

Residential Real Estate Analysis

Housing starts and permits tumble in March

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- **Housing starts declined 8.8% MoM in March to 1,089M, but still stand 14.2% higher YoY**
- **Building permits declined 7.7% MoM due to a fall in the multifamily segment**
- **Housing starts are expected to increase going forward and average around 1,180M in 2016**

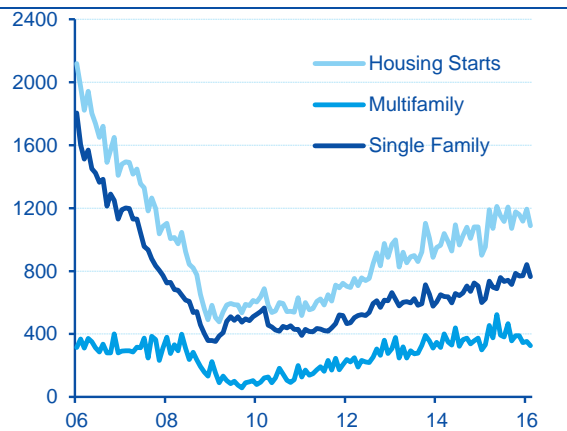
The Census Bureau reported today that housing starts in March stood at 1,089M, down 8.8% MoM after an unusually strong gain of 6.9% MoM in February. The March showing was significantly below consensus expectations, which stood at 1.167M. On a positive note, housing starts are still 14.2% higher YoY. Both single family and multifamily starts declined in March, 9.2% MoM and 7.9% MoM respectively (Chart 1).

Regionally, housing increased only in the Northeast (61.3% MoM), as the February starts in this region were very weak due to bad weather. The declines in the Midwest (-25.4%) and the South (-8.42%) more than erased the gains made in February, but the decline in the West (-15.7%) didn't, which is positive, as this region faces the most acute housing shortages and rate of house price appreciation.

Building permits also declined in March 7.7% MoM to reach 1,086M. This is the fourth month with no MoM increase in building permits, which does not spell good news for housing starts going forward, but hopefully will reverse soon. Although there was a small decline in single family building permits, most of the decline in March was due to a significant decline in multifamily building permits, which reached a 31-month low. The decline in multifamily permits is very likely related to the uptick in apartment vacancies in the second half of last year (Chart 2), likely a result of the increased supply of apartments.

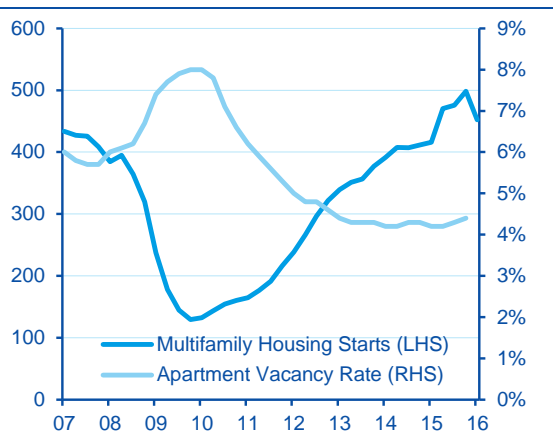
Building starts and permits have been moving in line with the increase in the number of households over the last seven years. We expect housing starts to continue increasing in 2016 at an average rate of 6.5%, supported by household formation and low interest rates. Home builder sentiment remained steady in April, reflecting cautious optimism, which supports our outlook on housing starts going forward.

Chart 1
Housing Starts
Thousands



Source: Census Bureau & BBVA Research

Chart 2
Multifamily Permits and Apartment Vacancies
Thousands (3mma) and %



Source: Census Bureau & BBVA Research

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