NATIONAL ASSOCIATION OF THE REMODELING INDUSTRY

March 2015

Remodeling Business Pulse

Tracking Remodeling Conditions & Outlook

Conducted by: Consumer Specialists Marketing Consulting

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Research Objectives & Strategies

Objectives

- Gain a quarterly measure of the current health of the industry and outlook for the near term
- Provide insight on specific business issues
- Use in lobbying efforts and to inform NARI members

Strategies

- Get high levels of survey participation by making survey:
  - Quick to complete
  - Require no upfront time to gather data
  - Use one scale as much as possible to make responding easier
  - Allow respondents to express both the direction they think things are heading and the strength of that change
- Add questions focused on a selected business issue

Questionnaire Outline

- Overall rating of current conditions
- Breakout of current conditions on inquires, requests for bids, conversion to jobs, sales value of jobs sold
- Outlook for conditions three months from now
- Reasons for favorable or unfavorable outlook
- Comments on the future
- Questions about incorporation of Universal Design

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Methodology

- Survey online ran March 16-25, 2015
- Emailed initial invitation and three reminders to 597 members who were in the NARI Research Panel
- 195 completed interviews
- 32.7% completion
- Median time to complete 3.0 minutes
- Questions on Universal Design added 1.0 minutes (included in the total)
- Unless otherwise noted, the base size for each result is 195
- Rating scales used are almost always 1 to 9 with 1 being the most negative and 9 the most positive. 5 was labeled as neutral for almost all of these questions.
- Where statistical significance is referenced, it is at the 90% confidence level. When "directional" is mentioned, that means that the difference is not statistically significant.

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Executive Summary

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1st Quarter 2015

Ratings for current conditions continue to be solidly positive, reflecting improvements versus the same time last year. But there was a directional easing in the rating going from 6.31 in December to 6.11 in March.

- The sub-components of current conditions all remain solidly positive. Half of the ratings went up from last quarter's study and half declined. None of the changes were statistically significant. Here are the ratings and the change versus December's study:
  - Number of inquiries was at 6.13, up 0.3%.
  - Requests for bids came in at 6.22, up 3.0%.
  - Conversion of bids to jobs was 5.76, a 1.4% decline.
  - Value of jobs sold fell by 2.5% to 6.14.
- Conversion of bids to jobs was the weakest measure. This area has long been the weakest and this quarter's reading was the second in a row to decline after two prior periods of improvement.
- The sales value of jobs experienced a directional decline, the second quarter in a row for declines. This is somewhat a reversal from the longer term trends we had been seeing.
- Strength of sales in 3 months at 6.46 was just slightly below the peak recorded in March of last year. (Comparisons for this measure are now made against the study's results for same period in the prior year, see pages 19 & 20 for more details.)
- Looking at expected conditions 3 months from now finds a dominant proportion (74%) of remodelers expecting growth while only 8% see any level of decline. The balance (17%), see sales being about where they were last year.
- Growth is being driven by several factors.
  - People needing to do projects that had been postponed remained #1 and was selected by 72% just slightly ahead of the 70% in December.
  - While falling from 63% in December to 53% in the current study, 'more certainty about the future' stayed in the number two driver position.
  - Moving into the third driver position was 'home prices improving' at 50%.
  - 'Home prices improving' moved up in rank order because 'economic growth' fell from 62% to 47% and into fourth place in the current study.

Universal Design

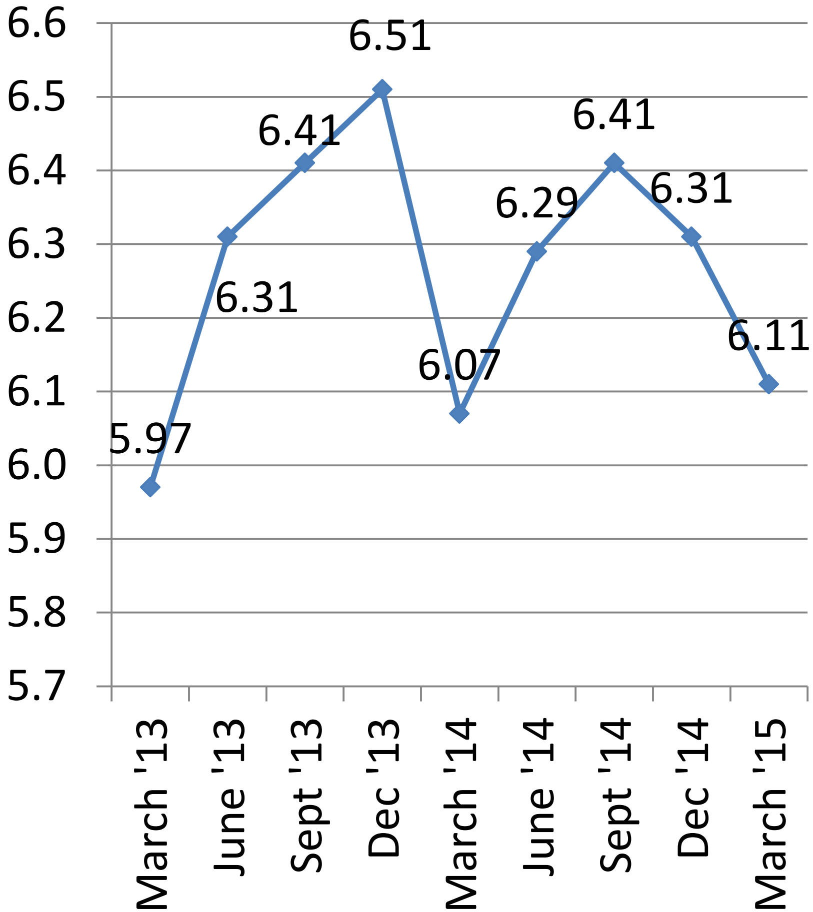
- The vast majority (87%) of NARI remodelers regularly do kitchen and/or bath remodeling and were qualified for questions on use of Universal Design in these areas of the home.
- Over 1/3 (37%) report incorporating Universal Design elements ‘Frequently’ or ‘Almost Always’. Only 9% said ‘Hardly Ever’. A majority (54%)of remodelers fell in to the middle ground of ‘Occasionally’ or ‘Sometimes’.
- Safety and convenience are the most common Universal Design elements incorporated in projects.
  - Grab bars lead the way with 88%
  - Lever handle faucets were second at 78%
  - Wider doors was third at 75%
  - Curbless showers was fourth at 74%.
- The outlook for Universal Design over the next two years is very positive.
  - 70% see growth compared to only 4% seeing any level of declines
  - Just slightly over 1 in 4 (26%) project interest to be about the same.
  - The mean rating was 6.24 on the 1-9 scale.

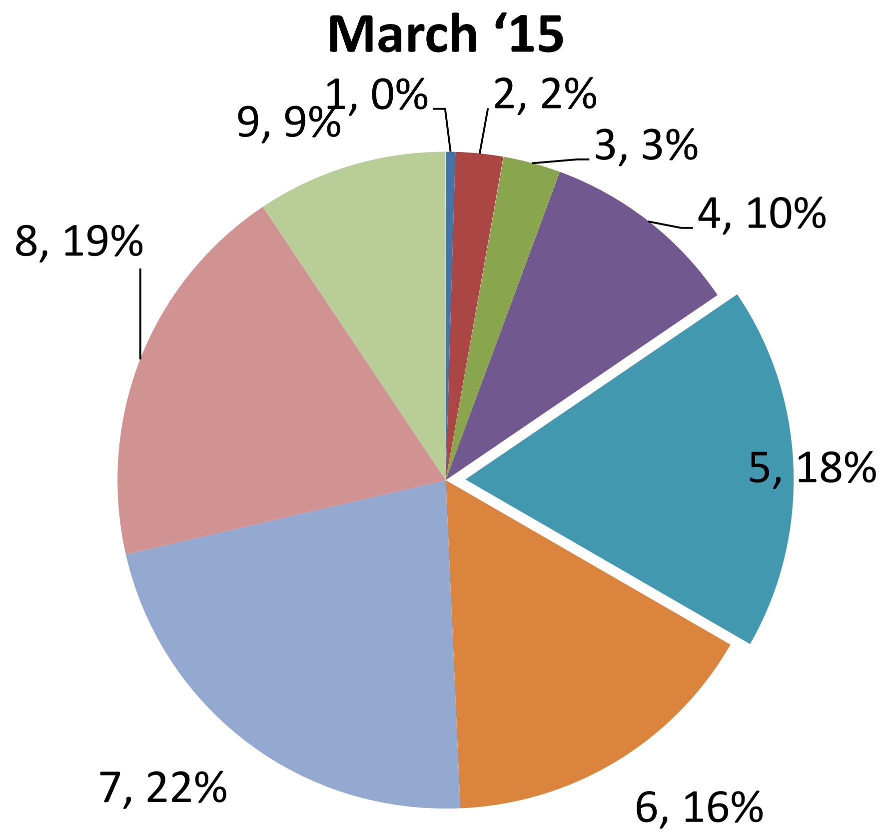
Detailed Findings
Remodeling Business Pulse

Current Conditions

Rating of current business had a drop from December that was not statistically significant.

How would you rate your current sales compared to the same time last year?



