



## 2008 Shaping Up as a Year of Growth – Albeit Slower Growth – for Home Systems

### AUTHORS:

Bill Ablondi, Parks Associates

Daryl Delano, EH Publishing

Despite the well-documented, two-year-old downturn in the U.S. housing market, most custom electronics installers/dealers continued to grow during 2006 and 2007. This can be attributed in large part to the fact that the industry still overwhelmingly serves what has to be characterized as the “high-end” of the market, to the sound business practices of most dealers/installers, and to the fact that consumer electronics/home technology has continued to capture the imagination and lifestyle desires -- and disposable income-- of an increasing share of American households.

But the industry isn't immune to the downturn; businesses undoubtedly would have fared better if the housing market had been healthier the past two years because the volume (and average price point) of both new homes sold and existing homes sold and/or looking to remodel (projects often involving the installation of a home theater, lighting controls, etc.) would have been greater. Higher volume = more opportunity. And with the “challenges” to the housing market likely to persist throughout most (if not all) of 2008, installers/dealers are likely to “feel the pinch” to a greater extent than they have to this point in time. With that likelihood – if not quite inevitability – in mind, it's instructive to review some of the ‘lowlights’ of recent housing market trends.

The unnerving decline in house prices in many geographic markets of the nation grew

BROUGHT TO YOU BY:

**PARKS  
ASSOCIATES**

### ANALYST QUOTE

“Despite the well-documented, two-year-old downturn in the U.S. housing market, most custom electronics installers/dealers continued to grow during 2006 and 2007.”

**Bill Ablondi**

Director

Home Systems Research  
Parks Associates



steeper with each passing month of 2007. This trend – still with downward momentum as the new year approached – has a host of negative implications.

It saps homeowner equity, undermining one of the important foundations for healthy, economic-growth-fueling consumer spending. It depresses consumer confidence – something which is difficult to quantify but which is unquestionably a significant determinant of consumer psychology and the willingness to commit to ‘big ticket’ purchases (like homes, cars – and the pricier elements of home entertainment/control systems). It also instills in homeowners contemplating a move and in prospective first-time homebuyers a cautious, ‘wait-and-see’ attitude of uncertainty as they try to make a sound judgment about when house prices are likely to stabilize and what’s the ‘right’ time to jump into the market.

The median price of a new single-family home sold in the U.S. during October of 2007 was a jaw-dropping 13% lower than during the same month of 2006. The median price of an existing home sold that month held up somewhat better – but was still 5.1% lower than twelve months earlier.

**Ten states saw average home prices fall between the 3Q 2006 and 3Q 2007:**

Michigan  
California  
Nevada  
Massachusetts  
Rhode Island  
Florida  
New Hampshire  
Arizona  
Minnesota  
Ohio

The more comprehensive measure of house price changes (covering both new and existing homes) from the federal government’s Office of Federal Housing Enterprise Oversight (OFHEO) was still up slightly (1.8%) between the third quarter of 2006 and the same quarter of this year. But for the first time in 13 years it recorded a quarterly decline as weakness in house prices deepened between the second and third quarters of this year – and have unquestionably continued to do so through the final quarter of 2007.

Ten states in the nation saw average home prices fall between the third quarter of 2006 and the third quarter of 2007: Michigan, California, Nevada, Massachusetts, Rhode Island, Florida, New



Hampshire, Arizona, Minnesota, and Ohio. An even larger number of states – 21 – saw prices decline between 2Q and 3Q 2007. Among the 287 metropolitan areas for which OFHEO tracks prices, 29% recorded over-the-year price declines. The 20 cities registering the steepest over-the-year depreciation in housing prices were concentrated in three states: California (9 metro areas recording declines), Florida (8 areas), and Michigan (3 areas). Fortunately, most of these states and metro areas saw declines after a long period of significant price appreciation – so the average homeowner who had been in a house for at least 5 years saw plenty of home equity built up – equity that could potentially be applied towards a remodeling project incorporating home technology products.

This review is not to suggest a “doom and gloom” scenario for custom electronics installers/dealers during the year ahead. Unless the economy plunges into a full-blown recession during 2008 – the odds of which economic forecasters are currently estimating at still something at least marginally less than 50% – then installer/dealer businesses are likely to see revenues increase by an average of about 5%-7%. Not bad in the context of a struggling U.S. economy – but considerably less robust than the 15%-20% averages posted in 2004-2006, and the estimated 8%-12% gain that most expect to see when the books are closed on 2007.

### Change In House Prices – Over Past Year and Over Past 5 Years

State	% change: Q307 vs. Q306	% change: over past 5 years
MICHIGAN	-3.7%	6.7%
CALIFORNIA	-3.6%	80.4%
NEVADA	-2.4%	84.3%
MASSACHUSETTS	-2.3%	30.2%
RHODE ISLAND	-2.2%	56.1%
FLORIDA	-2.1%	85.9%
NEW HAMPSHIRE	-0.4%	37.6%
ARIZONA	-0.2%	85.3%
MINNESOTA	-0.1%	30.7%
OHIO	-0.1%	12.1%

Figure 9: Ten States Recorded House Price Declines In 2007



# HOME SYSTEMS *newsletter*

from Parks Associates

## **AUTHORS:**

Bill Ablondi, Parks Associates  
Daryl Delano, EH Publishing

## **ABOUT PARKS ASSOCIATES:**

Parks Associates is an internationally recognized market research and consulting company specializing in emerging consumer technology products and services. Founded in 1986, Parks Associates creates research capital for companies ranging from Fortune 500 to small start-ups through market reports, primary studies, consumer research, custom research, workshops, executive conferences, and annual service subscriptions.

The company's expertise includes new media, digital entertainment and gaming, home networks, Internet and television services, digital health, mobile applications and services, consumer electronics, and home control systems and security.

Each year, Parks Associates co-hosts executive thought leadership conferences: CONNECTIONS™ and CONNECTIONS™ Europe in partnership with the Consumer Electronics Association (CEA®). In addition, Parks Associates produces the online publication Industry Insights in conjunction with the CONNECTIONS™ Conference series.

<http://www.parksassociates.com> | <http://www.connectionsconference.com> |

<http://www.connectionseurope.com> | <http://www.connectionsindustryinsights.com>