



NEW REMODELING REPORT: KEY DRIVERS OF MARKET UPTURN INCLUDE GREEN RETROFITS

The Joint Center’s newly released *Improving America’s Housing report, The U.S. Housing Stock: Ready for Renewal*, found that after languishing near the bottom for several years, revitalization of the nation’s housing stock is now getting underway. Spending on home improvements and repairs reached \$275 billion in 2011. Recent estimates from the Census Bureau show spending on homeowner improvements (which historically comprises about two-thirds of the total remodeling market) increased almost 11 percent in 2012, and the LIRA points to escalating double-digit growth through the third quarter of 2013. The deep retreat in improvement spending during the downturn had a measurable impact on the quality of the nation’s housing; yet one trend that actually gained popularity and is now helping to bring the market back is sustainable home improvements.

Prompted by federal and local tax credits, spending on energy-efficiency upgrades continued to expand throughout the remodeling downturn. The share of total homeowner improvement spending on energy-related projects—including roofing, siding, windows, doors, insulation and HVAC systems—rose from 23 percent in 2007 to 33 percent in 2011 to nearly \$60 billion. About 1 in 4 homeowners reporting undertaking a remodeling project in 2010-2011 did one or more projects for energy efficiency purposes. These homeowners spent over \$6,300 on average each year on home improvements, while homeowners doing projects without energy efficiency in mind spent only \$3,400. And it turns out that this significant spending difference is mostly explained by whether or not the homeowner received a home energy tax credit for their green remodeling project. Nearly 44 percent of homeowners

reporting undertaking energy efficiency improvements received a home energy tax credit for one or more projects. Homeowners receiving tax credits spent an annual average of \$8,300 on improvements compared to \$4,800 for homeowners pursuing energy efficiency but not receiving tax credits. Homeowners receiving tax credits undertook more remodeling projects on average in 2010-2011 at 4.2 projects compared to 3.5 for those not receiving tax credits for their energy-related improvements, and only 2.4 projects for homeowners doing remodeling for reasons other than energy savings.

However, even when controlling for the number of projects undertaken, green homeowners receiving tax credits still spent almost 65 percent more on home improvements. This enormous difference holds even when controlling for income, age of homeowner, home value, age of home, size of home, and region.

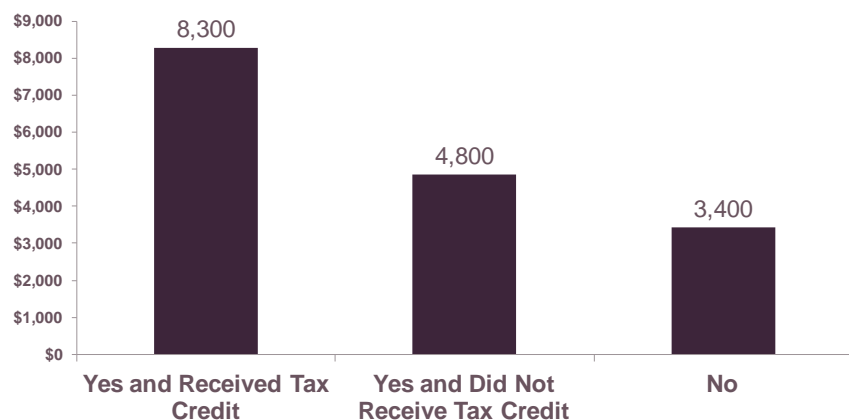
While some of the spending difference

for homeowners pursuing green remodeling projects may suggest a pricing premium for energy-efficient and sustainable building products, clearly the generous tax credits were a major incentive for homeowners to undertake projects they otherwise might have put off during the downturn. Other major themes of the 2013 *Improving America’s Housing* report include the ongoing rehabilitation of distressed properties, aging-in-place retrofits of older homeowners as baby boomers move into their retirement years, the changing geographic distribution of improvement spending, and the future market potential from the emerging echo boom generation, which is projected to be the largest in our nation’s history.

The *Improving America’s Housing* report is prepared biennially by the Remodeling Futures Program at the Joint Center for Housing Studies of Harvard University and is available free for download at: <http://www.jchs.harvard.edu/research/publications/us-housing-stock-ready-renewal>.

GREEN TAX CREDITS PROMPTED SIGNIFICANT HOMEOWNER IMPROVEMENTS SPENDING

Average annual homeowner improvement spending in 2010-11 for those reporting projects by response to question: Were any remodeling jobs done for energy efficiency purposes?



Source: JCHS tabulations of the 2011 American Housing Survey.

RENTAL UNITS LESS ENERGY EFFICIENT: ENERGY INVESTMENTS VS. OCCUPANT BEHAVIOR

Renters use nearly a third more energy per square foot compared to owners according to data from the Energy Information Administration. What accounts for this difference?

