

# MADISON'S LUMBER REPORTER

Publisher  
**KetaDesign Productions**  
Editor  
**Kéta Kosman**  
Market Analyst  
**Earl Heath**

Annual Subscription Prices  
E-mail/Fax: US\$408.45  
Discounts available for multiple  
subscriptions  
Published 50 times a year

www.madisonsreport.com  
madrep@shawcable.com  
604 319-2266  
PO Box 2486 Vancouver, BC  
V6B 3W7 Canada

In Canada, add GST or HST  
ISSN 0715-5468  
Printed in Canada © 2015

All material contained within is the property  
of KetaDesign Productions Inc. Reproduction  
or retransmission is expressly forbidden.



## News & Updates

### BC New Representative for Softwood Lumber Trade

The British Columbia government has switched chief negotiators on the softwood lumber file, according to the *Vancouver Sun* October 12.

Dana Hayden, a former BC deputy minister for forests and international trade, left the job on September 30 after two years as chief negotiator.

BC replaced her with John Allan, the former president of the B.C. Lumber Trade Council when the last softwood lumber dispute was settled in 2006.

As well, BC has assigned an associate deputy minister to "oversee the preparation for litigation" in the dispute, according to an internal government letter, said the *Sun*.

### US Apartment Stocks, Rental Rates: Sept & 3Q 2016

The US National Multifamily Housing Council released its Apartment Markets Retreat in the October NMHC Quarterly Survey, said *Calculated Risk* Thursday.

The Market Tightness Index fell to 28, the lowest since July 2009 and the fourth quarter in a row showing declining conditions.

Meanwhile, the stabilization of the vacancy rate, which has been falling for the past six years, shows that supply has increased to the point at which rent growth can slow, according to Dave Liang at UBS, said *Business Insider* Monday.

CONT'D PAGE 6

### Sawmill Fires, USA

A serious fires broke out at a large sawmill in the US this week.

A three-alarm fire destroyed a sawmill in Providence Township, southern Lancaster County, in Michigan, Wednesday night. Six fire departments responded.

CONT'D PAGE 7

### US Housing Starts, Home Sales: September 2016

Housing starts in the US fell for the second straight month in September, but builders received more permits, a sign residential construction should pick up in the coming months amid steady demand.

September's drop in starts was due to an unusually large decline in the volatile multifamily category,

Elsewhere, the US National Association of Realtors said Thursday that sales of existing homes rose 3.2 per cent from August to a seasonally adjusted annual rate of 5.47 million, the strongest pace since June.

CONT'D PAGES 8 & 9

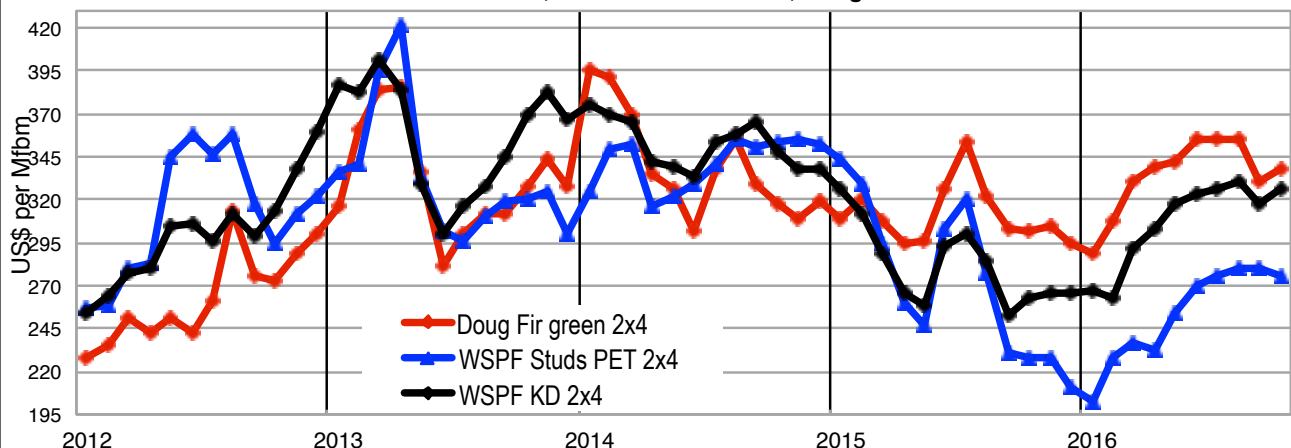
### US Construction Material Prices, Architecture Billings

Inflation in prices received for building materials in the US was mixed in September 2016 according to the latest Producer Price Index release by the Bureau of Labor Statistics.

