SOCIETY OF CHARTERED SURVEYORS IRELAND

Irish Construction Prospects to 2016

2016

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DKM ECONOMIC CONSULTANTS

Foreword

The Society of Chartered Surveyors Ireland (SCSI) Construction Sector Prospects to 2016 report shows that the construction sector has turned a corner after several years of contraction and that new opportunities exist for growth, if barriers to development can be overcome.

A sustainable construction sector is a key element of any properly functioning economy and following several years of declines in output, the construction sector finally began to stabilise in 2013 and grew by 9.9% in 2014 to €11 billion. Since the industry bottomed out in 2012, the overall volume of output is projected to be almost 42 per cent higher by 2016.

The sector accounted for approximately 6.9% of GNP in 2014 and is expected to reach a value of 12.5 billion or 7.5 per cent of GNP this year. These proportions are still below the 12% ratio considered a sustainable level by European standards.

The shortage of supply of both residential and commercial units in urban areas is a key challenge to developing a less cyclical property market and maintaining our competitiveness in terms of Foreign Direct Investment.

It is estimated that there is a requirement for approximately 25,000 units to be built annually. However, the latest figures show that 11,016 units were completed in 2014. The SCSI also has a concern that the figure for completions may be overstated due to vacant and receivership properties being connected to the electricity supply in 2014 and counted as completions, even though they may have been built in previous years. The SCSI has estimated that this could account for up to 20 per cent per annum of the units connected in recent years.

In 2014, the performance of the commercial sector exceeded all market expectations, with end of year commercial market investments in excess of €4.5 billion, a substantial growth on the 1.9 billion recorded twelve months previously. Construction activity in the commercial property sector has also improved and it is anticipated that that the aggregate level of private nonresidential construction output (including industrial, commercial, tourism and agricultural investment) could reach €3.5 billion over the two year period 2015-16.

The IDA won 197 investment projects last year, of which some 88 were entirely new to the country and this is having a positive impact on the construction sector and particularly at a regional level, as almost half of the total IDA investments were made outside of Dublin.

There are continued concerns, however, over the shortage of prime office space in Dublin, Cork and Galway and the increase in rents as a result of this, as rents for prime office space move towards the €500 per sq metre mark in Dublin.

In terms of the public sector, increased public capital programme allocations, and the Social Housing Strategy investment of €3.5 billion to 2020 will contribute towards the increase in overall output. The most recent Budget provided for a substantial increase in investment in transport via PPPs which is a positive development.

One of the key concerns of the SCSI is the capacity in the industry to meet the anticipated growth levels. There has been a decline in the availability of skilled tradespeople, specialist contractors and graduates entering the sector. Employment levels have improved and CSO data points to 18,500 additional people working in the sector since the lowest point in the cycle in the first quarter of 2013.

It is very important that the sector can attract the right calibre of professionals and while we were pleased to see a 27% increase in CAO applications for built environment courses, this is coming from very low levels and it will take several years for people to come into the sector.

Members of the SCSI throughout the country highlighted key issues which continue to affect the sector including difficulties accessing development finance, the additional costs due to new building control regulations, onerous planning and procurement complexity and costs.

The Government's Construction 2020: A Strategy for a renewed Construction Sector provides 75 measures which can address these issues and forthcoming legislation to enact some of these measures including the Planning & Development (No.1) Bill, will support this.

As ever, we need to see speedy implementation of these measures to ensure that the sector can meet the anticipated growth and reach sustainable levels for the benefit of the overall economy.

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Executive Summary

Construction turns the corner

Construction is a key sector of the economy and has an important contribution to make to the productive potential of the economy and job creation. The renewed focus on recovery in the sector after a catastrophic, lengthy and deep recession is to be welcomed. It would appear that output in the industry has finally begun to recover and the prospects for the industry are brighter now than they have been in almost a decade. But the sector continues to face a number of challenges, not least of which is ensuring that it has the capacity to meet the recovery in demand which is expected to materialise over the coming years.

The total value of GNP was €258.4 billion in 2014. The gross value of building and construction output[1] is estimated to have accounted for **6.9 per cent of GNP**, while in value added terms, the industry accounted for 2 per cent of GNP. However, it is clear that the first signs of recovery in construction output (in volume terms) in six years emerged in 2013.

The gross value of output recovered to **€11 billion last year**, having reached its lowest value in 2012 (€9.1 billion). The outturn in 2014 is 15.2 per cent above the corresponding value in 2013 or **9.9 per cent in volume terms** after allowance is made for construction inflation (4.8%).

The 2014 outturn is based on a discounted completions figure of 8,813 new dwellings built last year, up from around 6,641 in 2013 (see below). This year the forecast is for 10,000 new housing units, with a further improvement to 14,000 units in 2016. The overall value of output is forecast to increase to **€12.5 billion (7.5% of GNP)** or €11.9 billion (constant 2014 prices), implying a **volume increase of 8.3 per cent this year.**

As the economic recovery gathers momentum and becomes more widespread and as development becomes more viable, the pace of expansion in construction output is expected to accelerate further in 2016. The volume of output is forecast to increase by **16 per cent next year** to €13.8 billion (constant 2014 prices) or €15.3 billion in current prices (8.7% of GNP Thus since the industry bottomed out in 2012, the overall volume of output is projected to be almost 42 per cent higher by 2016. **In the two years 2015 and 2016, the volume of construction output is forecast to increase by almost 26 per cent.**

Key Indicators for Construction

A review of key performance indicators for the construction sector shows that:

- 115,800 persons were employed in the construction industry in Q4, 2014, representing an increase of 18,500 or 19 per cent from the lowest point reached in Q1 2013. Including an estimate for indirect employment, 162,100 persons were employed, 8.4 per cent of the total persons employed across the economy.

- Tender prices increased by 5 per cent in 2014, following an increase of 3.1 per cent in 2013. Notwithstanding the recovery in recent years, tender prices are almost back to 2009 levels and remain 24.2 per cent below levels at the peak.

- The increase in wholesale prices of building and construction materials was modest at 1.4 per cent in 2014, although certain components (e.g. stone, sand, gravel and hardwood) displayed exceptional increases. The rate of input cost inflation was the fastest since July 2008, according to the most recent Ulster Bank Construction PMI for February with respondents suggesting that the weakness of the euro against the sterling and the US dollar had been the main factor leading to the increase.

- The growth in average weekly earnings for persons employed in the construction sector accelerated in 2014 to 4.3 per cent from 1.8 per cent in 2013, while average earnings across all sectors of the economy were almost unchanged in 2014 (-0.1%).

Residential Construction

Housing supply is the key challenge

The housing debate in Ireland remains focused on the shortage of housing supply, which is the single most important challenge in the residential property market at present. The reality is that there are potential buyers who were not accommodated during the boom years due to affordability problems while there are others who would have postponed property purchases during the recession years. Thus there is likely to be considerable pent up demand in the market over the medium-term, possibly higher than annual average household formation projections

[1] Based on the CIRO/DKM measure of building and construction output (see Box 1).

suggest. This is equally true for the private rented sector, where demand is now expected to be higher that it would otherwise have been, following the introduction of the new Central Bank regulations on residential mortgage lending.

An analysis of housing data over the past five years would appear to indicate that the actual level of housebuilding has been much lower than reported by the data on housing completions. This is believed to be due to a number of factors, including the vacant stock left over since the boom, sales by NAMA and receivers, and the substantial gap between the published commencements and completions data. Accordingly, the number of house completions has been discounted by an estimated factor of 20 per cent to establish the true level of housebuilding for the purposes of estimating residential construction each year. With total commencements in 2014 at just 7,411, the projection for the level of housebuilding in 2015 is expected to be at best 10,000 with a further 14,000 new units projected in 2016.

NAMA is an important player in the housing market and by 2016 will have delivered 4,500 units in the GDA. The Agency has sites which have the potential to deliver an additional 27,000 units in Dublin and elsewhere as soon as viability returns.

The planned large-scale investment in social housing is expected to fund the provision of over 35,000 new social housing units by 2020 via an investment package which will involve a combination of new build, acquisitions and leased properties. While there are substantial provisions for social housing in the public capital programme to address a programme of new build, acquisitions, regeneration, refurbishment of vacant units and remediation works, the provision of new units in the short-term is likely to be challenging.

Among the key challenges in the SCSI members' survey for the residential construction sector over the next two years were skills shortages, planning related issues, the availability of finance and the lack of suitable, serviced sites at a regional level, but in particular with respect to Dublin. The oversupply of houses and the poor quality of stock added in the boom were also mentioned with respect to the regions.

The majority of respondents stated that the Building Control (Amendment) Regulations accounted for up to five per cent of the price increases across all categories of dwellings in Dublin and across the rest of the country.

Private Non-Residential Construction

Total private non-residential construction output of €3.5 billion over two years

After almost six years during which development activity virtually stalled, there are increasing expectations that the sector will see a strong recovery in development activity over the next two years, which should gather momentum post 2016.

The aggregate level of private non-residential construction output is projected at around €3.5 billion (constant 2014 prices) over the two year period 2015-2016, including industrial, commercial, tourism and agricultural building investment. Industrial building projects are expected to account for close to 60 per cent of this investment, while commercial projects (offices and retail) could represent around 30 per cent of the total. The expectation is that activity levels should pick up considerably in 2016, with an estimated €1.9 billion (constant 2014 prices) or €2.1 billion in current prices forecast for next year.

Based on a review of non-NAMA schemes under construction or in planning at the time of writing, activity in the office market is expected to support construction of around 132,000 square metres of office space in Dublin over the next three to four years, with a significant number of other schemes at pre-planning or in the planning process. There is evidence of a growing demand for greenfield industrial sites in the industrial/manufacturing sector, while the IDA's €150 million property programme to upgrade its business parks around the country and build new advanced technology units will support the regional industrial market.

Perhaps the most significant contribution to the private non-residential construction market is expected to come from NAMA through its support for construction projects and through other initiatives. NAMA has a financial interest in sites which are expected to support the expansion of the financial services sector and the development of new FDI business and technology hubs in the Docklands area. The overall amount of office space planned on sites is of the order of 316,000 square metres out to 2025, with four operational projects in the North Lotts and Grand Canal Docks SDZ in the Dublin Docklands expected to deliver around 130,000 square metres of commercial space over the next four to five years.

FDI expected to generate significant opportunities

The Foreign Direct Investment (FDI) sector is generating significant opportunities for the construction industry, as existing and new FDI companies seek to expand in, or relocate to, Ireland. There are significant investments underway or planned by FDI companies based on anecdotal evidence which are expected to have an impact on the construction sector in 2015 and 2016.

SCSI members see the challenges for the private non-residential construction sector falling into the same categories as for residential construction, with lack of funding / credit and resources the most frequently mentioned.

Public Sector Construction

Total Exchequer capital investment of €11.1 billion over three year

The prospects for public sector construction are determined by the allocations in the Multi-Annual Exchequer Capital Investment Framework (MACIF). The most recent MACIF for the period 2015 to 2017 allocated a total of €11.1 billion over the three year period. The main spending departments from a construction perspective are Transport, Tourism and Sport (€2.93 billion over period 2015-2017), Education and Skills (€1.7 billion), Environment, Community and Local Government (€1.6 billion) and Health (€1.28 billion).

Total Exchequer and non-Exchequer capital investment of €6.53 billion in 2015

In 2015, the more detailed public capital programme (PCP) has provided for investment of €6.53 billion (including Exchequer and non-Exchequer funding as well as public private partnership costs), towards a range of building and infrastructure projects:

- €576m for Road Improvement and Maintenance (-11% on 2014),
- €343m for Public Transport (-20%),
- €190m in PPP costs for Transport projects (+245%),
- €667m for Educational infrastructure at all levels (+13%),
- €327m for Hospital and Health infrastructure (-4%), and
- €361m for Social Housing (+36%).

The Government is currently undertaking a detailed review of the public capital programme which will set out the priorities to 2020 and is due to be published this year. Industry sources suggest that private capital will play a significant role in the delivery of national infrastructure over the coming years.

Key Challenges

A key concern amongst SCSI members is the uneven distribution of the pipeline of work, with the recovery considered to be most prevalent in the Dublin region and to a lesser extent in some other urban areas. SCSI members raised concerns that the current public procurement regime, which is considered by some to be complex and onerous, could discourage some firms from bidding for public sector work, given that the flow of work from the private sector is now recovering. The cost of tendering, particularly for public contracts was seen as the most important issue faced by SCSI members, followed by the risk of future wage demands and skills shortages.

Access to appropriate levels of finance on a sustainable basis is a key requirement

The financing of viable construction and development projects was a key issue raised by SCSI members across all construction sectors. The sustainable financing model is now seen as requiring both senior debt finance and equity finance, with banks in a position to provide senior debt finance for up to 60 to 65 per cent of the total development costs for viable projects. The remaining gap of 35 to 40 per cent will need to come from developers own equity or an alternative source, notably a third party funder. There is reported to be a sufficient supply of equity financing available for certain construction projects which are considered viable but the take-up has been slow. Other options are being explored by the Ireland Strategic Infrastructure Fund, under the auspices of the NTMA, to support financing projects that will enhance the supply of housing.

Optimum size of the industry in the region of 12 to 15 per cent of GNP

Given where the industry has come from, it has the potential to grow substantially by providing the buildings and infrastructure which can tackle existing bottlenecks and address cost inefficiencies across the economy, ultimately delivering increased competitiveness and facilitating further economic growth. Based on a comparison with other countries, the optimum size is considered to be of the order of 12 to 15% of GNP, indicating the industry has considerable scope for further expansion.

At 12 to 15 per cent of GNP, this would imply an industry valued at between €19 billion and €24 billion, based on the level of GNP in 2014, compared with the current estimate of €12.5 billion for this year (7.5% of GNP). With the current momentum behind the industry and anecdotal evidence, at least, pointing to a significant volume of work in the planning pipeline, the industry could conceivably achieve this sustainable level of output in a five year period, although when it reaches the target proportion of GNP will depend on the outturn for GNP which has many components. In advance of reaching this sustainable level, it is imperative that any impediments to reaching its optimum size receive urgent attention.

Key Risks To The Forecast

This is an exceptionally upbeat assessment for the B&C sector, given where it has come from in the period 2007-2012. However, this projection is subject to a number of risks, mostly on the downside, and will only materialise if key issues for the sector are urgently addressed.

There are international economic and geopolitical risks which could hamper Irish economic prospects in the short-term, while in an Irish context the key risk is that the recovery in demand which is materialising dissipates due to factors which damage consumer, business and/or investor confidence.

If construction is to recover to sustainable levels, the issues around access to finance for sensible and viable projects will need to be addressed for clients in the sector. Measures in Construction 2020 also need to be urgently delivered to ensure the industry can meet the demands placed on it over the next few years as it recovers to more sustainable levels.

Other issues raised by SCSI members include the **availability and quality of new graduates, the ageing workforce, upward pressure on costs, the lack of specialist contractors, the adverse impact of the Building Control regulations** and the **complexity of negotiations** on residential development schemes given the large number of stakeholders involved in negotiations. The lack of a ***'Champion for the industry/ Minister for Construction'*** who could coordinate the industry and represent it at the highest level was seen as a key weakness for the industry.

Table A: Medium Term Prospects for Construction Output to 2016

Value of Construction Output in Current Prices (€million)

	2012	2013	2014	2015E	2016F
Completions (i.e. electricity connections)	**8,488**	**8,301**	**11,016**	**N/A**	**N/A**
Commencements (excl. public housing)	4,042	4,708	7,710	N/A	N/A
Dwellings Built (units)	**6,790**	**6,641**	**8,813**	**10,000**	**14,000**
New housing	1,453	1,530	2,145	2,624	3,866
Housing RM&I	2,800	2,750	2,938	3,310	3,661
All housing	**4,253**	**4,280**	**5,083**	**5,934**	**7,527**
Total private non-residential NEW	880	1,189	1,310	1,529	2,062
Total private non-residential RM&I	89	93	100	109	118
Total private non-residential	**969**	**1,282**	**1,410**	**1,638**	**2,180**
Total social infrastructure NEW	837	934	1,069	1,220	1,461
Total social infrastructure RM&I	231	242	259	285	312
Total social infrastructure	**1,068**	**1,175**	**1,329**	**1,505**	**1,773**
Total building NEW	3,170	3,653	4,524	5,375	7,388
Total building RM&I	3,120	3,084	3,297	3,703	4,091
Total all building	**6,290**	**6,738**	**7,821**	**9,077**	**11,479**
Total civil engineering NEW	2,243	2,340	2,670	2,875	3,186
Total civil engineering RM&I	574	461	500	563	613
Total civil engineering	**2,817**	**2,801**	**3,169**	**3,439**	**3,799**
Total public sector construction	4,410	4,356	4,903	5,523	6,279
Total private sector construction	4,698	5,182	6,087	6,992	9,000
Total Construction Output	**9,107**	**9,538**	**10,990**	**12,515**	**15,279**
Construction as % of GNP	***6.4%***	***6.5%***	***6.9%***	***7.5%***	***8.7%***

Table A (continued): Medium Term Prospects for Construction Output to 2016

Volume of Construction Output in Constant 2014 Prices (€million)
(used to derive the volume percentage changes in the next table)

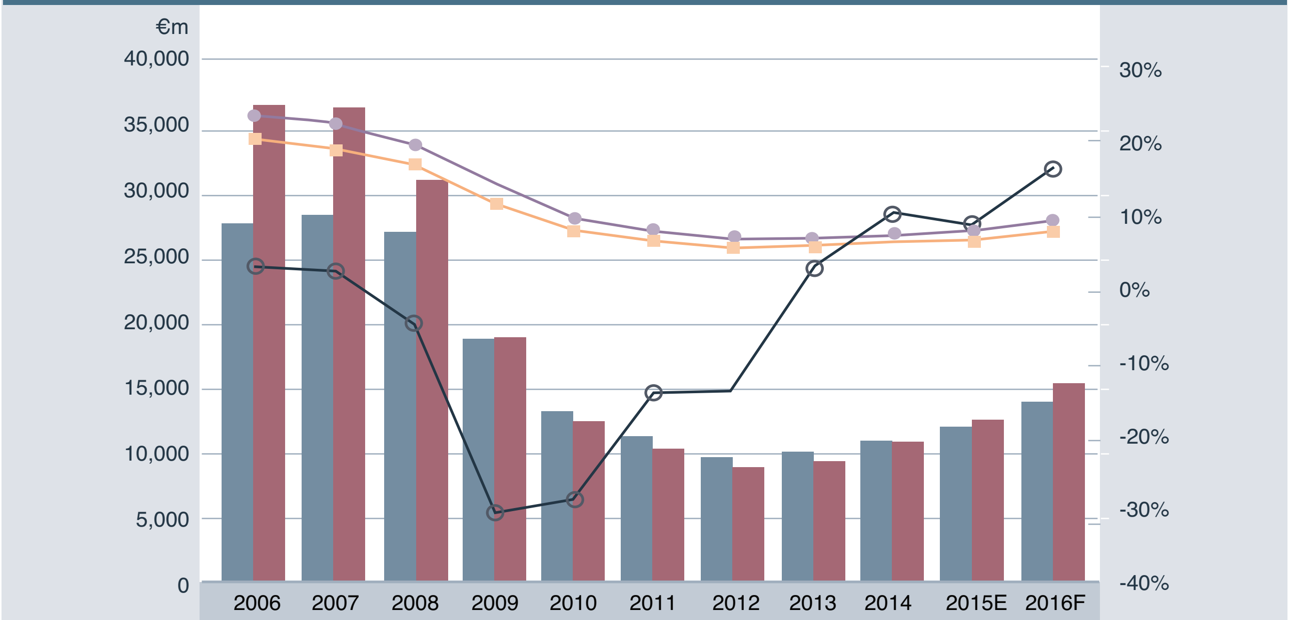
	2012	2013	2014	2015E	2016F
Dwellings Built (units)	**6,790**	**6,641**	**8,813**	**10,000**	**14,000**
New housing	1,638	1,676	2,145	2,430	3,345
Housing RM&I	2,913	2,833	2,938	3,183	3,385
All housing	**4,551**	**4,509**	**5,083**	**5,612**	**6,730**
Total private non-residential NEW	951	1,248	1,310	1,456	1,870
Total private non-residential RM&I	94	96	100	105	110
Total private non-residential	**1,045**	**1,345**	**1,410**	**1,561**	**1,981**
Total social infrastructure NEW	905	980	1,069	1,162	1,325
Total social infrastructure RM&I	245	251	259	274	288
Total social infrastructure	**1,150**	**1,232**	**1,329**	**1,436**	**1,613**
Total building NEW	3,495	3,905	4,524	5,048	6,540
Total building RM&I	3,252	3,180	3,297	3,562	3,784
Total all building	**6,747**	**7,085**	**7,821**	**8,610**	**10,324**
Total civil engineering NEW	2,392	2,432	2,670	2,758	2,927
Total civil engineering RM&I	609	479	500	539	561
Total civil engineering	**3,001**	**2,911**	**3,169**	**3,297**	**3,488**
Total public sector construction	4,719	4,547	4,903	5,277	5,728
Total private sector construction	5,029	5,449	6,087	6,630	8,084
Total Construction Output	**9,748**	**9,996**	**10,990**	**11,907**	**13,812**

Annual percentage change in the volume of construction output by sector

	2012	2013	2014	2015E	2016F
New housing	-24.7%	2.3%	28.0%	13.3%	37.7%
Housing RM&I	-10.8%	-2.8%	3.7%	8.3%	6.3%
All housing	**-16.4%**	**-0.9%**	**12.7%**	**10.4%**	**19.9%**
Total private non-residential NEW	10.5%	31.3%	4.9%	11.1%	28.4%
Total private non-residential RM&I	-18.6%	2.4%	3.3%	5.6%	5.3%
Total private non-residential	**7.1%**	**28.7%**	**4.8%**	**10.8%**	**26.9%**
Total social infrastructure NEW	-20.3%	8.3%	9.0%	8.7%	14.0%
Total social infrastructure RM&I	0.7%	2.4%	3.3%	5.6%	5.3%
Total social infrastructure	**-16.6%**	**7.1%**	**7.9%**	**8.1%**	**12.3%**
Total building NEW	-16.2%	11.7%	15.8%	11.6%	29.6%
Total building RM&I	-10.3%	-2.2%	3.7%	8.0%	6.2%
Total all building	**-13.5%**	**5.0%**	**10.4%**	**10.1%**	**19.9%**
Total civil engineering NEW	-12.9%	1.7%	9.8%	3.3%	6.1%
Total civil engineering RM&I	-24.7%	-21.3%	4.3%	7.9%	4.2%
Total civil engineering	**-15.6%**	**-3.0%**	**8.9%**	**4.0%**	**5.8%**
Total public sector construction	-18.0%	-3.6%	7.8%	7.6%	8.5%
Total private sector construction	-10.1%	8.3%	11.7%	8.9%	21.9%
Total Construction Output	**-14.1%**	**2.5%**	**9.9%**	**8.3%**	**16.0%**

Source: DKM estimates, CSO.

