

Building a Better Box by Thinking Outside of It

Construction Issues and Opportunities During the COVID-19 Pandemic and Beyond

Gould & Ratner presents the first installment of our Construction Interview Series on adapting to the COVID-19 pandemic and beyond. We will periodically sit down with representatives of some of the most influential companies in the construction industry to discuss their insights on relevant and pressing topics of interest in the industry.



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Rich Reizen, chair of the firm's Construction Practice, recently discussed a variety of issues with Justin Brown, President of Skender. Skender is one of Chicago's largest and most successful general contractors, performing work across markets including interiors, healthcare, hospitality, multifamily, office, higher education, retail, senior living and affordable housing. Skender also recently launched modular building production in an advanced Chicago manufacturing facility.

Rich: First, let me thank you for sitting down with me, virtually of course, to discuss the state of construction during this pandemic and after. One of our favorite mantras at Gould & Ratner is based on something said by the coach who was responsible for the success of the Soviet hockey program, Anatoly Tarasov and then paraphrased by Wayne Gretzky. When Tarasov was asked to explain the difference between Soviet and North American hockey he stated: "In North American hockey, the player passes the puck to where his teammate is, while in Soviet hockey the player passes the puck to where his teammate will be." So today, I would like to discuss where the puck might be going in our industry. You and I have been in this industry for a number of years, many more years in my case, and I have never seen anything like this even during recessions or after 9/11. What is your assessment of where the COVID-19 pandemic ranks in terms of disruption to the construction industry when compared to these other events and how is it different?

Justin: Skender has been in business for 60 years, so this is not the first challenging period we've encountered. This crisis has elements of both the post-9/11 period and the late 2000s recession, but is unique in that it's a public health crisis that no one has lived through on this scale before.

CURRENT STATE OF CONSTRUCTION

Rich: I would like to start our discussion with some questions regarding the current state of construction. From the legal side, we are currently assisting our clients in navigating a myriad of ever-changing and often inconsistent state, county, and city construction orders, as well as CDC, OSHA and other health guidance. In fact, we even have a chart on our website, which we update almost every day, which links to each state's construction rules. Let me break down some of these concerns and ask about what changes has Skender made to the construction process as a result. What problems have you run into over the past few months of the pandemic?

Justin: The stay-at-home order is certainly impacting our business, and it's impacting the field and office differently. We've seen some minor supply chain disruption with subcontractors, as well as some temporary project site closures for cleaning and quarantine. In the office, there have been short-term effects on our new business pipeline.

Rich: Have you had many employee absences?

Justin: Not many.

Rich: What about absences from subcontractors? Any unique subcontractor problems? One of my concerns is the ability for some of small to medium-sized trades to survive. Do you share that concern?

Justin: As we've seen in the last few economic cycles, smaller shops often suffer the most from these downturns. But they are also agile, and firms that can support their workers and find innovative ways to continue to serve their clients will be poised to ride this out as best they can.

Rich: Before the pandemic, the industry was already facing workforce issues resulting from an aging and diminishing workforce. How are you being impacted by reductions of crew sizes because of social distancing? Are you doing more shifts? Earlier start times? Are you concerned COVID-19 will cause the workforce to shrink further?

Justin: As for measures we're taking on job sites to follow social distancing guidelines, we're doing all of the above: enacting staggered start times, enforcing social distancing onsite, providing PPE and more. As far as the future of the workforce, I do wonder if the high unemployment rates in other hard-hit industries, like retail, will send more people into the trades, which are so far proving to be more consistent. It's still very early on to know the broader long-term impacts on skilled trades.

Rich: How does the use of technology help you deal with workforce reductions and other challenges that are arising during this time?

Justin: To streamline our processes among tighter teams, we're scaling up remote collaboration and digital monitoring services (e.g., 360-degree cameras, Microsoft Teams, and the construction workforce management app Bridgit Bench), BIM capabilities and other collaboration tools. We've shifted our business development efforts to virtual platforms. We're also still engaging in external marketing via PR outreach, webinar appearances, social media and more.

Rich: What other impacts have the safety guidelines caused?

Justin: Besides the clear physical impact on the jobsite – which all of our employees and trade partners are respecting – there have been some “soft” impacts on the workforce in general. Buoying morale has been important as employees are worried about keeping themselves and their families safe and healthy, but many employees are still happy to be able to be working right now.

Rich: Our client had a project where a trade employee was diagnosed with COVID-19. An effort was made to determine who had worked near him on the site, and those people were quarantined for a period. The site was also shut down for a cleaning, but re-opened two days later. We found that construction crews were very concerned about coming back. Have you had that happen on any project and how did you deal with it?

