Research Update

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Remodeling Futures Conference
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Remodeling Futures Research Projects

1. Metropolitan remodeling spending.

2. The role of nonprofits in the home improvement market.


4. The role of home improvements in preserving the housing stock.
National Remodeling Business Approaches: Research Objectives

• Explore business models and approaches that remodeling companies have used or have attempted to use, so as to better understand the challenges, opportunities, and benefits of trying to scale a business in a highly fragmented industry.

1. Franchise and Licensing
2. Manufacturer Programs/Partnerships
3. Organic Growth (M&A)
4. Vertical Integration
5. Contractor Networks/Association
The Advisory Committee and Other Industry Professionals Have Greatly Helped to Guide and Inform this Research

Advisory Committee Members:

• Scott Baker & Tom Seibert - Paul Davis Restoration
• Chris Edelen - LeafGuard by Beldon
• Murray Gross - U.S. Home Systems
• Kevin O’Neill - Wellborn Cabinet
• Pat O’Toole - Professional Remodeler Magazine
• Mark Richardson - Case Design & Remodeling
• Seymour Turner - Hanley Wood Business Media

Industry Insights:

• David Lupberger and Associates
• GE Money
• Modern Trade Communications
• NAHB Remodelers
• NARI
• Professional Remodeler Magazine
• Qualified Remodeler Magazine
• Remodeling Magazine
• Wells Fargo Financial Retail Services
Next Steps:

• Continue working with the advisory committee to reach out to industry professionals to refine the research framework and determine the information that needs to be gathered;

• Prepare and conduct interviews with remodeling companies that are good examples of each type of business approach identified;

• Prepare a series of case studies with a summary of lessons learned from examples of efforts to establish a more efficient presence in the home improvement industry.
The Role of Home Improvements in Preserving the Housing Stock:

Research Topics: As the housing stock evolves over time, what role does remodeling play in:

- Maintaining owner-occupied units in the owner-occupied housing stock?
- Retaining homes in the housing inventory?

Research Method: Link 1997-2007 AHS housing unit files to identify changes in the use of homes, and analyze the relationship between these changes and home improvement expenditures.
Over Time, American Houses Have Been Getting Bigger and Better

<table>
<thead>
<tr>
<th></th>
<th>1940</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>All housing units (millions)</td>
<td>37.4</td>
<td>130.1</td>
</tr>
<tr>
<td>Number of rooms (average)</td>
<td>4.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Bathrooms in home (% of all homes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shared or no bath</td>
<td>45.3</td>
<td>1.2</td>
</tr>
<tr>
<td>1 or 1.5</td>
<td>54.7</td>
<td>48.7</td>
</tr>
<tr>
<td>2 or more</td>
<td>*</td>
<td>50.1</td>
</tr>
<tr>
<td>Median house value, owner-occupied homes (2009$)</td>
<td>$45,022</td>
<td>$160,000</td>
</tr>
</tbody>
</table>

* Included in 1 or 1.5 bath category.

Sources: U.S. Census Bureau, 1940 Census of Housing, and JCHS tabulations of the 2009 American Housing Survey.
The Change in the Housing Stock Between 2007 and 2009 Reflects a Range of Additions and Losses

<table>
<thead>
<tr>
<th>2007 Housing Stock</th>
<th>128,203,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gains</td>
</tr>
<tr>
<td>Units Lost by Demolition or Disaster</td>
<td></td>
</tr>
<tr>
<td>Units Added by New Construction</td>
<td></td>
</tr>
<tr>
<td>Units Lost from Mergers or Conversions</td>
<td></td>
</tr>
<tr>
<td>Units Added by Mergers or Conversions</td>
<td></td>
</tr>
<tr>
<td>House or Mobile Home Moved Out</td>
<td></td>
</tr>
<tr>
<td>House or Mobile Home Moved In</td>
<td></td>
</tr>
<tr>
<td>Units Lost to Nonresidential Use</td>
<td></td>
</tr>
<tr>
<td>Units Added from Nonresidential Use</td>
<td></td>
</tr>
<tr>
<td>Units Badly Damaged or Condemned</td>
<td></td>
</tr>
<tr>
<td>Units Lost in Other Ways</td>
<td></td>
</tr>
<tr>
<td>Units Added from Temporary Losses due to Structural</td>
<td></td>
</tr>
<tr>
<td>Deficiencies</td>
<td></td>
</tr>
<tr>
<td>Unit added from other sources</td>
<td></td>
</tr>
<tr>
<td>Total units</td>
<td>3,795,000</td>
</tr>
</tbody>
</table>