Figure A: Medium-term Projections for Construction Output to 2016



Volume of Output (Constant 2014 Prices, €m.)
Value of Output (Current Prices, €m.)
Annual % Charge in Volume of Output (right hand scale)
Construction as a % of GNP (right hand scale)
Construction as a % of GDP (right hand scale)

Source: DKM estimates, CSO.

1. Introduction

1.1 Background

There has been a cautious improvement in sentiment in the construction industry over the past eighteen months. Following an extreme contraction in the volume of activity over the period 2008-2012, it would appear that output in the industry began to recover in 2013, albeit from an exceptionally low base. The somewhat more upbeat mood can be attributed to a number of factors, notably a bottoming out in some key housing markets and evidence of a recovery in house prices in selected urban areas, an improved level of sentiment in the private non-residential sector and a number of positive announcements in regard to public sector construction projects.

Although activity trends in Irish construction remained robust as 2014 drew to a close, according to the Ulster Bank Construction PMI for December, the picture which emerged in the opening months of this year has been disappointing. The index remained in expansion territory but the pace of growth eased significantly in the first two months, with sentiment falling to its lowest level in eighteen months. The weakness has been attributed to uncertainty regarding housing market prospects following the introduction of new lending regulations by the Central Bank in January, although the weakness also extended to other sectors. Whether recent trends are sustained over the coming months remain to be seen, but overall the year 2014 saw the establishment of a solid, broad-based recovery. The expectation would be that there are a number of factors which are likely to underpin this recovery this year and next.

Plans for a renewed recovery in construction

The renewed focus on the industry, after a long period of contraction to crisis levels, can be attributed to a number of developments. Perhaps the first reference to planning for recovery in the sector came in July 2012 when Government announced details of an additional €2.25 billion stimulus package[2] which was expected to provide 13,000 jobs. Some of the planned projects to be funded by the Stimulus included €280 million to be allocated to education to provide 12 new or replacement schools around the country and to progress Phase 1 of the Grangegorman Educational facility[3]; €115 million for 20 primary care health centres; upgrade of the national motorway and roads network with an allocation of €850 million; and €190 million to be invested in the State Pathology Laboratory, and new garda regional headquarters. New courthouses were also planned for Letterkenny, Limerick and Wexford while courthouses are to be upgraded in Mullingar, Cork and Waterford. A number of these projects have since commenced or are in planning, with the stimulus expected to continue to make an impact out to 2017/2018.

This announcement was followed one year later with publication of the Forfás Strategic Plan for the Construction Sector in July 2013. [4]The Forfás report acknowledged the challenges facing the industry at the time and set out a series of actions to ensure the delivery of a sustainable and competitive construction sector in the period to 2015 and beyond.

The important role of the construction sector in the overall economy was further recognised with the publication of the Construction 2020 Strategy by Government in April 2014[5]. The strategy is focused on reform, renewal and recovery of the construction sector. It called for a competitive, innovative, dynamic, safe and sustainable construction sector that can contribute its full potential in terms of economic growth and job creation, including helping the significant number of those unemployed who previously worked in construction back into employment.

In addition the Government is currently undertaking a detailed review of the public capital programme which will set out the priorities to 2020 and will be published over the coming months. Industry sources suggest that private capital will play a significant role in the delivery of national infrastructure over the coming year.

All of these factors offer a very positive boost to the prospects for construction over the medium-term. Indeed the most pressing issue is now whether, following the substantial contraction in the industry over the past six years, it will have sufficient capacity to meet the recovery in demand which is expected to materialise over the coming years.
Accordingly the Society of Chartered Surveyors Ireland (SCSI) has commissioned this report from DKM Economic Consultants to establish the economic context for the construction industry,

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[2]http://per.gov.ie/2012/07/17/minister-howlin-announces-an-additional-e2-25-billion-domestic-nfrastructure-stimulus-to-create-much-needed-jobs/
[3]The Grangegorman Educational facility refers to plans to locate a unified campus for all of the colleges within the third level institution, the Dublin Institute of Technology, which serves over 20,000 students. The site, over 30 hectares of land in the north inner city, has the capacity to accommodate all the Institutes activities in one location. Some existing health services on the site are also to be maintained on the site. The Grangegorman Development Agency was established in 2005 to develop the Grangegorman site on behalf of the Departments of Education and Skills and Health.
[4]http://www.forfas.ie/publication/search.jsp?ft=/publications/2013/title,10996,en.php
[5]http://www.merrionstreet.ie/en/wp-content/uploads/2014/05/Construction-Strategy-14-May-20141.pdf

review its performance in 2014, examine the prospects for the industry in 2015 and 2016 and identify the key challenges for the industry given the loss of capacity, most notably in regard to the number of construction enterprises and skills over the past six years.

As part of the research, DKM designed a survey of SCSI members[6] which concentrated on the members' outlook for the construction sectors they are active in and covered a range of other issues on the industry. The survey was conducted during December 2014 and January 2015.

1.2 Report Structure

This report is structured as follows:

Section 2 begins with a review of the official forecasts for economic growth and investment in building and construction. It follows with a discussion about what contribution the industry should make to overall economic activity in the medium term to ensure the sector is not just a key driver of the wider economic performance but makes a steady and appropriate contribution to it. Trends in a range of key construction indicators are also presented.

Section 3 reviews the performance of the main sectors of the construction industry in 2014, notably residential, private non-residential and public sector construction. A number of the key issues and challenges raised by SCSI members for the industry in the medium- term are discussed.

Section 4 provides projections for the industry's prospects in 2015 and 2016. The main risks to the forecast, which have also been informed by industry consultations, are highlighted alongside a number of key challenges facing SCSI member firms.

The Executive Summary contains the summary and conclusions.

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[6]The survey consisted of 35 questions and was divided into three sections which gathered general information on the companies, information regarding respondents' sentiment and prospects for their businesses as well as for the main sectors of construction: housing, private non-residential and public sector construction. A total of 342 responses were received.

2. Economic Context and Key Performance Indicators

Construction is a key driver of economic activity and thus its economic context is central to understanding the appropriate contribution the industry should make to overall economic activity. This section begins with a review of the official forecasts for economic growth and investment in building and construction in 2015 and 2016. It considers the optimum size of the construction industry in an economic context and goes on to present up to date trends in key construction related indicators.

2.1 Economic Context for the Construction Sector

The total value of GNP in the economy was €158.4 billion in 2014, of which the value of public and private investment accounted for 19.2 per cent (16.4% of GDP) or €30.4 billion. Within that total, the gross value of investment in building and construction (B&C) increased to an estimated €12.8 billion[7], accounting for 8.1 per cent of GNP (6.9% of GDP).

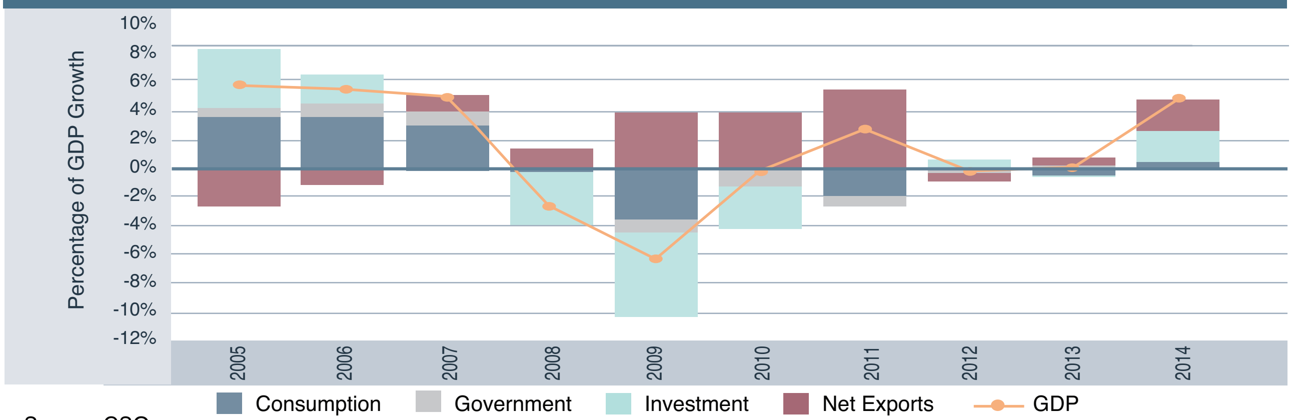
Although the economy expanded in GDP terms in 2011 (+2.8%), it was short lived as the growth subsequently faded with real GDP almost unchanged between 2011 and 2013. The economic recovery appears to have commenced in earnest in 2014, with real GDP up by a respectable 4.8 per cent. The performance in 2014 was the strongest growth since 2007 and the fastest growth in the Eurozone. The corresponding increase in real GNP was 5.2 per cent. This solid performance was marked by recording the first positive contribution to growth from domestic demand since 2007, with all components - consumer expenditure (+1.1%), Government expenditure (+0.1%) and investment (+11.3%) - recording positive growth.

Although domestic demand recovered for the first time since 2007, an interesting consequence of the economy's performance in 2014 is that investment made the same contribution to GDP growth as net exports. The contributions from consumption and government expenditure were more modest.

The sustained increases in employment, with an additional 90,200 persons at work in the two years to Q4 2014 are beginning to have an impact on personal consumption, which was very subdued throughout the recession years. The volume of retail sales rose by 6.4 per cent last year, although much of the growth was driven by the motor trade, with sales up by 3.7 per cent when motor sales are excluded.

Table 2.1 presents a number of official projections for real GNP in 2015 and 2016 together with the preliminary outturn for 2014. The latest projection, from the ESRI, is for real GNP growth of 4.1 per cent this year. This compares with a projection of 3.6 per cent from the Department of Finance and 3.3 per cent from the Central Bank of Ireland. The ESRI and the Department of Finance expect a moderation in real GNP growth in 2016 to 3.5 per cent and 3.1 per cent respectively, while the CBI expects an acceleration to 3.5 per cent next year. Real GNP in both years is projected to increase by less than the very robust performance in 2014, even though all sources expect the recovery in consumption expenditure to gather pace this year and next.

Figure 2.1: Contributions to GDP Growth



Source: CSO.

[7]Using the CSO' National Accounts preliminary measure of building investment in 2014, which is the sum of residential and non-residential construction investment, including the value of major repair and maintenance work and transfer costs (i.e. the costs associated with the transfer of land and buildings). When transfer costs are excluded, building and construction accounted for 7.6% of GNP (6.5% of GDP) or €12 billion.

Table 2.1: Projections For Real Gnp And Investment in Building and Construction

	2013	2014	2015	2016	2015	2016	2015	2016
	Actual		**DOF**	**DOF**	**CBI**	**CBI**	**ESRI**	**ESRI**
	Year-on-year percentage change							
Real GNP	3.3%	5.2%	3.6%	3.1%	3.3%	3.5%	4.1%	3.5%
Total Investment	-2.4%	11.3%	12.7%	7.6%	10.0%	7.5%	12.5%	9.2%
of which								
B&C	14.1%	8.9%	10.4%	6.0%	8.7%	8.4%	14.4%	13.2%
Nominal GNP (€bn.)	147.5	158.4	166.4	174.3	162.0	171.3	168.2	178.2
B&C (nominal, €bn.)	11.0	12.8	14.3	15.4	14.4	16.3	14.5	17.0
B&C as % of GNP	***7.5%***	***8.1%***	***8.6%***	***8.8%***	***8.9%***	***9.5%***	***8.6%***	***9.5%***

Sources: Department of Finance (DOF), Budget 2015 and Monthly Economic Bulletin, February 2015.
Central Bank of Ireland (CBI), Quarterly Bulletin, Q1, January 2015.
ESRI, Quarterly Economic Commentary, Spring 2015.
Note: 2013 and 2014 figures are based on CSO National Accounts published 12th March 2015.
B&C = Building and Construction.

Building and construction industry recovering from a low base

The corresponding projections for investment in B&C are included in Table 2.1 and show the volume of B&C output expanded by an estimated 8.9 per cent, according to the preliminary outturn for 2014. The prospects for B&C output this year range from an annual growth of 8.7 per cent from the Central Bank to 14.4 per cent from the ESRI. The ESRI is the most positive in both years, with a projected increase in the volume of B&C investment of 13.2 per cent next year. The Department of Finance expects B&C output to increase by 10.4 per cent this year with a more modest increase of 6 per cent projected for 2016. Based on the official projections available, the B&C industry is expected to represent under 9 per cent of GNP this year, with the ESRI expecting a more robust recovery in B&C output to 9.5 per cent of GNP next year. The highest value of B&C output is achieved in 2016, with the ESRI projecting an industry worth €17 billion (2016 prices) or around €15.1 billion in constant 2012 prices.

Section 2.3 presents a range of measures of B&C output over the period 2006-2014. Whichever measure is used, it is evident that the construction industry is a key sector of the economy and has an important contribution to make to economic activity and job creation. While the industry was seriously affected by the economic recession over the period 2008-2012, it has regained some ground since and accounted for around 7 per cent of GDP (8% of GNP) last year[8]. However the sector is operating at well below what might be deemed a sustainable level of activity. The appropriate and sustainable level at which the sector should operate is an issue which is considered below.

2.2 Optimum Size of the Construction Industry

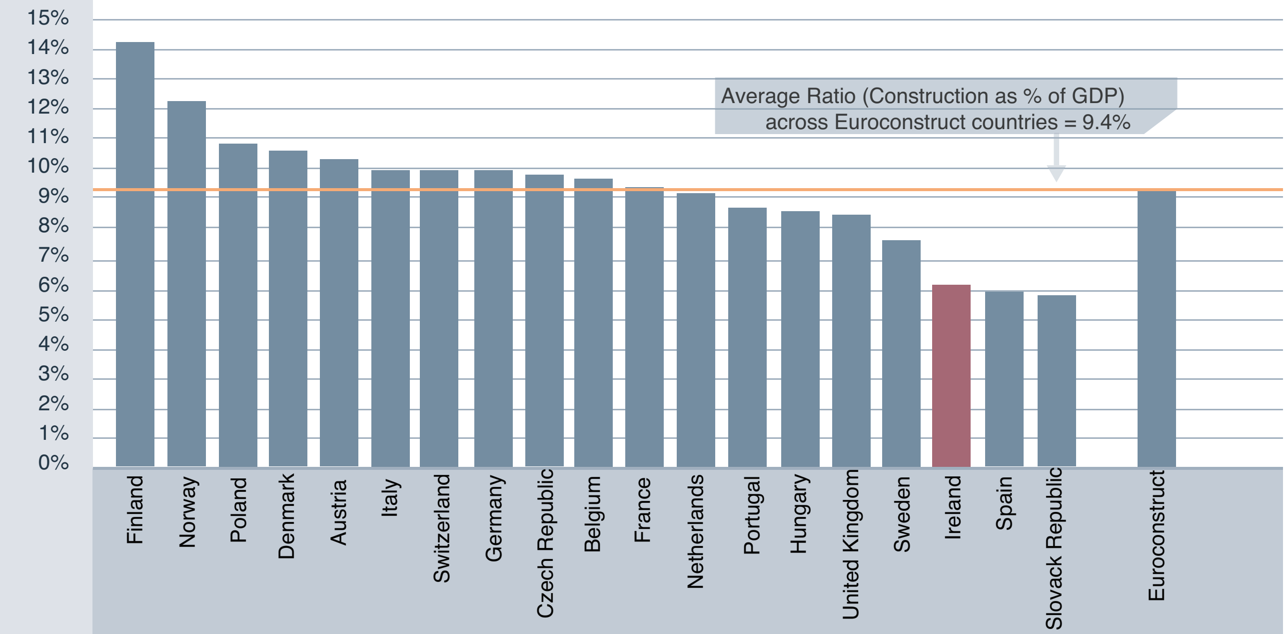
The large fluctuations over time between periods of relatively rapid growth in construction output and periods of relative stagnation or contraction have resulted in the industry's contribution to the wider economic performance declining from almost one quarter of economic activity in 2006 to around 6.5 per cent of GNP (5.3% of GDP) in 2012. Such fluctuations in output can result in a number of negative consequences for the industry which can take considerable time to reverse.

When operating at a more sustainable level, the construction industry contributes to the productive potential of the economy, by providing and maintaining physical infrastructure and buildings, which are critical for the competitiveness of the economy. Moreover, other firms back through the supply chain are supported when the industry is operating at a more sustainable level. Then, through the various output and employment multipliers, the additional wages generated in these firms are spent on goods and services in the wider economy. This in turn contributes to a more successful economy and higher employment.

This raises the question as to what the optimum size of the construction industry should be over the medium-term. A review of the size of other construction industries, using data for the 19 member countries of Euroconstruct,[9] shows the average ratio of construction to GDP was 9.4 per cent in 2014. Ireland, Spain and the Slovak Republic have the lowest ratios while Finland and Norway have ratios of around 13-14 per cent. In a separate review of a range of European countries, using OECD data over the period 1995 – 2014, the corresponding average ratio was closer to 12 per cent.

[8]Based on the assessment of gross building and construction output estimated in this report (CIRO/DKM measure).
[9]www.euroconstruct.org

Figure 2.2: Construction / GDP Ratio Across Euroconstruct Countries, 2014



Source: Euroconstruct www.euroconstruct.org November 2014

The projections presented in Section 4 expect the output in 2015 to account for 6.4 per cent of GDP (7.5% of GNP). If the Irish construction industry is to realign itself with the rest of Europe, it would need to recover to around 9 to 12 per cent of GDP. Based on the forty-five years 1970-2014 the industry accounted for an average of 11.9 per cent of GDP and 13.1 per cent of GNP. The ratio was highest during the last construction boom and second highest in the 1970s. It is no surprise that the lowest ratios were recorded during the last recession.

In the 2014 Competitiveness Scoreboard from the National Competitiveness Council[10], Ireland received low scores in relation to the perception of overall infrastructure quality and the need to continue to invest in essential infrastructures such as broadband.

In the reference year 2013, Ireland's score remained below the OECD average in relation to perceptions of overall infrastructure quality. Ireland also ranked poorly in terms of fibre connections and significantly lagged leading countries in terms of upgrading the local broadband access network to fibre.

Thus in terms of what would be deemed to be a sustainable level for the construction industry in the medium-term, the value of output should lie in the region of 10 to 13 per cent of GDP (12 to 15% of GNP). This would imply that Ireland should have a construction industry which is above the average for the Euroconstruct countries and closer to those countries at the top of the Euroconstruct table. This would allow Ireland to ensure that the construction industry provides and maintains the critical social and productive infrastructure and buildings, which can sustain the competitiveness of firms and the economy into the future.

At 12 to 15 per cent of GNP, this would imply an industry valued at between €19 billion and €24 billion, based on the

Table 2.2: Building and Construction Contribution to Economic Activity

Period	% of GDP	% of GNP
1970-1979	12.1%	12.1%
1980-1989	10.9%	11.8%
1990-1999	10.8%	12.2%
2000-2009	16.4%	19.3%
2010-2014	6.2%	7.4%
1970-2014	**11.9%**	**13.1%**

Source: CSO National Accounts.

[10]http://www.competitiveness.ie/publication/nccSearch.jsp?ft=/publications/2014/title,12465,en.php

level of GNP in 2014, compared with the current estimate of €12.5 billion for this year (7.5% of GNP). With the current momentum behind the industry and anecdotal evidence, at least, pointing to a significant volume of work in the planning pipeline, the industry could conceivably achieve this sustainable level of output in a five year period, although when it reaches the target proportion of GNP will depend on the outturn for GNP which has many components.

