

Five Industry Trends and How You Can Take Action

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The potential for recession, continued inflation, critical labor shortages, and supply chain issues will loom large over construction in 2023. Additionally, many eyes are on interest rates in a virtual wait-and-see mode as to whether they will continue to rise, and by how much.

And yet opportunity awaits well-prepared construction firms that can pivot during uncertainty. The U.S. commitment to national infrastructure improvements and the expected rise in building renovation/rehabilitation work offer hope that construction firms can manage to perform well even through continued uncertainty.

Prepare for opportunity in 2023 with consideration of the following five trends.

1. CIVIL & INFRASTRUCTURE

Total construction starts are expected to remain flat in 2023, but a significant swing in type of work appears imminent. The construction industry, in pure dollar terms, is likely to see more civil and infrastructure work than single and multifamily housing or some areas of commercial construction that dominated the construction landscape the last couple of years.

Along with the opportunity, however, will come the continued impact of inflation, rising interest rates, and other financial factors, such that a project that cost \$1 million to build a couple years ago could now cost 20-30% more. Larger contractors may have the equipment and the organizational



and financial depth to tackle these shifts, while smaller companies may need to consider options in an effort to participate more broadly.

Take Action

In response to larger scale infrastructure projects and/or the potential for increased infrastructure opportunity in general, joint ventures (JV) could present an attractive way of participating. Traditionally, JVs provide a way for contractors to combine talent, experience, equipment, administrative, and financial resources to handle larger projects or backlogs.

For some, entering into a merger or acquisition with a competitor may offer the opportunity to add to your firm's capabilities. If the financials make sense, this can be a tool to

add specialized equipment or expertise, or thoughtfully expand into new locations.

2. RENOVATION & REHAB

The current market poses additional challenges as some industry segments and owners move away from new construction toward rehabilitation and renovation projects. The conversion of shopping malls and warehouses for other uses accelerated because of the pandemic and the transition to more online shopping. Mall traffic has slowed in recent years as shoppers visit stores closer to home more often.

Depending on the complexity of a project, rehab work could prove challenging for contractors traditionally focused on new construction. There's no telling what quality of work was done on the facility when it was built or how often or well the building was maintained. Moreover, based on age, the building could contain hazardous materials or historical preservation requirements a contractor may not have counted on.

From a property and casualty perspective, any structural changes add risk. Opening walls adds risk as well, as contractors could encounter water damage, fire sprinkler issues, gas line concerns, electrical damage, or any number of unexpected problems that need to be remedied.

Take Action

Consider new technology to help mitigate risk – laser scanning, hygrothermal wall analysis, and computational fluid dynamics modeling, among other innovative equipment and methods.

Contractors should stay current on the latest changes in construction codes. For example, many retail renovations in the past may have simply changed a store from one retail shop to another. However, as buildings are being repurposed, retrofitting a storefront into a medical or manufacturing facility could require special or unique modifications to handle the needs of these types of businesses.

3. WORKFORCE CHALLENGES

Construction industry labor shortages will continue in 2023. Qualified workers simply aren't available to fill the specialized positions that construction companies need.

Another major factor in play within the construction industry

is the stigma blue-collar work carries among many younger workers. The average age of a construction worker in the U.S. is currently 42.5 years old. With many baby boomers still choosing to retire early post-COVID-19, and without an adequate number of young workers filling those roles, the industry will struggle to grow its workforce in 2023 and beyond.

Take Action

To attract from all parts of the labor pool and upskill experienced workers, the industry will have to improve communication of the benefits of a career in construction to the younger generation. Consider the following ways:

- » Increase outreach efforts. Encourage high school students to attend trade schools, and trade school students to join the construction industry.
- » Build unique benefits for your workers. This may mean additional total compensation, including benefits, sign-on bonuses, higher salaries, and more days off.
- » Offer both entry-level job and jobsite safety training.
- » Consider ways to reacquire seasoned workers – today's cost of living could be impacting retirement plans, resulting in trained workers willing to reenter the workforce. Acquiring these legacy workers could also produce positive training experiences for younger tradespeople and help improve jobsite safety.

4. SUPPLY CHAIN CHALLENGES, VOLATILE PRICING

A gummed-up supply chain has slowed some projects to a crawl, while others have been hampered by the ups and downs of fuel and material costs in the past year. It's clear that volatility and inflation are cutting into job project margins. As such, anticipating extended project timelines, material or subcontractor price escalation and additional overhead must be evaluated during the bid stage. One potential remedy to deal with rising material costs is adding a materials inflation clause to your contracts that either places the responsibility with the project owner or, at the very least, the owner and contractor share the additional expense. Contractors may also want to consider discussing whether lower-cost material options would be acceptable to the owner or their representative.

During the COVID-19 pandemic, some construction companies relied on U.S. Paycheck Protection Program (PPP) loans to help with overhead costs. Although PPP is at an end, supply chain uncertainty and inflation are not. Consequently, it's essential that contractors stay current with local, regional, and countrywide economic and labor dynamics as they price their work.

Take Action

To minimize the impacts of volatile prices or running out of materials, contractors can increase their inventory and buy in bulk where possible. Furthermore, inventory management is extremely important in a tight materials market. Make sure that any unused materials are returned to your inventory warehouse for use on future projects, rather than ending up in the trash or left behind.

Stay current on material, labor, and economic trends. There is a tremendous amount of data available in each of these areas, as well as industry insights through various associations and publications like Associated General Contractors of America, Associated Builders and Contractors, Construction Business Owner Magazine, and Engineering News-Record.

5. CYBERCRIME THREATS


As construction companies and other industry stakeholders continue the shift toward technology as an enabler, cybercriminals have followed suit. According to a study by NordLocker, construction was the second-most targeted industry for ransomware attacks between January 2020 and July 2022 because of the high success rate for hackers across the industry. Small to midsize construction businesses are especially vulnerable to cyberattacks because of the limited resources and defenses they've often dedicated to protecting their network environment.

Cybersecurity compliance is important for all government contractors but expect stronger compliance requirements from any business partner you engage with in 2023.

Take Action

Defend your business against cybercrime by obtaining cyber insurance, engaging technology to protect and defend your software and systems, and focusing on employee education and commitment to know and avoid the common mistakes that can lead to a breach.

2023 & BEYOND

Challenges abound for construction companies of all sizes in the new year. However, opportunities exist for organizations that can shift gears and capitalize on the larger industry trends while mitigating risk and maintaining strong profit margins in the process. 



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