



CitA | **TECHLIVE** 2022

Challenge, Change, Learn

Welcome to TechLive 2022

by CitA, Ireland's premier
multidisciplinary construction
network.



- Mitchell McDermott Construction Consultants
- Provide QS / PM and other support services
- Engaged across all major sectors

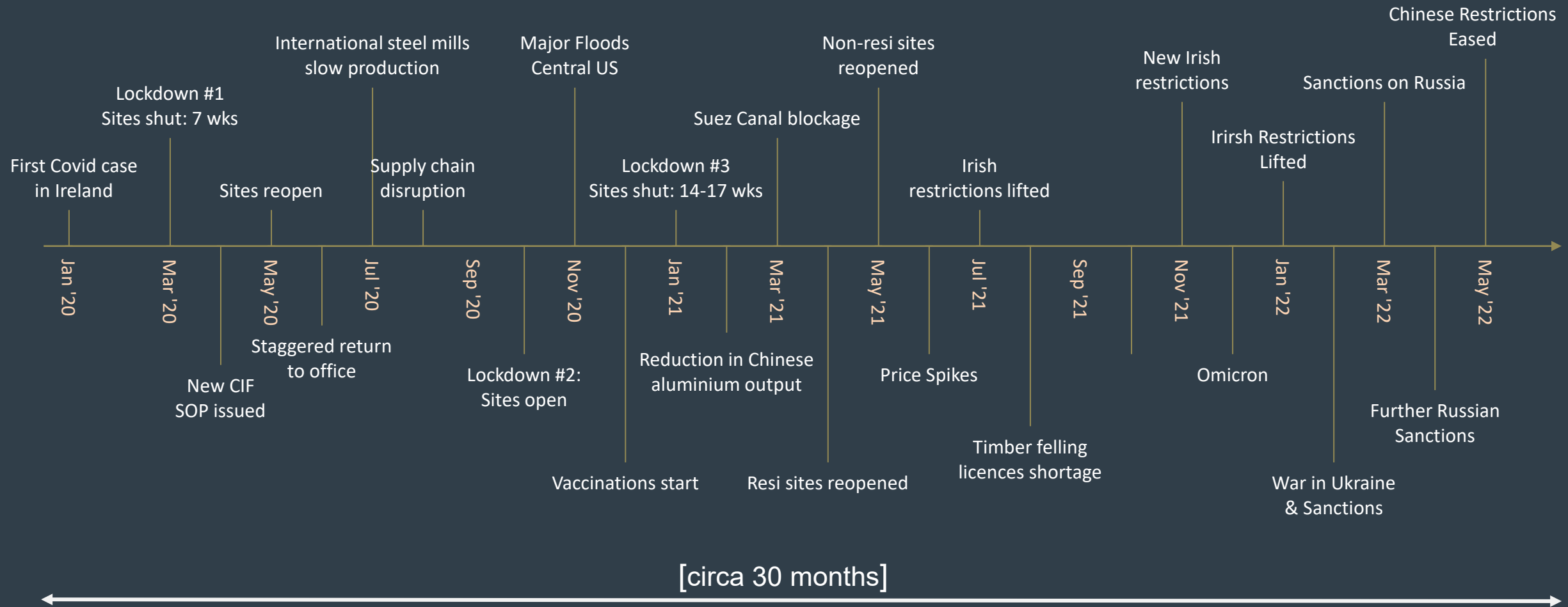
- Experience in Ireland, UK and Middle East
- Apartment Inflation Infocard 2022
- In-house inflation monitoring



Eoin McEnergy | Associate



CHALLENGING TIMES





CHALLENGING TIMES

“As COVID-19 restrictions ease around the world and the construction sector hopes to return to pre-pandemic levels of productivity, **the cost of building materials is holding the industry back.**”

“... a **shortage of materials** is hindering construction activity, suggesting that the **cost and availability of goods such as steel and lumber is a big problem** across the sector”

RICS Modus, May 2022

“Inflation is expected to remain elevated for longer than in the previous forecast, driven by **war-induced commodity price increases and broadening price pressures.**”

