



Implications of the Soft Housing Market for Suppliers of Building Products

NAHB Research Center
Summer 2007

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Final Report

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Introduction

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During the 2004-2005 housing boom, the U.S. home building industry operated at a level unsustainable by population growth and new household formation—generally agreed to be about 1.95 million new units annually. Low interest rates and aggressive lending tactics increased affordability and drew homebuyers who typically would not have qualified for homeownership into the market. Further, the double-digit annual appreciation rates of homes lured investors looking for high returns into the market.

Throughout this period, housing industry experts held a unanimous conviction that this pace of new home production was unsustainable, and any output above the long-term sustainable demand would result in a corresponding underproduction after the new home market corrected. There was little doubt that the market would adjust back to more moderate levels. The primary debate centered on when the market correction would begin and how long it would take. If the correction was gradual, the housing industry would experience a “soft landing.” If it occurred more quickly, the industry would experience a less desirable “hard landing.”

Toward the latter half of 2005, housing appreciation rates fell, inventories of unsold new homes climbed, and the investor segment of market demand diminished rapidly. Demand fell further as declining affordability drove many potential homebuyers out of the market. The long-anticipated correction began in early 2006. Housing starts in January 2006 were at a seasonally adjusted annual rate of 2.27 million,¹ but by October the annual rate had fallen to 1.48 million starts—a 34 percent drop. By January 2007, housing starts had fallen to 1.39 million—almost 40 percent lower than one year earlier. This was the largest decline in housing production since 1991. As a result, builder and

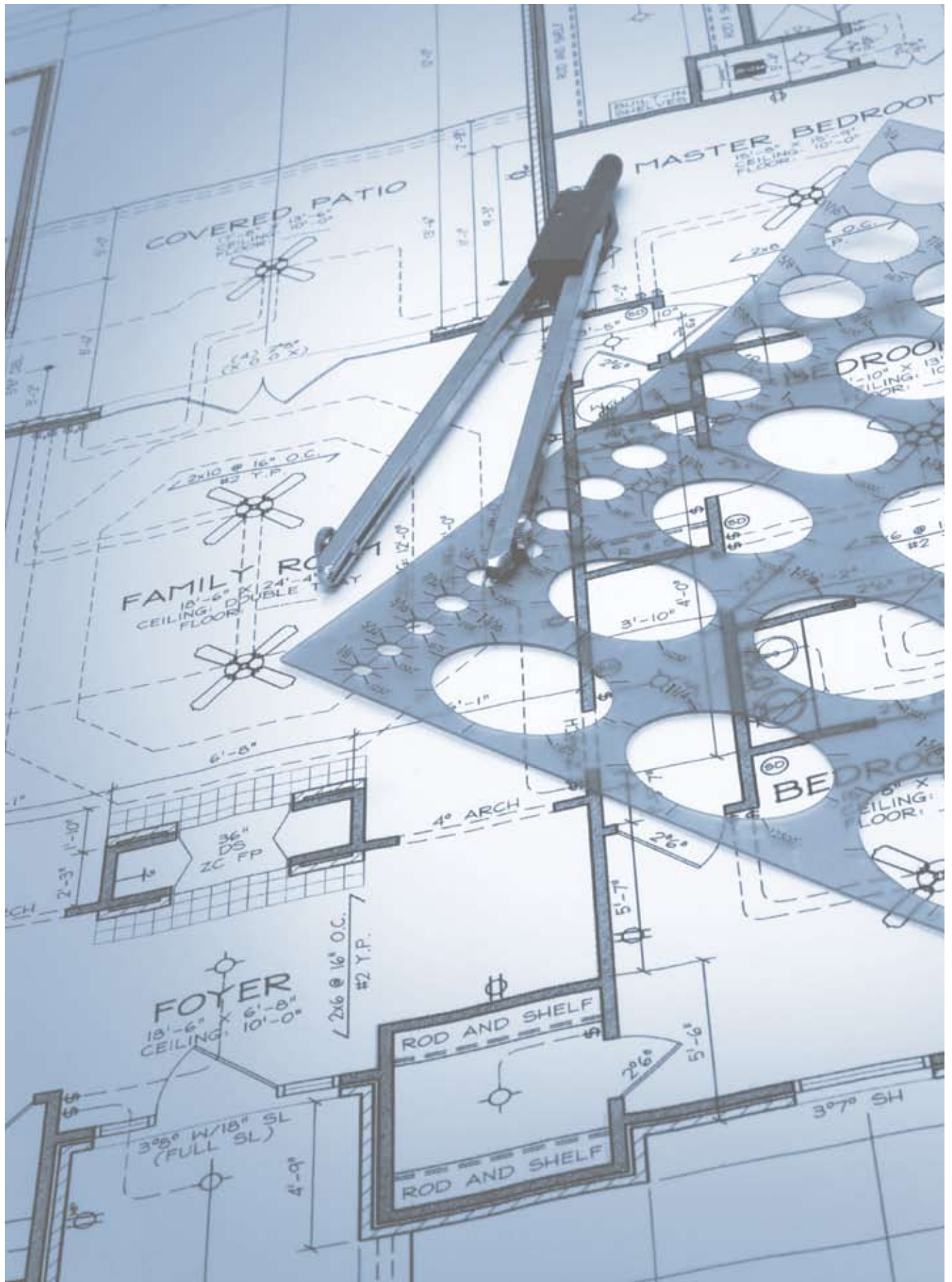
consumer confidence fell, and homebuyer traffic declined sharply. Since late 2006, however, the demand for new homes seems to have stabilized and has improved slightly.

Seeing these market factors in play, and hearing various anecdotal perspectives from the manufacturers and builders with whom we work, the NAHB Research Center began wondering what implications this down market would have on building product manufacturers and the way they market to builders. Research Center staff began to ask questions, such as:

- What changes have builders made in their internal operations and how do those changes affect purchasing?
- What factors are driving changes in builders’ material usage and selection?
- Is now the time for manufacturers to innovate?
- How have builder expectations for suppliers and subcontractors changed in light of the current building market?
- How are builders reacting to changing expectations from their customers in this “buyers’ market?”
- How are builders using technology to reduce costs and create efficiencies?

Feeling there was sufficient need within the building product supply chain to warrant asking these questions more formally, the NAHB Research Center embarked upon a study in late 2006, combining qualitative research and a nationwide survey to capture the attitudes of home builders in this new business environment. Manufacturers who understand the new environment and act quickly to make adjustments to their product(s), distribution, marketing, and sales strategies can see short-term sales improvements and be better positioned for the housing market rebound.

¹ The seasonally adjusted annual rate is the number of total housing starts that would be expected if starts would continue at that rate for the entire year, factoring out seasonal changes in demand.



COVERED PATIO
10'-0" x 10'-0"
CEILING: 10'-0"

FAMILY ROOM
10'-6" x 24'-4"
CEILING: DOUBLE TRUSSES
FLOOR: 2x10 @ 16" O.C. #2 Y.P.

FOYER
13'-6" x 6'-0"
CEILING: 3x6 W/18" SL (FULL SL)

MASTER BEDROOM
10'-6" x 10'-0"
CEILING: 10'-0"

BEDROOM
10'-0" x 13'-0"
CEILING: 10'-0"

ROD AND SHELF

ROD AND SHELF

3x6 W/18" SL (FULL SL)

4" ARCH

2x6 @ 16" O.C. #2 Y.P.

3x6 SH

Study Methodology

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The chief objective of this study was to document the changes in home builder attitudes and construction practices during the market decline of 2006 in order to help product manufacturers and suppliers adjust product and service offerings, distribution, and sales strategies to meet the demands of the new home building industry environment. The research method consisted of two phases: (1) a “discovery” phase to uncover the types and extent of changes taking place in home builder attitudes and business practices; and (2) a “validation” phase to obtain data from which we could draw reliable conclusions about the current state of the industry.

For the discovery phase, the NAHB Research Center selected a group discussion format with three or four home builders per group. Seven professionally-moderated discussions were held with a total of 24 home builder participants. These discussions were held by telephone to obtain a broad geographic representation, to ensure input from the widest range of recent building industry experiences, and to increase anonymity so builders would feel more at ease in speaking about sensitive subjects. Senior management from production and custom builders participated, representing both single- and multifamily home building firms.

After reviewing the findings of the group discussions, the Research Center began formulating preliminary hypotheses about what was taking place in the industry. Then we launched the validation phase of the study, which consisted of a nationwide survey of 320 home builders to provide a statistically valid basis from which to draw conclusions. A questionnaire was crafted to test our hypotheses and was fielded using the NAHB Research Center’s Home Builders Online Research Panel. The data were tabulated using a methodology that weights home builder responses by the number of annual housing completions, giving proportionately higher weights to responses from builders with higher production volumes, to provide a more accurate reflection of current market conditions.



View of the Overall Market Conditions

3

While some in the mainstream media have described the current industry conditions as a “housing market crash,” or have said “the housing bubble has burst,” builders in many markets have seen only mild to moderate slow-downs in sales. Overall, home builders are much less pessimistic about the current market conditions than many media reports would indicate. In fact, many builders we talked to believe that the media, in part, have been responsible for some of the housing slowdown with exaggerated descriptions of the downturn, lowering consumer confidence in housing and thereby contributing to slower sales.

“The last thing you want to do is to add fuel to a fire that’s burning the business or house down.”

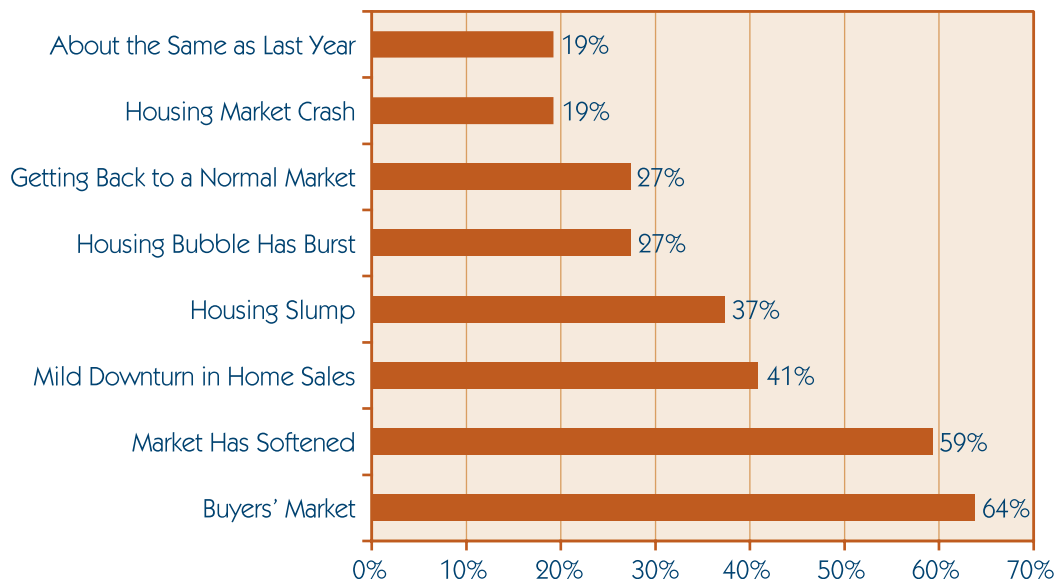
Further, some believe the media have the ability to help the industry rebound.

“I think, from a media standpoint, you have to take the bright side and you may even have to create a light at the end of the tunnel.”

When asked how to describe their current local market conditions, a majority of survey respondents selected “Buyers’ Market” and “Market Has Softened” as accurate descriptions. The more extreme and negative descriptions, “Housing Market Crash” and “Housing Bubble Has Burst,” were selected by only a minority of builders.

A breakout of survey responses revealed that national and regional home building companies have a more negative view of the current market than local builders. National and regional

Figure 1—How Builders Describe Their Local Market Conditions



builders were more likely to have agreed with the most pessimistic view, “Housing Market Crash,” than local builders. Local builders were more likely to select a more moderate view, “Market Has Softened,” than regional or national builders. Larger builders—those building 25 homes or more in 2006—were more likely than small builders to agree with the most negative descriptions of a “crash,” “slump,” or the bursting of a housing bubble.

Regional Outlook

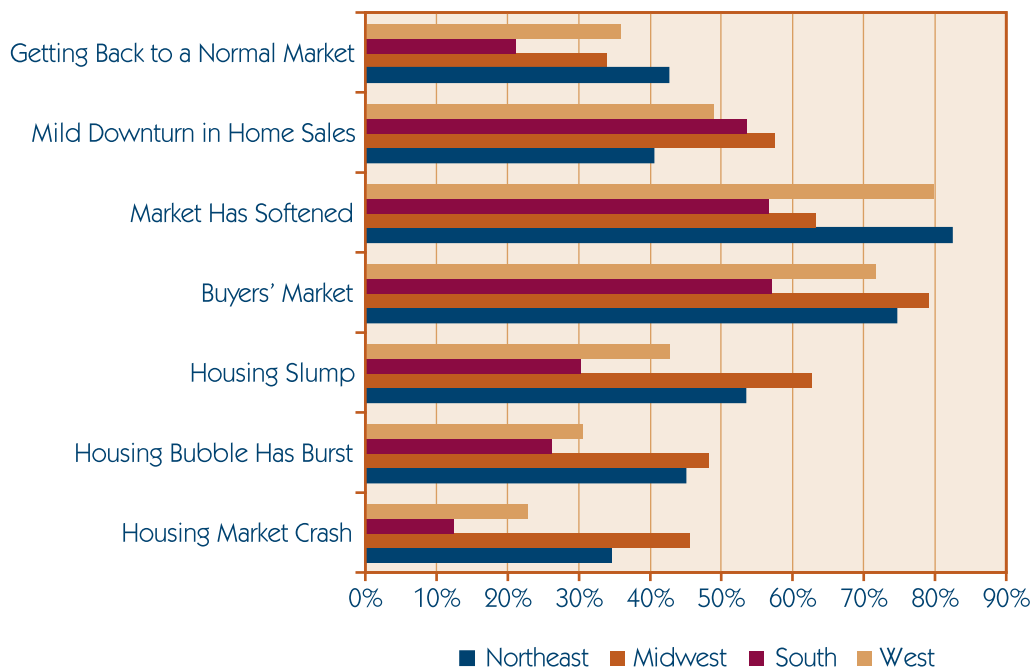
Builders across all regions responded with mild to moderate descriptions of their current markets, such as “Market Has Softened” and “Buyers’ Market.” Midwest builders more than any others, agreed with each of the more negative outlooks on the housing market, such as “Housing Market Crash,” “Housing Bubble Has Burst,” and “Housing Slump,” with nearly half agreeing with the most dire outlook—a “Housing Market Crash.” This distinction stands to reason as the Midwest has been hit with an economic decline that, when combined with a national downturn in housing, has led to a more severe decline in many of its markets. On the other hand, builders in the South agreed the least with strongly

negative statements—leading the Research Center team to believe they have been affected the least by a downturn in the housing market, or have a more optimistic outlook on their current and future markets. Figure 2 is arranged (top to bottom) from least to most severe (in outlook).

Implications

Overall, home builders are less pessimistic about the housing market than some media and industry reports seem to indicate. The degree of optimism varied by size and operating region of builder, as could be expected, with builders in the South and builders serving a single metro market rating the best. When developing marketing and other messaging campaigns geared toward home builders in the current industry climate, it is important for manufacturers to represent a balanced, mainstream view of the market to maintain credibility with their audience. Manufacturers who sensationalize or exaggerate the downturn in their messaging run the risk of alienating builders, causing them to view the purveyors of negative messaging as contributing to the housing downturn by sapping confidence from potential homebuyers.

Figure 2—How Builders Describe Their Local Market Conditions (By Region)



Focus of Builders' Improvements and Innovations

4

A widespread sentiment surfaced during the preliminary builder discussions—during the past few years of record-high sales, builders tended to shift emphasis *away from* home quality and maintaining customer relationships, and *toward* getting homes completed and closed on time. One participant noted that, during 2004 and 2005, a builder could sell about any home he produced, regardless of looks or quality. Another participant remarked that since the housing industry downturn, builders had begun doing things to improve their businesses that they should have been doing all along. While participants were virtually unanimous in asserting that their business process priorities were shifting, their views varied widely on the new areas of emphasis.

