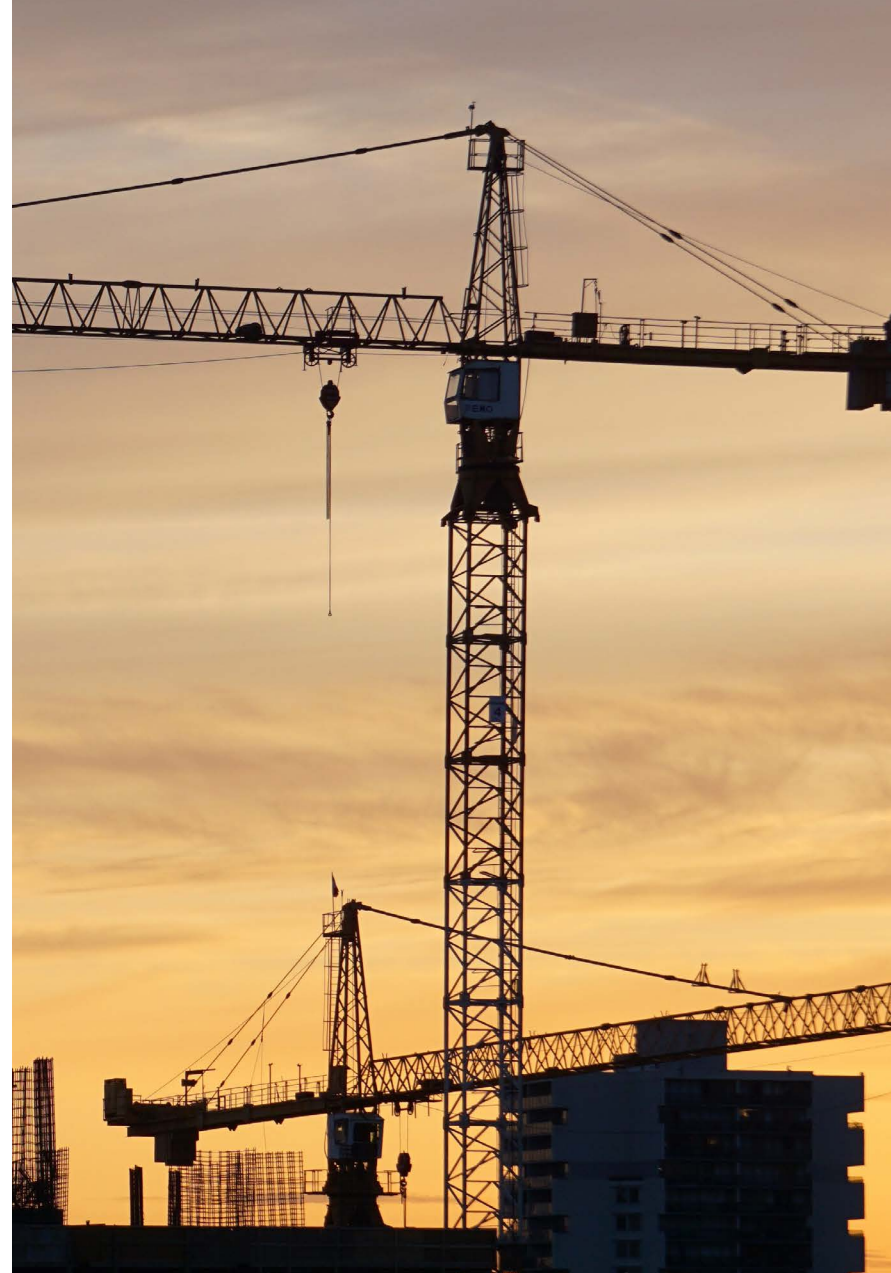


SCSI/PwC Construction Market Monitor 2023

June 2023



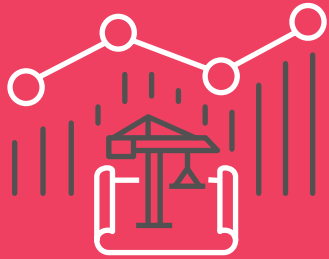




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Key Highlights



Construction activity trends

- Development finance becoming increasingly difficult to source – latest index decreasing from -23% to -37%
- 61% of surveyors indicated that their firm is currently operating at full capacity, down from 69% from 12 months prior
- 58% of surveyors reported that the availability of trades has decreased over the last 12 months, down from 82% in 2022
- Average 5.5% year on year increase in new housing required to meet Housing for All targets to 2030



Surveyor forecasts and operational trends

- 52% of surveyors expect workloads to increase over the next 12 months, down from 82% in the past 12 months
- Surveyor profit margin index (+12 months) at +4% in 2023 down from +32% in Q1 2022
- Surveyor headcount index (+12 months) at +27 in 2023 down from +52% in Q1 2022
- Surveyor workload index (+12 months) at +43 in 2023 down from +82% in Q1 2023



Sectoral & Project trends

- Surveyors report that 28% of construction projects have circular economy principles / life cycle costings factored into the construction process, up from 25% in 2022
- 44% of surveyors reported that their firm has invested in BIM/Smart Technologies/ AI/AR or other technologies, a 6% decrease when compared to a year prior



Outlook

- Sentiment among surveyors for the economic outlook for the next 12 months is more subdued versus prior periods
- Greater degree of optimism for increased surveyor headcount over the next 12 months

Introduction

The Society of Chartered Surveyors Ireland (SCSI) and Pricewaterhouse Coopers (PwC) are pleased to publish our 6th Construction Market Monitor Report. The report provides insights into current trends as well as key challenges facing construction surveying professionals and the sector as a whole.

The report highlights aggregated responses from many different construction and land surveying professionals such as Chartered Building, Quantity, Project Management, and Planning & Development Surveyors. The report also assesses surveying professionals' expectations over the next 12 months, which serves as a useful barometer for indicating expected activity levels in construction.



