

Geopolitical Tensions Expected to Push UK Construction Costs Higher in 2026

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Geopolitical instability and changing global trade conditions are expected to place further pressure on UK construction costs during the second half of 2026, according to new research from [Savills](#).

The international real estate advisor said rising tensions in global markets, alongside changes to steel trade tariffs due to come into effect from July 2026, are contributing to growing uncertainty across the sector.

Savills' latest Build: Perspective index rose sharply to +36 in early 2026 after falling into negative territory at the end of 2025 for the first time since the index was introduced. The increase signals growing expectations across most sectors for higher build costs and longer project delivery times.

Supply chain pressures building

According to Savills, geopolitical disruption is beginning to filter through construction supply chains, with early evidence suggesting materials suppliers are passing on additional costs linked to energy and fossil fuel inputs.

While the full impact of ongoing conflict in the Middle East is still emerging, disruption to shipping routes and energy markets is expected to continue even if near term tensions ease.

Savills said these factors are likely to sustain upward pressure on construction costs throughout 2026.

However, the company believes some longer term market adjustments could help offset these pressures.

As fewer schemes progress due to viability concerns, development pipelines are expected to contract, tightening vacancy rates and supporting rental growth across several sectors. Savills also expects contractors to become more competitive on pricing as they seek to secure available work.

Demand remains focused on prime assets

The report suggests occupier demand continues to centre on high quality, sustainable space.

In Central London, Grade A office space accounted for 93% of take up during 2025, the highest proportion on record, reflecting continued demand for premium workplaces despite wider market uncertainty.

Across regional markets, constrained new supply is encouraging occupiers to focus more heavily on refurbishment projects rather than new build developments.

A similar trend is emerging in the industrial and logistics sector, where speculative development pipelines have fallen by almost two thirds since their peak in 2022.

As a result, landlords and investors are increasingly prioritising upgrades to existing assets, particularly where sustainability improvements can drive rental performance.

Savills said industrial units with EPC A+ or A ratings are achieving rental premiums of up to 55% compared with lower rated stock.

Sector divergence expected to continue

The report highlights increasing divergence across real estate sectors as market conditions evolve.

In the science and technology sector, higher construction costs are increasing demand for more affordable and flexible “mid tech” space, particularly in Oxfordshire where more than 900,000 sq ft has recently been transacted.

Meanwhile, the living sector continues to face viability pressures despite strong investor interest. Savills cited rising build and financing costs, planning delays and regulatory complexity as key challenges affecting delivery.

Simon Collett, Executive Director and Head of Professional Services at Savills, said build cost pressures are expected to remain a central issue through 2026.

“Geopolitical tensions continue to have an impact on the UK construction sector,” he said.

“While current evidence is still emerging, the increase in cost sentiment captured by our Build: Perspective index suggests that build cost pressures are likely in 2026.”

He added that market conditions could improve over time as vacancy rates tighten and contractors become more competitive.

Kevin Mofid, Commercial Research Director at Savills, said different sectors are adapting in different ways.

“The key theme for 2026 will be divergence across sectors,” he said.

“While cost pressures continue to weigh on viability in some areas, others are adapting through refurbishment, alternative formats and a sharper focus on prime, sustainable space.”