

Hanley Wood Housing 360: Insights into Remodeling

A national survey of homeowners and renters

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Introduction

Remodeling is an important part of the housing industry. The nation's housing stock totals 130 million-plus existing units, including 76 million owner-occupied (mainly single-family homes) and 36 million renter-occupied housing units, half of which were constructed more than 40 years ago. Many of these aging housing units will require major remodeling and/or maintenance and repair work in the years ahead, creating an ongoing demand for remodeling work even during challenging economic times.

As part of a national survey of 3,005 homeowners and renters to better understand how Americans feel about today's housing market, the Colton Housing Group asked a series of questions specifically addressing how homeowners feel about remodeling generally and about their plans for remodeling in the future. The survey included 1,954 homeowners and 1,051 renters. The remodeling questions were directed to the homeowners. The survey was conducted electronically in late June and early July.

The survey was commissioned by Hanley Wood, LLC, and its two main publications, BUILDER and REMODELING magazines. It also included six focus groups conducted in Fairfax, VA; San Diego, CA; Seattle, WA; Des Moines, IA; Tampa, FL; and Houston, TX.

Overview

For a variety of reasons, the desire of homeowners to remodel and fix up their homes has held up remarkably well during the past five years of hard economic times. The survey by the Colton Housing Group showed that more than one of five homeowners have already remodeled recently or plan to remodel in the next two years rather than buying another home, and six in 10 have done some kind of remodeling during the past two years.

This explains, in part, why the remodeling sector has weathered the economic downturn in much better shape than the market for newly constructed homes. At the peak of the housing boom, in 2005, homeowners were spending about \$280 billion a year to remodel and fix up their homes, and builders were constructing 2 million housing units a year, including a record 1.7 million single-family homes. According to an analysis of the American Housing Survey conducted by Harvard's Joint Center for Housing Studies, expenditures on remodeling continued to rise during the early years of the recession, peaking at \$326 billion in 2007. The Joint Center estimates that remodeling expenditures declined to \$278 billion in 2011. This decline in remodeling activity is relatively modest when compared with the collapse in the new housing market where new homes sales and housing starts plunged by about 75% from the peak of the expansion in 2005 to the bottom in 2010. The Joint Center projects remodeling activity will resume growth in 2012 and into the foreseeable future.

As noted earlier, 78% of the nation's existing housing stock is 30 years old or older, which means that millions of single-family homes and apartment units will need major repair and remodeling work in the years ahead to remain in good condition and that remodeling demand is driven by both choice and necessity. When the roof leaks or the heating/cooling system fails, homeowners don't have the luxury of waiting until the economy recovers or their own economic situation improves. That work is driven by necessity, and according to the survey findings, more than half of the remodeling projects reported by homeowners fell into that category.

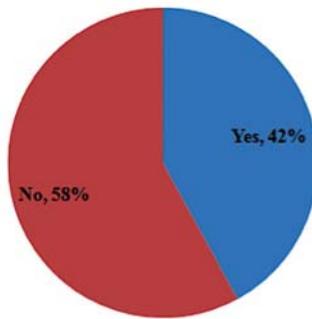
Finally, as homeowners over age 50 talk about their future housing plans, 60% say they want to stay in their current homes through their retirement years. The 80 million baby boomers (those born between 1946 and 1964) who were the driving force in the housing market for the past 40 years are now starting to retire. They will continue to be a significant force in the remodeling market in the next decade and beyond.

A good time to remodel

In today's housing market, remodeling is becoming a more attractive option. One out of five homeowners (22%) have recently completed a remodeling job or plan to remodel in the next two years instead of buying another home.

In response to the question, "Do you think it is a good time to remodel your home?" more than four out of 10 homeowners (42%) said "yes."

Exhibit 1: Is now a good time to remodel?



The remodeling option is particularly attractive for homeowners with higher incomes. Among households with incomes less than \$50,000, only 36% believe it is a good time to remodel. In contrast, more than half (56%) of the homeowners with incomes over \$100,000 believe it is a good time to remodel.

