Q1 2017

HOUZZ RENOVATION BAROMETER

April 2017

Big Ideas

- The Houzz Renovation Barometer, which tracks industry optimism in year-over-year and quarter-over-quarter market improvements, posted Q1 readings exceeding 50 points across all industry groups (66-76 out of 100), as more firms reported market activity increasing than decreasing quarter over quarter. Home renovation and design firms are bullish about the second quarter of 2017, with high scores of 71-86.

- Firms in four of six industry groups reported an uptick in market activity typical for this time of the year, reflected in Q1 2017 scores in line with Q1 2016 (66-76 vs. 68-75, respectively). In particular, architects reversed a three-quarter downward trend in confidence, with scores returning to Q1 2016 levels. In contrast, building and outdoor specialty firms' confidence dipped slightly relative to Q1 2016, especially in the Northeast.

- The Barometer posted high year-over-year readings of 65-77 in the first quarter of 2017, in line with or exceeding the scores for Q4 2016 (61-75). Remodelers and design-build firms continue to project high confidence in year-over-year market gains, while architects show a renewed confidence in the market.

- Labor shortages continue to hinder industry growth, as reported by 75% of remodelers and design-build firms. Shortages remain highest in the Midwest (85%), yet appear to have somewhat eased in the South (73% in Q1 2017 vs. 81% in Q3 2016). Firms are stepping up recruiting efforts by leveraging social media and other promotional channels.

Contents

CURRENT LABOR CONDITIONS

Labor Shortages Persist, Led by Carpenters

Three in four general contractors (GCs), remodelers, and design-build firms reported moderate to severe labor shortages across a wide range of skilled trades (75%), slightly below the 77%-79% range reported in the past two years. Finish carpenters and general laborers remain in shortest supply, in line with Q3 2016 findings (41% and 36% vs. 42% and 35%, respectively).

MODERATE TO SEVERE LABOR SHORTAGES BY PRO TYPE REPORTED BY GCS, REMODELERS, DESIGN-BUILD FIRMS*

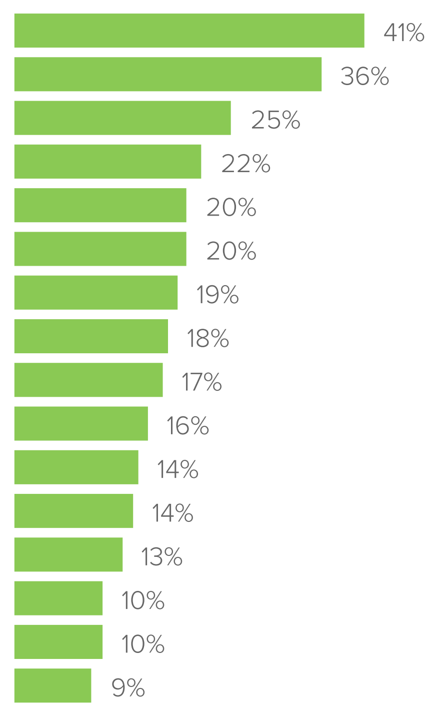
Pros Reporting Labor Shortages

75%
Q1 2017

78%
Q3 2016

77%
Q1 2016

79%
Q3 2015



	Q1 2017	Q3 2015	Q1 2016	Q3 2016
Carpenter (finish)	41%	45%	45%	42%
Laborer (general)	36%	36%	39%	35%
Framer	25%	25%	27%	26%
Tiler	22%	22%	22%	23%
Drywaller	20%	21%	19%	21%
Plumber	20%	19%	19%	21%
Electrician	19%	19%	19%	21%
Painter	18%	18%	17%	19%
Mason	17%	19%	19%	19%
Concrete specialist	16%	19%	18%	18%
Cabinet specialist	14%	18%	17%	16%
Roofer	14%	10%	13%	12%
Flooring specialist	13%	11%	13%	14%
Siding specialist	10%	10%	13%	12%
HVAC specialist	10%	10%	11%	9%
Other	9%	6%	9%	9%

