

The Outlook for the Home Improvement Industry

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Remodeling Market Report
2012 IBS
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Remodeling Market Issues

1. Broader housing market conditions are creating a drag for home improvement spending.
2. Even with downturn, remodeling spending approaching \$300 billion, and accounts for about 70% of residential spending.
3. Strongest sectors at present are energy efficiency upgrades, reinvesting in distressed properties, and aging-in-place retrofits.
4. Leading indicator for remodeling points to market volatility continuing, but stronger growth in the second half of the year.

House Prices Nationally Have Fallen More Than 30% From Their Peak

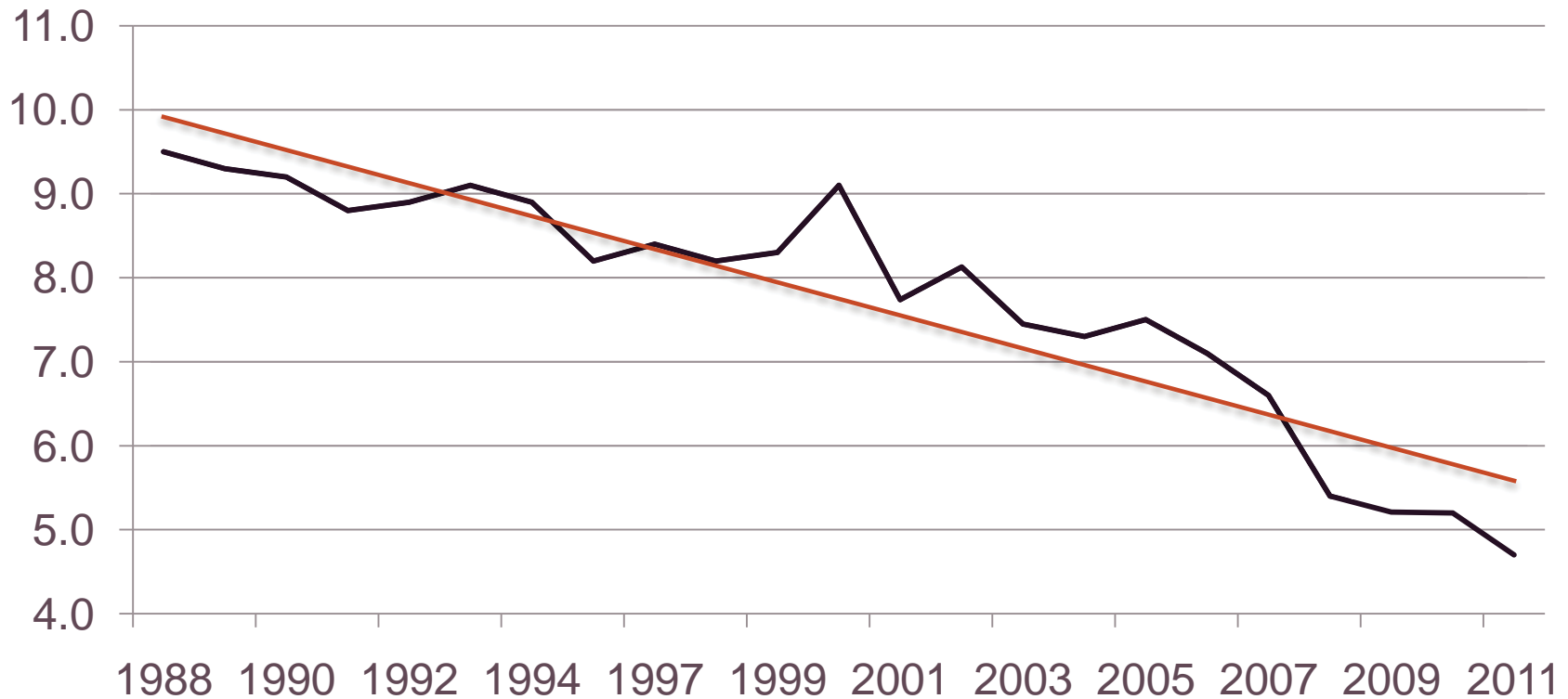
Index: January, 2000=100;



Source: S&P/Case-Shiller Home Price Index: Aggregate index - 20-metro composite;

Homeowner Mobility Has Been Trending Down, But Fell Sharply During the Recession

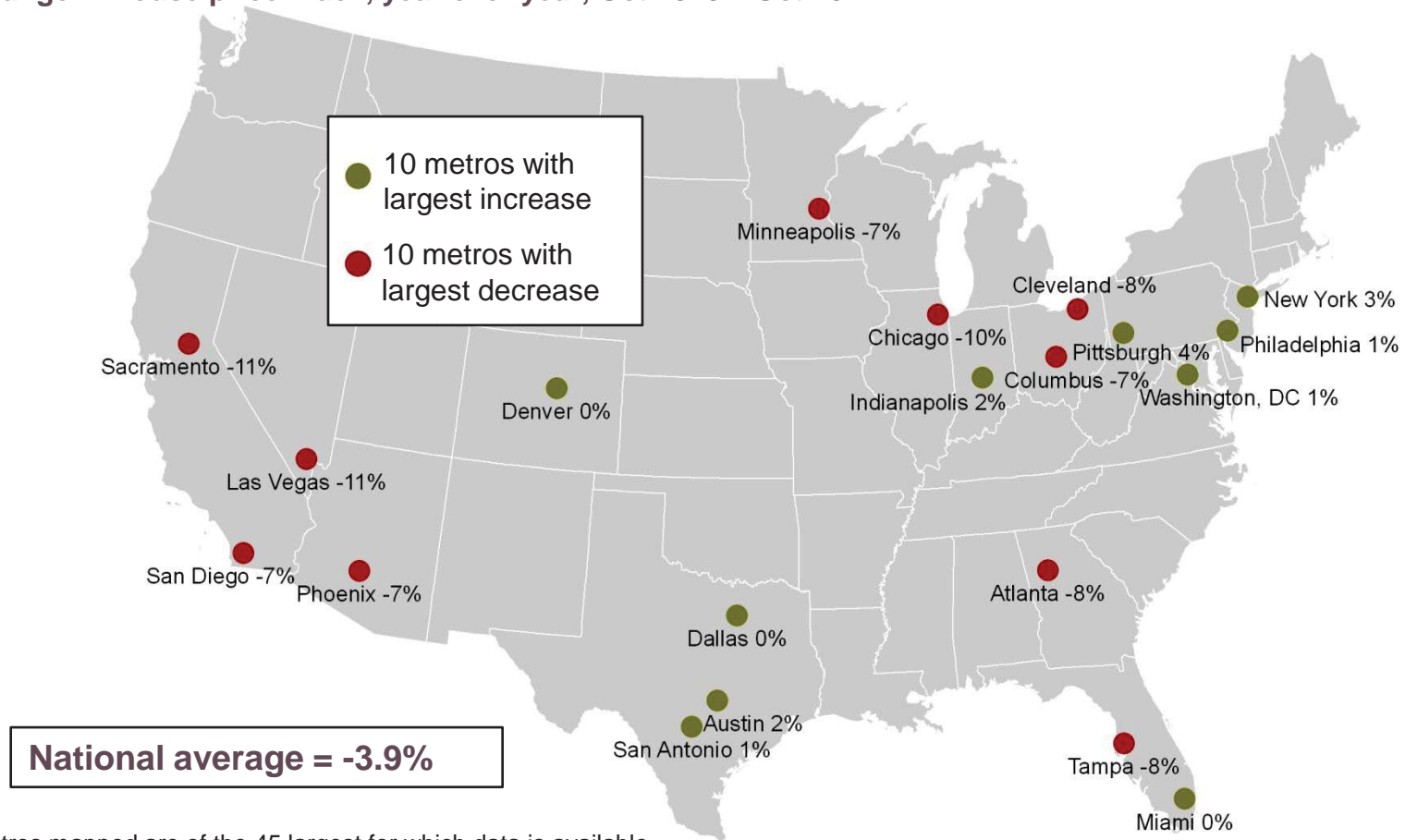
Share of owners moving in past year



Source: US Census Bureau, Current Population Survey.

