



RESEARCH UPDATE

Joint Center for Housing Studies

Winter 2010

REMODELING FUTURES PROGRAM

Graduate School of Design

Harvard University

Harvard Kennedy School

LARGE REMODELERS FARING CONSIDERABLY BETTER THAN MID-SIZE FIRMS DURING DOWNTURN

Even among larger remodeling firms size is a strong predictor of performance in both good times and bad. The largest remodelers tend to outperform their mid-size counterparts during market upturns but really differentiate themselves with significantly better performance during downturns. Previous research by the Remodeling Futures Program on the size and structure of contractors serving the remodeling industry found that in the years before the market turned down contractors were increasingly pursuing greater specialization and benefits of scale, even though the industry overall remains highly fragmented with many small and volatile firms. Size was also found to be especially important for surviving difficult times, in that the failure rates for small remodelers

with declining revenue was about ten times greater than for large remodelers experiencing similar declines.

Using five years of data from Qualified Remodeler (QR) magazine's annual Top 500 Remodelers list, we can analyze how size and specialization has impacted the performance of large remodeling firms heading into the current downturn. A breakdown of the change in year-to-year revenues by the size of the remodeling firm shows that size is an important factor for performance, particularly when faced with a deteriorating market. Remodeling firms with annual receipts greater than \$3.5 million had strong gains in the years prior to the downturn, with increasing size resulting in slightly better and more consistent gains. For

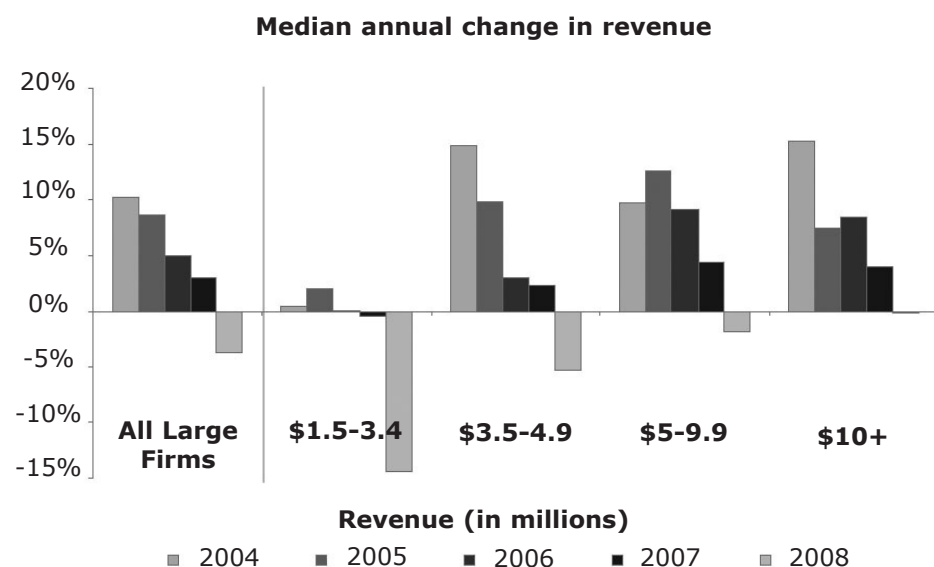
successfully navigating a downturn, however, size seems to make a much greater difference.

From the QR data it is clear that the larger the remodeling firm, the better prepared it is for severe downturns in the market. The smallest of the large remodelers, those taking in \$1.5-3.4 million a year, had a median rate of change in revenue of -14.5 percent in 2008 compared to only -0.2 percent for the largest firms earning \$10 million or more. Size only partially explains why larger firms appear to be much better equipped to handle the volatility of the industry; another important consideration is specialization.

Certainly, performance during the downturn differs greatly by specialization. As homeowners cut back on major discretionary projects, design/build and full-service firms saw sharp declines in 2008, while exterior replacement firms saw only a modest drop in revenue. Part of the reason why the largest remodelers are outperforming during the downturn is because these firms include fewer design/build and full-service remodelers. Furthermore, nearly half of those firms with the largest revenues are replacement firms compared to only a third of remodeling firms with smaller revenues.

Continued analysis of large remodeling firms, as well as new information from the soon-to-be-released 2007 Economic Census of the Construction Industries will soon provide an updated look at the ever changing structure of the remodeling industry.

