



Construction Community COVID-19 Survey

Research Summary



SUMMARY

WHY

This study is part of KatzAbosch's ongoing commitment to conduct and share timely information to construction companies and the professionals who manage them. The COVID-19 pandemic has, as we all know, hit the industry with unprecedented labor and financial obstacles. To get a sense of how construction companies are responding we reached out to our clients and contacts and invited them to participate in our peer survey.

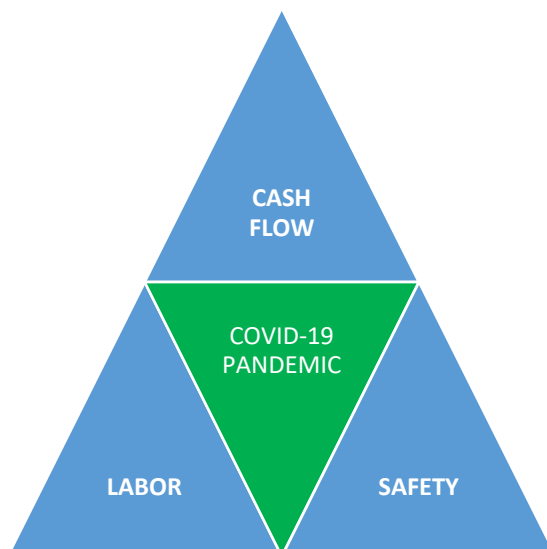
The goal was to provide general benchmarking data to help reinforce operational best practices and highlight planning opportunities to allow your company to thrive.

INSIGHTS

Construction companies were deemed essential as COVID-19 developed into a pandemic. As such, companies had to aggressively undertake workflow changes that impacted day-to-day operations for them.

Everyone in the company, from office staff to the workforce on the job site, was impacted by the implementation of COVID-19 safety criteria. Sick leave and other employment policies were scrutinized and adjusted.

The graph to the right represents three themes emerging from the survey. These subjects will be reviewed in further detail throughout the report.



REVENUE ENVIRONMENT

The COVID-19 pandemic may have construction companies juggling a number of financial obstacles and challenges. However, half of the survey respondents feel confident their revenue will be down only slightly. This outlook may be off-set by the Paycheck Protection Program benefits. 70 percent of the survey respondents took the loan and the majority plan to take advantage of the forgiveness of debt provided by it.

Figure 1: Expected 2020 revenue/sales will be affected by COVID-19

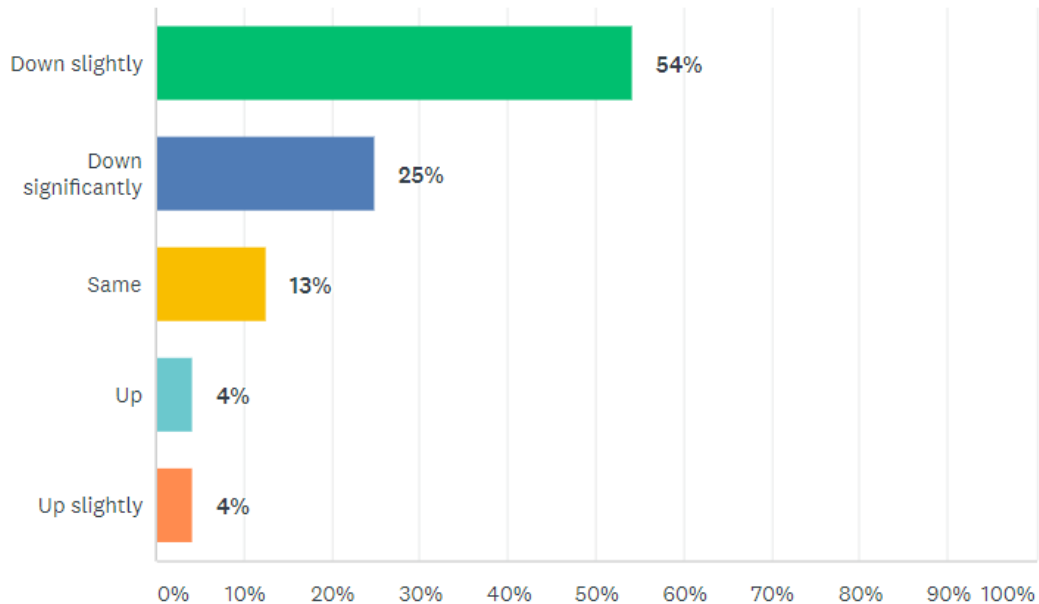


Figure 2: Percentage of companies who took the Paycheck Protection Plan (PPP) Loan

