# EIGHT-PENNY NEWS

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## Lumber Prices Clobber Builders

**Contractors struggle to maintain margins as costs go through the roof**

Since October of last year, builders and remodelers have struggled to explain to themselves and their clients why dimensional lumber prices have risen continually and dramatically.

There is no simple explanation, only historical data and speculative analysis from housing economists and lumber mill trade associations as to why the average price of 1,000 board feet of lumber has jumped from $250 on Halloween to nearly $500 by Easter. There are roadblocks at every level of production, from the forests to the finished house, that have contributed to the crisis. And experts say it may only get worse.

***Supply and demand.*** As commodity products, timber and solid sawn lumber are subject to natural cycles in response to supply and demand. Housing starts, seasonal changes, and even natural disasters affect the historical peaks and valleys of lumber prices. At the Builder's Show this past February, NAHB economist Michael Carliner held up a chart tracking lumber prices since 1988, indicating price peaks with such events as Hurricane Hugo, and valleys in times of slow construction spending. But in mid-1991, the peak prices began to spike higher than ever, and the valleys weren't so deep anymore; since mid-1992, there has been no downward slope. "The up and down pattern will continue," Carliner said in February, anticipating a downturn that had yet to come by the end of March. "But the peaks and valleys will be higher."

The current lumber price crisis comes at a time of increasing demand and limited supply. Housing starts are expected to rise again this year, after an 18% jump in 1992. In fact, housing construction this year will demand an estimated 48 billion board feet of lumber — a 6% jump — while timber sales, lumber production, and inventory are at their lowest levels in years.

Short supply, say housing and timber trade groups, is the real culprit. Since 1989, timber harvests have declined more than 40%, and the inventory of timber under contract to harvest from federal and public timberland is down 73% compared to 1985 levels. The reasons are two-fold: First, slow sales in the late 1980s and early '90s resulted in 54% less timberland under contract today than in 1988. (The rights to

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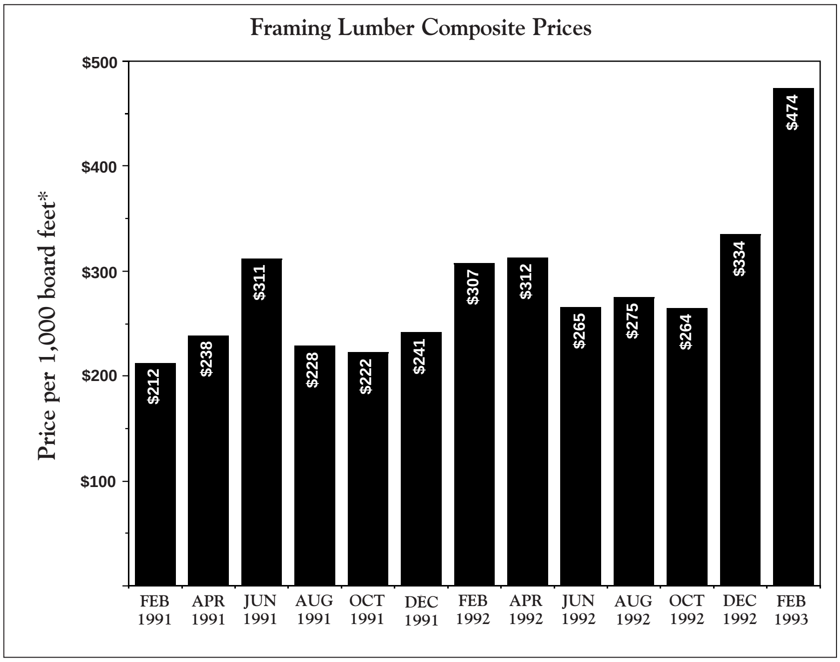



* *From* The Lumber Composite Price Index *published by Random Lengths. Prices shown are the highest weekly price during the month.*

## EPA Whacks Contractor $18K for HCFC Release

In a move some felt was inevitable, the Environmental Protection Agency (EPA) fined a New England general contractor $18,101 for illegally releasing hydrochlorofluorocarbon (HCFC) refrigerant into the atmosphere. The general contractor, Global Construction Corp., of Laconia, N.H., was notified last December that it faced the fine for "the knowing release of an ozone-depleting refrigerant" in violation of recent amendments to the Clean Air Act.

