Q2 2016

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HOUZZ RENOVATION BAROMETER

July 2016

Big Ideas

- The Houzz Renovation Barometer, which tracks industry optimism in quarter-over-quarter and year-over-year market improvements, posted high Q2 readings across all industry groups (63-78 out of 100), reflecting widespread industry confidence in quarter-over-quarter market gains. The outlook for Q3 continues to point toward positive growth in all sectors.

- The Barometer reflects a slight weakening in professional confidence among design-related sectors, with scores among architects, designers, and design-build companies falling 5%-7% in Q2 2016 relative to Q1 2016. The gap between scores for architects and designers relative to other sectors has widened considerably (63-66 vs. 71-78), indicating that market gains are not as widespread as in prior quarters.

- The Barometer posted high year-over-year readings of 66-77 in Q2 2016; however, these scores decreased slightly for five of the six industry groups surveyed relative to Q1 2016. While still seeing increases in business, the overall confidence of design-related industry groups has declined four quarters in a row – Q2 2016 scores of 66-73 are down from Q2 2015 scores of 75-80.

- The nature of projects has continued to evolve in the first half of 2016 relative to the same period in 2015. Half or more firms across all industry groups report that the activity of homeowners ages 35-54 has increased so far this year relative to the same period last year (46%-58%). Similarly, many firms experienced an uptick in kitchen and/or bathroom renovations (46%-58%). An increase in smart technology installations was also cited, among other changes.

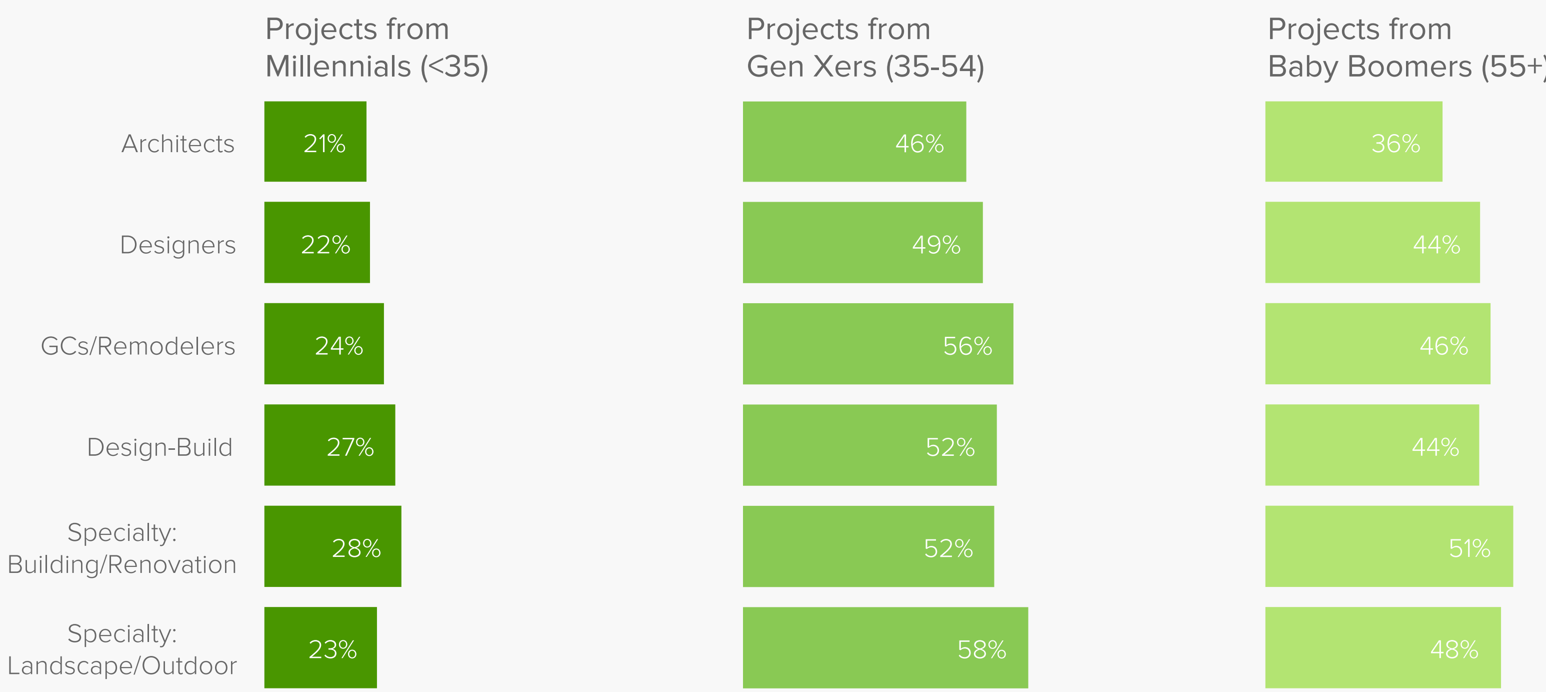
Contents

CHANGES IN CLIENT TYPE, BUDGETS, AND MOTIVATIONS

Uptick in Gen Xer Activity

Half or more firms across all industry sectors report an increase in projects from Gen Xers (ages 35-54) so far this year, relative to the same period last year (46%-58%). Projects from Baby Boomers (55+) also increased for more than one-third of firms across all sectors (36%-51%). Not surprisingly, significantly fewer firms (21%-28%) experienced an uptick in projects from Millennials (<35).

