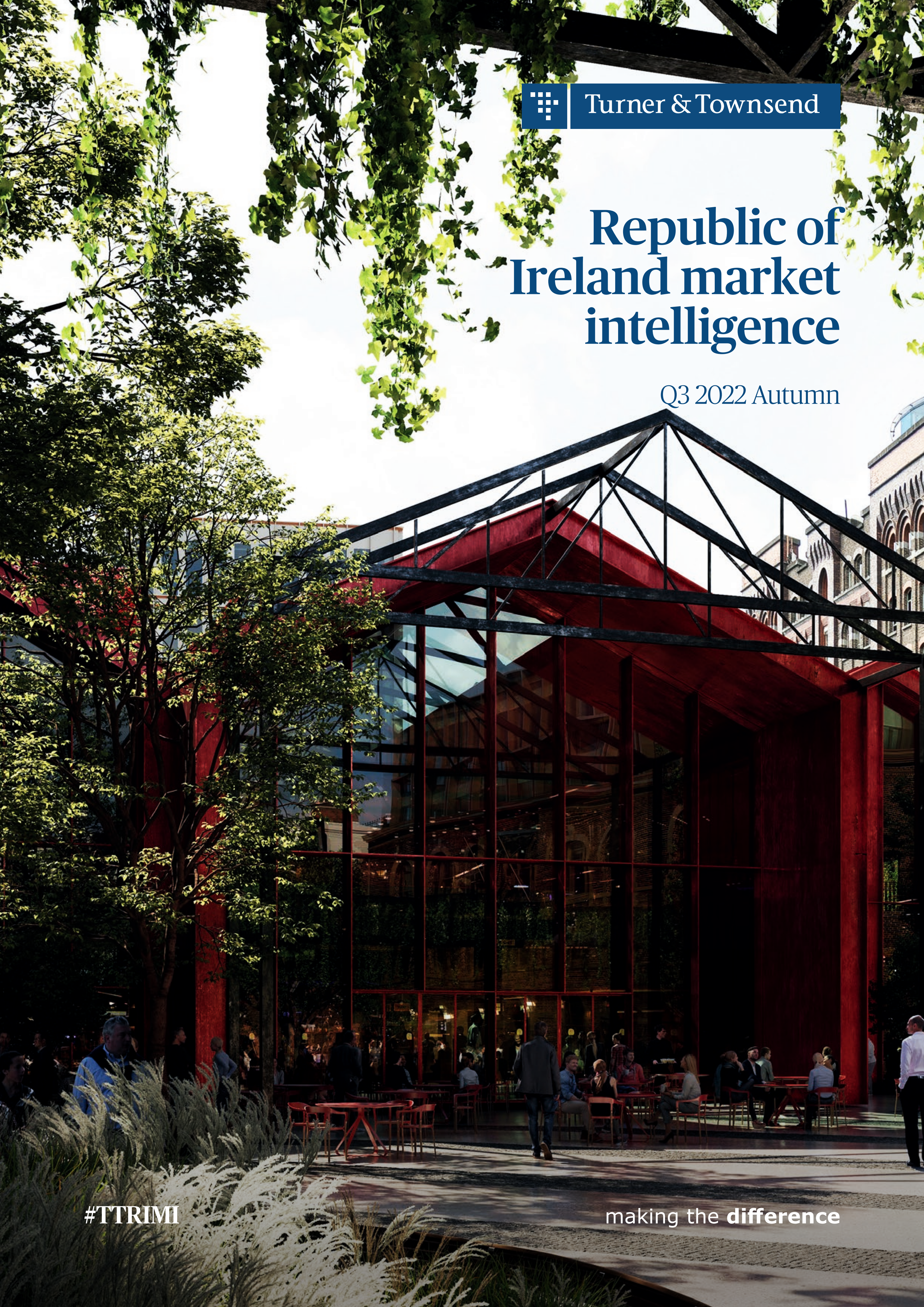

Turner & Townsend

Republic of Ireland market intelligence

Q3 2022 Autumn

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making the **difference**

Introduction

Over the last 12 months, Irish construction has endured a rollercoaster ride in demand, supply and project risk and opportunity. Lockdown-era delay pressures and schedule overruns have given way to soaring input costs and intermittent availability of key materials, first as global demand rebounded and then as the conflict in Ukraine disrupted international supply chains.

