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2021 FORECAST

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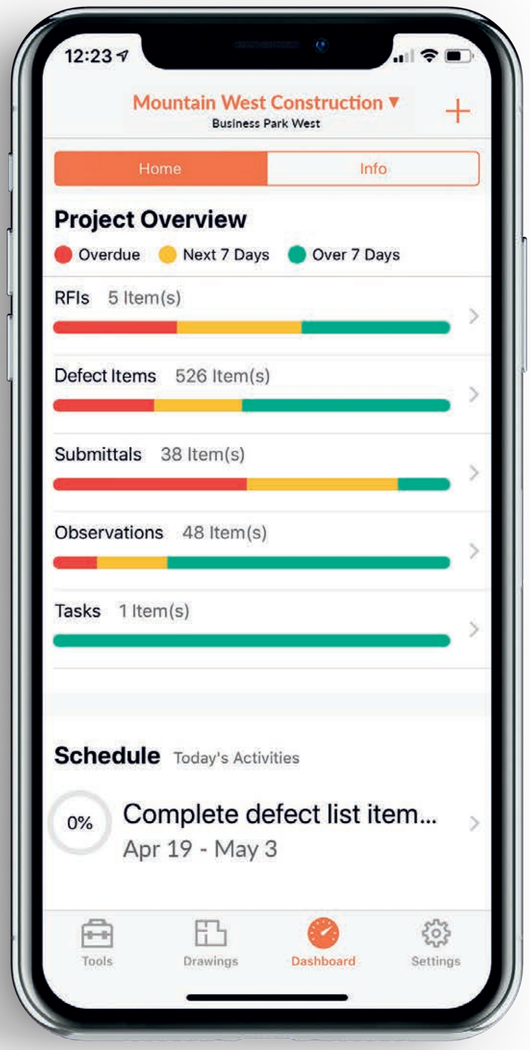

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TANG LEE
MAGIL CONSTRUCTION

WELCOME LETTER

Procore is proud to sponsor *On-Site's* 2021 Canadian Construction Forecast, which looks at the uncertainty the industry is faced with, and what construction leaders are watching for in the upcoming year. As the leading provider of construction management software, we are always mindful of the challenges owners, general contractors, specialty contractors and engineers can face given the additional layers of challenges since the pandemic. With issues like disconnected teams, project productivity, and growing safety concerns, now is the time for the construction industry to embrace platform technology.

It would be impractical to expect the industry to be able to continue growing in its current form without innovating operationally and looking at ways to boost productivity – and digitally connect your entire project team. There has never been a better time to embrace change. This will enable the industry to keep pace with increasing complexity and do more with less.

It's not too late to start the journey towards a digital transformation of your business. We can use this report to help us identify specific market signals, and build an agile and enduring business that can effectively weather what 2021 has in store for us.

Sincerely,

Jas Saraw
Vice President, Canada
Procore Technologies

Below and on the cover: Construction on the new Réseau express métropolitain (REM) in Montreal. The major transit infrastructure system is one of the projects the Canada Infrastructure Bank has backed.

PHOTO: CDPQ INFRA

NO CLEAR TRAJECTORY

Uncertainty is likely the only certainty for 2021 as the industry works to get back on track

BY SAUL CHERNOS

Someone with 20/20 vision, by definition, has normal eyesight in terms of clarity and sharpness. And yet its namesake year has been anything but normal or clear. Rumblings of a mysterious flu-like virus originating in Wuhan, China didn't really resonate in North America until mid-March, when professional sports leagues suddenly fell like dominoes, putting an unprecedented pause on their seasons. Within a matter of days, school break travel plans were scuttled, classroom stayed shut, and quarantines, lockdowns and mandatory mask and distancing measures began taking hold.

While many business sectors were ordered to close temporarily, to flatten the curve of COVID-19 outbreaks, construction was largely deemed essential and carried on. Still, with case numbers rising and authorities worried about overwhelming hospitals, new protective requirements altered site activity considerably, and a growing roster of product shortages, supply chain glitches and economic uncertainty added to the chaos.

"It's been a learning experience," Sandra Skivsky, chair of the National Trade Contractors Coalition of Canada (NTCCC), put it bluntly when asked for her sense of 2020 with the year starting to wind down. Skivsky is also the director of marketing and business development with the Canadian Masonry Contractors Association, which she represents at the NTCCC, and she says the uncertainty has been universal. "Everybody's turning on a dime. 2019 was a good year for construction, so we were expecting a very robust construction year going into 2020. In fact, the labour force numbers were already strong back in February. But then COVID hit and it was a day-to-day, hour-to-hour adapting process. Every day there was something new and different to deal with."

