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INTRODUCTION AND SUMMARY



As a \$300 billion industry, home improvements and repairs currently generate about 1.8 percent of US economic activity—slightly below its decade-long average share. Indeed, the slow recovery in the housing market as well as in the broader economy is holding back homeowner spending on the larger discretionary projects that typically fuel growth in remodeling. But as prices for both single-family owner-occupied homes and rental properties continue to firm, and as new industry niches continue to emerge, investment in improvements to the nation's housing stock is likely to strengthen.

While the US construction industry is recovering, most sectors still have a long way to go. By 2014 estimates, spending on homebuilding was less than 60 percent of its pre-recession levels, while spending on nonresidential construction had retraced less than 40 percent of its drop during the downturn. Indeed, many analysts believe that changes in the demographics of the population and in the structure of the economy will delay a full rebound in both residential and nonresidential construction activity for several years.

The home improvement industry, however, has fared much better in the aftermath of the Great Recession. The US housing stock of more than 130 million homes requires regular investment merely to offset normal depreciation. And many households that might have traded up to more desirable homes during the downturn decided instead to make improvements to their current homes. Meanwhile, federal and state stimulus programs encouraged homeowners and rental property owners to invest in energy-efficient upgrades that they might otherwise have deferred. Finally, many rental property owners, responding to a surge in demand from households either facing foreclosure or nervous about buying amid the housing market uncertainty, reinvested in their units.

As a result, improvement and repair spending held up relatively well over the cycle, falling only 13 percent from peak to trough compared with the more than 60 percent plunge in residential construction spending. And while homebuilding is many years away from a full recovery, the home improvement industry could easily post record-level spending in 2015.

Even so, the remodeling industry faces a radically different landscape than before the recession. The generation of house-

holds now entering the housing market has different home improvement priorities. And, after years of declining revenue and high failure rates, a revitalized home improvement industry is in the process of repositioning itself to address emerging growth markets and rebuild its workforce to better serve its evolving customer base. Finally, as housing developers shift their focus from exurban communities toward urban and older suburban neighborhoods, high-income metropolitan areas on both coasts are re-emerging as leaders in home improvement spending. With these changes comes a new set of opportunities for the remodeling industry that will help to ensure its long-term growth.

THE IMPROVEMENT SPENDING RECOVERY

In 2013, homeowner improvement spending accounted for just under 65 percent of the nearly \$300 billion remodeling market (Figure 1). While still below the nearly 70 percent peak in 2007, this share is up from the trough in 2011. Meanwhile, homeowner maintenance and repair expenditures totaled \$52 billion in 2013, lifting its share from 14 percent in 2007 to about 18 percent by 2013. Investment in the rental stock was also on an uptick, increasing from just over 16 percent of spending in 2007 to about 18 percent in 2013.

At this level of spending, the home improvement market appears to be returning to its long-term trend. On an inflation-adjusted basis, outlays per owner averaged \$2,500 in 2013, well below the peak of \$3,400 in 2007 but more than 8 percent above the \$2,300 annual average posted between 1995 and 2005.

Annual homeowner spending on improvements as a share of home value, averaging just over 1 percent in 2013, has remained remarkably stable over the past decade. Even during the market boom in 2004–07, per-owner expenditures remained near this level, with percentage increases in spending roughly matching the percentage rise in house prices. Similarly, the decline in home improvement spending during the downturn was proportional to that in national house prices.

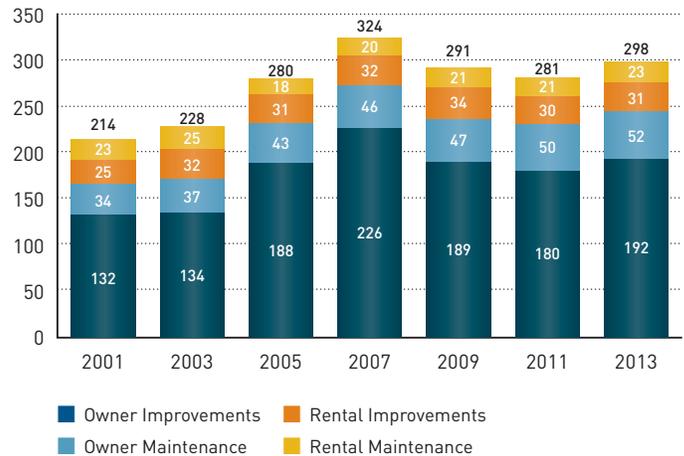
DISCRETIONARY PROJECTS ON THE UPSWING

With the economy strengthening and house prices recovering, spending by owners on discretionary home improvements rose by almost \$6 billion between 2011 and 2013. Even more significantly, the share of spending on discretionary projects increased for the first time since 2005. This category includes larger home remodels and additions that improve homeowner lifestyles but can be deferred when economic conditions are uncertain. In 2013, discretionary spending on kitchen and bath

