

# The Home Improvement Outlook for 2016 and Beyond

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JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

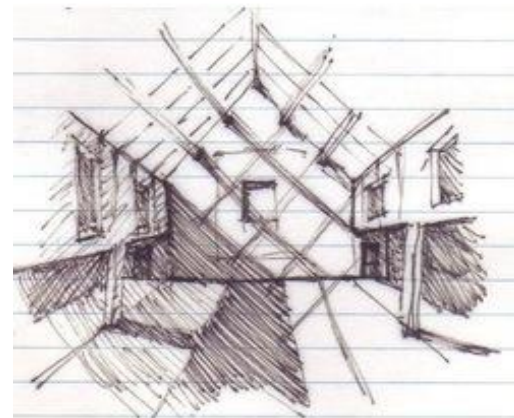
# Joint Center for Housing Studies

- History and background
- Remodeling Futures Program
- website: [www.jchs.harvard.edu](http://www.jchs.harvard.edu)



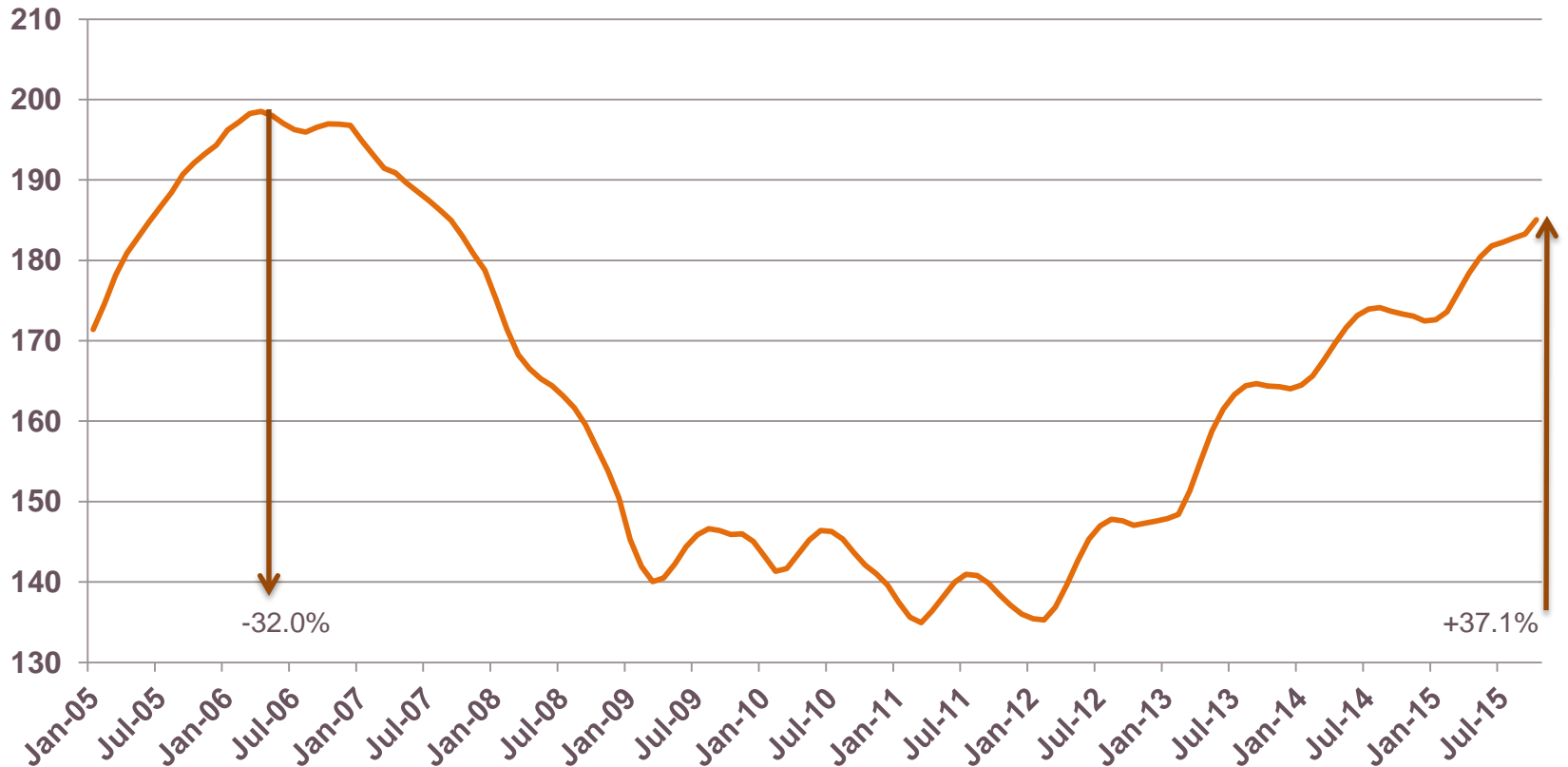
# Housing Market Issues

- 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

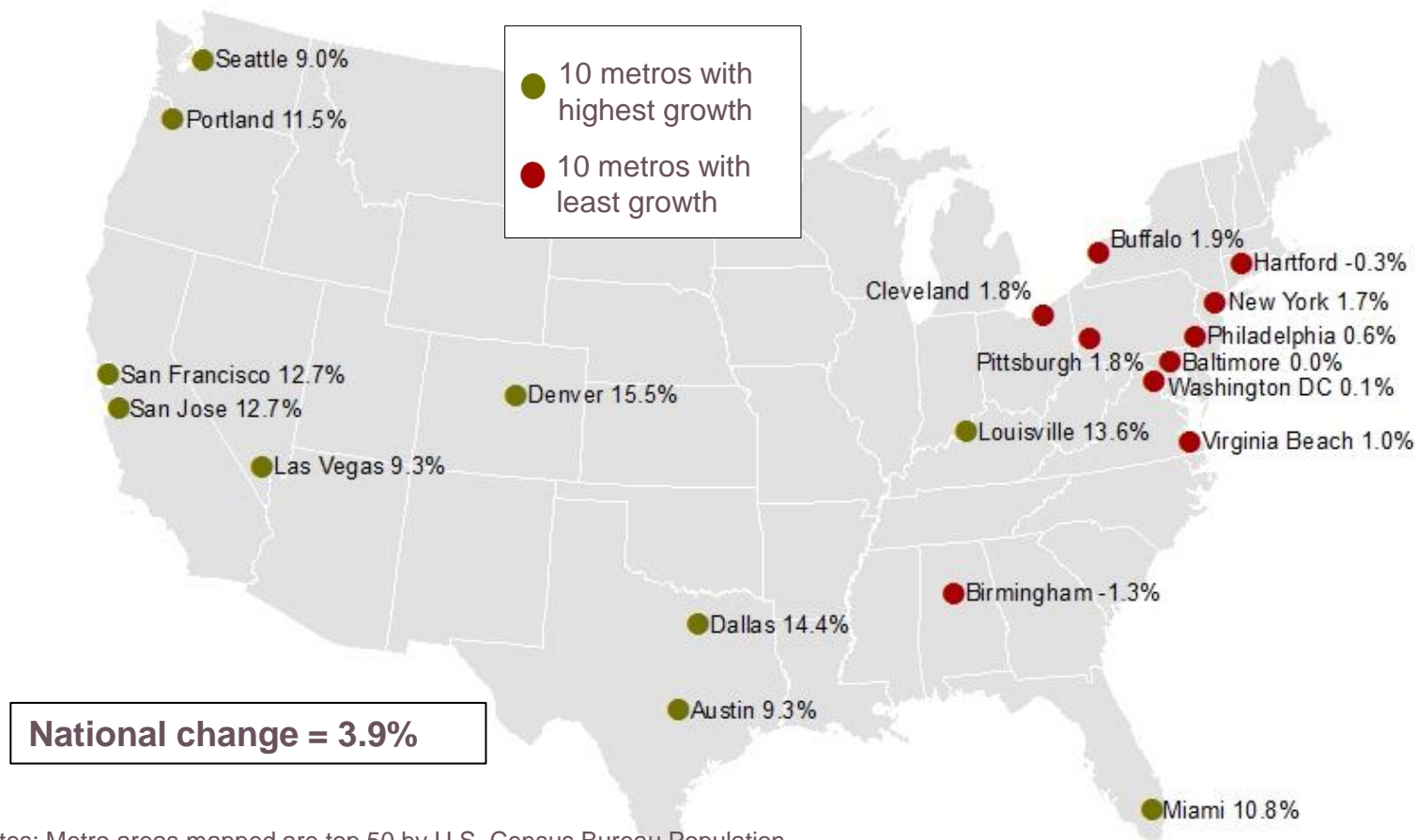
Single-family house price index (Jan. 2000=100)



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 (%)

