



Turner & Townsend

Northern Ireland market intelligence survey

Autumn 2019

making the **difference**

Introduction



Contractor perceptions indicates that the cost of labour, has increased marginally when looking back over the past 6 months



Over the past 6 months, average contractor sentiment indicates that material costs have increased marginally



Average sentiment indicates that overheads have increased marginally when looking back over the last 6 months



In the past six months, surveyed contractors state that average profits have marginally decreased



Preliminaries have stayed the same according to contractors over the last six months

I said in our Spring Edition that it was hard to believe the UK position on Brexit was still uncertain; that our future relationship with Europe was still undefined and subject to daily change. Déjà vu, unfortunately.

With some commentators warning of an impending recession in NI, a general election before year end may provide some hope that impetus will be renewed to have our political institutions re-established. Progress, if it comes, will be long overdue according to the sentiments of the contracting respondents to our survey.

On a more positive front, at Turner & Townsend, we have been delighted to continue supporting HMRC transform their ways of working. This innovative programme is pushing the boundaries in rationalising the Government estate, in part securing a calculated £90M annual saving for HMRC from 2028. Our work has continued and we are now managing the largest office fit out in Belfast in Erskine House, due for completion in the next Quarter. Our success and experience on this project has helped us secure fit out commissions with new clients, such as Arm in City Quays 2.

Despite the turbulent political environment, Belfast (and the wider region) has seen some positive developments. In May, Derry & Strabane secured a £105M economic package (£50M 'City Deal' & £55M 'Inclusive Future Fund'); June saw Osborne+Co secure outline planning approval for their Waterside masterplan; in July PWC signed their new lease for Merchant Square (>200Ksqft) and in August we signed our NI Public Sector Professional Services Framework contract (Lots 1&2) with CPD to help the local government deliver a pipeline of projects across sectors. More recently, Castlebrooke have resubmitted revised and positively received plans for Tribeca and Wirefox are getting site-ready for "The Paper Exchange".

That being said, it remains a trying time for Contractors, as evidenced by our survey results and commentary in this report. Political instability, lack of pipeline and low investor confidence remain high on our surveyed contractors Key Challenges list. With the prospect of another period of uncertainty ahead, respondents' immediate short term outlook is pessimistic.

Optimism does exist though in the residential sector with our respondents' views aligning with a recent RICS statement that this is a strong market but with under-supply concerns. Going some way to alleviating the lack of new city centre properties, ground was broken on Belfast's first BTR scheme by Lacuna Developments on Academy Street, Malone Exchange by Portland Property Group was finished, and the FX scheme in Montgomery Street is close to completion. With major new projects such as The Waterside coming on board, the Council's Belfast Agenda may start to get some traction, but there are challenges in truly delivering on that aspiration, the topic of which our Kevin McNaull explores later in this Survey edition.

I end by thanking those contractors who continue to support our survey twice yearly, and those contributors to our Belfast Living: The Residential Challenge feature.



Colm Lavery

Strategic Lead Director, Northern Ireland

Turner & Townsend tender price inflation



Background to this report

Turner & Townsend regularly interact with the supply chain in order to better understand the market dynamics which are fundamentally affecting construction price and cost movements in Northern Ireland. Every 6 months we collate survey responses from NI contractors, allowing us to glean a snapshot of the local market place. This enables us to provide our clients with the most relevant and up to date market intelligence.

Tender and market conditions

A possible winter of hibernation

Our contractor feedback suggests that competition for work continues to increase with over half of surveyed contractors describing tendering conditions as cold. An increase of 5.6 percentage points on our last survey. Whilst 11 percent of respondents described the market as hot, we believe this may be due to recent wins in commercial and housing which are currently active. Two Stage and Negotiated tendering account now for over half of tendering opportunities, an increase from 45.0 percent previously. Framework use has dropped dramatically to 7.2 percent highlighting a reduction in public sector pipeline opportunities for contractors over the last 6 months. The remainder is filled by the use of single stage tendering, proportionally increasing since our last survey, which can be worrying in a tightening market, depending on purpose and contract choice.

In times of weakened pipeline, increasing competition and tightening margins, it is perhaps unsurprising that 100 percent of contractors would prefer if all contracts were negotiated.

Latest average consultant forecast (Fig.4) suggests tender price inflation will increase by 2.5 percent in 2020. Contractor tender price forecasts a steeper rise of 3.8 percent, with this trend continuing in 2021. Consultant avg. forecast of 3.1 percent while contractor suggest 4.3 percent. Contractor TPI suggesting a large jump in 2022 to 6.5 percent. Our contributing contractors have cited factors such as labour shortage affecting salary costs, and weakness of sterling as main factors.

At Turner & Townsend, we are forecasting tender price inflation at 2.3 percent, 2.8 percent and 3.2 percent in 2020, 2021 and 2022 respectively. Given the current uncertainty and unknown impact of Brexit, local Government and pipeline a greater variance in forecasts is perhaps expected.

