Construction Quarterly

Build a Pivot Playbook to Future-Proof Your Business

April 2025

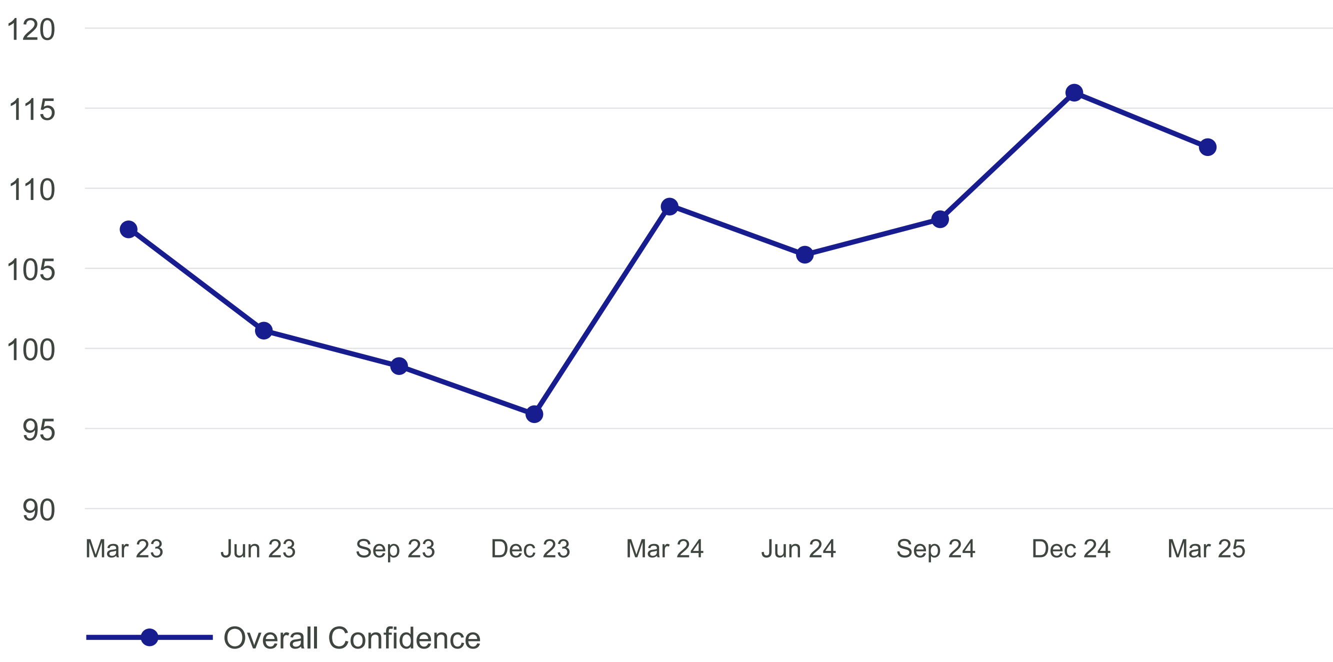
Construction companies are all too familiar with uncertainty. Market conditions are never the same from one year to the next. Regulatory policy, tariffs, interest rates, inflation, supply chain availability, legislation, and funding options are continually changing. These uncertainties are difficult to manage in the moment, and they impact sectors within the construction industry in different ways. However, we encourage you to pause and reflect on the lessons those challenges have imparted.

Harness Your Knowledge

Over the last two decades, your business may have been put through the wringer with two recessions, multiple administration changes, and markets ebbing and flowing many times over. If you let them, the hard-won lessons you've gained through those experiences can be your lifeline.

As you've been tested over the years, you've figured out what worked and what didn't. If you take time to reflect, you can use that knowledge to build a playbook of sorts. Having a blueprint to follow when you're not sure what to do next can provide some stability when everything else seems uncertain.

Overall CONFINDEX Confidence Index



CFMA CONFINDEX Q1 2025 Results–https://cfma.org/articles/it-will-be-okay-rightquestion

First, Know What You're Up Against

Each quarter, the Construction Financial Management Association (CFMA) polls construction leaders to gather their thoughts about the state of the industry. In the most recent quarterly CONFINDEX survey[1], we noticed the following:

- **Confidence dipped but is still positive.**
  The Overall Confidence Index dropped three points from the prior quarter but is still showing that construction company leaders are confident (a rating of >100 shows that respondents are more confident than not).

