



Wtca Update

Post-Katrina Housing Analysis

Learn more about how the rebuilding timeline following Hurricane Katrina will affect the construction industry as a whole.

Excerpted from The American Institute of Architects

By a wide margin, Hurricane Katrina ranks as the most costly natural disaster in U.S. history. Current estimates place the loss in the \$150 billion to \$200 billion range, more than four times the damage incurred by Hurricane Andrew in 1992. Somewhere between 275,000 and 300,000 homes are probably permanently lost, with an equal number likely in need of major improvements.

Within the coming months and years, the rebuilding of this region will progress. The magnitude and composition of the rebuilding will depend on many factors: the amount of money earmarked by the federal government for rebuilding, payments by insurance companies for insured losses, and the magnitude of charitable contributions for disaster relief that are used by households for rebuilding. These funds will supplement reinvestment by businesses and households for affected communities and business activities.

Over the longer term, the effect of Hurricane Katrina on building materials prices should be fairly well contained. Due to the relatively long time horizon for rebuilding the affected Gulf Coast areas after Hurricane Katrina, and given that the rebuilding should follow a staged timing, price increases are expected to be moderate.

However, the rebuilding of residential and nonresidential buildings in this region is not simply a matter of replacing structures that were lost and renovating those that were damaged. These activities take place in the context of a broader regional economy, where the economic impacts from the hurricane also will determine the level of rebuilding activity.

The American Institute of Architects (AIA) contracted with Economy.com, a leading economics consulting firm specializing in forecasting regional growth patterns. The analysis that follows pulls heavily from material supplied to the AIA by Economy.com, as well as from surveys of AIA members on the timing of rebuilding after natural disasters.

The Timing of Rebuilding

Initially, there is an assessment phase where the extent of damage to a structure is determined and the owner decides whether to renovate, rebuild in the current location or devote those resources to other purposes. For any specific rebuilding project, the design and construction process then begins, which typically lasts from six months to three years depending on the complexity of the structure and the availability of construction labor and other resources.

A recent survey of U.S. architecture firms determined that rebuilding after a natural disaster typically lasts anywhere from two to five years, with one in six respondents indicating that rebuilding often continues for more than five years. For this analysis, we have assumed that most of the rebuilding will occur by the end of 2008. While probably realistic for most areas in the Gulf region, this schedule is likely optimistic for rebuilding New Orleans, given the complex issues caused by extensive flooding.

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at a glance

- Current damage estimates for Hurricane Katrina are between \$150 and \$200 billion, four times the damage caused by Hurricane Andrew in 1992.
- Close to 250,000 housing units were destroyed in metropolitan New Orleans alone.
- By 2008 only about 100,000 of the housing units lost to Katrina will be replaced in Louisiana.
- Over the next three years, housing starts for the Gulfport-Biloxi and Pascagoula (Mississippi) areas will exceed pre-Katrina estimates by about 22,000 units.

What You Need to Know about Blue-Stained Lumber



Photo courtesy of the Southern Pine Council, www.southernpine.com.

Component manufacturers at several recent WTCA chapter meetings have raised the topic of blue-stained lumber, wondering what causes it and whether it negatively impacts lumber's strength. The following summary from the Southern Pine Council (SPC) contains some useful information all manufacturers concerned about this stained lumber should know. (For the complete SPC Q&A and pictures, visit **Support Docs** at www.sbcmag.info.)

What makes the lumber blue?

Blue stain is a common cause for the discoloration of lumber. Certain dark-colored microscopic fungi cause a bluish or grayish discoloration in the sapwood of the tree. However, not all blue stains are blue. Other stain shades can be blue, bluish black, gray, brown, red, yellow, orange, or purple.

Does it affect the strength properties?

Blue stain has no effect on the performance and strength of lumber. Structural lumber is not downgraded due to the presence of blue stain and should not be labeled inferior lumber.

Where can blue-stained lumber be used?

Because blue stain does not detract from the strength properties of dimension lumber, blue-stained lumber can be used for exactly the same purpose as non-stained lumber.

What is it...blue stain or mold?

Blue stain is not mold. However, for a simple test to determine whether or not a piece of lumber is blue-stained or growing mold, lightly rub the affected surface of the wood. Mold grows on the surface and can be brushed off or smeared, whereas blue stain penetrates deep into the wood and cannot be removed.

What about health and safety concerns?

Blue stain poses no health risk, and blue-stained lumber is safe to handle.

Does blue stain cause decay?

Blue stain is not a decay fungi. Blue stain fungi live on the nutrients stored in the cells of the wood, not on the cellulose fibers of the tree itself.

Why may I see more stained lumber than previously?

Hurricanes Katrina and Rita damaged the forest resources along the Gulf Coast. As salvage operations begin to recover downed timber, the lumber manufactured may contain a natural discoloration that begins after trees are severed or damaged. Combined with the devastation Hurricane Ivan caused in 2004, a larger proportion of blue-stained lumber will likely enter Southern Pine lumber markets.