House Prices Beginning to Recover in Key Northeast and Texas Markets

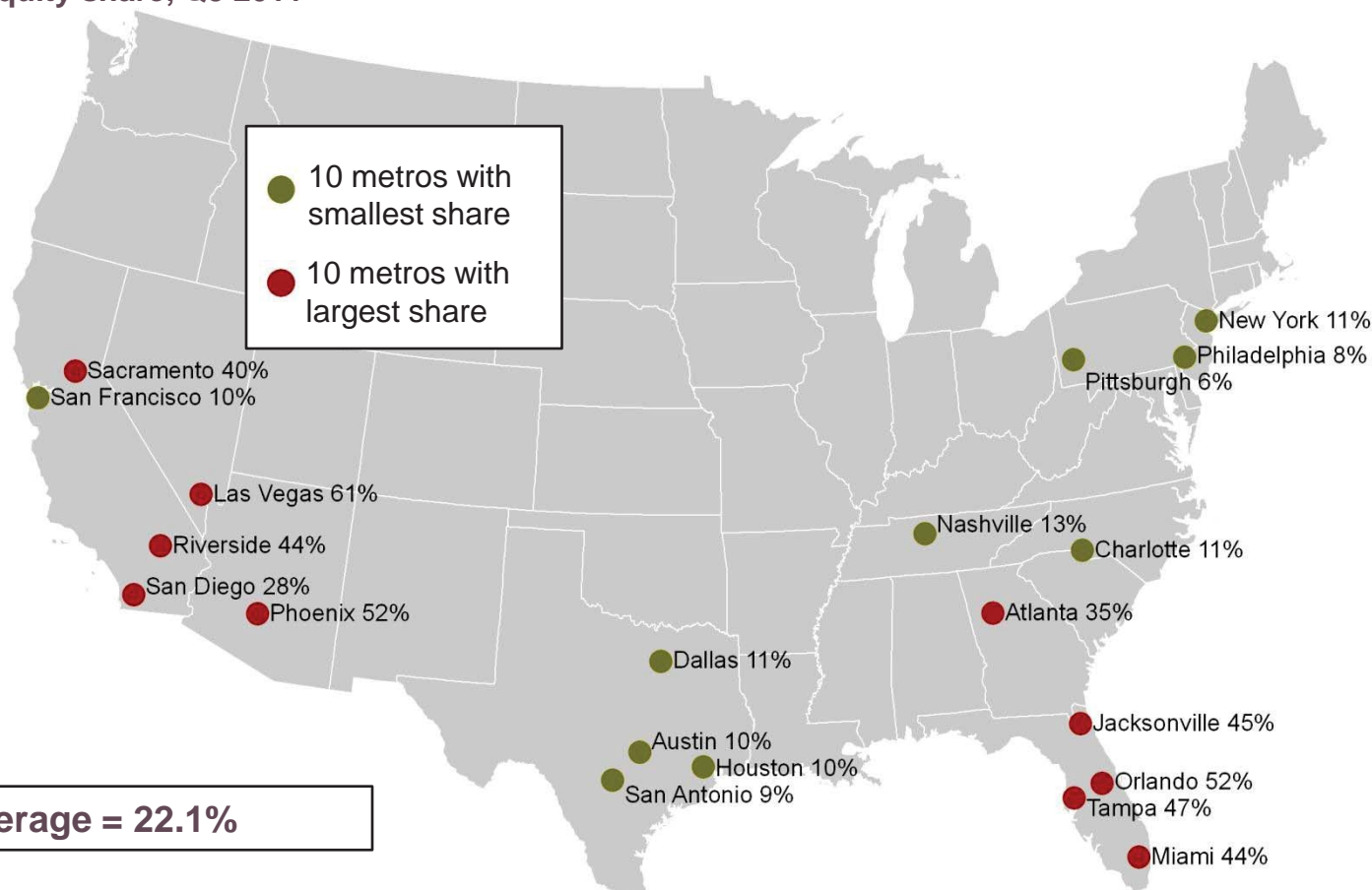
Change in house price index, year over year, Oct 2010 – Oct 2011



Note: Metros mapped are of the 45 largest for which data is available.
Source: CoreLogic House Price Index, 2011.

Metro Areas With Recovering House Prices Generally Seeing Fewer Homeowners Underwater

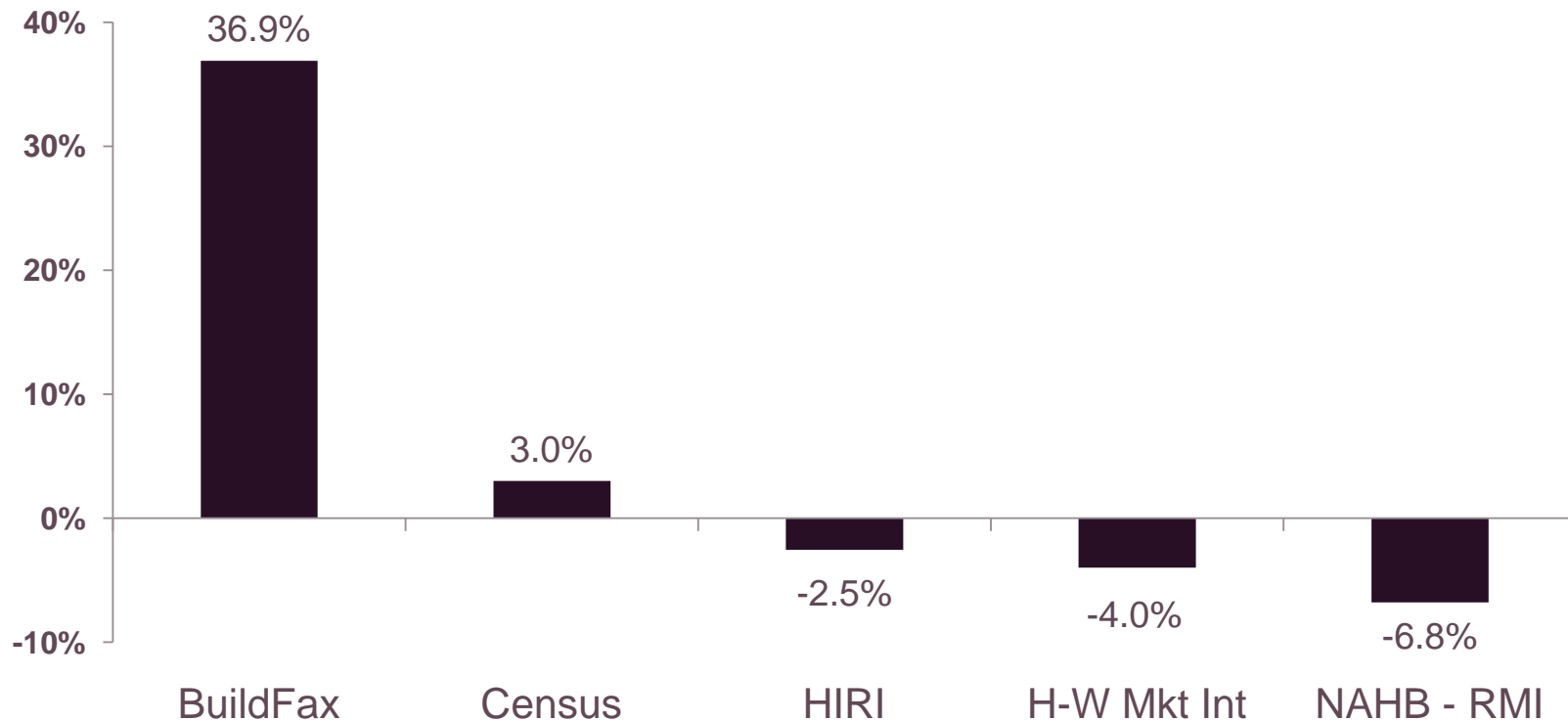
Negative equity share, Q3 2011



Note: Metros mapped are of the 50 largest metro areas and divisions that have 50,000 or more loans.
Source: CoreLogic Negative Equity Report, 2011.

