

Market Insight

# Impact of Regulatory Changes in Construction

Market update

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October 2023





# Foreword

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## Market update

The severe inflationary rise over the last two years in key packages has left many contractor and sub-contractor entities exposed and unable to continue trading at levels previously captured. However, following a turbulent 18 months in the market, we are starting to see costs settle across key materials and work packages. Inflation has played a key role in the current construction market, with many schemes seeing cost pressures and re-considerations to viability – this is now starting to soften.

As noted in the previous report the market has reacted by reviewing processes for procurement and design development via selective tendering, funding certainty conversations and approach to contractor engagement - this leading to a more collaborative approach to procurement.

Inflation pressures are not the only element to be considered, the changes to building regulations in the last 12-24 months must also be considered alongside inflationary pressures. These changes to building regulations have resulted in the increased costs of materials, which when already at their highest rates due to inflation, put further pressure on viability and deliver-ability especially on key packages such as external walls and glazing. With this added test on construction costs it is imperative that buildings are designed efficiently with a key focus on packages such as facades to ensure that external envelopes are designed with minimal undulations and abnormal heights.

It is to be noted that while the market still carries elements of volatility associated with build costs and regulations changes there are also further pressures due to increased Bank of England interest rates raising 1.50 percentage points since May 2023 which adds additional pressures on funders.



# Regulatory Changes

Changes in regulations at the start of 2023 with the introduction of the Building Safety Act and the new Building Regulations updates have caused a number of key impacts that we are seeing across projects, especially in terms of inflation of costs.

The changes to regulations have impacted cost increases in the market, which need to be understood and addressed as we progress into the 'new world'

of construction – linking better build practice, cost effective design and more sustainable building.

Key packages impacted from building regulatory changes that we would like to focus on in this report are roofs, secondary stair cores and façades.



## Roofs

As part of the Building Safety Act legislation, lower level roofs and upstands to main roofs require non-combustible insulation. The tables below show the cost difference between a combustible and non-combustible insulation build up and cost.

### Combustible A2 Rated (Total depth 465mm)

	£ / m <sup>2</sup>
Hot Melt System	£34.00
250mm Pro Therm G Xenergy (250mm)	£80.00
100mm Blue Roof Geocell	£70.00
Bio-Diverse Roof 115mm	£65.00
<b>Total Allowance</b>	<b>£249.00</b>
25% Allowance for Detailing	£62.25 m <sup>2</sup>
<b>Total Cost Per m<sup>2</sup></b>	<b>£311.25 m<sup>2</sup></b>

