



Turner & Townsend

Republic of Ireland market intelligence survey

Autumn 2019

#TTRIMI

making the **difference**

Introduction

Key indicators

Movement over the past three months



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 over the last six months



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

With high levels of activity over the past six months, the Republic of Ireland's construction sector remained strong. As the economy continues improving, construction investment is predicted to be maintained into 2020.

The results from our latest Republic of Ireland market intelligence survey 2019 echo this sentiment, with half of all respondents expecting the market to continue to warm.

According to surveyed contractors, the market in the Republic of Ireland is still competitive, with a good steady supply of tender opportunities coming through. Contractors are keeping their order books filled for the early part of 2020 with current order books on average 70.0 percent full, indicating a healthy short-term outlook. The short to medium term outlook is also healthy with current order books for 2020/21 at 63.5 percent full.

Contributing to these statistics and performing well are the residential/housing, commercial/office and the public sectors. Infrastructure continues to show relatively low levels of activity, with many of the projects expected to come on stream still at the planning stage.

Margins, however, remain tight and have shown a small decrease to 3.9 percent in the current report. Rising labour and material costs continue to be a significant challenge with mechanical, electrical and façade contractors experiencing upward pressures on factors. Looking ahead, the contractors surveyed expect average tender price inflation to increase by 5.1 percent in 2020 and 4.5 percent in 2021. While these anticipated increases are smaller than in 2019, the effect of Brexit may adversely affect the figures.

In comparison, the picture couldn't be any more different in the UK, with contractors surveyed in our [latest UK market intelligence report](#) recording a third successive quarterly fall in confidence in Q2, which now stands at the lowest level on record. Only a tenth of respondents expected the market to get warmer during the next 12 months.

Figure 1:
Annual percentage changes

Republic of Ireland

Tender price inflation

2019	7.0%
2020	5.5%
2021	4.5%

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 the Republic of Ireland. Every six months we collate survey responses from 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.

Tender and market conditions

Rising tender costs

Comparing against the relative responses six months ago we can see that the market has remained warm. 70.0 percent of respondents consider current market conditions to be warm with 'moderate' tender price levels. The remaining 30.0 percent consider the market to be lukewarm with 'strong competition'. In our previous survey ([Spring 2019](#)) 22.2 percent of the respondents considered the industry to be 'hot' or overheating', signifying a change in opinion to the present and an industry seemingly more comfortable with current workloads and market conditions.

Rising costs continue to be an issue with the contractors expecting average tender price inflation to reach 6.1 percent in 2019; this however shows a decrease of 0.8 percentage points since our previous survey, perhaps signifying a slight easing of tender inflation pressures. The respondents expect tender inflation of 5.1 percent in 2020 and 4.5 percent in 2021. The usual suspects – mechanical, electrical and facades installations – are the primary cause of the upward tender levels. As with current market sentiment the tender inflationary trends are very different in the UK, we predict average regional rates not exceeding 2.6 percent in 2019. In our last survey, the most prevalent tendering strategy was for single stage tender process at 30.0 percent of all tendered projects. In contrast, the current survey results show that two stage tendering is now the most dominant at 31.5 percent, suggesting that clients are placing a higher priority, in the current market, on getting to site more quickly than on absolute cost certainty.

Figure 2:
What proportion (%) of your current contract/tender negotiation is:

