

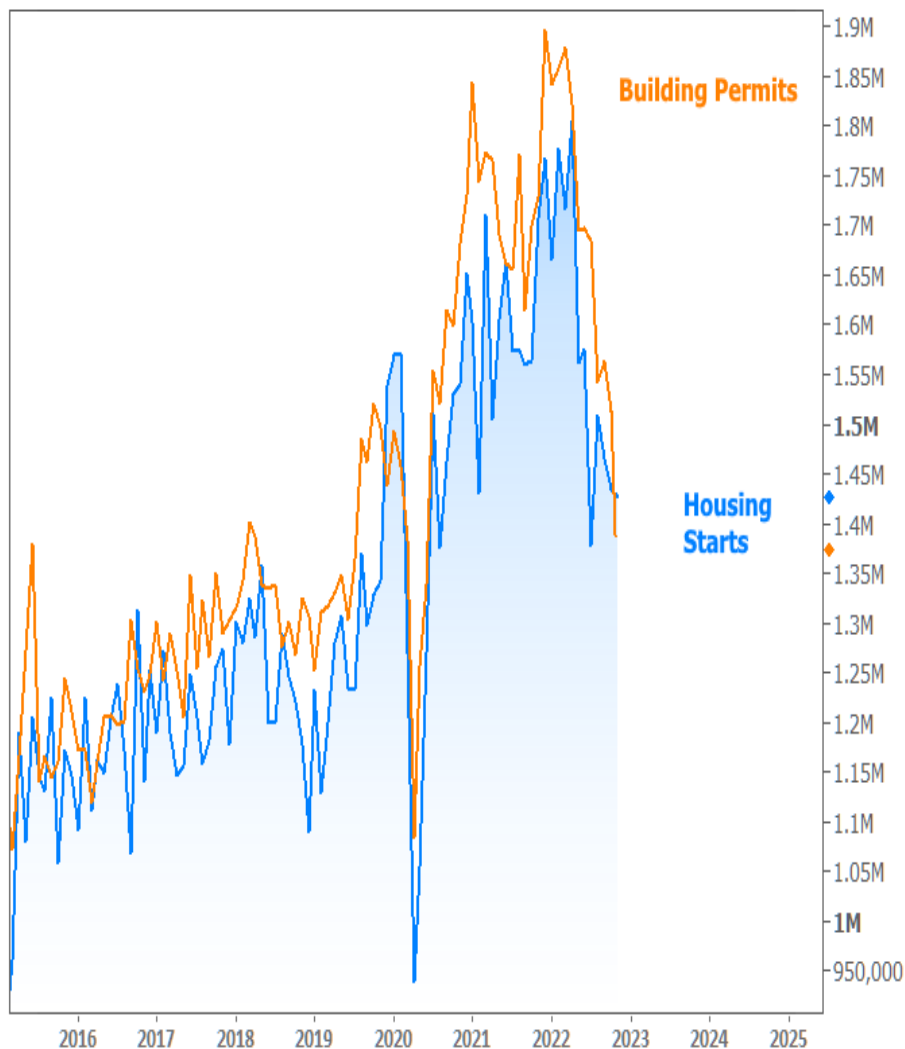


Building Permits Fall Well Below Housing Starts For First Time in Over 2 Years

Housing Starts, the jargon word used to refer to the inception of new residential construction, have a fairly logical relationship with building permits. The latter tends to run a bit higher on average since the Great Financial Crisis, but there has been plenty of overlap.

Since the start of the pandemic, however, building permits opened up a clear lead on housing starts and never looked back--at least not until today's data came out. Granted, there was one month in the middle of 2021 where starts eclipsed permits by a few thousand units, but that was nothing compared to today's gap of 85k.

Long story short, the orange line finally fell well below the blue line:



Does this tell us anything we didn't already know about the housing market? Not really. Post-covid labor/material challenges made it impossible for construction to start as quickly as builders pulled permits. The higher permitting levels spoke to the incredibly tight housing market. With things shifting abruptly in 2022, it's a surprise that we didn't see the more forward-looking permit numbers fall sooner.



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It was an especially big drop for multifamily permits (5 or more units) which dropped 18% month-over month while single unit permits only declined 7.1%. Incidentally, the 2-4 unit sector has been the most stable (UP 2.0% month over month and 8.3% year-over-year), but also only a tenth of the size of the 5+ unit market.

While multifamily permits may be down in year over year terms as well, builders continue to clear the backlog based on housing starts. For instance, Y/Y permits for 5+ units are down just over 10%, but Y/Y housing starts for 5+ units are UP 24.5%. Contrast that to single family housing starts which are down 32.1%.

The takeaway from these discrepancies continues to be that builders increasingly focused on multifamily construction as affordability eroded. That was enough to buoy construction numbers for a while, but that time is done and the numbers are falling in line with the indications from builder sentiment.