

Who Will Build the Homes of the Future? Analyzing the Labor Shortage in Residential Construction

In this document, the Building Talent Foundation examines the severe and persistent talent gap across skilled trades in the residential construction sector in the United States. The findings are based on a review of extensive literature, interviews with more than 200 industry stakeholders, and consultations with workforce development experts conducted during the second half of 2019.

The acute labor shortage has significant business and societal consequences. It stifles the growth of trade contractors and builders, increases the costs and time necessary to build new houses, and makes homes even less affordable for those who need them.

Leading Builders of America established the Building Talent Foundation in 2019 to jointly address the skilled labor challenges facing their industry.

The Talent Supply Challenge

The 2008 recession decimated the skilled trades. From 2007–2013, the construction industry lost more than 2,300,000 jobs¹ and more than 150,000 companies. As the industry began to recover and demand for housing grew, however, workers did not come back, leading to a severe shortage of labor.² As of early 2020, employment in construction broadly and residential construction specifically, had not attained pre-recession levels,³ with approximately 300,000 open jobs⁴ and jobs projected to grow by another 10% by 2028 (much faster than average job growth across industries).⁵

The skilled trades labor shortage will get worse over the next ten years due to retiring current tradespeople. Since the Great Recession, the skilled labor force for residential construction has grown considerably older. The collective workforce is rapidly nearing retirement; over 40% of the construction workforce are expected to retire by 2031.⁶ The median age for construction workers is 43,⁷ with skilled trades trending even older. And there is no cavalry coming—younger people are not joining the trades.⁸ Not only is there a significant skilled labor shortage, but jobs in the skilled trades are also the hardest to fill of any industry.⁹

Jobs in the skilled trades are not appealing to young people. The trades face a significant perception problem. Young people looking for work view construction jobs as dirty and difficult,¹⁰ with little opportunity for upward mobility.¹¹ This is tied to shifts in the jobs society appears to value—jobs without a college degree are perceived as lesser.¹² In interviews with builders and tradespeople, the clear and primary obstacle to new recruits is a persistent lack of interest in the trades among young people looking for work. In fact, according to a recent study of young people entering the workforce, only 3% want to work in the trades.¹³

Immigrants are an increasing source of labor but are not filling the labor gap. Immigrants' share of construction labor is at an all-time high: immigrants make up 25% of all construction workers and 30% of people in the skilled trades.¹⁴ However, while the total number of immigrants in the workforce is close to pre-recession levels, immigrants have not yet made up for the millions of native-born workers who left the industry after the Great Recession.¹⁵ The rate at which immigrants are joining the construction industry has also dropped significantly since the recession. Our interviews with builders and tradespeople indicate that the combination of intensified immigration enforcement, increased use of E-Verify in border states, and broader opportunities for new DACA recipients have driven many immigrants away from construction.

Perceptions and treatment dissuade women from joining, eliminating half of the potential workforce. Women currently make up only 2.5% of tradespeople.¹⁶ Perception is a significant cause of the gender gap in construction: only 1% of women entering the workforce want to join the construction industry (compared to 5% of men).¹⁷ Sexual harassment and discrimination by overwhelmingly-male supervisors also discourage women who join the trades from staying.¹⁸ However, the share of women in the skilled trades is at an all-time high¹⁹ and government and non-profit programs aiming to increase women's participation have had some success.²⁰

Residential construction struggles to compete for entry-level talent with non-residential construction. Both sectors compete for the same workers but have significantly different wages and benefits as well as differing levels of engagement with education and training programs. Non-residential construction trades have wages approximately 15% higher than residential construction trades.²¹ Non-residential construction is less fragmented than residential construction,²² which creates better job security, benefits, apprenticeship training, and clear career progression (as well as potential access to unions). Residential construction competes for talent with other industries offering better compensation and work conditions (auto mechanics, manufacturing technicians, welders, warehouse workers, etc).

In summary, effectively cultivating a strong, steady and diverse talent pipeline into residential construction requires reframing the perception of jobs in the sector, providing accurate and attractive career information for potential workers, and engaging them with inspiring role models among builders and tradespeople.

The Talent Training Challenge

The US construction industry is highly fragmented. The four biggest construction firms in the US control only 6% of the market, while the top four firms in retail and in petrochemical refining, for example, control 14% and 42% of their markets, respectively. Residential construction and the skilled trades are the most fragmented of an already-fragmented industry, with an average of between 5 and 15 employees per firm (depending on the trade).²³

Fragmentation in the residential construction industry undermines the effectiveness of training and placement programs. Research has demonstrated that some of the most significant obstacles to resolving skilled labor shortages across industries and geographies are disconnects between educators and employers: educators do not know what employers need and employers do not trust educators to meet their needs.²⁴ We see these same patterns in the skilled trades: in our interviews, many schools and government employment agencies said that they did not know precisely what residential sector employers are actually looking for, and many trade employers said that the students graduating from existing training programs are not prepared for the exact requirements of the job.

