



Home Services

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Demographic- and Pandemic-Related Trends Fuel Demand for Home Services

As more Americans invest in their homes, our survey reveals insights about how shifting consumer attitudes and behaviors are creating new opportunities for residential service, remodeling, and repair providers.

Heading into 2020, the U.S. home services industry was in the midst of a multi-year boom driven by structural factors, including generational shifts and increasing homeownership. This expansion was briefly interrupted during the first few months of the COVID-19 pandemic, but demand for most aspects of home services has since surged as Americans have begun investing more in their homes during the pandemic.

As a result, the home services industry—which comprises businesses that provide a range of services for residential properties, including

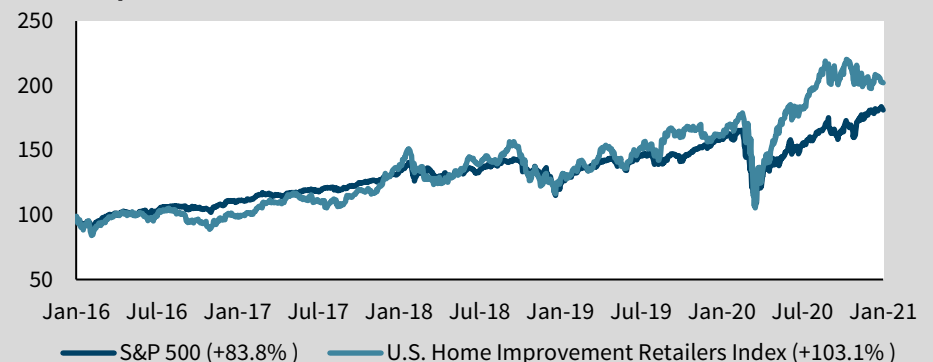
maintenance, repairs, and renovations—is generating significant attention from financial sponsors and strategic buyers.

To help home services business owners better understand the forces shaping the growth of the industry, we examine the main drivers behind the market's strength and share takeaways from a recent survey we conducted about consumer behavior related to home improvement. We also provide recommendations for how business owners can position their companies to capitalize on these trends and maximize the value of their companies.

Home Improvement Providers Companies Outpace Broader Market

The strength of the home improvement, remodeling supply, and home services market is reflected in the stock prices of leading companies in these industries. These companies have significantly outperformed the broader market in 2020.

Home Improvement Retailers Index vs. S&P 500



Source: CapIQ

Segments of Home Services

The home services industry comprises three major segments: recurring services, break-fix, and replacement and renovation services. While the pandemic has helped fuel demand for home services more broadly, not all of these areas have been affected the same.

- **Recurring services:** This segment includes services such as lawn care, pest control, pool maintenance, and cleaning services. Some of these services have held up well throughout the pandemic, but in-home cleaning services have been slower to recover—understandably so in an age of social distancing.
- **Break-fix:** This segment includes plumbing, HVAC, roofing, electrical, and other repair-related home services. In today's work-from-home and school-from-home environment, Americans are spending more time in their homes than ever, causing more wear and tear as well as

more limited tolerance for minor malfunctions.

- **Replacement and renovation services:** This segment encompasses projects that tend to be larger scale than repairs, such as installing a new deck, replacing flooring, and updating the bathroom. There has been robust demand for these services during the pandemic across age groups and home values, leading to a significant supply-demand imbalance and long backlogs.

Key Forces Driving Activity

Increasing demand for home services over the past several years has been driven by four structural trends that should continue to shape the long-term growth of the industry well after the pandemic ends.

- **Demographics:** The make-up of America's consumer base is changing, and this is affecting how Americans spend on their homes. For decades, baby boomers had

accounted for the largest share of U.S. discretionary spending of any generation. Today, millennials are quickly outpacing other generations and will soon overtake baby boomers as having the most discretionary purchasing power. Millennials are amassing wealth and owning homes at an accelerating rate; this means that home services providers need to adapt to the shopping and engagement preferences of this increasingly important, digitally native consumer cohort.

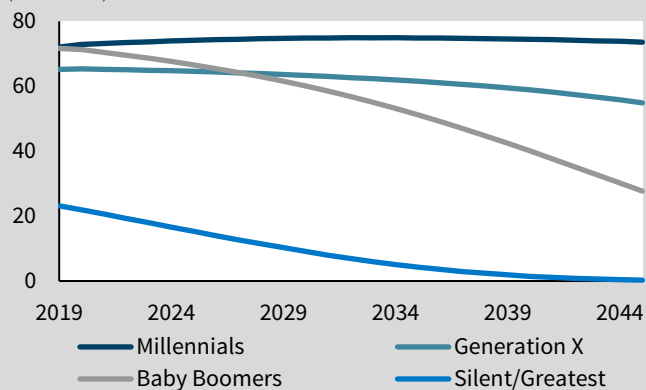
- **Homeownership:** The rate of homeownership in the United States dropped in the aftermath of the Global Financial Crisis (GFC) but has been on the rise over the past several years, paralleling a steady rise in housing starts nationally. Millennials as a population cohort saw their homeownership opportunity stunted by the GFC, but they have

Millennials Enter Their Prime Spending Years

Millennials are moving into their prime earning years and are quickly outpacing baby boomers as the generation with the greatest discretionary spending power. As a result, home services providers need to focus on providing digitally enabled marketing and engagement to reach this powerful consumer group.

