2011 Builder Impressions Research Report

Submitted to: Tarion Warranty Corporation

April, 2012

research insights & advice

CRUNCH

harris/decima

a Harris Interactive company

Table of Contents

Introduction

CRUNCH research insights & advice and *Harris/Decima* are pleased to present this report to Tarion Warranty Corporation highlighting the results from a recently completed telephone survey of key personnel at a random selection of registered builders in Ontario ("builders"). Our report synthesizes our findings to help Tarion understand the challenges and opportunities to strengthen relationships with Ontario builders.

Why the Need for Research?

The primary goal of this research is to understand builders' perceptions of Tarion's recent performance, customer service, and image, among various other factors. Surveying builders also offers Tarion direct perspective on the major trends and issues facing their organizations and their local markets.

Tarion will use the insights gained from this research to gauge perceptions of its corporate performance. In addition, the results will provide current data that can be used in decision-making about future builder communication and service improvement strategies.

Research Approach

Bob Murphy, formerly of Harris/Decima and now Principal of his own firm CRUNCH research insights & advice Inc., worked with Tarion to update a similar questionnaire last used to survey builders in 2009.

In 2011, our data collection partner Harris/Decima completed 277 interviews with key personnel at randomly selected registered builders in Ontario. All surveys were completed between November 4th and 30th, 2011. The average survey length was 13 minutes and the response rate was 22% - which is considered an encouraging percentage for similar research studies.

The survey sample of 277 interviews is weighted to represent the builder population of Ontario in terms of size and region. The survey deliberately included disproportionately large samples of Large and Medium-sized builders, reflecting the large number of homes these relatively small groups of builders construct and enroll in the warranty program. The report presents the survey findings in aggregate only, respecting all assurances of confidentiality and anonymity we promised the individual interviewees.

As a general rule, only differences of at least 10% between these groups should be considered statistically significant.

Builder Segment	Size of Population*	Unweighted sample	Weighted sample	Confidence** (19 times in 20)
Large (100+)	120	77	15	11%
Medium (11-99)	407	100	51	10%
Small (1-10)	1705	100	212	10%
All	**2103**	**277**	**277**	**6%**

* Among registered builders who had at least one possession in the 12 months preceding November 1 2011.

** Sample confidence is based on the actual (unweighted) sample size.

This report begins with an executive summary outlining the key findings as well as the conclusions from the research, followed by a detailed analysis of the results.

Executive Summary

This report highlights the results from Tarion's 2011 Builder Impressions Survey of 277 telephone interviews with key personnel at registered builders in Ontario. The survey objectives were to:

- Understand builders' overall market outlook for new residential construction and the top challenges they are facing (to provide context and identify the potential influence of external market perspectives on their impressions of Tarion);
- Determine builders' overall impression of Tarion, performance perceptions, and the strength of relationship builders feel they have with Tarion;
- Reveal builders' specific impressions of Tarion across a range of corporate performance attributes and traits;
- Explore what issues, if any, builders have with recent changes Tarion has made;
- Capture builders' suggestions for improvements;
- Determine the key drivers of builders' impressions of Tarion in order to help identify the priority areas for future relationship management initiatives; and
- Measure satisfaction with Tarion's builder registration and new home enrolment processes.

Our key findings and perspectives are presented in this executive summary:

Builders' Optimism is Slipping

A majority of builders remain optimistic about the residential construction market and their own company's prospects over the next 12 months. However, the current levels of optimism have waned:

- 76% of builders expect the market for new residential construction activities will look promising or stable over the next 12 months - Down 12% from 2009.
- 81% of builders also feel that the market for their own company holds promise or stability over the same period, a 9% decrease.
- Large builders are most likely to forecast an increase in construction activity and growth in their own company.
- One-quarter of builders (24%) are pessimistic about the market for new residential construction and these builders tend to have a much more negative view of Tarion across a number of impression measures.

The latter of these insights speaks to the influence of external factors and market conditions on impressions of Tarion's performance as the regulator. Such market outlooks also highlight the broader builder opinion context Tarion will face in Ontario for the immediate future.

Consensus on Major Issues & Challenges

Survey results revealed the persistence of four key trends, issues or challenges that builders expect to face over the next 12 months, and a fifth has emerged. We've grouped these top issues as follows:

1. Recession/Economy
2. Sales/Marketing
3. Land Use/Availability
4. Regulatory/Permitting
5. Budgetary Concerns

In 2009, HST was the second most popular concern, but importance of this factor has greatly dissipated since then (now 3% vs. 15%).

Builders' Overall Impressions of Tarion

Builders' general impressions of Tarion are best characterized as positive to neutral. Tarion's Corporate Performance, Commitment to Customer Service, and Image all garner positive impressions from a majority of builders.

- 87% of builders say they're satisfied with Tarion, including 48% who are very or extremely satisfied.
- 95% of builders say Tarion's change in commitment to customer service is stable or improving. Small builders are still less likely to acknowledge improvements; instead they believe Tarion's commitment to customer service has remained the same (61%).
- 94% say Tarion is accessible and 85% say Tarion's Builder Relations department provides useful tools and advice.
- 88% of builders describe their relationship with Tarion as good or better, including 64% who say it's very good or excellent.

While these overall results are positive, Large builders consistently have a more favourable impression of Tarion than Small builders on many measures, including their perception of Tarion's customer service and the strength of their relationship with Tarion.

Comparisons to Tarion's 2009 Builder Survey

Since 2009, builders' general perception of Tarion has improved and the 2011 data show statistically significant gains on several measures. Among the most notable improvements is the increase in builders' satisfaction with Tarion's overall performance over the past two years (a 10% increase in those very or extremely satisfied from 38% in 2009 to 48% in 2011).

