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CHANGING HOUSEHOLD DEMOGRAPHICS

The shifting characteristics of US households will shape the home remodeling market for many years to come. Longer-term trends include the aging population, stagnating incomes, and declining household mobility, while more recent changes include increasing racial and ethnic diversity and growth in the number of young renters. Each of these forces will have meaningful impacts on improvement spending levels, the mix of discretionary and replacement projects, and the choice of professional or do-it-yourself installation.

OLDER HOMEOWNERS REMAIN KEY

With members of the baby-boom generation now entering their retirement years, the number and share of older households are set to increase significantly. According to the Joint Center's 2013 projections, the number of householders age 65 and over will rise from 26 million in 2010 to 35 million in 2020, and to 45 million in 2030.

Meanwhile, the share of improvement spending by homeowners age 65 and over has already increased dramatically, rising from just 13 percent in 2005 to 23 percent in 2013. This growth reflects not only the rising number of older owners, but also an increase in per-owner outlays. Indeed, more than 60 percent of the growth in share is due to higher inflation-adjusted per-owner spending.

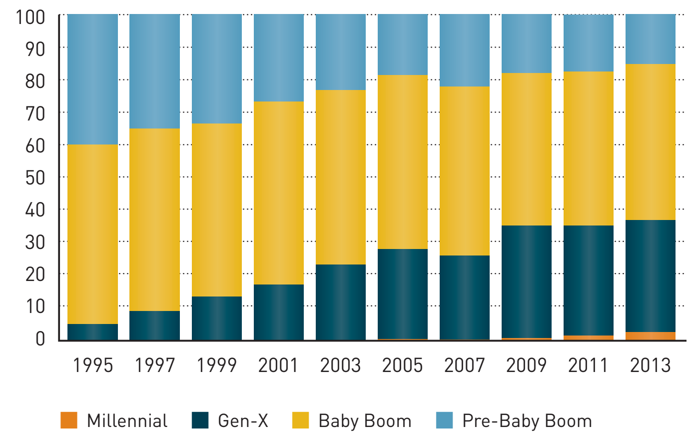
On average, baby boomers have more wealth and greater longevity, and remain in the workforce longer than previous generations. But like those that preceded them, the overwhelming majority prefer to age in place. A 2013 survey by the Demand Institute found that 55 percent of baby boomers have lived in their current homes for more than ten years, and 63 percent do not plan to move again. Of that group, fully 85 percent intend to stay in their current homes by choice (rather than being forced to stay for financial or other reasons).

Baby boomers have been, and continue to be, a driving force in the home improvement market. As members of this generation have aged from their 30s and 40s in 1995 to their 50s and 60s today, they have consistently accounted for about half of total spending **(Figure 6).** Although their share has started to dip in recent years as the gen-Xers moved into the prime homeownership and improvement spending years (roughly ages 35 to 55), baby boomers still make up the largest share of the remodeling market.

Figure 6

While the Baby Boomers Are Still the Primary Drivers of Improvement Spending, Gen-Xers Are Gaining Share

Share of Spending by Generation (Percent)



Note: The millennial generation was born in 1985–2004, gen-X in 1965–84, baby boom in 1945–64, and pre-baby boom before 1945. Tabulations of 2013 data use JCHS-adjusted weights.
Source: JCHS tabulations of HUD, American Housing Surveys.

The aging of US homeowners affects the demand for home improvements in several ways. Regardless of economic conditions or changes in the business cycle, older homeowners tend to focus much more of their spending on replacement projects related to roofing, siding, windows, doors, plumbing, electrical wiring, and other systems (over 50 percent in a typical year), and less on discretionary projects such as kitchen and bath upgrades (under 30 percent). Younger homeowners, in contrast, tend to spend equal shares (about 40 percent) of their budgets on replacements and on discretionary projects.