IMF, Economic Outlook April 2022

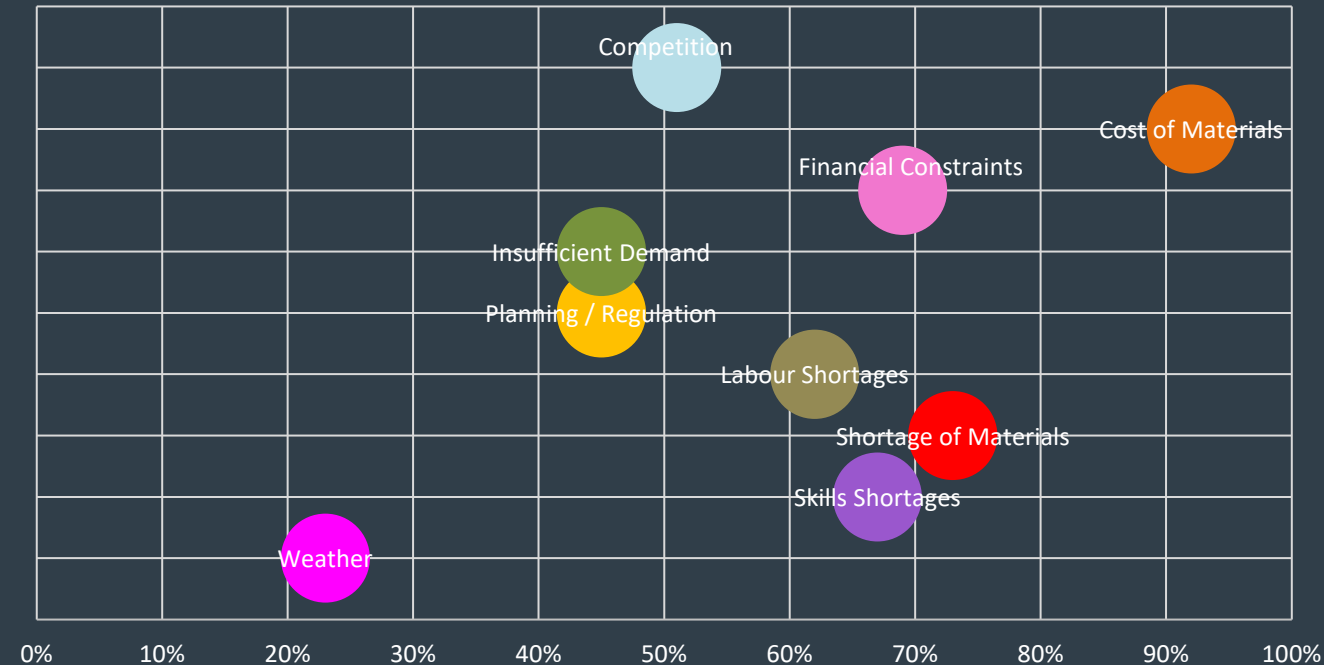
“Construction firms **unwilling to take on fixed-price** contracts as inflation surges”

Irish Times, May 2022

“Higher number of housing builds **threatened by labour shortages**”