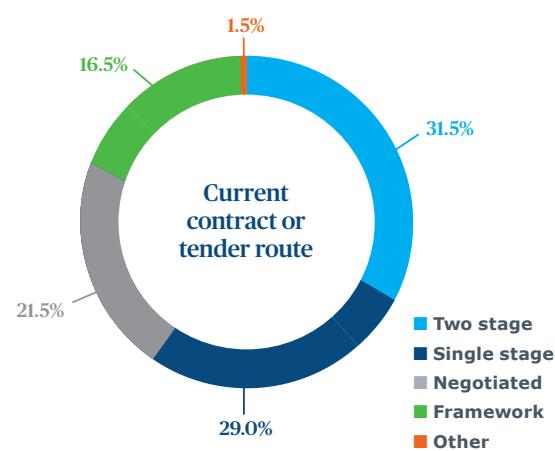


Figure 4:
Tender price inflation (TPI) overview

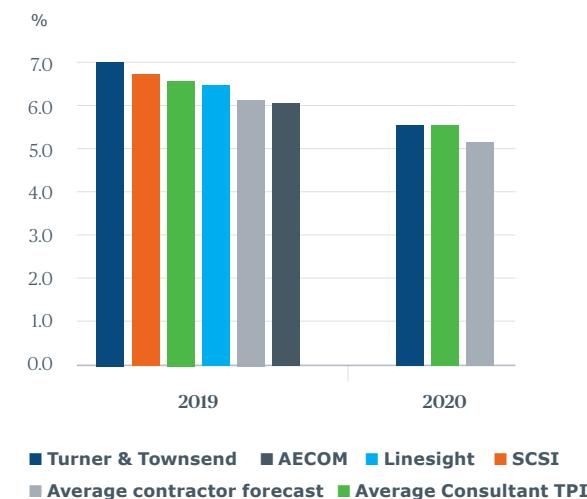


Figure 3:
How would you describe market tendering conditions within your region?

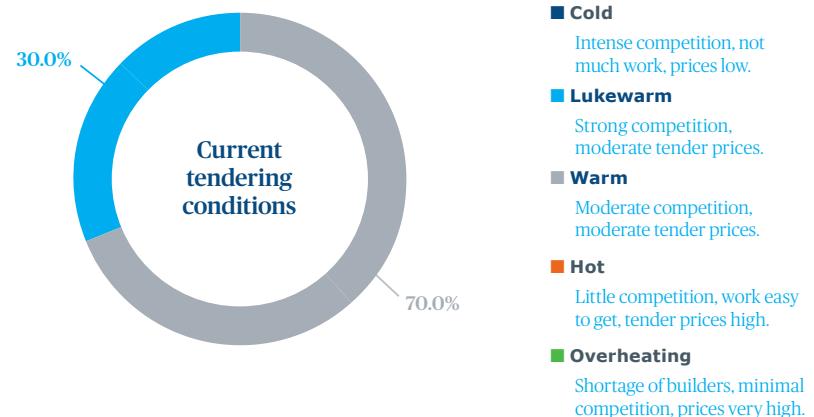
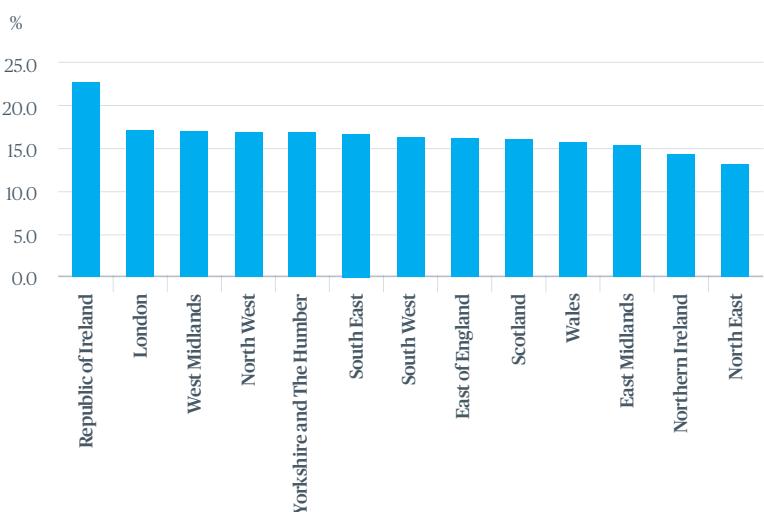