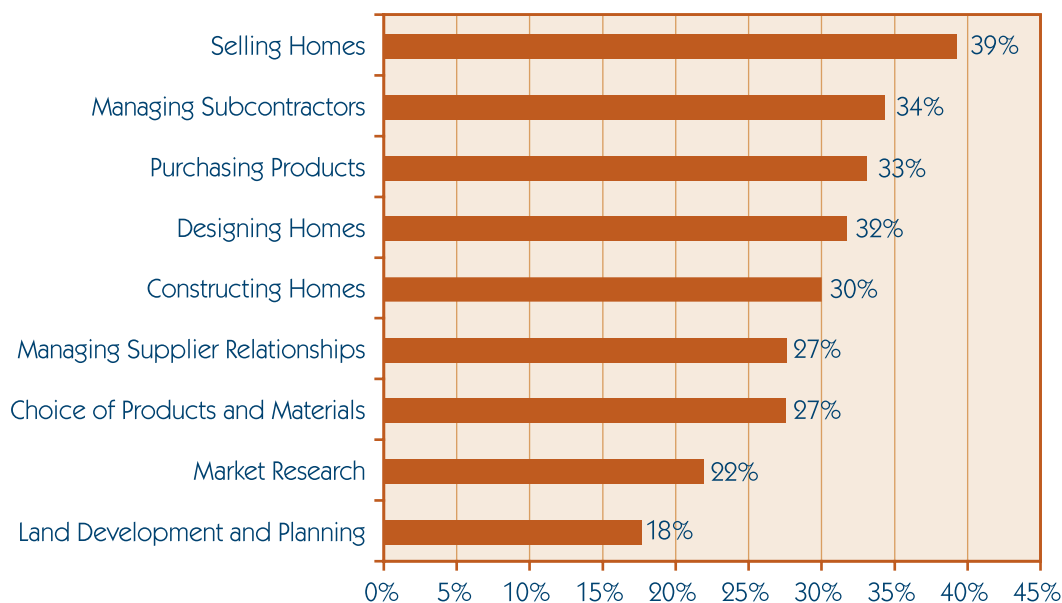
In order to understand exactly where builder focus has shifted, the Research Center asked builders in the survey which business areas they were more or less likely to improve or innovate

this year compared to last. The greatest number of respondents stated that “Selling Homes” is very likely to be an area of improvement or innovation, with 39 percent rating it highest on a five-point scale.

“I think it’s an opportunity now, with the market being more difficult, to try to outshine your competition.”

In a market with sharply declining home sales, an emphasis on “Selling Homes” is not at all surprising. However, the order of the remaining categories has some unexpected surprises. For example, “Land Development and Planning” finished last despite being at the core of recent home building issues, i.e. reduced availability of land and unfavorable land-use regulations. Only builders in the West rated this category as

Figure 3—Areas Where Builders are Very Likely to Improve or Innovate



a high priority—41 percent described themselves as “More Likely” to change or innovate in “Land Development and Planning.”

Builder Segments

There were also different patterns in which production and custom builders answered this question. Using the same five-point scale, custom builders were much more likely than production builders to indicate a five—the highest likelihood of improving or innovating—in “Constructing Homes” and “Choice of Products and Materials.” Production builders, on the other hand, were more likely to change or innovate in “Selling Homes.” Production builders selected “Managing Subcontractors,” “Purchasing Products,” and “Designing Homes” as the next highest priorities.

Regional Outlook

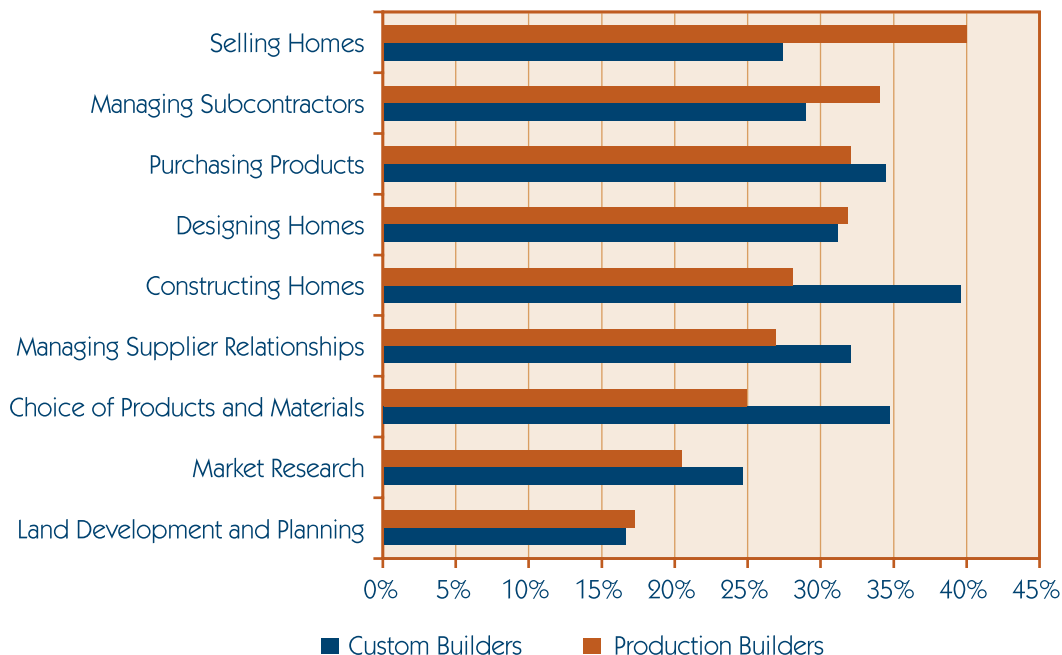
Overall, builders in the West were, by far, most likely to improve or innovate in various areas of their businesses as compared to a year ago. More than half of all these builders agreed that 1) Selling Homes, 2) Managing Suppliers, 3) Managing Subcontractors, and 4) Market

Research were most likely to receive improvements or innovations in their businesses. Second most likely to improve or innovate were builders in the Midwest, where 1) Selling Homes and 2) Managing Subcontractors were selected as most important areas by about half the respondents. Builders in the South were much less inclined to innovate or improve their businesses—only about 30 percent stated they would improve in 1) Selling Homes, 2) Constructing Homes, 3) Purchasing Products, and 4) Designing Homes. Finally, builders in the Northeast were least likely to innovate or improve in the past year, with 30 percent of builders in this region selecting “Purchasing Products” and 26 percent selecting “Designing Homes” as areas where they are most likely to improve or innovate.

Implications

Overall, home builders indicated a much higher interest this year than in the previous year in innovating or improving their businesses. The housing downturn, as indicated by the study participants, has caused a greater number of builders to find ways to be more competitive in this tighter market. This is especially true

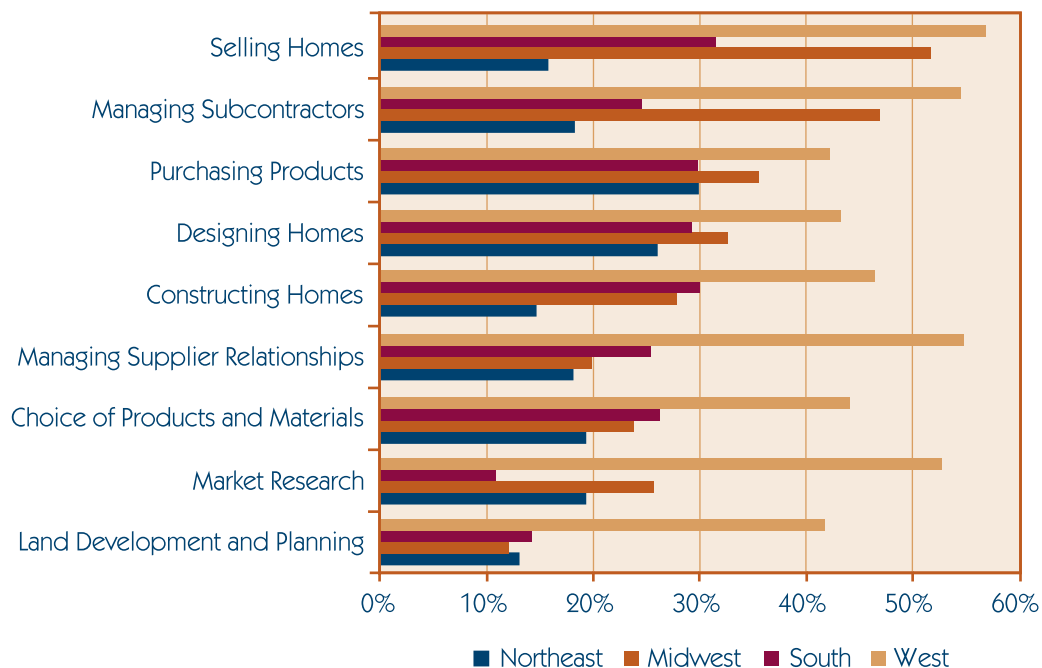
Figure 4—Areas Where Builders are Very Likely to Improve or Innovate (By Builder Type)

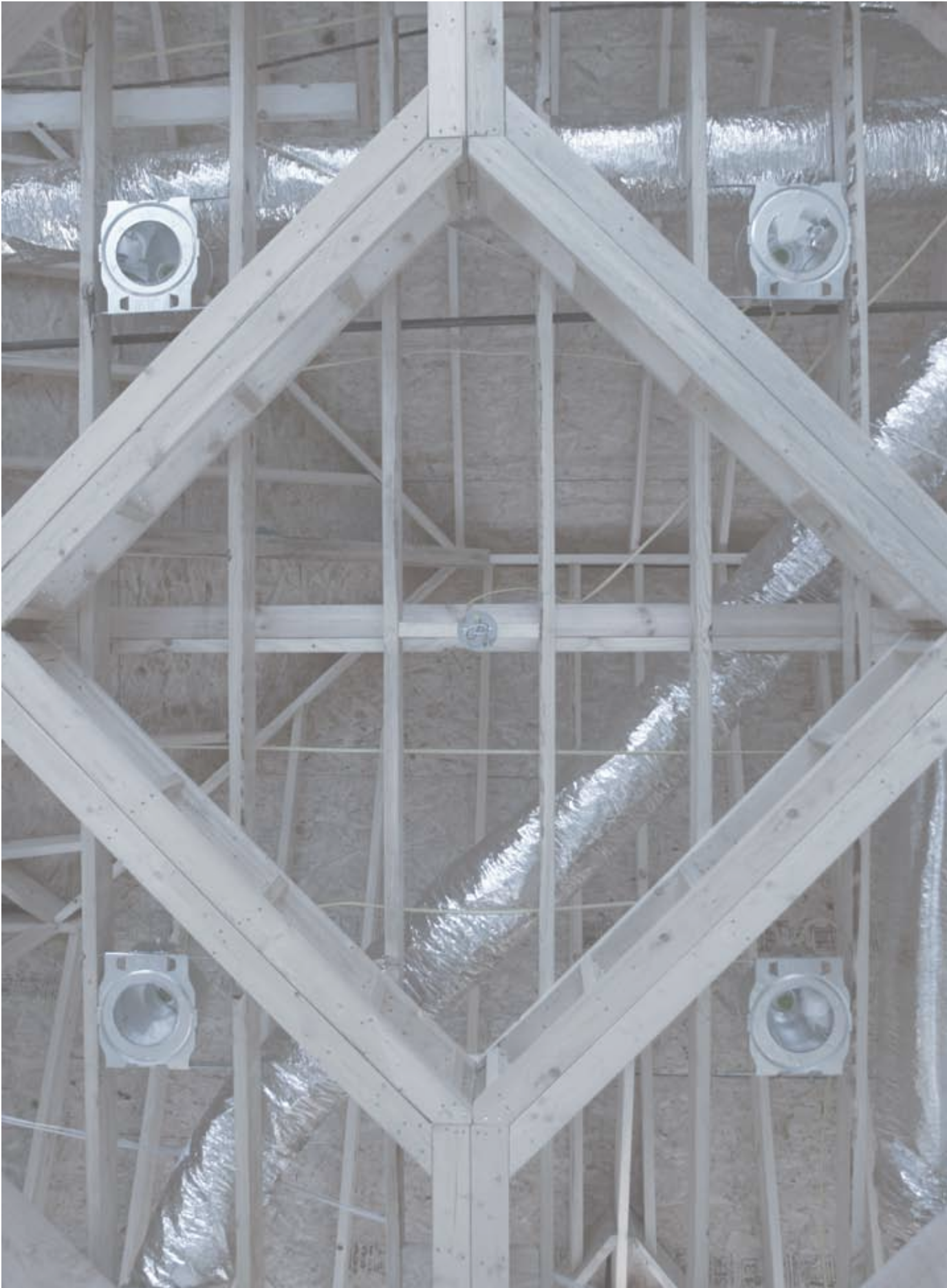


of builders in the West in all areas of business, but is also highly likely for Midwest builders in the areas of selling homes and managing subcontractors. A manufacturer can improve its likelihood of gaining new customers, or retaining current customers, by offering solutions to builders to help them improve and innovate.

Most attention should be given to those business areas rating highest among builders; however, these areas varied widely by region and builder type. Solutions for improving builder home sales may include more customer-facing literature, content for builder websites to draw traffic, or training of home builders' staff to install, sell, or design their building products. Other solutions may include those that improve the efficiency of managing supplier and subcontractor relationships or improving the construction process. Production builders, especially in the Midwest and West, seemed most inclined toward improvements in the selling of homes. Custom builders, on the other hand, were more attuned to the construction process and materials selection and were likely to be more receptive to materials or systems offering improvements in these areas.

Figure 5—Areas Where Builders are Very Likely to Improve or Innovate (By Region)





Attracting More Customers

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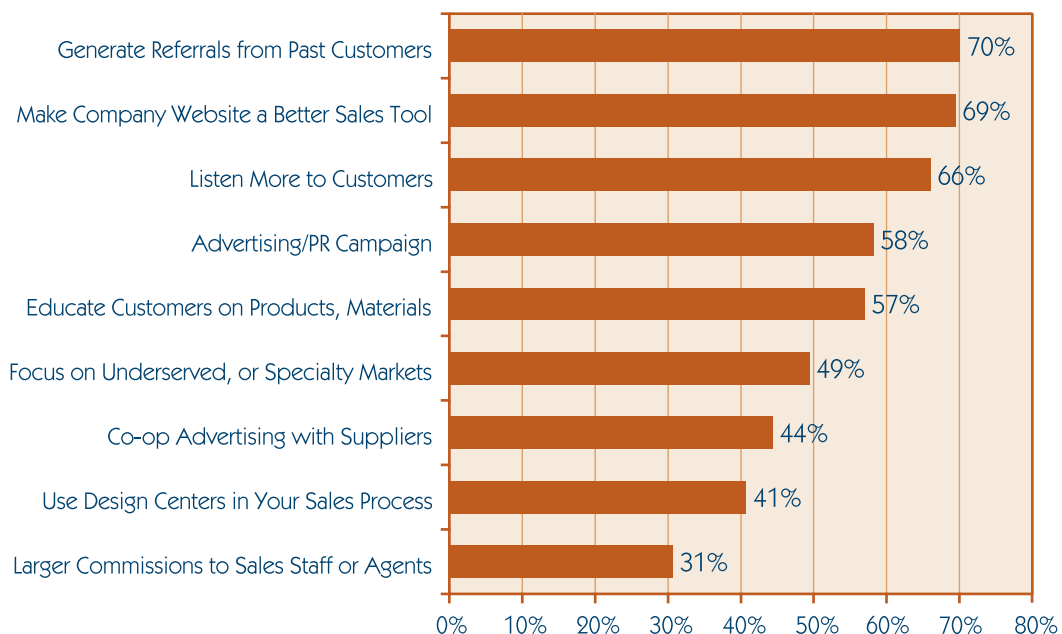
In the preliminary discussions, builders indicated that, with the decline in new home sales, they had started to put more effort into attracting potential homebuyers into their sales offices. According to the survey responses, homebuyer traffic declined between January 2006 and January 2007 for most home builders. Fifty-eight percent of survey respondents reported a decline during this period, while only 15 percent reported an increase; others stated no change. Smaller builders—those building fewer than 25 homes per year—seem to be suffering most from lower buyer traffic, with 67 percent of the sample reporting a decline compared to 57 percent of larger builders. The data also suggested that local builders have been hit harder with declining sales floor traffic compared to national and regional builders. This seems to indicate that larger companies, although similarly affected by the downturn in terms of overall sales, have been

more effective or more resourceful in maintaining a flow of potential customers.

