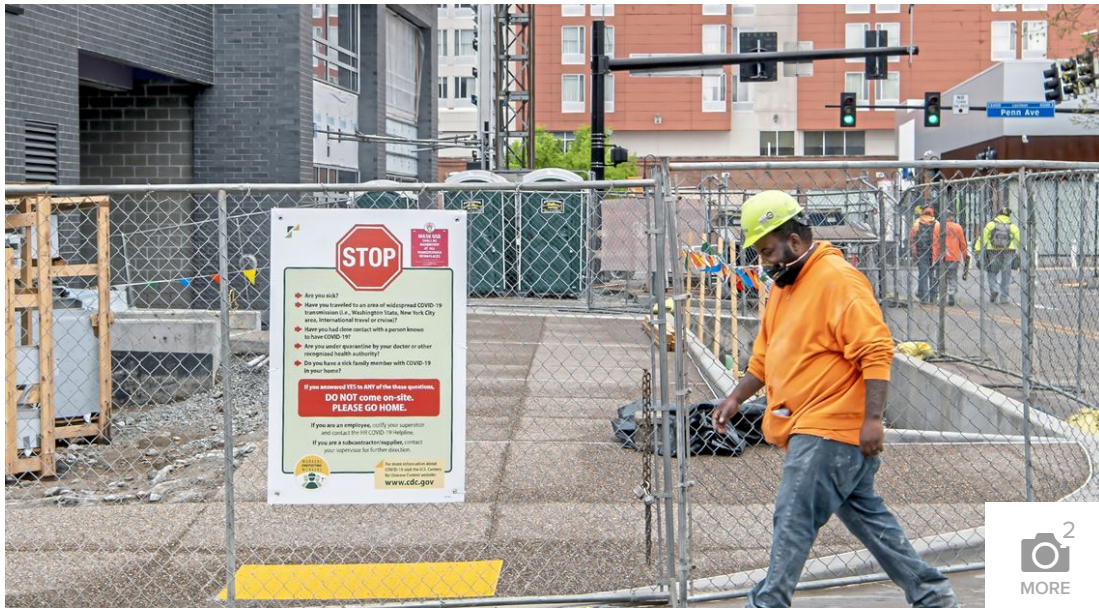


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A chilling effect: Construction starts plunge amid COVID-19 economic uncertainties



MARK BELKO ✓

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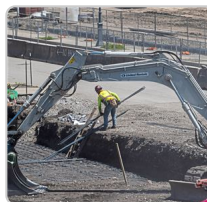
Even after many building projects roared back to life following a shutdown for part of the spring because of COVID-19, the Pittsburgh region's construction industry still could face tough times ahead.

Nowhere is that more apparent than in construction starts. During the pandemic, they have dropped faster than the Pirates' team batting average.

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“It’s the economic uncertainty that’s chilling construction,” said Jeff Burd, owner of the Tall Timber Group, publisher of Breaking Ground and Developing Pittsburgh magazines.



Mark Belko

From sanitizer to social distancing, contractors face challenges as they return to job sites

Mr. Burd predicts that nonresidential and commercial construction starts for the year could be off by at least 30% in the Pittsburgh metropolitan area made up of seven counties — Allegheny, Armstrong, Beaver, Butler, Fayette, Washington, and Westmoreland.

He originally estimated that project starts would reach \$4.8 billion in value this year. But through June, they have totaled \$1.7 billion by his accounting.

Now he’s become a “little grimmer,” wondering whether such starts will hit the \$3 billion mark for the year.

Construction activity in Pittsburgh metro area*

■ JUNE 2019 VS. ■ JUNE 2020

Nonresidential buildings: office, retail, hotels, warehouses, manufacturing, educational, health care, religious, government, recreational and other buildings.

Residential buildings: single-family and multifamily housing.



*Pittsburgh MSA includes: Allegheny, Armstrong, Beaver, Butler, Fayette, Washington and Westmoreland counties.

Source: Dodge Data & Analytics

James Hilston/Post-Gazette

A report by New Jersey-based Dodge Data & Analytics, which provides statistical information for the construction industry, paints an even bleaker picture, at least for the first six months of the year.

It recorded just \$315.3 million in nonresidential construction starts through June in the seven-county Pittsburgh metro area compared to \$1.4 billion over the same period last year — a whopping 78% plunge.

For June alone, the region experienced a 63% decline compared to

government, and recreational projects.



Mark Belko

Armed with face masks and sanitizers, workers prepare to return to high-profile job sites

If there's any consolation, the June numbers are downright encouraging compared to May and April, when nonresidential construction starts in the region, according to Dodge, plummeted 83% and 87%, respectively, amid stay-at-home and government shutdown orders.

Jon O'Brien, executive director of the General Contractors Association of Pennsylvania, said there was some optimism in May when construction activities resumed in the state that low interest rates would help to drive demand for new construction.



