



Turner & Townsend

Republic of Ireland market intelligence survey

Spring 2021

#TTRIMI

making the difference

Introduction

COVID-19 has dramatically changed the Republic of Ireland's economic landscape over the past 12 months. The Irish construction industry, while remaining strong, faces key challenges in the short and medium term.

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 2020 H2 survey period, undertaken in January 2021.

Key themes and trends are:

- The market warmed slightly in the second half of 2020 but is still showing strong competition with 90 percent of respondents considering current market conditions to be 'lukewarm' with 'strong' competition and 'moderate' tender price levels
- Housing, private commercial and public works projects are the top performing sectors, with each representing on average 30 percent of the workload of the surveyed contractors.
- The cost of labour has on average stayed the same when looking back over the past six months while material costs have increased marginally.
- It is expected that certain materials, such as structural steel and reinforcing bars, will increase in excess of the norm over the next 12 months.
- Average contractor sentiment indicates that preliminaries costs, margins and overheads and profits have reduced somewhat over the past six months.
- As a direct result of Covid-19:
 - 30 percent of contractors were operating at 90 to 100 percent normal productivity levels, 40 percent between 80 to 90 percent normal productivity levels and a further 20 percent at only 60 to 70 percent normal productivity levels.
 - 37.5 percent of projects had increased in duration by three to four weeks during the last three months of 2020, while a further 37.5 percent had increased by one to two weeks.
 - 33.3 percent of respondents reported an average increase in lead in times of one to two weeks, while a further 22.2 percent reported an increase of three to four weeks.
- Contractors expect tender price inflation of 0.7 percent in 2020, 0.9 percent in 2021 and 3.0 percent in 2022.

Note: The above findings relate to the last six months of 2020 and are from our survey carried out in January 2021. Since then, the majority of construction sites in Ireland have remained closed and we expect to see very different findings from our next survey report, due to be published in Autumn 2021.

Figure 1:
Tender Price
Inflation - Annual
percentage change -
(contractor
expectations)

Republic of Ireland	(as of) H1 2020	H2 2020
2020	-0.2%	+0.7%
2021	+0.2%	+0.9%
2022	+1.8%	+3.0%

COVID-19

COVID-19 continues to have a detrimental effect on the Irish construction industry and it is likely to be late 2021 before it starts to recover more fully.

Productivity has continued to suffer and 30 percent of surveyed contractors stated that they were operating at between 90 percent and 100 percent normal productivity levels, 40 percent at between 80 percent and 90 percent normal productivity levels and a further 20 percent were working at only between 60 percent and 70 percent normal productivity levels. Of the respondents 70 percent expect that normal pre COVID-19 productivity levels will be restored within the next 12 months.

Construction duration has also been adversely affected by COVID-19 and 37.5 percent of the surveyed contractors reported that their projects had increased in duration by three to four weeks during the last three months of 2020, while a further 37.5 percent reported an increase of one to two weeks for the same calendar period.

Lead in times have also increased due to COVID-19 and 33.3 percent of respondents reported an average increase in lead in times of one to two weeks while a further 22.2 percent reported an increase of three to four weeks.

Unfortunately, even with the current vaccination programme for Ireland in place, it is likely that construction sites will operate under the current COVID-19 restrictions for the remainder of 2021 at a minimum, meaning that the majority of the above issues will remain for some time yet

Impact of COVID-19 in the Republic of Ireland

Figure 2:
Assuming pre-COVID-19 productivity levels were 100 percent, at what level is your firm currently operating at, in percentage terms?

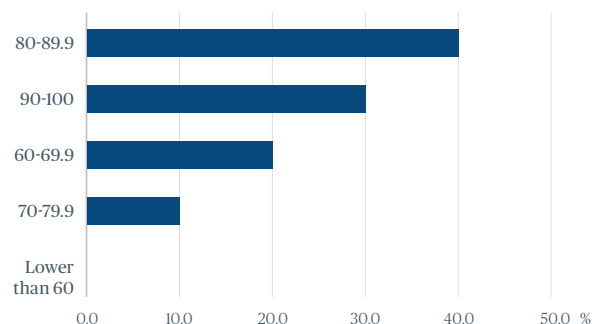


Figure 3:
When do you think productivity will be restored to pre-COVID-19 levels?

