



Turner & Townsend

Northern Ireland market intelligence survey

Autumn 2020

#TTNIMI

making the **difference**

Introduction

COVID-19 has dramatically affected the economic landscape in Northern Ireland in 2020. As the country continues to adapt, the construction industry faces new and very different challenges.

The social and economic change the country has experienced so far in 2020 is unprecedented. The immediate impact of COVID-19 on the majority of construction sites resulted in total shutdowns and a dramatic drop in productivity. As lockdown relaxed and our respondents provided their assessment of the construction sector, the full impact of COVID-19 was only just starting to be understood. Since then there have been local lockdowns and the UK economy is in recession. All of this must also be viewed in conjunction with a looming Brexit, with the latest debates being on regulatory borders.

As we enter 'the new normal' in terms of social distancing, localised restrictions and operating in a less certain, post Brexit economic environment, there will be challenges for the construction sector. When considering their pipeline and which sectors to target, our respondents are pondering the same questions clients and investors are tackling including:

- How will the NHS deliver care in a changed environment and does the existing (and being planned) estate facilitate this?
- What does the increase in home working mean for the commercial office sector? How will the traditional real estate model adapt to changing demand?
- Will the design of schools need to significantly change to accommodate long term changes in teaching methods?
- How will city centres look and will there be more residential development or re-purposing of commercial/retail space?

Despite the challenges, opportunities in the market do exist, giving reason for some optimism and confidence with our respondents. The recent establishment of the Ministerial Infrastructure Advisory Panel is a welcome step forward in improving the identification and delivery strategy for projects that will help to unlock further investment. Recent high profile projects moving through planning include the Tribeca development, a new aquarium at Titanic Quarter by ReefLIVE and a number of commercial office developments across the city. The public sector have commenced procurement of design teams on a range of projects which will hopefully convert to construction works in the near future. All of these indicate a continued vote of confidence by developers and the public sector in the merits and opportunity for growth in Belfast and the rest of Northern Ireland.

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

Northern Ireland	(as of) Q3 2019	(as of) Q1 2020	(as of) Q3 2020
2020	2.50%	2.10%	-0.40%
2021	3.10%	2.50%	0.20%
2022	3.40%	3.00%	1.50%

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 six months we collate survey responses from Northern Irish 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.

The impact of COVID-19

Our latest survey asked additional questions on the actual, and potential, impact of COVID-19 on the construction sector. Unsurprisingly the short term outlook indicates a cooling market with respondents estimating at least 12 months before the industry sees a return to pre-COVID levels. There are clear risks on potential material and supply issues, in particular importing from areas outside of the UK. The assertion that tendering opportunities are falling will bring a range of risks for the sector. Contractors will have to adapt bidding strategies to remain competitive and secure their pipeline without hitting unsustainable levels. Clients may initially benefit from increased competition but will need to carefully consider how they maximise the chance of achieving their objectives. This may include revisiting pronouncement strategy, realignment of delivery programme and milestone dates, the impact to preliminaries and reviewing the stability of the supply chains they are engaging with.

The main findings were as follows:

A cooling market	82 percent of the contractors indicated less opportunities. While not surprising, 1Q2020 was indicating signs of improvement (Fig 2).
Highly competitive tendering	Tendering conditions are now seen as 'Cold' (extremely competitive) by 80 percent of respondents, a notable shift from previous results (Fig 3), which were indicating market improvements.
Labour & materials impact	91.7 percent thought labour would not be impacted, while both material shortage and lead in times are seen as a risk by 65 percent of respondents.
Productivity impact now	58.3 percent of contractors still felt they were operating at 90-100 percent of pre-COVID times. 16.7 percent of replies intimated productivity down to 80-90 percent, while the remaining 24.9 percent said productivity dropped by 30-40 percent post COVID.
Productivity forecast	Only 8.3 percent thought productivity would be restored within the next 3 months. 25 percent forecasted 6 months and another 25 percent felt it will take 9-12 months before they return to previous levels. The remaining 16.7 percent of respondents anticipated it may take 18 months to recover.
Preliminaries	On average the cost of a contractor's preliminaries for each project is forecasted to rise by 9 percent to comply with COVID-19 safe working practices. Inevitably these costs will be passed on to the clients.
Programme	While difficult to estimate (will be project specific) contractor opinion is that new working conditions could impact programme by between 3-5 weeks over a 12 month construction period.

Figure 2:
Is the construction market getting warmer, cooler or staying the same?