Homeowners with higher-valued homes are also more likely to remodel. For owners with homes valued at \$150,000 or less, only 37% said it was a good time to remodel. That “good time to remodel” rating rose steadily from there, rising to 43% for people with homes valued from \$150,000 to \$249,999, to 47% for people with homes valued at \$250,000 to \$499,999 and to 54% for people with homes valued at more than \$500,000.

Exhibit 2: Do you think it is a good time to remodel?

Total	42%
<u>Age of Head of Household</u>	
20-24 years	38%
25-34 years	43
35-64 years	40
45-60 years	43
65 years or more	42
<u>Combined Household Income</u>	
Less than \$50,000	36%
\$50,000 - \$74,999	40
\$75,000-\$99,999	52
\$100,000-\$149,999	48
\$150,000 or more	56
<u>Market Value of Your Home</u>	
Less than \$150,000	37%
\$150,000-\$249,999	43
\$250,000-\$499,999	47
\$500,000 or more	54
<u>Length of Stay at Present Address</u>	
Less than 2 years	41%
2 to 5 years	41
6 to 10 years	38
More than 10 years	45

In an open-ended question, people listed a wide range of reasons why they believe today is an ideal time to remodel. Among the more popular reasons for remodeling were:

- To improve the value of their home
- To take advantage of low prices for everything (labor and materials)
- Contractors/builders need work and are willing to negotiate in good faith with customers
- Remodeling is less expensive and better than buying another home
- To enhance their living conditions;
- Remodeling makes sense because they plan on staying in their home for a long time.

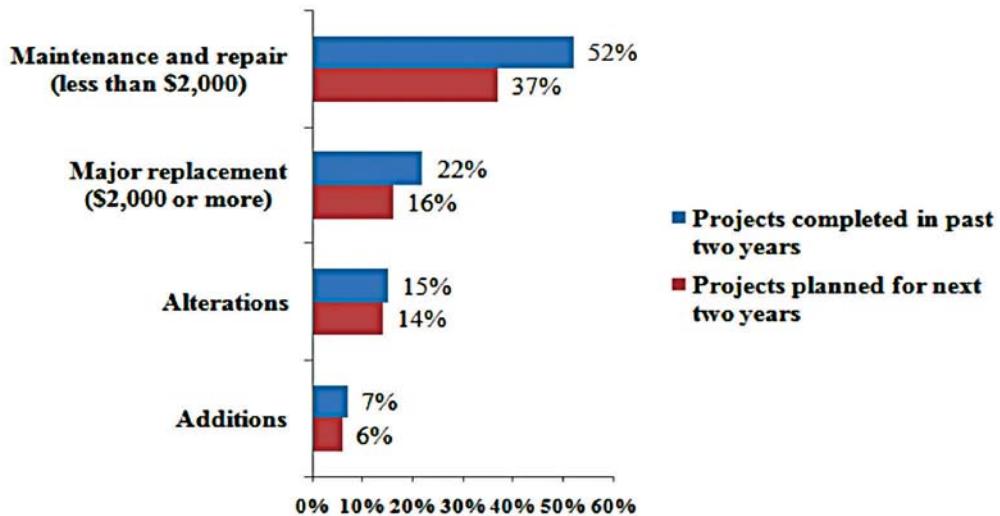
For homeowners who said it was not a good time to remodel, the reasons cited included the following:

- We already remodeled during the past two years;
- Our home is pretty new and there's no reason to remodel;
- We plan to move instead of remodel;
- Don't believe we can recoup our initial investment;
- Prices for materials are still too high; and
- I'm worried about my job security and economic future.

Remodeling activities

More than half of the homeowners (52%) did maintenance and repair jobs valued at less than \$2,000 during the last two years, and one in five (22%) completed major replacement jobs costing \$2,000 or more. Seven percent added additions to their home, and 15% made alterations to their home.

Exhibit 3: What are the types of remodeling projects?



