

THE IMPACT OF IMMIGRATION AND TARIFFS ON THE CONSTRUCTION INDUSTRY

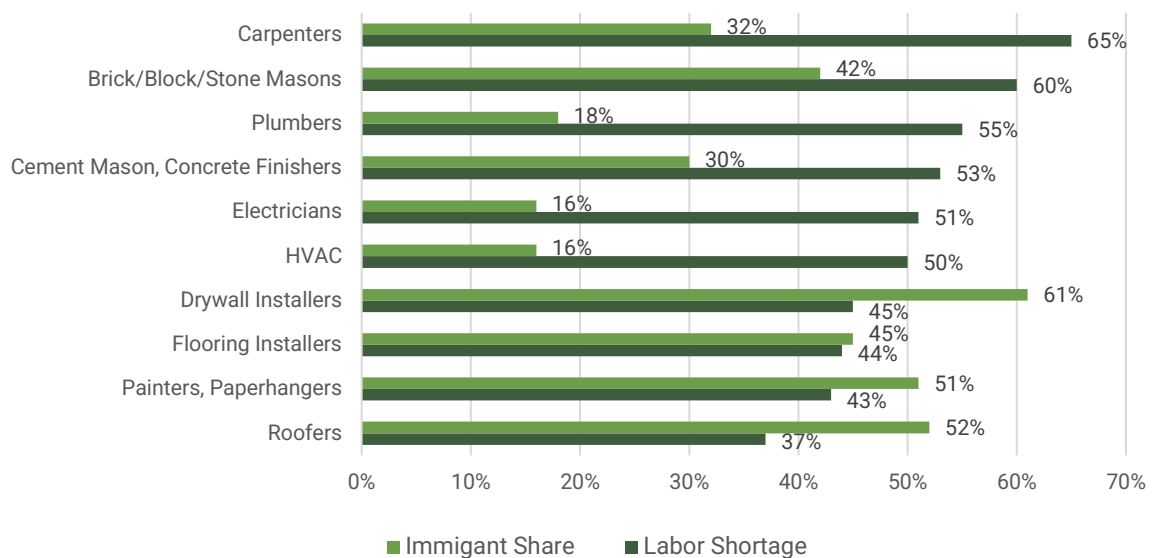
MAY 2025

LABOR DYNAMICS

The U.S. construction industry depends significantly on immigrant labor, particularly in trades like painting, roofing, and flooring. While these roles are necessary for the completion of construction projects, current labor shortages are more severe in licensed trades – such as plumbing and electrical work – which have lower immigrant participation.

Data indicates that the labor participation rate for existing immigrant workers remains relatively stable, and the unemployment rate for immigrants has been declining recently. While current immigration policies have not demonstrably impacted workforce participation at present, an increase in labor shortages may lead to extended construction timelines.

Figure 1: Breakdown of Immigrant Share and Labor Shortage¹



POLICY CONSIDERATIONS

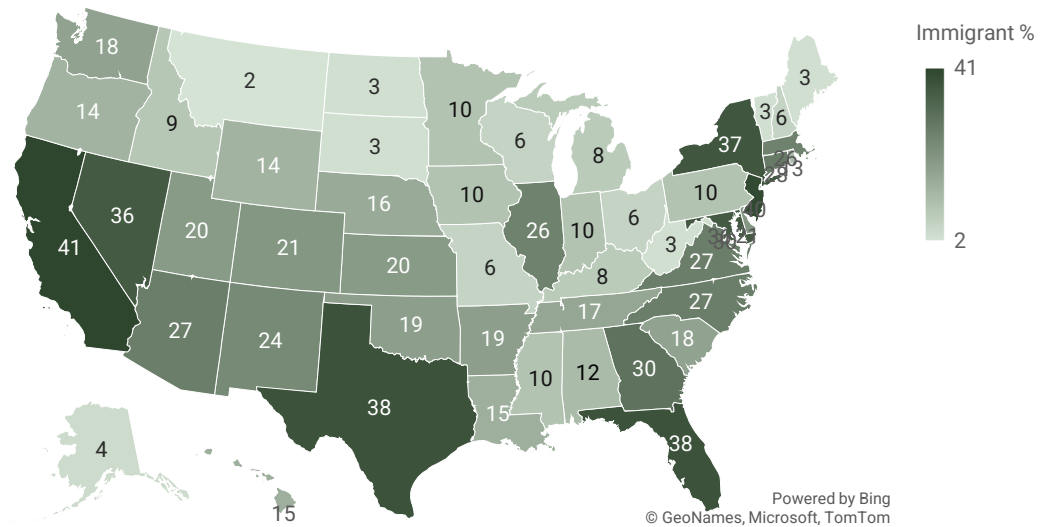
The current immigration policy is primarily focused on illegal immigration, which is challenging to accurately measure. This population is often estimated and inferred based on surveys and border apprehensions. Historical data indicates that current housing starts are comparable to periods with lower undocumented immigration populations.

