

BCIS webinar - Construction benchmarking in uncertain times

BCIS held its webinar, 'Construction benchmarking in uncertain times' on 30 April 2026. During the webinar, attendees had the opportunity to submit questions.

A selection of the questions submitted can be found below, with answers from BCIS's chief economist, Dr David Crosthwaite, senior economist Sam Parkin, and executive director James Fiske.

Q: Does BCIS have a view on the outlook for land values?

A: Land values are likely to remain under pressure in the short to medium term, particularly where project viability is already constrained by build cost inflation, financing costs and weaker market demand. In some sectors, expectations around future values have not adjusted as quickly as construction and borrowing costs, which continues to create viability gaps. However, the picture is highly location and sector-specific. Areas with strong underlying demand, infrastructure investment or strategic housing importance may remain more resilient than locations with weaker development pipelines or softer occupier demand.

Q: We have seen that some of the consultancies have been suggesting that tender prices will increase by circa 4% per annum but that real world construction cost inflation is running higher than this is the expectation that contractors and sub-contractors will just absorb this in their wafer-thin margins?

A: Unlike the post-Ukraine war environment, where strong demand supported rapid pass-through into tender prices, the present market is less able to absorb or fully transmit cost increases. Instead, the most likely outcome is a partial pass-through, where rising input costs begin to feed into pricing over time, but are moderated by competitive pressures and viability constraints.

Q: Is it true that a 10% increase to crude oil cost represents a 0.3% increase in construction costs?

A: Broadly speaking, oil price increases do not feed directly into construction costs on a one-for-one basis. While there are industry rules of thumb linking oil movements to overall construction inflation, the actual impact depends on the duration of the increase, the extent of pass-through into energy and transport costs, and prevailing market conditions.

Oil prices primarily affect construction through fuel, transport, logistics, asphalt, plastics and energy-intensive manufacturing processes. A sustained 10% increase in crude oil prices could contribute to upward pressure on construction costs, but the total impact would vary depending on the type of project, procurement timing and how much contractors are able to pass through rising input costs.

Q: What is the next 3 years construction tender price inflation forecast taking the middle east crisis into account?

A: For this year and based on what we know now we would suggest a range of an uptick in the BCIS GBCI: 7-10% and BCIS All in TPI: 5-7% on an annual basis (with the usual caveats). Given the lack of any real hard data, it's a bit too early to be forecasting out over three years but we should have more clarity in June for our next forecast round.

Q: Obviously, we are aware that the closure of the Hormuz Strait is causing big problems with oil and other items being shipped. What are the major items being affected and how is the UK construction industry adapting to finding alternative resources?

A: The most immediate impacts are likely to be felt through energy markets, shipping costs and transport-related supply chains rather than direct shortages of construction materials themselves. Energy-intensive products such as cement, bricks, steel, glass, aluminium and aggregates are particularly exposed because their production costs are closely linked to fuel and energy prices.

The UK construction industry will be using a combination of forward purchasing, supplier diversification, increased contingency allowances and broader sourcing strategies. However, alternatives are not always immediately available, particularly for specialist materials or products with established international supply chains. In practice, many firms will be focusing less on replacing materials entirely and more on managing procurement timing, stock availability and pricing risk.

Q: Most construction project contracts do not activate fluctuation clauses to enable prices to be adjusted. What problems does BCIS foresee?

A: In periods of sustained volatility, fixed-price contracting without fluctuation mechanisms can place increasing pressure on contractor and subcontractor margins. Where costs rise materially after tender submission, this can create disputes around risk allocation, increased pricing conservatism at tender stage, delayed procurement decisions or pressure on project delivery.

Over time, this may also contribute to less competitive tendering behaviour as contractors seek to protect themselves against future uncertainty through higher risk allowances. In more extreme cases, prolonged volatility can increase the risk of supplier distress or project viability challenges, particularly on longer-duration schemes.

Q: How am I best able to pick the right indices for my contract and scope of works?

A: The most appropriate index will depend on what you are trying to measure and the nature of the contract itself. Factors such as procurement route, project duration, building type, location and the balance between labour, materials and specialist components can all influence index selection.

It is important to understand what sits behind an index, including its data sources, update frequency and intended application. In some cases, a single headline index may not fully reflect the risk profile of a project, particularly where there is significant exposure to specialist trades or volatile materials. Using a combination of indices, alongside project-specific market intelligence and professional judgement, may provide a more representative approach during periods of uncertainty.

