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WSJ Print Edition

Why Home Building Has Gotten So Costly

Iran, tariffs and AI push up materials, labor and borrowing expenses

BY NICHOLAS G. MILLER AND ALANA PIPE

The U.S. is in a desperate battle to lower the cost to build housing. It's losing.

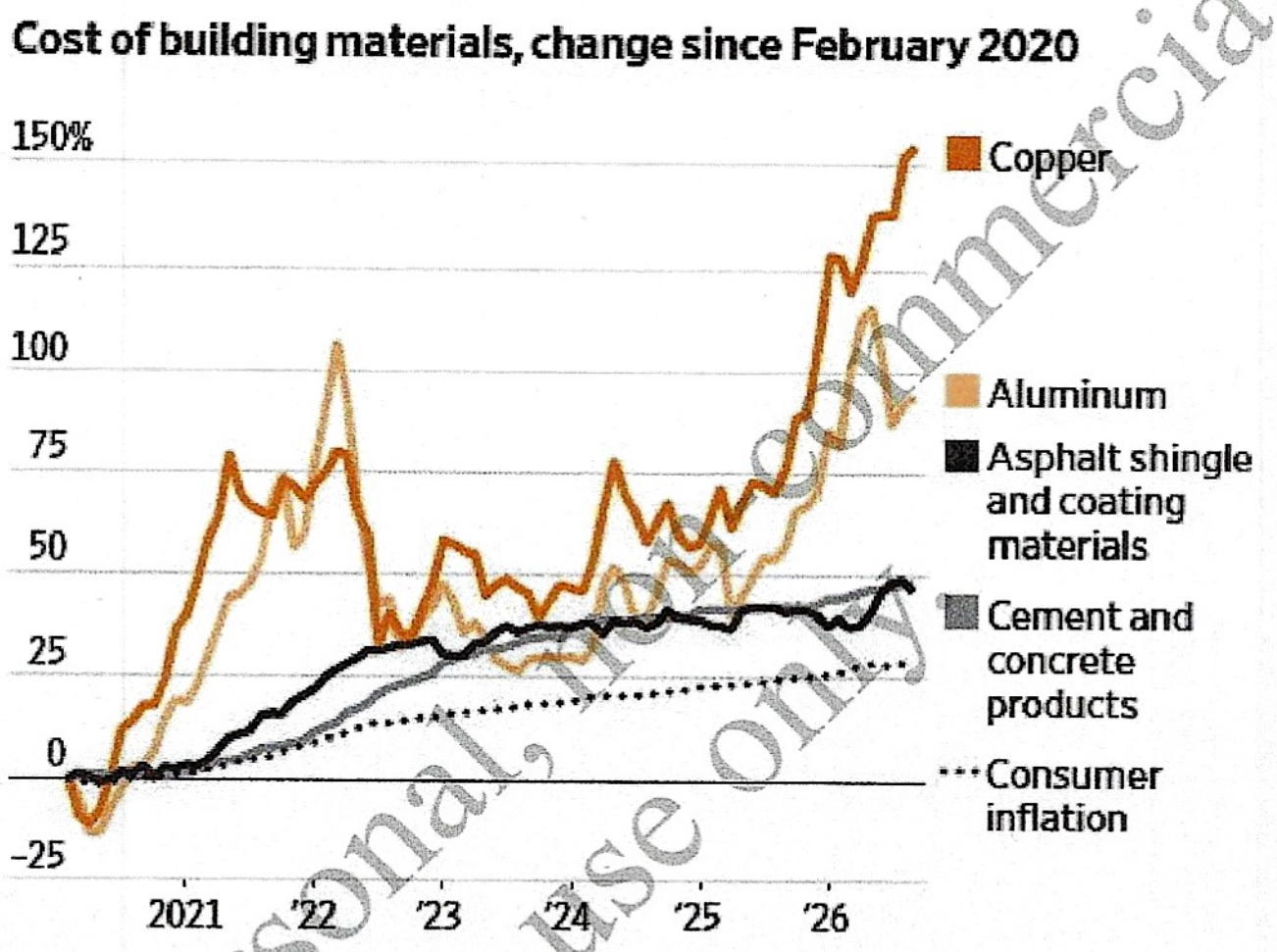
Builders' costs are growing, which, along with stagnant demand, is forcing them to pull back on production. The war in Iran, tariffs and the AI buildout have increased costs for materials, labor and borrowing, while attempts to remove regulatory obstacles have fallen flat.

