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Trendspotting is an important tool for enabling manufacturers to be proactive rather than reactive in their business. In this issue we track trends in the **Repair and Remodeling (R&R)** segment. Trends revolve around housing starts, household spending in R&R, home ownership, the environment and other factors.

As a manufacturer it is up to you to pick and choose the trends and opportunities that best suit your manufacturing, marketing and customer profiles. We hope this document can tip you off to new opportunities, alert you to some pitfalls and inspire your product lines.

For more information on product opportunities, please see the companion market note to this report: *Repair and Remodeling in a Recession – Wood Product Opportunities.*

Introduction

With the US currently facing a deep crisis in the housing sector, manufacturers north of the border have much to worry about. This is due to the fact that the US is the main export market for most Canadian value-added manufacturers and in some cases their only market. Needless to say, export opportunities to the US during this downturn are reduced. As well, although Canada has not yet faced the degree of downturn that the US has faced, economic indicators have also turned negative.

There is comparatively little information available about repair and remodeling investments in housing. Repair and remodeling (R&R) made up 25 to 30% of housing expenditures during the 2003 to 2007 period with new housing starts making up the majority of expenditures. R&R is also a more difficult sector to

study, given the number of variables and demand drivers involved when compared to new starts.

However, the remodeling sector is very important to manufacturers of value-added wood products. Flooring, cabinets, windows and doors are often updated in existing housing as they follow design or fashion trends. Further, outdoor products such as siding, decking and fences have a finite lifespan in their service environment, and therefore require repair or replacement.

Before any market strategy for the R&R sector can be developed, it is first important to understand the underlying demand fundamentals.

Repair & Remodeling Demand Fundamentals

New Housing Starts

New housing starts are closely linked to R&R activities and make up the majority of expenditures within the housing market. Therefore, we begin this document with a brief overview of the new starts sector.

New housing starts are a bellweather indicator for the North American economy. This is because housing starts generally contract before the economy as a whole flattens or recedes (Will 2008). They also tend to lead the economy when it begins to expand. Heading into the current downturn much of the focus, and cause for that matter, has been housing. Bad loans, unsold new homes, and decreasing home prices have plagued the US.

In the first quarter of 2008, US housing starts were less than half compared to the first quarter of 2006. Exporting into a market that has been cut in half over a two year period has become an issue for Canadian manufacturers. This ultimately has created a smaller US market that can more easily serve itself domestically.

In Canada, 2008 housing starts were off only 7.5% from 2007 levels. However, 2009 is projected to see Canadian housing starts off over 30% from 2007 levels (CMHC 2009).

Understanding the new housing start environment is important as R&R generally tracks new starts activity, but with a lag of two to three quarters.

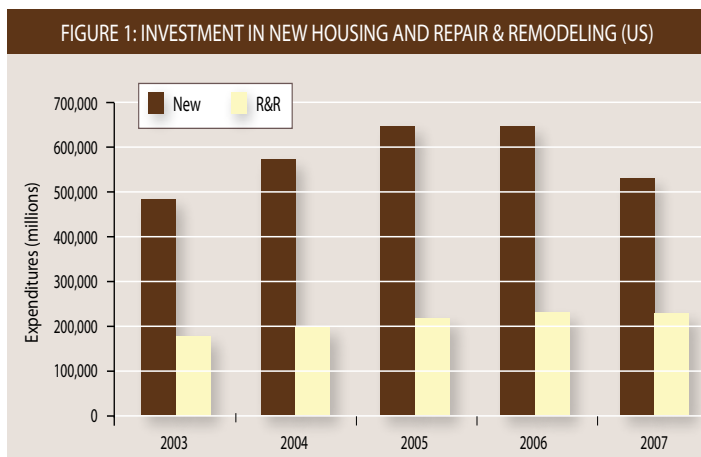
The R&R Cycle

The R&R sector generally tracks the market direction of new starts. However, there are three key differences. Repair and remodeling:

- sees less extreme year-to-year growth fluctuations than new starts.
- trails new housing market into downturns by one to three quarters.
- typically experiences a shorter downturn than new starts (Will 2008).

