

2023 Houzz State of the Industry

U.S. Residential Renovation & Design



Big Ideas

Positive Outlook for 2023

More than half of residential construction and design companies (50% to 56%) surveyed by Houzz* predict that 2023 will be a good or very good year. Interior designers are the most optimistic (with 56% anticipating a good or very good year), followed by design-build firms and general contractors (54% each).

Increased Demand Is Anticipated

More businesses in 6 of the 7 industry groups believe that demand for their services will increase (21% to 32%) rather than decrease (12% to 24%). Specialty decorators are the most confident that demand for their services will improve (32%), followed by interior designers and landscaping and outdoor professionals (24% each).

* The Houzz State of the Industry study focuses on seven industry groups: architects, interior designers, general contractors (GCs)/remodelers/builders, design-build firms, building/renovation specialty firms, landscape/outdoor specialty firms and decorating specialty firms.

Lower Revenue Growth Is Predicted

Businesses across all industry sectors anticipate much slower revenue growth than they experienced last year (0.3% to 6.1%). Decorating specialists are most bullish, expecting revenue growth to average 6.1% this year. Construction businesses (general contractors, design-build companies and building and renovation specialists) anticipate growth of less than 3% for 2023 (2.9%, 2.3% and 1.3%, respectively). Architects, who are typically the most conservative in average expected growth estimates, have the lowest anticipated rate (0.3%). On average, actual revenue growth in 2022 did not meet expectations for businesses across all sectors, following the unusually high performance the year prior.



Cost of Doing Business Continues to Rise

More firms in all of the industry groups cited an increase in the cost of doing business than cited a decrease. For 2022, 70% to 92% of firms reported an increase, compared with 64% to 93% in 2021. While product and material costs continue to be the No. 1 cost driver, the share of businesses reporting this as the most significant driver fell by 15 to 29 percentage points.

Less Concern Over Product Availability

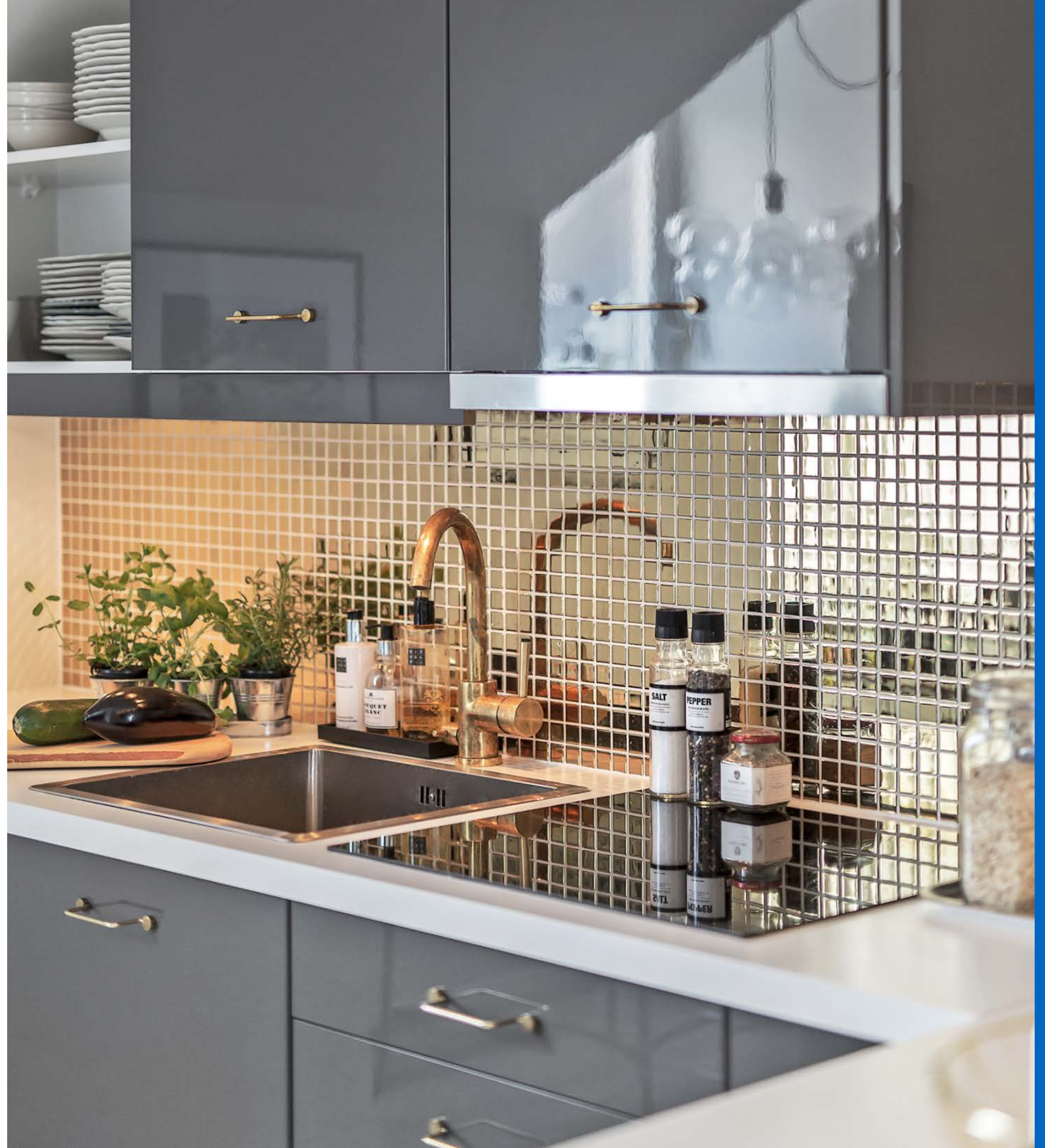
The availability of products and materials was less of a concern in 2022 compared with 2021, with only three groups citing it as a top business challenge. Price volatility continues to pose a challenge; however, the sentiment was less widespread than in 2021 (down by 20, 9, 13 and 9 percentage points among general contractors, design-build firms, building and renovation specialists, and landscaping and outdoor professionals, respectively).

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2023 Outlook



Positive Outlook Is Prevalent

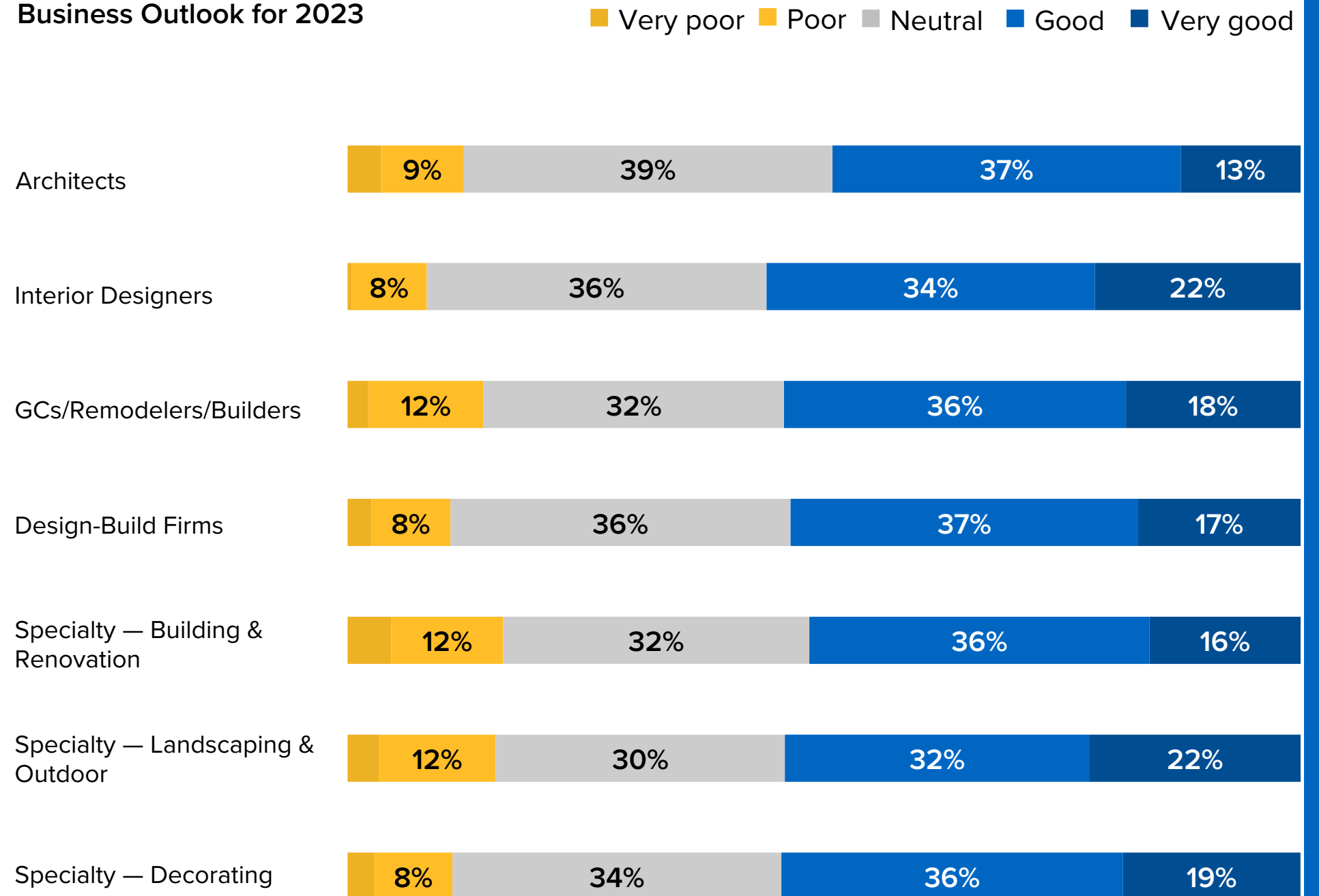
More than half of businesses in 6 of the 7 groups surveyed have a positive outlook for 2023, the exception being architects.

More than half of interior designers (56%), general contractors (54%) and design-build companies (54%) expect 2023 to be a good or very good year.

Optimism is somewhat less widespread among architects (with 50% expecting a good or very good year).

Interestingly, a third or more of businesses across the seven groups have a neutral outlook for 2023, and a very small share expects a poor performance.

