

Remodeling Market Update

Kermit Baker

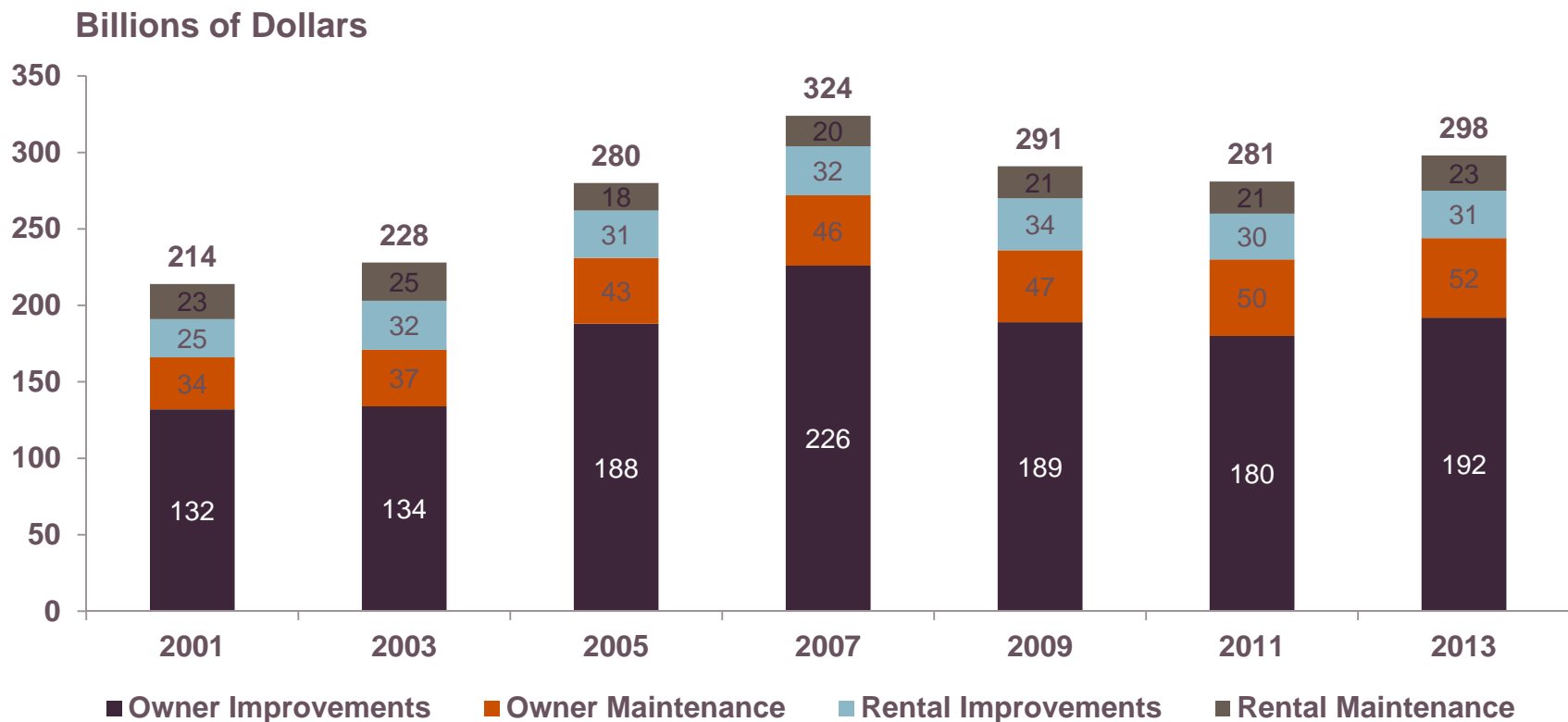
Remodeling Futures Conference

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



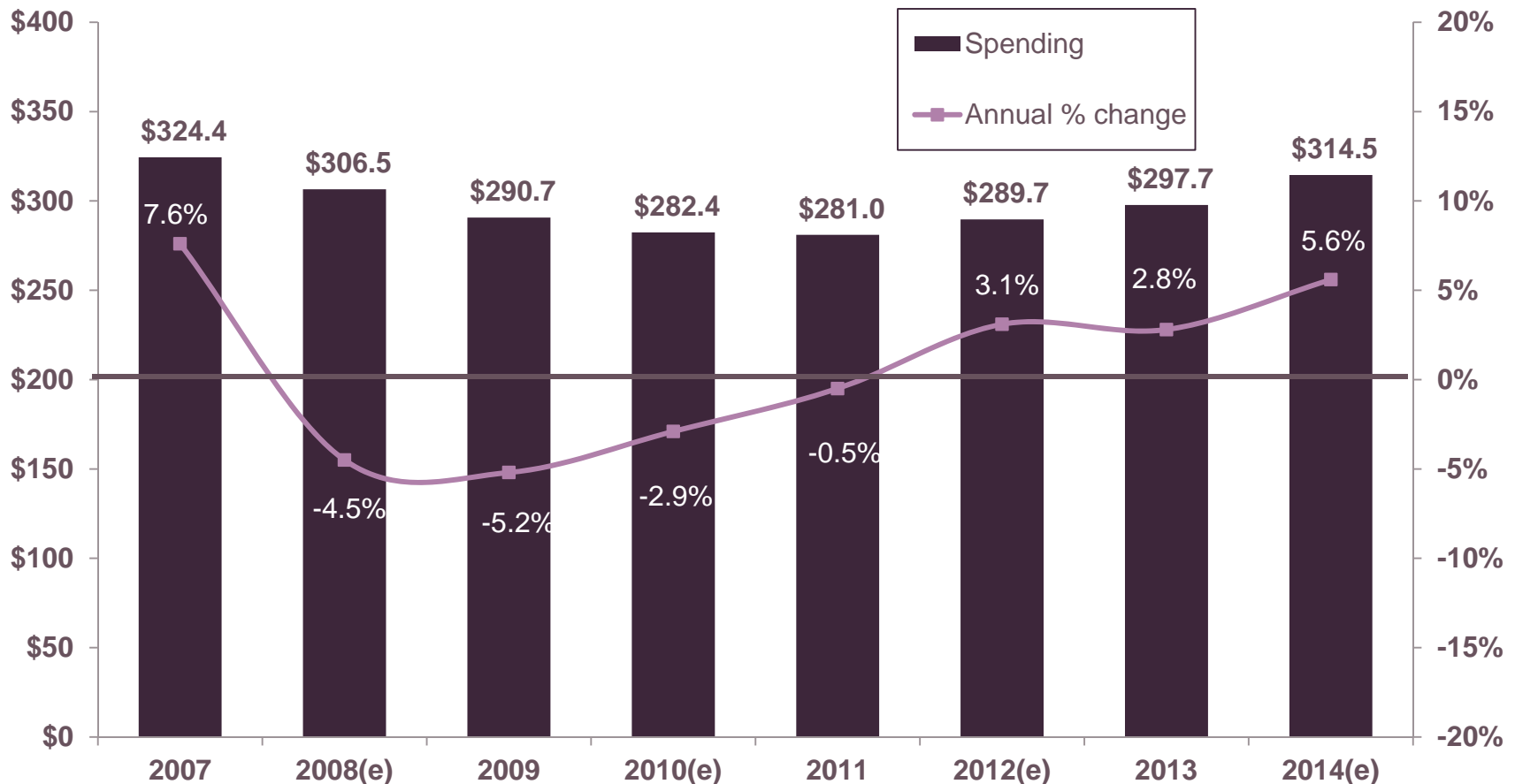
Notes: Tabulations of 2013 data use JCHS-adjusted weights. For more information about the re-weighting methodology, see www.jchs.harvard.edu/research/improving-americas-housing.

Sources: JCHS tabulations of US Department of Housing and Urban Development (HUD), American Housing Surveys; US Department of Commerce, Survey 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.



By 2014, Home Improvement Spending Approached \$315 Billion, Only 3% Below its Market Peak

National home improvement market size estimates (billions \$)



Source: Preliminary estimates based on JCHS tabulations and reweighting of the 2007-2013 AHS. Non-AHS years estimated using Census Bureau C-30 data and JCHS LIRA estimates.

