



Turner & Townsend

Northern Ireland market intelligence survey

Spring 2021



#TTNIMI

making the difference

Introduction

More than 12 months on from the outbreak of COVID-19 and unprecedented ‘lockdown’ across the country, the full effects have not yet fully been felt in the economy and disruption continues. Construction in Northern Ireland has been impacted, but perhaps less so than other sectors which gives a cautious sense of optimism.

The volatility of the last year has presented significant challenges for us all to manage. With the exception of the first lockdown, construction has continued. New ways of working have emerged and innovation has been accelerated. The use of technology-driven solutions to improve development and delivery is increasing, more consideration is being given to alternative construction methods and the management and engagement with supply chains has taken on even greater importance. As an industry that has been a slow adopter of innovation, and with little change in productivity measures for decades, there is a clear and immediate opportunity to achieve lasting improvements. Those that embrace change will surely be best placed to succeed.

The impact of COVID-19 is coming at a time when there are other major influencing factors on how society and the economy function. Brexit is the most immediate with uncertainty remaining on Northern Ireland’s long-term trading relationship with the Republic of Ireland and UK. There is also a growing recognition that the last 12 months represents a once in a generation opportunity to change behaviours and drive improvements that will enable a more sustainable future. Net zero carbon is now a phrase that is commonplace in trade publications and wider news. We have explored what strategies can be applied to achieve a net zero ambition in our Insight piece on page nine.

While the industry battles COVID-19 and Brexit, forecasting inflationary effects is difficult. It is likely that inflation will remain low in the coming year. However, supply chain feedback is suggesting some isolated one-off increases of certain products. Overall labour, materials and plant will see less prominent increases than in previous years. This represents both a risk and an opportunity for clients and makes it even more important to properly and accurately consider development costs at the earliest possible time.

Figure 1:
**Tender price
inflation - annual
percentage change
- (contractor
expectations)**

Northern Ireland	Tender price inflation
2021	0.1%
2022	1.8%
2023	2.3%

Background to this report

Turner & Townsend regularly interacts with the supply chain to better understand the market dynamics which are fundamentally affecting construction price and cost movements in Northern Ireland. Every six months we collate survey responses from Northern Irish contractors, allowing us to glean a snapshot of the local marketplace. This enables us to provide our clients with the most relevant and up-to-date market intelligence.

The Impact of COVID-19

COVID-19 has changed the way we interact with the built environment. It has accelerated existing trends and forced new ways of working on the construction industry.

The impact has certainly been felt by NI contractors in the last 12 months but given the UK Government's desire to keep the construction sector operating, consequences aren't perhaps as bad as initially feared in March 2020. More than half of our contributors reported operating to at least 90 percent of pre-COVID-19 levels and a further 25 percent working to at least 80 percent of their prior productivity level. This has led to a certain level of optimism within the NI construction market that the impact of COVID-19 will not be long lasting. More than 65 percent of our respondents believe that they will achieve pre-COVID-19 levels of productivity within the next 12 months.

The initial challenge of operating sites safely while adhering to social distancing requirements seem to have been substantially mitigated with around 65 percent of respondents saying their projects have experienced no more than a one-month delay as a result of COVID-19. This would indicate that other than the initial impact of the first lockdown, the measures applied have been largely successful. Perhaps other sectors should be looking to construction for how to operate businesses in a productive COVID-19 safe environment.

The impact on material lead times has been more pronounced for our respondents with more than 80 percent being affected. While COVID-19 will undoubtedly have increased material lead times, anecdotal evidence suggests Brexit has had more of a recent impact requiring more planning, earlier procurement and longer delivery periods for contractors to manage.

Figure 2:
Assuming pre-COVID-19 productivity levels were 100 percent, at what level is your firm currently operating at, in percentage terms?

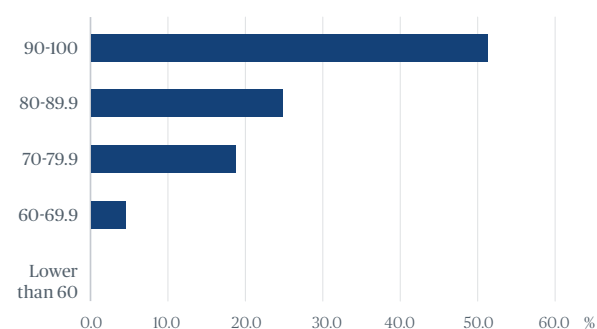


Figure 3:
When do you think productivity will be restored to pre-COVID-19 levels?

