Market Insight

Inflation Update and Spotlight on Procurement & Contracting

July 2025

CUMMING GROUP

BUILDING VALUE THROUGH EXPERTISE

Foreword

The construction market continues to navigate a period of uncertainty shaped by a complex mix of regulatory change, financial pressures, and evolving client expectations. While inflationary spikes seen in recent years have largely stabilised, structural factors such as ongoing labour shortages, import tariffs, and new compliance requirements mean costs remain elevated compared to pre-pandemic levels.

Our latest report provides a detailed snapshot of inflation trends and procurement challenges across key sectors. With data-driven insights into materials pricing, contractor sentiment, and legislative impacts, we aim to support our clients in making informed, strategic decisions.

As market confidence gradually returns, a cautious yet proactive approach remains essential to mitigate risk, control costs, and deliver projects successfully.

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Pricing Trends

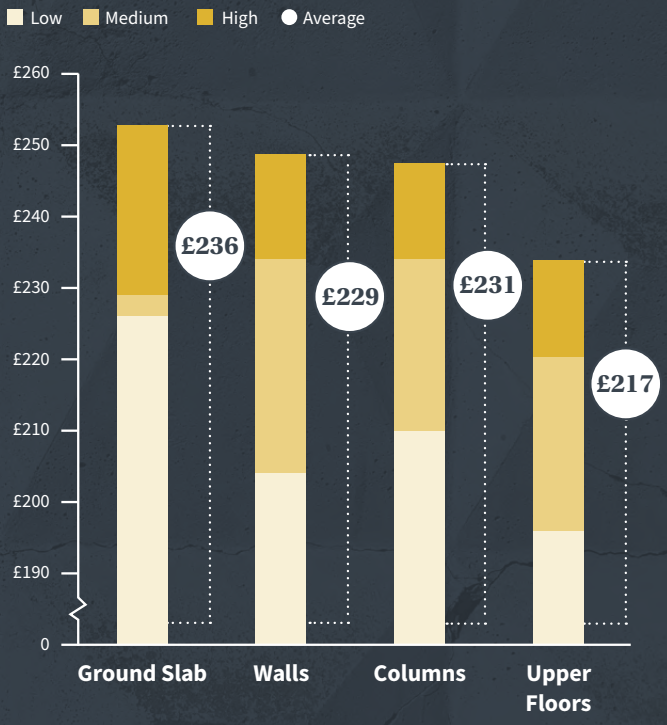
Over the past 12 months, cost inflation across key package contracts has remained stable, with most price increases driven by legislative changes. We expect this stability to continue, reducing the risk of significant price swings. However, a return to pre-pandemic cost levels is unlikely due to ongoing import tariffs and increased labour costs.

Concrete

CURRENT CLIMATE

Concrete rates are also expected to remain stable until the later quarters of the year, as more projects move through the requirements of the Building Safety Act (BSA). Changes to this work package may result from stricter emissions targets (e.g. RIBA 2030), which could require alternative materials such as GGBS. While not significantly more expensive, GGBS can extend curing and casting times, leading to higher preliminary costs.

