

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<https://www.wsj.com/articles/americans-pour-record-sums-into-home-improvements-1500975001>

REAL ESTATE

Americans Pour Record Sums Into Home Improvements

Many are electing to stay put rather than trade up because the inventory of affordable homes is so small



A customer shopping at a Lowe's Cos. store in Burbank, California. PHOTO: PATRICK T. FALLON/BLOOMBERG NEWS

By *Laura Kusisto and Sarah Chaney*

Updated July 25, 2017 10:46 a.m. ET

A shortage of new single-family homes across the U.S. is pushing up prices and locking many buyers out of the market. The silver lining: a boom in renovations of existing homes.

Americans are expected to pour a record \$316 billion into home remodeling this year, up from \$296 billion a year earlier, according to Harvard University's Joint Center for Housing Studies.

The burst of renovations has been a boon for contractors as well as big home-improvement companies, which have enjoyed strong revenue growth even as most other retailers are struggling.

— ADVERTISEMENT —

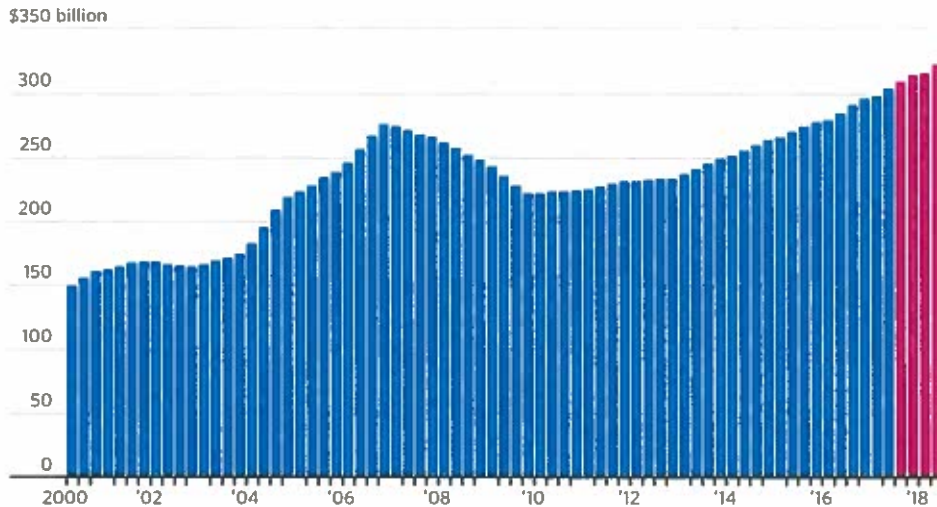


It also reflects rising home prices and growing consumer confidence, as people are once again willing to invest in their homes, either through savings or by tapping home equity.

“We turn away as much work as we do,” said Bill Halliday, owner of Home Improvements of Vero Beach, in Florida. “It used to be you could call me and I could get somebody to you in a couple of days. Now I can get somebody to you in four or five weeks.”

Remodeling Gains

Home improvement spending is expected to grow at a swift clip into 2018, according to the Leading Indicator of Remodeling Activity (LIRA), Four-quarter moving total:



Note: Figures for the remainder of 2017 and 2018 represent projections
Source: Harvard University, Joint Center for Housing Studies

THE WALL STREET JOURNAL

Analysts polled by FactSet expect Lowe's Co s. to post adjusted earnings on a per-share basis of \$4.62 in its current fiscal year, up from \$3.99 a year earlier. Home Depot Inc. is forecast to post earnings of \$7.24 in its fiscal year, up from \$6.45 a year prior. The earnings results would be the highest level recorded in data tracing back to 2004, according to FactSet.

But economists caution that the current boom is unlike earlier ones in that it is largely a reflection of a broken housing market. Many Americans are electing to stay put rather than trade up because the inventory of affordable homes is so small.

In all, there are about as many homes for sale in the U.S. today as there were in 1994, but there are 63 million more people, according to Zillow Chief Economist Svenja Gudell. Ms. Gudell called the inventory shortage a crisis.

Existing-home sales declined 1.8% in June from the previous month, driven by a shortage of inventory, the National Association of Realtors said Monday. Home prices have continued to climb faster than incomes because demand is far outstripping supply. The S&P CoreLogic Case-Shiller U.S. National Home Price Index rose 5.6% in the 12 months ended in May, according to a Tuesday report, matching the April increase.

