Isle of Man Government

Reiltys Ellan Vannin

Review of the impact of rising construction costs on brownfield regeneration

Interim Report – July 2026

July 2026

Foreword

Foreword by the Minister for Treasury, Chris Thomas MHK

In recognition of the importance of regeneration and development to the Island, Treasury, with the approval of the Brownfield Regeneration Steering Group, requested a review of the impacts of rising construction costs on brownfield regeneration.

The purpose was to assess how rising construction costs are affecting the viability of brownfield regeneration on the Isle of Man and to evaluate the implications for both the Manx Development Corporation (MDC) and Government's existing and future strategy. The review was to also examine the effectiveness of current Government support mechanisms—including Department for Enterprise (DfE) schemes such as the Island Infrastructure Scheme (IIS)—and identify further options to promote private or public/private sector development of brownfield sites. The terms of reference for the review are attached.

Atkins Realis were appointed to undertake the review and requested to report back in June 2026, which they have done.

In completing this work a large number of workshops and interactions with many people representing different interest groups and sectors were held. I would like to record my thanks to all of the external and internal stakeholders who took part in the development of this piece of work.

This policy development work was recently considered in Treasury and in the Brownfield Regeneration Steering Group. It is decided:

- To release an interim report which considers the impacts and scale of cost rises and sets the scene for the challenges that are being faced in respect of brownfield regeneration;
- To continue to develop policy options for consideration by the next administration in respect of:
    - The future function, role and operating model of the Manx Development Corporation;
    - The range of government interventions and support policies that are available and the mechanisms for their deployment; and for
- The DfE to bring forward proposals for a further round of the Island Infrastructure Scheme.

I expect that the full report and policy options will be presented to Tynwald before the end of the current calendar year.

INTERIM REPORT

Review of the impact of rising construction costs on brownfield regeneration

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Access the impact of construction cost inflation and market implications	100130150	30 June 2026
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INTERIM REPORT

AtkinsRéalis has been appointed by the Isle of Man Government's Treasury Department (the Client) to undertake a review of the impact of rising construction costs on brownfield regeneration and Manx Development Corporation (MDC) and Government's existing and future strategy.

One of the key objectives is to assess the impact of construction cost inflation and market implications.

We took a comprehensive data and document review and met with a range of developers and construction experts to understand the practical insights into market conditions, barriers to brownfield regeneration, and contractor capacity. A series of questionnaires were issued to provide structure around the discussion (Appendix A). This interim report will form a wider consideration and discussion on how has the financial situation impacted on brownfields site development.

1. Introduction

It is well established that costs associated with development and regeneration projects have increased significantly in recent years. Across the Isle of Man, rising construction costs, inflationary pressures, infrastructure requirements, financing costs, labour shortages, and wider market uncertainty are all contributing to growing viability challenges for development schemes, particularly within the brownfield sector.

These challenges are further amplified within a market where residential sales values, commercial rental levels, and investment yields have either remained static or grown at a lower rate than inflation for a prolonged period. While development costs continue to rise, end values have not increased at a sufficient rate to maintain viability across many schemes. This is creating significant viability gaps, particularly on complex urban regeneration projects where abnormal development costs are already high. In many cases, the delivery of regeneration projects themselves will be required to help stimulate wider market growth, improve confidence, and strengthen long-term investment performance. However, this can only realistically be achieved through the creation of a sustained and visible development pipeline capable of giving occupiers, developers, investors, contractors, and funders confidence to commit to the Island over the long term. Increased market activity and longer-term certainty may also help reduce development costs over time through the establishment of stronger on-Island expertise, supply chains, and contractor presence.

Brownfield sites present additional complexity and uncertainty when compared to greenfield development opportunities. Ground conditions, contamination, remediation requirements, infrastructure constraints, demolition costs, utilities diversion, flood mitigation, and other abnormal development costs can significantly impact viability before development has even commenced. In many cases, the full extent of these risks is not understood until intrusive site investigations and technical assessments are undertaken, increasing both cost exposure and delivery uncertainty. As a result, brownfield regeneration schemes are often more financially sensitive to wider market fluctuations and cost inflation than conventional development projects.

