

Challenges and Opportunities for Home Remodeling in 2024

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Remodeling Futures Program

PRO New England January Luncheon & Annual Meeting
January 10, 2024

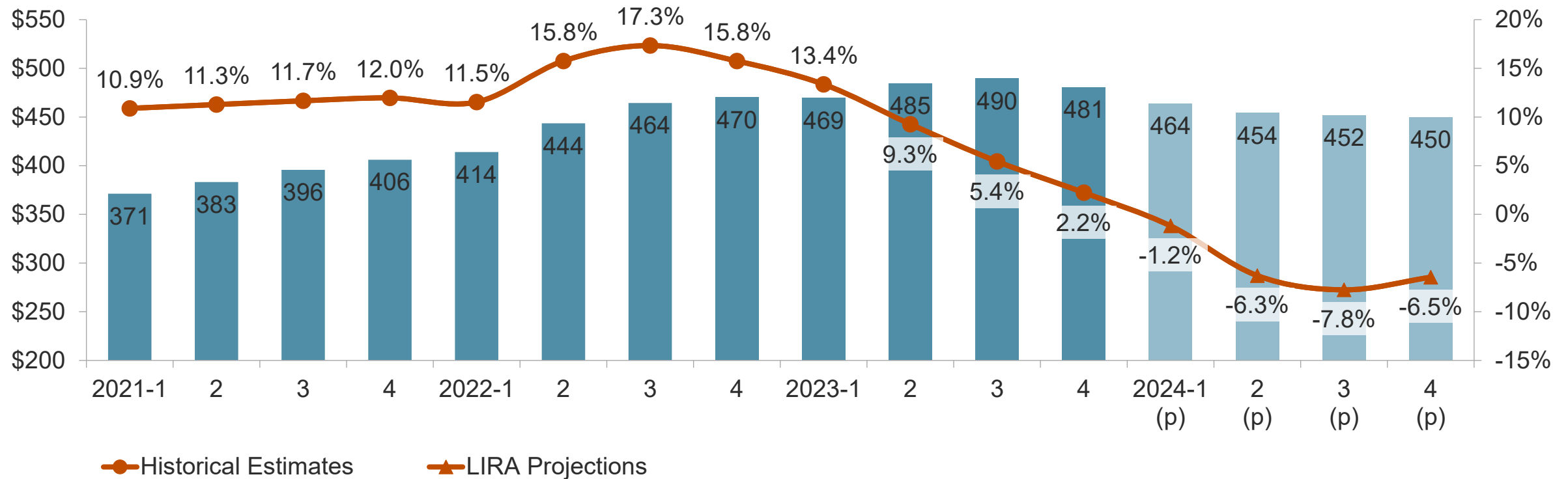
Key Takeaways

- The home remodeling market **grew at a phenomenal pace and to new heights** with the pandemic
- But in the face of high costs of labor and materials, high interest rates and costs of financing, and declining home sales, market **spending is expected to decline moderately** in 2024
- Uncertainty remains for the trajectory of the broader economy and key drivers of home improvement activity, but the current outlook suggests the **remodeling downturn may be short-lived**
- Today's **more diverse market** is better positioned to weather a downturn and **numerous tailwinds** are expected to support ongoing spending including massive levels of home equity, aging of the housing stock, and favorable demographics
- **Further opportunities for longer-term growth** exist in retrofitting the housing stock for accessibility, energy efficiency, and disaster mitigation

Leading Indicator of Remodeling Activity Suggests Downturn May Bottom Out in 2024 *(Not for Distribution; Embargoed Until January 18)*

**Homeowner Improvements & Repairs
Four-Quarter Moving Totals
Billions**

**Four-Quarter Moving
Rate of Change**



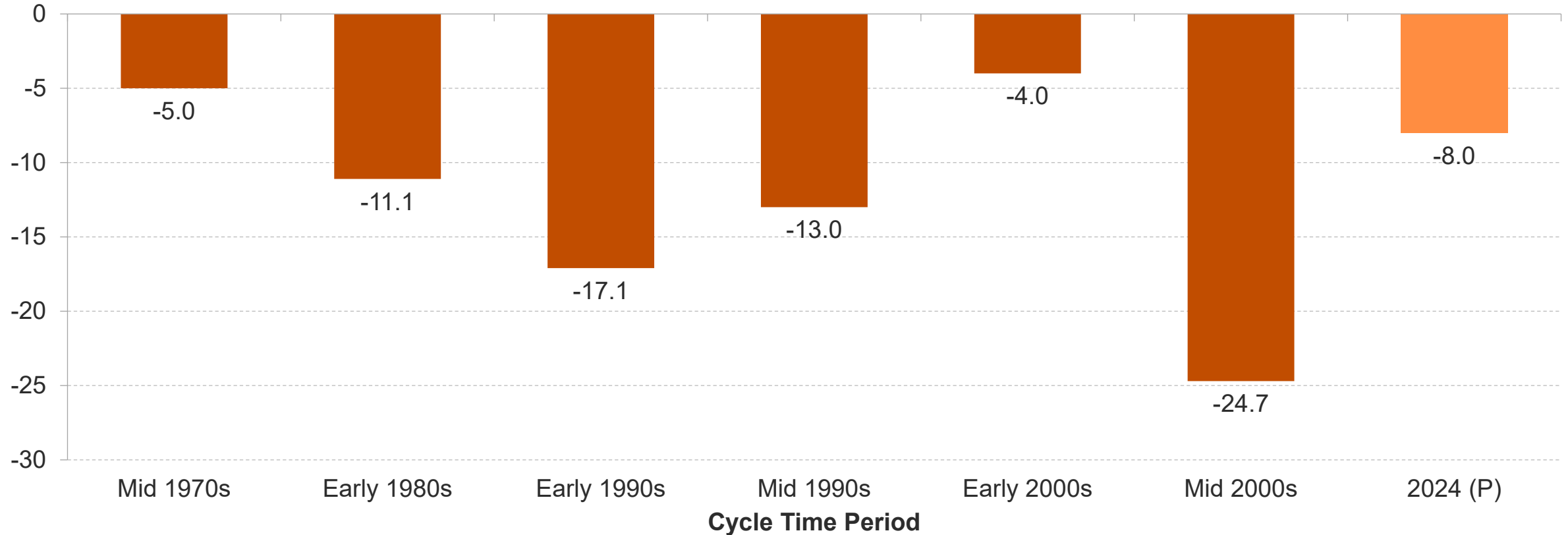
Notes: Improvements include remodels, replacements, additions, and structural alterations that increase the value of homes. Routine maintenance and repairs preserve the current quality of homes. Historical estimates since 2021 are produced using the LIRA model until American Housing Survey benchmark data become available.

LIRA Model Inputs Include Key Economic Indicators that Typically Influence Remodeling & Repair Activity

	LIRA Model Inputs	Year-Over-Year Rate of Change Through 2023:Q4
Remodeling Market Conditions	Retail Sales of Building Materials	Negative
	Residential Remodeling Permits	Slowing Growth
Housing Market Conditions	Single-Family Housing Starts	Positive
	Existing Single-Family Home Sales	Negative
	Existing Single-Family House Prices	Slowing Growth
Macroeconomic Conditions	Conference Board's Leading Economic Index	Negative
	GDP	Slowing Growth

The Current Remodeling Downturn is Predicted to Be Moderate

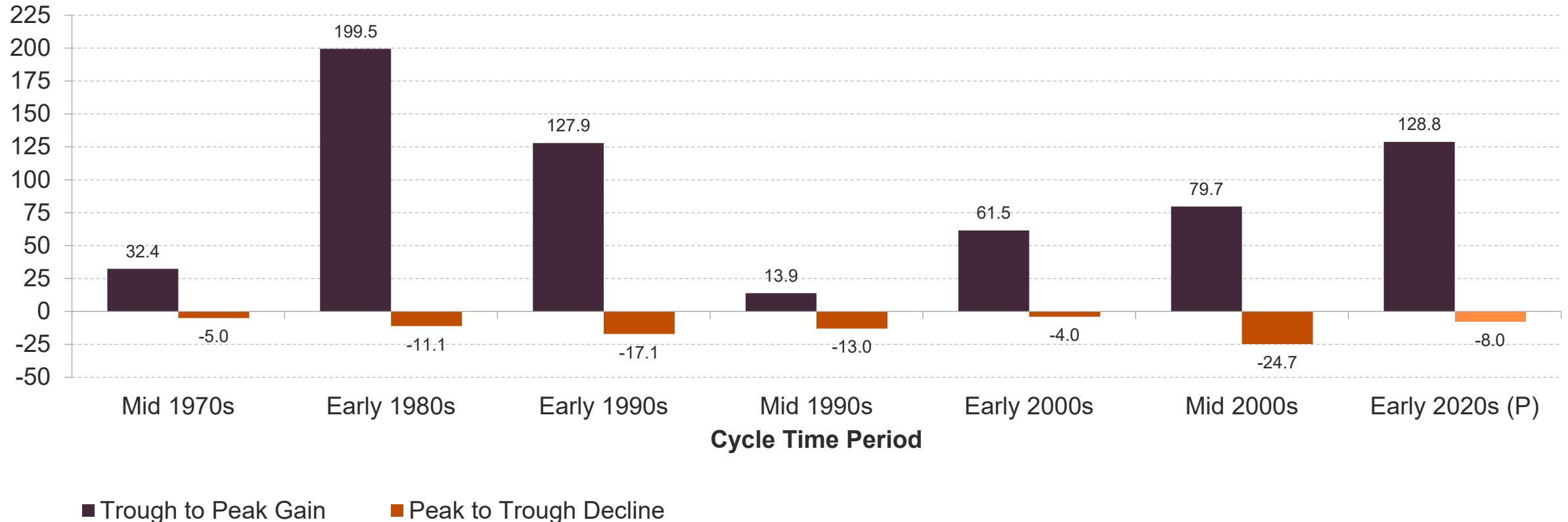
Peak to Trough Decline in Annual Homeowner Improvement Expenditures (Percent)



Source: JCHS analysis of HUD, American Housing Surveys and US Department of Commerce, Retail Sales of Building Materials; LIRA; and US Census Bureau, Construction Put-In-Place (C-30).

Remodeling Upturns Are Typically Far Stronger Than Downturns

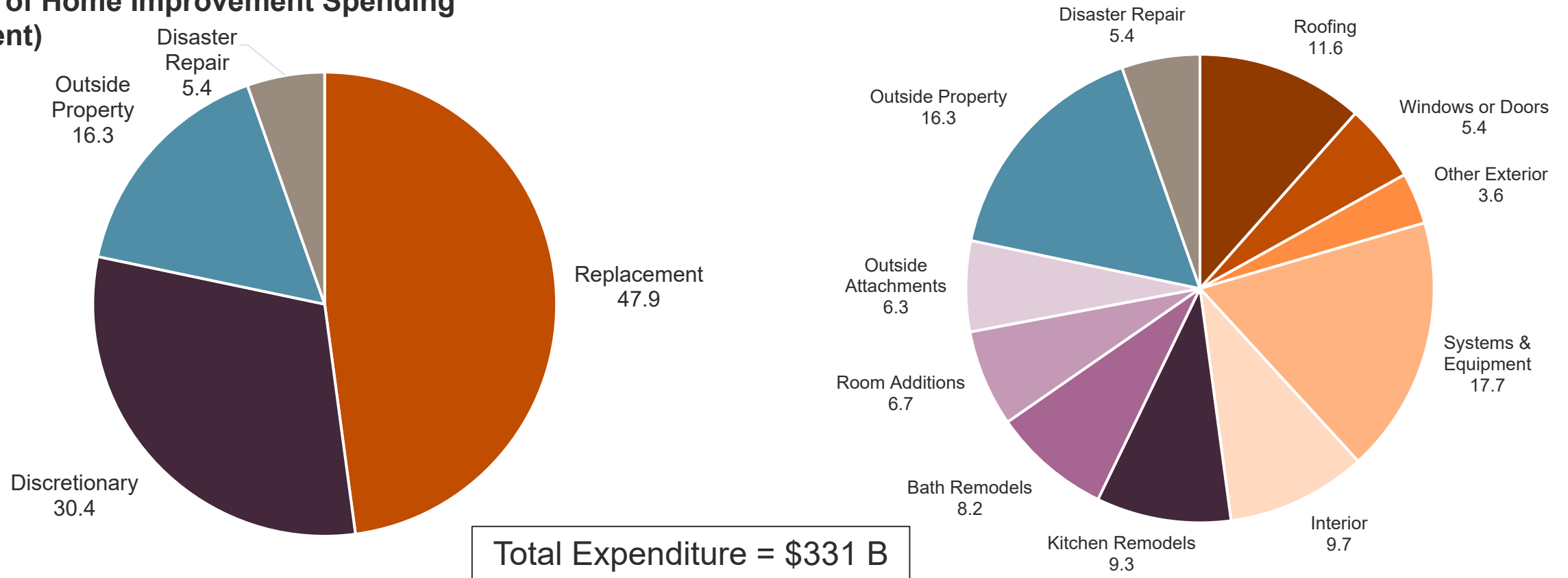
Change in Annual Homeowner Improvement Expenditures (Percent)



Source: JCHS analysis of HUD, American Housing Surveys and US Department of Commerce, Retail Sales of Building Materials; LIRA; and US Census Bureau, Construction Put-In-Place (C-30).

