



Housing Starts Were Surprisingly Weak in May

mark.vitner@piedmontcrescentcapital.com

Chief Economist (704) 458-4000

Housing Starts Tumble in May

- ▲ Housing starts were surprisingly weak in May, tumbling 5.5% to a 1.277 million unit seasonally adjust rate (SAAR).
- ▲ The underlying details were nearly uniformly disappointing, with both single- and multi-family starts declining, and April's previously reported gain revised lower.
- ▲ Single-family starts fell 5.2% to a 982,000 unit rate, the slowest pace in 7 months.
- ▲ Multi-family starts tumbled 6.6% in May and have averaged just a 290,000-unit pace over the past 3 months, the slowest pace since September 2013.
- ▲ Permits fell 3.8% overall, with single family declining 2.9% and multi-family permits falling 5.6%. Multi-family permits are now at their lowest level since April 2020.
- ▲ Housing completions fell 8.4% in May, with single-family falling 8.5% and apartment completions falling 7.5%.
- ▲ *Higher mortgage rates are clearly impacting home building, resulting in reduced buyer traffic and decreased builder confidence. Builders are holding off starting new projects, as they finish existing ones and have some inventory to sell. Higher interest rates are also curbing spec building.*

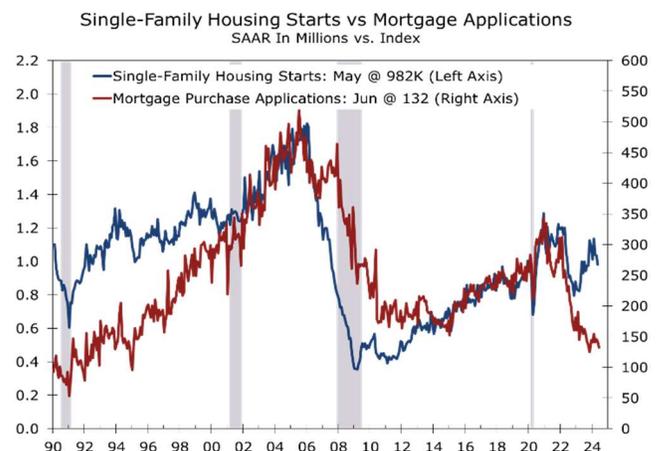
Housing starts were significantly weaker than market expectations in May, dropping 5.5% to a 1.277 million unit seasonally adjusted annual rate (SAAR). With the drop, housing starts are now at the lowest level since June 2020.

The underlying details in the report were nearly universally weak, with both single- and multi-family starts falling sharply. Starts for the prior month were also revised lower; April now shows a 4.1% increase compared to the initially reported 5.7% rise. Permits also came in weaker than expected, declining 3.8% to a 1.386 million unit SAAR.

May's weaker numbers reflect declining builder sentiment, which fell 2 points to 43 in June and is now at its lowest level since December 2023. Buyer traffic has been surprisingly soft, and the recent trend in mortgage applications suggests many potential home buyers are either having trouble qualifying for a mortgage or are waiting for lower mortgage rates.

The gap between single-family starts and mortgage apps suggest starts could fall further.

Mortgage rates are currently around 7%, where they have more or less been for the past two months. Builders are also having to contend with higher rates for construction and development loans, which is curbing speculative development.



Source: Census Bureau & Mortgage Bankers Association



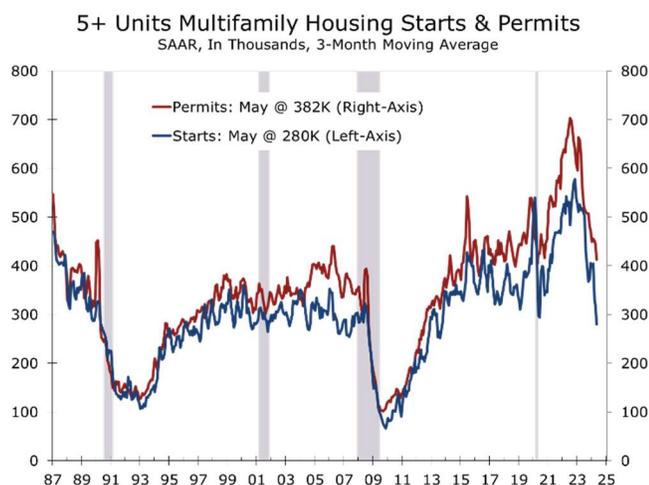
Housing starts fell in every region except the West, where they rebounded following weather-related weakness. The bulk of the slowdown was in the South, with overall starts declining 8.3% to a 733,000-unit pace. Single-family starts fell 4.4%, and multi-family starts dropped 21.6%. The South has been the most active region for apartment development, with substantial supply coming online this year.

The Midwest saw the largest percentage drop, with overall starts plummeting 19% to a 149,000-unit pace. Single-family starts fell 21.1%, and multi-family starts decreased 11.9%. In the Northeast, overall starts fell by 2.5%, with all of the drop coming in single-family starts.

In the West, housing starts rebounded 10.4% to a pace of 318,000 units. Single-family starts increased 2.7%, and multi-family starts surged 36.4%, returning both categories to their levels from two months earlier.

The apartment boom is winding down, although the development pipeline remains full

The multi-year boom in apartment development is rapidly winding down. Starts of projects with 5 units or more fell 10.8% in May and have averaged just a 280,000-unit pace over the past three months, the slowest pace in nearly 11 years. Starts peaked 18 months ago and have tumbled 52%, while permits peaked 22 months ago and have since slid 42%.

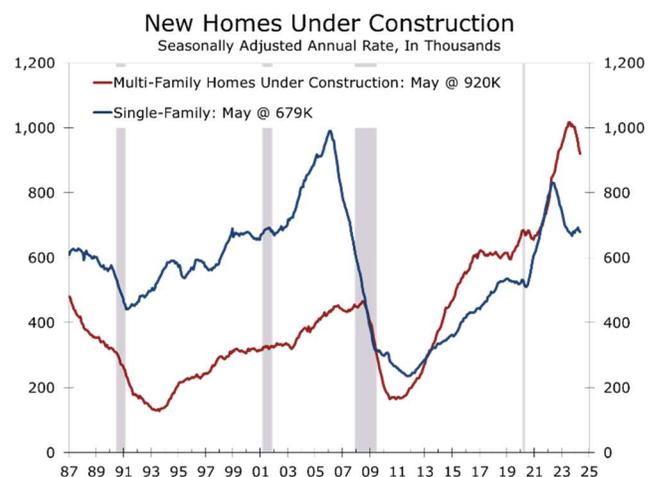


Source: Census Bureau

The sharp pullback in starts of new apartment projects has finally helped make some headway at clearing the huge backlog of projects under construction. Completions of projects with five units or more are running 20% ahead of their year-ago pace and are expected to total just over 500,000 units this year. Starts are likely to total around 270,000 units this year, which means the backlog should end 2024 at around 750,000 units.

Completions of single-family homes also edged lower in May, falling 8.5% to a 1.027-million unit pace. Through the first five months of this year, completions of single-family homes are running roughly 0.4% ahead of their year-ago pace. Completions of single-family homes should rise this summer, reflecting the earlier pickup in single-family starts that began late last year. Single-family starts averaged a 1.071-million unit pace from November through April.

Higher interest rates are making it tougher for home buyers and home builders. Many would-be buyers continue to be put off by mortgage rates that are hovering around 7%, while builders are facing higher costs for construction and development loans, limiting new speculative construction.



Source: Census Bureau

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