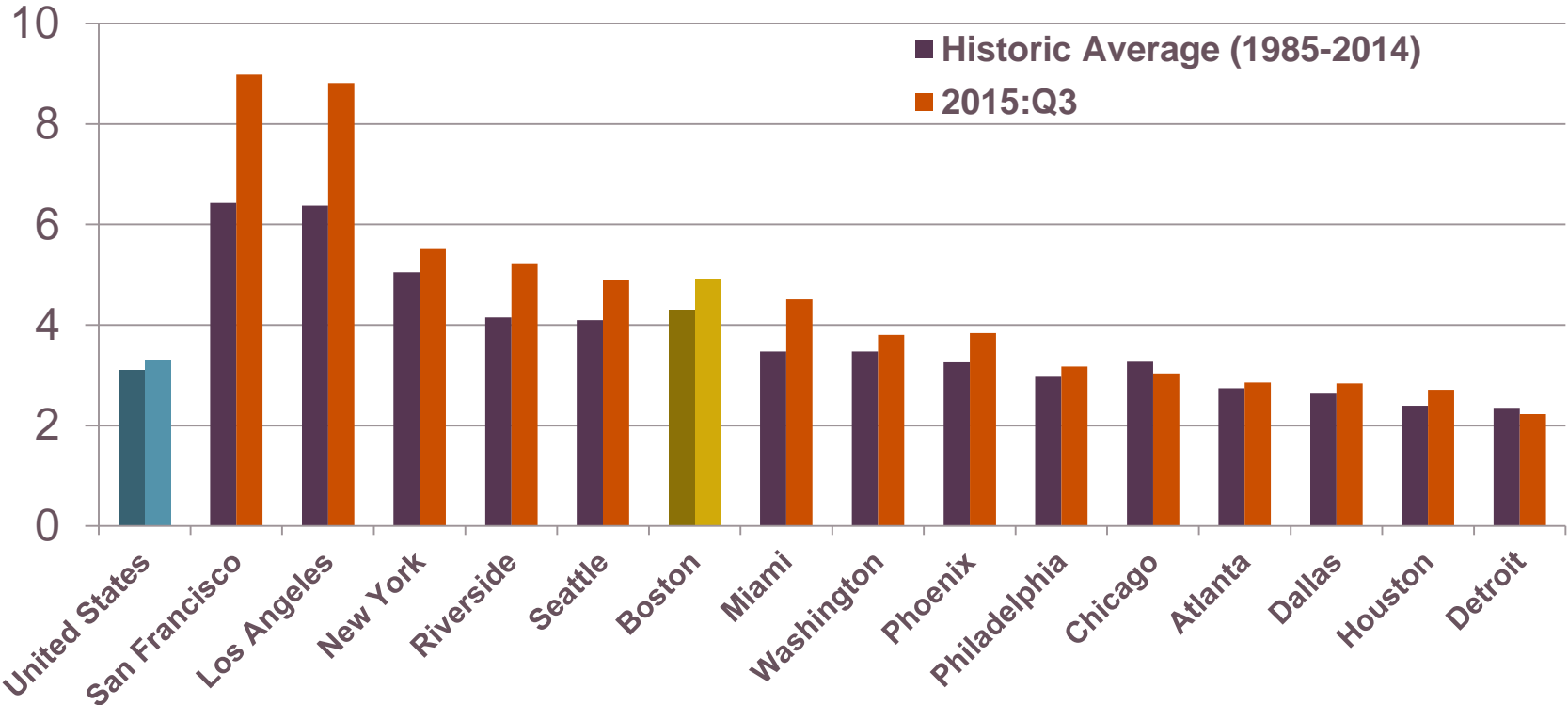


Notes: Metro areas mapped are top 50 by U.S. Census Bureau Population

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

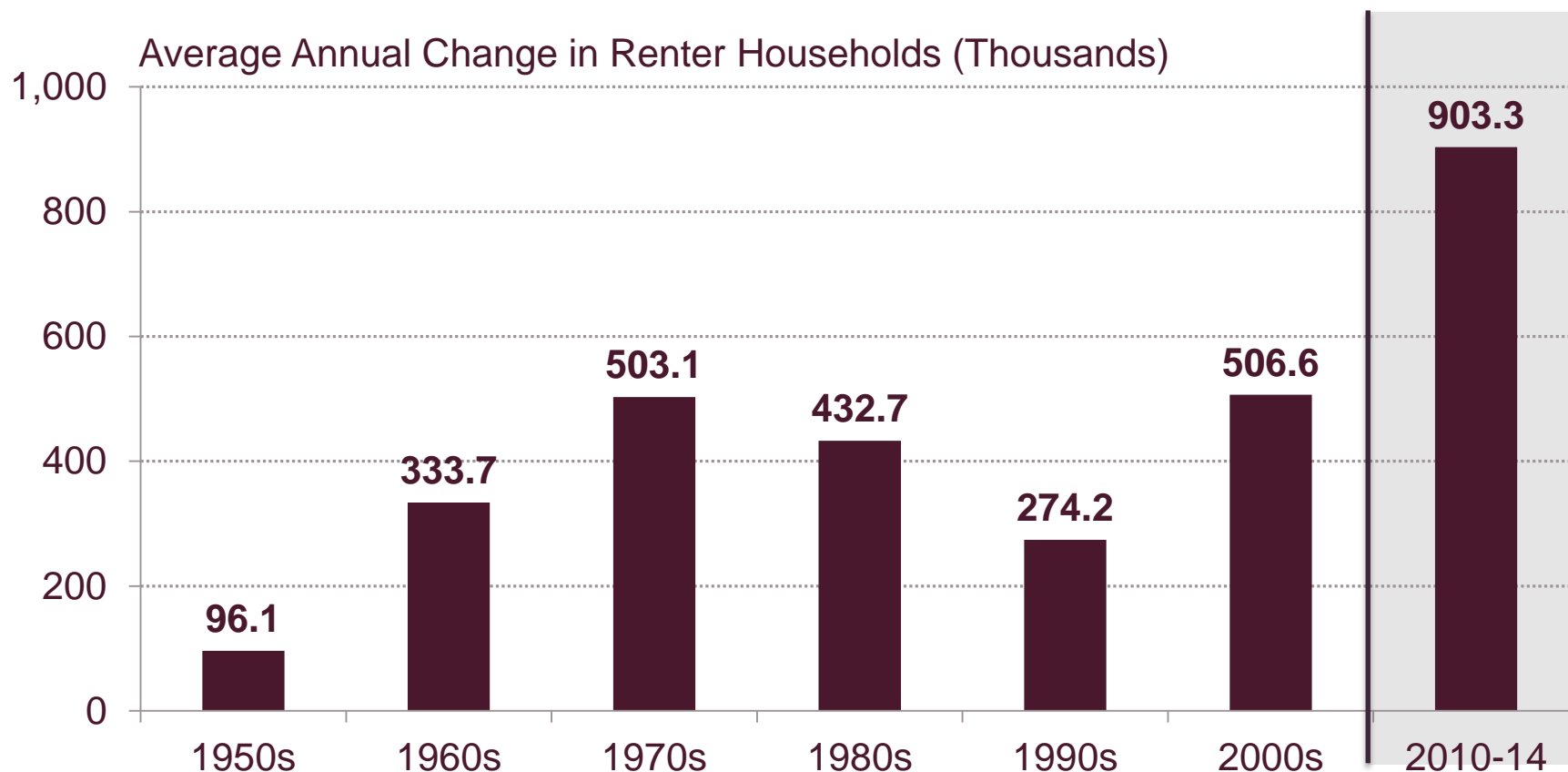
Residential single-family existing house price to household income, (ratio, quarterly)  
 US and Top 15 Metro Areas Ranked by Population



Source: Zillow Price-to-Income Ratio, calculated as part of Zillow's quarterly Affordability Indices.

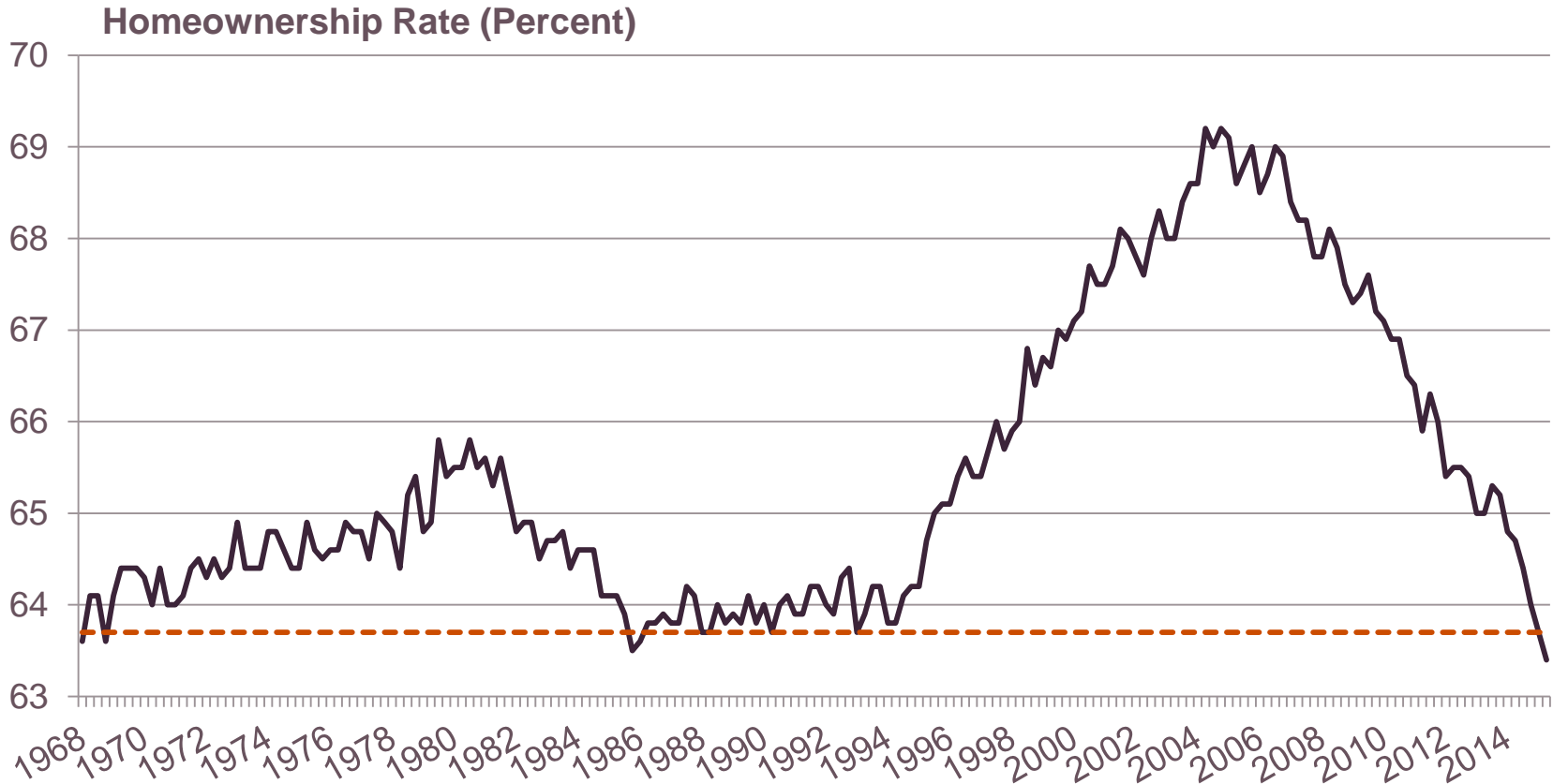
Notes: Index compares the median price of homes to the median level of household income in a given area. For quarters where median income is not available from the U.S. Census Bureau, Zillow calculates future quarters of median household income by estimating it using the Bureau of Labor Statistics' Employment Cost Index.

