



Annual Housing Permits

June 5, 2014

Annual Coverage of Housing Permits

In 2013, the total number of new private housing units authorized for construction grew for the fourth consecutive year. According to the U.S. Census Bureau's annual Building Permits Survey (BPS), the total number of new private housing units authorized for construction increased by more than 160,000, or nearly 20 percent, in 2013 from 2012. Permits issued for single-family homes and multifamily buildings — structures that consist of two or more units — also grew at comparable annual rates (20 percent and 19 percent, respectively).¹ However, annual permit levels remain well below the levels seen before the Great Recession, as the housing market continues to recover.

In general, increases in permits issued and construction starts may indicate that there is higher current demand for housing or expectations that demand will increase in the future. Growth in permits may suggest that developers and builders feel confident about the economy and businesses' and consumers' willingness to buy real estate. As such, building permits data are seen as a leading indicator of construction activity and of the economy overall.

Permits Data Background

Each month, the U.S. Census Bureau surveys local building permit offices, most of which are

¹ While the BPS separates permits for structures of two to four units and structures of five units or more, we define multifamily units in this analysis as all non-single-family units, i.e., total permits less single-family permits.

municipalities, to collect data on permits activity. It then releases estimates for permits issued at various levels, including the county, metropolitan area, state, and national levels. National data are revised with each monthly release; however, estimates for state and other more local-level data are not revised on a monthly basis. For revised monthly data at the state, metropolitan area, or county level, though, we can look to the year-to-date (YTD) estimates, which are also released each month. The YTD data incorporate late reports from survey respondents and/or corrections made to data from prior months in the year.

Building permits data are volatile on a month-to-month basis, especially at smaller geographies. According to census documentation,² the monthly survey comprises roughly one-half of the permit-issuing places in the United States, selected using a stratified process. This sample includes all permit-issuing places in the 75 largest metropolitan areas (as measured by 2002 housing unit authorizations) and therefore represents a large share of total permit issuance. A more complete picture of permit issuance can be found in the annual BPS, which reflects data for the survey's universe of 20,000 permit-issuing places.³ However,

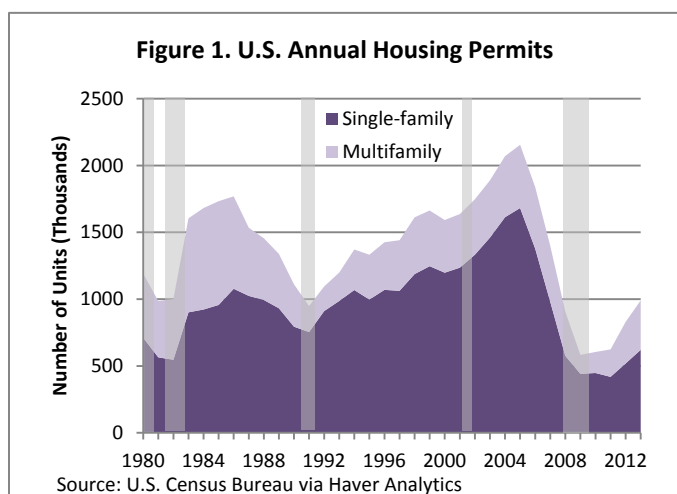
² See www.census.gov/construction/bps/how_the_data_are_collected/.

³ This universe reflects only areas with local permit requirements. According to the U.S. Census Bureau, housing units constructed in areas lacking permit requirements account for less than 2 percent of all private housing for the

these data are available on a lag. The Census Bureau released final annual estimates for 2013 for the nation and for all 50 states (and all other geographies) at the beginning of May 2014. This analysis examines trends in the annual permits data for the U.S. and the three states in the Third District using the recently released annual data.

Historical National Trends

Figure 1 plots total annual housing permits by housing type for the U.S. since 1980 as an area chart. Recessions are denoted by the gray bars. When the housing market is closely tied to the causes of a recession — as in the early 1980s recession, the 1991 recession, and particularly the Great Recession in 2007 — the impact of the recession can be seen in the permits data. Historically high interest rates in the early 1980s, which limited access to credit for home loans, contributed to a decline in permits in the second half of that decade.



The U.S. experienced a steady run-up in permits through the 1990s and the first half of the 2000s, as interest rates continued to fall and house price appreciation accelerated, peaking in 2005 when more than 2.15 million units had been authorized. Following the bursting of the housing bubble and the Great Recession, the number of permits issued bottomed out in 2009, at slightly above 580,000 units, representing a

nation overall — this amount varies across states and metropolitan areas.

73 percent decline. Since 2009, housing permits have been on the rise but remain at levels well below what was seen in the mid-1990s and early 2000s, consistent with the slow recovery of the housing market since it crashed. From 2012 to 2013, total, single-family, and multifamily permits each grew between 19 and 20 percent.

During the recovery, one notable trend in total permits issued has been the role of multifamily permits in driving permit growth. As shown in Figure 1, single-family housing permits, in dark purple, have historically represented the majority of total housing permits and continue to do so. Multifamily permits, in light purple, made up as much as 45 percent of total permits in the early to mid-1980s, but its share fell to nearly half of that following the 1990-91 recession.