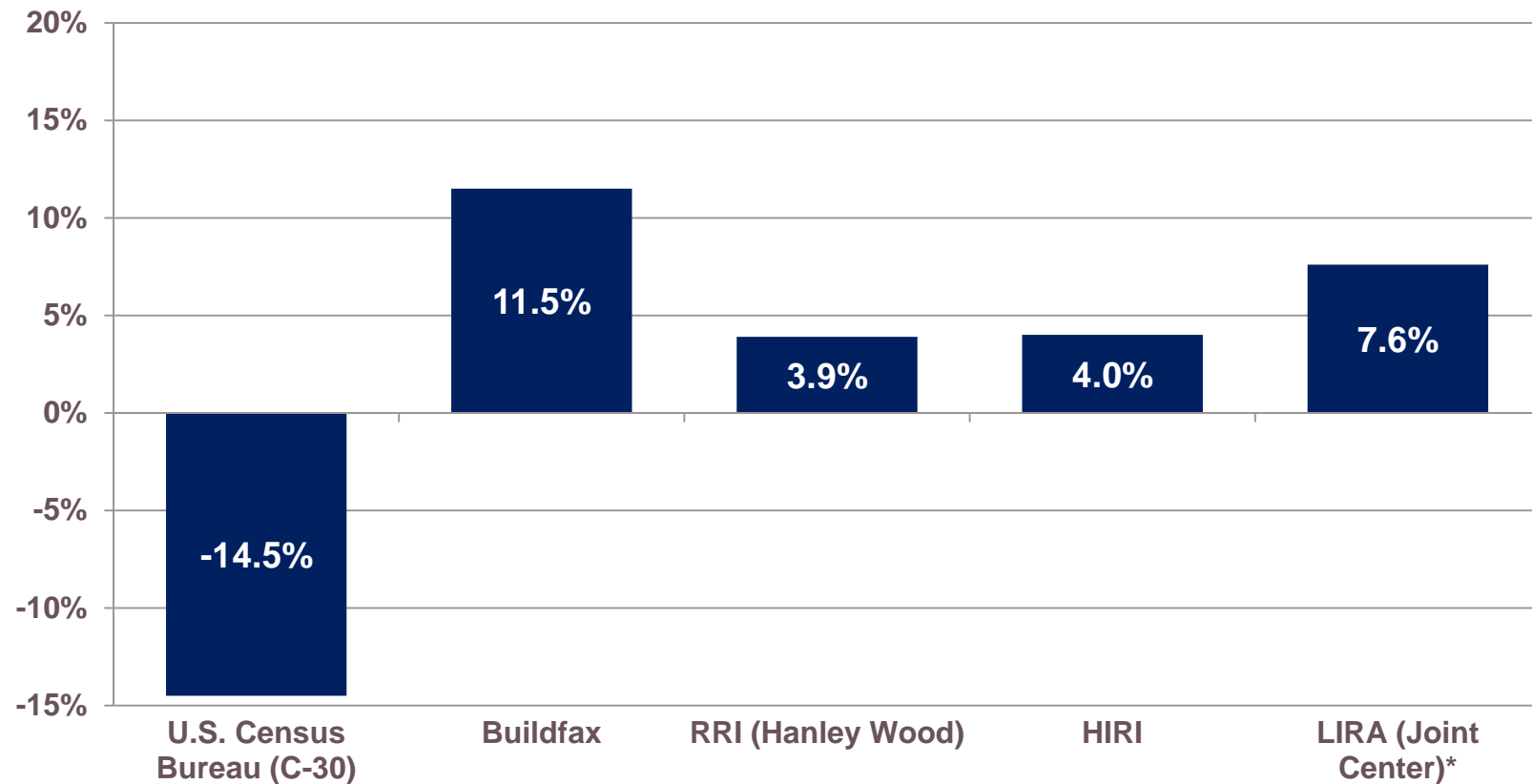


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There is an Unusual Amount of Volatility in Estimates of Industry Performance for 2014

Estimated growth in home improvement spending in 2014 (percent)



Notes: Growth rates are annual averages of quarterly or monthly data; Joint Center figure for owner improvements only, overall market growth estimated at 5.6% for 2014.

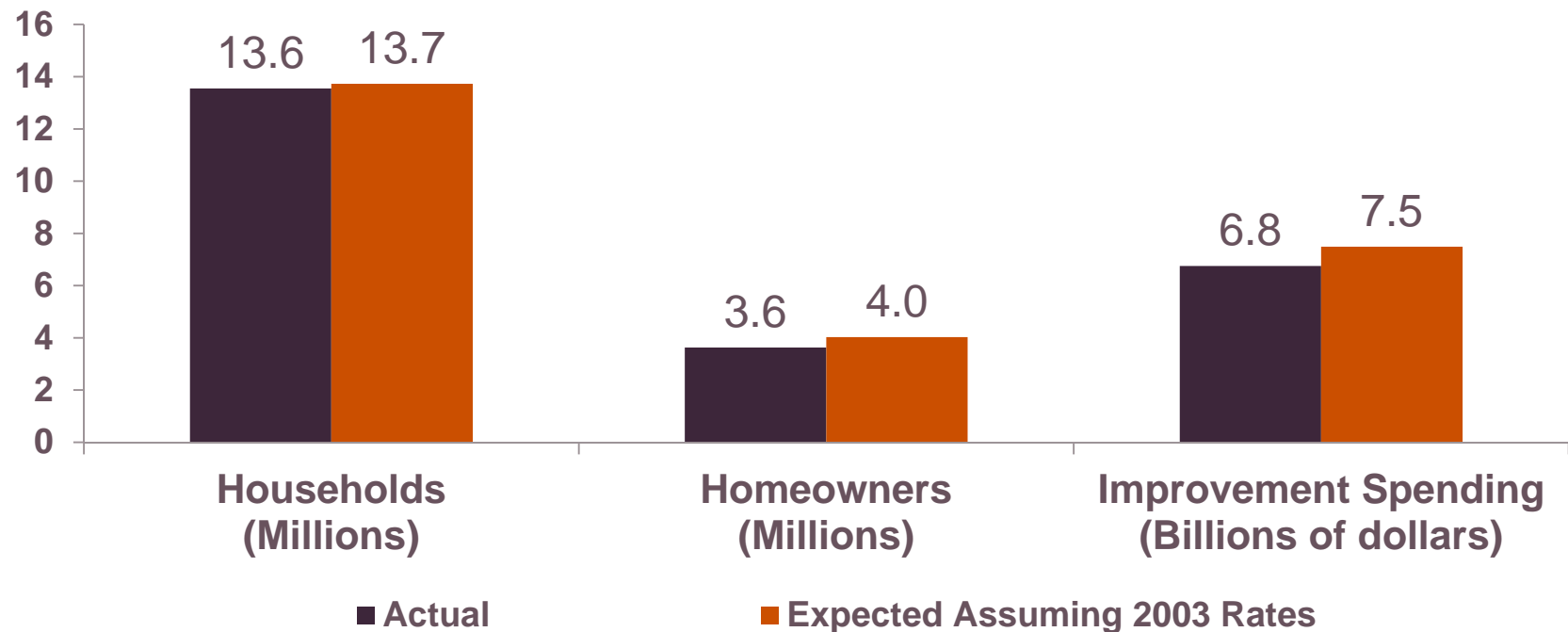
Home Improvement Industry Trends and Issues

- Lower ownership rates holding back remodeling spending levels;
- Home equity levels rebuilding with price gains, but home improvement financing remains depressed;
- Higher income coastal metros remain leaders in remodeling recovery;
- Payback on home improvements remains higher for lower cost projects;
- Sustainability projects continue to be important segment, motivating a quarter of project activity;
- Contractors optimistic about prospects for 2015;



With Their Lower Household Formation and Homeownership Rates, Millennials Spend Less than Expected on Home Improvements

Actual and expected households, homeowners and spending in 2013 for under age 30 population



Notes: Expected figures assume 2003 household formation and homeownership rates for persons under age 30. Tabulations use JCHS-adjusted weights.

Sources: US Census Bureau, Current Population Survey, March and Annual Social and Economic Supplements; Housing Vacancies & Homeownership Rates, and Population Estimates; JCHS tabulations of HUD, American Housing Survey.



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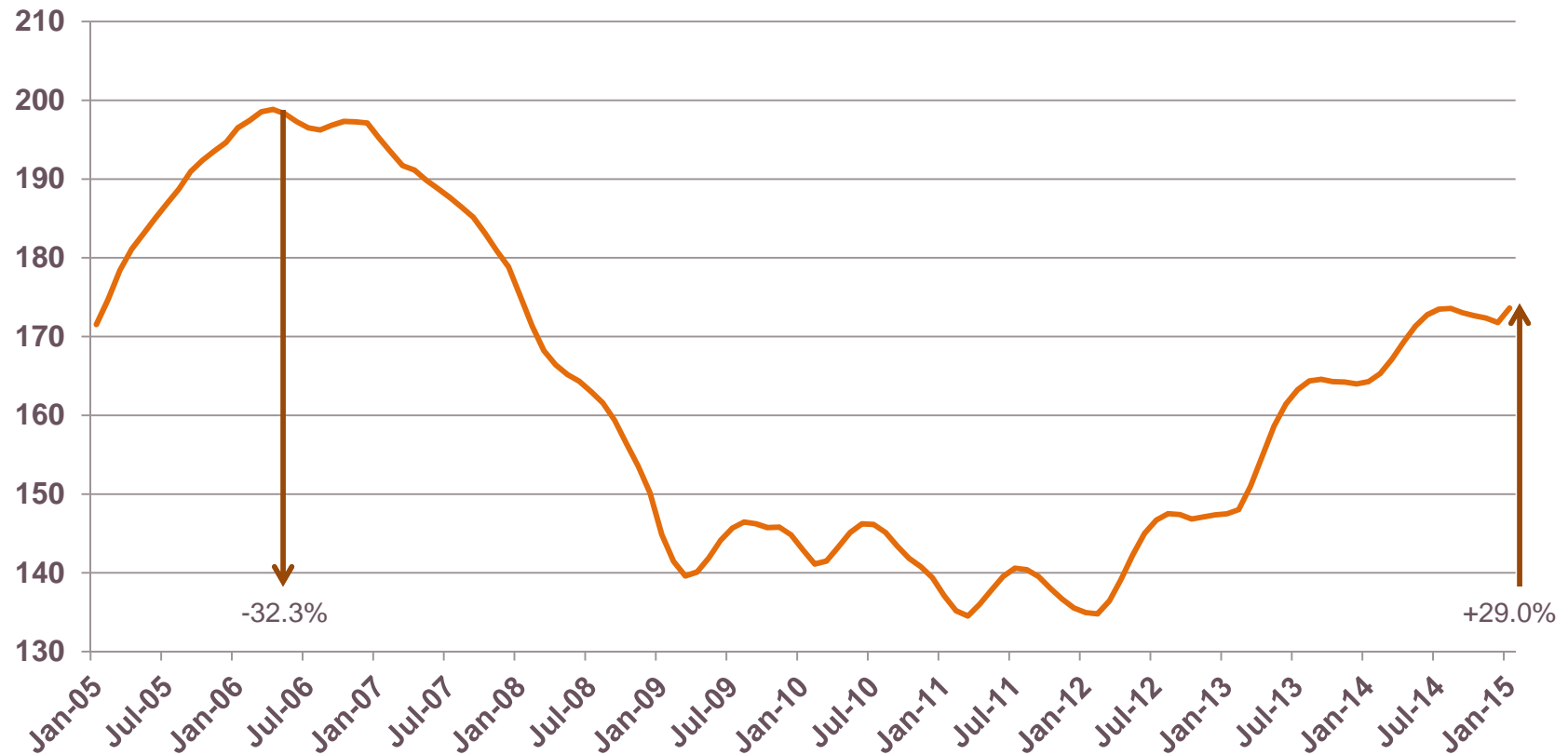
With Year 2000 Ownership Rates, Improvement Spending Would Have Been \$6.0B Greater in 2014

