

Industry Report: Remodeler Sentiment Continues to Improve Year-over-Year

WASHINGTON, D.C.

The National Association of Home Builders (NAHB) on Jan. 20 released its NAHB/Royal Building Products Remodeling Market Index (RMI) for the fourth quarter, posting a reading of 83, up four points from the fourth quarter of 2020.

The finding is a signal of residential remodelers' confidence in their markets across the U.S., for projects of all sizes. "Higher home equity provided resources for homeowners

to improve their existing homes, supporting high demand for remodeling," said NAHB Remodelers Chair Steve Cunningham, a remodeler from Williamsburg, Va. "Many remodelers are completely booked well into the future. However, supply chain problems continue to delay projects and make it difficult to work off the backlog."

The NAHB/Royal Building Products RMI survey asks remodelers to rate five components of the remodeling market

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Impact

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Serving Westchester and the Mid-Hudson Region

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Industry Report: Builder Confidence Eases on Supply-Side Constraints

WASHINGTON, D.C.

Despite strong buyer demand, builder sentiment across the U.S. continued to slip in February as the building industry grapples with ongoing building material production bottlenecks that are raising construction costs and delaying projects, according to a report released on Feb. 16.

Builder confidence in the market for newly built single-family homes moved one point lower to 82 in February, marking the second straight month that confidence levels have declined by a single point, according to the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI). Despite these monthly declines, the HMI has posted very solid readings at, or above, the 80-point mark for the past five months.

"Production disruptions are so severe that many builders are waiting months to receive cabinets, garage doors, countertops and appliances," said NAHB Chairman Jerry Konter, a builder and developer from Savannah, Ga. "These delivery delays are raising construction costs and pricing prospective buyers out of the market. Policymakers must make it a priority to address supply chain issues that are harming housing affordability."

"Residential construction costs are up 21 percent on a year-over-year basis, and these higher development costs have hit first-time buyers particularly hard," said NAHB Chief Economist Robert Dietz. "Higher interest rates in 2022 will further reduce housing affordability even as demand remains solid due to a lack of resale inventory."

Derived from a monthly survey that NAHB has been conducting for more than 35 years, the NAHB/Wells Fargo HMI gauges builder perceptions of current single-family home sales and sales expectations for the next six months as "good," "fair" or "poor." The survey also asks builders to rate the traffic of prospective buyers as "high to very high," "average" or "low to very low." Scores for each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view conditions as good than poor, the report said.

The HMI index gauging current sales conditions increased one point to 90, the gauge measuring sales expectations in the next six months fell two points to 80, and the component charting the traffic of prospective buyers posted a four-point decline to 65.

Looking at the three-month moving averages for regional HMI scores, the Northeast increased three points to 76, the West rose one point to 89, the Midwest fell one point to 73 and the South edged one point lower to 86.

HMI tables can be found at nabh.org/hmi. More information on housing statistics is also available at Housing Economics PLUS (formerly housingeconomics.com), NAHB officials said.

Insurance Insights

Some Additional Insurance Lessons from Recent Disasters - Do Not Wait Until After a Disaster to Find Out That You Are Under-Insured

By Ken Furst and Jason Schiciano, Levitt-Furst Insurance

TARRYTOWN

In the June/July 2021 issue of Impact, we wrote about "Lessons from the Building Collapse in Surfside, Fla." We identified three lessons, which generally stated, can apply to any home, building, or business owner:

- Review home, building, or business Property Insurance Coverages to confirm the proper coverage types and sufficient coverage limit amounts;
- If advised of a building safety deficiency, have the concern assessed by a professional, and make recommended repairs promptly;
- Place enough Umbrella Liability Insurance to address legal liability from an "unimaginable" catastrophe.

Unfortunately, devastatingly, since last summer's article, three highly-publicized disasters have occurred, which serve to reinforce the importance of these insurance lessons:

- December 9th-12th - dozens of tornados blitzed across 200-plus miles, through 10 different southern states, killing almost 100 people, and resulting in an estimated \$3 billion in property damage (Insurance Journal 12/14/21);
- Just before the New Year: massive wildfires, fueled by 100-mile-per-hour winds, damaged or destroyed nearly 1,000 homes, causing an estimated \$1 billion in property damage (Wall Street Journal 1/7/22), and
- January 9th: A total of 17 people died in a massive Bronx (N.Y.) apartment fire. The inadequate heat in the building may have been a contributing factor, and doors within the building that were designed to self-close, did not, contributing to injuries, death, and damage (Buzzfeed 1/10/22). Lawsuits against the building owner have already been filed.