Activity Levels

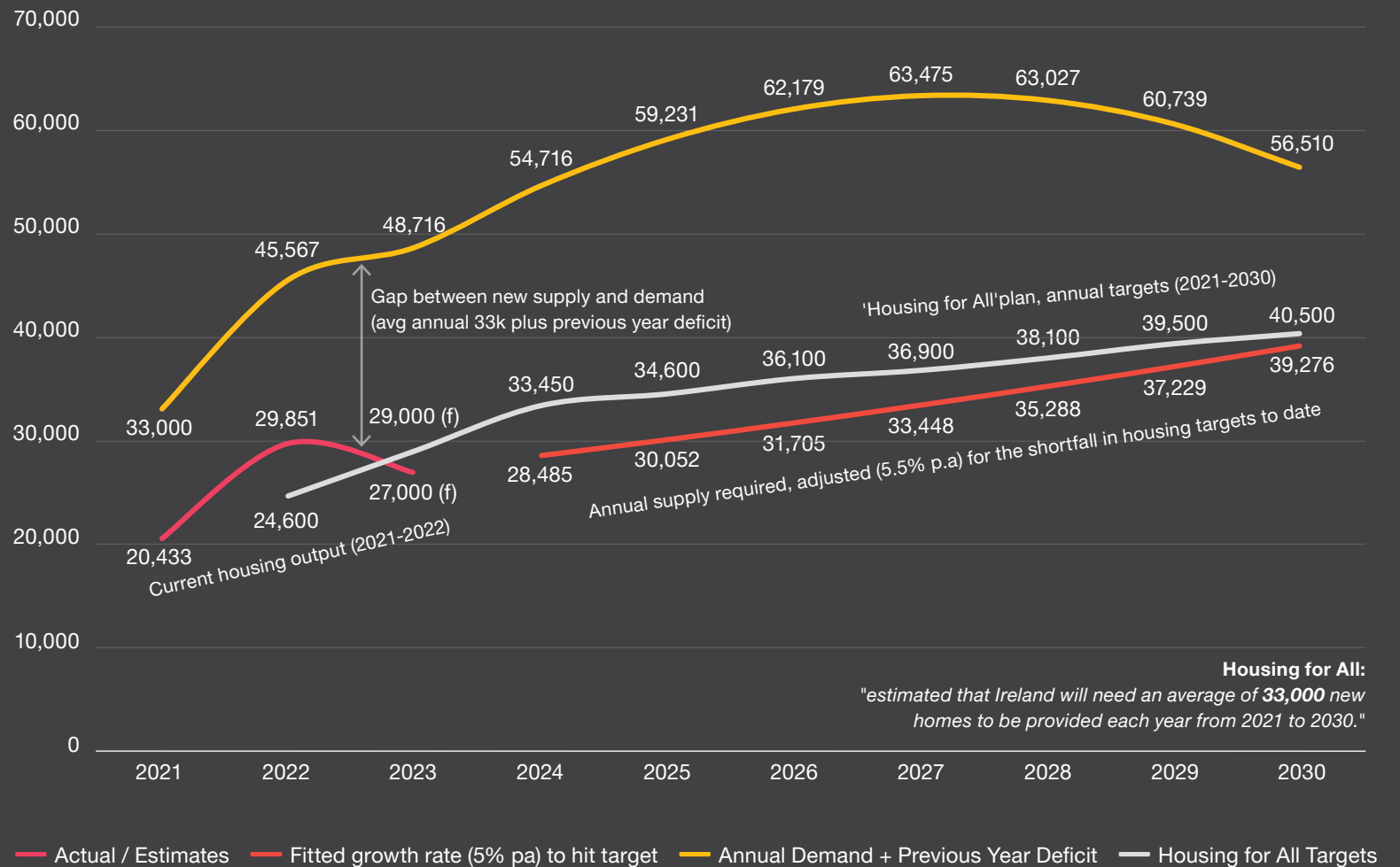
Residential Construction Activity

In 2021, the Irish Government published its Housing for All plan, which set out several initiatives to improve Ireland's housing sector with the goal of delivering around 300,000 homes by the end of 2030, which equates to c.33,000 housing units per year between 2021 to 2030.

Therefore, to remain on track for the 2030 Housing for All targets, the fitted growth rate for new dwelling completions from 2023 to 2030 is approximately 5.5% per annum, meaning that an annual increase in the number of housing units of 5.5% is required over the remainder of the plan to achieve the overall 300,000 new housing unit target. The latest data from the Central Statistics Office highlight a 8% increase in national population since 2016. This equates to an overall increase of 387,000 people or an average increase of 65,000 over the past 6 years.

In light of this recent data, an overall revision of Housing Needs Assessments should be carried out to inform up to date new supply targets.

