



ECONOMY

Building a home in the Mountain States – the cost & conundrum

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MOUNTAIN STATES
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Introduction

Families looking to buy a house have been suffering from sticker shock since the pandemic. The public response to COVID-19 triggered a rapid increase in home prices, especially in the mountain states. States including Idaho, Utah, and Montana saw home prices increase by 40% from 2020 to 2024, with a significant downturn still unlikely. With the increased demands on wallets, first time home buyers are struggling to enter the market and are looking for more affordable pathways into home ownership, including building a home. With these changes, residents have limited housing choices as attainability trends further out of reach.

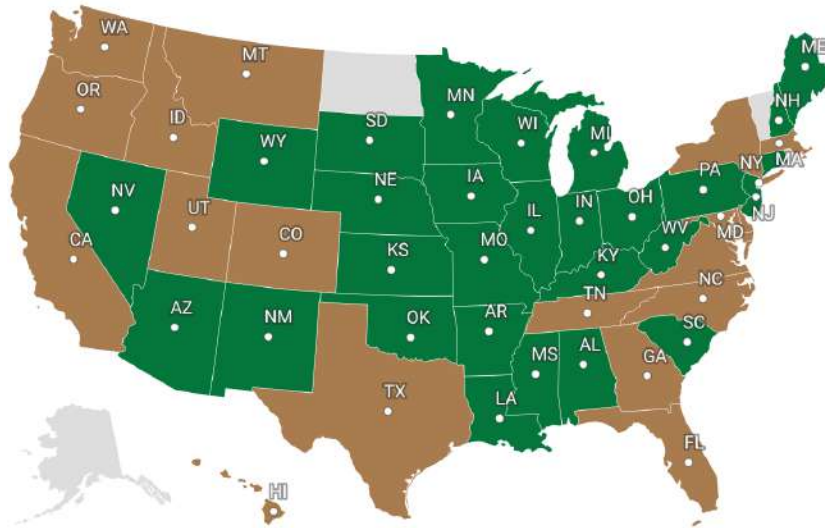
Mountain States Policy Center reviewed the costs of building a house in the four mountain states of Idaho, Montana, Washington, and Wyoming, in addition to Oregon and Utah. The costs include land, development, materials, labor, and regulations. Surprisingly, it is cheaper to build a home than to buy one in a few mountain states.¹ If a consumer is motivated and willing to join the DIY cultural movement, a few dollars may be saved.

This research goes beyond just the cost of building homes and looks at the regulatory framework increasing home costs and the potential policies that can help increase supply and make homes more affordable.

KEY INFORMATION COLUMN

From 2018 to 2023, Idaho and Montana saw the largest home price increases in the nation at 74% and 72%, respectively.

Which U.S. States Are Better for Building or Buying a Home?



In brown states building is cheapest, in green states buying is cheapest.

Source: StorageCafe analysis of U.S. Census and Point2homes data • Created with Datawrapper