YEAR-OVER-YEAR INCREASES IN PROJECT TYPES*

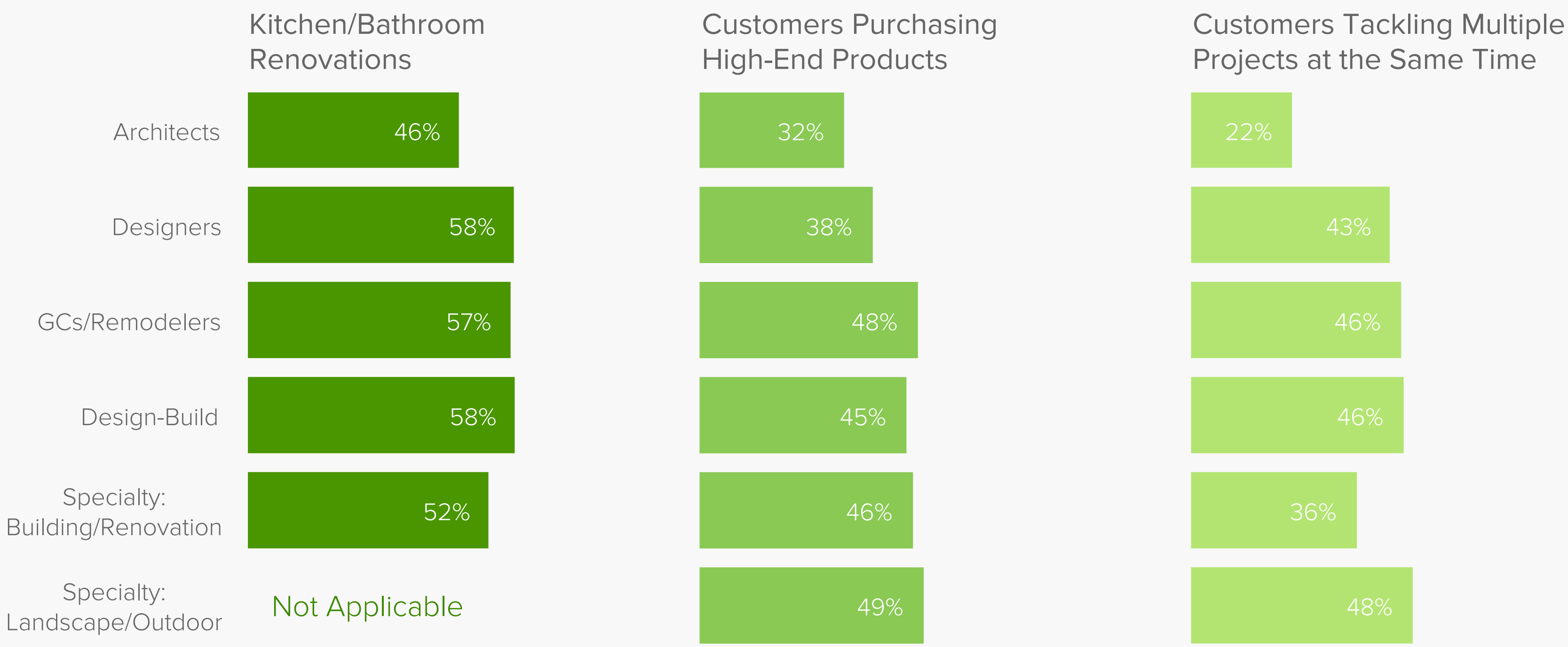


*Proportion (%) of firms in each industry group reporting changes in project types so far this year (2016) relative to the same period last year (2015).

Kitchen and Bathroom Projects on the Rise

The nature of renovations in the first half of 2016 changed relative to the same period in 2015. Half or more firms across all industry sectors report a rise in kitchen and/or bathroom renovations (46%-58%). A third or more firms experienced an increase in homeowners purchasing high-end products (32%-49%) and/or more homeowners tackling multiple projects at the same time (22%-48%). The increases in these project types are smaller for architects than for other sectors.