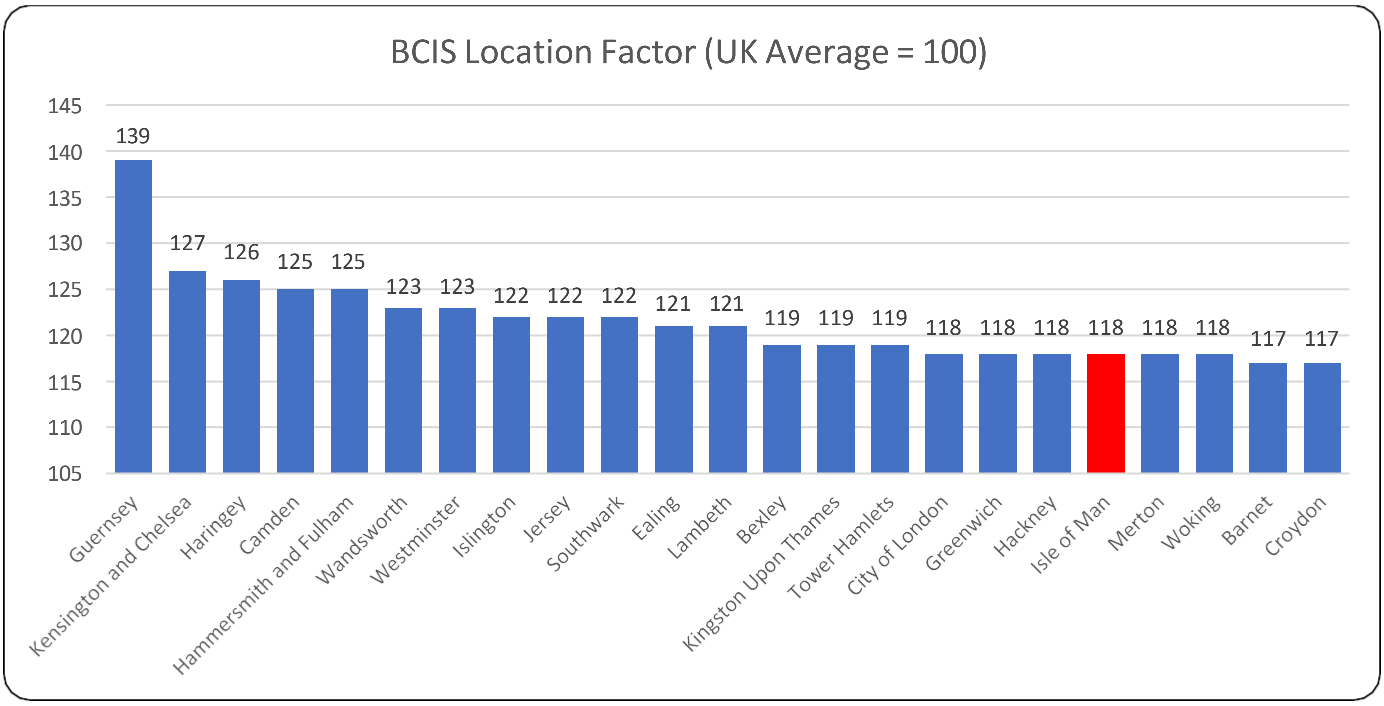
This section therefore explores the key cost pressures and wider market implications influencing brownfield site development across the Isle of Man and assesses how construction cost inflation and related financial challenges are impacting the viability and deliverability of regeneration schemes.

2. Inflation Trends and Tender Price Implications

2.1 Introduction

- According to the Building Cost Information Service (BCIS) the Isle of Man ranks as the joint 16th most expensive place to build in the UK, it's location factor of 118 indicates that it is 18% above the UK national average.
- Construction costs in the Isle of Man are comparable with Outer London driven by its location, This includes the need to import most construction materials, the set-up of the labour market on the Isle of Man and using off Island contractors with the additional costs and risks involved.

