

December 2011 Housing Notes: Remodeling, Households, and Europe



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Executive Summary

The commentary reviews January's housing data and is intended to provide a wide-ranging perspective on the current conditions impacting the United States housing market. This section reports on housing market data concerning remodeling, demographics, employment, a short on European debt, and conclusions.

January's construction spending also increased and remodeling is expected to increase later in the year. Of note in this commentary is the value of remodeling and new home construction.

There was positive news on employment, both the U.3 and U.6 rates decreased; however, that was tempered by the Labor Force Participation Rate, which declined to early 1980s levels.

The recession appears to be the factor for the apparent leveling off in household numbers, the decrease in household formations, and children moving back in with their parents. Typically this can be viewed as 'pent-up' demand – when the economy improves, this may lead to new housing buyers.

Lastly, Greece – the ramifications on the outcome of the Grecian debt crisis will have international ramifications.

Overview

U.S. Housing

Remodeling indices

Households

Household formation factors

Employment

Europe

Eurozone *redux*

Conclusion

Commentary on Housing

Comments

Economic deterrents to a meaningful housing recovery are unchanged

- European sovereign debt crisis
- European bank crisis
- China – continued growth, a soft or hard-landing???

Encouraging News

- Unemployment rate (U.3 - 8.3%; U.6 - 15.1%) – both decreased
- The Labor Force Participation Rate decreased to 63.7%

Commentary on Housing

In the upcoming slides we will look at remodeling:

- Forecasts

- Demographics

- Marketing research

While the remodeling sector appears to be promising, it may be constrained by:

- Financing

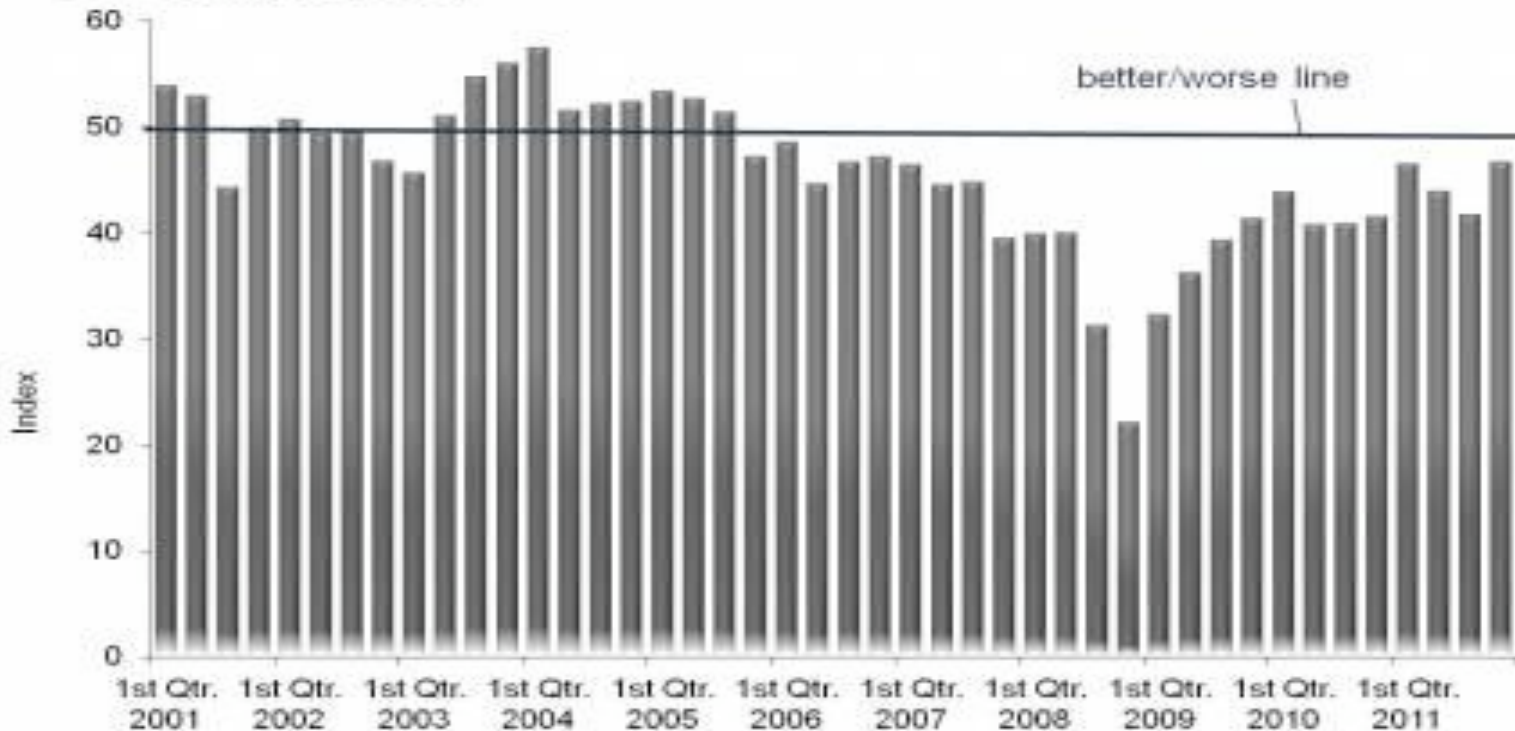
- Consumer sentiment

- Contractor availability

- Raw material and commodity costs

Commentary on Housing

Remodeling Market Index (RMI)
Seasonally Adjusted



Positive news, several NAHB remodeling component indices rose above 50 in the 4th qtr of 2011:

Major additions: 52.3 (from 45.2); Minor additions: 50.1 (from 45.7);

Future activity bids: 50.7 (from 45.4); Appointments for proposals: 50.1 (from 43.3)

NAHB: “With a number of key components above 50, the RMI provides reason for guarded optimism for residential remodeling going forward...”

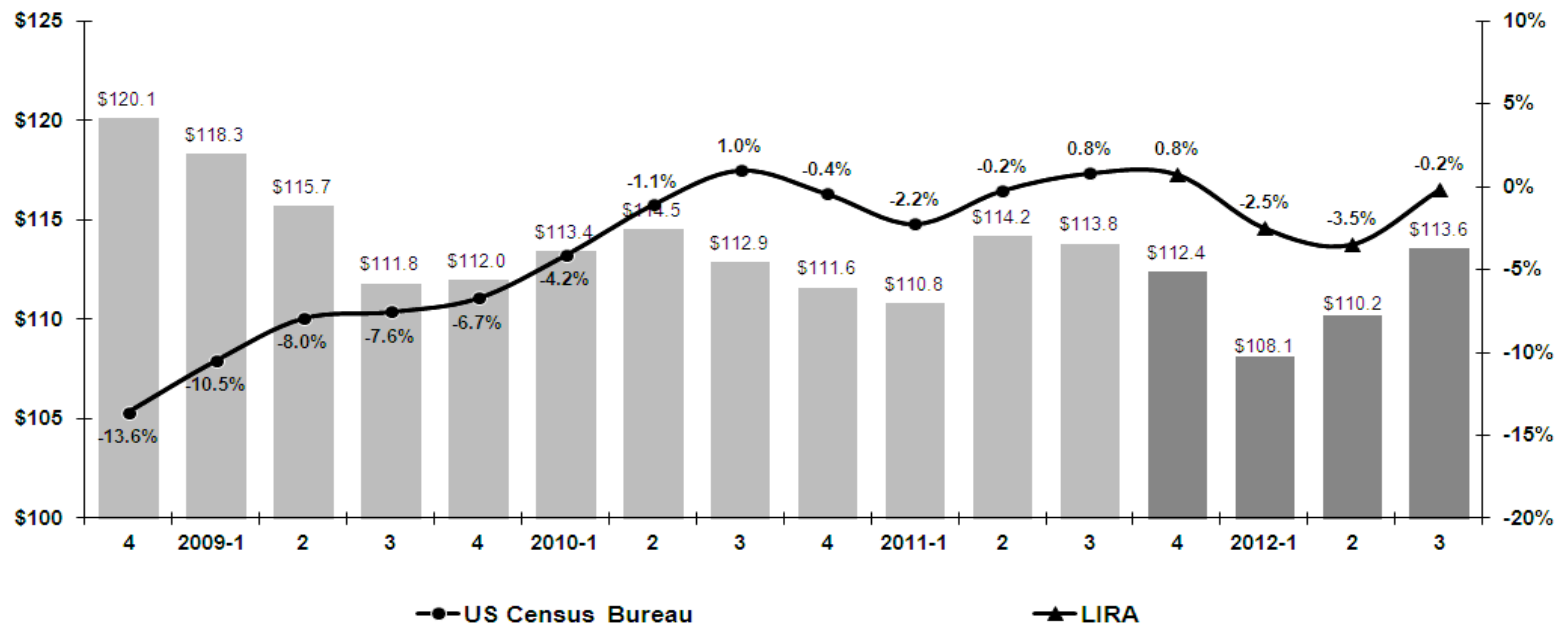
Source: NAHB®

Commentary on Housing

Leading Indicator of Remodeling Activity – Fourth Quarter 2011

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.