There are an Unusually Broad Range of Measures of the Health of the Home Improvement Industry

Percent change in Q4-2011 as compared to Q4-2010

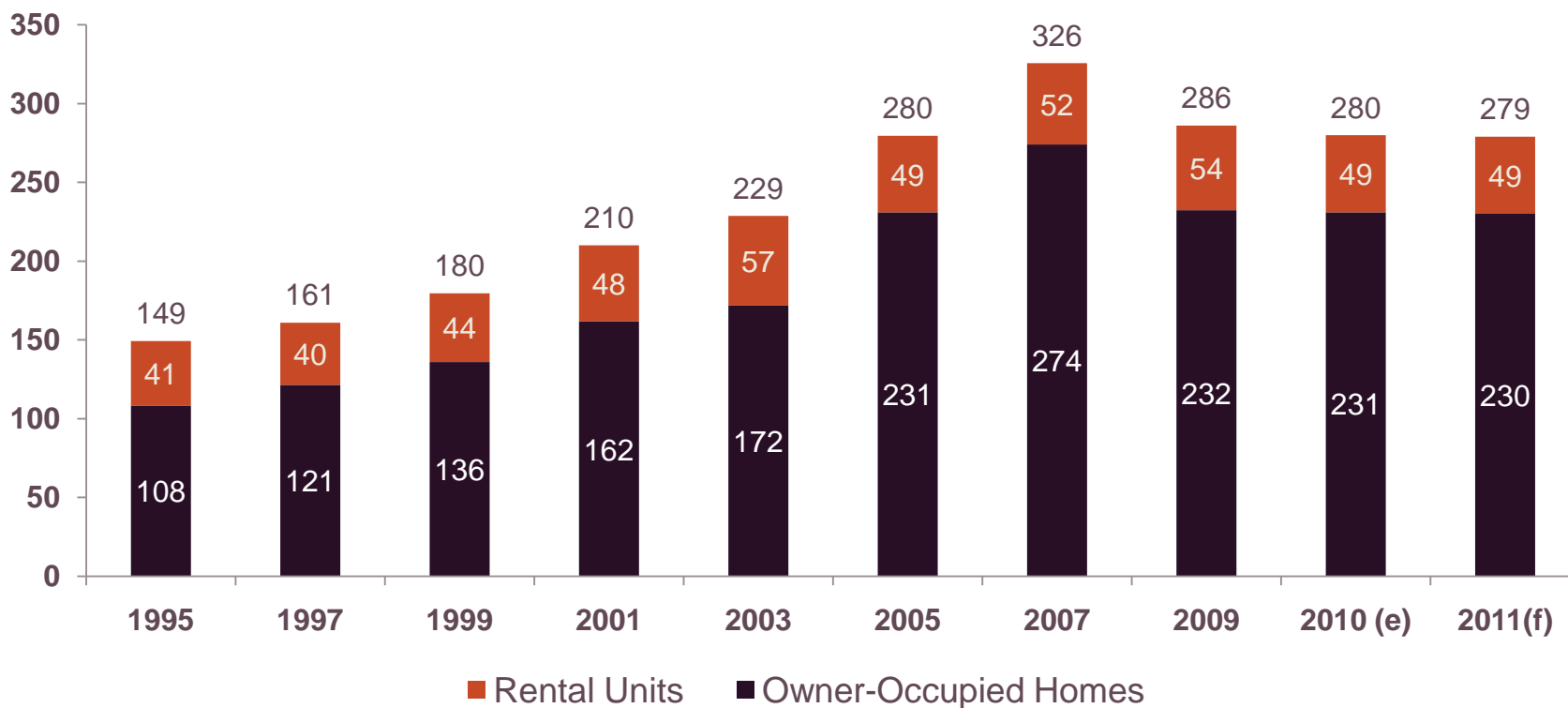


Notes: BuildFax and Census estimates are based on October and November 2011 responses, NAHB calculated as Q4-2011 % below neutral score of 50.

Sources: BuildFax Remodeling Index, Home Improvement Research Institute Consumer Sentiment Tracking Study, U.S. Census Bureau C-30 series, Hanley-Wood Market Intelligence's Residential Remodeling Index, NAHB Remodeling Market Index.

Even with the Downturn, the Remodeling Market is Nearly \$300 Billion

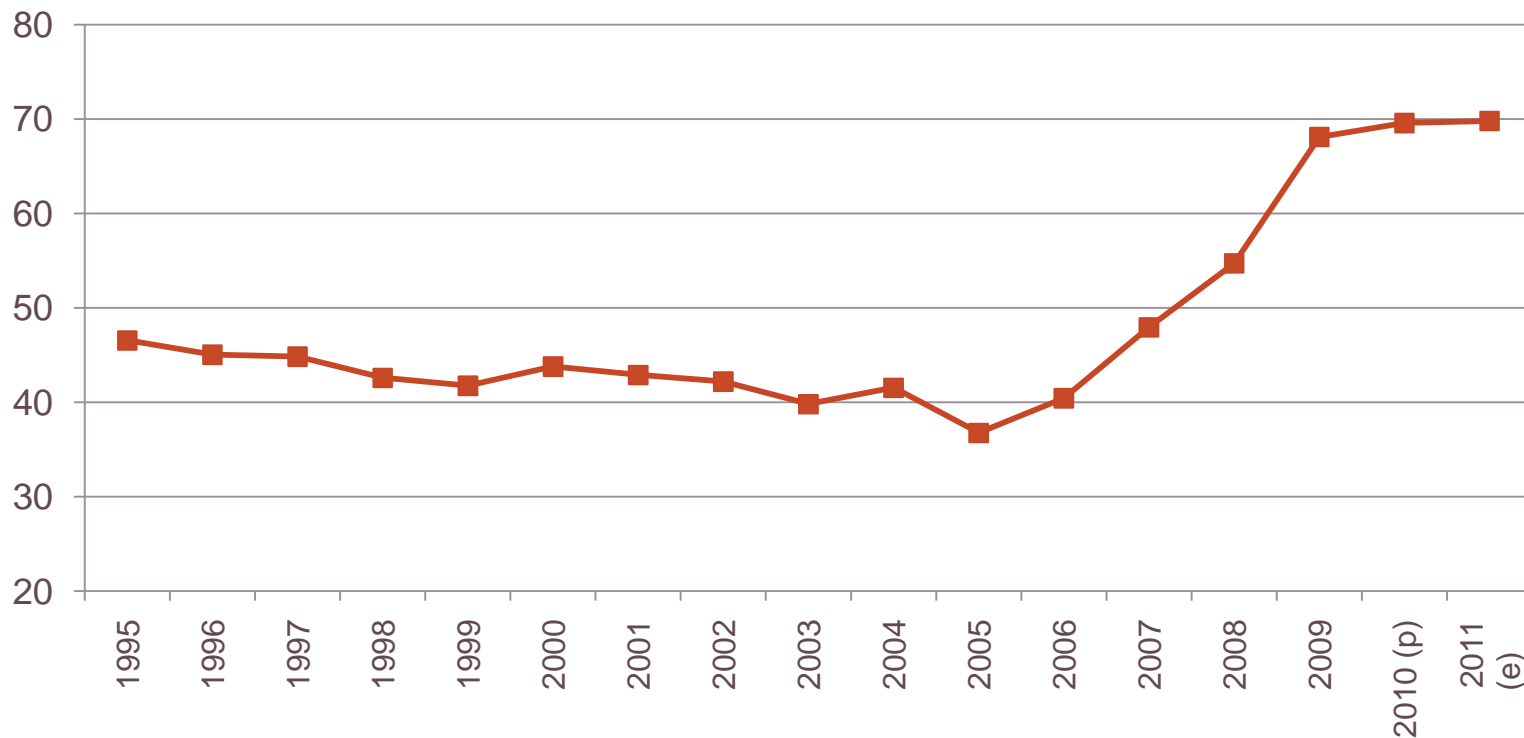
Billions of dollars



Sources: JCHS tabulations of the 1995-2009 American Housing Surveys (AHS); US Department of Commerce Survey of Expenditures for Residential Improvement and Repairs (C-50); and *Estimating National Levels of Home Improvement and Repair Spending by Rental Property Owners* by Abbe Will, JCHS Research Note N10-2, October 2010.