	2014 Households	Using 2000 ownership rates	Difference	Spending per household/unit	2014 Spending difference
Total	115.5 mill.	115.5 mill.	0		+6.0 bill.
Owners	74.4 mill.	77.8 mill.	+3.4 mill.	\$2,540	+\$8.6 bill.
Renters	41.0 mill.	37.7 mill.	-3.4 mill.	\$770	-\$2.6 bill.
<i>Homeownership rate</i>	64.5%	67.4%			

Source: Joint Center estimates using 2013 AHS and U.S. Census Bureau household counts; homeownership rates. Average household/unit spending for 2013.

House Prices Continue to Recover, Having Gained Back 60% of Their Losses...

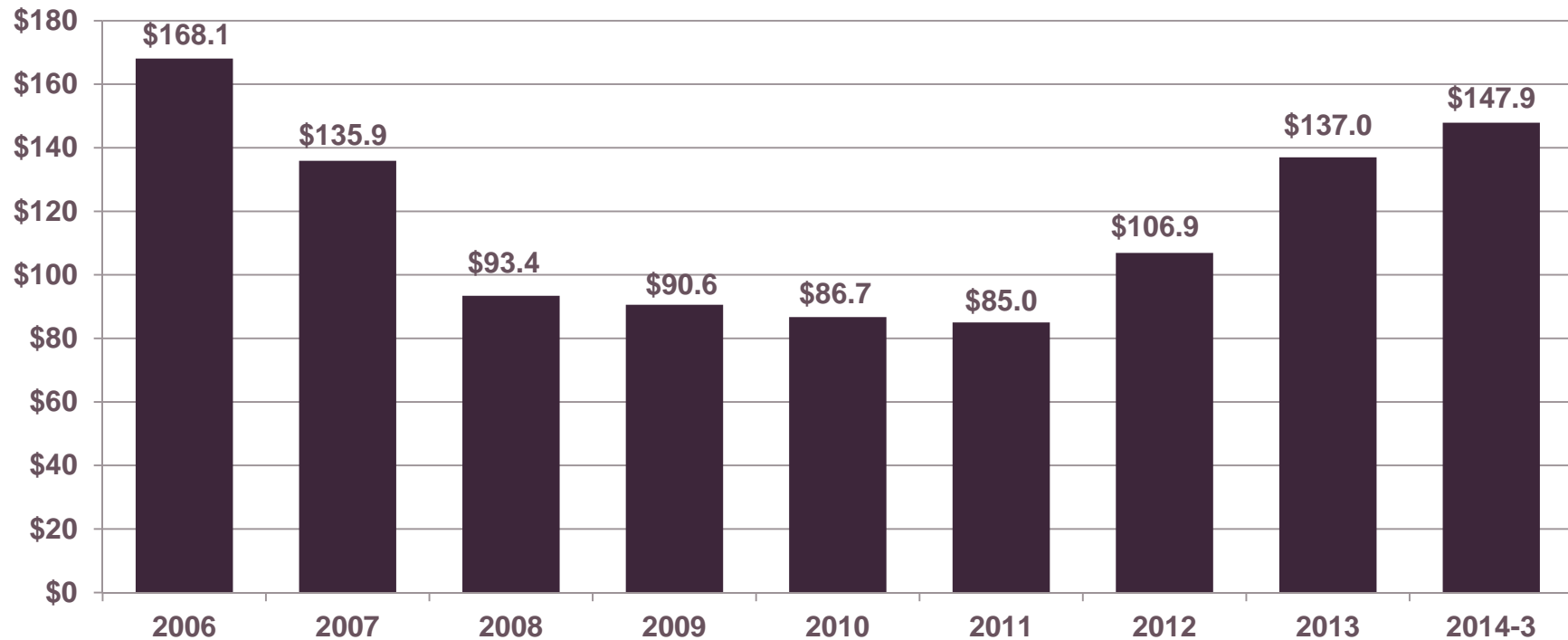
Single-family house price index (Jan. 2000=100)



Source: CoreLogic National House Price Index (HPI), Single family attached and detached structures as of January, 2015.

...Bringing Back Average Home Equity Levels to Near Pre-Downturn Levels

Avg. equity per owner, (thousands of \$)



Note: Avg. equity per owner based on occupied units only;

Sources: Federal Reserve Board, Flow of Funds, table B. 100; and Housing Vacancy Survey.

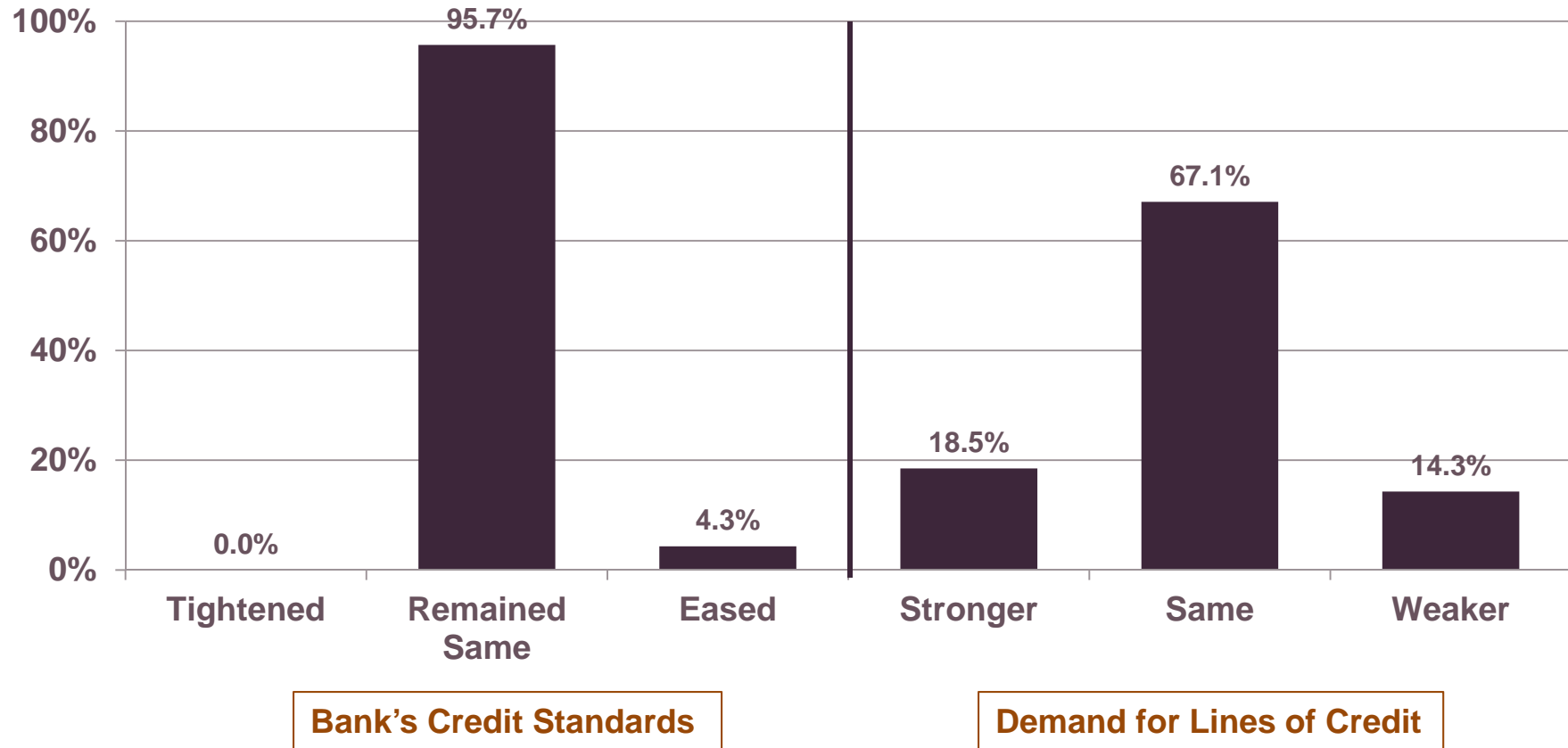


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Bank Lending Standards for Home Equity Credit Basically Unchanged; Demand Strength Modest

