

CONSTRUCTION INDUSTRY SURVEY RESULTS

2021 CONDITIONS & FUTURE OUTLOOK

GRASSI
ADVISORS & ACCOUNTANTS

INTRODUCTION

In 2020, contractors pivoted to a new way of doing business, from new technologies and sanitation protocols to the Paycheck Protection Program (PPP) and COVID-19 response plans.

In spring, 2021, Grassi's Construction Professionals embarked on a journey to gauge current conditions and future outlooks for the construction industry and gather meaningful benchmarking data to aid the sector's recovery. To accomplish this, we went straight to the source – General Contractors and Subcontractors – to get their feedback on how the pandemic continues to impact their businesses, as well as their predictions on where the construction industry is headed from here. The survey was fielded in April/May, 2021.

The Construction Industry Went From:

2019:
ALL-TIME-HIGH CONSTRUCTION SPENDING AND NEARLY FULL EMPLOYMENT



2020:
SHUTTERED OR SOCIALLY DISTANCED JOB SITES AND NEAR-RECORD UNEMPLOYMENT

GREATEST CHALLENGES IN 2020

Not surprisingly, the greatest challenges reported by respondents were ones that had a direct impact on their business's cash flow, including:

44% 

Decreased profits

As one might expect, decreased overall revenue was directly correlated to declines in profits in the survey results. But the severity of the profit fades is more startling, with 17% reporting a loss of more than 50% of profits, and 34% reporting a 30-50% loss.

46% 

Challenges in the competitive bidding landscape

With 65% of respondents reporting decreased project sizes and 72% experiencing an increased number of bidders per job, the industry is facing a dangerous combination. More bidders and fewer projects leads to aggressive pricing and hasty decisions that can put contractors in worse financial shape in the end.

81% 

Delayed, closed or cancelled projects

The resounding consensus over challenges caused by delayed, closed or canceled projects reflects the significant impact of several widespread factors. These include public and private contracts put on hold, hesitancy of owners to make decisions, lack of steady work, and the delay of "essential" projects that were active but interrupted by new health and safety protocols. Subcontractors were more likely than General Contractors to report higher levels of delay, with 25% reporting that this challenge affected 50% or more of their projects.

53% 

Decreased overall revenues

More than half of the respondents reported decreased revenues in 2020. Of those respondents, 40% saw declines of more than 30%. The cost of the pandemic, volatile materials prices and tight margins all contributed to this downward trend.

LABOR CHALLENGES

Ongoing labor challenges in 2020 were exacerbated by the COVID-19 pandemic, with the primary concern shifting from finding skilled workers to keeping those workers safe.

The three most common responses were:

- 51% **COVID-19 outbreaks among workforce**
- 39% **Difficulty factoring costs of COVID-19 into projects**
- 33% **Reduced labor productivity**

OTHER CHALLENGES



Labor

The most difficult job categories to fill, according to respondents, are project managers (25%), skilled laborers (19%), foreman (19%) and cost estimators (15%).



Pricing projects confidently

The pandemic impacted contractors' ability to price projects, according to 65% of the respondents.



Operational modifications

Most common were daily health screenings (81%) and remote work (67%), but far fewer respondents implemented on-site COVID-19 testing (20%) or hired an on-site medical professional (3%).

SUCCESSSES AND OPPORTUNITIES

Despite all of these challenges, the construction industry seized opportunities that led to new areas of innovation and success, such as:

38% Better management of **unexpected events**

30% Achieved a more **efficient streamlined organizational structure**

79% Received a **Paycheck Protection Program (PPP) loan or Economic Injury Disaster Loan (EIDL)**

57% Improved **work-from-home capabilities**

32% Applied for the **employee retention tax credit**

40% Better management of **accounts receivable to protect cash flow**

Adoption of technology, which has traditionally lagged in the construction industry, was essential to keeping job sites open and projects running during the pandemic. General Contractors rose to the challenge and swiftly adopted:

- 45% **Virtual toolbox talks and safety videos**
- 43% **Video conferencing for project walk-throughs**
- 29% **Virtual design and construction modeling software**
- 27% **GPS for job site tracking**

More than half of the contractors surveyed:

42% of Subcontractors reported using a third-party payroll provider

78% indicated they were satisfied or very satisfied with the service

CONSTRUCTION INDUSTRY SURVEY

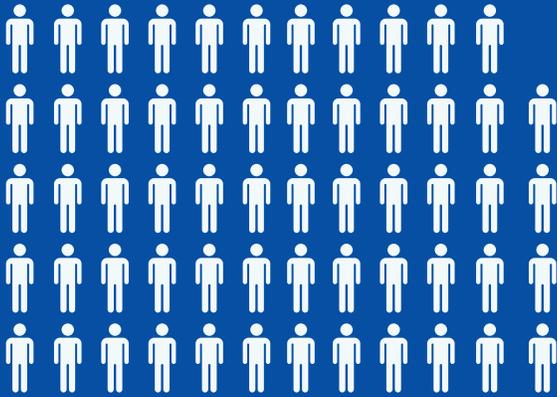
Survey Fielded In April/May, 2021

105 Respondents

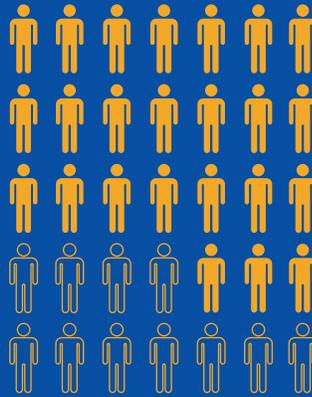
55% Subcontractors

32% General Contractors

13% Others



59 Subcontractors

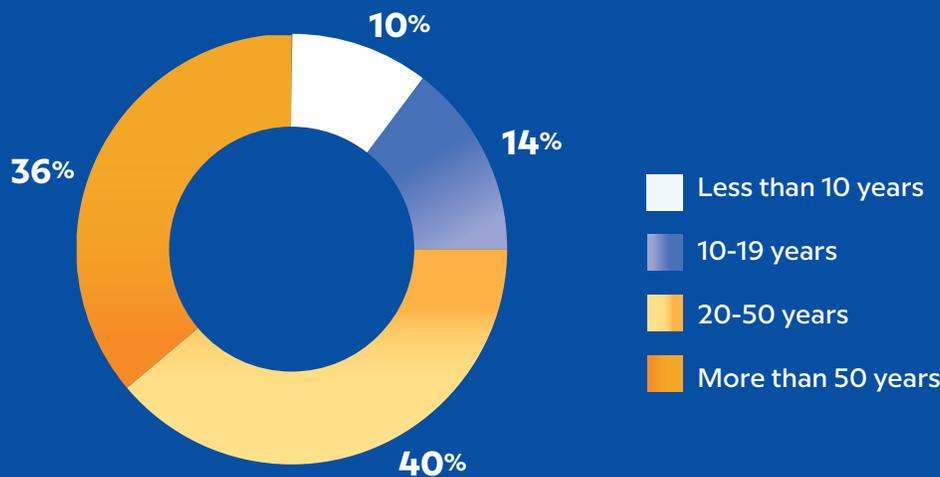


35 General Contractor/
Construction Managers,
of whom
11 were Civil/ Heavy-
Highway Contractors



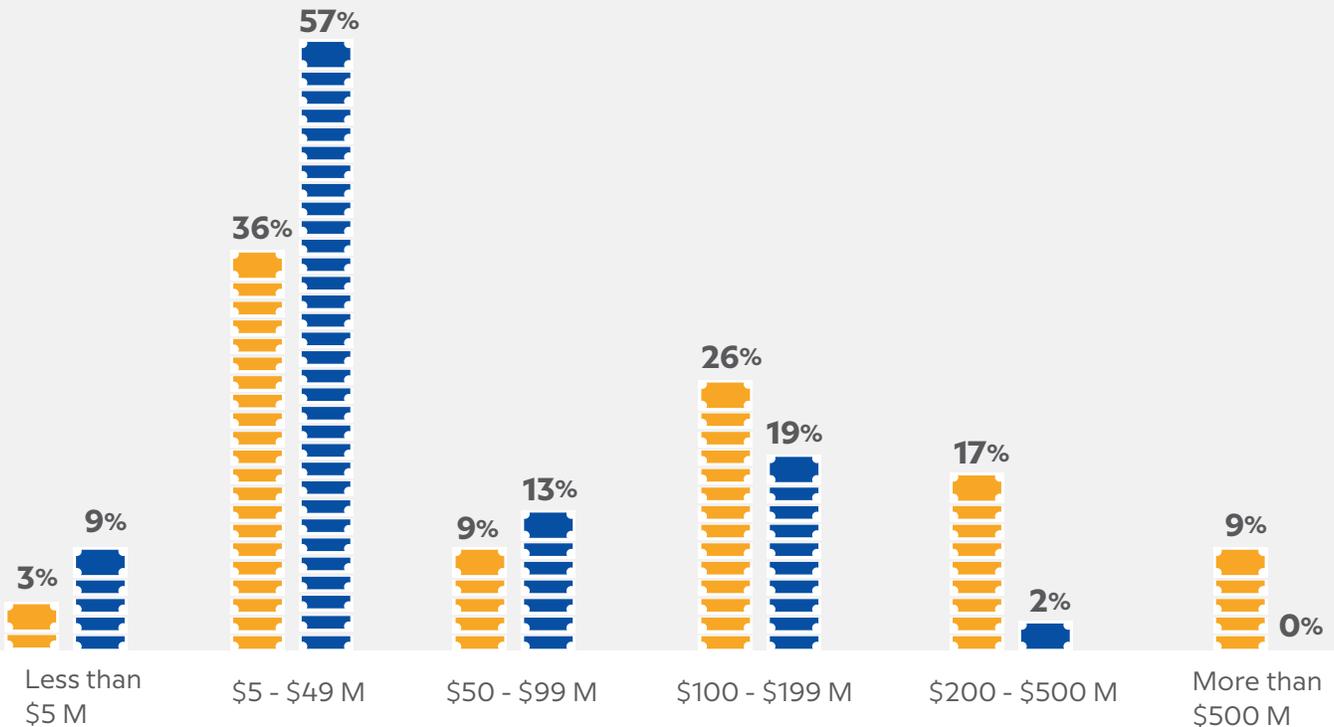
11 professionals in
other construction
capacities

The majority of construction survey respondents represent well-established businesses that have successfully weathered many cyclical changes.



2020 REVENUES

All Respondents, General Contractors and Subcontractors



- All respondents
- General Contractors
- Subcontractors

< \$50 M

in revenues reported for **over half (56%)** of the respondents and the majority of **Subcontractors (66%)**

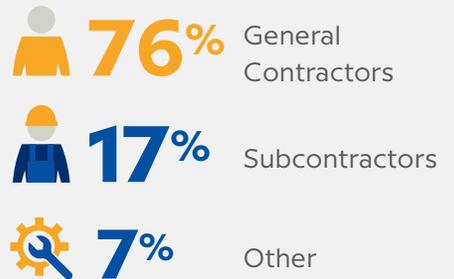
> \$100 M

in revenues reported for **the majority** of **General Contractors (52%)**

CHALLENGES IN 2020



Of those that experienced difficulty planning due to political uncertainty:



My top three concerns are cash, cash, and cash.

-Survey Respondent



Delayed, closed and/or cancelled projects were the biggest issue.



Volatility in pricing was a major challenge for close to half of respondents.



Reported difficulty maintaining financial liquidity.



General Contractors were far more likely than Subcontractors to **have experienced difficulties in planning due to political uncertainty.**

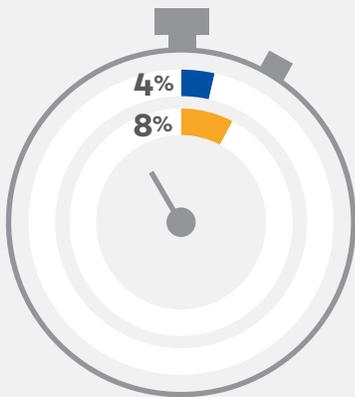


Our concerns are supply chain shortages and huge price increases.

-Survey Respondent

PERCENTAGE OF DELAYED/ CANCELED PROJECTS IN 2020

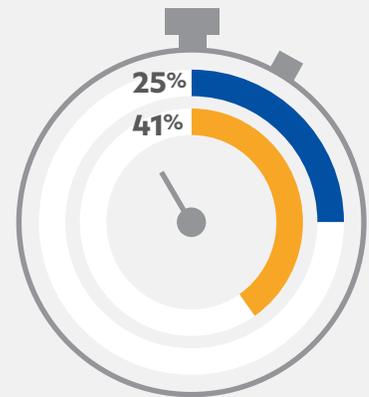
While all construction businesses were impacted by the pandemic, overall, Subcontractors experienced more delayed and/or cancelled projects than General Contractors.



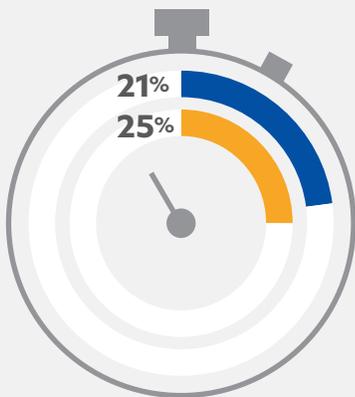
Less than 10%



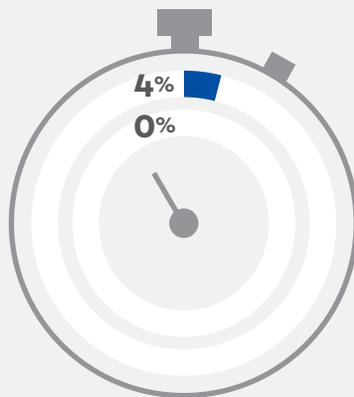
10% - 19%



20% - 49%



50% or more



Don't know

■ General Contractors
■ Subcontractors



The lack of steady work makes planning our business strategies impossible. We react rather than planning for tomorrow.

-Survey Respondent

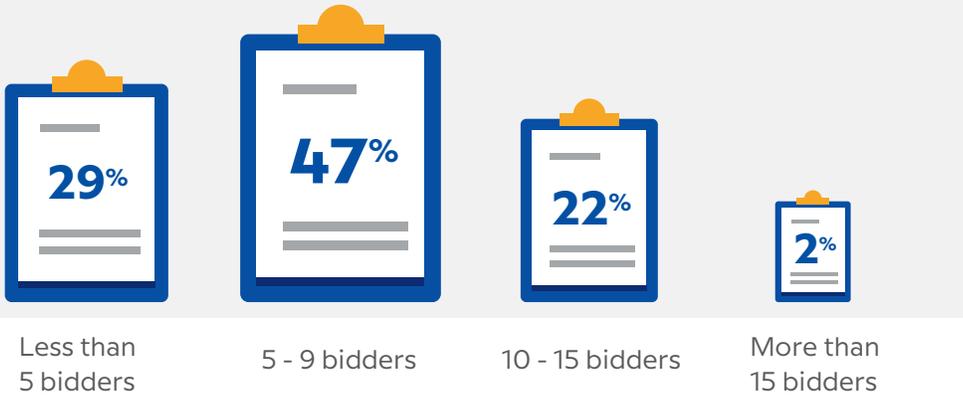
BACKLOG OF PROJECTS/NUMBER OF BIDDERS



**Backlog of Projects
Decreased**



Bidders Increased



Aggressive bidding atmosphere because of the lack of back-log projects.