Since replacement projects often involve professional installation, an important impact of higher replacement spending is that it has reduced the share of do-it-yourself expenditures. The DIY share of total home improvement spending trended down from about 25 percent in the late 1990s to just 17 percent in 2013, primarily because of the aging population. Indeed, younger homeowners (under age 35) consistently devote much larger shares of their improvement spending—about one in three dollars—to DIY projects, while older homeowners (age 65 and over) spend much less. In fact, the DIY share of expenditures among this older group shrank from over 14 percent in 2005 to under 11 percent in 2013 as the leading edge of the baby-boom generation moved into this age range.

SLUGGISH HOUSEHOLD INCOME GAINS

The stagnation or erosion of incomes among all but the top quintile of households is another long-term trend that affects remodeling expenditures. The average inflation-adjusted income of households in the lowest income quintile remained unchanged from 1993 to 2013, while that for households in the middle income quintiles rose a modest 3–8 percent. In contrast, households in the highest income quintile saw a 15 percent increase over the same period.

Lower-income homeowners are much less likely than higher-income households to make improvements, and those that do spend considerably less on those projects. Among households between ages 35 and 64, only half (51 percent) of those in the lowest income quintile reported undertaking a project in 2012–13 compared with more than two-thirds of owners in the highest income quintile **(Figure 7a).** Middle-aged homeowners in the lowest income quintile who did make improvements spent just $2,900 annually, significantly less than the $8,600 average among highest-income homeowners. Even owners in the middle income quintiles spent 40–60 percent less on home remodeling projects than top-income owners.

At the same time, however, lowest-quintile households spend much more of their incomes on home improvements (4.4 percent) than top-quintile households (1.5 percent) **(Figure 7b).** This is because much of their spending is not discretionary, and most homeowners ultimately make the upgrades to roofing, plumbing, electrical, and other systems necessary to keep their properties safe and comfortable. The cost of these often unavoidable projects thus falls much more heavily on lowest-income homeowners.

In fact, the mix of replacement and discretionary projects changes dramatically with income, with lowest-quintile owners focusing much more of their remodeling budgets (58 percent) on replacements than highest-income owners (42 percent). While the split between professional and DIY installations is largely a function of a homeowner's age, the DIY share of spending among 35–64 year olds also declines considerably with household income. Top-quintile homeowners spend less than 13 percent of their outlays on DIY improvements, while all other owners spend over 20 percent.

Given these large differences in improvement activity, it is not surprising that high-spending homeowners drive the upswings and downswings in the remodeling market. For example, at the height of the housing boom in 2005, homeowners that were in the top 5 percent of spenders accounted for just over 60 percent of all improvement outlays. In 2003, their share had fallen to about 52 percent as even high-spending homeowners focused more on replacements than on high-end discretionary projects. And while high-income owners making large discretionary improvements will remain responsible for much of spending growth, the flat or falling incomes of most homeowners will likely have a dampening effect on total outlays in the market.

DECLINING HOUSEHOLD MOBILITY

Mobility rates, or the share of households changing residences within a given year, have fallen steadily for several decades. A number of factors have contributed to the decline, including the aging of the population; the increase in two-earner households, making it both less critical and more difficult to relocate for work; and the postponement of retirement, whether out of choice or necessity.

The housing market crash further diminished mobility rates as falling house prices left millions of homeowners underwater on their mortgages (owing more than the value of their homes). Between 2007 and 2013, the share of recent homebuyers shrank from 17 percent to 12 percent of owners, while the share of total improvement spending by these homeowners dropped from 23 percent to 15 percent. Although house prices in much of the country have now recovered, historically low interest rates provide an incentive for owners to remain in their current homes when mortgage rates head up again. This mortgage lock-in effect may thus continue to depress household mobility and future remodeling activity.

