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Into the slow lane

Introduction

Ever since the invasion of Ukraine unleashed chaos in materials and energy markets, we have been anticipating a slowdown in the construction sector. In practice, it has been slow to arrive, with the market remaining resilient right through into Spring 2023. However, there is now increasing evidence that the expected change in market conditions is happening.

Improving economy, but…

Since our last *Market View* in March, a range of survey and sentiment indicators have pointed to an improvement in the state of the UK economy, albeit from a low base. The latest IMF forecast, for instance, now predicts UK GDP will grow 0.4% in 2023. A month earlier, they had said that UK PLC would contract by 0.3%. This uplift reflects stronger wage growth, a supportive fiscal policy, and a faster easing of energy prices. Table 1 outlines how both the Bank of England (BoE) and the Office for Budget Responsibility (OBR) have also improved their short-term outlook for the UK in their latest reports.

Despite the optimistic outlook, the forecast for the next few years remains dire. The BoE predicts that annual GDP growth will be below 1% for the next three years. This compares with an average of 2% recorded between 2010 and 2019. The OBR is more optimistic, informed in part by a more positive view on productivity growth, projecting growth of 1.8% in 2024. Any further optimism, however, is thin on the ground, with the prospect of a flatlined economy explaining, for example, why the Labour Party has put growth at the centre of its forthcoming election campaign.

Even as short-term growth prospects improve, persistence in domestic wage and price setting has resulted in the BoE now forecasting that the Consumer Prices Index (CPI) could still be above 5% by the end of the year; a 1% increase on previous forecasts. Such 'sticky' inflation led to the Bank raising interest rates in May by another 0.25% to 4.5% - the 12th consecutive rise since late 2021 to the highest level in almost 15 years. The prospect of 'even higher for longer' interest rates, forecast now to peak at 5.3% in Q4 2023, is becoming increasingly likely. Future interest rate hikes can be expected to create further headwinds for capital projects, while the recent improvement in housing market sentiment could be blunted given that lenders have already begun to hike mortgage rates in response to inflation concerns.

Construction's inevitable slowdown

As highlighted earlier in our introduction, construction markets have remained remarkably resilient. Latest data from the Office for National Statistics (ONS) shows construction output up 0.7% in the first three months of this year, compared to Q4 2022. Meanwhile the CIPS Construction PMI and the RIBA Future Trends Workload Index remained in positive territory for the third consecutive month in April. However, the quarterly new orders pipeline data is falling, demonstrating that multiple headwinds - including much higher finance costs - are starting to bite and that a slowdown in the construction sector is imminent. Construction new orders were down for a second quarter in a row, and this

	OBR March 2023 Forecast (Nov 2022)	BoE May 2023 Forecast (Feb 2023)
GDP	2023: -0.2% (-1.4%) 2024: +1.8% (+1.3%)	2023: +0.25% (-0.5%) 2024: +0.75% (-0.25%)
CPI	Year to Dec 2023: +2.9% (+7.4%)	Year to June 2023: +8.2% (+8.5%) Year to Dec 2023: +5.1% (+3.9%)
Base Interest Rate	Peak of 4.3% (5%) in Q3 2023	2Q 2023: 4.4% (4.3%) 2Q 2024: 4.4% (4.1%)
Unemployment	Peak of 4.4% (4.9%) in 2024	2Q 2023: 3.8% (4.1%) Peak of 4.25% in 2Q 2026 (Peak of 5.3% in 1Q 2026)
Business Investment	Total from Q1 2022 to Q1 2028: £1,403bn (£1,409bn)	Year to 4Q 2023: -0.25% (-5.5%) Year to 4Q 2024: 0% (-5.75%)

Table 1. UK economy slow but improving

Sources: Office for Budget Responsibility, Economic and Fiscal Outlook (March 2023 and November 2022), Bank of England, Monetary Policy Report (May 2023 and February 2023)
Note: Figures in brackets refer to previous forecast – Nov 2022 for the OBR and Feb 2023 for BoE.

time significantly, falling by £1.8 billion (12.4% in volume terms).

