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METROPOLITAN PERSPECTIVES



During the housing market boom, the metro areas that experienced a dramatic runup in house prices also saw a sharp increase in home improvement spending. Once the crash hit and the recession got under way, though, falling house prices and rising mortgage delinquency and foreclosure rates in these same areas led to a commensurate decline in remodeling activity.

In metro markets where housing prices have now stabilized or are beginning to turn up, however, the outlook is for a healthy recovery in improvement spending.

MAJOR MARKET TRENDS

Focusing on metropolitan area trends is critical to understanding overall remodeling activity because these major markets account for a disproportionate share of homeowner spending. Indeed, over the past decade the country's 35 largest metros generated 54 percent of total improvement activity. Moreover, average expenditures per homeowner for this group consistently exceeded national averages by about 25 percent.

Metro-level analysis also provides a sharper lens for viewing remodeling cycles because local demographic characteristics and market conditions vary widely. The decision to undertake a home improvement project, and how much to spend on that project, depends on a broad range of factors including household income, home values, and age of the home. In combination, these factors produce sharply different levels of activity. For example, while the average US homeowner spent \$2,600 per year on home remodeling projects in 2000–9, annual spending in the 35 largest metros ranged from \$1,200 in San Antonio to \$5,100 in San Jose. Spending in New Orleans was also exceptionally high (\$5,700 per household) due to improvements in the aftermath of Hurricane Katrina. In general, per household spending was higher in metros located along the West and Northeast coasts than in the South and Midwest, where incomes and home price appreciation were generally lower (**Figure 17**).

Household income and wealth are important drivers of home improvement expenditures. In the highest-spending mar-

kets, such as San Jose, San Francisco, and Washington, DC, median household incomes exceeded \$73,800 in 2009—well above the \$56,600 average across the 35 largest metros. Homeowners in the 10 highest-income metros thus spent about one-third, or \$900, more annually on home improvements than the 35-metro average of \$3,100.

Another telling indicator of remodeling spending is home value. In areas with higher home prices, homeowners have more incentive to maintain or increase the value of their homes with more extensive remodeling projects. Indeed, homeowners in the 10 markets with the highest home values spent an average of \$4,100 per year on improvements, compared with \$2,400 in the 10 metros with the lowest home values. According to Zillow.com, home values averaged \$358,000 in the 10 highest-spending metros in 2009 but only \$155,000 in the 10 lowest-spending metros.

Finally, age of the housing stock is one of the most critical factors affecting remodeling activity. Much of the oldest inventory is located in the Northeast and Midwest. Fanning out toward the West and South, homes are newer and require less remodeling to maintain or modernize the stock. Accordingly, as a group, homeowners in the largest metro areas with the newest housing stocks spent about 17 percent less on remodeling than the 35-metro average. Homeowners

in areas where the median home was built in the 1980s and 1990s—such as Dallas, Orlando, and Las Vegas—spent \$2,400 on average each year, while those in areas with older housing spent about \$3,300.

