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Economic Recovery In the Forestry Sector

and its Intersection with Residential Construction

Submission to the Standing Committee on Natural Resources

January 11, 2020

On behalf of the Canadian Home Builders' Association (CHBA), representing some 9,000 member companies in the residential construction sector, thank you for the opportunity to provide our assessment of the impact of COVID-19 on downstream sources of demand for forestry products, particularly lumber, and offer recommendations to ensure that the residential construction sector has the materials it needs to sustain its recovery, and in turn that of the Canadian economy, as it supports the housing needs of Canadians.

Pre-crisis, the residential construction sector supported 1.3 million jobs—serving as one of the largest employer sectors, providing $83.1 billion in wages, $142.6 billion in economic investment and generating spin-off activity across a range of other sectors of the economy.[1] It suffered heavy losses in April due to the initial introduction of mitigation measures that sent shockwaves through the economy and general economic uncertainty, but the sector has been operational from coast-to-coast as of May following province-by-province designations as an essential service. As of December, employment in construction writ-large was just 5.4% below its pre-pandemic levels, and looking ahead in 2021, housing and renovation demand is forecasted to remain strong, positioning the residential construction sector as a key driver to full recovery—but there are headwinds, and one of the largest is the lumber challenge: lumber shortages, skyrocketing prices, and volatility.[2]

Through the second half of 2020, housing and residential construction demand saw a strong rebound, driven by a range of factors, including pent-up domestic demand, new demand borne from the experiences of Canadians and their changing needs amid the crisis, savings that some Canadians have been accumulating through reductions in typical spending due to the pandemic, and the sector's efforts to regain lost ground and limit the impact of initial disruptions and ongoing efficiency challenges on housing supply and affordability. Much of this is evidenced in steady month-over-month increases the value of residential building permits, housing starts and resale and new home prices. Please refer to Appendix 1[3], Appendix 2[4] Appendix 3[5] and Appendix 4[6] respectively for more details. Renovation and do-it-yourself activity have also surged, with Canadians' travel budgets going to home and backyard escapes.

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[1] Will Dunning Inc, 2018; Statistics Canada, 2018; CMHC, 2018
[2] Statistics Canada, 2020. Labour Force Survey. Released January 8, 2021.
[3] Statistics Canada, 2020. Building Permits. Released December 24, 2020.
[4] CMHC, 2020. Monthly Housing Starts and Other Construction Data. Released December 15, 2020.
[5] CREA, 2020. Residential Prices. Released December 15, 2020.
[6] Statistics Canada, 2020. New Housing Price Index. Released December 21, 2020.

The same occurred in the U.S., which gets 1/3 of its lumber from Canada. With strong housing market and renovation activity both north and south of the border, and an integrated North American lumber market, supply shortages and major price increases have been rampant in both countries.

The impact of COVID-19 across the economy and along residential construction supply chains has led to delays in meeting project milestones and closings, while also increasing construction costs that get passed on to the consumer through increased house prices and costs of renovation projects. While some witnesses before the Committee concluded the pinch point for lumber passed in October, prices are on the rise once again and continue to exacerbate housing affordability challenges, as the shortage of housing supply and prices in many Canadian centres are already excessive. High lumber prices and supply shortages will also slow construction activity, reducing the sectors contribution to economic activity.

KEY CHALLENGES

Soaring lumber and wood panel prices are adding tens of thousands of dollars to the cost of new home construction and renovation projects as demand continues to outstrip supply. Additionally, persistent transportation issues are making it hard to fill orders and keep supply in lumber yards. Over the past nine months standardly tracked softwood lumber and panel products prices rose sharply. For example, Eastern spruce-pine-fir 2x4s, which are commonly used for framing, rose from $500 CAD/mBf in April to a peak of almost $1,300 CAD/mBf in late August. And while they receded briefly in the fall, they are now once again on the rise, reaching $1,100 CAD/mBf in mid-December, refer to Appendix 5[7]. Another common product, 1/2" 4-ply exterior western panels, commonly used to sheath rooves, rose from $375 CAD/MSF in April, flattened at around $700 CAD/MSF in the fall and then continued to climb to a record high of $775 CAD/MSF as of mid-December, refer to Appendix6.[8] Both products are currently 2x-3x higher than their pre-COVID-9 levels and tracking up.