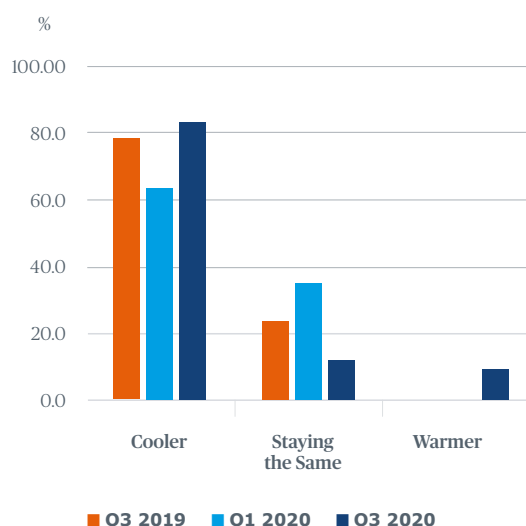
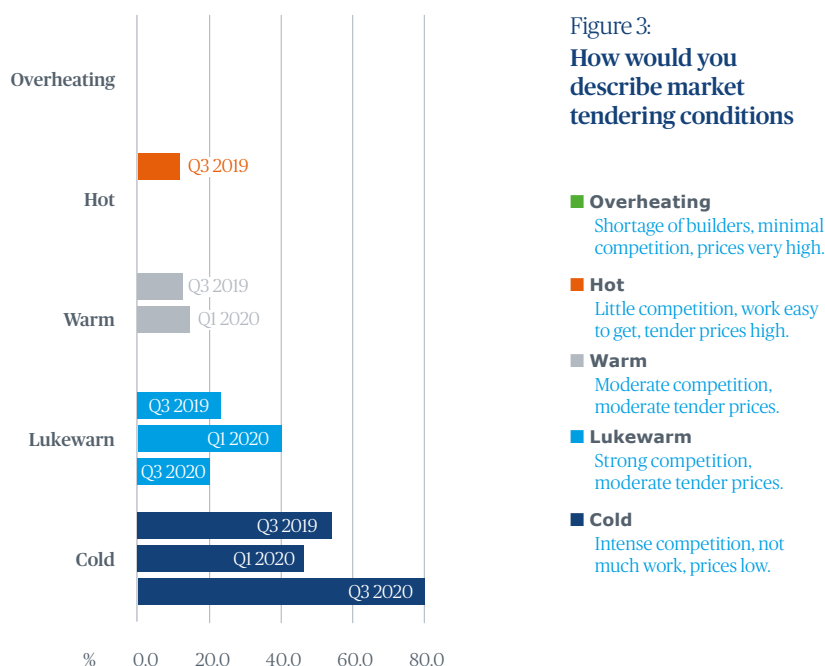


Figure 3:
How would you describe market tendering conditions

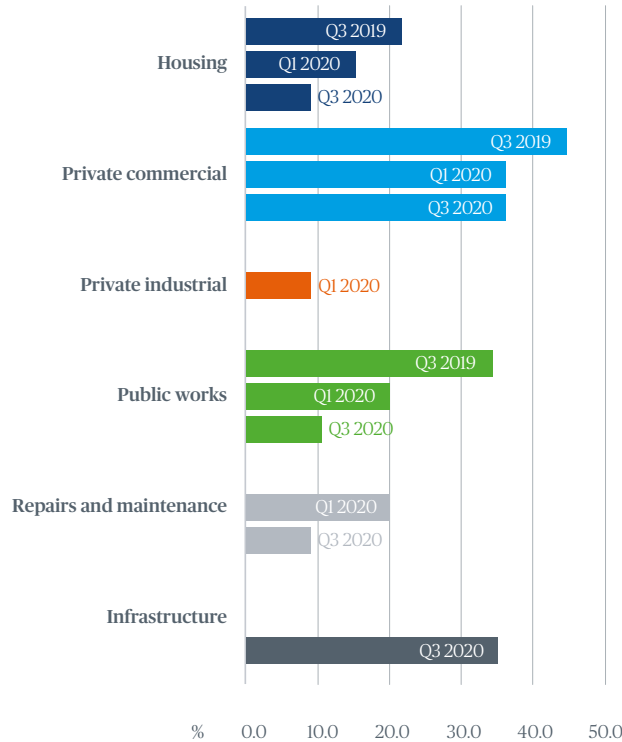


- Overheating**
Shortage of builders, minimal competition, prices very high.
- Hot**
Little competition, work easy to get, tender prices high.
- Warm**
Moderate competition, moderate tender prices.
- Lukewarm**
Strong competition, moderate tender prices.
- Cold**
Intense competition, not much work, prices low.