-Survey Respondent



There are too many competitors.

-Survey Respondent



Everyone is dropping prices to keep people employed.

-Survey Respondent

2020 LOSS IN REVENUES AND PROFITS

Percentage of loss in revenues among the 53% of the respondents who said revenues declined in 2020.

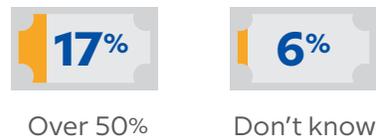
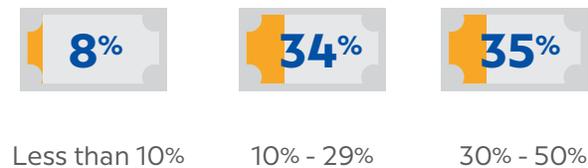
Percentage of loss in profits among the 44% of respondents who said profits declined in 2020.



How much did **revenues decrease** in 2020?



How much did **profits decrease** in 2020?

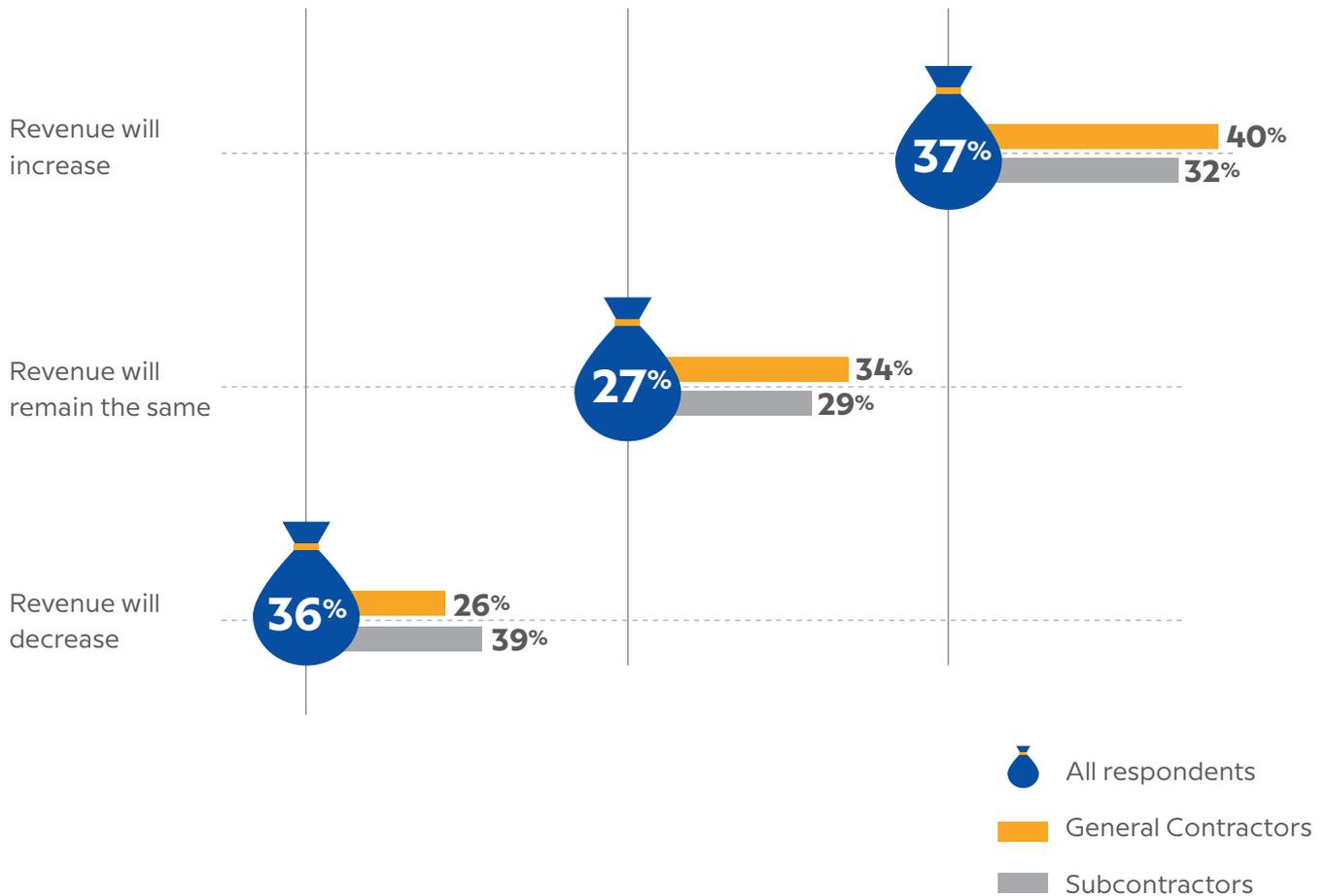


Maintaining quality, profitability and efficiency is difficult in an increasingly cost-conscious environment.

-Survey Respondent

REVENUE EXPECTATIONS FOR 2021: TOTAL/BREAKOUT

Contractors pivoted to a new way of doing business, from new technologies and sanitation protocols to the Paycheck Protection Program (PPP) and COVID-19 response plans.

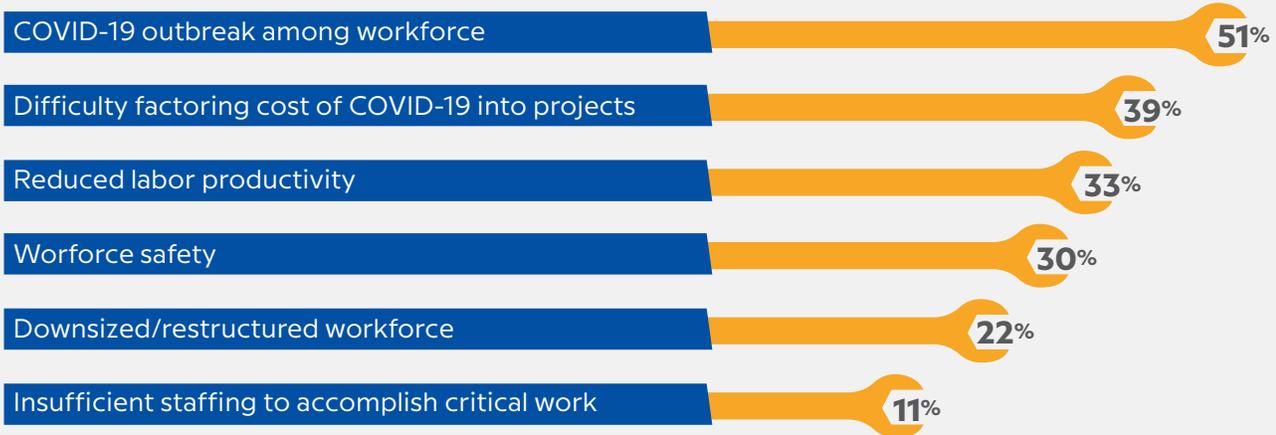


Although 37% of all respondents believe that revenues will increase by the end of the year, a greater number believes revenues will decline or believe revenues will be flat.



General Contractors are more optimistic than Subcontractors regarding revenue expectations.

LABOR CHALLENGES IN 2020



■ General Contractors
■ Subcontractors

COVID-19 outbreaks were another seismic challenge, especially in the beginning of the pandemic.



>1/2 respondents experienced breakouts of COVID in the workplace.



1/3 reported that workforce productivity suffered.



1/3 reported that they were challenged by workforce safety issues in 2020.