- **Backlog is weakening.**
  For years backlogs have been increasing, but the market seems to have shifted. Economic challenges are shrinking backlogs. A recent Associated Builders and Contractors survey reported that commercial backlog is the lowest it has been in two years.[2] Our clients seem to agree. One respondent to the CONFINDEX survey put it like this: "[There's] lots of opportunity if people can get the money [to] allow them to move forward."

- **Infrastructure jobs are at risk.**
  The infrastructure work that has been so consistent these past few years may be at risk. While the Trump administration had initiatives to inject $200 billion additional dollars into rebuilding America's infrastructure and more recently announced a $20 billion investment[3] to build new data centers in the U.S., it has also paused spending on many infrastructure projects. On January 20, 2025, President Trump signed an executive order that requires all agencies to pause the disbursement of funds appropriated through the Inflation Reduction Act of 2022 and the Infrastructure Investment and Jobs Act. These Biden-era laws directed billions of dollars to projects like highway expansion and investment in manufacturing.

  With this conflicting information, contractors are rebalancing their mix of public and private work. One survey respondent said, "With the need to cut government spending, there is some concern with infrastructure spending cuts."

- **Labor is hard to come by.**
  Since the COVID-19 pandemic, contractors have noticed a trend: new graduates are only considering work that offers some form of flexibility. Other businesses have embraced the flex or hybrid work environments, but most contractors continue to expect back-office and administrative workers to be at the office 100% of the time. Mark DeVerges, director on the Executive Search team at Forvis Mazars, says, "When companies are looking to hire specific talent, the pool becomes significantly smaller."

- **The quality of labor is low.**
  The workforce has evolved in recent years. A few comments we saw in the CONFINDEX survey show just how important quality labor can be:

  - "The chronic shortage of qualified and experienced craft workers continues to pose challenges to efficiently executing quality work with no rework."
  - "We have seen ... skill deficiency in new hires for the past few years. We are looking into training/ certification measures to strengthen the workforce."
  - "[We have a lack of workers] with a desire to learn the trades."

  Rework, training, and helping workers gain additional certifications are costly endeavors and are taking a toll on contractors, both financially and operationally. And contractors choosing to invest in new technologies not only have more financial pressures to contend with, but they also struggle to find workers proficient with those technologies. Mark DeVerges noted, "This gap in labor quality and participation is a major challenge, impacting efficiency and financial stability for many businesses reliant on quality engaged workers."

- **Succession plans are unclear.**
  A survey respondent was concerned that their business had "old owners with no plan for the future." And, unfortunately, this isn't a one-off comment; we've heard it many times from our clients.

---

1 "It Will Be Ok, Right?" cfma.org, March 2025.

2 "Total commercial backlog at nearly 2-year low," constructiondive.com, January 14, 2025.

3 "Trump announces $20 billion foreign investment to build new U.S. data centers," cnbc.com, January 7, 2025.

Owners of legacy construction businesses may find it difficult to identify successors and need help thinking through all their options, whether that be a structured buyout, an employee stock ownership plan (ESOP), a third-party sale, or something else. Kevin Hamernik, a partner and national practice leader in Restructuring & Turnaround at Forvis Mazars, seeks to make this process easier for his clients.

"Optimal succession planning isn't something that begins months or a year prior to your exit. It's a transformation over many years or even decades. It takes time to prepare future leadership so that they will be accepted by employees, customers, vendors, lenders, and investors."

"Succession isn't a good-to-do; it's a must-do. Failure to identify future owners and execute a transition provokes uncertainty, disruption, or—at worst—business failures. And failing to successfully transition your business could result in undervalued business sales transactions, insolvencies, or wind-downs."

Use Your Experience to Build Your Pivot Playbook

The construction industry is particularly vulnerable to marketplace shifts. We saw this acutely in 2008. But there are ways that you can protect your business against the threat of the unknown. One of our favorite methods is to build a "pivot playbook." This guide should be a framework that helps you shift your strategy in response to changing circumstances.

