Q3 2017

HOUZZ RENOVATION BAROMETER

October 2017

Big Ideas

INDUSTRY CONFIDENCE HIGH AND HOLDING STEADY

The Houzz Renovation Barometer, which tracks industry optimism in market conditions, posted Q3 readings exceeding 50 points across all industry groups (62 to 72 out of 100), meaning that more firms reported market activity increasing rather than decreasing quarter over quarter. Quarter-over-quarter readings for Q3 2017 are in line with Q3 2016 scores.

REMODELERS' PROJECT BACKLOGS GROW

The Houzz Renovation Barometer Backlog Index shows a project backlog of 4.5 to 7.7 weeks, on average, across all sectors at the start of Q4 2017, reflecting significant wait times before companies can take on new projects. General contractors (GCs), remodelers, and design-build companies have the longest backlogs (7.1 and 7.7 weeks, on average, respectively). These backlogs increased relative to the start of Q3 2017 (7.0 and 7.4 weeks, respectively).

LABOR SHORTAGES MEAN HIGHER COSTS

Labor shortages continue to be widespread, as reported by 78% of GCs, remodelers, and design-build firms. Compared with last year, a greater share of companies cite the increasing cost of subcontractors (56% in Q3 2017 vs. 53% in Q3 2016) and the increasing length of projects (54% in Q3 2017 vs. 50% in Q3 2016) as a result of labor shortages.

HURRICANE-HIT REGIONS SEE SHORT-TERM BUSINESS DISRUPTIONS*

Within the first two weeks of making landfall in the Houston metropolitan area and on the southwestern Florida coast, hurricanes Harvey and Irma caused 28% and 42% of renovation-related businesses to suspend operations in these areas, respectively. The hurricanes exacerbated labor shortages across the regions and increased project backlogs by nearly two weeks, on average.

HOMEOWNER REPAIR COSTS SKYROCKET IN HURRICANE-AFFECTED AREAS*

Renovation-related companies estimate the average total cost of repairs and renovations for homeowners to be $13,000 in the areas hit hardest by Irma, and a staggering $111,000 in the areas hit hardest by Harvey. Furthermore, one in 10 companies estimate the total repair and renovation costs for homeowners from Hurricane Harvey to exceed $200,000.

*Findings about the impact of Hurricane Maria on Puerto Rico were not included due to very small sample sizes

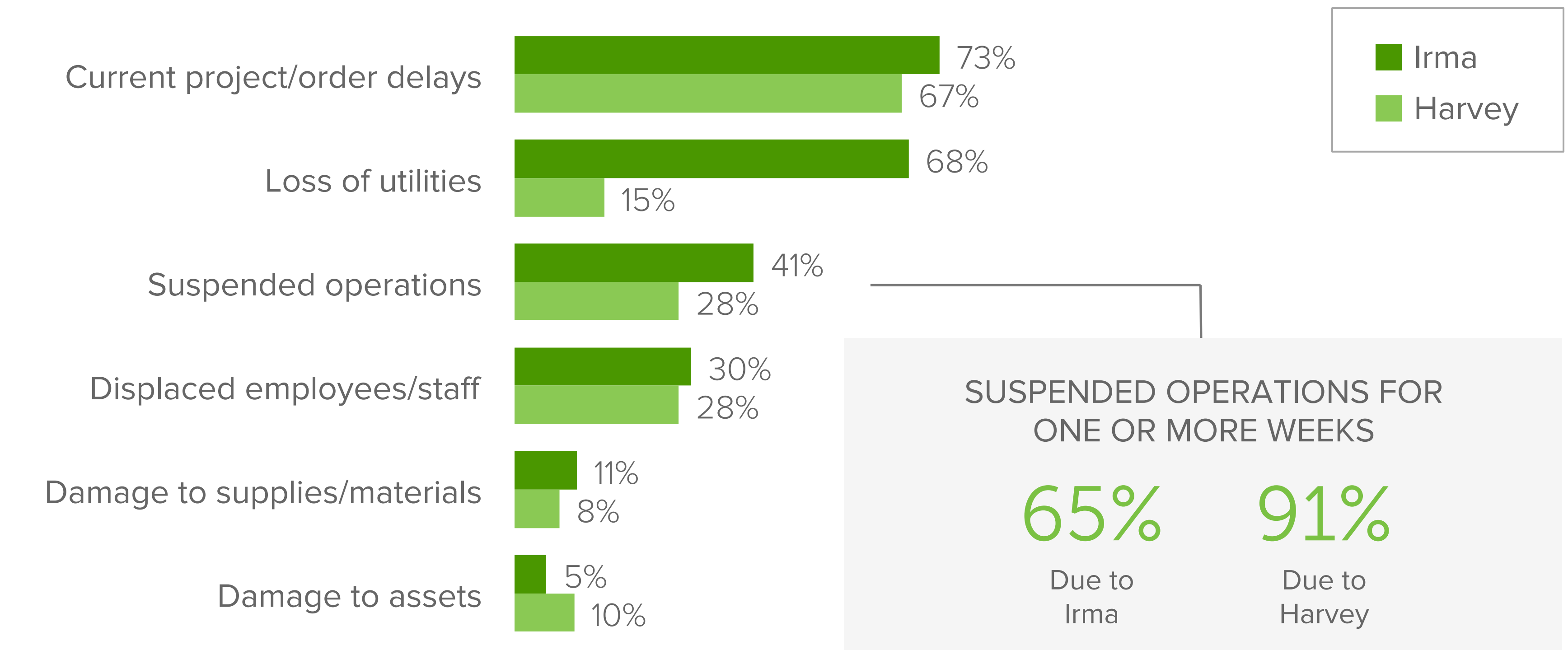
Contents

HURRICANE IMPACT

Short-Term Disruptions for Many Businesses

Hurricanes Harvey and Irma hurt many renovation-related businesses in the hardest-hit areas* in the first two weeks after landfall. Loss of utilities was widespread in Irma-stricken areas (68%), likely explaining why two in five renovation-related businesses suspended their operations (41%), with most of those (65%) halting operations for a week or longer. In Houston, just over a quarter of businesses suspended operations, but for a longer period.

