




BBB® INDUSTRY REPORT | U.S.

The 5-year residential remodeling industry forecast shows growth ahead



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Many residential remodeling contractors spent much of 2022 getting through their backlog of delayed projects caused by material and labor shortages. With the backlog of work now complete, the remodeling industry prepared for a moderate slowdown with a projected Compounding Annual Growth Rate (CAGR) of 4.1% through 2027. But several emerging trends suggest the remodeling industry should be preparing for a green remodeling boom.

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Introduction

General contractors include both new home construction specialists and remodeling contractors. The remodeling contractor includes businesses that are focused on outside additions, interior remodeling, and other exterior projects.

Historically, the remodeling sector has seen a slowdown during times of new home construction booms¹, and vice versa. Recent economic developments have created a unique opportunity for remodeling contractors to increase revenue and profits beyond the projected slight decline.

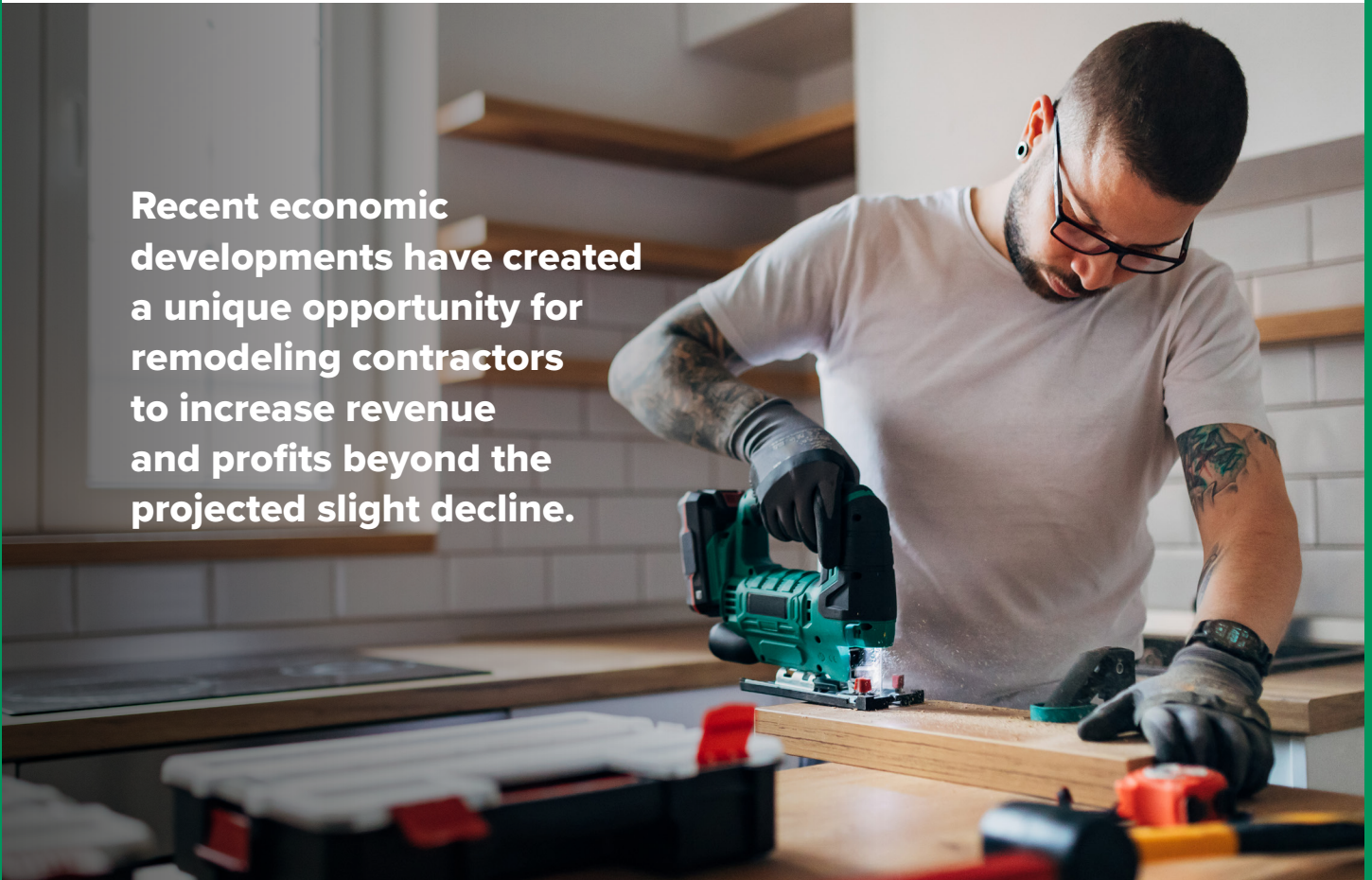
With wages on the rise and disposable income rates increasing, homeowners are increasingly turning to

