The Outlook for the Home Improvement Industry

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Remodeling Market Report
2012 IBS
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Remodeling Market Issues

1. Broader housing market conditions are creating a drag for home improvement spending.

2. Even with downturn, remodeling spending approaching $300 billion, and accounts for about 70% of residential spending.

3. Strongest sectors at present are energy efficiency upgrades, reinvesting in distressed properties, and aging-in-place retrofits.

4. Leading indicator for remodeling points to market volatility continuing, but stronger growth in the second half of the year.
House Prices Nationally Have Fallen More Than 30% From Their Peak

Index: January, 2000=100;

Source: S&P/Case-Shiller Home Price Index: Aggregate index - 20-metro composite;
Homeowner Mobility Has Been Trending Down, But Fell Sharply During the Recession

Share of owners moving in past year

House Prices Beginning to Recover in Key Northeast and Texas Markets

Change in house price index, year over year, Oct 2010 – Oct 2011

10 metros with largest increase
10 metros with largest decrease

National average = -3.9%

Note: Metros mapped are of the 45 largest for which data is available.
Source: CoreLogic House Price Index, 2011.
Metro Areas With Recovering House Prices Generally Seeing Fewer Homeowners Underwater

Negative equity share, Q3 2011

National average = 22.1%

Note: Metros mapped are of the 50 largest metro areas and divisions that have 50,000 or more loans. Source: CoreLogic Negative Equity Report, 2011.
There are an Unusually Broad Range of Measures of the Health of the Home Improvement Industry

Percent change in Q4-2011 as compared to Q4-2010

- BuildFax: 36.9%
- Census: 3.0%
- HIRI: -2.5%
- H-W Mkt Int: -4.0%
- NAHB - RMI: -6.8%

Notes: BuildFax and Census estimates are based on October and November 2011 responses, NAHB calculated as Q4-2011 % below neutral score of 50.
Sources: BuildFax Remodeling Index, Home Improvement Research Institute Consumer Sentiment Tracking Study, U.S. Census Bureau C-30 series, Hanley-Wood Market Intelligence’s Residential Remodeling Index, NAHB Remodeling Market Index.
Even with the Downturn, the Remodeling Market is Nearly $300 Billion

Billions of dollars

Sources: JCHS tabulations of the 1995-2009 American Housing Surveys (AHS); US Department of Commerce Survey of Expenditures for Residential Improvement and Repairs (C-50); and *Estimating National Levels of Home Improvement and Repair Spending by Rental Property Owners* by Abbe Will, JCHS Research Note N10-2, October 2010.
Remodeling Has Contributed a Growing Share of Residential Investment Since the Downturn

Improvement and repair expenditures as a share of total residential investment (percent)

Notes: Total residential investment expenditures include the value of construction put in place for new single-family homes, multifamily homes, and improvements and repairs to owner-occupied and rental units.
Homeowner Improvement Spending Evenly Split Between Discretionary and Replacements

Spending by homeowners for improvements, 2009

- Disaster repairs, 5.7%
- Kitchen projects, 11.6%
- Property imp., 14.6%
- Bath projects, 8.6%
- Exterior replac., 20.4%
- Other adds/alt., 15.3%
- Interior replac., 10.4%
- Systems ups., 13.4%

Homeowner improvements = $185.1 Billion

Source: Joint Center tabulations of the 2009 American Housing Survey.
Planned Spending on Home Improvements Has Been Unusually Volatile

Monthly averages compared to year-ago level for planned spending

Note: Monthly figures are 3-month moving averages centered on reported month and normalized per 100,000 responses; December 2011 estimate based on November and December data only.
Planned Spending on Replacement Projects is Creating the Unusually High Levels of Volatility

Monthly averages compared to year-ago level for planned spending on home improvement projects by project type

Note: Monthly figures are 3-month moving averages centered on reported month and normalized per 100,000 responses; December 2011 estimate based on November and December data only.
Leading Indicator of Remodeling Activity Points to Stronger Conditions in Second Half of the Year

Homeowner Improvements
Four-Quarter Moving Totals
Billions of $

Four-Quarter Moving Rate of Change

Note: Historical data and LIRA weights are revised annually in July.
Source: Joint Center for Housing Studies of Harvard University.
Challenges and Opportunities Facing the Remodeling Industry

1. Shifting attitudes toward homeownership and home investments among younger households.

2. Leveraging key growth niches in the industry: sustainable remodeling and rehabbing distressed properties.

3. Serving the home improvement needs of an aging population.
Reasons to Own a Home Often Have Nothing to Do With Financial Aspects

- Provides good place to raise children (85%)
- Provides a safe place to live (70%)
- Can have more space for family* (85%)
- Have control over living space (80%)
- Renting is bad investment (70%)
- Provides good financial opportunity* (75%)
- Can build up wealth (80%)
- Can have a nicer home* (80%)
- Provides a retirement investment (65%)
- Can live in a convenient location* (80%)
- Can live in community with same values (70%)
- Provides tax benefits (65%)
- Can borrow against equity (70%)
- Provides a symbol of success* (65%)
- Encourages more engaged citizenship (60%)

Share of Survey Respondents

Source: Fannie Mae, National Housing Survey, pooled data from January 2010 through August 2011 (data on reasons marked with an asterisk (*) were first collected in June 2010).
Cost Recovery for Remodeling Projects Has Dropped Sharply in Recent Years

Average percent of cost recovered by project type

Source: JCHS tabulations of Hanley Wood *Remodeling* magazine’s 2004-05 and 2010-11 Cost vs. Value Reports.
Under Stimulus Program, Growing Share of Contractors Were Working on Green Projects

Share of projects (on a dollar basis) over the past year in which firm installed energy efficient and environmentally sustainable products, average across all respondents

Note: Prior to 2011, the survey asked “Over the past year, for about what share of your projects (on a dollar basis) was energy efficiency and environmental sustainability specifically mentioned as a project goal?”

Cost, Uncertain Savings Key Reasons Green Projects Not Undertaken

Share of firms citing reasons why clients decided not to undertake “green” projects even though they showed interest, average across all respondents (Multiple responses accepted)

- Higher cost of the product(s): 77.2%
- Uncertainty of cost savings: 49.8%
- Higher cost of installation: 38.2%
- Concern about performance and reliability: 29.6%
- Higher cost of lifecycle servicing/maintenance of the product(s): 18.4%
- Other: 4.5%

Source: JCHS National Green Remodeling Survey, Q3 2011.
Fannie Mae Spent Almost $600 Million Fixing Up Foreclosed Properties Last Year

Fannie Mae Foreclosed Property and Repair Spending Statistics

<table>
<thead>
<tr>
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<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>Foreclosed Homes Sold</td>
<td>185,700</td>
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<td>Number Homes Sold w/ Repairs</td>
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<td>Avg. Repair Spending on Homes Sold</td>
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<td>Total Spending on Homes Sold ($ Millions)</td>
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Notes: 2011 figures based on 2011 Q1 through Q3 data. Q4 is estimated based on the average values of the previous three quarters. Source: Fannie Mae Quarterly Report 2011 Q3 and Mission Report 2010; Fannie Mae tabulations of repair spending data.
Last Decade, Household Growth Dominated By Households Traditionally Active in Remodeling

Household Growth (millions)

2000-2010 growth: 12.2 million

This Coming Decade, Household Growth Shifts to Active Retirees

Source: Joint Center tabulations of U.S. Census Bureau, 1999-2011 Current Population Surveys, and Joint Center for Housing Studies modification of U.S. Census Bureau population projections that reduces its baseline immigration assumptions by half.