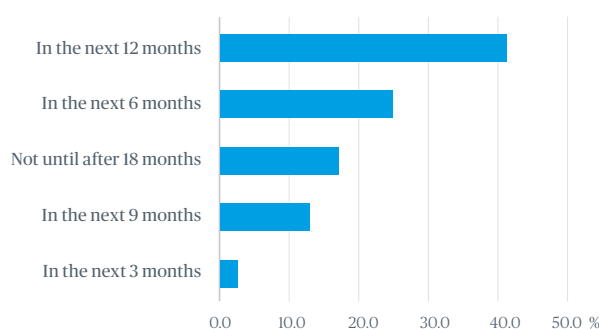


Figure 4:
Approximately how much, in weeks, has programme length increased over the past three months?

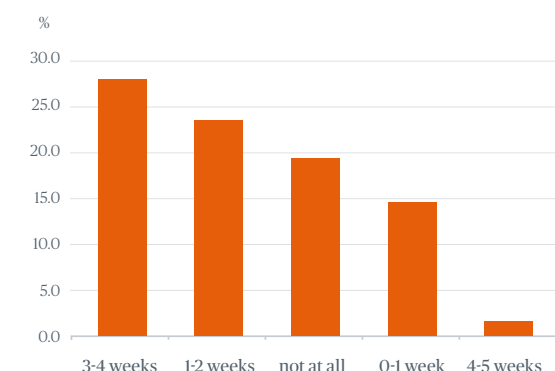
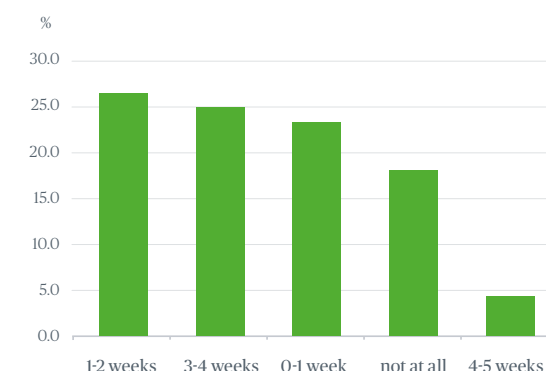
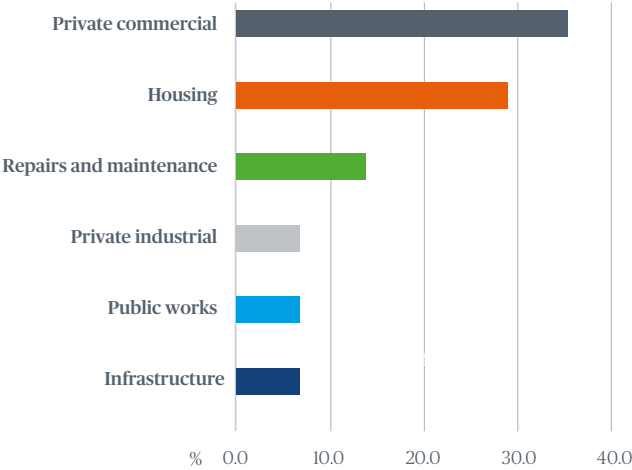


Figure 5:
Approximately how much, in weeks, have lead-in times increased over the past three months?



Tender and market conditions

Figure 6:
What is the top performing sector within your region of work?



Contractors continue to see Private commercial and housing being the top performing sectors, most likely driven by current live sites rather than bidding opportunities. Uncertainty remains as to private sector investment in particular for the short term (next six months). Public sector opportunities continue to be frustratingly slow in getting to market. A flurry of consultant tender opportunities in education, health and rail are encouraging, though any of these opportunities can be 15 months getting to site.

Our survey respondents are split almost 50/50 on whether the market is cooling or Staying the same, similarly the market conditions are seen as either cold (intense competition) or lukewarm (strong competition).

Figure 7:
Is the construction market getting warmer, cooler or staying the same?

