



Turner & Townsend

75 & celebrating

Northern Ireland market intelligence

Q1 2022 Spring

#TTNIMI

making the **difference**

Introduction

There are signs that local contractors have a positive market outlook in Northern Ireland for 2022 and beyond. Yet, as our latest market intelligence report reveals, there are four consistent challenges that respondents to our survey have identified:

Current:

1. The impact of the COVID-19 pandemic has been keenly felt, but with the releasing of restrictions there is a positive outlook as we enter a new phase of living with the virus.
2. The availability of materials and labour continues to be impacted by both Brexit and the accelerating market out of the pandemic and remains an issue for contractors to manage.

Emerging:

3. The recent collapse of the Northern Ireland Executive and the upcoming elections in May raise the level of uncertainty in the region, presenting uncertainty in major public capital expenditure.
4. Tax and duty changes, particularly the implications for the use of 'red diesel', are a concern for contractors. Combined with the planned National Insurance increase, it represents a critical issue for construction businesses to manage.

Operational capacity and workload of contractors in the region is increasing according to our survey respondents. The strengthening of the private sector is contributing to this with projects partially progressed or temporarily paused in the height of the pandemic re-emerging. With organisations adapting to new ways of working, or simply relocating to refresh their business and staff engagement plans, there are signs of revitalisation in Belfast's office/commercial sector. Similar positive outlooks are expressed on potential public sector schemes in the coming 12-18 months.

In addition to planned investment in the infrastructure sector, which our respondents view as a positive addition to their pipeline forecasts, there are other publicly funded projects expected to mobilise this year. This includes the City Deals projects, following signing of the agreement in late 2021, and major projects across culture, health and education.

Our thought piece, by Catriona Riordan, considers how procurement can support the drive to achieving sustainable objectives within the construction sector. *Now is the time for the construction industry to take action to deliver; ensuring programmes and projects set, and meet, sustainable objectives to address the climate and biodiversity crises. The power to do this lies in the earliest stages of the construction process, specifically in the design and procurement stages.*

Figure 1:
**Tender price inflation -
Annual percentage change**

Northern Ireland	Contractors TPI forecast	Turner & Townsend TPI forecast
2021	6.4%	5.5%
2022	9.3%	4.5%
2023	6.5%	3.5%

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. We collate survey responses every six months 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.

Emerging from the pandemic

The recent lifting of COVID-19 related restrictions is a positive sign for the construction sector, though the data in this report was collated prior to this.

As we learn to live with the virus, new and more efficient ways of working will become normality. Digital ways of working and increased use of modern methods of construction are opportunities that the sector needs to embrace if it is to transform performance.

There are certainly some positive statistics coming through; Almost 60 percent of our contributors are reporting productivity levels to be at least 90 percent of pre-COVID levels up almost 20 percent from our previous report in Autumn last year. A further 25 percent of our respondents state they are at least at 80 percent productivity, a 5 percent increase from our previous survey.

A very positive sign is that over 65 percent of our contractors feel that they will have returned to full productivity within the next six to 12 months.

The recovery from two years of COVID-19 restrictions and economic stress for contractors isn't without its challenges. Supply chains across the industry continue to be affected. When asked how much lead-in times have increased over the last three months on average, over 40 percent of those surveyed advise impact to be three to four weeks. A further 25 percent suggest it to be as much as four to five weeks. Consequently, construction programmes are being negatively impacted, though data suggests these lead-in times are, in part, being mitigated (Figure 4).

While material supply challenges may ease as supply catches up with demand, the labour market is also a contributing factor to delayed projects. A shortage in industry skills remains an issue in the short and medium term.

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

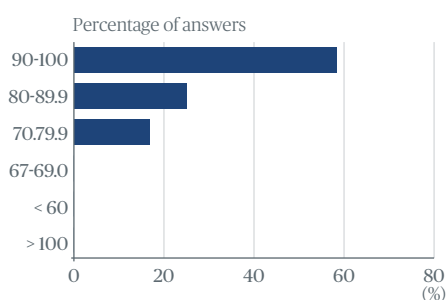


Figure 3:
When do you think productivity will be restored to pre-COVID-19 levels?