As well, for the first time since the summer of 2012, the Architecture Billings Index posted consecutive months of a decline in demand for design services, said *Calculated Risk* Wednesday.

CONT'D PAGE 10

2x4 Prices : WSPF KD R/L #2&Btr, WSPF KD PET Studs, Douglas fir Green - 2012 - OCT 2016



## US Apartment Stocks, Rental Rates: September and 3Q 2016

CONT'D FROM PAGE 2

Apartment markets softened across all four indexes in the October 2016 National Multifamily Housing Council (NMHC) Quarterly Survey of Apartment Market Conditions, said *Calculated Risk* Thursday. The Market Tightness (28), Sales Volume (42), Equity Financing (33) and Debt Financing (38) Indexes all landed below the breakeven level of 50 – showing weaker conditions from the previous quarter.

### Vacancy Rates, Apartment Availability

“The growing supply of new apartments, primarily in the Class A space, appears to have finally reached a level to slow the historically high rent growth. Additionally, debt and equity markets are more discerning in terms of what deals they are ready to take on, including the continued slowing of available construction loans,” said Mark Obrinsky, NMHC’s Senior Vice President of Research and Chief Economist.

Almost half of respondents reported looser conditions than three months ago. Likewise, only six per cent noted tighter conditions. The remaining 45 per cent reported no change at all.

#### RENT GROWTH STABILIZES

The dramatic increase in multifamily structures — such as apartment buildings — has finally caught up with surging demand and will cool off rent growth, a UBS economist said in a note released Monday.

David Liang said Americans opted to rent rather than own at an increased pace after the financial crisis. This large shift led to a constrained supply and rapidly increasing rents. However, that builders had corrected for the increased demand.



“Expectedly, multi-family permits have also risen steadily post-crisis, up to a 483,000 pace in 2015. The 2016-to-date level of 413,000 would suggest fewer total starts this year, assuming a 1.5-2.0 month lead time. Given a slowing rate of construction and an approximate building time of 12 months, we expect completions to soften in 2017. The additional units coming to market this year could in theory provide an upper bound to effective rent growth.”