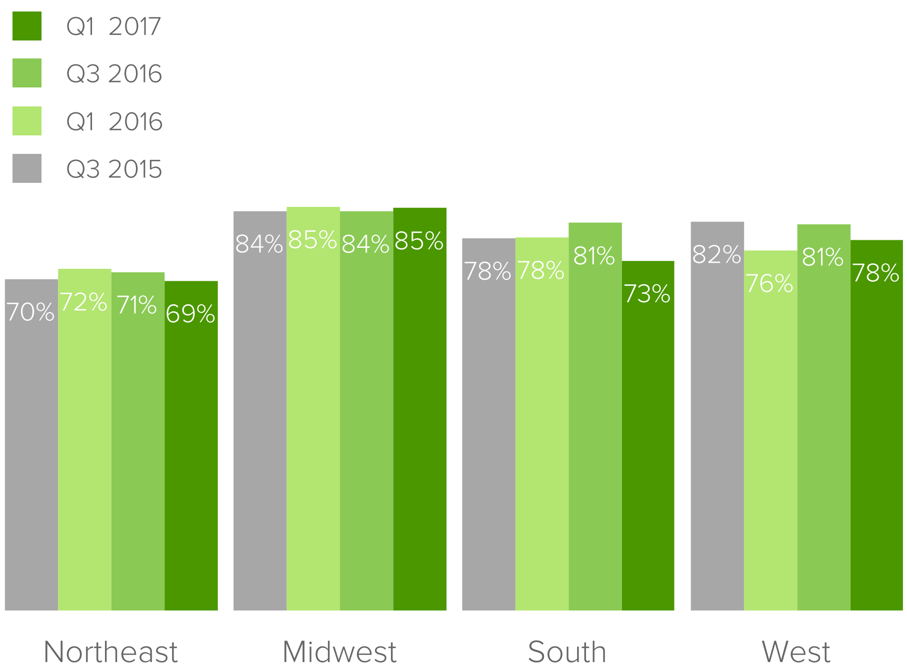
*Percentages reflect proportion of GCs, remodelers, and design-build firms *who reported moderate to severe shortages of specialized trades and general laborers.*

Southern Labor Shortages Easing

While firms reported widespread labor shortages across all regions, the shortages remain highest in the Midwest, both overall and by nearly every trade group. Unexpectedly, the share of firms reporting moderate or severe labor shortages in the South declined slightly from the peak of 81% reported in Q3 2016 to 73% in Q1 2017.

MODERATE TO SEVERE TRADES/LABOR SHORTAGES REPORTED BY GCS, REMODELERS, DESIGN-BUILD FIRMS*

Overall Labor Shortages by Region



Labor Shortages by Pro Type & Region

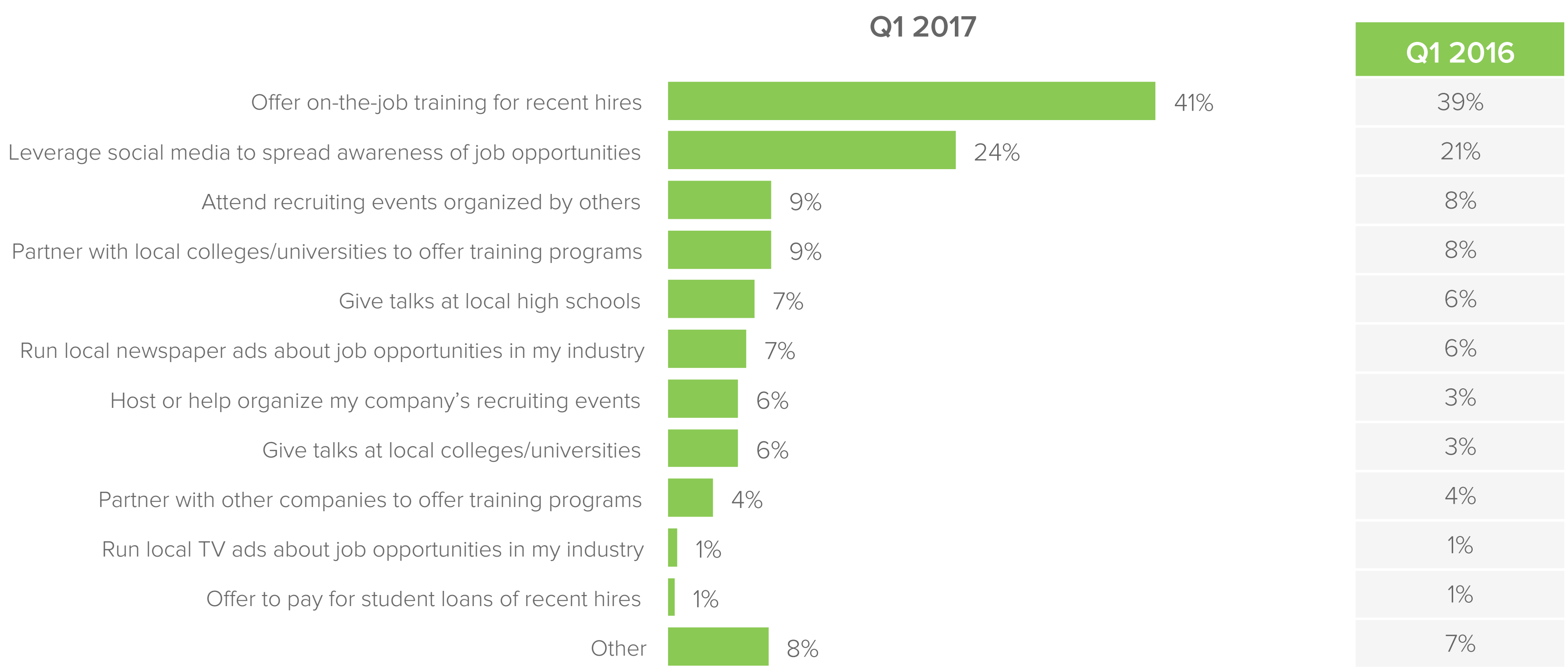
	Northeast	Midwest	South	West
Carpenter (finish)	36%	54%	37%	42%
Laborer (general)	28%	47%	31%	39%
Framer	14%	34%	25%	28%
Tiler	16%	26%	25%	20%
Drywaller	12%	27%	22%	19%
Plumber	17%	23%	19%	23%
Electrician	14%	22%	18%	23%
Painter	13%	21%	21%	17%
Mason	13%	25%	20%	13%
Concrete specialist	7%	22%	17%	16%
Cabinet specialist	9%	18%	13%	18%
Roofer	10%	14%	14%	17%
Flooring specialist	9%	12%	14%	15%
Siding specialist	7%	14%	10%	11%
HVAC specialist	9%	12%	8%	13%
Other	6%	6%	6%	7%