Bank's credit standards and demand for home equity lines of credit, changes over past 3 months, January, 2015

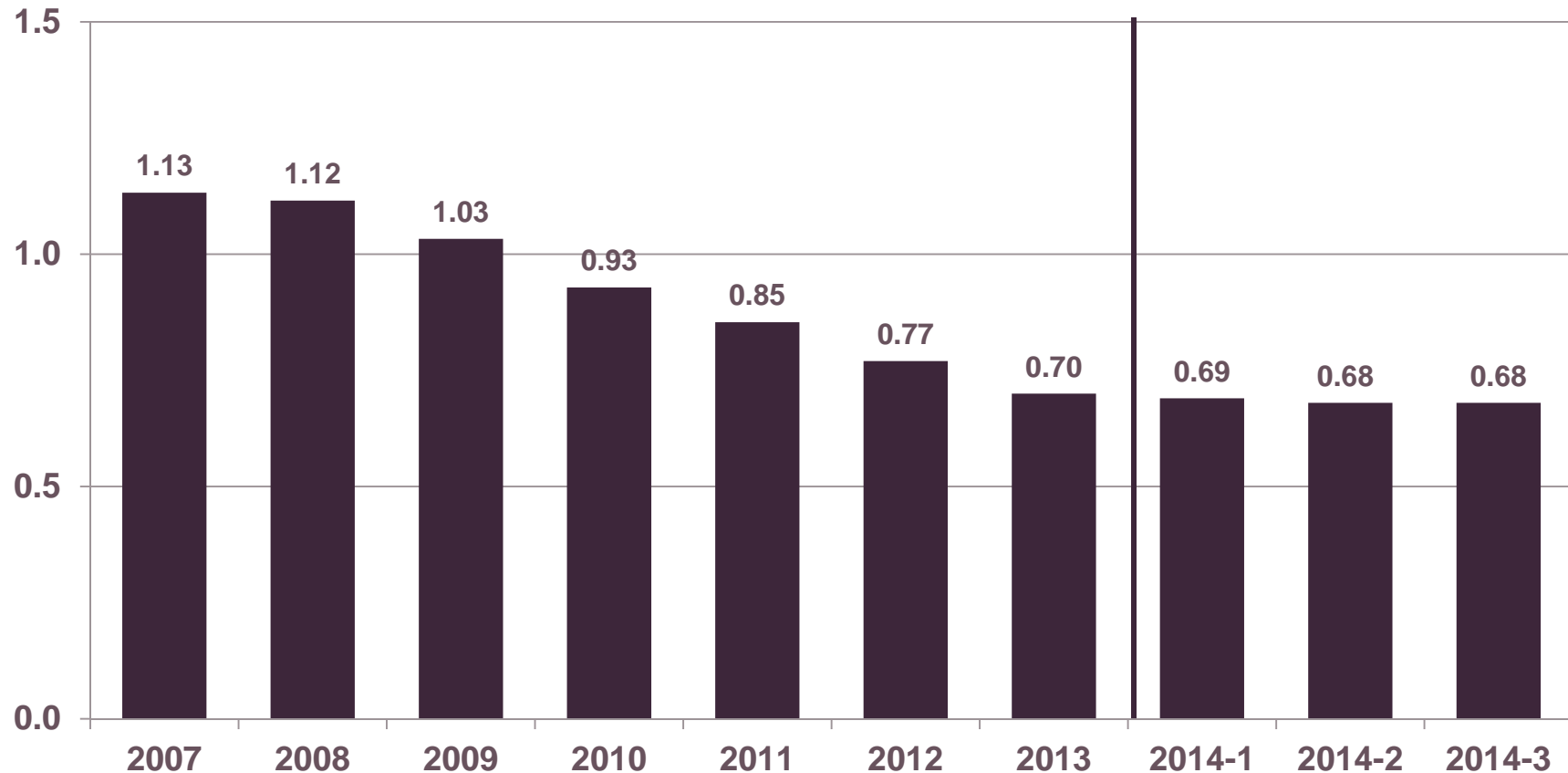


Source: Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices, February, 2015, Questions 15-16.



Home Equity Lending Hasn't Yet Begun to Increase According to Fed Data

Home equity lines of credit and loans, amount outstanding at end of period (trillions of \$)



Sources: Federal Reserve Board, Flow of Funds Accounts, Q-2, 2014; Tables F.218 and L.218.

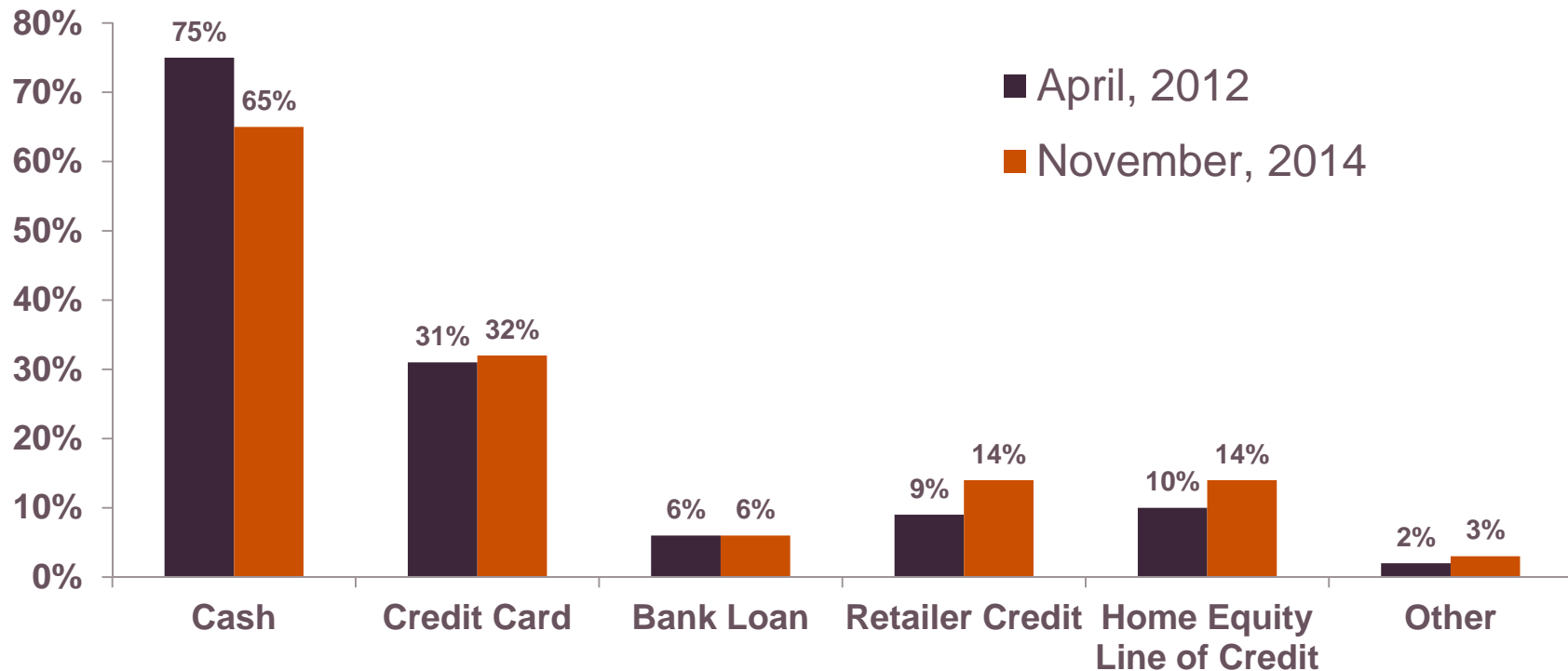


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Although Credit Options are Becoming More Popular, Industry Still Relies Heavily on Cash

