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METRO AND REGIONAL REMODELING MARKETS

Remodeling activity is highly concentrated within the nation's metropolitan areas, with homeowners in those markets accounting for four out of five dollars of spending. Even so, wide differences in household incomes and house prices mean that average improvement expenditures, especially on larger discretionary projects, vary sharply across metro areas. Emerging opportunities for spending growth—driven by shifting demographics and increasing demand for energy-efficient retrofits and rental property improvements—also exhibit strong geographic patterns.

REGIONAL SPENDING PATTERNS

Consistent with historical trends, home improvement spending in 2013 was highest in the Northeast and West. In large measure, this strength reflects the fact that home values in the two regions were more than 20 percent above the national average while household incomes were at least 10 percent above.

In the Northeast, home improvement spending climbed 5.6 percent from 2009 to 2011 and another 10.8 percent from 2011 to 2013 in real terms **(Figure 16).** Average per homeowner expenditures stand at $3,300, or nearly 90 percent of the pre-recession peak. The larger and earlier remodeling rebound in the Northeast reflects relatively moderate losses in home values and jobs during the downturn.

In contrast, home prices and remodeling activity in the West were much more volatile during the recent housing cycle. When home prices soared in 2007, remodeling expenditures also rose rapidly. But when the housing bubble burst and plunging house prices eroded home equity, improvement spending in the region fell sharply. Average spending per homeowner continued to slide from 2011 to 2013, dipping 1.2 percent to $2,600 or more than 40 percent below the previous peak.

While lower than in the Northeast and West, average annual improvement spending in the South and Midwest has been more stable over time. Remodeling expenditures rose 4.4 percent in the South and edged up 0.5 percent in the Midwest in 2011–13, marking the first period of growth since the crash. These small increases lifted average spending per homeowner to just over $2,300, or about 80 percent of pre-recession peaks.

METRO MARKET PERFORMANCE

The home improvement recovery in the Northeast owes much of its strength to the healthy house price recovery in some metro areas. Metro area homeowners spend about 50 percent more on average on remodeling than those living in non-metro areas. Nationwide, metro area households contributed more than four-fifths of improvement expenditures in 2013, but fully 92 percent in the Northeast. By comparison, the metro shares of spending were 84 percent in the West, 77 percent in the South, and 74 percent in the Midwest.

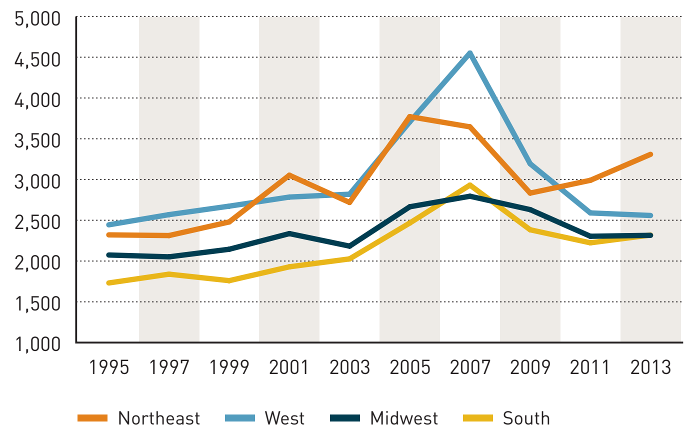
Moreover, the top 50 remodeling markets in the country accounted for nearly 60 percent of all home improvement spending in 2013, and the top 15 for fully a third. New York was the largest remodeling market, with over $12 billion in expenditures. Washington, DC, Los Angeles, Chicago, and Philadelphia were the next largest, with spending that ranged from $4 billion to $7 billion.

