October 2013 Housing Commentary

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# October 2013 Housing Scorecard

<table>
<thead>
<tr>
<th>Measure</th>
<th>M/M</th>
<th>Y/Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Starts(^A)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Single-Family Starts(^A)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Housing Permits(^A)</td>
<td>(\Delta 6.2%)</td>
<td>(\Delta 13.9%)</td>
</tr>
<tr>
<td>Housing Completions(^A)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>New Single-Family House Sales(^A)</td>
<td>(\Delta 25.4%)</td>
<td>(\Delta 21.6%)</td>
</tr>
<tr>
<td>Existing House Sales(^B)</td>
<td>(\nabla 4.4%)</td>
<td>(\Delta 6.0%)</td>
</tr>
<tr>
<td>Private Residential Construction Spending(^A)</td>
<td>(\nabla 0.6%)</td>
<td>(\Delta 17.8%)</td>
</tr>
<tr>
<td>Single-Family Construction Spending(^A)</td>
<td>(\nabla 0.6%)</td>
<td>(\Delta 17.8%)</td>
</tr>
</tbody>
</table>

M/M = month-over-month; Y/Y = year-over-year

Source: \(^A\) U.S. Department of Commerce-Construction; \(^B\) National Association of Realtors® (NAR®)
# New Housing Starts

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Starts*</th>
<th>Single-Family Starts</th>
<th>Multi-Family 2-4 unit Starts</th>
<th>Multi-Family 5 or more unit Starts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

M/M change

Y/Y change

* All start data are presented at a seasonally adjusted annual rate (SAAR)

# New Housing Permits and Completions

<table>
<thead>
<tr>
<th></th>
<th>Total Permits*</th>
<th>Single-Family Permits</th>
<th>Multi-Family 2-4 unit Permits</th>
<th>Multi-Family 5 or more unit Permits</th>
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</thead>
<tbody>
<tr>
<td>October</td>
<td>1,034,000</td>
<td>620,000</td>
<td>27,000</td>
<td>387,000</td>
</tr>
<tr>
<td>September</td>
<td>974,000</td>
<td>615,000</td>
<td>28,000</td>
<td>331,000</td>
</tr>
<tr>
<td>2012</td>
<td>908,000</td>
<td>570,000</td>
<td>26,000</td>
<td>312,000</td>
</tr>
<tr>
<td>M/M change</td>
<td>6.2%</td>
<td>0.8%</td>
<td>-3.6%</td>
<td>16.9%</td>
</tr>
<tr>
<td>Y/Y change</td>
<td>13.9%</td>
<td>8.8%</td>
<td>3.8%</td>
<td>24.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Total Completions*</th>
<th>Single-Family Completions</th>
<th>Multi-Family 2-4 unit Completions</th>
<th>Multi-Family 5 or more unit Completions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M/M change</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y/Y change</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* All data are SAAR

# New and Existing House Sales

<table>
<thead>
<tr>
<th></th>
<th>New Single-Family Sales*</th>
<th>Median Price</th>
<th>Month’s Supply</th>
<th>Existing House Sales B*</th>
<th>Median Price B</th>
<th>Month’s Supply B</th>
</tr>
</thead>
<tbody>
<tr>
<td>October</td>
<td>444,000</td>
<td>245,800</td>
<td>4.9</td>
<td>5,120,000</td>
<td>$199,500</td>
<td>5.0</td>
</tr>
<tr>
<td>September</td>
<td>354,000</td>
<td>257,400</td>
<td>6.4</td>
<td>5,290,000</td>
<td>$198,500</td>
<td>4.9</td>
</tr>
<tr>
<td>2012</td>
<td>365,000</td>
<td>247,200</td>
<td>4.8</td>
<td>4,830,000</td>
<td>$176,900</td>
<td>5.2</td>
</tr>
<tr>
<td>M/M change</td>
<td>25.4%</td>
<td>-4.5%</td>
<td>-23.4%</td>
<td>-4.4%</td>
<td>-0.2%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Y/Y change</td>
<td>21.6%</td>
<td>-0.5%</td>
<td>2.1%</td>
<td>6.0%</td>
<td>12.8%</td>
<td>-3.8%</td>
</tr>
</tbody>
</table>

* All sales data are SAAR

Existing House Sales

National Association of Realtors (NAR®)B
October 2013 sales data:

Distressed house sales: 14% of sales –
(9% foreclosures and 5% short-sales)

Distressed house sales: 14% in September
and 25% in October 2012

All-cash sales: decreased to 31%; 33% in September

Investors are still purchasing a substantial portion of
“all cash” sale houses – 19%;
19% in September 2013 and 20% in October 2012