Firms (%) Reporting Their Overall Business Outlook for 2023



Low Revenue Growth Expected for 2023

For 2023, businesses anticipate the lowest revenue growth (0.3% to 6.1%) since 2018. These tempered expectations follow expectations around economic conditions and the cost of doing business.*

In line with the previous five years, architects have the most conservative average expected growth estimate (0.3%), while construction businesses (general contractors, design-build companies, and building and renovation specialists) anticipate growth of less than 3% for 2023 (2.9%, 2.3% and 1.3%, respectively). Decorating specialists expect their revenue growth to be an average of 6.1% this year, making them the most bullish group among the seven.

* See Appendix A for additional information on expected and actual revenue growth for 2022.

Expected Average Annual Rates of Revenue Growth, as Reported by Firms

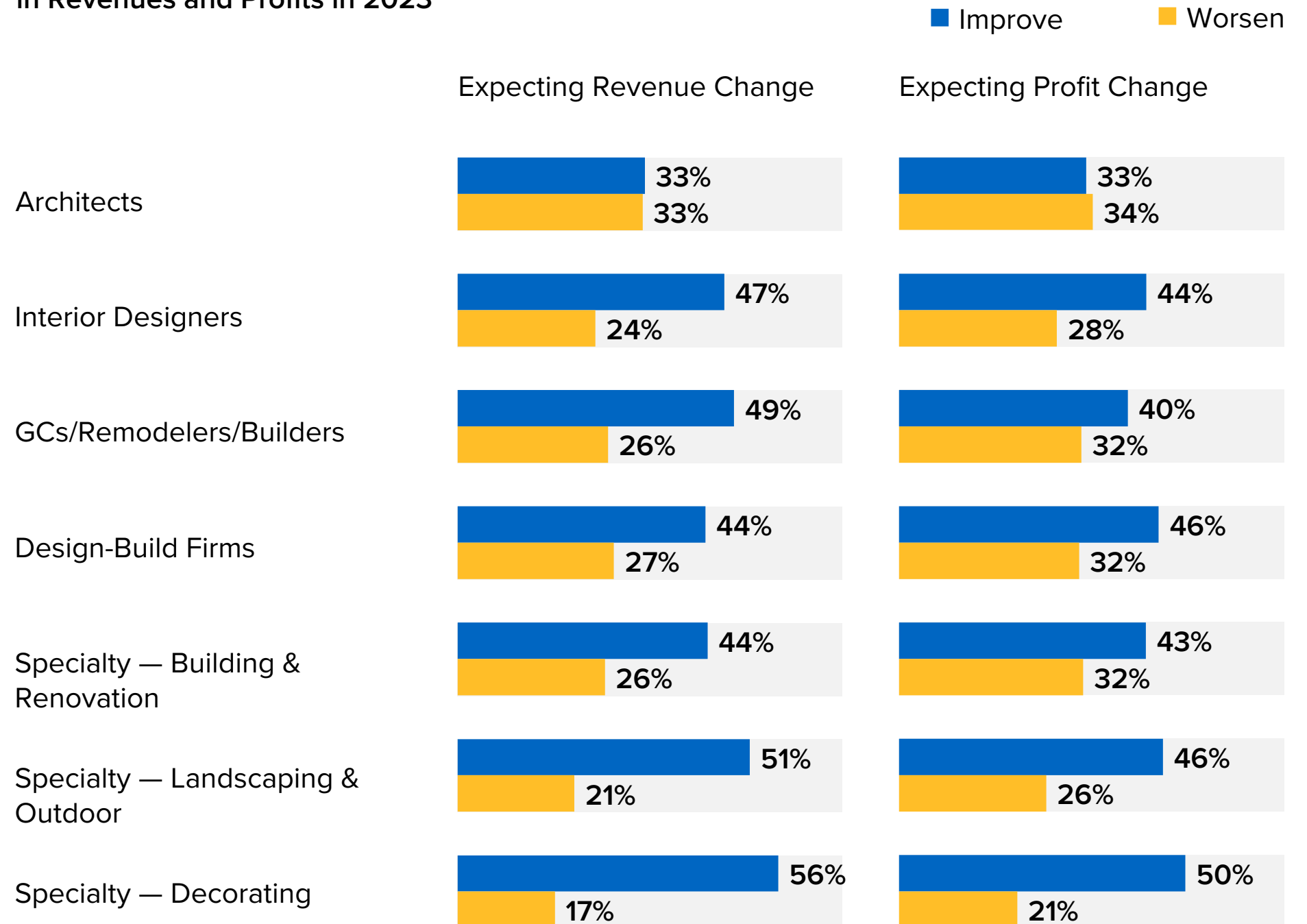
	2018E	2019E	2020E	2021E	2022E	2023E
Architects	6.9%	5.1%	4.2%	7.3%	5.3%	0.3%
Interior Designers	11.1%	9.4%	8.2%	9.5%	8.1%	3.0%
GCs/Remodelers/Builders	10.5%	8.7%	7.6%	8.9%	8.8%	2.9%
Design-Build Firms	9.9%	8.4%	8.9%	9.7%	9.0%	2.3%
Specialty — Building & Renovation	10.9%	9.0%	8.5%	8.8%	8.6%	1.3%
Specialty — Landscaping & Outdoor	11.4%	8.2%	6.9%	8.3%	6.1%	4.1%
Specialty — Decorating	12.3%	9.1%	9.1%	12.9%	7.8%	6.1%

Optimistic Expectations for Revenues and Profits

More businesses among all seven industry groups expect increases in revenues and profits for 2023 than those expecting decreases.

Architects, in line with their overall outlook, have conflicting views on anticipated business performance; nearly equal shares expect increases in revenues (33%) and profits (33%) and expect decreases (33% and 34%, respectively). Among construction businesses, slightly more GCs (49%) expect revenue growth than do design-build companies (44%) and building and renovation specialists (44%).

Firms (%) Expecting Year-Over-Year Changes in Revenues and Profits in 2023

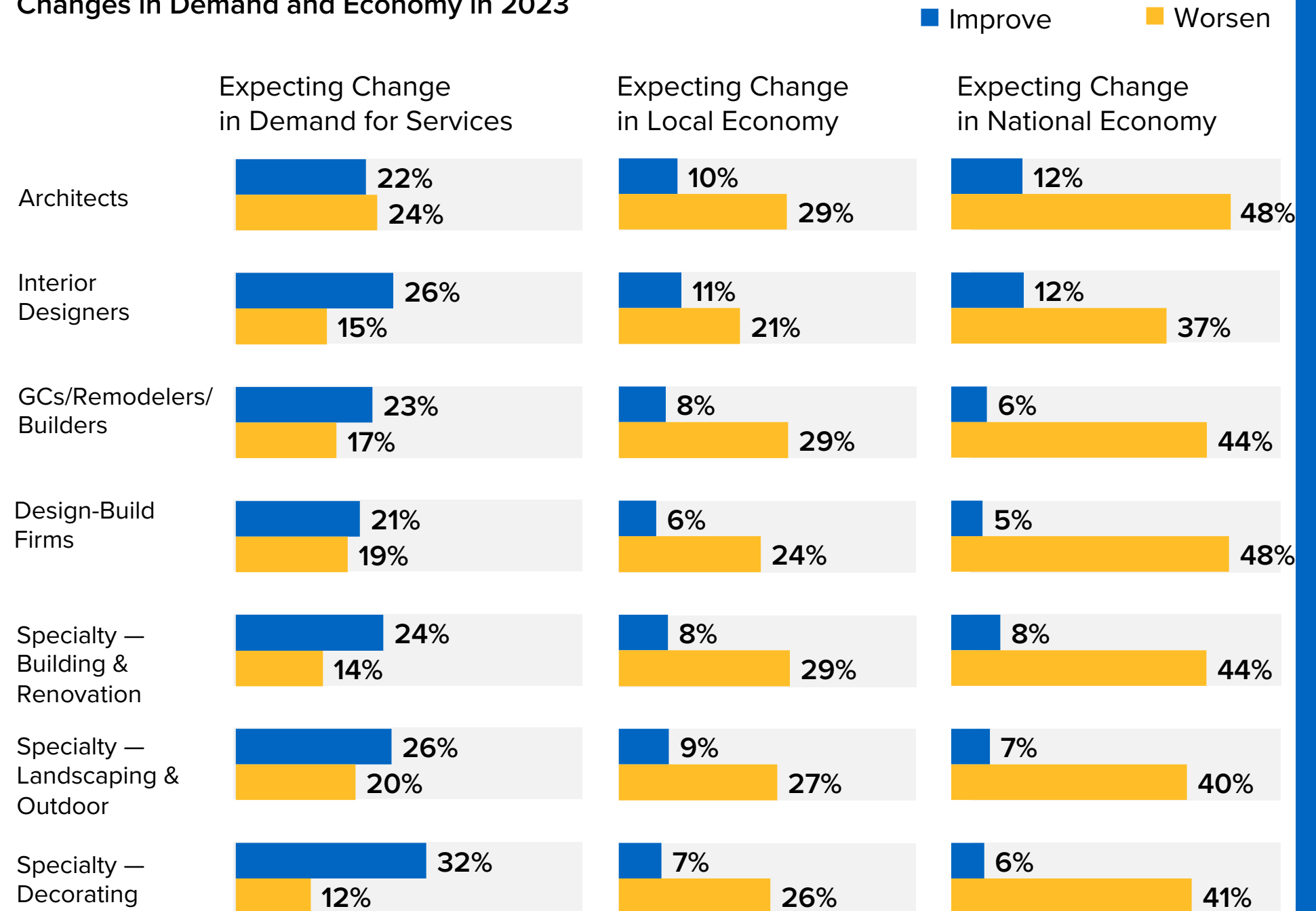


Increased Demand Expected Despite Economic Uncertainty

More businesses in 6 of the 7 surveyed groups expect an increase in demand for their services (21% to 32%) than expect a decrease (12% to 24%). The three groups among which increases are most widespread are decorating specialists, landscaping and outdoor specialists, and interior designers (32%, 26% and 26%, respectively). Architects again diverge, with a slightly larger share (24%) expecting lower demand for their services than those expecting higher demand (22%).

Expectations for a worsening of national and local economies continue to dominate among residential remodeling and design businesses for 2023.