Here are five charts that show why housing construction has become so expensive.

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Source: Bureau of Labor Statistics and International Monetary Fund, via St. Louis Federal Reserve

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image

Building materials

Home builders have traded down to cheaper materials, but they still face higher price tags for basic construction components.

Tariffs have raised the prices of materials ranging from drywall to windows to lumber. President Trump's 50% tariff on imports of aluminum, which is used for siding, window frames and gutters, has combined with higher energy bills to push up prices for the material dramatically. UBS analysts estimated last month that tariffs then in place raise the building cost of every home by an average of about $8,200.

Home builders rely on several different petroleum-based products—including asphalt shingles and PVC pipes—and prices for those have surged because of the president's Iran war. **Owens Corning,** one of the top roofing suppliers in the U.S., raised prices on shingles up to 8% in April and another 6% to 9% in June. Meanwhile, the artificialintelligence data-center buildout has heated up demand for other home-building materials, including copper.

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Expensive rules

Congress this year passed its largest package of housing legislation in decades, aiming to ease regulatory constraints for home building. The legislation doesn't directly loosen regulations at the local level, where they are the most stringent.

The "yes in my backyard," movement, which advocates for deregulation and faster government reviews to spur new housing construction, has gained popularity nationally and in some state legislatures. But in many parts of the country, local voters have remained staunchly opposed to proposals that would increase the density and housing supply of their neighborhoods.

Meanwhile, new building codes, particularly around energy efficiency and fire suppression, have forced builders to construct more complex and expensive homes.

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Building services

A less visible part of homebuilding is also becoming more costly: the distribution, storage and transportation of materials and tools.

Soaring diesel prices, which recently set a record, raise costs for the truck drivers delivering plywood and concrete and floorboards to the jobsite.