INITIAL TWO-WEEK HURRICANE IMPACT ON BUSINESS OPERATIONS, AS REPORTED BY FIRMS IN HARDEST-HIT AREAS*

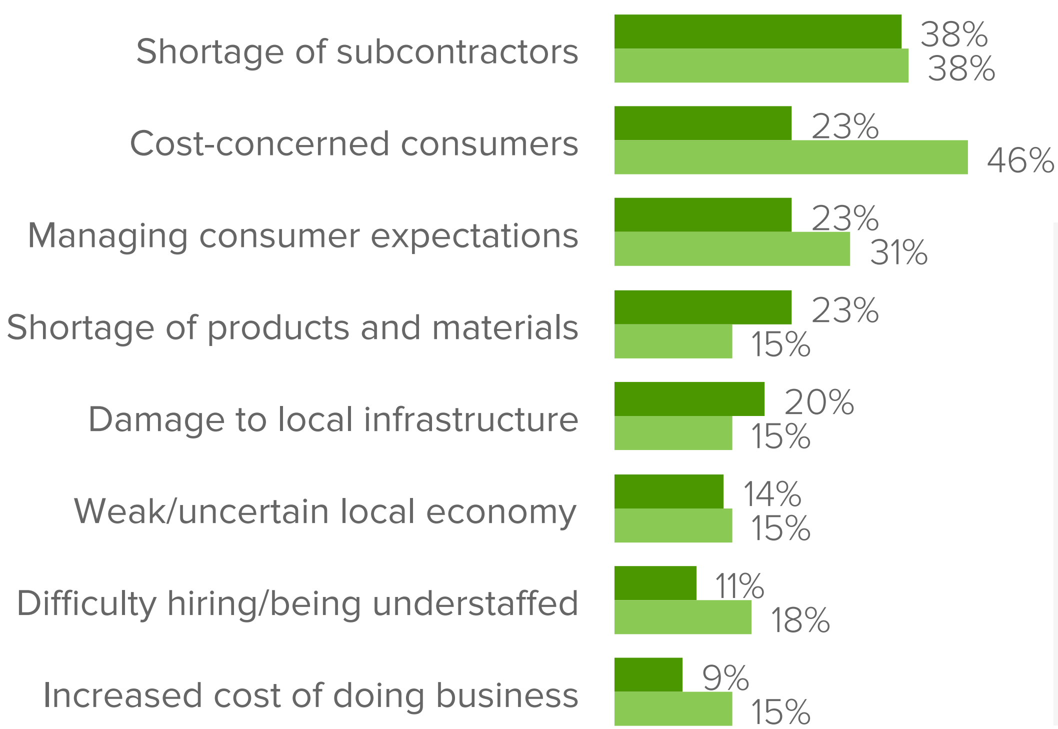


*Areas hit hardest by Harvey include the Houston-Sugar Land-Baytown, TX, metro area; areas hit hardest by Irma include Cape Coral-Fort Myers, FL, Sarasota-Bradenton-Venice, FL, Tampa-St. Petersburg-Clearwater, FL, Naples-Marco Island, FL, and Punta Gorda, FL.
**Findings about the impact of Hurricane Maria on Puerto Rico were not included due to very small sample sizes

Businesses Face Challenges but Expect to Recover

While the hurricanes contributed to the ongoing shortages of subcontractors in both regions, companies on the southwestern Florida coast report more widespread shortages of products and materials, and companies in the Houston area report greater difficulties with managing pressures from their customers. However, 78% and 92% of affected companies in Florida and Texas, respectively, expect to at least fully recover financially over the next 12 months.

TOP BUSINESS CHALLENGES (LIMITED TO 3) EXACERBATED BY THE HURRICANES, AS REPORTED BY FIRMS IN HARDEST-HIT AREAS*



12-Month Expected Hurricane Impact on Business

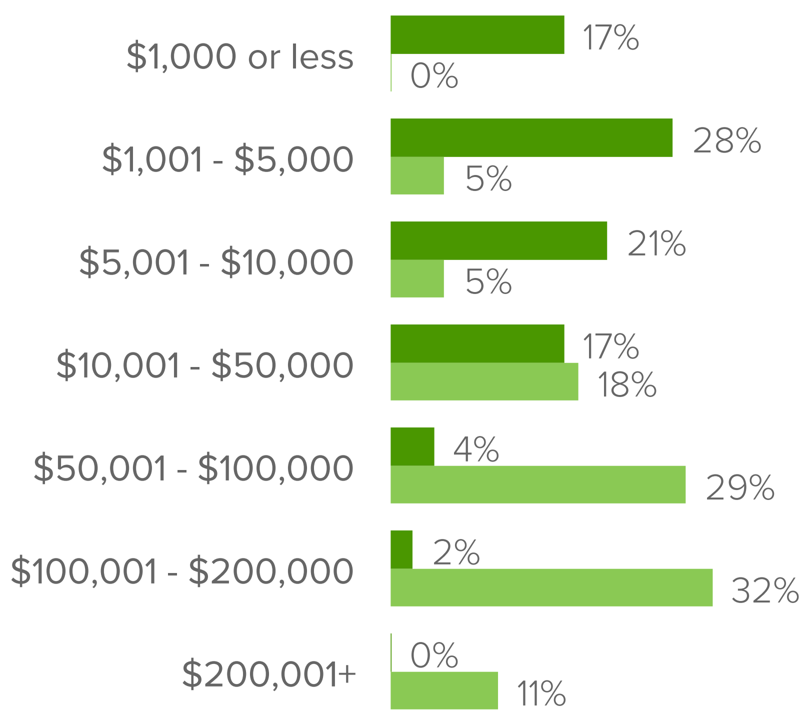
	Irma	Harvey
Net financial loss	22%	8%
Neutral Impact	33%	26%
Net financial gain	45%	66%

*Areas hit hardest by Harvey include the Houston-Sugar Land-Baytown, TX, metro area; areas hit hardest by Irma include Cape Coral-Fort Myers, FL, Sarasota-Bradenton-Venice, FL, Tampa-St. Petersburg-Clearwater, FL, Naples-Marco Island, FL, and Punta Gorda, FL.
**Findings about the impact of Hurricane Maria on Puerto Rico were not included due to very small sample sizes

Severe Cost Implications for Harvey-Affected Homeowners

Hurricane Harvey dealt a far more damaging blow to homes than did Irma. Companies in the Houston area place the average renovation and repair cost for homeowners at $111,000, while companies on the southwestern Florida coast estimate the average cost at $13,000. Furthermore, one in 10 companies (11%) estimates the total repair and/or renovation costs from Hurricane Harvey at greater than $200,000.