*Percentages reflect proportion of GCs, remodelers, and design-build firms *who reported moderate to severe shortages of specialized trades and general laborers.*

Greater Efforts to Recruit

To attract young workers, many GCs, remodelers, and design-build firms are stepping up efforts to spread awareness of job opportunities in the industry. Compared to a year ago, a greater share of firms are leveraging social media, giving talks at local high schools and/or colleges, organizing company-wide recruiting events, and running local newspaper ads, among other recruiting activities.

EFFORTS TO ATTRACT YOUNG WORKERS REPORTED BY GCS, REMODELERS, DESIGN-BUILD FIRMS*

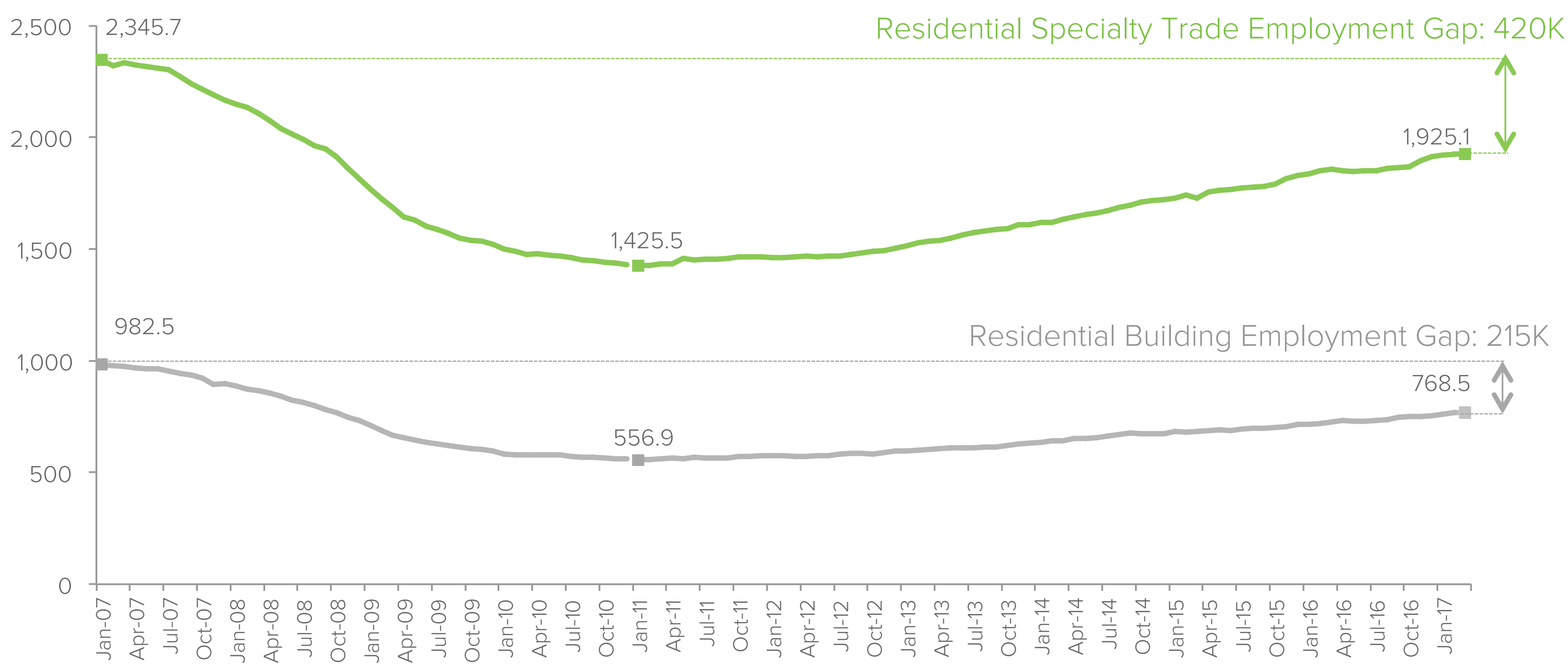


*Percentages reflect proportion of GCs, remodelers, and design-build firms *who reported moderate to severe shortages of specialized trades and general laborers.*

