CIS CONSTRUCTION INFORMATION SERVICES

# Construction Industry Forecast 2023-2025

FOR THE REPUBLIC OF IRELAND

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# About the authors

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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.

Yuliana 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

2023 0%   2024 +12%   2025 +6%

**A strong post-pandemic rebound in construction activity in the Republic of Ireland lost momentum last year as a more uncertain economic outlook, high inflation and rising interest rates tempered investor and consumer confidence. The value of project-starts slipped back 7% last year after a 36% jump during 2021. Despite this decline starts were still 20% above pre-pandemic levels. Further consolidation is anticipated for 2023, but sustained economic growth and rising household incomes are expected to help lift construction starts from 2024.**

Despite global economic headwinds, the Irish economy has bounced back strongly from the pandemic with double digit economic growth during both 2021 and 2022. Whilst the rapid pace of growth over the last two years has been flattered by the strength of the multinational enterprises, 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 | 2022 | 2023f | 2024f | 2025f |
|---|---|---|---|---|---|
| AGRICULTURE | 93 | 65 | 52 | 52 | 55 |
| CIVIL AND UTILITIES | 616 | 499 | 524 | 576 | 605 |
| COMMERCIAL | 577 | 523 | 534 | 587 | 646 |
| COMMUNITY AND SPORT | 128 | 210 | 158 | 164 | 172 |
| EDUCATION | 301 | 488 | 527 | 548 | 565 |
| HOSPITALITY | 165 | 106 | 116 | 139 | 153 |
| INDUSTRIAL | 1,012 | 1,214 | 1,396 | 1,466 | 1,393 |
| MEDICAL | 393 | 407 | 448 | 515 | 531 |
| RESIDENTIAL | 4,928 | 4,165 | 3,957 | 4,551 | 5,006 |
| **ALL** | **8,213** | **7,678** | **7,712** | **8,599** | **9,125** |

*Source: CIS & Glenigan*

Forecasts from the European Commission anticipate that economic growth will moderate but remain substantial throughout the forecast period, with a 5.4% rise in 2023 easing to annual growth of 5.0% in 2024. Modified domestic demand, which better reflects underlying domestic economic activity in Ireland, is estimated to have increased by 8.2% in 2022, and is expected to expand by 2.0% in 2023 and 2.3% in 2024.

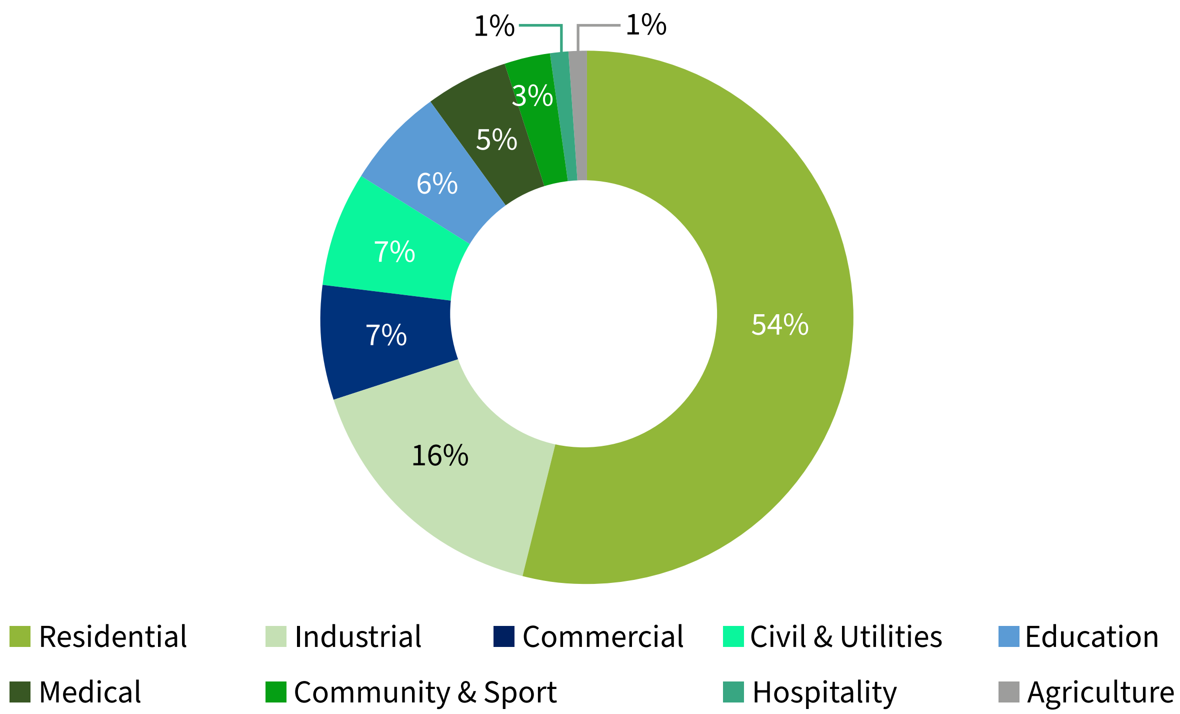
Consumer spending is forecast by the Commission to remain firm as inflation moderates and household earnings and employment levels rise. However, higher borrowing costs are set to dampen housing market activity and business investment this year, impacting construction activity.