Remodeling Has Contributed a Growing Share of Residential Investment Since the Downturn

Improvement and repair expenditures as a share of total residential investment (percent)

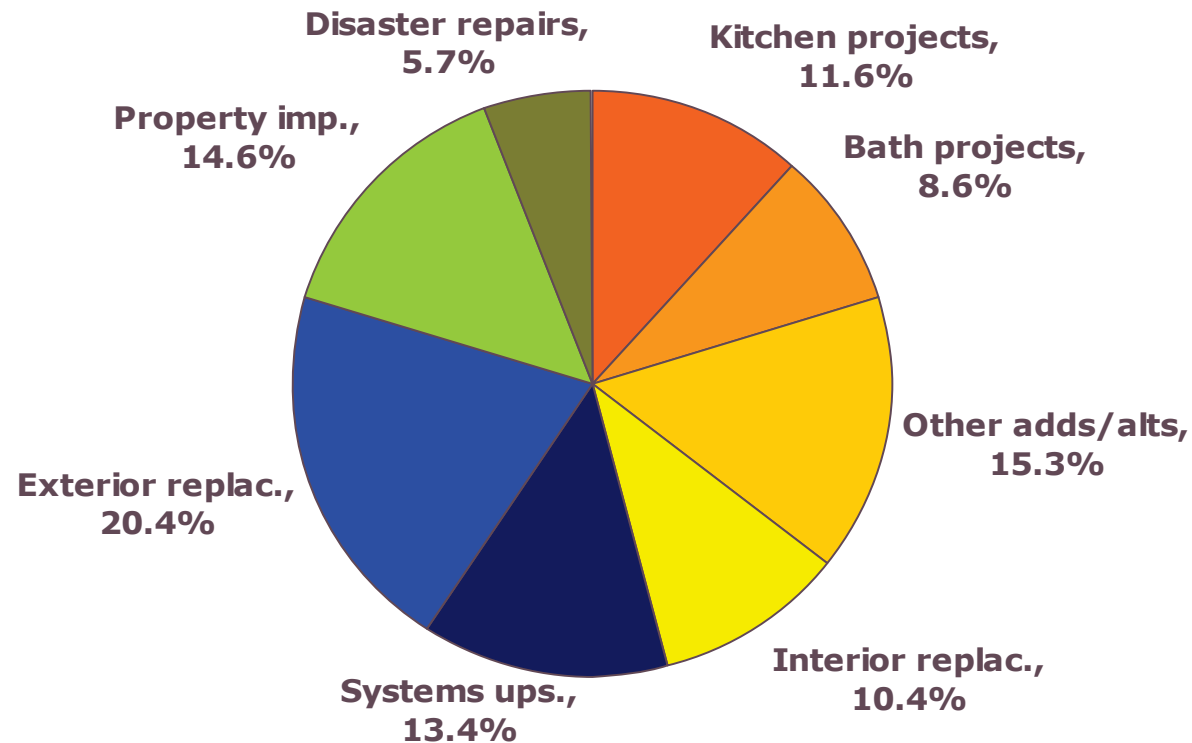


Notes: Total residential investment expenditures include the value of construction put in place for new single-family homes, multifamily homes, and improvements and repairs to owner-occupied and rental units.

Sources: JCHS tabulations of the 1995-2009 AHS; US Census Bureau, C-50 and C-30 series; McGraw-Hill Construction, Commercial & Industrial Alterations; Bureau of Labor Statistics, Consumer Price Index; and the JCHS Leading Indicator of Remodeling Activity.

Homeowner Improvement Spending Evenly Split Between Discretionary and Replacements

Spending by homeowners for improvements, 2009

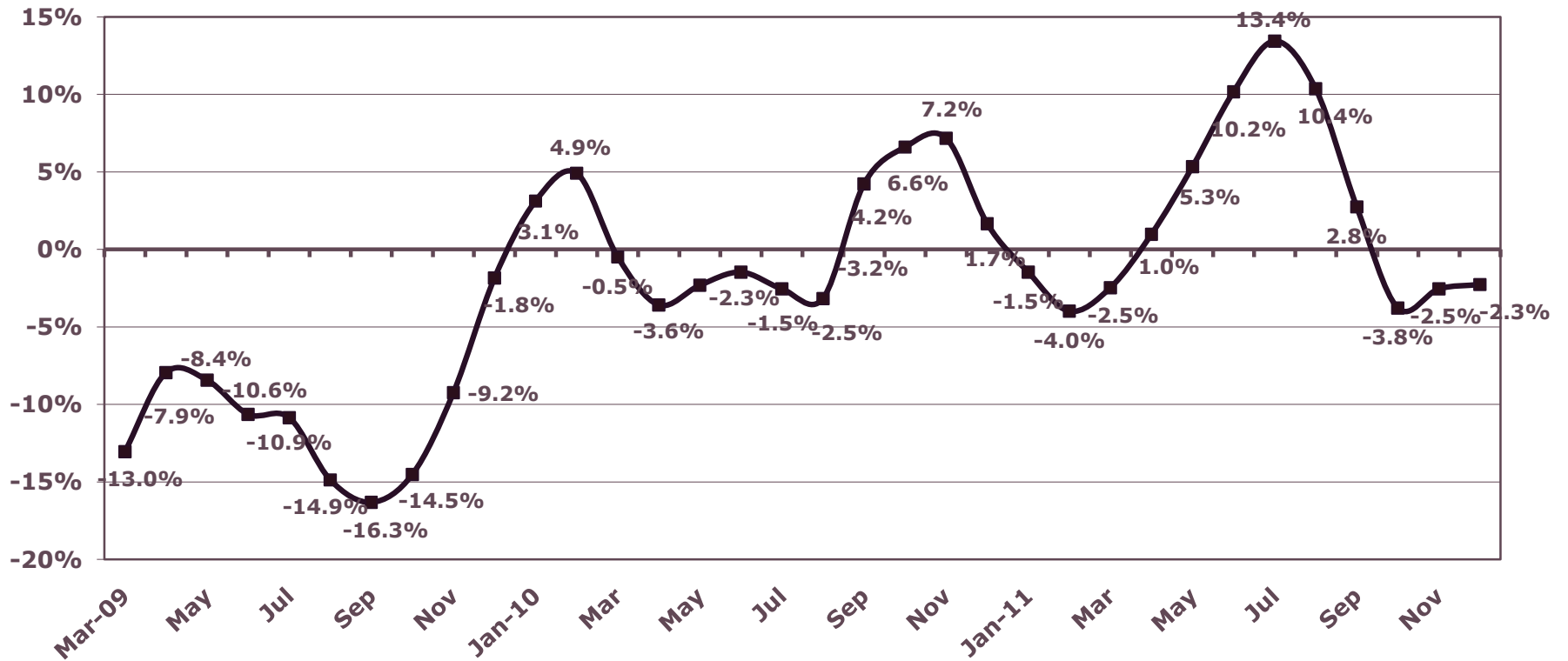


Homeowner improvements = \$185.1 Billion

Source: Joint Center tabulations of the 2009 American Housing Survey.

Planned Spending on Home Improvements Has Been Unusually Volatile

Monthly averages compared to year-ago level for planned spending



Note: Monthly figures are 3-month moving averages centered on reported month and normalized per 100,000 responses; December 2011 estimate based on November and December data only.

Source: JCHS tabulations of the Home Improvement Research Institute's monthly Consumer Sentiment Tracking Study, Feb. 2008 – Dec. 2011.

