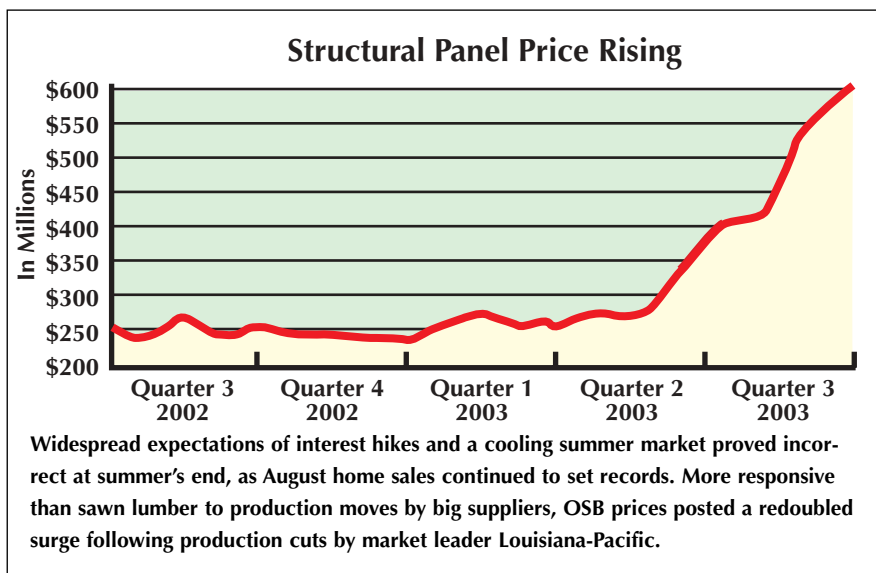


Lumber Price Shock Hits Builders

OSB prices triple after producer cutbacks

Framing lumber prices doubled between late spring and early fall, while OSB prices more than tripled. The record-setting price spike put serious stress on builder profit margins but hit some specialty producers even harder: I-joist and SIP manufacturers count OSB as a top cost component, and for some the squeeze approached crisis proportions.

For many contractors, availability was a bigger problem than cost, as shortages cropped up in many markets. And while experts said the tight



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Consumer Reports Rates Vinyl Siding, Shingles, and Paint

Next time you install shingles, siding, paint, or deck stain for a customer, don't be surprised if she brings up *Consumer Reports*. Long trusted as an authority on appliances, vehicles, and other consumer goods, the non-profit magazine has added building materials to its repertory in recent years. The August 2003 issue looked at fiberglass-asphalt roofing shingles, vinyl siding, paint, and deck stains, picking "Best Buy" winners in all four categories. Ratings are based on lab tests dreamed up by *Consumer Reports* technicians, as well as industry-accepted standard tests.

In the roofing category, three-tab roofing shingles from CertainTeed and Owens Corning, priced around \$30 a square, were the magazine's "Quick

Picks" for a good deal. CertainTeed's Grand Manor Shingle, a heavyweight laminated with a lifetime guarantee and a \$140/square price tag to match, was rated the top performer when budget is not an issue.

Paint brands varied by color; *Consumer Reports* named M.A. Bruder Sea Shore as the top white paint, Glidden Endurance the best blue, and California Fresh Coat Velvet as the top brown (and the only brown paint still showing in prime condition after nine years). All three top brands placed highly in every color, but the California brand is available only in the East, the magazine noted, and rated Glidden's white a better value anyway at \$17/gallon (vs. \$25 for California).

Vinyl siding tests showed mixed results. Brands were tested for color fading and stiffness as well as for resistance to wind and impact. LP Vinyl Siding's Norman Rockwell ColorGuard (the costliest brand on the list) led the combined rankings, but CertainTeed, Norandex, and Wolverine products did better on the wind testing; Mastic and Alcoa products scored top numbers in impact resistance.

Painters, roofers, and siding contractors, *Consumer Reports* noted, tend to be attached to their favorite brands. So the magazine advised homeowners to pick the brand first, then the contractor — something to think about if you're selling the job.