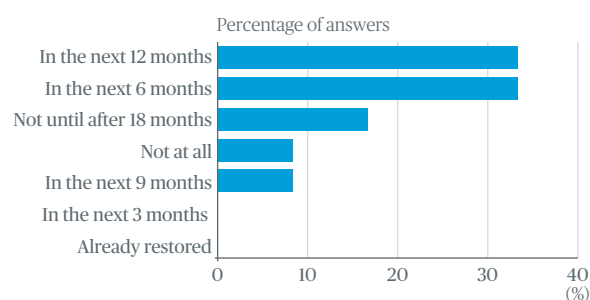


Figure 4:
Approximately how much, in weeks, has programme length increased over the past three months?

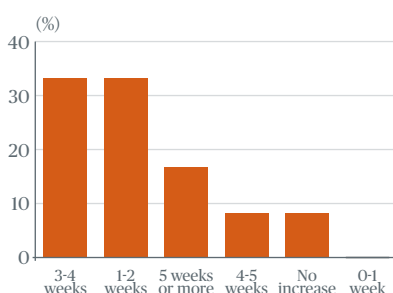
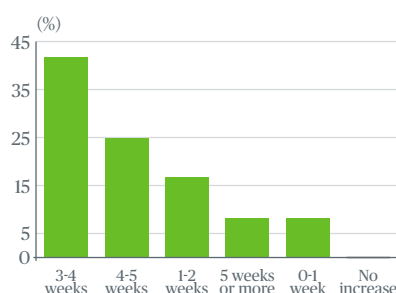
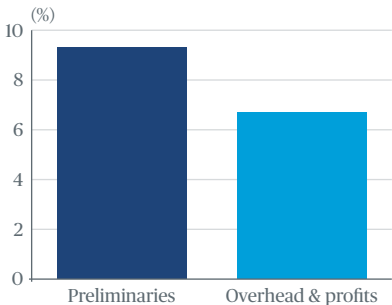


Figure 5:
Approximately how much, in weeks, have lead-in times increased over the past three months?



Tender and market conditions

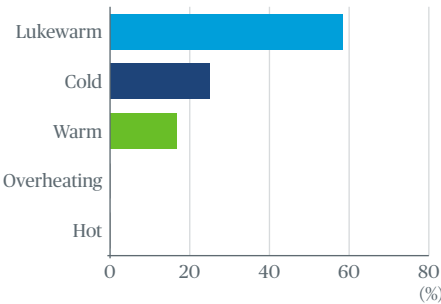
Figure 6:
On a typical medium commercial job (5000m2 GFA), what are your preliminaries and overheads & profit?



The data from our contributors suggests some encouraging signs that the market is improving. Over our last three reports, we have seen the operating capacity steadily increase, from 78 percent in Q1 2021 to the current average of 88 percent. While positive for contractors, it still presents a challenge for their overheads and profitability.

Figure 7:
How would you describe current market tendering conditions within your region?

- Lukewarm:** strong competition, moderate tender prices
- Cold:** intense competition, not much work, prices low
- Warm:** moderate competition, moderate tender prices
- Overheating:** Shortage of builders, minimal competition, prices very high
- Hot:** little competition, work easy to get, tender prices high



A slight increase in the number of opportunities coming to market suggests that the market is warming. Contractors are feeling encouraged by the schemes that are in the pipeline, though caution remains, given uncertainty around when they will reach market/commencement on site.

Contractors continue to battle with the delivery of live fixed priced contracts and meeting their obligation against rising costs and contractual terms. With costs being absorbed rather than passed on, there is concern about these types of projects and a need to mitigate this risk.

Similarly, both public and private sectors are encountering cost rises in their design development stages and are battling with viability and profitability of their schemes. This can mean substantial revaluation of the design, business case and funding streams, all of which delay projects coming to market.

Figure 8:
Approximatively how full is your order book for the following financial years?

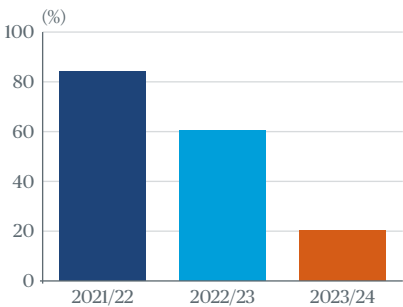


Figure 9:
What capacity (%) is your company currently operating at? (100% = full capacity)



Northern Ireland output summary and inflation forecast

Despite a marginal drop in the quarter overall, the construction output in Northern Ireland has increased by 7.8 percent on the year.

