



2022 Kitchen & Bath Market Outlook

— January —

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Study Overview

Research Purpose and Objectives

Provide an objective, thorough analysis of the size and outlook for residential kitchen and bath spending in 2022.

The primary objectives of this research include:

- **Determining the size of the kitchen and bath industry**, including spending by project type (PRO vs. DIY), segment (kitchen vs. bathroom) and end-market application (new construction vs. remodeling).
- **Providing market growth estimates** for 2022 based on the macroeconomic factors underlying the kitchen and bath spending forecasts for new construction and remodeling.
- **Analyzing changes in consumer spending patterns**, including changes in the dollar amount for low-, medium- and high-priced residential kitchen and bath remodeling projects.
- **Analyzing structural factors in the housing market that will impact K&B demand**, including shifts in affordability, age of housing stock, builder community count, and other factors that will impact spending.

Executive Summary

Key Findings

Residential kitchen and bath remodeling spending is expected to continue to grow rapidly in 2022, despite persistent product delays and labor shortages.

- The industry is benefiting from **rapid growth in new construction spending**, driven in part by an unusual timing effect which is boosting spending faster than starts growth (driven by a backlog of starts and marginal improvement in builder construction cycle time).
- The industry is also benefiting from a wave of **PRO-heavy interior remodels**, boosted by unusually strong home price appreciation, a shift in consumer focus towards the home, and growth in 'prime remodel vintage' homes (between 20-40 years old) which historically have more kitchen and bath remodels. Homes built during the mid-2000's boom are now becoming outdated, and therefore, will drive increased remodel volume at the margin.

Total residential kitchen and bath spending to increase 19% in 2022, from \$167 billion to \$199 billion. This will be driven by:

- 21% increase in new construction kitchen and bath spending, and a 16% increase in kitchen and bath remodel spending. **Prices account for 6% growth**, driven by inflation, product shortages and rising labor costs.

Executive Summary

Key Findings (cont'd)

- **DIY spending is expected to grow 9%, with PRO spending forecast to grow 21%.**
Professional spending is growing faster due to backlog of new construction spending, growth in mid-priced remodel spending, and anticipated increase in cash-out refinance funded remodels, which will incrementally boost pro remodel spending.

Risks are rising, including rising costs and labor shortages. Unfavorable demographics will cause near-zero growth in the 20-65 age range (prime age for workers), which makes recruiting more difficult in a rising demand environment. In addition, kitchen and bath products have generally more complex value-chains than most US industries, exacerbating supply challenges.

Kitchen & Bath Industry Size and Growth



2022 Forecast: 19% Spending Growth, Led by 21% Pro Spending and 8.5% DIY Growth

Residential Kitchen and Bath Spending *(in billions of \$USD)*

2022 Spending Growth *% change vs prior year*

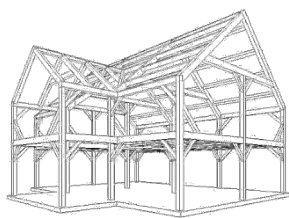
\$199.3

**Total
K&B**

19.2%

PRO

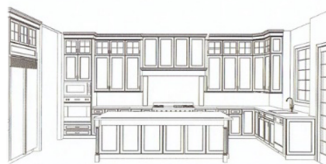
\$173.4B



20.8%

DIY

\$25.9B



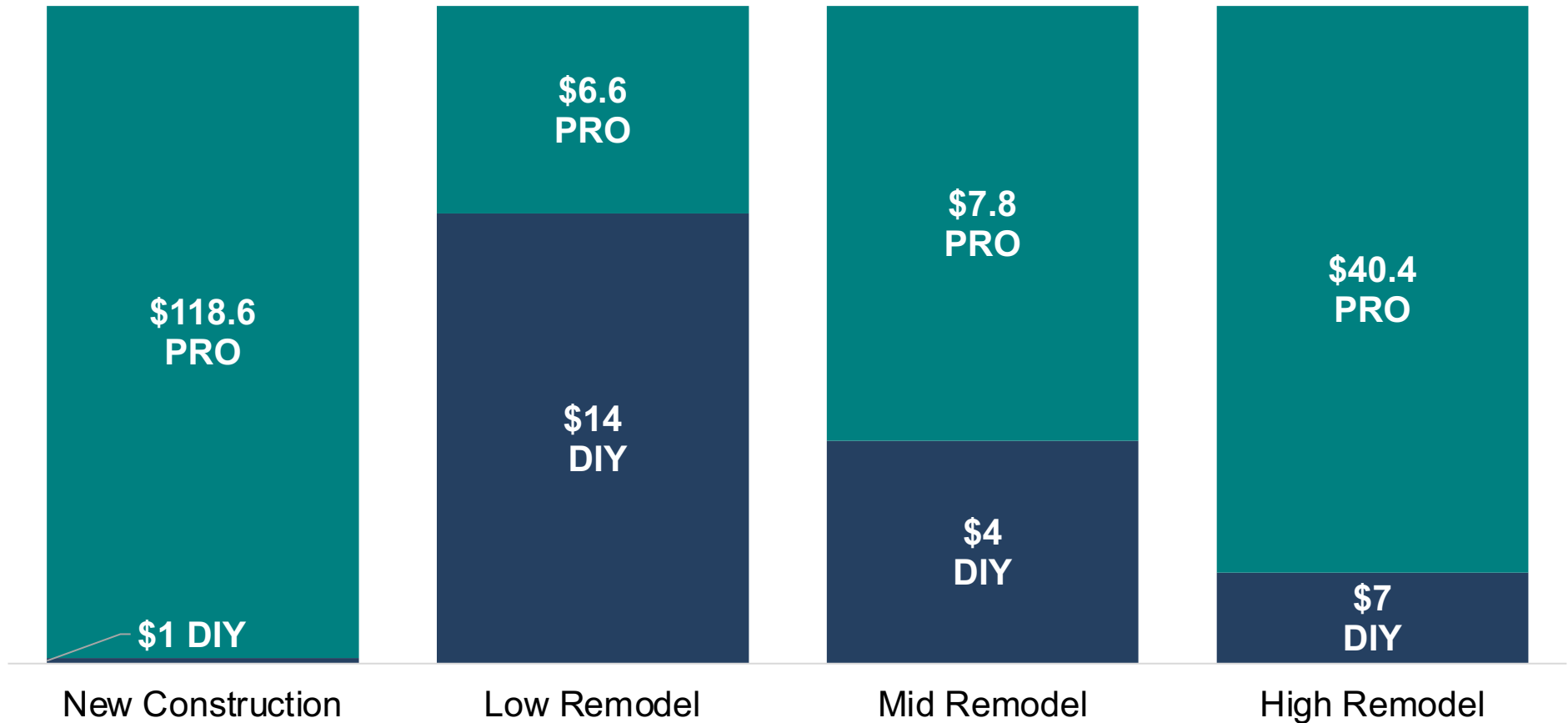
8.5%

Sources: Census AHS Microdata, NAA, HIRL, John Burns Real Estate Consulting LLC (Pub: Jan 2022)
All dollars include both products and labor (installed costs).

2022 Forecast: \$173 BB of PRO Spending Driven by New Construction and Mid/High Spend Remodels

Residential Kitchen and Bath Spending

(in billions of \$USD)

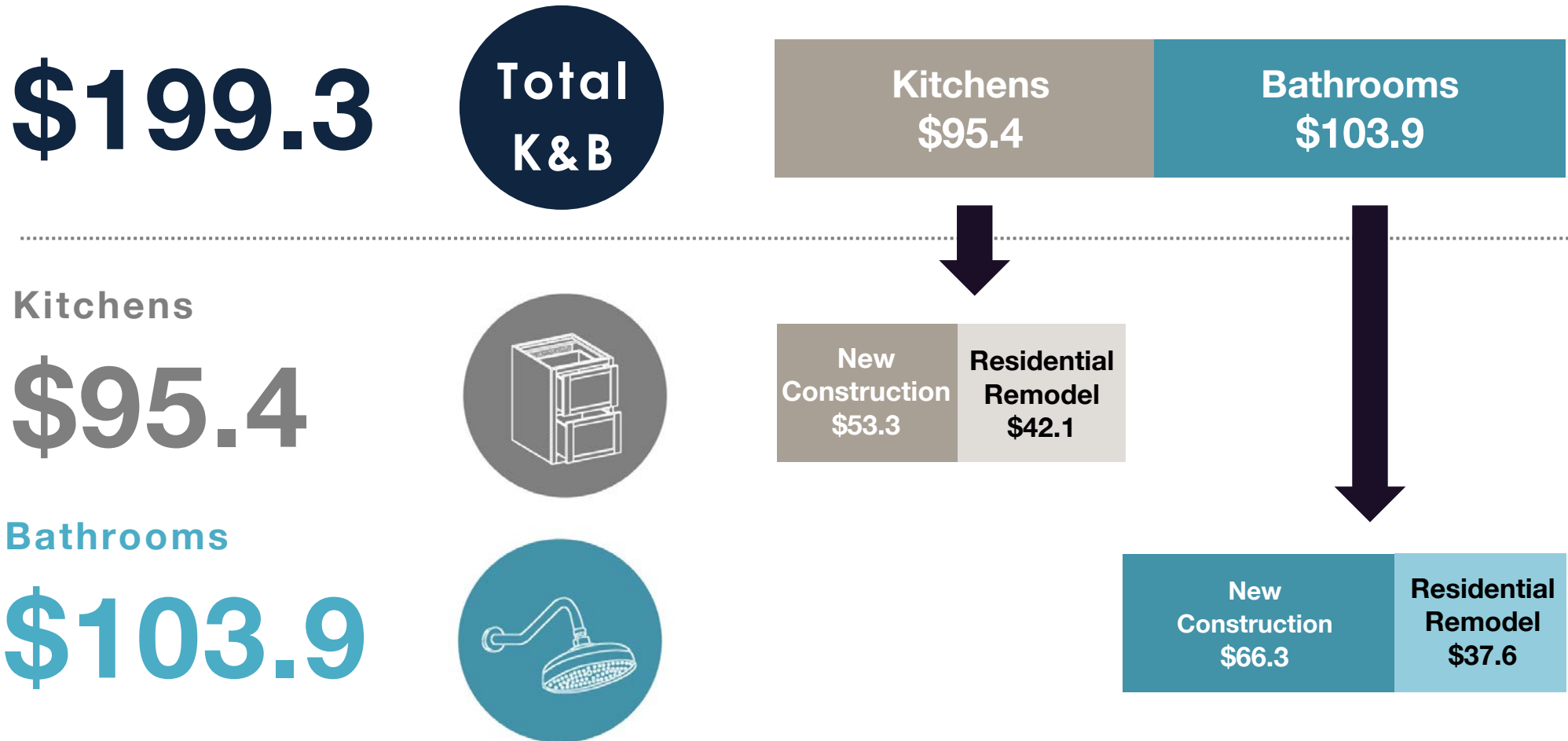


Sources: Census AHS Microdata, NAA, HIRL, John Burns Real Estate Consulting LLC (Pub: Jan 2022)
All dollars include both products and labor (installed costs).

2022 Forecast

Projected Value by Segment

Residential Kitchen and Bath Spending *(in billions of \$USD)*



Sources: Census AHS Microdata, NAA, HIRL, John Burns Real Estate Consulting LLC (Pub: Jan 2022)
Notes: All dollars include both products and labor (installed costs).