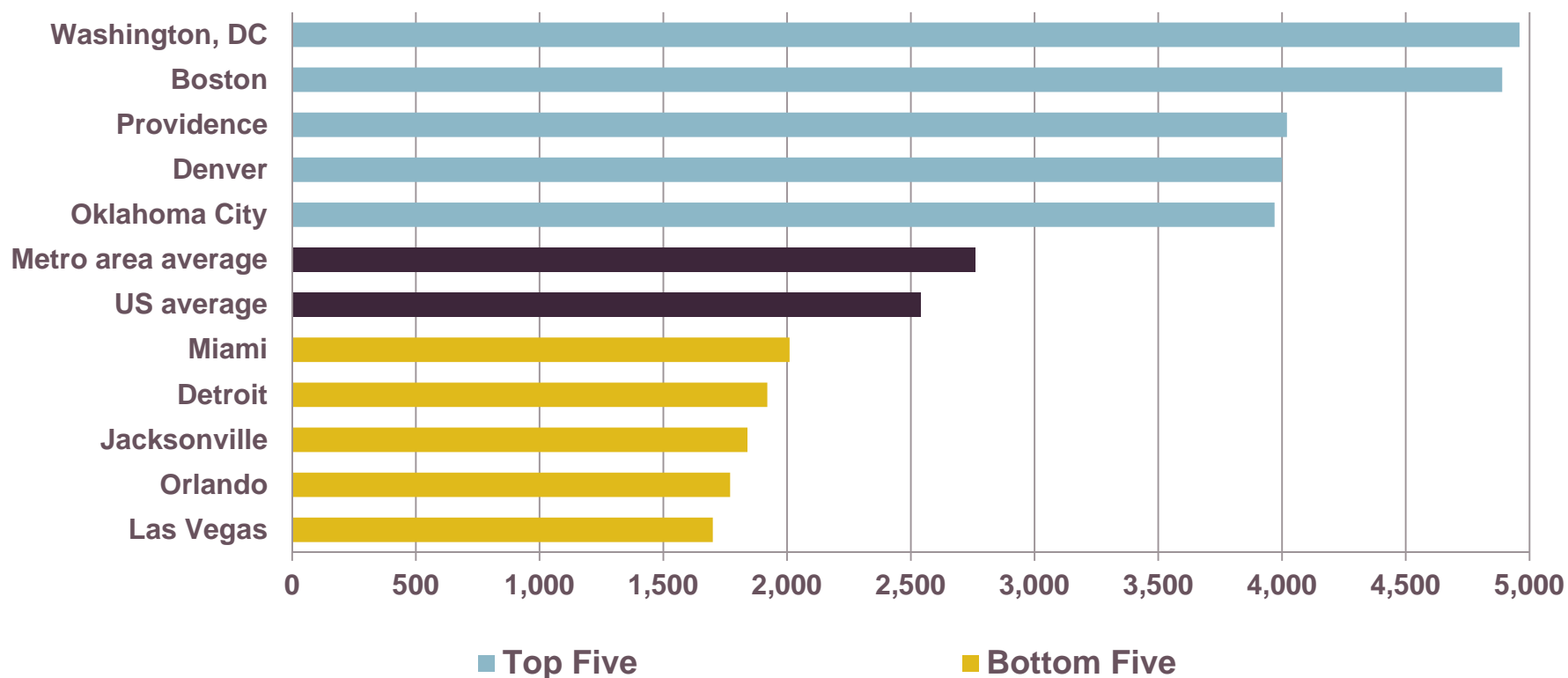
Method of payment for large ticket project over the next 12 months; respondent asked to select all that apply



Source: Piper Jaffray 6th Home Improvement Survey, November, 2014.

Metros with Highest Spending Levels Tend to Have Higher House Prices, Incomes

Average Annual Per-Owner Improvement Spending in 2013 (\$)

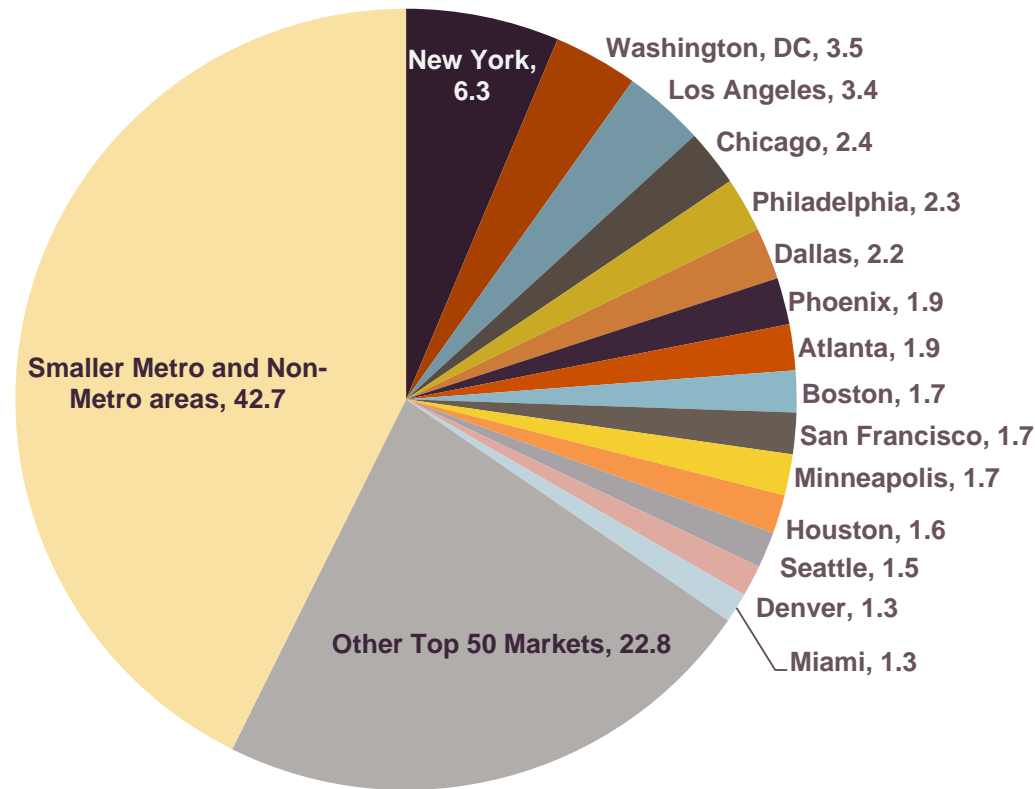


Notes: Spending for 50 metro areas is pooled from the 2011 and 2013 American Housing Surveys. Spending for 26 metros in 2011 is adjusted for inflation using the CPI-U for All Items, as well as by the overall growth in homeowner improvement spending over the same period (3.8%).

Source: JCHS tabulations of HUD, American Housing Surveys.

Largest 15 Markets Comprise a Third of the Industry, Top 50 Markets Make up Nearly 60 Percent

Share of National Market for Home Improvements (\$192 billion) in 2013 (Percent)

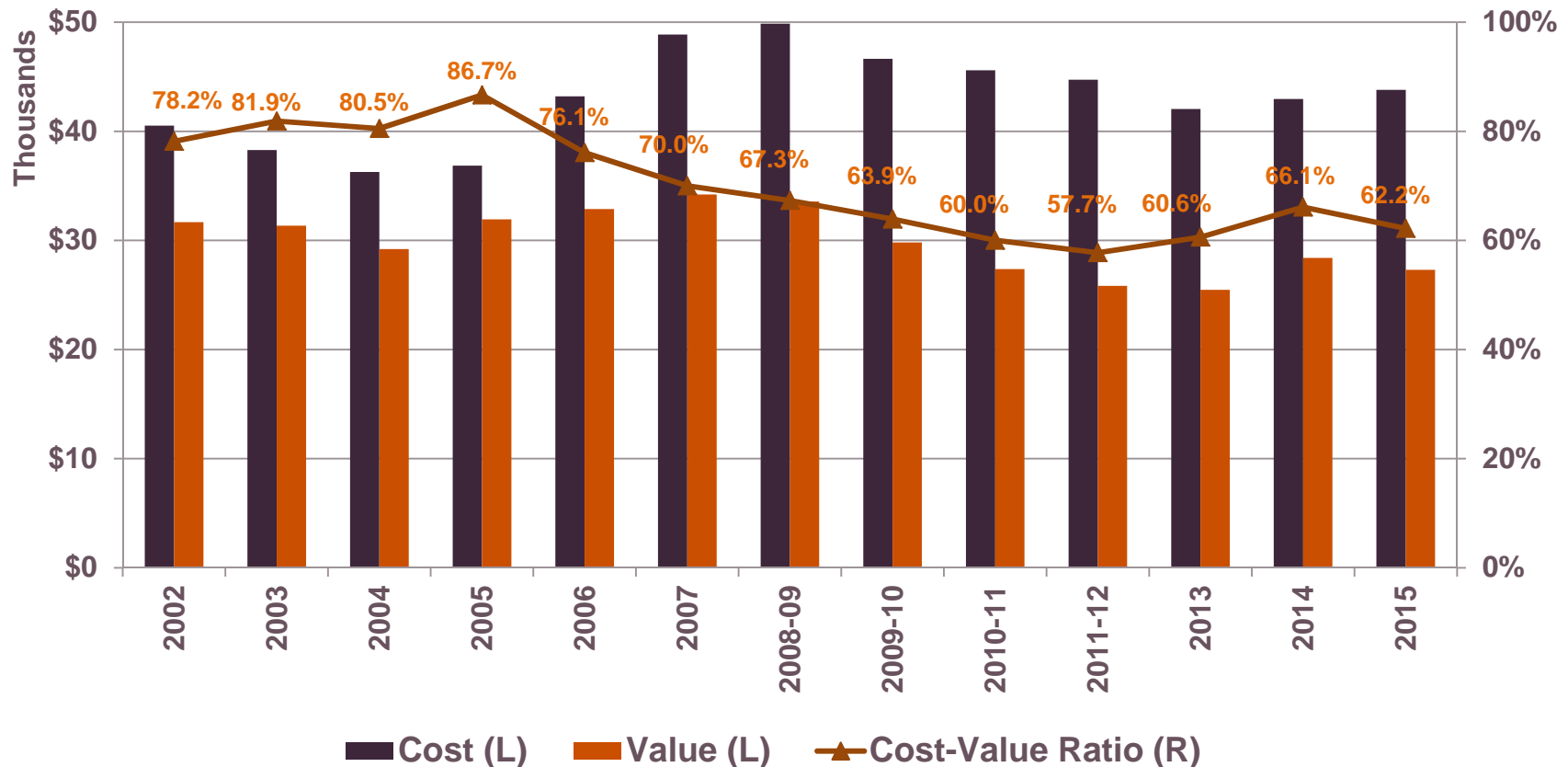


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Source: JCHS tabulations of HUD, American Housing Surveys.

