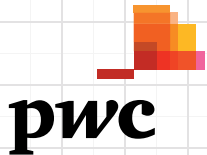




SCSI/PwC Construction Survey Report 2017



May 2017

Contents

Foreword

1 *Executive Summary*

2 *Activity levels / Construction sector output*

3 *Construction costs*

4 *Skills shortage and employment in the industry*

5 *Brexit*

6 *Financing*

About the Research

Foreword

Claire Solon, President of the Society of Chartered Surveyors Ireland

The construction industry has increased in activity in 2016 and this momentum is forecast to continue into 2018. I am delighted to see that this is not just a Dublin phenomenon and reports from respondents suggest that this increase in confidence and activity is beginning to reach our regional urban centres. This recent turnaround in performance is welcomed however increased activity levels provides its own set of challenges.

Our colleagues in industry report that there is a chronic shortage of suitably skilled craft workers and professionals to keep up with activity levels and this is hampering the industry's ability to cater for this demand. Whilst government has announced ambitious investment plans in education, infrastructure, housing and health over the short to medium term time horizons, getting access to particular trades such as specialist sub-contractors and certain professionals is proving difficult. As a professional organisation representing over 5000 chartered surveyors across Ireland, we continue to raise this issue with government and call on our policy makers to consider our suggestions and recommendations for immediate implementation. Following the release of our skills shortage report in 2016, we expect that only 50% of jobs will be filled in the surveying profession in the next three years.

Finally, I am delighted that SCSi and PwC have come together in publishing an authoritative report on the state of our construction sector not only in Dublin but

across the country. We hope that you will find this report useful which will hopefully become the first in a series of publications.

Claire Solon

Joanne Kelly, Partner, PwC Ireland Real Estate Leader

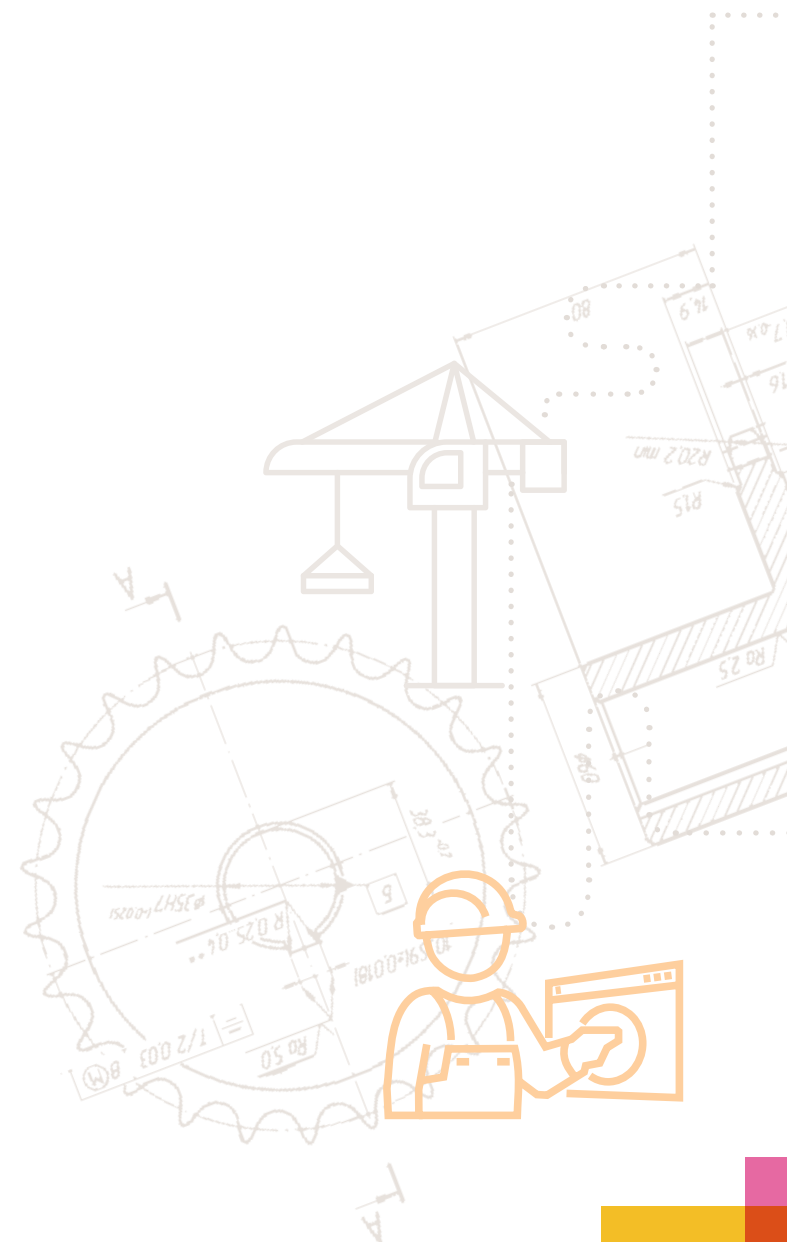
Sentiment within the construction industry is strong and the outlook for 2017 is positive, with further increases in activity expected across all sectors. However, there are a number of challenges currently facing the industry, and of these, increasing construction costs is causing the greatest concern.