YEAR-OVER-YEAR INCREASES IN PROJECT TYPES*

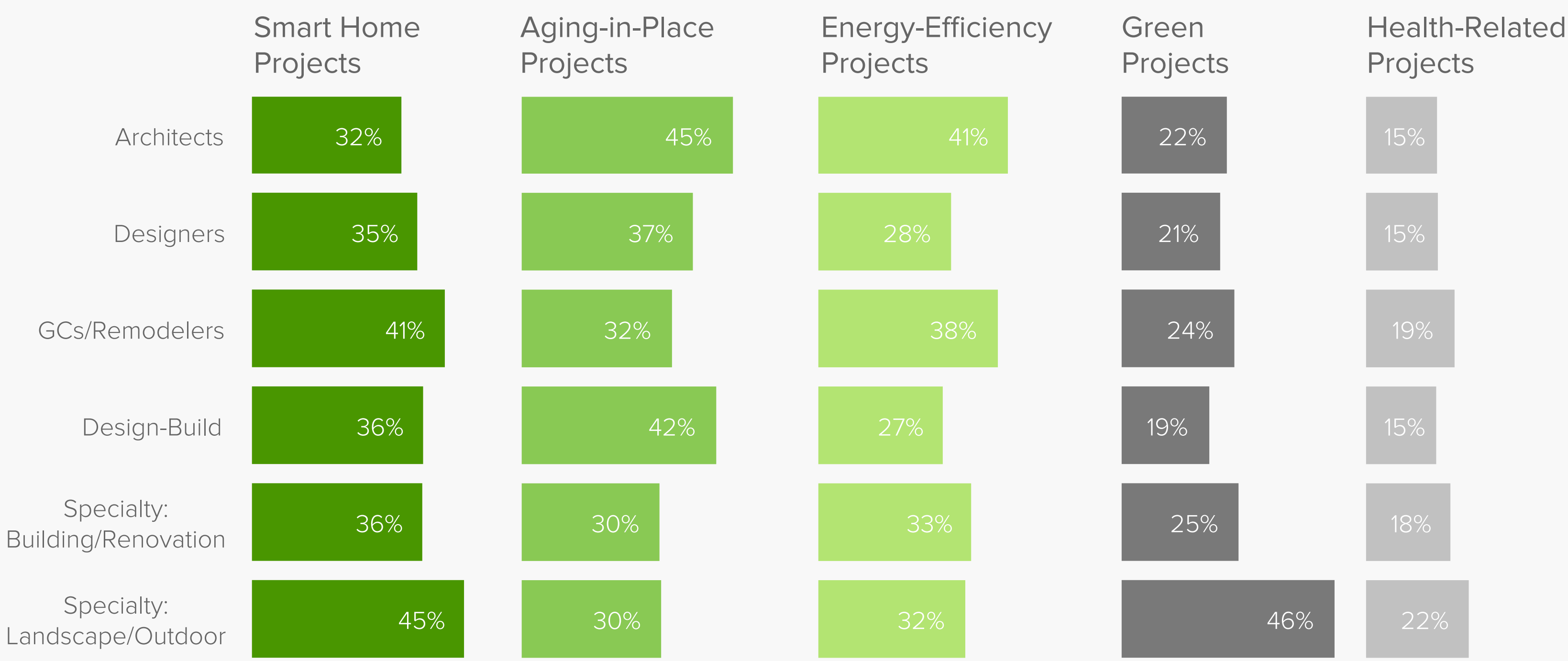


*Proportion (%) of firms in each industry group reporting changes in project types so far this year (2016) relative to the same period last year (2015).

More Smart Home and Aging-Related Upgrades

For many firms, the first half of 2016 also brought more specialized projects relative to the same period last year. A third or more of firms across all industry sectors report increases in smart home technology installations and aging-related upgrades (32%-45% and 30%-45%, respectively). Many firms also experienced growth in energy-efficiency upgrades and eco-friendly/green projects (27%-41% and 19%-46%, respectively).

YEAR-OVER-YEAR INCREASES IN PROJECT TYPES*



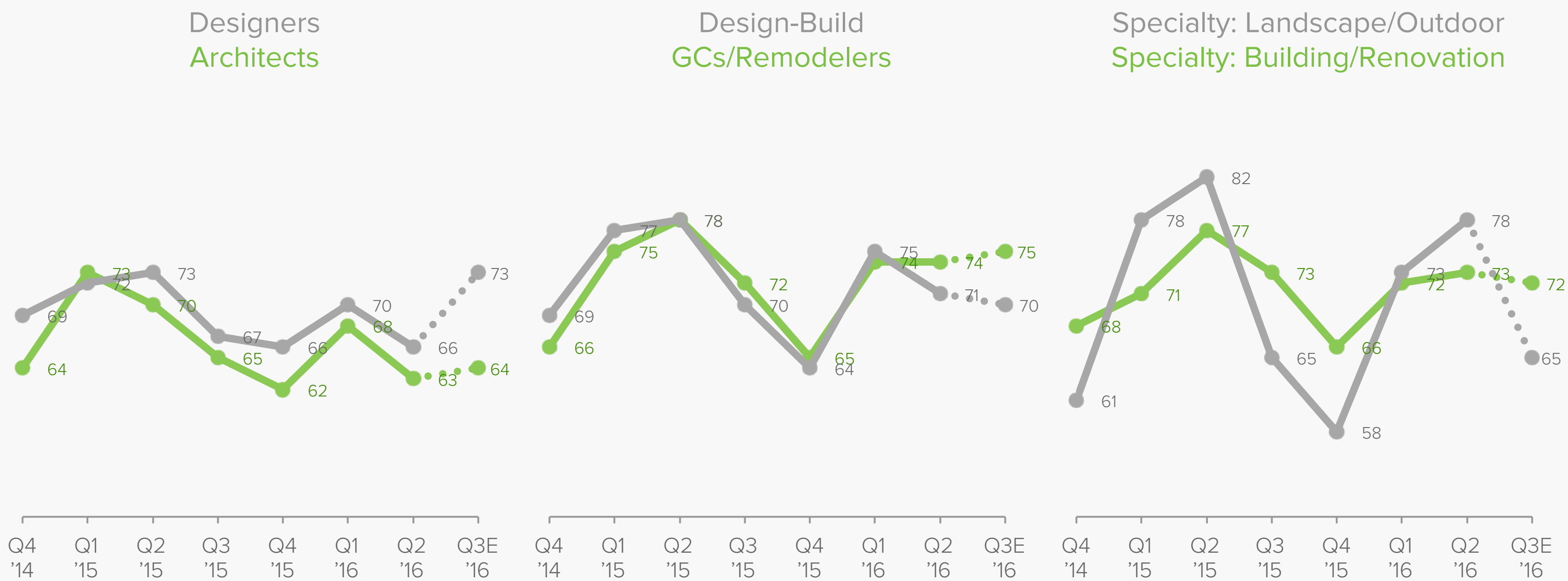
*Proportion (%) of firms in each industry group reporting changes in project types so far this year (2016) relative to the same period last year (2015).
Smart home projects refers to installation of connected devices, smart thermostats, etc.; *aging-in-place projects* refers to removing trip hazards, improving accessibility, etc.; *energy-efficiency projects* refers to upgrades to heating, insulation, etc.; *green projects* refers to installation of sustainably sourced/recycled materials, alternative energy systems, etc.; and *health-related projects* refers to improving air quality, removing lead/asbestos/mold, etc.

