

# MATERIAL SUPPLY ISSUES MAY PUT LONG-TERM PRESSURE ON HOME PRICES

With delivery schedules delayed and prices of material goods rising, pandemic-induced supply-chain issues have dominated headlines for much of 2021, and are poised to continue into the new year. While the supply-chain issues have an effect on every corner of the economy, the housing market has felt a particularly dramatic impact.

“Every part of a house is more expensive today,” says Philip A. White Jr., president and CEO, Sotheby’s International Realty. “It’s impacting new-home construction more than anything. We hear the most about lumber, but it’s everything. And that’s pushing up the average sales price.”

People will still build personal homes if, for example, a US\$12 million house now costs US\$13 million instead, says Jason Friedman, senior global real estate advisor, Daniel Gale Sotheby’s International Realty in New York. But for developers, a sudden spike in the price of construction material, compounded by a chronic shortage of labor, can change the entire calculus of a project.

The Achilles’ heel in the market right now is construction costs, says Dean Jones, owner, Realogics Sotheby’s International Realty in Washington. “The delays associated with Covid have given every developer pretty significant [difficulties]—some projects are facing six- to 12-month delays.”

Even a shortage of basic appliances like stoves and refrigerators is slowing things down. “The thing we’ve been seeing the most problem in getting is actually the appliances,” Friedman says. “You can pay whatever you want to pay, they just don’t have them.”

Delayed building deliveries mean that developers’ equity remains tied up in existing projects, rather than invested in new ones, further slowing down the new-construction pipeline and leaving builders to assess whether new projects are financially feasible at all.

All of which translates into yet another factor putting a squeeze on inventory and upward pressure on home prices.

“Unfortunately, added costs of construction from the supply chain are going to get passed on to the consumer,” Jones says.

“Things are more expensive,” adds John Young, realtor, Golden Gate Sotheby’s International Realty in California, who is also an independent real estate developer. “You have increased demand from people spending more money on their houses [than they did before the pandemic], then reduced supply from Covid-induced shocks to the material supply chain.”

Even once the supply chain gets back to running at its usual pace, the ripple effects of a construction slowdown could be felt in the housing market for years to come.

“It could be 2024 or 2025 before we see some kind of pickup in new supply,” Jones says. “The entire economics of building a building has really been turned on its head, and it’s going to take a number of years to heal. Then once it heals, it will take a number of years to get the supply.” ■

## 6-12 MONTHS

Due to material-supply issues, some developers are seeing **6-12 month delays in delivery of homes**, according to Dean Jones of Realogics Sotheby’s International Realty.

A Hamptons-style new construction in Old Palo Alto, California