SPENDING IN THE TOP 10 MARKETS

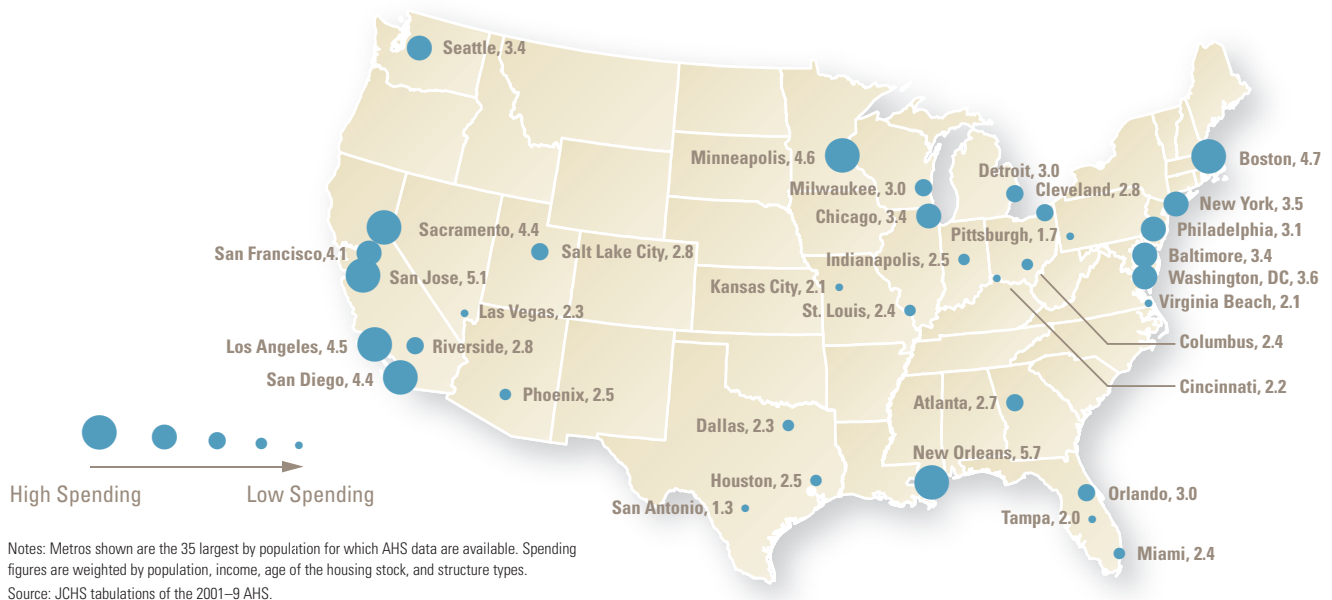
In addition to household income and housing stock characteristics, another key difference between high- and low-spending metropolitan areas is the type of remodeling projects that homeowners undertake. Higher project costs, rather than a larger share of households making improvements, drive up expenditures in high-spending areas. In the 10 markets with the highest expenditures, 58 percent of homeowners reported at least some remodeling activity during the 2000s—slightly above the 56 percent in the bottom 10 markets. However, homeowners in these high-spending metros that made improvements spent twice as much each year on average (\$7,400) than those in low-spending metros (\$3,700).

More expensive home improvements are likely to be professionally installed rather than do-it-yourself projects. Indeed, in high-spending metros such as San Jose, Minneapolis, and Washington, DC, more than 85 percent of remodeling expenditures went to professional contractors. In low-spending

Figure 17

Top Remodeling Markets Are Located Along the Coasts

Average annual homeowner spending, 2000–9 (Thousands of 2009 dollars)



areas such as Tampa, Pittsburgh, and Kansas City, however, spending on professionally installed improvements accounted for less than 73 percent of remodeling dollars.

Higher-cost projects also typically fall into the discretionary rather than the replacement category. Homeowners in top remodeling markets thus devote a larger share of their spending to major projects such as kitchen and bath remodels. In addition, more of these discretionary projects are at the upper-end of the cost distribution (expenditures of more than \$10,000 over a two-year period). In the 10 highest-spending metros over the past decade, 8 percent of homeowners undertook such high-end discretionary improvements, double the share in the 10 lowest-spending metros. Upscale discretionary projects thus contributed 45 percent of total remodeling expenditures in the top 10 markets but only 26 percent in the bottom 10 markets (Figure 18).

Figure 18

Highest-Spending Metros Have More Favorable Market Conditions and a Larger Share of Upscale Project Types

	Top 10 Metros	Bottom 10 Metros	35-Metro Average
Annual Remodeling Expenditures per Homeowner (2009 dollars)	4,200	2,100	3,100
Median Household Income (2009 dollars)	67,900	50,500	56,600
Median Home Value (2009 dollars)	358,000	155,000	220,000
Median Age of the Housing Stock (Years)	39	32	35
Share of Spending on Professionally Installed Projects (Percent)	82	79	81
Share of Spending on Upscale Discretionary Projects (Percent)	45	26	34

Notes: Top 10 and bottom 10 metros are of the 35 largest by population for which AHS data are available. Spending figures are weighted by population, income, age of the housing stock, and structure types. Upscale discretionary projects are defined here as kitchen and bath remodeling, other room additions, other major interior additions, as well as deck/porch and garage/carport attachments of over \$10,000.
Sources: JCHS tabulations of the 2001–9 AHS, 2009 ACS, and Zillow.com Home Value Index.