As widely expected, housebuilding was badly hit, with the value of orders falling by £831 million (18.5% in real terms). However, the commercial order book fell by even more, down by £872 million (22.3% in real terms) highlighting the sensitivity of commercial work to inflation and interest rates. Looking forward, the latest quarterly forecast from the Construction Products Association (CPA) suggests private sector new build housing will suffer the sharpest fall of any construction sector in 2023, down nearly 20%. A worsening outlook for the housing sector triggered the CPA to highlight that a construction recession in 2023 will be unavoidable, with the sector contracting 6.4% this year, a downgrade from the 4.7% contraction forecast in January 2023.

Although recent housebuilder trading updates suggest an improvement in market conditions, in practice these updates have ‘reiterated guidance’ from March 2023, pointing towards double-digit output declines in 2023. Housebuilding is certainly suffering from a perfect storm, being battered by higher mortgage costs and the removal of the Help to Buy scheme even as policy changes such as nutrient neutrality, the Building Safety Act and the Intermediate Future Homes Standard require changes to specification and building practice. As an example, the GLA’s accelerated introduction of a mandatory second staircase requirement for all new residential buildings over 30 metres in London has already delayed delivery. This impact will likely spread once the requirement is confirmed nationwide. In London alone, analysis by LSH and Connells suggests that 243 planned buildings comprising almost 124,000 homes are threatened by delay.

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Whilst many of these buildings will be part of long programmes offering plenty of time for redesign, in practice all taller residential developments currently in procurement are likely to be postponed by 6-9 months for redesign. Some might be further delayed by viability challenges. Examples include major housing association Clarion deciding to pause work on 15 schemes, while Havering Council has similarly halted a £1.5bn development in Romford. Our view is that loss of workload associated with second staircase delays is a material factor influencing market conditions in London in 2023.

Another watch-out for market conditions is the potential slow-down of work in the infrastructure sector in line with Treasury cuts to planned spending between now and 2029. Expected increases in privately funded utilities expenditure will help to compensate for the reduction in transport spending, albeit covering quite different workload in water and power networks. Furthermore, the timing of utilities work is aligned to future regulatory control periods and may not cover a workload shortfall in 2023 and 2024. As an illustration of this emerging trend, the Civil Engineering Contractors Association (CECA) Q1 2023 Workload Trends survey reports a net balance of 20% of firms citing an annual decrease in orders for motorways and trunk roads in early 2023.

Taking these factors into account, the CPA has downgraded infrastructure output growth to 0.7% this year and 1.2% in 2024, compared to earlier forecasts of 2.4% and 2.5% respectively. This comes as new order data from the ONS showed an 8.2% fall in infrastructure orders in Q1 2023, compared to the previous quarter. Infrastructure orders are very unpredictable and 'lumpy' and much less can be read into this fall than those for the more cyclical property markets.

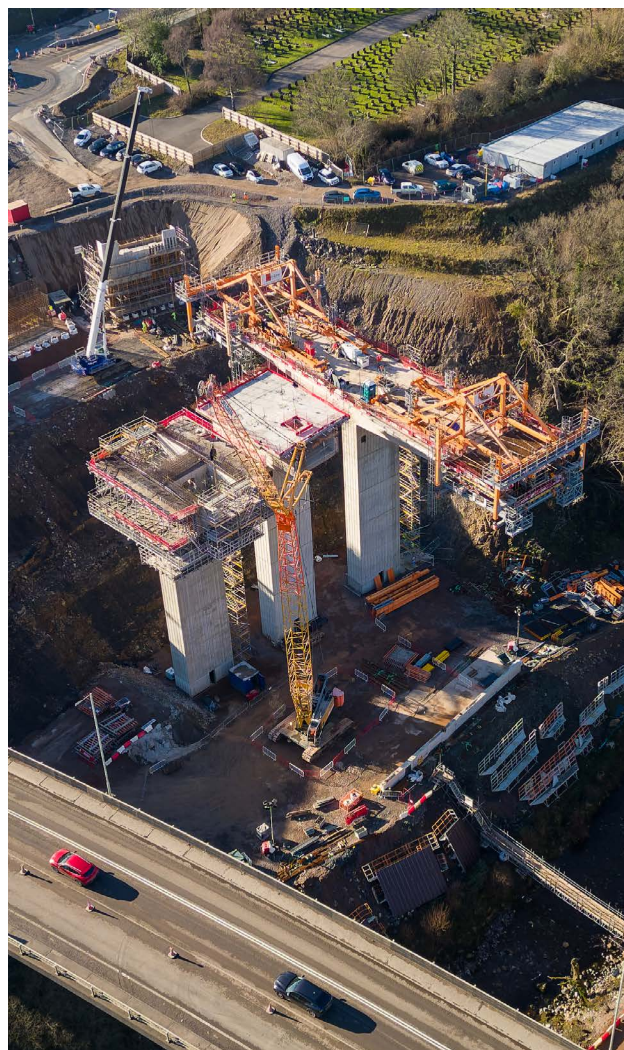
Shallow and short or deep and long - what shape could a slowdown take?

