SCSI/PwC Construction Market Monitor 2022

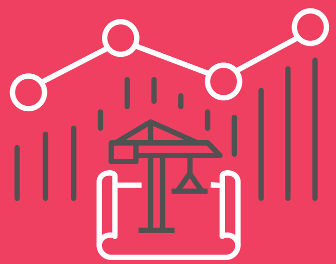
March 2022

pwc

SCSI
Chartered property, land and construction surveyors

Contents

Key Highlights



Construction activity trends in 2021

The top three factors identified as impacting firm activity levels in 2021 were:

1. Shortage of labour for construction projects
    - 82% of surveyors say that the availability of trades has decreased
2. Shortage of materials for construction projects
3. Project viability concerns impacting projects
    - Project viability is the #1 constraint when raising development finance

Surveying firm forecasts & operational trends

- 82% of surveyors expect to see an increase in workloads over the coming 12 months, a marked change since 2020, when 51% of surveyors forecasted a decrease
- 53% of surveyors expect an increase in their firms' headcount in the next 12 months, up from 4% forecasted in 2020
- 69% of surveying firms are currently operating at full capacity, up from 65% in 2020
- 41% of surveyors expect to see an increase in profit margins

Sectoral & Project trends

- Surveyors report that 25% of construction projects have circular economy principles / life cycle costings factored into the construction process
- 76% of surveyors say their organisation was impacted by Brexit with supply chain delays or increased costs for construction projects

Outlook

- 94% of surveyors rate the overall outlook for the construction sector as positive over the next 12 months, up from 77% since 2020
- 94% of surveyors think that digitisation & increased automation will have a significant impact on the construction industry

Introduction

The Society of Chartered Surveyors Ireland (SCSI) and PwC are delighted to publish our 5th Construction Market Monitor Report. The report tracks responses from various construction and land surveying professionals such as chartered building, quantity, project management, and planning & development surveyors.

Our report covers several activity trends related to general construction activity and projects, as well as those trends experienced within surveying firms which provides a useful and valuable insight regarding the current and expected delivery of construction activity and output for the next 12 months.

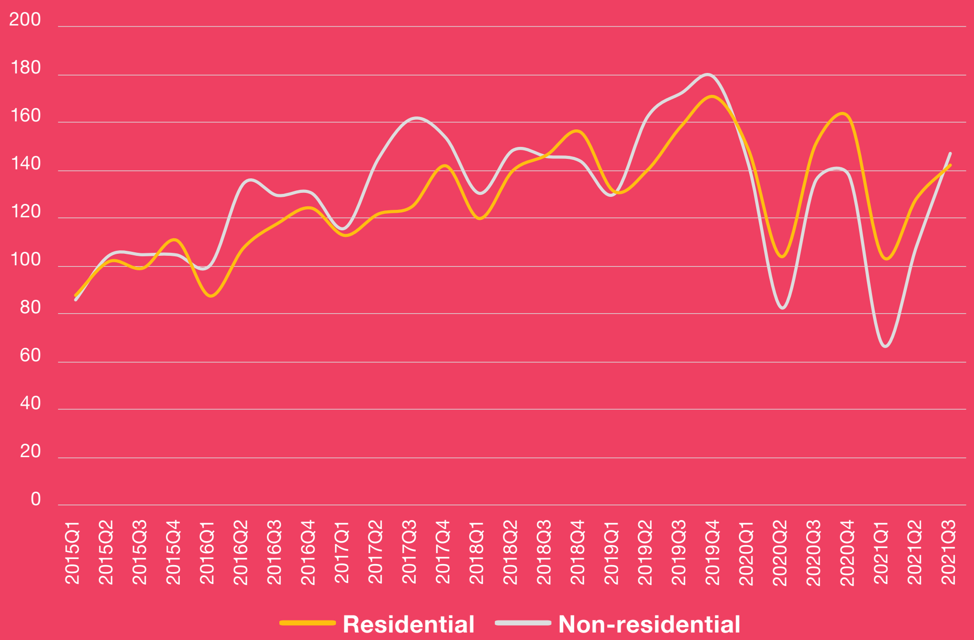
Our report is informed by professionals working in the public and private sector, both from large and smaller firms across Ireland.

