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COVID-19, A New President and Economic Uncertainty: What to Expect in the Construction Industry in 2021



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“Forecasting is very difficult, especially when it involves the future.” – Yogi Berra

Construction industry forecasts are difficult in a “normal year” (remember those?), let alone a year following a global pandemic. The fact that the pandemic is not yet in the rearview mirror coupled with: (1) the election of a new president with very different policies than the prior administration; (2) an apparent partisan logjam in Washington; and (3) general uncertainty about the economy, this “Yogi-ism” is particularly germane. However, having analyzed the more reliable industry forecasts, as well as the anecdotal information available to us, we are sharing our views about what’s ahead in 2021 for the construction industry.

Construction Industry Forecast

Given everything, 2020 was a relatively good year in the construction industry. This result was primarily due to a large existing project backlog and because construction was generally deemed an essential industry almost everywhere, with fewer restrictions than most industries. However, most forecasters believe that 2021 will be significantly worse, at least for a while. But the impact is likely to be far less severe than in many industries, and certain sectors of the construction industry will feel less pain than others.

According to data from industry-leading Dodge Construction, single-family residential project starts will be up 7%, commercial projects up 5% and manufacturing flat-lining in 2021. Overall construction starts will be up 4%, Dodge predicts.

These numbers roughly correspond to what we have seen in our own practice during the pandemic, and what we believe will occur in 2021. In fact, we have seen increased demand on residential projects, likely due to people transitioning from office to home. Additionally, the majority of our commercial and manufacturing projects are progressing toward completion, with minimal delays.

We anticipate continued interest in commercial and manufacturing construction in 2021 since many of these projects, which were halted mid-2020, are expected to resume in early 2021. A number of projects that began in 2020 are moving forward in 2021, too. This has all lead to a backlog of work, albeit certainly smaller than what was experienced in 2019 and 2020.

Interestingly, in an article in *Construction Dive*, reporter Kim Slowey listed Chicago as one of the top five cities for construction in 2021. She noted the substantial number of projects proceeding, the central location of the city and how Chicago remains the city with the most corporate relocations. So far, since most of the large Chicago projects have not been taken off the board and new ones continue to be planned and constructed, Chicago commercial construction looks stronger than many other markets. (Whether there is an actual demand for the amount of commercial space being built is another question.)

Despite the predicted resilience of the construction industry throughout 2021, industry experts believe many of the characteristic changes felt by the construction industry because of the pandemic will continue for the near future. This will in turn have potential impacts on productivity, supplier capabilities and coordination causing continued disruption within the construction industry.

According to McKinsey & Co., customer demands regarding sustainability and performance will become higher priorities. This includes requests for more digital interactions and adaptable spaces. In addition, experts believe modularization and construction automation will become more influential due to sustainability efforts throughout the industry. Finally, given supply issues that arose in 2020 during the height of the pandemic, companies will likely seek to have greater control over their supply chains and other cost-sensitive activities such as design and engineering, manufacturing and product integration. Experts believe that through vertical integration and collaborative contracting, internal project frictions and innovation constraints will be reduced, making companies better able to control the project as a whole.

“Build Back Better” Impacts on Construction

One key driver of the construction industry will be whether President Biden’s “Build Back Better” plan can be approved, either in pieces through executive orders or more broadly through legislation. The President’s plan is expected to include sizeable investments for infrastructure projects, which will only serve to bolster the path to recovery.

The plan is expected to include considerable investments in infrastructure, manufacturing and clean energy. The hope is that this plan will provide a long-term funding source for roadway, bridge and manufacturing projects, many of which are past due for modernizations and repairs. This comes at the perfect time since many municipalities have seen their tax revenues dramatically reduced due to the pandemic, leaving them unable to properly fund their infrastructure needs.

A second and equally important component of the agenda is aimed at addressing climate change and sustainability. Changes in sustainability efforts and “going green” will impact not only how owners and contractors use not only certain building techniques but also material selection. Similar to the design and materials changes that were experienced during the pandemic, owners and contractors should anticipate further changes to address sustainability and adaptability concerns under the President’s plan.

Continued Best Practices

In connection with our forecasted trends in the construction industry during 2021, we have summarized a few key best practices to consider throughout 2021:

- **Collaboration** – Collaboration among project team members will continue to be important throughout the year. Despite widespread distribution of the COVID-19 vaccine, safeguards and delays related to COVID-19 will still likely be issues to consider for much of the year. Thus, parties should continue to address concerns with scheduling and impacts as early as possible and review notice provisions within contracts to ensure any rights are not waived.
- **Develop a Plan to Effectively Manage Risks** – Develop a plan to address cost-sensitive activities that are likely to be impacted by coronavirus considerations. Supply chain disruptions and frictions among team members will most likely continue to be an issue in 2021. Addressing supply chain issues early and developing contract documents that address risk will give you better control of your project and put you in a better position to respond to any unexpected issues.
- **Sustainability** – With sustainability efforts on the rise, alternative construction methods and higher performing materials will become more prevalent. In addition, certain construction techniques can have the added benefit of reducing the burdens associated with complying with COVID-19 safety and sanitation measures at your project site. For example, not only does modular construction have environmental benefits, but it also affords the ability to work offsite, reducing the number of trades onsite at one time. It can even help in reducing costs.
- **Anticipate requests for adaptive and “green” designs** – Given uncertainties surrounding what the economy will look like when the majority of the population has been vaccinated, it is likely that clients will require spaces that can easily adapt to preferential changes within the workplace. Also, material selection will play an important role throughout 2021 to address both safety and environmental concerns.

Takeaways

Although the return of the construction industry to pre-pandemic levels is unlikely to occur in 2021, it is anticipated to rebound in late 2021 and beyond. That said, this rebound is sure to be uneven across construction sectors. Industries that have suffered so much

during the pandemic, such as hospitality and leisure, will continue to struggle. Commercial office construction will likely work through existing backlogs without adding many new projects until vaccine rollout is more widespread. Likewise, the residential sector will continue to outperform commercial and retail construction. As for manufacturing and industrial, we see more of a potential to increase than many forecasters but agree it will remain relatively flat overall. Finally, depending upon the passage of the President's stimulus plan, infrastructure and government construction could see a substantial uptick in demand compared to other sectors.

Although the near-term resiliency of the construction industry is unclear, the long-term future looks bright. In fact, pandemics have often been the driver of new and better designs and construction techniques, as was the case from the Middle Ages plagues through the 1917 global flu pandemic through the present. We believe this evolution will continue and that the result of what was experienced in 2020 will lead to a thriving construction industry with more climate-friendly, climate- and disease-resilient materials, and new construction techniques and designs.

For more information or to discuss any of these topics, please contact one of the members of our [Construction Practice](#).