Concrete Anticipated Rates 2025 per m³



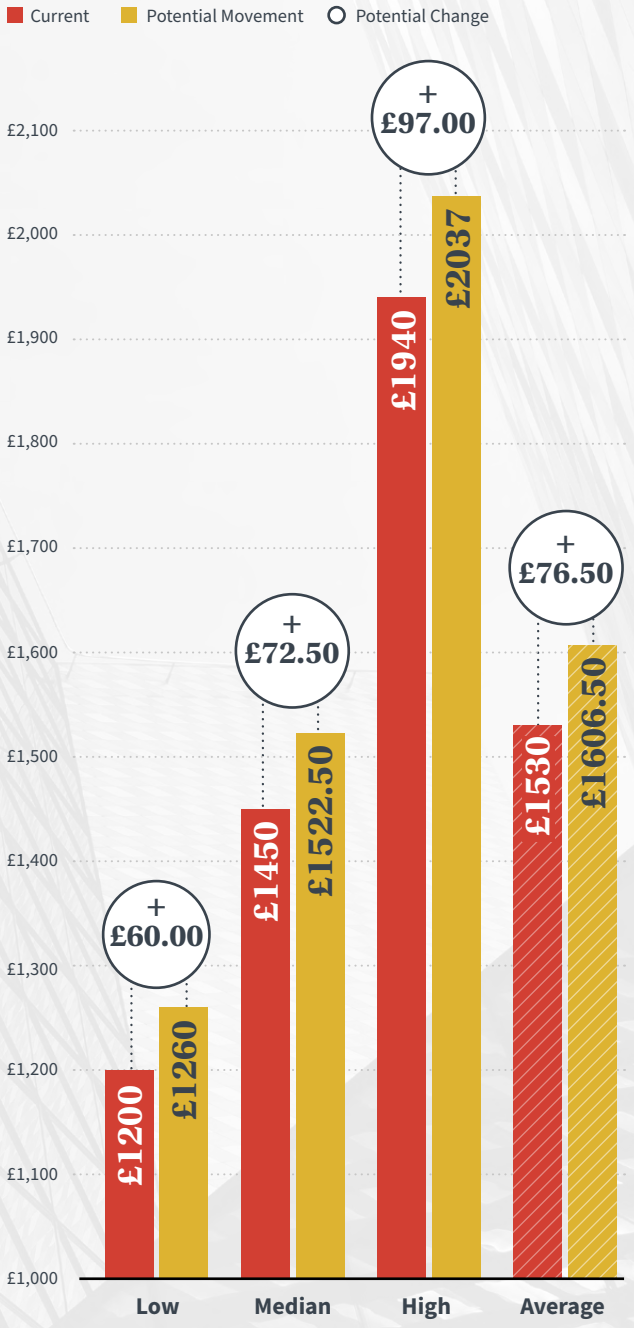
Source: Multiple supply chain inputs

Steel Reinforcement

CURRENT CLIMATE

Steel reinforcement costs have followed a similar pattern to concrete - unsurprising given the close relationship between the two - with prices having held steady for an extended period. However, with the impending tariffs and ongoing global conflicts, there is an expectation that raw metal costs may rise, which could in turn drive increases across this package.

Steel Reinforcement pricing per tonne



Source: Multiple supply chain inputs

Mechanical, Electrical & Plumbing (MEP)

CURRENT CLIMATE

Since last quarter, there has been no significant movement in MEP prices. The main cost impact we've seen has been driven by the solutions required to achieve the relevant scores under the Part L and O models. These are influencing the mix of ASHP and MVHR systems, often combined with added cooling or KERS.

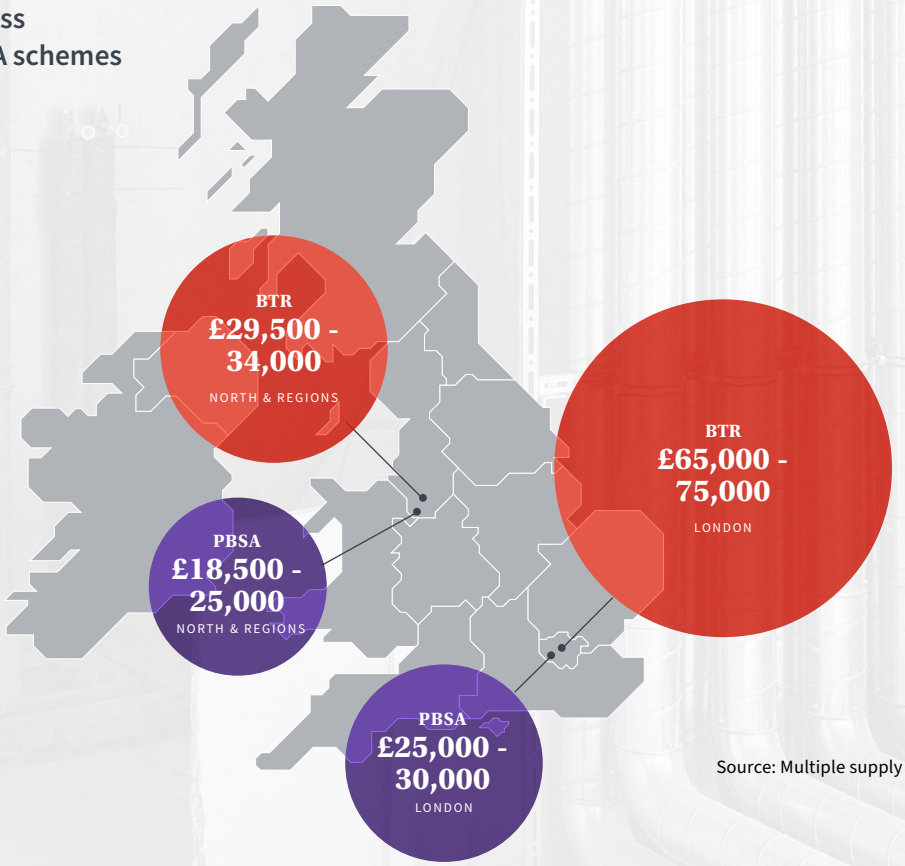
In the North and other regional areas, we're seeing typical MEP costs for a Build-to-Rent scheme (EPC C rating) range between £29,500 and £34,000 per key. In contrast, London projects tend to fall between £65,000 and £75,000 per key.