Turner & Townsend has been interacting with the supply chain 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 marketplace. This enables us to provide our clients with the most relevant and up to date market intelligence. This market intelligence report contains all the core findings and conclusions drawn from the 2022 H1 survey period.

This edition of the report brings mixed tidings in reflection of the marked variance in differing economic indicators. While our analysis finds that inflationary pressures are likely to peak this year before subsiding in 2023, supply chain stress – and the disruptive threat of contractor and sub-contractor failure – is growing. Furthermore, the inflationary and insolvency threats are increasingly intertwined. Tackling them together will require a pragmatic approach to project and programme delivery.

Key themes and trends are:

Outlook

- On balance, contractors believe the construction market is improving. 57.1 percent of respondents suggest the market is staying the same, 28.6 percent suggest that is warming and 14.3 percent say it is cooling.
- According to contractors, housing looks to be the top performing sector. Within that sector, private housing are suggested to be performing better than others.
- Contractors expect tender price inflation of 8.3 percent in 2022, 4.3 percent in 2023 and 3.1 percent in 2023.
- Over the next 12 months material costs are expected to grow by 7.1 percent and labour costs by 5.3 percent.

Lookback

- Over the past 12 months overall average material costs for projects are reported to have increased by 18.7 percent while the average cost of labour is reported to have increased by 5.6 percent.
- There continues to be spikes in the cost of some materials, with reinforcing bars, structural steel, copper, and aluminium curtain walling/panelling all showing substantial increases in the last 12 months, ranging from 34.8 percent for reinforcing bars, 22.0 percent for structural steel to 11.8 percent for aluminium curtain walling/panelling.
- Average contractor sentiment indicates that preliminaries costs, margins and overheads and profits have increased marginally by a cumulative amount of 0.4 percent overall over the past 12 months.

As a direct result of the COVID-19 pandemic

- Despite a relaxation in restrictions ony 67 percent of contractors are currently operating at 90 to 100 percent normal pre-COVID-19 productivity level, with a further 17 percent operating at in excess of pre-COVID-19 productivity levels.
- 17 percent of the surveyed contractors reported that their projects had increased in duration by five or more weeks as a result of COVID-19 issues and restrictions, while a further 33 percent reported that their projects had increased in duration by 1 to 2 weeks.
- Lead in times have continued to be a cause for concern and 17 percent of respondents reported an average increase in lead in times of in excess of five weeks, while a further 16 percent reported an increase of 3-4 weeks.

Republic of Ireland	Tender price inflation
2022	+8.3%
2023	+4.3%
2024	+3.1%

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

St James's Gate, Dublin
We are providing cost management services to Ballymore

Tender price inflation forecast

Cooling demand could herald a plateau in tender price increases

2021's surge in global demand lit the touchpaper of the spike in material costs. The conflict in Ukraine and multiple lockdowns in China have since disrupted international supply chains, fanning the inflationary flames further.

If material cost volatility persists and uncertainty dogs the market, tender price inflation is likely to remain elevated. However, the probability of tender prices rising at the same pace, or faster, than they have done recently is low, and the likelihood of a reduction in tender price inflation is increasing.

Several factors support that view. First is the base effect. We've had two years of above average tender price inflation, driven by Brexit, COVID-19 and conflict in Ukraine. Even if we experienced similar disruption next year, the pace of tender price rises should fall in relative terms, readjusting to a certain extent. Additionally, many forecasters are predicting lower levels of instability in 2023 – which if borne out would see inflation come down.

The next factor is time. Many inflationary pressures are outside the construction industry's control and can endure for multiple periods. The impact of Russia's war with Ukraine will depend on the extent to which the conflict, and the severity of sanctions and economic disruption, escalates. Its duration is unquantifiable.

Another consideration is an easing in demand-pull inflation. Increased costs and rising interest rates are combining to make construction less affordable and reduce confidence and capital expenditure, feeding into lower output growth.

