

# Why is Housing so *Expensive*

## *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:

### *Labor shortage*

The single clearest reason is that the region's seven 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%/year every year. Which leads us to the second part of this issue – it's not just that prices are high, but it's that they are higher than you saw them last year. So if you heard that a house cost \$350/sf. from your builder friend last year, anticipate that they are probably about \$380/sf. 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, in the Boulder County foothills all construction

must now be ignition (fire)-resistant and all new homes must have a fire suppression (sprinkler) system. You do get a better, safer home, but it costs more. Note that the Boulder City and County areas also have more stringent codes than most surrounding municipalities, so the cost of construction here is correspondingly higher.

### *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 1950-1990, which was a low point for quality in the history of residential building. So, every year, as these generally poorly designed & 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 all know and understand that the constrained supply of housing accelerates the price increases. However, unpacking the issue a little further, note in most other areas when there is a demand for less expensive housing, the market has the ability to respond. Here we don't. There are no large subdivisions being built here, and the economy of scale of those subdivisions dramatically reduces their cost/sf. of construction. Additionally, due to a combination of state construction defect laws and anti-density rules and politics, we have very few local condo projects – another staple of lower cost housing. Since we have locally eliminated the two main types of entry-level housing, it means that nearly all housing is forced to be the most expensive kind – single-family

custom homes. And due to the high-land costs and banking rules for the value ratio of land-to-improvements, nearly all of these single-family homes are in the upper end. It's not feasible to buy a \$700K lot and put a \$200K house on it.

### *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. Nowadays, it starts at low-end granite. This shift in expectations is true in every category of construction.

### *Fixed & Soft costs*

The last issue is that Boulder's fixed and soft costs are higher than in neighboring municipalities. This includes the cost of permits, utility connections, and site improvements (like landscape and sidewalks). Additionally, the amount of documentation required in Boulder to obtain a permit is dramatically higher than in other cities and this drives up design and engineering fees. Lastly, greater risk requires greater reward and projects in the Boulder area have much higher likelihood of encountering obstacles than in other cities; therefore 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.

### **About the author:**

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