A growing number of funders and developers are now targeting EPC B, which is adding approximately £5,000 to £6,500 per unit (from one-bed to three-bed) in the North West. Additionally, with the introduction of BS 9991: Fire safety in the design, management and use of residential buildings, qualifying developments are seeing increased MEP costs due to requirements such as enhanced smoke ventilation and, in some cases, additional lifts.

For PBSA schemes in the North West, MEP costs are typically ranging from £18,500 to £22,000 per key for fully electric systems - costs largely influenced by BS 9991 compliance. We are also seeing a number of schemes moving to fully wet heating systems to offset the demands of all-electric solutions. The introduction of air source heat pump-powered wet heating is now costing around £25,000 per key – representing an average uplift of approximately £3,000 per key.

In London, MEP costs for PBSA schemes are ranging from £25,000 to £30,000 per key. These are driven by a combination of factors, including tighter energy regulations (such as Part L), BS 9991, and Net Zero Carbon targets. As a result, there is growing demand for high-spec MEP solutions, such as heat pumps, mechanical smoke ventilation, commercial sprinkler systems, advanced BMS, and smart metering. In addition, more PBSA developers are targeting BREEAM Outstanding, which brings further cost implications with the inclusion of advanced HVAC systems, high-performance lighting, and integrated renewable energy sources.

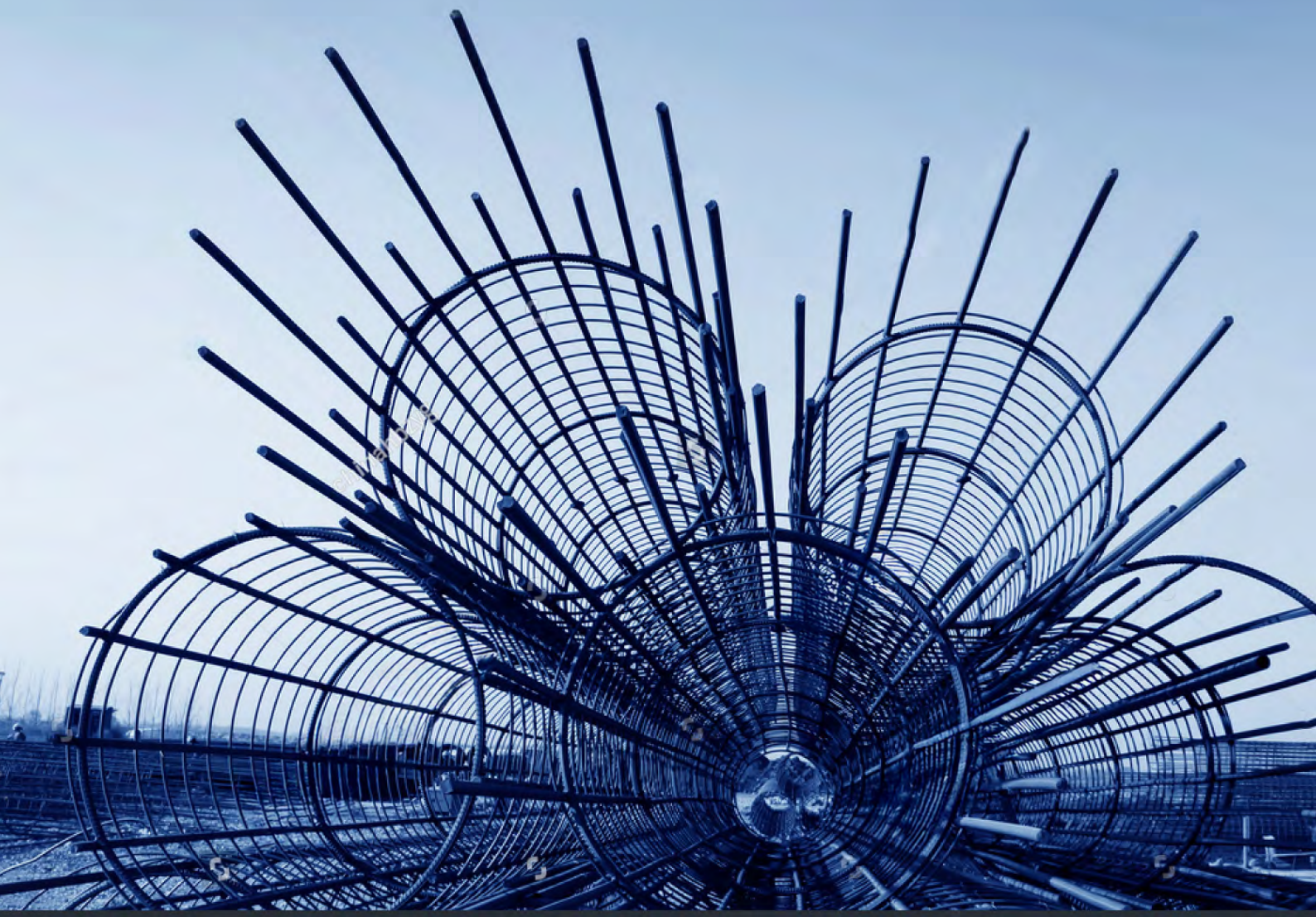
Typical MEP costs across Build to Rent and PBSA schemes



