CONSTRUCTION INFORMATION SERVICES

Construction Industry Forecast 2024-2025

FOR THE REPUBLIC OF IRELAND

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About the authors

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

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2023 +13%   2024 +5%   2025 +9%

Construction starts have recovered strongly during 2023 after a retrenchment during the preceding year. The upturn was driven in large part by a double digit rise in residential project-starts. Further, more broadly based growth is anticipated over the forecast period.

After a 35% jump in starts during 2021, the value of project-starts slipped back 6% during 2022 as a more uncertain economic outlook, high inflation and rising interest rates tempered investor and consumer confidence. Despite this decline, starts were still 21% above pre-pandemic levels. Construction starts have returned to growth during 2023 as economic conditions have stabilised and the economic outlook has brightened.

Consumer spending has remained firm during 2023 as inflation moderated and household earnings and employment levels rose. However, higher borrowing costs have dampened housing market activity and business investment this year, moderating construction activity in related sectors.

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

€ million	2021	2022	2023f	2024f	2025f
AGRICULTURE	93	65	57	63	66
CIVIL AND UTILITIES	617	499	725	761	837
COMMERCIAL	579	530	449	440	484
COMMUNITY AND SPORT	134	216	168	201	211
EDUCATION	301	489	383	460	474
HOSPITALITY	165	109	190	218	240
INDUSTRIAL	1,012	1,232	1,456	1,529	1,651
MEDICAL	404	408	363	417	429
RESIDENTIAL	4,928	4,166	4,895	4,992	5,492
ALL	**8,232**	**7,713**	**8,685**	**9,082**	**9,885**

Source: CIS & Glenigan

Despite global economic headwinds, the Irish economy bounced back strongly from the pandemic with double-digit economic annual growth during both 2021 and 2022. Whilst the rapid pace of growth has been flattered by the strength of multinational enterprises, the wider economy also grew strongly. Industrial production and consumer spending are currently well above pre-pandemic levels.

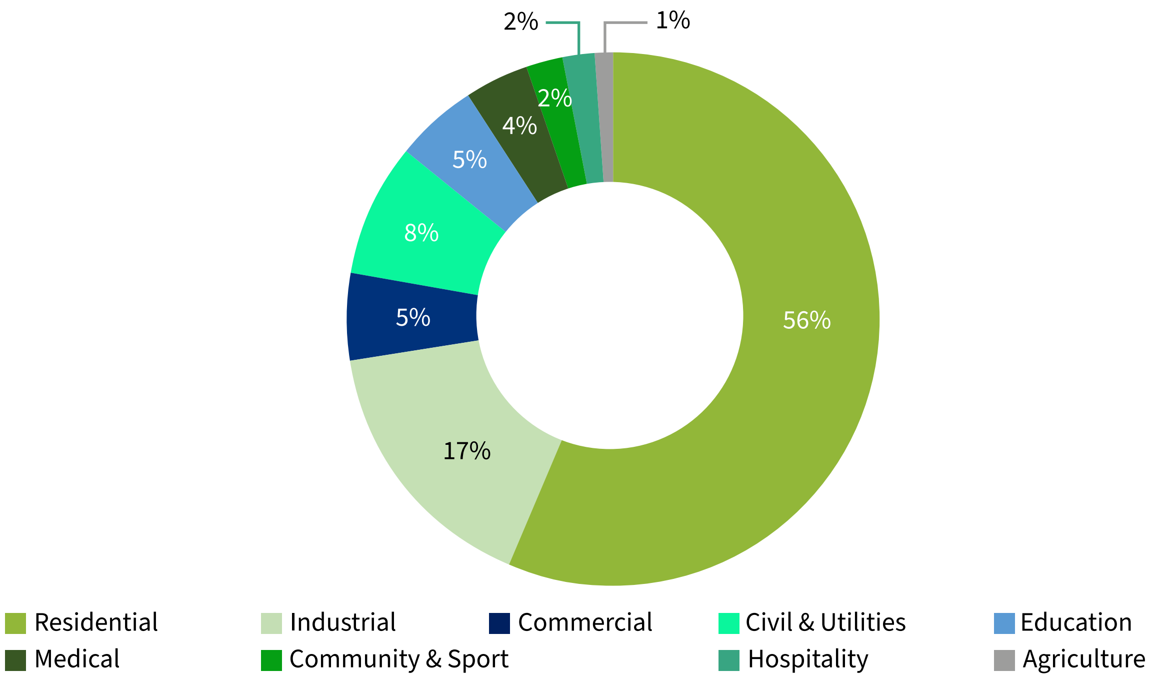
Although the IMF estimates that economic growth slowed sharply to 2% this year, it anticipates a pick-up in growth over the forecast period to 3.3% in 2024 and in 3.2% in 2025.