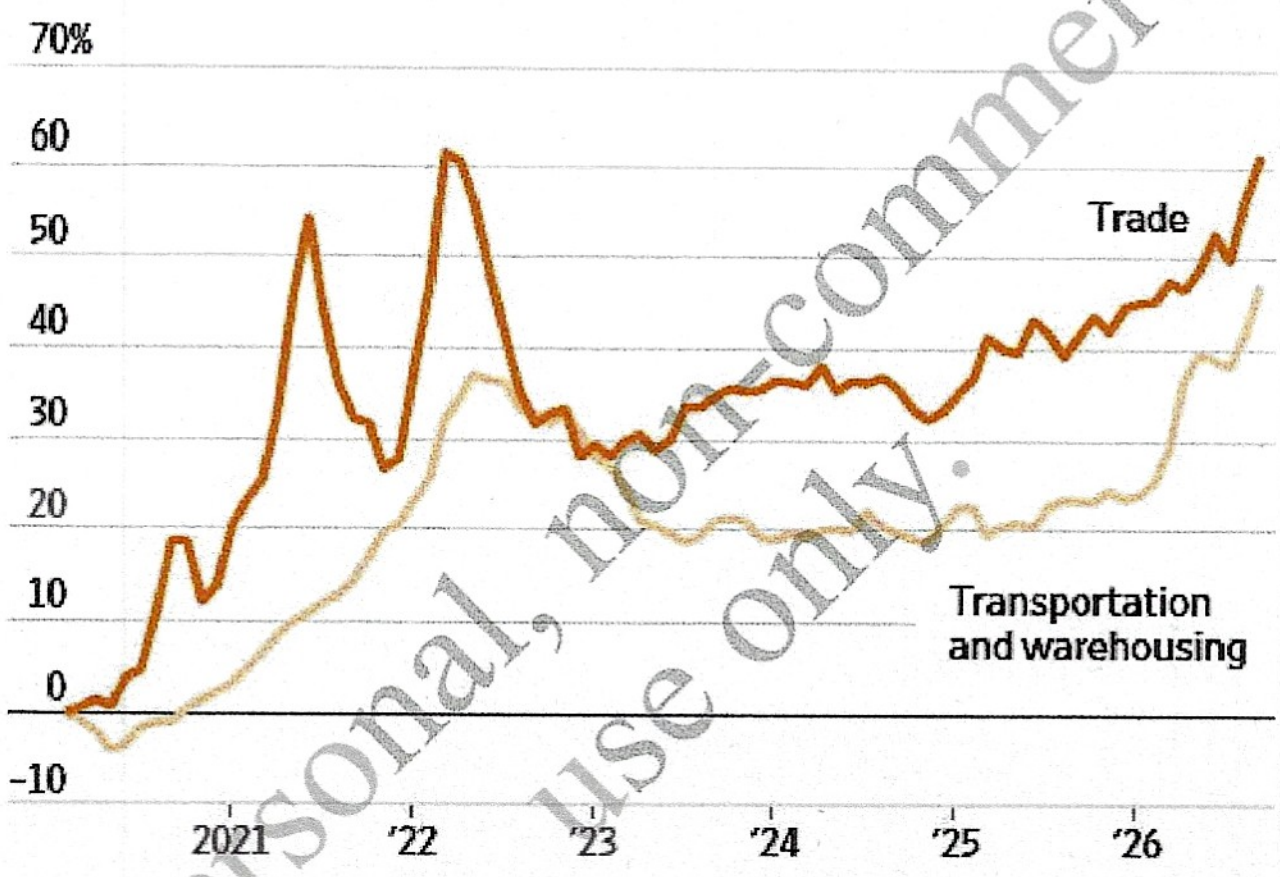
Wholesalers and retailers have faced rising expenses from tariffs and energy inflation, which not only increase the cost of materials themselves, but also the cost of operating fork lifts and buying shelving units to store those materials.

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Residential construction services, change in cost since February 2020



Source: Bureau of Labor Statistics via St. Louis Federal Reserve

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Labor

The home-building industry has long faced a shortage of workers in trades, such as roofing, painting, masonry and framing, as well as electricians, HVAC technicians and plumbers.

Soaring demand for skilled trades has tracked along with the data-center build-out, which relies on armies of electricians and HVAC technicians. Many of the workers are opting to work on lucrative datacenter projects—rather than on homes.

