



The potential for recession, continued inflation, critical labor shortages, and supply chain issues will loom large over construction in 2023. Additionally, many eyes are on interest rates in a virtual wait-and-see mode as to whether they will continue to rise, and by how much.

And yet opportunity awaits well-prepared construction firms that can pivot during uncertainty. The U.S. commitment to national infrastructure improvements and the expected rise in building renovation/rehabilitation work offer hope that construction firms can manage to perform well even through continued uncertainty.

Prepare for opportunity in 2023 with consideration of the following five trends.

### 1. CIVIL & INFRASTRUCTURE

Total construction starts are expected to remain flat in 2023, but a significant swing in type of work appears imminent. The construction industry, in pure dollar terms, is likely to see more civil and industrial

impact of inflation, rising interest rates, and other financial factors, such that a project that cost \$1 million to build a couple years ago could now cost 20-30% more. Larger contractors may have the equipment and the organizational

and financial depth to tackle these shifts, while smaller companies may need to consider options in an effort to participate more broadly.

In response to larger scale infrastructure projects and/or the potential for increased infrastructure opportunity in general, joint ventures (JV) could present an attractive way of participating. Traditionally, JVs provide a way for contractors to combine talent, experience, equipment, administrative, and financial resources to handle larger projects or backlogs.

For some, entering into a merger or acquisition with a competitor may offer the opportunity to add to your firm's capabilities. If the financials make sense, this can be a tool to



add specialized equipment or expertise, or thoughtfully expand into new locations.

## 2. RENOVATION & REHAB

The current market poses additional challenges as some industry segments and owners move away from new construction toward rehabilitation and renovation projects. The conversion of shopping malls and warehouses for other uses accelerated because of the pandemic and the transition to more online shopping. Mall traffic has slowed in recent years as shoppers visit stores closer to home more often.

Depending on the complexity of a project, rehab work could prove challenging for contractors traditionally focused on new construction. There's no telling what quality of work was done on the facility when it was built or how often or well the building was maintained. Moreover, based on age, the building could contain hazardous materials or historical preservation requirements a contractor may not have counted on.

From a property and casualty perspective, any structural changes add risk. Opening walls adds risk as well, as contractors could encounter water damage, fire sprinkler issues, gas line concerns, electrical damage, or any number of unexpected problems that need to be remedied.

Consider new technology to help mitigate risk—laser scanning, hygrothermal wall analysis, and computational fluid dynamics modeling, among other innovative equipment and methods.

Contractors should stay current on the latest changes in construction codes. For example, many retail renovations in the past may have simply changed a store from one retail shop to another. However, as buildings are being repurposed, retrofitting a storefront into a medical or manufacturing facility could require special or unique modifications to handle the needs of these types of businesses.

## 3. WORKFORCE CHALLENGES

Construction industry labor shortages will continue in 2023. Qualified workers simply aren't available to fill the specialized positions that construction companies need.

Another major factor in play within the construction industry

is the stigma blue-collar work carries among many younger workers. The average age of a construction worker in the U.S. is currently 42.5 years old.



During the COVID-19 pandemic, some construction companies



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