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# Labour Market Capacity to Deliver Residential Construction Requirements

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## **Labour market capacity to deliver residential construction requirements**

**Dr. Roisin Murphy**

Construction is a strategically important sector for any economy and Ireland is no exception. The construction industry provides the infrastructure, schools, homes, communities and business premises required for us to function as a society. While construction has returned to growth following the severe recession, the aftermath has resulted in a trail of legacy issues that may hamper the ability to meet the needs of a growing (and aging) population, uncertainty from BREXIT and critically, address the housing crises.

The implications of rising house prices, affordability, rent increases, shortage of supply of homes and the deepening homelessness crises have been the subject of much analysis over the last number of years. Unfortunately, proposed solutions have failed to alleviate the problem and the fact remains that too few residential units are being constructed in Ireland. Increased capital spending is required in housing, education and health to meet current and future demand based on demographic trends.

Residential construction is the largest sector within the industry in terms of value of output and number of people employed. Although the Irish economy and construction industry are currently on a growth trajectory, neither the private nor the public residential sectors are functioning properly.

Government intervention has concentrated predominantly on such initiatives as the Help to Buy Scheme, mortgage-lending criteria and rent predictability measures, in addition to the Housing Assistance Payments (HAP). For first time buyers purchasing new homes, the initiatives are welcome, but incentives could usefully be extended to first time buyers purchasing secondhand homes, or indeed for second time buyers seeking to trade up. The increasing numbers of people in emergency accommodation is evidence that we are nowhere close to providing adequate social housing.

There remains a massive void in initiatives to boost the supply of housing, resulting in far too few houses being built on an annual

basis (regardless of what figure you accept as the true number of residential completions). Small steps have been taken in terms of new apartment design guidelines and fast track planning. Levies on land hoarding, taxation of second homes and modular construction have been put forward as possible remedies for the residential market failure.

Another common suggestion contained in pre-budget submissions from the construction industry is a reduction in VAT (in some cases to zero) on the construction of social housing. Could this be the solution or would it serve to increase profits rather than supply?

Industry sources claim that the most significant barrier to house-building is access to development finance, particularly for SMEs. Additional finance options must be pursued to fund social housing. The European Fund for Strategic Investment (EFSI) may be a possible source in addition to the proposed newly "repurposed" NAMA. In addition, co-operative housing provision may be used as a model for the provision of badly needed social housing.

But even if funds become available and an innovative model for the delivery of residential units is adopted, are there enough construction workers to build the 35,000 additional houses estimated by the ESRI to be required annually over the next number of years?

According to CSO data, direct employment in construction is currently 147,400 people. Thousands more are indirectly employed bringing the figure to approximately 200,000 or 1 in 10 jobs. Based on projected level of capital expenditure and reducing unemployment rate, it is highly unlikely that future demand can be met with the current construction labour force.

The aftermath of the economic crises has resulted in disequilibrium in the construction labour market. Reduced numbers in apprenticeships and on construction related degree programmes during the recession has resulted in a lack of supply of suitably qualified workers to meet rising demand. Construction apprentice registrations dropped by 80% between peak and trough. The number of qualified tradespeople reduced by half during that period, as thousands left the country to seek work elsewhere. Careers in construction were undesirable given the perceived lack of employment certainty and registrations on degree programmes in

architecture, engineering and quantity surveying dropped considerably.

It is possible (albeit difficult to quantify) that Irish construction workers who emigrated during the downturn may return home, increasing our supply of construction labour. However, returning emigrants and immigrant construction workers will themselves require homes, ultimately further increasing the demand for the residential construction they are returning to supply.

So what can be done to resolve the construction skills shortage?

The first battle in the war for talent is the promotion of the varied range of career opportunities in construction at second level education. Increasing diversity and gender balance in construction must be addressed as students are choosing further and higher education options.

Third level funding is the next hurdle to be overcome. Funding cuts during the downturn, sluggish recruitment and lack of capacity building during the recovery have left some third level institutions unable to meet the now increasing demand for construction courses – the very ones identified by industry to be in short supply.

Another potential solution to the skills shortage worthy of consideration is the repurposing of the traditional exchequer-employer investment mechanism, the National Training Fund. It may be feasible to use this funding source to target specific skills shortage, as it is set to increase from 0.7 percent to one percent by 2020. There is a strong argument that employers' futures depend on a highly skilled workforce and investment in this area would ultimately bring down costs and increase competitiveness.

It is clear that the Irish economy is on a continued growth trajectory, but many legacy issues remain following years of under-investment, particularly in social housing. Conflicting, fragmented and disconnected data remain an obstacle to ensuring evidence based policy and decision-making. Stakeholders such as government, industry, practitioners and education providers must collaborate to ensure that we build a construction sector capable of sustaining employment and delivering the social and productive infrastructure required for the future.