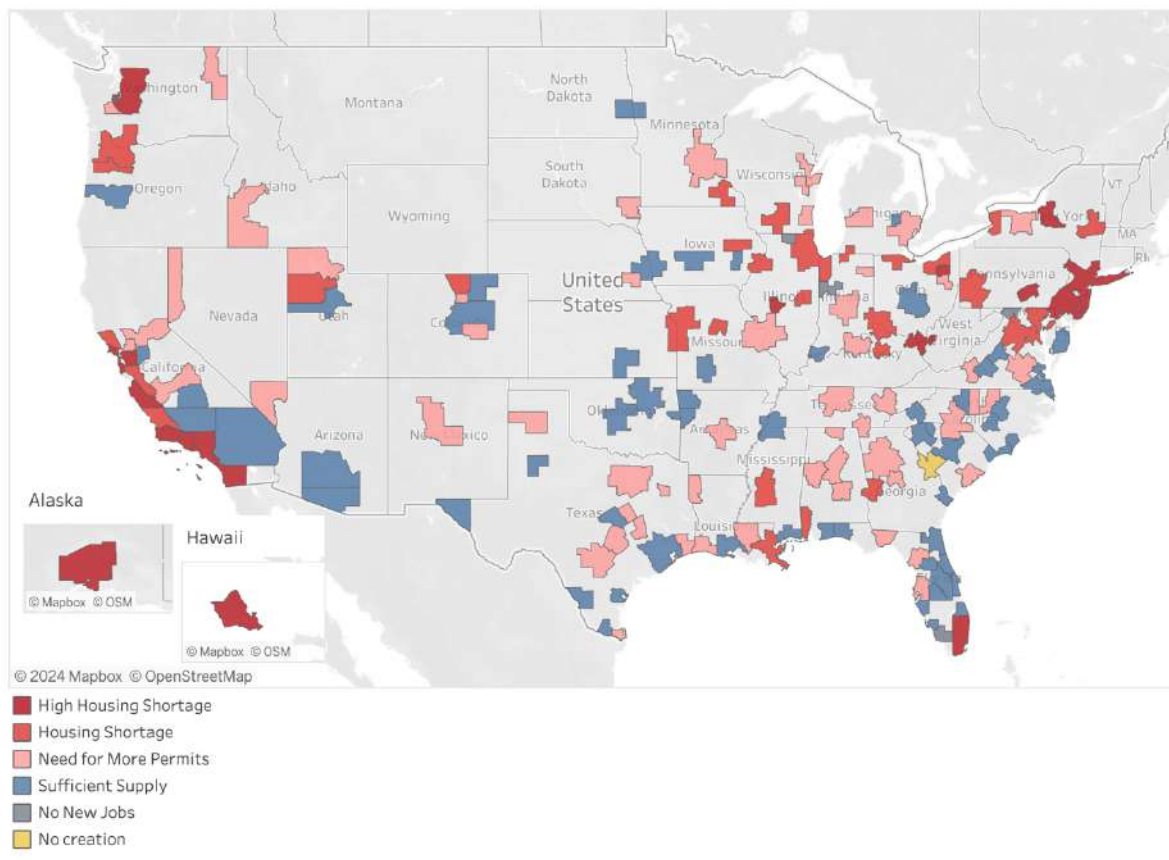
Properties in Hawaii, California and the District of Columbia have long been the most expensive in the country and are continuing in that position. But thanks to recent population increases in the last five years, properties in the mountain states nearly doubled in value. From 2018 to 2023, Idaho and Montana saw the largest home price increases in the nation at 74% and 72%, respectively. Utah was ranked 10th at 60%, Washington 22nd at 49%, and Wyoming and Oregon tied for 37th at 41%.¹

The housing landscape of the Mountain States region has grown rapidly over these five years. Neighborhoods are replacing farmland, multi-family housing is filling in many spaces, and still the supply lags demand. The National Realtor Association tracks the number of housing permits issued per number of jobs created in a region. This map indicates that highly populated areas in the mountain states are struggling to meet the supply needs. Northern Utah, the Treasure Valley of Idaho, Spokane, and suburbs of Seattle and Portland are all struggling to meet housing needs.²

Areas of housing shortages correlate with the areas of most rapid growth in the nation. Idaho, Montana, Utah, and Washington have all grown in population by over 1%, with Utah and Idaho leading the nation. With the increased population comes the tightening of the housing supply and the increased home costs.

¹ Housing Data, Zillow, available at <https://www.zillow.com/research/data/>

² Housing Shortage Tracker, National Association of Realtors, September 2023, available at <https://www.nar.realtor/research-and-statistics/housing-statistics/housing-shortage-tracker>



KEY INFORMATION COLUMN

Home building costs include the lot development, construction materials and labor, permits, and contractor fees.

Cost of Building a Home

With the tight housing supply in most of the west, it is cheaper for future homeowners to build rather than buy a home in 18 states. Utah is ranked 4th nationally for cost savings of \$97,000, Montana 8th with \$84,000, Idaho 10th with \$70,000, Washington 11th with \$66,000, and Oregon 14th with \$43,000 in cost savings. In the mountain states only Wyoming is more expensive to build a new home, at \$20,000 cost increase over buying a home.³ Within the states, the more rural counties are more affordable to build, whereas in more populated regions home building is more expensive.