In early conversations with CHBA's counterparts in the forestry sector, the shortages and subsequent price increases are a result of:

- Early 2020 forecasts for low demand which led to production curtailment before the pandemic.
- Efficiency and capacity limitations brought on by COVID-19.
- Slow ramp up of economic activity due to labour shortages.
- Transportation issues with mostly with rail, and increasingly with trucking, which is more expensive and less efficient. CN, who transports the majority of the lumber that moves across the country, experienced disruptions beginning prior to the pandemic.
- Much stronger spring and summer demand, including from the DIY market, than anticipated.
- Ongoing trade disruptions, disputes, and tariffs, creating price volatility and uncertainty around supply.
- Shortages of wood fibre in some areas due to mountain pine beetle infestations and wildfires.

Lumber mills in most parts of the country were closed for as much as six weeks during the initial wave of the pandemic, in response to public health measures. CHBA understands that lumber mills are mostly up and operating at full capacity in Canada (though not completely in the U.S.). However, with the ongoing high demand, mills are still addressing backorders, and with supply short of demand, prices have climbed again. Without additional disruptions, it will still likely be many months before things fully reset.

[7] Natural Resources Canada, 2020, Weekly lumber prices in North America. Released December 23, 2020.
[8] Natural Resources Canada, 2020, Weekly panel prices in North America. Released December 23, 2020.

IMPACT – EXPERIENCES ON-THE-GROUND

Lumber shortages and product price escalations have added tens of thousands of dollars to home construction costs and have caused some builders to pull building lots off the market because they cannot confidently price homes that will not be built for another year or two, which carries a high risk of losing money from material price increases.

For example, one leading builder-developer in London, Ontario has stopped pre-sale of new homes until they can more confidently price construction, after having previously raised the cost of their new single-family homes by an average of $30,000 and townhomes by $7,500 in response to higher and uncertain input costs. Please refer to Table 1 for the cost escalations for lumber products in this region.

TABLE 1: Cost of Various Lumber Products Used in Residential Construction Feb vs Dec 2020

Product	Measurements	Feb-20	Dec-20	% Change
KD Spruce	2x4x92-5/8"	$3.10	$6.50	109.68%
KD Spruce	2x4x104-5/8"	$3.69	$7.25	96.48%
KD Spruce	2x6x92-5/8"	$4.85	$8.10	67.01%
KD Spruce	2x6x104-5/8"	$5.75	$10.25	78.26%
KD Spruce	2x4x8'	$3.20	$6.60	106.25%
OSB	4x8x7/16"	$11.20	$29.50	163.39%
OSB	PONT 6 4x8x3***/4"***	$25.99	$50.99	96.19%
Plywood	4x8x3/8" SPR	$18.50	$27.50	48.65%
Sienna PT	2x4x8'-16'*	$0.85	$1.32	55.29%
Sienna PT	2x6x8'-16'*	$1.35	$2.04	51.11%
Sienna PT	2x10x8'-16'*	$2.27	$3.28	44.49%
Sienna PT	6x6x8'-16'*	$3.65	$5.46	49.59%

**Per linear foot*

They are not alone. Lumber price volatility is causing builders across Canada who would otherwise be selling and building more homes to stop pre-sales given the financial risks. With the nature of fixed price contracts for sales of new homes for construction and length of time between the sale and actual construction/completion, if lumber prices go up between the time of sale (and estimated lumber prices built into the sale price) and time of construction, builders pay the difference and business viability is jeopardized. For example, if a small builder sold five homes, then during construction the price of lumber goes up by $30,000 per home, the builder is now losing $150,000, dramatically impacting the viability of the business.

This price volatility – combined with builders reducing pre-sales and resulting in reduced supply in the marketplace – will further drive up the house prices for those houses that are available in the already undersupplied housing market, contributing to new and resale year-over-year price escalations in many markets . New home building is critical for addressing housing supply issues—especially in areas of high demand and high prices, and pre-sales can normally help moderate demand.