### Non-Combustible A1 Rated (Total depth 495mm)

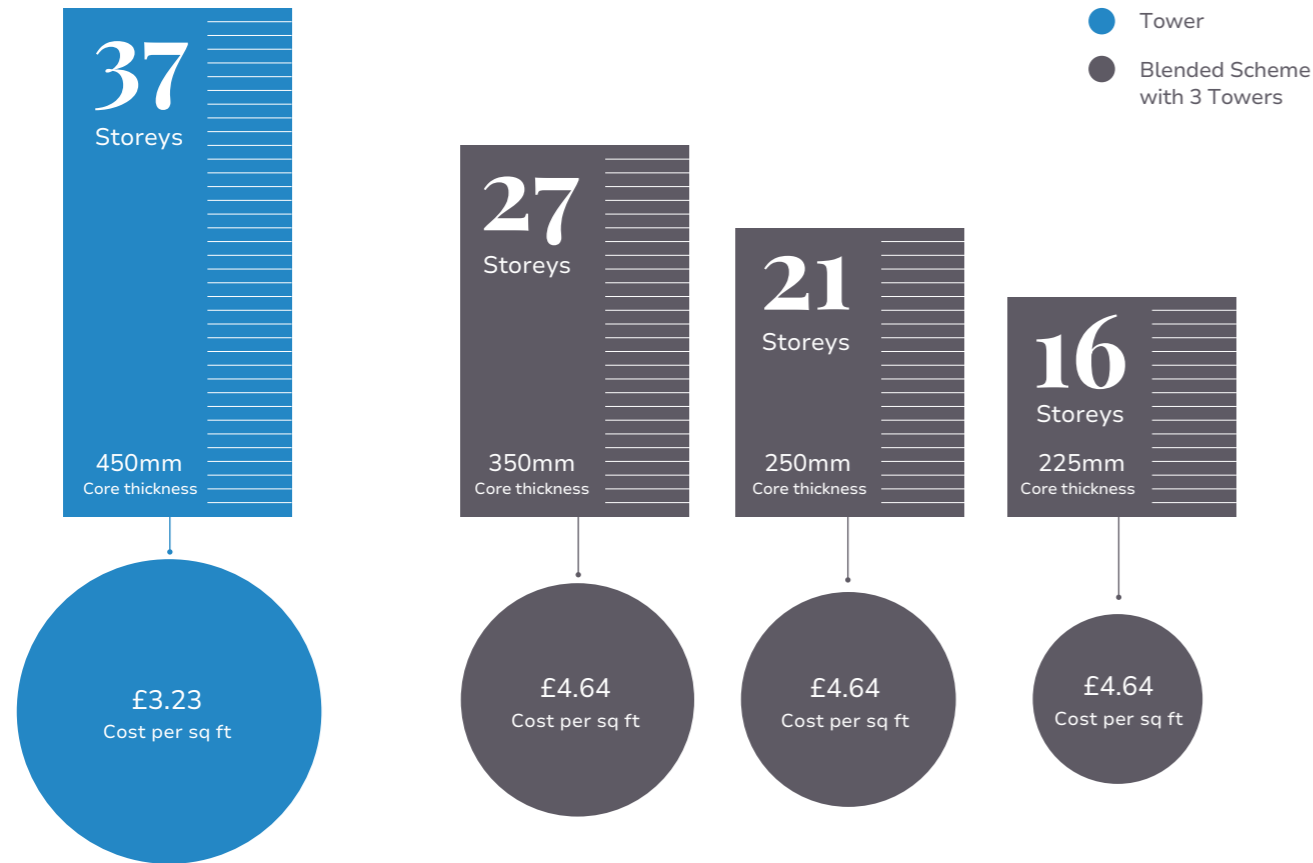
	£ / m <sup>2</sup>
Hot Melt System	£34.00
280mm Foamglas T3 (2 Layers of 140mm)	£340.00
100mm Blue Roof Geocell	£70.00
Bio-Diverse Roof 115mm	£65.00
<b>Total Allowance</b>	<b>£509.00</b>
25% Allowance for Detailing	£127.25 m <sup>2</sup>
<b>Total Cost Per m<sup>2</sup></b>	<b>£636.25 m<sup>2</sup></b>

Although non-combustible insulation material provides the fire barrier needed to achieve the u-value requirements under building regulations, it needs to be laid in two layers. Each layer is twice as expensive as standard insulation which causes a significant spike in costs which equates to circa £325 per m<sup>2</sup> addition (note this may vary as new products come to market but also dependant on overall quantities).

Linked with above, the standard insulation layer is circa 250mm, however the non-combustible insulation is 140mm per layer and requires two layers this increases overall build ups by 30mm which will increase heights of upstands and parapets which carries additional costs, which need to be considered.

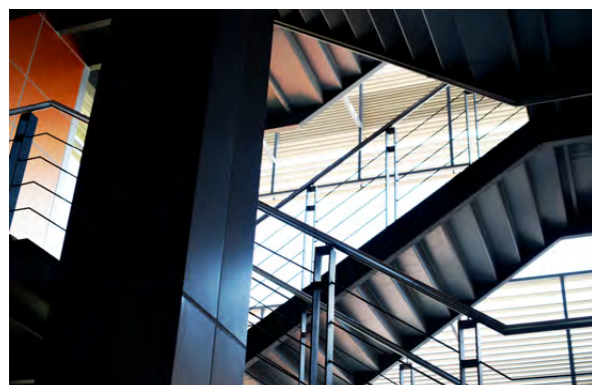






### Secondary stair core

The introduction of secondary stair cores into high rise buildings has had impacts on both costs and ROI's. We have undertaken a review across a high rise project but also a linked buildings with varying tower heights to offer blended view.



The above shows a significant impact on the cost per sqft of the building ranging from £3-5 per sqft which can make previous schemes unaffordable dependant on the time appraisals are run.

The addition of the staircase has secondary impact in the form of NIA loss. As the stair core is introduced, it means that dependant on the layout of the building that a minimum of one room per floor will be lost, so for example over 37 storeys that's 37 units which will impact ROI / appraisals which puts a further squeeze on the budget figures.