Figure 3: What proportion (%) of your current contract/tender negotiation is:

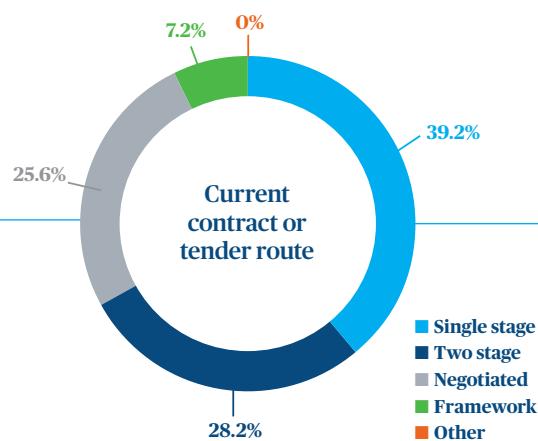


Figure 4: How would you describe current market tendering conditions within your region?

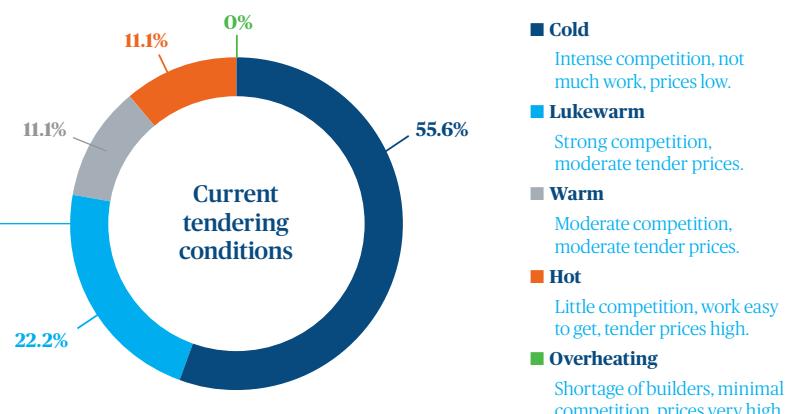
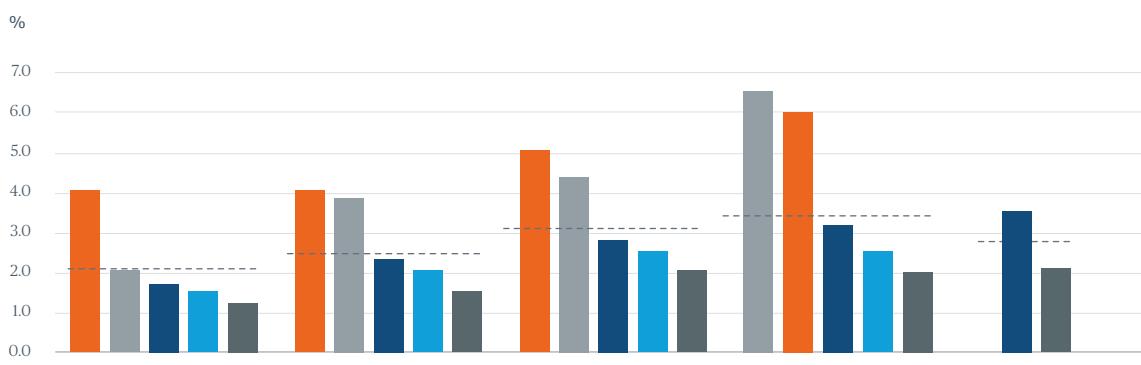


Figure 5: Northern Ireland tender price inflation overview



■ Turner & Townsend ■ Currie & Brown ■ Gardiner & Theobald ■ Gleeds ■ Contractor TPI forecast --- Average Consultant TPI

Staying the same, for now

Our survey indicates a majority view of the market showing no short term change in circumstances, with 77.8 percent, whilst 22.2 percent predict a further cooling. Given 6 months ago 42.9 percent of surveyed contractors predicted a cooling market (with the remainder staying the same), it would suggest that the predicted cooling has happened for some in that period. Unfortunately, none are forecasting a warming market at this time.

Contractor's current operating capacity, has broadly remained the same at 86.1 percent. Order books for years 20/21 and 21/22 stand at 64 percent and 22 percent respectively, considered to be a reasonable position at this time.

In the top performing sectors we see a shift from our last report, with Private Commercial replacing Public Sector & Housing at the top. Confirmation that, for now at least, the private sector is leading on opportunity. Public Works are maintaining levels that existed 6 months ago, although anecdotal evidence suggests this being impacted by lack of spending and decision making through an operating local executive. Housing remains a strong sector, although not all contractors are operating or active in it.

Figure 6: Is the construction market getting warmer, cooler or staying the same?

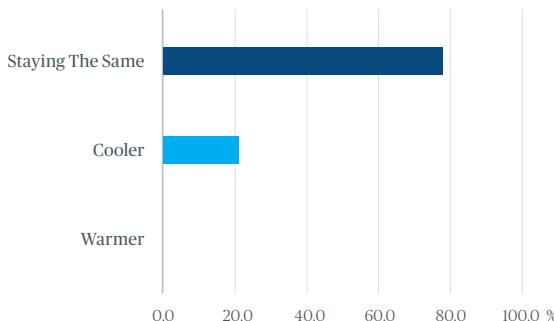


Figure 7: What is the top performing sector within your region of work?