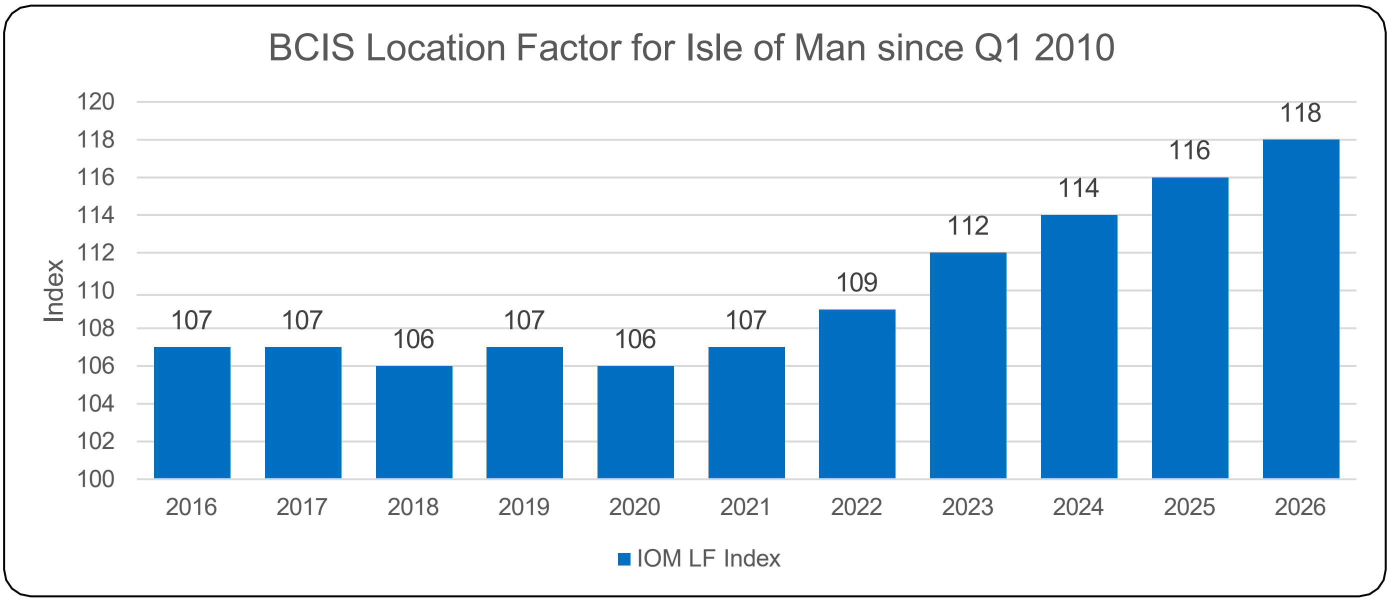
Figure 2-1 BCIS Location Factor



Source BCIS

- Many stakeholders referred to a 20 – 30% uplift over UK construction costs, tying in with the BCIS location factor.
- A telling statistic is the change in the BCIS location factor. The UK national average is 100, 10 years ago the Isle of Man stood at 107 and since the start of this decade we have seen a steady increase with it now standing at 118, a rise of 11% since 2020.

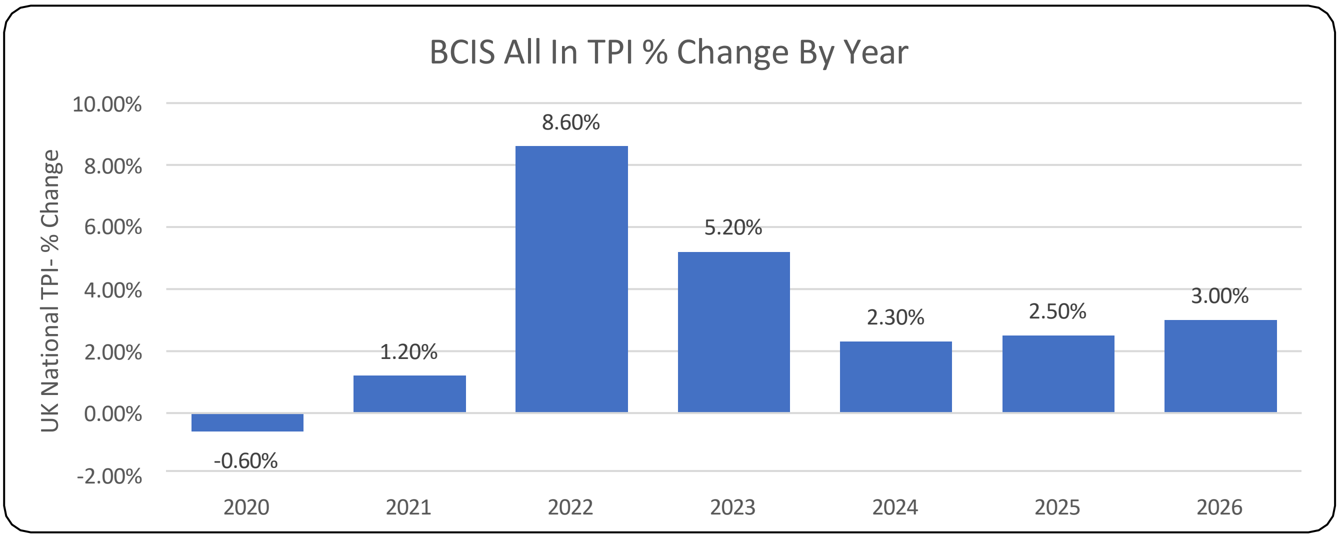
Figure 2-1 BCIS Location Factor for IoM since Q1 2010



