

Residential Real Estate Analysis

Housing Starts Grow Strongly, but Permits Fall

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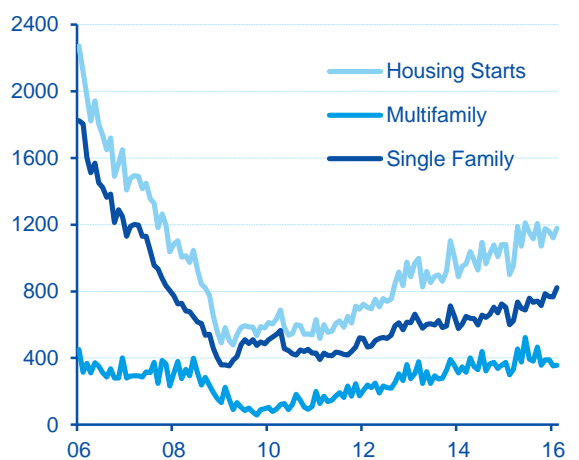
- Housing starts rose 5.2% MoM in February, driven by a 7.2% MoM jump in single family starts
- Building permits decreased 3.1% MoM as a result of a 8.4% MoM decline in multifamily permits
- We expect continuing YoY gains in housing starts and permits in 2016

Housing starts in February, up 5.2% MoM, increased more than expected, after a 3.4% MoM decrease in January. The February increase was driven by a 7.3% MoM increase in single family housing starts, after a 0.3% MoM decline in January. The level of single family housing starts (822K SAAR) is now the highest since November 2007 (Chart 1). Multifamily housing starts increased by 0.9% MoM after a 9.5% MoM decline in January.

During the 2011-2015 period, multifamily housing starts grew stronger YoY than single-family starts, but the trend seems to have turned somewhat after September of last year. A possible explanation of the current reversal in fortunes of single and multifamily housing starts is the improved employment situation and stronger confidence to buy among prospective buyers. That said, the trend in multifamily housing starts could yet again reverse in 2016.

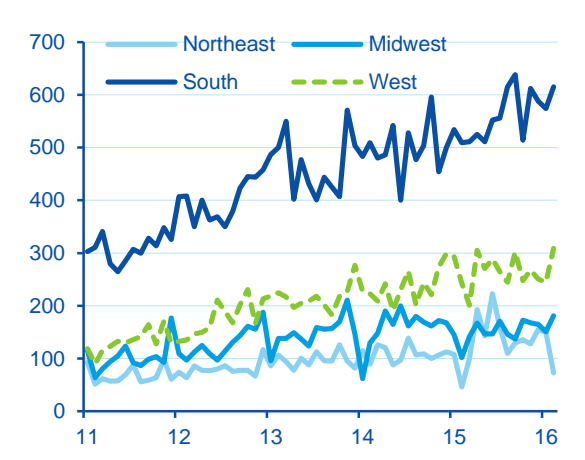
Regionally, the biggest gains in housing starts were in the West (Chart 2). Starts in the East declined significantly MoM, likely due to the worsened weather in this region in February, which should result in a reversal in the next month's report. Starts in the South were still growing, despite a likely coming slowdown in Texas, one of the largest southern markets, which has been disproportionately affected by the downturn in the oil and gas industry.

Chart 1
Housing Starts, Single and Multifamily Structures
SAAR, Thousands



Source: US Census Bureau & BBVA Research

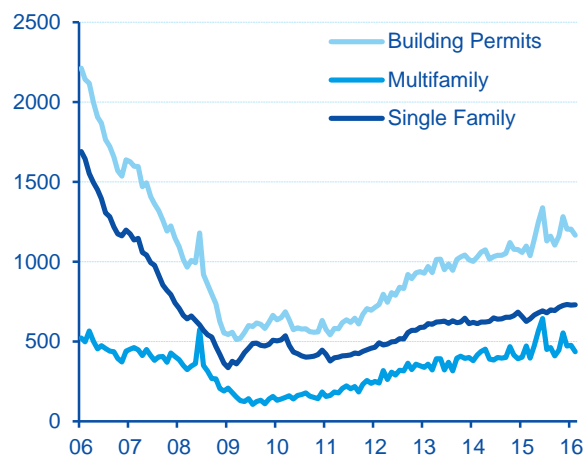
Chart 2
Housing Starts by Region
SAAR, Thousands



Source: US Census Bureau & BBVA Research

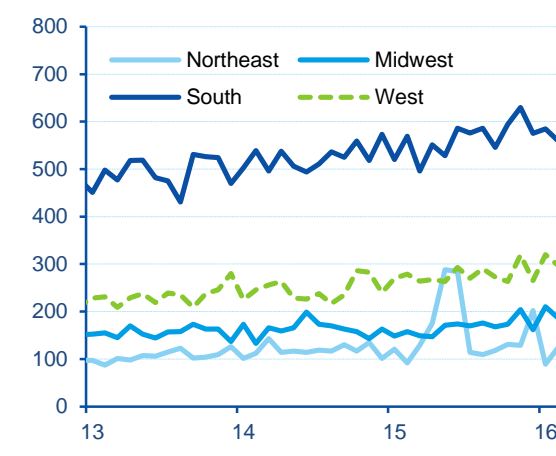
While housing starts increased at a solid rate, building permits declined 3.1% MoM. This is the third month with no MoM increase in building permits. Most of this comes as a result of the decline in multifamily building permits (Chart 3). The more stable single family building permits were up by 0.4% MoM following a 0.5% MoM decline in January. The slowdown in single family permits growth compared to the end of last year coincides with the decline in builder confidence in February, which regardless was still relatively high. The strong monthly gains in permits in the Northeast (following a large decline in January) were not enough to offset the declines in permits in the Midwest, South and West (Chart 4).

Chart 3
Building Permits, Single and Multifamily Structures (SAAR, Thousands)



Source: US Census Bureau & BBVA Research

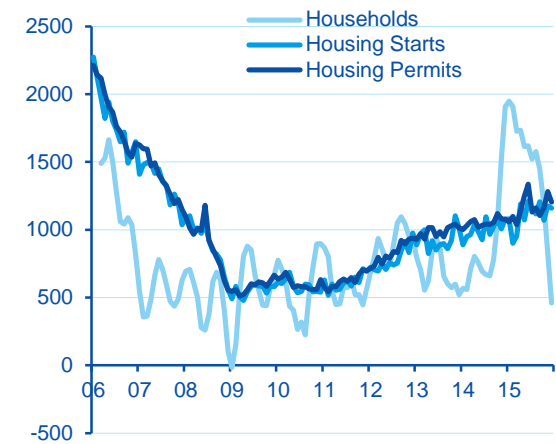
Chart 4
Building Permits by Region SAAR, Thousands



Source: US Census Bureau & BBVA Research

Building starts and permits have been moving in line with the increase in the number of households over the last seven years (Chart 5), resulting in pretty stable and relatively low months' supply of new houses for sale. The large uptick in household formation in late 2014 and early 2015 has been counterbalanced with a slowdown in household formation since October, which should revert back to the trend from the last six years during 2016. We expect housing starts and permits to continue increasing in 2016, supported by household formation and solid confidence to buy, which would be driven by continued improvements on the labor market and high affordability due to low interest rates. On the supply side, builder confidence is still high, despite the slight decrease since December, and low interest rates and solid access to credit will support the growth in the next months.

Chart 5
Household Formation, Housing Starts and Permits YoY Change (3mma) and SAAR in Thousands



Source: US Census Bureau & BBVA Research

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