

LUMBER AND WOOD: Steadfast and Stable

BY JUDITH SHINSATO



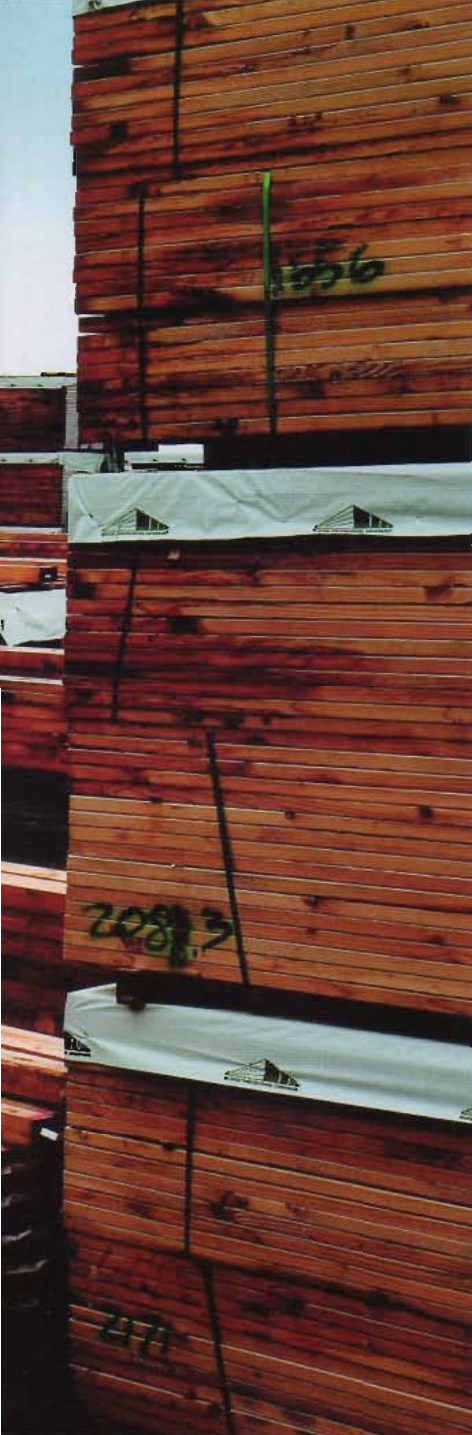
Although not immune to the effects of the economic doldrums, wood – because it is a product of nature and is naturally renewable – is better poised to meet increasing demand when markets do begin to recover. Give trees a safe place and they will grow, even as government agencies, economists and experts debate about just when that recovery is expected. Because of this, lumber and wood are better prepared for the coming upswing and resulting increase in demand, with only minor fluctuations in pricing over the long term.

Green Shoots

The 2010 forecast released by the Western Wood Products Association (WWPA) sees hopeful signs, predicting a slow recovery starting in 2010. “2009 should be the bottom for mills,

with lumber demand dropping to the lowest point in modern history,” reports the forecast. “While lumber markets are expected to improve in 2010, the recovery will be slow for Western mills.”

“Given the unprecedented downturn, recovery for the lumber industry is unlikely to follow the same path as it has in the past,” adds David Jackson, WWPA economist. “The



HPM Shipman lumber yard on the Big Island

challenge for mills will be adjusting to a 'new normal' for the future." Approximately 31 billion board feet of lumber were estimated to have been used in 2009, less than

