

Building

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- **Construction Tender Price Costs have fallen by 13% in 2009, we predict a further fall of 3% in 2010, bottoming out in late 2010 and a slight rise in 2011.**

Narrow or non-existent profit margins will put more building and trade contractors nearer insolvency as the industry reduces capacity still further in 2010.

Tender price costs have fallen further in 2009 than everyone predicted, with a fall of 13% (BCIS). More than half of this occurred in the first quarter 2009 but continued throughout the year as a lack of demand dampened contractor's preliminaries profits.

Material prices were volatile throughout the year with some materials now rising, particularly as the rest of the world comes out of recession. 2010 is however likely to still see depressed demand for new construction and we predict a further fall of 3% (BCIS), with costs levelling out later in 2010 as material prices rise across the globe, and a modest increase in demand in 2011 gives rise to an increase of around 3%.

- **The Carbon Reduction Commitment will be introduced in April 2010 which marks the introduction of a link between energy consumption and carbon emissions and a financial reward or penalty for good or bad performance respectively.**

During the introductory phase (2010-2013) the cost of carbon credits required to cover actual emissions is set at £12/tonne of CO₂ (the sale of which does not begin until April 2011). In subsequent years the cost of credits will be determined by the marketplace and therefore the cost has the potential to increase significantly as the number of available credits diminishes and demand remains constant or increases. It is envisaged that over the next year the property market will undertake measures to a) assess and monitor

energy and carbon performance and b) evaluate and undertake measures to reduce energy use.

Many organisations are yet to take the impact of the CRC seriously and have failed to put together a programme of ongoing refurbishment and management that will be required to deliver a consistent reduction in carbon. Failure to implement such a plan will lead to increased upfront investment in credits and heavy penalties, up to 50% in year 5, as a result of a consistently poor performance in the league table.

Additionally, the revised implementation guidelines released in November have failed to address the landlord-tenant issues brought about by the scheme. This will inevitably lead to service charge disputes and the introduction of more stringent green lease clauses as the property industry gets to grips with how to balance the scheme between landlord and occupier.

The UK Government sees itself as a leading force as pressure mounts for all Governments to accelerate the pace of carbon reduction resulting in the “stick” rather than the “carrot” being more in evidence.

- **The introduction of small scale renewable technologies will increase with the introduction of Feed-in Tariffs planned for April 2010.**

Incentivising the small scale investment in green energy may allow householders as well as commercial property owners to contribute but just how significant this may prove to be will need to be seen.

While the detail of the scheme is still under consultation, Feed-in tariffs (FITs) will be available for small-scale low-carbon electricity generation and provide a guaranteed price for a fixed period for generating electricity. This scheme should see an increase in the introduction of small scale renewable technologies and a further engagement and awareness in the energy performance of property.

- **Revisions to Part L of the Building Regulations are due to be introduced in 2010. The current consultation indicates a 25% decrease in target emissions across domestic and non domestic property.**

The impact of this change is more likely to be felt initially in terms of building cost increase particularly in the domestic sector.

Buildings account, directly and indirectly, for 44% of the UK's carbon emissions which has led the government to fix firmly on the property sector to help meet its commitment to cut carbon emissions by 80% by 2050. The proposed regulations impose a further 25% aggregate decrease in target emissions for new non domestic property, ranging from 11% for supermarkets to 36% for warehouses. New domestic property will be subject to a further reduction of 25% (flat) to bring about the introduction of The Code for Sustainable Homes Level 3. Additionally, the revised regulations seek to provide a more refined definition of the refurbishment of existing building stock and remove the exemption, most notably for conservatories (under 30m²) and historic buildings. In this way the revisions seek to make Part L applicable to a higher percentage of the existing building stock, a sector where carbon emissions are currently under regulated.

The latest changes to the Building Regulations signify an ineffective attempt at tackling carbon emissions in existing buildings, with the 'improved' definition still lacking real bite. A further tightening in regulation of the refurbishment sector will be required to capture and significantly improve the efficiency of existing property.

- **In 2010 The Code for Sustainable Homes Level 3 becomes mandatory for all new private residential housing and Level 4 mandatory for all new social housing as the next steps towards zero carbon buildings.**

Achieving Code 5 and 6 demands fundamental changes in the way domestic buildings are used and occupied. Restrictions in water consumption and higher provisions for recycling are amongst some of the measures included.

In 2006 the Government announced a 10-year timetable towards a target that all new homes from 2016 must be built to zero-carbon standards. This was to be achieved through a step by step tightening of the Building Regulations, the first of which was to be the introduction of Code Level 3 in 2010. Level 3 of the code corresponds to a 25% increase in energy efficiency compared to 2006 Building Regulation and Level 4, a 44% increase. The DCLG

assessment for English Partnerships and the Housing Corporation (2008) suggest that the cost of achieving the higher levels of the code can vary substantially. The cost increase depends heavily on dwelling type, development type and site characteristics but range from 4% to 7% per dwelling for Code level 3 and 7% to 13% for level 4.

House builders have been attempting to solve the potential problems caused by achieving Code level 5 and 6 since its announcement in 2006. With the recent slump in housing construction this process of design development has effectively come to a standstill and the ability to achieve these Code levels at a commercially viable cost is at risk. In addition, at a time when the Government is trying to kick-start the housing market, many believe that enforcing the Code and thereby increasing build costs will ultimately delay the upswing of this sector.

- **With the wealth of sustainability policy and legislation being introduced by the UK Government, Public Sector demand for 'greener' property looks set to increase in 2010 as internal pressure to demonstrate leadership by example increases.**

The Public Sector will have to lead by example during a period of enforced reductions in public spending. Estate rationalisation will be the main thrust as cut backs push the higher efficiency agenda.

The public sector is subject to a wide range of policies and drivers both internally and externally and as a result are under increasing pressure to demonstrate leadership in delivering energy efficiency, carbon savings together with an overall improvement in the efficiency of the Government Estate and as a result, Governmental departments will look to consolidate their property portfolios and move to more efficient property. The property market should see an increased demand for green property as a result of this, a sector which is currently under-supplied particularly with a downturn in new commercial developments.

With the increased pressure on government finances many believe that the green agenda will start to move down the list of priorities in this sector. However, failure to act will leave the government open to scrutiny as the CRC

league table provides real transparency to public sector performance against energy efficiency targets. Failure to act, while simultaneously stealth taxing carbon emissions from property in the private sector, will constitute an embarrassing inconsistency.

Summary

In summary, moving forward into 2010 the issues discussed are likely to result in an overall increase in construction and refurbishment costs as energy efficiency starts to feature more heavily. However, with a further decrease in construction costs predicted for 2010, we may see developers take advantage of these historically low costs to capitalise on the increased demand for greener property.

The property market has been attempting to find a capital or rental uplift in 'green' or 'greener' property for a number of years but it has thus far been difficult to demonstrate. However, with investors, landlords and some occupiers beginning to prioritise their property requirements for the reasons discussed above, the market should see an increase in the demand for greener, more efficient property.

Smart investors and property funds will start to re-evaluate their property portfolios and look for ways to cost-effectively improve the environmental performance of their building stock through refurbishment and effective management. In this way, they will be able to capture key occupier markets including public-sector and blue-chip organisations that will be looking to improve their own sustainability performance by moving to these properties.