Home Building Census

Special Study for HousingEconomics.com

Natalia Siniavskaia

December 2, 2015

The 2012 Economic Census and Nonemployer Statistics Program present the most complete overview of the state of the home building industry when residential construction finally hit a turning point and started a modest recovery. Residential construction remains the industry of independent entrepreneurs with 81 percent of homebuilders and specialty trade contractor firms being self-employed independent contractors.

Even among firms with paid employees, the industry is dominated by small businesses, with two thirds of homebuilders and three out of four specialty trade contractors generating less than 1 million dollars in total business receipts. Residential construction companies are highly specialized, maintain relatively few construction workers on their payrolls and subcontract out a significant portion of the construction work. Operational and performance data for home building companies show that, on average, establishments were able to cover their hard and soft construction costs and generate positive profits in 2012. Residual profits including proprietors' income of single-family general contractors tend to be higher in Northeast but lower in the West and Midwest regions.

Data Sources

The Economic Census data available only every five years provides detailed information on the structure of the home building industry, as well as operational and performance data for construction companies. This article uses construction-industry data from the most recent (2012) Economic Census that was released by the Census Bureau in November 2015.

The Economic Census is a census of establishments, where an establishment is a business with payroll employees at a single physical location. Generally, a construction establishment manages more than one project or job and operates on a continuing basis. A large building company may operate at more than one location and would file a separate report for each location or establishment.

The Economic Census covers several construction subsectors that comprise the home building industry:

- Residential Building Construction (RBC)
    - Single-family general contractors (except for-sale builders)
    - Multi-family general contractors (except for-sale builders)
    - New housing for-sale builders
    - Residential remodelers
- Land Subdivision (or land developers)
- Specialty Trade Contractors (STC)

New single-family and multi-family general contractor establishments are primarily responsible for the entire construction of new housing on land customers own. This subsector also includes general contractors responsible for the on-site assembly of modular and prefabricated houses, single-family housing design-build firms, and single-family construction management firms acting as general contractors.

New housing for-sale builders build new homes on land that is owned or controlled by the builder rather than the homebuyer or investor. The land is included with the sale of the home. Establishments in this subsector build single and/or multifamily homes. These establishments are often referred to as speculative, production or for-sale builders.

Residential remodelers are establishments primarily responsible for the remodeling construction, including additions, alterations, reconstruction, maintenance, and repair work. Included in this industry are remodeling general contractors, for-sale remodelers, remodeling design-build firms, and remodeling project construction management firms.

Specialty trade contractors primarily perform specific activities (e.g., pouring concrete, site preparation, plumbing, painting, and electrical work) involved in building construction, but they are not responsible for the entire project. The Economic Census does not differentiate between residential and non-residential specialty trade contractors (STC), so no distinction between the two is made in this report.

