3 Unique Perspectives on The Changing Landscape of Remodeling

Residential remodeling has been steadily on the rise for the last several years. So what else is new? Actually, quite a lot. For businesses that deal with property, it's more important than ever to keep an ear to the ground for the changing landscape of remodeling activity.

Why now? Because 2016 saw some interesting changes in both remodeling growth rate and spending that could have a serious impact on business.

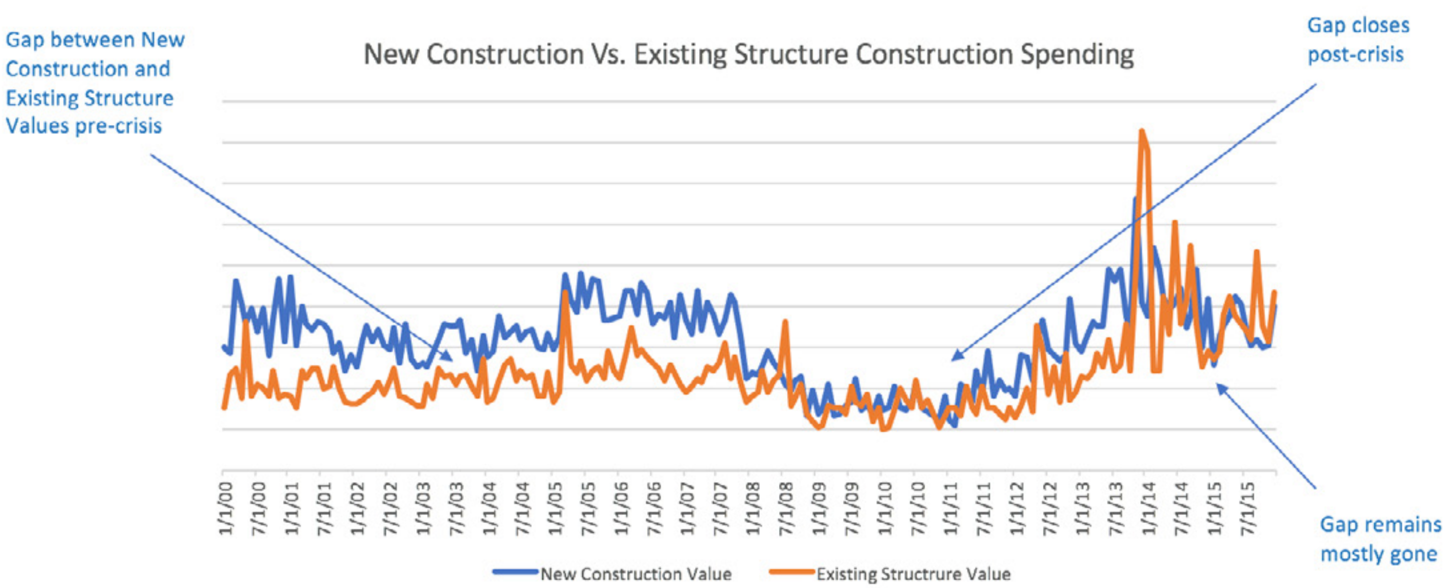
This study delivers a rich overview of remodeling activity across the U.S. from three unique perspectives: historical, national, and regional. Considering this research in these distinct umbrellas can inform the way businesses navigate the evolving trends in remodeling, and even provide a competitive advantage.

Looking Back: Historical New Construction & Remodel Spending

A look at residential new construction and existing structure construction spending throughout the course of the housing crisis reveals a breathtaking observation. Investment in existing structures is keeping pace with investment in new construction, which suggests that a large share of the latest boom in real estate prices can be attributed to renovations.

Prior to the crisis, the market saw a preference for increasing investments in new structures over renovating existing ones. On the graph below, there's a relatively large gap between the values associated with new construction and existing structures, which stays consistent until 2007.

Right around the start of the housing crisis, this gap virtually disappears, indicating that no real market preference for new structures remains.



Forecasting Improvements

Companies know how important it is to look at investments in new construction, but considering remodeling is increasingly critical since it accounts for a larger and larger share of overall construction spending.