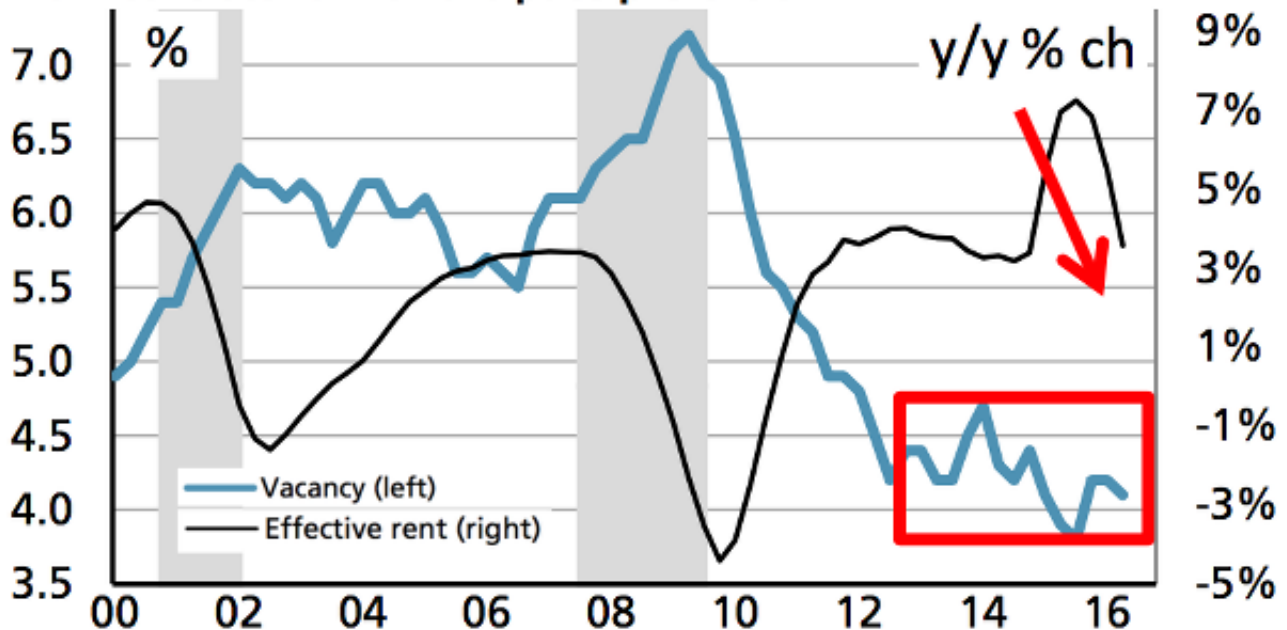
- David Liang, UBS

#### PROJECTION

For the past two years, Liang said, rent growth has been running well above its long-term average and the rate of inflation.

“In fact, we have already seen signs of slowing rent growth,” Liang wrote. “Post-crisis annual effective rent growth peaked at 7.2 per cent in 3Q 2015 at the national level — it has since slowed to 3.6 per cent in 2Q 2016. This trend is expected to carry over into 2017.”

**Vacancy rates have stabilized recently. Effective rent growth has slowed dramatically in the past year. It is now consistent with the pace pre-crisis.**



Source: CoStar and UBS. Note: shaded regions indicate recessions



	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
<small>Prices are in U.S. dollars per 1,000 fbm (net FOB mill)</small>							
WSPF KD R/L 2x4	326	326	0	318	+8	254	+72
WSPF KD R/L 2x6	286	286	0	282	+4	248	+38
SYP KD R/L East Side 2x4	435	430	+5	405	+30	320	+115
SYP KD R/L East Side 2x6	375	380	-5	375	0	285	+90
ESPF KD R/L 2x4	415	415	0	400	+15	340	+75
WSPF KD PET 2x4 Stud	280	280	0	270	+10	230	+50
WSPF KD PET 2x6 Stud	220	220	0	215	+5	250	-30
Douglas Fir Green R/L 2x4	333	340	-7	330	+3	300	+33
Douglas Fir Green R/L 2x10	325	325	0	330	-5	395	-70
ESPF KD 2x4 8ft Stud	365	365	0	365	0	315	+50
OSB Ontario 7/16" (CDN\$/msf)	360	360	0	360	0	270	+90
CSplywood Toronto 3/8" (CDN\$/msf)	422	400	+22	462	-40	385	+37

## Madison's Weekly Softwood Lumber News

### Sawmill Fire, Michigan

CONT'D FROM PG 2 Fire

Fire crews Wednesday responded to a three alarm fire at a sawmill in Lancaster County, Michigan.

A fire broke out at Beiler's Sawmill on the 900 block of Lancaster Pike around 9:30PM.

No injuries have been reported, but a great deal of burnable material was located at the scene.

Fire crews say a fire started in the bottom of an 80-foot spire.

The flames then spread to another pipe beneath it.

The Lake Missaukee fire chief says the fire caused about US\$10,000 in damage.

### Canada Investment in Housing Construction

Total investment in new housing construction rose 2.4 per cent year over year to \$4.7 billion in August, said Statistics Canada Friday.

The increase at the national level was attributable to higher investment in apartment building construction (+9.2 per cent to \$1.7 billion) and row house construction (+7.8 per cent to \$455 million).

In contrast, spending on single-family houses declined 2.1 per cent year over year to \$2.3 billion in August, following six consecutive months of year-over-year gains. Investment in semi-detached dwellings also de-

creased year over year, down 6.1 per cent to \$222 million in August.