Figure 1: 'Housing for All' to 2030 - Fitted Growth Rate to achieve target

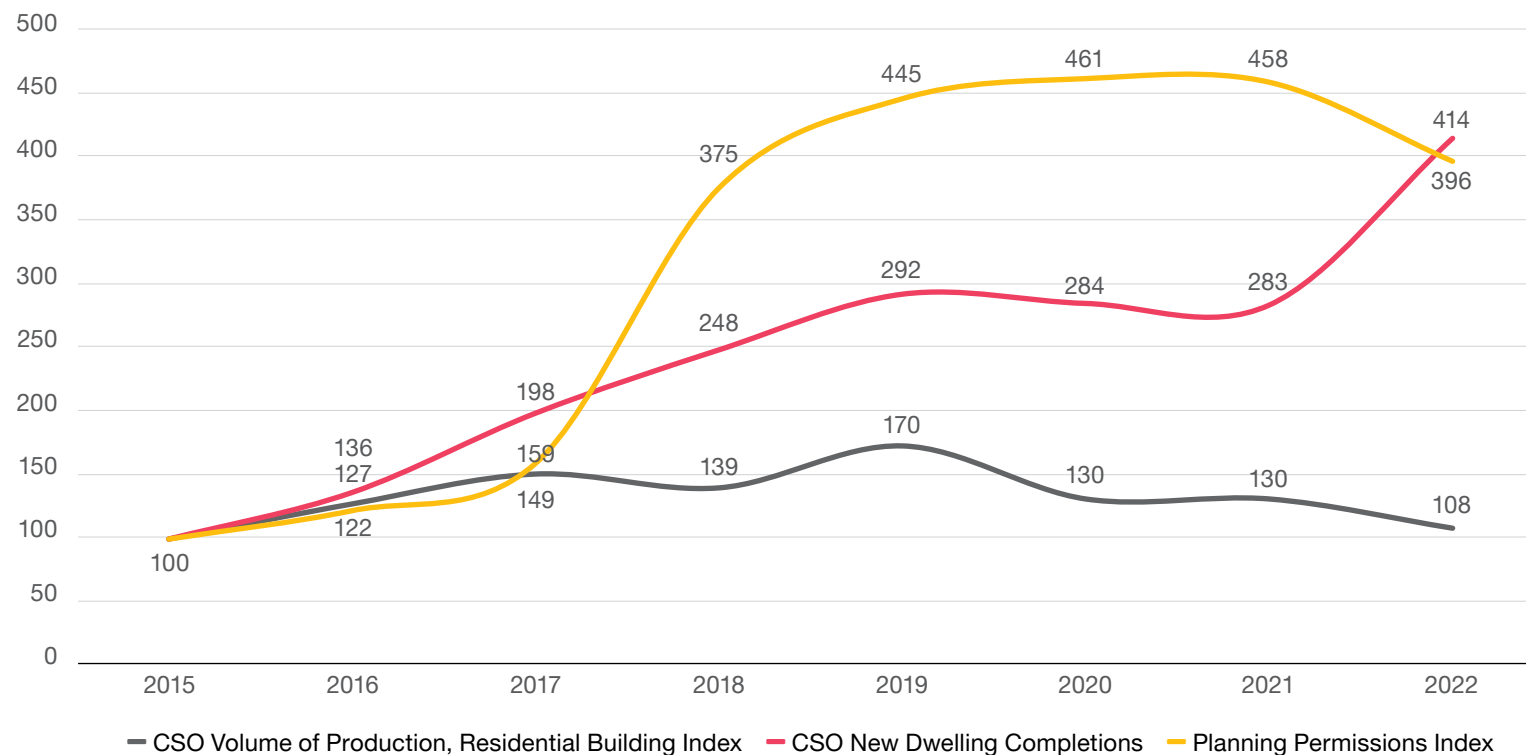


Source: SCSi/PwC

Activity Levels

Housing completions in 2022 increased by 46% to 29,851 units. 5,522 of these were one off houses, 15,163 were scheme homes and 9,166 were apartment units. Planning permissions granted for multi-development houses, one-off houses and private flats/apartments have been rising consistently in the last number of years with approximately 50,000 units having received approval in 2022. In terms of the CSO's Production in Building and Construction Index, the CSO reports that production volume in the residential sector declined by 36.5% between Q4 2019 and Q4 2022.

Figure 2: CSO Production in (Residential) Building and Construction Index, CSO New Dwelling Completions & Granted Planning Permissions (residential units). Rebased index (2015)



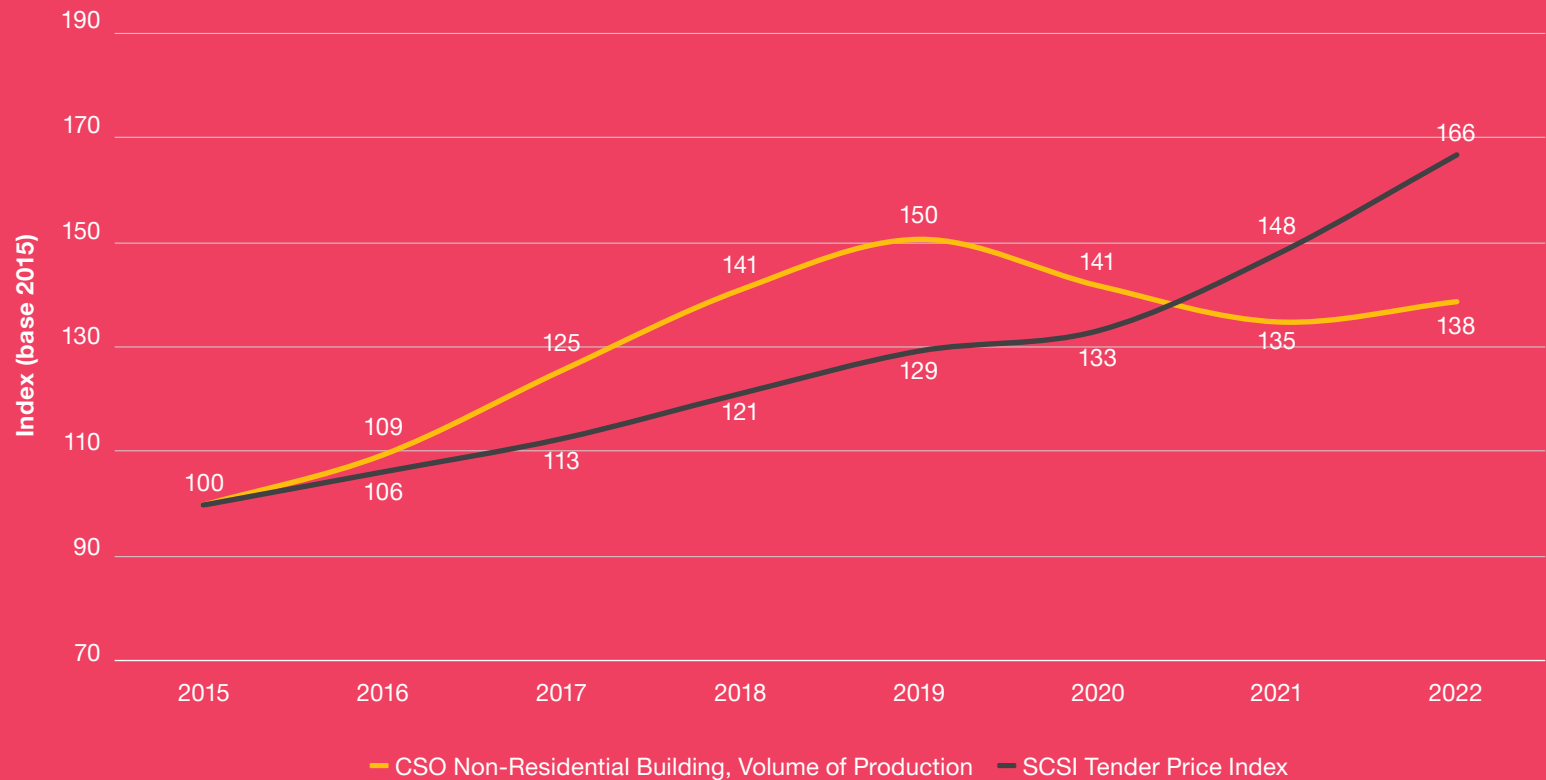
Source: CSO (Planning Permissions consist of houses, multi-development houses, one-off houses and private flats/apartments)

Commercial Construction Activity

The SCSl Tender Price Index (latest report - TPI 2nd half of 2022) reveals that commercial tender price inflation underwent a median national increase of 4% in the second half of 2022, which is a lower rate of inflation than the 7.5% that was experienced during the first half of 2022. The high rate of inflation that was noted in the first half of 2022 was representative of an array of factors such as pent-up demand due to Covid-19, supply chain issues from the ongoing conflict in Ukraine, and labour supply shortages.

The CSO's Building and Construction Index for Non-Residential buildings, which monitors trends in the volume of production in building and construction, shows that there was a decrease in volume experienced by the sector which started in 2019. However, following the easing of Covid restrictions in 2021 there was a slight upswing in volume, as shown in Figure 2.

Figure 3: CSO Volume of Production in (Non-Residential) Building and SCSl Tender Price Index (non-residential projects over €0.5m). Both Indices rebased to 2015 for comparative purposes.



Source: SCSl/PwC

Surveyor Sentiment in Construction

The most recent construction SCSl Tender Price Index showed that the rate of tender price inflation in the commercial construction sector remained substantial in the second half of 2022. The Index indicated that the median commercial inflation at the end of 2022 was approximately 12% higher than the year prior. The CSO also recently published figures in January 2023 revealing that construction materials increased by 16% throughout the course of 2022.¹

Material price and input cost increases have recently become one of the largest issues within the construction industry. Some commentary from the participant survey stated that *“increases in material costs has had a knock-on effect in relation to availability of certain materials particularly those that are necessary for engineering processes.”*

Workloads, Profit Margin and Headcount

Dampening of Construction Surveyor workloads

A lower proportion of surveyor respondents anticipate an increase in workloads over the coming 12 months with the index falling from +82% to +43% but remaining positive overall (Figure 4).