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conditions couldn't last, lumber market newsletter *Random Lengths* reported in September that OSB mill orders were still backed up into December, while the housing boom driving demand showed no sign of slacking. One buyer told *Random Lengths* he was chasing OSB orders "like a pit bull chasing a pork chop train."

"I'm chasing orders like a pit bull chasing a pork chop train" — OSB buyer

What's behind it? According to University of Massachusetts economist David Damery, a specialist in building material markets, the price spike can be traced to a confluence of related factors that put wood buyers in the path of a "perfect storm." Buying decisions, production decisions, and industry structure all played a role, says Damery:

■ **Forecast error.** Most players in the industry (including lumber wholesalers and retailers as well as big building outfits) expected interest rates to rise and home building to slow in the second half of 2003. Afraid they'd be stuck with unsold inventory, they played safe and deferred purchases. But interest rates stayed low, and summer building markets were hotter than ever — leaving everyone short of ready wood.

■ **Supply shocks.** Summer fires cut log supplies to many mills, shrinking supply as demand surged. In addition, some OSB suppliers reduced production in response to low prices or in anticipation of the slowdown that never came.

■ **Demand shocks.** Fingers are pointing now at large military panel and dimensional lumber purchases in late summer to supply U.S. forces in Iraq. The purchases were small in relation to the total market — "about 20 million square feet total, out of annual production of 36 billion square feet," says NAHB economist Gopal Ahluwalia. But the Iraq buy came just when supplies were tightest — and the military won't say if more

such moves are in the cards. This unexpected demand, and the uncertainty that comes with it, may have had an amplified effect on price movements. "There was a lot of panic buying," says Ahluwalia.

■ **Industry structure.** Unlike the relatively competitive sawn lumber industry, the market for OSB is dominated by a handful of large companies, Damery points out. This may help explain why OSB showed an earlier and stronger price surge than sawn lumber. The steep rise started almost immediately after Louisiana-Pacific, the leading OSB manufacturer, announced production cuts totaling some 50 million square feet at six OSB mills. An industry analyst told the Reuters news agency that L-P had reduced panel capacity by 1 billion board feet in the preceding year because of slack prices.

This "oligopoly" situation may also slow OSB's price decline at the end of the cycle: When one company's production decisions can affect prices noticeably, firms with one eye on competitor moves and one on the markets

can sometimes keep output lower and profits higher than they would be under conditions of pure competition, without actively colluding or violating any laws.

What's ahead? Differences between panel and sawn wood markets aside, experts agree that prices for both have to drop eventually. "We think this is a temporary thing. Before too long it is going to go away," says Ahluwalia.

In the meantime, builders face a struggle to absorb a cost they weren't ready for. But the recent increases come after many years of depressed lumber prices and thin manufacturer profits; even now, it is the suddenness of the price moves rather than the absolute cost of wood that creates problems. "Actually, the price of lumber has behaved really well," says Ahluwalia. "Builders don't really start complaining until the *Random Lengths* composite price for panels exceeds \$500. But builders are pre-selling, and it takes four to six months to build a home. When this temporary hike comes, they are stuck with it."

Those who were prepared, on the other hand, are now sitting pretty. A Home Depot spokesperson told newspapers that the firm has long-term contracts locking in its OSB deals and does not expect any shortages. And there are smiles in the boardrooms at big OSB producers: Georgia-Pacific, Weyerhaeuser, Boise Cascade, and L-P will all see better third-quarter financial reports from the higher prices.

L-P chief executive Mark Suwyn told Reuters in September that the company planned to freeze its OSB price in light of the emergency created by Hurricane Isabel: "We don't think we ought to pile on and take advantage." That frozen price, however, is a sweet one for L-P: about \$445 per 1,000 square foot — up from \$158 a year earlier.



OFFCUTS

The West Virginia state agency with the worst record for workers' comp claim expenses is the Workers Compensation Division, reports the *Wheeling News-Register*. A state official said most of the claims are based on carpal tunnel injuries. The agency plans to increase safety training efforts, but a *News-Register* editorial suggested that the high claims rate might be related to agency employees' inside knowledge of how to "play the system."