The improvements in impressions are very much related to a substantially smaller proportion of builders saying they have issues with changes made by Tarion in the last two years (42% in 2009 and 26% in 2011). Although still the most common complaint, builders' issues with fees have been reduced by 18% since 2009 as have perceptions of Tarion's bias in against builders (-9%) and fewer have warranty deadline or delayed closing policy concerns (-11%).

Builder Outreach Opportunities

Local Home Builders Associations (HBAs) and their meetings/events may be channels to help enhance relationships with some builders. Small builders however are much less often engaged in their local HBA (only 34% belong to a local HBA versus 80% of Medium-sized builders and 90% of Large builders). As a result, Tarion may need to incorporate other approaches.

This executive summary discussion represents our key findings. A detailed report is presented on the following pages.

Detailed Findings

This report is divided into seven broad sections. The first and second sections explore builders' outlook for the new residential construction market and synthesizes their perspectives on key challenges and emerging issues.

The third section examines builders' impressions of Tarion, including overall performance and impression measures. The fourth presents the evaluation of Tarion's builder Licensing & Home Enrolment processes, and the fifth includes builder's suggestions for improvements Tarion could consider.

Comparisons to previous results on common measures included in Tarion's 2009 Builder Impression Survey are presented in the sixth section. The last section summarizes the decision-makers' engagement with local HBAs and opportunities for market outreach.

Each section in this report provides a thorough overview of the key survey findings. Where available, we incorporate respondents' representative verbatim comments to illustrate our observations and interpretations.

Note: Some additive percentages in this report may not sum to their component parts due to rounding. Additive percentages accurately reflect their component parts.

Industry Outlook

This year's survey began with a few short questions to help set builders' impression of Tarion in the broader context of their views of what's happening in the new residential construction market overall and their own company. This is the second year such questions have been asked as part of the Tarion Survey of builder Impressions.

New Residential Building Activity - ***Market*** Outlook

Most builders (76%) feel the next 12 months look promising or stable when asked about their outlook for new residential construction activities in the markets in which they operate, but that's down 10% since 2009. This decrease is caused by fewer builders who believe that activity will increase (30% 2011 vs. 42% 2009) and is a trend across all builder segments, though most pronounced in Ottawa (now only 9% expecting an increase vs. 34% in 2009). Large builders are the most optimistic (50% expect an increase).

The one-quarter of builders (24%) who have a pessimistic market outlook also tend to have a more negative view of Tarion's performance on some survey measures. This offers evidence that impressions of Tarion are, in part, linked to external context factors over which Tarion may not have influence.

New Residential Building Activity - Market Outlook

New Residential Building Activity - *Company* Outlook

Similar to their views about the prospects for the market overall, most builders (81%) feel the future for their own company holds promise or stability; however, this number has decreased in the past 2 years (down from 87% in 2009) due to fewer builders anticipating improvements in their company's building activity (36% 2011 vs. 45% 2009). Again, Large builders (51%) are most likely to forecast an increase.

Builders' own company outlook reflects the softening builders see in the broader market. In most categories fewer expect an increase and more expect a decrease, indicating that it's not just a softening leading to an expectation of stability. Only Medium builders are holding steady in their market outlook for their own business. And regionally, the negative growth issue is most exacerbated in Ottawa.

A negative company outlook is also somewhat linked to slightly more negative views about Tarion's performance on some key survey measures.

Top Issues Facing Ontario Builders

Core Challenges

We posed an open-ended question to builders asking them to express the biggest challenge facing their company over the next 12 months. Results reveal five key trends, issues or challenges that Tarion should be aware of as it creates strategies to strengthen relationships with builders. In many ways these challenges are interrelated. We've labeled these:

1. Recession/Economy
2. Sales/Marketing
3. Land Use/Availability
4. Regulatory/Permitting
5. Budgetary Concerns

What would you say is the one biggest challenge facing your company over the next 12 months?

Biggest Change Over Next Year	Total % 2009	Total % 2011	% Change
Economy/recession/consumer confidence	17	21	4
Sales/marketing/finding & qualifying buyers	10	15	5
Finding land to build on/acquisition/development	11	10	-2
Government regulation/permits/fees/demands	9	9	0
Increasing home/land costs/staying under budget	4	7	3
Availability of skilled labour/tradespeople	3	7	3
HST	15	3	-12
Financing/financial challenges (unspecified)	3	3	0

Base: Valid Responses

Recession/Economy

Concern about the recession/economy is still the single most prevalent issue occupying builders' minds and is equally significant across all builder categories. The essence of this topic is found in the response below which highlights the pressures that some builders face:

> *"Global economy reflecting on the market" – Medium builder*
>
> *"The economy is not too good in our town … nobody can afford to build." – Small builder*

Sales/Marketing

Sales and Marketing challenges have become increasingly important for builders, moving from the fourth most critical challenge to the second. These concerns more often occupy the minds of Medium (18%) and Small builders (15%) than Large (8%), the opposite was true in 2009.

"Sales costs and lack of sales." – Medium builder

"Just the customers, whether they are going to buy a house or not…" – Small builder

Land Use/Availability

Small builders (9%) are less likely to mention the Land Use/Availability issue than Medium (11%) and Large (17%) . Land Use apprehensions are most prominent with GTA builders (14%) over those from Ottawa (2%) or Other (9%). Their concerns are most simply expressed in terms of zoning challenges and the scarcity of new land perceived by some.