Activity Levels

Volume of all Construction Activity

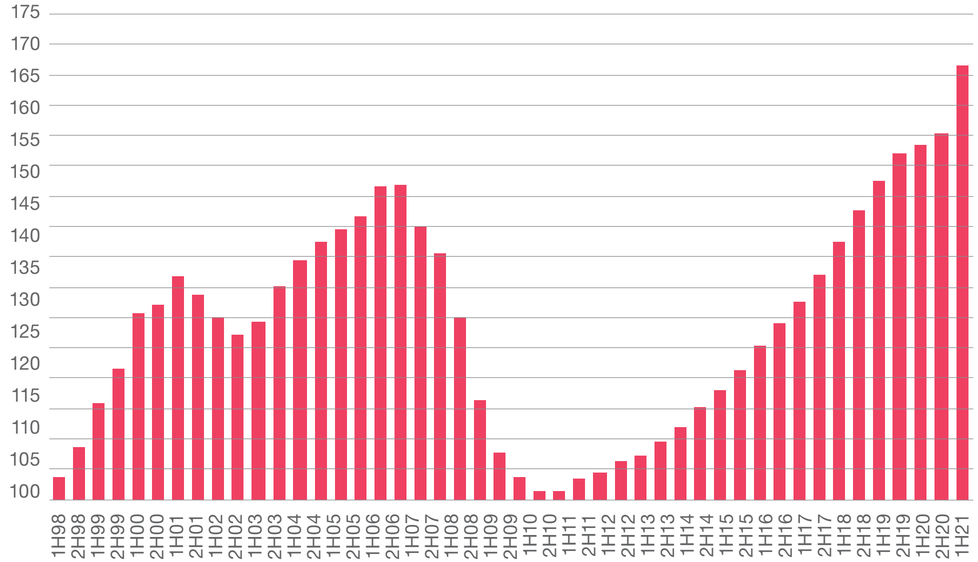
Activity across the construction sector remained relatively stable from 2015 through to the beginning of 2020. The impact of the onset of COVID-19 can be seen by the sharp dip in activity in the first half of 2020 when society initially entered a lockdown period and much of construction activity was halted over several months. While activity levels began to recover in the latter stages of the year, an initial lockdown period saw a further dip in activity at the early stages of 2021. A build up in demand and delayed projects has resulted in a resumption and rebound of activity through the latter stages of 2021.

Chart 1: CSO Volume of Production Index in Building and Construction Q1 2015-Q3 2021



Commercial Construction Activity

Chart 2: SCSI Tender Price Index October 2021– Non-residential projects over €0.5m



The latest SCSI Tender Price Index[1] illustrates that national construction tender prices for non-residential projects increased by 7% in H1-21. Exceptional pandemic related material price increases, labour shortages and post-pandemic demand largely underpins the price increases witnessed. The 12-month national inflation rate is currently running at 8.3% (July-20 to June-21).

1 The SCSI Tender Price Index measures TPI for non-residential projects, predominantly new builds with values in excess of €0.5m

Residential Construction Activity

The total new dwelling completions for 2021 was 20,433, -0.5% less output than what was produced in 2020. Output for Q4 2021 was down by over 5% on output recorded in Q4 2020.

Looking ahead, the Central Bank of Ireland is forecasting that housing output will increase over the course of 2022-2024, having been relatively stagnant at c.20,500 units from 2019-2021[2]. New dwelling commencements were approximately 30,500 annually in December 2021 which can give a good indication of forthcoming supply. However, extended timelines for delivering housing may be impacted by COVID-related labour and material shortages.

Chart 3: Monthly new dwelling completions January-December 2019, 2020 and 2021[3]