During the recovery from the Great Recession, that share began to rise, as multifamily buildings and rental living became more attractive. The increase in demand for multifamily buildings could be caused by various factors: tightening in the mortgage market; the comparable affordability and flexibility of renting, particularly following the recession; and a change as part of a longer trend due to demographics or preference shifts, to name a few. Between 2010 and 2012, growth in multifamily housing permits strongly outpaced growth in single-family permits. In 2012 and 2013, the share of multifamily housing permits issued reached 37 percent, its highest level since 1986. This pattern reflects responses to shifts in consumer demand, particularly among younger households that prefer to rent.

Regional Trends

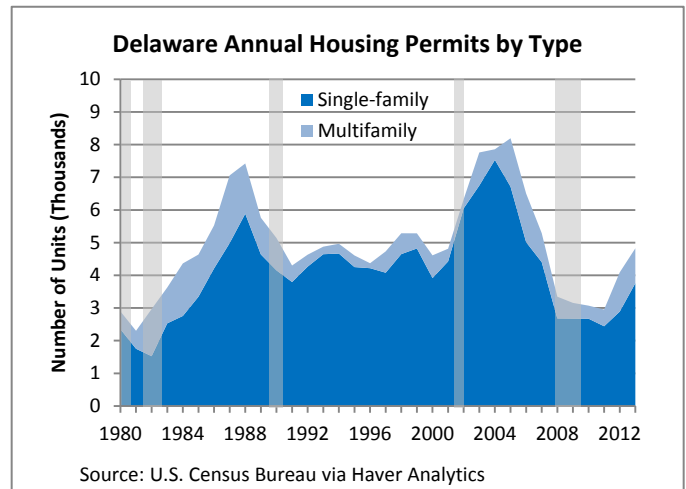
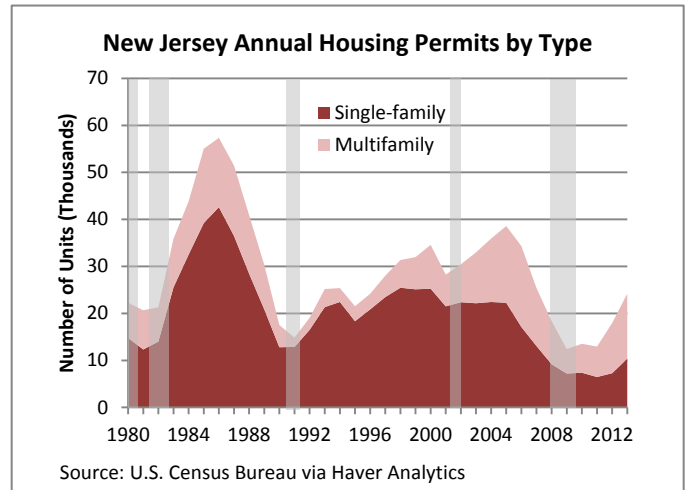
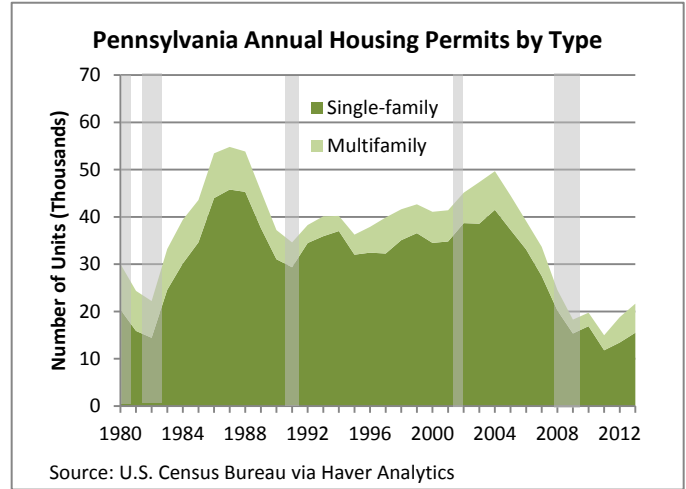
How do the states in our region compare with the overall national trends? Figure 2 shows annual permits for each of the three states in the region. Each state shows some variation in permit issuance from the overall national trend. Pennsylvania and New Jersey, which have older and more mature economies, experienced slower increases in housing permits leading up to the Great Recession, whereas the national pattern was driven by areas with larger housing bubbles, such as Florida and Nevada. Among

the Third District states, only Delaware had total permits in 2005 that exceeded their prior peak in the mid-1980s as did the nation, likely because of efforts to accommodate the influx of retirees to the small state. The number of permits issued in 2013 for each of the three states remains below levels seen prior to the recession; total permit issuance in New Jersey and Delaware has returned to levels seen in the mid-1990s, but total permit issuance continues to lag in Pennsylvania, showing little net growth during the recovery.

