

# COVID-19: Construction industry impacts

COVID-19 ushered in a new, unknown operating environment across all industries. For the construction industry, the landscape changed rapidly over the past few weeks as governmental restrictions, supply chain challenges and increased jobsite safety protocols spread across the country.

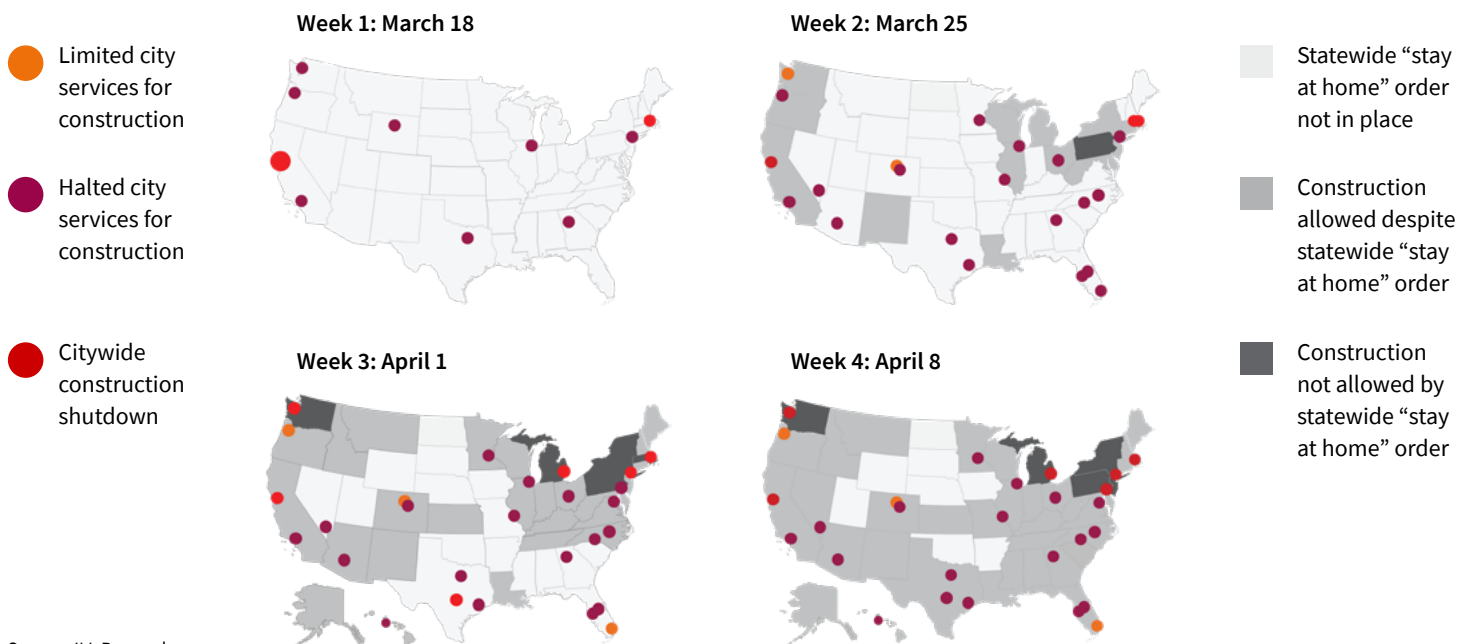
Teams at JLL and around the industry are prioritizing critical healthcare and hospital projects while working at full speed to deliver existing projects that support COVID-19 response efforts ahead of schedule. Although nonessential projects are on hold in some cases, the construction industry is working closely with governments to set-up temporary testing centers, field hospitals and recovery centers in a matter of weeks.

Beyond COVID-19 relief projects, the construction industry is facing two immediate challenges: governmental restrictions, and supply chain and product sourcing interruptions; both of which could lead to project delays.