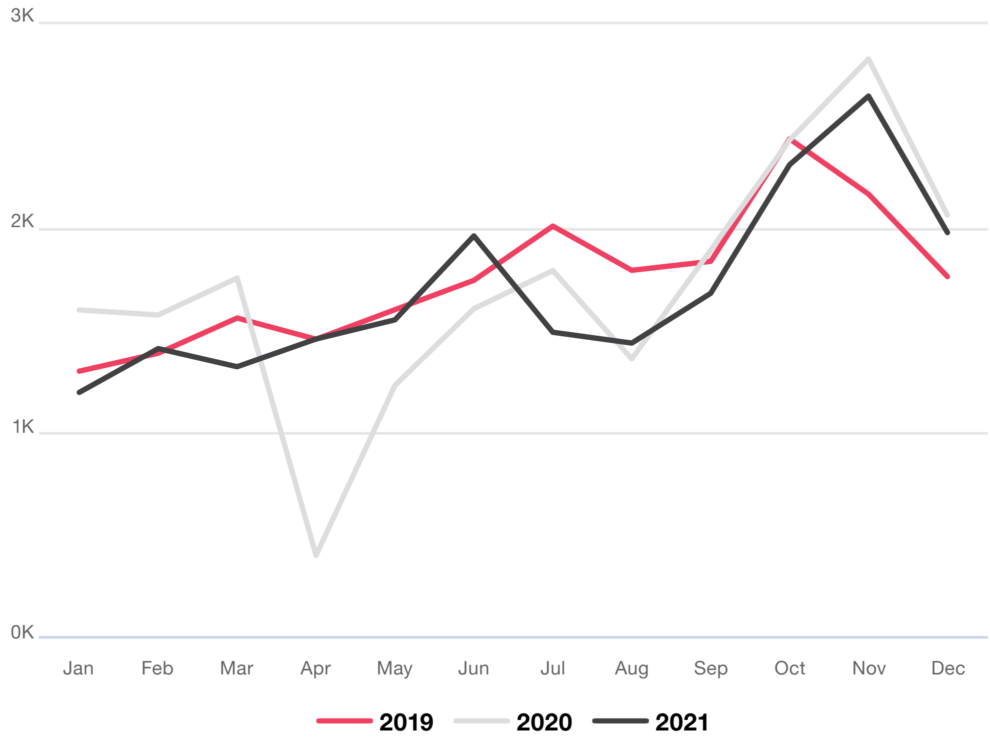


Chart 4: New Dwelling Completions 2015-2021 and Forecasted Completions 2022-2024[4]

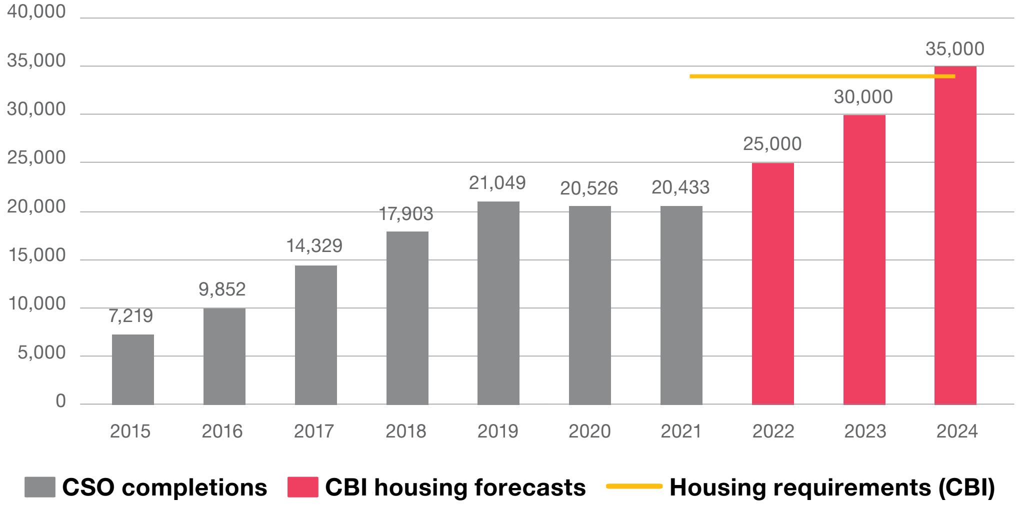


Chart 4 illustrates annual new dwelling completions since 2015 and includes the Central Bank's forecasted completions for 2022-2024.[4] The housing requirements line illustrates the forecasted amount of supply that is needed each year to 2030 to ensure supply keeps up with projected population growth and housing demand. As this yearly output has not been reached over the last number of years, there is a cumulative undersupply of housing relative to required demand.

2 Source: Central Bank of Ireland QB1 – January 2022
3 Source: CSO
4 Chart illustrates CSO new dwelling completion figures 2015-2021, Central Bank of Ireland forecasts for 2022-2024 (as per Central Bank of Ireland QB1 – January 2022) and Central Bank forecasted housing requirements in Central Bank of Ireland: Population Change and Housing Demand in Ireland (Conefrey and Staunton, 2019).

Surveyor Sentiment – construction trends

Construction Inflation

There has been a wide variation in material price increases according to comments to our survey, with one surveyor describing it as "a year like no other with unprecedented inflation in building costs. Totally unsustainable".

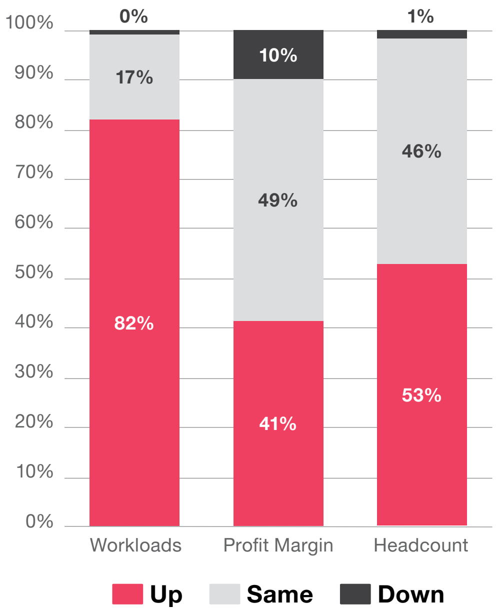
There are anecdotal reports from surveyors of some construction product pricing being held for a couple of weeks by some builder providers, and that this can have a major impact on pricing construction projects.

