

Immigration Changes Causing Construction Costs to Surge



Trusted Analysis for Executive Decisions

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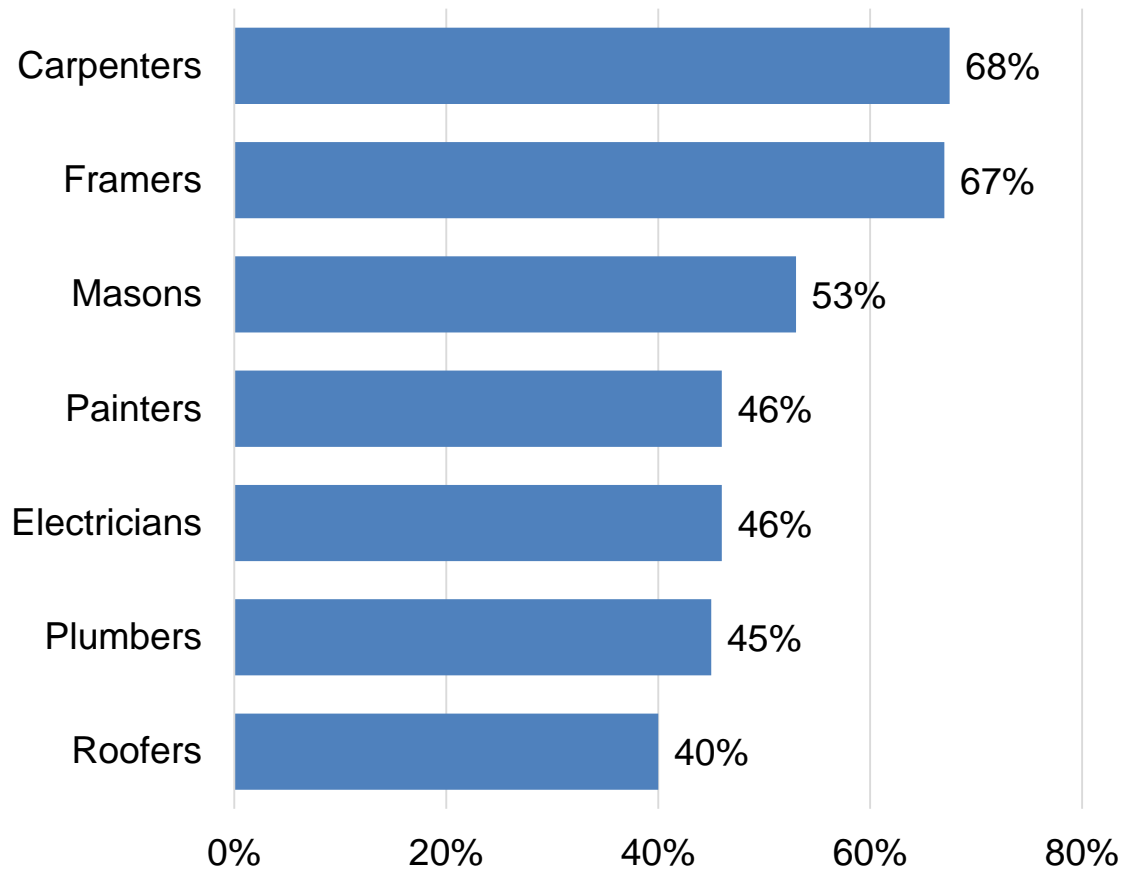
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2 out of 3 builders can't find enough carpenters and framers, with 40%-50% noting shortages in all other skills too.

Positions Builders are Having Trouble Filling



Source: National Association of Home Builders, June 2015

Huge construction shortages exist, despite building volumes 30% below norm!



“That’s what keeps me up at night.”
“Electricians, plumbers, framers – their average age is about 50.”
– Doug Bauer, CEO, TRI Pointe Homes



“We’ve lost about two-thirds of our Hispanic and South American population in South Carolina, and that has had a profound effect on labor.”
– Wade McGuinn, CEO, McGuinn Homes

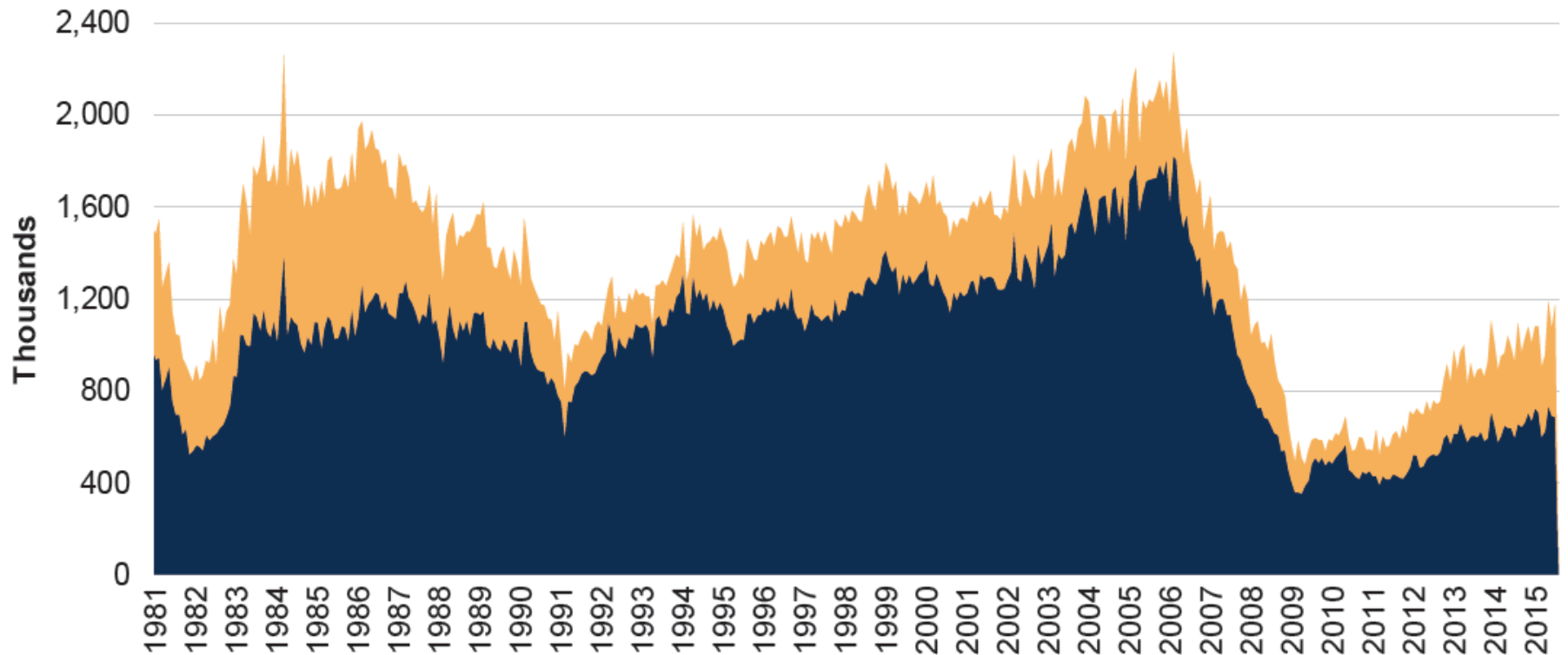
“There’s not enough guys to pour concrete, it’s going to be a challenging six months.” – Bruno Pasquinelli, President of CB JENI Homes in Dallas



Shortages exist despite construction levels that are far below norm. How can this be?

