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Contractor concerns climb as COVID-19 roils the market

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Backhoes may have kept digging, nail guns shooting and structural steel rising as builders worked through the pandemic. But getting construction jobs done required lots more juggling.

That's the upshot of the annual Marcum accounting and advisory firm's survey of construction company owners. Respondents to the survey remain optimistic but are scrambling with new worries about the volume of future construction and signs of a suddenly more competitive market.

Bobby Krueger, president of Krueger Group, a Cleveland design-build construction firm, said the company's building projects for nonprofit groups dried up but are coming back.

"We learned a lot in the pandemic," Krueger said. "Material was not a concern in years past. It is now. The volatility of lumber was significant. There are supply chain hiccups. We used to order roofing 30 to 60 days out. Now it's six months. In building, you have to rely on things you can't control. You've got to show up, put the time in and figure it out."

Marcum's survey showed dramatic changes between its 2020 report, a survey through the first blush of the pandemic, and 2021, as the scourge entered its second year.

Concerns about lack of work climbed to 29% as the biggest threat to respondents' business, from 17% in 2020. Just 12% cited it as the biggest threat in 2019, before the pandemic hit.

"We have a pre- and post-pandemic market," said Roger Gingerich, Midwest construction leader in Marcum's Solon office. "It's fascinating. 2020 was

poised to be one of the biggest years for construction since 2008 (the start of the Great Recession). Now they worry about the size of their backlog. Margins are thinner. More contractors are bidding for the same jobs."

Contractors are hungrier for work, especially those who bid for jobs rather than rely on relationships with customers. Marcum noted 17% faced 10 or more bidders on average, the most since 2011, compared with 6% in 2020.

One reason for more bidding competition is that many contractors report their backlog —construction jobs they know they have won that have not yet started— is below 2019's level. Nearly half of respondents in Northeast Ohio expect the 2021 backlog to be lower than a year ago. Just one-third of respondents in the region expect it to be higher.

Against that backdrop, more construction companies are watching their spending on overhead expenses or new equipment. In Northeast Ohio, 31% said overhead increased, down from 52% a year ago.

Worry about the supply of skilled labor remains a concern, though it slipped to second place after availability of work as a threat to business. In 2021, 24% of respondents worried about securing skilled labor, compared with 38% in 2020. More than 50% of respondents annually the three prior years, from 2017 to 2019, were citing worries about the lack of trained construction workers.

Reflecting the staggering run-up of steel, rising and then falling lumber prices and others, 15% cited material costs as a threat to their business, up from 9% a year earlier. It was never cited as a concern by more than 10% since 2009, and for a few years just 3% of respondents saw rising prices as a worry.

"It's the most challenging aspect of the business today," said Peter L. Snavely, a vice president of Chagrin Falls-based Snavely Group, a construction and realty development firm. "It does not sound like price increases will slow down next year."

Gingerich said it's a time for construction business owners to be cautious.

"Contractors are notorious for aggressive pricing, trying to land more work, even at less margins," Gingerich said. "It's not a good formula."

However, some positive factors have solidified within just the past month. Congress finally passed the largest infrastructure bill in decades, though

Gingerich said contractors serving the highway and similar markets are a smaller component of the industry than other parts of the building business.

Meantime, Sherwin-Williams Co. has started building its new research center in Brecksville and is committed to building a 36-story headquarters in downtown Cleveland. Typically, big jobs such as those keep big firms busy, clearing the field for smaller companies to snag other jobs.

Jason Jones, vice president and Northeast Ohio regional manager for Turner Construction Co., said activity has increased as the pandemic wore on.

"There is more momentum now than at the beginning of the year," Jones said. "It's clear from looking at bidding that electrical HVAC (heating, ventilation and air conditioning) contractors are hungry. That's not to say there is not a lot of uncertainty with problems in the supply chain and price volatility. We're seeing a lot of proposals now. Over the year, health care was the first market to come back, followed by commercial work. The higher education market is starting to perk up. I see a lot of reasons for optimism."