First-time buyers: unchanged at 28% (28% in September 2013)
and were 31% in October 2012

Source: B NAR® www.realtor.org/topics/existing-home-sales; 11/20/13
October 2013 Construction Spending

October 2013 Private Construction: $326.86 billion (SAAR)

-0.6% less than the revised June estimate of $328.73 billion (SAAR)
17.8% greater than the July 2012 estimate of $278.28 billion (SAAR)

October SF construction: $170.34 billion (SAAR)
-0.5% less than September: $171.43 billion (SAAR)
17.8% greater than October 2012: $144.59 billion (SAAR)

October MF construction: $34.46 billion (SAAR)
2.2% greater than September: $33.70 billion (SAAR)
37.8% greater than October 2012: $25.06 billion (SAAR)

October Improvement D construction: $122.06 billion (SAAR)
-1.2% less than September: $123.60 billion (SAAR)
12.3% greater than October 2012: $108.68 billion (SAAR)

D The US DOC does not report improvements directly, this is an estimation. All data is the SAAR and is reported in nominal US$.

Conclusions

Unfortunately, due to the incomplete data available, observations are sketchy. However, the housing market appears to be flat; permits increased slightly and existing home sales decreased marginally. Construction spending data was negative – with substantial revisions downward in the improvement sector for July, August, September, and October. New home sales in October increased substantially. However, one should also note the significant downward revisions for June, July, August, and September reported.

As in previous months, the near-term outlook on the U.S. housing market remains unchanged – there are potentially several negative macro-factors at this point in time for a robust housing recovery (based on historical long-term averages).

Why?

1) a lack of well-paying jobs,
2) a sluggish economy
3) strict home loan lending standards
4) new banking regulations
5) political gridlock
Still lots of problems to deal with:
- economy is getting better, albeit very slowly
- government debt issues – all levels of government
- much of Europe in recession, but getting better – China is slowing
- housing’s main problems: Weak domestic economy made worse by slowing world economy; weak job market; weak income growth; high debt levels; tight credit environment
- Demand, Debt and Uncertainty are some of serious problems that are impacting the economy – not sure it’s getting better?

• Two major concerns –
  (1) Can the economy (and housing) stand on its own (without Fed stimulus)
  (2) Uncertainty is a key reason holding back job creating investments. Ex., impact of health care legislation; Dodd/Frank; dysfunctional “Washington”; …… Also, demand is a problem - too many jobs are low income, no health care, no benefits
Housing starts and wood product prices – Economics 101

Following housing bust in 2008, wood prices fell and production capacity was reduced. So, when housing starts increased, there was an imbalance between demand and supply of wood products. The price mechanism brings demand and supply into balance. Initially, prices fell almost 50% - this instigated production cutbacks of 50% or more – then, as housing begins to turn around, prices increase - this encourages Production increases for wood products – and the cycle starts over.

Sources: Prices – Random Lengths (http://www.randomlengths.com); starts (Bureau of Census (http://www.census.gov/construction/nrc)
Employment situation - our biggest problem - it’s getting better, but the jobs recovery remains weak by past standards, and many jobs don’t include health care or retirement benefits (because they are often part time jobs) – those kinds of jobs don’t encourage people to buy houses.

Net change in non farm payrolls – monthly, thousands

We need 100,000 – 150,000 net new jobs/month To keep up with new entrants to workforce 300,000/month to bring unemployment down

Source: U.S. BLS (www.bls.gov)
Unemployment remains high and will remain relatively high for several years – but, it’s getting better “slowly”

**There are about 21 million people either unemployed, underemployed, or stopped looking – they are not buying houses**

The real unemployment rate - - Unemployed plus underemployed – 13.2%
Equates to 21 million people

Official unemployment rate – 7.0%
Equates to 11 million people

Labor force participation rate is shrinking -
Major problems for social programs with our aging population – fewer people paying taxes, but more people collecting SSI, Medicare, etc. Also, demand for goods and services /GDP will Remain relatively weak.

% of civilian adult population, that are working

Too much incentive for people to collect welfare.

November 2013 - 63% participation rate
Starts are finally turning the corner??
Problems going forward: distressed resales (i.e., foreclosures) and jobs. Rising prices will moderate the foreclosure problem while good paying jobs will create demand – this will take more time!!

Single family starts, Thousand units, SAAR

Source: Census (http://www.census.gov/const/www/newresconstindex.html)
Multi family share is increasing – will it continue?

