



SCSI

Chartered property,
land and construction
surveyors



RICS

TENDER PRICE INDEX

AUGUST 2023

FURTHER EASING OF CONSTRUCTION INFLATION – LABOUR COSTS STILL MAIN DRIVER OF TENDER PRICE INFLATION

The construction industry in Ireland has been experiencing significant growth in recent years, with an increasing number of infrastructure and building projects being undertaken. However, one of the major challenges faced by both clients and contractors is the impact of tender price inflation on project costs and feasibility. This report examines the trends and implications of tender price inflation in the commercial construction sector in Ireland, including the latest Index results up to the first half of 2023.

The report reveals that the national construction commercial Tender Price Index (TPI) increased from 202.9 to 207.8 (2.4%) in the first half of 2023 (**Table 1** and **Figure 1**). The annual median national TPI increased by 6.2% over the past 12 months (July 2022 to June 2023).

Tender price inflation has continued to ease over the course of 2022 and into 2023. The SCSl Index recorded a 14% inflation high between July 2021 and June 2022, which was the highest 12-monthly inflation recorded since the Index began in 1998.

Material price inflation is still an issue, but is becoming less of a driver as supply chains and the cost of energy in manufacturing materials have stabilised when compared to the time immediately post Covid. The availability of labour is now becoming the dominant concern for the construction sector. The availability of skilled labour to cater for construction demand is continuing to impact the market and is applying additional pressure on tender pricing. Ireland's economic growth and population expansion have led to a surge in demand for new infrastructure and construction projects, driving up construction activity and tender prices. Rising labour costs, driven by skilled labour shortages and wage demands, have been a significant contributor to tender price inflation. Continued increases in interest rates are having some impact on wage demand, according to respondents to the SCSl Tender Price Index survey. The European Central Bank (ECB) raised interest rates for the ninth consecutive time in July but raised the possibility of a pause in September as general inflation pressures show tentative signs of easing.



TENDER PRICE INDEX

Table 1: SCSJ National Tender Price Index (commercial construction).

1H98	100.0	2H04	139.4	1H11	101.5	2H17	137.2
2H98	103.8	1H05	142.6	2H11	103.5	1H18	142.6
1H99	108.6	2H05	144.7	1H12	104.5	2H18	147.7
2H99	116.1	1H06	146.7	2H12	106.4	1H19	152.7
1H00	121.7	2H06	151.7	1H13	107.3	2H19	157.0
2H00	130.7	1H07	152.0	2H13	109.7	1H20	158.4
1H01	132.2	2H07	145.2	1H14	112.0	2H21	160.5
2H01	136.9	1H08	140.7	2H14	115.2	1H21	171.7
1H02	133.9	2H08	130.0	1H15	118.2	2H21	182.0
2H02	130.1	1H09	116.4	2H15	121.5	1H22	195.7
1H03	127.2	2H09	107.7	1H16	125.5	2H22	202.9
2H03	129.3	1H10	103.7	2H16	129.2	1H23	207.8
1H04	135.3	2H10	101.5	1H17	132.6		