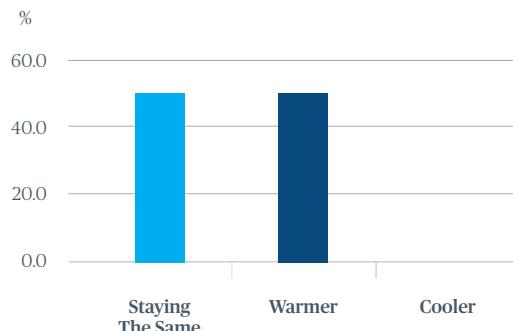
Figure 5:
Cumulative UK and Ireland regional TPI (2019-2023)



Residential sector continues to grow

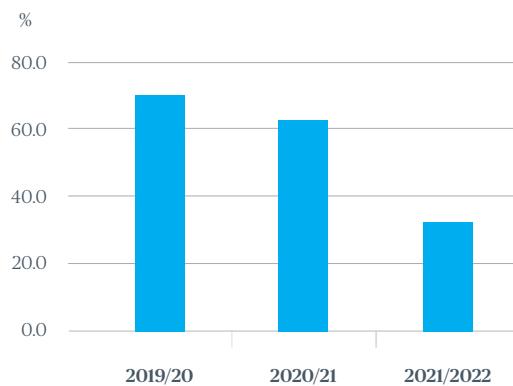
The residential sector, including housing, is a top performer according to respondents, with 60.0 percent stating this as their top performing sector.

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



This represents a very significant increase of 22.5 percentage points on the prior six months. Based on the current activity in this sector, including Private rental scheme/Build to rent residential schemes in the planning stages, we expect this sector to grow further during the next six to twelve month period.

Figure 7:
Approximately (%) how full is your order book for the next financial years?



The private commercial sector has fallen to 20.0 percent. Previously it was the top performing sector, recording 25 percent in our previous survey, perhaps reflecting the recent quiet period in office fit-out projects.

Contractors have again reported healthy current order books, increasing to 74.0 percent for 2019/2020 over the first half of the year. For the 2020/21 period reporting are reporting that their order books are 38.0 percent full for this period, reflecting an acceptable short to medium outlook in the industry. Although despite the recent upsurge in activity margins are static and remain at 3.9 percent.

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

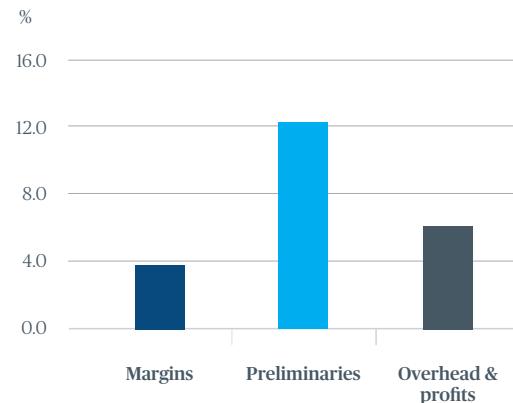
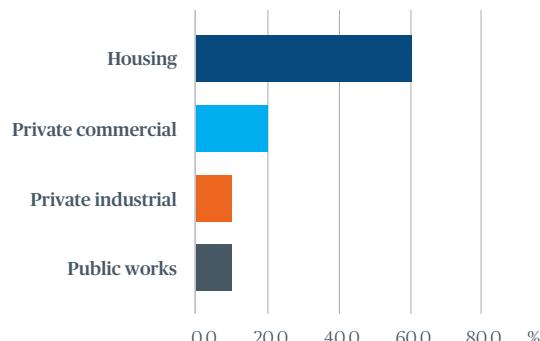


Figure 10:
What capacity (%) is your company currently operating at? (100% = full capacity)



88.0%

Figure 9:
What is the top performing sector within your region of work?



Regional output summary

Construction activity in the Republic of Ireland increased by 2.8 and 11.3 percent on the quarter and year respectively in Q2 2019.

