

# 2018

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## HOUZZ STATE OF THE INDUSTRY

U.S. Residential Renovation and Design  
May 2018

# Big Ideas

## POSITIVE OUTLOOK FOR 2018

Building on a strong 2017, more than two-thirds of surveyed companies that specialize in residential renovation or design cite a good or very good outlook for 2018 (a range of 71%-88% over seven industry groups).<sup>1</sup> Four of the industry groups expect annual gross revenues to grow on average at similar or higher rates in 2018 (10.5%-12.3%) as compared with the actual rates in 2017 (7.2%-10.6%). Architects and design-build companies are the exception, anticipating growth rates somewhat lower than in 2017.

## NATIONAL ECONOMY AND LABOR MARKET HEADWINDS

While two-thirds of companies across industry groups expect the demand for their services to improve in 2018, the outlook for the national economy appears to be polarized. At least a quarter of companies in each industry group expect the national economy to improve (25%-38%), while a meaningful share expect conditions to deteriorate (12%-28%). Furthermore, companies expect labor availability to tighten and labor costs to rise in 2018.

## GROWTH ACCELERATED IN 2017 FOR MANY

Three of the seven industry groups surveyed experienced an accelerated average revenue growth in 2017 as compared to 2016, while growth of the other industry groups remained in line with 2016. In particular, design-build companies saw their average annual growth rate increase 3 percentage point increase in 2017 over 2016 (from 8.3% to 11.3%). Consistent with 2016, companies report that business costs continued to rise in 2017, citing labor, products, and materials as the top cost drivers.

<sup>1</sup> The Houzz State of the Industry Study groups companies into seven industry groups: architects, interior designers, general contractors/remodelers, design-build firms, building/renovation specialty firms, landscape/outdoor specialty firms, and decorating specialty firms.

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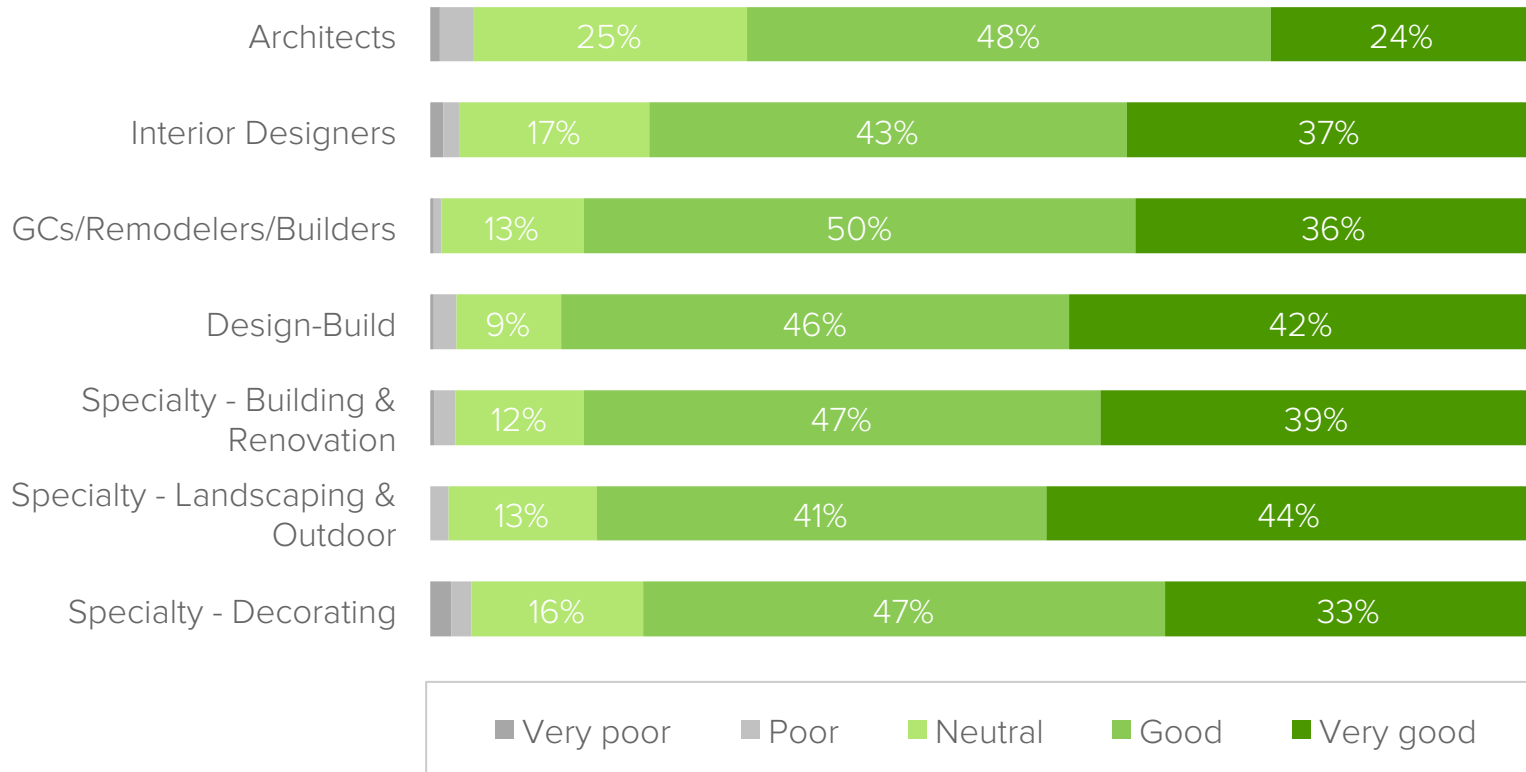
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# 2018 OUTLOOK

# 2018 Expected to Be a Good Year

Over two-thirds of companies on Houzz focusing on residential renovation and design predict that 2018 will be a good or very good year (71%-88%). Companies in the construction and outdoor industry groups are particularly optimistic, with 36%-44% having “a very good” outlook for 2018.

FIRMS (%) RATING THEIR OVERALL BUSINESS OUTLOOK FOR 2018



# Firms Are Bullish About Growth in 2018

Companies are bullish about revenue growth in 2018, with expectations based on a strong 2017. Specialty companies in the construction, outdoor, and decor industries are particularly optimistic, with expected average growth rates exceeding the actual 2017 rates by 2 to 3 percentage points. Architects are conservative about their growth projections, in line with past years.