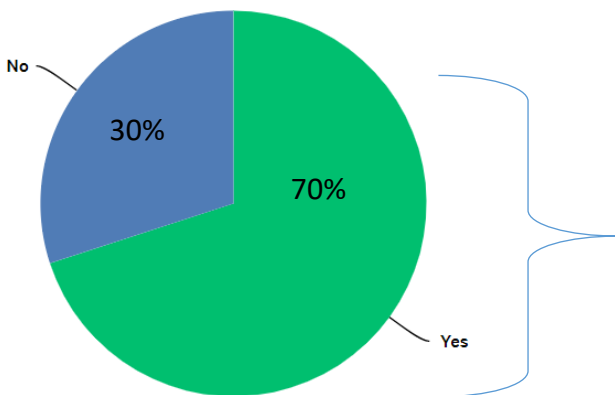
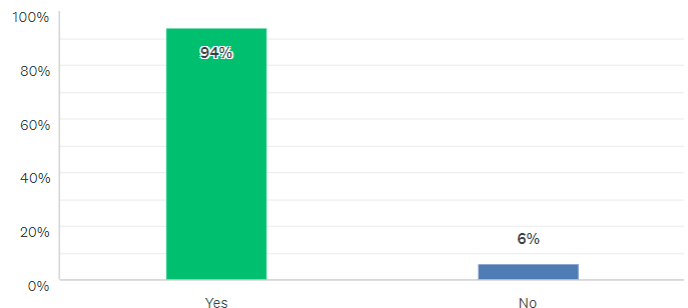


Figure 3: Percentage of companies who plan to take advantage of forgiveness of debt under the Paycheck Protection Program



REVENUE ENVIRONMENT

According to our survey respondents, work delays are being forecasted between 5 to 15 percent in the next few months (figure 4). Since March, contract bids have decreased by over 50 percent as shown in figure 5.

Work delays and decreased contract bids suggest construction companies, by this fall, may experience a shortage of work. This may result in contractors having to adjust their labor force accordingly. Conversely, these results may indicate that due to the change in timing of signed contracts, some contractors might be facing a labor shortage if all the delayed jobs start up at once.

Figure 4: Percentage of work expected to be delayed

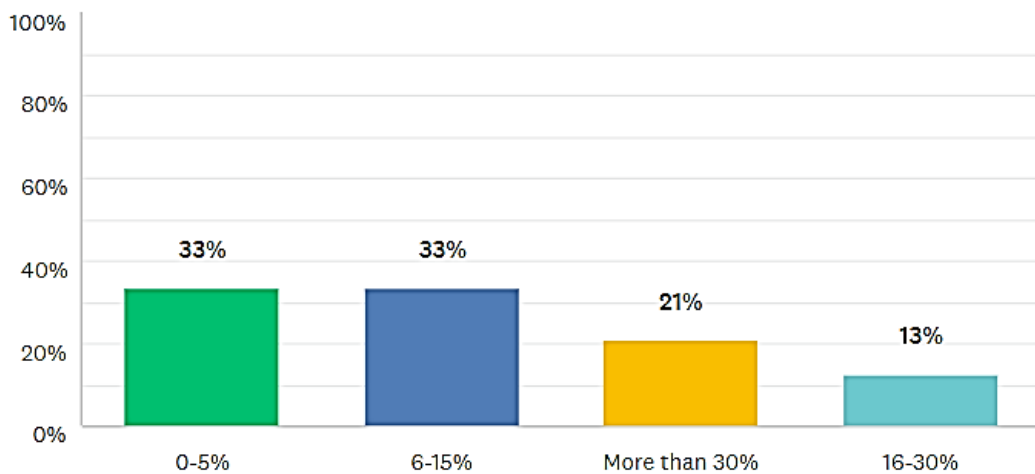
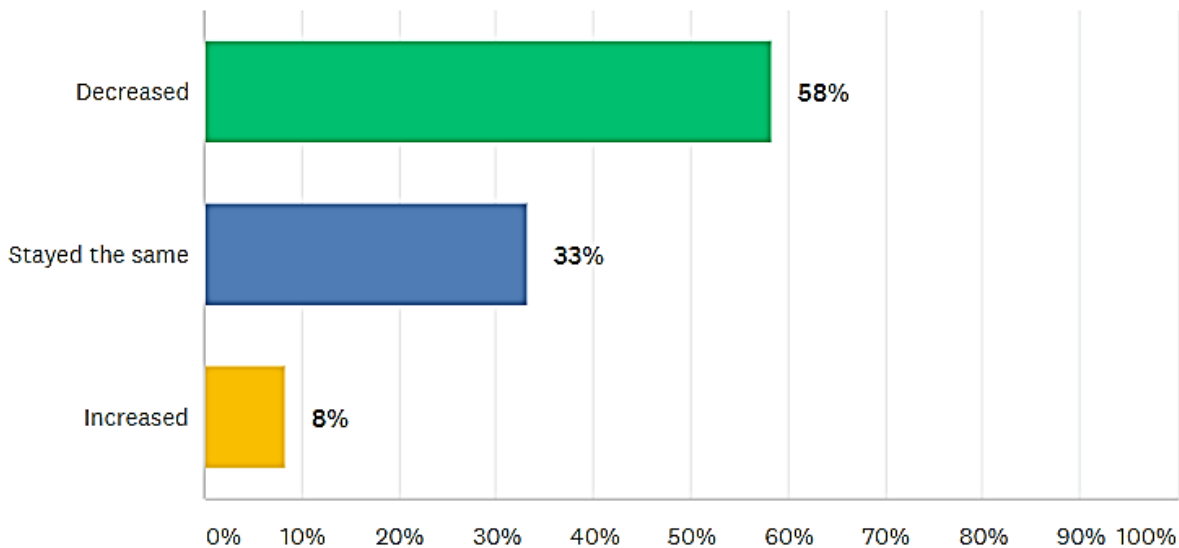


