

In the Know: Lumbering through a pandemic; how the California wildfires are costing you money in Southwest Florida

Phil Fernandez - Naples Daily News – October 12, 2020

With factors such as the surging pandemic-fueled demand for Southwest Florida homes, we had already been experiencing escalating prices for domiciles and other structures prior to the Golden State's summer of ferocious flames.

"The rising lumber prices are exacerbating the cost of purchasing a home, and wildfires can only increase that impact," said Brian Alford, Florida director of market analytics for real estate research gurus, CoStar Group.

The evolving circumstances are being followed by John Boyd Jr. of The Boyd Company, an international corporate site selection firm that tracks global development trends in working with dozens of Sunshine State and worldwide clients such as Boeing, Dell, The World Bank, Samsung and UPS for more than 45 years.



John Boyd, Jr., Principal with The Boyd Company, Inc.

We are seeing the California wildfires driving building costs even higher," Boyd said. "The wildfires have pushed lumber prices up 50%, and the average price for a new home up by \$16,000."

And timber is a key piece to the housing puzzle, according to Southwest Florida's ever-expanding LSI Companies, which has been providing services and consulting to homebuilders, developers, landowners and investors for the past two decades.

"Framing and trusses comprise approximately 16% of a home cost. It's one of the largest components of a home's construction, second only to interior finishes at roughly 25% and land lot at 18 to 20%," said Justin Thibaut, company president. "At a macro level, this is also affecting

multifamily, commercial construction as concrete block is now cheaper for apartment construction than wood frame."



Justin Thibaut, LSI Companies

What else is driving prices higher?

No one's sure exactly how much higher it could go or for how much longer, but other facets, some man-made, have already been in play, CoStar's Alford said.

"The wildfires will certainly impact the pricing of lumber, but there is also still a lagged impact from our trade wars over the prior two, three years," he said. "We've all stopped talking about the trade wars, but we still have 20% tariffs in place on Canadian lumber, for

example."



Besides a record year for wildfires, hurricanes, home construction, and oh yeah, a pandemic, 2020 is featuring a shortage of lumber.

Yes, President Donald Trump's trade wars that Forbes magazine reported this summer have cost U.S. company stock prices at least \$1.7 trillion while the taxpaying consumers of America are losing \$57 billion annually, according to new data last month by the conservative American Action Forum aligned with the Republican Party. It's also helped lead to one of the biggest rifts

with Canada, historically our biggest trading comrade in the world's largest partnership, since the War of 1812.

The talk of tariffs was the only time during this past week's vice presidential debates that financial markets moved after Kamala Harris said Trump is losing the trade war, which has resulted in bankruptcies for America's farmers and the loss of 300,000 U.S. manufacturing jobs, according to Bloomberg Markets and Finance's Dani Burger.

"Some policy discussion certainly moved markets in a decisive way. It came from comments by Kamala Harris over foreign policy" when the candidate condemned the trade wars, Burger said. "The markets indeed did like that.

"It's been no secret that the trade war has been one of the big tail risks looming over markets, and some hope that if there is a Biden presidency, that tail risk would disappear, decisively sent stocks both in the cash session in Japan and U.S futures higher."

The fires have served as a reminder of the challenges America faces from the Trump tariffs.

"The California wildfires are putting a spotlight on the 20 percent tariff on Canadian lumber imports," Boyd said. "Repealing the tariff is one of the major lobbying priorities of the National Association of Home Builders."

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Other culprits

The Trump tariffs aren't alone in driving up your prices and the shortage of supplies. The universe has other culprits.

"The 2017-2018 tariffs on Canadian lumber increased pricing, but most recently the U.S. mills misjudged the effects of the pandemic," said Ken Iglesias, senior vice president of commercial banking for Centennial Bank in Southwest Florida. "The thought process was that building construction would be slowed during the pandemic, so they closed some of the U.S. plants. However, they did not anticipate the surge in home improvement projects by homeowners in quarantine, which is made evident by the record sales for Lowe's and Home Depot."

Iglesias gets some agreement from Dan Adams, a vice president and principal for Stevens Construction, which has numerous projects in Southwest Florida including the high-profile work

at Winkler Road and College Parkway of the \$27 million FineMark National Bank & Trust headquarters rising up in Fort Myers.

