

## SUMMARY OF KEY POINTS AND RECOMMENDATIONS

### The Cost to Build panel

*Ken Melvin, Pacific Consulting Group*

*Works with large national builders like Lennar*

*Ken Trigueiro, CEO of Peoples' Self-Help Housing Corp.*

*Affordable housing nonprofit with both sweat-equity ownership and rental units*

*Pete McCarthy, McCarthy Companies*

*Developer and general contractor, generally along Central Coast but branching into other areas (Idaho, AZ)*



**FINISHED LOT** = Land & improvements like grading, sewer, street, etc. Everything that is required outside of the lot the home will be built on.

- For most market rate builders, land goes to the highest bidder.
  - Most developable land of material size are marketed through a broker to find the highest bidder. In this case, the land goes for the highest market price and, in theory, the developer who has devised the economically best use for the property.
  - Cost of land can be 20%-30% or more of the total cost of a project depending on product and density.
- Comprises over 30% of total project costs; significantly higher in Ventura County, even compared to neighbors.
  - Unique to Ventura County is SOAR, restricting the amount of buildable land in our area creating a pseudo-lack of supply. That limitation pushes land prices (and home prices) up.
  - On average Ventura County can be over twice the national average primarily due to reduced land supply (i.e. SOAR and difficulty entitling projects)
  - SOAR, zoning, and entitlement process all reduce the potential supply of finished lots for homebuilding and thus increases land price
- “Entitled” or “by-right” land means the zoning is already in place and the tentative map (defined right to process improvement and building plans for the proposed project). “Unentitled” land is more challenging to develop, has a much higher risk, and is generally avoided.
  - Many builders are no longer interested in taking on entitlement risk in our area and are looking only for projects that are fully entitled or that have already completed grading and improvements and are ready for homes to be built.
  - If cities could streamline entitlement and approval processes, projects would move forward more rapidly and improve finished lot costs.
- Affordable Housing projects are either purchased at market rate or sometimes at a reduced price from surplus land (city or county typically, but might be school district – now with SB4), or used with a ground lease or land trust arrangement
  - AH location needs to be amenity rich in the surrounding area to get State tax credits.

#### RISK

- Homebuilding is risky but shelter is a basic need and absolutely necessary.
- The development of a property is where the biggest risk lies to both a builders’ budget and schedule (everything that needs to occur from the time of taking ownership of a piece of property through having lots ready to build homes on them, including processing entitlements, development plans, mapping and horizontal construction (grading and improvements).
- Most projects are financed through debt or investors. Higher perceived project risk (entitlements, fee increases, etc.) requires a higher return on investment (interest rate) for investors creating increased project expenses and thus home prices.
- Risk is calculated from many variables: budget, length of time, financing, entitlement status, approval process, uncertainty, project team, experiences, etc.
- Once a project is approved, there isn’t a lot of opportunity to make changes to housing types or project layouts, but a lot can happen after approval that will affect a project’s revenues, budget and timing.

- Entitlement and processing timelines carry a huge risk to the schedule and directly impact the budget in the form of finance costs, or the interest paid on capital used to purchase and develop the property

### FINANCES

- Most builders finance projects and don't have cash in hand to fund an entire project's expenses. They depend on investors to make a project feasible. Real estate investors will go elsewhere with less risk or charge a higher risk premium (interest rate) on their investment.
- Financing costs are carried throughout the entire project until home sales can pay back investors and debt, no matter how long it takes. The longer a project takes from land purchase through entitlements, permitting and home sales, the higher finance costs become.
- Developers expect to average 10% net profit; like a stock portfolio, some projects attain higher, some lower or even a loss, but the idea is to average 10% after all development and finance expenses.

### ON LOT

- Everything that goes on to the lot: the house including foundation, framing, finishing, fees, labor, materials, landscaping, etc.
  - On lot costs also includes soft costs such as building permit fees, impact fees and architectural and engineering consultants.
  - As a percentage of the total on lot costs, fees in Ventura County are on average greater than 3x the national average.