Figure 5: Percentage of contract bids changed since March



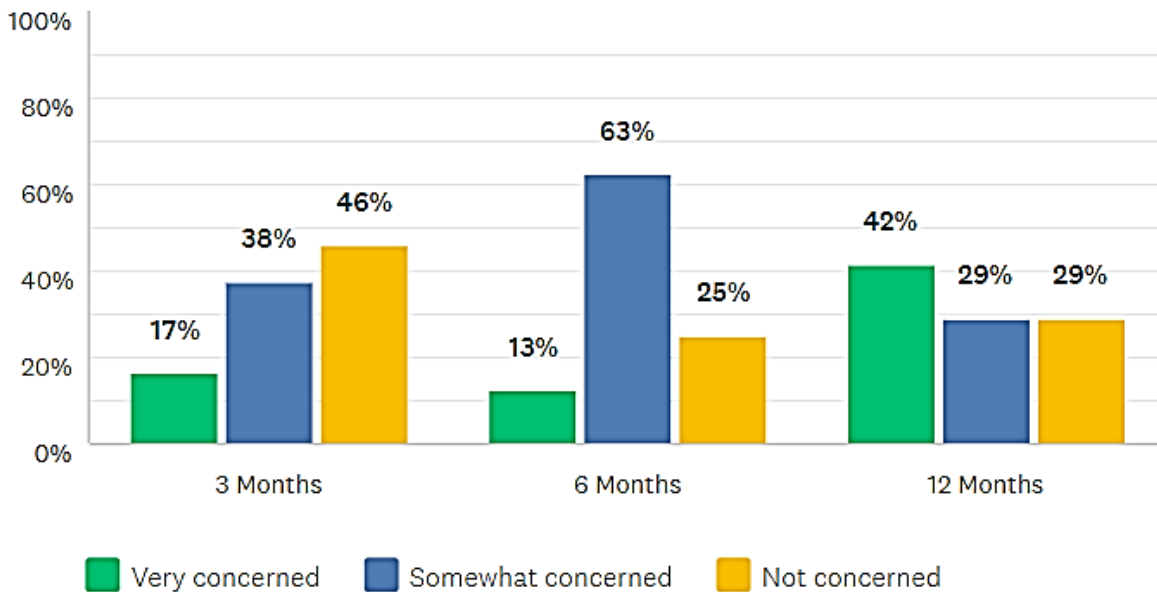
CASH FLOW OUTLOOK

OVERVIEW OF THE NEXT 12 MONTHS

Looking at the graph below, many survey respondents believe COVID-19 will be impacting the industry and cash flow the most next spring.

To prepare for a decrease in cash flow, we recommend focusing on right sizing your company and building relationships with customers and suppliers. Labor and timing of work are some of the largest variables construction companies deal with daily. Continuing to do both long-term and short-term cash flow forecasts will help with labor decisions. Maintaining strong relationships with customers and suppliers can be beneficial during a cash crunch when you might need to extend payment terms.