Home building costs include the lot development, construction materials and labor, permits, and contractor fees. The National Association of Home Builders (NAHB) conducted an in-depth survey of the average national costs of home building across their membership.⁴ Tracking these findings since 1998, NAHB estimates both the breakdown of the sales price and construction cost. The cost estimates are based on the typical single-family home, which averaged 2,516 square feet in 2022. No category in the sales price breakdown experienced a larger than 1 percentage point change since the last survey in 2019, despite a 32% increase in the total sales price.

³ "Where Is Building A Home Cheaper Than Buying? Western & South Atlantic States, With California In The Lead," StorageCafe, by Francis Chantree, February 22, 2023, <https://www.storagecafe.com/blog/is-it-cheaper-to-build-or-buy-a-house-in-the-us/>

⁴ National Association of Home Builders (NAHB), "Cost of Constructing a Home -2022," by Eric Lynch, February 2023, available at <https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics-plus/special-studies/2023/special-study-cost-of-constructing-a-home-2022-february-2023.pdf>

KEY INFORMATION COLUMN

The national average for construction costs were \$153 per square foot in 2022, and the highest on record, totaling \$392,241 for a typical single-family home.

Sale Price Breakdown	2019	2022
1. Finished Lot Cost	18.5%	17.8%
2. Total Construction Cost	61.1%	60.8%
3. Financing Cost	1.7%	1.9%
4. Overhead and General Expenses	4.9%	5.1%
5. Marketing Cost	1.0%	0.7%
6. Sales Commission	3.7%	3.6%
7. Profit	9.1%	10.1%
8. Total Sales Price (\$)	\$485,128	\$644,750

The national average for construction costs were \$153 per square foot in 2022, and the highest on record, totaling \$392,241 for a typical single-family home.⁵ Price increases and volatile supplies caused many fluctuations in construction costs, especially in lumber related products.

Construction Cost Breakdown	2019	2022
I. Site Work	6.2%	7.4%
II. Foundations	11.8%	11.0%
III. Framing	17.4%	20.5%
IV. Exterior Finishes	14.1%	11.8%
V. Major Systems Rough-ins	14.7%	17.9%
VI. Interior Finishes	25.4%	24.0%
VII. Final Steps	6.8%	5.9%
VIII. Other	3.8%	1.5%
TOTAL	\$296,792	\$392,241

Construction costs increased by 32% over the three-year period, by almost \$100,000. The second largest percentage increase between surveys since the beginning of the survey.⁶

Construction Costs for the Mountain States

The first cost to consider when building a home is the land. An average comparison of land costs uses a quarter acre estimate based on a paper by the Federal Housing Finance Agency.⁷ Though the median lot sizes vary significantly between the states. (Montana home lots are four times larger than Washington). Land cost estimates are highest in Washington. Idaho is the

⁵ Ibid

⁶ The highest increase between surveys was in 2013 at 33%, which had experienced a 17% decrease in the previous survey. For a more detailed view of specific construction costs please refer to the National Association of Home Builders survey.

⁷ Federal Housing Finance Agency. "Working Paper 10-01: The Price of Residential Land for Counties, Zip Codes, and Census Tracts in the United States," by Larson, W. Shui, J. Davis, M. Oliner, S., available at <https://www.fhfa.gov/PolicyProgramsResearch/Research/Pages/wp1901.aspx>

KEY INFORMATION COLUMN

As of 2022, the Western region was the highest contract cost for construction per square foot at \$186.63 per square foot, having experienced a 32% increase in costs from 2021. Over five-years, growth in contracts was the highest in the south from 2018 to 2022.

second lowest land cost in the mountain states. The survey by NAHB estimates that land costs account for 17.8 percent of the total home costs, but in Washington, Oregon and Utah the estimates from FHFA are much higher than this percentage.