“Referrals—that is how you are going to sell in a slow market.”

In order to better understand the measures builders are willing to take to maintain homebuyer traffic, the Research Center asked how likely participants were, compared to last year, to pursue various promotional activities. Finishing at the top was “Generating Referrals from Past Customers,” with 70 percent of respondents stating they were likely to use this technique. Custom and production builders were equally likely to choose this alternative.

Figure 6—Attracting Buyers to Sales Offices



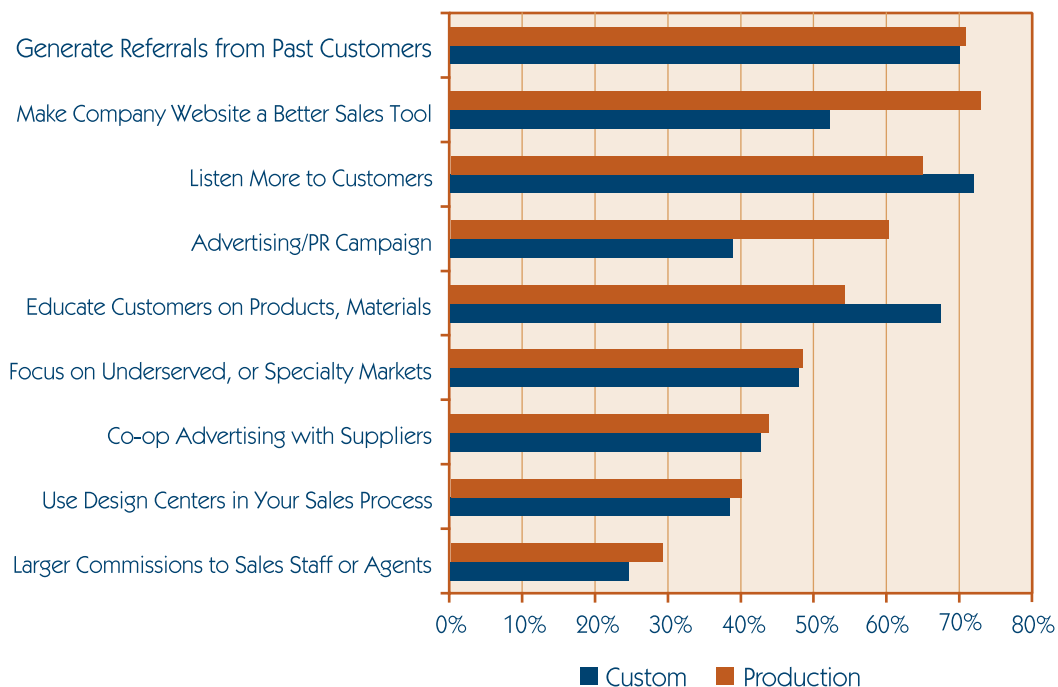
Following closely with 69 percent was “Make Company Website a Better Sales Tool.” Seventy-three percent of production builder participants reported a likelihood of using this technique, while 53 percent of custom builders reported the same. One builder in the preliminary groups elaborated saying, “We’re monitoring [our website] on a daily basis in terms of traffic. We’ve assigned a full-time Web concierge to handle every contact that comes through. We took someone out of our sales area and put them on as our Web consultant.”

Gathering market feedback for the purpose of adjusting product offerings was another highly likely area of increased activity. “Listen More to Customers” was a common response, with 66 percent of builders naming it as an activity they would likely pursue. Another form of gathering market feedback, “Conduct Market Research,” finished at 53 percent—respectable, but a full 13 percentage points lower. While production builders were more likely to conduct market research, custom builders were more likely to emphasize listening to customers.

Builder Segments

For most of promotional activities, custom and production builders’ responses were similar, especially for the top answer—“Generating Referrals from Past Customers.” One noteworthy exception is that custom builders appear to be more likely to focus on developing stronger customer relationships to increase the sales of their homes. Custom builders’ top choice was “Listen More to Customers,” with 72 percent likely to pursue this option compared to 65 percent of production builders. Custom builders were also much more willing to spend time to “Educate Customers on Products and Materials.” Custom builders also appear to be interested in using innovative products and materials to increase the appeal of their homes. About 69 percent of custom builders chose “Adopt Innovative Construction Practices, Products, and Materials” (not shown on graph) as a course to pursue, compared to 58 percent of production builders.

Figure 7—Attracting Buyers to Sales Offices (By Builder Type)



Production builders, however, were far more willing to draw customers to their sales office by “Making Company Website a Better Sales Tool” and with an “Advertising/PR Campaign.” Surprisingly, some traditionally popular marketing tools such as co-op advertising, incorporating design centers into the selling process, and giving larger sales commissions, fell to the bottom of the list for both custom and production builders.

Regional Outlook

In general, Western builders indicated the greatest interest in undertaking promotional efforts to draw new customers. An average of 64 percent of builders in the West stated an interest in using each of these methods. Northeastern (59%) and Midwestern (58%) builders reported a similar likelihood to choose any of the alternatives. Southern builders were least likely to pursue any of these methods to attract buyers, averaging 47 percent for all methods listed.

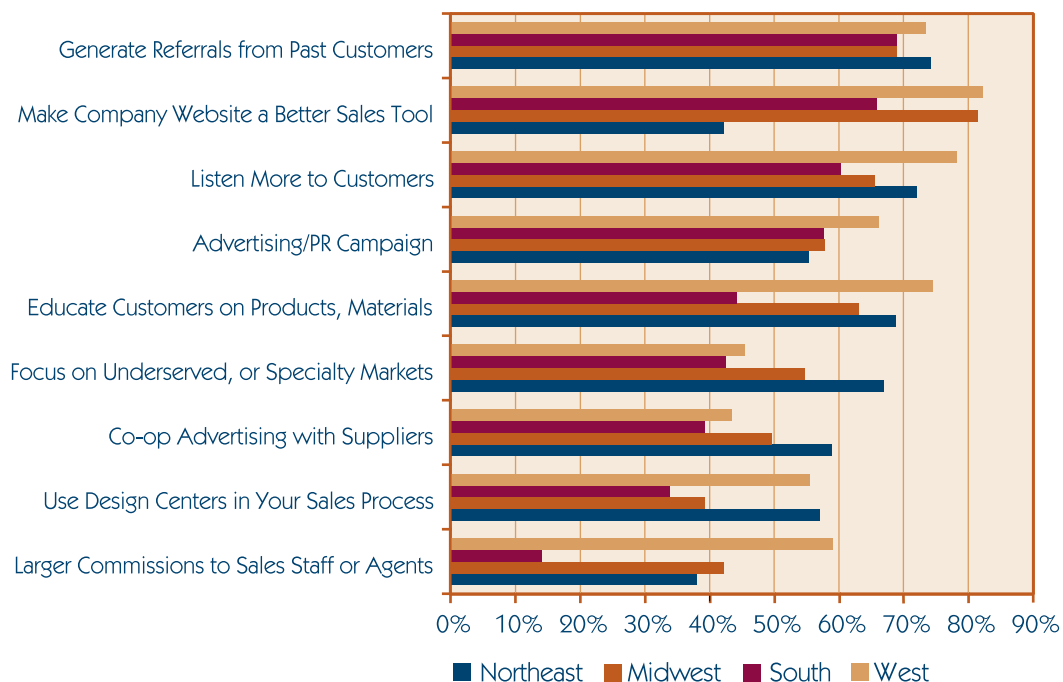
Builders in the West and Northeast finished at the top together in all three categories having to do with customers: generating referrals from,

listening to, and educating customers. While more than 80 percent of builders in the West and Midwest selected “Make Company Website a Better Sales Tool,” builders in the Northeast were only about half as likely to use this method. Northeast builders were also far more likely than others to focus on specialty, or niche markets.

Implications

Suppliers of building materials are encouraged to consider innovative and non-traditional ways of offering products, services, and support to home builders that help draw more traffic into the builders’ sales offices. For example, manufacturers could create a program that generates referrals of potential homebuyers to builders. Additionally, manufacturers or suppliers who rely on production builders may consider offering technical expertise or relevant content to builders for more effective, sales-focused websites. Home builders’ openness to learn more about their customer base may afford opportunities for manufacturers to provide tools to encourage feedback from buyer traffic—in person, by phone, and online.

Figure 8—Attracting Buyers to Sales Offices (By Region)



Suppliers and manufacturers selling to custom home builders may consider offering solutions that encourage communication between builder and homebuyer, helping the builder understand customer needs. Manufacturers may also offer better tools to home builders to help them communicate the benefits of their products and materials to homebuyers. Western builders, in general, are likely to be most receptive to the methods listed above. West and Midwest builders will be especially accepting of approaches

that combine the Web and a customer focus. Northeast builders are more likely to use more traditional, less technological approaches with a customer focus. Builders in the South, while least likely to undertake the listed promotional activities, are still receptive to traditional and technology-based alternatives.

Closing the Sale

6

Getting more potential homebuyers into the sales office is one possible method for increasing new home sales for any builder. Another way is to improve the closure rate of prospective buyers. This study, however, has shown that improving the closure rate has been challenging in the current market. According to builder respondents, the speed in which homebuyers commit to purchasing a new home has dropped when compared to a year ago. Forty-six percent of respondents stated today's homebuyers are slower to commit to the purchase, while only 17 percent say they are faster. Custom builders seem to be

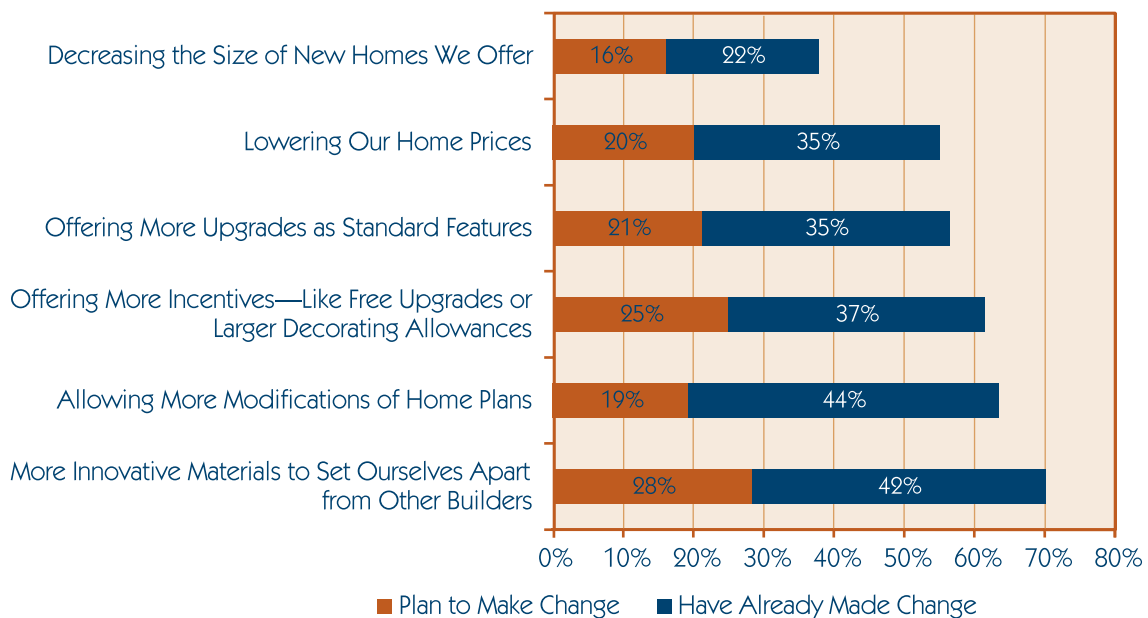
hardest hit by non-committal customers—65 percent report a slowing in homebuyers' speed to commit, while only 44 percent of production builders reported the same.

It is evident from this study that home builders have recognized the increased bargaining power of buyers over the past year. During the preliminary group discussions, builders reported lowering home prices, offering upgrades at no cost, and allowing more flexibility in home designs as typical responses to the increased leverage of homebuyers.

At the top of the list of likely areas of change was "More Innovative Materials to Set Ourselves Apart from Other Builders," with 70 percent of respondents stating they had already taken, or were planning to take, this course of action. Further, the survey verified that home builders have become much more willing to allow homebuyer modifications of home plans to make

"Buyers may be holding out a little bit longer and we may be taking more offers or lower offers than we would have in the past."

Figure 9—Strategies to "Close the Sale"



the sale. More than half of all builders surveyed offered or planned to offer free upgrades, while a lesser number had begun to incorporate former upgrades as standard features. Fewer respondents, but still a sizable 55 percent, had lowered or are planning to lower home prices. Production builders were more likely to state they had already lowered home prices—38 percent compared to 16 percent of custom builders.

Participants in the discussion groups said they have also focused more effort into customer relationships to make the best of lower buyer traffic and to keep customers happy while homes are under construction. Fifty-seven percent of builders surveyed indicated they would put forth more effort to educate buyers about products, materials, and home designs than in previous years. About 53 percent reported they are likely to make sure jobsites look cleaner and tidier than last year. Despite refocusing on the sales process, barely half of builders surveyed plan to develop closer relationships with potential homebuyers as a way of improving their success rate.

It can be inferred from the study results that the majority of builders who plan to make changes in strategies for “closing the sale” have already made the change—there are more builders selecting “Have Already Made” a change than “Plan to Make” in each category. “Allowing More Modifications of Home Plans” seems to be the most mature in the cycle of change since the ratio of those having made the change to those planning a change is highest.

Implications

Home builders have shown a preference towards increasing the perceived value of their homes as a first and most popular response to closing the sale in this buyer’s market. The top answers—“More Innovative Materials” and “Allowing More Modifications of Home Plans”—both focus on improving the home builder’s offer without necessarily lowering the price or reducing margins. These two options, however, require that builders put forth extra effort towards investigating new products and materials and

making modifications to home plans that would heretofore not have been provided as an option to buyers.

A second approach surfaces in the following two responses—“Offering More Incentives” and “Offering More Upgrades.” Both options center on a strategy of offering more home for the same price. Many builders have been very hesitant to reduce prices, and in a market where bargaining power shifts to the buyer, builders have tended to make concessions by offering buyers more for the original price. The third approach is to continue offering the same homes and features at a lower price, responding to the pressure of increased customer buying power with little change other than price. While lowering prices is a third-tier response, it is by no means unpopular. About a third of respondents have done this already. The final and least popular tactic employed to remain competitive is lowering prices by offering less home through decreasing the size of the living area.

Suppliers can reformulate their product and service offerings, along with their marketing strategies, to take advantage of this hierarchy of builder marketing strategies. Builders are now more receptive to products that help them stand out among the field of competitors. Builders will also favor products or materials that allow easier modification of home plans or designs to satisfy a more demanding customer.

Focus of Manufacturer Sales to Builders— National, Regional, or Local Offices

7

In recent years, some manufacturers of building products and materials have sought purchase agreements with the corporate offices of large home builders as a way to establish high volume contracts. Many builders have responded positively, since these agreements can provide favorable pricing and purchasing terms. Currently, companies that build homes in more than one housing market—those consisting of national or regional operations—make up about 35 percent of annual U.S. housing starts. While this is a sizeable share, manufacturers should consider that not all purchasing decisions by these companies are made at the company’s national headquarters. This section of the study attempts to answer whether the influence of corporate offices in purchase and specification decisions is growing or declining in our current market.