# So Far in the 2010s, Renter Household Growth Has Outstripped the Pace in Any Previous Decade



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



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.



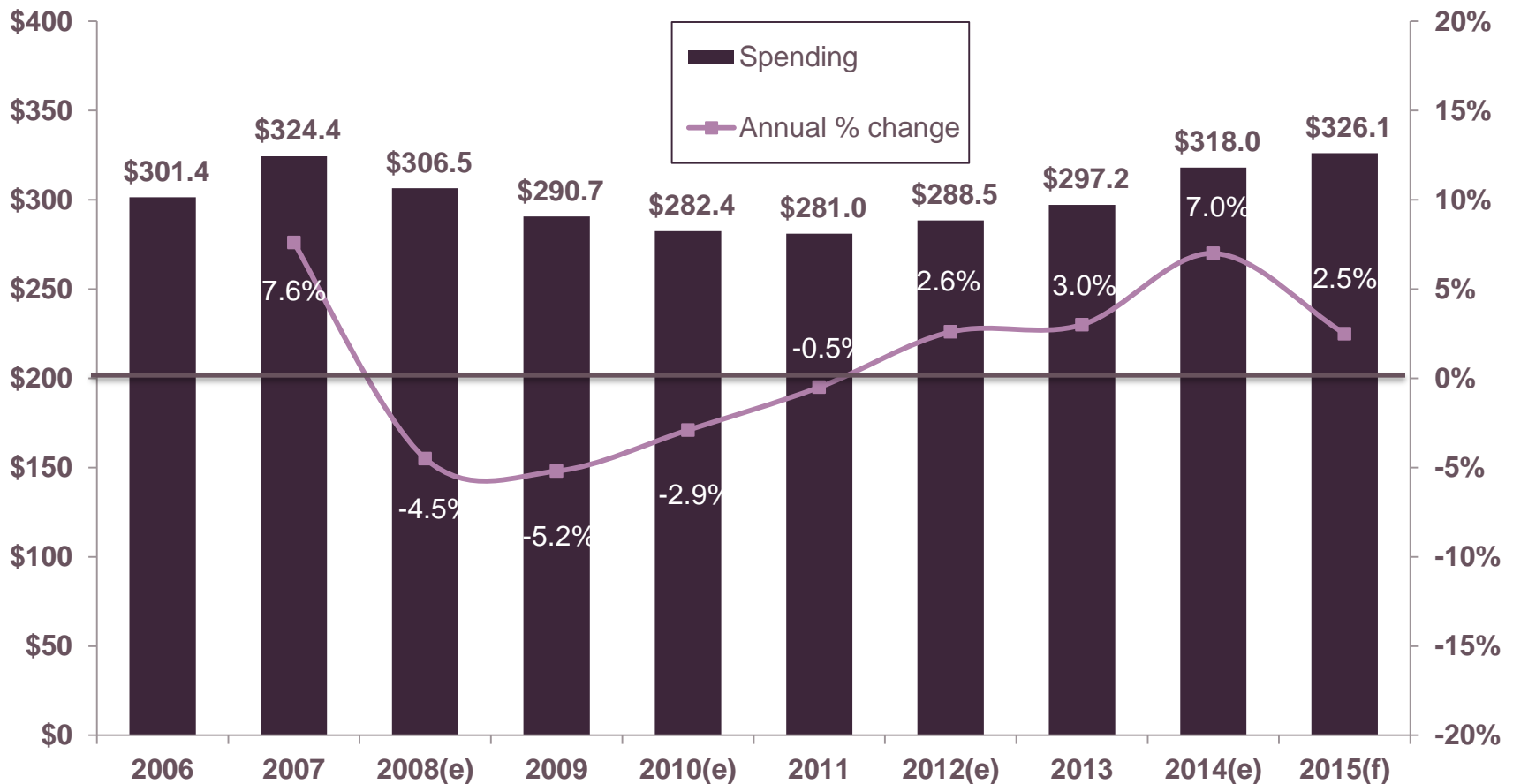
# Home Improvement Industry Trends and Issues

- 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

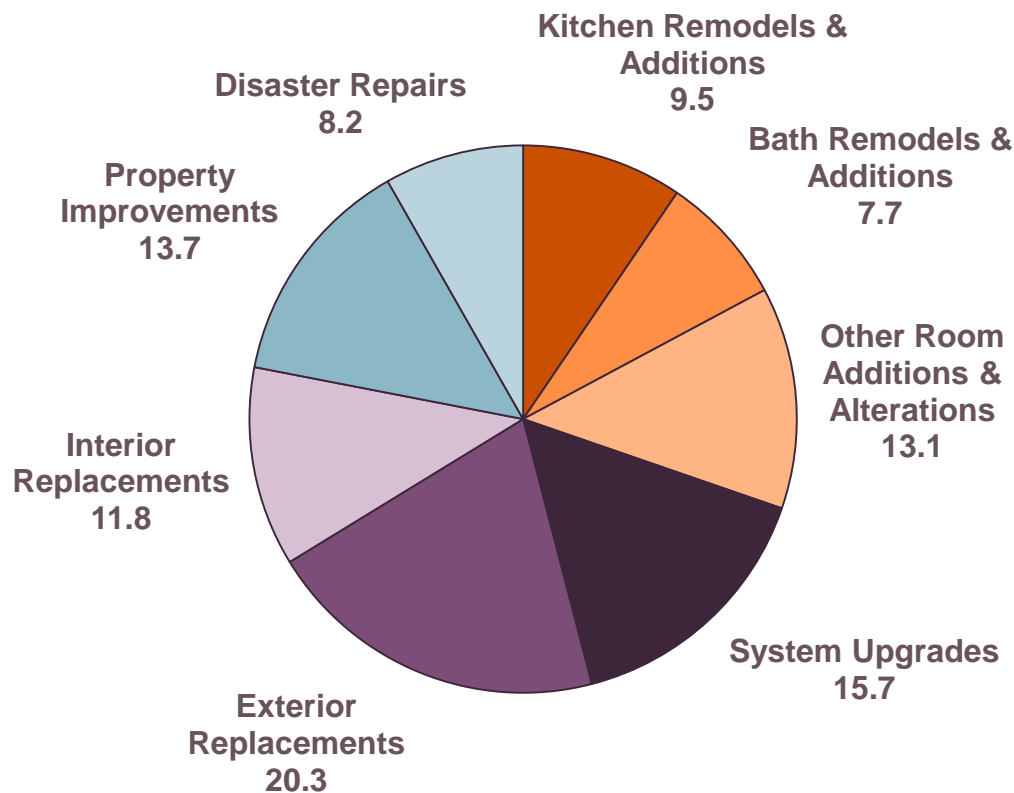
National home improvement market size estimates (billions \$)



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)



