

atHome

WHY IS HOME CONSTRUCTION SO EXPENSIVE?



Quick Guide and Featured Open Homes

Looking for a home? View comprehensive listings of local open houses taking place this weekend from all across the area.

Questions for Your Home Inspector

Knowing what to ask the home inspector after the final inspection and before closing on your new home may save you future headaches.

Transitioning Your Home After the Holidays

After the festive decor is all boxed up, you may feel your home is a little blah. A few simple transitions can keep your winter bright.

WHY IS HOME CONSTRUCTION SO EXPENSIVE?

This is a hot topic. There is no one cause, and therefore no silver bullet solution. Here are the main reasons:



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Labor Shortage

The single clearest reason is that the region's eight year building boom has resulted in an intense shortage of skilled labor. Labor prices are regional and Denver's forest of cranes is attracting contractors who would otherwise be available to build here. Every plumber, framer and electrician is able to command premium prices as their services are simply in high demand right now. Since the end of the Great Recession (which devastated the construction industry and forced many skilled builders to permanently leave the field), construction prices in the area have risen roughly 9% per year, every year. Which leads us to the second part of this issue – it's not just that prices are high, but that they are higher than you saw them last year. So if you heard that a house cost \$350 per square-foot from your builder friend last year, anticipate that they are probably about \$380 per square-foot this year. Lastly, as the price of housing increases in Boulder, more and more of the folks who design and build our homes have to drive from further and further away, which increases costs.

Building Codes

The rigor of building codes generally increases every year. Structural, mechanical, electrical and a host of green building codes are constantly being updated, and with each revision, it becomes more expensive to meet their requirements. For example, as energy codes are upgraded, you have to use better quality insulation, windows and mechanical systems. You do get a better, safer, more comfortable



Skycastle's Head of design/build, Brandon David, discusses a framing detail with Site Supervisor Tim Hoefling.

(Photo courtesy of Rodwin Architecture).

home with lower utility bills, but it costs more to build.

Low Quality, Aging Building Stock

The cost of new construction is affected by how much we need to change. The majority of our existing building stock was built between 1950 and 1990, which was a low point for quality in the history of residential building. So, every year, as these generally poorly designed and built homes age, the delta between them and a new code-compliant home gets larger and larger. The more we need to change, the more expensive the work.

Inventory Shortage

You know and understand that a constrained supply of new housing accelerates the price increases. However, unpacking the issue a little further, note that when there is a demand for less expensive housing, the market usually has the ability to respond with large subdivisions of production single-family housing, or higher density infill housing, both of which dramatically reduce

their cost per square foot of construction through economy of scale. As we start to run out of land, these two options become more scarce. Additionally, due to state construction defect laws we have very few local condo projects – another staple of lower cost housing. With single-family custom homes, due to high-land costs and banking rules for the value ratio of land-to-improvements, most of these new single-family homes are in the upper end.

Great Expectations

Homeowners have higher standards today than they did previously. A decade ago, if someone came to us wanting a “starter home” we might suggest plastic laminate countertops. Now, it starts at low-end granite. This shift in expectations is true in every category of construction.

Fixed and Soft costs

The requirements for fixed and soft costs have been rising. This includes the cost of permits, utility connections, and site improvements (like landscape

and sidewalks). Additionally, the amount of documentation required has increased every year and this drives up design and engineering fees. Lastly, greater risk requires greater reward and as projects encounter more obstacles, developers, builders, landlords and ordinary homeowners look for a higher rate of return on their development projects.

Cumulatively, all of these forces work together to dramatically drive up the cost of housing. Until we experience another regional slow-down in construction, I would not expect the cost of building to decrease or even level off.

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