### FEES / PROCESS

- Fees vary wildly by jurisdiction and type of project and are often hard to determine because they come from various sources.
  - Consider both amount and when it's payable (at final map, at building permit or when the home is completed and receives a certificate of occupancy).
  - Timing of fees payable impacts a builders finance costs that go into the price of a home.
- On average fees in Ventura County are 3 to 4-times the national average.
  - Fees in our county have averaged close to 17% of home construction costs. That number is in the 5-15% range when we include the total project cost including land acquisition and development.
  - McCarthy's recent experiences on a local project averaged 9-12% of project costs in fees.
- Cities should note all fee calculations and waivers up front to eliminate surprises and help builders reduce risk.
  - Changing fees in the middle of the approval process really impacts the project.
- Some cities use a software program to determine Impact Fees (a project's impact on a community ... additional needs) and then calculates fees appropriately.
  - Paying impact fees at home completion when new residents can move in and actually impact the community, instead of at project permitting before any impacts occur, would help reduce finance costs and thus the cost of the home.
- Local policy decisions significantly influence housing affordability; More than 47% of a mortgage cost is influenced by local policy decisions.
  - Time, risk, money – need to minimize wherever possible.
  - Municipal jurisdiction and development team need to work together as a team if we want housing costs to improve. Builders have little control over the majority of costs that go into a home and are transferred to buyers.
  - Jurisdiction changes to plans and delays in permitting required McCarthy's Ventura project to increase home sale price from \$800K to \$1M in order to cover the additional costs incurred.

### MATERIALS

- In the latest NAHB survey, builders are reporting home construction costs have increased 65% over the last 5 years. Much of this has occurred because of the pandemic with supply chain issues and lack of labor.
- Supply chain issues experienced during the pandemic has stabilized but prices are not coming down.

- Issues with electrical components such as switch gears, backup generators for municipal facilities, etc. are causing delays for project completion and resident move-in.

### LABOR

- Prefab or modular construction is being used more frequently to make up for the labor shortage.
- Local projects create local job opportunities
  - Los Angeles/Inland Empire labor pool is used as a backup when local labor is insufficient.
  - The further north the project is, the greater reliance on only local labor. At times hotel, meals, etc. are offered to entice out of area labor when needed.
  - Ventura County can lose some of our labor pool when there are opportunities in LA with more-consistent work flow or higher pay.
- Affordable Housing, using any State funding or credits must use prevailing wage labor, typically union.

### PROJECT ADVOCACY

- NIMBY seeks to provide a better community ... but for WHOM? For those already in a house!
- Need to get the people who need housing at the hearings

### REFERENCES:

- Cost of Constructing a Home- 2022, February 1, 2023, National Association of Home Builders (NAHB) (<https://www.nahb.org>)
- Residential Impact Fees in California, Current Practices and Policy Considerations to Improve, Implementation of Fees Governed by the Mitigation Fee Act, August 5, 2019 (<https://www.hcd.ca.gov>)
- How Much Does It Cost to Permit a House? An analysis of city and county compliance with California AB 1483 and recommendations to improve the transparency of development fees. May 2021 Update. (<https://www.spur.org>)
- Impact Fees and Housing Affordability, Vicki Been, New York University, School of Law published in Cityscape: A Journal of Policy Development and Research • Volume 8, Number 1 • 2005 (<https://www.huduser.gov>)





22<sup>ND</sup> Annual  
VENTURA COUNTY  
HOUSING CONFERENCE  
THE COST TO BUILD



# Cost Buckets: National Association of Homebuilders Constructing Cost Survey- 2022

**Table 1. SINGLE-FAMILY PRICE AND COST BREAKDOWNS**

**2022 National Results**

Average Lot Size: 17,218  
Average Finished Area: 2,561

| <b>I. Sale Price Breakdown</b>                  | <b>Average</b>   | <b>Share of Price</b> |
|---|------------------|-----------------------|
| A. Finished Lot Cost (including financing cost) | \$114,622        | 17.8%                 |
| B. Total Construction Cost                      | \$392,241        | 60.8%                 |
| C. Financing Cost                               | \$12,192         | 1.9%                  |
| D. Overhead and General Expenses                | \$32,979         | 5.1%                  |
| E. Marketing Cost                               | \$4,268          | 0.7%                  |
| F. Sales Commission                             | \$23,080         | 3.6%                  |
| G. Profit                                       | \$65,369         | 10.1%                 |
| <b>Total Sales Price</b>                        | <b>\$644,750</b> | <b>100.0%</b>         |

Source: NAHB Construction Cost Survey, 2022 (National)

1. This Table provides a break down of cost components that make up the final sales price of a home (\$644,750 = avg. of those surveyed).
2. Builder profit component of 10% is within range of historic averages (8%-12%).
3. Finished Lot Cost includes the cost of the land, grading, street improvements, HOA landscaping, Parks, etc.
4. Total Construction Costs, or "on lot costs" are the largest cost component & include permit & impact fees, home construction costs and lot landscaping.

