The impact of the Middle East crisis on the housing sector – some emerging trends

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The American bombing of Iran on 28 February 2026 and subsequent blockade of the Strait of Hormuz have triggered a worldwide spike in energy prices, with wider supply chain impacts.

The Housing Forum has reached out to our Board and other members from across the housing sector and supply chain to identify what impact we are seeing on our sector as yet, and what may be to come.

Key points

Direct impact availability and price of materials

- Our members report that they have seen some **large pricing movements** due to the conflict in the Middle East and significant disruption to supply chains.
- **There have been sharp increases in energy and raw materials** with reports of at least 10-15% increases across most construction materials. Materials with embodied energy are most exposed including steel, cement, glass, aluminium and bitumen-based products. Building components such as insulation, sealants, mastics and roofing products also rely on key chemicals extracted from crude oil in their manufacturing.
- The cost of **transportation** has increased, with fuel surcharges of 15% being made on deliveries.
- 75 percent of UK construction products are sourced domestically or from within the EU, so **non-availability** is not, as yet, a major issue. Concrete roof tiles, however, are in sustained short supply and tile imports from India have been disrupted.
- There does not, as yet, appear to have been any increase in the price of **heat pumps** or EV charging solutions, despite growing consumer demand for them.

Impact on construction costs on site

- Increases in construction **costs are hard for the market to absorb** because of the long timescales involved in buying sites, building and selling new homes, and because the **housebuilding sector was already struggling** prior to this crisis.
- Higher **fuel prices** are creating a direct impact on plant hire, haulage and site fuel. This feeds into higher construction costs on every project.
- **Groundworks, mechanical and electrical work and drylining** specialists are showing the most immediate signs of financial strain as cost pass-through lags cash collection. For SME businesses with limited cashflow flexibility this is particularly challenging.

Impact on tenders and partnership working

- Price hikes and uncertainty over future prices cause difficulties in the procurement process. **Suppliers and manufacturers are holding quotes for only a few weeks at best,** and not the time required for a procurement process to complete. This creates difficulties for construction companies who need to submit a firm price in a tender, but are dependent on quotes for materials which have expired by the time the tender is awarded.
- Fixed-price Design and Build tenders are being returned with **shorter validity** (30 days versus a typical 60 to 90 days previously).
- Our members report **re-bids and re-pricing clauses being triggered** on schemes in Pre-Construction Services Agreements and two-stage tenders.
- **Partnership working** between social landlords and private housebuilders are affected – Many Registered Providers have had a letter from housebuilder who works with them saying that they are unable to absorb any more cost increases and requesting a meeting to discuss negotiating price adjustments to contracts.

Impact on development finance

- Prior to the crisis, the Bank of England had been expected to reduce interest rates. Now that this looks unlikely, the **cost of development finance has increased** and prior assumptions are now void.
- **Higher swap rates** are feeding into development loan pricing and Joint Venture hurdle rates.
- Developers, including social landlords and local authorities, are having to review appraisals so **previously viable schemes may now be considered at risk.**
- For investors these delays present multi-layered challenges. Not only do they impact short-term programmes and risk / return projections, but **longer-term investment decisions will be under greater scrutiny.**
- **Affordable Homes Programme grant rates** are fixed at bid stage, so real grant per unit is eroded by tender price inflation, leaving social housing providers unable to absorb the increased costs.

Consumer demand:

- The Bank of England's decision to hold interest rates has pushed the average 5-year fixed mortgage up from 4.95 to 5.75%, with **over 1,500 mortgage products withdrawn since 28 Feb**. Higher mortgage rates reduce housing demand, making it harder for housebuilders to sell new homes for the prices they need to operate. Our members report **viability deteriorating** on market sale within mixed-tenure schemes.
- Some firms report seeing substantial growth in demand for **heat pumps**.

What will happen next?

- It is clear that **we are not yet seeing the full implications of the very recent disruption to shipping and oil supply**. Further turmoil is likely and even if the conflict is resolved within the next few days it will take months for supply chains to re-align and for inventories to recover. This is likely to fuel further inflationary pressures for many months.
- Construction companies report that they have maintained continuity of supply so far, but supply chains are starting to slow and tighten in some areas due to freight constraints, and a small number of suppliers beginning to use allocations on supply**. If the conflict continues, we anticipate an increased risk of supply disruption, rationing of key products and ongoing price increases.**
- **SME insolvency** risks are a big concern across both developer and contractor supply chain businesses.

What could be done?

- Government needs to do everything in its power to **reopen shipping in the Strait of Hormuz.** The impact of ongoing oil shortages will be immense.
- We understand that funding for the Boiler Upgrade Scheme was underspent. This could be usefully redirected to further **support electrification and support the housebuilding sector as it struggles with rising costs** - instance to incentivise housebuilders who wish to install heat pumps prior on new homes to the formal introduction of the Future Hoomes Standard.
- Homes England and the GLA should **index Social and Affordable Homes Programme grant rates to confirmed BCIS material and labour inflation** for schemes contracted post-28 February 2026, and under the new programme.
- Government could provide a **time-limited development finance guarantee or interest underwrite for stalled Joint Venture regeneration** schemes with local authority partners.
- **Accelerating planning decisions and the Building Safety Regulator gateway reviews** would help to compress the period during which cost inflation erodes viability.
- It may be possible to **support local production** of some key products, such as brick manufacturing.
- The Government could consider **delays to the UK Carbon Border Adjustment Mechanism** (CBAM) which could add 0.5% to the cost of a typical £50m low to medium rise flatted housing.