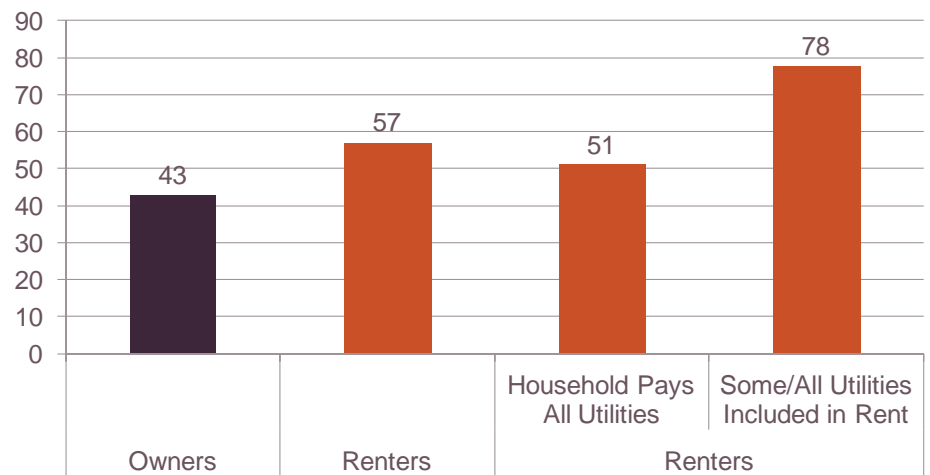
In part it is due to rental units being smaller on average, and thus more energy intensive. Other factors influencing utilization include structure type, family size and income, occupant age, and climate.

Energy efficiency retrofits are another key factor influencing energy efficiency. Energy costs are historically volatile, and consumer fuels and utility costs have risen over 50 percent in the past decade making energy retrofits appealing to many who aim to reduce their energy bills.

Occupant behavior also plays a role. As the chart illustrates, renters consume considerably more when some or all of their utility costs are fixed. This drives up the amount of energy

ENERGY CONSUMPTION PER SQUARE FOOT FOR OWNERS AND RENTERS

Thousands of BTU/Square Foot



Source: U.S. Department of Energy, Energy Information Administration, 2009 Residential Energy Consumption Survey.

renters use overall, further helping to account for the efficiency gap between owners and renters.

Even so, renters who pay all of their utilities separately from their rent still use slightly more energy per square foot than owners. This suggests a real, structural efficiency gap between rental and owner units. In fact, a recent study confirms that

multifamily rentals had 34 percent fewer energy efficiency features on average versus other housing types in 2009.

The upcoming release of the **2012 Rental Housing Finance Survey** will bring new data on improvements to rental properties, giving a much needed look into the market for rental retrofits.

PROGRAM UPDATE

Hopefully you've had a chance to look through our latest remodeling report. We released it at the IBS in January to a very positive response, and the media coverage of it has picked up over the past few weeks. However, we're already on to the next set of research projects and getting ready for our April 9th Remodeling Futures Conference. We're excited about the impending release of the newest HUD Residential Finance Survey so that we can get some information on capital expenditures on the rental housing stock. Only hard core researchers get excited about a data release.

Other researchers here at the Joint Center are deep into their research for the annual State of the Nation's Housing report, which will be released in June. As in prior years, our Spring conference will feature a sneak preview of this report. Given the healthy rebound that we've seen in housing, this report promises to offer even more evidence of the growth potential for housing over the coming years. Enjoy the (hopefully) few remaining weeks of winter, and we look forward to seeing you here on April 9th for an exciting conference.

- Kermit Baker

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UPCOMING MEETINGS

Please mark your calendars.

Tuesday, April 9, 2013
Tuesday, October 29, 2013

9:00 AM- 4:00 PM
Harvard Kennedy School
Cambridge, Massachusetts

If you haven't yet signed up for the April 9 Remodeling Futures Conference, please visit our [registration website](#).

We hope to see you next month.

MEMBERSHIP UPDATE

We are pleased to welcome our newest member of the Remodeling Futures Steering Committee: Wellborn Cabinet, Inc.

Wellborn Cabinet, Inc. was founded by the Wellborn family 1961 in Ashland, Alabama. Wellborn offers over 30,000 door styles and finish combinations for all rooms of the home—kitchen, baths, entertainment centers, offices, closets, mudrooms and more. All kitchen and bath cabinets, doors, drawers, and face frames are hand-crafted in Alabama. Kevin O'Neill, General Manager and Stanley Ezzell, Vice President, Strategic Initiatives will serve as Wellborn's representatives to the Remodeling Futures Steering Committee.

We look forward to working with our new members this year and during the 2013/2014 phase of the Remodeling Futures Program. If you know of any companies that should be considered for membership, please contact Kermit Baker (kermit_baker@harvard.edu) or Angela Flynn (angela_flynn@harvard.edu).



2013/2014 STEERING COMMITTEE MEMBERS

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Larry Meadows, Ed Rand

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Dennis Neumann, Blaine Verdoorn

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Building Supply Channel, Inc.

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Colleen Devlin, Dan Tauke

Ply Gem Industries, Inc.

Jerry Blais

Power Home Remodeling Group

Adam Kaliner, Asher Raphael

Pro-Build Holdings, Inc.

Douglas Grover

Professional Remodeler Magazine

Patrick O'Toole, Rick Schwer

Rebuilding Together

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Robert Bowden, Inc.

Steve Cole, Nick Massengill

Roxul Inc.

Mike McLaughlin, Trent Ogilvie

The Sherwin-Williams Company

George Diver, John G. Morikis

Specpan/The Farnsworth Group

Leah Ballou, Grant Farnsworth

Steves & Sons, Inc.

Edward Steves, Sam Bell Steves, II

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Tamara Cole, Angela Delano

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Urban Development

Shawn Bucholtz, Carolyn Lynch,

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USG Corporation

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Wellborn Cabinet, Inc.

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