2022 Forecast

Projected Value by Segment

Residential Kitchen and Bath Spending *(in billions of \$USD)*

2022 Spending Growth *% change vs prior year*

Kitchens

\$95.4



20.5%

Bathrooms

\$103.9



17.9%

Sources: Census AHS Microdata, NAA, HIRL, John Burns Real Estate Consulting LLC (Pub: Jan 2022)
All dollars include both products and labor (installed costs).

2022 Forecast

Projected Growth by Construction Type

Residential Kitchen and Bath Spending *(in billions of \$USD)*

2022 Spending Growth *% change vs prior year*

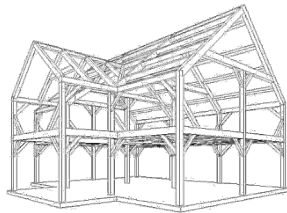
\$199.3

**Total
K&B**

19.2%

New Construction

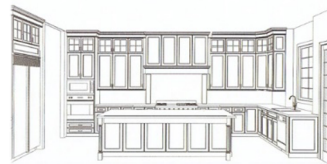
\$119.6B



21.1%

Remodel

\$79.7B



16.4%

Sources: Census AHS Microdata, NAA, HIRL, John Burns Real Estate Consulting LLC (Pub: Jan 2022)
All dollars include both products and labor (installed costs).

Kitchen & Bath Segmentation Definitions by Spend Level

\$

LOW

- Minor "update" remodels, often DIY.
- Low-cost products often found in new "starter" homes.
- Usually funded out-of-pocket.

\$\$

MEDIUM

- Medium-scale kitchen and bath remodels.
- Products in first or second "move-up" homes.
- Partially funded from cash proceeds from home sale, investments, etc.

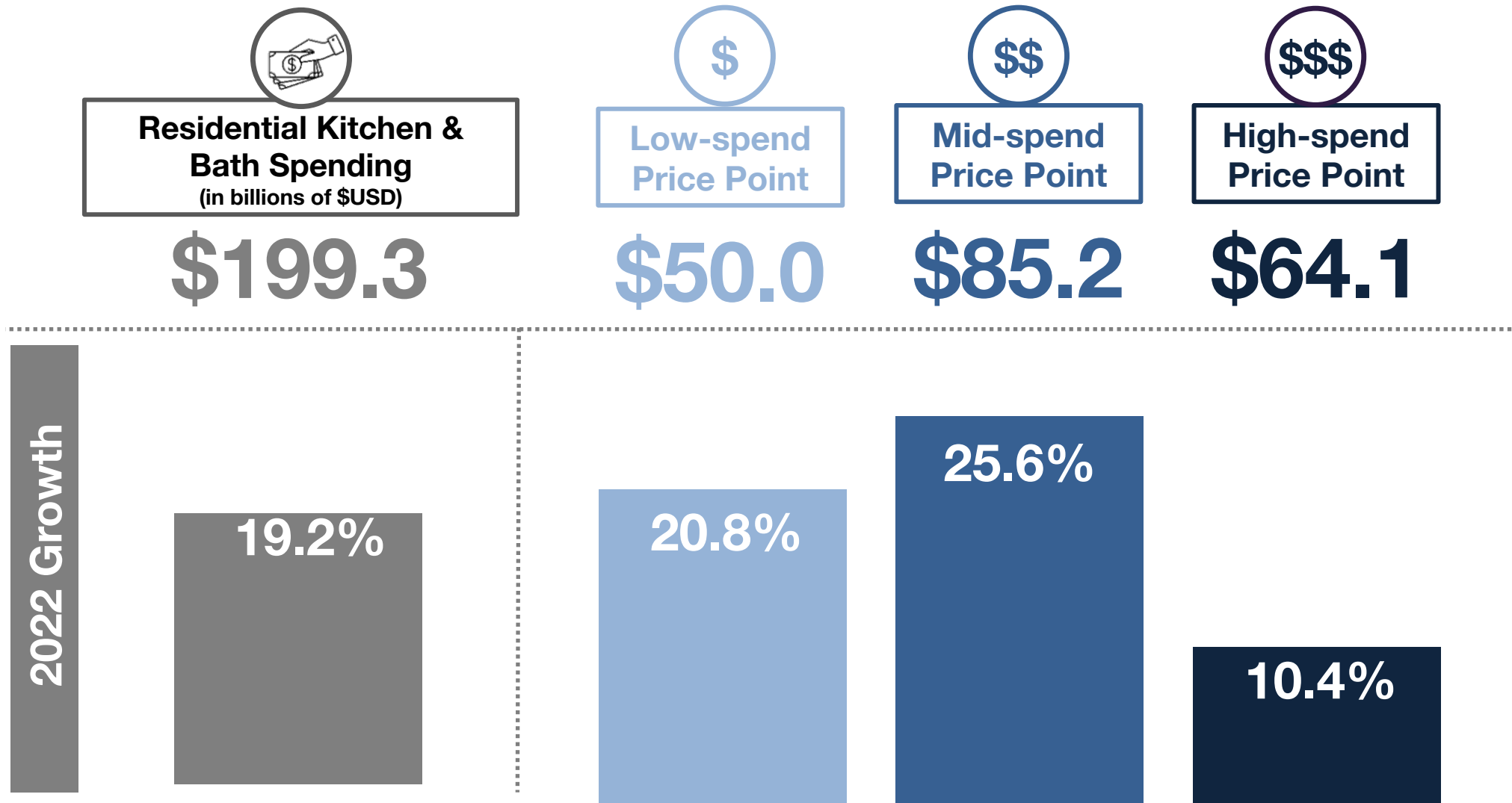
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HIGH

- Major full-service remodels, usually using a designer and/or showroom.
- High-end products in new luxury homes.
- Upgrades financed via bank loan or HELOC, in addition to funding from other sources.

Sources: John Burns Real Estate Consulting, LLC (Pub: Jan 2022)

Kitchen & Bath Segmentation Definitions by Spend Level



Sources: Census AHS Microdata, NAA, HIRL, John Burns Real Estate Consulting LLC (Pub: Dec 2021)

Note: Low-Spend, Mid-Spend and High-Spend price point estimates were computed using averages based on these project scale definitions: Small scale: <\$1,600 for bathrooms and <\$2,200 for kitchens; Medium-scale: \$1,600-\$13,600 for bathrooms and \$2,200-\$17,700 for kitchens; Large-scale: >\$13,600 for bathrooms and >\$17,700 for kitchens.

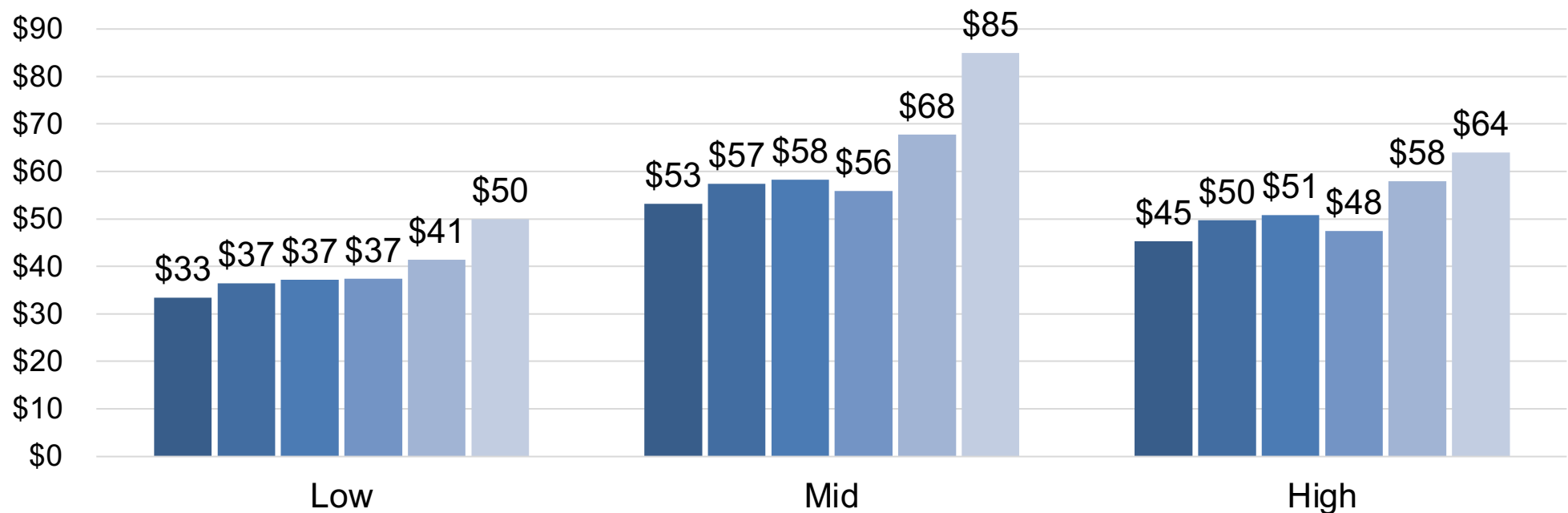
2022 Rebound in Mid- and Low-Priced Spending As Affordability and Rising Costs Shift Some Growth From High to Mid

Growth coming from the 'top': deferral of major K&B projects + rapid home price appreciation + renewed focus on the home driving major renovation spending on K&B.

Residential Kitchen and Bath Spending by Price-Point Spend Level

(in billions of \$USD)

■ 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021 ■ 2022P



Sources: Census AHS Microdata, NAA, John Burns Real Estate Consulting LLC (Pub: Jan 2022)

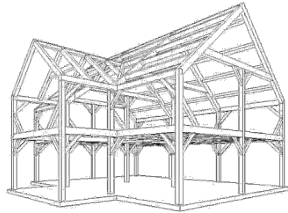
Note: Low-Spend, Mid-Spend and High-Spend price point estimates were computed using averages based on these project scale definitions: Small scale: <\$1,600 for bathrooms and <\$2,200 for kitchens; Medium-scale: \$1,600-\$13,600 for bathrooms and \$2,200-\$17,700 for kitchens; Large-scale: >\$13,600 for bathrooms and >\$17,700 for kitchens.