HOUZZ RENOVATION BAROMETER
QUARTER OVER QUARTER

Industry Confidence Weakens for Some Sectors

The Houzz Renovation Barometer posted readings of 63-78 in the second quarter of 2016, indicating continued optimism in quarter-over-quarter market gains across all sectors. However, the Q2 2016 scores for architects, designers, and design-build companies are 5%-7% lower than Q1 2016 scores. Meanwhile, scores for general contractors (GCs) and specialty firms stayed the same or increased. The gap between the scores for architects and designers relative to other sectors has widened considerably (63-66 vs. 71-78), indicating that market gains are not as widespread.

HOUZZ RENOVATION BAROMETER (QUARTER OVER QUARTER)*



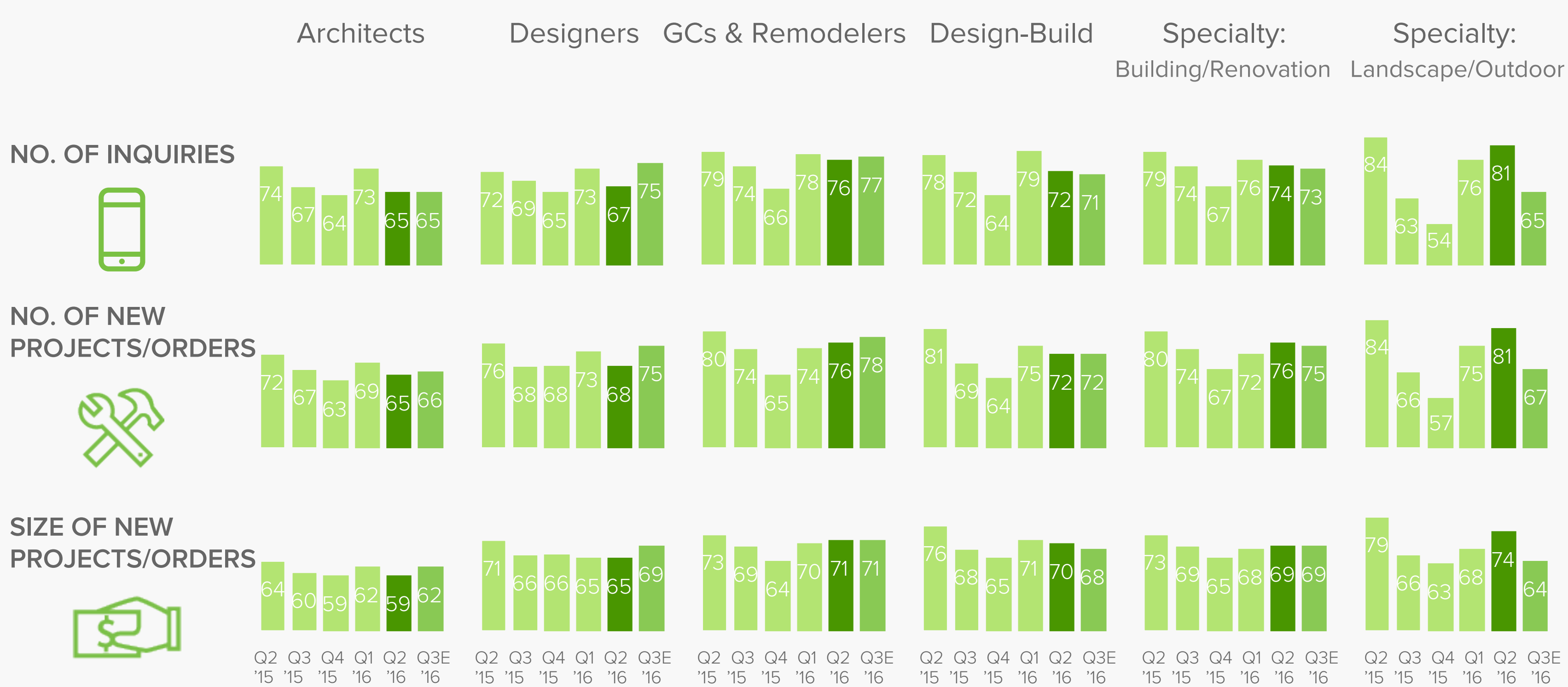
*Q3E reflects expectations for the upcoming quarter.

