



FACT SHEET

Improving America's Housing is a report 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 policy makers and practitioners serving the remodeling industry. The latest edition, **The U.S. Housing Stock: Ready for Renewal**, examines recent shifts in industry dynamics and the geographic distribution of spending in the wake of the downturn, as well as expected changes in demand for home improvements over the coming decade.

FINDINGS

The retreat in improvement spending during the downturn has had a measurable impact on the quality of the nation's housing stock. After languishing near the bottom for several years, the remodeling market finally appears to be pulling out of its prolonged downturn, and renewal of the nation's housing stock is getting underway. Previously foreclosed properties are being rehabilitated. Sustainable home improvements are gaining in popularity. Older homeowners are retrofitting their homes to accommodate their future needs. And the future market potential is immense, as the emerging echo boom generation is projected to be the largest in our nation's history.

The Need to Revitalize the Nation's Housing Stock

Spending on home improvements and repairs reached \$275 billion in 2011, down 16% from the market peak in 2007. Evidence of underinvestment in the housing stock is widespread. Examples range from the rising number of inadequate homes to the significant aging of the rental stock, the surge in foreclosures and short sales, and the share of homeowners owing more on their mortgages than their homes are worth. These owners clearly have had little incentive or capacity to improve or even maintain their properties during the housing downturn.

- After decades of decline, the number of inadequate owner-occupied homes (those with severe or moderate physical problems) increased 7% between 2007 and 2011 to more than 2.4 million. Inadequate homes are significantly more likely to be converted to rental units or nonresidential uses, become vacant, or permanently lost from the inventory.
- Improvement spending on distressed properties was estimated to be almost \$10 billion in 2011 with more than a million such properties coming back onto the housing market that year.
- The significant drop in house prices has eroded improvement spending, especially on discretionary projects. In 2011, owners with less than 20% equity in their homes spent 22% less on average on home improvements and 30% less on discretionary projects than owners with 20% or more equity.

- The median age of rental units was 39 years in 2011—some 16 years above the median in 1985.
- Single-family rental units in 2007 that were converted to owner-occupancy by 2009 had 18% higher home improvement spending since conversion than homes that remained owner-occupied throughout.
- Prompted by tax credits, the share of improvement spending on energy-related projects increased sharply in recent years from 23% in 2007 to 33% in 2011. About a quarter of households undertaking home improvements in 2011 indicated that one or more projects were done for energy efficiency purposes.

Impacts of the Downturn on Industry Structure

The severe downturn in the remodeling industry has put many contractors out of business. This industry remains highly volatile and fragmented with considerable obstacles to achieving scale. Yet remodeling businesses that are able to overcome these challenges enjoy significant benefits in terms of increased revenue growth and labor productivity, as well as low and stable failure rates over the business cycle.

- The annual share of firms exiting the remodeling industry increased from under 13% in 2004 to over 17% by 2010, compared with a failure rate of under 10% for all US payroll establishments in both years.
- Larger remodeling companies are much less likely to fail. Remodelers with estimated receipts of less than \$250,000 had a failure rate of nearly 25% in 2010, whereas the largest remodeling businesses with estimated receipts of \$1 million or more saw relatively low and stable annual failure rates over the business cycle—2.7% in 2004 and just 2.8% in 2010.
- While larger-scale remodelers were by no means immune to the business cycle, their revenues rebounded strongly after the worst of the downturn. Half of larger remodelers posted annual revenue growth of 5.1% or more in 2010 and 3.6% or more in 2011.

Geographic Distribution of Improvement Activity

Geographic variations in home improvement spending are considerable, owing in large part to metro-level differences in household incomes, age and condition of the housing stock, and owner mobility rates. Both older homes and higher incomes yield greater homeowner spending on the coasts, while more mobility and high levels of distressed properties have contributed to higher average spending in key markets of the South and West.

- Among metros with the highest improvement spending per household in 2011, 42% of homeowners earned above \$100,000; among metros with the lowest spending, the share of such households was only 26%.
- Pre-sale spending on distressed properties by banks and institutions was most heavily concentrated in metro markets of the West and Southeast in 2011.
- Average inflation-adjusted per-owner improvement spending among major metro areas in 2011 was lower than the decade average during the 2000s, but still exceeded levels averaged during the 1990s.

Renewing Homes for Tomorrow's Households

As the remodeling market rebounds, demographic changes will continue to have a profound impact on home improvement demand. Older owners will drive growing demand for aging-in-place retrofits, while longer-term trends in immigration and household growth will move younger households to the forefront of the home improvement market.

- A decade ago, homeowners age 55 and over accounted for less than one-third of all home improvement spending, but by 2011 this share had grown to over 45%. While part of this share gain reflects the rising number of households in this age range, nearly half of the \$30 billion increase in spending by older owners was due to a 20% increase in average per owner inflation-adjusted expenditures over the decade.
- Improvement spending by homeowners age 55 and over does not decline with duration of residence. Even those who have lived in their homes for 20 years or more spend about the same on improvements as same-age owners who have lived in their homes for less time.
- Between 2005 and 2011, the number of owner households that included one or more adult children increased 15% from 8.9 million to 10.2 million. This doubling-up suggests significant pent-up demand from delayed household formation as the housing market and economy get back on track.
- By 2025 the echo-boom generation will be age 21-40 and is projected to outnumber the baby boom generation by more than twelve million, or 16%, when baby boomers were in the same age group.

SPONSORS

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CONTACT INFORMATION

For more information, please contact Kerry Donahue, (617) 495-7640, kerry_donahue@harvard.edu.

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