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Construction Industry Forecast 2023-2024

FOR THE REPUBLIC OF IRELAND

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About the authors

Allan Wilen BSc (Hons),
Glenigan Economics Director

Rhys Gadsby Bsc Econ,
Glenigan Senior Economist

Allan heads up Glenigan's Economics Unit and has over 30 years' experience in providing insightful market analysis and forecasts on UK construction and the built environment. Following 20 successful years as Economics Director at the Construction Products Association, Allan joined Glenigan 12 years ago. During this time Allan and his team have helped hundreds of businesses confidently develop their market strategies.

Allan sits on the Consulting Committee on Construction Industry Statistics for the Dept for Business, Energy & Industrial Strategy (BEIS), is member of a Construction Leadership Council working group and is a guest lecturer in construction at the University of Reading.

Rhys provides research and analysis for Glenigan's suite of monthly industry reports, and regularly supports customers with their strategic decision-making by offering industry insights and expertise.

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Executive Summary

2022 -5% 2023 +2% 2024 +14%

Construction activity in the Republic of Ireland rebounded from the impact of the pandemic in the second quarter of 2021; with the value of project-starts growing by 35% during the year as a whole. However, as the economic outlook has deteriorated, and the pace of the recovery has lost momentum in 2022; further consolidation is anticipated for 2023. Brighter economic prospects are expected to lift construction starts from 2024.

The Irish economy has continued to bounce back from the pandemic, despite global economic headwinds, with growth of 13.5% in 2021, and projected growth of 7.5% in 2022 according to the IMF. Whilst rapid growth during 2021 and 2022 has been supported by the strength of multinational companies, the wider economy has also grown strongly. Industrial production and consumer spending are currently well above pre-pandemic levels.

Table 1: Value of Underlying Project Starts (under €100 million) by Sector

£Million	2021	2022f	2023f	2024f
AGRICULTURE	93	74	59	77
CIVIL AND UTILITIES	592	533	559	615
COMMERCIAL	577	490	500	550
COMMUNITY AND SPORT	131	238	178	185
EDUCATION	310	501	542	585
HOSPITALITY	164	110	121	145
INDUSTRIAL	1,012	1,265	1,518	1,746
MEDICAL	392	353	477	548
RESIDENTIAL	4,914	4,177	3,968	4,563
ALL	**8,185**	**7,741**	**7,923**	**9,015**

Source: CIS & Glenigan

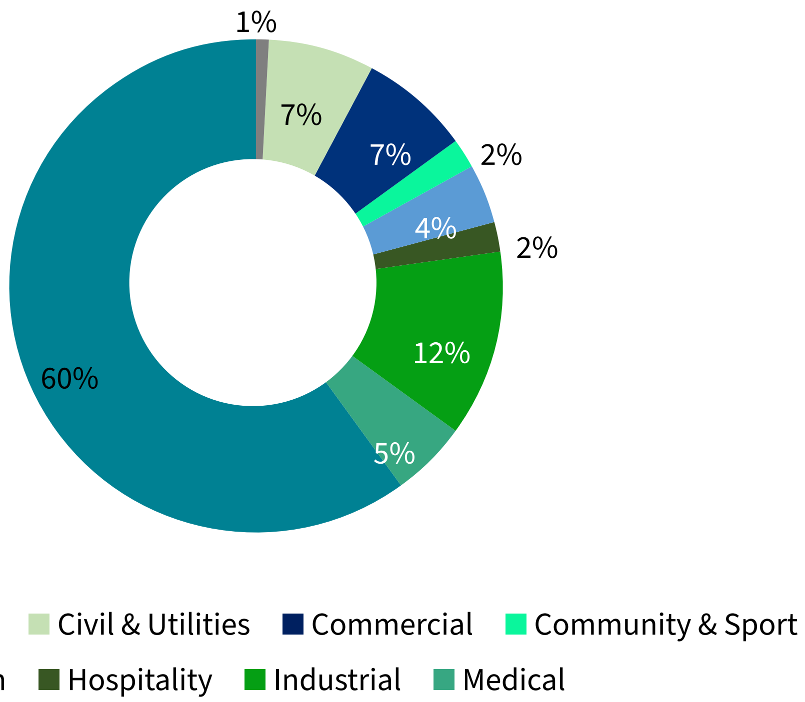
Higher energy costs and rising inflation are set to dent consumer confidence and slow consumer spending-growth during 2023. However, a substantial government support package will partially offset the impact. The Government estimates that modified domestic demand growth (excluding the distortion of the multinational sector) will slow sharply from 7.7% in 2022 to 1.2% in 2023, before strengthening in 2024. Inflation is predicted to average just over 7% next year.