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

Annual Change	2021	2022	2023f	2024f	2025f
AGRICULTURE	-28%	-31%	-11%	10%	5%
CIVIL AND UTILITIES	86%	-19%	45%	5%	10%
COMMERCIAL	-23%	-8%	-15%	-2%	10%
COMMUNITY AND SPORT	-22%	61%	-22%	20%	5%
EDUCATION	-4%	63%	-22%	20%	3%
HOSPITALITY	132%	-34%	75%	15%	10%
INDUSTRIAL	69%	22%	18%	5%	8%
MEDICAL	6%	1%	-11%	15%	3%
RESIDENTIAL	49%	-15%	17%	2%	10%
ALL	**36%**	**-6%**	**13%**	**5%**	**9%**

Source: CIS & Glenigan

Chart 1: Value of Construction Starts in 2022



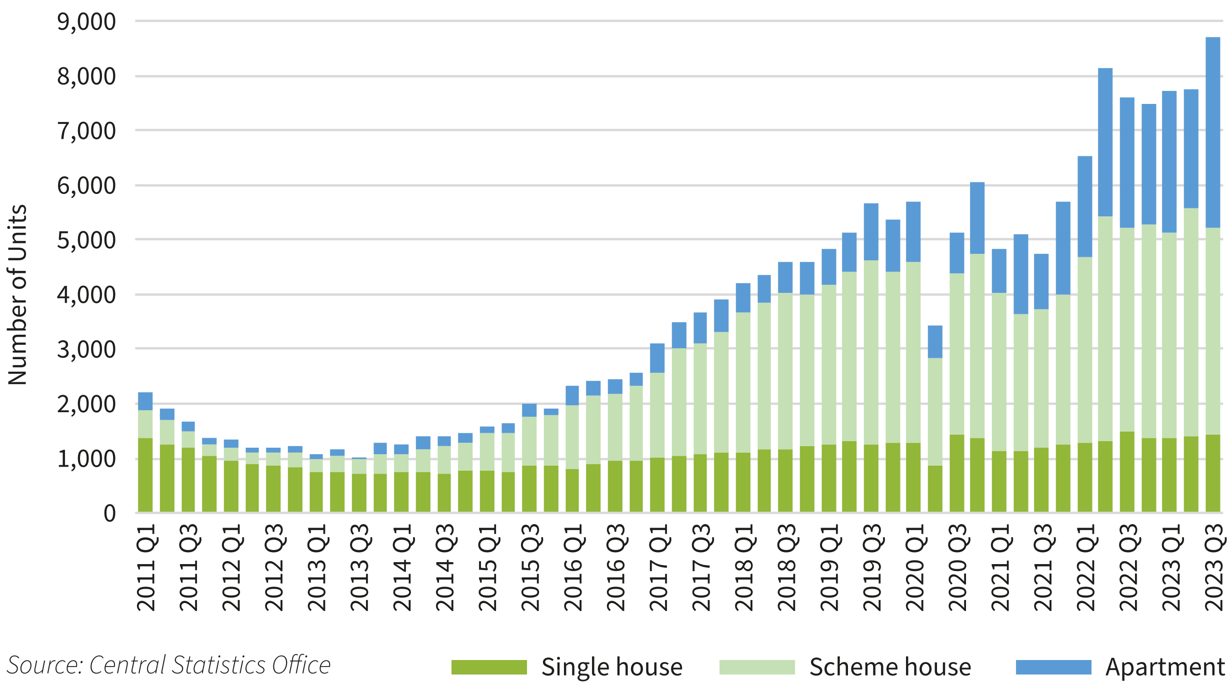
Private Residential

Residential is the dominant construction sector, accounting for 56% of projects started by value during the first nine months of 2023. 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 these 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 of 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. The fast-track initiative was wound down and concluded earlier this year and was replaced with a new 'Large Residential Development' initiative, taking planning decision responsibility from An Bord Pleanála and bringing them back to a local authority level, albeit within a dedicated planning department for these 100+ unit residential developments.