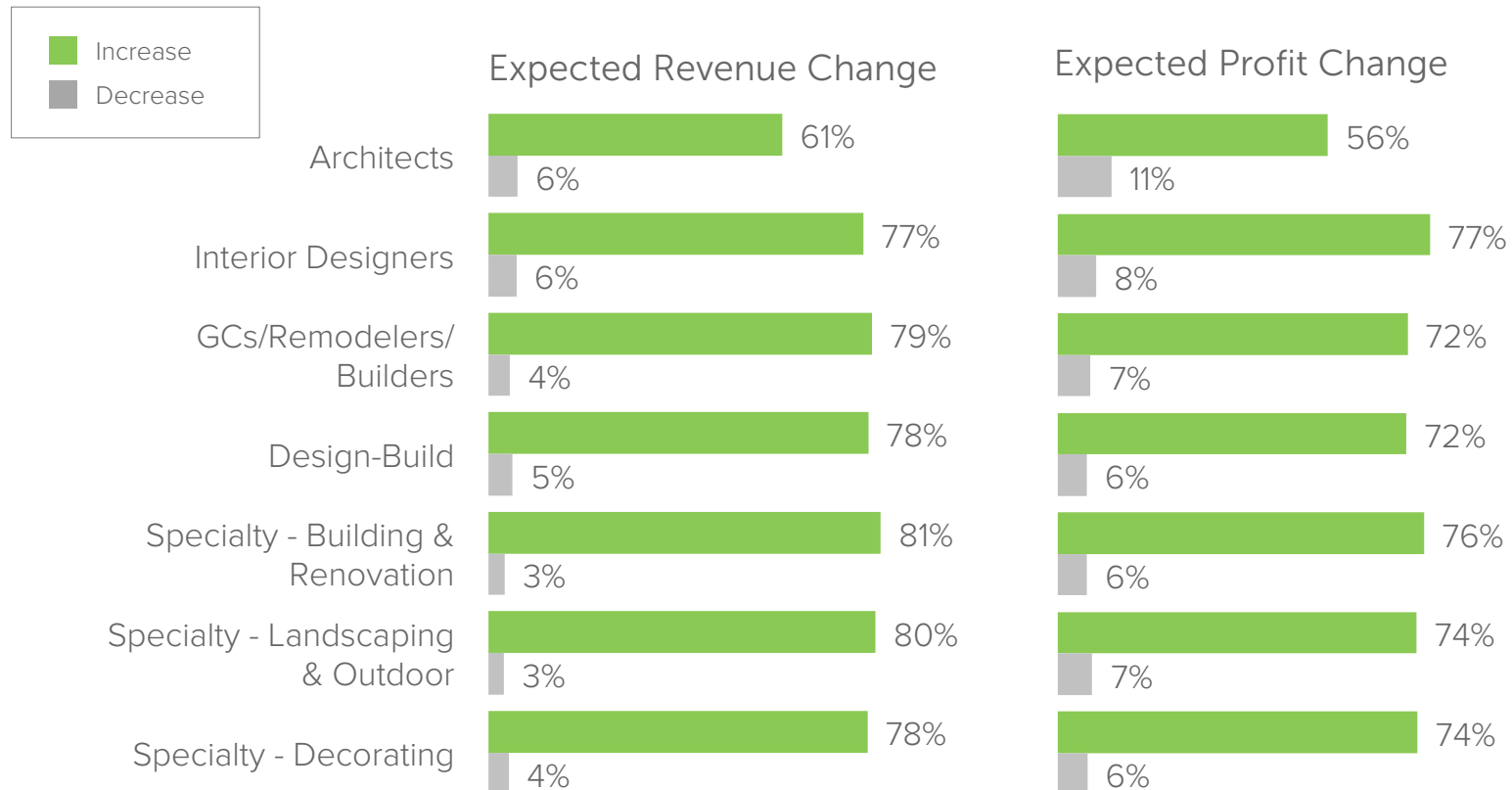
ACTUAL AND EXPECTED AVERAGE ANNUAL RATE OF REVENUE GROWTH, AS REPORTED BY FIRMS

	2014	2015	2016	2017	2018 (Expected)
Architects	8.0%	10.1%	6.7%	8.3%	6.9%
Interior Designers	10.5%	8.6%	8.0%	7.4%	11.1%
GCs/Remodelers/Builders	9.2%	10.2%	9.1%	10.6%	10.5%
Design-Build	9.4%	10.1%	8.3%	11.3%	9.9%
Specialty - Building & Renovation	9.1%	9.1%	9.5%	8.9%	10.9%
Specialty - Landscaping & Outdoor	10.6%	10.6%	8.7%	9.0%	11.4%
Specialty - Decorating	12.3%	8.8%	7.9%	7.2%	12.3%

# Profits Also Expected to Grow in 2018

The majority of residential renovation and design companies expect profits to increase in 2018, in line with expected widespread revenue increases. Architects remain the most conservative group when it comes to profit-growth projections (56% vs. 72%-77% for non-architects).

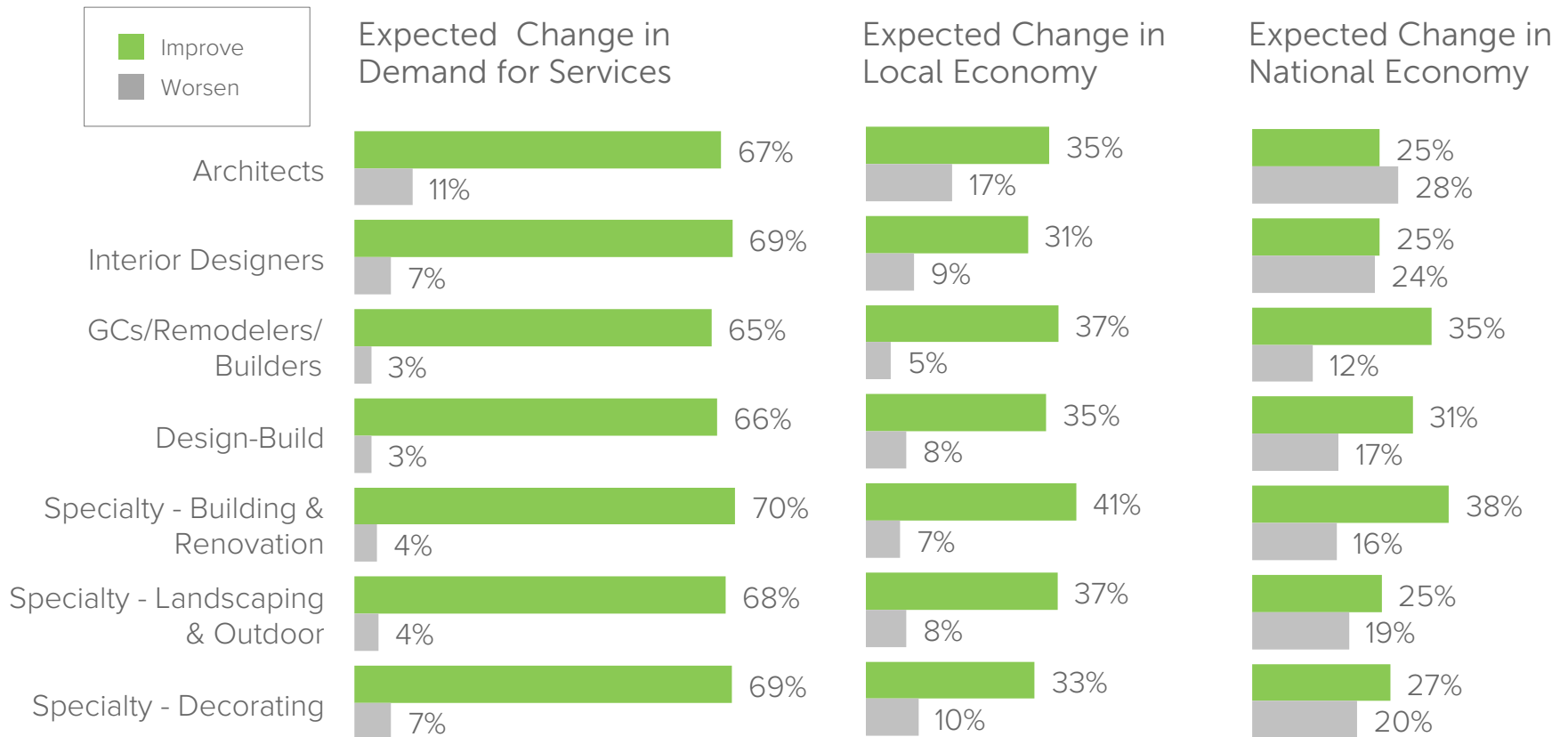
FIRMS (%) EXPECTING YOY INCREASES OR DECREASES IN BUSINESS PERFORMANCE IN 2018



# High Expectations for Local Economy

Two-thirds of companies across industry groups expect the demand for their services to improve in 2018 (65%-70%), in part bolstered by expectations that their local economy should improve as well (31%-41%). In contrast, the outlook for the national economy is polarized, with at least a quarter of companies in each industry group expecting improvement (25%-38%), while a meaningful share predicts deterioration (12%-28%).

