

Lockdown 2.0

Covid 2021 – Impact on Main Contractors

12th March, 2021

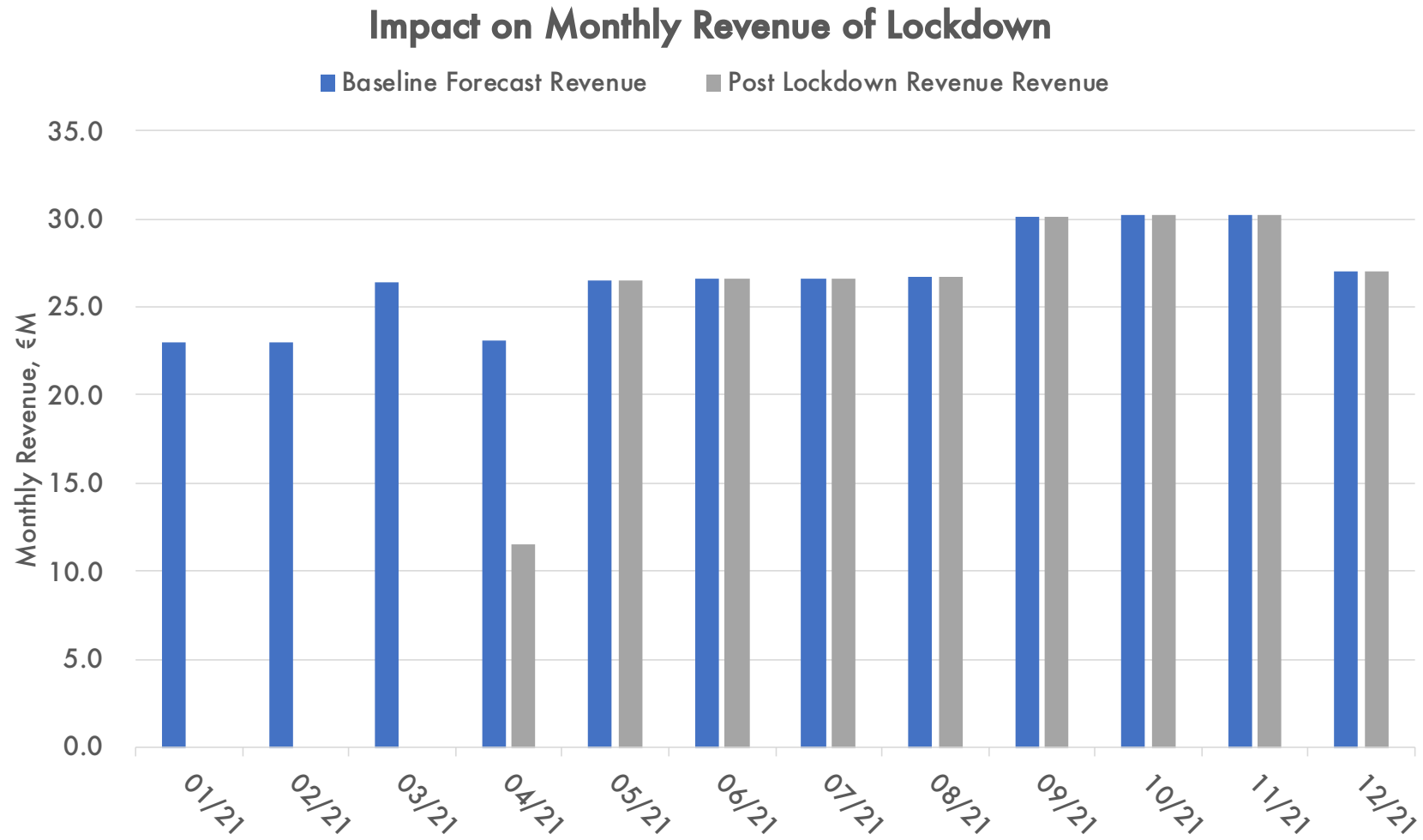
Introduction

- Covid-19 has halted the majority of construction activity. A restart of construction on sites will commence hopefully at the beginning of April.
- Lockdown is having an impact on output in all sectors of construction – estimated at 25% reduction over pre lockdown forecast.
- Social distancing measures that must be in place have an impact on site productivity and delivery programmes – this has ongoing impact on site overheads.
- Residential – Reduced completions will create further difficulties in the housing market and increase the housing supply deficit. Increasing public sector housing procurement. Land Development Agency procuring large >€100M projects using D&B approach
- Commercial – Uncertainty in projects starts given move to working from home. Occupiers at end of lease (or with break) using as opportunity to obtain better terms.