As the economy embarks on a recovery path the competitiveness gains made during the recession need to be retained and enhanced. Infrastructure bottlenecks in regard to housing, public transport, roads, air and sea access, energy, telecommunications, water and waste, which may be constraining that recovery need to be addressed. The Government's strategy for the sector, Construction 2020, set out to support a strong and sustainable construction sector by ensuring that "we are building the right things, in the right places, and that we are not placing unnecessary obstacles in the way of urgently needed and appropriate development"[11] . Thus in advance of reaching its sustainable level, it is imperative that any impediments to reaching its optimum size receive urgent attention.

2.3 Review of Construction Industry Output in 2014

2013 the first real signs of recovery for six years

Depending on the gross measure of B&C output used[12], output in the sector is estimated to have accounted for between 6.9 per cent and 8.1 per cent of GNP in 2014. In value added terms, B&C accounted for 2 per cent of GNP compared to, for example, agriculture, which accounted for almost 3 per cent. However, it is clear that the first signs of recovery in construction output (in volume terms) in six years emerged in 2013 across all three measures.

- Using the investment measure, the value of B&C output is estimated at €12.8 billion or 8.1 per cent of GNP last year. This is down significantly from peak levels in 2006 when the industry represented almost one-quarter of total economic activity, measured in GNP terms.

- The value-added measure is the most accurate measure of the real contribution of the construction sector to economic activity. It shows construction plummeted to 1.7 per cent of GNP in 2011 before staging a marginal recovery to an estimated 2 per cent in 2014. In value-added terms, the industry was worth an estimated €3.1 billion in 2014, down from €17.2 billion in 2006.

- The CIRO/DKM measure which is based on the total expenditure on new and repair, maintenance and improvement (RM&I) works, shows that construction fell to around 6.5 per cent of GNP in 2012 and 2013 but recovered in the subsequent years to reach an estimated 6.9 per cent of GNP in 2014. The corresponding value is estimated at €11 billion, compared with €36.7 billion at the peak (2006).

Table 2.3: Different Approaches to Measuring Building and Construction Output (Current Prices, € Million)

	Investment Measure	Share of GNP (%)	Value-Added Measure	Share of GNP (%)	CIRO */DKM Measure	Share of GNP (%)
2006	38,129	23.8%	17,200	10.7%	36,706	22.9%
2007	36,726	21.7%	15,990	9.5%	36,655	21.6%
2008	29,185	18.1%	11,372	7.1%	30,972	19.2%
2009	17,075	12.2%	4,177	3.0%	18,897	13.5%
2010	11,220	8.1%	2,601	1.9%	12,516	9.0%
2011	9,359	6.7%	2,366	1.7%	10,463	7.5%
2012	9,366	6.6%	2,740	1.9%	9,107	6.4%
2013	10,996	7.5%	2,764	1.9%	9,538	6.5%
2014E	12,789	8.1%	3,123	2.0%	10,990	6.9%

* CIRO refers to the Construction Industry Review and Outlook report (published by the Department of the Environment, Community and Local Government) which contained official estimates for output in the construction industry up to 2009. Figures for 2010-2014 are DKM estimates.

[11]http://www.merrionstreet.ie/en/wp-content/uploads/2014/05/Construction-Strategy-14-May-20141.pdf
[12]Details and definitions are given in Box 1.

Box 1: Measurement of Building and Construction Output

The ***investment*** measure, used by the CSO for the purposes of estimating the fixed investment element of the National Accounts, measures all new investment in building and construction projects plus investment in *major* repair and maintenance work only. It is included in the National Accounts as Gross Domestic Fixed Capital Formation (GDFCF), together with investment by firms in machinery and equipment. The Building and Construction component of GDFCF includes the costs associated with the transfer of land and buildings (€479 million in 2013) which are normally included in the CSO measure for National Accounts purposes.

The ***output*** or value added measure,[13] also derived by the CSO, amounts to taking the gross value of outputs less the value of intermediate consumption, and consists of the wages and profits earned by building workers and construction companies. It is a more accurate measure of the true contribution of the construction sector to economic growth.

The ***CIRO/DKM expenditure*** measure calculates the value of work put in place from the construction of buildings and structures and from civil engineering projects plus the value of major and minor repair and maintenance expenditure on existing building and structures. Output is valued inclusive of VAT at the building services rate where this is chargeable or, in the case of output of non-VAT registered bodies including direct labour units and individuals, output is valued inclusive of VAT on material inputs. The basis for this measure is the official Construction Industry Review and Outlook (CIRO) measure which was published by the Department of the Environment, Heritage and Local Government until 2010. DKM has updated this measure, which is the only measure of construction output which uses a bottom up approach by taking account of the value of output across each category of work in the industry. This measure captures domestic activity by construction firms only.

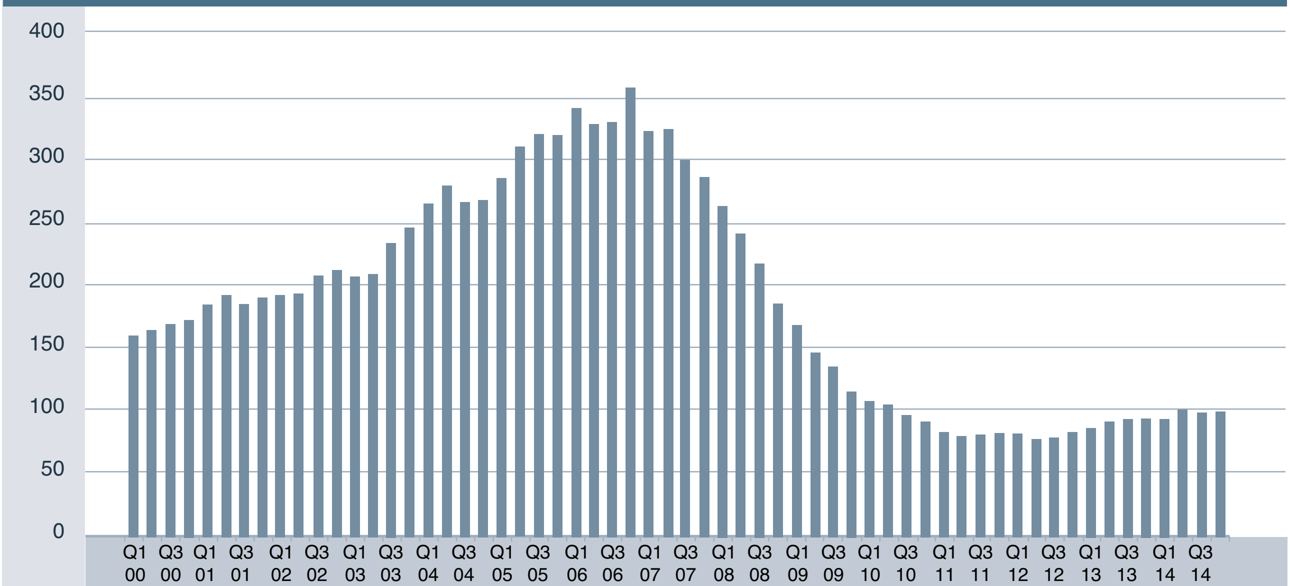
The CSO's Production in Building and Construction Index

Trends in the sector are also available from the CSO's Production in Building and Construction (B&C) Index. This index, published on a quarterly basis, surveys a sample of firms in the private sector whose main activity is building, construction or civil engineering. Approximately 2,400 firms are surveyed each quarter.

As with the measures presented above, the CSO's quarterly B&C Index recorded a vast expansion until 2007, which was followed by a rapid decline in the value of construction output since the series began in Q1 2000. As shown in Figure 2.3, the index peaked at 358.5 in Q4 2006 having risen by 126.3 per cent from the start of 2000, but experienced a rapid decline thereafter. The index reached its lowest point (77.3) in Q3 2012, and has since seen the value of output rise by 27.9 per cent up to Q4 2014.

A review of annual trends in the various sub-components of the B&C volume index since the peak (2006) shows the unprecedented

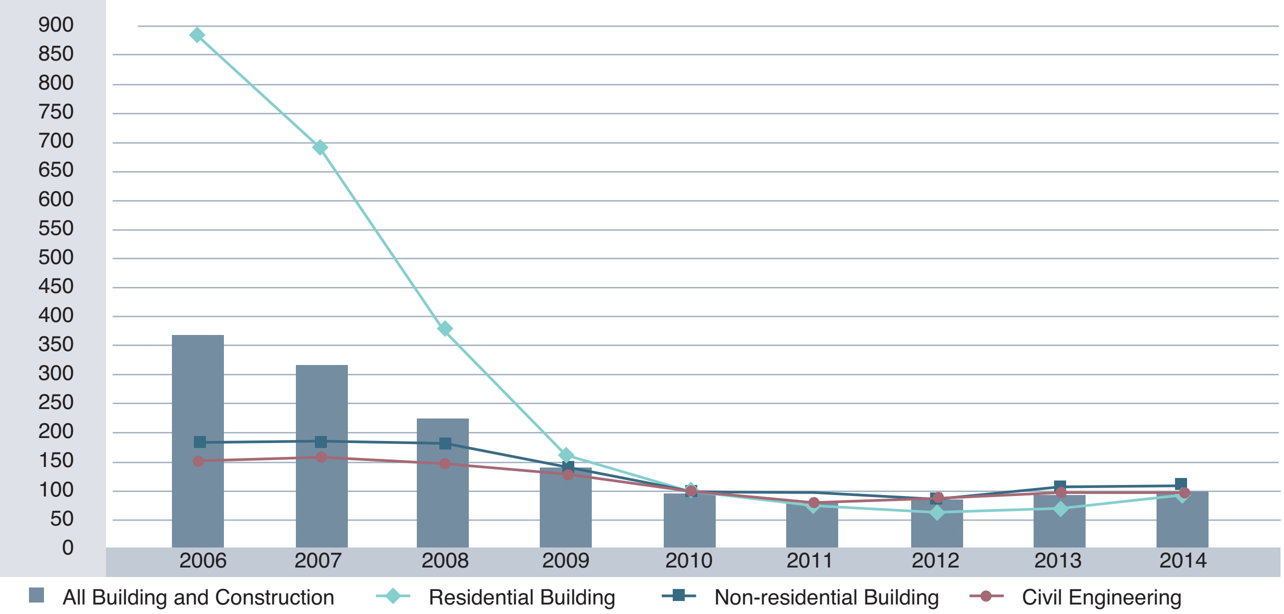
Figure 2.3: Value of Production Index in Building and Construction Q1 2000-Q4 2014 (SA,100=2010)



Source: CSO.

[13] The gross value added measure deducts the value of the goods and services used as intermediate inputs (intermediate consumption) from the value of output. Intermediate consumption is defined as the sum of all purchases of materials and fuels used by the building and construction sector and the cost of all services less the value of the increase in stocks of materials and fuels.

Figure 2.4: Volume of Production Indices in Building and Construction by Sector of Building 2006 - 2014 (Base 2010=100)



Source: CSO.

Table 2.4: Building and Construction Indices: Value and Volume Percentage Changes by Sector Of Building 2007-2014

	2007	2008	2009	2010	2011	2012	2013	2014
Value Index: YoY changes								
Residential Building	-17.5%	-43.3%	-58.7%	-36.5%	-28.6%	-11.8%	11.6%	17.5%
Non-residential Building	6.0%	0.8%	-22.6%	-29.0%	-4.0%	-9.6%	18.0%	9.8%
Civil Engineering	9.5%	-3.0%	-14.1%	-22.0%	-24.7%	17.4%	5.4%	4.3%
ALL B&C	**-9.1%**	**-26.5%**	**-37.7%**	**-29.3%**	**-19.1%**	**-1.5%**	**11.9%**	**9.7%**
Volume Index: YoY changes								
Residential Building	-21.3%	-45.2%	-58.1%	-37.2%	-27.0%	-12.5%	10.8%	17.5%
Non-residential Building	1.1%	-2.5%	-22.0%	-29.3%	-1.7%	-10.6%	18.5%	7.2%
Civil Engineering	4.4%	-6.2%	-12.8%	-22.8%	-22.8%	16.5%	4.6%	3.2%
ALL B&C	**-13.4%**	**-29.2%**	**-36.9%**	**-29.7%**	**-16.7%**	**-2.4%**	**11.3%**	**8.3%**

Source: CSO

contraction in residential building, reflecting the sharp decline in house completions from 88,219 units to 11,016 in 2014. The non-residential building and civil engineering indices also contracted but by substantially less over the same period.

An analysis of year-on-year trends shows the volume of production in the sector overall recovered in 2013, increasing by 11.3 per cent. The recovery continued in 2014, recording a further 8.3 per cent increase, with the strongest expansion recorded by the residential building sector, where volumes expanded by 17.5 per cent. The increases were much more modest in the non-residential and civil engineering sectors, although civil engineering has been in recovery mode since 2012.

2.4 Employment Trends in Construction

The scale of the challenge facing the construction recovery in terms of employment is evident from Figure 2.5. The chart illustrates the exceptional growth in construction employment during the boom years, which culminated in direct employment of 276,000 at the peak (Q2 2007). When persons indirectly employed in those firms and services supplying the construction sector are included, the total number of persons employed reached 386,700 or almost one in five persons working in the economy at the peak.

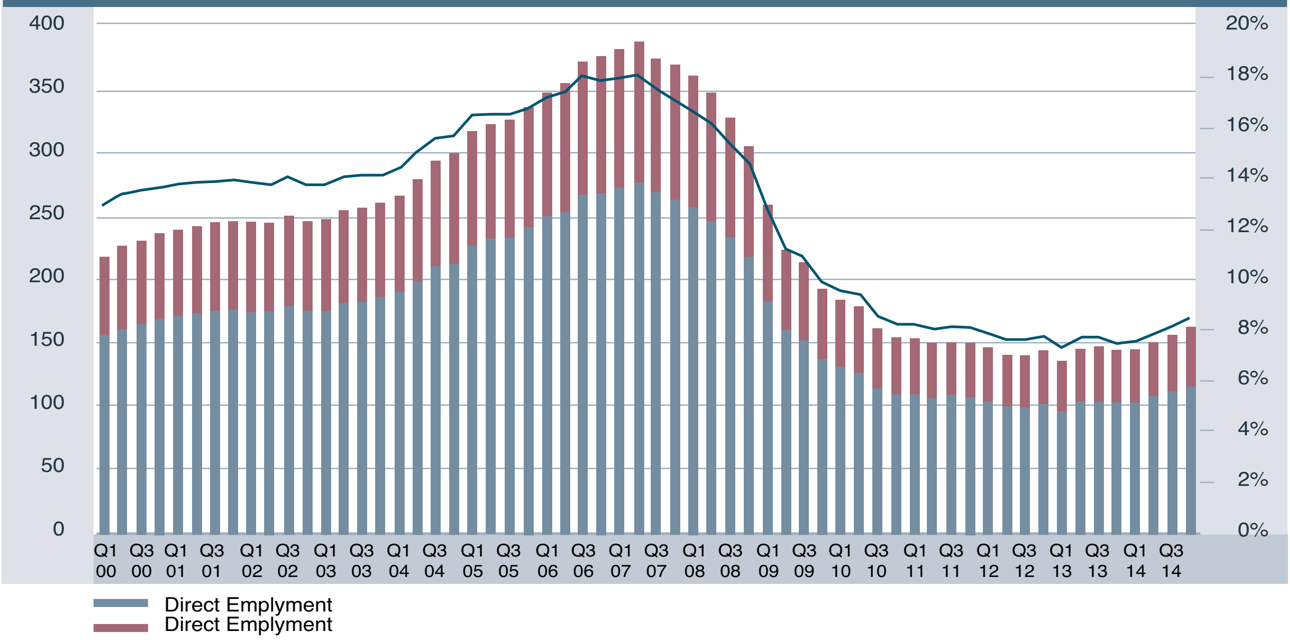
[14]The standard occupational classification (SOC) used by the CSO is the common classification of occupational information used for the UK (SOC2010). Within the context of the classification, jobs are classified in terms of their skill level and skill content.
[15]Caring, Leisure and Other Services and Sales and Customer Service.

The total number of persons directly employed in construction fell to 97,400 (sa) in Q1 2013. By Q4 2014, 115,800 persons were employed in the industry, representing a modest recovery back to Q3 2010 levels, and an increase of 18,500 or 19 per cent from trough levels. The corresponding level of construction employment, when indirect employment is included, was 162,100 or 8.4 per cent of the total persons employed across the economy.

It is possible to disaggregate construction employment by broad occupational groups[14]. There are nine occupational groups in total but two of these are not relevant for construction.[15] Table 2.5 shows the occupational breakdown for persons working in construction; close to 60 per cent of the total work in skilled trades.

Based on a breakdown of all occupations across the economy under the broad occupational groups, the construction related occupations are separately identified in the second half of Table 2.5. However it is important to bear in mind that persons classified under these occupational groups, with the exception of Skilled Construction and Building Trades, may or may not work in construction. The strongest annual growth rates in Q4 2014 were recorded by Architects, Town Planners and Surveyors (+17.9%), Elementary Construction occupations (+15.5%) and Construction Operatives (14.1%). There were 17,800 Engineering Professionals across the economy and 9,900 Architects, Town Planners and Surveyors at the end of 2014.

Figure 2.5: Construction Employment: Direct and Indirect (000s, SA)



Source: CSO.

Table 2.5: Construction Employment by Broad Occupational Group and Construction Related Occupations Across the Economy (000s)

	2007 Q2	2010 Q4	2011 Q4	2012 Q4	2013 Q1	2013 Q4	2014 Q3	2014 Q4
Construction Occupations								
Managers, Directors & Senior Officials	7.8	4.0	5.3	6.8	7.0	6.4	6.6	7.4
Professional	3.7	3.0	2.8	*	*	3.7	*	*
Associate Professional & Technical	4.6	3.0	3.8	3.8	3.4	3.2	3.8	4.0
Administrative & Secretarial	9.9	5.6	4.9	4.5	4.2	5.3	5.1	6.0
Skilled Trades	168.2	69.9	61.2	58.8	55.9	62.4	66.1	65.1
Process, Plant & Machine Operatives	29.7	12.4	13.5	13.0	12.0	10.3	12.7	13.4
Elementary	47.8	11.5	14.4	12.1	10.3	11.2	14.4	16.7
Other/Not stated	*	*	*	*	*	*	*	*
Total Employment in Construction	**273.9**	**111.0**	**107.8**	**103.2**	**96.3**	**103.6**	**112.4**	**116.7**

Table 2.5 (continued): Construction Employment by Broad Occupational Group and Construction Related Occupations Across the Economy (000s)

	2007 Q2	2010 Q4	2011 Q4	2012 Q4	2013 Q1	2013 Q4	2014 Q3	2014 Q4
Construction Related Occupations Across the Economy								
Skilled Construction and Building Trades	151.7	62.7	58.3	51.9	51.1	57.2	60.4	60.4
of which								
- Construction & Building Trades	112.5	45.7	46.0	38.2	38.9	42.3	44.0	44.7
- Building Finishing Trades	33.7	13.8	10.0	10.7	9.4	11.7	13.4	12.9
- Construction/Building Trades Supervisors	5.5	3.2	2.3	3.0	2.8	3.2	3.0	2.9
Draughtspersons & Architectural Technicians	3.4	2.4	2.9	2.5	*	3.2	*	*
Engineering Professionals	19.3	19.9	20.1	19.4	17.6	20.2	17.8	19.2
Architects, Town Planners & Surveyors	13.2	8.6	8.0	9.5	9.4	8.4	9.5	9.9
Plant & Machine Operatives	12.9	6.3	7.2	5.9	6.5	8.9	8.3	7.3
Construction Operatives	15.2	11.0	11.7	9.8	9.7	9.2	10.7	10.5
Elementary Construction Occupations	88.2	29.0	24.9	32.2	27.5	32.9	33.5	38.0

Source: CSO * Estimates are too small to be considered reliable.

Skills availability is a significant challenge raised by SCSI members

The availability of the requisite skills in the medium term is a significant challenge facing the construction industry and is raised in the SCSI survey by several respondents. The survey notes the lack of competent and skilled tradesmen and professionals, most notably in the engineering profession, as well as the lack of specialist contractors. The latter is already beginning to manifest itself with glazing and curtain walling contractors. A separate issue raised was the lack of training places while the impact of the lower CAO points for third level courses during the recession raised concerns about the quality of new graduates.

The respondents to the SCSI members' survey reported a wide spread of employment numbers,[16] accounting for 10,119 employees in total. Almost two-thirds of respondents reported that they worked for companies with fewer than 10 full-time employees. These micro companies employed just 7 per cent of the total employment reported in the survey, with all SME companies (employing less than 250 FTEs[17]) accounting for 56 per cent. Only 4 per cent of respondents worked for larger firms, employing more than 250 FTEs, but these firms accounted for 44 per cent of the total employment reported.

In the SCSI survey, members were asked *"Looking ahead over the two year period between 2015 and 2016, do you expect the number of employees as well as the number of senior, junior and graduate surveyors to increase, decrease or remain the same? Please rate on a scale from 1 to 6 as below."*

Any response over 3 indicates an expected increase in employment. It emerged that respondents were cautiously optimistic about employment prospects over the next two years, with the average rating of 3.95 for FTEs in their companies.

