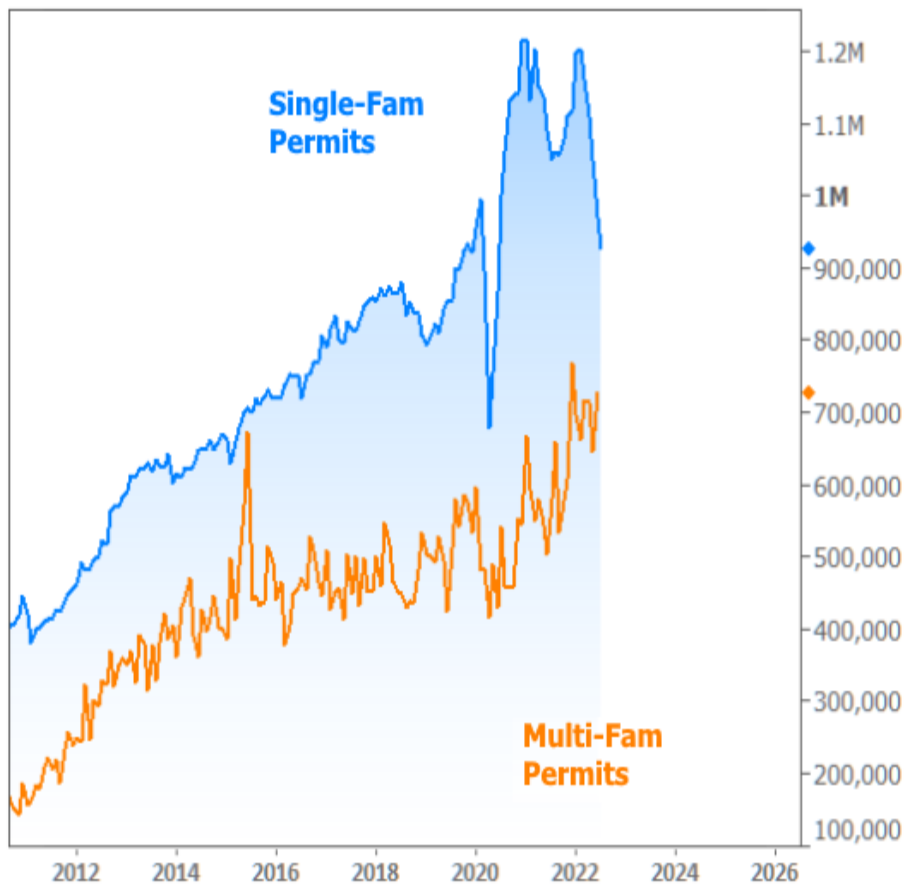
At the end of July there were 1.678 million residential units under construction and a backlog of 296,000 permits. The relative numbers for single-family units were 816,000 and 146,000.

Permitting was up by 9.3 percent in the Northeast and 8.1 percent in the Midwest compared to July and increased 21.3 and 2.4 percent on an annual basis. The rate declined in the South and West by 0.1 percent and 12.0 percent respectively and permitting was lower in the West by 13.2 percent compared to July 2021. The South posted an annual increase of 4.8 percent.

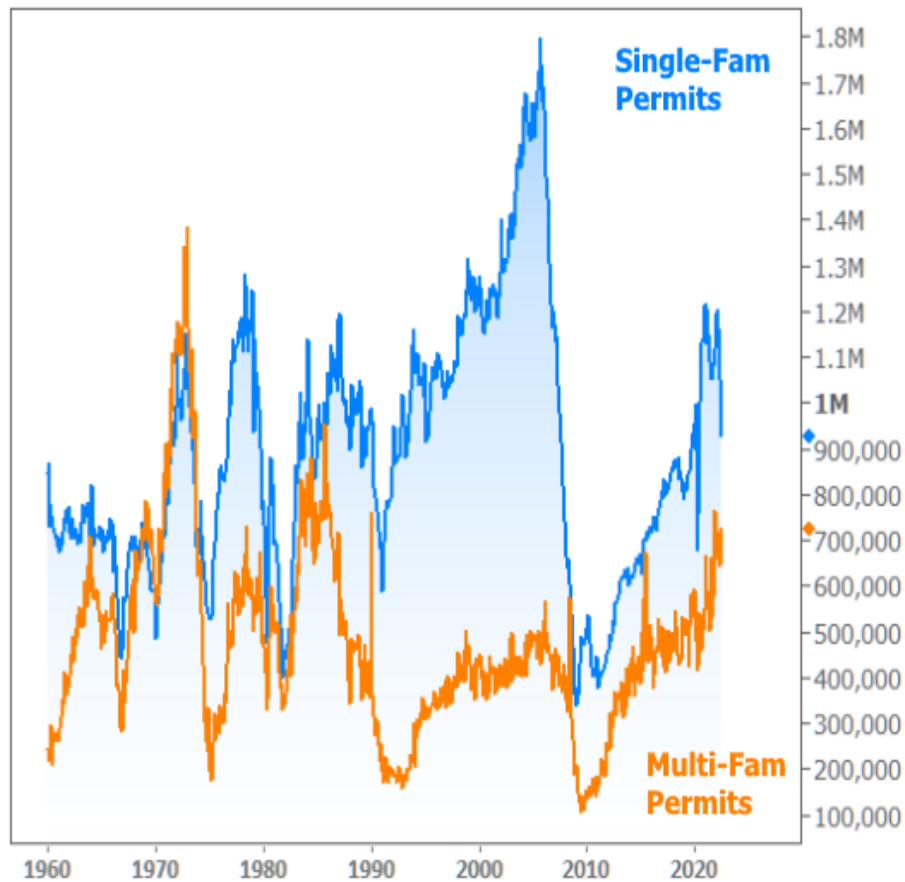
Housing starts soared by 65.5 percent and 228.6 percent from the two earlier periods in the Northeast but fell in the other three regions. The monthly decline was 33.8 percent in the Midwest, 18.7 percent in the South, and 2.7 percent in the West. Annual losses were 23.6 percent, 21.5 percent, and 11.8 percent, respectively.