While this is a positive sign, coming from extended periods of significant restrictions, an increase in output is to be expected. The challenge moving forward is securing projects at the right affordability level for clients, while ensuring contractors can retain reasonable returns.

The forecast for infrastructure is also strong in the region. Northern Ireland Water has a high-profile challenge and investment requirement to resolve the current capacity issues which impact developments. Translink is continuing to invest with major projects including the Belfast Transport Hub, while also actively updating their frameworks.

Both public and private housing markets have performed well, and this trend looks set to continue. Activities suggest many previously paused private sector schemes are once again being reassessed. The recent completion of City Quays 3, and several other commercial buildings also due to complete in 2022, should create a strong pipeline for the fit-out sector.

We are expecting to see large spends in the health sector, while education (pre, post and tertiary) has the potential to bring many schemes to market.

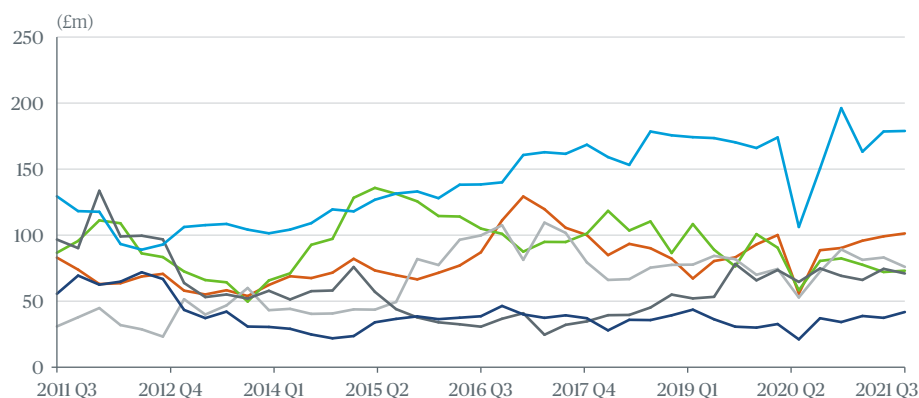
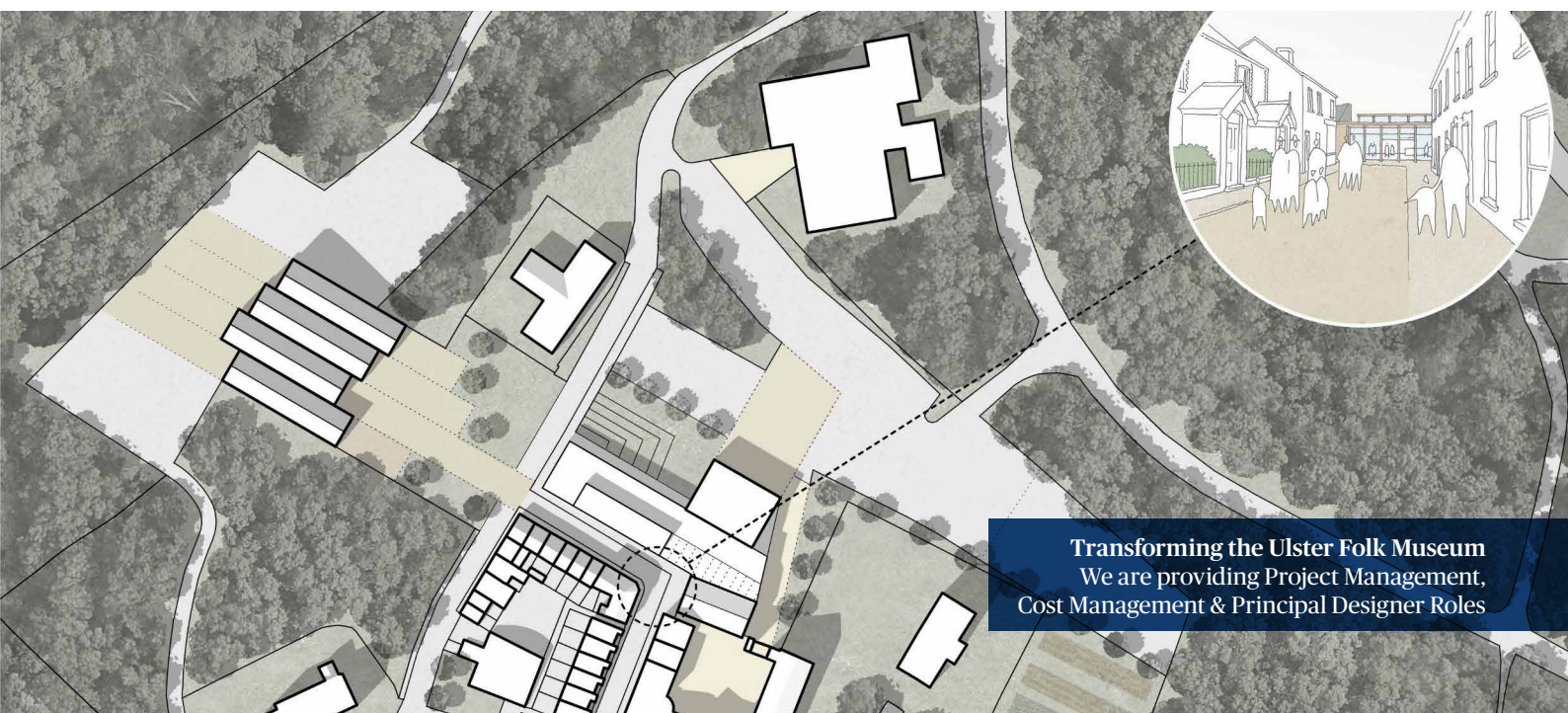