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

Slowing Growth in New Business Activity

The majority of firms continue to report quarter-over-quarter increases in the number of inquiries and the number and size of new projects in the second quarter of 2016, as reflected in Barometer readings of 65-81, 65-81, and 59-74, respectively. That said, the scores for new inquires declined by 3%-11% across all industry sectors, with the exception of landscape/outdoor specialties. Scores for the size of new projects/orders are more in line with the previous quarter.

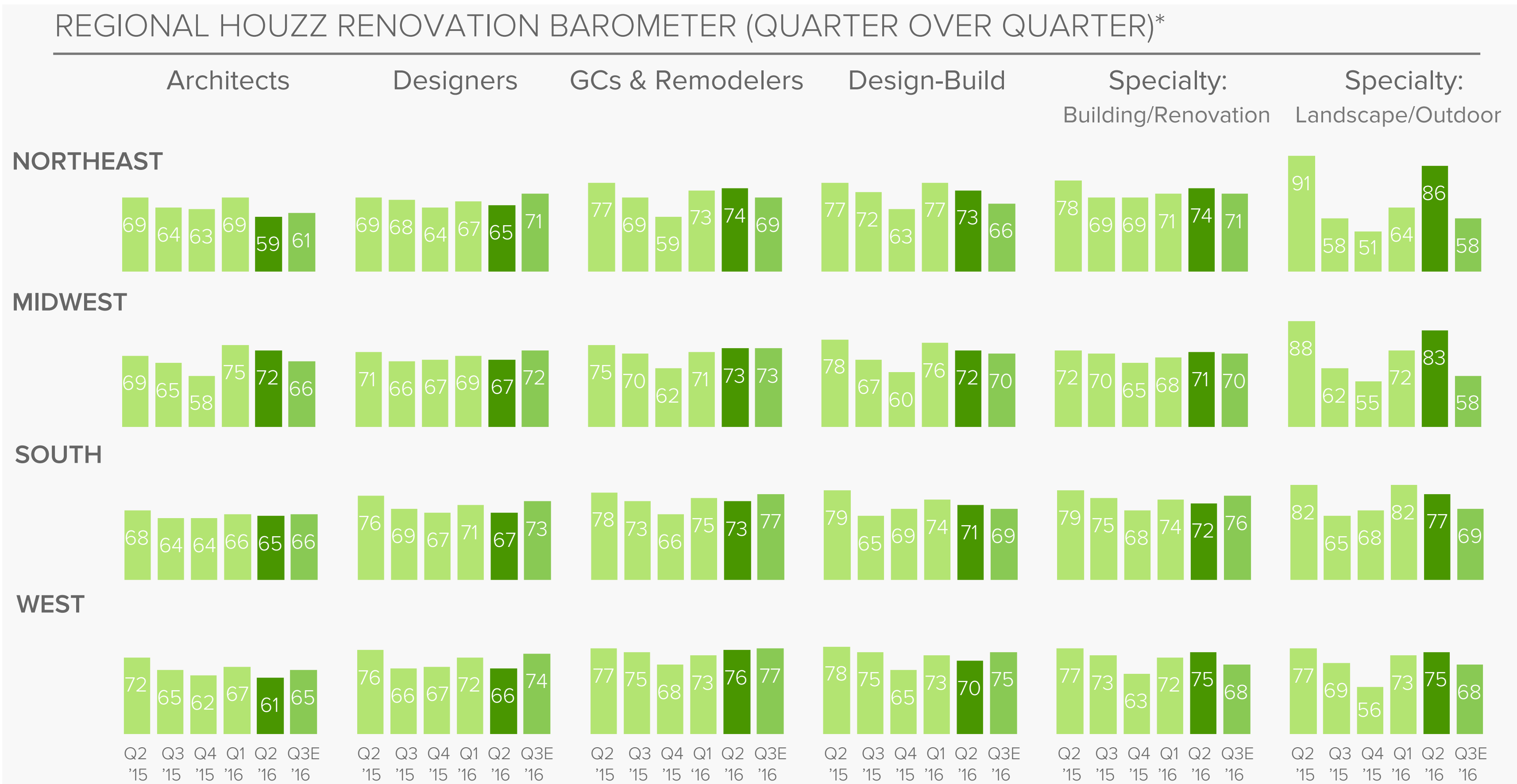
COMPONENTS OF HOUZZ RENOVATION BAROMETER (QUARTER OVER QUARTER)*



*See footnote on p. 9 for interpretation of the scores. The Houzz Renovation Barometer is a simple average of the scores of the three components.

Regional Patterns Consistent with National

Barometer regional scores exceed 60 across all industry sectors, with the exception of Northeastern architects. The mild weakening of confidence for design-related sectors is consistent with national patterns, although Northeastern architects report the largest decline (14%).



