KBMI

KITCHEN & BATH MARKET INDEX

NKBA NATIONAL KITCHEN+BATH ASSOCIATION

JOHN BURNS REAL ESTATE CONSULTING

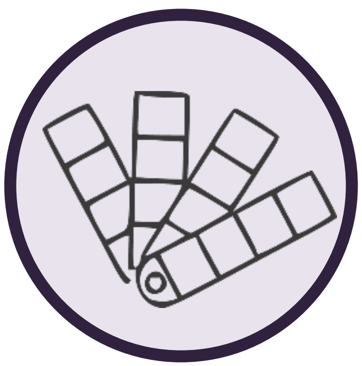
Fourth Quarter 2020

Report Contents

Cover Project Designed By: Madeleine Sloback **Photographer**: Ema Peter

KBMI REPORT OVERVIEW

Conducted jointly by the **National Kitchen & Bath Association** and **John Burns Real Estate Consulting**, the **Kitchen & Bath Market Index (KBMI)** examines current kitchen and bath industry demand, future demand expectations, and issues and challenges that industry professionals are facing in their businesses. The Q4 2020 report is based on findings from **464 NKBA members across four primary industry segments**:



DESIGN

BUILDING & CONSTRUCTION

RETAIL SALES

MANUFACTURING

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

KITCHEN & BATH MARKET INDEX (KBMI)

Designer: Laleh Shafiezadeh **Photographer**: Jeri Koegel

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A KBMI RATING OF 65.0 INDICATES:
The Kitchen & Bath Industry EXPANDED in Q4 2020

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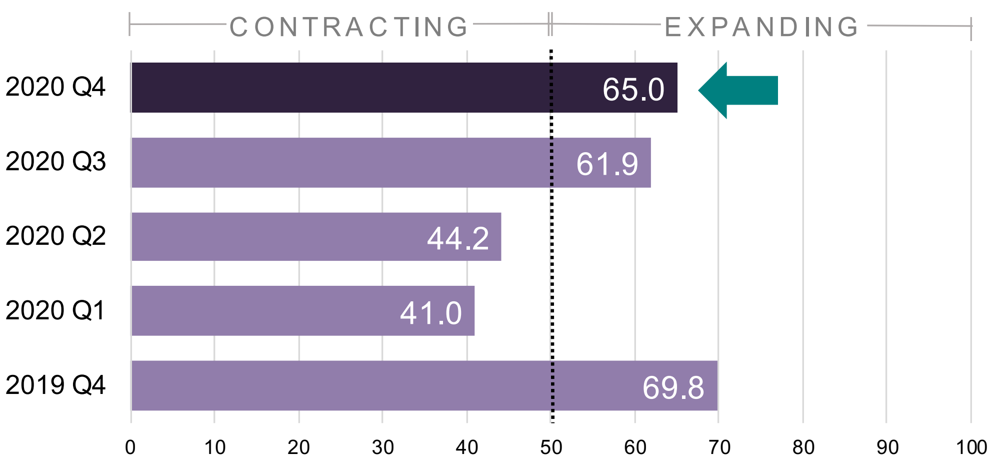
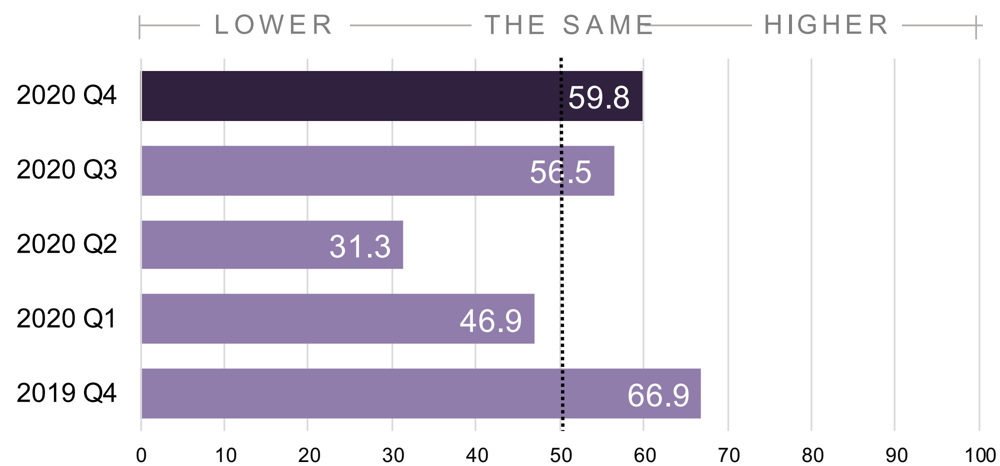
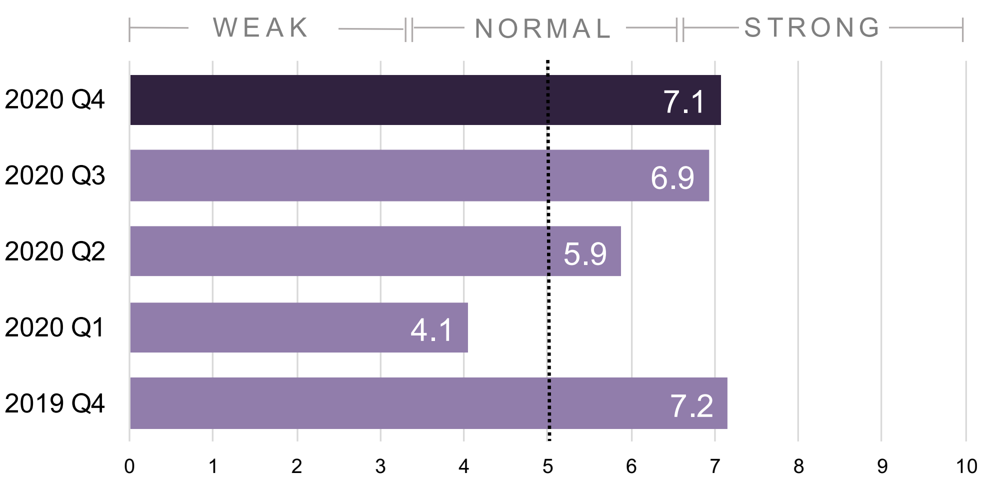
Kitchen & Bath Market Index (KBMI)



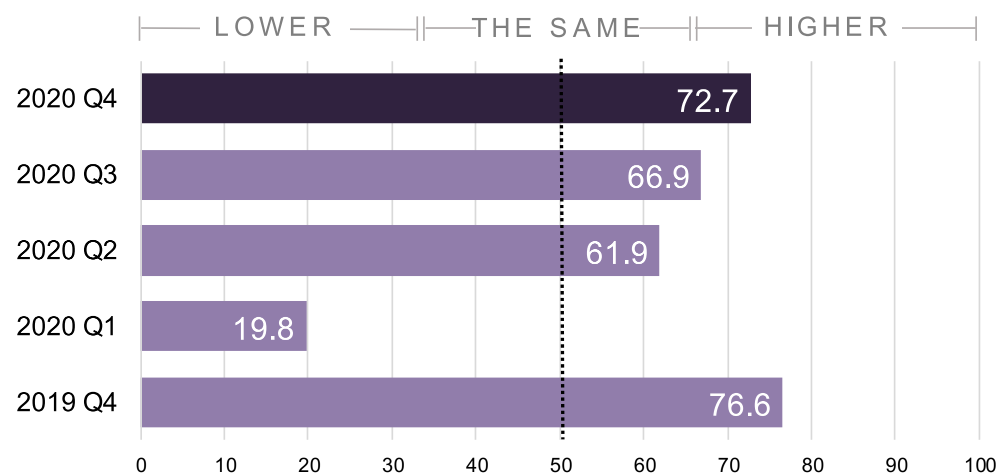
Current Conditions



Health of the Industry



Future Conditions



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21) *Values are KBMI totals.

EXECUTIVE SUMMARY

KB MI
KITCHEN & BATH MARKET INDEX

NKBA NATIONAL KITCHEN+BATH ASSOCIATION   JOHN BURNS REAL ESTATE CONSULTING

We are pleased to release the **Q4 2020** **NKBA / John Burns Kitchen & Bath Market Index (KBMI)**, the industry's definitive gauge of kitchen and bath industry conditions. This quarterly index is the result of a partnership between the National Kitchen & Bath Association and John Burns Real Estate Consulting.

As U.S. consumer confidence and spending strengthens following the approval of two COVID-19 vaccines, the kitchen and bath industry expands for the second consecutive quarter. Demand for new housing and functional floorplans reach levels we have not seen in decades, and NKBA members tell us consumers are increasingly pulling the trigger on remodeling projects planned during 2020 "lockdown" periods to meet changing home-life needs.

Our Q4 surveys shows:

- **Kitchen and bath industry sales grew 2.0% YOY.** The KBMI rated a **65** on a scale of 0–100**, with 50 being flat sales growth.** NKBA members also rate industry health a 7.1 out of 10, the highest rating since Q4 2019 (7.6). Growing consumer confidence has spurred strong demand and positive outlook across all segments.
- **The industry is bullish heading into 2021.** NKBA members reported sequential sales growth of 4.0% on average in Q4 and the industry continues to gain confidence on *future market conditions* with an index reading of 72.7. NKBA members expect 2021 full-year sales will grow 10.7% despite current supply-side challenges.
- **The pandemic continues to impact the demand fundamentals of the kitchen and bath industry.** NKBA members say COVID-19 continues to drive incremental demand to their businesses but note changes in the type of products and services demanded**.** For the first time since 2019, NKBA members report seeing a shift to larger project sizes while demand for wellness products and designs remains elevated.
- **The shift to lower project sizes reverses in Q4** as NKBA members say homeowners are increasingly tackling larger projects that re-configure their floorplan to accommodate different home-life dynamics.
- **The industry also continues to face supply-side constraints,** as labor availability and supply chain bottlenecks limit the pace of growth for companies across segments .

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

EXECUTIVE SUMMARY

NKBA members report **how the pandemic continues to impact their businesses:**

Designers say increased consumer confidence is driving demand back to their firms. Firms report growth in the number of projects they are working on and growth in the average size of those projects.

- **Designers say consumers continue to request floorplan designs that incorporate home offices** to meet changing work-life needs.
- **Pent-up demand for large-scale projects** will be a favorable tailwind for designers in 2021.

Retailers report a second consecutive quarter of positive foot traffic growth as consumers become increasingly more comfortable shopping outside their homes. **Retailers also report:**

- **Strong growth across all price points** with very strong demand at low to mid-price points.
- **Wood-goods are under inflationary pressure** as lumber and transportation costs rise.
- **Building and construction firms say demand for large-scale remodels and renovations is up significantly,** despite supply-side challenges. **Companies also report:**
- **Lower cancellation rates:** Over half of building and construction firms report zero clients postponed or cancelled a project in Q4, a marked improvement from the prior two quarters.
- **Labor challenges:** Hiring and retaining labor is now the number one concern for most companies and many say they cannot meet demand at their current capacity levels.

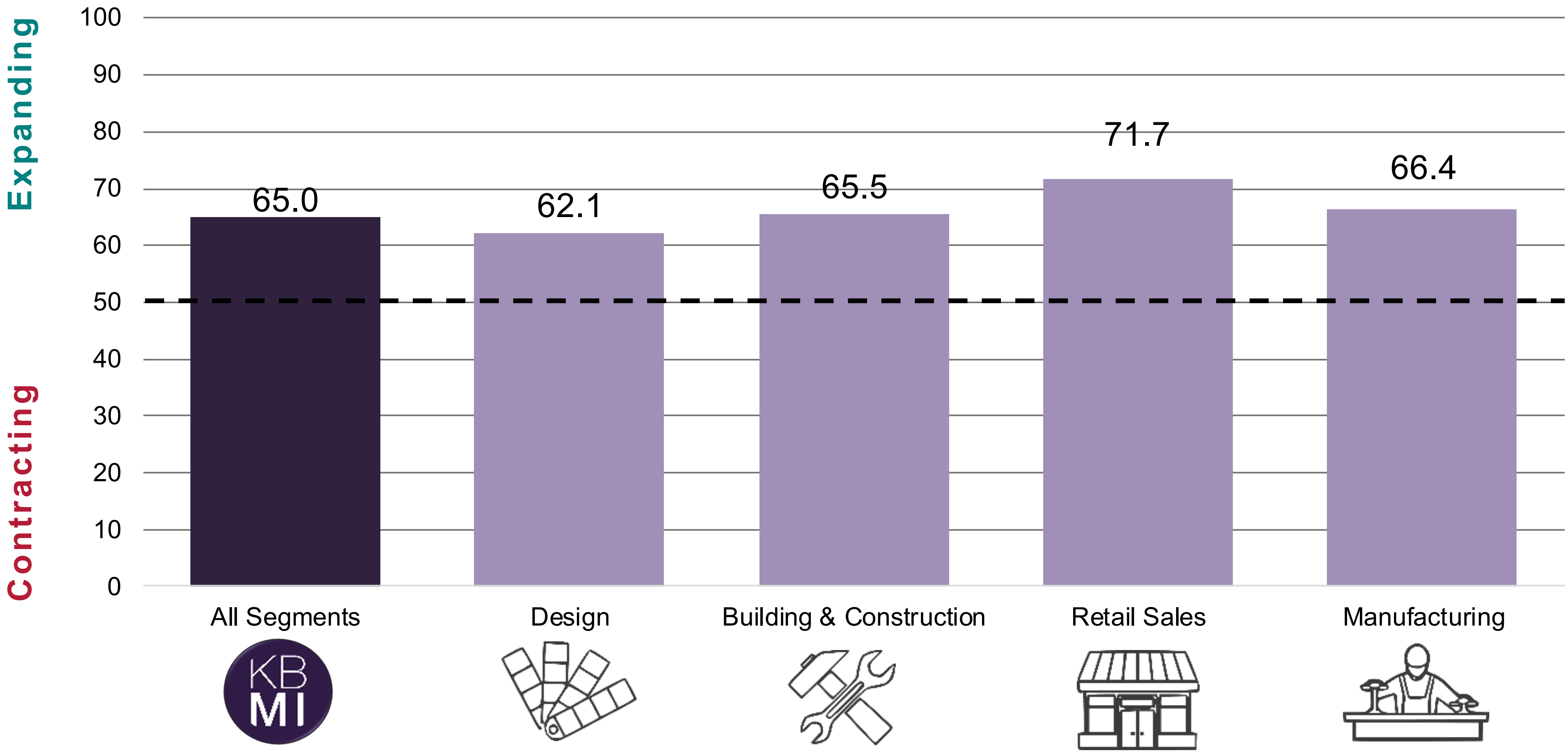
Manufacturers' report demand continues to exceed supply at current capacity levels. Labor remains the largest bottleneck and many say they continue to struggle in hiring and retaining factory labor. Although lead times have largely stabilized/ leveled-off, they remain elevated in many product categories like cabinets and appliances.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

KITCHEN & BATH MARKET INDEX

At 65, the current **Kitchen & Bath Market Index rating indicates the industry grew again in Q4, up 310 basis points from the Q3 2020 rating of 61.9.** The index most heavily reflects higher sales in Q4 compared to prior year and a drastically improved view of future sales and overall industry health. Design companies index slightly below the overall industry at 62.1, while the retail sales segment indexes well above the total industry at 71.7.

***Ratings above 50 indicate industry growth, while ratings below 50 indicate slowing activity*.**



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

KITCHEN & BATH MARKET INDEX

KBMI
KITCHEN & BATH MARKET INDEX

NKBA members reported **improvement** across all three components of the kitchen and bath market index for the third consecutive quarter in Q4 2020. The industry expects **full-year sales growth of 10.7%** in 2021 as the industry expects continued strength in new construction and incremental demand from homeowners who are expected to resume postponed projects or begin newly planned kitchen and bath remodels.