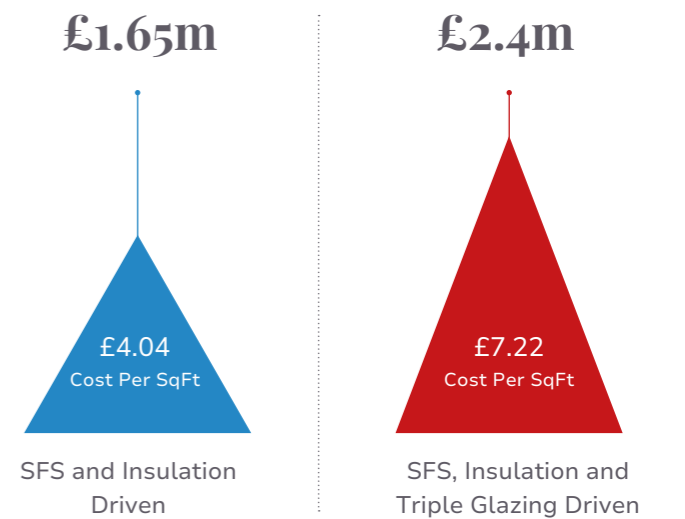


### Façades

We are seeing several issues with façades currently in terms of meeting the new building regulations through the thermal modelling and Building Regulations UK Part L (BRUKL) testing. We are finding that to allow the modelling to pass successfully with some additional percentages of movement, we are needing to increase wall build ups in terms of Steel Framing System (SFS) and insulation and in the worst-case scenario the introduction of triple glazing and increasing sizes of Mechanical Ventilation with Heat Recovery (MVHR) units.

The secondary impact on this is the nominal loss of floor area which ranges from 0.12 m² on a typical Purpose Built Student Accommodation (PBSA) unit and between 0.25m² to 0.35m² per Build to Rent (BtR) unit (1 Bed 2 Person to 3 Bed 5 Person single storey). On a typical 500 bed scheme this would equate to losses ranging from 60m² (645 sqft) to 175m² (1,883 sqft).

The below illustrates as an example the cost impact we have seen across larger schemes where we have had to make changes to meet the relevant thermal requirements and on a package circa £50m +.

