Home Building Census

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Special Study for Housing Economics
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The 2017 Economic Census and Nonemployer Statistics Program present the most complete overview of the state of the home building industry when residential construction was on a steady upward trajectory before the pandemic-induced volatility. Despite declining self-employment rates and the rising top builder market share, residential construction remains the industry of independent entrepreneurs with close to 80% of homebuilders and specialty trade contractor firms being self-employed independent contractors.

Even among firms with paid employees, the industry continues to be dominated by small businesses, with 63% of homebuilders and two out of three 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 2017.

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 (2017) Economic Census that was released by the Census Bureau in November 2020.

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.

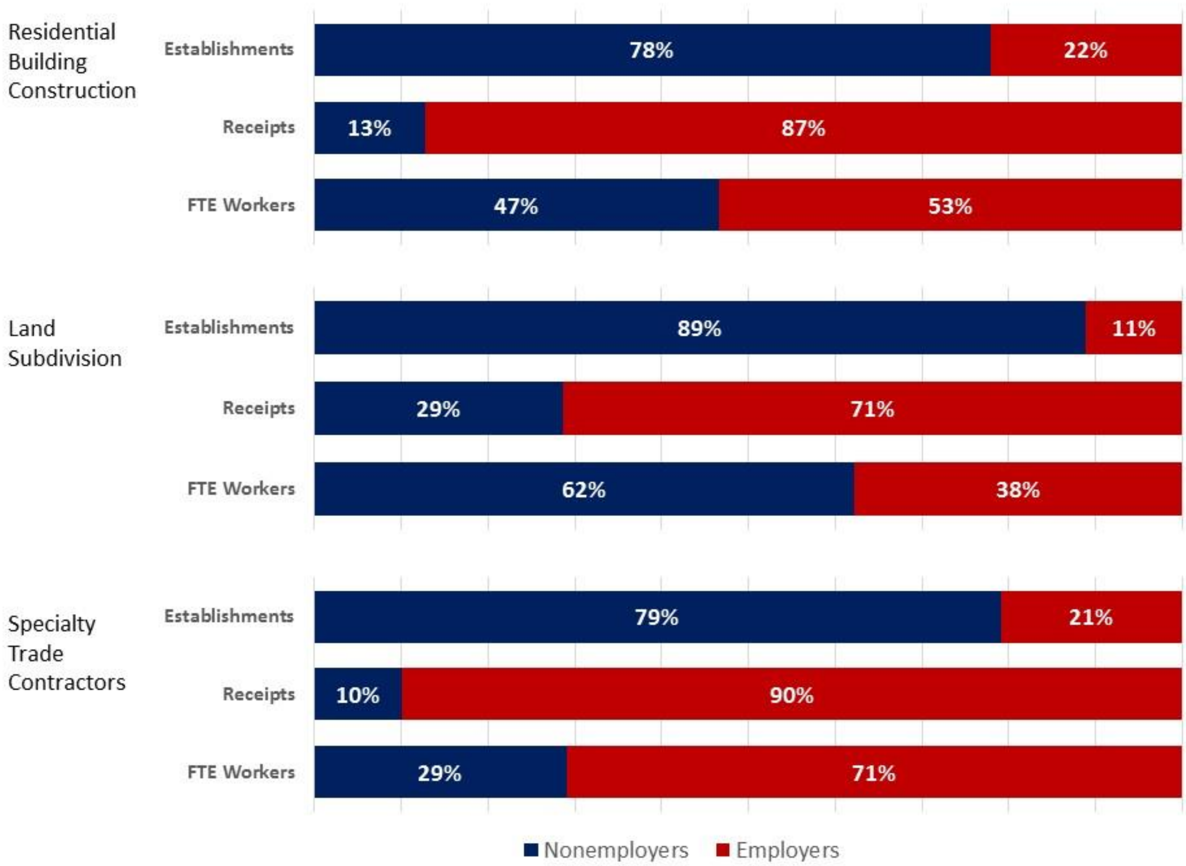
Structure of the Home Building Industry

The Economic Census estimates that, as of 2017, there were 48,673 single-family general contractors with the total value of business approaching $69 billion. At the same time, 3,200 multifamily general contractors generated $47 billion and 17,123 for-sale builders generated $149 billion in total business receipts. Residential remodelers are the most common type of RBC establishment, with 102,818 establishments reporting total annual receipts of almost $78 billion. As of 2017, there were 4,893 establishments with payroll employees in land subdivision, reporting total annual receipts of about $9.4 billion. Specialty