The loss of life from these three disasters is dreadful. The loss of property is staggering. Not coincidentally, the three lessons from the Surfside, Fla. building collapse apply to these recent disasters.

The AOAC/BRI Offers Commentary on the 2022 MCI Reasonable Cost Schedule of the N.Y. State Homes and Community Renewal Agency

ARMONK

Representatives of The Apartment Owners Advisory Council (AOAC) of the Building and Realty Institute (BRI) on Jan. 25 presented commentary on the 2022 Schedule of Reasonable Costs for Major Capital Improvements (MCI's) of the N.Y. State Homes and Community Renewal Agency (HCR).

AOAC/BRI officials stressed in the commentary that is worth remembering that the MCI program has been a critical part of ensuring that rent stabilization works for everyone, landlords and tenants alike, by providing an incentive to encourage more than just regular wear and tear maintenance on rent-stabilized apartments, but to truly invest in the upkeep of these properties for the safety and dignity of residents.

AOAC/BRI officials said that there are 34,221 Emergency Tenant Protection Act (ETPA) units in 1,773 buildings in Westchester County. Well over a third of those buildings, AOAC/BRI officials said, were built before World War II.

The buildings, AOAC/BRI officials said, periodically require the usual major repairs of any building - boilers, entrance ways and roofs. They require electrical upgrading. They are particularly vulnerable to energy inefficiencies which must be corrected at a time when Westchester is facing the dual energy crunch of the Con Ed natural gas moratorium and the closure of Indian Point.

AOAC/BRI officials stressed that the communities of Westchester are struggling with a housing shortage, are trying to find ways to allow seniors to age in place and are trying to present more housing options for those with disabilities. AOAC/BRI officials added that it is more important than ever to keep the rental apartments that already exist in the area safe, secure, livable, and comfortable for the residents who inhabit them, and to finance the repairs that

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Confirm Adequate Property Insurance

"The Victims in Colorado Fire Face High Building Costs Exceeding Insurance Coverage"... that's a headline from the Wall Street Journal (1/7/22). The article reports: "Rising construction costs will push the price tag for rebuilding...beyond the insurance coverage..." Shockingly, the article notes, "Some two-thirds of fire victims typically are underinsured, according to surveys by United Policyholders, a national nonprofit consumer-advocacy group..." and, "Nationally, the cost of home-building materials rose 21 percent in November from a year earlier... according to a National Association of Home Builders (NAHB) analysis..." The article also mentions that many victims of the December tornados in the south were also underinsured.

The reality that so many Colorado fire and southern state tornado claims will be under-insured is unfortunate validation of warnings that insurance brokers make regularly to homeowners, property owners, and business owners: most policies have a capped limit for re-construction and contents replacement after a fire, tornado, hurricane, or other disaster. An insurance broker or carrier can provide general guidance on amounts of

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From the Editor's Desk

Hanley's Highlights

by Jeff Hanley

Associate Executive Director, Building and Realty Institute (BRI), *Impact* Editor

Looking at A Series of Important Issues that Continue to Impact the Building, Realty and Construction Industries

ARMONK

Readers of *IMPACT* over the years are familiar with our consistent coverage of the many key issues affecting the building, realty and construction sectors. This edition provides another example of that reporting.

Without question, there is no shortage of reports that analyze key topics. The stories include:

- ◆ A Page One report from the National Association of Home Builders (NAHB) on how builder confidence is continuing to ease due to supply-side constraints.
- ◆ A Page One Summary from Levitt-Fuirst Insurance examining Insurance Lessons from recent disasters that illustrate the importance of making sure that you and your business and/or entity are not under-insured.
- ◆ A thorough analysis on Page One on how representatives of The Apartment Owners Advisory Council (AOAC) of the Building and Realty Institute (BRI) on Jan. 25 (2022) presented commentary on the 2022 Schedule of Reasonable Costs for Major Capital Improvements (MCI's) of the N.Y. State Homes and Community Renewal Agency (HCR). AOAC/BRI officials stressed in the commentary that is worth remembering that the MCI program has been a critical part of ensuring that rent stabilization works for everyone, landlords and tenants alike, by providing an incentive to encourage more than just regular wear and tear maintenance on rent-stabilized apartments, but to invest in the upkeep of these properties for the safety and dignity of residents.
- ◆ A commentary in Counsels' Corner on the expiration of New York State's Eviction Moratorium on Jan. 15 (2022). The analysis was written by representatives of Finger and Finger, A Professional Corporation. The firm serves as Chief Counsel to the BRI and its seven component associations.
- ◆ A report on The Business Council of Westchester (BCW) recently announcing a major new initiative for 2022 to elevate Westchester County's profile as a knowledge center for innovation and economic development. The BCW's "Westchester Innovation Network (WIN): Shaping the County of the Future" will focus on convening thought leaders, planning futurists, innovators, government officials and local organizations to strengthen the long-term innovation ecosystem in Westchester County, officials said.
- ◆ A story on a recent event that brought together New York real estate, development and public policy experts to discuss barriers to Commercial Development in our region. Participants in the event, officials said, stressed that Commercial Development plays an imperative role in the success and longevity of a community. But, officials added, the road to its execution can be riddled with legal, ethical and environmental hinderances. Real estate experts joined leading development and public policy professionals to discuss commercial development complexities and their resolutions in a virtual panel on Nov. 18 (2021) that was hosted by Fordham University's Real Estate Institute, the Hudson Gateway Association of Realtors, Inc. (HGAR) and OneKey Multiple Listing Service (MLS), event officials said.
- ◆ A building and realty industry analysis that reported that the Westchester County Commercial Market ended 2021 on a generally positive note with robust growth in multifamily developments, as well as a strong performance by the industrial/flex market while retail fundamentals continued to improve and the investment market showed modest gains. The summary, entitled the Houlihan Lawrence Quarter Four Commercial Market Report, added that Westchester's office market is continuing to struggle to gain traction.
- ◆ A special report on the Dec. 10th (2021) event that marked the 75th anniversary of the formation of the BRI. More than 80 members of the local building, realty and construction industries attended the celebration at the Glen Island Harbour Club in New Rochelle.

We hope that you enjoy the issue. And please be assured that we will continue to bring you reports on the many significant topics affecting the building, realty and construction industries.

The AOAC/BRI Offers Commentary on the 2022 MCI Reasonable Cost Schedule of the N.Y. State Homes and Community Renewal Agency, Continued from p. 1

will keep them so. This challenge has lately been made even more difficult by a combination of policy and circumstance, the officials said.

Specifics

On the policy front, the Housing Stability and Tenant Protection Act (HSTPA), with its reduced incentives for the MCI program as well as for the Individual Apartment Improvement (IAI) program, combined with successive allowable rent increases passed by the Westchester County Rent Guidelines Board that fell far below the cost increases necessary to maintain the buildings, and added to some challenging circumstances brought on by tenants who were unable or unwilling to pay their rent during the COVID-19 pandemic that was only partially alleviated by the Emergency Rental Assistance Program (ERAP), has made the financing of repairs and improvements difficult, particularly for smaller landlords with ETPA units, AOAC/BRI officials said.

Tim Foley, chief executive officer of the AOAC/BRI, said in the commentary that, in terms or circumstance, many of the cost inflation situations that the region and the nation are now experiencing were first noticed in the surge in lumber prices in April of 2020. After a brief period of stabilization, the cost of lumber has once again skyrocketed. According to Random Lengths, as of Dec. 29, 2021 the price of framing lumber topped \$1,000 per thousand board feet - a 167 percent increase since late August.

"Other building materials are currently surging as well," Foley said. "An analysis by the National Association of Home Builders (NAHB) found the following building materials all increased by 30 percent or more since the previous year: steel mill products, building paper and building board mill products, asphalt, plastic water pipe, thermoplastic resins and plastics materials, wood window and door frames, and copper pipe and tubes."

Foley added that Inflation Projections for 2022 vary, but even the most optimistic estimates assume there will not be a "return to normal" in the range of 2.2-2.6 percent until the second half of 2022. There is also not a guarantee that a broader decrease in inflation will apply to building materials specifically. Foley stressed that, after all, "the surge in lumber prices predated broader inflationary concerns by over a year. Lumber prices are tied to major issues of lack of supply from local lumber mills combined with tariffs on Canadian lumber that may not dissipate when most inflation recedes."

Recommendations

AOAC/BRI officials said that, with those facts in mind, the first recommendation of the associations would be for HCR to consider a mid-year review and, if necessary, adjustment to the pricing for the types of repairs that would be most susceptible to a continued surge in building material prices, especially Doors, Exteriors, Parapets, Plumbing/Repiping, Rewiring, Roof, and Windows.

The second AOAC/BRI recommendation is that the Windows section should be revised to take into account one of the major factors that leads to variation in price - specifically panes of glass, which is an important contributor to energy efficiency in all buildings and a major need of renovation for pre-war buildings.

"At a time when there is an increased focus statewide on reducing energy consumption and carbon emissions, we would urge HCR to create a pricing structure that encourages property owners to make the investment in multi-pane windows as much as in specific window frame materials," Foley said.

AOAC/BRI officials said that the third recommendation of the associations is to keep a watchful eye on escalating labor costs in future years.

