Q3 2024

HOME IMPROVEMENT FINANCING

Revenue Report

Regions®

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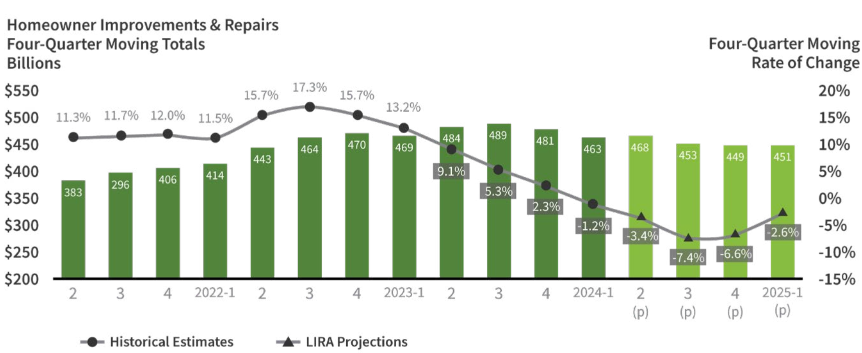
Remodeling Activity Dips, but Per-Project Spending Still Growing in 2024

Dip in Home Improvement Spending Looking Up by EOY

Sluggish movement in home improvement is expected to continue through 2024, with a slight dip in remodeling activity through the end of the year. However, there is light on the horizon with per-project spending still seeing strong growth, and remodeling activity expected to tick back up at the end of the year and into 2025.

Further, more homeowners are financing projects and hiring professional help*, indicating that, despite rising prices and higher rates, home renovations and repairs are still a priority.

Leading Indicator of Remodeling Activity – First Quarter 2024



Notes: Improvements include remodels, replacements, additions, and structural alterations that increase the value of homes. Routine maintenance and repairs preserve the current quality of homes. Historical estimates since 2021 are produced using the LIRA model until American Housing Survey benchmark data become available.

Joint Center for Housing Studies of Harvard University

Annual owner spending for home renovations and maintenance is expected to decline in Q3 2024 by 7% from the previous year before recovering to just 2.6% lower in Q1 2025[**], according to the Leading Indicator of Remodeling Activity (*LIRA*) released in April 2024 from the Joint Center for Housing Studies of Harvard University.

"While home improvement and repair spending is down from pandemic-induced highs, the nation's aging homes continue to need investment in critical replacements, home performance deficiencies, as well as modernization," said Carlos Martín, Director of the Remodeling Futures Program at the Center.

Frequency of Home-Related Activities Among Homeowners in 2023

MEDIAN SPEND AMONG HOMEOWNERS WHO RENOVATED	
2023	$24,000
2022	$22,000
2021	$18,000

90TH PERCENTIL SPEND AMONG HOMEOWNERS WHO RENOVATED	
2023	$150,000
2022	$140,000
2021	$100,000

2024 U.S. Houzz and Home study | Houzz Inc.

DIY Turning Into *"I Need Help"*

More than half of American homeowners are remaining in their homes, taking advantage of lower-rate mortgages[***]. However, with 50% of homeowners in a home that is 40 years old[****], the need for repairs and renovations is growing.

Although high interest rates and project costs have driven some to try DIY, 91% of homeowners still hired professionals to help with remodeling projects*. This is driving positive sentiment in the industry as they look forward to a rebound in activity over the next year.

This is further aided by the median project size continuing to grow, coming in at $24,000 in 2024*, up 9.1% from the previous year. With consistent project size growth, those in the home improvement industry are anticipating a good 2025 after a brief slump this year.

Financing Options Grow in Popularity

The majority of homeowners are still paying for projects with cash from savings. However, the number of people using credit cards to pay for projects has grown significantly.

According to the 2024 U.S. Houzz & Home Study, 40% of homeowners used a credit card for lower-budget projects (*$1,000-$5,000*), and 32% used a credit card for higher-budget projects (*$50,000-$200,000*), up 10% and 7%, respectively, from the previous year*.

Homeowners are looking for ways to finance their entire project, especially with the potential of going over budget, and are willing to spend money despite high interest on credit cards. This indicates a demand for financing options among people taking on home improvements and repairs, and professionals offering more attractive financing will likely be more competitive with homeowners.