The residential sector has seen significant growth of late, and has doubled in size since 2015. More notably, civil engineering, has begun to show strong signs of growth. It increased by 20.9 and 56.4 percent on the quarter and year. The performance of the non-residential sector, which includes commercial works, fell by 3.1 percent on the quarter.

Index: 2015 = 100

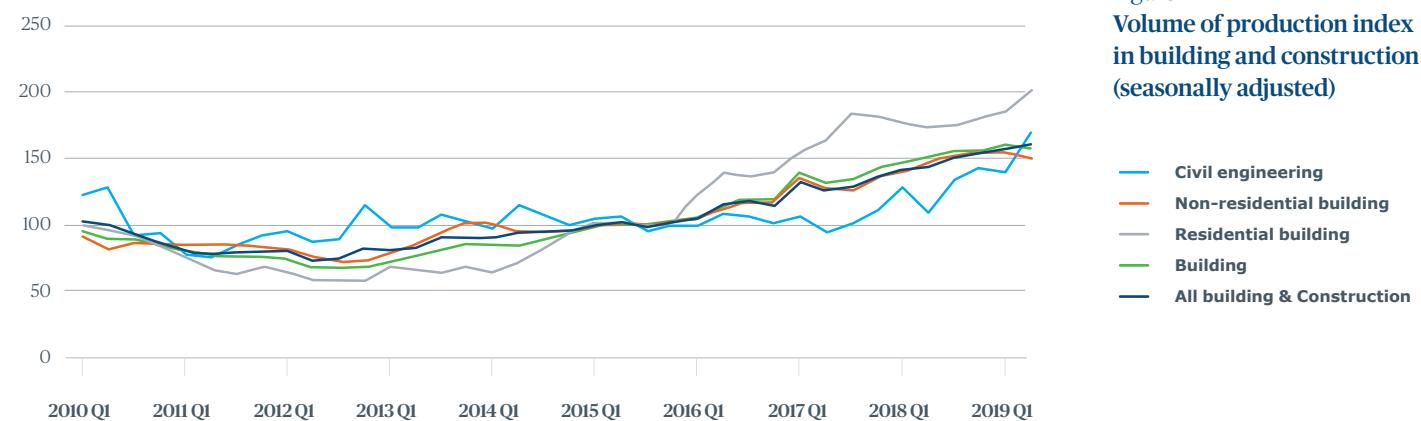
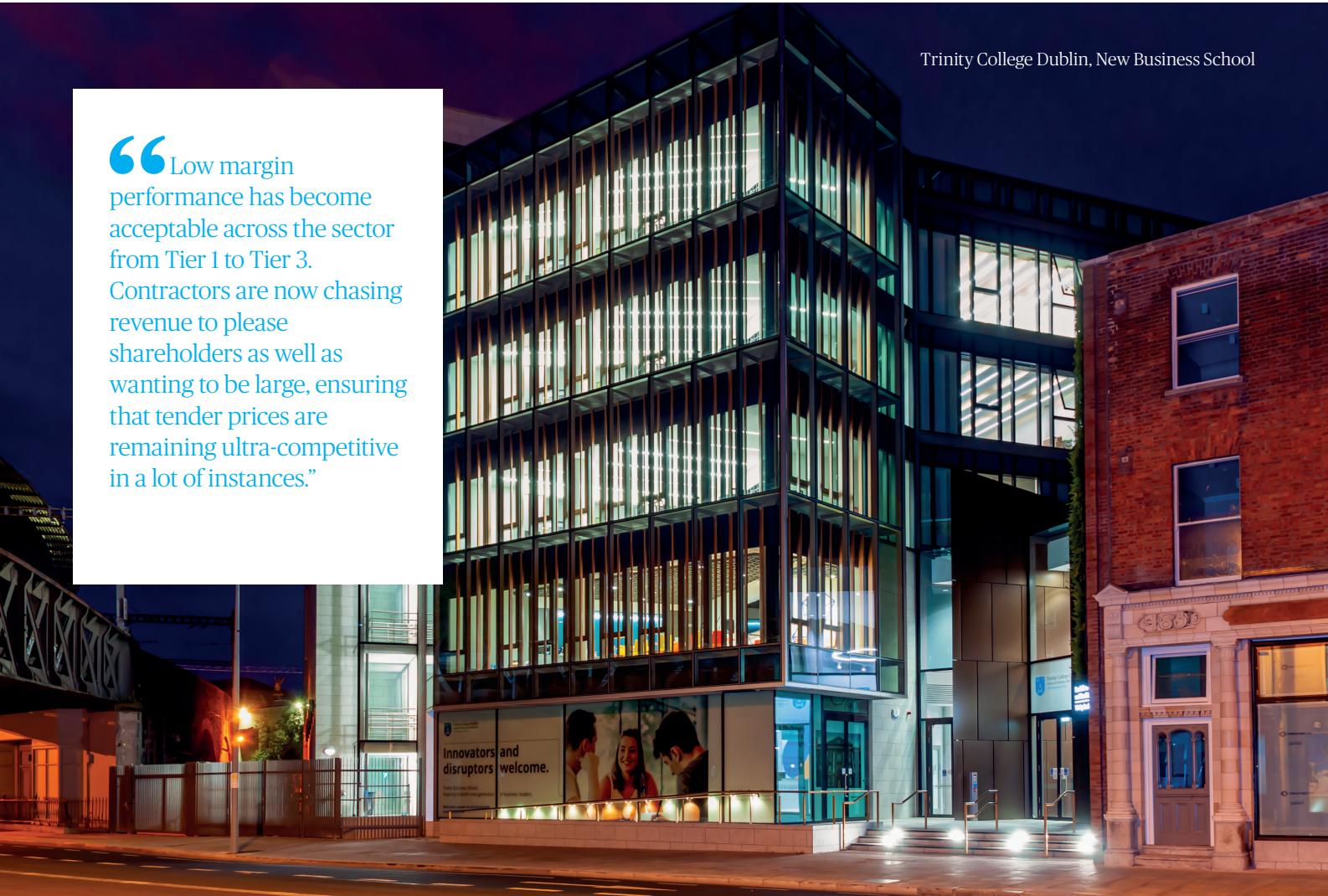