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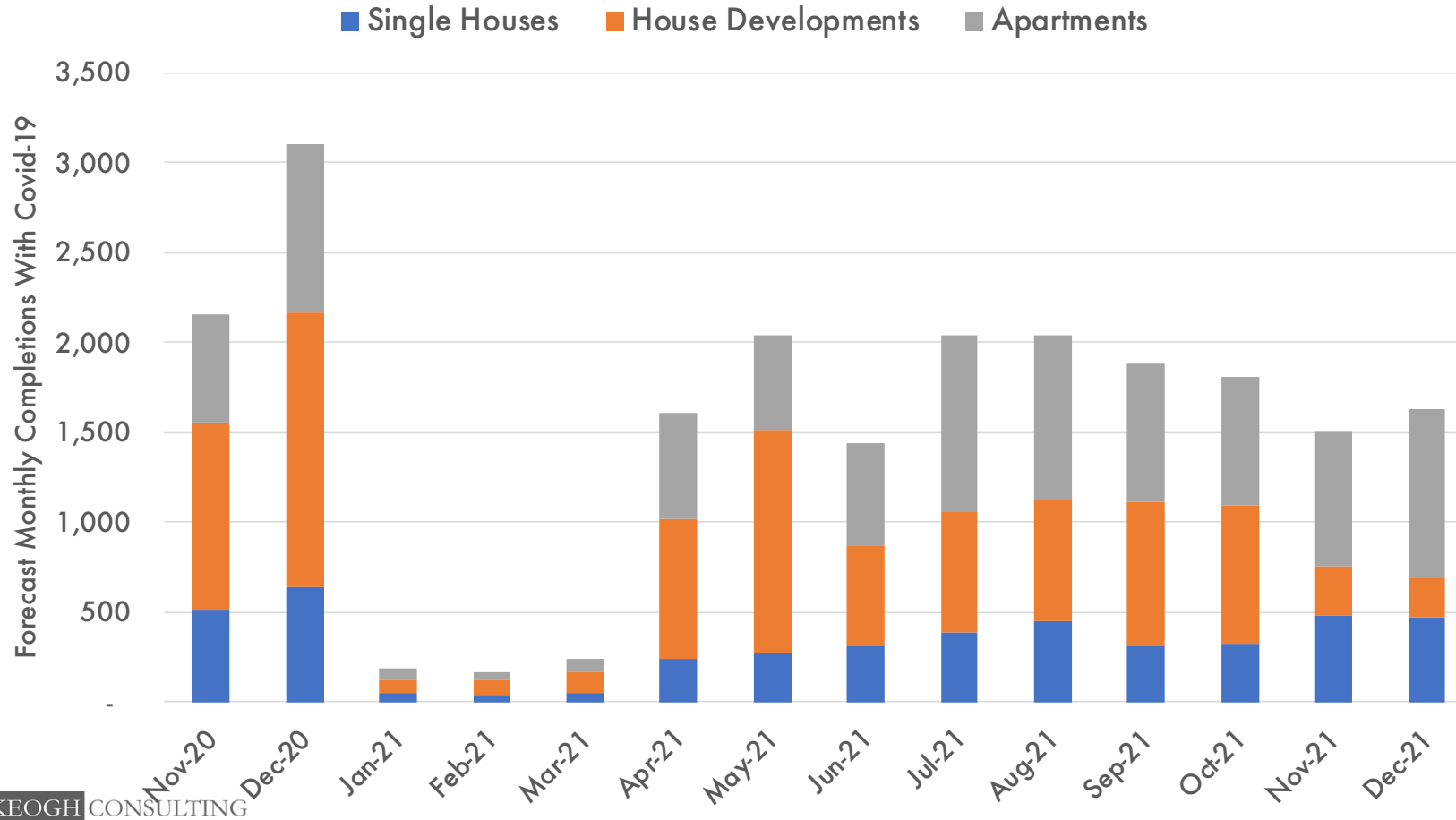
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Lockdown since January has reduced activity and turnover from what would have been forecast – estimated at -25%



Housing output estimated at c.16-18k units in '21 without any acceleration of activity on sites post lockdown (as per Q4 2020).

