

VAN PARYS ARCHITECTURE + DESIGN
Husband and wife duo and co-founders of Van Parys Architecture + Design Rosa and Michael Van Parys at the site of one of their projects.



CONSTRUCTION

THE RISING PRICE OF BUILDING

As Malibuites who lost property in the Woolsey Fire begin the difficult process of rebuilding, many are discovering that the loss of a home is rife with unforeseen costs.

✍️ written by Samira Fatehyar

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It is now months since the Woolsey Fire, and many Malibu homeowners who lost their property are still assessing the price to rebuild. But what, exactly, are the costs homeowners are facing? Potential costs represent not only the actual materials and labor needed to construct a new home, but the removal of the debris, which can be very expensive and time-consuming, and require permits and approvals.

“The City of Malibu seems to be trying to help the expediting process, but they are still struggling to figure out how much they’ll need as far as resources go,” said Michael Novotny, vice president and brokerage manager of Sotheby’s International in Malibu.

Anne Keshen, a longtime Malibu resident and Pepperdine University Board member, lost her home in the fire and said one of the biggest hidden costs thus far has been the removal of debris from her property. She obtained bids from local contractors who estimated over a million pounds of debris needed to be removed before she could even begin evaluating all options.

"A specialist is needed to drain the pool and jacuzzi due to city requirements," she said. "Erosion control, additional inspections, engineer reports, and dust control are required. Significant abatement and oversight is required in addition to a number of trucks needed to haul the enormous amount of debris." Michael Van Parys, a local principal architect of Van Parys Architecture, spoke of several of his clients doing the debris removal themselves because of the steep financial cost.

"I have some clients who will do the debris removal process on their own and there are some people who will leave it up to the county, the insurance, and the contractors to deal with and the cost difference between those two is extraordinary," he said. "Clients who have done it on their own for a home or a lot in Malibu might be spending around \$14,000 for debris removal whereas if you go through the city, the insurance, and the contractors and you file forms and walk away, you're looking at \$30,000 or \$40,000, which is quite the difference."

Besides just the sheer financial cost of having to do this, there is also a very large potential environmental cost. Mike Seay, a local general contractor and one of the owners of AAA Development, had a similar experience during the Thomas Fire. "The State of California hired some debris clearing companies to come in but it takes a long time for them to come in and actually do that," he said. "In the Thomas Fire, the state had asked everyone to allow them to remove it, which they did, but they took so long to do it, that we had a significant

rainfall and I'm sure a significant amount of that toxic material just washed right off of all those foundations and into the ocean."

Once homeowners remove the initial batch of debris, only then will they be able to identify if they have a foundation remaining. If they are intent on selling the land, they may have a potential buyer wanting the foundation removed, which would trigger the same debris removal process mentioned above. "If a homeowner decides to sell their land and not rebuild, the typical brokerage fee quoted for selling land in Malibu is a 10 percent commissions, which



MIKE SEAY As co-owner of local firm AAA Development, Seay has worked in rebuilding communities.

is another cost if an owner decides not to rebuild and to sell their land," said Keshen.

Insurance companies and their policies have also played a crucial role in the increasing cost to rebuild in Malibu. "Most insurance policies have a code upgrade clause, so they try to say that you can have a 10% code upgrade but what we have seen in the bidding process is that the code upgrades in the insurance policies are not anywhere near close what the actual cost of the code upgrade that is needed to bring the property up to the proper building code," said Mike Seay. "There are a lot of people that are underinsured and they just

don't understand the costs associated with rebuilding a home. They assume that they can rebuild it in the same manner and the problem is that you may have built a house in the 1970s or 1980s under different building codes and now in order to rebuild that same house they won't let you build the same foundations and construct it according to the old building codes, you have to construct it to the new building codes, so that's a significant cost increase."

To add to this increased cost of not being insured properly for the reconstruction of the home, homeowners are also finding themselves displaced and in need of financial assistance. Most insurance policies, if insureds have this, have a loss of use or loss of income provision which is intended to defray living costs or lost income during this time. "Unfortunately, this can often be less money than the actual expenses displaced owners incur," said Anne Keshen.

Another important problem contributing to the rebuilding cost stems from the California building code itself. "As the building code becomes more stringent for seismic reasons, fire, landslides, and overall building upgrades, the cost of a home in California right now is probably 20-40% more expensive for something of that same quality in another state just because of the building code we have here," said

Mike Seay.