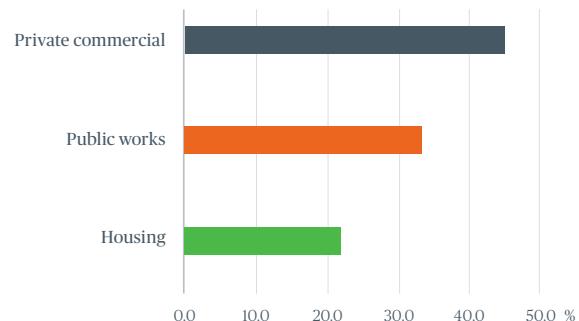


Figure 8: On a typical medium commercial job (5000m² GFA), what are your margins, preliminaries and overheads & profit?

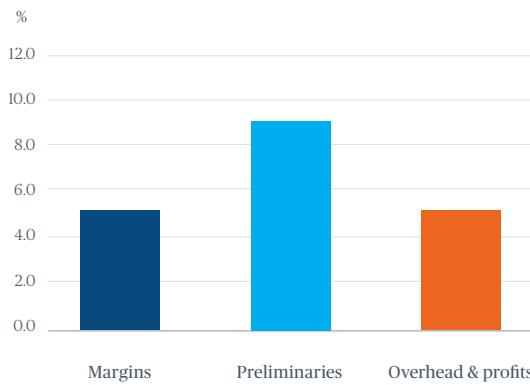


Figure 9: Approximately (%) how full is your order book for the following financial years:

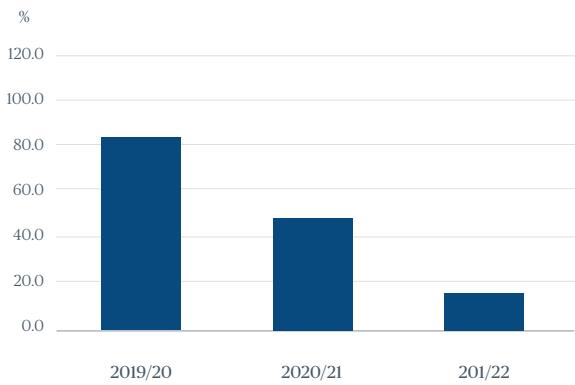


Figure 10: What capacity (%) is your company currently operating at? (100% = full capacity)

86.1%

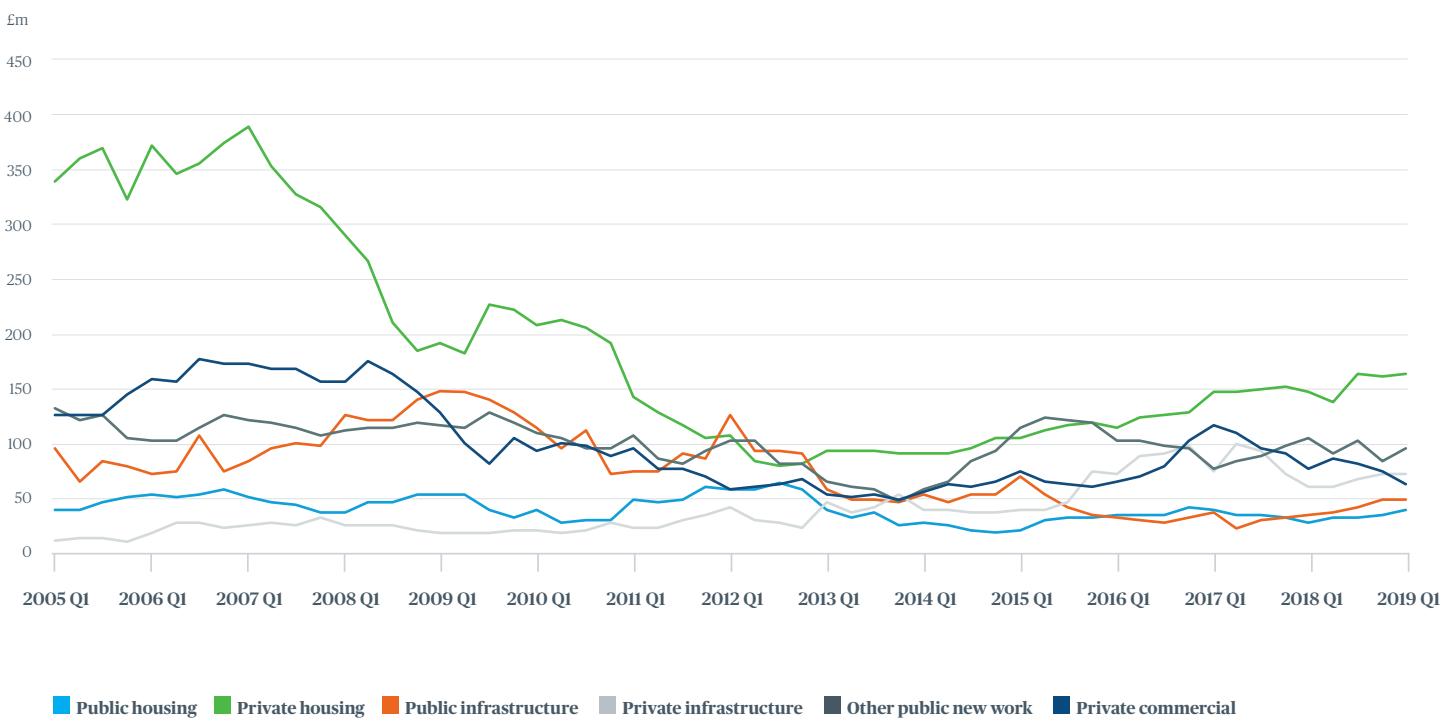
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The market is still very competitive. Supply chain is over stretched causing knock-on effects down the line which inevitably affects the programme.”