The share of households doing maintenance and repair jobs (costing less than \$2,000), has a positive correlation with the age of the head of household, combined household income and the market value of the home. Older and higher-income households living in more expensive homes are more likely to perform regular maintenance and repair jobs.

Exhibit 4: Types of remodeling projects by age, income and market value of home

Total	Maintenance & Repair 52%	Major Replacement 22%	Additions 7%	Alterations 15%
<u>Age of Head of Household</u>				
20-24 years	40%	16%	8%	18%
25-34 years	52	21	10	17
35-64 years	53	23	8	16
45-60 years	58	23	5	14
65 years or more	44	25	3	9
<u>Combined Household Income</u>				
Less than \$50,000	49%	18%	5%	12%
\$50,000 - \$74,999	50	22	8	13
\$75,000-\$99,999	57	27	9	18
\$100,000-\$149,999	60	29	7	22
\$150,000 or more	67	36	9	23
<u>Market Value of Your Home</u>				
Less than \$150,000	49%	20	4	13
\$150,000-\$249,999	52	23	9	15
\$250,000-\$499,999	57	23	7	17
\$500,000 or more	63	31	11	20
<u>Length of Stay at Present Address</u>				
Less than 2 years	49%	26%	10%	20%
2 to 5 years	52	18	9	20
6 to 10 years	55	21	6	15
More than 10 years	52	23	5	15

While the percentage of respondents undertaking “major replacement” projects increased steadily as homeowners aged, the average value of the remodeling job increased significantly as the age of the homeowner rose. This trend of older and higher-income households generally spending more was also evident for households making “additions” and “alterations” to their homes.

Exhibit 5: Average remodeling spend by age and project type



Looking ahead over the next two years, homeowners are planning to do the following jobs: maintenance and repairs valued at less than \$2,000 (37%); major replacements valued at \$2,000 or more (16%); additions (6%); and alterations (14%).

Exhibit 6: Type of remodeling projects planned for next 2 years

Total	Maintenance & Repair 37%	Major Replacement 16%	Additions 6%	Alterations 14%
<u>Age of Head of Household</u>				
20-24 years	26%	17%	5%	13%
25-34 years	37	18	10	14
35-64 years	35	15	9	19
45-60 years	42	17	4	15
65 years or more	32	10	2	8
<u>Combined Household Income</u>				
Less than \$50,000	37%	13%	5%	13%
\$50,000 - \$74,999	35	17	7	13
\$75,000-\$99,999	37	17	5	16
\$100,000-\$149,999	38	23	5	16
\$150,000 or more	47	25	19	22
<u>Market Value of Your Home</u>				
Less than \$150,000	37%	13%	4%	13%
\$150,000-\$249,999	35	18	7	15
\$250,000-\$499,999	38	18	6	15
\$500,000 or more	41	24	11	17
<u>Length of Stay at Present Address</u>				
Less than 2 years	38%	17%	11%	18%
2 to 5 years	33	14	7	16
6 to 10 years	39	15	5	13
More than 10 years	38	18	3	13