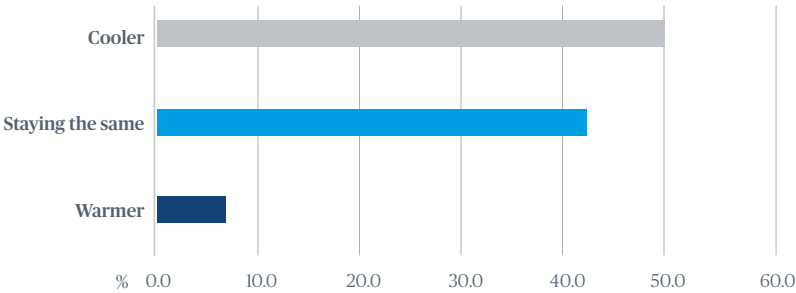
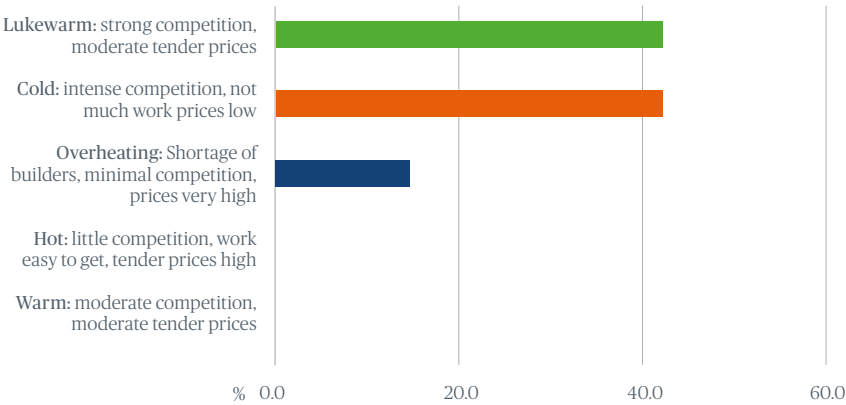


Figure 8:
How would you describe current market tendering conditions within your region?



Interestingly while preliminaries marginal increase, nine and a half percent from nine percent in our previous report, profit margins have dropped from six percent down to four and a half percent and overheads have increased marginally, which may suggest contractors are, in some part at least, carrying an element of the additional cost for COVID-19 requirements, with a portion passed to client.

Capacity at 78 percent, when reviewed against previous statistics, would suggest the construction sector continued to perform reasonably well, despite the global disruptions of the last 12 months.

Figure 9:

On a typical medium commercial job (5000m2 GFA), what are your margins, preliminaries and overheads and profit?

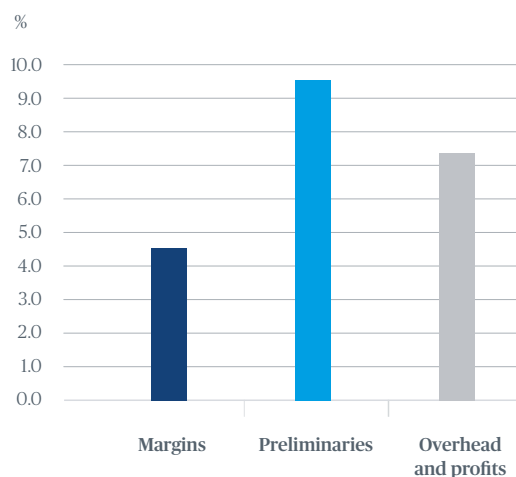


Figure 10:

Approximately (%) how full is your order book for the following financial years:

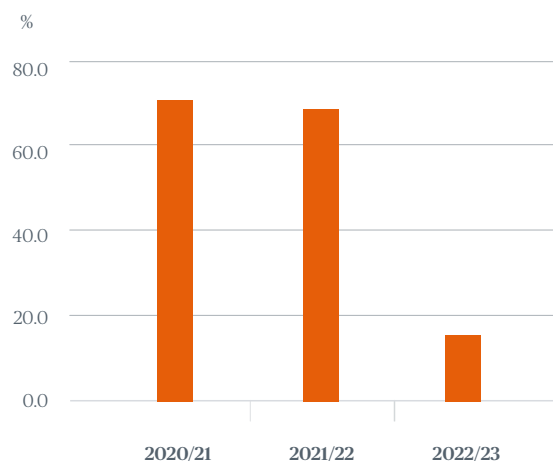


Figure 11:

What capacity (%) is your company currently operating at? (100% = full capacity)