# Components of “On Lot Costs”

| On Lot Construction Costs Breakdown |  | Average          | Share of Construction Cost |
|-------------------------------------|--|------------------|----------------------------|
| <b>I. Site Work</b>                 | Fees vary by City & often change during the course of project construction.      | <b>\$29,193</b>  | <b>7.4%</b>                |
| A. Building Permit Fees             |  | \$8,292          | 2.1%                       |
| B. Impact Fee                       |  | \$5,208          | 1.3%                       |
| C. Water & Sewer Fees Inspections   |  | \$5,800          | 1.5%                       |
| D. Architecture, Engineering        |  | \$4,724          | 1.2%                       |
| E. Other                            | \$5,169  | 1.3%             |                            |
| <b>II. Foundations</b>              | Builder’s have little control over these costs without changing product or spec. | <b>\$43,086</b>  | <b>11.0%</b>               |
| <b>III. Framing</b>                 |  | <b>\$80,280</b>  | <b>20.5%</b>               |
| <b>IV. Exterior Finishes</b>        |  | <b>\$46,108</b>  | <b>11.8%</b>               |
| <b>V. Major Systems Rough-ins</b>   |  | <b>\$70,149</b>  | <b>17.9%</b>               |
| <b>VI. Interior Finishes</b>        |  | <b>\$94,300</b>  | <b>24.0%</b>               |
| <b>VII. Final Steps</b>             |  | <b>\$23,065</b>  | <b>5.9%</b>                |
| <b>VIII. Other</b>                  |  | <b>\$6,059</b>   | <b>1.5%</b>                |
| <b>Total</b>                        |  | <b>\$392,241</b> | <b>100.0%</b>              |

## Observations:

1. Exterior Finishes includes Exterior Wall Finish (i.e. stucco), Roofing, Windows & Doors.
2. Major Systems Rough-Ins includes Plumbing & Electrical (except fixtures), HVAC, etc.
3. Interior Finishes includes insulation, drywall, trim, painting, lighting, cabinets, appliances, flooring, fixtures, etc.
4. Final Steps includes lot landscape, outdoor structures, clean up, etc.

Source: NAHB Construction Cost Survey, 2022 (National)