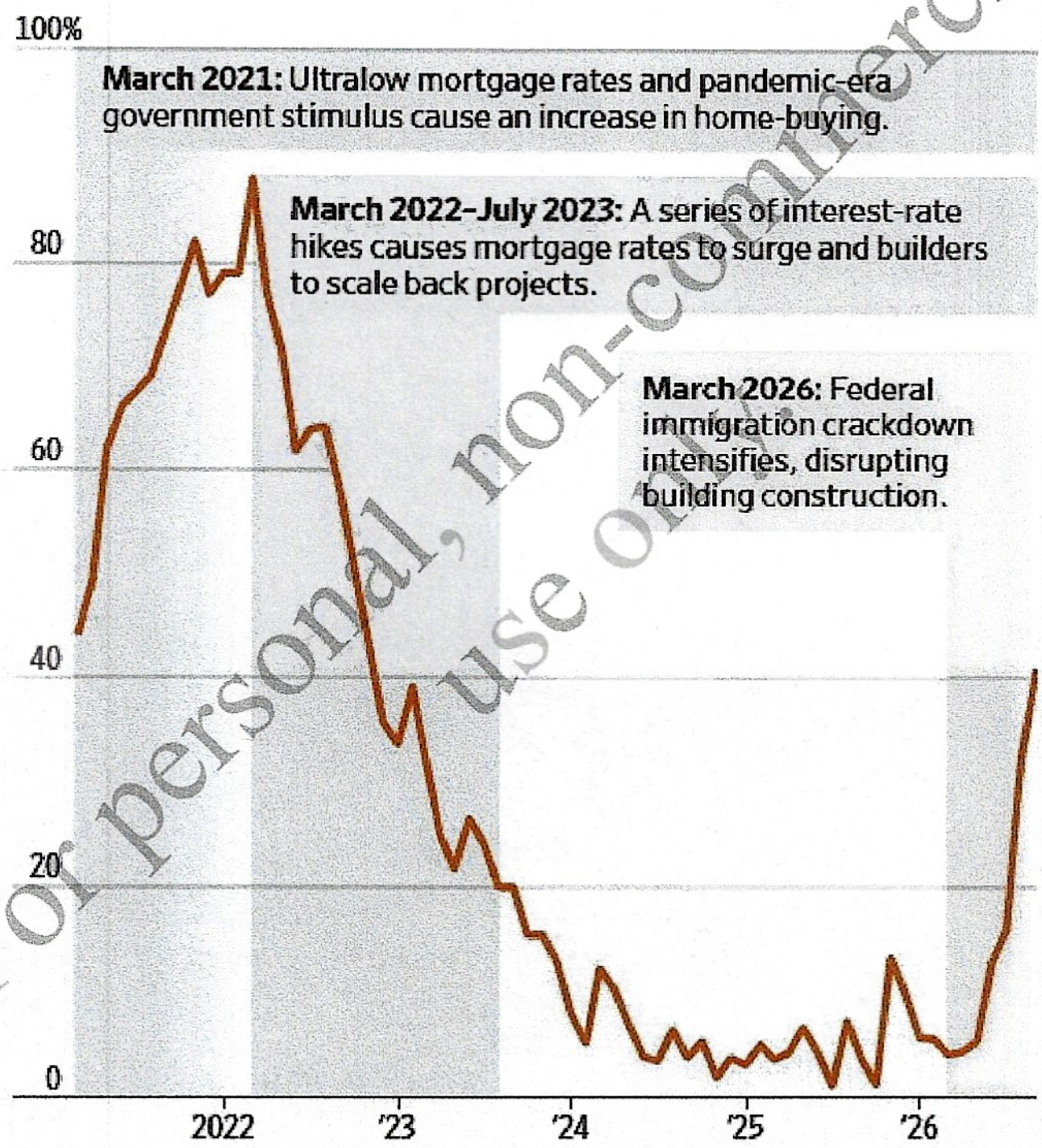
At the same time, the Trump administration's crackdown on immigration and sharp increase in deportations have devastated home builders' workforces in some parts of the country. That has forced builders to pay their remaining workers much more and caused delays that cost money in interest payments, equipment rentals, site maintenance and insurance.

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Share of builders reporting labor disruptions



