



IMPROVING AMERICA'S HOUSING EMERGING TRENDS IN THE REMODELING MARKET

Key Facts

Improving America's Housing is prepared biennially by the Remodeling Futures Program at the Joint Center for Housing Studies of Harvard University. Since 1999, these in-depth reports have served as an essential resource for policy makers and practitioners serving the remodeling industry. The latest edition, ***Emerging Trends in the Remodeling Market***, examines key industry segments that will support further growth in the years ahead.

THE U.S. REMODELING INDUSTRY HAS OUTPACED THE BROADER HOUSING RECOVERY

- In the aftermath of the Great Recession, the U.S. home improvement and repair industry has fared much better than the broader housing market. By 2013, the remodeling industry was back near \$300 billion and could easily post record-level spending in 2015 (see **infographic**).
- With the economy strengthening and house prices recovering, spending on discretionary home improvements—kitchen and bath remodeling, room additions and outside attachments such as porches and decks—rose by almost \$6 billion between 2011 and 2013. Even more significantly, the share of spending on these discretionary projects increased for the first time since before the housing crash.
- Several opportunities exist for further growth in the remodeling industry including aging in place retrofits, energy-efficient and other sustainable improvements, re-investment in the rental stock, and new demand for DIY projects from the burgeoning and diverse millennial generation.

THE IMPACT OF BABY BOOMERS AND MILLENNIALS

- As baby boomers move into their retirement years, they remain very active in the home improvement market, accounting for almost half of all spending in 2013.
- The share of improvement spending by homeowners age 65 and over has increased dramatically in recent years, rising from 13 percent in 2005 to 23 percent in 2013. While the increase in older owners was the source of some of this growth, most of it came from increases in per-owner spending.
- Over half of lowest-income homeowners made one or more home improvements in 2012–13, spending a much higher share of their incomes (4.4 percent) compared to highest-income owners (1.5 percent).
- Although off to a slow and challenging start, millennials are expected to eventually engage in the homeowner improvement market as fully as prior generations. Until then, their growing presence in the rental market is encouraging property owners to invest in updating units; the rental improvement and repair market was \$54 billion in 2013.
- The eventual engagement of the more racially and ethnically diverse millennial generation (40 percent minority households) is expected to give a boost to the DIY market since Hispanic, Asian, and multiracial owners especially devote more of their budgets (over 26 percent) to DIY compared to white owners (under 22 percent).

HOW REMODELING COMPANIES AND THEIR LABOR FORCE HAVE CHANGED

- Growth in the number of general remodeling firms with payrolls has accelerated each year since the market bottom, and at 83,000 firms in 2014, the industry has now recovered half of the firms lost during the downturn.
- Larger remodeling contractors reported revenue growth three times that of the industry average in 2013.
- Recent revenue growth at larger remodeling companies was even stronger than during the housing boom, with revenues growing on average 5.2 percent annually in 2010–13 compared to 4.6 percent annually in 2004–07.
- With the recovery in the discretionary market, design/build firms that focus on larger remodels and additions are seeing strong revenue gains.
- Although the remodeling industry remains fragmented, specialty replacement remodelers focusing on roofing, siding, windows, painting, etc. have been particularly successful at achieving economies of scale, with their shorter job cycles and greater operational efficiencies.
- The construction labor force is significantly older with 16 percent of workers age 55 and over in 2013 compared to under 9 percent a decade ago. As the market revives, it will be critical for the industry to attract and develop a younger workforce, which will include improving the quantity and quality of trade schools and apprenticeship programs.
- Immigrants remain a major source of labor for the construction industry at 28 percent of the workforce compared with less than 17 percent of the national labor force. However, the share of young immigrant workers (under age 35) fell from over 50 percent to 37 percent during the downturn. Future immigration levels will be an important factor in whether the construction industry is able to meet its demand for younger workers.

HOME IMPROVEMENT SPENDING VARIES CONSIDERABLY AROUND THE COUNTRY

- During the housing downturn, the sharpest declines in homeowner improvement spending were generally in overbuilt Sunbelt markets that experienced high shares of distressed properties. While slow to rebound, spending in these areas will likely accelerate with continued home price gains.
- The Northeast has led the remodeling market recovery, where average per-owner expenditures stand at \$3,300, or nearly 90 percent of the pre-recession peak compared to \$2,600 in the West, which is more than 40 percent below peak. Average per-owner spending in the South and Midwest is lower at just over \$2,300, or about 80 percent of pre-recession peaks.
- Owners in the 50 largest metros spent an average of \$3,000 on home improvements in 2013, although outlays in specific markets ranged from less than \$2,000 to nearly \$5,000. Spending was typically higher on the coasts, where higher home values and incomes encouraged more reinvestment in housing (see **interactive map**).
- The New York metro area was the largest remodeling market with over \$12 billion in expenditures. Washington, DC, Los Angeles, Chicago, and Philadelphia were next, with spending that ranged from \$4 billion to \$7 billion.
- Households under 35 contribute larger shares of improvement spending in metros with lower house prices, where they are more able to afford homeownership.
- Metro markets with the largest shares of improvement spending by homeowners 65 and over are concentrated mainly in the South Atlantic and Southwest regions.

- Per-owner spending on energy-related improvements was highest in the Northeast, at \$1,000, though several metros in the Midwest and West also posted higher than average spending.
- Capital investment in rental properties increased in nearly all regions of the country in 2013. Top markets for rental improvement spending include San Francisco, Los Angeles, Washington, DC, Minneapolis, and Denver, where annual expenditures to professionally managed properties averaged \$1,200 or more per unit over 2012-13, compared to \$900 nationally.

OPPORTUNITIES FOR FUTURE GROWTH IN REMODELING

- The aging population presents a key opportunity for further growth in home improvement spending. Most homes owned by those age 55 and over lack key features that promote accessibility.
- A large mismatch exists between where aging households live (with slightly higher concentrations in Frostbelt states) and where more accessible homes exist (in the Sunbelt). Even if every new home projected to be built over the coming decade in the Northeast and Midwest had basic accessibility features, the shortfall between supply and demand would still be almost a million homes.
- By 2025, the millennial generation is expected to be almost 7 percent larger than the baby-boom generation at comparable ages, and the impending influx of younger homeowners is likely to reverse the long-term slide in the DIY market. In 2013, owners under 35 put a third of their improvement spending into DIY projects—almost twice the share among all owners.
- Sustainable home improvement projects are on the upswing, generating about 30 percent of revenue at full-service remodeling firms. Around 20 percent of homeowners reporting improvement spending in 2012 or 2013 indicated that at least one of their projects was for energy efficiency purposes.
- The growing involvement of younger households in the home improvement market also holds out promise that sustainable home improvements will continue to be one of the fastest growing market segments.
- Spending on projects related to healthy homes and indoor air quality is increasing. Almost a quarter of homeowners indicate some degree of concern about the health impacts of their homes, and one in 20 expressed major or moderate concern over whether their homes negatively affected the health of household members. Renters are even more apprehensive, with over a third conveying some level of concern.
- Capital investment in the aging rental stock is finally on the rebound owing to soaring demand for rental units. Capital improvements amounted to \$31 billion in 2013, and maintenance and repairs an additional \$23 billion.
- 3.6 million single-family homes were added to the rental stock from 2006 to 2013 and many of these homes were likely under-maintained as a result of the foreclosure crisis, suggesting another round of rental improvement spending is likely to come.

SPONSORS

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