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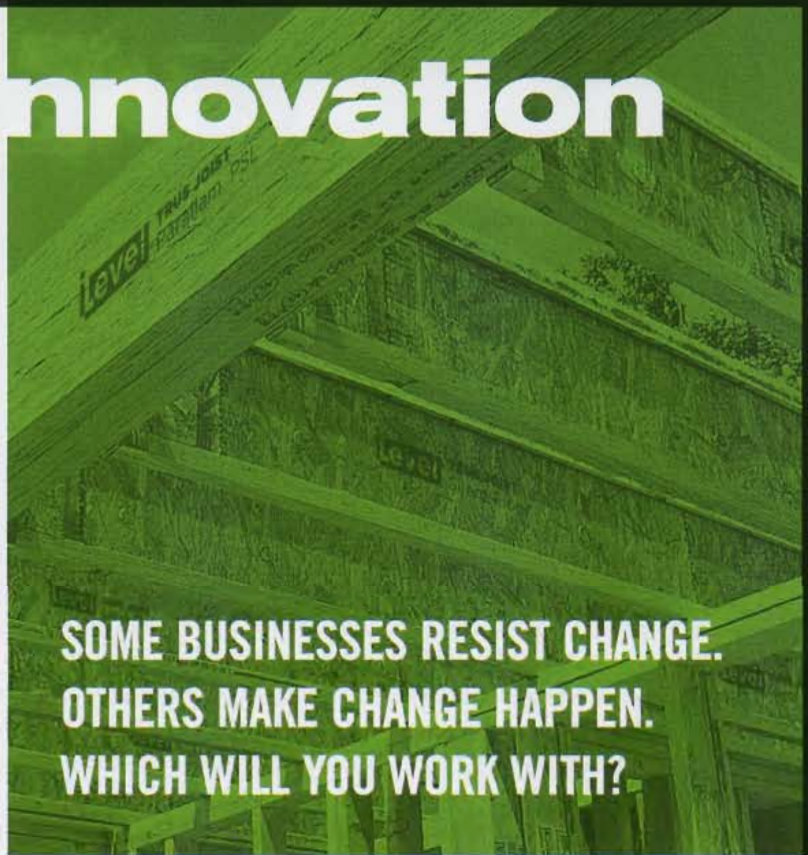
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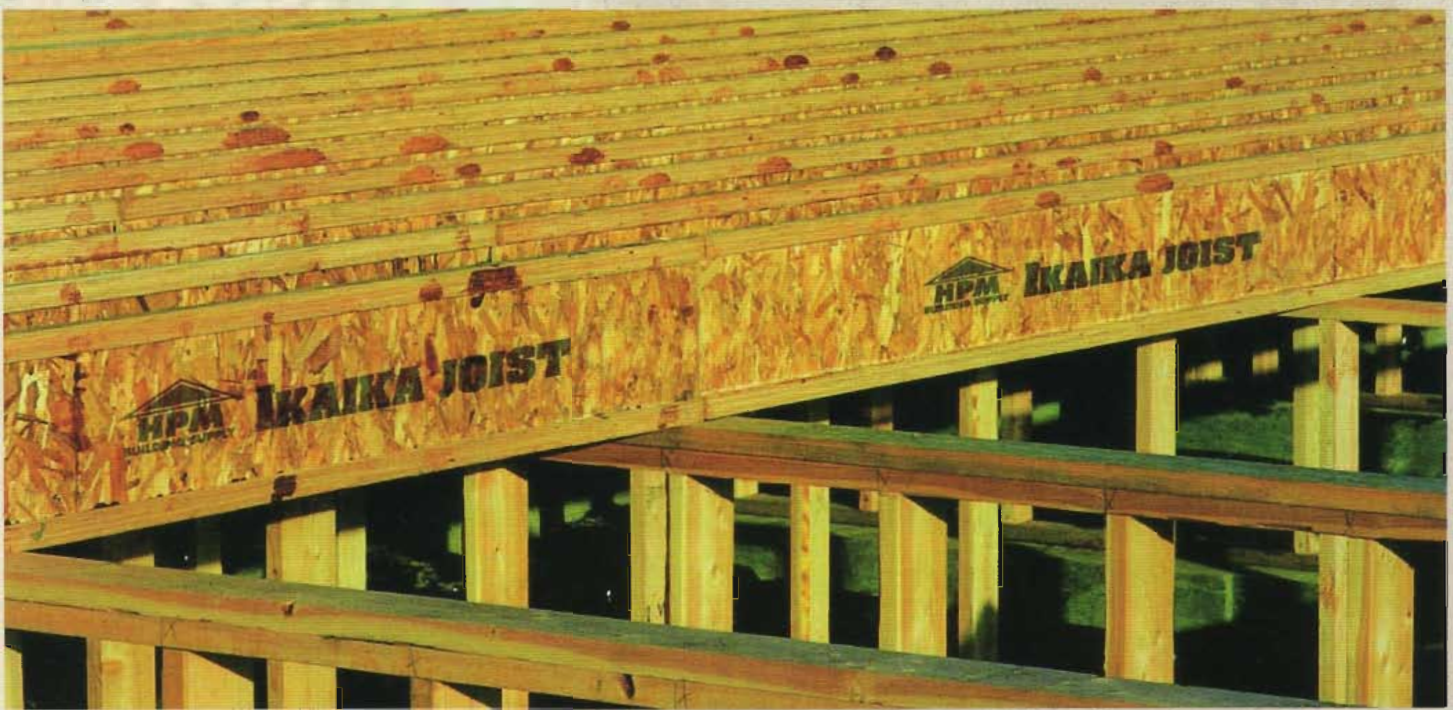


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half of what was consumed in 2005, which was an all-time high in lumber demand. Most of the drop in demand was caused by the U.S. financial crisis and ensuing slump in residential construction, the primary driver of lumber demand.