* https://www.houzz.com/magazine/homeowners-spend-more-on-remodels-despite-slight-dip-in-activity-stsetivw-vs~174333393
** https://www.jchs.harvard.edu/press-releases/continued-easing-remodeling-declines-expected-2025
*** https://www.multivu.com/players/English/9120354-craftsman-home-field-advantage-survey-home-improvement-trends/
**** https://finance.yahoo.com/video/americans-delaying-home-remodeling-diy-162447029.html

Consumer Spending Outlook Continues to Point Toward Optimism

Consumer Spending Continued Gradual Growth in 2024

Most Americans are feeling optimistic about their personal finances, which is reflected in the ongoing moderate growth in consumer spending. Rising incomes, investments, and consumer spending are all expected to carry over their growth from 2023 through 2024*, despite high rates and mild pessimism toward the economy overall.

Higher incomes are moderating the effects of inflation and high interest somewhat, although the dip in home improvement activity is likely a lagged effect of high interest rates. Fortunately, this dip isn't expected to last long, and the home improvement and repair industry is already looking toward a stronger 2025.

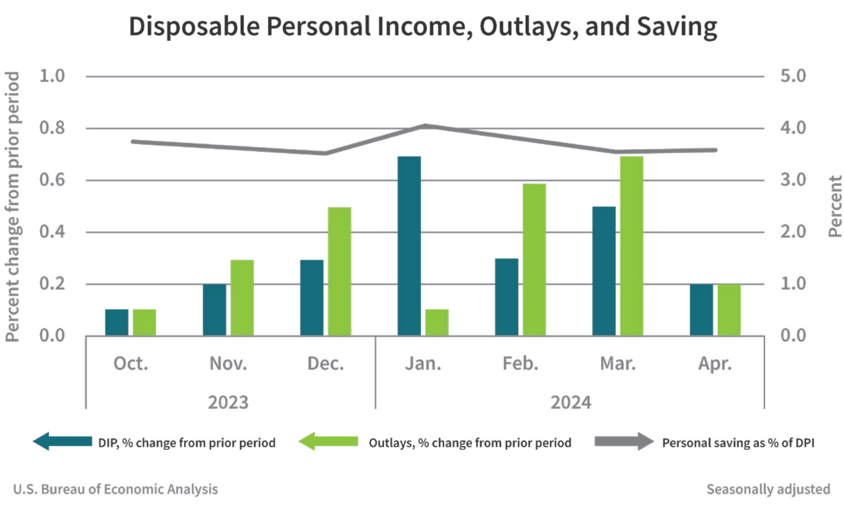
While there was some concern over stalled consumer spending, the first half of the year seems to have proven those fears unfounded. People are still spending, even if at a more moderate rate, and it's unlikely that will stall or fall through the rest of the year.

Travel Leading Summer Consumer Spending

Disposable income has continued to grow as have personal expenditures in the first half of the year. Consumer spending as a whole has ticked up .2% from March to April, reaching $39.1 billion**.

Middle-income households are expected to continue driving this growth through the summer, with a planned increase of $500 more in travel spending *** in 2024 compared to last year.

Combined with a 3.6% personal savings rate**, consumer spending behavior appears to be on track for slow but steady growth.



Investments and Real Estate Paying Off

Rising wages for Americans have spanned all income brackets. However, increased wealth gains through ownership of assets, particularly stocks and homes, have been even greater for baby boomers, college graduates, and high-income or high-wealth individuals.

Recent data from the Wall Street Journal indicates that in Q4 of 2023, the Federal Reserve reported record-high levels of household wealth held in various asset classes such as stocks, real estate, and other investments****. And in the first quarter of 2024, Americans earned $3.7 trillion in interest and dividends, nearly five times higher than just four years ago.

The income and wealth generated by investments, in addition to rising wages, are softening the impact of inflation and high interest rates for higher earners. Plus, with homeowners seeing some of the highest gains, home improvement projects should be more resilient than other big-ticket expenditures.

* https://www.forbes.com/sites/billconerly/2024/03/01/consumers-will-continue-spending-in-2024/?sh=73f662973f3b

** https://www.bea.gov/news/2024/personal-income-and-outlays-april-2024

*** https://www.pymnts.com/economy/2024/record-investment-income-fuels-continued-consumer-spending/

**** https://www.wsj.com/economy/americans-have-more-investment-income-than-ever-before-84b7a6c6

New Home Purchases and Refinances Still Dropping Among High Rates

High Rates Stalling Home Sales Despite Price Cuts

Just as the inventory scarcity in the housing market is easing, prospective home buyers are still holding off as mortgage rates rise above 7%. Additionally, without hoped-for rate cuts from the Federal Reserve, home sellers are likely looking at a longer period of restraint from buyers as they look for some sort of relief.

Even traditionally bright spots in the market—new home sales—fell in April, along with contracts to purchase existing homes.

