



An Overview of the: HOME RENOVATION SECTOR IN NOVA SCOTIA

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Executive Summary

Executive Summary

The residential construction industry is a critically important part of the Nova Scotia economy. Official statistics show that spending on home renovations in Nova Scotia was \$657 million in 2000, accounting for over one-half of all spending in the residential construction industry. The actual contribution of home renovations to the economy was much greater as a significant proportion of the renovation industry is part of the underground economy.

The importance of the renovations sector is demonstrated by its contribution to employment. Thousands of jobs are generated in Nova Scotia for individuals in a wide variety of occupations, including: carpentry, plumbing, pipefitting, masonry, plastering, cement finishing, tile setting, roofing, glazing, painting, insulating, electrical trades helpers, construction, and labourers.

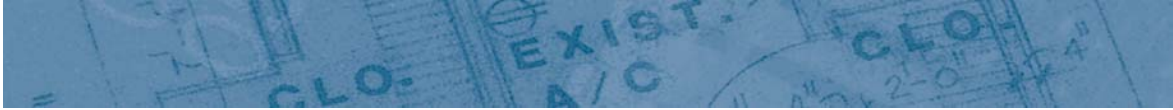
Renovation spending is predicted to increase significantly in the future as the population and housing stock in Nova Scotia age. Considering this in the context of current labour shortages and an aging workforce, it is apparent that the result will be growing business and employment opportunities in the residential renovation sector.

Some emerging trends offering new employment opportunities are in the areas of:

- ▲ home inspections;
- ▲ energy efficiency;
- ▲ air quality and ventilation systems; and
- ▲ moisture control.

Consumers are facing more choices than ever before in terms of what renovations to do, types of products to use and, perhaps most importantly, who to hire to do their home renovation. Homeowners can choose from small contractors, trade contractors, mid-size general contractors, or mega-retailers providing installed sales.

In response to these choices, consumers are becoming more informed and are demanding higher levels of professionalism and competency from their renovator. The renovation industry must adapt to these



changing needs. “The Get It In Writing” campaign is one positive example of the renovation industry rising to this challenge.

Other challenges the renovation industry must still face include maintaining adequate labour supply to meet growing demand, ensuring the skills and training of the work force are adequate and include new technologies, and that the activities of the underground economy does not hamper the professionalism and profitability of the industry.



Introduction and Overview

1.0 Introduction and Overview

The following report documents the importance of the renovations sector to the Nova Scotian economy and the existence, now and in the future, of attractive business and career opportunities.

For the purposes of this report, residential renovation encompasses any activities that improve the appearance and/or performance of the interior and/or exterior of a home. Residential renovation projects are highly diverse ranging from minor repairs such as painting, roofing, and tiling to the installation of kitchen cabinets, doors, and windows to major additions and alterations.

The Residential Renovation Sector in Nova Scotia

2.0 The Residential Renovation Sector in Nova Scotia

2.1 Economic Contribution

The renovation sector is a growing and dynamic sector of the Nova Scotian economy. Expenditures on residential construction renovations were \$657 million in 2000, accounting for 55% of all spending in the residential construction industry. Demand for renovation products and services increased by 5% in the last decade and is expected to continue to grow in the future. Moreover, the growth rate for renovation outpaced that for the residential new construction (2%) in the last ten years.

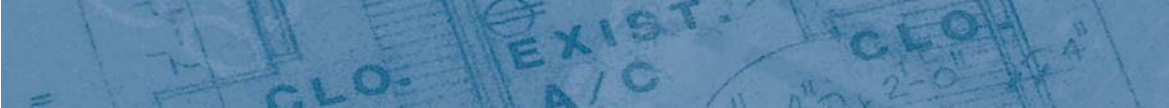
Approximately 2,600 general and trade contracting companies are involved in the residential renovation industry employing an estimated 7,150 Nova Scotians¹. Renovators vary from sole proprietorships with no employees to incorporated companies usually employing no more than ten employees on a full-time basis.