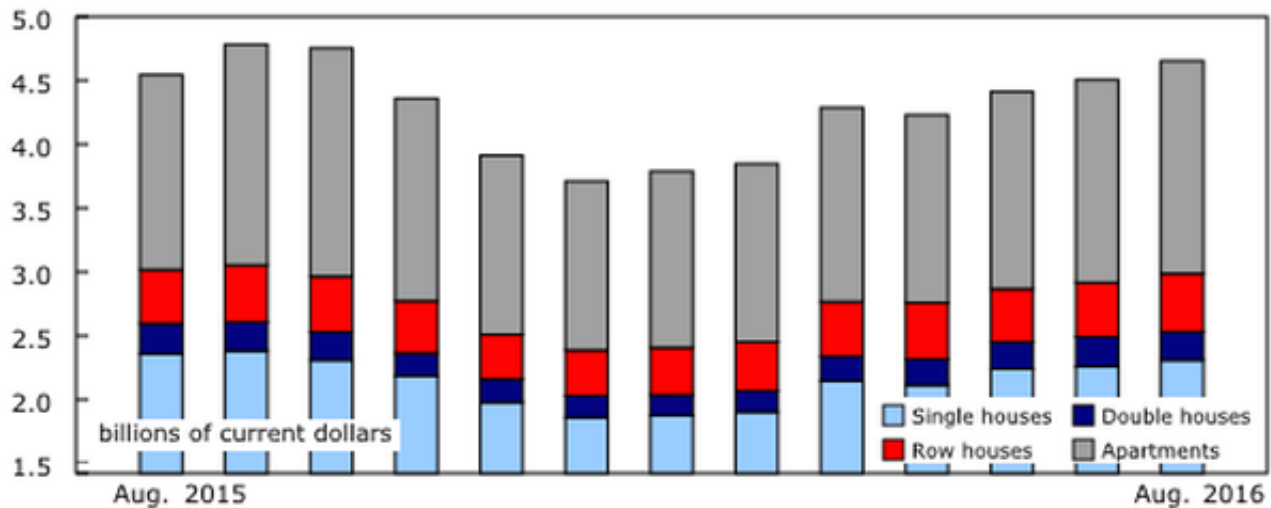
At the provincial level, new housing investment rose in Ontario and British Columbia in August.

In August, investment in new housing construction in Ontario increased 18.4 per cent from August 2015 to \$2.0 billion. In British Columbia, spending on new residential dwellings rose 32.7 per cent year over year to \$1.1 billion in August, surpassing the \$1-billion mark for the first time.

In Alberta, new housing construction spending declined year over year for the 14th consecutive month, down 32.2 per cent to \$642 million in August.

In Quebec, spending totalled \$581 million in August, down 14.3 per cent from the same month in 2015.

### Canada Investment in Housing Construction



## US Housing Starts: September 2016

CONT'D FROM PAGE 2

Housing starts in the US fell for the second straight month in September, but builders received more permits, a sign residential construction should pick up in the coming months amid steady demand, the Commerce Department said Wednesday.

September's drop in starts was due to an unusually large decline in the volatile multifamily category, but an uptick in permits for multifamily housing indicated the steep fall was likely an aberration. The more stable category of single-family homes posted monthly gains in both permits and starts.

Building permits issued for privately owned housing units rose 6.3 per cent in September from the prior month to a seasonally adjusted annual rate of 1.225 million. Permits for single-family homes, about 60 per cent of all permits, rose to a rate of 739,000, up 0.4 per cent last month.

Housing starts fell 9 per cent in September to an annual rate of 1.047 million, as starts on multifamily buildings dropped sharply. But single-family starts continued to climb, rising 8.1 per cent in September to a rate of 783,000.

### PERMITS

Much of the construction growth this year has been in single-family homes. Through the first nine months of the year, permits were up 0.6 per cent compared with the same period in 2015, while single-family permits were up 8.1 per cent, year to date. Starts were up 3.7 per cent through September, and single-family starts were up an even higher 8.6 per cent through the nine months. Relatively stronger momentum for single-family home construction suggests that builders are responding to rising prices and steady demand for that segment, while construction of larger multifamily projects is slowing.