86.1%
Q3 2019

86%
Q1 2020

80%
Q3 2020

77.9%
Q1 2021

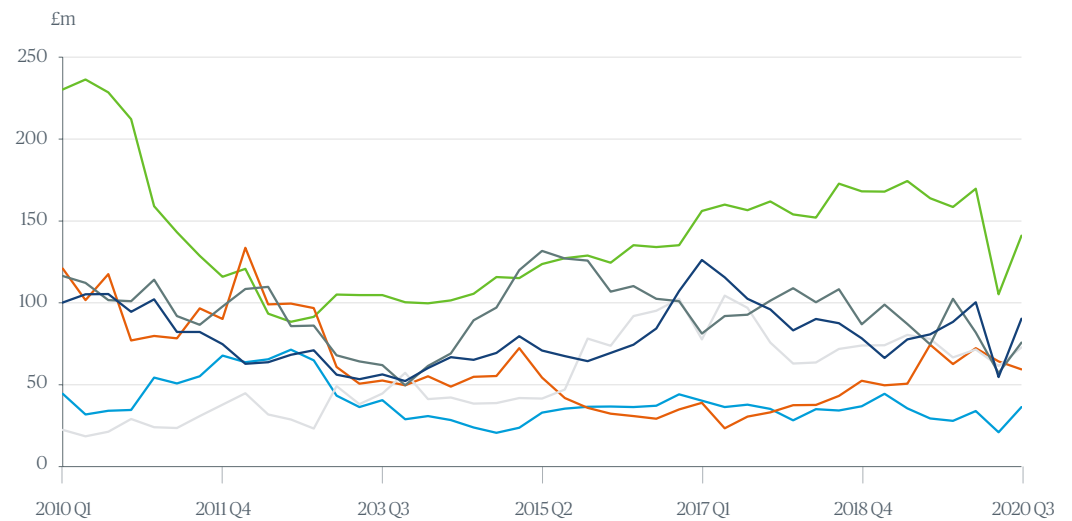
Northern Ireland output summary

Over the past three months, construction output in Northern Ireland has increased by 0.1 percent to 2020 Q1. It decreased by -0.8 percent over the past 12 months.

The largest increasing sector in the last quarter has been housing with a 21 percent increase, while over the last 12 months, the private sector has been the best performer.

Figure 12:
Volume of production
index in building and
construction (seasonally
adjusted)

Public housing
Private housing
Public infrastructure
Private infrastructure
Other public new work
Other private new work



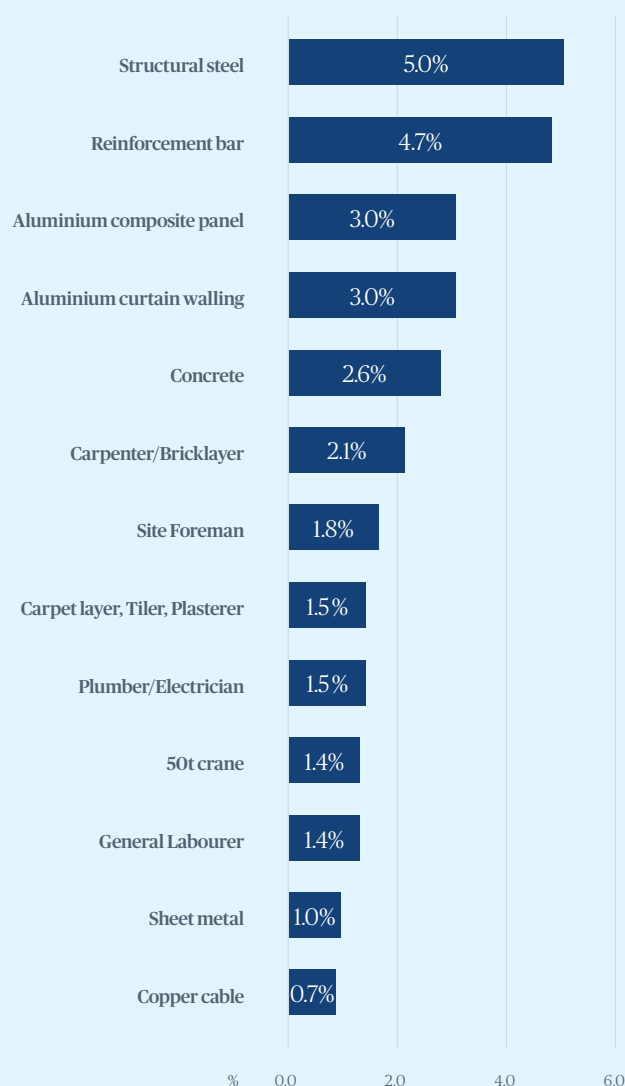
Source: Northern Ireland Statistics and
Research Agency (NISRA)