52% of surveyor respondents expect workloads to increase over the coming 12 months while 39% of surveyors project that workloads are going to stay the same (Figure 5). By way of comparison, no respondents forecasted a decrease in workloads during last year’s survey, which has now increased to 9% of surveyors that anticipate a reduction in workloads for the next 12 months.

¹ Central Statistics Office, Wholesale Price Index January 2023



Reduced profit margin sentiment in latest results

The Index that tracks profit margin sentiment (+12 months) among construction surveyors, has decreased from +32% to +4%, but is an increase from -65% noted in 2020 during Covid restrictions.

Looking at the data in more detail, 25% of surveyors anticipate an increase in profit margins over the coming 12 months, while 54% expect margins to remain at current levels. This is a reduction when compared to the figures reported in 2021 where 41% of surveyors anticipated an increase in profit margins over the course of 2022. However, this represents a steep increase from the 3% of surveyors that expect an increase to profit margins in 2020, which shows that the sector sentiment has largely recovered since the onset of the pandemic.

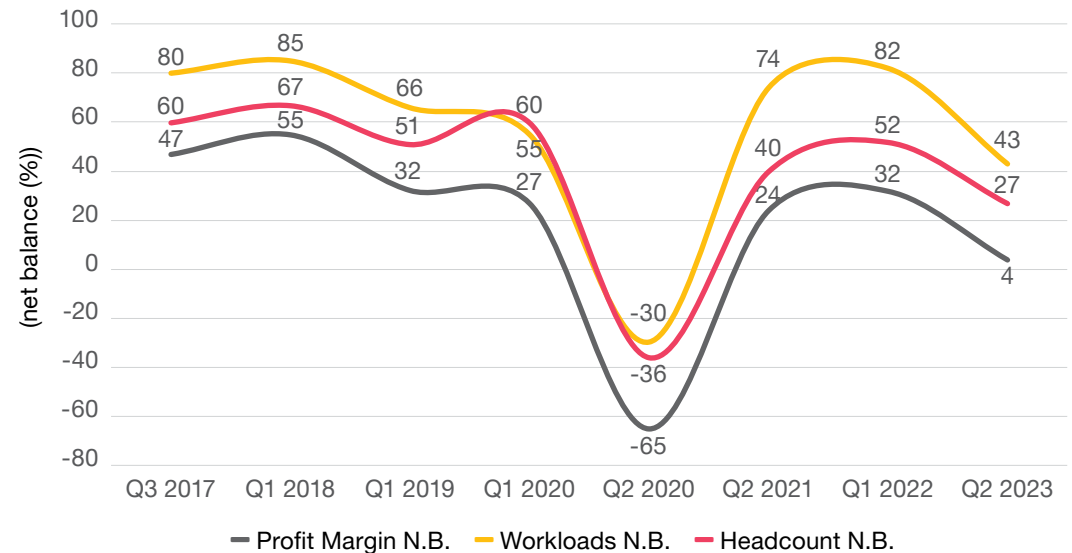
Expectations for additional surveyor recruitment to join the workforce remains positive

Over half of those surveyed (59%) forecast that their firms' headcount will remain the same over the course of 2022, while 34% expect levels to increase throughout the year (Figure 5).

The net balance index that summarises this data into a trend chart (Figure 4) shows that headcount expectations has fallen from +52% to +27% in 15 months.

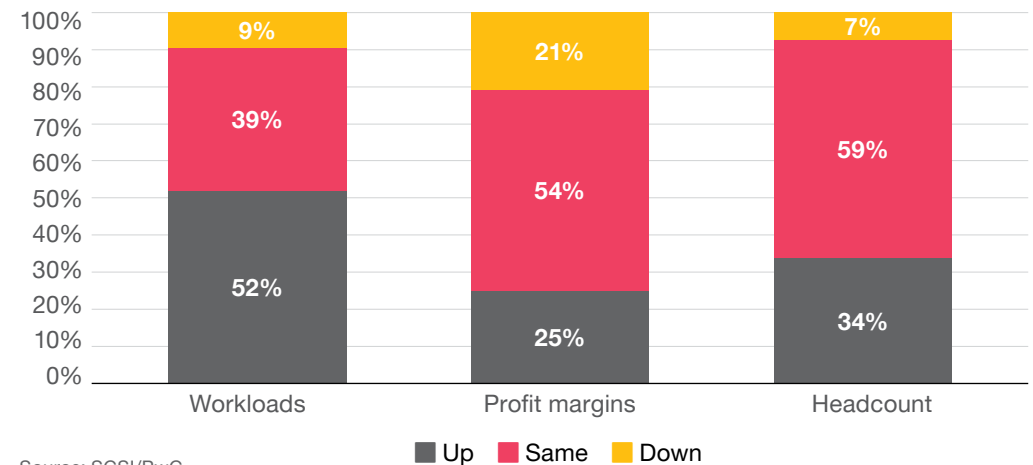
Headcount continues to be one of the most prominent issues facing the construction sector. Anecdotally, commentary from the construction survey highlighted that sourcing and hiring an adequate number of capable staff to meet consultancy demand is one of the largest challenges facing the industry.

Figure 4: SCSi/PwC Construction Activity Monitor Sentiment Index – 12-month expectations



Source: SCSi/PwC

Figure 5: Expectations for Workloads, Profit Margin and Headcount in 12 months' time (% of respondents)



Source: SCSi/PwC



Surveyor firms' capacity to take on more work increasing

While 52% of surveyors forecast an increase in workloads over the course of 2023, around 61% of those surveyed indicated that their firm is currently operating at full capacity and does not have the ability to take on additional work.

38% of surveyors who projected that their firm had capacity to take on additional work responded that they had capacity to take on an additional 26% of additional workload, on average. Last year's findings showed that 31% of respondents indicated their firm could take on additional work.

Availability of trades improving

58% of surveyor participants report that the availability of trades has decreased. While this is an improvement from the 82% that was recorded a year prior, it's reflective of the widespread labour supply shortages that continue to impact the sector.

