# EIGHT-PENNY NEWS

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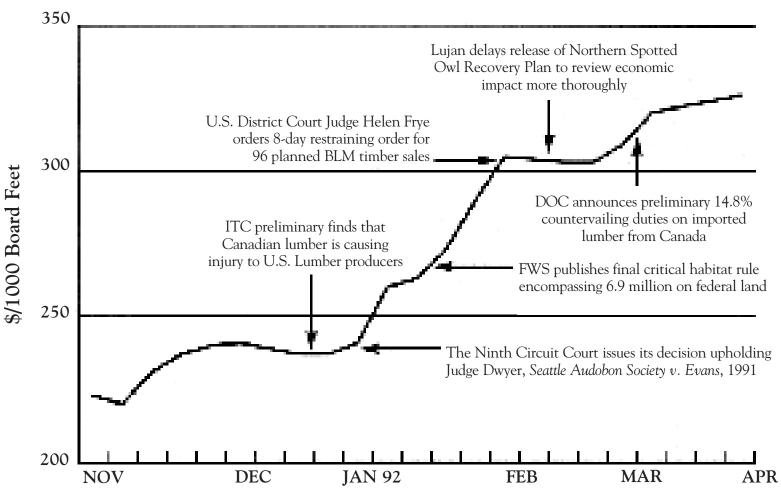
## Whither Lumber Prices?

**Framing Lumber Prices**

November 1991 – April 1992




*Source: Random Lengths*

If, as the writer Vladimir Nabokov said, change and desire be the only signs of life, then the lumber market is very much alive. In the past two years, prices have changed at astonishing rates, reaching record highs despite a deep recession; and everyone who buys wood wishes this roller coaster ride would stop.

The latest record-breaking change occurred in mid-March, when the *Random Lengths* Composite Framing Lumber Index (a weighted average of 11 different framing lumber prices compiled by the Oregon-based lumber weekly *Random Lengths*) hit $326 per thousand board feet — $15 higher than the June 1991 record high of $311, and 34% higher than January 1992 levels.

This price spike closely resembled that of early 1991 (when prices rose 52% between February and June to hit $311) in more than just the steepness of its curve. In a break from historical patterns, both rises were due more to concerns over supply — in particular, to uncertainty about how much land might be set aside to save the endangered spotted owl — than to demand. This signals a fundamental shift in how the lumber market works.

As *Random Lengths* editor Burre Elmore explains it: "It used to be mainly demand that affected the market on a long-term basis. We've had short-term supply problems in the past, of course — fires or weather or rail problems — but they would quiet down because everyone knew the industry always had the capacity to respond to increased demand.

"But now a lot of people fear the industry can't respond to meet increases in demand. The concern over raw materials in the Northwest hangs over everything else that goes on in the market, so other factors that might have had minor impacts now have major impacts."

As a result, he says, prices reacted sharply when the U.S. Department of Commerce announced in March that it would impose a 14.8% import duty on Canadian lumber. Already driven into the low 300s by court decisions and government announcements related to the spotted owl, prices jumped to $322 the week after the duty was announced.

Such quick surges, of course, usually correct themselves promptly. By mid-April, the framing index had dropped to $302. But Elmore and other economists, such as the National Association of Home Builder's Gopal Ahluwalia, agree that as long as environmental issues create uncertainty about lumber supply from the Pacific Northwest, prices will remain quite volatile.

This isn't to say, however, that if the government sets aside land to protect the spotted owl or other endangered species, prices will move permanently to unheard-of levels. (In inflation-adjusted dollars, even the $326 March 1992 framing lumber figure was less than a $302 mark hit in 1979.) On the contrary, some industry observers feel that in the long term, *any* final decision will help stabilize prices.

Elmore, for instance, says, "If we can see a resolution to the raw materials question — and that's a big if — we won't see such big fluctuations, and prices will become a little more predictable as we find out how much lumber other regions can produce. In other words, once there is a resolution, no matter what the new harvest levels actually are, the market will adjust to the new situation and lose some of its volatility. Prices may run a little higher, but they shouldn't move around as much."

This view is supported by U.S. Forest Service economist Richard Haynes, who predicts that setting aside 6.9 million acres (a middle-of-the-road plan among the suggested possibilities) for the spotted owl will cause an average yearly price increase of about 5% for the next 10 years, as opposed to about 2% yearly without protection measures. Haynes figures the loss of supply will be

*continued*

## Gypsonite Files for Chapter 7

Highland American, makers of Gypsonite, an innovative wallboard material composed of gypsum and cellulose from recycled newspaper, filed for Chapter 7 bankruptcy in February. The move didn't necessarily put an end to the company or the product; it merely turns the company over to the main financial backer, a Finnish company. In April, Highland American officials were still hoping to raise enough money from stockholders to refinance the company and resume operations.