# “On Lot” Cost History

| Construction Cost Breakdown                       | 1998             | 2002             | 2004             | 2007             | 2009             | 2011             | 2013             | 2015             | 2017             | 2019             | 2022             |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>I Site Work (sum of A to E)</b>                |                  |                  |                  |                  |                  |                  | 6.8%             | 5.6%             | 6.7%             | 6.2%             | 7.4%             |
| A. Building Permit Fees                           | 0.9%             | 1.3%             | 0.8%             | 1.7%             | 1.9%             | 1.7%             | 1.5%             | 1.2%             | 1.7%             | 1.7%             | 2.1%             |
| B. Impact Fee                                     | 1.0%             | 1.6%             | 1.1%             | 1.4%             | 1.4%             | 1.5%             | 1.3%             | 0.6%             | 0.9%             | 1.3%             | 1.3%             |
| C. Water & Sewer Fees Inspections                 | 1.0%             | 1.4%             | 1.2%             | 1.6%             | 1.7%             | 1.6%             | 1.8%             | 1.4%             | 2.0%             | 1.5%             | 1.5%             |
| D. Architecture, Engineering                      |                  |                  |                  |                  |                  |                  | 1.5%             | 1.6%             | 1.4%             | 1.5%             | 1.2%             |
| E. Other  |                  |                  |                  |                  |                  |                  | 0.7%             | 0.7%             | 0.7%             | 0.2%             | 1.3%             |
| <b>II Foundations (sum of F to G)</b>             |                  |                  |                  |                  |                  |                  | 9.5%             | 11.6%            | 10.8%            | 11.8%            | 11.0%            |
| <b>III Framing (sum of H to L)</b>                |                  |                  |                  |                  |                  |                  | 19.1%            | 18.0%            | 17.3%            | 17.4%            | 20.5%            |
| <b>IV. Exterior Finishes (sum of M to P)</b>      |                  |                  |                  |                  |                  |                  | 14.4%            | 15.0%            | 13.9%            | 14.1%            | 11.8%            |
| <b>V. Major Systems Rough-ins (sum of Q to T)</b> |                  |                  |                  |                  |                  |                  | 13.4%            | 13.1%            | 13.8%            | 14.7%            | 17.9%            |
| <b>VI Interior Finishes (sum of U to AE)</b>      |                  |                  |                  |                  |                  |                  | 29.3%            | 29.6%            | 28.6%            | 25.4%            | 24.0%            |
| <b>VII Final Steps (sum of AF to AJ)</b>          |                  |                  |                  |                  |                  |                  | 6.6%             | 6.8%             | 7.0%             | 6.8%             | 5.9%             |
| AF. Landscaping                                   | 1.8%             | 2.5%             | 2.6%             | 2.8%             | 3.2%             | 3.5%             | 2.3%             | 2.1%             | 2.5%             | 2.2%             | 2.3%             |
| AG. Outdoor Structures (deck, patio, porches)     | 0.7%             | 0.7%             | 1.0%             | 0.7%             | 0.9%             | 1.0%             | 1.2%             | 1.5%             | 1.3%             | 1.2%             | 0.6%             |
| AH. Driveway                                      | 1.5%             | 1.6%             | 1.3%             | 1.4%             | 1.4%             | 1.5%             | 1.5%             | 2.2%             | 1.9%             | 2.2%             | 2.2%             |
| AI. Clean Up                                      |                  |                  |                  |                  |                  |                  | 0.9%             | 0.7%             | 1.1%             | 1.0%             | 0.6%             |
| AJ. Other   |                  |                  |                  |                  |                  |                  | 0.7%             | 0.3%             | 0.3%             | 0.1%             | 0.2%             |
| <b>VIII Other</b>                                 |                  |                  |                  |                  |                  |                  | 0.9%             | 0.5%             | 2.0%             | 3.8%             | 1.5%             |
| <b>TOTAL</b>                                      | <b>\$124,276</b> | <b>\$151,671</b> | <b>\$192,846</b> | <b>\$219,015</b> | <b>\$222,511</b> | <b>\$184,125</b> | <b>\$246,453</b> | <b>\$289,415</b> | <b>\$237,760</b> | <b>\$296,792</b> | <b>\$392,241</b> |