With a slowdown inevitable, the key question is how long might it last? There are several factors at play including growth rates, interest rates, volumes of public and private investment and the pace of regulation change. The orders data points to diverse ways in which these factors interact. The table on the next page highlights how the growth potential of key building sectors are being affected and the outlook for 2024.

One bright spot for the commercial sector that is not picked up in the analysis is retrofit. Deloitte's recent London Office Crane survey reports that more than 1 million square feet of refurbishment started in London since November 2022: a record. Regulatory drivers associated with EPC are clearly playing a part, although London's West End does also appear to be benefitting from demand for smaller office footprints in great locations. With the next EPC threshold due in 2027, owners and investors could delay improvement works, but as we argue in our *Spotlight on Protecting Property Value*, there is a benefit in developing a long-term plan for asset enhancement and repositioning.

Industrial investment has also defied the gloom over the past year, with expenditure 40% higher that the long-term trend, even as inflation soared, and as e-commerce stalled. Remarkably, order intake has remained strong. The industrial sector is likely to be one of the major beneficiaries of the generous capital allowances scheme announced in the Spring Budget, meaning that demand might be sustained even as the economy splutters.

In summary, 2024 is also likely to be a challenging year as the UK economy slowly pulls itself out of an inflation trap. This leads us to double-down on our 'lower for longer' inflation hypothesis, downgrading expectations of price inflation in 2024. It will almost certainly be an election year, so growth and building policies are likely to have a high profile. Whether election promises can be converted into meaningful activity in 2025 remains to be seen.



Sector	2023 CPA growth forecast	Market factors	Growth potential	2024 Outlook
Volume housebuilding	-17%	Interest rates Low carbon Nutrient neutrality Biodiversity net gain	Long-term shortage of housing. Build to Rent investment absorbing existing stock. Sustainability enhancements create additional potential viability challenge.	↔
Regeneration	-20%	Interest rates Grant rates Low carbon Building safety	Build to Rent and Student Resi still attracting investment, but RP cross-subsidy model challenged by grant levels. 2nd staircase rule creating shortage.	↑
Commercial office	-8%	Interest rates Lease events Stock levels Quality expectations	Continuing demand for best-in-class stock. Large volume of space coming to market in 2023	↔
Economic infrastructure	+1%	Long-term spend periods Access to funding Political priorities	Long-term slowdown in public investment related to affordability may be reversed at election. Regulated spend in water and energy set to increase from 2025.	↔
Social infrastructure	-1%	Long-term spend periods. Access to funding. Political priorities.	Potential for short-term boost related to levelling up and decarbonisation before election Programme ambition to be cut back.	↑

Forecast

Construction markets continued to defy expectations in 1Q2023. Output stayed steady and confidence increased after a grim 4th quarter. However, growth expectations are being reset and with demand dropping in many sectors, prospects for a positive 2024 are receding. Material costs have stabilised, and wage pressures should ease later in the year – setting the scene for an improving inflation outlook.

Short-term reverse in sentiment

It is too early to call time on the construction sector's post-Covid winning streak, but the evidence is that the sector is reaching the point of culmination. In our Spring 2023 Market View, we raised our 2023 forecast for buildings in London because of the continuing resilience of the market, but in retrospect this adjustment feels premature.

The key question is when the widely signalled adjustments to the order book in residential and infrastructure will take place and whether it will spill over into other sectors. Forward looking PMI data gives the impression that conditions are improving – at least in the short-term, as the construction survey has been in positive territory since surveys were taken in January. The contrast with latest New Orders data could not be starker, with only the public sector showing any growth in the first quarter, and surprisingly, commercial leading the downward spiral, contracting by over 20% quarter on quarter.