"Land supply and bring land to market" – Large builder

"Finding buildable properties." – Small builder

Regulatory/Permitting

Builders of all sizes mention regulatory requirements with the same frequency. Issues of this nature are often centered around managing the changes and costs of new permits or regulations.

"Getting building permits. It seems to be a long process." – Small builder

"The building code changes and permit prices." – Medium builder

Budgetary Concerns

Budgetary concerns, such as increasing home/land costs, are equally as important to all builder types. However, this concern is lead regionally by those in 'Other' regions (12%) rather than Ottawa (6%) or the GTA (2%).

"Maintaining profit margins on each individual units." – Medium-sized builder

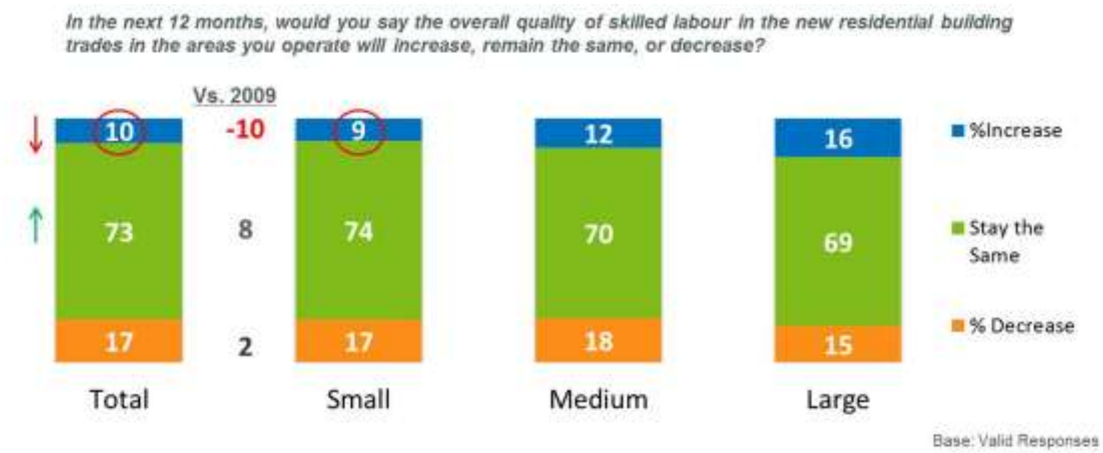
"Finding decent development projects that are economically viable." – Large builder

"Material costs. Rising costs. People's finances are a big issue." – Small builder

Other Issues

In addition to the five broad–based challenges identified above, there was one other notable regional challenge identified among comments made in the survey.

The market concerns of Ottawa builders expressed previously are also echoed in their concerns about their ability to remain competitive. Ottawa based builders (8%) are far more likely than their GTA (1%) and Other (0%) counterparts to express concern regarding their ability to remain competitive.



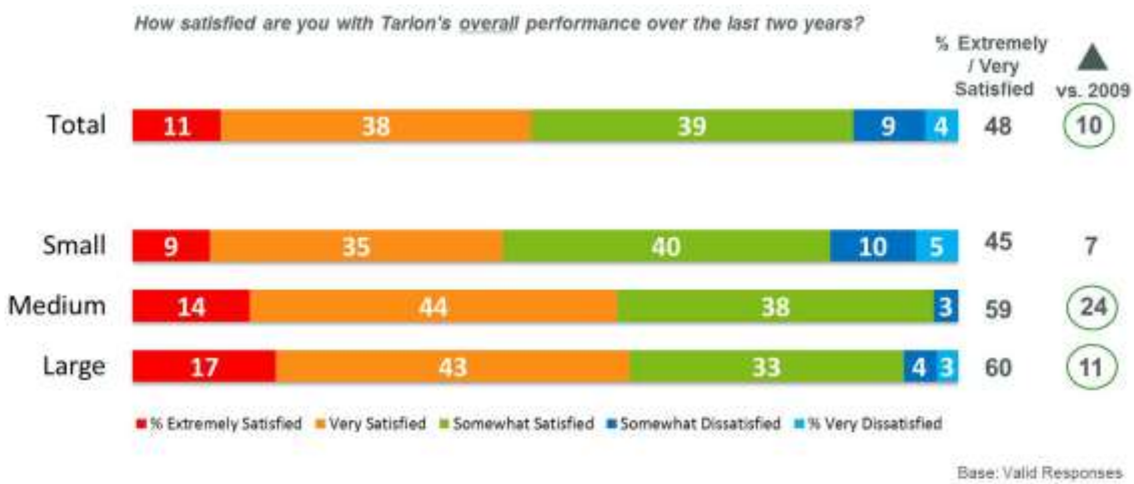
We also included a question to gauge builders' confidence in the overall quality of skilled labour in the building trades. Three-quarters (73%) see stability in the quality of supply. While fewer builders expect an increase in the overall quality of skilled labour most are expecting skilled labour quality to remain the same.

