

Construction Conference Insights: Industry Expert Lays Out Prospects for Growth

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Wondering about the outlook for the construction industry in 2019 and beyond?

Chris Daum, president and CEO of Raleigh-based FMI Corp., has a forecast. Daum told attendees at Ward and Smith's 2019 Construction Conference, "Framing Your Business for the Future," was about the good news and the bad news.

The bad news, Daum said, is that there probably will be a recession in the next year or two. The good news? It probably will be fairly mild and relatively short.

"Our consensus is that 2019 is going to be OK," he said. "We don't see anybody right now calling [2019] to be a downturn/recession, barring something aggressive — the black swan event; second half of the year is when that would materialize."

But, he suggested, a recession is at least a possibility for 2020.

FMI is a Raleigh-based consulting and advisory company focused on engineering, construction, infrastructure, and the built environment. Daum brought a wealth of data, industry insights, and perspective to the corporate attorneys, construction industry executives and others in the room.

He did note one construction sector that's been hot the last several years — multifamily projects — will slow.

"The boom time and fun in multifamily new construction are coming to an end," he said. "It doesn't mean you can't win there. But that's been one of the wide-open markets; it's slowing down."

Construction industry growth prospects

Daum doesn't see a lot of measurable growth for the construction industry in North Carolina over the next three years.

"A majority of the North Carolina building segments are forecast for the next three years, on average, to have a compound annual growth rate of something less than three percent," he said. "And in a bunch of cases, they're actually going to be in a decline."

And less than three percent, he noted, is, at best, just keeping up with an inflation rate that hovers around two-and-half percent.

“If your sector is not growing at least three percent in nominal rates, you’re not really growing,” he said. “If you’re between zero and two-and-half percent, you’re just kind of keeping up with inflation.”

Geographically, Daum expects the state’s construction growth patterns to flip from where they’ve been. In the last couple of years, he noted, smaller markets and those down east were underperforming while the big urban markets, such as the Triangle and Charlotte areas, were growing faster.

That won’t continue.

“Our forecast, in this kind of market, is that our smaller markets, our down east markets, are actually going to hold up reasonably well ... actually going to grow a little bit faster and healthier,” he said. “Our larger markets, because they’ve been relatively strong, are going to — the foot’s coming off the accelerator, and we’re going to back up a little bit.”

Urban-rural divide

One attendee asked Daum for his long-term outlook on the state’s rural markets. It was not positive.

“The trend in North Carolina, as it is in the United States, is not only increasing but accelerating urbanization around our largest markets,” he said. “We have about eight to 12 counties that are thriving and prospering and going to get richer, and the other 88 or 92 are in some measure of stasis or decline. And it’s been happening for 20 years.”

Although cloud computing and an increasingly digitized economy mean it’s easier than ever for many people to work from anywhere, that hasn’t reversed the rural decline, Daum said.

“This is a global phenomenon and a national phenomenon,” he said. “Job formation is disproportionately weighted toward digital economies and venture-backed companies, and none of them want to be in rural America.”

That job growth, he said, is going to places like Silicon Valley, Seattle, New York, and other tech hubs. “The only place where the digital economy is revitalizing small-town markets is if they’re within 50 miles, give or take, of a major urban market.”

Daum noted that people want to be around like-minded peers, even if they could do their jobs from anywhere. “Young millennials want to be in midtown Manhattan and lower Manhattan, and that’s why Google has three million square feet and can’t hire people fast enough who want to live in midtown Manhattan.”

And the divide is going to get worse. The next generation of cellular technology, 5G, which will provide much faster data transmission speeds, “is absolutely going to transform and create businesses and service enterprises,” he said. “And it’s all going to take place in urban and suburban and high-density markets first,” he said. “It’s going to accelerate this digital divide.”

Construction technology trends

In addition to reshaping the economy, technology is poised to reshape the construction industry, Daum said. He listed 12 technologies that could transform how everything gets built:

- Smart mobile devices
- The Internet of things and wireless sensors
- Smart wearables
- Augmented reality
- Robotics
- Artificial intelligence
- Cloud computing
- Remote connectivity
- Scanning and reality capture
- Virtual reality
- Worker augmentation
- Additive/subtractive manufacturing

"You're going to see entire business models change in vertical construction," he said. The hotel chain Marriott has invested in 11 construction companies and plans to build future hotels with off-site modular construction technology.

"Same for light industrial, same for commercial, same for retail," he said. "The business model is going to look a lot more like manufacturing."

A Finnish company, for example, has developed a completely robotic process for making wood and steel trusses. The company, Daum said, can set up a portable truss factory in a parking lot.

"Robots don't charge for piece rate, overtime," he said.

Another company, in the western United States, has built "fully functioning, autonomous robots" to finish drywall. The robots, Daum said, are two and a half times more productive than a skilled drywall finisher.

The devices are coming "to a job site near you," he said. It would allow a contractor to go from having, say, four drywall finishers on a job to one drywall finisher, a lead technician and the robots.

"It's going to change our industry," Daum said. Some of these advances may be a boon to contractors struggling to find the labor they need. For certain, it will transform business models and require construction companies to rethink how they operate.

"This is happening in every aspect of our economy," he said. "It's happening in up markets, it's happening in down markets, and it's greatly needed."

This is one of a series of articles summarizing key takeaways from Ward and Smith's 2019 Construction Conference. See additional articles:

- How to Lower Legal Risk
- Minimizing Liability When Accidents Happen

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