Since 1982 the largest annual R&R contraction was -8% and the largest annual growth was 22%. In the same period new housing starts saw an annual decrease of -27% and an annual increase of 24%.

From 1997 to 2007 expenditures in R&R never decreased on a four-quarter basis (compared to same quarter previous year). However, expenditures have been contracting since the 4th quarter of 2007 and are projected to decrease for the remainder of 2009. This will take R&R from a peak of \$147 billion in the second quarter of 2007 to a low of \$109 billion in the third quarter of 2009 (JSCA, 2009).

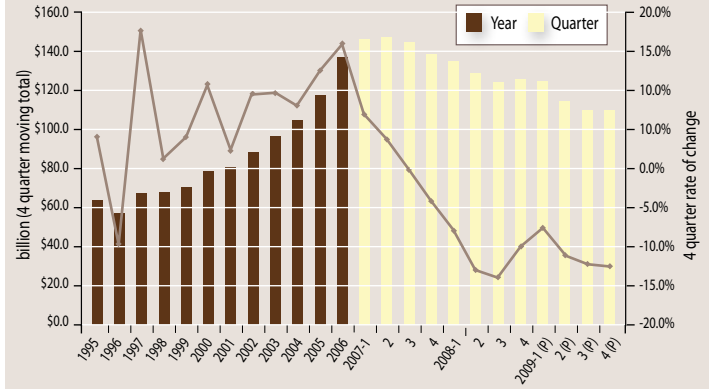


Source: US Census

Summary Points:

- Do not expect the same magnitude of downturn in R&R as that with new starts. R&R expenditures are buffered by the ongoing demands of maintenance and repair.
- Expect R&R to lead new starts out of the downturn by two quarters.

FIGURE 2: R&R EXPENDITURES



Source: JSCA LIRA

R&R Sub-sectors

Repair and remodeling is not a homogenous sector. Within this sector are different demand drivers and effects based on several different factors.

These factors led to the following comparisons:

- Remodeling vs. repair and maintenance
- Professional vs. do-it-yourself
- High end discretionary vs. low end discretionary
- New vs. long-term owners

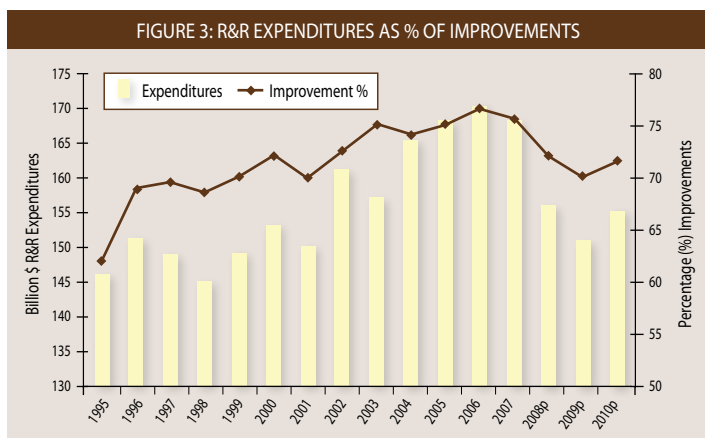
Remodeling vs. Repair

A breakdown of R&R expenditures reveals dramatic differences in demand variability. In general, repair (maintenance) demand sees moderate but steady annual growth. This is because these activities depend little on discretionary spending and more on the condition of the actual home. As the housing stock increases so too do required repairs and maintenance. Between 1997 and 2005, maintenance and repair annual growth varied between 4.5% and 8.2%. Improvements on the other hand, varied in annual growth between 2.3% and 20.1%. Remodeling (improvement) expenditures are more discretionary in nature and depend on consumer confidence.

Figure 3 displays R&R expenditures in 2000 dollar values, as well as the percentage of expenditures linked to improvements as opposed to maintenance and repairs. Improvements are clearly the main economic driver in the R&R sector, representing two-thirds to three-quarters of expenditures. The improvements' proportion is generally larger when overall expenditures are greater, as repair and maintenance expenses are not strongly tied to economic activity.