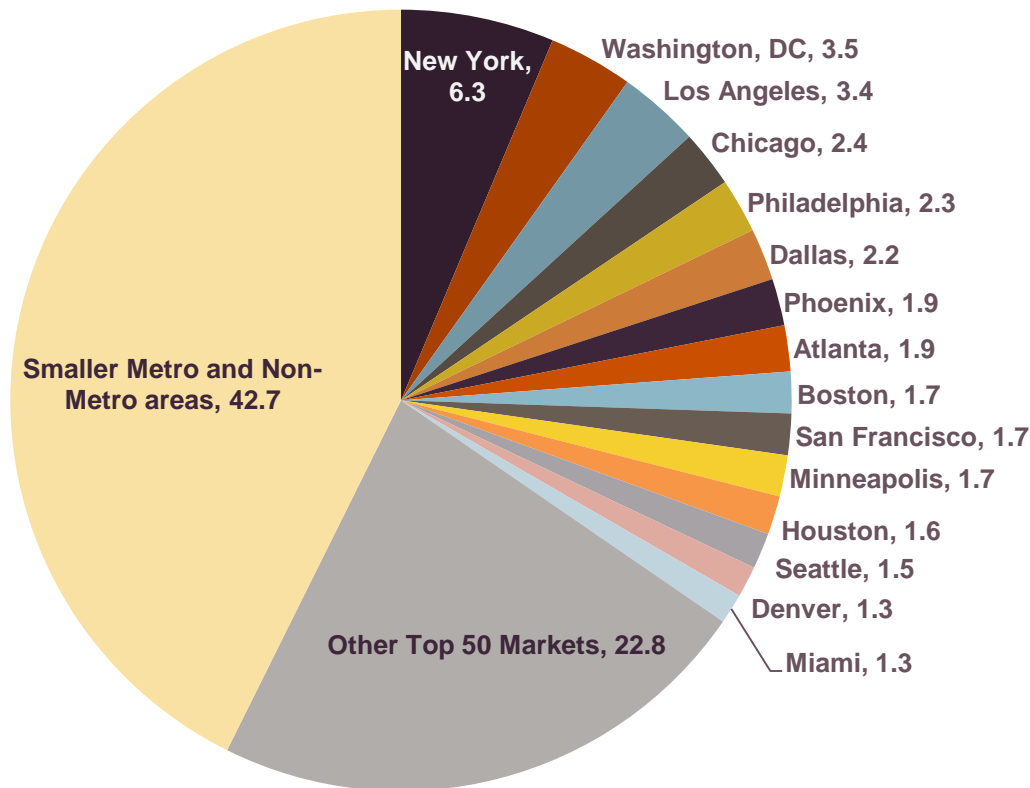
Homeowner Spending in 2013 = \$192 Billion

Notes: Tabulations of data use JCHS-adjusted weights. Other room additions and alterations include outside attachments.  
Source: JCHS tabulations of HUD, American Housing Survey.



# 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)

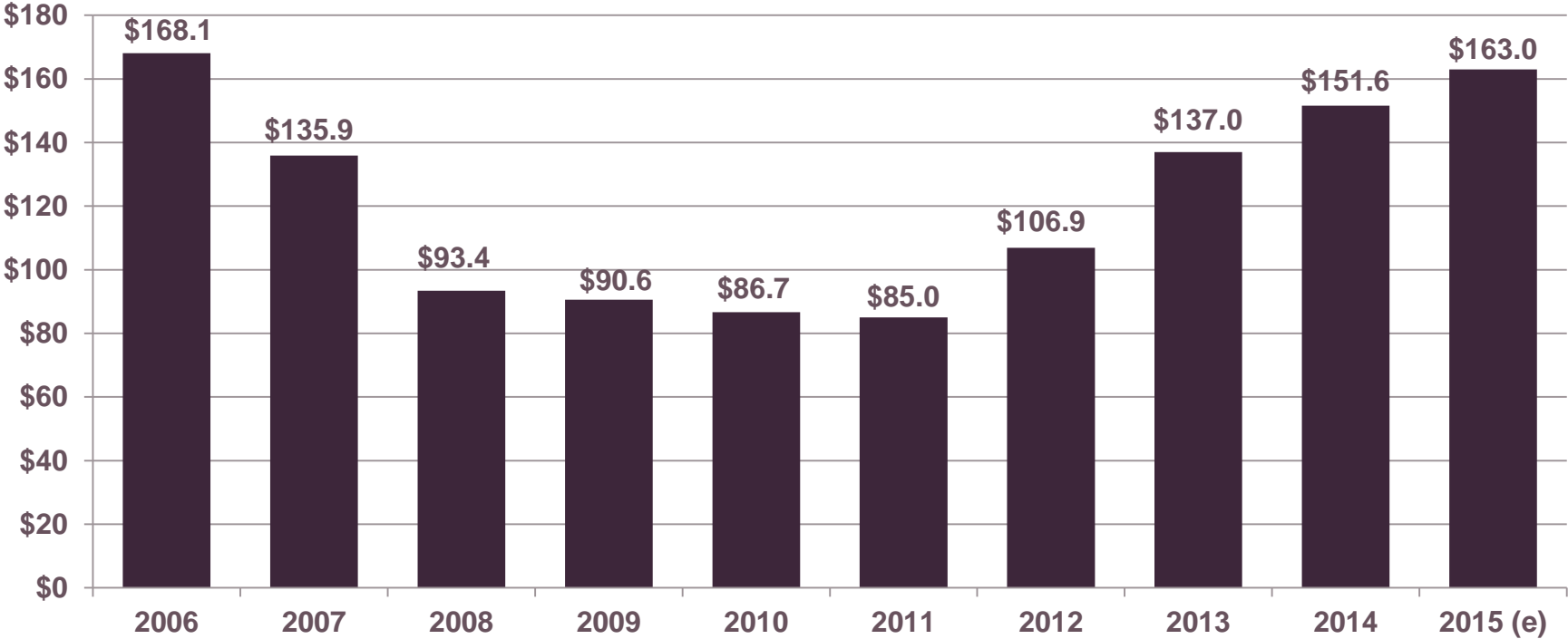


Notes: Spending for 50 metro areas is pooled from the 2011 and 2013 American Housing Surveys. Spending for 26 metros in 2011 is adjusted for inflation using the CPI-U for All Items, as well as by the overall growth in homeowner improvement spending over the same period (3.8%).

Source: JCHS tabulations of HUD, American Housing Surveys.

# Average Home Equity Levels Have Almost Fully Regained Their Pre-Downturn Levels

Avg. equity per owner, (thousands of \$)

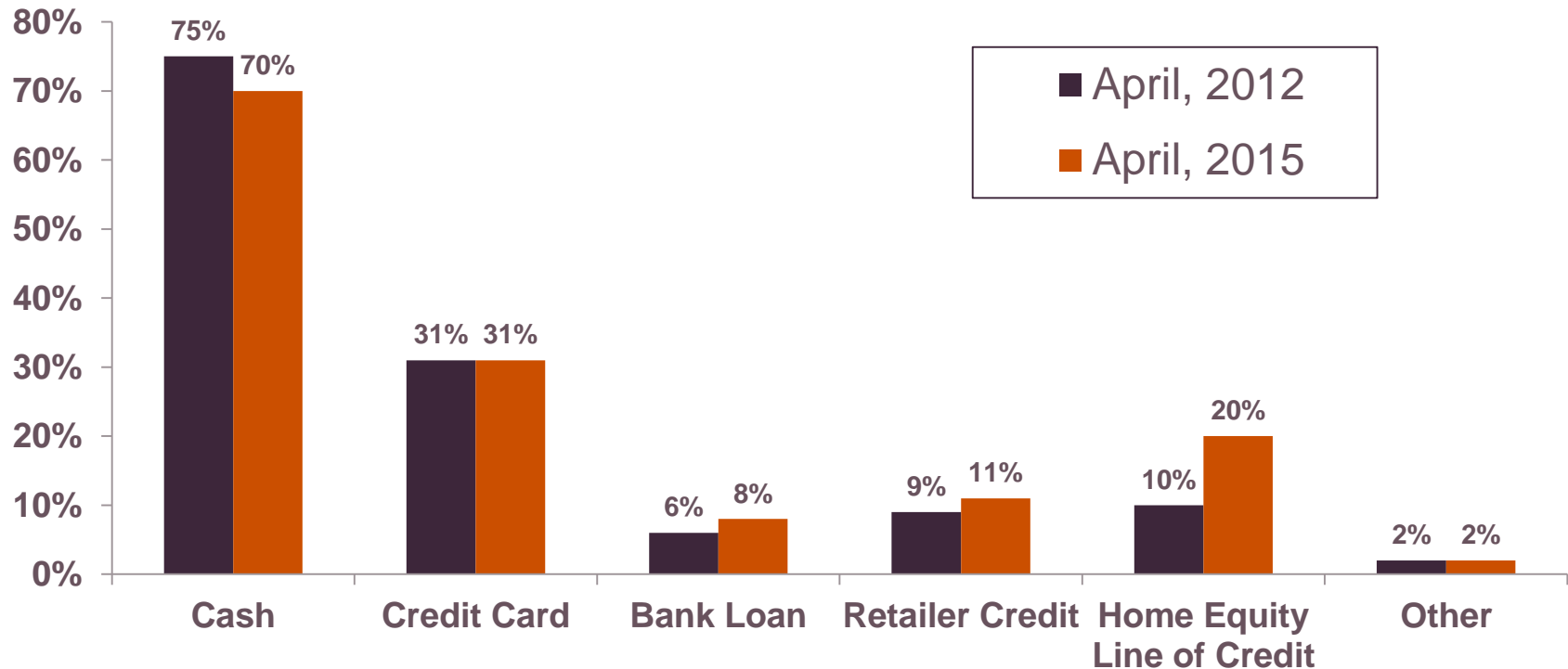


Note: Avg. equity per owner based on occupied units only;

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



Source: Piper Jaffray 7<sup>th</sup> Home Improvement Survey, April, 2015.