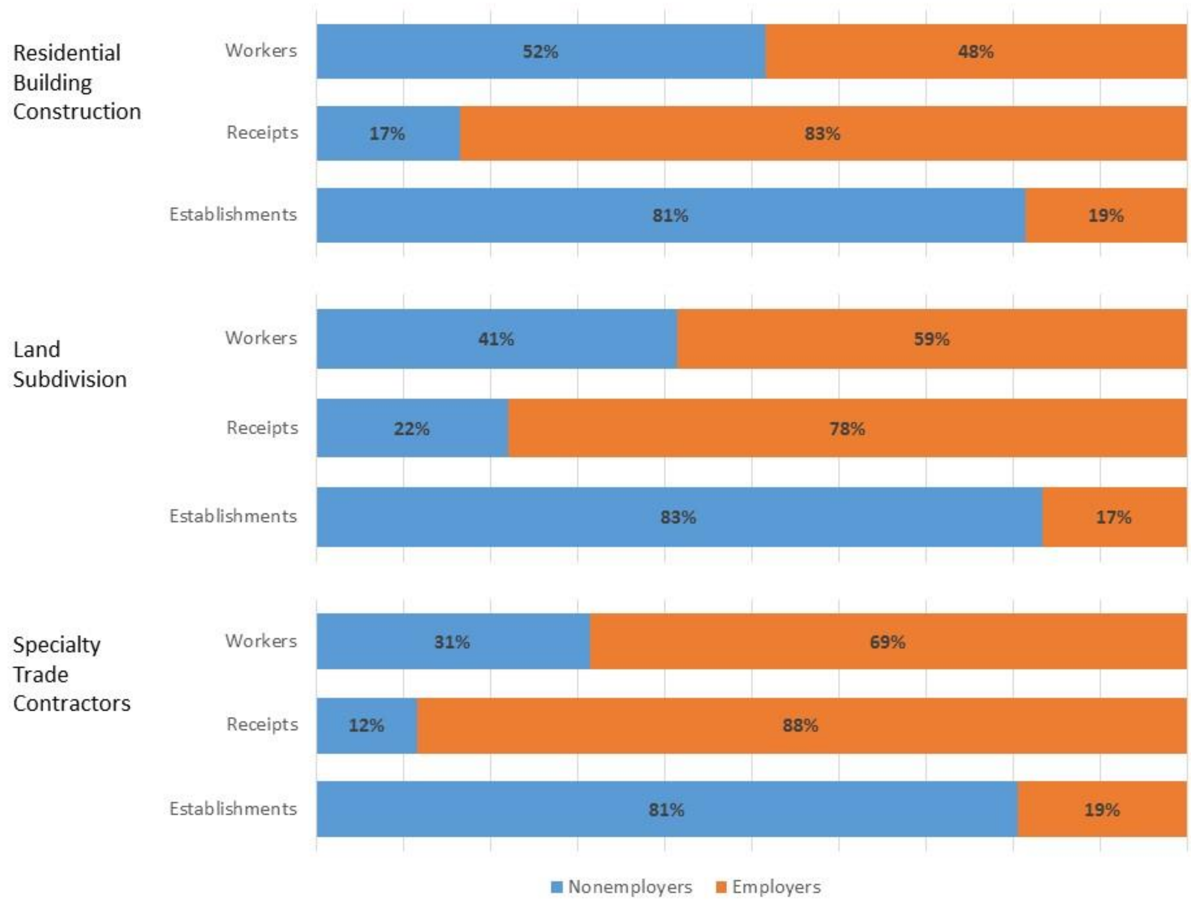
Structure of the Home Building Industry

The Economic Census estimates that, as of 2012, there were 30,380 single-family general contractors with the total value of business approaching $40 billion. At the same time, 1,788 multifamily general contractors generated $19.3 billion and 16,093 for-sale builders generated $81.5 billion in total business receipts. Residential remodelers are the most common type of RBC establishment, with 77,855 establishments reporting total annual receipts of $52.5 billion. As of 2012, there were 2,448 establishments with payroll employees in land subdivision, reporting total annual receipts of more than $6.5 billion. Specialty trade contractors, that include both residential and non-residential contractors, form the largest construction subsector with more than 400,000 establishments reporting the total value of business of $602.6 billion.

The Economic Census, like many other federal statistics programs, collects data only on establishments with payroll employees. For businesses that have no paid employees, the Census Bureau collects annual data on the number of businesses and total receipts by industry through their Nonemployer Statistics Program that largely relies on the IRS data. The 2012 statistics show that there were more than 552,000 nonemployer firms in residential building construction, more than 12,000 in land subdivision, and close to 1.7 million in specialty trade contracting. Most of these self-employed mom-and-pop firms are very small with annual receipts averaging under $70,000 for residential building construction, and under $50,000 for specialty trade contractors. Self-employed independent contractors in land subdivision average around $150,000 in annual business receipts.

Chart 1 below combines the Economic Census and Nonemployer Statistics data and presents the overall structure of the home building industry, as of 2012. The majority of residential construction businesses are self-employed independent contractors, accounting for 81 percent of all RBC and STC establishments, and 83 percent of land subdivision firms. They also account for more than half of workers in residential building construction, 41 percent in land subdivision, and 31 percent in STC. Yet these nonemployer firms average only 17, 22, and 12 percent of all sales and receipts generated by residential building construction, land subdivision and STC, respectively.