In Kamloops, British Columbia, a prominent builder and member who is currently building low-rise wood-frame condominiums, is seeing new units for entry-level buyers have lumber prices add an additional 4

per cent per unit to the selling price (over $10,000) largely due to the floor systems and roof trusses, and that is assuming there are no delays getting the products to further increase costs.

Transportation on available lumber from mills and manufacturing facilities to suppliers continues to be a persistent challenge. While rail has historically been the principal form of transportation for lumber, disruptions to the rail system, even pre-COVID-19, have caused lumber companies to have to attempt to do more shipping by truck. CHBA members from Ontario report scarcity issues with products coming from Western Canada and their suppliers are telling them trucking companies will not ship if they do not have return routes—because they are too short of labour to have drivers return with empty trucks. This is adding the impact of delays, scarcity, and escalation to already high costs.

Just outside of St. John's, Newfoundland, a large custom home builder and renovation company in December had still not been able to purchase oriented strand board since September because suppliers and big box stores just do not have the product. They are having to shift to using more expensive alternatives, typically plywood which adds an extra $12 per sheet, where possible, and between the added product costs and costs associated with delays, they are seeing 6-10 per cent increases in the costs to build, adding tens of thousands to construction costs.

As the economy gradually reopens, the residential construction sector is continuing to scale up activity, but risks being constrained by disruptions in other parts of the economy and especially along supply chains. Unpredictable lumber prices remain a top concern of our membership.

There are also real potential impacts to federal housing programs and Canada's overall recovery if supply chains do not stabilize and prices moderate. CHBA was pleased to see housing and the role of residential construction set as priorities for the federal government in recovery, as evidenced in the recent Fall Economic Statement. As a sector, CHBA and its members stand ready to continue to play a key role in delivering on those investments alongside other stakeholders, as we have in the past. However, the issues already outlined will impact the ability of builders and other housing providers to deliver expected housing outcomes. From the $1 billion through the Rapid Housing Initiative to help address urgent housing needs of vulnerable Canadians, especially in the context of COVID-19, and the Rental Construction Financing Initiative to support the building of more purpose-built rental properties in tight rental markets, any additional costs to construction will come at the expense of affordability and/or scale.

Expanding Wood Construction – Taller Wood Structures

CHBA has long supported wood frame construction and was a strong proponent can contributor to moving to six-storey mid-rise wood construction in the national and provincial building codes. CHBA also supports a move to high-rise or "tall" wood construction. However, to make transition to such construction feasible, supply and cost issues with lumber must be addressed or there will not be take-up.

According to CHBA members, wood construction is still only a niche part of the mid-rise market given challenges with cost and availability of lumber relative to concrete and steel, and securing insurance, as a builder and as a strata/condo corporation.

Given the high prices (and volatility) of lumber in both Canada and the U.S. (which gets 1/3 of its lumber from Canada), there is also talk within the industry both north and south of the border of looking at alternate framing systems, such as steel. While steel studs remain more expensive than their wood

counterparts, all of the above-mentioned issues are causing concern for industry that needs more stability to reduce business risks. Therefore, while industry is indeed supportive of mid- and tall-wood building options, price and supply volatility need to be addressed for industry uptake to occur. Government is rightly looking to expand market opportunity for lumber, but this needs to be complemented by increased supply and more price certainty of the lumber itself.

Insurance for taller wood structures is also a key barrier, which can and must be addressed. A 2016 report by Globe Advisors found a substantial differential in the costs to ensure wood frame buildings compared to building with concrete. The reasons most often citied were perceived higher fire risk, greater risk and repair costs of water and moisture damage. Not only do these translate to higher costs, but it is generally more difficult for builders and strata managers to secure adequate and affordable coverage. Some insurance companies simply will not insure these types of builders, and those that do, will aggressively limit their risk exposure.

This report found that for a $10 million building that takes a year to construct, the wood frame builder's insurance would be $60,000 versus $6,000 for a concrete building contractor. This is more mid-rise, as the buildings go up floor by floor, these costs would certainly increase.

As the government and industry consider high-rise wood frame construction, it will be important to work with the various sectors, from forestry and insurance to residential construction to address the barriers that limit even mid-rise wood frame construction.

And, given that there are currently major supply shortages of lumber and volatility in pricing has made construction costs very uncertain for wood construction, going to high-rise will pose extreme risks to developers unless supply and price volatility can be addressed to reduce business and construction/completion risk.