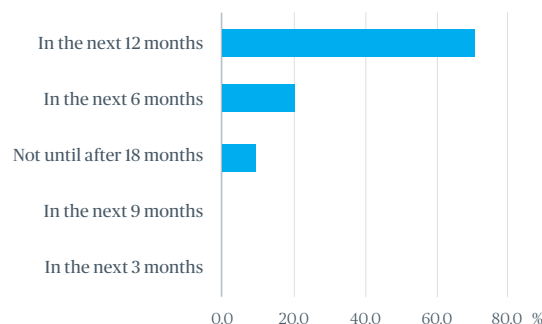


Figure 4:
Approximately, how much, in weeks, has programme length increased over the past six months?

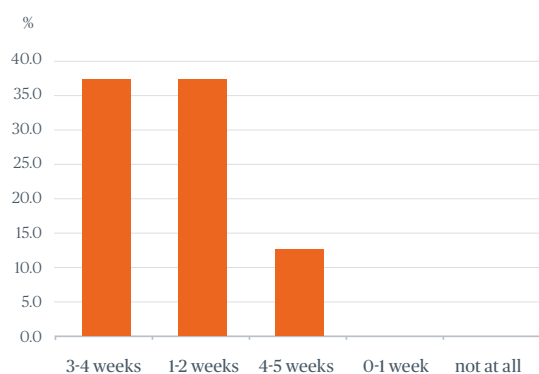
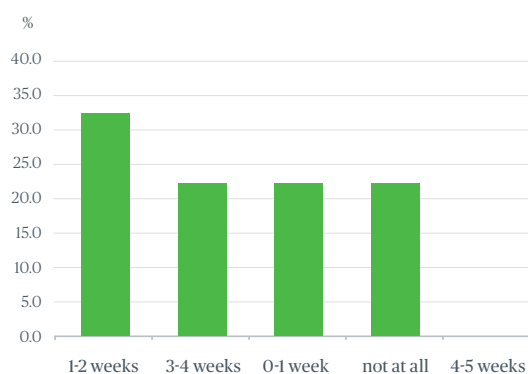


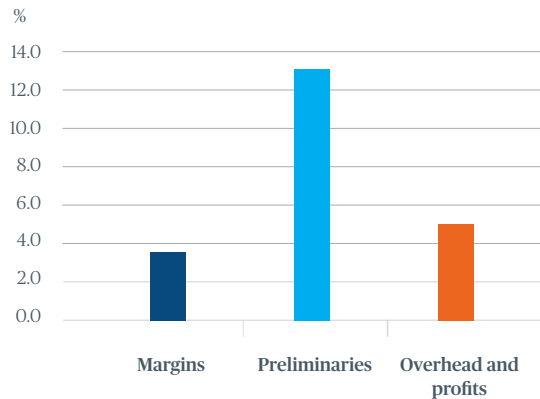
Figure 5:
Approximately, how much, in weeks, have lead-in times increased over the past six months?



Tender and market conditions: Treading water

When we compare against relative responses six months ago (i.e. H1 2020) we can see that the market has warmed slightly but is still showing strong competition.

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



90 percent of respondents consider current market conditions to be 'lukewarm' with 'strong' competition and 'moderate' tender price levels, with the remaining 10 percent reporting the market as 'cold', with 'intense' competition and 'low' prices. The results show an improvement on the H1 2020 results which had 33 percent of respondents reporting 'cold' conditions and a further 50 percent reporting 'lukewarm' conditions.