Key Housing Industry Factors Impacting 2022 Kitchen & Bath Industry Growth



K&B New Construction Spending to Grow Significantly Faster than Starts Due to Delayed 2021 Installs and Slightly Faster Build Schedules in 2022. Result: 21% Growth Despite Only 6% Starts Growth

New Construction Residential Kitchen and Bath Spending Breakdown: *(in billions of \$USD)*



Starts Growth: +6%



‘Timing Effect’ Impact : +9%



Net Price Inflation: +6%

New Residential K&B Spending: +21%

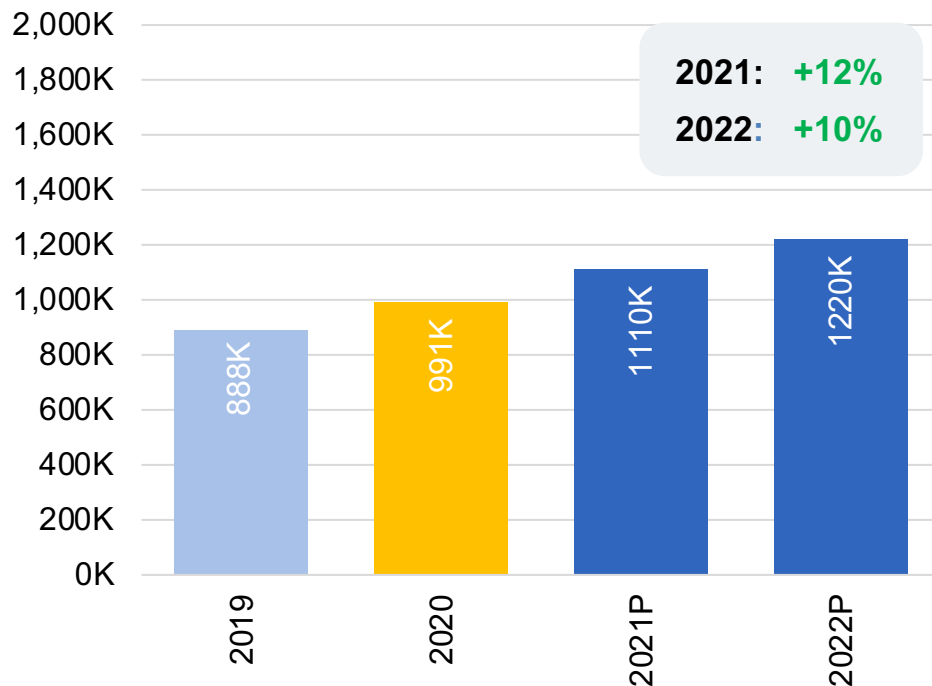
Source: John Burns Real Estate Consulting, LLC forecasts (Data: Jan 2022)

2022 Expectations: 10% Single Family Residential Starts Growth and 4% Fewer Multifamily Starts

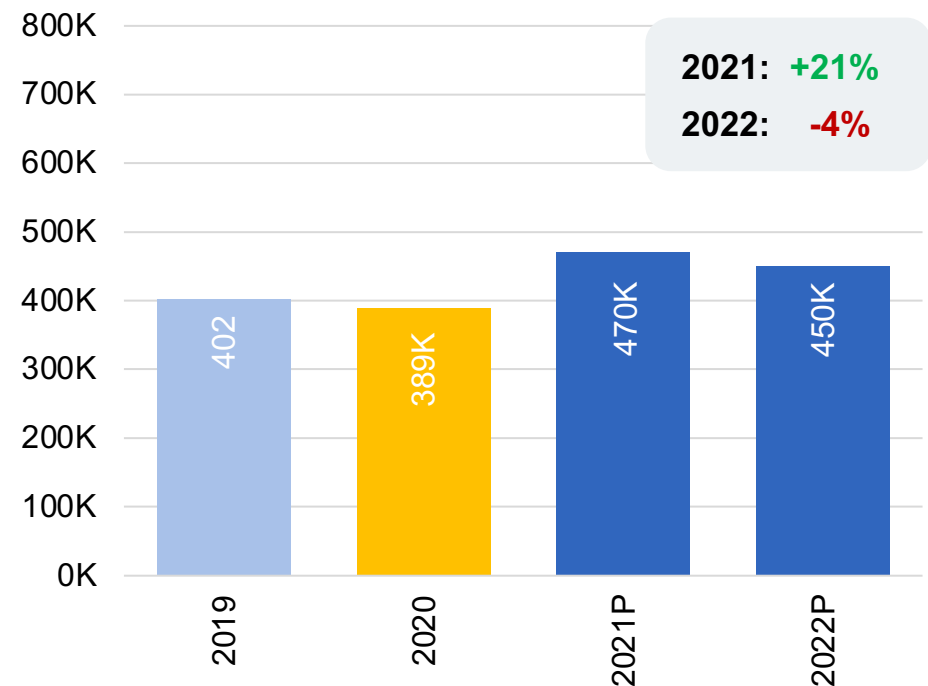
Single Family Starts are anticipated to post strong rates of growth...

... while a decline is expected for Multifamily Starts

US Single Family Residential Starts



US Multifamily Residential Starts

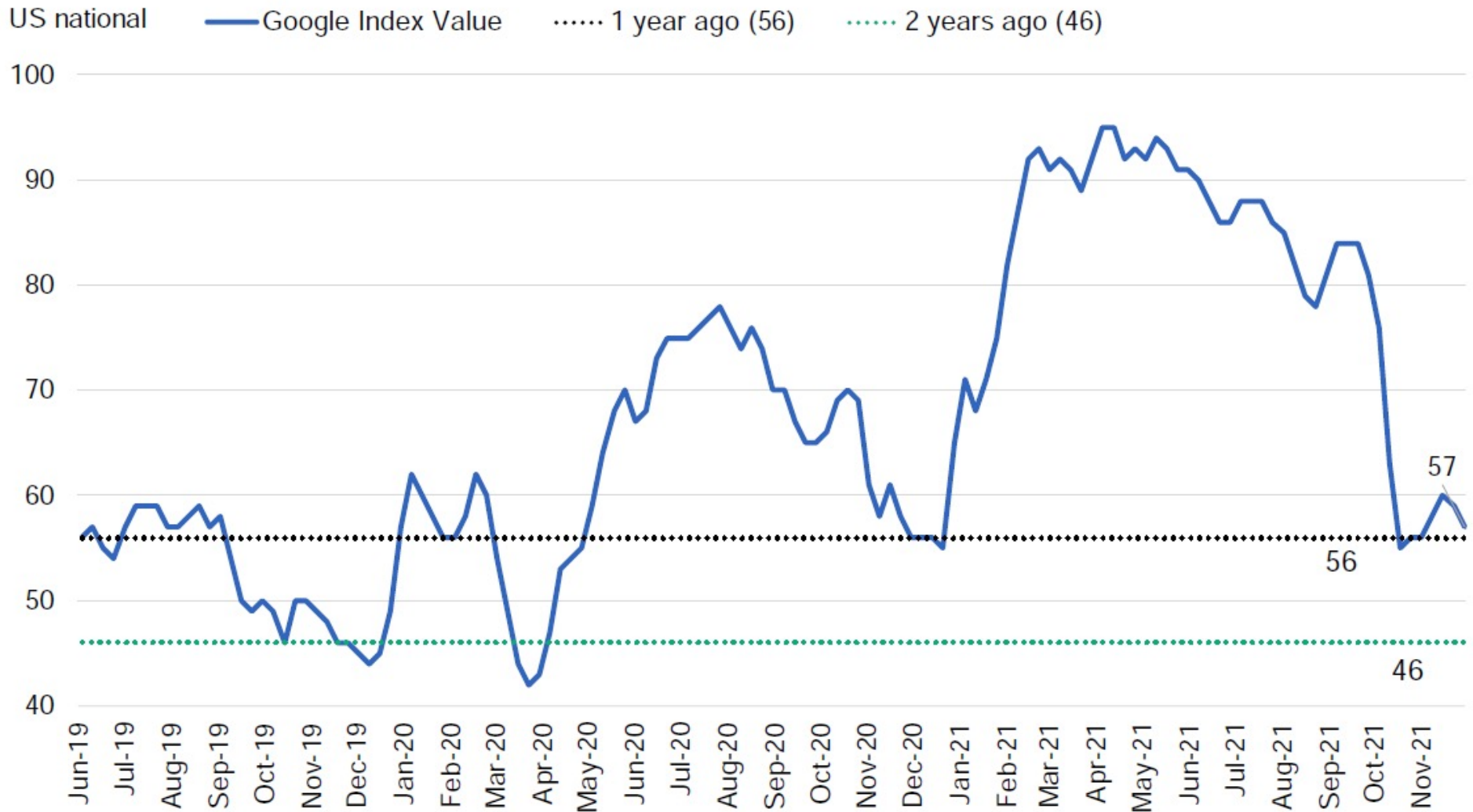


Cur. Mo. SA = Current month (seasonally adjusted annual rate)

Source: U.S. Census Bureau, John Burns Real Estate Consulting, LLC forecasts (Data: Jan 2022)

Underlying Consumer Interest in Buying a New Home, as Gauged by Google Searches, is up 24% from 2019 and up 2% from November 2021

New Home Google Searches



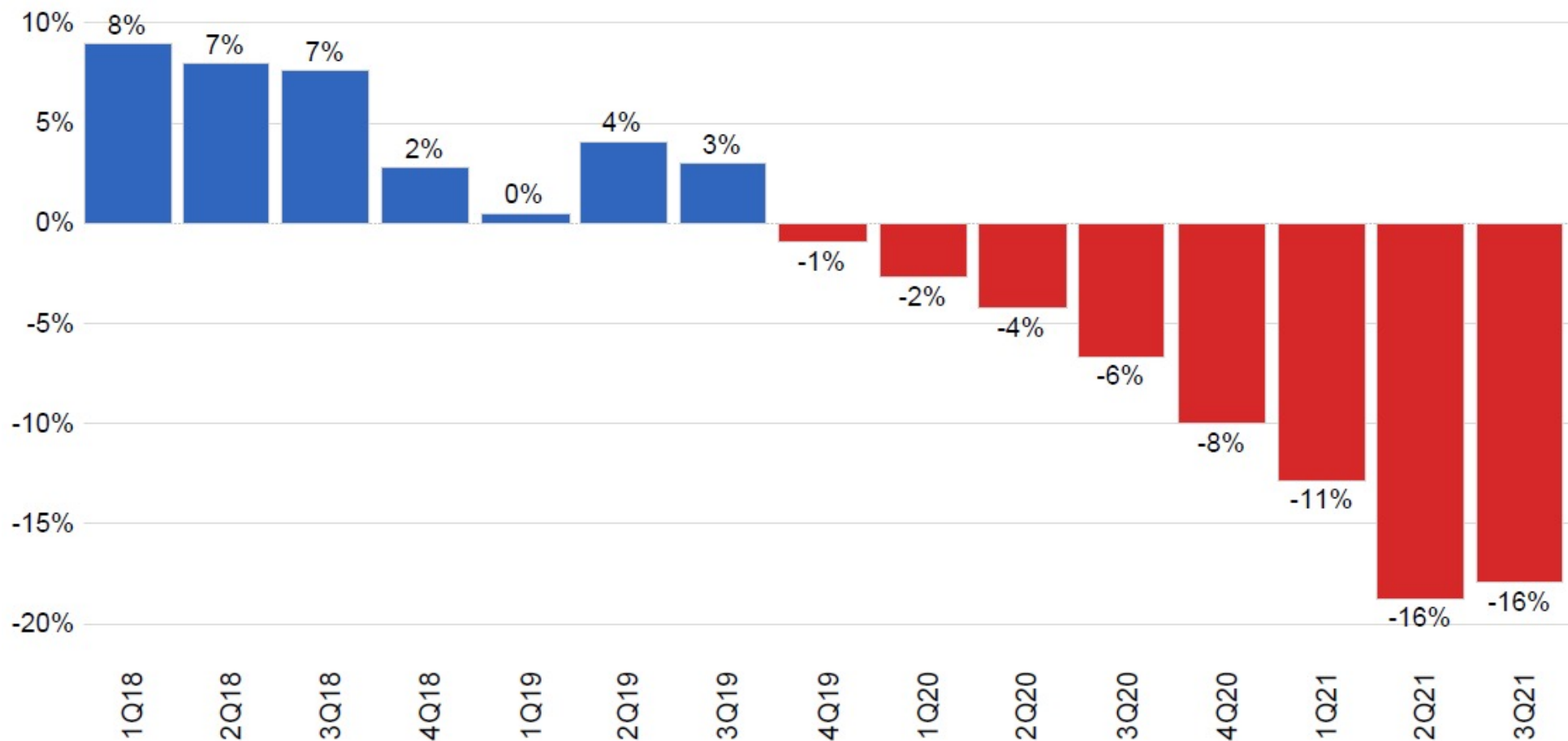
Note: Google searches refer to search queries as a portion of a sample and not the number of people searching the term. Total searches may not correlate directly with real demand but may reflect overall trends.