Linked to this is the difficulties encountered by the industry in attracting and retaining skilled craft workers. Prompt remedial action is essential in order for the industry to continue to grow and deliver on its ambitious activity levels.

The construction sector, like most sectors across the economy, is attempting to understand what Brexit will mean for its members. There will undoubtedly be opportunities, as well as challenges, and it is imperative that businesses within the construction sector start to assess what the likely impact of Brexit will be for them.

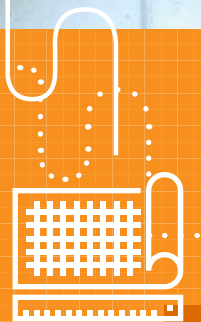
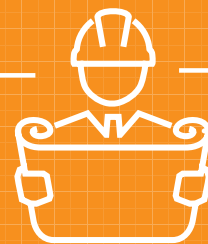
We hope that you find this report and the analysis contained therein informative. We are delighted to have partnered with SCSi on this survey.

Joanne Kelly





1 *Executive Summary*



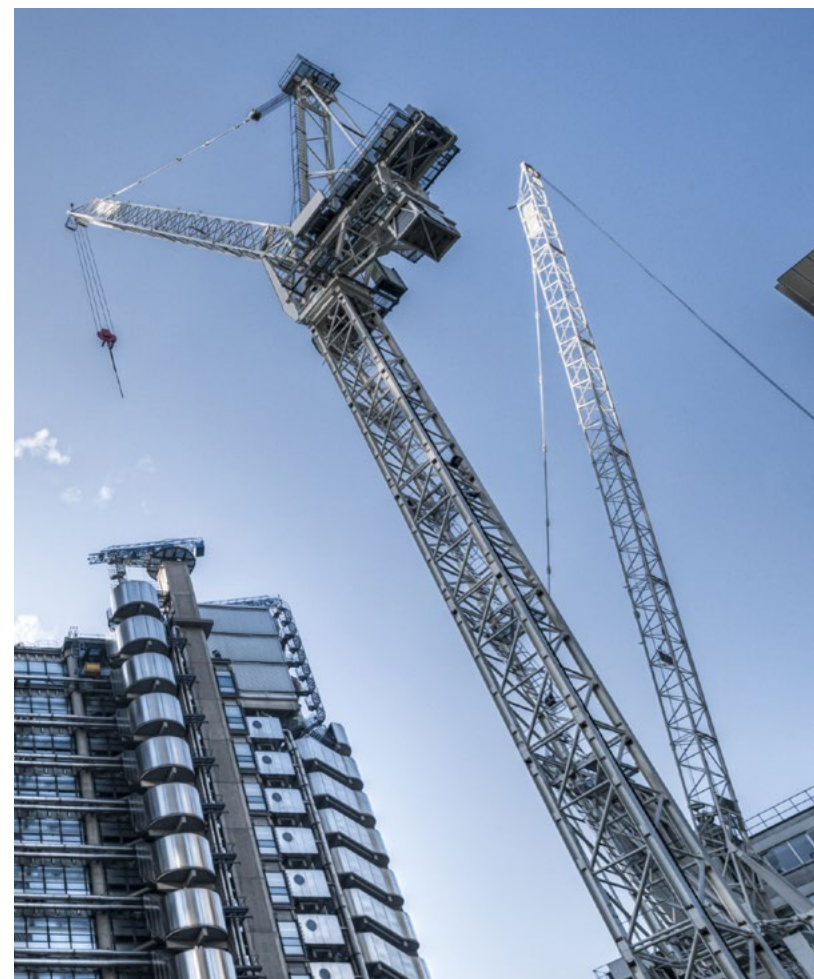
Executive Summary

We are delighted to present the results of the 2017 SCSI/PwC Construction Survey which reflects the views of 248 construction professionals working within all sub sectors in our construction industry. Our report provides in-depth analysis of the construction industry including trends and challenges being experienced on the ground.