ESTIMATED AVERAGE COST TO HOMEOWNER TO FIX HURRICANE-RELATED DAMAGE, AS REPORTED BY FIRMS IN HARDEST-HIT AREAS*



ESTIMATED AVERAGE COST TO HOMEOWNER

$13K	$111K
Due to Irma	Due to Harvey

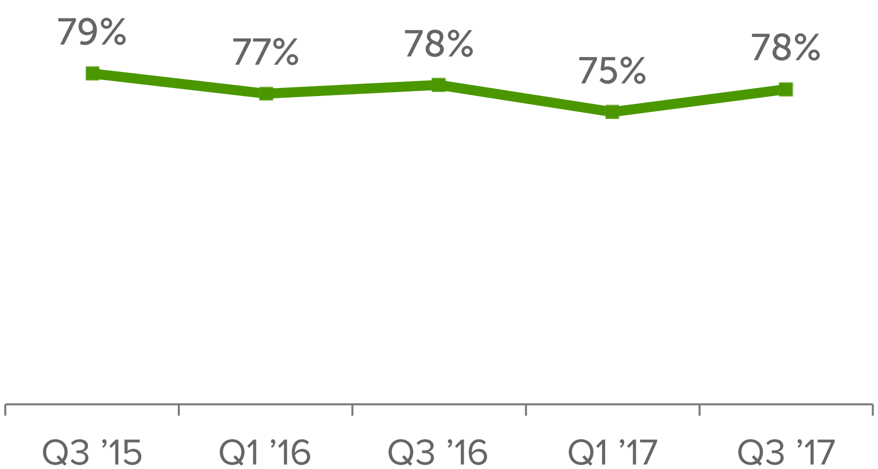
*Areas hit hardest by Harvey include the Houston-Sugar Land-Baytown, TX, metro area; areas hit hardest by Irma include Cape Coral-Fort Myers, FL, Sarasota-Bradenton-Venice, FL, Tampa-St. Petersburg-Clearwater, FL, Naples-Marco Island, FL, and Punta Gorda, FL.
**Findings about the impact of Hurricane Maria on Puerto Rico were not included due to very small sample sizes

CURRENT LABOR CONDITIONS

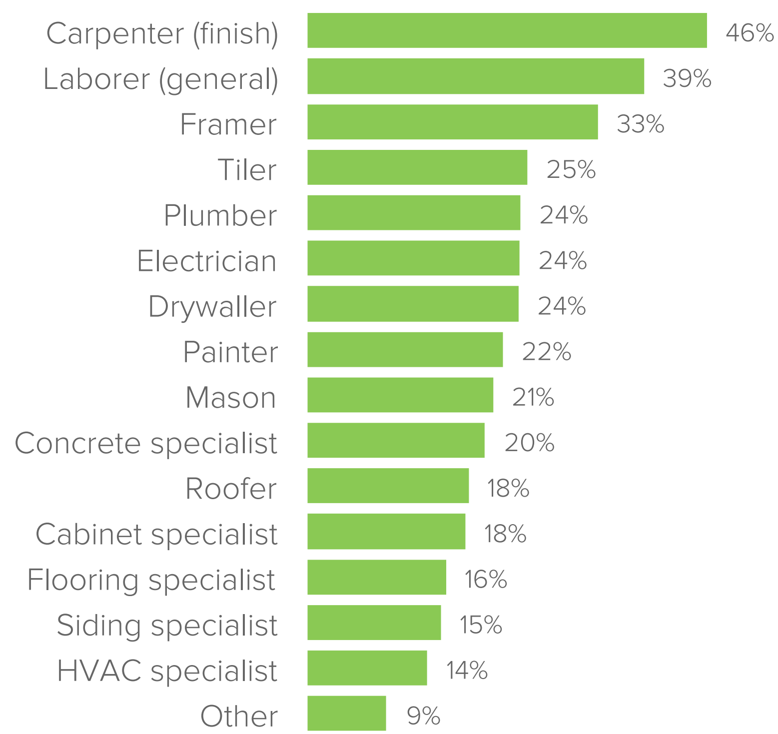
Labor Shortages Persist, With an Uptick in the South

More than three in four general contractors (GCs), remodelers, and design-build firms (78%) reported moderate to severe labor shortages across a wide range of skilled trades, which is in line with the 75%-79% who did so in the past two years. A greater share of Southern firms reported labor shortages relative to Q1 2017 (77% vs. 73%, respectively), although shortages are still most widespread in the Midwest. (See Appendices A and B.) Finish carpenters continue to be in greatest demand.

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



Specialists in Short Supply*

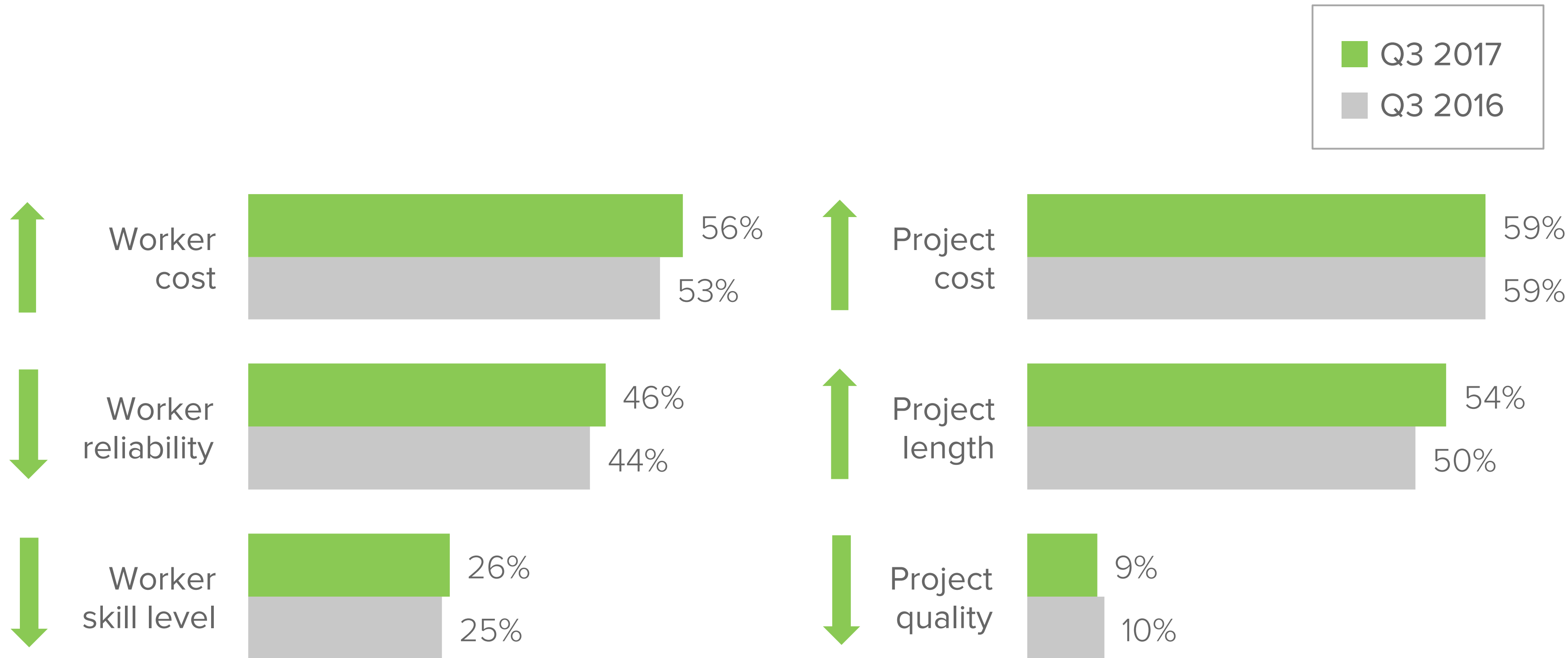


*Percentages reflect proportion of GCs, remodelers, and design-build firms *who reported moderate to severe shortages of specialists and general laborers.*

More Side Effects of Labor Shortages

Overall, firms report increases in costs of subcontractors and in deterioration of their reliability and skill levels due to labor shortages compared with a year ago. Firms report similar changes in their own employees. (See Appendix C.) In line with last year, over half of firms report labor shortages translating into costlier and lengthier projects (59% and 54%, respectively); however, most firms say they are still able to maintain project quality.