Source: John Burns Real Estate Consulting, LLC; Google (Data through 12/4/2021; published Dec-21)

Starts in 2021 Would Have Been Stronger, if Not For the Shortage of Communities. Bullish 2022 K&B Outlook is Partly Driven by Wave of New Communities Coming Online in 2022

New Home Builder Community Count Growth

Within the top 47 markets



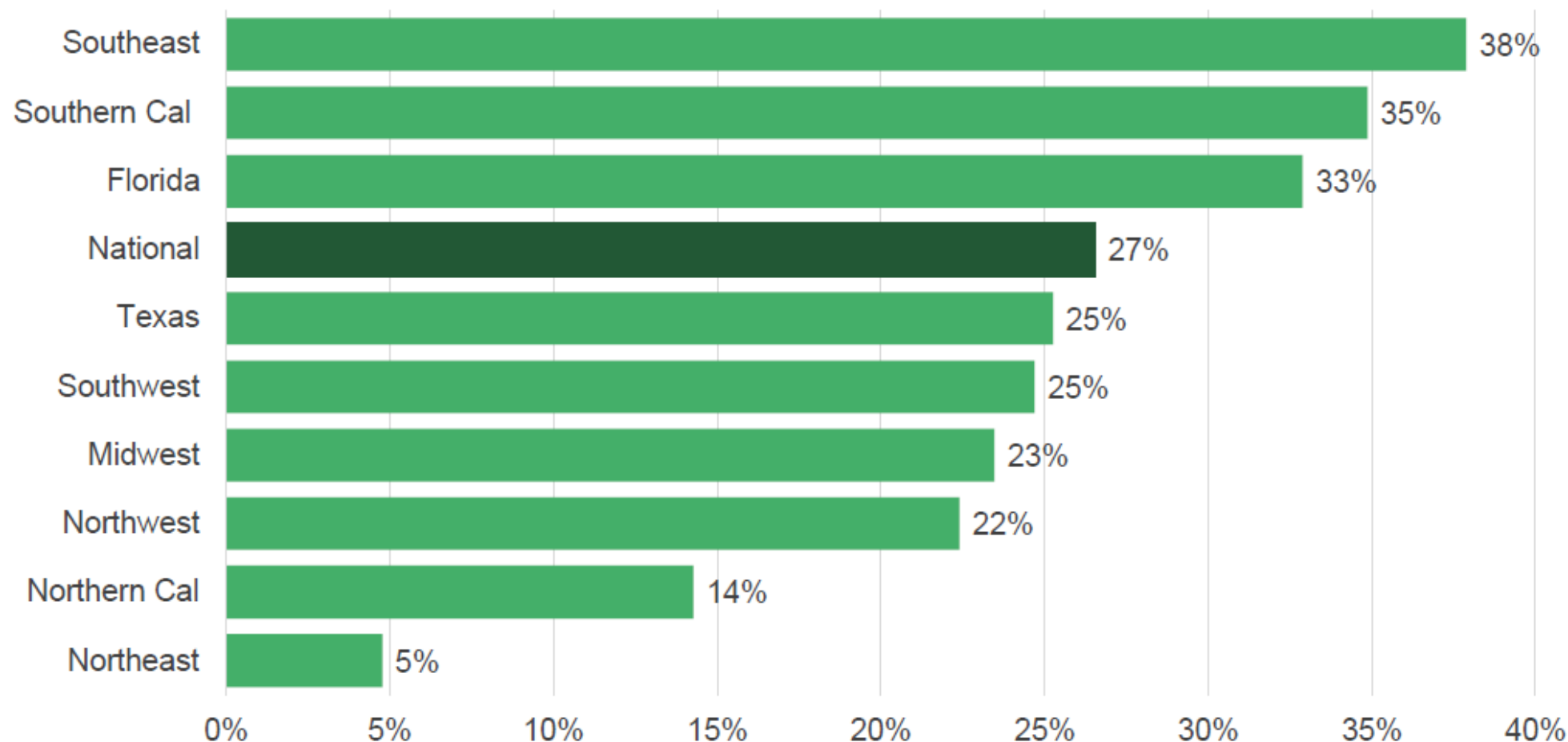
Methodology: Every quarter, we count and geocode every actively selling community of every production builder we can identify in 47 major markets. This allows us to track almost all of the for-sale new home subdivision supply in 47 major markets, which comprise 40%+/- of all the SF construction in the country. We also count and geocode all of the publicly traded home builder communities in the other MSAs where they build. All told, the 900+ active home builders we survey are building 14,000+ communities that make up roughly 65% of all new homes in the country.

Source: John Burns Real Estate Consulting, LLC (Data: 3Q21, Pub: Dec-21)

Builders Expect to End 2022 with 27% More Communities, Driving Additional New Construction K&B Spending (Likely Skewed to 2nd Half of 2022)

Regional: How Will Your Open-for-Sale Communities Change during 2022?

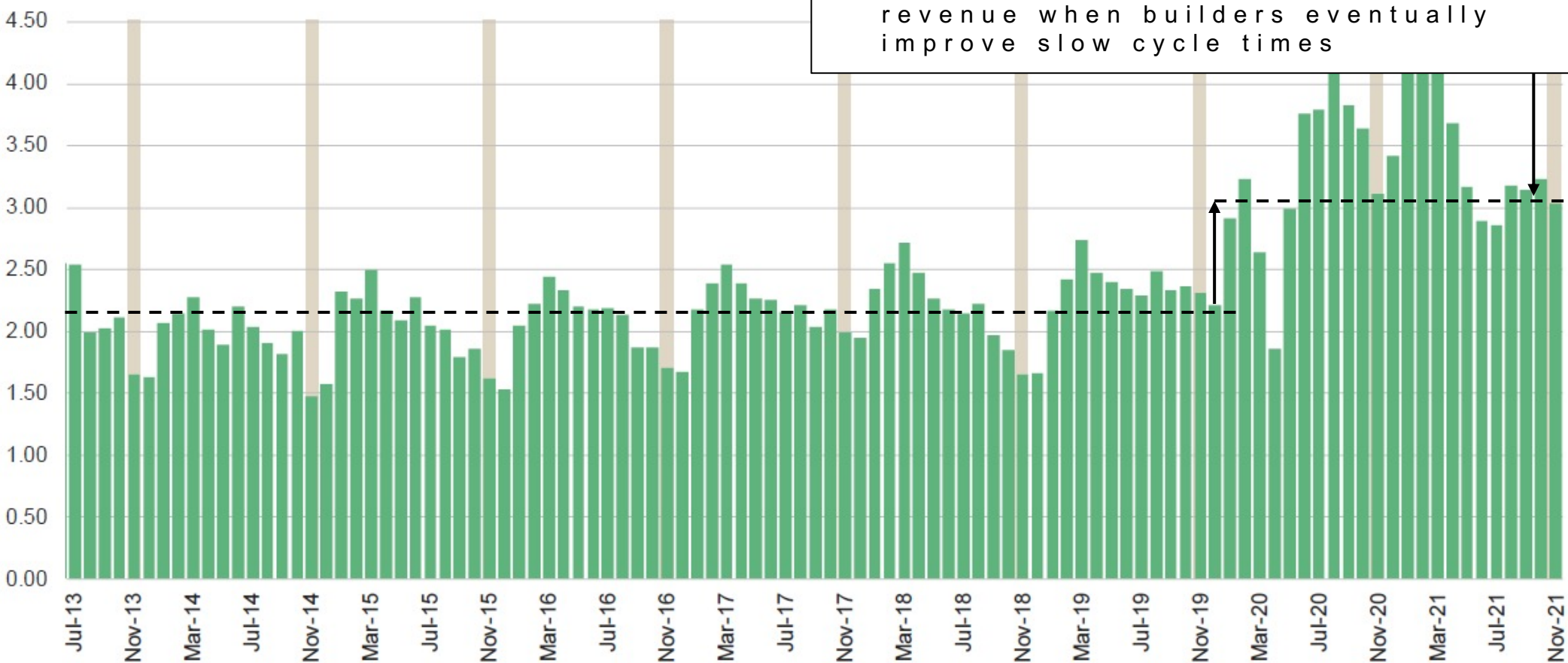
Weighted by single-family permits



Sources: John Burns Real Estate Consulting, LLC (Pub: Jan 2022)

New Home Sales per Community Running ~30% Faster Than Historical Norms, Supporting our View of Continued Tailwind for SF Starts (forecasted + 10% in 2022)

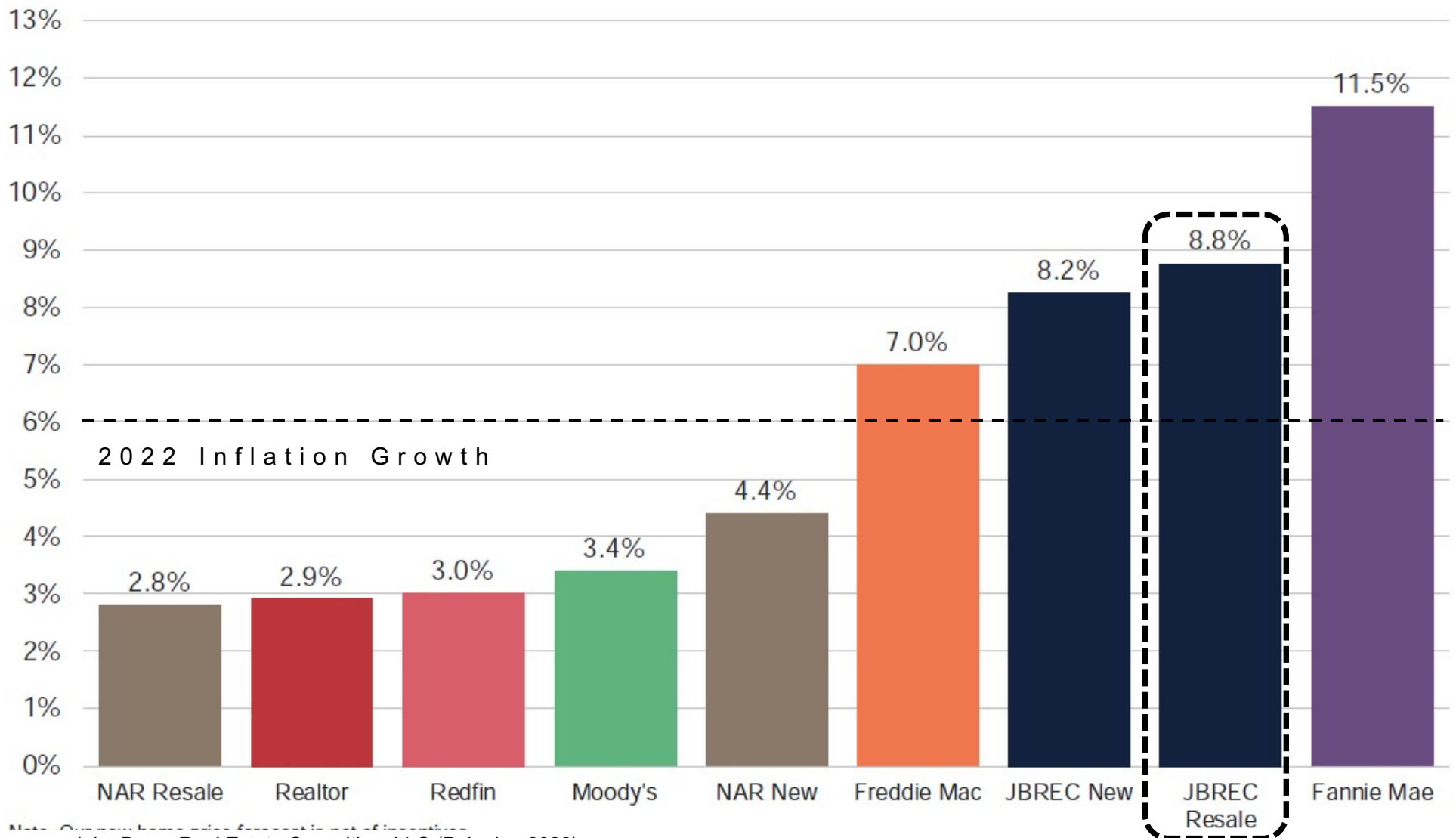
Average New Home Sales Rates per Community