Builders' Impressions of Tarion

Performance Perceptions

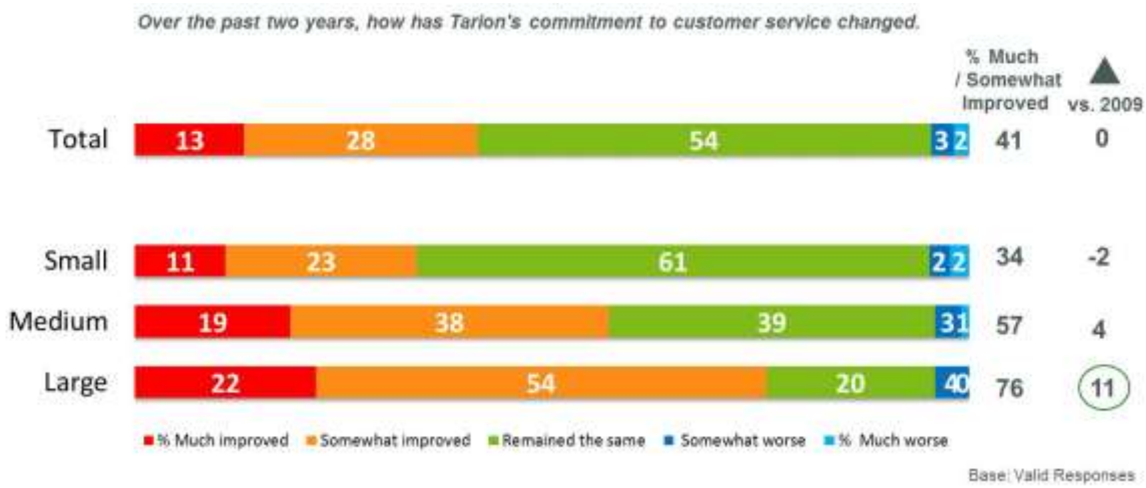
Tarion is the beneficiary of a significant improvement in perceptions of its overall service performance in the past 2 years with large gains in two out of three builder segments. These gains lead to a 10% increase overall.

Large and Medium builders continue to be the most positive about Tarion's overall performance.



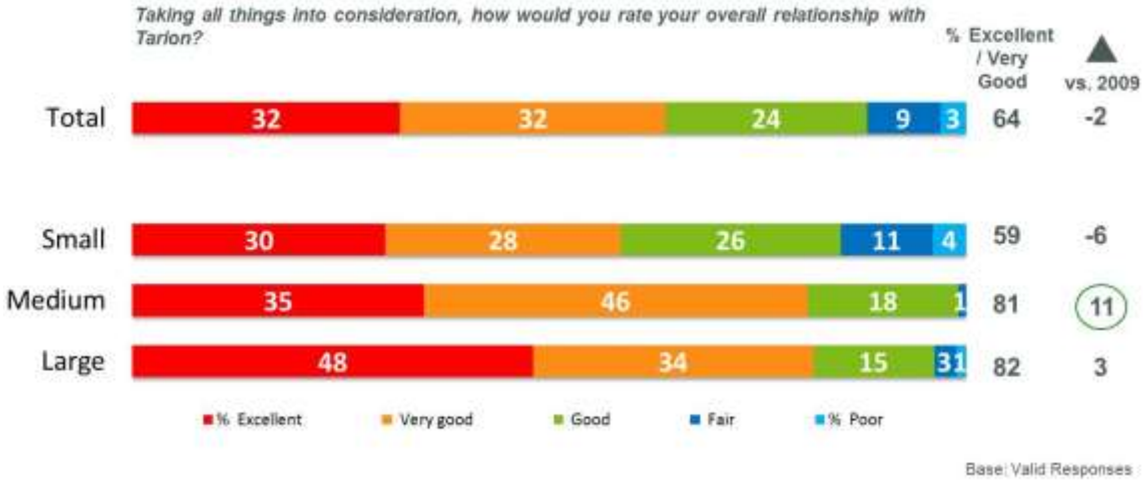
Commitment to Customer Service

We also asked builders for their thoughts on the general momentum of Tarion's commitment to customer service over the past 2 years. Nearly all (95%) suggest the momentum on customer service is stable or improving, including 41% who say somewhat (28%) or much (13%) improved. Again, Large builders are more favourable than all others and are more likely than ever to say so. It is Small builders who are less likely to acknowledge improvements – they are far more likely to say Tarion's commitment to customer service has remained the same (61%).



Strength of Builder Relationship with Tarion

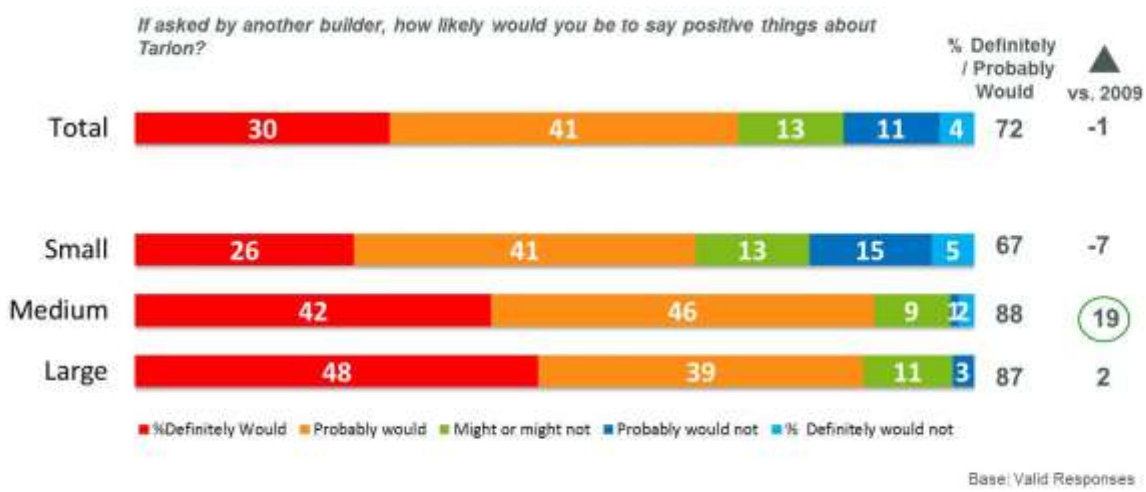
Builders' views of their relationship with Tarion are statistically unchanged overall, though Medium builders increasingly see their relationship with Tarion as Excellent or Very Good (81% vs. 70% 2009). In total, almost two-thirds (64%) say their relationship with Tarion is "Excellent" (38%) or "Very Good" (28%). Medium and Large builders remain more positive about their relationships than Small builders.