Tender and market conditions

Private commercial still top, but for how long?

Figure 4:
What is the top performing sector within your region of work?



Our respondents still consider, based on live schemes, the private commercial sector as the top performer. However, the sentiment from contractors is that as these projects reach an end we will see a dramatic drop in activity in the short to medium term. The expectation is that infrastructure and public works (health and schools) will become the main sectors of opportunity (Fig 4).

The performance of the infrastructure sector has increased significantly from previous reports. The national commitment to delivering infrastructure has been clearly made, for example the establishment of Infrastructure Ministerial Panel. However delivery time lines are uncertain but with approval of the North-South Interconnector and high profile water sector problems, our respondents are looking to capitalise on anticipated increased investment.

Public sector activity has dropped off gradually in our last three surveys. However respondent feedback and a recent increase in opportunities for consultants indicate that construction will increase but again with an uncertain timeline. The commercial sector is in a state of uncertainty. While Government is encouraging a return to offices, the move to remote working has forced companies to re-evaluate their current and future asset/office space requirements and is accelerating change in the real estate sector.

Figure 5:
On a typical medium commercial job (5000m2 GFA), what are your margins, preliminaries and overheads and profit?

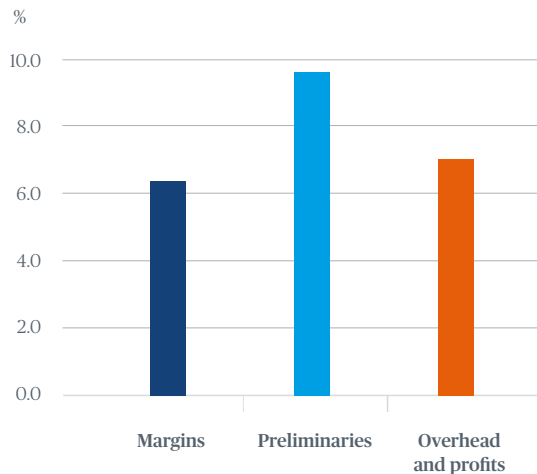


Figure 6:
Approximately how full is your order book for the following financial years

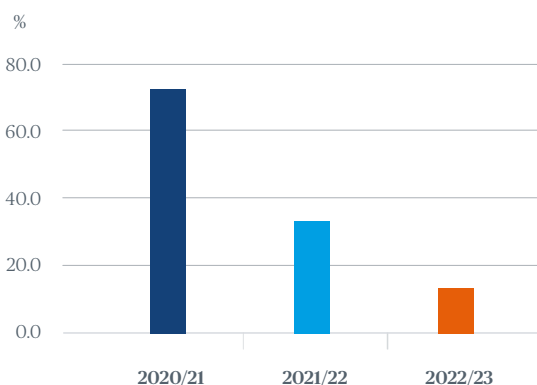


Figure 7:
What capacity (%) is your company currently operating at? (100% = full capacity)



86.1%
Q3 2019

86%
Q1 2020

80%
Q3 2020

Northern Ireland output summary

Construction activity in Northern Ireland had increased by 2.6 percent in 2019 Q3, followed by a slight dip of 1 percent into the 2020 Q1. While an overall upward trend since 2013 Q4 has been occurring, recent quarters have experienced fluctuations and drops in output.

The largest increasing sector in the last report quarter was public sector infrastructure with a rise of 47.1 percent, which also has had the largest yearly growth. Public new housing has been the biggest faller with a decrease of -13.4 percent. Private housing remains the most consist sector according to NISRA data.