Regional output summary

Total Construction output in Northern Ireland in the first quarter of 2019 decreased by 4.1 percent compared with Q4 2018 and has decreased by 1.6 percent compared to the same quarter in 2018.

Figure 11: Volume of output by construction sector (chained volume measure, seasonally adjusted) - 2005 Q1 - 2019 Q1

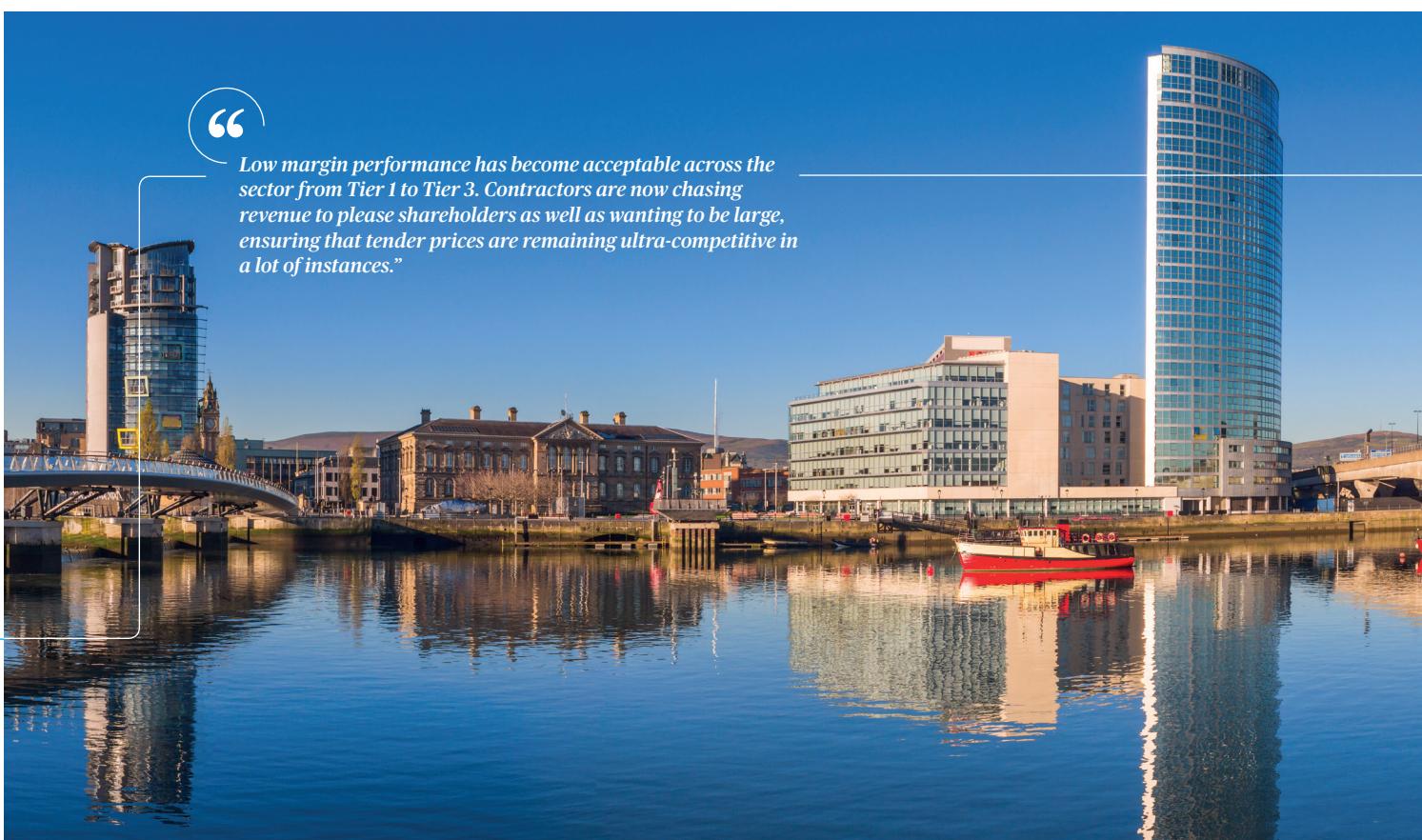


■ Public housing ■ Private housing ■ Public infrastructure ■ Private infrastructure ■ Other public new work ■ Private commercial

Northern Ireland Statistics and Research Agency

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Low margin performance has become acceptable across the sector from Tier 1 to Tier 3. Contractors are now chasing revenue to please shareholders as well as wanting to be large, ensuring that tender prices are remaining ultra-competitive in a lot of instances.”