Firms may then begin to shift pricing practices to adapt to changing market conditions. As construction activity softens, cashflows can become constrained in the absence of new work opportunities and pressure may then be applied to margins to secure the future pipeline of work.

Finally, there could be a cooling in cost-push inflation. Even though there will still be pressure stemming from the shortage of workers and dislocated supply chains, obstructive costs can filter into reduced demand and ultimately lower costs for construction materials and components.

Supply chains are also expected to mature, improving after years of significant disruption, building back stocks and increasing output by investing in new production facilities. Solving the tangle of port backlogs and shipping delays could also cool price growth and some indicators suggest the situation is improving.

Embattled contractors struggle to absorb input cost pain

The market is finely balanced, however, and there are downside risks that could see inflation become sticky and remain elevated even as demand pressures alleviate. The ability of contractors to absorb material cost increases will also play a part in tender price inflation allowances.

Contractors have experienced growing costs for materials and components over the past 12 months, with build costs spiking especially sharply in 2022. The surveyed contractors expect on average inflation for 2022 of 8.3 percent. The SCSI tender index for Ireland increased by 7.5 percent in the first 6 months of 2022 alone and there is anxiety about the remainder of 2022.

As the economy cools, supply chains stabilise and material cost escalation alleviates, the second half of 2022 is likely to see more benign increases and our expectation is that the overall rate of increase in tender inflation for 2022 will be c. 10 percent. It is, however, very difficult to predict and there are a myriad of unpredictable factors affecting cost increases in Ireland and globally currently.

Robust market

Current market sentiment is that current tendering conditions are moderate to strong, with a further 14.3 percent of respondents stating the tendering conditions to be overheating, with a shortage of builders, minimal competition and very high prices. Furthermore 57.1 percent of the respondents anticipate that the construction market will remain the same, with a further 28.6 percent anticipating a warmer market.

The surveyed contractors also reported the following levels of preliminaries, overheads and profits:

- Preliminaries – average 13.6 percent, an increase of 0.5 percent on 12 months ago
- Overheads and profit – average 7.2 percent, down slightly by 0.1 percent from 12 months ago.

Order books are reported as being strong during the past 6 months, with the surveyed contractors reporting order books at 77.9 percent capacity for 2022/23 and 44.3 percent for 2023/24. The operating capacity of the surveyed contractors currently stands at 84.3 percent.

Residential development is particularly strong, with 57.1 percent of the respondents stating it to be their top performing sector. This is up from 50.0 percent from 12 months ago. The private commercial sector has fallen from 25.0 percent 12 months ago to 14.3 percent currently, a not unexpected drop considering current market pressures around rising costs and interest rates.

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

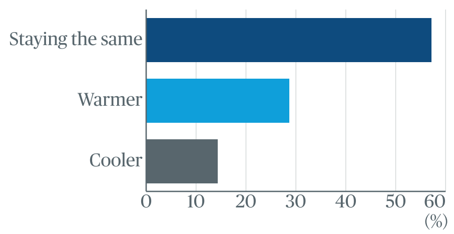


Figure 3:
How would you describe current market tendering conditions within your region?

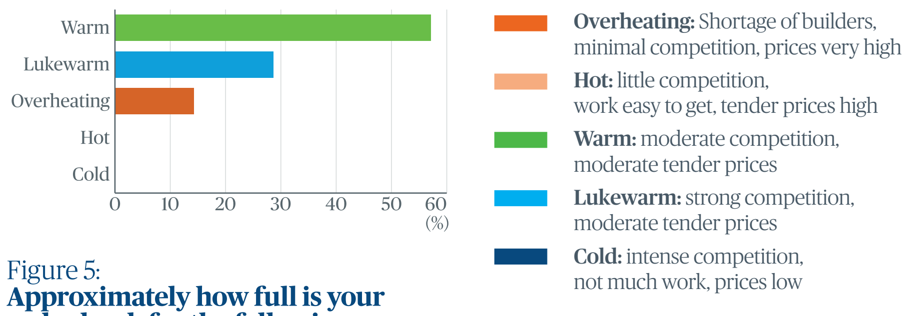


Figure 4:
What is the top performing sector within your region of work?