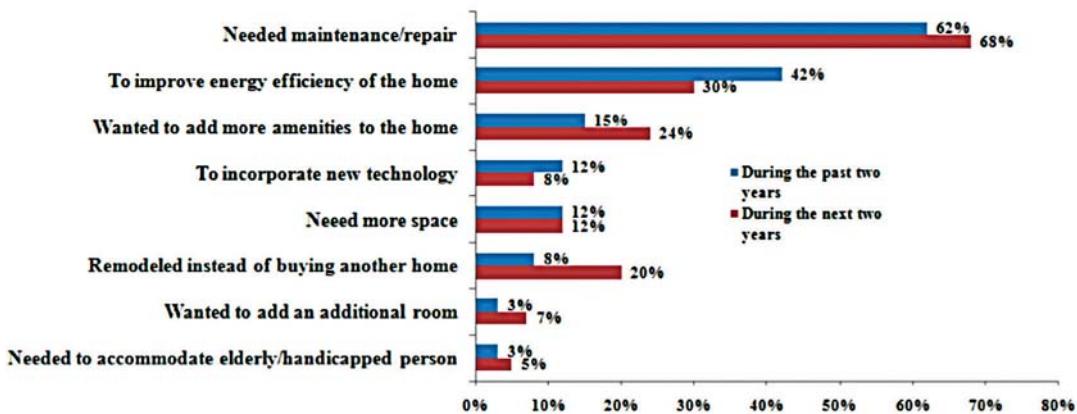
Reasons for remodeling

More than six out of 10 homeowners did some remodeling jobs during the past two years. Of those respondents who performed any remodeling work, the main reasons cited were to maintain or repair (65%), to improve energy efficiency of the home (42%), to reduce future maintenance (30%), to increase the value of the home (30%), and to make home more modern looking (22%).

About half (47%) of the respondents who indicated a reason to do a remodeling project will do so in the next two years. The reasons cited were to maintain or repair their home (68%), to improve the energy efficiency of their home (30%), and to add more amenities to the home (24%).

This survey finding showing that the percentages of homeowners performing some remodeling work during the past two years was greater than what they projected for the next two years should not be viewed as a lessening of demand for remodeling work. A good portion of remodeling activity each year is triggered by necessity—a leaky roof or a heating and cooling system that hits the skids. Such remodeling jobs are impossible to predict or anticipate by individual homeowners. As the nation's housing stock ages (more than half of the nation's 76 million owner-occupied homes were built prior to 1970), major replacements and maintenance are likely to grab a bigger share of the overall remodeling market.

Exhibit 7: Reasons for remodeling

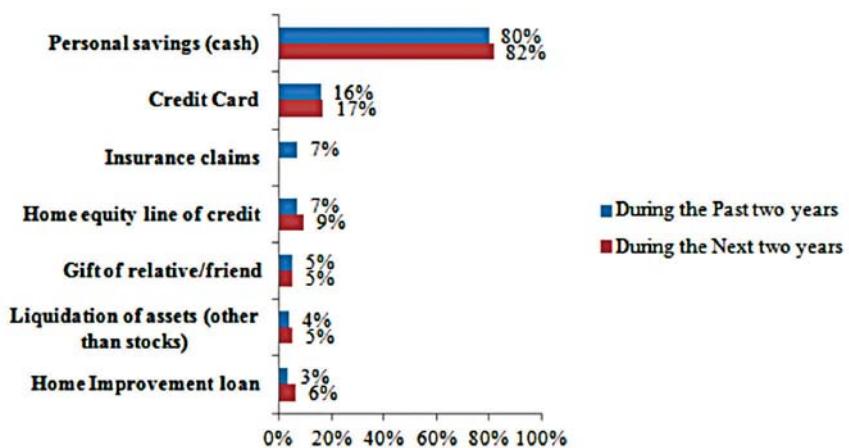


Source of financing

Homeowners are highly dependent on personal savings to pay for remodeling jobs. The main source of funding or financing for remodeling projects is personal savings (80%), followed by credit cards (16%), insurance claims (7%) and home equity line of credit (7%). For remodeling jobs anticipated for the next two years, homeowners said they would continue to dip into personal savings to pay for the remodeling work—a preference that is somewhat unique for the remodeling market when compared with how consumers pay for other major goods and services. In the auto market, for example, a very large percentage of cars are financed or leased.

It should be noted that tapping home equity as a source of financing increased with larger, more expensive remodeling jobs, particularly major additions and alterations to the home. Overall, home equity was used to finance only 7% of the remodeling jobs over the past two years. But among owners who made major additions or alterations to their home, 25% of them financed the improvements with their home equity line of credit.

Exhibit 8: Source of financing for remodeling projects



Do it yourself or hire a contractor?

In response to the question, "Who did the remodeling work during the past two years?" homeowners said they hired professional contractors (36%); did the work themselves (47%); or did the work themselves with the help of a contractor (17%).

Not surprisingly, older homeowners, higher-income households and households living in more expensive homes are more likely to rely on professional contractors to perform the remodeling work.