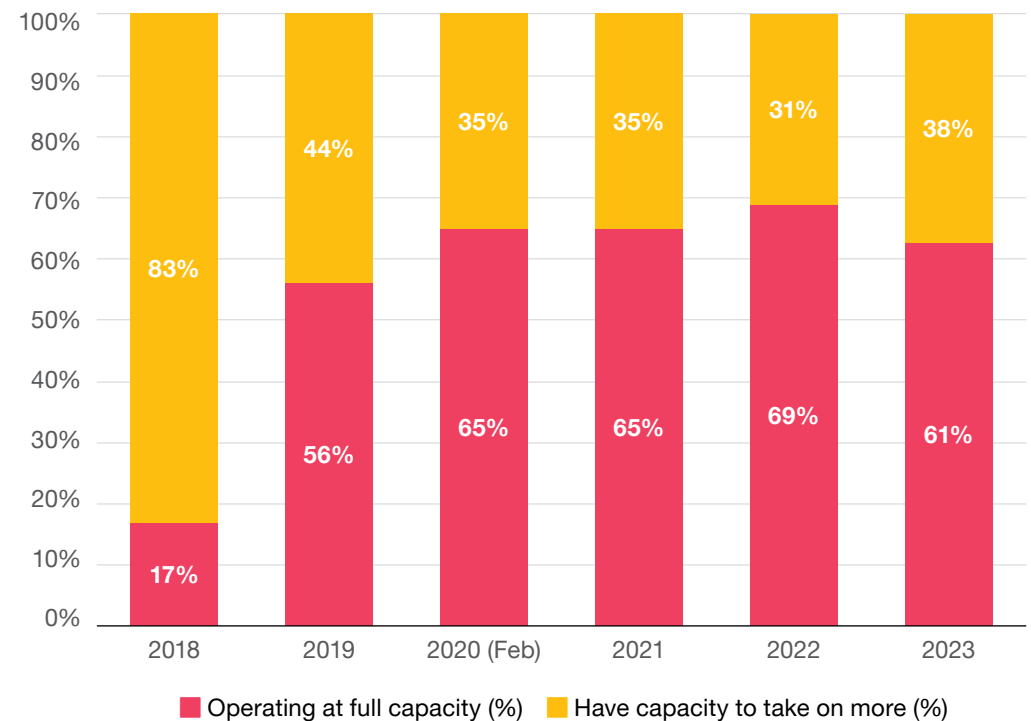
Chartered Surveyors stated in the member survey that skilled operatives leaving/retiring from the industry coupled with the low number of apprentices coming into the labour market is still a significant issue, but there is a positive sentiment from surveyors that trades are becoming more available. However, there continues to be a short supply of construction trades to meet ongoing and future demand.

Summary of activity across workloads, headcount and profit

Figure 4 illustrates the net balance trend over time of surveyors' expectations of changes to profit margin, workloads and headcount. There were two surveys that were issued to surveyors in 2020 (pre and post onset of COVID-19).

There was a drop in sentiment in 2020, likely brought on by Covid restrictions which hindered activity levels and overall productivity in the construction sector. There is also a very clear rebound whereby sentiment began improving in 2021 and in the beginning of 2022, which represents a return in activity to post-Covid levels.

Figure 6: Firms' Operating Capacity Over Time



Source: SCSi/PwC

Market Trends

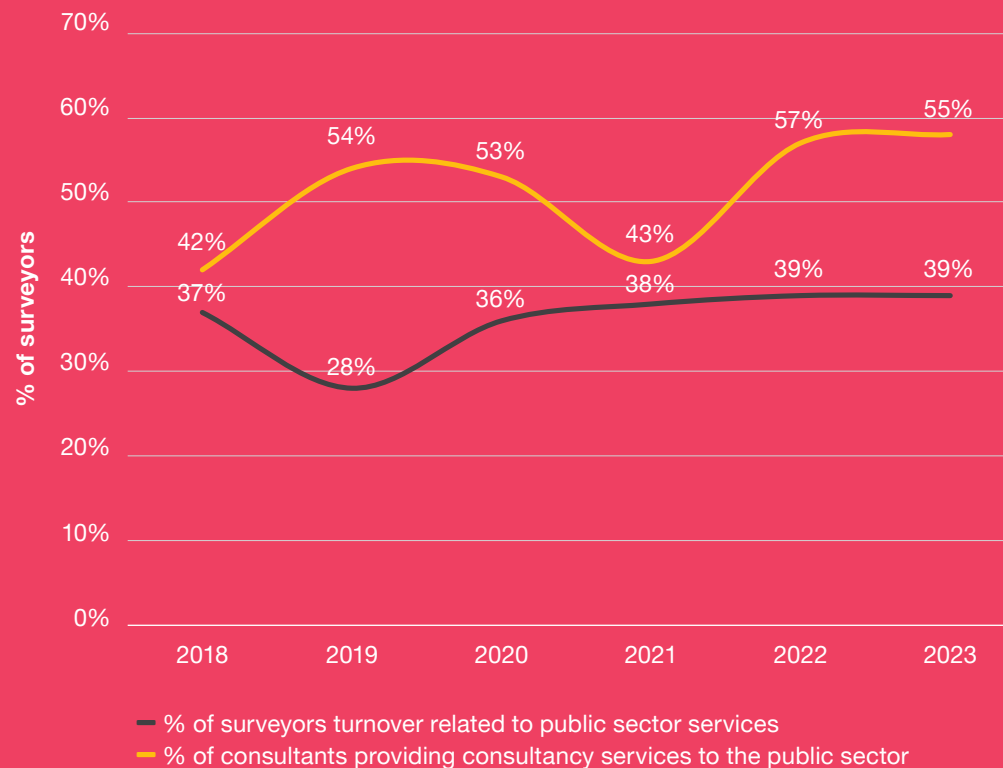
Public Procurement

Surveyor consultants involved in public procurement drops in latest results

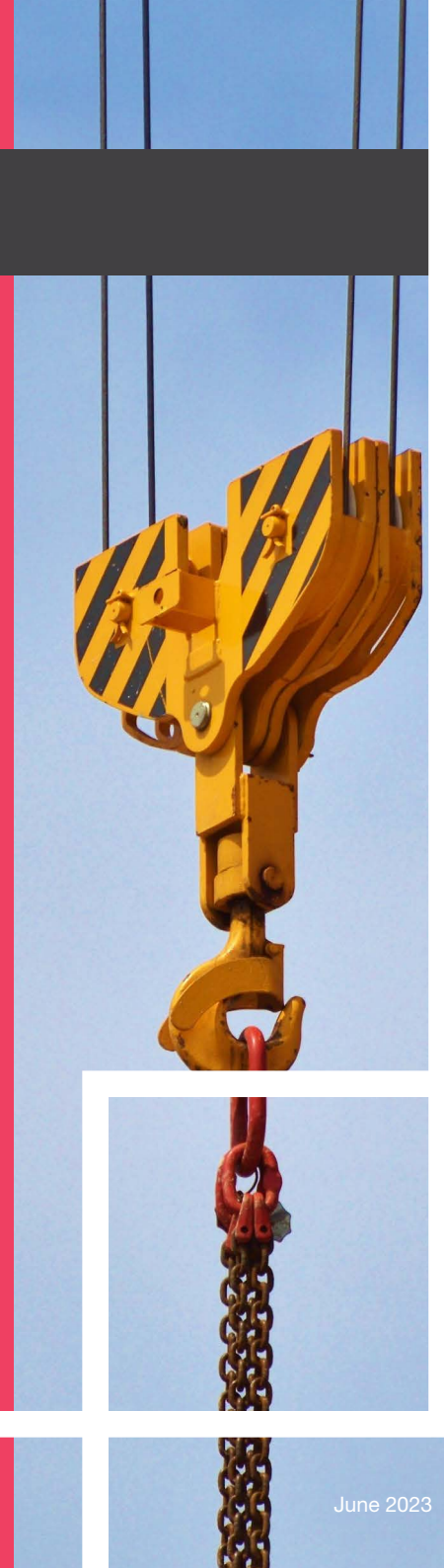
The SCSI/PwC Construction Market Monitor tracks the percentage of surveyor respondents that are active in public procurement. These services include project monitoring, design, project management, or budget management/contract administration of projects.