BLS Data Watch: Employee Gap of Over 600K

In line with Houzz's findings on labor shortages, the Bureau of Labor Statistics' Current Employment survey shows that residential building/remodeling firms and residential building/remodeling specialty trade firms lost 1.35M employees between January 2007 and January 2011. As of March 2017, firms are estimated to have regained 710,000 employees, yet continue to operate with 635,000 fewer employees relative to the 2007 peak. *Note: These estimates do not include a large number of non-employer firms contributing to the industry composition.*

EMPLOYMENT BY RESIDENTIAL BUILDING AND SPECIALTY TRADE FIRMS WITH EMPLOYEES (IN 1,000s) – 01/07 - 3/17*



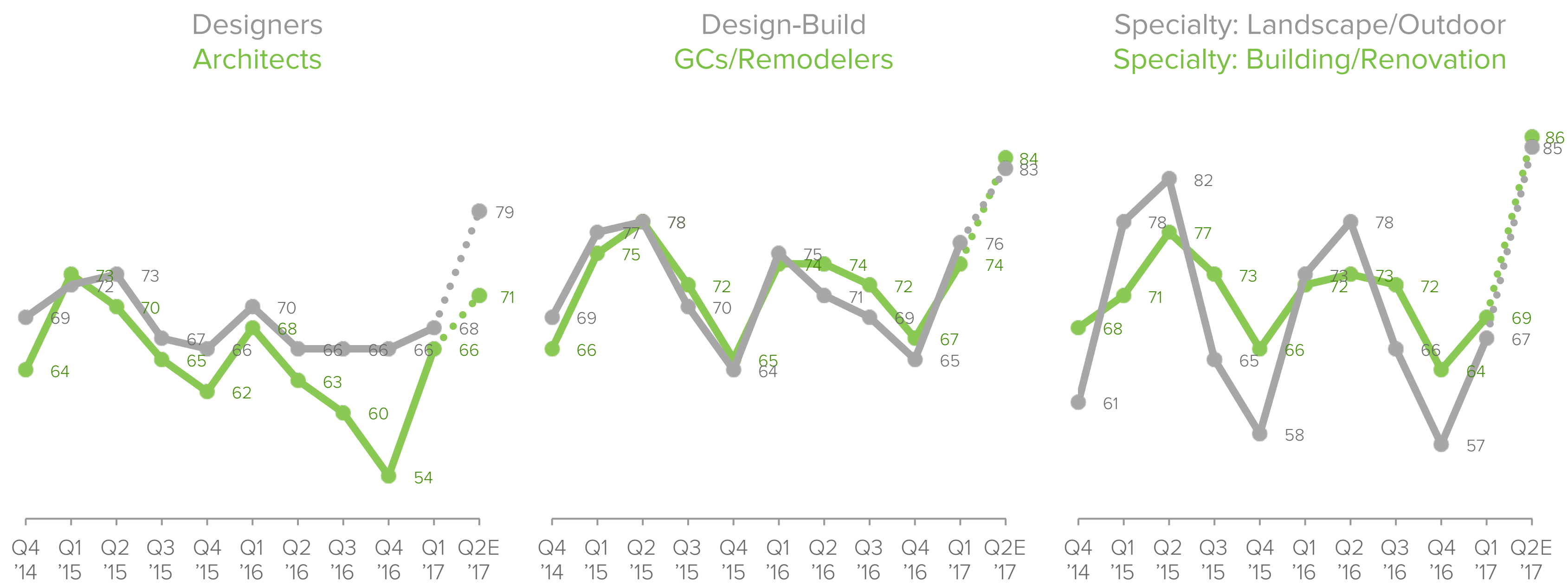
*Source: January 2007 - March 2017 Current Employment survey, BLS; https://www.bls.gov/web/empsit/cespeaktrough.pdf; February and March 2017 are projections.