Exhibit 9: Who performed the remodeling work

Total	Yourself 47%	A Professional Contractor 36%	Partly Myself Partly Contractor 17%
<u>Age of Head of Household</u>			
20-24 years	60%	26%	14%
25-34 years	50	32	18
35-64 years	54	29	17
45-60 years	46	37	17
65 years or more	29	53	17
<u>Combined Household Income</u>			
Less than \$50,000	57%	29%	14%
\$50,000 - \$74,999	46	36	18
\$75,000-\$99,999	41	40	19
\$100,000-\$149,999	31	44	24
\$150,000 or more	35	52	13
<u>Market Value of Your Home</u>			
Less than \$150,000	54%	32%	14%
\$150,000-\$249,999	52	31	17
\$250,000-\$499,999	37	42	21
\$500,000 or more	31	52	17
<u>Length of Stay at Present Address</u>			
Less than 2 years	51%	28%	21%
2 to 5 years	55	27	18
6 to 10 years	47	40	14
More than 10 years	43	40	16

Similar patterns were observed when homeowners were asked who will do the remodeling work planned for the next two years.

Exhibit 10: Who will do the remodeling work in the future

	Total	Yourself 42%	A Professional Contractor 34%	Partly Myself Partly Contractor 24%
<u>Age of Head of Household</u>				
20-24 years	48%	22%	23%	
25-34 years	49	24	23	
35-64 years	43	28	24	
45-60 years	39	31	24	
65 years or more	29	46	22	
<u>Combined Household Income</u>				
Less than \$50,000	48%	26%	22%	
\$50,000 - \$74,999	40	29	25	
\$75,000-\$99,999	37	32	25	
\$100,000-\$149,999	32	34	27	
\$150,000 or more	32	45	21	
<u>Market Value of Your Home</u>				
Less than \$150,000	47%	24%	23%	
\$150,000-\$249,999	44	27	25	
\$250,000-\$499,999	32	37	26	
\$500,000 or more	30	47	17	
<u>Length of Stay at Present Address</u>				
Less than 2 years	44%	24%	26%	
2 to 5 years	51	20	22	
6 to 10 years	41	27	27	
More than 10 years	37	37	22	

Preferences for buying a new or existing home

Homeowners who are considering buying a home in the next two years are fairly evenly split on the question of whether they would buy a new or existing home, with nearly one-third (29%) reporting they would buy a new home and another third (34%) saying they preferred an existing home. This finding presents an interesting marketing challenge for home builders: the people in the middle (42% of all respondents) who are likely to look at both new and existing homes before deciding which way to go.

Exhibit 11: Preferences for new or existing homes

	Total	Owners	Renters
Newly built home	21%	29%	12%
Existing home	37%	34%	41%
No preference	42%	36%	47%

Exhibit 12: Home buying preferences by age groups

<u>Age of Head of Household</u>	Newly built home	Existing Home	No Preference
20-24 years	33%	33%	34%
25-34 years	32	33	35
35-44 years	28	35	37
45-54 years	32	34	35
55 to 64	15	38	46
65 years or more	18	35	47

Age and incomes are an important factor in determining preferences for new or existing homes. Homeowners under the age of 35 had a stronger desire to buy a new home than households in older age groups. Homeowners over the age of 35 prefer existing homes.

Preferences for buying new homes

What people like most about new homes—much more than anything else—is that “everything is new,” which was cited by 81% of the respondents. Owners and renters are also attracted by the low maintenance (56%) and energy-efficiency (48%) of new homes. When looking at the responses for each age group, the results were strikingly similar, with more than 80% of respondents in each age group citing “everything is new” as their main reason for buying a new home.

Exhibit 13: What people like about new homes

	Total	Owners	Renters
Everything is new	81%	82%	79%
There is less maintenance on a new home	56	56	55
New homes are more energy-efficient	48	47	52
I can customize the home	46	48	41
The floor plan is up to date	40	40	40
I want to live in a new-home community	27	25	30
New homes are more affordable	22	23	18
A new home may be a better investment opportunity	19	18	20

Preferences for buying existing homes

Out of the respondents who preferred existing housing, seven out of 10 said existing homes are more affordable (70%), followed by “I want to live in an established community” (40%).