The actual contribution to the Nova Scotian economy is likely to be even higher than these estimates given the prevalence of the underground economy in the home renovations sector. Many general contractors and trades people provide services both legitimately and in the underground economy. Though difficult to measure, the Ontario Construction Secretariat estimated that the Ontario underground economy accounted for 56% of employment in renovation and 67% in home repair. For illustrative purposes, if Nova Scotia's underground economy was similar to that witnessed in Ontario then the underground economy would account for additional employment of between 9,100 and 14,520 people².

The impact of the sector is far-reaching as revenues and employment are generated in a number of ancillary services. In fact, a diverse number of industries benefit significantly from spending in the residential renovation industry. The building materials industry is the primary beneficiary of renovation spending. Other industries include the wholesale trade, wood manufacturers, professional services,

1 Estimates are derived from figures approximated by PRAXIS Research & Consulting in the report entitled Human Resources Sector Study for the New Home Building and Renovation Industry in Nova Scotia: Phases III and IV (refer to pages 3,4). The percentage of respondents that had some involvement in the renovation sector (92%) is used as a proxy for the percentage of the 2,793 residential construction firms estimated to be involved in home renovation. The sector's share of total residential construction revenues (55%) is used as a proxy to estimate the share of the 13,000 workers involved in renovation.

2 Estimates based on the prevalence of the underground economy in Ontario documented in the November 1998 report entitled The Underground Economy in Ontario's Construction Industry prepared for the Ontario Construction Secretariat.



finance and business, metal fabricating, cement and clay products, forestry and truck transport.

2.2 Residential Renovation Market

Demand for renovation is a function of many factors including the age of the home and the level of disposable income. The latest consumer renovation trends include increasing demand for:

- ▲ multi-generation housing;
- ▲ accessible housing;
- ▲ home offices;
- ▲ home entertainment centers;
- ▲ energy retrofitting;
- ▲ healthy indoor air; and
- ▲ home security.

In response to shifts in demand and a rise in consumerism, renovation consumers are faced with a multitude of products and services choices/options. To assist in making informed decisions, consumers are also seeking more information and thereby seeking knowledgeable service and product suppliers.

In light of these demand trends and the increasing demand for renovation products and services, many opportunities exist for the industry to diversify and target varying segments of the renovation market.

2.3 Structure

The renovation of a home can be completed in a variety of ways. Homeowners can use their own personal resources to carry out minor repairs and renovations. Alternatively, homeowners can act as a general contractor and sub-contract specific tasks to specialized trades or they can hire a general contractor who in turn is responsible for completing the renovation by either using their own employees and/or sub-contracting. Given the diversity of renovation projects and the varying needs of homeowners,



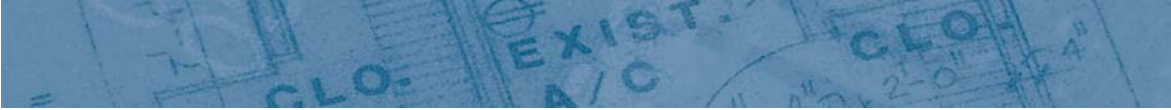
the industry has evolved into a highly fragmented and distinct sector. The types of operations offering residential renovation services can be loosely categorized as follows:

- ▲ Small contractors who use their own employees to complete minor renovations and repairs to the home.
- ▲ Independent trade contractors who offer specialized services directly to the homeowner and/or general contractors (for example electricians, plumbers, roofers, concrete formers, and painters).
- ▲ Small to mid-sized general contractors who are responsible for completing the renovation. They generally employ a small general purpose crew and sub-contract trade contractors for installations and specialty work.
- ▲ Large, national or regional home improvement retailers who offer “installed sales”. This segment sells products to the homeowner and sub-contracts the installation to specialists, small renovation firms and other individuals. These companies include Home Depot, Home Hardware Building Centres, Kent Home Improvement, Lumbermart, Pierceys, Sears Home Central, and Scotian Homes.
- ▲ Small to mid-sized manufacturers, distributors, or retailers specializing in areas such as the installation of kitchen cabinets, windows and doors, insulation, and flooring.