Source BCIS

- For the location factor to move it means that the rate of inflation in an area diverges from the norm, often the result of a constrained labour market or reliance on transporting materials. To verify that these arguments the islands of Guernsey and Jersey were tracked over the same period and exhibited similar trends.
- Since Q1 2020 according to the BCIS the All In Tender Price Inflation has risen by 23.5% which suggests that tender prices on the Isle of Man will have increased by around 35% in this period to reflect the increase in the location factor.

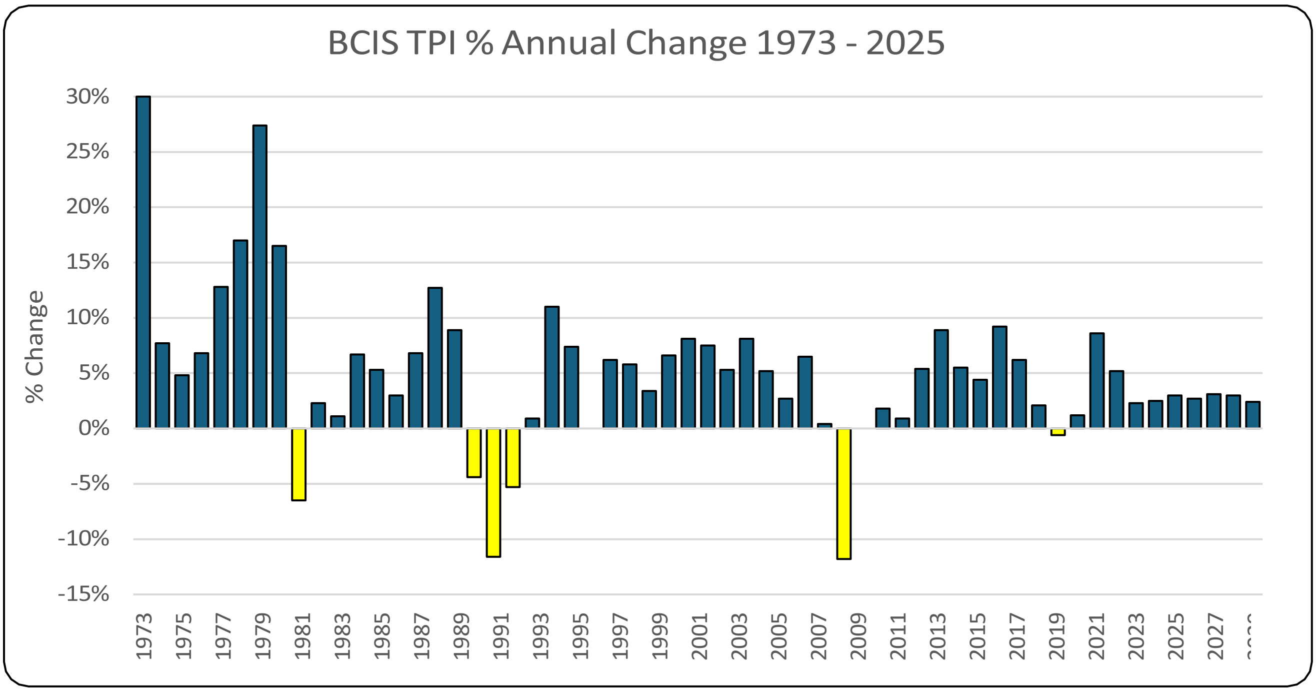
Figure 2-2 BCIS All In TPI % Change by Year



Source BCIS

- The forecast for 2026 was published prior to the start of the Middle East conflict and does not account for inflationary pressures caused by it. The latest AtkinsRéalis forecast, based on the conflict ending in the 2nd quarter of 2026 is 4.75% which will rise the longer the conflict continues.
- Looking at historical trends for tender price inflation, 1973 presents a similar situation to that encountered today. The Yom Kippur war between Israel and several Middle Eastern countries took place and we also endured the OPEC oil embargo. Tender prices for the year, according to the BCIS, were 30%.
- Since then, we have only seen six years where according to the BCIS All In TPI have tender prices fallen for the year. Five of these were because of major recessions and the sixth was due to a global pandemic.