Where projects have particularly specific cost drivers or unusual risk profiles, bespoke project indices can also be developed using BCIS data. This can help create a more tailored reflection of the contract's scope of works, procurement strategy and cost composition, providing a more project-specific approach to tracking and managing cost movement over time.

Q: With global commodities such as steel, prices can fluctuate drastically within an index cycle, even when that cycle is monthly. How do you account for a spike in unit rate for those of us who are procure at the highest cost?

A: This is one of the limitations of any aggregated index approach. Indices are designed to reflect broader market trends over time rather than capture every short-term procurement event or individual transaction.

Where projects are heavily exposed to a volatile commodity procured at a peak point in the cycle, project-specific adjustments may be needed alongside the published index position. This is where detailed procurement records, supplier quotations and timing evidence become important in demonstrating the actual market conditions experienced by the project.

Indices should therefore be viewed as an important benchmarking tool rather than a substitute for project-specific commercial evidence.

Q: Whose data do you use for calculating indices (i.e. suppliers, subcontractors, contractors)?

A: Data from various sources inform our indices, primarily ONS Producer Price Indices (PPIs & SPPIs) which represent factory gate prices of materials/components, as well as project-specific data, anecdotal commentary from our industry panel and data from various key materials suppliers. We are always looking for new data sources so if you are aware of any subcontractors that would like to provide data, we would be interested to hear from them.

Q: What are the most meaningful KPIs to benchmark during periods of economic uncertainty?

A: £/m² or £/functional unit is most commonly used in construction cost benchmarking and remains useful in times of uncertainty. You must make sure you understand and are clear about what is included, and not, in that figure to make sure you are benchmarking on a like-for-like basis.

Q: Major public sector projects require business case cover and budget allocations up to 5 years (or more) in advance of procuring contractors. In this context, what does the panel consider is the best forecasting methodology and approach for tender inflation to 2031/32?

A: For longer-term forecasting, it is generally more robust to use scenario-based approaches rather than rely on a single central forecast. Over a five-year horizon, there are likely to be multiple economic cycles, policy changes and market shocks that materially affect tender pricing behaviour.

A combination of baseline forecasts, sensitivity testing and periodic rebasing can help maintain more realistic budget positions over time. It is also important to distinguish between general construction inflation and project-specific risk factors such as location, procurement strategy, labour availability and exposure to specialist materials.

For major or complex schemes, bespoke project indices developed using BCIS data can also help improve inflation forecasting and provide a better understanding of the likely outturn by reflecting the specific characteristics, trade exposures and cost drivers associated with a project, rather than relying solely on broader market averages.

Forecasts should be reviewed regularly and treated as evolving planning tools rather than fixed assumptions.

Q: It seemed to be the consensus of the panel that the next BCIS forecast update in June will likely show the impact of the Iran war and associated fuel/energy increases. Can I ask why the recent end of March forecast update doesn't make allowances in the forecast to overcome the lag in BCIS data?

A: Our last forecast was run in early March when the conflict had just started. Consistent with the approach taken by many forecasters, our forecasts are informed by data available at the time and unfortunately that data wasn't yet able to indicate the impacts of the crisis. This position will improve with time, and we expect our next forecast in June to be more reflective of the impacts of the conflict.

Q: How should cost models be adjusted to account for region-specific cost drivers and emerging local factors?

A: Local market dynamics can significantly affect benchmarking outcomes, particularly in geographically constrained or import-dependent locations such as the Channel Islands.

In these situations, regional benchmarking often requires greater weighting towards the dominant local cost drivers. In Jersey, for example, concrete costs, shipping logistics, import dependency, storage constraints and supplier concentration may all have a more significant impact than they would in larger mainland markets.

Rather than applying a fixed adjustment factor universally, the more robust approach is usually to identify which elements of the project are disproportionately exposed to local conditions and assess these separately within the benchmark analysis. Emerging factors may also include labour mobility, energy costs, local planning constraints and supply chain resilience.

Q: What do the panel think that the impact of the UAE leaving the OPEC group, on the price of oil, and the subsequent impact on construction materials?

A: The UAE leaving OPEC will not impact oil prices immediately. Fundamentally, whilst the Strait of Hormuz remains closed, oil prices will remain high. However, in the long term, the UAE leaving OPEC will be a downside pressure on oil prices. OPEC normally dictates production of oil, which in turn dictates prices. With a major player leaving (albeit 15% of total production within OPEC), the UAE will be free to produce more oil which, in turn, will increase supply and lower price pressure.

