



National Association of Home Builders

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Government Affairs

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May 29, 2014

By Electronic Submission

The Honorable Penny Pritzker
Secretary of Commerce
U.S. Department of Commerce
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230

**RE: Subsidy Programs Provided by Countries Exporting Softwood Lumber
and Softwood Lumber Products to the United States (REG-2014-09874)**

Dear Secretary Pritzker:

On behalf of the more than 140,000 members of the National Association of Home Builders, I am writing in response to the request by the U.S. Department of Commerce for comments on subsidies provided by certain countries exporting softwood lumber to the United States. Access to competitively priced and readily available softwood lumber is very important to the home building industry, and I appreciate the opportunity to share our views. Please do not hesitate to contact me should you have any questions concerning this submission.

Sincerely,

A handwritten signature in black ink, appearing to read 'James W. Tobin III', written in a cursive style.

James W. Tobin III

On behalf of the more than 140,000 members of the National Association of Home Builders (NAHB), I am writing in response to the request by the U.S. Department of Commerce for comments on subsidies provided by certain countries exporting softwood lumber to the United States. I appreciate the opportunity to share our views.

NAHB is a Washington, D.C.-based trade association whose broad mission is to enhance the climate for housing, homeownership, and the residential building industry. NAHB is affiliated with more than 800 state and local home builder associations throughout the country. The association represents builders and developers who construct housing ranging from single-family for-sale homes to affordable rental apartments and remodelers. Access to competitively priced and readily available softwood lumber is very important to home builders, their contractors, other U.S. businesses that use softwood lumber, such as manufacturers of trusses, cabinets, pallets, and furniture, as well as lumber wholesalers and retailers, and millions more employed in the real estate and mortgage finance sectors that are all contributing to our economic recovery.

While the housing sector has considerable room to grow given population and household growth, the ongoing recovery has seen month-to-month volatility. Rising building material prices are both a challenge and a sign of the recovery and growth in residential construction. Gypsum prices have risen by 10% to 20% at the beginning of the last three years. Softwood lumber and oriented strandboard (OSB) prices have also risen significantly over the last three years, with occasional spikes in prices when demand exceeds manufacturing capacity. Some easing in building material prices has been seen when new factories and material sources come online, but the rising cost of construction is a factor that keeps some building projects from proceeding.

Because Canada is the source of approximately one quarter of the lumber used in U.S. home construction, NAHB is particularly sensitive to the harmful effects of artificial price increases. NAHB remains strongly opposed to border measures such as quotas, tariffs, or export fees that restrict imports of Canadian lumber and contribute to volatile swings in the lumber market.

Lumber in Housing

Lumber is one of the most volatile-priced products, and it is common for wide price swings to occur over a short period of time. This has a direct effect on the affordability of homes.

NAHB research shows lumber and wood products account for 15% of the cost of construction for a single family house. As such, lumber price increases have severe effects on our nation's housing market. While rapid price escalations have somewhat eased recently, the prices of these materials have soared as the housing recovery gained momentum in 2012. For example, OSB and lumber prices are 24% and 27% above their average 2011 levels before the housing recovery began in earnest. NAHB economists estimate that a 10% increase in the price of framing lumber per 1,000 board feet adds approximately \$660 to the price of an average new home.

The rising cost of inputs drives up the cost of construction, which in turn, drives up the price of a new home. The impact is of particular concern in the affordable housing sector where relatively small price increases can have an immediate impact on low- to moderate-income home buyers who are more susceptible to being priced out of the market. Many aspiring homeowners are just

on the edge of being able to qualify for a mortgage and make the required payments. Even a small change in home prices or interest rates can determine whether they can buy a home.

A 2012 priced-out analysis done by NAHB illustrates the number of households priced out of the market for a median priced new home due to a \$1,000 price increase. Nationally, this price difference means that when a median new home price increases from \$225,000 to \$226,000, 232,447 households can no longer afford that home.¹ An increase of 10% in the average wholesale price of framing lumber would mean that about 160,000 families would not be able to qualify for a mortgage on a average first-time home.

