

Political uncertainty and the potential impact on construction costs



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The cost of construction is often the largest single component of a property development expenditure budget and accurate cost planning is an essential aspect of assessing a project's financial viability.

Construction schemes are often complex affairs that require rigorous project management and clarity of approach to control costs, design development, contractor procurement and execution on site.

Besides assessing the financial implications of a developing design, a key aspect of cost planning is forecasting the impact of inflation on construction prices. Forecasting market trends can be difficult at the best of times but the current political situation with an impending General Election and uncertainty over Brexit presents further challenges.

Imports

The majority of construction components and materials used in the UK are imported. According to the Department for Business, Energy & Industrial Strategy 61.6% of building components imported into the UK come from the EU. Consequently, a weakened Pound will result in currency induced cost increases. The same data reported that the construction material price index increased by 5.8% in the year to January 2017. However for some commodities such as slate, timber and steel, the increases are much greater.

Labour

Similarly, the UK construction sector also relies heavily on labour imported from the EU. RICS has recently warned that a hard Brexit and potential restrictions on labour movement

would result in the industry losing more than 175,000 EU workers. Any skills drought combined with industry wage agreements would result in significant labour cost increases and even jeopardise the delivery of future projects.

Going forward

These cost increase factors could be countered to an extent by shrinkage in investor confidence and a subsequent fall in demand. Furthermore, contractor supply and capacity would increase as current projects are completed.

A cooling of the market would lead to contractors becoming increasingly anxious to secure their orders for 2018 and beyond. This could force them to reduce their margins and result in the balance of power shifting in favour of clients.

So while there is continued concern that the full ramifications of Brexit will not be fully understood for sometime, more competitive pricing in the next few years could present clients with clear opportunities to reduce their capital expenditure and procure construction projects more cheaply.

For more information on this or any other project management issues please contact Alastair Bliss.