Despite a variety of challenging conditions, the home improvement industry can look for numerous growth opportunities over the next decade. Strong demand for rental housing has opened up that segment to a new wave of capital investment. At the same time, the shortage of affordable housing in much of the country makes the large stock of older homes an attractive option for buyers willing to invest in upgrades. And specialty improvement products and services focused on energy efficiency, environmental sustainability, and home automation continue to gain appeal, particularly among the new generation of homeowners.

**RISING INVESTMENT IN RENTALS**

With the addition of ten million new renters on net in 2005–2015, the national “rentership” rate shot up by about 6.0 percentage points over the decade, to over 37 percent. Low vacancy rates and rising rents helped to lift real multifamily property values in 2015 almost one-third above the previous market peak. And with renter mobility rates near historic lows, property owners had a steady income stream to support improvements to their units. As a result, investments in rental properties have been on the rise (Figure 21). Growth in per unit outlays climbed at an impressive 12 percent average annual rate from 2010 to 2015, suggesting that property owners are upgrading rather than simply maintaining their units in their current condition.

Even though multifamily property values are likely to stabilize in the coming years, healthy growth in rental improvement spending should continue. The rental stock is relatively old, with a median age of more than 40 years. And as a Joint Center analysis of HUD’s 2012 Rental Housing Finance Survey found, average improvement spending on units that are at least 50 years old is twice that on units under 10 years old. In addition, MPF Research data show that national occupancy rates for generally less desirable Class C units have begun to increase more rapidly than for Class A rentals, indicating that demand is growing broadly across the rental stock.

While a wide range of metros has posted significant increases in rental improvement spending in recent years, some of the largest gains have been in areas with large supplies of older, outdated units that can help meet demand for modernized yet relatively affordable rentals. In Denver, Detroit, and Minneapolis, for example—areas with older housing stocks but strong rental demand—improvement spending grew by 30 percent or more per year between 2010 and 2015. In a growing
number of metros, the cost of new construction is too high to build rental housing for moderate-income households. As a result, construction of new multifamily properties has been leveling off as owners of existing rental properties are investing more heavily in upgrades to meet rising middle-market demand.

REINVESTING IN THE OWNER-OCCUPIED STOCK
While increasing more slowly than investment in rental units, improvement spending on the owner-occupied housing stock is also poised for further growth. Low levels of new construction in recent years have pushed up the median age of owner-occupied homes to nearly 40 years. In addition, homeowners spent significantly less on improvements after the housing market crash, generating substantial pent-up demand for repairs and renovations.

In particular need of upgrading are the owner-occupied homes converted to rentals during the recession. According to Joint Center estimates, the surge in distressed single-family properties, coupled with soaring rental demand, encouraged conversion of more than three million single-family homes to rentals between 2007 and 2011. While their homes were being rented, owners had little incentive to make discretionary improvements. Some of these units have already returned to the owner-occupied stock, and many others are likely to follow as the homebuyer market strengthens, leaving new owners to make up for years of underinvestment.

Older homes occupied by older adults are also likely to need significant upgrades. A majority of owners age 65 and over have lived in their current homes for at least 20 years (Figure 22). That share increases substantially with age, reaching fully two-thirds for owners age 80 and over. Retired owners often have limited incomes and are generally less likely to invest in home improvement projects than younger households.

At the same time, though, most older owners prefer to remain in their homes as they age. Some have in fact been able to achieve this goal thanks to accessibility improvements to their homes and/or the ability to afford in-home care. Indeed, the share of the population age 80 and over living in nursing homes or other group quarters declined by more than half from about 16 percent in 1990 to under 7 percent in 2015.

But as the first wave of baby boomers begins to reach the ages when home modifications become more necessary for independent living, there is tremendous unmet need for accessible housing. A large share of these households live in older homes in the Northeast and Midwest, where the housing stocks have few if any universal design features.

Some aging households will not choose, or be able, to continue to live on their own. As these owners move in with family, require institutional care, or otherwise leave their homes, millions of units in need of upgrading will go on the market. The Joint Center projects that with the aging of the population over the next decade, the number of homes made available by
household dissolutions will rise from 5.8 million between 2015 and 2020 to 6.4 million between 2020 and 2025.

The expanding stock of older, outdated homes will provide affordable housing options for younger buyers, who may then invest in significant upgrades. While owners under age 35 generally spend less on home improvements, their outlays depend on the age of their homes. For example, younger owners of homes built before 1980 invested about a third more in renovations in 2015 than the average for all owners in their age group (Figure 23). In fact, improvement spending among these owners even exceeded the national average expenditure by more than 16 percent.

**SHIFTS IN THE SPENDING MAP**

Early in the housing market recovery, many homeowners were hesitant to make discretionary improvements given the uncertain path of the economy. After the sharp drop in home values nationally, other owners simply lacked the equity that would enable them to finance major improvement projects. But as house prices recovered, the areas of the country with the strongest rebounds were also among those areas with the strongest growth in home improvement spending. This was particularly true of metros where house values returned to pre-recession levels. However, many of these markets may be reaching a tipping point where rising house prices become a headwind to future growth in improvement spending. Along with higher mortgage interest rates and stagnant wage growth among many low- and moderate-income households, house price appreciation has rekindled concerns about affordability as a roadblock to homeownership. Although still relatively favorable by historical standards, homeownership affordability was at an eight-year low at the end of 2016, according to RealtyTrac. This signals that first-time buyers may face increasing difficulties in purchasing homes, which in turn implies that there will be fewer young owners to undertake home improvements.
The median house price nationally is 3.3 times median household income, but this ratio nearly triples in the country’s least affordable areas. Not surprisingly, homebuying activity among younger households is much lower in expensive housing markets. Indeed, households under age 35 account for almost 10 percent of owners nationally, but less than 7 percent in both San Francisco and Los Angeles. Not only do young households make up a smaller share of owners in expensive markets, but the high house prices also leave those who do buy with fewer resources to invest in improvements.

