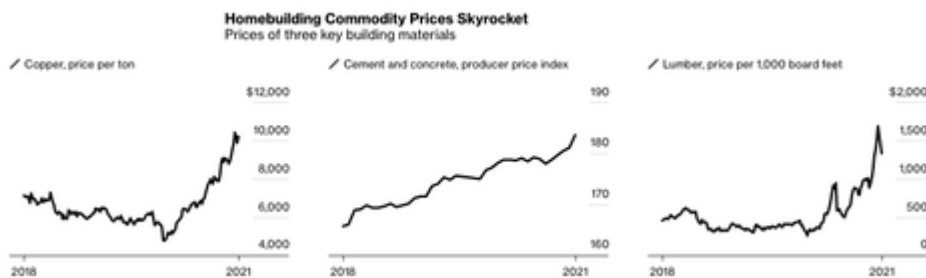




Building Your Dream Home Has Never Been More Expensive

Description

USA: Surging construction costs to build a new home is not sustainable and is becoming a pain in the arse for homebuilders and prospective homebuyers. From concrete to lumber to copper pipes to paint and even appliances, costs have surged over the past year.



Source: Bloomberg

The housing boom sparked by the Federal Reserve during the virus pandemic was built on historically low mortgage rates (thanks to Powell) and accelerated by a combination of record-low inventory as city-dwellers moved to rural areas amid the remote-work phenomenon.

According to Zillow Group Inc, the past year has been the hottest real estate market since 2007. Economist Robert Shiller, the co-founder of the S&P CoreLogic Case-Shiller home price index, recently [told](#) CNBC that “in real terms, home prices have never been so high. My data goes back over 100 years, so this is something.”

Making matters worse is a shortage of materials as there is just too much demand from builders and not enough supplies due to supply chain disruptions. There’s also the issue of not enough buildable land. All of this has manifested into dangerous inflationary pressures vibrating not just through the housing market but the entire economy that may force Federal Reserve to announce tapering at Jackson Hole. It wouldn’t be surprising if MBS purchases from the Fed would be some of the first to be reduced.

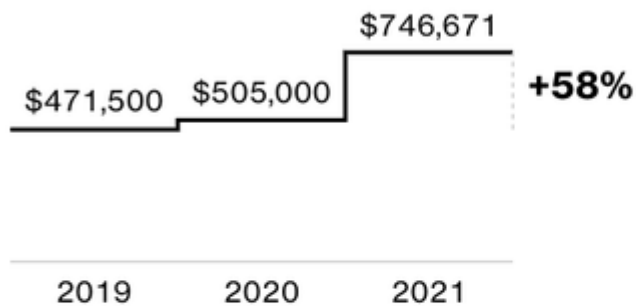
Bloomberg provides an example of surging housing costs in one of the hottest housing markets in the

country: Boise, Idaho.

Steve Martinez, the operator of Tradewinds General Contracting Inc., said his company had to raise costs on some of its new builds to offset high raw material and labor costs.

Martinez said the sale price of a 3,000 sqft, which excludes the lot but includes costs, labor, and profit, was \$746,671 this spring. He said that's 58% higher than two years ago in 2019. These costs are primarily the reason why home prices are surging.

Builder's selling price, excluding lot, of Baybrook Model in Boise, Idaho

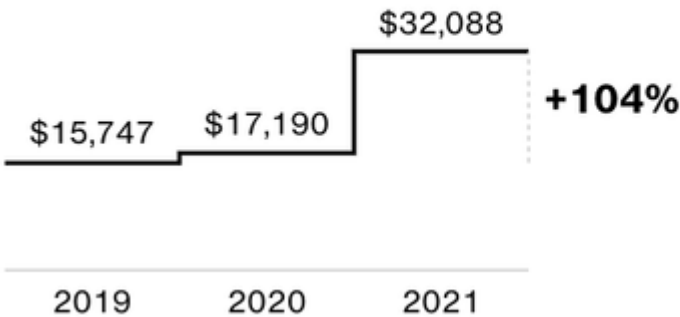


Tradewinds says their sale price of the Baybrook—which excludes the lot but includes material costs, labor and profit—was \$746,671 in spring 2021. That's 58% higher than two years earlier, before the Covid-19 pandemic and low borrowing rates spurred a buying wave. Skyrocketing costs for several key building materials are largely behind the dramatic increase in the home's price.