After Signs of Improving, Average Return on Remodeling Spending Took a Step Back

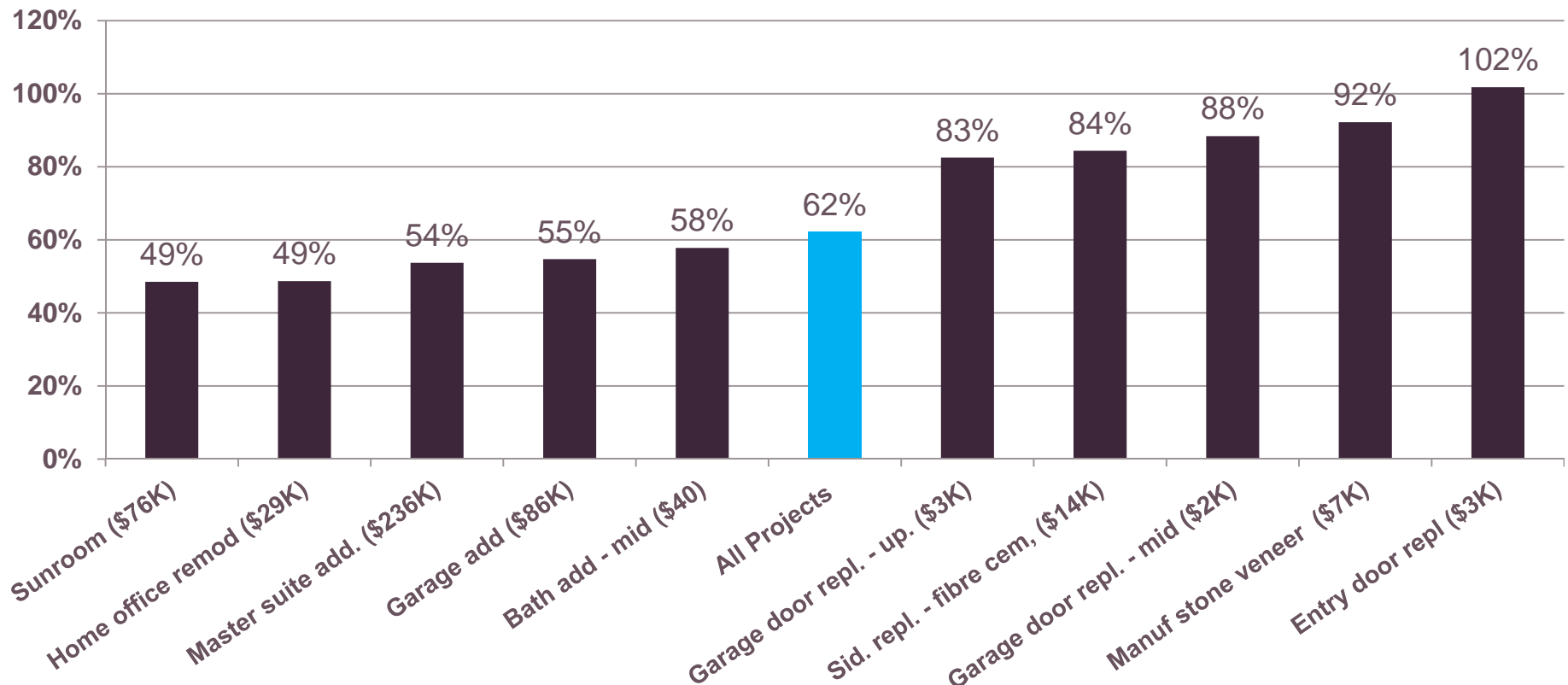
Average estimated cost and value retained at resale for 36 popular remodeling projects



Source: JCHS tabulations of *Remodeling* magazine's Cost vs. Value Reports.

As With Recent Years, Higher Returns Are Likely to Result From Lower Cost Projects

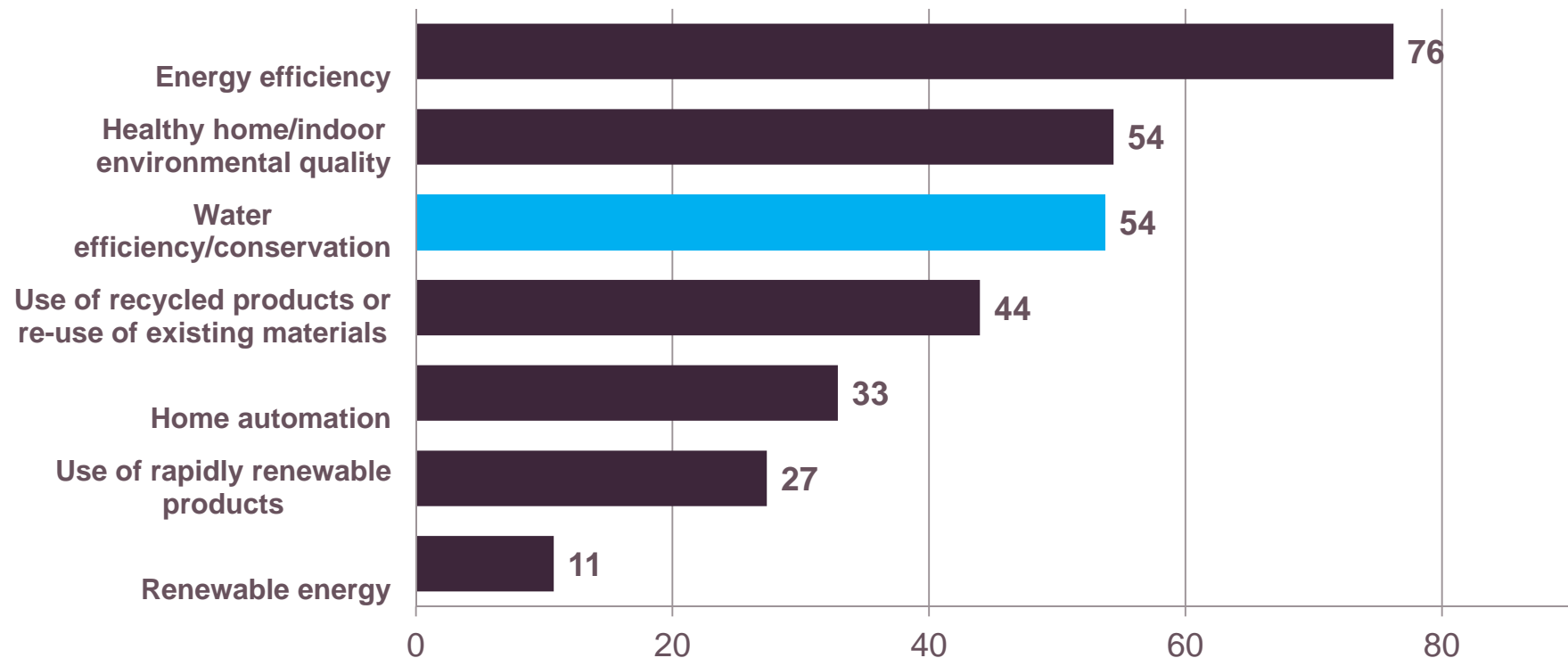
Average estimated return at resale for top 5 and bottom 5 of 36 popular remodeling projects



Source: JCHS tabulations of *Remodeling* magazine's 2015 Cost vs. Value Reports.