Gypsonite, which received mixed reviews from users and the building press (see "On Site With Gypsonite," *JLC*, 10/91) suffered badly from being introduced during a recession. Standard gypsum wallboard cost about $140 per 1,000 sheets when Highland American began operations; by the time the first Gypsonite reached stores, priced at around $90 per 1,000 sheets, gypsum board had fallen to around $70 per 1,000.

Gypsonite was sold in more than 200 retail outlets before the company filed for Chapter 7. Fans of the product can still buy a similar product, Louisiana-Pacific's FiberBond. FiberBond is distributed through Louisiana-Pacific's system. Furman Lumber, the Billerica, Mass., company that served as the main distributor for Gypsonite, has also started carrying FiberBond. □

## STATE BY STATE

***Florida:*** Florida employers with substance abuse programs that comply with state labor department guidelines are eligible for workers compensation premium discounts, according to the Florida Roofing Sheet Metal and Air Conditioning Contractors Association. Employers also have the right to deny workers comp benefits to employees who test positive for drugs or alcohol following an injury while on the job.

***Pennsylvania:*** The town of Harrisburg recently banned more than 40 tropical rain forest woods from city-related projects and activities. Contractors must now certify either that no rain forest lumber is used on construction projects or that no alternatives exist, or risk losing payment. The town's regulations have been cited as a model by the California-based Rain Forest Action Network.

***Illinois:*** Governor Edgar signed a bill providing for criminal penalties for "aggravated home repair fraud" perpetrated on victims over 60 years old anytime the fraud involves misrepresenting or concealing the business name or address. The bill is one of several to pass in the last year or so in response to a rash of home-improvement scams in large cities.

***Arizona:*** A superior court judge overturned development fees levied by Scottsdale's water department, saying that they discriminated against new homeowners. Since 1987, the city had charged fees of $1000 per home and $600 per multifamily unit for building permits, and a $2,000 per acre water charge for all other uses in a development. The city was ordered to reimburse about $8.8 million in fees paid by home builders and other developers. The city appealed the decision. □

## From What We Gather

***Housing affordability stands at an 18-year high***, according to the National Association of Home Builders. That, along with the pent-up demand accumulated during the recession, is expected to fuel a mild but steady building recovery over the next two years. The relative weakness of this recovery, however, will make it vulnerable to sudden shocks, such as bad economic news or sudden rises in interest rates.

***Warm-air furnaces remain America's favorite heating systems,*** accounting for 54% of heating units in occupied homes. Hydronic systems heat 15% of homes; heat pumps 7%; and electric baseboard and other resistance systems another 7%. The remaining 18% are heated by room heaters, stoves, or fireplaces.

***Americans spent $104 billion on home improvement products in 1991***, according to the Home Improvement Research Institute. This is an increase of only 0.8% over 1990's figure. Consumer sales accounted for 65% ($67.9 billion) of this, with the remainder sold to professional remodelers.

***New home inventories*** — those built but awaiting sale — are at their lowest levels in six years, according to the NAHB. The 283,000 unsold units in January represented about 5.8 months' supply; a year before, in January 1990, there were 9.4 months' worth of new houses for sale.

***Wall Street feels good about building prospects*** in the near future, judging by stock prices of home building corporations. Investors are snapping up shares of both well-established home building firms such as Centex, Hovnanian, and Continental, and new offerings such as Schuler Homes, a builder of moderately priced homes in Hawaii. Overall, building company stocks rose 26.4% between January and April.

***Benefits are worth about $5,000 a year to an employee***, according to a recent survey by the Employee Benefit Research Institute. The study found that most employees would choose a job without benefits over one with benefits only if offered $5,000 or more in additional annual pay. □

## Home Building's Future Assessed

In a new publication, "The Future of Home Building," the National Association of Home Builders (NAHB) expresses cautious optimism about how the industry will fare over the next two to four years. Here are some of the association's findings, based on census figures, economic trends, and predictions:

- A net decline in the number of households between the ages of 25 and 34 will lead to a drop in demand for starter homes.
- The number of people able to afford luxury homes and second homes will increase throughout the 1990s.
- Builders should brace themselves for a shortage of developed lots, since the credit crunch on land acquisition and development loans has been severe.
- Builders will tap new sources of debt and equity credit, including pension funds, insurance companies, state housing finance agencies, and certificates of deposit pledged by individual investors to secure home production loans.
- Rising land and land development costs will be the primary source of construction cost increases.
- Cost increases for most types of materials will not be a major concern, but lumber prices will remain volatile.
- More builders will diversify from new construction into remodeling.
- Builders will subcontract larger and larger shares of their work.
- Kitchens and baths will continue to be the most important selling points in new homes.
- Fire protection and energy conservation will receive more attention in the building codes.
- Frequent revision to state lien laws will pit one faction of the industry against another.
- The costs of appraisals will be higher due to state licensing and certification requirements.