Owners in the 50 largest markets spent $3,000 on average on home improvements, although outlays in specific markets ranged from less than $2,000 to nearly $5,000. Spending was typically higher in metros located on the coasts, where higher property values and household incomes encouraged more reinvestment in housing **(Figure 17).** While Washington, DC ($5,000) and Boston ($4,900) were the top remodeling markets, several other metros in the Northeast—including New York and Philadelphia—posted above-average spending. On the West Coast, San Francisco and San Jose reported the highest

Figure 16

The Northeast Is Leading the Recovery in Home Improvement Spending

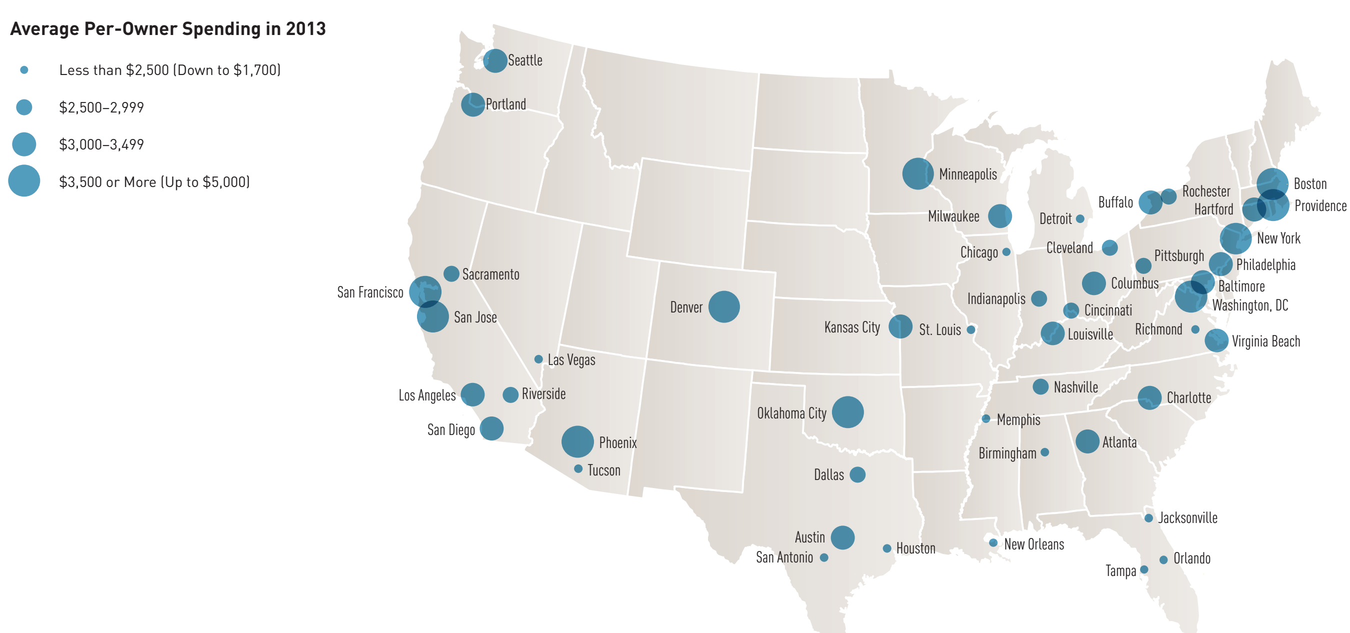
Average Annual Per-Owner Spending (2013 dollars)



Note: Tabulations of 2013 data use JCHS-adjusted weights.
Source: JCHS tabulations of HUD, American Housing Surveys.

Figure 17

Owners in Coastal Metro Areas Generally Spend More on Improvements



Source: Table A-5.

average spending of more than $3,700 per homeowner, followed by San Diego and Los Angeles.

But not all high-spending metros are concentrated on the coasts, nor have all coastal metros performed well. For example, average homeowner spending levels in Denver ($4,000) and Phoenix ($3,800) were especially strong. At the same time, major metro areas in Florida—including Miami, Orlando, and Jacksonville—registered below-average spending of $2,000 or less per homeowner. This weakness reflects the fact that prices in these markets are still depressed and shares of distressed properties remain high.

The depth of the recent housing downturn is a key factor in the hardest-hit markets, where prices fell 40 percent or more. Homeowner improvement spending in these areas averaged only $2,300 in 2013, compared with $3,200 in markets with less dramatic price drops. The metros with the lowest expenditures are Las Vegas, Orlando, Jacksonville, and Detroit, where per-owner spending averaged less than $2,000. In addition to steep house price declines, these markets experienced high unemployment and a glut of foreclosed properties. Another contributing factor in Las Vegas is its newer housing stock.