Housing Starts, Seasonally Adjusted

■ Multifamily = 489,000 ■ Single-Family = 685,000

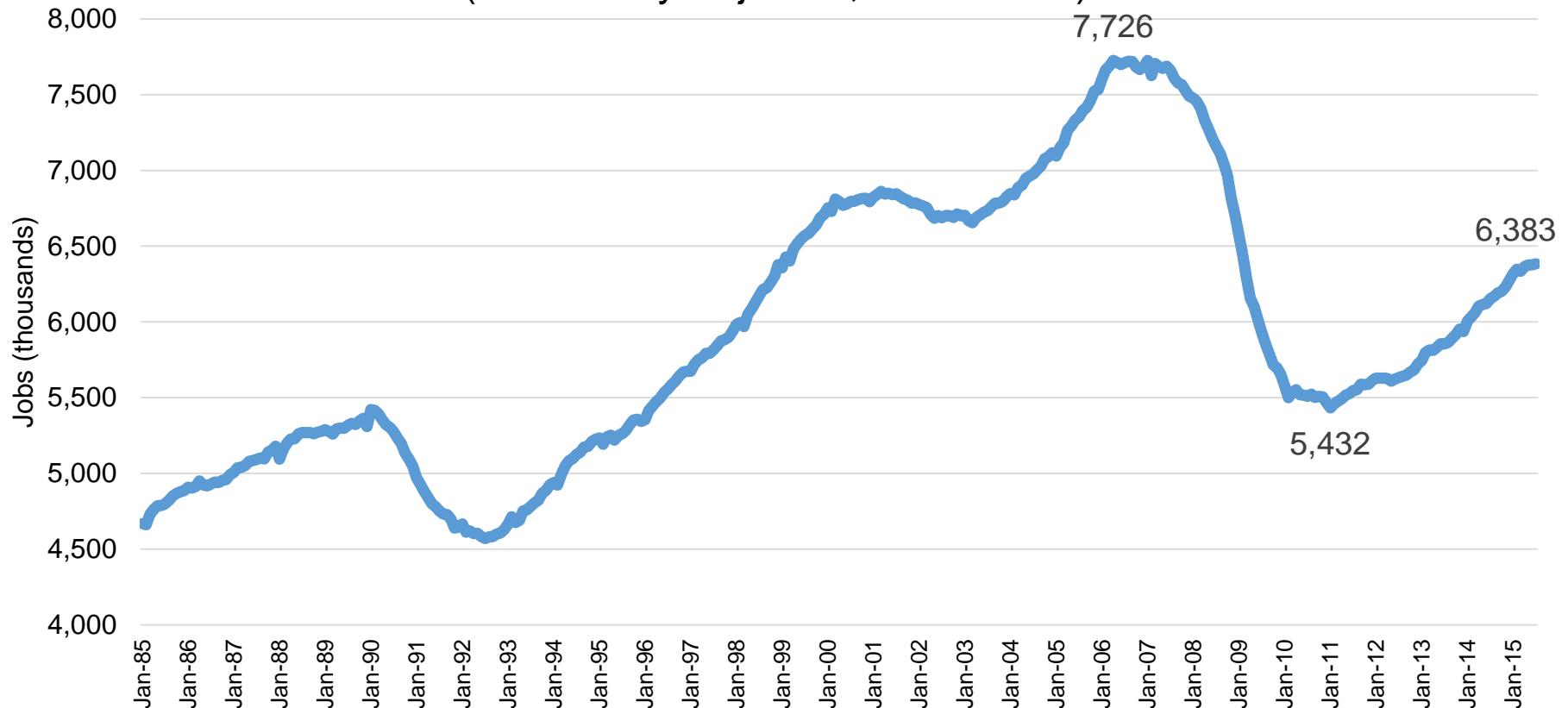


Source: Census Bureau (Data: Jun-15, Pub: Aug-15)

1,341,000 fewer people work in construction today than in 2006. Will they come back?

The sector has recovered only 950,900 of the 2,293,400 construction jobs lost.

Total Construction Employment (Seasonally Adjusted, Thousands)

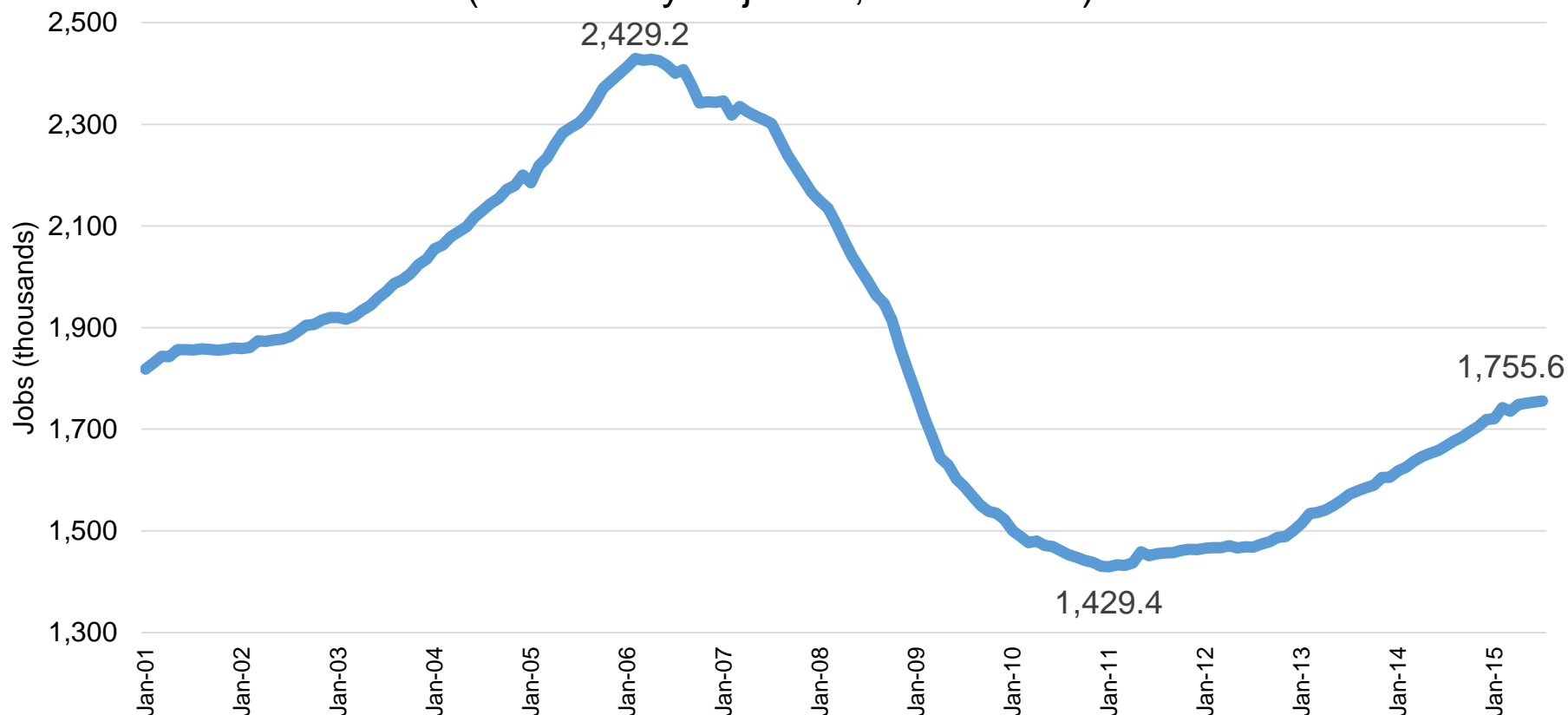


Source: Bureau of Labor Statistics

673,000 fewer people work in residential specialty trades than in 2006. Will they come back?

Just 326,200 of the 999,800 residential specialty trade contractor jobs lost have been recovered. Specialty trades comprise approximately 72% of residential construction employment.

