

# WALL STREET JOURNAL

## LABOR SHORTAGE BESETS HOME BUILDERS

By Kris Hudson

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John Van Dyk says he needs to hire 80 construction framers this year to keep up with Colorado's recovering home-building market, doubling his company's size. So far, he has hired only 20.

"We're really concerned about this summer," said Mr. Van Dyk, whose Van Dyk Construction Inc. employs carpenters who assemble and erect housing frames. "For the first time in my 35-year career, I have to think of whether I dare to take on any additional work."

Mr. Van Dyk's predicament points up a negative feedback loop in the home-building industry here in Denver and in several other rebounding U.S. home markets: New-home prices have surged over the past two years and remain elevated amid a shortage of supply, but boosting supply has been slow-going amid a shortage of home lots and skilled construction workers.

That shortage of skilled labor in many markets has spurred contractors to boost pay scales, often to boom-time levels and beyond – expenses that have been passed on to buyers for as long as they will tolerate the higher prices. In recent months, buyers finally have balked, resulting in sluggish sales of new homes so far this spring.

A labor shortage tends to hit home buyers both with higher prices and expensive delays, said David Crowe, chief economist of the National Association of Home Builders. "It's a direct impact on the cost of the home because you have to pay more for the resources to build it," he said. "And it's an indirect increase because it delays final delivery of the home, and that costs money, too."

Few areas have been hit as hard by the labor shortages as Denver, where the median price of a new home registered \$373,605 last year, up 22 percent from the 2011 median, according to John Burns Real Estate Consulting Inc. in Irvine, Calif. Nationally, the median new-home price was \$268,900 last year, up 18.4 percent from 2011, according to the U.S. Census Bureau.

Home builders in the Denver area constructed 6,700 homes last year, up from a nadir of 3,200 in 2009, according to the Home Builders Association of Metro Denver. Still, that's below the peak of 20,000 permits in 2005.

The supply crunch doesn't figure to ease soon, given the labor shortage. Many Colorado contractors say they have lost skilled labor to energy companies drilling in northeastern Colorado and North Dakota, where many of the top construction workers went during the downturn as the industry's national unemployment rate rose as high as 27.1 percent. Those workers now are tending to oil rigs and building drilling platforms.

The shortage of skilled construction workers also partly reflects the return of Mexican workers to their home country during the downturn without returning since. Other workers went to companies conducting rebuilding work in the wake of floods that swept 24 Colorado counties in September.

"In Denver, it just feels like [the labor shortage] has lasted longer" than elsewhere, said Phillippe Lord, a regional president overseeing Colorado, Arizona and California for national builder Meritage Homes Corp. "We just haven't seen the subcontractors grow into the new market."

Other markets grappling with labor shortages include most Texas markets, Minneapolis and Oklahoma, which like Denver, are losing many workers to the oil and gas fields. Builders in South Florida and Charlotte, N.C., are having difficulty staffing their construction jobs, too. Ed Brady, president of Brady Homes Illinois Inc. in Bloomington, Ill., says labor shortages have lengthened his build time on homes to 120 to 150 days from 90.

Nationally, wages for construction workers are rising at nearly three times the rate for all workers, increasing by 6.3 percent in February from a year earlier, according to the U.S. Department of Labor. In comparison, the increase across all industries averaged 2.2 percent in that span.

In Denver, framers can command wages of \$35 to \$40 an hour, on par with the market's peak in 2005 and 2006, Mr. Van Dyk said. An experienced tile setter can make \$100,000 a year, up from a typical rate of \$70,000, according to Ed Routzon, president of Guy's Floor Service Inc. in Denver. Backhoe operators can earn \$60,000 to \$70,000 a year, slightly more than during the boom.

The national unemployment rate for construction workers remains in double digits at 11.3 percent, though it is down by more than half from its peak in 2010. Economists note that the figure includes both skilled and unskilled workers, and finding one of the former not already working is rare.

Finding highly specialized trade workers "is proving very, very difficult," said James Bolger, director of operations at Colorado Concept Lighting Inc., a high-end electrical contractor that has sought for several months to double its staff of four electricians. "It's like looking for a unicorn or jackalope."

The labor shortage has vexed home buyers with construction delays. Shea Homes, which plans to build 325 houses in the Denver area this year, had 22 houses south of Denver delayed by three weeks earlier this year due solely to a shortage of workers to measure, fit and install cabinets. Meritage reports that some of its houses were delayed for several weeks for lack of heating, ventilation and air-conditioning installers.

Geoff Deakin and his wife, Erika, endured a two-month delay of the construction of their four-bedroom house in the Denver suburb of Erie to December due to worker shortages. The Deakins and their two school-age daughters adapted by extending their lease on their temporary apartment by a few weeks and by paying for a more expensive six-month rate lock on their new mortgage rather than three.

"It was a real financial impact that added up over time, in terms of the lost mortgage tax deductions, extra money for storage and extra driving," said Mr. Deakin, a 40-year-old marketing director. "Toward the end, it got frustrating."