Source: Multiple supply chain inputs

Focus Insight: Driving pressures in procurement & contracting

In the current climate, procurement and contracting are being shaped by a complex mix of market conditions, legislative changes, and funding constraints. As the industry continues to respond to evolving challenges - including the introduction of the Building Safety Act (BSA) on high-risk buildings, contractor capability and rising finance costs - teams are taking a more cautious and strategic approach to project delivery.



Contractor Capability and Cash Flow

A key consideration for most clients and professional teams in today's market is the capability and financial standing of both main contractors and sub-contractors. Transparency in this area has become a crucial factor at various project milestones. We're also seeing a limited pool of main contractors considered to be cash-rich - making those with weaker financial positions a greater risk, particularly in terms of securing performance bonds, which are now significantly more expensive to obtain.

Selective Approach to Tendering

The sentiment of the main contractors is that they are still busy, but more selective in their approach for a negotiation or two-stage tender, to ensure they target the projects which are further in the process to secure pipeline. In the North West, several contractors are stepping back from Higher-Risk Buildings (HRB) schemes, instead prioritising low-rise residential, hotel, and commercial projects.

Risk-Sharing Mechanisms

The market continues to experience a slowdown—this time influenced more by the Building Safety Act than by material pricing alone. Construction costs and borrowing rates remain contributing factors. On two-stage or negotiated projects, contractors continue to push for risk-sharing and inflationary mechanisms within open-book procurement models.

New Clients vs Repeat Business

Contractors remain highly selective, with building safety legislation and ongoing viability pressures impacting sector confidence. As a result, many are prioritising repeat clients and long-term pipelines over one-off tenders with new clients. However, there is a general expectation that this stance may ease later in the year, as inflationary pressures reduce and Building Safety Act-related backlogs begin to clear.

Funding Challenges

Access to funding remains a key obstacle, with several projects either paused or seeking additional investment. There is cautious optimism that this pressure may ease as inflation stabilises and the Bank of England is able to make further rate cuts, potentially improving borrowing conditions as the year progresses.

BSA Impact

The BSA impact on procurement of high-rise buildings has changed the process significantly. There is now a requirement for contractor input for cost and design deliverability through RIBA Stage 4 to allow for Gateway 2 submission.