Summary Points:

- Expect overall remodeling/improvements to decrease in overall value and proportion of repair and remodeling expenditures.
- Expect repairs/maintenance to remain relatively strong.



Source: RISI 2008 (all data in 2000 dollars)

Professional vs. DIY

R&R expenditures fall into one of two categories: professional or do-it-yourself (DIY). Although the majority of R&R expenditures actually fall into the professional category, there are some noteworthy dynamics between the professional and DIY category during a turbulent economy.

In down economies there is a tendency for DIY to be used instead of professional contractors for less costly and less complex projects (Will 2008). In an up economy, DIY activities tend to complement professional services rather than be replaced by them.

Will (2008) found that DIY expenditures are more often discretionary than expenditures on professionals. Between 1995 and 2005, an average of 43% of DIY expenditures were discretionary. In the same period, 32% of professional expenditures were discretionary. Hence, when the economy is in a down cycle, DIY expenditures are more at risk.

In addition, DIY expenditures are much more volatile than professional expenditures. When considering annual growth from 1990 to 2007, DIY growth ranged from -25% to +54% on a year over year basis, whereas professional expenditure growth ranged from -16% to +35% over the same time period.

Summary Points:

- Expect DIY projects to tail off more than professional projects, especially for discretionary expenditures.
- Expect some DIY projects to replace professional services on simpler maintenance and repair projects.

TABLE 1: REPAIR AND REMODELING EXPENDITURES BY PROJECT AND DIY PROPORTION 2005 (US)

2005 Expenditures	Expenditures (\$ in millions)	DIY Proportion (%)
Kitchen Remodels*		
Minor	3,240.5	25.9
Major	15,460.6	31.2
Bath Remodels*		
Minor	1,795.3	32.7
Major	10,525.3	30.7
Room Additions and Alterations*		
Kitchen	990.1	31.1
Bath	2,932.2	28.8
Bedroom	12,353.9	19.7
Other	22,514.5	25.4
Other Interior Improvements		
Add/Replace Deck/Porch	3,574.7	31.5
Disaster Repairs	10,037.6	13.2
Other	3,065.3	25.8
Replacements of Systems and Equipment		
Plumbing/Pipes	1,617.8	24.5
Electrical System	1,949.4	20.5
Plumbing Fixtures	2,414.1	40.2
HVAC	10,263.5	14.3
Appliances/Major Equipment	3,321.1	28.9
Interior and Exterior Replacements		
Roofing	15,985.5	11.9
Siding	6,185.2	16.5
Window/Door	10,160.1	25.4
Insulation	2,486.5	43.8
Flooring/Paneling/Ceiling	16,608.7	25.6
Improvements to Property		
Add/Replace Garage/Carport	1,880.0	26.1
Other	28,983.6	25.4
TOTAL	188,345.5	23.9

Source: JCHS 2007

* Major kitchen remodels are over \$4000 (US) for DIY and \$10,000 for professionals; bathroom remodels were \$2000 and \$5000 respectively. For room additions, major additions were over \$25,000.

High-end vs. Low-end Discretionary

Even discretionary projects differ in their reliance on prevailing economic conditions. Wills (2008) broke down discretionary projects into major and minor projects, and in doing so found that minor discretionary remodels and additions were very consistent over time whereas major discretionary projects were highly cyclical. Even at the peak in 2007, high-end discretionary projects only accounted for 30% of all repair and remodeling. While this is the most volatile R&R category, making up less than one-third of expenditures, this explains the low overall volatility of R&R when compared to new housing starts.

Table 2 shows the average project payback regular and high-end R&R expenditures. However, given the state of the current economy, project paybacks are down approximately 19.5% from their highs in the last market up cycle (JCHS, 2009).

Summary Point:

- Expect minor remodels and additions to continue in this down economy.
- Expect project payback for remodeling to decrease.