Millennials Overtake Baby Boomers as America's Largest Generation

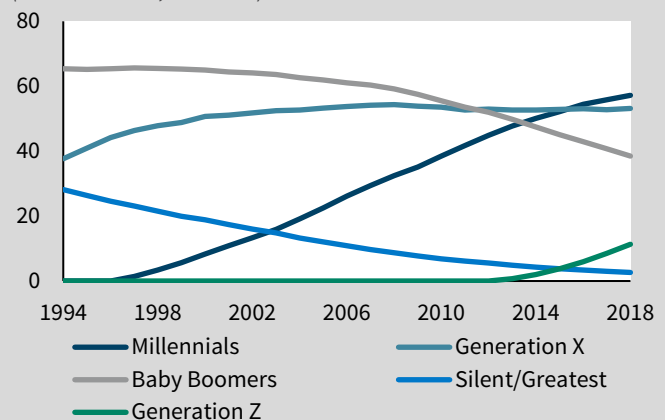
(in millions)



Note: Millennials refer to the population ages 23 to 38 as of 2019
Source: "Millennials overtake Baby Boomers as America's largest generation." Pew Research Center, Washington, D.C. (28 April 2020)
<https://www.pewresearch.org/fact-tank/2020/04/28/millennials-overtake-baby-boomers-as-americas-largest-generation/>

Millennials Are the Largest Generation in the U.S. Labor Force

(U.S. Labor Force, in millions)



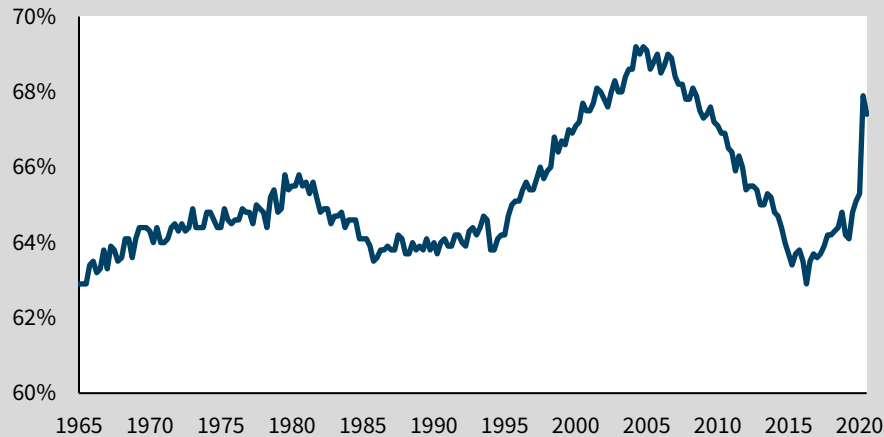
Note: Labor force includes those ages 16 and older who are working or looking for work. Annual averages shown
Source: "Millennials are the largest generation in the U.S. labor force." Pew Research Center, Washington, D.C. (11 April 2018)
<https://www.pewresearch.org/fact-tank/2018/04/11/millennials-largest-generation-us-labor-force/>

Homeownership Rebound Accelerates during Pandemic

Low mortgage rates, the natural advancement of millennials into the family formation stage of their lives, and other trends have fueled the rebound in homeownership rates over the past several years from their post-GFC lows. This rebound spiked significantly in 2020 amid the COVID-19 pandemic.

Homeownership Rate for the United States

(FRED - U.S. Census Bureau Data)



started to catch up and are making up for lost time. Persistently low mortgage rates have been another important factor supporting the growth in homeownership.

- **Do-it-for-me:** The “do-it-for-me” theme among American consumers has been gaining market share from “do-it-yourself” for much of the past decade. People are busier than ever and increasingly willing to spend money for flexibility and convenience. In addition, baby boomers still account for a significant portion of spending, and as more of this generation reaches their 70s and beyond, they are less likely to undertake major home projects on their own because of safety concerns.
- **Homesteading:** The pandemic has spurred a “homesteading” movement that is encouraging consumers to invest more in their homes. Social distancing concerns and work-from-home requirements have caused many Americans to adopt the “my home is my castle” mindset and rethink the utility of their home, addressing new needs such as

converting a guest room into an office. The heightened focus on the home, like other changes brought on by the pandemic, is expected to last well beyond the introduction of a vaccine.