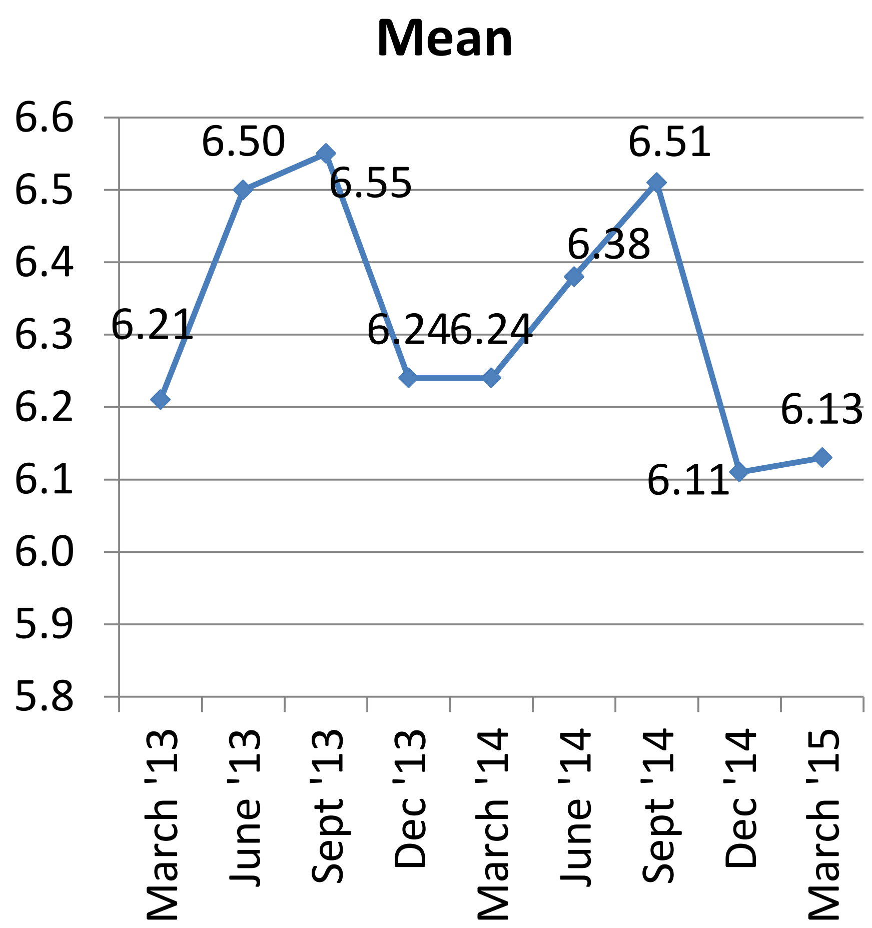


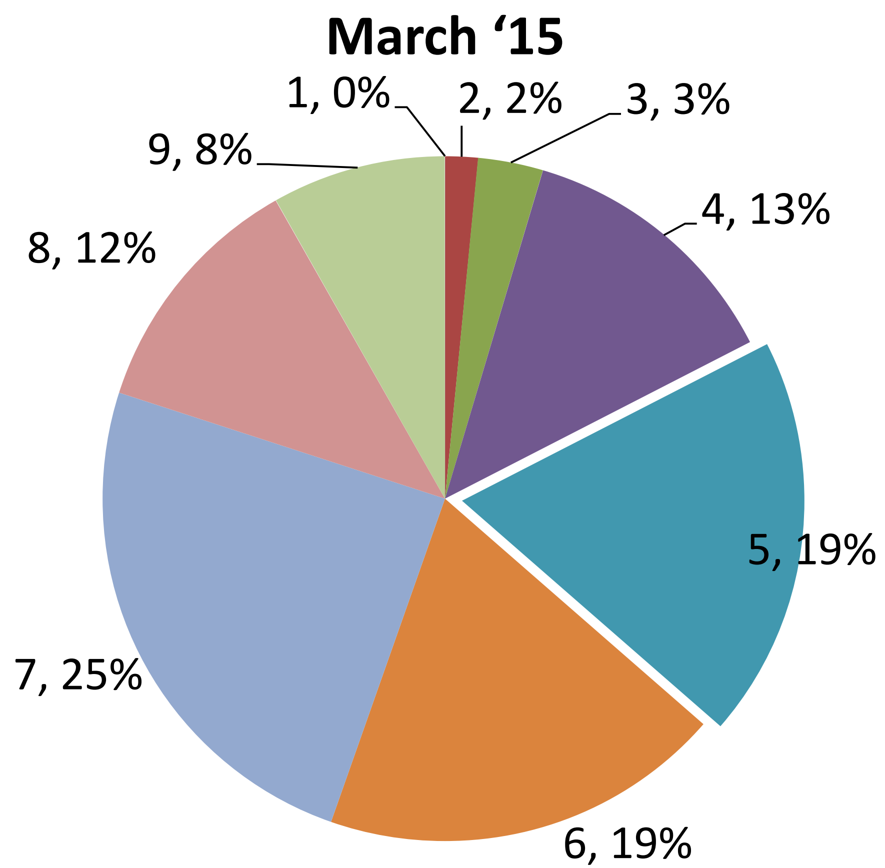
% by individual rating 1 to 9

Ratings are from 1 to 9 where 1 = Much Worse, 5 = About the Same, 9 = Much Better

Number of inquires: A very slight improvement from December's low levels.

Compared to the same time last year how would you rate the following items that impact sales?
<u>Number of Inquires</u>



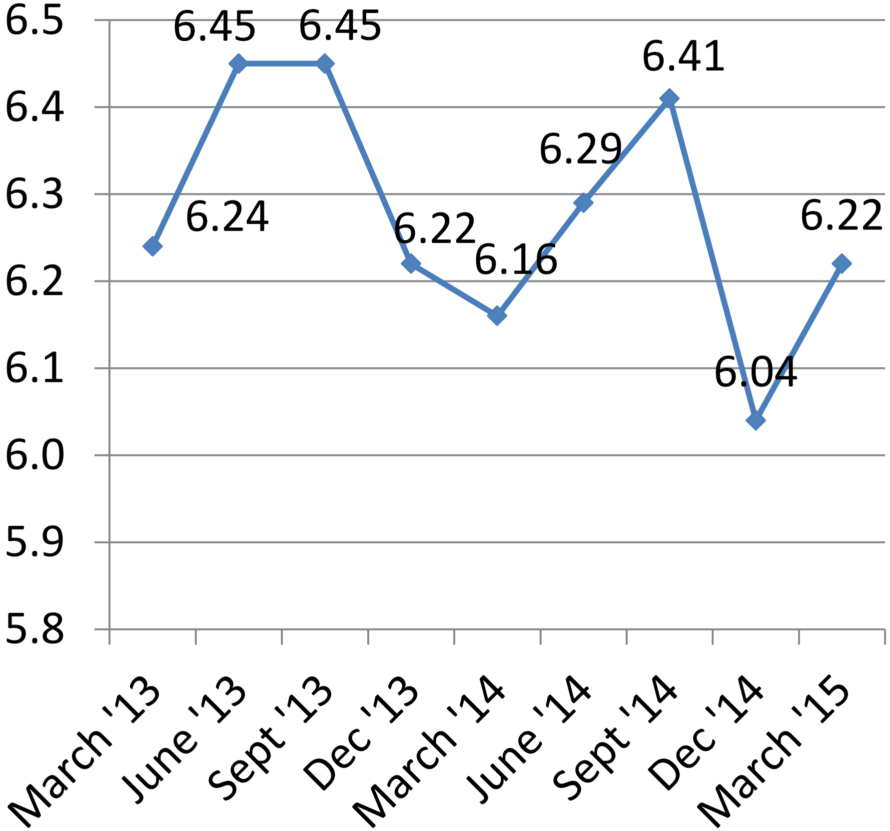


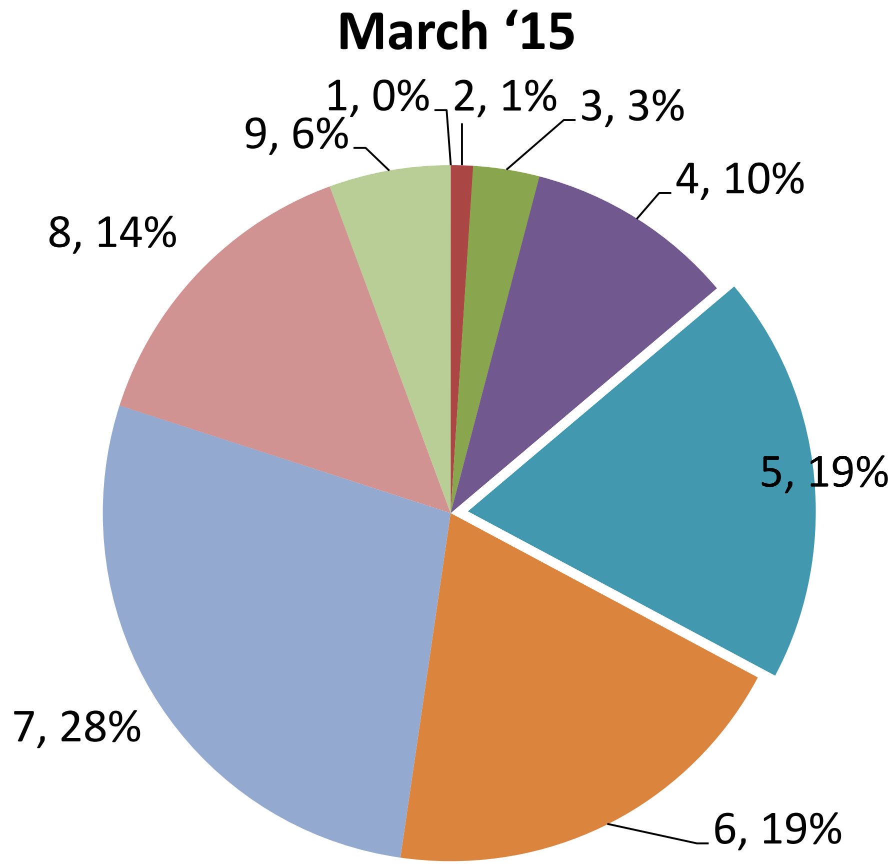
% by individual rating 1 to 9

Ratings are from 1 to 9 where 1 = Much Worse, 5 = About the Same, 9 = Much Better

Requests for bids: After a significant drop in December, this rating made a strong directional improvement.

Compared to the same time last year how would you rate the following items that impact sales?
Requests for Bids