FIRMS (%) EXPECTING YEAR-OVER-YEAR CHANGES IN DEMAND AND ECONOMY IN 2018

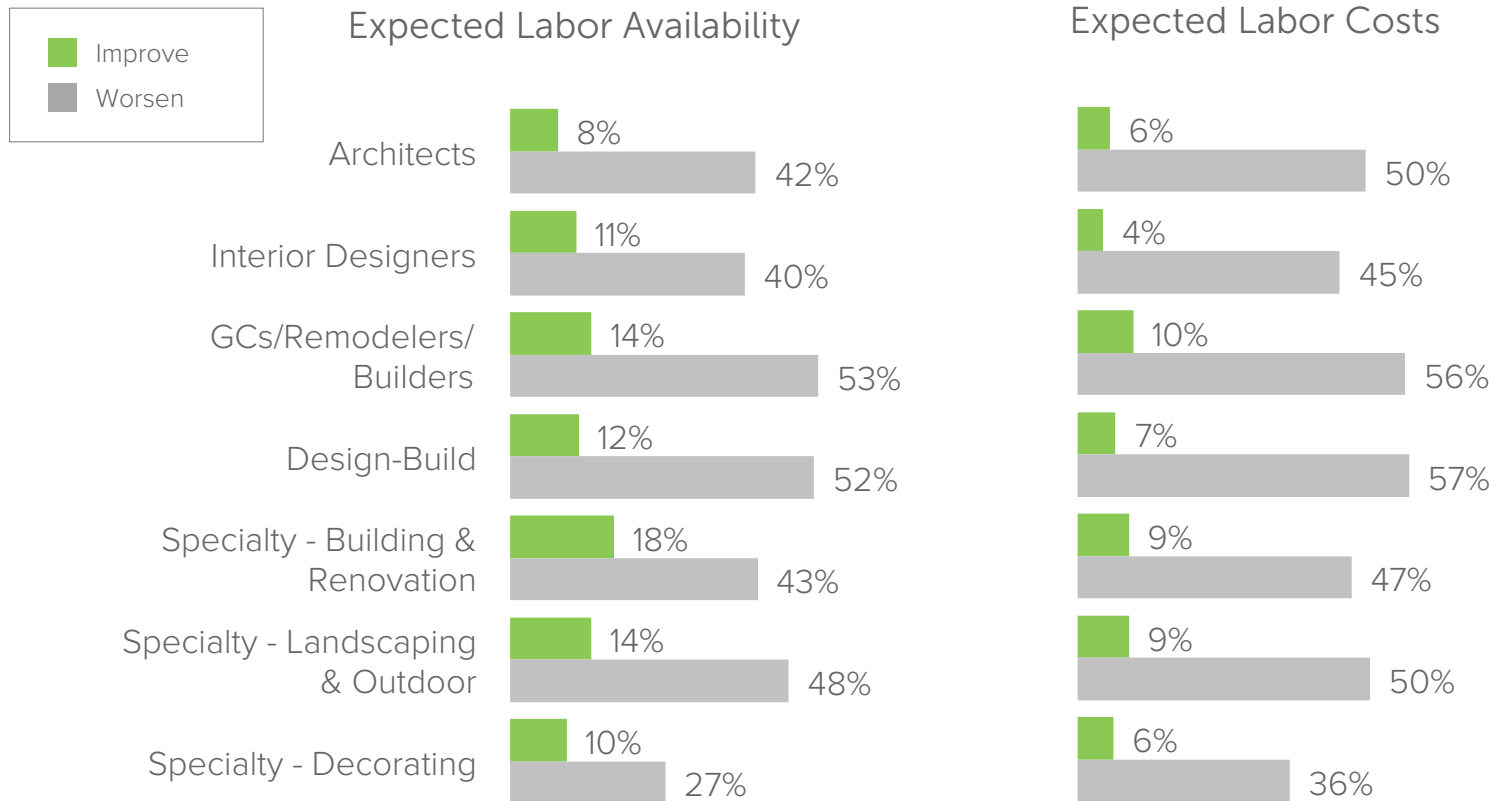




# Even Tighter Labor Market in 2018

At least two in five companies among the design and construction-related industry groups expect labor availability and costs to worsen in 2018, over and above the already tight labor markets of the last three years. Despite these headwinds, a fifth of design-related companies and a third of construction-related firms expect to hire in 2018.<sup>1</sup>

FIRMS (%) EXPECTING YEAR-OVER-YEAR CHANGE IN LABOR AVAILABILITY AND COSTS IN 2018

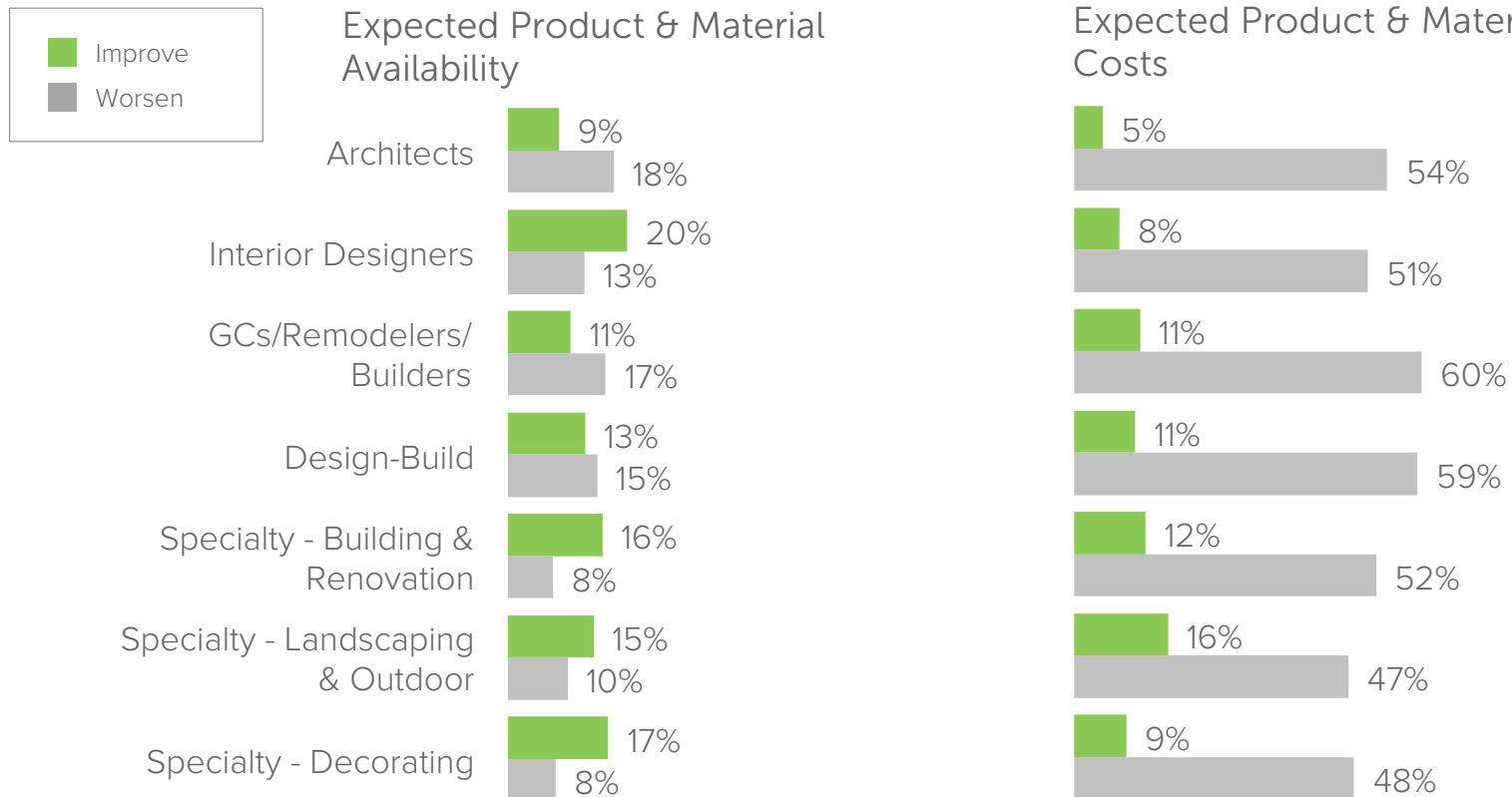


<sup>1</sup> See slide 27 in the Appendix for additional information on expected hiring in 2018.

# Costs of Materials Expected to Increase in 2018

One in two companies in each industry group expects the costs of products and materials to rise (47%-60%), while predicting availability to stay largely the same. Given expected cost increases in labor, as well as products and materials, it is not surprising that many companies expect the overall costs of doing business to increase in 2018.<sup>1</sup>

FIRMS (%) EXPECTING YOY CHANGE IN PRODUCT AND MATERIAL AVAILABILITY AS WELL AS COSTS IN 2018



<sup>1</sup> See slide 27 in the Appendix for additional information on expected change in costs of doing business in 2018.