Inflation Forecast Summary

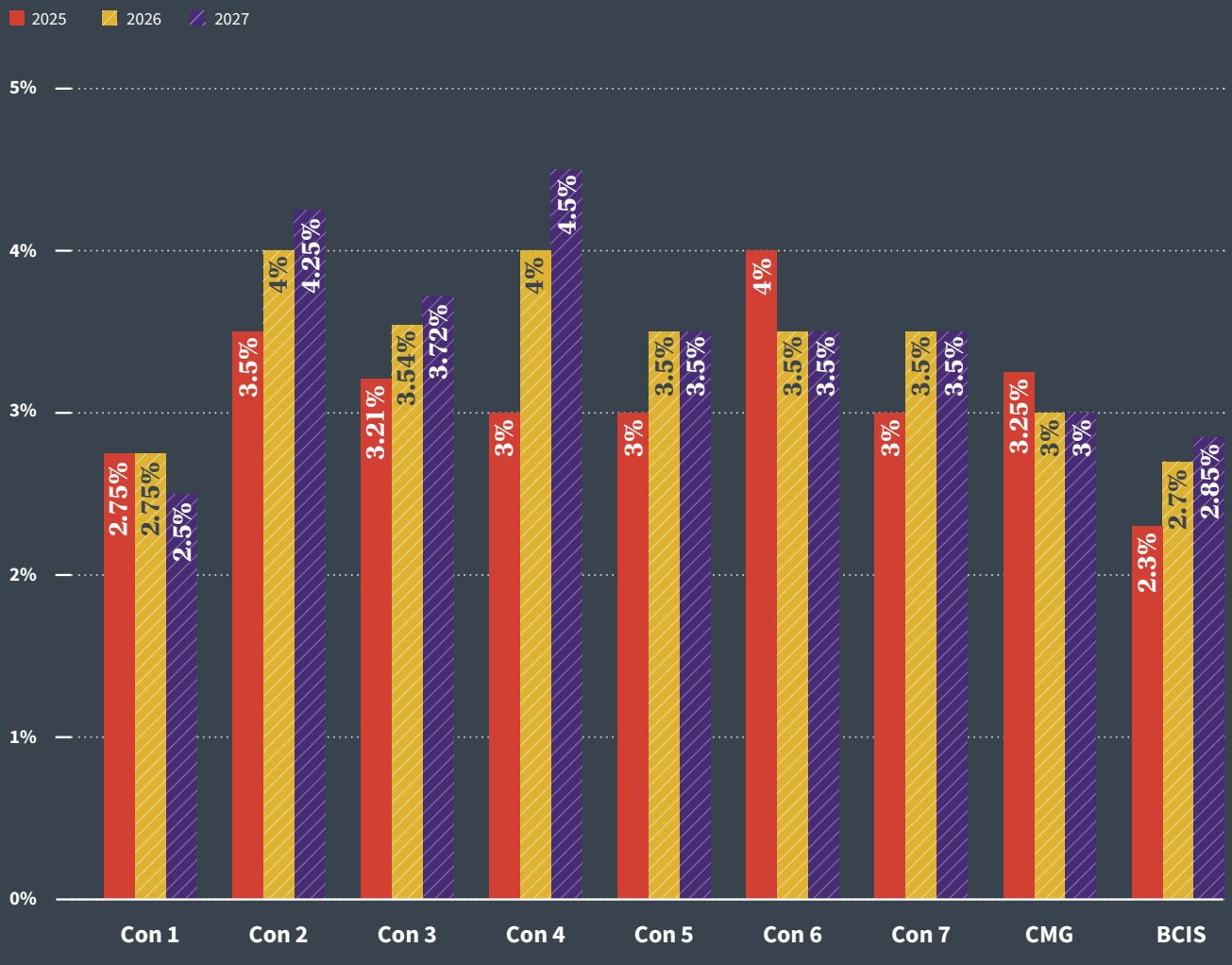
There have seen some downcasts on inflation across the BCIS and by some consultants, but largely remaining stable. Over the next three years the consultant average forecast suggests and annual inflation rate of 3.30% which is a decrease of circa 0.20% which aligns as the majority of forecasts where we have seen predicted inflation stay as is or downgraded.

There are some significant differences between the inflation forecasts across the market with lows of 2.30% compared to a high of 4.00% in 2025, a low of 2.70% compared to a high of 4.00% in 2026 and a low of 2.50% in 2027 compared to a high of 4.50%. This is likely based on views across sector focuses but also based on views and analysis of the markets.

