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All Eyes on a Rebound in Single-Family Starts

A “lackluster” February, according to NAHB, means patience is required.

Cover your eyes when it comes to single-family production in February. But don’t tie the blindfold too tight because the picture improves greatly this year.

“Despite persistent supply-side challenges, rising builder confidence is signaling a turning point for home building later in 2023,” National Association of Home Builders Alicia Huey, chairman and a custom home builder and developer from Birmingham, Ala., said in prepared remarks.

“At the same time, builder sentiment has been edging higher in the early part of 2023 as a significant amount of housing demand exists on the sidelines and resale inventory is limited.”

For now, builders continue to wrestle with elevated mortgage rates, high construction costs, and tightening credit conditions that threaten to be exacerbated by recent turmoil in the banking system.

NAHB Chief Economist Robert Dietz said in prepared remarks that starts were up in February given a limited pullback for interest rates.

“We expect volatility in the months ahead as ongoing challenges related to construction material costs and availability continue to act as headwinds on the housing sector,” Dietz said. “However, interest rates are expected to stabilize and move lower in the coming months, and this should lead to a sustained rebound for single-family starts in the latter part of 2023.”

‘Dust Needs to Settle’ on Bank Crisis

Michael J. Romer, Managing Partner, Romer Debbas, tells GlobeSt.com, “In the past week, we witnessed the second and third biggest bank failures in U.S. history and the stock market indicated an outright lack of confidence in regional banks which are the backbone of commercial lending.

“The dust needs to settle, and time will tell which lenders survive the current crisis. I have a bad feeling that homebuilders will need to be patient as it will be some time before commercial lenders (especially regional banks) reignite construction lending efforts as this type of financing is generally viewed as riskier than traditional loans on existing properties.

“Across the board, the real estate and housing market desperately needs banking and interest rate stability.”

SF Starts Up Just 1.1% in February

Overall housing starts in February increased 9.8% to a seasonally adjusted annual rate of 1.45 million units, led by gains in apartment construction, according to a report from the U.S. Department of Housing and Urban Development and the US Census Bureau.

However, single-family starts increased by 1.1% to an 830,000 seasonally adjusted annual rate, which remains 31.6% lower than a year ago. The multifamily sector, which includes apartment buildings and condos, increased by 24% to an annualized 620,000 pace.

Builders Must Be Prepared to Address Pent-Up Demand

Crystal Sunbury, real estate senior analyst with RSM US LLP, tells GlobeSt.com, “solid rent growth and low vacancy rates continued to spur multifamily construction.”

She added that recent improvements to builder sentiment because of a better-than-expected start to the spring season along with the recent easing of mortgage rates are expected to encourage much-needed housing construction activity in 2023 – the housing shortage in the U.S. is estimated to exceed 3.5 million units.

“There is pent-up demand in housing as many buyers have sat on the sidelines, and builders will need to be prepared to fill this demand,” according to Sunbury.

“This may require temporary cuts on their margins to continue providing incentives and pushing inventory to offset buyers’ affordability constraints. Despite easing mortgage rates in January, affordability remained stretched for buyers with the average monthly mortgage payment for a median-priced home up 84% in January 2023 from January 2020.

“Although it is important to highlight that many builders will face constraints on acquisition, development, and construction loans in the near term given the recently evolving financial crisis, causing them to proceed with caution and limiting their ability to build.”

There Are 15 Million Vacant Homes

Kurt Carlton, president and co-founder of New Western, a private marketplace for residential investment properties, tells GlobeSt.com that the outlook for single-family production looks “bleak,” with an expected decline of over 30% compared to the previous year.

“As scalability remains a challenge, individual markets are taking matters into their own hands,” Carlton said. “Builders must plan everything, from securing the right zoning and permits, while those rehabbing homes have more flexibility. Consequently, independent rehabbers are stepping in to fill the gaps where they can, driven by demand.”

Carlton said that “interestingly, the U.S. has 15 million vacant homes, which are being utilized to meet housing demand that builders cannot fulfill.”

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