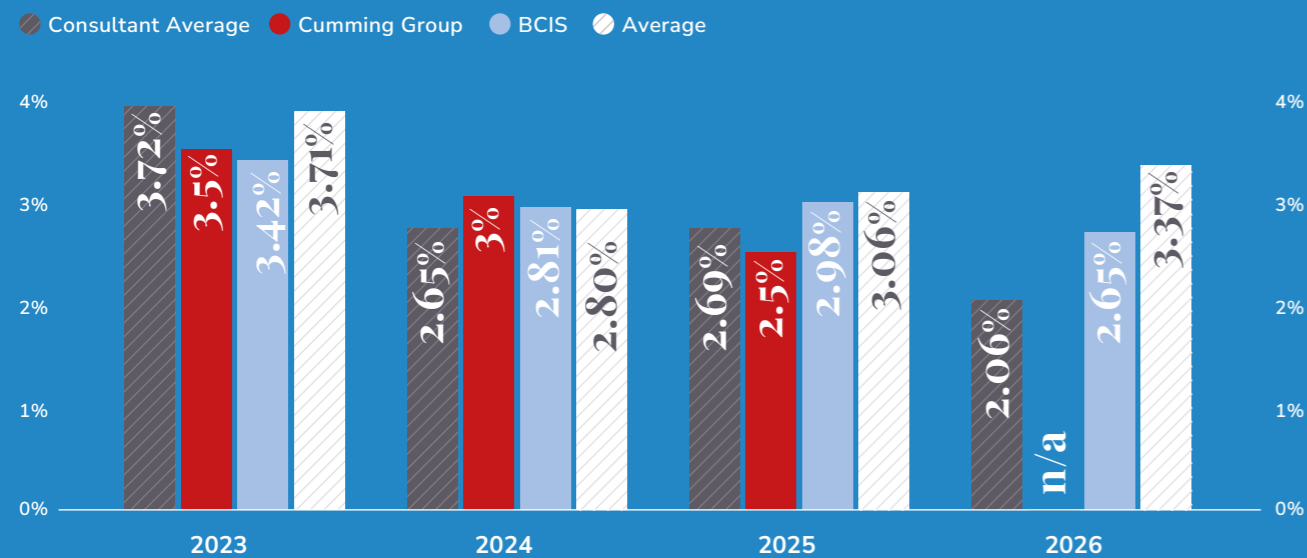


# Inflation Market predictions

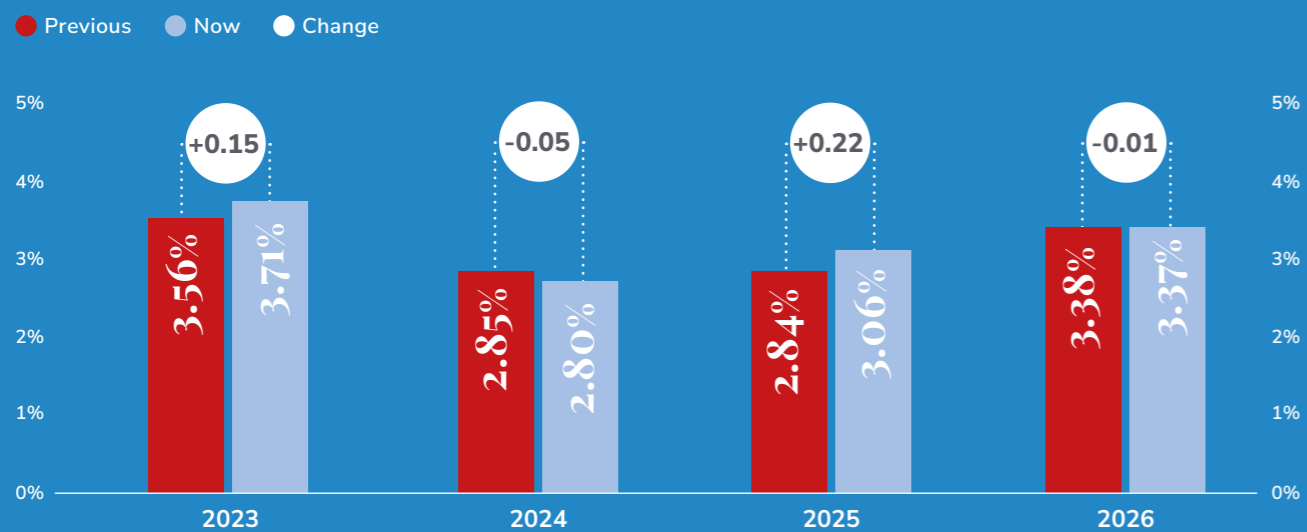
Since the last period there has been little movement across the next 3 years of inflation from BCIS and the general market. You will see that the change from 2023 is an increases of circa +0.15%, 2024 is showing a nominal decrease of circa -0.05%, 2025 showing a nominal increase of 0.22% (note the table is incorrect as it shows the 3.06% now change a lower bar than the 2.84% previous), and no real movement in 2026.

There is a 2% swing from high to low for 2023 however this could depend on specialties within the market and on average 0.75% for other years which feels a more considered approach and reasonable spread.

