



Home > Real Estate

November 07, 2023 08:50 AM | 2 HOURS AGO

Recession worries join labor as chief concern for construction contractors

STAN BULLARD



 EMAIL
  SHARE
  TWEET
  SHARE



Courtesy of the Sherwin-Williams Co.

Overall, construction continues apace in Cleveland even as new concerns circulate among contractors.

"That big sucking sound you hear is from the south," observes Adrian Maldonado, who owns the Adrian Maldonado & Associates construction company in Olmsted Falls. "It's the sound of labor leaving our region and heading to Columbus and projects like the Intel factory."

Maldonado said seasoned construction site superintendents are getting lured downstate with offers of more than \$147,000 while the best he could command here was \$90,000. The same competition for well-trained construction executives is pushing up salaries among competing area firms, according to the new 2023 Construction Survey by the Marcum accounting and consulting firm's Cleveland office.

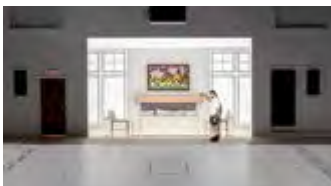
RELATED



SITE Centers spawns a new convenience property-focused company



Black entrepreneur Torrian Denise is making a splash with Dornee skin care products



Lakewood startup Walk Your Plans gives clients a life-size view of construction projects

In a switch from past years, area construction owners and managers are worrying about the lack of supervisory staff. "I spend more time on personnel issues than ever," said Jason Jones, senior vice president for Turner Construction Co. in its Cleveland office. "With this large a generation reaching retirement age, we're losing a lot of experience. You have to provide training for newer people and shift people to optimize their skills. When we go to college career fairs, we're finding fewer young engineers who want a construction career."

The annual Marcum survey asks contractors to rank the biggest threats to their business. Securing skilled labor remains the top concern, cited by 46% of respondents, up from 31% a year ago. Likewise, 9% of respondents see labor costs as the biggest threat, while just 5% saw that as a worry a year ago.

However, different concerns are gaining traction following the recent rise in interest rates and escalating material costs that spiked in the past few years. Banking, or tightened credit by banks, was cited as a worry by 10% of the respondents. That's up from 5% a year ago.

The current political climate remains a big concern, cited as the top threat by 13% of the respondents from 11% just a year ago. However, that is still below the 2020 figure when it was 20%.

Although the labor worries show how good the building market is, Roger Gingerich, the Marcum partner who heads its Northeast Ohio construction practice, said he sees in the results signs the market is changing with different steps being taken by management to get ready for a potential recession and cope with inflations.

The statistic most on-point is that contractors are reporting a drop in their backlog, or contracts for jobs they have obtained but not yet started.

Real Estate Report - *Exclusive news and analysis from the most connected real estate reporters in Ohio. Sign up today.*

EMAIL ADDRESS

SUBMIT

Marcum's survey shows 20% of the building executives said their backlog was down more than 15% from last year. In the year-ago survey, a 15% drop was cited by 14% of the respondents. By contrast, in 2019, prior to the pandemic, only 7% cited a 15% backlog drop from the prior year.

The number reporting increasing backlog, meanwhile, has declined. For example, 13% said their backlog was 15% higher than the prior year while last year 24% cited such a big boost in business.

"A year ago the construction market was firing on all its cylinders," Gingerich said. "Now you're seeing the impact of rising interest rates and inflation starting to kick in."

Construction survey trends

Do you feel that over the past year the ability to obtain financing has:

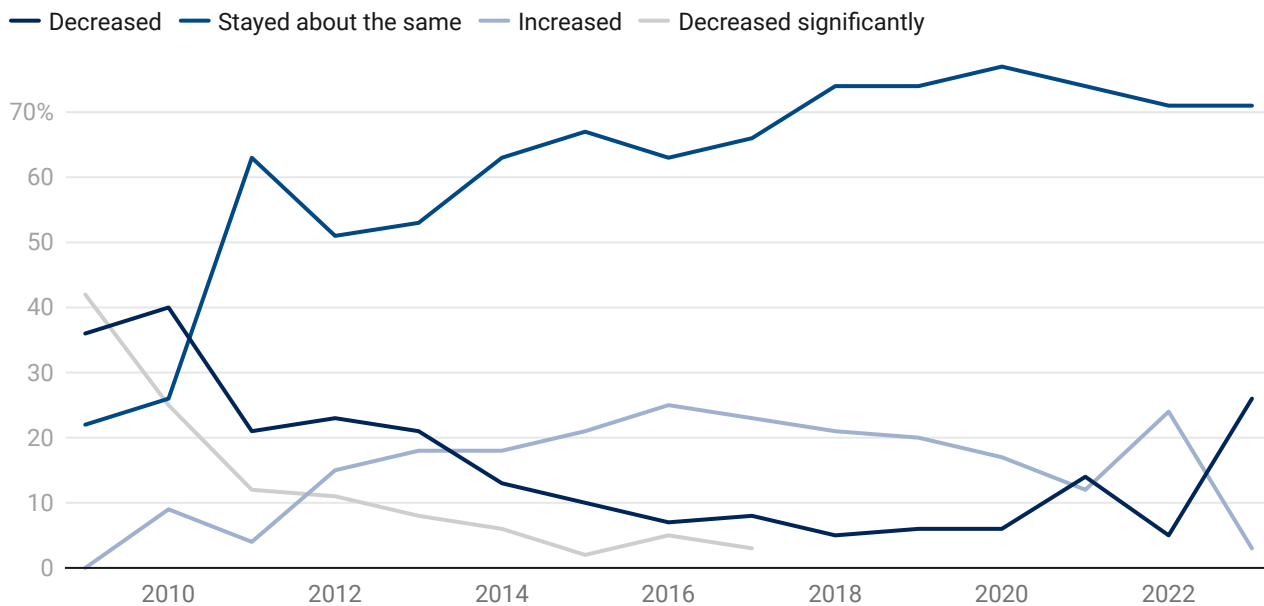


Chart: Crain's Cleveland Business • Source: Marcum Accountants + Advisors • [Get the data](#) • Created with [Datawrapper](#)

"If it's anything that's in any way reliant on interest rates, it's iffy," said Don Taylor, CEO of Welty Building Co. of Fairlawn. "However, the institutional and government market remains strong. There are more opportunities for builders with better reputations the same way that there's a flight to quality in the office market."

Jones said, "We're seeing concerns grow about raising the capital for a project than we've seen for years. And more projects are being delayed. There will be a real shutdown on commercial projects such as multifamily developments."

The Marcum survey asked where contractors see their business going over the next three years. The number of respondents seeing an increase in opportunities fell to 36% from 51% in 2022. The number seeing fewer opportunities climbed to 29% in this year's survey 9% last year.

And those expecting the same opportunities? That fell to 35% this year from 40% in 2022.

Daniel Tonelli, who owns Engineered Construction of North Royalton, said he feels the residential construction market is slightly softer than last year and counts himself lucky that his competitors see it softening more than he has.

"We have had a very good year," Tonelli said of the company that provides poured concrete walls for basements and home foundations. "It seems like it's slightly more than the typical fall slowdown."



Stan Bullard

Another 184 apartments will open in downtown Cleveland when construction of Ten60 Bolivar is complete near Progressive Field. Some commercial projects continued to launch this last year despite the rise in interest rates, based on financial strength of the developer and lending arrangements with a long tail.

However, he worries about how long the market for new homes will stay strong because he believes people will stay put in homes because they locked in record-low interest rates the past few years.

His solution to the problem was to buy J.D. Johnson, a residential waterproofing company in Twinsburg because he feels people will spend money to stay in their homes longer. The move also will allow him to switch crews to waterproofing projects when the weather is bad or there is time. Keeping your team working is the best way to retain labor in changing times, he said.

The waterproofing business was available, Tonelli said, because it had trouble finding workers.

"There aren't a lot of people who want to spend their day hauling five-gallon buckets of dirt and concrete out of basements," Tonelli said, but his crew wants the work.

In a sign of the times, the Marcum survey asked contractors how inflation is impacting them and how they are coping with it. Rising building costs are a real threat for contractors because they may have to eat them to finish a job. A majority, 58%, see challenges passing additional costs on to customers, and 55% have seen projects canceled.

"We're seeing contractors delay purchasing equipment," Gingerich said, "and trying to pull back on overhead."



Stan Bullard

Daniel Tonelli bought a residential waterproofing business to diversify his core concrete foundations business. He figures it provides another way to keep his crew working when weather – and a potential market downturn – get in the way.

An indication of the market's strength is that contractors told Marcum they are seeing fewer competing bidders on jobs.

"This shows the big projects such as the Sherwin Williams headquarters and the new Neurology building at the Cleveland Clinic are keeping the biggest contractors busy," Gingerich said.

The old worry about dour prospects for Northeast Ohio putting builders out of business has been banished.

Indeed, most contractors are eagerly awaiting big projects that are in the planning stages. Many cite mega projects such as the new Cuyahoga County jail, the lakefront development and Dan Gilbert's Bedrock Real Estate's plans to revitalize the riverfront behind Huron Road and the Terminal Tower as positive predictors of the market.

"Those are exciting mega projects to have out there if you are a small company like mine," Maldonado said. "But after 15 years in business, I've learned it may be a long time before you can eat at that table. So you stay happy when the phone rings.

RECOMMENDED FOR YOU

Former FedEx unit HQ in Green expected to sell for 'pennies on the dollar'

Rebuild Cleveland sees modular construction as a fix for Cleveland's housing woes

Barberton boosts downtown revival with new organization

Sponsored Content: AI is everywhere: Strategies to safeguard your company's innovation

Most Popular

1

Nestlé plans year-end layoffs in Solon