

ECONOMY

Why it's so expensive to build a house in Minnesota right now

By [Greta Kaul](#) | 05/03/2019



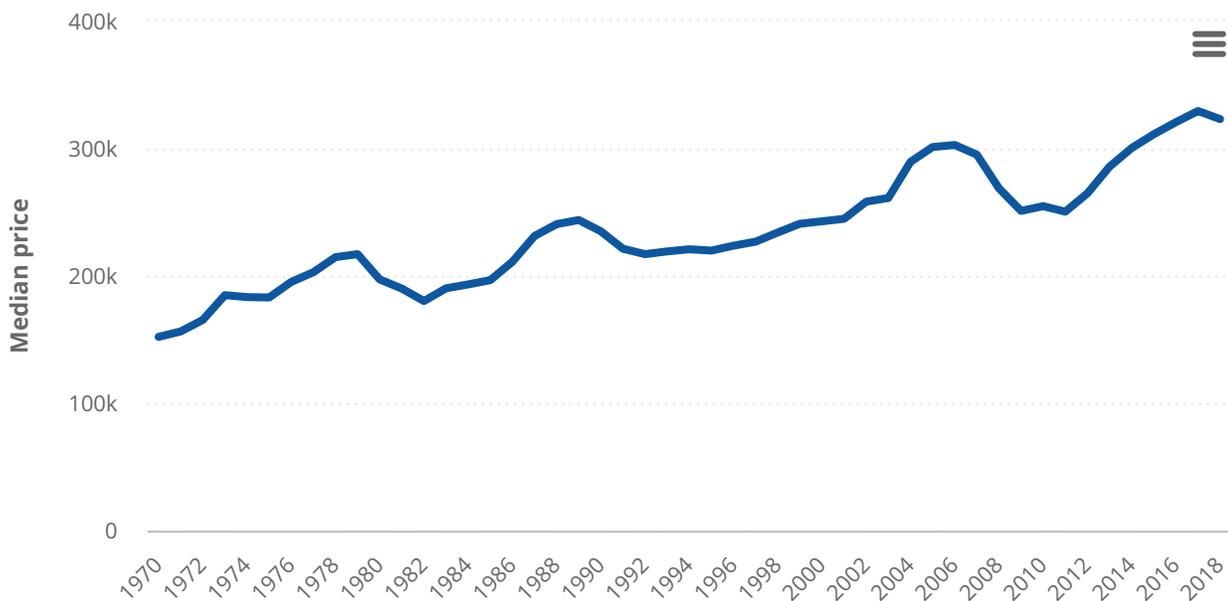
MinnPost file photo by Bill Kelley

The price of most of the materials that go in to building a house — things like lumber, steel, siding and windows — has gone up.

It's expensive to buy a new house right now.

Quite expensive, historically speaking. The median sale price of a new home in the U.S. has climbed pretty steadily since 2011. At more than \$320,000 for the last three years, the median new home costs more than twice as much as it did in 1970 (accounting for inflation).

Median sale price of new homes in the U.S. (in 2018 dollars)



Source: St. Louis Federal Reserve

In a sense, not a lot has changed since then: to build a house, you need land, building materials, workers and you have to pay the cost of various fees associated with building.

But increased expense in all of those areas a mean construction costs are historically high, helping to constrict the supply of new homes being built. That's contributing to a housing crunch that's putting homes out of reach for more Minnesotans, whose wages aren't keeping pace with housing costs.

Materials and labor

The price of most of the materials that go in to building a house — things like lumber, steel, siding and windows — has gone up over time.

Since they're global commodities, their costs are somewhat volatile. They can go up when there's lots of demand in one part of the country, like the cost of lumber did when the Houston area started rebuilding in the aftermath of Hurricane Harvey.

In some cases, companies that manufacture building materials didn't raise prices much during the recession, and now they're making up for it, contributing to rising costs for the parts that make up a new home, said Issi Romem, the chief economist at Trulia, a real estate listing website.