Figure 10:
Construction output in Northern Ireland

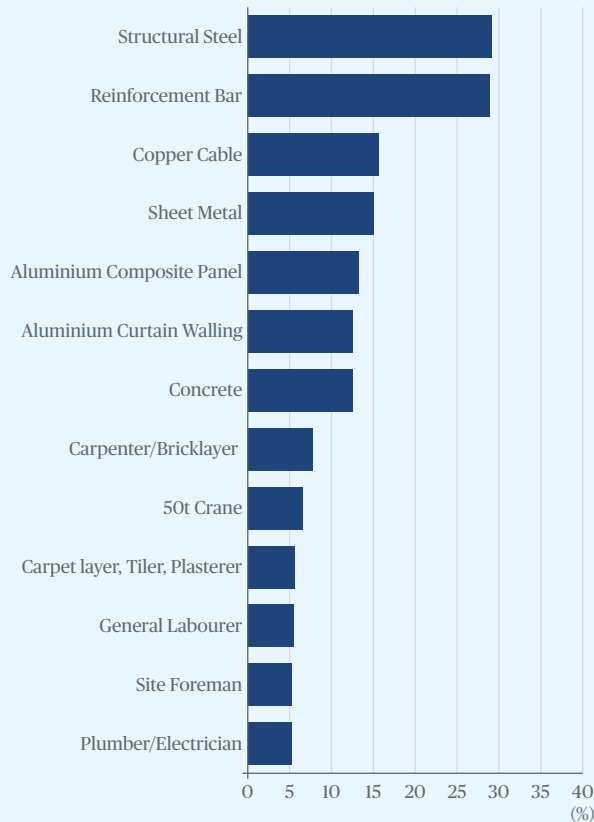
- Public new housing
- Private new housing
- Public Infrastructure new work
- Private Infrastructure new work
- Other public work
- Private industrial new work



Transforming the Ulster Folk Museum
We are providing Project Management,
Cost Management & Principal Designer Roles

