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U.S. HOUSING STARTS SLIDE IN JANUARY

Single-family construction climbed, multiunit tumbled

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U.S. housing starts slid in the first month of 2017, an indication that softness in apartment construction could offset a continued recovery in the single-family construction market this year.

Housing starts dropped 2.6% in January to a seasonally adjusted rate of 1.246 million, below the revised December rate of 1.279 million, the Commerce Department said Thursday.

Permits, an indication of how much construction is in the pipeline, rose 4.6% to 1.285 million from the revised December total of 1.228 million.

Economists surveyed by The Wall Street Journal expected starts to remain flat at 1.23 million and building permits to rise 2.5% to 1.24 million. Construction typically begins a month or two after a permit is issued.

Single-family home construction continues to pick up even as apartment construction appears to be tapering off. Single-family construction climbed 1.9% in January, while multifamily construction tumbled 10.2%.

Multifamily construction is at its highest level in decades, as concerns about a glut of new supply at the high end in urban markets is causing developers and banks to pull back. The number of units under construction in buildings with five units or more hit its highest level since September 1974. Much of the apartment construction in recent years has been concentrated in the luxury category.

Multifamily permits rose 23.5% in January over December, indicating that builders are continuing to begin new projects despite concerns about a glut.

"It does make me a little nervous to see such strong growth again," said Ralph McLaughlin, chief economist at Trulia.

Economists saw the uptick in single-family permits as positive, because it indicates that more builders have decided to move forward with projects in the wake of the election. If the growth in permit activity continues that could lead to more new supply as early as later this year.

"If there's one thing that home buyers need this year, it's more homes on the market," Mr. McLaughlin said.

January's drop follows a pickup in activity in December, when new starts rose 11.3%. The increase was driven by a rebound in multifamily starts, which rose 53.9%, while single-family starts fell 4%.

Year-over-year, starts were up 10.5% over last January's number.

While weather was much warmer than usual in January across the country, which is usually a positive for housing starts in the winter, starts in the West plummeted by more than 41%, likely due to the wet weather, said David Berson, chief economist at Nationwide.

Monthly housing figures are choppy, have a significant margin of error and can be subject to large revisions. But the broader trend has been one of slow growth amid rising demand.

New home construction has been the weakest element of the overall housing recovery. Home prices have already surpassed their previous highs and apartment rents have climbed more than 26% since early 2010.

The strength of multifamily housing construction has helped buoy housing starts, even as single-family activity remains well below normal levels.

"We have demand for far more housing starts than we are producing," said Mark Boud, chief economist at Metrostudy, which tracks the home building industry.

Robert Dietz, chief economist for the National Association of Home Builders, said he doesn't expect single-family starts to recover to normal levels of around 1.3 million until 2020.

"It's a long road back," he said.

The factors holding back builders range from a shortage of construction laborers to difficulty finding land in desirable locations and regulatory barriers that make it difficult to build affordable homes.

Economists are optimistic that single-family housing starts will continue to improve in 2017, as rising wages and a move by younger households toward homeownership help drive up demand. The inventory of single-family homes fell to its lowest level in nearly two decades in the fourth quarter, according to the National Association of Realtors.

"People are starting to get frustrated that, heck, there's not a lot of choice in the resale market," said John Burns, a consultant to home builders.

Republicans have pledged to peel back environmental regulations and President Donald Trump has promised tax cuts and infrastructure spending that could help extend the economic recovery.

But some changes could also hurt the home building industry. An immigration crackdown could exacerbate construction labor shortages and trade measures could result in higher commodity prices.

Builder confidence slipped for the second consecutive month in February, the National Association of Home Builders said, to a level of 65, down from a recent high of 69 in December. Much of the decrease was due to reduced buyer traffic, though any number over 50 indicates that builders see conditions improving.