## Observations:

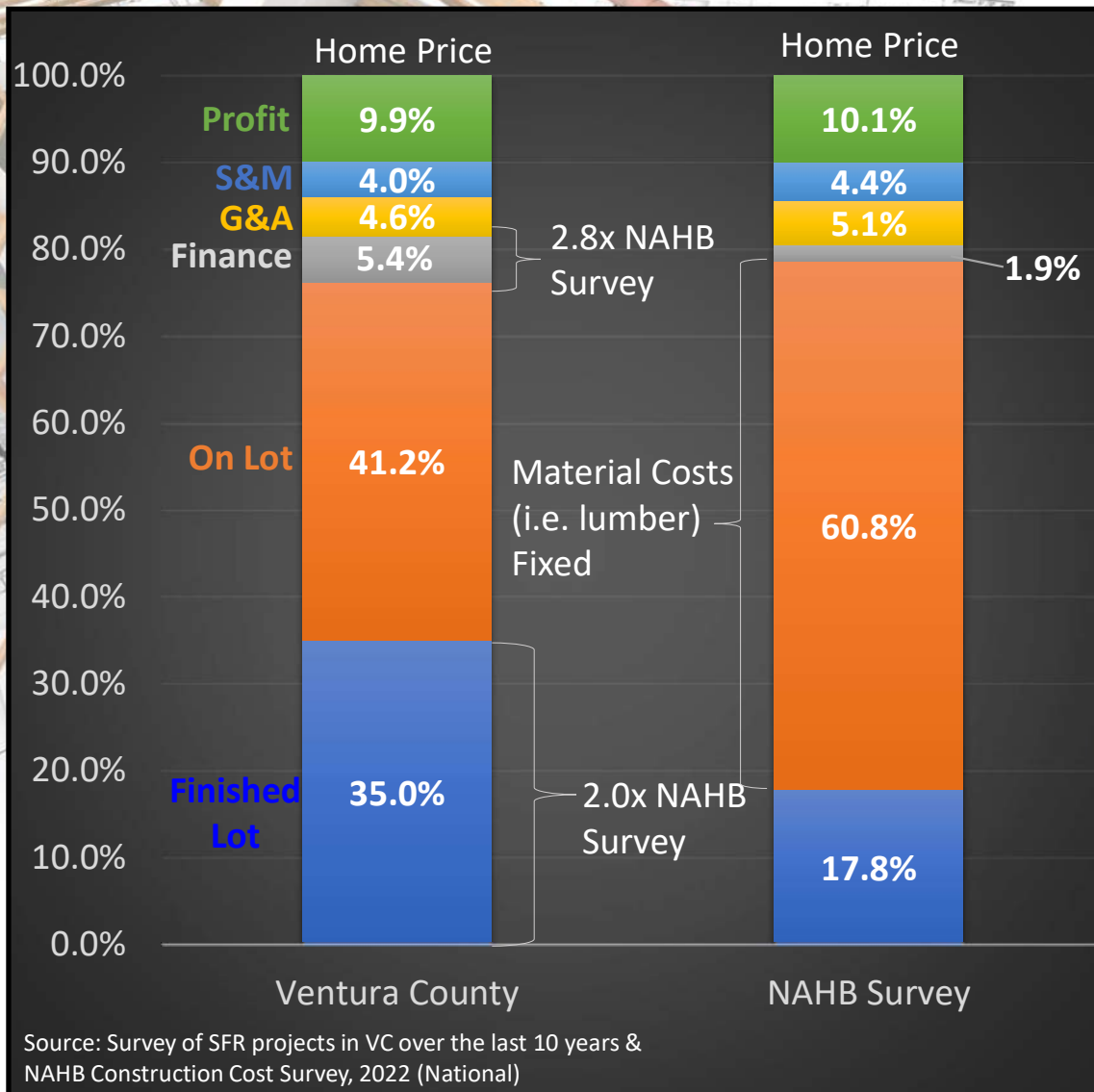
1. Permit, Impact & inspection fees have increased from 2.9% of home costs in 1998 to 4.9% in 2022. A 69% increase.
2. Total home construction costs have increased 216% between 1998 – 2022. Over the last 5-years costs have increased 65%.

Source: NAHB Construction Cost Survey, 2022 (National)

