



FACT SHEET

Improving America's Housing 2007

RELEASE DATE: FEBRUARY 8, 2007

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 the home improvement industry. This year's edition, *Foundations for Future Growth in the Remodeling Industry* provides an up-to-date assessment of home improvement industry dynamics in the face of dramatic changes in both demand and supply.

FINDINGS

Over the last decade, the U.S. home improvement market nearly doubled in size, reaching a new high of \$280 billion in 2005. After years of exceptional growth, the remodeling sector has returned to a more sustainable pace. Yet, underinvestment in the owner-occupied and rental stock, a growing desire for energy-efficient retrofits, continued strength in high-end discretionary improvements, and projected increases in both the number of homeowners and per household expenditures ensures solid growth in remodeling activity in years ahead. Indeed, homeowner spending on remodeling is expected to increase 44 percent in inflation-adjusted terms between 2005 and 2015.

Industry Dynamics

Contractors serving the remodeling market have yet to see the consolidation that has occurred elsewhere in the residential construction industry, and thus face the challenge of running small, service-oriented businesses in a competitive environment that favors larger operations. Contractors are finding it difficult to provide a broad range of services within a limited geographic area and still achieve the scale economies that make consolidation advantageous.

- The remodeling industry is becoming ever more fragmented with the 50 largest general remodeling contractors in the nation accounting for only 5.2 percent of total remodeling revenue in 2002.
- The total number of general and special trade remodeling contractors increased 32 percent between 1997 and 2002 to just over 530,000 with most of the growth occurring among self-employed contractors.
- General remodeling contracting firms earning over a million dollars in 2002 generated over 40 percent of employment and captured nearly 60 percent of revenue among all general contractors, indicating that larger firms are beginning to play a more dominant role in the remodeling industry.
- Residential remodelers are becoming more specialized by focusing more of their activity on the home improvement market with 94 percent of general contracting revenues and 78 percent of special trade revenues coming from remodeling projects in 2002.
- Between 1999 and 2005, design/build and specialty remodeling contractors had both stronger revenue growth and more stable receipts than firms that offered a broad range of home improvement services.

Market in Transition

With rising interest rates, slower house price appreciation and faltering home sales, the home improvement market has shifted to a more sustainable rate of growth. Rather than taking on expensive discretionary projects, homeowners are investing in more routine replacement projects, system upgrades, and mid-range rather than upscale improvements.

- The top five percent of households spending the most for home improvements accounted for 60.7 percent of all remodeling expenditures in 2004-2005.
- Owners of approximately 31 million homes averaged less than \$1,000 a year on real improvement and maintenance spending from 2000-2005, which in many cases was insufficient to maintain the current condition of the home.

- Mid-range versions of projects now pay off better for homeowners than upscale versions in most cases, and replacement projects currently provide a better return on average than discretionary improvements.
- On average in 2005, households whose homes had appreciated by at least 100 percent over the previous decade spent over 2.5 times more on improvements than those whose home values increased less than 50 percent.
- With aggregate home equity at \$10.2 trillion in 2005 and almost a trillion dollars outstanding in home equity borrowing, homeowners have the means as well as the motivation to continue to invest in their homes over the coming years.

Trends Supporting Growth

An aging housing stock, rising energy prices, strengthening rental demand, and the changing mix of homeowners will contribute significantly to future growth in the remodeling sector.

- About a third of owner-occupied homes are now at least 45 years old and an additional third is between 25 and 45 years old meaning that a large majority of homes are in increasing need of remodeling and repair.
- In 2005, owners of homes built before 1970 spent an average of \$500—over 17 percent of their total home improvement budget—on energy efficiency related projects, such as upgrading HVAC systems, adding insulation, and replacing siding, windows and exterior doors.
- In 2005, inflation-adjusted expenditures for improvements and maintenance per rental unit averaged almost 35 percent below its peak level in the late-1980s, indicating underinvestment in the rental stock.

Prospects for Growth

Over the next decade, the remodeling market can expect continued growth across all sectors. In the long term, the size and composition of owner-occupied households will be the primary force to steer homeowner home improvement activity.

- Between 2005 and 2015, the number of homeowners will increase by over 12 million and average per household spending will grow by 23 percent.
- By 2015, members of generation X will represent the largest share of homeowner improvement spending of any generation, with 27 percent of all spending. Meanwhile, trailing baby boomers will hold strong at 23.6 percent of spending and lead baby boomers will contribute 21.3 percent of spending.
- The number of minority homeowners will increase by over 40 percent in the next decade, and will represent 25 percent of all homeowner spending in 2015.
- Spending in the professional segment will rise by 46 percent over the next decade, while D-I-Y spending should increase by 37 percent.

SPONSORS

The Remodeling Futures Steering Committee and the Policy Advisory Board of the Joint Center for Housing Studies provide principal funding for the report. Additional support is provided by Masco Corporation.

CONTACT INFORMATION

For more information about *Improving America's Housing* reports, please contact Elizabeth England, program coordinator, at (617) 495-7640 or elizabeth_england@harvard.edu.