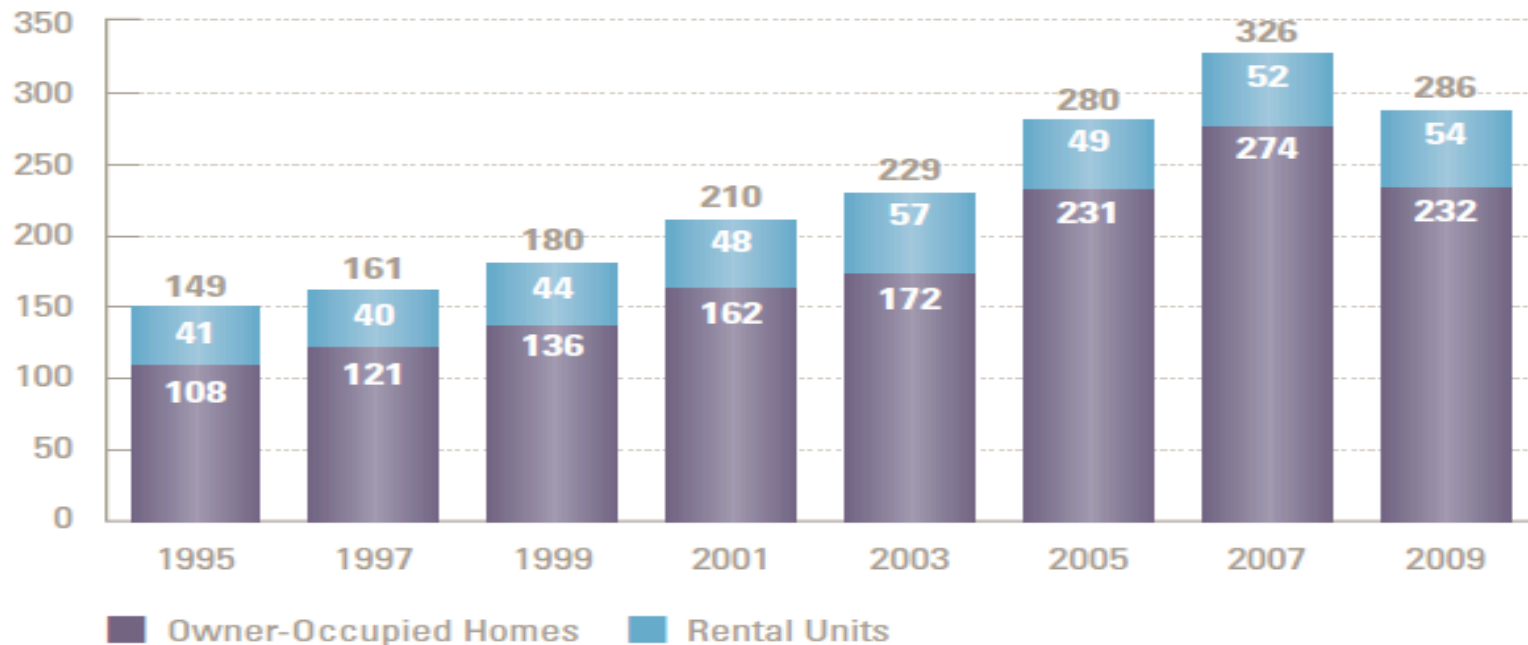
Leading Indicator of Remodeling Activity (LIRA):

“Home improvement spending is expected to increase later this year”

Commentary on Housing

Even with the Recent Decline, the Remodeling Market Is Nearly \$300 Billion

Improvement and repair expenditures (Billions of dollars)



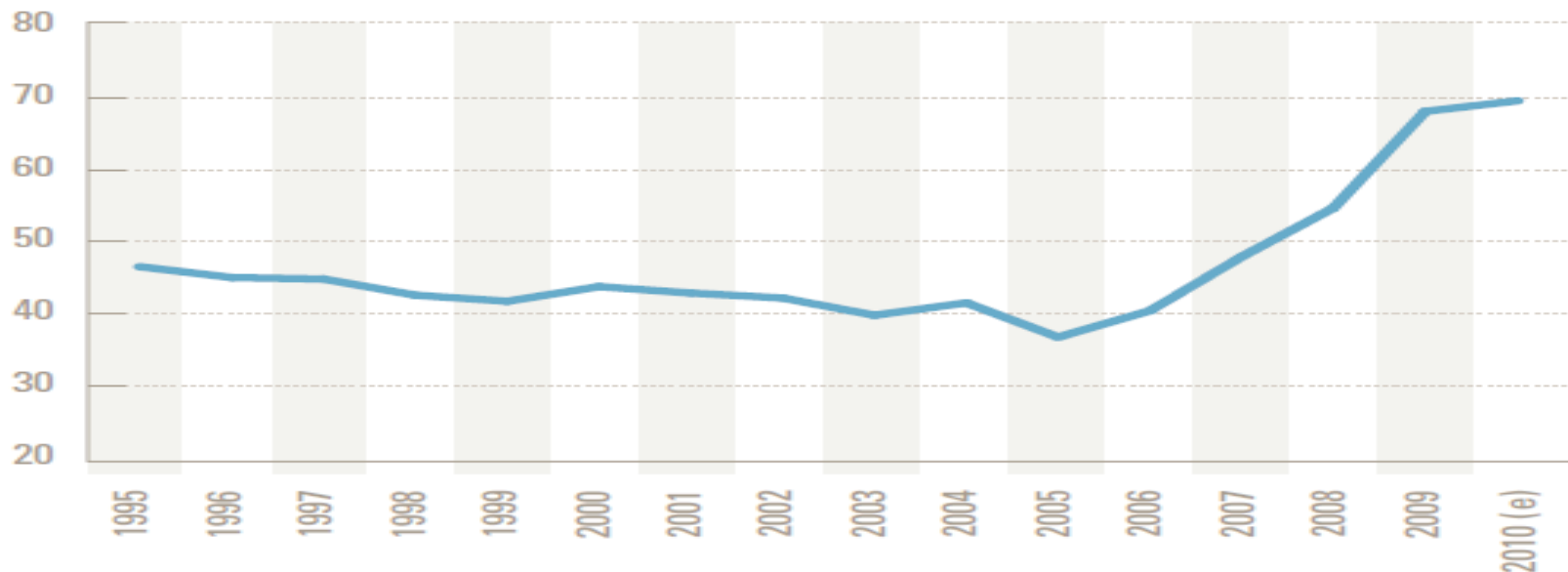
Sources: JCHS tabulations of the 1995–2009 American Housing Surveys (AHS); US Department of Commerce Survey of Expenditures for Residential Improvement and Repairs (C-50); and Abbe Will, *Estimating National Levels of Home Improvements and Repair Spending by Rental Property Owners*, JCHS Research Note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

LIRA: “From 1995 to 2009, the remodeling market nearly doubled in size in nominal terms and was up over 36% in real terms...”

Commentary on Housing

Remodeling Spending Is Contributing a Growing Share of Residential Investment

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



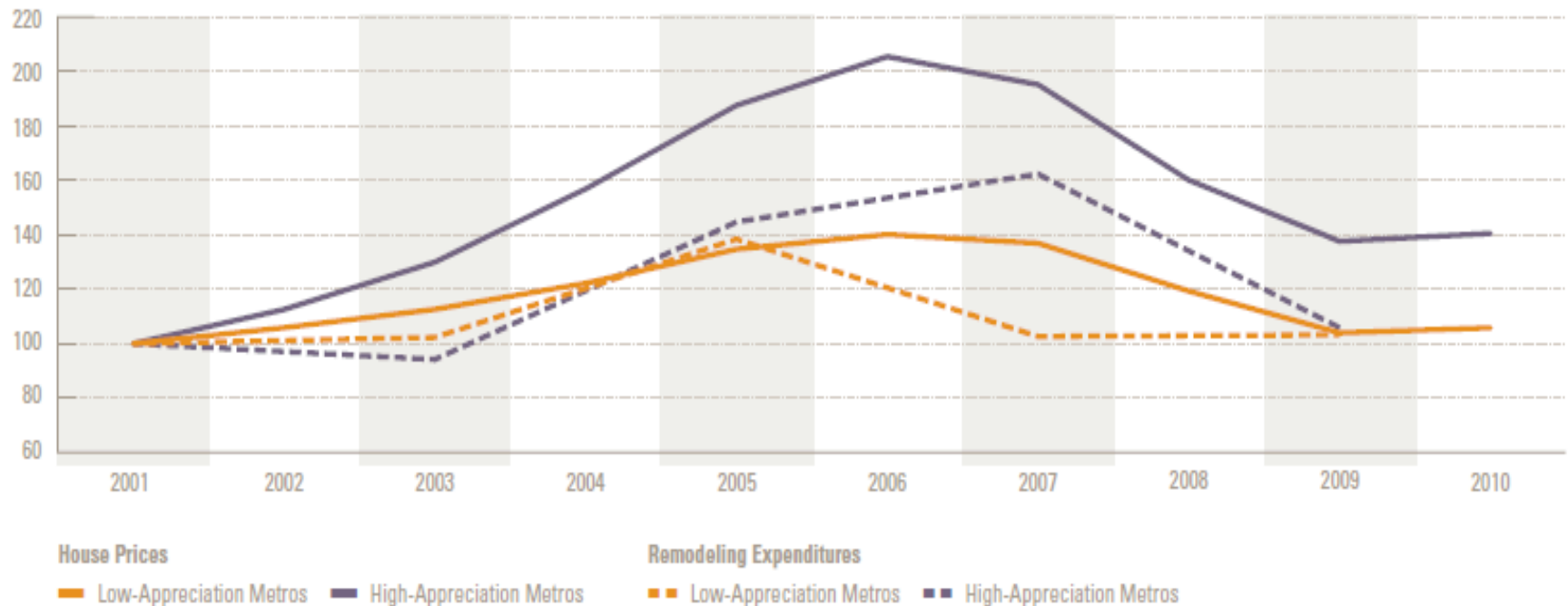
Note: Total residential investment expenditures include the value of construction put in place for new single-family homes, multifamily homes, and improvements and repairs to owner-occupied and rental units. Sources: JCHS tabulations of the 1995–2009 AHS; US Census Bureau, C-50 series and Value of Private Construction Put in Place (C-30); McGraw-Hill Construction, Commercial & Industrial Alterations; Bureau of Labor Statistics, Consumer Price Index; and the JCHS Leading Indicator of Remodeling Activity.