METRO HOME VALUES AND INCOMES

Big-ticket home improvements typically drive remodeling market growth. Indeed, large projects costing $50,000 or more in 2013 made up half of all expenditures in Boston, nearly 45 percent in Washington, DC, and 44 percent in New York City **(Figure 18).** To illustrate the role of large projects in boosting expenditures, spending in the 10 markets with the largest shares of major projects averaged $3,800 per homeowner, compared with just $2,500 in the 10 markets with the smallest shares of major projects. St. Louis, Pittsburgh, and Jacksonville were among the second group, with less than 15 percent of spending originating from high-cost projects.

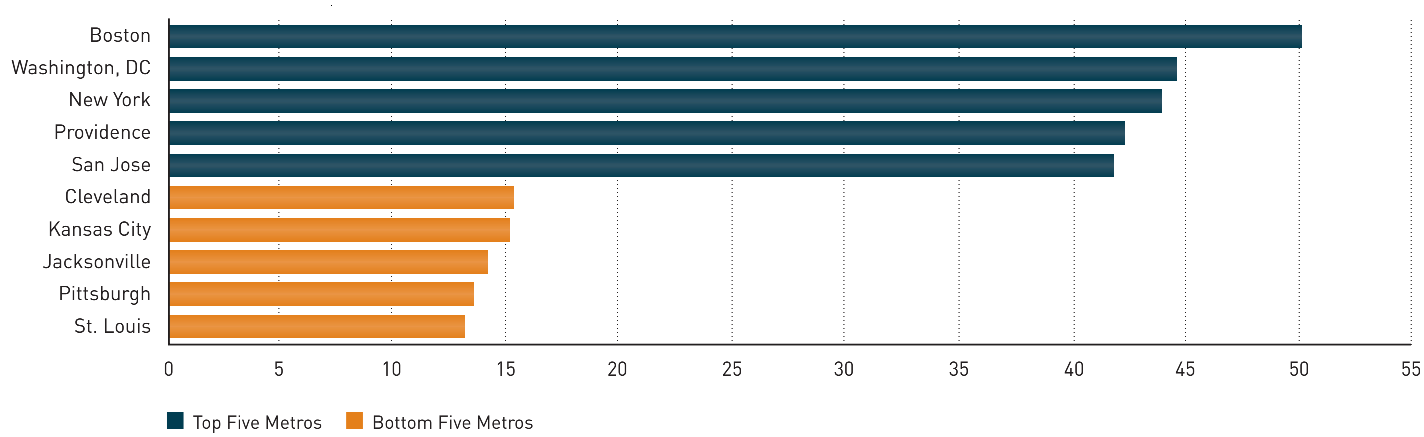
Differences in home values and household incomes explain much of this variation. Large remodeling projects generally make sense only for higher-value homes and for owners with financial resources. For example, the average property value in the top 10 markets ranked by large project spending was $446,000—more than twice the $176,000 average in the 10 metros with the smallest shares of large project spending. In addition, owner household incomes averaged $114,000 in the top metros, compared with just $78,000 in the bottom group.

Housing affordability, measured by the ratio of incomes to home values, also plays a role. On average, owners reinvest about 1.1 percent of their home values in improvements each year. But households living in more affordable areas of the country tend to spend more than that share. In 2013, improvement spending as a share of home value was 1.8 percent or more in several Midwestern and Rustbelt cities, including Oklahoma City, Buffalo, Louisville, Kansas City, and Columbus. In less affordable areas such as San Francisco, New York, Los Angeles, and Miami, the reinvestment share was just 0.8 percent or less.

Figure 18

Metro Markets with Higher Levels of Spending Also Have Larger Shares of High-Cost Projects

Share of Spending on Improvements Costing $50,000 or More in 2013 (Percent)



Source: Table A-5.

The types of projects that homeowners undertake also differ by metro area. Since discretionary improvements such as kitchen and bath remodels, room additions, and outside attachments are typically higher-end projects, they are more concentrated in metros with higher home values. Indeed, discretionary projects contributed 36 percent of total outlays in the 10 metro markets with the highest home values, compared with just 25 percent in the 10 markets with the lowest home values. For example, discretionary projects accounted for 40 percent or more of total spending in Boston, Los Angeles, and San Francisco, but only 20 percent or less in Kansas City, Dallas, and Oklahoma City.