Figure 1

The Rebound in Homeowner Improvement Spending Has Lifted the Remodeling Market Back Near \$300 Billion

Billions of Dollars

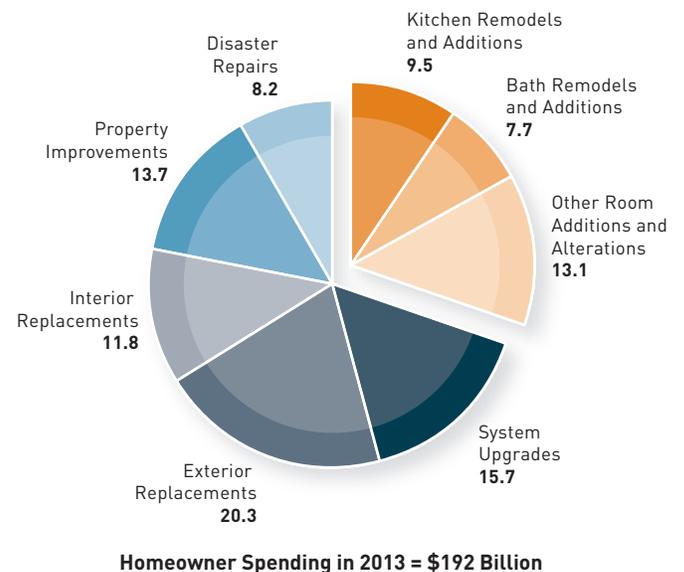


Notes: Tabulations of 2013 data use JCHS-adjusted weights. For more information about the re-weighting methodology, see www.jchs.harvard.edu/research/improving-americas-housing.
Sources: JCHS tabulations of US Department of Housing and Urban Development (HUD), American Housing Surveys; US Department of Commerce, Surveys of Expenditures for Residential Improvement and Repairs (C-50); and Abbe Will, *Estimating National Levels of Home Improvement and Repair Spending by Rental Property Owners*, JCHS Research Note N10-2, October 2010.

Figure 2

Discretionary Projects Account for a Significant Share of Improvement Spending

Share of Spending in 2013 (Percent)



Notes: Tabulations use JCHS-adjusted weights. Other room additions and alterations include outside attachments.
Source: Table A-1.

upgrades contributed 17 percent of the \$192 billion in total homeowner spending, while expenditures for additions and major structural alterations to other rooms made up another 13 percent (**Figure 2**).

Replacement projects, in contrast, refer to improvements that affect the safety and efficient functioning of the home. Spending in this category across the business cycle is generally more stable than on discretionary projects. In 2013, exterior replacements (for example, roofing, siding, windows, and exterior doors) accounted for 20 percent of total homeowner expenditures, and interior replacements (including flooring, wall coverings, and ceilings) for almost 12 percent. Meanwhile, spending on systems and equipment upgrades (including plumbing, electrical, HVAC, and major appliances) amounted to almost 16 percent of overall outlays.

Until the housing downturn, the shares of homeowner spending for discretionary and replacement projects were almost equal. But in 2013, discretionary spending had fallen to 30 percent of the total, while replacement spending had increased to

almost 50 percent. However, given the sharp retreat in discretionary spending during the downturn and the current recovery in housing prices, the modest uptick in discretionary outlays from 2011 to 2013 suggests that these types of projects will likely drive a significant share of growth in the home improvement market in the future.

The final two project categories—property improvements and disaster repairs—together contributed over 20 percent of homeowner spending. Property improvements refer to outlays for structures other than the principal residence, such as detached garages, sheds, or other outbuildings. This category also covers nonstructural improvements, such as driveways and walkways, fencing and walls, patios and terraces, and swimming pools and tennis courts. Disaster-related repairs and improvements are not linked to specific project categories.

HOUSEHOLD SPENDING BY GENERATION

Spending on home improvement activity peaks among owners in their mid-30s to mid-50s, a time when family sizes and household incomes are typically growing. In 2013, owners in this age range spent about 30 percent more on average on improvement projects than the rest of the population. The fact that most of the baby-boom generation (born 1945–64) was in this high-spending age group during the housing boom no doubt contributed to the record levels of home improvement expenditures in the middle of the last decade.