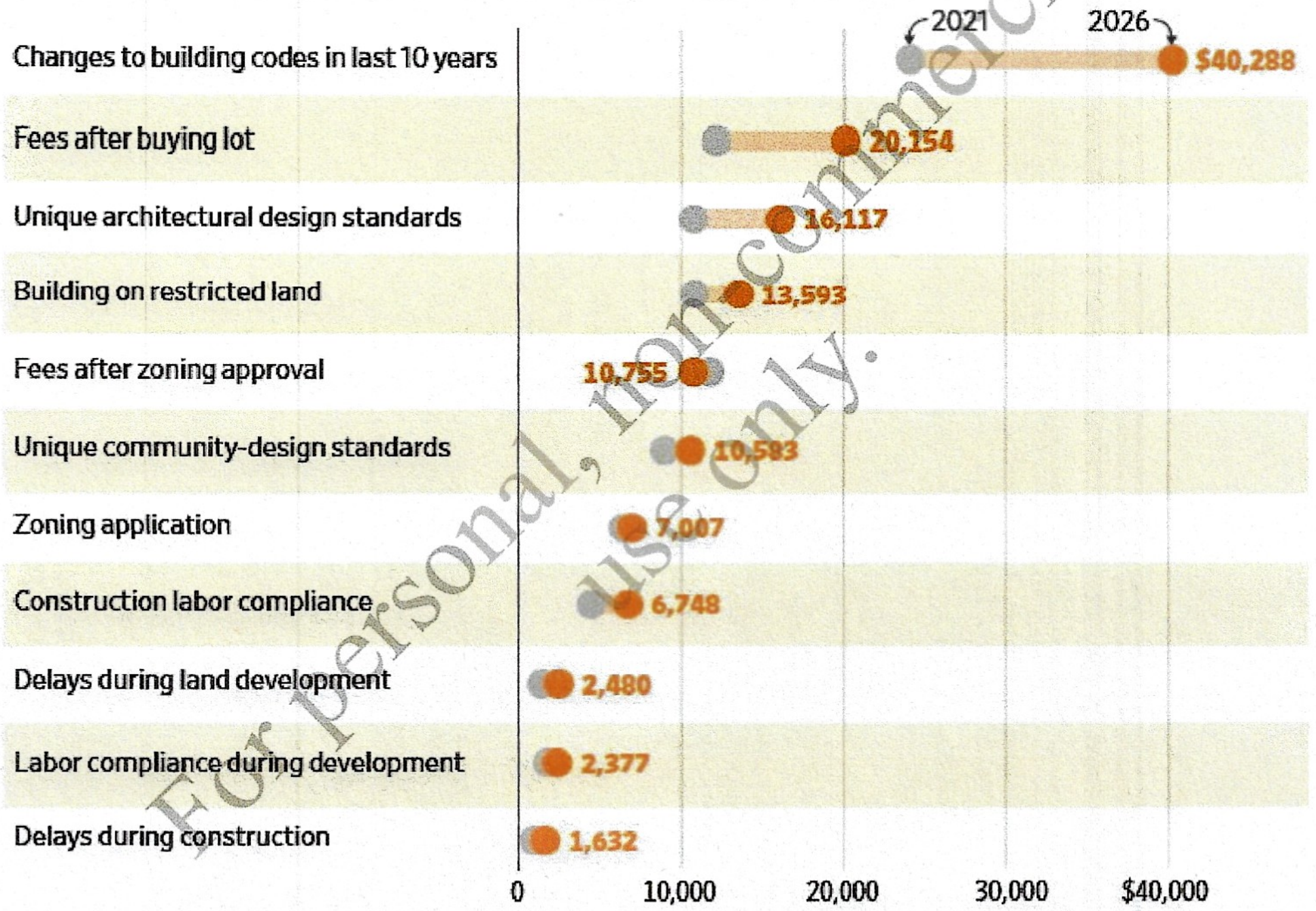
Source: Zonda Home monthly survey

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Average regulatory costs associated with building a single-family home



Note: Data show national average.
Source: National Association of Home Builders

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Interest rates

Rising borrowing costs hit home builders on two sides. Higher mortgage rates weigh on demand, and they force builders to spend huge amounts on mortgage-rate buydowns to draw buyers. But builders themselves also rely on debt to fund their projects, and they have reported tightening credit conditions for 18 consecutive quarters, according to a survey from the National Association of Home Builders.