But some building material prices saw an additional jump when the **Trump Administration imposed tariffs** on things like lumber imported from Canada, and on steel and aluminum, contributing to cost spikes in 2017 and 2018, said Deni Koenhensi, a senior economist at consulting firm IHS Markit.

Labor costs are steadily rising, too.

Like many industries, construction is in the midst of a labor shortage: firms are having trouble finding as many workers as they'd like to hire. But the shortage is a little more complicated in the building trades than in other corners of the economy: Lots of young workers left the industry for other jobs during the recession, when construction slowed across the economy.

“Those were disproportionately the youngest workers at that time, and what you have now is an industry that has not only not recovered in numbers, but has aged,” Romem said. “There is, in some sense, a missing generation.”

The workers who did stick it out in construction through the recession didn’t get raises for a long time, and now firms are having to make up for that in order to attract workers, which has also raised costs.

“Now they want a decent wage, they can’t get any help because they’re not paying enough, so they have to raise the cost,” said Mike Paradise, the president of Rochester homebuilder Bigelow Homes and a member of former Gov. Mark Dayton’s task force on housing.

Put together, material and labor costs in the Minneapolis metro area are up by a third since 2009 and are now nearly double what they were in 1999, according to a construction cost index from the Engineering News-Record, a construction trade publication that tracks prices.

And while the rate of price increase for materials has slowed down slightly, labor is expected to remain a driving factor in increased building costs. In 2018, builders’ biggest concern was the rising cost of materials, according to a National Association of Homebuilders annual survey. This year, it’s labor, Koenhensi said.

“The cost issue is not going away anytime soon, either the labor or the material aspect,” she said.

Land

If it were just materials and labor, the expense of construction still might not be as high as it is today. But there’s another factor raising costs in Minnesota, says Paradise: the rising price of land.

During the recession, land prices were artificially low, he said. Today, the lots builders might have picked up for around \$35,000 then are going for \$60,000 to \$80,000, tacking on an additional \$25,000 to \$45,000 to the cost of a house now versus just a few years ago.

Where it might have been practical to build a less expensive starter home on a \$35,000 lot, at a higher price for the lot expectations start to change. “If (a buyer is) going to hit close to \$300,000, all of a sudden they expect the three-car garage, the granite countertops and the solid surface floors,” Paradise said.

Regulations

A sometimes contentious part of the homebuilding equation is the cost of regulations.

Cities, counties, regional planning agencies and states set their own standards dictating the way homes can be built. They might include where electrical outlets go, window safety measures, density, development, water, sewer and setbacks from roads, among other things.

A study by **Housing First Minnesota**, a trade group that represents builders, found that regulations can contribute up to a third of the cost of building a home in the Twin Cities. That varies by

community, but generally, they found that Minnesota's regulations added more cost to construction than it does in Wisconsin or Illinois.

"We literally found you could build an identical house, with an identical builder, identical trade partners, the material being purchased by a national builder who builds nationwide ... you can build the same house in Hudson, Wisconsin for \$47,000 less than in (Lake Elmo)," just across the river, said David Siegel, the group's executive director.

A bipartisan-backed **bill at the legislature** would create a legislative commission called for by Housing First to study the impact of regulations on housing affordability.

The **League of Minnesota Cities took issue with the report**, arguing Housing First didn't necessarily make apples to apples comparisons, among other concerns.

Regardless of whether people think they're good or bad, Romem said regulations do add to the cost of housing, and the number of them has increased over time.