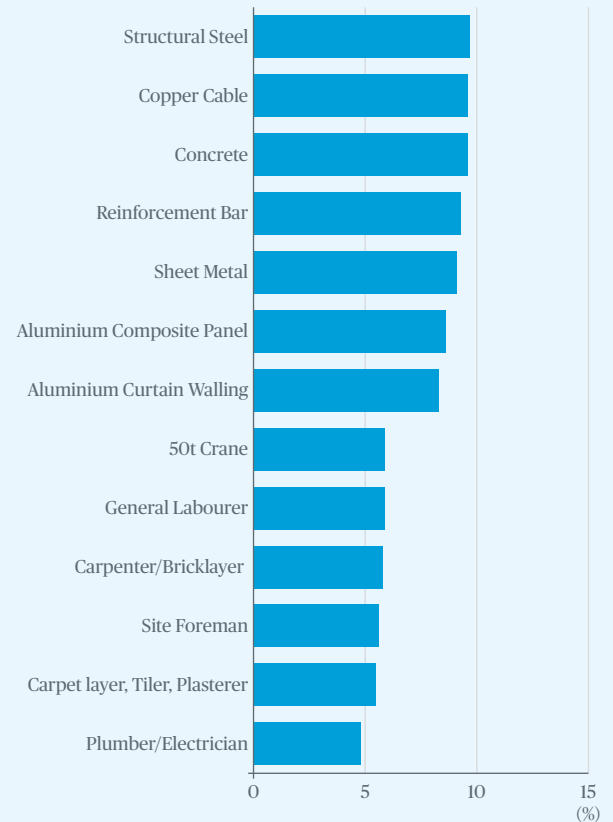
Labour and material inflation

Figure 11:
Percentage increase (in nominal terms) of construction costs in the last 12 months



Over the last 12 months, labour and material items have appreciated by 12.5 percent on average. Structural Steel displayed the largest gain increasing, by 29.1 percent. Plumber/Electrician increased the least, by 5.2 percent. On average, labour costs increased by 5.9 percent and materials costs grew by 18.1 percent.

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



Over the next 12 months, labour and material items are expected to appreciate by 7.5 percent on average. Structural Steel anticipates the largest gain increasing, by 9.7 percent. Plumber/Electrician is foreseen to increase the least, by 4.8 percent. On average, labour costs are expected to increase by 5.5 percent and materials costs are estimated to grow by 9.2 percent.

“The unpredictable nature of market inflation is a major problem. Submitting long term fixed price bids is extremely risky at present.”

“Attracting and retaining talent is becoming a significant factor in the successful delivery of projects. Competition for talent is intense with wage demands in excess of 20 percent above current salary levels.”

Key challenges facing the industry

Material rises continues, as does the labour shortage.

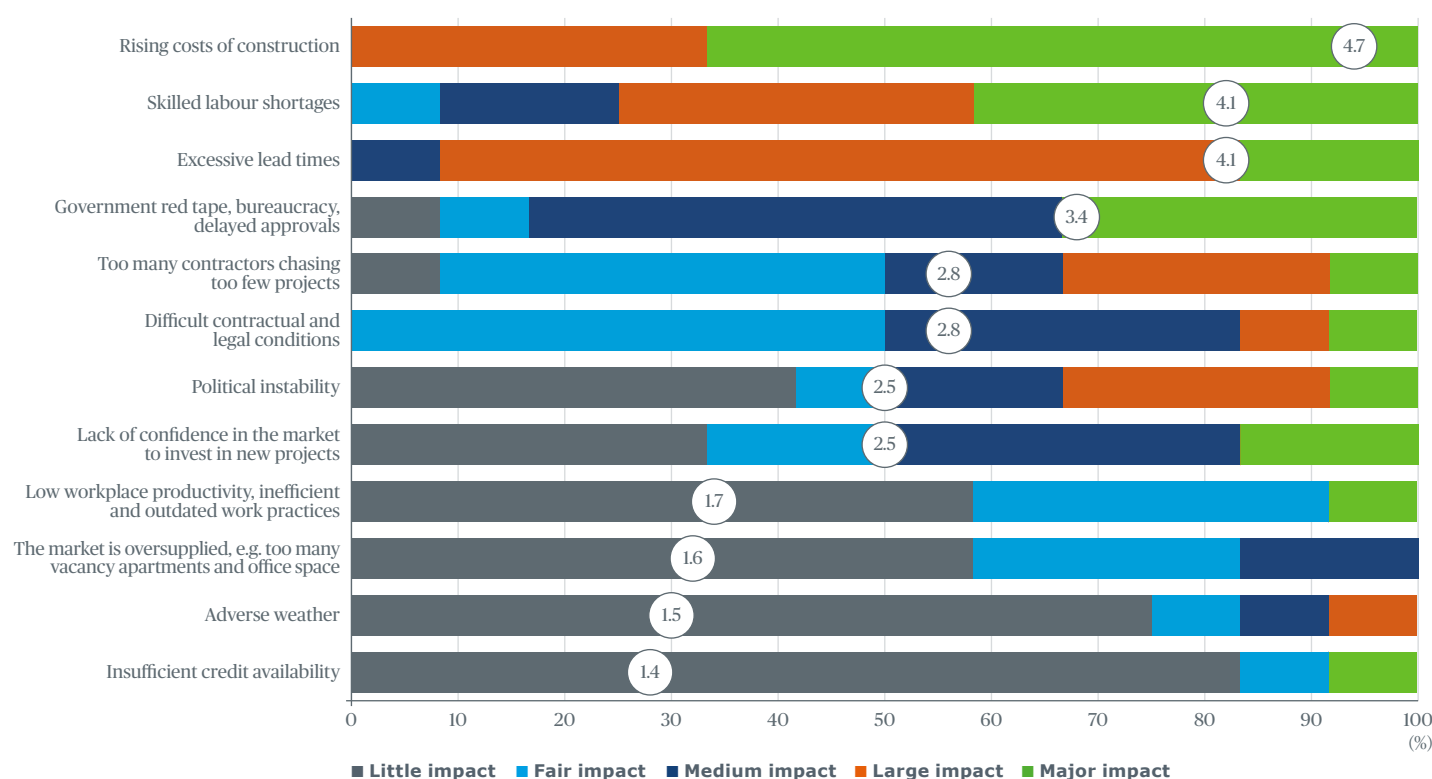
While material rises remains top of our list, labour availability is a specific concern commented on by many of our contributors. A number of factors have contributed to reducing the pool of skilled labour that is available to service the increased demand in the growing markets of Northern Ireland and the Republic of Ireland. The data suggests that while material price escalations may be subsiding, the labour market is demanding higher hourly rates. This will compound inflation increases on live projects and make estimating for future projects challenging and a risk for contractors.