Irish Times, March 2022

FACTORS HOLDING BACK CONSTRUCTION PRODUCTIVITY

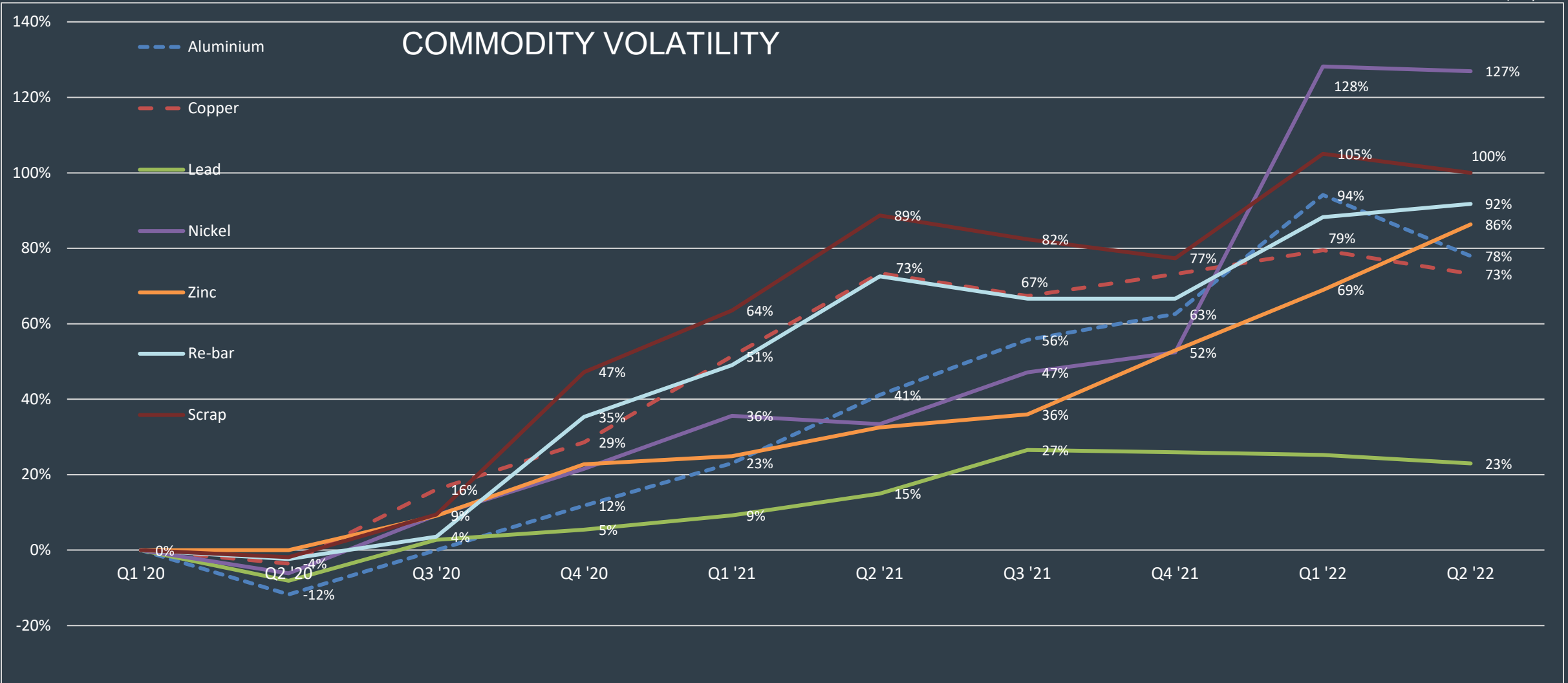


Source RICS Modus (May 2022)



Source LME (May 2022)