Tarion Advocacy

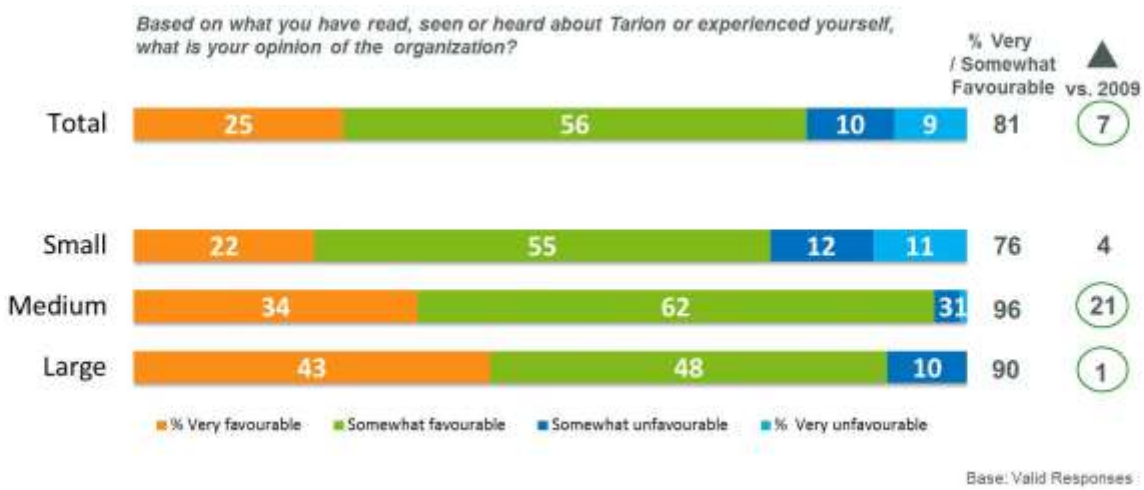
One of the most sought after metrics in stakeholder and customer satisfaction measurement is often referred to as "Advocacy". This is commonly measured by asking survey respondents about their likelihood to recommend an organization or say positive things about it to others.

Tarion's "Advocacy" measure is quite positive with almost three-quarters of all builders (72%) committing to say positive things about the organization, including those who report they will probably (41%) or definitely (30%) say positive things about Tarion. A 19% gain was made with Medium builders in 2011. Consistent with the established trend in our survey is the finding that Large and Medium builders are most likely to make positive comments about Tarion to other builders.



Overall Impression of Tarion

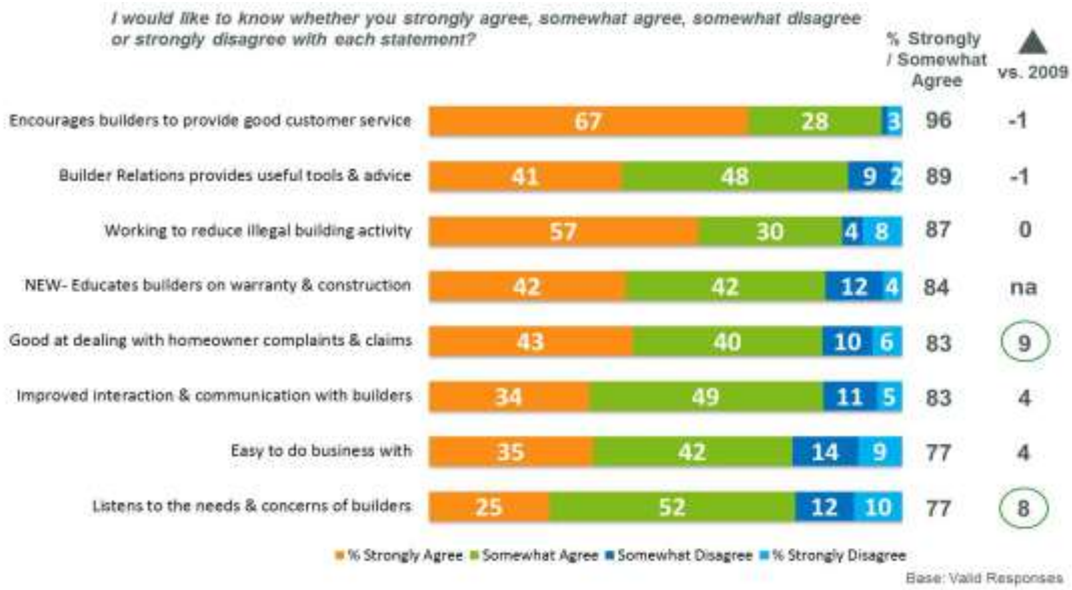
The final overall impression measure in our survey assesses Tarion's favourability. Tarion's overall favourability is quite positive, with four-in-five builders (81%) holding a favourable impression, including those who say they have a somewhat (56%) or very (25%) favourable opinion of Tarion. Overall impressions of Tarion have improved by 7% with the 21% increase among Medium volume builders driving much of the change. This is especially encouraging given the market growth challenges because in the 2009 survey those with a more negative outlook had a less favorable impression of Tarion.



Again, Large and Medium-sized builders have a more favourable impression of Tarion compared to Small builders. That said, a clear majority of Large, Medium, and Small builders have an overall positive view of Tarion.