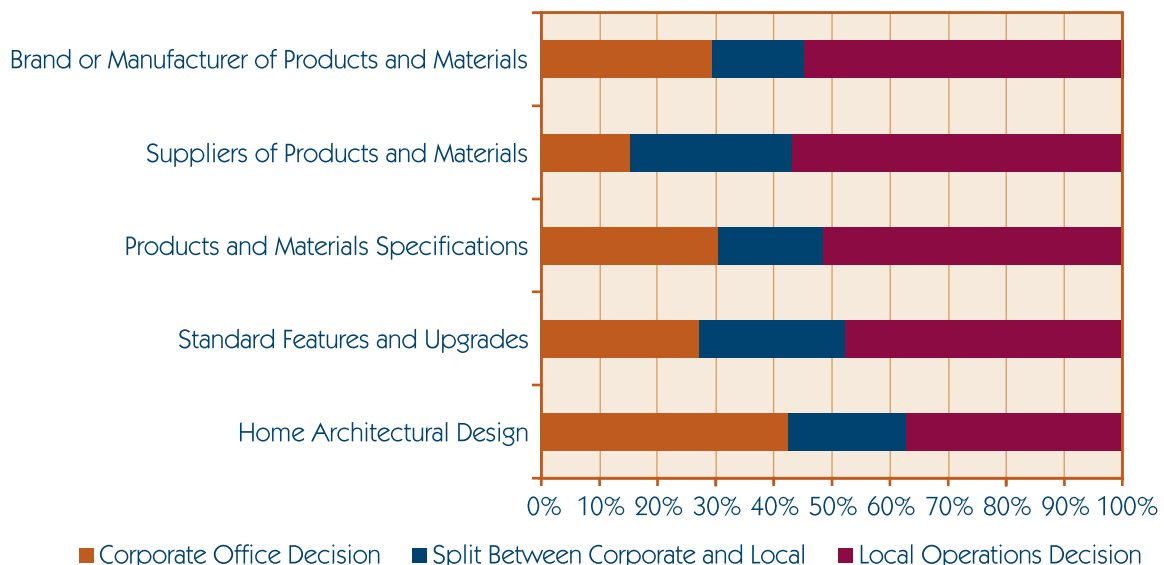
Despite the existence of national or regional purchasing agreements between builders and manufacturers, primary purchasing authority has typically remained with the local operations

of major U.S. production builders. For national and regional builders, as this study shows, the authority related to product purchase and specification still tends to reside with the local operations in all areas but “Home Architectural Design.”

Builders say local purchase and specification authority is growing at the expense of centralized corporate purchasing.

Most strongly influenced by local operations was the choice of “Suppliers of Products and Materials,” with 58 percent of respondents stating that responsibility is centered at the local level, and 15 percent saying it is at a corporate office. Second and third by rank order were “Brand or Manufacturer of Material” and “Products and Materials Specifications.”

Figure 10—Decisions Made for the Local Operations of National and Regional Builders



Another survey question asked whether the balance between national/regional and local purchasing authority had changed since the downturn in housing. Builders responded that local purchase and specification authority has grown at the expense of centralized corporate purchasing. Thirty percent of respondents reported purchase and specification authority is shifting toward the local operations, while only 6 percent stated authority is shifting toward corporate headquarters.

national and regional builders where the local operations still remain primary decision makers. While opportunities still exist for national purchasing agreements with home builders, manufacturers should not assume past trends towards centralized purchase and specification authority will continue.

Implications

For building products companies to succeed under the current market conditions, targeting local decision makers with sales and promotional efforts is increasingly crucial. About 65 percent of all homes built in the United States annually are constructed by builders who operate locally or who operate in one market area. The remaining 35 percent of new homes constructed are by

Changes in Builder/ Trade Contractor Relations

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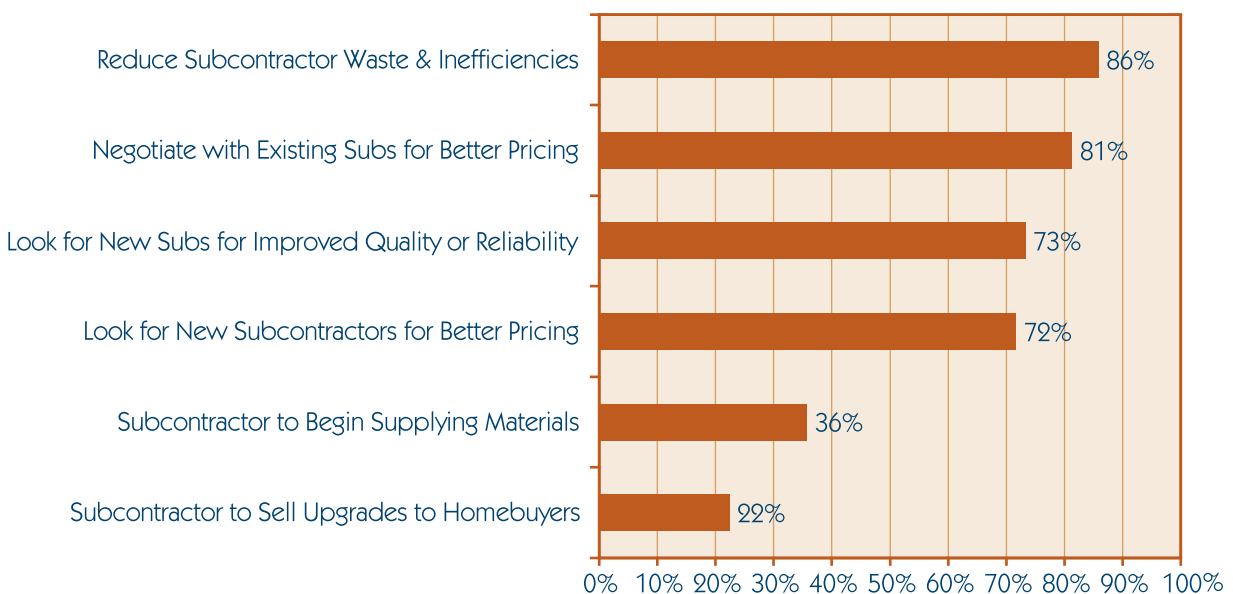
The preliminary group discussions with builders uncovered some major changes in the past year regarding the relationship between builders and trade contractors. Some builders are using the slowdown as an opportunity to obtain better pricing and higher quality work, either through existing contractors or by locating new ones. Builders are not, however, very willing to place greater trust in these contractors by expanding their roles. Only a small proportion of builders indicated allowing trade contractors to supply the materials they install. Even fewer were willing to have contractors meet with homebuyers to sell upgraded systems.

Overall, home builder satisfaction with trade contractor performance has increased in the past year. According to more than half of builders, the responsiveness of subcontractors increased while only 6 percent reported a decrease.

“I rely heavily on subcontractors who have been doing this for a long time. I ask them for options ... on how to keep costs down, and I expect them to deliver the best value.”

Subcontractor quality of work is also up, with 32 percent of the survey respondents claiming an improvement in this area and 5 percent reporting declines. These findings are no surprise, since the lower construction volume has affected business for most trades, but to a lesser degree for those serving non-residential and remodeling sectors—both of which have been steady or increasing in the past year.

Figure 11—Builders Likely to Pursue the Following Relative to Subcontractors



Builders in this study’s preliminary group discussions stated they expect more from contractors in the wake of the downturn.

Overall, survey respondents were highly likely to attempt to reduce the cost of subcontracting through improved efficiency and reduced prices. Eighty-six percent of builders in the survey said they were more likely this year to improve subcontractor efficiency by working with them to reduce waste and improve efficiencies. A large share of builders also expected price reductions from subcontractors. Eighty-one percent of the survey respondents said they were more likely this year than last to negotiate with subcontractors for better pricing. If builders decided to switch subcontractors—about three-quarters of the same builders indicated they would do so this year. Builders reported they were equally as likely to switch for a better price as they were for improved quality or reliability.

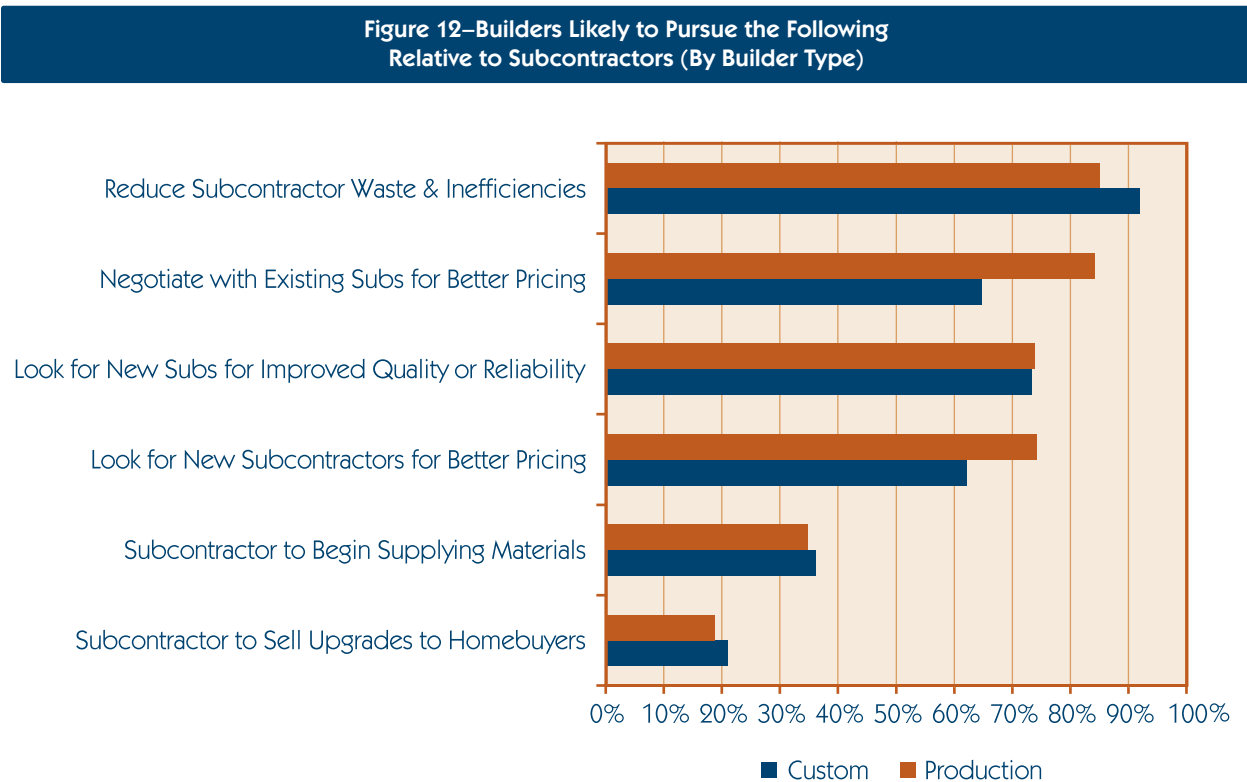
Other efforts to use subcontractors to improve business operations were mentioned in the preliminary group interviews, but were received less enthusiastically by those surveyed. Only 36 percent of the builders surveyed said they

were more likely to have subcontractors begin supplying materials than one year ago, and 12 percent reported they were less likely. Builders also tended to view subcontractor meetings with the homebuyer to choose upgrades as an unlikely option—22 percent say they were more likely to allow subcontractor-homebuyer meetings, but 29 percent were now less likely to choose this option.

Builder Segments

Overall, production builders appeared to be substantially more price sensitive than custom builders. They were much more likely to seek price reductions from their current subcontractors than custom builders—84 percent compared to 65 percent—and to look for new subs to gain better pricing. Custom builders, however, were somewhat more likely to work with subcontractors to reduce inefficiencies as a means to reduce subcontractor costs. Neither group was likely to expect subcontractors to begin supplying materials or play a major role in selling upgrades to homebuyers.

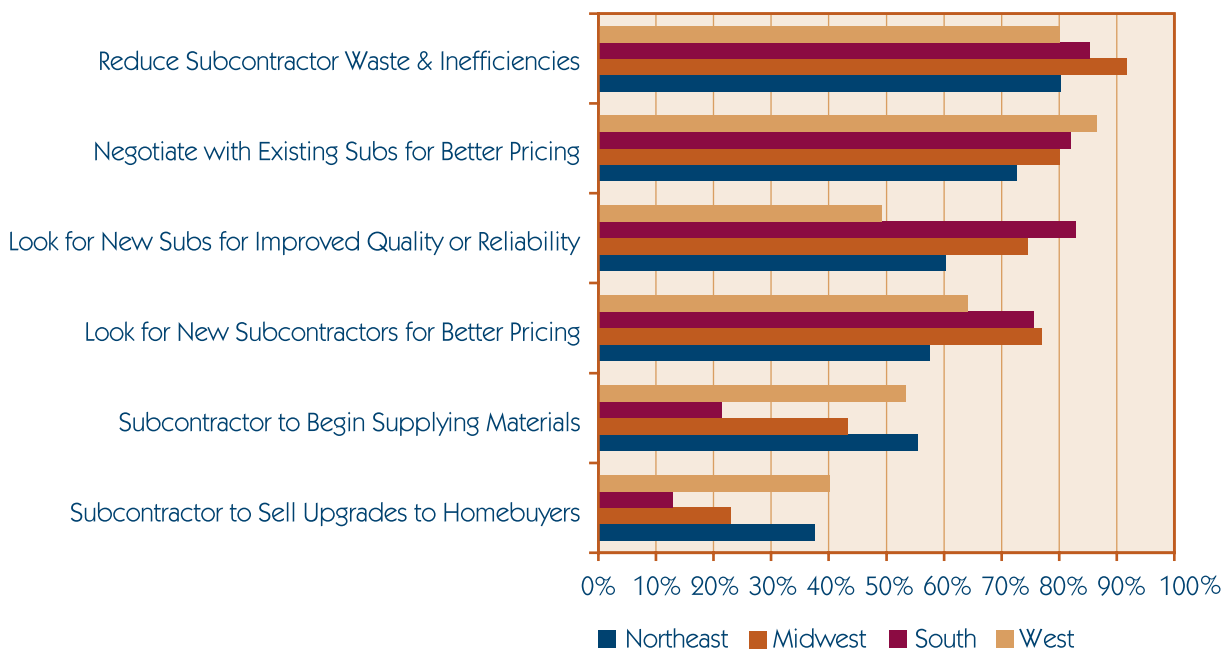
Figure 12—Builders Likely to Pursue the Following Relative to Subcontractors (By Builder Type)



Regional Outlook

Builder perspectives on subcontractors vary significantly between regions of the country. Midwest builders were most likely to gain cost savings through helping subcontractors reduce inefficiencies. Builders in the South, apparently, have the least amount of faith in subcontractors of any region. They were most likely to seek out new subcontractors for better quality or reliability, were far less receptive to bringing them into contact with homebuyers to sell upgrades, and were least likely to allow subs to begin supplying materials to the jobsite. Builders in the Northeast and West, however, showed higher satisfaction and had greater expectations of subcontractors. These builders were most likely to trust subs with materials, and sell upgrades. They were least likely to look for new subs for better pricing or increased reliability.