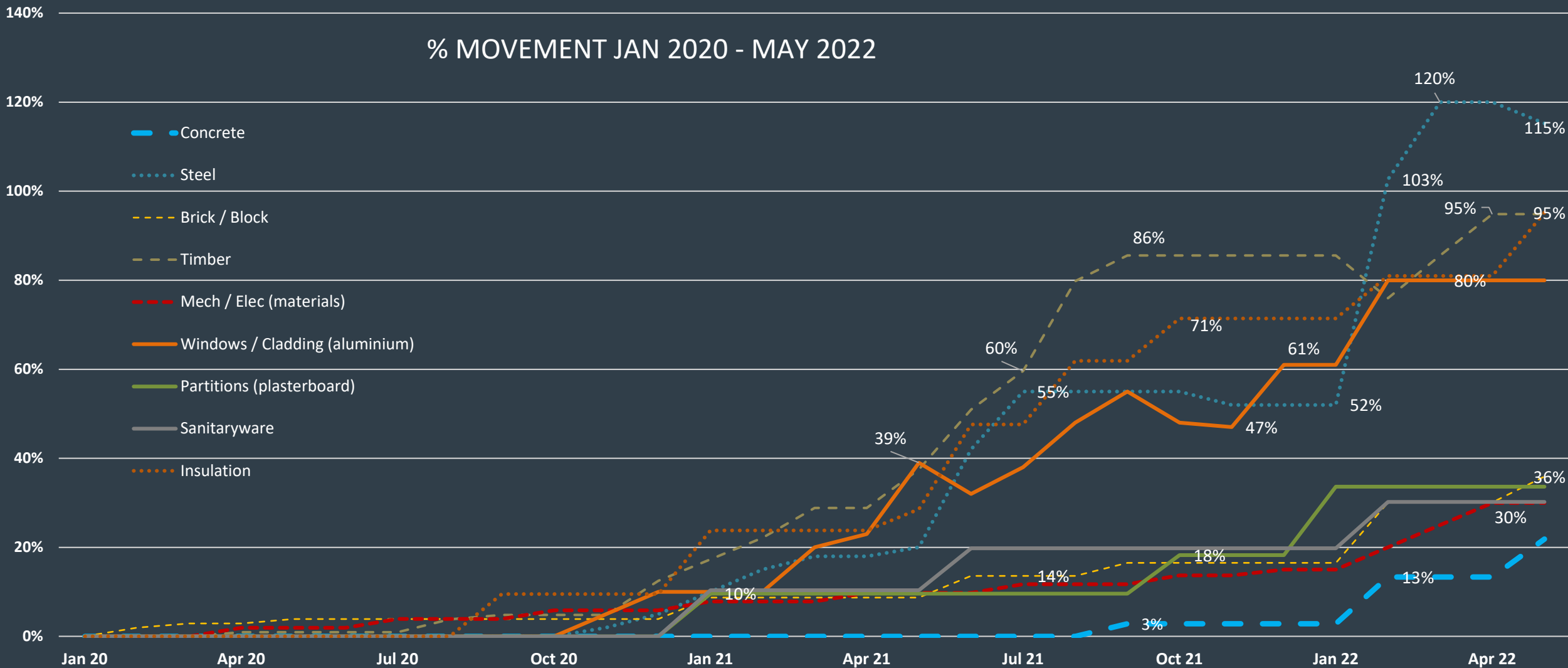
COMMODITY VOLATILITY



ADAPTING TO AN INFLATIONARY MARKET



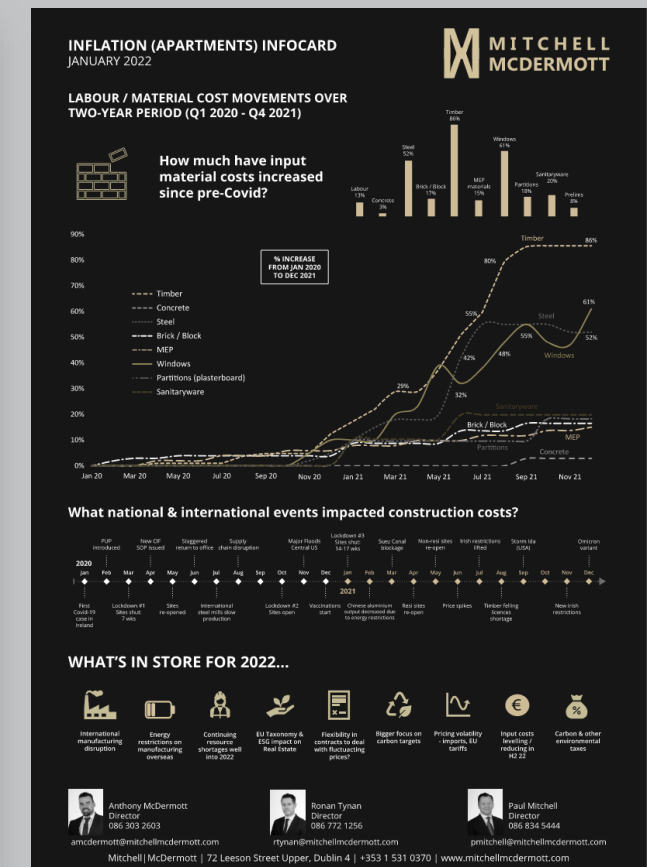
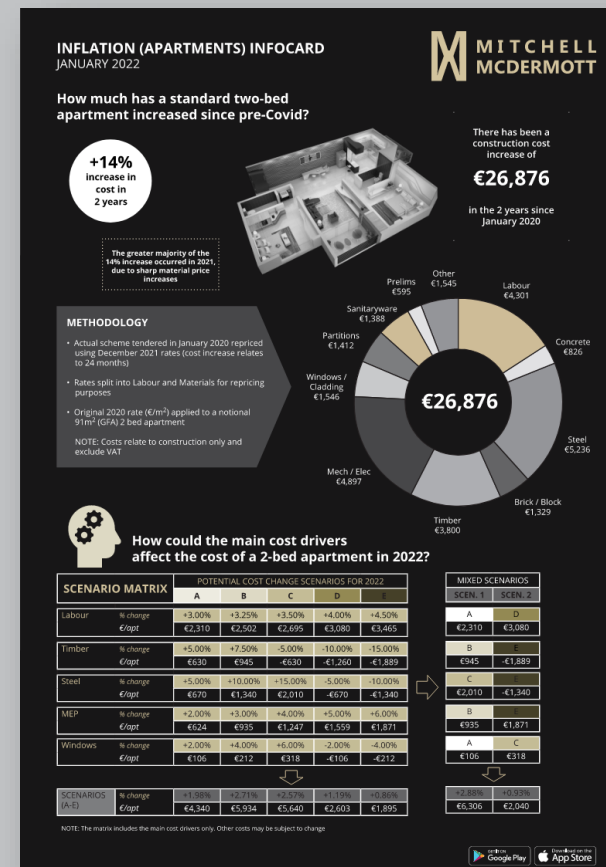
% MOVEMENT JAN 2020 - MAY 2022