Another important dynamic to note is that the immigrant construction workforce is diverse. Not all immigrants are unauthorized or from targeted regions such as Central and South America. For instance, construction workers in northeastern states are often from Eastern Europe.²

¹ National Association of Home Builders, Bureau of Labor Statistics, US Census.

² National Association of Home Builders.

Figure 2: Immigrant Share (%) of the Construction Labor Force, 2023³



TARIFFS AND CONSTRUCTION COSTS

The construction industry could face significant headwinds from tariffs on imported materials. According to Morgan Stanley's *US Housing and Tariffs*, approximately 70% of home construction inputs are goods, with roughly 25% being imported. Tariffs on steel, aluminum, and products from countries like China, Canada, and Mexico would increase material costs, potentially significantly, depending on the size of the tariff. Historically, domestic producers have also raised their prices when tariffs were imposed on imports, further amplifying the overall cost impact on U.S. construction.

Taking lumber as an example – which constitutes about 16% of total home construction costs – imposing a 25% tariff would lead to a relatively modest 1-2% increase in overall construction costs. When combined with the impact of proposed tariffs on all construction materials, the total cost increase could reach ~5%; a margin compression that is painful for builders targeting 25% gross margins.

Figure 3: SF Cost Breakdown⁴

	2013	2015	2017	2019	2022	2024
Site Work	6.8%	5.6%	6.7%	6.2%	7.4%	7.6%
Foundation	9.5%	11.6%	10.8%	11.8%	11.0%	10.5%
Framing	19.1%	18.0%	17.3%	17.4%	20.5%	16.6%
Exterior Finishes	14.4%	15.0%	13.9%	14.1%	11.8%	13.4%
Major Systems	13.4%	13.1%	13.8%	14.7%	17.9%	19.2%
Interior Finishes	29.3%	29.6%	28.6%	25.4%	24.0%	24.1%
Final Steps	6.6%	6.8%	7.0%	6.8%	5.9%	6.5%
Other	0.9%	0.5%	2.0%	3.8%	1.5%	2.1%

³ National Association of Home Builders, Pew Research.

⁴ National Association of Home Builders, Bureau of Labor Statistics, US Census.

MACRO OUTLOOK

A way for developers to blunt the potential dual impacts of immigration and tariffs is to build smaller homes, a trend that has already been noticeable over the past decade according to the US Census Bureau. This approach not only helps control costs but also maintains the valuations of larger, completed projects despite persistent affordability issues. With bipartisan recognition of the broader housing shortage, there is also potential for more balanced and pragmatic policies to emerge. These policies could help address the supply-demand imbalance and foster a more stable environment for home price appreciation.

CONCLUSION

In conclusion, the construction industry is at a crossroads, influenced by immigration policies and tariffs on imported materials. By understanding and addressing these factors, industry leaders can navigate the complexities and continue to drive growth in the sector.

DISCLAIMER

These materials discuss general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. Recipients are urged to consult with their financial advisors before buying or selling any securities. The information included herein may not be current and Saluda Grade has no obligation to provide any updates or changes. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained herein. Certain information contained in these materials has been obtained from published and non-published sources prepared by third parties, which, in certain cases, have not been updated through the date hereof. While such information is believed to be reliable, Saluda Grade has not independently verified such information, nor does it assume any responsibility for the accuracy or completeness of such information. Except as otherwise indicated herein, the information, opinions and estimates provided in this presentation are based on matters and information as they exist as of the date these materials have been prepared and not as of any future date and will not be updated or otherwise revised to reflect information that is subsequently discovered or available, or for changes in circumstances occurring after the date hereof. Saluda Grade's opinions and estimates constitute Saluda Grade's judgment and should be regarded as indicative, preliminary and for illustrative purposes only. Certain information contained in this document constitutes forward-looking statements, and there is no representation or guarantee that they will occur.