Every business's playbook will look different, and that's because the marketplace affects every business differently. When building yours, we encourage you to reflect on the lessons you've learned over the years. Think back to the 2008 crisis, or even to the more recent COVID-19 recession. How did you pivot? What worked and what didn't? Pull from that experience when building your playbook.

As you're reflecting, we encourage you to think about two things: (1) **indicators** that the marketplace is changing, and (2) potential **approaches**.

The AIA Architecture Billings Index

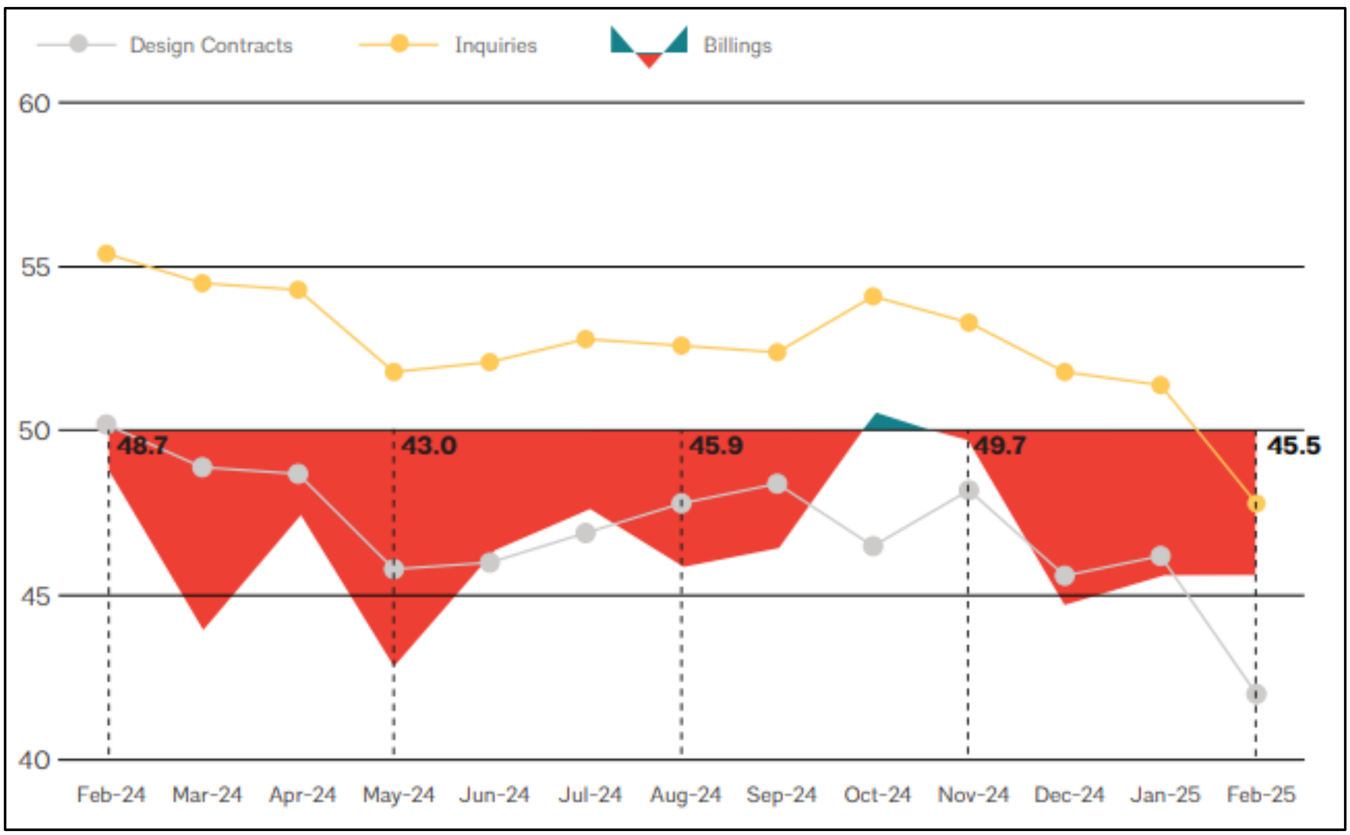
Indicator

The Architecture Billings Index (ABI) is the leading monthly economic indicator to predict nonresidential construction activity. The ABI is determined using billing data collected from the American Institute of Architects (AIA). When the ABI falls, the construction industry can expect demand to fall 9 to 12 months later.

