

# CONSTRUCTION DIVE

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## 6 ways the coronavirus outbreak will affect construction

Experts predict COVID-19 will have long-term ramifications for many aspects of the U.S. construction industry.

Jenn Goodman  
March 13, 2020

Three words stand out to construction attorney Steve Lesser when thinking about how U.S. contractors should react to the negative effects of the global coronavirus pandemic: Wait and see.

Lesser, the chair of Becker's construction law practice, said he thinks the best thing for contractors to do is nothing at all, as the fallout from the effects of COVID-19 on the U.S. is far from complete and no one can predict its full impact.

"The smart money rests on the principle that full speed ahead with a planned construction project does not make business sense," he said. "Take a breath, slow down and know that every day may bring more information, and the more information we have the better we can predict what to do."

A sense of panic in affected areas is nearly as debilitating as the health effects themselves, said Lesser, a past chairman of the American Bar Association's Forum on Construction Law. "Until people feel more secure it's going to be a roller coaster of a ride," he said.

Contractors, of course, are used to risk. From labor shortages and escalating tariffs to the upcoming presidential election, the industry entered 2020 facing many unknowns, and experts say the fallout from the COVID-19 virus is one more factor poised to affect construction firms. Despite the uncertainty, experts predict the pandemic will have ramifications for several aspects of U.S. construction. These include:

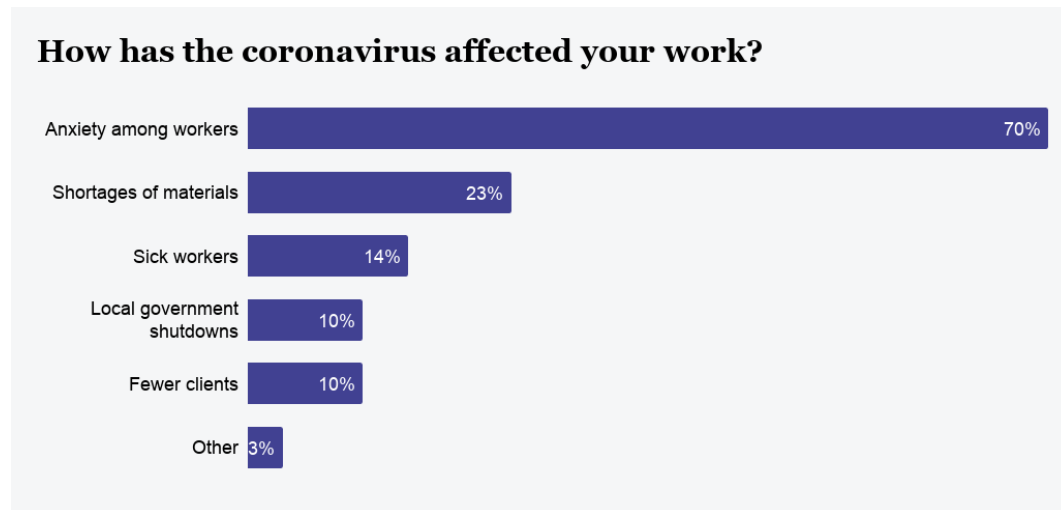
### 1. Employee health and safety

First and foremost, companies in affected regions say they are concerned with employee well-being. The good news is that the risk of transmission for those employed outside the healthcare sector is low, according to OSHA.

In Seattle — one of the country's hardest-hit areas — there is a great deal of concern given recent deaths and the closing of many schools and other facilities, Associated General Contractors of Washington Safety Director Mandi Kime told Construction Dive.

The organization has developed a Toolbox Talk for its members to use to discuss the issue with their crews. The chapter's primary advice to contractors is to remind teams to use good hygiene including frequent hand-washing, covering coughs and avoiding touching your face.

“The basic principles of avoidance that we used for the H1N1 flu outbreak over 10 years ago applies to this situation,” she said. “My goal is to reduce hysteria and share facts.”



Construction Dive survey; based on multiple responses per person

In addition to physical wellness, contractors are considering mental health, too, because employers report anxiety among workers as one of the top issues brought on by the coronavirus. In an informal Construction Dive survey, 68% of respondents noted “employee anxiety” as their top concern, above material shortages and the prospect of government shutdowns.