Replacement Projects Account for About Half of Improvement Dollars Spent

Share of Home Improvement Spending (Percent)

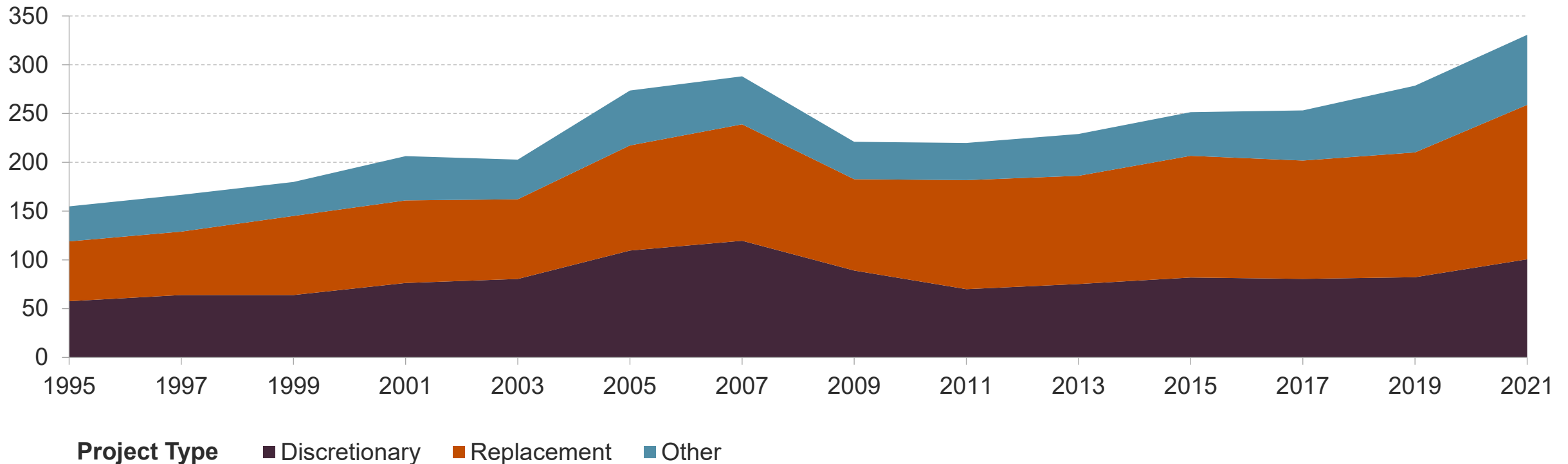


Notes: Other exterior includes siding, chimney, stairs, and other major improvements to exterior not specified otherwise. Interior includes insulation, carpeting, flooring, paneling, ceiling tiles and other major improvements to interior not specified otherwise. Outside attachments include garages, carports, porches, decks, patios, and terraces. Outside property includes driveways, walkways, fencing, walls, sheds, detached garages, septic tanks, landscaping, swimming pools, tennis courts, and other recreational structures.

Source: JCHS tabulations of HUD, 2021 American Housing Survey.

The Dominance of Replacement Activity Suggests the Home Remodeling Market is More Resilient to Downturn Today

Homeowner Improvement Expenditures (Billions of 2021 dollars)



Notes: Discretionary includes kitchen and bath remodeling, room additions, and outside attachments of garages, carports, porches, decks, patios, and terraces. Replacement includes roofing, siding, windows, doors, chimney, exterior stairs, HVAC, electrical, plumbing fixtures and pipes, water heaters, dishwashers, disposals, security systems, insulation, carpeting, flooring, paneling, and ceiling tiles. Other includes outside property (driveways, walkways, fencing, walls, sheds, detached garages, septic tanks, landscaping, swimming pools, tennis courts, and other recreational structures) and disaster repairs.

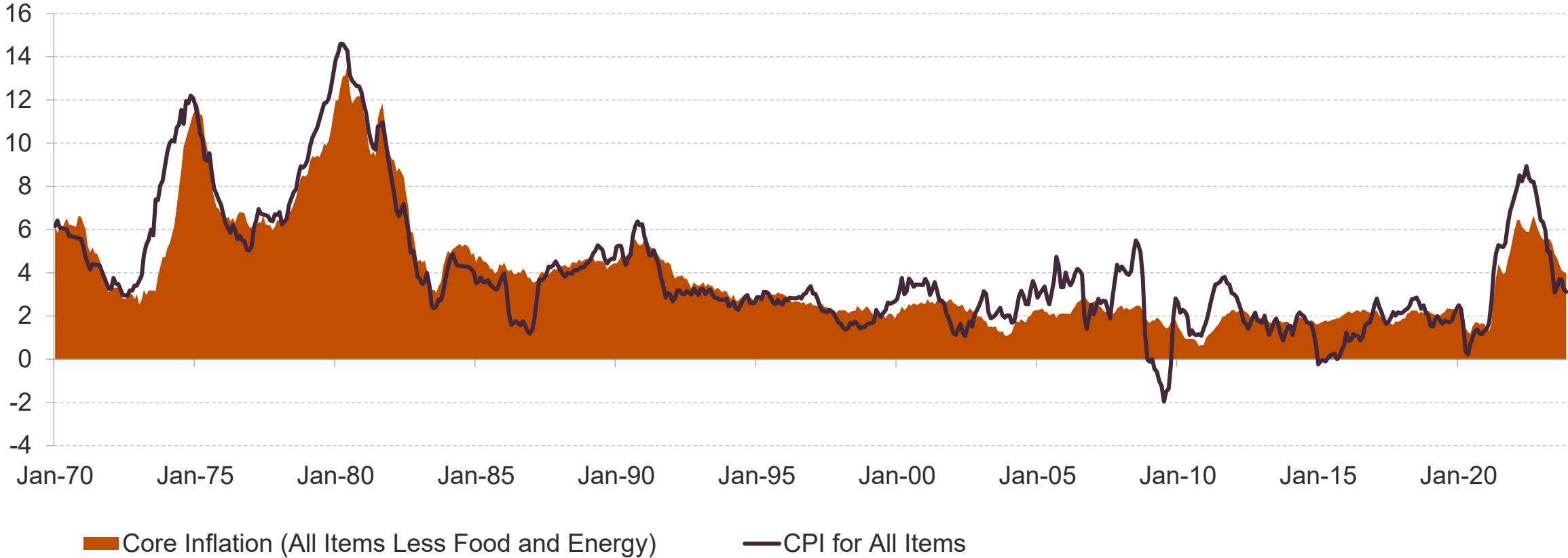
Source: JCHS tabulations of HUD, American Housing Surveys.



High Prices and Interest Rates Lower Demand

With the Pandemic, Consumers Experienced the Fastest Rates of Price Inflation in Four Decades

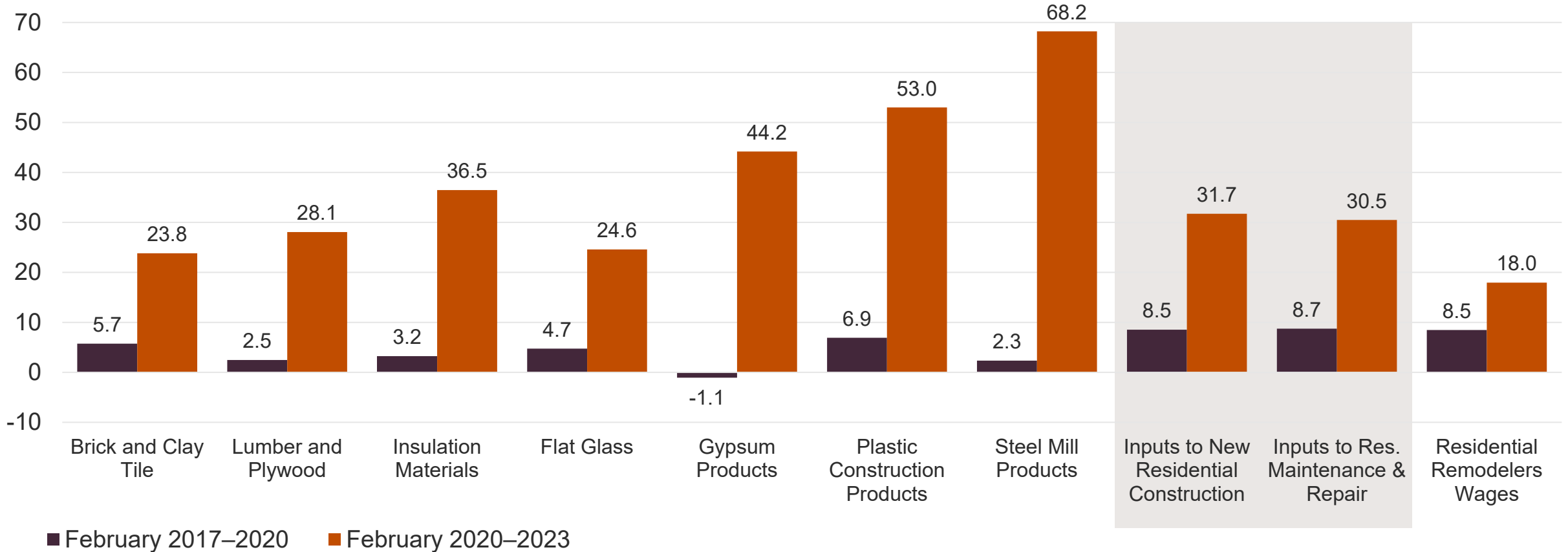
Year-Over-Year Percent Change



Note: Data are through November 2023.
Source: US Bureau of Labor Statistics.

Costs of Building Materials & Labor Surged with the Pandemic

Change in Prices (Percent)

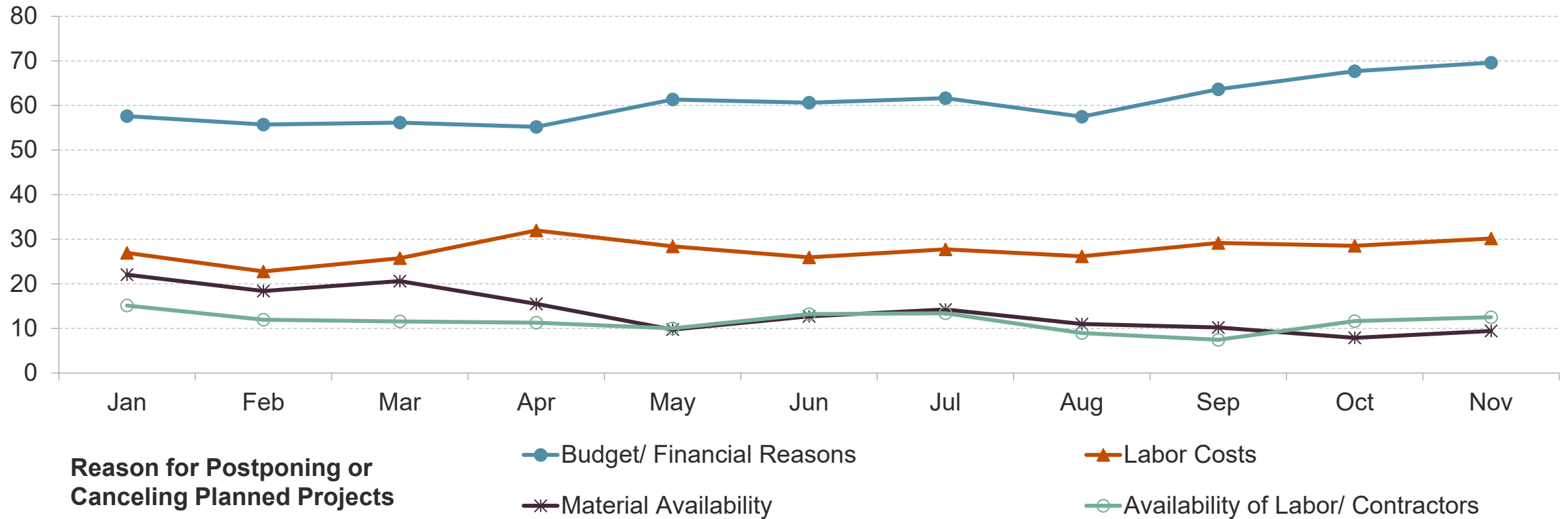


Note: Inputs to new residential construction and residential maintenance and repair are not a composite of the other components and excludes capital, labor, and imports.

Source: JCHS tabulations of US Bureau of Labor Statistics, Producer Price Indices and Current Employment Statistics.

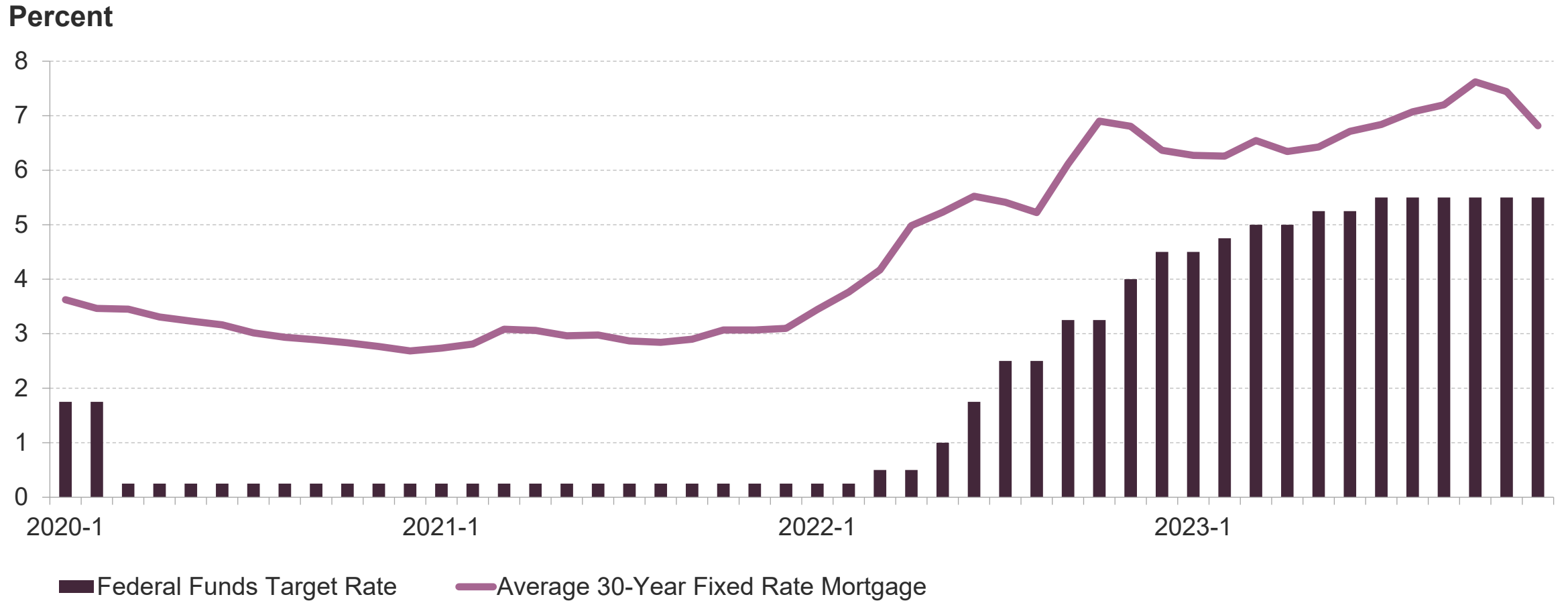
Budgets Were A Growing Concern for Project Planning in 2023, While Material Availability Issues Lessened

Share of Homeowners Who Postponed or Canceled Planned Improvement or Repair Projects in 2023 (Percent)



Note: Responses are for homeowners who postponed or canceled planned home improvement or repair projects in the last 30 days.
 Source: Home Improvement Research Institute-The Farnsworth Group Monthly Homeowner Tracker.