CHBA is very supportive of the construction choice to be able to use wood for mid- and high-rise construction, but for it to be successful, these cost and other issues that affect its take up must be addressed for there to be market penetration of this promising construction method.

RECOMMENDATIONS:

CHBA is looking for federal leadership to address this growing threat to housing recovery and our economy, and more consistent supply and stability in lumber prices as quickly as possible and over the long-term to support affordability for consumers, viability for businesses, and opportunity for growth for the forestry sector. Canada can only support and increase the contribution of lumber products for the domestic and international residential construction industry if more consistent supply and pricing can be stabilized into the future. Accordingly, CHBA recommends the following to the Committee:

1. **Continue to support the supply chain to maximize supply output and delivery**

   Given that residential construction has been rightly deemed an essential service in all regions in Canada throughout the pandemic, it is critical that all elements of the supply chain also be deemed essential. Construction cannot continue if there are material supply shortages. All levels of government should do everything possible to keep all elements of the supply chain operating fully and safely.

CHBA applauds the federal government's recent commitments to increase the rate of the wage subsidy to support the retention and hiring of more workers, transition more Canadians back into the economy and help fill job vacancies. Any future adjustments to federal recovery benefits or employment insurance support must also include gentle incentives to encourage available workers to return to safe and healthy employment as soon as possible.

CHBA recommends further action to support specific sectors, including the forestry sector, secure, train, re-skill and upskill the workers needed to operate efficiently and scale up to meet future demand. CHBA recommends the same support for residential construction, given the skilled trades shortage of workers who build with the lumber in situ—shortages of framers have and will continue to slow construction, limiting production of more housing supply and use of lumber.

Ensuring there is support for all safety measures required (PPE etc.) is also critical.

2. **Continue to seek resolution to trade disputes**

   With the transitioning of power in the U.S. imminent, there should be a change in tone and less volatility in trade relations between the two countries, providing a more predictable trade environment. However, given the lumber dispute has persisted through decades regardless of which party was in power in the U.S., it will be critical to continue all efforts to seek resolution.

   CHBA urges the federal government to **work to encourage the U.S. to make appointments and allow the WTO appeal process to resume**, while in parallel **seek to improve current trade dispute mechanisms** (dumping and countervailing duties) to limit the disruption that these processes cause on markets both north and south of the border.

   Also, **engage end users such as home builders and contractors in trade tribunal processes that affect residential construction**. As learned through the trade tribunal process on U.S. drywall, involving end users was critical to the Canadian International Trade Tribunal's ultimate recommendations and the federal government's decision on final levies and the reimbursement program, which all helped support better housing affordability.

3. **Work with domestic lumber producers to ramp up production.** Working collaboratively with the forestry sector and lumber producers, the federal government should examine ways to increase production and output to meet increased demand, moderate unsustainably high prices, and reduce volatility in prices moving forward.

   This includes ways to ensure more responsive and certain **access to raw material to better reflect demand** from Canada's sustainable, well managed sources, which may require federal leadership and intergovernmental collaboration.

   Canada needs to streamline regulation between the provincial and federal levels of government to simplify access (with compromising sustainability) to the land base for forestry.

   Canada needs to provide homes for its populace and has a long history of wood-frame construction which historically has been a very efficient and affordable means to build. With

Canada's excellent forest management, lumber continues to be a sustainable and renewable material for the future of Canada's housing. To support recovery of the forestry sector and expand into new areas like tall-wood construction, access to more supply for the residential sector must be addressed.

4. **Create a better market and support forestry sector in building capacity ahead of building code changes for mass timber construction**

   CHBA has long supported wood frame construction and was a strong proponent can contributor to moving to six-storey mid-rise wood construction in the national and provincial building codes. CHBA also supports a move to high-rise or "tall" wood construction, but to make transition to such construction feasible, supply and cost volatility with lumber, as well as insurance issues, must be addressed for there to be market penetration of this promising construction method, and to increase the market for lumber products.