Global subsequently filed a response admitting that the release took place, but arguing that the employee who did it did not know about the HCFC regulations, and thus the company was not liable for a "knowing" release of HCFCs. As of late February, Global and the EPA were holding informal "settlement discussions" to try to work out some solution without going to a hearing.

The alleged violation took place last October, as part of a demolition job Global was doing at a mall in Holyoke, Mass. The EPA charges that a Global employee cut a refrigerant line on an air-conditioning unit that was to be removed, thus knowingly releasing HCFCs into the atmosphere. HCFCs have been shown to destroy the earth's protective ozone layer, and their release has been banned since last July 1. Contractors are now required to "capture" HCFCs into special units (which cost several thousand dollars) so that they can be recycled.

Most hvac contractors have invested in the equipment and training necessary to comply with the HCFC-capture regulation. But EPA lawyer Thomas Olivier, who's handling the Global case, feels there are still a lot of violations going on. "It's often difficult to gather sufficient evidence," says Olivier, "to show both that the refrigerant unit was charged with HCFCs and that the people knew it was charged when they released it."

Olivier denies that the $18,101 fine was calculated to "set an example." The fine is as high as it is, he says, to make violations more expensive than compliance, which itself costs several thousand dollars. The maximum allowable fine is $25,000.

Example or not, the fine sends a clear message through the construction industry that violating the HCFC-venting law can be quite expensive. Contractors working on jobs requiring removal of air-conditioning units or other refrigerant-using equipment should either invest in HCFC-capture equipment themselves or contract the work to a reputable hvac contractor who already owns the capture equipment. □

### STATE BY STATE

***Rhode Island:*** This year should bring some relief to contractors beleaguered by rising workers comp rates. In January, the new State Compensation Insurance Fund (SCIF) took over administration of all "assigned risk pool" workers compensation policies. Ninety-five percent of Rhode Island contractors are in this pool and now have their policies administered by the SCIF. The SCIF's reforms include changes intended to reduce worker abuse, boost on-site safety, motivate employees to return to work, and levy surcharges on businesses that don't take steps to reduce injuries.

***New Jersey:*** After a ten-year struggle, builders and developers here finally have a uniform state building code. A law recently signed by Gov. Jim Florio creates an advisory board to create standards for residential development. Builders and developers have been asking for a uniform code to ease their planning and design work and to "level the playing field" among builders and across town boundaries. The advisory board must make its recommendations within six months, after which the actual regulations will be established.

***Wisconsin:*** If we pay them, they will build here. That's the logic being used by at least two west central Wisconsin towns trying to attract new residents. The city of Whitehall is offering $5,000 per house to any builder who builds there, while the town of Independence, five miles away, has offered four $7,500 grants to builders. The towns are also guaranteeing low-interest loans and making choice lots available. □

# New Japanese Fans Quietest in U.S.

Typically, one of the main reasons that ventilating fans aren't effective is that homeowners get tired of listening to them and turn them off. This could all change with a 50-cfm ventilating fan so quiet that background noise in the lab made it difficult for the Home Ventilation Institute (HVI) to test it. HVI gave the fan, one of Panasonic's new Super Quiet Fan Series, a 0.5 sone rating, the lowest ever given by the Institute. HVI rated the series' 90-cfm model at 1 sone, compared to 1.5 sones for the Japanese-rated U.S. products.

The Panasonic series includes five models from 50 to 340 cfm. Marketing will start in Washington state where, as of July 1, 1993, the building code calls for at least eight hours of ventilation daily, using fans rated at no more than 1.5 sones. The Japanese company believes the code provision will drive up demand for the quiet fans.