Figure 6: Percentage of companies concerned with cash flow over the next 3 to 12 months



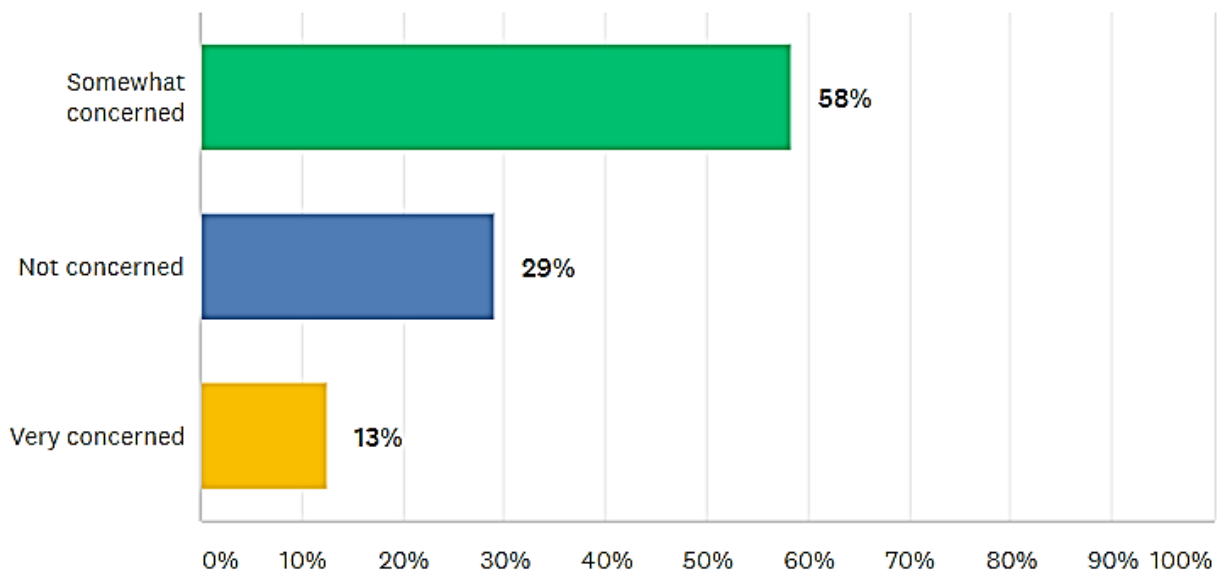
CASH FLOW OUTLOOK

OVERHEAD RATES

The below graph represents the percentage of companies concerned with how COVID-19 will impact their overhead rates. Many companies are concerned about this cash flow component.

The silver lining of the global nature of the pandemic is that many vendors that contribute to overhead rates may be adjusting to meet the new economic pressure of constrained cash flow. This may help minimize the overhead you're expecting to incur. Nevertheless, it is recommended to continuously monitor your overhead rates and plan accordingly.

Figure 7: Percentage of companies concerned with COVID-19 having a significant impact on overhead rates



CASH FLOW OUTLOOK

CONTRACTS

Most of the survey respondents have fixed fee contracts. As such, most companies indicated (per figure 9 below) they don't know if they will consider submitting contract modifications. This designates a "wait and see" approach for my companies monitoring their projects and cash flow objectives.

As a cash flow strategy if you are a fixed fee contract model you may want to consider calculating and documenting inefficiencies on your job site due to safety concerns and social distance measures. Once you have an idea of the impact you can decide if it is worth pursuing contract modifications. Talk to your KatzAbosch representative about different accounting strategies.

Figure 8: Percentage of contract type by survey respondents

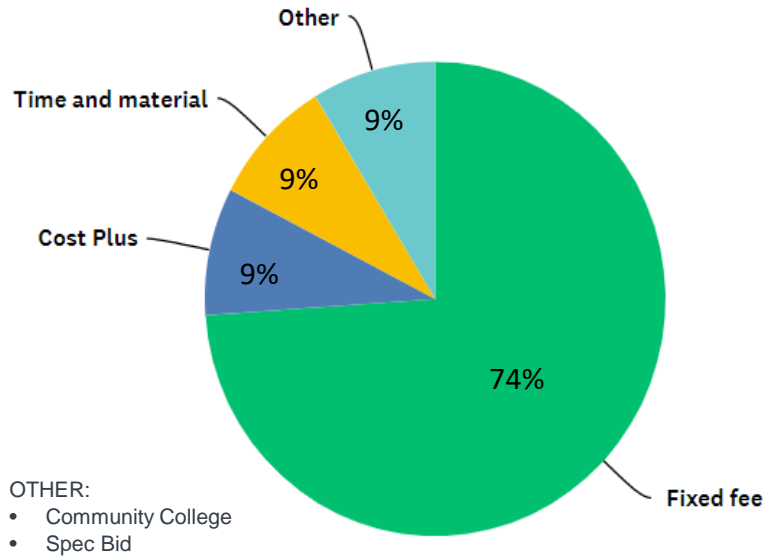
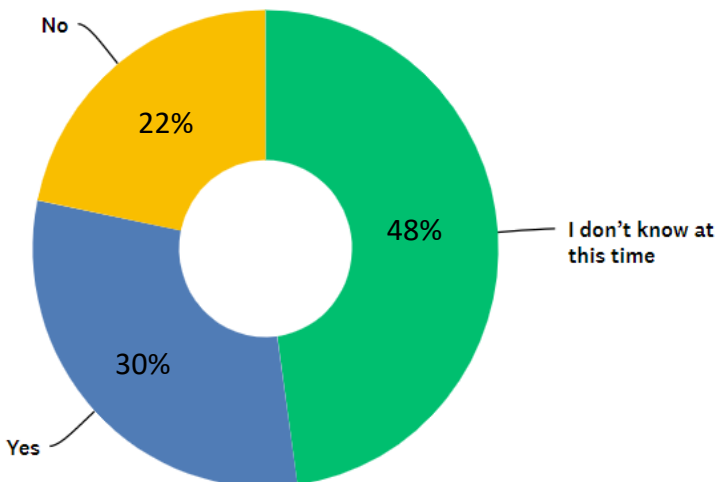