Strong demand from purchasers helped to boost the recovery in residential starts post-pandemic, supporting a 49% jump in the value of residential starts during 2021. Higher interest rates have subsequently stabilised housing market activity over the last two years. After an 18% increase in 2021, the growth in property transactions slowed to 7% in 2022 and fell back by 5% during the first eight months of this year.

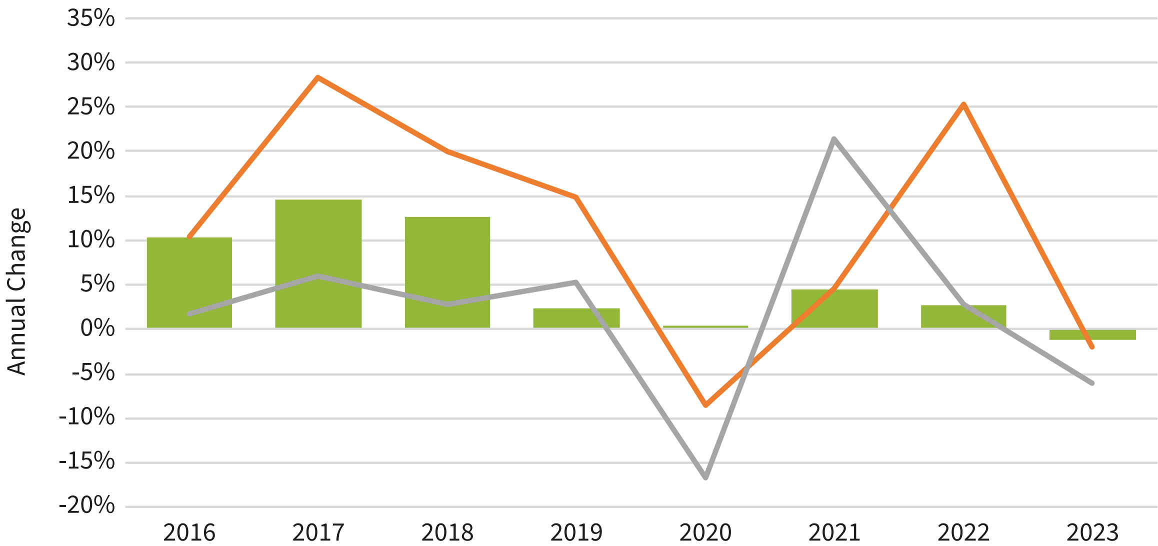
However, new house sales have outperformed existing properties, with a 25% rise in new house sales during 2022 followed by just a 2% dip during the first eight months of 2023.

Chart 2: Number of New Housing Units Completed



Source: Central Statistics Office

Chart 20: Housing Market Activity



Source: Central Statistics Office

Overall housing market activity is expected to remain subdued during 2024. In addition, the first nine months of 2023 have seen a 6% fall in the value of residential planning approvals and a 35% drop in planning submissions. This is expected to limit the growth in residential project-starts to just 2% in 2024.

Firmer economic growth and an easing in interest rates are forecast to support a renewed strengthening housebuilding activity in 2025, with the value of residential project-starts rising by 10%.

Private Non-residential

The value of industrial project-starts has grown by an estimated 18% during 2023, building upon a double-digit growth during the preceding two years. 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. CBRE report that although off the peak level seen in 2022, the market remains firm with the take-up of 60,000 sqm of floorspace in Q3.

Investment by domestic and international manufacturers is also boosting industrial sector activity. In October, Galway County Council granted planning permission for the construction of Dexcom's new global manufacturing facility in Athenry, County Galway.

The sector is benefiting from investment by global pharmaceutical companies. Ireland's pharmaceutical sector is known around the world for its innovative excellence and strong workforce. This has attracted continued investment from companies such as Abbott, Styker, Eli Lilly and Pfizer. This has provided a boost to industrial activity in the southern region of Ireland this year. The investment should provide a boost to economic activity and job creation in the region.

In addition, two key projects in the development pipeline are the Eli Lily Biopharmaceutical Building in Raheen, Co. Limerick and the Abbott Ireland Pharmaceutical Development Extension in Loughboy, Co. Kilkenny. These projects are set to create hundreds of jobs and represent significant investments in the sector.