Table 2.6: Expectations for Total Employment (FTEs) in Respondents' Companies 2015-2016

Answer Options	Responses
1 Decrease significantly (<-5% to -10%)	2%
2 Decrease modestly (<0% to -5%)	3%
3 No Change (0%)	30%
4 Increase moderately (>0% to 5%)	38%
5 Increase significantly (>5% to 10%)	17%
6 Increase strongly (>10%)	10%
Total	**100%**
Rating Average	***3.95***

While the overall average of 3.95 indicates an expectation of a moderate increase (38% of respondents fell into this category), 30 per cent expected no change, while 27 per cent are anticipating employment gains in excess of 5 per cent for their companies.

[16]Some companies returned very large FTE numbers, the largest number of full time equivalents reported was 6,000. In Question 1, a number of respondents had indicated that they worked for worldwide companies, only a fraction of whose employees would be based in Ireland. In order to avoid skewing the results of the survey, companies with over 800 FTE were excluded from the analysis for this question. This reduced the number of completed answers from 325 to 318.
[17]FTE = Full-time equivalents.

2.5 Tender Price and Cost Movements

Tender prices have recovered by 13.5% since they bottomed out in second half of 2010

Movements in tender prices for new non-residential projects across the country with values in excess of €0.5m are tracked by the SCSI. Figure 2.6 shows the peak was reached in the first half of 2007. Construction tender prices increased at an annual average rate of 4.6 per cent in the four years to 2007. Thereafter tender prices fell every six months during the construction recession at an annual average rate of 9.6 per cent until the second half of 2011. A modest recovery followed with tender prices recovering every six months and by the second half of 2014, tender prices had increased by 13.5 per cent. The most recent data shows that tender prices increased by 5 per cent in 2014, following an increase of 3.1 per cent in 2013. These increases are significantly higher than general consumer price inflation which increased at an annual rate of 0.5 per cent in 2013 and 0.2 per cent in 2014. Notwithstanding the recovery in recent years, tender prices are almost back to 2009 levels and remain 24.2 per cent below levels at the peak.

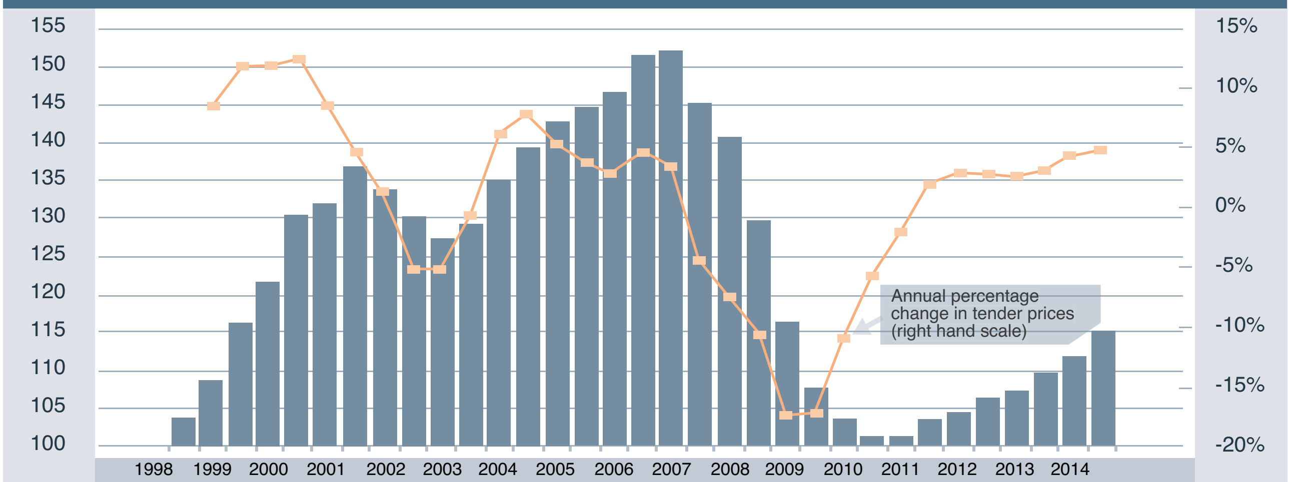
The recovery trend is expected to continue into the medium term as confidence is restored and the pipeline of work increases the volume of construction activity. The availability and cost of labour will be a key factor influencing the future trends in prices. The increase in construction tender prices is most apparent in the Greater Dublin Area but is expected to spread out to other regions this year. In terms of tender price expectations, the majority of respondents in the SCSI members' survey expect tender price inflation to remain around 5 per cent per annum in 2015 and 2016 across all categories of work. Around half as many respondents again expect tender price inflation to accelerate by between 5 and 10 per cent per annum over the same period.

Some construction material prices rising well above the average

In regard to construction costs, there are a number of official data sources, most notably the CSO[18].

While overall inflation for the wholesale prices of building and construction materials has been modest at just 1.3 per cent in 2013 and 1.4 per cent in 2014, certain components of this index have displayed exceptional increases over recent years. Among those materials recording significantly higher rates of increase than general wholesale prices in 2014 were sand and gravel (+35.3%), hardwood (+15.2%), stone (+6.8%) and glass (+5.1%). The latest monthly data is for February and shows wholesale prices overall almost unchanged compared with the end of December 2014. However, the prices of certain products continued increasing in the first two months of the year, notably hardwood (+3.8%) and plaster (+1.7%), while the price of bituminous emulsions (-9.5%) declined over the same period. The prices of dollar and sterling denominated raw materials are likely to come under pressure due to the recent weakening of the euro. Indeed the most recent Construction PMI for February from Ulster Bank reported an acceleration in the rate of input cost inflation to the fastest since July 2008, with respondents suggesting that the weakness of the euro against sterling and the US dollar had been the main factor leading to the increase.

Figure 2.6: SCSI Construction Tender Price Index 1998-2014 (H1 1998=100)



Source: SCSI

[18] The CSO Wholesale Price Index and the Capital Goods Price Index for Building and Construction Materials provides information on actual transaction prices for materials purchased by construction and civil engineering firms, both imported and domestically produced. The price indices reflect an 'average' over a mixture of products from many companies throughout the country. According to the CSO, industry sources have confirmed that price increases notified by companies may not always be achieved in practice following negotiations. Much depends on the prevailing market conditions.

Average earnings for persons employed in construction increased by 4.3 per cent in 2014, following an increase of 1.8 per cent in 2013. However, when those working in specialised construction activities are separated, their average weekly earnings increased in 2013 (+5.2%). Indications for the first nine months of 2014 show a further acceleration year-on-year to 8.5 per cent, which can be explained by a recovery in average hourly earnings in 2013 (+4.7%) and 2014 (+1%) and an increase of 7.4 per cent in average weekly paid hours worked from 34.5 hours in the first nine months of 2013 to 37.1 hours in the same period in 2014.

Construction costs increasing by more than the general rate of CPI inflation

When trends in building and construction material prices are combined with trends in construction earnings, the composite index derived is the Capital Goods Price Index (CGPI), which increased by 1 per cent in 2014. There was no increase in the CGPI in the first two months of 2015 compared with December 2014. Construction costs, according to the SCSI displayed a similar rate of increase to the CGPI in 2012 and 2013 and increased by 0.5 per cent in the first nine months of 2014.

With respect to construction costs, the majority of respondents in the SCSI members' survey expected costs to rise by up to 5 per cent for the years 2014 to 2016, with half as many respondents again expecting costs to rise by between 5 and 10 per cent over the same period.

2.6 Conclusions

The Irish economic recovery began in earnest in 2014 with the first recovery in domestic demand since 2007. Investment staged a strong rebound in 2014 although the recovery in investment in B&C commenced in 2013, according to all three measures for capturing activity in the B&C sector. Residential building is leading the recovery, followed by civil engineering and non-residential building. While official data reveal a sector which is in recovery mode since 2013, some respondents to the SCSI survey expressed concern that the upturn is not evenly spread across the regions. This is apparent from the pick-up in tender prices, which is most apparent in the Greater Dublin Area.

Construction costs and related indices have yet to respond to the recovery although respondents to the SCSI members' survey expect costs to rise by up to 5 per cent per annum this year and next. The weak euro is expected to drive up input costs for imported products. One cost faced by construction contractors, notably earnings for persons employed in specialised construction activities, increased at an accelerating rate in the first nine months of 2014.

The modest improvement in the numbers employed is welcome although a significant challenge raised in the SCSI members' survey is the availability of the requisite skills in the medium term.

The appropriate and sustainable size of the construction industry over the medium-term is considered to lie in the region of 10 to 13 per cent of GDP (12 to 15% of GNP). This will allow the industry to sustain the competitiveness of the economy and contribute to economic growth and job creation. While the length of time it will take to reach this level will depend on a number of factors including the outturn for GNP, the industry's progress over the next two years is addressed in the next two sections.

Table 2.7: Trends in Building and Construction Costs

	2011	2012	2013	2014
	Annual Percentage Changes			
1. Wholesale Price Inflation of B&C Materials	**2.3%**	**2.2%**	**1.3%**	**1.4%**
2. Average Weekly Earnings in Construction Construction - All Employees	**-4.1%**	**-0.2%**	**1.8%**	**4.3%**
- Construction of Buildings *	-3.5%	2.1%	-0.4%	0.6%
- Civil Engineering *	-9.1%	15.3%	-6.8%	0.2%
- Specialised Construction Activities*	-3.6%	-3.6%	5.2%	8.5%
3. B&C Capital Goods Price Inflation	**-2.5%**	**0.9%**	**0.7%**	**1.0%**
4. SCSI Construction Cost Inflation **	**-1.3%**	**1.0%**	**0.7%**	**0.5%**
5. General CPI Inflation	**2.6%**	**1.7%**	**0.5%**	**0.2%**

Source: 1,2,3,5, Central Statistics Office www.cso.ie
4. Society of Chartered Surveyors Ireland (SCSI).
* 2014 figures for sub-sectors of construction relate to the YoY changes in the first three quarters of 2014 only (latest data available).
** 2014 data are YoY changes in the period January to August 2014 (the latest data available) versus the same period in 2013.

3. Construction Sector Performance: Review and Prospects

This section reviews the performance of the main sectors of the construction industry in 2014, notably residential, private non-residential and public sector construction. A number of the key issues and challenges raised by SCSI members for the industry in the medium- term are discussed.

3.1 Residential Construction

The housing debate in Ireland remains focused on the shortage of housing supply, which is the single most important challenge in the residential property market at present. There is considerable pent up demand in the market with projections from the Housing Agency suggesting that the housing supply requirement in the Dublin region is equivalent to 37,700 units in the period 2014-2018 or almost 80,000 across all urban settlements[19]. Across the country as a whole, the ESRI has projected a need for between 19,000 and 33,000 additional dwellings per annum - an average of 26,000 - which would amount to around 104,000 dwellings in the four years 2015-2018[20]. Given that potential buyers are likely to have postponed property purchases during the recession years, the annual demand may well exceed the average of 26,000 nationally or 7,540 in the Dublin Region. Thus the focus is currently on ensuring that this demand is met in the medium-term across the main housing market segments – owner occupation and the private rented and social housing sectors.

There are a number of issues which are currently impacting on the residential supply pipeline, including the issue of development viability in some locations as well as access to development finance. In the owner occupied market, there are also affordability issues in certain locations, although the new Central Bank lending regulations are less onerous for first-time buyers than what was expected.

Notwithstanding the anticipated demand, the current level of lending for house purchases is modest. There were 20,155 mortgage drawdowns involving a property transaction in 2014 which had a total value of €3.66 billion. These figures are up significantly on the same period in 2013 but represent only 38 per cent of the total volume of mortgage business (25% by value) done in the same period of 2008. First-time buyers accounted for 57 per cent by volume and 51 per cent by value of the total mortgage drawdowns last year. The total drawdowns in 2014 exclude an estimated 47 per cent of property transactions which were cash based.

In terms of loan approvals, a leading indicator of mortgage business in the pipeline, there were 25,500 mortgage approvals involving a house purchase or an average of 2,125 per month in 2014. This total represented an increase of almost 50 per cent on the 2013 figure. In value terms, mortgage approvals involving a house purchase amounted to €4.72 billion, 29 per cent higher than the value of drawdowns.

The new mortgage rules announced by the Central Bank are to allow banks to lend 90 per cent to first-time buyers up to a value of €220,000, with an 80 per cent limit applying above that amount. While this is a tightening on the current regime which allows banks to lend 90 per cent loan to value (LTV) ratios, the new rules are designed to protect banks and borrowers from getting into difficulties with future lending. For non first-time home buyers, a restriction of 80 per cent LTV will apply and this is being reduced to a 70 per cent LTV limit for banks lending to investors purchasing buy-to-let properties.

A separate measure expected to reduce investor demand for residential property in 2015 is the removal of the capital gains tax relief introduced to incentivise the purchase of property between the 7th of December 2011 and the end of 2014. However, with the demand for rented property likely to increase as a result of the LTV limits for FTB purchasers, investor demand may be higher as a result. Separately Budget 2015 introduced a refund of Deposit Interest Retention Tax or DIRT for first time buyers who are saving to purchase their home until end 2017. The refund will apply on savings up to a maximum of 20 per cent of the purchase price. However, with deposit rates at an all time low, the value of this measure is likely to be minimal.

A number of other indicators are worth noting in 2014, including the following:

- There were almost 43,000 property transactions in 2014. This figure was almost 44 per cent above the corresponding figure in 2013.
- A total of 7,411 residential units were granted planning permission in 2014, almost 3 per cent higher than the

[19] http://housing.ie/getattachment/Our-Publications/Latest-Publications/Future-Housing-Supply-Requirements-Report.pdf
[20] Duffy, D., Byrne, D., FitzGerald, J., Alternative Scenarios for New Household Formation in Ireland, Special Article in ESRI QEC Spring 2014.

corresponding level in 2013. The vast bulk of these were houses (89%). of which almost one half were one-off dwellings. The number of flats/apartments granted planning permission at 785 units has fallen sharply from the highs of around 20,000 on average during the boom years. Nationally, the total number of units granted permission in the last two years was 14,610 or 50,983 in the last five years (see Figure 3.1).

- A breakdown of units granted planning by region in the last five years shows 45 per cent were in the Greater Dublin Area, followed by 13.7 per cent in the Border counties and 13.6 per cent in the Mid East. Research prepared for the SCSI concluded that there are 26,580 extant planning permissions in the Dublin region alone since 2008[21]. This figure compares with almost 35,000 units granted planning permission in the Dublin region since 2008 and an estimated 15,000 completions in the period 2009-2014.

- According to data from the Department of Environment, Community and Local Government (DECLG), there were 11,016 new dwellings connected for electricity (a proxy for completed units) in 2014, up from 8,301 units in 2013.

- The total number of housing commencements (a proxy for housing starts) amounted to 7,717 in 2014, which represented a sharp increase on the 4,708 figure for 2013.

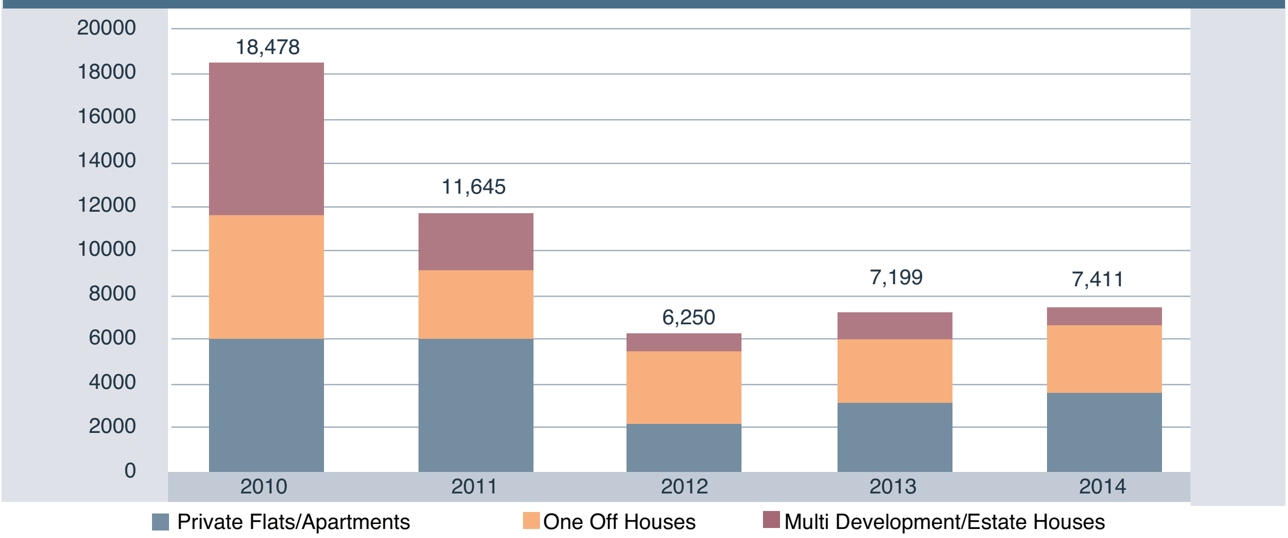
- An interesting trend in regard to the commencements is the high proportion of one-off houses which accounted for 61 per cent of total commencements in 2013, down from 82 per cent in 2010. These proportions are substantially higher than what would have transpired during the boom years when one-off houses accounted for between 25 and 30 per cent of total commencements. In absolute terms the average number of one-off houses was 4,231 in the five years 2009-2013, these units would have been an important factor sustaining construction employment in areas where they were built.

- Evidence of the growing shortage of residential property is clear from the escalation in residential property prices, which increased across the country by 16.3 per cent year-on-year on average in December 2014, according to the CSO Residential Property Price Index. The corresponding increase in Dublin was 22.3 per cent, with property prices rising above 20 per cent per annum in each of the previous seven months. Residential property prices declined nationally in the first two months of the year, by 1.4 per cent in January and by 0.4 per cent in February. Dublin also registered price declines in the opening months of the year by 1.9 per cent in January and 0.7 per cent in February. As a result of the slowdown, the annual rate of property price inflation in February stood at 14.9 nationally and 21.4 in Dublin.

- The escalation in rents is also an issue for urban areas, in particular, with rents up by 10.5 per cent year-on-year in Dublin in Q3 2014 compared with 5.6 per cent nationally[22].

As mentioned the core issue is that there is insufficient supply to meet demand. The *Construction 2020 Strategy,* published in May 2014, set about removing blockages from the system to generate building activity. Issues being or to be addressed include the planning system, the supply of land and the financing of private and social housing development. A key player expected to influence housing supply in the medium-term is the National Asset Management Agency (NAMA).

Figure 3.1: Total Units Granted Planning Permission by the Dwelling 2010-2014E



Source: CSO.

[21] Housing Supply Capacity in Dublin's Urban Settlements 2014-2018, SCSI, September 2014 available at https://www.scsi.ie/documents/get_lob?id=279&field=file

[22] Source: PRTB Rent Index available at http://www.prtb.ie/docs/default-source/rent-index/prtb-quarter-3-2014-report-v3.pdf?Status=Temp&sfvrsn=2

Table 3.1: Total Units Granted Planning Permission by Region 2010-2014E

	2010	2011	2012	2013	2014	2010-2014	
						Total	% share
State	18,478	11,645	6,250	7,199	7,411	50,983	100%
Border	3,362	1,370	991	633	635	6,991	13.7%
Midland	536	582	405	230	220	1,973	3.9%
West	1,567	950	713	467	632	4,329	8.5%
Dublin	4653	3,936	1,694	2,998	2752	16,033	31.4%
- Dublin City	1,403	1,537	443	779	937	5,099	10.0%
- Dun Laoghaire-Rathdown	1,446	936	206	252	485	3,325	6.5%
- Fingal	1,586	472	605	1411	978	5,052	9.9%
- South Dublin	218	991	440	556	352	2,557	5.0%
Mid-East	3,530	1,155	497	725	1035	6,942	13.6%
Mid-West	1,422	652	448	356	406	3,284	6.4%
South-East	1,642	1,447	581	941	664	5,275	10.3%
South-West	1,766	1,553	921	849	1067	6,156	12.1%
GDA	**8,183**	**5,091**	**2,191**	**3,723**	**3,787**	**22,975**	**45.1%**

Source: CSO.

3.1.1 Role of NAMA

Investment by NAMA to date has delivered more than 1,000 units, predominantly in the Greater Dublin Area (GDA). According to the Chief Executive of NAMA, 2,000 new NAMA-funded homes are currently under construction and the Agency has identified a number of areas in Dublin (ranging from Ballsbridge to Ashtown) where construction is now ready to commence on a further 1,000 homes. The Agency plans to complete 3,500 units in the GDA in 2015-2016 which combined with the 1,000 completed to date will provide 4,500 units in total. The total investment in residential units in the period to 2016 is expected to be in the region of €1 billion.

Separately NAMA sites have the potential to deliver an additional 27,000 units in Dublin and elsewhere but many are not yet viable. An analysis by the Agency showed that sites controlled by NAMA Debtors/Receivers could deliver 40 per cent of the demand for houses in Dublin identified in a recent study by the ESRI at approximately 7,000 houses in Dublin annually up to 2020. NAMA has also identified 14 sites, linked to loans held by the Agency, in the Dublin commuter belt, including sites that are ready to proceed to construction, which are 'shovel ready' and have the potential to deliver 398 homes. The Agency is also looking at sites in key urban locations outside the Greater Dublin Area including areas in Cork, Limerick and Galway. On this basis NAMA has an important role to play in the delivery of completed housing units in the private housing sector over the next four years and beyond.

Separately NAMA is also working closely with the DECLG and the Housing Agency to facilitate local authorities and housing bodies to purchase and lease properties for social housing. Details are provided below.