Source: Bloomberg

Foundation costs for the builder jumped 104% since 2019.

Foundation, Concrete Slabs



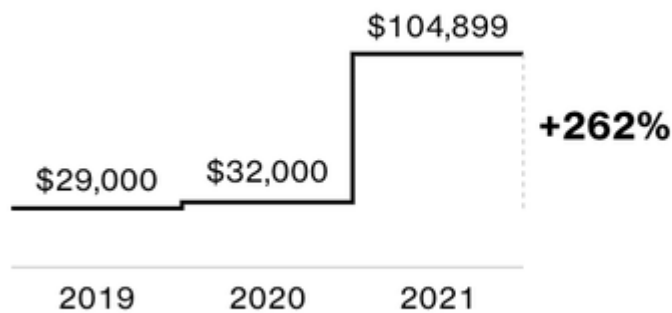
Includes concrete and trade labor costs; excludes excavation costs

The demand surge from the U.S. building boom has lifted concrete prices sharply, placing it second to lumber in terms of price increases for this house. Even before the pandemic caused an influx of new single-family house purchases, concrete prices were on the rise and reached a record in April.

Source: Bloomberg

Lumber costs are one of the most significant issues for the builder. Prices have nearly surged 262% since 2019.

Lumber



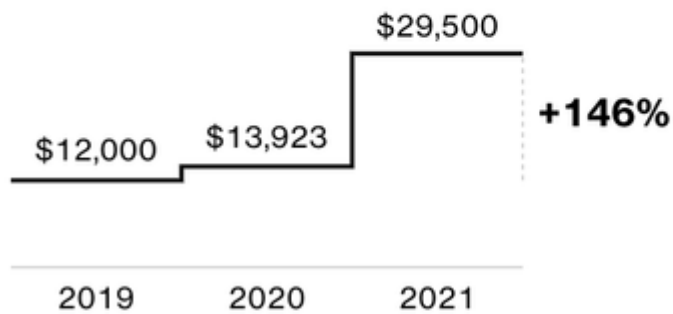
Excludes trade labor costs

This is the biggest pain point by far, as costs for this house have nearly quadrupled from 2019. Many builders still view lumber as the best economic choice to frame a house when compared with steel and concrete. It's not just the two-by-fours that go into the framing. Builders are paying up and waiting longer for oriented strand board (OSB), a lower-cost stand-in for plywood. The price of these panels soared to a rare premium over plywood in October, and they've since been in short supply.

Source: Bloomberg

Timber roof trusses to frame a structure to support the roof have more than doubled since pre-pandemic levels.

Trusses



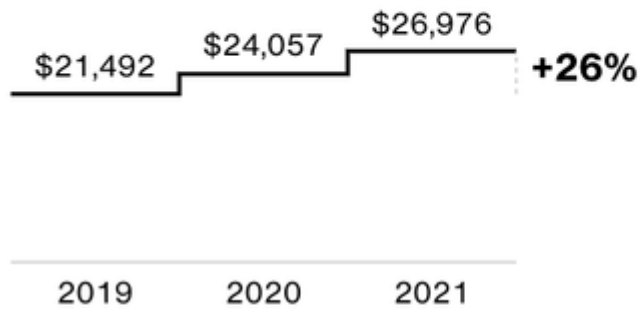
Excludes trade labor costs

Wooden roof trusses are made off-site, precision cut, and attached atop the outer bearing walls. Their cost has risen sharply along with lumber prices, more than doubling for this model from pre-pandemic levels.

Source: Bloomberg

Meanwhile, drywall, used for interior walls and ceilings, has only risen 26% since 2019.

Drywall and Insulation



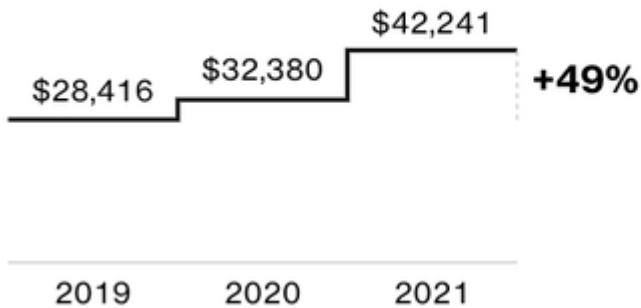
Includes materials and trade labor costs

Drywall, used for interior walls and ceilings, goes by names ranging from sheet rock to wallboard. The panels are made up mostly of a mineral called gypsum, which has risen in cost with the surge in demand.