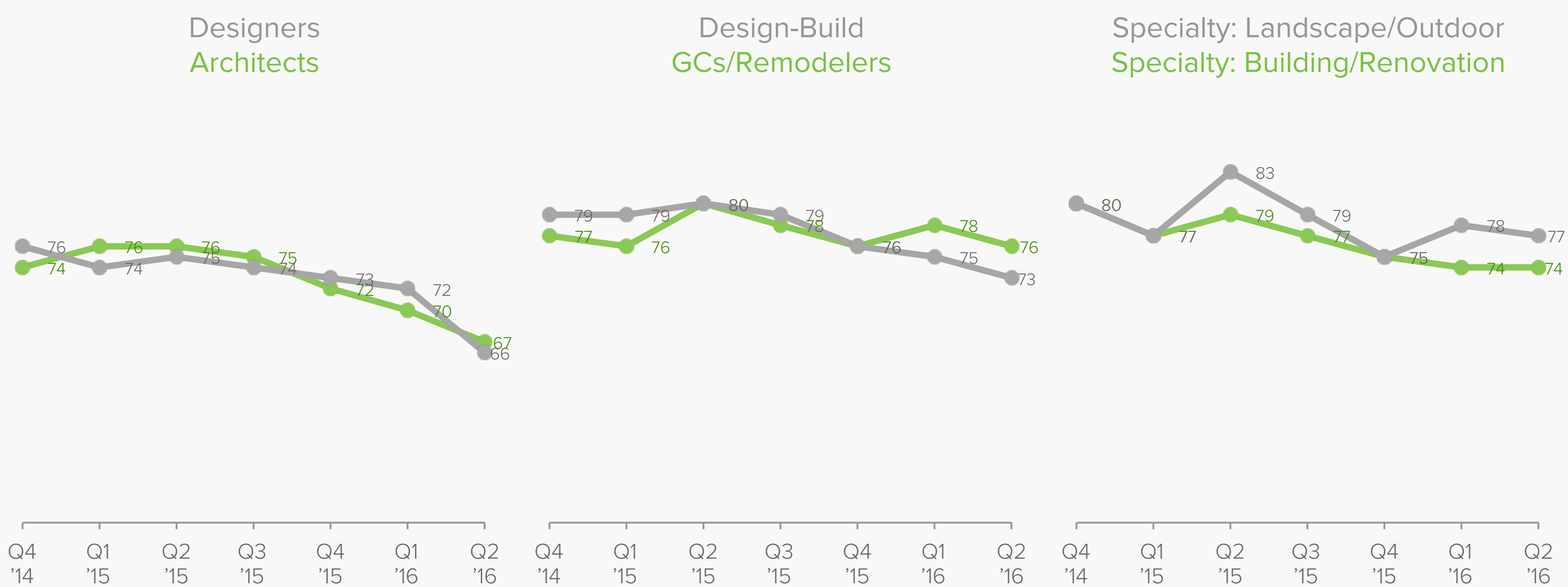
*Click on the links to see the Houzz Renovation Barometer by state and by major metro area. See footnote on p. 9 for interpretation of the scores.

HOUZZ RENOVATION BAROMETER
YEAR OVER YEAR

Market Gains Slowing Year Over Year

The Barometer posted high year-over-year readings of 66-77 in the second quarter of 2016, indicating high optimism in continued year-over-year gains in the home renovation market. However, these scores slightly decreased for five of the six industry sectors surveyed relative to Q1 2016. The confidence of design-related sectors has declined four quarters in a row, reflected in scores of 75-80 in Q2 2015 that declined to 66-73 in Q2 2016.

HOUZZ RENOVATION BAROMETER (YEAR OVER YEAR)*



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

Softening Year-Over-Year Gains in All Business Metrics

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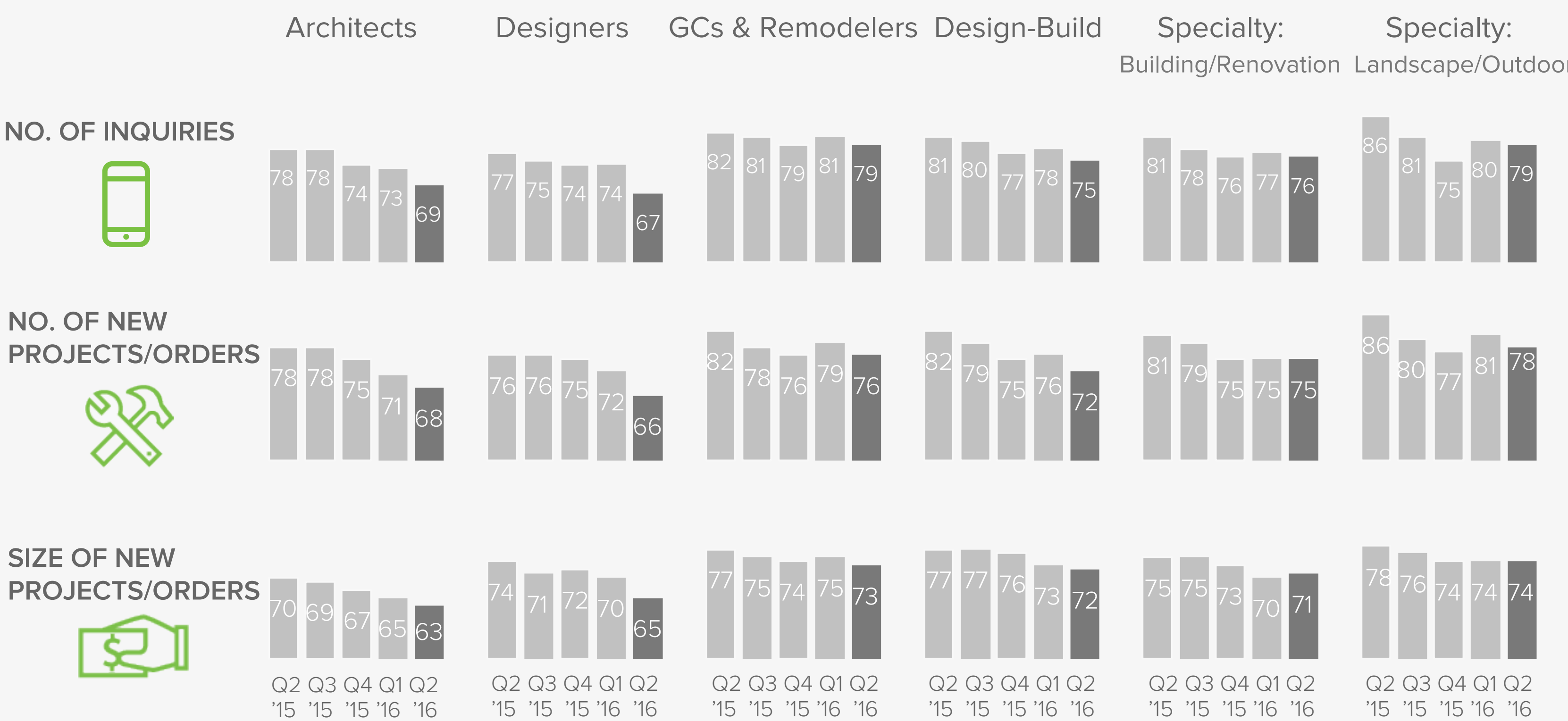
Across all sectors, firms reported widespread year-over-year increases in inquiries and the number and size of new projects in Q2 2016. However, the scores are consistently lower than those in Q1 2016 by an average of 4% across all sectors, in terms of the number of inquiries and number of new projects/orders. The average decline is just 2% for the size of new projects and orders.

