

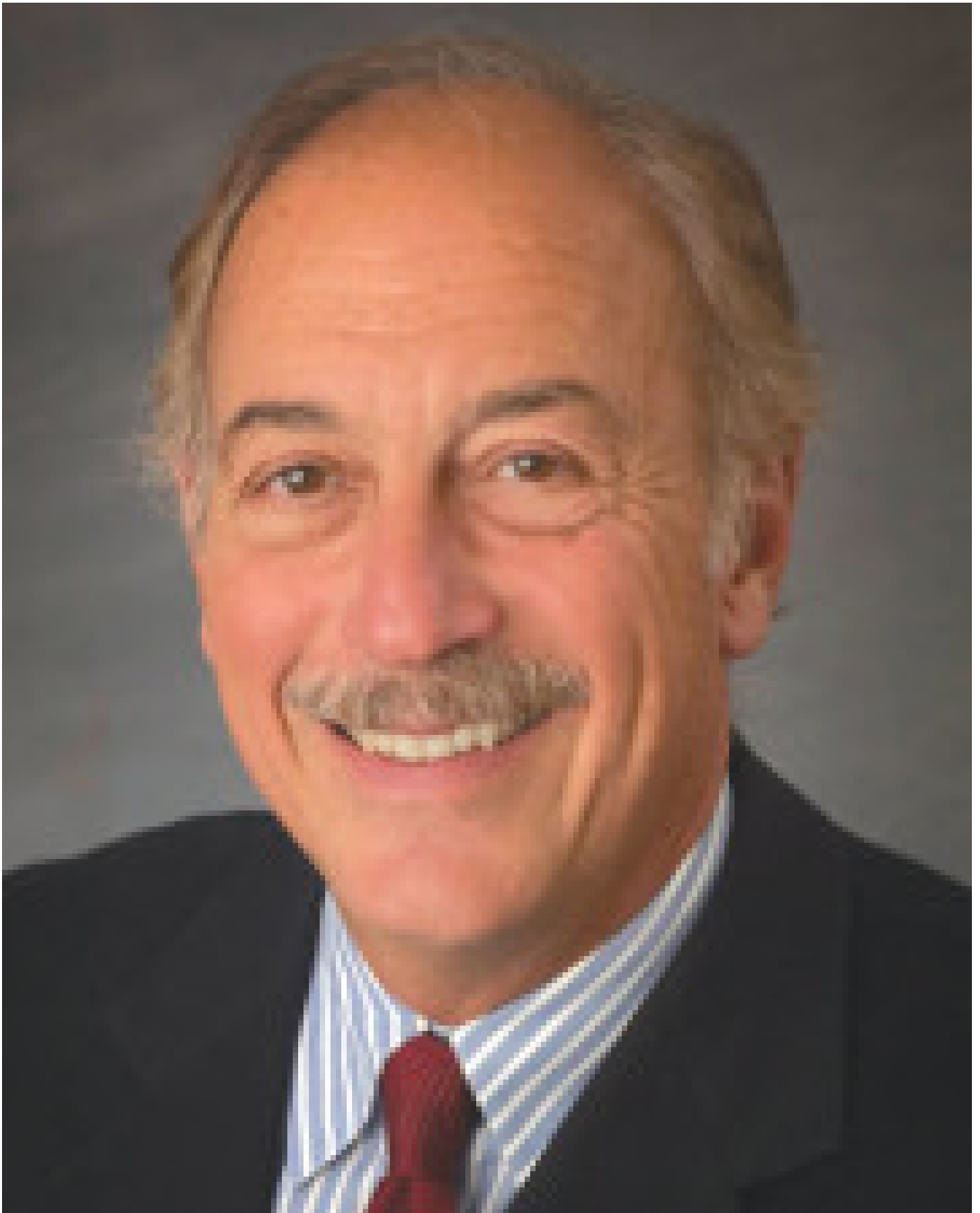


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Real estate supply chain: Panoply of related issues - by Daniel Calano

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The phrase “supply chain” is not called “chain” for nothing. With regard to real estate development, everything is chained together. Raw materials, labor, energy, manufacturing, transportation and storage, even global politics are all linked. These days, they are not good connections. It is not new news that the chain is fraught with big delays, higher costs, and in some cases project abandonment.

Here are a few recent anecdotal examples: Chinese manufacturing plants slowed production or closed because of coal shortage. Coal is being appropriately limited in anticipation of the upcoming cold winter. On the political side, China is clearly not on good terms with the U.S., limiting Chinese companies from doing business with the U.S., disrupting our stock market, competing aggressively with us economically. Needless to say, we are intrinsically tied to China, which is working hard to loosen or break that tie. In response, we move more closely to other manufacturing centers like Vietnam. Unfortunately, that chain link has been limited by a Covid surge in that country.

In the U.S., we have our own issues compounding the problem. Manufacturing is not keeping up with demand. Transportation according to FedEx and UPS is a bottleneck. This week alone, there are about 100 container ships sitting offshore in Long Beach California waiting to come in, and 50 ships off New York City. Transportation costs and time have dramatically increased. In the not-too-distant past, transportation delivery has been a very small percentage of cost of goods. According to Moody’s analytics, prices of all goods have risen at least 5.3%, but now transportation has become 10% of that increase. As an example, the cost of one 40 foot container on those idling ships has risen from \$5,000-\$20,000 over the year. Warehousing is also limited, all this leading to very significant delays in getting building materials.

There are some obvious ramifications to this. We are not getting the things we need to produce buildings. The obvious problems have been in steel, copper, lumber, glass, windows, concrete and appliances. In many cases, the costs of items and the delivery time has doubled or more. After all, time is money, especially if you are borrowing it at potentially higher rates.

But consider the less obvious links in the chain. We have all heard about computer chip shortage. This obviously impacts all things technological, and less obvious things like automobile production. Apple computers are in high demand and short supply, often with six month lead times. Working from home is obviously impacted. New and used cars are in short supply, thus impacting working from work. With things like this, we still are debating whether office buildings will be utilized as before, or not.

Labor is even more complicated. While we still have unemployment, there are many jobs needing to be filled. It is unclear as to why people are not going back to work, but it is a fact. Obviously labor is critical not only in manufacturing, but more so in delivery. Both FedEx and UPS have reported problems with labor, and thus lower revenues for this past year.

According to the Federal Reserve, these increased costs have led to inflation, but it believes it is transitory. Even if that is true, time delays are not transitory. Pundits believe that such delays will last well into 2022 or even 2023 before we see any differences. According to the Bureau of Labor's statistics, shipping costs and delays will continue.

Back to real estate. Are people putting off their projects? Are homebuyers postponing in hopes of lower prices? Yes and yes. According to one study, not since the 1980s have more people thought that it is a good time to postpone. As we real estate people know, delay is more complicated than simply higher costs. Hard won construction permits can time out. Building codes can change within a year. Desired technology can change. Preferences in design can change. A favorite phrase these days is that "your project may be delayed, but probably not denied." Tell that to the home builder or developer who just got permits to go ahead, with financing at favorable rates. The phrase is catchy, but simply not true. As they say, timing is everything.

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