There are no residential sector-wide standards for work-based learning programs and credentials, beyond the basic pre-apprenticeship training and certifications. Most high schools' career and technical education departments, community colleges, and construction-focused non-profits (YouthBuild, SER Jobs, Goodwill Industries) introduce their students to construction concepts using either the HBI PACT or the NCCEER Core curriculum. The residential sector has neither well-defined career ladders for skilled trade workers to climb nor work-based upskilling models for employers to administer. In addition, trainers and industry professionals repeatedly highlighted in our interviews that community colleges frequently stress commercial construction over residential construction (with up to 90% of training focusing on commercial). Non-residential construction companies more effectively engage entry-level recruits than residential companies do by visiting classes, contributing to curriculum design, participating in job fairs, and mentoring students.

While some Home Builders associations (HBA's) are effectively improving the job pipeline, some are not and could use support. HBA's can repair some of the fragmentation and effectively connect trade employers to educators or align supply and demand more effectively across the construction labor market. While some HBAs have done this well, our interviews repeatedly highlighted HBAs' many competing priorities, such as fundraising, lobbying, information gathering and dissemination, and other services to members. In addition, the majority of smaller firms involved in residential construction are not members of their local HBA. HBAs' competing priorities and the fragmentation of the industry make it difficult for some to sufficiently improve the job pipeline without external support.

Increasing access to jobs in the skilled trades is an investment towards a more resilient residential construction workforce. Projections for the next ten years indicate an extensive reshaping of the US economy.²⁵ Automation and further technical and technological innovation promise to eliminate many good jobs and undermine careers both nationwide and globally.²⁶ The resulting unrest will weaken the economic opportunities available to many. However, the skilled trades appear to be one of the careers most resilient to this techno-economic upheaval.²⁷ Projections for the next ten years show a growing demand for workers in the skilled trades due to consistent need for housing.²⁸ While work in the skilled trades does not appear to be more resistant to crisis-style shocks than the rest of the economy, the evidence from 2008 indicates that the construction market rebounds much faster than the construction workforce—even ten years later the workforce has more openings and a higher job opening rate than it did pre-recession.²⁹ Securing employment opportunities in the skilled trades can create economic resilience for young people who otherwise will be at risk of displacement.

In summary, to better align education and training content and capacity with employers' hiring needs, a residential construction workforce development program must strengthen the linkages between schools and trades, evolve training models to support standardized career pathways, and leverage technology for more effective connections between qualified candidates and actual jobs.

The Talent Retention Challenge

Even when young people join the trades, employee retention is a challenge. In BTF interviews, trade employers and recruiters often complained that 3 out of 4 recruited trainees leave the industry within 6 months. Younger people entering the workforce across industries are uniformly less interested in money³⁰ and more interested in feeling fulfilled and supported in their work.³¹ In interviews across markets, trades, and jobs, BTF found repeatedly that many graduates leave their jobs because of “bad bosses” or a culture that is not sufficiently supportive. Meanwhile the financial opportunities available in the skilled trades are not sufficient to make up for the perceived lack of support. As most trade employers do not track and evaluate the retention of their workers, many tradespeople work as independent contractors, and there is no reliable study examining the exact causes for the high turnover in the sector, it is not possible to fully understand the scope and reasons for low talent retention.

The highly-fragmented residential construction market limits trade firms' capacity to grow and innovate. More than three-quarters of trade firms bring in less than one million dollars a year.³² Firms of this size are often forced to utilize all their resources towards completing contracts and plying their trade, with little-to-no capacity for advanced talent management. Smaller trade companies frequently do not have the resources to build the long-lasting relationships with trainers or educational institutions necessary to hire and retain people effectively.

Fragmentation also leads to misaligned incentives between homebuilders and trade firms.

The strong market demand for houses offers an opportunity for growth for builders.³³ Smaller trade firms, however, prefer to keep costs low, remain competitive, and ensure their security for the next economic downturn. In our interviews, many trade firms expressed fear of investing in growth and being illiquid in the event of another recession. Family firms with children who do not want to join the trades also do not have an incentive for growth with no long-term future secured. Furthermore, increases in trade firms' investments can lead to increased costs for the trade firm, which is then passed along to the builder. Fragmentation thus undermines incentives for trade firms to grow and innovate,³⁴ consequently undercutting the growth potential of the labor market.

Without HR innovation, trade firms struggle to recruit, retain, and manage new workers.

Trades could reassess management practices to fix the "bad boss" perception they face or could work to build a supportive environment for young workers, but many firms lack the capacity to do so due to their need to invest fully in their trade. Likewise, firms' lack of capacity for engagement makes recruitment more difficult, which can leave firms understaffed and further limit their capacity for recruitment, creating a vicious cycle.

In summary, to support the growth of trade contractors that aligns with the expansion of homebuilders' business, a sector-wide program must create incentives and opportunities for professional development of trade owners, supervisors and crew leaders, and identify and disseminate the best and innovative talent management practices that lead to high employee engagement, retention and performance.

Conclusion

Our interviews, expert consultations, and review of the literature identified three significant workforce challenges in residential construction in the United States: talent supply, talent training and talent retention.

Solving these challenges will require a truly industry-wide strategic investment, strong collaboration among industry actors, and courage to innovate. And reimagining residential construction workforce could carry broader societal benefits, opening access to a wide range of rewarding careers for hundreds of thousands of young people while improving housing affordability.

Endnotes

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