Specific Impressions of Tarion

Builders were offered the opportunity to agree or disagree with a number of statements about Tarion. As a result, a large majority of builders chose, in each case, to give a positive endorsement about Tarion. As the following figure shows: 96% of builders agree that Tarion encourages excellence in customer service, and 89% say Tarion's Builder Relations Department provides useful tools and advice. Builders also agree that Tarion is working to reduce illegal building (87%), is educating builders on warranty and construction (84%), does a good job dealing with homeowner complaints (83%) and has improved interaction and communication with builders (83%). Notable improvements are seen in Tarion's ability to deal with homeowner complaints and claims (9% increase) and their ability to listen to the needs and concerns of builders (8% increase).



As has been the case in past years, Medium and Large Builders tend to be more favorable toward Tarion and are becoming increasingly so. Gains centre *around communications, listening and homeowner complaint handling*. Small builders see improvements in Tarion's ability to deal with customer complaints (83% vs. 75% 2009). Medium builders also suggest improvement in this area (84% vs. 70% 2009), as well as in the way Tarion interacts and communicates with builders (86% vs. 77% 2009) and listens to the needs and concerns of builders (86% vs. 67% 2009).

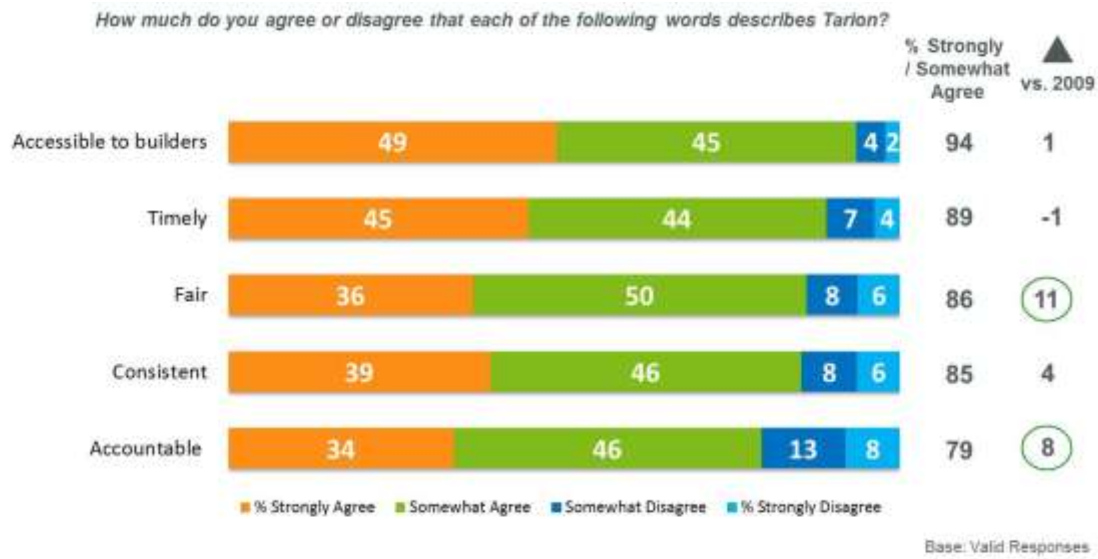
There are also gains among Large builders on two key attributes: Tarion is easy to do business with (91% vs. 77% 2009) and Tarion has improved the way it interacts and communicates with builders (92% vs. 84% 2009).

These impressions also show variance by region since 2009. The GTA has shown some losses in 'Builder Relations provides useful tools and advice' (85% vs. 95% 2009) and 'Tarion has improved the way that it interacts and communicates with builders (78% vs. 92% 2009). In contrast, builders in regions outside the GTA and Ottawa have significantly improved impressions on Tarion's work to reduce illegal building activity (92% vs. 83% 2009) as well as their improvements in the way that it interacts and communicates with builders (92% vs. 70% 2009).

Ottawa builders (73%) continue to be least favourable about Tarion's progress on working against reducing illegal building activities vs. builders in Other regions (93%) and the GTA (89%).

Specific Impressions of Tarion

Offered the opportunity to agree or disagree with a number of image traits they might associate with Tarion, large majorities of builders still endorse Tarion as accessible (94%) and timely (89%). Previously registered considerably lower than other traits, we are seeing major improvements in perceptions of fairness (up 11%) and accountability (up 8%).



Though these views are largely consistent across all builder segments, Small builders are less likely to associate Tarion with being fair and Large builders less likely to see them as consistent.