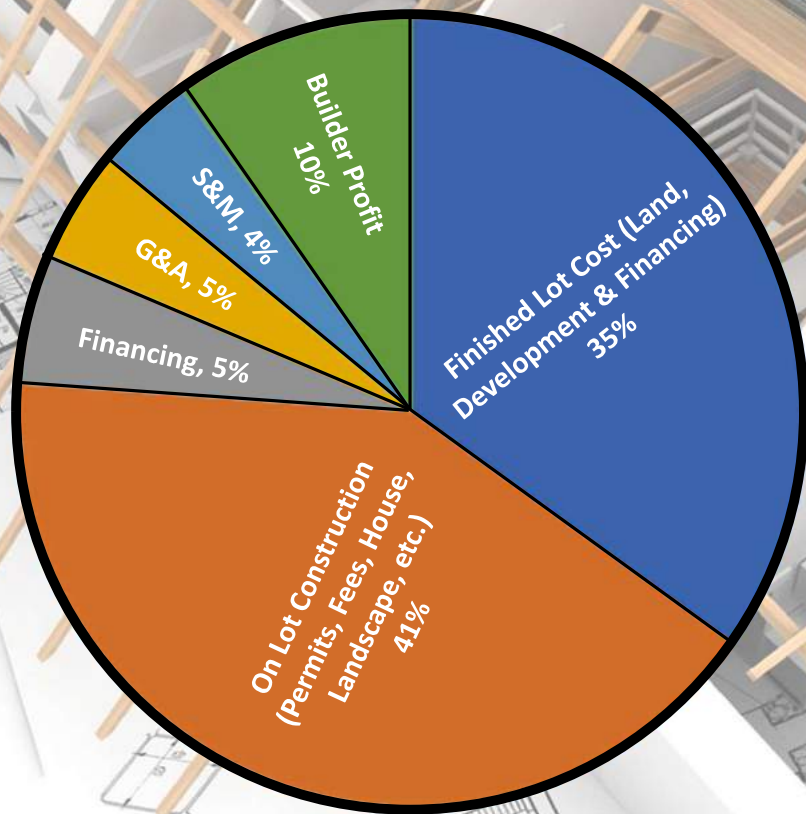
# Local Costs vs. National Average

## Observations:

1. Land supply in Ventura County is scarce, creating a land premium vs. other parts of the Country.
2. Many construction materials come from national suppliers with costs relatively fixed. This contributes to a greater skew in share of sales price with lower priced homes.
3. Entitlement & permitting takes longer in VC than most of the Country. This creates longer debt duration for land acquisition and construction leading to higher finance costs.



