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Economics Group

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Housing Starts Fall On A Pullback in Apartment Building

Housing starts fell 3.7 percent in April, with multi-family projects accounting for all the drop. Single-family starts edged higher. The housing recovery remains intact, with year-to-date starts 9.1 percent above last year.

Housing Starts See Less Bounce This Spring

Housing starts fell 3.7 percent in April, essentially reversing a 3.6 percent rise the prior month. While the headline figures might raise some concerns about the spring selling season, builders appear to be quite optimistic. The Wells Fargo/National Association of Homebuilders Index rose to 70 in May and has remained at or above that lofty level for most of this year. Home builders report strong demand for new homes across virtually all price points and in most major markets. This spring's soft headline numbers are mostly due to volatility in apartment starts, which are showing some signs of topping out. An earlier jump in single-family starts in January and February meant that starts were already at a lofty level going into the spring and made it difficult to post large seasonally-adjusted gains.

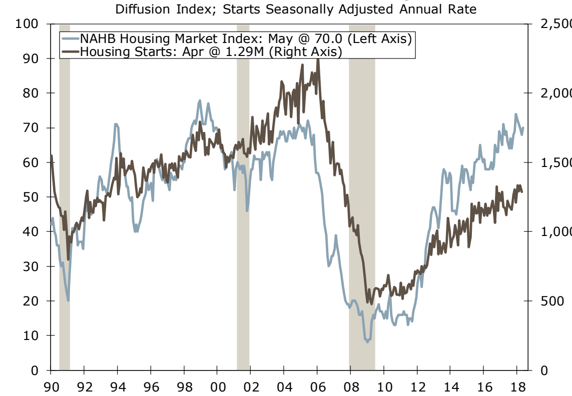
On a non-seasonally adjusted basis, single-family starts rose 15.3 percent in April, following a 17.1 percent rise in March. Single-family starts through the first four months of this year total 279,600 homes, which is 8.3 percent higher than the first four months of 2017. The bulk of that increase has been in the West, where starts are up 21.2 percent on a year-to-date basis from last year, and the South, where single-family starts are running 6.8 percent ahead of their year-ago pace. Both regions have benefitted from mild and dry weather, which allowed construction to ramp up earlier than usual. By contrast, winter weather tended to linger a bit longer than usual in the Northeast and Midwest.

The influence of the weather was clearly evident in the April seasonally adjusted data, which showed housing starts plunging 16.3 percent in the Midwest and falling 12 percent in the West and 8.1 percent in the Northeast. The South was the only region posting a seasonally-adjusted gain, with overall starts rising 6.4 percent in April.

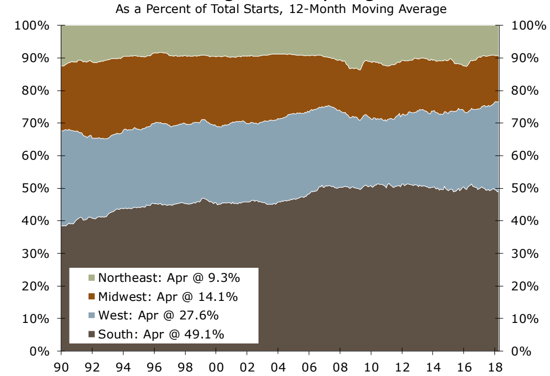
Another major factor holding back housing starts has been the recent volatility in apartment construction. Multi-family starts tumbled 11.3 percent in April, on a seasonally-adjusted basis, falling 50,000 units on an annualized basis to a 393,000-unit pace. The apartment market is showing some signs of topping out. Deliveries in major markets such as New York City, Houston, San Francisco and Atlanta have pushed vacancy rates higher and led to increased leasing concessions. We still believe there is a little more life in the apartment boom, with renewed building in supply-constrained markets like Los Angeles and Denver and increased activity in a whole host of smaller markets left out of the previous building boom.

The supply of new homes and apartments will almost assuredly increase in the coming months. The number of single-family homes under construction rose 1.0 percent in April, to 510,000 units, and continues to trend higher. The number of homes in the pipeline still lags considerably behind past building cycles, however. The supply of apartments, on the other hand, appear to be topping out at levels well ahead of the past two cycles.

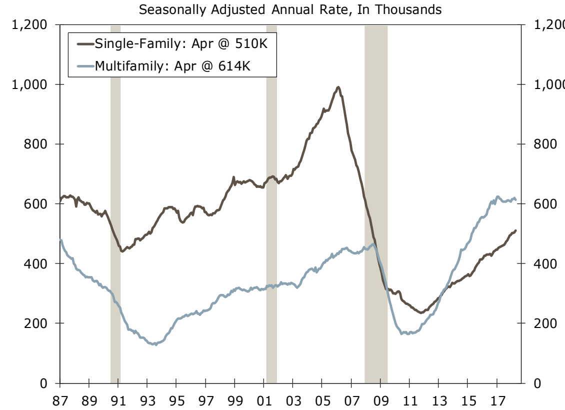
Builder Confidence & Housing Starts
Diffusion Index; Starts Seasonally Adjusted Annual Rate



Housing Starts by Region
As a Percent of Total Starts, 12-Month Moving Average



New Homes Under Construction
Seasonally Adjusted Annual Rate, In Thousands



Source: U.S. Department of Commerce, National Association of Homebuilders and Wells Fargo Securities

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