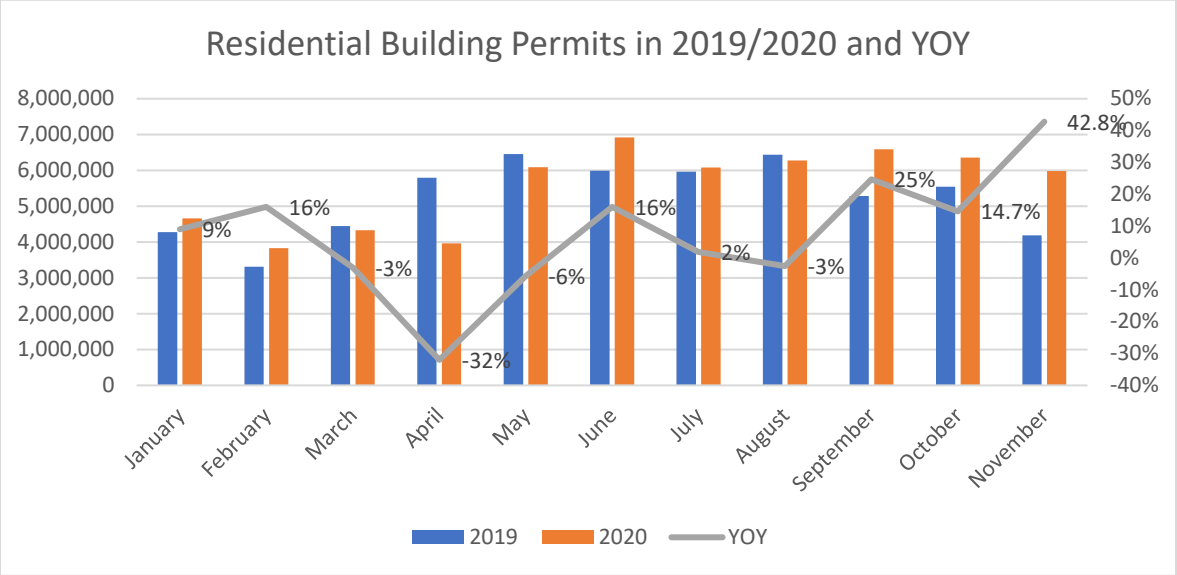
5. **Help offset escalating construction costs for housing to sustain activity and affordability**

   While not specifically within the scope of this study, CHBA has also proposed a series of measures to help address affordability of housing through other means to offset rising construction costs due to material price increases, lack of supply, and other cost increases. While housing starts and renovation activity are rebounding well right now, it is important that this momentum be maintained for the economy. Also, while housing starts are a positive indicator for the economy, it is housing completions that ensure we are actually successful in adding more supply—at this time, completions are slowing due to supply chain, workers shortage and price increases. To that end, it will also be important for the government take additional measures to support affordability. For more on our recommendations related thereto, please see CHBA's Action Plan for Economic Recovery in Residential Construction: *(*https://www.chba.ca/CHBADocs/CHBA/HousingCanada/Government-Role/2020-06-CHBA-Getting-Building-An-Action-Plan-for-Economic-Recovery-in-Residential-Construction.pdf*).*

