UNDER THE HARD HAT

Why more contractors are selling to their own employees: Inside construction's ESOP surge

Nov. 5, 2026

Link to article



ESOPs offer aging construction owners another exit while helping companies retain experienced workers

A construction owner who has spent three decades or more building their contracting business often faces a common dilemma: they're ready to retire, but they're not sure what's next. Their kids may not want to take over the business, while competitors and private equity firms may want to buy it. They may also worry that long-standing employees who helped grow the business won't stay under new owners.

A viable alternative exists: what if the workforce itself becomes the buyer instead of external players? Employee ownership through an Employee Stock Ownership Plan (ESOP) is gaining attention in construction because it lets retiring owners ensure their company is in good hands while tackling a problem contractors often face: retaining experienced workers. In an ESOP, a trust buys the owner's shares, and employees can earn ownership in the company over time, typically receiving the same value of their shares when they leave or retire.

For contractors, it's about who controls the company, what happens to its workforce after a sale, and whether experienced employees have a reason to stay once the owner retires.

"We probably are at the highest volume of construction-related ESOP transactions that I've ever seen," said Jeff Buettner, managing director at ButcherJoseph & Co., an advisory firm that works on ESOP transactions. He said activity has accelerated over the past three to four years.

The question is whether this is a lasting shift or a short-term wave.

Why construction specifically

Construction companies account for about 18–20% of private-company ESOPs across the U.S., according to the National Center for Employee Ownership, making the sector one of the largest concentrations of employee ownership. This matters especially in construction because the industry relies heavily on people, including superintendents, project managers, estimators, skilled tradespeople, and more. Long-term customer relationships and institutional knowledge matter too, which is why losing experienced employees after a change of ownership can be especially difficult.

"Once you find a good employee, you don't want to lose them," Buettner said. He added that ESOPs allow employees to build wealth tied to the company's success, making it easier for contractors to recruit, incentivize, and retain skilled staff without relying solely on wage increases.

Continuity is especially important in construction, and it shows up in several areas:

- **Bonding**: A change in ownership can negatively affect the surety relationships contractors depend on to win and complete larger projects. Sureties will also look closely at an ESOP's debt and obligations.
- **Licensing**: Certain construction licenses are tied directly to specific ownership, management, or qualifying individuals, which makes continuity especially crucial during a sale.
- **Backlog:** By keeping the existing team and operations intact, companies can keep projects already in the pipeline on track and avoid delays.
- **Customer relationships:** Long-standing clients especially value familiar teams, which helps build trust. However, ownership changes can disrupt this.
- **Workforce continuity:** Keeping experienced workers in place instead of reshuffling can help maintain institutional knowledge and avoid losing critical skills.

A construction company may look valuable on paper, but its real value depends on whether the business can keep operating effectively after the owner exits.

Some founders prefer to avoid outside buyers completely. An ESOP offers an alternative exit that keeps the company, its workforce, and local identity largely intact, though governance does change, since a trustee and board take on oversight roles.

The deal math

Choosing an ESOP instead of selling to an external party can also offer several financial benefits. For example, a qualifying C-corporation owner may be able to defer capital gains tax when selling stock to an ESOP, subject to certain requirements.

Buettner illustrated the potential benefit with an example: if a founder sells their company for 10 times EBITDA and faces a hypothetical 40% tax rate, a simplified comparison would leave them with funds equivalent to six times EBITDA after tax. However, if the seller qualifies for capital gains deferral through an ESOP transaction, they could receive proceeds equivalent to 10 times EBITDA before other costs. Deferral isn't elimination, and qualifying involves meeting specific requirements, so owners should consult tax advisors.

"Instead of walking away with proceeds of six times EBITDA, you're walking away with proceeds of 10 times EBITDA," Buettner said.

An ESOP-owned S-corporation may be able to avoid federal income tax on the portion of earnings attributable to the ESOP-owned shares. This can allow an ESOP-owned S-corp to retain more after-tax cash, which, proponents say, may improve its ability to invest and compete for work. For contractors in competitive bidding markets, having access to more cash to invest in the business could provide additional financial flexibility.

ESOPs also come with costs and obligations, including setup and valuation fees, debt from financing the purchase, and a long-term obligation to buy back shares from departing employees. They aren't a fit for every company.

What it looks like in practice

National specialty and restoration company Western Specialty Contractors was founded in 1915 and became employee-owned in February 2026. ButcherJoseph, Buettner's firm, advised on the transaction.

"The ESOP structure strengthens our commitment to strategic growth, operational investment and leadership development, while directly aligning our employee-owners with Western's continued success," read a statement from the company. "As Chairman and CEO Ben Bishop Jr. shared, transitioning to an ESOP recognizes the contributions of our employees in a meaningful way and positions the company for long-term stability and growth."

The decision to sell to an ESOP often goes beyond the purchase price. Buettner said founders also consider what it can mean for their employees, the company's legacy, succession planning, and their own financial position after the sale.

What this means for the next few years

Business owners are aging, and they need succession plans to keep things on track after they retire. Meanwhile, contractors need more people as labor shortages continue to strain the industry.

At the same time, data centers and infrastructure are helping drive both construction demand and backlogs. That means some contractors have valuable businesses and strong demand but face a succession problem. This is where ESOPs can potentially help.

Buettner expects construction ESOP transactions to keep rising through 2026 and 2027.

“I think generally we would say that we expect the trend to continue to accelerate,” he said. However, the pace will also depend on how individual construction markets perform. According to Buettner, growing demand for infrastructure and data center construction is attracting investor interest and driving stronger pricing in certain segments. If business performance or demand weakens, some owners may decide to delay selling their companies.

For contractors facing both an aging ownership base and a shortage of experienced workers, employee ownership offers a way to potentially address succession and retention in a single transition. Whether ESOPs will become a lasting, widespread alternative to traditional M&A will depend on a combination of factors, including deal economics, succession timing, and how well this model retains the workers contractors depend on.