While there have only been a few reports of the virus directly impacting the U.S. construction workforce, Lesser said it could just be a matter of time before it becomes a bigger problem. Emergency protocols within affected communities, such as a state-mandated containment area in New Rochelle, New York, could trigger a variety of challenges. If public transportation shuts down or schools close, many employees may find it difficult or impossible to show up for work.

“Factory workers, construction workers, supervisors and managers could all end up quarantined in a city like Seattle and not be available to work,” Lesser said. “Absent a reliable work force, projects become stalled.”

A lack of specialty contractors like mechanical and electrical workers, he added, could cause additional disruption because they are not as easily replaceable and many states have rigid licensing laws.

“If you have a subcontractor whose work force becomes unavailable, who is going to pick up the slack to perform that work?” he asked. “That’s a real problem especially here in Florida and elsewhere where they have specific licensing requirements associated with the performance of specialty trades such as roofing, electrical and swimming pools.”

## 2. Material delays

Chinese government containment efforts and quarantines have slowed or shut down factories in dozens of the country’s cities and provinces, leading to forecasts of a sharp falloff in production of everything from cars to smartphones, according to the New York Times.

For commercial builders that rely on Chinese-made goods or materials, this could mean higher material costs and potentially slower project completions, Richard Branch, chief economist for Dodge Data & Analytics, [told Construction Dive](#).

U.S. builders look to China for everything from steel and stone to millwork and plumbing fixtures, according to Joe Natarelli, national construction industry leader at accounting services firm Marcum.

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Joe Natarelli

*National construction industry leader, Marcum LLP*

By conservative estimates, nearly 30% of all U.S. building product imports come from China, but some American construction firms rely on China for up to 80% of their materials, Natarelli said, because they are less generally expensive.

Supply shortages have already impacted one of the country's largest home builders, Toll Brothers, which announced last week that shortages of lighting fixtures and small appliances will delay the sale of 11 homes in California, according to Reuters.

Natarelli is telling his clients to aggressively seek out alternative suppliers in the U.S. or in countries that haven't been negatively impacted by major supply chain interruptions.

"To be frank, I haven't seen a huge impact yet on material price increases but the expectation of it and the uncertainty around the virus is really scaring folks," he said.

### 3. Jittery clients and lenders

Lesser said one of the most devastating consequences of the virus could be that it spooks clients and lenders, especially firms that work in highly impacted segments like hospitality. He said that financing may dry up for new jobs and owners may table current projects until the uncertainty passes.

Natarelli has seen a pullback in construction financing and a greater focus on risk mitigation and conservative underwriting. Even with historically low interest rates making this the perfect time to finance a project, "my gut tells me we're going to see higher prices and projects canceled although I can't point to the extent of it," he said.

Contractor Kerry Cordes, president of Seattle-area sandblasting firm Crystal Soda Blast, said none of her firm's jobs have been canceled yet, but one was put on hold yesterday after a worker was diagnosed with pneumonia and is awaiting the results of COVID-19 testing. In the meantime, the general contractor is doing a deep cleaning of the site, she said.

Lenders, too, are worried about material delays that might slow existing projects, said Avana Capital co-founder Sanat Patel, whose firm has provided construction financing for Marriott International's AC Hotel in Manhattan, as well as projects in California and Georgia.

"We do anticipate it coming down the line. Our concern is really delivery times," he told *Bisnow*. "If projects are already in production, there is nothing you can do. But if I were starting a project today ... as a lender, I would advise them to get ahead on the lead time because of this."

Of course, insurance policies can help mitigate the effects of shutdowns and delays and construction pros across the country need to check their policies to see what types of situations are covered, according to attorney Diana Parks, partner at international law firm Dorsey & Whitney.

Business interruption coverage, a common endorsement to a commercial property policy, may or may not offer aid, depending on the terms of the policy and whether the impact of the virus constitutes an “occurrence,” said Parks.