Figure 9: Percentage of companies considering submitting contract modifications due to COVID-19



CASH FLOW OUTLOOK

CLAIMS AND MATERIAL DELAYS

Companies are not expecting to file any delay claims. However, figure 10 shows over half of the companies are experiencing material delays.

Materials may become harder to obtain due to the bottle necking of supply chains as borders and production lines become impacted by the continuation of the pandemic. Additionally, increased residential and main street commercial demand of basic construction supplies, such as lumber, are creating a short-term shortage. Make sure you are using material escalation clauses in your contracts going forward to off-set these possible disruptions.

Figure 9: Percentage of companies expecting to file delay claims

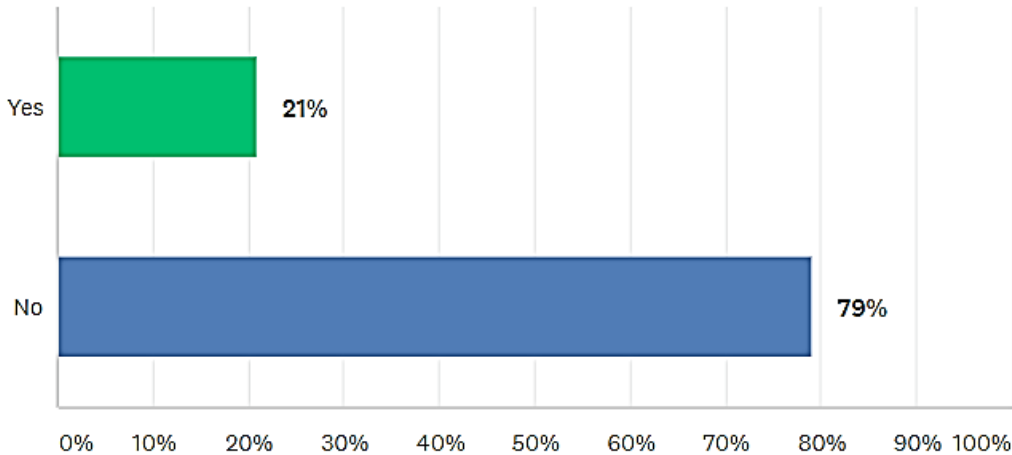
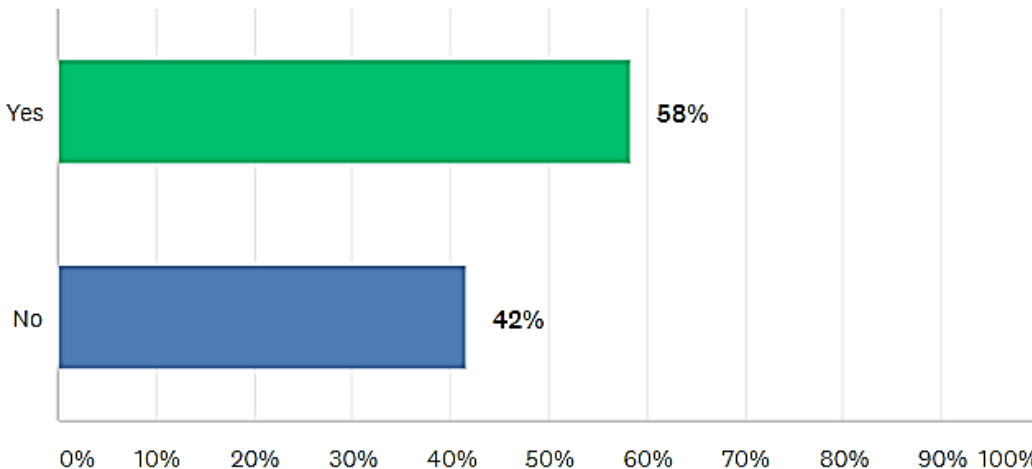