From April 2022, the rebate for use of red diesel ends which will increase contractor costs for on-site activities as well as manufacturing and production costs of materials for suppliers. While the objective may be to drive the industry towards cleaner and more environmentally friendly methods of construction, the concern is whether the construction sector is ready to adapt and switch to viable alternatives. This is certain to impact tender prices.

Without a functioning Executive to address some of these issues, there is a risk that it could lead to delays in expenditure on capital projects. This would significantly alter the positive outlook on the public sector pipeline of our responding contractors.

“There has been a marked increase in material costs and lead times coupled with difficulty in sourcing skilled labourers and contractors. Outlook for NI is generally positive given the number of projects forecast to come to site over the next 12 months to 24 months.”

Figure 13:
Supply chain challenges



The coloured bars in the chart above represent the proportion of respondents indicating whether a particular challenge is having a: little impact; fair impact; medium impact; large impact; or major impact on delivering construction works. The challenges are then ranked, on a scale of 1 - 5, according to their response.

Insight: Time to put sustainability at the heart of procurement

By **Catriona Riordan** Associate Director

The climate emergency demands action and for the construction industry that begins with embedding sustainability goals in the procurement of programmes and projects

The United Nations COP26 conference in Glasgow has amply highlighted the need to continue to work, with urgency, to tackle climate change.

We know the buildings and construction industry is responsible for [more than a third of energy consumption and nearly 40 per cent of direct and indirect carbon emissions](#) globally.

We also know that the construction industry has significant potential to deliver sustainable benefits to our cities and communities, natural environment and local and national economies. But turning words into action to mitigate environmental harms and enable a more sustainable future is a significant undertaking and requires an evolution of the business as usual outlook.

Forward-looking policies from legislators, environmental and social governance (ESG) principles in business, and green financial instruments, are working to drive action to reduce carbon emissions and foster greater sustainable value and social justice.

Now is the time for the construction industry to take action to deliver; ensuring programmes and projects set, and meet, sustainable objectives to address the climate and biodiversity crises.

The power to do this lies in the earliest stages of the construction process, specifically in the design and procurement stages, [with raw material supply constituting to fifty percent of the embodied CO₂e for the entire life-cycle](#).

Traditional cultures, behaviours and practices have presented barriers to change in the industry, with procurement being dominated by the priorities of [cost](#) and programme. But with environmental, social and economic sustainability now rising up the agenda, a shift in focus is emerging and, in many regions, it is now becoming mandatory for procurements using public funds.

