



nerej

Construction industry forecast: Cloudy with a chance of sun - by Lisa Andrzejewski

January 22, 2021 - Connecticut

Although 2020 was a year of change and uncertainty, the construction industry adapted. Demand increased in certain industry segments, such as medical and transportation, which continued to offer a high volume of work, but was reduced in others that were shuttered by the pandemic, like dining and fitness facilities. The pandemic's impacts on our industry were substantial and unevenly spread, but most commentators agree that an industry-wide recovery will occur – however, a question remains as to whether it will be in 2021, or later. Until then, it appears that the impacts of a number of industry-wide 2020 issues will continue into 2021:

COVID-related Cost Impacts. COVID-19 health and safety protocols remain a necessity. Contractors continue to bear increased costs associated with personal protective equipment (PPE), increased on-site sanitary facilities, and reduced productivity due to social-distancing measures. In August 2020, The New Horizons Foundation, the research arm of the Sheet Metal & Air Conditioning Contractors' National Association (SMACNA), reported that its members experienced a 17.9% productivity loss since the pandemic began, resulting in a 7% financial loss for the average project. Additionally, in an eight-hour day, the average worker lost 85 minutes of productive time complying with protocols and requirements. With vaccines, the inefficiencies and added PPE costs may decline. Furthermore, as the national safety protocols begin to stabilize, contractors and owners may be able to better estimate and plan for monthly compliance costs.

Construction Hiring. The Associated General Contractors of America and Sage Construction and Real Estate recently published a report entitled The Pandemic's Growing Impacts on the Construction Industry: The 2021 Construction Hiring and Business Outlook Report, which reviewed construction hiring trends for 2021. Due to the large number of projects cancelled and not rescheduled, only 35% of firms plan to add staff in 2021, while 24% plan to decrease headcount. The future looks brighter in the southern United States, where 39% of firms expect to add employees, which is more than double the number that expect to downsize (17%). By contrast, the outlook in the Northeast is nearly opposite. Less than 25% of construction firms expect to increase staffing, while 41% expect reductions. The timing is uncertain regarding when the relative optimism for staffing in the South will spread to New England.

Supply Chain Impacts. The U.S. Chamber of Commerce Commercial Construction Index Q4 2020 reported that material shortages in 2020 impacted costs and lead times. Softwood lumber was the most cited material shortage, followed by steel and electrical supplies (excluding copper wire) and lighting fixtures. While the availability of these materials is beginning to recover, it has not reached

pre-pandemic levels. That said, the pressures of supply chain issues and explosion of e-commerce are generating new demand for construction of warehouses and distribution facilities.

Transportation and Infrastructure Opportunities. Following 2020's relatively strong year for transportation and infrastructure construction, this demand may continue.

In July 2020, the House of Representatives passed the Moving Forward Act, which provides more than \$1.5 trillion in federal spending across a range of infrastructure areas, including surface transportation, water, aviation, broadband, healthcare, and energy. The act, which is awaiting vote by the Senate, will likely be supplemented by President-elect Joe Biden's Build Back Better Plan (the Plan). A portion of the Plan's \$2 trillion dollar investment is earmarked for infrastructure for pedestrians and bicyclists and the installation of light rail networks to improve existing transit. Additionally, the Plan envisions growth in private commercial and residential sectors for energy efficiency and sustainability.

Although the timing is uncertain, the construction industry shows resilience and is positioned to fully recover. The adaptation to changing demands and workplace standards, construction in new industry areas, and the potential for renewed federal investment are all factors which signal the coming of sunnier days for the industry in the near future.

Lisa Andrzejewski is a construction attorney with Robinson+Cole, New York, NY.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540