Figure 10: Percentage of companies experiencing material delays

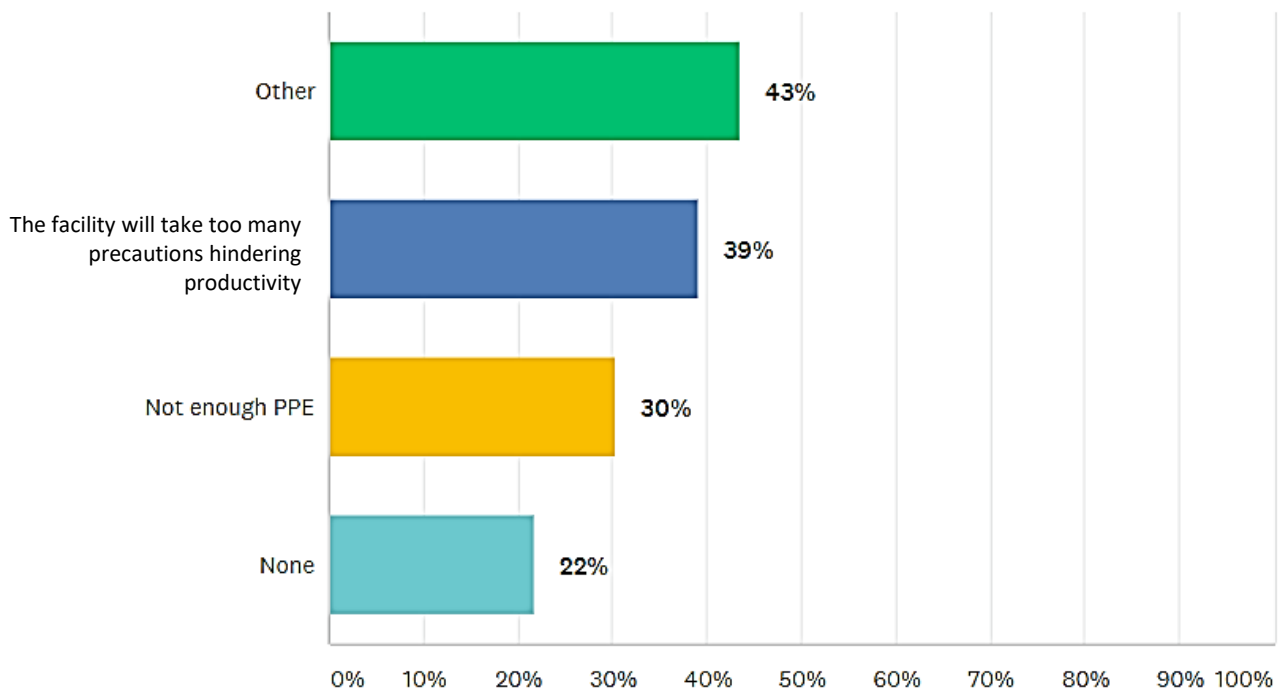


SAFETY OUTLOOK

TOP SAFETY CONCERNS

The below graph indicates the top three safety challenges with employees returning to the job site. The “other” category ranks the highest and includes various concerns (see below). Followed, closely with companies concerned around not obtaining enough PPE to job sites being hindered due to precautions put in place to protect employees.

Figure 11: COVID-19 safety concerns with employees returning to the job site



OTHER:

- Work that doesn't allow for 6 feet of space between workers
- Not enough cleaning supplies
- Covid-19 is a great excuse for any material or manpower delay.
- While we provide a safe space, where/what are employees doing outside of work that could jeopardize the company.
- Some building and areas are still not open.
- Owner's stopping access to sites.
- Travel problems will continue to hinder site visits.
- Virus Spikes

LABOR RETENTION OUTLOOK

LABOR CHALLENGES DUE TO COVID-19

Figure 12 shows that most companies do not plan to decrease their workforce due to COVID-19.

Figure 13 below, highlights challenges for employees returning to the job site. 52 percent of the survey respondents indicated they have no issues and COVID-19 has not deterred their workers from performing work. On the other hand, 48 percent of companies are aware employees are concerned with catching COVID-19 on the job.

As a result, challenges for employers may continue to be centered around making employees feel safe as they work on job sites during the pandemic.