# Local Cost Components of Housing (what the homebuyer is paying for)



**EXAMPLE:**

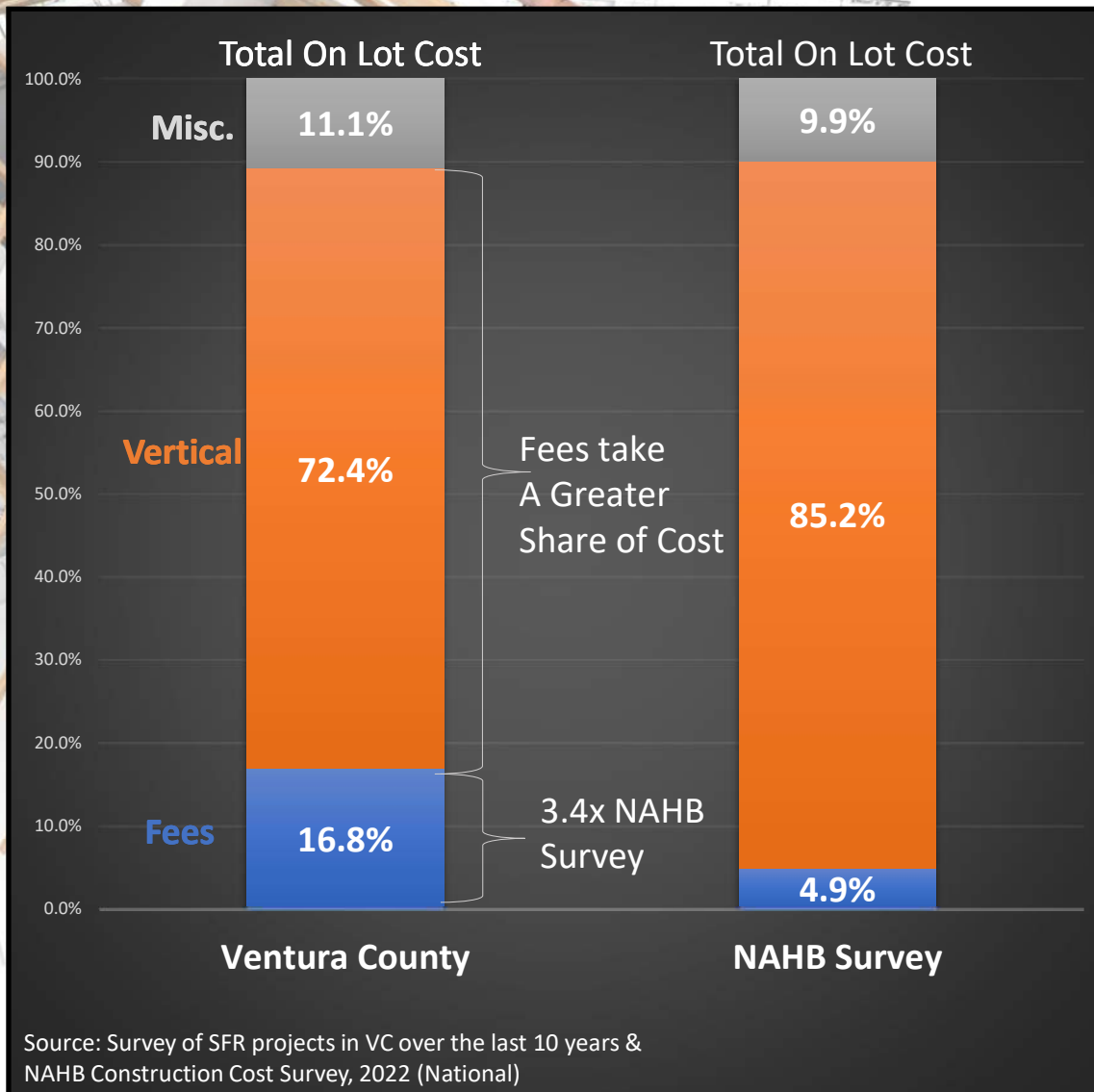
**Home Price: \$800,000**

|              |             |                  |
|--------------|-------------|------------------|
| Finished Lot | 35%         | \$280,000        |
| On Lot       | 41%         | \$328,000        |
| Financing    | 5%          | \$40,000         |
| G&A          | 5%          | \$40,000         |
| S&M          | 4%          | \$32,000         |
| Profit       | 10%         | \$80,000         |
| <b>Total</b> | <b>100%</b> | <b>\$800,000</b> |

1. Costs are per lot, one way to decrease the cost per lot is to increase density.
2. On Lot Costs account for the largest share of a home's cost in our area.

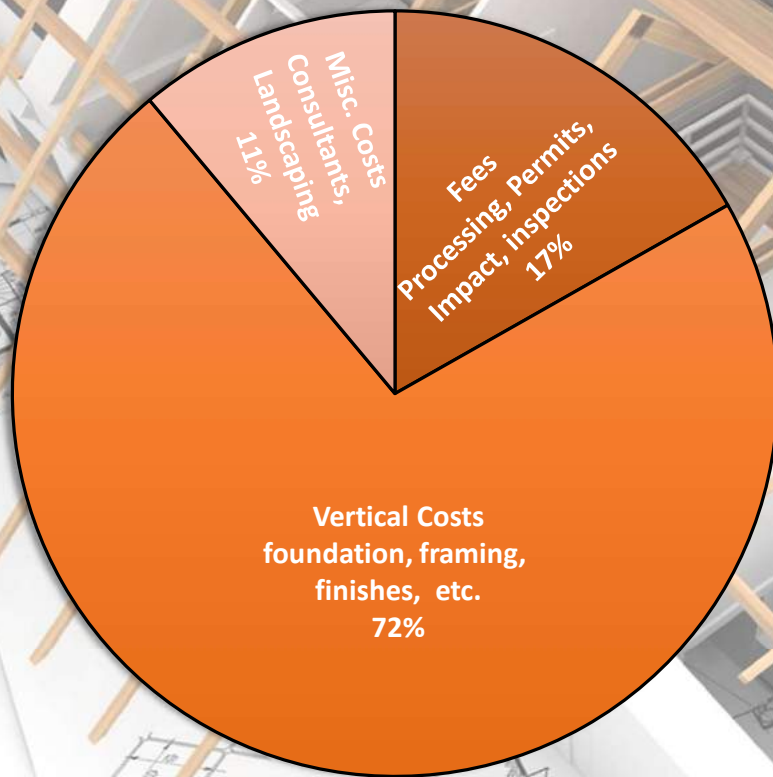
Source: Survey of SFR projects in VC over the last 10 years.  
NAHB Construction Cost Survey, 2022 (National)

# Local vs. National “On Lot” Costs



1. Placed NAHB cost items including consultants, landscaping, cleanup, Other into one “Misc.” cost bucket.
2. This comparison gives a good indication of the difference in fees in VC vs. National Averages.
3. Adding these three components together gets to the total on lot cost component of the cost of the home.
4. The total “On Lot” Cost consists of all costs on the lot (fees, house, landscape, cleanup, etc.).

# Breaking Down Local “On Lot Costs”



| EXAMPLE:       |      |           |
|----------------|------|-----------|
| Home Price:    |      | \$800,000 |
| On Lot \$:     |      | \$328,000 |
| Fees           | 17%  | \$55,760  |
| Vertical Costs | 72%  | \$236,160 |
| Misc. Items    | 11%  | \$36,080  |
| Total          | 100% | \$328,000 |

Source: Survey of SFR projects in VC over the last 10 years.

