

# Professional Remodeler

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## The Future of Remodeling

# 2018

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THE CHANGES  
THAT WILL  
SHAPE THE  
NEXT 10 YEARS

# The Remodeling Market

# 2018



## The remodeling market will be more than \$350 billion by 2018.

By Jonathan Sweet, Senior Editor

### FLYING PICKUP TRUCKS. ROBOT LABOR. MCMANSIONS ON THE MOON.

We won't be ready for those things in the next 10 years, but remodeling in 2018 will certainly be different from today. The housing stock will be older, the workforce and customer base will be different and the competition will change. Universal design and green remodeling will be more prevalent. In other words, it'll be a whole new world.

How much can change in 10 years? Consider that in 1998 the remodeling market was estimated at less than \$150 billion. Harvard University's Joint Center for Housing Studies (JCHS) now puts the market at \$280 billion. You probably didn't have a Web site, and if you did it had to be basic enough to load with the average 28.8 dial-up modem most people were sporting. Your cell phone bore a striking resemblance to a bowling pin. As for your customers, the average baby boomer was under 50, the oldest Gen Xers were buying their first homes and most echo boomers were still in elementary school.

So we decided to take our best stab at what the market will look like in 2018. We've talked to leading remodelers and thought leaders both inside and outside the industry and combined that with research from NAHB, JCHS and the U.S. Census Bureau to paint a picture of what we can expect to see over the next 10 years.

And while we probably won't see flying cars, General Motors did announce recently they plan to debut their first driverless vehicles in 2018, so who knows?

## ECONOMICS

### Market will keep growing

This year is not looking like a good one for remodeling. After staying relatively strong in 2006 and 2007, the effects of the collapse of the new residential construction market have finally trickled down to remodeling. Money's tight, consumers are anxious and sales are slow.

That's the bad news. The good news is that the long-term outlook for remodeling is all good. Both NAHB and JCHS economists are estimating the market will be more than

\$350 billion within the next 10 years and could be nearing \$400 billion. Even a temporary slowdown won't change the needs of the market.

"There's not going to be a difference in the fundamental demand for remodeling," says Kermit Baker, director of the Remodeling Futures program at JCHS. "Historically, a downturn doesn't affect homeowners' willingness to invest; it only affects the timing of the growth."

In its 2007 report on the market, "Foundations for Future Growth in the Remodeling Industry," JCHS predicted 3.7 percent annual growth in remodeling for the coming decade. Nothing that has happened over the last few years has changed that expectation, Baker says.

"When we make long-term projections we take cyclical downturns into consideration," he says. "We entirely expected to experience a downturn now."

Remodelers echo that sentiment, saying they expect the current slowdown to be short-lived.

"When the recovery comes the problems we're experiencing now will be quickly forgotten," says Seymour Turner, executive vice president for Airoom Custom Remodeling Specialists in Lincolnwood, Ill. "It's not going to affect how people think of their homes."

What we shouldn't expect, though, is a return to the high-flying days of the last few years, which included types of work and a level of investment that was unusually high. Instead, the strong fundamentals of the market should lead to more steady growth like we saw from 1995 to 2000, Baker says.

Those fundamentals include an aging housing stock and a growing population. By 2018, the average home will be more than 35 years old and about a third will be more than 50



# Minorities will make up 39 percent of the population by 2020.

years old. Not surprisingly, spending on home improvement rises as a home ages and essential systems such as roofing, HVAC and plumbing begin to fail or require upgrades for modern life.

Besides the aging stock, a growing population means more opportunities. The U.S. Census Bureau predicts a population of 335 million by 2020, compared with the roughly 303 million Americans today. At the same time, Harvard estimates that there will be more than 86 million homeowners in 2015, up from 74 million in 2005.

## HOT MARKETS

Which markets are poised for the most growth? The housing stock is the oldest in the Midwest and Northeast, but the South and West will easily outstrip them in population growth. For the decade from 2010 to 2020, the U.S. Census Bureau projects a 2.4 percent increase in population in the Northeast and 3.1 percent in the Midwest. Conversely, the South will grow by 12.3 percent and the West by 13.1 percent.

States expected to see the biggest increases are Nevada (28 percent), Arizona (27 percent) and Florida (22 percent). While those states have some of the worst building and remodeling markets right now, it looks like they will play a big role in future growth. The only states outside the South and West expected to see growth above 5 percent are New Hampshire (10 percent) and Minnesota (9 percent.) With their older, established housing stock, those states will probably see a robust remodeling market.