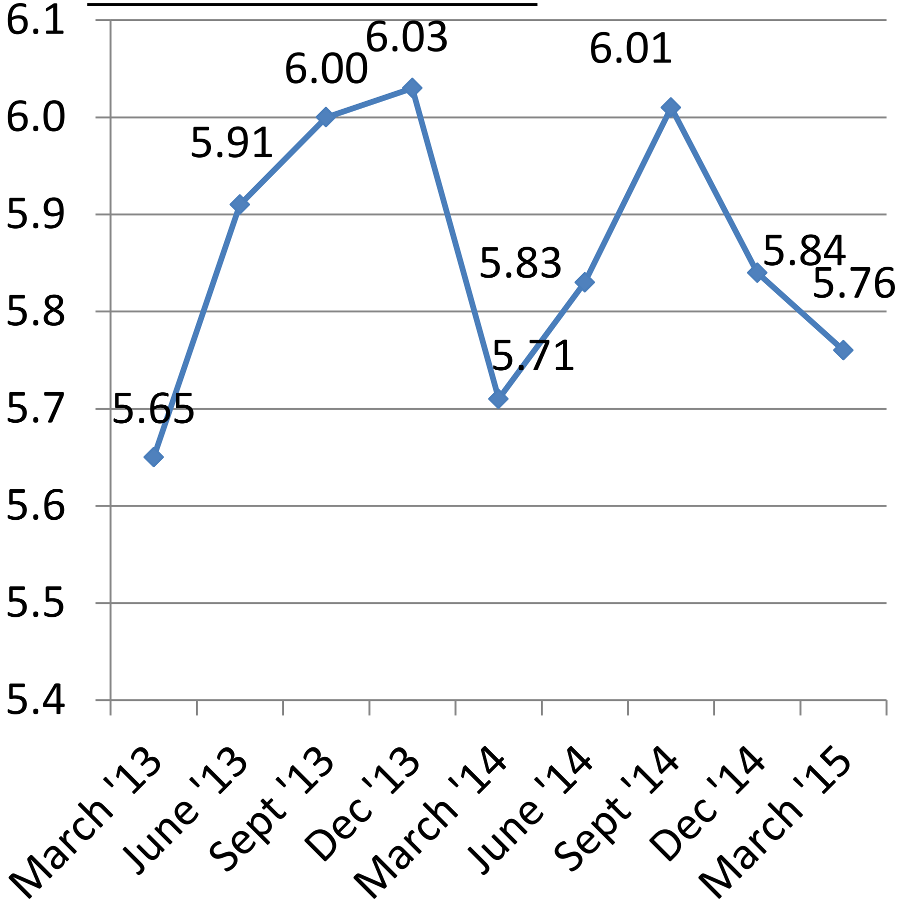


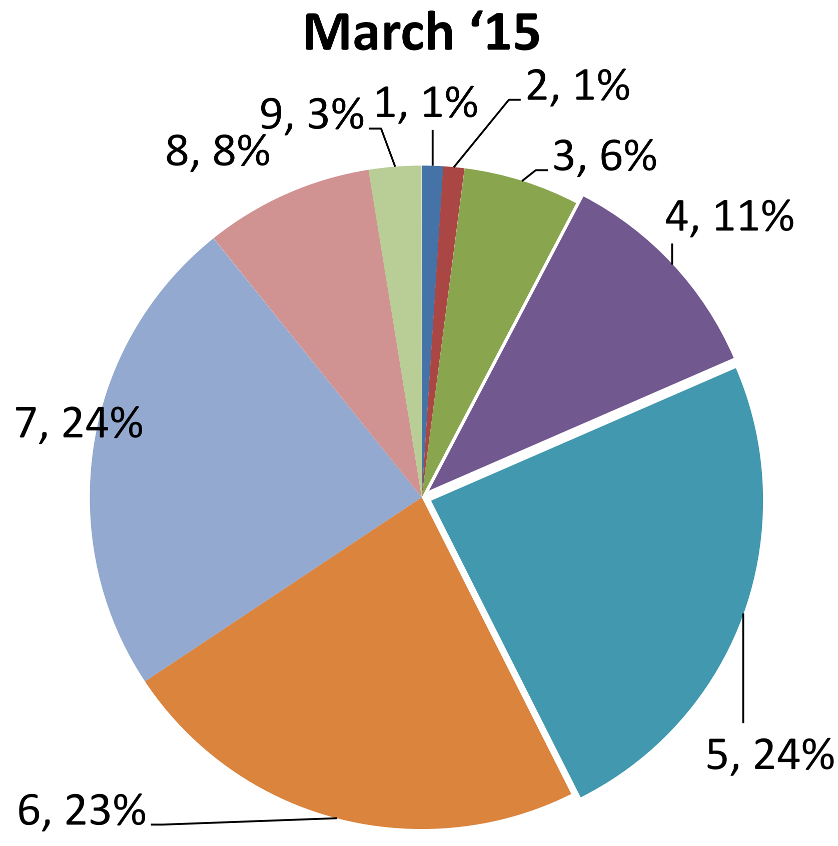
% by individual rating 1 to 9

Ratings are from 1 to 9 where 1 = Much Worse, 5 = About the Same, 9 = Much Better

Conversion of bids to jobs: A second month of directional decreases after strong increases in the previous two quarters.

Compared to the same time last year how would you rate the following items that impact sales?



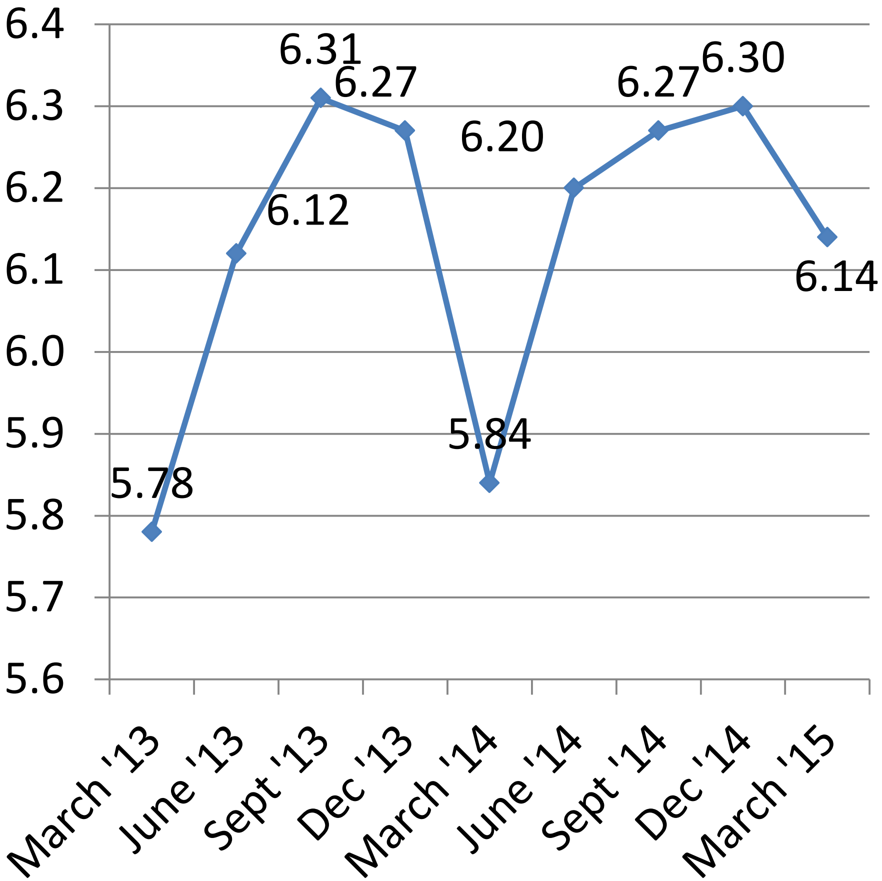


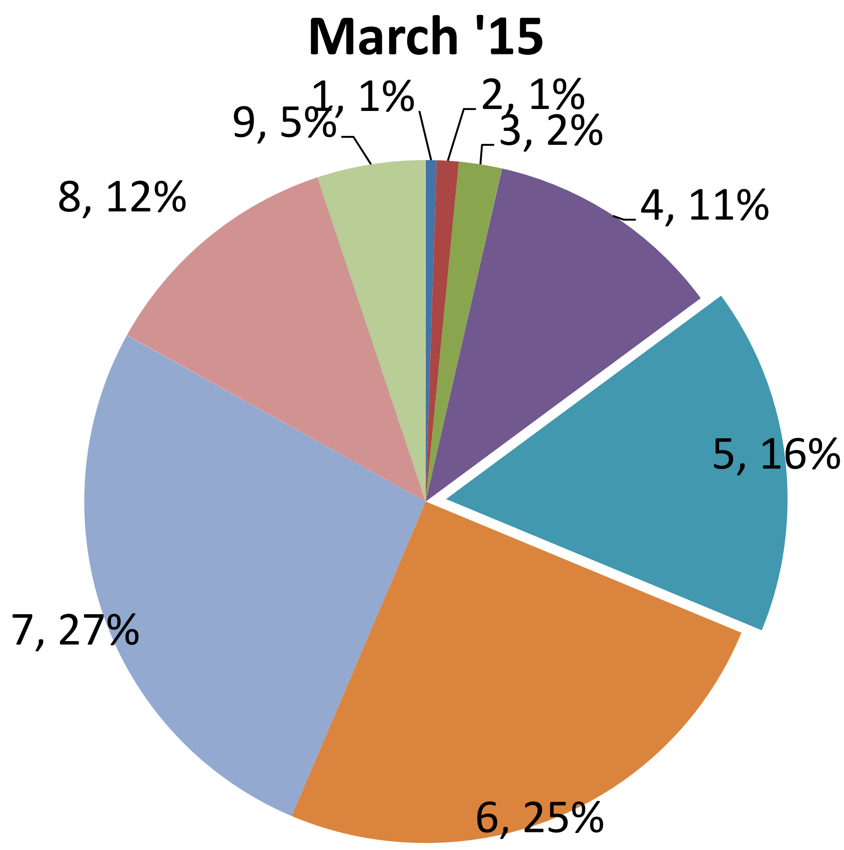
% by individual rating 1 to 9

Ratings are from 1 to 9 where 1 = Much Worse, 5 = About the Same, 9 = Much Better

Sales value of jobs sold: After 3 quarters of growth, March showed a decline that was directional.

Compared to the same time last year how would you rate the following items that impact sales?
Sales value of jobs sold