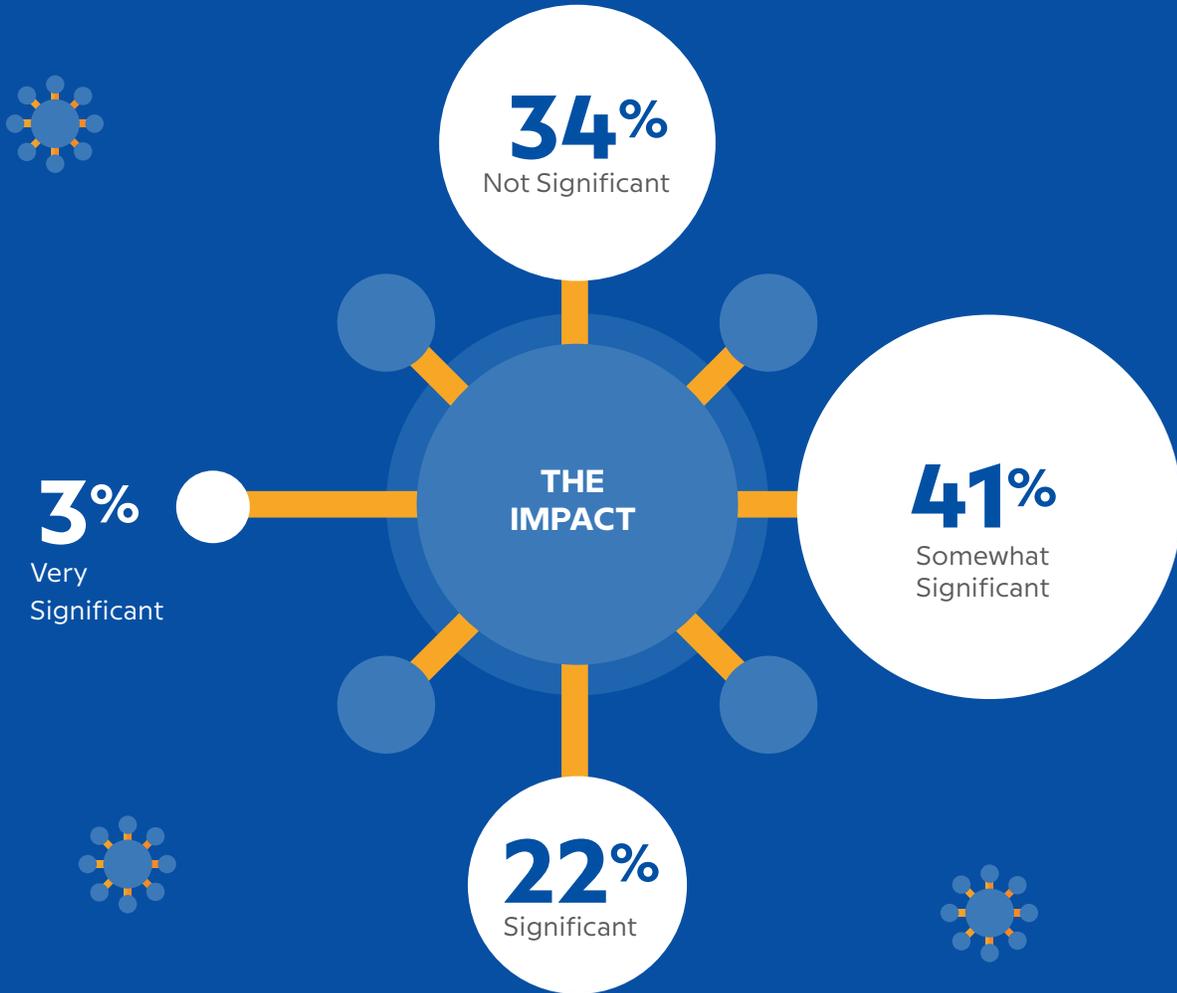
1/5 had to downsize their workforce.



Motivating people in a generally low-morale environment and managing labor as job conditions changed daily was a challenge.

-Survey Respondent

IMPACT OF COVID ON CONFIDENCE TO PRICE PROJECTS



65%

said that the pandemic impacted contractors' ability to price projects.

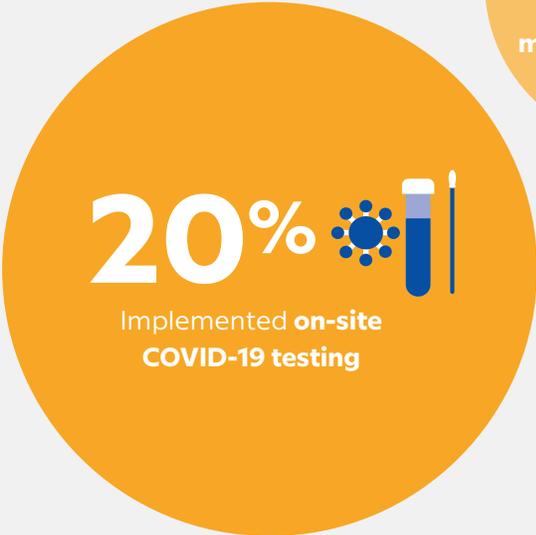
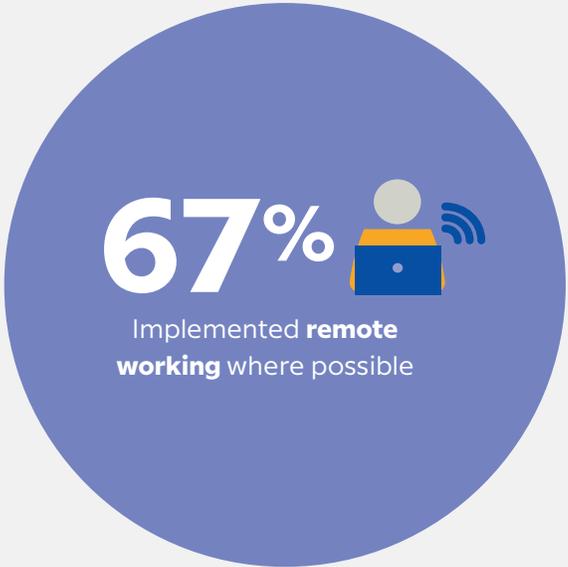
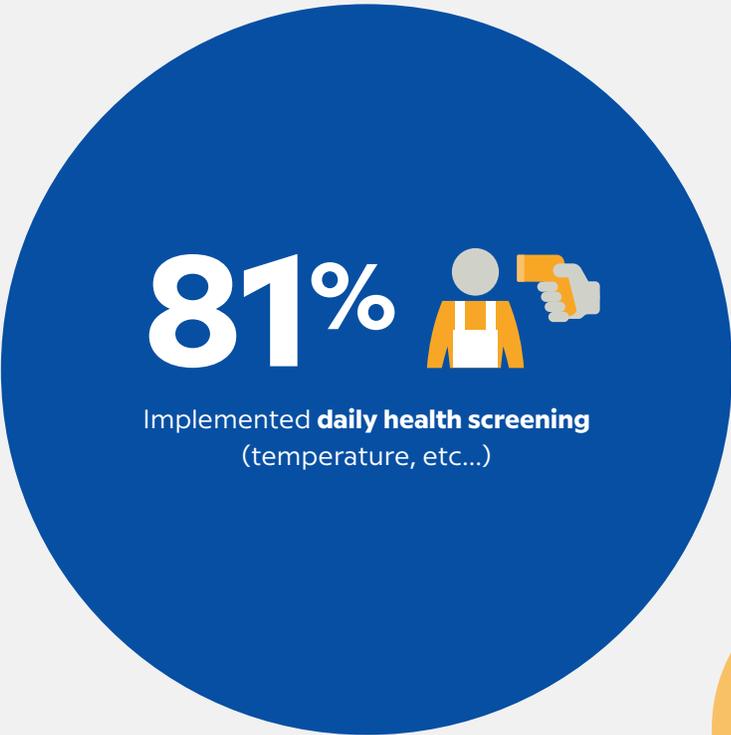
Only **1 in 3**

said that pricing the pandemic into projects was not an issue.