At the same time, energy-sensitive projects—including replacements of roofing, siding, windows and doors, insulation, and HVAC systems—made up the largest share of expenditures in several mid-sized markets such as Buffalo, Milwaukee, Providence, Charlotte, and Nashville. Not surprisingly, per household spending on energy-sensitive improvements was highest in the Northeast, where the housing stock is older and the winters harsher. Several metros in the middle of the country—including Oklahoma City, Milwaukee, Louisville, Denver, and Minneapolis—also posted higher than average energy-sensitive spending. Incentives for energy retrofits are likely a factor, with fully 39 of the 50 states providing subsidies in one form or another in 2014. For instance, Wisconsin offers rebates to help offset the costs of air-sealing and insulation, while Minnesota provides low-interest loans for certain energy-efficient improvements.

CONTRIBUTIONS OF YOUNGER AND OLDER HOUSEHOLDS

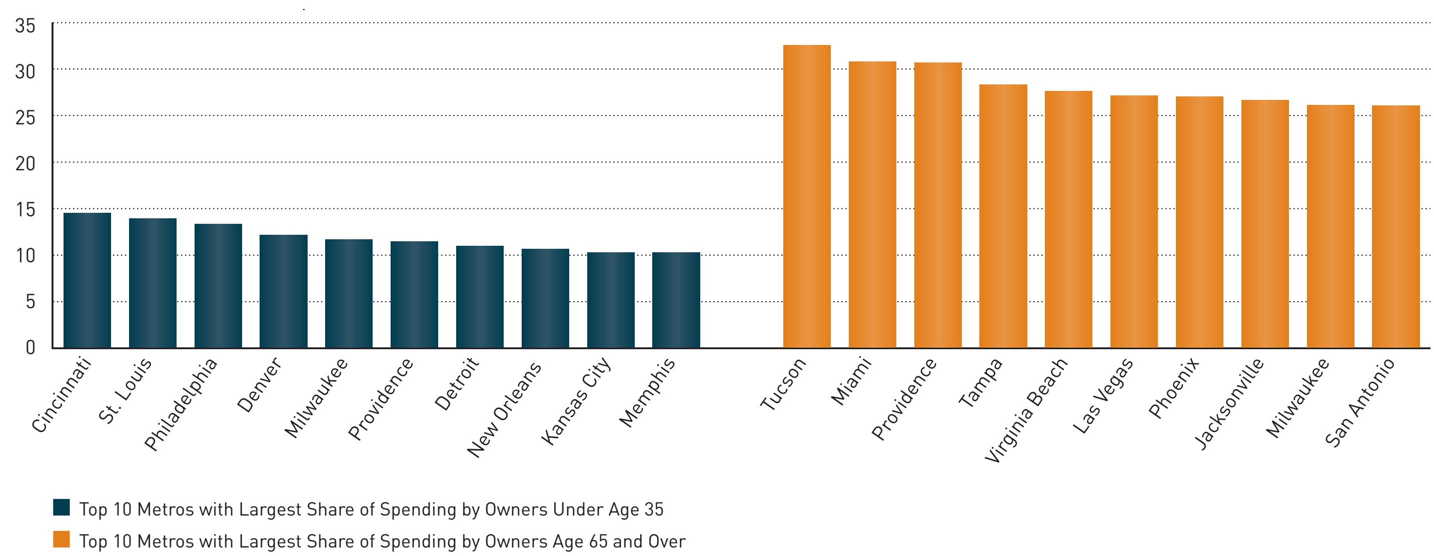
Housing affordability is a key factor in the geographic distribution of remodeling activity. Younger households contribute larger shares of improvement spending in metros with lower house prices, where they are more able to buy and invest in first homes. Indeed, areas with the largest shares of spending by young households are significantly more affordable, with prices averaging $210,000. By comparison, home values in markets where young homeowners account for the smallest share of improvement spending average $400,000. For example, younger households accounted for 12–14 percent of remodeling expenditures in lower-cost metros such as Cincinnati, St. Louis, Philadelphia, and Denver **(Figure 19).** Although younger households typically have lower incomes, their spending in these top 10 markets still averaged $2,900 annually. The relatively large shares of younger households already active in these home improvement markets suggest a strong base for future spending.

