

Trends That Will Shape The Construction Industry In 2024

By **Josephine Bahn and Jeffery Mullen** (January 19, 2024)

After years of uncertainty, 2023 offered a glimpse into a new normal for the construction industry.

Major developments included a downward trend in the commercial real estate market, increased focus on sustainability, labor shortages, rising interest rates and inflation, and active legislation at the federal and state levels to pave the way for infrastructure projects across the country.

Some of these developments are expected to significantly affect the industry with unprecedented challenges and opportunities. Reflecting on recent trends to critically analyze the issues facing the construction industry will be essential through 2024 and beyond.

In a recent forecast report released by the Associated General Contractors of America and Sage Construction and Real Estate, the construction outlook appears to be both volatile and encouraging. Though difficult to predict, the landscape for 2024 is marked by evolving trends and key developments that stakeholders will be wise to consider as part of their planning and delivery efforts. We discuss the specifics below.



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Increasing Demand for Megaprojects

The past few years have seen landmark legislation unlock funding for projects aimed at modernizing the country's aging infrastructure and improving the overall climate resilience, including the Infrastructure Investment and Jobs Act with a \$1.2 trillion price tag.

Investment in sustainable practices and renewable energy continues to grow with carbon-neutral methods expected to overtake coal-produced power as the world's top energy source by 2025 and billions of dollars invested in clean energy to accelerate the transition, motivated, in part by the Inflation Reduction Act.

An urgency to reshore manufacturing operations for semiconductors, fueled by legislation like the CHIPS Act and the Infrastructure Investment and Jobs Act, has driven U.S. smart manufacturing investment. The continued, significant investments into the U.S. infrastructure market underscore the confidence of the government and developers in the resiliency of the construction industry.

There has also been an upsurge in both the use and understanding of the public-private partnerships delivery method to help regional municipalities finance and build larger and larger projects.

These trends are converging to create demand and opportunity for megaprojects — large-scale, complex investment projects that typically cost \$1 billion or more or that require three or more years to complete.

In the short-term, look for such opportunities to arise in the aviation, renewable energy,

manufacturing, and entertainment and hospitality sectors, where both demand and investment remain high.

Evolving Inflation and Supply Chain Issues

It is an understatement to say that the construction industry has been affected by supply chain issues since early in the pandemic.

Supply chain issues have plagued projects with delays, while material costs in 2023, driven by rising interest rates and inflation, are causing budget uncertainties, making it increasingly difficult for companies to plan their projects. This is a common source of strain and dispute on projects across every sector and, unfortunately, is unlikely to ebb through the coming years.

While supply chain disruptions have slowly stabilized, constraints still exist, most recently with delays in procuring electrical equipment and components. The bottlenecks and supply limitations caused by the pandemic exposed other areas of weakness in the 2024 supply chain as well.

Climate change has also affected the availability of certain items and how they are procured, while geopolitical tensions require further vigilance on inventory availability.

Complicated by changing consumer demand, geopolitical issues across the globe and uncertainties regarding the presidential election, supply chain issues may continue to affect procurement of materials and equipment in 2024.

Aside from investing in staffing and tools to create supply chain plans and contingencies, diversifying relationships with vendors and contractors, and learning from the many lessons the pandemic years have taught us, 2024 is a good time for stakeholders to revisit contract forms to improve and solidify certain aspects in preparation for the various business, legal and financial challenges ahead.

There is no one-size-fits-all approach — these reviews should be done on a project-by-project basis. Some items to review and perhaps improve upon include:

- The allocation of risk associated with supply chain interruptions;
- Indemnification provisions;
- Liquidated damages provisions;
- Jurisdiction and venue provisions;

- Deadline and delivery methods;
- Substitution of materials and systems;
- Price escalation;
- Mitigation of damages;
- Insurance; and
- Dispute resolution and the creation of procedures to encourage collaboration and transparency among project participants when an issue arises.

Continuing Labor Shortages

Labor shortages are nothing new in the construction industry, but are continuing to trend in the wrong direction.

The industry traditionally has a high labor turnover rate, which is only amplified during a labor shortage.

As if the economic pressures over the past few years were not enough to strain the existing labor struggle, some industry analysts are estimating that approximately 40% of the construction workforce will retire in the next decade. The industry's labor struggles will continue in 2024, and not just due to the number of new jobs set to break ground.

The reasons for a small skilled applicant pool are many. An aging workforce, recruitment struggles, a lack of experienced workers, an increase in large construction projects in concentrated pockets across the country, and social issues are expected to continue to compound the industry's labor shortage this year.

Maintaining the current workforce will not be enough to combat these significant reductions in an aging workforce — at least not in a sustainable, long-term way. Companies looking to pivot from challenge to opportunity need to find ways to recruit younger generations in 2024 and beyond.

Companies on the forefront of this issue are implementing internal training programs that recruit and educate younger employees and provide the necessary tools to excel and grow professionally within the organization.

Others are focusing on recruitment efforts aimed at the well-being of employees and other attractive benefits. The bottom line is that companies simply cannot wait another year and must find ways to expand their talent pool in 2024 and beyond — and establish a strategic plan to attract and retain younger people from diverse backgrounds and locations.

With the cultural push in the industry focused on safety, technology and wellness, along with growing demand, there has never been a better time for construction industry talent. The opportunities are there for those willing to invest in their workforce.

Advancements in Technology

The evolution of construction technology has been slow, but transformation is happening. Emerging technologies are being utilized increasingly to improve productivity and efficiency on job sites.

The use of building information modeling in building documentation and coordination, drones to conduct site inspections in remote or hard-to-access areas, wearable and site sensors to mitigate accidents, and robotics to execute repetitive tasks are all examples of advancements in technology seen in recent years and are expected to continue in 2024.

A hot button topic across many industries in 2023 — and now in 2024 — is artificial intelligence, and innovative construction firms at the forefront of the movement are already experimenting with this technology.

The fact that construction has historically been a late adopter of technology combined with the challenges of training and roll-out on today's job sites creates significant opportunities for industry leaders to define and implement effective change management practices to better serve the adoption of technology by companies and projects.

Pick a problem and find a technological solution to help, stay up to date on how others are utilizing technology, invest in technology and knowledge to gain a better understanding of the resources available — these are all some of the ways industry participants leverage advancements in technology available today for 2024 and beyond.

Conclusion

Amid the mixed outlook, there is one certainty that 2023 and prior years have made clear — 2024 will bring about evolving changes in the industry aimed at building projects more safely and efficiently under difficult circumstances.

With these trends come challenges and opportunities. Developing a plan for navigating the trends with a coordinated business and legal strategy will benefit owners, developers, contractors, design professionals and other stakeholders alike, and help them prepare for these challenges and capitalize on these opportunities in 2024 and the years to come.

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