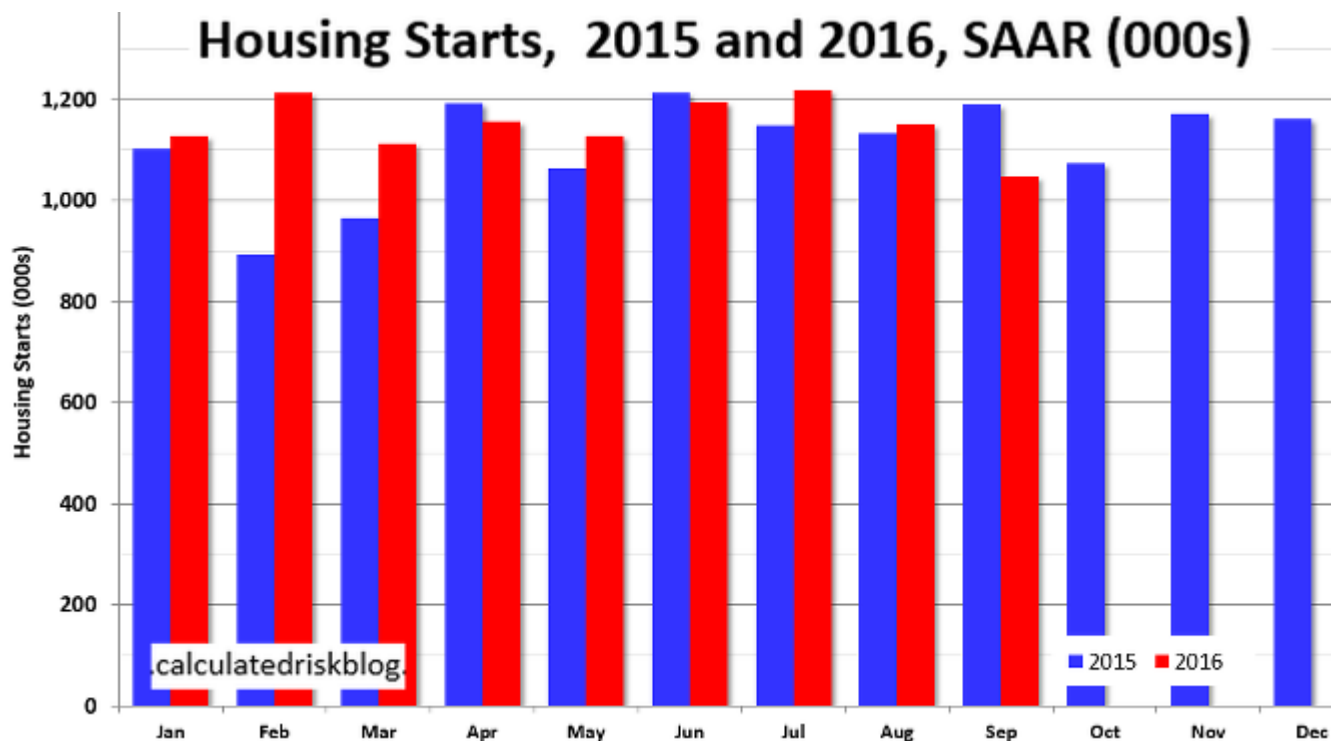
Both permits and starts fell sharply in the years leading up to the recession, as the housing crisis took hold, and remained near all-time low levels for two years after the recession ended. The construction gauges have rebounded since 2011, but the pace of gains slowed over the past year.

Monthly housing figures are often choppy and can be subject to large revisions. August permits were revised up to a 1.152 million rate from 1.139 million. August starts were revised to 1.150 million from 1.142 million.

### US HOME BUYER DEMOGRAPHICS

Half of US homebuyers are under 36, Zillow reports, based on a survey of 13,000 respondents, and first-time buyers account for 47 per cent of purchases, according to *Bloomberg* Wednesday. First-timers make up 52 per cent of prospective buyers planning home purchases in 2017, according to the results of another survey, published today by Realtor.com. When the company conducted the same survey last year, it found that only 33 per cent of prospective buyers were first-timers.

First-timers have always made up a large share of home purchases, and their median age has hovered around thirty three.