Timber price increases of 17%, steel rebar increases of 6% and asphalt increases of 14% are having a significant impact on overall construction delivery prices, however, concrete and cement remain relatively stable with modest decreases in rates experienced.[5]

Workloads, Profit Margin and Headcount

Following 18 months of uncertainty, it is positive to note an upswing in sentiment from surveyors regarding the activity levels of their firm and anticipated levels over the coming 12 months. In our previous report launched in 2020, it was clear that general uncertainty permeated sentiment with most surveyors at the time expecting to see a decrease in profit margins and workloads over the course of 2020 and into 2021.

Chart 5: **Survey responses 2022 - Expectations for changes to Workloads, Profit Margin and Headcount in 12 months' time (% of respondents)**



* numbers may not add up to 100% due to rounding

Workloads

Conversely, when surveyed at the start of 2022, surveyors' outlook was more positive overall. 82% of surveyors anticipate seeing an increase in workloads over the coming 12 months, while no surveyors anticipate seeing a decrease to workload levels. Demand for new home construction and renovations remains very strong and is expected to continue as a lack of adequate levels of supply to meet demand continues. New house and apartment construction is expected to ramp up according to recent Central Bank of Ireland predictions. The volume of construction output increased by 7.5 per cent in Q3 2021 compared with Q2 2021, but is down 1.4 per cent on an annual basis, according to seasonally adjusted figures published by the Central Statistics Office.

There are expectations that construction output will increase 16% to €28bn in 2022.[6] This output is expected to be driven not just on private projects but also the National Development Plan (NDP) 2021 to 2030. This NDP €165Bn budget is expected to provide a stable pipeline of construction projects to the market.

Profit Margins

41% of surveyors anticipate an increase in profit margins over the coming 12 months, while 49% expect margins to remain similar to current levels. This is a significant increase on figures reported in 2020, when only 3% of surveyors anticipated seeing an increase in profit margins over the coming 12 months.

Headcount

Over half of those surveyed (53%) anticipate that their firms' headcount will increase over the course of 2022, while 46% expect levels to remain similar to 2021. This is an improvement on responses recorded in 2020 when only 4% of agents anticipated headcount would increase and 57% anticipated numbers would remain unchanged largely due to the uncertainty posed by the pandemic.

Headcount remains a critical challenge for most businesses operating within the construction sectors, both construction workers and professionals. Chartered surveyors continue to highlight that sourcing appropriate numbers of qualified staff to meet demand is a constant challenge.

The SCSI commissioned a comprehensive report on the future skill requirements in the surveying sector to address growing demands on matters pertaining to sustainability. Our built-environment and the buildings that are constructed are becoming far more technologically advanced and sophisticated and therefore the professionals of the future need to upskill to meet the ever-evolving heating, cooling and management standards. Continued promotion of construction courses by third-level colleges since the banking and economic crisis is showing positive signs of

5 Linesight Ireland Country Commodity Report Q4 2021
6 Linesight Ireland Country Community Report Q4 2021

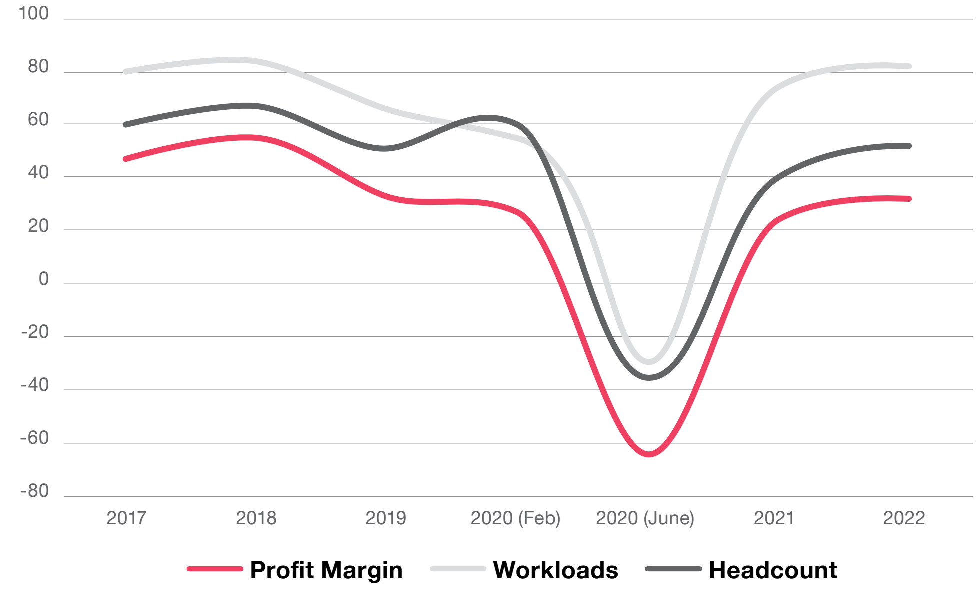
improvement. CAO applications from 2021, show a 19% increase in applicants for construction related third-level courses. This increase and previous year increases will provide some respite to firms and organisations operating in the construction sector who are looking to increase staff numbers.