In the major metros covered by the 2015 American Housing Survey, remodeling outlays by younger owners averaged just over 1.0 percent of the value of the home. In more affordable metros, their average expenditures exceeded this threshold, suggesting that many of these owners had sufficient resources to make improvements after covering their normal housing costs. Indeed, spending by younger homeowners as a share of home value was considerably higher than the metro average in five of the ten most affordable major metros, and about average in four others (Figure 24). In contrast, average improvement spending as a share of home value was lower in less affordable metros, and in many cases significantly lower.

**SPECIALTY PRODUCTS AND SERVICES MAKING INROADS**

The home improvement industry has traditionally focused on routine replacements of and upgrades to existing home products and systems. As technology and consumer preferences have become more sophisticated, however, a growing number of specialty products and services have been developed to enhance rather than simply replace certain home features.

Upgrades for improved energy efficiency, first sparked by the surge in home energy costs in the 1970s, are now a well-established specialty area. While home energy costs have moderated in recent years, efficiency improvements remain a popular investment. In fact, fully a third of owners reporting projects in 2014–2015 indicated that energy efficiency was a motivation for their expenditures.

Ongoing concerns about environmental issues have also boosted demand for sustainable home improvements, including projects that improve water conservation and that use products that are rapidly renewable or recycled/reclaimed. Spending on retrofits to older homes so that their owners can age in place has increased, along with spending for the addition of porches, decks, and other features that create outdoor living spaces. In addition, products and services to improve

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**Figure 24**

**Younger Owners in More Affordable Housing Markets Invest Relatively More in Their Homes**

| Improvement Spending by Owners Under Age 35 as a Share of Home Value, 2015 (Percent) |
|---------------------------------|---------------------------------|
| Share in Most Affordable Metros  |                                  |
| • Under 0.75                    |                                 |
| • 0.75–1.25                    |                                 |
| • Over 1.25                    |                                 |
| Share in Least Affordable Metros |                                  |
| • Under 0.75                   |                                 |
| • 0.75–1.25                   |                                 |
| • Over 1.25                   |                                 |

Notes: Most/least affordable metro areas are defined as the bottom/top ten metros ranked by the Zillow price-to-income ratio, for which home improvement spending estimates were available. Analysis excludes New York City.

Source: JCHS tabulations of HUD, American Housing Survey; US Census Bureau, American Community Survey; and Zillow Price-to-Income Ratios.
indoor air quality are also gaining popularity amid growing concerns about environmental health issues.

Meanwhile, many remodelers report that home automation has become one of the fastest-growing new specialty areas. A recent national survey of contractors found that more than a quarter of respondents reported a recent increase in revenues from these types of projects (Figure 25). While the housing industry has tried to make homes more connected for decades, home automation products are finally catching on with consumers. Wireless technology has made it easier for households to manage smart devices in their homes, and growing consumer interest coupled with increased competition has served to lower prices. Real estate brokers are now developing a definition to standardize the features to be found in a “smart home” so that buyers and sellers can easily identify properties that meet the criteria.

Younger owners are especially likely to include home automation projects in their improvement spending plans. Joint Center analysis of 2015 consumer survey data from the Demand Institute found that, among owners under age 35 that expected to undertake a major home improvement in the next three years, more than 40 percent indicated that they were somewhat or very likely to include home automation products or features in their projects—well above the 30 percent share of all owners.

While younger households are the most likely to opt for home automation, older households could also benefit from this technology. The ability to monitor environmental conditions, appliances, security, vital signs, and medications can enable older adults to stay in their homes when they might otherwise require institutional care. In particular, voice-activated devices such as Amazon Echo and Google Home could help make independent living possible for many household members with disabilities, and thus seem likely to gain popularity among a broader base of homeowners.

**THE OUTLOOK**

As the economic expansion continues, several established and emerging segments of the remodeling market will give a lift to overall improvement spending in the coming years. In particular, investment in upgrades to the existing rental stock should remain strong. Even with multifamily construction activity expected to stabilize, the ongoing strength of rental demand should continue to encourage property owners to upgrade older units to attract more middle-market renters.

Although gen-X owners are now in their prime remodeling years and keeping home improvement activity on the rise, the baby-boom generation will help drive much of the spending gains over the coming decade. Older owners that choose to remain in their current homes as they age likely will need to make significant modifications to ensure their safety and comfort. Those that leave their current homes will provide a growing supply of older housing to the market, expanding the affordable options for younger buyers.

In turn, as millennials continue to move into homeownership, they will likely update and customize the units to the needs of their growing families. The priorities for improvements among this new generation of homeowners are steadily shifting to include energy-efficient systems and environmentally sustainable products and materials. Given their facility with technology, younger households are also likely to embrace a full range of home automation products as they come on the market.