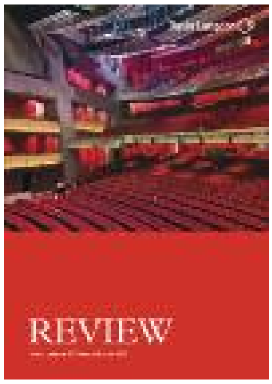
CHAPTER 7: THE PKS REVIEW



In his early years as a partner Michael Webb had the idea of producing a report for clients and colleagues on the industry and the state of the construction market. Gordon Aston was somewhat suspicious of the idea and concerned that we might express opinions rather than provide supportable facts.

After some months of debate it was agreed that an annual review would be produced but that it would only deal with our area of expertise — building costs.

So, in February 1975, the Review of Building Costs 1973–74 was produced.

Gordon Aston ensured that his view was clear. He attached to the first page of the initial report the disclaimer:

> *This paper does not attempt to deal in depth with all the complex influences leading to the recent substantial increases in the cost of building but rather to examine such facts as are available and to offer some comments on them.*

The Review then went on to define ‘building costs’ as being open to misinterpretation, and to assert that ‘any attempt to measure and monitor fluctuations in the rest of building generally is, therefore, fraught with difficulties and must, necessarily, be conducted in broad and indeed, coarse terms.’

All unmistakeably drafted by Gordon Aston!

After several pages of disclaimers and qualifications the Review got down to business.

> *The hunger on the part of the financial institutions for long term property investments, which started in the late sixties, continued at an accelerated pace into 1972 and 1973, providing a heyday for the developer, combined with heavy investment by the building societies in private housing, to overstrain the resources of the construction industry.*

Labour costs were shown to have risen by 45% between January 1973 and January 1975, while materials rose by a staggering 85% over the same period. Building costs had risen by 61% over the two years compared to the rise in consumer price index of 36%.

The outlook for 1975–76 was not optimistic.

> *There is little reason to hope that the Trade Unions will be less demanding than usual in future wage negotiations. It must, therefore, be predicted that a further increase in building costs in the region of 25% can be expected during the ensuring year.*

The prediction proved somewhat off the mark for in the February 1976 Review we reported that wages had risen by 16.3% over the year but that

> *The stiffening of competition has had a much more significant effect that, in some cases, it can be said to have discounted almost the whole of the indexation.*

Looking forward to 1976 we suggested that:

> *The ensuing year will be a testing time and it is, in our opinion, most important*

that Government create and stimulate demand as a matter of urgency.

1979 was reported to have been 'a boom year for the Irish Construction Industry':

Increased Government capital expenditure came on stream in 1979 at the same time as increasing confidence in the industrial and commercial sectors encouraged a renewal of investment in these areas.

The Department of the Environment's 'Outlook for 1979' estimated that the output of the construction industry would increase in volume by 7% (to IR£1,235m) in 1979 compared with 14% in 1978. Building costs rose by 21% in 1979 while tender levels rose by 25% to 30%. The Review suggested that 'the pace of activity in the industry will begin to slacken during 1980'.

The January 1981 edition of the Review confirmed this prediction reporting a 3% drop in volume in 1980.

A warning note was sounded with regard to labour costs in the industry which rose by 27% in 1980 and by 67% between January 1978 and January 1981.

An acerbic comment may not have recommended itself to the contractors' wage negotiators.

It is tempting to speculate that if contractors had to absorb the immediate cost of wage increases rather than being able to pass them on to the client through the Price Variation Clauses, perhaps they would not have been so generous in the settlements reached.

It took another decade before fixed price contracts became the norm in the industry.

In January 1982 the Review noted:

For the first time since we commenced our Annual Review in 1975 the trend of construction costs rising at a continually higher rate than the consumer price index (CPI) has been altered in that consumer prices rose by 23% while the construction costs rose by 20.5% over the same period.

In the outlook for 1982 the Review stated:

The construction industry has traditionally been the barometer of the economic well-being of the nation. Since 60% of the output of the industry is directly or indirectly funded by the State, the industry has all too often provided an easy target for harassed Ministers for Finance looking for a short term saving to help trim the nation's finances.

The 1983 Review sees the fulfilment of this view:

We concluded in our last Review in January 1982, with the view that 'all in all, 1982 may not be a happy year for the Irish Construction Industry.' In hindsight that pessimistic view was an understatement of what was to happen the industry, which sustained a 15% drop in volume during 1982.

The 1984 Review gets even gloomier

Following a 12% reduction in 1982 the volume of construction contracted a further 12% during 1983

and

Unemployment within the industry reached unprecedented levels with the Construction Industry Federation claiming net unemployment is now equivalent to almost 50%.

But things were to get worse in January 1986 when the Review reflected:

Roget's Thesaurus is becoming less helpful in finding new words to describe the sorry state of the Irish Construction Industry. We described 1982 as a dismal year, 1983 as a year best forgotten and 1984 as a difficult year. We can only suggest that 1985 was a combination of all three.