After strong growth post-pandemic, the value of industrial approvals slipped back 12% during the first nine months of 2023. Despite this drop the development pipeline remains strong. This is expected to support a further rise in project-starts over the forecast period, although the pace of growth is expected to moderate.

Commercial sector starts peaked in 2019 and have fallen back progressively since 2019. 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 over 14.5%. Weak demand combined with higher borrowing costs is forecast to limit the growth in starts to 2% during 2024.

A sharp 32% drop in approvals during the first nine months of 2023, combined with weak demand for office space and higher borrowing costs are forecast to further dampen project-starts during 2024. Improved market conditions are expected to support a return to growth during 2025.

Government Investment

Education starts fell back 35% during the first nine months of 2023 after a 61% surge in starts during the previous year. The sharp rise in material costs has disrupted the progress of planned projects moving to both contract award and on-site stages within the sector. CIS reports many education projects have been re-tendered with the originally agreed prices increased to reflect the higher cost of materials. Labour shortages have also delayed and extended initially planned timeframes for the delivery of projects.

Despite the fall during the current year, 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. The recent award of the €200 million Project Nore PPP Bundle, covering the construction of several school schemes, is set to lift sector starts over the coming months.

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 53% last year. However, the rise in construction costs has disrupted the initiation of projects during the current year, with the value of project-starts falling by an estimated 11% during 2023.

Nevertheless, the increased funding and stronger development pipeline is forecast to support an increase in sector starts from 2024. Several high-profile schemes within the sector have secured funding, one of which being the new €800 million National Maternity Hospital in Dublin 4, which is currently out to tender for main contractors and is expected to commence on-site in late 2024.

The value of civil and utilities projects has rebounded 45% this year after a 19% fall in starts during 2022. The development pipeline remains strong, despite approvals slipping back slightly from the high point reached in 2021. This is expected to support further sector growth over the forecast period.

Key Recommendations

After sharp falls in starts during 2023, construction faces a gradual improvement in market conditions over the next two years. Firms will need to be adept and responsive to exploit the new opportunities as they emerge.

TARGETING NEW GROWTH AREAS

As the industry emerges from the current downturn, the best-performing sectors will differ from those prior to the pandemic. Structural changes are creating new opportunities in warehousing & logistics, office refurbishment and fit out, and the repurposing of redundant commercial premises.

Planning restrictions currently threaten to reduce the supply of development land for the residential homeownership sector, especially outside urban areas, adversely impacting the delivery of low-rise family housing. Whilst rules may again change after the general election, this will take time to feed through. In contrast, 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. This reflects a shift in government funding and policy as part of its "levelling up" agenda. A future Labour Government is also likely to weight government funding towards economically weaker regions. 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

Overall material availability and inflation has stabilised, although prices remain high, and the cost of some products remains volatile. Contractors and sub-contractors should remain alert to future potential interruptions to product supply, including those from overseas sources.

Labour supply pressures have stabilised with average earnings rising by 5%. This may be short-lived however, with skills shortages and labour costs expected to grow 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 two years supply-side constraints have disrupted project schedules and extended construction times, with implications for workload, turnover and cashflow. The typical construction phase for a project completed during 2023 was 15% longer than one completed prior to the pandemic. 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.

Weak economic growth and sharply higher interest rates have prompted clients to reassess the cost and viability of planned projects, increasing the vulnerability of contractors', sub-contractors and suppliers' order books to projects being rescheduled or reappraised. An enlarged order pipeline is essential to ensure businesses can weather unexpected programme delays or project cancellations.

Construction insolvencies has been on the rise and the anticipated upturn in project starts may increase insolvency risks as the rise in workload increases the call on firms' cash flow. 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 be reviewed to ensure that firms are not overexposed 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 current 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.

In addition, the Building Safety Act is also set to change how projects are delivered. Whilst the Act's requirements will be most keenly felt in the delivery of high rise residential and other 'high risk' structures, it is intended to progressively change construction practices. The Act increases the importance of detailed pre-construction design and project planning and increases the risk, cost, potential delay of amending designs during construction. More detailed pre-construction design and less scope for on-site design changes should increase the opportunity for offsite components and systems.

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.

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