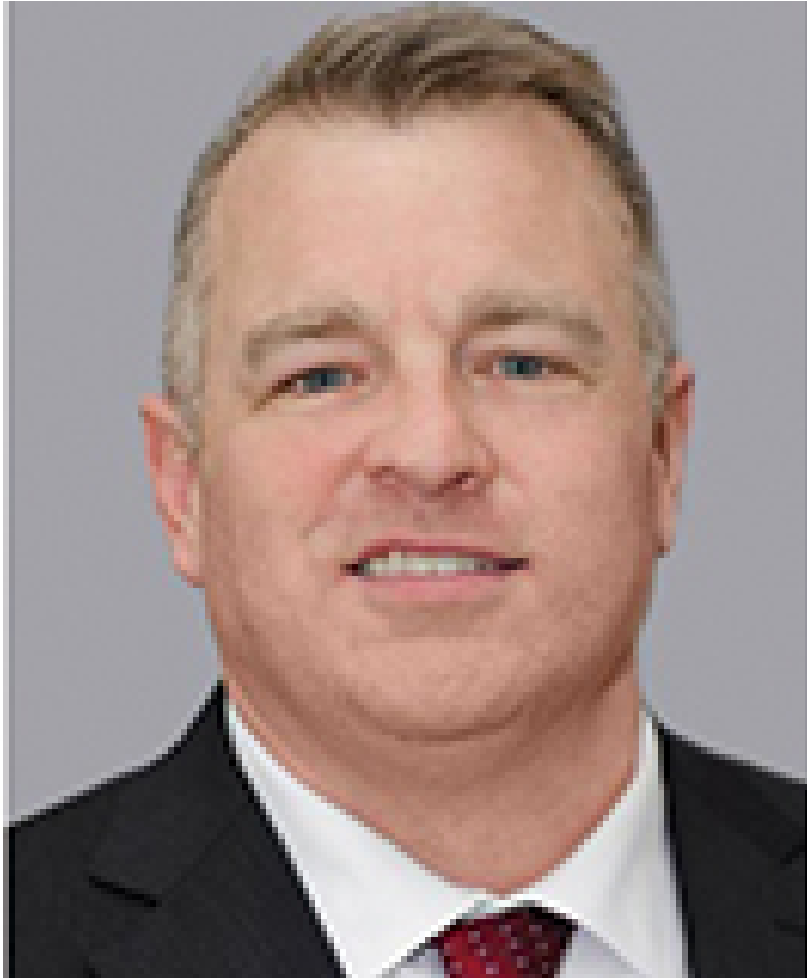




## **D/B Question of the Month: Is there an end to these crazy construction prices? - by Kenneth Wille**

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Is there an end to these crazy construction prices?

What do you get if you mix supply chain disruptions, international tariffs, labor shortages due to COVID-19 restrictions, and a resin shortage with a global health crisis? The answer is construction pricing from 2019 through 2021.

What started as a pretty typical boom construction year in 2019 turned drastically as the year was ending and this new virus was starting to become something that became newsworthy. In hindsight, it is likely no one could have foreseen what would unfold over the next 24 months. From a construction standpoint, the term used most often is volatility which is exactly what gives the lending world the most stress in their underwriting, and no period has been more volatile in construction

pricing than the last couple of years.

Exactly how bad is it? Well, pretty bad. As of a few weeks ago, lumber was up 67% this year and 239% from Spring 2020, but down 70% since its May 2021 peak. Softwoods specifically (trim, cabinets, windows) are up 154% from a few years ago. A shipping container from China quadrupled in price from June 2020 to March 2021. Oriented strand board is about \$63 per board now up from pre-COVID-19 \$9 per board. So, the real question is why? Let's dig a little deeper into that question and what it may indicate for the next 12 months:

### Supply Chain Disruptions

One common issue across all trades was what happened regarding supply chain logistics. Raw materials come from all over the world: oil from the Middle East, lumber from Canada, minerals from South America and the list goes on and on. This raw material is brought to warehouses for processing or manufacturing and then materials are shipped to end users, retail establishments, or for further manufacturing and the process repeats. What was so remarkable is that this entire process was affected throughout the entire globe at once due to COVID-19! Thus, once businesses were able to open even partially just to get the world engine up to speed again took time, and money. Longer lead times and pricing are cousins and the end result was higher pricing for the materials. Throw in a trucking labor shortage and the flow disruption makes even more sense.

### Lumber Gets the Spotlight

Probably the most talked about material has been lumber. This includes not just structural lumber for joists and decking, but cabinetry, doors, windows, trim, etc. When the pandemic first hit two things happened at the same time to squeeze pricing. First, we were all homebound and many do it yourselfers decided to use the time to work on fitting out the basement, replacing the deck, and other projects which demanded a lot of home goods. Second, restaurants scrambled to build outdoor seating and canopies to comply with new outdoor-only restrictions.

There is a Resin Shortage. Do I care about Resin?

Well, yes, you should. Resin is a product that is used in many products from paints, glues, and vinyl windows and the world shortage really made an impact on supply, and thus price with some resin manufacturers citing Force Majeure due to COVID-19 and storms in the southern part of the U.S. As projects switched to non-resin containing materials it put an unplanned stress on those materials which drives pricing up, and that switch is not as simple as it sounds. A June 2021 NAHB Survey found that 82% of respondents cited a lack of labor as the deterrent to switching from traditional wood.

### Meals and Commodities

For the big material prices like metal, steel, copper, and aluminum, much of the market is driven by futures and the world supply pricing and demand. Steel is down 8% from its high, but up 63% from

2019. Optimistically, there is a light at the end of the tunnel with a return to some normalcy expected in 2022 by industry prognosticators.

## Conclusion

It seems the worst is behind us as the world supply chain engines are back up and running again. Keep an eye on the Delta Variant and other possible closures, as well as futures and overall industry pricing changes, but normalcy may come back to the construction site in 2022. Secure pricing with better communication and deposits to lock in pricing and be careful of product swaps or value engineering due to shortages. As rates stay low and projects become shovel ready, I think we all appreciate getting back to some pre-COVID-19 normalcy in our lives and jobs although buckle up for likely volatile pricing for Q3 and Q4 2021.

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