MORTGAGE WOES

When the housing market bubble burst, the aftermath included sharp home price depreciation and soaring mortgage delinquency rates in many parts of the country—particularly those areas where house prices had skyrocketed earlier in the decade. Among the 35 largest metros, First American CoreLogic reports that the share of mortgages originated in 2006 and 2007 that were at least 90 days delinquent in 2009 reached as high as 39 percent in the Miami metropolitan area. While delinquencies in most metros of the Midwest, and particularly Texas, remained in the 9–13 percent range, they jumped to more than 25 percent in many areas in California, Florida, and Arizona.

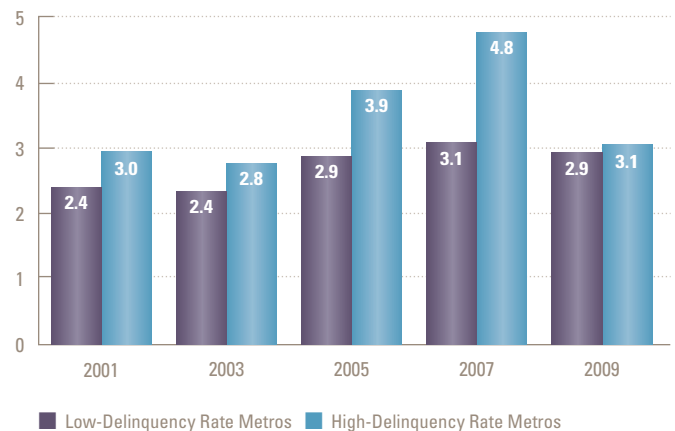
Coupled with tumbling house prices and rising unemployment, the increase in loan delinquencies dramatically slowed remodeling activity in these overheated markets. After an astonishing 60 percent surge in 2000–7, home improvement expenditures in metros with delinquency rates above 14 percent (the median for the 35 largest metros) lost almost all those gains by 2009. Indeed, remodeling activity in these areas rose only 3 percent from 2000 to 2009 (Figure 19).

Markets that largely avoided housing bubbles and mortgage problems, however, saw steadier growth in home improvement activity. In metro areas with mortgage delinquency

Figure 19

Spending Cutbacks Were Especially Large in Markets with High Loan Delinquencies

Average annual homeowner spending (Thousands of 2009 dollars)

