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Issues Facing the Construction Industry in 2019



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Construction

As 2018 begins to wind down, it is the traditional time for industry experts to prognosticate on risks facing the construction industry. We have reviewed several such prognostications from the insurance and construction industries and combined it with our personal and anecdotal experience and offer the following brief list of issues which the Gould & Ratner Construction Practice believe could impact the industry in the coming year:

Workforce Issues

As has become increasingly apparent over the past few years, there is a skilled labor shortage in the construction space. Simply put, there is an aging workforce and less qualified workers available. Millennials and younger generations are showing less interest in entering the trades and the current workforce is graying. This has created several problems:

1. Because of the dearth of qualified workers, unqualified workers are often hired leading to more defect claims and creating safety concerns.
2. Projects are taking longer to finish, or even start in some cases.
3. Due to a smaller and less qualified workforce, projects are coming in over budget because of change orders resulting from failure to properly assessand perform the project.
4. Generational differences in the workforce may cause project conflict as younger workers bring different values and skills to the project.
5. The shortage in skilled labor has led to increased labor costs.

To combat these issues, the industry is engaging in much greater outreach to younger potential workers. Certain trades have even partnered with colleges to set up programs to attract younger workers, These programs combine education with traditional apprenticeship programs. Of all the issues facing the construction industry, I find this one to be the most serious.

The Need to Adapt to Technology

It is necessary for contractors (and even owners in certain circumstances) to catch up to the rest of the world when it comes to technology. They will need to use more and better cloud based software, and integrated collaboration tools. The use of building information modeling (BIM), virtual reality, drones and laser scanning, continues to grow in the industry. However, because technology has come later and more sporadically to the construction industry, there is less uniformity and general contractors use a wide variety of software. This can be overwhelming for subcontractors, architects and owners trying to work with general contractors. It is leading to increased costs and delays as subcontractors try to learn each new system. Moreover, there is less security with multiple systems on the site and construction projects are significantly more susceptible to cyber-crimes. Technology will also need to get stronger, as BIM and modular construction are excellent ways to help control costs and off-set the labor shortage and contractors will need to have technology to manage these programs.

Increased Material Costs

Even putting aside the impact of a “trade war” the increase in project costs over the past few years has resulted in increased material costs and even unavailability of concrete products such as aggregates and cement. Material costs have increased 10-12% over the past year, and future costs are likely to rise even more. in addition to the technology suggestions above, costs can be held in better check by use of sophisticated supply chain systems which eliminate the costs of the middle man, at least in part. We believe rising material and labor costs will eventually cause projects to be tabled or re-designed. Another way to reduce costs is to shop the market for better and cheaper insurance policies that are available as the insurance market remains competitive. One key factor will be the length and extent of the tariff issues.

Environmental and Sustainability Issues

Although it is likely that we will continue to see environmental regulations relaxed at the federal level resulting from the policies of the current administration, I believe sustainability and environmental regulations will continue to impact construction. Given that the construction industry is responsible for producing more than 25% of the world’s carbon omissions, the industry must continue to take steps to combat their adverse impact. There are states with strict regulations, such as California that require such steps. More significantly, as their workforces become younger and more environmentally aware, entities will be looking to build more sustainable projects and greener projects. The social reasons will drive this issue as much as the actual environmental regulations in my view. A changing climate will also continue to cause issues for the industry. As stated in more detail in **this** article, force majeure provisions will need to be drafted better and parties will need to assess the risk of weather issues in selecting and preparing pricing models.

Despite these risks, and the uncertainty of the global economy, we are still bullish on the coming year. However, we also believe that it is critical for parties in the construction space to be aware of these issues and to make the technological and other adjustments to meet the challenges of this changing industry. We also believe it is critical to have tightly drafted agreements to meet these challenges, especially with respect to risk-shifting provisions.

If you have any questions, please feel free to contact me here.