Interest Rates—Particularly for Mortgages—Rose Sharply in 2022 and Largely Remain Elevated in 2023



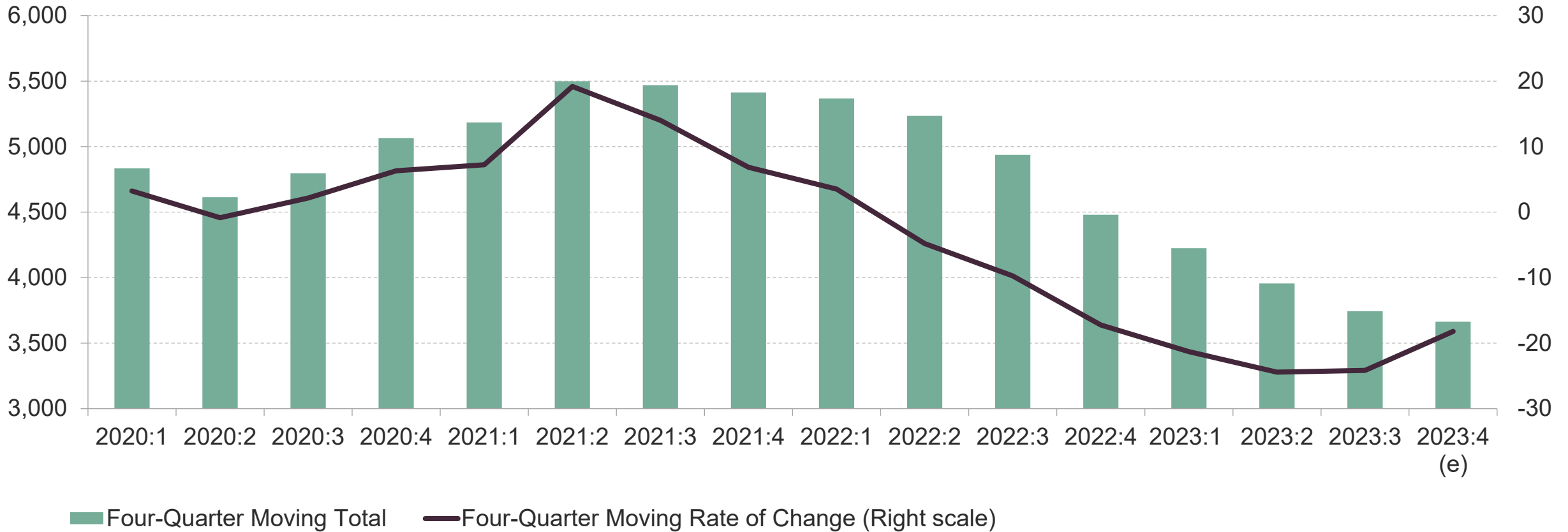
Notes: Federal funds target rate is the high point of the set range. Data are through December 2023.

Sources: Federal Reserve Board and Freddie Mac, Primary Mortgage Market Survey.

High Interest Rates Slammed the Brakes on Home Sales

Number of Existing Single-Family Home Sales (Thousands)

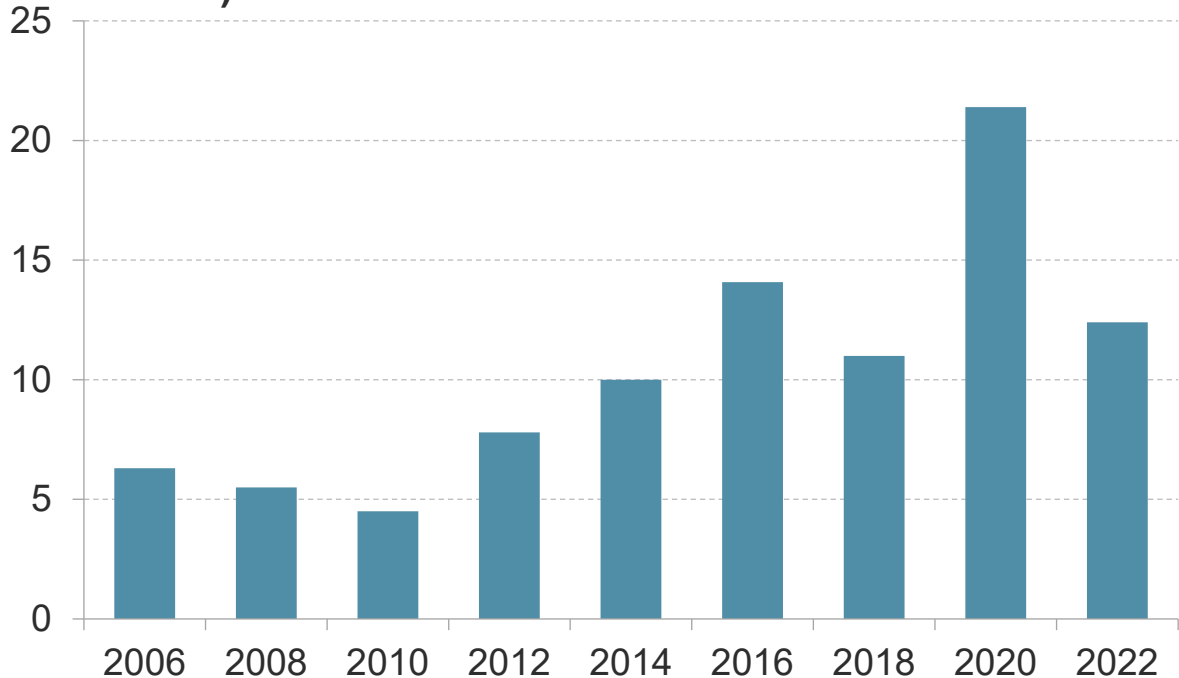
Percent



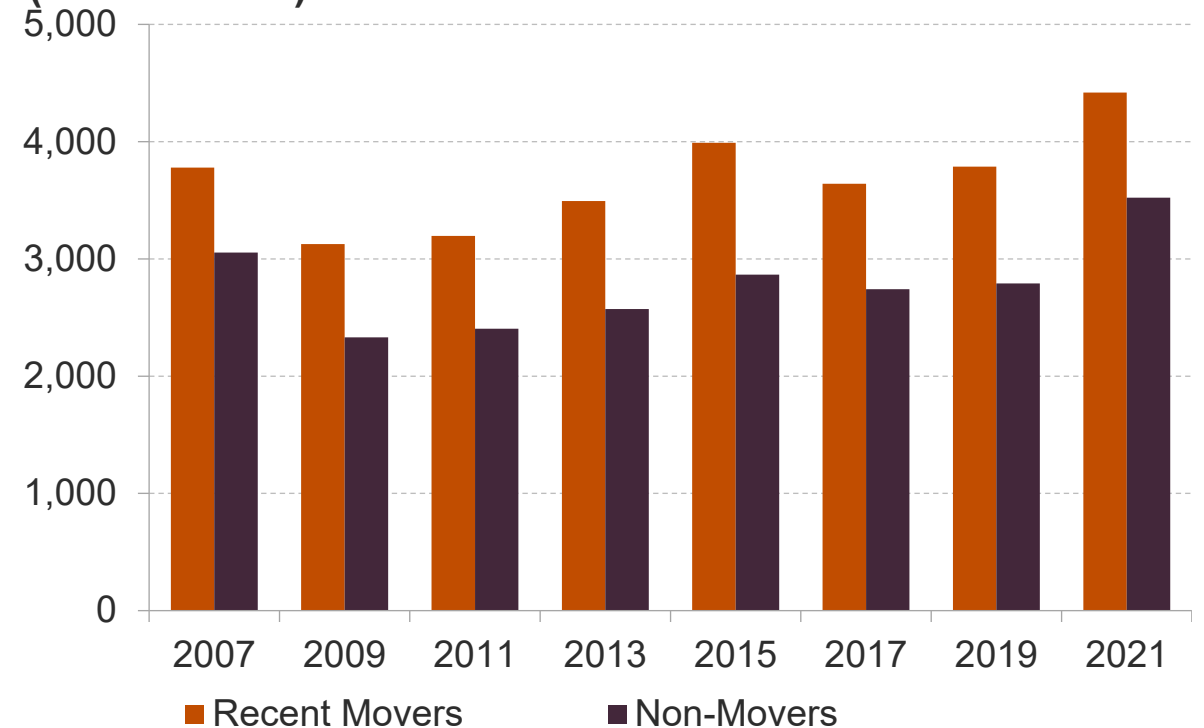
Source: JCHS tabulations of National Association of Realtors®, Existing Home Sales.

Owners Make Significant Investments to Prepare Homes for Sale, And Recent Movers Spend About 30% More on Improvements than Non-Movers

Average Spending on Improvements to Ready Previous Home for Sale (Thousands of dollars)



Average Per Owner Spending by Owners Aged 35–64 in the Middle Income Quintiles (2021 Dollars)

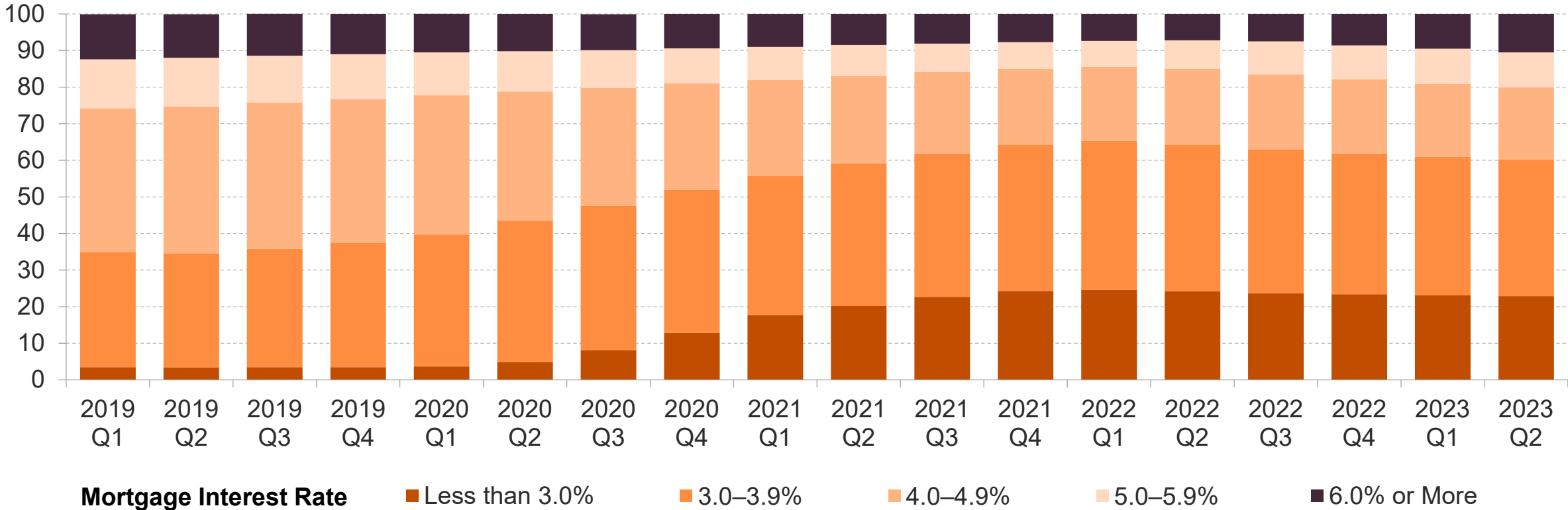


Note: Seller data are for owners who had sold homes in the preceding year and remodeled or improved their previous home in the 12 months prior to sale. Recent movers bought their homes within the previous three calendar years. Estimates include owners in the 2nd, middle, and 3rd income quintiles. Quintiles are equal fifths of homeowners aged 35–64 ranked by total household income.

Sources: The Home Improvement Research Institute, Recent Home Buyer Surveys and JCHS tabulations of HUD, American Housing Surveys.

A Growing Share of Homeowners Secured Low-Interest Mortgages During the Pandemic

Share of Mortgaged Homeowners (Percent)



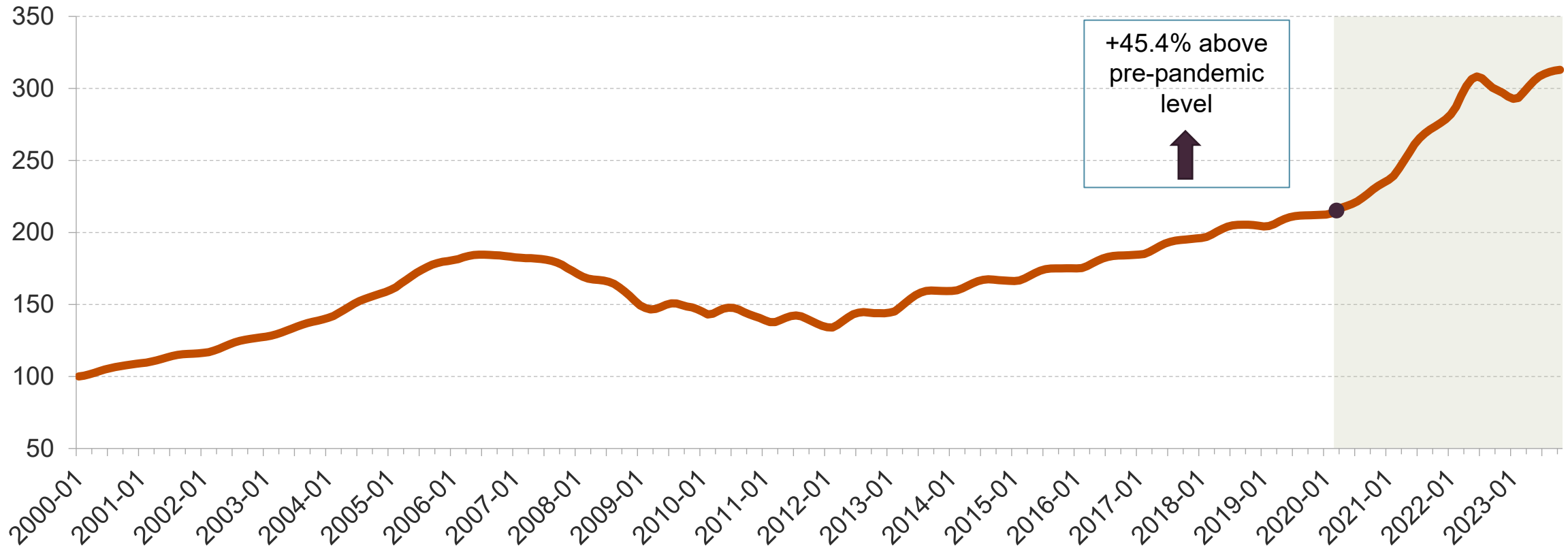
Source: JCHS tabulations of FHFA, National Mortgage Database; <https://www.jchs.harvard.edu/blog/homeowner-mobility-stalls-amid-rising-interest-rates>.