Source: John Burns Real Estate Consulting, LLC forecasts (Data: Jan 2022)

~9% Home Price Appreciation is Expected in 2022, Faster than ~6% Inflation Pace, Implying Housing Will Continue to Gain Share of Consumer Wallet

2022 Price Appreciation

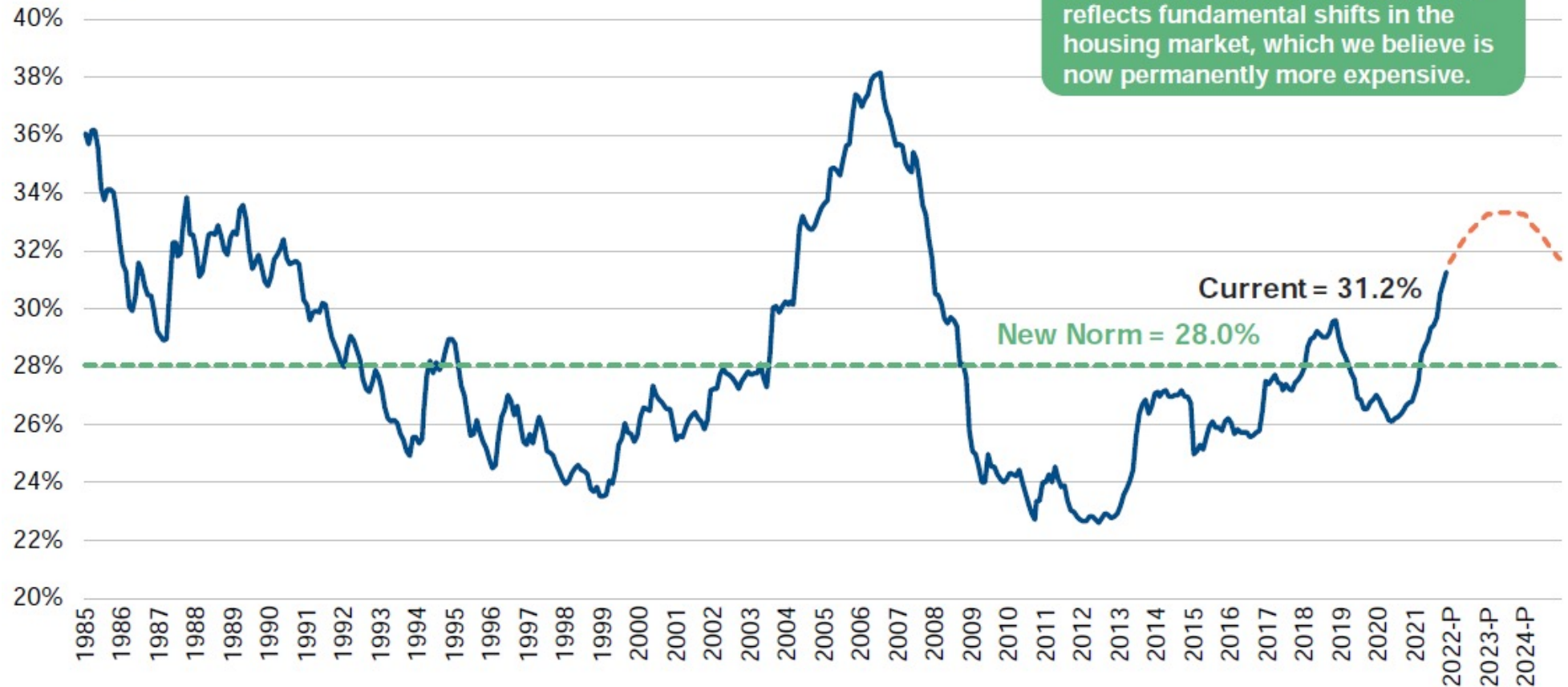


Note: Our new home price forecast is net of incentives.
Sources: John Burns Real Estate Consulting, LLC (Pub: Jan 2022)

Affordability Impact: Highest Cost/Income this Cycle, but Below Peaks from Early '80's and Mid-2000s

Burns Affordability Index

Housing Cost to Income Ratio



We calculate the housing cost to income ratio (HC/I ratio) by dividing the market's median monthly housing costs by 125% of the median income. Housing cost assumes the purchase of a home equal to the market's median-priced existing home with a 10% down payment and a 30-year, fixed-rate mortgage. Payment includes PITI (principal, interest, taxes and insurance) plus mortgage insurance. To determine the intrinsic HC/I ratio, we look at the long-term trend of the market's HC/I ratio, with an emphasis on recent history and our forecasts. This intrinsic adjuster (the spread between the intrinsic HC/I ratio and the historical median HC/I ratio) is representative of fundamental shifts in several markets we feel are now permanently more/less expensive due to increased/decreased demand or limited supply.

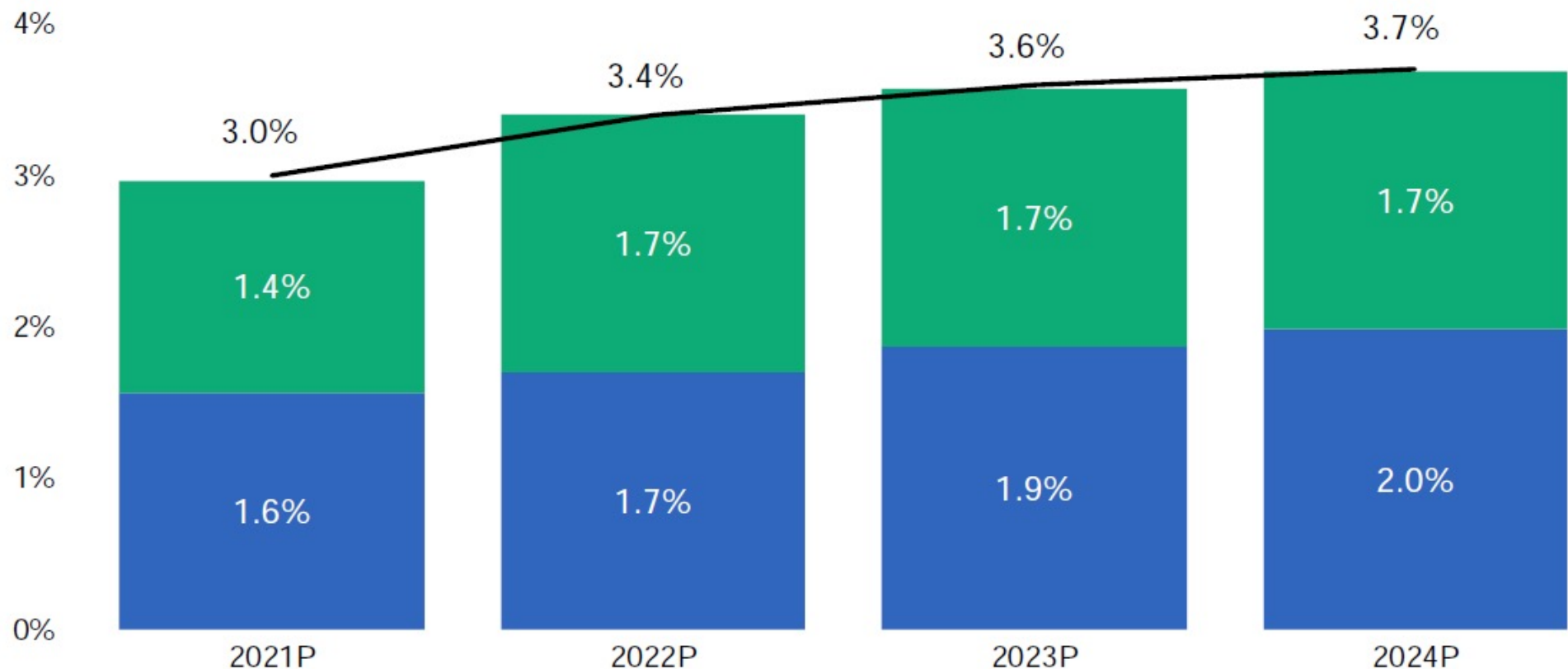
Source: John Burns Real Estate Consulting, LLC (Data: Nov-21; Pub: Dec-21)

Mortgage Rate Forecast: +40BP Higher Mortgage Rates in 2022, Based on 170BP Spread (Historically Low) Above 10-Yr Treasury

30-Year Fixed Conforming Mortgage Rate Forecast

12-month average

- 30-year fixed rate conforming mortgage spread
- Bond market 10-year Treasury expectations
- JBREC 30-year fixed rate conforming mortgage forecast