It's important not to read too much into a single data reading, and as highlighted in our introduction, there is plenty of evidence that the UK economy is beating expectations – albeit expectations that have been substantially downgraded over the past six months. However, the range of headwinds facing the construction sector are substantial and unavoidable – ranging from capped public spending to delays in planning. A day of reckoning is coming.

Currently, the industry's improved mood is just about helping to counter the extra drag created by higher interest rates and sticky inflation. There are some bright spots, particularly the public sector where education and health spend is flowing a little more freely, and the industrial sector where orders remain 50% above the pre-Covid trend. 2023 might turn out to be better than forecast but will see a significant slowdown compared to the two previous years.

Longer term prospects – stability or chaos?

The construction sector has become adept at dealing with chaos over the past 4-5 years stretching all the way back to the pre-Brexit uncertainty of 2019. Paradoxically, even as workload dries up, many other sources of disruption, including material shortages, have resolved themselves. This is an important development, as a more stable business environment will allow construction businesses to plan for their response to changing market conditions with greater clarity and confidence.

Our view is that workload will stabilise in 2024 at new but mostly reduced levels – lower for low density housing, but potentially higher for regeneration and public-sector non-housing as the second-stair blockage is resolved and as pre-election spending increases. The area of greatest uncertainty is associated with economic infrastructure. A slow start to privately funded work on the power and water networks could result in a fall in infrastructure spending as transport spend is pared back in line with revised Treasury budgets. For social infrastructure, even though budgets will also fall back, delays to spending on levelling-up, health and other programmes mean that activity is likely to increase – if only in the run-up to an election in late 2024.

However, markets remain subject to high levels of uncertainty. Upside and downside risks abound, meaning that our longer-term forecasts should be applied with care. Market risks that Arcadis are currently tracking are set on the following page.

Opportunity		Risk	
Event	**Implication**	**Event**	**Implication**
Increased post-election infrastructure spending.	Likely given recent policy announcements. Unlikely to make an impact before 2025.	Global crisis – e.g., spread of conflict.	Plenty of triggers so can't be discounted. However, the global economy has proved very resilient over past two years.
Housing market bounce back.	Less likely given rising core inflation and 'higher for longer' interest rate risk.	Commodity price hike – energy and metals.	Diminishing risk due to slower than forecast Chinese recovery. Continuing watch out for LNG markets in the run-up to Winter 23/24
Increased volume of climate-risk related refurbishment.	Immediate driver associated with EPC threshold now passed. Growth in refurb market likely to be market-driven rather than regulation-driven prior to 2025/26.	Large scale insolvency.	Possible. Full impact of projects secured in 2021 and 2022 now starting to emerge. Loss of capacity and changing risk appetite.
		Credit crunch	Possible. European banks have an extensive RE exposure and many investments require refinance or new capital.

Forecast

Our overall view is that the balance of risk and opportunity is more on the downside, but that there are no immediate triggers for a further deterioration in market conditions in 2024. This outlook suggests that inflationary conditions might soften a little during 2024, but there are, as yet no preconditions for a price correction.

Labour costs – inflationary, but in control

The construction labour market has been a consistent source of concern for the industry. However, as highlighted in our 2023 Spring Market View, there has been little conclusive evidence of an industry-wide inflationary wage spiral despite a shrinking workforce.

As an indication of where the market for labour is heading, the rate of annual wage growth for the self-employed is finally lagging behind directly employed labour, falling to 4% in 1Q2023 according to data collated by Hays. Slowing day rate inflation is an early sign of a reduced level of demand for labour.

Latest data from ONS has reported a further 3% decrease in the size of the workforce, equivalent to the loss of 65,000 roles. The workforce is roughly the same size as it was in 1Q2021 but is delivering 7% more output. Vacancies have been falling since Spring 2022, suggesting that workforce pressures are dissipating, albeit vacancy levels are at a historically high level for the sector. Interestingly, construction has some of the lowest levels of vacancy in the UK economy, and job openings in healthcare and hospitality are twice as high than in construction. In a positive development which may facilitate the growth of the workforce, the construction sector has succeeded in extending the scope of trades covered by the shortage occupation list, making it easier for construction businesses to recruit a wider range of overseas employees at lower earnings levels.