Index: 2015 = 100

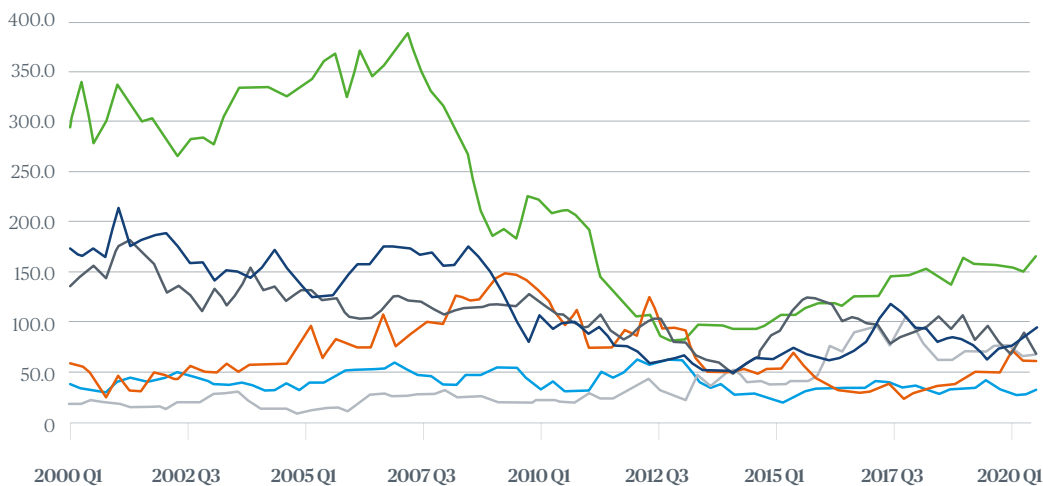


Figure 8:
**Volume of production index
in building and construction
(seasonally adjusted)**

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

“We predict that future projects will come from the educational and healthcare sectors. We have not seen an increase in subcontractors at present going into insolvency.”

Labour and material inflation

Figure 9:
Percentage increase (in nominal terms) of
construction costs in the last 12 months

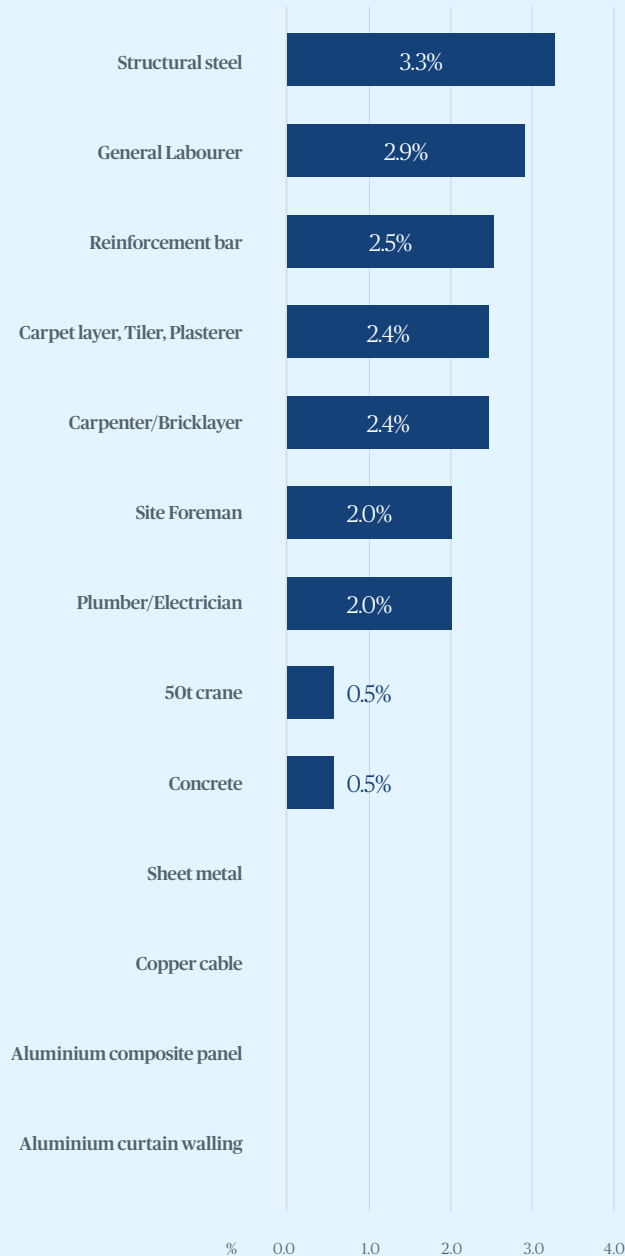
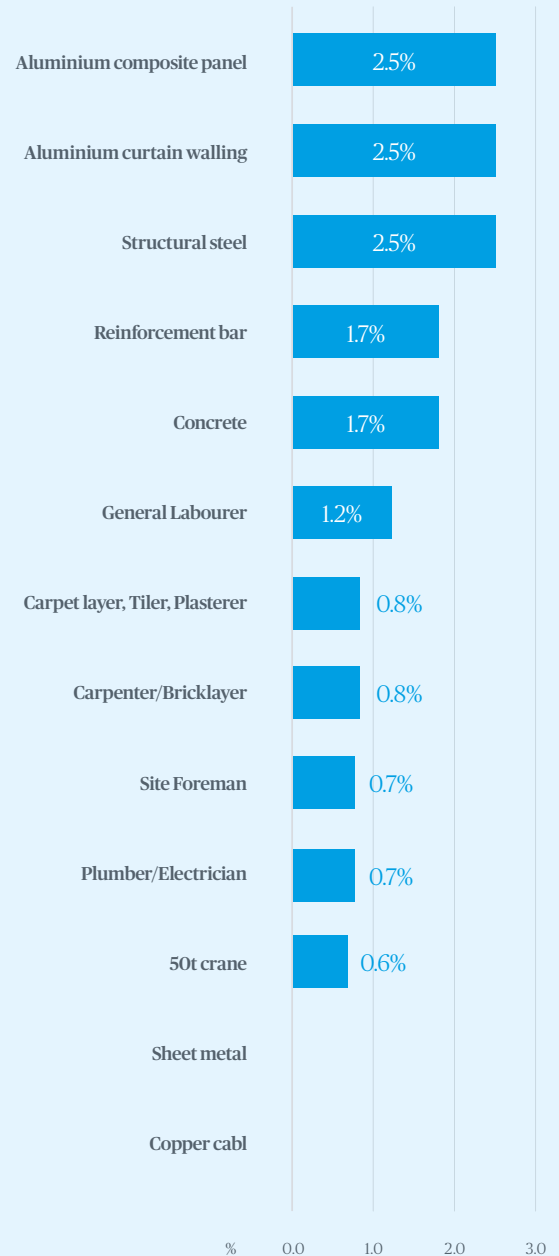