UNDERPERFORMANCE DURING BOOM POORLY POSITIONED MID-SIZE REMODELERS FOR THE DOWNTURN



Note: Analysis includes firms reporting revenue in any two consecutive years and ranking in the top 400 in at least one of those years.

Source: JCHS tabulations of Qualified Remodeler magazine's annual Top 500 Remodelers list.

**JOINT CENTER ESTIMATES "CASH FOR CAULKERS" COULD GENERATE
NEARLY \$3 BILLION A YEAR IN HOME ENERGY RETROFITS**

A proposed "Cash for Caulkers" program, reminiscent of "Cash for Clunkers," would offer rebates for energy retrofits on existing homes. According to a proposal from the President Obama's Economic Recovery Advisory Board (December 4, 2009), the program, officially dubbed HOME STAR, would have two tracks. The SILVER STAR track would provide incentives up to \$4,000 for the purchase and installation of eligible energy efficiency products, while through GOLD STAR, projects both assessed and audited to result in a 20 percent reduction would up be eligible for up to \$3,500. Although the government would compensate no more than 50 percent of any project, it would design incentives for big box retailers and offer low-cost consumer financing programs.

Unlike the current Residential Energy Tax Credits established in the federal stimulus plan of 2009 (ARRA), HOME STAR's reimbursements would be realized sooner and for projects also eligible for the Energy Efficiency Tax Credit up to \$1,500, be larger. In contrast, eligible renewable energy systems under ARRA get a 30 percent tax credit with no upper limit except for fuel cells.

Minnesota's Project ReEnergize, which is particularly comparable to HOME STAR, has seen great success since it began October 1, 2009 with \$2.5 million in ARRA funds for energy retrofits. It offers maximum rebates of \$4,750 on eligible projects and homes. According to Minnesota's Department of Commerce, by the beginning of 2010 \$982,650 in

rebates had been issued to 491 households, with pending rebates exceeding their funding. If HOME STAR garners a national response

similar to that of Project ReEnergize and is of similar design, then we could expect about 270,000 homes--0.5 percent of the approximately 56 million eligible--to participate within the first year, with total spending reaching \$2.8 billion and total rebates around \$540 million.

In his State of the Union address on January 27, President Obama mentioned his plan for an energy retrofiting program; hopefully we will hear more details about HOME STAR in the near future.

For a copy of a memo detailing the assumptions used for these estimates of a proposed "Cash for Caulkers" program, please contact Electra Hui at electra_hui@harvard.edu.



PROGRAM UPDATE

By the second half of this year we will be deep into working on our next bi-annual remodeling report. For better or worse, remodeling has been a very dynamic industry in recent years, so we have a lot of material to draw on. We currently have several projects underway looking at how the remodeling industry has evolved over the past decade, and how this in turn has shaped our housing stock. One effort is looking at the types of households that contributed to the run-up in remodeling spending during the industry boom years. Another is looking at the dynamics of housing turnover and remodeling spending as baby boomers begin to make housing choices for their retirement years. A third is looking more broadly at the role remodeling has played in the evolution of the housing stock over the past decade. Also, the impending release of the 2007 Economic Census of the Construction Industries will trigger an update of the size and composition of the remodeling contracting industry. Our last analysis estimated that there were over 500,000 businesses serving this industry, but the boom years in the middle of the decade and the more recent downturn no doubt dramatically altered the composition of these contractor establishments. A key part of this update is looking at businesses without payrolls, since these businesses traditionally have accounted for such a large share of firms doing remodeling work. Finally, revisiting our analysis on industry failure rates will give us some sense of how firms likely fared during this recession.

Kermit Baker

**UPCOMING REMODELING
FUTURES CONFERENCES**

**Tuesday, April 13, 2010
Tuesday, November 9, 2010**

2011 Dates TBA

All conference are held at:

**Taubman Center
Harvard Kennedy School
Cambridge, Massachusetts
9:00 AM - 4:00 PM**

2009/2010 STEERING COMMITTEE MEMBERS

NEW COMMITTEE MEMBERS

Following an extended member recruitment effort supported by current Steering Committee members, we are pleased to announce that three additional companies have joined the Remodeling Futures Program. We look forward to working closely with these new members during the 2009-2010 phase of the Program:

AARP is a national non-profit membership organization devoted to promoting positive social change and improving the quality of life of persons over 50. With 40 million members and offices in all 50 states, AARP is the nation's largest membership organization for people 50 and over. Elinor Ginzler, Senior Vice President, Livable Communities Strategy and Amy Levner, Manager, Housing and Mobility Options will serve as representatives.