The surveyed contractors reported a fall in the levels of preliminaries, margins, overheads and profits that the contractors are including within their tender prices. Preliminaries on a typical medium sized commercial project are now being reported at 13.0 percent (down from 13.5 percent), while margins are at 3.7 percent (down from 4.2 percent and overheads and profit are at 4.6 percent (down from 7.4 percent). While this is good news for clients, we expect to see the levels increase once the construction industry starts to recover fully.

Order books are reported as being strong during the past six months, with the surveyed contractors reporting order books for 2020/21 to be 79.5 percent, for 2021/22 to be 79.5 percent full and for 2022/23 to be 15.0 percent full. The capacity of the surveyed contractors, currently at 82 percent, compares to 88 percent a year ago before COVID-19 appeared.

Figure 7:
How would you describe current market tendering conditions within your region?

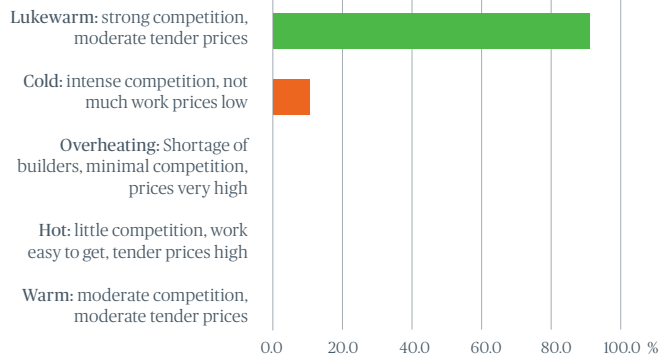


Figure 8:
Approximatively how full is your order book for the following financial years

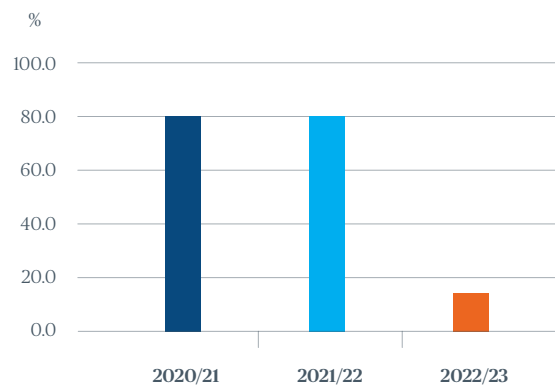


Figure 9:
What capacity (%) is your company currently operating at? (100% = full capacity)



82.0%

Ireland output summary

The volume of building and construction output in the Republic of Ireland **decreased** by 6.5 percent in 2020, confirming the impact that COVID-19 has had on the Irish economy and construction industry.

2020 was a very difficult year for the Irish construction industry and the decrease of 6.50 percent in overall volume of building and construction is not surprising. It is anticipated that this will be further exacerbated in 2021 by the site closures currently in place. The construction sector did, however, bounce back strongly in the second half of 2020, showing a 45 percent increase in volume in Q4 as compared to Q3; this shows resilience and confidence in the industry and we expect to see a strong re-bounce once the construction sites re-open.

On an annual basis the residential sector saw a volume decrease of 18.4 percent in 2020.