According to LIRA, “In recent decades, expenditures on home improvements and repairs have averaged 40-45% of total residential investment. However, changes in the remodeling share tend to be countercyclical: when the economy and housing markets are strong, spending on new construction generally grows faster than on remodeling, pushing the remodeling share down.” Source: www.jchs.harvard.edu/sites/jchs.harvard.edu/files/2011_remodeling_color.pdf

Commentary on Housing

Improvement Spending and House Prices Track Closely

Indexes



Notes: Indexes include metros for which S&P/Case-Shiller data and AHS remodeling data are available. Low-appreciation metros are those with below-median appreciation between 2000 and the decade peak; high-appreciation metros are those with above-median appreciation.

Source: JCHS tabulations of the 2001–9 AHS and S&P/Case-Shiller Aggregate Indexes from Moody's Analytics DataBuffet.com.

LIRA: “Home prices and improvement spending changes indicate similar tendencies in the past decade, both increasing simultaneously from 2001 to 2006; with a bottom in 2009”.

Commentary on Housing

Remodeling Spending Is Concentrated in Major Metropolitan Markets

Average annual homeowner spending, 2000–9 (Billions of 2009 dollars)



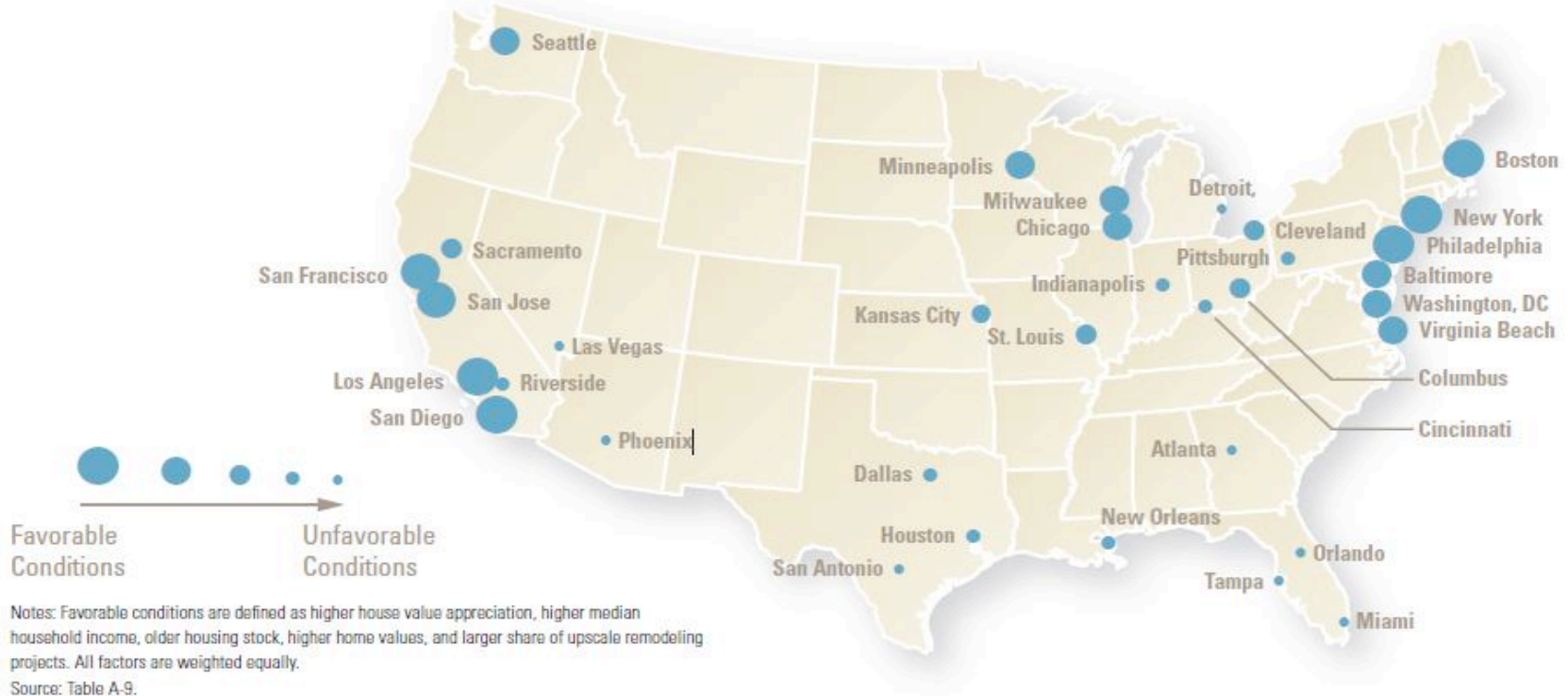
LIRA: “...over the past decade the top 10 metro markets were home to just 22% of homeowners but accounted for 31% of total homeowner improvement spending (net of routine maintenance expenditures). The top 35 metros were home to 43% of homeowners but accounted for nearly 55% of spending.”

Source: www.jchs.harvard.edu/sites/jchs.harvard.edu/files/2011_remodeling_color.pdf

Commentary on Housing

Conditions in Several Metro Markets Point to a Rebound in Remodeling Activity

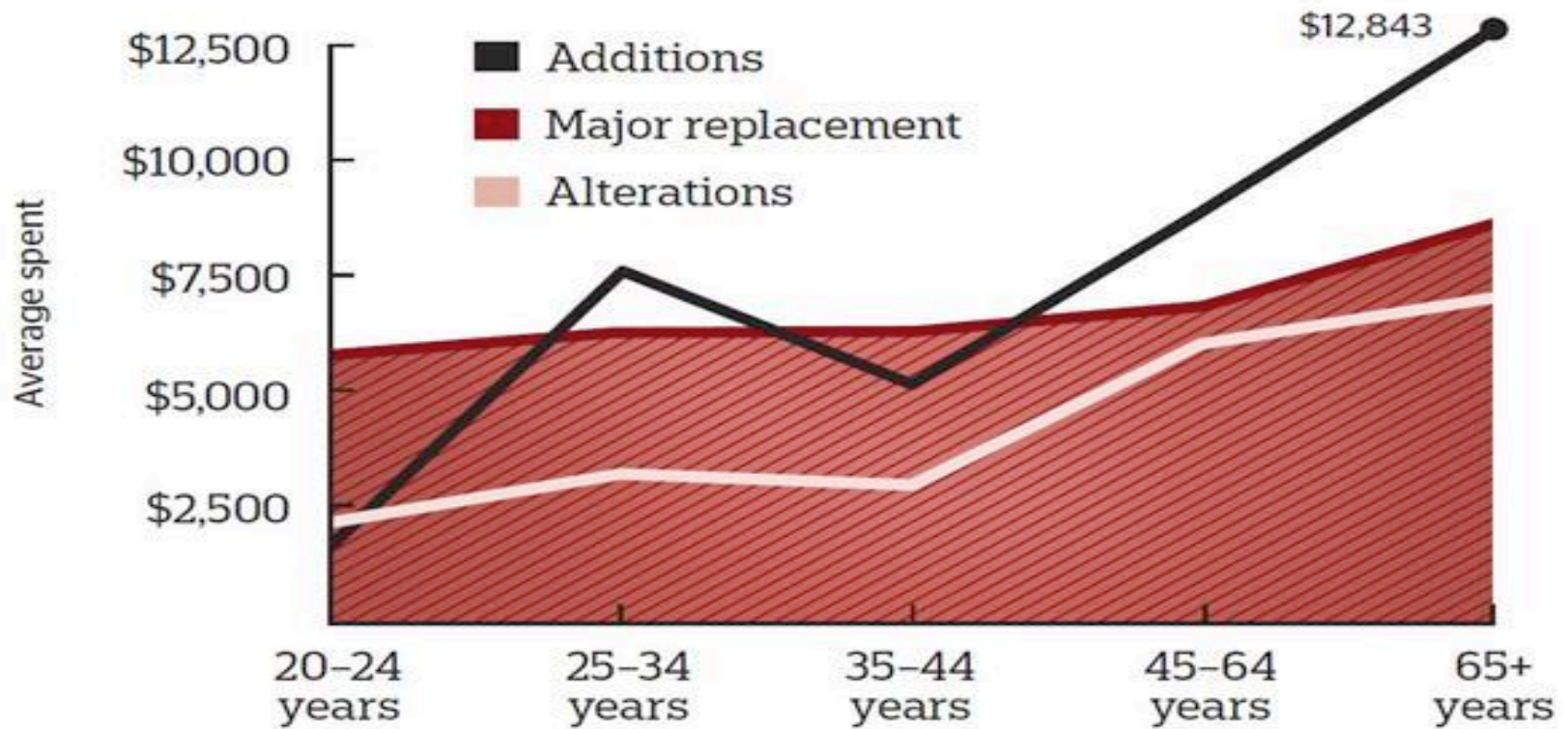
Ranking of metros by market conditions in 2009–10



According to LIRA, “... based on local market conditions in 2009-10, several metropolitan areas appear well-positioned for an upturn in remodeling activity — and many of the stronger metros are among the traditional top-spending markets. Philadelphia, Baltimore, Milwaukee, and Chicago also appear promising. These markets may be poised for faster recoveries because they have older housing stocks, higher incomes and home values, and a larger share of upscale remodeling expenditures.”