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
KBMI	**69.8**	**41.0**	**44.2**	**61.9**	**65.0**
% change vs prior quarter	*N/A*	*-41%*	*8%*	*40%*	*5%*
Current Business Conditions	**66.9**	**46.9**	**31.3**	**56.5**	**59.8**
% change vs prior quarter	*N/A*	*-30%*	*-33%*	*80%*	*6%*
Future Business Conditions	**76.6**	**19.8**	**61.9**	**66.9**	**72.7**
% change vs prior quarter	*N/A*	*-74%*	*213%*	*8%*	*9%*
Health of the Industry	**7.2**	**4.1**	**5.9**	**6.9**	**7.1**
% change vs prior quarter	*N/A*	*-43%*	*45%*	*18%*	*2%*

	2020 FULL YEAR SALES GROWTH OUTLOOK				2021 OUTLOOK
Full-Year Sales Growth Outlook*	**+10.8%**	**-13.7%**	**-4.4%**	**+1.1%**	**+10.7%**
Change in guidance vs prior quarter	*N/A*	*-2450 bps*	*+ 930 bps*	*- 550 bps*	*N/A*

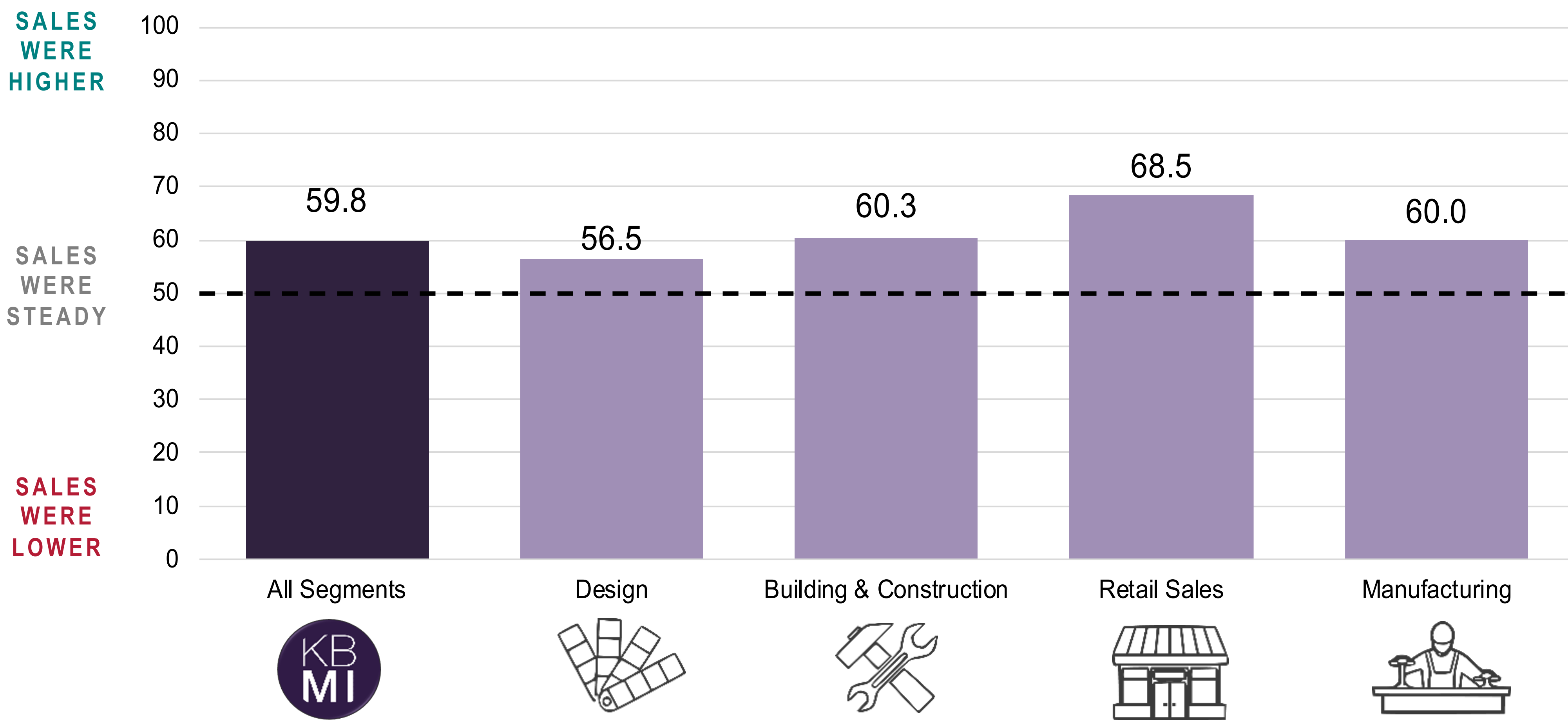
Basis Points (BPS) denotes the percentage change in financial data. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

CURRENT BUSINESS CONDITIONS

The **current business conditions index is 59.8**, marking the **second consecutive quarter NKBA members reported a rating above 50, indicating the kitchen and bath industry grew again in Q4 on a year-over-year basis**. The Retail Sales segment indexed well above the total weighted average at 68.5. Design firms under-indexed (56.5) for the second consecutive quarter, but designers remain positive about future conditions (growth).

Current Business Conditions

represents sales last quarter (4Q20) vs. same period prior year (4Q19)



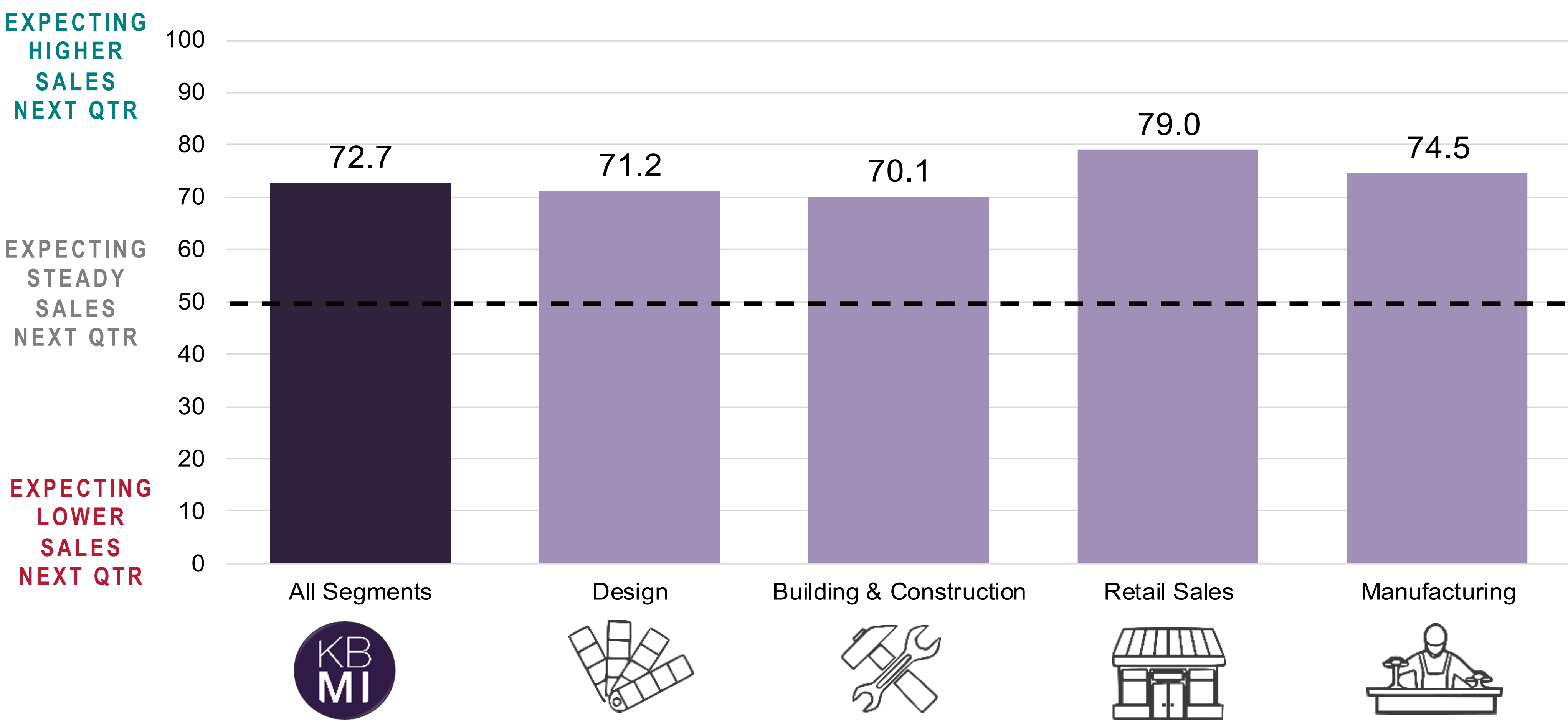
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

FUTURE BUSINESS CONDITIONS

At 72.7, the industry expects Q1 2021 sales to be higher than Q4 2020. Retail sales and manufacturing companies are the most optimistic about sales growth in the upcoming quarter, while designers and building & construction companies are slightly less bullish as rising costs and labor shortages negatively impact projects.

Future Business Conditions

represents sales expectations next quarter (1Q 2021) vs. most recent quarter (4Q 2020)

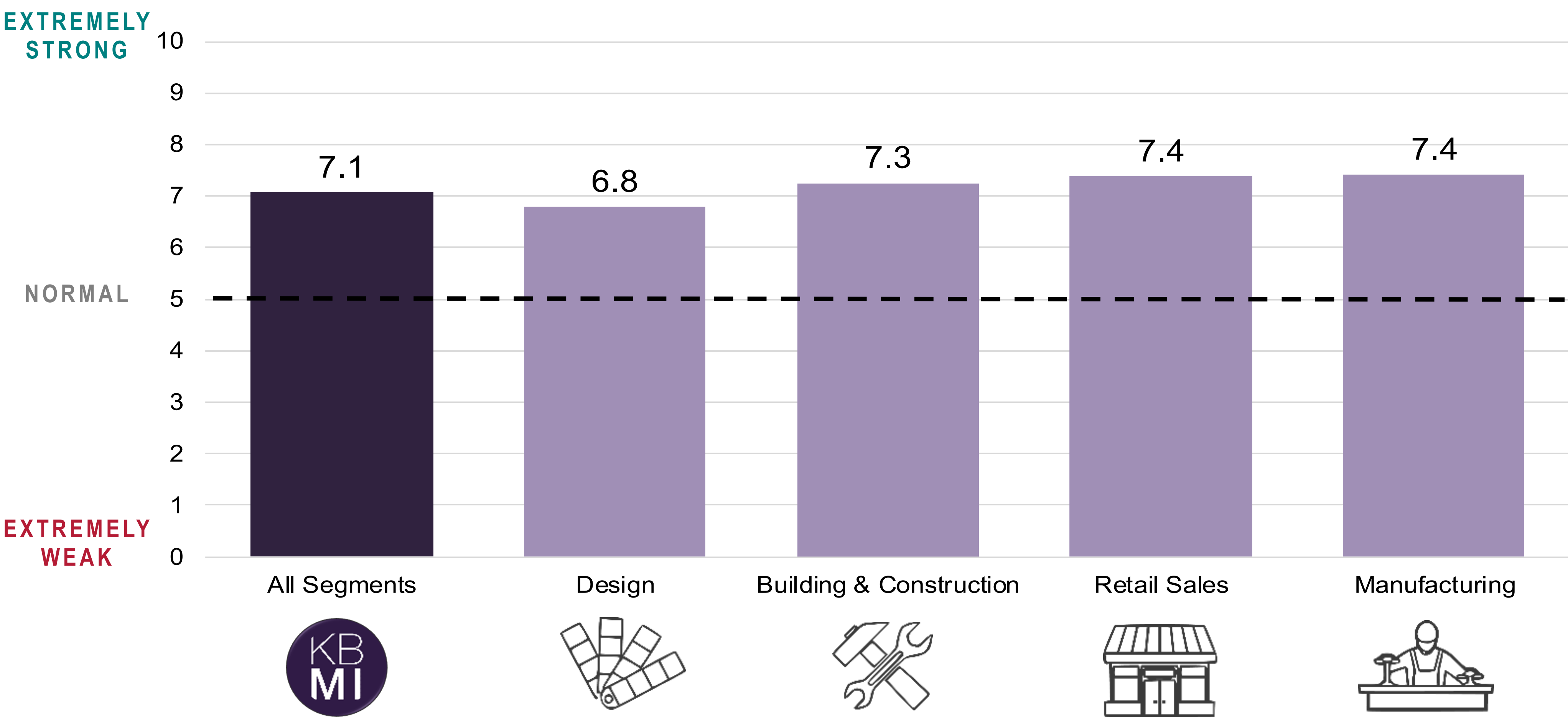


HEALTH OF THE KITCHEN AND BATH INDUSTRY

The overall **kitchen and bath industry** rates industry health at a **7.1 out of 10** in Q4, the highest rating since Q4 2019 (7.2). All segments rate industry health as stronger than normal, but design firms are *slightly more conservative* in their assessment of industry health than manufacturers, building and construction companies, and retail sales businesses.

Health of the Industry

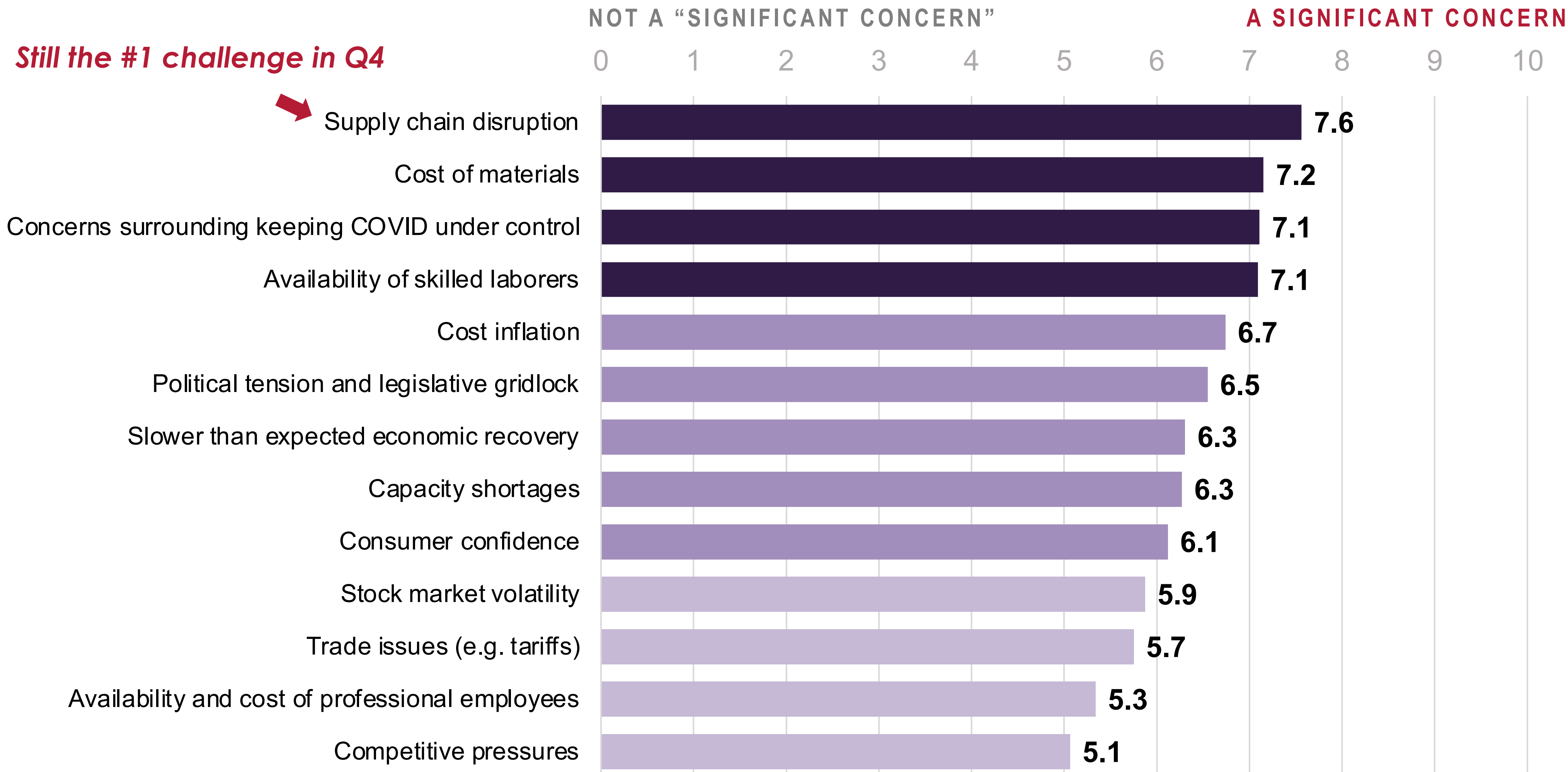
represents NKBA members rating of the "overall health of the kitchen and bath industry" from extremely strong (10) to extremely weak (1)



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

TOP INDUSTRY CHALLENGES AND CONCERNS

Growing economic confidence spurs increased demand across all segments. With further increases in demand, fueled by raw material price increases and growing labor shortages, **supply chain disruptions, particularly long lead times and product backlogs, remain the #1 industry challenge in Q4** as suppliers struggle to fulfill demand with strained production capacity.



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

SUPPLY CHAIN CONSTRAINTS REMAIN #1 ISSUE

NKBA Members Say Appliances and Cabinets are Most Challenging

“We are still having a lot of stock issues with appliances and cabinets.”

“I'm now being told that appliance orders won't be fulfilled until April or later if ordered now.”

“Almost everything is delayed. Appliances, and even cabinetry, are taking three to four times s as long.”

“Cabinets are taking longer because factories are overbooked.”

“We are seeing delays in all products, but the longest lead times are for cabinets!”

“Appliances are still hard to get and we are seeing more supply chain delays from cabinet manufacturers.”

“Shipping of appliances keeps getting delayed and we are seeing longer lead times on cabinets.”

“Ordered a refrigerator in August and am still waiting on it to arrive.”

“Appliances and cabinetry used to take a few weeks, but now are now taking months to come in.”

“Cabinetry lead times are even longer due to supply chain issues and social distancing at the production line.”

“Appliance delays are impacting the project timeline and getting our final payment.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

SALES ENVIRONMENT

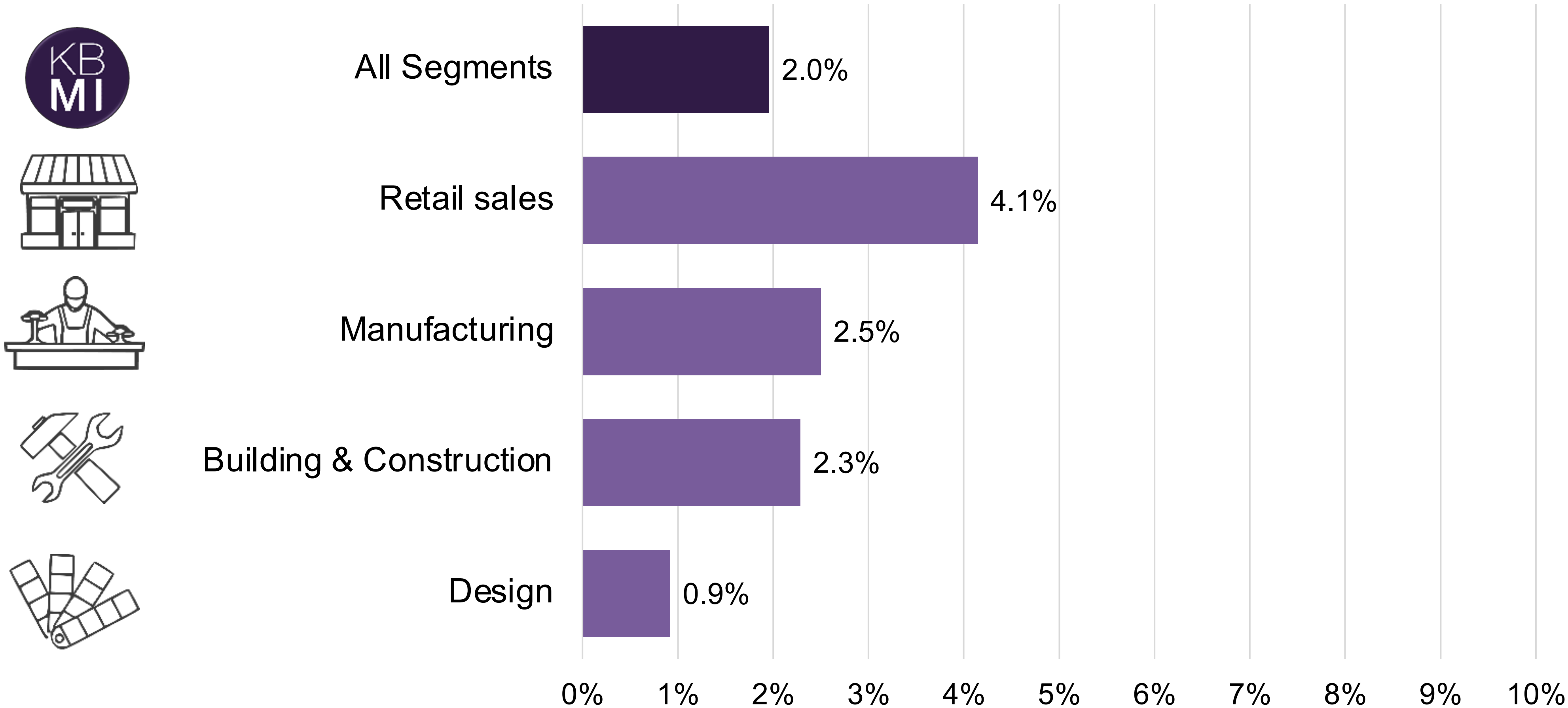
Designer: Summer Thornton **Photographer**: Werner Straube

KITCHEN & BATH INDUSTRY SALES GROW +2.0% YOY

NKBA members reported a **sales growth of +2.0% on average in Q4 2020** compared to the same 2019 period. Design firms rebounded at +0.9% growth while retail sales, manufacturing, and building and construction companies reported higher than industry average sales growth of +4.1%, +2.5%, and +2.3% YOY, respectively.