Housing share (%)

- Single family
  - Single family collapse
  - Following housing bust – then
  - Brief resurgence due to HEMP/HAMP, other Federal support programs

- Multi family
  - The new normal – Higher multifamily share??

Source: Census (http://www.census.gov/construction/nrc/)
New Single Family Home sales is the key statistic to watch – Sales drive housing starts – this drives demand for wood products!

Source: Census (http://www.census.gov/const/www/newressalesindex.html)
Resale market getting better

Source: NAR (http://www.realtor.org/research)
Growing Wood Exports
Background and Opportunities

Urs Buehlmann
Virginia Tech, Blacksburg, VA

Delton Alderman
USDA Forest Service, Princeton, WV

Omar Espinoza
University of Minnesota, St. Paul, MN

Al Schuler
USDA Forest Service, Princeton, WV

NC Exports Wood Conference
New Bern, NC
November 14, 2013
30 second summary:

Bottom line – with housing slowly recovering, U.S. lumber producers benefit immensely
- increased demand from housing
- decreased competition from Canada (softwood)
- export possibilities to China
- export opportunities to Philippines, Japan
- opportunities in Europe (bioenergy, green materials)
- the Lacey Act

Canadian Mountain Pine Beetle
Means less lumber from Canada in future – about 15% lower lumber recoveries in 2015 versus 2007!! That means less lumber production and it will be more expensive to produce

Plantations – U.S. South is prime spot for high yield plantations!

Trees are the answer!
Presentation Content

① U.S. housing
② U.S. economy
③ U.S. wood products markets
④ U.S. wood products export opportunities
⑤ U.S. wood products opportunities
⑥ Summary
U.S. HOUSING

• 70% of structural wood products
• 50% or more of hardwood products

Bottom line... domestic wood product markets depend on housing

But, exports have picked up some of the slack...
Housing Units and Starts: 1880 to 2013

in thousands of units

Improvement – yes
But we’re at less than 1946 levels
Starts are finally turning the corner?
Problems going forward: distressed resales (i.e., foreclosures) and jobs. Rising prices will moderate the foreclosure problem while good paying jobs will create demand – this will take more time!!

Single family starts, Thousand units, SAAR

Source: Census (http://www.census.gov/const/www/newresconstindex.html)
Multi family share is increasing – will it continue?

Housing share (%)

Single family

- Single family collapse
- Following housing bust – then
- Brief resurgence due to HEMP/HAMP, other Federal support programs

Multi family

The new normal – Higher multifamily share??

Source: Census (http://www.census.gov/construction/nrc/)
Housing outlook – longer term thoughts

Think about focusing more energy on remodeling/improvements as this sector is expected to approach the size of the new construction market within 10 – 15 years

drivers include - -
(1) aging housing stock
(2) lower homeownership rates
(3) increasing population
(4) pent up demand (rate of household formation)
Latest Harvard* Housing Demand Forecasts
2010 – 2020 (September 2010)

Annual rate (000)

Low Scenario

Household growth
Vacant unit demand
Net removals

High scenario

2010 starts (est)

Source: HJCHS, W010-9, September 2010
In 2009, half of U.S. homes were 36 years old or older. Good news for remodeling business – in fact, over time, we will emulate Europe where remodeling expenditures routinely exceed expenditures on new construction.

Source: AHS (http://www.census.gov/hhes/www/housing/ahs/nationaldata.html)
Remodeling/Improvement spending exceeds spending on new single family construction for 1st time in history in 2009 - as housing stock ages, remodeling expenditure will increase.
2 U.S. ECONOMY

- Economy is turning around
- Housing is recovering, albeit slowly
- Federal Reserve is still infusing money
- Jobs – well-paying jobs with benefits is what is needed!
Why a slow recovery?

Housing
Slowly recovering, but

Weak Economy
high unemployment
+ weak income growth -
(same as 1989)
+ consumer debt
= weak consumer spending
U.S. Economy in 2008

- Consumer spending 70% (consumption of goods & services by/for the consumer)
- Government spending 20%
- Net Exports (5)%
- Non residential investment 11.7%
- Residential Investment (incl. R&A) 3.3%

Source: BEA (http://bea.gov/national/nipaweb)
Unemployment remains high and will remain relatively high for several years – but, it’s getting better “slowly”

**There are about 19 million people either unemployed, underemployed, or stopped looking – they are not buying houses**

The real unemployment rate --
Unemployed plus underemployed – 13.8%
Equates to 23 million people

Official unemployment rate – 7.3%
Equates to 12 million people

The typical American family makes less than it did in 1995 and 1989

“In 1989, the median American household made $51,681 in 2012 dollars — $51,017 in 2012”

“This isn’t a lost decade for economic gains for Americans. It is a lost generation.”