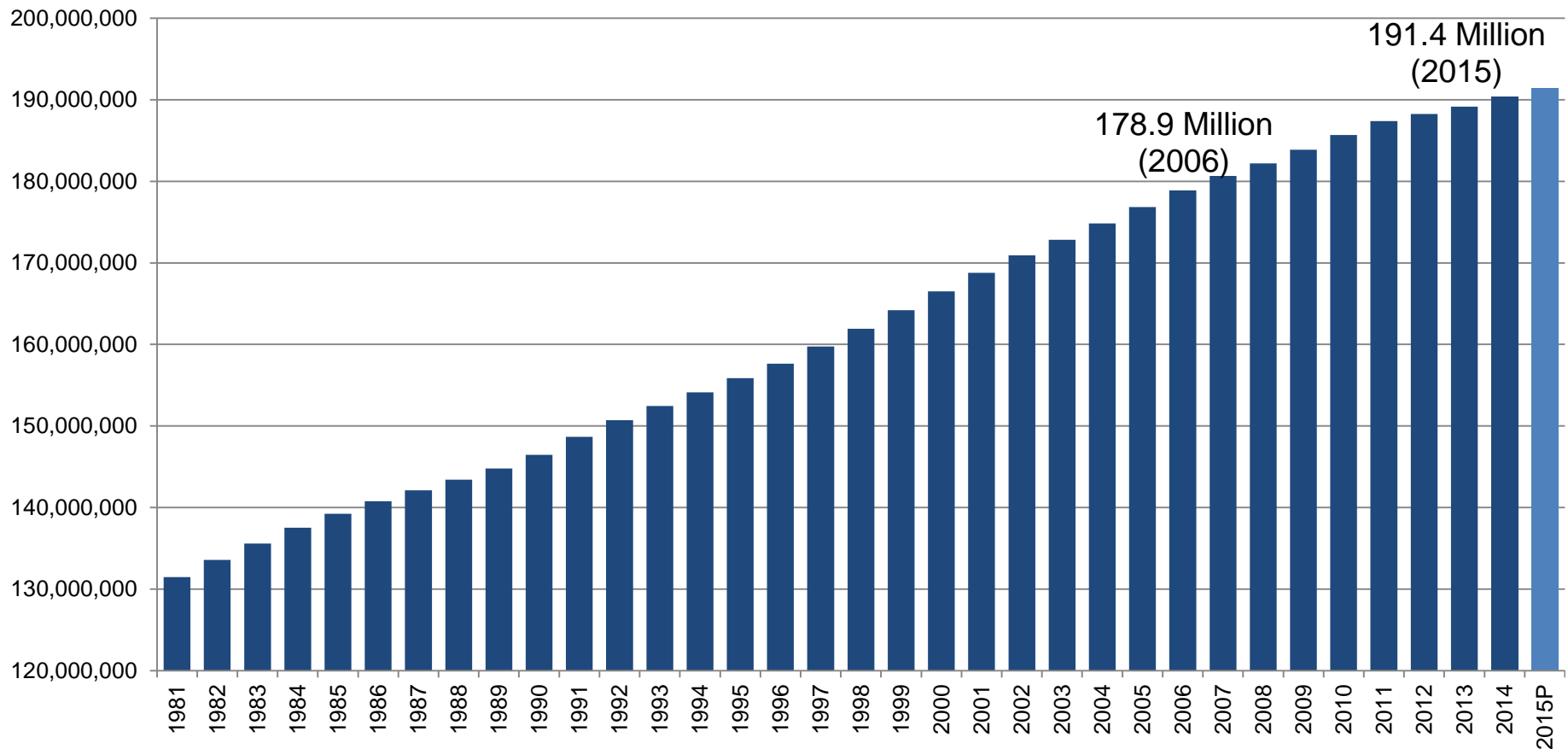
Residential Specialty Trade Contractor Employment (Seasonally Adjusted, Thousands)



Source: Bureau of Labor Statistics

Shortages exist despite 12.5 million more people aged 20-64 than in 2006! The pool of potential laborers exists.

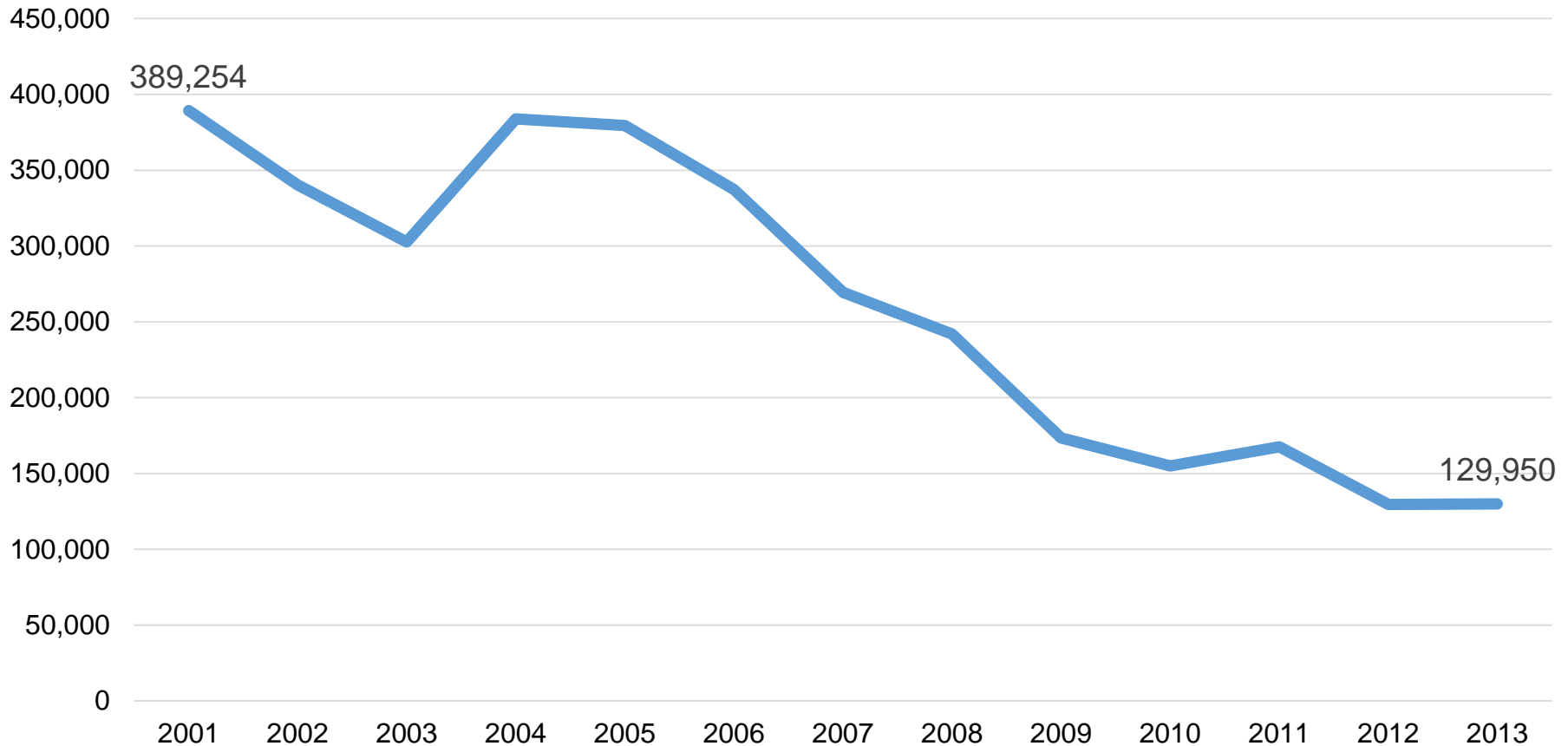
Population Ages 20-64



Source: U.S. Census Bureau Intercensal Population Estimates, December 2014 Population Projections

One major reason for a shortage in experienced workers is that Mexican immigration has declined 67% since 2006!