There seems to be a need for some substantial rewriting of the building code to include a way to incorporating the harsh environmental tendencies in different areas. "For example, Hancock Park's building code is the same as it is for Malibu and it shouldn't be, the Hollywood Hills fire code is the same for the middle of LA and that's not right either," said Van Parys. "So I've had experiences where I'm working with the building inspector where they want vented attics and I disagree with them because that is a fire hazard in this area, we should not have vented attics."

With all of these financial costs, there is the need to address the rising cost of both labor and materials to construct a new home. "There is definitely an uptick in cost of construction caused by the Woolsey Fire's demand shock in an already overheated expanding market in its eleventh year of expanding economic demand," said Joseph Soleiman, a local real estate entrepreneur and Pepperdine Adjunct Professor. "Southern California and Los Angeles County in particular is in a building frenzy as newly enacted developer incentives such as density bonuses and transit oriented bonuses are giving residential multifamily developers incentives to build more multifamily housing supply."

This is only exacerbating the situation. Lloyd Hussey, director of acquisitions at Christina Development, echoed much of the same sentiment stressing the fact that the overall LA market was already seeing an uptick in material and labor costs. "In the last 12-18 months, we've seen that the cost of labor and materials have spiked because of the growing demand to build," he said. "Lumber, steel, and aluminum are impacted right now by tariffs."

Mike Seay explained that labor costs are rising because of all the natural disasters that keep occurring around the nation. "Everybody that was already busy is swamped and then now you want to add thousands of homes on to the demand for the local construction market, it's going to warrant that prices increase," he said. Architect, engineer, and legal fees are often referred to as soft costs in the real estate world. "Soft costs will go up because there is a lot of work for architects and engineers, however Malibu has put in place essentially an expedited permitting process and a reduced fee service for people whose homes were affected," said Van Parys. He did mention that his firm would not increase their fees, because they do not believe in taking advantage of a dire situation. Although, he stressed that they only have so much capacity to take on

new projects, so there would be a lag time on that end. James Frantz, a prominent local attorney and managing partner of Frantz Law Group, and one of the many lawyers heading the lawsuits against Southern California Edison said that many homeowners' insurance policies aren't able to cover the full replacement cost and participating in the lawsuit could potentially make up for the difference. "The unfortunate truth is that there is now a 15% diminution in value to the homes located in fire prone areas," he said. He noted that this is factored into the amount estimated for damages caused



MICHAEL NOVOTNY Novotny serves as VP of Sales and brokerage manager at Sotheby's Realty in Malibu.

by the Woolsey fire. When asked about how long the lawsuit process could take, he said that it could take anywhere from 12-36 months, but if the SCE didn't contest liability that they would be able to jump into damages, shortening the time to about 12-14 months. He and his co-counsel law firms, McNicholas & McNicholas and Bridgeford, Gleason & Artinian held a town hall meeting at the Malibu Beach Inn on Saturday, February 9th, to help educate local homeowners about the lawsuit and their rights. Many who attended were homeowners trying to determine what to do next. Frantz advised homeowners to first document all

damage to the property and receive all bids in order to better estimate their funds gap. At the town hall meeting many homeowners expressed frustration toward the California Coastal Commission and the City of Malibu saying that it took 4 to 5 years to get something built in Malibu when times were good and they are now left wondering how long it could take after the Woolsey Fire. The City of Malibu did not return requests for comment.

Where does this leave the Malibu community? Will the real estate market be able to rebound and will the increase in the cost to rebuild subside? From his experience with the Thomas Fire and Montecito mudslides, Seay said that what he saw with the real estate market was that, "the market took a little bit of a short-term hit, I think Malibu might experience the same thing in the very near short-term because the demand will drop and people might be hesitant about living in an area where devastating natural disasters occur on the regular, but in the long term, I don't think there is any ramifications that would not allow for those markets to appreciate in the way they have in the past." No one thought that these adverse shocks to the real estate market would stick.

"The immediate burn areas are going to be slow to recover until building starts again," said Novotny. "Some people won't rebuild they will just sell, while others will rebuild. In the surrounding areas it could firm up prices or we could see some price increases because of supply and demand. In the long term, prices will rebound and may even increase because of the new construction." If anything, everyone seemed hopeful for what the future holds. With adversity comes strength and the willingness to adapt. If anything is evident from the Malibu community, it is that there is a resiliency found within every single person. The words "Malibu Strong" have a whole new meaning. **MM**