trade contractors, that include both residential and non-residential contractors, form the largest construction subsector with more than 463,263 establishments reporting the total value of business of $875.6 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 2017 statistics show that there were close to 607,000 nonemployer firms in residential building construction, more than 39,000 in land subdivision, and close to 1.76 million in specialty trade contracting. Most of these self-employed mom-and-pop firms are very small with annual receipts averaging under $83,000 for residential building construction, and under $56,000 for specialty trade contractors. Self-employed independent contractors in land subdivision average around $96,000 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 2017. The majority of residential construction businesses are self-employed independent contractors, accounting for close to 80% of all RBC and STC establishments, and 89% of land subdivision firms. They also account for almost half of workers in residential building construction, 62% in land subdivision, and 29% in STC. Yet these nonemployer firms average only 13%, 29%, and 10% of all sales and receipts generated by residential building construction, land subdivision, and specialty trade contractors, respectively.

Chart 1. STRUCTURE OF THE HOME BUILDING INDUSTRY



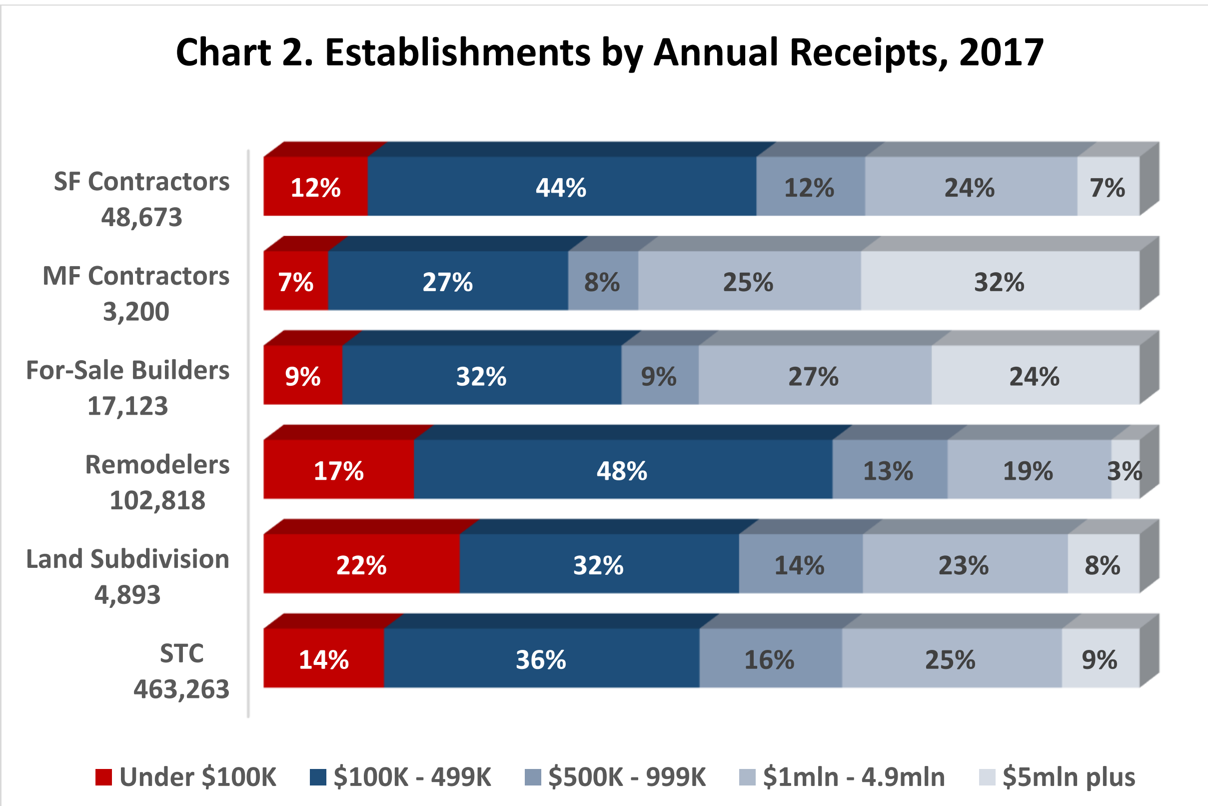
Residential Construction Companies with Paid Employees

The Economic Census, among other things, reports annual business volume. 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, land subdivision and STC companies. 78% of remodeling establishments, 68% of land developers and two out of three STC companies generate under $1 million in receipts.