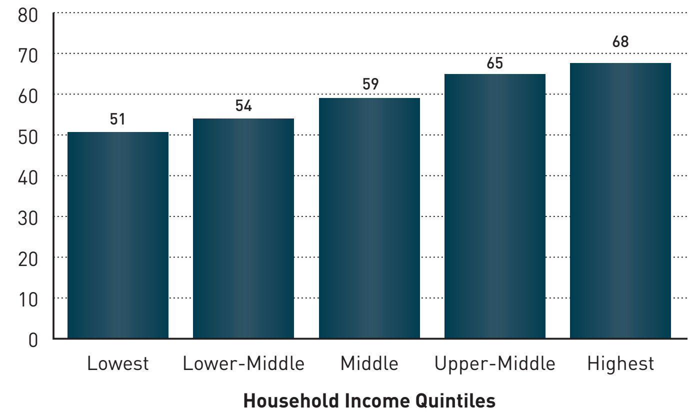
In general, lower household mobility reduces remodeling demand because households tend to spend more on improvements both when they are putting their homes on the market and during the first several years after purchase. According to a 2014 Home Improvement Research Institute survey, fully half of recent sellers (who had sold and purchased homes in the preceding three years) undertook one or more improvement projects to prepare their homes for sale, with their expenditures averaging well over $8,000.

The post-purchase spending of recent buyers is also considerably higher than the spending of non-movers, even after controlling for age and income. Recent buyers aged 35–64 in the middle-income quintiles consistently spend significantly more—about 33 percent—on improvements than otherwise similar non-movers **(Figure 8).** In particular, homeowners that have recently moved devote much higher shares of their improvement dollars to DIY and discretionary projects. As a result, falling household mobility rates are likely to put downward pressure on the DIY and discretionary shares of improvement spending.

Figure 7a

Although Lower-Income Owners Are Less Likely to Make Home Improvements...

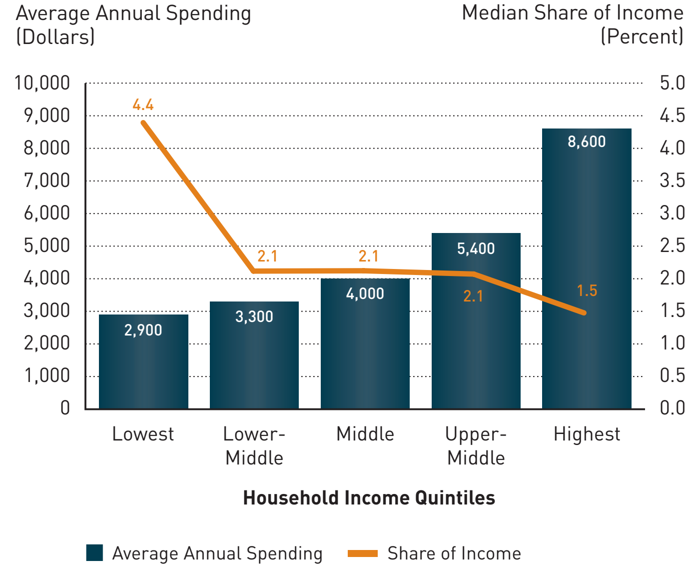
Share of Homeowners Aged 35–64 Reporting One or More Projects in 2012–13 (Percent)



Notes: Quintiles are equal fifths of homeowners ranked by total household income. Tabulations use JCHS-adjusted weights.
Source: JCHS tabulations of HUD, American Housing Survey.

Figure 7b

...Those That Do Spend a Much Larger Share of Their Incomes



Notes: Estimates include only homeowners aged 35–64 undertaking improvement projects. Quintiles are equal fifths of those homeowners ranked by total household income. Tabulations use JCHS-adjusted weights.
Source: JCHS tabulations of HUD, 2013 American Housing Survey.

GROWING DIVERSITY AMONG YOUNGER GENERATIONS

The millennial generation is already as large as the baby boom and its numbers will continue to increase with the arrival of new immigrants. Millennials are also much more racially and ethnically diverse, with minority householders making up nearly 40 percent of their ranks, compared with just 27 percent of the baby boomers. Moreover, immigration will help to expand the minority share of millennial households over the coming decades.