COMPONENTS OF HOUZZ RENOVATION BAROMETER (YEAR OVER YEAR)*

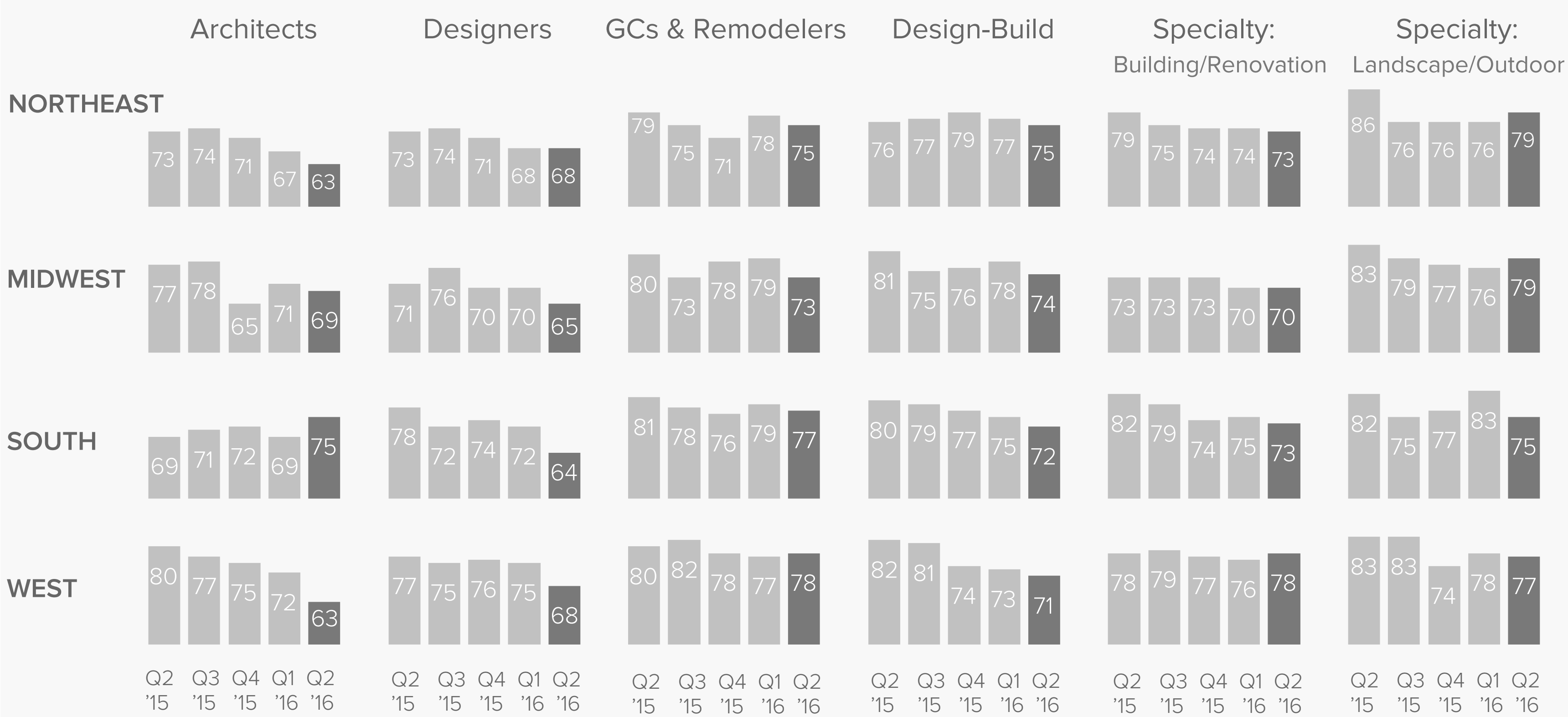


*See footnote on p. 13 for interpretation of the scores. The Houzz Renovation Barometer is a simple average of the scores of the three components.