HOUZZ RENOVATION BAROMETER
QUARTER OVER QUARTER

Market Springs Forward; Architects Regain Confidence

The Houzz Renovation Barometer posted readings of 66-76 in the first quarter of 2017, a 3%-18% increase compared to Q4 2016 for most industry groups, indicating continued optimism in quarter-over-quarter market gains across all sectors. Architects stand out, with readings gaining 22% quarter over quarter and returning to Q1 2016 levels (66 vs. 68, respectively). In contrast, Q1 2017 scores for building and outdoor specialties (67-69) are lower than scores reported in Q1 2016 (74-76).

HOUZZ RENOVATION BAROMETER (QUARTER OVER QUARTER)*



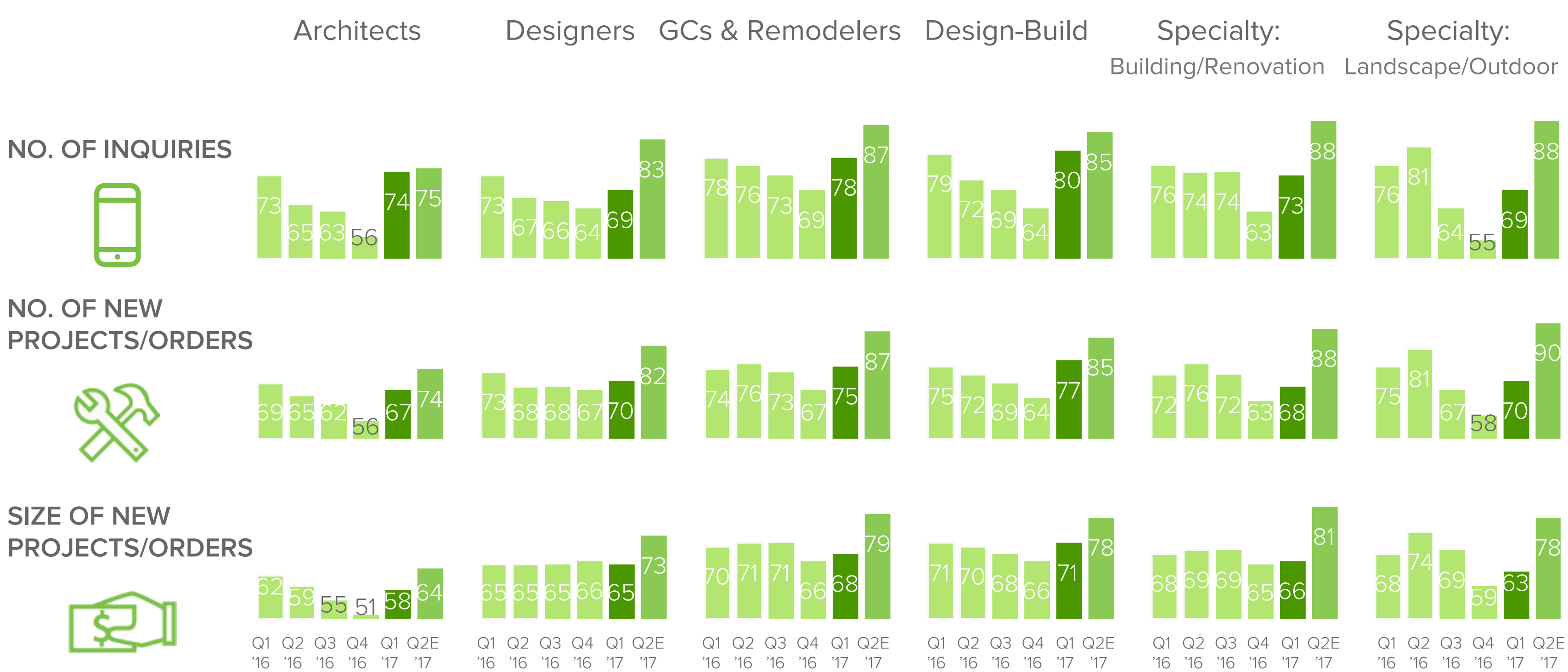
Q2E reflects expectations for the upcoming quarter.

