

FEATURE

# Five Ways COVID-19 Will Reshape the Construction Industry and Steps Contractors Can Take to Mitigate its Impact

Construction site rules are changing, and new supply chain solutions are in the works.

BY JOSEPH NATARELLI AND ROGER T. GINGERICH



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*This article was completed in early May 2020. Changes related to the COVID-19 crisis and construction industry are still occurring; some data in this article may have changed*

*by the time of publication.*

**THERE IS NO** industry unscathed by the novel coronavirus (COVID-19) outbreak. While the majority of construction was deemed essential, contractors are feeling the effects of shelter-in-place policies and the resulting economic repercussions. As jobsites reopen across the U.S., what can we expect moving forward? What will be the "new normal" for the construction industry?

**THE IMPACT TO THE CONSTRUCTION INDUSTRY WILL NOT BE CONTAINED TO WHATEVER TIME PERIOD DEFINES THE PANDEMIC. SWEEPING CHANGES MUST BE MADE WITHIN THE INDUSTRY TO ADDRESS CURRENT CHALLENGES AND TO TAKE LESSONS FROM THIS CRISIS TO SUCCEED IN THE POST-COVID FUTURE.**

## **The Impact**

According to an Associated Builders and Contractors' analysis of data by the U.S. Bureau of Labor Statistics, the construction industry lost 29,000 jobs in March. Work was postponed as customers—such as schools and offices—were forced to close. In some cases, it was simply impossible to obtain permits with city administration offices closed, all of which has had a cumulative effect on lending.

Disruptions to the supply chain have forced construction firms to scramble for other options for work that is progressing, even at higher prices. That's not surprising considering that roughly 30% of building materials are imported from China, the epicenter of the COVID-19 outbreak. Some U.S. construction firms rely on China for as much as 80% of their materials. As a result, the industry is grappling with longer project delivery times, material price increases, and job delays.

The impact to the construction industry will not be contained to whatever time period defines the pandemic. Sweeping changes must be made within the industry to address

current challenges and to take lessons from this crisis to succeed in the post-COVID future. The following are five ways COVID-19 will reshape the construction industry.

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### 1. Diversified Supply Chain

The construction industry is used to supply chain disruption and unpredictability. Shifting U.S. policy on tariffs and counter-tariffs has changed the landscape for the past several years. However, when China shut down factories to contain the virus outbreak, the output of essential materials for the construction industry decreased sharply from normal levels. Specifically, the limited output of steel, millwork, electrical fixtures, concrete boards, and plumbing fixtures has been one of the greatest supply chain issues for contractors.

In an effort to diversify the supply chain, we'll likely see more manufacturing take place in the U.S. to decrease reliance on Chinese building products. Many large contractors are bidding out jobs with contract clauses calling for as many as five backup sources for materials, and they are willing to pay higher prices for less risky locations.

Contractors should aggressively seek out alternative suppliers in the U.S. or in countries that haven't been as adversely affected by supply chain interruptions.

## 2. Workforce Safety Policies

Now that restrictions are easing in some states, will work crews return to job sites? While there have been relatively few instances of COVID-19 cases affecting the U.S. construction industry, there is considerable anxiety about safety issues on the job. U.S. contractors are reconsidering their approach to safety, and many are being mandated to do so.

For example, construction resumed in Pennsylvania on May 1 after the state shut down all construction work that wasn't deemed critical. With input from the General Contractors Association of Pennsylvania, Governor Tom Wolf issued stringent safety protocols, including staggered shifts, face masks, handwashing stations, and limited tool-sharing.

In Washington State, Governor Jay Inslee lifted construction work restrictions but is requiring that all job sites meet the standards of his 30-point coronavirus construction safety plan. Employees must remain 6-feet apart, or jobs risk being closed for noncompliance. Ohio construction firms are expected to follow the workplace safety protocols required of all businesses in the state.

Many contractors are not waiting to be told what to do. They already have initiated many of the measures mentioned above, and more. In addition to staggered shifts, expect to see handwashing stations, mask and glove requirements, and even bans on carpooling.

Expect technology to play an increased role, especially for large public jobs. Remote workforce solutions have proved that some work can be conducted successfully offsite, mitigating the risk of large public gatherings. Even digital inspections may soon become the norm.

The bottom line is that many of these changes to construction worksites are here to stay. If one contractor or subcontractor becomes infected, the entire job will shut down; and no one wants that to happen. Going forward, developers will determine which changes will become permanent; but we can expect cleaner and safer job sites, at a

minimum. OSHA is likely to require written infectious disease preparedness and response plans. Contractors that implement strict health and safety protocols are likely to get more jobs and possibly attract more workers than those that forego strict safety standards.

### **3. Extended Job Completion Times**

Staggered work schedules, thorough cleaning, and many of the above safety changes will naturally add to the time it takes to complete projects, at least in the short term. New construction schedules will call for advanced thinking and realistic deadlines that accommodate these new steps. Contractors will need to bid out new jobs in a manner that reflects reasonable time schedules for the entire team.

### **4. Lender Relationships**

Higher costs and lack of materials will lead to delays in project completion and even cancellations. Lenders may not be as likely to finance new jobs for highly impacted industry sectors, such as hospitality. Construction firms that have comprehensive safety measures in place will be viewed by lenders more favorably for loans. Uncertainty about the cost and availability of materials will have some lenders holding off, so it will be important for contractors to get ahead on lead time.

In addition to SBA lending programs included in the CARES Act, construction firms may also find financial support through the Main Street Lending Program, which provides loans to small and mediumsized businesses by providing credit in order to maintain operation and payrolls until conditions normalize.

### **5. Re-evaluation of Contracts and Insurance Policies**

Some insurance policies have business interruption provisions that can help firms mitigate slowdowns and project cancellations. It will be important for construction firms to understand exactly what is covered. Unfortunately, some contractors may be contractually responsible for cost increases or delays on current projects due to "substantial completion" clauses. Not all business interruption provisions will cover these situations, so it may be advisable to explore additional policies.

There will also be examination of force majeure provisions that allow work to be suspended or cancelled under certain circumstances, including epidemic. Whether the coronavirus pandemic qualifies as a force majeure event will differ by contract, so contractors should consult their attorneys to see if they have a valid claim.

The lack of skilled labor—one of the greatest concerns of the construction industry over the past decade—continues. Companies that kept employees on their payrolls, whether through the Paycheck Protection Program or other means, may be more favorably positioned to retain them longer term. With unemployment rates higher than during the Great Recession, construction firms may also have opportunities to fill talent gaps they have weathered in recent years.

With many uncertainties ahead—and a presidential election coming on the heels of the pandemic—what can the construction industry expect? The future of the construction industry remains quite positive, especially for projects in healthcare, infrastructure, and warehousing. Given the drain on national and state dollars, it remains to be seen which infrastructure projects will come to fruition; but any infrastructure plan can be expected to include large projects, such as airport improvements and new roads, highways, and bridges.

While the temptation will be to charge forward to make up for lost time, it makes sense to make the effort to formulate a plan that will work today and for the foreseeable future. Firms prepared to navigate the post-COVID-19 climate will be well-positioned for success.

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