CHANGES IN SUBCONTRACTOR AND PROJECT CHARACTERISTICS DUE TO LABOR SHORTAGES, AS REPORTED BY GCS, REMODELERS, DESIGN-BUILD FIRMS

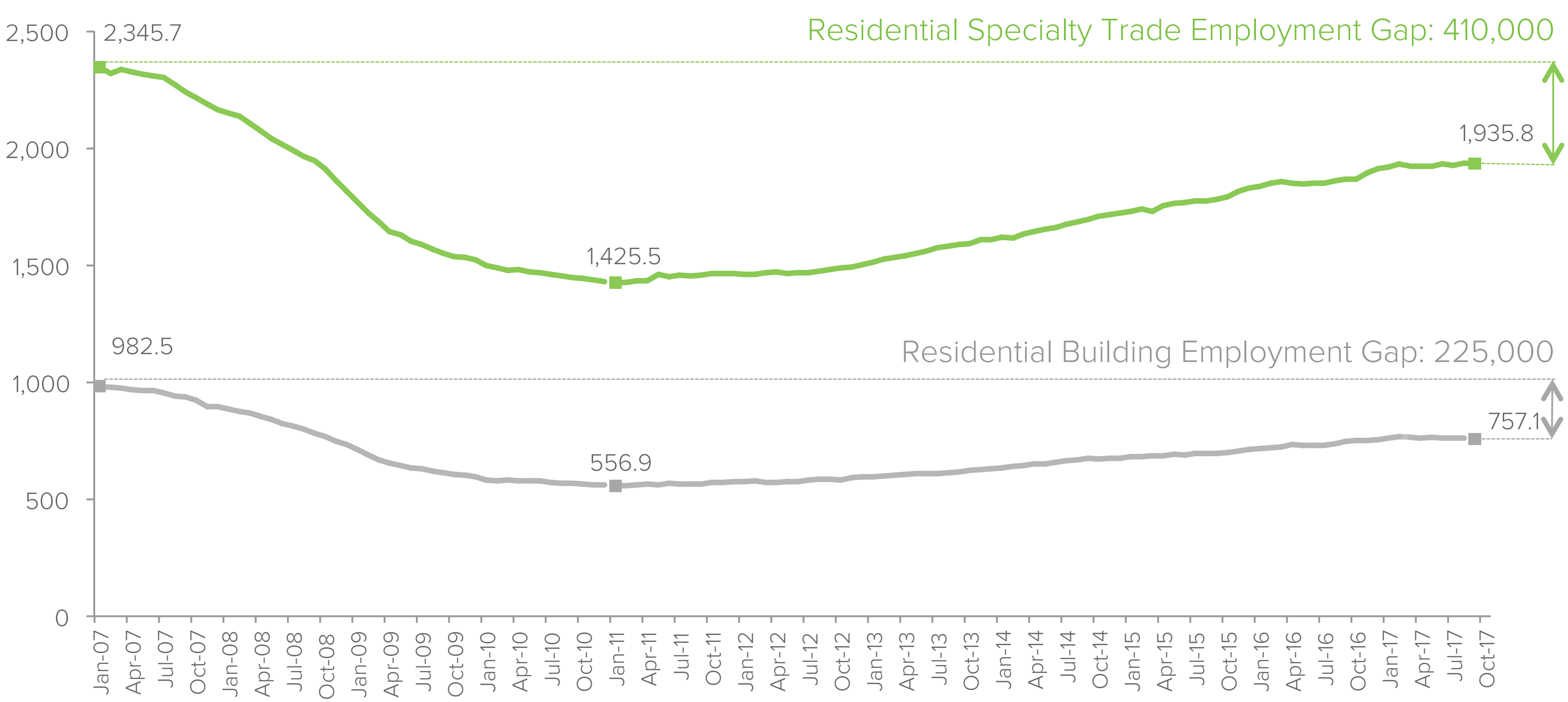


BLS Data Watch: 600,000+ Employee Gap Persists

In line with survey-reported labor shortages, the Bureau of Labor Statistics projects the employee gap among residential building/remodeling firms and residential building/remodeling specialty trade firms to remain at 635,000 as of September 2017, off from the January 2007 peak. The industry has gained 27,000 employees so far in 2017, although hiring slowed considerably in the third quarter.

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)



Source: January 2007-September 2017 Current Employment Statistics, BLS; https://www.bls.gov/web/empsit/cespeaktrough.pdf; August and September 2017 are projections.