Mexican Nationals Who Migrated to the U.S. in the Last Year

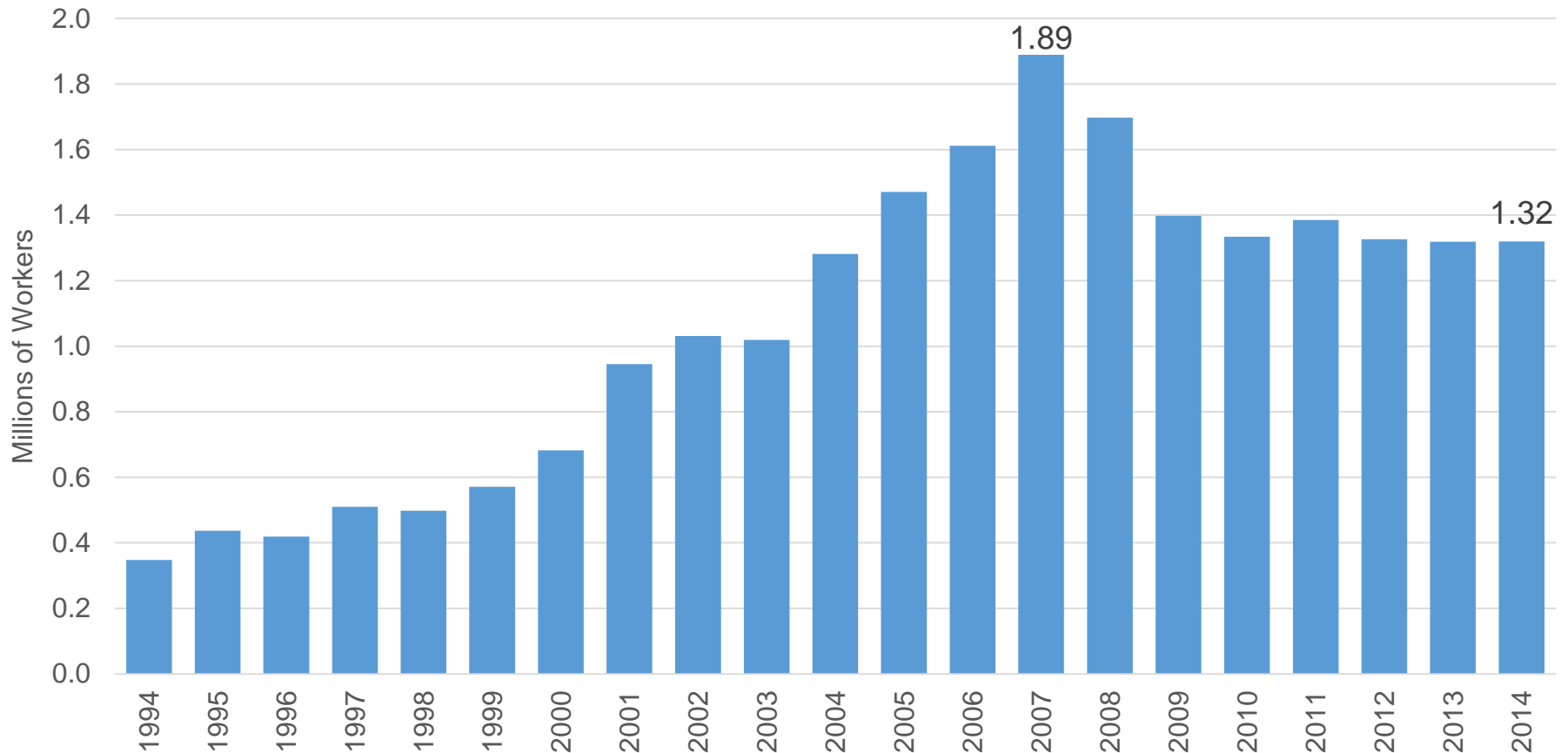


Source: U.S. Census Bureau American Consumer Survey via IPUMS

Today, the U.S. has 570,000 fewer construction workers born in Mexico than at the peak in 2007.

Based on data from the Current Population Survey, which has a broader definition of the Construction sector (10.3 million construction jobs in 2014) than the Bureau of Labor Statistics.

U.S. Construction Workers Born in Mexico



Source: U.S. Census Bureau Current Population Survey Annual Social and Economic Supplement via IPUMS

Will they come back? We don't believe many will, due to changes in law enforcement and in the Mexican economy.

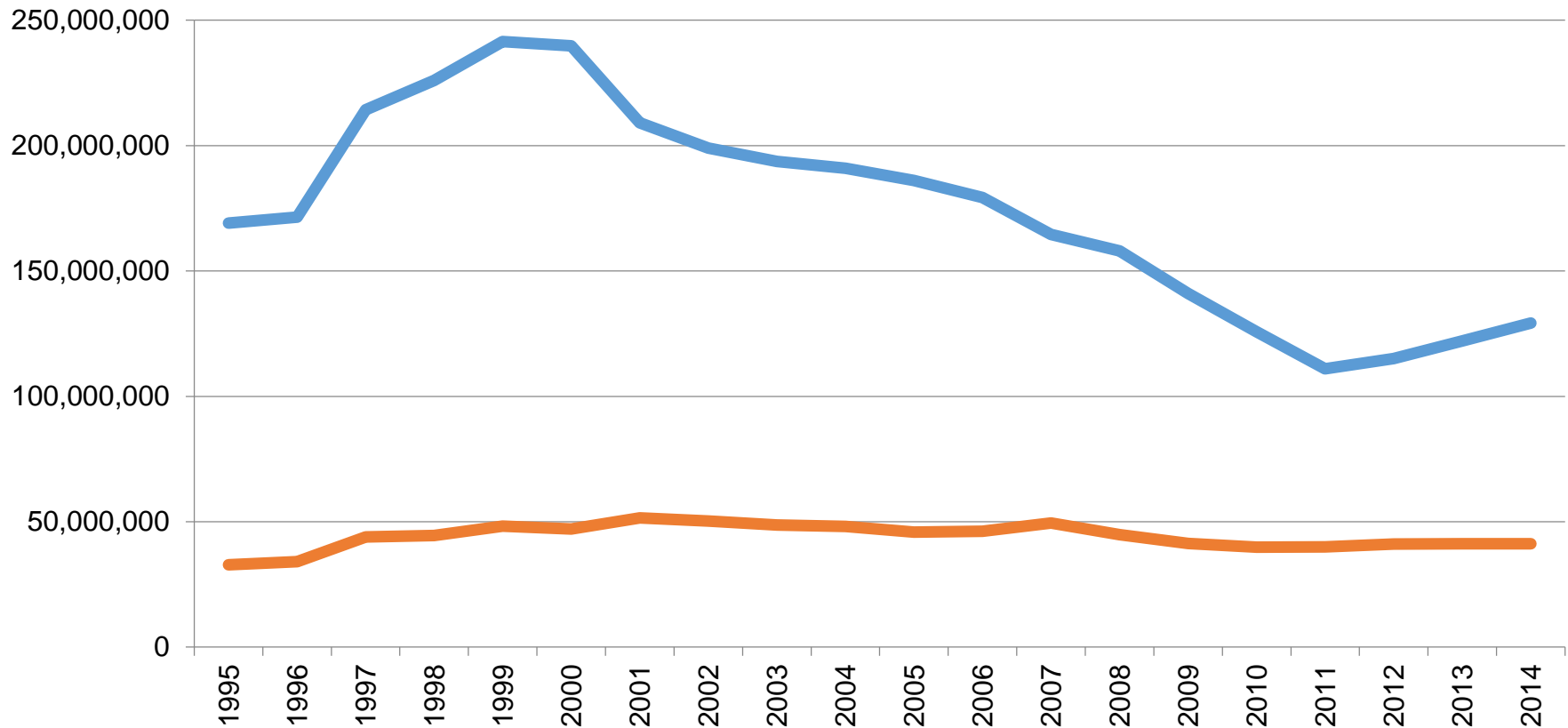


Legal passenger traffic across the border fell 55% from 1999 to 2011, and has only slightly recovered.

Pedestrian traffic is down 20%.

Border Crossings by Method (Southern Border)

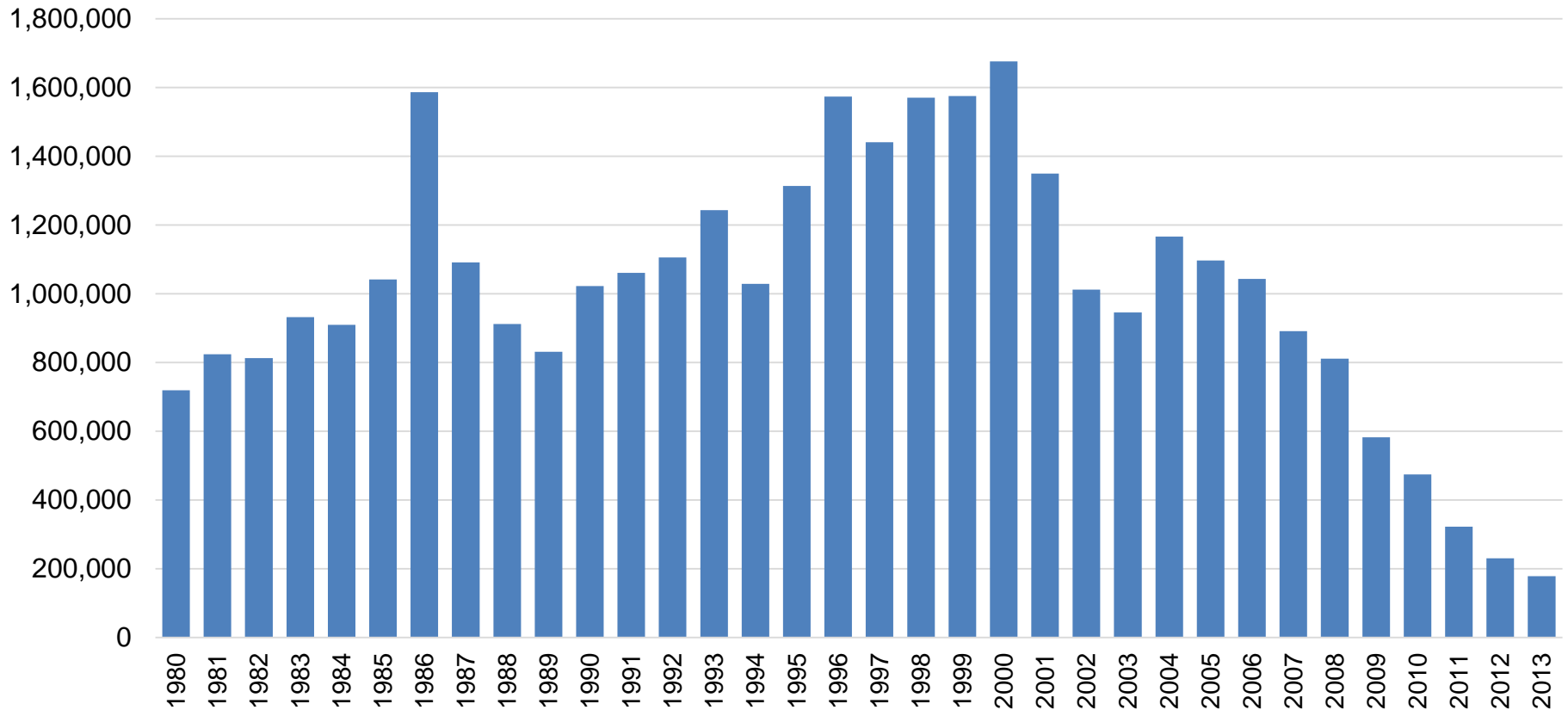
Personal Vehicle Passengers Pedestrians



Source: Bureau of Transportation Statistics

Illegal traffic has dropped as well. The number of border apprehensions has plunged, most likely due to fewer people attempting to come to the U.S.