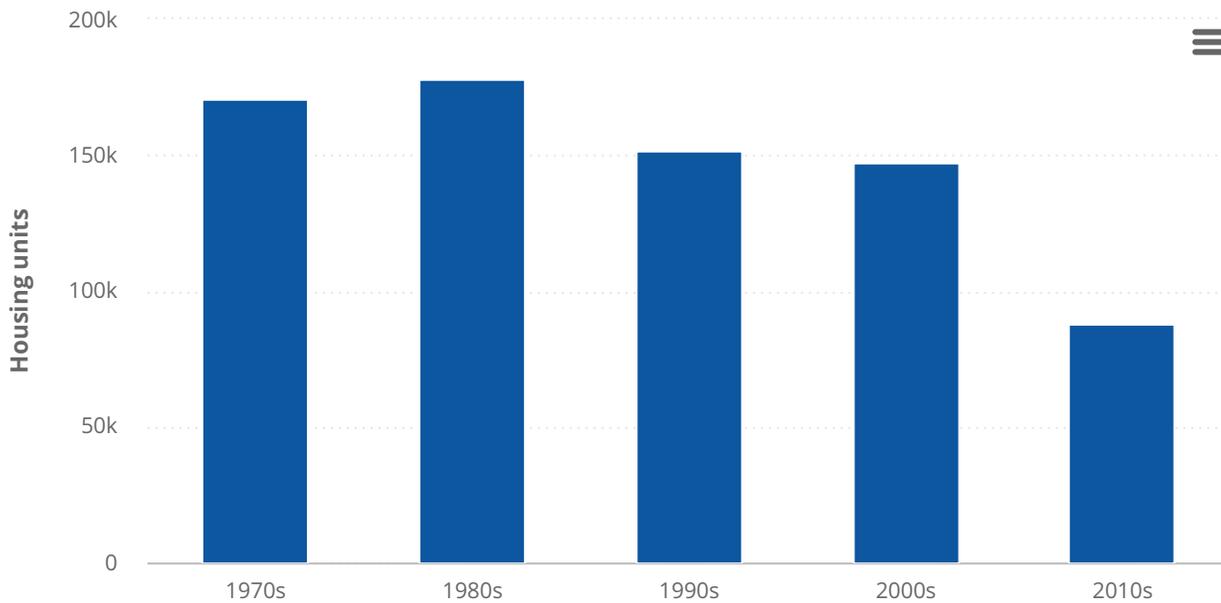
"As the building code becomes more involved over time, which inevitably happens, that means it's more complicated to build something and you need people who are more skilled (and paid more) to abide by standards," he said. "That kind of thing you won't find measured anywhere, but it's a real thing."

In search of a solution

It's not just people who are interested in building or buying new homes that are affected by rising building costs, though. The cost of new construction is part of what's constricted the supply of new homes in Minnesota and pushed up prices for all homes in recent years.

The number of new housing units permitted in the next two years in the Twin Cities would have to equal the amount permitted in the last seven to reach the levels of new home permits seen in the 1970s and 1980s, according to permit data from the Metropolitan Council. And the population of the Twin Cities metro is considerably larger than it was then.

Housing units permitted in the Twin Cities metro by decade



Source: Metropolitan Council

That’s putting pressure on an already tight housing market — especially as **people’s wages continue to rise just modestly**, putting home ownership out of reach for more Minnesotans. The lack of new homes creates more competition for old homes, driving up prices.

Dayton’s housing task force estimated Minnesota would have to build **10,000 more new homes per year** to keep up with demand.

That more housing, and more affordable housing is needed is an issue that few disagree on in Minnesota; it’s common to both rural and urban parts of the state.

Paradise called the situation a perfect storm that will require cooperation between builders, developers and governments to fix.

“It’s the combination of everything,” he said.

GET MINNPOST IN YOUR EMAIL INBOX:

Subscribe

You can also [learn about all our newsletter options](#).

ABOUT THE AUTHOR:



Greta Kaul

Greta Kaul is MinnPost's data reporter. She can be reached at gkaul@minnpost.com.

COMMENTS (23)

SUBMITTED BY WILLIAM HUNTER DUNCAN ON 05/03/2019 - 01:05 PM.

Precisely why I keep telling people, the supposed law of supply and demand does not apply to housing. If the cost to build an apartment requires \$1000/mnth in returns you can't rent it for \$500.

And while I agree with most of the info in this article, I would like to point out, yes the cost of labor, material and regulations is high, but like most articles about economics, here no mention is made about the Admin of the builders. Having worked in the industry for 25 years, I can assure you, a lot of builders are top heavy with the owner and a few others doing comparatively little for the amount of their return. (Which goes for just about every industry in America, from building to banks to education to health care.)

