The cost of building in Boston keeps going up. That's making real estate more expensive, too.

Residential and commercial developers alike are grappling with costly shipping and production delays.

By Catherine Carlock and Andrew Brinker Globe Staff and Globe Correspondent, Updated November 1, 2022, 12:19 p.m.

Construction of an apartment complex is underway on the Suffolk Downs site in Revere on Oct. 20, 2022. PAT GREENHOUSE/GLOBE STAFF

A dumpster fire of a supply chain. A frozen construction lending market. Extreme price escalations for materials.

For construction projects of all types and sizes across Greater Boston, it's much more expensive to build now than in years past. And that, in turn, is making it much more expensive to buy or rent a home, a storefront, or a drug lab, as residential and commercial developers alike grapple with costly shipping and production delays.

The rapid rise in federal interest rates and a shaky global economy have spooked many lenders, making construction loans harder to find. And supply chain disruptions, still lingering from the COVID-19 pandemic, have tacked on months to a project's finish time - be it a single-family house or a skyscraper.

Costs have gotten so high, and lead times so unpredictable, that some homebuilders are scaling back projects or calling them off altogether - a tough reality for a housing market experts say desperately needs more supply. And commercial developers - particularly those in the city of Boston examining a plethora of policy changes that would add to a project's bottom line - are facing the same dilemma.

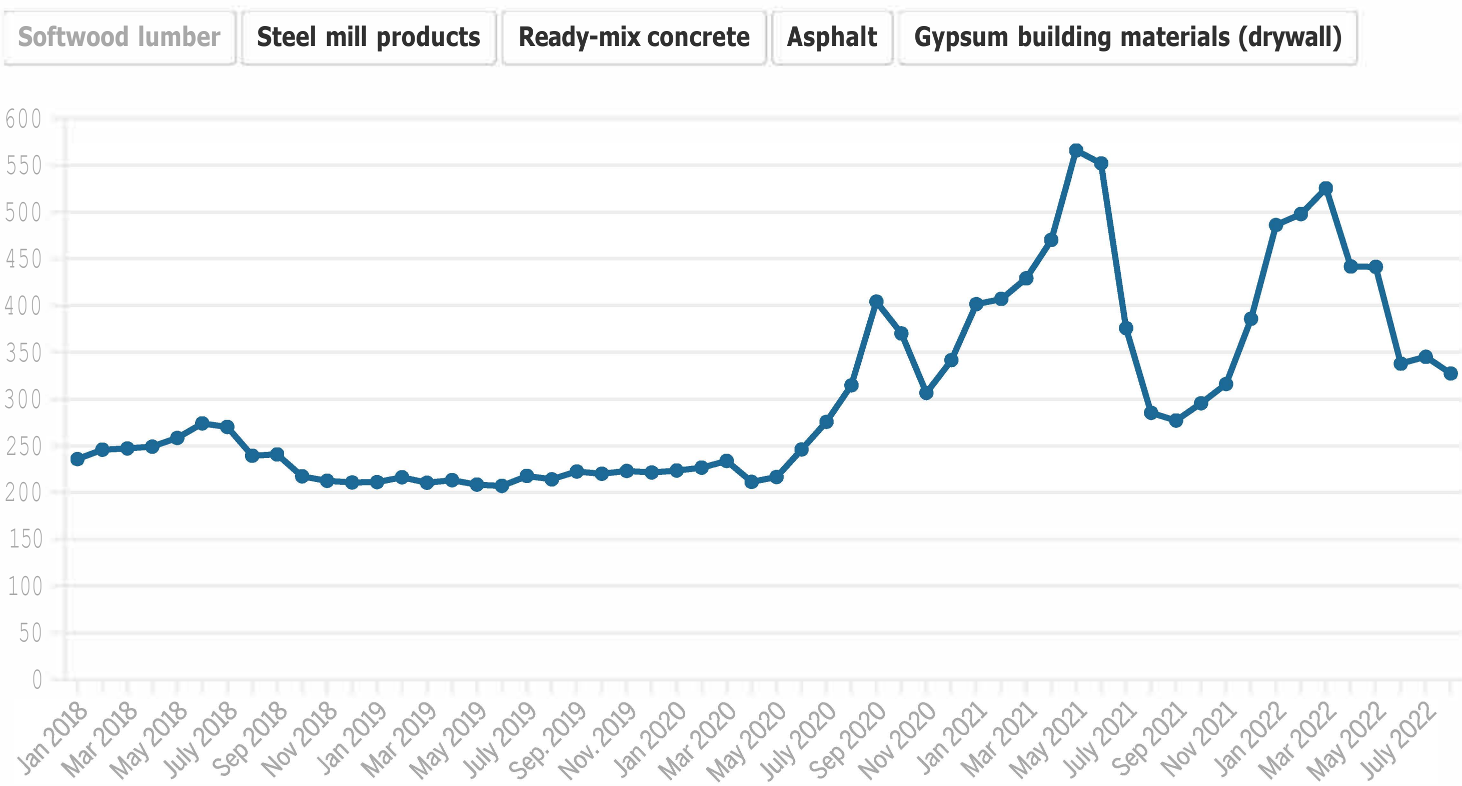
In normal times, it would take homebuilder Jeff Brem six to seven months to build a house. These days, it takes nine months to a year.