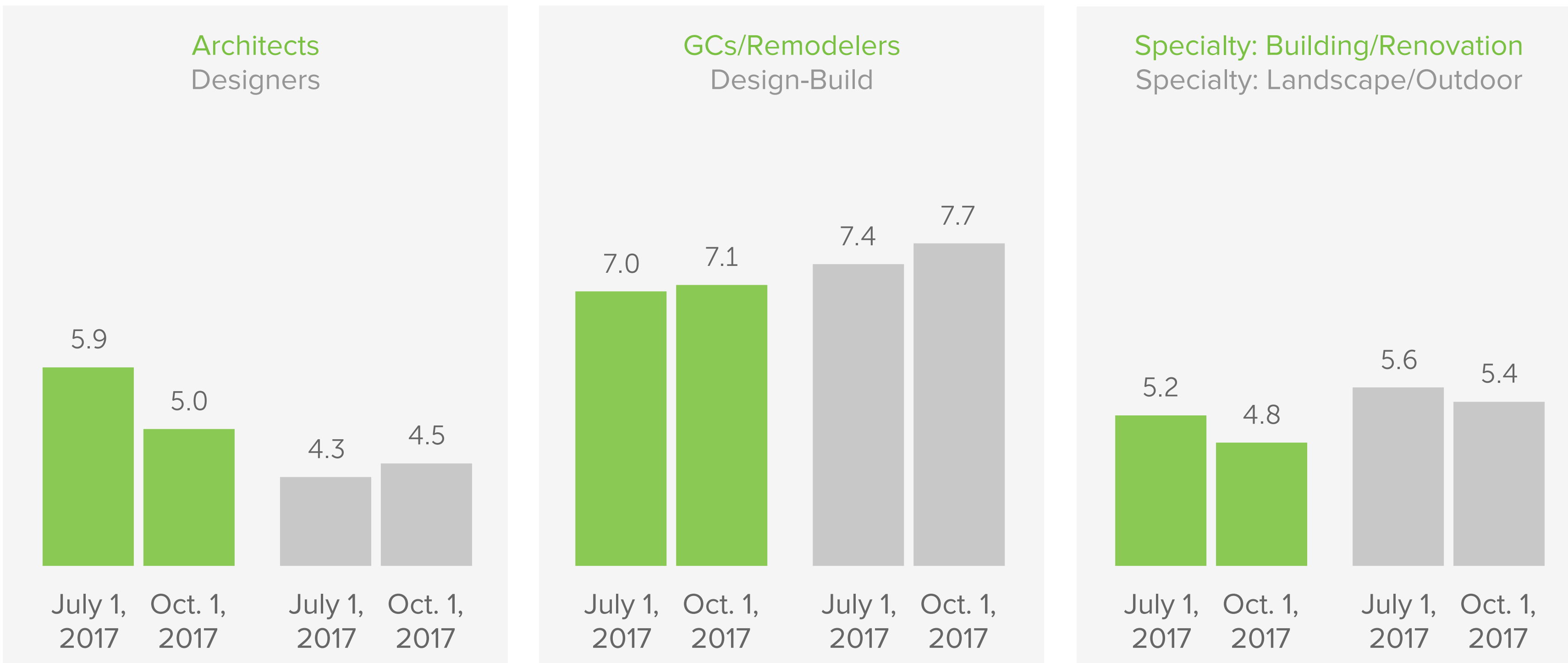
HOUZZ RENOVATION BAROMETER

PROJECT BACKLOG

Remodelers Face Longer Backlogs

At the start of Q4 2017, the Houzz Renovation Barometer Backlog Index shows a project backlog of 4.5 weeks to 7.7 weeks, on average, across all sectors, reflecting the average wait times before a company can start work on a new midsize project.* GCs and remodeling companies, as well as design-build companies, face the longest backlogs and saw slight increases in wait times relative to the start of Q3 2017. The backlog for other sectors decreased or stayed in line with the last quarter.

HOUZZ RENOVATION BAROMETER – AVERAGE PROJECT BACKLOG, IN WEEKS*

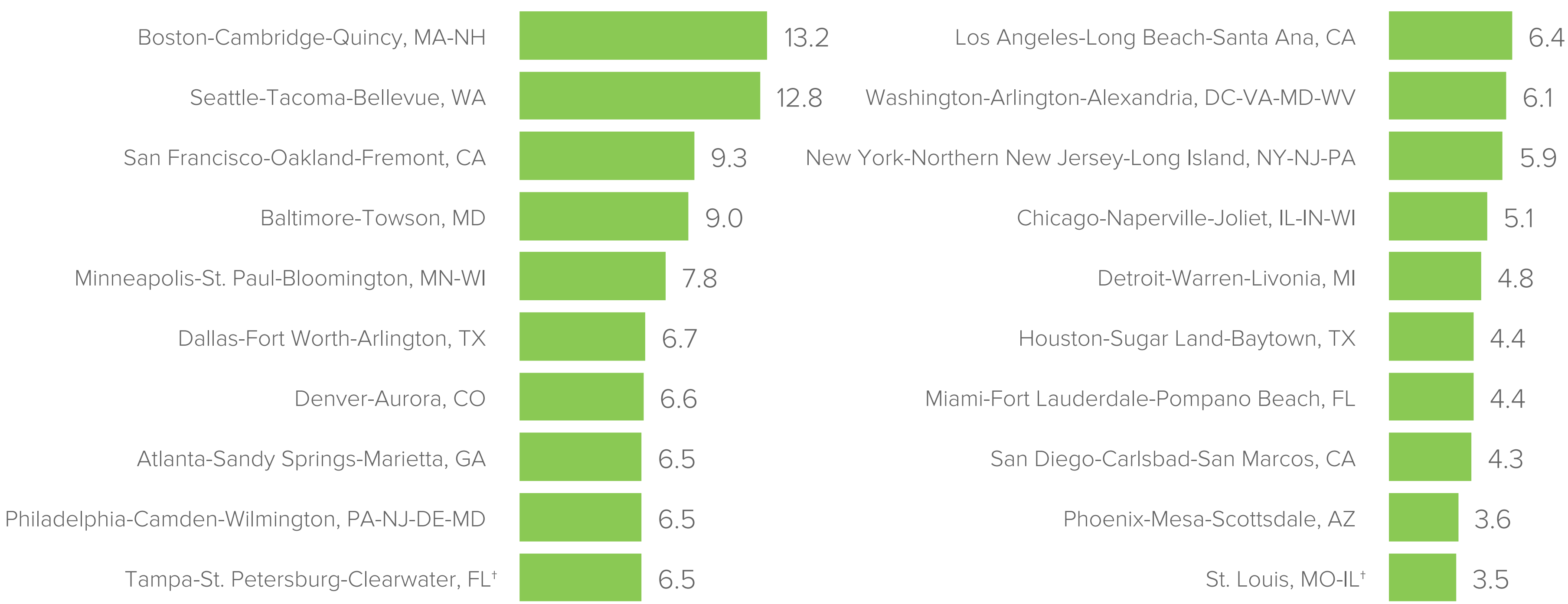


**Project backlog* refers to the number of weeks until a firm can start work on a new midsized project given its current in-progress projects or orders and upcoming confirmed projects or orders.

Regional Drilldown: GCs & Design-Build Companies

Across the four regions of the U.S., Western GCs, remodelers and design-build companies continue to see the longest backlog. (See Appendix D.) However, among the top 20 metro areas and consistent with the previous quarter, the average project backlog in Boston (13.2 weeks) exceeds the wait times in Western metro areas. Notably, the backlog in hurricane-stricken areas increased, from 2.9 weeks to 4.4 weeks in the Houston metro area and from 4.8 to 6.5 weeks in the Tampa metro area.

TOP 20 METRO AREAS* AVERAGE BACKLOG, AS OF OCT. 1, 2017, IN WEEKS** – GCS/REMODELERS/DESIGN-BUILD FIRMS COMBINED



*Top 20 metros exclude Riverside and include Baltimore instead due to sample size limitations.
***Project backlog* refers to the number of weeks until a firm can start work on a new midsized project given its current in-progress projects or orders and upcoming confirmed projects or orders. Interpret metro-level backlog estimates with caution due to small sample sizes (N<50).
†Denotes limited sample size of four to 10 respondents.