*A reading over 50 indicates that more firms are reporting that business activity is higher than those reporting it is lower in a given quarter *relative to the prior quarter*. The greater the index value relative to 50, the greater the proportion of firms reporting increases in quarterly business activity than those reporting decreases. Business activity is measured as number of inquiries, number of new projects/orders, and size of new projects/orders.

New Inquiries Boost Confidence of Architects

More firms continued to report quarter-over-quarter increases than decreases in the number of inquiries and the number and size of new projects in Q1 2017, as reflected by Barometer readings exceeding 50 across all industry groups (69-80, 67-77, and 58-71, respectively). The quarter-over-quarter scores for new inquiries and number of new projects jumped 32% and 20% among architects, respectively, accounting for architects' increased confidence in market gains.

COMPONENTS OF HOUZZ RENOVATION BAROMETER (QUARTER OVER QUARTER)*



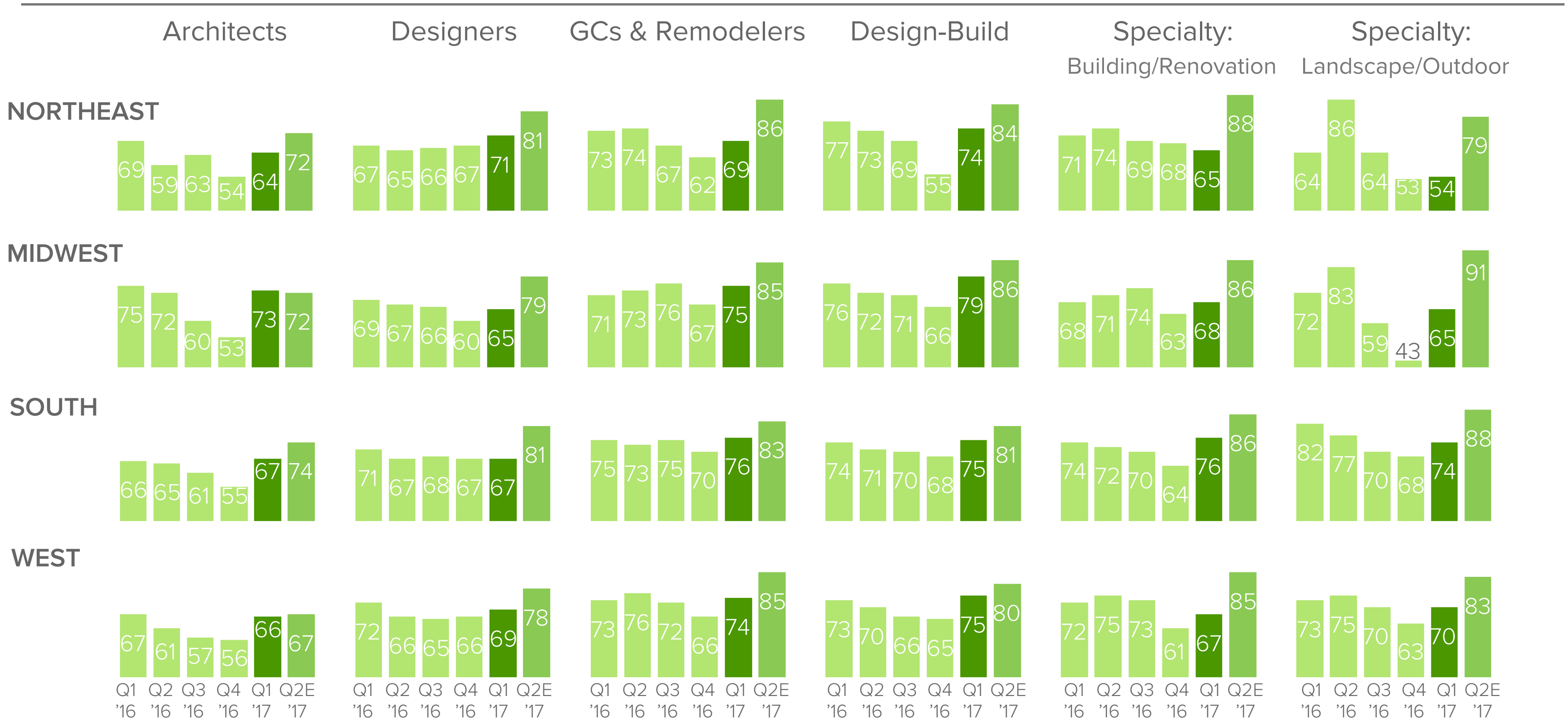
Q2E reflects expectations for the upcoming quarter.