APARTMENT INFLATION EXERCISE

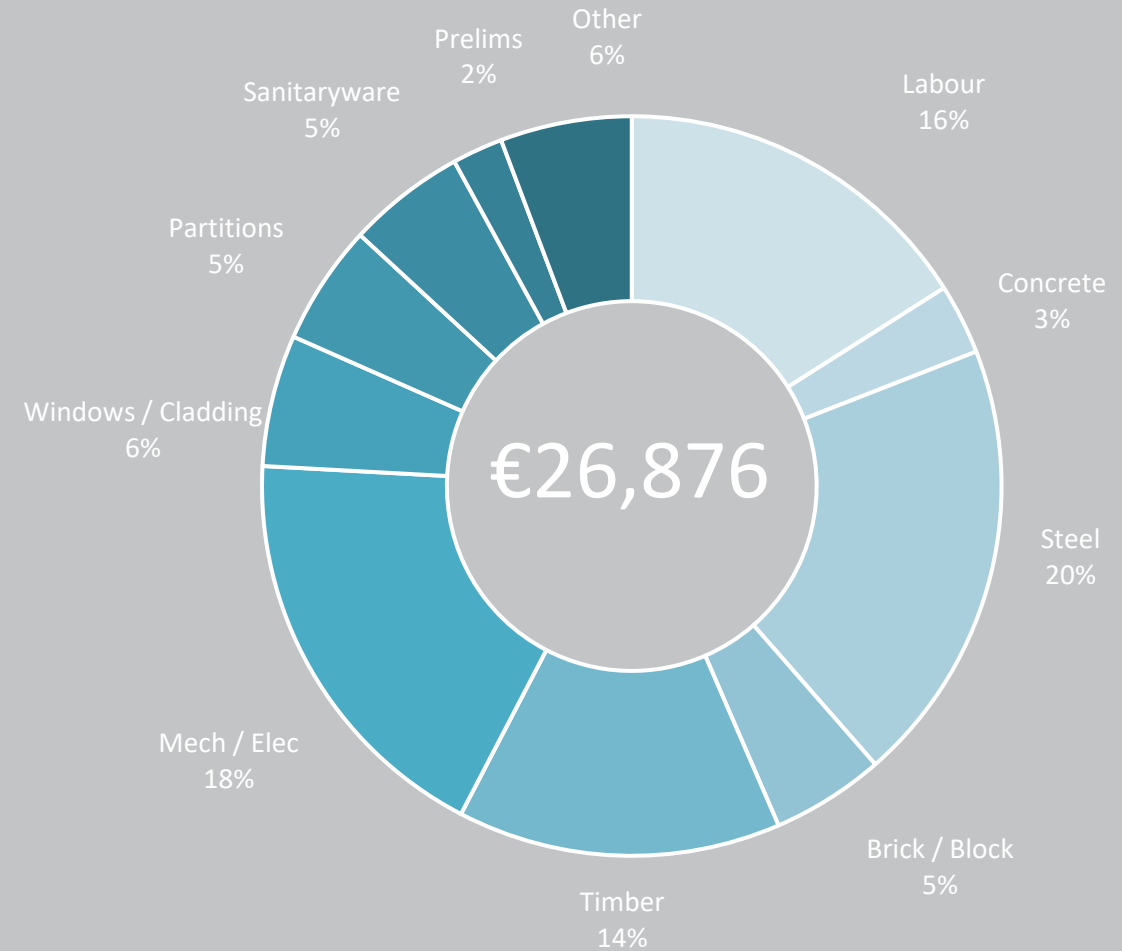
- 2022 inflation InfoCard based on an apartment building
- Tender received in Q1 2020 priced again in Jan 2022 using Q4 2021 tender pricing from Main Contractors
- Split into labour and materials