Table2: Growth in the value of Underlying Project Starts (under €100 million) by Sector

Annual Change	2021	2022f	2023f	2024f
AGRICULTURE	-28%	-21%	-20%	30%
CIVIL AND UTILITIES	81%	-10%	5%	10%
COMMERCIAL	-23%	-15%	2%	10%
COMMUNITY AND SPORT	-25%	82%	-25%	4%
EDUCATION	-1%	62%	8%	8%
HOSPITALITY	131%	-33%	10%	20%
INDUSTRIAL	69%	25%	20%	15%
MEDICAL	3%	-10%	35%	15%
RESIDENTIAL	49%	-15%	-5%	15%
ALL	**35%**	**-5%**	**2%**	**14%**

Source: CIS & Glenigan

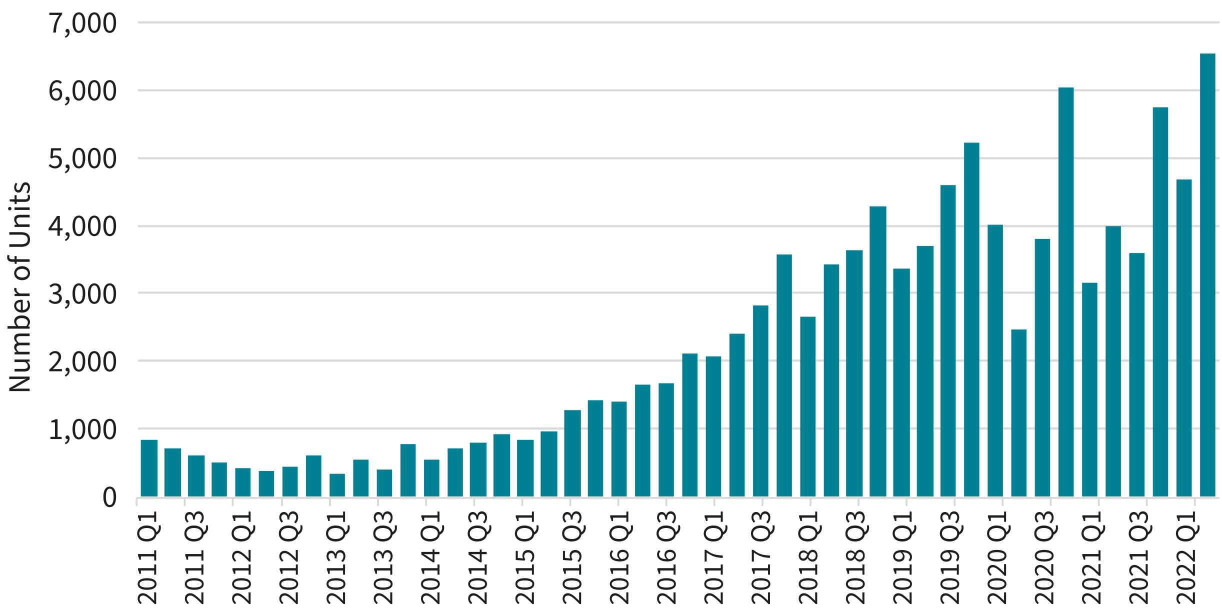
Chart 1: Value of Construction Starts in 2022 Q1-3



Private Residential

Residential is the dominant construction sector, accounting for 60% of projects started by value during the first nine months of 2022. Increasing housing supply is a major political priority. The Government introduced its 'fast track' initiative in 2017 to accelerate the progress of larger sites (100 units plus) through the planning system. This has subsequently helped boost the overall value of residential projects starting on-site. Although the completion of individual units on larger sites tend to be phased over a longer time period than for smaller sites, the measure has supported a step change for new unit completions over the last five years, despite the disruption during the pandemic.