Impact of Covid-19 on 2021 Housing Completions

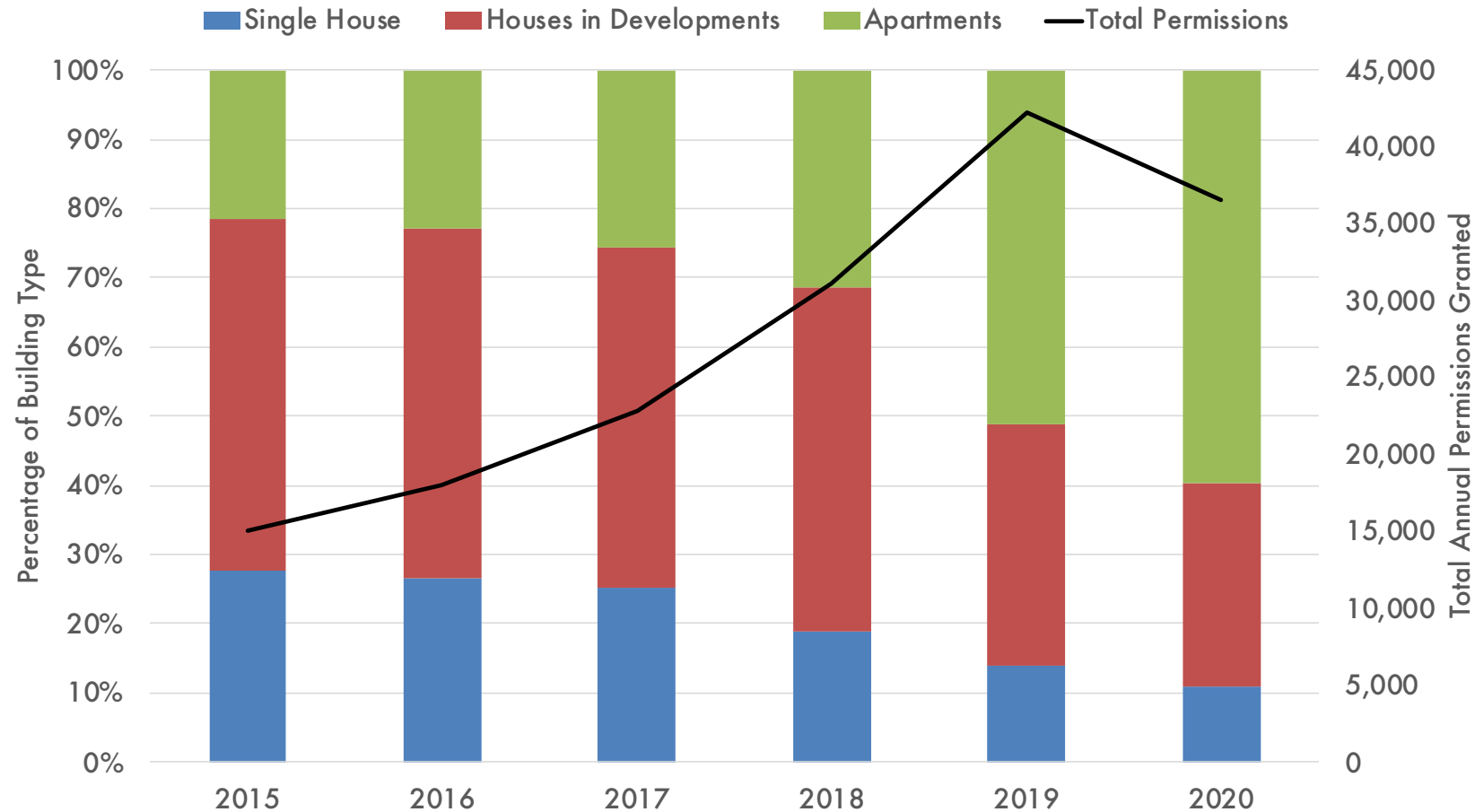


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Residential planning grants are favouring apartments but not converting to commencements due to developer funding challenges

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Change in Mix of Planning Permissions Granted