Sustainable Home Improvements Remain Popular Project Base for Contractors

Environmentally sustainable and related remodeling project/product categories (% installing over past year)



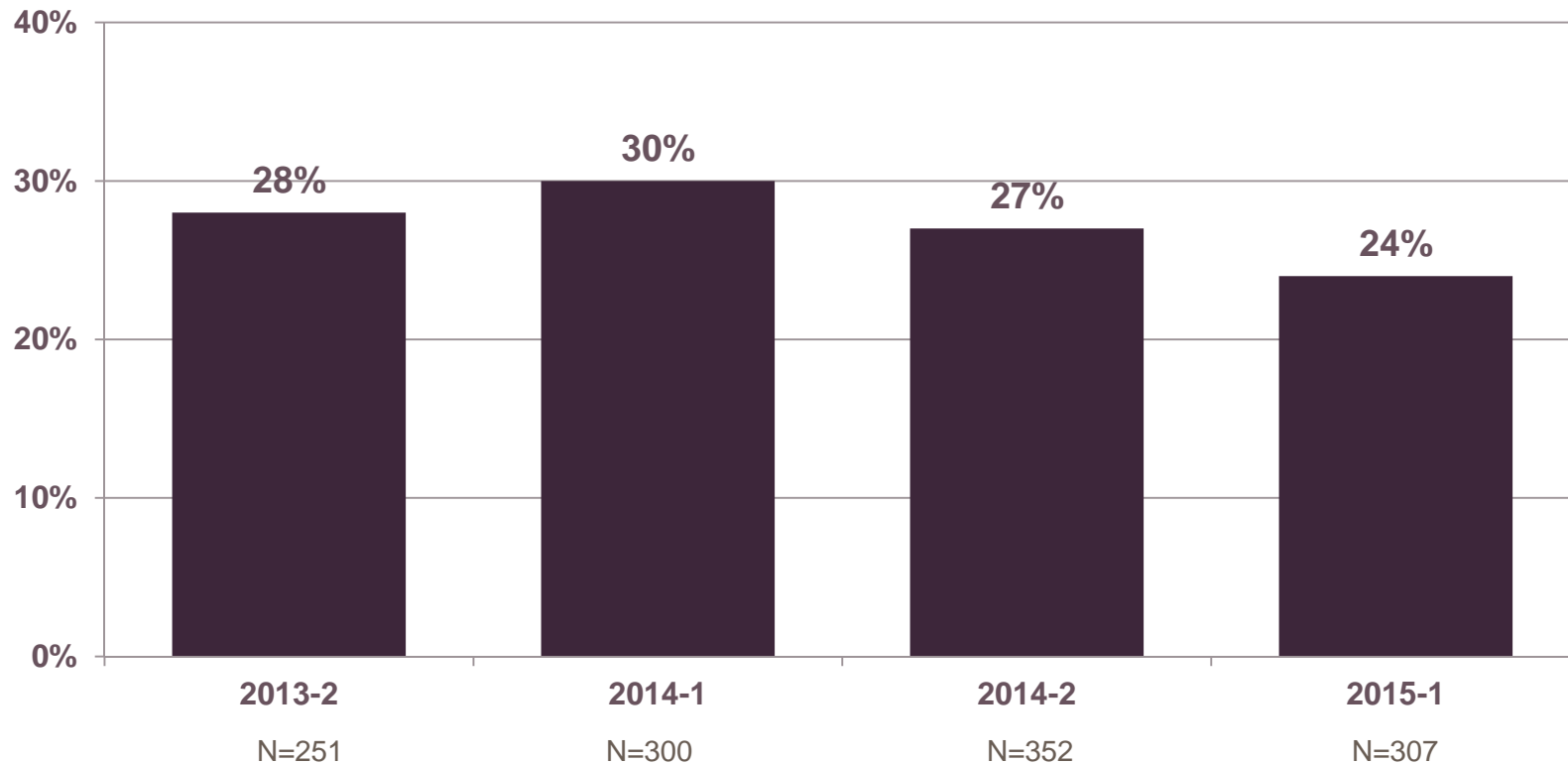
Notes: N=307. Respondents were asked to select remodeling projects and/or products that their company has installed in recent years.

Source: JCHS Survey on Environmental Sustainability Trends in Remodeling, The Farnsworth Group, 2015:Q1.

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Sustainable Home Improvements Continue to Account for a Large Share of Firm Revenue

Share of home improvement projects (on a dollar basis) for which firms installed products in any environmentally sustainable and related remodeling categories (percent):

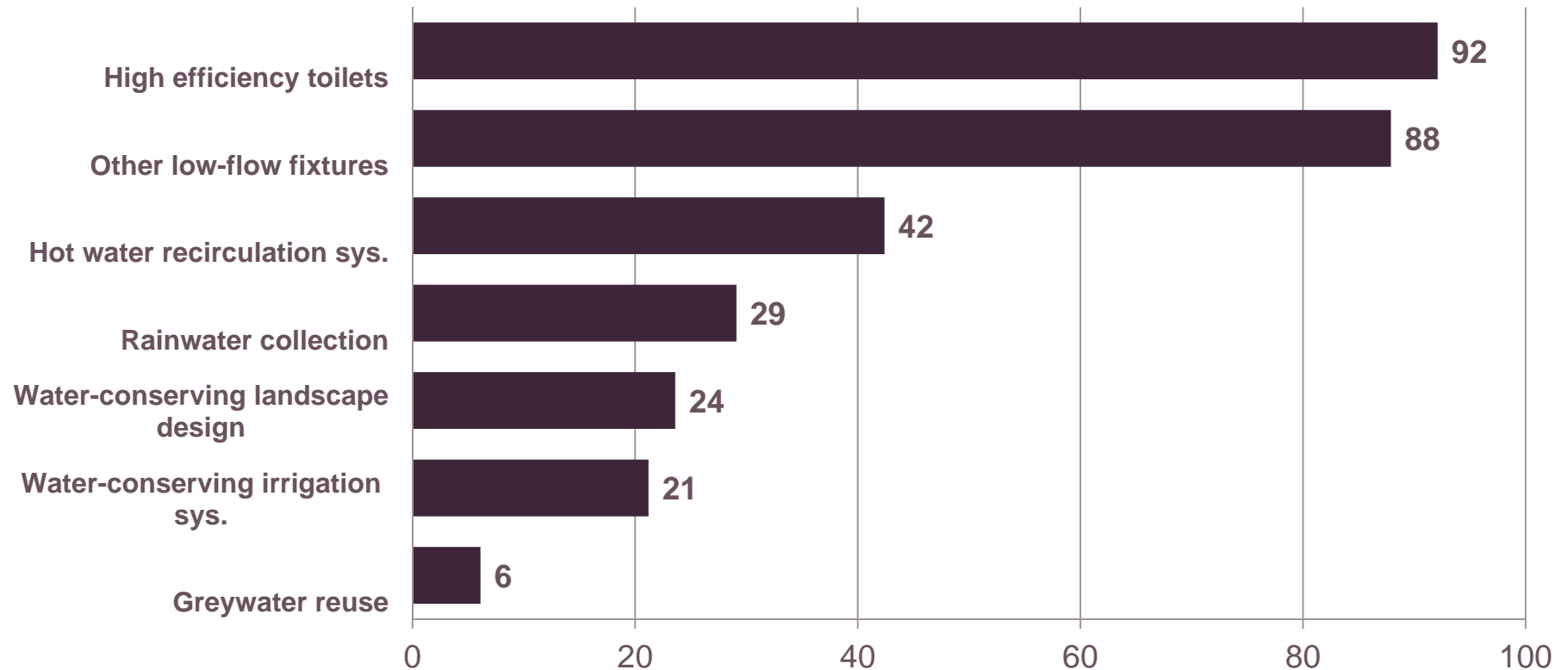


Notes: Includes remodelers who did no sustainability projects.

Source: JCHS Survey on Environmental Sustainability Trends in Remodeling, The Farnsworth Group, 2013-2015.

Low-Flow Fixtures Dominate, But Contractors Engaged in a Range of Water Conserving Projects

Share of contractors installing projects/products of those contractors involved in water efficiency/conservation projects (%)

