



THE STATE OF HOME BUILDING

THE STATE OF REAL ESTATE PANEL



OVERVIEW

- Construction Cost Drivers
- Public Policy Challenges
- Policy Solutions



COST DRIVERS

- **The 4 L's:**

- Land
- Lumber (Materials)
- Labor
- Loans

- **Regulations:**

- Land Use/zoning
- Inclusionary Zoning
- Entitlement process
- Government exactions
 - Impact fees
 - Tap Fees
 - Permits



COST DRIVERS

- NAHB's most recent Construction Cost survey (conducted in September of 2017) indicates that, on average, 55.6 percent of the final sales price goes to construction costs, 21.5 percent to finished lot costs, and 10.7 percent to builder profit
- Construction cost includes all the costs paid by a builder, including costs of materials, labor and subcontractors

- Source: NAHB



COST DRIVERS

- **Land:** 18% of the cost of constructing a new single-family home
 - 10 years of supply is healthy
 - Currently we have about a 5-year supply
 - When the supply of land is constrained, the cost of developable lots increases
 - This exacerbates the affordability problem

Source: Shift Research Labs



COST DRIVERS

- **Lumber/Materials:** 29% of the cost of constructing a new single-family home
 - Softwood Lumber Agreement with Canada expired in 2015
 - Tariff imposed averaging just over 20%
 - Lumber prices have increased, reaching an all-time high in June 2018, adding up to \$9,000 to the cost of a home – thankfully, lumber prices have come back down from that peak
 - Ready-mix concrete and gypsum prices up over 20%
 - Interestingly, copper wiring prices have gone down by 20%



COST DRIVERS

- **Labor:** 21% of the cost of constructing a new single-family home
- Colorado has a 2.7% unemployment rate, a growing population, and a shortage of skilled construction labor – Colorado needs more homes but doesn't have the workers to do it
- The Denver Post reports that Colorado is facing a labor shortage that will become worse over the years, expanding to 96,000 vacant construction jobs by 2025, a 38 percent increase from today
- Low unemployment, an aging workforce, and massive layoffs during the recession are among the reasons for the lack of labor



COST DRIVERS

- **Labor:**

- NAHB and Wells Fargo conduct a survey of home builders called the Housing Market Index
- The December 2017 survey showed “Cost/availability of labor” as the top concern, with 82% of builders reporting they faced this problem in 2017. The July 2017 responses showed all-time high readings on shortages of subcontractors and nearly all-time highs on shortages of employees
- Higher costs in construction due to labor scarcity is one factor responsible for recent home price gains. These price increases have in turn reduced housing affordability to a 10-year low, according to the NAHB/Wells Fargo Housing Opportunity Index
- The effects of the scarcity and higher cost of workers are clear – NAHB data indicates longer build times, more delays, and higher costs for workers and subcontractors

Source: NAHB



COST DRIVERS

- **Labor:**
 - Careers in Construction (CIC)
 - Industry response to the labor crunch, to do our part to grow the domestic labor force for construction, especially in the skilled trades
 - CIC is a joint effort with the Associated General Contractors Colorado and was started in Colorado Springs, but efforts are being made to replicate its success in Denver Metro
 - CIC partners with area high schools and educators to put vocational training back into schools
 - *Pat Hamill, CEO of Oakwood Homes, said he believes students do not choose construction because they were not exposed to the benefits. He says the notion that “everyone goes to college” is hurting students. They have options, he said. Go to college and graduate with \$100,000 in debt or go into industry and end up with a \$100,000 salary*



COST DRIVERS

- **Loans (Capital)**
 - Construction financing is reportedly available, but more builders are having to use non-conventional lenders at higher interest rates
 - What isn't readily available is financing for land
 - Hard money lenders willing to lend, but the costs are higher than capital from institutional lenders
 - Are Metro Districts an answer to maintain attainable housing?

Source: Denver Business Journal



COST DRIVERS

- **Regulations**
 - Land use/zoning
 - Entitlements
 - Permits
 - Tap and Impact Fees



COST DRIVERS

- **Regulations:**

- NAHB estimates, based on the latest data, that on average, regulations imposed by government at all levels account for 24.3 percent of the final price of a new single-family home built for sale. (32% for multi-family)
 - Three-fifths of this—14.6 percent of the final house price—is due to a higher price for a finished lot resulting from regulations imposed during the lot's development
 - The other two-fifths—9.7 percent of the house price—is the result of costs incurred by the builder after purchasing the finished lot
 - The cost of regulation in the price of a new home is rising more than twice as fast as the average American's ability to pay for it



PUBLIC POLICY CHALLENGES

- Construction Litigation Reform
 - Arbitration Bills
- Immigration Reform
- Workforce Development
- Metro/Special District Changes
- Impact Fees – vary widely in name and cost, not all our transparent, some lack a clear nexus to service
- Taxing housing to make it more affordable
- Water Resources/Availability
- Housing Growth Limitations



POLICY SOLUTIONS

- Continue construction litigation reform
 - Defend against attempts to undo litigation reform via arbitration “reform”
- Pass meaningful immigration reform
- Fund, and partner with industry, on workforce development programs
- Promote the sound use of metro districts as a way to build more affordable product
- Don't increase impact fees and ensure there is a clear nexus between fee and service



POLICY SOLUTIONS

- Don't pass transfer fees/taxes in the name of making housing more affordable
- Create more water storage
- Implement fallowing and leasing programs instead of “buy and dry”
- Don't artificially restrict housing supply via arbitrary housing growth limits!



CONSTRUCTION FORECASTS

- Measured growth: New single-family housing starts are projected to increase in 2020
- Multifamily is projected to decrease from from '19-'20, as it was from '18-'19
- New single-family home sales are also projected to increase in 2020 but existing home sales are slated to decrease in the same period.
- But interest rates are also expected to continue to increase during the same period
- Technology is increasing, but needs to improve – increased worker productivity gains are tough with the lack of skilled labor



QUESTIONS?

Thank you for having me!