U.S. HOUSING STARTS DROP UNEXPECTEDLY

Multifamily-unit building plunges

SHOBHANA CHANDRA
BLOOMBERG

New-home construction in the U.S. unexpectedly fell in September on a plunge in multifamily building while permits rose more than forecast, in signs of fitful progress in residential real estate.

Residential starts declined 9 percent to a 1.05 million annualized rate, the lowest since March 2015, a Commerce Department report showed Wednesday in Washington. The median forecast of economists surveyed by Bloomberg called for a rise to 1.18 million. Permits, a proxy for future construction, jumped 6.3 percent to the fastest pace since November.

The latest figures raise the likelihood that homebuilding, which accounts for about 3 percent of the economy, dragged down gross domestic product growth in the third quarter for a second straight period. While hiring is solid and mortgage costs are near historical lows, faster wage gains and broader access to credit would boost sales and encourage developers to break ground on more residences.

"Residential construction may have been a drag on growth in the third quarter," said Ryan Wang, an economist at HSBC Securities USA in New York. "Multifamily construction is starting to level off," though "single-family still seems to be on a gradual growth trend," he said.

Work on multifamily homes, such as townhouses and apartment buildings, slid 38 percent to an annual rate of 264,000. Data on these projects, which have led housing starts in recent years, can be volatile. Starts on structures with at least five units were the lowest since June 2013.

Estimates for total housing starts in the Bloomberg survey of economists ranged from 1.1 million to 1.2 million. The previous month was revised to 1.15 million from a 1.14 million pace.

Permits increased to a 1.23 million annualized rate. They were projected to rise to a 1.17 million pace after 1.15 million the prior month, according to the survey.

The jump in permits "is another sign that single-family homebuilding is still growing," Wang said.

Single-family house construction rose 8.1 percent to a 783,000 rate, the most since February, from 724,000 the previous month.

Three of four regions posted a decline, led by the Northeast with a 36 percent drop, the report showed. Starts in the West were unchanged.

The National Association of Home Builders/Wells Fargo index of homebuilder sentiment eased in October from an 11-month high in the prior month, figures showed on Tuesday. A measure of the six-month outlook for sales climbed to the highest in a year.

Prospective buyers, while benefiting from low borrowing costs, are finding credit isn't easily accessible across the board and there aren't enough affordable properties to choose from. On the supply front, builders have said construction is being constrained by the limited availability of lots that are ready for building, and a shortage of skilled workers.