OPERATIONAL MODIFICATIONS AS A RESULT OF COVID

(Beyond Regulatory Compliance)

Contractors adapted to protect their workers and keep jobs running throughout the public health crisis.



SUCCESSSES AND OPPORTUNITIES IN 2020

Received a Paycheck Protection Program (PPP) loan or an Economic Injury Disaster Loan (EIDL)

79%

Improved work-from-home capabilities

57%

Better management of accounts receivable to protect cash flow

40%

Better management of unexpected events

38%

Increased workplace safety

36%

More innovative problem solving

36%

Applied for an employee retention tax credit

32%

More efficient steamlined organizational structure

30%

Better client relationships

24%

Raised workforce productivity

15%

Significant increase in demand for services

11%

Increased overall revenues

9%

Expanded sales

9%

Increased profits

7%



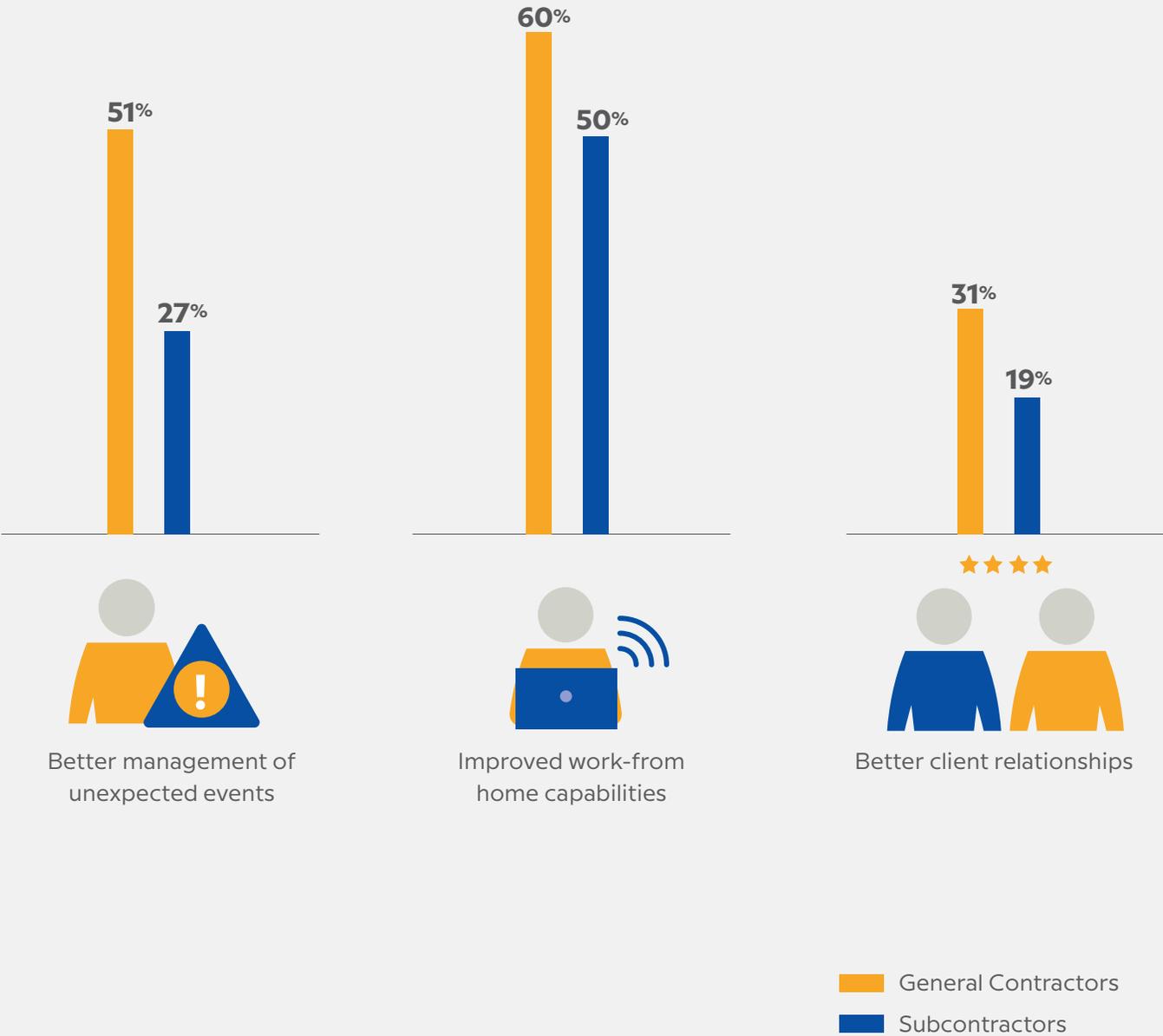
Receiving a **PPP loan was a game changer for 79% of construction respondents.**



During 2020, construction companies pivoted and improved: the pandemic was a catalyst for change and sparked an explosion of innovation.

SUCCESSSES AND OPPORTUNITIES IN 2020

GENERAL CONTRACTORS AND SUBCONTRACTORS



ESTIMATED TIME FOR FULL RECOVERY OF INDUSTRY



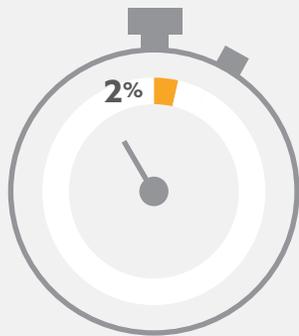
2021



2022



2023 or later



The construction industry may never fully recover in my region



Uncertain

1 in 5

believe that a full recovery will occur by the end of the year.

1/2

think that recovery will not occur until 2022.

1 in 4

believe recovery will not occur until 2023 or later.