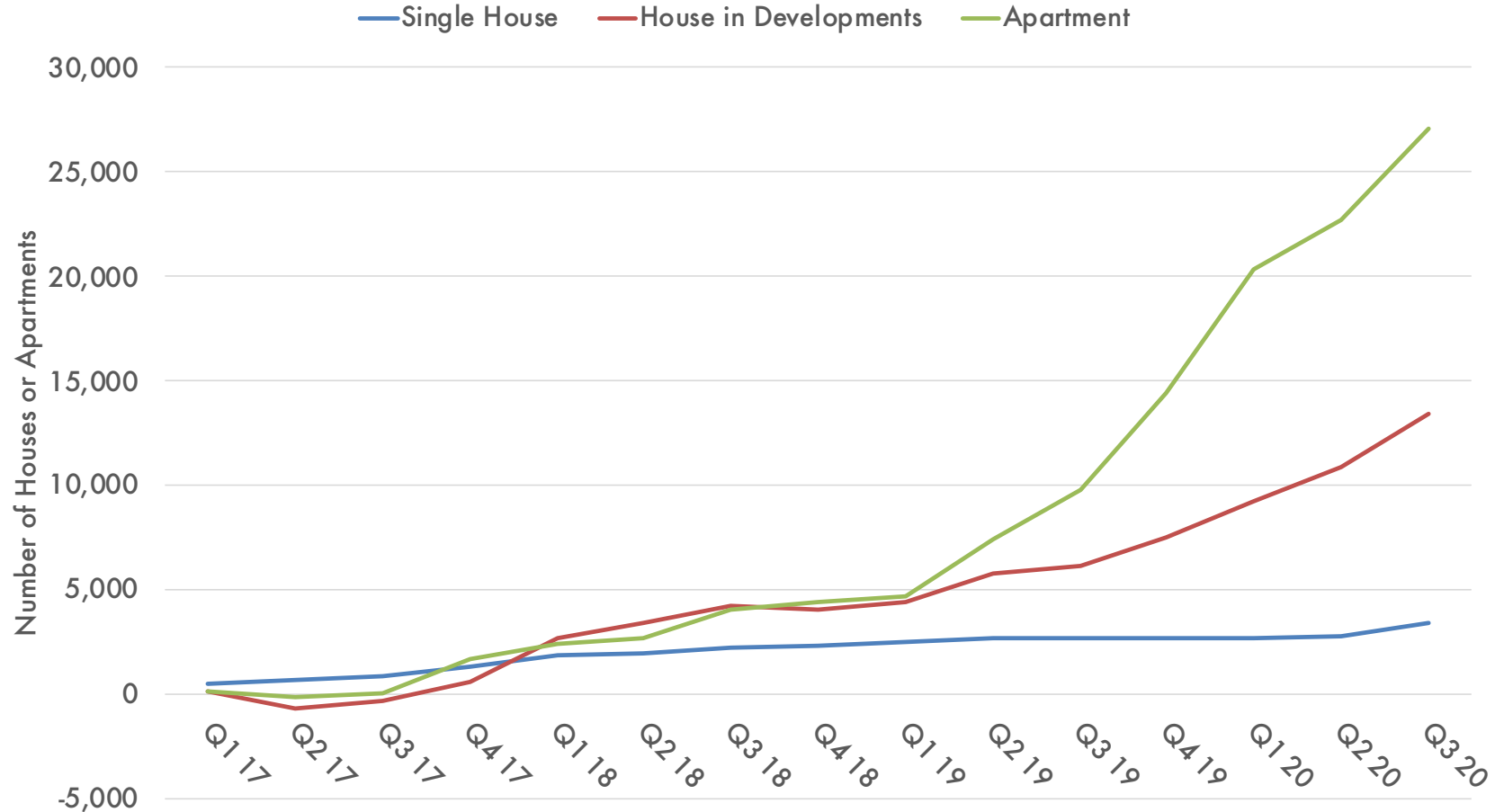
Source: CSO data

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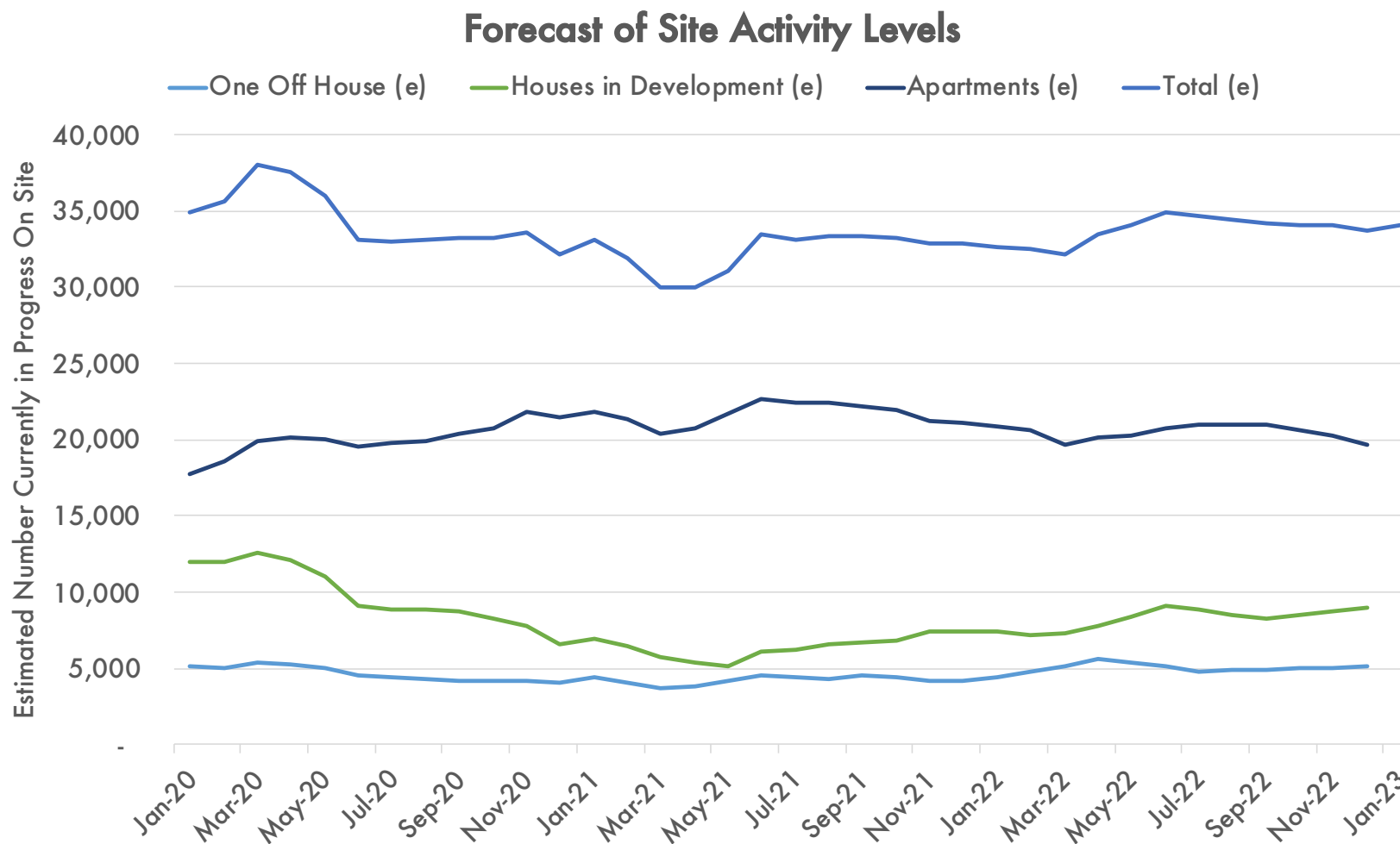
Large residential pipeline (c. 43k units) ready to start on site.
 LDA has pipeline of D&B projects due for procurement in 2021.

