

Building up the construction industry: 2020 in review

BY BRANDI SMITH



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Richard Branch



Dan Pomfrett

Heading into 2020, forecasts for the Texas construction industry called for continued expansion, boosted by the state’s strong job market and continued growth. As we wrap up the year that was, we’re reflecting on the pandemic’s impact by talking to experts from Dodge Data & Analytics and Cumming.

“In the early days and weeks of the crisis, many parts of the country shuttered construction activity putting people out of work,” said Dodge’s chief economist, Richard Branch. “As the economy has reopened, construction activity has recovered somewhat, but the impact of the still very weak economy has meant the delaying and cancelling of planned projects.”

Experts expect the rebound will not be as lengthy as it was following the 2008 recession. While it took 10 years for construction volume levels to bounce back after that, they predict volume will return to 2019 levels in three to four years.

“Projections this time last year had a steady growth in the market for construction volume between 3 percent and 5 percent (dependent upon the sector and geographic location). However the pandemic has reduced these to a contraction in 2021 of approximately 7 percent, with a reversal positive 7 percent in 2022 and between 4 percent and 5 percent for the following years,” said Dan Pomfrett, Cumming’s vice president of forecasting and analytics.

So where does Texas stand at this moment? Through nine months of 2020, total building construction value in the Lone Star State is down 6 percent from the same time period in 2019. Pomfrett attributed some of that slowdown to the petrochemical industry.

“The impacts of lower fuel prices, production rate changes and, in some cases, a pause on construction are starting to ripple through the region,” he said.

While hospitality and retail sectors are garnering headlines for taking the brunt of the pandemic’s blow, Pomfrett said green shoots are starting to be seen “particularly in the renovation and repurposing of existing buildings.” Another bright spot is housing, per Branch.

“Within Texas, the residential market stands out as a clear winner driven by strong single-family activity, while nonresidential buildings are on the decline,” he said.

According to Dodge research, San Antonio is showing the most growth, posting a 10 percent year-to-date gain for building construction, largely built on the strength of single-family activity.

“On the other end of the spectrum is Houston,” said Branch, “which is down 17 percent through nine months as that metro is not only dealing with COVID-related impacts, but also very low oil prices.”

“Overall our view of the Texas market is a positive one. There will be some peaks and troughs, which will be both region- and sector-specific, with burgeoning sectors such as tech and biopharm becoming more prominent,” Pomfrett said. “The key to the successful bounce-back of the region will be the availability of skilled labor.”

That is a major component of Pomfrett’s observations: the challenge to deliver the workforce needed when construction volume regains momentum.

“Worker productivity is being affected by local government regulations, close-downs and social distancing requirements, which curtail utilization, subsequently leading to either the need for additional labor to offset this or project schedules being extended,” Pomfrett said.

In addition, sectors such as hotel and transportation will take years to recover due to reduced traveling, while other sectors will have to adapt going forward.

“The office sector could see less demand for space as a growing number of companies shift to remote work,” Branch said. “Education construction (particularly college activity) may be altered by a shift to more online learning.”

He and Pomfrett both predict long-term impacts on the construction industry, though they anticipate Texas will be able to recover more quickly than many other markets.

“Compared to other similarly sized states (California, New York and Florida), Texas is overall in relatively better shape,” said Branch. “Florida total construction is down 4 percent on a year-to-date basis, but the percent declines in California and New York are in the double digits.”

The saying goes “Everything’s bigger in Texas.” Fingers crossed that applies to economic recovery and the future of the construction industry.

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