

Remodeling Forecast



Overview

Growth of residential remodeling slowed in 2005 as spending on the owner-occupied housing stock proceeded at a strong pace but remodeling of renter-occupied housing units declined for the second consecutive year. The NAHB Remodeling Market Index fell in the fourth quarter of 2005, but our forecast assumes that this signals temporary weakness that will be reflected in the fourth-quarter remodeling numbers but is not the precursor of a systematic downturn in the remodeling market. With respect to the near-term outlook, repairs of damage from the 2005 hurricanes will push remodeling expenditures for both owner-occupied and renter-occupied housing units higher in 2006-2007. Furthermore, improvements in the rental market (lower vacancy rates and higher rents) will produce incentives for landlords to address delayed maintenance and repairs as well as invest in improvements for their properties.

A slowdown in production and sales will occur over the next few years, largely in response to higher mortgage rates, but the number of homes constructed over the long-term –the focus of this report– will depend less on interest rates than on demographic trends and on the utilization of the existing housing stock. Those factors are likely to lead to production levels over the next decade exceeding the average during the last decade. Indeed, the number of new conventional houses built during the decade from 2005 to 2014 will exceed the number produced in any previous decade. Considering the larger average size and more extensive equipment that will characterize the typical home built during the coming decade, the real value of residential construction during the next ten years will exceed previous decades by an even wider margin.

With three quarters of U.S. Census Bureau data available, we estimate that total remodeling expenditures in 2005 were \$210 billion, up 5.8 percent from 2004. The 2005 estimate represents a 0.5 percent decline in real terms since estimated remodeling costs rose 6.4 percent last year. Put in the context of the two-year period from 2003 to 2005, nominal remodeling expenditures rose 9.0 percent per year, outstripping the 6.6 percent per year increase in NAHB's estimate of the remodeling cost index. [1]

After falling 1.3 percent in 2003, owner-occupied expenditures rebounded robustly in 2004 and 2005. Renter-occupied expenditures, which had shown healthy growth of 7.7 percent and 10.0

	
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percent, respectively, in 2002 and 2003, fell 3.3 percent in 2004 and 14.2 percent in 2005. Owner-occupied expenditures for maintenance and repairs surged 43 percent in 2004 following two years of declines—declines of 3.9 percent in 2002 and 17.2 percent in 2003. Owner-occupied maintenance and repairs continued with strong growth of 19.5 percent in 2005. Meanwhile, expenditures for maintenance and repairs of renter-occupied structures inched upward 3.3 percent in 2003 before falling 7.9 percent in 2004 and 22 percent in 2005. It would seem that landlords cut back on maintenance, although measurement problems may be as much of a factor in the fluctuations as actual changes in expenditures.

Figure 1 shows the relationship between owner-occupied and renter-occupied expenditures.

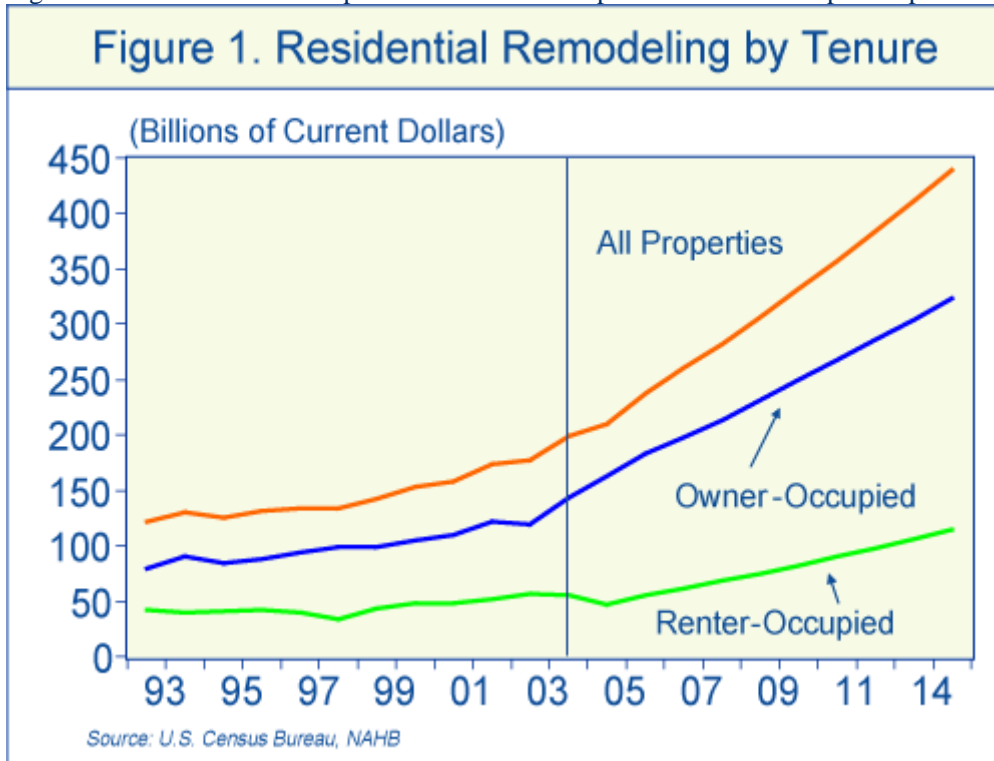


Table 7. Residential Remodeling Expenditures Forecast, 2004 - 2014 (Millions of Dollars)

	2004*	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. An. % Change 2004-2014
All Properties												
Total	198,555											
Improvements (all additions and alterations)	147,943											
Maintenance and Repairs	50,612											
Owner Occupied												
Total	143,432											
Improvements (all additions and alterations)	115,399											
Maintenance and Repairs	28,033											
Rental												
Total	55,123											
Improvements (all additions and alterations)	32,544											
Maintenance and Repairs	22,579											
Percent Change												
All Properties												
Total	12.2%											
Improvements (all additions and alterations)	11.4%											
Maintenance and Repairs	14.8%											
Owner Occupied												
Total	19.6%											
Improvements (all additions and alterations)	15.0%											
Maintenance and Repairs	43.2%											
Rental												
Total	-3.3%											
Improvements (all additions and alterations)	0.3%											
Maintenance and Repairs	-7.9%											