Four Reasons for Construction Industry Growth in 2021

For Door, Frame & Hardware Distributors

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Contents

Introduction

The AIA Consensus Construction Forecast Panel predicts commercial construction spending to decrease by 12% in 2020. This is certainly not surprising, as the entire economy grinded to a halt with government-issued lockdowns and shelter-in-place orders. Maybe more surprisingly, the impact was only 12%. To anyone whose business or career supports commercial construction, hats are off to you for maintaining operations and supplying your customers with products during a historically difficult time.

But what lies ahead for our industry? AIA forecasts the industry slowdown to continue with another 5% decline in non-residential construction in 2021. Forecasters use existing economic and mathematical models to extrapolate future trends from current business data coupled with historical data patterns. But **are these existing methods useful for predicting economic behavior, given this completely unique shift in society?**

The Covid-19 pandemic has caused a catastrophic and immediate impact to our society and economy unlike anything previously experienced. Typically, economic forecasts factor in indicators such as the Federal Reserve's tweaking of interest rates, small changes in inflation, and shifts in consumer confidence. However, those old trend curves and traditional economic forecasting methods may simply be inaccurate predictors for the unique circumstance ahead in 2021 and beyond.

This whitepaper offers a forecast that contradicts the recently-published industry predictions, concluding that non-residential construction spending will increase in 2021 and even for the foreseeable future. This optimistic forecast is supported by recent facts and statements gathered by industry observers in August 2020. Four fundamental shifts in commercial design and construction support the growth prediction for 2021.

1. **Compliance** – New guidelines and mandates will force major retrofitting and renovation construction.
2. **Safety** – Businesses will leave buildings with outdated ventilation, narrow spaces, and other virus-tolerant conditions in favor of using newer, safer construction for their employees and customers.
3. **Motivation** – Businesses will seek more attractive, safer, and inviting workplaces to encourage both workers and customers to return.
4. **Geography** – People and businesses will leave high-density urban locations, especially those areas hit the hardest by the virus, for lower-density, less urban areas. This spawns the need for construction.

This whitepaper explores the driving factors and data points that point to near-term growth in the commercial construction industry.

Covid's Economic Toll

Everyone personally experienced the economic impact of Covid-19. The government-mandated lockdowns and stay-home orders caused immediate unemployment, dramatic reductions in business and consumer spending, and a halt to economic engines like manufacturing and distribution. While the pain remains currently, quantitatively reviewing the economic destruction provides an understanding for the current flood of negative economic forecasts for 2021.

CONSENSUS CONSTRUCTION FORECAST
JULY 2020

	2019	2020
Nonresidential Total	-8.1	-4.8
Commercial Total	-11.6	-8.4
Office	-11.1	-7.6
Retail & Other Commercial	-7.7	-7.2
Hotel	-20.5	-16.5
Industrial Total	-8.3	-3.3
Institutional Total	-4.5	-1.7
Health	2.4	-3.2
Education	-6.6	-1.0
Religious	-9.9	-5.9
Public Safety	15.6	2.5
Amusement & Recreation	-13.0	-11.9

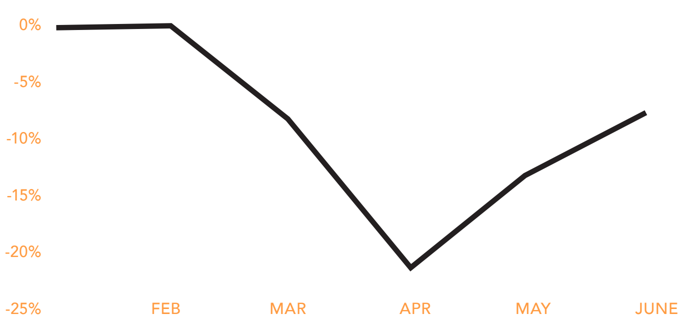
Source: AIA, July 2020 Consensus Construction Forecast

According to the US Department of Labor Statistics, the unemployment rate in the United States stood at 3.5% in February 2020, then rose to 14.7% in April 2020 after the initial impact of Covid. In other words, **23.1 million Americans were now unemployed, at a number double that recorded during the Great Depression**. Since April, the unemployment rate has steadily declined and experts predict a 7% level by year-end. This is certainly better, but still twice the low rate prior to Covid.