But while markets should start the long road to recovery in 2010, reports the forecast, given the weak economy, continued high home foreclosure rates and a financial system struggling for stability, gains in lumber demand and production will be modest.

Both lumber demand and production should follow a slow upward trend in the coming years as the economy recovers and home construction regains strength. However, WWPA notes that it may be some time before lumber demand approaches levels seen earlier this decade.

"I do agree with the forecast," says Jeff Browning of Sause Bros., the new president of the Hawaii Lumber Products Association (HLPA). "My conversations with suppliers in California, Oregon and Hawaii have all indicated that they are seeing the beginning of a slow recovery. The Western sawmills and the industry will be challenged to reach a level of production and pricing that supports the cost of the

raw material, the labor to mill it and recent capital improvements. Today the market is supply driven. Most of the mills have curtailed production and it will take them awhile to ramp up. Many of the experienced personnel have left the industry. New people may have to be hired and trained. An increase in demand could push the mills to move up sharply in production and create employment in the entire lumber supply chain."

Mike Fujimoto, president and CEO of HPM Building Supply, for the most part, also agrees. "At this point in the economic cycle, we're kind of bouncing along the bottom. I think you have conflicting information on a day-to-day, week-to-week basis. Probably through 2010, we're still going to continue to see the economy spurt and stop, spurt and stop, especially on the new construction side."

"I'd say that's starting to happen now," say Hap Person of HWT, LLC about recovery. "I think I can finally feel my feet on the ground again; the bottom isn't continuing to fall out. Although we've lost a lot from our peak, I believe towards the end of '09 and what we're seeing in the first quarter of 2010, that we have

reached the bottom and we are starting to see some renewed interest in new housing builds and bidding. I believe 2010 will be a leveling year and probably towards the end of 2010 and into 2011, we'll start to see some minor gains."

From the other end of the process, the contractor's point of view, Evan Fujimoto, recently promoted to president of residential design-build contractor Graham Builders, says, "I think what's going to happen from here on out is as interest rates start to move higher in the months or year ahead, people will start to jump off the fence and start doing things. They will be worried they'll miss the boat on rates." Although down from two years ago, he says, "We're pretty steady. We're still signing contracts."

Bark vs. Bite

Always a concern to the construction industry, especially estimators bidding in an extremely competitive market, what will happen to the price of lumber as demand increases?

HPM's Mike Fujimoto says that because Hawaii's overall demand for building materials is miniscule compared to the rest of the country, the pricing of product sold here

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A custom-built home in Kailua, a project for Graham Builders, which is a proponent of wood framing

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tends to reflect nationally driven supply and demand factors. In Hawaii and on the mainland, lumber prices were at 20-year lows last year, according to Fujimoto, because demand had dropped so much, causing a number of mill closures. "It was quite devastating for the lumber and building materials industry," he says. "It's not just lumber; it also applies to things like gypsum, insulation and other building components.

"Lumber, like other commodities, is traded every day," continues Mike Fujimoto. "You will have day-to-day, week-to-week, month-to-month fluctuations just due to the trading environment. But if you look at the long term – year-to-year or two-year cycles – lumber has the greatest potential to maintain relative price stability, which is a good thing for all of us in this industry. Fundamentally, you have a huge supply of raw material, fiber, harvestable trees around the country. And you still have a lot of manufacturing capability that is being underutilized right now."

In complete agreement, Person adds, "I believe that lumber will remain stable and probably more so than other commodities based on its renewable capability and the fact that over the last three years, lumber demand has been down and lumber is a forestry product. It is grown

like a crop with a 25-30 year maturity. As the demand for lumber goes down, it doesn't mean the forest quits growing, so there is a pretty large amount of forest still out there to be cut. The problem is the stumpage cost and what can a mill get back on the market for going out, cutting it down, bringing it in and turning it into lumber. Will there be sufficient supply? Yes, there certainly will be sufficient supply of raw material in the market as we start to ramp up. Will prices go up? Yes, slightly but not like some commodities that have low supply on the world stage that will fluctuate much greater. We will see price increases because lumber for the last two years has been at historic lows on the thousand board foot price in the market. We were down at \$250 per thousand. Historically, \$300 to \$320 is the norm."