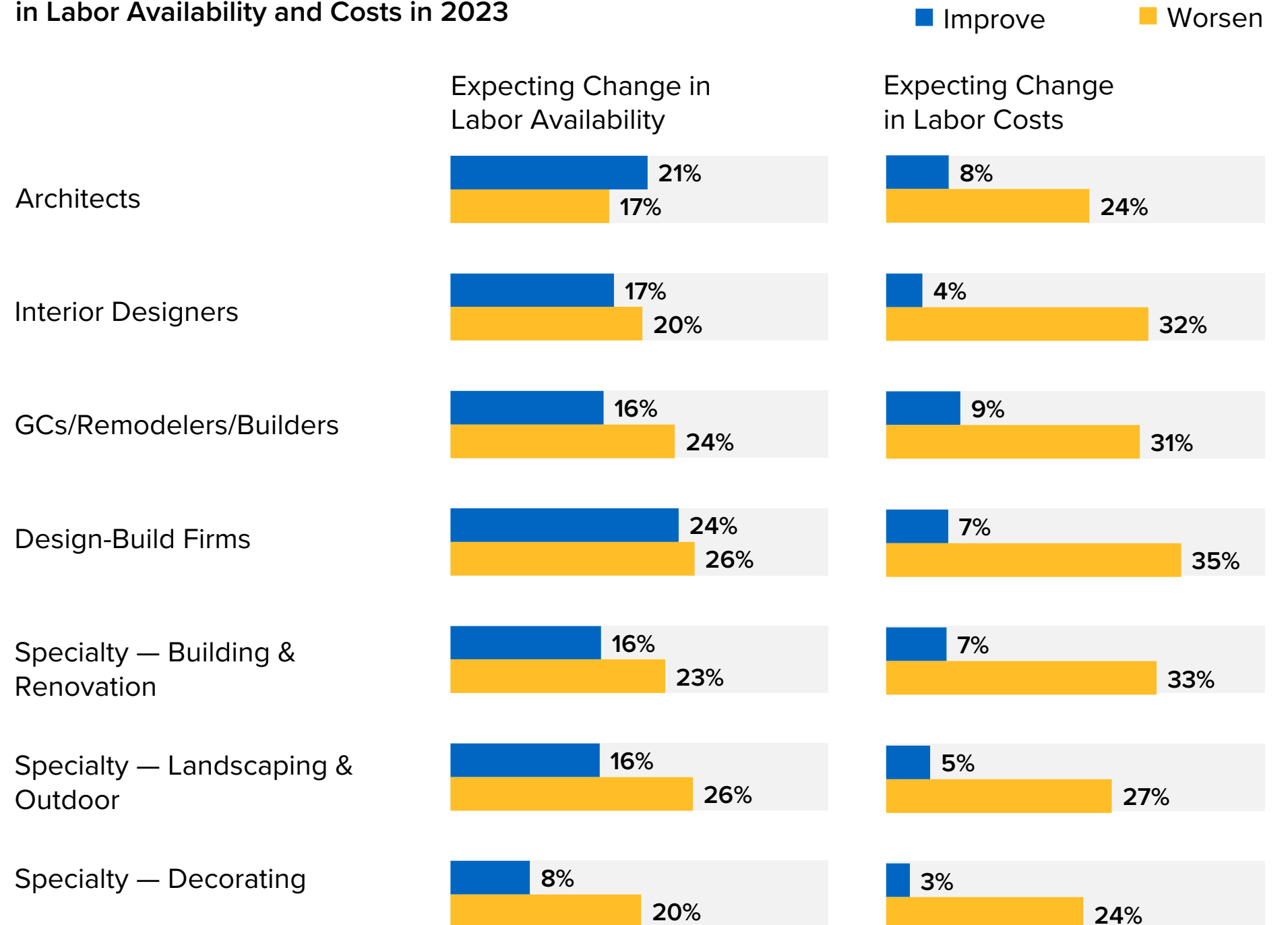
Firms (%) Expecting Year-Over-Year Changes in Demand and Economy in 2023



Labor Availability and Costs Remain a Concern

While more businesses predict that labor availability and costs will worsen rather than improve this year, the share is smaller than last year. This year, 17% to 26% of surveyed companies anticipate reduced labor availability, versus 41% to 55% in 2022.* As shortages impact the cost of labor, a smaller share of companies across all seven industry groups expects those costs to worsen this year (24% to 35% in 2023 versus 49% to 64% in 2022).

Firms (%) Expecting Year-Over-Year Change in Labor Availability and Costs in 2023



* See Appendix B for additional information on expected hiring in 2023.

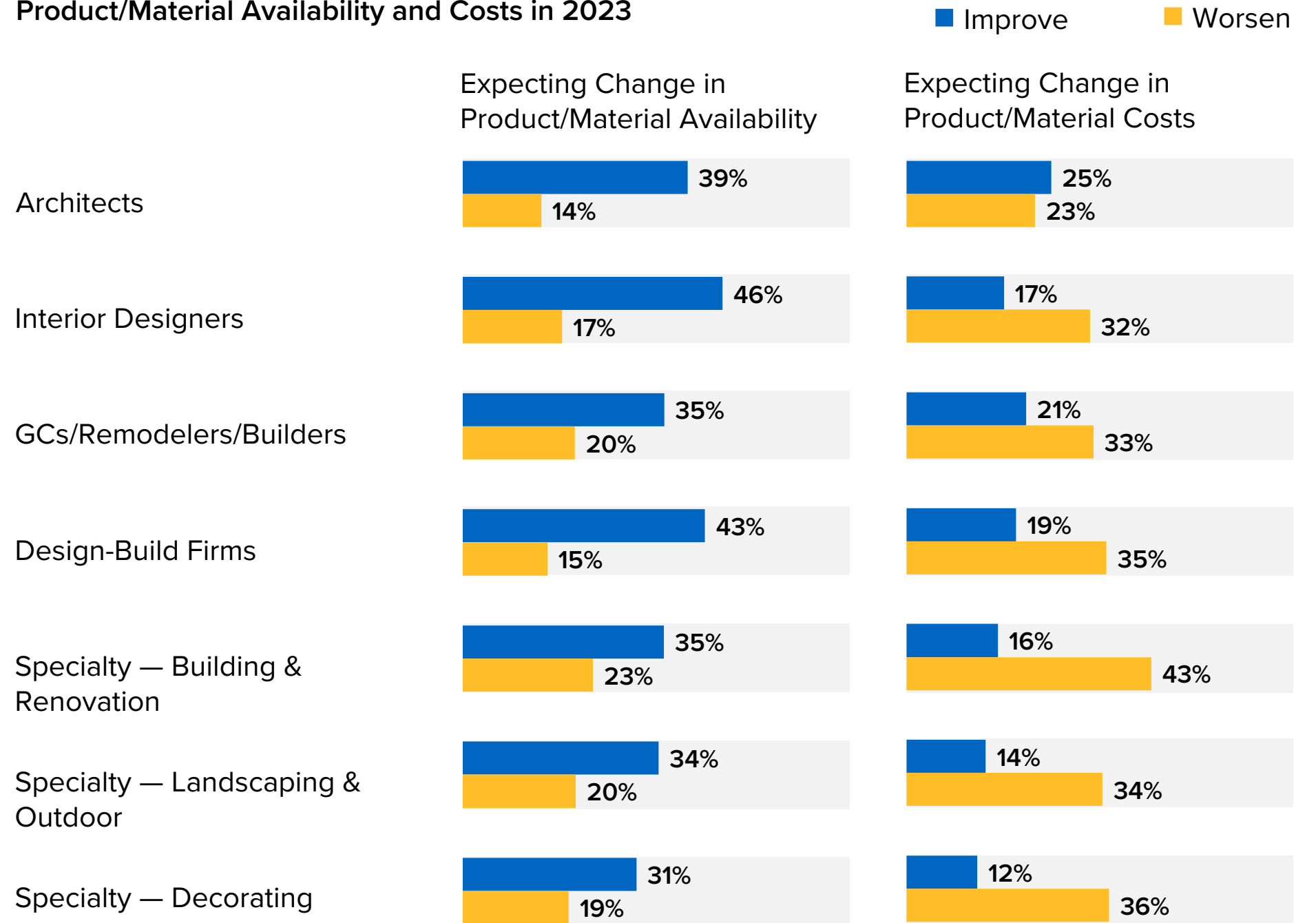
Product Availability Relief Is Expected

More companies across the seven industry groups expect product and material availability to improve in the coming year than to worsen, in contrast with last year. Interior designers are the most optimistic, with 46% expecting these improvements.