Earnings in construction have increased steadily over the past year. Latest data for directly-employed operatives shows that sector-wide earnings, excluding bonuses, have increased by 6.1% year on year. This is below the economy-wide average of 6.6%. A year ago, the rate of increase in the sector was 4.8%, so wage growth has lagged general inflation. In a recent development, BATJIC, which represents operatives and small contractor members of the Federation of Master Builders (FMB), has agreed a one-year, 8% wage deal, up from 5% in 2022. This slightly below inflation deal is a useful indicator for where negotiations for other industry agreements will be heading. We have factored 8% into our price forecast for 2023.

Materials inflation – a thing of the past?

Materials price inflation has dominated the agenda over the past three years – challenging viability and creating huge uncertainty for clients and contractors. Although CPI inflation remains sticky, there are strong signs that material price inflation has been beaten – at least in the short-term.

On the demand side, almost all material shortage has been eliminated. The Construction Leadership Council's most recent Product Availability Group statement reported no problems across all sectors. Taking bricks as an example, stocks in 1Q2023 were back to levels last seen in 2019, having increased by more than 60% since September 2022.

Inflation has also subsided. Measured year on year, prices of a basket of goods are still 9% higher than in 2022, but energy costs are about to fall out of the inflation equation. Based on current trends, annual inflation will have fallen to close to zero by the end of 2Q2023. Discounting is also likely to increase as demand for materials ease and as inventories grow.

Material manufacturers will continue to be exposed to inflation in the wider economy through factors including costs of wages. However, the unique combination of drivers that has pushed prices up since 2020 has now passed. Assuming that there is not a repetition of the 2022 energy crisis, material costs should return to becoming the most predictable element of the construction cost stack.

The market trends that we reported in March 2023 remain unchanged. Macro-economic prospects have improved as energy costs have fallen, but the combination of high interest rates and low growth rates will continue to be a significant constraint on capital programmes.

In addition to adjustments to house building and major infrastructure programmes that had already taken place by March 2023, the longer-term impacts of the second staircase rule is also becoming apparent – not only in terms of short-term delays to projects but also the risk that existing business cases might require further review.

On the demand side, with evidence of a fall in orders in 1Q2023, we can be more certain over the timing of the market slowdown.

The forecast has three major components, although the drivers have changed:

- Input cost inflation affecting labour only will continue to result in higher construction costs, even as workload falls.
- A slowdown in current and future workload in London will mean that there will be no differential between regional and London markets in the medium term.
- Infrastructure will be affected by materially-higher inflation than for buildings. We anticipate seeing a greater variation in cost inflation across the sector, with in-demand sectors including energy, water and flood resilience seeing greater inflationary pressure associated with specialist skills, plant, and equipment.

In summary, our Summer 2023 forecast is set out below:

- We reduce our 2023 forecast for buildings in London to 2%. This revision is a short-term response to a reduction in workload triggered in part by the strict implementation of the second-staircase rule in the capital.
- We retain our 2023 forecast for buildings in regions at 2%. Hotspot regions highlighted this quarter include the South West, as previously reported, and the East Midlands.
- We reduce our buildings inflation forecast for London and the regions in 2024 to 1-2% in anticipation of improved buying conditions.
- We adjust our 2023 forecast for infrastructure to 5-7%, with higher inflation likely to be seen in the resilience sectors of water and energy as demand continues to increase. Cost pressures on road and rail projects will be to the bottom of the range.
- We increase our infrastructure forecast for 2024 to 3-4%, again reflecting prospects for accelerating demand in energy and water sectors.
- We forecast that prices across all sectors in 2025 will rise by 3-4%. This is a marginal upgrade reflecting the potential for some bounce back in price pressure as workload picks up.
- Looking forward to 2026 and 2027, we reset our long-term inflation expectation to 4% for buildings across all regions. We retain our 5% forecast for infrastructure in anticipation of further growth in water and energy investment.

