

SMARTER PERSPECTIVE: HOME FURNISHINGS

Home-Centric Consumers Adopt New Habits, Continue to Drive Market Forward

By Matt Perry

In this article we look at how the pandemic has shaped demand and consumer purchase behavior in the home furnishings market, and provide our perspective on expected developments across the supply chain that are likely to impact the industry over the final two quarters of 2021.

For well over a year, the realities of the pandemic have dictated the need for people across the globe to spend an unprecedented amount of time living, working and recreating from their homes. Only now, as late summer approaches are we witnessing a return to some semblance of normalcy. Yet, with the recent emergence of the Coronavirus Delta Variant here in the U.S., we may not be quite out of the woods.

Without question, COVID-19 has been a literal shock to the system. As government ordered restrictions and lockdowns limited our ability to spend time with friends, work from traditional offices, dine out at restaurants, frequent bars, and escape via the traditional pleasures of travel, certain decisions were forced upon us. Principal among these was the need to shift our behavior as consumers and our expectations of how goods

and services would be accessed and provided for the foreseeable future. While much has been written about the evolution of the retail environment overall during COVID-19, we will focus here, more specifically on the home furnishings industry and how what may have been envisioned as short-term adjustments to this market would now appear to be longer-lasting shifts that may, in fact, become the new norm.

For the better part of a year, U.S. consumers adopted a new way of living that has focused to a large extent on the space contained within and just outside the walls of their homes. New and existing home sales are a traditional driver of home furnishing purchases and although housing starts decreased somewhat in the early months of this year, those figures are expected to increase by between 8% and 10% year-over-year by the end of 2021.

U.S. Home Sales (in thousands)



Source: U.S. Census Bureau

With “virtual” becoming the watchword of the year, and our homes transitioning by necessity to become workplaces, schoolrooms, social gathering backdrops, gastronomic creation stations, and family/“pod” gathering places, people took to enhancing the spaces associated with those activities. And why not? With few, if any, entertainment or travel outlets upon which to spend discretionary income, the ratio of funds to income available for such use dramatically increased during the period. This was true not only for wealthy consumers and those who maintained employment, but also the case for many who were recipients of unemployment payments and stimulus money throughout this period.

Studies over the years have drawn a correlation between the cathartic nature of interior decorating and positive mental health, so it isn’t surprising that amid the pressures of a global pandemic, so many homeowners and renters looked to update home furnishings as a means of improving how they felt about the spaces in which they were now relegated to living, working, schooling and creating their own forms of built-in entertainment. As consumers have taken to sprucing up these areas, and in some cases even renovating their homes altogether, the home furnishings market has experienced strong sales, with online retailers including Amazon reporting record growth in furniture sales over the past year. Both online and at brick-and-mortar retail, popular items have ranged from cheerful rugs, lamps, pillows and artwork to expanded living area and kitchen seating, upgraded patio furnishings and more ergonomic home office/virtual schooling desks, chairs and task lighting. Some companies, such as Alphabet Inc’s GOOGL.O even reimbursed employees up to \$1,000 to equip their own home offices.

The realities of the pandemic have caused certain shifts in buying behavior that many experts believe will persist well into the future. Primary among these has been an acceleration in the adoption of online purchasing among consumers. Driven by necessity as non-essential stores temporarily closed to the public, home furnishings consumers

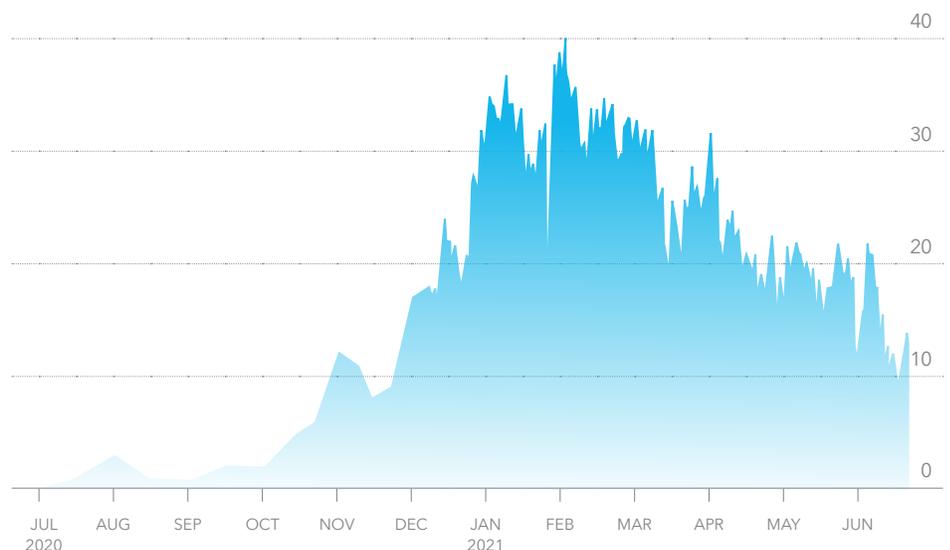
have now become much more accustomed to buying online and either having their purchases delivered directly to their home or picking them up in-store (BOPIS). While not all home furnishings retailers pivoted their business models and online presence in a timely manner to embrace this evolution, most larger operations did and were able to capitalize on the shift.

