

TOUCH WOOD: APPRAISING THE HOT HOUSING MARKET



After reaching all-time highs in May 2021, lumber continues to trade far above its long-term average price. “Increased demand from the construction industry and supply chain disruptions have created a surge in prices,” says Pablo Martinez, Vice President and Portfolio Manager, Global Fixed Income, CIBC Asset Management.

New consumer patterns increase lumber demand

The pandemic changed consumer behaviour—many rushed outside of core city centres into less densified areas to reduce the risk of infection, creating a dramatic increase in demand for single-family housing. “These types of homes require up to three times the amount of lumber compared to multi-unit constructions. Another eager source of demand came from the high number of confined consumers with increased savings and time on their hands who launched renovation projects,” says Martinez.

Too pessimistic, mills reduce production

On the supply side, lockdown orders, new safety protocols and multiple wildfires slowed lumber production. But adding to an already dire situation was the reaction of mill operators, who read 2020 completely wrong. “As the pandemic struck and multiple construction projects were put on hold to protect workers from the virus, lumber mills substantially reduced production, expecting the stoppages to last,” says Martinez. As governments quickly allowed essential construction to restart, demand resumed and mill operators simply didn’t have the required inventory to meet their clients’ needs. “Mills finished 2020 with still very low inventory, expecting the market to cool off after such an exceptional year. This leaves the market short of lumber for peak construction season,” adds Martinez.

Those sky-high prices for lumber products are the result of exceptional conditions which will likely not last longer term. For the next few quarters though, demand from the construction sector should remain strong as central banks maintain their low interest rate policy. “Supply will increase, but producers simply don’t have the capacity to meet this sudden surge in demand,” says Martinez.



Did you know?

Lumber's connection to sustainability

As a building material, timber makes an excellent alternative to concrete and steel. "These are both heavy greenhouse gas emitters and use highly energy-intensive processes to create their products," explains Dominique Barker, Managing Director, Head, Sustainability Advisory, CIBC Capital Markets. "On the other hand, trees absorb carbon dioxide as they grow, making them negative emitters of greenhouse gases. If timber is harvested in a responsible way, carbon is captured and stored forever by using it as a building material."

Concrete alone is responsible for 7% of global greenhouse gas emissions, due to its energy intensity and the decomposition of limestone in the creation process¹. The cement industry is the third-largest industrial energy consumer globally². The steel industry accounts for another 8%³ of greenhouse gas emissions, with half of steel production destined for construction purposes.

Could timber really replace concrete and steel in big cities? "The world's building codes are evolving, and tall timber is "growing up" in cities," says Barker. Here are a few examples.

- The University of British Columbia is home to an 18-storey hybrid mass timber residence.
- The Mjostarnet tower in Norway is a wooden office tower and hotel, and stands at 85 metres high or about 18 storeys. It's constructed of 'glulam' or wooden beams laminated together.
- Toronto-based architecture firm Dialog has created a building prototype that combines mass timber with steel and concrete, solar-panel lined walls and an in-building algae bioreactor, that would result in a 105-story skyscraper with no carbon footprint.

To learn more about the evolution of CIBC's sustainability strategy, check out the [CIBC 2020 Sustainability Report](#).

¹Source: International Energy Agency

²<https://www.iea.org/news/cement-technology-roadmap-plots-path-to-cutting-co2-emissions-24-by-2050>

³<https://www.economist.com/leaders/2019/01/05/why-more-buildings-should-be-made-of-wood>