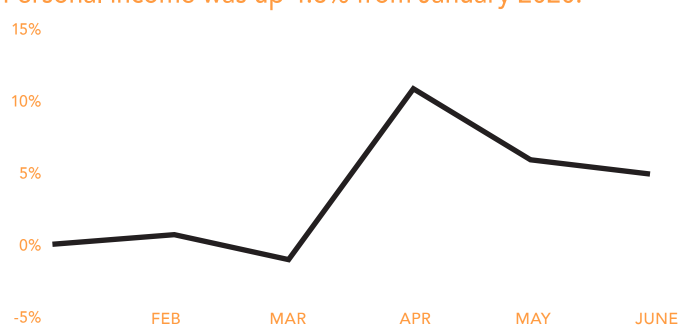
While Americans were losing jobs, government spending exploded, and the national debt increased to nearly $19 trillion, with over $2 trillion added in just the first three months of the pandemic. While most state and local governments deemed construction an "essential" industry, which fortunately helped preserve jobs and bolster economic activity, most private sector businesses suffered severe impacts, especially those with consumer-facing services like food service, hospitality, travel, and entertainment.

On the flip side, **the pandemic did create some silver linings for the economy**. For example, as the lockdowns and stay-at-home orders greatly reduced consumer spending, the nation saw the largest and most dramatic gain in consumer savings in modern history. According to the June report by the Bureau of Economic Advisors, the average household income increased by nearly 5% from April to June due to the government disbursement of over $1 trillion of unemployment and small business relief aid. As a result, a situation now exists where **many Americans find themselves with greater savings account funds and lower credit card debt** (USAfacts.org). Certainly, this positive situation could evaporate if the pandemic continues unabated. But if economic activity recovers in late 2020, consumer cash may fund a geographic shift of workers, which will be discussed later in this whitepaper.

Household spending was down 7.4% from January 2020.



Personal income was up 4.8% from January 2020.



Source: USAFacts, July 2020

Bottom line: the experts predict a gloomy-at-best forecast for the non-residential construction industry through the remainder of 2020 and 2021. Dodge Data Analytics, a leading economic research firm in the construction industry, predicts an 8.1% decline for 2020 a 4.8% decline in industry activity in 2021. Virtually every economic research organization predicts declines ranging from 2% to 16% depending on the specific non-residential sector.

> *The experts predict a gloomy-at-best forecast... but could they simply be wrong?*

These somber and sobering forecasts may cause suppliers to take drastic measures in anticipation of a large industry slowdown. Some examples include preemptive layoffs, reduced expenses, and reduced investment back into their business.

But what if these forecasts are overstated? **Could the experts simply be wrong?** Could the non-residential construction industry actually increase in 2021? The remainder of this whitepaper explores the **four main reasons why growth in commercial construction will increase in 2021**.

Why Commercial Construction Will Increase in 2021

Reason 1: Covid Compliance

Covid Compliance is a term unheard of before 2020, but it may become a leading driver of economic growth in 2021.

The Society of Human Resource Management (SHRM) reported that approximately 7% of Americans worked from home in 2019. However in June 2020, **SHRM reported that 64% of Americans worked from home**. Never before in history has so much of the workforce so suddenly and completely shifted their workplace. Gallup Research reported that 59% of at-home employees wish to continue working from home post-Covid, but anecdotal employee surveys conducted by several Fortune 500 companies reveal an even greater percentage: **up to 80% at-home employees wish to continue working from home.**

The reasons employees prefer working from home are twofold. First, employees enjoy having flexible schedules and eliminating their commute times. Second, staying at home removes worries about returning to potentially unhealthy, unsafe workplaces. The employers who plan to recall staff to the workplace must deal with liability and retention issues relating to health concerns.

However, numerous workplace surveys reveal that **an overwhelming majority of employers prefer that their staff work from a common location** to promote collaboration, productivity, and morale. The onus then falls on the employer to provide a safe, Covid compliant workplace for employees and customers. Current CDC guidelines recommend dozens of Covid compliance actions and expect OSHA mandates to follow.

Today, very few workplaces comply with these new standards for Covid Compliance. This partially explains why many Fortune 500 companies recently announced plans to

What does a Covid Compliant workplace provide?

- Socially distanced seating and walkways
- Touchless door openers
- Anti-microbial door and counter surfaces
- Designated health stations (for personal protective equipment, sanitizing, etc.)
- New HVAC ventilation requirements for work areas
- Higher ventilation requirements for eating areas
- Larger and more eating areas
- Partitions in public areas (between desks, counters, etc.)
- Partitions in restrooms
- More closed-area workspaces

keep employees working at home mid-2021. Companies now realize a real investment lies ahead in making their workplaces Covid Compliant. This will involve significant commercial construction and retro-fitting, which represents an immediate demand opportunity to provide the doors, hardware, partitions, and HVAC equipment required by every major employer across America.