**Table 2: Growth in the value of Underlying Project Starts (under €100 million) by Sector**

| Annual Change | 2021 | 2022 | 2023f | 2024f | 2025f |
|---|---|---|---|---|---|
| **AGRICULTURE** | -28% | -30% | -20% | 0% | 5% |
| **CIVIL AND UTILITIES** | 86% | -19% | 5% | 10% | 5% |
| **COMMERCIAL** | -23% | -9% | 2% | 10% | 10% |
| **COMMUNITY AND SPORT** | -26% | 65% | -25% | 4% | 5% |
| **EDUCATION** | -4% | 62% | 8% | 4% | 3% |
| **HOSPITALITY** | 132% | -36% | 10% | 20% | 10% |
| **INDUSTRIAL** | 69% | 20% | 15% | 5% | -5% |
| **MEDICAL** | 4% | 4% | 10% | 15% | 3% |
| **RESIDENTIAL** | 49% | -15% | -5% | 15% | 10% |
| **ALL** | **36%** | **-7%** | **0%** | **12%** | **6%** |

*Source: CIS & Glenigan*

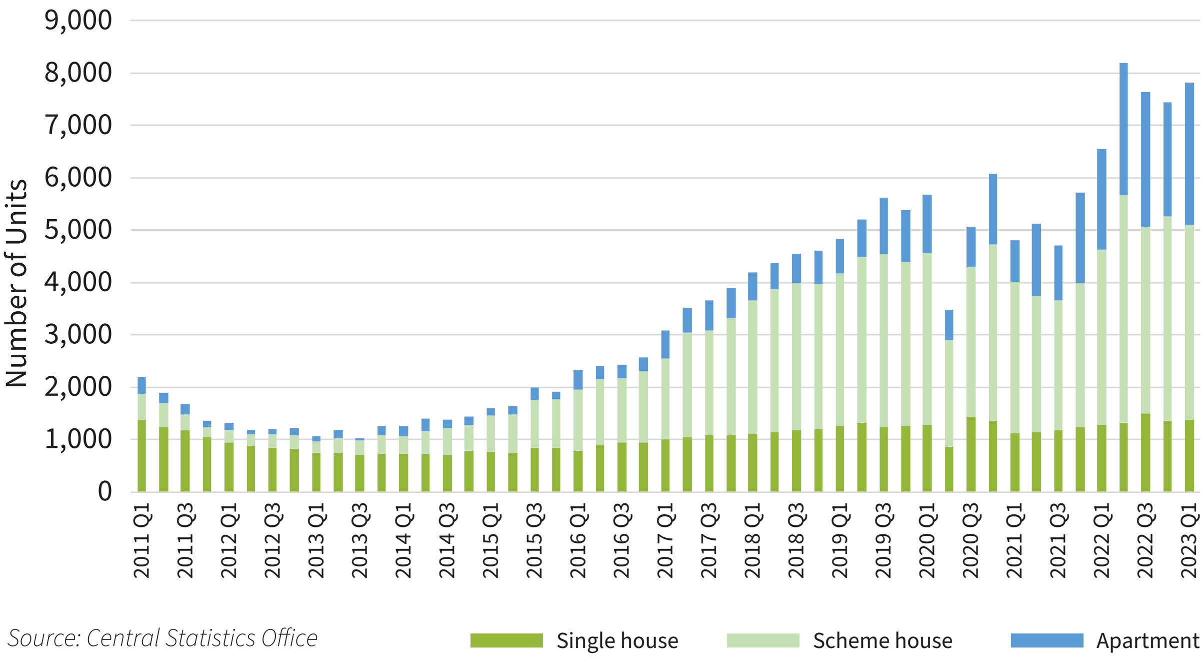
**Chart 1: Value of Construction Starts in 2022**



# Private Residential

Residential is the dominant construction sector, accounting for 54% of projects started by value during 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 tends to be phased over a longer time period than for smaller sites, the measure has supported a step change in new unit completions over the last five years, despite the disruption during the pandemic. The chart below illustrates how scheme houses and apartments have been the principal source of growth in units completed over the last five years.