2.4 Labour Force

The importance of the renovations sector is further demonstrated by its contribution to employment. There are as many as 16,250 Nova Scotians involved legitimately and in the underground economy of the residential renovation industry. The sector provides year-round employment opportunities for a wide variety of occupations ranging from business and management occupations to skilled trades professionals including: carpentry, plumbing, pipefitting, masonry, plastering, cement finishing, tile setting, roofing, glazing, painting, insulating, electrical trades helpers, construction, and labourers.

Renovation is evolving into a distinct sector with specific human resource needs. The key characteristics of the residential renovation sector include:



- ▲ close relationships between renovation contractors and the customer (home-owners);
- ▲ the scope and size of projects varies significantly from very small repairs to large additions;
- ▲ for larger renovations, on-site work organization is focused on multi-tasking;
- ▲ a high incidence of sub-contracting;
- ▲ high turnover rates;
- ▲ seasonal and cyclical work disruptions; and
- ▲ prevalence of the underground economy.

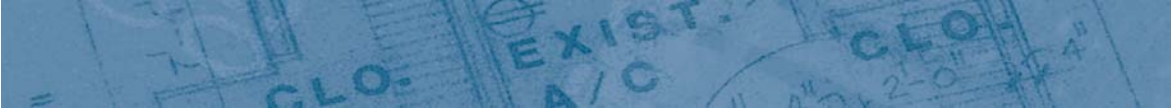
Given the unique characteristics of the sector, trades people in the renovations sector perform a broader range of work activities than individuals in other sectors of the construction industry where specialization is required to maximize productivity. Narrow job classifications in the renovations sector inhibit productivity as workers need a broad range of skills to meet the expansive requirements of homeowners.

Workers often start off in new home construction and then move to renovation and repairs once their skills are broadened and they can perform the wider array of tasks required in renovation and especially in repair and maintenance. Participants in the renovation labour force often become entrepreneurs and work as self-employed independent contractors.

2.5 Outlook

Renovation spending is predicted to increase significantly in the future as the population and housing stock in Nova Scotia age. Considering this in the context of current labour shortages and an aging workforce, it is apparent that the result will be growing business and career opportunities in the residential renovation sector.

Industry experts in Nova Scotia have indicated that the renovation sector will continue to witness unfulfilled demand in traditional occupations such as carpentry and plumbing. In addition, there are indications that growth in new areas of specialization will even outpace the demand for traditional



occupations. Some emerging trends offering new business and employment opportunities are in the areas of:

- ▲ home inspection services – the increase in real estate transactions and requirements for home insurance have in turn increased the demand for professional and certified home inspectors;
- ▲ energy efficiency – increasing energy costs and environmental concerns will continue to push consumers to upgrade the energy efficiency of older homes;
- ▲ air quality and ventilation systems – consumer desire for healthy homes will mean increased emphasis on environmentally safe and energy efficient renovations of air and ventilation systems; and
- ▲ moisture control – similar to air quality, the desire for healthy homes has raised awareness of moisture control issues.

In summary, attractive career opportunities exist in the residential renovation sector and, perhaps more importantly, rapid growth and technological change will open up even more exciting business opportunities and rewarding careers in the future.

Issues and Challenges

3.0 Issues and Challenges

Despite the future growth outlook for the renovation sector in Nova Scotia, there exist significant challenges that could limit its contribution to the economy. These key challenges include:

- ▲ existing, and likely ongoing, acute shortages of skilled labour;
- ▲ current inadequacies of training programs related to the renovation sector;
- ▲ accelerating introduction of new technologies in the sector; and
- ▲ incidence of the underground economy.

The following briefly discusses the implications of each of these major challenges.

3.1 Labour Supply

As stated, renovation spending is projected to increase and even significantly outstrip new home spending. Increased spending will translate to increased demand for labour, especially skilled trade workers. Over the next decade, labour supply in the renovations sector in Nova Scotia will become, however, increasingly problematic due to the combination of low recruitment levels and the imminent increase in rates of retirement.

Recruitment levels are low because of:

- ▲ increasing competition for labour from other industries;
- ▲ the negative image of the construction industry among youth;
- ▲ high attrition rates in Apprenticeship programs; and
- ▲ the seasonal and cyclical nature of the industry.