Keep in mind that the ABI is only relevant for nonresidential construction; it has no bearing on residential construction or on the construction industry as a whole. If your business has a strong focus on residential construction, the ABI should not make it into your pivot playbook.

Approach

In February 2025, the ABI score was 45.5. A score of less than 50 shows that more architecture firms are reporting decreases in billings than are reporting increases. Nine to 12 months from now, construction leaders should anticipate a drop in demand for nonresidential projects.



Source: American Institute of Architects

Proposed Policy Changes (Tariffs)

Indicator

Proposed policy changes (and the rhetoric on the Hill surrounding those proposals) are clear indicators of what's to come. Tariffs are a great example. Tariffs have been in the news more than almost any other policy change this year.

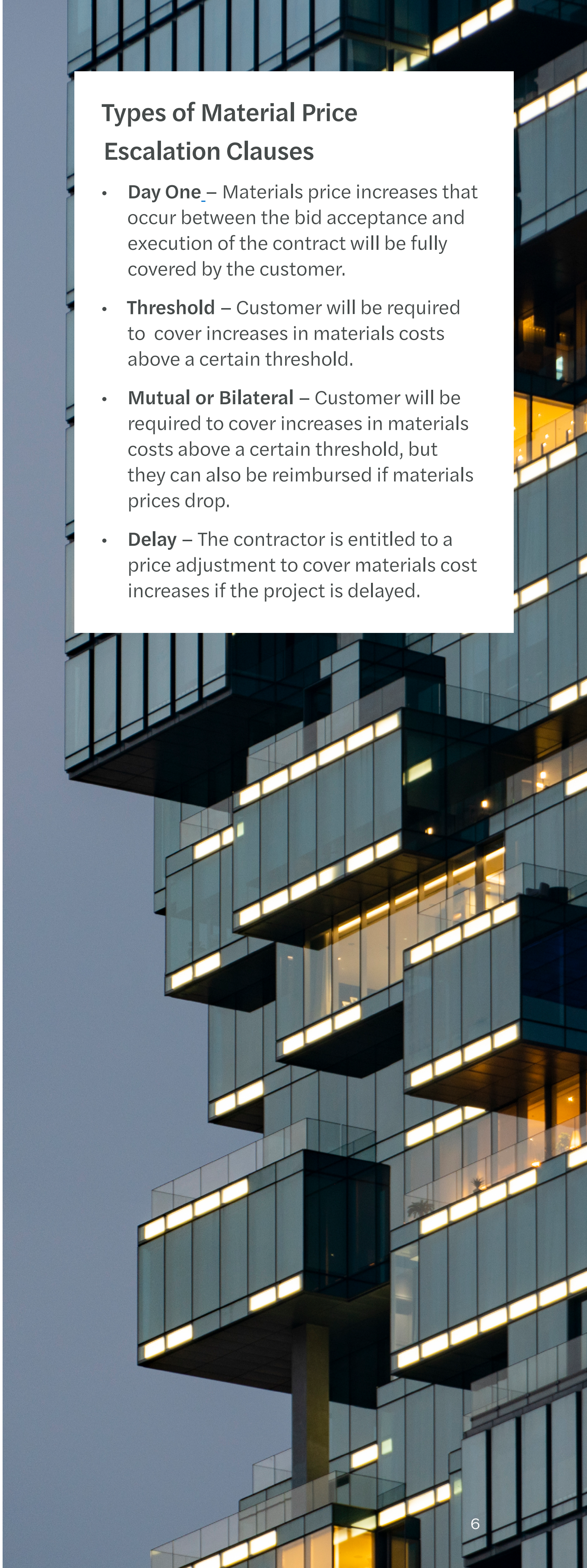
Tariffs can do a number of things—stimulate the economy, exert political leverage, encourage the use of domestic manufacturers, reduce the trade deficit, etc.—but the outcome for manufacturers is often negative, at least in the short term. Tariffs increase the price of imports, which can be difficult for contractors to absorb, especially if they can't recoup those cost increases. Contractors may also be forced to source their materials elsewhere, the logistics of which can be burdensome and the outcome of which can be costly.