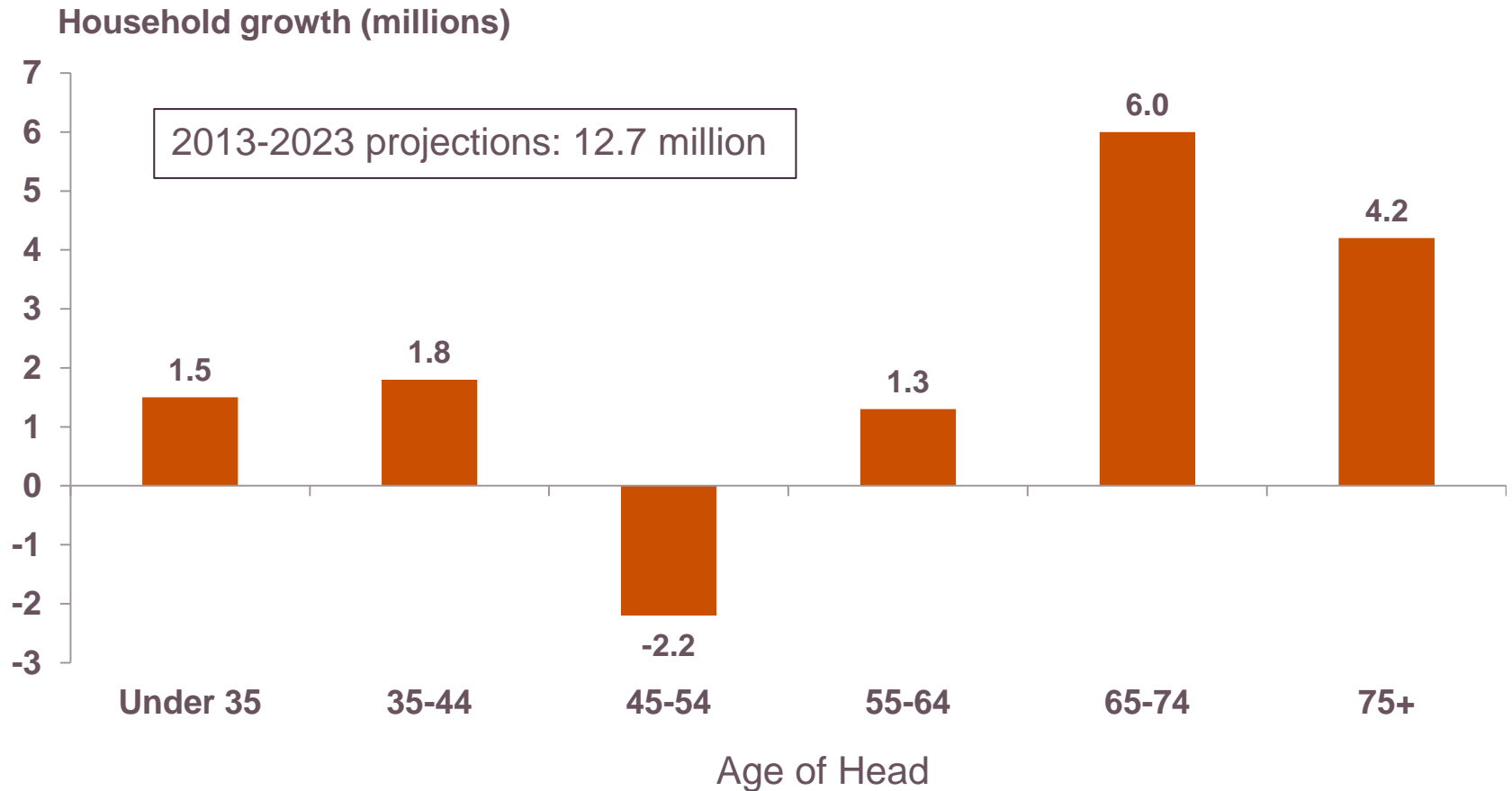
# Growth Opportunities for the Home Improvement Industry

- 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





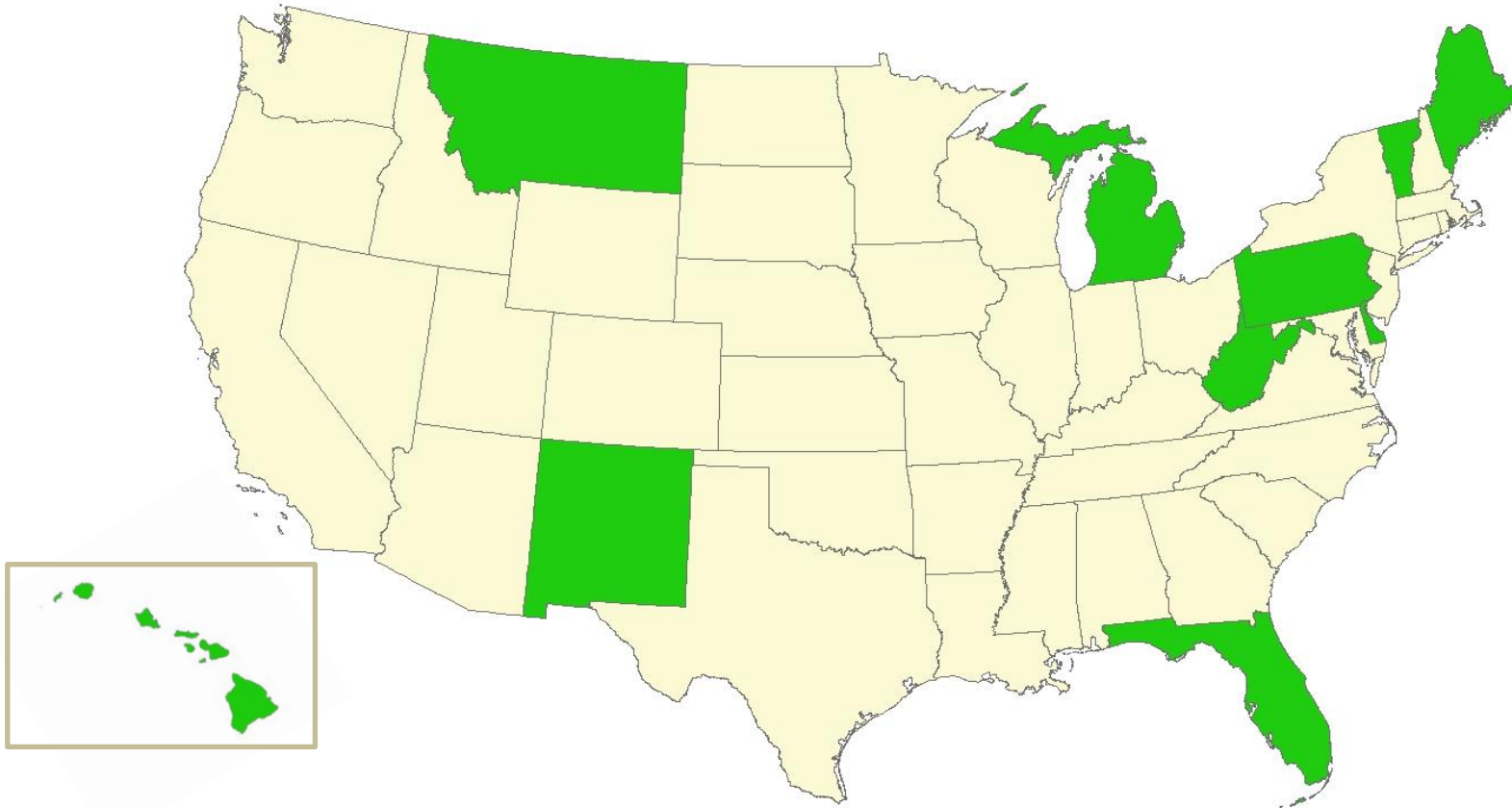
# This Coming Decade, Projected Household Growth is Concentrated in the 65+ Age Range



Source: JCHS Baseline Household Projections for the Next Decade and Beyond, 2013.