Opportunities for Future Growth

Nationally, Home Prices Are Still Fully 45% Above Pre-Pandemic Levels, Even with Recent Softening

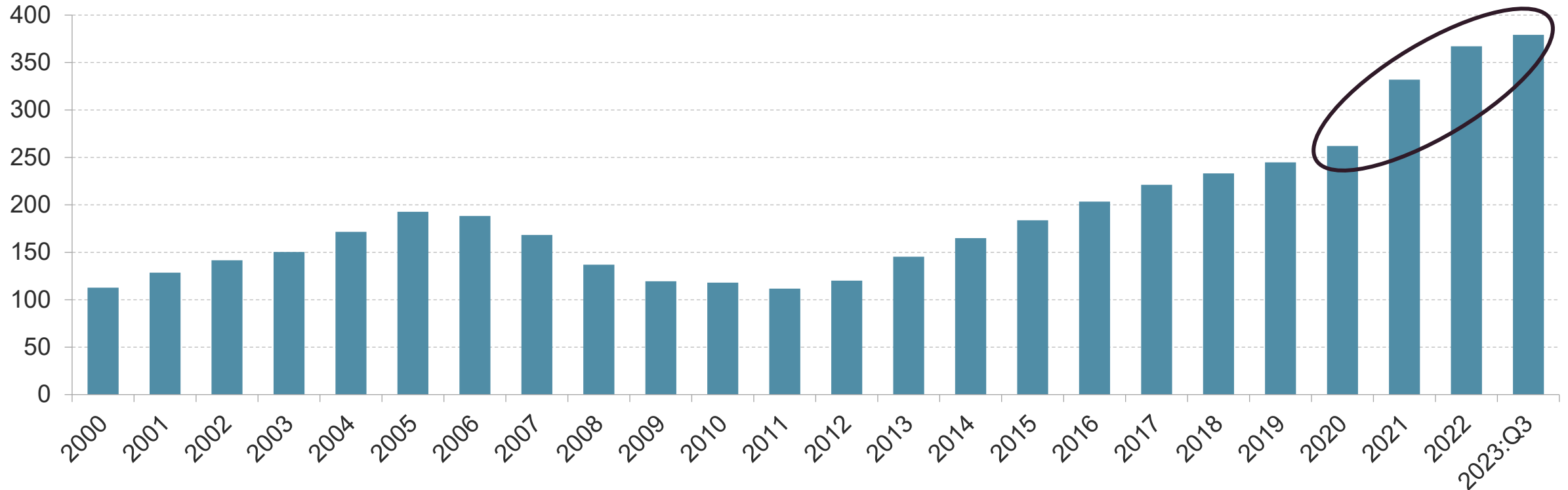
S&P CoreLogic Case-Shiller National Home Price Index (Jan. 2000=100, NSA)



Note: Data are through October 2023.
Source: S&P Dow Jones Indices and CoreLogic.

Homeowners Have Gained an Average of \$135,000 in Equity Since 2019

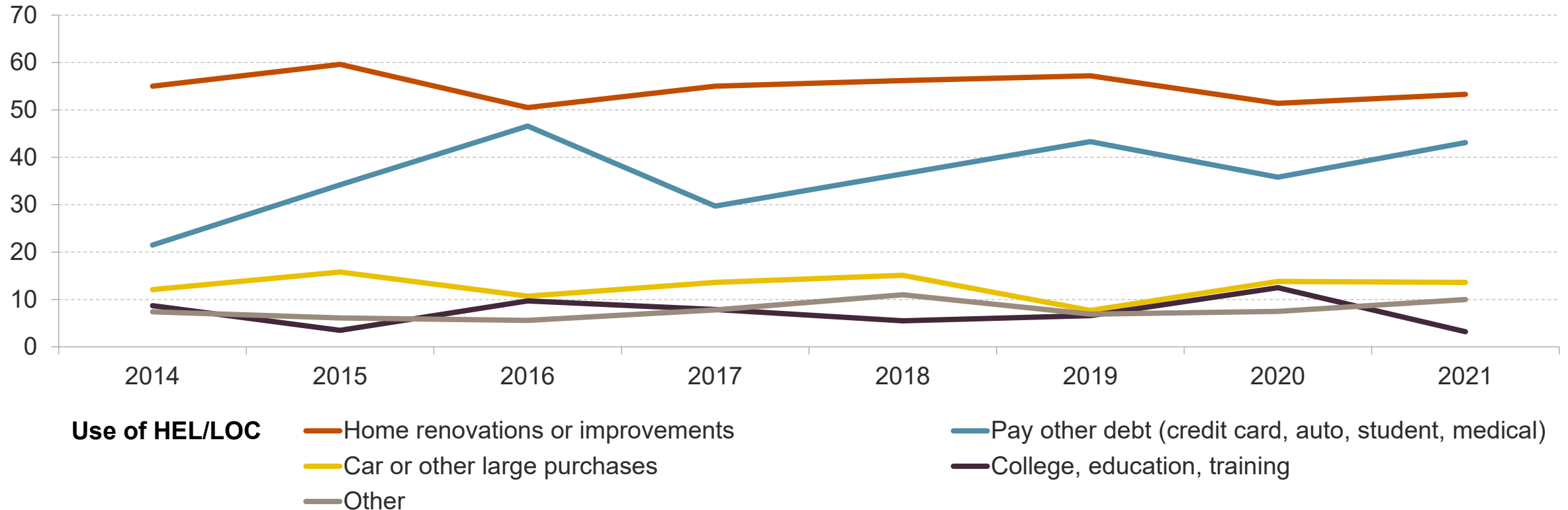
Average Per Owner Home Equity (Thousands of dollars)



Source: JCHS tabulations of Board of Governors of the Federal Reserve System, Owners' Equity in Real Estate and US Census Bureau, Number of Owner-Occupied Homes.

Home Improvements Are a Top Use of Home Equity Loans and Lines of Credit

Share of Homeowner Respondents with Home Equity Loans/Lines of Credit (Percent)

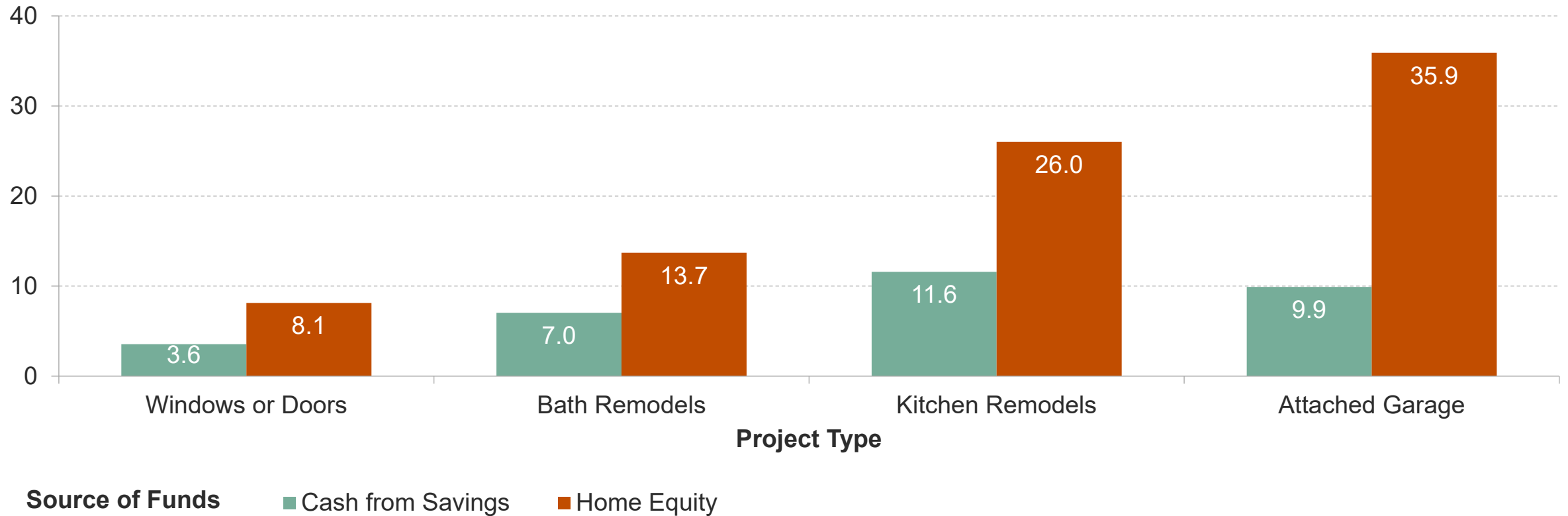


Notes: Respondents may report multiple uses. Uses listed are a selection of all reported.

Source: Survey of Consumer Expectations, © 2013-2023 Federal Reserve Bank of New York (FRBNY). The SCE data are available without charge at <http://www.newyorkfed.org/microeconomics/sce> and may be used subject to license terms posted there. FRBNY disclaims any responsibility or legal liability for this analysis and interpretation of Survey of Consumer Expectations data.

Owners Spend Considerably More for Improvement Projects When Tapping Home Equity for Funding

Average Per Project Spending (Thousands of dollars)



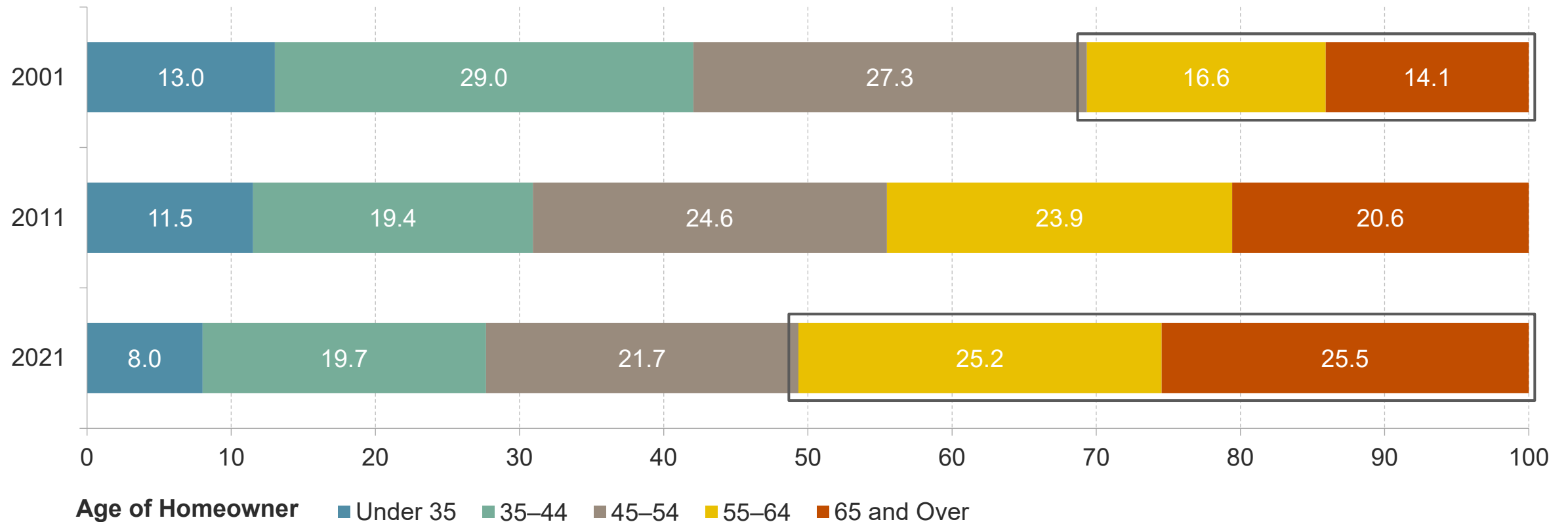
Notes: Data includes projects undertaken in 2020 and 2021. Home equity includes cash from refinancing, home equity loans, and home equity lines of credit.
Source: JCHS tabulations of HUD, 2021 American Housing Survey.

Changing Household Demographics



Older Owners Have Greatly Increased Their Share of Home Improvement Spending

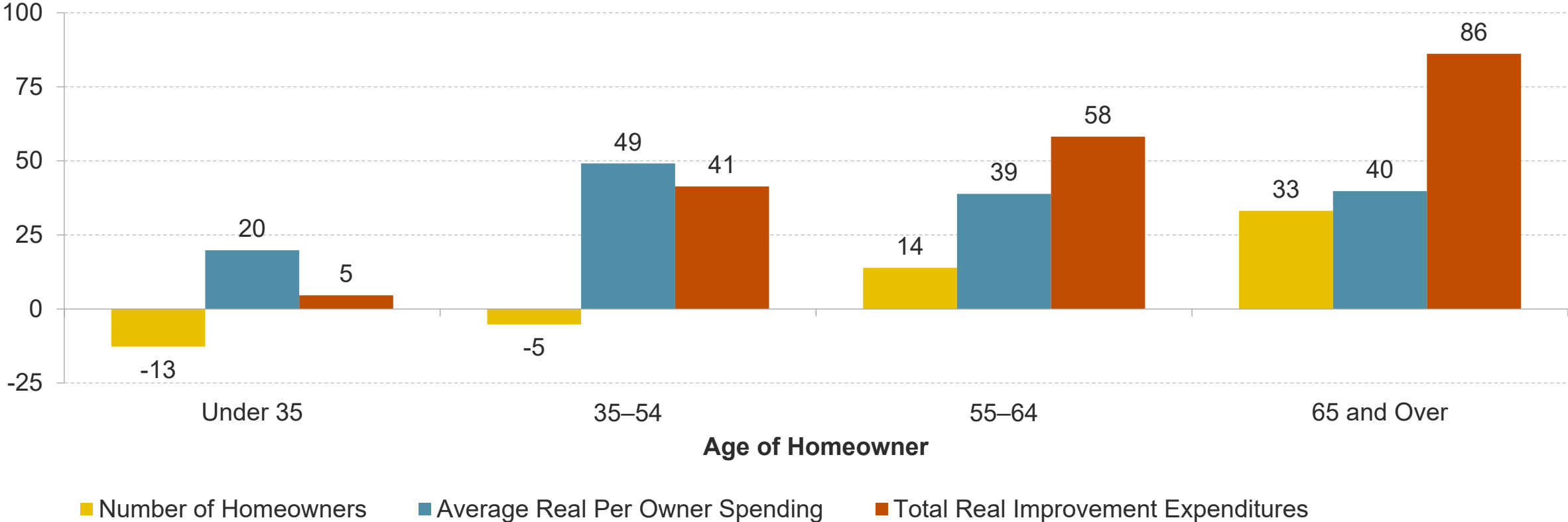
Share of Spending (Percent)



Source: JCHS tabulations of HUD, American Housing Surveys.