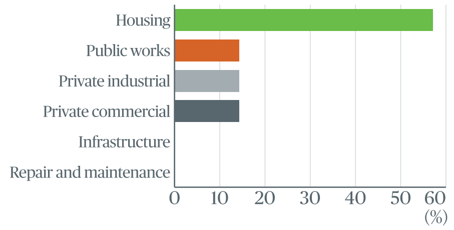


Figure 5:
Approximately how full is your order book for the following financial years:

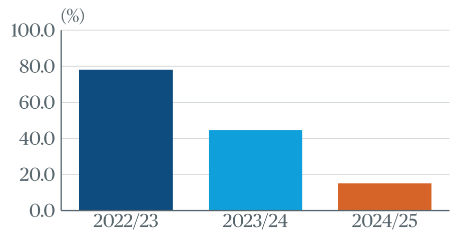


Figure 6:
On a typical medium commercial job (5000m2 GFA), what are your preliminaries and overheads & profit?

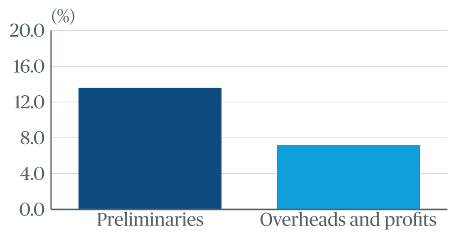
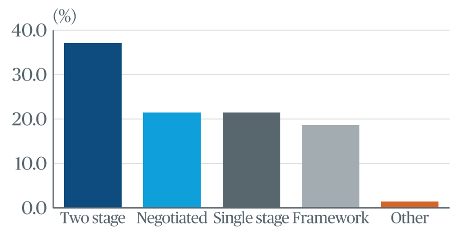


Figure 7:
What proportion of your current contract/tender negotiation is:



Ireland output summary

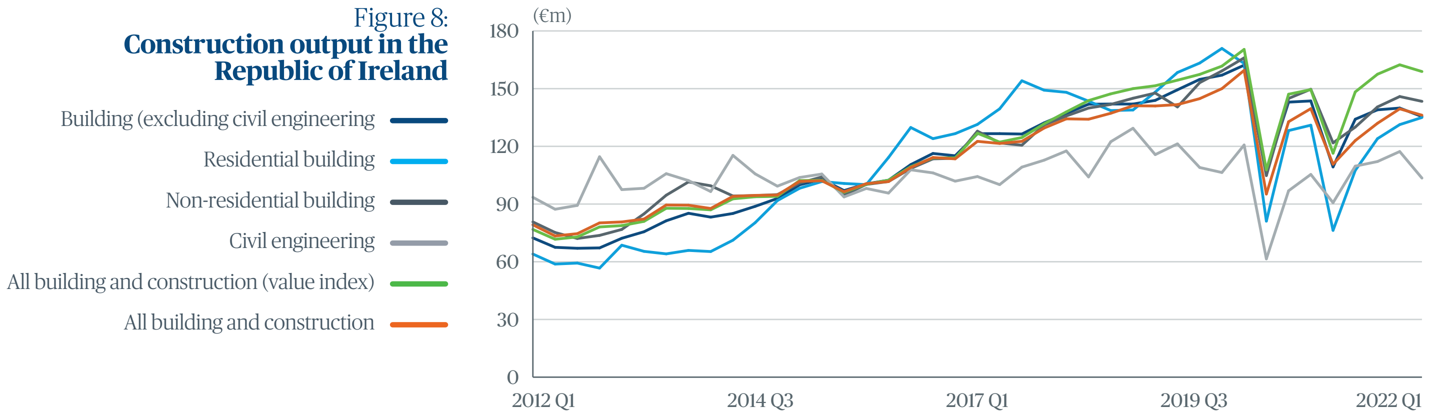
The volume of building and construction output in the Republic of Ireland **increased by 23.1 percent** in the 12 months to Q1, 2022, with the industry recovering strongly post-COVID-19.