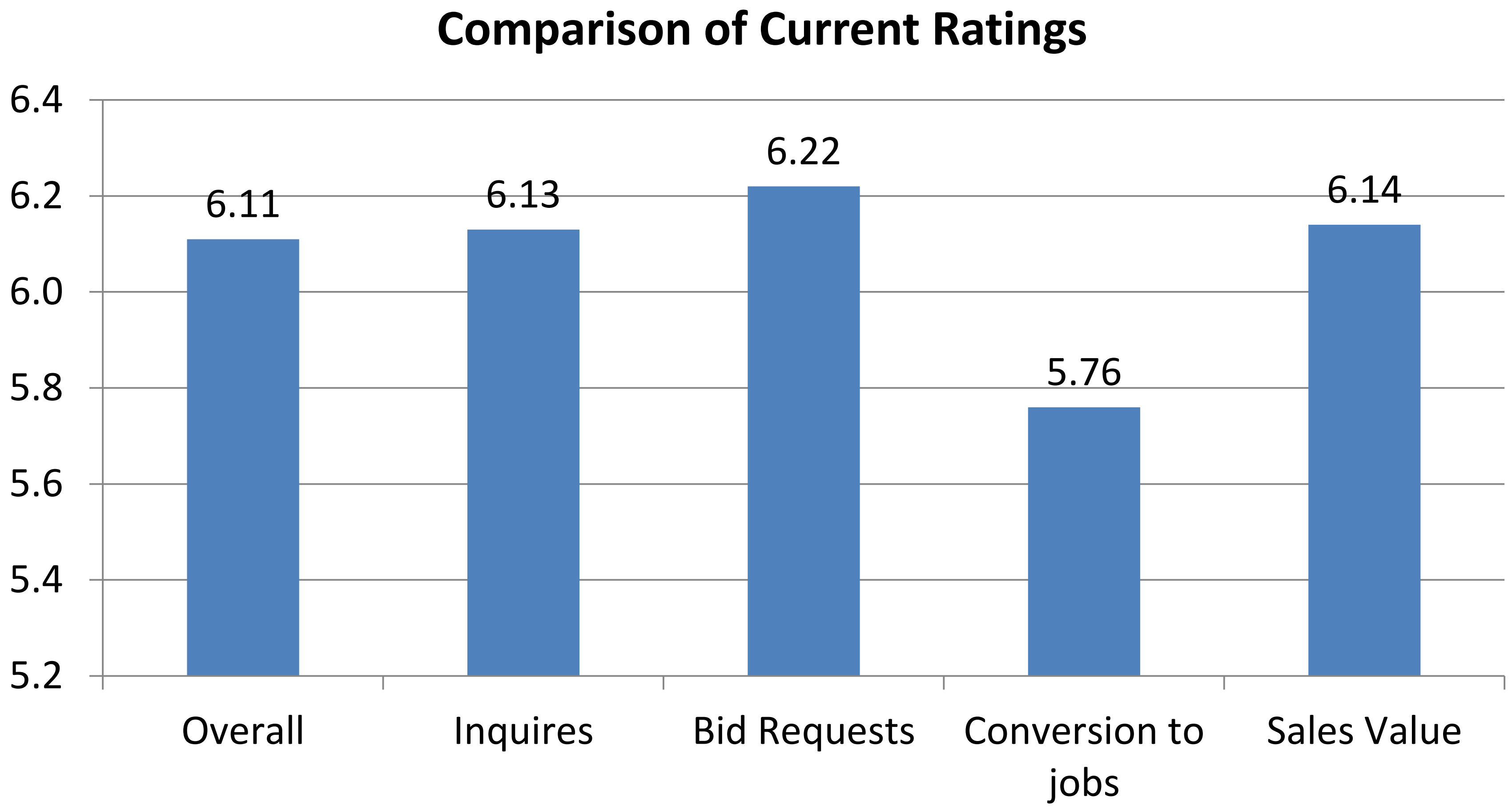




% by individual rating 1 to 9

Ratings are from 1 to 9 where 1 = Much Worse, 5 = About the Same, 9 = Much Better

‘Conversion to Jobs’ lags all of the other measures. ‘Bid Requests’ now strongest.



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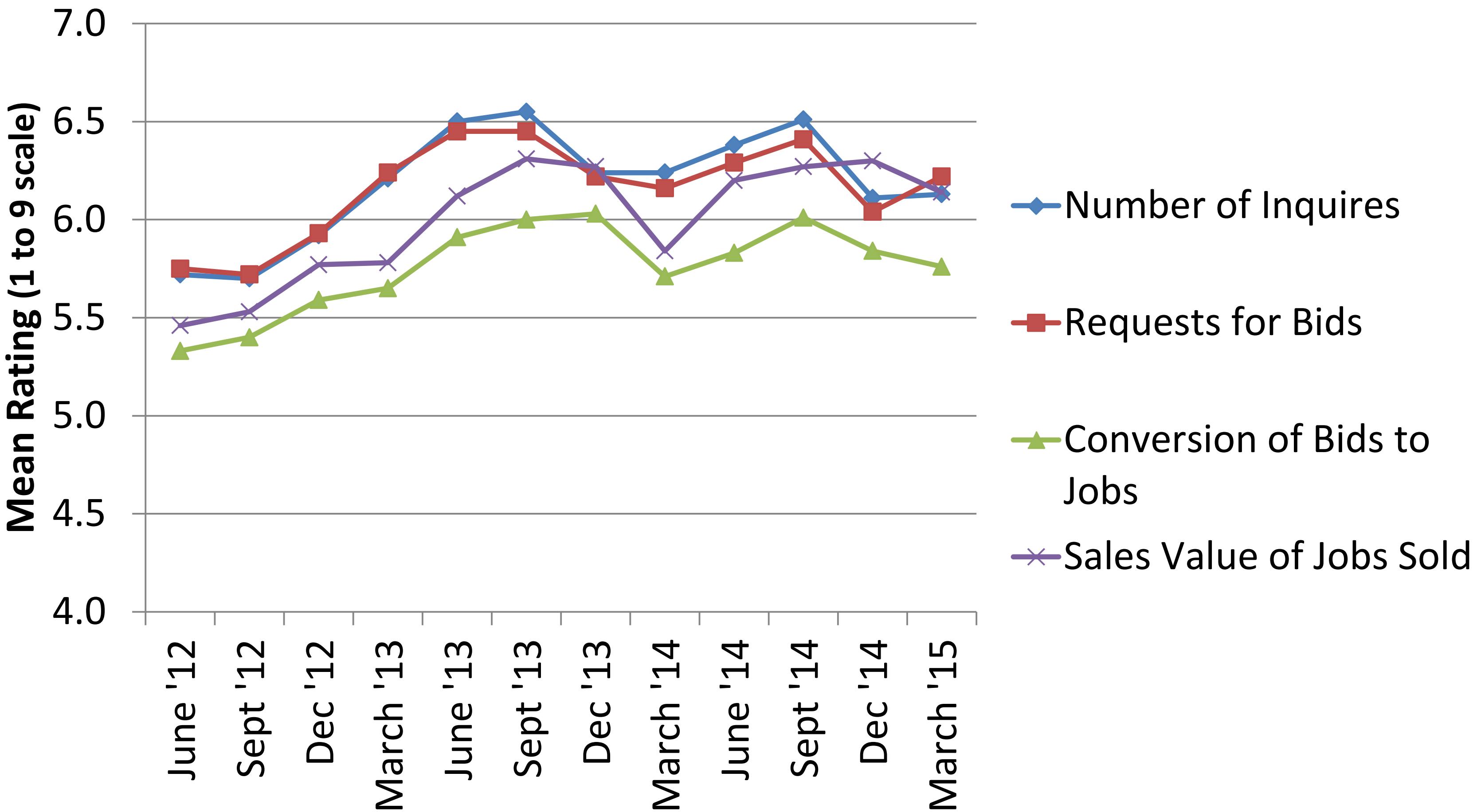
Conversion of Bids to Jobs is showing a reversal of the growth trend experienced in early 2014. Sales Value of Jobs also eased downward after several quarters of growth.



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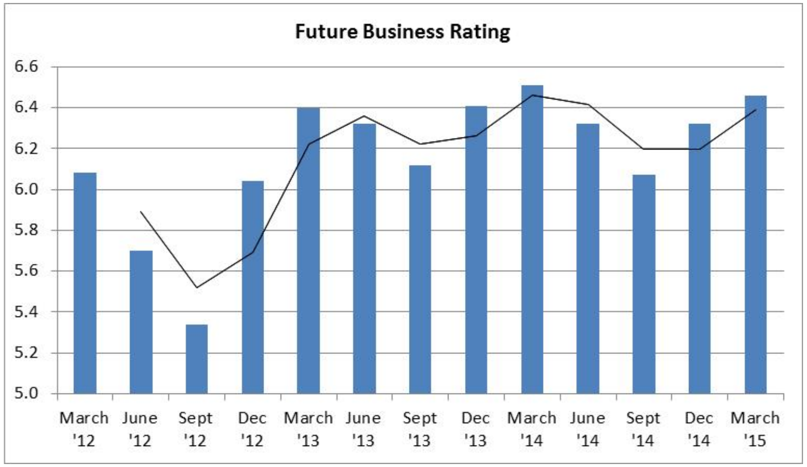
Future Conditions

Comparing Future Conditions to Prior Year Data

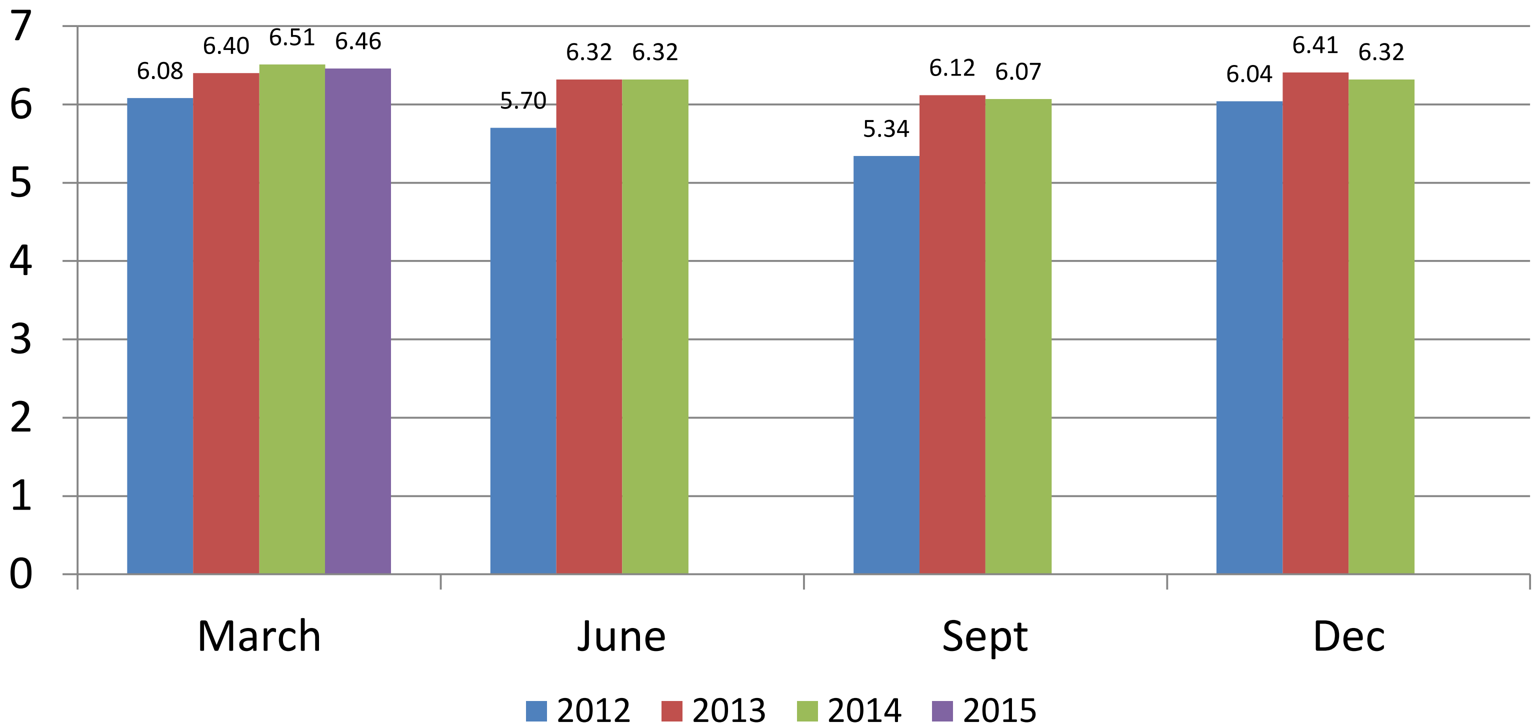
- In prior waves, forecasts for future conditions (3 months from now) were compared to the prior quarterly study.
- In spite of the question asking for comparison to the same time year-ago, a clear seasonal pattern in responses emerged. (see the graph below)
  - "Now we would like your input on the future. Compared to the same time last year, how strong do you think sales will be three months from now?"