Chart 2: Number of new housing units completed



Source: Central Statistics Office

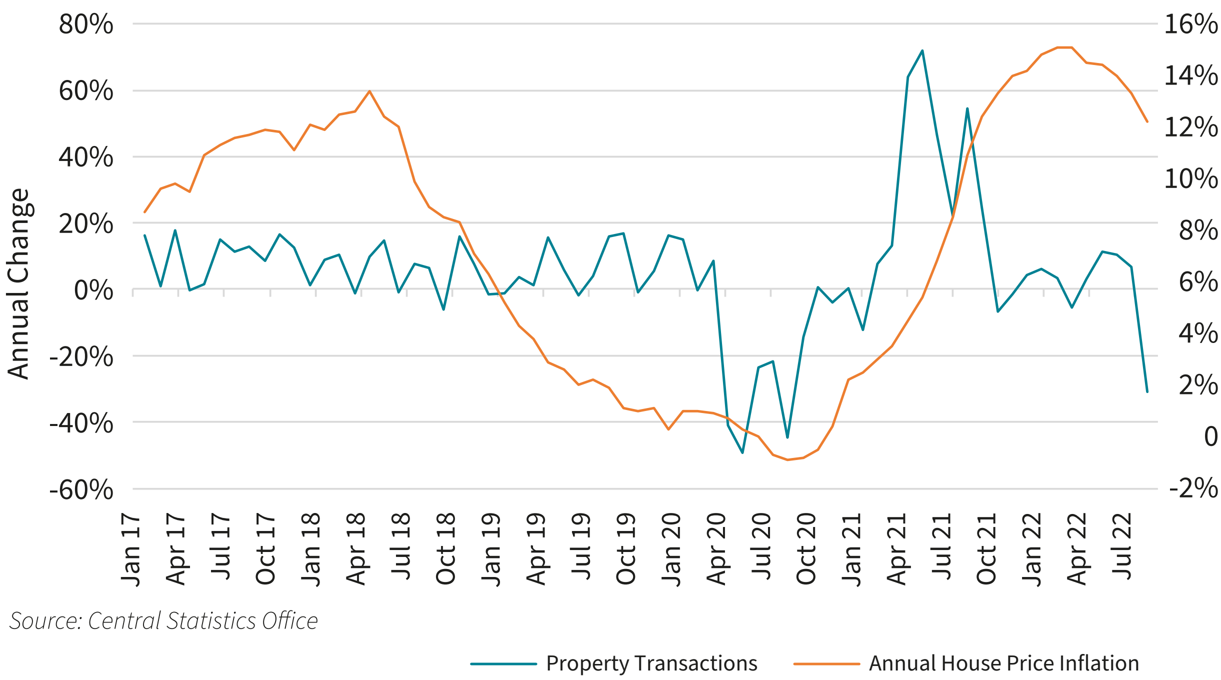
Strong demand from purchasers helped to boost the recovery in residential starts in 2021. After disruption in the first quarter, project starts rebounded sharply during the following quarters as developers pressed ahead with delayed projects. Subsequently, the value of residential starts rose by 49% last year.

House price inflation has moderated this year and the number of property transactions has plateaued after the strong recovery in market activity during 2021. Annual house price inflation has begun to moderate. Prices in August 2022 were 12.2% up on 2021 prices, down from a peak annual rate of 15.1% in March 2022. The number of property transactions during the first nine months of 2022 was unchanged on a year ago, although August saw a sharp drop in transactions. A further cooling in housing market activity is anticipated over the next twelve months.

A slowing in housing market activity, together with the sharp rise in construction material prices and labour shortages, is prompting developers to increase their focus on building out existing sites rather than starting new ones.

Residential starts have softened slightly during 2022 and are expected to be 19% down on the exceptional levels seen in 2021. Further consolidation is anticipated during 2023 as rising inflation slows households' income growth and increases consumer caution.

Chart 3: Housing Market Activity



Source: Central Statistics Office

Having plateaued during 2020 and 2021 after a number of years of strong growth, the flow of residential projects securing planning consent has fallen back this year. The number of residential projects securing approval during the first nine months of 2022 was 6% lower than the previous year, while the value of project approvals dropped by 24%. The decline in approvals and the weaker market outlook are expected to temper starts in 2023 as fewer larger projects are brought forward.

In contrast to approvals, the number and value of residential applications remains strong. The number of applications during the first nine months of 2022 were 10% up on 2021, while the value of applications grew by 37%. The rise in applications should strengthen the development pipeline over the medium term and support a renewed growth in project-starts from 2024 as the wider economic picture brightens.

Private Non-Residential

The value of industrial project-starts grew sharply last year: rising by 69%. A shift in consumer shopping habits to online retailers during the pandemic has fuelled increased investment in distribution and warehousing projects. Ireland has also emerged as a favoured data centre location for global tech companies. Demand for industrial space remains strong, with CBRE reporting that the Industrial and Logistics markets in Dublin experienced its strongest ever quarter; with the take-up of 187,000 sqm of floorspace in Q3: over three times the long-term quarterly average.

The development pipeline has also grown sharply over the last 24 months and has underpinned an estimated 25% rise in the value of starts during 2022. Amid slower economic growth and increased inflationary pressures, including the impact of rising material costs and labour shortages on some projects' viability, sector growth is forecast to moderate during 2023 and 2024.