# 2017 IN FOCUS

# Growth Accelerates in 2017

2017 continued the momentum of positive year-over-year revenue growth in line with 2016 and 2015, with four of the seven industry groups showing an acceleration in their average annual growth rate compared to 2016. In particular, design-build companies saw a 3 percentage point increase in the average annual growth rate in 2017 relative to 2016 (11.3% vs. 8.3%, respectively). At least three in five firms feel that 2017 revenues met or exceeded their expectations.<sup>1</sup>

## AVERAGE ANNUAL RATE OF REVENUE GROWTH, AS REPORTED BY FIRMS

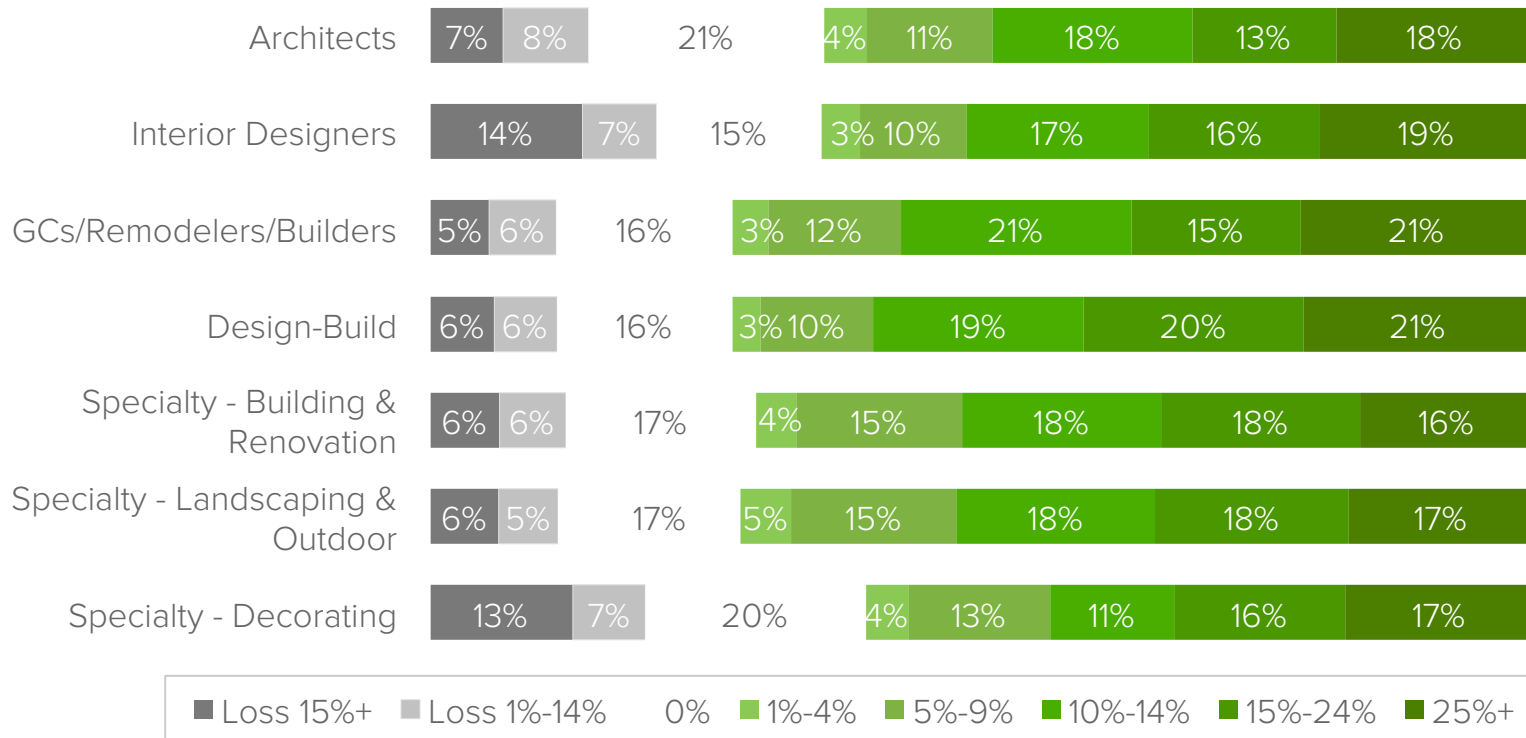
	2014	2015	2016	2017
Architects	8.0%	10.1%	6.7%	8.3%
Interior Designers	10.5%	8.6%	8.0%	7.4%
GCs/Remodelers/Builders	9.2%	10.2%	9.1%	10.6%
Design-Build	9.4%	10.1%	8.3%	11.3%
Specialty - Building & Renovation	9.1%	9.1%	9.5%	8.9%
Specialty - Landscaping & Outdoor	10.6%	10.6%	8.7%	9.0%
Specialty - Decorating	12.3%	8.8%	7.9%	7.2%

<sup>1</sup> See slide 26 in the Appendix for additional information on expectations for 2017.

# Two in Five Report 10%+ Rate of Revenue Growth

Nationally, at least three in five companies, irrespective of industry group, reported revenue increases (61%-73%). Moreover, at least two in five experienced annual growth rates of 10% or more (44%-60%). A smaller share of companies reported revenue losses in 2017 (11%-21%) as compared to 2016 (14%-23%).

ANNUAL RATE OF REVENUE GROWTH IN 2017, AS REPORTED BY FIRMS (%)

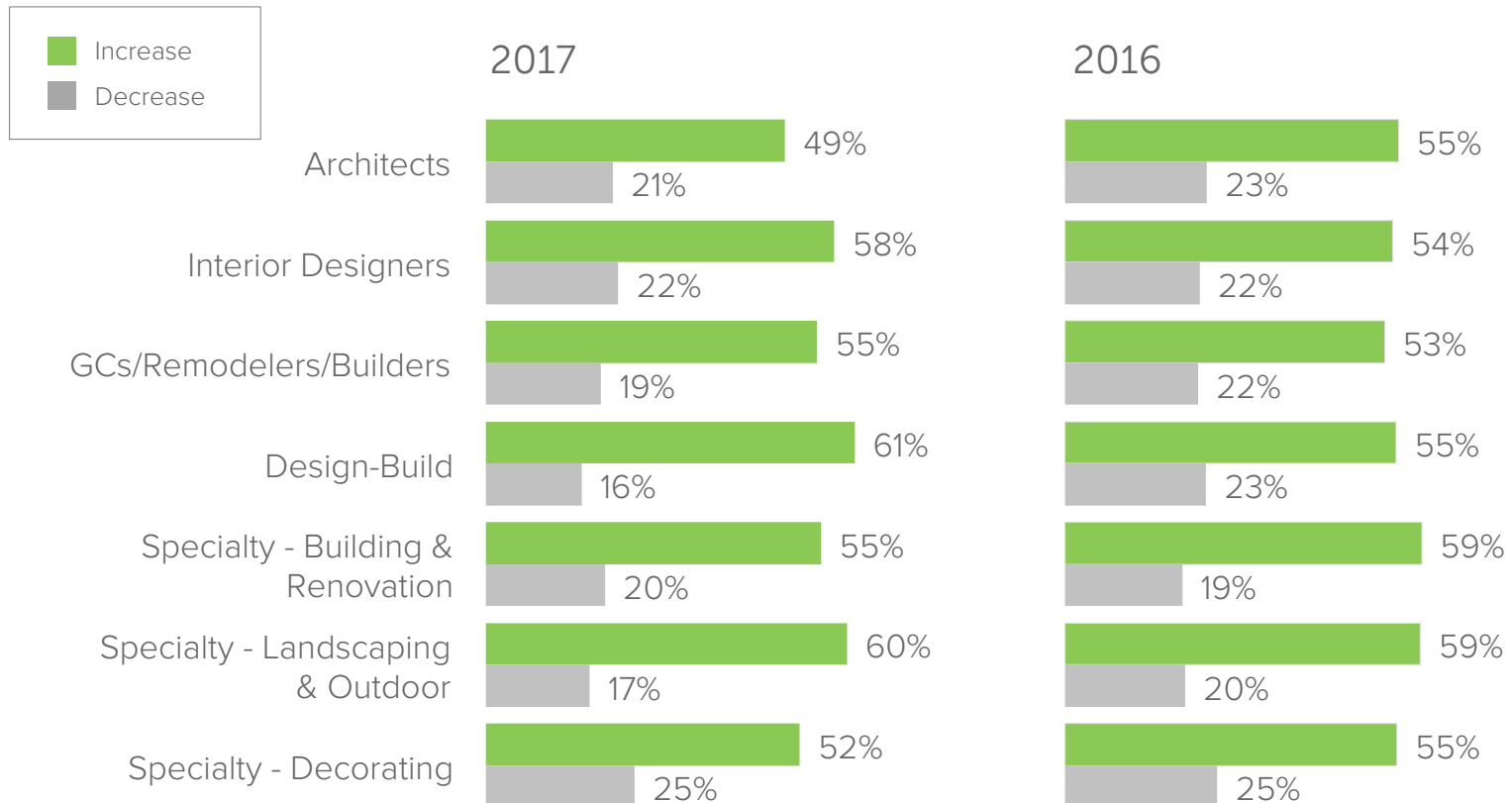


<sup>1</sup> See the 2016 State of the Industry Study, page 5.