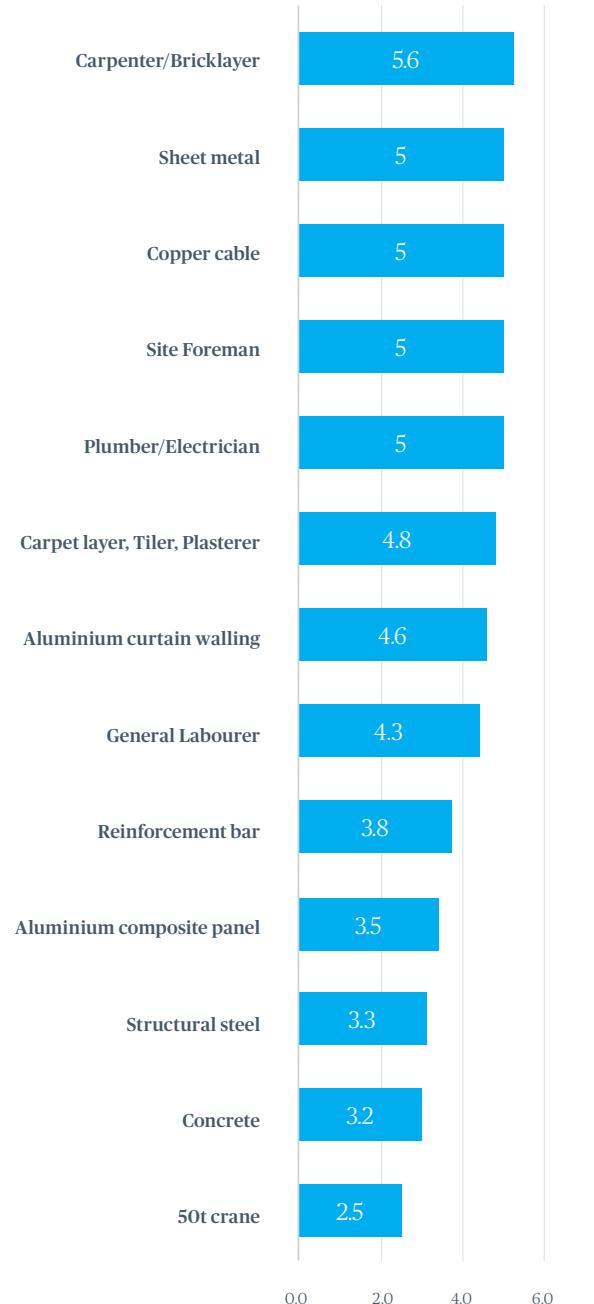


Labour and material inflation

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



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

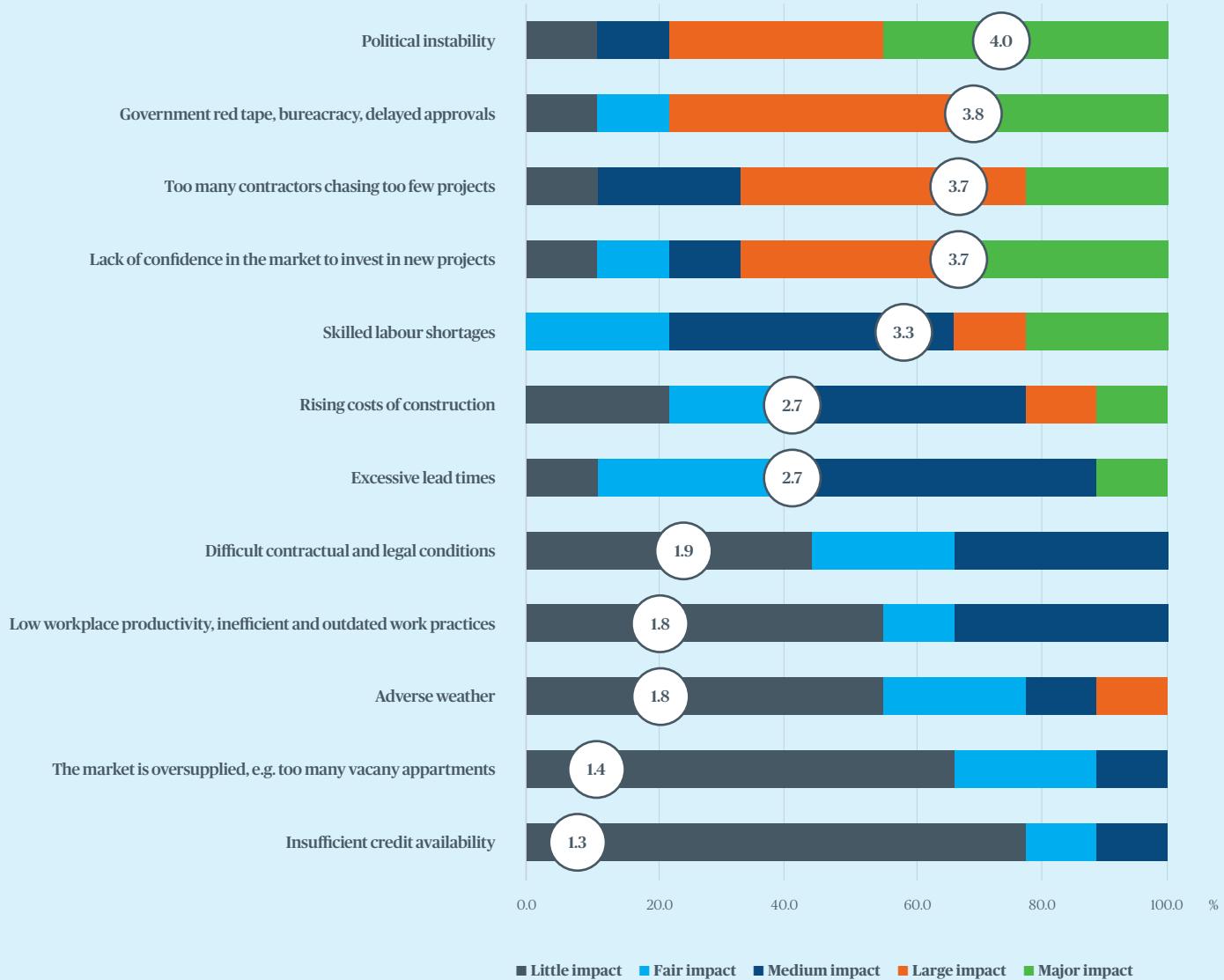


Brexit may be holding back a number of FDI projects. Commercial market seems to be cooling, but there are inflationary pressures. Some key trades such as concrete, mechanical and electrical will be difficult to control over the next two years.”

Key challenges

It is unsurprising that for our third bi-yearly survey in a row that Political Instability remains the main key challenge faced by contractors, given its relevance to public sector spending and investor confidence. All top 5 challenges (too few projects, lack of confidence, government red tape and skills shortages) have remained in the top positions, something of which should send a clear unambiguous message of contractor sentiment of the market.

Figure 13



Insight

Belfast Living: The Residential Challenge



by

Kevin McNaull

Turner & Townsend, Belfast



*Search for our **NIMI Spring 2019 Report** on our website which includes our article "Build to Rent/PRS – Unlocking the Potential"



In recent years, Belfast has seen major investment from global firms establishing and expanding offices and, with a highly educated and young population, the city is rightly seen as a great place to do business. The construction of supporting, and intrinsically linked, residential accommodation has not kept pace with the commercial and business growth. This presents a real challenge for employees who want to live close to work and in the middle of the thriving restaurant and hospitality scene but have limited options. Belfast City Council, in The Belfast Agenda, are targeting a further 66,000 people living in the City by 2035 who will underpin continued economic expansion. This is an ambitious target that will require major city centre residential development.