State	Avg Price per ¼ Acre Lot	Median Lot Size (Acres)
Idaho	\$61,948	11,761
Montana	\$67,857	43,560
Washington	\$202,758	10,720
Wyoming	\$56,851	15,625
Utah	\$107,681	10,890
Oregon	\$159,775	10,454

The next cost to include in a home construction project is the cost of the building contract. The US Census Bureau estimates median contract price per square foot in four regions of the United States: Northeast, Midwest, South, and West.⁸ As of 2022, the Western region was the highest contract cost for construction per square foot at \$186.63 per square foot, having experienced a 32% increase in costs from 2021. Over five-years, growth in contracts was the highest in the south from 2018 to 2022.

	Nation	Northeast	Midwest	South	West
2022	\$ 156.93	\$ 183.19	\$ 177.61	\$ 137.74	\$ 186.63
% Change YOY	20%	2%	18%	20%	32%
5 YR Change	37%	33%	39%	43%	32%

The housing cost survey by NAHB, found regulatory costs to be 23.8 percent of the total home price, averaging \$93,780 nationally.⁹ Regulatory costs during lot development account for 10.5 percent of the home cost, with land dedicated to the government or otherwise left unbuilt being the largest expense. Regulatory costs during construction account for 13.3 percent of the home cost, with changes to the building code over the past 10 years being the largest cost.

A contact in the construction industry says that building permits are the most difficult in Washington, compared to Oregon and Idaho.¹⁰ Washington requires more at a state level, and certain counties like Franklin and Benton County, have added to the complexity. By requiring specific information on each

⁸ United States Census Bureau, "Characteristics of New Housing Contractor-Built," available at <https://www.census.gov/construction/chars/contr.html>

⁹ "Government Regulation in the Price of a New Home: 2021," National Association of Home Builders, by Paul Emrath, May 2021, available at <https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics-plus/special-studies/2021/special-study-government-regulation-in-the-price-of-a-new-home-may-2021.pdf>

¹⁰ Interview with Construction Contact on January, 24, 2024.

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subcontractor at such an early stage of the process, there is an increased cost to the customer and complexity in re-filing paperwork for changes. In the state of Idaho, most of the region is easy to work with clear, basic requirements. However, the City of Boise and Teton County are adding to the process by increasing the timelines and requiring specific connections to power, adding cost to the consumers. Kootenai County also has a very slow permit process and has adopted similar permit requirements like Washington, increasing the cost to the consumers.

REGULATORY COSTS	Regulations as a % of the House Price
REGULATORY COST DURING LOT DEVELOPMENT	
Cost of applying for zoning approval	1.6
Hard costs of compliance (fees, required studies, etc.)	3
Land dedicated to the govt. or otherwise left unbuilt	2.8
Standards (setbacks, etc.) that go beyond the ordinary	2.3
Complying with OSHA/other labor requirements	0.5
Pure cost of delay (if regulation imposed no other cost)	0.4
All Regulation During Development	10.5
REGULATORY COST DURING CONSTRUCTION	
Fees paid by the builder after purchasing the lot	3.1
Changes to building codes over the past 10 years	6.1
Architectural design standards beyond the ordinary	2.7
Complying with OSHA/other labor requirements	1.1
Pure cost of delay (if regulation imposed no other cost)	0.2
All Regulation During Construction	13.3
Total Cost of Regulation as a % of House Price	23.8

Overall, home construction costs are the highest in Utah (which is expected as homes are both larger and in more demand than any other region). Washington is the second highest and Idaho is much cheaper at \$280,614.12. However, these numbers are averages and the costs change dramatically based on region within the state. More metropolitan areas have higher home construction costs, because demand is higher.