	Regional Building Construction TPI	London Building Construction TPI	National Infrastructure Construction TPI
2022	10% (10%)	10% (10%)	12% (12%)
2023	2% (2%)	2% (3%)	5-7% (6-7%)
2024	1-2% (3%)	1-2% (3%)	3-4% (3%)
2025	3-4% (3%)	3-4% (3%)	3-4% (3%)
2026	4% (5%)	4% (5%)	5% (5%)
2027	4% (5%)	4% (5%)	5% (5%)
Total	**24-26%**	**24-26%**	**33-37%**

Inflationary drivers	Deflationary drivers
• High levels of workload	• Structural deflation after 2022 peak
• Sector - specific demand	• General economic slowdown
• Core inflation	• Order book replacement in commercial and residential sectors
• Commodity markets	• Lower fuel costs
	• Risk attitude

Zoom into: changes to Product Regulation

Since our last Market View, a key industry development has been the publication of the 'Testing for a Safer Future' report by Paul Morrell and Anneliese Day, reviewing the assessment regime for construction products. Here we assess the key recommendations of the report, in particular the role of the National Regulator for Construction Products and outline some potential implications for the construction sector.

Why are changes needed?

Proposals for a new Product Regulator were first announced by then Housing, Communities and Local Government Secretary of State Robert Jenrick in January 2021 in response to recommendations in the 2018 Hackitt Review. The move followed shocking testimony to the Grenfell Inquiry highlighting 'dishonest practice' by some construction product manufacturers. The plans also responded to the weakness of the existing product testing regime, which had been described as 'complicated' by Dame Judith Hackitt, Chair of the Independent Review of Building Regulations and Fire Safety, who called for a "clearer, simpler and more effective system of specification and testing of construction products."

2021 also saw the government commission an independent review to examine the industry and to recommend how abuse of the testing system could be prevented. Authored by Paul Morrell and Anneliese Day, the 174-page Review of the Construction Product Testing Regime recommends a major overhaul of the way approved bodies regulate construction products.

The Testing for a Safer Future report provides advice on how the new National Regulator for Construction Products (NRCP – known as the Product Regulator) could operate effectively, focused on preventing potentially dangerous products from being used on buildings and enabling government to provide greater scrutiny over how material manufacturers test, document, and market their products.

The Product Regulator will have powers to remove any construction product from the market that presents a significant safety risk and to prosecute any companies who flout product safety rules. It will also need to work closely with other regulators to co-ordinate regulatory action, particularly the new Building Safety Regulator, which will oversee the safe design, construction, and occupation of high-rise residential buildings.

Summary of recommendations

The Morrell and Day report concludes that the existing system is not fit for purpose, not only due to partial coverage, but also to the complexity of the system, the lack of enforcement and perhaps most worryingly, the lack of capacity for standard setting, assessment, and oversight.

On this last point, the report states that although the framework by which standards are developed is a good one, the process can be slow. Furthermore, outputs are insufficient and of variable quality, resulting in many standards being outdated, inconsistent or non-existent. The United Kingdom Accreditation Service (UKAS), the national accreditation body, has been hamstrung by this challenge for some time. To address the problems, the recommendations include a proposal for a wholesale simplification of the regulatory assessment process, which currently offers five different routes and up to six steps through the system.

Three key areas of focus for the report recommendations are safety, enforcement, and declaration of performance:

- Safety - all construction products should be brought into the scope of the regulator by virtue of a 'general safety requirement'. Currently, it is estimated that only a third of all construction products in manufacture are covered by a regulator, leaving around 20,000 to 30,000 products out of scope.
- Enforcement – according to the report, enforcement of the current regime has been "almost totally non-existent." Not a single prosecution has occurred since current regulations were introduced in 2011. The report calls for "active and effective" enforcement under the new regulatory regime for products, backed by adequate and trained resources. It also proposes the creation of a publicly-accessible database of products that do not meet their performance claims, or which cannot be regarded as safe.
- Declaration of Performance - manufacturers will be required to share all technical documentation and information with the regulator, including all marketing information and other communications relating to products.

Potential Impact

The findings from Grenfell highlight that the UK's construction product regulation system is not fit for purpose. As evidenced above, the scale of the task in designing and implementing a new system is huge. There is likely to be an impact on the range of available products in the UK as the system is implemented and as products are assessed and documented. As the report concludes: "there is no quick fix to so complex a problem."