Overall, 55% of surveyor respondents provide some level of service to the public sector and of these, 39% of their turnover is derived from public sector work. The percentage of overall turnover from the public sector continues to remain stable while undergoing a slight reduction when compared to last year, whilst the percentage of surveyors participating in public procurement is on the rise since the index was established in 2018.

Figure 7: Percentage of Surveyor consultants involved in public procurement.



Source SCSI/PwC



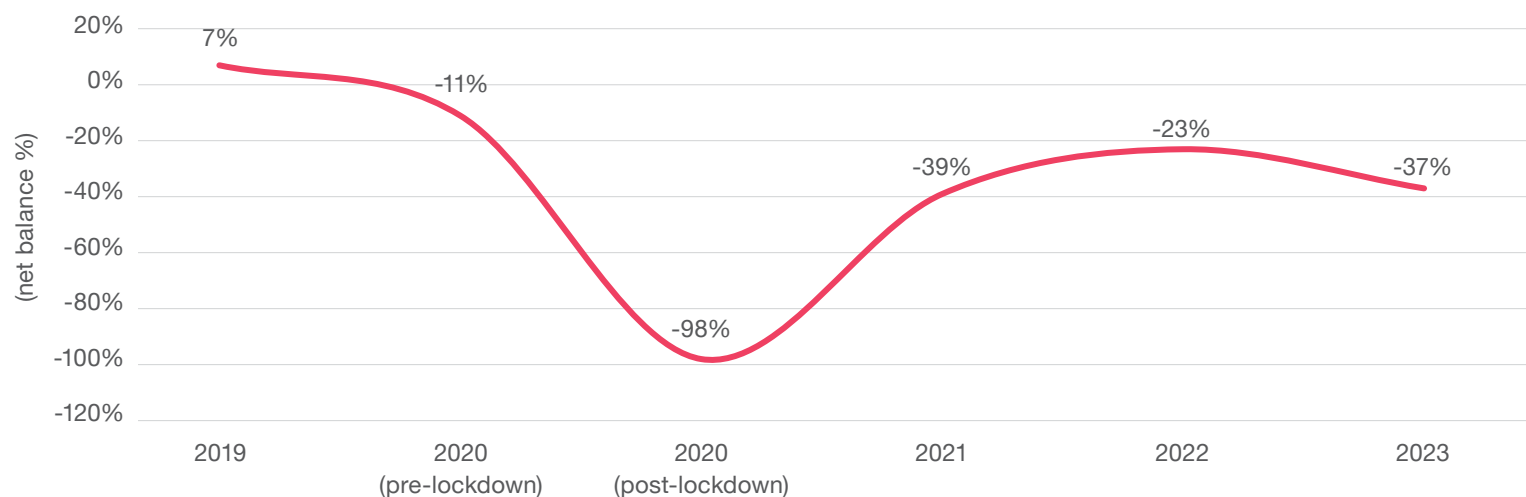
Raising Development Finance

Continued contraction of development finance availability

Despite the results from the survey indicating that the experience of respondents in terms of raising development finance has returned to pre-pandemic levels, they also show a downturn in sentiment in comparison to the year prior. A net balance of -37% of respondents indicated that they are finding development finance 'more difficult' to raise compared to 12 months prior, representing a 61% decrease compared to the previous year.

Surveyors ranked 'viability of projects' as the number one reason for the difficulties associated with raising development finance, followed by access to bank finance/credit and access to equity/venture capital. According to commentary from the member survey, the hike in interest rates has recently become a key reason why access to finance is becoming increasingly difficult to acquire. The higher interest rates are affecting exit yields and thus making more projects unviable.

Figure 8: Raising Development Finance



Source: SCSl/PwC

Technology

Technology has become a vital component within Ireland's construction sector in recent years, particularly given the growing importance of developing homes in a sustainable manner. According to the recent 'Construction in Ireland 2022: Building a Workforce for the Future' report one of the major challenges facing the industry is that short term thinking is burdening tech ambitions.² Despite the fact that most firms acknowledge the benefits of integrating modern technology within their firm, approximately 60% of construction companies are not planning to invest in any modern construction methods or emerging technologies over the next five years.

These findings align with the challenges outlined within the member survey whereby 'the time and cost associated with upskilling current staff to use digital tools' was found to be the largest obstacle in adopting new technology in construction. According to the member survey, the current cost of investment is high, particularly when compared with return over the short term. The risk of low returns during an uncertain market is particularly difficult for SMEs to consider. The role of technology is likely going to play an increasingly important role in the construction sector in the coming years as 90% of surveyors reported that digitization/increased automation is an integral part of the industry.

Challenges identified to adopting new technology in construction include:

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

² Construction in Ireland 2022: Building a workforce for the future, Autodesk Construction Cloud, 2022

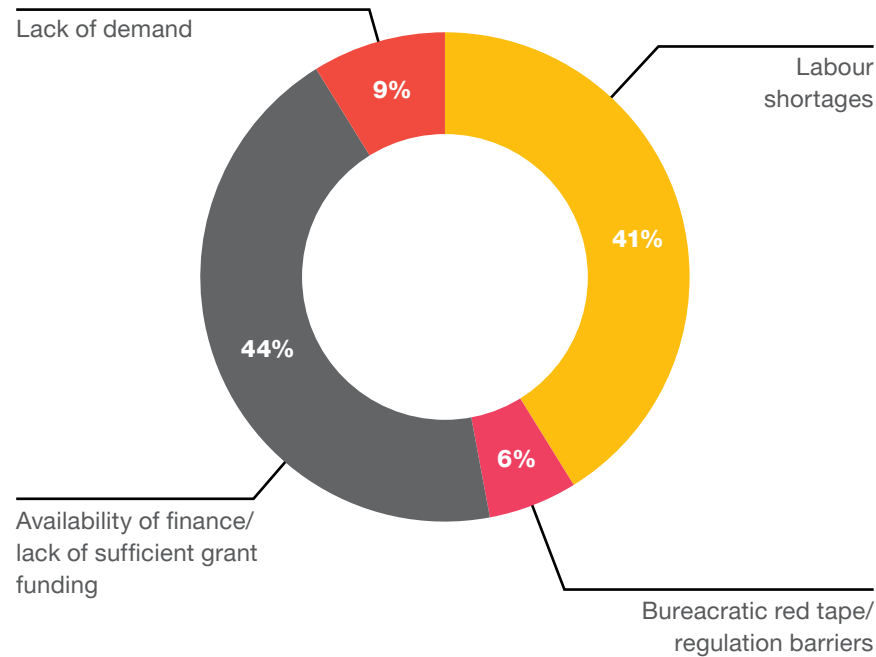
Retrofitting

The National Residential Retrofit Plan was announced in 2021 as part of the Climate Action Plan. The Plan outlined how the government will deliver its residential retrofit targets. The main objectives of the Plan are 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.