**Chart 2: Number of new housing units completed**

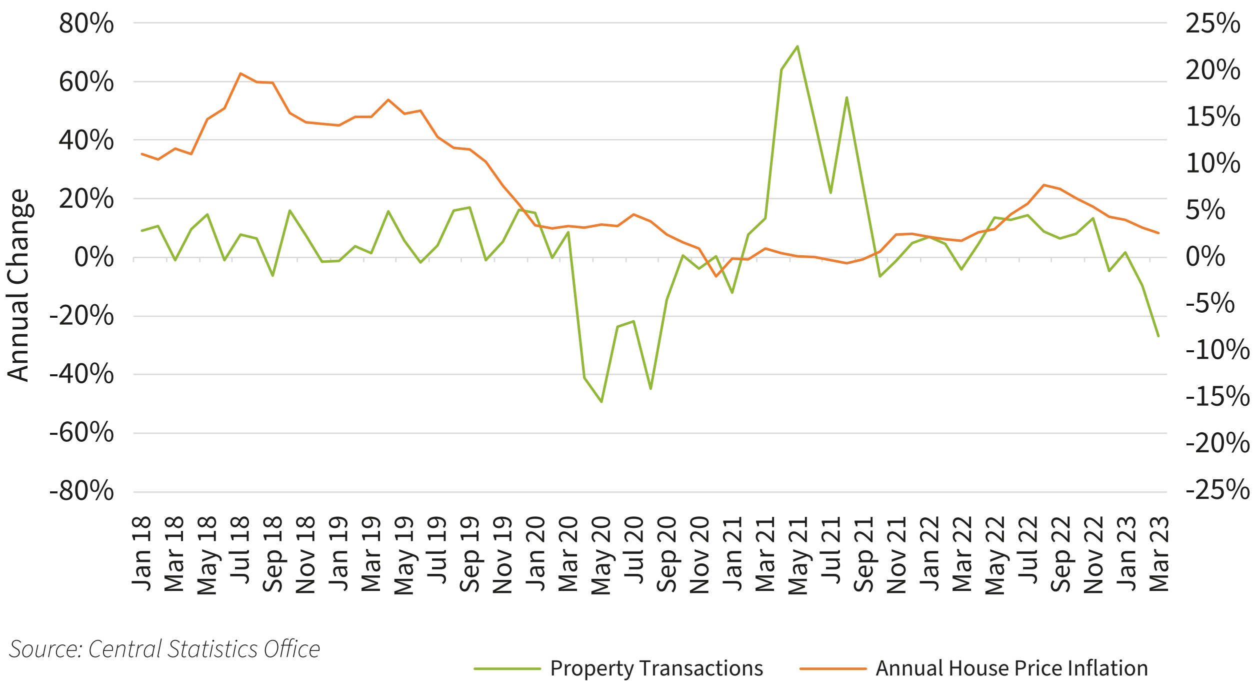



*Source: Central Statistics Office*

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

Housing market activity stabilised last year as interest rates rose. After an 18% increase in 2021, the growth in property transactions slowed to 6% last year, with the increase driven by a 25% rise in new house sales. Sales of existing homes rose by just 2%. The first quarter of 2023 has seen a further weakening in market activity, with transactions 13% down on a year ago. A further cooling in housing market activity is anticipated during the coming months.

**Chart 3: Housing Market Activity**




*Source: Central Statistics Office*

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 projects. The value of residential project starts declined by 15% last year and a further 5% decrease is anticipated during 2023.

Having plateaued during 2020 and 2021 after a number of years of strong growth, the flow of residential work securing planning consent picked up last year. While the number of residential projects securing approval during the year was 4% lower than in 2021, the value of project approvals rose by 15%.

The number and value of residential applications also remains strong. The number of applications rose 9% last year, while the value of the applications grew by 15%. Whilst recent CIS data suggests that over 60,000 houses are currently caught up in the planning system, the rise in applications should strengthen the development pipeline over the medium term and support the renewed growth in project-starts anticipated from 2024 as the wider economic picture brightens.

# Private Non-residential

The value of industrial project starts grew by 20% last year, building upon a 69% increase in 2021. A shift in consumers' retail habits during the pandemic towards online retailing 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. CBRE report that the Dublin industrial and logistics market experienced its second strongest year on record for take-up in 2022 and that demand remained strong in 2023 Q1, with the take-up of 85,000 sqm of floorspace; a 44% increase on a year ago.