# Profits Increased for Half of Firms

At least half of companies across all industry groups reported that profits increased year over year in 2017 (49%-61%), consistent with 2016 (53%-59%). Similar to the previous three years, profit growth did not keep up with revenue growth, with only 49%-61% of companies reporting profit growth, as compared to 61%-73% reporting revenue growth.

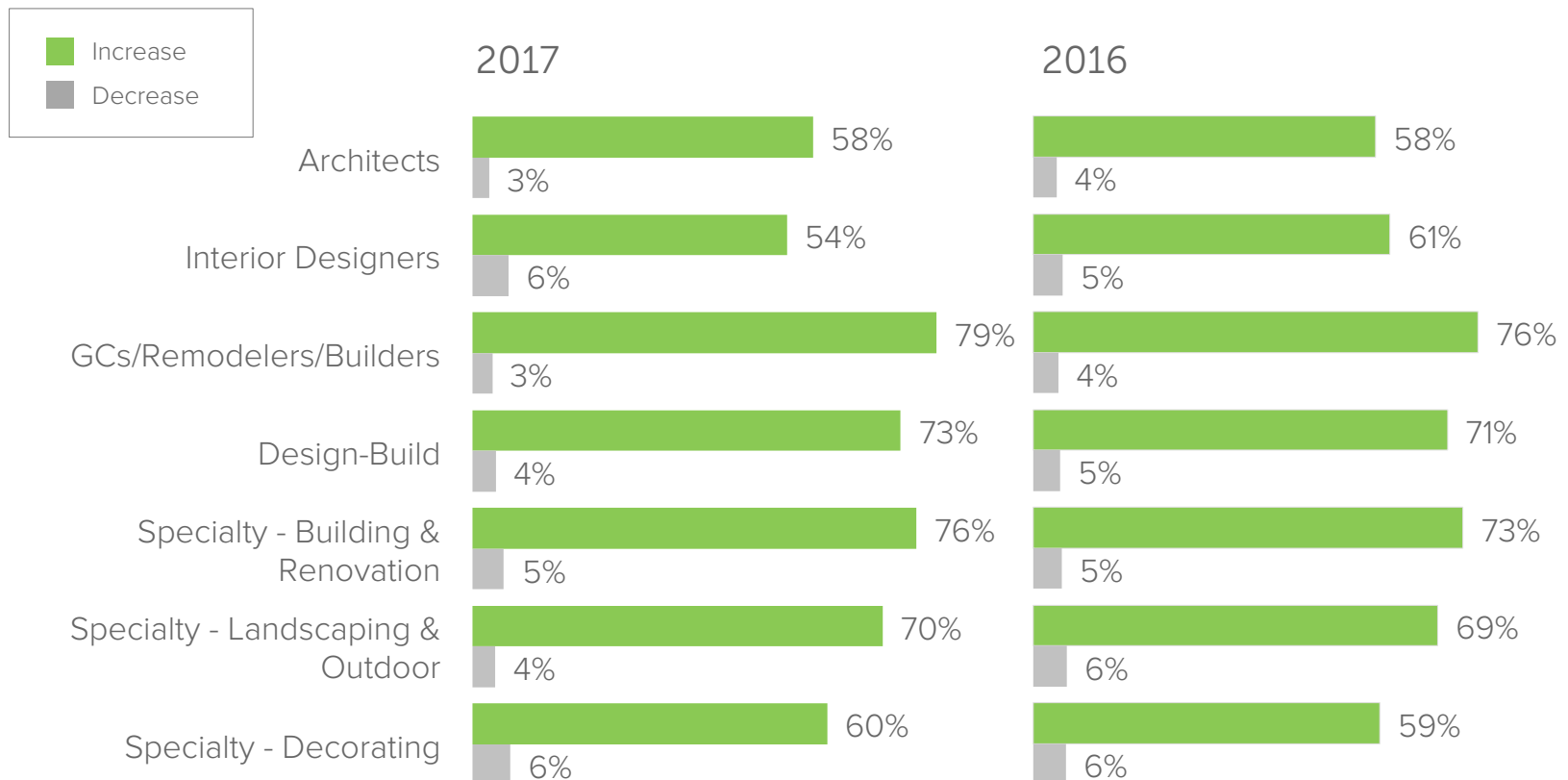
FIRMS (%) REPORTING YOY INCREASE OR DECREASE IN TOTAL ANNUAL PROFITS



# Business Costs Continue to Rise

Two in five companies in each industry group reported that the cost of doing business increased in 2017 (54%-79%), in line with 2016 (58%-76%). Those in the construction sector continued to see the most widespread cost increases, with three in four GCs, design-build firms, and building and renovation specialty firms reporting rising costs (73%-79%).

FIRMS (%) REPORTING YOY INCREASE OR DECREASE IN THE COST OF DOING BUSINESS



# Labor and Material Costs Eroding Margins

Firms reporting rising business costs most often cited labor, products and materials as driving the increase. Other common drivers are advertising and marketing expenses, subcontractor fees, and business insurance premiums.<sup>1</sup>

FIRMS (%) REPORTING TOP 3 DRIVERS FOR INCREASES IN THE COSTS OF DOING BUSINESS

	#1 Cost Driver	#2 Cost Driver	#3 Cost Driver
Architects	Office equipment/software (47%)	Employee wages or benefits (44%; yoy -9%)	Advertising/marketing (43%)
Interior Designers	Advertising/marketing (49%; yoy -5%)	Products or materials (45%)	Employee wages or benefits (36%)
GCs/Remodelers/Builders	Products or materials (66%)	Subcontractor (57%)	Employee wages or benefits (43%; yoy -8%)
Design-Build	Products or materials (61%; yoy +7%)	Subcontractor (52%)	Employee wages or benefits (49%)
Specialty - Building & Renovation	Products or materials (64%)	Employee wages or benefits (48%; yoy -9%)	Business insurance (37%)
Specialty - Landscaping & Outdoor	Employee wages or benefits (62%)	Products or materials (52%)	Business insurance (38%)
Specialty - Decorating	Products or materials (58%)	Advertising/marketing (50%)	Employee wages or benefits (36%)

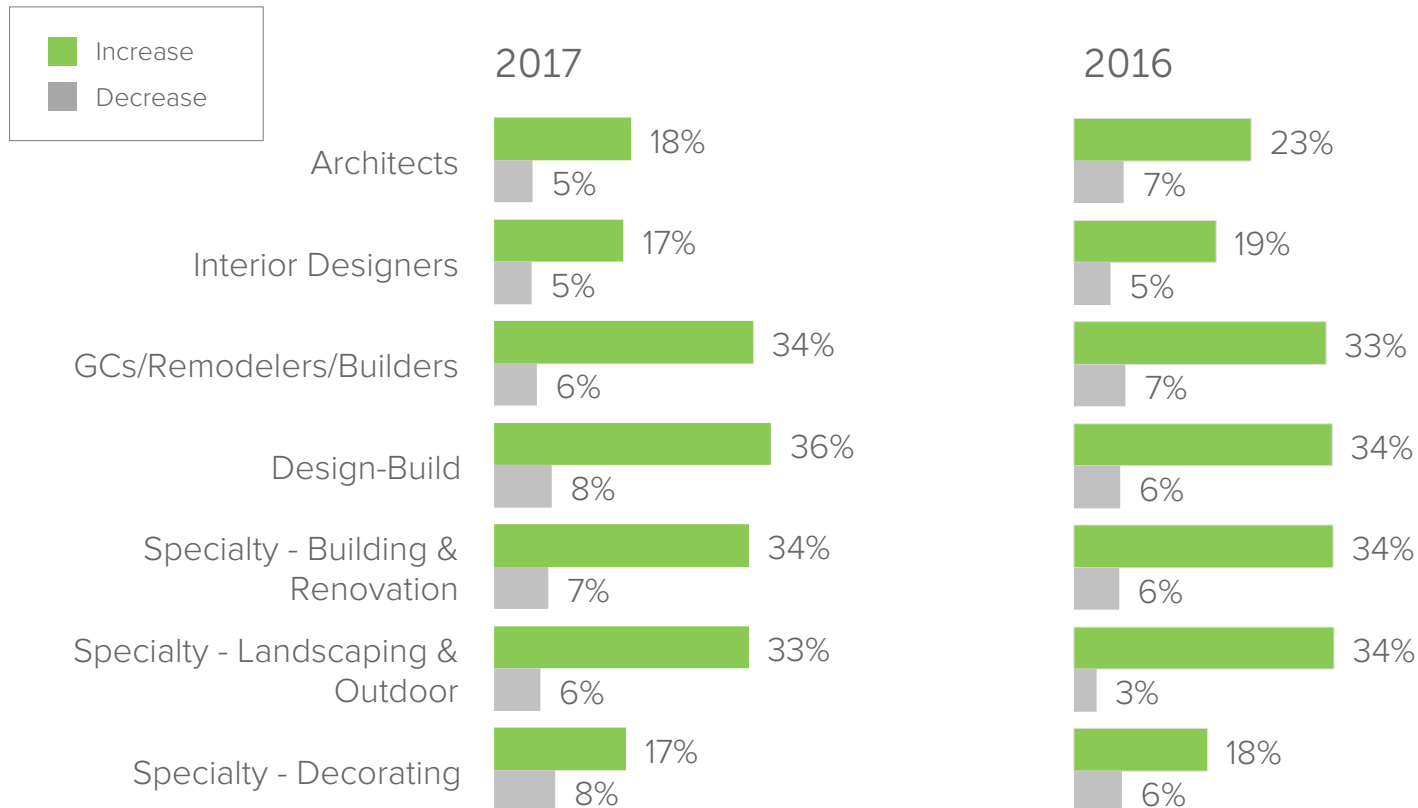
<sup>1</sup> See slide 29 in the Appendix for additional information on cost drivers.