Estimate of 2009 housing stock

| Estimate of 2009 housing stock                                           | 129,913,000 |

Most Single-Family Detached Owner-Occupied Units in 1997 Were Still Owner-Occupied in 2007

Share of 1997 owner-occupied homes by 2007 status

- Occupied Owner: 84.0%
- Occupied Renter: 6.2%
- Usual residence elsewhere: 0.5%
- Vacant units: 6.8%
- Converted to nonresidential: 0.5%
- Demolished: 2.0%

Source: The JCHS linked 1997-2007 AHS data.
Of the 1997 Owner-Occupied Homes That Had Changed Status by 1999, 2007 Demolition Rates Were Much Higher

<table>
<thead>
<tr>
<th>Stock Status in 2007</th>
<th>Total Units</th>
<th>Demolished Units</th>
<th>Share Demolished</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Owner-Occupied</strong></td>
<td>17,485</td>
<td>206</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>Non Owner-Occupied</strong></td>
<td>560</td>
<td>31</td>
<td>5.5%</td>
</tr>
<tr>
<td>Renter Occupied</td>
<td>480</td>
<td>21</td>
<td>4.4%</td>
</tr>
<tr>
<td>Usual Residence Elsewhere</td>
<td>56</td>
<td>2</td>
<td>3.6%</td>
</tr>
<tr>
<td>No Longer Residential</td>
<td>24</td>
<td>8</td>
<td>33.3%</td>
</tr>
<tr>
<td><strong>Status Unknown</strong></td>
<td>1,599</td>
<td>48</td>
<td>3.0%</td>
</tr>
<tr>
<td>Vacant Interview</td>
<td>511</td>
<td>34</td>
<td>6.7%</td>
</tr>
<tr>
<td>Interview Unsuccessful</td>
<td>1,088</td>
<td>14</td>
<td>1.3%</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>19,644</td>
<td>285</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Source: The JCHS linked 1997-2007 AHS data.
Over 40% of Owner-Occupied Units Had Annual Remodeling Spending Less Than $1,000

Average annual home improvement spending 1996 to 2007 for homes owner-occupied in 1997 and 2007

- <$100, 10.4%
- $100-$500, 16.6%
- $500-$1000, 17.5%
- $1,000-$2,000, 23.2%
- $2,000-$5,000, 21.9%, 22%
- $5,000 +, 10.4%

Source: The JCHS linked 1997-2007 AHS data.
Over Half Owner Units Spent 1% Or Less of Their 1997 Housing Value Annually on Improvements

Average annual spending on home improvements as share of 1997 home value, percentage of units

Source: The JCHS linked 1997-2007 AHS data.
Even Minimum Spending May Help a Unit Remain Owner-Occupied

Share of 1997 Owner-Occupied Homes Remaining Owner-Occupied in 2007

Average Annual Spending on Home Improvements, 1997-2007

Source: The JCHS linked 1997-2007 AHS data.
Spending Just $100-$500 Annually Greatly Reduces the Probability of a Unit Falling Out of Stock in the Long Run

Share of Owner-Occupied Homes Falling Out of Stock Between 1997 and 2007

Source: The JCHS linked 1997-2007 AHS data
Statistical Analysis

Regression model using remodeling spending, and controlling for:
- age of unit
- 1997 house value
- location within metro area
- region of country

Results:
- Low home improvement spending homes (under $100/year over the decade) were 3.4 to 5.9 times more likely to be converted to other uses by 2007 compared to other spending levels.
- Low home improvement spending homes were 4.1 to 5.2 times more likely to be demolished by 2007 compared to other spending levels.
Implications of Research

1. Housing stock is constantly evolving in terms of characteristics and use, but change in status from owner-occupied to some other use produces a much higher probability that that unit will leave the housing stock.

2. Even very modest levels of home improvement spending (as little as $100 a year) help to maintain an owner-occupied home in that status by a very significant degree.

3. Additionally, very modest levels of home improvement spending significantly help to retain an owner-occupied home in the housing stock.

4. From a policy perspective, modest levels of targeted home improvement expenditures likely can make a big difference help ensure that affordable housing opportunities remain available, and help protect neighborhoods from unwanted demolitions.