Along with elevated consumer demand during the pandemic, material costs on everything from the lumber, foam and springs used in many furnishing products have seen significant increases, although lumber has now begun to somewhat normalize. This, combined with factors including added unemployment payments based on COVID-19 driven layoffs and shipping delays stemming from lack of available containers and the ongoing truck driver shortage, put significant strain on the industry. In some cases, the associated increased costs are being passed along. More often than not, however, they are being absorbed by retailers and, in some cases shared by manufacturers themselves, to preserve long-term customer relationships.

With many employees less than motivated to return to work, and social distancing requirements persisting on existing production lines and across the supply chain, satisfying consumer demand continues to be difficult. Leading export countries for furniture and textiles worldwide such as China, Germany, Italy and Vietnam—which in 2019 averaged between 20 and 40 days for shipping—have now increased to closer to 60 days. And when product does get into a container and on a boat, port worker shortages in the U.S. and elsewhere are further delaying the offloading of product. As La-Z-Boy CEO Kurt Darrow recently explained to the Washington Post, many of its customers are now experiencing timeframes of between five and nine months to receive their orders. Other companies and consumers, themselves, report similar delays and frustrations. As a workaround, some in the industry have taken to air freighting product or even maneuvering their product onto vessels containing medical and other high-priority items in an effort to get them on shore and offloaded faster.

Choke on the Water

Bottlenecks at key West Coast ports have lingered since November



- Number of anchored container ships waiting to offload at L.A.-Long Beach

Conclusions

Based on what we have been hearing from many of our industry procurement contacts, inventory levels and delivery timeframes are expected to normalize somewhat across Q3/Q4 2021. This, of course, assumes that the previously referenced Delta Coronavirus Variant does not escalate significantly, outbreaks on shifts dissipate, and a lack of further government stimulus motivates more workers across the supply chain to return to work.

Given current forecasts for new and existing home sales, we expect to see continued strength in the home furnishings market through the end of the year and into early 2022. For homeowners and renters alike, COVID-19 has created an increased emphasis on resource optimization, with sellers reporting increased buyer demand for furnishings that are more multi-function in nature. This includes a preference for lighter weight and more configurable furnishings such as breakfast counters on wheels that can also serve as a home office desk for work or study and living area furnishings that can be moved to make space for home exercise or child playtime. With many employers now indicating their plans to build work-from-home components into their long-range plans and many workers enjoying the flexibility of home-based offices, strong demand for these adaptable furnishings should continue well into the coming year and potentially beyond.

While the home furnishings industry can generate strong margins leading to high gross recovery values on cost, we encourage lenders to pay special care during this transitional period to 1) understand the specific impacts COVID has had on the operation of those businesses within their portfolios; 2) ensure they familiarize themselves with the promotional strategies and promotional cadence currently being utilized by their retail borrowers and the effectiveness of those approaches and; 3) become knowledgeable about both the amount and mix of inventory at retail and in warehouses to better gauge potential recovery values. What percentage of product, for example is first quality vs. non-first quality? Broken lots, showroom displays, and unmatched sets will most certainly recover at lower values and should be valued accordingly.

Throughout the pandemic Hilco has remained actively engaged with customers, performing valuations and associated diligence to determine NOLV for a multitude of businesses, both large and small, across the home furnishings industry. Based on this work and daily interaction with our many contacts and partners across the market, we welcome the opportunity to share insights that can be of value to your company or institution as the market begins to normalize. With this in mind, please reach out to us if we can be of assistance. We are here to help!

ABLs and manufacturers alike have achieved a high level of success across the home furnishings and numerous other industries in partnership with Hilco Valuation Services, based upon our disciplined process, industry-leading bench strength, systematic and highly collaborative approach. This success is a testament to our commitment to excellence. By understanding past cycles and performance, documenting historical data points across the sectors and industries, and continuously exploring and assessing the path that is being paved ahead, Hilco Valuation Services consistently delivers reliable, accurate and actionable valuations for our valued customers.

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With over 18 years of appraisal experience, he applies his extensive knowledge to assist Hilco clients in determining highly accurate net orderly liquidation value (NOLV) for their business assets. Among broader valuation work, Matt has appraised numerous furniture and home décor manufacturers, distributors, and retailers across North America. Matt holds a Bachelor of Science in Business Administration (BSBA) degree in Accounting from Suffolk University in Boston, MA. Contact Matt at mperry@hilcoglobal.com or 617.312.2750.



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