Examining these trends in deeper detail could influence where building product manufacturers decide to develop new facilities. It could also inform the scale of production and a host of other business forecasting trends.

Equity traders and portfolio managers can use this data to identify which types of construction are attracting investments. This can also provide a boost to programs and models, giving informed traders a competitive advantage.

> Currently, no real market preference for investments in new structures remains.

Key Takeaways:

- New construction characterized the pre-crisis housing boom
- Investment in remodeling is now keeping pace with new construction which suggests renovations are fueling current home price increases

Predicting Home Depot Revenues

Home Depot earns more revenue when and where remodeling is taking place. A recent study shows Home Depot's revenue statistically co-integrated with a geo-targeted BuildFax index.

This type of data can effectively improve forecasts of other industry-relevant equity earnings as well.

Want to read the full study? Drop a note: sales@BuildFax.com

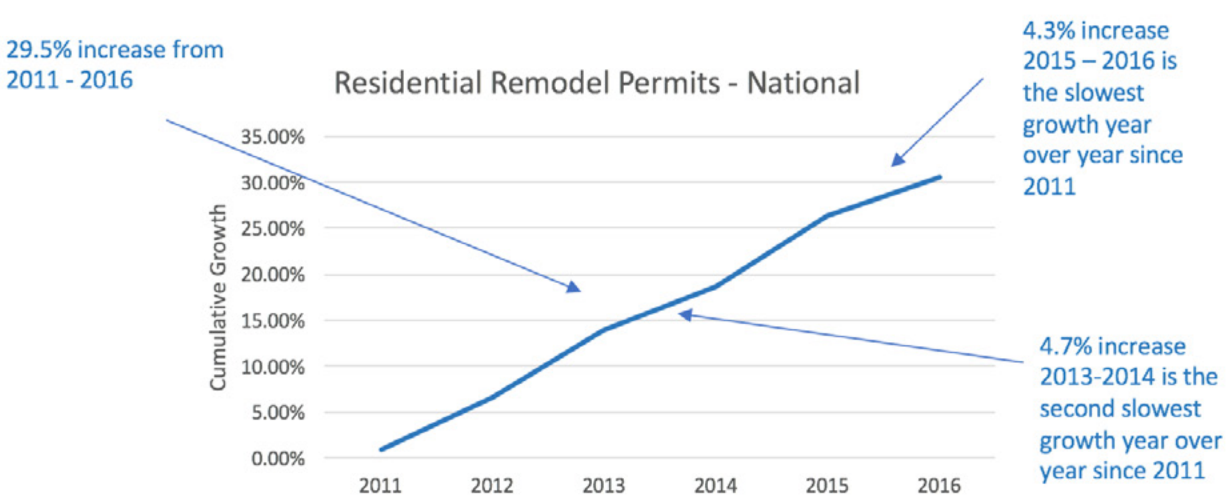
A National Perspective

A national look at residential remodeling across the country shows what one would expect: the upward trend continues. Residential remodeling activity has increased by 30% since 2010. But with a closer look, the current data actually reveal a slight decrease in growth.

Since 2011, home remodeling has increased by an annualized 5% per year on average. By that account, last year's 4.3% increase is actually falling a bit short. Looking closer at the year over year growth in the five years analyzed, growth hasn't been this slow since 2011. The only other year showing growth under the average of 5% was 2014, when there was a 4.7% increase.

While it certainly doesn't indicate a lull, this slight slow-down in momentum is worth noting. The slower growth reflects the general direction of the US economy during that period – markets were volatile, and the economic outlook was uncertain.

> A national look at residential remodeling across the country shows what one would expect: the upward trend continues.



National Remodel Spending: Small but Mighty

On a national level, we see that homeowners have continued to ramp up their remodeling activities… just slightly less than normal. So how does their spending compare during this period?