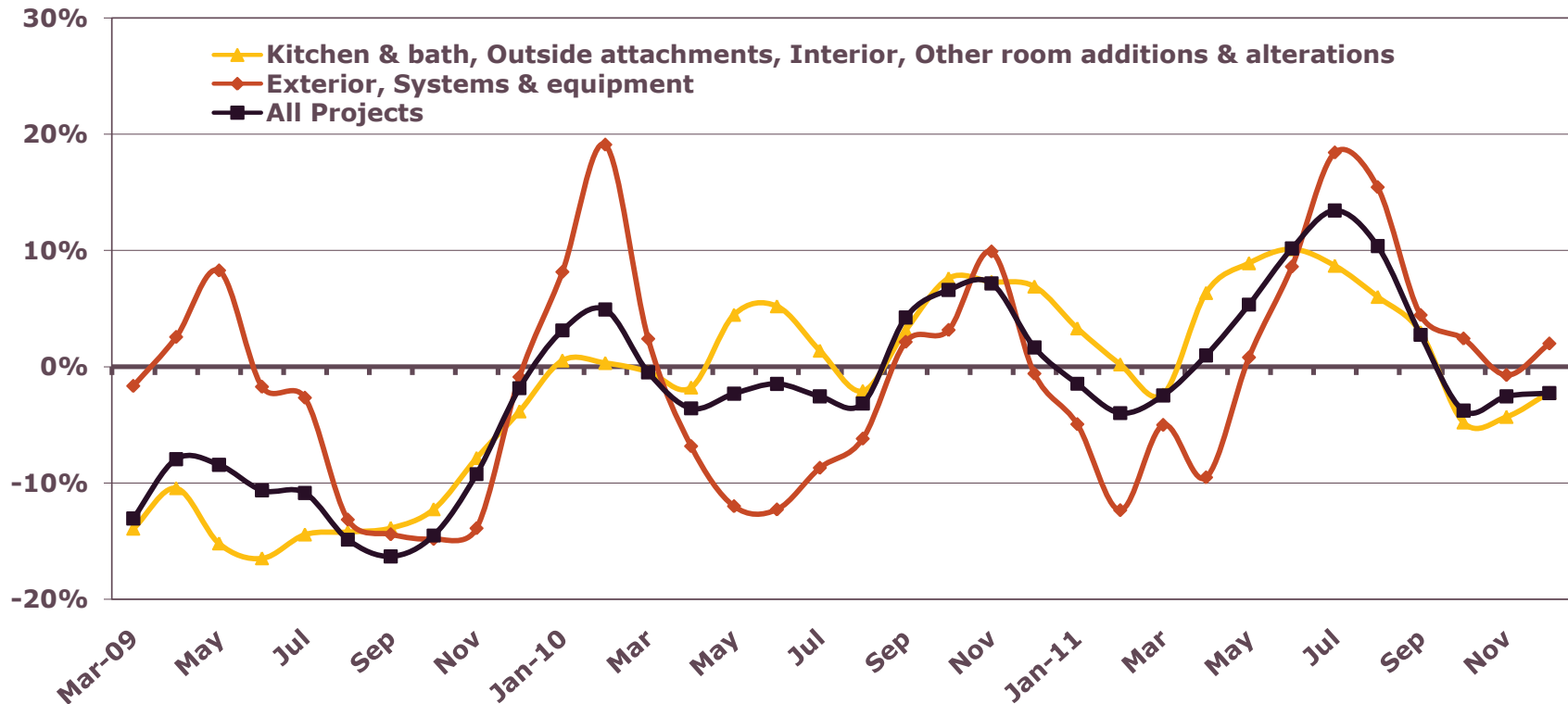


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Planned Spending on Replacement Projects is Creating the Unusually High Levels of Volatility

Monthly averages compared to year-ago level for planned spending on home improvement projects by project type



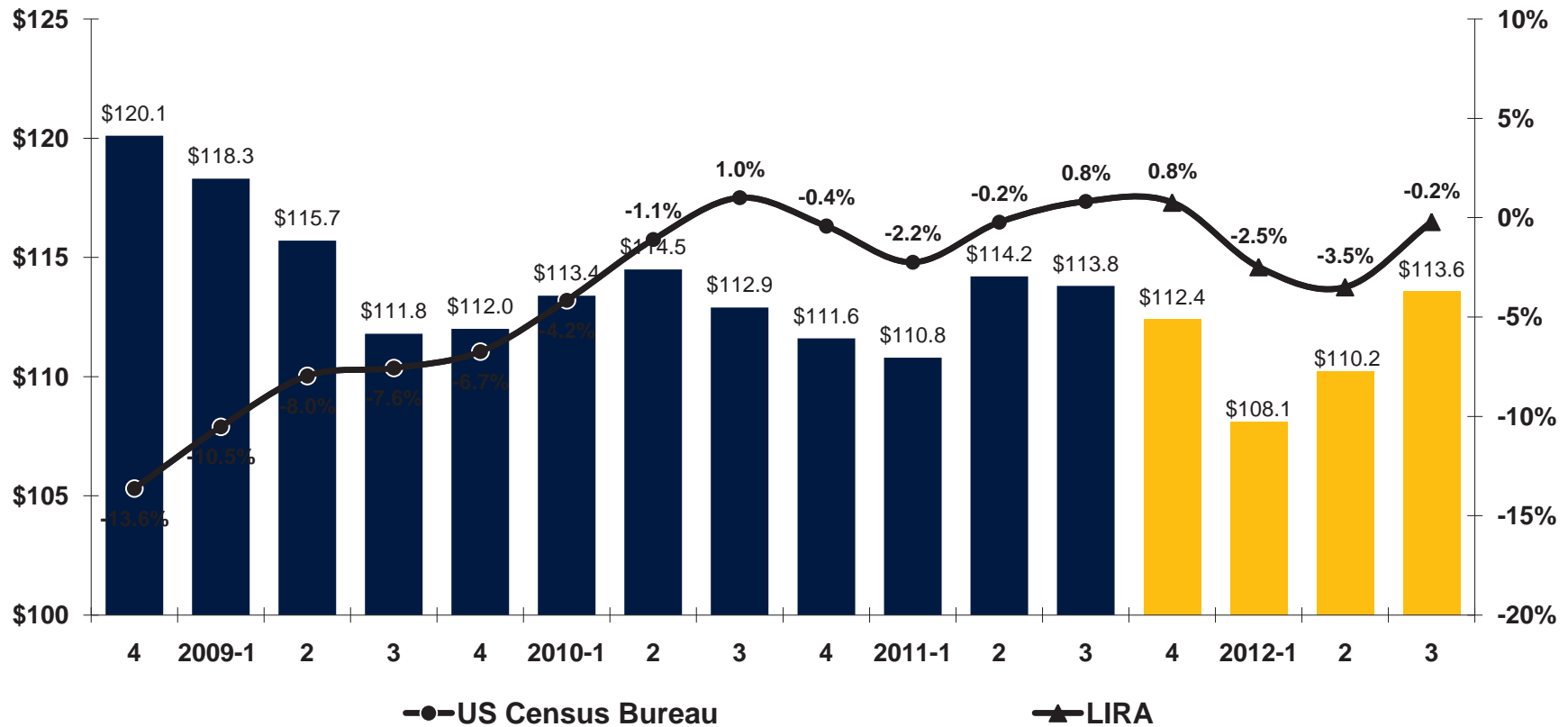
Note: Monthly figures are 3-month moving averages centered on reported month and normalized per 100,000 responses; December 2011 estimate based on November and December data only.

Source: JCHS tabulations of the Home Improvement Research Institute's monthly Consumer Sentiment Tracking Study, Feb. 2008 – Dec. 2011.

Leading Indicator of Remodeling Activity Points to Stronger Conditions in Second Half of the Year

Homeowner Improvements
Four-Quarter Moving Totals
Billions of \$

Four-Quarter Moving
Rate of Change



Note: Historical data and LIRA weights are revised annually in July.
Source: Joint Center for Housing Studies of Harvard University.