While the numbers bounced back to what Skivsky considers "reasonable levels" on the employment side, the net effect has been a 10 to 15 per cent decline. However, Skivsky also points to lost productivity stemming from the various safety protocols and strictures site personnel and business owners must follow. "It's something that everybody is adapting to," she says. "Overall, the construction industry has stayed fairly safe and kept working. It's just that we've had to adapt on the fly to a lot of change. And there's been a cost to that."

Looking ahead to 2021, Skivsky says she expects the uncertainty will linger. "Every trade I've spoken to says activity levels have been good but nobody knows exactly what it's going to look like going

The pandemic has been a learning experience across the industry, with contractors adjusting quickly to new regulations this spring while continuing to make progress on-the-ground.

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forward. There's a lot of things in play right now, like commercial space. Would you build an office tower right now? I don't know. Anywhere where people congregate, there's a question mark."

Municipalities, under extreme pressure, might be financially challenged from participating in infrastructure projects where they would otherwise be key stakeholders. "There are a lot of questions about who can do what and when, and what the private sector is going to build," Skivsky says. "There's a lot of civil and horizontal construction going on, but that's a certain part of the industry and doesn't necessarily include all trades and all contractors."

Project timing is yet another issue, with a high risk of temporary slow periods interspersed with frenetic activity. "That creates all sorts of pressures on delivery and labour force and training and everything else," Skivsky says, noting the additional complication of ongoing supply chain and material shortages.

Frank Magliocco, Canadian real estate leader with PwC Canada, says COVID has both reversed and accelerated significant trends underway across Canada. Urban areas were increasing in density, for instance, with people choosing to locate closer to their workplaces, and the pandemic has put this somewhat on pause.

"We're starting to see pockets of suburbanization happening," Magliocco says, noting corresponding uncertainties in terms of office space needs, especially in larger centres. "There's lots of question marks, but the pandemic and this [trend to] working from home will have a structural change in the office sector and will have an impact."

On the other hand, COVID has accelerated the advent of e-commerce, impacting traditional brick-and-mortar retail. "That has made what was a challenging situation for the retail sector even more challenging," Magliocco says.

John Gamble, president and CEO of the Association of Consulting Engineering Companies – Canada, says COVID's impact on the industrial, commercial and institutional (ICI) sector has been mixed, with most members continuing to renew. "There's no question it continues to create uncertainty… but there's a sense that the industry's going to come through this year in reasonably good shape, all things considered," Gamble says, citing supply chain and material shortage issues coupled with new distancing and personal protective equipment (PPE) requirements as factors delaying projects and escalating costs. "A few owners are being utterly irresponsible, trying to relay all those costs onto construction companies and onto design, engineering and construction firms, but other owners have been constructive and collaborative in terms of how we address these types of things. I hope that's a lesson we can take forward in the post-COVID world, to move away from the adversarial contractual relationship that sometimes gets in the way of getting projects done."

While the municipal sector has been hard hit, Gamble reports relatively steady public sector work. "There certainly seems to be a willingness of all levels of government to leverage infrastructure to rebuild the economy, and I think that's well founded. When we had the last recession circa 2009, the Conference Board of Canada concluded that, of all the stimulus measures, infrastructure investment was probably the most effective, and estimated that every dollar invested in infrastructure resulted in \$1.20 in GDP. That's the kind of return of investment I think we're all looking for to come out of this." Still, municipalities short on tax income may find themselves less able to participate in infrastructure renewal. "These are things were mindful of, that are adding to the uncertainty," Gamble says.

Infrastructure and other government investments notwithstanding, Pedro Antunes, chief economist with the Conference Board of Canada, anticipates a tumultuous business environment. "Looking ahead, the recovery will be slow and gradual," Antunes says. While commercial, institutional and industrial construction sectors rebounded over the summer, when COVID cases were in decline, with some segments even bettering pre-COVID numbers, that trend is expected to abate. "My sense is a lot of construction was put on hold in March and April, and we rebounded because we were making up for lost time. But I think there's concern for the coming quarters and perhaps even for the coming years if we see major changes in consumer and business behaviours affecting, for example, demand for office or retail space. We've seen a huge adoption of online purchasing, and I worry about brick-and-mortar retail."