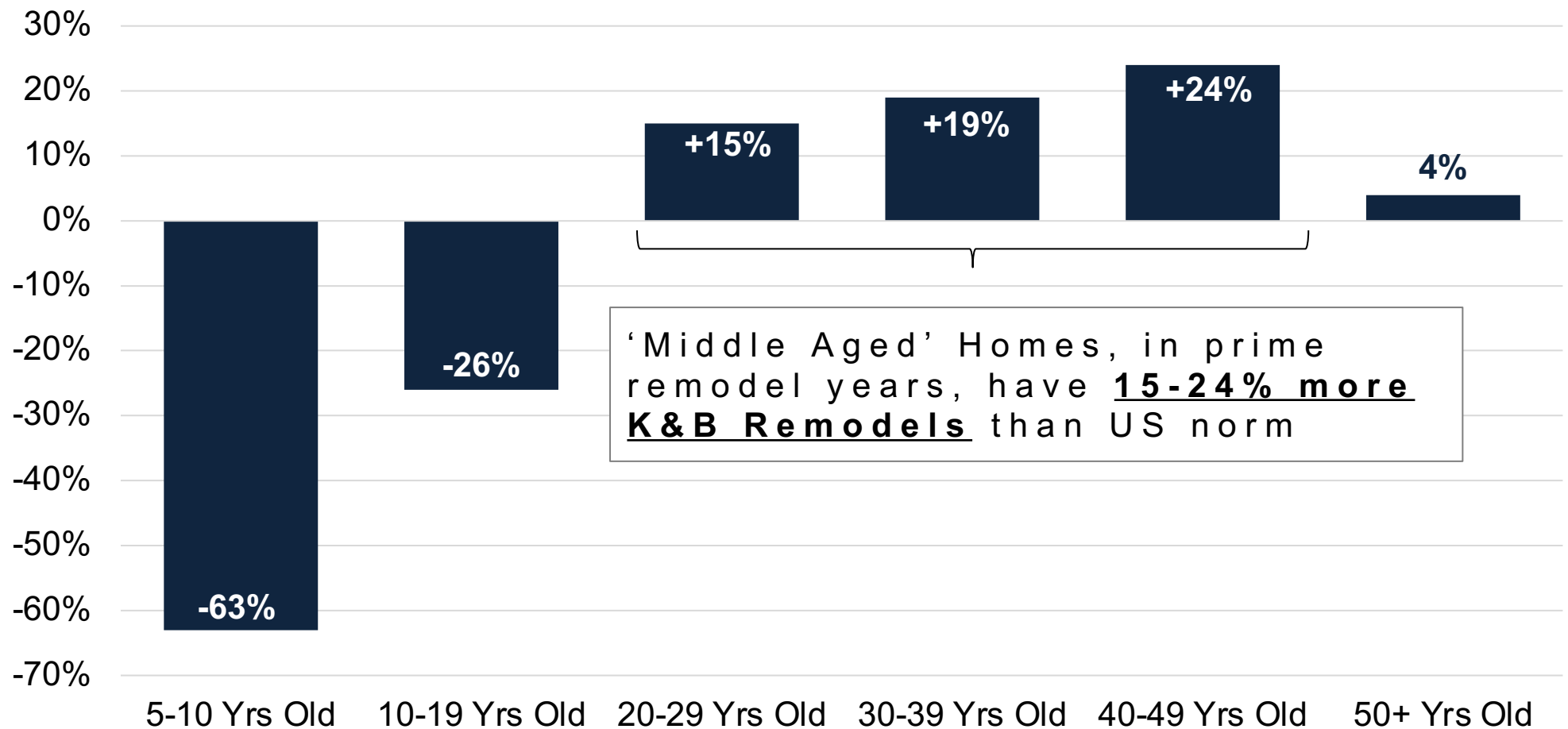


Note: The future spread for mortgage rates over 10-year Treasuries should be ~20-30 basis points higher than the historical 170 basis point spread for 3 reasons: 1) mortgage servicing compliance costs have risen ~25bps per year, 2) GSE mortgage fees have increased ~25 bps per year, 3) mortgage investing risk has increased as some liability shifts to mortgage owners, but has also decreased due to better documentation and an explicit government guarantee, so assume a negligible net effect. We are calling for slowing economic growth going forward, which should gradually drive premiums higher. The spread can vary widely over time for other reasons.

Sources: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Nov-21, Pub: Dec-21)

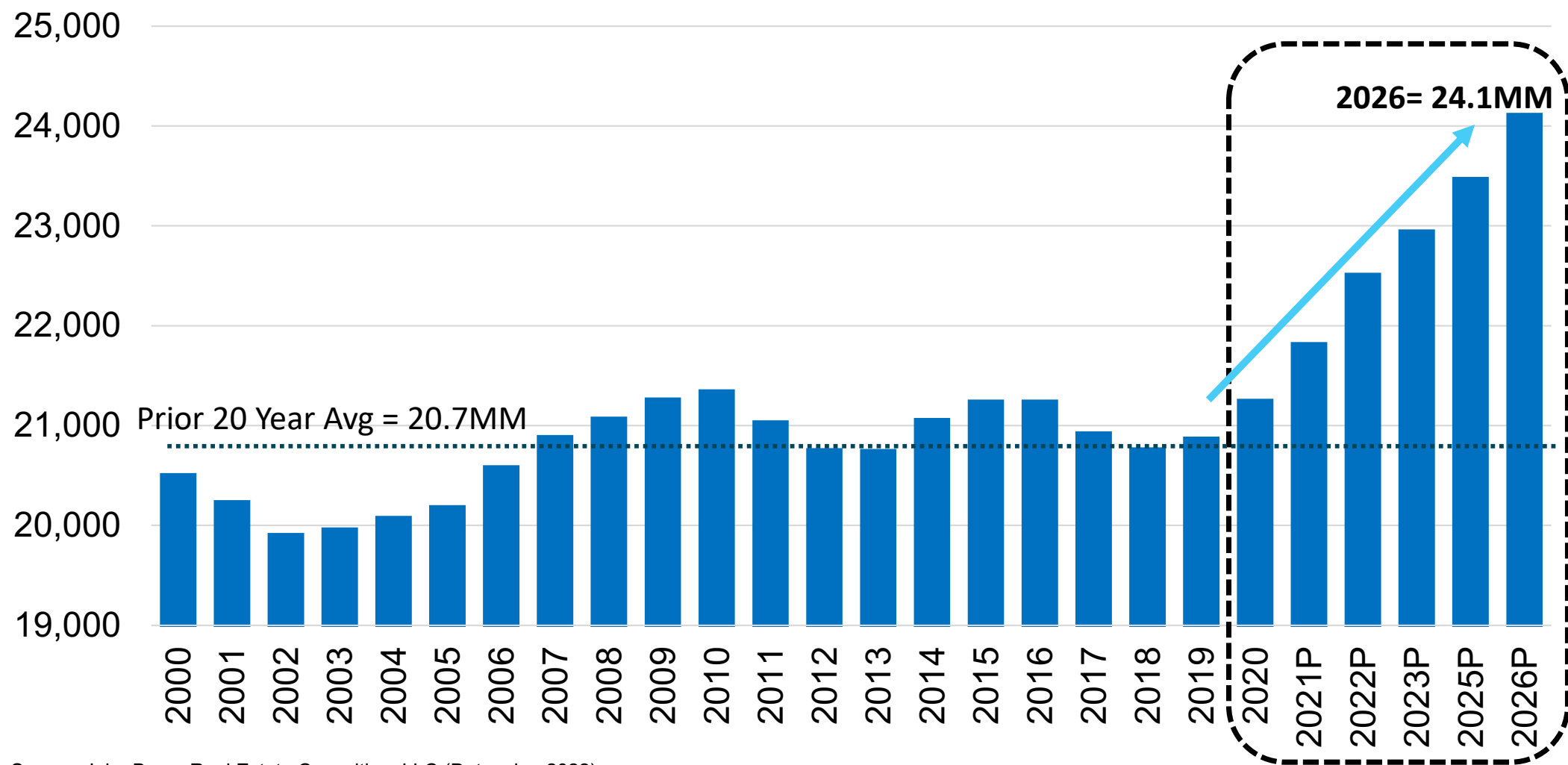
All Homes Built During Mid-2000's Housing Boom Are Now Ripe for Remodeling Starting in 2022

Impact of Age of Home on Kitchen & Bath Remodel Project Frequency vs US Norm



16% Growth in 'Prime Remodel Vintage' Homes Expected in 2020-2026: None of Which was Pulled Forward During initial COVID Remodel Boom

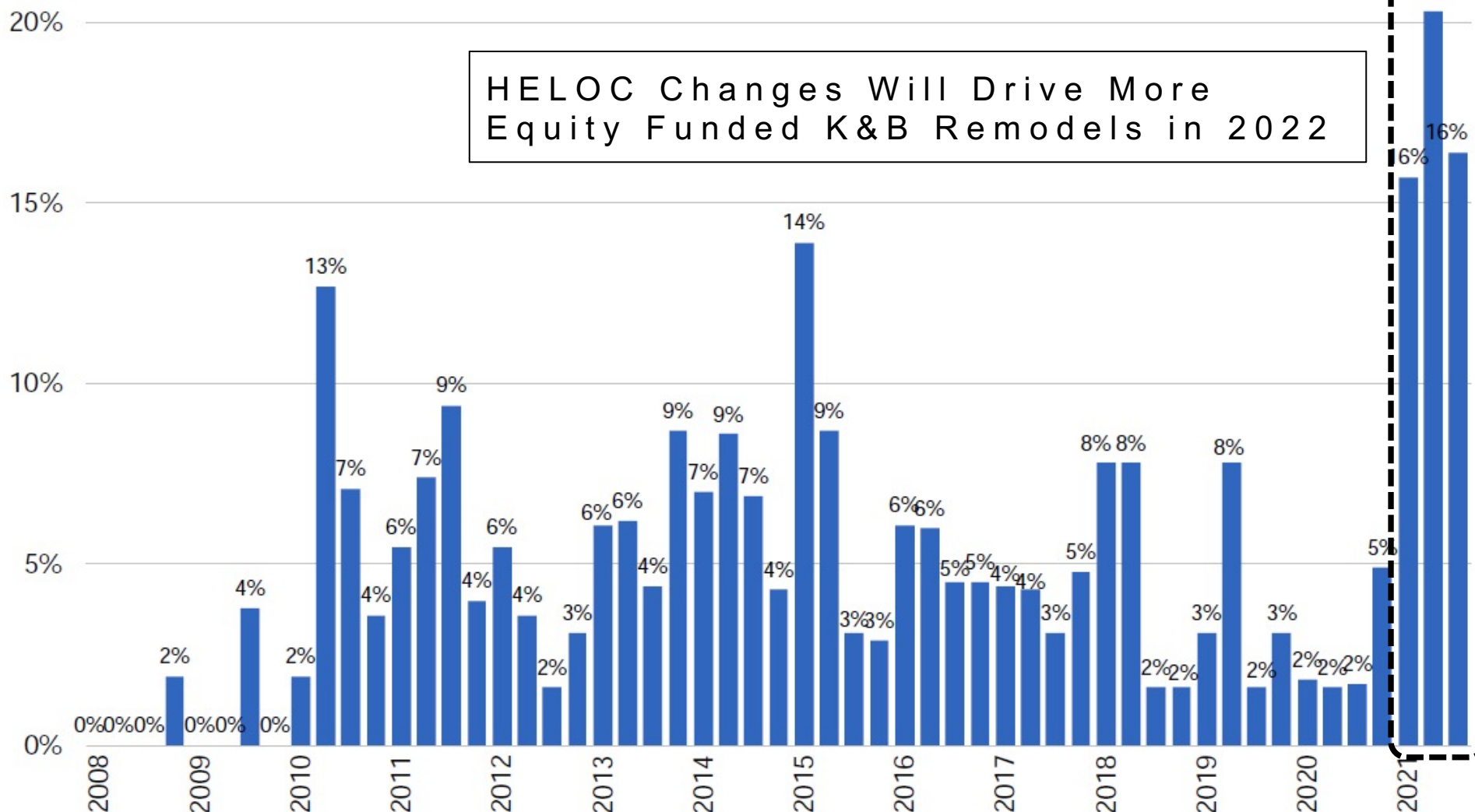
Single Family Homes in 'Prime Remodel Years' (Between 20-39 Yrs Old) - 000's of Units



Source: John Burns Real Estate Consulting, LLC (Data: Jan 2022)

Key to Watch in 2022: Banks Easing Credit Standards for HELOCs to Drive Origination Volume. Average Spend per K&B Remodel Grows by 2x+ When Financed by HELOC

Percentage of Banks Easing Credit Standards for HELOCs



Sources: Federal Reserve Senior Loan Officer Survey (big banks only); John Burns Real Estate Consulting, LLC (Data: 3Q21, updated quarterly†)

Pub: Dec-21

Industry Challenges: Labor Availability, Shipping Delays and Complex Supply Chain