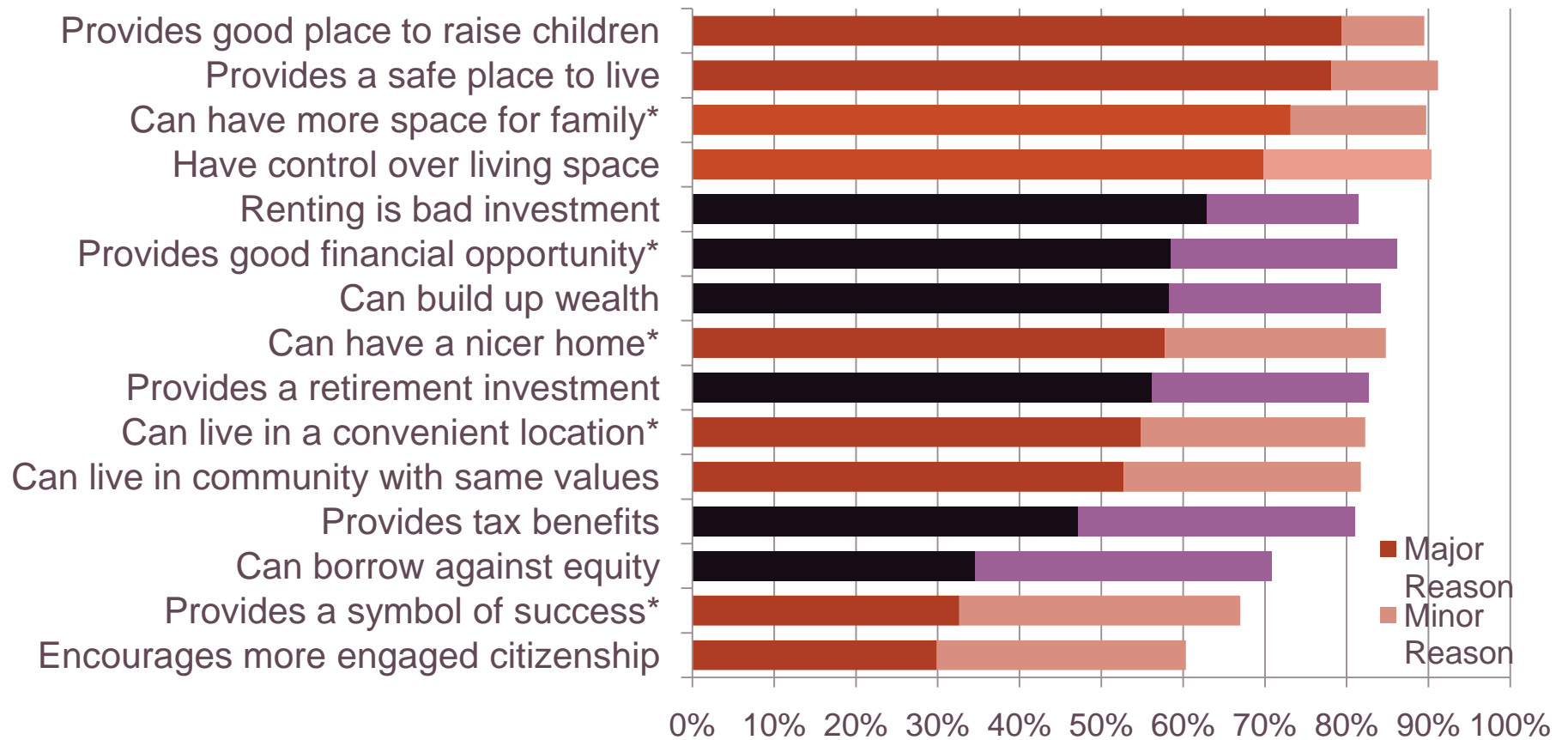
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Challenges and Opportunities Facing the Remodeling Industry

1. Shifting attitudes toward homeownership and home investments among younger households.
2. Leveraging key growth niches in the industry: sustainable remodeling and rehabbing distressed properties.
3. Serving the home improvement needs of an aging population.

Reasons to Own a Home Often Have Nothing to Do With Financial Aspects



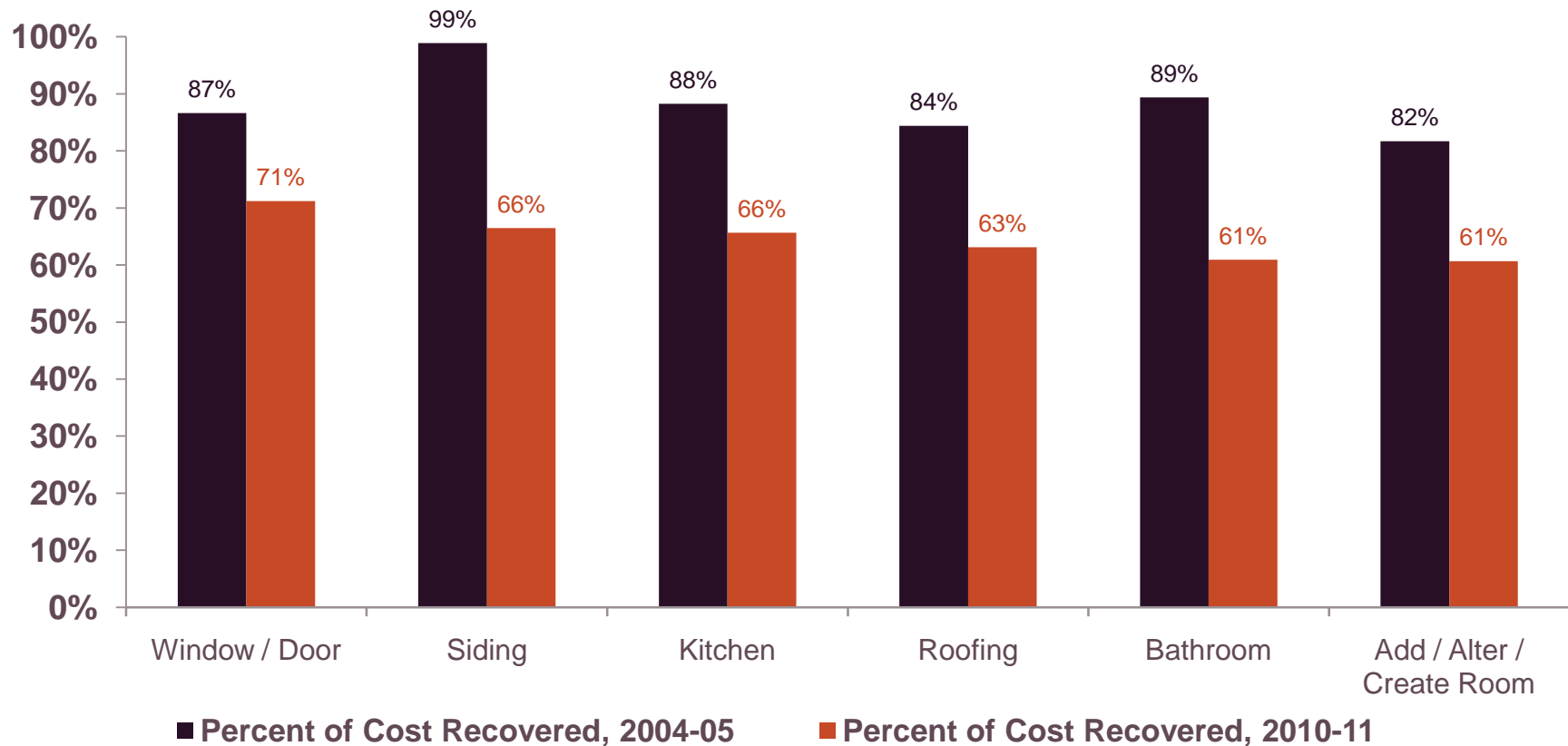
Share of Survey Respondents

Source: Fannie Mae, National Housing Survey, pooled data from January 2010 through August 2011 (data on reasons marked with an asterisk (*) were first collected in June 2010).



Cost Recovery for Remodeling Projects Has Dropped Sharply in Recent Years

Average percent of cost recovered by project type



Source: JCHS tabulations of Hanley Wood *Remodeling* magazine's 2004-05 and 2010-11 Cost vs. Value Reports.