# Construction and Outdoor Sectors Add Staff

Consistent with last year, a third of companies in construction and outdoor sectors increased head count in 2017, bringing on 1-2 employees (18%-22%) or 3+ employees (13%-16%).<sup>1</sup> Design-related companies, such as architects and interior designers, are typically less likely to expand hiring year over year.

FIRMS (%) REPORTING YEAR-OVER-YEAR INCREASE OR DECREASE IN THE NUMBER OF EMPLOYEES



<sup>1</sup> See slide 27 in the Appendix for additional information on hiring.

# Concerns About Rampant Costs and Labor Shortages

Consistent with 2016, the top business challenges in 2017 included managing consumer expectations and budget concerns, rising business costs, and shortage of employees or subcontractors. Architects are somewhat less likely to cite managing consumer expectations as a top challenge, while design-build companies are increasingly concerned with a shortage of subcontractors.<sup>1</sup>

FIRMS (%) REPORTING TOP 3 BUSINESS CHALLENGES IN 2017

	#1 Challenge	#2 Challenge	#3 Challenge
Architects	Managing consumer expectations (35%; yoy -5%)	Managing consumer concerns about costs (34%; yoy -5%)	Difficulty finding prospective customers (26%)
Interior Designers	Managing consumer concerns about costs (41%)	Managing consumer expectations (33%)	Shortage of subcontractors (29%)
GCs/Remodelers/Builders	Increased cost of doing business (37%)	Difficulty hiring/being understaffed (33%)	Shortage of subcontractors (33%)
Design-Build	Increased cost of doing business (36%)	Shortage of subcontractors (35%; yoy +6%)	Difficulty hiring/being understaffed (33%)
Specialty - Building & Renovation	Difficulty hiring/being understaffed (36%)	Increased cost of doing business (34%)	Managing consumer concerns about costs (29%)
Specialty - Landscaping & Outdoor	Difficulty hiring/being understaffed (41%)	Managing consumer concerns about costs (28%)	Increased cost of doing business (27%; yoy -9%)
Specialty - Decorating	Managing consumer concerns about costs (36%; yoy -5%)	Difficulty finding prospective customers (33%)	Increased cost of doing business (22%)

<sup>1</sup> See slide 31 in the Appendix for additional information on business challenges.

# 2017 BUSINESS CHARACTERISTICS

# Diversified Project Types

Most companies on Houzz focus on residential renovation or design by taking on projects related to existing homes (59%-69%). Architects are the exception, splitting their projects among renovations (48%), new home construction (35%), and commercial design (17%).

FIRMS (%) REPORTING AVERAGE SHARE OF 2017 GROSS REVENUE FROM RESIDENTIAL VS. COMMERCIAL SERVICES

	Residential Services			Commercial Services
	Existing Homes	New Custom Homes	New For-Sale Homes	
Architects	48%	28%	7%	17%
Interior Designers	67%	14%	6%	13%
GCs/Remodelers/Builders	60%	20%	7%	13%
Design-Build	67%	18%	6%	9%
Specialty - Building & Renovation	69%	11%	6%	15%
Specialty - Landscaping & Outdoor	64%	13%	7%	17%
Specialty - Decorating	59%	14%	9%	18%

# Projects from Online Inquiries Increasing

Roughly two in five GCs and design-build companies on Houzz worked on 30 or more projects and a similar proportion worked on 10-29 projects in 2017. Projects originating from online sources are a meaningful share of the overall projects, especially in the construction sector, where at least two in five companies report having 10 or more projects from online inquiries.

FIRMS (%) REPORTING NUMBER OF TOTAL PROJECTS AND PROJECTS FROM ONLINE INQUIRIES IN 2017

	Number of Projects			Number of Projects From Online Inquiries		
	Less than 10	10-29	30 or More	Less than 10	10-29	30 or More
Architects	24%	46%	30%	78%	19%	4%
Interior Designers	31%	46%	22%	75%	20%	5%
GCs/Remodelers/Builders	21%	38%	41%	61%	22%	17%
Design-Build	22%	44%	34%	61%	30%	9%
Specialty - Building & Renovation	10%	30%	60%	52%	23%	25%
Specialty - Landscaping & Outdoor	10%	34%	56%	51%	29%	20%
Specialty - Decorating	21%	31%	48%	55%	25%	20%

# Midsize Projects Vary Across and Within Pro Types

Companies on Houzz varied on what they consider to be typical midsize projects. Half of GCs and design-build companies reported that a typical midsize project yielded more than \$50,000 in gross revenue and more than \$10,000 in gross profit in 2017. Design-related companies reported smaller project sizes, with a third or fewer reporting \$50,000+ gross revenues and roughly a similar number reporting \$10,000+ gross profits.

FIRMS (%) REPORTING GROSS REVENUE AND GROSS PROFIT FROM A TYPICAL MID-SIZED PROJECT IN 2017

	Midsize Project Gross Revenue			Midsize Project Gross Profit		
	\$10K or Less	\$10K-\$50K	More than \$50K	\$5K or Less	\$5K-\$10K	More than \$10K
Architects	45%	36%	19%	45%	25%	30%
Interior Designers	33%	37%	30%	39%	24%	37%
GCs/Remodelers/Builders	22%	28%	50%	33%	17%	49%
Design-Build	13%	30%	57%	20%	28%	52%
Specialty - Building & Renovation	49%	28%	23%	58%	18%	24%
Specialty - Landscaping & Outdoor	49%	28%	23%	57%	20%	23%
Specialty - Decorating	61%	22%	17%	64%	13%	23%

# An Industry of Small Businesses

The majority of companies on Houzz reported annual gross revenue below \$3 million and have fewer than five employees. Construction-related companies, such as GCs, design-build firms, and building specialty companies, are most likely to meet and exceed the \$3 million gross revenue threshold (7%-16%) and have five or more employees (31%-37%).

FIRMS (%) REPORTING ANNUAL GROSS REVENUE AND NUMBER OF EMPLOYEES IN 2017

	Annual Gross Revenue			Number of Employees		
	Less than \$500K	\$500K-\$2.9M	\$3M or More	None	1-4	5 or More
Architects	84%	16%	0%	34%	56%	10%
Interior Designers	77%	20%	4%	40%	52%	8%
GCs/Remodelers/Builders	40%	44%	16%	18%	51%	31%
Design-Build	38%	51%	11%	19%	44%	37%
Specialty - Building & Renovation	54%	40%	7%	16%	51%	33%
Specialty - Landscaping & Outdoor	62%	33%	5%	24%	44%	32%
Specialty - Decorating	74%	21%	4%	36%	49%	15%

# Methodology

The Houzz U.S. State of the Industry Study is conducted annually and represents views of companies on Houzz that offer services primarily related to residential renovation and/or design. The study was fielded November 28, 2017 – January 31, 2018. N = 3,378 (404 architects; 504 interior and building designers; 809 general contractors/remodelers/builders; 415 design-build firms; 563 building/renovation specialty firms; 278 landscape/outdoor specialty firms; 405 decorating specialty firms.)