*See footnote on p. 10 for interpretation of the scores. The Houzz Renovation Barometer is a simple average of the scores of the three components.

Dormant Northeast

An onset of spring activity is being felt across most regions and industry sectors. However, building and outdoor specialty firms in the Northeast are projecting weaker confidence than is typical for the start of a year, reflected in scores of 65 and 54 in Q1 2017, respectively, compared to 71 and 64 in Q1 2016. Other industry groups in the Northeast are also projecting relatively weaker confidence, likely due to mid-March winter storm activity.

REGIONAL HOUZZ RENOVATION BAROMETER (QUARTER OVER QUARTER)*



Q2E reflects expectations for the upcoming quarter.

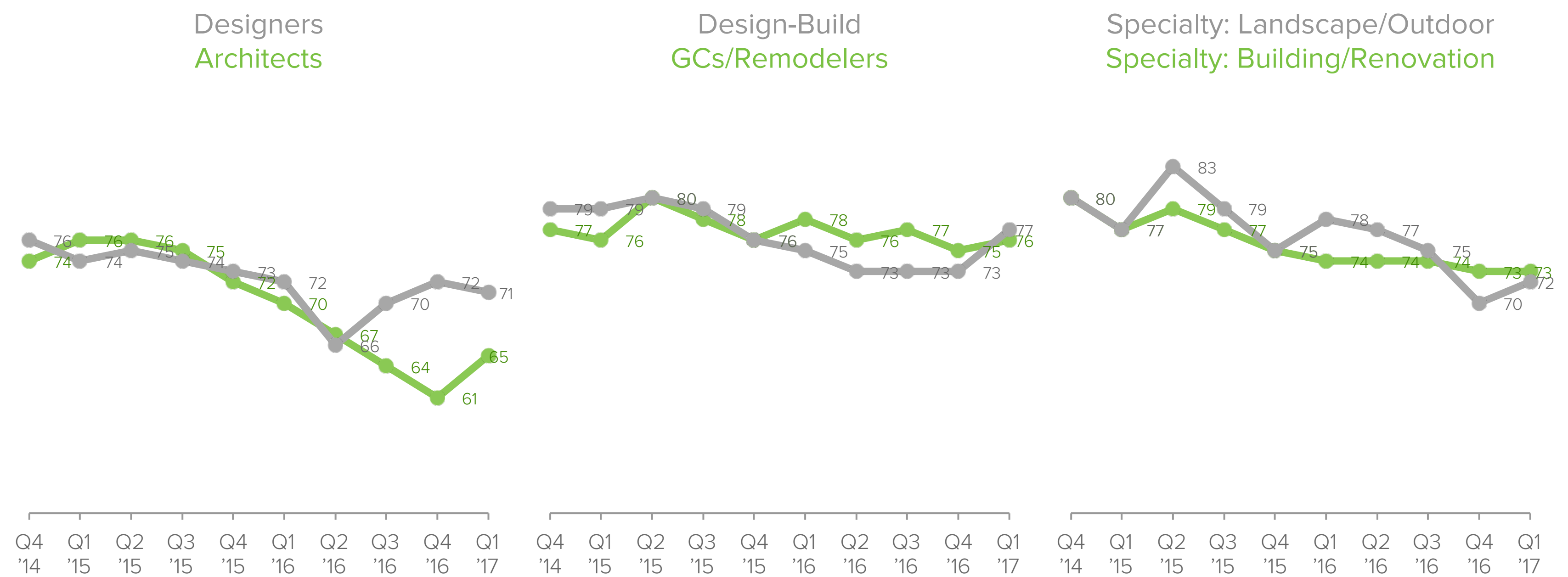
*Click the links to see the Houzz Renovation Barometer by state and by major metro area. See footnote on p. 10 for interpretation of the scores.