Homebuilders tend to be somewhat larger with about 37% of companies reporting annual sales in excess of $1 million. Among homebuilders, multifamily general contractors tend to be largest, with more than 57% of companies generating over $1million and about one out of three companies generating over $5 million in 2017. 23% of multifamily general contractor establishments crossed the $10 million mark.

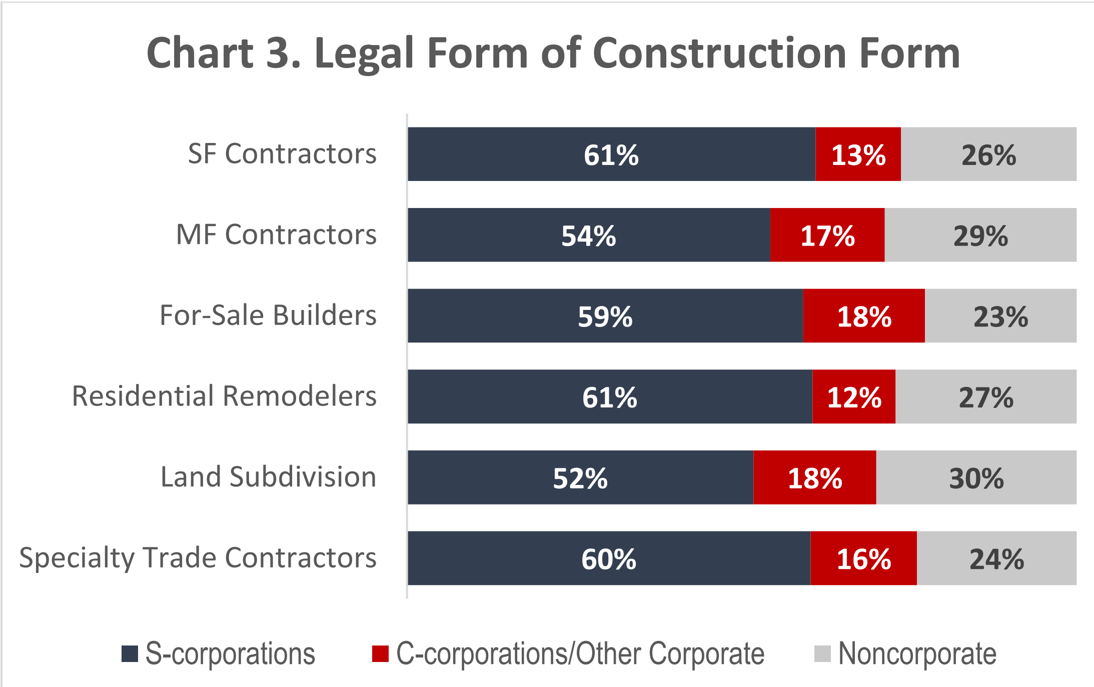
Single family contractors are typically smaller compared to for-sale builders. Less than a third of single family contractors reported annual sales in excess of $1 million while over half of for-sale builders crossed the million dollar mark. Focusing on the top earners shows that 15% of for-sale builders but only 3% of SFC made over $10 million in total business receipts in 2017.

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 $39.5 million, for land subdivision is $30 million, and $16.5 million for specialty trade contractors. By these standards, almost all remodelers and single-family contractors and at least 98% of land developers, and 96% 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). Over 60% of single-family general contractors, residential remodelers and specialty trade contractors choose to incorporate as an S-corp. The share of S-corporations among for-sale builders is similarly high, exceeding 59%. S-corporation is also a preferred form of legal organization among multifamily general contractors (54%) and land subdivision establishments (52%).

