



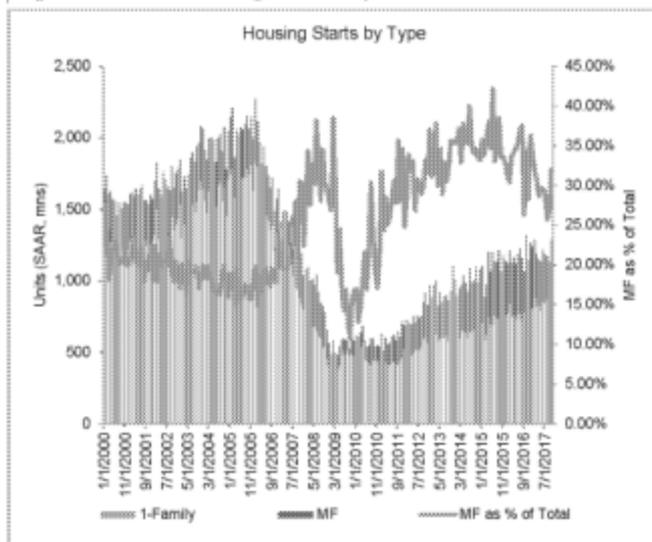
**New Residential Construction: Acceleration from 2017, Single-Family Leading the Way**

Similar to our outlook in residential R&R, we are expecting another solid year in new U.S. housing construction – as measured by housing starts. We expect the overall market to be up 6%, with single-family leading the way +10%, and multi-family likely to decline about 2% (a decelerating rate from 2017). In the latest reading for November 2017, U.S. housing starts were 1.297mn (SAAR), with single-family at 930k and multi-family at 367k. YTD through the same period, total housing starts were 1.121mn (+3.1% y/y) with single-family +8.7% y/y at 792k and multi-family at 329k (-8.2% y/y). This is slightly below our total estimate of +4% in 2017 (SF +7% and MF – 1%).

We expect the positive momentum going into the end of the year to remain with YTD building permits (as of November 2017) +4.4% y/y (SF +9.7% and MF – 4.5%). All the underpinnings to a healthy housing market remain mostly intact. 2018 should see accelerating GDP growth, strong consumer sentiment, and job growth. Housing starts remains below their long-term average of ~1.4mn, and below the average annualized housing formation figure of 1.2mn and demolitions +300k (proxy for demand). Moreover, homeownership rates appear to have reached an inflection point rising to 63.9% in 3Q17 from the trough of 62.9% in 2Q16. Specifically, the single-family residential construction market looks again to be the main overall driver. The *NAHB Wells Fargo National Housing Market Index* composite, in its latest reading, hit a cycle high of 74 with sub-components of *Single Family Sales: Present and Next Six Months* reading at 81 and 79, respectively, also cycle highs.

However, some caution is warranted as the potential impact of lowering the mortgage interest deduction (MID) and disallowing state and local tax (SALT) deductions, as contemplated in the current tax reform legislation making its way through Congress, could impact consumer behavior and impact overall affordability issues (discussed below).

Figure 6: U.S. Housing Starts By Unit



Source: Deutsche Bank, Bloomberg Finance LP, U.S. Census Bureau

Figure 7: U.S. Housing Starts v. Completions



Source: Deutsche Bank, Bloomberg Finance LP, U.S. Census Bureau