<sup>1</sup> *Building/renovation specialties include replacement contractors (e.g., carpenters) and product installers/manufacturers/resellers (e.g., cabinetry).*

<sup>2</sup> *Landscape/outdoor specialties include landscape architects, designers, and contractors; outdoor replacement trades (pavers); and outdoor product installers/manufacturers/resellers (e.g., pools and spas).*

<sup>3</sup> *Decorating specialties include interior decorators and providers of window coverings, furniture and accessories, lighting, upholstery, and other decorating-related products.*



# APPENDIX

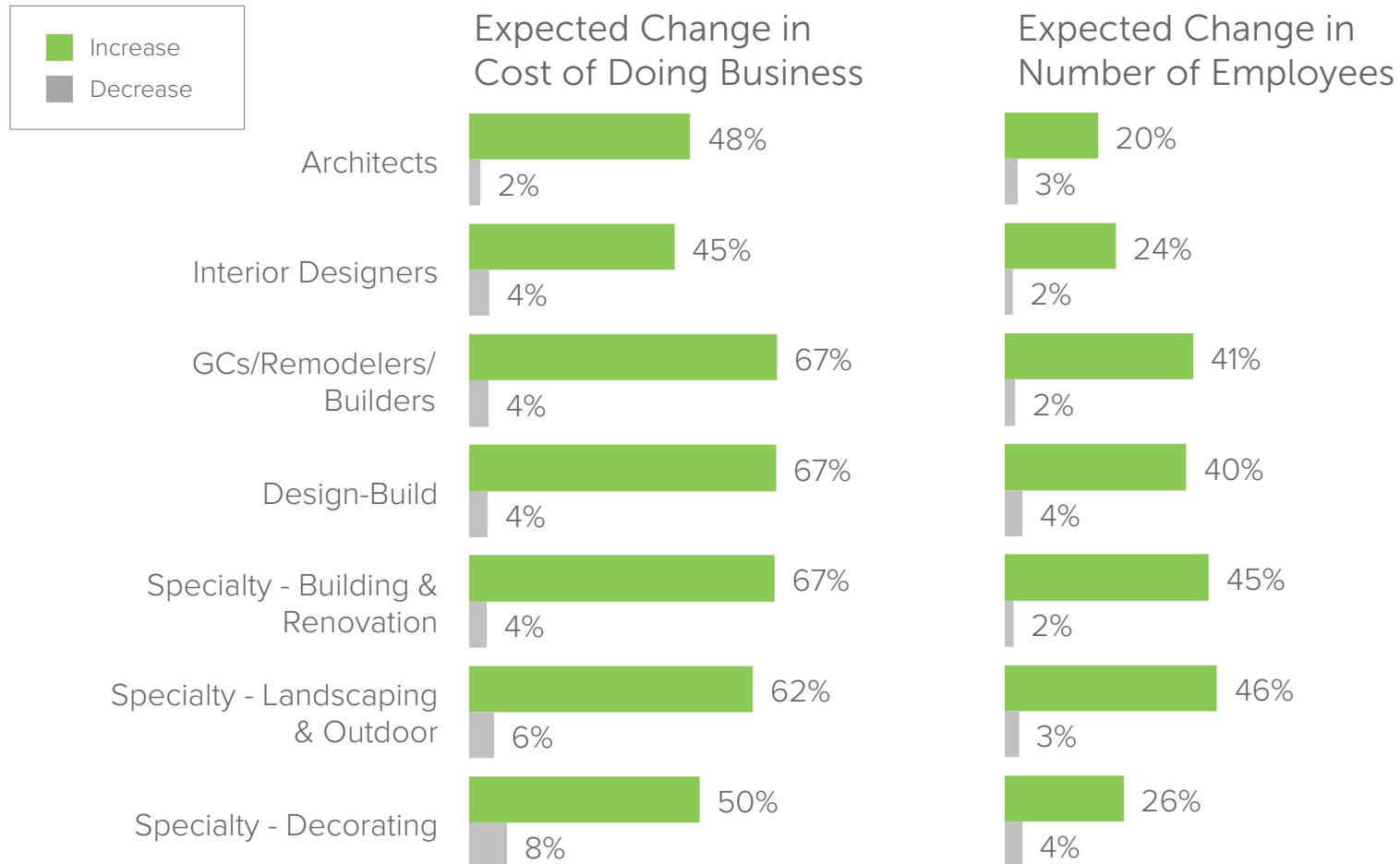
# Average Expected Revenue Growth Relative to Actual

AVERAGE EXPECTED ANNUAL RATE OF REVENUE GROWTH RELATIVE TO ACTUAL, AS REPORTED BY FIRMS

	Exp. 2015 (Actual 2015)	Exp. 2016 (Actual 2016)	Exp. 2017 (Actual 2017)	Exp. 2018 (Actual 2018)
Architects	N/A (10.1%)	7.6% (6.7%)	6.9% (8.3%)	6.9% (N/A)
Interior Designers	N/A (8.6%)	10.7% (8.0%)	11.3% (7.4%)	11.1% (N/A)
GCs/Remodelers/Builders	N/A (10.2%)	9.3% (9.1%)	10.3% (10.6%)	10.5% (N/A)
Design-Build	N/A (10.1%)	9.6% (8.3%)	10.5% (11.3%)	9.9% (N/A)
Specialty - Building & Renovation	N/A (9.1%)	9.2% (9.5%)	10.9% (8.9%)	10.9% (N/A)
Specialty - Landscaping & Outdoor	N/A (10.6%)	10.2% (8.7%)	10.0% (9%)	11.4% (N/A)
Specialty - Decorating	N/A (8.8%)	10.4% (7.9%)	11.6% (7.2%)	12.3% (N/A)

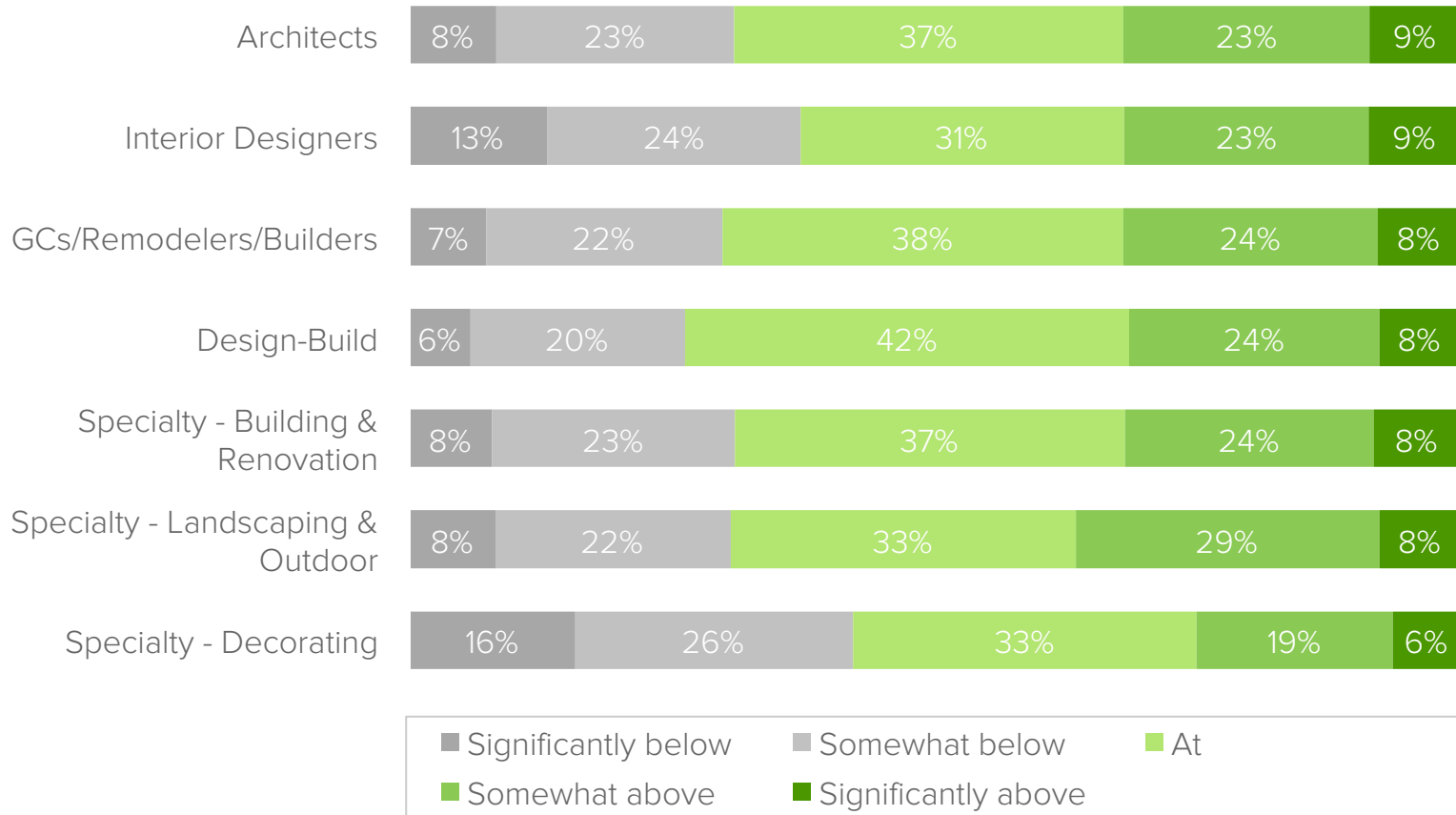
# 2018 Expected Cost and Employee Change

