



Turner & Townsend

Northern Ireland market intelligence survey

Autumn 2018

making the **difference**

Introduction



The cost of labour, indicated by contractor perceptions, has increased marginally when looking back over the past six months



Over the past six months, average contractor sentiment indicates that material costs have increased marginally



Average contractor sentiment indicates that overheads have increased marginally when looking back since our Spring 2018 survey



In the past six months, average contractor sentiment indicates that profits have stayed the same



Preliminaries have increased marginally according to contractor sentiment over the last six months

As we edge closer to the March 2019 Brexit deadline, and with continued political uncertainty in Northern Ireland, it is little wonder then that the results of the latest Northern Ireland Market Intelligence survey point to a general cooling of the construction sector across Northern Ireland.

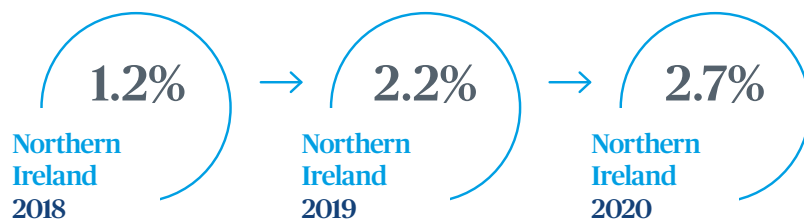
According to the majority of surveyed contractors, the construction market in Northern Ireland is expected to weaken with 60 percent stating the market is getting 'cooler'. This is a large shift in comparison to our previous survey, in which only 22.2 percent of surveyed contractors reported the market to be cooling. The percentage of contractors describing the market to be warming has also fallen slightly by 1.1 percentage points, to 10 percent overall in our most recent survey.

It should be said that although key planning decisions are causing delays to major investment across the market, the private sector appears to be taking up some of the slack. The commercial sector is the best performing on average according to our survey results and has been described as both "buoyant" and "highly competitive" resulting in some mixed views in our Q2 2018 survey results. The student residential and hotel sectors are also noted to be among the higher growth areas currently in Northern Ireland.

On the other hand, uncertainty surrounding Brexit and political instability appear to be pinning back the Northern Ireland construction market. In particular, the low level of public sector tenders resulting from the political stalemate is having a significant negative effect on some contractors, especially those operating in Health and Education. There are obvious and justified fears that the market is being outperformed by the rest of the UK. This represents a risk to the construction sector, with reduced confidence potentially resulting in lower private sector investment and future skills shortages.

Furthermore, there are signs that insolvencies in the supply chain for contractors are on the rise. To break the deadlock we would welcome any new legislation brought forward by the Secretary of State that will allow civil servants to take key decisions, allowing the release of procurements and spending for infrastructure projects.

Turner & Townsend tender price inflation



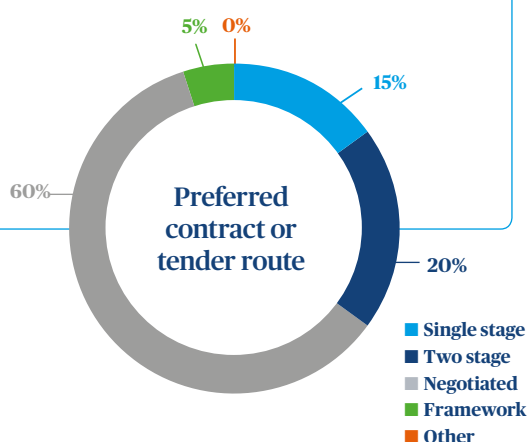
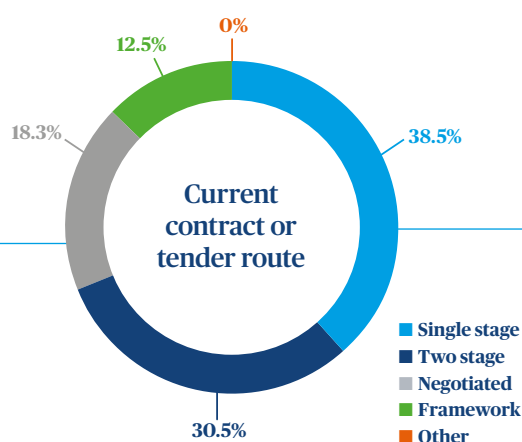
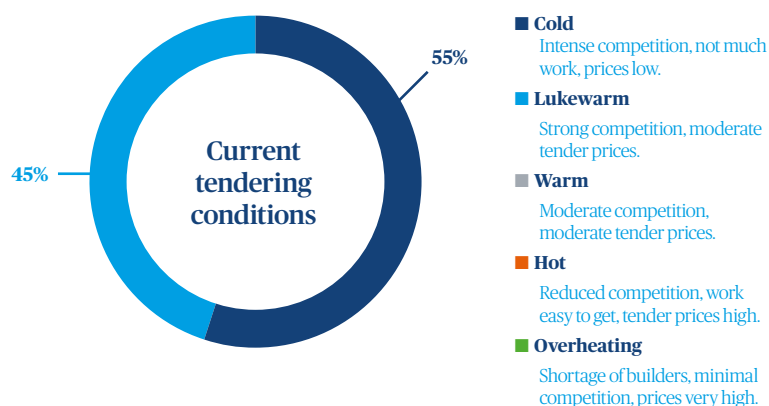
Tender and market conditions