"That affects everything," said Brem, who's also president of land surveying firm Meisner Brem Corp. **"It** affects costs. **It** affects customer sales. **It** affects the overall economic market. All these delays and labor shortages have taken an industry that was very much booming and pumped the brakes hard."

Construction costs are driven mainly by two factors - labor and materials. For the decade before COVID-19, those prices had gone up at a rate of 3 to 4 percent a year. From 2020 to 2021, however, those costs rose 14 percent, and are up 11 percent so far in 2022, said Ali Touran, a professor of civil and environmental engineering at Northeastern University.

The cost of construction materials has risen dramatically since the outset of the pandemic

Producer Price Index by Commodity, starting January 2018



Source: BLS' Producer Price Index• RYAN HUDDLE/ GLOBE STAFF

• **A Flourish chart**

Much of those increases are driven by the ongoing effects of the COVID-19 pandemic. The deadly virus, and government policies curbing in-person work and gatherings across the world, put chinks in the global supply chain that are still being felt today for almost every product, said David Logan, senior economist at the National Association of Homebuilders. The rolling nature of those effects has made supply chains, as Logan put it, such a "dumpster fire."

Those supply chain issues can make the overall cost of housing go up dramatically, said Matt Anderson, owner of contractor Anderson Framing and Remodeling in East Sandwich and the former president of the Home Builders and Remodelers Association of Massachusetts. It used to take between eight and 20 weeks for windows to be delivered. Anderson recently waited ten months for a window set for one house.

Those kinds of delays mean Anderson's crews are often jumping from site to site to do whatever work is available. It also means moving all their equipment, too - an unrecoverable cost that either subcontractors or general contractors end up eating. That's led to many builders proactively tacking extra costs into a contract or pricing projects higher to make up for it.

"Think about all of these costs that are piling up solely on the side of the builder. How in the world is anyone supposed to sell a home at an affordable price?" Anderson said. "Selling a home for $300,000just seems unachievable anymore."

Acquiring land and permits to build housing has never been the easiest task in Eastern Massachusetts, and many "easy sites" have already been built out. That leaves the places with expensive problems, including topographical or storm water challenges, said Levi Reilly, principal and director of development at real estate firm Marcus Partners. And lately, the regional boom in life sciences lab construction has skewed land pricing across the region.

"If you're a landowner, and your site was large enough, you could say: I could sell for $100 a foot to a residential developer, or $300 a foot to a lab developer," Reilly said, though he noted the region's lab boom is undergoing "a dramatic softening."

Price escalations started hitting Greater Boston's commercial construction industry around fall 2020, with costs of commodities such as copper or stainless steel going "through the roof," along with a shortage of both skilled labor and materials, said Bryan Northrop, executive vice president and general manager at Skanska USA Building in Boston.

"We've never, in my career, seen anything like this," Northrop said. "We're seeing three-plus years of escalation happening in a single year."

Builders and developers are also considering a zoning policy change now under discussion in the city of Boston that would require all newly built properties over 20,000 square feet or with more than 15 residential units to be built to net zero emissions and LEED Gold standards. This would reduce buildings' reliance on fossil fuels and prioritize electric and renewable energy, a practice some developers describe as "electrifying" buildings.

That change would tack on an additional 7 to 9 percent in construction costs, Northrop said, on top of all the other factors. All told, building an office tower - like the 17-story building Skanska opened in 2018 on Seaport Boulevard - will cost substantially more than it did just a few years ago.

"If we were to take 121 Seaport, escalate to building in today's dollars and electrifying it, it would probably cost us about $276 million in construction, compared to $170 (million) that we built it for," Northrop said.

Some large-scale developers and builders have taken to stockpiling materials on their construction sites or in nearby warehouses, hoping to avoid price fluctuations midproject.

The HYM Investment Group has been doing that at Suffolk Downs, the 161-acre former horse track on the Revere-East Boston line where they aim to build 10,000 housing units and millions of square feet of commercial space in the coming years. In August, HYM and its partners National Real Estate Advisors and Cathexis landed a $150 million construction loan for the project's first phase - one of just a handful of such loans that closed across the United States that month, said Tom O'Brien, founding partner at HYM.

"The construction lending market is frozen in the United States," O'Brien said. "The regulatory authorities are putting pressure on banks to tighten up their lending standards, and to essentially do less."

And doing less - less lending, and by extension less building - may ultimately give costs room to cool.

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