# Cost Contributions to Mortgage Payment

## EXAMPLE:

Home Price: \$800,000

10% Down: (\$80,000)

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Loan Amount: \$720,000

Interest Rate: 7.8%

Monthly Payment: (\$5,183)

|                     |                  | MONTHLY<br>PAYMENT | % OF PAYMENT |
|---------------------|------------------|--------------------|--------------|
| <b>Finished Lot</b> | <b>\$252,000</b> | <b>(\$1,814)</b>   | <b>35%</b>   |
| On Lot              |                  |                    |              |
| <b>Fees</b>         | <b>\$50,184</b>  | <b>(\$361)</b>     | <b>7%</b>    |
| Vertical Costs      | \$212,544        | (\$1,530)          | 30%          |
| Misc. Items         | \$32,472         | (\$234)            | 5%           |
| <b>Financing</b>    | <b>\$36,000</b>  | <b>(\$259)</b>     | <b>5%</b>    |
| G&A                 | \$36,000         | (\$259)            | 5%           |
| S&M                 | \$28,800         | (\$207)            | 4%           |
| Profit              | \$72,000         | (\$518)            | 10%          |
| <b>Total</b>        | <b>\$720,000</b> | <b>(\$5,183)</b>   | <b>100%</b>  |

1. Finished Lot, Fees & Financing Costs Contribute 47% of a project cost & all three items are impacted by local policy decisions. Cities with architectural enhancement requirements also add to the vertical cost component of the cost of a home.
2. Finished lot costs can be impacted by land use decisions limiting supply as well as limiting allowable density.
3. Fees are impacted by policy decisions on the various impact and permit fees and processes.
4. Financing costs are indirectly impacted by fee amounts and finished lot costs as well as processing timelines.

## Takeaways:

1. The costs that go into development and construction of a home leave few opportunities to reduce the pricing for homebuyers. Allowing smaller homes at higher density, improving processing timelines and fee structures afford the most opportunity for lowering costs.
2. California Cities & Counties rely on fee revenues to a greater extent than their peers nationwide, and this reliance is in large part due to limitations on traditional forms of revenue generation (e.g., property taxes). Without many of these fees, a City's infrastructure becomes overburdened by new development. Example: CA can increase property taxes up to 1% annually while TX can increase up to 10%.
3. Research has shown that landowners and homebuyers often ultimately pay at least a portion of imposed fees. While developers can pay the fee themselves (by accepting a lower return), they can also "pass" these costs to the sellers of developable land (who could accept a lower price for their land), or to the residents of the new developments (in the form of higher home prices). If the imposition of a fee pushes a project below an acceptable risk-adjusted return, investors will not contribute capital to the project, meaning that the development is unlikely to be built.
4. The relationship among fees, housing prices, and affordability is complex. High fees have been shown to limit or preclude the development of lower-cost housing. Research has shown that fees contributed to a halt in the construction of starter homes in a number of California cities.



## Recommendations:

- **Post clear, comprehensive, and up-to-date development fee schedules.** Often fees come from various sources and are not easily determined. Fee schedules should clearly present details on all fees required in one central location.
- **Extend the timing of when fees are due to reduce developer finance costs.** Some jurisdictions collect fees when permits are issued and others collect when the certificate of occupancy is issued. Collecting fees earlier extends the length of time developers must carry the cost of fees thus increasing finance costs.
- **Determine fees earlier in the development process.** Calculating fees based on fee rates in effect at an earlier point in the development process would lower risk for developers. This approach would need to set fee determinations contingent on the project receiving a certificate of occupancy within a strict time frame.
- **Increasing fees incrementally:** Rather than applying the full amount of a fee or fee increase when approved, localities can stage its implementation in steps over a period of time to give the housing and land markets a chance to adjust to the higher cost of development.





## Additional Sources For Information:

- Cost of Constructing a Home- 2022, February 1, 2023, National Association of Home Builders (NAHB) (<https://www.nahb.org>)
- Residential Impact Fees in California, Current Practices and Policy Considerations to Improve, Implementation of Fees Governed by the Mitigation Fee Act, August 5, 2019 (<https://www.hcd.ca.gov>)
- How Much Does It Cost to Permit a House? An analysis of city and county compliance with California AB 1483 and recommendations to improve the transparency of development fees. May 2021 Update. (<https://www.spur.org>)
- Impact Fees and Housing Affordability, Vicki Been, New York University, School of Law published in Cityscape: A Journal of Policy Development and Research • Volume 8, Number 1 • 2005 (<https://www.huduser.gov>)



# ROUND TABLE DISCUSSION

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Pete McCarthy – McCarthy Companies

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Housing Opportunities Made Easier