High competition and low prices - a challenging mix.

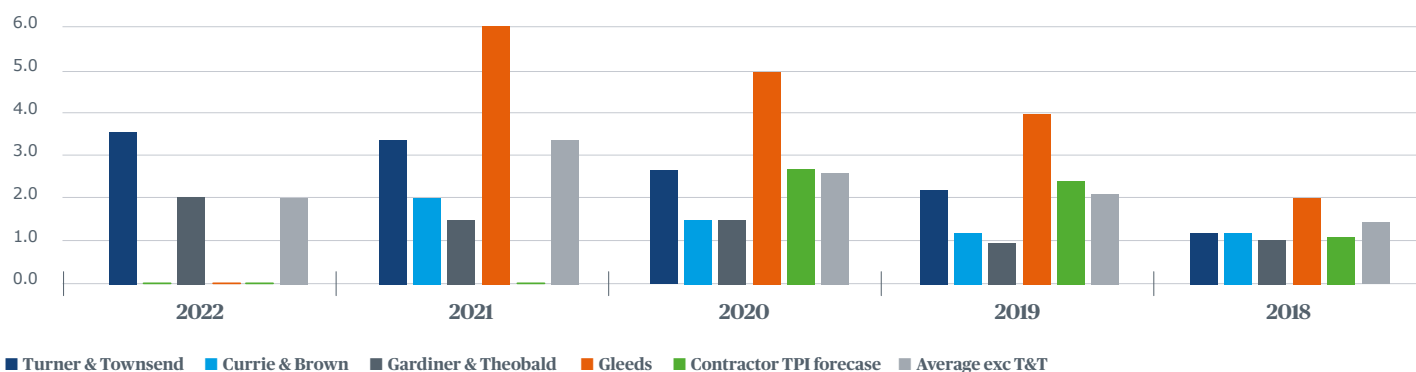
Contractor sentiment indicates that strong competition continues in the market with competitive tendering (either single or two stage) being the preferred routes. This competitive tender environment remains a challenge for contractors. It's no surprise then that 60 percent of surveyed contractors prefer negotiated tendering as their preferred route as this allows for less risk and reduced price sensitivity with the market.

Negotiated tenders are a rarity in the procurement of public sector contracts which indicates the market is relying on the private and commercial sectors to fill the gaps left by the lack of public sector projects being released.

Latest contractor feedback suggests tender price inflation will increase by 1.1 percent in 2018, with a large range of 10.0 percentage points. Following 2018, contractor tender price forecasts increase in pace, with TPI growth of 2.4 percent expected in 2019 and 2.8 percent in 2020. Turner & Townsend forecast tender price inflation of 1.2 percent in 2018, 2.2 percent in 2019 and 2.7 percent 2020.



