



Cost of Constructing Homes in Washington

Who We Are

The Building Industry Association of Washington is the voice of the housing industry in the state of Washington. The association is dedicated to ensuring and enhancing the vitality of the building industry for the benefit of its members and the housing needs of the citizens.

To accomplish this purpose, the association's primary focus is to educate, influence and affect the legislative, regulatory, judicial and executive agencies of Washington's government.

BIAW offers its membership those services which can best be provided on a statewide basis and disseminates information concerning the building industry to all members and the public.

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Executive Summary

State leaders and policymakers have made homelessness and housing affordability a top priority in 2023. In their book, “Homelessness is a Housing Problem,” two University of Washington researchers compared rates of homelessness in various US cities. They found that, while mental illness, drug use, poverty and a variety of other factors affect homelessness, the key drivers of regional differences in homelessness across the county are market factors and the availability of rental housing.

Challenge Seattle’s recently released report, “The Conspicuous Crisis: Addressing Housing Affordability in Washington,” states “Housing affordability is at a crisis level in Washington, and it will take a comprehensive solution and all of us coming together to act at the scale we desperately need.”

As the state’s largest trade association and one of the largest state home building associations in the nation, the Building Industry Association of Washington is up for the challenge. Over the last 20 years, the median sales price for homes in Washington has skyrocketed from \$188,000 in 2002 to \$236,600 in 2012 to \$552,200 in 2023. According to our 2023 Priced Out report, only 18% of the households in our state can qualify for a mortgage at that price point. And for every \$1,000 added to the price of a median-priced home, 4,068 families are priced out from being able to afford to purchase.

Previous BIAW research reports detailed how zoning regulations affect the final sales price of new homes. Now, we have been requested to do a similar study that excludes land costs. For policymakers aiming to make real progress on housing affordability, understanding all the costs that go into constructing a new home is crucial for minimizing the unintended consequences of their policy options.

Based on a national survey of home builders, we compiled the Top 10 Cost Drivers in Home Construction with national averages provided for each line-item cost. We’ve included an estimate of this cost for Washington, utilizing the state’s average geographic cost modifier of 1.04.

This table (pg. 5) can be particularly useful in identifying how cost adjustments in just one category can price families out of the opportunity to own a home. For example, each line-item that has an asterisk next to it is influenced by the building codes. For example, the category titled **Major System Rough-Ins** is influenced by the energy code. After July 1, 2023, this category will increase by a minimum of \$5,000 just considering the heat pump water and space heating mandates.

Top 10 Cost Drivers in Home Construction

Ranking	Line Item	National Average	Washington Estimate
1	Land Development (with financing; dependent on zoning regulations)	\$89,540	\$93,122
2	Interior Finishes*	\$75,259	\$78,269
3	Framing*	\$51,589	\$53,653
4	Major System Rough-ins*	\$43,668	\$45,415
5	Exterior Finishes*	\$41,690	\$43,358
6	Foundations*	\$34,850	\$36,244
7	Business Overhead and General Expenses	\$23,683	\$24,630
8	Final Steps	\$20,116	\$20,921
9	Site Work	\$18,323	\$19,056
10	Sales Commission	\$18,105	\$18,829

*Building codes increase costs as they become more stringent and require more expensive materials and appliances.

Methodology

To begin our research, we needed to determine construction costs for each major stage of construction. We utilized our national counterpart's Construction Cost survey results published in the National Association of Home Builders' special study, "Cost of Constructing a Home" from January 2, 2020. The costs were not particularly helpful to us since the estimates were from before the COVID-19 pandemic. However, we could utilize the 25-year average of percentages for the costs in each category. It's important to recognize that each category includes all the costs paid by a builder that go into that category, including labor costs, cost of materials, and profit margin.

After determining the 25-year averages for each major category, we needed to apply the average home sales price to understand how much cost can be attributed to each category of construction. After retrieving the three quarters of data from the U.S. Census Bureau and estimating that the fourth quarter would see a conservative increase of 2.75%, we could estimate that the average sales price for a new home in the Western Census Region would be \$680,822.

Using the estimated sales price, we could then extrapolate out the total construction costs category into major line items that could be more easily understood by policymakers, community organizations, and others that have an interest in construction costs.

Limitations

The information published throughout this report is for illustrative purposes only. Because we don't have state-level data available to us at the time of this report, it's important to be transparent about the limitations of this study:

- The Construction Cost Survey had a representative sample of 6,516 home builders nationwide. The sample was stratified by the size of the builder and the region in which they were located. Still, it is entirely possible that the sample did not include a home builder from Washington.
- Data is for the entire Western Region of the U.S. Census, which includes 13 states. This means that the costs referenced may be slightly inaccurate as they are influenced by the other states in the region such as Colorado or New Mexico. We did try to control for this by applying Washington's cost modifier of 1.04 to the Top 10 Cost Drivers in Home Construction table.
- As stated previously, we did not include the full cost of land (except in cases where builders improve the lot via landscaping and sitework) because it's variable across the state, dependent upon zoning regulations, market demand, and the variable cost for builders to make a plot of land buildable.
- This study is only relevant to single-family detached homes. While we're confident that these percentages could be easily translated and usable for attached townhomes, we do not advise that condos or other multi-family structures utilize our methodology because the underlying assumptions would not hold true.