3.1.2 Social Housing Investment Programme

The most significant public capital housing investment package since 2011 was announced in Budget 2015 and subsequently published in the Social Housing Strategy[23] (SHS) in November 2014 in an effort to begin to address the crisis in the social housing sector. The key issues are the increasing homelessness problem, the high number of households on the social housing waiting lists, last estimated at around 90,000 as of May 2013[24] and increasing rents in the private sector, which are crowding out tenants who depend on assistance with their rent payments from the State. The fundamental problem has been the lack of new building in the public sector since the financial crisis.

Consequently the SHS contains a capital investment programme of over €2.2 billion for social housing provision for the next three years. Including the provision for current expenditure, the total investment is €3.8 billion by 2020. This investment will comprise the following:

[23] http://environ.ie/en/PublicationsDocuments/FileDownLoad,39622,en.pdf published 26th November 2014.
[24] http://www.housing.ie/News/Current-News/18-12-13-Summary-of-Social-Housing-Assessments-201.pdf. Although the real number is closer to 40,000/50,000 households when those in receipt of State assistance with their rents are excluded.

- Over €1.5 billion of **Exchequer investment** by 2017, including €435 million in 2015, €500 million in 2016 and €600 million in 2017.

- **Public Private Partnerships** will be used to invest €300 million in the delivery of around 1,500 social housing units by 2017.

- An **off-balance sheet financial vehicle** will provide at least €400 million from 2015 onwards to Approved Housing Bodies. The funds are expected to come from the sale of State assets, which is expected to leverage private finance and provide for at least 2,000 housing units over the period 2016 to 2018.

Overall, the large-scale investment in social housing is expected to fund the provision of over 35,000 new social housing units by 2020. The investment package will involve a combination of new build, acquisitions and leased properties.

The projected level of delivery over the period to 2020 is set out in the SHS, based on the total spend of €3.8 billion. These units represent units leased, acquired and newly built over the period, but a detailed breakdown is not provided. The estimated breakdown on an annual basis is set out in the next Table.

Substantial increase in capital provision for social housing in 2015

Returning to 2015, the public capital provision for social housing is €697 million, which is 36 per cent above the provision in 2014 (Table 3.3). The total funding is being made available to the DECLG, local authorities, Approved Housing Bodies, and the Housing Agency to address a programme of new build, acquisitions, regeneration, refurbishment of vacant units and remediation works.

However not all of this expenditure has a construction impact. Expenditure on construction related investment in social and local authority housing is expected to consist of the following:

- An estimated 2,500 vacant housing units which are to be brought back into use over the next five years;

- A major acceleration of local authority direct construction and acquisition which is expected to deliver a quadrupling of the amount of social housing units delivered through this mechanism;

- An increase in the number of units delivered through the voluntary and cooperative housing sector/approved housing bodies; and

- A programme of estate regeneration.

Table 3.2: Total Social Housing Units to Be Built, Acquired and Leased to 2020

	2015-2020	2015	2016	2017	2018	2019	2020
Projected Social Housing Units							
Total	**35,000**						
Capital (Table 1 of SHS)		2,386	2,386	2,711	2,400	1,145	1,145
Current (Table 1 of SHS)		3,000	4,114	4,286	3,600	4,000	4,400
TOTAL	**35,573***	**5,386**	**6,500**	**6,997**	**6,000**	**5,145**	**5,545**

*The total sums to 35,573 as per Table 1 page 25 of SHS. The annual provisions are DKM estimates.
Source: Social Housing Strategy to 2020, December 2014.

Table 3.3: Total Housing PCP in 2015 Vs. 2014

	2014	2015	% Change
From Public Capital Programme (PCP)	**€m.**	**€m.**	
Local Authority and Social Housing	271.0	459.2	+69
Local Authority Housing Loans	200.9	200.9	0
Private Housing Grants	38.6	24.1	-38
Other Housing/Pyrite Resolution	-	12.6	
Total Housing PCP	**510.5**	**696.8**	**+36**

Source: Revised Estimates for Public Service, 2015.

Based on DKM's assessment in 2015 and 2016, the estimated construction related investment is closer to €330 million in 2015 and €450 million in 2016, although the investment is expected to escalate further post 2016.

Separately, NAMA has invested approximately €20 million in capital expenditure to date to deliver social housing. The Agency has offered over 5,700 units for social housing, of which demand has been confirmed by local authorities for just over 2,200 properties and a further 187 are currently being evaluated. NAMA made just over 1,900 houses and apartments available in Dublin, of which 742 have been taken up for social housing.

A Special Purpose Vehicle - NAMA Asset Residential Property Services Limited ("NARPS") - has been established by NAMA to expedite social housing delivery by acquiring residential units from NAMA debtors and receivers and lease them directly to Approved Housing Bodies. By end-2014, over 400 units were delivered under this initiative and, on the assumption that local authorities and approved housing bodies confirm their intention to buy or lease the properties, NAMA expects that a further 600-700 houses and apartments will be taken up by local authorities and housing bodies via NARPS in 2015.

3.1.3 Projections for New Housebuilding

Generating projections for new house building activity with any degree of confidence is extremely challenging in the Irish residential construction market. There is a real issue with the lack of reliable and timely housing data, an issue which was raised in both the Forfás Strategy for the sector (2013) and in Construction 2020 (2014). There is currently data published on planning permissions, commencements and completions and yet there are significant differences between all three measures. The new Building Control Regulations introduced from March 2014 should considerably improve the quality and timeliness of housing data. From 1st March 2014, persons intending to undertake development work must submit notifications, applications and compliance certificates through the online Building Control Management System (BCMS). Industry sources suggest that the new BCMS has considerable potential to address data limitations by, for example, publishing commencement and completion certificates on a monthly basis. This would generate reliable and timely indicators of new housing supply in the pipeline.

There is one fundamental issue, however, which is the inconsistency between the data that is currently published for commencements and completions (Figure 3.2). The Department of the Environment, Community and Local Government publish data on house completions which are based on electricity connections. The commencements are notifications to a building control authority that a person intends to carry out works and are published under the new system above[25]. The chart shows that the gap between both series has been significant over the period 2010 to 2014 when a total of 52,933 units were recorded as completed but only 27,216 were recorded as commencements (Table 3.4). Adding the 5,335 public sector units to commencements, the gap remains significant at 20,382. Even if it is assumed that commencements in one year represent an estimate of private completions in the following year, the gap is 17,424 over the five years.

There is a further recent issue with the commencements data, as a result of the new system being introduced, which is that the first two months of 2014 were associated with an exceptional level of commencements – 5,247 dwellings - as housebuilders and developers applied for commencement notices in advance of the regulatory change. Recent data just published for the period March to December 2014 shows the total commencements for the full year 2014 was 7,717 compared with 4,708 in 2013. The lack of timely data on housing commencements, which should be a reliable indicator of private housing supply in the pipeline, makes it very difficult to forecast the level of housebuilding in the short term.

Legacy issues from the boom impacting on house completions

One factor which may explain this large discrepancy is the fact that the measure of completions is based on electricity connections, i.e. when the dwelling is registered for electricity supply. It is likely that a proportion of the units connected for electricity over recent years represent units which were either finished or near complete during the boom years and due to the financial crisis, have only been sold off by banks/receivers and NAMA over the last five years. Thus the level of electricity connections is likely to overstate the true level of housebuilding output in the year. The reality is that the true level of house building each year is likely to be lower than the electricity connections suggest. This is significant because it may result in overstating the true level of economic activity and GNP in the years in question.

The evidence to support this assertion is available from the much lower figures for commencements; furthermore we understand that not all of these tend to proceed to construction. It is also known, for example, according to the first Survey of Unfinished Developments (see Box 2) carried out by the DECLG in 2010, that there were 23,250 dwellings classified as complete and vacant and a further almost 10,000 were classified as near

[25] Commencements only apply to private developers and not to local authorities.
[26] Meaning units that are watertight but require fitting out or connection to services to ready them for sale.

complete[26]. It is likely that many of these 33,250 units would have been sold in the period since, albeit the near complete units would have required some further investment to finish out. Recent planning permission data also shows there were 7,411 units granted planning permission in 2014. While the total of 50,983 units granted planning permission over the period 2010-2014 is close to the level of connections, this is likely to be a coincidence as not all of the planning permissions are likely to have been built out in this period. We also understand that some permissions, which may have expired during this period, may have had to be resubmitted for planning.

These issues of vacant stock left over since the boom, sales by NAMA and receivers, and the difficulties regarding reliability of both the published commencements and completions data, raise difficulties for projecting the level of dwellings built by private developers and housebuilders. Equally, the limited detail provided in the SHS on the social house building programme is an issue for projecting the level of new social housing units. The SHS includes acquisitions and new build but does not separately identify the new build contribution, which is expected to be back-end loaded in the programme over the period to 2020. There is also considerable investment in the leasing of units and housing adaption grants, for example, which do not generate new units, but nonetheless should be included as part of construction output in the estimate for residential construction output.

Estimates for the delivery of new building activity in the private and social housing sectors since 2010 are set out in Table 3.4 and Figure 3.2, together with projections for 2015 and 2016. For the purposes of estimating the contribution to new residential construction output, the projections exclude a proportion of the units - estimated at 20 per cent - connected for electricity each year, on the basis that these units were built during the boom years. This 20 per cent is equivalent to 10,587 units, which is significantly lower than the figure of 33,250 in the Survey of Unfinished Estates. However, without any data on when those 33,250 units were built, it is not possible to allocate them precisely to the year in which they were built for the purposes of measuring the true level of completions. Indeed a number of these unfinished units may yet have to be sold by receivers at the end of 2014 in which case they will continue to distort the data for 2015 and 2016. Thus the number of electricity connections/completions in 2015 and 2016 and beyond may continue to overstate the true level of housebuilding.

Table 3.4: Projected Housebuilding to 2016 (Units)

	2010	2011	2012	2013	2014	2015E	2016F	2010-2014 Total
Total Planning Permissions (units)	18,478	11,645	6,250	7,199	7,411	N/A	N/A	**50,983**
Total Completions (i.e. electricity connections)	14,602	10,526	8,488	8,301	11,016	N/A	N/A	**52,933**
of which								
- Private Completions	12,533	9,295	7,472	7,797	10,501	N/A	N/A	**47,598**
- Public Completions	2,069	1,231	1,016	504	515	N/A	N/A	**5,335**
Total Commencements (excl. public housing)	6,391	4,365	4042	4708	7,710	N/A	N/A	**27,216**
Gap between Private Completions (Year t) and Commencements (Year t-1)	1,865	2,904	3,107	3,755	5,793	N/A	N/A	**17,424**
Estimate of Total Housebuilding* (units)	**11,682**	**8,421**	**6,790**	**6,641**	**8,813**	**10,000**	**14,000**	**42,346**
of which								
- Total Public Sector (units)	2,069	1,231	1,016	504	515	750	1,000	**5,335**
- Total Private Housebuilding (units)	9,613	7,190	5,774	6,137	8,298	9,250	13,000	**37,011**
of which								
- NAMA funded units					1,000	1,500	2,000	**4,500**

Source: www.environ.ie, NAMA, CSO. DKM estimates.
* After applying a discount of 20% to the figure for electricity connections each year from 2010 to take into account the vacant stock issue and sales by NAMA/receivers.

Housebuilding in the short-term likely to be much lower than required

By aggregating the expected contributions for the private and social housing sector, including private sector units provided by NAMA, the level of new housebuilding used to estimate construction output since 2010 is calculated. The 2015 projection per Table 3.4 is a rounded up figure to 10,000 new units, which includes the commencements in 2014 (7,710) together with an estimate for public housing of 750 units. The projection for housebuilding in 2016 is 14,000. It is important to note that these figures are substantially lower than other projections recently produced by, for example, the ESRI (Spring QEC), which has 16,000 and 18,000 completions for 2015 and 2016 respectively, or the Central Bank (Q1 2015 Bulletin) which expects 16,250 new units built by 2016, because they take account of vacant stock and sales by NAMA/receivers. As these units wash out of the system, the electricity connections should begin to measure the true level of housebuilding again.

A more fundamental implication of these projections is that the level of housebuilding is likely to be much lower than expected and required in a market that is suffering serious supply constraints with respect to owner-occupied and rental housing.

The value of building the above units is estimated based on a methodology which uses assumptions for new house prices (excluding the land cost) and a residential deflator, to ascertain the real change in volumes over the period.

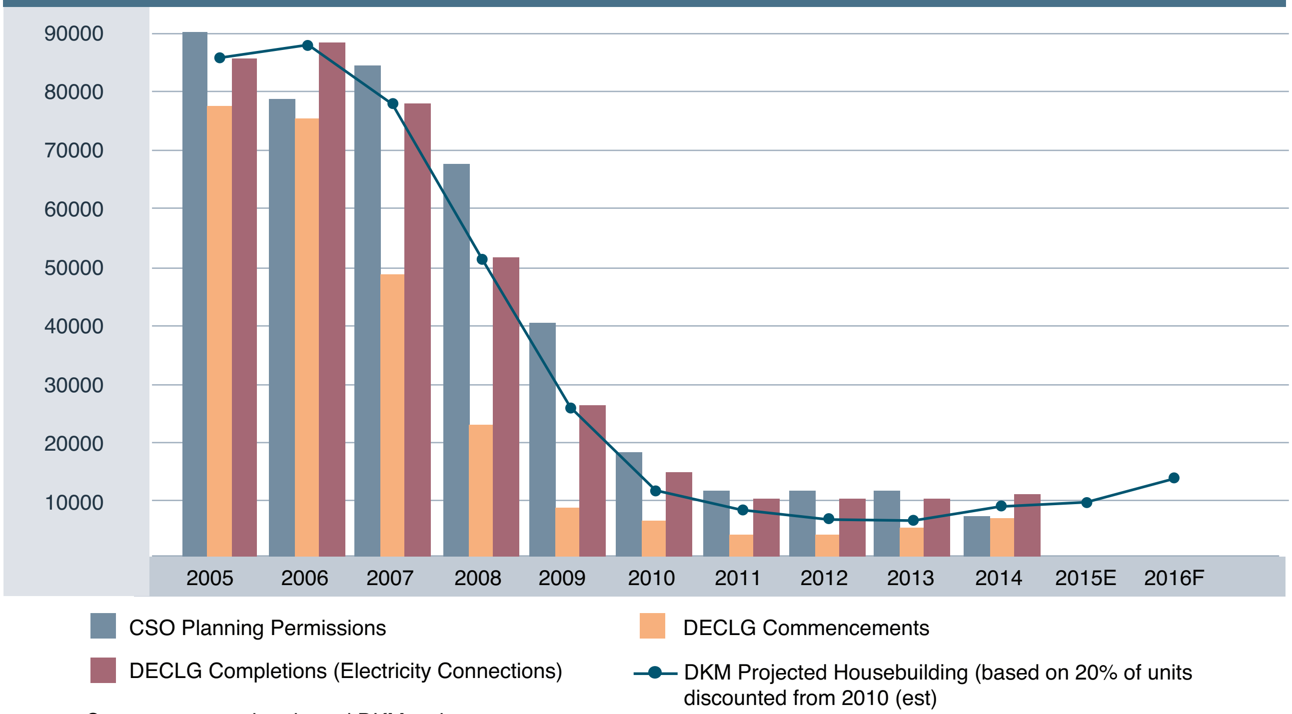
In the SCSI members' survey, respondents were asked *"With respect to the total market in Ireland, what in your opinion will be the level of new private housebuilding in 2014, 2015 and 2016? Please tick number of units as appropriate."*

- For 2014, 50 per cent of respondents stated that between 8,000 and 10,000 units would be built.
- For the subsequent two years covered by the survey, most respondents (38% and 37% respectively) predicted between 12,000 and 15,000 new built units.

In a similar question with respect to the Dublin market, where 869 units were delivered by the private sector in 2013:

- The overwhelming majority of respondents (68%) expected that between 2,000 and 5,000 new units would be built in Dublin in 2014.
- For 2015, 42 per cent opted for a higher figure, namely between 5,000 and 7,000.
- For 2016, the responses were more evenly distributed, but most believed that Dublin would see over 10,000 new units built.

Figure 3.2: Projected Housebuilding to 2016



Source: www.environ.ie and DKM estimates.

Box 2: Unfinished Developments

A key legacy issue from the housing boom and subsequent bust has been the matter of unfinished developments. The unprecedented level of units completed and connected for electricity at the height of the boom amounted to 93,419 in 2006. However, according to the first Survey of Unfinished Developments carried out by the DECLG in 2010, there were 23,250 dwellings classified as complete and vacant and a further almost 10,000 were classified as near complete . Assuming these unfinished developments were constructed in the period 2005-2010 (and probably mostly in the earlier years), this would imply that in excess of 93,419 and closer to 100,000 units were completed at the height of the boom, or almost 110,000, when the nearly completed units are included. This issue is a complicating factor for the measurement of residential construction, as it is assumed that most of these units would not have been connected for electricity until they were sold and thus would not have been included in the DECLG measure for completed units. The exclusion of these 33,250 units in the measure of building investment and ultimately in the level of GNP in the year in which they were built implies that the GNP was possibly understated in the period 2005-2010, particularly in the early years of this period, when real GNP, for example, increased by 5.5 per cent in 2005 and 6.4 per cent in 2006.

It is necessary to capture the level of building investment associated with these unfinished estates in the year in which they were built as they would have contributed to economic activity. However as progress on resolving these developments has been made by a range of stakeholders, including Government, local authorities and NAMA, over the past four years, it is also necessary to reflect the investment made over this period in resolving developments.

There has been a substantial reduction (-65%) in the number of unfinished developments, according to the DECLG survey, from almost 3,000 in 2010 to less than 1,000 in 2014. The number of complete and vacant dwellings remaining in 2014 has fallen to 4,453 units, one-fifth of the 2010 level, while the almost 10,000 classified as near complete in 2010 had fallen to 5,406 units. Thus in total almost 10,000 units remained either complete and vacant or nearly complete in 2014 in almost 1,000 developments. There were a further 9,126 units for which construction had not commenced while planning permission had expired on 20,000 units.

Based on the figures in Table A, a total of almost 19,000 dwellings were completed over the five years, which may or may not have been sold. The resolution of these unfinished housing developments has involved a range of funding initiatives. In 2014 alone, a total of €4.63 million was approved under the Public Safety Initiative (PSI) to deal primarily with public safety issues. A targeted Special Resolution Fund (SRF) was established at the time of the 2014 Budget to complement other third party finance. The DECLG suggests that approximately €12 million in third party finance was leveraged by the SRF allocation. Over the period 2011-2014, the DECLG also reports that local authorities obtained more than €43.3 million from bonds and securities to complete essential public infrastructure within unfinished estates. Separately NAMA has approved an additional €7.5 million to address issues in its own portfolio of 229 estates.

As these units are completed and sold they will become connected for electricity and thus will be counted in the DECLG housing completions figures and in the value of housing output which is based on connections. While any investment in the resolution of these estates must be included as part of residential construction output in the year in which the investment took place, any completed units built in previous years, but connected for electricity later, should be counted in residential construction output in the year in which they were constructed.

Table A: Status of Unfinished Developments

	2010	2011	2012	2013	2014	No. at end 2014
Total Developments Inspected	2,846	2,876	2,973	1,881	1,263	992
Total Dwellings in Developments Inspected	179,230	181,435	185,655	132,225	99,456	76,357
of which						
Complete and Occupied Dwellings	78,195	85,538	91,692	57,642	41,476	30,709
Complete and Vacant Dwellings	23,250	18,638	16,881	8,694	5,563	4,453
Nearly Complete Dwellings	9,976	8,794	7,992	7,180	6,278	5,406
Sub-total	**33,226**	**27,432**	**24,873**	**15,874**	**11,841**	**9,859**
Number of Sites with Construction Activity	429	245	252	193	170	88
Other Unfinished Dwellings (various stages of completion)	9,854	9,078	9,040	8,955	7,682	6,621
No Construction Started	58,025	59,381	35,191	19,661	12,286	9,126
Planning Permission Expired (Units)	N/A	N/A	24,864	30,132	26,171	20,042

[1] Source: National Housing Development Survey and Progress Reports available at http://environ.ie/en/DevelopmentHousing/Housing/UnfinishedHousingDevelopments/

3.1.4 Housing Repair, Maintenance and Improvement (RM&I)

Data on the level of expenditure by private households on repair, maintenance and improvement (RM&I) expenditure is captured by a CSO survey (unpublished) of households for the purposes of measuring investment in major dwelling improvements for the national accounts. There is further investment in minor repair and maintenance by households which is also captured by the CSO Survey. The aggregate figure for major and minor improvements by households in 2013 was around €2.6 billion.

The Home Renovation Incentive (HRI) scheme for owner occupiers is likely to be a driver of housing refurbishment works in 2014 and 2015. This scheme was reported to have attracted nearly €300 million worth of construction work on 14,438 properties since it was introduced across the country in Budget 2014[27]. The scheme, which provides tax relief for home owners, by way of an income tax credit at 13.5 per cent of qualifying expenditure on RM&I works carried out on a main home by qualifying contractors, runs until 31 December 2015. The works must cost a minimum of €4,405 (before VAT), which will attract a credit of €595, up to a maximum of €30,000 (before VAT), where a maximum credit of €4,050 applies. The credit is payable over the two years following the year in which the work is carried out and paid for. HRI tax credits commence in 2015. The 2015 Budget extended the HRI scheme to landlords/investors in the private rented sector to help upgrade the quality of the private rental stock.

