THE STATE OF HOME BUILDING

DENVER CHAMBER
PUBLIC AFFAIRS COUNCIL
FEBRUARY 27, 2020
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 2019) indicates that, on average, 61% (up 5% from 2017) of the final sales price goes to construction costs, 18% to finished lot costs, and 9% to builder profit.

• Construction cost includes all the costs paid by a builder, including costs of materials, labor and subcontractors.

Source: NAHB
Top 10 Significant Problems Faced in 2019 and Expect to Face in 2020

- Cost/availability of labor: 87% Faced in 2019, 85% Expect to face in 2020
- Building material prices: 66% Faced in 2019, 66% Expect to face in 2020
- Cost/availability of developed lots: 63% Faced in 2019, 66% Expect to face in 2020
- Impact/hook-up/inspection or other fees: 58% Faced in 2019, 60% Expect to face in 2020
- Gridlock/uncertainty in Washington making buyers cautious: 45% Faced in 2019, 56% Expect to face in 2020
- Development standards (parking, setbacks, etc.): 47% Faced in 2019, 50% Expect to face in 2020
- Difficulty obtaining zoning/permit approval: 47% Faced in 2019, 48% Expect to face in 2020
- Local/state environmental regulations and policies: 40% Faced in 2019, 45% Expect to face in 2020
- Negative media reports making buyers cautious: 39% Faced in 2019, 44% Expect to face in 2020
- Inaccurate appraisals: 41% Faced in 2019, 40% Expect to face in 2020

Source: HMI Special Survey, NAHB EcHpt.
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
  - 66% of builders believe cost and availability of lots will be an issue in 2020

Source: Shift Research Labs
COST DRIVERS

• **Lumber/Materials:** 29% of the cost of constructing a new single-family home
  
  • Softwood Lumber
    • Lumber prices reached 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
  
  • Gypsum
    • Building materials prices held steady in 2019 Q4 but ready-mix concrete prices grew throughout 2019

Sources: Shift Research Labs; NAHB
COST DRIVERS

• **Labor:** 21% of the cost of constructing a new single-family home

• Colorado has a 2.5% unemployment rate, a growing population, and a shortage of skilled construction labor –

• The Denver Post reported that Colorado’s labor shortage will expand 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

• 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

Sources: Shift Research Labs; Denver Post; 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 – hard money rates can range from 10-15%
  • Metro Districts an answer to maintain attainable housing?
COST DRIVERS

• **Regulations**
  • Land use/zoning
  • Entitlements
  • Permits
  • Tap and Impact Fees
COST DRIVERS

• Regulations:
  • NAHB estimates regulations imposed by government at all levels account for 24.3 percent of the final price of a new single-family home - 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

Source: NAHB
PUBLIC POLICY CHALLENGES

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

• Continue construction litigation reform
  • Defeat attempts to reverse 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

• Create more water storage and innovate water supply - fallowing and leasing programs instead of “buy and dry”

• Ensure state allocates CHIF funds to for-sale housing

• Don’t pass transfer fees/taxes in the name of making housing more affordable

• Don’t increase the statute of limitations on construction defects

• Don’t artificially restrict housing supply via arbitrary housing growth limits!
• Affordable housing legislation from 2019:
  • HB 1228 – doubling of LIHTC from $5-10 MM
  • HB 1319 – Identify state land for development of affordable housing
  • HB 1322 – Transfer unclaimed property fund monies to DOH Housing Investment Fund
  • HB 1245 – Vendor fee funds to DOH Housing Investment Fund
In 2020, Rep. Shannon Bird is proposing a funding allocation bill.

- Would create a formula to utilize new Colorado Housing Investment Fund funds to ensure a portion goes toward for-sale housing.
- 15% or funds to be allocated to for-sale housing proposed.
- AMI Threshold a major sticking point.
CONSTRUCTION FORECASTS

- Measured growth: New single-family housing starts are projected to increase in 2020
- Multifamily is projected to decrease from ʼ19-ʼ20, as it was from ʼ18-ʼ19
- New single-family home sales projected to increase in 2020 but existing home sales are slated to decrease in the same period.
- Interest rates 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
Attached New Home Starts in Denver Metro Now Represent 37% of Activity
QUESTIONS?

Thank you for having me!