The Healthcare Sector
Pre- and Post-COVID-19

By: Daniel Pomfrett & Gary Brett

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Abstract

In this paper, Daniel Pomfrett and Gary Brett look at how the healthcare construction market was trending prior to the emergence of COVID-19, how it's been affected by the virus to date, and what its future might look like once the pandemic has subsided. This paper is an update to our previous paper on this topic, which was originally published in May 2020.

The Healthcare Sector Pre- and Post-COVID-19

The healthcare sector has long been an important part of the construction industry, and the pandemic is not expected to change this. Hospitals, labs, clinics, and other facilities have been front and center in our fight against COVID-19. At the same time, healthcare construction has been faced with many of the same pandemic-related challenges facing all construction projects: supply chain disruptions, rapidly changing commodities prices, and overall economic uncertainty.

Where were we?

To understand how things are expected to change going forward, it's worth looking back to see where the healthcare market stood in late 2019:

- Before the pandemic, the healthcare sector was seeing steady growth in construction volume:

  - 2016: 2.3%
  - 2017: 4.4%
  - 2018: 0.4%
  - 2019: 2.4%
  - 2020: 6.6% (as projected in late 2019)
  - 2021: 7.6% (as projected in late 2019)
  - 2022: 5.7% (as projected in late 2019)

- In 2019, California was the most active healthcare construction market, with a reported $4.8 billion of activity. The second-largest such market was Texas at $3.9 billion. The largest overall construction market in the U.S., New York, was third at $2.9 billion.

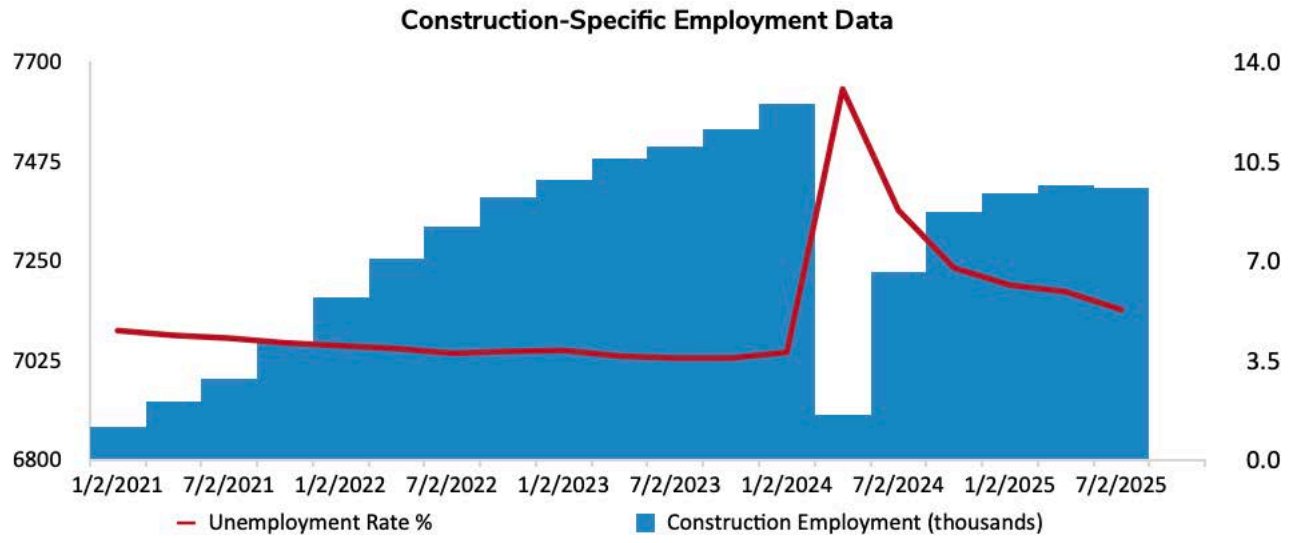
- Private healthcare accounted for almost 80% of healthcare spending in 2019.

- $21 billion was spend on the construction of new hospitals in 2019.

- Projections made in 2019 for 2020 through 2022 estimated a growth in construction of between 5% and 7%.

- A recent report and survey from the American Hospital Association estimated that there are 6,146 hospitals in the United States, equating to 924,107 total staffed beds.