Leading the change

The construction industry has repeatedly demonstrated its capability to bring about dramatic change. Many governments have challenged the industry to improve [health and safety](#) on construction sites and setting the target of reducing deaths and serious injuries.

The industry met the target, overcoming the barriers, because government legislation and the senior leadership in client organisations and the construction industry drove the necessary change across the EU and North America in the last decade.

Today, sustainability is on a similar path, and we must act now. Industry leaders, particularly in client organisations, have a vital part to play in putting economic, environmental and social sustainability at the forefront of decision-making opportunities, to make it a major part of procurement with immediate effect and empowering their teams and the [supply chain](#) to follow suit.

This empowerment enables procurement teams to weave sustainable objectives and requirements throughout the tender, contract documentation and contracts awarded to the most appropriate supplier, thereby utilising the procurement process to also deliver on the sustainability objectives of the planned investment.

Embedding sustainability into tenders

Tender and contract documentation provides the opportunity to set out sustainable objectives and key performance indicators (KPIs) for programme and project delivery. Some examples include carbon setting and calculation, environmental product declarations (EPDs), evaluation of construction methods (e.g. logistics planning, energy and waste minimisation), as well as KPIs for community engagement and job opportunities. This can

be supported by developing value profiles and balanced scorecards to prioritise sustainability objectives and determine measurable KPIs for inclusion in procurements.

With immediate effect, sustainability ought to be a major part of selection criteria and sufficient weighting needs to be attributed to it in award criteria to reward tenderers who are adapting to meet the challenges.

Sustainability requirements and criteria must be realistic about the capabilities and experience of tenderers, but also challenge the market to make the necessary step change and advancements if the construction industry is to meaningfully participate in addressing rising global temperatures and biodiversity loss.

Maturing the supply chain

Domestic and international supply chains contain highly variable levels of maturity with respect to sustainability integration in their service offering. For some, the transition to more sustainable processes and practices can present significant cost barriers. An example would be small and medium enterprises who may not be able to progress as rapidly as major contractors.

Early market engagement will enable client organisations to determine the supply chain capacity and capabilities to meet their sustainability objectives, to understand where they are on their sustainability journey and to enable the supply chain to adapt to meet the client's ambitions.

By setting out sustainability expectations and key performance indicators in contracts, the supply chain will need to integrate sustainability into their service offering to remain relevant and not lose out.

Getting real about risk

New technologies are being explored to help the construction industry achieve sustainability objectives, but the adoption of these innovative technologies and approaches can present risks for all involved in their development and application.

There is a need to adopt a mature and balanced risk-sharing approach to encourage the market to invest and innovate in this area.

In addition, new products, systems and approaches need to be backed by certification – which is relatively new and, in some case, not yet developed – to grant assurance that they are providing anticipated environmental impacts, carbon emissions or other benefits.

Understanding upskilling

The construction industry needs to keep pace with the legislative environment, client sustainability objectives and the continuing evolution of sustainable technologies and practices – in everything from retrofitting of buildings and homes to low-carbon concrete. This sustainable transition requires us all to develop new knowledge, skills and experience; we are all on the same journey.

Major organisations have the resources and capability to keep up to date, upskill their people and adapt the way they work. Small and medium sized organisations in the supply chain, are unlikely to have such resources, however, it is important to understand their challenges and the support they may need. We all have a responsibility to take the industry with us.

Share the learning

We all face challenges in adapting to a more sustainable future. As we adopt more sustainable ways of working and given that time is against us, the sharing of experience, learning and ideas is critical.

We need to work together to embed sustainability in procurement if the construction industry is to make its fair contribution to resolving the climate and biodiversity crises.

We can drive change, by:

1. At an organisational level, setting meaningful and ambitious sustainability objectives and targets
2. Empowering procurement teams to turn objectives into reality
3. Engaging with the supply chain – and seeing how you can support each other
4. Incorporating performance regimes to motivate the supply chain.

About Turner & Townsend

Through the commitment, capability and care our team brings we build trust between clients, suppliers, governments and society. Delivering better outcomes that have a positive impact on the world around us.

We work smarter to face the challenges of the future; bringing the clarity that helps teams realise their full potential across the real estate, infrastructure and natural resources sectors.

It's how we've made the difference for 75 years.

Transforming performance for a green, inclusive and productive world.

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