Index: 2015 = 100

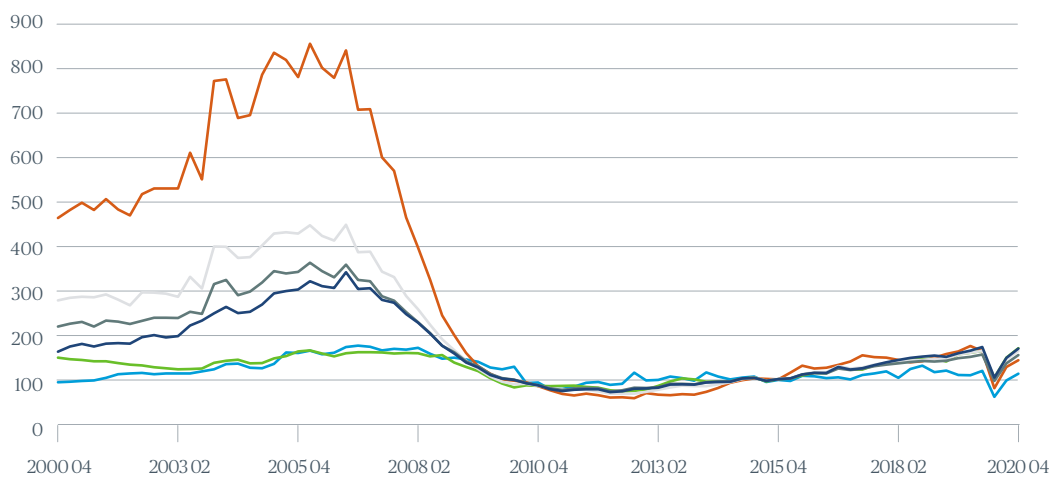


Figure 10:
**Volume of production index
in building and construction
(seasonally adjusted)**

— Civil engineering
— Building (excluding CE)
— Non-residential building
— All building and construction
— Residential building
— All building and construction (Value Index)

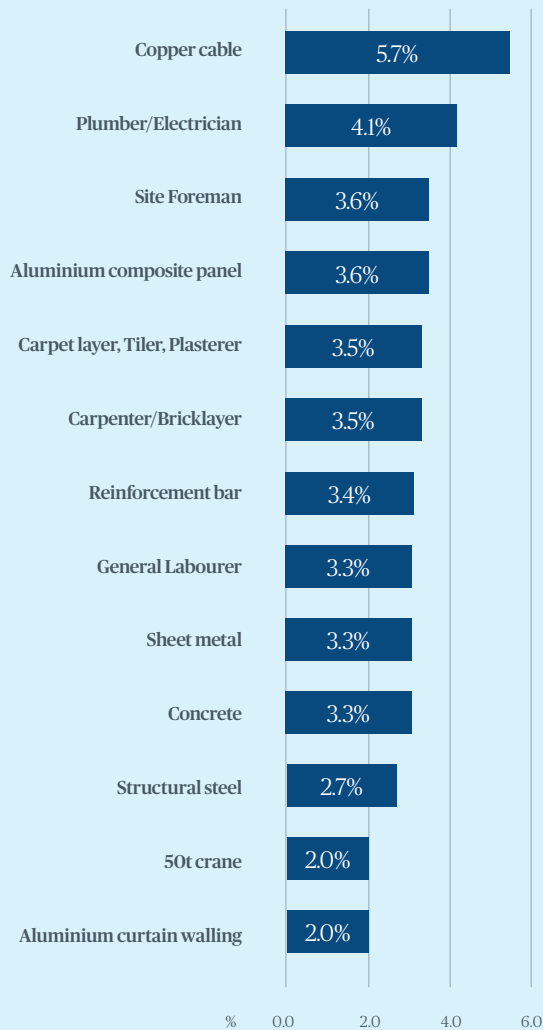
Source: Central Statistics Office (ROI)
- Data as of Q4 2020

“The market is a little volatile at the moment as a result of COVID-19 pandemic. We believe there will be increased demand in 2021.”

70 St. Stephens Green,
Dublin

Labour and material inflation

Figure 11:
Percentage increase (in nominal terms) of
construction costs in the last 12 months