While the baby boomers are moving out of the prime home improvement spending years, they are still active in the market. They survived the housing downturn better than most other generations, buffered from the drop in house values by many years of strong house price appreciation. The baby boomers have also remained in the labor force well beyond the traditional retirement age of previous generations. Indeed, although average per-owner spending on home improvement projects fell more than 15 percent from 2007 to 2013, spending by owners aged 55 and over declined less than 9 percent. Baby boomers thus accounted for almost half of all home improvement spending nationally in 2013 (**Figure 3**).

Meanwhile, most gen-X homeowners (born 1965–84) are now in their prime spending years. Although this generation originally numbered almost 10 million (12 percent) less than the baby boom, years of strong immigration filled its ranks. By the time they were 20–39 years old in 2005, the number of gen-Xers thus equaled that of the baby boomers at comparable ages. In 2013, gen-Xers contributed over a third of home improvement outlays, with the leading edge alone accounting for over 20 percent.

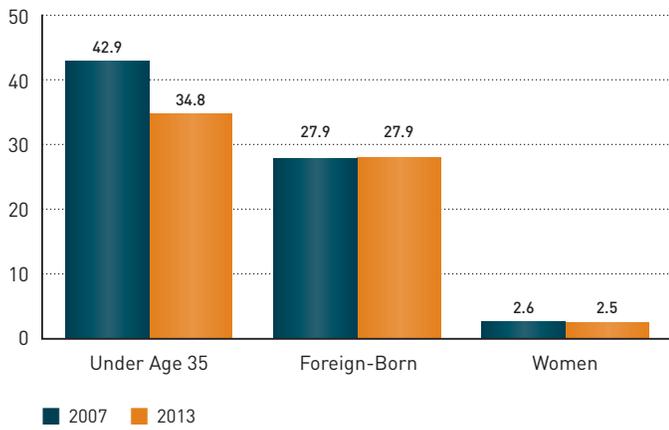


Notes: The pre-baby boom generation was born before 1945, leading baby boom in 1945–54, trailing baby boom in 1955–64, leading gen-X in 1965–74, trailing gen-X in 1975–84, and millennial in 1985–2004. Tabulations use JCHS-adjusted weights.
Source: Table A-3.

Figure 4

After the Downturn, the Construction Industry Included a Smaller Share of Younger Workers

Share of Construction Labor Force (Percent)



Note: The number of employed and unemployed workers in the construction industry fell from 8.3 million in 2007 to 6.8 million in 2013.

Source: JCHS tabulations of US Census Bureau, American Community Surveys.

Much of the millennial generation (born 1985–2004), in contrast, has yet to enter the housing market. Even the oldest members of this age group have been slow to form households and buy homes because of high levels of student loan debt; high rates of unemployment or underemployment (and low salaries and wages for those that are employed); and stringent mortgage lending standards. In 2013, millennial homeowners therefore accounted for just under \$5 billion in home improvement spending, or only 2.6 percent of the total.

Once the millennials begin to catch up with the gen-Xers in terms of progress in the housing market, however, their sheer numbers alone will drive up improvement spending. At more than 79 million births between 1985 and 2004, the number of native-born members of the millennial generation already equals the number of births of the baby-boom generation. By 2025, when millennials are more fully engaged in the housing market, immigration is expected to have increased their numbers to more than 86 million. This will make the millennial generation almost 7 percent larger than the baby-boom generation at comparable ages.

INDUSTRY STRUCTURE AND WORKFORCE TRENDS

Small contractor firms continue to dominate the home improvement industry, with a majority consisting of self-employed individuals or partnerships with no employees on payroll. The traditional dominance of small businesses in this industry has

provided little opportunity for firms to develop skilled employees, which in turn has created growing fears of a labor shortage as the market continues to recover.

From a high of more than 20 percent in 2010, the national unemployment rate for the broader construction industry declined to just over 8 percent at the end of 2014. However, the last time that construction unemployment was this low was in 2007, when the workforce was 26 percent larger. The construction labor force shrank significantly during the downturn, suggesting that workers either moved to other industries or dropped out of the labor force altogether.

The construction labor force is not only smaller than at the peak of the market, but it also has different characteristics (Figure 4). Most notably, the industry attracts fewer younger workers, with the share of the labor force under age 35 down eight percentage points between 2007 and 2013. And despite rapid growth in the foreign-born population in recent decades and the industry’s long-time reliance on immigrants, the foreign-born share of the labor force was flat over this period. Finally, women workers, already underrepresented in the industry, made up a slightly smaller share of the construction workforce in 2013.