With oil prices lower, in the long term this should ease price pressure on construction materials, particularly the energy-intensive ones. However, it is worth stressing that this will not impact oil prices in the near-term and consumers will likely see the price increases cascade down the supply chain irrespective of the UAE's decision.

Q: Were the cost increases caused by the Russian invasion of Ukraine amplified by the post-COVID surge in demand?

A: The price increases seen after the Russian-Ukraine conflict were mostly cost-driven, with oil and natural gas prices rising contributing to greater inflation. Additionally, Ukraine was/is a major export of critical minerals, which also meant a direct input into many products had lowered in supply. However, there was greater demand following the pandemic due to consumers having a greater amount of savings. This was evident when looking at GDP.

Whilst GDP did not thrive, the UK did not see a recession in 2022 and only a mild recession in H2 2023. This was largely demand-driven, with consumer spending keeping the UK economy weakly growing. Additionally, the complexity of the labour market was different. Prior to the Russian-Ukraine conflict there were quite stark labour shortages following Brexit and the pandemic. Therefore, there was larger bargaining power for the employees, prompting greater wage growth. This, in turn, continued to fuel demand and price pressure.

Q: Will the published April index take account of the significant cost increases being experienced in Scotland just now?

A: Published indices will reflect the information available within that reporting cycle, but there can inevitably be a lag before sudden market movements are fully captured, particularly where volatility emerges late within the collection period.

In fast-moving conditions, it is possible that some current market pressures may not yet be fully reflected in the published April position. This is why indices should be interpreted alongside current market intelligence, supplier feedback and project-specific procurement evidence, especially where there is significant regional variation or exposure to rapidly changing input costs.

Q: What is the best way to measure and adjust for inflation at the end of a long PCSA/design period when TPI does not fully reflect contractors' actual cost increases?

A: The BCIS All-in TPI remains a robust measure of general tender price movement across the market, but on individual projects there can sometimes be divergence between published indices and specific procurement experiences, particularly during volatile periods.

Where projects have long design or PCSA periods, a blended approach may provide greater confidence. This could include combining indexation with targeted market testing, live supplier quotations, open-book procurement evidence or trade-specific adjustments for particularly volatile packages.

The most appropriate approach will depend on the nature of the project and contract structure, but transparency around procurement timing and cost evidence is increasingly important where markets are moving unevenly.

Q: Where and how can we access the project cost data base and cost analyses?

A: Via a subscription to one of the BCIS packages. Please get in touch at contactbcis@bcis.co.uk for more information.

Q: Is AI now sufficiently reliable to be used for cost benchmarking?

A: AI can already support benchmarking activities in areas such as data filtering, pattern recognition, comparator identification and scenario analysis. It can help professionals interrogate large datasets more efficiently and identify relationships that may not be immediately visible through manual analysis alone.

However, benchmarking still depends heavily on context, professional judgement and interpretation. Construction projects are rarely directly comparable, and periods of market uncertainty can make this even more pronounced. AI should therefore be viewed as a tool to support professional decision-making rather than replace it.

The quality, structure and consistency of the underlying data remain critical to producing meaningful benchmarking outcomes.

Q: How do you think this period of uncertainty will affect the composition of projects submitted to your database? Are there trends in response rates over time that you need to adjust for?

A: Periods of uncertainty can influence both the volume and composition of projects entering benchmarking datasets. For example, weaker market conditions may reduce overall project starts, delay certain sectors or increase the proportion of refurbishment and phased schemes relative to large speculative developments.

This means it is important to continuously review the representativeness of datasets and understand how changing market activity may affect benchmark interpretation. Long-term datasets remain extremely valuable, but they must always be considered within the context of prevailing market conditions and sector activity.

Monitoring trends in project composition, procurement routes and regional activity forms an important part of maintaining robust benchmarking datasets over time.

Q: Would a total cost of ownership and lifecycle approach provide a better basis for benchmarking in the current economic environment?

A: Yes - increasingly so. Short-term capital cost alone is becoming a less complete measure of project value, particularly as clients place greater emphasis on operational performance, resilience, embodied carbon and long-term asset efficiency.

Whole life cost and life cycle assessment approaches can provide a more balanced understanding of project outcomes by incorporating operational costs, maintenance, carbon impacts and asset longevity alongside initial capital expenditure.

As regulation, reporting expectations and investor scrutiny continue to evolve, benchmarking is likely to become increasingly multi-dimensional, combining cost, carbon and operational performance metrics rather than focusing solely on upfront costs.

Q: Does this mean indices will show as provisional then be updated retrospectively in 3-4 months time?

A: Yes.