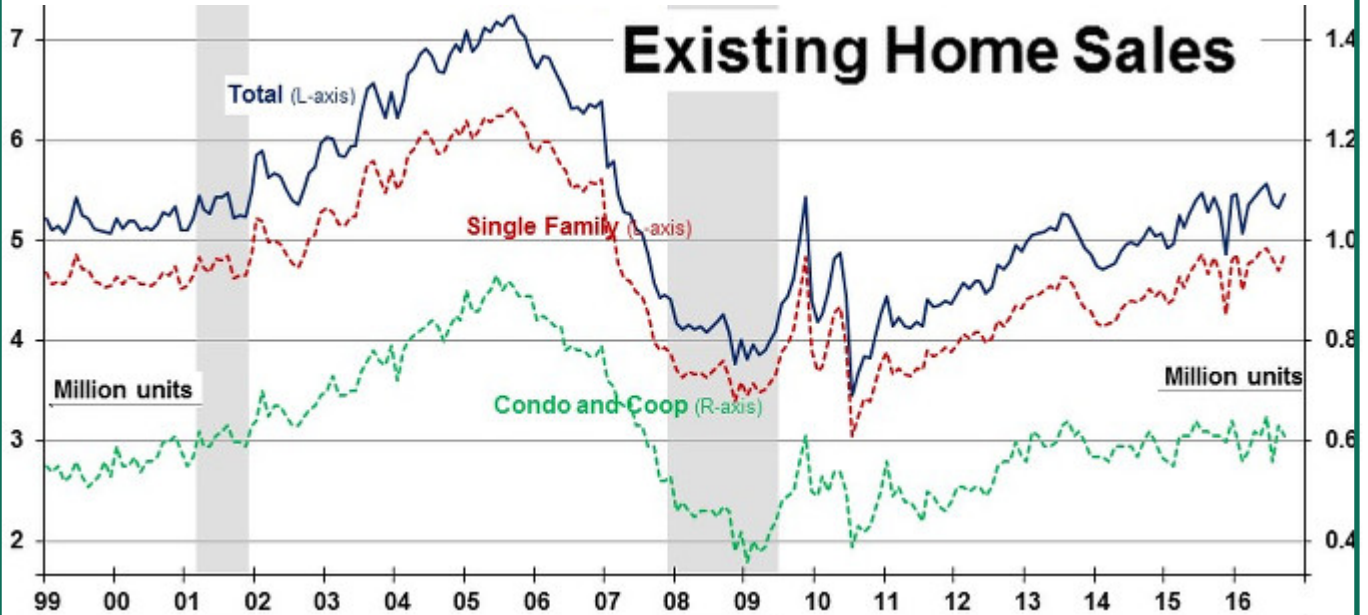


## US Home Sales: September 2016

CONT'D FROM PAGE 8

The National Association of Realtors said existing home sales rose 3.2 per cent to an annual rate of 5.47 million units. That was well above economists' expectations for an increase to a 5.35 million-unit pace.

First-time buyers accounted for 34 per cent of transactions last month, the largest share since July 2012. Still, the share remains well below the 40 percent to 45 percent that economists and realtors say is required for a robust housing market.



### EXISTING HOME SALES

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, hiked 3.2 per cent to a seasonally adjusted annual rate of 5.47 million in September from a downwardly revised 5.30 million in August. After last month's gain, sales are at their highest pace since June (5.57 million) and are 0.6 per cent above a year ago (5.44 million).

Sales rose across the country: 5.7 per cent in the Northeast, 5 per cent in the West, 3.9 per cent in the Midwest and 0.9 per cent in the South.

Total housing inventory at the end of September rose 1.5 per cent to 2.04 million existing homes available for sale, but is still 6.8 per cent lower than a year ago (2.19 million) and has now fallen year-over-year for 16 straight months. Unsold inventory is at a 4.5-month supply at the current sales pace, which is down from 4.6 months in August.

### HOUSE PRICES

The supply of available homes stood at 2.04 million units, down 6.8 per cent from a year ago. Tight inventories drove the median price of existing homes up 5.6 per cent from a year ago to US\$234,200.

### HOUSING INVENTORY

According to the NAR, inventory increased to 2.04 million in September from 2.01 million in August. Headline inventory is not seasonally adjusted, and inventory usual-

ly decreases to the seasonal lows in December and January, and peaks in mid-to-late summer.

The year-over-year change in reported existing home inventory and months-of-supply. Since inventory is not seasonally adjusted, it really helps to look at the YoY change.

Inventory decreased 6.8 per cent year-over-year in September compared to September 2015.

Months of supply was at 4.5 months in September.

### INVESTMENT IN HOUSING

The institutional investors who bought up homes in recent years have continued to rent them out rather than putting them on the market. Moreover, homebuilders have not aggressively stepped up construction. The Commerce Department reported Wednesday that home construction fell 9 per cent in September to the slowest pace in 18 months.

But buyers have been lured into the market by mortgage rates that remain near historic lows. Mortgage giant Freddie Mac said Thursday that the rate on a 30-year, fixed-rate mortgage rose to 3.52 per cent, still close to the record low 3.31 per cent from November 2012.

The association said first-time home buyers accounted for 34 per cent of the purchases, the most since July 2012. On Tuesday, the real estate firm Zillow released a report showing a surprise increase in first-time home buyers over the past year - good news for the housing market because home ownership rates for adults under 34 have been at record lows.