Forty thousand women showed up at Home Depot for ladies-only classes on remodeling and fix-it techniques last summer, reports the *Hartford Courant*, pointing up the growing importance of women in the remodeling market. Women make up about half the shoppers at DIY chain stores, but one survey indicated that they make 80% of the decorating and home improvement decisions. About half of single mothers, a growing segment of the public, own their own homes; in 2001 a million houses were bought by single moms. And a Lowe's survey found that 94% of women complete at least one home improvement project every five years.



Flood damage to a Rockbridge County, Va., home in the aftermath of Hurricane Isabel upset the owner so much that he burned the building down, the *Washington Times* reported. Homeowner Donnie Clark said he poured diesel fuel into the uninhabitable building and lit it on fire because he "couldn't stand to look at it anymore." Around 800 homes across the state were totaled by the storm, Virginia Governor Mark Warner told reporters.

A Million Dollar Shop Project

If you took shop in high school, you may have had projects like a bird feeder, a wall plaque, maybe even a coffee table. That's nice, but kids these days are *ambitious*. Take a look at this project. Seventy high school students from Fairfax County, Va., spent two years working on a brick-sided colonial-style home in a McLean neighborhood and put the finished house on the market. In September, realtor Lilian Jorgenson's office told *JLC* the sale was scheduled to close in a week. The price tag? Around \$1.3 million.



Specialty trade contractors completed some of the more difficult details, but 70 high school kids carried out the bulk of the construction trade work on this high-end Virginia home.



Jeff McFarland, the Fairfax school system's trade and industrial education coordinator, told a *Washington Post* reporter that his vocational programs are no dumping ground. "Most of the kids are college bound," he said. "They're thinkers." McFarland pays the students \$8.50/hour for their after-school labor time and keeps work hours flexible so kids can attend conventional classes and keep their grades up.

The students get hands-on experience pouring foundations, framing walls and floors, setting trusses, installing doors and windows, building stairs, laying wood floors, placing cabinets, and running trim (including crown molding). Some of the hardest and most skilled jobs are subcontracted out, but some students get instruction from specialty contractors in masonry, concrete work, painting, and mechanical trades. "All their parents came to the open house," said Jeanette McDonald of Long and Foster Real Estate, "and the kids were showing the moms and dads what they had done."

"I don't know what it's like in other places," said school official Paul Reignier, "but around here the market is very hot, and we need people to build. If they come back from college and run contracting companies, that will be great."

Window Leaks Rampant, Canadian Study Reports

An intensive study of window performance carried out by the Canada Mortgage and Housing Corporation (CMHC) and the British Columbia provincial Homeowner Protection Office (HPO) reported last winter that most if not all windows are prone to significant water leakage. Manufacturing, building design, installation, and maintenance were all contributing factors: More than half of new windows let water get past the operable glazing in factory testing. In on-site quality-control inspections using a different test method, 35% to 48% of newly installed windows were found to leak through the window unit itself, through joints between the window and the rough opening, or both.

The passage of time, not surprisingly, does not make leaks go away. After several years in service, the incidence of leaks rose because of deterioration and wear and tear. Windows in homes performed worse than commercial

windows: 100% of installed residential windows examined after years in service were found to leak either through the window unit itself or at points of attachment to the building.

The report draws on data from only a few hundred windows (all made in Canada), and the authors did not identify any window brands. "There are probably a thousand window manufacturers in Canada, and the quality varies widely here as in the U.S.," says Bob Maling, research and education director for the Homeowner Protection Office. "But the observations in that report apply to any company's windows in the U.S. or Canada. Even the best-made window could be damaged during shipping or installation. So designers today should take the approach that any window may allow water through at some time, and you should design the wall to handle that water."

BUSINESS TUNE-UP

Recordkeeping Reality

by Melanie Hodgdon

If you're shifting from an on-site to an office role, you may want to take a fresh look at your approach to accuracy. Whether it's carpentry or bookkeeping, the appropriate level of precision can vary from one situation to the next. You don't try to be as accurate when you frame a wall as when you're fitting an outside corner joint in stain-grade crown molding. By the same token, there are places in your bookkeeping that call for the framing level of accuracy, and places where you should work to fine finish tolerances — and it's important to stay clear on which is which.