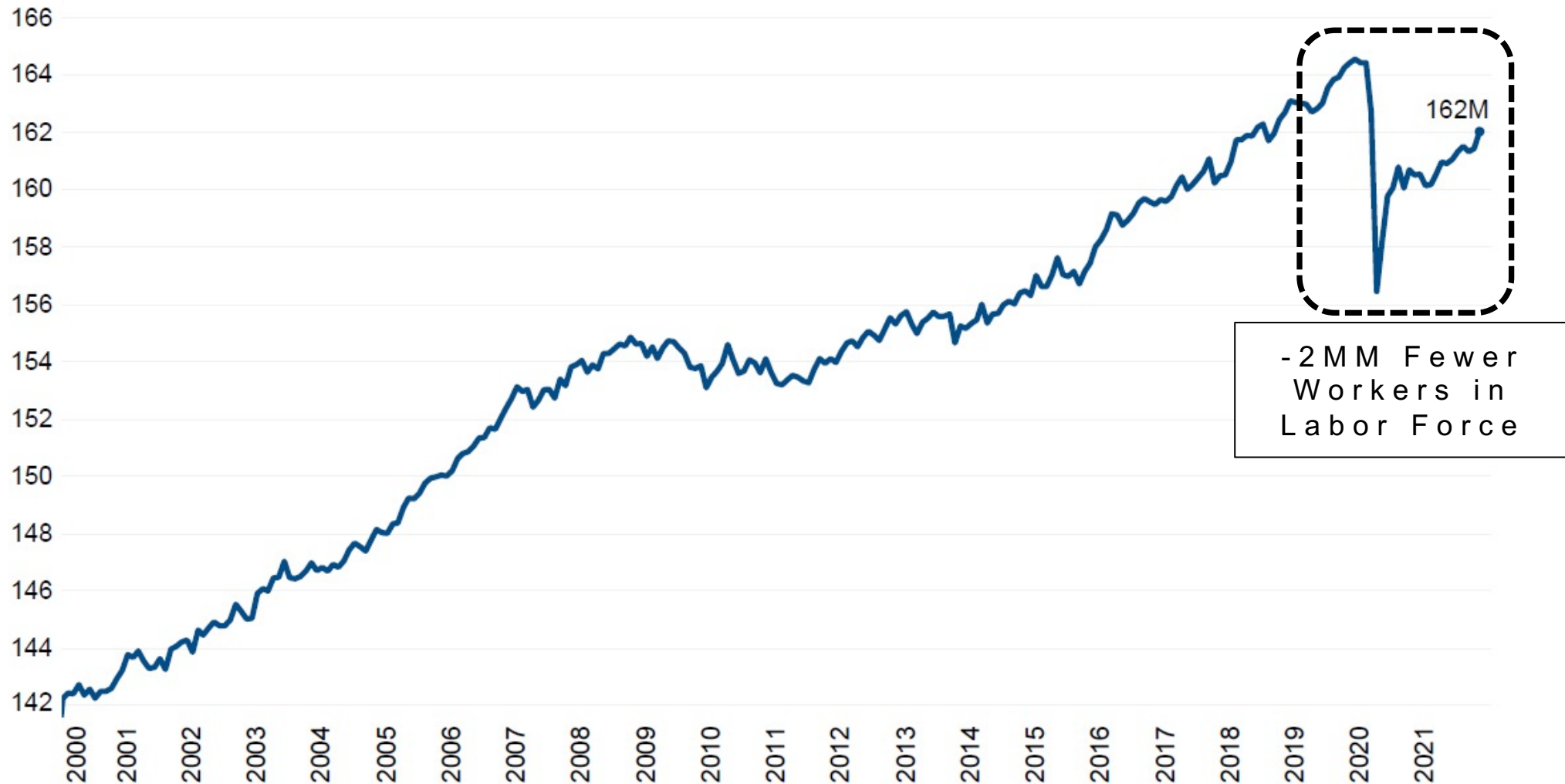


Challenge #1: Labor Availability

Fewer Workers With More Work to be Done: Recipe for Delays and Rising Prices for K&B Products and Construction

Civilian Labor Force Level

Seasonally adjusted, millions

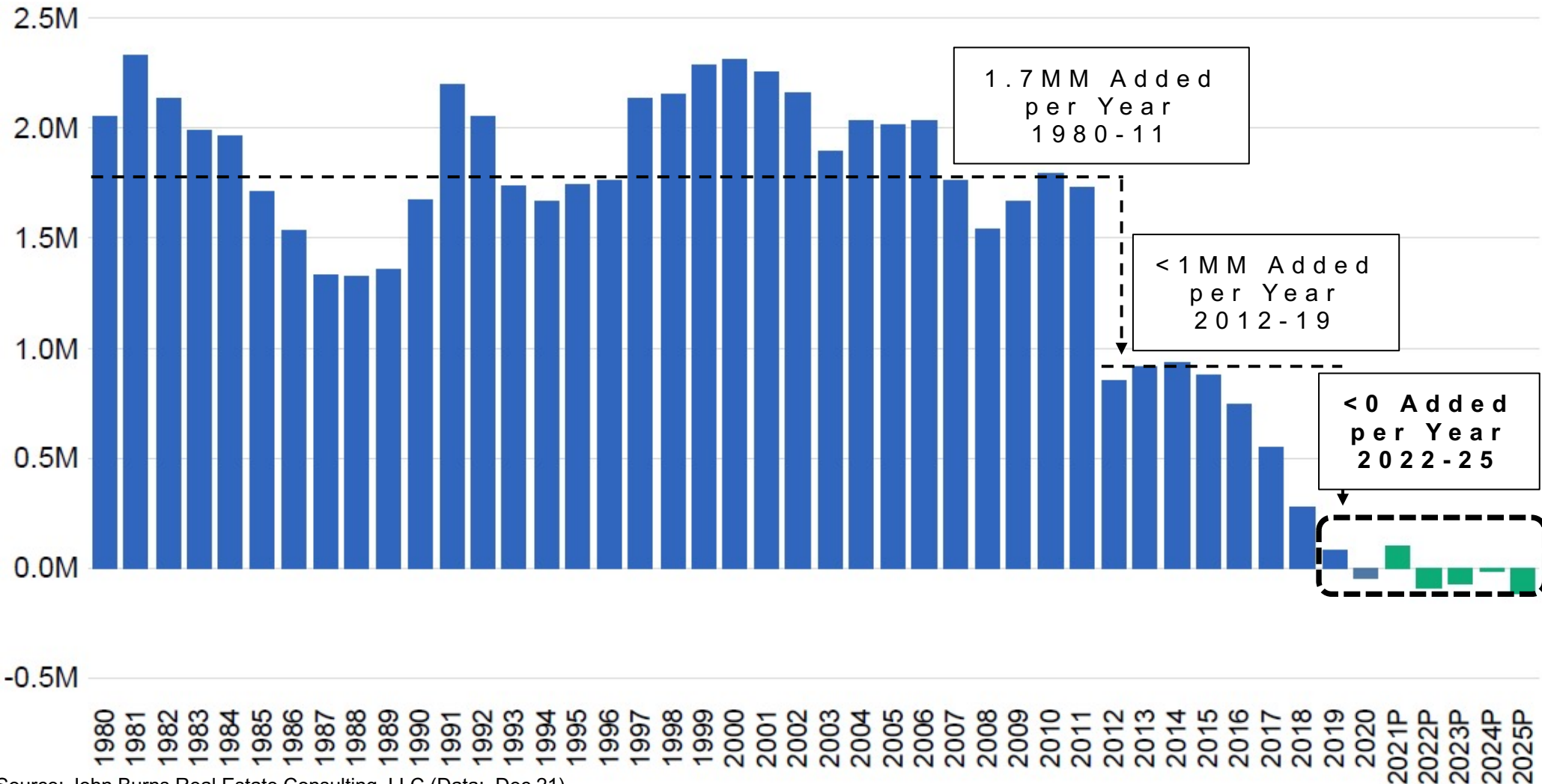


Sources: BLS; John Burns Real Estate Consulting, LLC (Data: Nov-21, Pub: Dec-21)

Demographics Shift Makes Adding Labor Exceedingly Difficult 2022-25, With No Growth in 20-64 Population

Growth of US Population Aged 20-64

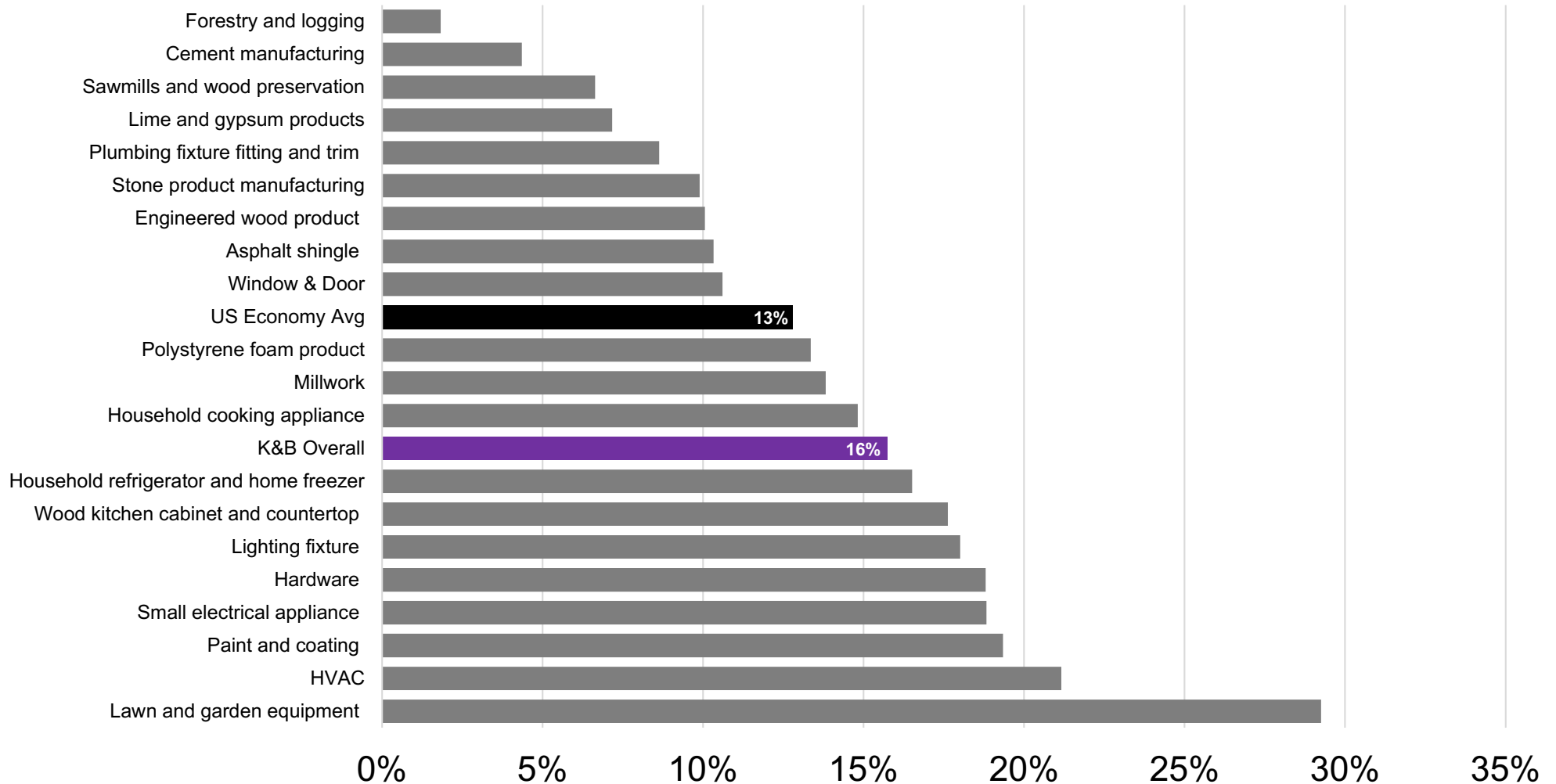
Millions



Source: John Burns Real Estate Consulting, LLC (Data: Dec 21)