Shifts in Consumer Behavior

Keeping these broad themes in mind, we recently conducted a survey of homeowners across the United States. The primary goals of the survey were to unearth insights on consumer perspectives when it comes to

spending on their homes and help business owners and investors better understand these dynamics.

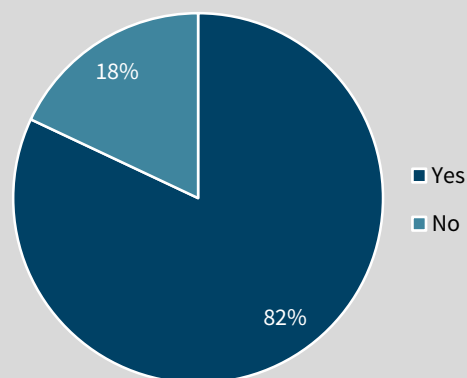
We analyzed the answers of 300 homeowners who have recently spent or are planning to spend in the next six months, \$1,000 or more on their homes. These respondents also hired (or plan to hire) a home improvement professional for the project.

High-level findings from the survey include:

- Among those who had recently finished a project, about 82% said that they had at least one additional project planned for the next 12 months, including 23% who said that they have more than two projects planned.
- Word-of-mouth referral and internet search were the two most common methods consumers turned to for researching and selecting a service provider.
- Bathrooms, flooring, interior walls, and kitchen are the parts of the home that respondents are most likely to improve in the coming six months.
- In-home consultations were by far the most preferred method for selecting products for home improvement projects;

Do you have any plans for another home improvement project in the next 12 months?

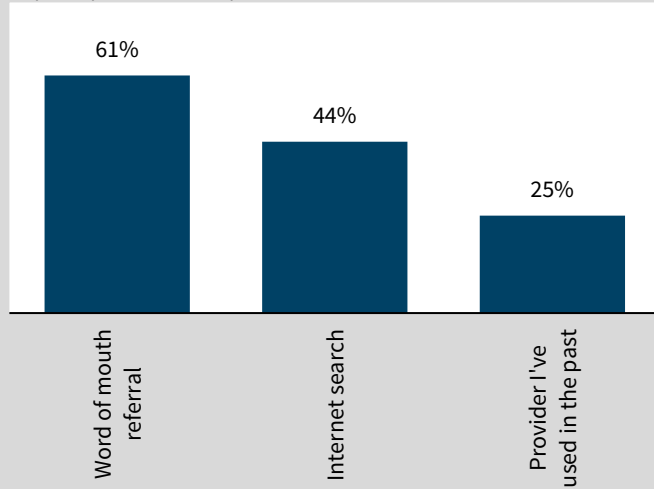
(Respondents with at least one project planned in the next 12 months)



Source: William Blair survey

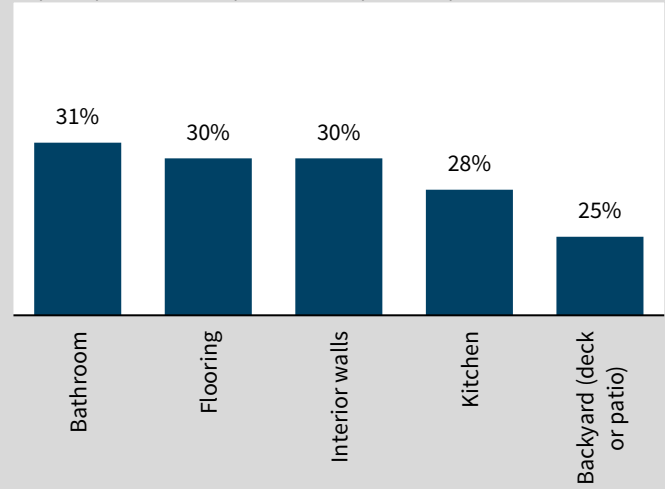
How do you research, find, and select a service provider ?

