The construction industry positions itself for post-pandemic growth

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New York City's construction industry is starting to come back from the pandemic, and residential construction is driving much of the activity. Nevertheless, Covid-19 has had lingering effects on the industry, affecting everything from project planning to supply chain management.

For insight into what's ahead, Crain's Custom Content spoke with construction and real estate attorney Jonathan Grippo, counsel at the law firm Goulston & Storrs. His clients include business owners, developers and institutions involved in the retail, hospitality, health care, education and construction industries.

CRAIN'S: What are the most important trends shaping the construction market today in New York City?

JONATHAN GRIPPO: As a result of Covid, employment in the construction sector for New York City and surrounding areas has decreased by almost 13%. Total construction spending is expected to decrease to $174 billion by 2023, a $1.5 billion decline from 2017-19. With people fleeing Manhattan for the suburbs and outer boroughs, however, residential construction spending this year will increase by 21% compared to 2020, and by 2023, it is expected to reach more than $36 billion. It's not surprising that multifamily construction is up 11% through the first six months of this year.

Beyond this, the hospitality sector is seeing an uptick. The New York City market has 108 hotels with 19,439 guestrooms under construction, 14 of which (with 2,617 rooms) started construction in the last quarter of 2020. In addition, 20 hotels are to begin construction this year, and 22 hotel projects with 3,577 rooms have been announced for early 2022. As of early this year, the total new hotel construction pipeline in New York is 150 hotels with 25,640 rooms.

CRAIN'S: How has the pandemic affected the negotiation and apportionment of risk in construction contracts?

GRIPPO: Mitigating project delays and cost overruns is paramount. Covid, and its consequences, are leading drivers of both. Owners must think about how best to mitigate these risks while contractors should protect themselves from covering costs beyond their making. Parties have demonstrated a greater willingness to work together and act collaboratively to address the impacts of the pandemic.

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More than a year and a half into the pandemic, parties are now better equipped to anticipate and avoid related delays and increased costs. Accordingly, contract provisions that require contractors to provide written and timely notice to owners advising of adverse impacts because of Covid are common. These effects must be unforeseen or uncontrollable. Impacts must affect the critical path of the construction schedule or milestone events that, if adversely affected, will delay the project. If a contractor complies, the contractor may be entitled to certain additional costs to cover the excused, Covid-related delays.

As vaccine rollouts accelerate, and depending on the location of the construction project, there is generally less concern about the Delta variant in the construction world. While Delta poses a new and additional risk, we have learned a lot about the pandemic and ways to blunt its impact.

CRAIN'S: Many employers have been reducing their real estate footprint. Yet firms in other industries need more space. How are these trends affecting the construction industry in New York?

GRIPPO: The tech industry has taken the leading role in filling space in New York City's real estate. Facebook, Apple and Google all added office space in New York City in 2020. This leasing, in turn, leads to renovations to existing premises.

The industrial sector has also seen a resurgence in purchasing and renovating office space. Companies leased 864,000 square feet of industrial space in New York City during the third quarter of this year, up 47% compared to the second quarter.

Beyond tech and industrial tenants, go-to office tenants are changing their space to accommodate the impacts of Covid and, in turn, the expectations of their employees. They are introducing perks and upgrades to entice employees back to the office, such as outdoor workspaces, open floor plans and updates to heating, ventilating and air-conditioning systems.

CRAIN'S: Material shortages and supply chain disruption are placing intense pressure on owners and contractors. What creative solutions are you seeing?

GRIPPO: Supply chain disruption has forced contractors and owners to be flexible. The ability to make both decisions and purchases early is a way to mitigate this disruption. Contractors have also embraced technology and coordination to combat supply chain issues. Usage of building information modeling in designing projects has allowed contractors to prefabricate building components in controlled environments. Further, some are engaged in an extensive value-engineering process that, for example, allows for consideration of less expensive alternative materials. Contractors are also looking for domestic products, developing a project site logistics plan with owners and other stakeholders, retaining a logistics manager and assessing what materials are needed early. All of these efforts can help thwart supply chain issues.

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