The fans are not just quiet, however; they also use much less electricity. The 90-cfm model uses 17.4 watts. The typical 90-cfm fan uses about 60 watts.

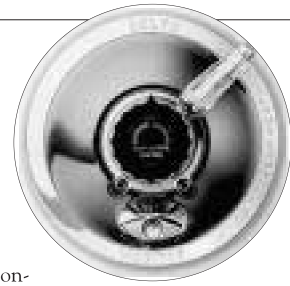
A high-efficiency permanent-split-capacitor motor is the main reason for the fans' super quiet and energy-efficient characteristics. The newly designed motor is reported to run cooler and is rated at 30,000 continuous hours.

The ability of the new Panasonic fans to move air through a typical ductwork system, however, may not be as good as some other top-rated fans on the market, cautions Marc Rosenbaum, P.E., of Energysmiths in Meriden, N.H. You should pay close attention to the pressure drop in the ductwork with all fans, but particularly with these, says Rosenbaum.

Prices aren't set, but the fans are expected to cost about $40 to $50 more than U.S. models with comparable cfm ratings. In Washington state, utilities are considering offering incentives to offset the extra upfront costs.

*— Kathleen O'Brien*

# Ten Tips for a Safer Bath



Bathrooms are the sites of a large percentage of household injuries. However, according to K&B experts, most of these injuries can be prevented if builders and designers pay attention to the following:

- Install grab bars around tubs and showers. Be sure they are attached to the studs or solid blocking, not just mounted to the wall like towel bars.
- Use antiscald devices that prevent burns by maintaining a constant pressure — and therefore temperature — in showers and tubs.
- Use nonslip, resilient flooring or nonskid tile. Avoid high-gloss floor surfaces and throw rugs.
- Install a ground-fault circuit interrupter to reduce the danger of electrical shock.
- Don't build steps leading up to a whirlpool. Avoid the use of sunken tubs.
- Install adequate lighting in showers and tubs to prevent falls. Be sure fixtures are designed for wet or damp locations.
- Install locks on cabinets where cleaning supplies and medicines are kept to safeguard children.
- Shower doors should open out. This way, if someone falls you can get in to help.
- Use night lights so no one stumbles in the dark.
- Be sure entry doors can be unlocked from the outside in case of an emergency.

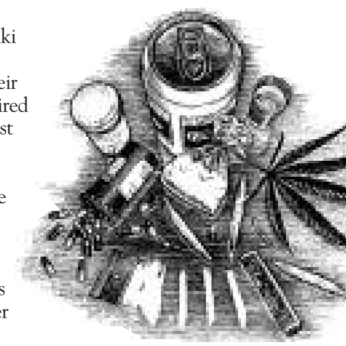
*Reprinted with permission from* Kitchen & Bath Business.

# Drugs Cost Small Builders Big Bucks

With awareness of substance abuse growing, many large builders now have policies in place to deal with the issue. But small builders generally cannot afford to test their employees for substance abuse, much less enroll them in employee assistance or rehabilitation programs. As a result, many are losing thousands of dollars each year in absenteeism, poor performance, and medical bills, according to Patricia Saiki, administrator of the Small Business Administration.

Some of the statistics Saiki cited:

- Most drug users are in their twenties, an age group hired as field employees by most builders.
- Drug abuse is also on the rise among those who are 35 years or older.
- Employees who are substance abusers run up medical bills and benefits estimated at 300% higher than the norm. □



***Lumber Prices,*** *continued*

cut timber on federal land, which comprises more than half of the nation's available commercial timberland, are sold at auction for actual harvesting several years later.) Secondly, and more significantly say timber trade groups, the amount of public land available to harvest has been limited by regulatory and environmental action.

Also, wet winters in the West and Southeast have resulted in lower than expected harvests in areas that foresters hoped would take up the slack when land restrictions were put in place.