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Estimated Cumulative Planning Not Commenced



Ready to go projects won't start (and activity increase) when delivery cost is above what purchasers are able to afford with loan and savings



Source: Keogh Consulting Calculation based on housing starts and assumed time to complete. Activity = previous close + start - completions

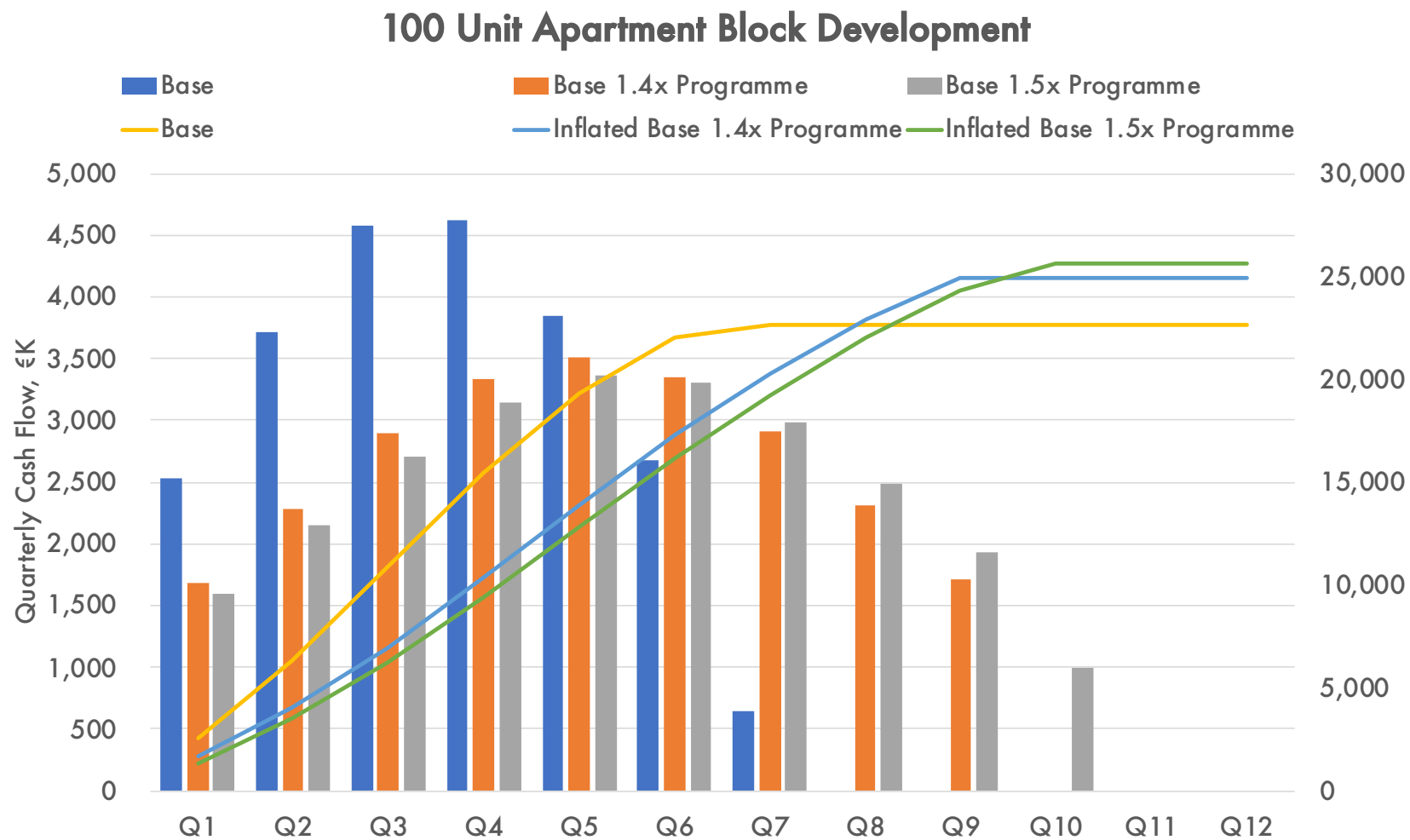
Current difficulties accessing funding for speculative office development given demand uncertainty may delay starts.