The development pipeline has also grown sharply over the last 24 months and has underpinned a 20% rise in the value of starts during 2022. This is expected to support a further rise in sector starts over the forecast period, although the pace of growth is expected to moderate. Rising costs, higher interest rates and labour shortages may impact the viability and development timetable of some projects over the forecast period.

Commercial sector starts peaked in 2019 and have fallen back progressively over the last three years. The growth in hybrid and remote working is potentially reducing the overall volume of floorspace required by occupiers. CBRE estimate that the vacancy rate in the Dublin market is now 13%. Weak demand combined with higher borrowing costs is forecast to limit the growth in starts to 2% during 2023.

A strong rise in approvals over the last two years has strengthened the potential development pipeline. This is expected to support a partial recovery in commercial project-starts from 2024.

# Government Investment

Education starts increased sharply during 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 would be delivered annually over the period 2021 to 2025. However, funding problems are currently holding up close to 60 large scale schemes. This is expected to temper the pace of growth in the education sector over the forecast 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. The value of health sector approvals jumped 57% last year. The increased funding and stronger development pipeline is forecast to support an acceleration in sector growth during 2023 and 2024.

The value of civil and utilities projects fell back 19% last year after a sharp 86% jump in starts during 2021. A firm development pipeline is expected to support renewed growth over the forecast period.

# Key Recommendations

**Construction faces a challenging and changing trading environment. Firms will need to be responsive and adaptable to mitigate risks in the current marketplace and exploit new opportunities as they emerge over the next three years.**

## IDENTIFY AND EXPLOIT NEW GROWTH AREAS

The pattern of UK construction activity is being reshaped by the economic slowdown and structural changes, while new regulations will change how projects are delivered. As the industry emerges from the current downturn the best-performing sectors will differ from those prior to the pandemic. The nature of these growth areas is evolving. Structural changes are expected to create new opportunities in warehousing & logistics, office and retail refurbishment and fit out, and the repurposing of redundant commercial premises.

Changes to the planning regime threaten to reduce the supply of development land for the residential homeownership sector over the medium term, especially outside urban areas, adversely impacting the delivery of low-rise family housing. Reform of leasehold property regulations together with post-Grenfell safety regulations may improve purchasers' enthusiasm for new apartments. This may increase competition with Build to Rent developers for high-rise city centre sites.

Near term, increased government funding is expected to drive the Education, Health, and Community & Amenity sectors, although departmental budgets are likely to be reviewed post-election, potentially slowing sector activity during 2025.

Regionally, construction markets in the northern half of England are set to outperform London and southern England over the forecast period reflecting a shift in government funding and policy towards "levelling up".

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

## FACTOR-IN SUPPLY SIDE CONSTRAINTS

Whilst material availability is improving and overall construction product costs are stabilizing, the cost of selected products remains volatile. Contractors and sub-contractors should seek to identify and mitigate any potential interruption to product supply, including those from overseas sources.

Labour supply pressures are likely to ease near term as industry workload softens. This is expected to be short-lived however, with skills shortages and labour costs growing alongside the strengthening in starts from 2024. Contractors and sub-contractors should factor-in the impact on their costs and development schedule when bidding for work.

## MITIGATE RISK

Over the last year supply-side constraints have disrupted project schedules and extended construction times, with implications for workload, turnover and cashflow. Planned construction programmes may be further disrupted by regulatory supervision of projects as the Building Safety Act comes into force. The slower 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. An enlarged order pipeline is essential to ensure businesses can weather unexpected programme delays or project cancellations.

Construction insolvencies since the start of 2022 are 27% above pre-pandemic levels. A diversified client base will reduce exposure to any one client with a 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. Identifying new customers has never been more important. Supply chains should also be reviewed to ensure that firms are not over exposed to just a few suppliers.

## ON-SITE EFFICIENCY AND COLLABORATIVE WORKING

Whilst product supply disruptions are expected to subside over the forecast period, the availability of skilled labour is likely to remain as a significant constraint.

The industry's qualified workforce has been shrunk by reduced access to skilled EU labour, and loss of UK workers post-pandemic, to other industries and early retirement. Although the slowing in industry workload may partially ease these pressures 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 invest in the recruitment, training and retention of skilled labour, and to use on-site labour more sparingly and effectively 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 were 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.

Do you need reliable insight and statistics to help you budget, forecast, realise size of market or penetration?

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