- U.S. hospital care expenditure in 2019 was expected to top $1.25 trillion.



Unemployment in the construction industry has steadily declined throughout the last year. This turnaround following the unemployment spike in early 2020 happened quickly enough to keep workers from leaving the industry altogether, but the tight labor market is expected to persist. Source: U.S. Bureau of Labor Statistics, Congressional Budget Office.

What are the short-term challenges?

Although the economic outlook has been steadily improving since April 2020, significant challenges remain in the short term:

- We expect the healthcare market to grow at a slower rate through 2022 than was predicted before the pandemic:

Pre-COVID Estimates	Post-COVID Estimates
- 2020: 6.6%	- 2020: 1.6%
- 2021: 7.6%	- 2021: -0.8%
- 2022: 5.7%	- 2022: 5.8%

- Material prices having been thrown into disarray by the pandemic and are not expected to return to normal until sometime in 2022. Commodities like lumber, copper, and steel are close to 1.5 times their price 12 months ago.

	Units	This Quarter	Last Quarter	% Change	Last Year	% Change
Crude Oil, Brent	$US/Barrel	72.9	68.8	5.96%	43.0	69.71%
Crude Oil, WTI	$US/Barrel	70.2	66.1	6.27%	40.9	71.74%
Natural Gas, Henry Hub	$US/MMBtu	3.4	2.9	16.95%	2.0	72.47%
Aluminum, LME	$US/Metric Ton	2,563.0	2,398.9	6.84%	1,706.2	50.22%
Copper, LME	$US/Metric Ton	9,385.0	9,710.7	-3.35%	6,521.0	43.92%
Nickel, LME	$US/Metric Ton	18,657.0	17,343.2	7.58%	14,231.5	31.10%
Iron Ore 62%, CFR China	$US/Metric Ton	172.0	199.9	-13.98%	117.9	45.89%
Rubber (RSS3), Singapore	Cents/Lb	194.9	218.9	-10.95%	168.2	15.90%
Lumber, North America	US$/mbf	589.7	1,248.7	-52.78%	668.3	-11.77%

Commodities prices have seen dramatic rises over the last few months, but it looks like they are finally beginning to peak. We expect prices to decline before leveling off sometime in 2022. Source: IHS Insights.

- Many consumers have been asked to postpone elective surgeries and routine checkups to free up personnel for the pandemic response. This has caused revenue to dry up and forced many small clinics to merge with larger ones to stay afloat.
- The pandemic has turned the logistics industry on its head. A shipment from Shanghai to Los Angeles that would have cost $1,500 before the pandemic would cost almost $30,000 today. This is because shippers are still scrambling to work through a backlog of orders, even though production in Asian and demand in North America have almost recovered. There is a very real chance the backlog won't be cleared until mid-2022.
- Drawing from our own market research, wage escalation has remained low through the pandemic. As the recovery continues, we expect labor escalation rates to steadily climb before settling at between 3 and 5%.

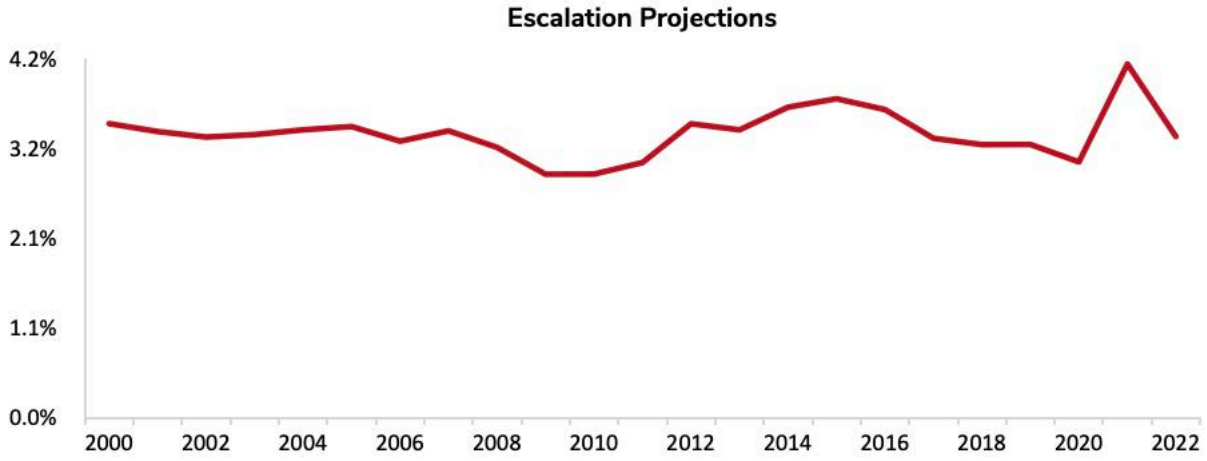
Non-agricultural private wage, salary workers	5.2%
Mining, quarrying, oil and gas extraction	10.2%
Construction	4.6%
Manufacturing	3.6%
Wholesale, retail trade	6.1%
Transportation, utilities	5.9%
Information	4.4%
Financial activities	3.2%
Professional, business services	4.6%
Education, health services	4.3%
Leisure, hospitality	9.1%
Other services	5.0%
Agricultural and related private wage, salary workers	5.7%
Government workers	3.6%
Self-employed workers, unincorporated, unpaid family workers	4.9%