# 55+ Households Are More Heavily Concentrated in Midwest & Northeast

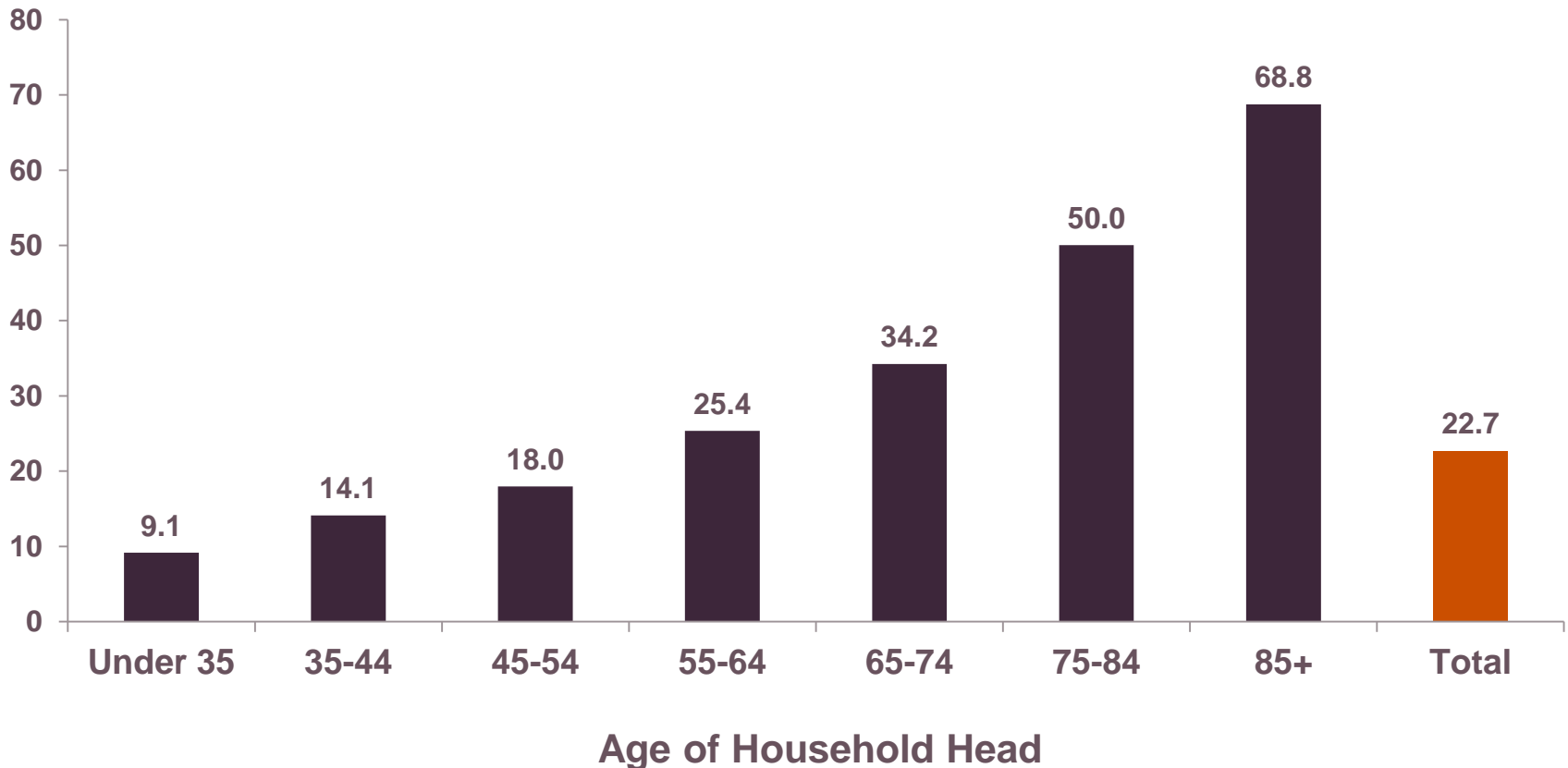
Top 10 state rankings for share of households age 55+ in 2013



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)

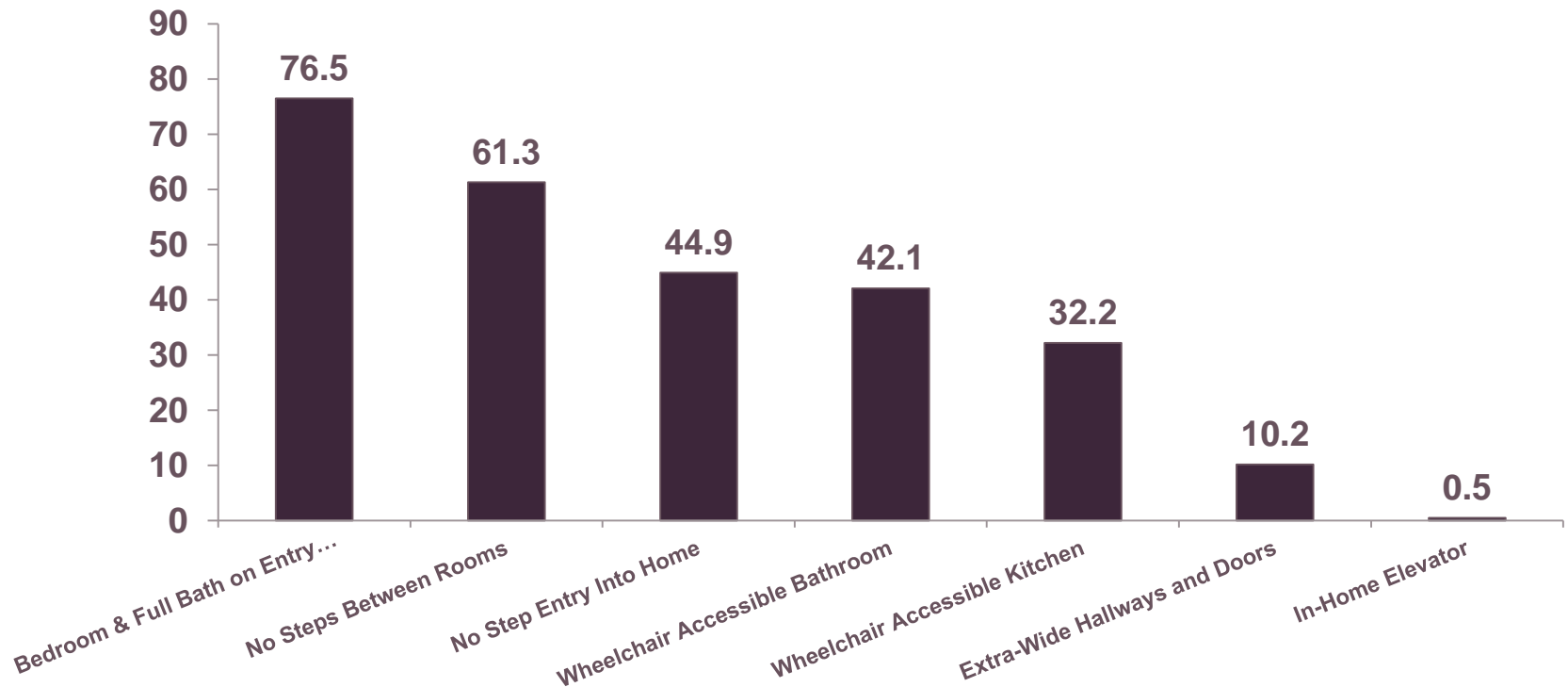


Note: Households with accessibility need are defined as those with a disabled member or members with serious difficulties using components of the home without assistance. See Figure 4 notes for more detail.

Source: JCHS tabulations of HUD, American Housing Survey.

# Many Homes Owned by Older Households Lack Accessibility Features that Enable Aging in Place

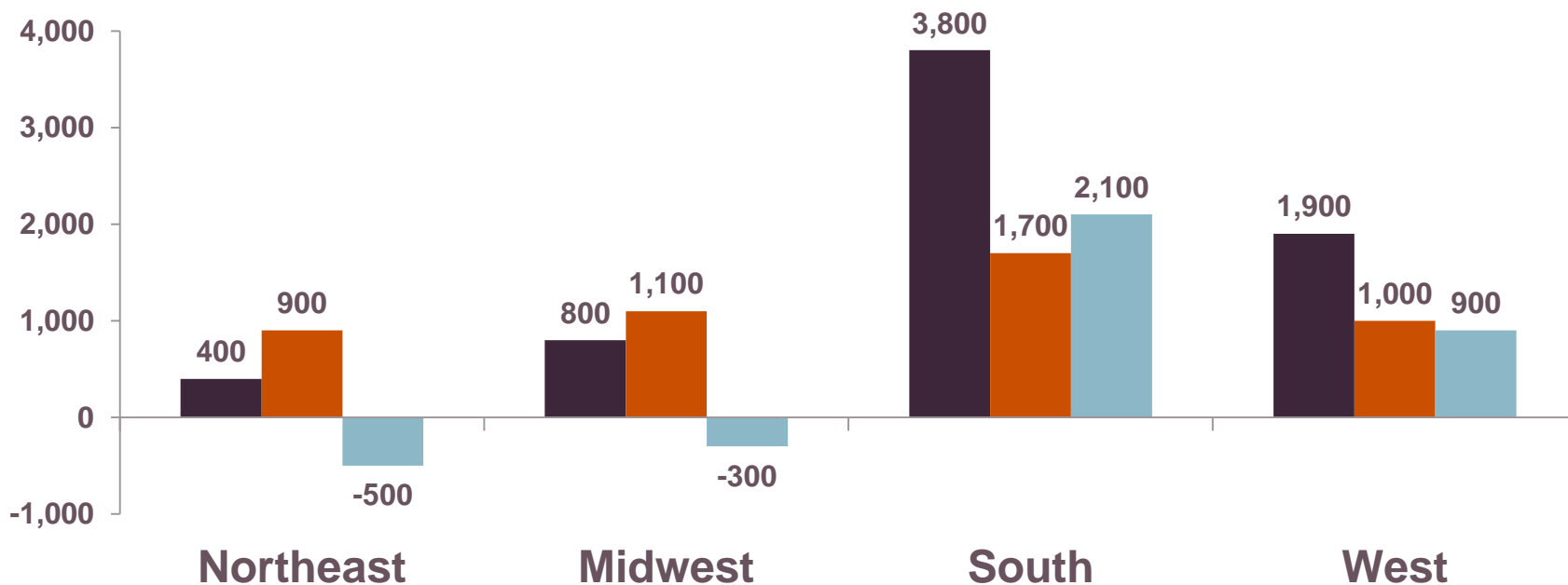
Share of Units Owned by Households Aged 55 and Over with Accessibility Feature in 2011 (Percent)