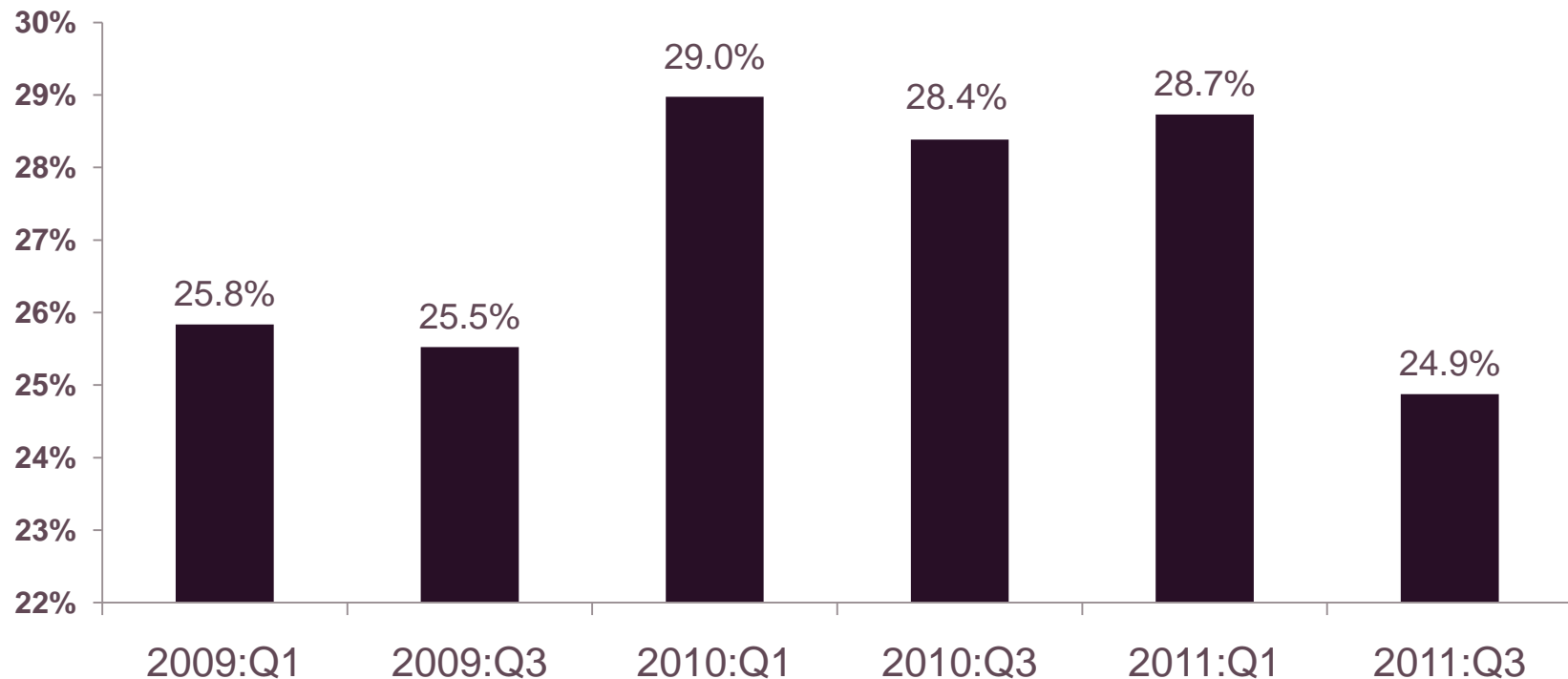


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Under Stimulus Program, Growing Share of Contractors Were Working on Green Projects

Share of projects (on a dollar basis) over the past year in which firm installed energy efficient and environmentally sustainable products, average across all respondents

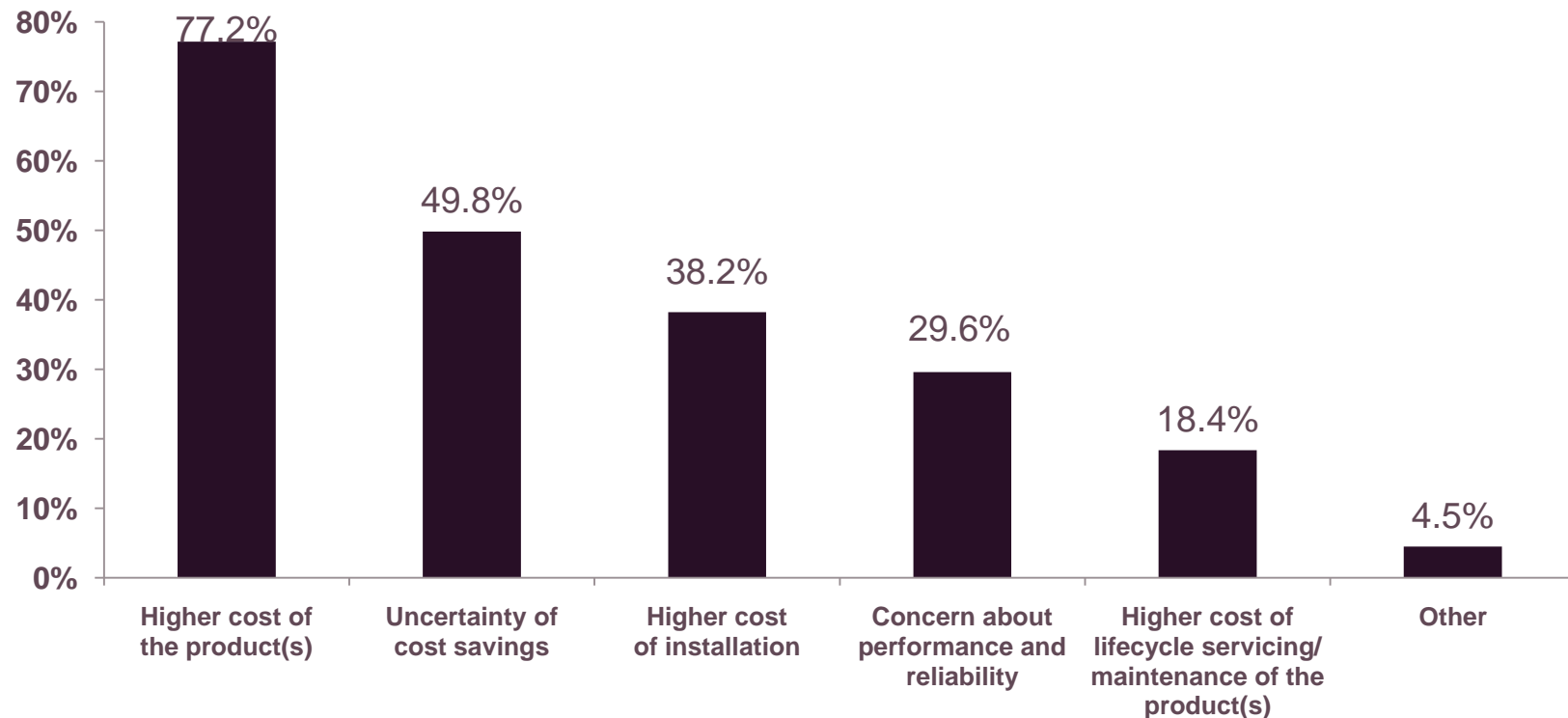


Note: Prior to 2011, the survey asked "Over the past year, for about what share of your projects (on a dollar basis) was energy efficiency and environmental sustainability specifically mentioned as a project goal?"

Source: JCHS National Green Remodeling Surveys, 2009-2011.

Cost, Uncertain Savings Key Reasons Green Projects Not Undertaken

Share of firms citing reasons why clients decided not to undertake “green” projects even though they showed interest, average across all respondents (Multiple responses accepted)



Source: JCHS National Green Remodeling Survey, Q3 2011.