According to research published by Pacific Business Group in August 2020, an interview of fifteen Fortune 500 companies employing 2.6 million employees revealed that 57% of employers postponed the staff's return to work until workspace renovation finishes. This is causing many employers to delay the return to the office until after July 4, 2021.

For example, consider the Covid compliance requirement for meeting room size. New CDC guidelines recommend a minimum of 28 square feet of space per employee within a meeting room. Adding walkspace to and from the meeting table, plus entry to the seating area, the space requirement becomes approximately 60 square feet per planned occupant: **hence 600 square feet for a 10-person meeting room**. Consequently, companies will need to provide much more meeting room space and construct new configurations within the workplace.

Another Covid compliance change: no more "hoteling" employees, or rotating common spaces for employees who are not full-time. Covid compliance demands that employees be assigned specific desk and office locations to reduce virus transmission and facilitate contact tracing if needed. This requires a significant increase in square footage per employee, even for those who rarely enter the office!

Undoubtedly, companies will return fewer employees to the office than they accommodated in 2019. However, the space requirements of those employees are now dramatically higher. **Experts predict that additional office space may be needed, even if companies only return 50% of their staff**.

Conclusion 1

Covid compliance will drive demand for commercial renovation construction.

Why Commercial Construction Will Increase in 2021

Reason 2: Safety

While immediate Covid compliance requirements will drive demand for retrofitting workplaces, many employers will discover it impossible to retrofit older buildings without exorbitant cost.

Older buildings may struggle to comply with newly recommended CDC and OSHA HVAC ventilation requirements for workspaces, common areas, eating areas, and health stations. New requirements call for enhanced zone-based ductwork, increased air flow, and much higher particle filtration rates. This may require the complete renovation of ceiling spaces, wall configuration, room vents, and other costly construction.

The CDC-published "Covid-19 Office Building Guidelines" helps employers determine if their workspace is safe for returning employees. It suggests 11 different actions, some extremely costly, just in the area of HVAC safety. For buildings that may not meet these 11 prescribed safety protocols, **the CDC recommends that employers invest in ultraviolet germicidal irradiation (UVGI) equipment to disinfect all workspaces daily.**

Other CDC safety guidelines include increasing the use of stairwells and escalators for primary vertical travel, and reducing the use of elevators, which are considered high-risk zones given their small enclosed space, limited ventilation, and unsanitary touch buttons. Employers must also provide more restrooms to avoid overcrowding and ensure employees easy quick access for frequent handwashing. Restrooms would ideally be located near elevators for easy access.

While some of these guidelines may appear to be excessive, employers face no option but to comply. Operating an unsafe workplace, per OSHA and the CDC, leaves the employer at risk of regulatory penalties, civil fines, and employee discontent.

"This crisis is probably going to accelerate the need for modern, flexible office space with lots of services," says Magnus Meyer, managing director of WSP, an international engineering and architecture firm. **"The buildings that suffer will be the older ones that tenants just don't want any more. They're just the wrong product."**

Conclusion 2

Health safety considerations will drive employers to seek new commercial space designed specifically for virus safety.

Why Commercial Construction Will Increase in 2021

Reason 3: Creating Motivators

Covid compliance and safe workplaces comprise the basic requirements for businesses that decide recall employees to the office, but most companies will find the need to create additional motivators for this change. NABS, a UK-based market research firm, surveyed corporate employees to gauge their willingness to return to the office, and **76% of employees stated they miss the social interaction and collaboration with fellow employees**. Only 16% stated they never want to return to the office.

Consequently, **social interaction remains a primary motivator for encouraging the return to the workplace**. But how can employers foster social interaction while they scramble to retrofit the office for Covid compliance and health safety? The answer lies in new types of workspaces which provide space for both social distancing and socializing. Just as socially distancing desks and walkways requires more space, so will designated social gathering areas and meeting areas.

Many employers will discover their current office space is not large enough to facilitate socially-distanced interaction. As a result, **employers will need to provide workspaces with extra-large meeting areas so they can guarantee safe socializing for their employees**.

Offices have changed in some ways during the past decade, but they may need to be entirely rethought and transformed for a post–COVID-19 world. The research firm McKinsey advises that for larger employers that see post-Covid times as nothing more than an opportunity to reduce real estate costs, a huge opportunity is missed. The firm suggests that "real estate groups should collaborate with the business and HR to redo the footprint entirely and develop fit-for-purpose space designs quickly—in some cases, by creating win-win approaches with landlords."