The shortage of skilled workers places significant constraints on the economic performance of the sector and on its ability to meet consumer expectations.



3.2 Skills and Training

The renovation sector is evolving into a distinct sector with specific needs, particularly in the area of skills and training. The specific needs are in the following areas:

- ▲ building science;
- ▲ construction;
- ▲ project management, costing and estimating;
- ▲ customer relations;
- ▲ business planning;
- ▲ product knowledge;
- ▲ communications;
- ▲ new technology; and
- ▲ management and supervision, business management.

Public training programs in Nova Scotia often focus on meeting the training requirements of the institutional and commercial sectors of the construction industry. The system tends to produce a labour force with a narrow range of skills rather than the broad range required in the renovation sector. As such, education and training institutions in Nova Scotia are not generating the numbers of skilled workers required in the industry, and there is insufficient attention paid to the specific knowledge and skill requirements of the sector.

Inadequate public and private sector training results in a skills development vacuum in the renovations sector. It exacerbates current and projected shortages of skilled trades people in the sector and reduces the contribution of the sector to the economy. Consequently, there is a need to develop a plan to improve the contribution of education and training systems to provide skilled workers in the renovation sector of Nova Scotia.



3.3 Technological Change in the Renovations Sector

The accelerating introduction of new technologies in the sector provides business diversification opportunities for contractors and workers but they demand advanced skills and training.

The types of new technology generally fall into three major categories:

- ▲ heating, ventilation and air-conditioning products, such as furnaces, air exchangers, and heat exchangers;
- ▲ energy efficiency products, such as windows, doors, building wraps, and insulation; and
- ▲ engineered wood products for structural purposes, flooring, framing, cabinets, and finish carpentry.

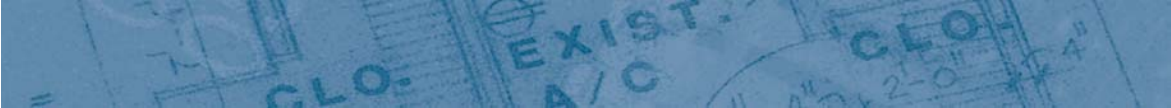
A number of major technological challenges are facing the residential renovation industry. These challenges require balancing out the science and technology of moisture control, indoor air quality, energy conservation and consumer economics when doing major renovations and additions. They also signal the increasing need to upgrade skills for using evolving technology, especially computers and computer programs for computer assisted design (CAD), project management, inventory control and communications. These and other trends will increase the demand for specialized renovation services.

Moreover, prospective changes in the National Building Code could significantly affect the renovations sector and its use of technology. Experts note that new building code raises concerns about liability, uniformity of interpretation, expertise levels of building inspectors and the level of public knowledge about the changes.

3.4 The Underground Economy

In the underground economy, the business relationship between homeowners and the renovation industry is very informal. In these cases, a contract does not exist between the homeowner and the renovation company and the contractor is paid cash, i.e. “under the table”.

While many individuals operate independently “under the table”, some legitimate firms also are rumoured to do a portion of their business for cash. As well, retailers hiring firms and individuals as



installers are not obligated to report these transactions, setting up an entire component of renovations where unreported work may be flourishing.

Some implications of the underground economy include:

- ▲ Legitimate firms charging customers 15% HST are placed at a competitive disadvantage;
- ▲ Loss of tax revenues to government;
- ▲ Increased responsibility of the homeowner to ensure that sub-contractors are covered by workman's compensation and liability insurance;
- ▲ Apprenticeship and training issues include:
 - ▲ unreported work does not reflect apprenticeship needs;
 - ▲ underground activities often involve individual tradespersons and therefore give no opportunities for job-site training;
 - ▲ underground workers are not committed to transferring technology and are not concerned about their impact on training programs; and
 - ▲ underground practices reduce the contribution base for benefits plans and weaken apprenticeship training and skills development.

In an attempt to formalize the relationship between homeowners and the renovation industry, the Canadian Home Builders Association initiated a "Get It in Writing" campaign to promote the use of formal contracts between homeowners and renovators.

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