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

Thousands



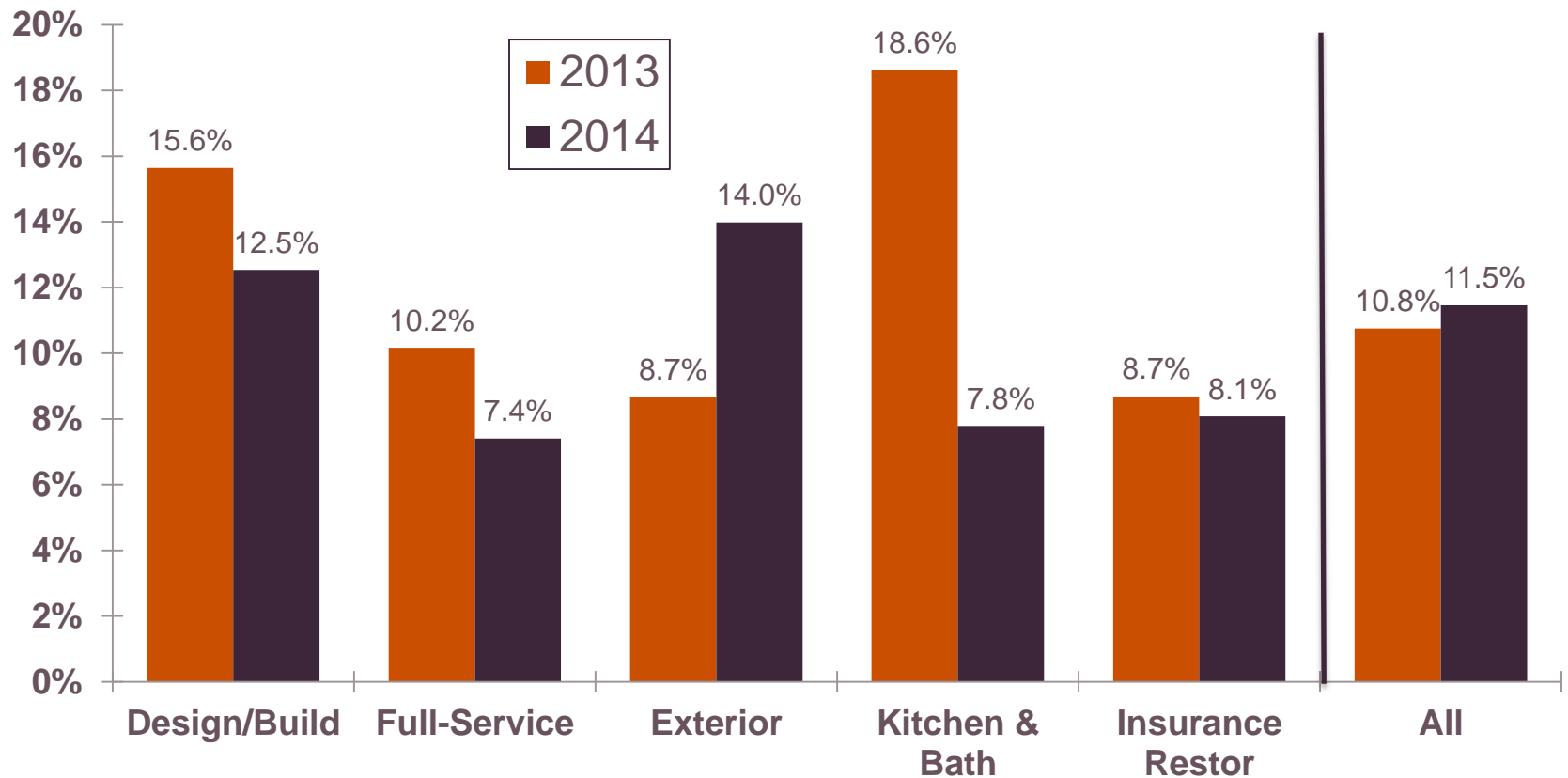
- Estimated new housing construction with basic accessibility features: 2015-2025
- Projected increase in age 65+ households with accessibility needs: 2015-2025
- Accessible housing supply-demand gap: 2025

Note: Basic accessibility features include a no-step entry and bedroom and full bathroom on the entry level of the home.

Source: Abbe Will, *Aging in Place: Implications for Remodeling*, JCHS Working Paper, July 2015.

# With Recovering Market, Contractors Serving Discretionary Market Seeing Stronger Growth

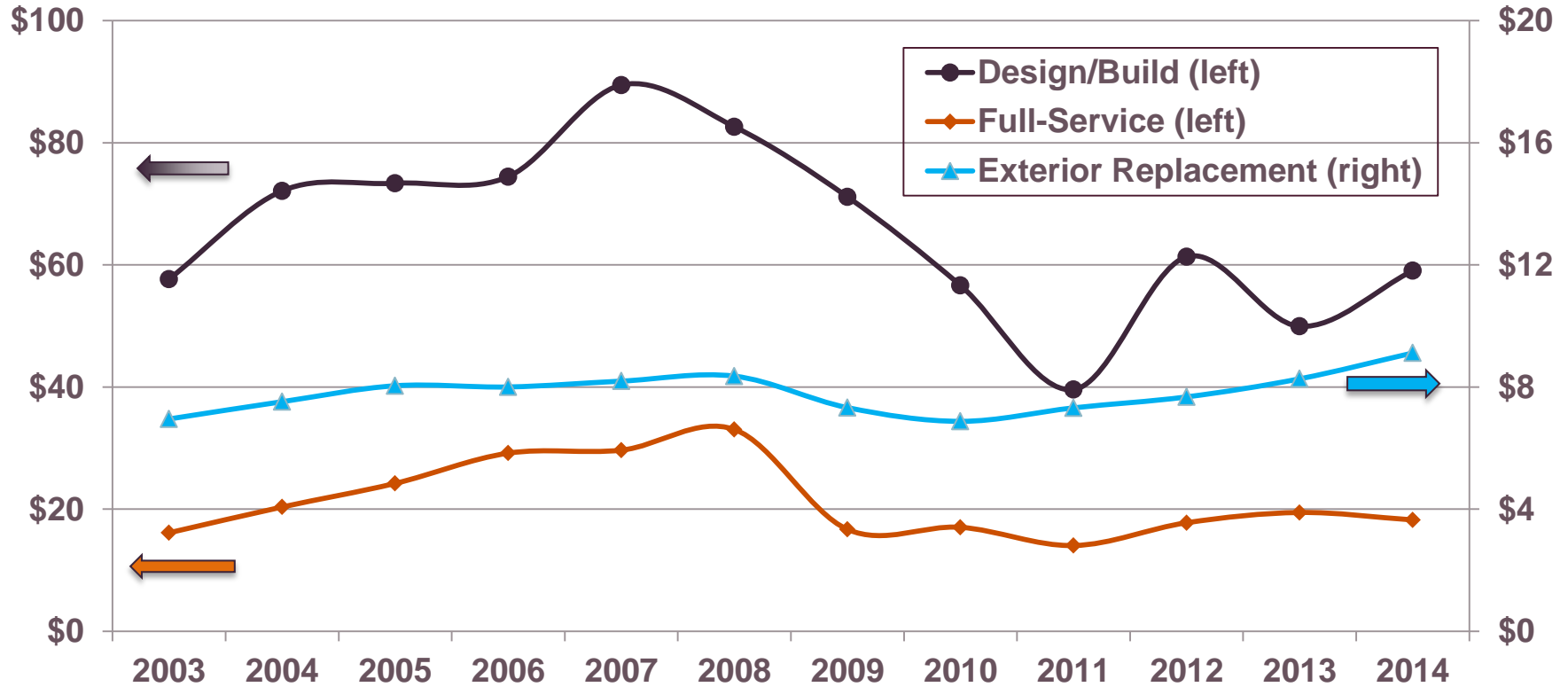
Median annual rate of change in remodeling revenue by business type



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

	Number of Remodelers			Percent Change	
	2002	2007	2012	2002-07	2007-12
<b>General Contractors</b>					
Payroll	82,900	77,900		-6.0	-8-11%?
Self-Employed	127,200	156,700		23.2	-50%?
Subtotal	210,100	234,600	150,000?	11.7	-35%?
<b>Special Trade Contractors</b>					
Payroll	117,200	139,500		19.0	-15-18%?
Self-Employed	202,900	278,100		37.1	-50%?
Subtotal	320,100	417,600	250,000?	30.5	-40?
<b>Total</b>	<b>530,200</b>	<b>652,200</b>	<b>400,000?</b>	<b>23.0</b>	<b>-35-40%?</b>

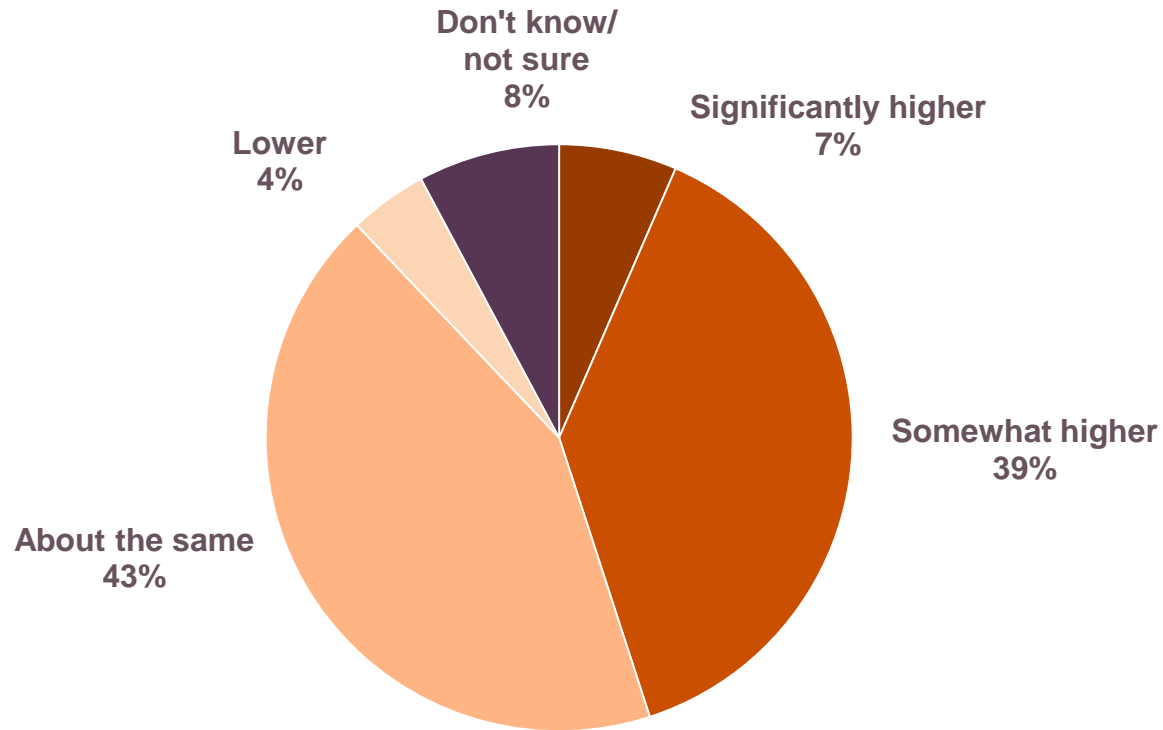
Note: Includes self-employed remodeling contractors with annual revenues of at least \$25,000.