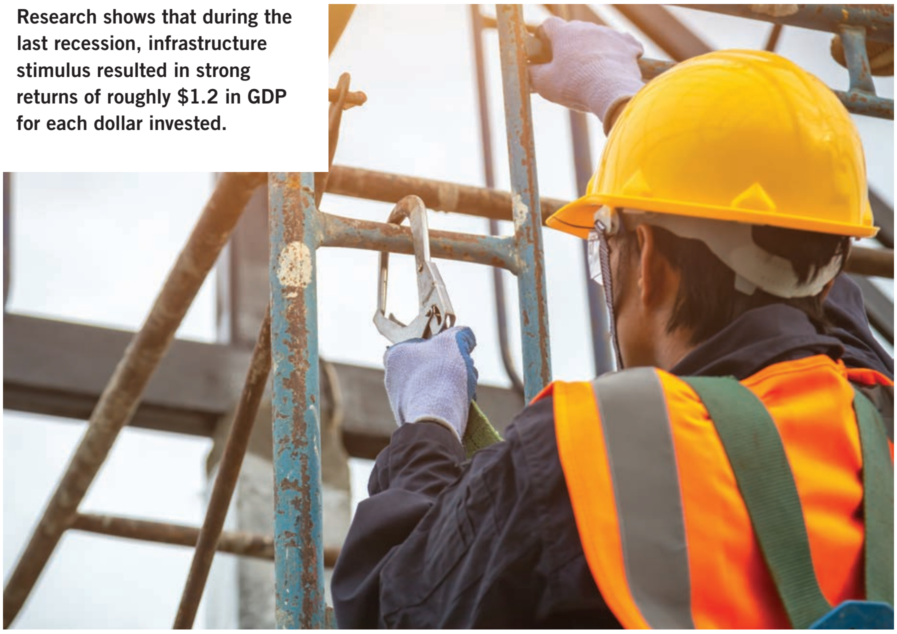
So how might Canada's planning, engineering and construction sectors respond going forward given that consumer and business behaviours may be changing and that the uncertainty is unlikely to go away? There are multiple perspectives.

The ACEC's John Gamble says green infrastructure projects such as renewable energy and active transportation, while fruitful for some of his members, tend to require considerable up-front investment and consume rather than generate tax dollars, at least in the short term, so he wants governments to also invest in "tried-and-true" economic infrastructure project funds such as the National Trade Corridors Fund to build roads, bridges and port facilities to help promote commerce.

"We want to make sure we rebuild the economic capacity to make these investments, so it's a balancing act we're looking for," Gamble says.

Pedro Antunes, meanwhile, says the timing might be right for governments to

Research shows that during the last recession, infrastructure stimulus resulted in strong returns of roughly \$1.2 in GDP for each dollar invested.



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Ottawa recently set aside funding to boost broadband access in rural areas. It is one of several non-conventional infrastructure categories the federal government is focussing on.

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provide incentives to invest in renovations or repurposing. "I know the government is looking at a lot of green energy investments, retrofitting buildings, making them more energy efficient. We've seen announcements from the Canada Infrastructure Bank (CIB) that there will be more money put towards that. So I think there are opportunities overall."

Indeed, the Canada Infrastructure Bank has earmarked $10 billion from its overall $35 billion current working budget for loan-based investments towards infrastructure deemed sustainable. This includes clean energy, zero-emission buses, energy efficient building retrofits, large-scale broadband and agricultural infrastructure such as irrigation and complements earlier CIB investments in more tradition projects such as Montreal's Réseau express métropolitain (REM).

"Infrastructure for the sake of infrastructure didn't work for us," says John Casola, chief investment officer with the CIB. Roads, bridges and large-scale transportation projects have traditionally carried the way with big infrastructure spends, and these are included in the CIB's overall budget, but Casola says these tend to be much longer-term, requiring considerable planning and review, whereas current government imperatives, especially in the face of COVID, focus on immediate prospects for project delivery, job creation and economic recovery. "There's no such thing as a big road, a big LRT, or a big bridge that you could deliver quickly and put people to work and get money out the door," Casola says. "It just doesn't exist."

At the Alberta Roadbuilders and Heavy Construction Association, CEO Ron Glen says his province entered 2020 anticipating significant government budget cuts for road construction and other 'horizontal' building projects, yet response to pandemic included a $450 million provincial injection into highway preservation programs.

"There was an absolute flurry of tenders that came out to get some of that work done," Glen says. Looking ahead to 2021, however, Glen points to COVID's ongoing financial impacts and expresses caution. "After several years of dramatic drops, to have a little bit of work come back was spectacular. But we all know that the other shoe is going to drop." ☐

COVID-19 has created uncertainty in the office market, as well as for multi-unit residential projects that rely on small units.


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TOP 10

CANADIAN CONSTRUCTION TRENDS TO WATCH IN 2021

The president of the Canadian Construction Association breaks down the industry organization's expectations for the year ahead

BY MARY VAN BUREN

1. RHETORIC OR REALITY: WILL INFRASTRUCTURE INVESTMENT DOLLARS FLOW IN TIME?

Billions of dollars have been earmarked through Infrastructure Canada's Investing in Canada Plan, yet there are still billions that are uncommitted since 2018. With a severely hard-hit economy, will the feds, provinces and municipalities be able to set aside politics and get funds flowing, and people working? Mixing infrastructure stimulus with unrelated social policy goals will delay projects, interfering with economic recovery and getting people back to work.