Figure 12: Percentage planning to decrease workforce as a result of COVID-19

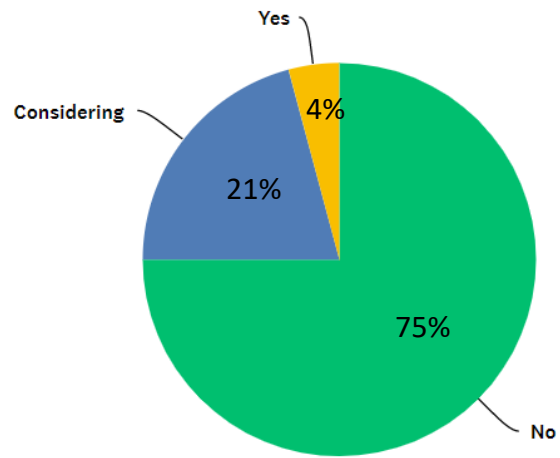
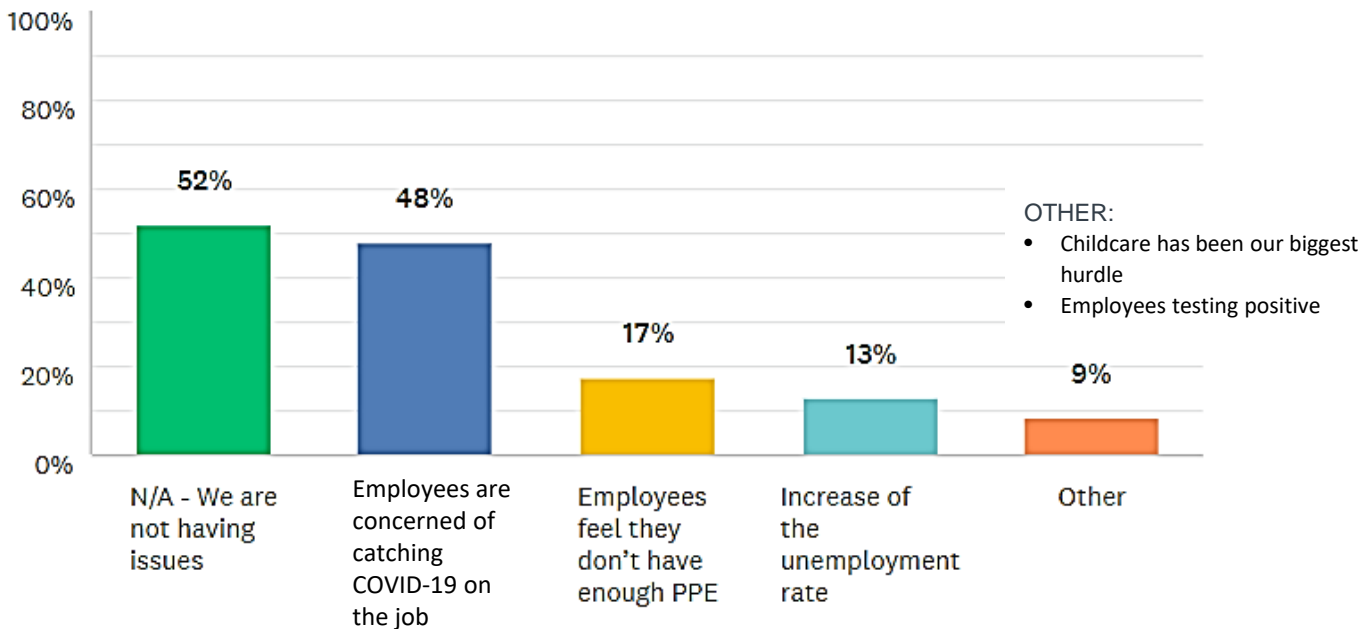