Commentary on Housing

Remodeling expenditures increase with owner age

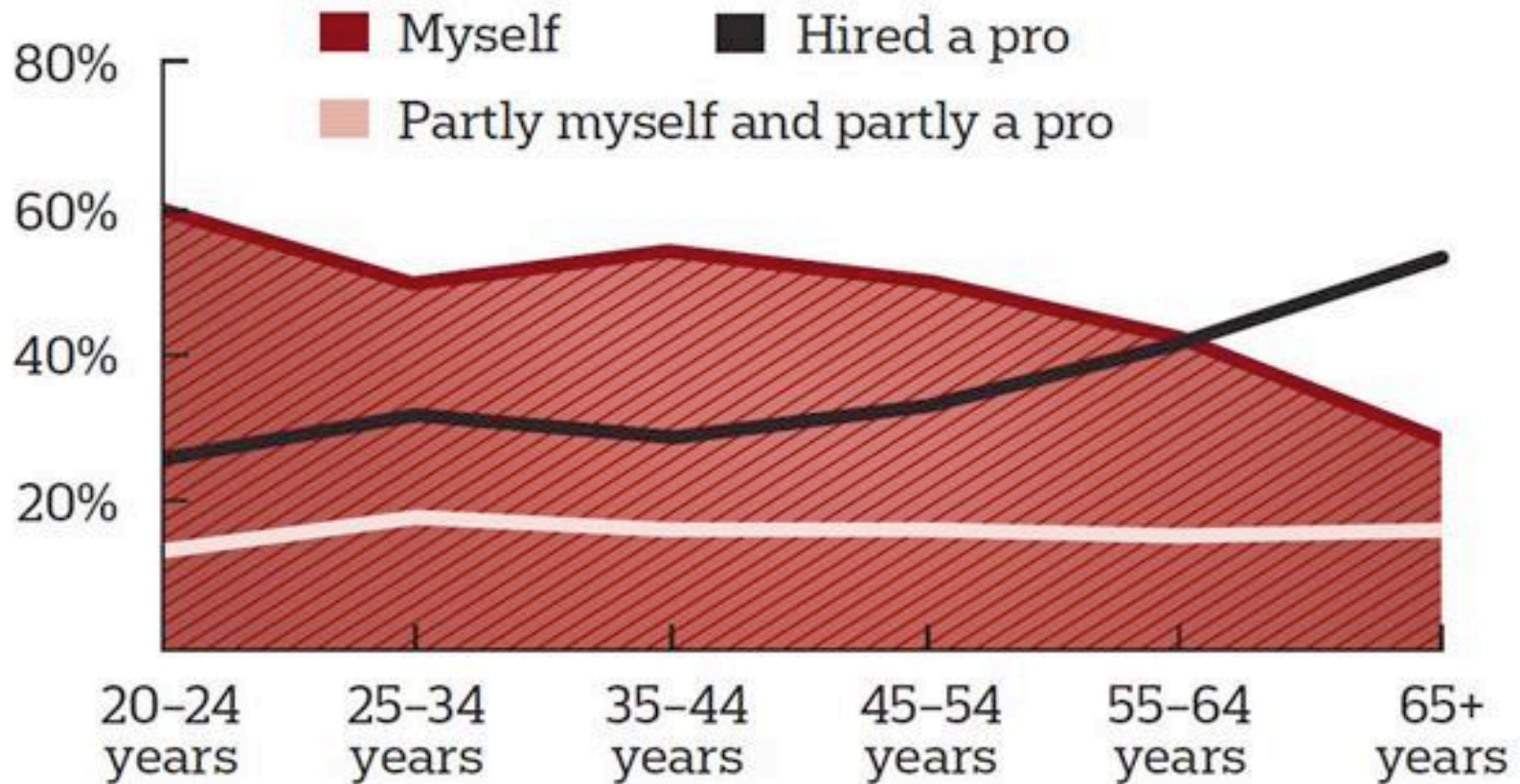


According to Housing 360:

“Older homeowners spend more partly because the projects they undertake are larger, but also because they are more likely than younger owners to hire professionals to do the work”

Commentary on Housing

Who does the work?



Commentary on Housing



Hanley-Wood's "Residential Remodeling Index identified three household types that are most likely to spend on remodeling. In this hypothetical neighborhood of 28 homes, marketing ROI for ½ of the households (red/orange) is much better than for the other half (blue/green)."

Housing Demographics

In the upcoming slides, we look at few variables that favor a housing recovery, when the economy improves:

- Home ownership rate

- Rental vacancy rate

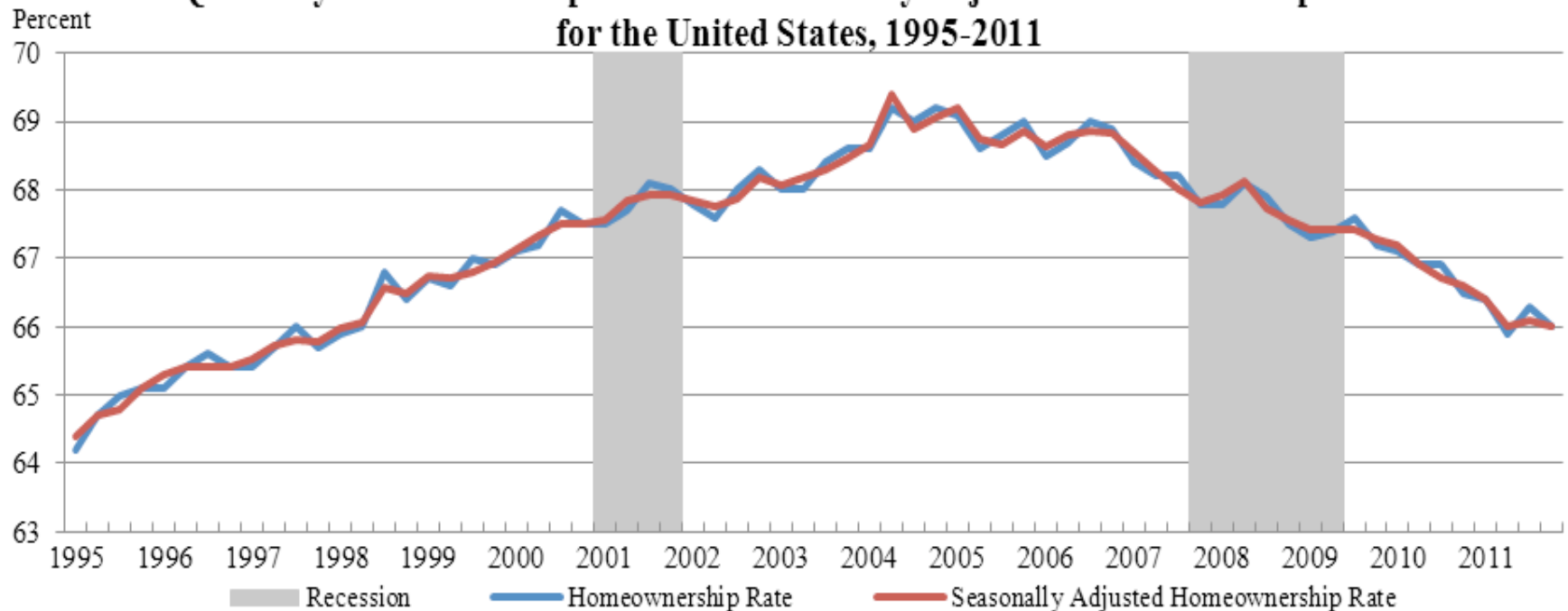
- Households and Household formations

- Doubling-Up

- Single households

Commentary on Housing

Figure 4
Quarterly Homeownership Rates and Seasonally Adjusted Homeownership Rates
for the United States, 1995-2011