1. **Government restrictions:** Governments and health authorities globally are uniting in their goal of protecting and treating their populations, containing the spread of the virus, and ensuring the stability and health of businesses. Around the world jurisdictions are enforcing

“stay at home” orders and social distancing mandates dictating the proximity of people to one another. These restrictions coupled with limitations on the number of people who can gather seriously impacts construction site staff, vendors and material and equipment manufacturers who typically collaborate on site. The type of construction considered essential varies by jurisdiction, but in many cases all construction work is exempt and allowed to continue. In addition, governmental restrictions and limited city services are causing further delays. For example, by government order, construction is not allowed statewide in Pennsylvania and Michigan and cities including Boston and Cambridge, MA and several in the San Francisco Bay area shut down construction with exceptions for limited emergency and critical infrastructure needs.

2. **Supply chain and product sourcing interruptions:** Supply chain sourcing impacts are escalating quickly in the United States, primarily from state specific “stay-at-home” orders. While most orders include exemptions for construction, many factories that produce construction materials, and furniture, fixtures, and equipment (FF&E)



are temporarily closed. Specialty goods primarily exported from high impact regions will see the most severe impact. Expect significant lead times. On a positive note, the worst appears to be over when it comes to the supply chain products sourced from China as production has ramped back up over the past few weeks.

Project delays such as lease renegotiations and reduced capital expenditures inevitably follow economic downturns of this magnitude. Businesses are required to finance the emergency response measures, along with the mitigation and resilience costs around planning, ‘solutioning’, training and recovery from the outbreak which further constricts budgets.

### Mapping the impact across project lifecycles

While the entire construction industry has been impacted by COVID-19, the level of disruption varies widely by project and by a project’s phase. At a high level, projects that are near completion and those in their initial planning phases carry relatively low risk at this time followed by moderate risk to projects in the early design phase.

### Considerations and recommendations by project phase:

**Initiate:** Consider project criticality, business drivers and lease implications. Proceed with caution after completing and reviewing a risk matrix to select viable projects.

**Planning:** Consider budgetary and scheduling impacts due to increased safety measures and site access restrictions. Proceed with caution, work remotely and build in scheduling and cost contingencies in anticipation of labor and material shortages and pricing instability.

**Design:** Consider ability to select, review and approve designs, municipality constraints, permit restraints, and product selection/substitution availability. Proceed with caution, work remotely and use technology (3D renderings, virtual floorplan walk-throughs and video conferencing) to convey design aesthetic. Distribute physical finish samples for tactile understanding and visualization. Also indicate alternate “or equal” specifications where possible.

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**Construct:** Consider budgetary and scheduling impacts due to increased safety measures, site access restrictions, material and labor shortages and remobilization challenges. Proceed with caution if vendors are engaged, materials and products are purchased, and work is in various stages of completion. To halt would require an inventory of all materials and equipment not yet installed on site.

**Close:** Consider budgetary and scheduling impacts due to increased safety measures and site access restrictions, payment term implications and ability to meet contractual obligations due to supply chain interruptions. Proceed with the project, use technology (virtual floorplan walk-throughs and video conferencing) to develop, distribute and discuss the punch list and closeout documentation. To halt would involve procuring extended storage for furniture, etc.

### Conclusion

For occupiers with ongoing or upcoming projects, there are immediate questions around how their project schedules and budgets will be impacted. Delayed schedules for office fit out projects can create ripple effects that impact occupancy dates for new leases, as well as holdover clauses for existing spaces. The unique environment of COVID-19 will create new challenges for project budgets, as construction teams need to plan around new social distancing protocols and PPE requirements. Careful planning and risk management will be essential to move projects forward while keep costs down and schedules on track.

The exact trajectory of the outbreak and the resulting economic effect is uncertain. The further this outbreak widens and the longer it persists, the greater the chance of a more prolonged impact on the global economy. The construction industry, however, is a critical partner in COVID-19 relief efforts and work is continuing across the country on healthcare, infrastructure and emergency relief projects. Moving forward, the construction industry will continue to aid relief efforts while initiating plans to restart projects and ramp-up work after the current health crises passes.