Construction output is currently estimated to be at 2001 levels, employing over 140,000 people compared with just under 95,000 people at the lowest point in 2013. Much of the construction activity centres on new office development and office fit outs, primarily in the Greater Dublin Area. Our regional urban centres are seeing some activity improvements, but the level of activity is well behind that in the capital. The SCSI / PwC report highlights that the high cost of construction is still a barrier to increasing activity in the residential building sector. The SCSI House Delivery Cost Report published in 2016 established that 45% of the total cost of constructing a three bed semi detached home accounted for 'bricks and mortar', with the other 55% accounting for VAT, levies, finance, Part V and connection charges. The Central Bank of Ireland predict that the Irish

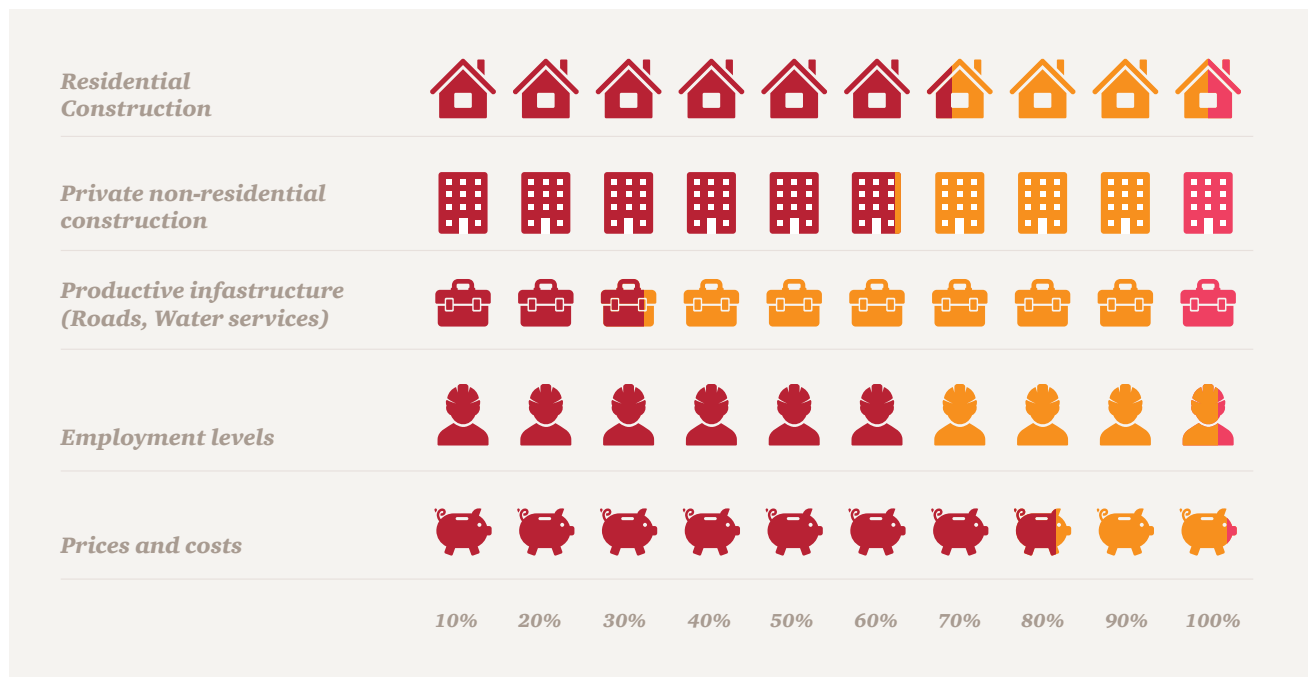
economy will expand in GDP terms by 3.5 % in 2017 and by 3.2% in 2018. These growth projections pose challenges, as the industry grapples with sourcing adequate levels of trades/ professions to fill important vacancies. 63% of our respondents indicated that they expect the number of employees to increase in the next 12 months. However, when we asked respondents what are the top issues facing the industry, the number one issue was the lack of skilled tradespeople, particularly plumbers and wet trades such as plasterers and dry lining specialists.

