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Pandemic puts Northeast Ohio commercial building market's future on pause

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Concerns of Northeast Ohio construction contractors shifted to worry about the availability of future work as the pandemic, and the effort to fight it, crippled the economy last spring.

That's according to the 2020 survey of the industry by the Marcum LLP accounting and business advisory firm's Northern Ohio office.

Roger Gingerich, Marcum's Mayfield Village-based Midwest construction leader, and his staffers saw top concerns realign in March as they conducted this year's survey, so they kept track of how they changed. The final third of respondents cited availability of work as a top concern, followed by the outcome of the presidential election, pushing worry about availability of skilled labor from the top place.

"I'm confident that if we were to do the (entire) survey today, the top concern would be about finding work," Gingerich said in an interview. "I have talked with large general contractors in our market, and they are already seeing competition for projects rise. I think the pendulum has switched to concern about availability of work."

He said it reminds him of when the local Marcum office, then called Skoda Minotti, launched the survey in 2008 in the Great Recession.

However, when the company computed all the regional results this year, the availability of skilled labor continued to be the top concern of 38% of respondents as it has the past few years, followed by availability of work, 17%, and the election, 16%.

Gareth Vaughan, president and CEO of the Albert M. Higley Co. of Cleveland, said in an interview, "We are not seeing as many opportunities as we would like for 2022 and 2023. We should be winning work for late 2022 now. In addition to the pandemic, I do

think a lot of people have a wait-and-see approach until after the election, regardless of which candidate they hope wins."

Vaughan said the construction general contractor has a strong backlog — work won but not started —and won't feel the pinch from the changing outlook for about two years.

Most of the industry shared that positive outlook. Indeed, a majority of survey respondents began 2020 looking forward to a better year in terms of backlog than last year.

By the numbers, the survey reported 24% said their backlog was more than 15% ahead of what it was in 2019, while 20% said it was below 15% better than the prior year. And 30% said their backlog at the beginning of 2020 was about the same as the prior year. Respondents starting 2020 with smaller backlog were clearly a minority. Just 26% of respondents started 2020 with lower backlog than the prior year.

The number of companies fighting to land the same project is a key indicator of the construction market's condition. The Marcum survey found that 55% of the respondents are seeing an average of one to four bidders, and 39% are seeing an average of five to nine bidders.

In a reflection of how rosy the construction market has been — primarily due to commercial construction linked to apartments, industrial warehouses and schools — 37% of respondents reported they were bidding on larger projects the last year, while 61% found the project sizes were about the same and just 2% said the projects were smaller.

Even before COVID-19 struck, construction contractors were worrying about the potential of a recession, Gingerich said.

"The data shows that clearly the mindset changed with COVID-19," he added. "There is more pessimism, and plans for spending dropped significantly."

Builders also are focusing on the things that they can control while managing the market's decline, which they cannot. The top priorities of companies are strategic planning, cited by 51%; organizational planning and finding solutions for skilled labor, both 48%; reorganizing for growth, 35%; and cutting operating costs, 34%.

The Marcum survey also shows where contractors are putting most of their efforts to recruit more workers for their companies and industry.

The largest percentage, 56%, are increasing pay, followed by 47% having employee recognition and appreciation programs, and 34% partnering with employee recognition and appreciation.

Marcum also took advantage of circulating its survey amid the pandemic by asking how construction contractors were coping with it. About 33% of the survey's respondents provided an answer.

The largest step was applying for the U.S. Paycheck Protection Program, 73%, followed by exploring their business interruption insurance for pandemic coverage, 45%, and seeking aid under the Economic Injury Disaster relief program, 36%.

About 18% noted they cut staff. Just 9% stopped paying rent, and none said they stopped loan payments.

Marcum's survey covers a broad range of the multifaceted construction business, but 47% of the respondents are subcontractors and 41% are general contractors.

Gingerich reflected on what's best for construction companies to do in this crisis based on his 27 years of experience providing accounting and advisory services for the industry.

"The construction industry is resilient," Gingerich said. "The key for contractors is going to be how they manage their overhead, how their jobs perform and how they hit their margins. They need to handle it so they are healthy when we come out of this and are not absorbing a lot of losses when things improve. It will happen."