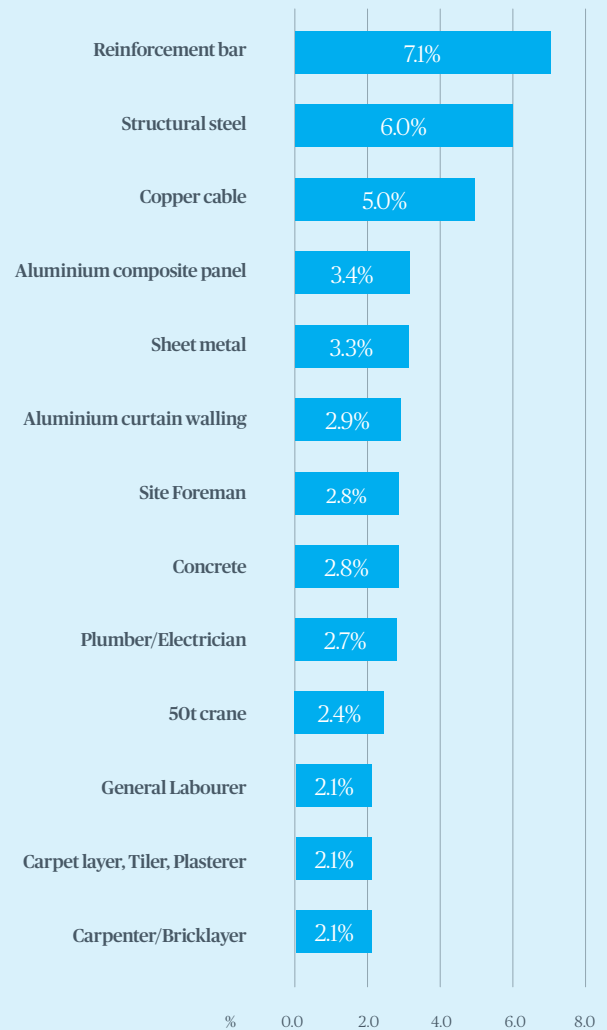
Over the last 12 months labour, material and plant items have appreciated by 3.4% on average.

Copper cable displayed the largest accrued gain - increasing by 5.7%.

Aluminium curtain walling increased at the slowest pace - by 2.0%.

Labour costs increased by 3.6% on average, whilst material costs on average grew by 3.4%.

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



Over the next 12 months labour, material and plant items are expected to appreciate by 3.4% on average.

Reinforcement bar is forecast to appreciate the most - increasing by 7.1%.

Carpenter/Bricklayer is set to increase at the slowest pace - by 2.1%.

Labour costs are anticipated to increase by 2.3% on average, whilst material costs on average are forecast to grow by 4.4% in the next 12 months.

The surveyed contractors expect an abnormally large increase in the cost of structural steel and reinforcing bars during the next 12 months, with reinforcing bars showing a 7.1 percent increase and structural steel showing a 6.0 percent increase during that period. This is backed up by recent tender returns in our office, where increases in steel costs have been in excess of these predictions.

“COVID-19 is having an adverse effect on project completions and productivity as well as increasing costs. Skills shortages still remain particularly relating to bricklaying and concrete and formworks.”

Key challenges facing the industry

Too few tendering opportunities and a lack of confidence in the market to invest in new projects