Clearly the Morrell report should be required reading for policy makers and industry leaders, with Dame Judith Hackitt saying that it marked "a major step forward" and Peter Caplehorn, chief executive of the Construction Products Association, calling for manufacturers to "act now and do not be left behind."

In terms of next steps, the Department of Levelling Up, Housing and Communities said it will carefully consider the recommendations and will set out proposals for reforms "in due course." As they will require secondary legislation, this will take time, but is not dependent on the parliamentary calendar. In the meantime, clients and their project teams should be thinking about next steps and be increasingly conscious of the products they are procuring to collectively ensure they are safe and suitable for purpose.

Spotlight on: Protecting property value

After an eight-year lead-in, upgraded minimum energy efficiency standards (MEES) came into force in April 2023, outlawing the leasing of commercial buildings with EPC ratings of F and G. Such has been the success of the MEES policy, that the proportion of commercial properties registered with a F and G grade has fallen from 18% (2009 to 2015) to 6% (2015 to 2023). The next iteration of minimum standards is set to come into force in 2027, raising the minimum threshold to EPC C. With four years to go, policy makers will be hoping for a similar positive improvement in the performance of the existing commercial building stock.

Real estate markets are currently in the doldrums with commercial values falling by on average 13% in the past 12 months. If the bottom of the market is in sight for prime assets in central London, the prospects for less well-located assets are much less clear. High-performing commercial assets are currently attracting a green valuation premium, and it is foreseeable that the momentum behind a brown discount will accelerate, particularly as ESG expectations and reporting standards get tougher.

Delaying investment to improve asset performance makes sense given current market conditions, but taking the eye off the ball with respect to changing client and ESG expectations might be a risk too far. Holders of investment property need to stay engaged with the market, even as they wait out the current turmoil. In practice, the four-year lead-in to the EPC C uplift isn't a long time. The post great financial crisis slump in office markets stretched from 2007 to 2012. Furthermore, demand for space emerges before the viability metrics stack up and the window of opportunity to achieve best value in a down cycle is short.

'Wait and see' might seem to be the best option in the current market, but the two key characteristics of commercial property – long-life and cyclicality- work against prompt investment in asset resilience. Long-life, because the durability of property can lull owners into a false sense of security with respect to the need to invest and cyclicality, because owners stop investing when asset values are at risk.

There are many barriers to action, not least the fact that most buildings are occupied so delivering investment is hard work. Furthermore, as highlighted in our market update, the construction supply chain remains busy, and work is costly and challenging to procure. Clients will need to take a long-term view, but they also need to create momentum behind their portfolio upgrades.

The best way to create momentum is through no-regret actions., that is work that will have to be done at some point, which has inherent value, but which could easily be put off. No regret actions could include simple energy efficiency improvements or carbon-emission reductions associated with energy sourcing. It could be the plan that anticipates government incentives and penalties for investment in low-carbon retrofits. It could involve the use of simple digital tools to improve the understanding of how users behave, and how a building could be adapted to improve their experience.

In our five-point plan for protecting property value, originally published in the ***2023 Arcadis International Construction Cost report***, we have identified five key prompts to help clients interrogate their current approach to asset management. These checks will help clients to identify whether they are considering and acting on all relevant issues that affect long-term returns and asset value.

1. Plan ahead for how regulation and governance will affect property values.

- Map the local timeline for developments in building design regulation, financial markets and reporting standards, including known changes and likely direction of travel.
- Identify changes that will have a material impact on leasing, refinancing or asset valuation – e.g. new carbon intensity standards for loan portfolios.
- Build mitigation steps into the long-term renew/reinvest/disposal asset management plan.

2. Identify and quantify the full range of risk exposures affecting your property portfolio.

- Screen across a wider range of risk types and timescales – e.g. climate change, health and well-being and business risks. Consider risks out to 2050 and beyond to account for long-term asset value implications.
- Size the big risks – even if they are far in the future. Use the 80:20 rule to focus effort. Identify the mitigation steps that could be taken now with little impact.
- Identify no-regret actions that can be taken as a part of planned investment programmes to improve risk resilience – e.g. energy efficiency measures to reduce sky-high running costs.