Construction has proven to be one of the most resilient industries, with employment making an almost full recovery. The labor market remains tight, however, and projects may face difficulty filling key positions and finding materials. Source: U.S. Bureau of Labor Statistics.

What are the long-term challenges?

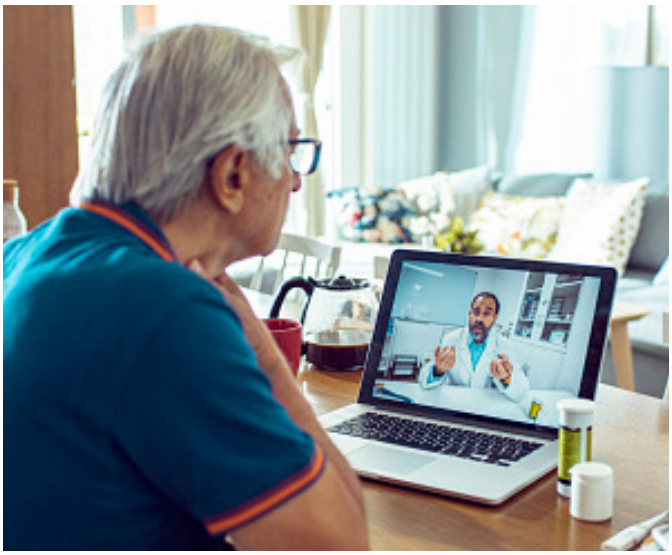
The pandemic has brought about a sea change in the healthcare industry:

- Wage escalation has climbed dramatically over the last few months, as many projects came back online at the same time. This has placed additional pressure on a labor market that has already been stretched to the limit. Escalation is expected to decline as these projects wrap up and the pandemic wanes, but it is unclear exactly when this might happen.



We expect escalation to hold at between 3% and 4% for the remainder of the year. The forecast for 2022 shows another decline, as the market is expected to correct for the turmoil of the last year. Source: Cumming Internal Database.

- Telehealth is almost certainly here to stay. Almost half of all visits in 2020 were remote. Healthcare technology needs to adapt to this new model — many internal networks are not able to handle the increased capacity and security that this demands.
- Employers are likely to keep work remote, while providing offices when needed. Physical offices will still be a necessity, but will likely be less prominent than before the pandemic.
- Healthcare is being increasingly redefined to include mental, spiritual, and emotional wellbeing. Providers are adopting a more holistic approach, recommending things like physical therapy as well as medication. Healthcare facilities will likely follow suit, with less lab space and more office space.
- Many pharmaceutical companies, doctors, and care providers have formed partnerships with hotels, sports arenas, and other private entities that have assisted in the vaccine rollout. These partnerships could be expanded to provide fast care to consumers who increasingly expect care to be on their terms.
- Migration, which is already an issue in states with high costs of living, may be further exacerbated as the population increasingly moves to where the cost of living is low, rather than where jobs are plentiful.