## CLIENTS

### Shifting demographics means new customers

As the baby boomers age and minorities continue to grow as a percentage of the population, remodelers can expect to be dealing with a different customer in 2018 than today.

For almost 20 years, the baby boomers have been the drivers behind the remodeling market, but by 2018 the average boomer will be over 60. The typical Gen Xer will be in their 40s and the average echo boomer will be about 30, just coming into their prime homeownership years.

At the same time, minorities will be a larger part of the market, an estimated 39 percent of the population by 2020, according to the U.S. Census Bureau. Harvard projects that they'll represent nearly a quarter of all home improvement spending by 2015, up from 15.9 percent in 2005. The fastest growing portion of that will come from Hispanic households.

Both of these changes, along with the rise in single homeowners, will mean differences in the way remodelers have to build, market and sell their services.

## GENERATIONAL CHANGES

By 2018, Generation X and the echo boomers will be the key demographic for remodeling. They expect different things from the companies they work with. Today, the Internet is an important marketing tool for many companies, but in the future that won't be enough.

"We have to develop ways of truly allowing people to buy on the Internet," says Sal Ferro, CEO of Alure Home Improvements, East Meadow, N.Y. "It can't just be a way of contacting people. We have to provide ease of sale because they've been using this technology their entire lives."

That ability to make selections online, using 3-D modeling and other technology, will be widely available in 2018 if remodelers are willing to embrace it.

"With technology being what it is, I fully expect we'll be able to make all of those decisions online — we can design our home from our home," says Steve Lewkowitz, the home building and real-estate director for CDC Software, a customer relationship management software company.

"(Younger homeowners) really want to minimize the decisions they have to make in a showroom," he says. "If remodelers don't have these abilities, they're going to get taken right off the list."

At the same time, they want personal contact. When they make a request for information, they expect to hear back quickly with an answer to their specific problem, not a general marketing response, Lewkowitz says. That means remodelers need to be able to quickly respond to an instant message or e-mail query.

And if you don't respond well and they're unhappy with your service, they use technology to quickly spread the message.

"Social media is very important to them," says Steve Kleber,



# By 2018, the average baby boomer will be over 60.

## Fastest growing states

1. Nevada
2. Arizona
3. Florida
4. Texas
5. Utah

## Slowest growing states

1. West Virginia
2. North Dakota
3. Iowa
4. Ohio
5. New York

Source: US Census Bureau

president of Kleber & Associates, a marketing firm that works for several clients in the residential construction industry. "If they have a bad experience, 1,000 people can know about it very quickly. Your reputation becomes huge. Now you're graded publicly and it never goes away."

That's because more than any previous generation the echo boomers rely on their peers when making decisions.

"When they're looking to make any buying decision, they want to talk to people who are buying or who have already bought," says Neil Howe, founding partner of LifeCourse Associates, a company that studies generational differences. "They want to know what people their age think about it."

While similar in their embrace of technology, there are also some differences between Generation X and echo boomers as consumers. While Xers were likely to move away from home, echo boomers want to stay close to their parents. More echo boomers are moving back home to live with their parents than any earlier generation.

"They tend to be very close with their parents," Howe says. "They stay in touch with them to the point of 10 to 15 phone calls a week."

Even many of those who don't continue to live at home are choosing to live near their parents and refusing to take jobs that require them to move to other parts of the country, Howe says.

One of the biggest differences between the baby boomers and their younger cohorts may end up being how they invest in their homes. According to a recent government report, the baby boomers are the richest generation ever, continuing a long trend of every generation outdoing its parents. Unfortunately, that trend doesn't carry over to future generations.

"We see a huge decline in household net worth as we move from the oldest baby boomers to younger baby boomers," Howe says.

"They'll never get up to where the people now retiring are. Generation X's story has been the same, and they're struggling with it."

That could mean that although the number of projects will continue to be steady, size may decrease as the more pragmatic Xers and echo boomers become the driving force in the industry.

"The baby boomers were financially able to do these big projects," Ferro says. "Those resources are what built our business and a lot of remodeling businesses. The next level may or may not have the same level of financial success, so this could change the industry."

That's a trend that some remodelers are already seeing.