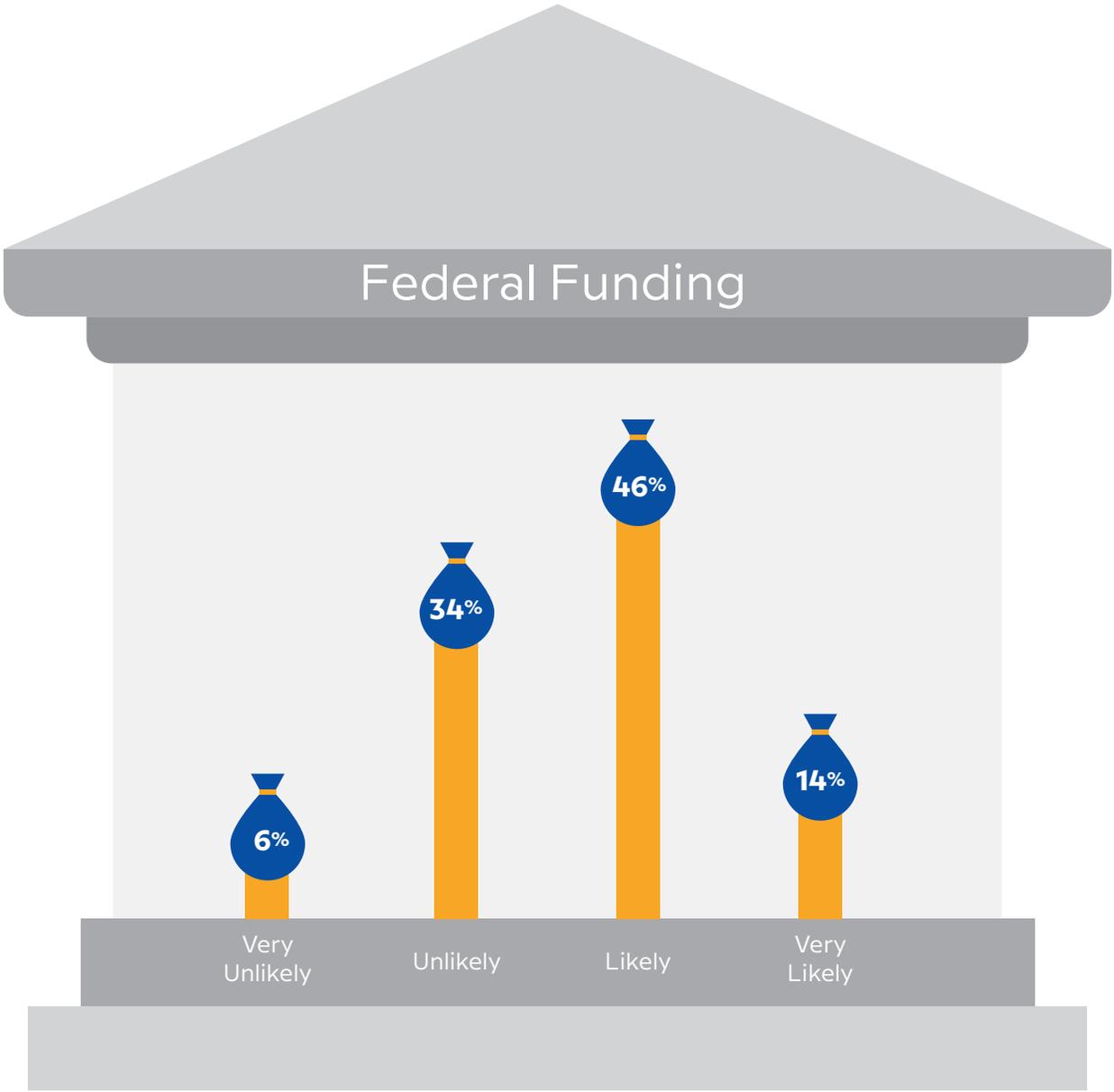


Expecting 2022 to be a much better year for bid opportunities and awards.

-Survey Respondent

LIKELIHOOD OF FEDERAL FUNDING FOR INFRASTRUCTURE, NEXT 12 MONTHS

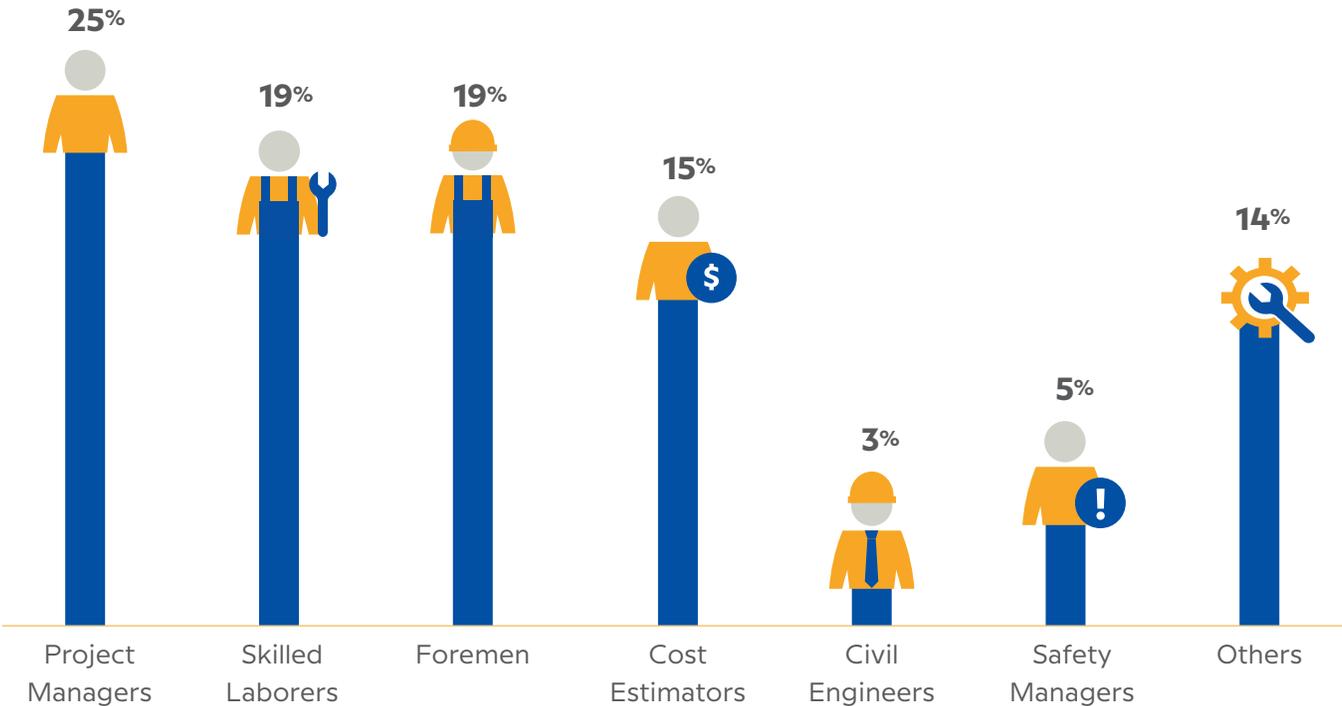
A comprehensive infrastructure spending plan will infuse much-needed dollars into the industry and boost recovery.



The survey reflects opinions captured in April/May, 2021

MOST DIFFICULT JOB CATEGORIES TO FILL

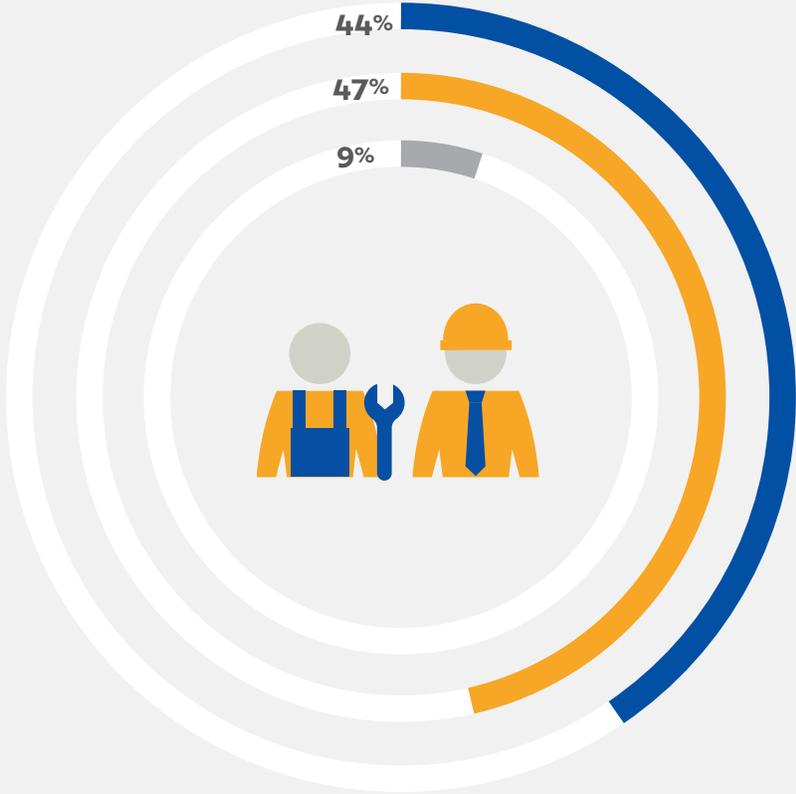
The construction industry continues to face a labor shortage.