Meanwhile, the markets with the largest shares of improvement spending by older adults are concentrated mainly in the South Atlantic and Southwest regions. In Tucson, Miami, Tampa, Virginia Beach, Las Vegas, and Phoenix, older house-

Figure 19

Metro Areas with High Shares of Spending by Younger or Older Households Are Typically More Affordable

Share of Improvement Spending in 2013 (Percent)



Note: Analysis includes esitmates for 50 metro markets using data pooled from the 2011 and 2013 American Housing Surveys.
Source: JCHS tabulations of HUD, American Housing Surveys.

holds provided at least 27 percent of remodeling expenditures in 2013. Home values in these areas are also more moderate, but because incomes tend to fall during the retirement years, per homeowner outlays in the top 10 areas for older household spending averaged only $2,700.

Even so, households in this age group represent a large and growing market for universal design features that allow aging in place. Metro areas with high concentrations of households aged 55–64 should see increasing demand for accessibility retrofits in the coming years. Riverside, Portland, New Orleans, Birmingham, and Cleveland already report high shares of improvement spending by households in this age group. Other areas with large shares of older residents included Baltimore, Richmond, St. Louis, and Philadelphia.

The need for accessibility improvements will be particularly acute in the Midwest and Northeast, where less than one-third of homes have no-step entries versus nearly half of homes in the South and West. In addition, fully 43 percent of homes in the Northeast and 28 percent in the Midwest lack a bedroom and full bath on the first floor, compared with 19 percent in the West and 16 percent in the South.

RENEWAL OF THE RENTAL STOCK

In the wake of the housing market crash, soaring demand for rental units has fueled a strong recovery in spending on the rental stock. The Joint Center estimates that improvement expenditures in this market amounted to about $31 billion as of 2013, or $54 billion if maintenance and repairs are included. This translates into average annual spending of about $770 on capital improvements per rental unit and about $560 in maintenance and repairs. According to the National Apartment Association's Annual Survey of Operating Income and Expenses, per-unit capital spending on professionally managed garden-style properties with 50 or more apartments is even higher at $900.

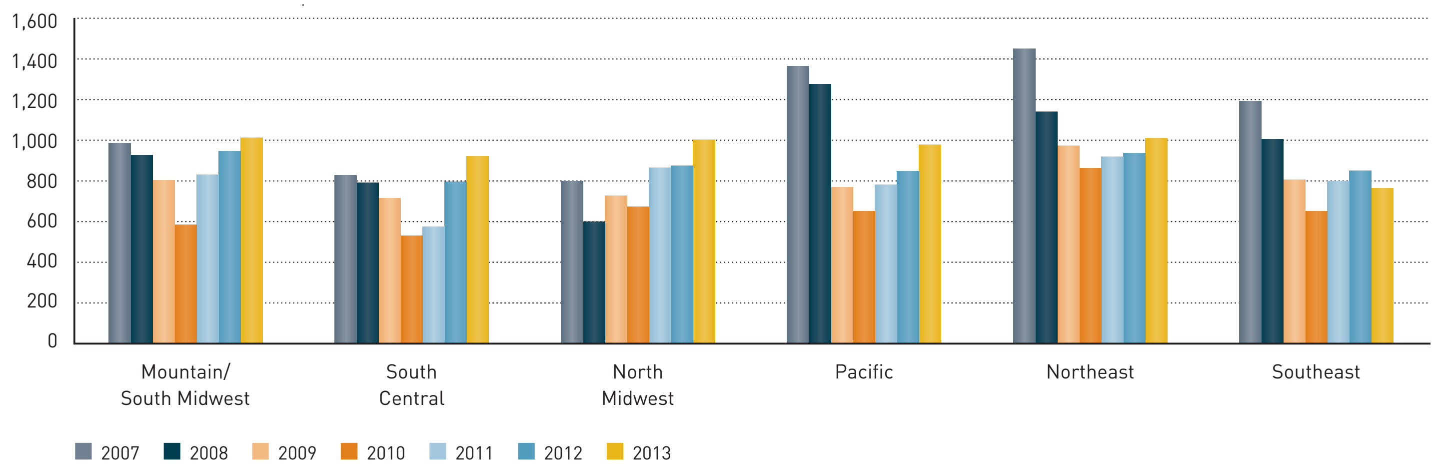
The NAA survey also indicates that capital investment in these rental properties increased in 2013 in nearly all regions of the country. Similar to homeowner improvement spending, average annual rental expenditures in the Northeast and Pacific regions climbed sharply during the housing boom and then fell sharply during the bust, and are now well below the pre-recession peaks **(Figure 20).** In contrast, spending on rental properties in the interior regions has already surpassed previous highs. The only region where rental spending appears to have leveled off is the Southeast, where homeowner spending has also struggled to revive.