Results

The estimated 2022 average new home sales price is \$680,822 and the average new home built is 2,446 square feet. This translates into a rate of \$278 per square foot.

Table 1. **25-year Average Sales Price Breakdown by Category**

	25-Year Average	2022 New Home Sales Price
Finished lot cost	21.64%	\$147,330
Total construction cost	56.38%	\$383,847
Overhead and general expenses	15.05%	\$102,464
Sales (realtor) commission	3.59%	\$24,442
Financing cost	1.82%	\$12,391
Marketing cost	1.52%	\$10,348
Total sales price	100.00%	\$680,822

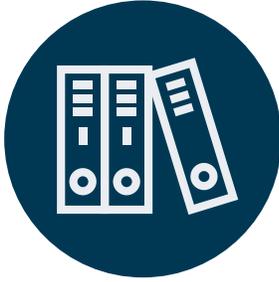
Table 2. **Construction Cost Breakdown**

	Share of Construction Cost	Cost Estimates
Site Work	6.20%	\$23,799
Building permit fees	1.70%	\$6,525
Impact fees	1.30%	\$4,990
Water & sewer fees inspections	1.50%	\$5,758
Architecture & engineering	1.50%	\$5,759
Other	0.20%	\$768
Foundations	11.80%	\$45,294
Excavation, foundation, concrete, retaining walls, and backfill	11.30%	\$43,375
Other	0.50%	\$1,919
Framing	17.40%	\$66,789
Framing (including roofing)	13.70%	\$52,587
Trusses (if not included above)	2.10%	\$8,061
Sheathing (if not included above)	1.10%	\$4,222
General metal, steel	0.30%	\$1,152
Other	0.20%	\$768
Exterior Finishes	14.10%	\$54,122
Exterior wall finish	6.50%	\$24,950
Roofing	3.40%	\$13,051
Windows and doors (including garage door)	4.00%	\$15,354
Other	0.20%	\$768
Major Systems Rough-ins	14.70%	\$56,426
Plumbing (except fixtures)	5.00%	\$19,192
Electrical (except fixtures)	4.70%	\$18,041
HVAC	4.80%	\$18,425
Other	0.30%	\$1,152

	Share of Construction Cost	Cost Estimates
Interior Finishes	25.40%	\$97,497
Insulation	1.70%	\$6,525
Drywall	3.60%	\$13,818
Interior trims, doors, and mirrors	3.60%	\$13,818
Painting	2.80%	\$10,748
Lighting	1.20%	\$4,606
Cabinets and countertops	4.60%	\$17,657
Appliances	1.60%	\$6,142
Flooring	4.00%	\$15,354
Plumbing fixtures	1.40%	\$5,374
Fireplace	0.60%	\$2,303
Other	0.30%	\$1,152
Final Steps	6.80%	\$26,102
Landscaping	2.20%	\$8,445
Outdoor structures (deck, patio, porches)	4.70%	\$18,041
Driveway	4.80%	\$18,425
Clean-up	0.30%	\$1,152
Other	0.10%	\$384
Other	3.80%	\$14,586
Total	100%	\$383,847

Percentages may not add up to 100%, as they are rounded to the nearest percent.

Policy Considerations



Regulation

Regulations are important and worthwhile in many cases. However, some are arbitrary and burdensome. We used the example of building codes adding costs in various stages of the construction but other regulations exist. One example is local parking regulations that mandate one, two, or more parking spaces dependent on what type of structure is built and its future uses. Some jurisdictions reduce the number of parking spaces required for single-family homes if a garage is constructed, whereas others do not count garage parking spaces in their definition of a parking space. If an extra one or two parking spaces (in addition to garage parking spaces) are required for a single-family home, that can add substantial cost.



Land

Zoning regulations are only half the problem. Land availability is a large barrier to the ability of the private sector to build more housing units. The Growth Management Act requires municipalities to complete a comprehensive plan every 10 years. A crucial element within this plan is the buildable lands inventory that determines how much land is available for each land-use designation. How municipalities count existing inventory, and how they forecast population growth are just two factors that can influence how much land is set aside for housing units, commercial purposes, and other uses.



Workforce

The “College for All” messaging over the last 20 years has resulted in a Silver Tsunami – the term coined to describe the greying of the industry’s workforce and future retirements. It has already begun, and as it continues, labor costs will continue to increase. The construction industry offers higher wages than service industries and job growth in recent history has remained stable. Additionally, the construction industry offers more opportunities for entrepreneurs to own and operate small businesses.

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