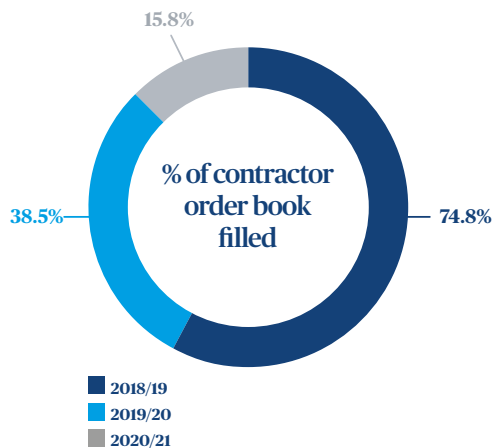
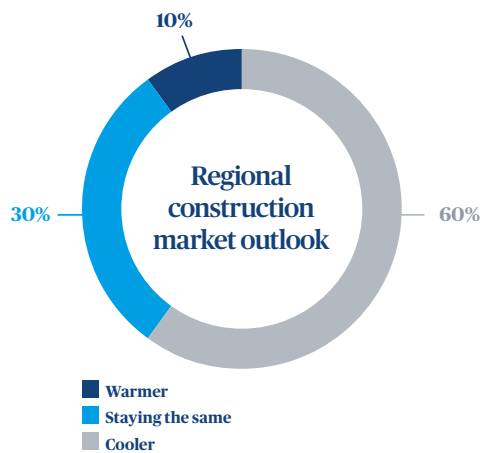
Tender price inflation overview



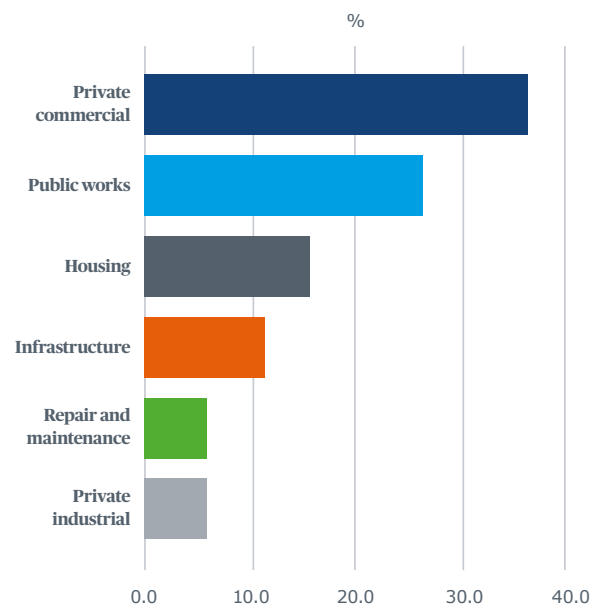
Commercial work filling order books but capacity remains

The prevailing air of uncertainty has naturally resulted in the market adopting a wait and see approach. There is an expectation that with little or no visibility of public sector pipeline the market will cool over all. With the commercial sector being the top performer it is hoped that it can take up some of the existing and expected capacity.

As of the second quarter of 2018, surveyed fit-out and general contractors in Northern Ireland have recorded significantly stronger order book statistics when compared to our previous survey. On average, contractor order books are 74.8 percent full for the 2018/19 financial year, a 30.4 percentage point increase from our previous survey in the final quarter of 2017. Likewise, for the 2019/20 financial year, order books have increased by 14.5 percentage points when compared to our previous survey, with order books now 38.5 percent full on average. Into the 2020/21 financial year, order books are 15.8 percent full on average as of our Q2 2018 survey results.



Top performing sector



Average contractor current operating capacity (100% = full capacity)