Exhibit 14: Reasons for preferring existing homes

	Owners	Renters
Existing homes are more affordable	67%	72%
I want to live in an established community	38	41
I can remodel an existing home to my tastes	34	36
Existing homes have more character	31	34
I prefer older homes	21	20
Existing homes are located in better neighborhoods	21	16
Existing homes are a better investment	12	11

It was interesting to note that more than one-third of the owners and renters indicated that they preferred to buy an existing home because, among other things, they could “remodel to their own tastes,” and that preference increased significantly with age. Overall, it was selected by 35% of the respondents, but it rose to 47% with 45- to 64-year-old households and 57% for households over 65.

On the other hand, renters, who generally had less wealth and lower incomes than the homeowners polled, were more inclined to look at existing homes to take advantage of the perceived price advantage. Among renters, 47% had no preference and would likely look at both new and existing homes before making a decision. But another 40% of the renters said they preferred existing homes, and only 12% said they would look specifically at new homes.

Retirement plans and remodeling

The survey showed that homeowners over age 50 had a strong preference for staying in their current home throughout their retirement years—a finding that is consistent with previous studies.

Among all respondents 50 or older, more than half (54%) responded that they would “stay in the current home for their entire retirement.” Another 18% said they would “stay in the current home first, and buy another home later,” and 10% said they would “move to a different home (brand new or existing) before retiring” or had already bought another home after retiring. Among homeowners 50 or older, a full 60% said they wanted to remain in their current home through their retirement years.

Owners and renters had different views on their housing plans for the future. Six out of 10 owners but only three out of 10 renters reported that they would “stay in current home for the entire retirement.” Another two out of 10 owners and one of 10 renters said they would stay in their current home now and buy another one at a later date, and one out of 10 owners and two out of 10 renters said they would “move to a different home before retiring/or did buy after retiring.”

Exhibit 15: Housing plans for retirement

	Total	Owners	Renters
Stay in current home for entire retirement	54%	60%	33%
Stay in current home first, buy another home later	18%	20%	10%
Move to a different home (brand new or existing) before retiring/or did buy after retiring	10%	8%	20%
Move to my second home before retiring/or did move after retiring	3%	3%	3%
Sell current home, move to rental property	4%	4%	3%
Other	10%	5%	32%

For all respondents 50 or older who had retired already, the median age for their retirement was 60. When asked at what age do you expect to retire, the median retirement age rose to 65. Not surprisingly, one out of three owners and one out of three renters said they had changed their retirement plans because of the current economic situation.

The desire to “age in place”—an aspiration supported by 60% of the owner respondents over the age of 50—brightens the long-term prospects for the remodeling sector generally and opens the door to a wide range of remodeling opportunities, particularly in the areas of universal design, increasing the energy efficiency of homes to lower operating costs, and adding maintenance-free and long life-cycle products. The remodeling outlook also gets a healthy boost from demographic trends and the undeniable fact that the nation’s housing stock is aging to a point where regular maintenance and repair will be even more critical to keeping the nation’s 112 million housing units in good working condition in the years ahead. Finally, more than 80 million baby boomers (those born between 1946 and 1964) will be reaching retirement age over the next 18 years, and many of them will be fixing up their homes to enjoy their retirement years. It goes without saying that baby boomers will be a major force in the remodeling market during the next decade and beyond.

Appendix

Survey methodology

The 70-question survey was prepared by the Colton Housing Group, and distributed electronically by Zee Probe, a Dallas-based research firm. It was sent out on June 29, and the responses from 1,954 homeowners and 1,051 renters were received over the next five days. The share of responses within each region and age group were controlled and based on housing activity (housing starts, home sales, and total stock of owner-occupied and rental homes) in each region of the country.