remodeling projects, creating a new customer pool for contractors. Recent federal legislation in the U.S. provides substantial tax credits for weatherization and energy-efficient projects, and consumer demand for green building options has expanded the market for sustainable remodeling.

The following is an in-depth look at the residential remodeling industry that will allow contractors to understand the current state of the industry and the opportunities they have to expand their market share and grow their businesses.

(1) US INDUSTRY (NAICS) REPORT 23611D / CONSTRUCTION Remodeling in the US, Report by: Alex Petridis | August 2022

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The remodeling industry today

The U.S. remodeling industry primarily comprises small- to medium-sized general contractors that offer a range of services to homeowners. Unlike the new home construction industry, which tends to be dominated by large corporations, the remodeling industry has many smaller players operating in local markets across the country.

General contractors typically rely on a mix of full-time employees, subcontractors, and other temporary workers to provide a range of remodeling services to homeowners. While some contractors may specialize in particular types of projects, such as kitchen or bathroom remodels, others offer a wide range of services to meet the diverse needs of their customers.

Among the most common projects are room additions, which allow homeowners to expand their living space without having to move to a new home. Remodeling kitchens and bathrooms is also a popular choice, as these essential rooms are often seen as areas where the homeowner can renovate in order to greatly enhance a home's functionality, appearance, and value.

In addition to these traditional projects, the remodeling industry has seen continued demand for disaster repairs, as extreme weather events and other natural disasters have continued to be frequent and destructive. Remodeling contractors are often called upon to repair damage caused by floods, fires, and other disasters, helping homeowners to restore their homes and get their lives back on track.

Outdoor spaces are also a growing trend in the remodeling industry, with homeowners increasingly looking to create functional and inviting outdoor living spaces, such as patios, decks, and outdoor kitchens.

These projects can greatly enhance the value and appeal of a home, while also providing a space for relaxation and entertainment.

Remodeling industry at a glance¹

Category	Amount	2017-22 Growth	2022-27 Projected Growth
Revenue	\$104.8 B	-0.2%	-0.4%
Profit	\$6.6 B	1.8%	0.8%
Wages	\$26.4 B	5.2%	0.6%
Companies	524,387	5.1%	2.1%
Employees	816,000	4.7%	0.8%

The residential remodeling industry is a 104.8 billion dollar industry.

The industry is expected to experience a slight decline in revenue growth of -0.4% for the next five years, but profits are expected to increase by 0.8% during the same period. The remodeling industry has an average profit margin of 6.3%, which should remain constant over the next five years.

The number of companies operating in the industry is expected to increase by 2.1%, while the number of employees is expected to increase by just 0.8%. Projections through 2027 indicate that while 11,000 new remodeling contractors will join the industry, unfortunately, they will only hire another 6,500 new employees.

While there is growth in wages, it is expected to slow down from 5.2% to 0.6%. Overall, the industry is projected to experience moderate growth over the next decade, with a focus on profit and company growth.

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Major industry players¹

Few major players in the U.S. remodeling industry exist, as no single entity controls more than a 10% market share of industry revenue. The market is dominated by self employed individuals and small companies under 10 full time employees.

Companies by # of employees	% of remodeling contractors
1-4 employees	81.9%
5-9 employees	11.1%
10-19 employees	4.7%
20-99 employees	2.2%
100 or more	0.1%

One reason for the lack of major industry players is the regulatory and licensing requirements for contractors. Since these requirements can vary dramatically from one state to another, most remodeling contractors work within a specific geographical area to keep operating, travel, and material transportation costs down.

The result is that the smallest remodeling contractors (by the number of employees) are responsible for generating over \$85.05 billion of the industry's total revenue in 2022.

Market segmentation¹

The U.S. remodeling industry is segmented into several markets.