In terms of the outlook for our industry, now that Article 50 has been triggered and Britain has formally begun the Brexit process, there is also a focus on how stakeholders in the construction industry view the impact of Brexit on their industry, with the majority (36%) stating that they are uncertain of the impact of Brexit with 34% saying it will have a negative impact on their business activity in 2017. The impact of Brexit is expected to impact most negatively in the regions outside of Dublin and the greater Leinster area with 58% and 50% of respondents operating in the Connacht/Ulster and Munster region, respectively, anticipating that Brexit will negatively impact their business. In the Dublin and greater Leinster region, the level of uncertainty around Brexit is higher, with 40% of respondents in both regions saying they don't know at this point, how Brexit may impact on their businesses.



Key statistics at a glance:

When compared to 2015 how would you describe the following aspects of your firms construction related activity during 2016?



to release local authority owned lands for development by the private sector is positive and according to respondents, 48% expect an increase in social housing activity in 2017 of between 6% and 20%.

Confidence across all other sectors regarding increased activity levels is high particularly with regard to productive infrastructure. 72% of respondents in the infrastructure construction sector confirmed that they expect output levels to increase in the year ahead. This expected increase may be partly due to the Government's plans, as set out in the Infrastructure and Capital Investment Strategy 2016-2021, for €27 billion investment over this period. The lack of investment, principally public expenditure, is the key challenge in this sector. Other concerns raised by respondents were planning delays and conservative spending by Government.

50% +
of respondents
believe construction
activity increased
in 2016

Ensuring sufficient delivery of social housing has been a key challenge for government over recent years. With an overreliance on the private sector to cater for high demands on accommodation, Government's social housing strategy of delivering 47,000 units over the next six years is critical to meet current and future needs. Respondents to the survey however, point to lack of investment and delays with public procurement as the main reasons for the low number of units being completed. The recent announcement by Government

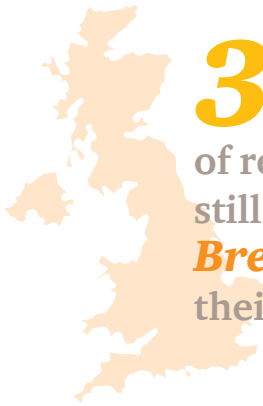
63%
revealed that they plan
to increase employee
numbers over the next
12 months



73% of respondents experienced difficulties recruiting skilled workers *in 2016*

An acute shortage of skilled workers continues to be a huge challenge for the construction industry overall, with the survey identifying a lack of sufficiently skilled crafts workers, quantity surveyors and engineers as particular areas of concern.

This shortage creates heightened concerns when coupled with the fact that 63% of respondents expect to increase their employee numbers over the next 12 months.



36% of respondents are still unclear as to how *Brexit may impact* their business.

Uncertainty around what impact Brexit may have on the industry remains, with 36% of respondents unclear as to how it may impact their businesses. 43% of respondents believe that the UK exiting the European Union will impact their businesses with the vast majority anticipating that the overall impact will be negative.





2

Section 2:

Activity levels / Construction sector output



Section 2: Activity levels / Construction sector output

Residential

65% of respondents experienced an increase in the number of residential units built in 2016 whilst 32% of respondents stated that the level of residential construction output in their businesses remained static during 2016. Encouragingly, 90% of respondents expect the level of residential construction output to increase over the next 12 months. Given the acute housing shortage, the anticipated increase in residential construction output is welcomed.

Housing output is still considerably behind what is required for a growing economy and population.