This demographic shift is important for the home improvement market because minority households traditionally have lower incomes and wealth as well as far lower homeownership rates than white households. Joint Center tabulations of the American Housing Survey indicate that minorities have consistently earned about 70 percent of white incomes since 1995 and their homeownership rates have held about 25 percentage points below white rates. Minority homeowners also tend to be younger, with a third under age 45 in 2013 compared with only a quarter of white owners.

The impacts of increasing racial and ethnic diversity on the level and mix of remodeling projects are due primarily to differences in income and age between whites and minorities. Minority owners historically spend about 25 percent less on home improvements than white households, and Hispanic, Asian, and multiracial owners devote more of their budgets to DIY and discretionary projects. Even when looking just at middle-aged and middle-income households, Hispanic, Asian, and multiracial homeowners spend a larger share on DIY and discretionary improvements than white homeowners.

MILLENNIALS' SLOW START TO HOMEOWNERSHIP

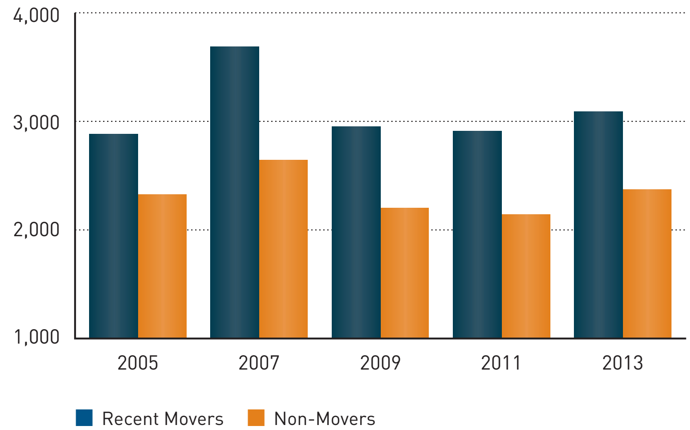
Millennials are much less likely than previous generations to have formed their own households, be married, or have children by the age of 28. As a 2012 report from the Bipartisan Policy Center notes, nearly half (47 percent) of millennials between the ages of 18 and 28 were living with at least one family member, compared with 43 percent of the gen-X and 39 percent of the baby-boom generations at similar ages. Just 21 percent of millennials were married by age 28, compared with 29 percent of gen-Xers and half of baby boomers. Finally, only 20 percent of millennials had children compared with 30 percent of baby boomers at the same ages.

Although these differences in part reflect long-term declines in household formation, marriage, and childbearing rates, the severity of the recent recession also played a key role. Having come of age during the country's worst downturn since the Great Depression, millennials have faced significant challenges to homeownership including high student loan debt, limited employment opportunities, and housing affordability pressures. At more than 64 percent in 2014, the rentership rate for householders under age 35 still exceeds the 61 percent average in the late 1990s, a period that might be considered more typical for rental and owner markets.

Figure 8

Recent Movers Spend Considerably More on Home Improvements

Average Annual Spending by Owners Aged 35–64 in the Middle Income Quintiles (Dollars)



Notes: Recent movers bought their homes within the previous three calendar years. Estimates include owners in the lower-middle, middle, and upper-middle income quintiles. Quintiles are equal fifths of homeowners aged 35–64 ranked by total household income. Tabulations of 2013 data use JCHS-adjusted weights.

Source: JCHS tabulations of HUD, American Housing Surveys.