ReefLIVE Aquarium Belfast,
Cost management



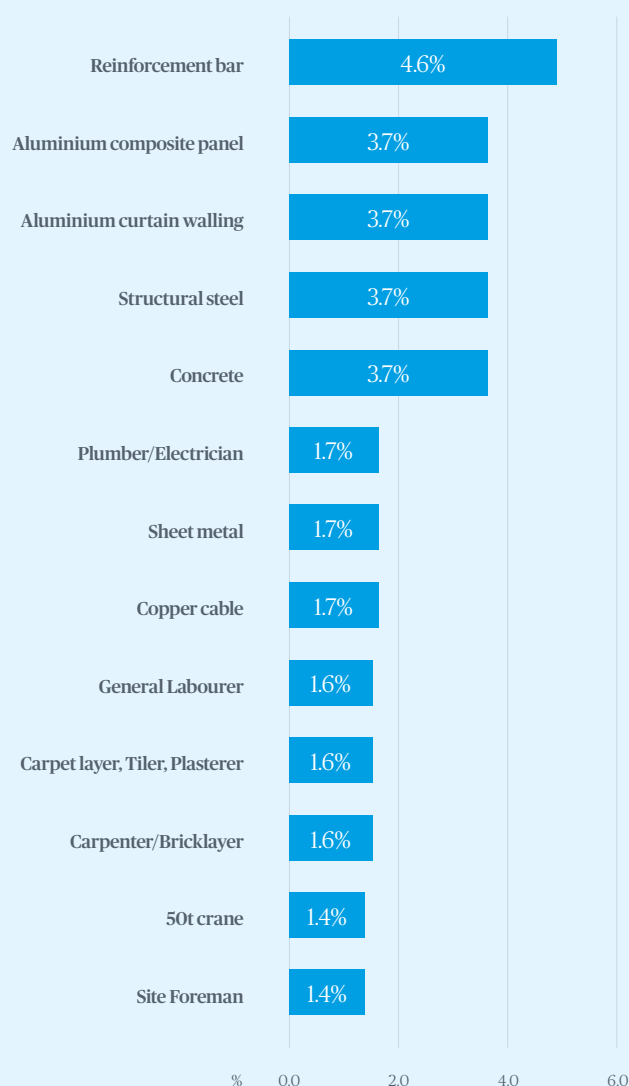
Labour and material inflation

Figure 13:
Percentage increase (in nominal terms) of construction costs in the last 12 months



Over the last 12 months labour, material and plant items have appreciated by 2.3% on average. Structural steel displayed the largest accrued gain - increasing by 5.0%. Copper cable increased at the slowest pace - by 0.7%. Labour costs increased by 1.7% on average, whilst material costs on average grew by 2.8%.

Figure 14:
Expected percentage increase (in nominal terms) of construction costs in the next 12 months



Over the next 12 months labour, material and plant items are expected to appreciate by 2.5% on average. Reinforcement bar is forecast to appreciate the most - increasing by 4.6%. Site Foreman is set to increase at the slowest pace - by 1.4%. Labour costs are anticipated to increase by 1.6% on average, whilst material costs on average are forecast to grow by 3.2% in the next 12 months.

“There does seem to be some positivity coming from design teams and hopefully more projects coming to market. This will lead to an increase in requirements for staff and skills. The decrease in the availability of foreign labour, due to working visa restrictions, will not help the situation.”