Figure 13—Builders Likely to Pursue the Following Relative to Subcontractors (By Region)





Changes in Builder/ Supplier Relations

9

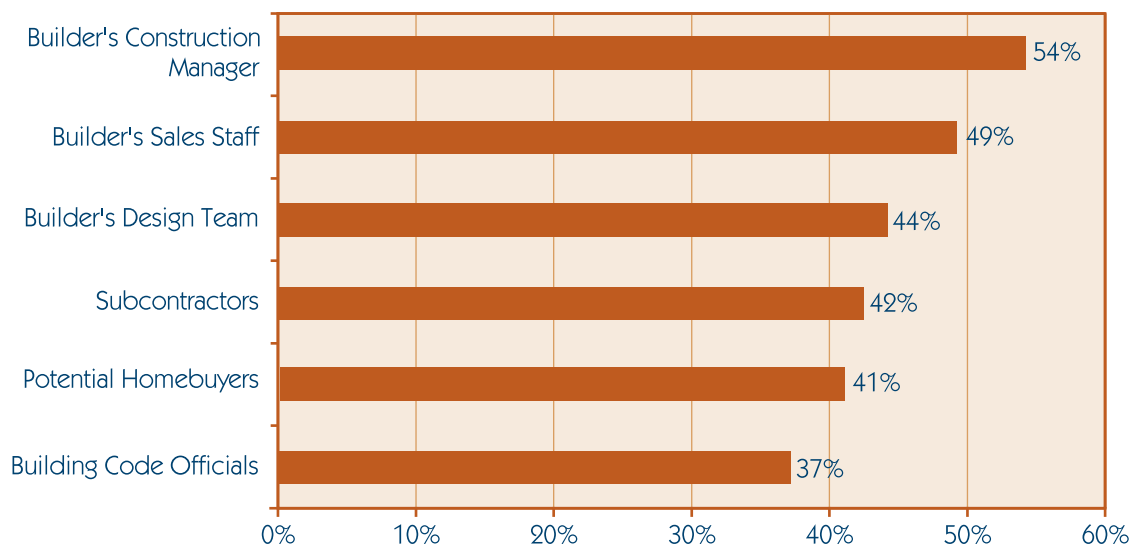
The NAHB Research Center has compiled much anecdotal information that builders' expectations of product and materials suppliers have also changed in the past year. Lower home sales volumes and slumping housing prices have caused builders to seek ways to reduce costs incurred in the process of acquiring materials, or similarly, maintain stable prices but increase their perceived value to homebuyers. One popular course chosen by builders is to look for reductions in the price of materials. Builders in the study expressed that they bear the burden of falling housing prices alone, but it should be shared with suppliers. Another method is to increase the efficiency of the purchasing process and interaction with suppliers. A third way that surfaced in the preliminary discussions is to obtain higher levels of service from either distributors or manufacturers.

Seeking Price Reductions

As expected, about 48 percent of respondents stated that supplier responsiveness has increased since one year ago, while only 5 percent reported suppliers becoming less responsive. While suppliers may be willing to provide a higher level of service in this market, this study shows that they have been less eager to reduce prices. Forty-three percent of the survey respondents report that material prices have risen since the beginning of 2006, while only 14 percent reported declining prices. Builders in the South were least likely to report increasing prices (30%) and most likely to report falling prices (21%).

Popular remedies used by builders in the past year were to request greater discounts from existing suppliers and look for new suppliers with lower prices. The majority of builders indicated a high likelihood to seek lower prices—84 percent were more likely to negotiate lower prices with

Figure 14—Builders Likely to Purchase New Products with Supplier On-site Educational Sessions for the Following



existing suppliers than one year ago. Production builders (87%) were much more likely to negotiate lower prices than custom builders (68%).

Other Strategies to Lower Cost of Purchasing

Other strategies mentioned by builders in the preliminary discussion groups were to purchase direct from the manufacturer and cooperative buying groups. Programs that allow direct purchase from the manufacturer were welcomed by about 62 percent of respondents. Only 34 percent of all respondents indicated a greater likelihood to investigate buying co-ops this year compared to last, while 18 percent were less likely. Builders in the Northeast and Midwest showed higher interest in buying co-ops than builders in the South and West. Production builders indicated a greater interest in buying co-ops than custom builders.

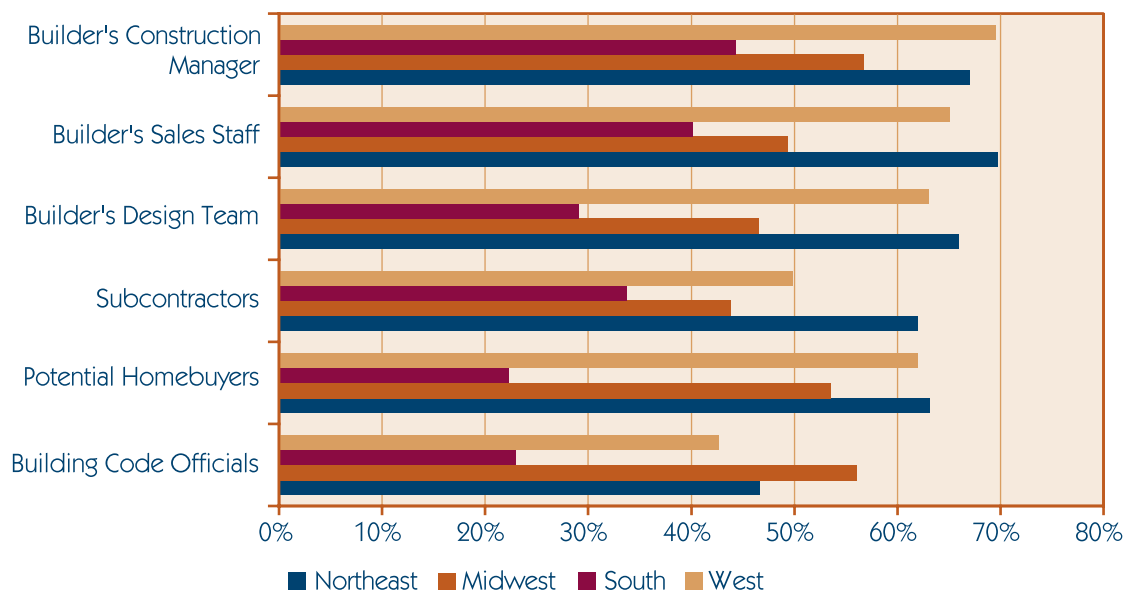
When asked about likely sources for improving the purchasing process, 59 percent of respondents indicated they would “Look to Manufacturer or Supplier to Improve Product Ordering Process.” Some interest was shown among respondents to “Automate Your Company’s Purchasing Process,”

with 40 percent stating they are more likely to do it this year than last—indicating that, while improvements are desired, they may not be realized through automation. One exception may be builders in the West—58 percent stated they were willing to investigate automated purchasing. Custom builders were much less interested in automated purchasing than production builders.

On-site Educational Sessions

Home builder discussions revealed that suppliers would have an increased chance of gaining home builder purchases by offering on-site educational sessions to builders in several business areas. Builders were most likely to purchase products when combined with sessions aimed at their “Construction Managers”—but only with a slim majority. Following were the builder’s “Sales Staff” and “Design Team”—neither of which won majority approval by survey participants. Custom builders and production builders were about equally as likely to desire on-site educational sessions with two exceptions: custom builders were significantly more likely to desire these sessions for the “Builder’s Design Team” (52% vs. 40%) and “Potential Homebuyers” (55% vs. 37%).

Figure 15—Builders Likely to Purchase New Products with Supplier On-site Educational Sessions for the Following (By Region)



Regional Outlook

Responses to this question varied widely by region. Builders in the Northeast and West expressed a significantly higher interest in most on-site educational sessions. The Midwest, however, had the greatest interest of all regions in sessions for the “Building Code Officials.” Across the board, builders in the South were least interested in on-site educational sessions, with only “Builder’s Construction Manager” and “Builder’s Sales Staff” scoring as high as 40 to 45 percent.

Implications

Overall, builders were most likely to seek price reductions to save money in the purchasing process. Production builders, who build approximately three-fourths of all new homes in the United States, were more interested in price reductions than custom builders. Suppliers who can establish a method or process that results in lower product and materials prices will be greatly advantaged in the current market environment. Establishing a method for builders to purchase directly from manufacturers—both large and small builders—would be welcomed if it results in lower prices to builders. To a lesser degree, facilitating buying co-ops would be accepted by builders. Manufacturers, however, would need to mitigate the potential distribution channel conflict and maintain adequate levels of product support for these approaches to be successful.

A secondary interest of builders—especially production ones—is improving the efficiency of ordering and purchasing. Suppliers should consider both low-tech and high-tech methods to help builders improve efficiencies. Automation, while favored overall by only a minority of builders, would more easily find acceptance in the West where a builders were likely to pursue this purchasing efficiency.

The concept of additional on-site educational sessions, though welcome by many respondents, seems to have a weaker—but significant—motivating potential than lower prices for most builders. Yet, it could be very important in some buyer segments and regions. This approach is most likely to be received by builders in the Northeast and West.



Benefits Desired from New Products and Materials

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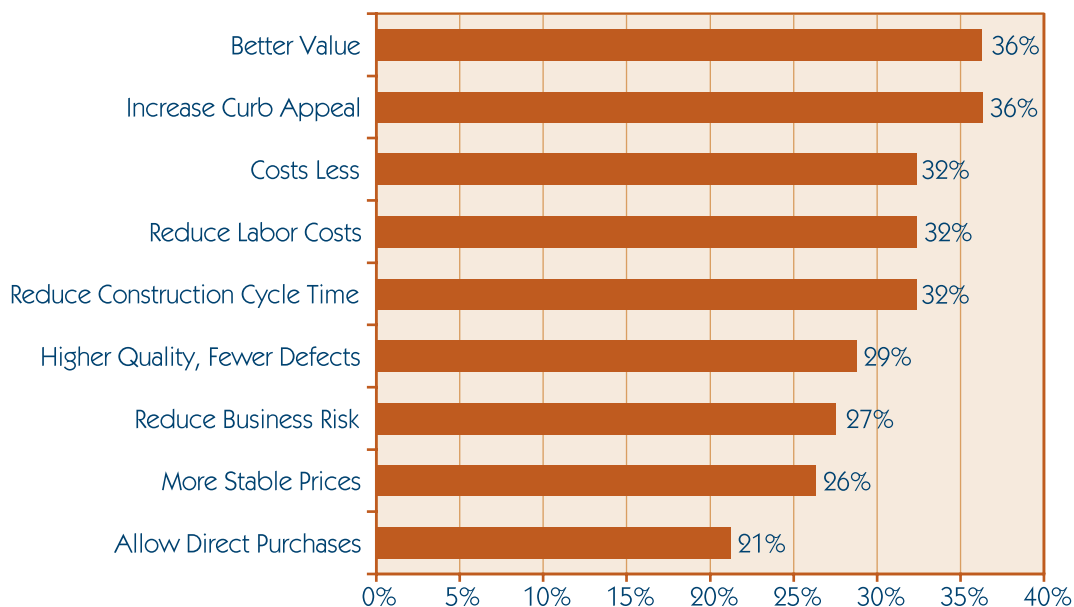
One key finding of this study was that home builders were much more likely at the time of this study to investigate and purchase new and innovative products than one year ago. The preliminary group discussions indicated two key reasons for builders' willingness to investigate innovative new products—1) builders have more time to conduct this type of investigation now than they did before; and 2) they need to improve the quality and value of their new homes to remain competitive in this downturn. To help provide greater insight into the benefits desired from innovative products and materials, survey questions were asked regarding factors that would increase builder likelihood of product purchase.

The top tier responses for desired benefits of innovative new products included the need to be a “Better Value” and “Increase the Curb Appeal” of homes, each with 36 percent of builders responding with highest likelihood on a five-point scale.

“Anything that can be developed that will give apparent increased value to the customer and is also a real, serviceable, usable product ... would be helpful.”

Second-tier responses were those associated primarily with cost or increased efficiency, including “Costs Less,” help “Reduce Labor Cost,” and help “Reduce Construction Cycle Time”—each of these responses finished with 32 percent of builders more likely to purchase innovative products with these benefits now compared to one year ago. Production builders indicated a greater interest in lower prices than custom builders.

Figure 16– Benefits Most Likely to Persuade Builders to Purchase Innovative Products



Builder Segments

Production builders were more likely to purchase materials that reduce labor costs, are less expensive, and are readily available. Custom builders, on the other hand, were more likely to purchase products that were 1) accompanied by supplier-sponsored programs to improve home sales (not shown), 2) from manufacturers providing more information to home buyers (not shown), 3) with more stable prices, and 4) of higher quality with reduced defects.

Regional Outlook

Midwest builders were most motivated by improved efficiency—selecting reduced labor costs and improved cycle times as the greatest benefits, followed closely by products that represent a better value and have lower cost. Northeast builders were most motivated by price stability and curb appeal. The top tier of factors that motivate Southern builders to purchase innovative products included increased curb appeal, overall better value, and lower cost. Aspects that Western builders found most relevant to innovative product purchase decisions were improved quality and a reduction in labor cost.

Implications

If manufacturers or suppliers want to be successful in selling new and innovative products in the current market, they need to offer products that are considered a superior value and successfully communicate that value to the potential buyers. Nationally, the top-tier benefits related to increasing the value of the home in the eyes of potential homebuyers—“Better Value” and “Increase Curb Appeal.” Manufacturers and suppliers who configure their product/service offerings to signal these benefits are more likely

to be successful in the current market. In the second tier of benefits were increased efficiency in constructing the home, lower product prices, reduced labor, and improved cycle time. These attitudes, however, varied widely by geographic area and builder segment.

For manufacturers or suppliers to take advantage of these findings, they first need to understand what constitutes a better value in the eyes of home builders and their customers for each market segment they approach. Further, new products that improve efficiency or reduce the overall cost of building are highly favored.

Evaluating New and Innovative Building Products and Materials

11

The traditional theory about innovation in the home building industry portrays home builders as resistant to change and slow to embrace technological advancement. Supporting this assertion is the fact that the basic materials usage patterns in home building, in general, have changed very little in the past few decades. The failure of new or untried materials can have grave consequences since the home is typically a large, long-term investment for a consumer. Findings from this study seem to buck traditional wisdom that builders are reluctant to innovate. Only 9 percent of builders in the survey said they typically avoid new and innovative products. The majority were willing to incorporate innovative products and materials into their homes, provided they met specified conditions.

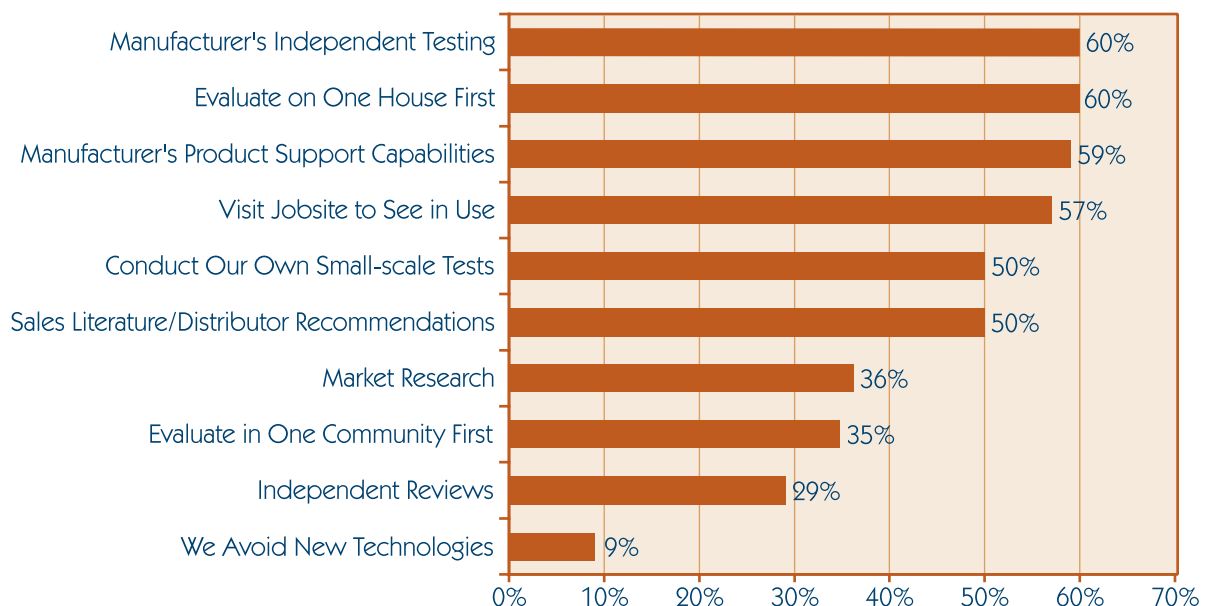
Prior to adopting an innovative building product or practice, home builders must first evaluate the new products and materials to minimize the risk of product failure. In this survey, builders were

asked about methods they use to evaluate new products prior to wide-scale adoption.