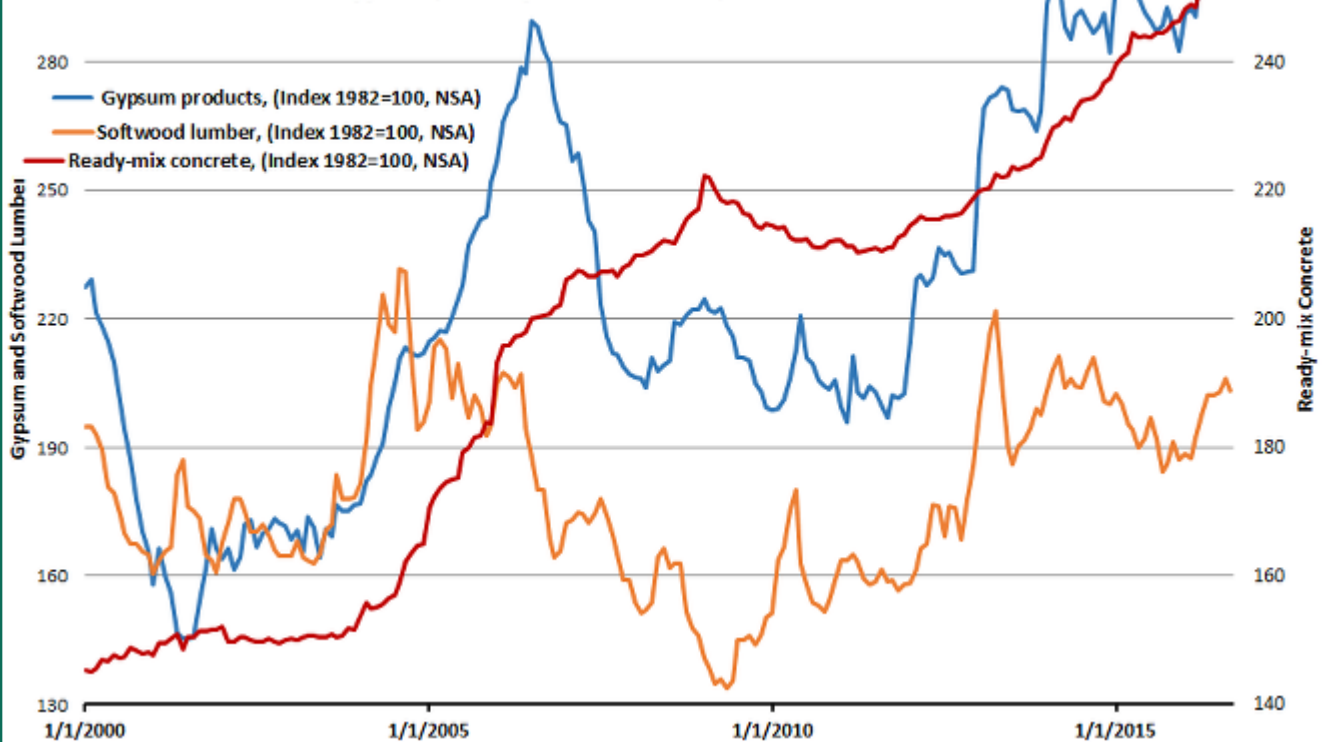
## US Construction Materials Prices: September 2016

CONT'D FROM PAGE 2

OSB prices in the US climbed 2.5 per cent in September, continuing a 7-month trend that has the commodity at its highest price since June 2013. Since February, monthly increases have averaged 3.2 per cent, pushing prices up by a cumulative, eye-popping 25 per cent, according to the latest Producer Price Index (PPI) release by the Bureau of Labor Statistics.

After holding steady in August, the economy-wide PPI rose 0.3 per cent in September. Over three-quarters of the increase was the result of a 0.7 per cent increase in prices for goods, while the rise in prices for services was a more modest 0.1 per cent.

### Producer Prices for Gypsum, Ready-mix Concrete, and Softwood Lumber



## US Architecture Billings: September 2016

The American Institute of Architects reported the September ABI score was 48.4, down from the mark of 49.7 in the previous month. The new projects inquiry index was 59.4, down from a reading of 61.8 the previous month.

- Regional averages: South (53.4), Midwest (50.1), West (49.5), Northeast (44.0)
- Sector index breakdown: commercial/industrial (50.4), mixed practice (49.8), institutional (49.0), multi-family residential (48.8)

