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## In This Issue

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Reclaimed timbers

## Featured Project:

### San Juan Island Master Builder DAN LOWE

Bear Creek Lumber counts Dan Lowe as one of our best customers. His work highlights everything about Bear Creek Lumber's appeal to our clients, ie. quality, natural beauty and the art of wood in a home.

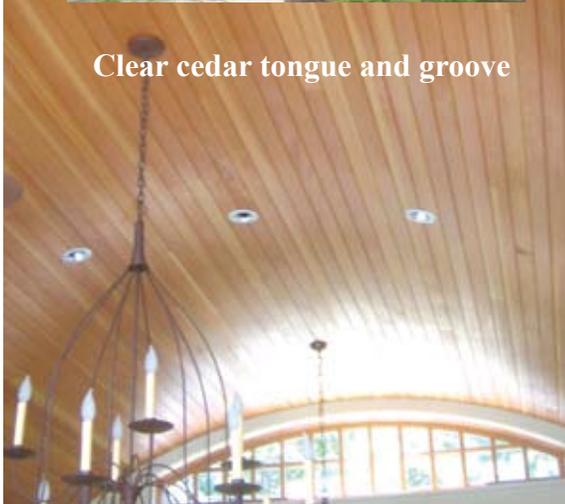
In these photos by Cloud Bannick, you can see how Dan has done justice to a variety of architectural styles, using natural wood and stone to blend into the (Washington) San Juan Island environment. Of the many homes, Bear Creek has worked with Dan on, these have a real "wow" factor. We thank Dan for sharing them with us.



Dan Lowe



Clear cedar tongue and groove



Clear cedar bevel siding



## Could immigration reform kill the housing boom?

Up to 40% of home building is done by undocumented aliens. But no one's talking about what a crackdown could do to real estate prices.

For the home building industry, the immigration debate raging in Washington is anything but abstract. It's the biggest issue nobody wants to talk about.

Frank Fuentes, president of the Hispanic Contractors Association, queried his 20 largest member firms about this issue and no one was willing to go on record. "They're scared to death of being raided," says Fuentes.

By one estimate, up to 40 percent of new-home construction in the U.S. is being done wholly or partly by undocumented immigrants. Fuentes suspects the percentage in his home state of Texas is closer to 80 percent.

According to a study by the Pew Hispanic Center, 36 percent of insulation workers, 29 percent of roofers, and 28 percent of drywall installers are "unauthorized workers."

Big builders don't employ construction workers, legal or illegal. They hire subcontractors that in turn hire the workers who do the actual sawing and hammering.

"The entire home building business is outsourced," says A.G. Edwards analyst Greg Gieber. It's unclear whether this setup will protect builders should the feds start enforcing immigration laws more vigorously.



Red Cedar sidewall shingle siding and channel siding  
Pictures by Cloud Bannick Builder: Ravenhill Construction

**The U.S. population is on target to hit 300 million this fall** and it's a good bet the milestone baby - or immigrant - will be Hispanic. No one will know for sure because the date and time will be just an estimate.

But Latinos - immigrants and those born in this country - are driving the population growth. They accounted for almost half the increase last year, more than any other ethnic or racial group. White non-Hispanics, who make up about two-thirds of the population, accounted for less than one-fifth of the increase.

Phil Shawe sees the impact at his company, Translations.com. The New York-based business started in 1992, when it mainly helped U.S. companies translate documents for work done overseas. Today, the company's domestic business is booming on projects such as helping a pharmacy print prescription labels in up to five languages or providing over-the-phone translation services for tax preparers. "It's been a huge growth area for our business," said Shawe, the president and chief executive. "Not only is the Hispanic market growing faster than the average, but it is also growing in purchasing power." When the population reached 200 million in 1967, there was no accurate tally of U.S. Hispanics. The first effort to count Hispanics came in the 1970 census, and the results were dubious. The Census Bureau counted about 9.6 million Latinos, a little less than 5 percent of the population. The bureau acknowledged that the figure was inflated in the Midwest and South because some people who checked the box saying they were "Central or South American" thought that designation meant they were from the central or southern United States.

Most people in the U.S. did not have any neighbors from Central America or South America in the 1960s. The baby boom had just ended in 1964, and the country was growing through birth rates, not immigration, said Howard Hogan, the Census Bureau's associate director for demographic programs. More census info: <http://www.census.gov/main/www/popclock.html>

## Housing Growth in Texas

Construction in Texas Hill Country began on nearly 16,500 new homes last year, said Jack Inselmann, vice president of the U.S. Central region for American Metrostudy, a national housing market research firm.

That's up 27 percent from 2004, part of a trend that has held steady for 15 years. And the local housing economy shows no signs of cooling off, Inselmann said. His projections for 2006: 18,000 housing starts. It's not just new construction. All housing, experts say, is good housing in the Alamo City.