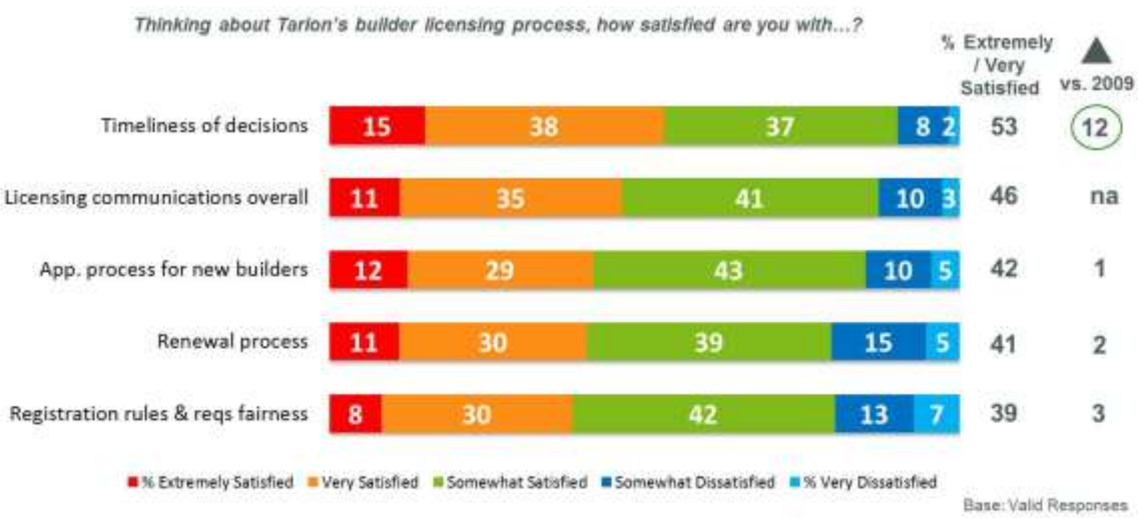
Builder Licensing & Home Enrolment

New areas of evaluation in the 2009 survey include builders' satisfaction with Tarion's Builder Licensing & Home Enrolment processes.

Builder Licensing Process

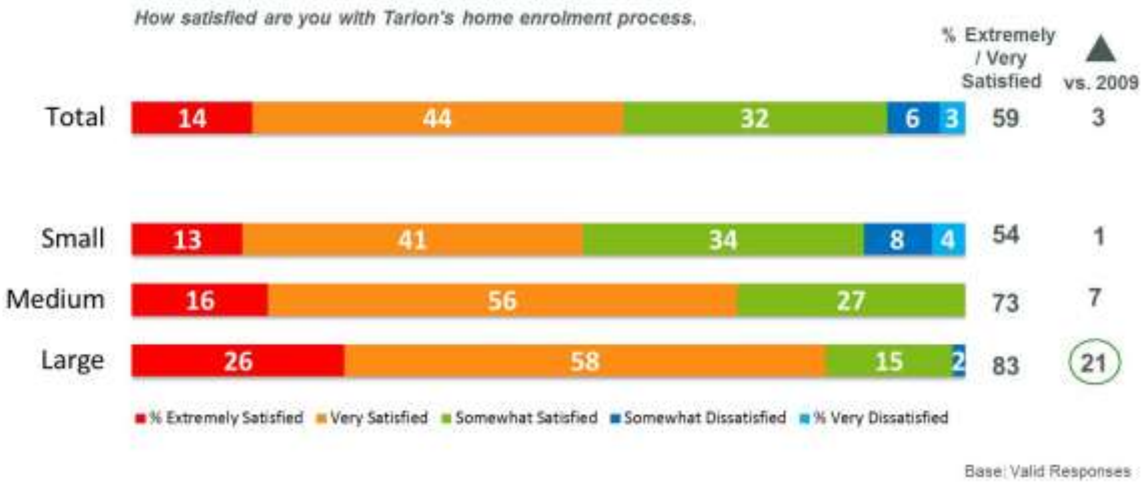
All components of the builder licensing process are more or less equally rated. While overall results are statistically unchanged, licensing satisfaction increased among Medium and Large Builders. Large Builders remain more positive about the licensing process overall and about the fairness of licensing requirements. Builders of all sizes report significantly higher satisfaction with the timeliness of licensing decisions, resulting in a positive gain of +12%.
In addition to improved perceptions on the timeliness of licensing decisions, Large builders are showing increasing satisfaction for the licensing renewal process (78% vs. 48% 2009), while Medium builders are much more satisfied with the application process for new builders (53% vs. 37% 2009) and the fairness of the registration rules and requirements (56% vs. 39% 2009). On the new measure of overall communications, Large (63%) and Medium (55%) builders are the most satisfied with Tarion.

GTA builders, also more likely to be Large builders, are more satisfied than those outside the GTA with the licensing renewal process and the fairness of the registration rules and requirements.



Home Enrolment Process

While overall results are statistically unchanged, home enrollment process satisfaction has increased among Medium and Large builders. Large builders are becoming increasingly positive about the home enrollment process, with a 21% increase in satisfaction.

