



FACT SHEET

Improving America's Housing 2011

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PURPOSE

Improving America's Housing is prepared biennially by the Remodeling Futures Program at the Joint Center for Housing Studies of Harvard University. Since 1999, these in-depth reports have served as an essential resource for policy makers and practitioners serving the remodeling industry. The latest edition, *A New Decade of Growth for Remodeling*, examines the changing industry dynamics and opportunities that will bring about a return to a sustainable and balanced remodeling market.

FINDINGS

The US home improvement industry is emerging from its worst downturn in recent history. The industry is beginning to see opportunities from the mortgage foreclosure crisis, as growing numbers of distressed properties are in need of rehabilitation. Also, lower household mobility in the wake of the housing market crash means that homeowners will increasingly focus on improvements with longer paybacks, particularly energy-efficient retrofits. Market fundamentals—the number of homes in the housing stock, the age of those homes, and the income gains of homeowners making improvements—point to increases in remodeling spending. As the economy and the housing market return to more normal conditions, so too will homeowner improvement spending. Over the coming five years, real spending on remodeling is expected to grow at a 3.5 percent average annual rate, ensuring that the industry captures a large share of the residential investment market.

The Rollercoaster Decade

The past decade was an incredible rollercoaster ride for the remodeling market, which quickly climbed to a new high of over \$325 billion in 2007 before the housing crash and economic recession took a significant toll on home improvement activity. By 2009, remodeling spending had declined 12.5 percent from its 2007 peak.

- Spending on upper-end discretionary projects dropped almost 23 percent during the downturn, bringing the discretionary share of activity closer to levels in the late 1990s and early 2000s when the market was more balanced.
- The consumer side of the remodeling market became less concentrated, with the share of total spending by the top five percent of homeowners falling from a decade high of over 60 percent in 2005 to 52 percent in 2009.
- Federal tax credits for energy retrofits supported spending on professionally installed energy-related replacement and upgrade projects, which fell less than half as much as overall home improvement expenditures in 2007-9.

Evolving Industry Structure

The remodeling industry remains characterized by many small businesses that are highly susceptible to failure. Ease of entry and undercapitalization of many firms contribute to considerable churn in the industry. Just before the downturn, larger remodeling firms were making strong gains in market share. As the recovery proceeds, however, the trend toward concentration is likely to persist.

- More than 650,000 contractors primarily served the residential remodeling market in 2007, up from 530,000 five years earlier. Most of this growth reflects significant increases in the numbers of both self-employed and special trade remodelers.

- Larger firms are playing an increasingly dominant role in the remodeling market. Remodelers with revenues of at least \$1 million in 2007 accounted for 55 percent of total industry employment, 65 percent of material purchases, and 66 percent of remodeling and repair receipts.
- The structure of the home improvement industry increased in concentration through 2007 as the top 50 general remodeling contractors captured almost 8 percent of total receipts at payroll firms, compared with 5.2 percent in 2002.

Metropolitan Perspectives

Following the crash of the housing market, the most dramatic declines in remodeling activity occurred in the metropolitan areas where house prices and remodeling spending had surged most in the first half of the decade. Going forward, local demographic characteristics and stable house prices will determine which metropolitan areas recover most quickly.

- While the average US homeowner spent \$2,600 per year on home remodeling projects in 2000-9, annual spending in the 35 largest metros averaged \$3,100, ranging from \$1,200 in San Antonio to \$5,100 in San Jose.
- Remodeling activity in metros with high mortgage delinquency rates (above 14% in 2009) began and ended the decade at about the same levels. In contrast, spending in areas with low delinquency rates (below 14%) was up 22% in 2000-9.
- Markets with rising house prices, older housing stocks, higher incomes and home values, and a larger share of upscale remodeling expenditures – such as Boston, San Francisco, and Los Angeles – are well-positioned for an upturn in remodeling activity.

A New Decade of Growth

The growth and composition of remodeling spending over the coming decade should be similar to the late 1990s, although the motivations for making home improvements will differ. Key developments in the housing industry—including growing numbers of distressed properties, lower mobility, changing migration patterns, rising environmental awareness, an increased share of spending by immigrants, and the aging population—all support strong growth in remodeling markets.

- Due to deferred maintenance, remodeling expenditures on distressed properties are about 15 percent higher on average than on nondistressed properties. This pent-up demand will help boost the home improvement market moving forward.
- Remodeling contractors in several traditionally slower-growing or declining metropolitan areas in the Northeast and Midwest, as well as California, should benefit from improvements in net domestic migration between 2006 and 2009.
- According to a Joint Center national survey, the number of contractors reporting that they worked on projects eligible for federal energy tax credits jumped from less than 40 percent in mid-2009 to almost 69 percent in mid-2010.

SPONSORS

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