Seasonal lows were recorded each September and highs each March.

- This same pattern does not exist in the data on current business conditions.
- To overcome this issue, the analysis of future business rating is shifting to comparing this study's rating to the identical data collected at the same time last year.

Future Condition Ratings Compared to Same Period Each Year



- Grouped by the month when the survey was conducted, shows much clearer patterns.
- Excluding the impact of seasonality by comparison to the same time the prior year makes the data much more useful.

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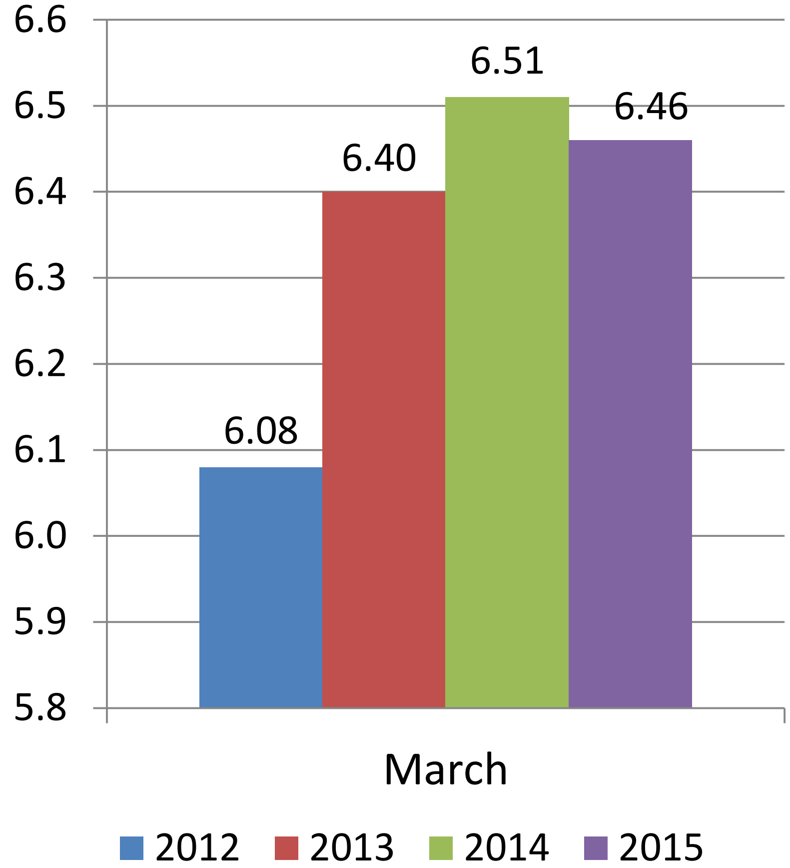
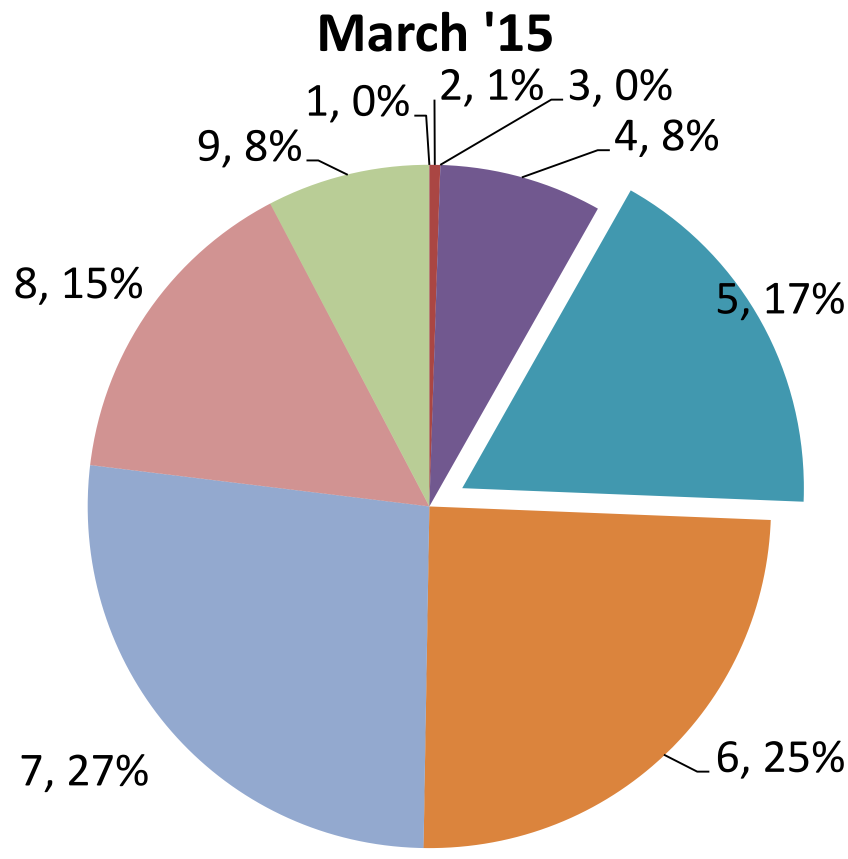
Strength of sales in 3 months: A very small shift downward from the all-time high registered last March. Ratings continue be significantly higher than those gathered in 2012.

Now we would like your input on the future. Compared to the same time last year, how strong do you think sales will be three months from now?



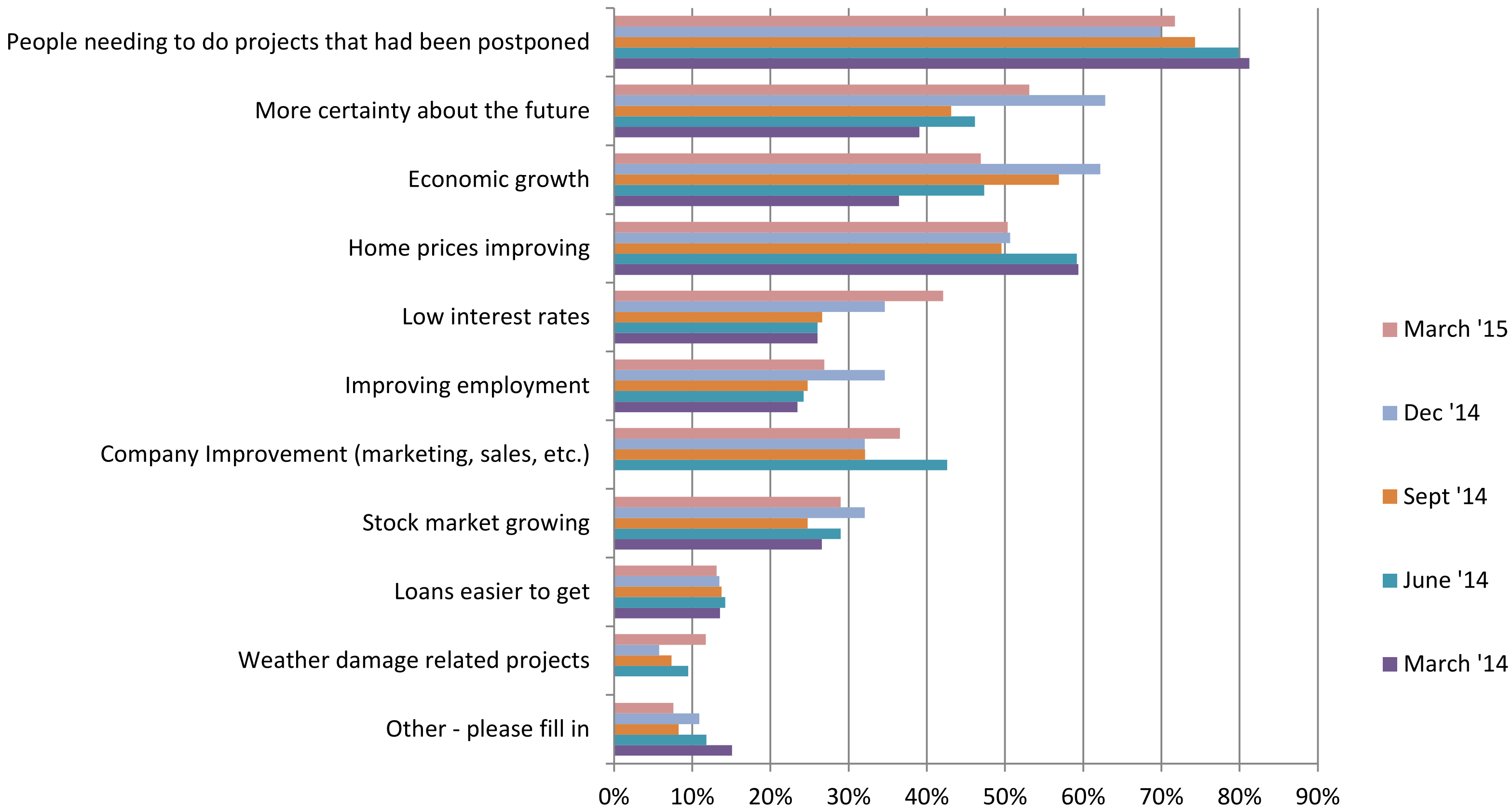


% by individual rating 1 to 9

Ratings are from 1 to 9 where 1 = Much Worse, 5 = About the Same, 9 = Much Better

Postponed Projects remains the #1 driver for growth with a small gain vs. December; More certainty about the future at #2 fell somewhat this quarter.

Note: Two new items were added to the list of answers for the first time in June 2014.
- Company improvements (marketing, sales, etc.)
- Weather damage related projects



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Base 145 (asked of those rating future sales a 6 or higher)
Multiple responses allowed

“Other” Reasons for Growth

- Leads in the pipe line
- IRS monies
- Working harder
- NY Rising
- Fence sitters from the last 4 months take action.
- Lower gas prices
- Overall confidence
- Early spring
- More home sales
- Cost of gas is down, everyone has more to spend
- Lack of available options for contractors

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The above are inputs as supplied by the respondents. Only minor editing has been performed.

Reasons for Declines

- The number of remodelers seeing declines in three months was very small at 16.
- Data on a sample this small is not statistically valid, so it is not included in this report.
- Consistent with previous waves, “High Levels of Uncertainty About the Future” was the most common reason for forecasting declines.