"The demand has not slowed. This has created the perfect storm. (The mills) are way behind on orders from the shutdown and still only running at 50% capacity, creating an even further 'log jam,' pun intended," Adams said. "Lead times for lumber materials are being affected across the board, trusses, doors, trim, etc. The Masonite mills were shut down for over three months, which has delayed door deliveries. Doors are now 13-14 weeks out from the time of approval.

"Fortunately we are involved early, throughout the design phase, on the majority of our projects so we have been able to identify the lumber shortage and ever-growing lead times and plan for them. We are doing things like getting the truss and door packages released early, sometimes before we even have building permits in hand. By knowing the market and releasing packages affected by this shortage, we have been able to mitigate any major delays."

In the Know asked how the disruptions have affected Frank Jenkins, president of Southwest Florida's Frank R. Jenkins Custom Homes.

"As a custom builder this is hard to say because every home we build is different. We not only have a short-term lumber problem but mainly a skilled labor shortage. So a home that normally would take 8 months, I would allow 10 months," Jenkins said. "The biggest portion of our homes are concrete."



Frank Jenkins, president of Frank R. Jenkins Custom Homes

Crazy pricing examples

A little luck in finding what you need can't hurt.

"On our FineMark National Bank & Trust project in Fort Myers, our wood trim supplier has had to buy up all of the remaining white oak in the county to finish the trim work on the project," Adams said. "Lumber pricing is changing daily at this point. A sheet of 5/8" plywood cost \$15 back in July, and now costs \$41. We have seen truss prices double since March. Truss manufacturers are only able to hold pricing they give us for a few days. Standard yellow pine, 2x4 – 2x12, used here in the Southwest Florida region have gone up by 30-40% since August and has literally gone up every day during the month of September."

Other natural disasters, like Delta, haven't helped.

"Recent hurricanes have caused price increases for many building materials, including drywall and roofing materials," Iglesias said.



Ken Iglesias, senior vice president of commercial lending for Centennial Bank

The Bonita Springs-Estero Realtors group says the costs and shortages tied to the western fires have led to more interest in investment of existing dwellings, and at the same time, the outfit is encouraging sellers to upgrade outdated decor to compete with newly erected residences.

"There is an 8-12-month waiting time for a new build," said Adam Ruud, managing broker at Domain Realty in Bonita Springs, and a decade ago, a professional player in the USL, formerly known as the United Soccer League. "Right now, buyers are giving additional consideration to resale properties due to the longer wait time and a cost increase on materials."

In a bit of a twist, another organization that may benefit from the lumber conundrum in Florida: The Mormon Church.

"A Boyd Company real estate development client happens to be the Investment Properties Division of the Mormon Church based in Salt Lake City," Boyd said. "The church happens to be the largest private landowner in all of Florida. Much of this land is valuable timber land – almost 400,000 acres in the Panhandle area counties of Bay, Calhoun, Franklin, Gadsden, Gulf, Jefferson, Leon, Liberty and Wakulla."

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What they're saying about the future

So, despite the current circumstances, what's the outlook?

► **The Boyd Company's John Boyd Jr.:** "We expect the rise of the remote workforce model to accelerate Florida's population growth. (Another) significant driver behind Florida's booming construction industry is COVID-related home office projects, especially among high net worth execs relocating permanently from New York and New Jersey. Despite the increased lumber costs, we expect construction to remain a growth industry for Florida in the months and years ahead."

► **Centennial Bank's Ken Iglesias:** "Socially distancing from non-family members is challenging in apartment buildings and crowded living spaces, which has sparked further interest in single-family homes. In response to parts of the economy closing, the Federal Reserve has lowered interest rates, and indicated they will remain low for some time. Families are now finding there is a need to have more space for work, education and social distancing while the lower interest rates increased the affordability of home ownership. (In) Southwest Florida, I see home values continuing a steady increase over the next few years due to the current imbalance of supply versus demand in the market."



*Brian Alford, Florida
director of market
analytics for CoStar
Group*

► **CoStar Group's Brian Alford:** "Mortgage rates are at record lows and are expected to remain low for quite some time, years perhaps, which should continue to foster homebuyer demand and keep the trend intact. (In 2020) the acceleration appears to be led by people seeking larger space to accommodate working and schooling from home."

► **Jenkins Custom Homes' Frank Jenkins:** "It looks like the prices hopefully have spiked, and as supply catches up, we should start to see some relief in pricing. (The) Florida economy is booming and will continue to boom as we see people wanting to relocate to our amazing state."