GEOGRAPHIC CONCENTRATION OF SPENDING

During the housing downturn, the sharpest declines in improvement spending were generally in the Sunbelt. These areas of the country were home to most of the overbuilt markets that ultimately experienced high shares of distressed properties. As a result, improvement spending in the South and West has been slow to rebound, although the strong house price recovery in these regions suggests that remodeling activity will likely accelerate in the coming years.

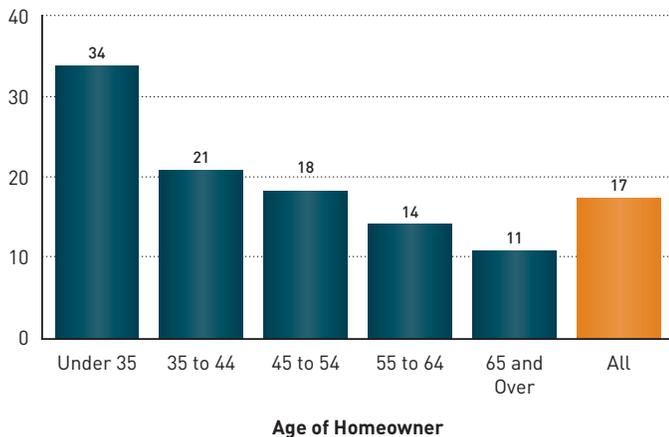
Homeowners in the nation’s metropolitan areas continue to account for a disproportionately large share—81 percent—of overall improvement spending. Thanks primarily to their higher incomes and higher home values, owners in metro areas spent 50 percent more on improvement projects on average than their non-metro counterparts in 2013. Moreover, spending was up 5.0 percent among metro area owners between 2011 and 2013, but down by 0.2 percent among non-metro households.

Within metropolitan areas, the growing popularity of infill developments has stimulated an increase in improvement spending in central cities. The strongest growth, however, has occurred in inner suburban neighborhoods, where homes are typically older and smaller than in the outer suburbs. Indeed, home improvement spending in inner suburbs rose 11 percent

Figure 5

Younger Homeowners Devote a Much Larger Share of Improvement Spending to DIY Projects

Do-It-Yourself Share of Spending in 2013 (Percent)



Note: Tabulations use JCHS-adjusted weights.
Source: JCHS tabulations of HUD, American Housing Survey.

between 2011 and 2013, surpassing the growth rate for metro areas overall.

The rental stock in metro areas also has benefited from higher improvement spending. With many younger households delaying marriage and family, demand for rental housing—particularly in downtown locations—has surged. While these households are likely to gravitate toward homeownership in the suburbs as they age, growth in investment in rental properties is likely to remain strong in the coming years.

OPPORTUNITIES FOR GROWTH

While the home improvement market has largely recovered from the Great Recession, the aging of the US population brings several opportunities for further growth. In particular, the movement of the baby-boom generation into the traditional retirement years is already pushing up demand for accessibility improvements that will enable owners to remain safely in their homes as they age. Given their significant housing wealth and willingness to remain in the labor force longer than previous generations, baby boomers are likely to remain active in the home improvement market. Indeed, with the large gen-X

population in their peak remodeling years, their spending should compensate for any falloff among the baby boomers.

However, the key to future market growth is the millennial generation. While currently lagging previous generations in forming households and buying homes, the millennials will eventually give a dramatic lift to home improvement spending. More immediately, the growing presence of millennials in the rental market is encouraging property owners to invest in updates to their units.

The impending influx of younger homeowners is also likely to reverse the long-term slide in the do-it-yourself (DIY) market. In 2013, younger owners (under the age of 35) put a third of their outlays into DIY improvements—almost twice the share among all owners (**Figure 5**). Since a much larger share of DIY than of professional spending is for discretionary projects (over 40 percent vs. 28 percent), increased DIY spending should also boost the discretionary share of improvement expenditures.

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. Increasing demand for energy-efficient upgrades, spurred by government incentives in the form of tax credits, remains the primary driver of sustainable projects, although homeowner spending on healthy home modifications, water conservation and efficiency upgrades, and products utilizing rapidly renewable or recycled materials also continues to gain momentum. With US household mobility rates declining steadily, homeowners have more incentive to make energy-efficient improvements to their current homes despite typically long payback periods.