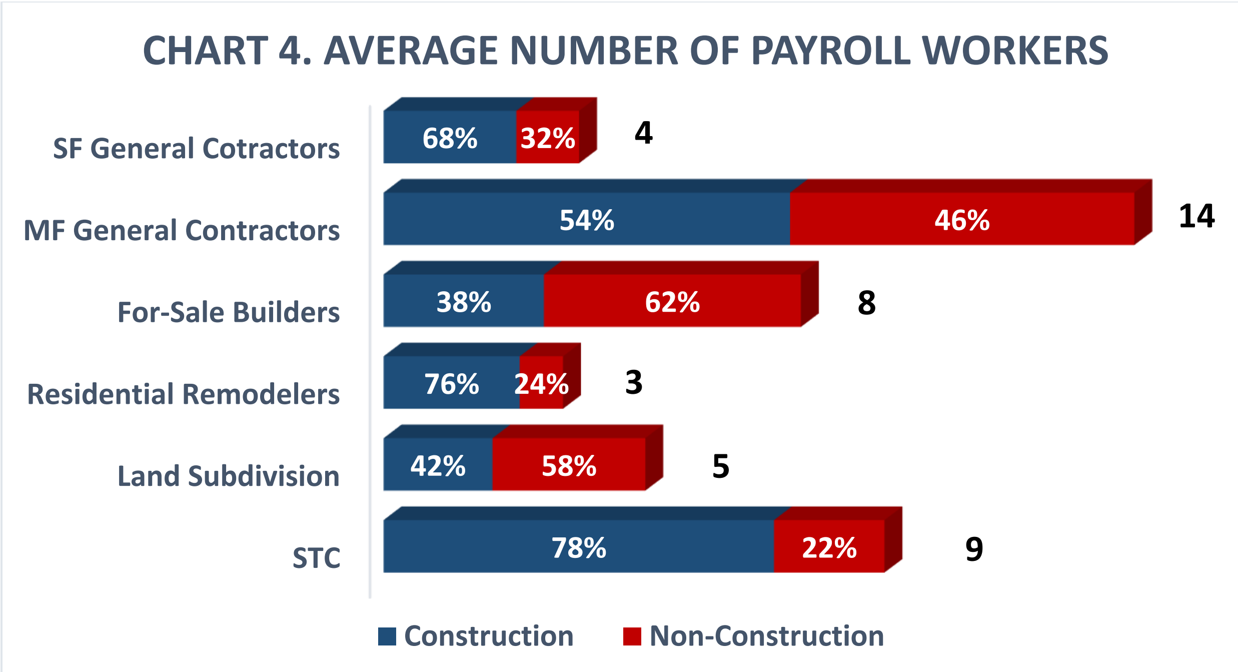
For-sale builders and specialty trade contractors are least likely to remain unincorporated, with only 23 and 24% of establishments, respectively, registering as either individual proprietorships or partnerships. Just over a quarter of single-family contractors and residential remodelers are unincorporated. The share of unincorporated businesses among multifamily general contractors is 29%. Land developers are most likely to remain unincorporated, with 30% of these establishments registered as partnerships or proprietorships.