Figure 10:
Expected percentage increase (in nominal terms) of
construction costs in the next 12 months



“The Northern Ireland region does seem to lag behind the rest of the UK and there are fewer opportunities. However, there is a clear need for investment and with some major projects receiving backing, we are hopeful they will stimulate wider construction.”

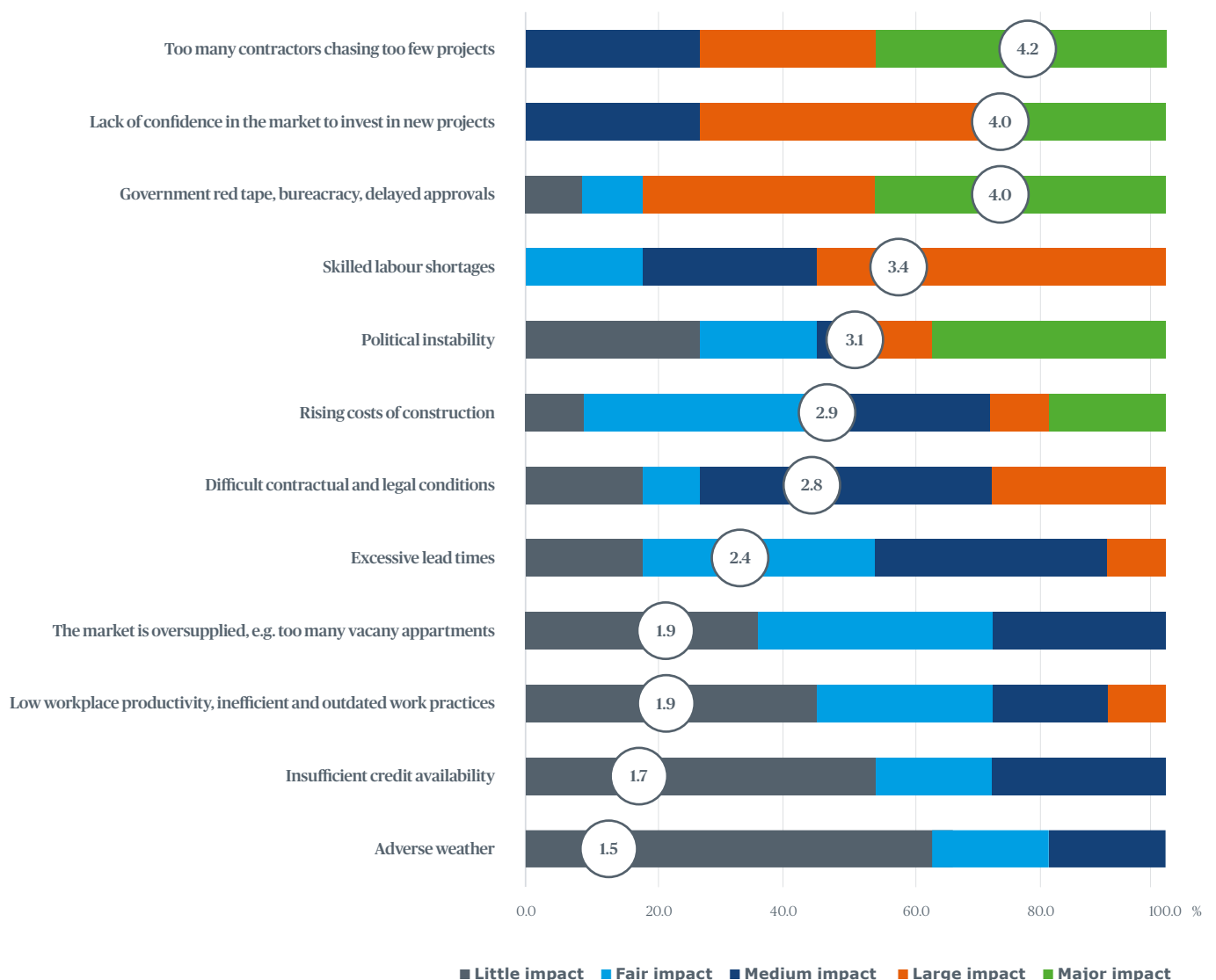
Summary of findings

Political instability has been the greatest concern for our responding contractors in our surveys over the last three years.

However, this has now been replaced by too many contractors chasing too few projects, which highlights the immediate impact COVID-19 has had on the industry. Aside from this, and the concern on political instability, is the lack of confidence in the market to invest, government red tape, bureaucracy and delayed projects. We can infer a clear link between this, the projects on hold through the current crisis and concerns as to whether or not they will restart. It is likely that public sector and infrastructure will be a focus now for a lot of contractors which may exacerbate the competition for work and risk a 'race to the bottom'. While the 2008 financial crash was caused by very different reasons, the lessons from the aftermath are comparable and must be learned to avoid long term structural impact to the sector and an unsustainable position for many businesses.

The current challenges present difficulties for clients and investors as well the contracting market. Clients have a prime opportunity to review, and if necessary, amend project designs, specifications and procurement strategies. This may include design changes to introduce greater flexibility in use, re-evaluation of business cases and estimates, and increasingly, consideration of technological advances to improve delivery efficiencies. A greater focus on financial stability and supply chain management is inevitable and can mitigate risks.