Q4 2020 Sales Growth Year Over Year

represents average year-over-year sales growth reported by respondents in each segment



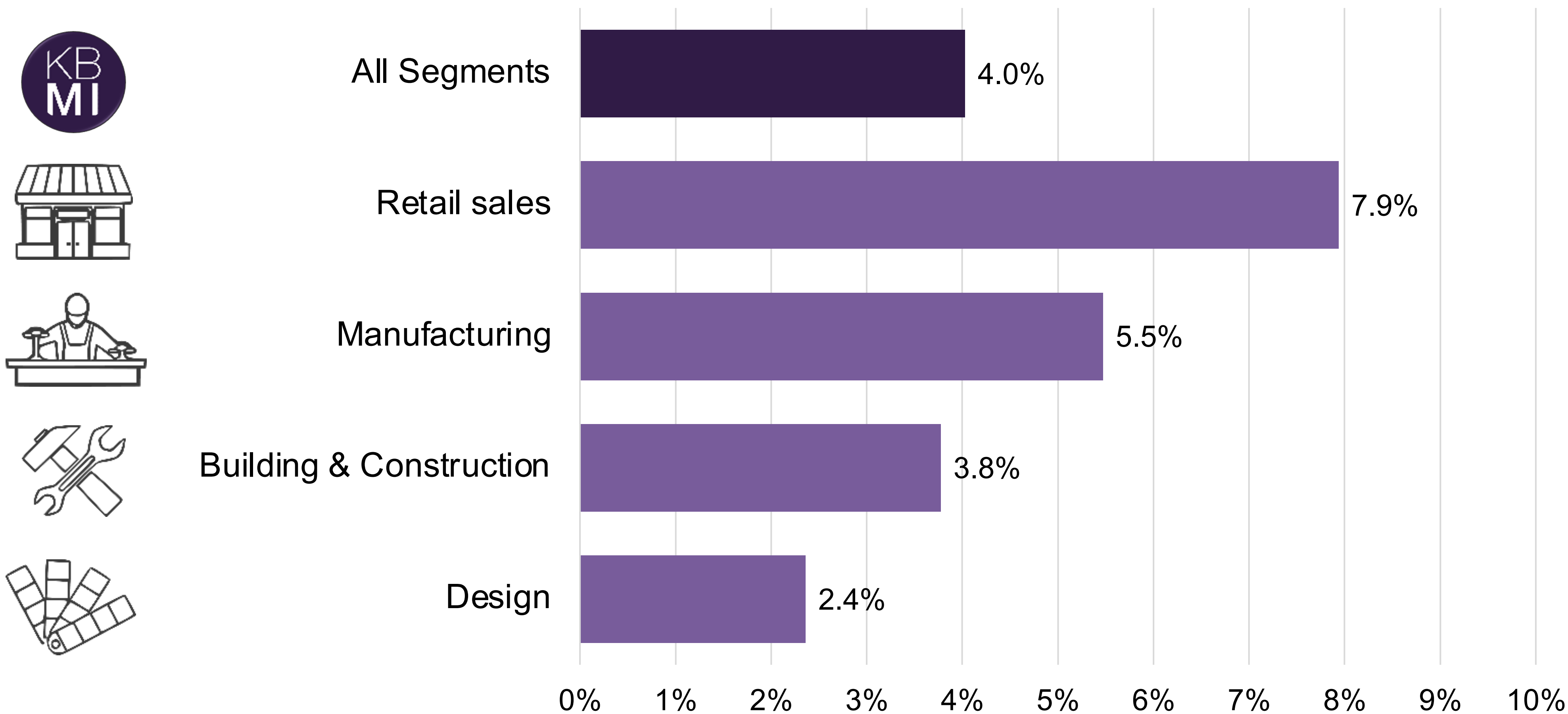
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

Q4 SALES UP +4.0% FROM PRIOR QUARTER (3Q20)

NKBA members reported **sequential sales growth of +4.0% on average in Q4 2020 compared to the Q3 2020 period**. The Retail Sales segment reported the largest quarter-over-quarter growth of +7.9%, while designers lagged the industry by reporting quarterly sales growth of +2.4% in Q4.

Q4 2020 Sales Growth Quarter Over Quarter

represents average quarter-over-quarter sales growth reported by respondents in each segment



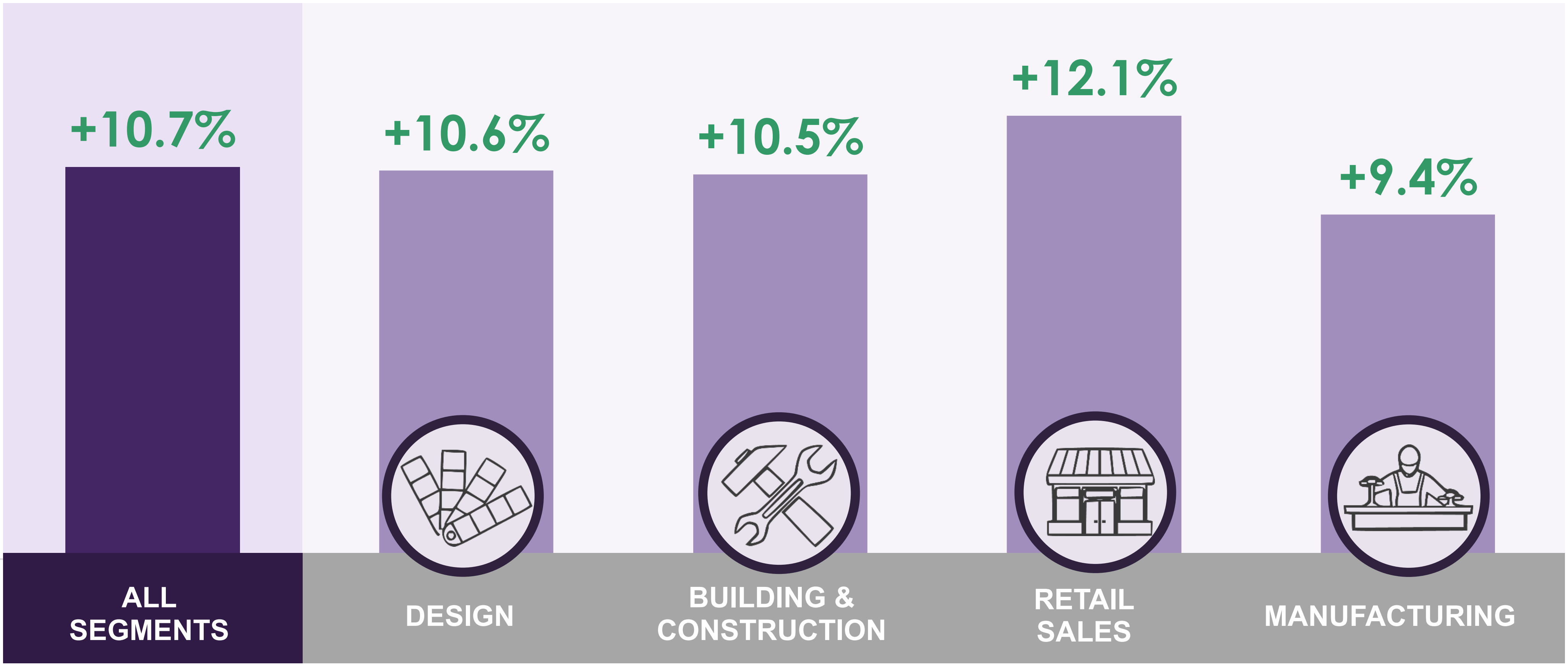
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

2021 FULL-YEAR SALES GROWTH EXPECTATIONS

The industry expects double-digit sales growth of 10.7% in 2021 for the full year compared to 2020. NKBA members are as bullish on full-year sales growth expectations as they were in Q4 2019 when they collectively reported 2020 full-year sales expectations of 10.8% (prior to the pandemic).

2021 Full-Year Sales Growth Expectations by Segment

represents average expectation of full year sales growth in 2021 vs 2020



Basis Points (BPS) denotes the percentage change in financial data. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 3Q20 / 4Q20, Pub: Feb-21)

COVID-DRIVEN SHIFTS AND CHANGES

Designer: Reisa Pollard **Photography**: Amanda Oster & Stephen Li

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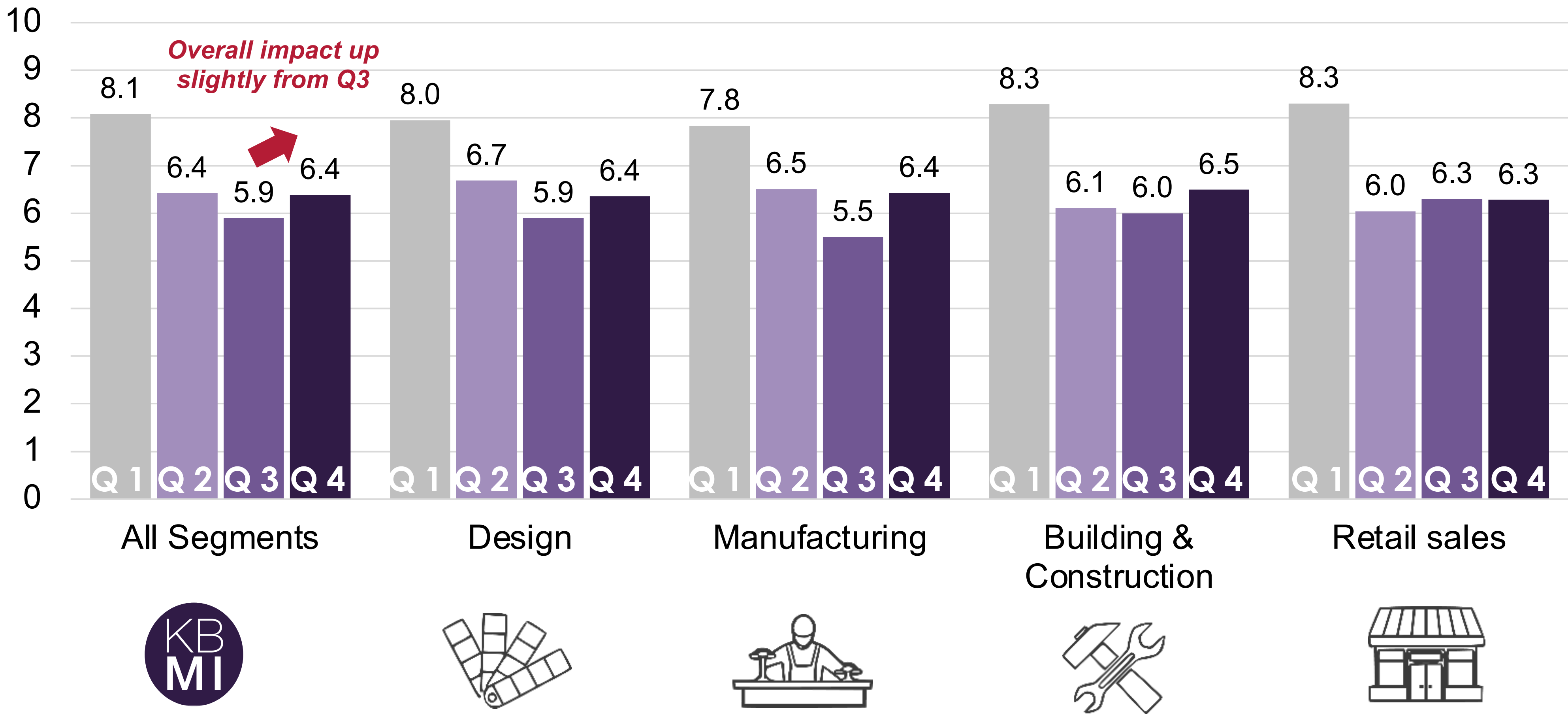
KITCHEN & BATH MARKET INDEX

THE COVID-19 PANDEMIC'S OVERALL IMPACT ON THE K&B INDUSTRY REMAINS WELL BELOW Q1 2020 "PEAK"

NKBA members report the pandemic continues to significantly impact their business in Q4, rating the level of impact as a 6.4 out of 10 (where 0 is no impact at all and 10 is a significant impact). Labor and supply chain constraints are major sources of negative pressure for companies across industry segments.

Overall Impact of COVID-19 on Industry

(1 = "No impact at all" and 10 = "Significant impact")

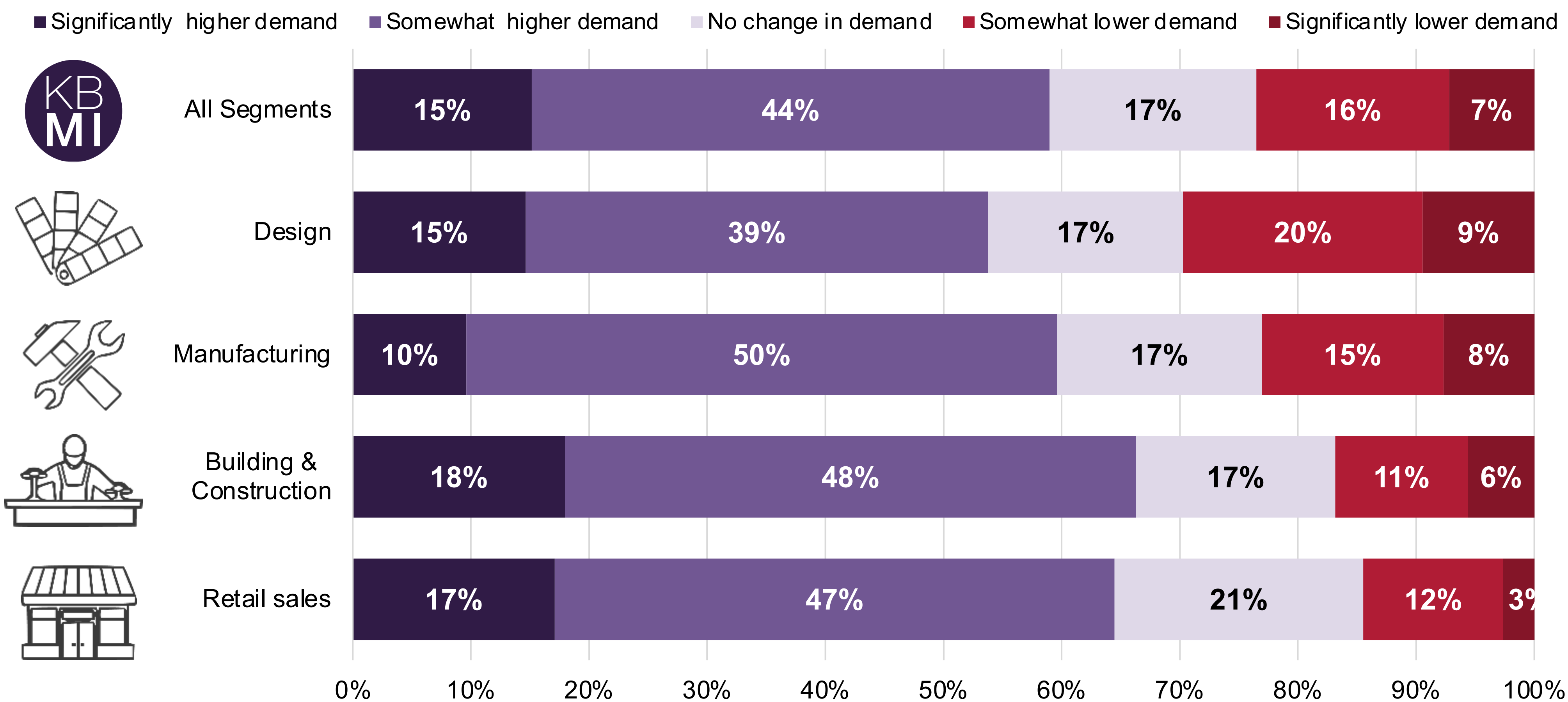


Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

60% OF K&B COMPANIES SAY THE PANDEMIC IS NOW DRIVING INCREMENTAL DEMAND TO THEIR BUSINESS

The **pandemic continues to drive incremental demand to the industry** according to the majority of NKBA members. Almost 60% of companies across industry segments report COVID-19 drove somewhat higher or significantly higher demand to their business in Q4 2020, in-line with our Q3 report. NKBA members point to changing consumer behavior, namely the proliferation of spending more time at home, as fuel for kitchen and bath remodeling plans and projects.