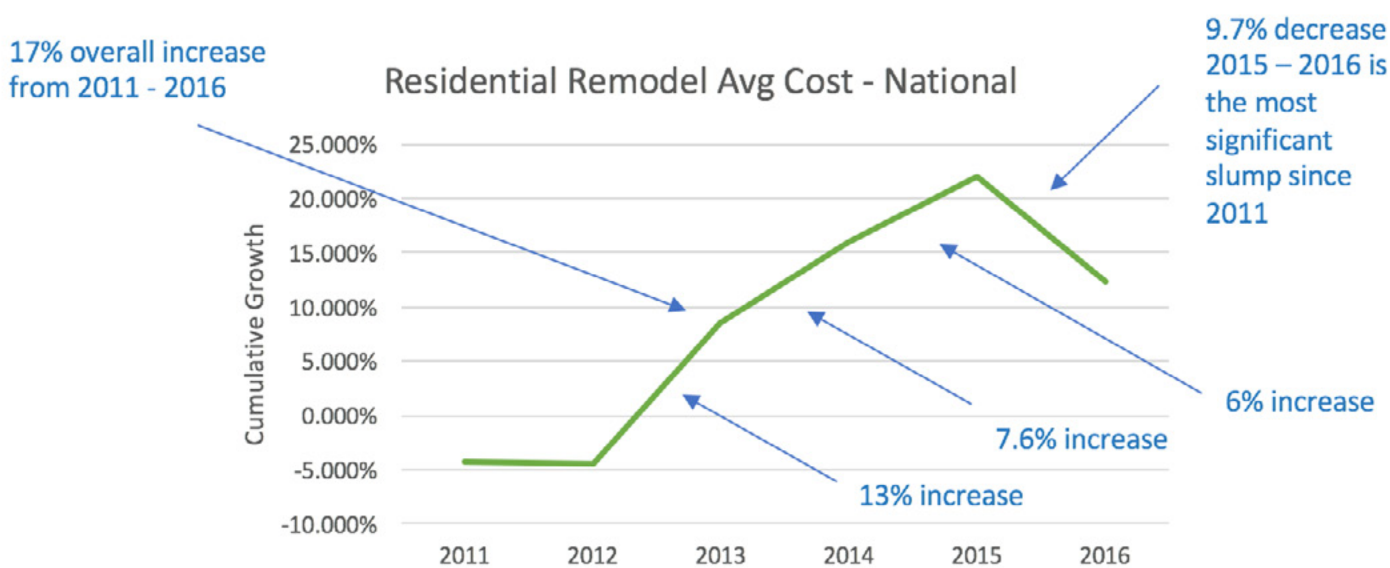
While the average cost attached to residential remodeling projects fluctuated greatly over the last five years, it grew by an annualized average of 2% per year (it's still higher today than it was in 2011).

However, last year saw a dramatic drop-off in spending. The average cost for a remodeling project plummeted by nearly 10% from 2015 to 2016 – the first drop indicated since 2012.

This pattern suggests that homeowners who are renovating are choosing simpler projects than in years past. They still worked on their homes, but on a much smaller scale.

From a cost-value ratio, these mini-projects can provide a lot of value for the money. A new garage door, for example, recoups 90.1% of the cost at resale. Insulating an attic costs just over $1,000 on average, and it can actually recoup 116.9% of that cost. [SOURCE]

Considering the slightly slower remodel growth rate, this discovery fits right in. In times of uncertainty, people are more likely to play it safe, and homeowners are no exception. Though they still wanted improvements, these smaller projects with a higher ROI are much less risky.



Changing Customer Behaviors

Though average homeowners may be spending less on a remodel, they're still increasing the amount of remodeling they choose to undertake. This presents some interesting possibilities for business.

For insurance carriers, paying attention to the changing behaviors of their customers could highlight opportunities for marketing. Since homeowners are typically spending less, would they also be more likely to take advantage of discount programs? And could customer experience be improved by catering to the evolving needs of homeowners during these renovations?

Building product manufacturers should also be watching these behaviors closely. Could an increase in smaller-scale home improvement projects inform product development? Would products or kits especially suited to these mini-projects be worth some extra research and investment?

What effect might these changing consumer spending behaviors have on stocks dependent upon the construction industry? Equity traders can tune into these spending patterns to anticipate movement of stocks and improve earnings forecasts.

