WASHINGTON—Both housing starts and permits for new construction rose in October, a sign residential construction is ramping up to meet steady demand.

But economists questioned whether the construction uptick would be sustained over the longer term, citing the much smaller increase in permits, as well as an anticipated rise in mortgage rates that could dampen home buyer enthusiasm.

Housing starts rose 25.5% in October to a seasonally adjusted annual rate of 1.323 million, the Commerce Department said Thursday, as multifamily housing starts came back with a vengeance. That was the highest pace since August 2007.

Single-family starts also continued to climb, reaching a rate of 869,000, another nine-year high.

Economists surveyed by The Wall Street Journal had expected overall October permits to fall to a 1.20 million annual rate and starts to rise to a 1.15 million pace. Construction typically begins a month or two after a permit is issued.

The larger-than-expected gains across all regions “reaffirm our view that steady improvement in the housing market is likely to continue over the next two years,” said Rob Martin of Barclays Bank PLC.

The volatile category of multifamily housing posted a dramatic rebound, with starts in structures with five or more units, such as condos or apartment buildings, notching a 74.5% gain to hit a rate of 445,000 in October.

But permits, which give a taste of how much construction is in the pipeline, grew at a milder pace. Building permits issued for privately owned housing units rose 0.3% in October from the prior month to a seasonally adjusted annual rate of 1.229 million, the highest pace in nearly a year.
Permits for single-family homes, about 60% of all permits, rose 2.7% to a rate of 762,000.

“Both single and multifamily starts now stand well above the pace implied by permits, and a correction over the next couple of months is inevitable,” said Ian Shepherdson, chief economist at Pantheon Macroeconomics.

Monthly housing figures are often choppy and can be subject to large revisions. September permits were unrevised at 1.225 million. September starts were revised up slightly to 1.054 million from 1.047 million.

October’s permits figure, based on a survey of local governments, had a margin of error of 2.0 percentage points. Last month’s starts number, based on a survey of builders and homeowners, came with a margin of error of 12.6 percentage points.

Both permits and starts fell sharply in the years leading up to the recession, as the housing crisis took hold, and remained near all-time low levels for two years after the recession ended. The construction gauges have rebounded since 2011, but the pace of gains slowed over the past year.

Through the first 10 months of the year, permits were up just 0.7% compared with the same period in 2015, reflecting a drop in permits for buildings with five or more units that nearly erased gains for single-family permits.

Starts were up 5.9% through October, again led by gains in the single-family sector.

Relatively stronger momentum for single-family home construction suggests that builders are responding to rising prices and steady demand for that segment, while construction of larger multifamily projects had been slowing until October’s bounce.

Sales of existing homes, about 90% of the housing market, have grown fairly strongly this year, reaching a postrecession peak in June, according to the National Association of Realtors. Steady job growth, wage gains and low interest rates on mortgages have supported home buying. But low inventory of new and existing homes is driving up prices, putting a purchase out of reach of some would-be buyers.

A National Association of Home Builders survey this week showed builder remained confident about the single-family housing market for new homes, as a gauge of home-builder sentiment held steady at 63 in November.

The Realtors group will release data on existing-home sales for October on Tuesday. The Commerce Department’s October report on new-home sales will be released on Wednesday.

The U.S. agency’s latest report on building permits and housing starts can be accessed at http://www.census.gov/construction/nrc/pdf/newresconst.pdf

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