Positioning for Continued Success

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January typically prompts business planning for a new year. However, since early 2020, the Covid-19 pandemic has made business planning and operations much more volatile. While we all have learned to be more resilient to thrive, it is difficult to gauge when companies will experience more stable economic conditions. This article offers some insight into economic conditions and how to position your company to continue to be successful in the coming months.

Industry-Specific Economic Conditions

Even in regions where there have been fewer governmental pandemic restrictions, the economic effects of Covid outbreaks have been broad, affecting entire market sectors, the availability of design and construction labor, and supply chains. In 2021, office vacancy rates in cities like New York and San Francisco approached 20%, putting further pressure on construction financing and stalling new building starts. As Barry Sternlicht, CEO of the real estate investor Starwood Capital Group, said at the time, "It [is] very hard to underwrite these cities." Mary Corley of Rosen Consulting Group, real estate economists, observed, "Covid has been an accelerant of trends we were already seeing before March 2020, such as the growth of suburbs and secondary markets, and we expect to see continued growth there. We don't know if it's to the long-term disadvantage of gateway markets. Gateways have a lot of existing infrastructure, which is not something to walk away from." With such uncertainty, buyers will continue to look for ways to reduce risk in budgets and schedules.

At the same time, construction has continued robustly in such markets as residential, industrial, science, and technology. And while the pandemic has temporarily disrupted the office, retail, hospitality, higher ed, and government sectors, these will bounce back, likely with some fundamental changes. Many expect that economic problems will abate soon. In July 2021, Appleseed Strategy surveyed a national focus group of 39 design and construction companies.

Asked about their predictions moving to the immediate future, respondents were largely positive:

- Civic/government, healthcare, higher ed, industrial, mixed-use, and multifamily were ranked as good opportunities. Science and technology were seen as particularly strong.
- Corporate/workplace, cultural/nonprofit, and hospitality were perceived to have headwinds but still offered opportunities. Of the sectors queried, only retail was seen as struggling significantly in the near term.
- Geographically, all major U.S. regions were seen as presenting good-to-strong prospects. Those who worked internationally felt immediate prospects were good.

New Opportunities

Across the spectrum, expect opportunities to retrofit existing buildings to new uses. Owners who can find the funding will reposition buildings in anticipation of a future boom. Underused shopping malls might be remade into logistics centers and mixed-use communities, and offices and retail eyed for multifamily. Some building owners will try to convert to science and technology tenants. Temporary outdoor dining parklets will become permanent. Distressed properties will be bought up and reused.

A real boon to design and construction is the recently enacted $1.2 trillion federal infrastructure bill that ushers new funding for infrastructure, sustainability, and resilience. The bill provides $65 billion in clean energy; $50 billion in infrastructure resilience; $66 billion for Amtrak; $25 billion for airports; and $100 billion for roads, bridges and other projects. We can expect to see more federal projects as standalone commissions or as part of indefinite-quantity, indefinite-definite delivery contracts. However, because federal spending is proposed to be funded by increasing real estate taxes, critics argue that the infrastructure plans will depress commercial real estate. This snag will likely be ironed out. Much federal funding will trickle down as state and local government projects. This presents excellent opportunities for minority, disabled, and woman-owned businesses and companies who make meaningful actions toward diversity, equity, and inclusion in staffing and teaming.

Sustainability and resiliency design will continue to rise due to public policy, pressure from insurers, and severe weather events. For owners using institutional capital or those who are publicly traded, the adoption of ESG policies – environment, social, and governance standards – will increasingly demand that engineering companies help owners reduce their carbon footprint, use less water and energy, and avoid red-listed materials. Mary Corley of Rosen Consulting Group underscored the increasing influence of ESG policies on the real estate market.

As with retail, technology is accelerating significant changes across market sectors. Corley noted that remote work has become a significant force in the real estate strategies of many companies, causing them to rethink how much physical space they really need. Now, a change management outlook and approach comes before any real estate decision. Can a company thrive by relying on technology? Smart companies are focusing first on achieving the kinds of behaviors at work that will reach their desired outcomes. For many, a physical presence will be an option, not a given.

Questions to Ask

The design and construction market will reach equilibrium as the pandemic subsides, but any disruptive event at this scale leaves lasting marks, bringing new market demands and ways of working. Make your business planning more resilient by taking advantage of the positive aspects of these disruptions. As you develop your plans and budgets, probe whether you are adequately assessing the inherent risks and opportunities in the markets and regions you work in:

- What fundamental changes have occurred?
- What are the new, positive changes that we should leverage?
- How have these changes affected our clientele, and how can we help them position to succeed?
- Who should be our new target clients moving forward?
- How can we leverage technology not just to streamline operations but to advance the discipline of engineering and make us more desirable?

Do This Now

We recommend that engineering companies pay increasing attention to several areas:

- Keep the focus on higher return, lower risk ventures. Build from your core strengths. If you are heavily concentrated in market sectors or struggling regions, think strategically about how to reposition. In many situations, you can repurpose what you do with relatively modest efforts.
- Survey your clients. Besides the typical check-in questions, ask them about the opportunities and challenges they face with their client base. It may give you broad insights into how to position your company and improve customer service. There will always be demand for companies with excellent customer service.

- Invest in technologies that advance the disciplines you practice. Think about what will be automated ten years from now, so you can position yourself as a market leader. Be aware that these will be areas where nontraditional competitors may enter, yet this also presents partnership opportunities.
- Likewise, get ahead of other industry trends like building repurposing, net-zero energy and water, design/build, modularization, and ESG/CSR policies. Set the standard, and you may be rewarded with better fees and less competition. Remember that creativity never gets replaced.
- If a service or market sector you have relied on will not return to previous levels, scale back or eliminate it. As hard as it can be, do not let sunk costs influence your decisions.
- Develop future leaders through mentoring and increasing accountability for company performance.
- Always practice financial resilience. Create a strong safety net, streamline operations and expenses, forecast realistically, and build a business development culture across your company.▪

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