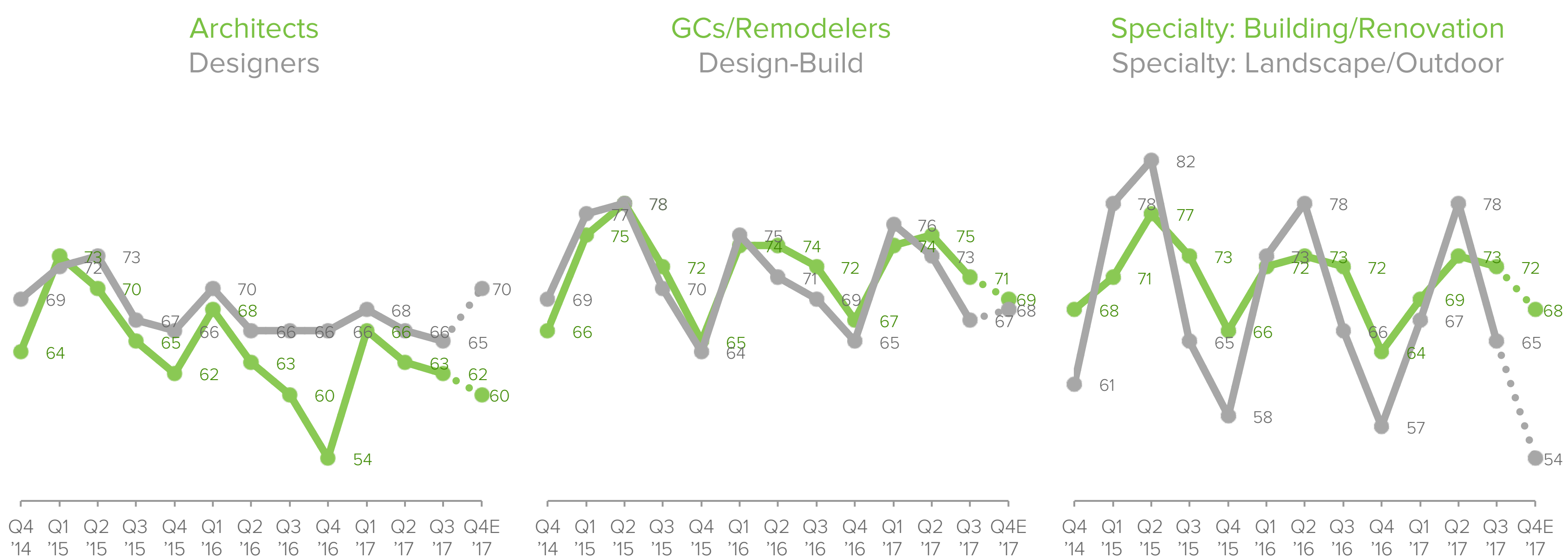
HOUZZ RENOVATION BAROMETER

QUARTER-OVER-QUARTER CONFIDENCE SCORES

Continued Optimism at Onset of Seasonal Slowdown

The Houzz Renovation Barometer posted readings of 62 to 72 in Q3 2017, indicating continued optimism in quarter-over-quarter market gains across all sectors. The onset of the seasonal slowdown is reflected in the 1% to 8% decrease in the scores relative to the previous quarter across all sectors, with the exception of a 17% decrease for specialty landscape/outdoor companies. These seasonal patterns are consistent with the same period last year (e.g., scores decreased 1 to 15% in Q3).

HOUZZ RENOVATION BAROMETER – QUARTER-OVER-QUARTER CONFIDENCE SCORES*



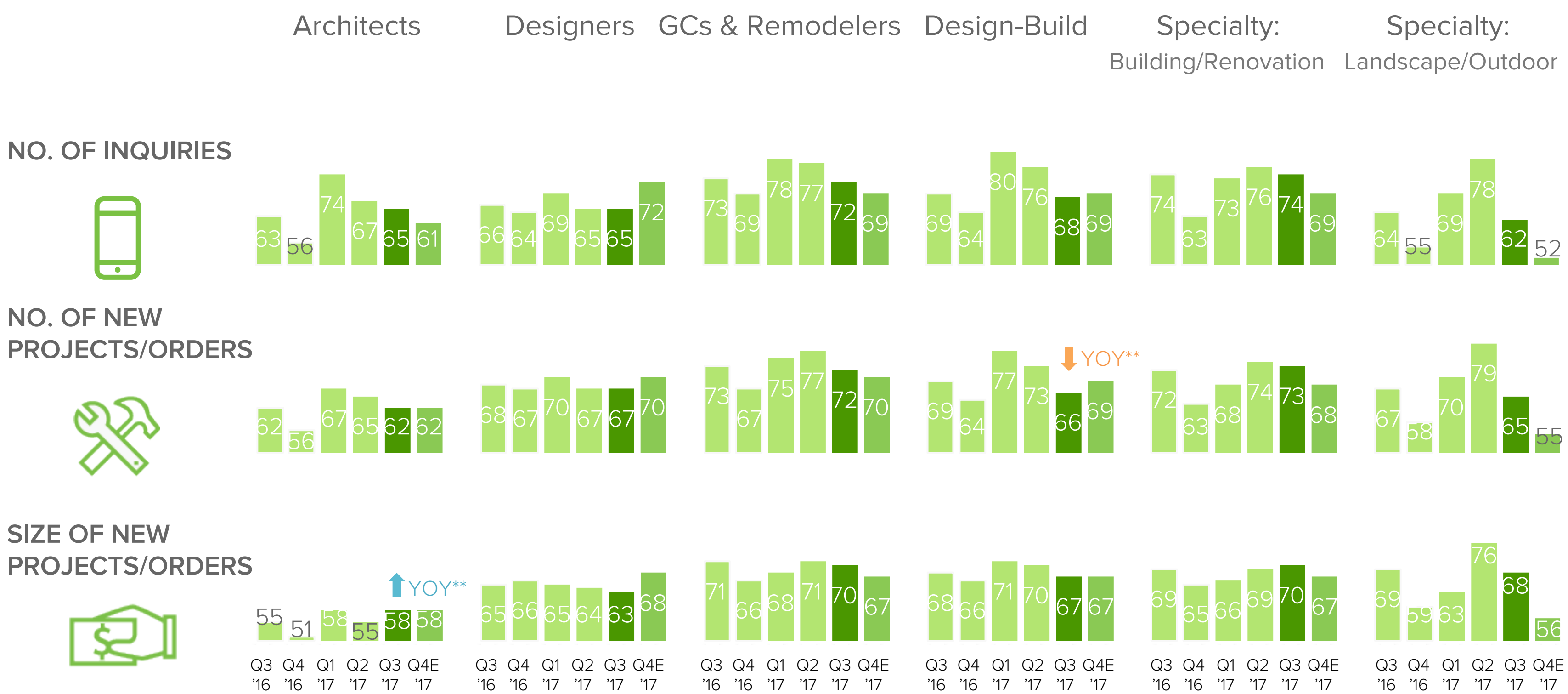
Q4E reflects expectations for the coming quarter.