Dublin Office in Construction 2021 - Supply & Demand

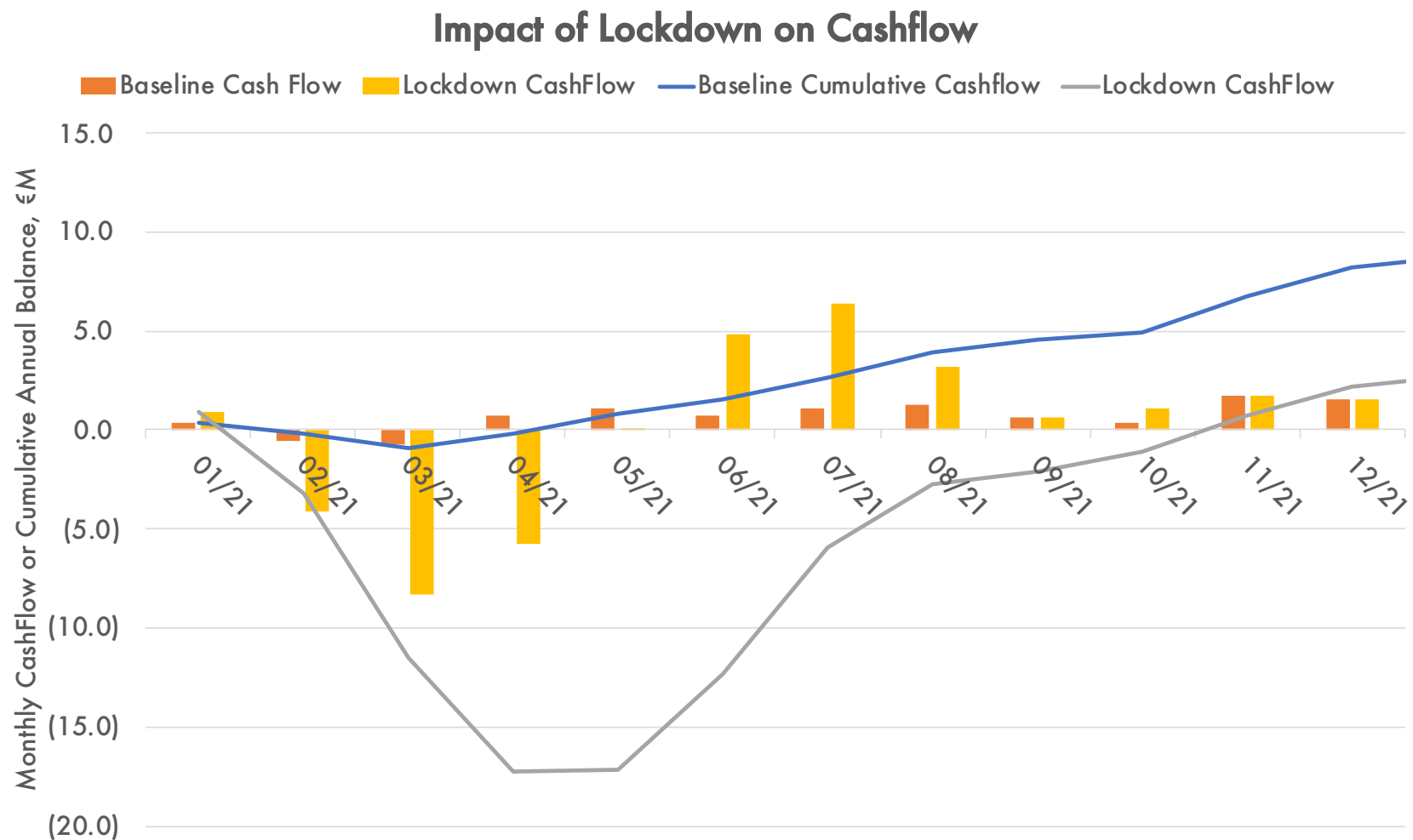


Source: Calculations from Lisney Data

Need to consider the impact of prolonged programmes on cashflow, overheads and input costs when pricing new projects in all sectors

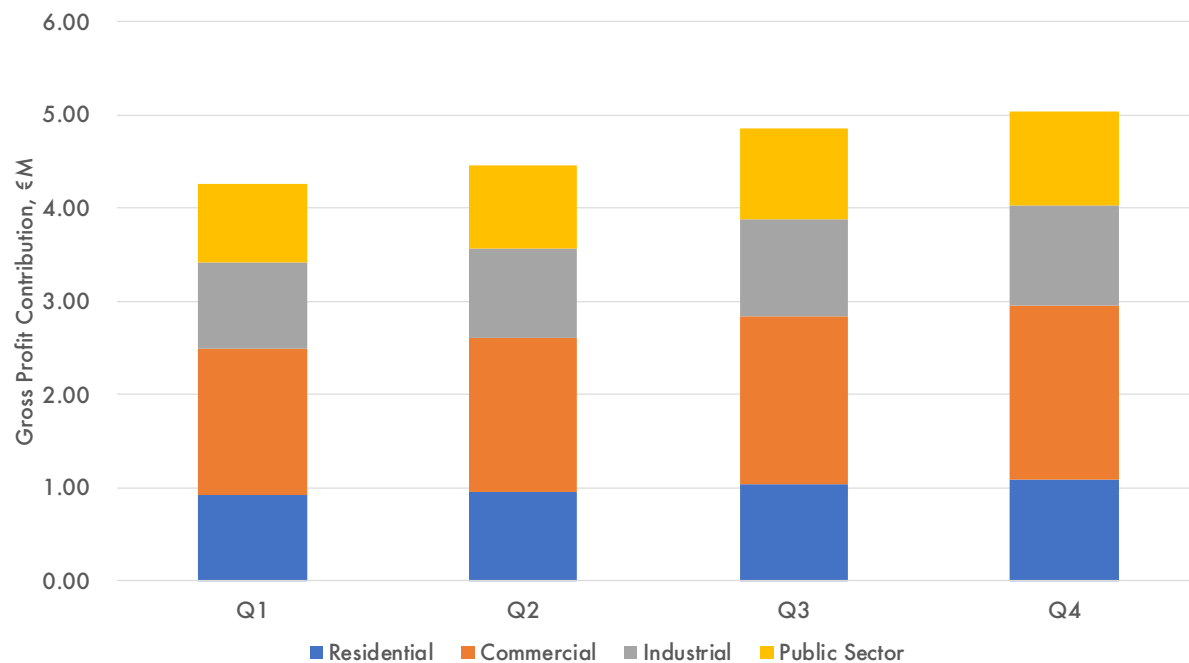


No turnover for 3 months has eaten in to cash reserves. This creates issues for future growth but opportunities if well capitalised

