

Housing Starts Declined in November

Hurricane Rebound in Single-Family Not Enough to Offset Multifamily Drop

Summary

Residential Construction Easing

Total housing starts declined 1.8% during November. The unexpected drop was mostly owed to a sharp fall in multifamily starts. Meanwhile, single-family starts rose 6%, bouncing back from October’s hurricane-related fall. In terms of permits, single-family edged up slightly while multifamily jumped to the highest level since February. Through the monthly volatility, the trend in overall residential construction remains lackluster as high interest rates discourage new projects and home builders contend with elevated inventory levels.

Changes to trade, immigration and other economic policies as a result of the recent elections threaten to constrain new residential construction as a whole in the years ahead. Within single-family, scarce supply in the existing market and lower capital costs should help support activity; however, the elevated stance of mortgage rates will remain as a significant headwind moving forward. On the other hand, multifamily construction looks set to remain sluggish, yet firming apartment market conditions on account of higher rates boosting rental demand and reducing new starts has emerged as a tailwind.

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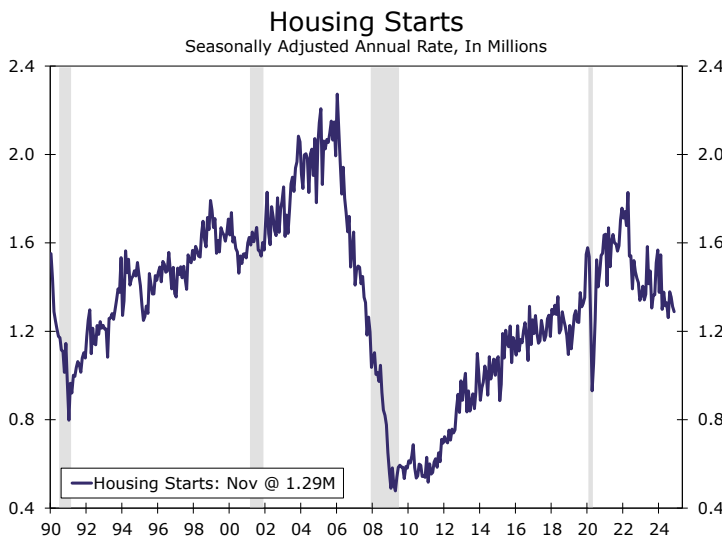
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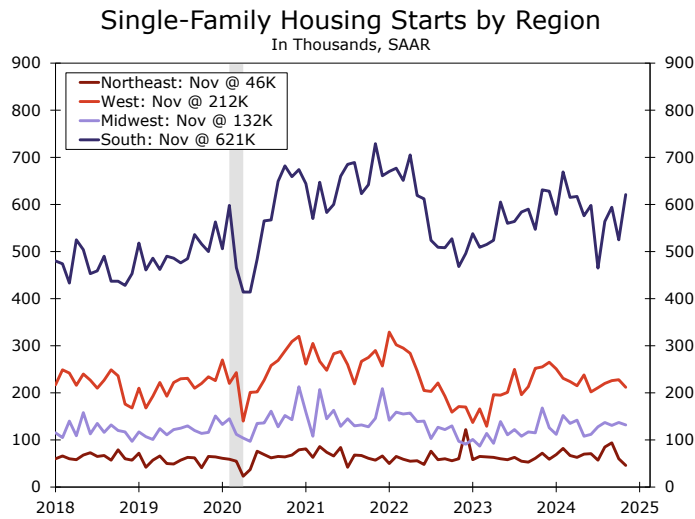
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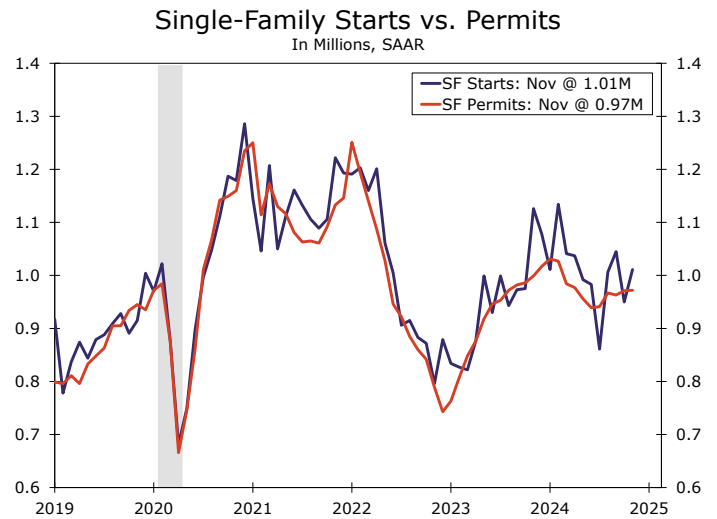
Source: U.S. Department of Commerce and Wells Fargo Economics

Single-Family Construction Losing Steam?