In the SCSI members' survey, 34 per cent of respondents expected the HRI scheme to have a positive impact in 2014. It was reported as particularly positive for small contracts and sub-contractors. Some comments provided are set out below.

"A positive impact in creating incentive amongst home owners to invest in their properties after several years of stagnation."

"The HRI has provided a substantial boost to the small to medium building trade and has also driven more rogue traders out of the market which is a positive move."

"Overall a positive benefit to the industry reducing black market operations and creating output in a depressed market."

Some 38 per cent of respondents reported only very small impacts on construction activity, with some stating the following:

"Very limited effect; this scheme has had little impact on the black market which accounts for the vast majority of smaller refurbishment works."

"Negligible impact. Do not think it increased or had a net-added increase effect on construction in 2014."

"Negligible. Until the house owner is required to register the details of the contractor - with associated penalty. The HRI wasn't enough to offset the cash economy."

Only 14 per cent of respondents felt that the HRI had no impact.

"There was no real impact from this scheme from an owner-occupier perspective. Most clients who wanted to complete a project were not reliant on it being a fundamental factor in completing construction works. If anything, it was a nice little sweetener at the end of the project, but the benefit is not received until two income tax years after the project."

There were some critical comments relating to the lack of advertising and to a shortage of skilled workers as a result of the work undertaken under the HRI. Respondents also thought that the scheme had contributed to an increase in prices/costs. Some comments mentioned are given below:

"Result in an approximate 10% increase in cost of the works."

"Prices by contractors increased to reflect the scheme - no benefit to users."

"This did give a slight incentive to home owners to carry out upgrade works, however I think most had intended to do this work at some stage, it just brought this forward."

In regard to the extension of the HRI scheme to the private rented sector, most respondents (47%) expected the impact to be a positive one in 2015 and 2016.

The volume of expenditure on repair and maintenance by the private household sector will be a function of disposable incomes and consumer confidence. While austerity measures will have taken their toll on expenditure by households in recent years, the improved economic prospects combined with a modest impact from the HRI scheme, should improve the prospects for private RM&I spending.

A proportion of funding under the social housing investment programme is to go towards refurbishment of the social housing stock, and includes a range of housing adaptation grants which will assist older people and people with disabilities to

[27] Source: Office of the Revenue Commissioners.

continue living in their own homes. Public sector housing RM&I also provides funding for remedial works, energy efficiency improvements and turnaround of casual vacancies and vacant stock. The 2015 Budget also included €50 million for the continued upgrading of social housing for energy efficiency/ retrofitting purposes. This is part of a three year jobs stimulus programme that will see the energy efficiency of 25,000 of the poorest insulated local authority homes improved.

Taking the projections for both private and public RM&I, the total volume of RM&I housing output is forecast to increase by 8.3 per cent in 2015 and 6.3 per cent in 2016.

3.1.5 The Dublin Housing Supply Problem – Survey Responses

Respondents were asked, *"What in your opinion would be the three most effective policy measures to rectify the housing problem in Dublin and other urban areas?"*

This question received 514 opinions, with many respondents submitting three or more suggestions. The most frequently mentioned measures were:

- Changes to planning regulations;
- The availability of finance; and
- The release of land holdings.

Some sample responses are given below.

Planning/Regulation

"A re-think of Dublin City Council's minimum size for apartments - whilst very well-intentioned, these units have been argued by the head of the Housing Agency to be too large. The large sizes significantly impact on the risk/reward expectations of developers and when compared with sales prices that are affordable to the market, developers may not have considered potential returns merited development of their potential schemes."

"Fast track planning in areas with suitable infrastructure."

"Government fast tracking housing sites with planning that has expired and the purchase thereof for social housing."

"Provide a mechanism in legislation for the Building Control department and Planning department of Local Authorities to have a meeting with developers/consultants prior to commencement of a project to redevelop historically protected buildings. Building Control and the Heritage departments have conflicting requirements which can sometimes leave historically protected buildings in a state of paralysis where nothing further can be done to them to comply with the requirements of both. For example development into apartments. This has also become a particular issue with the introduction of The Housing Regulations 2008 (Renting) which means that these historical buildings also cannot be even rented and may result in dereliction."

Lack of Finance / Credit

"Finance / Credit for Developers, contractors and home buyers."

"Finance for voluntary housing agencies."

"Financing to be fast tracked."

"Improved access to finance for purchasers but coupled with clear guidelines on deposit and income levels to be met by borrowers."

Release Land Holdings

"High taxation on owners of land banks retained by speculative developers and fund purchasers."

"Land buyers must commit to development to meet local objectives within defined timeframes - or face an annual tax based on the current market value of the site - thus if the market changes, the tax reduces accordingly."

"Make it easier for developers to develop existing lands banks which have planning permission by giving a once off tax incentive to them."

Viability of Residential Construction

The survey asked: *"Given that there is a major supply constraint in the market, why in your opinion is construction not proceeding?"*

- The responses to this question also focussed on the lack of funding and credit, which accounted for 34 per cent of responses.

- The lack of profitability in residential construction due to high costs (including those imposed by regulation) was also frequently mentioned (18% of responses).

- As above, problems with the planning process were frequently cited and the fact that Building Regulations were too expensive to comply with (17% of responses).

Lack of Confidence

"Lack of confidence in the residential sector caused by legacy issues from the past, albeit this is changing slowly."

"Developers and Banks risk adverse based on previous experience."

"New generation of developers (risk-takers) required. Existing "known" developers are suffering from both the financial and perhaps psychological effect of a bust."

"Fear of apartment building."

Lack of Available Sites / Speculative Delay

"People holding sites bought them at too high a price relative to recent sale realisation values."

"Landowners are holding out for higher site values."

"Expectation of rising development land prices leading to a 'speculative delay.'"

"Local Authorities do not have requisite services in place despite getting development levies."

"Land not available at reasonable prices."

3.1.6 Key Challenges for Residential Construction to 2016

The survey posed the question, *"In your opinion, are there any other challenges facing the residential construction sector in 2014 and looking forward to 2015 and 2016? Please distinguish between national and regional challenges."*

- On a national level, skills shortages were mentioned most often (31% of responses). This applied across the construction skills, from operatives to professionals and includes the lack of experienced developers.

- Planning related issues again featured strongly, both nationally and regionally (24% and 16% respectively).

- The lack of suitable, serviced sites was mentioned most frequently on a regional level, in particular with respect to Dublin (22% of responses).

- For the regions, the oversupply of houses and the poor quality of stock added in the boom was also an important issue (15%).

Table 3.5: Challenges for the Residential Construction Sector 2014 to 2016

Challenge	National	Regional
Skills shortage incl. developers	31%	11%
Planning/Regulation/lack of government action	24%	16%
Lack of Funding/Credit/investment	19%	9%
Costs vs Prices/affordability	11%	11%
Confidence/uncertainty/mistrust	7%	5%
Lack of serviced sites/Public transport infrastructure	5%	22%
Lack of jobs	2%	4%
Oversupply of houses/poor quality	2%	15%
Other	0%	5%
Total	**100%**	**100%**

N=219 (national challenges) N=79 (regional challenges)

Skills Shortage

"There is a lack of surviving contractors post 2009 of competence with good staff still on the island who are available for projects under €500k ."

The return of the white van man with a ladder claiming to be contractors loom once again."

"Ageing profile of on-site staff."

"Availability of construction professionals will become a limiting factor."

"Without a doubt; RESOURCES

They're all in Australia and won't be returning until our rates double.

We haven't been "training" either trades or professionals and our old boys are burnt out from keeping the fire lit for these past 6 years..."

"There are only approx 30 apprentice masons in the 26 counties.

There are only approx 40 apprentice plasterers in the 26 counties.

There are only approx 340 apprentice carpenters & joiners in the 26 counties."

"Nationally and Regionally: skill shortages generally - lack of uptake of construction related studies in both skilled and professional occupations will lead to increased costs in construction."

Regional Oversupply of Houses

"Pockets of stock oversupply in under-populated areas due to past tax schemes. This will be a drag on house prices and development viability in certain areas, case in point Leitrim."

"Disconnect between past development areas and areas of employment; High proportion of housing in smaller villages within say a 20 mile radius of regional towns. Such villages and smaller towns will recover many years after even the larger regional towns."

"Deal with the problem of too much zoned land in non viable areas. Concentrate development and support with infrastructure and public transport."

Building Regulations

Separately SCSI members were asked *"What percentage of the increase in the price of a unit do the Building Control (Amendment) Regulations account for?"*

The majority of respondents stated that the BCAR accounted for up to 5 per cent of the price increases across all categories of dwellings in Dublin and across the rest of the country.

Sources of Finance

The financing of viable construction and development projects was a key issue raised by SCSI members across all construction sectors. In this regard access to appropriate levels of development and other finance on a sustainable basis is a key requirement. SCSI members noted a number of alternative sources of finance other than banks, most important amongst these were private and international investment, which accounted for 26 per cent of all responses.

The sustainable financing model is now seen as requiring both senior debt finance and equity finance, with banks in a position to provide senior debt finance for up to 60 to 65 per cent of the total development costs for viable projects. The remaining gap of 35 to 40 per cent will need to come from developers own equity or an alternative source, notably a third party funder. There is reported to be a sufficient supply of equity financing available for certain construction projects which are considered viable but the take-up has been slow.

Separately the Ireland Strategic Infrastructure Fund which was established in December 2014 to invest its assets, valued at €7.2 billion, on a commercial basis in a manner designed to support economic activity and employment in the State. Budget 2015 noted that the ISIF under the auspices of the NTMA is exploring ways, through its commercial mandate, to support financing projects that will enhance the supply of housing. Potential options include the development of housebuilders investment funds, enabling of large scale development projects, and investment in social housing PPP projects. The ISIF has already made investment commitments in Ireland to date of €1.5 billion and plans to deploy the remainder of the €7.2bn fund over the coming years. The extent to which these investments can be expected to create a demand for new building space remains to be seen.

3.2 Private Non-Residential Construction

Construction activity in the non-residential construction market is generated by the public sector capital provisions for social infrastructure – hospitals, schools, prisons, libraries etc. – as well as from private sector investment in commercial (offices, industrial and retail), tourism and agricultural buildings. This section deals with investment by the private sector only.

The private non-residential market saw record level of new building put in place across the office, retail, industrial, tourism and agricultural sectors during the last boom. The value of new building put in place peaked at almost €6 billion in value terms in 2007. The corresponding value in 2010 declined to just €505 million. Thus the market has been performing well below what might be considered to be normal levels of construction activity. Estimates for 2014 suggest the volume of new private non-residential output recovered to €1.31 billion.

3.2.1 Commercial Market

The Irish real estate market has been experiencing considerable interest from domestic and international investors over the past twelve months. Irish REITs (Green, Hibernia, IRES (focused on residential)) have also been very active in the office, retail and other commercial investment markets. The recovery is driven by increasing stability in the economy and the strength of Dublin and Ireland as an investment location.

Many of the property assets coming to the market at present are as a result of the sale of distressed assets/loans by financial institutions and NAMA, a development which is expected to continue throughout 2015. The hope would be that the large volume of transactions in the commercial property market might generate a need for new build and renovation projects over the medium-term.

Demand exists across all asset classes, notably offices, retail, industrial and hotels. Investment activity has now returned to levels ahead of the peak, with total investment volumes for 2014 estimated at over €4.5 billion, representing an increase of nearly €2.6 billion on the corresponding 2013 figure[28]. As a result Dublin jumped to 24th place in the global investment hierarchy (from 93rd in 2013) and to 5th in Europe, according to research by JLL[29] and also had the world's fastest growth in office rents over the past year.

Offices

In the ***offices*** sector, the Dublin market is experiencing a shortage of prime space, particularly in the South suburbs according to property agents. Prime headline office rents in the Central Business District of Dublin are reported to be at €450 to €500 per square metre, with a continuing supply shortage expected to drive rents up further in 2015 and 2016, until new supply comes onstream. A Davy report from October 2014[30] projected that the backdrop of deep demand and limited supply would be very supportive of office rents out to year-end 2017 and expected the market to reach the previous peak of €673 per square metre during this period.

NAMA led developments

Perhaps the most significant contribution to the private non-residential construction market is expected to come from NAMA through its support for construction projects and through other initiatives. NAMA has spent an estimated €1 billion to date on the completion of developments in the commercial sector and is willing to invest a further €3 billion on commercial projects over the coming years, if required. Much of this investment is expected in Strategic Development Zones, most notably in the North Lotts and Grand Canal Docks SDZ in the Dublin Docklands where NAMA has a financial interest in sites comprising over 75 per cent of the total available development land within the area. Such a major interest in this landholding provides NAMA with an opportunity to facilitate the delivery of new commercial and residential development in the area. This development will support the expansion of the financial services sector and the development of new FDI business and technology hubs in the Docklands area. The overall amount of office space planned is of the order of 316,000 square metres out to 2025. Some 1,850 apartments are also planned.

Box 3: Nama Non-Residential Projects

NAMA has interests in four operational projects in the SDZ which are expected to deliver around 130,000 square metres of commercial space over the next four to five years:

- The Agency has provided funding for the planning process for the redevelopment of the **Boland's Mill** site in the Dublin Docklands. The application, the first to be made under the Docklands SDZ scheme, includes proposed office, residential, cultural and retail development, amounting to around 37,000 square metres (approx. 28,000 sq. m. of commercial space). Much of the development will be

[28] SCSI Commercial Property Review and Outlook, 2015 available at https://www.scsi.ie/documents/get_lob?id=491&field=file
[29] Top 30 Cities for Direct Commercial Real Estate Investment, JLL, January 2015.
[30] Davy Research, Irish Commercial Real Estate, 14th October 2014.

office accommodation but it will also include 42 two- and three-bedroom apartments, a cultural and exhibition space, in addition to retail and restaurant space. The planning application envisages the creation of a new urban quarter with new streets and open spaces, including a large public square, opening on to Grand Canal Dock. Demolition is planned in 2015 with construction planned to commence in Q1/Q2 2016 and completion by end 2017.

- **Project Wave** in the North Wall is a 59,000 square metre office development which is expected to commence in Q1 2016 and take around five years to reach completion.
- A separate fund, the **South Docks Fund**, has been created by a joint venture consortium between Oaktree, Bennett Construction and NAMA and is expected to fund the delivery of around 29,000 square metres of office space at 5 Hanover Quay and 76 Sir John Rogerson's Quay. It is due to commence in Q2/Q3 2015 and take 3 to 4 years to reach completion (estimated construction cost €140m).
- A separate fund, the **City Development Fund**, formed by the same NAMA consortium, is expected to fund the development of a further 4,645 square metres of office space at 6-8 Hanover Quay.

The balance of around 186,000 square metres of space will be delivered up to 2025 on its remaining 11 sites in the Docklands area.

NAMA is examining the current and prospective demand for prime Dublin office space and within Dublin's Central Business District (CBD). That examination involves discussions with the IDA about potential end users or clients for these buildings.

Other developments

More generally, the key challenge in the commercial property market is the shortage of Grade A office space in Dublin. However, from a construction perspective, activity is limited at present but there is a requirement emerging for new office space. Apart from the NAMA planned developments mentioned above, there are a number of key projects underway at present in the Dublin area, including a substantial office building refurbishment, two buildings under construction in Dublin City centre with completion expected late 2015/early 2016 and others in the planning pipeline:

- The **former Canada House office block** at the junction of St Stephen's Green and Earlsfort Terrace will have an overall floor area of 6,880 square metres and a basement car park with 42 spaces. The total value of this project is estimated at €25 million.
- The two acre site at the **former Veterinary College site** in Ballsbridge which has dual zoning for residential and commercial development. Reports suggest that some 12,100 square metres will be set aside for apartments while 16,258 square metres will comprise office space. There is expected to be a small amount of retail, restaurant and possibly leisure space in the development.
- The Central Bank of Ireland has invited contractors to bid for the building works at its **new CB headquarter office building at North Wall quay** in the Docklands, which will provide 30,000 square metres of new accommodation (estimated cost €140m).
- A planning application has been granted to **refurbish the former FÁS/Solas headquarters** (c. 17,000 sq. m) on Baggot Street in Dublin 4.
- There is the r**edevelopment of the ESB headquarters** in Fitzwilliam Square which is in the process of securing planning permission and is expected to cost €150 million and deliver around 50,000 square metres.

These five projects alone will add a total of around 132,000 square metres to the Dublin office market over the next three to four years. A significant number of other schemes are at pre-planning or in planning process which if granted permission, could generate a significant volume of new space in 2016 and beyond. These include the redevelopment of Cumberland House which has planning for 24,805 square metres, the redevelopment of Bank of Ireland HQ and Phase 2 of Heuston South Quarter. A further indication of the future potential for new development is evident from the substantial volume of development land deals which have taken place in 2014.

Elsewhere a planning application has been lodged with Cork City Council for a €50 million retail, office and food innovation centre development in the centre of the city, comprising 4,500 square metres of retail space over three floors and 3,450 square metres of office space.

Retail

In the ***retail*** sector, some of the country's most successful shopping centre have already been sold or are expected to be sold this year, including the 14,000 square metre Dundrum Town Centre in South Dublin, which is being sold by NAMA. The sale by NAMA in 2014 of part of the Carrickmines Retail Park, also in South Dublin, to a US fund management company, is testament to the high demand for assets with strong potential in terms of rental income and returns.

The recovery underway in the economy and property market is reported to be increasing demand for retail space from bulky goods and home improvement retailers as well as overseas retailers keen to expand into Ireland. Although rents are rising in prime locations, they vary significantly depending on the unit, location, tenant and quality. Steady demand in the retail sector is resulting in an increase in lettings which is generating refurbishment opportunities. An increase in lettings in other urban areas outside of Dublin is reported to be increasing confidence that the recovery is extending outside of the capital city for retail premises in good locations[31].

Given the extent of retail floorspace put in place during the boom years, the scope for new retail construction opportunities in the short to medium term is likely to be confined to extensions and refurbishment of existing stock. That said, the former owner of Dundrum Town Centre is reported to have secured planning permission to develop a major shopping centre in the Moore Street area of Dublin. There are also plans for a €26 million expansion of the Liffey Valley shopping centre.

Industrial/Manufacturing

Property agents have reported the highest annual volume of ***industrial*** take-up in Dublin in a decade in 2014[32]. The level of transactions in the industrial and logistics sector has also been at a high level, mostly along the Dublin North West and South West corridors. The demand for modern premises in prime locations continues to strengthen and according to one agent[33], there is now growing evidence of demand for greenfield industrial sites along certain corridors given the limited supply of existing stock. In this regard the IDA's recent announcement of a €150 million property programme to upgrade its business parks around the country and build new advanced technology units, will support the regional industrial market. There are also a number of major projects currently underway in the manufacturing sector, including, for example, Intel's €130 million development in County Kildare and Dairygold's expansion of its dairy processing facilities in Mallow and Mitchelstown.

FDI expected to generate significant opportunities

Many respondents in the SCSI survey mentioned that the Foreign Direct Investment (FDI) sector is generating significant opportunities for the construction industry, as existing and new FDI companies seek to expand in, or relocate to, Ireland. Among the examples quoted were the high value end manufacturing plants like Jazz Pharmaceuticals in Athlone and the new manufacturing facility under construction by Bristol Myers Squib in Dublin. It was also noted that a single phase of Microsoft's building could be worth €100 million per annum despite involving sizeable plant and equipment imports. Although information is limited on the construction impact of FDI announcements and the extent to which they create a demand for new space, there are significant investments underway or planned by FDI companies based on anecdotal evidence. (Box 4 provides a sample of recent FDI announcements expected to have an impact in 2015 and 2016).

Box 4: Selected FDI Announcements Likely to Generate Construction Opportunities

- A division of Johnson & Johnson Services Inc, Information Technology Shared Services, is to create a Development Centre at the National Technology Park in Limerick with plans to create up to 100 new jobs at the centre over the next two years to add to its current workforce across Ireland of 2,000.
- The expansion by Zimmer, the world's leading healthcare manufacturing company, in Ireland with plans to invest over €51 million at its existing facility in Galway.
- The establishment of ABEC Inc., a leading biopharmaceutical manufacturer, of its European Headquarters and a manufacturing facility in Fermoy.
- Guidewire Software Inc., a leading software products company in the insurance industry, is to expand its operations in Ireland with the leasing of additional office space to accommodate a 50 per cent increase in its workforce to 220 persons in 2015/2016.
- The bio-pharma company, Regeneron, is investing €300 million in a new biopharmaceutical facility which will employ 300 persons by 2016. This will be a two year construction programme involving a major refurbishment of the former Dell facility in Raheen Business Park in Limerick as well as the construction of a quality control laboratory.
- Calypso Technology, a leading provider of capital markets software solutions, is to establish a Managed Services Centre in Dublin with plans to create up to 150 skilled roles.
- Apple is to locate a data centre in Athenry, County Galway amounting to a total estimated investment of €850 million. While this project will include specialist equipment, much of which will be imported, the construction related investment is likely to be substantial for the region in 2016 and 2017.

[31] CBRE Bi-Monthly Research Report, November 2014.
[32] CBRE MarketView, Industrial and Logistics, Q4 2014.
[33] Bi-Monthly Research Report, CBRE Global Research and Consulting, November 2014.