COVID-19 Impact on Volume of Goods or Services Demanded

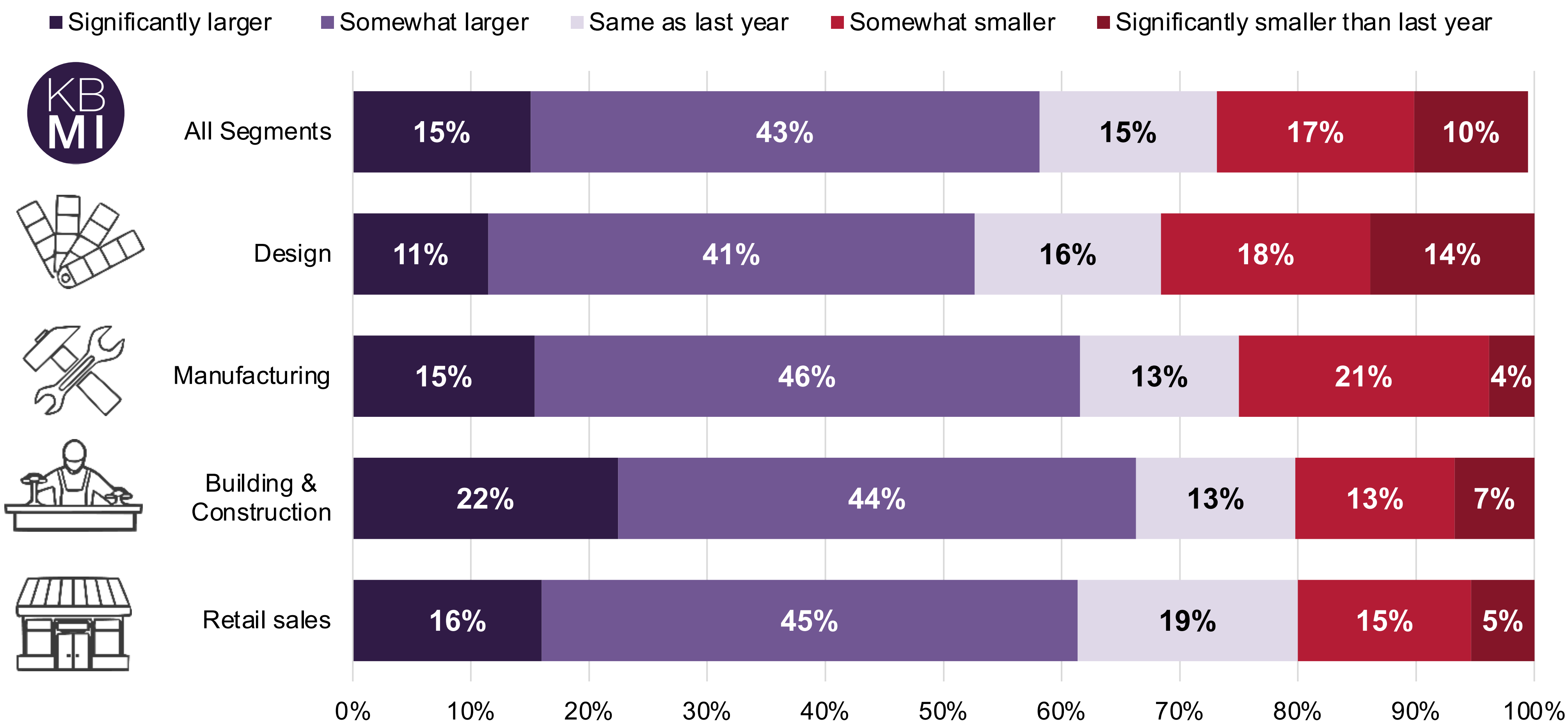


Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

PROJECT / ORDER PIPELINES ARE LARGER THAN SAME 2019 PERIOD AS INCREMENTAL DEMAND DRIVES BACKLOGS UP

As the pandemic drives incremental demand to the industry, most companies (58%) also say their pipeline of work (backlog) is larger in Q4 2020 than Q4 2019 levels. **Labor and supply chain constraints are impacting the industry's ability to keep backlogs down** in the current demand environment.

Size of Project or Product Order Pipeline Compared to Same Prior Year Period

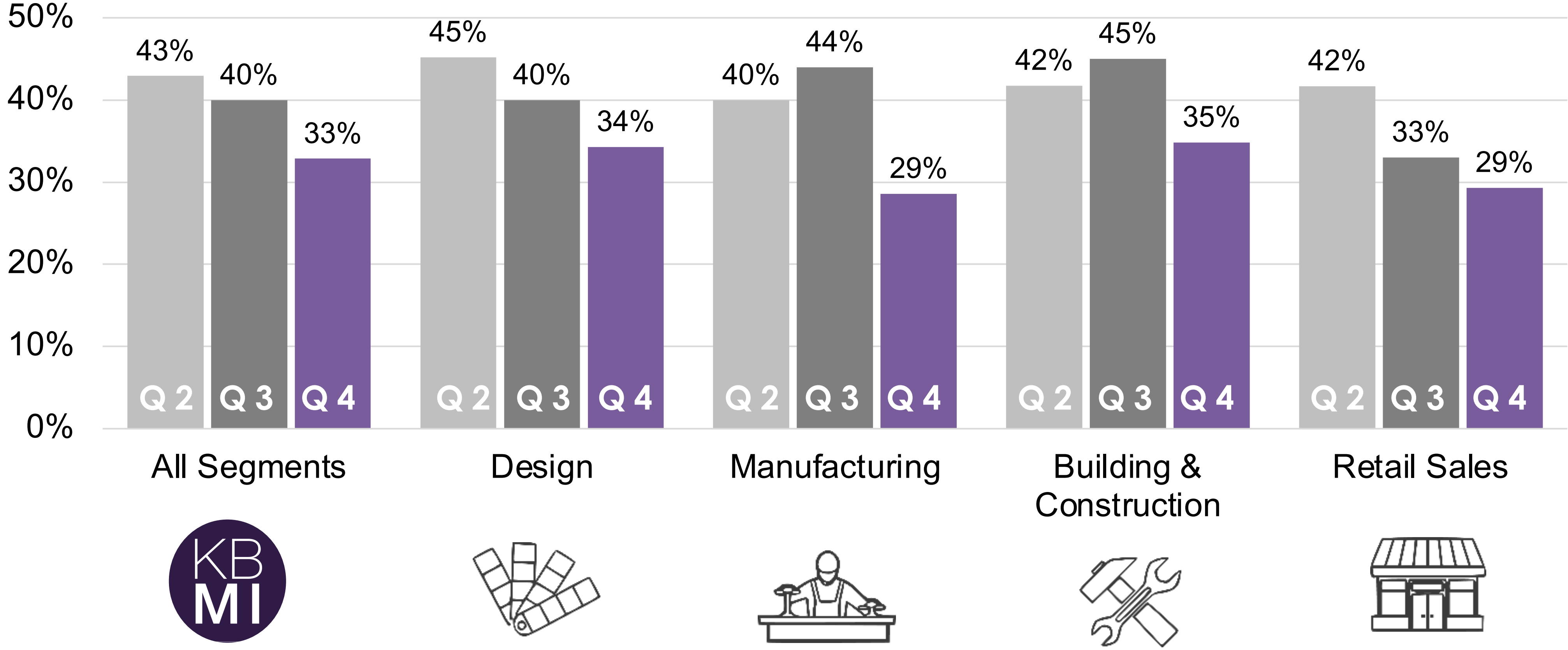


Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

A THIRD OF KITCHEN AND BATH INDUSTRY STILL REPORT EXPERIENCING MAJOR CHANGES/SHIFTS IN DEMAND

Across all segments, **33% of companies still report major changes in the types of products and services demanded by customers, clients or consumers in Q4,** down from Q3 where 40% of companies surveyed reported seeing a major change in the mix of products and services demanded by their customers.

% of Industry Reporting a Major Change in Mix of Products and Services Demanded



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

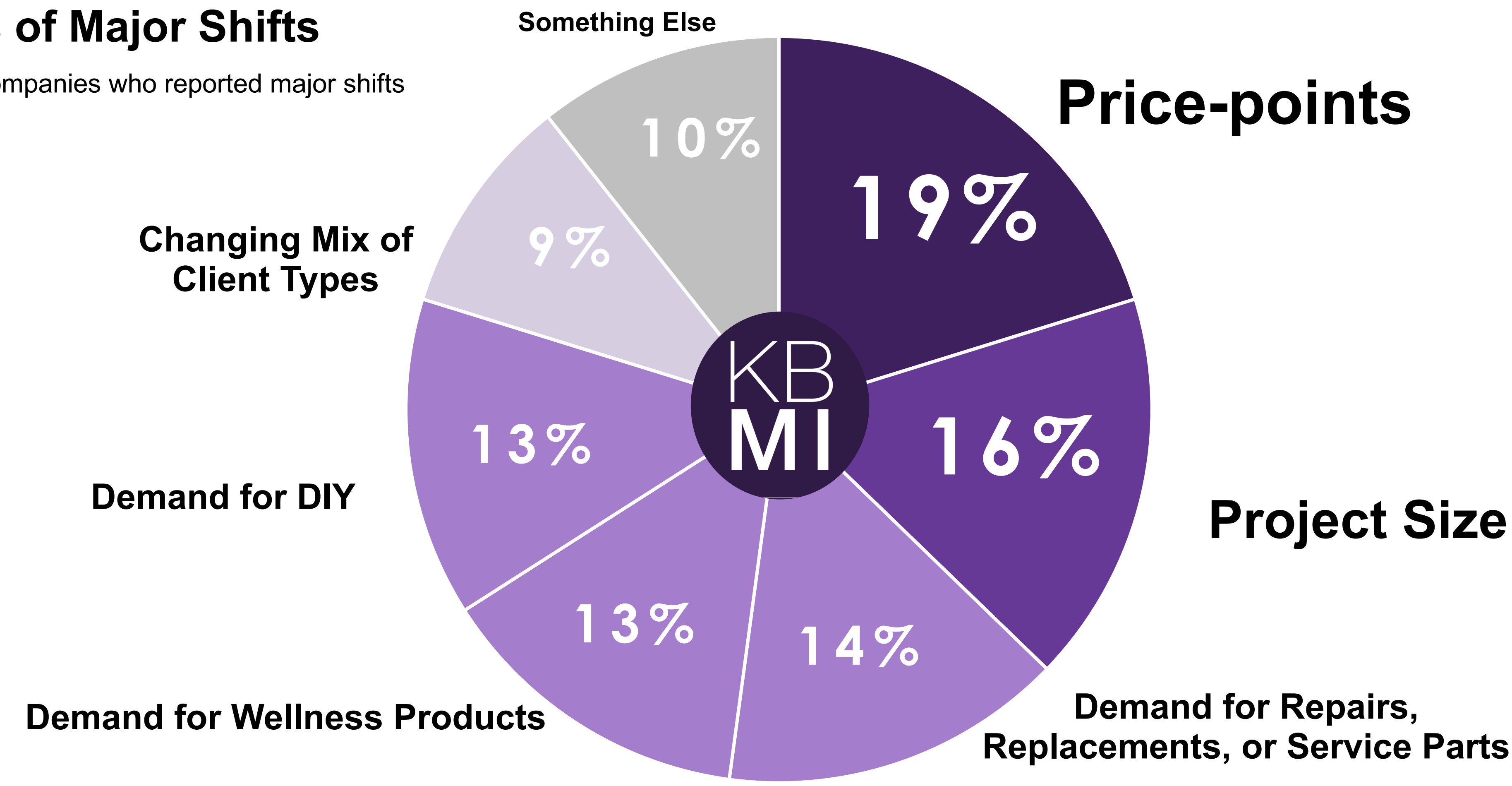
TYPES OF SHIFTS AND CHANGES IN DEMAND

The types of shifts being reported by the industry **remain largely unchanged from the prior quarter**. Of the companies reporting a significant shift in the types of products or services demanded by the customers:

- **19%** say are they are seeing a significant change in the types of **price-points demanded**
- **16%** say are they are seeing a significant change in the **average project (transaction) size**

Types of Major Shifts

as % of companies who reported major shifts

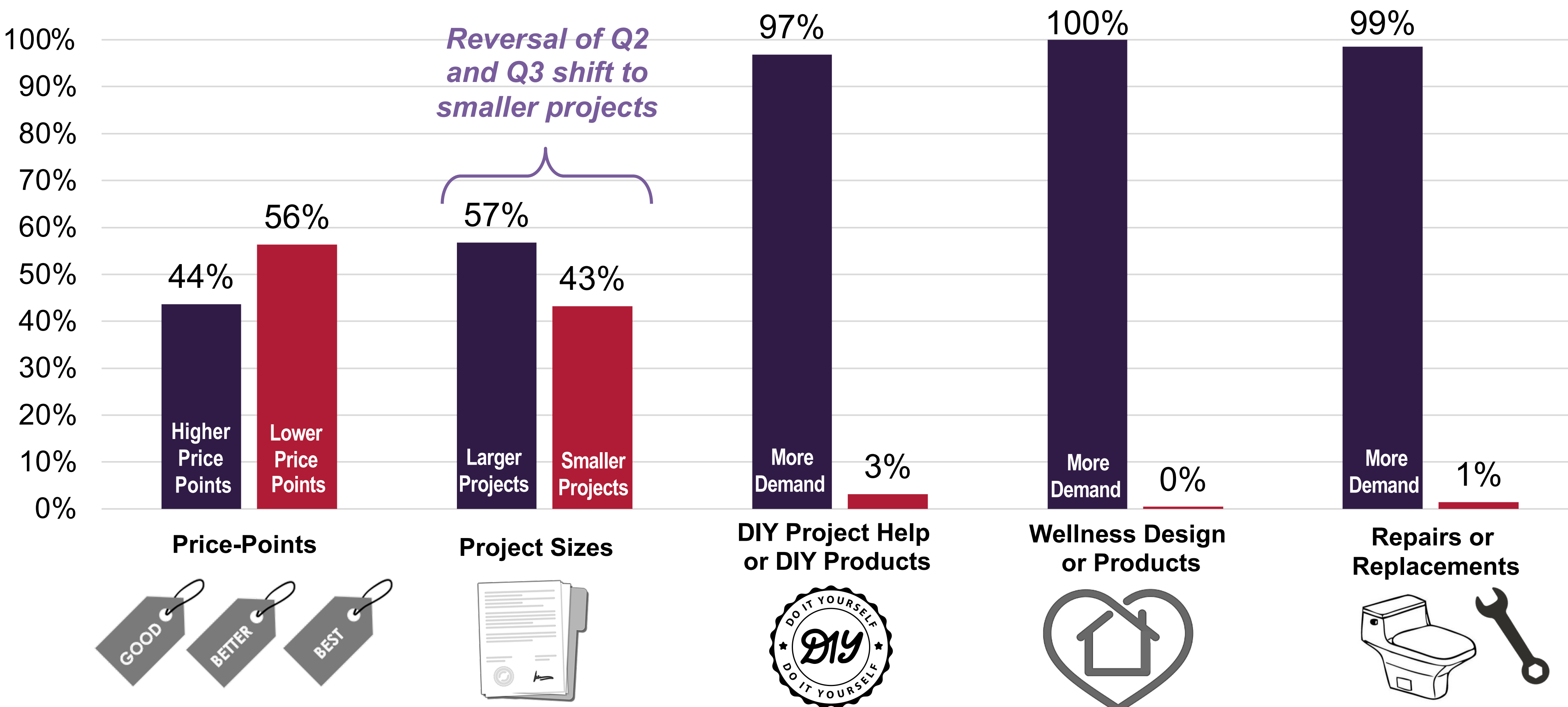


Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

SUMMARY OF DEMAND SHIFTS/CHANGES

The industry continues to report a shift to lower price points, as reported in the prior two quarters, and more demand for DIY project "help" or DIY-friendly products, demand for wellness products or designs, and demand for simple repairs or replacements. In Q4 **the industry reported a notable reversal of a previous shift to smaller project sizes; NKBA members say** homeowners are increasingly tackling larger "tear-out" kitchen and bath remodels that reconfigure their home's floorplan to accommodate for changing home-life needs.

Demand Shifts: % of Companies Reporting Higher or Lower Demand



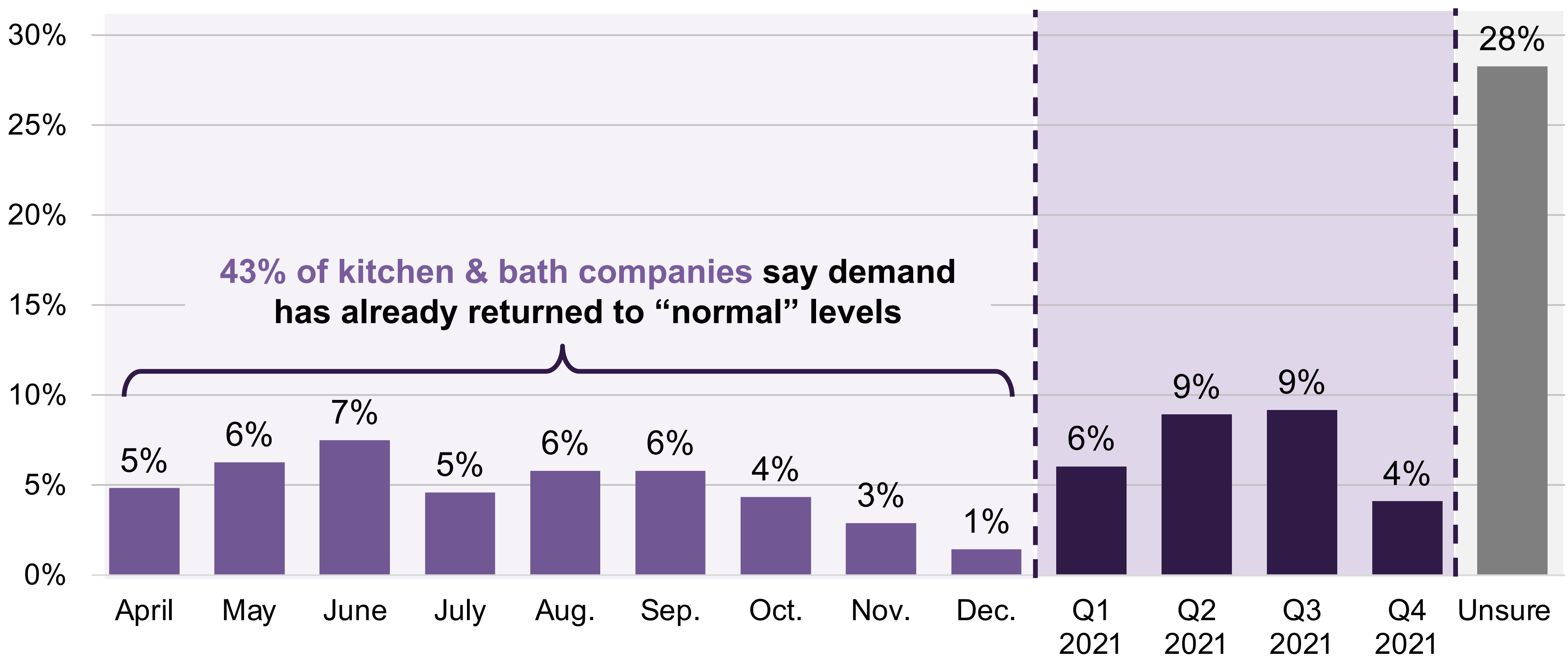
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

43% of NKBA MEMBERS SAY DEMAND HAS RETURNED TO NORMAL, PRE-PANDEMIC LEVELS

Among NKBA members, 43% of companies say demand has already returned to “normal levels.” Twenty-eight percent (28%) expect demand will return “to normal” in 2021. The remaining 28% of NKBA members are unsure of when demand will return to normal. These NKBA members tell us the speed of distribution and effectiveness of COVID-19 vaccines are “key milestones” and will determine how quickly industry demand returns to pre-COVID levels.

