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On Behalf of the
National Association of Home Builders

House Small Business Committee Subcommittee on Oversight, Investigations, and Regulations

Global Supply Chains and Small Business Trade Challenges

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Introduction

On behalf of the more than 140,000 members of the National Association of Home Builders (NAHB), I appreciate the opportunity to testify today. My name is Chuck Fowke, and I am Founder and President of Homes by John C. Fowke Inc. located in Valrico, Florida.

Building a high-quality American home relies on goods and materials produced both here in the United States and across the globe. Coordinating the timely delivery of reasonably priced materials and products to the build site is challenging under the best of circumstances. The COVID-19 pandemic has roiled global supply chains making this challenging endeavor nearly impossible.

Supply chain disruptions have affected (and continue to affect) the home building industry profoundly. From record high lumber prices to severe shortages of myriad building materials, the result has been lengthy construction delays or postponed projects and dramatic price increases. This is further harming housing affordability at a ET] TJ ET Q q 0.00000912 0 612 792 re W high prices and price volatility. As a concerning sign that the market may be slowing down, the number of housing units authorized but not started has risen 40% over the past year, setting records both as a share of starts as well as in nominal terms. Any slow-down in housing production would be troublesome as we remain well off the mark of making up the shortages from underbuilding over the course of the past decade. Just within the single-family market, NAHB projects that 1.1 million single-family homes will be built in 2021 and again in 2022. This is a significant increase over past years, but still short of the 1.2 million homes we need to construct annually to keep up with population growth and replace aging housing stock.

The unprecedented price increases are also worsening the ongoing housing affordability crisis. In May of this year, a widely regarded framing lumber index hit a previously unthinkable all-time record high of over $1,500 per thousand board feet. NAHB estimated at the time the dramatic rise in lumber prices was adding nearly $36,000 to the price of the average new single-family home, and nearly $13,000 to the price of each new multifamily home since the previous Spring. This is particularly concerning for new and first-generation homebuyers, as NAHB research shows that more than 150,000 households are priced out of the market for every $1,000 increase in the price of a new home.

And while lumber prices began a sharp decline in May, it took months for a meaningful portion

Unique Challenges for Small Firms

While historically high prices and supply shortages remain a challenge for all home building firms, they pose unique challenges for smaller firms trying to operate in these trying times. This is of particular concern for an industry dominated by small businesses as half of all partnerships are real-estate partnerships. The typical NAHB builder member builds a median of five houses per year and employs a median of 5 employees. Among the unique challenges small firms face in these times are volatility and uncertainty as well as the ability, or more often the inability, to pass along these ever-increasing prices.

Uncertainty hurts the bottom line of any business, but as very small businesses, the majority of home builders do not have the means to hedge against rising prices. Lacking in buyer power, most residential construction businesses are price-takers

Conclusion

Building materials supply chain challenges exposed and exacerbated by the COVID-19 pandemic are driving an unsustainable increase in the cost to construct a new home. This is affecting the entire housing market and is accelerating the growing housing affordability crisis. Small home building firms are particularly threatened by the current