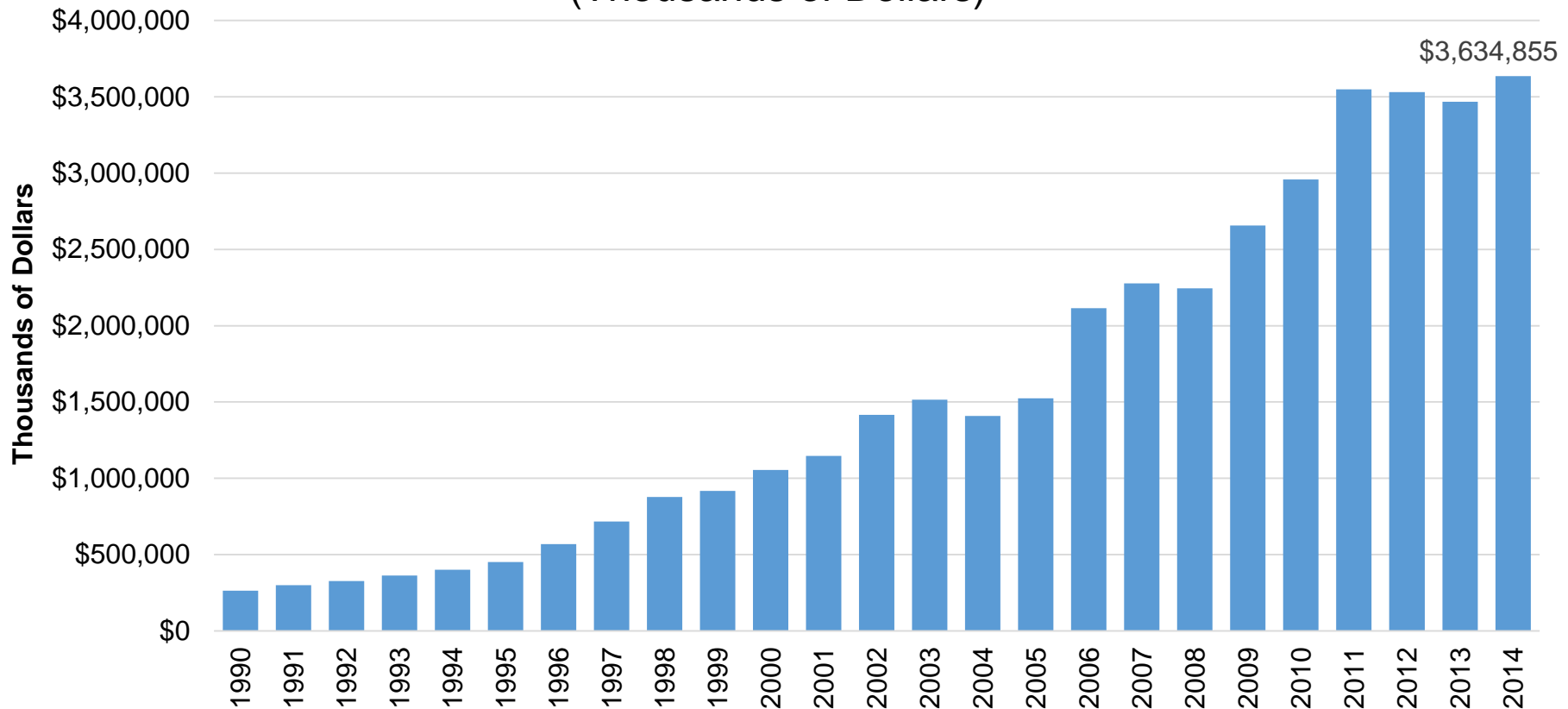
Persons Apprehended at Their Own Border, FY1980-FY2013 (Originating from All Countries)



Source: Department of Homeland Security

The border patrol budget has risen 158% in 10 years.

Enacted Border Patrol Program Budget, FY1990-FY2014 (Thousands of Dollars)



Source: U.S. Border Patrol

2003: Includes carryover counter-terrorism funds from Fiscal Year 2002

2004: New funding structure related to the transfer of the Border Patrol Program to DHS/CBP

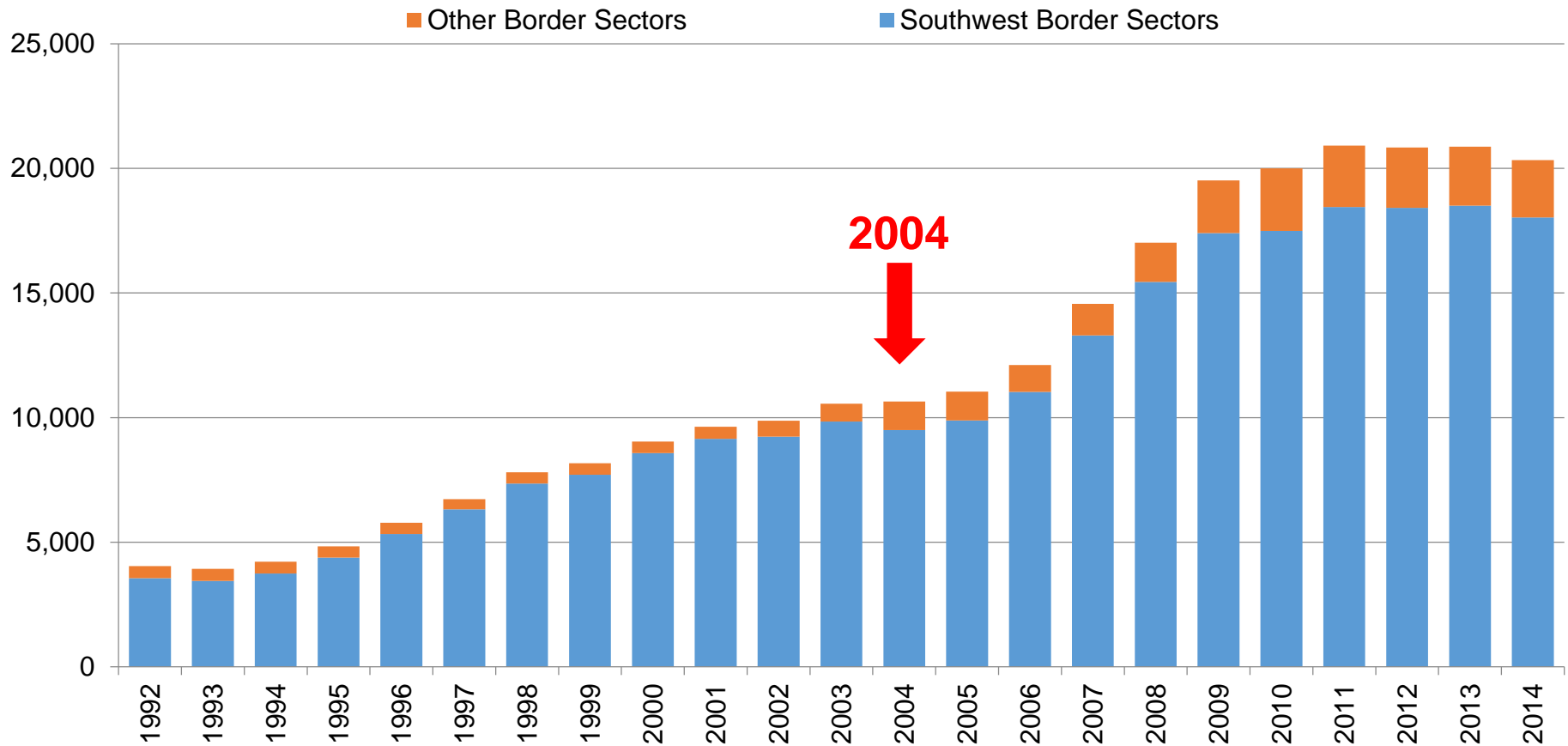
2005: Includes Fiscal Year 2005 Emergency Supplemental

2007: Includes Fiscal Year 2006 War Supplemental carryover funds

2011: Includes Fiscal Years 2010 / 2011 Border Security Supplemental

The number of border patrol agents has doubled since 2004, making it much more difficult for people to enter the U.S. illegally.