In Pennsylvania, New Jersey, and Delaware, total permits have increased each year since 2011. From 2012 to 2013, permits grew slightly slower in Pennsylvania and Delaware than in the nation, at 15 percent and 18 percent, respectively. New Jersey outpaced the region and country with a growth rate of 35 percent. Single-family and multifamily permits grew roughly in line with each other (15 percent) in Pennsylvania, while strong growth in single-family permits more than compensated for negative growth in multifamily permits in Delaware. In New Jersey, annual single-family permit growth (43 percent) exceeded multifamily permit growth (30 percent) in 2013 for the first time since the end of the recession. In 2012, multifamily permits increased 65 percent compared with 12 percent for single-family permits in New Jersey.

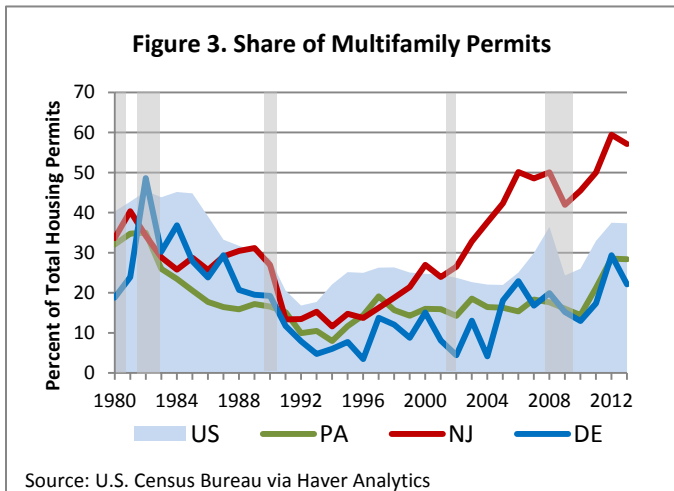
At the time of this report's release, YTD data for permit issuance were available through April 2014. These data allow us to compare the cumulative permit growth at this point in the year with its level at the same time last year. The total number of permits issued for the nation overall through April 2014 increased nearly 7 percent, but in the Third District, permit issuance has increased only in New Jersey while slipping somewhat in Pennsylvania and Delaware. Total permits issued in New Jersey through April 2014 increased 31 percent compared with the same four-month period last year; multifamily permits grew slightly faster at 38 percent.

Figure 2. State Annual Housing Permits by Type



Multifamily Permits in New Jersey

Compared with its neighboring District states, New Jersey has experienced a stronger pickup in permits issued during the recovery, particularly in multifamily permits. While some of this growth is the result of rebuilding due to Superstorm Sandy, most of it is due to multifamily construction in the northern part of the state. Figure 3 shows how multifamily permits as a percentage of total housing permits have changed since 1980 in the three states and the nation. As discussed earlier, the share of multifamily permits has grown in the U.S. during the recovery, and in 2013, multifamily permits made up 37 percent of all housing permits. The share of multifamily permits in Pennsylvania and Delaware has returned to levels from the early 1980s. Multifamily permits consistently account for smaller percentages of total housing permits in Pennsylvania and Delaware than in the nation.



On the other hand, the share of multifamily permits in New Jersey has not only increased during the recovery from the most recent recession but has also been on an upward trend since the mid-1990s, exceeding the national average since 2002. The most densely populated state continues to become denser: Between 1990 and 2010, New Jersey’s population increased by more than 1 million residents, or roughly 14 percent, according to census data. Recent housing developments in New Jersey have been focused in counties with more urban living and access to the New

York City market. When combined, Bergen and Hudson counties, in the northeastern corner of the state, accounted for 29 percent of all permits issued in New Jersey in 2012. Within the two counties, 87 percent of the permits issued were for multifamily buildings. Multifamily permits currently represent more than one-half of the total housing permits issued in New Jersey.

The housing recovery certainly has not been uniform across the country or even within individual states, and housing permit trends tell only part of the story. Despite its relative strength in permits growth compared with Pennsylvania, Delaware, and the nation overall in 2013 and in recent years, particularly in multifamily permits, New Jersey’s housing market is far from recovered. Foreclosure rates remain elevated, and homeowners struggle with underwater mortgages around the state (which in part feeds demand and permits for multifamily, rental living). According to a Haas Institute report titled “Underwater America,” three of the 10 hardest-hit cities (with populations above 100,000) as determined by the percent of homes underwater in 2013 were in New Jersey (Newark, Elizabeth, and Paterson). Further, New Jersey ranks among states with large numbers of hardest-hit zip codes. According to the Haas Institute’s report, 32 zip codes in New Jersey were classified as hardest hit, which is roughly one-half that of the state with the largest number of troubled zip codes and more than three times the number of hardest-hit zip codes in either Pennsylvania or Delaware (both of which have less than 10 each).

Summary

Housing permits data are seen as a leading indicator of economic activity because they suggest potential future construction and consumption. The number of total permits continued to rise on an annual basis in the nation and in the Third District states in 2013. Permits for multifamily housing comprise a larger share of total permits than they did prior to the recession, and in New Jersey, that share has been generally increasing for nearly two decades.

References and Suggested Reading

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