Chart 1. STRUCTURE OF THE HOME BUILDING INDUSTRY

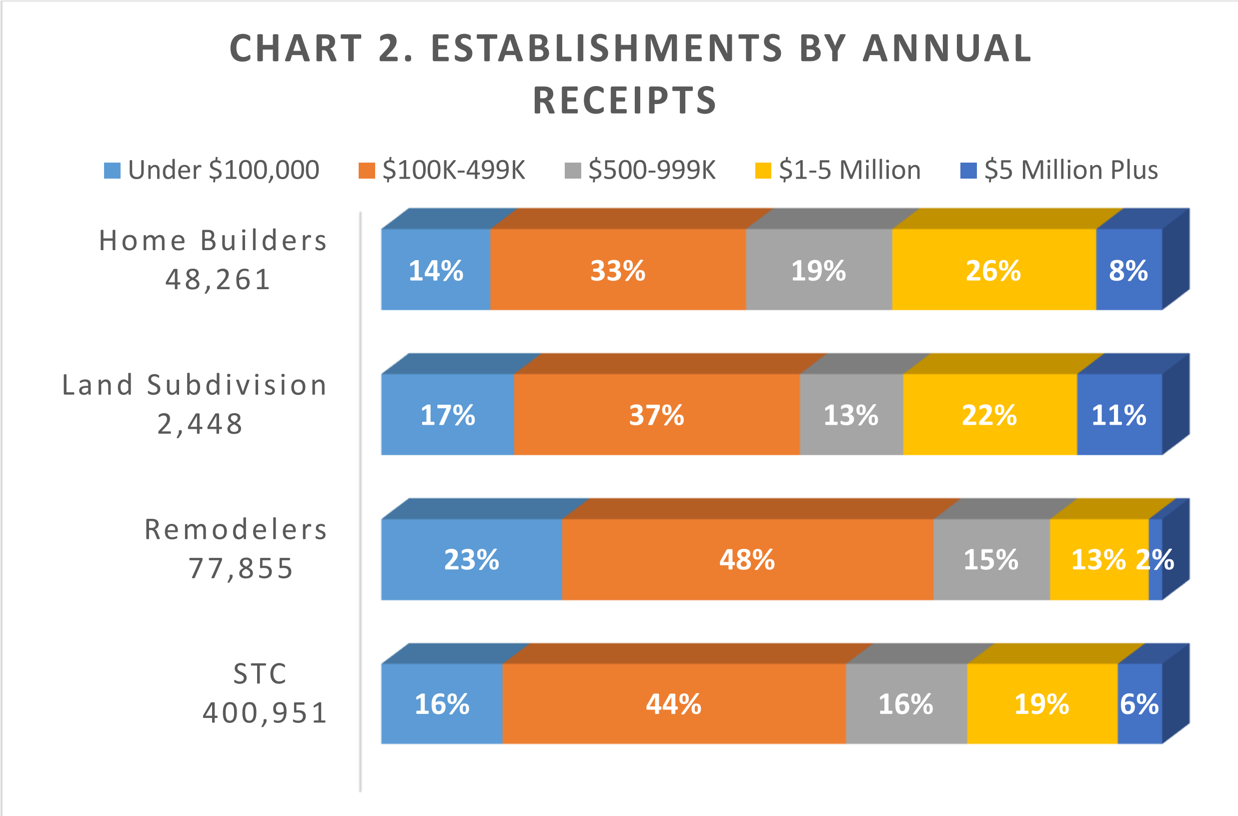


Residential Construction Companies with Paid Employees

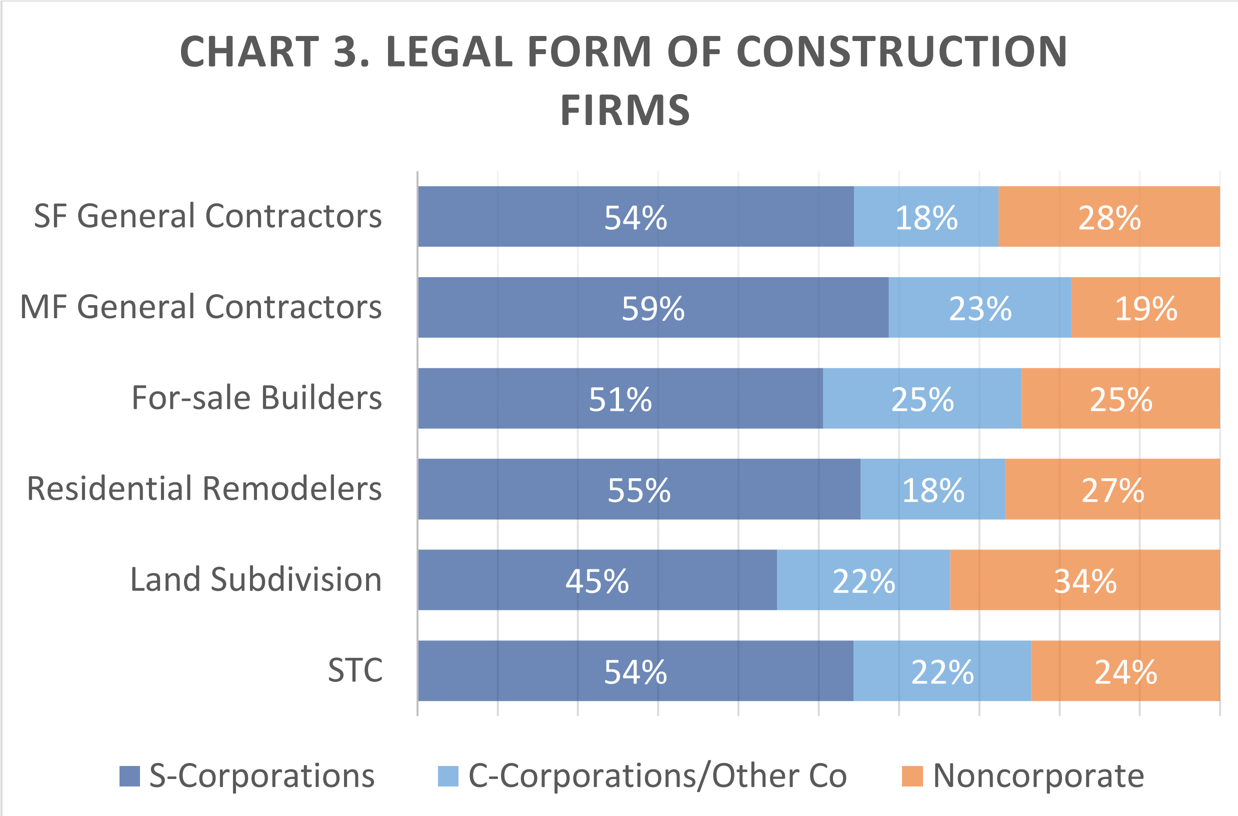
The Economic Census, among other things, reports annual business. Most of residential construction companies with paid employees are small, generating less than $1 million in total business receipts (see chart 2). This is especially true of remodeling and STC companies, where more than 85 and 75 percent of establishments, respectively, generate under $1 million in receipts. Homebuilders and land developers tend to be somewhat larger, with about a third of companies reporting annual sales in excess of $1 million.