The Review then went on to take a swipe at the Government:

In addressing the lack of cohesive policy for construction, the second largest industry in the state, one is tempted to leave the page blank! There are those who suggest that the government's apparent death wish for the construction industry is fuelled by a belief that the industry is populated by Fianna Fáil supporters! We would prefer to take a more charitable view in suggesting that up to now the responsible government ministers have not been aware of the consequences of their actions.

The January 1988 Review balanced the political criticism:

There is one lesson to be confirmed from the outcome never believe a politician especially in an election year! For Fianna Fáil in government forgot all their promises and with the fervour of the newly converted set about cutting the Public Capital Programme with a gusto that would have left Ernest Blyth gasping with admiration.*

In January 1987 the Review moved up market with a printed cover including a photograph of the Guinness fermentation tanks. Up to then the Review had been housed between the ubiquitous PKS brown report covers. From 1998 the whole Review was professionally designed and printed with project photographs and graphs.

In 1988 the Review went biblical in trying to explain the construction industry:

There are to be seven years of great plenty throughout the land. After them will come seven years of famine, all the years of plenty will be forgotten, and the famine will ruin the country. The good years will not be remembered in the land because of the famine that follows; for it will be very severe. — Genesis Chapter 41

For seven years the Irish Construction Industry has suffered continuous decline. Output in 1988 will be half of that achieved in 1981. More than half the workforce employed in construction in 1981 is now unemployed or has emigrated. 50,000 construction workers have lost their jobs and many firms have vanished. In 1981 the total output of the industry was IR£3.036 million (at 1987 prices); in 1988 it will be IR£1.570 million (at 1987 prices)!

The Review went on to quote from the National Economic and Social Council in their

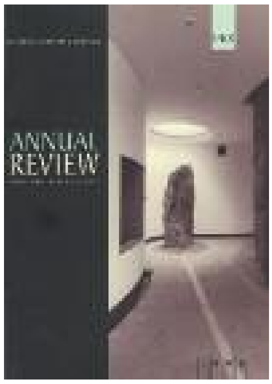
* For our younger readers, Ernest Blyth was the Minister of Finance who deducted a shilling from the Old Age Pension in 1924.

report ‘A Strategy for Development’ published in November 1986 that

> *cuts in public spending in future years must be effected primarily on the current account of the budget. Great care should be taken in the design of fiscal policy to ensure that productive capital projects are not jettisoned in the process of restoring order to the public finances.*

The fact that Michael Webb was a member of NESC at that time obviously had no effect on the report.

In 1998, 1999 and 2000, a PKS Review of the UK Construction Industry was also produced and circulated to UK clients of our London office.



After seven years of decline the January 1990 Review was able to be more optimistic:

> *1989 will be remembered as the year the Irish construction industry restored to growth*

but sounded a note of caution in describing ‘1990 — A boom too soon’ and sounding a note of caution with regard to EU Structural Funds.

> *The imminent arrival of three ships from Brussels laden with goods for the Irish construction industry has been much heralded.*

On a lighter note the 1990 Review reported on a competition between the staff to discover the best acronym for PKS that produced a crop of ideas including:

Positive Keen Service

Perfection Keenly Sought

Personal Kind Sympathetic

Perception Key to Success

Price Keen and Sensible

Performance Keeps Surprising

Particularly Knowledgeable Surveyors

Promulgate Keynesian Solutions

The consultant who suggested Propounding Katastrophic Solutions was not highly commended while the office junior who suggested Prefers Kinky Sex is still under close observation by all staff. The simple acronym we liked best was Please Keep Saying PKS.

In June 1990 the first Summer Update was produced — a single sheet covering developments since January that year.

The Review described 1992 as A Curates Egg Year.

> *Overall construction volume increased by 1.5% — at the beginning of the year PKS, in common with most other commentators, forecast a 2% decline. What changed the situation was the dramatic surge in private housing in the first half of the year, 20,000 house completions are estimated for the year.*

The Review quoted Indicative Building Costs

Office — Shell & Core	IR£40.60 per sq foot
Schools — Secondary	IR£50.60 per sq foot
Hotels	IR£75.10 per sq foot

1993 was reported as a 'A Mixed Bag'.

1993 was a year for mixed metaphors. January started with the currency crisis and astronomical interest rates which could have sunk the construction industry if not the whole economy. Luckily sense prevailed and a sharp devaluation led to quickly falling interest rates but a slower growth of confidence. The January budget increased the level of Government investment helped considerably by the last tranche of the first EU Structural Fund programme coinciding with the first investments under the EU Cohesion Fund programme.

1995 was described as a 'A Vintage Year' and the Review blew its trumpet.

In our January 1995 Review we suggested that 'the volume of construction output is likely to rise 11% in 1995' and were criticised in a number of quarters for an over-optimistic estimate. For the first time in many years we can claim to have got it right.

Continuing growth in the industry led to the Review going poetic in 1998 and quoted[2] poet Michael O'Siadhail:

In all this flux some patterns form:
eddies, rondos of experience, spirals spheres
of remembrance, loops of history, forecast or guess;

This was inspired by four years of continuous growth with more to come.