Summary of Activity across workloads, headcount and profit

Chart 6 illustrates the net balance trend over time of surveyors' expectations of changes to profit margin, workloads and headcount. Two surveys were issued to surveyors in 2020 (pre and post onset of COVID-19 in Ireland). The 2022 sentiment was recorded in January 2022.

Chart 6: **SCSI and PwC Construction Activity Monitor Sentiment Index – 12-month Expectations**

(Net balance %)[7]



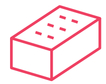
There is a clear dip in sentiment in 2020, framed by successive periods of lockdown which impacted on activity levels in the construction sector. Positively, we can see a rebound in sentiment in 2021 and in the beginning of 2022, demonstrating a return in activity levels across the sector. This rebound can in part be attributed to the effect of the lockdown periods during 2020 and in the early stages of 2021 which largely put a halt to much of activity across the sector and saw delays to projects.

Factors Impacting on Firms' Activity Levels

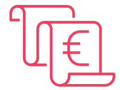
Surveyors have indicated concern around the overall impact of inflation coupled with increased energy costs, a shortage of labour supply, material price increases and delays on the delivery of projects. This in turn can affect the pipeline of projects as the viability of various projects will need to be assessed in the context of rising prices and short supply of materials and labour.

Unsurprisingly given this context, the top three factors indicated by surveyors as impacting on their firm's activity levels in 2021 were:

1 Shortage of labour



2 Shortage of materials



3 Project viability

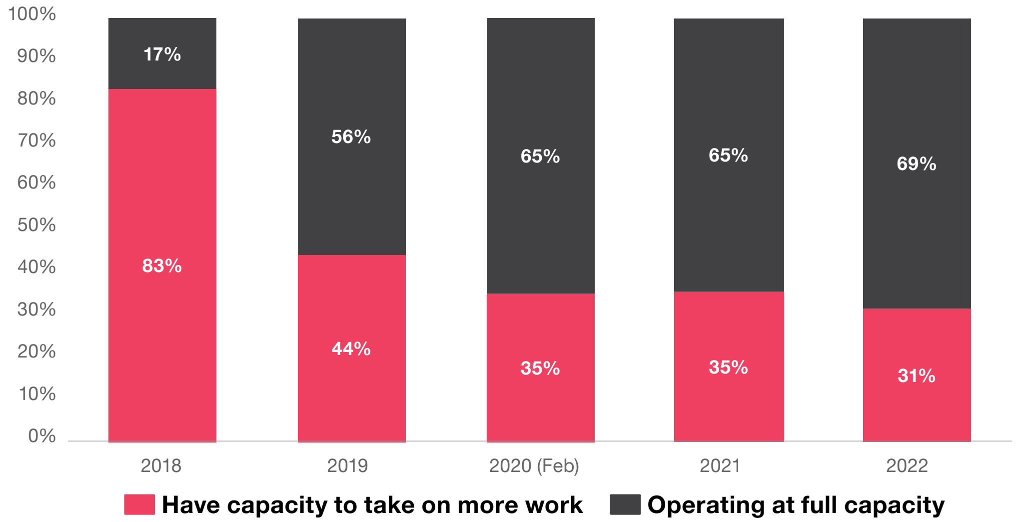
7 Net balance = Proportion of respondents reporting expectations of a rise in activity minus those reporting expectations of a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%)

Operating Capacity

While 82% of surveyors anticipate seeing an increase in workloads over the course of 2022, interestingly 69% of those surveyed indicated that their firm is currently operating at full capacity and does not have further capacity to take on additional work.

The 31% of surveyors who indicated that their firm had capacity to take on additional work responded that they had capacity to take on an additional 27% of workload on average. This is significantly less capacity than what was reported in 2021 where the 35% of respondents who indicated their firm could take on additional work indicated they could take on an average of 42% additional workload.