Other Jobs That Were Difficult to Fill:

- CAD drafters
- Office personnel
- Operations superintendents
- Truck drivers

IMPACT OF DIVERSITY-RELATED ISSUES, LAST 18 MONTHS



- No Impact
- Some Impact
- Significant Impact

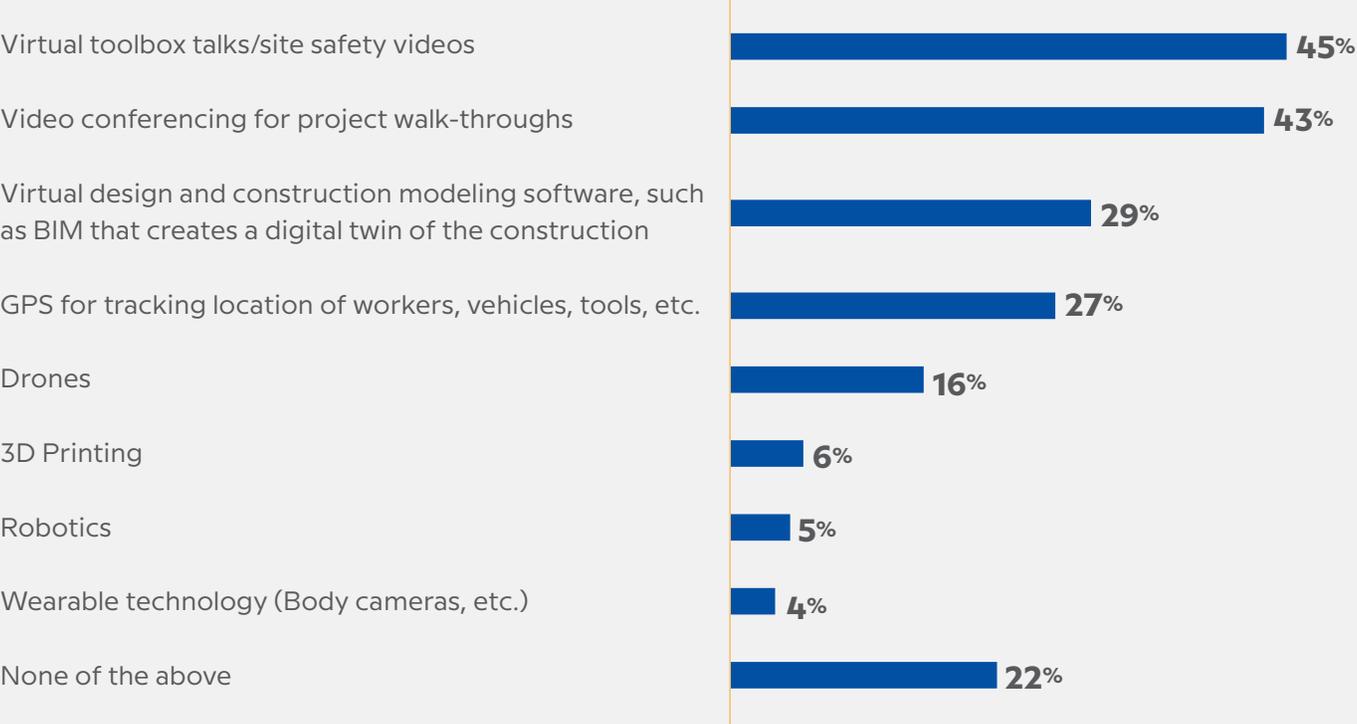
>50%

have seen some impact from diversity-related issues.



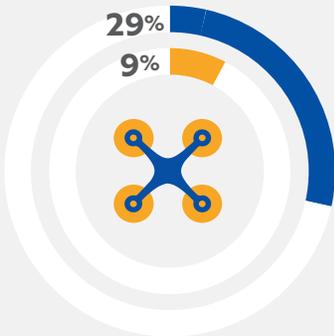
JOB-SITE TECHNOLOGY

Technology was essential in keeping job sites open and projects running during the pandemic.

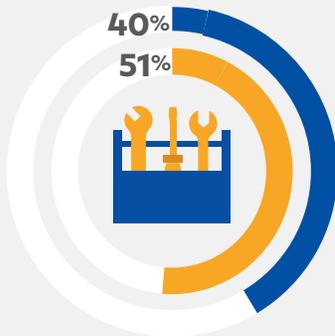


Other Technologies:

- Tablets/iPads
- On-board vehicle cameras
- Site 360 video



Drones

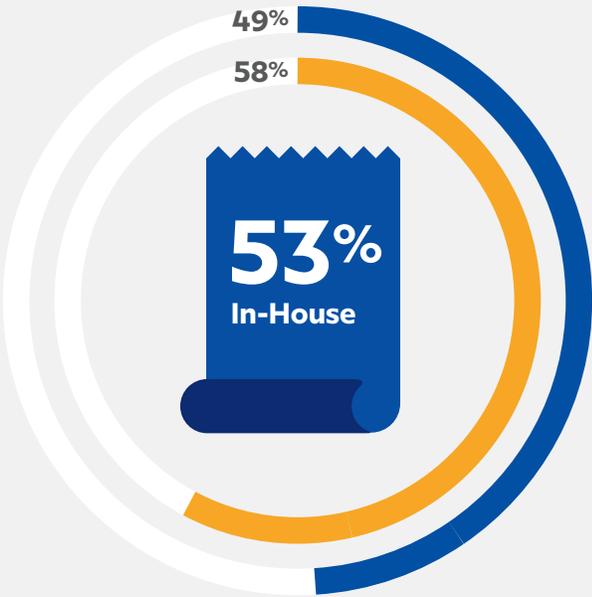


Virtual toolbox talks/site safety videos

- General Contractors
- Subcontractors

WHO HANDLES PAYROLL

Payroll is fairly evenly split between in-house and third-party providers, with more General Contractors than Subcontractors using external providers.



- All respondents
- General Contractors
- Subcontractors

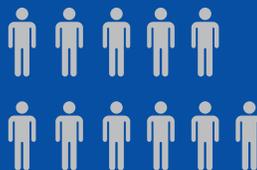
THIRD-PARTY PAYROLL PROVIDERS BY NUMBER OF RESPONDENTS



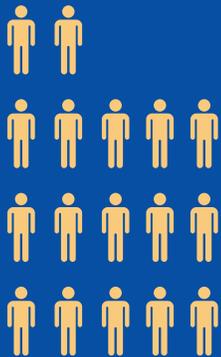
3 Don't know



4 Payroll4Construction



11 Paychex



17 ADP

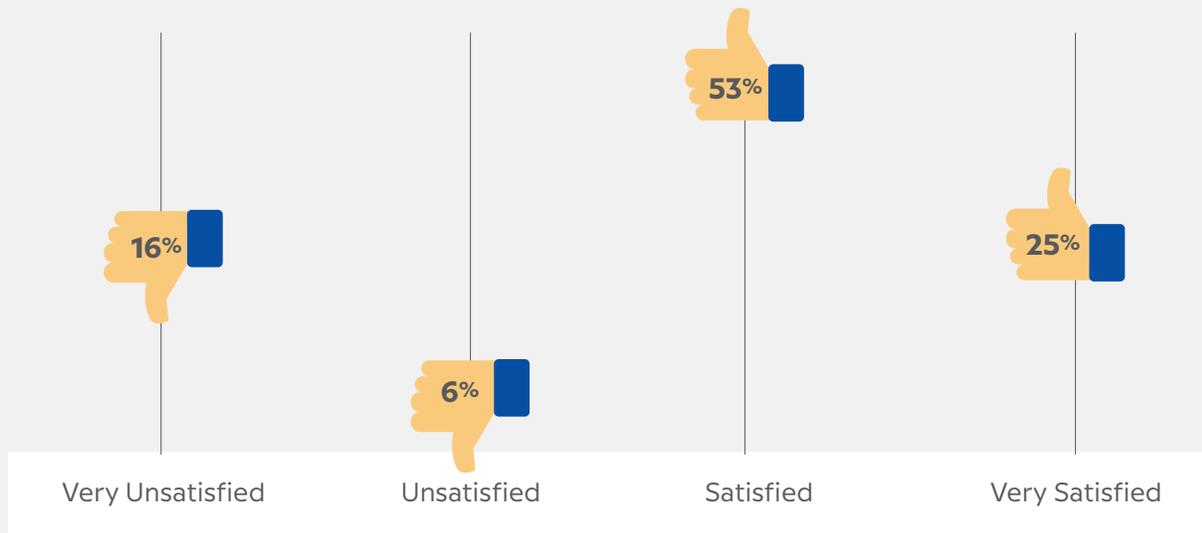


11 Others

- 2 Ceridian
- 2 Extensis
- 2 Paylocity
- 2 Insperity
- 1 PEO
- 1 Paycom
- 1 Premier