Justin: With so many different projects with different sizes, scale, workforce, etc., we don't have a one-size-fits-all approach to contact tracking. Our tracking is done internally. If there is a positive case, a notification is immediately sent out to the impacted team, and we perform a quick assessment, sharing information with relevant subcontractors. If there is a self-quarantine involved, we track and decide the appropriate course of action with the client on a case-by-case basis. We are piloting questionnaires to track field crew members on site (number of crew members, what days they're on site, who they've had interactions with, etc.) so if there is a case of COVID-19, we can reference the answers and respond appropriately.

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In order to best prevent disease spread, we've heightened safety and cleanliness on our sites, including: cleaning sites more frequently, paying special attention to high-touch surfaces; reducing the number of surfaces that need to be touched where possible; and covering surfaces with materials that can be easily sanitized during construction.

Additionally, we're addressing the challenges of moving and using supplies and materials to reduce the amount of movement and handling per jobsite per day. Wearing gloves (a standard practice before the pandemic) and keeping materials wrapped until final installation can mitigate risk infection through frequently touched supplies.

Rich: On behalf of owners, we are requiring that contractors submit detailed site safety and security plans. How do you respond to that?

Justin: We routinely provide detailed site safety and security plans, as well as request them from our subcontractors. Now those plans account for our COVID-19 response. We delivered our action plans to all of our clients early on and have continually communicated with all clients throughout this ongoing and constantly changing situation.

Rich: We talked a little earlier about health guidelines causing delays. Have owners shown understanding? Are you submitting claims? What types?

Justin: To date, our clients have been understanding of any delays that are commonplace throughout the industry right now. We are working diligently to minimize delays and COVID-19 impacts as much as we possibly can. As far as claims, we are notifying our clients of delays per the terms of our individual contracts and we're working through job delay issues on a case-by-case basis.

Rich: It seems like contractors feel a need to better document potential losses in this pandemic, are you finding that to be the case as well?

Justin: It is important to document as much as we can so that we understand our risks moving forward and better prepare for the future. This pandemic is something that none of us have ever experienced and have not planned for to date; however, we can learn to better prepare ourselves for future impacts.

Rich: Early in the pandemic, especially with the issues in China where many construction materials and components are made, we heard terrible fears about supply chain interruptions. We really haven't seen that as much as I expected. What has your experience been?

Justin: We really haven't seen much of an impact either. There's obviously been a lot of uncertainty surrounding our trade relationship with China due to the often-unpredictable trade war of the past few years. Many vendors and subs were already being more risk-averse because of this instability, so perhaps that risk mitigation has carried over into the pandemic's disruption on the supply chain.

Rich: I recognize that construction is a lagging industry. Are current projects being cancelled? What about future projects, are they being taken off the board?

Justin: Healthcare construction projects are still going strong – we're getting more renovations and upgrade work. Large office and multifamily developments are 50/50 – some are moving forward, and some are pausing to evaluate long-term impact. Current Skender projects are still moving forward, though new business opportunities are slowing down as people re-evaluate their real estate needs. However, we have seen an increase in companies inquiring about office renovations or smaller alterations to prepare for the return to the workplace. In general, most things are moving slower.

Rich: What other economic issues is the industry facing now and what do you see for the future? Financing issues?

Justin: Industry reports are that deal pace and volume is slowing down as the economy contracts. Many of the long-term implications on the economy, even the duration of the pandemic and mitigation efforts, are unknown, but we're likely to see effects in construction financing as we have in past recessions. However, as we've seen in the past, true innovators in the built industry can survive downcycles by bringing new solutions to the market.

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FUTURE ISSUES AND OPPORTUNITIES

Rich: This is a perfect opportunity to segue into the future. Maybe I am too optimistic about the future, but I believe that we have the opportunity to re-think construction spaces and to make them more climate resilient, disease resilient and climate friendly. We will drill down on some of those in a few minutes, but do you share the view that there is a great opportunity here?

Justin: Definitely. I think high-performing firms often have the potential to emerge from economic downturns stronger by innovating and addressing the challenges that society will face head-on. Our first priority right now is doing what we can to keep our colleagues and communities safe. Once the immediate challenges are past, and the pandemic is contained, the world will need to reimagine how we use space, especially in urban areas, and also how we deliver healthcare everywhere. There's a role for construction firms to advance stronger, healthier communities.

Rich: As you know, I have always been and remain a vocal advocate for a thorough pre-construction phase before final project decisions are made and construction begins. I believe it saves money, anticipates and deals with potential problems and results in a better designed and better built project. In the COVID-19 and post-pandemic area, I believe that is even more important. Do you share that view and if so, why?

Justin: Absolutely. We've also always believed a comprehensive pre-construction phase is essential for efficient and successful projects. And now more than ever, development and redevelopment budgets require a pre-construction strategy that will optimize costs and project timelines as well as enhance building performance long term. Plus, plenty of pre-construction tasks can be performed remotely, so it's an effective way to keep projects moving during social distancing.