Figure 2-3 BCIS TPI % Annual Change 1973-2025



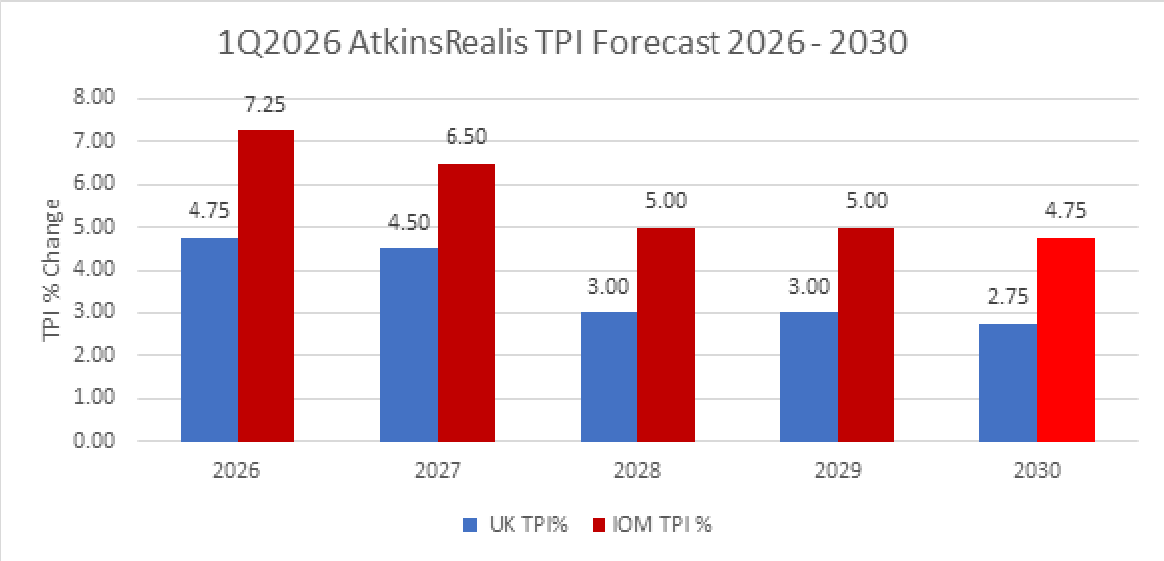
Source BCIS

- The message here is that even in uncertain times tender prices rise and delays on decisions may not offer reduced costs and better economic conditions.

2.2 Local Forecast for Isle of Man

- In interviews held with contractors and consultants based on the island the consensus is that tender prices will rise by 7 – 7.5% for 2026 and 2027 based on the current conditions.
- This backs up the recent trend of inflation rising faster on the Island than on the balance of the UK.
- While some of this can be attributed to increased costs in materials and transportation, there are other factors that contribute such as reduced competition due to local contractor insolvencies and downsizing of other local firms. Importing contractors from off island sources comes with an increased premium as a result of using larger contractors with increased overheads and the additional labour costs.

Figure 2-4 2026Q1 AtkinsRéalis TPI Forecast



- AtkinsRéalis have prepared their forecast for the period 2026 – 2030, this forecast has been prepared after the commencement of the current Middle East conflict and reflects the feedback we have received from the stakeholders we have interviewed.
- The Island faces a period of greater construction inflation than the UK. This is in part a reflection of increased transport costs affecting both labour and materials. The limited labour force contributes to the higher inflation with wage pressures providing a significant cost driver. To ensure viability decisions will need to be made quicker to reduce the inflationary effects

2.3 Inflationary Cost Drivers

Traditionally, the cost of a project is assigned as 50% materials, 45% for labour and 5% for plant. However, it is clear that uncertainty is also a major influence on costs on the Isle of Man. Delays to projects getting on site means that contractors must either allow a larger contingency in their tender sums or have contractual clauses that assist with extra material costs as a result of delays, especially when the market is volatile.

2.3.1 Materials

- The island is reliant on imported materials, except for a small quantity of aggregates and concrete blocks. With no local competition for supplying materials and projects not offering sufficient size of order or regularity of pipeline building merchants and contractors are unable to leverage price discounts.
- With materials being imported when pricing a tender annual transport increases need to be allowed for, therefore if a project is delayed this means that the cost of importing materials must be accounted for.

- Another concern is that once the cost of fuel increases then transportation costs increase, this applies to both road and sea transport and the impact of fuel increases on logistic supply chain will be felt more acutely on the Island than other parts of the UK.