	Q3 2023 Median Home Price	Home Construction	Regulatory Cost Development	Regulatory Cost Construction	Reg total cost on home
Idaho	\$ 368,260.00	\$ 280,614.12	\$ 38,667.30	\$ 48,978.58	\$ 87,645.88
Montana	\$ 441,123.75	\$ 336,136.30	\$ 46,317.99	\$ 58,669.46	\$ 104,987.45
Washington	\$ 457,450.40	\$ 348,577.20	\$ 48,032.29	\$ 60,840.90	\$ 108,873.20
Wyoming	\$ 308,442.00	\$ 235,032.80	\$ 32,386.41	\$ 41,022.79	\$ 73,409.20
Oregon	\$ 446,802.63	\$ 340,463.61	\$ 46,914.28	\$ 59,424.75	\$ 106,339.03
Utah	\$ 494,239.23	\$ 376,610.29	\$ 51,895.12	\$ 65,733.82	\$ 117,628.94

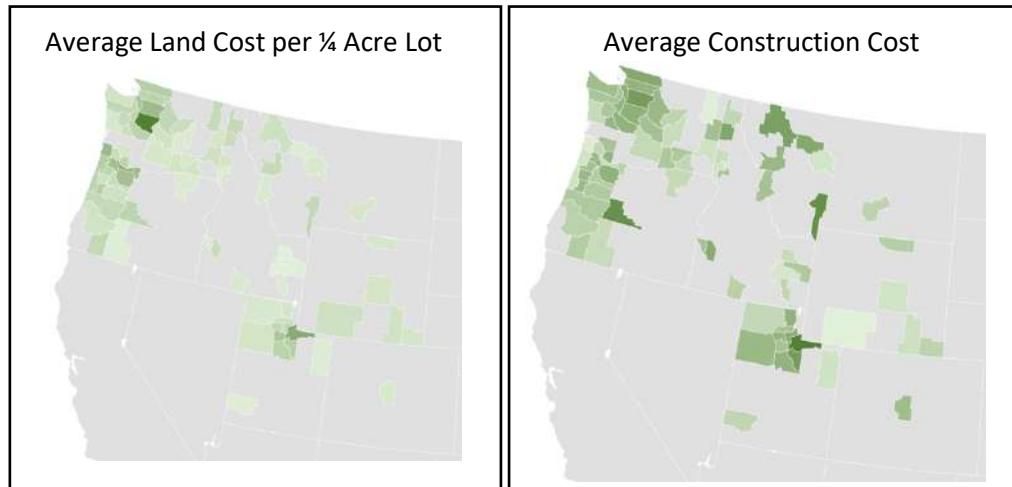
KEY INFORMATION COLUMN

Construction labor forces are more utilized in more urban, higher demand regions, and so the cost of construction also increases.

Closer Look at State Construction Costs

Taking a closer look at state construction costs, it's easy to conclude that areas of high population correlate with high land costs and high construction costs. The higher demand for land and homes, tightens supply, driving up costs for home purchases and home construction. Construction labor forces are more utilized in these more urban, higher demand regions, and so the cost of construction also increases.

Though it is cheaper in most of the western states to build a home, this typically applies to the more rural regions of the states. In high demand areas, the contractor labor force is utilized so fully that custom contracts for houses are likely to be higher than home purchasing. Whereas, rural contractors have more availability and lower costs compared to more urban counterparts.



Policy Challenges

The Mountain States will continue to increase in population, leaving the housing supply tight. Policies that favor increasing the housing supply are the best solution to increasing availability and affordability. Though often doubted, the simple theory of supply and demand applies to the housing industry. As the supply increases of houses, the prices decrease. State and local governments need to move away from Not In My Backyard (NIMB) policies that discourage denser housing and favor policies that make home building easier.

A few policies likely to increase the housing supply include:

- Light touch density development encourages multi-family residential building within previously single-family zones. LTD development can blend in with surrounding housing, provide a lower cost threshold to

KEY INFORMATION COLUMN

Policymakers should avoid restrictions on land development and enact policies that shorten building permit timelines.