Sales are down overall across the United States, with Redfin reporting a 3.4% decrease nationwide in their measure of pending sales[*]. However, some areas are further above or below that, with Seattle and the Bay area recovering faster, and the Sun Belt cooling quickly after a pandemic boom.

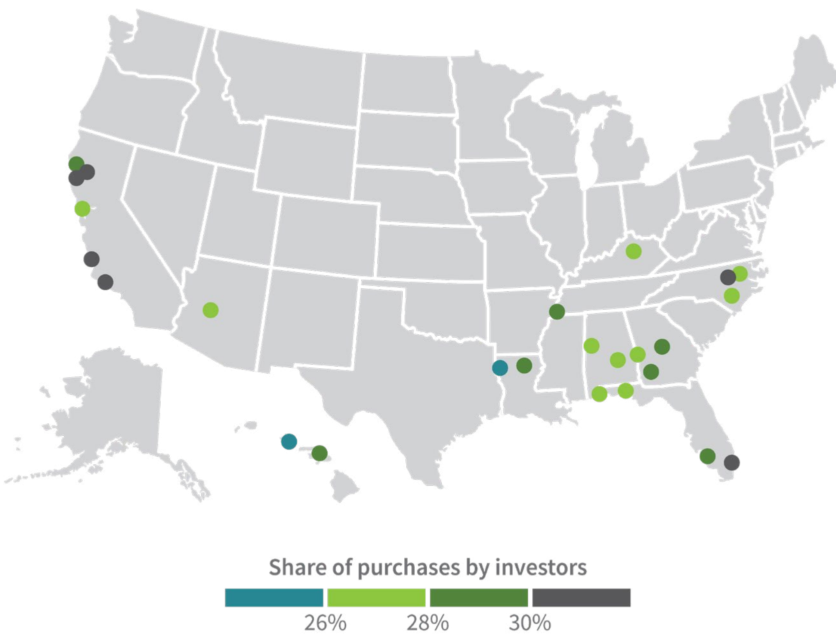
Overall Mortgage Demand Drops with High Rates

Both purchase and refinance mortgage applications are down, with purchase mortgage activity dropping 13% below the May 2023 level[**], according to the Mortgage Bankers Association. Even at the periods of highest demand in 2024, purchase mortgage applications are 45% lower than the same weeks in 2018 and 2019**.

This ongoing torpor in home sales will continue to drive home improvement and repair projects. As homeowners choose to remain in their homes, taking advantage of mortgages with lower rates, many are spending discretionary income on updates and upgrades to their homes.

U.S. metros and highest rates of investor home purchases

Moving average over four quarters | Q2 2023-Q1 2024



Note: Metropolitan statistical areas and divisions as defined by the U.S. Census Bureau
Source: Moody's Analytics
Data as of May 2024

Investor Home Purchases Tick Up, Possibly Increasing Competition for Buyers

The amount of U.S. homes purchased by real estate investors has risen for the first time in nearly two years, increasing by .5%[***], according to Redfin. In Q1 2024, homes purchased by investors made up 19% of all home purchases in the US[***].

These purchases are most commonly made with the intention of turning the home into a rental, flipping it and reselling it, or using it as a part-time or vacation home.

The effect this has on potential buyers can be difficult, as they're now competing against investors who may be able to put together more attractive offers. However, some are also picking up and improving less desirable properties, which will have an overall positive effect on the housing market.

* https://www.bloomberg.com/news/articles/2024-06-01/homebuyers-are-starting-to-revolt-over-steep-prices-across-us

** https://www.housingwire.com/articles/purchase-mortgage-demand-drops-13-year-over-year-mba/

*** https://www.cnbc.com/2024/06/04/investor-home-purchases-jump-for-the-first-time-in-two-years.html

To discuss these insights or delve deeper into their implications for your organization, my contact info is below.

Let's chat.

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Want to learn more about what's next in 2024 for home improvement?

Download our infographic about the state of the industry.

About Regions Home Improvement Financing

Regions Home Improvement Financing is a division of Regions Bank. We provide home improvement financing solutions through strategic business partners such as manufacturers, distributors, franchisors, trade organizations, and major retailers of home improvement. We empower companies like yours with customized home improvement financing that your contractors can then offer homeowners.

Regions Bank is one of the nation's largest full-service providers of consumer, commercial, mortgage and wealth management banking products and services. Regions' mission is to achieve superior economic value for shareholders over time by making life better for customers, associates, and communities and creating shared value as we help them meet their financial goals and aspirations.