FIRMS (%) REPORTING EXPECTED INCREASE OR DECREASE IN COST OF DOING BUSINESS AND NUMBER OF EMPLOYEES IN 2018



# 2017 Revenues Relative to Expectations

FIRMS (%) REPORTING REVENUES BELOW, AT, OR ABOVE EXPECTATIONS IN 2017



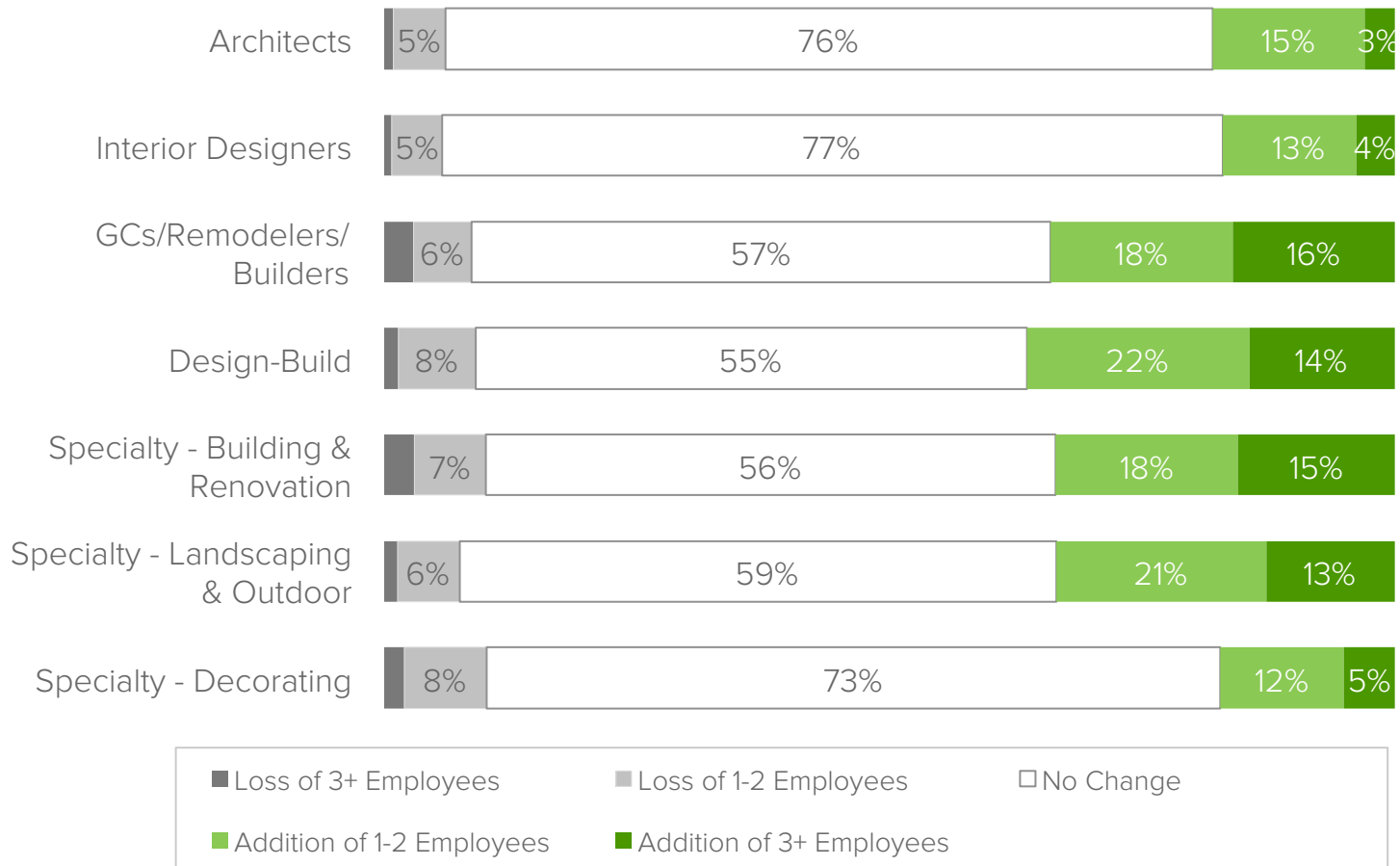
# Cost Drivers in 2017

BUSINESS COST DRIVERS BY PERCENTAGE OF FIRMS REPORTING IN 2017

	Architects	Interior Designers	GCs/ Remodelers/ Builders	Design-Build	Specialty - Building & Renovation	Specialty - Landscaping & Outdoor	Specialty - Decorating
Employee wages or benefits	44%	36%	43%	49%	48%	62%	36%
Products or materials	11%	45%	66%	61%	64%	52%	58%
Advertising/marketing	43%	49%	24%	23%	29%	30%	50%
Subcontractor	14%	26%	57%	52%	34%	24%	22%
Business insurance	31%	17%	39%	31%	37%	38%	25%
Office equipment/software	47%	29%	5%	12%	8%	15%	10%
Office lease/utilities	23%	18%	7%	10%	13%	9%	21%
Legal/accounting fees	14%	12%	6%	7%	5%	8%	8%
Permitting requirements/fees	11%	7%	12%	12%	7%	7%	1%
Licensing fees	11%	3%	4%	3%	3%	6%	3%
Other	11%	9%	6%	6%	10%	9%	11%

# Adding Staff in 2017

FIRMS (%) REPORTING CHANGE IN EMPLOYEES IN 2017



# 2017 Business Challenges

## TOP 3 CHALLENGES IN 2017 BY PERCENTAGE OF FIRMS REPORTING

	Architects	Interior Designers	GCs/ Remodelers/ Builders	Design-Build	Specialty - Building & Renovation	Specialty - Landscaping & Outdoor	Specialty – Decorating
Managing consumer concerns about costs	34%	41%	28%	31%	29%	28%	36%
Managing consumer expectations	35%	33%	24%	29%	19%	18%	20%
Increased cost of doing business	17%	14%	37%	36%	34%	27%	22%
Difficulty hiring/being understaffed	20%	8%	33%	33%	36%	41%	11%
Shortage of subcontractors	13%	29%	33%	35%	24%	19%	15%
Difficulty finding prospective customers	26%	24%	12%	12%	19%	14%	33%
Increased business competition	16%	15%	16%	10%	18%	16%	20%
Weak/uncertain national economy	8%	9%	3%	5%	7%	2%	11%
Weak/uncertain local economy	8%	5%	6%	5%	7%	6%	10%
Increased popularity of DIY	8%	25%	7%	10%	7%	5%	18%
Increased building regulations	23%	3%	12%	11%	5%	6%	1%
Difficulty collecting payments	13%	6%	8%	5%	5%	10%	9%
Tight business lending	2%	1%	4%	5%	4%	3%	3%
Other challenges	10%	9%	5%	5%	7%	12%	10%

# 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 & 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					