Respondents profile

- Among homeowners responding to the survey, the share of traditional households (husband and wife with or without children) is 59%, and another 29% are single male or female households with or without children. The remaining 12% are households where two or more individuals are living together.
- Median age of all respondents is 41. It ranges from 46 years for owners to 32 years for renters.
- Combined median household income is about \$50,000 for all respondents. It was \$53,782 for owners and \$43,100 for renters.
- About two-thirds of all respondents have some college or have completed college, and 16 percent have attended graduate school or have an advanced degree. There are no significant differences in the education levels of owners and renters.
- Median market value of homes for home-owning respondents was \$174,000; the average rent was \$741 for renters.
- Of the 3,005 respondents, about two-thirds (66%) are White (non-Hispanic), 17% Afro-American, 11% Hispanic and 7% Asian. Among homeowners, about seven of 10 are White, 15% Afro-Americans, 10% Hispanic/Latino and 6% Asian. Among renters, 59% are White, 21% Afro-American, 12% Hispanic/Latino and 7% Asian.

Hanley Wood Housing 360
Insights Into Homeownership and Remodeling

RESPONDENTS PROFILE

	Sample			Population		
	Total	Owners	Renters	Total	Owners	Renters
Own/Rent	3,005	1,954	1,051	112.16	74.49	37.69
100%	65%	35%		100%	66.4%	33.6%
Household Composition						
Husband & Wife with Children	31%	35%	23%	26%	31%	14%
Husband & Wife no Children	22	24	17	22	28	8
Singles M/F	21	21	30	27	22	38
Singles M/F with Children	8	8	9	8	6	14
Two or more unrelated/related individuals and others	15	12	22	18	14	27
Age of Head of Household						
20-24 yrs	17%	10%	29%			
25-34 yrs	25	23	29			
35-44 yrs	15	14	16			
45-64 yrs	35	40	24			
65 yrs or older	9	11	3			
Median (yrs)	41	46	32	48	52	39
Combined Household Income						
Less than \$50,000	51%	47%	58%	53%	42%	74%
\$50,000-99,999	37	38	34	28	33	20
\$100,000 or more	13	16	8	19	25	6
Median	\$49,205	\$53,782	\$43,104	\$47,000	\$60,000	\$28,400
Market Value of Your Current Home or Monthly Rent (Median)						
	\$174,000		\$741		\$170,000	\$808
Length of Stay at Present Place (Median (yrs))	5	9	2	6	10	2
Year Structure Built (Median)	1987	1985	1993	1974	1975	1971
Race/Ethnicity						
White (Non-Hispanic)	66%	69%	59%	71%	78%	55%
Afro-American (Non-Hispanic)	17	15	21	12	8	20
Hispanic/Latino	11	10	12	11	9	18
Asian	7	6	7	6	5	7

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RESPONDENTS PROFILE

	Sample			Population		
	Total	Owners	Renters	Total	Owners	Renters
Age of Head of Household						
20-24 yrs	17%	10%	29%			
25-34 yrs	25	23	29			
35-44 yrs	15	14	16			
45-64 yrs	35	40	24			
65 yrs or more	9	11	3			
Median (yrs)	41	46	32	48	52	39
Combined Household Income (Median)						
20-24 yrs	\$43,680	\$59,267	\$36,232			
25-34 yrs	\$58,534	\$61,240	\$54,114			
35-44 yrs	\$55,682	\$61,364	\$47,170			
45-64 yrs	\$46,296	\$48,077	\$40,322			
65 yrs or more	\$39,682	\$40,322	\$36,232			
Education						
Completed College or Higher						
20-24 yrs	42%	43%	40%			
25-34 yrs	61	63	59			
35-44 yrs	55	59	49			
45-64 yrs	40	43	33			
65 yrs or more	37	37	40			
Length of Stay at Present Place (yrs)						
20-24 yrs	1.7	3.6	1.4			
25-34 yrs	3.1	3.9	1.9			
35-44 yrs	5.5	7.5	3.0			
45-64 yrs	10+	10+	4.5			
65 yrs or more	10+	10+	4.4			