We asked: When will (or did) demand return to normal levels?

(reported by % of companies)

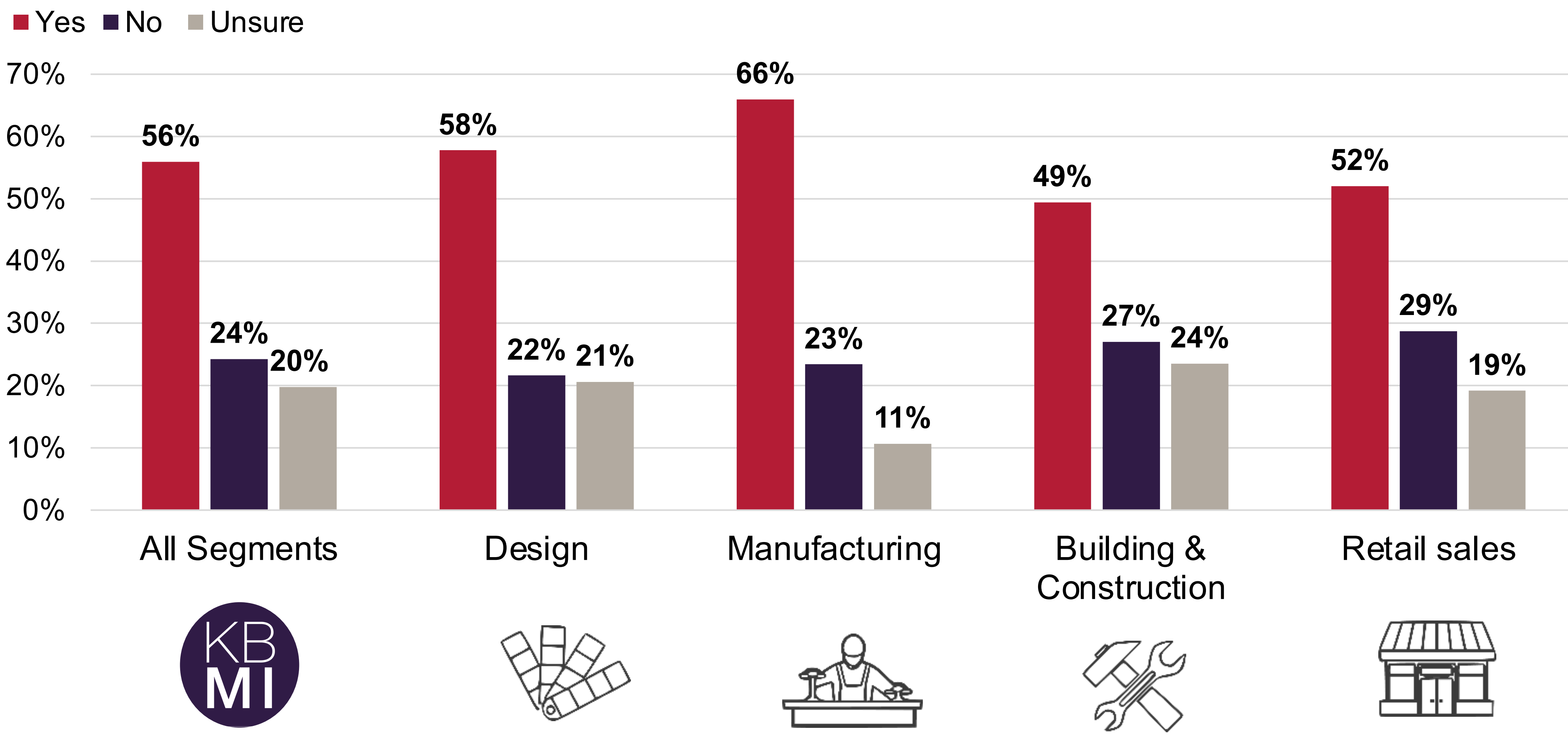


Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

LABOR SHORTAGES

Over half (56%) of NKBA members attribute worsening labor shortages to COVID-19. Twenty-four percent of companies have not seen labor availability deteriorate because of COVID-19 and 20% of companies are unsure. 66% of manufacturers say COVID-19 has had a negative impact on the availability of labor.

We asked: Have labor shortages been made worse because of COVID-19?



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

NKBA Members Are Dealing with Labor Shortages

"It's hard to find people willing to work when they're getting stimulus checks and unemployment pay." - **Designer**

"We started taking on less experienced people to try and fulfill the surge in demand." - **Designer**

"I am really trying to change my processes to accommodate a more unskilled workforce." - **Designer**

"Finding skilled labor was always a challenge, but with COVID, it's compounded." - **Building and Construction**

"I'm losing five to six employees per week because of COVID quarantine protocols and it's hard to find good entry-level employees. Most of these people are young and they are not sheltering in place." - **Designer**

"We are extremely short-handed, especially for the uptick in demand we are experiencing." - **Manufacturer**

"We seem to be recruiting prospective employees who used to own their own businesses, but don't want to be on their own any longer. Some of these people are former designers." - **Retail Sales**

"My lead installer has nine carpenters and is searching for in-house electricians, plumbers, etc., but can't find the people to fill these roles. The lack of labor will constrain our ability to grow." - **Building and Construction**

"There's not much I can do about the lack of help except adjust my client's timeline expectations." - **Retail Sales**

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

DESIGN SEGMENT UPDATE

Designer: Blue Arnold, CMKBD **Photography**: Alan Gilbert

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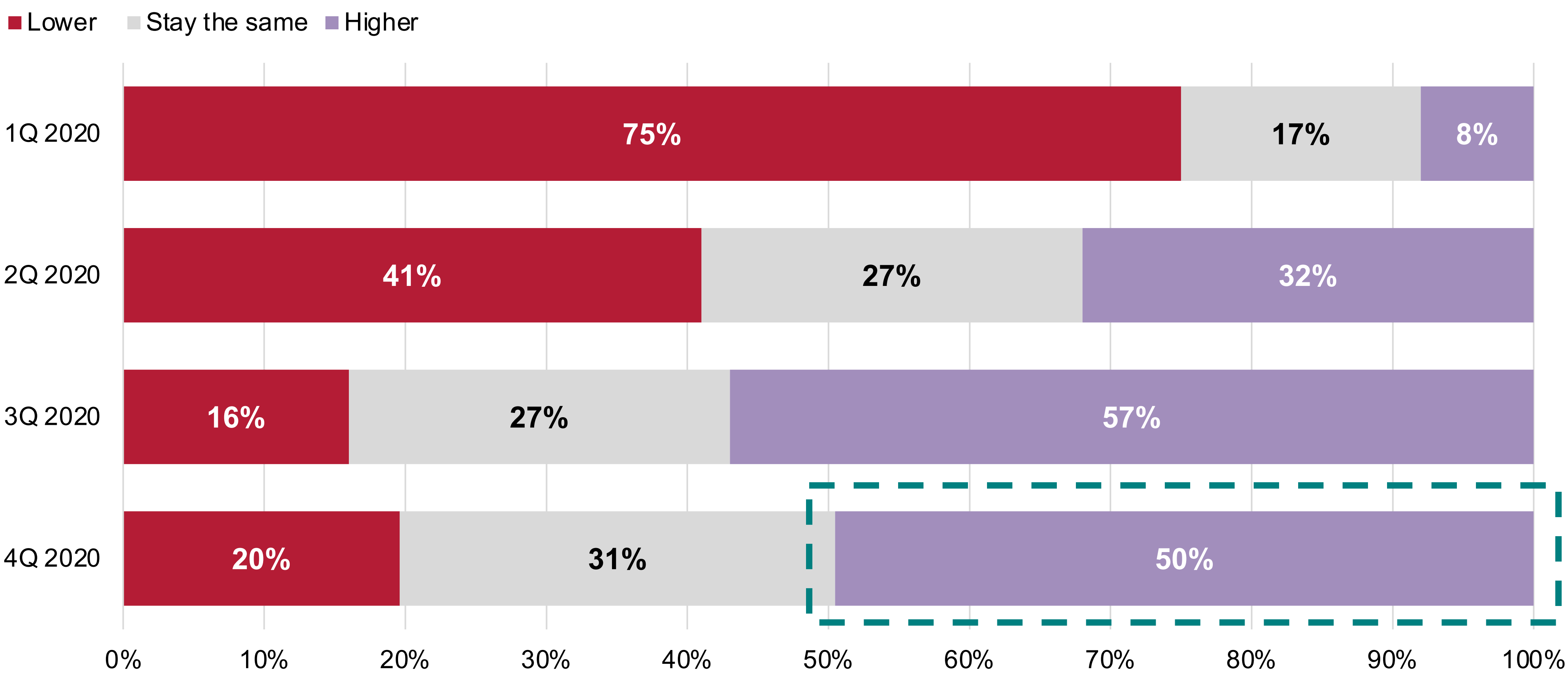
DESIGN FIRMS SAY DEMAND IS IMPROVING

Half of design firms currently report they are seeing more bids for future work today compared to pre-COVID levels. Pent-up demand for large-scale projects will be a favorable tailwind for this segment as we progress through the year.

Would you say that demand for bids/proposals for future remodeling projects is higher, the same, or lower now that homeowners are confined to their homes as a result of COVID-19?

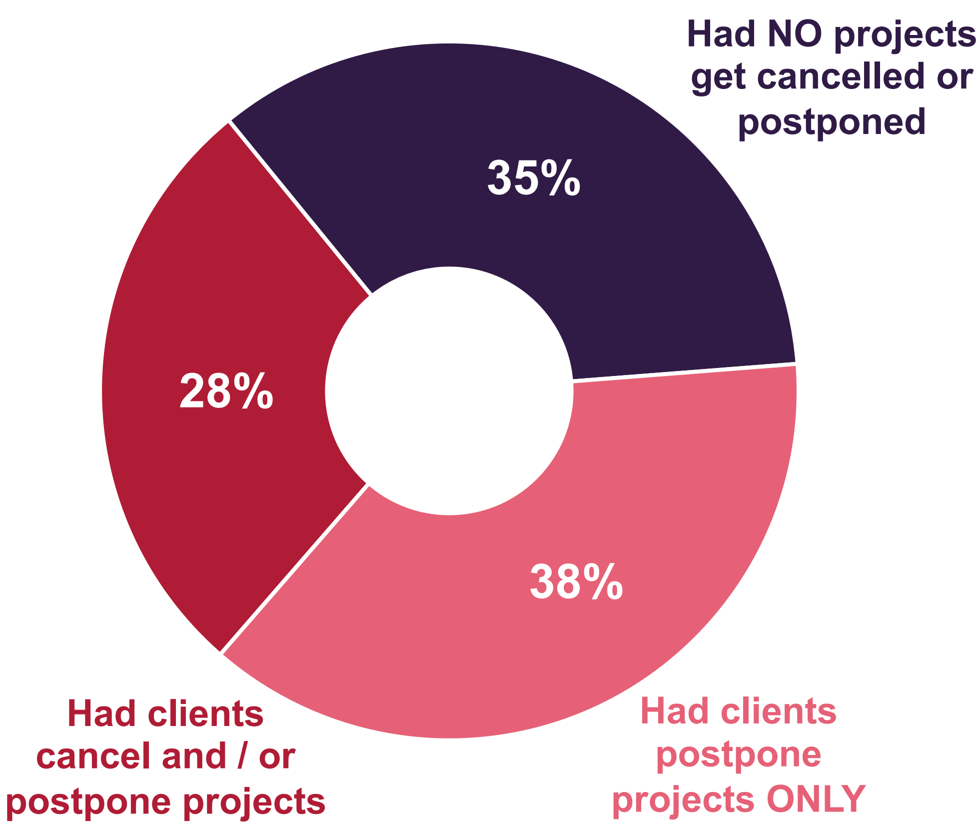


Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

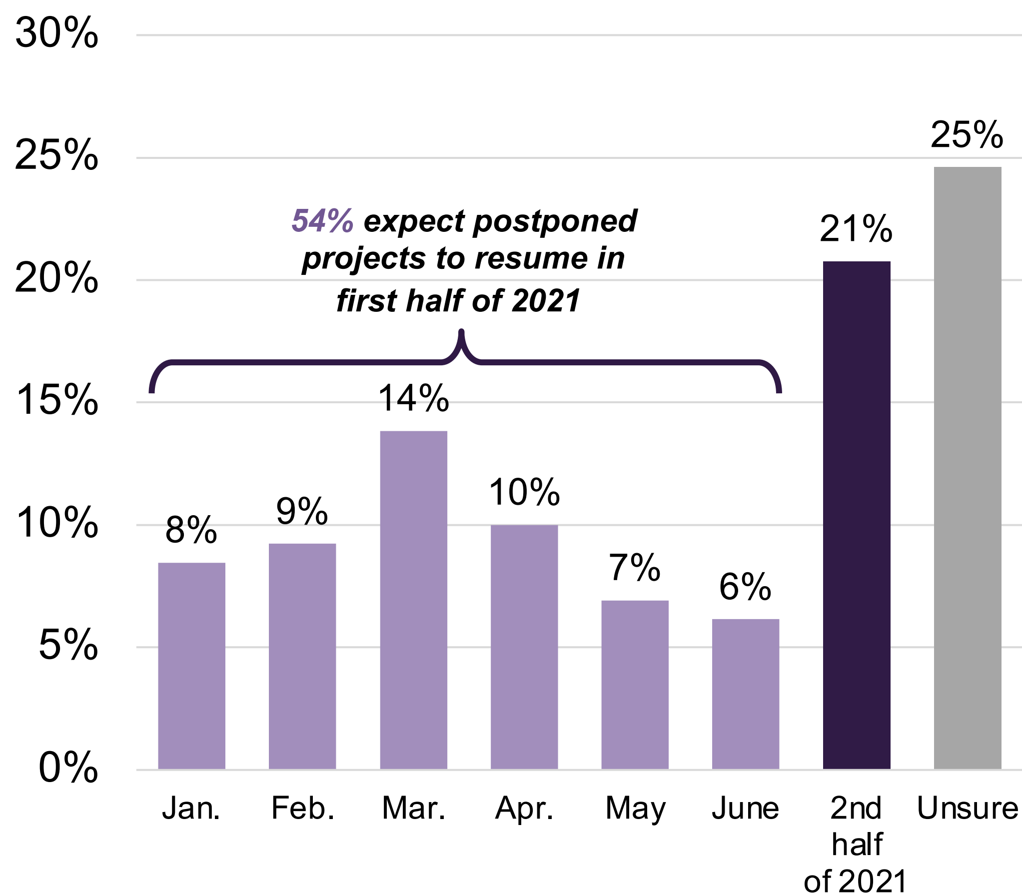
Q4 PROJECT STATUS UPDATE

38% of designers say they had no project cancellations, only postponements in Q4. Additionally, 35% report no project postponements or cancellations. Over half of designers (54%) expect postponed jobs to resume in the first half of 2021, while 21% of designers are less optimistic and expect postponed jobs to resume in the second half.

% of Designers Who Had Clients Cancel or Postpone a Project in Q4



Designer Expectations of When Postponed Projects Will Resume



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

DESIGNERS REPORT GROWTH IN OVERALL PROJECT QUANTITY AND PROJECT SIZE

Increased Consumer Confidence is Driving Demand Back to the Design Segment

“We are **doing significantly more consultations** and **consumers are pulling the trigger on** the beautiful kitchens and baths we are designing for them again.”

“We have had **an influx of clients reach out** who are ready to remodel after spending months in their homes.”

“My clients are feeling **more comfortable with the economy** and are starting to move forward with their projects they've previously paused.”

“People are recognizing their home's shortcomings and are reaching out to us for design help. They are **spending more money now than in 2019 and in early 2020**.”

"COVID has motivated a lot of homeowners to renovate or do projects that they had been putting off. Most of my **business is in homes of $400k and up**."

“There are less projects, but the ones we have are **larger in scope**. The smaller, lower-budget consumers are opting to renovate on their own.”

“We are seeing more of our **wealthier clients reach out** to do a **second or even third project**.”

"We are seeing **more requests for larger projects**. Only those committed to paying designers are reaching out.