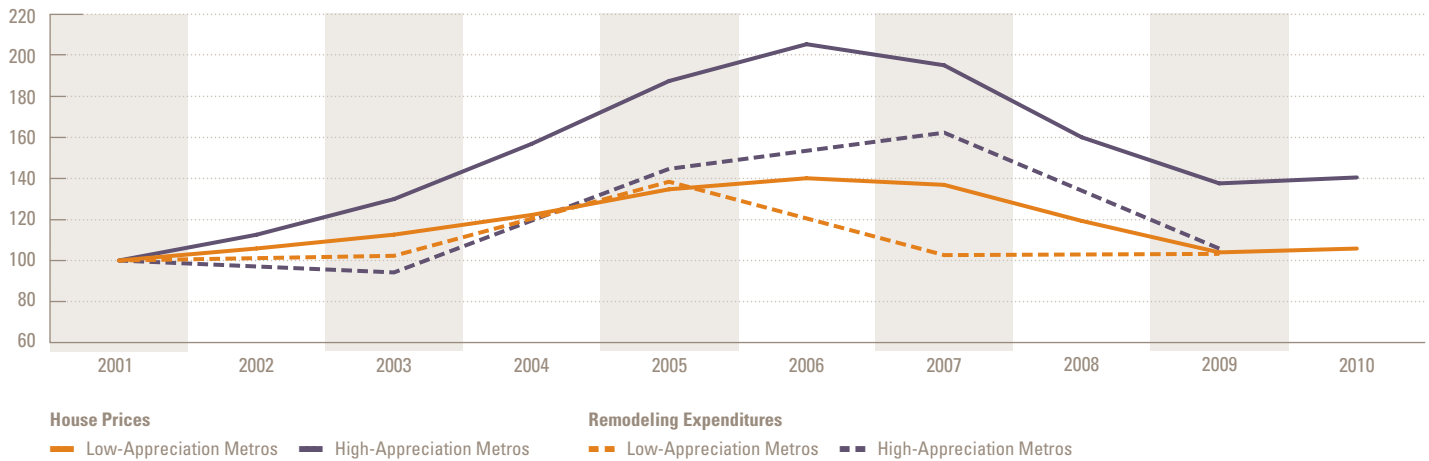


Notes: Spending figures are for the 35 largest metro areas by population for which AHS data are available. Spending figures are weighted by population, income, age of the housing stock, and structure types. In low-delinquency rate metros, less than 14% of mortgages originated in 2006 and 2007 were delinquent in 2009; in high-delinquency rate metros, 14% or more were delinquent.
Source: JCHS tabulations of the 2001–9 AHS and First American CoreLogic, LoanPerformance data.

Figure 20

Improvement Spending and House Prices Track Closely

Indexes



Notes: Indexes include metros for which S&P/Case-Shiller data and AHS remodeling data are available. Low-appreciation metros are those with below-median appreciation between 2000 and the decade peak; high-appreciation metros are those with above-median appreciation.

Source: JCHS tabulations of the 2001–9 AHS and S&P/Case-Shiller Aggregate Indexes from Moody's Analytics DataBuffet.com.

rates below 14 percent in 2009—such as Pittsburgh, Dallas, and Houston—spending also peaked in 2007, although with a smaller cumulative increase of 28 percent from 2000 levels. In stark contrast to the areas that had undergone a dramatic boom and bust cycle, these metros emerged relatively unscathed from the remodeling recession, with average spending up 22 percent over the course of the decade.

HOME PRICES AND IMPROVEMENT SPENDING

House price appreciation will be a major factor in determining the rebound in remodeling activity. Changes in home prices and improvement spending have displayed similar trends throughout the past decade, rising together from 2001 to 2006 and bottoming out in 2009 (Figure 20). When metros are grouped according to price increases, it is clear that remodeling expenditures rose more in high-appreciation markets (62 percent) than in low-appreciation areas (38 percent).

Given this close relationship, it is encouraging to see that home prices in many metropolitan areas are showing signs of stabilizing. According to the S&P/Case-Shiller Composite 20 Index, house prices in the first three quarters of 2010 were up 2 percent from the 2009 average. Some metropolitan areas have fared even better. San Francisco is at the top of the list, with house price appreciation of 10 percent in 2010. Appreciation in other California metros, such as San Diego and Los Angeles, was also in the 6–8 percent range.

At the same time, though, house prices continued to fall in many areas, led by a 7 percent drop in Las Vegas. Declines in other metros such as Chicago, Detroit, Seattle, and Tampa have also persisted, albeit at a more moderate 2–3 percent pace. Until house prices fully stabilize, remodeling activity in these markets will remain weak.