PAYROLL PROVIDER SATISFACTION, CHALLENGES

Overall, those using third-party providers are mostly satisfied. However, 22% indicated that they are unsatisfied or very unsatisfied.

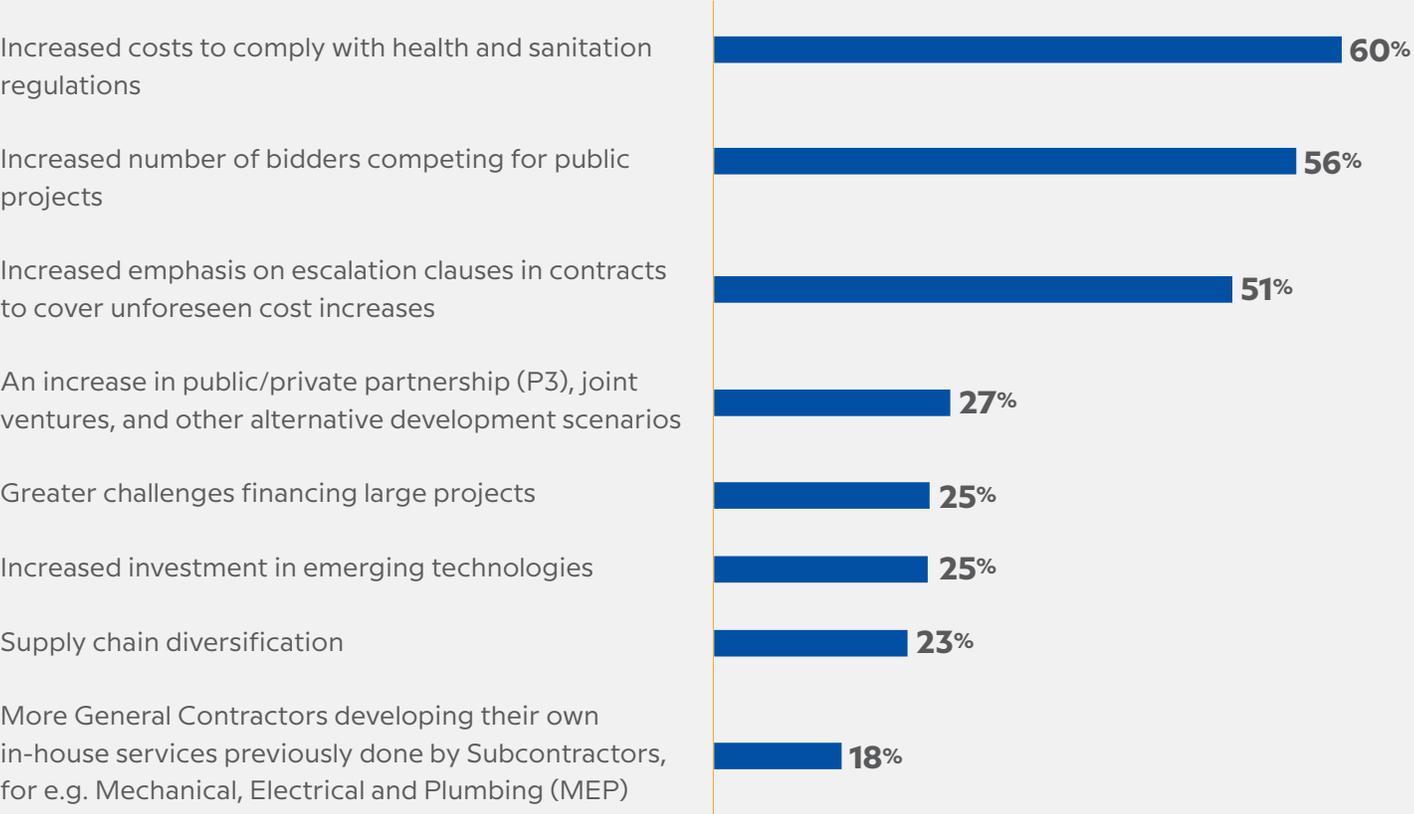


Respondent Comments: Challenges

- Setting up the process
- Poor implementation and lack of training by the third-party provider on the new system
- Coding differences for FFCRA, PPP, ERC, and ARPA
- Custom reports. For example, we couldn't generate a report to analyze PPP wages
- Tracking and allocating costs coming in from field
- Project accounting
- Processing checks
- Sick and Safe Act tracking
- Staying current with laws
- Time keeping and HRIS tracking
- Reporting when new employees benefits are implemented
- Union payroll

EXPECTED DEVELOPMENTS IN THE CONSTRUCTION INDUSTRY IN THE REGION, NEXT 12 MONTHS

In addition to expecting increased costs to comply with regulations, the high number of bidders competing for jobs is a significant industry problem.



Respondent Comments: Other



Lack of work

Escalation of insurance costs

More Non-Union subcontractors

Proper pricing of risks associated with design-build projects

Commodity availability and volatile pricing will make costing projects and scheduling more difficult

PREDICTIONS FOR 2021 AND BEYOND

The outlook for revenues in 2021 appears to be brighter for General Contractors than for Subcontractors. While 40% of General Contractors predict revenues will increase in 2021, nearly as many Subcontractors (39%) believe revenues will decline this year.

The majority of respondents anticipate a full recovery of the construction industry sooner rather than later, with 22% predicting 2021 and 46% expecting full recovery in 2022. Optimism is seen in their predictions for federal funding, with 61% expecting the infrastructure plan to infuse much-needed dollars into the sector within the next 12 months.

Respondents were realistic that challenges will remain over the next 12 months as well, including:

60%



Increased costs to comply with health and sanitation regulations.

56%



Increased number of bidders competing for public projects.

25%



Greater challenges financing large projects.

Fortunately, they predict just as many opportunities over the next 12 months to mitigate risk and improve efficiencies, such as:

51%

Increased emphasis on escalation clauses in contracts to cover unforeseen cost increases.

27%



Increased public/private partnerships (P3), joint ventures and other alternative development scenarios.

25%



Increased investment in emerging technologies.

23%



Supply chain diversification.

ACKNOWLEDGEMENTS

This year's survey of contractors and industry leaders focused on the most significant issues and trends in 2020, as identified by Grassi's Construction Professionals and other leading industry experts.

Advisory Panel

We want to express our appreciation to Grassi's Construction Advisory Panel members for sharing their insights and participating in the survey development process:

Louis Coletti

President & CEO
Building Trades Employers
Association

Hank Kita

Executive Director
Subcontractors Trade
Association

Charles Murphy

Senior Vice President
Turner Construction Company

Steven Goldstein

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The L&L Companies

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Anthony Mann

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Elizabeth Velez

President
Velez Organization

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Construction Executive

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