"Even prior to the pandemic, we had many concerns that labor costs in our area and much of New York will continue to be on an upward trajectory that may not keep pace with the schedule before us," Foley said. "Some of this is driven by a well-documented labor shortage among construction and contractors, as well as by external factors such as the continued roiling of insurance markets as more carriers elect to drop coverage in New York rather than keep up with the cost-driving effects of the Scaffold Law."

Foley added that the HSTPA requires a licensed architect or engineer to consult on the project, a requirement that is cost-prohibitive in small buildings and which some of these cost estimates couldn't possibly recoup over time. It is a major cost driver that warrants continued vigilance, Foley said.

The AOAC represents more than 300 building owners and managers in the Westchester and Mid-Hudson Region. Those owners and managers are responsible for more than 17,000 units. The BRI is a building, realty and construction industry membership organization with more than 1,800 members in 14 counties of New York State. Those members are involved in virtually every area of the building, realty and construction sectors, BRI officials said.

Insurance Insights



Some Additional Insurance Lessons from Recent Disasters - Do Not Wait Until After a Disaster to Find Out That You Are Under-Insured Continued from p.1

coverage, but ultimately, it's the policyholder's responsibility to select the amount of property insurance coverage desired.

Some carriers offer policies that provide "Guaranteed Replacement Cost", which eliminate the possibility of underinsurance. However, with such policies, the carrier sets the amount of home/dwelling or commercial building cost. Policyholders sometimes argue that the carrier's replacement cost amount is too high (which increases premiums); and they are naïve about the true costs of reconstruction, especially as inflation accelerates. For example, the article noted one Colorado homeowner "...had a \$900,000 limit for the dwelling...His new home will cost about \$2 million, including upgrades to meet new local building regulations..." That's a \$1,100,000 uninsured gap!

Repair Building Safety Deficiencies Promptly

In the case of the Bronx fire, multiple news sources cite the fire commissioner's comments that doors within the building, designed to self-close, were open, causing the rapid spread of smoke (Associated Press, 1/11/22). Smoke inhalation was the cause of all 17 deaths and many injuries (CNN, 1/12/22). It remains unclear if all of the doors open during the fire failed mechanically or were intentionally disabled, but New York City Fire Department Commissioner Daniel Nigro said that the 15th floor stairwell door remained open, due to a faulty mechanism (NY1.com 1/10/22).

The building had a history of violations relating to inoperable self-closing doors and lack of heat (NY1.com 1/10/22). Lack of heat may have prompted the use of a portable space heater, which was the source of the fire.

Owners of multi-family, commercial, or industrial buildings, if you are made aware of a building safety deficiency, take the report seriously, and address it promptly. Failure to do so can have catastrophic (even deadly) consequences. If investigations confirm that the owners of this Bronx apartment building disregarded reports of malfunctioning doors and/or lack of sufficient heat, thus contributing to the deaths of so many, the legal liability will be financially massive.

Insure For The "Worst-Case" Liability Scenario

Structural deterioration was a definitive causal factor of the Surfside, Fla. condominium collapse. Board members and managers of the building were aware of the situation, but corrections went unaddressed, until it was too late. There was a history of complaints regarding inadequate heat and automatic door closure failures at the Bronx apartment building. The deadly fire was started by a space-heater used within a cold apartment, and the rapid spread of smoke throughout the building was caused by open doors, which should have automatically been closed. In the Surfside condominium case, plaintiffs' attorneys say it will take \$1 billion to adequately compensate victims (Wall Street Journal, 7/29/21). A \$2 billion class-action lawsuit has been filed against the owners of the Bronx apartment building.

It's almost impossible to imagine an individual or business associated with The Building and Realty Institute (BRI) facing legal liability exposure even remotely close to these examples.

But, unpleasant as it is, try to envision the worst-possible scenario you as an individual could encounter (automobile accident, pool drowning at your home, child's friend injured while visiting); or that your business or building could encounter (building collapse, fire, worksite accident causing multiple employee injuries). Do you and your business have enough liability insurance to address these "unimaginable" worst-case scenarios? If not, consider buying more insurance, because, as real-world examples remind us every day, sometimes, the unimaginable becomes reality.

For help in evaluating your home, building, or business Property and Liability insurance, contact your broker, or Levitt-Fuirst Insurance, Jason Schiciano and Ken Fuirst, co-presidents, at (914) 457-4200.

Editor's Note: Levitt-Fuirst Insurance is the Insurance Manager for The Builders Institute (BI)/Building and Realty Institute (BRI) of Westchester and the Mid-Hudson Region. Ken Fuirst and Jason Schiciano are co-presidents of the company. The firm is based in Tarrytown.

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