Rebuilding Together, headquartered in Washington, DC, is a national non-profit specializing in home rehabilitation and the preservation of affordable homeownership. With a network of 200 plus affiliates, Rebuilding Together is able to provide free rehabilitation and repairs for low-income homeowners, predominantly the elderly and disabled. John J. White, Vice President Business Development and Advocacy will serve as our Steering Committee representative.

TW Perry is a building material supplier serving the mid-Atlantic region including the Washington, DC and Baltimore areas. TW Perry supplies lumber, building materials, doors and windows, hardware, decking, railing products, paint, power tools, and a wide selection of millwork products. President and Chief Operating Officer, Michael Cassidy will represent the company on the Steering Committee.

We are delighted to welcome these new member companies to the Remodeling Futures Program.

New member suggestions? Please contact angela_flynn@harvard.edu.

AARP

Elinor Ginzler, Amy Levner
American Exteriors, LLC
 Larry Meadows, Ed Rand
Andersen Corporation
 Dennis Neumann
Armstrong World Industries
 Stacey Robertson
Builders FirstSource
 David Snyder
Building Supply Channel, Inc.
 Greg Brooks
Case Design/Remodeling, Inc.
 Fred Case, Bruce Case, Mark Richardson
CertainTeed Corporation
 Rosemary Hayn
CertaPro Group
 Charlie Chase
Cygnus Business Media
 Tim Campbell, Patrick O'Toole
DuPont Building Innovations
 Christine Coffin, Maureen McGeehan
Fannie Mae
 Raymond Leech
Fortune Brands Home & Hardware
 Jerry Oleshansky, Jack Suvak
Freddie Mac
 Craig Nickerson
GE Money
 Bruce Christensen, Jeff Shawd
Green Builder Media
 Sara Gutterman, Ron Jones
Hanley Wood, LLC
 Sal Alfano, Rick Strachan
Harvey Building Products
 Thomas Bigony, Matt Samson
Hearth, Patio & Barbecue Association
 Jack Goldman, Don Johnson
Henkel
 Michael Bozich, Thomas Rapps
The Home Depot
 John Gordon
Home Improvement Research Institute
 Fred Miller
Hometech Information Systems, Inc.
 Walter W. Stoeppelwerth, Fred Ugast
James Hardie Industries NV
 Paul Gentzel
Johns Manville Corporation
 Brian Albert
Kohler Co.
 Manuel Gutierrez
LeafGuard by Beldon Inc.
 Chris C. Edelen
Lowe's Home Improvement Corporation
 Walter Kuhn, Richard Maltsbarger
Masco Corporation
 Robert Czechowicz

McGraw-Hill Construction

Anita Gryan, Burleigh Morton
National Association of Home Builders
 Therese Ford Crahan, Paul Emrath
National Association of Realtors
 Paul Bishop
National Association of the Remodeling Industry
 Mary Busey Harris
National Gypsum
 Minty Meade
Oldcastle Building Products, Inc.
 John Kemp
Owens Construction
 Bill Owens
Owens Corning
 Joe Ochoa
Pella Corporation
 Jarred Roy, Dan Tauke
Ply Gem Industries, Inc.
 Jerry Blais, Ruben Robles
Pro-Build Holdings, Inc.
 Lisa Peterson, George Finkenstaedt
Rebuilding Together
 John J. White
Reed Business Information
 Dean Horowitz
Robert Bowden, Inc.
 Steve Cole, Nick Massengill
ServiceMagic
 Tyson Kasperbauer, Kirstin Marr
The Sherwin-Williams Company
 John G. Morikis, Mark Sposito
Specpan/The Farnsworth Group
 Leah Ballou, Grant Farnsworth
Steves & Sons, Inc.
 Edward Galt Steves, Sam Bell Steves, II
Stock Building Supply
 David Corna
Temple-Inland, Inc.
 Richard Kenley, George Rose
TW Perry
 Michael Cassidy
U.S. Census Bureau
 Tamara Cole, G. Daniel Sansbury, Tom Zabelsky
U.S. Department of Housing and Urban Development
 Carolyn Lynch, Dav Vandenbrouke
U.S. Home Systems, Inc.
 Murray Gross
USG Corporation
 Sylvia Kellogg
Wells Fargo Financial Retail Services, Inc.
 J.D. Feilmeier, Terry Fuller
Weyerhaeuser
 Jim Krausneck

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