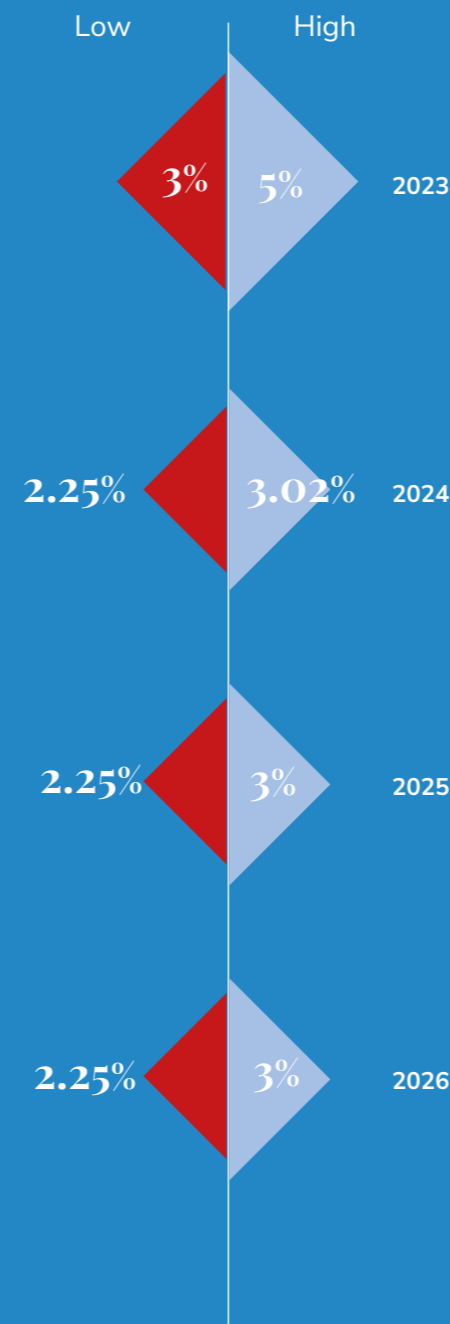
## Year-on-Year



## Average



## Highlights

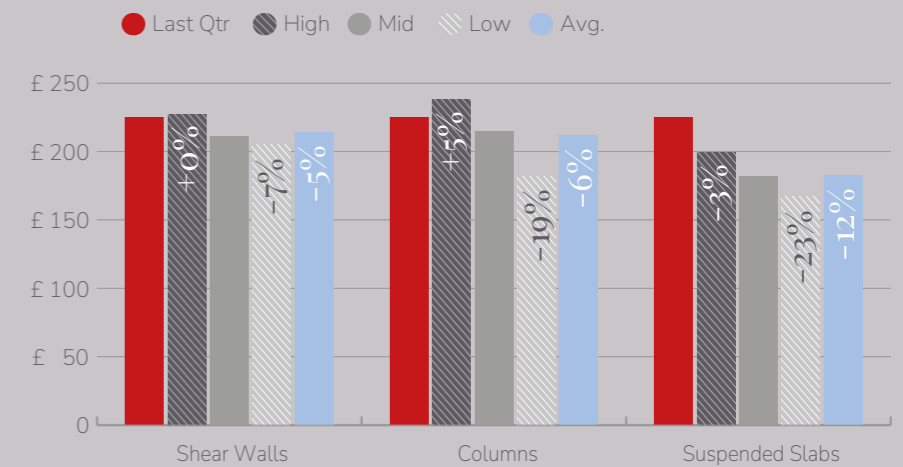


## Material impacts

Following a turbulent 18 months in the market, key materials and work packages are seeing costs settle.

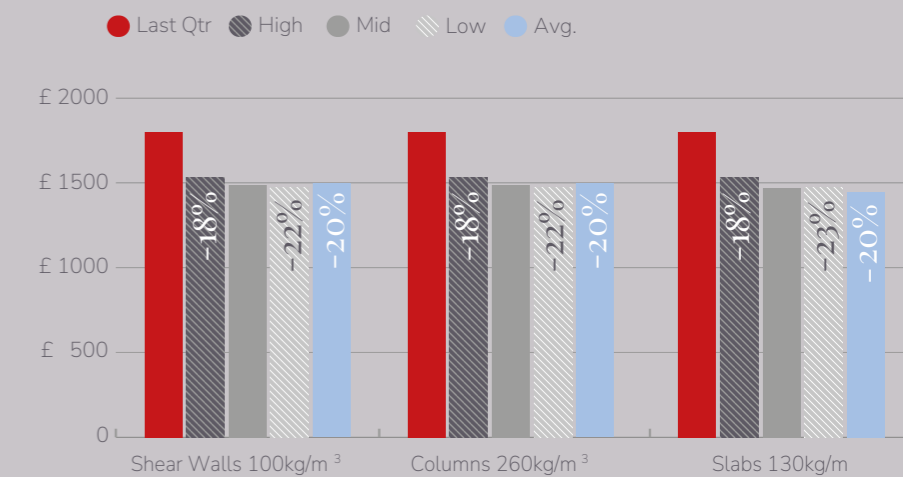
## Concrete

Concrete rates had risen to a peak of around £225 per m<sup>3</sup>, however in the last quarter we have seen the key elements of concrete and steel reduce in costs:-



## Reinforcement Rates

Reinforcement rates have seen the greatest fall in the period which is largely due to manufacturing catching up with demand and the stabilisation of the base materials.



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