Border Patrol Agent Staffing, FY1992-FY2014



Source: U.S. Border Patrol

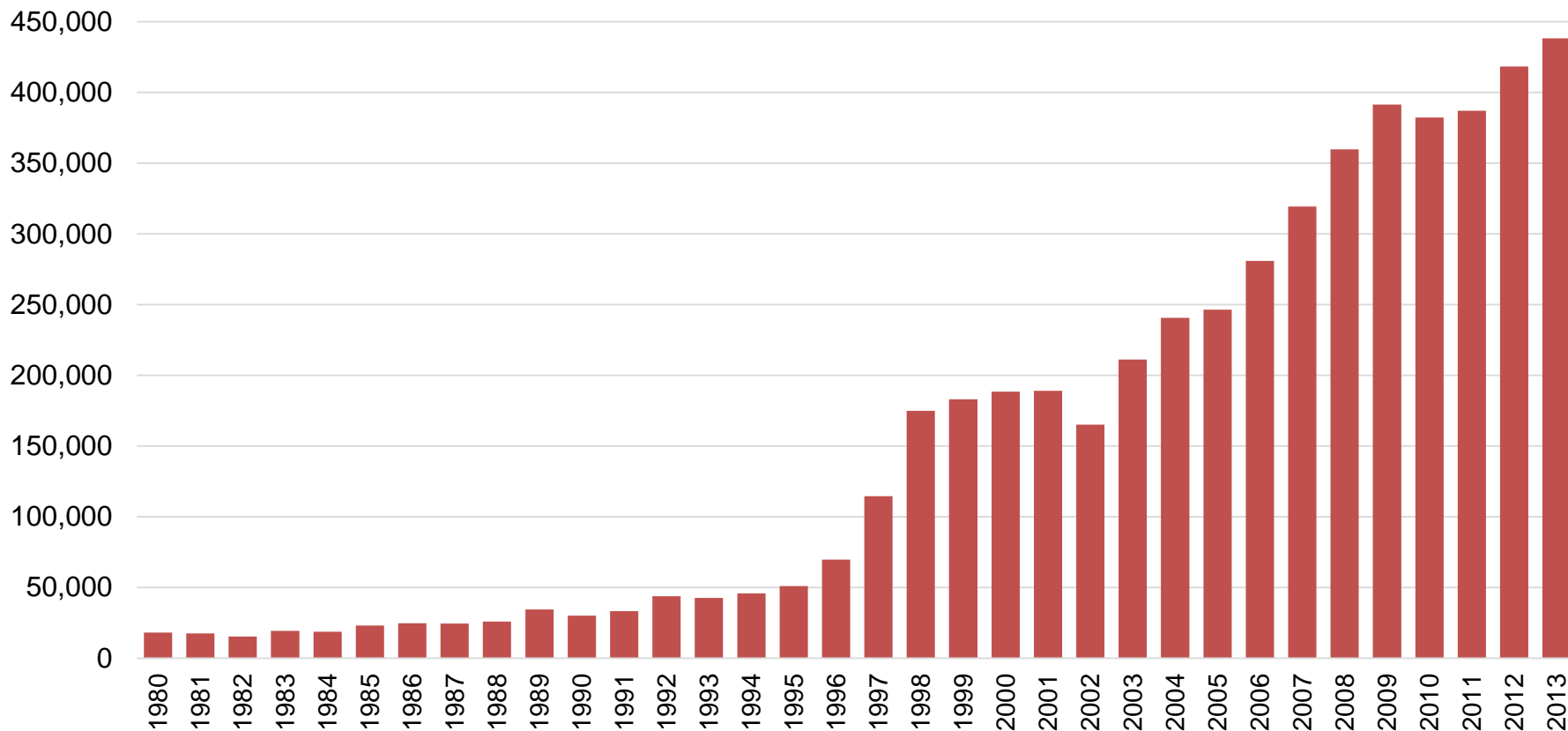
The Border Patrol established the Office of Technology and Innovation in 2010 to use technology to control the border.



Court-ordered deportations have ramped by 200,000 per year since the early 2000s.

The criminal system is more actively removing those who don't belong in the U.S. Mexico has been 70%+/- of these for the last decade.

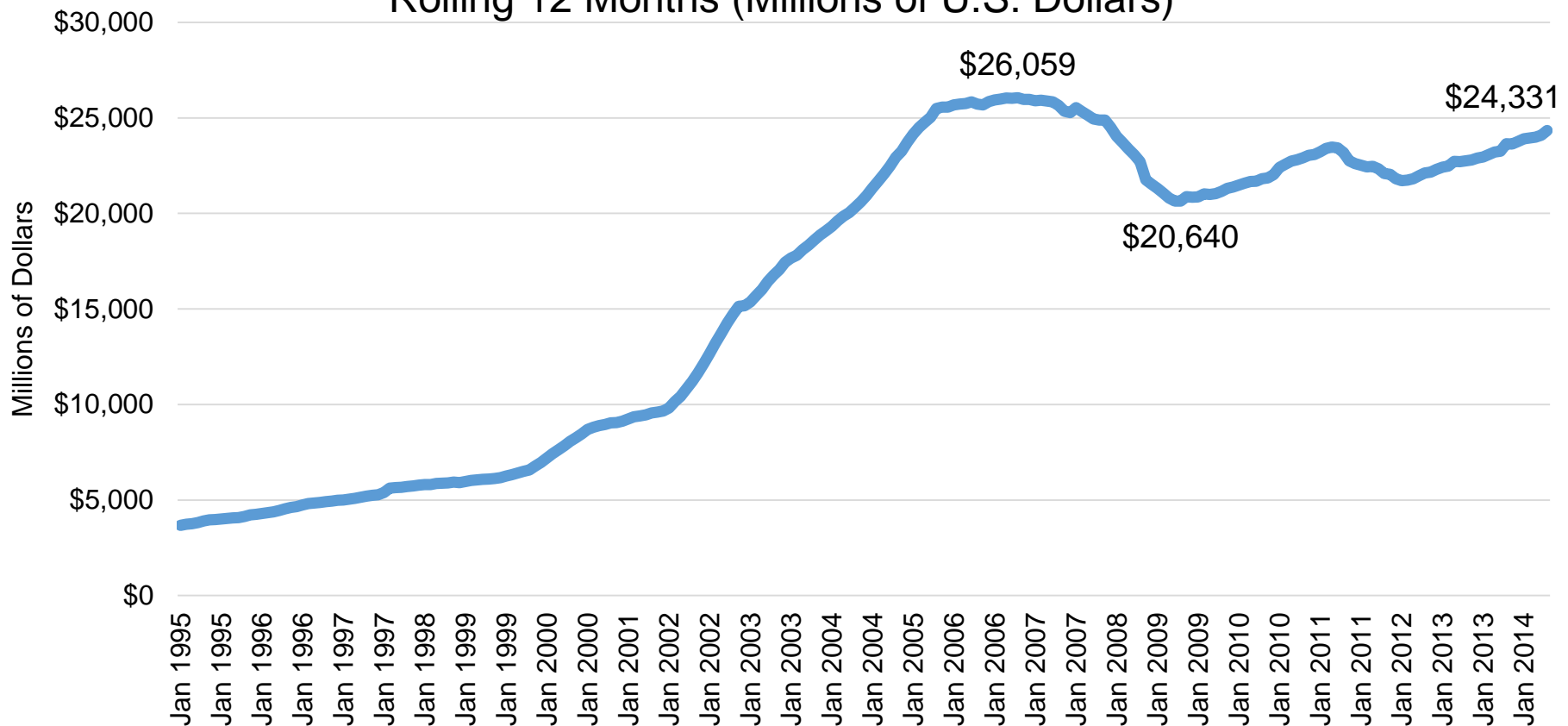
Court-Ordered Deportations, FY1980-FY2013 (Originating from All Countries)



Source: Department of Homeland Security

Money transferred from foreign-born U.S. workers to Mexico is still 7% below the 2007 peak.