first-time home buyers, and increase supply in urban centers.¹¹

- Boise made a move in June 2023, to incorporate LTD type policies within its boundaries.¹² One of the initial drafts of the rule complicated the law by tying multi-family units to rent control and sustainability goals. However, the final proposal adopted by the city council removed many of these barriers and hopefully will encourage LTD policies, without complexity.
- Avoid restrictions on land development. Markets that are more highly regulated are also more expensive, as seen in Washington and Oregon.¹³ Growth should be permitted and encouraged in areas of poor agricultural production and low biodiversity. All levels of government should lower interference in the housing market and not restrict development unnecessarily.
- Enact polices shortening building permit timelines and limiting requirements, by financially incentivizing local government to comply. Florida adopted legislation two-years ago that lowered building permit fees if deadlines were unmet. Since implementation counties once back-logged with permits, now issue permits quickly and within all deadlines.¹⁴
- Simplify and minimize regulatory hurdles, incentivizing builders to enter the labor force. The contractor and property owner ‘swarm’ is an effective tool in meeting housing demands, because hundreds of small builders working on 1-3 units at a time, will build a lot more than one or two large builders building a hundred homes at a time.¹⁵
- Avoid excessive energy code requirements for home building as this adds to the cost of the build and the complexity of the regulations. Washington state is changing energy code requirements for residential lots and this will significantly increase home costs in coming years. It is estimated that costs have increased by almost \$40,000 since 2009 from the WA State Energy Code Requirements.¹⁶

¹¹ American Enterprise Institute (AEI) Housing Center, “San Diego County: Using Light-Touch Density and Walkable Oriented Development to Unleash a Steady Stream of Naturally Affordable Housing,” by Edward Pinto, July 2022, available at <https://www.aei.org/wp-content/uploads/2022/08/San-Diego-LTD-and-WOD-Presentation-2022.08.01-FINAL.pdf>

¹² Sightline Institute, “Boise Poised for First Step Towards More Abundant, Affordable Housing,” by Daniel Malarkey, June 2023, available at <https://www.sightline.org/2023/06/09/boise-poised-for-first-step-towards-more-abundant-affordable-housing/>

¹³ Heritage Foundation, “Federal Reforms Should Include Housing and Land-Use Deregulation,” by John Ligon, March 2018, available at <https://www.heritage.org/housing/report/federal-reforms-should-include-housing-and-land-use-deregulation>

¹⁴ Mountain States Policy Center, “Building permit delays are fixed through bureaucratic fiscal penalties,” by Madilynne Clark, November 14, 2023, available at <https://www.mountainstatespolicy.org/building-permit-delays-are-fixed-through-bureaucratic-fiscal-penalties>

¹⁵ AEI Housing Center, “AEI Housing Market Indicators, November 2023,” by Edward Pinto, November 2023, available at <https://www.aei.org/research-products/report/aei-housing-market-indicators-november-2023>

¹⁶ The Real Costs of Regulations in Washington. Building Industry Association of Washington, available at <https://www.biaaw.com/research-center/real-cost-of-regulations-in-washington>

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As the Mountain States adopt policies like these, housing will become more affordable. Though the cost of building a home is much higher and complicated in Washington, the increasing population in Idaho, Utah and Montana is making home ownership more unattainable, and more 'Washington-like'. It is in the best interest of the mountain states to adopt policies which improve housing supply and affordability, today, instead of ignoring the policies causing the shortages and amplifying the housing crisis for tomorrow.

**Nothing in this
publication shall be
construed as an
attempt to aid or
hinder the passage of
any legislation.**

ABOUT THE AUTHOR

Madilynne Clark is a senior policy analyst at Mountain States Policy Center.

Madi holds a master's degree in Agricultural and Resource Economics from Colorado State University as well as a B.S. in Environmental Economics, Policy, and Management from Oregon State University.

She is the former Director for the Initiative on Agriculture at Washington Policy Center, one of the first free market think tanks in the nation to launch a focus on Agriculture.

Before joining WPC, she worked for Ag Association Management in Tri-Cities, Washington, working with growers and industry across Washington, Oregon, and Idaho. She also spent two years as an associate of The Context Network. Her time involved working as a business analyst on various agriculture projects in production, wholesale, retail, and policy Ag sectors. She was also a wildland firefighter for four summers.

Madi's work has been published in the Idaho Statesman, The Capital Press, Tri-City Herald, and the Spokesman-Review.