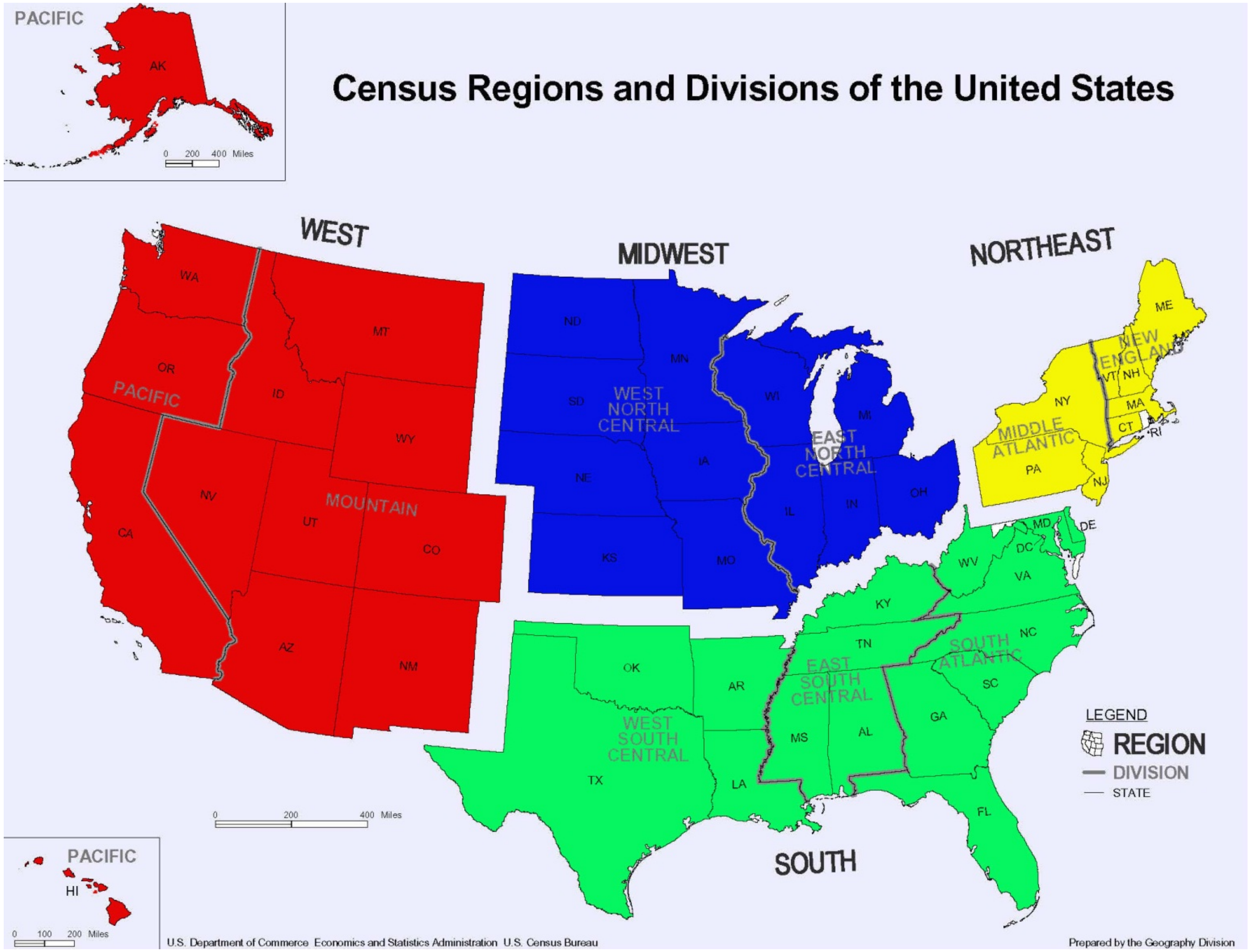
Optional Specific Comments About Current or Future Sales

Do you have any specific comments about current or future sales?

- 56 of 195 wrote in a specific comment
- The majority were positive comments
  - 61% Positive
  - 7% Neutral
  - 32% Negative
- Major Positive Themes
  - Customers ready to move forward – pent up demand
  - More money to spend
- Major Neutral Themes
  - Wait and see
- Major Negative Themes
  - Economic uncertainty
  - Consumers cautious
  - Government policies/lack of enforcement a barrier

See the appendix for verbatim comments

Regional Analysis



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Regional Responses

Only one region failed to reach our normal target of 30 before reporting and it was only off by one. So we are including a regional analysis in this report. Please keep in mind the small sample size, particularly in the Western Region.

Respondents by Region

	2013				2014				2015
Region	Mar	June	Sept	Dec	Mar	June	Sept	Dec	Mar
Northeast	50	37	44	54	51	47	27	42	41
Midwest	99	73	95	113	95	92	71	72	76
South	82	68	57	80	63	64	50	62	49
West	47	60	41	46	46	38	28	37	29
Total	278	238	237	293	255	241	176	213	195

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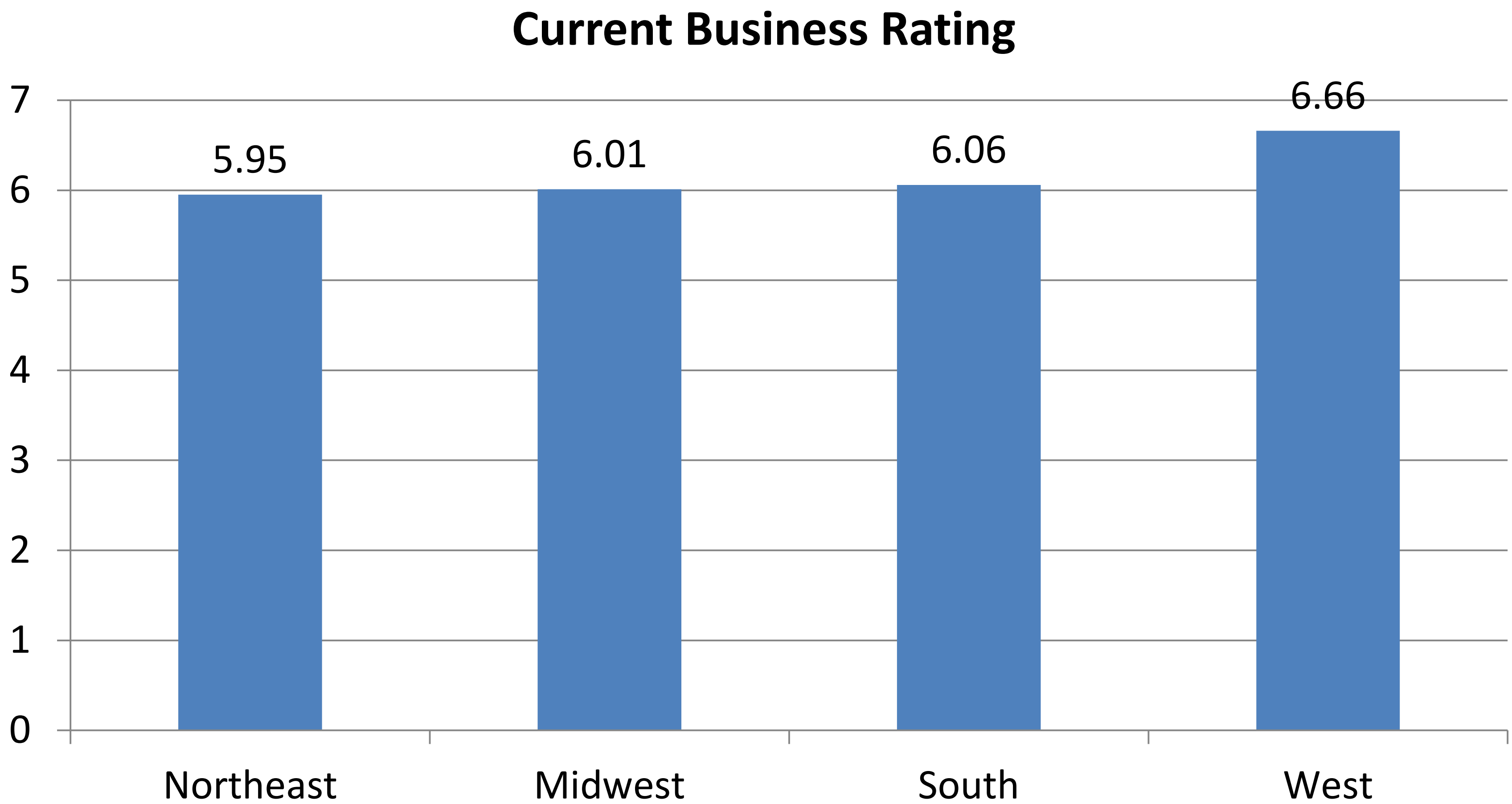
The West region has the strongest rating for current business conditions, while the Northeast lags.

(The West is statically significantly higher than the Midwest.)



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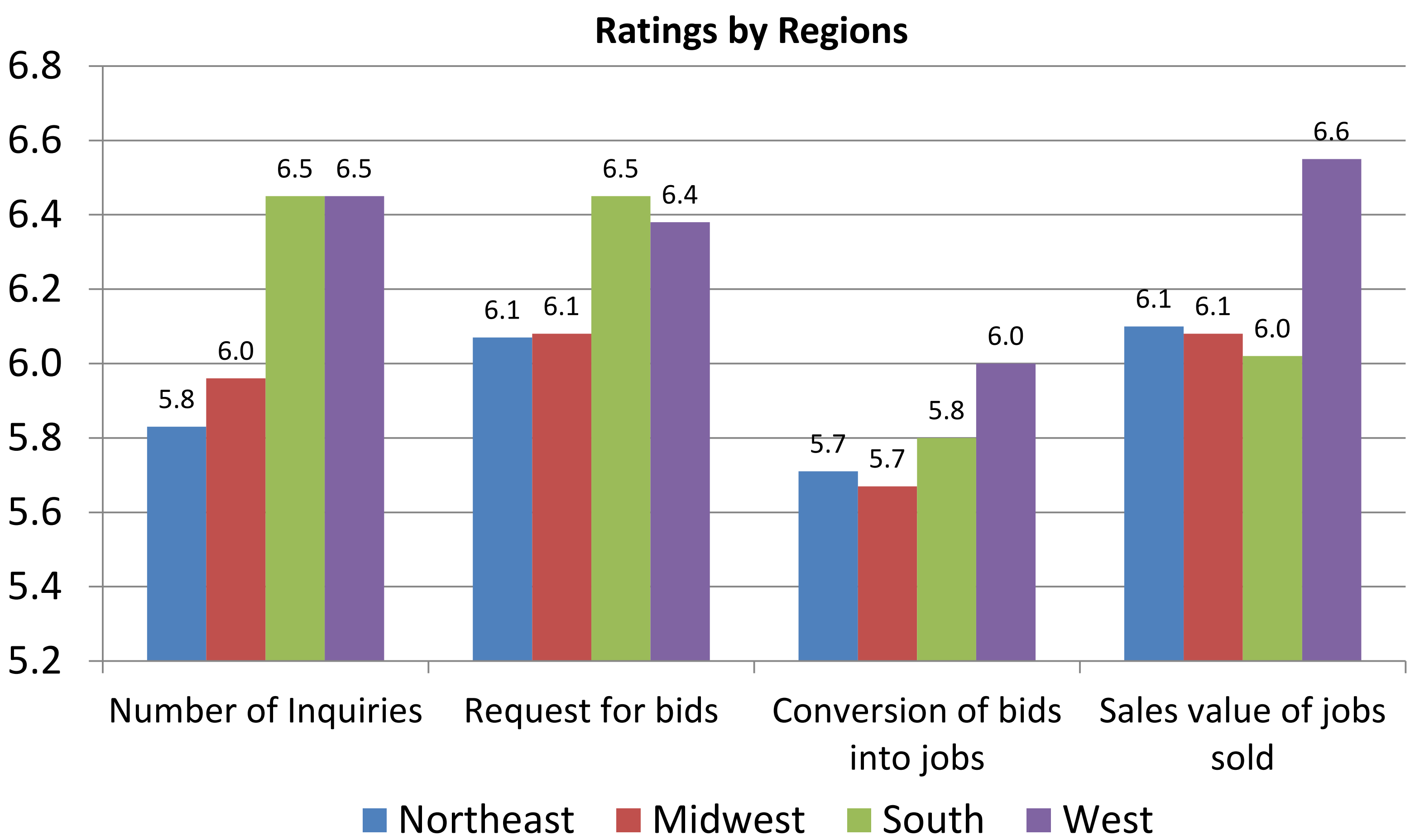
Caution: The sample size in the West is small.