With the Government's stated objective for construction to increase to 25,000 units per annum by 2020, a considerable deficit is likely to persist for many years. The cost of construction is identified by respondents as the key challenge facing residential construction in 2017.

This should not be a surprise – the industry has repeatedly highlighted that the overall delivery cost of housing, including levies the cost of finance, VAT, Part V and other connection charges is one of the main impediments to houses being built.

Overall expected % change in residential construction output over the next 12 months (2017)



Non-residential (Industrial, Commercial (office/retail) and Tourism (e.g. hotels))

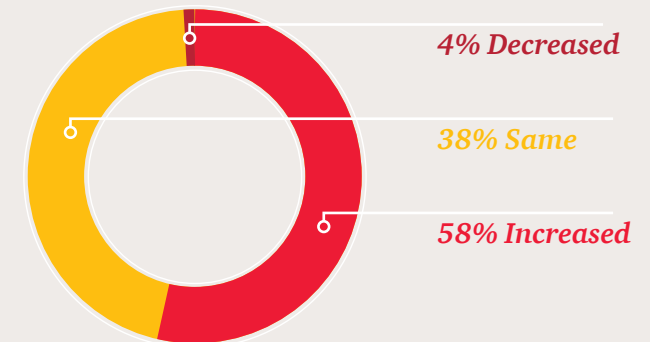
Overall, output in the non-residential sector has increased, with 58% of respondents reporting an increase in output in 2016. It is encouraging to see an increase in output for these sectors especially the industrial sector which has been slower to recover since the economic recovery.

Although the recorded increases across offices, retail and industrial are modest with the majority of respondents reporting increases of 1% to 5%, further increases are anticipated for the year ahead, with 75% of respondents believing that non-residential construction output will increase in 2017.

Access to finance followed by access to trades/labour were the two top challenges facing this sector in the next 12 months. Both challenges have a direct impact on construction costs.

We are already witnessing this trend as illustrated by the SCSJ Tender Price Index, which is a long-established index charting commercial construction tender prices. This indicates that cost/price inflation is running at 6% per annum and the index is already at 2008 levels. Forecasts are similar for first half of 2017 with 3.3% predicted for Dublin and 2.8% outside of Dublin.

Breakdown of % change in private non-residential construction output in 2016 (compared to 2015)



Breakdown of % change in private non-residential construction output over the next 12 months (2017)

Industrial



Commercial (Retail/Offices)



Tourism e.g. hotels



10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Increase
Same
Decrease

Productive Infrastructure (roads, water, energy, communications)

Overall, the productive infrastructure sector has remained static, with 54% of respondents reporting no increase in output in 2016. Roads was the only sector to increase, with 52% of respondents reporting an increase in output. It is positive to see that the majority of respondents (76%) expect their level of productive infrastructure output to increase in 2017 which is possibly due to plans announced by government as set out in their Infrastructure and Capital Investment Strategy 2016 - 2021 for €27 Billion investment over this period.

In **2017**

what do you expect the % change
in your company's output for

**productive
infrastructure**

construction to be
compared to 2016?