[LOG IN TO REPLY](#)

SUBMITTED BY MATTHEW STEELE ON 05/03/2019 - 03:02 PM.

If it costs \$1000/mo to finance a new apartment and the expected rent is \$500/mo, then the development ends as an idea that made it as far as a cursory pro-forma long before land ever changed hands or a shovel hit the ground.

[LOG IN TO REPLY](#)

SUBMITTED BY PAT TERRY ON 05/03/2019 - 03:24 PM.

Actually, it perfectly demonstrates the law of supply and demand.

[LOG IN TO REPLY](#)

SUBMITTED BY THOM ROETHKE ON 05/06/2019 - 09:37 AM.

You can't say that the law of supply and demand doesn't apply simply because you don't like the outcome. Nobody is going to sell something for less than it costs to produce it, and the costs to the supplier are all very high relative to history and geographically, for all the reasons discussed in the article.

[LOG IN TO REPLY](#)

SUBMITTED BY HARRIS GOLDSTEIN ON 05/03/2019 - 02:37 PM.

Lies, damn lies, and statistics.

I was a bit skeptical of this “up to a third” headline, so I took a quick look at their Lake Elmo vs. Hudson numbers.

The sample house would cost 376k in Lake Elmo vs 329k in Hudson, a 15% difference. Quite a bit from a third.

But 17k is the cost of land (I guess people want to live in Lake Elmo more than Hudson). Factor that out and we’re down to about a 9% difference. Even further from a third, but none the less significant.

However, almost 10k of the remaining regulatory impacts are energy codes. That’s a “pay me now or pay me later”. Take those out and now we’re down to a 6% difference. Not “chump change” but again not a third.

We can quibble one way or another on these and the rest of the numbers, but – bottom line – their headline is a gross exaggeration.

[LOG IN TO REPLY](#)

SUBMITTED BY KAREN NELSON ON 05/05/2019 - 03:34 AM.

Thanks for this, when I saw the builder association report show that stunning difference in home prices and thought that was crazy, given the regulatory environment of WI and MN is not that huge.

So by presenting the difference as ALL due to regulation that had no value to homeowner is really bad faith on that assoctiians part.

And it’s typical of a journalist to fall for such a stunningly huge figure without investigation.

The fact they tried to use land cost hidden in while difference as proof of huge expense of regulations is just dishonest.

Actually the apparent 6 percent difference due to regulatory environment is significant ADN worth investigating. Also, the additional costs for energy efficiency, while a cost for the owner regardless of if they pay in mortgage or pay to energy company , does make the entry cost higher – that is the bigger down payment needed. So worthy of discussion and debate but this article and the builders assoc stats cut off any reasonable discussion.

That huge difference in cost should have set off alarm bells in any journalists mind, and could have been easily checked.

[LOG IN TO REPLY](#)

SUBMITTED BY FRANK PHELAN ON 05/03/2019 - 05:55 PM.

I’d like to see some hard data on the increased labor costs in the building industry, as opposed to just some supposition.

[LOG IN TO REPLY](#)

SUBMITTED BY JOE SMITH ON 05/04/2019 - 09:10 AM.

Material costs (wood) go up when you can't log Federal land. Excessive and redundant regulations plus taxes drive up costs. Things can be done to lower the cost of building a home in Minnesota but not in today's environment.

[LOG IN TO REPLY](#)

SUBMITTED BY FRANK PHELAN ON 05/05/2019 - 09:31 PM.

Interesting claim, Joe. Got any data to back that up?

If we just get crickets in response, we can ignore your suggestion.

[LOG IN TO REPLY](#)

SUBMITTED BY JOE SMITH ON 05/06/2019 - 12:04 PM.

Frank, supply and demand on Federal land not being logged... Fairly simple. NAHB study finds regulations add \$84,671 to new home prices.... Again fairly simple to see if you look for yourself.

[LOG IN TO REPLY](#)

SUBMITTED BY FRANK PHELAN ON 05/06/2019 - 12:27 PM.

And of course the NAHB doesn't have a vested interest...

[LOG IN TO REPLY](#)

SUBMITTED BY JOE SMITH ON 05/06/2019 - 01:15 PM.