The South is significantly higher than the East for 'Number of Inquires.' The West appears to enjoy a lead for 'Sales Value of Jobs Sold' but it isn't significantly different likely due to the small base of respondents in the West. Overall, the South and West appear to be strongest.



Caution: The sample size in the West is small.

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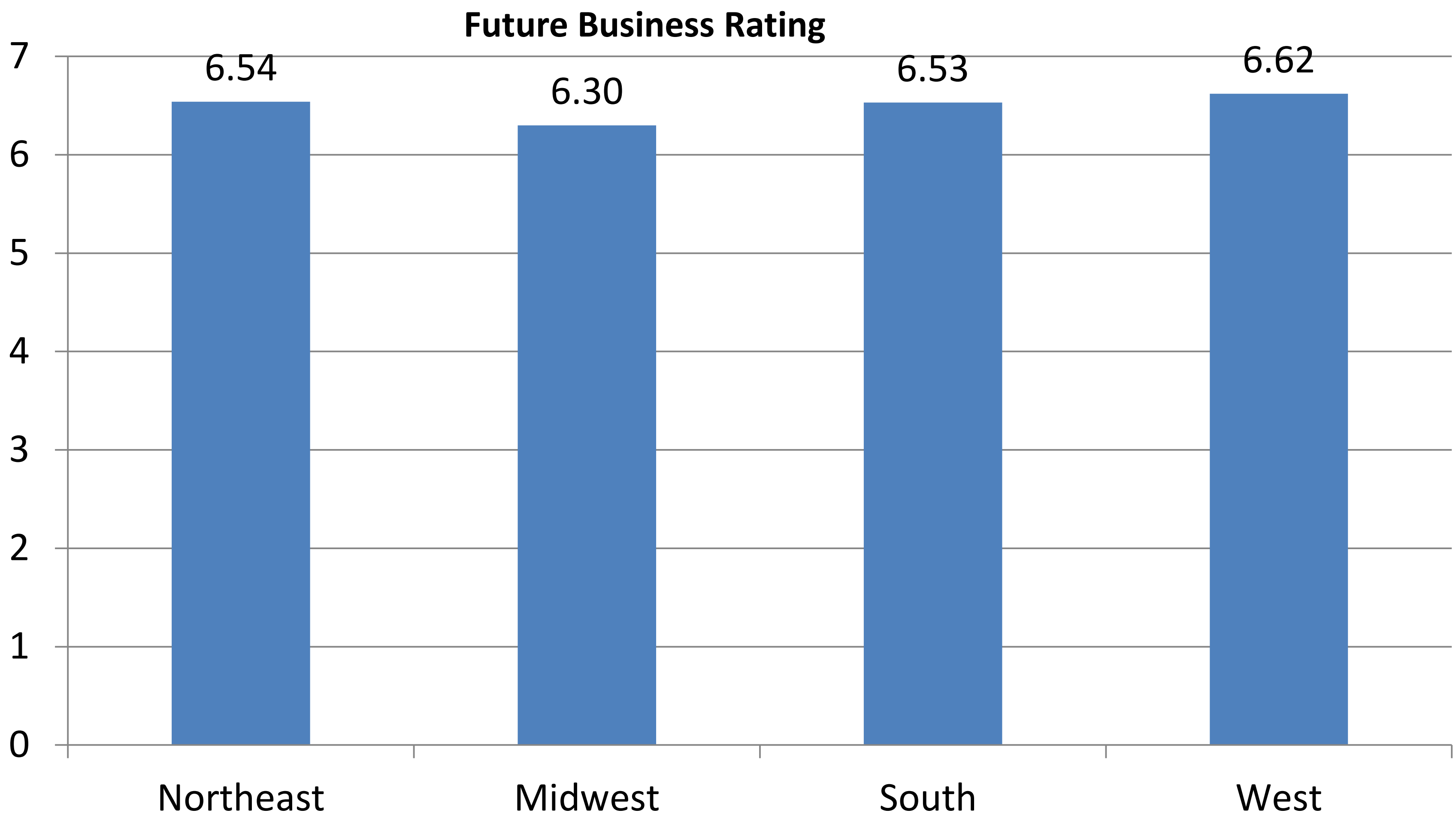
The outlook for the future is directionally strongest in the West.
(None of the differences between the regions is statistically significant.)



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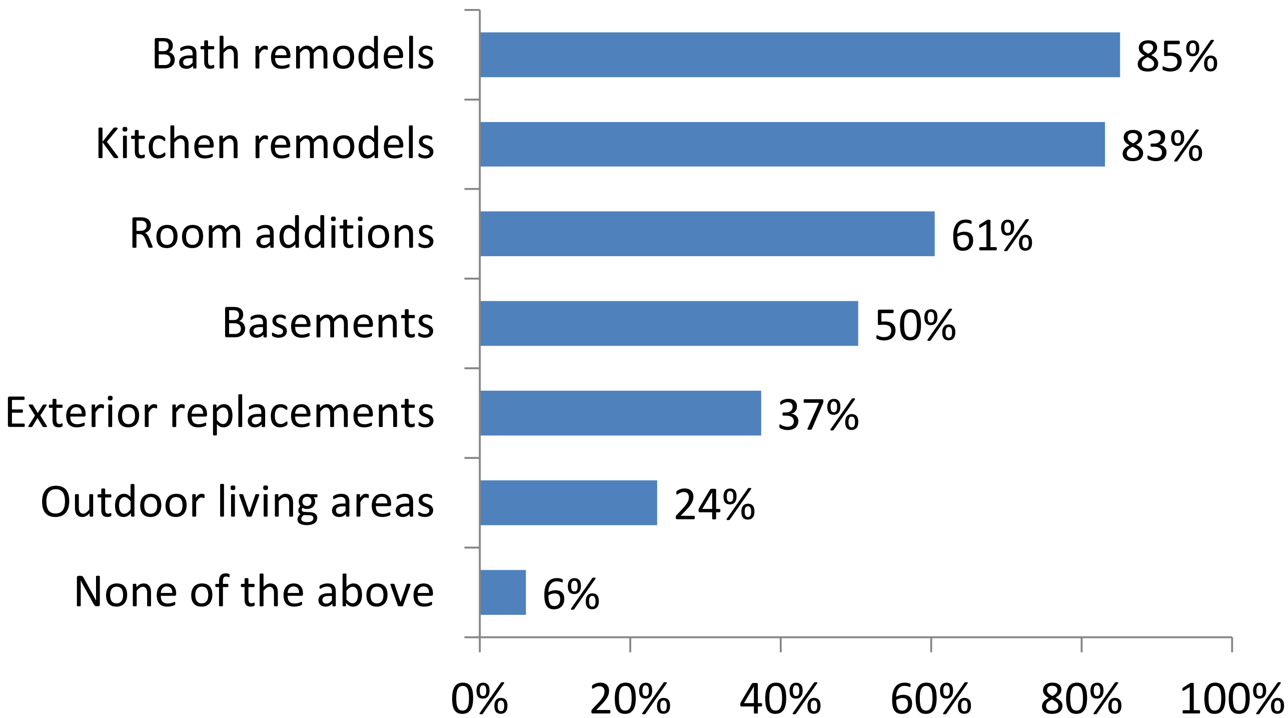
Caution: The sample size in the West is small.

Detailed Findings Regarding Universal Design

We wanted to learn about use of Universal Design in kitchen and bath remodeling. To see who qualified to answer the questions we asked about participation on a short range of services.