-- Neil Irwin, Columnist and Economics Editor, The Washington Post

As real incomes shrink, Americans borrow to maintain standard of living

Source: graph by John Mauldin, Frontline Thoughts (4/2011)
U.S. WOOD PRODUCTS MARKETS

Heavily geared to housing activities

70% of softwood lumber and structural panels consumed in new construction plus remodeling activity

The majority of hardwood products are tied to housing activity, either directly (e.g., kitchen cabinets, molding, flooring), or indirectly (e.g. furniture).

**U.S. Softwood Lumber**

- R&A: 30%
- Industrial: 16%
- New Residential*: 40%
- NR: 12%

*New Residential incl. SF, MF, and Mobile Homes

**U.S. Structural Panels**

- R&A: 19%
- Industrial: 17%
- NR: 10%
- New Residential*: 53%

Export 2%

Source: Lumber – WWPA; Panels - APA
Housing starts and wood product prices – Economics 101

Following housing bust in 2008, wood prices fell and production capacity was reduced. So, when housing starts increased, there was an imbalance between demand and supply of wood products. The price mechanism brings demand and supply into balance. Initially, prices fell almost 50% - this instigated production cutbacks of 50% or more – then, as housing begins to turn around, prices increase - this encourages Production increases for wood products – and the cycle starts over.

Sources: Prices – Random Lengths (http://www.randomlengths.com); starts (Bureau of Census (http://www.census.gov/construction/nrc)
United States Softwood Lumber and Panel Markets


Demand for North American Softwood Lumber

Hardwoods

• Hardwood lumber production has declined by 40% between 1999 and 2010, and has only increased modestly since.

• We have permanently lost as much as a third of our hardwood lumber production capacity in the past 5 years – Liquidated or abandoned.

Source: Bill Luppold, USDA Forest Service, Princeton WV
United States Log and Lumber Markets: Hardwoods

Hardwood Lumber Consumption

Source: Bill Luppold, USDA Forest Service, Princeton WV
United States Log and Lumber Markets: Hardwoods

Hardwood Lumber Exports
1990 to 2012 by Region

Source: Bill Luppold, USDA Forest Service, Princeton WV
4 U.S. WOOD PRODUCTS EXPORT OPPORTUNITIES
Wood deficit in China creates opportunities for exporters – logs and lumber

China’s potential fiber supply gap (difference between total demand and domestic supply) is projected to be 150 million m³ (roundwood equivalent, 63 billion bdft) by 2015

(this is larger than the entire Canadian timber harvest in 2009)
Chinese Wood Products Demand Increasing

"As of mid-2013, we are now projecting that the 2015 timber supply deficit in China will be even higher than we had previously forecast, at nearly 198 million m³, or 8.8% higher than we had projected in April 2011. ...in 2012 the wood products sector in China (lumber, plywood, blockboard, MDF, particleboard and OSB) consumed approximately 230 million m³ of wood, net of sawmill residues."

Perspective on China’s wood products industry

- world’s 4th largest producer of logs
- 3rd largest consumer of logs
- Largest importer of logs
- 3rd largest importer of lumber
- 2nd largest consumer lumber
- Largest producer and consumer of furniture, plywood, MDF, flooring, doors and various finished products
- China’s forest product output in 2009 was US$230 billion
- China has largest level of housing starts in the world
China: Trends and Issues

- Economic growth has rebounded to 8-9% and is expected to continue at this pace
- China’s domestic wood products demand is growing at 10-15% per year
- China consumes 75-85% of its domestic production, thus GDP growth and wood products growth are tied closely
- Due to domestic wood fiber deficit, China needs logs for processing and lumber for products
- Russia’s log exports
- Canada's pine beetle infestation

Source: Russ Taylor
5 U.S. WOOD PRODUCTS OPPORTUNITIES
Lacey Act, as amended*, will encourage more acreage of certified forests plus more COC certificates?

*The Lacy Act of 1900, originally designed to combat illegal trafficking of wildlife and fish, was amended in 2008 to include illegal logging and products made from illegally harvested timber.

Illegal Logging

- Illegal material depresses world prices for wood by up to 16%
- Severely undermines markets for legal operators
- Undermines reputation of the wood industry

Source: Mike Snow, AHEC
New Opportunities – new climate – Good or Bad – Depends on us!

