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2005: A Record Year

In 2005, as records for construction were broken month after month, Bear Creek Lumber has been working hard to keep up with demand. Even with a smaller staff, we were able to accomodate both our existing customers as well as develop many new ones.

Bear Creek Lumber customers range from custom builders, building multi-million dollar homes to do-it-yourselfers who are remodeling a bathroom. We have airplane manufacturers, custom furniture makers, boat builders, restoration companies working on historical projects, hotels, studios, and landscape architects who regularly use our materials.

Over the years, the inventory has decidedly moved into the direction of the best grades of Western lumber with some occasional speciality hardwoods from various international sources.

Our suppliers include the largest mills in the Northwest as well as family-run mills and logging operations. In pursuit of the best, Bear Creek Lumber is always on the lookout for new and improved sources, especially as many mills have shut down over the years. In addition, we have our own timberlands which provide a small but sustainable supply of excellent quality Douglas fir products, from logs and timbers to 4/4 and 8/4 boards.

Bear Creek Lumber's dedicated staff

(pictured above) continues to improve the services the company can offer, researching treatments, milling, better delivery and quicker turnaround on in-stock orders.

Bear Creek's tradition of small company friendliness, and nationwide services continues to bond us with our customer base. We look forward to another year of working with our many varied clients on their specialty needs.



Happy Holidays
FROM ALL OF US AT BEAR
CREEK LUMBER

Winter Schedule

Bear Creek Lumber celebrates the winter holidays as a point in our business year when demand lessens, and hard work is rewarded with a little R&R. We will have closures on the following days, and limited staffing from Thanksgiving until after Martin Luther King weekend.

Closures/No staff available these days only

Thanksgiving Nov. 24th-25th

Christmas December 23rd

Inventory (*open for phone sales only*) Dec. 26th-Dec.29th

New Years Dec. 30th

Martin Luther King weekend Jan. 16th

Mortgage Deduction Battle Looms

Owning a home may become less tax-friendly than it has been, if suggestions from the president's tax-reform panel are considered seriously by Congress in the next year or so. The real estate industry is seeing red and home buyers in California and other high-price areas are feeling blue.

The bipartisan panel is charged with making proposals for ways to reform the tax code. President Bush instructed the panel to come up with suggestions to make the tax code simpler, fairer and more geared to promoting economic growth. Among other things, Bush instructed the panel to make sure that any revised code continues to promote homeownership. The housing industry led the current recovery.

While preserving tax incentives to buy a home, the panel said it has considered changes that address issues of fairness and economic growth. Among the recommendations: eliminate the mortgage interest deduction and replace it with a 15 percent credit for mortgage interest paid during the year.

That part sounds OK, since a credit is a dollar-for-dollar reduction in how much tax you owe. What is to be determined is that the size of the mortgage qualifying for a credit and whether it will be limited to the Federal Housing Administration loan limit. In Los Angeles County, the limit is \$312,895. Houses there cost a lot more than that.

Currently, the interest on mortgages up to \$1 million may be deducted at a homeowner's marginal, or top income tax rate. That is, the rate on which their last dollar is taxed. In addition, when selling a home, owners may keep \$250,000 in capital gains tax-free if they're unmarried, or \$500,000 if they're married, filing jointly.

How fair are they? Those breaks are heavily skewed toward high-income tax payers, said panel member James Michael Poterba, associate head of the economics department at MIT. The top 2.2 percent of tax returns claim 22 percent of the benefits from the mortgage-interest deduction, he noted.

And the deduction disproportionately benefits homeowners who itemize their deductions. In 2002, of the 130 million federal tax returns filed, only 46 million itemized. Of those, 37 million claimed the mortgage-interest deduction. (Those who don't itemize just take the standard deduction, which they would get even if they didn't own a home.)

The current code, economists argue, disproportionately favors real estate over other investments. That's because there is not an exemption on capital gains earned on stocks, and many bonds.

Why mess with a good thing?

Economists say that investment in other forms of capital would increase productivity, and thereby economic growth at a much greater rate than a home purchase. This raises three basic questions about this tax credit proposal:

- Will the mortgage credit be available for owners of houses costing more than the FHA loan limit in their community?

- Will owners of homes costing more than the FHA limit be able to take the interest credit up to the loan limit?

- If the answer to the last question is yes, just how will the credit be computed?

Options the Panel considered:

- ** Reducing from \$1 million the size of a mortgage on which interest may be deducted. If such a proposal were made, it's possible that the mortgage size would vary by region depending on local home prices.

- ** Replacing the mortgage-interest deduction with a tax credit, allowing all homeowners with a mortgage to get a tax break -- not just those who itemize.