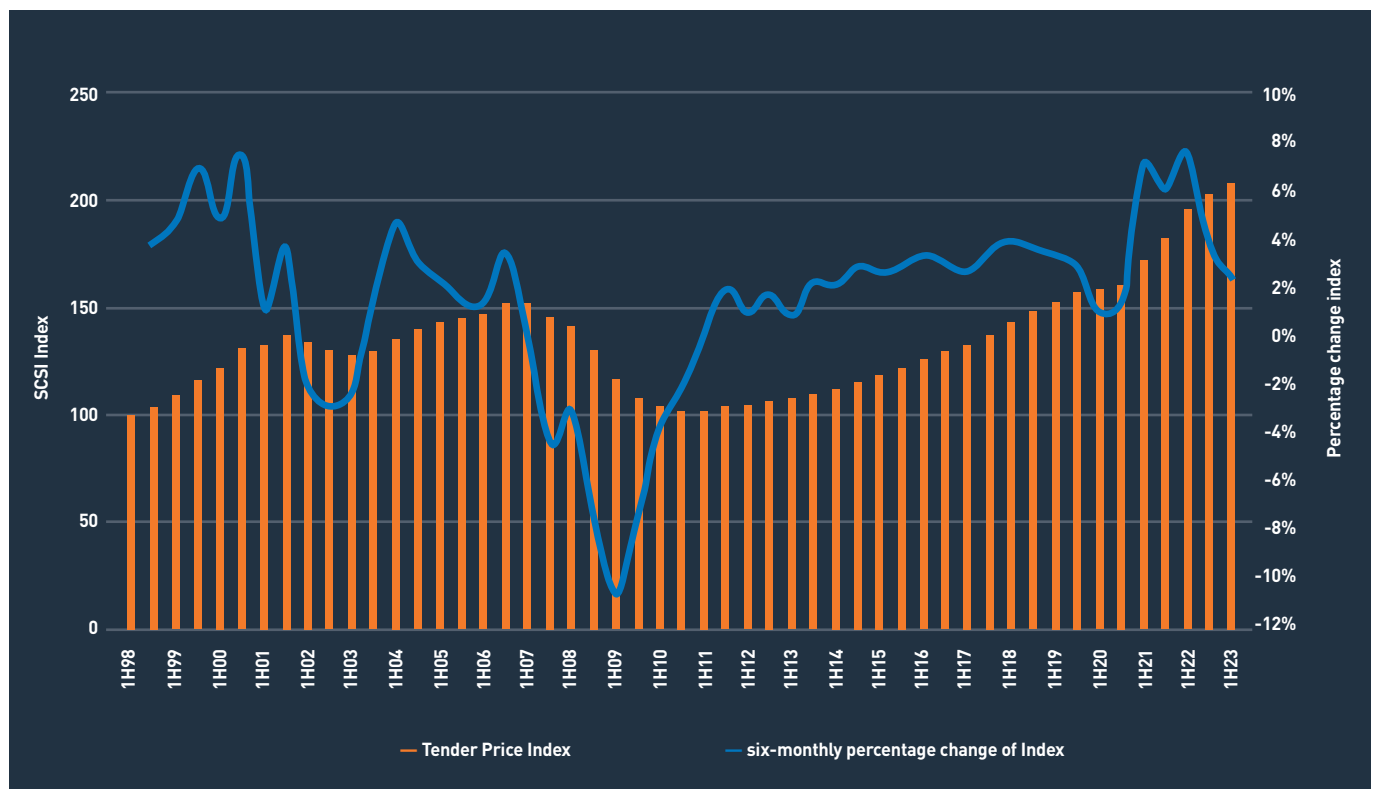


FIGURE 1: SCSJ National Commercial Construction Tender Price Index (base 1998).

Source: SCSJ research.

TENDER PRICE DRIVERS IN DUBLIN AND THE REGIONS

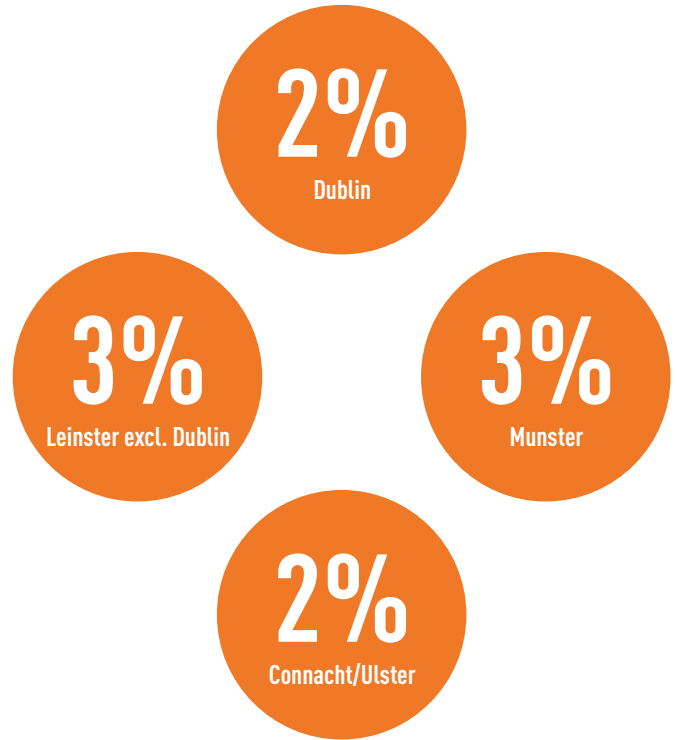
DUBLIN

The results identify that in Dublin, the median rate of inflation in the first half of 2023 was 2%, down from 4% as reported for the second half of 2022.