Key Takeaways:

- Since 2011, home remodeling has increased by an annualized 5% per year on average
- Residential remodeling increased 4.3% last year, which is a slight slow-down in momentum
- Spending associated with residential remodeling fell 10% last year, suggesting homeowners focused on smaller projects
- From 2011 to 2016, the average cost attached to residential remodel projects grew by an annualized average of 2% per year and saw a 17% increase overall
- Remodeling activity and spending is a customer behavior to watch

> This pattern suggests that homeowners who are renovating are choosing simpler projects than in years past.

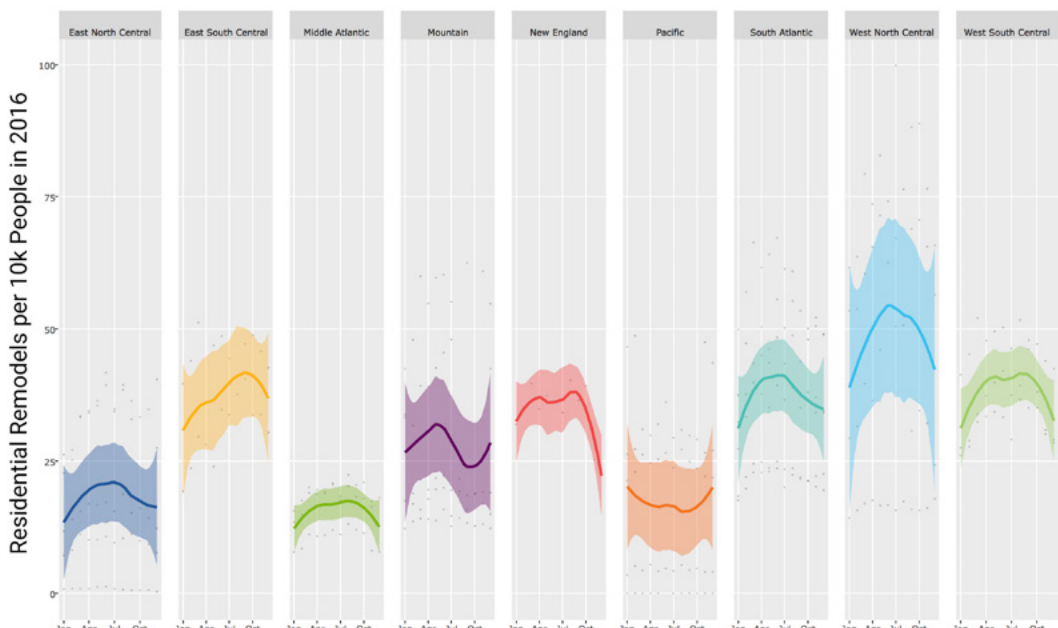
A Regional Point of View

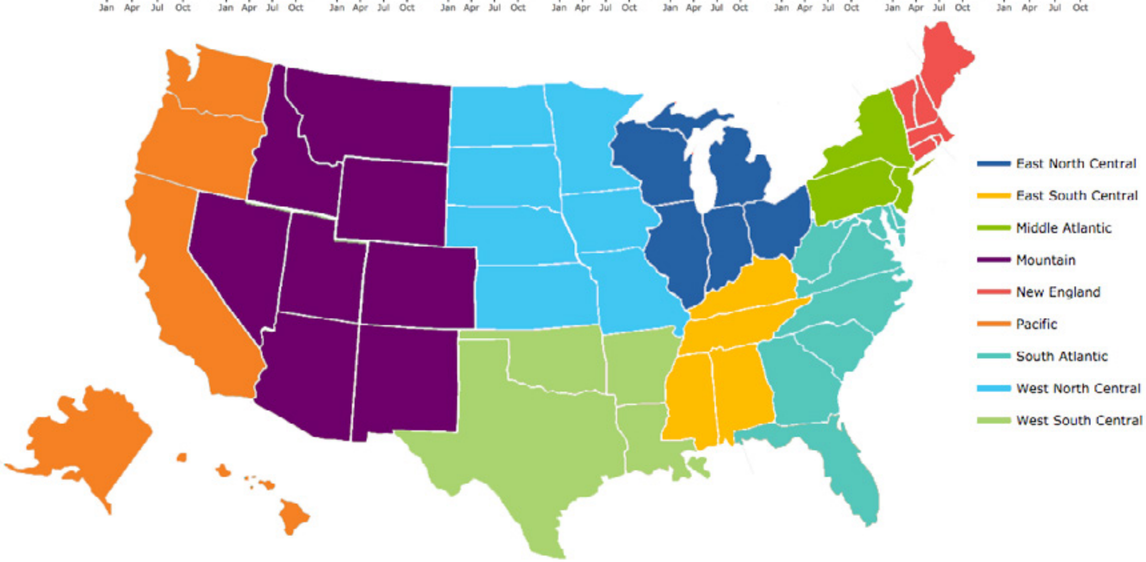
While national remodeling trends present a cohesive picture of consumer behavior, considering regional trends individually can help pinpoint specific areas that businesses can use to capture a competitive edge.

