The Home Improvement Outlook for 2016 and Beyond

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Joint Center for Housing Studies

- History and background

- Remodeling Futures Program

- website: www.jchs.harvard.edu
Housing Market Issues

- Housing market is recovering;

- House prices are rebounding in most markets across the country.

- Homeownership rates continue to fall.
House Prices Continue to Recover, Having Gained Back Nearly 80% of Their Losses

Single-family house price index (Jan. 2000=100)

Source: CoreLogic National House Price Index (HPI), Single family attached and detached structures as of October, 2015. Data accessed on 1/6/16.
House Prices Are Generally Recovering the Fastest in Volatile Sun Belt Markets

Change in Zillow Home Value Index – Median estimated home value for all homes, Nov. 2014 – Nov. 2015 (%)

10 metros with highest growth
10 metros with least growth

National change = 3.9%

Notes: Metro areas mapped are top 50 by U.S. Census Bureau Population
Source: JCHS calculations of Zillow, Median estimated home value for all homes (includes single family residence, condo/co-op).
Price-to-Income Ratios Exceed Historical Averages in Many Large Metro Areas

Residential single-family existing house price to household income, (ratio, quarterly)
US and Top 15 Metro Areas Ranked by Population

Source: Zillow Price-to-Income Ratio, calculated as part of Zillow’s quarterly Affordability Indices.
Notes: Index compares the median price of homes to the median level of household income in a given area. For quarters where median income is not available from the U.S. Census Bureau, Zillow calculates future quarters of median household income by estimating it using the Bureau of Labor Statistics’ Employment Cost Index.
So Far in the 2010s, Renter Household Growth Has Outstripped the Pace in Any Previous Decade

Average Annual Change in Renter Households (Thousands)

Source: JCHS tabulations of US Census Bureau, Decennial Censuses and Housing Vacancy Surveys.
And As a Result, The National Homeownership Rate Has Fallen Below 1993 Levels

Homeownership Rate (Percent)

Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.
Home Improvement Industry Trends and Issues

- Home improvement spending expected to reach new high this year;
- Remodeling spending is concentrated in a few key areas of the country;
- Home improvement financing remains depressed in spite of broader market recovery;
- Several market segments stand out as offering growth opportunities;
- The structure of the industry is evolving;
- Outlook is for continued healthy growth in improvement spending.
Home Improvement Spending is Still On Track to Reach Its All-Time High By Year End

National home improvement market size estimates (billions $)

Source: Preliminary estimates based on JCHS tabulations and reweighting of the 2007-2013 AHS. Non-AHS years estimated using Census Bureau C-30 data and JCHS LIRA estimates.
Discretionary Projects Account for a Significant Share of Improvement Spending

Share of Spending by Project Type in 2013 (Percent)

- System Upgrades: 15.7%
- Exterior Replacements: 20.3%
- Interior Replacements: 11.8%
- Property Improvements: 13.7%
- Disaster Repairs: 8.2%
- Bath Remodels & Additions: 7.7%
- Other Room Additions & Alterations: 13.1%
- Kitchen Remodels & Additions: 9.5%
- Disaster Repairs: 8.2%

Homeowner Spending in 2013 = $192 Billion

Notes: Tabulations of data use JCHS-adjusted weights. Other room additions and alterations include outside attachments. Source: JCHS tabulations of HUD, American Housing Survey.
Owners in Coastal Metro Areas Generally Spend More on Improvements

Notes: Homeowner improvement spending for the 50 metro areas is pooled from the 2011 and 2013 American Housing Surveys. Spending levels in 2011 for 26 metros are adjusted for inflation by the CPI-U for All Items, as well as by the national change in average spending from 2011 to 2013.

Sources: JCHS tabulations HUD, American Housing Surveys.

Average Per-Owner Spending in 2013
- Less than $2,500 (Down to $1,700)
- $2,500-2,999
- $3,000-3,499
- $3,500 or More (Up to $5,000)
Largest 15 Markets Comprise a Third of National Total, Top 50 Markets Make up Nearly 60 Percent

Share of National Market for Home Improvements ($192 billion) in 2013 (Percent)

- New York, 6.3
- Washington, DC, 3.5
- Los Angeles, 3.4
- Chicago, 2.4
- Philadelphia, 2.3
- Dallas, 2.2
- Phoenix, 1.9
- Atlanta, 1.9
- Boston, 1.7
- San Francisco, 1.7
- Minneapolis, 1.7
- Houston, 1.6
- Seattle, 1.5
- Denver, 1.3
- Miami, 1.3
- Other Top 50 Markets, 22.8
- Smaller Metro and Non-Metro areas, 42.7

Notes: Spending for 50 metro areas is pooled from the 2011 and 2013 American Housing Surveys. Spending for 26 metros in 2011 is adjusted for inflation using the CPI-U for All Items, as well as by the overall growth in homeowner improvement spending over the same period (3.8%). Source: JCHS tabulations of HUD, American Housing Surveys.
Average Home Equity Levels Have Almost Fully Regained Their Pre-Downturn Levels

Note: Avg. equity per owner based on occupied units only;
Sources: Federal Reserve Board, Flow of Funds, table B. 100; and Housing Vacancy Survey.
Although Credit Options are Becoming More Popular, Industry Still Relies Heavily on Cash

Method of payment for large ticket project over the next 12 months; respondent asked to select all that apply

- Cash: 75% (April, 2012) 70% (April, 2015)
- Credit Card: 31% (April, 2012) 31% (April, 2015)
- Bank Loan: 6% (April, 2012) 8% (April, 2015)
- Retailer Credit: 9% (April, 2012) 11% (April, 2015)
- Home Equity Line of Credit: 10% (April, 2012) 20% (April, 2015)
- Other: 2% (April, 2012) 2% (April, 2015)