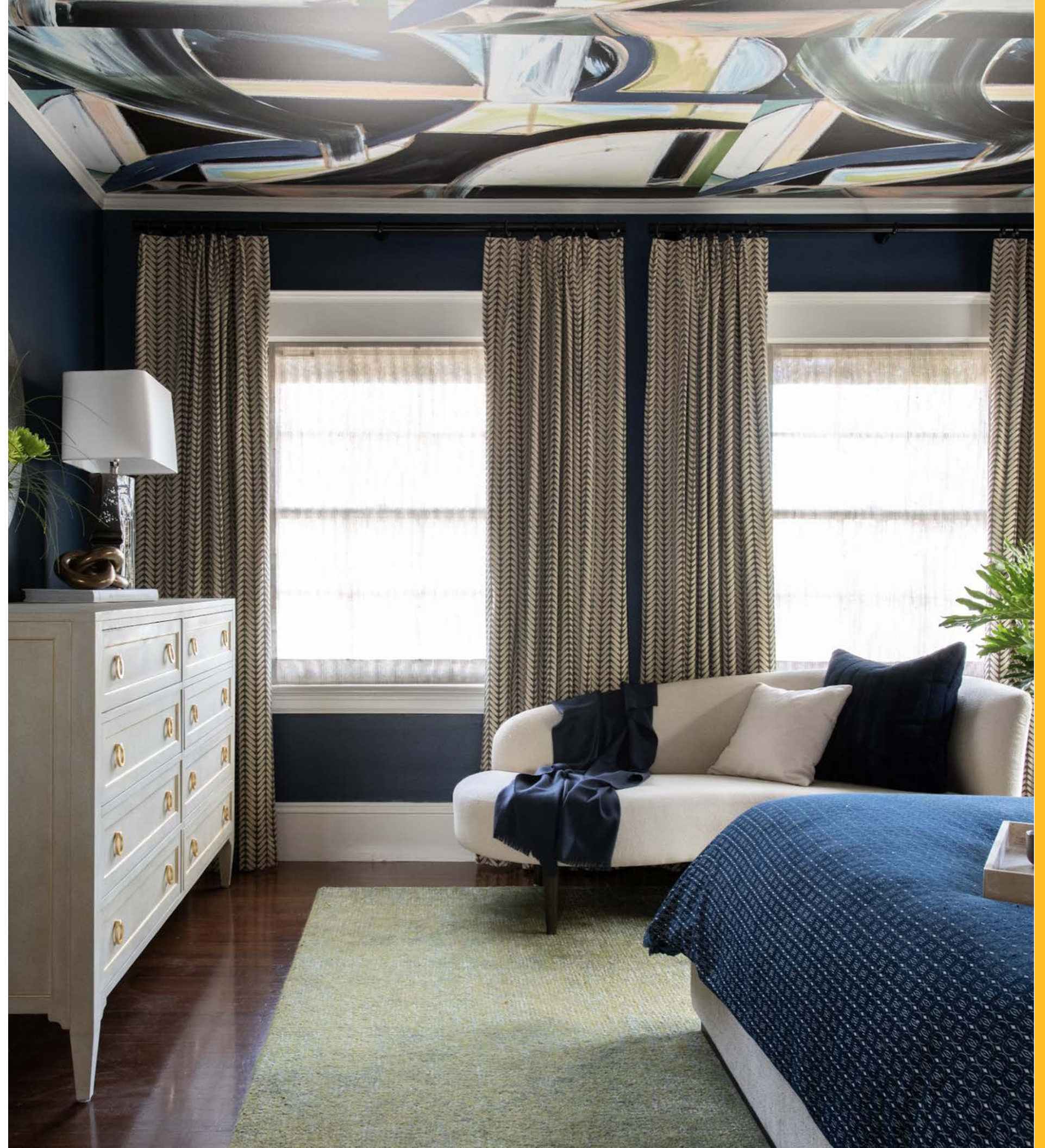
Businesses in six of the groups expect product and material costs to increase, however. This sentiment is especially pronounced among building and renovation specialists (43%). Architects are the only group in which more firms expect costs to decrease (25%) than increase (23%).*

* See Appendix B for additional information on expected changes in the cost of doing business in 2023.

Firms (%) Expecting Year-Over-Year Change in Product/Material Availability and Costs in 2023



2022 in Focus



Revenue Growth Slows After Reaching a 4-Year High

Companies reported lower annual revenue growth in 2022 compared with 2021's four-year high of 8.6% to 11.9%; in 2022, the average growth was 0.3% to 6.9%. Still, more than half of businesses (54% to 67%) across all seven groups reported that 2022 revenue growth was at or above their expectations, with the majority reporting that they met the expected growth.*

Among residential design companies, design-build firms reported the highest revenue growth (6.9%), while landscaping and outdoor specialists had the lowest (0.3%).

* See Appendix D for additional information on revenue growth rates in 2022.

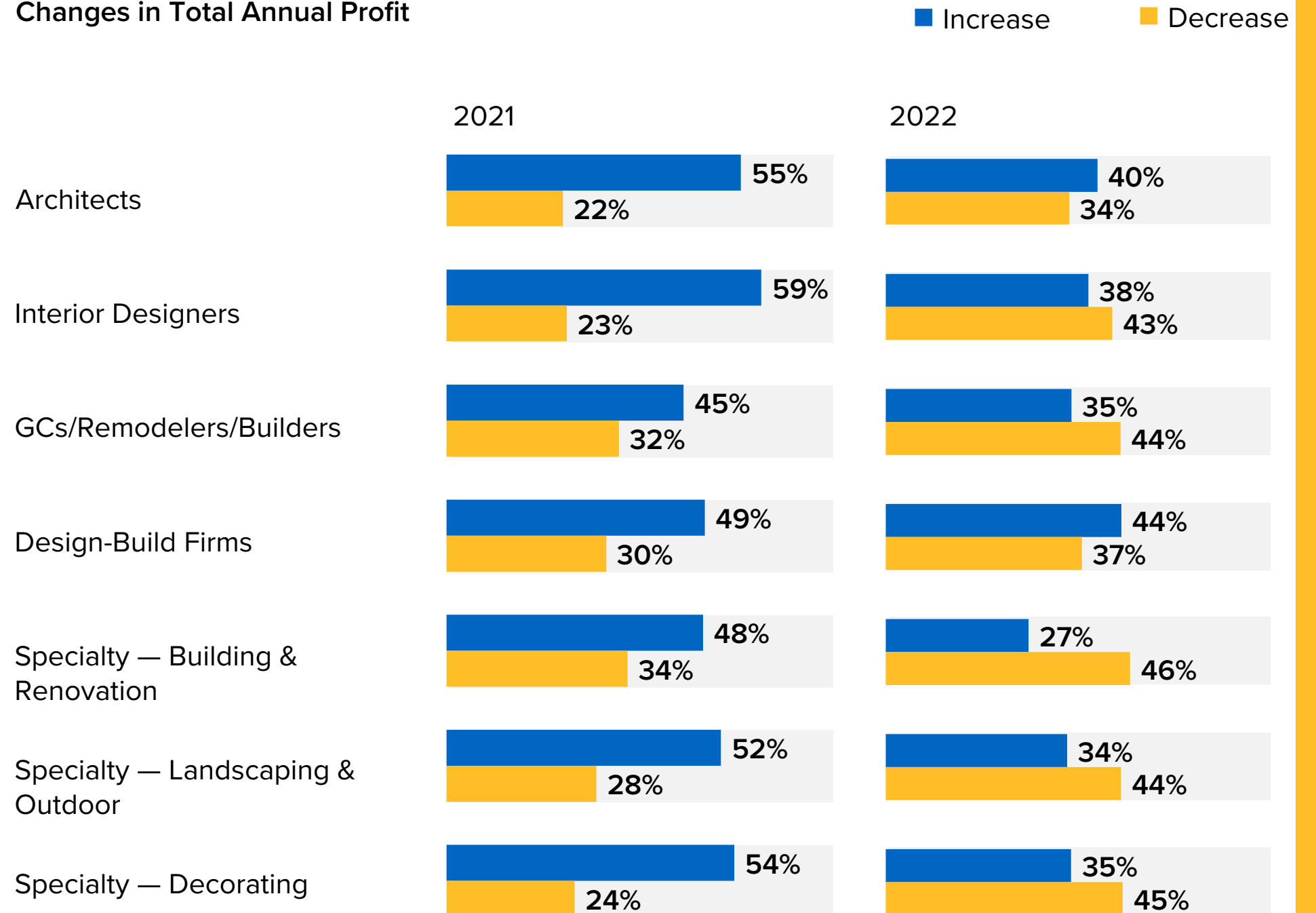
Average Annual Rate of Revenue Growth, as Reported by Firms

	2017	2018	2019	2020	2021	2022
Architects	8.3%	5.6%	3.1%	1.0%	10.3%	4.3%
Interior Designers	7.4%	7.0%	5.1%	-0.5%	11.9%	2.9%
GCs/Remodelers/Builders	10.6%	7.3%	5.3%	0.5%	9.0%	5.7%
Design-Build Firms	11.3%	8.2%	5.7%	1.4%	10.2%	6.9%
Specialty — Building & Renovation	8.9%	6.5%	6.1%	0.3%	8.6%	2.5%
Specialty — Landscaping & Outdoor	9.0%	6.6%	5.7%	3.0%	10.0%	0.3%
Specialty — Decorating	7.2%	6.3%	5.0%	-2.9%	10.7%	3.8%

Profits Declined for Many

Among all seven groups, year-over-year profit increases were not as widespread in 2022 as in 2021, with 27% to 44% reporting these increases for 2022 versus 45% to 59% in 2021. In fact, only architects (40%) and design-build firms (44%) reported profit increases for 2022; among the other five groups, a larger share cited a decrease than an increase.