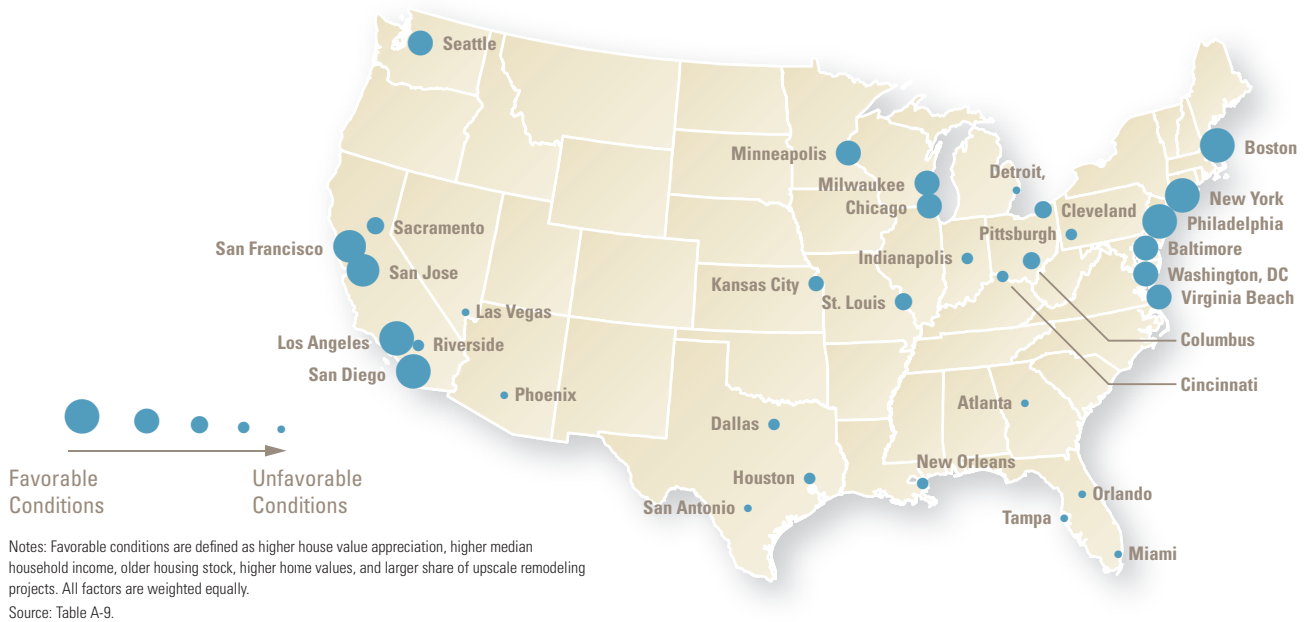
One spending category that held up relatively well in 2007–9 in all regions of the country was energy-related projects, no doubt due in part to federal tax credits for energy-efficient retrofits. Though falling in 2007–9, expenditures on replacements intended to improve energy efficiency, such as installation of new insulation and windows or doors, dropped about half as much as spending on other types of replacements such as plumbing and flooring.

Thanks to this encouraging performance and the extension of the energy tax credit (at a lower rate), spending within the broader category of green remodeling projects will likely continue to grow. Green projects do, however, often require additional expense over traditional remodeling work, and some households resist the higher upfront costs. According to the 2009 Nielsen Energy Survey, the share of households willing to pay a premium for green products (defined as “better for the environment”) ranges from 59 percent in San Antonio and Pittsburgh to 64 percent in San Jose. In general, higher shares of households in metro areas along the Northeast and West coasts indicate a willingness to pay more for green products

Figure 21

Conditions in Several Metro Markets Point to a Rebound in Remodeling Activity

Ranking of metros by market conditions in 2009–10



than in metros of the South and Midwest. These differences in consumer sentiment will likely influence the adoption rates of green remodeling projects in areas across the country.

THE OUTLOOK

Based on local market conditions in 2009–10, several metropolitan areas appear well-positioned for an upturn in remodeling activity. While many of the stronger metros are among the traditional top-spending markets, conditions in a handful of other areas—such as Philadelphia, Baltimore, Milwaukee, and Chicago—also appear promising (**Figure 21**). These markets may be poised for faster recoveries because they have older housing stocks, higher incomes and home values, and a larger share of upscale remodeling expenditures. In contrast,

less favorable market conditions point to slower recovery in overbuilt areas of Florida, as well as Las Vegas and Phoenix. In addition to facing continued home value depreciation in 2010, these areas had the lowest median household incomes and the newest housing stocks in 2009.

Although remodeling activity in distressed metropolitan areas is unlikely to recover quickly, current housing market troubles may also provide new remodeling opportunities. Indeed, improvement spending in overbuilt markets with high foreclosure rates should increase as homes are sold and the new owners attempt to make up for undermaintenance during the downturn and the often protracted foreclosure process.