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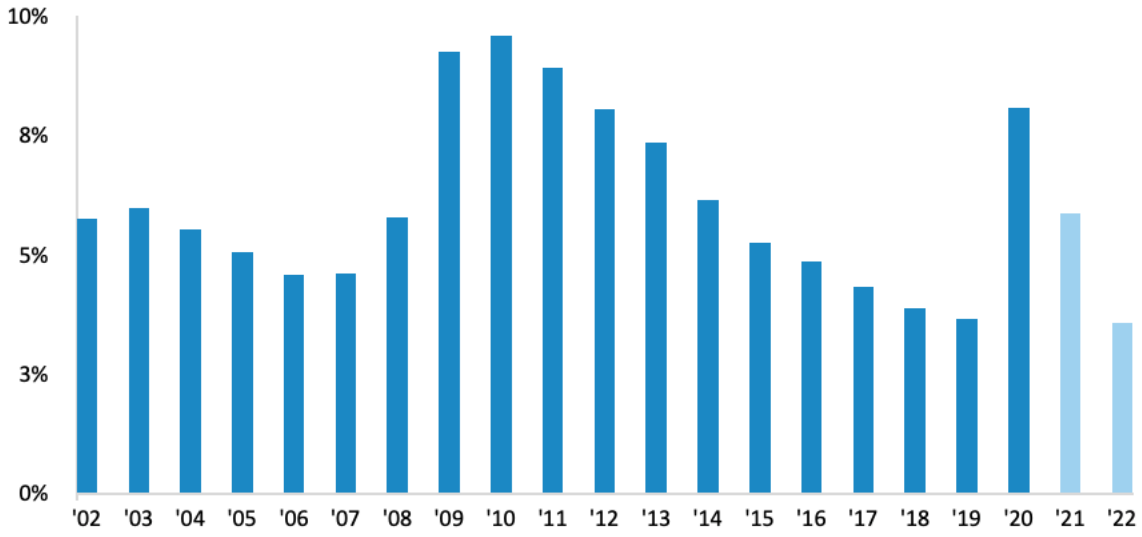
U.S. Unemployment Rate Forecast (2002-2022)

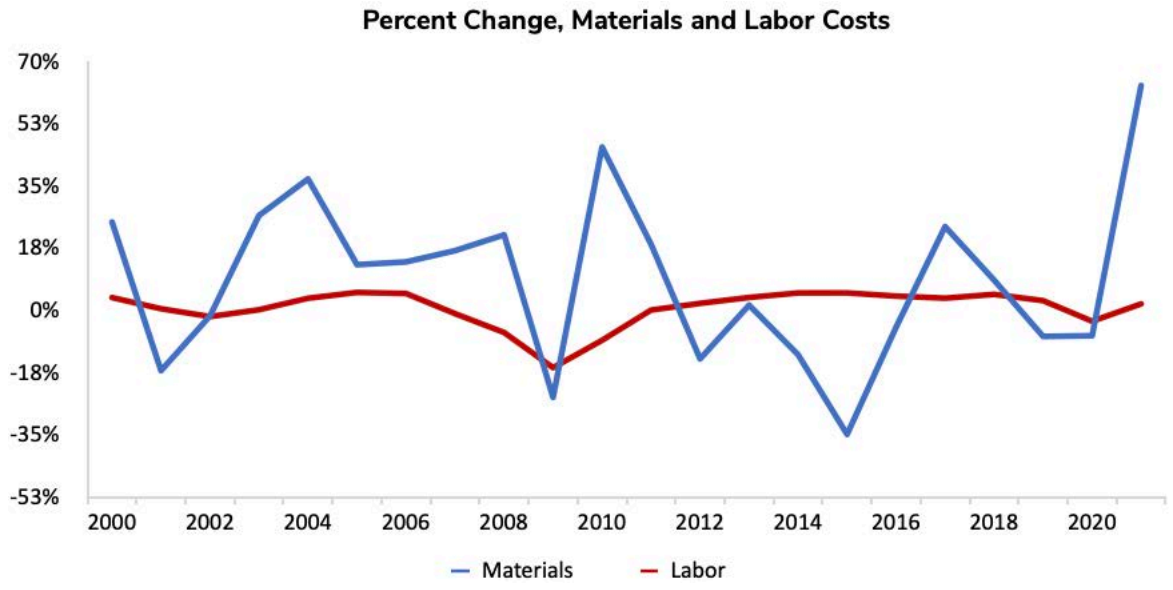


Year	Rate
2011	8.9%
2012	8.1%
2013	7.4%
2014	6.2%
2015	5.3%
2016	4.9%
2017	4.4%
2018	3.9%
2019	3.7%
2020	8.1%
2021	5.9%
2022	3.6%

The U.S. economy managed to recover faster than many experts predicted. Unemployment was expected to average 15% in 2020, but the actual figure was closer to 8%. It is set to be 3.6% in 2022 — slightly below 2019 levels.
Source: U.S. Bureau of Labor Statistics, Congressional Budget Office.