Firms (%) Reporting Year-Over-Year Changes in Total Annual Profit

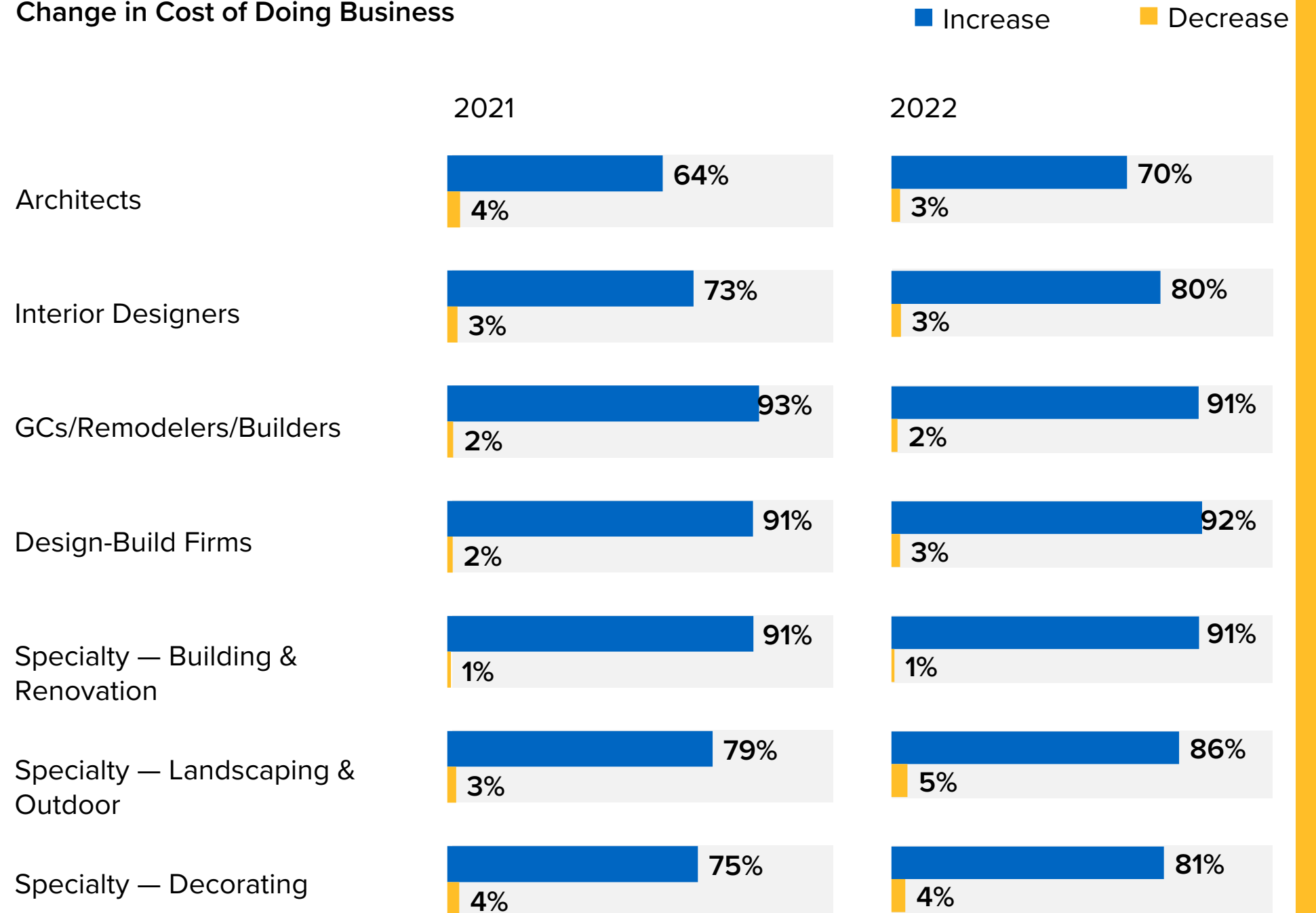


Relentless Increase in Cost of Doing Business

More firms in all of the industry groups again cited an increase in the cost of doing business versus those citing a decrease. For 2022, 70% to 92% of firms reported an increase, compared with 64% to 93% in 2021.

Businesses in the construction sector — GCs, design-build firms, and building and renovation specialists — were among those most likely to cite an increase in the cost of doing business (91%, 92% and 91%, respectively). However, slightly fewer GCs reported an increase in the cost of doing business for 2022 (91%, versus 93% in 2021).

Firms (%) Reporting Year-Over-Year Change in Cost of Doing Business



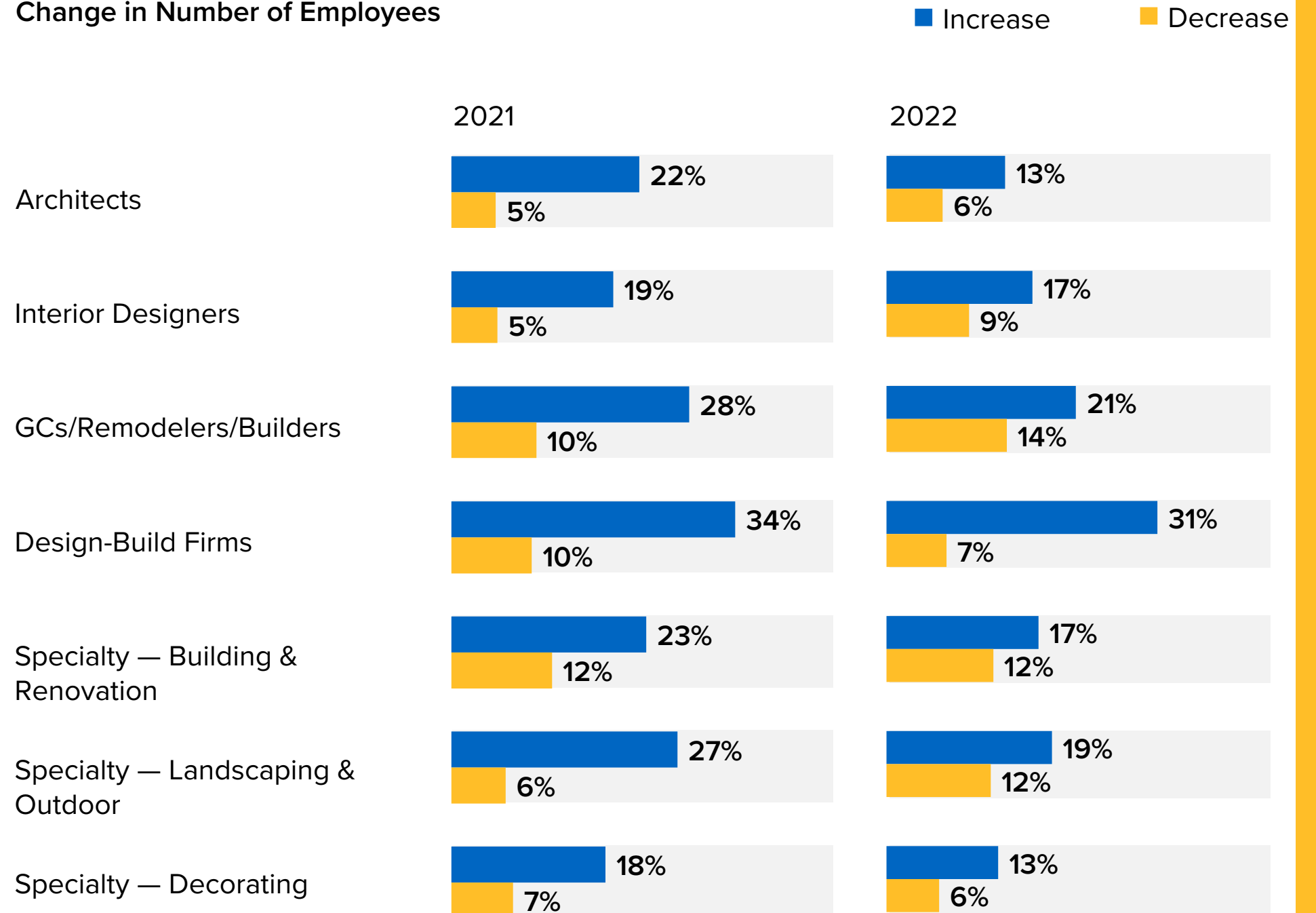
Businesses Continue Recruiting

Many residential renovation and design companies (13% to 31%) continued to hire employees in 2022, but fewer companies overall increased staff compared with 2021 (18% to 34%).

GCs and design-build firms were the most likely to bring on employees (21% and 31%, respectively) in 2022. Nearly a third of GCs and half of design-build firms reported having more than five employees in 2022.*

* See Appendix F for additional information on number of employees in 2022.

Firms (%) Reporting Year-Over-Year Change in Number of Employees



Product and Material Costs Drive Overall Hikes

As product and material costs aren't reported to have eased, it's no surprise that they're the most frequently cited factor in the rising cost of doing business overall. However, compared with last year, the share of businesses reporting this as the No. 1 cost driver has declined by 15 to 29 percentage points.

About 3 in 5 GCs (60%) and design-build firms (58%) reported that subcontractor costs also eroded profits in 2022. These percentages are lower than in 2021 (71% each).

Firms (%) Reporting Top 3 Drivers of Increase in Cost of Doing Business in 2022*

	No. 1 Cost Driver	No. 2 Cost Driver	No. 3 Cost Driver
Architects	Employee wages or benefits costs (30%; -16 pp YOY)	Software costs (23%; -7 pp YOY)	Business insurance costs (19%)
Interior Designers	Product or material costs (52%; -29 pp YOY)	Subcontractor costs (34%; -11 pp YOY)	Employee wages or benefits costs (20%; -10 pp YOY)
GCs/Remodelers/Builders	Product or material costs (75%; -16 pp YOY)	Subcontractor costs (60%; -11 pp YOY)	Employee wages or benefits costs (34%; -14 pp YOY)
Design-Build Firms	Product or material costs (74%; -17 pp YOY)	Subcontractor costs (58%; -13 pp YOY)	Employee wages or benefits costs (46%)
Specialty — Building & Renovation	Product or material costs (77%; -15 pp YOY)	Employee wages or benefits costs (39%; -8 pp YOY)	Subcontractor costs (35%; -7 pp YOY)
Specialty — Landscaping & Outdoor	Product or material costs (62%; -23 pp YOY)	Employee wages or benefits costs (36%; -22 pp YOY)	Subcontractor costs (23%; -15 pp YOY)
Specialty — Decorating	Product or material costs (63%; -23 pp YOY)	Subcontractor costs (27%; -13 pp YOY)	Advertising/marketing costs (21%)

* Table includes year-over-year changes of 5 or more percentage points.

Less Concern About Product and Material Availability

The availability of products and materials was less of a concern overall in 2022 compared with 2021, when 5 out of 7 industry groups cited it as the No. 1 or No. 2 challenge. While interior designers, building and renovation specialists, and decorators still cited this as the No. 3 challenge they faced in 2022, the percentages are lower (down by 9, 12 and 16 percentage points, respectively).

The price volatility of products and materials, on the other hand, continues to pose big challenges for six of the groups. However, the sentiment is less widespread compared with 2021 (down by 20, 9, 13 and 9 percentage points among GCs, design-build firms, building and renovation specialists, and landscaping and outdoor professionals, respectively).

One of the greatest challenges cited by architects for 2022 is the weak/uncertain national economy, with the percentage up by 20 points compared with 2021.*

* See Appendix H for additional information on business challenges in 2022.
** Table includes year-over-year changes of 5 or more percentage points

Firms (%) Reporting Top 3 Business Challenges in 2022**

	No. 1 Challenge	No. 2 Challenge	No. 3 Challenge
Architects	Weak/uncertain national economy (27%; +20 pp YOY)	Price volatility of products and materials (27%)	Managing the current workload (25%; -16 pp YOY)
Interior Designers	Shortage of subcontractors (28%; -6 pp YOY)	Price volatility of products and materials (28%)	Availability of products and materials (26%; -9 pp YOY)
GCs/Remodelers/Builders	Price volatility of products and materials (36%; -20 pp YOY)	Increased cost of doing business (31%; -5 pp YOY)	Shortage of subcontractors (25%; -6 pp YOY)
Design-Build Firms	Price volatility of products and materials (39%; -9 pp YOY)	Increased cost of doing business (29%)	Shortage of subcontractors (24%)
Specialty — Building & Renovation	Increased cost of doing business (34%)	Price volatility of products and materials (33%; -13 pp YOY)	Availability of products and materials (25%; -12 pp YOY)
Specialty — Landscaping & Outdoor	Increased cost of doing business (27%)	Price volatility of products and materials (27%; -9 pp YOY)	Difficulty hiring/being understaffed (21%; -10 pp YOY)
Specialty — Decorating	Increased cost of doing business (23%)	Managing consumer concerns about costs (23%; +9 pp YOY)	Availability of products and materials (21%; -16 pp YOY)

2022 Business Characteristics



Projects for Existing Homes Generate Most Revenue

The largest share of annual gross revenue for all seven industry groups in 2022 came from projects for existing homes (49% to 71%). Commercial services accounted for 11% to 15% of gross revenue; that percentage is similar to what most firms reported in 2021 (7% to 16%). The exception: interior design businesses, whose gross revenue from commercial projects increased by 4 percentage points year over year.