- ** Reducing the tax rate at which mortgage interest may be deducted. Likely a proposed rate would be a middle-income tax rate, such as 15 percent or 25 percent. That would preserve the benefits of homeownership for middle-income taxpayers, Poterba said.

- ** Reducing the total capital gains exempted from tax.

- ** Combining two of these elements by reducing the capital-gains exemption threshold, and lowering the deduction rate on mortgage interest.

Members of the panel stressed that if any changes were made, there would have to be a gradual transition period so as not to upset the housing market, or harm current homeowners. The transition might involve grandfathering in the tax breaks enjoyed by current homeowners, or phasing them out slowly.

Making changes worries many in the construction industry who believe that the country made a promise to a lot of people, that they would be able to deduct their mortgage interest. Realtors feel even discussing the options could put a major damper on the housing industry.



Industry News

The forecast for home sales has trended up as the year progressed, fueled lately by added demand resulting from the impact of recent hurricanes, according to the National Association of Realtors(R). David Lereah, NAR's chief economist, said that at the beginning of the year it was thought that 2005 would be the second best total for both existing and new home sales, but by June it was apparent that another record was in the works. "Post-Katrina, our sales projections for this year have moved even higher," Lereah said. "Short-term momentum is very strong, and our Pending Home Sales Index just set a record. In addition to the housing needs of hurricane victims, we may be seeing some 'fence jumping' from home buyers who are getting into the market before interest rates move higher."

Existing-home sales are forecast to rise 4.2 percent to 7.07 million in 2005, while new-home sales are expected to increase 7.1 percent to 1.29 million. Total housing starts - single-family and multifamily - should be up 4.5 percent to 2.04 million units this year, the best showing since 1973, and single-family starts are seen at a record of 1.70 million. The 30-year fixed-rate mortgage is projected to reach 6.2 percent in the fourth quarter, and trend up to 6.7 percent by the end of next year. The national median existing-home price for all housing types is forecast to increase 12.5 percent in 2005 to \$208,400, while the median new-home price should rise 3.9 percent to \$229,700. **NAR President Al Mansell of Salt Lake City said some easing in home sales is expected in 2006.** "The rise in mortgage interest rates is likely to have a slight breaking action on the housing market, and the upside of that is it would help to bring the market closer to balance between home buyers and

sellers," he said. "As a result, there should be a cooling in the rate of price growth - on balance, the overall market should continue to favor sellers with price appreciation remaining above the high end of historic norms. The investment fundamentals for housing remain solid." **In 2006, NAR expects the median existing-home price to grow by 5.2 percent and the median new-home price to rise 7.1 percent.** Historic home-price gains are 1.5 percentage points above the rate of inflation, which is seen at 2.6 percent next year.



Future Buildout In Hurricane Zone

From Texas to New England, coastal communities are growing by about 1,300 people every day despite a decade-long surge of hurricanes that has peaked this year with the most in any season on record.

In the 169 counties along the Atlantic and Gulf coasts, population has grown by more than 2 million since 2000 to 44.3 million. About 1.6 million of these new residents live in the stretch from Virginia to Texas that is most vulnerable to hurricanes, and is home to 25.4 million people. About 1,000 move into in these areas every day. The growth rate in that part of the country is almost twice the national rate.

What drives this boom? More retirees seeking oceanfront lifestyles, combined with the low interest rates that spurred sales of vacation homes. The number of second homes soared 16% to 2.8 million from 2003 to 2004, the National Association of Realtors says.

Will more hurricanes change people's minds about beach living?

Not likely. Americans are on the move and they love beachfront.

According to new studies from the Brookings Institution and Virginia Tech urban planning professor Robert Lang, we're about to pick up the pace -- it will take just 25 years to erect the next 200 billion square feet, which we'll need to accommodate 70 million more people and to replace homes and offices erased by everything from disasters like Hurricane Katrina to plain old obsolescence.

If you think the real estate boom of the past decade was bounteous, peek a little further over the horizon: Researchers estimate that the massive buildout will constitute a \$25 trillion development market by 2030, more than twice the size of the U.S. economy today.

Americans will sooner or later have to reconcile their desire to live in these favored areas to the realities of how the concentration of populations are affected by natural disaster. The situation this year has emphasized how fragile human endeavor is when compared to the forces of nature. As in the tale of the three little pigs, how we build will determine how safe our future will be.

A logo for Bear Creek Lumber. It features a stylized house shape with a brown outline. Inside the house, there are several green pine trees and a red sun with rays. Below the house shape, the text "Bear Creek Lumber" is written in a serif font, and "TIMBERLINE" is written in a larger, bold, blue serif font. Below the text, there is contact information: "P.O. Box 669 Winthrop, WA 98862", "www.bearcreeklumber.com", "(800) 597-7191 fax (509) 997-2040", and "Ela Bannick, Editor Joe Hammer, Sales Specials".

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