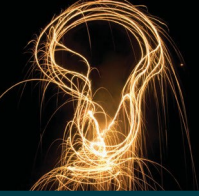




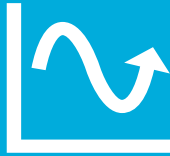
APARTMENT INFLATION EXERCISE

- How much has a 2-bed apartment increased since pre-Covid?
- Q1 2020 to Q4 2021
- Changes in labour and materials priced from market tenders
- 14% over two years (avg. 7% p.a.)
- c.€27k increase in construction
- Main Drivers
 - Labour
 - Steel
 - Timber
 - MEP
 - Windows

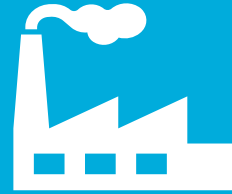




WHAT IS HAPPENING IN THE MARKET?



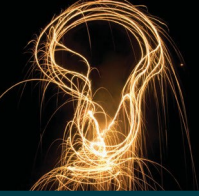
- Back-log of projects still being worked through
- Tier 1 & 2 contractors order books nearing capacity
- Specialist contractors stretched
- Supply issues
- Viability issues
- New projects being delayed



- Extended lead times / Manufacturing disruption
- Energy supply / cost
- Rising demand for labour across all levels

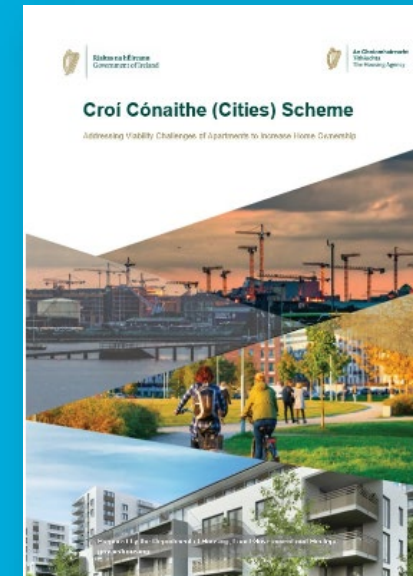


- New tenders coming to market but how many converted into orders?
- Reluctance for single stage hard tendering
- Extended tender periods trying to agree a deal
- Insolvency issues
- Nervousness on fixed price contracts
- Dispute resolution



HOW ARE THESE CHALLENGES BEING TACKLED?

- **Inflation Co-operation Framework** on Public Sector Contracts
 - Amendments to address impact of exceptional inflation on materials and energy costs
 - Up to 70% of the costs to be covered
 - Fluctuations calculated based on CSO indices
 - Relief from delay damages on supply chain disruption
 - Addition to amendments introduced in Jan 2022
- Aware of **other studies / initiatives being instigated** by the DHLG&H which are **aimed at reducing costs**
- **Croí Cónaithe (Cities) Scheme** – initiated by DHLG&H
 - Aimed at bridging the “Viability Gap” between the cost of building apartments and market sale price
 - Accepting proposals for apartment developments in Dublin, Cork, Limerick, Galway and Waterford cities





CHANGING TIMES

- Design with inflation in mind
 - Sourcing of materials
- Specialist packages engaged early
 - Negotiating
- Early Orders under Lol
 - Hedging against rising prices
- Flexibility in contracts
 - ESG



Design / Pre-Construction Stages

- Understand material source
 - Supply chain resilience
- Securing bulk items early
 - Closely monitoring lead times
- Labour intensive trades
 - Dealing with Delays
- Appetite for risk



Construction Stage



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Thank you for your participation