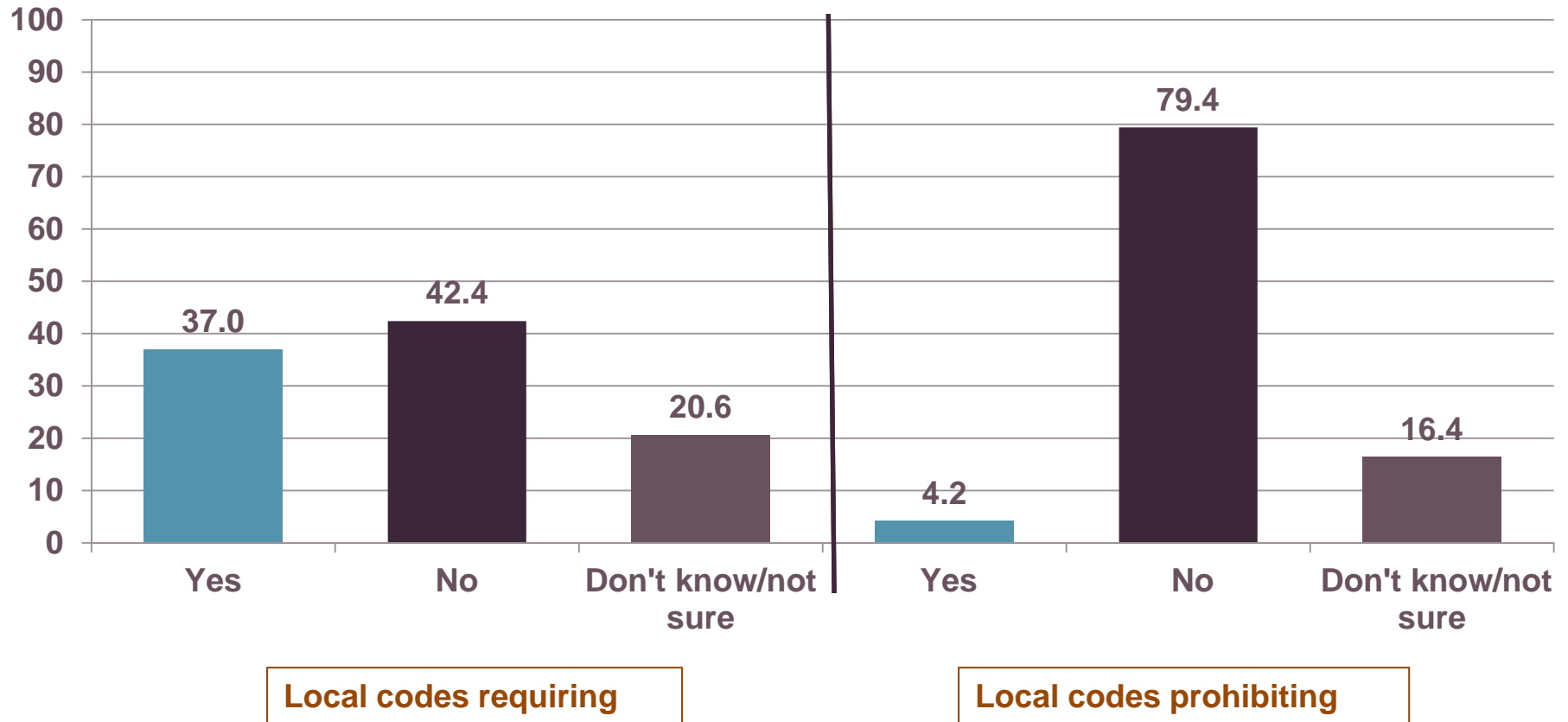


Notes: N=165. Respondents were asked to select remodeling projects and/or products that their company has installed in recent years.

Source: JCHS Survey on Environmental Sustainability Trends in Remodeling, The Farnsworth Group, 2015:Q1.

More Than Other Sustainability Areas, Local Building Codes Influence Incidence of Water Efficiency Projects

Presence of local codes requiring or prohibiting water conservation products or systems (% of respondents)



Source: JCHS Survey on Environmental Sustainability Trends in Remodeling, The Farnsworth Group, 2015:Q1.

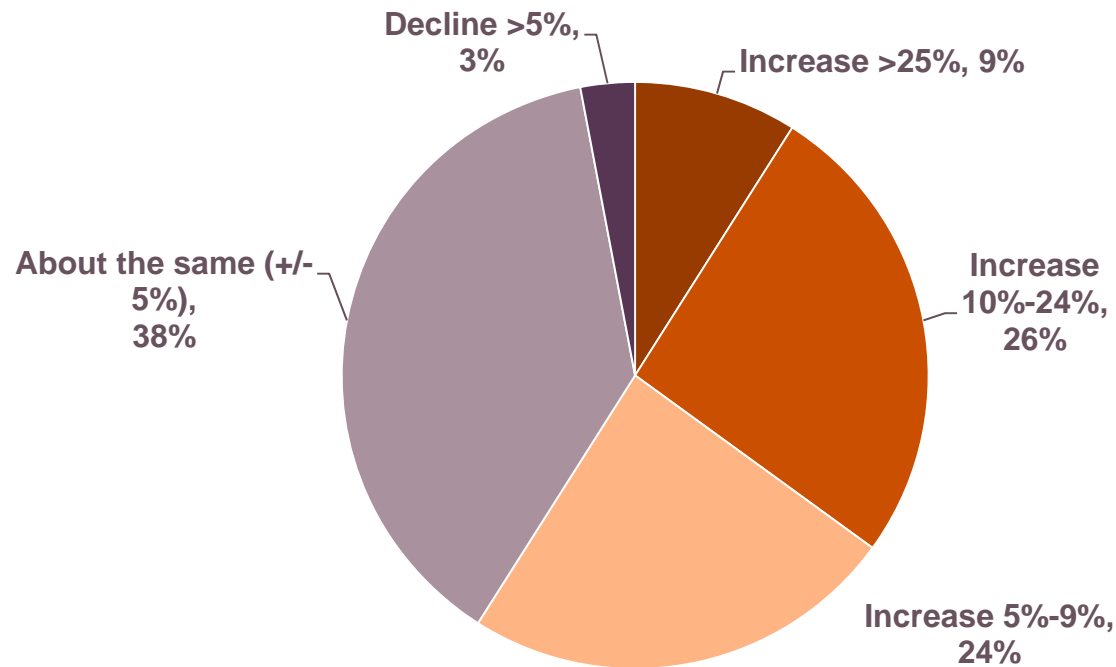


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Remodelers Project Revenue Growth of Almost 10% in 2015

Projected growth in company revenue in 2015 (percent of firms by projected change)



Average projected growth = 9.8%

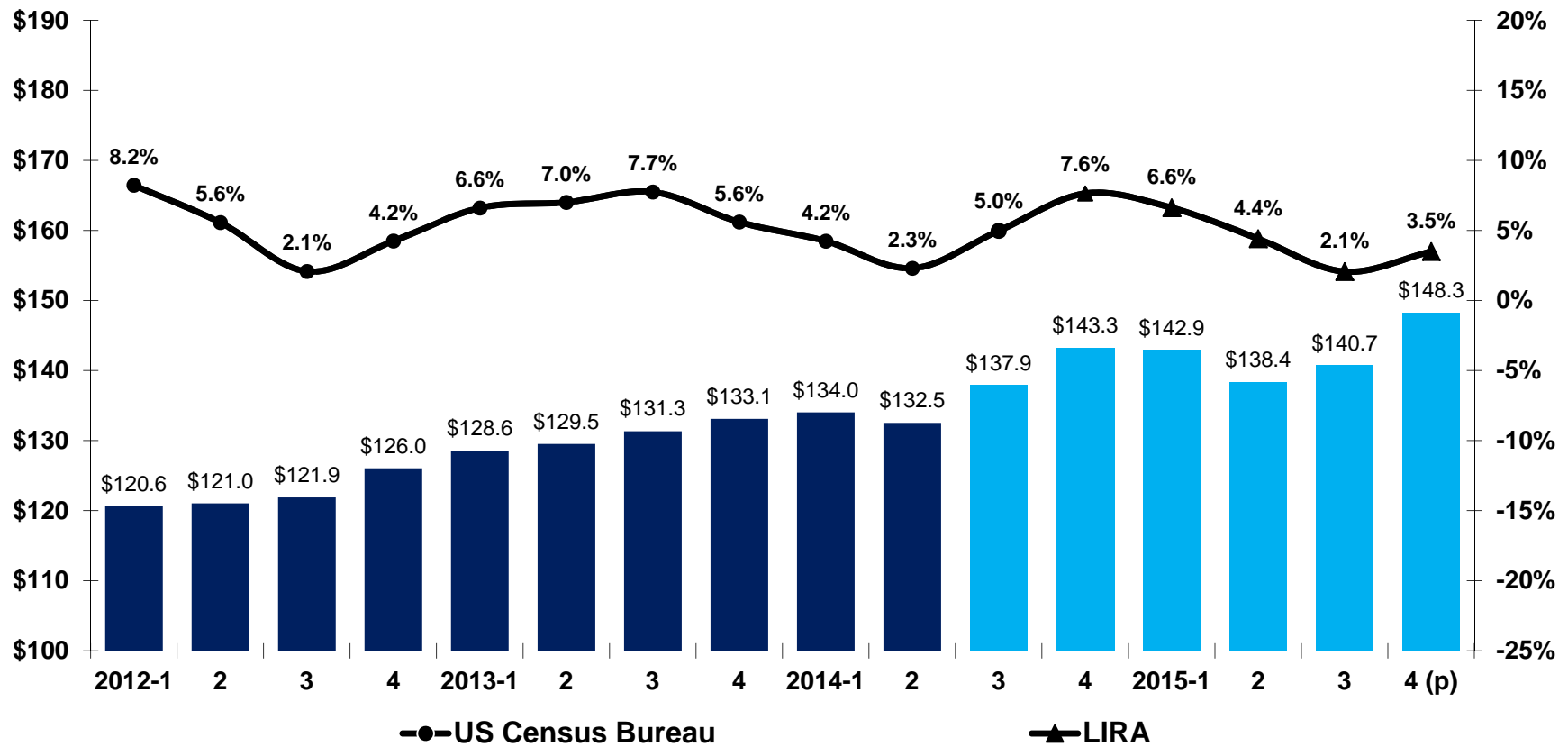
Notes: Estimates are weighted average of responses in the categories. Total sample size, N=307

Source: JCHS Survey on Environmental Sustainability Trends in Remodeling, the Farnsworth Group, 2015:Q1.

Preliminary Estimate: Q1-2015 Leading Indicator of Remodeling Activity Points to Some Acceleration

Homeowner Improvements
Four-Quarter Moving Totals
Billions of \$

Four-Quarter Moving
Rate of Change



Note: Historical data from the third quarter 2014 onward is based on the LIRA and will remain so until the Census Bureau releases annual revisions on July 1st.

Source: Joint Center for Housing Studies of Harvard University.



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Summing Up

- Remodeling market should be fully recovered by end of 2015;
- House prices showing solid rebound, helping owners rebuild equity levels; home equity lending, however, remains weak;
- Discretionary project share still struggling, as project returns for upper-end project still below historical standards;
- Sustainable home improvements remain popular niche; water conservation choices often determined by local building codes;
- Outlook for low single-digit gains this year, but expected to pick up as broader housing market indicators improve;