Figure II:
Volume of production index
in building and construction
(seasonally adjusted)

- Civil engineering
- Non-residential building
- Residential building
- Building
- All building & Construction

Trinity College Dublin, New Business School

“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

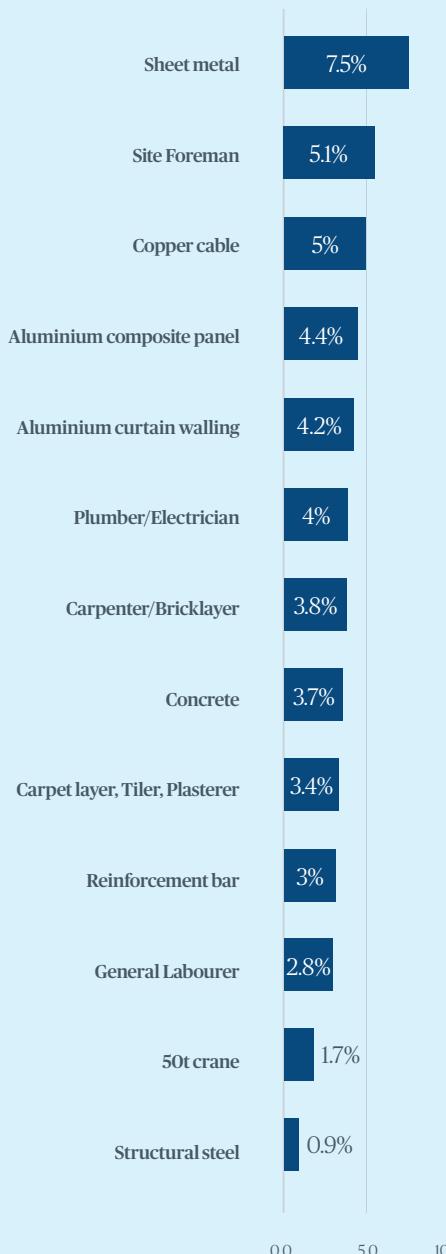
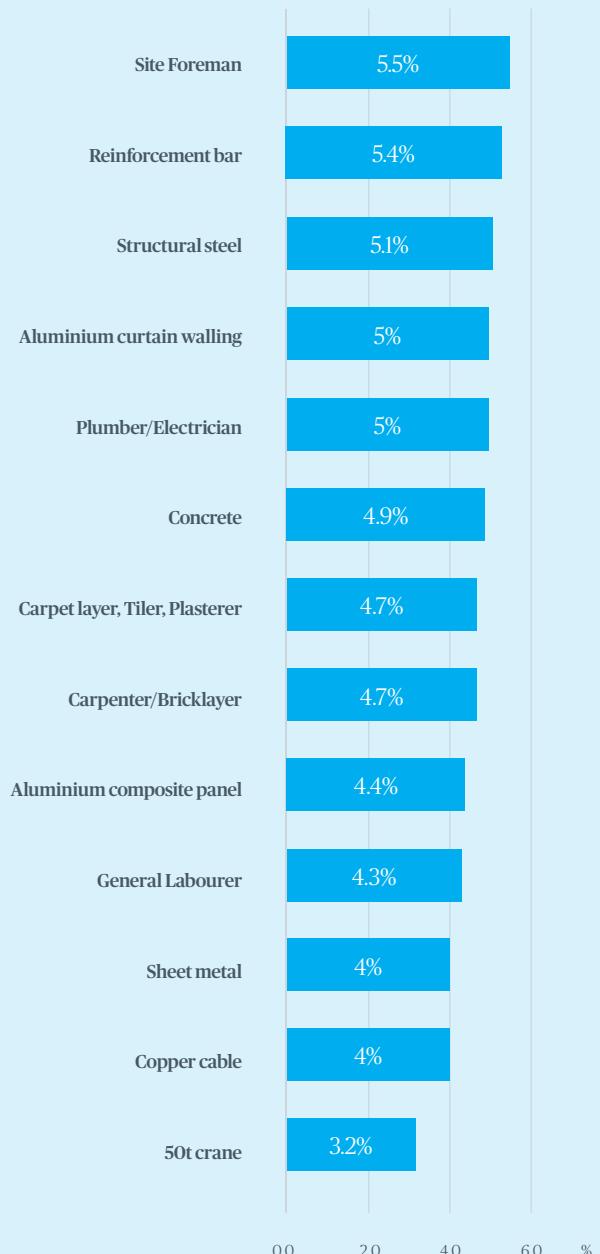


Figure 12:
Expected percentage increase (in nominal terms)
of construction costs in the next 12 months



“The construction market is still very competitive therefore single digit margins are at best expected. Supply chain is over stretched causing knock-on effects down the line which inevitably affects the programme.”