Between the period January 2019 and July 2019 circa 1,110 units were approved by the Council's Planning Committee which is encouraging. However, during the same period only three apartment schemes (circa 236 units) were submitted. An increase in the current rate of residential development is therefore required to facilitate the desired growth and must be supported by investment in the basic infrastructure of the city.

Creating a sense of place

Simply building as many apartments as quickly as possible throughout the city won't retain the culture and sense of place that Belfast is famous for, and which is an important attraction for residents. Placemaking is now better understood as being fluid and intrinsically individual to each area and a fundamental factor in sustainable urban living. The attraction of Belfast City to live in can be enhanced by making the most of the history, landscape and natural features rather than superimposing an assumed ideal which risks becoming a 'white elephant'.

In a highly competitive regional environment, Belfast is playing catch up with other UK and Irish cities as a place to live. Belfast must deliver the type of residential accommodation which will attract people from all generations, backgrounds and economic levels back into the city.

A diverse population requires a diverse portfolio of housing stock, something that Belfast is well positioned to provide. Having experienced significant and rapid growth in the Purpose Built Student Accommodation sector, the first generation in Belfast to leave that model, and look for the 'next step', is emerging.

A mix of housing options with a range of funding/delivery models will help to meet the ambitious targets but developers must adapt and meet the needs of a more demanding customer than perhaps has been the case historically.