The Growing Number of Older Owners, Along with Higher Average Spending, Have Lifted Their Improvement Expenditures

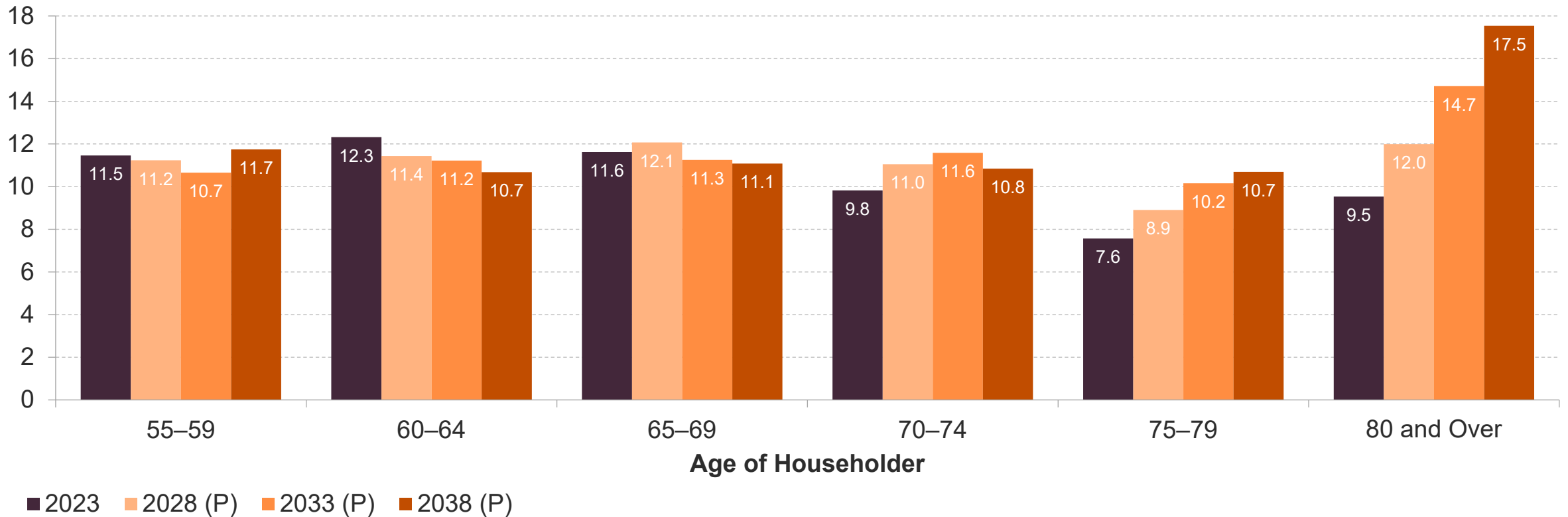
Percent Change, 2011–2021



Note: Values are adjusted for inflation using the CPI-U.
Source: JCHS tabulations of HUD, American Housing Surveys.

The Number of Oldest Households is Expected to Nearly Double by 2038

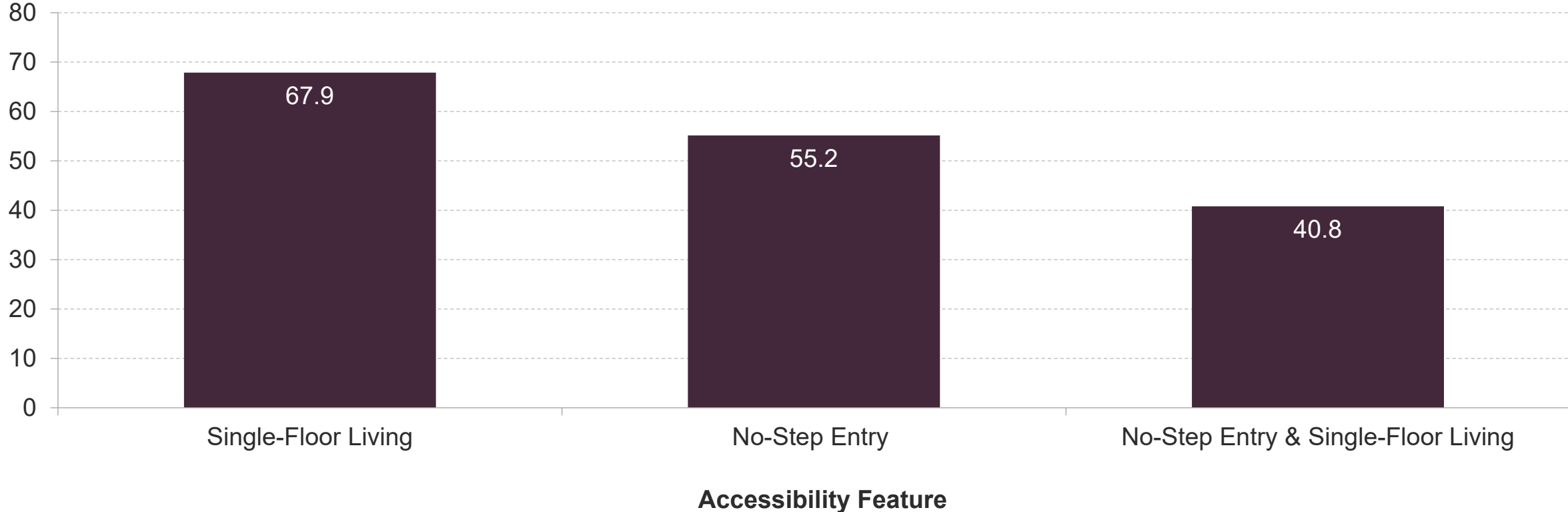
Number of Households (Millions)



Source: JCHS preliminary 2023 household projections, unpublished. **DO NOT CITE OR DISTRIBUTE WITH AUTHOR'S PERMISSION.**

Fewer Than Half of Homes in the US Have Even Basic Accessibility Features

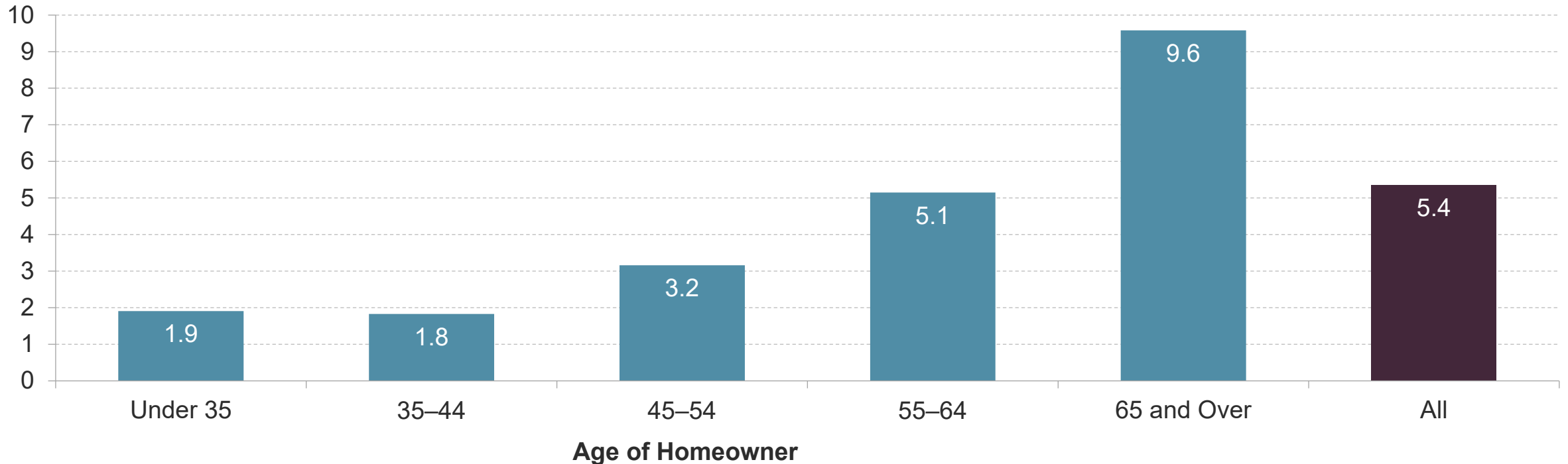
Share of Owner-Occupied Housing Units (Percent)



Notes: Single-floor living units have both a bedroom and bathroom on the entry level. No-step entry indicates the unit's entrance is accessible without climbing up and down any stairs considering all entrances and any exterior ramps that could be used.
Source: JCHS tabulations of HUD, 2019 American Housing Survey.

Nearly 1 in 10 Owners Aged 65 and Over Report Difficulties Using Their Home

Share of Owner-Occupied Households that Include a Person who has Difficulty Getting Around and Using the Home (Percent)

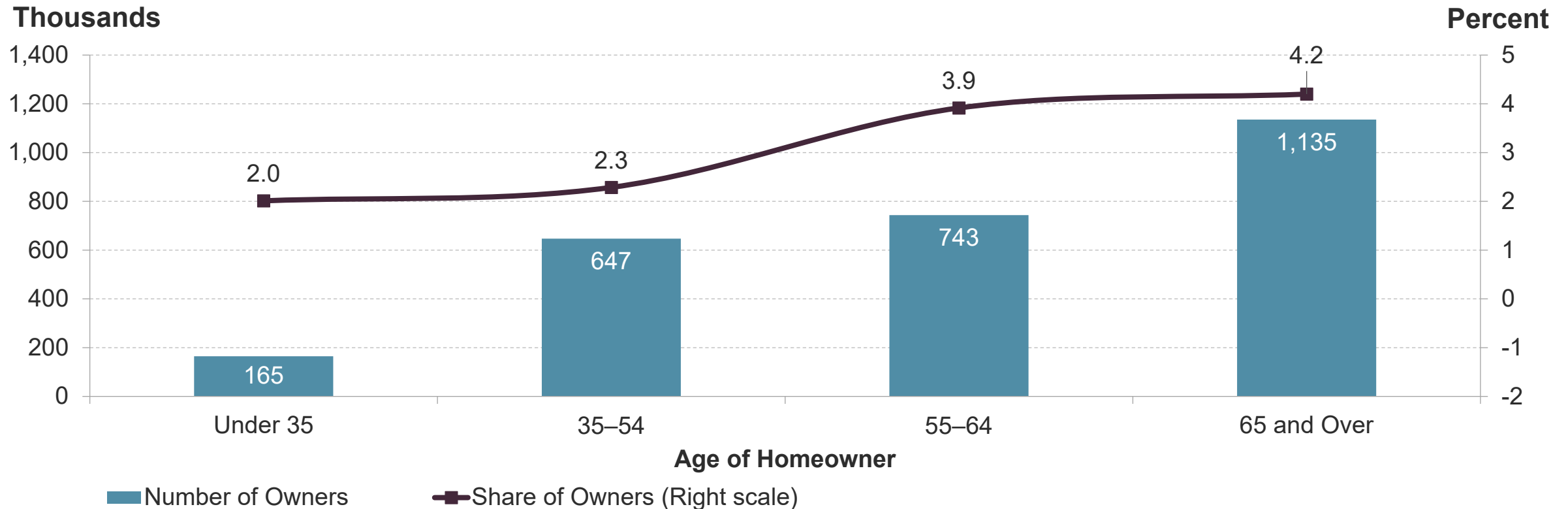


Note: 4.3 million homeowners indicated someone in the household 6 years of age or older has difficulty entering the home, getting to or using the kitchen, bathroom, or bedroom without the assistance from another person and because of a physical condition other than a temporary injury.

Source: JCHS tabulations of HUD, 2019 American Housing Survey.

The Number and Share of Owners Doing Improvements to Make their Homes More Accessible Increases with Age

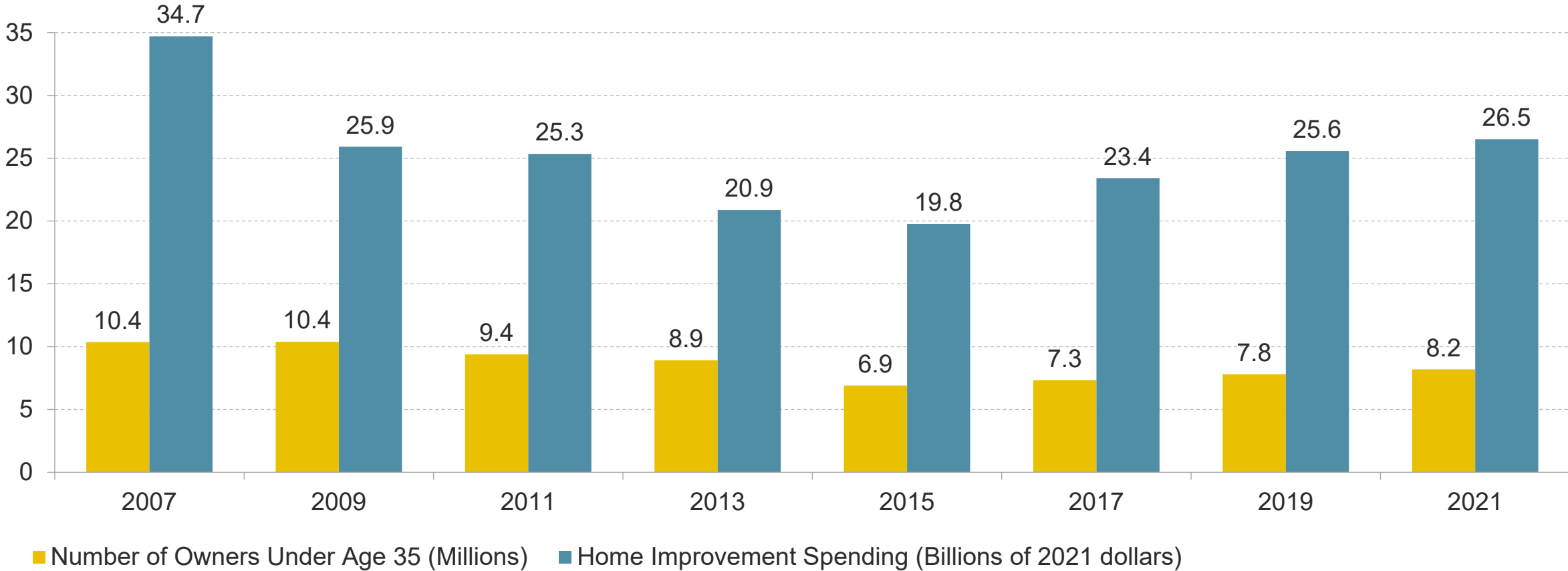
Remodeling to Make Home More Accessible in 2020–2021



Note: Survey asked owners “Did you do any of these home improvements to make your home more accessible for people with physical limitations, such as people using a wheelchair or walker?”