*A reading over 50 indicates that more firms are reporting business activity is higher than are 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 to those reporting decreases. Business activity is measured as number of inquiries, number of new projects/orders, and size of new projects/orders.

Confidence Bolstered by Continued Influx of New Business

More firms continued to report quarter-over-quarter increases than decreases in number of inquiries and number and size of new projects in Q3 2017, as reflected by Barometer readings exceeding 50 across all industry groups (62 to 74, 62 to 73, and 58 to 70, respectively). Reading for Q3 2017 are in line with readings for Q2 2017 for nearly every segment.

HOUZZ RENOVATION BAROMETER – COMPONENTS OF QUARTER-OVER-QUARTER CONFIDENCE SCORES*



Q4E reflects expectations for the coming quarter.

*See footnote on Page 16 for interpretation of the scores. The Houzz Renovation Barometer is a simple average of the scores of the three components.
**YOY change indicates an increase or decrease of 3 points or more in Q3 2017 relative to Q3 2016.

Year-Over-Year Weakening in the Midwest and South

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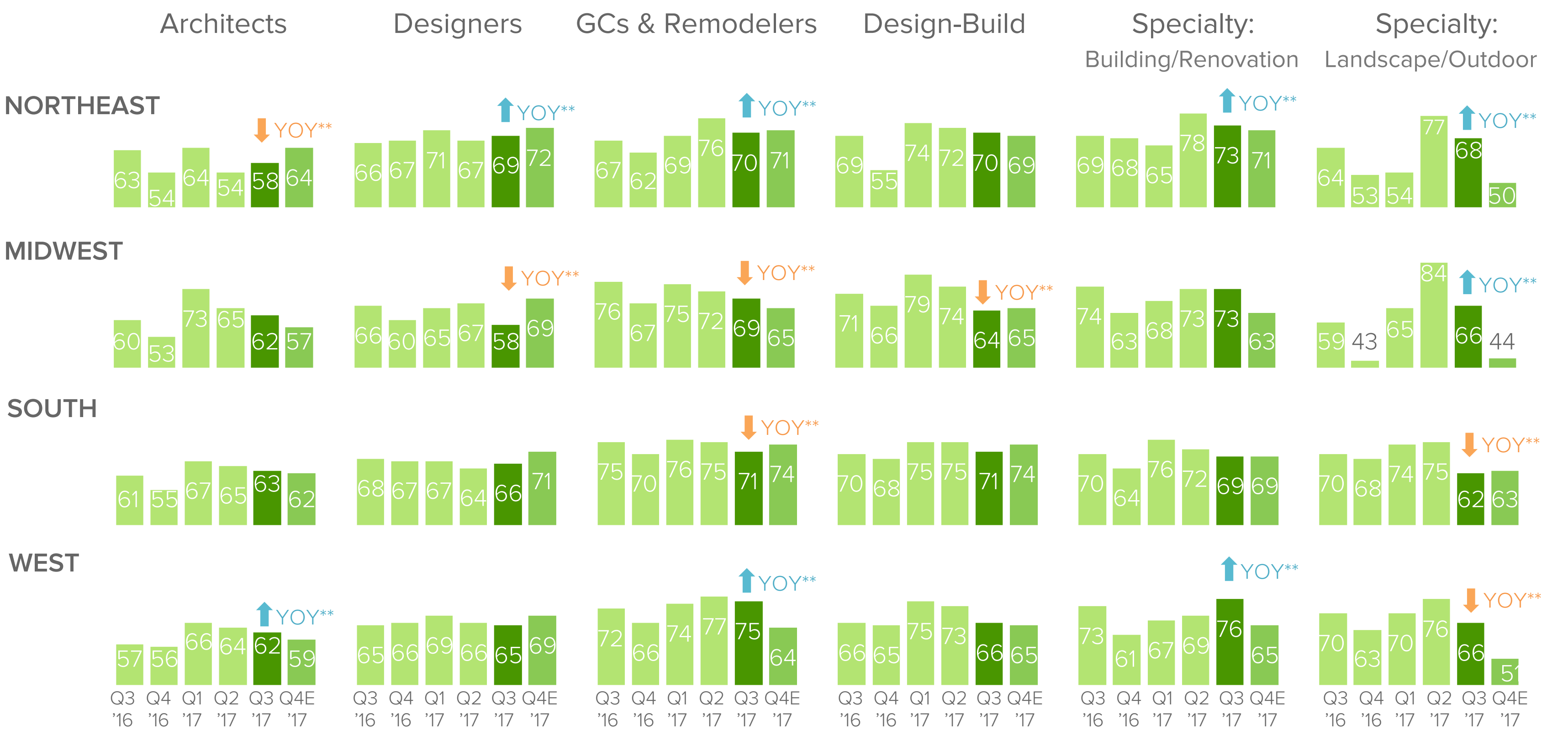
Barometer regional scores exceed 60 for nearly every industry group in Q3 2017. In the Midwest and the South, however, several sectors show signs of weakening year over year, likely in part due to hurricane-related disruptions late in the quarter. In contrast, remodelers and building specialty firms in the Northeast and West report robust year-over-year gains.

HOUZZ RENOVATION BAROMETER – REGIONAL QUARTER-OVER-QUARTER CONFIDENCE SCORES*



Q4E reflects expectations for the coming quarter.

*Click these links to see the Houzz Renovation Barometer by state and by major metro area. See footnote on Page 16 for interpretation of the scores.
**YOY change indicates an increase or decrease of 3 points or more in Q3 2017 relative to Q3 2016.