"We are dealing with Generation X now, and they are just a little more reserved in how they spend their money," says Doug Dewhurst, president of Dewhurst & Associates, a design/build remodeling firm in La Jolla, Calif. "They know they may move three to five years down the road and want to make sure their remodel makes sense financially."

The recent downturn in the market has made everyone nervous about remodeling now, but the impact may be more long-term for Xers and echo boomers who may have bought their first homes during the housing bubble and are now dealing with losses.

"It will recover, but people are likely to be more discerning in making that decision," says Kenneth Sekley, CEO of Patio Enclosures, a national remodeling firm headquartered in Macedonia, Ohio. "I think what we'll increasingly see is people being more specific and thoughtful about how they make their investments. We have to sell the benefits we can provide beyond the investment benefit."

(For more on generational differences, see our May 2007 article "Generation X" at [www.ProRemodeler.com](http://www.ProRemodeler.com).)

## RISING MINORITY INFLUENCE

Second- and third-generation immigrants, especially those of Asian and Hispanic origin, are big believers in the American dream of homeownership, Ferro says.

"They've started to accumulate the ability to do things like remodel and they are willing to spend the money to do it," he says.

Reaching those audiences requires focused marketing that goes beyond the traditional methods.

"We have to reach them through specialty niches — Hispanic



# The key to keeping young employees: Show them a career path.

radio stations, Hispanic newspapers, TV stations,” Ferro says. “They are most comfortable within their own culture. We have to have marketing campaigns keyed around that specific demographic.”

Once a remodeler has reached those clients, it’s also important to have employees that they can relate to.

“My feeling is there’s going to certainly be some affinity to stay with your roots,” says Turner. “For us, that means we need to be looking for Spanish speaking personnel in customer relations, sales and other places, not just in the field.”

Companies also need to be aware of cultural differences, such as nonverbal cues and important holidays and events. For example, in Hispanic cultures, a girl’s 15th birthday, or la quinceañera, is an important event that some clients have planned large remodels around, Turner says.

“We’re in a very touchy-feely business,” he says. “Not understanding those cultural differences can impact how a community looks at you.”

## WORKFORCE Dealing with new expectations

Finding a good workforce has been a challenge for years and is unlikely to be any easier in 10 years. The trades are already dominated by baby boomers and with most of them over 60 by 2018, the industry could be in a crisis mode. The opportunity to attract Generation X to construction may have come and gone, but the echo boomers offer a glimmer of hope.

As a group, Generation Xers have been likely to move around from job to job. Having come of age during the era of corporate downsizing, they have taken a “free agent” approach to their careers, says Howe.

While Xers think short-term, echo boomers are more likely to take a long-term approach to their careers.

“Xers want to get paid right now,” Howe says. “(Echo boomers) are different. They want to know what they can expect to get five, six or seven years from now.”

The key to successfully keeping young employees may be showing them that there’s a future in the remodeling industry.

If remodelers show them a career path that leads to management and increasing responsibility, that will be attractive to echo boomers. They want to feel they are making a difference, says Kleber.

“Get them involved in the future of the company,” he says. “Ask them where they see the company going in the future. If they can affect the company’s direction, that shows respect.”

Howe also recommends using training programs, such as professional certifications, to motivate them.

“Give them a credential — they want that gold star,” he says. “They’ve been recognized for everything they’ve done their entire lives, so this generation wants that.”

Despite all those things, remodelers still need to expect to see a lot of employee turnover.

“The average relationship with an employee of that generation is two years,” Kleber says. “Do everything you can to keep them, but don’t build up unrealistic expectations.”

It’s also not realistic to ever again expect a mostly native-born labor force.

“There’s no vocational training of any sort in the United States, so that problem isn’t going away,” says Turner. “Nobody as they enter high school is sitting there saying, ‘I want to be a plumber.’”

Building an immigrant labor force could also become more difficult in the future depending on what happens over the next 10 years with immigration reform at the federal, state and local level. Another challenge may be that as immigrants become more established they will open their own remodeling companies.

“Within the next 10 years they are going to become the bosses,” says Ferro. “That labor pool is going to become more educated, become a bigger part of our culture and catch that capitalistic bug.”

Once that happens, those companies will probably find it easier to attract employees of the same ethnicity.

“We’ll be competing with the very people who are working for us today for labor tomorrow and we’ll be at a disadvantage,” he says.

The answer to that will be to make sure qualified minority employees are recognized and given management opportunities to try to create an environment where other employees feel more comfortable, Ferro says.