Money Transfers by Foreign Workers in the U.S. to Mexico Rolling 12 Months (Millions of U.S. Dollars)

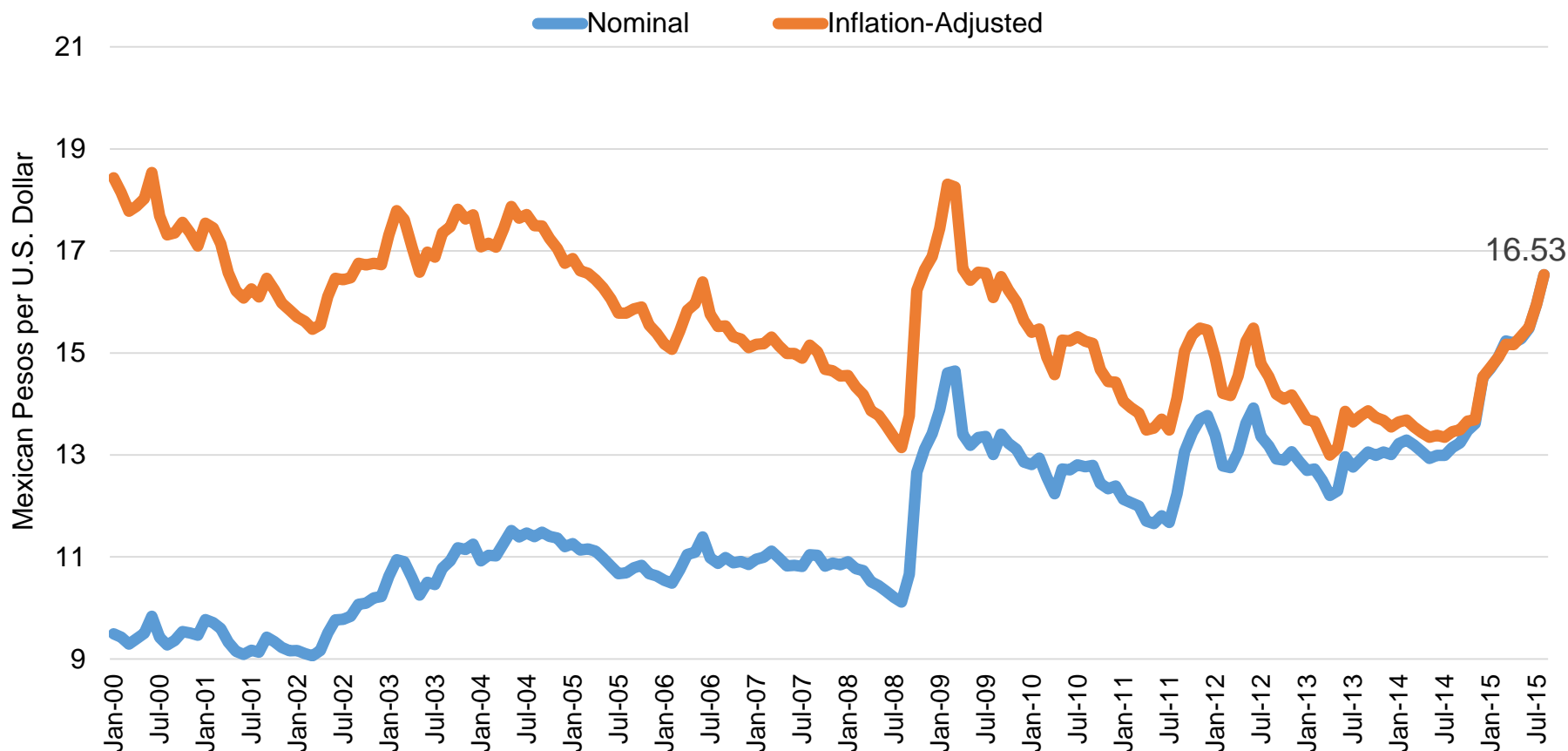


Source: Banco de México

From 2009 to 2014, exchange rates encouraged being paid in pesos versus dollars, on an inflation-adjusted basis.

This trend has reversed itself in the last year.

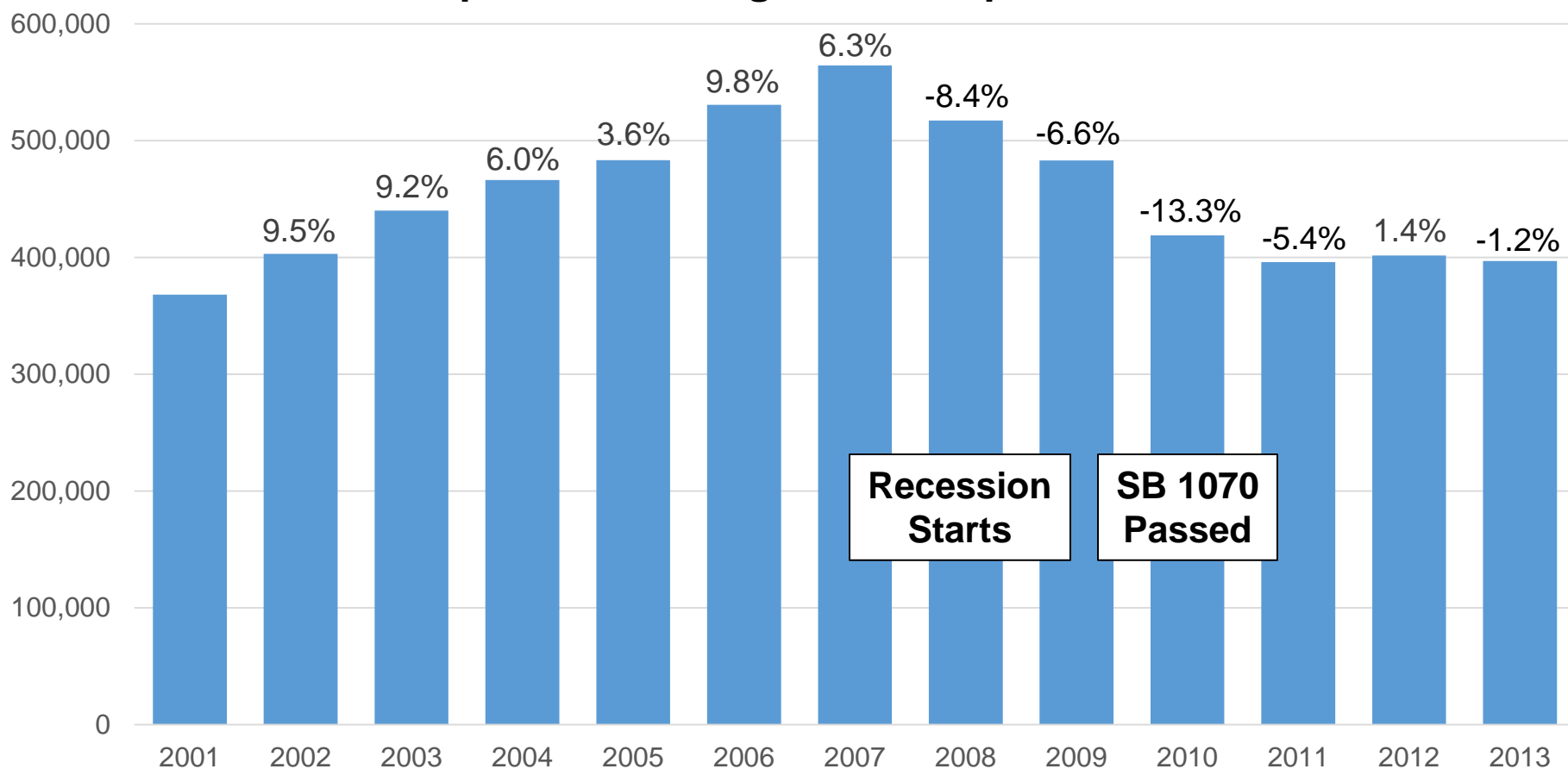
Mexican Pesos per U.S. Dollar, Nominal and Inflation-Adjusted



Sources: Board of Governors of the Federal Reserve System; Banco de México; John Burns Real Estate Consulting, LLC

The Recession and Arizona's 2010 passage of SB 1070 combined to reduce Arizona's foreign-born Hispanic population 30% to 2002 levels.