Short-term vs. Long-term Owners

Length of residency in a home also contributes to the dynamics within the R&R sector. Owners who have lived in a home over 5 years tend to spend money on different things than recent owners (Figure 4). Recent owners focus their spending on remodels, additions and improvements, whereas long-term owners spend a greater proportion of their R&R budget on upgrades and replacements. Exterior replacements such as siding, decks and windows make up one-third of long-term owner expenditures.

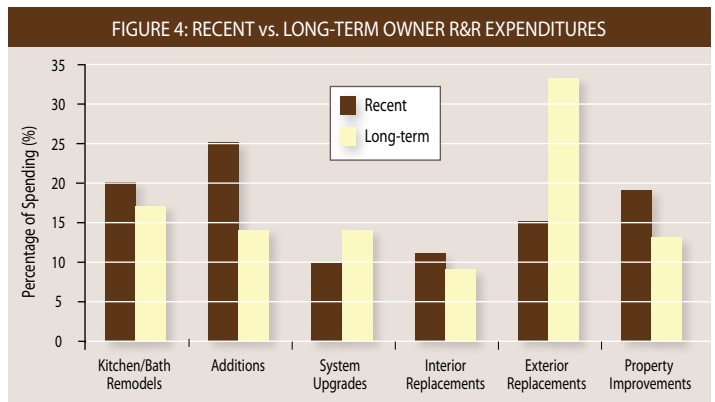
There is also a certain level of R&R associated with existing home sales. Upon relocation, new owner annual R&R expenditures increase 20 to 25% (JCHS 2009). With existing home sales down in the US approximately 30% from their peak R&R spending will be affected in 2009 and 2010.

Summary Point:

- As homeowners are less inclined to move, expect long-term owner projects to become more common.
- Less home sales and relocations mean less move-in R&R activities by new owner.

	Job Cost	Cost Recovery
Midrange projects		
Deck Addition - Wood	\$10,347	85.40%
Siding Replacement	\$9,910	83.20%
Minor Kitchen Remodel	\$21,185	83%
Window Replacement - Wood	\$11,384	81.20%
Window Replacement - Vinyl	\$10,448	79.30%
Bathroom Remodel	\$15,789	78.30%
Major Kitchen Remodel	\$55,503	78.10%
Attic Bedroom Remodel	\$46,691	76.60%
Basement Remodel	\$59,435	75.10%
Two-Story Addition	\$139,297	73.90%
Garage Addition	\$53,897	69.50%
Master Suite Addition	\$98,863	69%
Family Room Addition	\$78,989	68.60%
Roofing Replacement	\$18,042	67.40%
Bathroom Addition	\$37,202	66%
Home Office Remodel	\$27,193	57%
Upscale projects		
Siding Replacement (fiber-cement)	\$13,212	88.10%
Window Replacement - Vinyl	\$13,479	81%
Siding Replacement (foam-backed vinyl)	\$12,132	79.70%
Window Replacement - Wood	\$17,383	79.30%
Deck Addition - Composite	\$15,039	77.60%
Major Kitchen Remodel	\$109,394	74.10%
Bathroom Addition	\$73,145	69%
Bathroom Remodel	\$50,590	68.40%
Roofing Replacement (steel)	\$33,151	65.70%
Garage Addition	\$82,108	64.60%
Master Suite Addition	\$220,149	64.10%

Source: Remodeling Magazine 2008



Source: Will 2008

R&R Expenditures in Canada

Statistics Canada discontinued their survey of homeowner R&R expenditures in 2003. However, Canadian R&R activity acts in much the same way that it does in the US. In 2003, the last year of the survey, Canadian homeowners spent approximately two-thirds of their \$23.4 billion R&R dollars on professionals (Statistics Canada, 2003).

Key characteristics noted in 2002:

- Urban homeowners spent a greater proportion of their expenditures on professionals (66%) as compared rural homeowners (54%).
- Lower income homes spent 57% of their average total expenditures (\$1570) on maintenance and repairs and 43% on renovations and additions.
- High income households spent 46% of their average total expenditures (\$4530) on maintenance and repairs and 54% on renovations and additions.