***Tariffs and panic.*** In addition to restrictions on U.S. timberland, Canadian timber imports have also been squeezed by a duty of 6.5%, imposed in October 1991 to limit the "dumping" of surplus timber on U.S. markets. Wood panels like plywood and oriented-strandboard (OSB) were also taxed. Though the tax adds only about 3% to the overall price of lumber today, critics argue that lifting the duty could free up the Canadian timber supply, helping to offset shortages in this country.

Panic buying may also have contributed to the rising prices, especially when they began to spike late last year. Within a commodity market, lumber is sensitive to speculative buying surges. In fact, the Wilderness Society charged housing and timber trade groups with fueling panic buying through false claims of decreasing timber supplies. True or not, panic buying seems to have tapered off since February.

Exacerbating the problem in many housing markets is poor timber quality and a lack of qualified labor on the job site, resulting in increased materials waste. "It's gone from 3% or 4% waste to piles of good lumber [scraps] that you can't use," says Billy Chapman, a builder in Santa Fe, N.M. In fact, NAHB estimates that, due to the poor quality of both the wood and the labor, average job-site lumber waste has increased to 11%.

***Contractors pay the price.*** With demand high and inventories low, lumber mills in the West have orders backed up eight to ten weeks. In response, they are raising their prices to the dealers and distributors who, in turn, pass the increases on to their customers. While this is bad news to builders and remodelers, the squeeze on public harvests is bringing windfall profits to the minority of forest products companies that own their own timberland (about 16% of the total), and to private land owners who sell their timber to mills (another 30% of available timberland).

Though local lumberyards and wholesale brokers can pass their increasing costs on to contractors, they are also under the gun of limited supply and inventory control. Thus, price guarantees that were once extended 60 days are now at best a few weeks; some won't even lock in past the end of the day.

The big losers are builders and remodelers, who can't as easily pass the cost of rising lumber prices on to their customers. In contract jobs, the bid price is already locked in and often tied to an inflexible bank loan; on spec projects, simply raising the sales price locks out a percentage of buyers at a time when sales are already a struggle. Las Vegas builder Randy Schaefer hedges a bit by putting a provision against lumber price increases in his contracts; an agreed percentage increase provides a cushion, though Schaefer must absorb anything above the allowance. "If it is a spec house, I just have to eat it," he says.

Critics pooh-pooh the actual impact of lumber prices on housing costs. Builders know, however, that lumber represents 10% of their hard costs, and nearly a third of their total materials costs; the percentage is higher for remodeling projects where wood accounts for a larger share of direct costs. In addition to lumber, the price of wood products like doors, windows, flooring, and structural panels have also increased.

The doubling of lumber prices has added $3,200 to the cost of building the average 2,000-square-foot home, and $4,000 to the sales price, according to NAHB. The increase in prices adds about $200 to a potential buyer's downpayment, the primary barrier to homeownership.

Unfortunately, the current crisis is far from being over anytime soon. While less public land is under contract to harvest over the next few years, lumber demand will grow to an estimated 54 billion board feet by 1995. Timber supplies will be further depleted by a U.S. Forest Service mandate that will reduce clearcutting in public forests by 70% over the next three years. And Canadian imports, which comprise about 29% of U.S. demand, are likely to be restricted by environmental regulation and added taxation. In addition, the harvesting of private timberland may be exceeding sustainable rates and may also face increased regulation. Given these pressures, "prices will never come all the way back to where they were," says Schaefer. "Lumber prices just won't ratchet back like the old cycles used to."

*— Rich Binsacca is a freelance construction writer in Walnut Creek, Calif.*

# AIA Courts Homeowners

With little commercial work to do, architects are increasingly turning to residential work, even minor additions and other remodeling projects, to stay busy. This means builders and remodelers may find themselves working with architects on more and more projects.