Market	Projects	Revenue
Single-family detached	65.1%	\$68.3 B
Multi-family homes	14.9%	\$15.6 B
Single-family attached	11.2%	\$11.5 B
Other	8.9%	\$9.45 B

The largest market segment is single-family detached homes, accounting for 65.1% of the market share. The revenue generated by this segment is estimated at \$68.3 billion.

The second largest market segment is multifamily homes, which account for 14.9% of the market share and generate an estimated revenue of \$15.6 billion. Single-family attached homes account for 11.2% of the market share and generate \$11.5 billion in revenue.

Single-family homes (attached and detached) are responsible for more than 75% of all remodeling projects in the U.S. today, making it by far the largest market for home remodeling contractors.

Major products/services segmentation¹

Product or service	Market share
Outside additions	24.6%
Systems and equipment	18.2%
Kitchen and bath remodeling	16.7%
Room additions and interior renovations	15.9%
Disaster repairs	10.5%
Other	14.1%

The most popular home remodeling projects are outside additions. These projects are popular with homeowners who want to increase their living space without having to purchase a new home.

Kitchens and bathrooms are also popular remodeling candidates for homeowners. Remodeled kitchens and bathrooms add significant value to a home's asking price², so there should be no surprise they are popular parts of a home to upgrade.

(1) US INDUSTRY (NAICS) REPORT 23611D / CONSTRUCTION Remodeling in the US, Report by: Alex Petridis | August 2022

(2) 2022 Remodeling Impact Report National Association of REALTORS® Research Group <https://cdn.nar.realtor/sites/default/files/documents/2022-remodeling-impact-report-04-19-2022.pdf>

Systems and equipment typically include rough and finish plumbing, HVAC systems, electrical systems, or various components. These projects remain a significant portion of the market.

Projects created as a result of weather and other natural disasters are a smaller, but critical part of the market. Contractors typically work with insurance companies when severe weather or a natural disaster causes damage to the home.

BBB has resources to help homeowners recover from natural disasters at **BBB.org/Disasters**.

The rest of the market includes smaller projects such as driveways, fences, patios, and most other significant lot or yard improvements.

Remodeling industry costs¹

Cost	% of total revenue
Materials	50.2%
Wages	25.2%
Utilities	1.9%
Rent	1.2%
Marketing	0.7%
Other expenses	13.6%

Remodeling is a “time and materials” industry. Project materials and labor account for over 75% of all annual industry spending (and corresponding project costs).

Marketing and advertising make up less than 1% of industry revenue. Since most remodeling contractors are small and operate locally, most rely on referrals and word-of-mouth advertising to reach their prospects. Being listed on BBB.org can help a contractor be noticed. Learn how at **BBB.org/get-listed**.

Remodeling contractors’ rent and utility expenses are often low because most work occurs on-site, with the contractor’s home frequently used as an office or storage facility. Other expenses include accounting and legal services, cell phones, permits, and insurance.

Based on the industry data, remodeling contractors can expect revenue to drop slightly (-0.4%) while profits increase by nearly 1% through 2027.

Remodeling industry trends and factors

A potential perfect storm in the form of a green remodeling boom could be on the horizon, thanks to constantly-changing economic factors and recently passed federal legislation.

Economic factors

Employers can expect to continue paying higher wages to retain key staff and personnel, thanks to low unemployment levels. In addition, as per capita disposable income continues to increase at 1.7% through 2027¹, more homeowners can afford to hire remodeling contractors to upgrade or expand their existing homes.

Rising interest rates forced many potential homebuyers out of the market, including families that had outgrown their starter homes. Unable to move to a larger home, these families are expanding and remodeling to add square footage, improve traffic flows, and upgrade finishes.

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Projections indicate that the house price index will rise at an annualized 1.7% rate through 2027¹. Higher home purchase prices typically encourage homeowners to invest in and better maintain their existing properties instead of buying another home.

Zippia³ reports that most remodeling projects' ROI (Return on Investment) ranges between 50-80%, providing another incentive to remodel instead of moving.

Remodeling industry costs¹

Remodeling project	ROI
Minor kitchen remodel	81.1%
Siding replacement	76.7%
Bathroom remodel	70.1%
Roofing replacement	68.4%
Deck addition	63.6%
Bathroom addition	59.9%
Major kitchen remodel	59.0%
Master suite addition	56.6%

Zippia also reported that 59% of U.S. homes were built before 1980, and 92% were built before 2000. As a result, many homes need to meet today's energy efficiency requirements for HVAC systems, insulation, windows, and doors.