Key challenges facing the industry

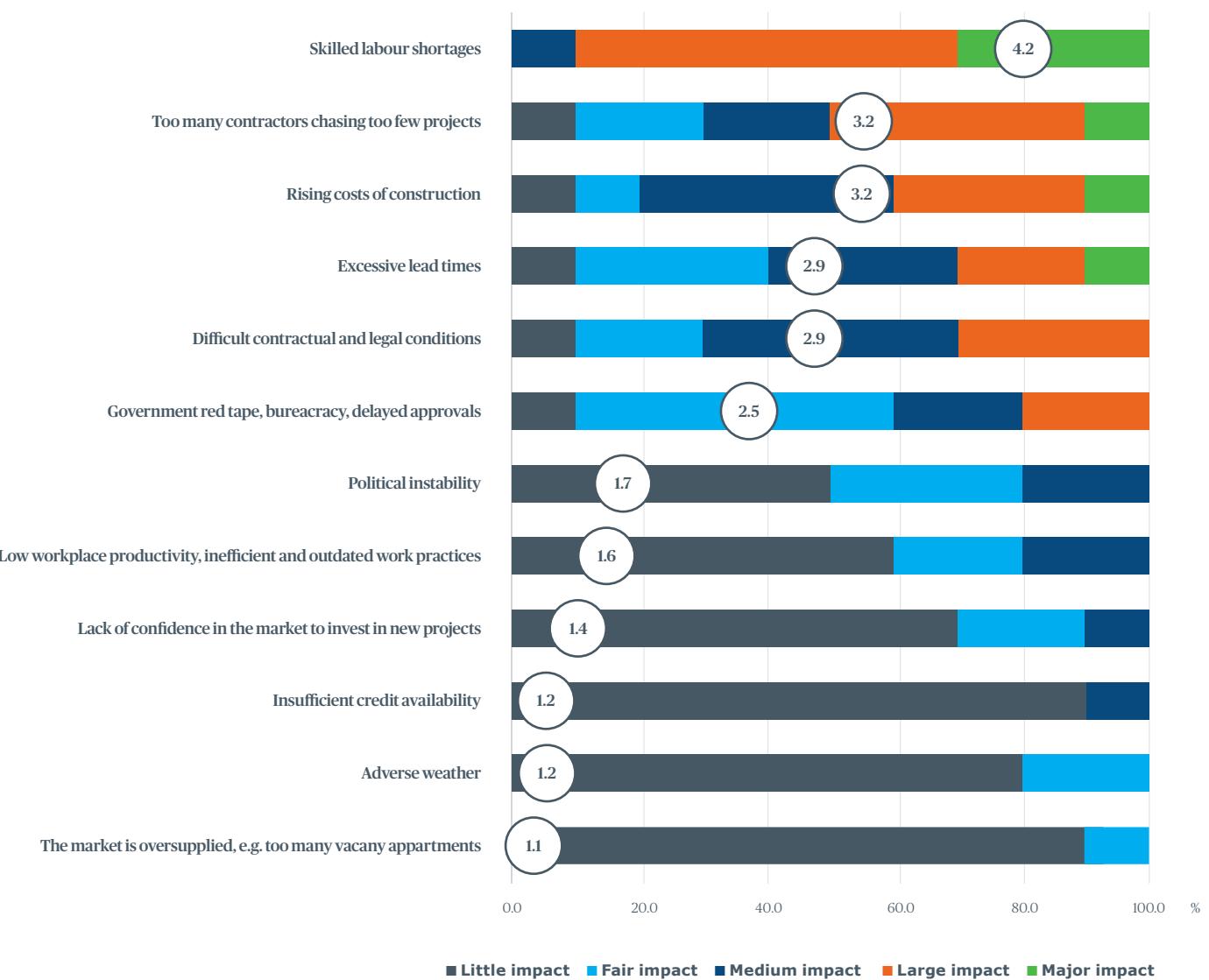
It is no surprise that from the contractors surveyed, 'skilled labour shortages' is the most critical issue to them in enabling the efficient delivery of construction works.

Out of a top mark of five, respondents scored this criteria at 4.2, confirming the widely held view that the industry is struggling to resource its current workload.

'Too many contractors chasing too few projects' and 'rising costs of construction' are also concerns, with both of these factors scoring 3.2 out of 5 marks, with the respondents stating that these issues are having a medium to large impact on their business.

Further down the list of issues affecting the industry are 'political instability' and 'lack of confidence in the market to invest in new projects', scoring 1.7 and 1.4 marks respectively out of five. These results would seem to indicate that Brexit and the potential negative influence this may have on the Irish economy are not currently being considered by the industry as major worries.

The coloured bars in the chart below 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.



“The results of 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.”

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 have 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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