To show homeowners the advantages of hiring an architect and to explain how builders and architects work together, the American Institute of Architects (AIA) is offering a consumer video entitled "Investing in a Dream: A Guide to Getting the Home You Really Want," and a booklet, "A Beginner's Guide to Architectural Services." □

## From What We Gather

***Lead in faucets is the target*** of a multimillion dollar lawsuit launched against a number of U.S. faucet manufacturers by the attorney general of the state of California, the Natural Resources Defense Council, and the Environmental Law Foundation. The suit alleges that the faucets leach toxic levels of lead into drinking water. California's lead standards allow just 0.5 parts per billion daily, less than the federal standard of 15 parts per billion daily. The manufacturers, including American Standard, Delta, Eljer, Elkay, Moen, Price-Pfister, Sterling, and others, claim that the faucets are safe under normal use.

***Fire-retardant cedar shakes and shingles*** manufactured under the Certi-Guard label have passed long-term testing, according to the Cedar Shake and Shingle Bureau. The testing, says the Bureau, establishes that the fire retardant will last for the life of the shingles and that they meet national model building code specifications for roofs requiring a Class C or Class B fire rating.

***OSHA does not need a search warrant*** to inspect your site if the worksite is in plain view of a public road, according to a recent ruling from the OSHA Review Commission, an administrative law body governing OSHA inspections. According to the commission, the Fourth Amendment extends only to potential intrusions into an area where the employer has a reasonable expectation of privacy. This ruling could be appealed to the U.S. Court of Appeals, where it could be reversed or altered.

***Most home equity loans (51%) are used for home improvements,*** according to a recent survey by the Credit Union National Association. Another 23% are used to buy cars, while 20% are used to pay bills. Home equity loans are secured by equity a homeowner has built up in his or her house, and the interest is tax-deductible in the same way the interest on a mortgage is.

***Americans over 50 purchase 40% of all mobile homes*** today, according to AARP. Of the older residents of manufactured housing, 80% have incomes below $20,000 and 43% have incomes under $10,000. A growing number of mobile home parks are set up as cooperatives, where the residents own the land in common rather than pay rent. To support this effort, The National Cooperative Bank of Washington, D.C. has established a secondary mortgage market for manufactured houses in cooperatives. □

TAX TALK

## New IRS Rules Cut Recordkeeping Burden

**by Milton Zall**

Builders and remodelers, along with millions of other taxpayers, could find recordkeeping easier under new procedures established by the Internal Revenue Service. The IRS will now accept certain financial account statements as proof that payments were made by check, credit card, or electronic funds transfer (EFT), as long as the statements contain certain IRS-required information — transaction date, amount, and payee's name. If your checking and credit card statements do contain this information (and you keep these statements), you won't have to keep all those original checks and charge slips for tax purposes.

Most credit card and EFT statements already include this information, and a few banks already put this data on account statements when they do not return canceled checks to customers (a money-saving practice that is growing); most others, having now received a copy of the new regulation (Revenue Procedure 92-71), will probably start including it as well. All banks, of course, keep microfilm or electronic records of all canceled checks, from which copies can be made if needed.

Even without this information on your statements, you do not always need copies of checks to prove payments. The IRS accepts other payment evidence, such as the combination of an invoice marked "paid," a check register or carbon copy of the check, and an account statement with corresponding check number, date, and amount.

Keep in mind, however, that proof of payment alone does not necessarily establish the tax treatment of an expense. You should also keep other documents, such as receipts listing the items purchased, to show the relationship between expenses and the deductions claimed for them. For example, a payment to Sears would not necessarily support a deduction for tool expenditures unless you have a matching receipt verifying the purchase of a given tool. The same goes for purchases of office supplies or other business expenditures.

The new procedures do not change the circumstances under which the IRS might ask taxpayers for proof of payment (most commonly an audit). They only clarify and loosen somewhat the guidelines as to what form the proof may take. □

*Milton Zall writes on tax and business matters from Silver Spring, Md.*