Chart 7 Firms' Operating Capacity Over Time



Market Trends

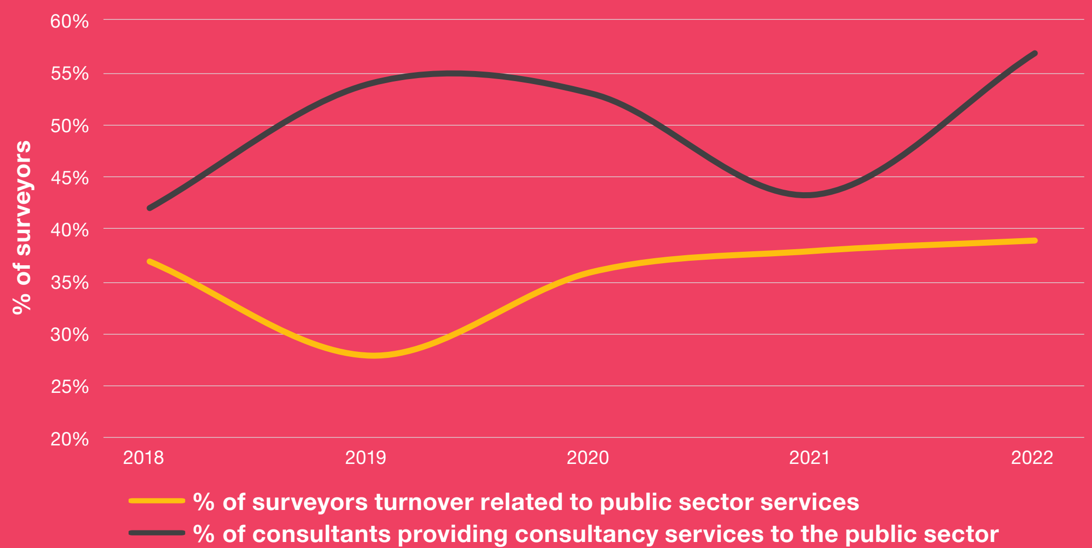
Public Procurement

SCSI/PwC monitor the level of service delivery from surveyors to the public sector. The services provided are consultancy services and, in most cases, relate to the design, project management or budget management/contract administration of projects for the public sector. The projects tendered can range from small school extensions to large infrastructural or large public buildings.

The National Development Plan sets out a long-term commitment from government to deliver priority projects for the state with a set budget, within the lifetime of the current 9-year (2021-2030) plan. Overall, 57% of surveyors provide some level of service to the public sector and of these, 39% of their turnover is derived from public sector work. Whilst the percentage of overall turnover from the public sector remains stable, it is positive to see an increase in the numbers of surveyors providing work to the sector.

Recent improvements to professional indemnity insurance requirements sees a relaxation in limits will also encourage more to get involved in public sector tendering, particularly smaller firms considering to supply their services.

Chart 8 Percentage of Surveyor consultants involved in public procurement



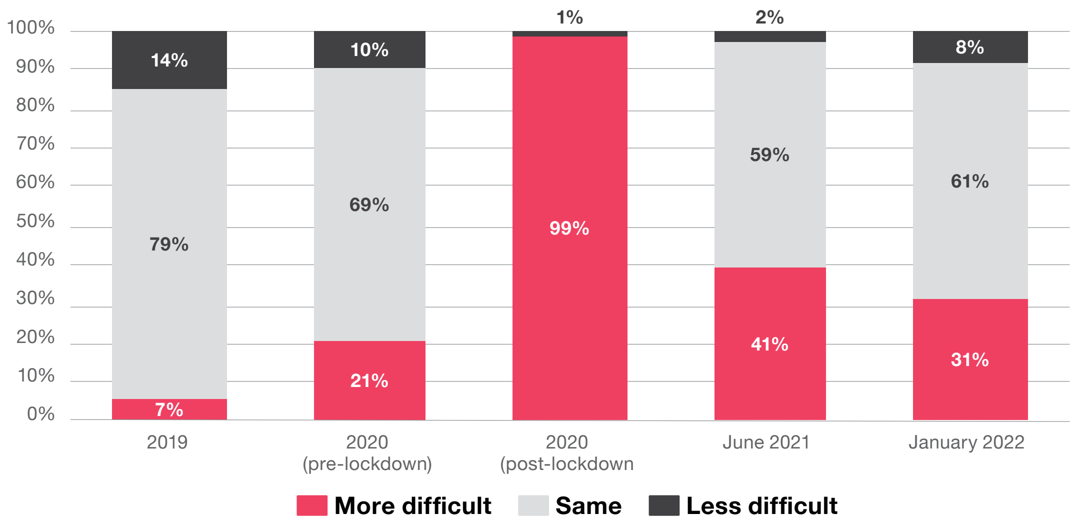
Raising Development Finance

The results from the June 2021 and January 2022 construction market monitor surveys indicate that the experience of surveyor respondents in terms of the ability to raise development finance has returned to pre-pandemic levels. While this is a positive trend, with a 9% decrease in the number of respondents indicating that they are finding raising development finance "more difficult", the results show that challenges remain.

These challenges have often been attributed to the lack of availability of funding, be it from the State, pillar banks or alternative lenders. However, in recent years, there has been a marked increase in the number of State-backed entities as well as alternative lenders offering funding in the Irish market. Entities such as Homes Building Finance Ireland (HBFI) provide funding at market rates for commercially viable residential developments in the State. By the end of December 2021, HBFI had grown total loan approvals to €835m, more than double the €395m total approvals at the end of 2020. The Strategic Banking Corporation of Ireland (SBCI), established to offer low-cost credit to Irish SMEs, sanctioned loans totalling €835m in 2020, with 11% of its overall lending related to "construction services". In July 2021, a €270m facility was advanced by two alternative lenders to fund the development of the 'College Square' development, representing the largest financing completed in the State since the outbreak of COVID-19, suggesting that access to credit is less of a constraint.

