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THE TAKE

Planning a Renovation? The Fed Rate Cut Means You'll Want to Start Now.

Get ahead of the home revamp uptick expected to accompany lower interest rates

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The Fed's decision to cut the benchmark interest rate by a half point on Wednesday could spur a new wave of home renovations as more people ready their properties for sale or take advantage of cheaper improvement loans.

That means U.S. homeowners who plan to pay all cash for their remodel may want to start as soon as possible and get ahead of the anticipated crush of renovations. After all, homeowners who participated in the last surge of renovation activity, triggered by pandemic-induced domesticity and extremely low borrowing costs, probably still shudder at the experience.

Annual spending on homeowner improvements and maintenance is anticipated to reach $466 billion through the second quarter of 2025, according to the Leading Indicator of Remodeling Activity (LIRA) report from the Joint Center for Housing Studies of Harvard University (JCHS).

"After several years of frenzied activity during the pandemic, owners are now making upgrades and repairs at a steadier and more sustainable pace," said Carlos Martin, director of the remodeling futures program at the JCHS, in a statement accompanying the latest LIRA report.

That steady pace may change in the coming months now that the Federal Reserve cut rates by a half point. That brings the benchmark rate between 4.75% and 5%. Further rate cuts are anticipated in the coming months. While mortgage rates are not directly tied to the federal funds benchmark rate, they are influenced by that rate and are anticipated to decline, albeit modestly by some estimates.

“The main impact of lower mortgage rates is that home sales activity increases,” said Abbe Will, associate director of the remodeling futures program at the JCHS. “When sales volume is up, remodeling activity rises because sellers do projects to prep their homes for sale and buyers tend to remodel before they move in or within the first few years after buying.”

Lower interest rates also reduce the cost to finance home-improvement projects, said Daryl Fairweather, chief economist for Redfin, headquartered in Seattle.

“The rise in interest rates slowed remodeling demand,” Fairweather said. “During the pandemic, we saw frenzied demand in part because of low rates, but also because people spent so much time at home, they were aware of the work they wanted to do. Inflation, supply chain issues and a lack of contractors made everything more expensive.”

While there’s no certainty about how big a boost lower rates will give remodeling activity, Will said that homeowners planning to pay cash may want to move forward sooner rather than later.

“It’s wise to consider that you may be competing more with home sellers and buyers if you wait until next year,” Will said. “It won’t be like 2021 with the supply chain issues, but if you can avoid competition and delays, you should start sooner rather than later.”

Besides getting ahead of possible delays and limited contractor availability, another reason to get started as soon as possible with a renovation project is financial.

“Projects never go down in price, so there’s no reason to wait if you know what you want to do and have the cash to pay for it,” said Michael Sauri, a member of the JCHS steering committee and co-founder of TriVista USA, a design-build firm based in Arlington, Virginia. “The exact same project as one we did three years ago now costs more because of inflation, wage increases for labor and higher insurance premiums.”

The Link Between Interest Rates and Home Improvement

While lower mortgage rates typically drive home sales volume, lower rates also entice more homeowners to borrow from their home equity with a cash-out refinance, home equity line of credit or a home equity loan.

“As mortgage rates drop, home equity loans will be more attractive to homeowners who want to keep their current low rate mortgage but also want to use their equity to remodel,” Fairweather said.

Even before mortgage rates eased later in the summer, the number of new home equity lines of credit (HELOCs) lines rose by 26.5%during the second quarter of 2024, according to ATTOM Data Solutions, a real estate analytics firm. Nearly half of homeowners with a mortgage are considered "equity rich," according to research by ATTOM, which means that their mortgage balances are less than half of their home value. Those homeowners have plenty of available equity to borrow when rates drop and they're ready to renovate.

Will Supplies and Labor Availability Shrink?

The global supply chain disruption created by the pandemic is not likely to occur again, Will said, but homeowners could experience delivery delays if demand ramps up even more quickly than anticipated. Though experienced homeowners and contractors may be better prepared to handle a bottleneck, having adopted new strategies in the wake of the severe pandemic disruption.

"We put a system in place to navigate supply issues and prep for the next storm," said Rob Farrie, vice president of construction for Anthony Wilder Design/Build in Cabin John, Maryland. "Because we're a design-build firm, we can make recommendations, identify items that will be needed and place orders as soon as decisions are made."

Some products require a longer lead time than others, Farrie said, but they get updates from manufacturers for easier planning.

"We can help clients choose a product that's available or, if they want something specific that will take longer, we can temporarily fill the space with another appliance until it arrives," Farrie said.

At TriVista, Sauri said the pandemic shortages taught them to order every possible item as early as possible.

"We used to not think about things like cabinetry pulls because we would just pick those up at the end of the project, but now we put every pull and screw on the selections list from the beginning," Sauri said.

The labor issue is more challenging.

"We're staffing up now because we anticipate unusually high demand," Sauri said. "People talk about the shortage of skilled labor and that includes architects, interior designers, steel engineers, carpenters, plumbers and electricians. We're constantly on the lookout for talented people. If we see someone good, we snap them up."

Sauri warns that homeowners who want quality work done should get contracts signed immediately.

“The A-team is available now because we’ve had more breathing room in remodeling,” Sauri said. “If you wait until January when interest rates are lower and you’re competing with sellers and home buyers, you may get the C-team from some companies or be forced to wait a long time for the A-team to be available again.”

Adding to the competition for contractors and supplies are relatively recent changes to laws in some communities that encourage construction and additions, Fairweather said.

“More communities allow for ADUs [accessory dwelling units] and some provide tax benefits for building them,” Fairweather said. “Plus, zoning laws have changed to allow for a second home to be built on lots that were formerly restricted for single-family homes.”

Whether people plan to finance a home addition or renovation or not, lower interest rates typically correlate with rising contractor demand, Sauri said.

“When people feel that money is cheap because of low interest rates, they feel free to spend more money whether they pay cash or finance a project,” he said.

In other words, it’s time to get ahead of the crowd with your home improvement plans.