Remodeling Market Trends and Update

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Remodeling Market Trends

1. Homeowners generally familiar with federal energy-efficiency tax credit program, and many undertook projects because it was available.

2. Distressed properties remain important source of new projects for remodeling contractors.

3. Weather created slowdown in remodeling activity in first quarter, although discretionary projects and projects remained fairly healthy.

4. LIRA sending mixed signals for 2011 remodeling outlook; volatility likely to continue.

5. Home sales picking up in Sunbelt; prices holding up better in Frostbelt
Homeowners Were Widely Aware of the Expanded Energy-Efficiency Tax Credit Program

Please indicate which of the following best describes your awareness and participation in the federal energy-efficiency tax credit program

- Not aware, 18%
- Aware, but have not done projects, 57%
- Aware, and have done project(s), 25%

Note: Survey of 723 respondents. Federal energy-efficiency tax credit program are for projects such as insulation, high efficiency windows, and heating and air conditioning upgrades.
Source: Synovate survey, 2011.
Still, Without Tax Credit Incentives, Many Indicate That They Still Would Have Undertaken Project

How important was the federal tax credit in your decision to undertake an energy-efficiency home improvement?

- Not very important (probably would have done project without it), 40%
- Very important (wouldn't have done the project without it), 23%
- Somewhat important (helped sway decision to undertake the project), 37%

Note: Survey of 184 respondents who had answered in a previous question that they were aware of the federal tax credit program and had done one or more eligible projects. Source: Synovate survey, 2011.
For Remodelers Working on Distressed Properties Over Past Year, Projects Averaged 20% of Revenue

Work on distressed homes as share of project revenue over the past year, % of firms

- **50% or more**: 10%
- **25% to 50%**: 12%
- **10% to 25%**: 41%
- **under 10%**: 37%

**average = 19.6% of total revenue**

Note: responses for the 83 respondents (35%) that had worked on distressed properties over the past year
The Share of Project Activity on Distressed Homes was Highest in the West

Work on distressed homes as share of project revenue over the past year, averages for firms by region

Purchasers Were the Most Common Client for Remodelers Working on Distressed Properties

Remodeler clients when working on distressed properties (multiple responses permitted)

- Purchaser: 72%
- Seller: 24%
- Bank: 27%
- Other: 6%

Employment At Residential Remodeling Companies Finally Stabilizing

Number of employees (000s, not seasonally adjusted)

% change from same quarter year ago

Source: U.S. Department of Labor.
Remodeling Contractors Failure Rates Were Very High Even When Market Was Strong

Cumulative change in remodeling contractors in existence in 2003 over following four years

<table>
<thead>
<tr>
<th>Year</th>
<th>Established Firms</th>
<th>2003 Start-ups</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>-11.2%</td>
<td>-20.3%</td>
</tr>
<tr>
<td>2005</td>
<td>-18.9%</td>
<td>-36.0%</td>
</tr>
<tr>
<td>2006</td>
<td>-26.4%</td>
<td>-46.0%</td>
</tr>
<tr>
<td>2007</td>
<td>-32.6%</td>
<td>-53.6%</td>
</tr>
</tbody>
</table>

Tracking Recent Home Improvement Trends: NPD/HIRI Monthly Consumer Sentiment Index

- National monthly survey of about 9,000 homeowners on home improvement plans;

- Number of planned projects, estimated cost, DIY/pro installation, and expected financing information collected;

- Over 150 home improvement, maintenance and repair, and lawn and garden categories covered each month in survey;
After Healthy End to 2010, Planned Spending Falls Off in Early 2011

Three month moving averages compared to year-ago level for number of owners, number of planned projects, and planned spending

Note: Monthly figures are 3-month moving averages centered on reported month and normalized per 100,000 responses; February 2011 estimate based on January and February data only.
Replacement Projects Creating Most of the Volatility in Planned Spending

Three month moving averages compared to year-ago level for spending for planned home improvement projects by project type

Note: Monthly figures are 3-month moving averages centered on reported month and normalized per 100,000 responses; February 2011 estimate based on January and February data only.