You don't want to mess with the government, so you'd better make sure your sales tax and payroll liabilities are crown-molding quality. But if

you remember paying for a tube of caulk with pocket cash, and you can't find the sales slip, it's better to throw in an approximate figure than to not enter anything — don't spend 20 minutes searching for the slip. And while it's important to invoice your customers for all expenses incurred during their projects, I have seen too many instances where contractors are missing a slip or two, or got confused about an item they forgot to write down, and wind up holding the invoice until they're certain the figures on it are 100% correct. (I have seen two-year-old stacks of such invoices!)

Meanwhile, the billing delay hurts their cash flow, disrupts the payment schedule, gives the customer time to

use up his money on something else, makes the contractor look unprofessional (or too profitable to care!), and clutters up the contractor's To Do List. Better to send out a nearly accurate invoice, get the cash, identify and fix the hole in your system that led to the confusion, and then move on.

In a perfect world, your system would keep track of every penny, and your framing would be accurate to 1/32 inch. But reality requires you to spend your time where it does the most good and not let your business get bogged down in excessive detail.

Melanie Hodgdon is a business systems consultant for builders in Bristol, Maine.

Earthquakes and Hurricanes to Order

The next time Stockton, Calif., is battered by an earthquake or hurricane-force winds, the newly opened Tyrell Gilb Research Laboratory would seem to be the ideal place to take shelter. Its heavily reinforced, 3-foot-thick concrete foundation was specifically engineered to absorb the enormous forces characteristic of either type of disaster. At the Gilb lab, though, those forces are generated inside the building itself.

The new state-of-the-art seismic research lab was built for Simpson Strong-Tie, the Dublin, California-based manufacturer of metal structural connectors, shear walls, and anchor systems. Simpson's new facility isn't the first earthquake simulator

in the region. Two California universities and one in neighboring Nevada have their own seismic research facilities, but according to Simpson's building systems research and development manager Steve Pryor, university-based research tends to focus on heavy concrete and steel structures. "To most researchers, wood just isn't very sexy," he says. The Stockton facility, on the other hand, was designed from the ground up to evaluate the performance of wood-framed wall sections. To simulate various floor and roof loads, researchers can easily add to test assemblies anywhere from 1,000 to 36,000 pounds of weight in 500-pound increments. Each test assembly is shaken in only one degree of freedom,

instead of being simultaneously shaken from side to side, up and down, and front to back, as on a conventional shake table. In addition to its wall-shaking capabilities, the new lab also has the machinery needed to bend test walls forcefully out of shape. Two large cyclic test frames simulate any desired wind loads by applying force directly to wall sections with hydraulic pistons.

In July, guests at the official opening of the \$10 million facility were treated to a sobering look at how much force an earthquake involves and its possible effect on a wood-framed wall. When a three-story wall section was subjected to a side-to-side shake comparable to the 1994 Northridge quake, the third story seemed to whip back and forth more rapidly than the second story, which in turn moved more than the first. But within a few seconds, the second-floor framing was so badly damaged — the plates shimmying, ganged studs separating from one another and the sheathing, and the OSB sheathing itself pulling away from the nails — that it lost its ability to transfer shear forces to the story above. The less visibly damaged third floor appeared almost to stop moving, even as the two lower floors continued to lash from side to side.

When all movement finally stopped and the cracking of tortured framing lumber faded to momentary silence, a sound seldom associated with severe earthquakes was heard — a spontaneous burst of cheers and applause. (To see a video of the demonstration, go to Simpson's website at www.strongtie.com/about/lab.html.)



A three-story wall section is mounted on a shake table at Simpson Strong-Tie's Stockton, Calif., test facility (above). After a good shaking (right), it shows extensive damage, including cracked plates and buckled sheathing. The arrows indicate where the headers above the second-floor opening have separated from the king studs.