“

The Waterside is an example of embracing the local culture and working within communities to expand and integrate. Belfast is one of a few developing cities that is yet to fully embrace the water feature as a living component of placemaking. The river Lagan cuts through the city's designated centre and is only now starting to enjoy some acknowledgement of creating spaces for people who not only work within the city but also want to play and live. When a space is created with varieties of building styles, finishes and uses based on traditional and future thinking, you can recognise forward thinking and Belfast is fast becoming an exemplar of what the art of the possible generates.”

Patricia Hanson, Osborne+Co

Waterside, Belfast

Development Management

Thomas O'Doherty, Partner at Simon Brien notes "Often with experience of living in major global centres, the purchasers and tenants that will live in the City now expect high specification homes with a variety of facilities increasingly being sought including:

- smart home technology,
- amenities such as gym and concierge,
- high quality finish interiors,
- proactive management companies who interact with residents, and
- communal areas or residents lounges."

Patricia Hanson of Osborne+Co, the developer behind the major mixed use Waterside scheme in central Belfast highlights, "no modern urban locale will succeed without fully activated connectivity and Belfast now offers a full Smart City option which is incorporated into the design work on the Waterside as a further means of attracting and retaining a thriving population."

The development of new housing sectors in Belfast is an exciting opportunity for the city and clearly attractive to the private sector as Thomas explains,

"To be successful, developers will have to react to these changing demands and innovate to achieve viable and profitable schemes with quick sale or let periods. A particular opportunity is BTR schemes which are in their infancy in Belfast although a number are proposed for the City Centre. In other UK markets, BTR rental values are between 10% - 15% higher than a typical rental property due to the additional facilities offered."

Building taller and securing planning consent

At Turner & Townsend, we believe that to meet the ambitious growth target for Belfast City Centre living and apply new delivery models is going to require a fundamental change in how residential accommodation is currently provided in the city. An almost inevitable solution is taller buildings and a denser population as a means of accommodating significant population growth within the existing city centre footprint,

Towers inherently cost more, take longer to construct and are less efficient; however these factors are offset by additional density gained through building tall and potentially greater investor/developer returns. While there are a multitude of technical and commercial issues to be balanced by a competent developer and advisory team, key factors includes:

- **Structure.** What is the most efficient shape given the site constraint? What structural solution will resolve underlying ground conditions? What is the optimum slab thickness and slab to slab height?
- **Cores.** What construction techniques are planned and how is core stability considered to maximise programme efficiency? How many and what features do lifts have to meet statutory obligations without adding unnecessary costs?
- **Façade.** What studies are required to influence the design? Are balconies to be provided to increase sale price but at a risk or increasing construction cost and constraining façade solutions?

The increased cost of tall buildings and their overall viability are often related to the ability to offset fixed site costs over larger sales areas by increasing development heights. Finding the 'Tipping Point' between additional sales areas and disproportionate cost increase can be a challenge and is usually site specific, however, there are common themes and relationships which need to be explored. These include:

- Core sizes considering lift numbers, occupancy levels and price points of units;
- Fire strategy and requirements for sprinklers etc.
- Plant areas and building maintenance strategies; and
- Importance of BIM and engagement with the supply chain to establish capacity, capability and constructability

“

Major mixed use schemes like the Waterside, and smaller residential projects, are actively planning to deliver a mix of accommodation including private sale, Built to Rent (BTR) and housing association. This is positive and will help to reach the residential targets by catering for a diverse and sustainable population mix who will support Belfast as a great place to live and generate further long term growth”

Thomas O'Doherty, Partner at Simon Brien

York Street, Belfast

Student Accommodation,
Fund Monitoring

The tall building market in Belfast is historically very limited. However, across the UK and Ireland more and more tall buildings are being delivered with the knowledge, experience and capability of the construction industry increasing. We are currently advising on, and supporting delivery of, multiple 'tall' developments. Our investment in, and transition to, a digitized cost management and estimating approach is helping to maximise the efficiency of the development period to quickly identify the 'Tipping Point' and achieve the optimum solution.

The technical challenges associated with taller buildings, and other potentially contentious issues such as density of accommodation and provision of parking and amenities, can be managed by developers. However, these can only be fully resolved with the support and engagement of the planning authority. The Planning System, specifically the time it takes for an application to be determined, is pivotal to deliverability. The longer it takes, the less viable a scheme can become. In Turner & Townsend's role supporting end-to-end delivery of real estate in Belfast this is a critical risk factor and one that we work hard to successfully mitigate.

While tall buildings come with specific planning challenges, there are common themes and issues that must be considered in successfully achieving consent on any city centre development, as Michael Gordon, Director at Turley explains.

"Over the next couple of years the tall building, density and parking debate will continue. Whilst this happens, Belfast cannot

pull the brakes on aspiring to be like other cities and deliver high quality residential schemes. There are a number of considerations that can make the process more and enable the growth that Belfast aspires to:

- Effective Pre-Application Discussions - early and collaborative engagement and timely feedback from the Planners, Designers and statutory and non-statutory consultees prior to the submission of an application
- Engage early with Planners - agree timescales, actions and resources for handling strategic planning applications
- Submission of robust and complete applications which seeks to address key planning, design and technical matters from the outset
- Timely decision making - ensuring major applications are determined within an average processing time of 30 weeks or less – which is important!
- Buy-in from the planners and the Planning Committee that innovative proposals will be required to deliver on the Council's ambition
- Developers bringing forward quality schemes with the necessary amenities."