PROVINCES EXCL. DUBLIN

In Leinster (excluding Dublin), there was a median inflation increase of 3% in the first half of 2023. This is down from 5% reported during the second half of 2022. Median tender rate increases for Munster in the first half of 2023 were 3%, now bringing the latest 12-month increase to 7%. Rates for Connacht/Ulster increased to a median of 7% in the past 12 months, or 2% in first six months of 2023.

The introduction of the Sectoral Employment Order in 2022, which sets the statutory minimum rates of pay and other conditions (sick pay and pension entitlements) for persons employed in the construction sector, may also be having a greater influence on labour rate increases in regions outside of Dublin, increasing tender prices in these areas.



SUMMARY

The commercial construction TPI increased by 2.4% in the first half of 2023. Inflation is still a factor in the construction sector, even though the Index increases are more subdued compared to 12-18 months ago. As the labour shortage across the construction industry continues to be a cost driver, its impact is particularly acute in mechanical and electrical services, where resources are in high demand in the pharma and

commercial sectors. Material price inflation still exists and is a factor of tender inflation. Although price rises for certain materials and construction inputs such as steel reinforcement, insulation and fuel are settling down, concrete prices continue to rise according to survey respondents and this is being noted as a concern for the construction sector.

METHODOLOGY AND USE OF DATA NOTES

The data outlined in this report was provided by SCSi Chartered Quantity Surveyors with direct expertise and knowledge on the market conditions in the construction sectors across the country. The statistics extracted from our member survey were utilised in outlining the findings of this report, which are intended to give a general overview of median commercial tender price trends within Ireland's construction sector. The Index is the only independent assessment of construction tender prices in Ireland. It is compiled by Chartered Quantity Surveying members of the SCSi. The TPI 1H2023 is based on sentiment returns only. The TPI is for commercial projects during the period in question. It is based predominately on new build projects with values in excess of €0.5m and covers all regions of Ireland. The Index relates to median¹

price increases across differing project types and locations. It should be regarded as a guide only when looking at any specific project, as the pricing of individual projects will vary depending on such factors as their complexity, location, and timescales.

It is important that the Tender Price Index report is used appropriately and not for all construction projects, including those in the residential sector and those below €0.5m. The TPI 1H2023 provides median reported figures across all project tiers; breakdowns by tier may vary. Project-specific advice should be sought from a Chartered Quantity Surveyor before deciding an appropriate TPI provision for individual construction projects.

1. From 1H2021 onwards, the median value is used as the statistical methodology.



Dating back to 1895, the Society of Chartered Surveyors Ireland (www.scsi.ie) is the independent professional body for Chartered Surveyors working and practising in Ireland.

Working in partnership with RICS, the pre-eminent Chartered professional body for the construction, land and property sectors around the world, the Society and RICS act in the public interest: setting and maintaining the highest standards of competence and integrity among the profession; and, providing impartial, authoritative advice on key issues for business, society and governments worldwide.

Advancing standards in construction, land and property, the Chartered Surveyor professional qualification is the world's leading qualification when it comes to professional standards. In a world where more and more people, governments, banks and commercial organisations demand greater certainty of professional standards and ethics, attaining the Chartered Surveyor qualification is

the recognised mark of property professionalism.

Members of the profession are typically employed in the construction, land and property markets through private practice, in central and local government, in State agencies, in academic institutions, in business organisations and in non-governmental organisations.

Members' services are diverse and can include offering strategic advice on the economics, valuation, law, technology, finance and management in all aspects of the construction, land and property industry.

All aspects of the profession, from education through to qualification and the continuing maintenance of the highest professional standards, are regulated and overseen through the partnership of the Society of Chartered Surveyors Ireland and RICS, in the public interest.

This valuable partnership with RICS enables access to a worldwide network of research, experience and advice.



Chartered property,
land and construction
surveyors

Society of Chartered Surveyors Ireland

38 Merrion Square
Dublin, D02 EV61
Ireland

+353 (0) 1 644 5500
www.scsi.ie