

Residential Real Estate Analysis

Housing starts and permits recover strongly in April

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- Strong increases in the Midwest and the South drove housing starts 6.6% MoM higher in April
- Building permits increased in all regions and were up 3.6% MoM
- Housing starts are expected to continue performing well in the rest of 2016

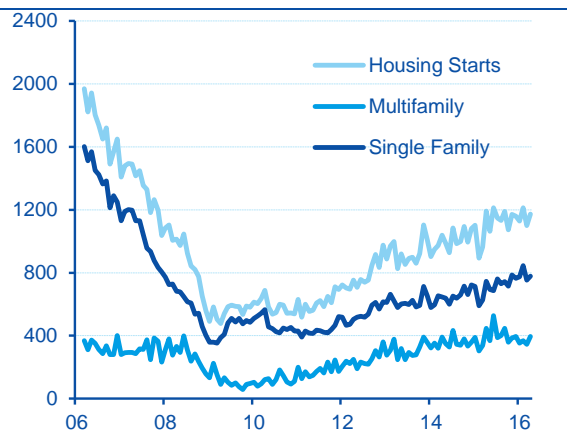
The Census Bureau reported today that housing starts in April stood at 1.172M at a seasonally adjusted annual basis, up 6.6% MoM, after disappointing in March. The April showing was significantly above consensus expectations, which stood at 1.135M. Housing starts in April were 1.7% lower YoY, but only due to the statistical effect of a very strong April last year. Both single family and multifamily starts increased in April, 3.3% MoM and 13.9% MoM respectively (Chart 1). The surge in multifamily starts comes after their weaker performance compared to single family starts during the previous six months.

Regionally, housing starts increased in the Midwest (22.2% MoM) and the South (14.1% MoM) and decreased in the Northeast (7.6% MoM, but after a very strong gain in March) and in the West (10.0%). On a YoY basis, housing starts in the Midwest and the South were higher, while they were lower in the Northeast and the West. This is not ideal, as the demand for housing has been particularly strong in the coastal regions.

Building permits increased 3.6% MoM to reach 1.116M. This comes after four months of declines, which is good news for housing starts going forward, especially since all regions posted gains in permits. Both single family and multifamily building permits increased. Single family permits were 8.4% higher YoY, while multifamily permits were 23.9% lower—a likely result of the uptick in apartment vacancies due to the increased supply of apartments.

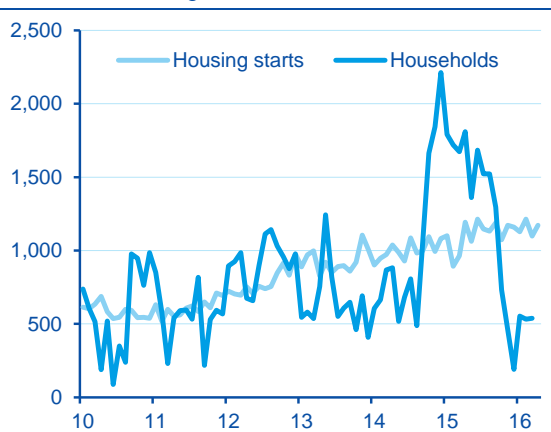
Housing starts have been moving in line with the increase in the number of households over the last seven years (Chart 2), which contributes to the stability of the market. While there has been a dip in household formation in the last five months, this is likely a correction of the overshooting before that period. We expect household formation to intensify in the second half of the year, supported by the improved inventory of homes for sale and higher apartment vacancy rates. This, together with the solid home builder sentiment in May, supports our outlook on housing starts going forward.

Chart 1
Housing starts
Thousands



Source: Census Bureau & BBVA Research

Chart 2
Housing starts and change in number of households
Units and YoY change, Thousands



Source: Census Bureau & BBVA Research

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