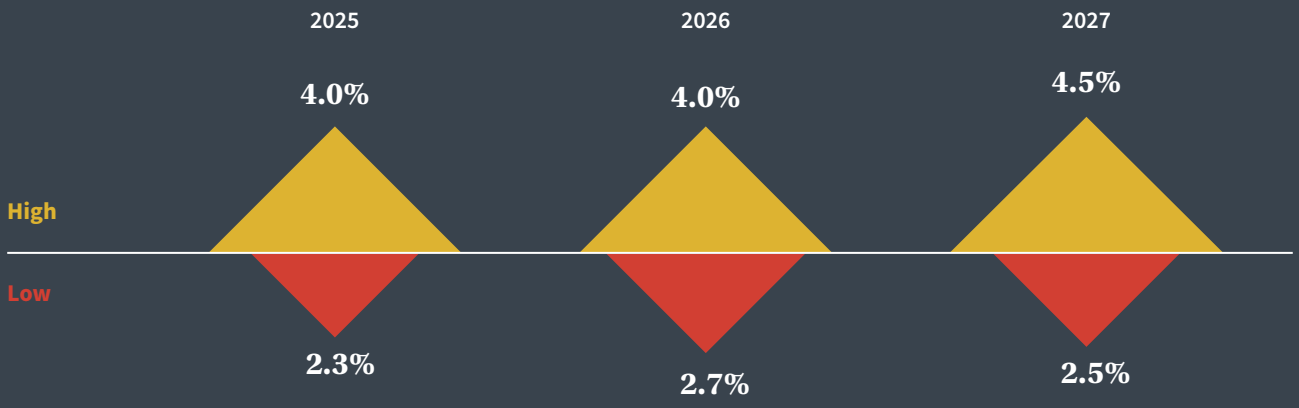
As such we advise clients to be cautious when using inflation forecasts and to seek advice from their cost consultant.

Year-on-Year

Individual Including BCIS



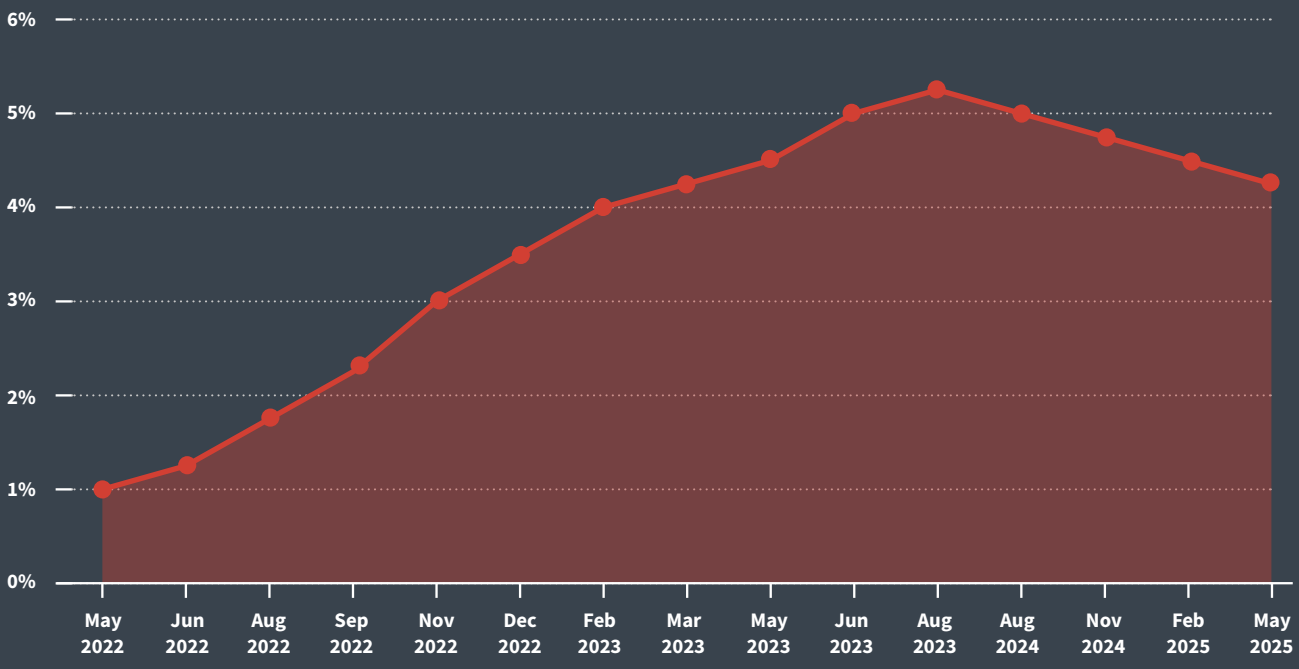
High & Low



Bank of England Rates

Bank of England interest rates remain high, having risen from a base rate of 1.00% in May 2022 to a peak of 4.50%, before a slight reduction to 4.25% in May 2025.

There is an expectation of potentially two further cuts this year, which could bring the base rate down to around 3.75%, depending on the management of inflation, GDP, and overall market performance. Any reduction would help support the housing market and ease borrowing costs for both domestic and commercial borrowers. However, it's likely to be less positive for savers, as savings rates across many products may begin to fall in response.



Source: Bank of England

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