How will the contracting community be affected?

- Construction employment has generally recovered in most markets; however, some difficulties remain. It will take time for some tradesmen to work their way through training, meaning that finding people in the short-term will be a challenge.
- Insurance payments have increased — by as much as 1% each year, according to some reports — and will likely remain high for the foreseeable future. The pandemic has taught people to plan for contingencies and to be prepared for when things go awry.
- The Delta variant has hampered many reopening efforts, and has caused a return of some pandemic restrictions. However, these are nowhere near as strict as previous ones, and very few municipalities have re-introduced capacity restrictions. This has allowed the construction industry, especially the areas of work that are primarily done outdoors, to return to pre-pandemic practices.
- The construction industry has been incredibly resilient, and its quick recovery has surprised many experts. Many commodities producers, however, are unable to meet the new demand for commodities, sending prices skyrocketing.



Materials prices have seen dramatic increases across the board in the last year. We expect them to drop any day now, but consideration must be given as to when to purchase materials. Source: U.S. Bureau of Labor Statistics, IHS Insights.

How will designs for new and renovated facilities change?

- Remote work and telehealth will likely become permanent aspects of the healthcare landscape. To accommodate this transition, firms will increasingly rely on technology and communication tools. This will make servers and other related infrastructure as essential to healthcare providers as exam rooms.
- Thanks to technology, almost three in four consumers understand their health goals, and only go to a doctor to ask about how to achieve them.

Doctors are beginning to shift their practices to accommodate these more informed and engaged consumers. Many are prioritizing a shift towards prevention and wellbeing. This means more frequent (but less comprehensive) visits.

- Clinics in the future will likely change to accommodate a more holistic approach to care, with many different specializations and treatments on site.

Key considerations for the future

Some changes to our daily lives are likely to fade away as the pandemic does. Social distancing, capacity restrictions, and mask wearing are controversial even when the benefit is obvious, so it is unlikely that they will last. Other things, like remote work, will likely be facets of life for years to come. Below is what we believe will be important for construction in the healthcare industry in the coming years:

- All parties should be consistently monitoring their projects, which we call "360 Knowledge." Factors that should be closely monitored include funding, risk analysis, current construction status, schedule, and lead times. Key to successful monitoring will be ensuring that you have the right team members in place and that they have their fingers on the pulse of the project at all times.
- Monitor, expand, and plan for contingencies. We are not out of the woods yet, and if the last year-and-a-half has taught us anything, it is to expect the unexpected.
- Understand the full financial picture of the project and not just the hard construction cost. Known as "day one financial accounting," this will allow clients and owners to know the projected final value of the project at any point during the project, starting from inception.
- Risk management will be important for future projects, as the pandemic has highlighted vulnerabilities across the construction industry.

Dan Pomfrett

Vice President | DPomfrett@ccorpusa.com

Dan is a Vice President at Cumming, as well as our National Director of Forecasting and Analytics. He holds a B.S. degree in quantity surveying, is a certified member of the Royal Institution of Chartered Surveyors, and has more than 20 years of industry experience. He also researches and writes Cumming Insights, the company's quarterly report that breaks down economic trends and projections for regional construction markets across the country. In addition to his work in economics, Dan has provided cost-related services for numerous high-profile clients, including international architectural firms, museums, cultural institutions, and private developers.

Gary Brett

Vice President | GBrett@ccorpusa.com

Gary is a Vice President at Cumming in charge of our Healthcare Cost Management team. He holds a B.S. degree in quantity surveying, is a certified member of the Royal Institution of Chartered Surveyors, and has more than 30 years of experience in the construction industry, 20 of which have been dedicated to healthcare. Gary has estimated hundreds of projects and is known for the accuracy and reliability of his budgets. Over the past several years, he has pioneered the use of D-Profiler at Cumming to help his clients better visualize project scope and expedite the estimating process.