Key challenges facing the industry

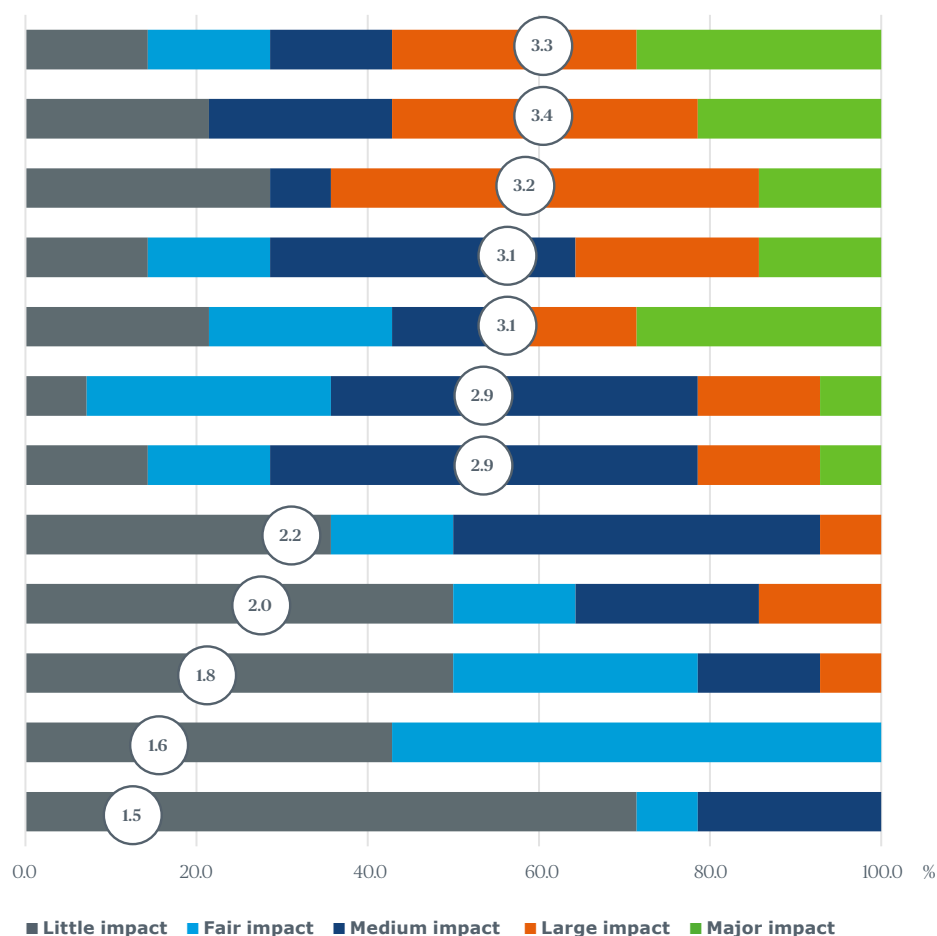
“There is a renewed sense of optimism with the announcement of the COVID-19 vaccine. Some of our schemes that were put on hold now have provisional dates in 2021 to restart. This sense of optimism is diminished, however, with the uncertainty surrounding Brexit.”

A highly competitive market place remains the biggest concern for our contractors.

While the construction sector seems to have survived better than most in the last 12 months, short to medium term investment and opportunities are highly uncertain. The resulting competition for opportunities risks a 'race to the bottom' in the market, which isn't sustainable or beneficial to suppliers or clients. The lessons of the 2008 global financial crisis need to be remembered by the industry.

The consensus is that Brexit is, and will be, a much greater challenge for the market than COVID-19. Lead in times are rising, skilled labour shortages remain a worry and there is volatility in product/material pricing. Pre-construction activity is positive with a growing number of public sector opportunities across sectors including health, education, further education and infrastructure coming to market. However, the often-protracted procurement process for both consultants and contractors, combined with price-focussed design development, means a potentially significant delay until these become tangible opportunities for contractors.

Positively, there has been private sector activity with a number of projects continuing to be developed and submitted to planning, perhaps in anticipation of a post-COVID-19 'bounce'. While a wider business case must be considered, some private sector clients appear to be viewing this as an opportunity to maximise the benefit of current tendering conditions.



The coloured bars represent the proportion of respondents indicating what each challenge is having on delivering construction works. The challenges are then ranked, on a scale of 1 - 5, according to their response.

Insight

Target net zero: five areas to unlock the opportunity.

We are at a critical point in the race to tackle the climate crisis. The construction industry has an important role to play in dramatically reducing global greenhouse gas emission levels, using the most innovative technologies.

As more asset owners and occupiers declare net zero targets, real estate strategies should be aligned with corporate climate commitments and support the construction and occupation of a new generation of buildings.

Buildings and their construction, together account for 36 percent of global energy use and 39 percent of energy-related carbon dioxide emissions annually, according to the United Nations Environment Programme. With two-thirds of the world's economy now committing to binding net zero targets by 2050, nations could make stricter demands of business ahead of the UN Climate Summit later this year.