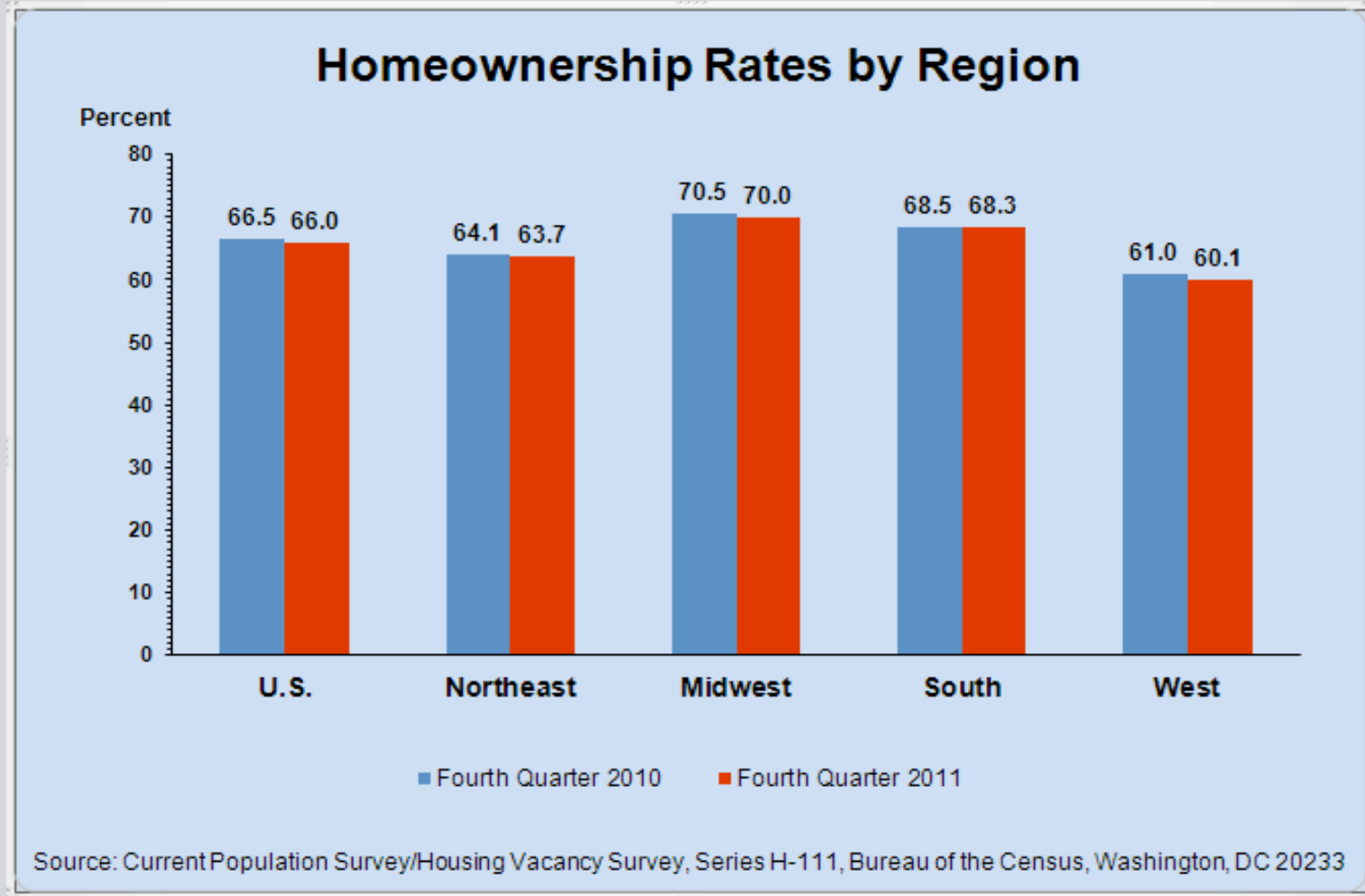


As of the 4th qtr of 2011, the home ownership rate is declining slightly

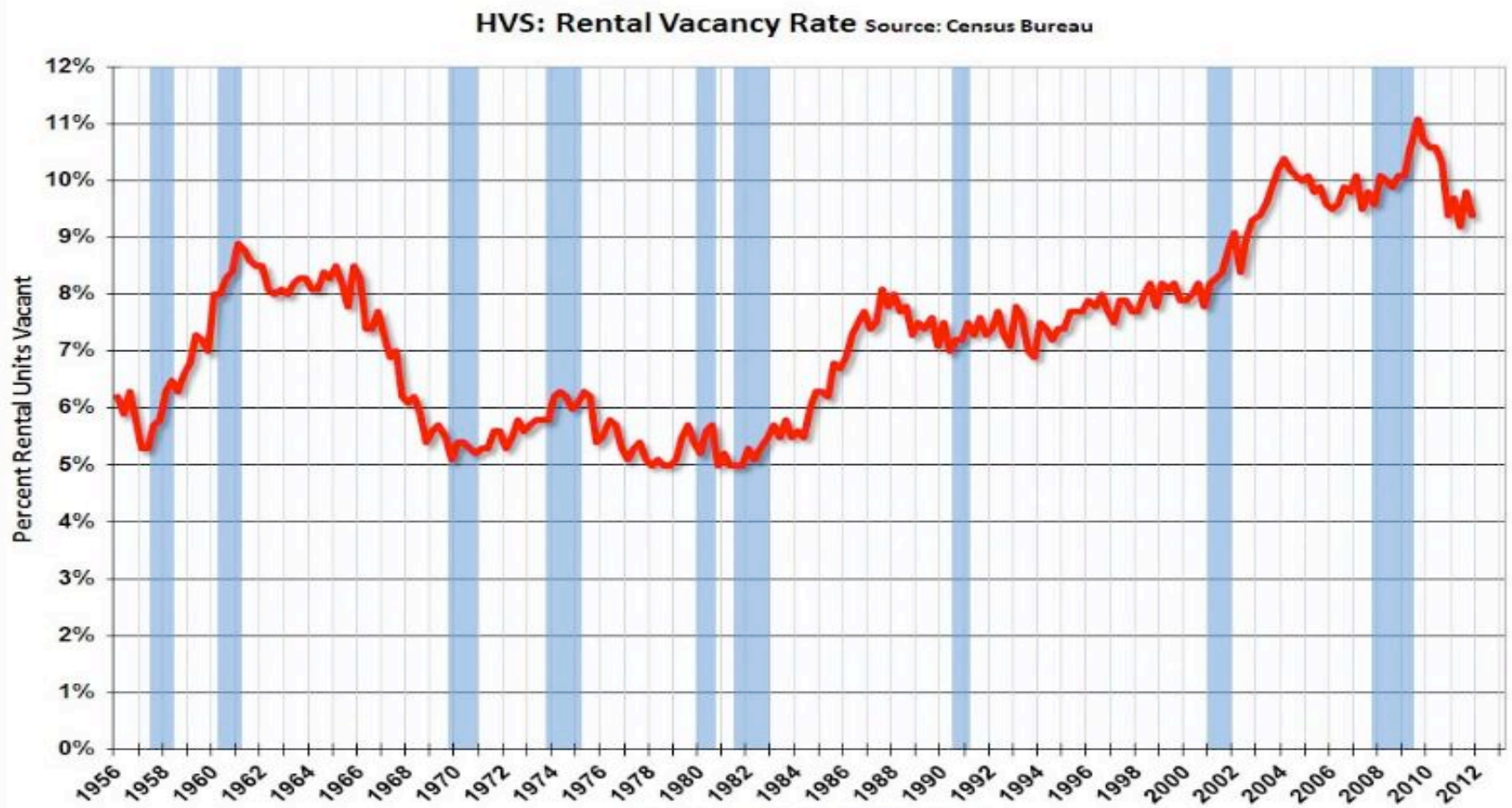
The homeownership rate of 66% was less than the 4th quarter 2010 rate of 66.5% and the 4th quarter 2011 of 66.3%.

Historical home ownership rate: 60% - 65% in the 3-decades prior to the “bubble”

Commentary on Housing

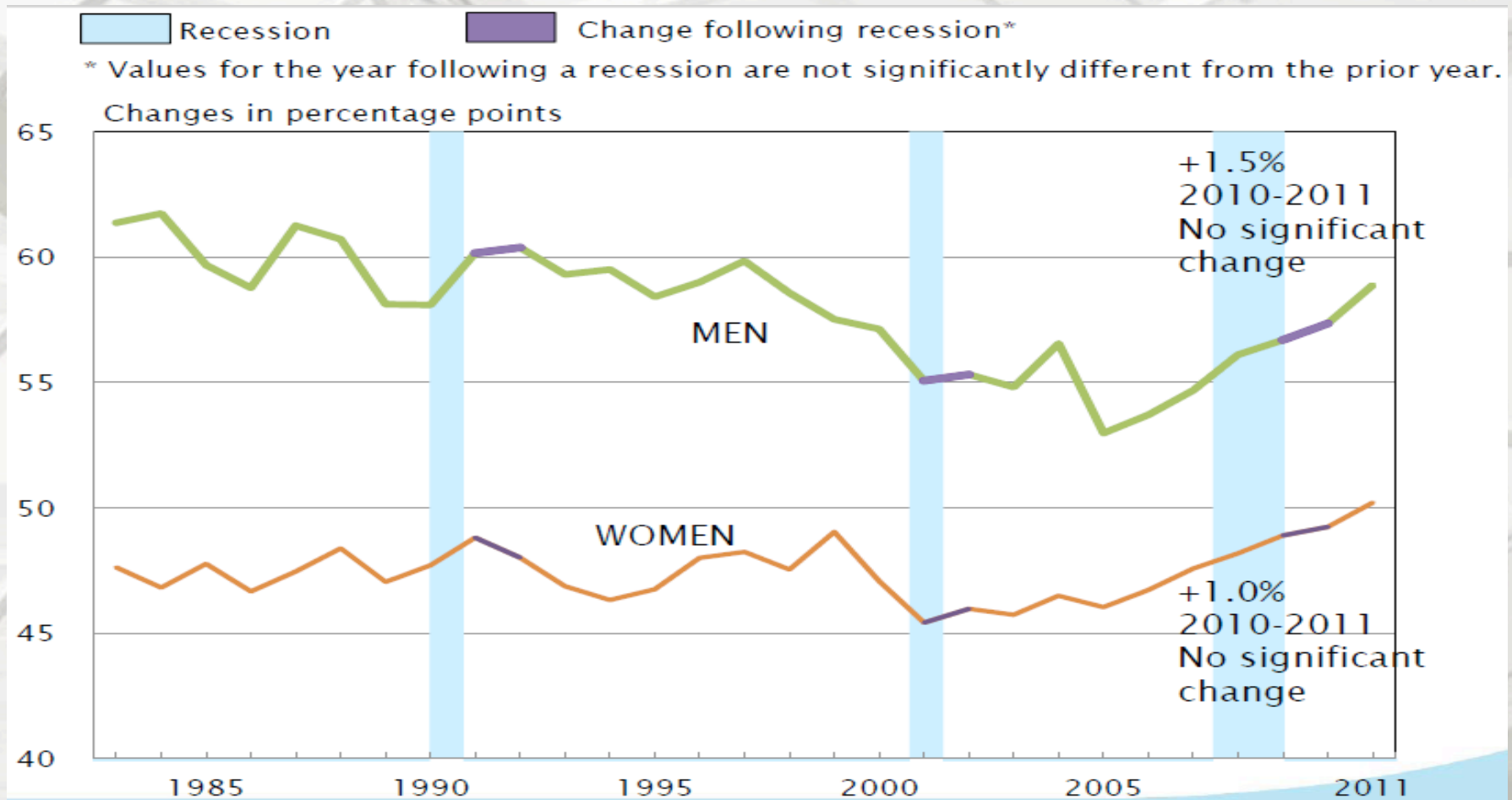


Housing Demographics



The U.S. apartment vacancy rate fell to 9.8% in Q3 2011. Bloomberg reported that Reis, Inc. estimated the vacancy rate declined to 5.2% - - a 10-year low in Q4 2011 - - the least since 2001's end. As a consequence, "...rent increases are likely to continue this year, and the average effective monthly rent rose 2.3% year-over-year to US \$1,009." This also may be considered as an indicator for pent-up demand. With a recovery, future renters may become home buyers.