Beyond office space, new space designs are required for customers' return to retail, dining, and entertainment venues. Imagine the public reaction to an old, densely packed, low-ventilation restaurant, versus one that is new, socially-spaced, and open-air. Restaurants might consider expanding dining room square footage and table spacing for the comfort and safety of guests. Safer dining rooms, shopping venues, and workplaces will all motivate people to feel more at ease in a post-pandemic world. The public will ultimately vote with the pocketbook, and old, unsafe spaces will fall behind in 2021.

Conclusion 3

Businesses will seek new commercial space to encourage employees and customers to return.

Why Commercial Construction Will Increase in 2021

Reason 4: Geography

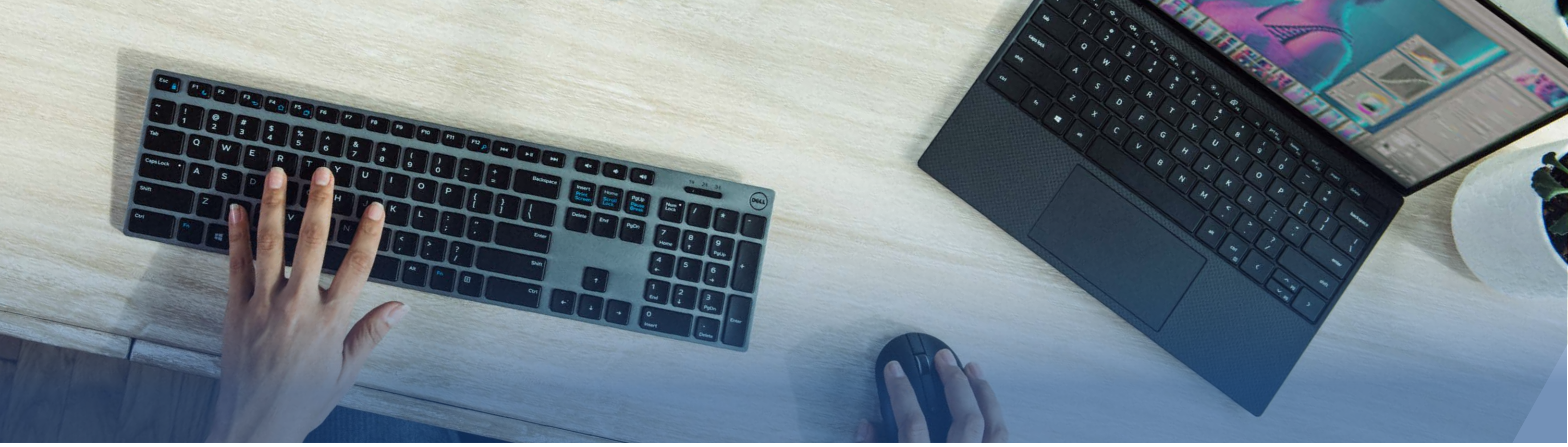
The U.S. Census Bureau released data in 2017 which documented a clear decades-long trend of Americans moving away from rural and suburban areas back to the city. As a result, dozens of major US cities experienced new gentrification. Old, decaying urban zones transformed into attractive, redeveloped neighborhoods as **younger Americans sought to live closer to work, reduce their commute times, and increase their social and professional opportunities**. In total, the percentage of the U.S. adult population in urban neighborhoods increased 17.1% from 2000 to 2017, reversing the post-WWII trend toward the suburbs.

> *Covid appears to have reversed a geographic trend and now people are moving away from the city.*

Accordingly, businesses also returned to the city, and commercial construction exploded. David J. Collis, professor of corporate strategy at Harvard Business School, noted this in 2016: “Cities are more attractive places to live than they were 30 years ago and are more willing to provide tax incentives and young people want to live there.” In 2017, Stuart Lichter, president of the major commercial real estate developer IRG, agreed: “Companies are migrating to the city because they perceive the need to attract talent.”

Interestingly, the companies that moved to the city were often the same ones that abandoned downtown districts back in the 1970s and built sprawling suburban campuses during the 1980s and 1990s. It was timely that they followed employees moving to suburbs. But that migration reversed in the late 1990s, as census data shows, as did business locations. As a result, dozens of major Fortune 500 companies like McDonald’s, Weyerhaeuser, and General Electric relocated millions of square feet of office space, and tens of thousands of employees, from suburban campuses back to downtown offices.