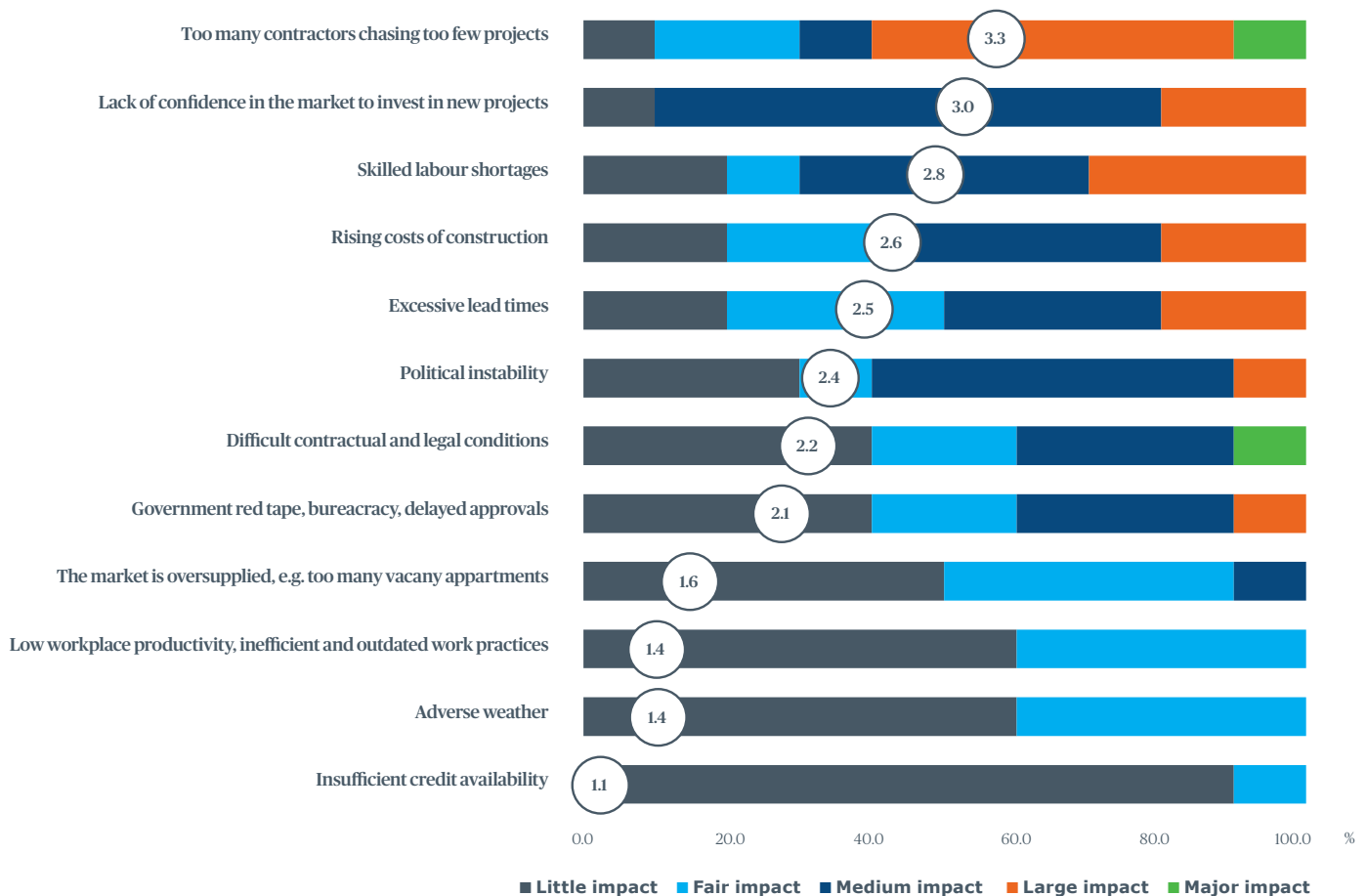
For the second half of 2020 the results of our survey show that the same key issues top the list of challenges facing the Irish construction industry; they are, in order of importance:

- Too many contractors chasing too few projects
- Lack of confidence in the market to invest in new projects
- Skilled labour shortages
- Government red tape, bureaucracy, delayed approvals

Too many contractors chasing too few projects is seen by the surveyed contractors as being the current key challenge facing them. The upside of this from a client perspective is that this would seem to suggest healthy competition for the more appealing projects. Lack of confidence in the market to invest in new projects is also seen as being a key challenge and we would expect that this will become less of a challenge once Ireland returns to some form of normality later in 2021. Skilled labour shortages continue to be a challenge and it is hoped that this will not become even more prevalent when the sites eventually re-open, with reports suggesting many skilled labourers have left our shores for countries where construction industries remain open.

The above sentiments are reflective of a period when the construction industry was fully open and operational in Ireland, albeit with site-managed COVID-19 restrictions. Since then, from January 2021 to the present, the majority of construction sites have remained closed, placing considerable strain on contractor cashflows and staff retention. Once the construction sites re-open, hopefully in April 2021, we expect to see increased strain on lead times and prices of specific materials such as steelwork as a result of increased global demand and transport costs.

“Tenders are now starting to resume after what has been a slow six months. The residential market seems to be strong with a number of public projects due in the new year.”



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 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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