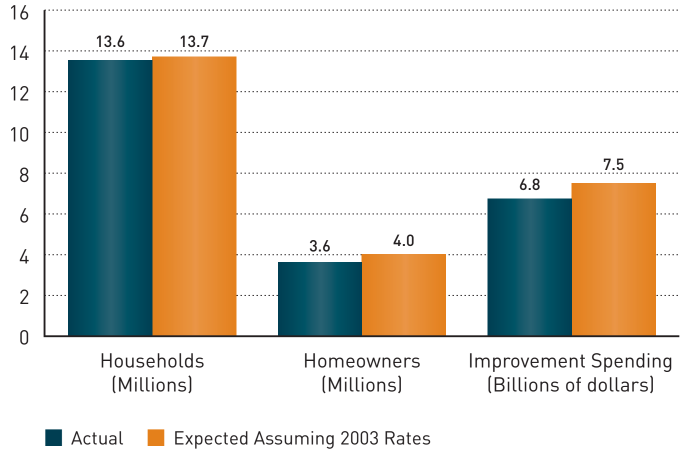
Continuation of a high rentership rate has implications for the home improvement market because per-unit spending on rental housing is significantly lower than on owner-occupied housing. According to Joint Center estimates, spending for improvements to renter-occupied units averaged just $770 in 2013. By comparison, outlays for improvements to owner-occupied single-family homes averaged $2,600. Even condominium owners spent over $800 more on remodeling in 2013 than the typical rental unit owner.

If individuals under the age of 30 today formed households and purchased homes at the same rates as their counterparts a decade ago, improvement spending by this age group would be nearly 11 percent higher **(Figure 9).** By this calculation, depressed household formation and homeownership rates among this age group shaved about three-quarters of a billion dollars off total improvement spending on owner-occupied units in 2013.

Figure 9

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 Persons Under Age 30



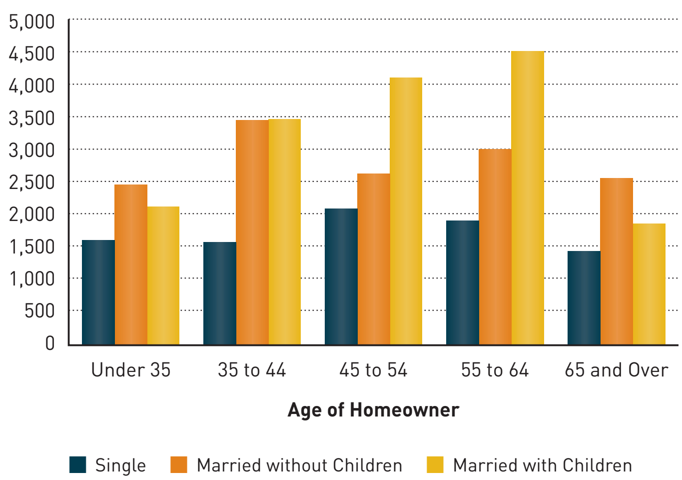
Notes: Expected figures assume 2003 household formation and homeownership rates for persons under age 30. Tabulations use JCHS-adjusted weights.

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.

Figure 10

Married Couples of All Ages Spend More on Home Improvements than Single Homeowners

Average Annual Spending in 2013 (Dollars)



Note: Tabulations use JCHS-adjusted weights.

Source: JCHS tabulations of HUD, American Housing Survey.

Delayed marriage by millennials is also a concern for the home remodeling market because, regardless of age, married homeowners spend considerably more on improvements than singles **(Figure 10).** The presence of children provides an even bigger lift to spending. Among homeowners between the ages of 45 and 64, married couples (with or without children) spent about the same on DIY projects as single homeowners, while married owners with children spent significantly more on discretionary projects.

THE OUTLOOK

Of the many household characteristics that are changing, age and income are the most important to future remodeling demand. Other major demographic shifts—including continued declines in household mobility, growth in the minority share of households, and delayed household formation, marriage, childbearing, and homebuying among the millennial generation—also influence remodeling expenditures primarily through their age and income effects.

As the baby boomers move into their retirement years, their improvement spending already outpaces that of the preceding generation at similar ages, and it is expected that older homeowners will continue to play a significant role in the remodeling market for years to come. Meanwhile, members of the equally large gen-X generation are now in the peak remodeling age group and represent a growing segment of the market. Finally, although off to a slow start, millennials have similar aspirations to homeownership as previous generations. As a recent Fannie Mae National Housing Survey indicates, well over 90 percent of young people today expect to buy homes in the future, suggesting that members of the millennial generation will ultimately represent a substantial force in the home improvement market.