Surveyors outlined several factors within the survey as barriers/challenges to achieving the 500,000 residential retrofit targets (Figure 9) with a majority of respondents (44%) stating that 'availability of finances/ lack of sufficient grant funding' are negatively impacting the ability to achieve the 2030 target. According to some feedback from the member survey the current support grants may not be sufficient to ease the cost of retrofit and encourage more activity in this area, and the gap between the cost to retrofit versus the market value on completion can be challenging to manage.

Additionally, 41% of participants claimed that labour supply shortages are negatively impacting these projects. Respondents find that it is exceptionally difficult to acquire skilled labour, particularly specialist skilled trades in sustainable technology. One surveyor based in Dublin stated, *'there is a lack of professionals available to oversee and manage the retrofit works, which is very important for inspecting workmanship and important details onsite, such as vapour control layers or cold bridging details.'*

Figure 9: Barriers/challenges to achieving the 500,000 residential retrofit targets by 2030

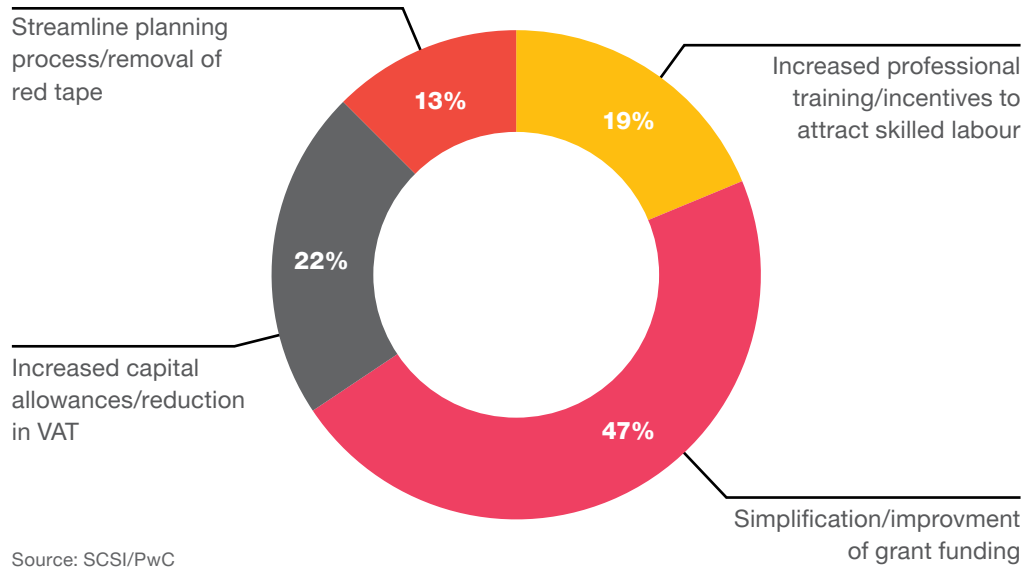


Source: SCSi/PwC



In terms of potential solutions (Figure 10) shows that 47% of participants say there needs to be further simplification/improvement of current grant funding. 22% of respondents listed 'increased capital allowances/reduction in VAT' as another viable solution to bridge the gap in costs and increase competitiveness in the market.

Figure 10: Incentives/supports necessary to increase retrofitting activity



Source: SCSi/PwC

Life Cycle Costings/Circular Economy Principles

Life cycle costings (LCC) represents considering all the incurred costs during the lifetime of the service, whereas circular economy is a model of production and consumption that involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. On average 28% of projects that participants worked on (up from 24% last year) had taken circular economy/ LCC into consideration, meaning that construction professionals are increasingly prioritising the long term economic and environmental sustainability of such projects.



Market Outlook

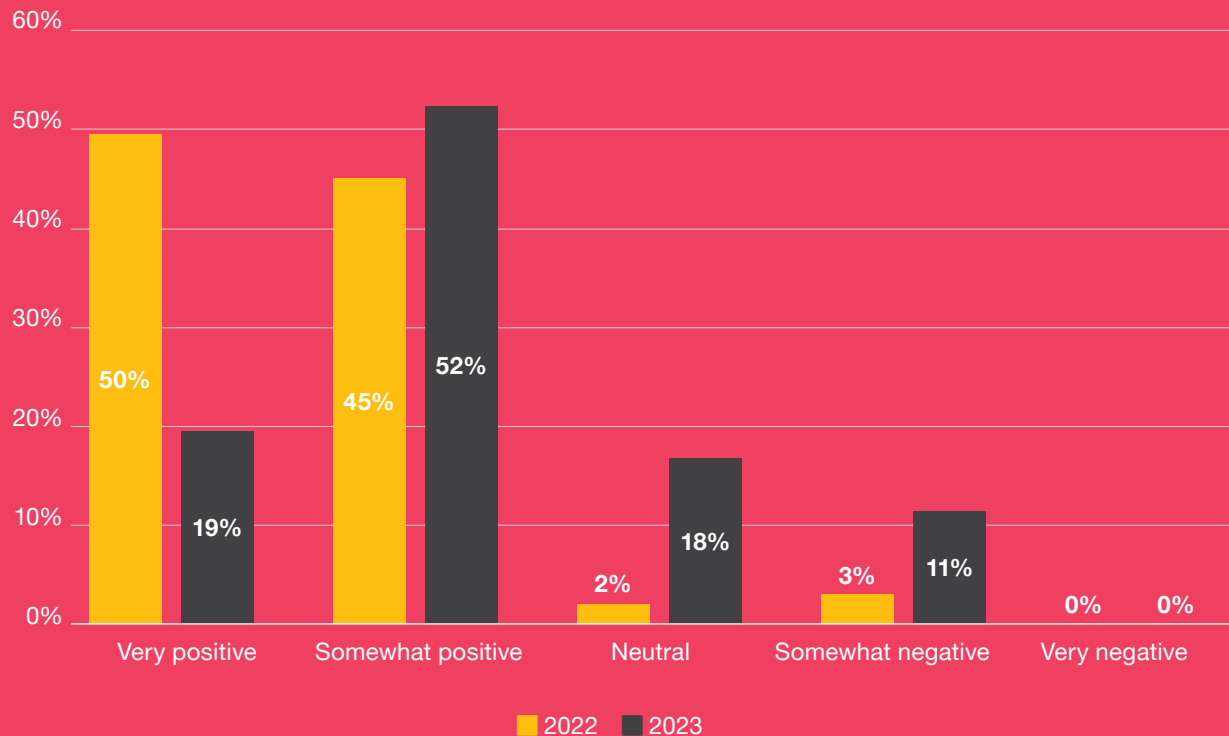
The outlook for the Irish construction sector in terms of activity levels remains positive, albeit sentiment has weakened versus a year prior with 71% of surveyor respondents reporting an overall “positive” outlook for the next 12 months (down from 90% in 2022).