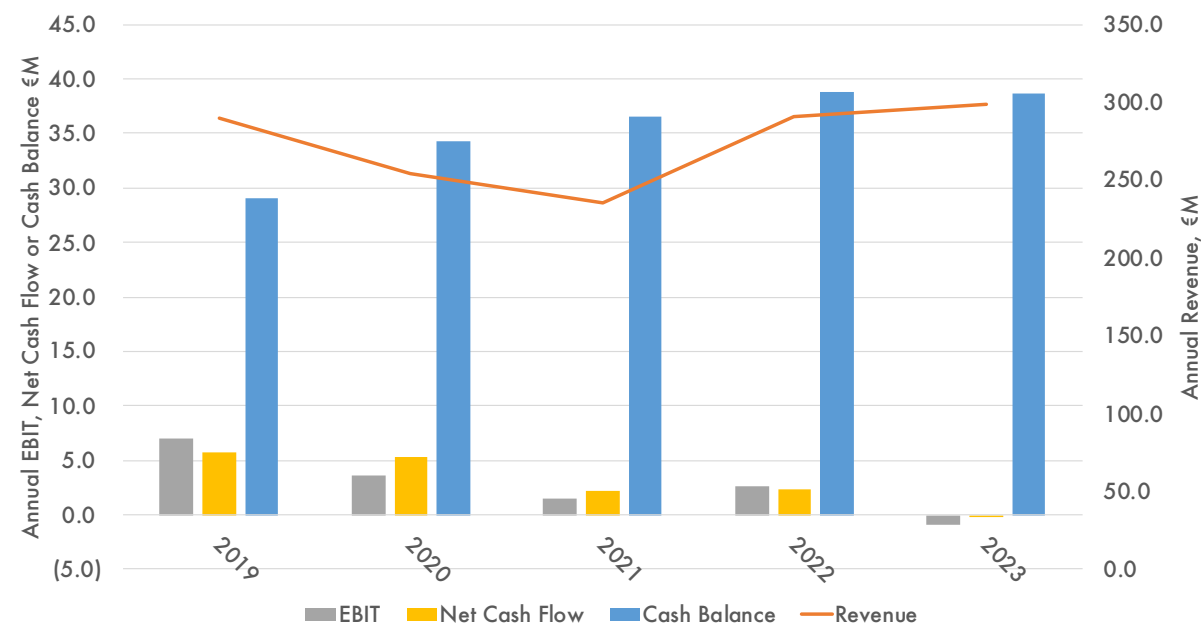


Given market conditions there is a need to look forward to target growth sectors & to price work to retain turnover & market share

Gross Profit Contribution By Sector



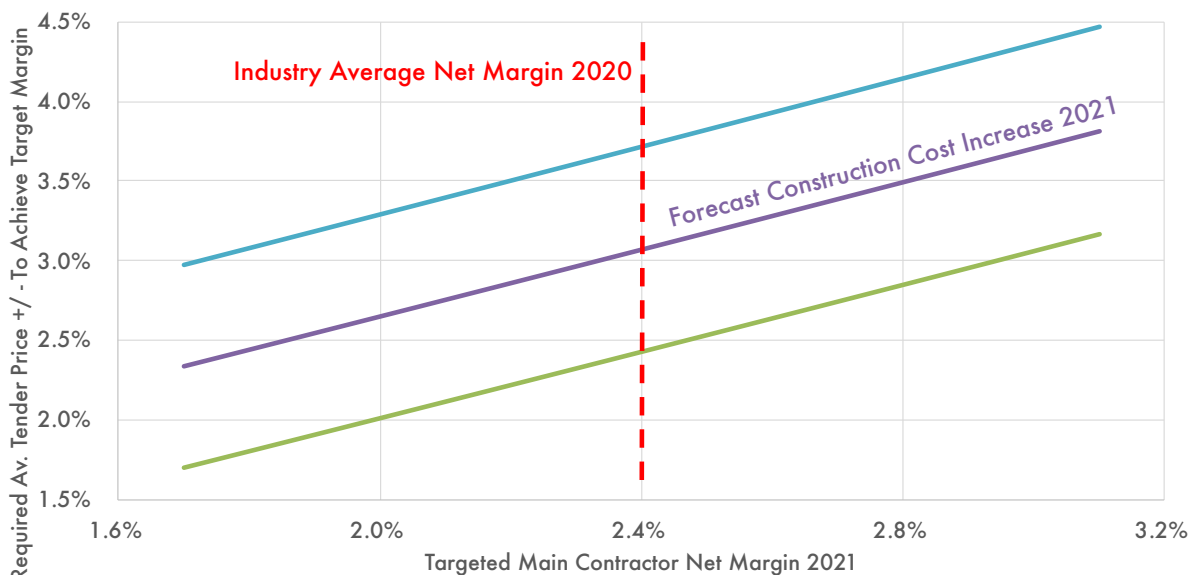
Scenario - 10% contraction in Market in 2022. 3% Cost Increase. 0% Tender Increase