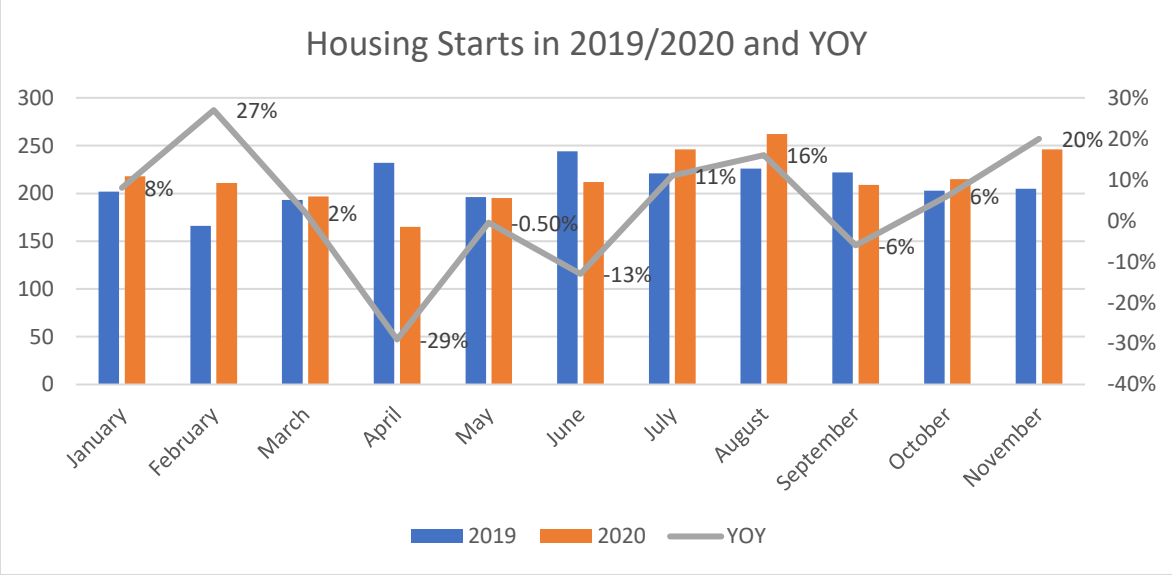
Thank you once again to the Standing Committee on Natural Resources for this opportunity, CHBA would welcome the opportunity to provide any follow-up information required to support this study and the valuable work you are doing on behalf of Canadians during the crisis.

For more information, please contact Nicole Christy, Manager of Government Relations, at nicole.christy@chba.ca or 613-230-3060 x241.

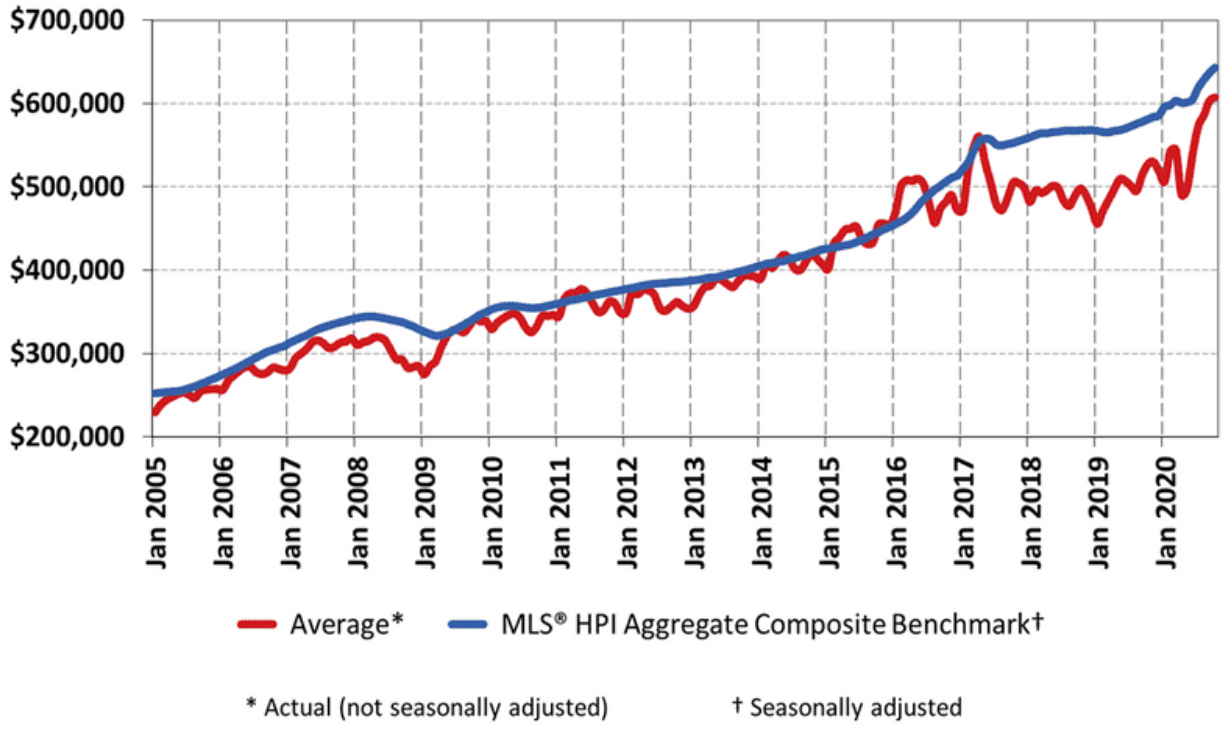
APPENDIX 1: Residential Building Permits in 2019/2020 and YOY