The sector faces a number of challenges from both a macroeconomic perspective (with rising interest rates and high inflation rates) as well as more localised challenges around the availability of qualified labour, operating capacity and access to development finance. Survey respondents have signalled that these factors are directly influencing the feasibility and ultimately the viability of some projects.

However, the fundamentals of the Irish economy are positive with continued economic growth expected and strong underlying demographics. Furthermore, the Government remains committed to Housing for All, Project 2040 and the National Development Plan providing a clear pipeline of future projects and capital investment for the industry.

There are plenty of reasons for continued optimism within the Irish construction sector in terms of future activity levels. In order to capitalize fully on these opportunities, it is critical that the Irish construction industry continues to foster a culture of innovation and digitalisation and that it is supported and incentivised to do so. Addressing the slow rate of technology adoption will be key to tackling some of the current constraints within the industry, such as labour shortages, operational capacity and productivity.

Figure 11: Construction market activity outlook for the next 12 months



Source: SCSi/PwC

Chartered Surveyor Market Comments

Surveyor responses when asked to provide views as to what incentives/ supports or otherwise they think industry needs to increase retrofitting activity in the sector:

“The government has to make it simpler to access the funding/grants for individuals to get on with their work.”

Surveyor based in Connaught/Ulster

“Increased training for under graduates and more advertising from government on existing training schemes [are required].”

Surveyor based in Dublin

“Increase grants or low interest loans. Increase/ring fence budget to local authorities to encourage more activity. Tax incentives for landlords to encourage upgrading older premises.”

Surveyor based in Leinster

Surveyor responses when asked to provide views as to what considerations or supports should be given to assist in achieving retrofitting in the sector:

“Capital allowances should be allowed for certain retrofitting for energy upgrades or change of use to from commercial to residential use.”

Surveyor based in Connaught/Ulster

“Additional “on the job” training rather than off site educational courses might be a more pragmatic approach.”

Surveyor based in Leinster

“Review legislation to do with listed buildings and consider easing requirements to make retro-fitting more viable or look at introducing further incentives.”

Surveyor based in Munster

Surveyor responses when asked to provide views as to what they see as barriers/ challenges to achieving the retrofit target of 500,000 homes by 2030:

“Insufficient availability of required skills coupled with financial restraints and administrative barriers in achieving high level grants.”

Surveyor based in Munster

“A number of barriers; grant funding not sufficient enough to entice homeowners; and lack of skilled which will make 500,000 retrofit target extremely difficult to achieve.”

Surveyor based in Leinster

“Homeowners also need to pay the full price of the works before the SEAI grant (individual upgrade route) is reimbursed. This is a challenge if the initial funds are not available.”

Surveyor based in Dublin

Surveyor responses when asked to provide views as to what factors have been negatively impacting the availability of trades:

“Skilled operatives retiring from the industry coupled with the poor flow of apprentices coming up through the trades.”

Surveyor based in Munster

“The pandemic forced people to upskill, resulting in some tradespeople shifting to other areas of the construction industry (consultancy, site supervision, etc.) and reducing the opportunities for apprentices to learn their trade - leaving a deficiency in resources across the board.”

Surveyor based in Dublin

“Amount of new students taking up construction related courses have dropped that will have lasting impact on future projects.”

Surveyor based in Connaught/Ulster

Survey Methodology

This report has been informed and guided by the views, perceptions, and opinions of 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 May 2023 (155 respondents). The report 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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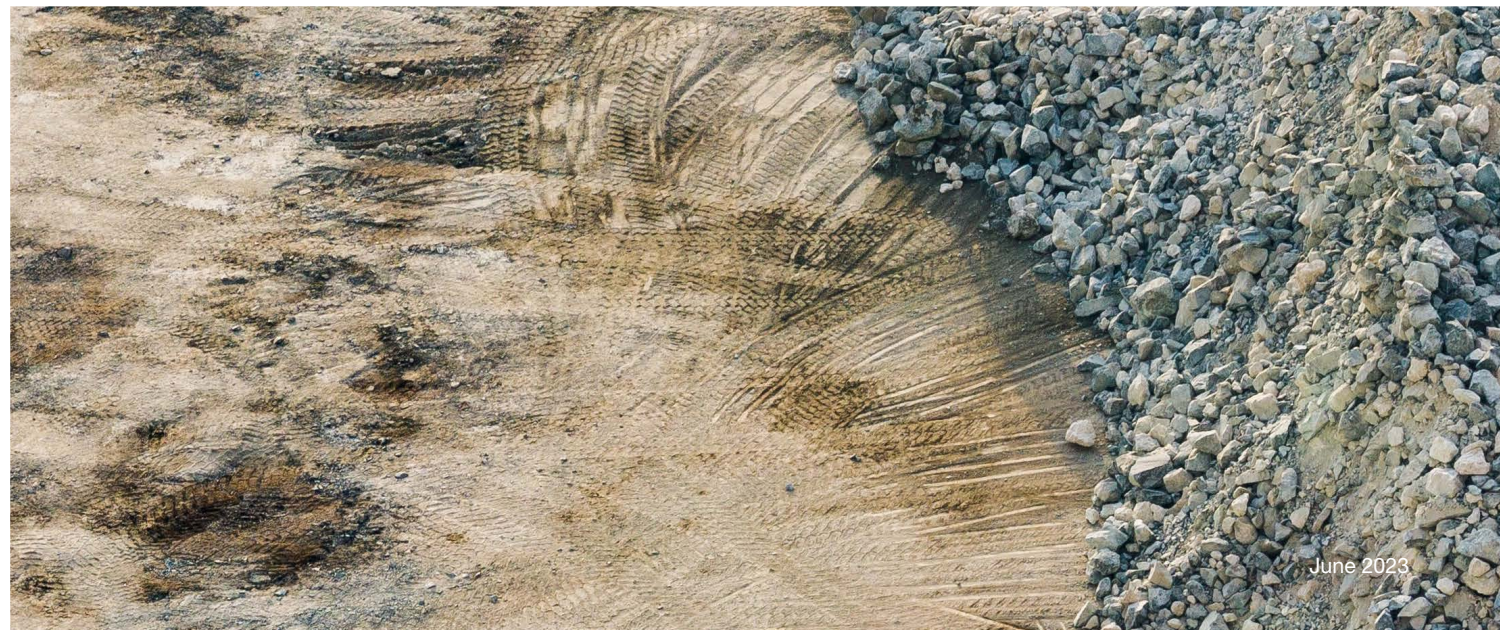
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