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But it hasn't panned out that way. Many larger companies, he said, are taking a wait-and-see attitude. They want to know how the presidential election will play out and whether there will be another spike in COVID-19 cases this fall.

Election jitters are not unique to 2020, Mr. O'Brien noted, adding that it seems to happen every four years. "Maybe it's an easy excuse people like to give," he said.

The only difference this year involves the oil and gas industry. Some union contractors believe that Joe Biden, the presumptive Democratic candidate, is "anti-fracking and anti oil and gas," Mr. O'Brien said.

and gas permits on public lands and waters.

Beyond such issues, Mr. O'Brien said it has simply taken time for the construction industry to power back up after the long layoff. He stressed that the industry and union contractors have done a good job implementing procedures to protect workers from COVID-19 and to stop its spread.

But as for construction, "It's not like a light switch. It's not like turning on a light and, bang, everyone starts working again," he said. "It took an adjustment period. It took some time to ease in."

The Pittsburgh and Philadelphia areas have been hit the hardest by construction slowdowns in Pennsylvania, Mr. O'Brien said. Despite the bleak numbers, he believes the tide is turning.

"I think little by little it's picking up more and more," he said, explaining that the safety protocols in place to prevent the spread of the virus have been reassuring to contractors and developers.

"I don't think it's going to match 2019 [in terms of starts] but I think it will be increasing as the year goes on."

*An ironworker walks on one of the upper floors of the construction site of the Philips Office Building in the Bakery Square complex along Penn Avenue, Monday, June 17, 2019, in the Shadyside neighborhood of Pittsburgh.
(Darrell Sapp/Post-Gazette)*

Mixed bag

Another who sees glimmers of hope is Gregg Broujos, regional principal of the Colliers International real estate firm. He said he's aware of several construction projects that are now moving forward after being in danger of being shelved.

He figures that very low interest rates will be too enticing for developers and builders to pass up. "In the last two or three weeks, I think there has been a real turnaround," he said.



starts through June is mainly the result of the statewide ban on construction activity for much of the second quarter.

“When activity resumed in June, there were still challenges and additional regulations for returning to the job site, which hindered a return to full capacity. Supply chain issues for construction materials are also impacting some projects, and increasing the cost of others,” he said.

With the pandemic still raging throughout parts of the country, it won’t be easy changing fortunes, he suggested.

“Going forward, developers will be challenged with finding equity partners and lenders willing to underwrite projects during a period of such uncertainty,” Mr. Adamski said.

“The office market vacancy rate is rising, particularly Downtown, which is a trend predicted to continue and will impact development strategy.”

One factor that could keep vacancy rates surging is work-from-home trends that could reduce the demand for office space.

Even without COVID-19, the region probably would have seen a slowdown in construction starts in 2020, Mr. Burd said, although “it still was going to be a really good year.”

Now, with the economy in a recession, “The playbook has gone out the window without question,” he acknowledged.

On a national level, employment related to infrastructure and nonresidential building construction slid by 4,000 jobs in July, according to the Associated General Contractors of America.

Despite employment gains in the housing sector, the construction industry’s unemployment rate stood at 8.9% in July, with 870,000 people without work. The figures are more than double those in July 2019 and represented the highest totals for the month since

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Residential optimism

On the residential side in the Pittsburgh region, Mr. Burd, for one, is more optimistic. He predicted that single-family construction starts actually could be up 5% for the year despite the pandemic and the economic toll it has taken.

Year to date, by his calculation, single-family home starts are down 2.9%.

Part of that is due to the fact that people couldn't get out to shop for homes in March and April, he said.

"The residential market, I don't think it's going to have as much of a ding from the virus," he said. "That's assuming we won't shut down again."

According to the Dodge report, residential construction starts were down 21% during the first six months. That calculation included multi-family housing projects.

Mr. Burd said the biggest problem with single-family construction has been a shortage of lots to build on. Even with the high unemployment rate, there is still pent-up demand because of the lack of inventory in the region.

He doesn't see that changing.

"The demand for single-family is still quite robust," he said.

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distancing and 'pandemic safety officers'



Mark Belko

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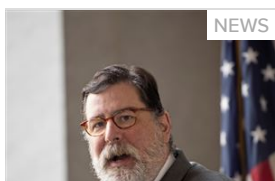


Mark Belko and Anya Litvak

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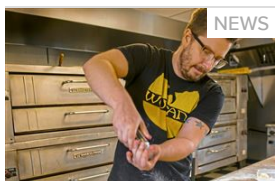
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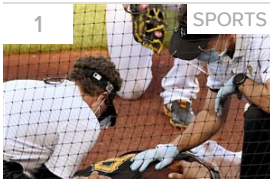
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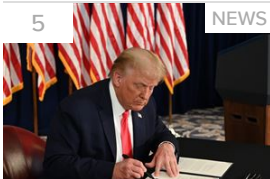
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