Housing Demographics

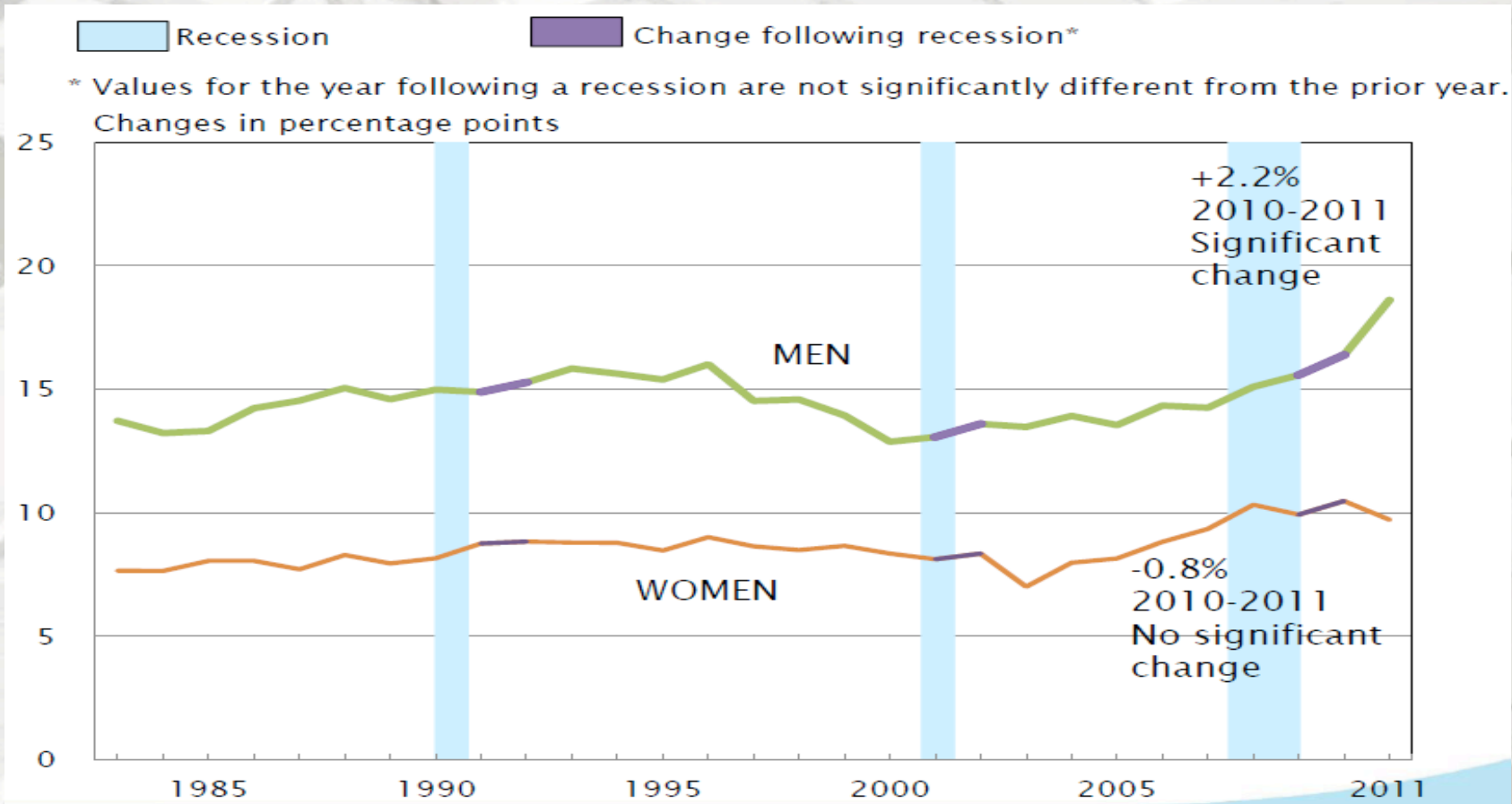


Percent of adults 18-24 living at home: 1983-2011

“Between 2005 and 2011, the proportion of young adults living in their parents' home increased. Of men age 18 to 24, 59% and 50% of women in 2011, up from 53% and 46%, respectively, in 2005. College students living in a dormitory are counted in their parents' home.”

Source: www.census.gov/newsroom/releases/archives/families_households/cb11-183.html

Housing Demographics

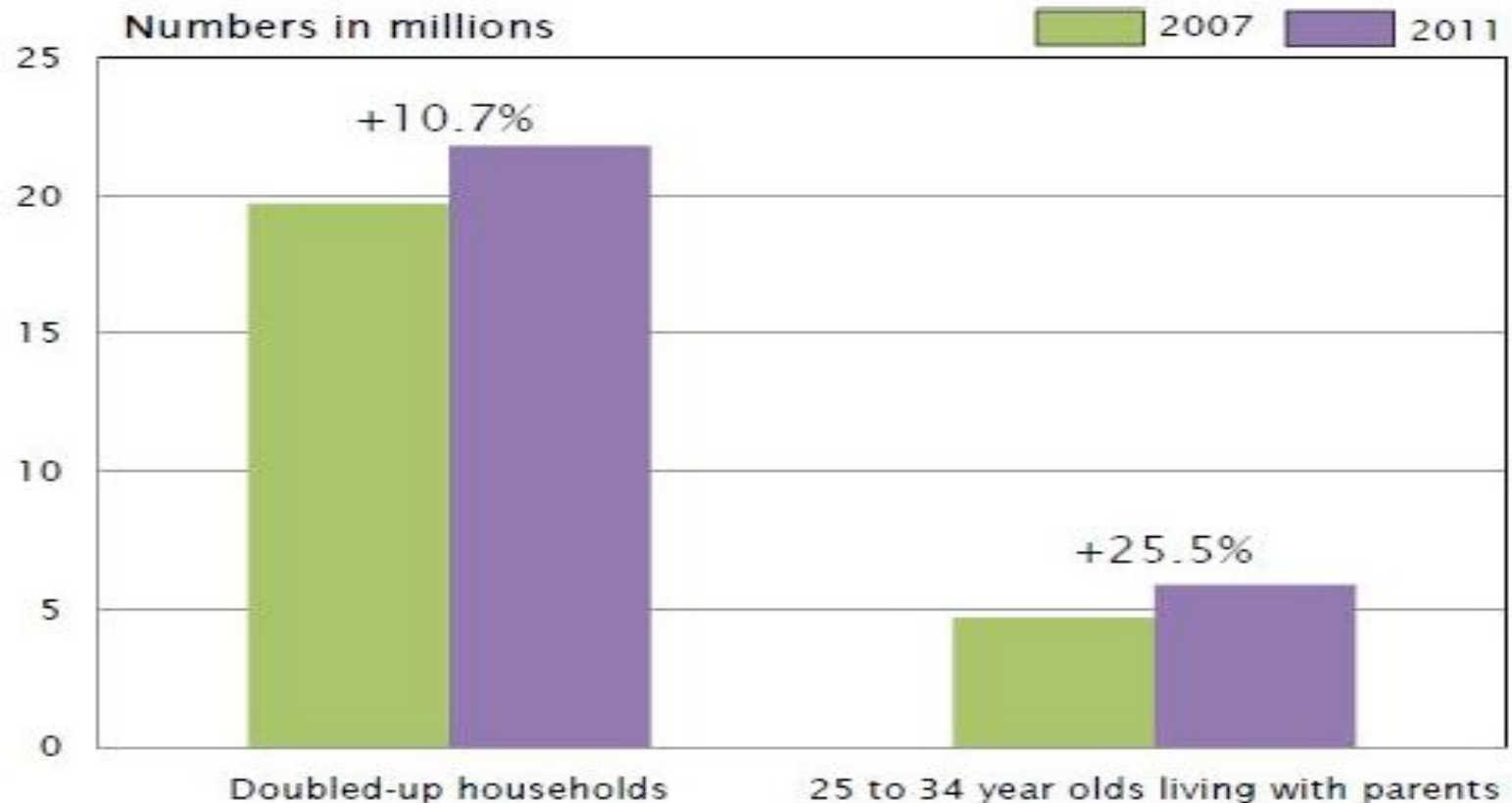


Percent of adults 25-34 living at home: 1983-2011

“Between 2005 and 2011, the proportion of young adults living in their parents' home increased. The percentage of men age 25 to 34 living in the home of their parents rose from 14% in 2005 to 19% in 2011 and from 8% to 10% over the period for women.”

