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Despite Record-High Costs, New Home Construction Showed Modest Growth in the Fourth Quarter, Redfin Finds

Builders Cited Labor and Land Shortage, Rising Lumber and Regulatory Costs as Top Barriers to Building More Homes

In Raleigh, 31.2 Percent of All Homes Sold in Q4 Were New Construction, the Highest Share of Any Metro

SEATTLE, March 1, 2018 /PRNewswire/ -- (NASDAQ: RDFN) -- New construction homes accounted for 16.4 percent of all single-family homes for sale in the fourth quarter of 2017, up from 14.2 a year earlier, according to Redfin (www.redfin.com), the next-generation real estate brokerage. The median price of new single-family homes that sold last quarter was $377,800, the analysis found, up 1.6 percent year over year. Compared with existing homes, new construction sold at an average premium of $86,400 in the fourth quarter. Existing home prices increased 7.3 percent year over year.

"New homes are more expensive than existing homes, and their prices tend to grow at a slower rate," said Redfin chief economist Nela Richardson. "However, new homes' slower price growth belies their advantage to buyers in the hottest markets. Buyers in these highly competitive markets have been attracted to new construction as a way to avoid bidding wars. They often find it's easier to negotiate with a single builder than to compete with several buyers and negotiate with a traditional seller."

A key factor in the high price of new homes is rising construction costs. The estimated labor and materials cost of constructing a single-family home increased 1.2 percent year over year in the fourth quarter to $244,000, the highest level since the Census Bureau began reporting it in 1988.

Despite record-high construction costs, housing starts—the number of new residential homes that began construction—rose to 1.3 million in January, the strongest pace on record since 2007 and 7.3 percent above the January 2017 rate of 1.24 million. As housing starts provide insight into what's ahead for the housing market, this growth marked a key milestone in post-downturn recovery for housing.

Still, the supply situation at present remains dire. In January, housing starts were 11.6 percent below the historical average (see chart). The total number of homes for sale in January was 14.4 percent below where it was a year prior, marking 28 consecutive months of declining inventory. With strong buyer demand expected to continue this year, there are still not nearly enough homes for sale. Though building more homes would seem like the obvious solution, a number of obstacles are standing in the way of construction.

"We are growing, but not fast enough to keep up with demand," said Robert Dietz, chief economist for the National Association of Home Builders (NAHB).

So Why Aren't More Homes Being Built?

The largest challenges facing homebuilders and hindering residential construction, according to Dietz, include:

- **Labor Shortage:** Cost/availability of labor was builders' top concern in 2017, cited by 82% in a December NAHB survey. "The residential construction industry lost 1.5 million jobs during the Great Recession," said Dietz. "We haven't gained more than 800,000 back since then."
- **Lumber Prices:** Lumber prices have risen steadily since 2015 to their highest on record, peaking on February 23—up 45% year over year. Prices are likely to continue to rise due to a tariff on Canadian lumber added last year. According to Dietz, Canadian lumber accounts for one-third of all that used in constructing American homes.
- **Land Shortage:** Cost/availability of developed lots was cited by 58% of builders as a major challenge in 2017, and 65% expect the same in 2018. Zoning restrictions and evolving government regulation of where and how homes can be built exacerbate the land shortage.
- **Regulatory Costs**: According to the NAHB, there are more regulatory agencies involved in the building process at all levels of government than ever before, resulting in a 29.8% increase in regulatory costs between 2011 and 2016. The same study found that regulatory costs from all levels of government account for 24.3% of the final price of a home in the U.S., consistent with 2011, when regulatory costs accounted for an estimated quarter of a home's final price.
- **Limited Credit Since the Recession:** According to Dietz, lenders mostly granted loans for multi-family projects after the recession, which were considered less risky. This limited construction of single-family houses. The third quarter of 2017 marked 18 consecutive quarters of loan growth, according to the NAHB. While still strict, lending conditions have eased somewhat.

Metro-Level Highlights for New Construction in the Fourth Quarter:

- Raleigh, NC had the highest portion of new home sales over the last three months, with 31.2% of all homes sold being new construction. Austin, TX and Nashville, TN followed behind at 26.3% and 26.1%, respectively.
- Three of the four metro areas with the lowest shares of new construction sales were in New York led by Buffalo, NY at just 0.9 percent of home sales followed by Rochester, NY (1.7%) and Hudson Valley, NY (2.0%). San Diego followed behind (2.2%), along with four other California metros that ranked in the bottom 20% of all metros for lowest portion of new construction—each with under one in 30 home sales being new construction.

- The metro areas with the highest year-over-year price growth per square foot for new construction sales last quarter were Tucson, AZ (16.3%), Chicago, IL (16%) and Las Vegas, NV (14%). The coastal Florida metros of Miami and West Palm Beach each posted price drops per square foot for new construction homes—falling 18.2% and 13.4% year-over-year. Honolulu, HI posted the largest year-over-year decline in price per square foot for new construction with a 36.2% drop.
- The estimated cost of constructing a new unit during fourth quarter was the highest in Long Island, NY at an average of $403,000 per home. Tucson, AZ ($280,000), Hudson Valley, NY ($260,000) and Honolulu, HI ($258,000) rounded out the top four for average cost per unit permitted.
- North Port, FL, Raleigh, NC, and Austin, TX are building the most homes per capita at 29, 26 and 26 units per 10,000 residents, respectively. In contrast, Allentown, PA and Long Island, NY had far fewer new homes in the pipeline both with only 0.7 units permitted per 10,000 residents in each metro.
- A look at the total volume of building permits reveals that the metro areas poised to build the most new homes in the coming months are Houston, TX (10,182), Dallas, TX (9,249), Phoenix, AZ (6,933), and Seattle, WA (6,827).
- Those with the largest year-over-year increase in units permitted include Honolulu, HI (161%), Detroit, MI (104.9%) and Boston, MA (69.2%).

In conjunction with its quarterly report on new residential construction, Redfin makes available on its Data Center a downloadable set of data on new construction prices, sales, inventory and other new residential market statistics. Redfin is also releasing building permit data—provided by the Census—allowing users to analyze average construction costs and compare the number of units built per capita across regions. Both datasets are available for download at the National, Metro, and County Levels since 2012.

To read the full report, complete with data visualizations and downloadable datasets, please visit: https://www.redfin.com/blog/2018/02/new-construction-report-q4-2017.html

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