RESEARCH BRIEF
HOUSING

JUNE 2021

Surging Prices, Supply Shortages Have Impacts Beyond Housing Segment

Restrained stock and rising costs pose challenges for developers. Over the past year, a lack of available building materials and skilled labor contributed to sizable surge in prices and delayed or canceled the completion of some residential and commercial real estate projects. Year over year, the cost of lumber has jumped 90 percent and steel prices rose 67 percent, while gypsum used to make drywall is up 12 percent and concrete rose 3 percent. Labor costs are also escalating. Hiring in the construction sector as of April was within 3 percent of the pre-pandemic level. This is creating a shortage of skilled laborers in some areas of the county and pushing wages up. Meanwhile, the historically low cost of financing, increased level of savings, and the need for more people to work and school online has generated demand for home remodeling and larger residences. The surge in home improvement and new construction has increased the demand for building supplies while many factories that supply these materials were working at diminish capacity, disrupting supply chains.

Higher building costs impact profits. It is estimated that the leap in the prices of building supplies has added roughly $36,000 to the construction of a home and $119 to the monthly rent of a new apartment. Over the past 12 months that ended in April, the median price of a new single-family residence vaulted 20.3 percent to a record of $381,000. The elevated costs and longer construction time frames may limit developers' ability of capitalize on high demand, especially if the cost of financing continues to increase. One bright note is that single-family permitting has outpaced the February 2020 level for a eighth consecutive month, although some builders may be delaying construction starts as they wait for supply disruptions to ease.

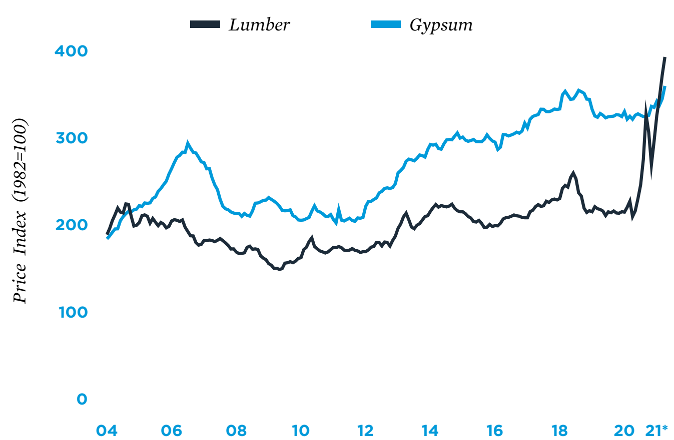
Impact extends into other real estate sectors. Rising costs may also have a chilling effect on commercial construction as more planned or proposed projects are no longer economically viable and are canceled or delayed. As some lower-margin projects are shelved, inventory additions may be limited to higher-end developments in sectors that were more prosperous during the pandemic, concentrating deliveries in industrial, medical office and single-tenant net lease segments during the next few years. Inconsistent supply chains may cause construction companies to stockpile building materials as they become available, which may generate a rise in short-term industrial and self-storage demand. Meanwhile, the increased costs and tight labor supply may affect the bottom line of office and retail owners as the price and time frame of tenant improvements escalate.

Developing Trends

Existing housing prices set record. Robust demand for homes amid a tight supply of available inventory helped push the median price of an existing residence up 20.3 percent year over year to a new high of $345,900 in April. The average days on the market, meanwhile, dropped to 17, down from 27 during the same period last year, and many are selling above asking price. As costs climb, more potential homeowners are considering more affordable locations. Meanwhile, the surge in prices may motivate more people to list their homes for sale, which could increase supply in the months ahead.

$345,900	*Median Price of Existing Home in April 2021*	**2.2**	*Months of Supply of Existing Homes for Sale in April 2021*

Building Supply Prices Escalate



** Through April*

Sources: IPA Research Services; Capital Economics; Moody's Analytics; Mortgage Bankers Association; National Association of Realtors; National Association of Home Builders; RealPage, Inc.; U.S. Census Bureau; Wells Fargo