(Top 3 responses, % of respondents who used this method)

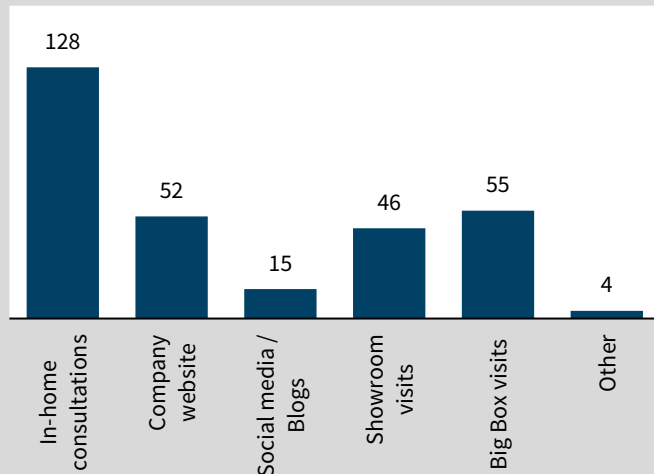


What areas of your home do you plan to improve in the next six months?

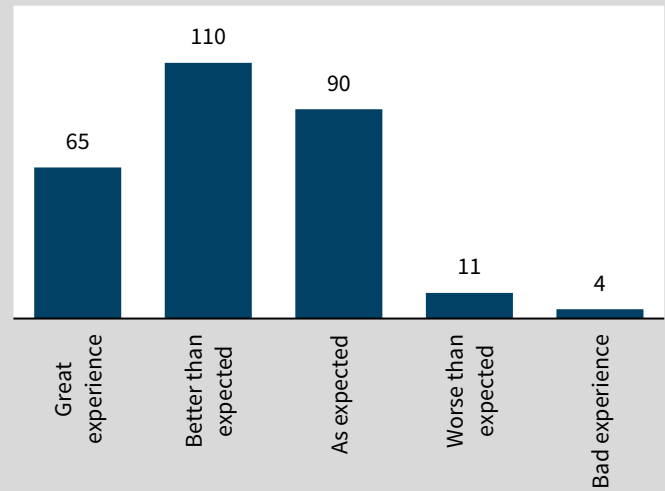
(Top 5 responses, % of respondents who plan to improve these areas)



Which method do you prefer to select the products for your home improvement project?



How satisfied were you with your overall home improvement experience ?



Source: William Blair survey

interestingly, the majority (56%) said that COVID-19 has not changed their views on in-home consultations versus visiting a showroom or store.

- Only 5% said that their satisfaction with the home improvement experience was worse than they expected or an outright bad experience.

Capturing the Growing, Shifting Demand for Home Services

Based on the results of the survey, as well as our observations from advising on several recent M&A transactions in

the home services sector, we recommend that home services companies focus on the following areas to capitalize on the secular and COVID-related themes driving strong activity in home services:

- **Calibrate your marketing strategy:** Marketing cannot be an afterthought for home services companies. They need to be highly strategic in how they cut through the noise and reach consumers with the right messages, through the right channels, and about the right types of services. Reaching millennials, who tend to be

oversaturated with competing promotions and less trusting of traditional advertising, requires effectively deploying digital marketing tactics, including search-engine optimization, email, and social media. Home service providers that embrace digital marketing can produce stronger leads, drive down customer acquisition costs, and enhance their bottom line.

- Leverage the “aging-in-place” story:** With millennials, the focus is on how to market to them; with baby boomers, however, the focus should be on what is marketed. While baby boomers’ share of the home improvement wallet is decreasing, there are still massive opportunities to address their shifting needs as they age. In addition to the previously mentioned safety concerns about DIY projects, COVID and the risk it has posed to assisted living residents—both in terms of health and quality of life—has motivated many baby boomers to live in their homes as long as possible. Whether remodeling to increase access or reduce maintenance needs, or even outsourcing maintenance altogether, baby boomers are willing to invest in various forms of retrofitting, remodeling, and services to make their homes more accessible and livable for years to come.
- Focus on high-ROI areas of the home:** Not surprisingly, our survey found that consumers are most likely to make improvements to parts of the home where they see the highest return on investment, including the bathroom, floors, kitchen, and backyard. Consumers recognize that putting money into the functional areas of the house can yield significant returns. Home services businesses should shape their offerings around these trends and focus on providing services in the highest-ROI parts of the home.

Creating a blueprint for the future

Given the strength of the home services sector today, business owners may soon start receiving calls from potential acquirers or investors. As an owner, you do not want to be caught unprepared when this happens. It is never too early to start thinking about your vision for the future of the business and having conversations with bankers to create a blueprint for achieving those goals.

During times of surging demand, it can be easy to focus solely on execution, but developing and refining your growth strategy are critical. Spikes in demand can reveal a company’s growth limitations, whether from an operational or financing perspective. It is imperative to identify any limiting factors as well as identify what is working well in the business. Just as importantly, consider your long-term goals, including succession plans. The key to maximizing the financial value and personal fulfillment that your business generates is to be proactive in creating a plan for your long-term objectives.

To access the full survey and discuss how to maximize the value of your business in today’s environment, please contact us.

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