Among homebuilders, multi-family general contractors tend to be largest, with more than 55 percent of companies generating over $1million and close to 23 percent generating more than $10 million in 2012. Less than 8 percent of for-sale builders and under 2 percent of single-family contractors crossed the $10 million mark in 2012 (see Table 1).

Under the most recent US Small Business Administration (SBA) size standards, the vast majority of residential construction companies qualify as a small business. The most recent small business size limits for all types of builders is $36.5 million, for land subdivision is $27.5 million, and $15 million for specialty trade contractors. By these standards, almost all remodelers and at least 96 percent of homebuilders, 94 percent of land developers, and 97 percent of specialty trade contractors easily qualify as a small business.

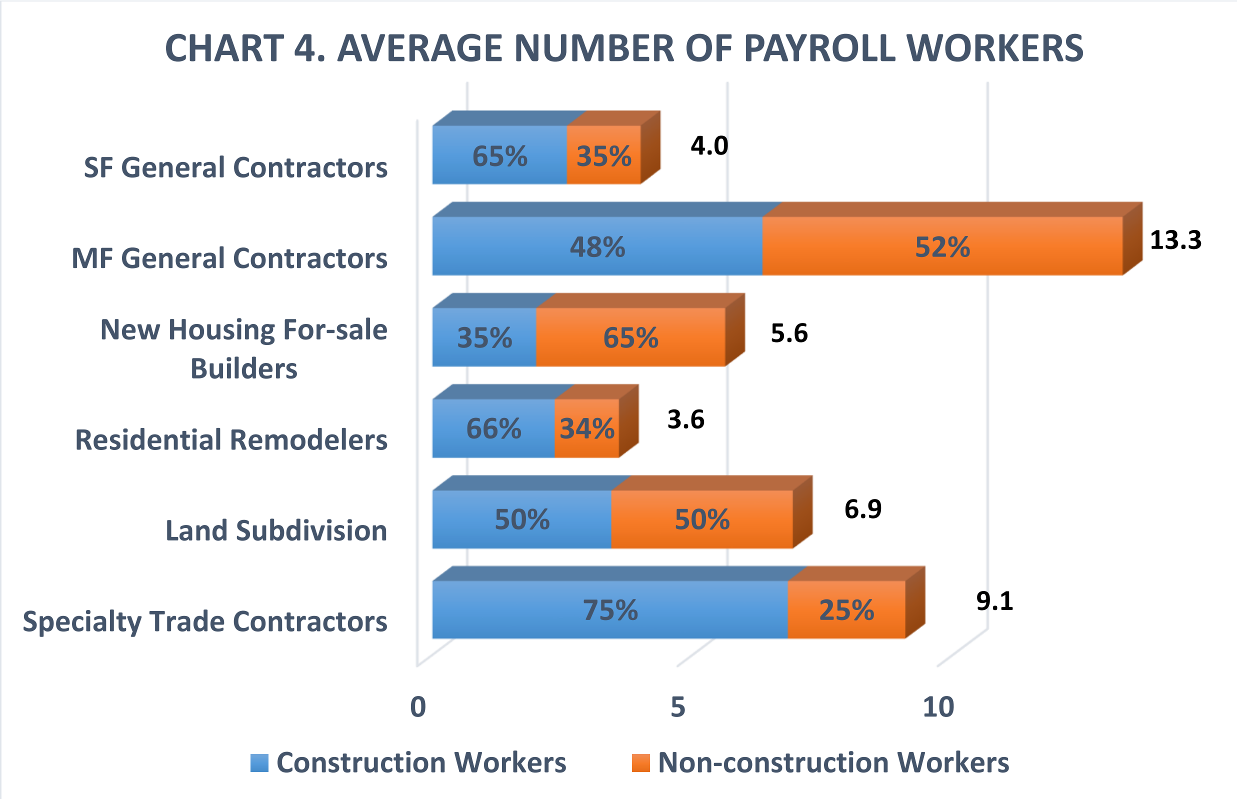


Most residential construction establishments with employees are incorporated businesses and most choose to become S-corporations (see chart 3). Close to 60 percent of all multifamily general contractors, choose to incorporate as an S-corp, as well as 54 percent