“It’s important that there has been proper R&D conducted and also that [the product] has been tried and proven ... because I just don’t want to be the first one out with it.”

The top four methods selected by home builders indicate that products, most importantly, must satisfy one of two broad criteria: 1) builders must be convinced of manufacturer credibility and due diligence in testing the new product, and 2) the product should lend itself to evaluation in an actual field setting. The need for manufacturer credibility was evident in the first (Manufacturer’s Independent Testing) and third

Figure 17—Methods Builders Use to Evaluate New and Innovative Products and Materials



(Manufacturer’s Product Support Capabilities) choices. The need to evaluate products under actual field conditions was seen in the second (Evaluate on One House First) and fourth (Visit Jobsite to See in Use) choices. Related to these methods was “Conduct Our Own Small-scale Tests,” with half the respondents reporting the use of this method.

Builder Segments

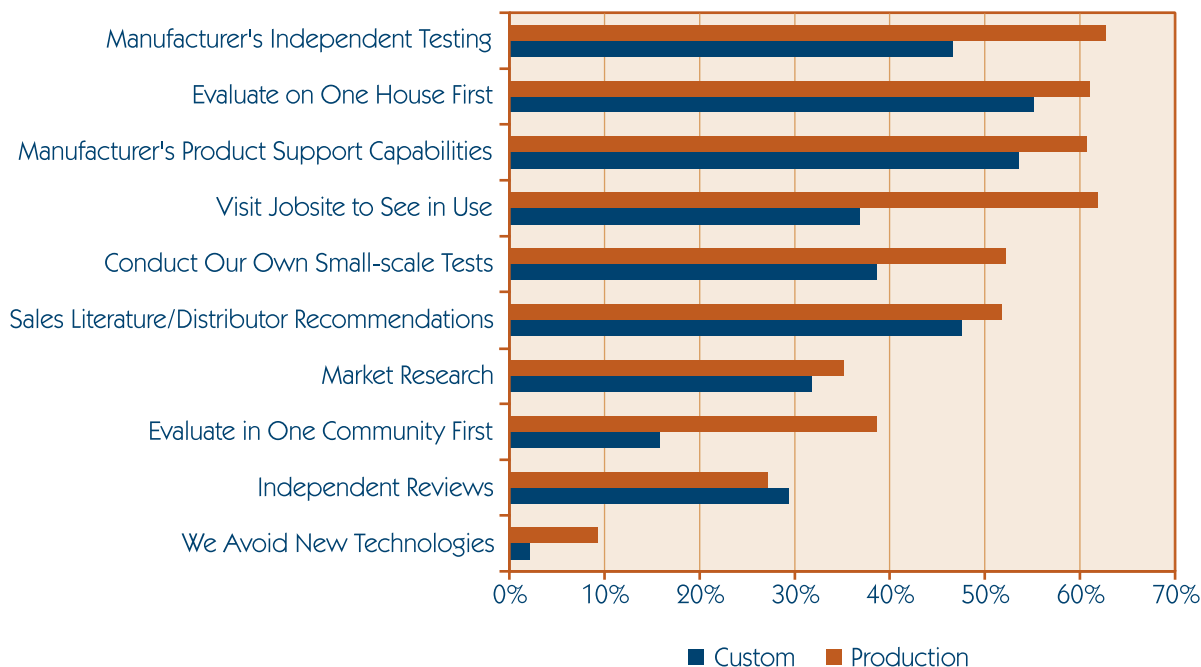
Overall, production builders were more likely to report multiple methods of evaluating new products. On average, production builders reported more than five of the methods listed as possible responses, while custom builders reported an average of fewer than four. This indicated that production builders exercise a higher degree of caution in adopting new products. Further, 9 percent of production builders stated they avoid new and innovative technologies compared to two percent of custom builders—indicating that production builders are also somewhat more reluctant to use innovative products and materials. This ratified previous NAHB Research Center studies that have found custom home builders, on average, are somewhat

more willing to try innovative products and materials. Custom builders also seemed to place more emphasis on the importance of literature and dealer recommendations—finishing third in priority compared to sixth for production builders.

Regional Outlook

Builders from the West and Midwest indicated using an average of five different approaches in evaluating new building products—showing a greater degree of skepticism of new products than their counterparts in the South and Northeast—who average using only four. Likewise, West and Midwest builders reported a greater likelihood of avoiding new products than builders from the South and Northeast. Western builders were most likely to rely on their evaluation of the manufacturer, indicating a higher degree of trust. The same was true for builders in the South, but to lesser degree. Builders in the Midwest were most likely of all the regions to rely on distributors’ recommendations or sales literature and visiting their competitors’ jobsites. Northeast builders seemed most skeptical of manufacturers’ claims

Figure 18—Methods Builders Use to Evaluate New and Innovative Products and Materials (By Builder Type)



and more reliant on evaluating products on their own homes.

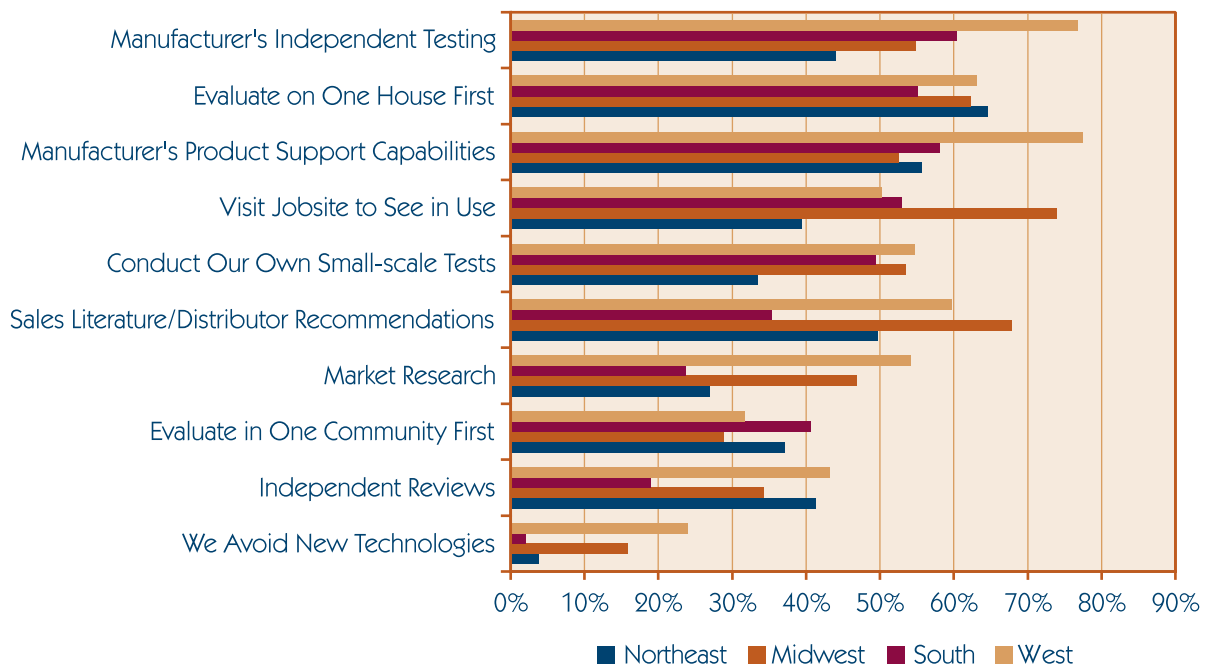
Implications

Home builders can be very open to innovation, especially if new products are a superior value to those they currently use. Multiple data points in this study indicated that builders are more open to change and innovation in the current soft market than in the recent past. Manufacturers that want to offer new and innovative products to home builders must demonstrate and communicate their support capabilities and due diligence in testing of product performance and durability in order to expect market success. Equally important to builders is the ability to evaluate the product in a field setting—regardless of whether the house belongs to that particular builder or a competitor.

One possible strategy for introducing new and innovative products could include, at the earliest stages of introduction, targeting more innovative segments of the market (custom builders, for

example) to allow the industry to gain field experience with the product. This can provide an opportunity for other, more cautious builders to observe the reliability of the new product—a necessary step for acceptance by the more skeptical market segments.

Figure 19—Methods Builders Use to Evaluate New and Innovative Products and Materials (By Region)





Not surprisingly, many builders in the survey indicated that their business operations are changing in response to the softening market and increased competitive pressures. Speculative home building is reportedly in decline, with 58 percent of the respondents claiming a decrease in the past year, but only 19 percent claiming an increase. Surprisingly, builders in this study stated that land prices, overall, are still on the rise—45 percent report an increase while only 17 percent report a decrease. Contrary to some reports in the media, the majority of builders have not ceased purchasing land and do not plan to sell off existing development land. Only 9 percent of respondents claim to have already sold development land or cut back on land purchases.

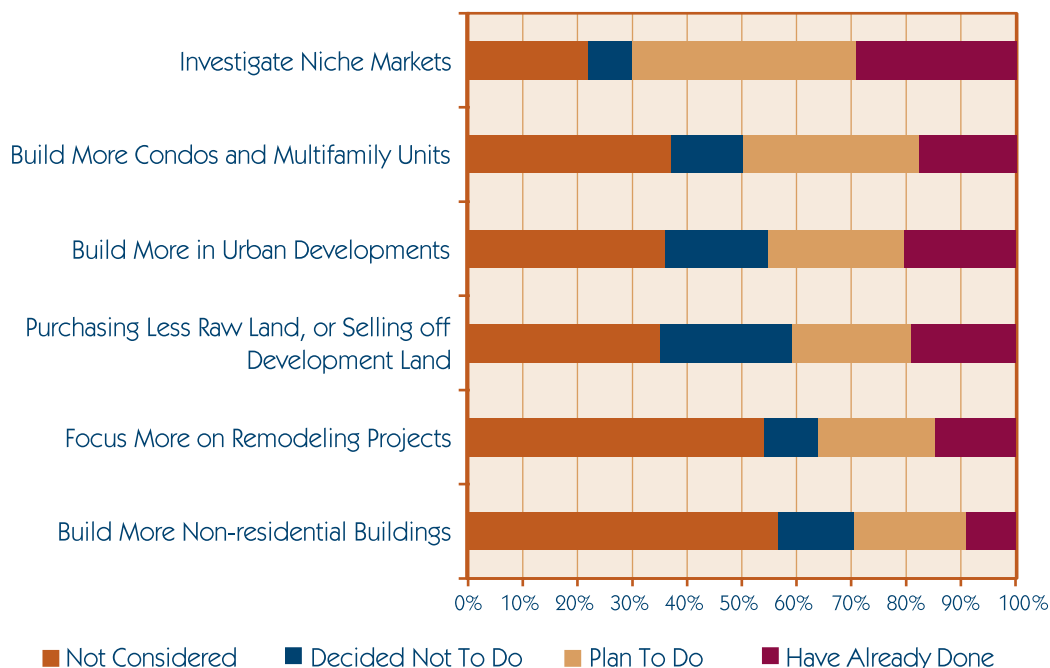
Despite the soft market, the majority of home builders will continue to focus on revenue generation by building new homes. Many,

however, are shifting operational emphasis within new home building to maximize revenues in this market—from mainstream to specialty markets; from suburban to urban developments; and from single- to multifamily units. Some builders are refocusing their operations away from new residential to two sectors doing well during the housing downturn—residential remodeling and non-residential building construction.

Builder Segments

Both production and custom builders were most likely to shift focus within the new home building industry by investigating market niches that they did not serve in the past. A surprising share of custom builders were changing focus towards residential remodeling—about 65 percent had already or were planning to, compared to about 25 percent of production builders.

Figure 20—Shifts in Home Builder Operational Focus



Custom builders were also more likely than production builders to shift some emphasis to non-residential buildings. Thirty-six percent of custom builders in the sample have already or are planning to focus more on non-residential buildings compared to 25 percent of production builders.

Regional Outlook

By an overwhelming margin, builders in the South were least likely either to have made or plan to make a strategic shift in the soft housing market. Among the other regions, there was a general similarity on how builders answered this series of questions with a few exceptions. Builders in the South were least inclined to change their outlook on purchasing or holding land, followed closely by builders in the West. Midwest builders were most likely to have changed their outlook on land purchasing and holding, by a large margin. Builders in the Northeast indicated the greatest likelihood of refocusing on remodeling.

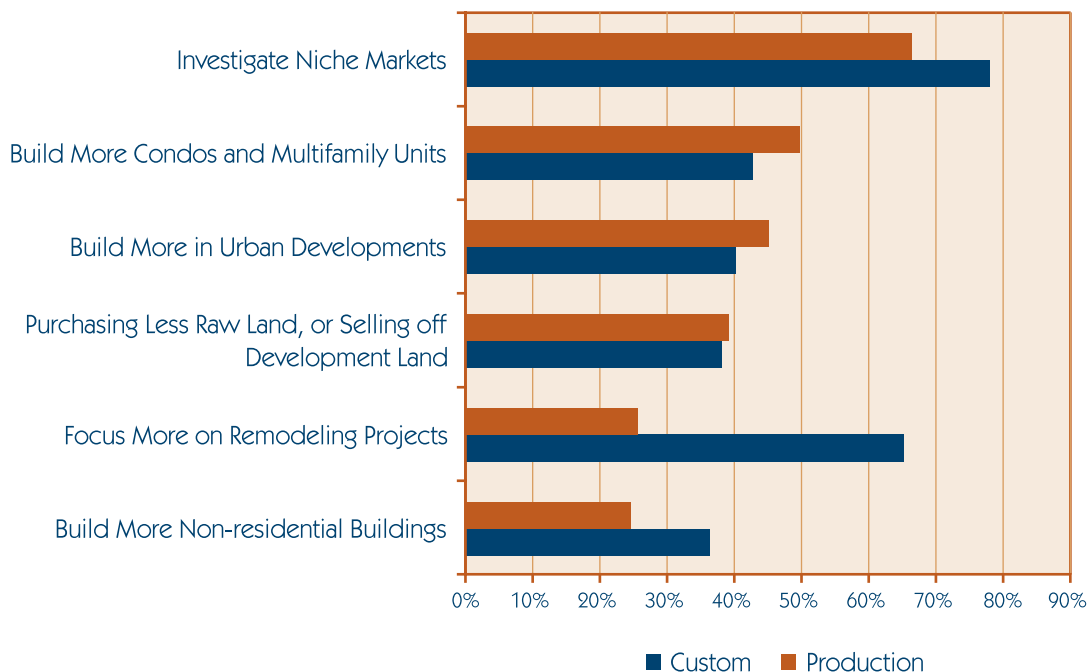
We can approximate how far builders have progressed into the cycle of change by comparing

the percentage of builders who have already made these strategic shifts, to the total share of those either planning to make the shift or who have already made the change. We can expect, therefore, more dramatic future change by builders in regions which are nearer the beginning of the cycle of strategic business shift. Using this analysis, the Midwest and Northeastern builders seem to be early in this cycle. Each is about one-third the distance into the cycle. This compares to builders in the West, who are slightly over halfway, and builders in the South, who are about two-thirds into the cycle of change. Using this same analysis with the national market, there were no strategic changes that were more than halfway through their cycles at the time of the survey (January 2007), indicating that changes in builder focus are likely still underway.

