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Construction's 2019 Political Forecast

In these tumultuous political times, what will the new year bring? The building and related industries would like the nationwide housing crisis and skilled labor shortage to be high priorities.

by *Lydia Lee*

1. Address the nationwide housing crisis.

The production of housing has not kept up with demand in the last couple of decades, with only seven houses built for every 10 new households (resulting in an estimated shortage of 7.3 million units across 23 states, **according to one study**). Housing is the least affordable it's been in over a decade.

"From a big picture perspective, the real issue now for builders and architects is housing affordability," says Kent Colton, senior research fellow at the Harvard Joint Center for Housing Studies and former president of the National Association of Home Builders (NAHB). "We need to make more financing available through Fannie Mae, Freddie Mac, the Federal Housing Administration, and the private sector and slow down the increase in interest rates. We also need more regulatory relief, which has been happening at the federal level, but states and local governments need to do more."

In the midterm elections, **several state and local initiatives** to address housing affordability passed, so this could be the year it reaches the national stage. It could potentially find its way into the discussion via an infrastructure improvement bill. "A broader infrastructure bill could include not just roads, bridges, and airports, but also housing at different levels of affordability, especially if you're looking at funding mechanisms that include public-private partnerships," says Ben Gann, vice president of legislative and political affairs of the National Lumber & Building Material Dealers Association (NLBMDA).

Affordable housing may also come into the spotlight through the nascent "Opportunity Zones" program. Established in the tax cut of 2017, the program provides federal tax incentives for development in economically depressed areas and has recently received some attention from the administration. "Opportunity zones may open the ability to do affordable housing that might not otherwise happen," says Gene Myers, CEO of Denver-based Thrive Home Builders, who is working on an infill project in a local opportunity zone.

The federal government subsidizes below-market-rate housing through the low-income housing tax credit (LIHTC) program, and some industry leaders and legislators have proposed using a similar tax credit to increase the amount of rental housing for middle-income tenants. (In the \$1.3 trillion omnibus spending bill that passed last March, the LIHTC program got an increase of 12.5% over the next four years.) "We are looking at piggybacking on that and establishing a complementary middle-income housing tax credit," says Jim Brewer, chief

lobbyist at the American Institute of Architects (AIA), noting that Democratic senator Ron Wyden of **Oregon** has already introduced such a bill.

“It would be great to see housing affordability become a campaign theme for 2020,” says Jim Tobin, the chief lobbyist for the NAHB. “How do we provide workforce housing, so that teachers and firefighters can live in the communities they service, and encourage higher density housing in urban areas around transit?”

2. Help with the labor shortage.

A shortage of skilled labor also affects housing affordability, since it results in **higher construction prices**. The trade group Associated Builders and Contractors, which represents 21,000 non-union members in the U.S., estimates there are 500,000 unfilled construction jobs amidst a record construction work backlog of 9.9 months in the second half of 2018.

On the positive side, the current administration is promoting workforce development and has established a National Council for the American Worker, with an advisory board drawn from various industries. “We’d like to see Department of Labor and Department of Education provide more funding for apprenticeships and workforce training and reduce bureaucracy for these educational programs so it’s easier and quicker to get certified,” Tobin says. The NAHB has its own workforce development arm and plans to train 50,000 construction workers over the next five years. 2018 also saw the reauthorization of the Carl D. Perkins Career and Technical Education Act (now the Strengthening Career and Technical Education for the 21st Century Act), which will provide around \$1.2 billion over the next six years to fund career training in secondary and postsecondary schools.

But the shortage most certainly will be exacerbated by the administration’s hard line on immigration, which has put as many as **100,000 construction workers** who have been here legally (through the Deferred Action for Childhood Arrivals [DACA] Act or Temporary Protected Status) at risk of deportation, not to mention the estimated 14% of all construction workers that are undocumented, according to a **2013 report by the Workers Defense Project**. For the past decade, immigrants have been filling more and more of the job openings in the construction industry, making up about half of the workforce in the subcontracted trades. The construction industry is only one of many that have called for immigration reform, including an expanded temporary visa program, but it’s hard to see that gaining traction in the current political climate.

3. Pass an updated energy bill.

The last major energy bill passed in 2005, so the potential for a major update is there. The Energy Policy Act worked to reduce the country’s dependency on petroleum by providing tax incentives for alternative fuels and energy efficiency measures.

“Last time, the approach was, ‘Buy the more energy-efficient window or door and get a tax credit,’” says Gann of the NLBMDA. “But now that green building is what we would do anyway, there could be an appraisal system where the energy efficiency of a home is evaluated and then the homeowner’s mortgage payments are reduced accordingly.”

The 2005 bill included a tax deduction for energy-efficient commercial buildings (179D) but has primarily had an impact on new construction. “It’s a great mechanism, but we could expand the list of what is considered energy-efficient technology—such as green roofs, for example—in order to encourage retrofits of existing buildings,” says Brewer of the AIA. Meanwhile, the states are leading the effort to create energy-efficient buildings. “California and **Washington** have issued progressive executive orders supporting clean energy and carbon neutrality that have implications for buildings and communities,” says Elizabeth Beardsley, senior policy counsel, U.S. Green Building Council. “The District of Columbia’s proposed code updates include green building and net zero energy building elements and a clean energy omnibus bill, which includes a new performance requirement for existing buildings. We also anticipate and support bills to improve federal building energy efficiency and codify energy and water targets for federal buildings and portfolios.”

4. Resolve trade disputes.

Industry representatives applaud the administration's regulatory and tax reform efforts but have good reason to worry about the market uncertainty that has been generated by trade disputes. The building industry had to deal with record highs in lumber costs this past year, driven by high tariffs on Canadian lumber. The softwood lumber dispute is a long-standing one, but government onlookers are hopeful that if the USMCA passes, an agreement on this front could be reached as well.

"A lot of commodity prices have been affected by tariffs," says Myers of Thrive Home Builders. "We've been hit particularly hard by the lumber tariffs because we are really lumber-dependent—we build an extra-thick, double 2x4 wall for thermal performance. So we're looking at how to get good thermal performance with less wood or alternatives to wood to deal with the cost dynamics that we've experienced over the last six months and still be able to afford to build high-performance homes for everyday people." The builder has purchased a small 16-unit site to serve as a platform for testing different building materials.

Builders of multifamily and commercial buildings may also have reason to be concerned about the price of wood. The **International Code Council**, which establishes model building codes for the U.S., is working on a code update that allows heavy timber (which includes cross-laminated timber) to be used for structures up to 18 floors.

The update would take effect in 2021 and lines up nicely with the December passage of the Timber Innovation Act, which was wrapped into the Farm Bill. The legislation advances tall timber construction through an R&D program and other mechanisms. "There are very distinctive environmental advantages, and those who are building green are looking to leverage the real impact of wood as a substitute," says Robert Glowinski, president and CEO of the American Wood Council. "We just need more projects and real-world experience with it."

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