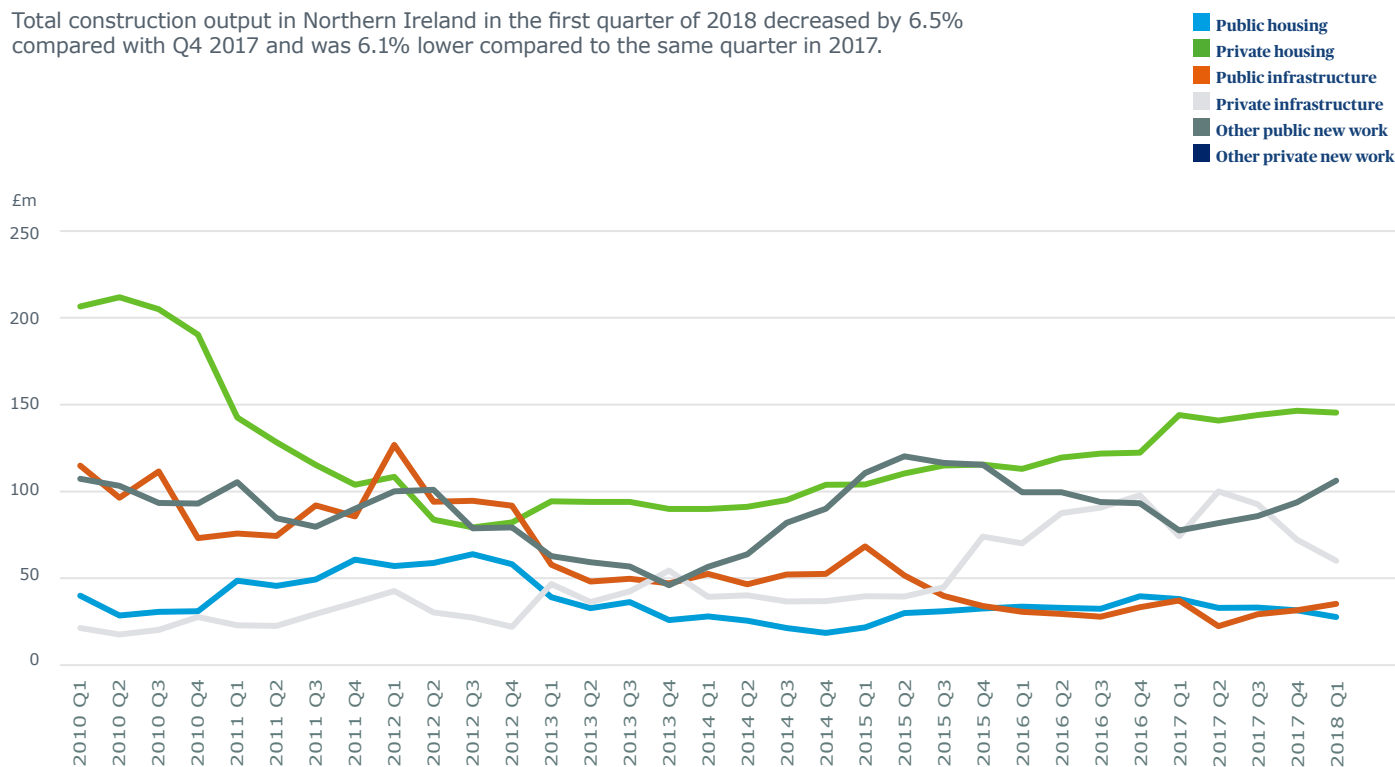
84.3%



The market remains buoyant, but the ease of access to markets into Britain and the Republic of Ireland continues to drain the local skills pool. Construction activity appears centralised to Belfast with little activity elsewhere in the province. Additionally, our main growth sectors are student residential, hotels and commercial office space.”

Regional output summary

Total construction output in Northern Ireland in the first quarter of 2018 decreased by 6.5% compared with Q4 2017 and was 6.1% lower compared to the same quarter in 2017.



Source: Northern Ireland Statistics and Research Agency

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Although the market does show some signs of strength, we are still experiencing a numbers of both competitors/supply chain becoming insolvent which potentially would come as a result of delivering projects which have been tendered during recession but delivered within a post-recession market.”

Labour and material inflation

Percentage increase of construction costs in the last 12 months and the next 12 months