The Irish construction industry proved itself to be strong and resilient in the face of the COVID-19 pandemic and recovered strongly in the 12 months to Q1, 2022, recording an increase of 23.1 percent in volume terms. In the residential sector the volume of construction increased by 76.9 percent in the same 12 month period. These figures, however, must be considered in light of pandemic affected site closures in Q1, 2021, thus adversely affecting the growth in volume figures.

In overall terms the activity in the construction sector remains lower than pre-COVID-19 levels, with production volume in Q1, 2022 down 14.6 percent compared to Q1, 2020. The industry continues to suffer from a lack of skilled labour, supply chain issues and increased costs, all contributing to and holding back any realy growth in volume terms.

The recent impact of increased costs, supply chain issues and the conflict in Ukraine has dampened market sentiment somewhat, resulting in a small decrease in volume terms of 2.4 percent for the most recent period to Q1 2022. The residential sector, however, shown itself to be more robust, achieving a growth of 2.8 percent in the quarter to Q1, 2022.

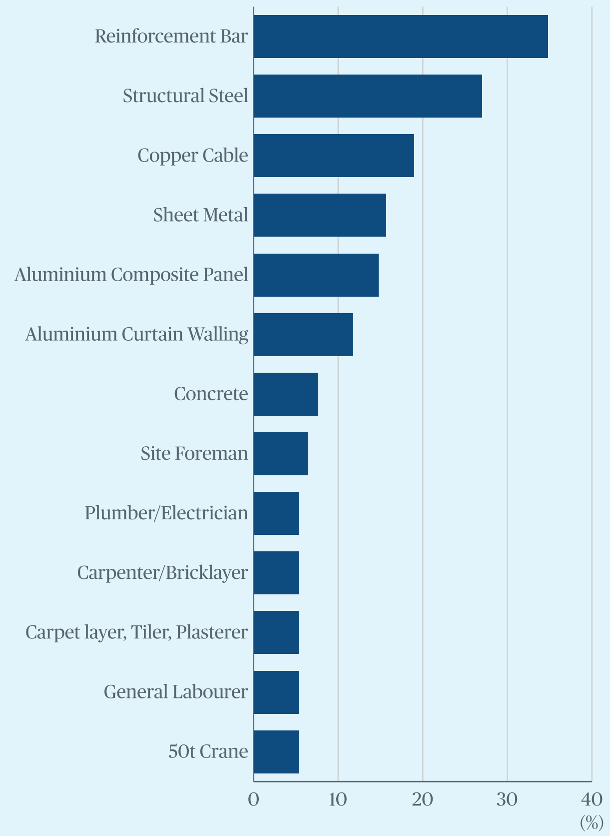
Figure 8:
Construction output in the Republic of Ireland



"The market is unsure about inflation and future ability of government regarding public spending."

Labour and material inflation

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



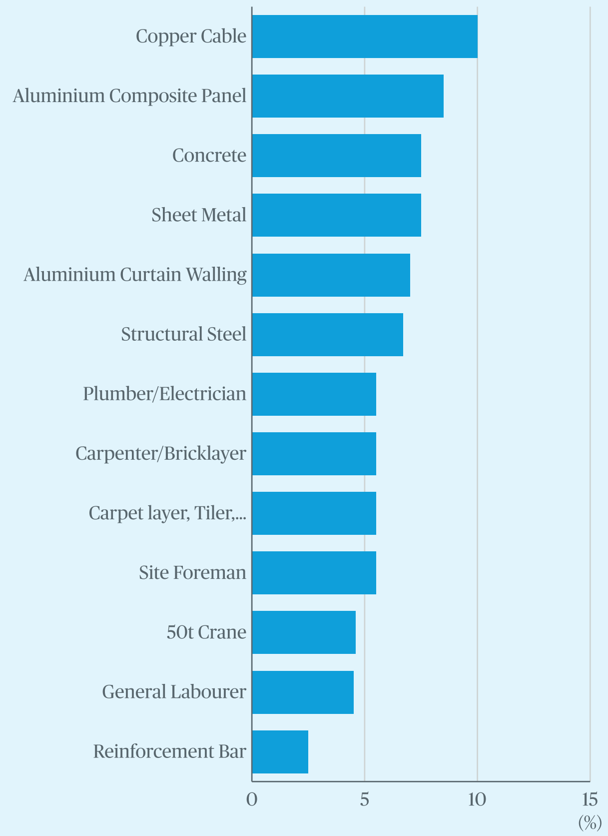
Over the last 12 months, labour, plant and material items have appreciated by 12.6 percent on average.

