

Why Is Home Construction SO EXPENSIVE?

WILL IT STAY THAT WAY?

Beginning in 2010, Boulder construction prices have risen about 10% year-over-year until the arrival of the pandemic. For a hot second in April 2020, no one was building or buying anything; then, starting that May, it seemed like everyone in the country decided to move to Boulder County. Since then, local construction prices have risen an unbelievable 60%. It's an unprecedented increase that has paralleled the rise in real estate costs in general. And while the red-hot market has been good for many REALTORS®, the cost of construction is shocking and frustrating to nearly everyone who is trying to create their dream home here.



Every conversation we have with a new client starts with the question, "How much will it cost to build our new home?" I imagine you get this question too. An accurate answer is a bit complicated, but for a quick rule of thumb, the range \$500-800 per square foot is a reasonable place to start. (Apply that figure to *all* square footage, including unfinished spaces like garages and basements). And while it is easy to exceed that range, it is extremely difficult to go below it.

Here are the main reasons it's so expensive:

Labor Shortage

The single clearest reason is that the region's decade-long building boom has resulted in an intense, state-wide and chronic shortage of skilled labor. Every plumber, framer and electrician is able



to command premium prices as their services are in high demand right now. The Great Recession devastated the construction industry and forced roughly 50% of skilled contractors to permanently leave the field. Additionally, as the price of housing has increased in Boulder, more and more of the folks who design and build our homes have had to drive from further and further away, which increases costs. Lastly, the contractors' cost of doing business has increased dramatically as well — from salaries to gas and vehicles to the cost of everything they buy.

Supply-Chain Related Material Cost Increases

The price of a 2x4 has never been a front-page story. Until COVID-19. Suddenly everyone knew that lumber futures rose 400% in a single year. While that one category has come down dramatically in the last several months, it's still well above historical norms, and other high-fliers like steel are still in the stratosphere and going up and up. Most building materials had a less dramatic increase over the last 2.5 years (generally 15-100%), but still unprecendentedly large.



Building Codes

The rigor of Building Codes generally increases every year. Structural, mechanical,



electrical, green building and life-safety codes are constantly being updated, and with each revision, it becomes more expensive to meet their requirements. For example, in Boulder County, *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 surrounding municipalities, so the cost of construction here is correspondingly higher.

Low Quality, Aging Building Stock

The cost of 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 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.

Only High-End, Custom Single-Family Homes Allowed

You know and understand that the constrained supply of housing accelerates price increases. However, to unpack the issue a little further, note in most other areas of the country,

when there is a demand for less expensive housing, the market has the ability to respond. Other than a handful of Affordable Housing units in the city and unincorporated Boulder County, we don't have that ability. There are no large subdivisions being built here, and the economy of scale of those subdivisions dramatically reduces their cost per square foot 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 in the city and county — 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 economically feasible to buy a \$900K lot and put a \$500K house on it. The story is different in Longmont, Erie, Westminster and some of the other surrounding towns that have more land and less restrictive zoning rules. This has kept the price of housing more reasonable in those areas.

Great Expectations

Homeowners have higher standards today than they did previously. A decade ago, if someone came to us wanting a starter custom home, we might suggest plastic laminate countertops and vinyl windows. Nowadays, their expectations start at low-end granite and wood/aluminum-clad windows. The price delta between vinyl and wood windows is about 5x. This shift in expectations is true in every category of construction. Additionally, the geometry of a house has a large impact on its cost; a simple box with a gable roof and small windows is inexpensive to build, but most clients desire a more complex and extraordinary form, again seeking to match a quality level commensurate with the land cost. Rising buyer quality expectations are actually responsible for some of the largest cost increases over the last decade.

Fixed and Soft Costs

The requirements for fixed and soft costs have been rising, especially in Boulder. This includes the cost of permits, utility connections and site improvements like landscape and sidewalks. Additionally, the amount of required documentation and testing for permit and construction has increased every year, and this drives up design and engineering fees. Lastly, greater risk requires greater reward,



and projects in the Boulder area have a 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.

External Financial Forces

Between mortgage rates that jumped from 3% to over 7% in just two years, and the downturn in the crypto and stock market, many buyers' buying power took an enormous hit.

The Cost of Time

Lastly, between labor shortages, material supply chain delays and the sudden need to rebuild 1000 homes lost in the Marshall Fire, it takes much longer to build or remodel now than it did pre-pandemic. From the time someone contacts an architect and secures their land, it used to take two years to move into a custom home. Now it's three. The 50% increase in time costs proportionally more money for things like salaries of site supervisors, rental of porta-johns and the duration of a builder's risk insurance policy.

Crystal Ball — What's Next?

Cumulatively, all of these forces have been working together to dramatically drive up the cost of housing at a record pace over the last few years.

Despite the talk of a possible recession nationally, the local custom home market has such a pent-up demand, it has so far remained fairly insulated from the housing downturn that is now materializing elsewhere in the country. Nationally, despite the U.S. being short about 4 million housing units, current predictions anticipate a fairly substantial retraction in housing prices and a corresponding reduction in housing construction starts. The latter will likely put a welcome damper on the cost of construction products like lumber and appliances everywhere, including Boulder County. However, until we experience a local slow-down in construction demand (which is unlikely for several years due to the Marshall Fire rebuilding), coupled with a strong international revitalization of the supply chain, I anticipate that while there might be a leveling off of construction costs, there won't be a reduction in the foreseeable future.



What about Marshall Fire reconstruction costs?



Many people have asked us, given everything we've listed in this article, how we can solve the tragic dilemma of the enormous gap between what insurance companies are willing to pay for rebuilding and what it actually costs. There are lots of ways people are working on this conundrum: grants from the community foundation and the state; generous Energy Star and Passive House rebates from Xcel; pro bono services, donations and discounts from

local businesses, architects, builders and material vendors; exemptions from some building code updates; and creative delivery methods like manufactured housing, or banding together with their neighbors to allow production homebuilders to bring an economy of scale to the endeavor. There is no silver bullet to solve the whole problem, but all these concerted community efforts have helped to mitigate some of the worst impacts of the financial gap. See a list at cgbg.org/resources and rebuildingbetter.org/chapter-three.