For a copy of "The Future of Home Building," contact the NAHB at 1201 15th St., NW, Washington, DC 20005; 202/822-0414. □

## Getting Rid of VOCs

The push to remove smog-producing volatile organic compounds (VOCs) from paints and coatings has inconvenienced many companies, including cabinetry manufacturers. The Environmental Protection Agency is developing a "Control Technique Guideline," or a set of finishing recommendations for wood furniture — including cabinetry.

In the meantime, several cities and states, including California, New Jersey, and Pennsylvania, have already adopted regulations regarding the manufacture of cabinetry.

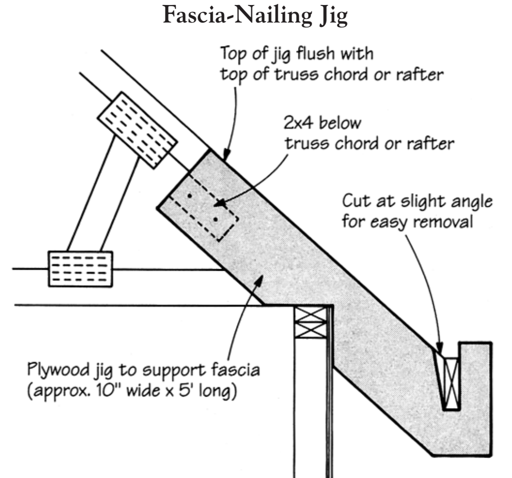
VOCs, which contribute to ground-level ozone (smog) as they break down, have long been used in high concentrations in the oil-based paints, polyurethanes, and lacquers used for cabinets. The 1990 Clean Air Act, however, requires manufacturers of these products to switch to products lower in VOCs. Unfortunately, many of the alternative products don't possess the same durability and appearance as the other, often petroleum-based products.

As a result, says Richard Titus, executive vice president of the Kitchen Cabinet Manufacturers Association, builders will probably soon see changes in the types of cabinetry finishes that are available, and remodelers may have difficulty blending new cabinets with older ones. □

# Canadian Tricks of the Trade

There's a cheaper, faster, easier way to do almost anything on the job. Just to prove it, the Canadian Mortgage and Housing Corporation (CMHC) sponsors a Job-Site Innovator Awards Program. In the four years since its inception, builders have contributed dozens of great ideas to the program. Some of them are as simple as installing a strip of 5/8-inch plywood along the outside of the stringer on stairs that are butted to the wall. This creates a gap into which you can drop the drywall, instead of having to cut the drywall to fit the top of the stringer or the open tread.

**Fascia-Nailing Jig**




*To make the fascia-nailing jig, cut a 5-foot piece of plywood to match the pitch of the roof and the size of the eaves. Cut a slot at the end for the fascia board, angling the inside cut for easy removal of the jig. The top of the jig should be flush with the top of the truss. To keep the jig in line with the truss all the way up, cut a block of 2x4 and screw it into the backside. This block can be tacked to the top of the truss for added support.*

Other ideas are less obvious. For instance, if you've ever found yourself cursing as you nail, straighten, and re-nail fascia boards onto the ends of rafters or trusses, try making a reusable jig that can slip into place and hold the fascia board ready for final adjustment and nailing (see illustration).

The purpose of the CMHC program is to encourage builders to share their ideas and to make home building a little easier for everyone, says Rosemary Spencer, one of the program's officers and a former carpenter. "Like most people, builders are used to doing things a certain way. But that way isn't always the fastest or the cheapest."

CMHC offers awards, ranging from $250 to $2,000, for the best local, regional, and national innovations. To enter, tradespeople must submit a brief written description and a sketch of their idea. The innovation is then site-verified and reviewed by members of the local home builders association. For consideration, the idea must be general enough to be considered useful and it must meet code. □

# Window Ratings on the Way

Determining the energy efficiency of various window models and brands is guesswork. Even when manufacturers supply an R-value, the testing procedures used to arrive at that number vary among the different companies.

To create some consistency and to give builders and specifiers a reliable system for evaluating windows, the National Fenestration Rating Council (NFRC) is developing a series of tests for manufacturers. So far, the nonprofit organization has finalized a standard for rating U-value. But in the works are tests for solar heat gain, condensation resistance, optical properties, and air infiltration.