Source: Bloomberg

With plastic and base metal prices soaring, plumbing, HVAC, and electrical costs are up 49% since 2019.

Plumbing, HVAC and Electrical



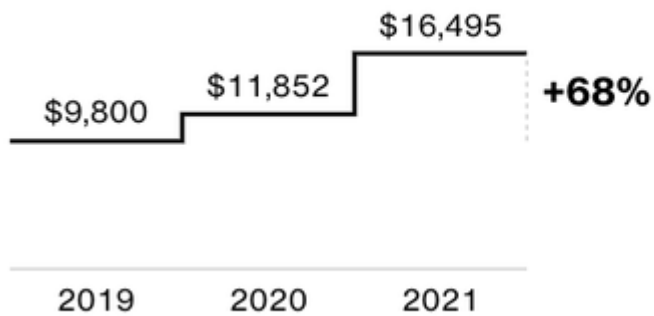
Includes materials and trade labor costs

Builders are also having to pay up for plumbing, thanks to a shortage of PVC pipes, which are made of polyvinyl chloride and are commonly installed rather than metal. The severe 2021 winter storm that temporarily took down power in Texas, where most PVC is manufactured, reduced U.S. supplies. Record high copper prices, meanwhile, are adding to the cost of electrical wiring throughout the house.

Source: Bloomberg

Interior and exterior paint have risen 68% since 2019.

Paint



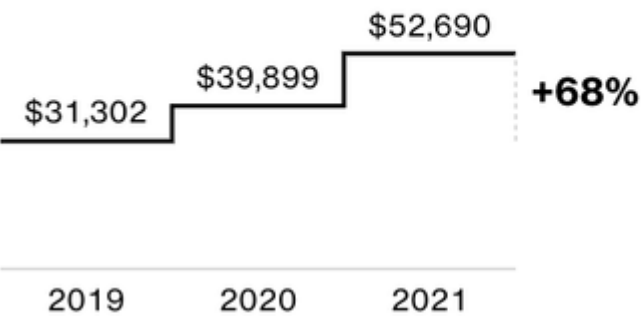
Includes materials and trade labor costs

The February 2021 winter storm disrupted paint manufacturing in Texas, at a time of strong home building and renovation demand. Ripple effects are still being felt in the supply chain, as chemical manufacturers in Texas struggle to keep up with demand for many products including paint. Meanwhile, builders race to put the final touches on thousands of newly built homes, forcing prices higher.

Source: Bloomberg

Custom millwork, such as trim around doors, paneling, and cabinetry, has surged 68% since 2019.

Trim Materials and Cabinets



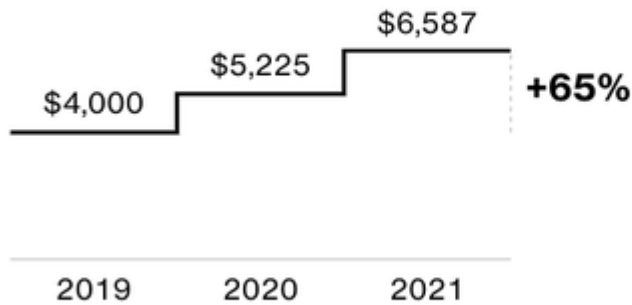
Includes materials and trade labor costs

The higher cost for wood is also being felt in the smaller, finer work, including the trim around doors and windows, and cabinets in kitchens and bathrooms. Demand from partial home renovations has also pushed up the prices.

Source: Bloomberg

Appliances are up 65% from 2019 levels due to increasing demand and not enough supply.

Appliances



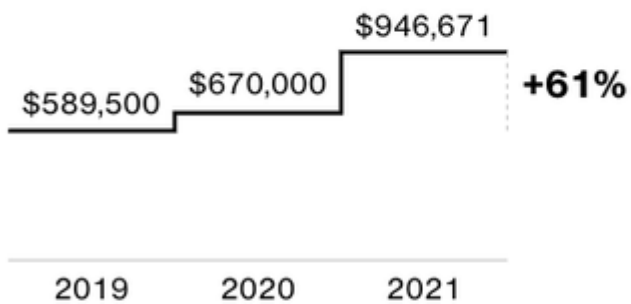
Excludes trade labor costs

Prices for appliances are surging, with major manufacturer Whirlpool Corp. phasing in price increases of between 5% and 12% this quarter due to strong demand and higher metal costs. "Material costs are still increasing," and will likely keep doing so until the third quarter, Chief Financial Officer Jim Peters said in an April interview. The company has been able to pass on those costs, he said. "Right now, demand is just so solid in new home construction, in remodels, in replacements, all areas are really strong."