Because of the harmful effects of artificial price increases, NAHB is strongly opposed to border measures such as quotas, tariffs, or export fees that restrict imports of Canadian lumber. At present, Canada is the source of approximately one quarter of the lumber used in U.S. home building. Trade restrictions on imported lumber cause artificial price increases and volatile swings in the lumber market, both of which hurt housing affordability.

Industry Headwinds

The nation's housing markets are beginning to see widespread consistent, sustainable growth. To track this level of improvement, NAHB created the Leading Markets Index (LMI), which compares the current levels of employment, home prices, and building permits to their normal, sustainable levels. Of the 351 metro markets measured, 300 have seen year-over-year economic gains. The index currently shows that 59 metros have fully returned to or even exceeded their last normal levels of economic and housing activity. This means that based on current permit, price and employment data, the nationwide average is running at 88 percent of normal economic and housing activity.

However, economic and policy headwinds remain that have slowed builders' ability to build and prospective home buyers' ability to make a home purchase. If these headwinds are reduced, then housing's contribution to economic growth would be larger and the overall economic recovery more robust.

The home building industry is uniquely large and decentralized. Currently, the industry employs 659,000 individuals in the builder category and 1.598 million as residential specialty contractors, for an industry total of 2.257 million. These workers and entrepreneurs are spread out across the nation.

Like most of the construction sector, home building is dominated by small firms. The median gross receipts for NAHB members is just under \$1 million. Approximately 80 percent of our builders build 10 or fewer homes per year and employ 10 or fewer employees.

Collectively, however, they represent a massive industry, employing millions of people and generating 17% of our nation's gross domestic product. Housing contributes to the national economy in two basic ways: through private residential investment and consumption spending on

¹ See NAHB Economics, "Households Priced-Out by Higher House Prices and Interest Rates", *available at* <http://www.nahb.org/generic.aspx?sectionID=784&genericContentID=40372>.

housing services. Historically, residential investment has averaged roughly 5% of GDP while housing services have averaged between 12% and 13%, for a combined 17% to 18% of GDP. These shares tend to vary over the business cycle.

The Great Recession and its lingering impacts significantly reduced the production of housing. Due to these declines, the industry is operating well below historic norms. In order to meet the housing needs of a growing population and replacement requirements of older housing stock, the industry is expected to be building about 1.4 million new single-family homes each year and more than 1.7 million total housing units. In comparison, in 2012, home builders constructed only 534,000 single family homes and 247,000 multifamily units.

Over the last two years, home building has experienced significant growth. For 2013, housing starts totaled 925,000: 618,000 single-family and 307,000 multifamily units. Over the last two and half years, 274,000 jobs have been added by home builders and remodelers. More are expected with continued gains in construction activity.

According to NAHB estimates, 2,970 full-time equivalent (FTE) jobs, and \$111 million in tax revenue are generated by the construction of 1,000 single family homes. Similarly, 1,000 new multifamily units results in 1,130 FTE jobs and \$100 million in remodeling expenditures creates 890 jobs. Further, the building and improvement of the housing stock of a local area provides a tax base for state and local governments. While typically not included in federal analysis, the taxes attributable to housing are substantial. According to Census data and NAHB calculations, property taxes attributable to housing totaled approximately \$300 billion in 2012.

The rise and fall of housing activity has been the dominant economic factor of the last decade. Housing typically leads the economy out of recession, although in the period after the Great Recession, housing has not played that role. There are many reasons why the recovery has been slower than past history would suggest.

Conclusion

Residential construction has finally turned the corner and is contributing to, rather than subtracting from, Gross Domestic Product growth and an improving labor market. Any efforts to ease escalating price pressures, help rebuild the supply chain, and support a continuing housing recovery is smart economic policy.

NAHB supports changes to make lumber supply more responsive to market demand and opposes supply constraints that contribute to volatility in lumber prices. Because housing has been a critical stabilizing factor in our nation's faltering economy, it is imperative that our government does not act to artificially raise the cost of housing through trade restrictions.