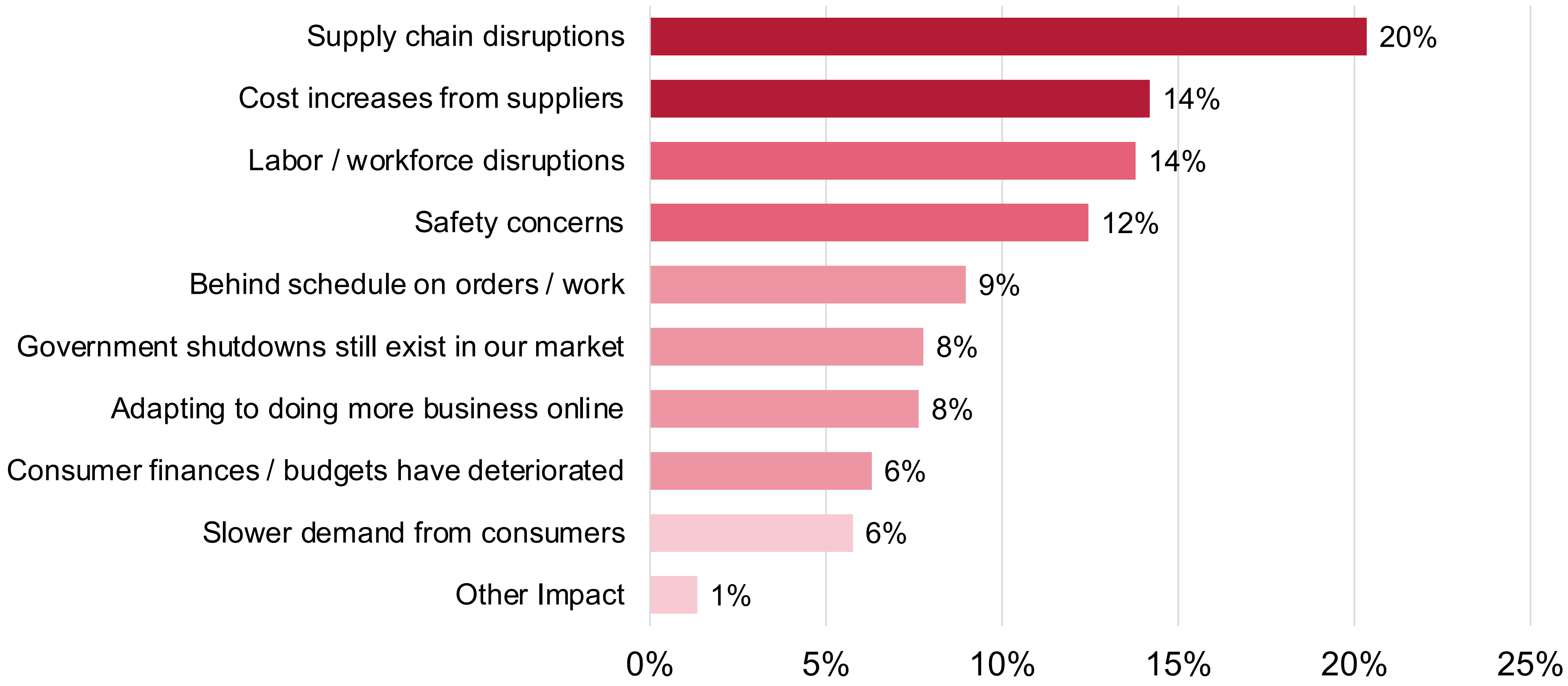
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

COVID-19 IMPACT ON DESIGNERS

Supply chain disruptions continue to top the list of factors “most significantly impacting my business” for design firms. Cost increases from suppliers and labor disruptions increased in significance from the prior quarter with 14% of designers reporting these factors as "significantly impacting my business." The impact of consumers' finances has lessened as economic confidence spurs consumer spending.

COVID-19 Impact on Design Firms

% of designers reporting these factors are “significantly impacting my business”



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

DESIGNERS REPORT CONSUMERS CONTINUE TO ADAPT TO CHANGING WORK-LIFE BALANCES

Consumers continue to invest in home office or floorplan re-configurations

“Most people are either working from home or are at home and want to make their space **more aesthetically pleasing**.”

“People are wanting to **upgrade their kitchens and outdoor areas** to better serve the needs previously met by dining and going out with friends.”

“My clients **need functional changes. They need** the home to accommodate an adjusted lifestyle.”

“With the rise of work from home, many people are turning their vacation home into **their primary residence.** We are seeing clients decide to remodel kitchens in their 2nd homes as they use these homes more frequently than ever before.”

“We've seen an **increase in requests to add additional space for work and play** as our clients continue adapting to working from home.”

“The number of **full-house renovations has increased** compared to single-room remodels. Clients are needing to completely reconfigure their living spaces.”

"The DIY customer has realized the **need for professional intervention**. Increased time in homes has led to an increased demand for more accommodating living space.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

RETAIL SALES SEGMENT UPDATE

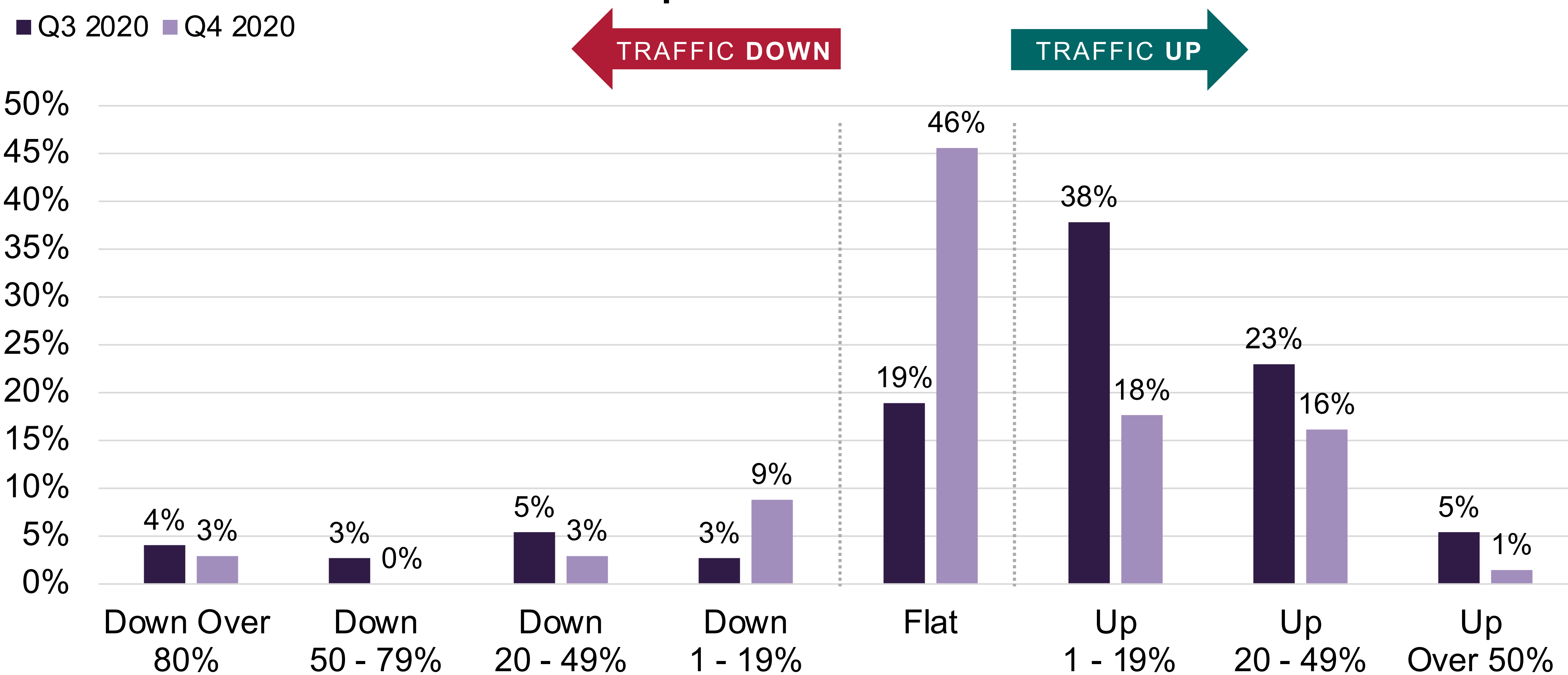
Designer: Jennifer Stoner **Photography**: Gordan Gregory

KB MI
KITCHEN & BATH MARKET INDEX

CONTINUED IMPROVEMENT IN Q4 2020 FOOT TRAFFIC REPORTED BY THE RETAIL SALES SEGMENT

Despite a moderate slowdown in foot traffic trends compared to Q3, the retail sales segment continues to see improvements in Q4 2020 compared to 1H20, with 35% of retail businesses reporting an increase in foot traffic. This signifies the second consecutive quarter with positive foot traffic growth. Thirty-three percent (33%) of retailers with decreased foot traffic reported a 25% or more increase in online sales.

We asked: How much is foot traffic up or down?



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

RETAILERS REPORTING GROWTH ACROSS LOW TO MID-PRICE POINTS

Retailers seeing very strong demand at low to mid-price points

“People are saving in places they normally would spend, such as vacations and dining out, and **putting that money towards creating a functional living space** with a purpose.”

“We are receiving more requests for mid-level products versus the up-scale products we typically carry. People **want less expensive products**.”

“As a company that primarily sells cabinetry, we find that many people don't want to do large projects, but instead are **focusing on smaller-budget remodels**.”

“We have a lot of clients that are working at home and have their kids doing virtual school. Their **needs have changed** and there is a higher need for clients looking to **refresh their space**.”

"With the increase in work from home, homeowners are wanting **projects completed in a reasonable amount of time** to minimize disruption in their professional lives."

"Interest rates are low and people are deciding to **upgrade spaces** they're spending more time in."

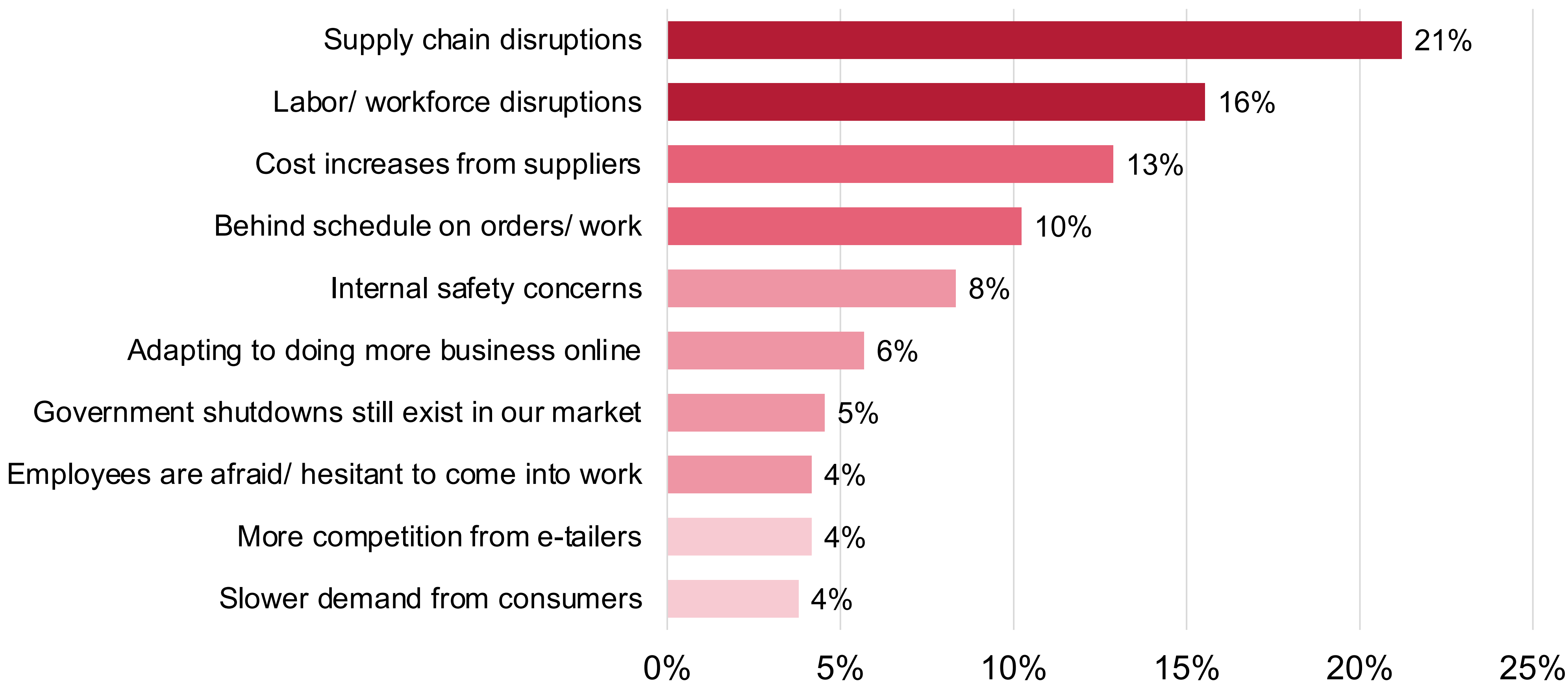
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

COVID-19 IMPACT ON RETAIL SALES

Supply chain issues continue to top the list of factors “most significantly impacting my business” among retail sales companies in Q4. Labor/ workforce disruptions and cost increases from suppliers remain major obstacles for 16% of companies.

COVID-19 Impact on Retail Sales Companies

% of retail sales companies reporting these factors are “significantly impacting my business”



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

SUPPLIERS REPORT COST INCREASES ON MANY FOREIGN AND DOMESTIC GOODS

Domestic "Wood-Goods" are Under Inflationary Pressure as the Lumber and Freight Markets Rise

"Stock cabinets now have **8–10-week lead times** and deliveries are erratic."

"We are seeing **price increases on cabinets** due to the rising costs of raw materials."

"Projects that were bid are now having to be rebid due to the amount of price increases we're experiencing."

"Construction material costs have gone up and that cost increase gets passed on to the consumer."

"**Cabinet prices are going up more so than usual**, as well as lumber prices."

"The **increase in price of raw materials** is driving up the cost of all finished goods such as cabinetry."

"We've seen price increases across all areas of the business, specifically cabinets, freight, and shipping."

"We're seeing **abnormal price increases for flooring and freight** to account for tariffs."

"We are having to charge our clients more, or accept a lower margin, on flooring and cabinets."

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

BUILDING AND CONSTRUCTION SEGMENT UPDATE

Designer: Nahal Gamini **Photography**: Vincent Lee

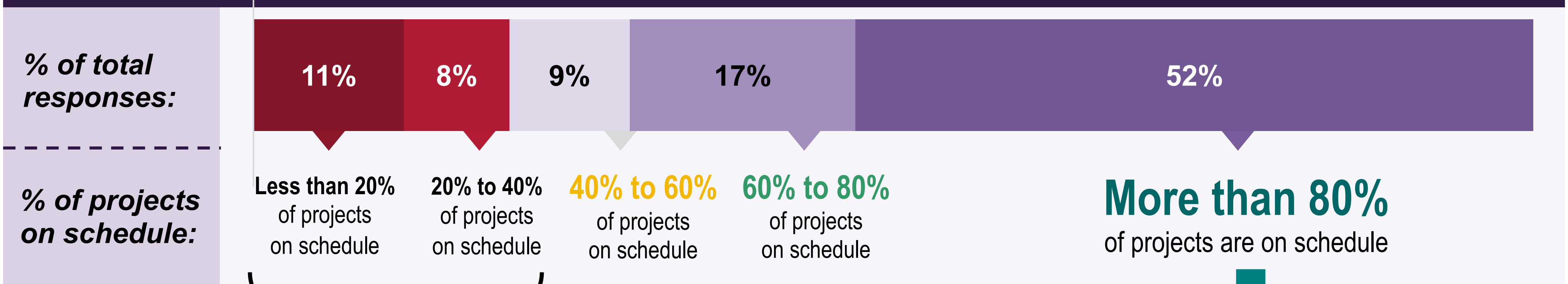
KBMI

KITCHEN & BATH MARKET INDEX

BUILDING AND CONSTRUCTION: PROJECT DELAYS

In line with our Q3 report, about half of the building and construction segment (52% of companies) say **80% or more of their active (started) projects are on schedule** despite supply chain and labor challenges. Nineteen percent of companies, however, report fewer than 40% of their active (started) projects are on schedule as they struggle with backlogs at the city, labor shortages, crew sicknesses, and product/ material availability.

Percentage of Active (Started) Projects or Jobs on Schedule in Q4:



Only 19% of building and construction companies report **most of their project pipeline is behind schedule in Q4**, a small decrease from Q3 reports.