When you don't like or can't disprove the facts, denigrate the the folks who did the study. The National Association of Home Builders want more homes being built and understand high costs are hurting the new home market. They simply showed what regulations cost on average for a new home. The article did the same.

[LOG IN TO REPLY](#)

SUBMITTED BY FRANK PHELAN ON 05/07/2019 - 01:06 PM.

Joe, with all due respect, are you serious? Are you suggesting that the home builders don't have a vested interest?

I would suggest that would either speak to naïveté or disingenuousness, and I'm loathe to go with either.

[LOG IN TO REPLY](#)

SUBMITTED BY PAUL UDSTRAND ON 05/04/2019 - 11:02 AM.

Yes, I have to echo Frank Phelan's request for some actual information rather than industry claims. I can't believe someone would write this entire article accepting industry claims without question. We always get this with business reporting. Housing prices have been going up for decades, so the short term influences being cited here would be dubious explanations on their face. But this can be cleared up if we get RELIABLE data- How much are prices increasing, and how much more EXACTLY are builders paying for lumber, labor etc?

That Housing First claim regarding the costs of regulation is garbage. We discussed this at length back when Minnpost published an article written by them.

[LOG IN TO REPLY](#)

SUBMITTED BY PAUL UDSTRAND ON 05/04/2019 - 11:05 AM.

Again with supply and demand myth, and demand that we double down on magical thinking.

Listen, according to the supply and demand myth housing prices and rents should have been dropping for years now because according to supply and demand mythologists we've had a housing shortage for years now.

According to this article we have high demand and low construction, but it's not driving prices down... rather we have an article discussing the reasons prices keep going up.

[LOG IN TO REPLY](#)

SUBMITTED BY DAN LANDHERR ON 05/06/2019 - 12:00 PM.

You need to go back and study supply and demand.

“According to this article we have high demand and low construction, but it's not driving prices down.”

Of course not, supply and demand curves would say that high demand and low supply would drive prices up. That's exactly what is happening. This could actually be a textbook example illustrating the concept of supply and demand. Supply and demand will meet at the point where it is profitable to supply. That is also what is happening.

Why are land costs rising faster than wages? Return on capital is growing faster than wage growth. People with large amounts of capital are able to bid up the price on lots that they can afford to leave idle as an investment. It has also been government policy to re-inflate housing prices back to where they were before the housing crash by keeping interest rates low. People who own houses are thrilled that their home worth is back to 2006 levels but this has mainly helped speculators who were able to buy property cheaply in 2012. People who already owned houses don't benefit, in fact it increases property taxes on the same property. People who need housing don't benefit because it makes housing less affordable.

LOG IN TO REPLY

SUBMITTED BY PAUL UDSTRAND ON 05/07/2019 - 09:32 AM.

Dan the supply and demand model fails because builders are intelligent actors who make decisions in their own best interest. They don't build mindlessly until prices collapse, they work in concert to maintain inventory, vacancy rates, and prices at profitable levels, it's that simple.

These supply/demand models are little more than magical thinking and doubling down on the magic won't solve any problems. Builders won't voluntarily over-build in order to drive prices down, how is that not obvious? It's called inventory control and it's a standard feature of many business and economic models. There is no invisible hand forcing builders to build until they start making less money or losing money. This is why vacancy rates have remained so stable for so many years, that's not an accident, it's the business model.

Now if you want subsidize building in order to build units builders wouldn't otherwise build, that's a different project, and THAT would NOT be a supply and demand model, it would just be subsidized housing.

LOG IN TO REPLY

SUBMITTED BY KAREN NELSON ON 05/05/2019 - 04:05 AM.

This article makes two huge mistakes. Rather than collecting facts and quotes, I wish journalists would question and be skeptical and do a little thinking before repeating essentially Facebook memes

First, pointless to act like building is more expensive now than in past if you don't compare cost to build exact same building – which this article doesn't try to do. Turns out the average size of a new single family house has gone up 60+ percent since 1970. So saying average house price is up does not make case cost of building on a square foot basis is up, does it?