Source: Bloomberg

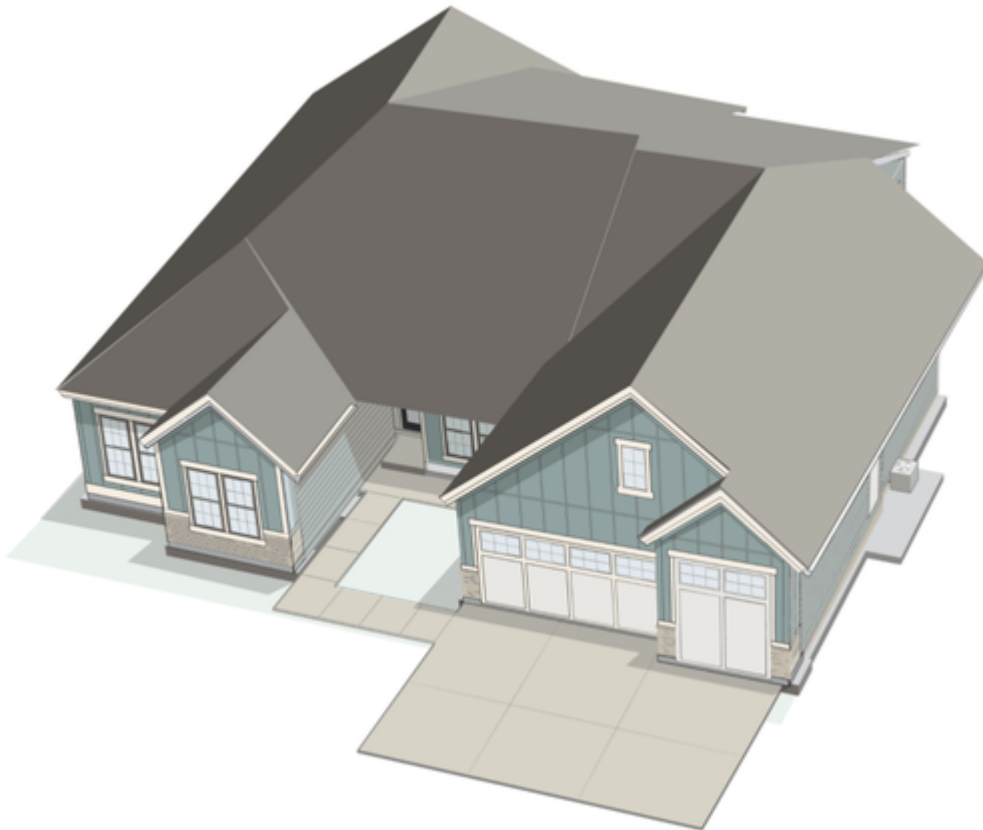
Factor this all together, the Boise homebuyer purchasing a 3,000 sqft home from the builder is forking over \$950,000, up 61% from 2019.

Cost of the Finished Home to a Buyer



Ultimately, buyers are on the hook for the higher costs. After paying for the lot this Baybrook model sits on, the final price to the buyer for the finished home is about \$950,000, up 61% from 2019.

... and here's the final product.



Source: Bloomberg

The cost of building a home has rocketed higher in a post-pandemic world that could soon be an

industry killer as housing affordability becomes a significant issue. This is why the Fed needs to get a hold of inflationary pressures by unleashing tapering.

“This could be industry killing if things continue going the way they’re going,” said Martinez, who has had to tack on price increases during construction of anywhere from \$40,000 to \$100,000, primarily due to rising lumber costs. “We’re putting projects off. We’ve got clients that are hitting their price ceiling.”

Record-high housing prices have already begun to [dent](#) homebuyer confidence as prices become unaffordable.



It's time for the Fed to end their grand experiment in juicing the economy and let the price of everything normalize.

by Tyler Durden

Date Created
06/07/2021