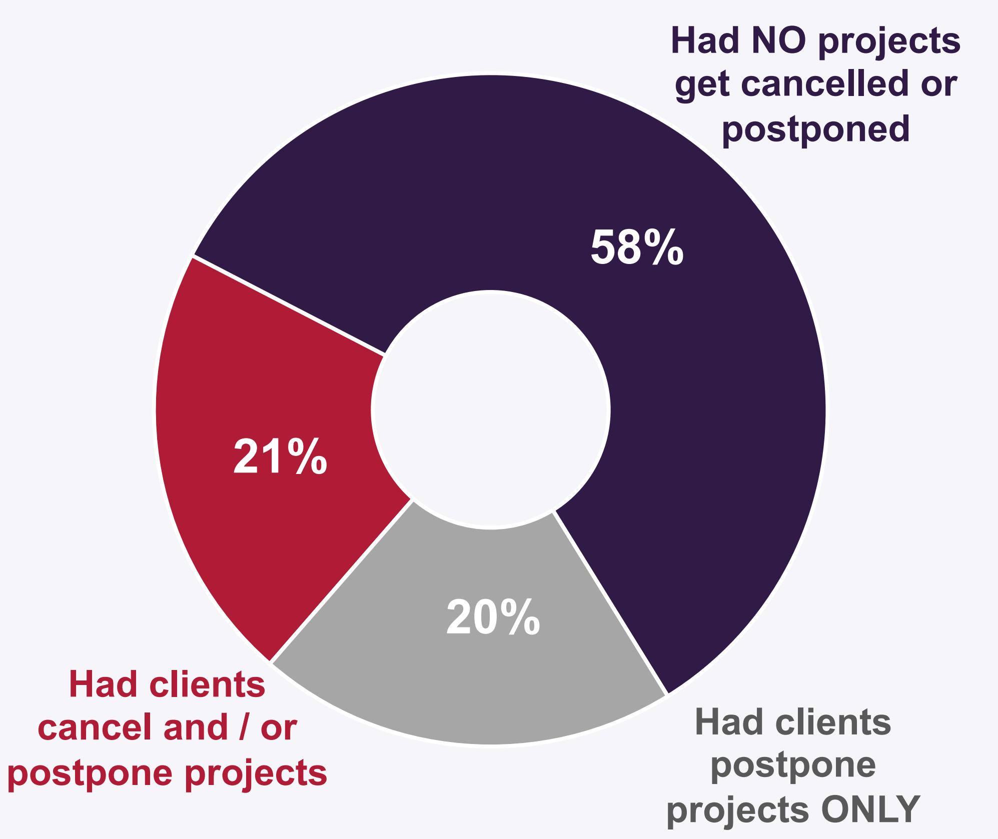
More than half of building and construction companies report **almost all active projects (over 80% of projects) are on schedule in Q4**, in-line with Q3 reports.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

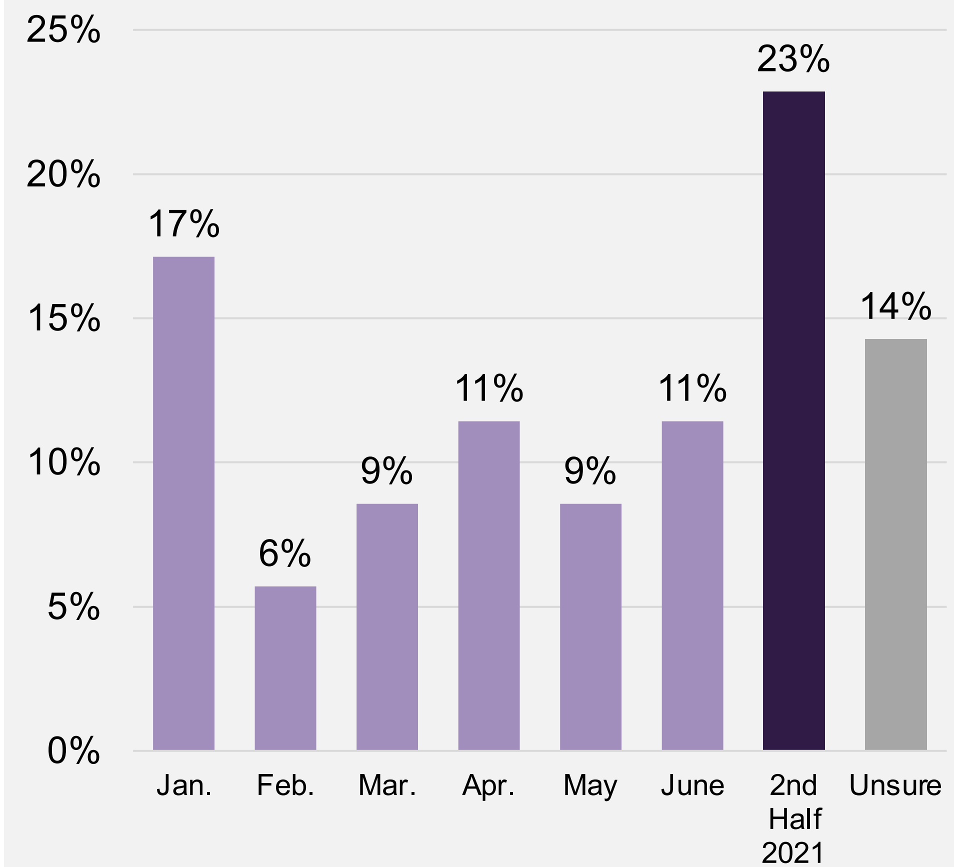
PROJECT POSTPONEMENTS / CANCELLATIONS

Over half (58%) of building and construction companies report zero clients postponed or cancelled a project in Q4, a marked improvement over Q3 (reported at 49%). Additionally, 20% of companies report no cancellations, only project postponements. Of the companies with postponed jobs, 23% expect to resume in the second half of 2021, while 63% are more optimistic and expect postponed projects to resume in the first half of 2021.

Percentage of Companies Reporting Cancelled or Postponed Projects in Q4



Company Expectations of When Postponed Projects Will Resume



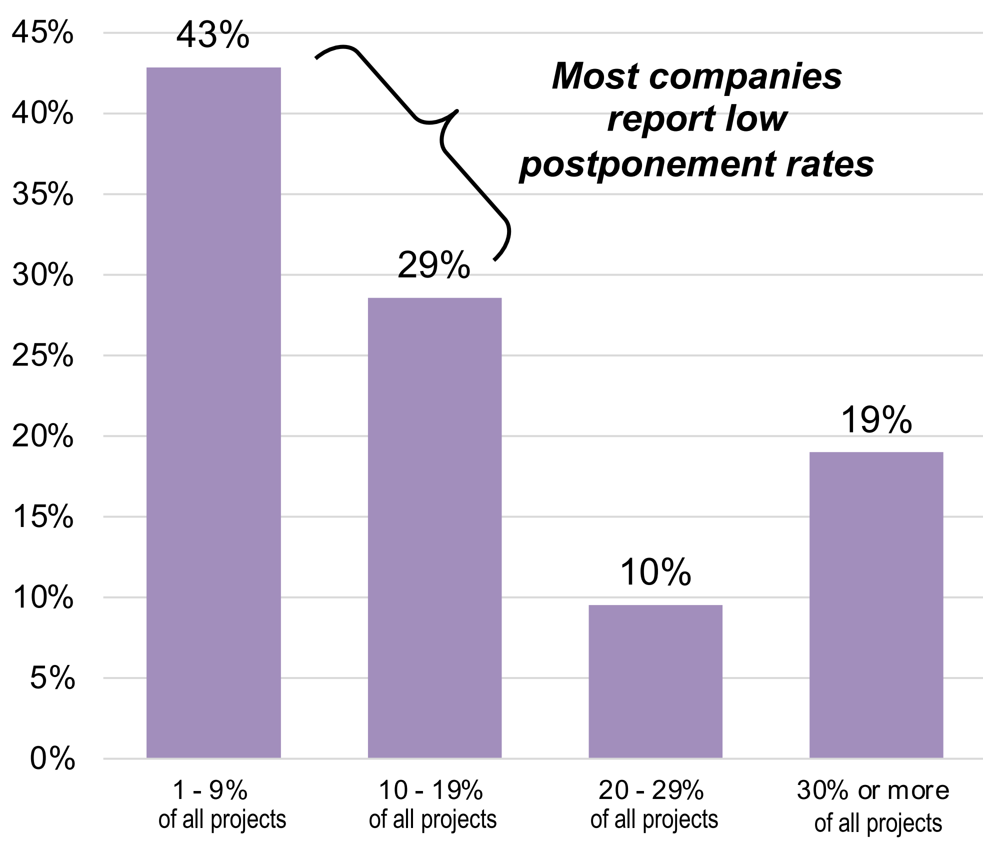
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

POSTPONEMENT / CANCELLATION RATES

Among building and construction companies who had clients postpone or cancel a project in Q4, **most companies report low postponement and cancellation rates relative to their overall project volume**.

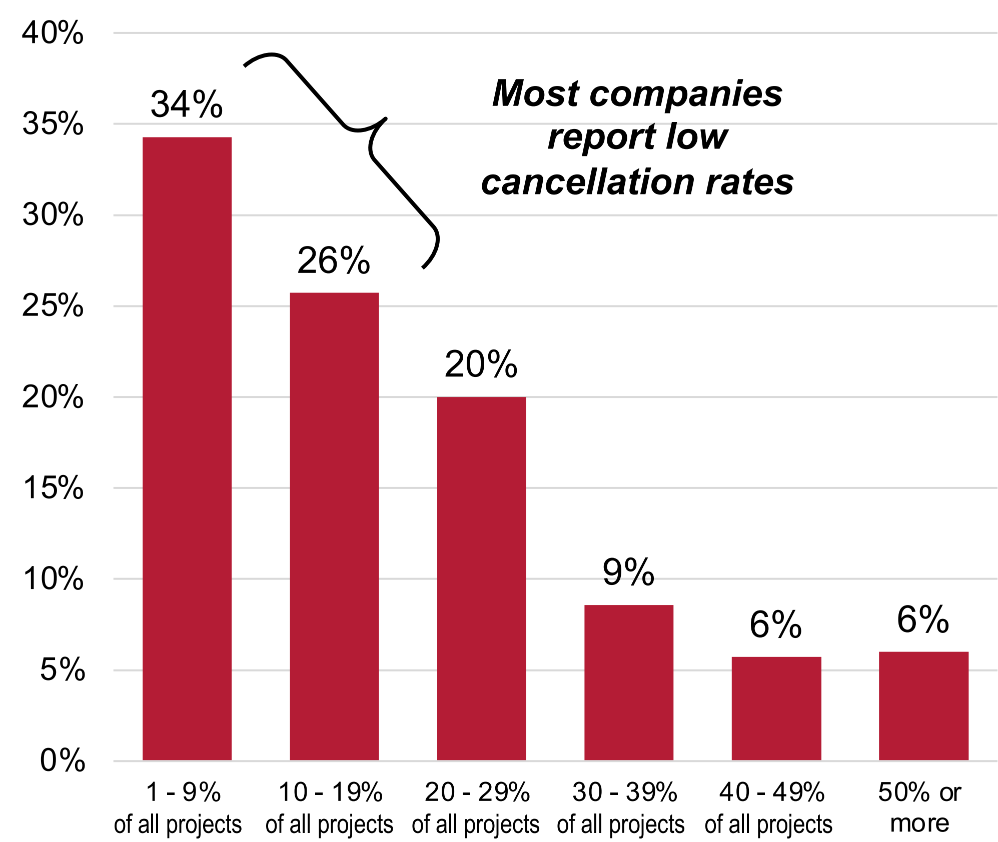
Percentage of Total Projects Postponed

as a percentage of all companies with cancelled projects



Percentage of Total Projects Cancelled

as a percentage of all companies with cancelled projects



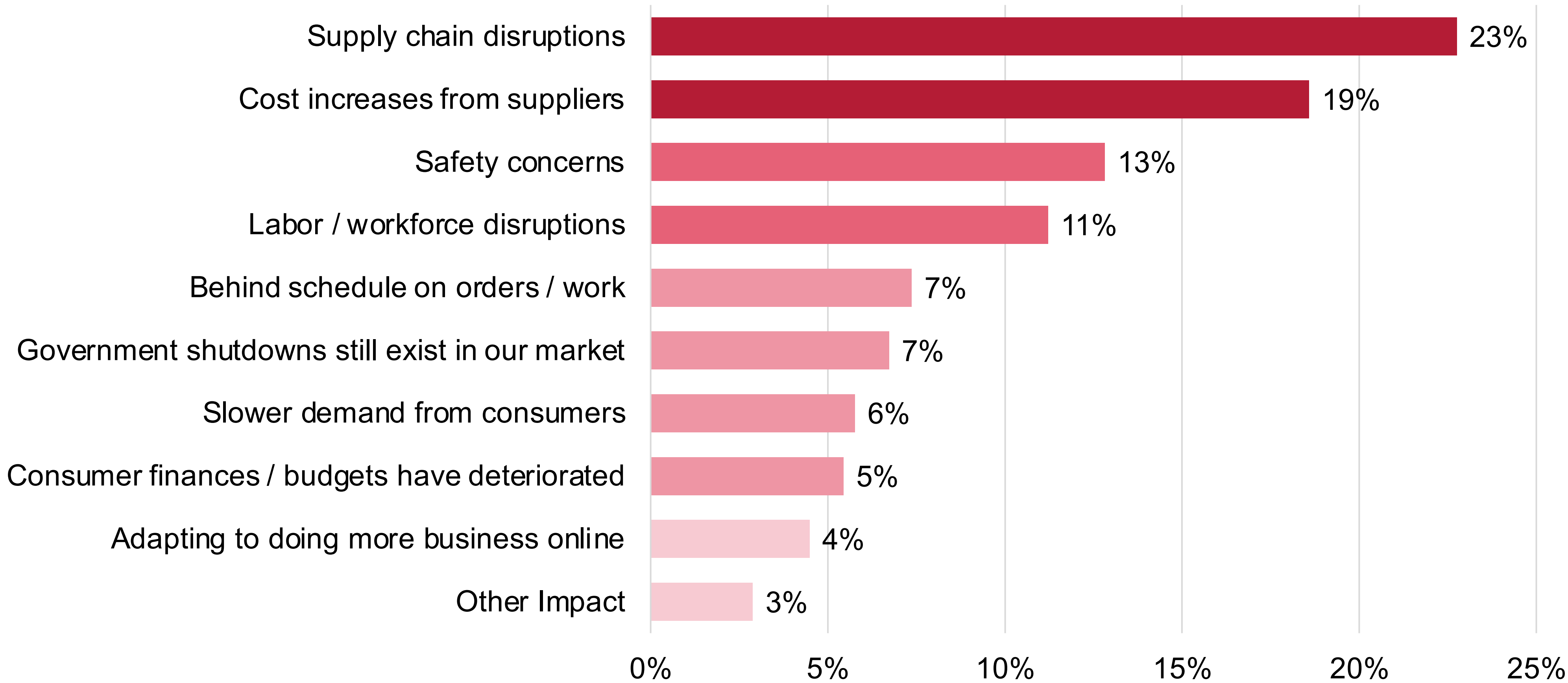
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

COVID-19 IMPACT ON BUILDING & CONSTRUCTION

Like all other segments, building and construction companies are also facing longer lead times and supply-side issues. Supply-side constraints coupled with cost increases continue to be the top two challenges cited by building and construction companies in Q4. Despite supply chain issues, building and construction companies say demand for large-scale remodels and renovations is booming.

COVID-19 Impact on Business Environment

% of building and construction companies reporting these factors are "significantly impacting my business"



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

RISING DEMAND PUTS PRESSURE ON BUILDING & CONSTRUCTION IN TIGHT LABOR ENVIRONMENT

“Entering into 2020, we had jobs sold through late June/ early July. Entering 2021, we are sold through early August. **High demand and lack of labor means our backlog of work is getting longer**.”

“Clients are spending less on travel and **putting that money into their house** to renovate their kitchens, baths and home offices. **Demand is hot**.”

“Because of the surplus of customers wanting projects done, **we are booked out**. Demand for renovation and construction has caused us to **increase hiring activity and focus more on employee retention**.”

“People are allowing us back in their homes again. We've seen an **influx of leads** and our current **staff can't keep up**. Before COVID, we were growing, but now there is more pent-up demand than ever.”

“**A shortage of labor with an increase in demand has prompted us to double our recruiting efforts."**

“We’re starting to look outside the industry to hire and train new talent. **We can’t keep up with demand**.”

“There is still quite a bit of money out there for building and remodeling. **More demand for work is making it difficult to find available labor.** We've increased marketing efforts to bring on additional help.”

“My subcontractors, especially specialty trades, **are short on labor which in turn affects us**. We've been transparent in communicating timelines with our customers.”

"All my **trades have busy schedules**. We are all busy, but we are doing everything we can to close a sale."

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

MANUFACTURING SEGMENT UPDATE

Designer: Gina D'Amore Bauerle **Photography**: Tim Gormley

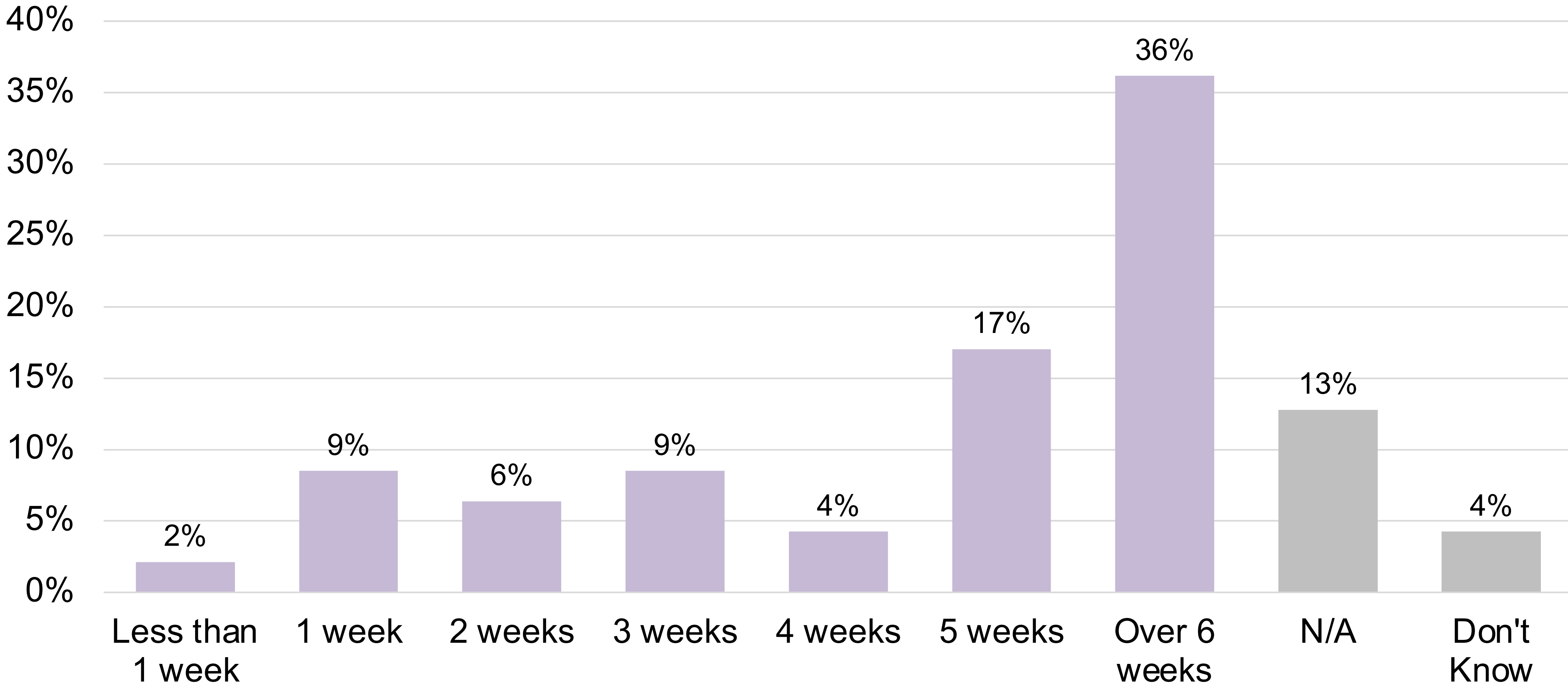
KBMI
KITCHEN & BATH MARKET INDEX

MANUFACTURER AVERAGE LEAD TIME

Over 50% of manufacturing firms report average leads times of five or more weeks with most of those experiencing lead times over six weeks. Some manufacturing firms are starting to see lead times soften, with 17% reporting average leads times less than 3 weeks. Wood-goods and appliances have longer lead times relative to other categories.