Expected change in output for Productive Infrastructure output in 2017



Communications

Increase 77%

Same 18%

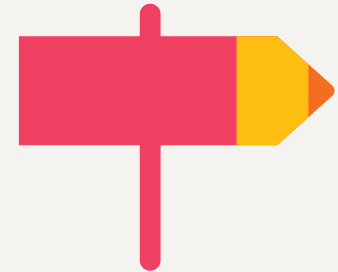
Decrease 5%



Water

Increase 82%

Decrease 18%



Roads

Increase 77%

Same 18%

Decrease 5%



3

Section 3: Construction costs

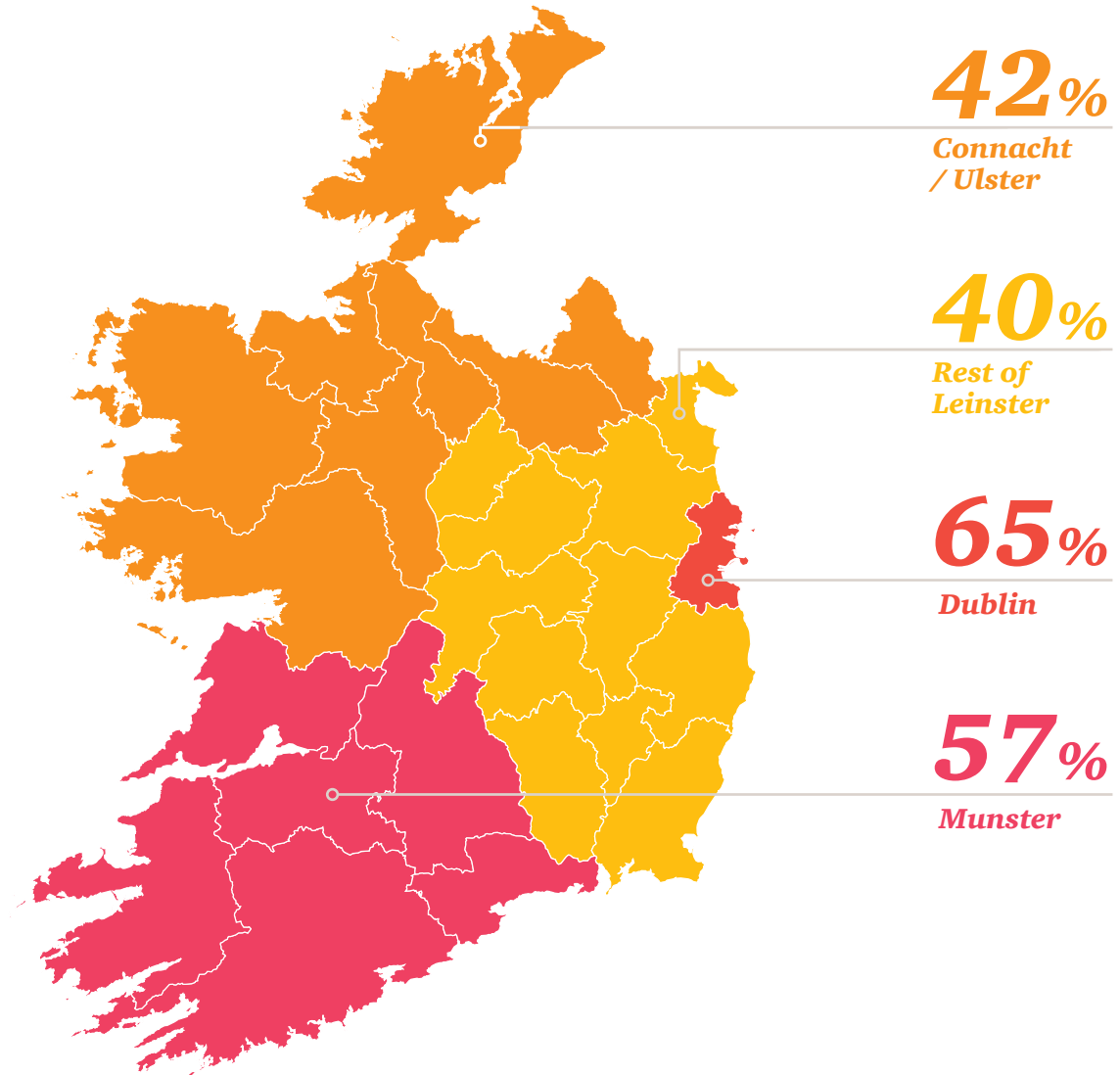


Construction costs

Having identified construction costs as one of the key challenges for residential construction, it is not surprising that 75% of respondents nationwide indicated that construction costs increased in 2016. Much of this increase in costs is primarily due to increased demand for construction services rather than increases in materials. According to the CSO, building materials are increasing at approximately 2% per annum. In contrast, the SCSi Tender Price index has identified price inflation at over 6% per annum, largely due to the increased level of activity in the industry across most sectors. If price inflation continues to grow at the current level, it is anticipated that pricing levels will return to the levels last seen in 2006 and 2007 in the next few years.



of respondents per
region who reported an
increase in prices / costs
in 2016





4

Section 4:

Skills shortage and employment in the industry

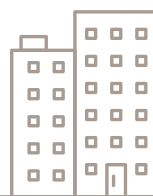


Skills shortage and employment in the industry

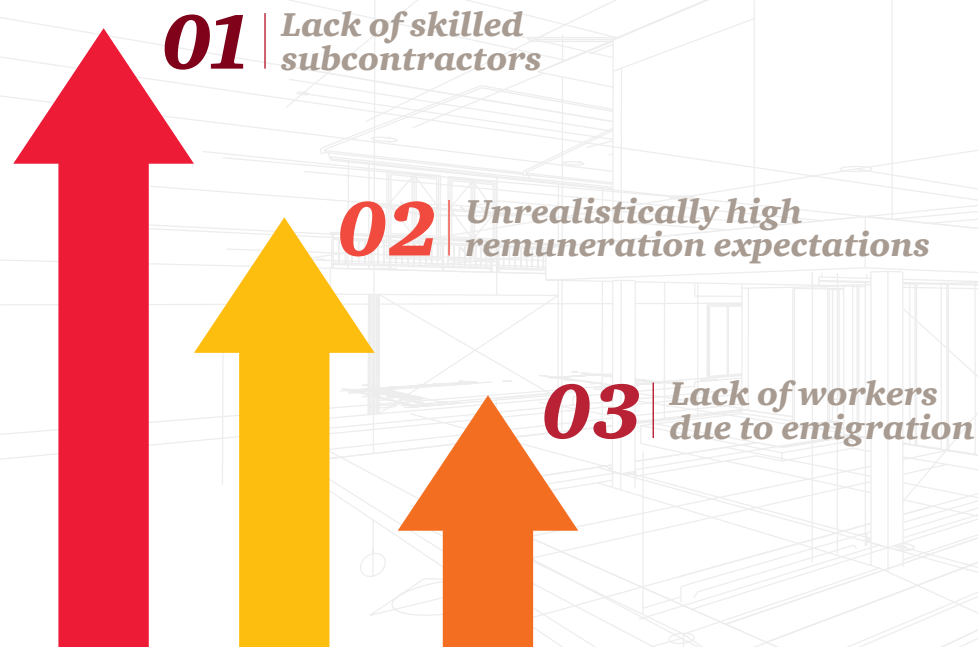
A skills gap continues to be an acute issue in the construction industry. Over 70% of respondents say that they are experiencing difficulties recruiting people with specific skills.

The survey highlights particular difficulties hiring skilled craft workers, quantity surveyors and engineers. Encouragingly, 63% of respondents expect the number of individuals employed in the sector to increase in the next 12 months but significant challenges still exist. The top 3 challenges identified are a lack of skilled subcontractors, unrealistically high remuneration expectations and a lack of workers due to emigration.

In an effort to cater for increased activity, a number of short term solutions have been devised to address the challenges, particularly for qualified trades, including sourcing labour from abroad. However, the high cost of accommodation, particularly in Dublin, is now making Ireland an expensive place in which to work. For example, supply chain managers are currently trying to recruit dry lining specialists from Eastern Europe and some gypsum product manufacturers have provided a facility to train new recruits. Our respondents are particularly concerned that, with the increased demand for private sector works, coupled with forecasted plans to increase refurbishments in the public sector, all trades will be in high demand at varying levels of urgency.



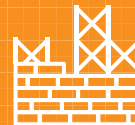
With employment in mind,
please rank the **TOP THREE** key
challenges currently facing your company?