Source: www.census.gov/newsroom/releases/archives/families_households/cb11-183.html

Housing Demographics



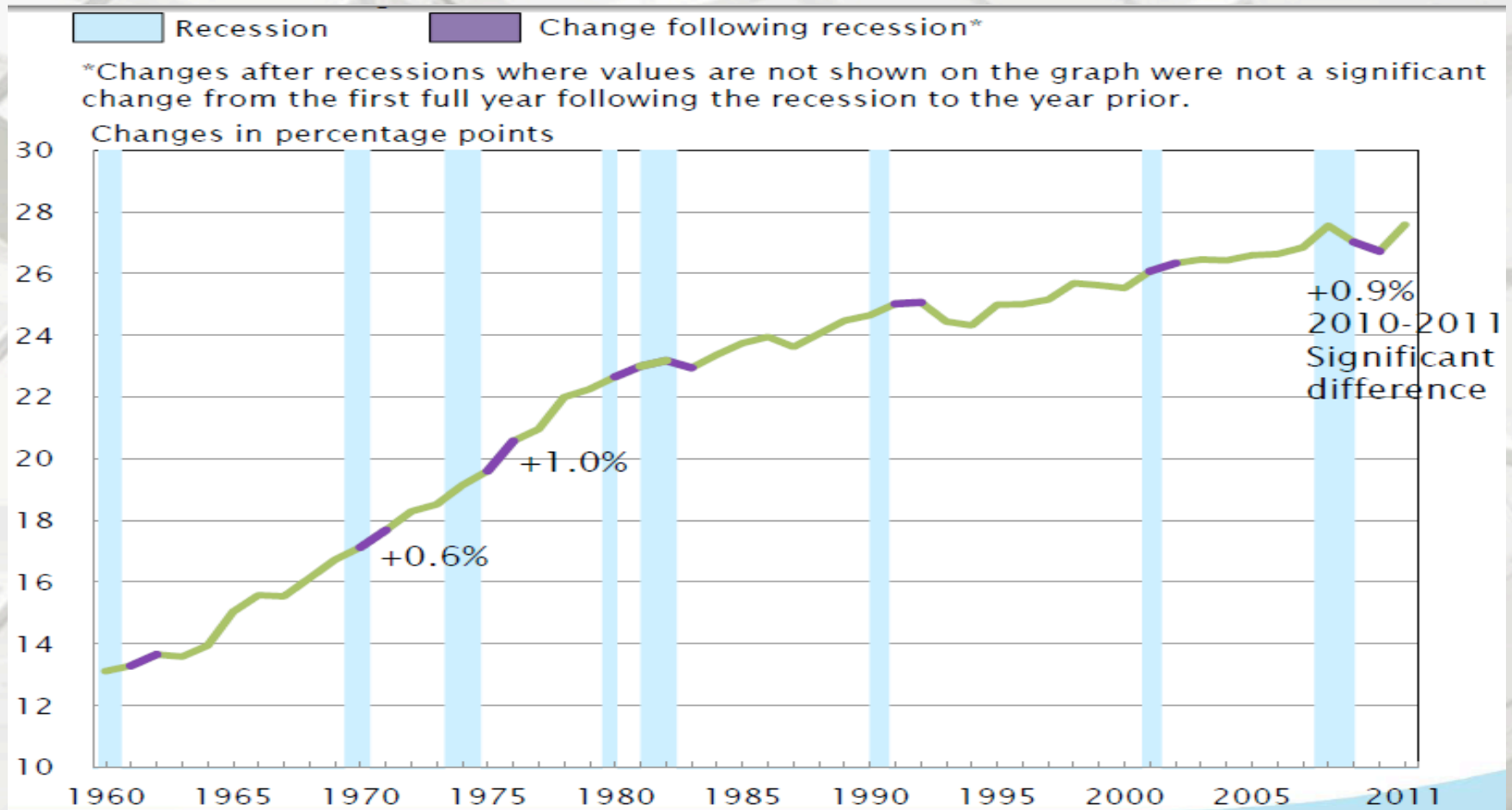
Evidence of 'Doubling Up' in response to the economic downturn: 2007 vs. 2011

Spring 2007: 9.7 mm 'Doubled-Up' households, 17% of all households; Spring 2011: 21.8 mm or 18.3%

The total, 61.7 mm adults (27.7%) were 'Doubled-Up' in 2007, rising to 69.2 mm (30%) in 2011

In these 3-slides, we see favorable demographics or potential pent-up demand for future starts and sales

Housing Demographics



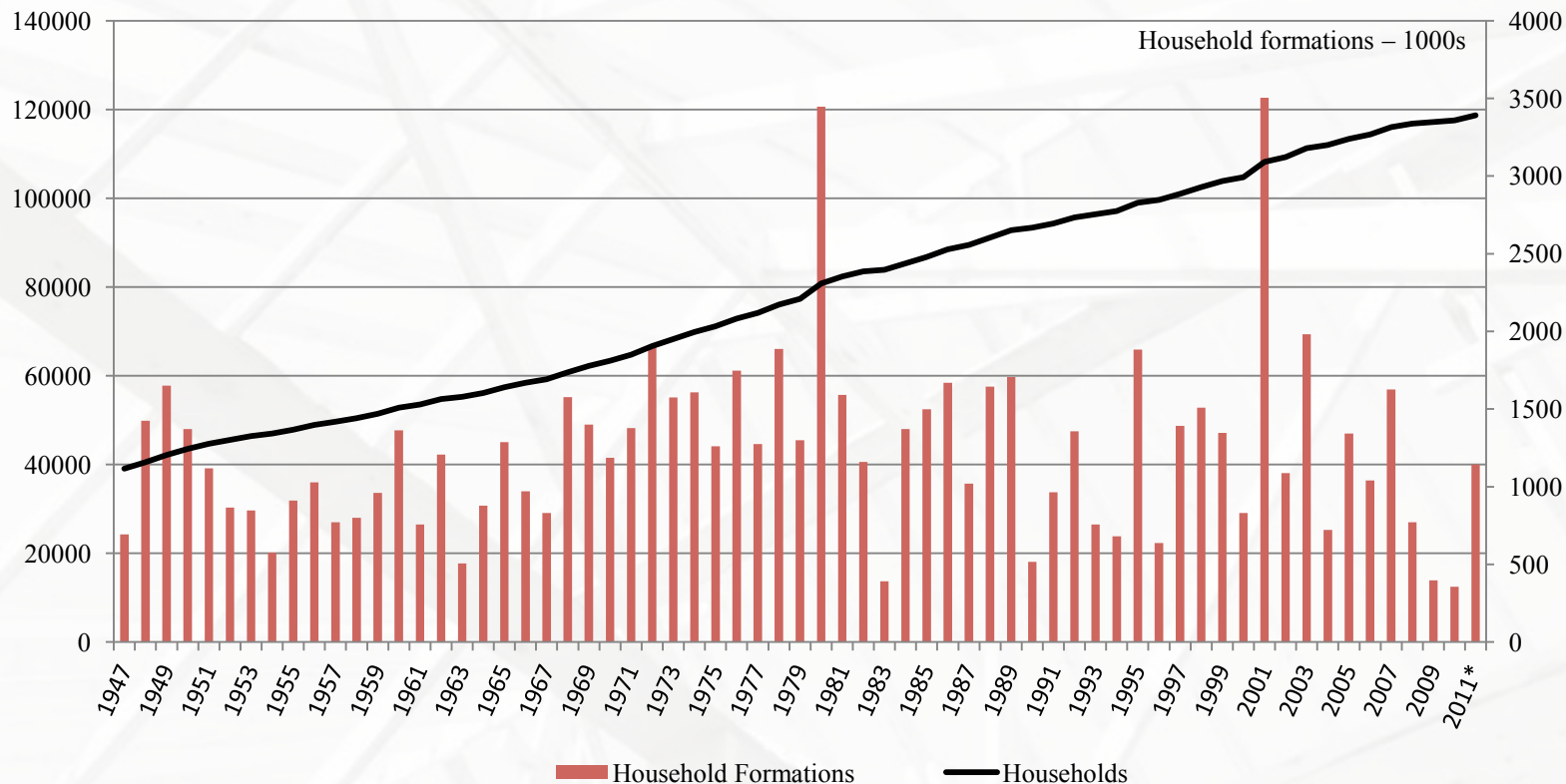
Percent of households with one-person: 1960-2011

Households with only 1-person: 13% in 1960; 28% in 2011 - - 'Nuclear' families: 22%

The increase in single households is not favorable for housing 'down' the road

Source: www.census.gov/newsroom/releases/archives/families_households/cb11-183.html