TABLE 3: CANADIAN EXPENDITURES ON REPAIR AND RENOVATIONS - 2002		
Total repairs and renovations (\$ millions)		\$36,800
Repairs, maintenance and replacements		48.5%
Repairs and maintenance	75.9%	
Outdoor patios, fences and driveways	10.6%	
Exterior walls	5.0%	
Painting (interior and exterior)	23.4%	
Wallpapering	1.0%	
Other interior walls and ceilings	8.4%	
Carpentry	3.2%	
Electrical systems	2.1%	
Plumbing	5.0%	
Heating and air conditioning	7.9%	
Complete re-roofing	18.5%	
Eavestroughing and other roof repair	4.0%	
Hard surface flooring and carpeting	10.2%	
Caulking and weather stripping	1.5%	
Other repairs and maintenance	0.7%	
Replacement of equipment		24.1%
Electrical fixtures and equipment	6.2%	
Plumbing fixtures	21.5%	
Heating and air conditioning equipment	25.0%	
Hard surface flooring and carpeting	29.7%	
Built-in appliances	15.9%	
Other replacements	2.0%	

Additions, renovations and new installations		51.5%
Additions		38.0%
Structural extensions	37.6%	
Garages and carports	17.0%	
Swimming pools	8.3%	
Fences, patios, driveways	15.5%	
Landscaping	21.6%	
Renovations and alterations		47.5%
Both exterior and interior	38.8%	
Exterior only	16.4%	
Interior only	44.8%	
New installations		14.6%
Electrical fixtures and equipment	10.0%	
Plumbing fixtures	12.8%	
Heating and air conditioning equipment	39.3%	
Hard surface flooring and carpeting	26.9%	
Built-in appliances	9.6%	
Other new installations	1.4%	

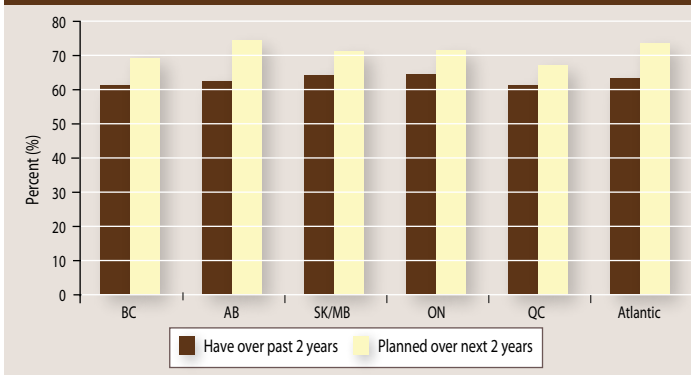
Source: Statistics Canada

R&R Intentions 2008-2010 Canada

Ipsos Reid recently (October 2008) polled Canadian households for their RBC Fall Renovation Study. Study results revealed that Canadian renovation intentions are actually up slightly from this time last year. Seventy percent of Canadian households are planning renovations in the next 2 years – up from 67% in October 2007. For this year alone (2008) 56% of households are planning renovations.

Figure 5 displays the percentage of homes that have actually renovated in the past 2 years and the percentage that plan to in the next 2 years. Over the past 2 years, the Prairie Provinces and Ontario have been the top renovating regions. Looking forward, Alberta and the Atlantic provinces are the two top Canadian regions planning the most renovations.