Implications

Manufacturers should consider modifying their product and service offerings—what they produce and how they distribute, market, and sell—to capitalize on the home builder trend in refocusing on niche markets. This may be done

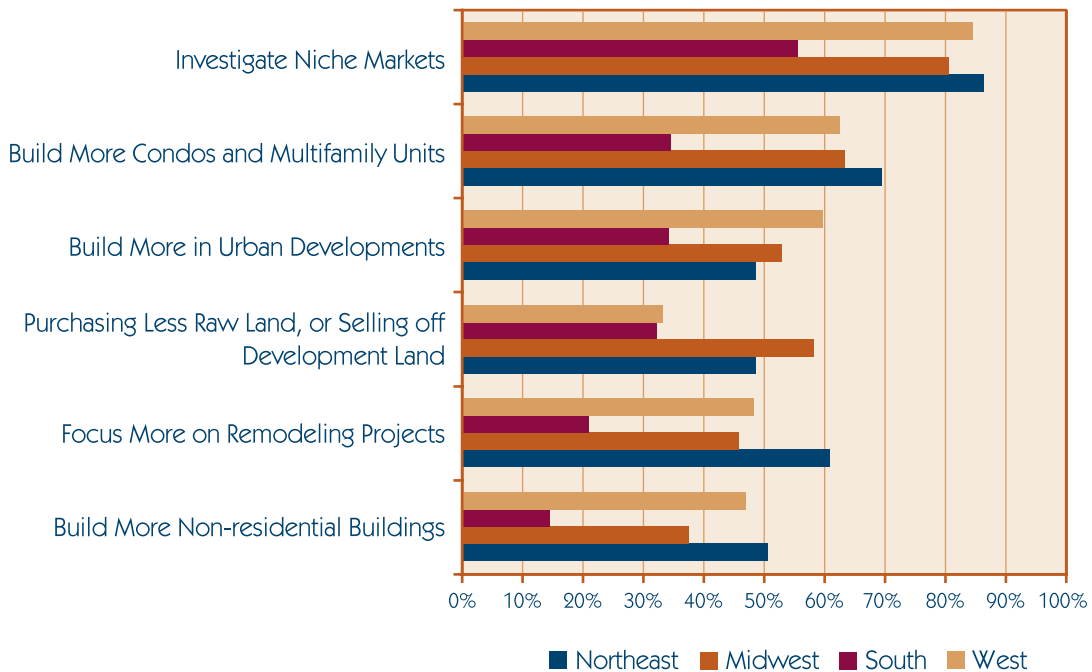
Figure 21—Shifts in Home Builder Operational Focus: Planning to, or Have Already Done (By Builder Type)



by helping builders define, locate, understand, and promote their homes to niche markets. Manufacturers should also consider opportunities to take advantage of a shift towards urban and multifamily construction.

Some manufacturers have followed a multi-sector strategy—serving residential and non-residential markets—to hedge against the cyclical nature of the home building market. Some home builders have used this strategy also. Despite the recent housing downturn, other construction sectors have remained very strong. By increasing sales efforts to custom builders, who are currently shifting some focus away from new homes, manufacturers may find a bridge to servicing the residential remodeling and non-residential building sectors. This is especially true for builders in the Northeast and West.

Figure 22—Shifts in Home Builder Operational Focus: Planning to, or Have Already Done (By Region)





Improvements in Business and Construction Practices

13

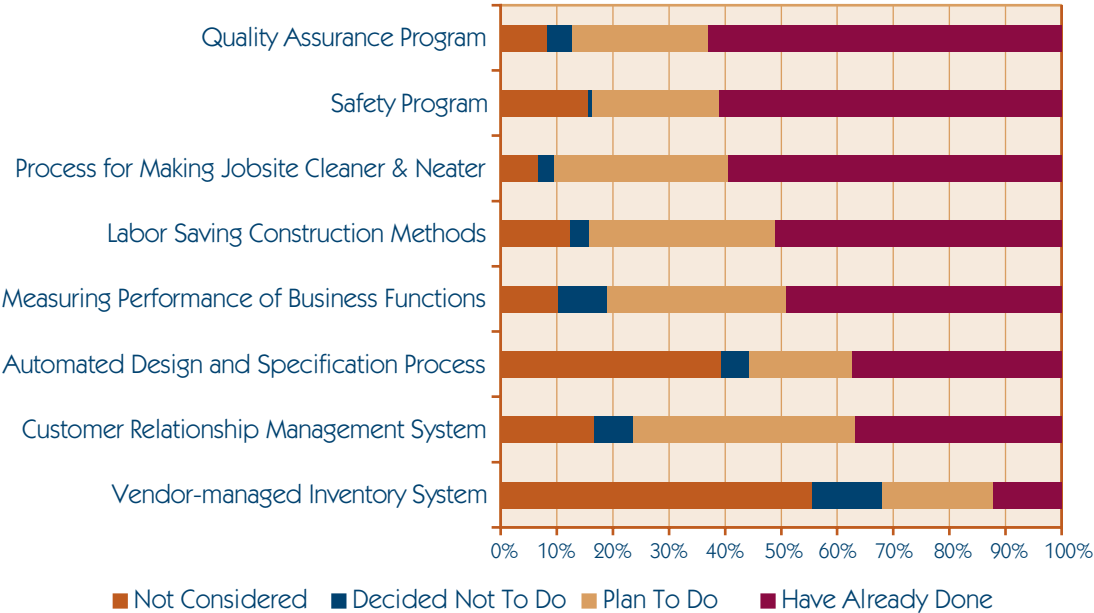
One key finding from the preliminary group discussions was that builders felt the need to make major improvements to their business processes to remain profitable in the current market. Survey participants were asked if, in the past year, they had considered adopting or improving business practices that were uncovered in the group discussions. The results indicate a vast majority of builders had made substantial changes to their business operations, and most indicated improvements in multiple areas. This confirms the early findings from the home builder discussion groups that some business functions had been neglected during the boom years of 2004 and 2005, but in 2006, builders began revisiting these areas to maintain their competitive edge.

The greatest number of builders in the study have adopted or improved their “Quality Assurance Program.” This seems to agree with survey findings detailed earlier in this report

that builders indicated “Generate Referrals from Past Customers” as their number one method to increase buyer traffic. Quality assurance programs are seen as important for increasing customer satisfaction, and satisfied customers are an important source for referrals. No significant differences were seen in how production and custom builders and national and local builders responded to their adoption or improvement of “Quality Assurance Programs.”

A close second for responses was “Safety Program,” reflecting a growing commitment by builders for worker safety. Also related to improved sales was the third choice—“Process for Making Jobsite Cleaner & Neater.” Builders in the preliminary discussion groups indicated cleaner and neater looking jobsites signaled quality to prospective homebuyers. One system—“Customer Relationship Management System”—had a very high level of interest, but unlike the others with a high degree of interest, more builders state

Figure 23—Business Improvements Considered and Adopted by Builders



they are planning to implement a CRM than have already implemented such a program. This may signal opportunities for suppliers since the adoption of CRMs by builders seems to be at an early stage.

Builder Segments

Comparing responses by custom and production builders shows that, on average, production builders are more likely to have adopted, or made significant improvements to their business operations in the past year. One very popular program—“Process for Making Jobsite Cleaner & Neater”—showed nearly equal attention from both custom and production builders. Production builders were more than twice as likely to adopt or improve a program for “Measuring Performance of Business Functions.” In only one area, “Vendor-managed Inventory System,” was the custom builder more likely to have made advancements in the past year.

Regional Outlook

Overall, builders in the West were more likely to have adopted or significantly improved the listed business programs, followed by builders

in the South. Builders from the South and West also selected “Quality Assurance Program” as their top answer. Builders in the Northeast were least likely to have adopted any of the programs. The “Safety Program” was the top answer for respondents from the Northeast. Builders in the Midwest were far more likely to have selected “Automated Design and Specification Process” than builders in any other region.

Implications

Many opportunities exist for manufacturers and suppliers to work closely with home builders to help them improve their business operations. The current business environment is especially favorable for suppliers of software, products, and services for improving home quality and the efficiency of business processes, including labor efficiency. Also, manufacturers and suppliers offering products that improve the safety and appearance of the jobsite have opportunities in the current market. Production builders seem especially open to these improvements, and builders in the West and South seem most open to adopting new business practices and programs.

Figure 24—Business Improvements Already Adopted by Builders (By Builder Type)

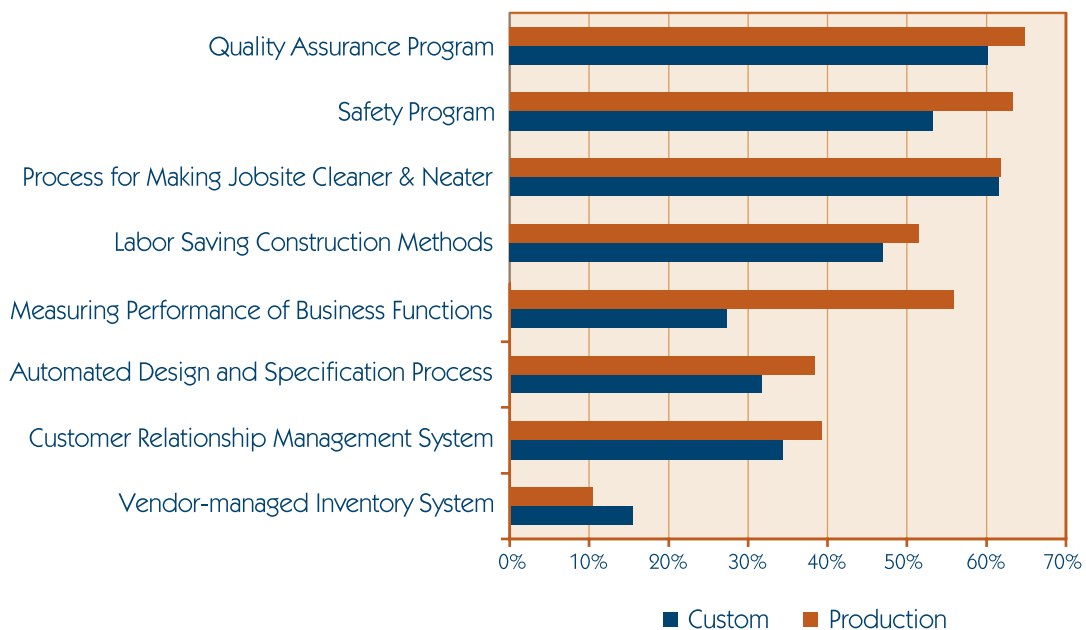
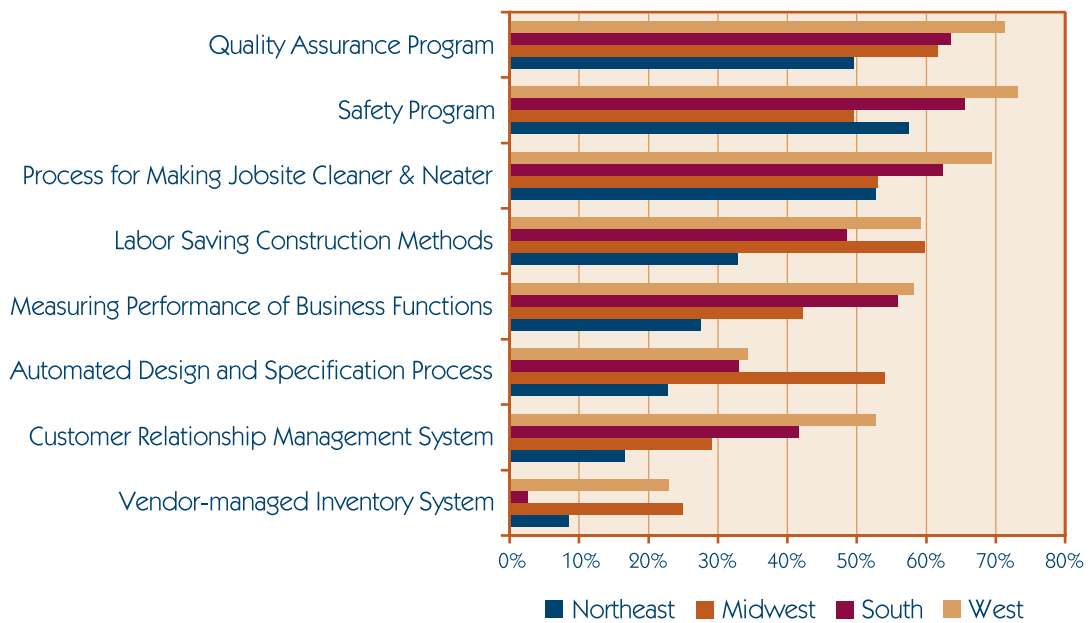




Figure 25—Business Improvements Already Adopted by Builders (By Region)





Changes in Popular Building Industry Trends

14

The past couple decades have seen the emergence and growth of various trends in the residential construction industry—some based on new design concepts or sensibilities, and others based on influential social and demographic issues. Some home builders in the preliminary group discussions noted that, while the popular trends continued to be important, some were receiving less emphasis due to the competing needs for basic business survival and maintenance arising from the housing downturn. A section of the survey questionnaire was designed to gauge the impact of the recent housing downturn on several of these popular trends. Builders were asked if, in the past 12 months, any of the listed trends had become more or less important to their local building operations.

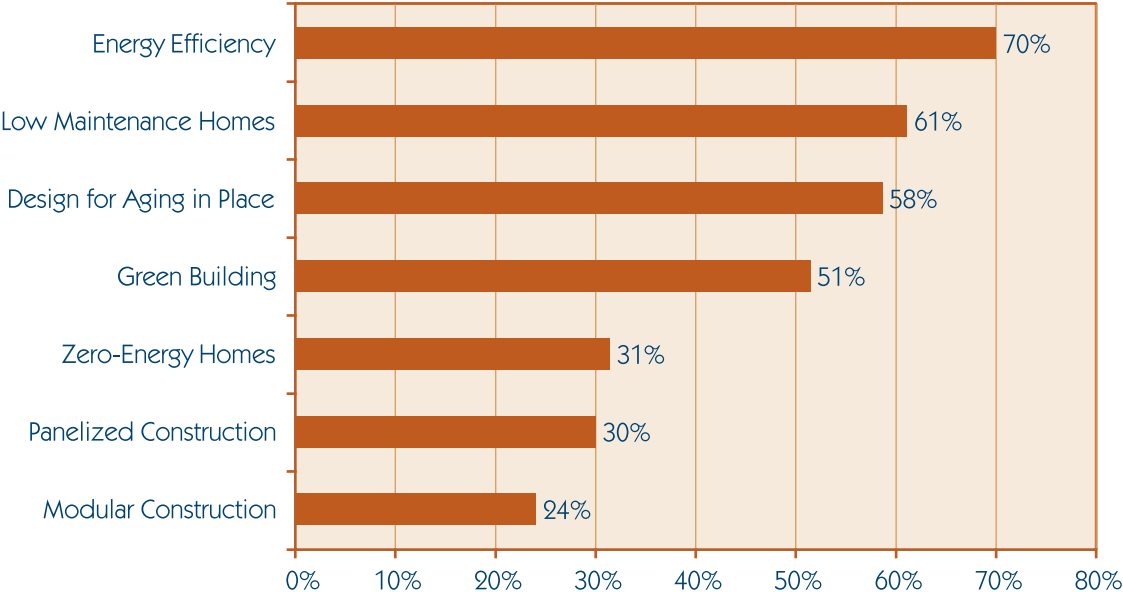
The trend with the greatest growing relevance to builders was “Energy Efficiency.” A distant second and third were “Low Maintenance Homes” and “Design for Aging in Place.” One driver of the popularity of these trends may be

the aging of the Baby Boom generation. Studies show that, on average, older homebuyers favor each of these three trends more highly than do younger buyers. Ironically, “Green Building” finished a distant fourth despite energy efficiency being considered an element of green building. This possibly signals that 1) builders may not generally associate energy efficiency with green building; 2) the concept of energy efficiency is perceived in a more positive light than green building; or 3) the benefits of energy efficiency are easier to understand and describe to homebuyers. There was very little difference between production and custom builders in rating these trends with two exceptions—“Green Building” and “Zero-Energy Homes” were significantly more important to custom builders.