Approach

The tariffs imposed and proposed by President Trump have led to unpredictable pricing. This risk can be mitigated by adjusting the contract to address price escalation risks. There are many ways you can go about it. Some options are:

1. Before the project gets started, contractually agree with business partners how to share the costs if price escalations occur.
2. Purchase materials in advance.
3. Raise your bids to cover anticipated price escalations.

While these are all possible strategies, we think that an effective way to cover tariff-induced price escalations is to use a material price escalation (MPE) clause. There are many types of MPE clauses, but they all do one thing: they allow for price adjustments in a construction contract if materials prices rise above a predetermined threshold. We just recommend that you only include materials in your MPE clauses that are likely to be impacted by price escalations, including tariffs.



Types of Material Price Escalation Clauses

- **Day One** – Materials price increases that occur between the bid acceptance and execution of the contract will be fully covered by the customer.
- **Threshold** – Customer will be required to cover increases in materials costs above a certain threshold.
- **Mutual or Bilateral** – Customer will be required to cover increases in materials costs above a certain threshold, but they can also be reimbursed if materials prices drop.
- **Delay** – The contractor is entitled to a price adjustment to cover materials cost increases if the project is delayed.

Rent Rolls

Indicator

Construction for multitenant buildings is driven by rent rolls.

Rent rolls are documents that detail a property's rent rates, occupancy rates, lease terms, etc. If rent rolls change, the risk to contractors may also change. If rent rolls show that fewer units are being occupied or that tenants are paying rents late, contractors should see that as a sign. Future projects in that area or that serve that tenant population could be riskier.

A strong rent roll will have the following characteristics:

- High occupancy rates
- Long-term leases
- Long-tenured tenants
- Staggered lease expirations
- Financially strong tenants

Approach

Do your due diligence. When investing in any sort of project, know what your risks are. Is there a possibility that the project will get canceled? That your subcontractors will be able to execute? That the buyer will be unable to make progress payments?

The Project Stress Index,[4] which is a measure of preconstruction projects that have been delayed, abandoned, or placed on hold, can provide some insight. Other important aspects of construction due diligence are:

- Projecting rent rolls using current and anticipated economic data
- Considering interest rates and tax rate changes
- Reviewing lease agreements for similar properties
- Determining tenant characteristics in the new build's vicinity
- Judging the worthiness of subcontractors
- Using precise materials estimates
- Considering your available bonding capacity

You Likely Have the Answers Already

You may not realize it, but you likely already know how to navigate uncertainty; you've done it before. Consider what you've learned from past experiences and see how you can apply those going forward.

In uncertain times, it can help to strip away the noise. Step back and look at your business realistically, taking a long-term viewpoint rather than focusing on just the past few years. You'll see patterns that you wouldn't be able to see if you kept the lens more focused.

For more construction industry insights, subscribe to **FOR**sights™ or visit forvismazars.us/construction.

4 "Frequently Asked Questions: Project Stress Index," constructconnect.com.

Contributors

Jason Myers
Partner & National Industry Leader
jason.myers@us.forvismazars.com

Mark DeVerges
Director
mark.deverges@us.forvismazars.com

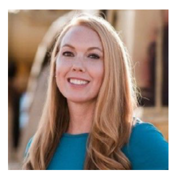
Daniel Gaston
Partner & Construction Leader
daniel.gaston@us.forvismazars.com

Kevin Hamernik
Partner
kevin.hamernik@us.forvismazars.com

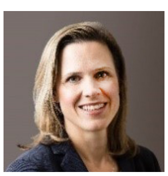
Mike Trammell
Partner & Consulting Services Leader
mike.trammell@us.forvismazars.com

Daniel Miles
Partner
daniel.miles@us.forvismazars.com

Aprille Bell
Managing Partner
aprille.bell@us.forvismazars.com



Janeen Butler
Senior Manager
janeen.butler@us.forvismazars.com



Sarah Windham
Partner
sarah.windham@us.forvismazars.com

For more information and construction industry insight, visit forvismazars.us/construction.