The supply squeeze is bad news for the overall U.S. economy because renovations are less of an economic engine than new construction.

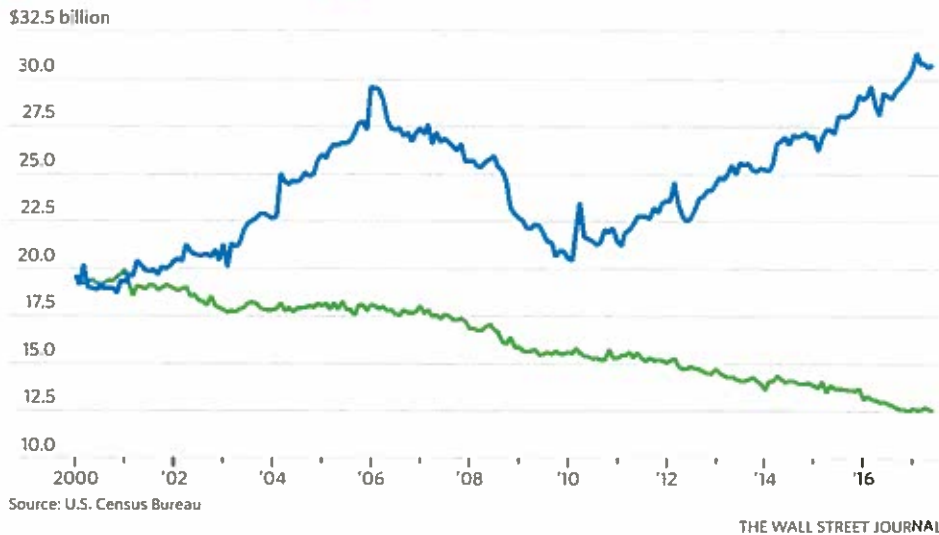
“There’s no inventory, that’s what’s really kicking the market in the teeth,” said Nela Richardson, chief economist at real-estate firm Redfin. “The wound in the market is the lack of new construction of starter homes.”

Throughout much of the housing downturn and recovery Americans invested little in their homes, in part because they had lost value. At the bottom of the home-renovation

Diverging Fortunes

Sales at building-materials stores and department stores were nearly equal at the turn of the century but have since diverged.

■ Homebuilding material store sales ■ Department store sales



market in 2009, Americans spent \$222 billion on renovations, or about 30% less than today.

The resurgence is being driven by several market trends. Rising home prices are boosting confidence and making people more willing to spend on big-ticket items like full kitchen remodels and additions. The average household expenditure on home renovations increased 57% in the last 12 months, according to HomeAdvisor, a website for homeowners and contractors.

“It’s slim pickings out there,” said Brad Hunter, chief economist at HomeAdvisor. “If they do find something it’s considerably more expensive than they expected it to be,” forcing them to compromise on the size or location of the house, he said.

Employment at building-material stores nudged up 0.8% in June from a year earlier, according to Labor Department figures. Sales at building-material and garden-equipment stores increased 5.1% last month from a year earlier, and in February, climbed to the highest level on record, according to U.S. Census Bureau data dating back to 1992.

Adjusted for inflation, U.S. spending on home renovations remains below the peak in 2006, when rising home prices prompted millions of Americans to refinance their homes and pour that money into elaborate upgrades. Adjusted for inflation, home renovation spending that year was roughly equivalent to \$334 billion, according to Harvard.

Two big demographic groups in particular, baby boomers and millennials, are driving the latest home-improvement craze.

Baby boomers are staying in their homes longer than previous generations, in part because they are in better health and in part because the competition for smaller homes is so fierce. Top on their renovation lists are accessibility features such as ramps, elevators and railings.

According to a survey by Houzz, a home-renovation website, roughly 60% of boomers are planning to stay in their homes for the next five years and an additional 20% said they are undecided—one of the reasons it is so difficult for buyers to trade up, according to Houzz, a home-renovation website.

The millennials buying homes, meanwhile, are often investing in older properties that need a significant amount of work.

“There are two 900-pound gorillas,” Mr. Hunter said. “There’s the baby boomer generation and the millennials are both having really dramatic impacts at the same time.”

—Bowdeya Tweh contributed to this article.

Write to Laura Kusisto at laura.kusisto@wsj.com and Sarah Chaney at sarah.chaney@wsj.com

Appeared in the July 26, 2017, print edition as ‘In Pricey Market, Homeowners Renovate.’

Copyright © 2017 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djprprints.com>.