She added that there are other possible avenues for coverage such as workers compensation for outbreak of sickness or disease, trade disruption insurance for contractors with international supply chains and travel insurance to protect firms whose employees travel frequently for business.

“Now is the time to seek assistance from a professional insurance counselor to discuss coverage already in place and additional policies and coverage that might be available,” she said.

#### **4. Quarantines and travel bans**

To help prevent the spread of the virus, many schools, colleges and businesses have shut down. Construction companies across the world are considering how they will react to an outbreak near one of their jobsites or offices.

Balfour Beatty CEO Leo Quinn said the company is ready to close sites and is examining contractual terms should it have to. [Quinn told U.K. media outlet Construction News](#) that while no projects have halted yet, the firm would consider it when necessary.

“Business does seem to be operating as normal. But again, we're monitoring the situation very, very carefully,” he said, adding that an outbreak would prompt a 14-day quarantine shutdown.

Other construction companies have put in place rigorous travel guidance for employees. [Last week](#), Skanska implemented a ban on international business travel across its entire global workforce of 35,000 employees and Australian-based contractor Lendlease cancelled all nonessential business travel, a spokesman told the Sydney Morning Herald.

These shutdowns and bans mean that companies will need to turn to teleworking and other technologies to keep business running smoothly while employees are at home.

“We’re asking our people to reconsider travel within Australia where meetings can otherwise be conducted using digital tools, including video conferencing,” the Lendlease spokesman said.

At Crystal Soda Blast, Cordes said, staff will be participating in an upcoming bid walk in the Seattle area via Skype.

“I’m not sure how we will construct buildings and roadways without physical presence so it will be interesting to see what possible solutions people come up with for that,” she said.

#### **5. Legal issues**

While the coronavirus pandemic was unforeseeable, contractors may still be contractually responsible for delays or cost overruns on current projects, experts say. Tulsa, Oklahoma, attorney Michael Keester told Construction Dive he expects that both contractors and owners will be reviewing contracts to see what contractual rights and duties exist in light of the conditions caused by the virus' spread.

“There are many terms that will be relevant to those discussions, including the various contractual terms relating to the contractor’s schedules, substantial completion, delays, liquidated damages and other contractual provisions,” said Keester, a partner at law firm Hall Estill.

Lawyers recommend knowing exactly what is in each contract, and taking special note of any force majeure provisions that allow work to be suspended or terminated when certain extenuating circumstances arise. Whether something qualifies as a force majeure event will vary by jurisdiction and contract, according to Squire Patton Boggs partner Jonathan Taunton, but force majeure will almost certainly apply in some coronavirus-initiated situations.

"There may be some opportunistic claims, but the impacts of the coronavirus, particularly on the supply chain, are so broad that we expect there will also be many valid claims," he said.

## **6. Global uncertainty**

Recent historic levels of volatility in the stock market and oil disputes in the Middle East have amplified the level of anxiety among Americans, who see their retirement and pension benefits shrinking by the day. "There's a level of hysteria out there," Natarelli said. "People are freaking out."

In fact, the virus and its impact have scared the markets so much, some analysts believe they cannot now make a forecast for the remainder of 2020.

"It has totally muddied the outlook for 2020," said Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University, speaking to Transport Dive. "Remember, the event is still going on, so you cannot do the economic impact if the event is not over."

While the expectation is that the U.S. economy will soon enter recession, non-residential construction typically lags the overall economy by 12 to 18 months, said Anirban Basu, chief economist for the Associated Builders and Contractors. This means that many contractors can expect "far more difficult circumstances" next year.

"Executives should be playing for the long-term, because the short-term will be somewhat short on opportunity," he said. "That said, firms that are sufficiently entrepreneurial can prosper even during difficult economic times."

Natarelli, too, tries to stay positive, telling his clients that the stock market will bounce back. "It's not as bad as a lot of folks think," he said.

Nevertheless, now is the time for the commercial construction industry to prepare for the virus' impact, even though much still remains to be seen, Lesser said. He recommends continued vigilance.

"In construction, everything comes down to time and money. If you look at it that way you see how unpredictable this virus is on the industry," Lesser said. "We don't know how big it's going to be, how long it will last and what its full impact is going to be."