In 2005, buyers purchased a record 20,000 existing homes in San Antonio, said Travis Kessler, president and CEO of the San Antonio Board of Realtors. Fortune magazine recently wrote that San Antonio's real estate appreciation -- new and existing homes -- will top the nation this year.

Builders and real estate officials are cautious in their description of the growth.

They shy away, for example, from calling it a "housing boom." "This isn't a boom market," said Dean Morris of Sierra Homes. "It's a growing market. We may even see the rate of growth slow, but it will continue to grow." "It's not exploding," said Jeff Buell of Sitterle Homes, which is developing Roseheart, a garden home community off Bulverde Road. "It's a steady pace." "This is the largest pull I've ever seen," said Rick Barnett of Fieldstone Properties.

## Housing Market: What Goes Up...?

Sales of new homes rose in May, surprising economists who had been forecasting that housing would slow down because of rising mortgage rates.

The Commerce Department reported that sales of new single-family homes increased by 4.6 percent in May to a seasonally adjusted annual rate of 1.234 million units. The median price of homes sold did decline to \$235,300, a drop of 4.3 percent from the April sales price.

Analysts are still looking for sales of both new and existing homes to fall by around 10 percent this year as rising mortgage rates crimp demand. The lowest mortgage rates in four decades helped to propel sales to five straight annual records.

The pace of U.S. housing construction rose more than expected in May after three months of declines as ground-breaking on both single-family and multifamily units jumped, a government report showed.

The Commerce Department said May housing starts rose 5.0 percent in May to a 1.957 million unit annual pace compared to an upwardly revised 1.863 million unit rate in April.

Housing starts in May rose 15.8 percent in the West, 8.5 percent in the South and 1.7 percent in the Northeast. They fell 15.8 percent in the Midwest.

### Housing in California

While California produced 10 percent of the nation's housing last year, supply remains well short of demand. Distribution is by no means even in California, though. Of the state's more than 500 cities and counties issuing permits, 6 percent accounted for 50 percent of the activity. The leaders were the city of Los Angeles and Riverside County. The Los Angeles area is in a contrary state as far as residential real estate is concerned. The annual rate of appreciation is now in single digits in lots of places. Except the Los Angeles area. The new home market also offers proof of this contrariness. As measured by permits pulled by builders, home construction fell 10.5 percent in the first four months of this year versus 2005.

The housing market is entering a down cycle, according to a report from Harvard's Joint Center for Housing Studies, but is unlikely to undergo a severe reversal.

The market may face risks as interest rates rise, decreasing affordability and expanding inventories, according to the study, but the market will suffer only a modest downturn unless the broader economy collapses and jobs dry up.

"There may be tough times ahead," says Nicholas Retsinas, director of the Joint Center for Housing Studies at Harvard, "but housing will emerge stronger than ever."

Demographic changes and population expansion will help keep home demand - and prices - healthy. The number of homes needed to meet demand in the next 10 years will likely exceed the 18.1 million units built from 1995 to 2004.

U.S. home-builder sentiment sank to its lowest in more than 11 years in June as rising interest rates made houses less affordable and sent speculators fleeing, an industry group said on Monday.

The National Association of Home Builders/Wells Fargo Housing Market Index of sentiment fell 4 points to 42 in June from an upwardly revised 46 in May, the National Association of Home Builders (NAHB) said. The median forecast of analysts polled by Reuters was for a level of 45.

The index at its lowest since April 1995 suggests new home sales will drop by 13 percent in 2006 from a record last year, said David Seiders, chief economist of the NAHB.

Risks to NAHB forecasts include the potential for "large numbers" of canceled contracts by speculators and if Federal Reserve policy-makers raise their target interest rate after an expected quarter-point rise this month, he said. Cancellations are already "pretty darn high" and moving higher, he said.

What may contract this slide is

- a) **Booming household growth.** The nation will add 1.37 million new households this year. Part of this is natural population increase but this has also been bolstered by foreign migrants.
- b) **Graying boomers.** As boomers have aged and prospered, they have begun to buy vacation or second homes in increasing numbers. This trend will widen as they near retirement.
- c) **Changing household composition.** Social and cultural changes add to the number of households. There are more single-person households than in the past. Fewer adult children live with their parents; they establish their own homes. Increases in divorce rates result in the division of multi-person households into smaller ones. Family sizes have shrunk; a community may have about the same population but more households.

The bottom line is that the U.S. economy is sound and that any softening in housing markets should firm up before long. It's a big country; a lot of different areas have their own characteristics and it's hard to generalize. "Long term fundamentals are still positive," he says, "but some areas may be more susceptible to a slide." As Lawrence Yun, managing director of quantitative research for the National Association of Realtors, points out, in general, places with expensive housing are often the hardest places to build.



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