Resource constraints + climate change policies + shifting consumer values

“Use to be a simple business of converting trees into lumber, panels, and paper
Now, uniquely positioned, or exposed, to political and economic forces that
Are reshaping the regulatory and market landscapes” - - A., Sauer, World Resources Institute

- **Energy Independence and Security Act of 2008** - sets targets for cellulosic biofuels production through 2022 – 36 billion gallons renewable fuels by 2022 – 21 of the 36 must be “advanced biofuels such as cellulosic ethanol

- **American Clean Energy and Security Act of 2009** (Waxman/Markley climate change bill) - establish targets to obtain a certain percent of electricity (17%) from “renewable sources” fuels including biomass by 2018 – objective is to reduce GHG emissions
Biofuel Targets Under the U.S. Renewable Fuels Standard

Impacts on forest products industry

- New revenue streams and markets for forest products and services
  1. carbon storage and sequestration – “being paid to grow trees”
  2. biomass and biofuels for transport fuels and electricity

- Competitive advantages in a low carbon economy
  carbon neutral/carbon negative products
  there will be incentives to reduce green house gas emissions via carbon tax or cap and trade system

- Green preferences will increase with increasing awareness of climate change benefits of sustainable forest products.

Wood products industry must get involved to make sure these benefits evolve!
Green Building (sustainable) Trends

What is green building? A philosophy that focuses on buildings that:
(1) Efficiently using water, energy, and other resources
(2) Protecting occupant health and improving employee productivity
(3) Reducing waste, pollution and environmental degradation

- Market for “green homes” is expected to increase from $2 billion to $20 billion over the next five years in the USA
- **Implications for wood products industry:** certified wood products plus LEED and other green building certification programs will benefit wood – any trends that promote sustainable products will favor wood! Life cycle analysis shows that wood is a sustainable material.
Wood: The “Green” Material

- Wood outperforms all other building products:
  - Releases less effluents during manufacture
  - Requires less energy
  - Better insulator
  - Stores carbon
  - Recyclable and Renewable

Source: M. Snow, AHEC
Wood: energy efficient

<table>
<thead>
<tr>
<th>Material</th>
<th>Embodied energy, Mj/kg</th>
</tr>
</thead>
<tbody>
<tr>
<td>AD sawn hardwood</td>
<td>0.5</td>
</tr>
<tr>
<td>KD sawn hardwood</td>
<td>2.0</td>
</tr>
<tr>
<td>Concrete</td>
<td>4.0</td>
</tr>
<tr>
<td>Mild steel</td>
<td>34.0</td>
</tr>
<tr>
<td>Plastics</td>
<td>90.0</td>
</tr>
<tr>
<td>Aluminium</td>
<td>170.0</td>
</tr>
</tbody>
</table>

Source: M. Snow, AHEC
There is a higher degree of familiarity with forest certification schemes than with green building programs. Most companies are familiar or very familiar with ATFS, FSC, and SFI; but not so with PEFC. The LEED program is the most recognized among green building.
Benefits of Green Movement

- If your company has chain of custody certification, is it benefiting financially from it?
  - Yes: 25.9%
  - No: 74.1%

- Are you aware of the green building standard point values of your products?
  - Yes: 11.4%
  - No: 88.6%

- If answer to previous question is yes, do you use this information in advertising?
  - Yes: 7.7%
  - No: 92.3%

Out of companies with certification, only a quarter said they are benefiting financially of it. Only 11.4% of respondents are aware of the green points of their products, and of these, only 7.7% use that information in advertising.
Future Wood Markets – New Products

High-Rise Timber Structures

Source: binderholz.com
US Corn Yields (General Trend)

Data adapted from: USDA, National Agricultural Statistics Service

Yield (bushels / acre)

Tree breeders are here

source: A. Bruner, VT
Summary

- U.S. wood products markets dependent on housing
- Housing improvement hinges on balancing supply and demand
- Housing demand and economic recovery strongly dependent on improvements in U.S. job market

- Exports markets to Asia are doing well
- China, with its huge wood fiber deficit is a major opportunity
- Lacey act helps “legal” producers like the U.S.

- Wood is the material of the future – carbon sequestration, renewable energy, green building material, ...
- Plantations will supply fiber needed
Russ Taylor, Wood Markets Monthly

Lynn Michaelis, RISI

Bill Luppold, USDA-FS

Peter Ince, USDA-FS

A. Brunner, VT

T. Hammett, VT
THANK YOU!

QUESTIONS - DISCUSSION

source: Jim Rider, South Bend Times
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