New federal legislation

The Inflation Reduction Act of 2022⁴ includes new federal income tax credits, \$3,200 annually, to lower the cost of energy-efficient home upgrades by up to 30%. Allowable improvements include heat pumps, heat pump water heaters, insulation, and doors and windows. The legislation also allows electrical panel upgrades and home energy audits over the program's 10-year duration.

Another significant component of the IRA is the modified and extended Residential Clean Energy

credit. Under this program, homeowners can receive a 30% income tax credit for clean energy equipment, such as rooftop solar paneling, wind energy systems, geothermal heat pumps, and solar batteries, through 2032.

Many states now offer tax credit incentives for alternative and renewable energy technology and equipment, reducing consumer demand on aging power distribution networks.

As TurboTax⁵ explains, tax credits are applied toward the taxpayer's income tax liability and can offset the cost of energy improvements today while lowering energy bills in the future. Details regarding the tax credits and required documentation are on the IRS website⁶.

Green is good

Thanks to increased global awareness, building green is being discussed across corporate conference rooms and around home dining room tables. Most conversations focus on sustainable materials, carbon footprints, and lower energy usage and costs, essential to families, businesses, and communities.

Some lesser-discussed aspects of green building include increased worker productivity and quality of life, directly attributed to improved lighting and Indoor Air Quality (IAQ).

Additional benefits of green building include recycling or repurposing materials to reduce energy use during manufacturing, transport, and life cycle. Building materials such as steel, copper, and aluminum can be continuously recycled into new products.

See BBB's page about going green at **BBB.org/green**.

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 (3) www.zippia.com/advice/home-improvement-industry-statistics/
 (4) www.congress.gov/bills/117th-congress/house-bill/5376/text
 (5) turbotax.intuit.com/tax-tips/home-ownership/energy-tax-credit-which-home-improvements-qualify/L5rZH56ex
 (6) www.irs.gov/credits-deductions/frequently-asked-questions-about-energy-efficient-home-improvements-and-residential-clean-energy-property-credits

Next steps

Staying on top of remodeling industry trends allows your business to remain fluid as you grow your customer base and increase revenues during the green remodeling boom.

The BBB website is full of resources to help you start, manage, or expand your residential remodeling business. From industry white papers to effective marketing strategies, you'll always have access to the latest business developments and remodeling

industry trends. And your BBB Accreditation lets your potential customers and potential employees know that you're committed to building a better business.

Learn more about the benefits of BBB Accreditation at **BBB.org/GetAccredited**.

Just getting started with a new business in the remodeling industry? Check out BBB's Starting a New Business hub at **BBB.org/NewBiz**.



How to build a loyal customer base

Create a Customer-First Mentality

With limited face-to-face interactions, it's important to step up your customer service game. Make time for your customers by maintaining transparency, communicating consistently, and answering questions.



Personalize Your Communication

A Segment survey found that 71 percent of consumers get frustrated by impersonal encounters by companies. Earn your customer loyalty by building and delivering an authentic, personalized experience.



Start a Community

With social media abundant, Entrepreneur recommends creating an online community that encourages customer engagement and user-generated content, such as final product photos taken and shared by customers.



Respond to Reviews and Complaints

Whether it's a one-star rant or a five-star cheer, it's up to the business to respond positively and openly. Choosing to answer each review promptly and kindly can increase trust in your brand.



Honor Promises

Whether there are supply issues, price quotes, or unforeseen mistakes, work to keep the line of communication open with customers. By honoring promises and operating with transparency, you're building trust.



**THE SIGN OF A
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BUSINESSSM**

What business owners like about BBB

- 1 Accredited Business **status on BBB.org**
- 2 Use of the **Accredited Business Seal**
- 3 BBB **Customer Reviews**
- 4 BBB **Dispute Resolution**



Be a Top Business in Your Industry

We asked businesses how BBB Accreditation impacts them. Here are their responses...

- 1 Accreditation increases the **credibility** of my business
- 2 Accreditation shows **integrity** in our business practices
- 3 Accreditation builds consumers **trust**
- 4 Accreditation increases my **visibility** as a reputable business
- 5 Accreditation shows **we care** about our customers



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Business owners also said the BBB Accredited Business Seal shows they are...

- **reputable**
- **trustworthy**
- **honest**

Find out how BBB can help you.
Visit [BBB.org/get-accredited](https://www.bbb.org/get-accredited)



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