Firms (%) Reporting Average Share of 2022 Gross Revenue From Residential vs. Commercial Services

	Residential Services			Commercial Services
	Existing Homes	New Custom Homes	New For-Sale Homes	
Architects	49%	32%	5%	14%
Interior Designers	71%	13%	5%	11%
GCs/Remodelers/Builders	61%	19%	5%	15%
Design-Build Firms	66%	18%	5%	11%
Specialty — Building & Renovation	71%	11%	3%	15%
Specialty — Landscaping & Outdoor	68%	12%	5%	15%
Specialty — Decorating	65%	13%	7%	15%

Number of Projects Holds Steady

A larger share of businesses (26% to 50%) among 5 out of the 7 industry groups worked on more than 30 projects in 2022 compared with 2021 (25% to 48%).

The majority of building and renovation specialists — such as plumbers, electricians and cabinetmakers — and the majority of decorating specialists undertook fewer than 30 projects in 2022 (51% and 56%, respectively).

Firms (%) Reporting Total Number of Projects and Number of Projects From Online Inquiries in 2022

	Number of Projects			Number of Projects From Online Inquiries		
	< 10	10-29	30+	< 10	10-29	30+
Architects	22%	45%	34%	78%	17%	5%
Interior Designers	27%	47%	26%	73%	20%	7%
GCs/Remodelers/ Builders	25%	43%	32%	71%	17%	12%
Design-Build Firms	20%	45%	35%	66%	24%	10%
Specialty — Building & Renovation	15%	36%	49%	60%	19%	21%
Specialty — Landscaping & Outdoor	14%	36%	50%	48%	31%	20%
Specialty — Decorating	30%	26%	44%	65%	17%	18%

Revenues for Many Midsize Projects Stay Under \$50,000

Gross revenue from most typical midsize projects is around \$50,000 or less for 5 of the 7 industry groups. The two groups with the highest percentage of firms reporting typical midsize project revenue of more than \$50,000 are GCs (62%) and design-build firms (66%).

The share of design-build firms with typical midsize project revenue above \$50,000 remained the same between 2021 and 2022, at 66%. However, the share of design-build firms reporting a gross profit of more than \$10,000 from a typical midsize project increased from 63% in 2021 to 70% in 2022.

Firms (%) Reporting Gross Revenue and Gross Profit From a Typical Midsize Project in 2022

	Midsize Project Gross Revenue			Midsize Project Gross Profit		
	< \$10K	\$10K-\$50K	> \$50K	< \$5K	\$5K-\$10K	> \$10K
Architects	33%	38%	30%	37%	26%	37%
Interior Designers	27%	31%	42%	27%	22%	51%
GCs/Remodelers/ Builders	18%	20%	62%	21%	18%	60%
Design-Build Firms	12%	22%	66%	15%	16%	70%
Specialty — Building & Renovation	38%	36%	26%	47%	25%	28%
Specialty — Landscaping & Outdoor	45%	20%	35%	51%	18%	31%
Specialty — Decorating	62%	24%	14%	63%	15%	22%

Annual Gross Revenues Remain Stable

Annual gross revenue for most firms typically is less than \$3 million. The share of companies reporting more than \$3 million in annual gross revenue remained the same or increased for 4 of the 7 groups in 2022 (1% to 28%) compared with 2021 (1% to 25%). The share of building and renovation specialists with gross revenue between \$500,000 and \$2.9 million increased from 32% to 39% year over year.

Design-build companies were the most likely to see \$3 million or more in gross revenue (28%) in 2022, while only a quarter of them saw this in 2021.

Firms (%) Reporting Annual Gross Revenue in 2021 and 2022

	2021			2022		
	< \$500K	\$500K-\$2.9M	\$3M+	< \$500K	\$500K-\$2.9M	\$3M+
Architects	76%	23%	1%	74%	25%	1%
Interior Designers	68%	27%	5%	66%	30%	4%
GCs/Remodelers/Builders	27%	50%	23%	33%	48%	19%
Design-Build Firms	29%	46%	25%	21%	50%	28%
Specialty — Building & Renovation	54%	32%	13%	50%	39%	11%
Specialty — Landscaping & Outdoor	59%	29%	12%	61%	25%	13%
Specialty — Decorating	69%	27%	4%	73%	23%	4%

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 17, 2022, to December 19, 2022. N = 2,090 (330 architects, 315 interior designers, 509 general contractors/remodelers/builders, 313 design-build firms, 274 building/renovation specialty firms,¹ 159 landscape/outdoor specialty firms,² and 190 decorating specialty firms³).

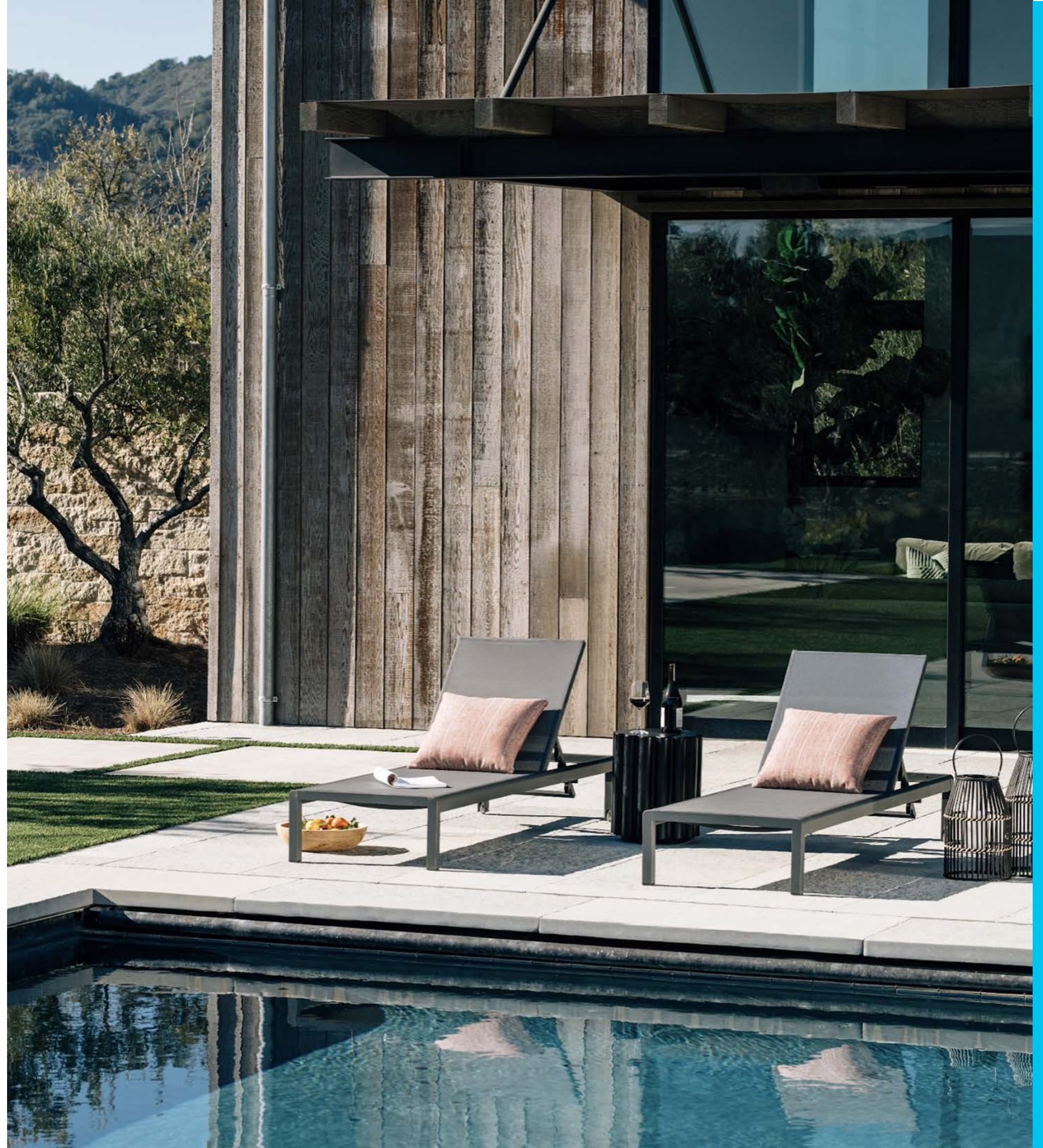
¹Building/renovation specialty firms include replacement contractors (e.g., carpenters) and product installers/manufacturers/resellers (e.g., of cabinetry).

²Landscape/outdoor specialty firms include landscape architects, designers and contractors; outdoor replacement trades (e.g., pavers); and outdoor product installers/manufacturers/resellers (e.g., of pools and spas).

³Decorating specialty firms include interior decorators and providers of window coverings, furniture, accessories, lighting, upholstery and other decorating-related products.