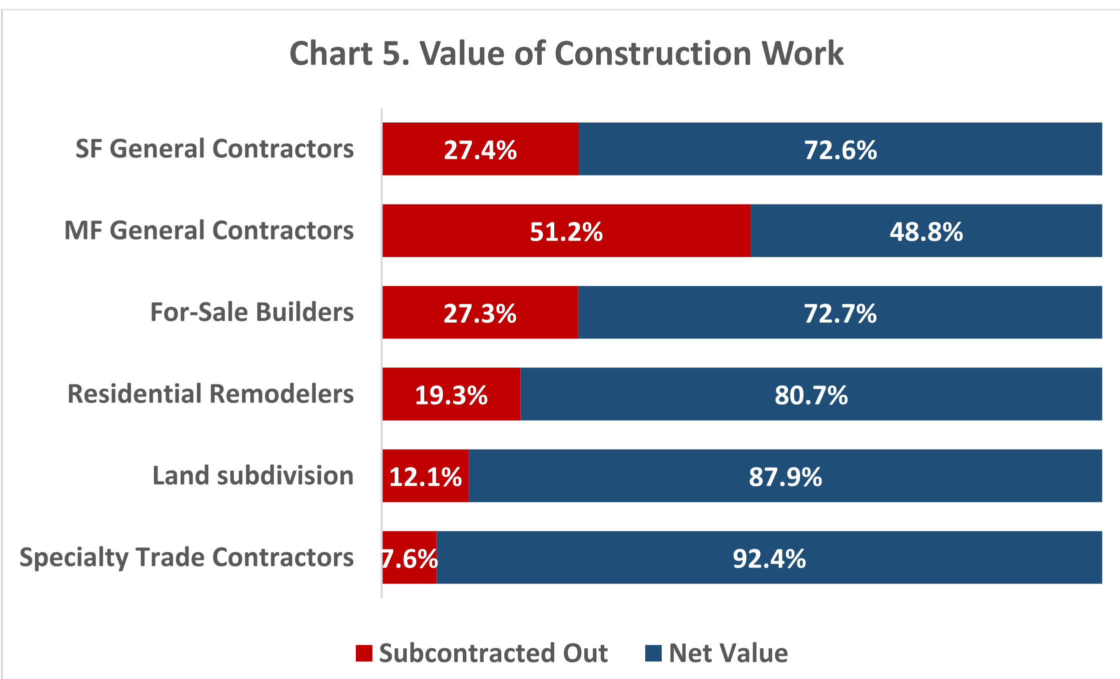
Home building companies with paid employees tend to maintain relatively small payrolls, including both full-time and part-time workers. Single-family general contractors on average have 4 employees on their payroll. Residential remodelers have 3 to 4 workers, and speculative builders' payrolls average 8 workers over the course of a year (see Chart 4). Multifamily general contractors and specialty trade contractors maintain largest annual payrolls, averaging more than 14 and 9 workers over the course of the year, respectively.

Two out of three employees on payrolls of single-family general contractors are construction workers directly engaged in construction operations, such as painters, carpenters, laborers, plumbers, and electricians. For residential remodelers, this share is even higher, with 3 out of 4 payroll employees being construction workers. The rest are non-construction workers, including supervisory employees above the working foreman level, purchasing, accounting, personnel, and professional and other office functions. For corporations, executives and salaried officers are included in the non-construction payroll. For unincorporated businesses, proprietors and partners are not counted as paid employees with their earnings being captured in the residual profit rather than in the payroll.

Specialty trade contractors register the highest share of construction workers on their payrolls – 78%. Speculative builders stand out for keeping disproportionally low share of construction workers on their payrolls – 38%. The remaining 62% 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 quarter (over 27%) of their construction work. Multifamily general contractors subcontract out most of their construction work, 51.2%. 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.



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.

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 executives, if incorporated. If unincorporated, partners and proprietors' income will be captured in the residual profit. Employers' costs for legally required and voluntarily provided fringe benefits are reported separately.

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, 20% of the total revenue on the construction payroll, while non-construction labor accounts for only 7% of the total business receipts. In sharp contrast, multifamily general contractors who subcontract out most of the work, spend only 4% on the construction payroll and 4% on wages of non-construction workers.

Since for-sale builders are more likely to be incorporated, salaries of business owners are more often included in the non-construction payroll, boosting it further. As a result, non-construction payroll of spec builders accounts for 5% of their total receipts and exceeds construction payroll that only adds up to 2% of the total revenue. For single-family general contractors, 7% of the total business receipts go to pay wages of construction workers and 6% cover the non-construction payroll. The corresponding shares for residential remodelers are 12% and 8% (see chart 6).