Turns out on a square foot basis, building costs aren't that much different than the past decades even when considering the building is to higher energy and safety building codes.

Now we can have a good and helpful debate about how the today's extra cost of building codes in terms of return of value/safety may be not be good value or her length of time it takes to get through local zoning issues, and building code process is big drag on costs, but implying building costs nearly double what it once did, not helpful

Second, this article took a quote from builders association that about an absolutely huge difference in cost between Hudson and Lake Elmo building. Such a huge difference screams for examination but author of this article did not. Simple investigation shows the builder association included the cost in land values between Hudson and Lake Elmo, a simple response to varying demand, and implied it was due to difference in regulatory environments. Also included was the extra cost of energy efficiencies, which is a wash in cost of operation of the house.

The actual difference in apples-to-apples building cost between Hudson and Lake Elmo are far far less than builder associations quote implies – maybe 5 percent? That is still very significant and worthy of investigation to see what that is from (just longer times to deal with bureaucracy? some actual building code differences?, enforcement differences? Permit and fees difference?)

We'd all be happy to find a way to decrease price of building by 5 or 10 percent, it's important thing to investigate if that extra cost is returning no extra value to homeowners or renters.

But that this author let that builder association quote stand about difference between Hudson and Lake Elmo stand without any examination was a big mistake.

LOG IN TO REPLY

SUBMITTED BY FRANK PHELAN ON 05/05/2019 - 09:35 PM.

Not only is the average size of a new home much larger (even while family size has been falling, go figure) but in 1970 new homes did not come fully tricked out with the full complement of appliances: dishwashers, central A/C, etc. It's like comparing a 1970 Ford when an AM radio was an option to a 2019 Ford.

LOG IN TO REPLY

SUBMITTED BY PAUL UDSTRAND ON 05/05/2019 - 10:47 AM.

To build on Ms. Nelson's comment here's a link to a Minnpost article highlighting the Housing First "study" that is referenced here.

<https://www.minnpost.com/community-voices/2019/02/housing-affordability-crisis-policymakers-must-be-deliberate-in-fixing-it/>

I wrote a pretty extensive critique of the "study" and its methodology back then, you can read that in the comments. Suffice to say it's little more than ant-regulatory garbage.

Look: If you really want to explore the cost of building it's actually quite easy to do, and that conversation doesn't look like this article.

What you do is simply compare two similar houses built in the same city at different times. Then you break down the expenses and differences between the two... how much was the lumber, concrete, labor etc. when you built the house 2010 or whenever and how much is it costing now? You can't just say: "more". If someone tries to compare one city to another you know their cherry picking data sets.

If we're going to question these building expense claims we should talk about the reason that builders and developers might exaggerate them. The most obvious reason is simply marketing, the more you claim it cost, the higher the sale price. Since everyone wants to sell for as much as they can, vague claims about so-much-higher costs drive up sales prices.

Builders will likewise use regulatory expense claims to justify higher home prices, but how much do we think prices would really come down if started deregulating? The most likely scenario is that builders would simply pocket the savings as additional profit and let the "market" decide prices.

LOG IN TO REPLY

SUBMITTED BY ARTHUR HIMMELMAN ON 05/05/2019 - 03:03 PM.

I agree with concerns about the lack of professional journalism in this story. Not only on MinnPost, but also in most media reporters often do not investigate, sufficiently analyze, or question what they produce. I have read too many stories that sound like press releases from whatever sources are being cited. What has happened to the profession of journalism?

LOG IN TO REPLY

SUBMITTED BY DON REEDER ON 05/06/2019 - 01:23 PM.

Here are some additional resources published by the League of Minnesota Cities:
<https://www.lmc.org/page/1/DevelopmentFeesandCitiesQA.jsp?ssl=true>

LOG IN TO REPLY

SUBMITTED BY PAUL UDSTRAND ON 05/08/2019 - 08:20 AM.

I'll provide an example why you can't necessarily trust builders or contractors to tell you how much it's actually costing to build something.

A couple years ago we added 80 square feet to our kitchen with a portico on the outside.