Regional Outlook

On a regional basis, major differences were noted in how builders rated the importance of these trends. Southern builders were much

Figure 26—Trends Becoming More Important to Builders



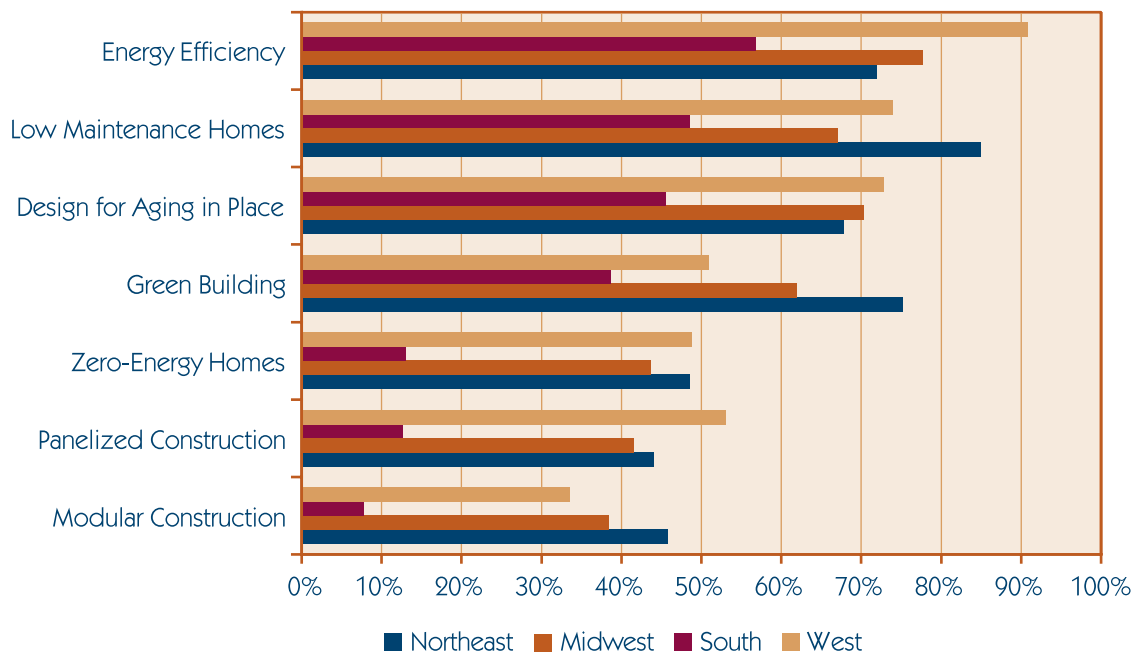
less likely than others to describe the trends as important. The South’s low ratings for modular and panelized construction are understandable—neither is easily implemented into homes with slab-on-grade foundations that are predominant in this region. Also predictable is the West’s high ranking for “Energy Efficiency” due to power shortages experienced in recent years. Northern builders rated “Low Maintenance Homes” as most important. The category of “Green Building” was most influential to builders in the Northeast.

Implications

Manufacturers should keep Baby Boomers in mind when developing new building products or marketing strategies. Each of the three most important trends reflects the needs of this aging population of homebuyers and homeowners. Manufacturers and suppliers should consider incorporating energy-efficient technology into products or better communicating the energy-saving features of products to home builders, and should make it easier for builders to convey that information to homebuyers.

Low maintenance features are other candidates for new products and marketing strategies. Numerous studies have shown that aging homeowners are less willing to perform most maintenance tasks, or they are less financially able during retirement years. Further, manufacturers should also take note of the recent growth in a relatively new trend—aging in place. Studies show that, as homeowners approach retirement age, a strong majority plan not to relocate for retirement, preferring to “age in place” in their existing homes. Homes constructed with universal design features can be attractive to this generation, and manufacturers should take this into account in their product commercialization efforts.

Figure 27—Trends Becoming More Important to Builders (By Region)



Importance of Green Building Elements

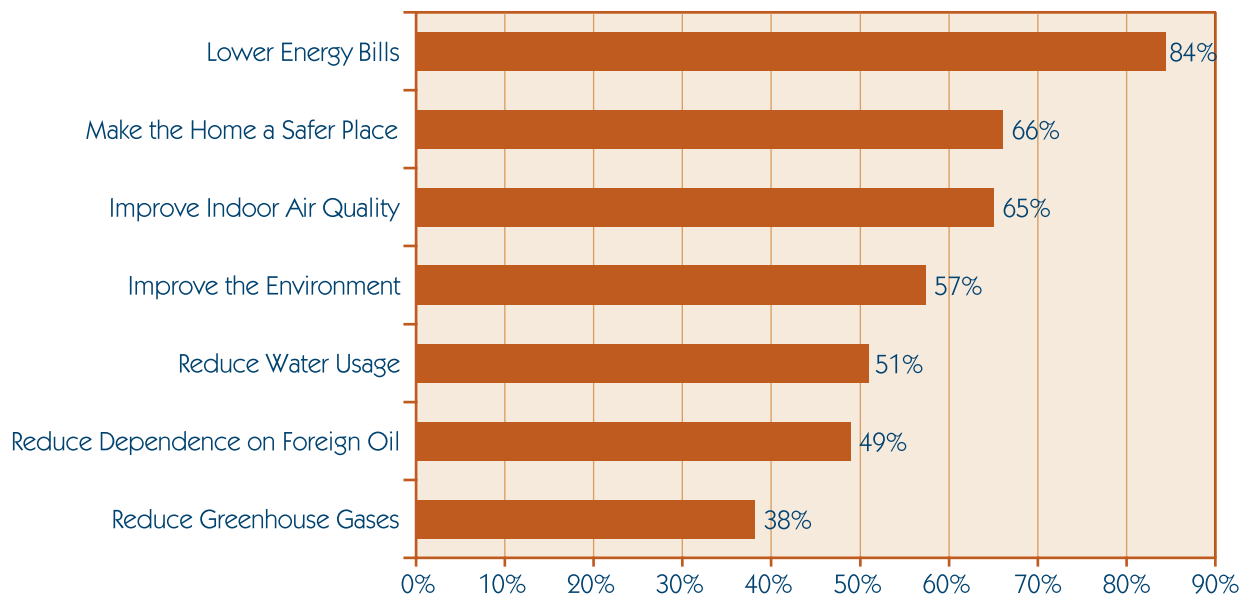
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While the term “green building” is used broadly today in the mainstream vernacular, as well as in the new home building industry, there is little agreement about which elements or benefits of green building have the greatest impact on purchase decisions. While some benefits of green building—improved occupant safety, healthy indoor environment, and energy cost savings—accrue directly or immediately for a home’s occupant, other benefits are enjoyed on a more societal level and may be realized only in the long term. Improvements to the environment fall into this category. This study sheds light on a hierarchy of benefits that can help manufacturers communicate the value of their green products to builders.

Builders in this study were asked how each of seven commonly recognized benefits of green building would increase their likelihood of purchasing building products.

Finishing at the top with no strong competitor was “Lower Energy Bills,” concurring with an earlier finding that energy efficiency is a trend with increasing importance among builders and their customers. This benefit accrues directly to the homebuyer, very quickly (when the first energy bills arrive), and with certainty or measurability. The second and third choices related to occupant well-being were “Make Homes a Safer Place” and “Improve Indoor Air Quality.” The benefits of these attributes accrue directly to the homebuyer or occupants, but not always immediately or measurably. The remaining four benefits tend to be collectively experienced by society or the environment, and their benefits may not be immediate or tangible. As expected, the hierarchy continues with benefits experienced locally and regionally (“Improve the Environment” and “Reduce Water Usage”), nationally (“Reduce Dependence on

Figure 28—Importance of “Green Building” Benefits in Builder Purchase Decisions



Foreign Oil”), and globally (“Reduce Greenhouse Gases”)—in that order or importance. Ironically, the more the benefit relied on a person’s “wanting to do the right thing,” the less important a factor it was in the purchase of building products.

Builder Segments

Overall, custom builders seemed to be far more likely to be influenced by green building than production builders. On average, 75 percent of custom builders were likely to purchase new products with all listed benefits, while only 53 percent of production builders reported an increased likelihood.

Only in “Lower Energy Bills” was there no significant difference in how custom and production builders responded. Overall, the differences between custom and production builders grew as responses progressed from occupant benefits through local, regional, national, and global benefits.

Regional Outlook

Geographic differences also exist in how builders responded. Builders from the South valued green

building products the least. Only 46 percent, on average, expressing an increased likelihood of purchasing products with each of the listed benefits. Northeastern, Western, and Midwest builders were all positive about green building, with 73, 68, and 69 percents, respectively, reporting an increased likelihood of purchasing products with any of the green benefits.

New England builders were most positive about green building, with 88 percent reporting an increased likelihood of purchasing products with the listed benefits. Little difference in responses was seen, however, between large and small or national and local builders.

Implications

The greatest likelihood of success for manufacturers providing green building materials will come when their product benefits are easily recognized as providing direct and immediate benefit to homebuyers. When they do not meet this criterion, manufacturers should consider approaching the custom home builder segment with their product or material.

Figure 29—Importance of “Green Building” Benefits in Builder Purchase Decisions (By Builder Type)

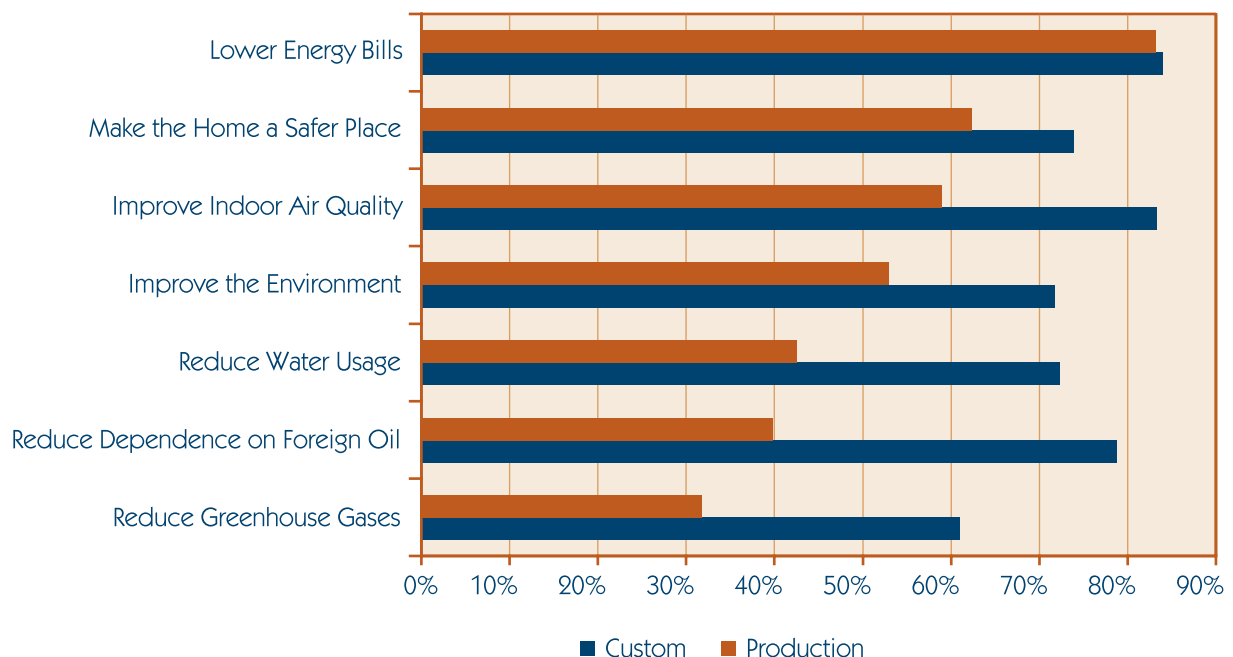
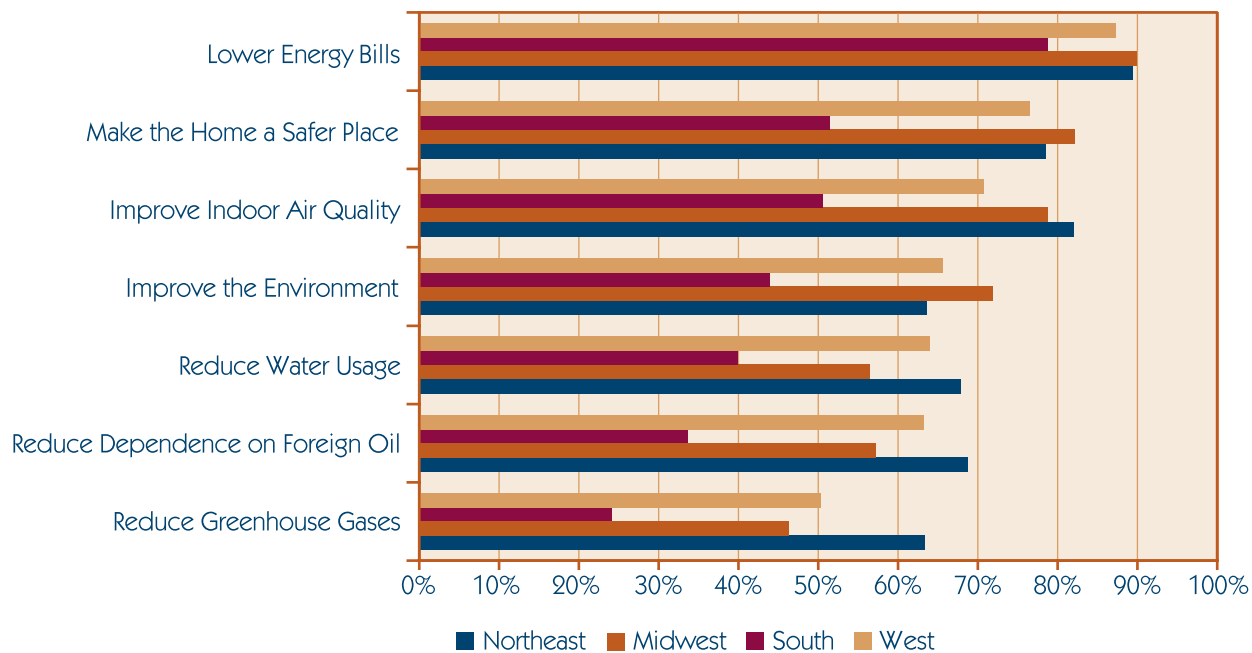




Figure 30—Importance of “Green Building” Benefits in Builder Purchase Decisions (By Region)





Looking Forward into the New Industry Environment

16

At the onset of the housing downturn, many housing economists predicted the market would bottom-out in about mid-2007 with a gradual rebound. The expected market correction, however, seems to have occurred more quickly than first forecasted. It is now apparent that the market hit bottom in late 2006 and has been bumping along the bottom ever since without the anticipated rebound. The current home building climate is likely to continue through 2007 with a very gradual rebound within the year.

This survey, fielded in early January 2007, was very timely in capturing the attitudes of home builders in the new industry environment. The changes in attitudes and behavior expressed by builders in this study, therefore, are highly reflective of the attitudes of builders over the coming year or two of recovery. Despite the overall decline in building materials purchased, the downturn has created opportunities for manufacturers who are attuned to builder needs in this changing environment.

Since early 2006, home builders have made numerous changes to the way they operate. Their building operations have become more lean and efficient as a result of the softening market. There is an overall agreement that current conditions represent a buyer's market, and there is a growing focus on listening to and understanding the needs of the customer, resulting in more flexibility in the design of homes and materials selection and usage. As a result of slow new home sales, builders are more willing to innovate as well. Opportunities exist for manufacturers in the new industry environment in the following areas:

- Create and promote non-traditional ways to help builders generate more buyer traffic and close a higher share of sales
- Continue to accommodate local operational autonomy in purchase decisions
- Expect to help builders improve business performance—first by helping to reduce waste and inefficiencies, second by lowering prices
- Provide innovative products and services, with a focus on providing a superior value and improving home aesthetics
- Meet key needs of older and aging home-buyers—energy efficiency, universal design, and low-maintenance
- Provide products and services that fulfill immediate and direct needs of home-buyers—such as lower energy bills—and help builders convey that message through their own marketing to consumers

By the middle of the third quarter of 2007, it had become evident that the housing downturn would drag out longer than was predicted earlier in the year. Housing economists had adjusted their forecasts from a healthy rebound in mid- to late-2007 to a mild housing rebound occurring sometime in 2008. The realization of a slower recovery, undoubtedly, will be the cause of more changes in home builder practices and attitudes since the fielding of the Soft Market study in late 2006/early 2007. As a result, the NAHB Research Center will launch a follow-up survey in January 2008 to re-assess the home building industry, and will report the results of this study at the 2008 International Builders' Show.



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