



# Economics Group

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## Housing Starts Rise Solidly in June

**Housing starts rose 17.3% in June and starts were revised significantly higher for May as well. Permits rose only modestly, however, as a 13.4% drop in multifamily permits offset an 11.8% rise in single-family permits.**

### Single-Family Homebuilding Continues to Ramp Up

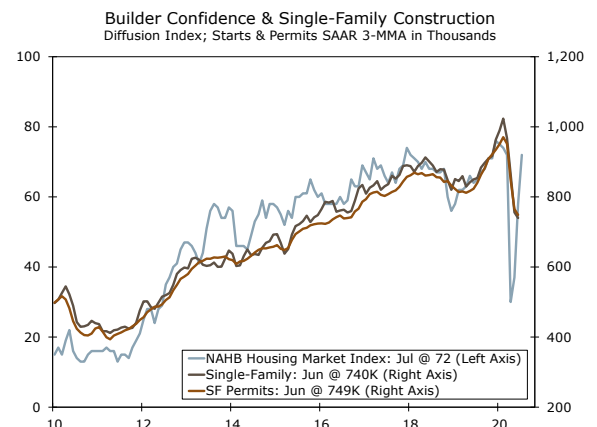
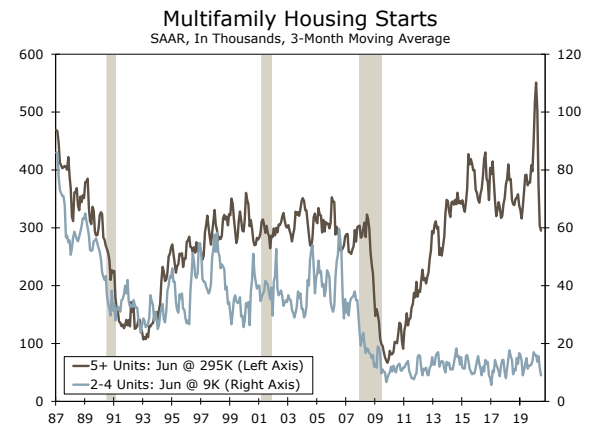
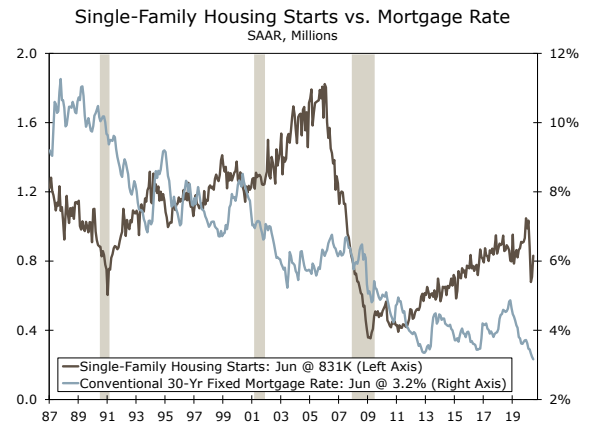
Housing starts rose 17.3% in June, with both single-family and multifamily starts rising to their highest level since March. Starts more than doubled in the Northeast, as builders finally got back on track following a three-month lull. Activity also rebounded in the Midwest, with overall starts rising 29.3%. The South, which accounts for over half the nation's overall starts, saw activity rise 20.2%, while starts fell 7.5% in the West.

While both single and multifamily starts rose solidly in June, we believe that apartment construction is set to slow. Permits for multifamily projects fell 13.4% in June and are just slightly above their April low. Moreover, credit underwriting for new apartment projects has tightened, particularly in higher cost areas that are already slated to see an onslaught of new units. Apartment starts are not headed to oblivion, however. Activity is actually picking up in many suburban markets in the Sunbelt. On a year-to-date basis, multifamily starts are up 5.2% from the first six months of last year. Permits for future projects, however, are down 6.9% for the same period.

Momentum is clearly swinging back toward single-family homes. The recent drop in conventional mortgage rates below 3% should bring out even more buyers, bolstering builder confidence even further. Homebuilder confidence, which was reported yesterday, had already rebounded before the latest drop in mortgage rates. The National Association of Homebuilders/Wells Fargo Housing Market Index (HMI) jumped 14 points in July to 72. The increase was driven by a resurgence in buyers, particularly in the Northeast and Midwest. The HMI for the Northeast jumped 22 points to 70 in July—it was just 17 two months earlier. The HMI also rose 18 points in the Midwest (68), 14 points in the West (80) and 10 points in South (73).

With buyers coming back, builders felt confident to ramp up new construction. Single-family starts jumped 17.2% in June and permits rose 11.8%. Both numbers are likely headed higher in coming months, but builders are running into some bottlenecks that will likely limit the extent of gains. Lumber prices have jumped up to their highest level in two years. Spot shortages of building materials and labor have also emerged due to prior shutdowns and the resurgence in COVID-19 cases in the South.

Single-family homebuilding has several potent long-term tailwinds behind it. COVID-19 lockdowns have likely encouraged many apartment dwellers already contemplating buying a home to accelerate their timeframe for doing so. More broadly, COVID-19's severe impact on major metro areas has led some to suggest an oncoming stagnation in urban centers. While these worries may be a bit premature, demographics alone suggest we may continue to see a shift to the suburbs. The movement of folks from higher cost parts of the country to the South, where single-family homes are more affordable and more prevalent, will also boost construction.



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