This is further supported by surveyor respondents identifying the *viability of projects* as the main issue contributing to difficulties in raising development finance in the current environment. Specifically, the exceptional increases in materials costs and labour shortages (and the associated affect on labour costs).

Chart 9 Raising Development Finance



Technology

The Irish construction sector has traditionally lagged other sectors in terms of innovation and digitalisation. However, in recent years there has been a shift in the level of technology adoption within the sector. According to commercial real estate services firm JLL's recent *State of Construction Tech report*, in 2020, because of the pandemic, the construction industry adopted more technology in one year than what would have normally taken three.

A key challenge for the Irish construction sector is that it remains extremely fragmented with an estimated 47,000 SMEs operating within the industry. The positive trends in technology adoption and the transition to new ways of working (evidenced by a 10% increase in the surveyor respondents indicating that their firm had invested in technology in January-22 versus June-21), are largely being driven by larger firms. Of the 52% of survey respondents that reported that their firm had invested in technology, 6 out of 10 of these respondents were from firms with a headcount of at least 50, the majority being from firms with a headcount of over 99 staff (January-22), with this being split across all sectors (residential, commercial, life sciences, data centres etc.)

Challenges identified to adopting new technology in construction include:

- **The lack of skilled labour**
- **The time and cost of associated with upskilling current staff to use digital tools**
- **The lack of adoption and focus in public procurement on digitalisation and other modern methods of construction**
- **The lack of uniformity with different sectors across the industry using different technologies and different levels of adoption throughout the construction supply chain**

The impact of lower and slower digitalisation is that overall productivity growth in the sector is constrained. It is critical that the industry continues to foster a culture of innovation and digitalisation and that it is supported and incentivised to do so. Another critical issue is that the increased investment and technology adoption rates which are being seen in the private sector, need to be matched by the public sector stakeholders otherwise the opportunity for real productivity gains and innovation across the sector will be lost.

Brexit

In the years following the 2016 Brexit referendum, the Irish construction industry has faced a number of challenges, including ongoing skills shortages and the COVID-19 pandemic. Therefore, when assessing the impact of Brexit, it is important to do so in light of these pressures.

While the EU-UK Trade and Cooperation Agreement ensured tariff and quota free trade could continue post 31 December 2020, it is clear that, as anticipated, Brexit is having an impact on businesses within the Irish construction sector. In June 2021, over 50% of survey respondents indicated that Brexit was impacting business activity. This figure moved to just under 50% in January 2022.

The 2019 CIF / PwC report into "Brexit and the Irish Construction Sector" anticipated four key areas within the sector that would be impacted by Brexit:

- Material costs
- Supply chain
- Labour
- Currency and project pricing

The results of the 2022 SCSI / PwC Construction Market Monitor indicate that these predictions have become a reality for many within the industry with surveyor respondents identifying:

- **Increases in material costs -** despite the removal of import tariffs, the price of goods moving across the border has increased due to the additional border checks and administrative work, which can be burdensome and expensive.
- **Supply chain delays -** As an island nation, Ireland is reliant on importing numerous aspects of materials for the construction sector. Brexit has been identified as being a key contributor to supply chain delays. While it has undoubtedly exacerbated the problem, factors such as increased demand, the impact of COVID-19 and logistics issues, together with Brexit, have had a significant impact on supply chains globally.
- **Labour difficulties -** 23% of respondents in the 2019 CIF / PwC report said they feared the ability to source the required talent on foot of Brexit and 25% were concerned about the restrictions on the free movement of people to and from the UK. These fears don't appear to have been unfounded with surveyor respondents in the June 2021 and January indicating that they are encountering difficulties in terms of employment and staff mobility post Brexit.

Retrofitting

The National Residential Retrofit Plan, announced in November 2021, which aims to:

- retrofit 500,000 homes to a Building Energy Rating of B2/ cost optimal or carbon equivalent; and
- install 400,000 heat pumps in existing premises to replace older, less efficient heating systems by end-2030.

In the commercial sector, the Climate Action Plan also includes targets to deploy zero-carbon heating to the meet the needs of 50,000 typical commercial buildings, amongst other measures.

In February 2022, the National Retrofit Scheme was launched which included an Exchequer investment of €8bn, representing the single-largest infrastructure investment by the State up to 2030. It is anticipated that when State and private-funding, householder commitments and associated construction activity are combined, retrofitting will represent a €22bn industry.

With a total of just 18,400 home retrofits being completed in 2020, the Government acknowledges within its retrofit plan that the depth and volume of retrofits as well as the number of heat pump installations are going to have to hugely increase in order for their 2030 targets to be met.

