

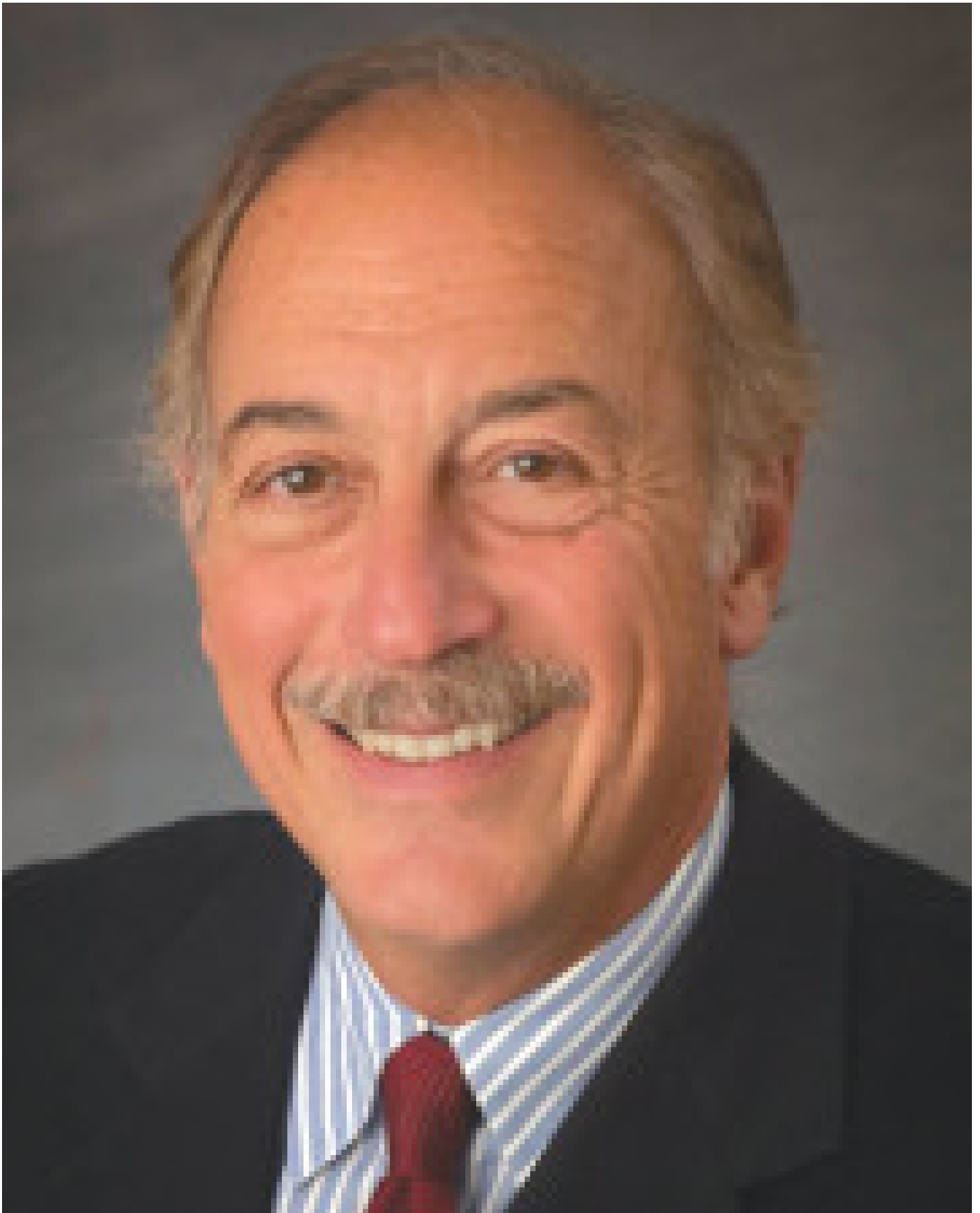


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Real estate supply chain: Issues update - by Daniel Calano

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Last month I wrote about supply chain issues and impact on real estate. The story deserves an update, since it looks like a long time before it gets resolved.

In real estate development, everything is linked together. Raw materials, labor, manufacturing, transportation and storage. These days, they are not good connections. It is no longer news that the chain is fraught with big delays, higher costs, and in some cases project abandonment. Labor shortage has had the greatest impact, while some raw materials availability is modestly easing. As a result, prices continue to rise, and it is likely that much of the inflation will stick, despite Fed-speak to the contrary. Pundits conclude that some problems will continue well into 2022, or beyond.

Since I wrote about it last, the same 65 to 75 ships are still stuck in the LA – Long Beach Harbor; trucks stand idle waiting for ship offloads; labor and manufacturing, storage, transportation, distribution continues to worsen, despite monetary efforts such as increased pay and overtime.

Labor shortage is the worst, as detailed in a WSJ article that says the U.S. is still missing 4.3 million workers, while, ironically, jobless claims drop, indicating that many simply choose to quit, and not to work. Anecdotaly a recent CNBC show had companies saying that 10 interviews would be scheduled for a job interview, with only two people actually showing up.

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 tripled over the year. Warehousing is also limited, all this leading to significant delays in getting building materials. In the retail world, estimates for 2021 Christmas deliveries have moved into mid-2022, with some retailers canceling their orders completely, and placing/pricing new contracts for Christmas 2022. The Christmas Grinch is having a field day!

There are some obvious ramifications to this. Just as retailers are not getting goods to sell, we real estate people 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, essentially postponing project completion.

According to the Federal Reserve, these increased costs have led to inflation, but it suggests it is transitory. Even if that is true, time delays and higher labor costs are not transitory. Pundits now believe that such delays will last well into 2022 or even 2023 before we see any differences. And, labor cost increases will not contract.

Builder confidence surveys show a modest level of hope, but not as high as in 2019 and 2020. Homebuyers are postponing in hopes of lower prices. 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.” But, postponement can be the first step onto a slippery slope. Let’s hope problems are fixed sooner rather than later...but don’t completely rely on it.

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