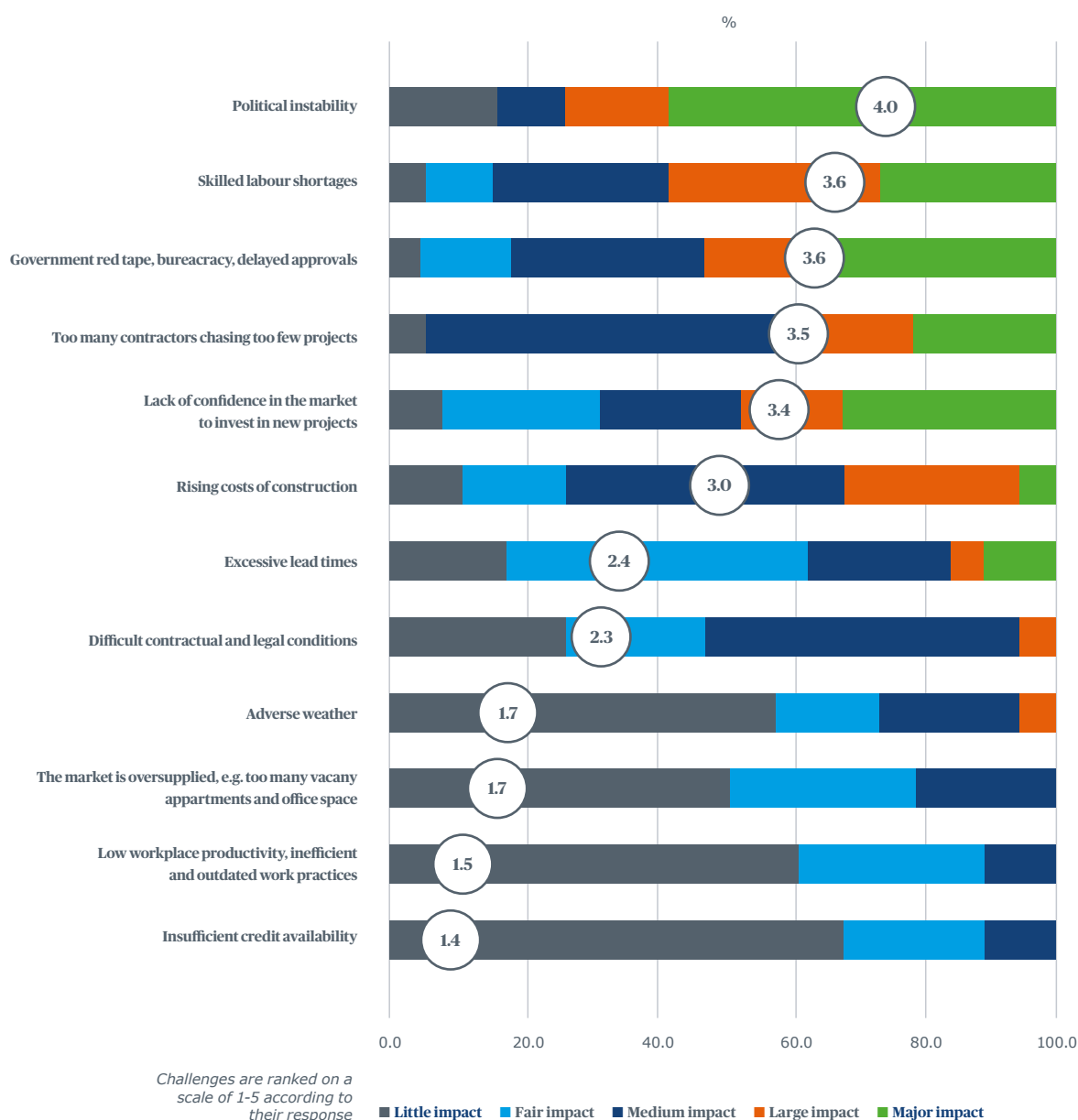


Labour shortages and supply chain stability continue to be key challenges facing our business."

Key challenges

In terms of key challenges facing contractors in Northern Ireland, 'political instability' and 'skilled labour shortages' are the two categories having the largest impact on surveyed contractors. Conversely, 'insufficient credit availability' and 'low workplace productivity' are the two key challenges to have the least impact on surveyed contractors as of the second quarter of 2018.

An important point to note is that contractors have expressed concerns on uncertainty caused by Brexit and the effect it may have on import duties and material prices. Other challenges voiced by contractors include: unrealistic budgets set by clients, a lack of resources and a shortage of medium to large projects available in the market.