To maintain profit targets with uncertainty, delays & potential cost increases, focus on pricing strategy and overhead cost management

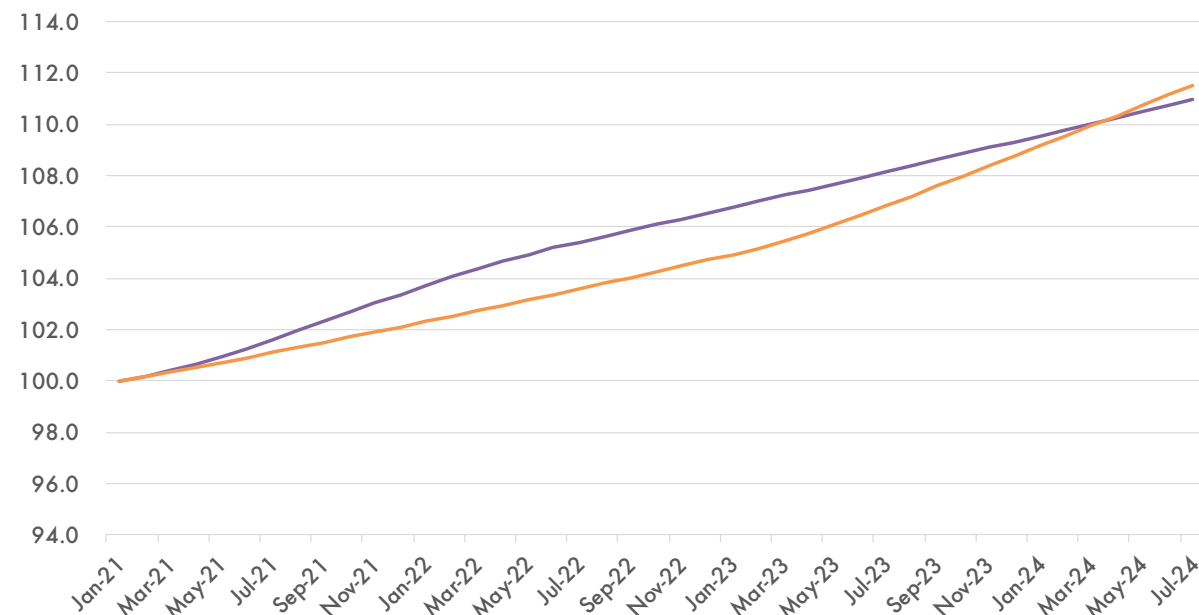
Required Tender Increase v Estimated Construction Costs Increase v Targeted Net Margin

Forecast Increase In Construction 2.3% 3.1% 3.9%



Estimate Of Construction Cost & Tender Price Trend

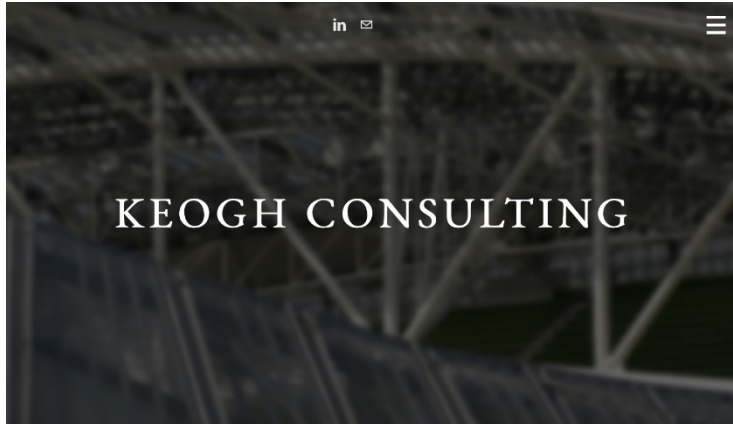
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Recommendations

- Use scenario planning - identify pinch points and look to put financial facilities in place to manage through Q2 & Q3.
- Use opportunity to re-engineer all processes (again!) and ensure direct overheads are minimised and productivity gains obtained. Invest in site manager training.
- Focus on cash management – difficulties from 2020 will be amplified through the supply chain in 2021 on account of lockdown. Look after supply chain and seek to deepen long term relationships with key suppliers and sub contractors.
- Potential contraction of market in 2022 due to delayed projects. Manage key accounts during delays and look to win better business – seek EBIT increase off lower turnover through focus on efficiency, partnership and price negotiation versus tendering.
- Large opportunities with public sector housing using D&B procurement approach – need to have design management capability in place and take lead in process from tendering through delivery. Build up bidding knowledge. LDA may adopt NDFA style approach

Contact



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