

Building costs to rise by 15% in the next five years, predicts BCIS

2 years ago



Building costs will increase by 15% over the next five years, while tender prices will rise by 20% over the same period, according to the latest construction forecast data from the [Building Cost Information Service](#) (BCIS).

As cost inflation moderates and market activity is expected to increase, tender prices are anticipated to rise at a faster pace than costs in 2025.

The BCIS All-in Tender Price Index, which measures the trend of contractors' pricing levels in accepted tenders and the cost to client at commit to build, saw annual growth of 2.1% in 3Q 2024.

Dr David Crosthwaite, chief economist at BCIS, said: "The BCIS TPI panel has reported that contractors remain risk-averse and selective about the projects they bid on, but there has been more positivity around the project pipeline: 69% of panellists reported their anticipated pipeline of projects going to tender within the next 12 months increased slightly in the third quarter."

On the input costs side, labour remains the main driver, though annual growth in the BCIS Labour Cost Index is forecast to slow, increasing overall by 16% between 3Q 2024 and 3Q 2029.

Materials cost inflation has been moderating since peaking in 2022 and annual growth in the BCIS Materials Cost Index has been in negative territory in recent quarters. BCIS expects the index to grow by 15% over the forecast period.

Dr Crosthwaite added: "The upside risk to labour costs is that wages are driven up by widely reported skills shortages, which could impact on the viability and affordability of projects. The workforce is 88% what it

was before the pandemic, when there were already long-standing concerns about fulfilling skill requirements.

“Insolvencies in the supply chain represent an ongoing source of concern for the sector, in terms of both capacity and impact on cashflow. The effects of ISG going into administration will no doubt be felt throughout the supply chain. The consequences when a main contractor becomes insolvent are that sub-contractors and suppliers are left unpaid, which will likely result in further business failures.”

Total new work output is forecast to grow by 24% over the forecast period.

Dr Crosthwaite said: “We’re expecting new work to contract by 4.9% overall in 2024, and for it to return to growth thereafter. There have been significant declines in the largest sub-sector by volume, private housing, which has seen a 24% fall in output since the peak at the end of 2022.

“From 2025 onwards, we are forecasting rapid growth in housing as pent-up demand is likely to feed through to house price growth, hopefully encouraging developers to start building again. Further, the recent modest base rate cut is likely to improve affordability, as home buyers adapt to what looks like being the new normal and interest rates settle at around the long-term trend of between 4% and 5%.

“Although some uncertainty was resolved with the outcome of the General Election, bringing a degree of stability, so much is now dependent on what is actually going to be in the Autumn Budget. We’ve heard lots from Labour about its plans. Its slogans to ‘get Britain building again’ is promising for the sector, but we’re still lacking detail around many aspects, from its housing plan to public sector funding and major project reviews.”

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