“The Government is investing in infrastructure projects, which is encouraging, however, the private sector is likely to take eighteen-months to two-years to recover. Tender prices are likely to show a significant initial decline as contractors seek to boost their order books. The market will hopefully stabilise during 2021 before showing a modest recovery from 2022 onwards.”



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.

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'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.

Our team

**Andy Outram**

Director, Real Estate and Strategic Lead NI

e: andy.outram@turntown.com

**John Robinson**

Director, Infrastructure Cost Management

e: john.robinson@turntown.com

**Tom Carey**

Director, Advisory

e: tom.carey@turntown.com

**Andy Thorn**

Associate Director, Infrastructure Project Management

e: andy.thorn@turntown.com

**Orla Carew**

Associate Director, Industrial, Manufacturing & Energy Lead

e: orla.carew@turntown.com

**Conor Kelly**

Associate Director, Public Sector CM Lead

e: conor.kenny@turntown.com

**Kevin McNaul**

Senior Project Manager, Private Sector PM Lead

e: kevin.mcnaull@turntown.com

**Kristoffer Hudson**

Associate Director, Economist

e: kristoffer.hudson@turntown.co.uk

Belfast office:

Arthur House
41 Arthur Street
Belfast,
BT1 4GB

www.turnerandtowntsend.com

© Turner & Townsend Cost Management Limited. This content is for general information purposes only and does not purport to constitute professional advice. We do not make any representation or give any warranty, express or implied, and shall not be liable for any losses or damages whatsoever, arising from reliance on information contained in this document.

It must not be made available or copied or otherwise quoted or referred to in whole or in part in any way, including orally, to any other party without our express written permission and we accept no liability of whatsoever nature for any use by any other party.

VN/02/05/RE/142/1