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Fannie Mae Spent Almost \$600 Million Fixing Up Foreclosed Properties Last Year

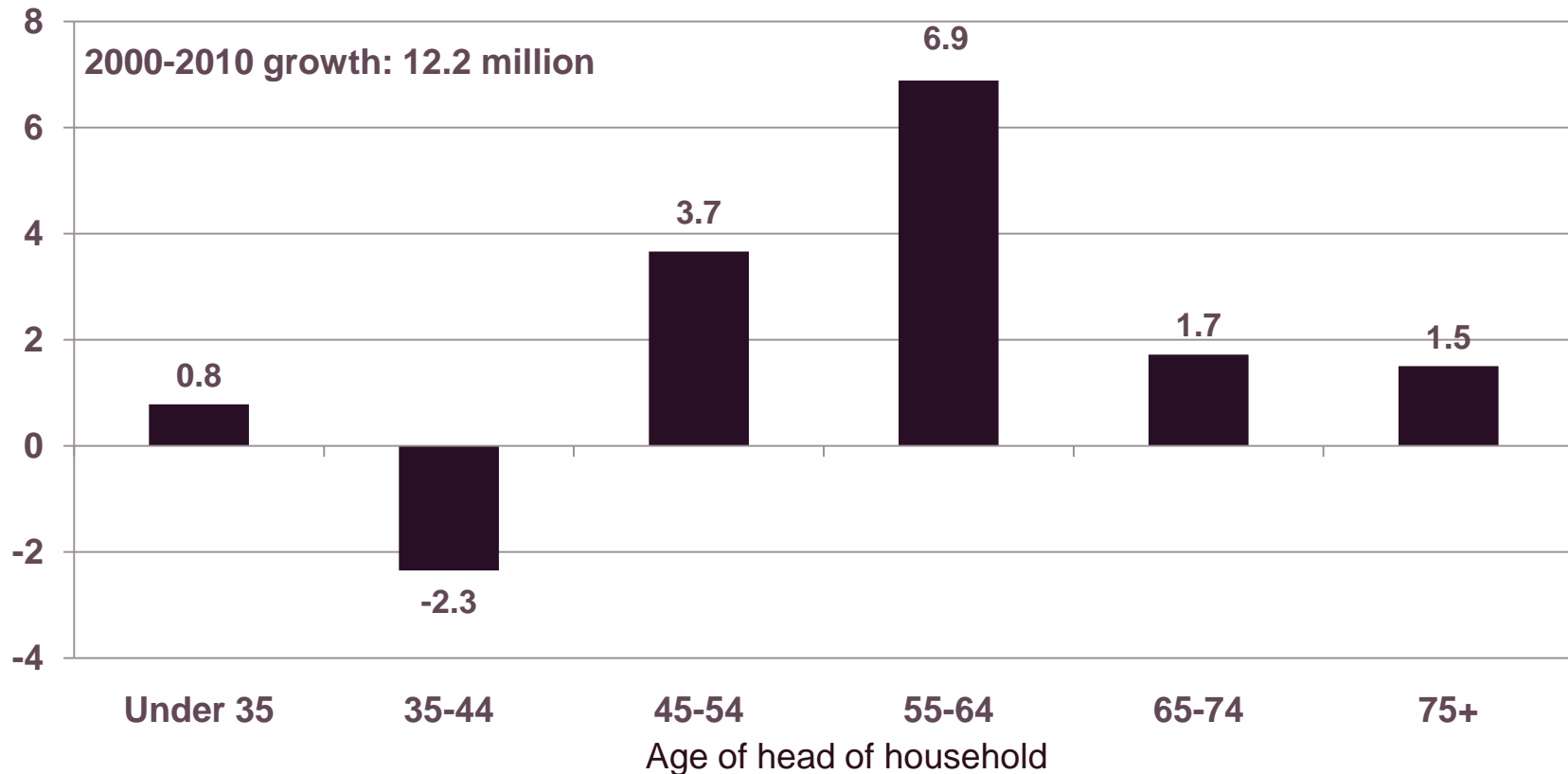
Fannie Mae Foreclosed Property and Repair Spending Statistics

	2010	2011
Foreclosed Homes Sold	185,700	256,400
Number Homes Sold w/ Repairs	87,000	92,400
Avg. Repair Spending on Homes Sold	\$5,600	\$6,100
Total Spending on Homes Sold (\$ Millions)	\$487.2	\$559.8

Notes: 2011 figures based on 2011 Q1 through Q3 data. Q4 is estimated based on the average values of the previous three quarters.
Source: Fannie Mae Quarterly Report 2011 Q3 and Mission Report 2010; Fannie Mae tabulations of repair spending data.

Last Decade, Household Growth Dominated By Households Traditionally Active in Remodeling

Household Growth (millions)



Source: Joint Center tabulations of U.S. Census Bureau, 1999-2011 Current Population Surveys.

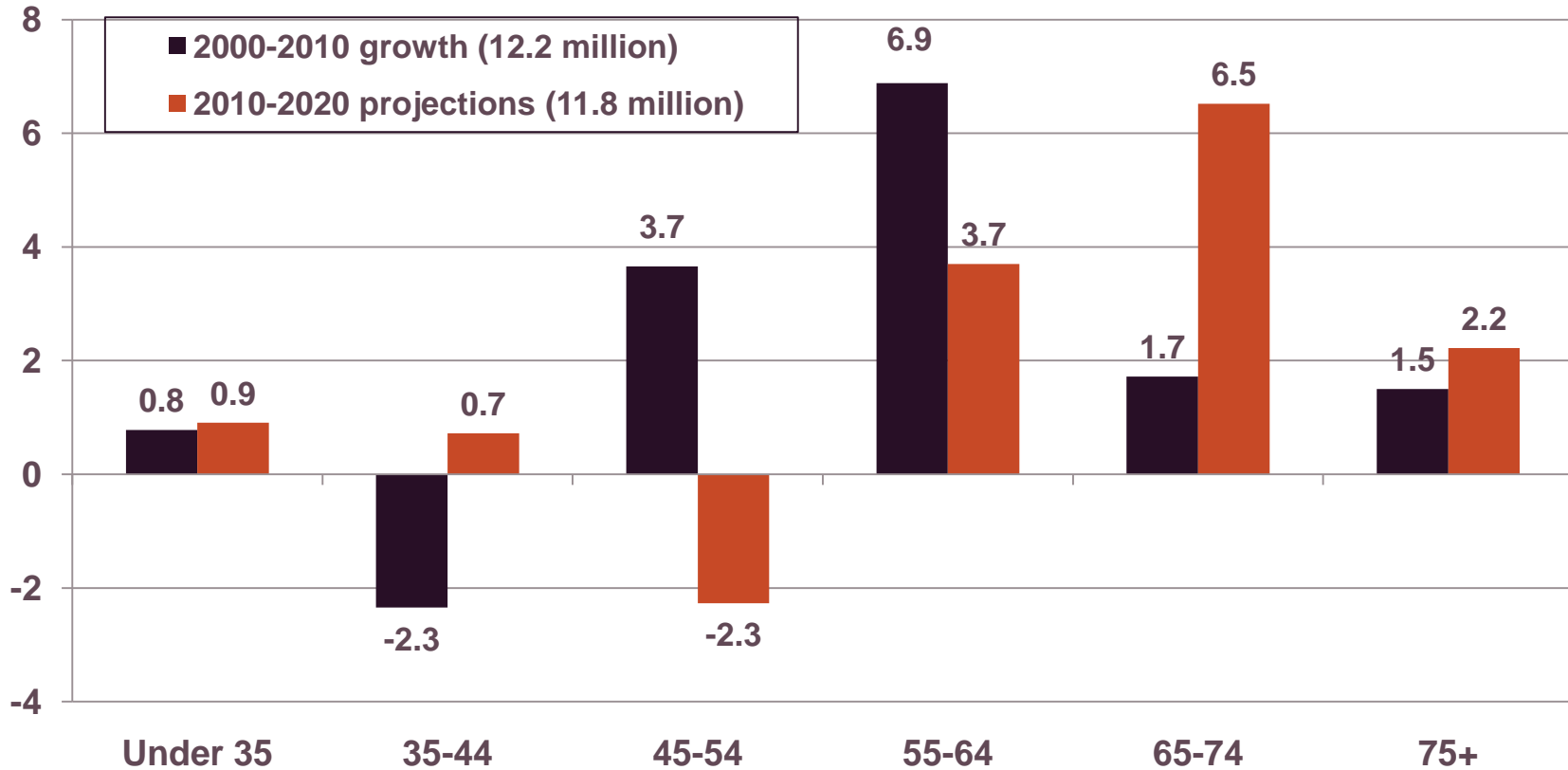


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This Coming Decade, Household Growth Shifts to Active Retirees

Household Growth (millions)



Source: Joint Center tabulations of U.S. Census Bureau, 1999-2011 Current Population Surveys, and Joint Center for Housing Studies modification of U.S. Census Bureau population projections that reduces its baseline immigration assumptions by half.