Reinforcement Bar displayed the largest gain increasing, by 34.8 percent.

Plumber/Electrician increased the least, by 5.4 percent.

On average, labour costs increased by 5.6 percent and materials costs grew by 18.7 percent.

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



Over the next 12 months, labour, plant and material items are expected to appreciate by 6.2 percent on average.

Copper Cable anticipates the largest gain increasing, by 10.0 percent.

Reinforcement Bar is foreseen to increase the least, by 2.5 percent.

On average, labour costs are expected to increase by 5.3 percent and materials costs are estimated to grow by 7.1 percent.

The surveyed contractors have again reported large price increases in certain materials, well in excess of current inflation trends. In particular reinforcing bars, structural steel, copper and aluminium composite panelling have all seen substantial increases, ranging from 34.8 percent for reinforcing bars to 14.8 percent for aluminium composite panelling. The reasons for these increases are well documented – COVID, supply chain issues, particularly in China and the conflict in Ukraine and it is hoped that the market will normalise somewhat in the next 12 months, allowing for more moderate increases. Overall average material costs for projects are reported to have increased by 18.7 percent in the past 12 months but are expected to fall back to 7.1 percent in the next 12 months.

The average cost of labour is reported to have increased by 5.6 percent in the last 12 months, with an expected increase of 5.3 percent over the next 12 months.

"Ongoing issues with lack of skilled labour, inflating input costs and decreasing margins."

Ardmore Studios, phases 1 and 2
We are providing project management and PSDP services

Key challenges facing the industry

Rising costs of construction, skilled labour shortages and excessive lead times

The current survey shows a very definite continuation in theme as to the key challenges facing the Irish construction industry in the autumn of 2022. The top five key challenges as seen by the respondents are, in order of importance:

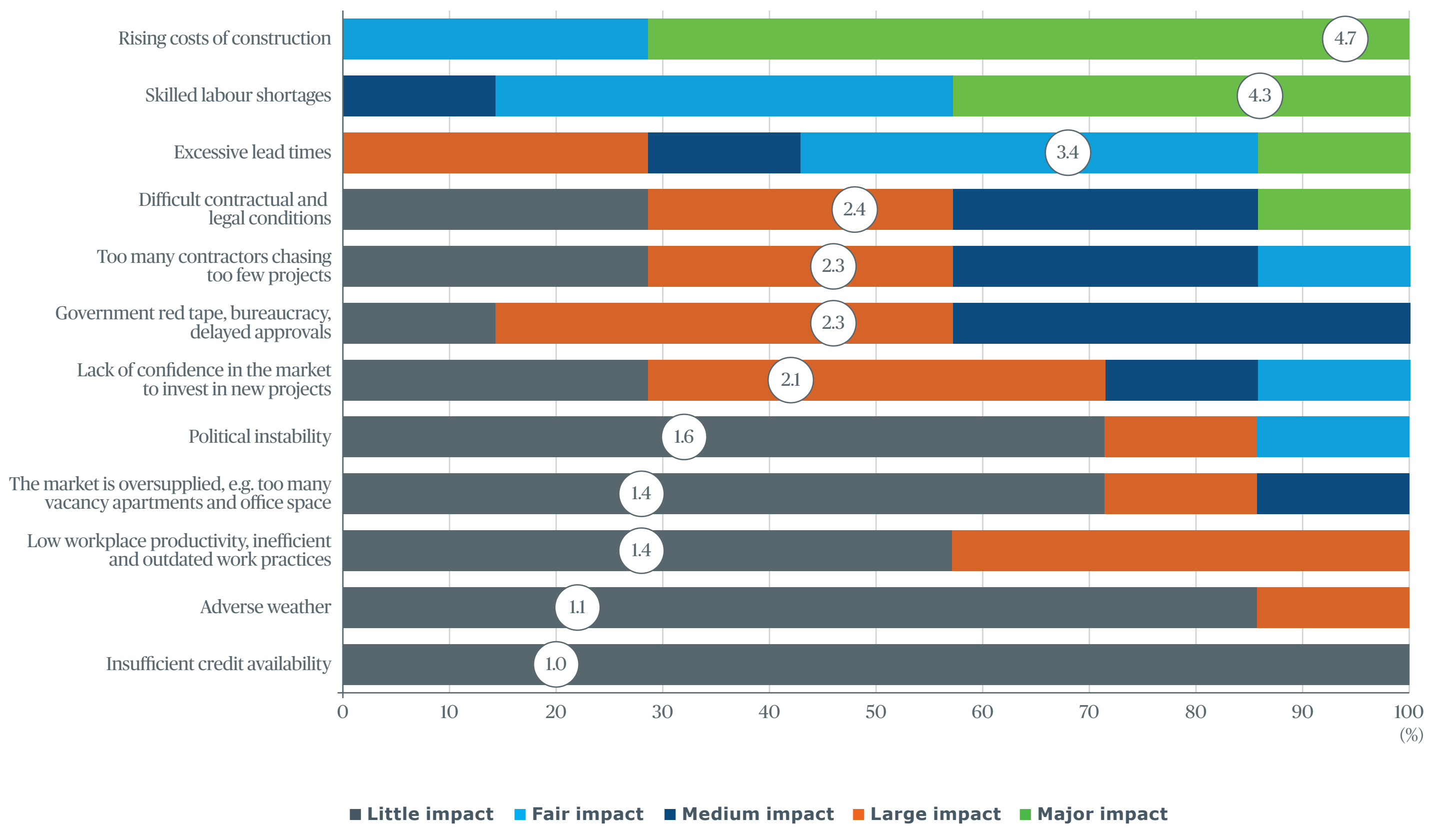
1. Rising costs of construction (previously no. 1)
2. Skilled labour shortages (previously no. 2)
3. Excessive lead times (previously no. 3)
4. Difficult contractual and legal conditions (previously no. 8)
5. Too many contractors chasing too few projects (previously no. 4)

The current key challenges are reflective of what we are seeing in the current construction market in Ireland – rising costs, skilled labour shortages and excessive lead times – and it is difficult to predict how these will evolve over the next while; we are hopeful that some of the adverse affects that these issues are having on the industry will alleviate somewhat over the next six to 12 months.

It is interesting to note that 'Difficult contractual and legal conditions' has jumped four places in the challenges facing the respondents, reflecting the current market issues around cost inflation and the difficulties in allocating cost risk share with clients.

> "It is a struggle for companies to grow steadily given the shortage of talent in the professional areas. This shortage is driving staff costs to a completely unsustainable level."

Figure 11:
Supply chain challenges



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.

Our team

Mark Kelly
Director,
Strategic Lead - Ireland

e: mark.kelly@turntown.com

Philip Matthews
Director,
Head of Real Estate

e: philip.matthews@turntown.com

Stephen Grant
Director,
Project Management

e: stephen.grant@turntown.com

Mark Coady
Director,
Cost Management

e: mark.coady@turntown.com

Bryn Griffiths
Director,
Cost Management

e: bryn.griffiths@turntown.com

Lisa Duignan
Director,
Industrial, Science and Technology

e: lisa.duignan@turntown.com

John Robinson
Director,
Infrastructure

e: john.robinson@turntown.com

Tom Carey
Director,
Advisory

e: tom.carey@turntown.com

Richard Buchanan
Associate Director
Cost Management

e: richard.buchanan@turntown.com

Pablo Cristi Worm
Economist
Cost Management

e: pablo.cristiworm@turntown.com

Dublin office:
Ashford House
Tara Street
Dublin 2, D02 VX67

Cork office:
Waterfront Square
1 Horgan’s Quay
Cork, T23 PPT8

www.turnerandtownsend.com