Commercial sector starts peaked in 2019 and have fallen back progressively over the last two years. A weakening in planning consents during 2021 and the first nine months of 2022 points to a further decline. Although CBRE has reported a pick-up in interest from office occupiers for accommodation, and the marked strengthening in the value of planning applications this year, slower economic growth, and higher interest rates are expected to temper sector activity during 2023. Brighter economic prospects are forecast to support a 10% rise in sector starts during 2024.

Government Investment

Education starts increased sharply during the first nine months of 2022 and the sector is expected to remain a growth area over the forecast period. The Government's National Development Plan (NDP) sets out plans for substantial investment in new school buildings through its Large Scale Projects Programme. The Government anticipates that an average of 150 to 200 school building projects will be delivered annually over the 2021 to 2025 period.

The NDP also addresses the need to increase capacity in the Health Service to address increased demand for healthcare services, with capital funding growing by 12% per annum over the forecast period. However, although the value of project-starts fell back by 18% during the first nine months of 2022, the value of health projects securing approval was little changed on the previous year. This is expected to moderate the rise in sector starts to 10% next year, with stronger growth of 15% forecast for 2024.

The value of civil and utilities project-starts fell back 18% during the first nine months of 2022 after a sharp 81% jump in starts in 2021. Whilst starts are forecast to decline by 10% this year, they will remain at historically high levels. A firm development pipeline is expected to support further modest growth over the forecast period.

Key Recommendations

Construction faces a challenging trading environment. The war in Ukraine has stalled the post-Covid recovery and exacerbated the disruption of supply chains and materials and energy costs. Firms will have to be responsive and adaptable in order to mitigate risks in the current marketplace and exploit new opportunities as they emerge over the next two years.

IDENTIFY AND EXPLOIT NEW GROWTH AREAS

The pattern of construction activity is being reshaped. Over the next two years, the best performing sectors will differ from those prior to the pandemic. Structural changes are expected to create new opportunities in warehousing & logistics, and increased government funding is expected to drive the education sector. And, whilst the value of civil and utilities project-starts fell back this year, they remain at historically high levels and a firm development pipeline is expected to support modest growth over the forecast period.

Firms will need to target these opportunities, ensuring that they have the expertise and resources to increase their exposure to growing markets and locations.

FACTOR-IN SUPPLY SIDE CONSTRAINTS

A wide range of construction products are currently subject to extended delivery times and regular sharp price hikes. Contractors and sub-contractors should seek to identify and mitigate any potential interruption to product supply, including those from overseas sources.

Material and labour shortages are likely to increase cost pressures. Contractors and sub-contractors should factor-in their impact on their costs and development schedule when bidding for work.

MITIGATE RISK

Supply-side constraints are disrupting project schedules and extending construction times, with implications for workload, turnover and cashflow. Delays also increase potential exposure to unanticipated increases in material costs. The slow pace of site development will delay stage payments from clients and push back the timing of when late trades are required on-site. Contractors and sub-contractors may wish to offset the lower monthly revenues generated per site by spreading their workforce across a greater number of projects.

Order books may also be vulnerable to rescheduling or reappraisal of projects by clients revisiting their cost and viability.

A diversified client base will reduce exposure to any one client with a work pipeline spread more evenly over a larger number of customers. This can help reduce the threat from any financial crisis or adverse change of payment terms by any one firm. Supply chains should also be reviewed to ensure that firms are not over exposed to just a few clients.

ON-SITE EFFICIENCY AND COLLABORATIVE WORKING

Whilst current product supply disruption should subside over the forecast period, the availability of skilled labour is likely to remain as a constraint.

Although the slowing in industry workload may partially ease this pressure near term, skilled labour availability threatens to increase construction costs and disrupt the timely delivery of projects. This will intensify the need for firms to use on-site labour more sparingly and effectively in order to accommodate rising workloads.

Companies should invest in design solutions, site operating practices, and offsite manufacturing options that reduce the reliance on site labour to safeguard the timely and profitable delivery of projects. In many cases this will involve a more collaborative approach and the use of digital solutions to cut waste and accelerate design and construction processes.

ADOPT DIGITAL SOLUTIONS AND PROCESSES

The pandemic accelerated the adoption of digital systems, both pre-construction and on-site, as more traditional ways of working have been disrupted. Investment in an effective customer relationship management (CRM) system, digital marketing channels, a modernised salesforce, and implementation of a robust sales process will help firms to rapidly identify and target emerging opportunities, sustain their workload, cut the cost of winning work, improve efficiency, and enhance profitability.

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