Challenge #2: Kitchen & Bath Industry Slightly More Reliant on Imports than Overall US Economy, and Therefore More Prone to Shipping Delays

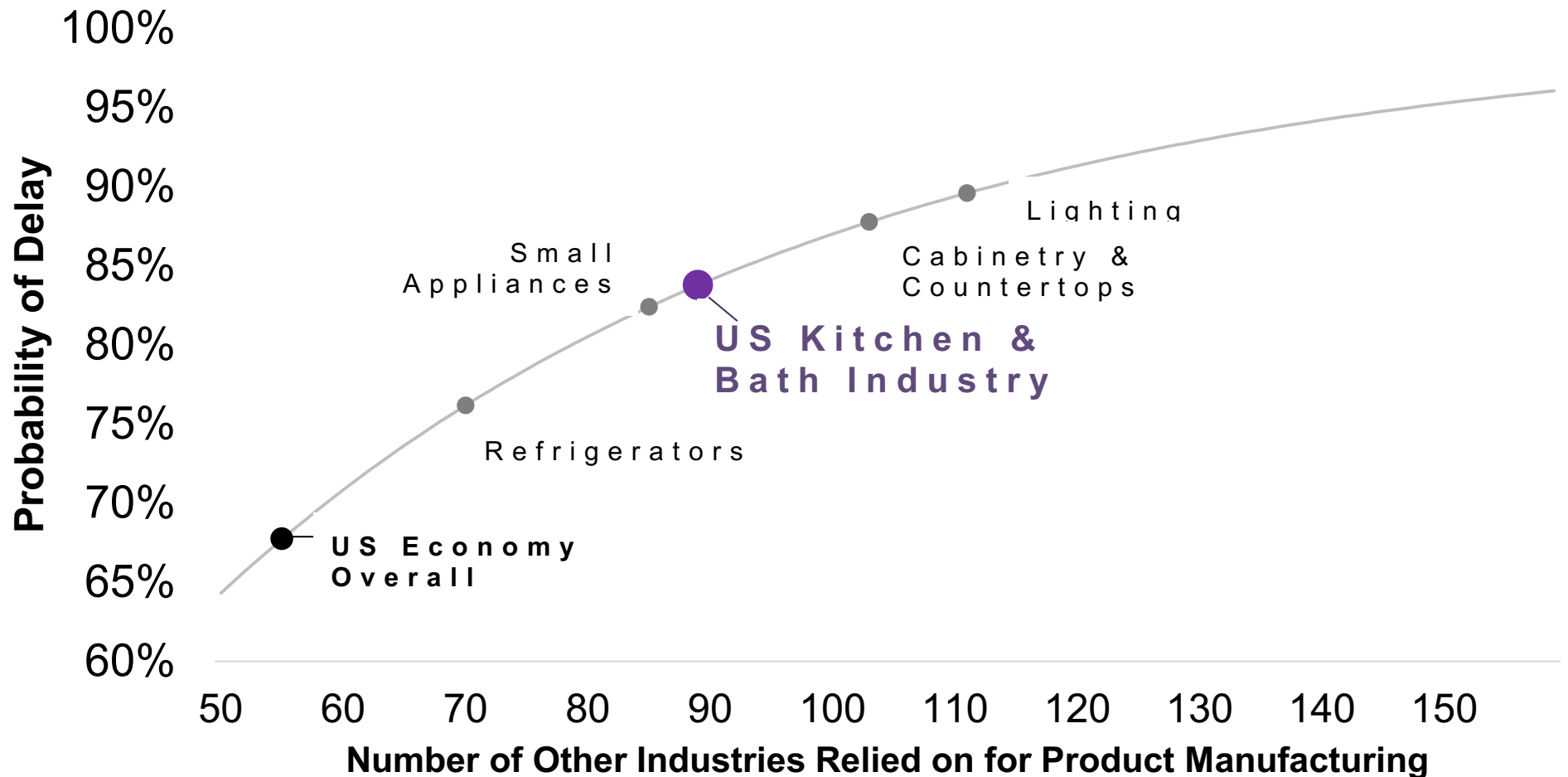
Import % of US Value Chain by Industry



Source: John Burns Real Estate Consulting tabulation of BEA data (Data: Jan 2022)

Challenge #3: Kitchen & Bath Industry Has More Complex Supply Chain than Most Other Industries – Resulting in Higher Likelihood of Product Delays While Waiting For Individual Players to Coordinate

Probability of Product Delays Based on Number of Other Industries / Commodities Required to Make Product

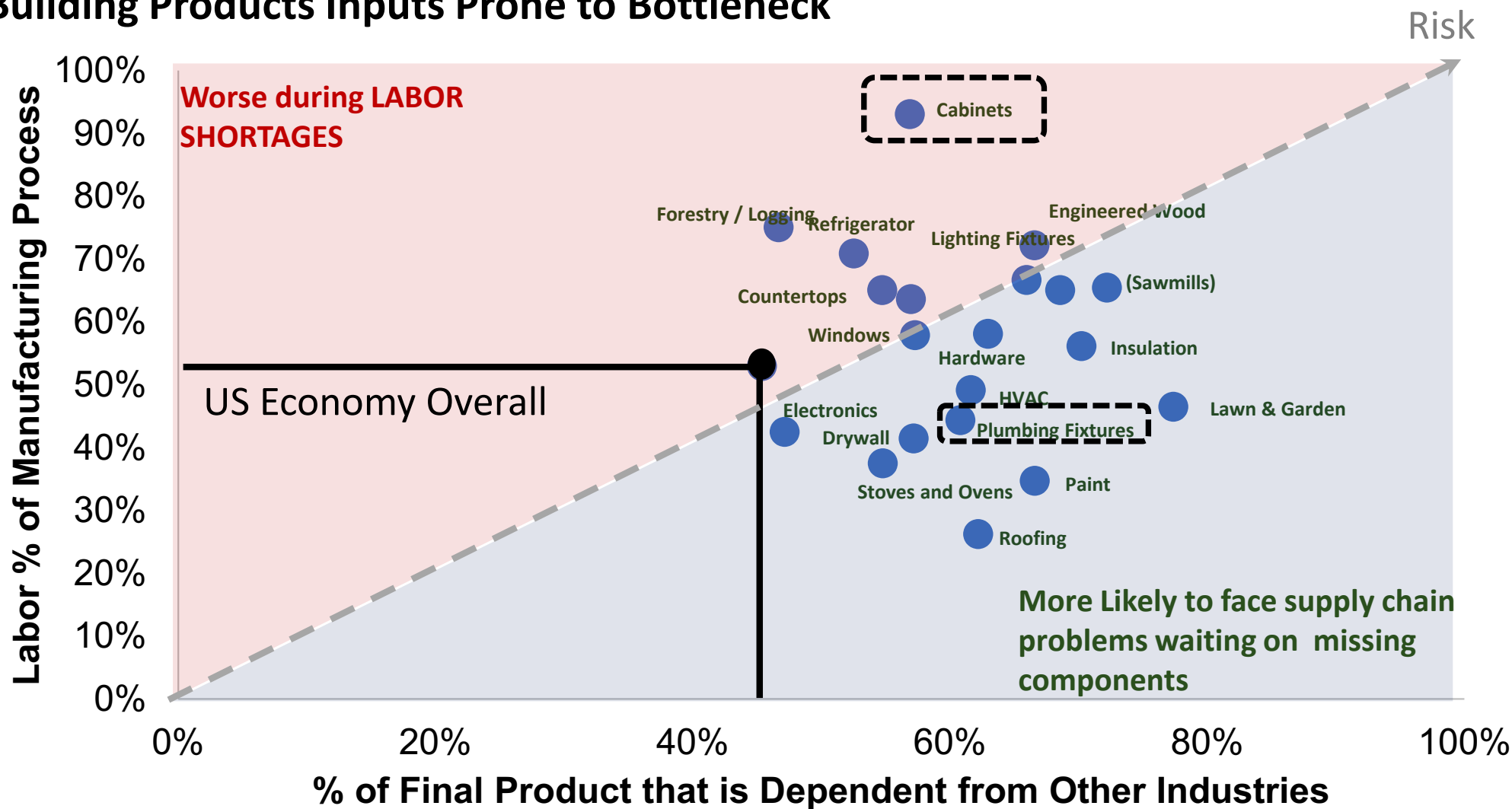


Source: John Burns Real Estate Consulting tabulation of BEA data (Data: Dec 21)

- This illustration demonstrates the cumulative effect of relying on numerous industries in manufacturing process. Delay probabilities are estimated using input/output data from BEA, assuming each individual industry has only a 2% likelihood of delay in 2022, but can have a larger cumulative effect when pooled together (P^n)

Bringing it Together: Eventual Supply Chain Improvements will Benefit Plumbing Fixtures and Appliances, but Cabinets Will Continue to Face Headwinds from Labor Constraints

Building Products Inputs Prone to Bottleneck



Source: John Burns Real Estate Consulting tabulation of BEA data (Data: Jan 2022)

Appendix

A modern, minimalist bathroom with a clean, white aesthetic. The space is defined by large, light-colored square tiles on the walls and floor. On the left, a freestanding white bathtub is positioned against a wall of tiles. To its right, a glass-enclosed shower area is visible. In the foreground, a white vessel sink sits on a long, white vanity unit. Above the sink, a large, rectangular mirror is mounted on the wall. The overall design is sleek and contemporary.

Detailed Methodology

New-Construction: John Burns Real Estate Consulting (JBREC) analyzed construction costs for new-construction spending by category within new home kitchens and bathrooms. Homes were segmented by size and price point. Due to regional differences in home price points, segmentation was conducted by nine census divisions, then rolled up. All figures include both products and labor (installed costs).

Kitchen and Bath Remodel: Spending values are JBREC calculations from tabulations of U.S. Census American Housing Survey home-improvement projects microdata, NAA spending (rental), JBREC home-improvement estimates, and forecasts of single-family rental renovation spending. All values include labor and materials, including all major elements within kitchen and bath spending (plumbing fixtures, faucets, tile, vanities, countertops, lighting, showers and baths, etc.).

To better understand renovation behavior of large single family rental operator, JBREC conducted a survey of the largest SFR landlords, including executives from 11 of the largest SFR operators (these are the largest players who are remodeling at scale)

JBREC also cited research previously published earlier in 2021 by NKBA, as it clarified buyer choices for homeowners: To better understand project activity in-light of COVID-19, a total of 4,732 online surveys were conducted in mid-Nov of 2020 among homeowners who had initiated a home improvement project since the start of the COVID-19 pandemic.

- Target household income distribution to approximate AHS 2019 survey of homeowners
- Target household head age distribution to approximate AHS 2019 survey of homeowners

Respondents were represented across four noncontiguous U.S. regions as defined below:

- **Northeast:** Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, New Jersey, New York, Pennsylvania
- **Midwest:** Indiana, Illinois, Michigan, Ohio, Wisconsin, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
- **South:** Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, Alabama, Kentucky, Mississippi, Tennessee, Arkansas, Louisiana, Oklahoma, Texas
- **West:** Arizona, Colorado, Idaho, New Mexico, Montana, Utah, Nevada, Wyoming, Alaska, California, Hawaii, Oregon, Washington

Source: NKBA/ JBREC Online Survey Panel; n=4,732

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.