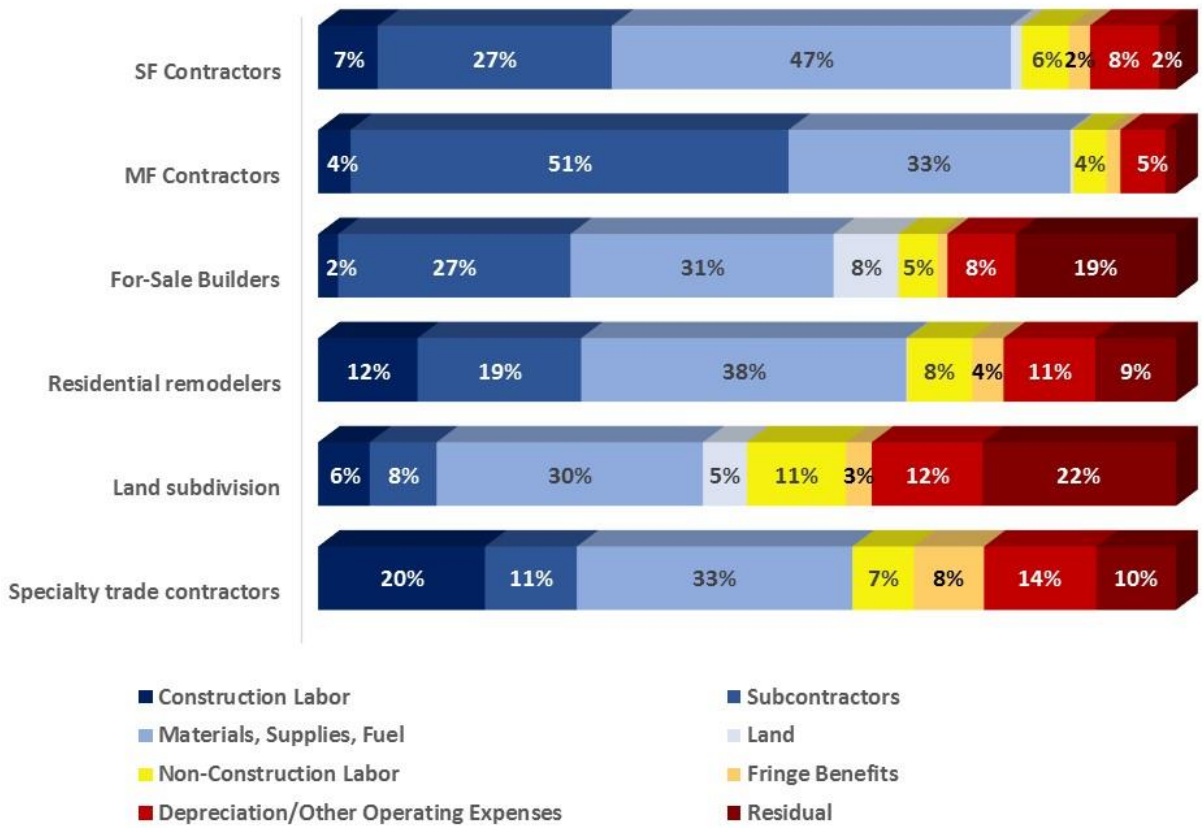
Because, multifamily general contractors outsource most of their construction work, they spend relatively less on materials, components, supplies, and selected power and fuels – 33% of the total business receipts, compared to 47% by single-family general contractors, 38% by residential remodelers.

The biggest expenditure on the books of multifamily general contractors is the costs of construction work subcontracted out to others, 51% of the total revenue. This by far exceeds the typical spending on subcontractors by single-family general contractors and spec builders – 27%, residential remodelers – 19%, and specialty trade contractors – 11%.

The land costs are noticeable on the books of spec builders and land developers, accounting for 8% and 5% of the total revenue, respectively.

The construction payroll, costs of construction work subcontracted out to others, land and costs for materials are typically added together to estimate the direct, or hard, costs of construction. The 2017 data show that the direct costs of construction vary from 61% of total revenue of specialty trade contractors to 88% of the business receipts of multifamily general contractors. For single-family general contractors, the direct costs of construction consume on average 82% of the total revenue.

Chart 6. Average Construction Cost Breakdown



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 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, fringe benefits 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 2017, residential remodelers, land developers and specialty trade contractors report the highest non-labor overhead expenses, 14%, 12% and 11% of their annual receipts, respectively. For single-family general contractors and spec builders, the non-labor operating expenses consume 8% of the revenue. Multifamily general contractors, who subcontract out most of their construction work, report the lowest non-labor overhead – 5% of the annual receipts.

The residual 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.

The leftover residual is noticeably higher for land developers and spec builders, suggesting the Census does not capture all costs associated with land acquisition and development that are specific to these subsectors. One of the obvious missing costs are regulatory costs and permits that are most often incurred at the land development stage.

Looking at businesses that typically do not incur land costs, the highest residual is reported by specialty trade contractors and remodelers, averaging around 10% and 9% of the total business receipts, the lowest is reported by multifamily and single-family general contractors – 2% and 1% of the total revenue, respectively.