Specifically the technology sector in Ireland is poised for continued growth over the coming year, with the majority of businesses planning on expanding within the next 12 months, according to a recent survey[34].

In summary, there is considerable optimism about the prospects for the commercial property sector in the medium term. After almost six years during which development activity virtually stalled, there are increasing expectations that the sector will see a strong recovery in development activity over the next two years, which should gather momentum post 2016.

3.2.2 Tourism/Hotels

The past five years have been very challenging for the hotel sector. A combination of oversupply, a difficult domestic market and a drop in international tourists as well as a substantial debt overhang left over from the boom years have resulted in a very difficult period for the Irish tourism industry. However there have been a significant number of transactions around the country involving changes in ownership of high profile hotels in 2014. CBRE estimates suggest that 63 hotels with a total value of €341 million were sold in 2014. In Dublin, for example, Kennedy Wilson acquired the Shelbourne Hotel earlier this year and immediately commenced on upgrading and enhancing its facilities. The hope would be that these transactions would generate major refurbishment opportunities in 2015. However, given where the hotel sector has come from in terms of oversupply and a number going insolvent in recent years, there is unlikely to be much building of new hotels in the near future, other than possibly in Dublin where one property agent has suggested that there are four to five schemes which have received planning permission.

Total private non-residential construction output of €3.5 billion over two years

The review above would appear to suggest that the outlook for private non-residential construction is very positive. While information on the projected total volume of private non-residential construction activity across the country is difficult to ascertain, the aggregate level is projected at around €3.5 billion (constant 2014 prices) over the two year period 2015-2016, including industrial, commercial, tourism and agricultural building investment. Industrial building projects are expected to account for close to 60 per cent of this investment, while commercial projects (offices and retail) could represent around 30 per cent of the total. The expectation is that activity levels should pick up considerably in 2016. The projections presented in Table 4.1 include an estimated €1.9 billion (constant 2014 prices) of investment in private non-residential projects in 2016 which is close to €2.1 billion in current prices.

SCSI members envisage a moderate increase in the volume of activity

In the SCSI member's survey, the question was asked: *"With respect to your company, how has the total volume of activity in the following categories of PRIVATE NON-RESIDENTIAL CONSTRUCTION changed in 2014 and how will it change in 2015 and 2016?*

Most respondents envisaged a moderate increase. The next table shows that there were some growth expectations for all segments of private non-residential construction for the next number of years. Any average rating higher than 3 indicates an expectation for growth, the higher the average rating, the more positive the growth outlook. The outlook for industrial/manufacturing was most positive; offices ranked second.

Table 3.6: Summary Average Ratings Non Residential Construction

	2014	2015	2016
Industrial/Manufacturing	**5.38**	**4.44**	**4.82**
Offices	4.02	4.43	4.43
Retail	3.63	4.19	4.31
Hotels	3.33	3.72	3.89
Agricultural	3.12	3.36	3.46
Sports and Leisure	3.39	3.52	3.74
Worship	3.06	3.10	3.26

Source: DKM Survey.
Note: Industrial/Manufacturing was mentioned by respondents under the 'other' category and was not classified separately in the question. Accordingly it should be noted that while industrial/manufacturing growth sentiment was very strong, the number of respondents was less than 20.

[34] Outlook, AIB Series of Sectoral Research Reports: Technology, 2014

3.2.3 Key challenges for private non-residential construction to 2016

The survey participants were asked to respond to the question: *"In your opinion, what are the main challenges facing the PRIVATE NON-RESIDENTIAL construction sector in 2014 and looking forward to 2015 and 2016? Please distinguish between Dublin and the Rest of the Country."*

The challenges faced by the private non-residential construction sector fall into similar categories as for residential construction, with lack of funding / credit and resources most frequently mentioned. Ireland's continued ability to attract FDI was also mentioned under various headings, as was the worry about the persistence of the current corporate tax rate regime. The table summarises the responses, some quotes are presented below.

Table 3.7: Challenges for The Private Non-Residential Construction Sector in Dublin, 2014 To 2016

Challenge	%
Lack of Funding/Credit/Investment	26%
Resources Skills and firms/supply chain	20%
Planning/Regulation/lack of government action	11%
Lack of sites/infrastructure	8%
Costs vs prices, high taxation	8%
Confidence/uncertainty/mistrust	7%
Lack of office supply/good quality buildings	5%
FDI	3%
Other incl Don't know	12%
Total	**100%**

Source: DKM Survey. N=115

Lack of Finance

"Financing of projects. Credit availability must be restored but strictly monitored at the same time."

"New construction investment remains very limited relative to the values of existing property."

"Continuation of FDI investment is imperative for the need for office supply."

Lack of Resources

"Lack of competent survivor firms post 2009 with the staff and experience to undertake anything other than the most basic of projects is simply not there Anyone who is any good is really busy but because of the decimation in the industry 2009 to 2002 there is almost no one left to be busy!"

Think of a post First World War aftermath analogy with 3 0-40% of men 18-40 gone."

"Supply Chain Materials access/supply Professional Services"

"Number of suitable competent contractors = price inflation"

For the rest of the country much the same challenges were listed. However, one of the main concerns here was the lack of economic growth and therefore a lack of demand for private non-residential development.

Table 3.8: Challenges For The Private Non-Residential Construction Sector In The Rest Of The Country, 2014 To 2016

Challenge	%
Lack of Funding/Credit/Investment	23%
Lack of economic growth/ demand	23%
Planning/Regulation/lack of government action	13%
Lack of sites/infrastructure	10%
Resources Skills and firms/supply chain	6%
FDI	3%
Confidence/uncertainty/mistrust	3%
Urbanisation growth concentrated in urban areas	3%
Corporation tax to stay	3%
Excess supply	3%
Costs vs prices	0%
Other incl. Don't know	10%
Total	**100%**

Source: DKM Survey. N=115

Lack of Economic Growth

"In the rest of the Country, the largest challenge will be to maintain existing levels of business against lowly populated regions."

"Economy picking up at a slower rate than Dublin"

"ROC - activity will be concentrated on large urban centres which don't suffer as much of the country areas and recover quicker."

"The Rest of the Country with the exception of large towns like Cork, Galway and Limerick and possibly Athlone having their own micro-economics driven by large international exporting companies which in turn drive the need for local housing and trade ups, is in danger of stagnating as the rural economy collapses with a decreasing population and a denuding of the small towns and villages due to no real or varied work opportunities presenting themselves other than localised and specialised tourism!"

3.3 Public Non-Residential Construction

The level of public sector construction activity is predominantly determined by the amount of public capital investment provided for infrastructure projects. The latter includes spending on the national and non-national road network, water services, airports, seaports and harbours, as well as investment by the respective semi-State organisations responsible for transport, energy and telecommunications. There is also private sector investment by private companies operating in the energy and telecommunications sectors.

The total public sector commitment to construction also includes a provision for social infrastructure (i.e. housing, educational buildings, hospitals, prisons, garda stations, libraries etc.), which is also covered in this section in order to gauge the total public sector commitment to construction.

Total Exchequer capital investment of €11.1 billion over three years

The normal allocations for the main spending departments responsible for civil engineering infrastructure and social infrastructure are set out in the most recent Multi-Annual Exchequer Capital Investment Framework (MACIF) for the period 2015 to 2017 published with the 2015 Budget. The total amounts to €11.1 billion over the three year period compared with €9.8 billion in the previous MACIF (2014-2016). This total includes all Exchequer capital investment and thus only a proportion, estimated at around 75 per cent, on average, is construction related investment. The main spending departments from a construction perspective are Transport, Tourism and Sport (€2.93 billion over period 2015-2017), Education and Skills (€1.7 billion), Environment, Community and Local Government (€1.6 billion) and Health (€1.28 billion).

In regard to Exchequer capital funding only, the construction related areas of capital expenditure are listed in the next Table following a review of the recent Revised Revenue Estimates for Public Services 2015 for each department.

Total Exchequer and non-Exchequer capital investment of €6.53 billion in 2015

The above figures relate to Exchequer funding only and suggest that between 65 and 70 per cent of the total Exchequer capital is likely to impact on the construction sector. More detailed information is provided for 2015 in regard to the total public capital programme (PCP), which also includes other sources of funding, including public private partnership (PPP) costs. Thus the total PCP provision in 2015 is €6.53 billion, 6 per cent higher than the corresponding PCP provision of €6.17 billion in 2014. The 2015 PCP includes:

- €576m for Road Improvement and Maintenance (-11% on 2014),
- €343m for Public Transport (-20%),
- €190m in PPP costs for Transport projects (+245%),
- €667m for Educational infrastructure at all levels (+13%),
- €327m for Hospital and Health infrastructure (-4%), and
- €361m for Social Housing (+36%).

The Government is currently undertaking a detailed review of the public capital programme which will set out the priorities to 2020 and is due to be published this year. Industry sources suggest that private capital will play a significant role in the delivery of national infrastructure over the coming years.

In advance of publication of the Capital Review, a list of the 20 largest projects to be delivered over the next four years has already been identified, with a total indicative value of €3.27bn. About half of these are PPP projects.

Table 3.9: Indicative Construction Related Exchequer Capital Investment in 2014 and 2015 by Department

Department	Area of Capital Expenditure Exchequer Only	2013 (€000s)	2014 (€000s)
OPW	Flood Risk Management	44,200	59,800
	New Works, Alterations & Additions	38,450	44,250
Garda Siochana	Capital Building Programme	-	42,000
Prisons	Buildings & Equipment	27,000	27,100
Courts Service	Capital Works	4,515	4,880
DE&S	Building, Equipment & Furnishing of Primary and Post- Primary Schools	434,500	450,000
	Building, Grants & Capital Costs of Universities, Institutes of Technology & Other Designated Institutes of Higher Education	70,300	46,000
DCENR	Sustainable Energy Programmes	49,655	43,773
DTT&S	Road Improvement/Maintenance	644,333	576,490
	Public Transport Investment Programme	394,170	270,848
	Grants for Provision & Renovation of Swimming Pools	10,300	3,600
DAH&G	Cultural Infrastructure & Development	4,100	12,100
	Decade of Centenaries	3,223	13,530
	Cork Event Centre	4,851	-
	Údarás na Gaeltachta - Grants for Projects & Capital Expenditure on Premises	5,687	6,687
DECLG - Housing	Local Authority Housing	80,000	149,185
	Voluntary & Cooperative Housing	40,925	85,187
	Estate Regeneration - Social Housing Improvements	109,400	99,830
	Private Housing Grants	38,600	24,090
DECLG - Water	Rural Water Programme	27,713	17,535
	Water Quality Programme	6,007	4,000
	Landfill Remediation	8,500	8,500
Defence	Construction & Maintenance	5,517	10,062
DSP	Office Premises Expenses	13,500	20,000
Dept. of Health	Grants for Building, Equipping (inc ICT)	15,527	14,527
	Building, Equipping & Furnishing of Health & Higher Education Facilities	23,620	309,620
Total Construction Related Exchequer Capital Expenditure		**2,404,593**	**2,343,594**
Total Exchequer Capital in PCP		3,549,460	3,618,993
% of Total		**68%**	**65%**

Source: www.per.gov.ie/wp-content/uploads/Master-Copyv1.pdf

Transport - Roads

A key sign of the positive prospects for construction is evident from the fact that PPP schemes have commenced again after being absent since 2008. The €2.25bn capital infrastructure stimulus in July 2012 involved raising €1.5bn for investment in public infrastructure projects from the European Investment Bank (EIB), National Pension Reserve Fund (NPRF), domestic banks and other sources of funding. The €1.5bn represented a total of 9 PPP projects across the departments of Transport, Education, Health and Justice.

The Transport PCP has allocated €190 million in PPP costs this year, which represents a substantial increase on the allocation in 2014 (+245%). The contract to construct the M17/M18 Gort to Tuam PPP Scheme was signed in 2014 at an estimated cost of €550m. This is the second major transport Public Private Partnership project and the first and largest project in the July 2012 stimulus programme. The contract for the first PPP project was signed in April 2013 and is currently under construction. It is for the N7 Newlands Cross, which involves construction of a new grade separated interchange, and the N11 Arklow to Rathnew, a 50km section of the N11 road network in Wicklow and Wexford. The main elements involved and their expected completion dates are as follows:

- M11/N7 Newlands Cross –under construction to complete in Q3 2015 (includes Newlands Cross Junction Upgrade and 16km N11 Arklow / Rathnew dual carriageway

- The M17/M18 Gort to Tuam scheme - works ongoing now – with completion Q1 2018,

- The M11 Gorey to Enniscorthy project – award likely mid-year,

- The N25 New Ross Bypass - award likely mid-year,
- Gorey Service Area and Interchange – almost completed (finishing works).

Funding of more than €150 million has been provided for the Newlands Cross and N11 Arklow to Rathnew projects under a Public Private Partnership scheme including an input from the EIB and Bank of Ireland, and a credit facility from the NPRF.

Water

The national water infrastructure has been the responsibility of Irish Water since January 2014, when it began taking over responsibility from 34 local authorities on a phased basis. It is envisaged that the full transition will be completed by the end of 2017 at the latest.

Irish Water says it is committed to investing €1.77 billion over the three years 2014-2016[35]. This investment will go towards a programme of works to improve drinking water quality, address deficiencies in urban waste water capacity and standards, and improve asset management systems. Irish Water is targeting almost €200 million of the total capital spending for leakage reduction and water conservation measures over the next three years.

The company's plans include investment in the completion of the work to existing treatment plants at Ballymore Eustace and Leixlip in County Kildare. Critical water quality projects in Letterkenny in County Donegal, Kerry central and Burncourt / Fethard in Tipperary will also go ahead. Irish Water said it has reprioritised the infrastructure programmes of the 34 city and county councils and will be focusing funding on areas where there are major compliance issues which must be addressed to ensure public health and to bring Ireland into line with EU law.

Projects which had been designed for significant population growth will be deferred and the company will only be building capacity for the next seven to 10 years. The capital programme is to focus on urgent schemes where pollution impacts are most evident. A substantial proportion of the investment will be spent on sewage schemes, building new facilities and expanding and upgrading existing works. At the time of the handover to Irish Water, 54 wastewater compliance schemes were under construction around the State, which are being completed by Irish Water.

Thus the construction investment forecast over the medium term assumes 80 per cent of the total planned investment of €1.77 billion goes into construction over the next three years. Thus an estimated investment of €1.42 billion is projected over the period to 2016. It is assumed that 20 per cent is allocated each year to repair and maintenance projects. The CER suggested that Irish Water may not be in a position to fund the entire capital programme in the period to 2016 and considered that projects needed to be prioritised in order to meet the expected capital funding constraint over the interim review period. However, the level of repair and maintenance expenditure can be expected to increase in the long term as the asset base is increased.

There is further investment for the ***installation of water meters*** which commenced in September 2013. The estimated value of the contract over the period to 2016 is €539 million and is included in the construction forecast. Irish Water expects the majority of homes to be metered by middle 2017. The installation of the meters is labour intensive involving minor excavation and reinstatement works after the installation of the meter. As of October 2014 around 400,000 meters were in the ground and the company has an installation target of around 40,000 meters per month.

Public Transport

Public Transport has historically been a high priority for Government and it is one of the few areas where allocations have increased in recent years. However, the total provision for public transport investments, according to the 2015 PCP, is €361 million, down from €449 million in 2013[36]. There is, however, a significant PPP transport cost of €190 million in 2014, a proportion of which may represent investment in public transport. The main areas of expenditure comprise investment by CIE (mainline rail and bus services) and the Railway Procurement Agency (RPA) as well as investment in sustainable transport measures (cycling/walking, bus, safety and traffic management projects) by the National Transport Authority.

There is a substantial increase in the public capital provision for State ***airports***, which is projected to increase from €67 million in 2014 to €162 million this year.

Energy

In regard to the semi-state companies responsible for the ***electricity transmission and distribution networks***, investment by Eirgrid and the ESB is set to decline this year by 7.8 per cent from €1.13 billion to €1.04 billion, a proportion of

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[35] https://www.water.ie/news/proposed-capital-investme/Proposed-Capital-Investment-Plan-2014-2016.pdf
[36] Of which 70% is assumed to be spent on construction works.

which impacts on the construction sector. In regard to the ***gas transmission and distribution*** network, the total investment by Ervia (formerly BGE) is estimated at €104 million in 2015, up 2 per cent on the 2014 provisional outturn.

Social Infrastructure

The total public sector commitment to construction projects also includes a provision for ***social infrastructure*** (i.e. housing, educational buildings, hospitals, prisons, garda stations, libraries etc.), which is also covered in this section in order to gauge the total public sector contribution to the construction sector[37].

Education

In regard to the Dublin Institute of Technology's (DIT) ***Grangegorman campus development***, the initial phase of development at the Grangegorman Campus was completed in 2014 with the first complement of staff and students (1,000) beginning work on the campus last September. New health facilities are already up and running and in the coming years the development will see a new primary school and a Primary Care Centre. This is a major €500 million project comprising a 73-acre development of an education and health campus, a primary school, a public library, and sports and recreation facilities. The development will combine approximately 39 separate DIT sites across the city and bring over 20,000 students and staff together at one campus. This major project will take place in phases over the next six years.

Construction of the second phase, the PPP scheme to provide buildings to accommodate 15 existing teaching schools in DIT, is expected to commence this year with a further 10,000 students expected to be accommodated on campus by September 2017. There is a third phase which involves the provision of additional facilities which is likely to be delivered over the period to 2020. Approximately half of the total funding is expected to come from private sources, including the European Investment Bank, with the balance from Exchequer sources.

Three other major capital projects which are expected to be advanced by third level institutions this year:

- In NUI Galway, €7m will be provided this year to begin construction of a new human biology building;
- In the University of Limerick, €10m will be made available for a major library project; and
- In UCD, €3m will be provided towards the construction of the Confucius Institute.

Hospital and Health Facilities

Investment in hospital and health facilities is currently forecast at around €327 million this year, over one half of which is for existing contractual commitments. The medium-term projection includes

- The €115 million allocation for 20 Primary Care Centres in the period 2014-2016;
- Commencement of the National Children's Hospital in 2016 which is expected to take three to five years to complete at a total estimated cost of €600 million; and
- Commencement of a number of relocation/refurbishment projects at maternity hospitals, including the move of the National Maternity Hospital at Holles Street in Dublin to St Vincent's hospital.

The National Children's Hospital has benefited from an allocation of €200 million from the proceeds from the sale of the National Lottery.

In regard to private sector health related projects, the Royal College of Surgeons (RCSI) has received planning permission for the development of an €80 million state-of-the-art medical ***educational facility*** in Dublin city centre. The building will comprise an eight-storey building, which will total more than 120,000 sq ft in size. The new facility is expected to open in September 2016.

Public Buildings

Investment in public buildings includes provisions for prisons, courthouses, garda stations, and the State Pathology Laboratory which was included in the July 2012 stimulus, all of which are the responsibility of the Department of Justice and Equality. There is also a capital allocation of €35 million to support additional and improved child detention services.

The 2015 PCP also included €61 million in capital expenditure towards a programme of **1916 commemoration projects** including the GPO inner courtyard exhibition and interpretative facility, the Military Archives and some smaller projects falling under the remit of the Department of Arts, Heritage and the Gaeltacht.

[37] Apart from social housing which has already been addressed under Housing.

3.3.1 Key challenges for public sector construction to 2016

Social Infrastructure

"In your opinion, what are the main challenges facing the SOCIAL INFRASTRUCTURE construction sector in 2014 and looking forward to 2015 and 2016? Please distinguish between Dublin and the Rest of the Country (RoC)."

While the headings under which the concerns of respondents active in the social infrastructure sector are the same as for the sectors discussed above – the main one listed being funding/ access to finance - in some areas their specific concerns were different. This included the cost and effort involved in public procurement (tendering). This was deemed particularly important in the face of competition from private sector construction projects, where the process was less onerous. Some quotes below illustrate this.

Table 3.10: Main Challenges for the Social Infrastructure Sector in Dublin, 2014 To 2016

Challenges in Dublin	%
Funding	21%
Planning/regulation/design/tendering	20%
Resources/land/skills shortage	18%
Gov support	13%
Costs/Inflation/margins	9%
Other/Don't know	18%
Total	**100%**

Source: DKM Survey. N=76

Funding - Dublin

"Government funding of construction projects in the education sector is inadequate."

"Speed of funding from Government agencies such as DoE and ISIF."

"Government needs to spend the capital it allocates on an annual basis."

Planning / Regulation / Tendering – Both Dublin and Rest of Country

"Biggest issue is Public Procurement and GCCC Contract - serious barrier to getting supply chain interested in tendering in these sectors again as a large proportion of supply chain have just withdrawn from this market due to inappropriate risk apportionment and bad experiences with contracts."

"Time taken for project approval to pass between various Departments / Councils."

"The tendering process for consultants and contractors. It has become laborious and tedious to put together tenders and rates are too low."

"Public Works Contracts remain an unworkable mess in sharp contrast to private sector contracts."

Table 3.11: Main Challenges for the Social Infrastructure Sector in Rest of Country, 2014 to 2016

Challenges - Rest of Country	%	No.
Funding	44%	11
Planning/regulation/design	16%	4
Resources	24%	6
Gov support	16%	4
Total	**100%**	**25**

Source: DKM Survey. N=25

Funding- Rest of Country

"Rest of Country - Government commitment to invest in the regions"

"Rest of Country - securing funding from central government although this may be alleviated by an approaching general election."