The graphs below show that residential remodeling in most regions tends to peak in the summer months, with higher midpoints indicating larger seasonal swings.

Remodeling in the West North Central region appears to be exceptionally seasonal, for example, showing a remarkable spike in activity during the summer. Remodeling in the Pacific region stays relatively flat, though – perhaps because of their year-round mild climate.

Looking at the endpoints of each line, most regions show a slight increase during the year, which is consistent with the national trend. Notice, however the slight decrease in remodeling activity in the Middle Atlantic and New England regions.





Regional Remodel Spending: All Over the Map

Not all regions of the country behave the same when it comes to remodeling, and they don't all spend the same either. Not even close.

In 2016, the biggest-spending region was New England, with homeowners spending on average $2,640 per capita. The lowest numbers are in the Middle Atlantic region, which spent on average of just $145 per capita.

Overall, six of the nine regions spent less than $1,000 per person on average in 2016, which is in line with homeowners focusing on smaller, simpler home improvement projects last year. Another explanation might be that certain regions saw more projects taking place, regardless of their size and cost.

Region	Average Remodel Cost Per Capita
Middle Atlantic	$145
East South Central	$435
West North Central	$500
South Atlantic	$510
East North Central	$525
Pacific	$625
Mountain	$1,025
West South Central	$2,000
New England	$2,640

* These values reflect spending of the average person, not the cost of an average remodel

Capture An Edge

Remodeling activity and average spending varied widely from region to region last year, which underscores the necessity of having multiple perspectives on remodeling trends. The country doesn't remodel at a homogenous pace, so looking at the data by region (or even by city or state) can reveal a much deeper level of detail.

Insurance carriers could use regional data like this to refine rating territories or boost rollout strategies in new states. Properties that have been recently updated could present fruitful opportunities for targeted marketing. With 35 years as the median age of U.S. homes, these older updated homes can act like newer homes in terms of risk, giving carriers an edge when it comes to competitive pricing and marketing.

Building product manufacturers could also benefit from regional data for business forecasting. Knowing which areas of the country are remodeling more and spending more (or less) could have a major impact on improving the accuracy of these models.

Equity traders could also benefit from regional remodeling data since it is an indicator of the performance of stocks dependent on the construction industry. By looking at specific geographical areas, traders can improve forecasts of industry-relevant equity earnings.

Key Takeaways:

- Most regions saw an increase in residential remodeling in 2016, with peaks in the summer
- The New England region spent the most in 2016, spending on average $2,640 per capita
- Six of the nine regions spent less than $1,000 per capita on average in 2016
- Regional trends uncover potential business advantages such as marketing and forecasting

“Older updated homes can act like newer homes in terms of risk, giving carriers an edge when it comes to competitive pricing and marketing.

Mini Case Study: Insurance

A top insurance carrier focused their marketing efforts on recently renovated properties and saw a 10% conversion rate on a direct mail campaign

About BuildFax:

BuildFax, headquartered in Austin, Texas, is trusted by the largest insurance and financial institutions in the world to deliver business-critical property condition and history data. With the only database of its kind encompassing more than 23 billion data points on commercial and residential structures, BuildFax delivers detailed data on everything from remodeling, solar installations, new construction, roof age, maintenance history, and more. To learn more about BuildFax, visit www.buildfax.com.

Methodology:

BuildFax conducted this study by creating a balanced sample where monthly data was available from 2011 through 2016.

[For more information please contact us at hello@BuildFax.com.]