Rich: With respect to design changes for future projects, we have discussed such issues as better ventilation systems, touchless systems, less porous fabrics, configurations that allow for social distancing and the like. What types of changes do you foresee, and perhaps tell me how they will help?

Justin: I agree that all of those changes will likely be implemented across the built environment. As far as corporate interiors go, we're also seeing that companies are considering making changes to their offices while their employees are working remotely. We anticipate companies will implement one or more of several potential changes, including making the reception area a multipurpose space for employees to sanitize their hands, have their temperatures taken, pick up equipment, etc.; installing glass walls to keep visual connectivity while reducing risk; installing ultraviolet lights within HVAC systems to reduce airborne pathogens; dividing benching systems or adding dividers between desks; and building out new rows of phone booths to support virtual collaboration.

Rich: What about costs of such changes?

Justin: There will be material and time costs to revamp workplaces, but many of these changes begin with evaluating how space has been used in the past and applying the things we've learned about spacing and sanitization to them.

Rich: Is this also the time to contemplate making design changes to cause projects to be more climate friendly and climate resilient? What are some examples of such changes?

Justin: Definitely – it's always a good time to consider making a project more climate-friendly. Sustainable spaces have become almost standard following the LEED certification movement, and it's clearly important to tenants and building owners alike. Along with some of the changes we discussed earlier as direct responses to the pandemic, technologically enabled HVAC systems and entry/exit tracking systems can both provide better usage insights to building owners, and ultimately streamline building management systems to conserve energy. Similarly, updated ventilation systems can help prevent pathogen spread and be more energy efficient and improve air quality in and out of the building.

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Rich: I know Skender has been a leader in modular construction and has the only factory in Chicago, can you tell me a little bit about that and its possible future given the need for climate and disease resilient construction?

Justin: The quality, schedule and sustainability benefits of modular manufacturing and offsite construction are especially relevant and beneficial in this environment. Manufacturing building components in a factory allows employees to work in a safe, controlled environment and cuts down on time needed in the field. Our modular offering is steel, which is highly durable and incombustible, so buildings are healthier and last longer. Additionally, the modular method condenses project timelines and time is money.

Rich: Shifting gears a bit, it appears that we are facing a difficult and expensive insurance market. We have a market which has suffered huge losses over the past few years because of climate disasters such as fires, hurricanes and floods. Now we pile the pandemic on top of that. Are you finding that primary coverage is getting harder to get or more expensive?

Justin: The markets are hardening. We did see increased premiums with our last renewal and expect the markets to be similar or potentially worse during next year's renewal. The best way for us to navigate this hard market is to invest in safety and decrease losses as much as possible. That is not always enough, but it is what we have some control over. It is also vital for us to watch the markets and to work with our brokers as they will be able to provide the best guidance.

Rich: I am told the excess market is even worse even though the risks are more remote? What are you finding?

Justin: You are correct, the excess market is tough right now. A year or two ago, we could easily purchase an excess policy with a \$25 million-plus limit. Now, we have to build a tower of coverage consisting of multiple policies to get the limits that we once had in one or two policies. Also, the policies with smaller limits now cost more. It was a hard renewal but we have a great broker and they really helped us navigate the market.

Rich: One last area I would like to address is what owners can do to existing space if they want to spend less money than a complete buildout and avoid a move. What about retrofits of existing space to make them safer? Other types of work?

Justin: Retrofitting or lightly renovating an existing space is an excellent solution to ensuring an office is safe and healthy without spending on a complete renovation. I addressed some specific tactics earlier, but in general, retrofitting an office to account for changes in employee density and circulations doesn't require a total overhaul. A few small changes can greatly enhance the workplace or improve methods for connecting and collaborating with teams remotely.

Rich: Continuing my hockey quote theme, Herb Brooks famously said: "Great moments are born from great opportunities." I think that this great moment, tragic and frightening as it is, and not one I would have wished on us. I firmly believe it does create a great opportunity to allow for the construction of safer, more climate resilient and climate friendly, and just better projects and that it gives us a great opportunity to re-think how we work. What are your thoughts on this issue Justin?

Justin: I think this moment is challenging everyone to prove their agility and resiliency. We also have the great opportunity to enhance our best practices regarding health and safety on all job sites, taking cues from healthcare construction standards. Looking forward, people will always need spaces to live, work, connect with one another and enjoy their community, but we can be a critical driver of making them healthier and safer for all, as well as adaptable and ready to address the next challenge that comes our way.

Rich: Thank you again for sharing your knowledge and experience and I know we only scratched the surface of this topic. Perhaps we can talk again as we see how things progress.