- Single-family housing starts rose 6.4% to a 1.01 million-unit rate in November, reversing most of October's decline.
- This improvement was entirely driven by a rebound in construction in the South. After Hurricanes Helene and Milton depressed building in October, Southern starts soared 18.3% in November, reaching the highest pace since February. Single-family starts slipped over the month in every other region, but remain up on a year-to-date basis.
- Single-family permits edged up 0.1% to 972K units in November, portending a slow pace of construction moving forward. This relatively sluggish pace is likely the result of persistently high mortgage rates challenging the affordability environment. According to Mortgage News Daily, the average 30-year fixed rate has crept back up near 7.0% amid higher interest rate expectations.
- The NAHB Housing Market Index held steady at 46 in December amid no change in current sales conditions. Although a majority of builders are still uneasy about the housing market outlook, ongoing rate cuts from the Federal Reserve and the added prospect of regulatory relief appear to be boosting sentiment. December brought a three-point jump in the sales expectations component to 66—the highest level since April 2022.
- We expect construction to weaken somewhat over the next year as home builders work down elevated inventory levels and high financing costs challenge both builders and homebuyers. Incoming policy changes related to tariffs and immigration will also likely constrain new development.



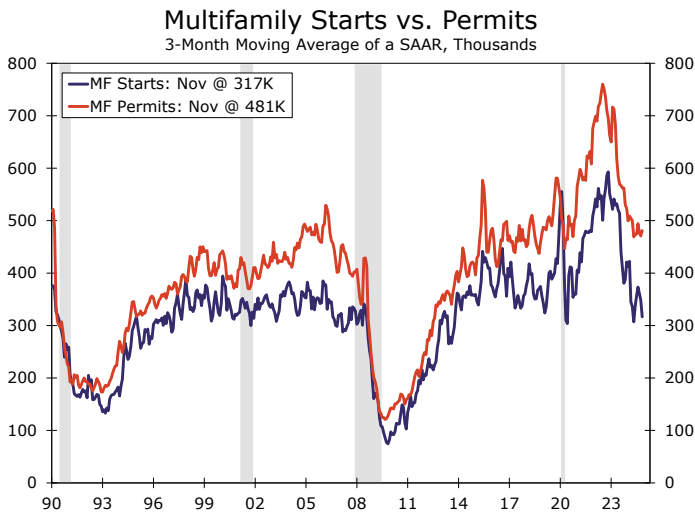
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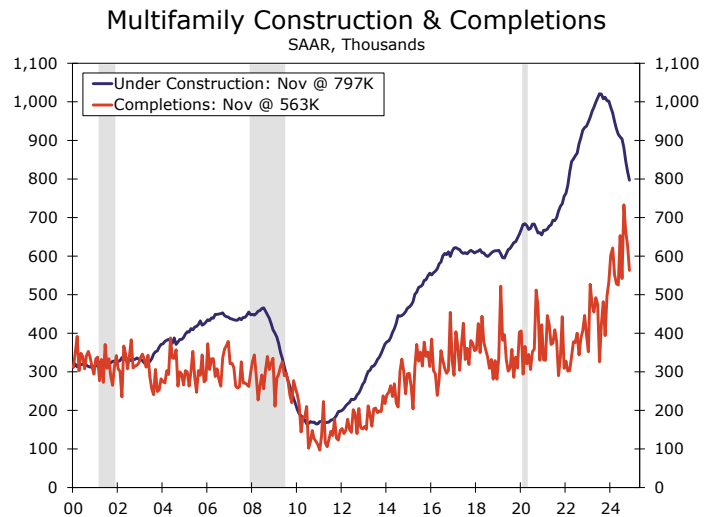
Source: U.S. Department of Commerce and Wells Fargo Economics

Multifamily Building Subdued

- Multifamily starts sank 23.2% in November, driving the overall dip in starts. Swings in multifamily construction are common from month-to-month; however, apartment development remains rather weak overall. Multifamily starts have slid 27.6% over the past year and are down by a similar degree year-to-date.
- The correction in multifamily building comes as the market continues to be heavily supplied with new apartments started in the years immediately following the pandemic. Rising vacancies and a plethora of apartments already under construction prompted builders to pull back on new projects, resulting in a trend decline in multifamily permits.
- Multifamily permits jumped 19.0% over the month to the highest level since February. However, they continue to trend lower through the monthly noise. As of November, multifamily permits were down nearly 18% on a year-to-date basis.
- As the pace of new projects slow, the number of units under construction continues to claw back, dipping to 797K in November. Completions, while still elevated, also waned amid the slowdown.
- Apartment demand has firmed substantially this year, helping to restore some balance to the multifamily market. However, the sharp drop in project starts and permits sets the stage for slower apartment construction over the coming years.



Source: U.S. Department of Commerce and Wells Fargo Economics



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