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With no assembly in NI, decisions by Civil Servants challenged and the main driver for construction in Belfast stalled Northern Ireland offers little by the way of pipeline. The challenge for us is to maintain that workload in our other regions outside NI

The direction of construction procurement

10 years ago the procurement of public sector projects in Northern Ireland was characterised by: PFI and D&B, the contract of choice was JCT and contractors were selected using bespoke tender competitions (generally on lowest price or 'most economically advantageous' submissions). In the intervening years since the economic crash there have been significant changes to the contracting environment with:

- PFI projects all but dead and two stage tendering making an entrance;
- An increasing number of contractors being selected from frameworks
- NEC being the contract of choice with the Central Procurement Directorate (CPD) introducing standardised z-clauses; and
- The consideration of 'mean narrow average' tender evaluations.

Mean Narrow Average as a means of assessing the pricing section of tender is a recent reintroduction in the Northern Ireland market, first being used by the Department of Education in their consultant frameworks some years ago and by the University of Ulster for their GBD Development. Whilst there are clear advantages in preventing the race to the bottom which is clearly evident over recent years and which can put contractors and consulting businesses in difficulty producing below par results, one is also aware that it could have potential challenges under procurement law. Whilst CPD and local Construction Industry are supporting this evaluation tool, all parties are aware of the potential risks arising from a disgruntled unsuccessful bidder where Mean Narrow Average is used. That being said, limitation periods set out in the Public Contracts Regulations 2015 may require action to be taken before results are known or risk being out of time unless the receipt of new knowledge can be proven.

Also, more recently, CPD are considering the use of two stage tendering for the procurement of large public sector projects through consultation with the local Construction Industry after some high profile procurement failures.

Two stage tendering is the process which sees contractors competing for preferred bidder status at stage one with more detailed negotiations between the client and the preferred bidder at stage two. The advantages and disadvantages are:

Advantages	Disadvantages
<ul style="list-style-type: none"> ■ More flexibility than one stage tendering ■ Increased Employer involvement in its project ■ Can allow for an earlier start ■ Pricing is on more complete information ■ Risk allocation more developed ■ Deeper understanding by the contractor of the requirements ■ Less resource intensive for contractors at stage one ■ Collaboration can lead to better relationship during the construction phase ■ Methodology can adapt 	<ul style="list-style-type: none"> ■ The time gained in starting early can be lost in protracted negotiations ■ The preferred bidder may not be incentivised to be competitive once others excluded ■ Potential for procurement challenges ■ Additional fee incurred by the Employer for pre-construction services ■ If agreement is not reached between the parties the Employer will have to start again ■ Recoverability of fees is an issue if parties do not reach agreement



There are some unrealistic budgets with a perception that the supply chain is significantly cheaper in NI compared to GB

Two stage tendering, prevalent throughout GB, therefore has many pro's and con's both practically and legally. As with all new procurement methods there will be lessons to be learned and the process will evolve with the industry locally.

Frameworks are becoming increasingly common as a means of appointing contractors/consultants and are something we regularly see in our practice. There are a number of reasons for this:

- Political situation has impacted the procurement and delivery process for projects
- Reduced risk of procurement challenges by using an already established framework
- Cost of procuring reduced
- Economies of scale

It is therefore of vital importance that the industry is aware of frameworks being set up that include Northern Ireland. Frameworks have the potential to develop strong relationships between client organisations and the market which can be beneficial for both parties. There is a clear risk of being unable to tender for valuable works that traditionally would have been procured directly by the client.

The landscape of construction procurement is ever changing and with the potential move to two stage tendering, mean narrow average and the increased use of frameworks, only time will tell if the industry really embraces them or if the industry itself will refer the matters to the courts for adjudication.



**Cleaver
Fulton
Rankin**

Lisa Boyd
Director
Cleaver Fulton Rankin

National Frameworks

Turner & Townsend are on various national and local consultancy OJEU compliant frameworks, which are open to Northern Ireland Public Sector Organisations and Local Authorities, including:



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There is a higher demand and competition for work in NI, therefore our focus is mostly on the UK market.