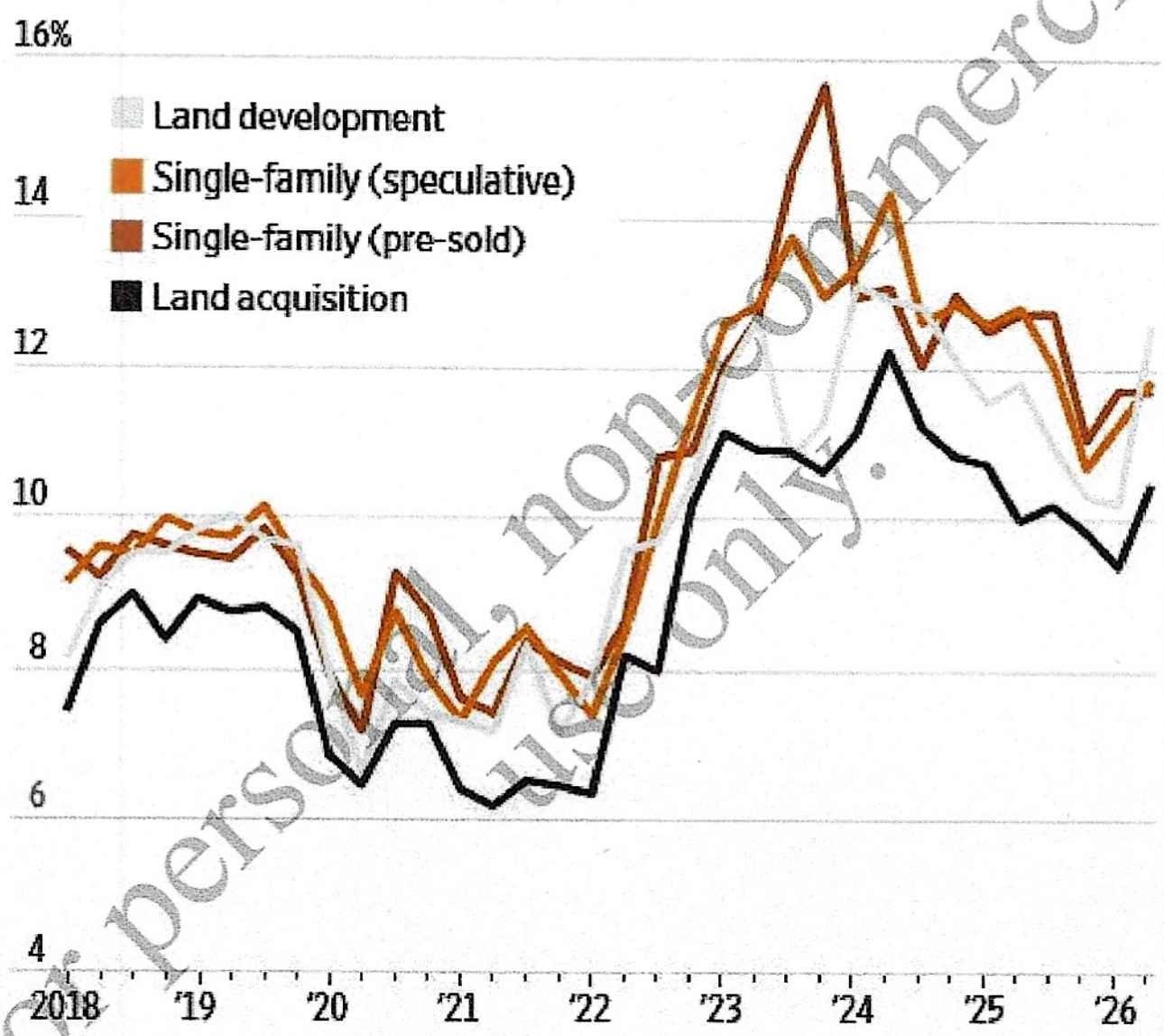
Large, public home builders tend to finance their operations with longer-term corporate debt, which has become more costly as inflation from the war in Iran has driven the 10-year Treasury yield to multidecade highs.

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Effective interest rates for home builders, quarterly



Source: National Association of Home Builders

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