

RESEARCH

Slowing immigration from Mexico could increase luxury housing supply

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Beverly Hills, CA estimated at \$3.52 million via Zillow

By FORREST CARDAMENIS

Unnoticed in the ongoing conversation about the United States' undocumented immigrants is that it could have a tremendous impact on the housing market, according to a survey by Zillow and Pulsenomics.

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With an election coming later this year, televised debates are dominating the airwaves, and the issue of undocumented immigrants has cropped up once again. Real estate marketplace Zillow and research and consulting firm Pulsenomics' research suggests that slowed immigration could indirectly lead to more luxury real estate construction.

For the quarterly ZHPE survey, 104 housing experts were asked a series of questions between Jan. 27 and Feb. 9 to make predictions about the housing market. Of those, 85 answered questions about what role immigration could play in the market.

"Illegal immigrants have historically been a large share of workers in some industries, including construction, where they were about 15% of the labor force in 2012 (versus 5% for U.S. born in 2012 according to the [Pew Hispanic Center](#))," said Svenja Gudell, chief economist at [Zillow](#). "If there is less supply of labor, wages should go up to meet demand. Also, US born-workers often expect higher wages."

Domino effect

As the researchers note via [Pew Hispanic Center](#), the number of immigrants entering the U.S. illegally has remained flat for more than five years, and the overall undocumented Mexican immigrant population in the country is currently less than what it was in 2007.

More than two-thirds of those surveyed noted that an immigration slowdown would drive up construction labor costs. Undocumented immigrants are often paid less than other workers, so a shift in the labor force toward U.S.-born or documented foreign workers will result in a corresponding increase in labor cost.



San Diego, CA home for sale via Zillow

Consequently, more luxury real estate buildings and other high-end construction would be built instead of single-family homes as builders prioritize projects with larger profit margins.

"While housing policy has not been a big talking point thus far in this election cycle, immigration policy certainly has, and immigration plays a big role in housing," said Zillow chief economist Dr. Svenja Gudell in a statement. "The supply of homes for sale isn't keeping up with demand especially among entry-level homes that first-time buyers want.

"New-home construction has been sluggish, and homes that are getting built are aimed at a higher-end clientele," she continued. "If builders hire relatively more expensive U.S.-born workers, they may continue to focus on the more profitable higher end of the market."



Scottsdale, AZ home estimated at \$11.5 million via Zillow

Other experts suggested similarly. More than half of the surveyed experts said the decline of single-family homes and a corresponding shift in high-end projects is attributable to higher labor costs.

Only 10.6 percent of those surveyed predict that construction labor costs will go down, and a mere 2.4 percent predict that slower immigration will have an impact on rent growth or demand. At the luxury level, however, increased supply will likely result in lower prices.



Bel-Air Road, Los Angeles home estimated at \$23.35 million via Zillow

Although one what initially assume that border states such as California, Arizona and Texas will see the largest effect in the market, this is not necessarily true. Undocumented immigrants make up 31 percent of the labor force in Tennessee, 29 percent in Virginia and 20 percent in Georgia.

Trending down

Regardless of the impact immigration changes may have in the coming years, luxury real estate is already generally trending down.

Nevertheless, in an apparent reversal of that ongoing trend, luxury real estate prices in the U.S. increased in the fourth quarter of 2015 by 3.1 percent from the year-ago period, according to real estate brokerage Redfin.

The first three quarters of 2015 all saw the market slumping, but big gains in Philadelphia, Austin, TX and Sacramento, CA buoyed the market. Despite the good news, stock market volatility is leading big markets to decline and oil prices are shaking up some traditionally strong markets, so the increase may be an anomalous highpoint within a continuing downward trend ([see story](#)).

Immigration waves can impact housing markets in other ways as well.

For example, Realogics Sotheby's International Realty (RSIR), the brokerage's largest Pacific affiliates in the Pacific Northwest, recently launched a publication geared toward the region's influx of Chinese individuals.

The all-Mandarin "Seattle Luxury Living," released in partnership with Tiger Oak Publications, will target the affluent Chinese who have immigrated to or are visiting the Seattle metropolitan area, particularly Bellevue, WA, as the area is currently undergoing an immigration wave. Speaking to consumers in their own language is a necessary step in forming strong relationships and converting sales ([see story](#)).

"If there is less supply of labor, wages should go up to meet demand," Ms. Gudell said. "Builders lately have been focused on higher-end construction, because there's more profit to be made there, but relatively more supply at the top is a factor in causing [luxury home values to slow down a bit compared to middle-tier and entry-level homes](#). More luxury supply relative to other kinds of homes could reinforce this trend."

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