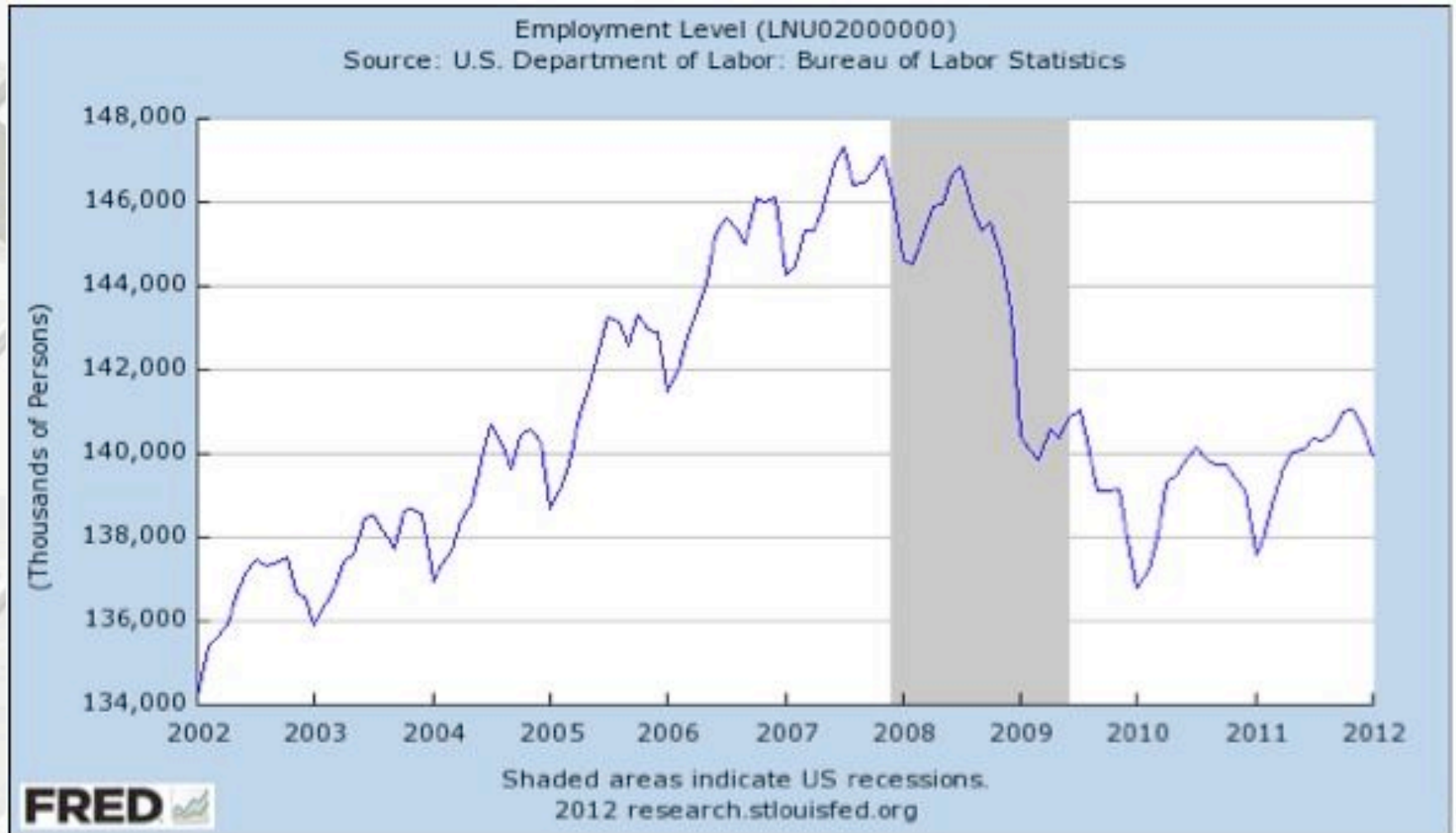
Housing Demographics



Generally, the relationship between households and household formations can be considered a lagging indicator of pent-up housing demand. As presented above, the 'Great Recession' is a factor in the decline of formations. When an economic recovery occurs, increases in formations may follow, which may bode well for starts and sales. The formation aberrations of 1980 and 2001 were due to a change in Census methods.

Source: USDOC-Population

Housing Demographics

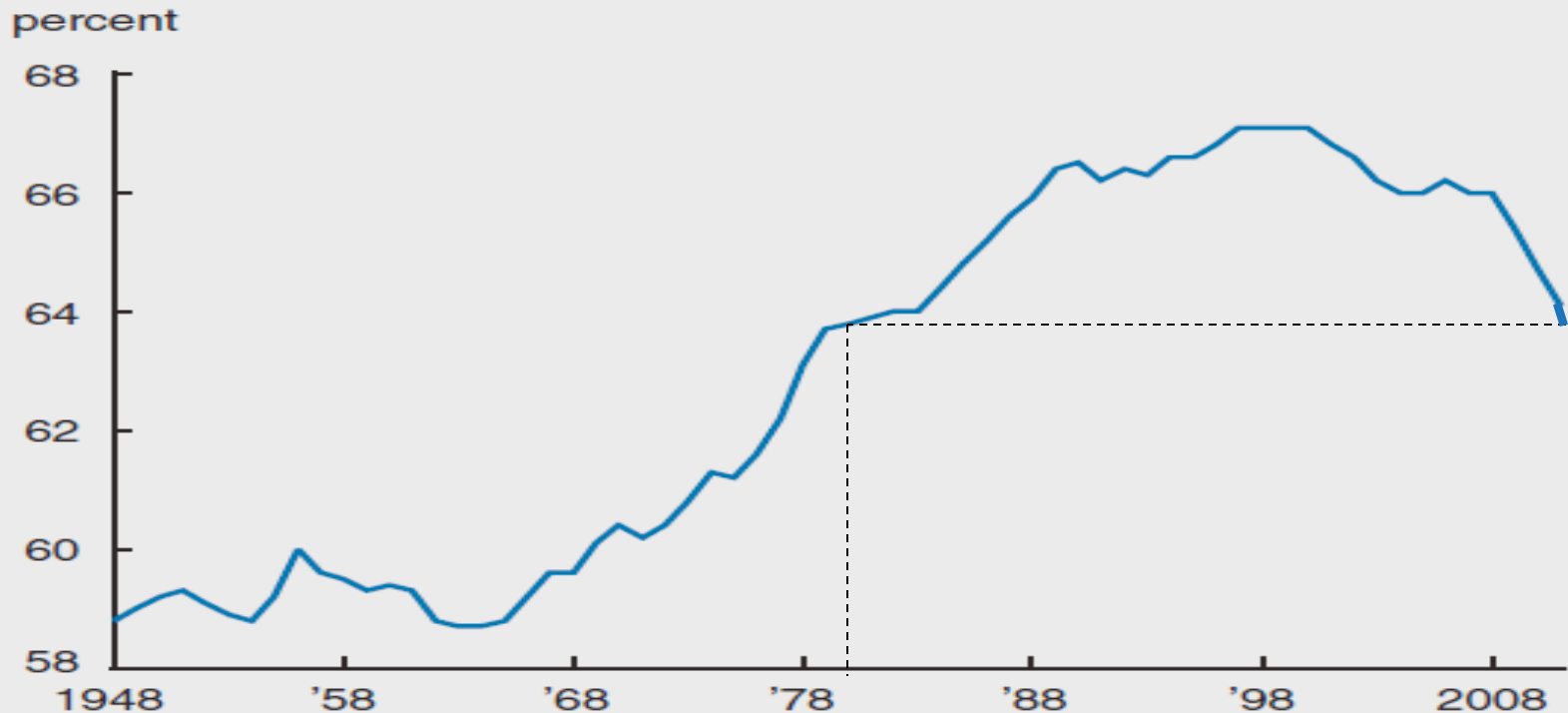


Employment Level: 2002-2012

We need to create 7 million jobs to get back to 2007s level and 120,000 per month to keep up with population growth.

Source: St. Louis Federal Reserve Bank- Federal Reserve Economic Data

Housing Demographics



NOTE: The labor force participation rate (LFPR) is the proportion of the civilian noninstitutional population aged 16 and older that is employed or unemployed and seeking work.

SOURCE: U.S. Bureau of Labor Statistics, *Current Population Survey*, from Haver Analytics.

Labor Force Participation Rate

The LFPR peaked at 67.3% in early 2000, the aggregate number has declined by 3.6% to 63.7% as of January 2012.

Source: chicagofed.org/digital_assets/publications/chicago_fed_letter/2012/cflmarch2012_296.pdf

Eurozone *Redux*

Last month, Italy and associated sovereign debt and financial dangers were highlighted – Greece was not discussed; why? - - Well, because most do.

Greece and March → a seer reportedly told Caesar, ‘*Beware the ides of March*’.

Even with bond holder ‘haircuts’ and another possible massive cash infusion via the Troika – Greece is essentially bankrupt. Many analysts (including Dr. Roubini¹) believe that Greece will have to be kept on cash infusions (life-support) or default – hence, they may never be able to repay their debt.

Greek GDP is projected to decline 4.9% this year, after a 5.7 % contraction in 2011. Without a bailout, Greece’s debt-to-GDP ratio is expected to reach 200% this year¹.

The unemployment rate is 19.2%; more troubling is the rate for < 25-year olds: 47.2% (Spain is worse: 24% and 48.7%, respectively)².

The ECB, IMF, and European Commission (the Troika); Greece; and bond holders are supposed to have the latest bailout (US\$159 billion, to date, for a US\$305 billion GDP country) and haircut deals completed by the 20th of March (not the *ides of March*, but close).

Greece, in many respects, is the ‘linchpin’ for what happens to other troubled EU countries and banks. For Greece – more bailouts, a default, or leave the EU?

One, or a combination, has huge ramifications for the world economy and banking systems.

Conclusions

Construction spending is increasing slightly

an estimate based on Census data indicated that improvements (i.e., remodeling) is on par with new SF construction

LIRA estimated the remodeling market was US\$ 286 million in 2009

- nearly 2.5X the estimate from 2009 Census data:
US \$112.6 million

This indicates the impact of housing construction on jobs and the overall economy

The number of households is flat and formations have decreased

Conclusions

Both the U.3 and U.6 unemployment rates decreased;
however:

Labor Force Participation Rate declined to 63.7%: January '12

7 million jobs needed to get back to 2007s level
120,000 per month to keep up with population
growth

The Greek financial drama is unfolding, we may have a final
act by March's end

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