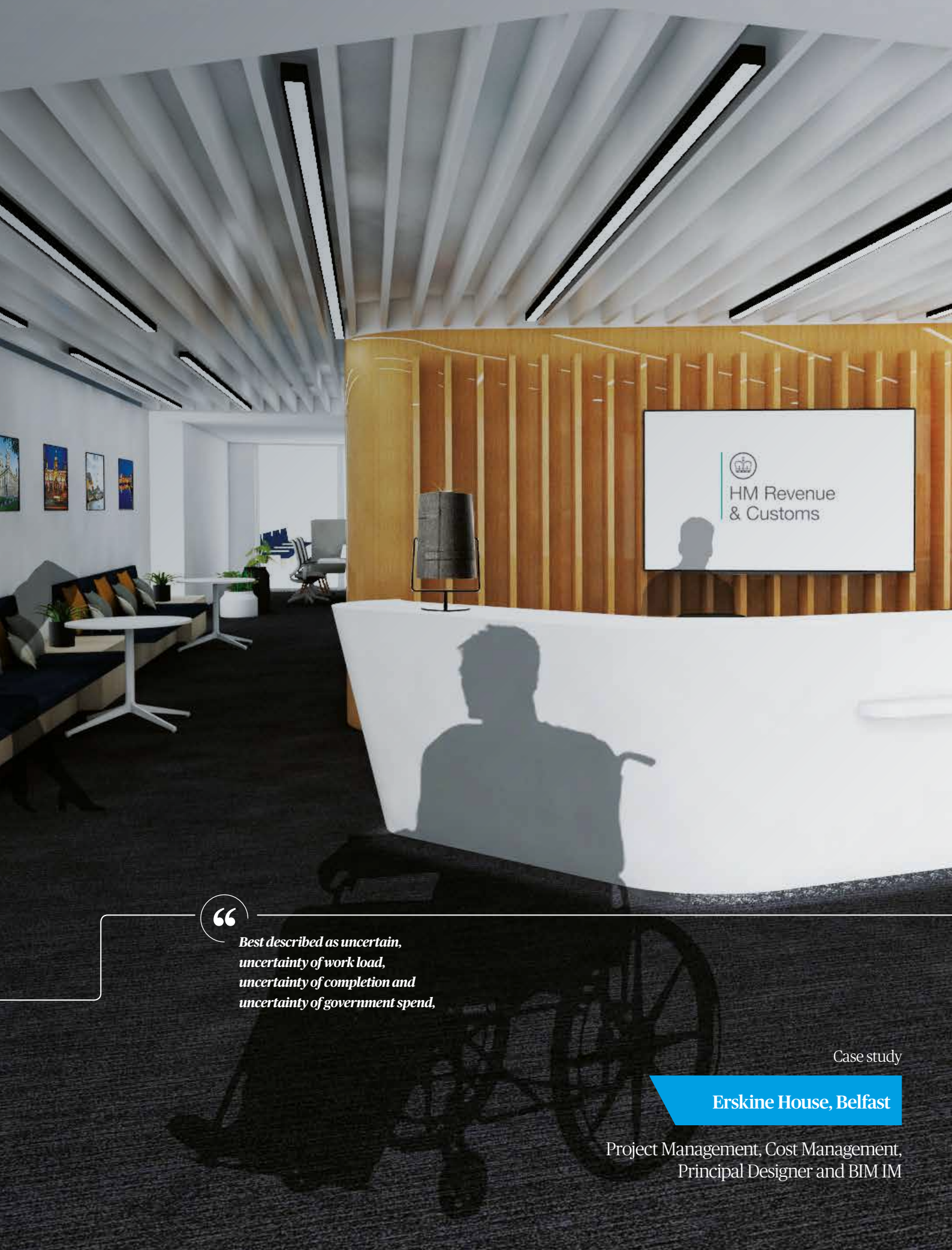
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We are currently facing cost increases in both labour and materials, however tender rates are not reflecting this.”

Case study

McArthur Hall, Belfast

Project Management, Cost Management and
Full Design Team Services



“

*Best described as uncertain,
uncertainty of work load,
uncertainty of completion and
uncertainty of government spend,*

Case study

Erskine House, Belfast

Project Management, Cost Management,
Principal Designer and BIM IM

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 108 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 have been working in Northern Ireland for over 50 years. From our Belfast office our project, cost and advisory specialists work across the island applying our global expertise on local projects.

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