

Economic Environment

"Don't Forget the Remodeling Market—It's Just as Important as New Housing" by Al Schuler

Remodeling is huge! It consumes lots of lumber (and panels), it is less volatile than housing starts, and both the near term and long term futures look great. This article focuses on residential remodeling which includes two major components: Improvements and Maintenance/Repairs. It is estimated that improvements (e.g. additions, major renovations) consume about 75 percent of the lumber products used in remodeling while the remainder is consumed in routine maintenance and repairs (e.g. fixing a leaky roof). The good news is that the wood-intensive improvements category grew 60 percent during the 1990s while maintenance and repairs was flat. (See Figure 1.)

Why has remodeling become so important? There are several compelling reasons. Although 1.25 million new conventional single family homes were built last year, the existing housing stock (all homes previously built and still standing) is huge by comparison. According to U. S. Commerce data, the existing stock of conventional housing units is now approaching 80 million (65 million single family and 15 million multi-family). Furthermore, it is estimated that the existing stock of HUD Code homes exceeds 10 million units.



FIGURE 1
CLICK ON IMAGE FOR LARGER VIEW

Strong Resale Market Good for Remodeling

*Rising Real Prices Mean Good Investment Value
Further Supporting Resale Demand*

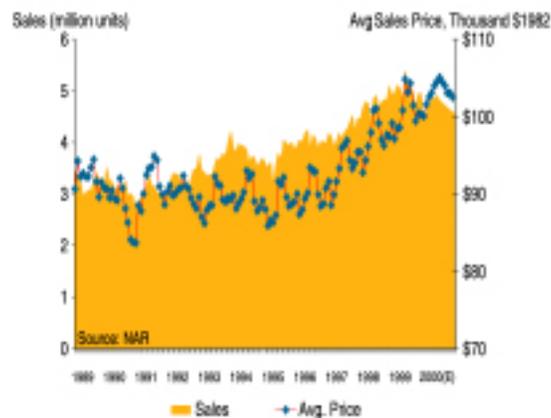


FIGURE 2
CLICK ON IMAGE FOR LARGER VIEW

Seventy five percent of residential housing is at least 20 years old and, of course, we all know that the older you get, the more repairs are required. Additional favorable factors are economic and demographic rationale (discussed below). (See Figure 2.)

OUTLOOK

The major economic factors driving the remodeling market are existing home sales, real (inflation adjusted) prices of existing homes, per capita income levels, interest rates and consumer confidence. Resale activity has been setting records for three consecutive years thanks to a strong economy, attractive interest rates, rising per capita incomes, and rising real home prices. Every time a home changes hands (and that happened 15 million times in the past 3 years), we know that renovations are imminent, and most occur within 12 months of moving in. We expect near term (12-18 months) economic conditions to remain attractive for resale activity, although rising interest rates will cause a modest pullback from current record levels. As mentioned in the April issue of WOODWORDS, we feel that the FED will engineer a "soft landing" in 2000, and that means remodeling as well as new housing should remain healthy. It also means that demand for both conventional and engineered lumber products should remain solid.

Furthermore, as "icing on the cake," demographic forces favor long term/strategic growth in remodeling over the next decade. Affluent and aging "baby boomers" should continue to spend heavily on remodeling according to recent studies from NAHB and the Joint Center for Housing Studies (Harvard University).

Please note that I used U.S. Commerce (Census Bureau) data in this report. A recent three-year study by the Joint Center for Housing Studies suggests that the Census numbers may actually understate residential remodeling expenditures by as much as 25 percent (e.g. 1995 Census number was \$112 billion while the Harvard study estimate was \$150 billion). At any rate, remodeling is an extremely important market for wood products.

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