Figure 13: Challenges for employees returning to the job site



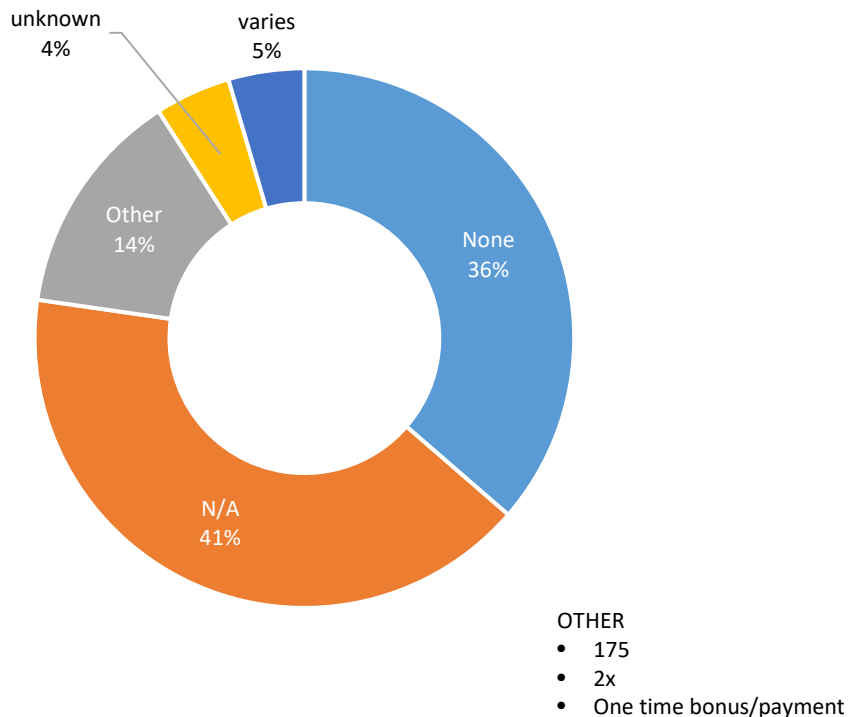
LABOR RETENTION OUTLOOK

LABOR CHALLENGES DUE TO COVID-19 (CONTINUED)

To offset labor retention issues caused by COVID-19, companies should contemplate, if they have not done so already, their sick leave policies and communication strategies. Additionally, companies can take advantage of the payroll tax credits for paying employees to stay home when sick due to a COVID-19 related matter.

Another labor retention strategy is to look at your hazard pay. The graph below indicates many companies do not have a hazard pay rate in place. Increasing compensation for at-risk workers is an often-used compensation method in industries with high instances of death or injury such as electrical installation. The challenge in crafting a hazard pay policy, is determining the length of time during which hazard pay will be provided and the requirements to receive it. If you would like to consider this as an option, KatzAbsoch can connect you to an appropriate resource.

Figure 14: Hazard pay



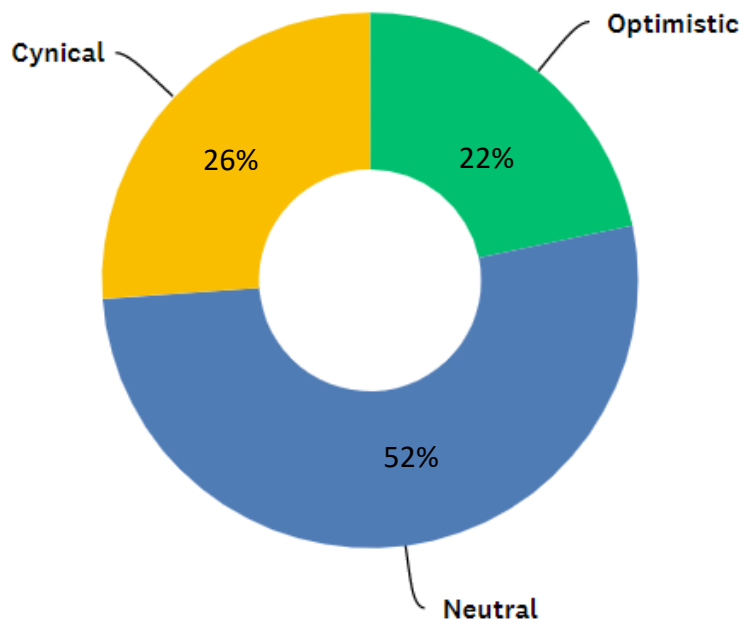
NEXT 12 MONTHS OUTLOOK

Not since the 2007 Great Recession has the industry been faced with such economic uncertainty. Yet, based on the survey responses, construction companies are undaunted with COVID-19 impacting the health of their business (see figure 15 below). 74 percent of the survey respondents are neutral or optimistic on this matter. This is most likely a result of industry's essential status.

The challenge over the next 12 months, as noted in the research report early on, will be cash flow next spring. Projects may be slow to complete due to supplies and materials being delayed. Additionally, starting new projects may be slow as the industry continues to balance safety precautions (i.e. social distancing, PPE, increased attention to disinfecting high-contact zones, etc.).

Therefore, successful construction companies will balance prioritizing cash with employee safety.

Figure 15: Companies feeling about the health of their business and the economic uncertainty of the country as a result of COVID-19 over the next year



ABOUT KATZABOSCH

As a Mid-Atlantic serving accounting firm, our mission is to provide the highest quality accounting, tax, financial and management consulting services to our regional clients. We understand the needs and challenges of our clients and we have made it our obligation to create, grow and protect their asset value.

With over 50 years of experience serving construction companies, KatzAbosch has the knowledge and business expertise to help you set and reach the goals to which you aspire. Whether you are a small company in Baltimore, Maryland or one of the Mid-Atlantic region's largest companies, you can rely on the experienced CPAs and financial professionals of the KatzAbosch Construction Services Group.

Our long-standing relations within the construction community are testimony to our proven track record of achievement. Our knowledge of what you do enables us to provide the guidance that will lead you into the future. We pride ourselves on making it our business to immerse ourselves in your business. We invite you to explore our full list of services at: www.KatzAbosch.com

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