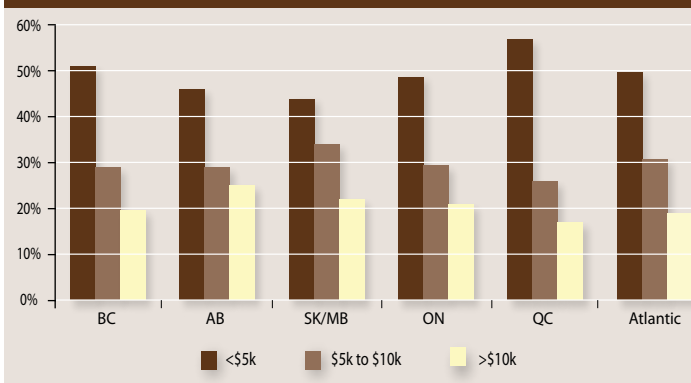
FIGURE 5: HOUSEHOLD PAST AND PLANNED RENOVATIONS (October, 2008)



Source: Ipsos Reid

It is important to note that renovation intentions must be viewed with respect to the projected scale of renovations. Figure 6 displays purchase intentions by province. Alberta is the key high dollar market with 25% of intended renovations to be over \$10,000. Quebec stands out with the most planned renovations in the under \$5,000 category and the least in the over \$10,000 category. In general, renovation activity will be highest in the Prairie Provinces; moderate activity will be seen in BC, Ontario and the Atlantic; and the poorest renovation activity over \$5,000 will be seen in Quebec.

FIGURE 6: SPENDING INTENTIONS ON RENOVATIONS IN NEXT 2 YEARS



Source: Ipsos Reid

Summary Points:

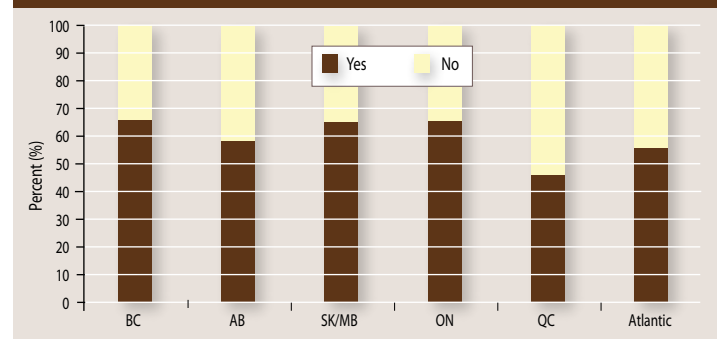
- Renovation intentions are actually up for the 2009/2010 period.
- Alberta households are planning the most major renovations (>\$10,000).
- The Prairie Provinces generally have higher renovation intentions and expected expenditures, whereas BC, Ontario, and the Atlantic provinces will be moderate. Activities in Quebec will be low.

The Sustainability Wildcard

Sustainability as a driver has created a new R&R category not yet captured in government statistics. Homeowners are investing in environmentally sustainable products and systems as they reinvest in their homes.

In their fall renovation study, Ipsos asked a series of questions specific to sustainability and renovations. Of homeowners planning a renovation in the next 2 years, 60% planned to incorporate environmentally friendly products into their renovation in some way. BC led the country at 66% followed by Saskatchewan, Manitoba, and Ontario at 65% (Figure 7). Quebec is the least likely to be spending on sustainable renovations (46%).

FIGURE 7: PLANNED RENOVATIONS TO INCLUDE ECO-FRIENDLY IMPROVEMENTS



Source: Ipsos Reid

There are many motivations for choosing a sustainable renovation project including environmental consciousness. While this is a motivator, other conditions often must be in place for consumer action. For example, many green renovations hold the promise of long-term savings, while other consumers require immediate financial savings on their expenditures. The reality is that few green products provide immediate payback. However, government subsidies are being put in place to capture and reward these consumers (e.g., Energy Star rebates).

Another motivator for green projects not captured by the Ipsos survey pertains to occupant health. Homeowners are becoming increasingly aware of the glues and finishes in their products, and as such are choosing products based on health priorities.

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“Market and Attribute Trends” is a series of fact sheets aimed at improving awareness and information on market trends that shape the demand for wood products. Markets and Attribute Trends is complemented by a “Facts on Wood” series that provides technical information on the various commercial wood species in Canada.

Through the *Value to Wood* program, Canadian wood product manufacturers have access to the expertise and information they need to extract greater value from wood resources. To download the Market and Attribute Trends, visit www.valuetowood.ca

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