Source: JCHS tabulations of HUD, 2021 American Housing Survey.

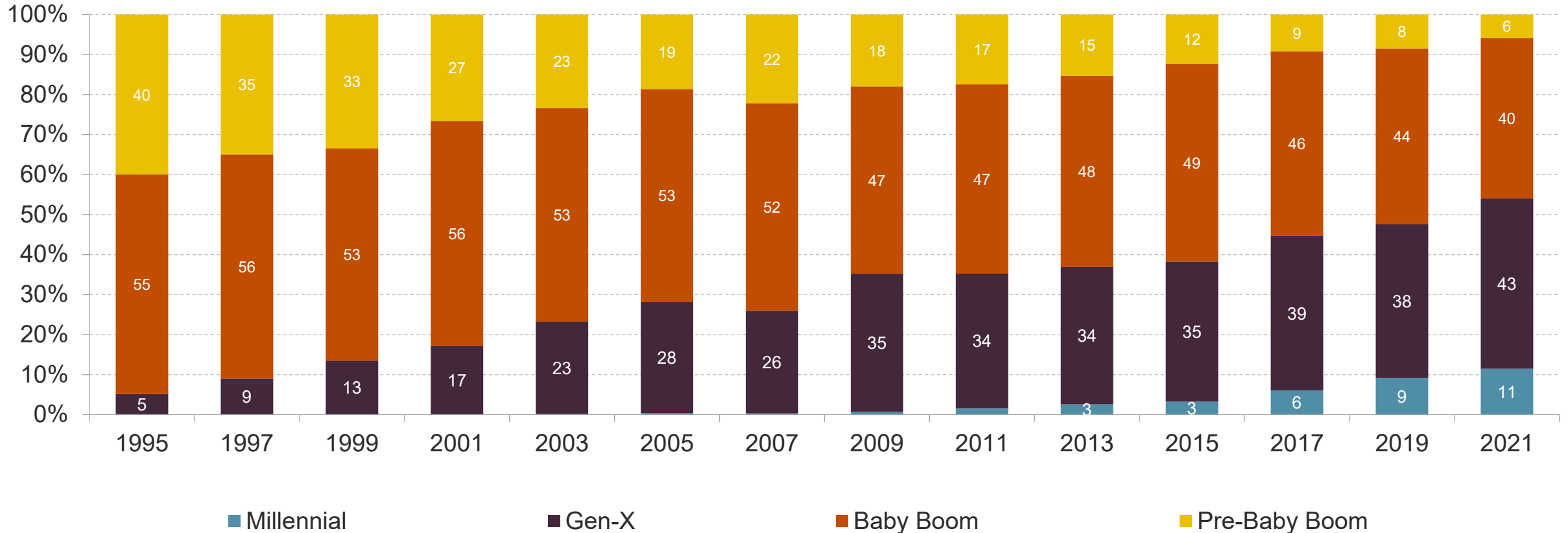
After Years of Decline, Both the Number of Young Owners and Their Spending on Home Improvements Continue to Tick Up



Note: Spending values are adjusted for inflation using the CPI-U.
Source: JCHS tabulations of HUD, American Housing Surveys.

Yet, Millennials are Off to a Slower Start than Prior Generations

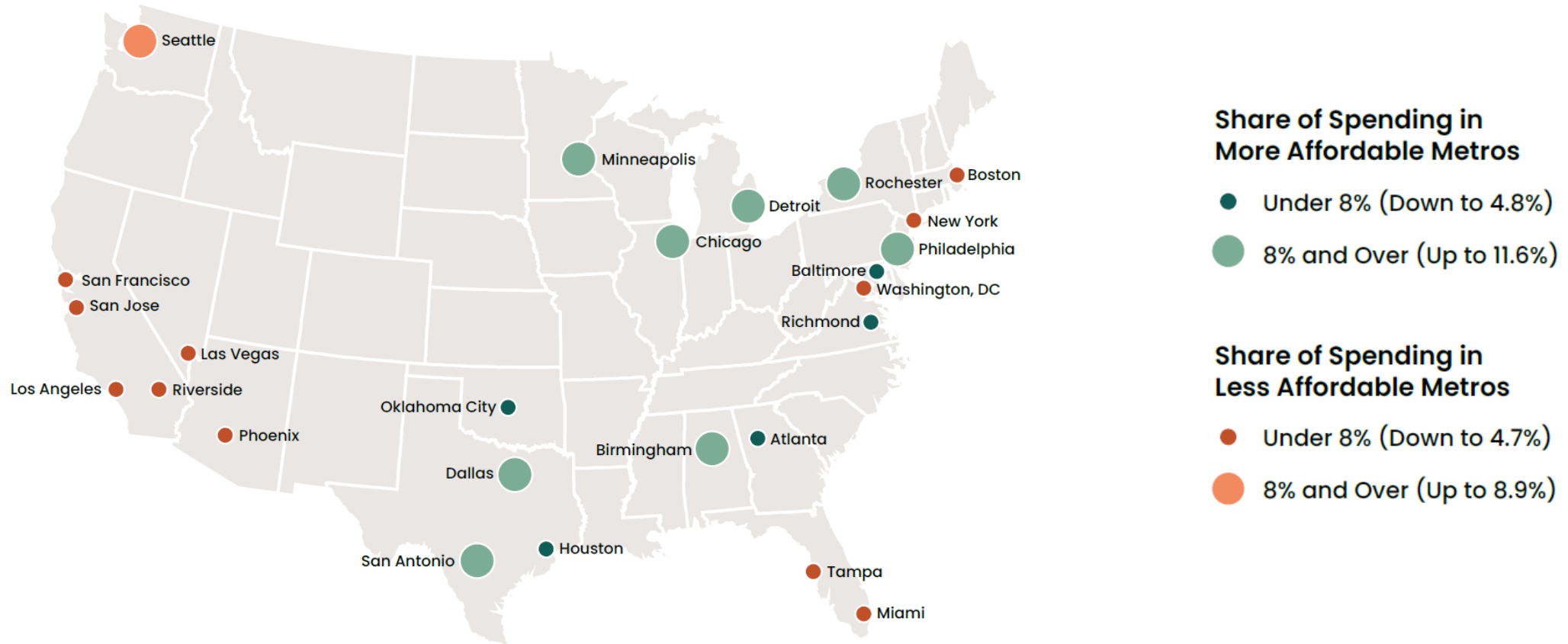
Share of Home Improvement Spending by Householder Generation



Note: Millennial homeowners were born in 1985–2004, Gen-Xers in 1965–1984, Baby Boomers in 1945–1964 and Pre-Baby Boomers before 1945.
 Source: JCHS tabulations of HUD, American Housing Surveys.

Younger Owners Account for a Higher Share of Market Spending in More Affordable Metros

Home Improvement Expenditures by Owners Under Age 35



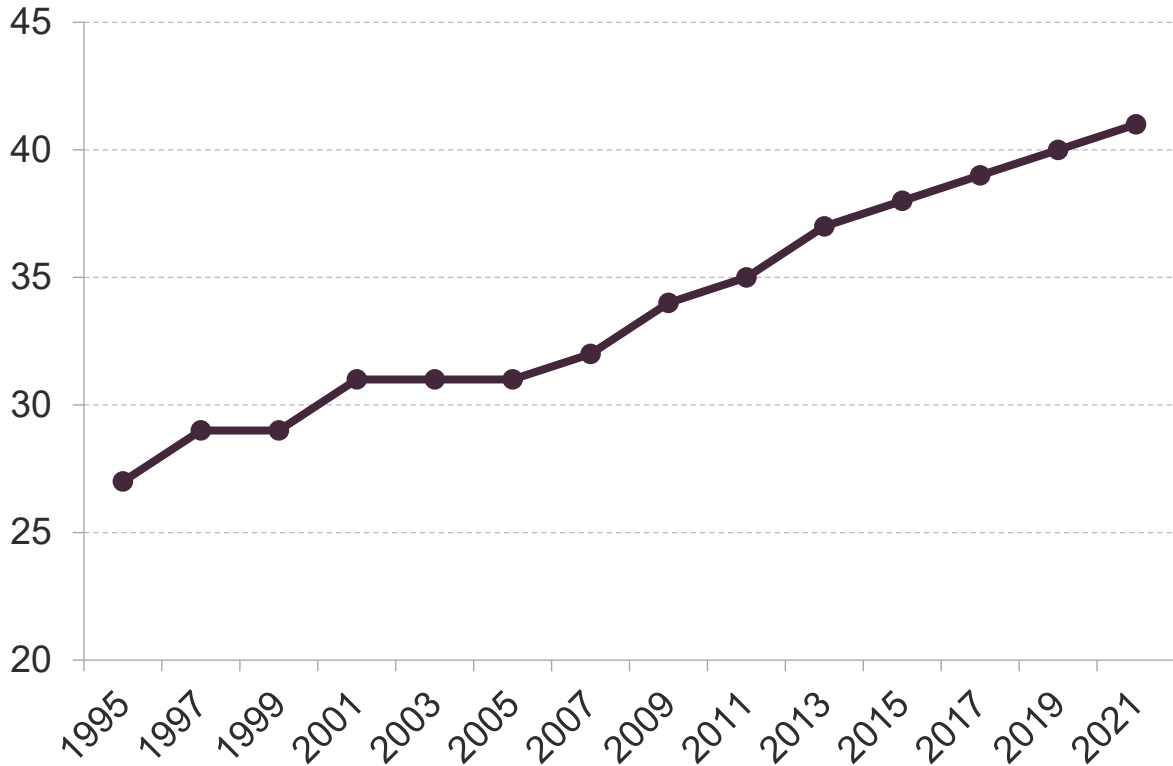
Notes: Data are for 25 metros available in the 2021 AHS, including the 15 largest by population. More/less affordable metro areas are defined as the bottom/top metros ranked by the ratio of median home value to median household income. More affordable metros have value-to-income ratios under 4.7 and less affordable metros have ratios of 4.7 and over. Source: JCHS tabulations of HUD, 2021 American Housing Survey.



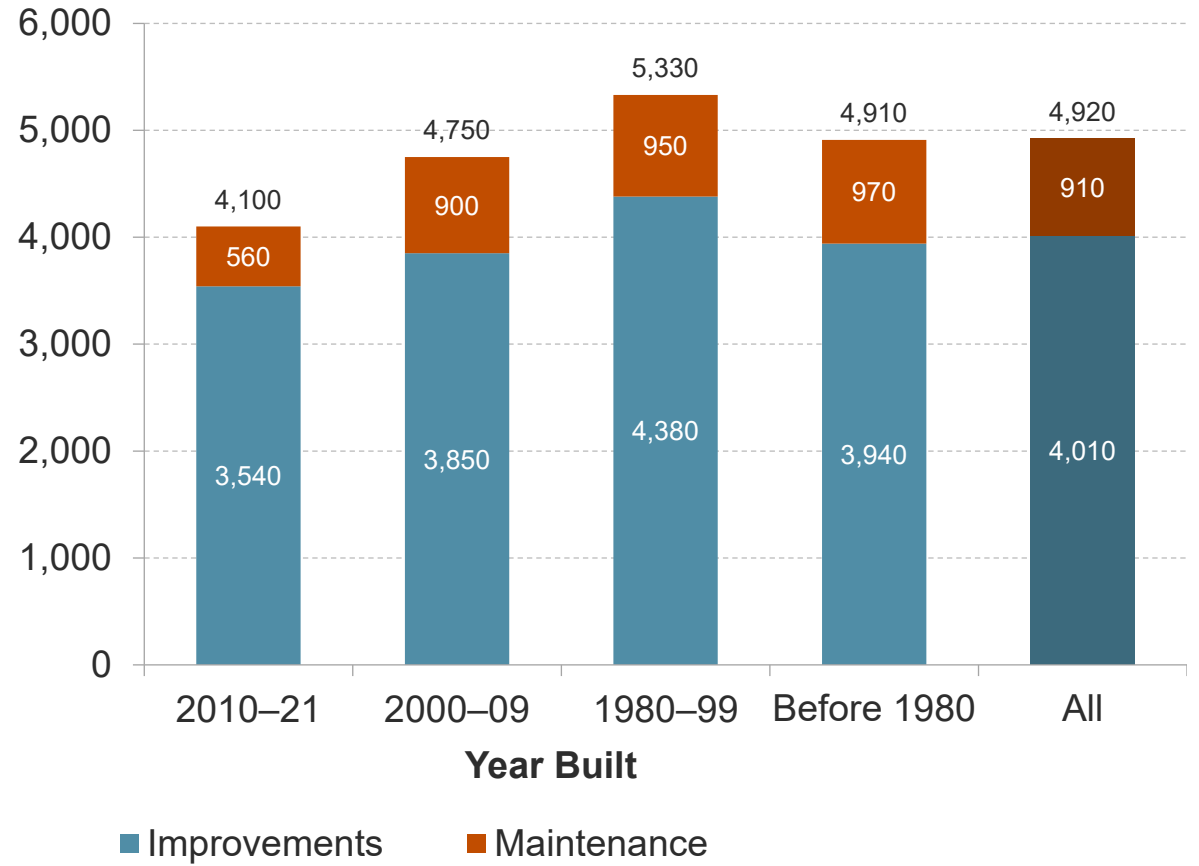
Revitalization of the Nation's Aging Housing Stock

Older Homes Require Higher Levels of Improvement and Repair Spending

Median Age of Owner-Occupied Housing Stock (Years)



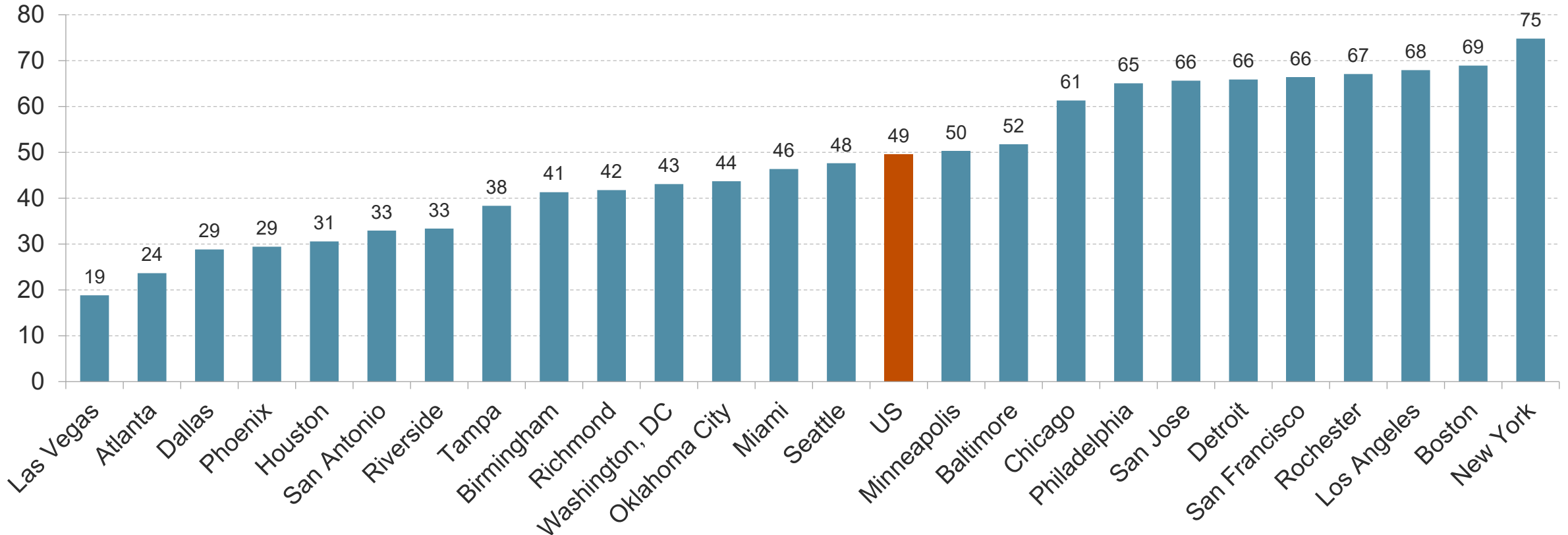
Average Per Owner Spending, 2021



Source: JCHS tabulations of HUD, American Housing Surveys.