With Planned Spending Strong for Seniors and for Replacements, Pro Projects Pace Growth

Three month moving averages compared to year-ago level for spending for planned home improvement projects

Note: Monthly figures are 3-month moving averages centered on reported month and normalized per 100,000 responses; February 2011 estimate based on January and February data only.
Planned Spending by Owners in Northeast and Midwest Outpacing Sunbelt Locations

Three month moving averages compared to year-ago level for planned home improvement projects

Note: Monthly figures are 3-month moving averages centered on reported month and normalized per 100,000 responses; February 2011 estimate based on January and February data only. Source: JCHS tabulations of the Home Improvement Research Institute’s monthly Consumer Sentiment Tracking Study, Feb. 2008 – Feb. 2011.
Cash Has Been Funding a Growing Share of the Home Improvement Market

Spending by source of funds category for planned home improvement projects

- Cash & Own Funds: 72%
- Loans: 13%
- Gifts & Other: 8%
- No answer: 7%

Note: Monthly figure of spending is normalized per 100,000 responses.
Source: JCHS tabulations of the Home Improvement Research Institute’s monthly Consumer Sentiment Tracking Study, February, 2011.
Leading Indicator of Remodeling Activity Shows Unusual Volatility Through 2011 (preliminary)

Homeowner Improvements
Four-Quarter Moving Totals
Billions of $

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Rate of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-1 Q1</td>
<td>$132.2</td>
<td>-9.3%</td>
</tr>
<tr>
<td>2008-1 Q2</td>
<td>$125.7</td>
<td>-14.0%</td>
</tr>
<tr>
<td>2008-1 Q3</td>
<td>$120.9</td>
<td>-16.1%</td>
</tr>
<tr>
<td>2008-1 Q4</td>
<td>$120.1</td>
<td>-13.6%</td>
</tr>
<tr>
<td>2009-1 Q1</td>
<td>$118.2</td>
<td>-10.6%</td>
</tr>
<tr>
<td>2009-1 Q2</td>
<td>$115.8</td>
<td>-7.9%</td>
</tr>
<tr>
<td>2009-1 Q3</td>
<td>$112.3</td>
<td>-7.1%</td>
</tr>
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<td>2009-1 Q4</td>
<td>$112.0</td>
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<tr>
<td>2010-1 Q2</td>
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<td>1.8%</td>
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<tr>
<td>2010-1 Q3</td>
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<td>$122.7</td>
<td>7.1%</td>
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<td>2011-1 Q2</td>
<td>$130.2</td>
<td>10.3%</td>
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<td>2011-1 Q3</td>
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</tr>
<tr>
<td>2011-1 Q4</td>
<td>$115.0</td>
<td>-0.2%</td>
</tr>
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</table>

Source: Joint Center for Housing Studies.

Harvard University
JOINT CENTER FOR HOUSING STUDIES
Graduate School of Design | Harvard Kennedy School

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Many Distressed Markets Beginning to See an Increase in Sales of Existing Homes

Change in home sales, year over year, Q4 2009 – Q4 2010

10 metros with largest increase
10 metros with largest decrease

National average = -19.2%

Note: Metros mapped are of the 50 largest by population for which data is available.
Source: Zillow.com
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House Prices Beginning to Recover in Key Northeast, Texas, and California Markets

Change in house price index, year over year, Dec 2009 – Dec 2010

Note: Metros mapped are of the 45 largest for which data is available. Source: CoreLogic House Price Index, 2010.

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Metro Areas With Recovering House Prices Generally Seeing Fewer Homeowners Underwater

Negative equity share, Q4 2010

10 metros with smallest share
10 metros with largest share

Sacramento 43%
San Francisco 10%
Las Vegas 69%
Riverside 49%
Phoenix 57%

Detroit 43%
New York 11%
Philadelphia 8%
Nashville 13%
Atlanta 34%

Dallas 12%
Austin 10%
Jacksonville 47%
Orlando 56%
Tampa 49%
Miami 48%

National average = 23.8%

Note: Metros mapped are of the 50 largest metro areas and divisions that have 50,000 or more loans.
Source: CoreLogic Negative Equity Report, 2010.
Remodeling Outlook

1. Year getting off to a rough start; bad weather and expiration of higher-level energy-efficiency tax credit seem to be major culprits.

2. Rehabilitating distressed properties looks to be important source of market growth in overbuilt areas.

3. Discretionary project activity picking up across the board, although heavy reliance on cash funding limiting project size.

4. Home sales beginning to pick up in distressed markets, although prices holding up better in Northeast and Texas markets.