HOUZZ RENOVATION BAROMETER
YEAR OVER YEAR

High Remodeler Confidence in the New Year

The Barometer posted high year-over-year readings of 65-77 in the first quarter of 2017, indicating high optimism in continued year-over-year gains in the home renovation market. Furthermore, these scores are in line with or exceed the Q4 2016 scores (61-75). GCs/remodelers and design-build firms are continuing to project high confidence in year-over-year market gains, with high scores of 76-77 in Q1 2017. Furthermore, architects are showing a renewed confidence in the market.

HOUZZ RENOVATION BAROMETER (YEAR OVER YEAR)*



*A reading over 50 indicates that more firms are reporting that business activity is higher than those reporting it is lower in a given quarter *relative to the same quarter of the prior year*. The greater the index value relative to 50, the greater the proportion of firms reporting increases in quarterly business activity than those reporting decreases. Business activity is measured as number of inquiries, number of new projects/orders, and size of new projects/ orders.

METHODOLOGY AND LINKS

Methodology

The Houzz Renovation Barometer tracks quarterly fluctuations in business activity related to renovation of *owner-occupied existing homes*. The study is conducted quarterly and presents an analysis of responses to an online survey sent out to a national U.S. panel of architects, interior designers, general contractors/remodelers, design-build firms, and building/renovation and landscape/outdoor specialties. The Houzz Renovation Barometer survey for the current quarter was fielded March 24, 2017 - April 12, 2017. N = 2,919 (358 architects; 538 interior and building designers; 726 general contractors/remodelers; 504 design-build firms; 550 building/renovation specialties[1]; and 243 landscape/outdoor specialties[2]).

Index Construction Method: The Houzz Renovation Barometer survey asks professionals to indicate whether certain business activities increased, decreased, or stayed about the same in a given quarter; changes in activity are measured quarter over quarter and year over year. "Business activity" refers to number of inquiries, number of new projects/orders, and average size of new projects/orders. The final Houzz Renovation Barometer is constructed as a diffusion index that 1) sums up the proportion of firms reporting increases in a given business activity and one-half of the proportion of firms reporting no change in the activity; and 2) averages the sums across the three components, with equal weights assigned to each component. Diffusion indices are a widely accepted method for tracking turning points in the market. For more information on the methodology, see U.S. Houzz Barometer Study, February 2015.

[1] Building/renovation specialties include replacement contractors (e.g., carpenters) and product installers/manufacturers/resellers (e.g., cabinetry).
[2] Landscape/outdoor specialties include landscape architects, designers, and contractors; outdoor replacement trades (pavers); and outdoor product installers/manufacturers/resellers (e.g., pools and spas).

Links to Pros on Houzz

Houzz is the easiest way for people to find inspiration, get advice, buy products, and hire the professionals they need to help turn their ideas into reality.

Design, Renovation & Building	Products for the Home	Remodeling Services & Supplies	Outside the Home
Architects & Building Designers	Appliances	Building Supplies	Backyard Courts
Design-Build Firms	Bedding & Bath	Cabinets & Cabinetry	Decks, Patios & Outdoor Enclosures
General Contractors	Carpet & Flooring	Carpenters	Driveways & Paving
Home Builders	Fireplaces	Closet Designers & Professional Organizers	Fencing & Gates
Interior Designers & Decorators	Furniture & Accessories	Kitchen & Bath Fixtures	Garden & Landscape Supplies
Kitchen & Bath Designers	Lighting	Paint & Wall Coverings	Lawn & Sprinklers
Kitchen & Bath Remodelers	Furniture Refinishing & Upholstery	Rubbish Removal	Outdoor Lighting & Audio Visual Systems
Landscape Architects & Landscape Designers	Window Treatments	Specialty Contractors	Outdoor Play Systems
Landscape Contractors			Pools & Spas
Stone, Pavers & Concrete			Tree Services
Tile, Stone & Countertops			
Windows, Doors, Roofing & Siding	**Other Contractors & Services**	**Home Service Contractors**	
Doors	Artists & Artisans	Electrical Contractors	
Garage Doors	Home Media Design & Installation	Environmental Services & Restoration	
Roofing & Gutters	Home Stagers	HVAC Contractors	
Siding & Exterior Contractors	Ironwork	Plumbing Contractors	
Windows	Kids & Nursery	Septic Tanks & Systems	
	Media & Bloggers	Solar Energy Contractors	
	Photographers		
	Real Estate Agents		
	Schools & Organizations		
	Staircases & Railings		
	Wine Cellars		