The U-value test (NFRC 100-91), which was published last year, is a combination of computer simulation and laboratory testing. As a standard, the test results may be referenced by state energy codes. So far, six states, including California, Minnesota, and Alaska, mandate that windows meet certain U-values. But once all of the NFRC tests are completed, states will have a reliable basis for adopting window labeling requirements. And remodelers will have an easier time pinpointing the most appropriate window for their needs. □

***Lumber,*** *continued*

made up by a combination of domestic production increases (mainly in the South, which has never produced to capacity), Canadian imports, and the use of alternative framing products, such as engineered I-joists and parallel-strand lumber, that don't require large trees.

In the meantime, however, builders will probably continue to see lumber prices jump all over the map until the endangered species issues are resolved. Though the Fish and Wildlife Service has made its final recommendations, the Department of Interior and Bureau of Land Management have yet to make their final rulings; and any rulings they hand down will likely be challenged in court. This all spells continued uncertainty and volatility in the lumber market. As NAHB's Ahluwalia says, "This should be par for the course for a while." □

## Brothers Busted in Lumber Scam

Almost two years ago, builders in the Seattle area discovered that they had bought (and used) lumber that had been intentionally mislabeled as part of a money-making scam. Thousands of lumber-grading stamps had been sanded off Canadian lumber and replaced with fake, higher-grade stamps. Dozens of construction projects and more than 100 buildings in the area were affected. Projects that had used the wood were inspected for structural problems, and in some cases the lumber had to be removed.

According to a February *Seattle Times* story, the culprits have been caught. After investigating the case for more than 18 months, Canadian authorities arrested in February three brothers they say are responsible.

The Johal brothers worked for BBM Lakeview Wholesale Lumber Ltd., a supplier based in Surrey, British Columbia. The company was allegedly involved in a similar rip-off scheme in 1988. The Johals and BBM have been charged with seven counts of fraud each. Two Surrey mills have also been charged in the case. It's not clear whether contractors affected by the scam will be compensated for their troubles.

*— Kathleen O'Brien*

## Women's Woodworking Network

Women who work with wood, either as cabinetmakers or carpenters, have a different set of problems than most men do. For instance, some stationary woodworking machines are not suited to a woman's smaller stature. And as almost any woman in the trades will tell you, it's harder to convince clients that their skills are on par with those of their male counterparts.

Susan Maxson, a woodworker in Allenspark, Colo., is hoping to pull together a support network of women in the field. While Maxson is currently most interested in hearing what the concerns of other women are, she's hoping to find ways to make their work a little easier. One of her suggestions is to petition toolmakers asking them to make a line of tools easier for women to work with.

For more information, write to Maxson at P.O. Box 182, Allenspark, CO 80510. □

## TAX TALK

### Common Tax Mistakes: Plan to Avoid Them

**by Irving L. Blackman**

It happens every year: You file your business tax return with a sinking feeling that you have overpaid your taxes. Overly complex and changing tax laws are usually the culprit. These laws cause business owners to make two types of basic errors:

- errors of commission — a mistake in the way an item is handled on the tax return
- errors of omission — not using a tax technique that would have saved money

Every year our office reviews thousands of business tax returns and find the same mistakes over and over again. There's not room in this column to tell how to avoid all of those mistakes, but just knowing them should point the way to filing a more accurate tax return next year. If you have questions about them, consult a good tax attorney or accountant.

The ten most common mistakes are:

- Being a C corporation (which pays taxes on its income before distributing dividends) instead of an S corporation (a partnership-like corporation that pays no tax on its income before distributing its dividends), or vice versa: The proper type depends on the individual business and its stockholders.
- Corporation owners taking too much or too little salary
- Using improper inventory methods
- Buying fixed assets (land, buildings, and equipment) inside the corporation instead of owning the assets in a family partnership and renting them to the corporation
- Not dividing income among low-tax-bracket family members, so that it is taxed at a high rate
- Valuing stock incorrectly for gift and estate purposes
- Paying unnecessary dividends
- Not putting new business opportunities into separate corporations (which can effectively lower the tax rates on any income those corporations own)
- Putting real estate into a separate corporation
- Not transferring the business to the kids properly (or at all) so that estate-transfer taxes skyrocket

The list could go on. The point is that many business owners miss good opportunities to lower their business and personal tax bills because they don't know (understandably) the complexities of how their businesses can be arranged to avoid taxes. The IRS — though it won't hesitate to let you know if you've underpaid — certainly won't tell you how you might pay less. So until someone simplifies the tax codes, consulting with a good tax attorney or accountant yearly will be the best way to avoid overpaying taxes. □

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