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Economics Group

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Housing Starts Surge in July

Housing starts surged 22.6% in July to a 1.496 million-unit pace. Single-family starts rose 8.2%, while starts of projects with five units or more—mostly apartments—skyrocketed 56.7%. Permits for both also increased.

Homebuilding Has A Strong Wind At Its Back

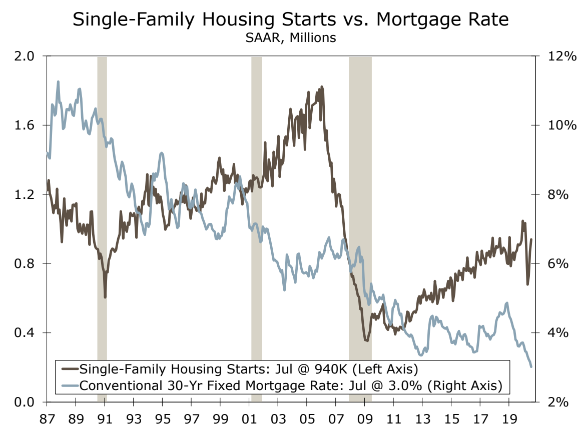
Housing starts blew past even the most optimistic expectations during July. Overall starts jumped 22.6%, with single-family starts rising a solid 8.2% and multifamily starts surging ahead 58.4%.

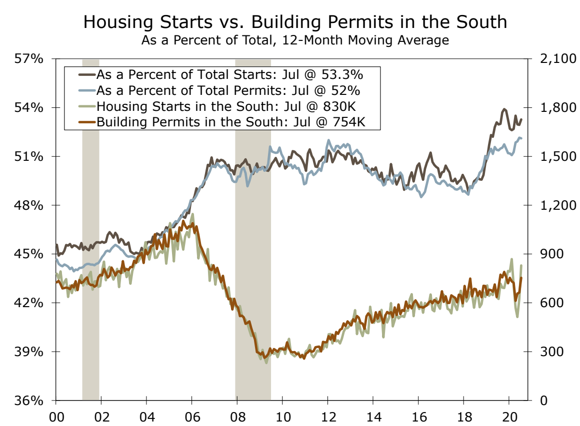
The big jump in multifamily starts explains why overall starts blew past consensus estimates, which were calling for a more modest 5.0% overall increase. Multifamily starts are extremely volatile from month-to-month and starts had risen solidly during the prior two months. The vast majority of multifamily starts are for apartments, which have seen vacancy rates increase in recent months and have seen rents ease up a bit. Vacancy rates have increased and rents have softened much more in New York City, San Francisco and Los Angeles, however, then nationwide. The weakness in these highly visible markets may be weighing on forecasts for the sector. Demand for apartments outside these mega-metro areas has actually remained fairly strong and rents have held up much better. Moreover, the move away from these large, densely-populated, high-cost metro areas has boosted demand elsewhere, such as Phoenix, Salt Lake City, Austin, Charlotte and Nashville.

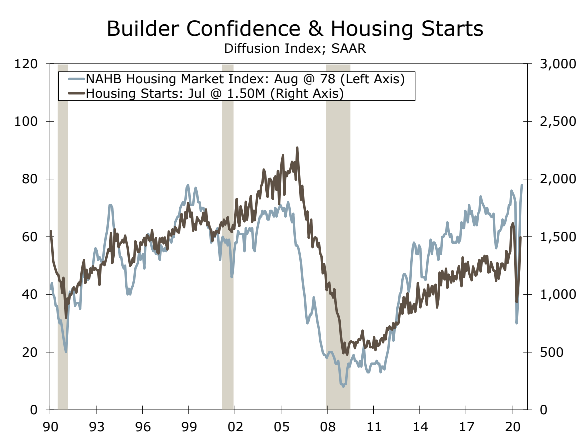
The improvement in single-family starts is also running ahead of expectations. Not only have mortgage rates fallen to all-time lows but employment conditions for those more likely to be home buyers have improved considerably in recent weeks. Data from Opportunity Insights shows that employment for persons earning $60,000 a year or more was just 0.5% below its January 2020 level in late June, up from a low of -9.2% in mid-April. Employment conditions for middle income households, those earning between $27,000 and $60,000 a year, have improved from falling 19.3% below their January level in mid-April to being down 6% in late June. Employment has improved the least at the lower end of the income spectrum, with employment among those earning less than $27,000 a year rising from its low of -33.7% below its January level to 15.7% in late June.

Another trend boosting housing starts is the move from higher cost parts of the country to lower cost areas. This shift was underway well before the pandemic and has likely accelerated. The South, where the median price of a new home is 40% less than in the Northeast and 29% less than in the West, has been the biggest beneficiary. The South's share of housing starts has grown way past 50% in recent years. One of the reasons the South has maintained such a large price advantage is that most of the region's major metro areas are much less dense than those in the Northeast and West.

Homebuilder confidence also soared well-past expectations. The Wells Fargo/NAHB Homebuilders' Index jumped six points to 78 yesterday, as builders reported stronger buyer traffic and sales in August. Given how low new home inventories are, the strength in sales points to continued gains in single-family starts. A move back above a one million-unit pace seems likely.







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

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