Many Major Metros Have Large Shares of Older Housing Stock

Share of Owner-Occupied Housing Stock Built Before 1980 (Percent)

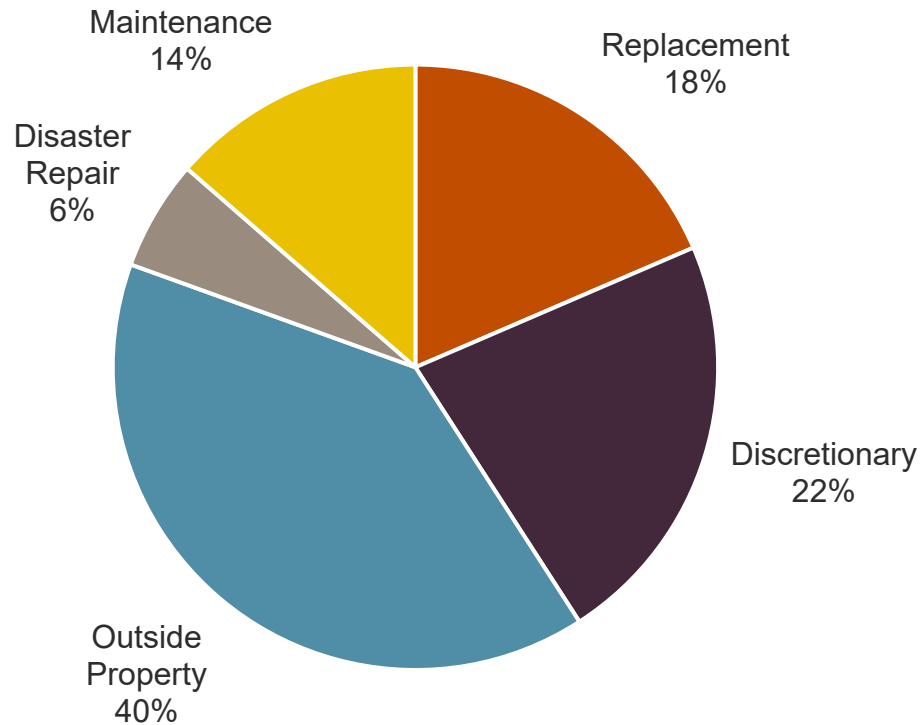


Note: Data are for 25 metros available in the 2021 AHS, including the 15 largest by population.
Source: JCHS tabulations of HUD, 2021 National and Metropolitan American Housing Surveys.

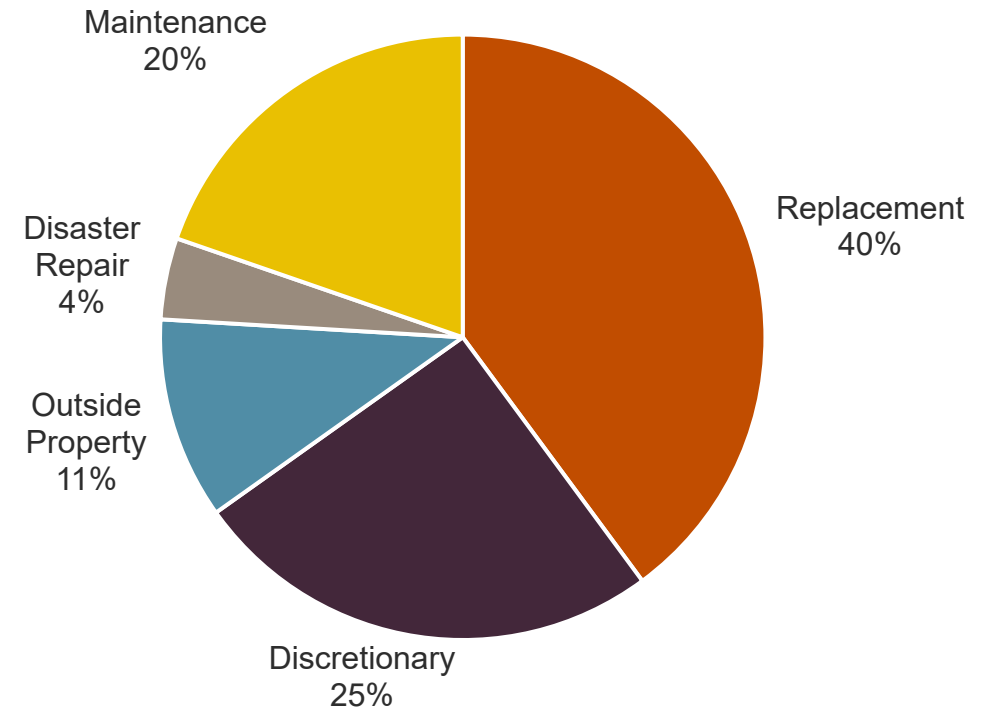
R&R Spending on Older Homes is Heavily Focused on Replacement Projects

Share of Home Improvement and Repair Spending

Homes Built Since 2010



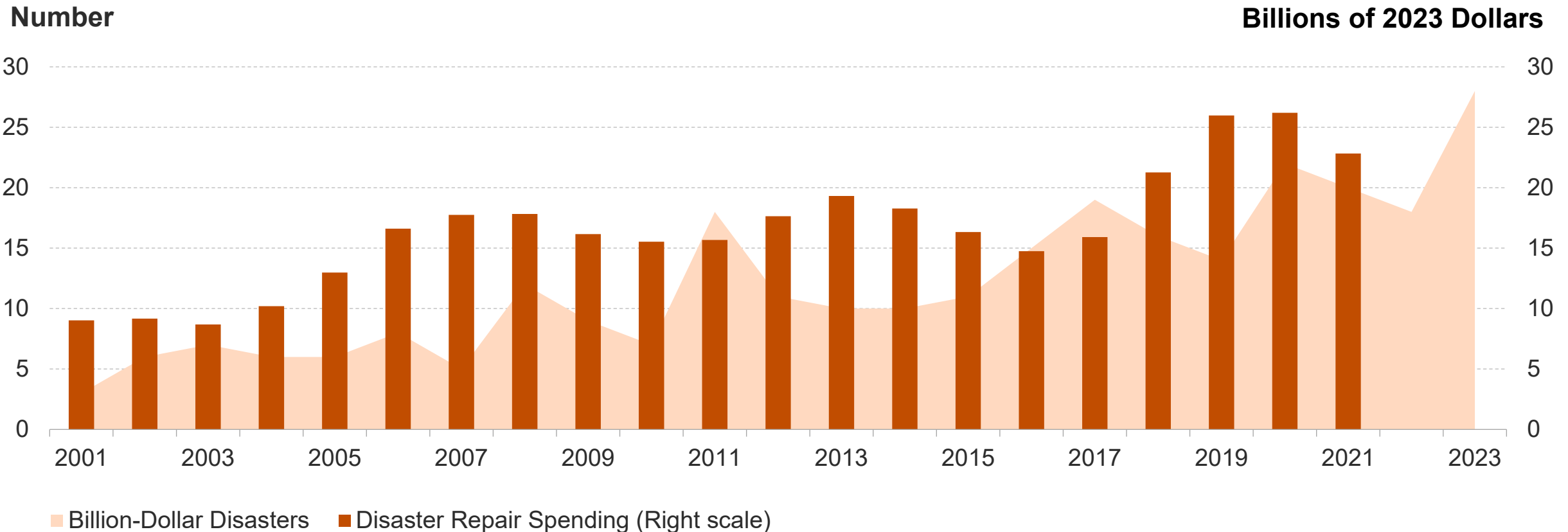
Home Built Before 1980



Notes: Replacement improvements include roofing, siding, windows, doors, chimney, exterior stairs, HVAC, electrical, plumbing fixtures and pipes, water heaters, dishwashers, disposals, security systems, insulation, carpeting, flooring, paneling, and ceiling tiles. Discretionary improvements includes kitchen and bath remodeling, room additions, and outside attachments of garages, carports, porches, decks, patios, and terraces. Outside property improvements includes driveways, walkways, fencing, walls, sheds, detached garages, septic tanks, landscaping, swimming pools, tennis courts, and other recreational structures.

Source: JCHS tabulations of HUD, 2021 American Housing Survey.

The Disaster Reconstruction Market Is Expected to Continue Growing with More Frequent and Severe Storms

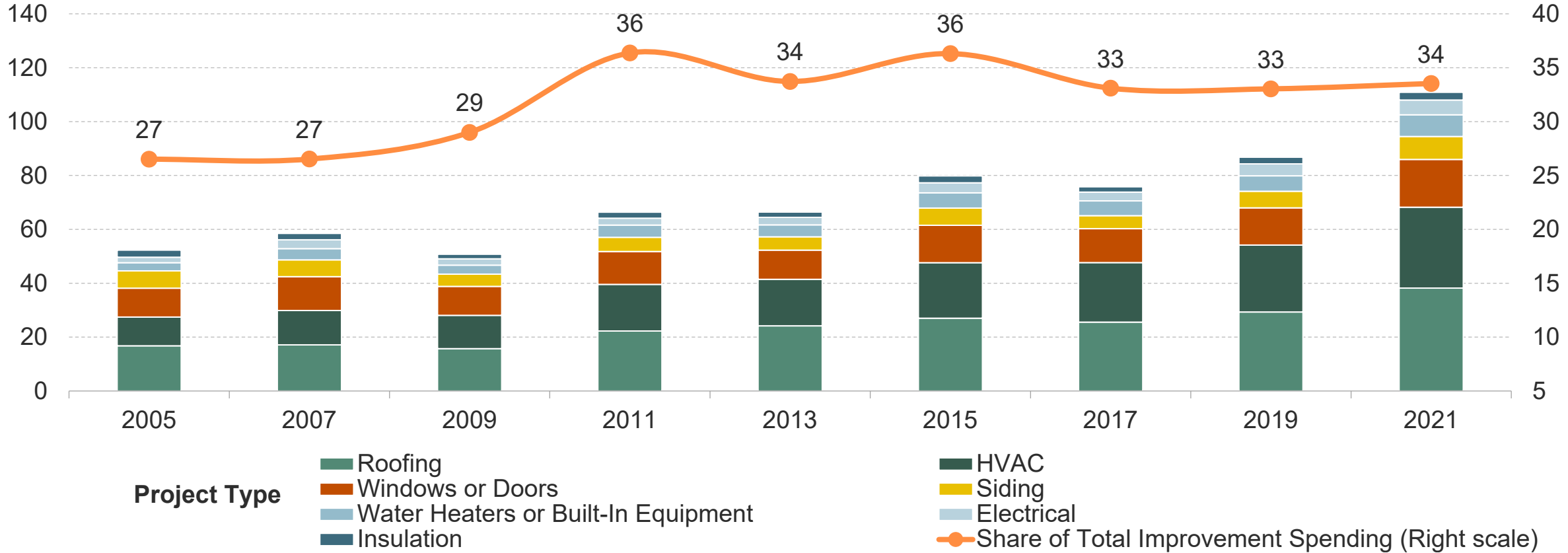


Notes: Billion-dollar disasters are events that generate over \$1 billion in damages after adjusting for inflation. Events include severe storms such as tornadoes, wind and hailstorms; floods; hurricanes; wildfires; winter storms and freezes; droughts; and heat waves. Disaster repair data are three-year rolling averages for spending to owner-occupied homes and are adjusted to 2023 dollars using the CPI-U for All Items.

Source: JCHS tabulations of National Oceanic and Atmospheric Administration, US Billion-Dollar Weather and Climate Disasters; and HUD, American Housing Surveys.

A Significant Share of Owner Improvement Spending Goes Toward Energy-Related Projects

Market Spending (Billions of dollars)



Notes: Built-in equipment includes dishwashers and garbage disposals. Spending for water heaters or built-in equipment before 2011 is partially estimated.
 Source: JCHS analysis of HUD, American Housing Surveys.