This low level of retrofit activity is echoed in the results of the January 2022 survey with 80% of surveyor respondents indicating that they are not currently involved in any residential retrofit projects.

Two key constraints in terms of generating retrofitting activity have been funding and skills. The record capital commitments outlined, which include a new National Home Energy Upgrade Scheme, a Special Enhanced Grant Rate and low-cost loans for deep retrofits, should provide the financial incentives needed to stimulate activity within home energy upgrade sector. However, the skills challenge remains.

Skills

Despite the strong economic recovery and the significant growth experienced by the Irish construction sector in recent years, an acute skills shortage has persisted in the industry since the financial crisis. Results from the January 2022 survey evidence that access to and the availability of critical construction related skills continues to be one of the biggest challenges facing the sector, with 82% of surveyor respondents reporting an undersupply of skills across most construction related trades and professions over the last 12 months.

An acute skills shortage is a trend that has continued in the Irish construction sector over the last number of years and is a significant obstacle holding back construction output. In regard to apprenticeships, there were significant delays reported particularly for craft apprenticeships such as plumbers, electricians, and construction trades as COVID-19 closures affected access to off the job training due to closures of workshops and training centres. With surveyors reporting a shortage of qualified tradespeople for construction works, it is promising to note the ringfenced investment into increasing apprenticeship numbers over the coming years. Under the Action Plan for Apprenticeships, Government's target is to grow the number of new apprenticeship registrations to 10,000 per year by 2025.

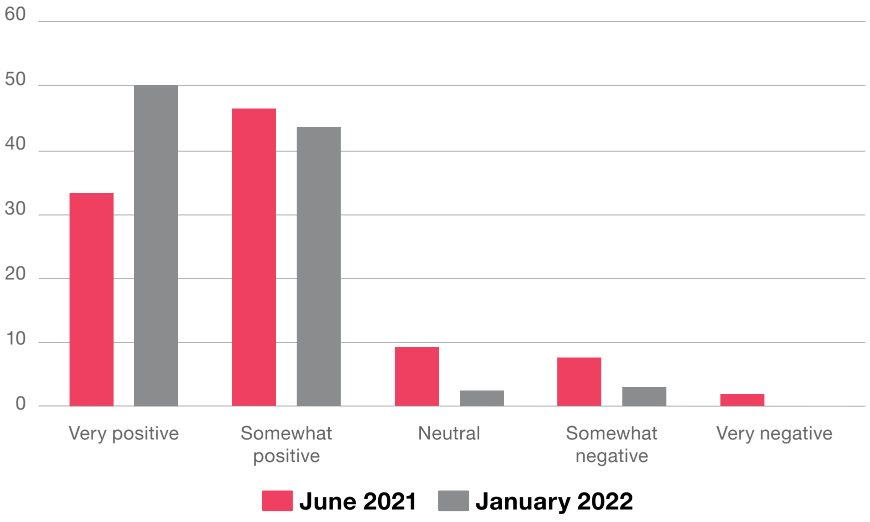
Market Outlook

The outlook for the construction sector in terms of activity levels looks positive, with multiple industry stakeholders predicting to see the sector grow by approximately 15%-20% in 2022. This positive sentiment is echoed amongst surveyor respondents in January 2022 with over 90% reporting an overall "positive" outlook for the 12 months ahead (up from 80% in June 2021).

Challenges remain within the industry, particularly in the residential sector. COVID-19 related closures in addition to the pre-existing deficiencies of housing stock, mean that it will take some time for supply to catch-up with demand. Material costs, particularly increases in the price of steel, timber, plastic products and insulation along with diesel price increases are affecting the viability of projects, with a knock-on impact on supply. The availability of qualified labour across the sector is further contributing to supply constraints, with shortages being reported across a number of trades. 69% of surveyors in January 2022 noted that their businesses are operating at full capacity, with just over 30% having the capacity to take on more projects.

Historically, the uncertainty over future project pipeline and a lack of capital investment was a constraint in terms of confidence in the sector. However, the strong economic outlook coupled with the major capital commitments by Government under Housing for All, the National Development Plan and the National Residential Retrofit now provide certainty that the industry can provide viable and sustainable career opportunities into the future.

Chart 10 Construction market activity outlook for the next 12 months



Survey Methodology

This report has been informed and guided by views, perceptions, and opinions of over 300 respondents who are chartered surveyors active in the construction sector, as well as input from other industry participants. The research included an online survey conducted in January 2022 and is also informed with data from previous SCSI/PwC surveys.

The respondents to the survey are professionals who work in the property and construction markets in large corporate firms, construction agencies, government bodies and financial institutions. The surveyors are a mix of quantity, planning and development, building and project management-chartered surveyors.

SCSI and PwC would like to thank all those who contributed to the research.

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