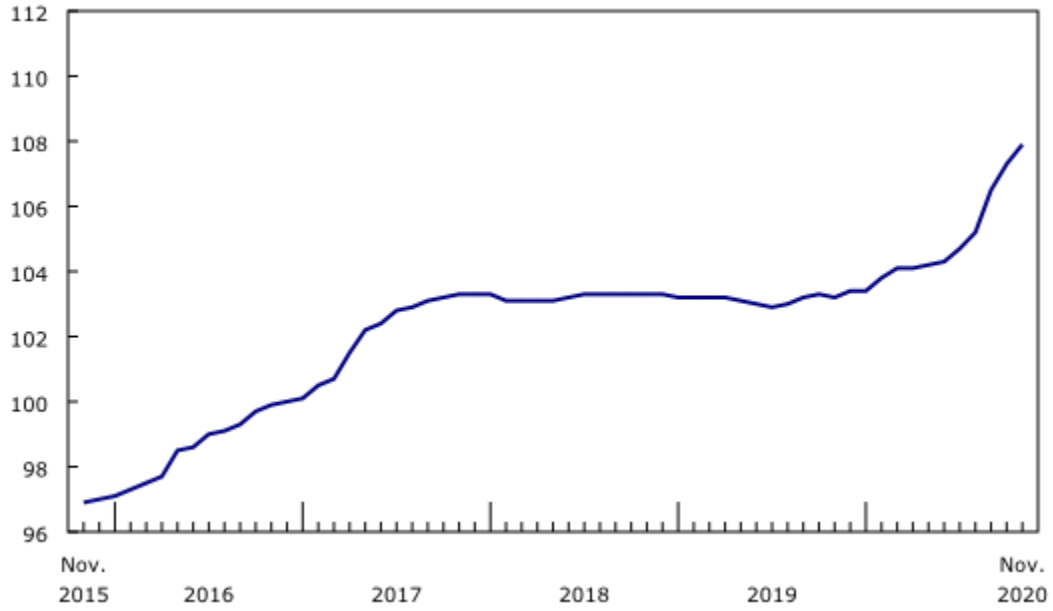
APPENDIX 2: Housing Starts in 2019/2020 and YOY



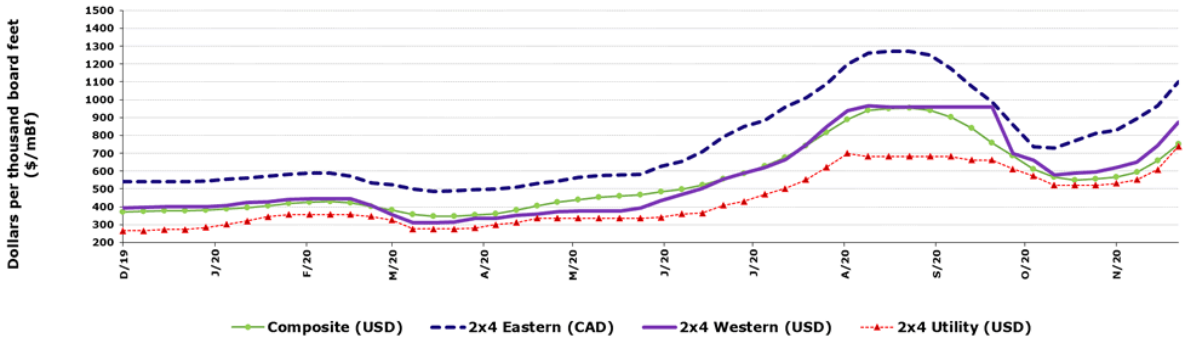
APPENDIX 3: Residential Prices Average and MLS® HPI Composite Benchmark



APPENDIX 4: New Housing Price Index (Nov 2015-Nov. 2020



APPENDIX 5: Weekly lumber prices in North America (Oct 2019 – Dec 2020)



APPENDIX 6: Weekly panel prices in North America (Oct 2019 – Dec 2020)