

# Demand for Off-Site Building has ‘Lit Up’ in Housing and Hotels

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Tom Hardiman, the executive director of the [Modular Building Institute](#), came home from the MBI's [annual trade show](#) in March with a sharpened awareness of the sector's promise.

In the last year, he says, “the hotel and the multi-family market just lit up. A big takeaway from the whole conference is that the demand for modular construction is not the problem; the real problem is how are we going to meet the demand as an industry?”

Companies like Marriott, Google, and Starbucks are looking to modular construction for fast, less expensive turnarounds. However, American off-site builders are not ready to handle increased demand, he says.

## Changing The Way We Build

Modular building in North America dates back to the beginning of the 20th century. Companies like Kullman Building Corp. used to build diners off-site and then moved them to locations around the Northeast.

Nevertheless, the inclusion of off-site building as one process in a multi-pronged approach is relatively new.

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“We’ve got this perfect storm of really tight skilled labor markets plus high housing costs in the urban areas, and it’s forcing people to look at other ways to build,” Hardiman says. In the last five years, there’s a renewed focus on off-site building as a way to help the construction industry increase productivity.

In 2017, Google owner [Alphabet Inc.](#) entered the market with an order for 300 apartment units for affordable housing in Silicon Valley from [Factory OS](#). Marriott has built as many as five hotels from modular off-site parts, and, as Hardiman says, other hotel chains are following suit, including Ramada, CitizenM Hotel, and Hyatt.

## Growth is Slow-Going

But how will the modular segment of the industry, currently responsible for just approximately 3.2 percent of construction, handle a rapid increase in demand?

“We’re still a small industry relative to the constructive market, not as significant as in other countries around the world.”

Hardiman says the Institute would like to see the modular segment of the industry grow to five percent by 2020, or nearly double.

Some factors make that growth difficult. First of all, the reluctance of the construction industry to embrace change.

He says that among construction company owners there is a prevailing attitude of “‘I don’t particularly want to learn a new way to build from what I’ve been doing for thirty years,’ ... they really don’t want anything disruptive to their markets.”

The other thing is that “building codes are painfully reactive and slow to address what’s happening on the street today—the ICC is working on the 2021 building codes, and the words ‘modular’ and ‘off-site construction’ are nowhere in the codes. There’s no kind of consideration given to alternative processes.”

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About 200 modular building companies operate in the U.S. and Canada, and all are mid-sized and focused on supplying a particular region.

“Eighty is not a lot when you spread it across all of the U.S. and Canada. Particularly in the Southeast, there are not many companies that build multi-story modular,” says Hardiman.

## Pieces of the Puzzle

Long-distance shipping costs make it unrealistic to ship modular parts of a building across the country. “It’s an alignment of the market demand with the location of the manufacturer that builds for that market—those are the pieces of the puzzle we are putting together now.”

Differences in state building codes are another piece of the puzzle.

Despite the challenges, hotel and multi-family housing builders are pursuing off-site construction because it’s faster. There are also payoffs for getting housing units built more quickly.

“They’re getting their buildings opened three to six months earlier, and they’re able to rent them out and generate cash flow sooner,” explains Hardiman.

Many countries use modular building extensively, backed by governments. South Korea was highlighted in a case study at the MBI’s recent trade show. [POSCO](#) provided “a modular hotel with 300 beds” for press accommodations at the Pyeongchang Olympics that will now be relocated for low-income housing, he says.

## The Future of Building

“In other parts of the world, governments are backing, endorsing, and sometimes even requiring off-site construction to be used as they don’t have labor and the housing costs are already high,” he says.

“ “We have to do this, or we’re not going to be able to build hospitals and schools in ten years. Let’s start thinking about it now.”

In the U.S. and Canada, there’s good reason to bring more off-site building to construction projects.

“We can’t build everything we need to build conventionally with an aging workforce not being replenished by younger workers,” Hardiman says. “We have to do this, or we’re not going to be able to build hospitals and schools in ten years. Let’s not wait a decade to figure that out. Let’s start thinking about it now.”

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