Regional Confidence in Year-Over-Year Gains Persists

Industry confidence in year-over-year market gains is largely consistent across regions. Architects in the South show an uptick in confidence in Q2 2016, while design-related sectors in all other regions report a slight decline. Confidence among landscape/outdoor specialty firms is holding steady across all regions and is in line with scores from prior quarters.

REGIONAL HOUZZ RENOVATION BAROMETER (YEAR OVER YEAR)*



*Click on the links to see the Houzz Renovation Barometer by state and by major metro area. See footnote on p. 13 for interpretation of the scores.

METHODOLOGY AND APPENDIXES

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 specialties. The Houzz Renovation Barometer survey for the current quarter was fielded June 29 - July 14, 2016. N = 2,659 (344 architects; 544 interior and building designers; 680 general contractors/remodelers; 431 design-build firms; 435 building/renovation specialties[1]; and 225 landscape/outdoor specialties[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 specialties include replacement contractors (e.g., carpenters) and product installers/manufacturers/resellers (e.g., cabinetry).
[2] Landscape/outdoor specialties include landscape architects, designers, and contractors; outdoor replacement trades (pavers); and outdoor product installers/manufacturers/resellers (e.g., pools and spas).

Appendix A: Changes in Client Types & Budgets

YEAR-OVER-YEAR INCREASES IN PROJECT TYPES*

	Projects from Millennials (<35)			Projects from Gen Xers (35-54)			Projects from Baby Boomers (55+)		
	Decreased	No Change	Increased	Decreased	No Change	Increased	Decreased	No Change	Increased
Architects	13%	67%	21%	8%	46%	46%	7%	57%	36%
Designers	13%	66%	22%	8%	43%	49%	11%	45%	44%
GCs/Remodelers	11%	65%	24%	3%	41%	56%	7%	47%	46%
Design-Build	9%	65%	27%	1%	47%	52%	7%	49%	44%
Specialty: Building/Renovation	10%	62%	28%	5%	43%	52%	8%	41%	51%
Specialty: Landscape/Outdoor	7%	70%	23%	2%	40%	58%	6%	45%	48%
	Kitchen/Bathroom Renovations			**Clients Purchasing High-End Products**			**Clients Tackling Multiple Projects at the Same Time**		
	Decreased	No Change	Increased	Decreased	No Change	Increased	Decreased	No Change	Increased
Architects	5%	49%	46%	14%	55%	32%	15%	63%	22%
Designers	7%	35%	58%	17%	46%	38%	12%	45%	43%
GCs/Remodelers	5%	39%	57%	12%	41%	48%	10%	44%	46%
Design-Build	2%	40%	58%	11%	43%	45%	7%	47%	46%
Specialty: Building/Renovation	12%	36%	52%	14%	40%	46%	14%	50%	36%
Specialty: Landscape/Outdoor	6%	57%	36%	9%	42%	49%	6%	45%	48%

*Proportion (%) of firms in each industry group reporting changes in project types so far this year (2016) relative to the same period last year (2015).

Appendix B: Changes in Client Motivations

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YEAR-OVER-YEAR INCREASES IN PROJECT TYPES*

	Smart Home Projects			Aging-in-Place Projects			Energy-Efficiency Projects		
	Decreased	No Change	Increased	Decreased	No Change	Increased	Decreased	No Change	Increased
Architects	7%	61%	32%	3%	52%	45%	5%	54%	41%
Designers	5%	59%	35%	7%	57%	37%	6%	66%	28%
GCs/Remodelers	5%	54%	41%	3%	65%	32%	5%	57%	38%
Design-Build	3%	61%	36%	2%	56%	42%	2%	71%	27%
Specialty: Building/Renovation	5%	59%	36%	4%	67%	30%	5%	63%	33%
Specialty: Landscape/Outdoor	2%	52%	45%	2%	68%	30%	4%	64%	32%

	Green Projects			Health-Related Projects		
	Decreased	No Change	Increased	Decreased	No Change	Increased
Architects	10%	67%	22%	7%	77%	15%
Designers	10%	69%	21%	7%	78%	15%
GCs/Remodelers	10%	66%	24%	7%	74%	19%
Design-Build	8%	74%	19%	6%	79%	15%
Specialty: Building/Renovation	9%	66%	25%	5%	77%	18%
Specialty: Landscape/Outdoor	3%	51%	46%	2%	76%	22%

*Proportion (%) of firms in each industry group reporting changes in project types so far this year (2016) relative to the same period last year (2015).
Smart home projects refers to installation of connected devices, smart thermostats, etc.; *aging-in-place projects* refers to removing trip hazards, improving accessibility, etc.; *energy-efficiency projects* refers to upgrades to heating, insulation, etc.; *green projects* refers to installation of sustainably sourced/recycled materials, alternative energy systems, etc.; and *health-related projects* refers to improving air quality, removing lead/asbestos/mold, etc.

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		