MBSLive.net CEO Matt Graham shared some additional thoughts on the dichotomy between single and multi-family construction numbers:

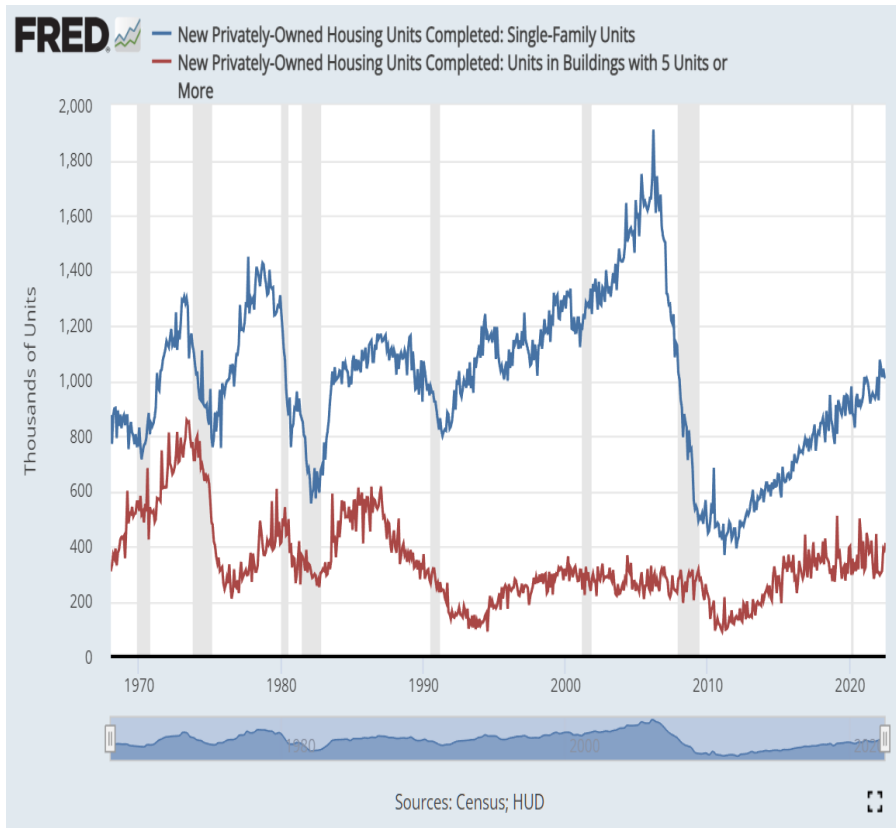
In the category of "not good, not bad, just interesting," is the persistently split personality between single and multi-family construction. There are a handful of staggering statistics, but one of the most telling is the 26.2% year-over-year increase in multi-family permits versus the 11.7% decline in single-family permits (a vast majority--more than 90%--of multi fam permits are for 5 or more units). Single fam permits are still higher, but the gap is getting very narrow.



Looking back, we see that it's not too abnormal for single and multi-fam permits to be fairly close to one another. The 1990s and 2000s were the big exceptions.



If there's so much multi-fam housing, why is the rent too damn high? Keep in mind that the chart above shows permits. If we use the always awesome FRED site to chart 5-unit completions vs single-fam, we see both bouncing back after the financial crisis, but whereas single fam completions have improved at a relatively steady pace, multi-fam peaked in late 2016 and have been broadly sideways ever since.



In other words, there's a backlog of multi-fam units waiting to hit the market--a factor that's surely contributed to rent inflation.