of STC and single-family general contractors, and 55 percent of residential remodelers. The share of S-corporations among for-sale builders is 51 percent. Multifamily general contractors are least likely to remain unincorporated, with only 19 percent of establishments registered as either individual proprietorships or partnerships. About a quarter of for-sale builders and STC are unincorporated. The share of unincorporated businesses among single-family general contractors is 28 percent. Land developers are most likely to remain unincorporated, with more than a third of these establishments registered as partnerships or proprietorships.

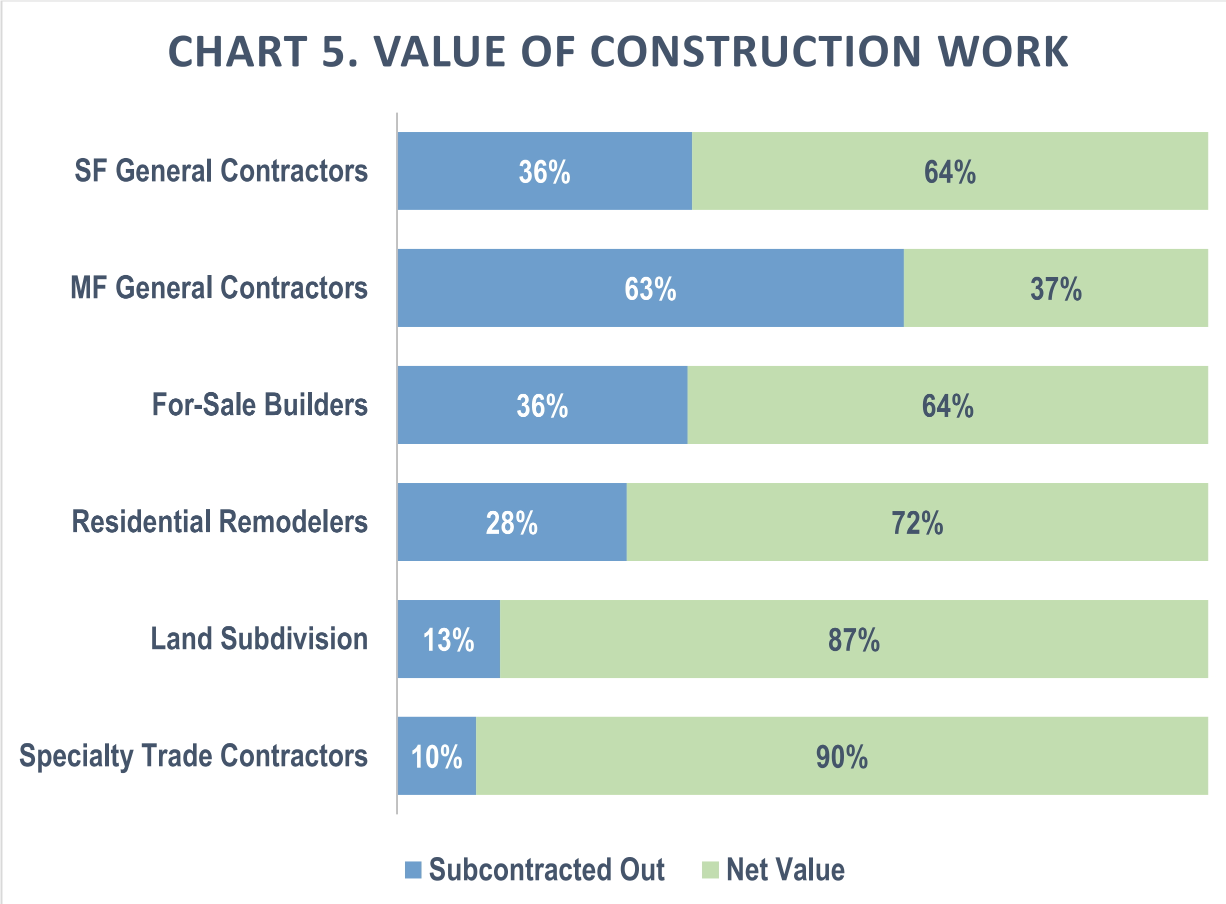


Home building companies with paid employees tend to maintain relatively small payrolls. Single-family general contractors on average have four employees on their payroll. Residential remodelers have less than four workers, and speculative builders' payrolls average under six workers over the course of a year (see Chart 4). MF general contractors and specialty trade contractors maintain largest annual payrolls, averaging more than 13 and 9 workers over the course of the year, respectively.