Source: Piper Jaffray 7th Home Improvement Survey, April, 2015.
Growth Opportunities for the Home Improvement Industry

- Improvements to the rental stock;

- Revival of discretionary home improvement activity;

- Sustainable home improvements:
  - energy efficiency retrofits
  - healthy home modifications
  - water conservation projects
  - rapidly renewable/recycled products

- Aging in place home modifications
This Coming Decade, Projected Household Growth is Concentrated in the 65+ Age Range

Source: JCHS Baseline Household Projections for the Next Decade and Beyond, 2013.
55+ Households Are More Heavily Concentrated in Midwest & Northeast

Top 10 state rankings for share of households age 55+ in 2013

Source: JCHS tabulations of 2013 American Community Survey (ACS).
Share of Households with Accessibility Need Rises Substantially with Age

Share of households with accessibility need, 2011 (Percent)

Note: Households with accessibility need are defined as those with a disabled member or members with serious difficulties using components of the home without assistance. See Figure 4 notes for more detail.

Source: JCHS tabulations of HUD, American Housing Survey.
Many Homes Owned by Older Households Lack Accessibility Features that Enable Aging in Place

Share of Units Owned by Households Aged 55 and Over with Accessibility Feature in 2011 (Percent)

<table>
<thead>
<tr>
<th>Feature</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bedroom &amp; Full Bath on Entry...</td>
<td>76.5</td>
</tr>
<tr>
<td>No Steps Between Rooms</td>
<td>61.3</td>
</tr>
<tr>
<td>No Step Entry Into Home</td>
<td>44.9</td>
</tr>
<tr>
<td>Wheelchair Accessible Bathroom</td>
<td>42.1</td>
</tr>
<tr>
<td>Wheelchair Accessible Kitchen</td>
<td>32.2</td>
</tr>
<tr>
<td>Extra-Wide Hallways and Doors</td>
<td>10.2</td>
</tr>
<tr>
<td>In-Home Elevator</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Note: In-unit elevators are computed for multi-story homes only.
Source: JCHS tabulations of HUD, American Housing Survey.
Demand for Accessible Homes is Projected to Outstrip Supply in Frost Belt Over Coming Decade

Estimated new housing construction with basic accessibility features: 2015-2025
Projected increase in age 65+ households with accessibility needs: 2015-2025
Accessible housing supply-demand gap: 2025

Note: Basic accessibility features include a no-step entry and bedroom and full bathroom on the entry level of the home.
With Recovering Market, Contractors Serving Discretionary Market Seeing Stronger Growth

Median annual rate of change in remodeling revenue by business type

<table>
<thead>
<tr>
<th>Business Type</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design/Build</td>
<td>15.6%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Full-Service</td>
<td>10.2%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Exterior</td>
<td>8.7%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Kitchen &amp; Bath</td>
<td>18.6%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Insurance Restor</td>
<td>8.7%</td>
<td>8.1%</td>
</tr>
<tr>
<td>All</td>
<td>10.8%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

Note: Analysis includes remodelers reporting revenue in two consecutive years and ranking in the top 400 in at least one of those years.
Source: JCHS tabulations of Qualified Remodeler magazine’s Top 500 Remodelers.
Average Project Size Up Significantly Over Past Few Years, But Still Below Market Peak for Most Specialties

Median average job size (Thousands of $)

Source: JCHS tabulations of Qualified Remodeler magazine’s Top 500 Remodelers.
Number of Contractors Serving the Remodeling Industry Likely Fell Significantly During Recession

Numbers of remodeling businesses nationally

<table>
<thead>
<tr>
<th></th>
<th>Number of Remodelers</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Contractors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td>82,900</td>
<td>77,900</td>
</tr>
<tr>
<td>Self-Employed</td>
<td>127,200</td>
<td>156,700</td>
</tr>
<tr>
<td>Subtotal</td>
<td>210,100</td>
<td>234,600</td>
</tr>
<tr>
<td><strong>Special Trade Contractors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td>117,200</td>
<td>139,500</td>
</tr>
<tr>
<td>Self-Employed</td>
<td>202,900</td>
<td>278,100</td>
</tr>
<tr>
<td>Subtotal</td>
<td>320,100</td>
<td>417,600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>530,200</td>
<td>652,200</td>
</tr>
</tbody>
</table>

Note: Includes self-employed remodeling contractors with annual revenues of at least $25,000.
Remodeling Contractors Optimistic About the Prospects for 2016

Projected change in company revenue in 2016 (percent of firms by projected change)

- Significantly higher: 7%
- Somewhat higher: 39%
- About the same: 43%
- Lower: 4%
- Don't know/not sure: 8%

Notes: Estimates are weighted average of responses in the categories. Total sample size, N=231
Source: JCHS Survey on Environmental Sustainability Trends in Remodeling, the Farnsworth Group, 2015:Q2.
Leading Indicator of Remodeling Activity Points to a Modest Acceleration of Growth Moving Into 2016

Homeowner Improvements
Four-Quarter Moving Totals
Billions of $

Four-Quarter Moving Rate of Change

Notes: (e) – estimated; (p) – projected. Historical data through the third quarter 2015 reflect significant revisions released by the US Census Bureau on 1-4-16. For more information, see: http://www.census.gov/construction/c30/news.html. The fourth quarter 2015 is calculated using preliminary Census Bureau data and LIRA projections.

Source: Joint Center for Housing Studies of Harvard University.
Applying Trend Growth Rates, Remodeling Should be a $350 Billion Market by 2017

National home improvement market size estimates (billions $)

Source: Preliminary estimates based on JCHS tabulations and reweighting of the 2007-2013 AHS. Non-AHS years estimated using Census Bureau C-30 data and JCHS LIRA estimates.