The Millennium edition of the Review continued the trend:–

One begins to run out of superlatives in describing the performance of the Irish economy and the Irish Construction Industry. 1999 saw the Construction Industry Index up a further 12.5% growth in volume — a 28% increase in cash terms. This significant growth in volume follows six years of substantial growth in which the Irish economy and the Irish construction industry have been transformed.

In 1993 the Irish construction industry recorded a total turnover for new building of €3.078 billion. In 1999 that turnover for new building had increased to €11.247 billion.

In 2001 the Review began to counsel caution

Rather than attempting to drive the economy faster than it really wants to go it might be prudent to slow things down a bit and focus all our energies on the real bottlenecks in Irish society while leaving other desirable but less essential things for a year or so.

However our basic message to the Minister and Taoiseach and Government is cool it. There is nothing to be lost by adopting a more realistic programme and much to

2 'Rhapsody', page 158, *Poems 1975–1995*, Bloodaxe Books, 1999

be gained in achieving the objectives at a realistic pace and less exorbitant cost.

In 2002 the Review reported a slowdown in construction growth and suggested that

In some ways the slowdown in growth is a good thing in that it brings Ireland's economic growth to more long term sustainable levels, albeit still significantly in excess of the growth of the EU as a whole.

In 2004 the Review commented on the housing boom:

For the past three years, we have suggested that the housing market has peaked only to be confounded by the ever growing market.

It went on to suggest

we do see reductions in volume in 2005 onwards as the market achieves equilibrium

and

in the years ahead, the inexorable growth in housing cannot continue. Some reduction in the volume of construction must therefore be expected from 2005 onwards.

The 2005 Review noted a trend that has been generally overlooked:

The volume of general construction declined by 4% in 2004. This is the fourth successive year of decline in a sector that was once the backbone of the Irish Construction Industry. Today general construction accounts for only 15% of the output of the industry.

However the Review miscalled the housing sector:

However the underlying demography of an increased number of 25 to 35 year olds, plus continuing immigration will provide a solid foundation of 50,000 to 60,000 units per annum for the foreseeable future.

In the Medium Term Outlook it was suggested that:

The Irish construction industry has now recorded eleven years of continuous growth. However, the slow down of growth in recent years and the anticipated slow down in the growth of housing lead us to suggest that the days of wine and roses may be coming to an end. However all is not lost and although Guinness and daffodils may have to be substituted for the wine and roses, we will still be achieving an output of €23 billion compared to €13 billion of new build in 2000.

In 2006 the Review continued to celebrate the party:

The phenomenon that is the Irish Construction Industry continues its remarkable journey. For the twelfth year in succession the industry grew by a further 4.5% in volume in 2005 to record an output of €30 billion.

The euphoria lead to an optimistic projection:

The Economic and Social Research Institute (ESRI) has recently published its Medium Term Outlook 2005–2012 which suggests that the Irish Construction Industry will continue to grow albeit at a slower rate, until 2010. We would broadly concur with that view.

In January 2008 the Review reported a decline but was still optimistic:

> *After thirteen years of continuous and significant growth, 2007 was the first year to show no increase in the volume of construction. The decline was however, marginal at 2.5% with a total investment of €36 billion.*

The Review robustly and, in hindsight, erroneously saw off the detractors!

> *The scaremongering among some commentators that the Irish Construction Industry is in steep decline should be totally disregarded. In 2007 construction recorded a minor reduction of 2.5% while in 2008 we expect a reduction of 7%. The Irish Construction Industry remains strong and vibrant and will build €36 billion worth of buildings in 2008. A good news story not a disaster.*

In step with all the other experts the Review was still optimistic in 2008:

> *The good news is that everyone believes that once the adjustment in the housing market has worked through the system we can return to a growth pattern in 2009 and beyond with DKM/DOE leading the way with a very optimistic + 6.2% forecast albeit made some time ago. The OECD supports this view in projecting that Irish GNP will grow by +3% in 2008 and +4.5% in 2009 'as housing construction levels out at a sustainable level'. The ESRI in their Medium Term Outlook suggested a +2.9%. We would suggest a slightly more modest +2% growth in 2009.*

How spectacularly wrong all the experts proved to be. The January 2009 Review reported a 21% reduction in the volume of construction in 2008 and commented:

> *The Irish Construction Industry grew continuously over 13 years from 1993 to 2006. Volume increased dramatically from €4.7 billion in 1993 to over €38 billion. 2007 saw the first signs of a decline with a 1.6% decrease. 2008 saw that decline increase dramatically with a 21% reduction. 2009 will see the reduction continue and worsen with a massive 33% reduction in an already shattered industry.*

Over the past 35 years the Davis Langdon PKS Review has chronicled the trials and tribulations of the Irish Construction Industry. Reading the Reviews that recorded previous recessions, one is reminded that economic cycles come and go, and that after every previous recession came recovery and growth.

Writing this in the trough of the worst recession this generation has seen, one can only counsel that the construction industry has suffered and recovered from previous recessions and that Davis Langdon PKS has survived many such recessions to grow stronger and learn from each experience.