Two out of three employees on payrolls of single-family general contractors and residential remodelers are construction workers. The rest are non-construction workers, including supervisory employees above the working foreman level, executive, purchasing, accounting, personnel, professional and other office functions. Specialty trade contractors register the highest share of construction workers on their payrolls, with three out of four employees being construction workers. Speculative builders stand out for keeping relatively few construction workers on their payrolls. Close to two thirds of their employees are non-construction workers.

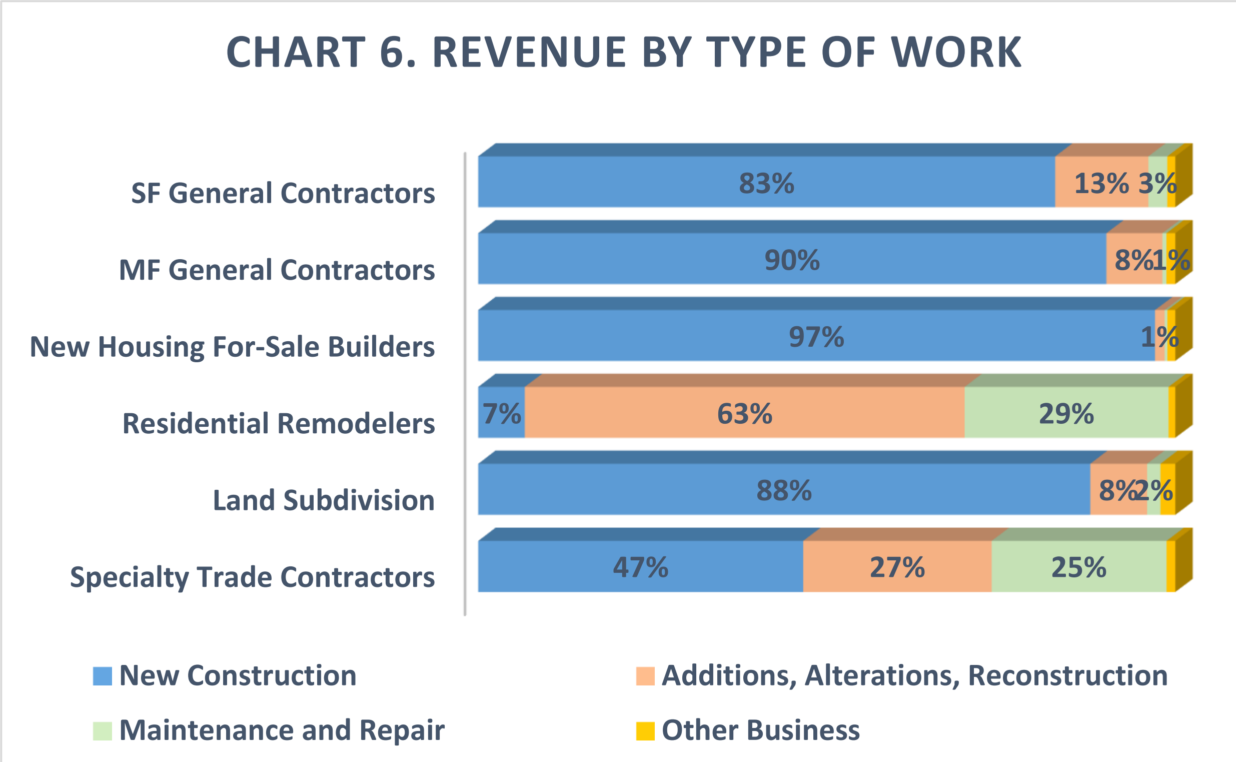


One of the reasons for maintaining relatively small construction worker payrolls is a high degree of specialization in residential construction. Homebuilders subcontract out a significant portion of their construction work to subcontractors who can more efficiently perform specific construction activities (see chart 5). Single–family general contractors and spec builders subcontract out more than a third (36 percent) of their construction work. MF general contractors subcontract out most of their construction work, 63 percent. The cost of materials purchased by establishments for subcontractors is not included in the cost of construction work subcontracted out to others. Rather, it is captured in the net (in-house) value of construction work.



The main source of revenue for homebuilders is new home construction (see chart 6) which accounts for 97 percent of all business receipts of spec builders, and 83 and 87 percent of revenue of SF and MF general contractors, respectively. SF and MF general contractors derive additional 13 and 8 percent of their 2012 revenue from additions, alterations and reconstruction, correspondingly. Maintenance and repair, and other business receipts (equipment rental without operator, legal services, insurance, finance, and other non-construction activities) account for less than 4 and 2 percent, respectively.

Residential remodelers derive 63 percent of their revenue from additions, alterations, and reconstruction and additional 29 percent from maintenance and repair. Specialty trade contractors derive 47 percent of their annual receipts from new construction, the rest is almost evenly split between additions, alterations, reconstruction and maintenance and repair.