But Covid-19 appears to have reversed this back-and-forth migration once again. The stay-at-home orders and economic lockdowns were felt especially severely by residents. Urban dwellers are more likely to live in smaller spaces, experience more scarcity of consumer goods, and suffer from higher disease rates. These stressors caused many to reconsider their decision to live in the city. Plus, other factors of urban living include higher costs of living, higher tax rates, and higher crime rates. All over again,



people are leaving major cities and seeking suburban or rural residences. The June issue of Forbes magazine said, **"Some New York metropolitan real estate agents describe the interest in renting or buying suburban homes as 'a frenzy.'"**

Cost of living and quality of life are not new reasons to migrate to the suburbs. Many people, especially Millennials, chose urban living because it afforded better career choices. Moving away may limit career mobility and advancement opportunities. Until now, people needed to live somewhat near their employers, but that reason has virtually disappeared.

The Covid-19 pandemic unveiled a new reality of virtual, work-from-home, remote access for all employees. To the surprise of most employers, the new remote strategy seems to be working out quite well. **Companies report drastic increases in both employee productivity and job satisfaction**. This new realization affirms work-from-home trial runs in 2019.

For example, Trip.com conducted a 2019 experiment to measure the productivity of remote versus in-office employees. A trial test over nine months, involving hundreds of workers, showed that home workers performed with 13% higher productivity. Employees stated two main reasons for this: first, they had fewer distractions at home, and second, the time they gained back from commuting allowed them to work more minutes per shift. Thus, in post-pandemic times, industry forecasters expect employers to willingly provide workers more options to work from homes, which would certainly support employees' ability to move away from the city.

Not surprisingly, early data indicate people are already leaving the city. **United Van Lines, a moving company, reports a 90% increase in scheduled moves out of New York City.** The Daily Mail reported that on August 11, Oz Moving Company experienced a 30% year-over-year increase in booking rate for moves out of major cities. The International Council of Shopping Centers interviewed 1,004 people in May 2020 and discovered that 43% of urban millennials are considering relocating.

Companies will leverage the opportunity to leave expensive urban office space in favor of lower-cost corporate offices in suburban areas. James Farrar, the CEO of real estate investment trust City Office REIT (which owns 66 office buildings in several major cities), says he expects to **"see more and more tenants leave the city."**

Conclusion 4

A geographic shift toward suburbs will result in businesses leaving urban locations for the suburbs.

Conclusion

In summary, recent trend data suggest that **demand for new commercial construction will increase in 2021.** This prediction counters the negative forecasts published by nearly every industry and economic forecasting organizations. Four very recent reasons support this positive forecast:

1. Compliance to new Covid-19 regulations will cause employers to retrofit and reconfigure existing commercial facilities.

2. Many older facilities will be unable to provide sufficient health safety, which will cause employers to seek new construction.

3. Employees and customers will need motivation to return to commercial spaces. Businesses will respond by providing attractive and appealing new locations.

4. People and businesses will relocate from urban centers to new suburban locations. The demand for suburban commercial space will drive new construction.

The fact remains that in 2021, **fewer workers will be required to occupy commercial space**. Estimates say that 20% to 50% of people may work from home permanently. Many of the negative industry economic forecasts are based on this trend. But, these same forecasts fail to account for the retrofitting for Covid compliance. Plus, compliance will demand much higher square footage per employee. All these factors point to an increase in commercial construction in 2021 and beyond. **For door, frame, and hardware distributors, a growth year opportunity awaits in 2021.** Those that prepare for growth will be the first to monetize the opportunity. Growth-minded distributors should invest in resources and processes now so that they will be able to handle higher demand.

Rich Burton, the CEO of Zillow and founder of Expedia, followed the negative early forecasts which predicted that the pandemic would severely depress the housing industry and Zillow revenue. As a result, Burton moved quickly to cut expenses by 25%, reduce marketing, freeze hiring processes, and hunker down for bad times. However, the opposite occurred. Because of new reasons for consumers to move, and lower mortgage rates, home sales spiked. Zillow's second-quarter revenue increased by 28% compared to the same period in 2019. Burton commented "this time will be remembered as the Great Reshuffling: a permanent reshaping of how people live and work."

If we are facing a "Great Reshuffling," those who properly prepare their businesses will grow the most. The advice of another business futurist, Alexander Graham Bell, rings true at this potential tipping point in history: "Before anything else, preparation is the key to success."

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