Among professionally managed properties, top markets for rental improvement spending include San Francisco, Los Angeles, Washington, DC, Minneapolis, and Denver, where annual expenditures averaged $1,200 or more per unit over 2012–13. Compared with the previous two-year period, rental

Figure 20

While Recovering Across the Nation, Rental Improvement Outlays in Formerly High-Spending Regions Still Lag Previous Peaks

Average Per-Unit Capital Expenditures for Professionally Managed Garden-Style Properties (2013 dollars)



Note: See Table W-8 for information about survey coverage and definitions.
Source: JCHS tabulations of National Apartment Association, Surveys of Operating Income and Expenses in Rental Apartment Communities.

spending rose rapidly in several metros, including certain distressed markets (such as Detroit and Phoenix) as well as areas where rents were already high or rising (San Francisco, Dallas, Denver, Austin, and Washington, DC).

Metros with the lowest expenditures on apartment properties include St. Louis, San Antonio, Sacramento, and Las Vegas, averaging less than $700 per unit. In most of these areas, both rents and operating incomes were lower than average, leaving few resources available for reinvestment. In some cases, the rental stock is newer and thus in less need of repair. In other cases, the markets were especially hard hit by the Great Recession. The average apartment turnover rate in these metros is also higher, perhaps indicating greater difficulty maintaining profitability in these markets.

THE OUTLOOK

As house prices and incomes continue to recover, homeowner improvement spending should pick up steam, particularly in the West. Given their higher mobility rates and higher incomes, homeowners in markets such as San Francisco, Sacramento, Las Vegas, and San Jose are likely to boost their spending on improvements. In other areas such as Phoenix and Denver, however, spending growth is expected to moderate from its recent strong pace. Meanwhile, homeowner improvement spending in many metros of the Northeast should remain strong, although growth in other regions will gradually close some of the gap in performance.

In the Midwest and South, homeowner spending growth should be more moderate but also more stable. With significant shares of their owner-occupied housing stocks built before the 1960s, Detroit, Chicago, Cincinnati, and St. Louis should all see a pickup in improvement expenditures. In the South Atlantic region, remodeling activity in Florida metros such as Jacksonville and Orlando is also expected to revive as home values recover. However, the relatively new owner-occupied stock in this region will limit spending gains in these and similar areas. Other Southern metros where improvement spending is likely to increase include Houston and Richmond, where recent activity has been lower than expected.

On the rental property side, remodeling expenditures are expected to remain strong, although growth could moderate in a handful of metro areas if new construction results in excess supply. Overall, though, this market is likely to grow as rental demand and rents continue to rise, especially in the Northeast and West. At the same time, affordability concerns in several major markets are likely to shift demand toward middle-market rentals. These properties may in turn see stronger investment relative to the higher-end, professionally managed stock.

Single-family rentals are also a potential growth market for remodelers. From 2006 to 2013, about 3.6 million single-family homes were added on net to the pool of units either rented or for rent. The American Community Survey indicates that metros where at least 100,000 single-family homes were converted to rentals include Phoenix, Los Angeles, and Atlanta. Given the larger average size of single-family homes, as well as the higher turnover rates and maintenance needs of rentals, property owners will have to make significant investments to repair and update this stock.