



Economics Group

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Housing Starts Rose in June

Housing starts rose 3.6 percent in June, following an upwardly revised 17.3 percent jump the previous month. Single-family starts accounted for all of the increase, rising 14.4 percent in June. Multi-family starts fell 25.8 percent, giving back two-thirds of the prior month's increase. Building permits rose 8.7 percent in June.

Home Builders are Finding a Few Opportunities to Build

June's modest increase in single-family housing starts is a pleasant surprise and reflects some slight improvement in the housing market. Starts likely bottomed out earlier this year when the extreme lack of credit drove single-family starts to modern era lows. That earlier drop in home building brought new construction below demand, creating an opportunity for builders to begin a few new projects.

The small improvement in single-family housing starts is consistent with the recent trend in the NAHB/Wells Fargo Housing Market Index, which bottomed earlier this year at 9 and has risen back up to 17 in July. Builders' assessments of both present and future sales improved over this period, with the assessment of present sales more than doubling to 17 and the future sales index nearly doubling to 26.

Single-family Starts Have Now Risen for Four Months Straight

Moreover, the springtime is arguably the most important time of the year for homebuilders, so the increase reflects an actual improvement in real activity, not simply a statistical improvement due to overly active seasonal adjustment. The largest increase was in the South, with single-family starts rising 11.1 percent. The West posted a 1.2 percent rise and single-family starts were unchanged in the Northeast and Midwest.

Starts of new multi-family projects plunged 25.8 percent in June, following May's 65.9 percent spike. The second quarter will likely mark the bottom for multi-family starts. Multi-family starts averaged just an 118,000-unit pace during the quarter. That pace puts construction of multi-family homes, which include apartments, condominiums, townhomes and dormitories, down 66 percent from one year ago.

Multi-family construction is being restrained by the glut of condominium and apartment projects completed over the past couple of years. Apartment vacancy rates have soared in recent years. Rising vacancy rates are pulling down rents and reducing the incentive to build new properties.

Building permits rose 8.7 percent in June, which was also better than expected. Permits rose for both single- and multi-family units, further hinting that a bottom may finally have been reached for residential construction. While we believe housing starts have bottomed, we do not expect to see strength return to the housing market anytime soon. Demand for new homes remains extremely weak and many builders are still having trouble obtaining credit. There are selective opportunities for new home construction, however, and starts will likely slowly grind higher over the next several quarters.