Source: JCHS estimates using unpublished tabulations from US Census Bureau, 2002 and 2007 Economic Census of Construction and Nonemployer Statistics.



# Remodeling Contractors Optimistic About the Prospects for 2016

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



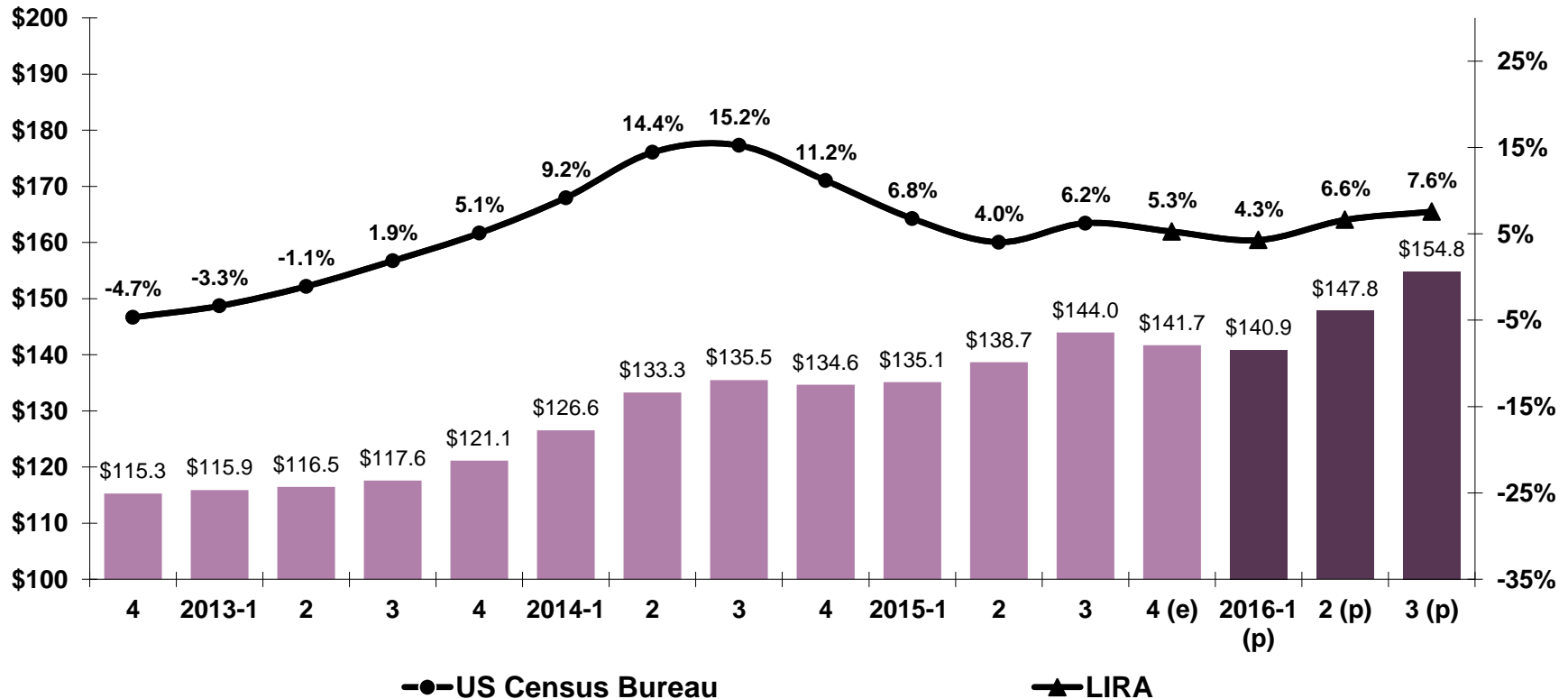
Notes: Estimates are weighted average of responses in the categories. Total sample size, N=231  
Source: JCHS Survey on Environmental Sustainability Trends in Remodeling, the Farnsworth Group, 2015:Q2.



# 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

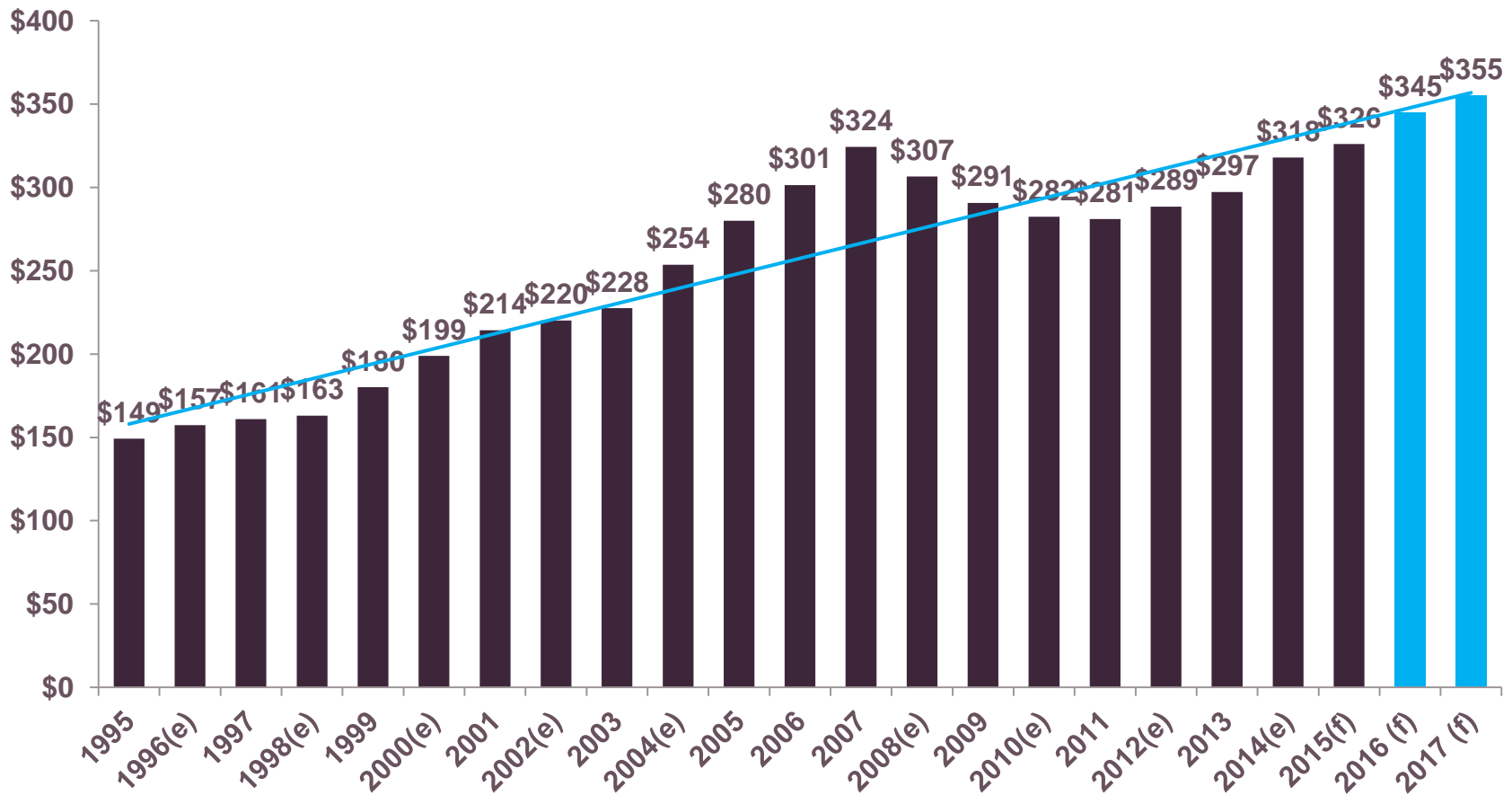


Notes: (e) – estimated; (p) – projected. Historical data through the third quarter 2015 reflect significant revisions released by the US Census Bureau on 1-4-16. For more information, see: <http://www.census.gov/construction/c30/news.html>. The fourth quarter 2015 is calculated using preliminary Census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