5

Section 5: Brexit



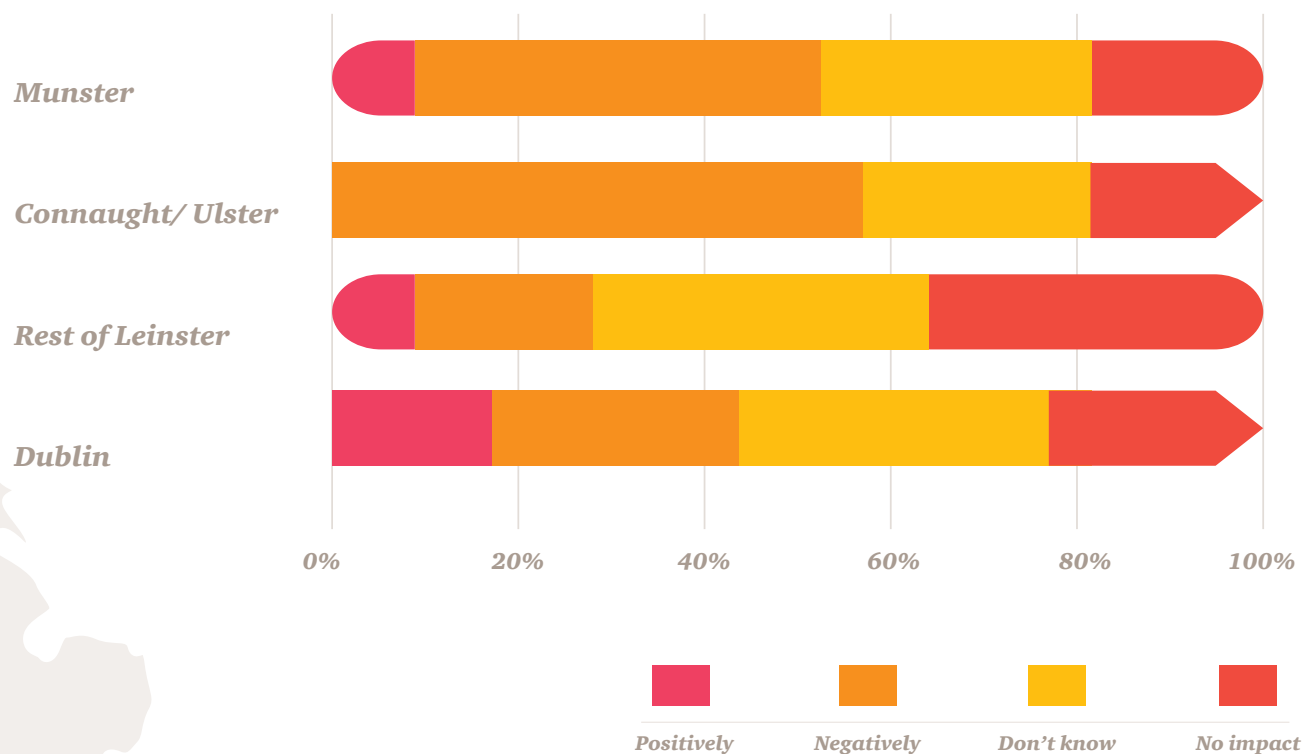
Brexit

Over one third (36%) of respondents remain unclear as to how Brexit might impact their businesses whilst 34 % believe their business will be negatively impacted.

For those respondents who indicated that Brexit would impact negatively on their businesses, 73% thought that if the UK were to exit the European Union it would increase uncertainty generally on investment decisions and 27% said that their revenues from UK projects would be impacted due to the uncertainties.

On the positive side, some of the comments provided by respondents indicate that they expect it may increase demand for office space in Dublin and development overall; others said they would expect more foreign direct investment to come to Ireland, and potentially result in lower materials costs on goods imported from the UK.

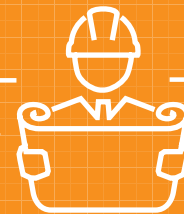
How do you expect Brexit to impact your business?





6

Section 6: Financing



Financing

This year's survey shows that the requirement for non-bank finance is reducing in the industry with 88% of respondents confirming that they do not intend seeking non-bank finance in the year ahead. In terms of the alternatives to bank financing, going the private equity route continues to be the most popular (45%) source followed by joint venture arrangements (25%) and mezzanine finance (20%).

For the first year, crowdfunding featured as a first choice for 10% of respondents. This is interesting as this would not typically be associated with the industry and the fact that crowdfunding is not currently a regulated activity in Ireland means that it can be difficult to combine it with more traditional finance.

88% revealed
that they do not intend
to seek non-bank finance
in the next 12 months



12%
NO



88%
YES

About the Research

This report has been informed and guided by the views, perceptions and opinions of 248 construction professionals.

These professionals work at the coalface of the property and construction markets in large corporate firms, construction agencies, government bodies and financial institutions. In February 2017, an online survey was conducted to determine the activity levels in the industry and to drill down into the challenges currently being faced by industry.

SCSI and PwC would like to thank all those that contributed to this report.

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