Arizona Population: Foreign-Born Hispanic, Non-Citizen

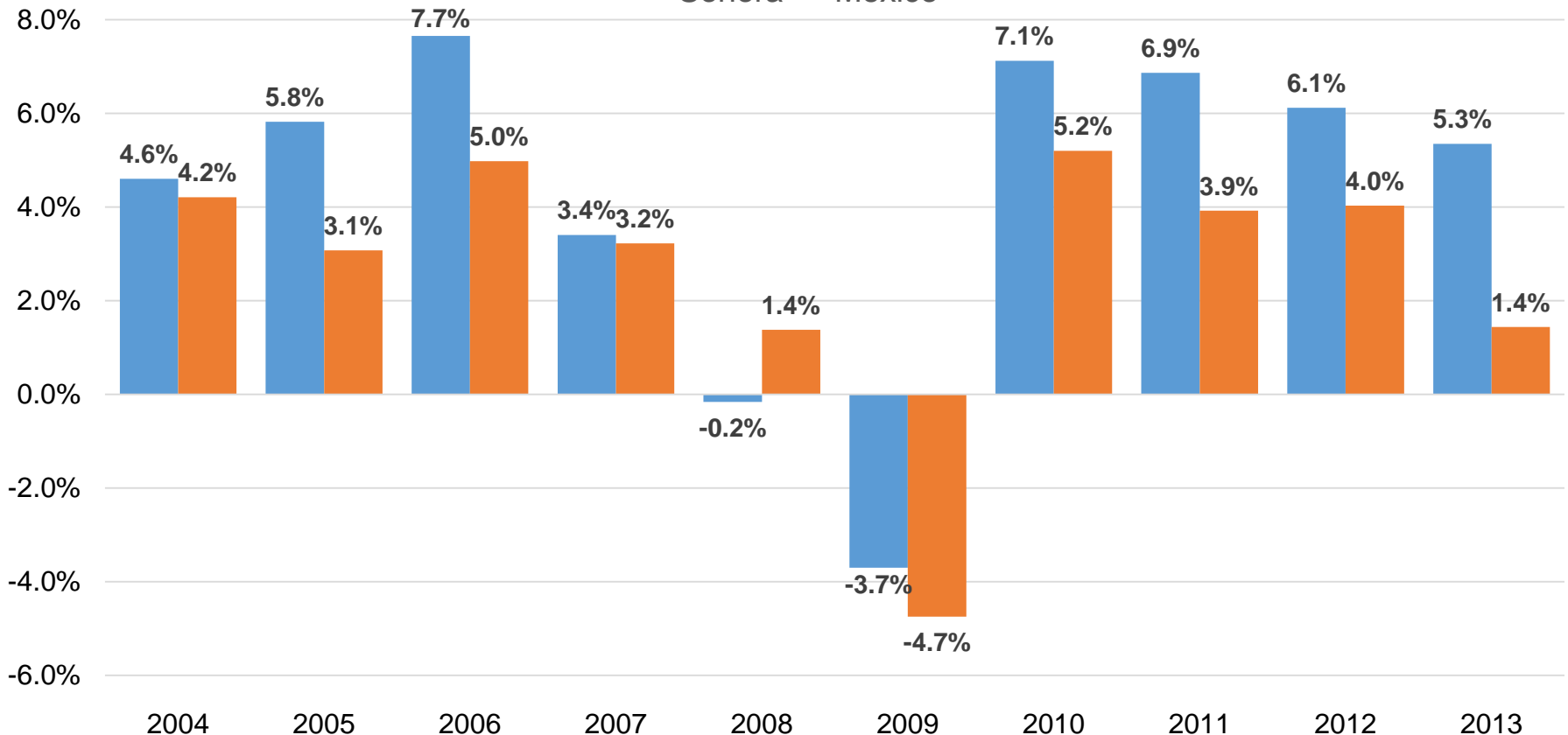


Source: U.S. Census Bureau American Community Survey via IPUMS

A strong economy in the Mexican state of Sonora just across the Arizona border has made staying in Mexico more attractive.

Real GDP Growth

■ Sonora ■ Mexico

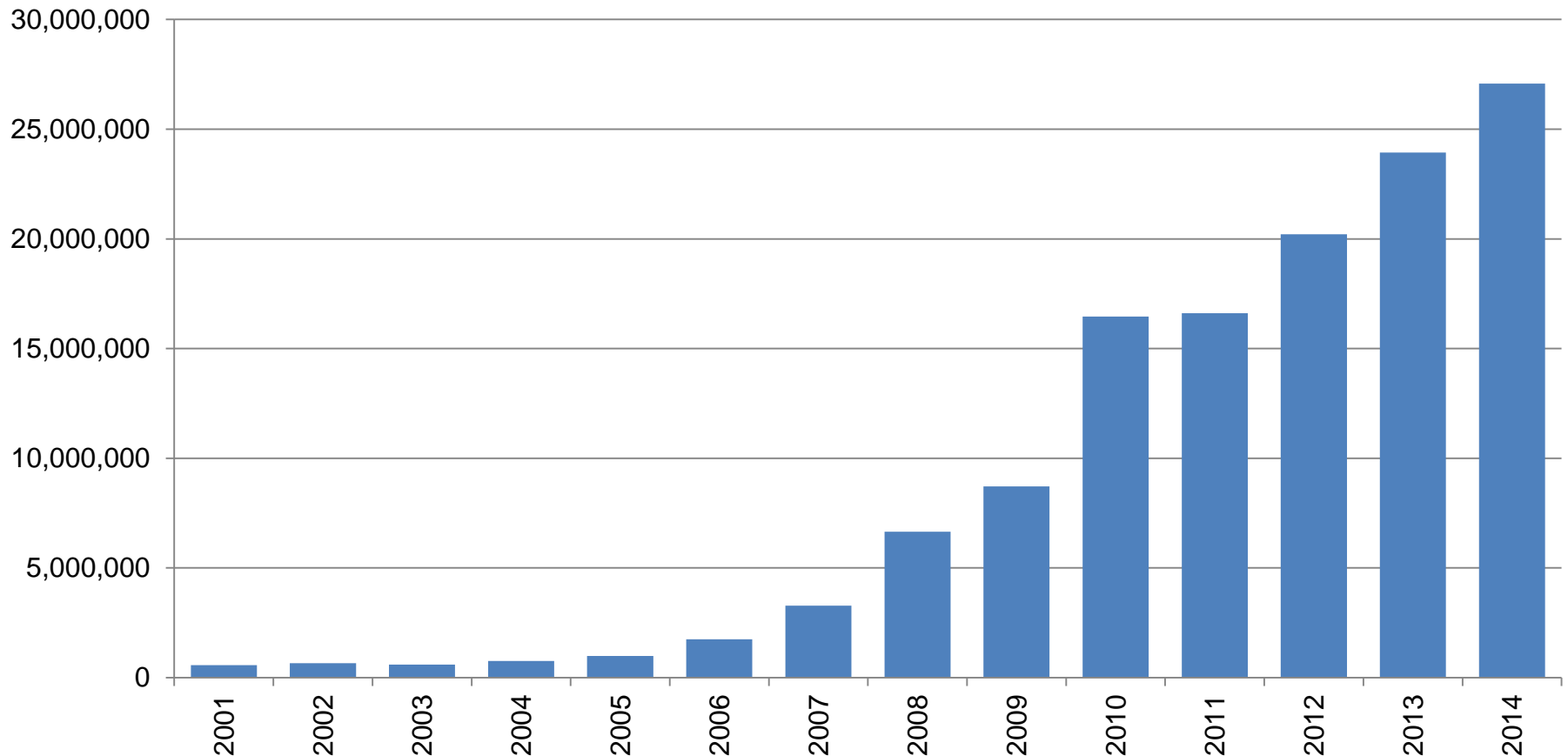


Source: Instituto Nacional de Estadística y Geografía (INEGI)

Technology has made it easier for employers to verify whether potential hires are in the country illegally.

600,000+ employers now use the internet-based E-Verify system to confirm 27 million+ cases per year of employment eligibility.

Number of E-Verify Cases, FY2001-FY2014



Source: U.S. Citizenship and Immigration Services

In summary, construction costs should rise partially because many of the experienced 570,000 Mexico-born construction workers who left the industry will not return.

1. Enforcement:

1. Border patrol has doubled since 2004.
2. The government has heavily invested in border technologies, including drones.
3. Deportation levels have accelerated the last 7 years, also making returning to the U.S. more difficult.
4. E-Verify has made it much easier for employers to verify legal status, and the government has been cracking down on employers who do not verify.

2. Profiling:

1. Arizona's passage of SB 1070 in 2010 allowed police to pull over anyone of "reasonable suspicion."

3. Economy:

1. Strong economy in Mexican state of Sonora (just across the Arizona border).
2. Exchange rates encouraged being paid in pesos versus dollars from 2009 to 2014. (This trend has reversed itself in the last year.)

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