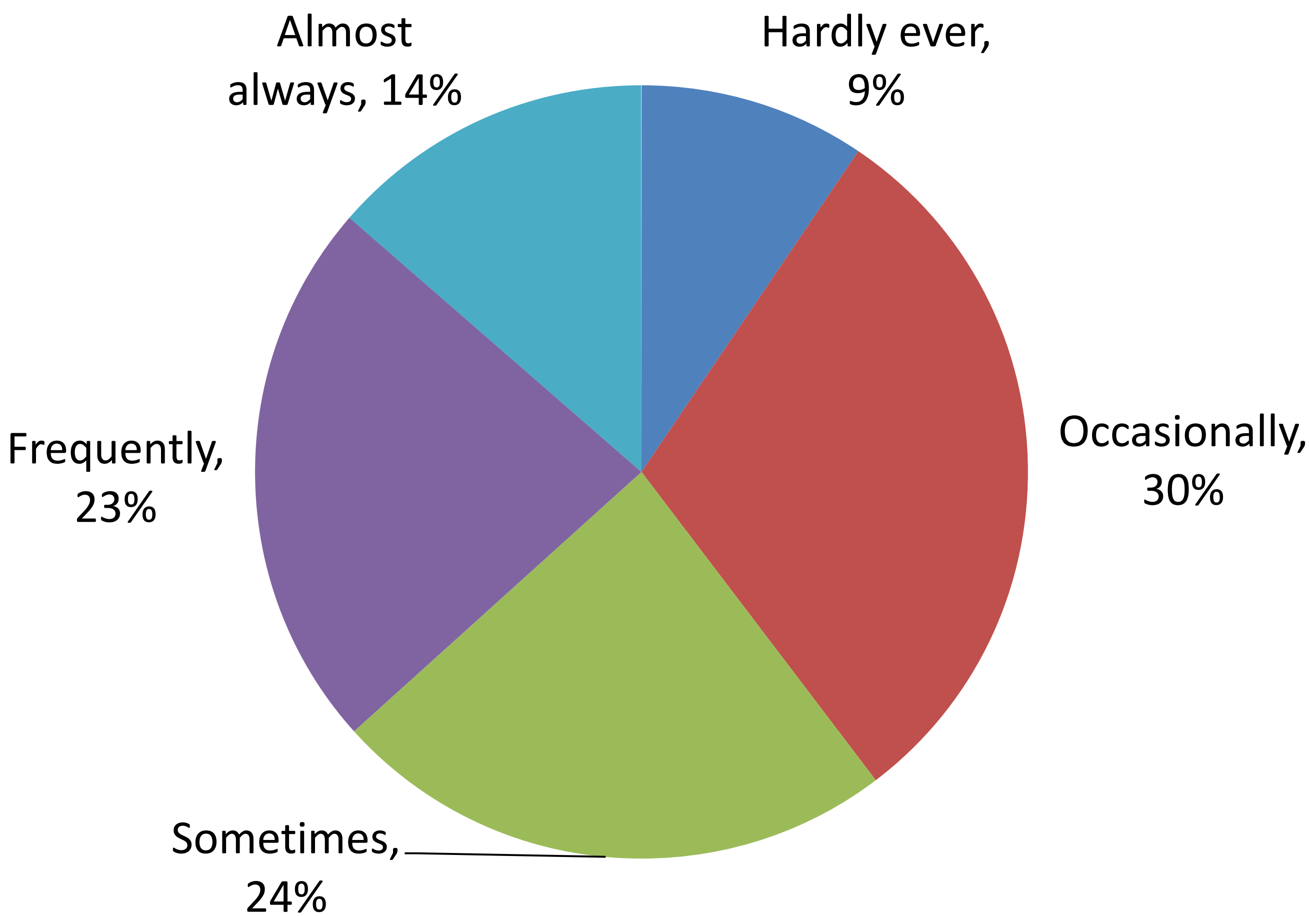
Which of the following services does your company do on a regular basis (at lest 5% of your projects)? Please check all that apply.



Net, 169 or 87% of the 195 respondents in the study qualified as doing either kitchen or bath remodeling or both.

Over a third (37%) of remodelers report incorporating Universal Design 'Frequently' or 'Almost always'. A majority (54%) report 'Occasionally or Sometimes'. While a very small group (9%) say 'Hardly ever'.

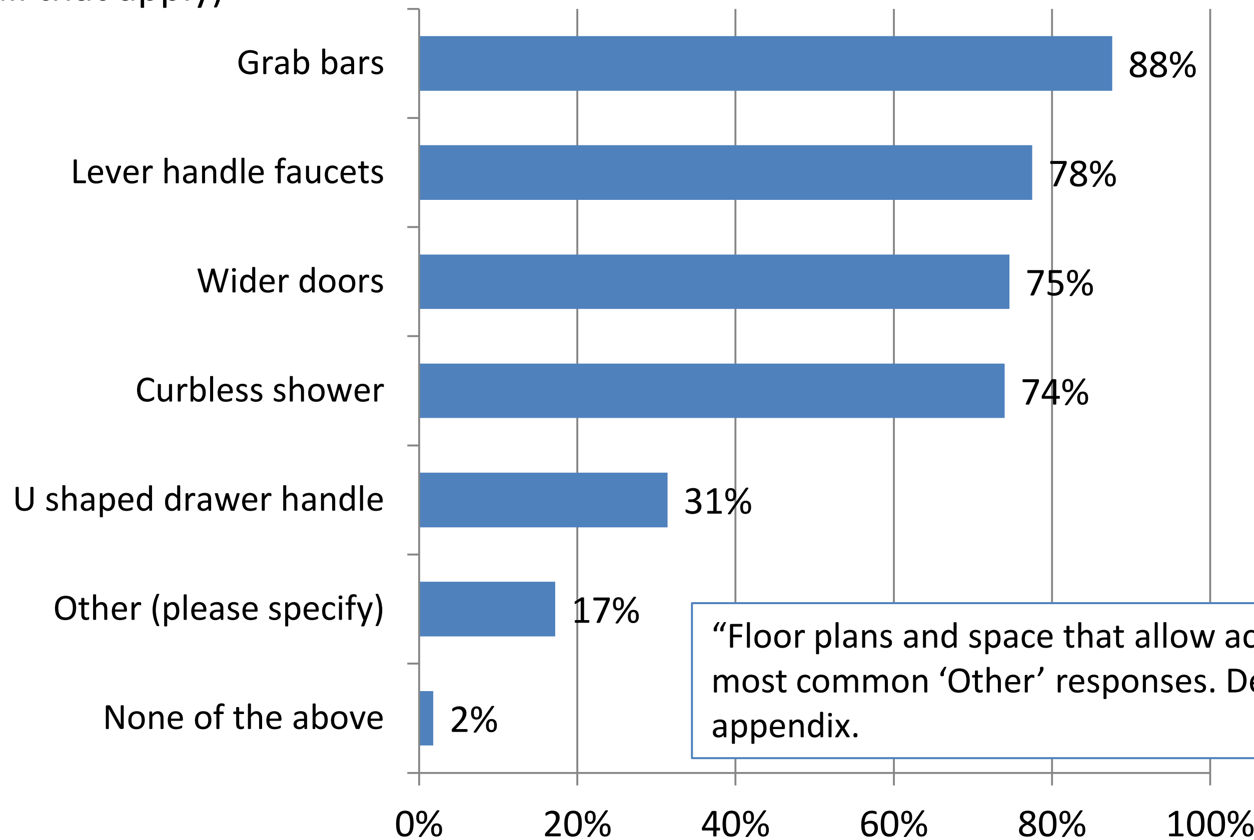
How often do you include Universal Design or aging in place features in your kitchen or bath remodeling projects?



Base 169 (asked of those who do kitchen and/or bath remodeling)

Safety and Convenience drive the Universal Design elements used in projects.

What types of Universal Design elements do you incorporate in your kitchen or bath projects? (Please select all that apply)

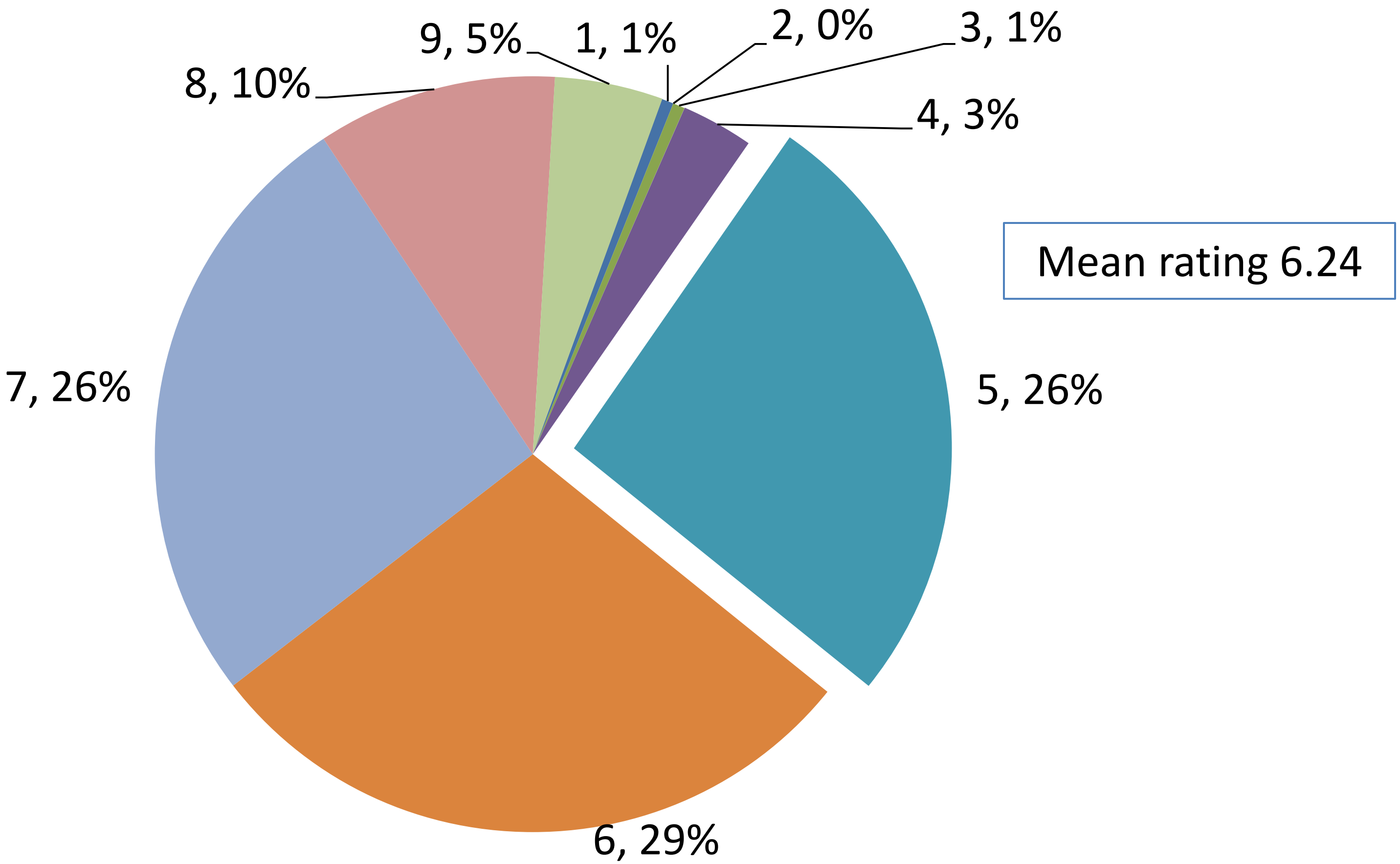


"Floor plans and space that allow access were the most common 'Other' responses. Details in appendix.

Base 169 (asked of those who do kitchen and/or bath remodeling)

When asked about how interest in Universal Design will change over the next two years, only 4% of remodelers felt it would decline at all. 70% see interest growing and some by large amounts. Only a quarter (26%) see interest as being about the same.

How do you expect customer interest in Universal Design will change between now and two years from now? Please rate it on a scale of 1 to 9 where 5 is about the same, 1 is much lower and 9 is much higher.



Base 195 (all remodelers in this study)

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