Inflation Reduction Act of 2022 Provides New and Expanded Incentives for Energy Efficiency Home Improvements

Federal Income Tax Credits

- 30% of project cost up to \$1,200 annually for windows & skylights, doors, insulation, electrical, HVAC
- 30% of project cost up to \$2,000 annually for air source heat pumps, heat pump water heaters and biomass stoves/boilers
- 30% for solar panels, battery storage systems and installation
- 30% for home wind energy projects

Rebates

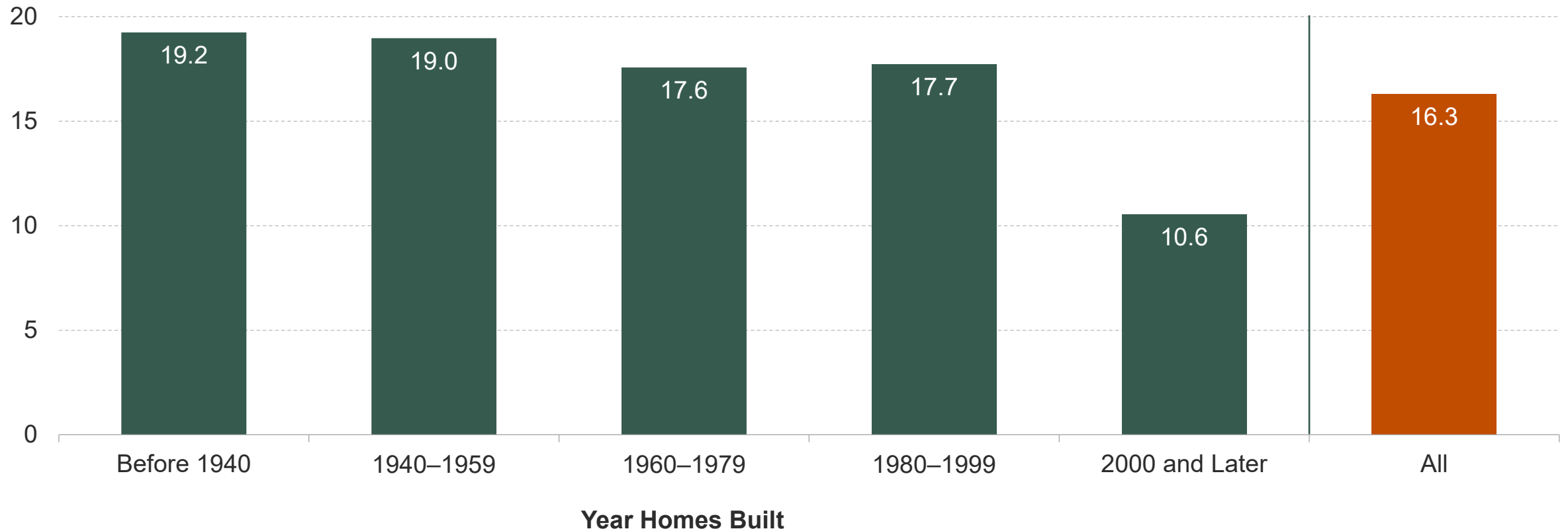
- Up to \$1,600 for insulation, air sealing, and ventilation
- Up to \$1,750 for heat-pump water heater
- Up to \$4,000 for electric panel upgrade and up to \$2,500 for electric wiring upgrades
- Up to \$8,000 for heat pump heater/AC
- \$840 for electric stove (induction or coil) and \$840 for heat pump clothes dryer

Notes: Tax credits are effective for products purchased and installed between 2023 and 2032. The overall total limit for an efficiency tax credit in one year is \$3,200. Upgrades must be to an existing home and principal residence except for solar and wind projects. Rebate amounts will vary based on amount of energy savings and household income level. Low- and moderate-income households may claim rebates for the expense of upgrades up to \$14,000.

Sources: https://www.energystar.gov/about/federal_tax_credits and <https://crsreports.congress.gov/product/pdf/IF/IF12258>.

Owners of Older Homes Are More Likely to Remodel for Energy Efficiency

Share of Owners Remodeling to Increase Home's Energy Efficiency in 2020–2021 (Percent)

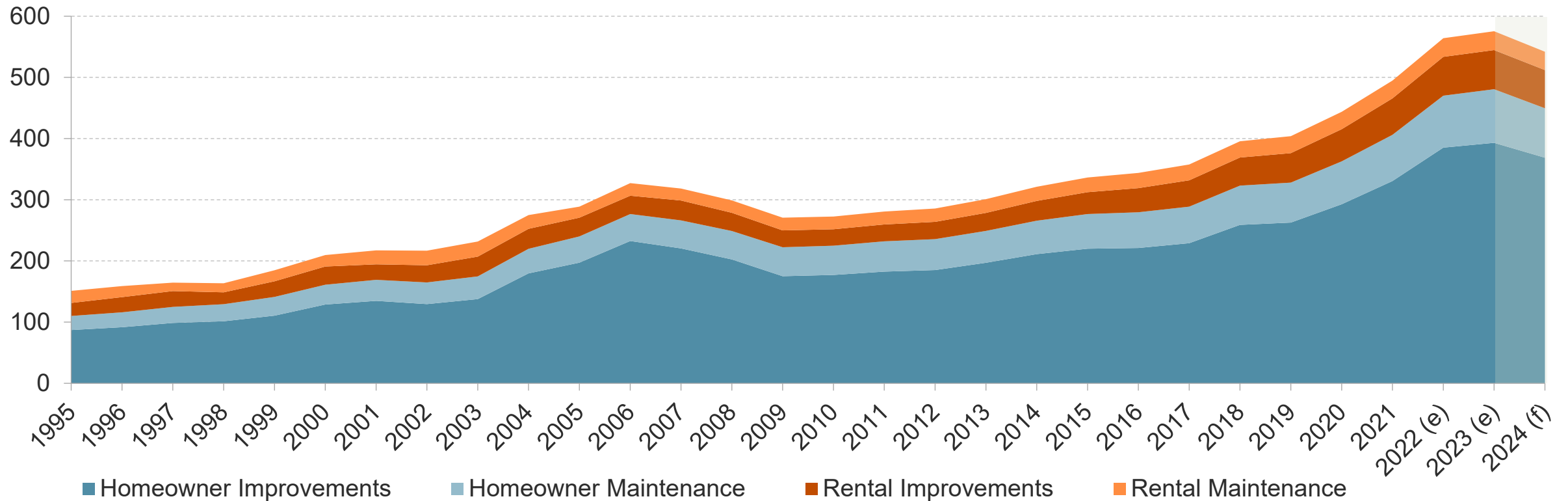


Note: Survey asked owners “In the last two years, did you do any home improvements to improve energy efficiency?”
Source: JCHS tabulations of HUD, 2021 American Housing Survey.

The Residential Remodeling Market Quickly Grew to New Heights in Recent Years

(Not for Distribution; Embargoed Until January 18)

Market Spending (Billions of dollars)



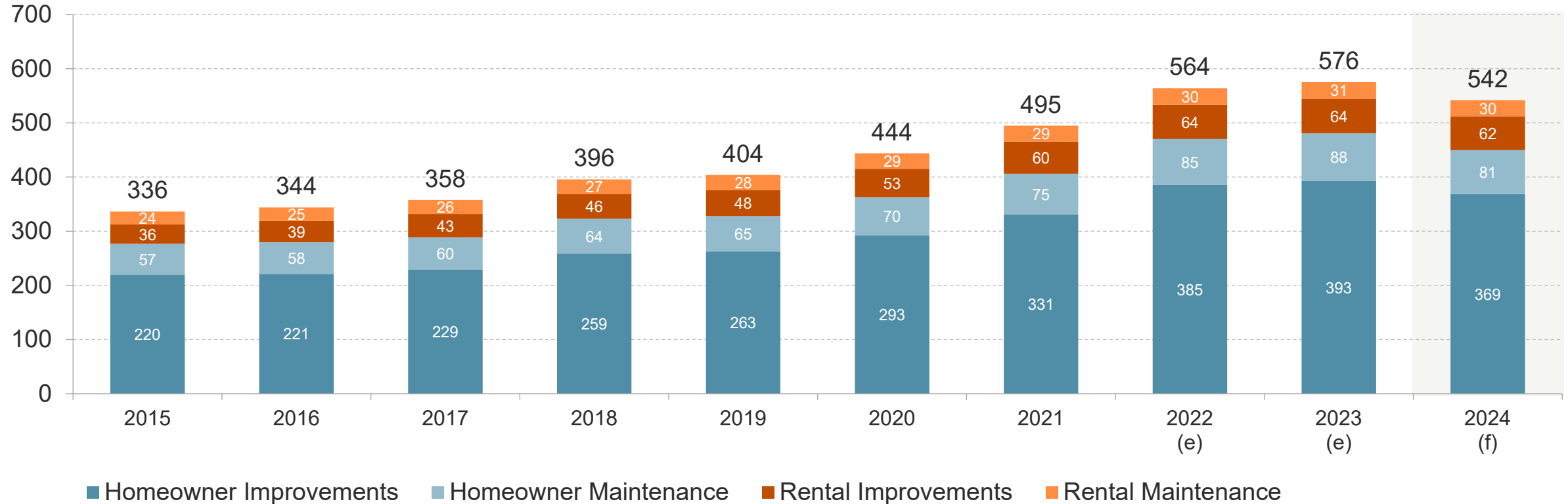
Notes: Estimated (e) and forecasted (f) values are modeled using the 2023:Q4 Leading Indicator of Remodeling Activity (LIRA).

Source: JCHS analysis of US Department of Housing and Urban Development (HUD), American Housing Surveys; US Department of Commerce, Retail Sales of Building Materials; US Census Bureau, Surveys of Residential Alterations and Repairs (C-50); US Bureau of Economic Analysis, Detailed Fixed Asset Tables; US Bureau of Labor Statistics, Consumer Price Index: Rent of Primary Residence; and LIRA.

After a Pandemic-Induced Surge, the Home Remodeling Market Is Expected to Contract in 2024

(Not for Distribution; Embargoed Until January 18)

Market Spending (Billions of dollars)



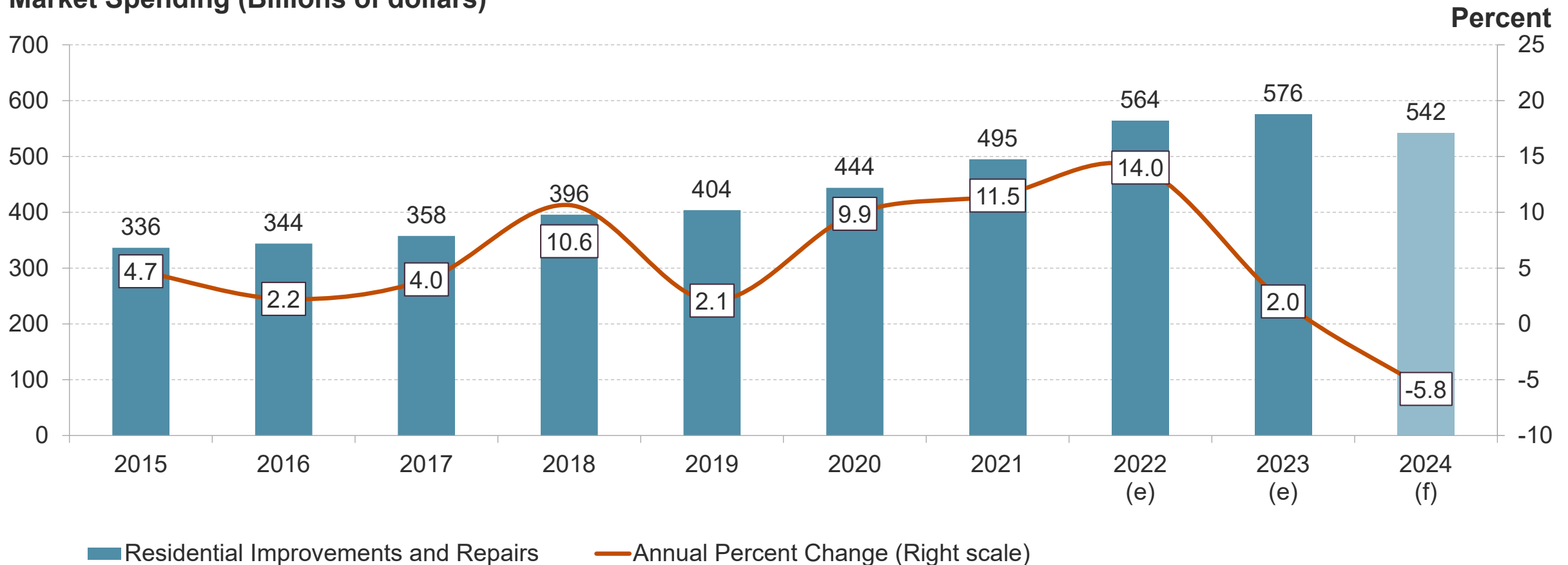
Notes: Estimated (e) and forecasted (f) values are modeled using the 2023:Q4 Leading Indicator of Remodeling Activity (LIRA).

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R&R Expenditure Is Projected to Decline Moderately in 2024

(Not for Distribution; Embargoed Until January 18)

Market Spending (Billions of dollars)









Notes: Estimated (e) and forecasted (f) values are modeled using the 2023:Q4 Leading Indicator of Remodeling Activity (LIRA).








Source: JCHS analysis of US Department of Housing and Urban Development (HUD), American Housing Surveys; US Department of Commerce, Retail Sales of Building Materials; US Census Bureau, Surveys of Residential Alterations and Repairs (C-50); US Bureau of Economic Analysis, Detailed Fixed Asset Tables; US Bureau of Labor Statistics, Consumer Price Index: Rent of Primary Residence; and LIRA.

Remodeling Activity Faces Serious Challenges Today, But Numerous Tailwinds Should Support Longer-Term Growth

CHALLENGES

-  High prices
-  High interest rates
-  Softening house price appreciation
-  Declining home sales
-  Skilled labor shortage
-  Risk of recession

OPPORTUNITIES

-  Massive levels of home equity
-  Continued transformation of home uses
-  Old and aging housing stock
-  Growing activity among Millennials
-  Increasing accessibility needs of older owners
-  Growing need for disaster repairs and mitigation
-  New incentives for energy-efficiency and electrification

Remodeling Futures Steering Committee

- The Harvard JCHS [Remodeling Futures Program](#) seeks to produce a better understanding of the home improvement industry and its relationship to the broader residential construction industry.
- The program's [Steering Committee](#) is comprised of industry leaders and partners from companies and organizations within remodeling contracting, building materials manufacturing and distribution, housing financing, business technology, trade associations, and government agencies.
- At biannual conferences, committee members review remodeling market conditions and new research, hear panel discussions on key and emerging industry themes, and discuss future activities.
- The Director of the Remodeling Futures Program is [Carlos Martín](#) and the Associate Director is [Abbe Will](#). Contact Carlos or Abbe for information on membership and research.
- A list of current Remodeling Futures Steering Committee member companies is available here: <https://www.jchs.harvard.edu/research/remodeling-futures>.

A row of houses with a prominent stone chimney. The image is split into two parts: the left side shows a row of houses with a blue overlay, and the right side shows a close-up of a stone chimney on a house with light-colored siding. The sky is overcast.

Thank You

Questions? Comments?

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www.jchs.harvard.edu/research-areas/remodeling