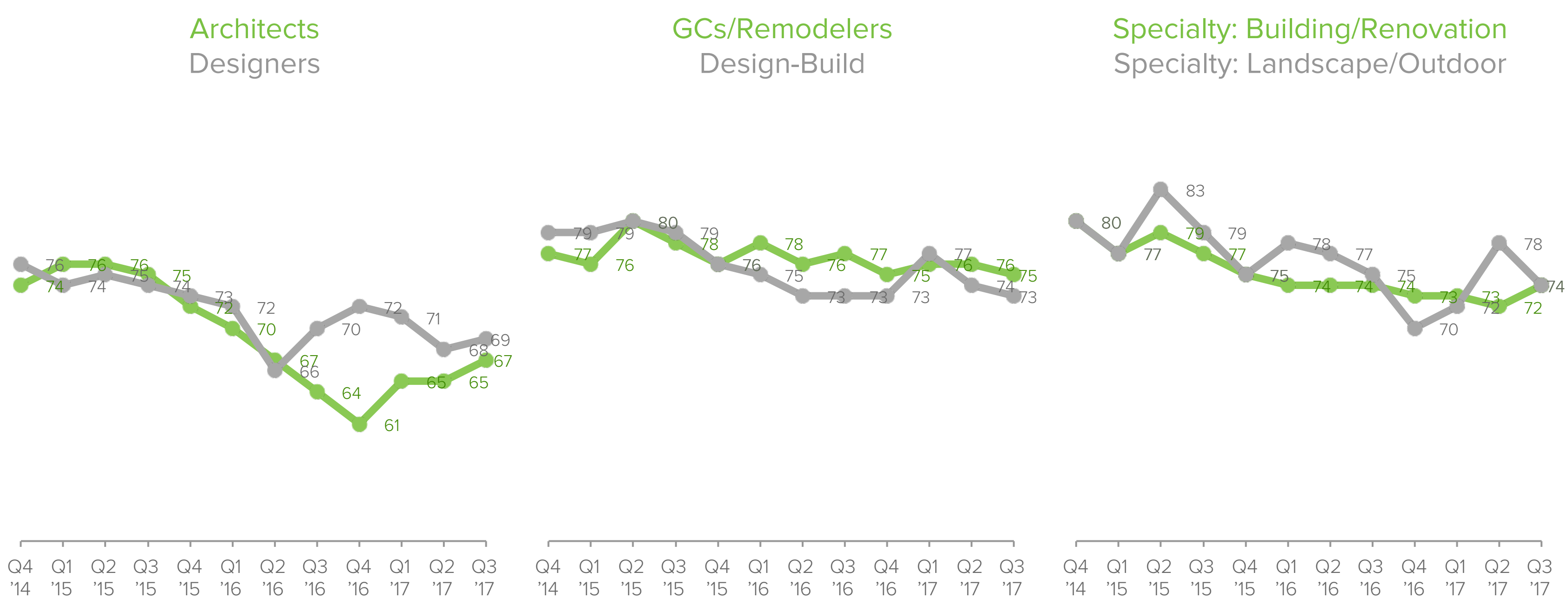
HOUZZ RENOVATION BAROMETER

YEAR-OVER-YEAR CONFIDENCE SCORES

Architect Outlook Continues to Improve Year Over Year

The Barometer posted year-over-year readings of 67 to 75 in the third quarter of 2017, indicating high optimism in continued year-over-year gains in the home renovation market. These scores are in line with Q2 2017 scores (65 to 78). The year-over-year scores for architects increased from 65 in Q2 to 67 in Q3 and are now at the highest level since Q2 2016.

HOUZZ RENOVATION BAROMETER – YEAR-OVER-YEAR CONFIDENCE SCORES*



*A reading over 50 indicates that more firms are reporting business activity is higher than are 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 to those reporting decreases. Business activity is measured as number of inquiries, number of new projects/orders, and size of new projects/orders.

METHODOLOGY

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 specialists. The Houzz Renovation Barometer survey for the current quarter was fielded September 28 to October 12, 2017. N = 2,241 (310 architects, 410 interior and building designers, 525 general contractors/remodelers, 374 design-build firms, 434 building/renovation specialists[1] and 188 landscape/outdoor specialists[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 specialists include replacement contractors (e.g., carpenters) and product installers/manufacturers/resellers (e.g., cabinetry).
[2] Landscape/outdoor specialists include landscape architects, designers, and contractors; outdoor replacement tradespeople (pavers); and outdoor product installers/manufacturers/resellers (e.g., pools and spas).

APPENDICES

Appendix A: Regional Overall Labor Shortages

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

	Q3 2015	Q1 2016	Q3 2016	Q1 2017	Q3 2017
Northeast	70%	72%	71%	69%	73%
Midwest	84%	85%	84%	85%	84%
South	78%	78%	81%	73%	77%
West	82%	76%	81%	78%	79%

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

Appendix B: Regional Labor Shortages by Pro Type

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

Profession	Northeast	Midwest	South	West
Carpenter (finish)	49%	52%	40%	48%
Laborer (general)	36%	40%	35%	44%
Framer	22%	37%	34%	38%
Tiler	24%	30%	19%	30%
Plumber	22%	20%	23%	30%
Electrician	20%	21%	23%	31%
Drywaller	18%	21%	25%	30%
Painter	20%	19%	21%	27%
Mason	20%	23%	23%	19%
Concrete specialist	16%	20%	19%	25%
Roofer	15%	19%	20%	20%
Cabinet specialist	17%	15%	17%	22%
Flooring specialist	14%	15%	14%	19%
Siding specialist	16%	18%	14%	15%
HVAC specialist	16%	10%	14%	16%
Other	2%	2%	4%	7%

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

Appendix C: Effect of Labor Shortages on Own Employees

CHANGES IN OWN EMPLOYEE CHARACTERISTICS DUE TO LABOR SHORTAGES, AS REPORTED BY GCS, REMODELERS, DESIGN-BUILD FIRMS

	Q3 2016	Q3 2017
Employee cost ↑	37%	41%
Employee reliability ↓	12%	13%
Employee skill level ↓	11%	10%

Appendix D: Regional Project Backlog

HOUZZ RENOVATION BAROMETER – REGIONAL AVERAGE PROJECT BACKLOG, IN WEEKS*

	Northeast		Midwest		South		West	
	Jul. 1, 2017	Oct. 1, 2017	Jul. 1, 2017	Oct. 1, 2017	Jul. 1, 2017	Oct. 1, 2017	Jul. 1, 2017	Oct. 1, 2017
Architects	6.0	4.7	4.1	6.0	6.2	3.5	6.5	5.8
Designers	4.2	4.6	3.5	4.0	3.9	4.2	4.9	4.9
GCs/Remodelers	6.4	7.2	6.9	8.0	6.5	5.6	7.9	8.7
Design-Build	7.7	9.7	6.9	7.0	6.5	6.3	8.3	9.1
Specialty: Building/Renovation	6.3	5.5	5.3	5.0	4.9	4.7	5.0	4.3
Specialty: Landscape/Outdoor	5.8	5.6	5.9	6.5	4.7	4.0	6.3	6.5

**Project backlog* refers to the number of weeks until a firm can start work on a new midsized project given its current in-progress projects or orders and upcoming confirmed projects or orders.

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		