The contractor we hired to plan and build this kept estimating it would cost \$60+ thousand dollars. When I finally got a hard copy estimate (in spreadsheet form) I figured out that the guy was doubling the cost of every component of the project AND adding his 20% contractor fee (without itemizing it in the estimate). So for instance he doubled the cost of putting shingles on 1.2 squares of roof, and then added his 20% on top of that. This converted a \$1,200 job into a \$3,000 job, and so it went with everything from electrical to concrete. We fired this contractor and I took over as the GC and got the project done for around \$37k.

New construction is a slightly different deal but the point is these folks have a LOT of wiggle room when it comes to describing their "costs". When someone tells you they're selling a house for \$500k because it "cost" them \$300k to build, what does that really mean? This is why we need to see actual numbers that we can compare over time.

LOG IN TO REPLY

MOST COMMENTED STORIES

Could Trump turn Minnesota red in 2020? Anything's possible, but there's little evidence to support the case (59)

Minnesota should approve driver's licenses for undocumented immigrants (48)

Accessory dwelling units were supposed to help ease the Twin Cities' housing crunch. How's that working out? (39)

Why it's so expensive to build a house in Minnesota right now (23)

What the Trump administration's citizenship Census question could mean for Minnesota (19)

Thanks to our major sponsors

Sponsor of
D.C. Memo
and
MinnPost
Social



Sponsor of
Second
Opinion



Sponsor of
New
Americans



Sponsor of
Community
Sketchbook



Sponsor of
Economy



MinnPost Staff

CEO: Andrew Wallmeyer

Editor: Andrew Putz

Managing Editor: Susan Albright

Creative Director: Corey Anderson

Director of Advertising & Sponsorship: Sally Waterman

News Editor: Tom Nehil

Project Editor: Roger Buoen

User Experience Engineer: Jonathan Stegall

Director of Development: Tanner Curl

Audience Engagement and Development Manager: Caroline Schwenz

Advertising Operations Director: Brian Perry

Director of Finance & Operations: Adrian Doerr

Advertising Coordinator: Laura Lindsay

Board Chair: Jill Field

Chair Emeritus: Lee Lynch

Co-founders: Joel & Laurie Kramer

MinnPost is a nonprofit, nonpartisan enterprise whose mission is to provide high-quality journalism for people who care about Minnesota.

Thanks to our generous donors

Mark Abeln & Monica Little

David & Debbie Andreas

Edward R. Bazinet Charitable Foundation / Maureen Bazinet Beck & Peter Beck

Wendy Bennett

Blandin Foundation

Carla Blumberg

Otto Bremer Trust

Burdick Family Fund of the Minneapolis Foundation / Allan & Lou Burdick

Bush Foundation

Central Corridor Funders Collaborative

Bill & Sharon Clapp

Sage & John Cowles

Jay & Page Cowles

David & Vicki Cox

Fran & Barb Davis

Toby & Mae Dayton

Jack & Claire Dempsey

Kelly Doran

Ethics and Excellence in Journalism Foundation

Jill & Larry Field

Peter & Mary Gove

Great River Energy

Sam Heins & Stacey Mills

Kathleen Jones

The Joyce Foundation

Tom & Marlene Kayser

Kim & Garry Kieves

John S. and James L. Knight Foundation

Joel & Laurie Kramer

Becky Lourey

Lee Lynch & Terry Saario

Martin and Brown Foundation

Jane Mauer

Bill and Amy McKinney

The McKnight Foundation

The Minneapolis Foundation

Northwest Area Foundation
Kandace Olsen & Scott Peterson
Jeremy Edes Pierotti & Kathryn Klibanoff
Susan & David Plimpton
Pohlad Family Foundation
John & Lois Rogers
Jeff Ross
The Saint Paul Foundation
John & Linda Satorius
Rebecca & Mark Shavlik
Tankenoff Families Foundation
John & Lesa Tieszen
Stephen & Jayne Usery

Donations and pledges totaling \$25,000 or more have been made by each of the families and foundations listed.
For a list of all donors by category, see our most recent [Year End Report](#).