3. Track and adapt to changes in user demand.

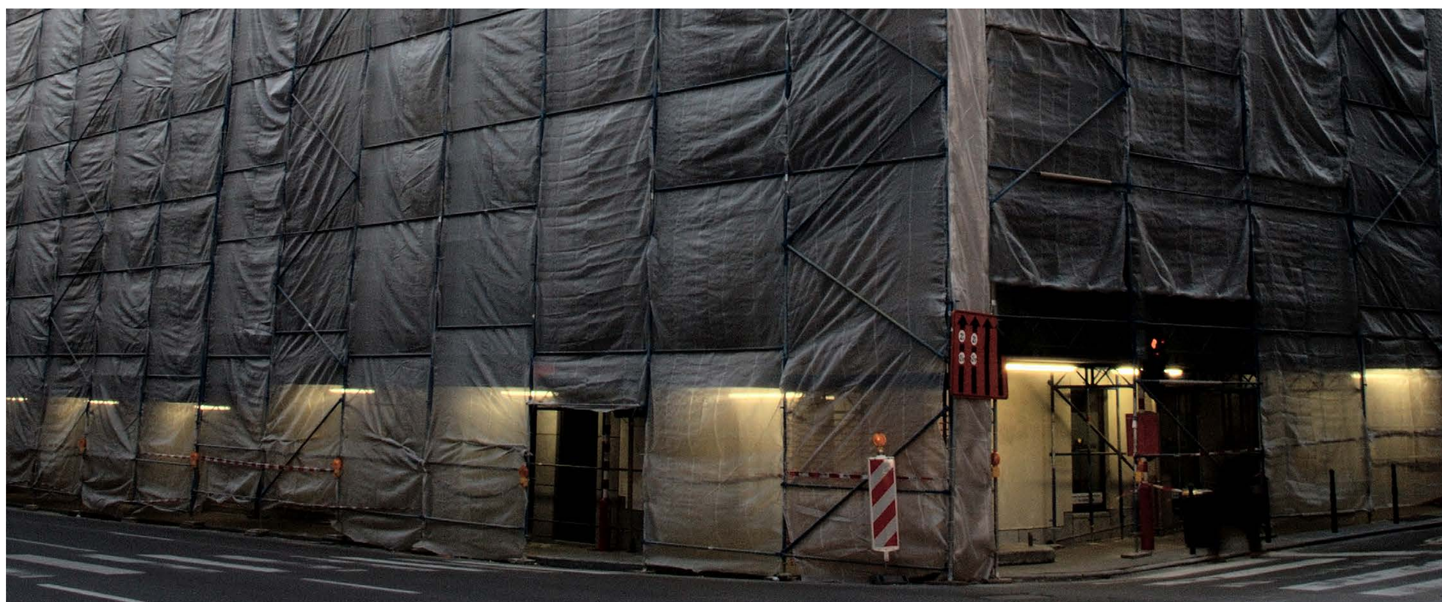
- Anticipate and follow market trends. Invest in understanding how tenant and user expectations are evolving. Build closer relationships with occupiers using flexible leasing models and opportunities for collaboration.
- Use digital technologies to enhance the connection with your occupiers and investors – from BIM and digital twins to apps and virtual environments, use adaptable digital solutions to increase the attractiveness, flexibility, and value of your assets.
- Understand how your buildings are used. Develop building intelligence capability including predictive analytics to track and anticipate building performance and user behaviours in real time.

4. Identify repositioning opportunities.

- Maximise the value of the location and the site. How will the location develop in the future? Could a change of use enhance value? Can the potential of site be enhanced through a new approach?
- Exploit the strengths of the asset – identify opportunities to reuse and extend the existing fabric. Maximise reuse of the fabric to minimise embodied carbon.
- Exploit digital modelling to understand all the opportunities over the asset lifecycle. Model the implications of new proposals for future adaptability.

5. Build and measure a benefits case.

- Develop a dashboard of asset performance metrics that support the business case for a green premium. Combine specification benchmarks and in-use KPIs.
- Measure the wider social and environmental value of the asset in its current and future uses. Align to the targets of partners including users and funders.
- Acknowledge the value of longevity by highlighting enhancements to asset resilience.



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Arcadis
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