While the price of lumber had gotten as high as \$420 per thousand board feet of lumber in the early 2000s, Mike Fujimoto believes that as the residential market recovers, prices will return to within normal range.

Graham Builders has been a proponent of wood framing for many years. "The reason is, for us at least, cost to the homeowner," explains Evan Fujimoto. "Several years ago when the economy was really booming and China started to consume so much more steel, which was putting pressure on prices, the cost of I-beams or on any kind of steel was going up a lot. Wood always just remained more stable price-wise. Also, you have more subcontractors that are capable of framing in wood; it's a known method."

What's New With Old Growth

"On the production side, the forestry industry continues to get more and more efficient in terms of how effectively they can harvest with the least amount of manpower and equipment," says HPM's Mike Fujimoto.

Also in terms of production, Browning adds, "Mills are looking at bioscanners to grade lumber. One of the major producers has recently finished a modernization of several mills they own and operate and they now have increased milling capacity to meet future demands."

"The product side continues to evolve also," continues Mike Fujimoto. "Although it's not really new news, the move from a copper-chromium-arsenic treating methodology to a borate-based product has been actually quite revolutionary. People don't really realize it but what this has allowed us to do is to provide a much better product in terms of termite protection than the old CCA product. It's not even comparable. And it's not a restricted product; EPA does not consider it a hazardous product. Borate is used in eye drops and food processing." (Editor's note: HPM, which owns its own treatment facility on the Big Island where it is headquartered, recently opened a new 24,000-square-foot warehouse on Hanua Street in Campbell Industrial Park on Oahu. HPM moved into the Hanua street facility in December.



Proper construction and quality building materials are key to the durability of a wood-framed home, according to Graham Builders.

Built on a three-acre parcel, Mike Fujimoto says, "It's going to be a full assortment of lumber and building materials as well as our Custom Metal Roofing product line. We've had the roofing line on Oahu for almost 14 years, in Kalihi. With the new, much larger facility, we are consolidating our metal roofing along with our new entry into lumber and building materials on Oahu.")

Use of borates also is increasing in the development of engineered wood products. "Many of those products are now being made available to Hawaii that are treated at the production process," says Person. "Because they are made of fiber, this provides a treatment that is dispersed throughout the wood product. More of that is being made available to Hawaii where they use zinc borate — as opposed to sodium borate treatments in



Borate pressure treatments have proven to be cost effective as well as effective against termites; shown here is a recent Graham Builders home.

structural lumber. They put zinc borates in the makeup of the engineered wood product. Engineered products in the past would come to Hawaii still requiring treatment. They would be treated in a light oil solvent based, pressure treatment to provide that protection. Although proven to be very effective, this is more costly because of the rehandling and need to use a high-grade solvent as a carrying agent, which is quite expensive. So it has reduced costs as well as introduced proven treatment at the production facility. More and more companies are developing lines that will go into those regions that have either high decay or termite attack and comes straight out of the factory with a zinc borate additive treatment. That's a newer trend in engineered product, which continues to be more and more developed and available for different end uses."

In terms of construction, explains Graham Builders' Evan Fujimoto, "Prevention is the most important thing. The way termites will attack a structure typically is from the outside." This can be by building a mudsill up the side of the slab, through a retaining wall that sits against a slope or even through stuff homeowners stack around the house. "When we build on slopes," he continues, "we won't have any portion that comes into direct contact with the soil, vertically at least. Also, building sidewalks around the home and keeping landscaping away from the exterior walls are some of the best things to do."

Forest for the Trees

The most important message those in the wood and lumber industry want to get across is that wood is renewable and demand for these products will spur an increase on the production end, namely the growth of more trees, not their destruction.

"The reality is the United States, especially our supply area, the Pacific Northwest, has more harvestable fiber today than we have ever had in the history of our country," says Mike Fujimoto. "All of the tree farming that has taken place over the last 100 years has really created a supply of raw material, fiber, that is going to allow that product to be truly sustainable and really not impacted by the international supply and demand cycles."

Person adds, "I believe there is a great misbelief, that people relate lumber harvesting with the degradation of forest and old growth. Particularly in these days with sustainable forestry practices, it's really closer to raising corn or other things. One of the stories I like to tell is if nobody ate tomatoes, nobody would grow tomatoes. People need to understand that wood is one of the few structurally renewable products that can be regenerated, much like the food sources we have. It benefits the environment in the growing period as well as us because it is completely renewable, as opposed to recyclable. That provides for a very sound environmental footprint for our building product." **BI**