Infrastructure as an enabler

It is clear then that the planning system must continue to evolve to ensure that it is a key facilitator of growth. Similarly, the basic infrastructure must be in place to enable an expanding population across the city. The delivery of major traffic infrastructure is a well-publicised problem in Northern Ireland and is a clear constraint to the movement of people in to and out of the city. More fundamentally, and a very real and present risk to specific city centre growth, is the inability of existing waste water treatment infrastructure to accommodate a larger population. This has resulted in embargos being placed on residential and commercial property developers across the province meaning that, in certain locations, NI Water cannot accept any new connections to the sewer network.

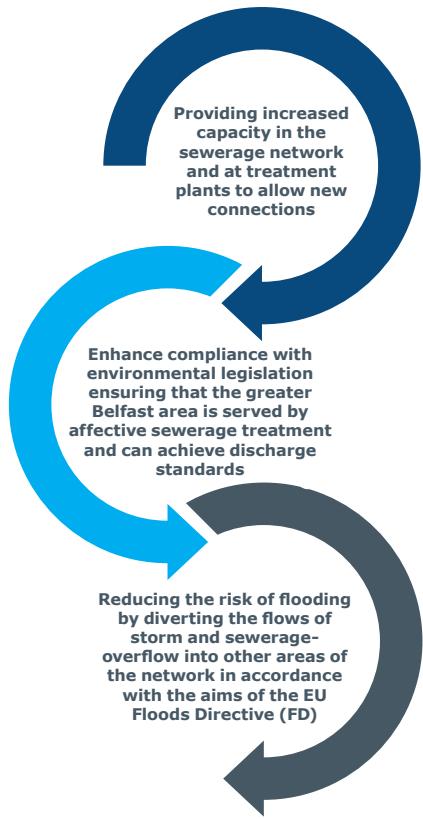
The existing Waste Water Treatment Works (WwTW) that service the Greater Belfast Area are approaching the end of their design life and have limited capacity to accept additional volumes for treatment. This presents a substantial challenge given the unpredictable effects of climate change (heavy flooding, increased flows for treatment etc.) and the growing requirement for WwTW's to comply with more stringent discharge consent standards.

To ensure that future demands on network capacity pose no threat to the continued growth of Belfast as a city, Mark Mitchell, Head of Asset Delivery Performance and Capital Business Unit, NI Water explains that: "NI Water have identified a number of strategic capital projects in their PC15 business plan (2015-2021) to provide the additional capacity that is required. However, delivery has been challenging due to funding constraints and wider public spending cuts.

In planning for their next Price Control Period PC21 (2021-2027), NI Water have begun developing an initiative to provide relief to the Belfast area network. The Living With Water Programme (LWWP) aims to develop a Strategic Drainage Infrastructure Plan for Belfast. Securing the necessary funding for this programme of works and other major capital projects identified in PC21 is vital. This will ensure that Belfast has suitable infrastructure to enable economic growth for future generations."

Having designed and established the Capital Programme Management Office (CPMO) at Northern Ireland Water, Turner & Townsend are now embedded as a CPMO delivery partner. We are supporting them with a range of services including Risk, Value, Project Controls, Asset Management and Contract Services to achieve capital efficiencies across their programme.

Strategic Drainage Plan Objectives



Rising to the Challenge

The residential living targets set by Belfast City Council are admirably aspirational and should act as a catalyst for real and demonstrable growth in the city. However, this will only be achieved, and be sustainable and successful, if there is a considered and complimentary approach from both public and private sector. The ambition of forward thinking developments, such as the Waterside, where global experience and lessons can be applied to Belfast is to be applauded. However, to really be successful, Government investment in critical infrastructure is required to enable and underpin growth. The local development market must also adapt and work with the Planning System to commit to, and support, a progressive approach. Only by working collaboratively across sectors, and understanding lessons learned by regional cities that have already experienced city centre population increases, will Belfast meet the challenge set in the Belfast Agenda.

Turner & Townsend is working with local authorities, developers and contractors across the UK and Ireland to realise the opportunities that come with significant development and population growth. With an extensive in-house network of connected professionals, we have the skills and experience of delivering projects that enable city centre living.

We are the forefront of modernizing and digitizing the construction sector and built environment to add value to projects by effectively managing risks, securing delivery and cost certainty and generating whole life efficiencies.



During World Green Building Week, we raised awareness of the role that we at Turner & Townsend play in addressing the United Nations Sustainable Development Goal, SDG 11, Sustainable Cities & Communities and ensuring our industry is fit for a low carbon economy.

We are working with our clients to reduce their environmental footprint. This month we have seen pioneering activities with clients across the private and public sectors.

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 110 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've 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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