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Builders Pivot to Work Around Tariffs

Stockpiling lumber and swapping out materials are some tactics being used

BY REBECCA PICCIOTTO

When President Trump threatened new tariffs on Mexico, Canada and China at the beginning of February, Steve Martinez flew into action.

The Idaho-based general contractor spent hundreds of thousands of dollars on materials like lumber, windows, cabinetry and steel to stockpile them before the tariffs hit. He now has nearly onethird more of these supplies compared with last year. And he is renting out shop yards to stockpile these goods, which his suppliers often import from Canada, Mexico and China and which could rise in price under tariffs.

Since his lenders wouldn't finance these purchases, he is paying out of pocket and using cash that he had earmarked for hiring more staff or funding new projects. But at least he felt prepared when Trump imposed tariffs last week.

Then after the president abruptly walked them back, Martinez was left with an upended business plan, less cash and feeling confused about what to do next.

"I can't keep ping-ponging back and forth," Martinez said.

The construction industry is going through a critical period. New housing is in extreme demand to address a prolonged housing shortage, which is more than seven million units by some estimates. New construction is vital to solving one of the country's deepest economic challenges.

Yet builders and contractors are operating under mounting pressure.

They rely heavily on immigrant labor, which could be constrained by Trump's deportation threats. Now, the prospect of tariffs has added new obstacles.

Executives in the home building and construction industry experienced fleeting relief on Thursday when Trump paused the 25% tariffs imposed on most Mexican and Canadian imports. But many also say they feel frustrated by the continued uncertainty.

Builders have been doing what they can to insulate themselves from higher import costs, from stockpiling materials and appliances to shrinking the size of the homes they will build.

But if tariffs take effect in the long term, they will only be able to absorb so much cost. In a matter of months, builders say, they will likely have to begin raising the sticker price of homes when the average sales price for a new home in January was already more than half a million dollars.

With existing-home inventory at the low end of historical levels and prices near records, more buyers view the new-home market as their only option.

In February, home-builder confidence in the market for newly constructed single-family homes dropped to its lowest mark since September, according to the NAHB/Wells Fargo Housing Market Index, a survey of single-family home builders. That reflected softer buyer demand and difficulties for builders to secure financing.

Investor confidence in the large publicly traded builders is "decidedly negative," said UBS Research Managing Director John Lovallo. The S & P 1500 Homebuilding Sub-Industry Index is down almost 16% over the past three months.

Some bigger publicly traded companies say they aren't that worried. They think they can use their size and leverage to negotiate more aggressively with suppliers, or even outright refuse price increases, analysts say.

"We have plenty of slack in the industry to absorb these kinds of cost increases," said **Tri Pointe Homes** Chief Executive Doug Bauer.

But the tariff threat is sending many smaller builders and contractors scrambling to protect themselves.

More than 70% of imported softwood lumber and nearly one-third of the imported gypsum used for drywall—both essential to residential construction—come from Canada and Mexico, respectively, according to the National Association of Home Builders. If Trump follows through with his tariff threats, the cost of building a single-family home will increase between \$7,500 and \$10,000, the NAHB estimates based on anecdotal reporting.

On March 3, hours before Trump's new tariffs were set to take effect, lumber futures spiked to their highest level since 2022. Anticipating that kind of price jump, some building material suppliers have been contacting their customers for weeks to let them know about price increases.

"Some of that started as soon as the November election," said Robert Dietz, chief economist at the National Association of Home Builders.

It isn't just raw materials: Builders are preordering bulk supplies of appliances that are built with parts imported from overseas.

Shortly before the most recent tariffs on Mexico, Canada and China went into effect, Carl Koelbel placed a bulk order of 101 water heaters for an affordable-housing complex he is building in the Denver metro area.

"There was no reason for us to accelerate those orders other than the tariffs," said the Colorado-based developer.

To store the appliances for the next six months, he is paying his supplier extra to temporarily hold them while he finds new storage space. He expects to incur roughly \$20,000 in storage fees and additional interest costs on his construction loan.

That extra cost means he likely won't be able to finish improvements on his apartment units. He is also stocking up on bath accessories and considering preordering light fixtures and door hardware.

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