In the UK, the government's recent pledge to mandate carbon disclosure for listed and large private business will inevitably place companies under greater corporate scrutiny to cut carbon from their operations, including buildings. We are seeing a growing awareness of the subject in Northern Ireland with a number of public sector projects coming to the market with a requirement to be net zero buildings.

The funding landscape is already changing. The ability to secure investment for the development of new assets will increasingly be conditional on a commitment to net zero from some institutional investors. For example Janus Henderson, the global asset manager, has pledged to become operationally net zero across its UK property fund by 2030. The commitment will apply to all buildings owned by the portfolio by 2030.

Achieving meaningful societal level changes to make this leap will require attitudinal and behavioural change based on data-led decision-making and application of technological advances. There is a need for real estate clients (and at times construction professionals) to move from paying green lip service to carbon and embrace a net zero mindset. Put simply, net zero societies will not exist without action from built environment professionals.

Defining a strategy

Clients need to define and embed strategies into the construction and operation of their assets to realise their net zero ambitions. We have considered below five key areas that clients can consider as part of developing a successful strategy.

This article by Kim Von Rooyen, Head of Technology, is part of our latest thought leadership series '**360°view – net zero | Turner & Townsend (turnerandtowntsend.com)**'. This offers a series of perspectives on leading projects, initiatives and strategies from across the world as part of the net zero ambition.



Aligning strategies with ambition and vision



Clients need to provide their supply chains with clarity about their corporate net zero vision; what needs to be achieved and the route to achieve it. The aim should be to develop a fit-for-purpose strategy for a building/estate, which is an extension of an existing set of corporate objectives.

This means that any transaction related to the building needs to be delivered with a clear understanding of environmental outcomes by everyone undertaking work irrespective of new build, refurbishment or maintenance projects.

Procuring for net zero



Clients must have a contracting and procurement strategy with their information, data and technology standards embedded.

By being clear and consistent with contractors/vendors and their associated supply chain, everyone is aware of their role, what they must build into their solution and the data it produces.

Delivering value engineering with a new mindset



Value engineering is often undertaken in isolation and at multiple points during the asset lifecycle, with clients and suppliers looking for ways to 'cut the cloth' to fit a budget or requirement. Without understanding the impact of the decisions being made on the wider strategy, this can affect whether a building will deliver net zero. It's critical that all disciplines understand the required long-term environmental outcomes and do not work in isolation

If value engineering is to be undertaken, it's important that it considers the long-term impact of decisions. Successful value engineering should be about considering the whole ecosystem and the way that packages for a build might be procured.

Addressing the legacy estate



Addressing the legacy estate and asking: 'can we do better?' is critical. The answer should always be a resounding 'yes', but it's important to be clear about the baseline.

For many buildings there are 15-20 key baseline metrics which will focus on areas such as reducing operational energy, decreasing embodied carbon, or increasing renewable energy supply. Clients and asset owners need to consider these in granular detail, understand the environmental target they need to achieve, and work collaboratively to develop the strategy and plan to meet the target.

Invariably, the data will be the sticking point, not only getting it in a usable format, but then aggregating and visualising it in a way which informs decision-making and allows measurement. Adopting sensor tech/IoT solutions in building zones helps to understand occupier behaviours, energy consumption and how the mechanical, electrical and plumbing system is used. Most organisations can build a plan within two months and start obtaining good data within three, unlocking the ability to analyse trends and fine tune the workplace.

Operating net zero buildings



A challenge is making sure the net zero-designed building continues to operate as net zero; design intent should result in operational intent. A common obstacle is factors outside the owner/operator's control.

Examples are multi-tenant buildings, change of building use over time or simply the design was geared towards achieving an environmental credential, but hasn't transferred into how the building operates.

The truth is there are currently very few good examples of net zero buildings. What we do know is success is achieved through having excellent data, rewarding the right behaviours, and linking this to communication, change management and incentivisation.

About Turner & Townsend

Turner & Townsend is an independent professional services company specialising in programme management, project management, cost and commercial management and advisory across the real estate, infrastructure and natural resources sectors.

With 111 offices in 45 countries, we draw on our extensive global and industry experience to manage risk while maximising value and performance during the construction and operation of our clients' assets.

We been working in Ireland for over 60 years. From our Dublin office, our project, cost and advisory specialists work across the island, applying our global expertise on local projects.

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