2. IMPROVED HYGIENE STANDARDS ARE HERE TO STAY

While COVID-19 has been devastating in so many ways, one positive outcome is the increased hygiene on job sites across Canada. Improved handwashing and bathroom facilities have addressed some of the downsides of working on job sites and may result in reduced spread of other common germs, like colds and flus.

3. PRIVATE SECTOR STALLS

Investor confidence has taken a beating in the commercial sector, as some businesses promise to significantly reduce their footprints. And, while the square foot per office worker was already declining, will it need to increase again to accommodate a smaller workforce, while respecting physical distancing? Project tendering began to slow down in the third quarter of 2020, which will have a significant impact on the design and engineering community first, followed by the construction industry late next year, unless this gap is filled with government work or a return to private sector investor confidence.

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4. WORKFORCE SHORTAGE WORSENS

The CCA has advocated and continues to advocate for a steady, flexible and dedicated commitment to infrastructure investment. With governments slow to launch economic stimulus in the form of infrastructure investment, placements for apprentices are most at risk. This will sharpen the already significant shortfall in skilled workers, such that recovery will be slower. Skilled tradespeople simply cannot be created overnight.

5. RISKY BUSINESS

Construction firms have long shouldered the majority of project risk. Throughout COVID-19, contractors took a leap of faith that owners would reimburse extraordinary costs related to COVID-19. While some owners have been flexible and fair, others have not. P3 models, seen as a panacea for large infrastructure projects, have not been as well received by contractors who have been charged with a disproportionate share of the risk. While vaccines may be on the horizon, COVID-19's continued impact, lower investor confidence and contractors burning through their backlog could mean 2021 could be a make or break year for many. The small and medium-sized contractors who carry much of the upfront costs of projects are most at risk.

6. RISE OF PROTECTIONISM

Provinces with struggling economies and municipalities with limited funds may look inward, erecting trade barriers to narrowly focus on their constituents. This short-term thinking is already happening in British Columbia, with its Community Benefits agreements, which are Project Labour Agreements (PLA), as well as with Saskatchewan's stated preference for Saskatchewan-based firms to win bids. Economists suggest that policies that impose trade barriers are harmful to the economy. Interprovincial trade barriers are inefficient, and do not support a fair, transparent and competitive procurement processes. It is essential that we stand united and work together to benefit all Canadians during recovery.

7. GREENING OF INFRASTRUCTURE

The federal government will continue to advance its sustainability strategy, which may lead to more projects in urban areas. We also need to tend to our infrastructure deficit. Highways, roads, bridges, ports and other forms of transportation infrastructure are integral to maintaining the quality of life Canadians enjoy. They are not only essential for personal commuting and travel, but also allow for movement of goods and services that underpin the economy. The Canadian Trucking Alliance estimates, for instance, that over 90 per cent of all consumer products and foodstuffs are shipped by truck. According to the 2019 Canadian Infrastructure Report, nearly 40 per cent of roads and bridges are in fair, poor or very poor condition and 30 per cent of tracks for public transit require investment in the next decade. About 25 per cent of Canada's potable water infrastructure, including watermains, reservoirs and dams, and 30 per cent of its wastewater infrastructure, including sewers and treatment plants, is in fair, poor or very poor condition. These needed infrastructure investments are an opportunity to reshape our communities in a more sustainable manner.

8. DIGITAL ACCELERATION

The consumer appetite for digital commerce radically increased during the shutdowns, altering business priorities and operations. E-commerce activities advanced 10 years in three months, according to a report by the McKinsey Institute. The construction industry also appreciated the value of connecting through technology during the pandemic, complying with physical distancing while managing projects remotely. The added benefit has been improved data on projects, the modernization of procurement, such as e-ticketing in the cement industry and a demand for permitting to go digital.

9. FEDERAL PROMPT PAYMENT IS LAUNCHED

The federal government has been working to bring the legislation into implementation. Understandably delayed by COVID-19, the industry is counting on this to be in place for 2021. With the uncertainty of projects and liquidity concerns, this will send a positive message.

10. SUPPLY CHAIN RE-THINK

While the supply chain was surprisingly resilient during 2020, it was not without its risks. From lumber to windows to cement, contractors had to deal with uncertainty in receiving materials and increasing costs. This may ramp up investments in modularization, as well as prompt calls for governments across the country to support those industries that supply "made in Canada" materials. ☐