Operational and Performance Data

The Economic Census also provides operational and performance data for the residential construction subsectors, including a detailed list of expenditures by category that differentiates between the direct cost of construction and overhead costs. Considering that different builders calculate overhead and profit differently, these data might not be directly comparable to a particular company's financial definitions but, nevertheless, provides a general operational benchmark for home building companies. Since land costs are not collected by the Economic Census, creating performance benchmarks for land developers and for-sale builders may not be accurate. However, the list of direct and overhead costs is quite exhaustive for general contractors, remodelers, and specialty trade contractors who typically do not incur land costs.

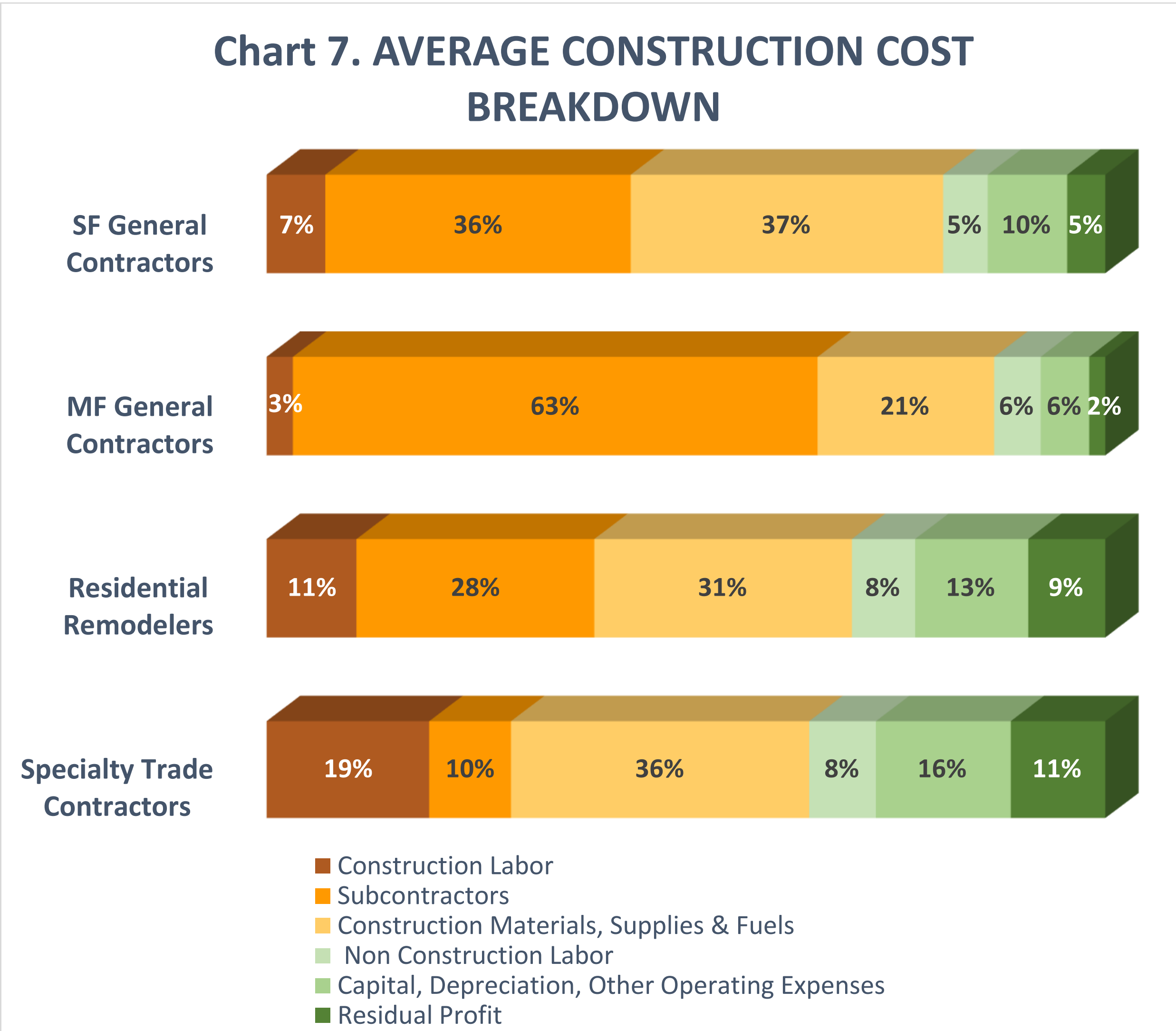
The Economic Census collects data on construction and non-construction payrolls separately. The construction payroll includes the gross earnings of all construction workers, prior to any deductions. Non-construction payroll consists of the gross earnings of all non-construction employees, including salaries of proprietors or partners, if incorporated. If unincorporated, proprietors' income will be captured in the residual profit.