Appendixes



A. Average Expected and Actual Revenue Growth for 2018 to 2023

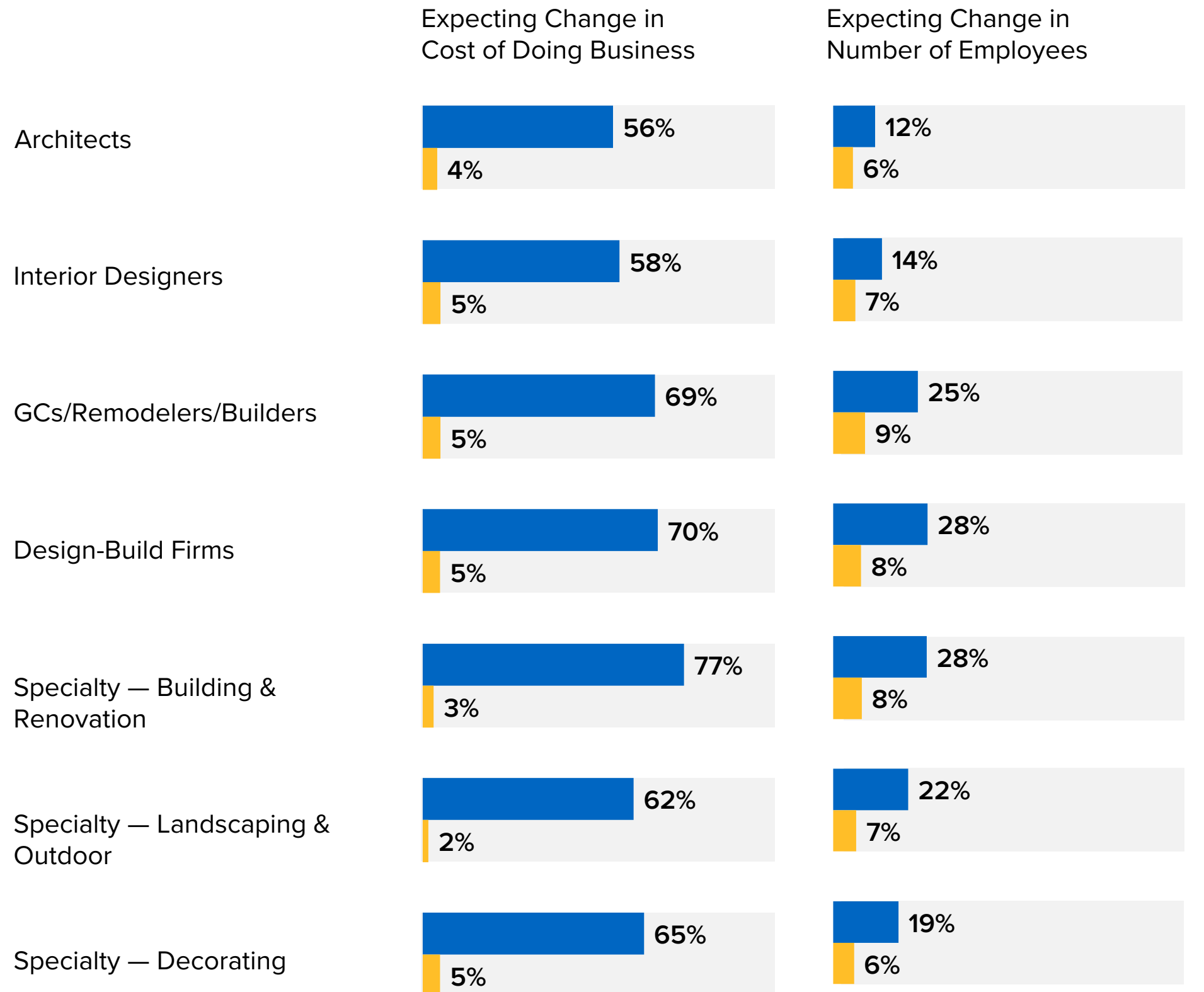
Average Expected and Actual Rates of Annual Revenue Growth, as Reported by Firms

	Expected 2018 Actual 2018	Expected 2019 Actual 2019	Expected 2020 Actual 2020	Expected 2021 Actual 2021	Expected 2022 Actual 2022	Expected 2023 Actual 2023
Architects	6.9% 5.6%	5.1% 3.1%	4.2% 1.0%	7.3% 10.3%	5.3% 4.3%	0.3% n/a
Interior Designers	11.1% 7.0%	9.4% 5.1%	8.2% -0.5%	9.5% 11.9%	8.1% 2.9%	3.0% n/a
GCs/Remodelers/Builders	10.5% 7.3%	8.7% 5.3%	7.6% 5.3%	8.9% 9.0%	8.8% 5.7%	2.9% n/a
Design-Build Firms	9.9% 8.2%	8.4% 5.7%	8.9% 0.5%	9.7% 10.2%	9.0% 6.9%	2.3% n/a
Specialty — Building & Renovation	10.9% 6.5%	9.0% 6.1%	8.5% 0.3%	8.8% 8.6%	8.6% 2.5%	1.3% n/a
Specialty — Landscaping & Outdoor	11.4% 6.6%	8.2% 5.7%	6.9% 3.0%	8.3% 10.0%	6.1% 0.3%	4.1% n/a
Specialty — Decorating	12.3% 6.3%	9.1% 5.0%	9.1% -2.9%	12.9% 10.7%	7.8% 3.8%	6.1% n/a

B. Expected Changes in Costs and Staffing in 2023

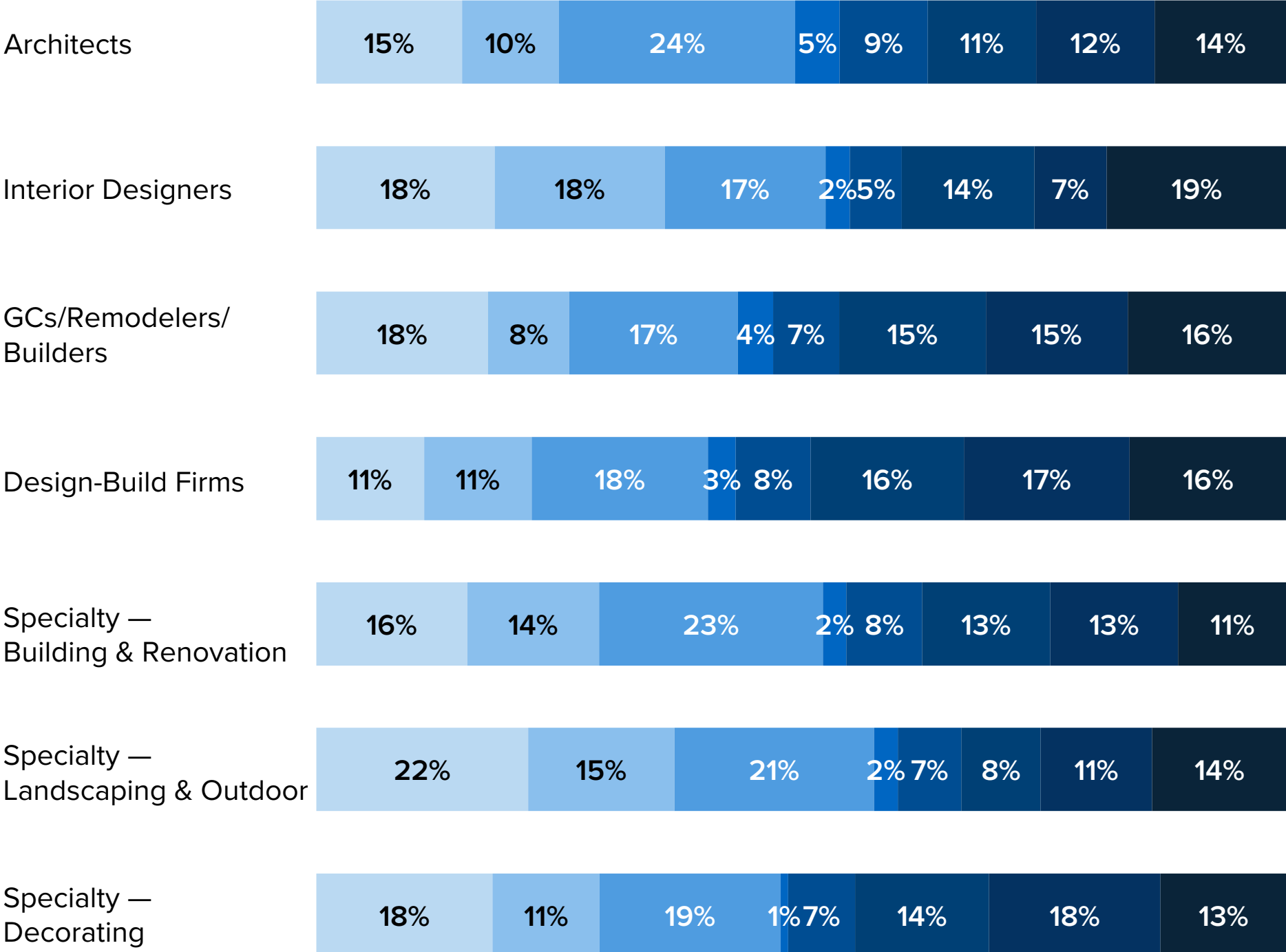
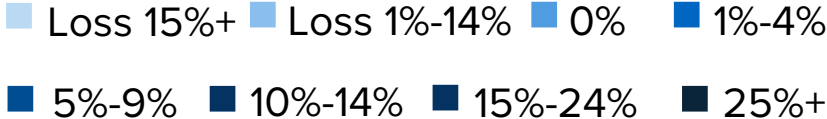
Firms (%) Reporting Expected Increase or Decrease in Cost of Doing Business and Number of Employees in 2023