Manufacturing Average Lead Time

Thinking about your overall backlog across all the product lines you sell, in general, what is your average lead time right now?

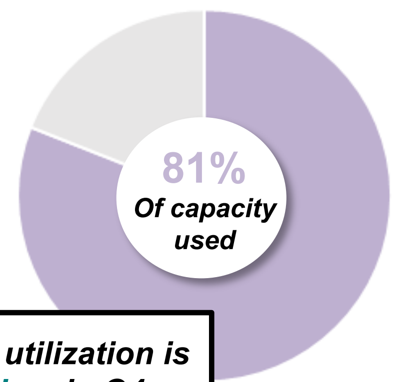


Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

MANUFACTURERS CAPACITY UTILIZATION

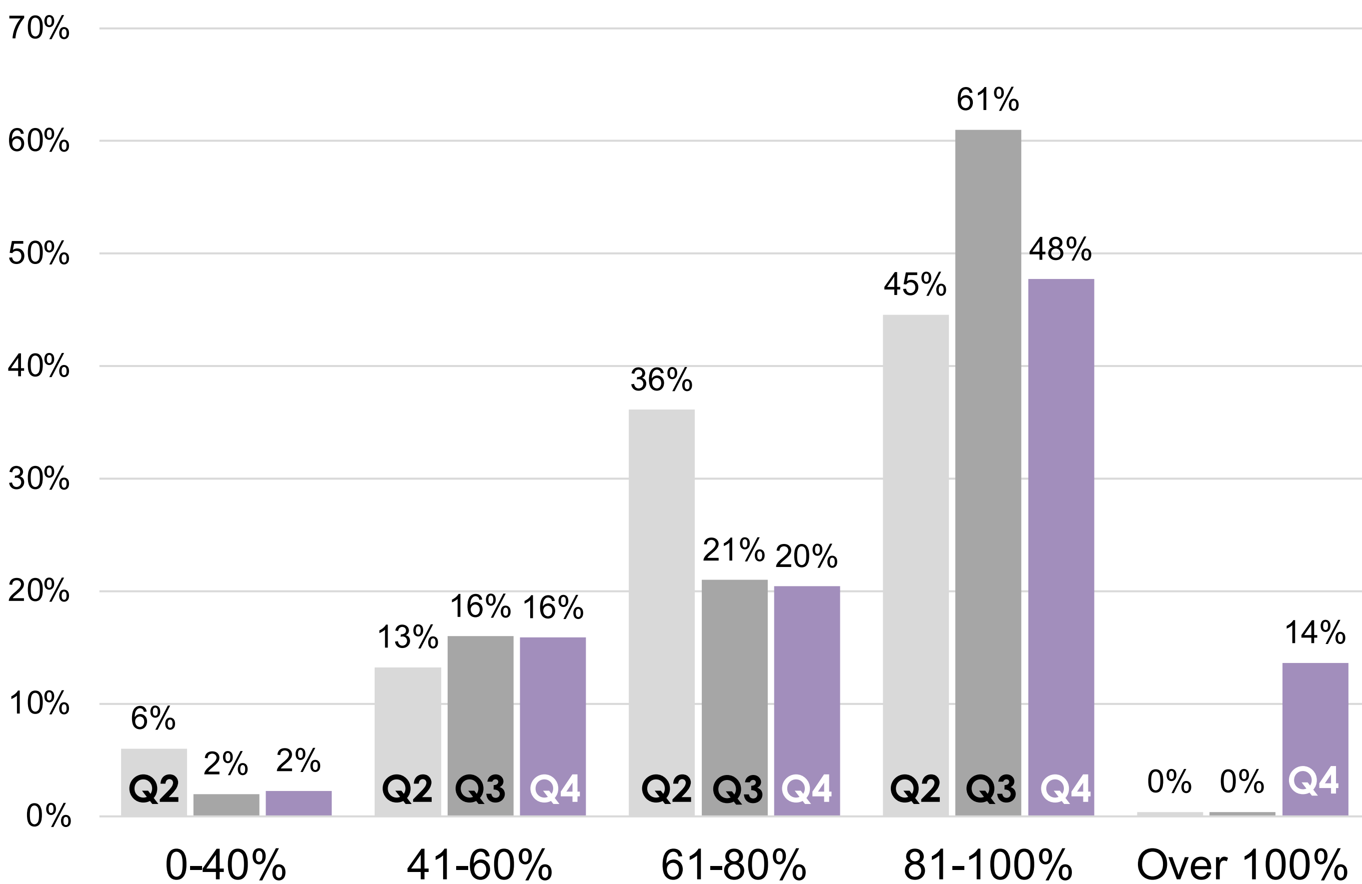
When surveyed in Q3 (October), 61% of manufacturers reported operating near full capacity (over 80%). When surveyed again in January 2021, **62% of manufacturers were reporting utilization rates over 80%.** On average, manufacturers in Q4 ran at 81% of capacity. Labor shortages and new protocols are limiting higher utilization rates.

ON AVERAGE...



average utilization is up 300 bps in Q4…

Manufacturing Capacity Utilization Ranges – Q4 Update



"We are just short-handed for the amount of business that came our way in Q4."

"Materials are taking up to four weeks longer than usual due to labor shortages at other factories."

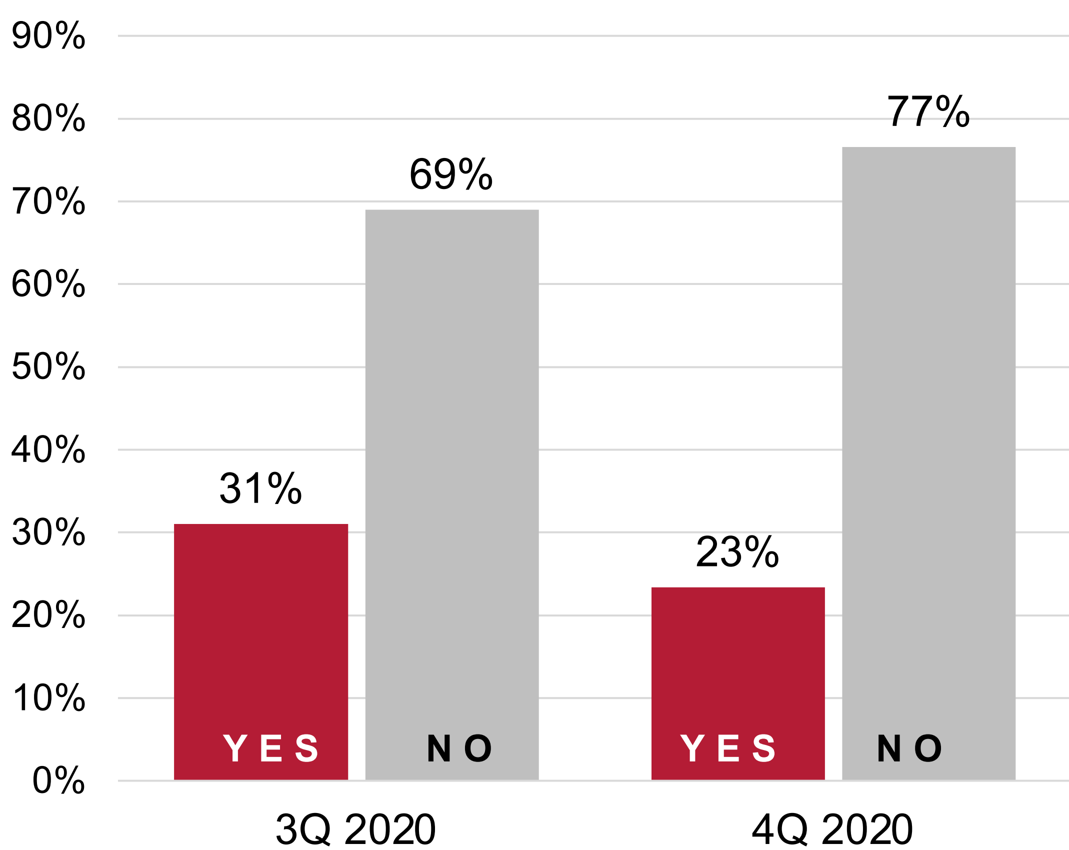
"Employees frequently need to take off to home-school or quarantine."

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

MANUFACTURERS' CAPACITY CONSTRAINTS

Although supply chain challenges continue to broadly impact almost all companies in the kitchen and bath industry, only 23% of manufacturers in Q4 are reporting severe capacity constraints, a decrease from Q3 (reported at 31%). Most manufacturers point to labor shortages as the primary bottleneck, but many say extended lead times on raw materials and a tight transportation market are also constraining production and shipments.

% of Manufacturers Reporting Severe Capacity Constraints



"*Cabinet components, such as drawers and doors, that we do not make ourselves, are taking **six to eight weeks to arrive**.*

*We tend to have to **wait for parts** to finish putting products together.*

*With product coming from Asia, or anywhere overseas, the **bottleneck seems to be the transportation**.*

A lot of parts and components are on backorder which has been causing delays.

*It's taking **longer to get most products** at this point. Wood-goods are very challenging.*

Cabinetry hardware and equipment shortages are extending our lead times."

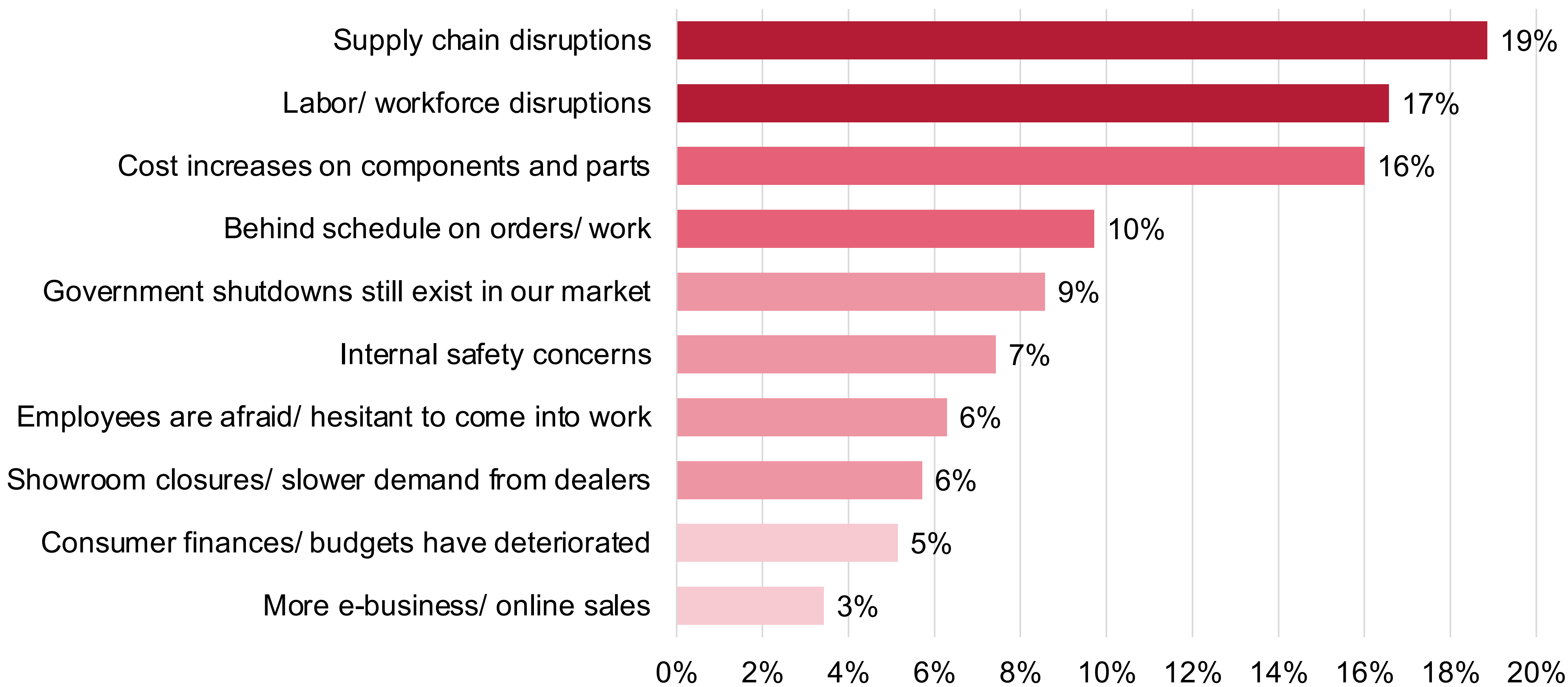
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

MANUFACTURERS CITE BROAD IMPACTS OF THE COVID-19 PANDEMIC ON THEIR BUSINESS

Although manufacturers are experiencing supply chain issues, only 19% report supply chain disruptions are having a significant, negative impact on their business. Manufacturers report longer lead times on components and raw materials used to produce finished goods like cabinets and appliances.

COVID-19 Impact on Business Environment

% of manufacturers reporting these factors are "significantly impacting my business"



Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

METHODOLOGY/ LIMITING CONDITIONS / CONTACT US

Designer: Tanya Woods, AKBD, CLIPP **Photography**: Beth Singer

KBMI METHODOLOGY

The NKBA / John Burns Real Estate Consulting ***Kitchen & Bath Market Index (KBMI)*** gauges the pulse of kitchen and bath industry in the United States. The KBMI is based on a quarterly survey of the NKBA membership conducted jointly by NKBA and John Burns Real Estate Consulting.

The NKBA membership base consists of thousands of industry professionals, including remodelers, installers, fabricators, trades, kitchen designers, bath designers, interior designers, architects, planners, product manufacturers, cabinet makers, kitchen and bath product suppliers, wholesale distributors, manufacturers' representatives, dealers, retailers, showrooms, and kitchen and bath e-tailers.

The Kitchen & Bath Market Index (KBMI) is a diffusion index comparing weighted responses of NKBA members on three key aspects of their business: most recent quarterly sales, expectations about next quarter's sales growth, and an overall perception of the health of the kitchen and bath industry.

The KBMI survey asks NKBA members to rate latest quarterly sales and next quarter sales expectations as "higher," "the same," or "lower" than the same period in the prior year. NKBA members also rate the health of the overall kitchen and bath industry on a scale from 0–10, with 0 being "extremely weak" and 10 being "extremely high."

SURVEY RESPONSES BY SEGMENT

	Building and Construction	Design	Manufacturing	Retail Sales	All Segments
Index	97	231	55	81	464
Sales	93	219	53	80	445
Current Demand	89	212	52	76	429

Note: In Q4-2019, we incorporated changes to the KBMI weighting methodology, and all historical data reflects these changes. The revised index weights three inputs: 55% for current sales conditions, 15% for next quarter sales conditions, and 30% for current industry health.

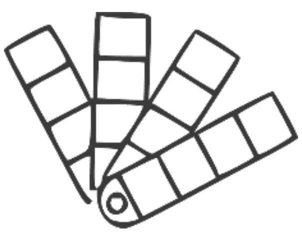
Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

KBMI RESPONSE OVERVIEW

Conducted jointly by the **National Kitchen & Bath Association** and **John Burns Real Estate Consulting**, the **Kitchen & Bath Market Index (KBMI)** examines current kitchen and bath industry demand, future expectations, and issues and challenges that industry professionals are facing in their businesses.

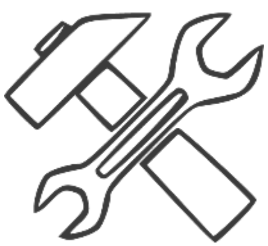
Responses by segment

50%



DESIGN

21%



BUILDING AND CONSTRUCTION

17%

RETAIL SALES

12%

MANUFACTURING

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q20, Pub: Feb-21)

LIMITING CONDITIONS

The conclusions and recommendations presented in this report are based on our analysis of the information available to us from our research as of the date of this report. We assume that the information is correct and reliable and that we have been informed about any issues that would affect project marketability or success potential.

Our conclusions and recommendations are based on current and expected performance of the national, and/or local economy and real estate market. Given that economic conditions can change and real estate markets are cyclical, it is critical to monitor the economy and real estate market continuously, and to revisit key project assumptions periodically to ensure that they are still justified.

The future is difficult to predict, particularly given that the economy and housing markets can be cyclical, as well as subject to changing consumer and market psychology. There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and the differences may be material. We do not express any form of assurance on the achievability of any pricing or absorption estimates or reasonableness of the underlying assumptions.

In general, for projects out in the future, we are assuming “normal” real estate market conditions, and not a condition of either prolonged “boom” or “bust” market conditions. We do assume that economic, employment, and household growth will occur more or less in accordance with current expectations. We are not taking into account major shifts in the level of consumer confidence; in the ability of developers to secure needed project entitlements; in the cost of development or construction; in tax laws that favor or disfavor real estate markets; or in the availability and/or cost of capital and mortgage financing for real estate developers, owners and buyers. Should there be such major shifts affecting real estate markets, this analysis should be updated, with the conclusions and recommendations summarized herein reviewed and reevaluated under a potential range of build-out scenarios reflecting changed market conditions.

We have no responsibility to update our report analysis for events and circumstances occurring after the date of our report. This analysis represents just one resource that should be considered when assessing a market opportunity.

Kitchen & Bath Market Index

Please contact any of us with questions, feedback, or requests for more information.

KB MI
KITCHEN & BATH MARKET INDEX

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