

# The Mann Report

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September 2021

## UNDERSTANDING THE LUMBER SHORTAGE



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Over the past year, lumber prices have skyrocketed. At the end of May 2021, lumber was over \$1,600 per 1,000 board feet, an increase of approximately 300% from a year earlier. The increase is due to an unprecedented demand by homebuilders coupled with extreme supply limitations, which has caused an imbalance. These inflated prices may have you thinking, "How did this happen?" "How will this affect my business?" and "Is there any indication of prices returning to normal anytime soon?" among other questions.

### How it Happened

At the beginning of the COVID-19 pandemic, sawmills significantly slowed operations as the homebuilding and commercial construction industries expected a sharp decrease in activity due to the uncertainty of the global economy at the time. However, there was a sudden wave of people living in large metro areas moving to rural, less densely-populated areas to obtain more personal space, as a large number of workers came to the realization that they can perform their jobs remotely.

This caused a significant demand for new homes as the market for existing homes had (and still has) extremely limited supply. Homeowners who have chosen to sell their

homes in the past year have experienced an unprecedented seller's market, with homes going to contract within days, sometimes within hours, of being listed and contracts going well above asking prices without any contingencies, including the standard home inspection. At the same time, a home renovation trend among existing homeowners further increased the demand for lumber.

As of today, sawmills are attempting to ramp up production; however, timber operators are having a difficult time finding qualified truck drivers due to the widespread labor shortage as well as inflated diesel costs. This has resulted in timber operators finding it less profitable to ship raw materials to sawmills for lumber production. This is expected to continue to have an impact on sawmill production.

Single-family homebuilding is not the only construction sector affected. In recent years, timber has been considered in place of the traditional concrete or steel in commercial high-rise construction. Timber is more environmentally sustainable and renewable, while concrete and steel are finite. Timber construction is also approximately 25% quicker to build with than steel or concrete, reducing labor costs. Transportation costs are also lower since timber is lighter weight.

These factors have made mass timber commercial construction a fast-growing new construction technique. Just last year, two of the largest mass-constructed timber buildings in the United States were announced and are currently in process of being built in Cleveland, Ohio and Milwaukee, Wisconsin. However, the timber beams used for these types of projects generally cost more per unit than steel or concrete.

The price spike of these beams due to the lumber shortage could threaten to outweigh the labor and transportation savings gained from using timber construction, pricing it out of the market. However, it is not all bad news. Lumber prices are starting to look like they will begin decreasing over the next six months to a year.

### The Immediate Future for Pricing

As the world has started to reach a turning point in regard to the pandemic, lumber yards have started to increase production, capacity and supply. As a result, lumber prices are beginning to come down, and it is expected that this decrease will continue into the colder months when demand for lumber lightens up. Lumber may never return to pre-pandemic price levels, but they are currently trending in a positive direction.