■ Increase ■ Decrease



C. 2022 Revenue Change Breakdown

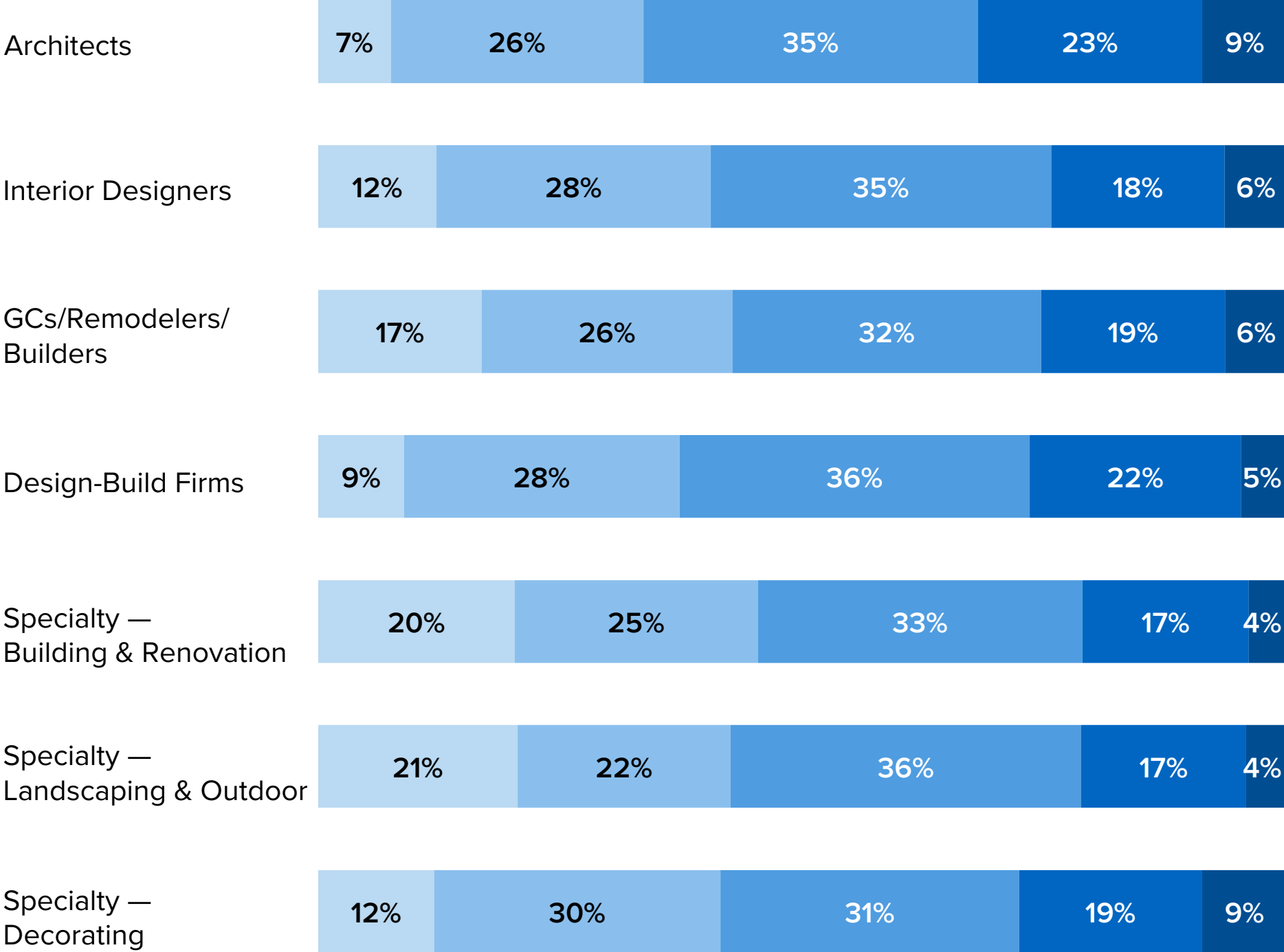
Annual Rates of Revenue Change in 2022, as Reported by Firms (%)



D. Revenue in 2022 Relative to Expectations

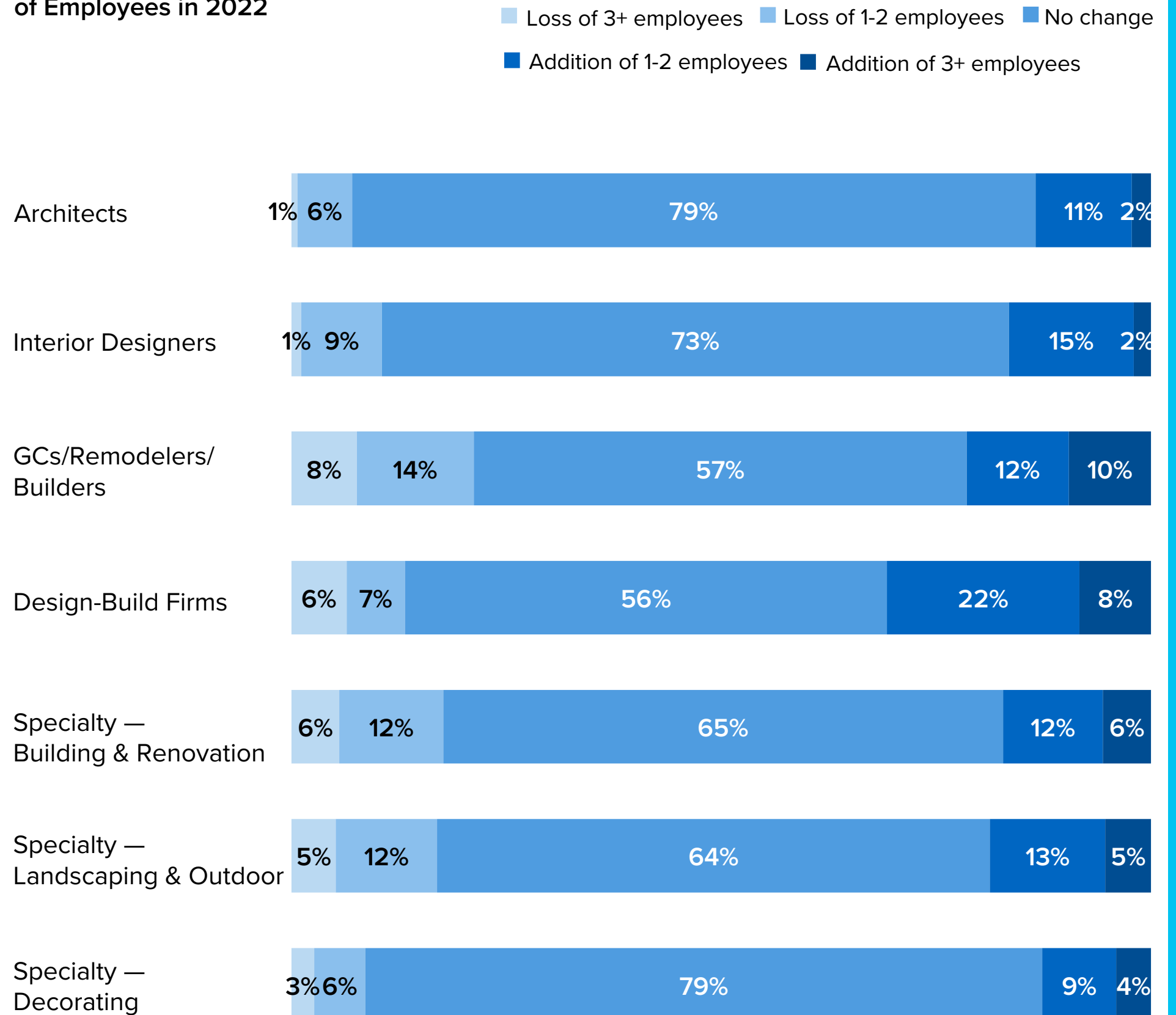
Firms (%) Reporting Revenue Below, at or Above Expectations in 2022

- Significantly below
- Somewhat below
- At
- Somewhat above
- Significantly above



E. Changes in Staff in 2022

Firms (%) Reporting Change in Number of Employees in 2022



F. Number of Employees in 2022

Firms (%) Reporting Number of Employees in 2022

	Number of Employees		
	None	1-4	5+
Architects	36%	49%	15%
Interior Designers	39%	52%	9%
GCs/Remodelers/ Builders	23%	45%	32%
Design-Build Firms	15%	36%	50%
Specialty — Building & Renovation	23%	42%	36%
Specialty — Landscaping & Outdoor	32%	45%	23%
Specialty — Decorating	38%	48%	15%

G. Cost Drivers in 2022

Firms (%) Reporting Drivers for Increase in Cost of Doing Business in 2022 (Limit 3)

	Architects	Interior Designers	GCs/ Remodelers/ Builders	Design-Build Firms	Specialty — Building & Renovation	Specialty — Landscaping & Outdoor	Specialty — Decorating
Advertising/ marketing costs	14%	17%	9%	9%	10%	16%	21%
Business insurance costs	19%	8%	21%	16%	17%	17%	14%
Employee wages or benefits costs	30%	20%	34%	46%	39%	36%	19%
Legal/accounting fees	7%	7%	3%	1%	4%	5%	3%
Licensing fees	4%	2%	2%	1%	2%	1%	1%
Office equipment costs	18%	11%	2%	1%	3%	8%	5%
Office lease/ utilities costs	19%	12%	4%	5%	8%	9%	8%
Permitting requirements/fees	7%	3%	8%	6%	5%	6%	1%
Product or material costs	17%	52%	75%	74%	77%	62%	63%
Software costs	23%	14%	3%	6%	4%	10%	6%
Subcontractor costs	14%	34%	60%	58%	35%	23%	27%
Other costs	7%	11%	9%	7%	16%	14%	16%

H. Business Challenges in 2022

Firms (%) Reporting Business Challenges in 2022 (Limit 3)

	Architects	Interior Designers	GCs/ Remodelers/ Builders	Design-Build Firms	Specialty — Building & Renovation	Specialty — Landscaping & Outdoor	Specialty — Decorating
Managing the current workload	25%	16%	11%	15%	15%	15%	7%
Price volatility of products and materials	27%	28%	36%	39%	33%	27%	20%
Managing consumer expectations	17%	12%	12%	11%	10%	14%	12%
Managing consumer concerns about costs	24%	16%	12%	11%	14%	16%	23%
Difficulty hiring/being understaffed	16%	8%	17%	19%	18%	21%	6%
Increased building regulation	17%	1%	5%	2%	2%	7%	1%
Availability of products and materials	8%	26%	20%	21%	25%	11%	21%
Shortage of subcontractors	13%	28%	25%	24%	10%	17%	15%
Difficulty finding prospective customers	9%	8%	7%	3%	8%	8%	16%
Increased cost of doing business	13%	15%	31%	29%	34%	27%	23%
Difficulty staying organized	6%	4%	3%	3%	3%	5%	3%
Weak/uncertain national economy	27%	15%	13%	16%	16%	17%	17%
Weak/uncertain local economy	10%	8%	8%	5%	6%	9%	9%
Increased business competition	4%	5%	3%	2%	1%	6%	5%
Difficulty collecting payments	7%	3%	3%	2%	2%	5%	1%
Increased popularity of DIY	3%	6%	1%	2%	1%	5%	6%
Difficulty increasing or maintaining profit margin	7%	10%	8%	9%	11%	9%	15%
Tight business lending	1%	1%	2%	0%	0%	1%	2%
Other challenges	3%	7%	3%	3%	3%	3%	8%