Productive Infrastructure/Civil Engineering

"In your opinion, what are the main challenges facing the PRODUCTIVE INFRASTRUCTURE / CIVIL ENGINEERING construction sector in 2014 and looking forward to 2015 and 2016? Please distinguish between Dublin and the Rest of the Country."

Funding, resources and planning were again the three most frequently mentioned challenges.

Table 3.12: Main Challenges for the Productive Infrastructure Sector [12], 2014 To 201

Challenges in Dublin	%
Funding/Credit	39%
Lack of Skills and resources	15%
Planning system/Tendering	12%
Government policy	10%
Confidence	2%
PPP should be revisited	2%
Other/Don't know	20%
Total	**100%**

Funding

"Main challenge is to increase the public funding of projects also to share the client / contractor risk more evenly when using the Public Works Contract."

"Reduction in Government Funding over the last few years has severely influenced the rail sector. Not many new projects & majority of current work is maintenance. Hopefully increase in funding available from Government sources will increase possibility of new major projects."

"The Government will probably focus on the residential and building sectors in Dublin."

The next section presents the overall projection for output in the B&C sector taking account of the prospects for the individual sector.

[38] As the number of responses to this question was relatively small, no distinction between Dublin and the Rest of the Country is made in the reporting of the results.

4. Overall Industry Prospects to 2016

The previous projections set out for each segment of the industry are combined in this section to establish the overall prospects for the B&C sector as a whole this year and next. The main risks to the forecast, which have also been informed by industry consultations, are highlighted. A number of key challenges facing SCSI member firms in the next two years are presented.

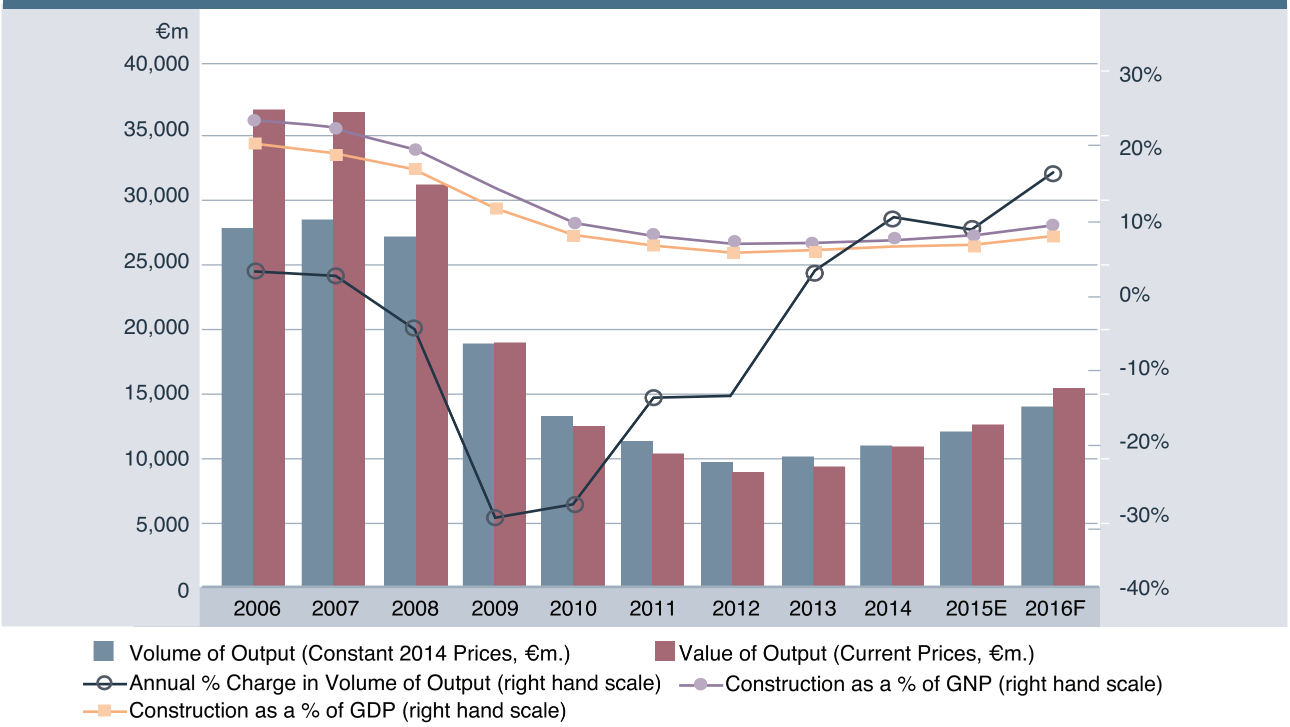
4.1 Overall Construction Prospects

The projections for construction output are set out in Table 4.1 and show that the value of output recovered to **€11 billion** last year (6.9% of GNP), having reached its lowest value in 2012 (€9.1 billion). The outturn in 2014 is 15.2 per cent above the corresponding value in 2013 or 9.9 per cent in volume terms after allowance is made for construction inflation (4.8%). Based on the estimates presented for construction volumes, the recovery commenced in 2013 (+2.5%) and gathered momentum in 2014.

The outturn is based on the discounted completions figure of 8,813 new dwellings built last year, up from around 6,641 in 2013. This year the forecast is for 10,000 new units, with a further improvement to 14,000 units in 2016. **The overall value of output is forecast to increase to €12.5 billion this year (7.5% of GNP) or €11.9 billion in constant 2014 prices, implying a volume increase of 8.3 per cent.**

As the economic recovery gathers momentum and becomes more widespread and as development becomes more viable, the pace of expansion in construction output is expected to accelerate further next year. **The volume of output is forecast to increase by 16 per cent next year to €13.8 billion (constant 2014 prices) or €15.3 billion in current prices**. Thus since the industry bottomed out in 2012, the overall volume of output is projected to be almost 42 per cent higher by 2016. In the two years 2015 and 2016, the volume of output is forecast to increase by almost 26 per cent.

Figure 4.1: Medium-term Projections for Construction Output to 2016



Source: DKM estimates, CSO.

Table 4.1: Medium Term Prospects for Construction Output to 2016

Value of Construction Output in Current Prices, €million

	2012	2013	2014	2015E	2016F
Completions (i.e. electricity connections)	8,488	8,301	11,016	N/A	N/A
Commencements (excl. public housing)	4,042	4,708	7,710	N/A	N/A
Dwellings Built (units)	**6,790**	**6,641**	**8,813**	**10,000**	**14,000**
New housing	1,453	1,530	2,145	2,624	3,866
Housing RM&I	2,800	2,750	2,938	3,310	3,661
All housing	**4,253**	**4,280**	**5,083**	**5,934**	**7,527**
Total private non-residential NEW	880	1,189	1,310	1,529	2,062
Total private non-residential RM&I	89	93	100	109	118
Total private non-residential	**969**	**1,282**	**1,410**	**1,638**	**2,180**
Total social infrastructure NEW	837	934	1,069	1,220	1,461
Total social infrastructure RM&I	231	242	259	285	312
Total social infrastructure	**1,068**	**1,175**	**1,329**	**1,505**	**1,773**
Total building NEW	3,170	3,653	4,524	5,373	7,388
Total building RM&I	3,120	3,084	3,297	3,703	4,091
Total all building	6,290	6,738	7,821	9,077	11,479
Total civil engineering NEW	2,243	2,340	2,670	2,875	3,186
Total civil engineering RM&I	574	461	500	563	613
Total civil engineering	**2,817**	**2,801**	**3,169**	**3,439**	**3,799**
Total public sector construction	4,410	4,356	4,903	5,523	6,279
Total private sector construction	4,698	5,182	6,087	6,992	9,000
Total Construction Output	**9,107**	**9,538**	**10,990**	**12,515**	**15,278**
Construction as % of GNP	***6.4%***	***6.5%***	***6.9%***	***7.5%***	***8.7%***

Value of Construction Output in Current Prices, €million
(used to derive the volume percentage changes in the next table)

	2012	2013	2014	2015E	2016F
Dwellings Built (units)	**6,790**	**6,641**	**8,813**	**10,000**	**14,000**
New housing	1,638	1,676	2,145	2,430	3,345
Housing RM&I	2,913	2,833	2,938	3,183	3,385
All housing	**4,551**	**4,509**	**5,083**	**5,612**	**6,730**
Total private non-residential NEW	951	1,248	1,310	1,456	1,870
Total private non-residential RM&I	94	96	100	105	111
Total private non-residential	**1,045**	**1,345**	**1,410**	**1,561**	**1,981**
Total social infrastructure NEW	905	980	1,069	1,162	1,325
Total social infrastructure RM&I	245	251	259	274	288
Total social infrastructure	1,150	1,232	1,329	1,436	1,613
Total building NEW	3,495	3,905	4,524	5,048	6,540
Total building RM&I	3,252	3,180	3,297	3,562	3,784
Total all building	**6,747**	**7,085**	**7,821**	**8,610**	**10,324**
Total civil engineering NEW	2,392	2,432	2,670	2,758	2,927
Total civil engineering RM&I	609	479	500	539	561
Total civil engineering	**3,001**	**2,911**	**3,169**	**3,297**	**3,488**
Total public sector construction	4,719	4,547	4,903	5,277	5,728
Total private sector construction	5,029	5,449	6,087	6,630	8,084
Total Construction Output	**9,748**	**9,996**	**10,990**	**11,907**	**13,812**

Table 4.1 (continiued): Medium Term Prospects for Construction Output to 2016

Annual percentage change in the volume of construction output by sector

	2012	2013	2014	2015E	2016F
New housing	-24.7%	2.3%	28.0%	13.3%	37.7%
Housing RM&I	-10.8%	-2.8%	3.7%	8.3%	6.3%
All housing	**-16.4%**	**-0.9%**	**12.7%**	**10.4%**	**19.9%**
Total private non-residential NEW	10.5%	31.3%	4.9%	11.1%	28.4%
Total private non-residential RM&I	-18.6%	2.4%	3.3%	5.6%	5.3%
Total private non-residential	**7.1%**	**28.7%**	**4.8%**	**10.8%**	**26.9%**
Total social infrastructure NEW	-20.3%	8.3%	9.0%	8.7%	14.0%
Total social infrastructure RM&I	0.7%	2.4%	3.3%	5.6%	5.3%
Total social infrastructure	**-16.6%**	**7.1%**	**7.9%**	**8.1%**	**12.3%**
Total building NEW	-16.2%	11.7%	15.8%	11.6%	29.6%
Total building RM&I	-10.3%	-2.2%	3.7%	8.0%	6.2%
Total all building	**-13.5%**	**5.0%**	**10.4%**	**10.1%**	**19.9%**
Total civil engineering NEW	-12.9%	1.7%	9.8%	3.3%	6.1%
Total civil engineering RM&I	-24.7%	-21.3%	4.3%	7.9%	4.2%
Total civil engineering	**-15.6%**	**-3.0%**	**8.9%**	**4.0%**	**5.8%**
Total public sector construction	-18.0%	-3.6%	7.8%	7.6%	8.5%
Total private sector construction	-10.1%	8.3%	11.7%	8.9%	21.9%
Total Construction Output	**-14.1%**	**2.5%**	**9.9%**	**8.3%**	**16.0%**

Source: DKM Estimates.

This is an exceptionally upbeat assessment for the B&C sector, given where it has come from in the period 2007-2012. However, this projection is subject to a number of risks, mostly on the downside, and will only materialise if key issues for the sector are urgently addressed. A number of risks, which have been informed by industry consultations, are highlighted below together with other issues raised in the SCSI members' survey. Firstly the main challenges facing companies in the next two years, according to SCSI members, are noted.

4.2 Key Challenges for SCSI Member Firms

One issue consistently raised in the SCSI members' survey was the uneven distribution of the pipeline of work, with the recovery most prevalent in the Dublin region and to a lesser extent in some other urban areas.

In terms of the distribution of firms across the country, SCSI members were asked *"In which regions (counties) do you operate? Please tick the region (one or more) in which your company is actively involved."*

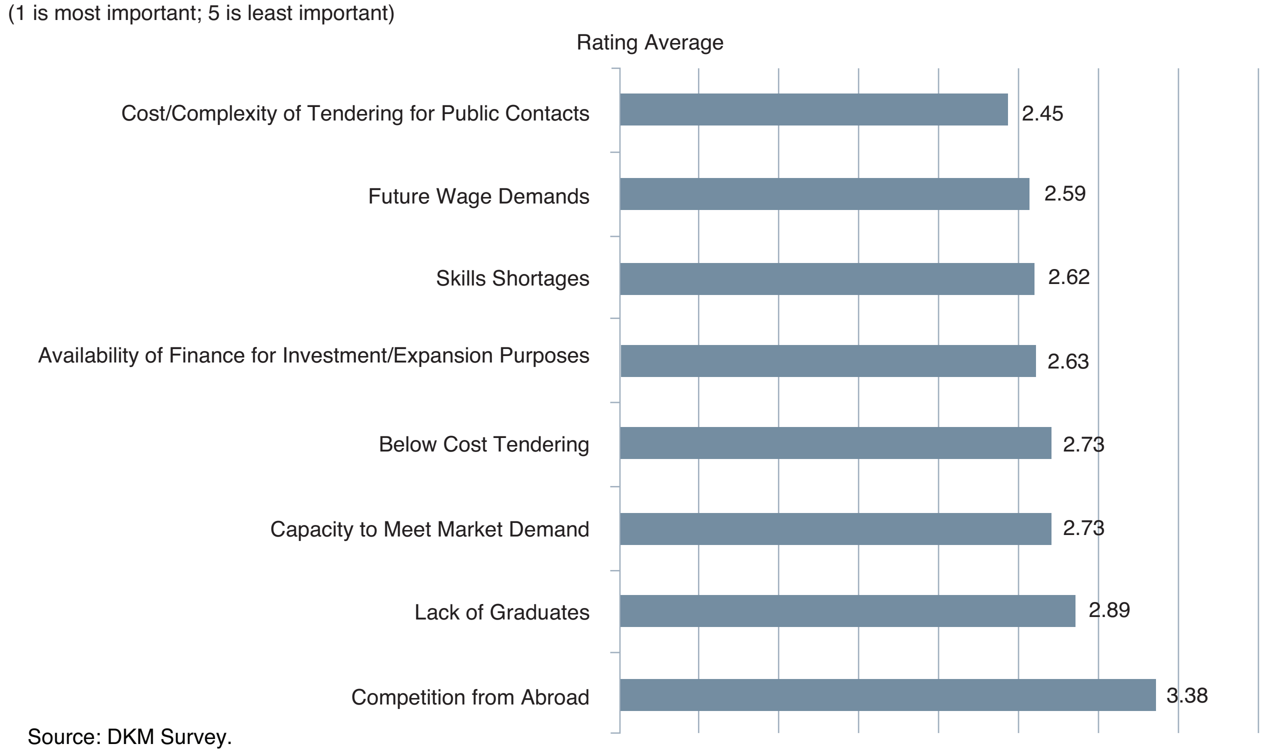
- Dublin (city and county) was mentioned most frequently, accounting for 24 per cent of responses.
- 11 per cent of responses referred to the South West as the region of their activity,
- Between 5 and 7 per cent of responses each mentioned the Mid-East (7%), Midlands (5%), South-East (6%), Mid-West (7%) and Border (5%) as their regions of activity,
- 15 per cent of responses indicated that they were active throughout the country and 12 per cent of responses stated that they conducted business internationally; the UK, London in particular, being the most frequent location cited; Germany and Holland were the most frequently mentioned in the rest of Europe; and in the Middle East, Qatar was the most frequently mentioned location.

318 survey respondents completed this question. 58% of respondents declared that they were active in one region only. 21% of respondents were working in the Dublin region only.

SCSI members were also asked *"What do you consider to be the most important challenges facing your company in 2014 and in the next two years (2015 and 2016)? Please tick as appropriate, where 1 is most important and 5 is least important."*

Cost of tendering, particularly for public contracts was seen as most important issue faced by SCSI members, followed by the risk of future wage demands and skills shortages. Similar issues also figure highly among the main risks believed to be facing the industry over the medium term, according to other survey responses.

Figure 4.2: Most Important Challenges for SCSI Member Firms



Source: DKM Survey.

4.3 Key Risks to Construction Forecast

There are a number of risks to the forecasts presented which include some external risks that are outside of our control and others, which are more specific to the economy and industry, that are possibly within our control.

(i) Weaker than projected international economic activity

The extremely precarious situation in regard to the Greek debt crisis could increases the probability of a Greek exit unless some lasting solution is found. Even without a solution, the continued focus on Greece's finances could threaten a renewed Eurozone crisis with all of the negative consequences that would entail for the Eurozone economy. Any further weakening in economic activity in the euro area would hamper Irish economic prospects in the short-term. There are also a number of geo-political risks internationally as well as the risk of an increase in the popularity of euro sceptic parties in Europe.

(ii) Economic and political risk at home

In an Irish context the key risk is that the recovery in demand which is materialising dissipates due to factors which damage consumer, business and/or investor confidence. There is political risk and the possibility of a general election earlier than due in 2016, which could result in an increase in the number of independents in Government. This might damage our reputation amongst international investors and lead to a reduction in the level of new FDI investment.

(iii) Access to finance and more rapid progress on Construction 2020

If construction is to recover to sustainable levels, the issues around access to finance for sensible and viable projects will need to be addressed for clients in the sector. Measures in Construction 2020 also need to be urgently delivered to ensure the industry can meet the demands placed on it over the next few years as it recovers to more sustainable levels.

(iv) The projected public capital provisions are not spent

The projection assumes that the full Exchequer provisions allocated for public sector construction are spent over the medium-term. With much of the planned investment expected to come from private finance sources and other special purpose vehicles, there is the risk that this investment may not all be forthcoming. Clearly a lesser spend by the public sector and/or less private sector funding would generate less construction output each year, with adverse repercussions for the industry and employment right across the supply chain.

(v) A delay in the delivery of construction projects

Any delays in planning and bringing projects through to the construction phase (e.g. due to a lack of the appropriate skills or lack of finance) will negatively impact on construction output and employment over the medium-term. There is also concern that the current public procurement regime, which is considered by some to be complex and onerous, may discourage some firms from bidding for public sector work given that the flow of work from the private sector is now recovering.

(vi) Uncertainty around impact of the Central Bank rules or increased repossessions

Uncertainty over the impact of the new Central Bank lending guidelines could reduce the level of new housebuilding below what it might otherwise be, as developers postpone new development until the full impact of the new rules become evident. Equally any significant increase in repossessions of principal dwelling houses amongst the 78,000 cases of mortgage arrears over 90 days could result in house prices being lower than they might otherwise be, thus discouraging residential development.

(iv) The following provides a summary of views mentioned in the industry consultations and in the SCSI members' survey:

- **External risks** in Europe (Greece) and if interest rates increase.
- Risks are global more than local. The weak euro (which will weaken with QE) is an issue but is also boosting FDI.
- Banks will need to start lending as lack of **finance** is frustrating the market. QE may assist in this regard.
- In regard to the **skills** issue the view was expressed that Architects are not in short supply, but Engineers and Quantity Surveyors are. Moreover the shortage of graduates coming out of third-level institutions is resulting in "graduates interviewing us" for positions such is the demand for them. Concern was raised over the impact of the lower CAO points during the recession on the quality of new graduates. The view was expressed that we may start to see workers coming from UK and Eastern Europe as happened previously.
- There is the risk that PPPs/ infrastructure projects will put further pressure on areas where skills shortages are present.
- Top tier contractors may need to be incentivised to train up new workers. Pre- qualification criteria could be geared towards this with a points - based system.
- There is an **ageing workforce**.
- There is **upward pressure on costs** as it become necessary to attract previous migrants back to the industry. Although inevitable, it must not result in an acceleration in construction inflation.
- Many of the major Irish contractors have shrunk, disappeared or moved abroad. There was concern expressed about the **lack of specialist contractors** (glazing etc) in the industry. The few that are still in the industry have full order books and they are only taking on projects with good returns. It may be necessary to bring in specialists from abroad. Mechanical/ electrical areas will probably be ok, but shortages felt in the trades and with contract managers.
- **Resources and finances** are tight nationwide. The latter is less of an issue in the South-East but may become problematic in the coming years.
- The Building Control regulations are having a greater impact on single house developments where €5,000 is a large outlay, but less of an impact on larger scale (€4-€5m) developments. These Regulations apply to all developments which have planning permission but their costs should reduce. The view was expressed that their impacts can be somewhat exaggerated - standards have simply increased in the industry which is a welcome development. The Dublin City Development Plan Guidelines set down for apartments (dual aspect, no north facing apartments/height/size) are intended to deliver a high quality of construction - good socially but bad economically. One person indicated that these guidelines add €40-€45K to apartment construction in Dublin City.
- There are risks that the **public works contracts** will discourage contractors from bidding for public sector work, resulting in a flight to the private sector.
- There is the complexity of **negotiations** with too many stakeholders involved in negotiations on residential development schemes.
- The lack of a '**Champion for the industry/Minister for Construction**' who could coordinate the industry and represent it at the highest level is a key weakness for the industry. A 'forum' should be established where live data can be provided and a framework set up.
- The perception of the industry must improve.
- The **planning process** needs greater transparency – guidelines can be subjective, and the process is cumbersome (too many stages).

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