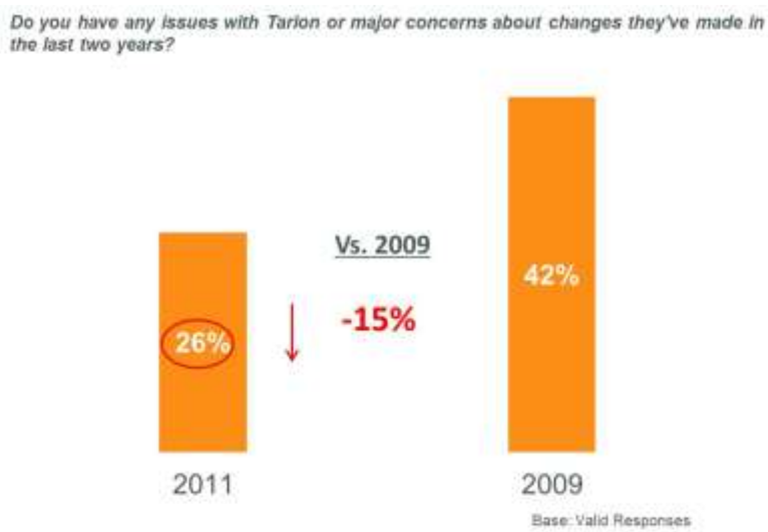


Builder-Driven Suggestions for Improvement

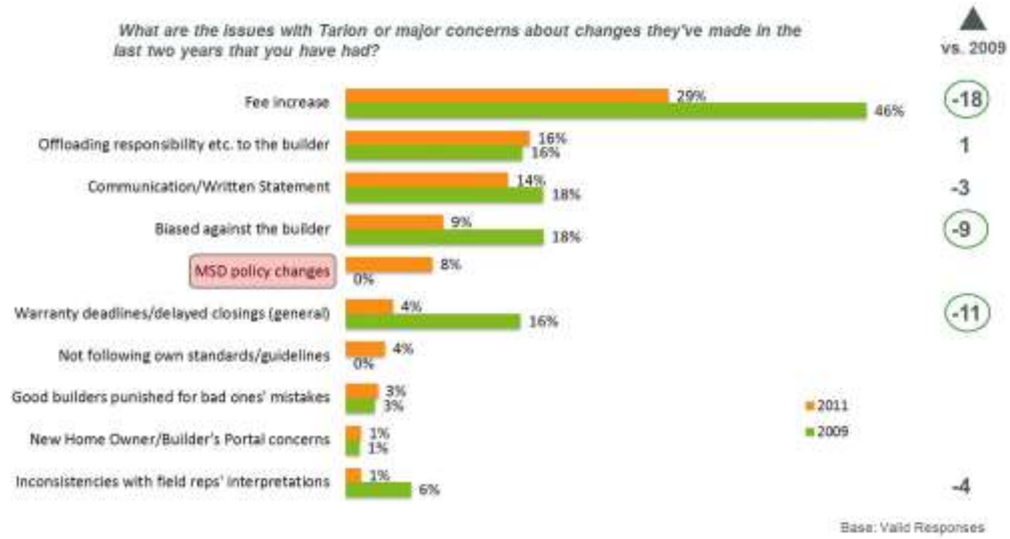
Builders' Major Concerns / Issues with Tarion

In 2009, 42% of builders said they had issues with changes made by Tarion in the last two years. In 2011, this number has been cut by two-thirds to 26%. Large builders are more likely to say they have issues with Tarion's changes.

Builders with an unfavourable impression of Tarion and/or a pessimistic market outlook are more likely to have concerns about changes Tarion made in the last two years.



Among the 26% of builders with concerns about changes made by Tarion, frustration with fee increases tops the list again, though it has lessened drastically since 2009 (18%). Fewer are concerned with bias against builders and delays/deadlines. Finally, MSD policy changes have emerged for some builders (8%).



Suggested Improvements to Assist Builders

Builders' suggestions for improvement are linked to the top issues—relating to the changes that Tarion made. Their key priorities are homeowner education and regulation enforcement.

Requests to enforce illegal building and deliver builder education/seminars are on the rise. Illegal building concerns reside mostly with Small builders.

What is the most important improvement Tarion could make to assist builders in the next year or two?

Improvements to Assist Builders	Total % 2009	Total % 2011	% Change
Educate Homeowners	5	9	4
Police illegal builders/enforce regs	4	8	5
Cost-effective/Lower fees	10	7	-3
Simplify processes	9	6	-3
More builder seminars	2	6	4
Consult/listen to builders	0	3	2
Be fair/no favouritism	13	2	-11

Concerns with homeowner education are two-fold. First, builders believe that Tarion is not doing their role to properly inform home buyers:

> *"They don't tend to explain to the customers what is under warranty and what is not."- Small builder*

Second, there's a concern for a few that Tarion is going out of their way to provide buyers with conciliation information and pushing buyers to file for conciliation:

> *"Pressuring home owners to file for conciliation. I had one homeowner who I received conciliation files for and she said she did not file but Tarion had prepared the files. She is not the first one. This homeowner cancelled them but there have been others who have said the same thing" – Large builder*

A few builders also state that Tarion is inconsistent in the enforcement of their own regulations:

> *"Inconsistent in following their own protocols in assessments of conciliations. Too many hands in the pot. They are disorganized, unresponsive and not fair. Their inconsistency in their application is arbitrary." – Large builder*

Both of these issues relate strongly to the theme of "fairness" that has been dominant in survey results from previous years; builders consistently see Tarion as a governing body that is on the side of homeowners.

Comparison to Previous Survey Results

Bouncing Back: Performance Tracking vs. 2009

Results on most all key metrics improved since 2009 and are recovering to levels seen in the 2007 benchmark survey. Indeed, fewer Builders report concerns or issues with Tarion in this current assessment.

	2011	2009	2007	2011 vs. 2009
Overall Sat. w. Tarion interactions % Extremely / Very Satisfied	51	38	56	+13
Overall performance in past 2 years % Extremely / Very Satisfied	48	38	55	+10
Listens to builders' needs & concerns % Strongly / Somewhat Agree**	77	70	86	+8
Accountable % Strongly / Somewhat Agree	79	71	83	+8
Fair % Strongly / Somewhat Agree	86	75	86	+11
Improved way it interacts w. builders % Strongly / Somewhat Agree	83	79	86	+4
Dealing w. homeowner complaints claims % Extremely / Very Satisfied	83	74	87	+9
Has issues with Tarion or major concerns about recent changes % Yes	26	42	11	-16

***Note: This metric made narrow reference to the builder Relations Department in 2007 and the more expansive use to encompass Tarion overall in the 2011 and 2009 surveys could partly account for the decline*

Areas of Stability/Gain: Performance Tracking vs. 2009

There are also a significant number of tracking measures that show either stability or a slight, directional gain since 2009.

	2011	2009	2007
Know who to contact at Tarion % Yes	76	79	80
Timely % Strongly / Somewhat Agree	89	88	90
Accessible % Strongly / Somewhat Agree	94	93	90
Working to reduce illegal building % Strongly / Somewhat Agree	87	87	86
Consistent % Strongly / Somewhat Agree	85	81	80

APPENDIX