Can stained lumber be pressure-treated?

Blue stain fungi have no effect on the treatability of Southern Pine lumber and stained lumber may be treated to guard against decay and termites. **SBC**

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The Outlook for Louisiana

Louisiana will likely take the longest to recover from the aftermath of Hurricane Katrina. Three key components of the state's economy—energy, transportation/port, and leisure/hospitality—were dramatically affected by the storm. Employment in the state is estimated to have declined by ten percent immediately after Hurricane Katrina.

The state economy is expected to decline between three percent and four percent during the second half of this year, and remain essentially stable next year. This means that the state economy will not recover from Hurricane Katrina until 2007. Retail sales are expected to grow by almost five percent per year through 2008, so commercial construction levels will largely serve to offset losses to the pre-Katrina inventory.

Job losses will likely translate into population losses over the next several quarters. Close to a quarter million housing units are estimated to have been destroyed in the New Orleans metro area alone. Many of the homes destroyed were built since 1970. Though the New Orleans metro area has a relatively old and historic housing stock, the older homes were generally located on higher ground where the damage from flooding generally was not as severe.

Declining population levels in the near-term will limit the need for replacement housing units. However, some of the population declines expected to be realized in New Orleans will be offset by gains from migration to other parts of the state, most noticeably Baton Rouge. Other migrants will relocate to other states. By 2008, probably only about 100,000 of the housing units lost to the storm will have been replaced.



The Outlook for Mississippi

Much of the reconstruction in Louisiana will be delayed until the flooded areas are cleaned and a redevelopment plan is in place. However, the reconstruction of Mississippi can begin sooner. While state employment levels fell in the third quarter 2005, a rebound should begin by the fourth quarter, and pre-Katrina employment levels are expected to be reached by mid-2006.

The economic base of the areas that sustained significant hurricane damage—the coastal cities of Gulfport-Biloxi and Pascagoula—is heavily concentrated in the manufacturing sector and the leisure and hospitality sector. Both of these sectors are expected to see a fairly quick rebound, with a significant portion of the rebuilding completed by the end of 2006. The recovery in Hattiesburg should occur even more rapidly than the coastal areas.

Gulfport-Biloxi and Pascagoula lost an estimated 25,000 housing units during the storm or about 15 percent of their combined stock of homes. Resulting rebuilding of these homes will likely push construction levels in these metro areas up an additional 22,000 units over the next three years from levels that were expected prior to Hurricane Katrina.



The Outlook for Alabama

Alabama was the least affected of the three states, with Mobile being the principal area affected. Only two percent of the housing stock in Mobile is estimated to have been destroyed by the hurricane, which can be accommodated out of current vacancy rates, so minimal residential construction directly linked to Hurricane Katrina is expected.

Building Materials & Labor Outlook

The past two years have seen significant price increases in selected construction commodities (steel, concrete, gypsum products, and insulation), as well as occasional material shortages. Part of this increase is the result of a recovering non-residential construction industry in the United States coupled with strong international demand. However, in some cases the price hikes have been the result of U.S. trade policy designed to strengthen domestic industries. In all likelihood, trade restrictions will be eased in those cases where materials price increases have been excessive.

In the short term, we can expect to see some spikes in prices for construction commodities. Gypsum products (e.g., wallboard) and concrete have increased 5.5 percent and 2.5 percent respectively over the past two months. In the months ahead, we should also see some jumps in lumber and plywood/OSB prices because some regional timberlands were destroyed. There may even be supply shortages for some products in addition to price increases. Other short-term dislocations in materials prices and availability are likely to occur until building product manufacturing and distribution facilities in the region are fully functional.

Rising prices for petroleum products will further complicate the construction outlook. Transportation costs have risen dramatically, and prices for petroleum-based construction products have recently increased. Again, we can expect near-term volatility in prices for these products until regional refining facilities have fully resumed operations.

However, over the longer term, the effect of Hurricane Katrina on building materials prices should be fairly well contained. Due to the relatively long time horizon for rebuilding the affected Gulf Coast areas after Hurricane Katrina, and given that the rebuilding should follow a staged timing, price increases are expected to be moderate. Between now and the end of 2006, price increases are expected to be in the three to four percent range with the exception of gypsum products and cement. Between 2006 and 2008, prices for building materials are expected to moderate, with increases averaging about two to three percent a year.

The impact of rebuilding on construction labor should be comparable to that of materials prices. While demand for labor is expected to increase by about 20,000 positions in Louisiana over the next 18 months and an additional 2,000 in Mississippi, this is coinciding with an expected national slowdown in residential construction, which should free up some of the skilled trades needed for rebuilding in this region. There is likely to be some relocation of labor to the region, as workers in areas with depressed construction levels look to opportunities in the Gulf region. **SBC**

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