For most residential construction companies, the construction workers payroll is larger than that of all other employees. Specialty trade contractors, who maintain larger construction payrolls and subcontract out a minimum amount of work, spend, on average, 19 percent of the total revenue on the construction payroll, while non-construction labor accounts for only 8 percent of the total business receipts. In sharp contrast, multifamily general contractors who subcontract out most of the work, spend only 3 percent on the construction payroll but 6 percent on wages of non-construction workers. Since these companies are more likely to be incorporated, salaries of business owners are more often included in the non-construction payroll, boosting it further. For single-family general contractors, 7 percent of the total business receipts go to pay wages of construction workers and 5 percent cover the non-construction payroll. The corresponding shares for residential remodelers are 11 and 8 percent (see chart 7).

Because, multifamily general contractors outsource most of their construction work, they spend relatively less on materials, components, supplies, and selected power and fuels - 21 percent of the total business receipts, compared to 37 percent by SF general contractors, 31 percent by residential remodelers, and 36 percent by STC.

The biggest expenditure on the books of multifamily general contractors is the costs of construction work subcontracted out to others, 63 percent of the total revenue. This by far exceeds the typical spending on subcontractors by SF general contractors – 36 percent, residential remodelers – 28 percent, and STC – 10 percent.

The construction payroll, costs of construction work subcontracted out to others, and costs for materials are typically added together to estimate the direct, or hard, costs of construction. The 2012 data show that the direct costs of construction vary from 65 percent of total revenue of STC to 87 percent of the business receipts of multifamily general contractors. For single-family general contractors, the direct costs of construction consume on average 81 percent of the total revenue.



The difference between the value of construction revenue and direct construction costs is a mark-up that covers company's overhead, or soft costs, and a residual profit, or revenue leftover after paying the hard and soft costs of construction.

When it comes to company's overhead, the Economic Census collects data on wages of non-construction workers and various operating expenses separately. For operating expenses, the data are collected individually on rental payments for buildings and machinery, capital expenditure, retirements, expensed equipment, software, data processing, communication services, repairs and maintenance to building and/or equipment, utility payments, marketing, professional services, government taxes/fees and other.

It is worth noting, that in practice, different companies often use different definitions of the overhead costs and move items around when calculating hard and soft construction costs, overhead and profit. So a careful examination of various definitions is warranted when benchmarking your company performance.

As of 2012, residential remodelers and specialty trade contractors report the highest non-labor overhead expenses, 16 and 13 percent of their annual receipts, respectively. For single-family general contractors, the non-labor operating expenses consume 10 percent of the revenue. Multifamily general contractors, who subcontract out most of their construction work, report the lowest non-labor overhead – 6 percent of the annual receipts.

The residual profit that is reported in Chart 6 is the leftover revenue after deducting the direct costs of construction and overhead expenses reported in the Economic Census. The Economic Census does not directly collect data on owners' compensation. Consequently, in unincorporated companies, proprietors' income is captured in the residual profit. However, in corporations, owners' salaries would appear in the non-construction payroll. These differences make interpretation and comparison of the residual profit complicated. Nevertheless, as of 2012, the highest residual profit is reported by specialty trade contractors, averaging around 11 percent of the total business receipts, the lowest is reported by multifamily general contractors - 2 percent of the total revenue. Single-family general contractors and residential remodelers average around 5 and 9 percent of the annual business receipts in residual profits, respectively.

State Differences

For some of the residential construction subsectors, the Economic Census provides enough data for the nationwide comparison of operations and performance. The geographic coverage is most complete for single-family general contractors. Despite wide computational disparities in how different establishments calculate profit, it is interesting to compare residual profits, defined here as the construction revenue left over after paying all the hard and soft construction costs. In case of unincorporated establishments, it includes proprietors' income.

Nationally, the residual profits of single-family general contractors average about 4.6 percent. This is consistent with NAHB's proprietary Cost of Doing Business surveys. Based on the 2012 income statements of NAHB members, the study reported that builders without land costs reported net profits of 4.2 percent, excluding owners' compensation of 2.9 percent of the construction revenue. The heat map below highlights the regional differences in residual profits of single-family general contractors across the nation.

Profits of single-family general contractors tend to be higher in Northeast where they average 7.6 percent of the total construction receipts. Maine is an exception here, where, on average, single-family contractors were close to breaking even. Residual profits tend to be lower in the Midwest and West regions, averaging around 3 percent of the construction revenue. The exception here is Wyoming with single-family general contractors reporting the residual profit of over 11 percent. The neighboring South Dakota also registered a significantly higher residual profit of 9 percent. Among other factors, higher residual profits can be associated with an elevated share of unincorporated businesses since proprietors’ income is included in the residual profit of unincorporated establishments.

Figure 1. Average Residual Profit of Single-Family General Contractors