2.3.2 Labour

- The labour market in the Isle of Man shares the same characteristic of the UK in that there is a lack of suitable skilled workers in both blue- and white-collar workers. In recent years both contractors and consultants have reduced numbers. This has meant a loss of experience and the ability to deliver projects on the Island without potentially resourcing to the off island providers.
- This downsizing has altered the set-up of contracting organisations on the island contributing to the high construction costs.
- The downsizing has meant that there are few medium or large contractors employing more than a dozen employees, those that do generally are engaged in work that have some design portion attached to them. This results in them having to sub-contract work out either to UK workers or to small local firms.
- These are the typical small self-employed “man and a van” tradesmen who work on the domestic household projects. These reward the tradesmen well and the wages that they can earn are higher than for directly employed labour. When used on commercial projects they expect a high rate of pay and work only as labour only sub-contractors and require materials purchased and managed on site by principal contractors.
- Commentary suggests that UK traders were felt to have a higher output than some local traders. This therefore incurs extra expense to labour costs as projects take longer to deliver.
- Bringing labour from the UK, specifically the North West (Manchester and Liverpool) with a booming market in Manchester means the size of project must be larger enough to attract them. While the standard of work is better than the local contractors it comes at an extra cost with travel and accommodation costs needing to be met.

2.3.3 Pipeline / Procurement Process

- The production of either a clear strategic plan and/or the current working capital project programme with indicative values will greatly help Contractors understand the scale of government backed commitment into social infrastructure assets. This should be over a number of years and showcase projects that the Government is committed to deliver, rather than a wish list.
- Without a guaranteed pipeline of larger project work over several years, consultants and contractors are unable / unwilling to invest in new plant, retain existing skilled workers and train apprentices and employees further driving the cost of labour upwards as they resort to sub-contracting work.
- The reduction in workers impinges on their resources to deliver project. Organisations don’t possess the required manpower to undertake the work and releasing experienced individuals reduces in-house knowledge leading increased time spent on tasks and to poorer information provided to contractors increasing cost contingencies to insulate themselves against any risk arising from this.
- At present there are few Manx contractors that have a turnover over £10m per annum. This presents a challenge to enter into a contract for projects over this amount as it tries up resources and presents a high risk to the contractor if the project is held up or costs are higher than anticipated. As a result they would look to insulate themselves from risk and present tender bids at a higher level than expected.

- For an off island contractor to be interested in working on the Isle larger Tier 1 contractors would be looking for a pipeline of work to sustain themselves over a period of 5 - 10 years to enable them to build relationships with local contractors and establish supply chains. It would make commercial sense given the greater overheads involved for their presence to remain on the island, during which time they could employ local contractors while bringing in specialists from the UK.
- For UK Tier 2 contractors, those with turnover around £50m per annum, the size of the first project would be an important consideration given the risk involved in operating on the Isle for the same time. With a booming North West economy many contractors may elect not to take on the risk without further suitable incentives with potential work over the next few years.
- Although there are no firm figures regarding the use of larger contractors, it is accepted that a premium of 7 – 10% should be allowed. This includes an allowance for greater overheads including pre-construction resource levels, programme and risk management capability, supply-chain management overhead., compliance, assurance, and reporting frameworks and the incorporation of national-scale support functions, digital systems, and safety governance. Tier 1 & 2 contractors also have higher profit margins than smaller contractors.
- The selective use of a UK based contractor will bring expertise to the Island enabling the delivery of more complex brownfield developments. At the same time it enables the use of local firms as sub-contractors, allowing them to re-invest in their labour and plant resources and keeping money on the island.

2.3.4 Planning

- It appears that the Manx planning process is under resourced and straining to cope with development plans. As a result, many applications are stalled and this brings into the question of projects maintaining viability in a market facing upward pressure.
- As well as the process taking a long time, interviews have drawn criticism of changing demands after pre application meetings, inconsistency with agreeing solutions and additional demands make at sign-off stage. These contribute to contractors having to allow contingencies in their pricing leading to extra costs.

2.4 Labour Access Across the Island

- It is estimated that the construction sector employs between 2,800 and 3,000 people in total. Of these about 60% are involved with core trades such as bricklayers, carpenters, roofers, etc. with many people employing skills across multiple trades as would be expected with the housing being the primary construction sector on the Island. Domestic services and civil engineering trades are also evident with a limited workforce of specialists including piling, steel erectors and M&E contractors which often require off-island support.

- This mix of trades has been driven by construction activity dominated by housing and small commercial projects. However, all stakeholders reported skills shortages across all site and consultancy fields.

- Labour availability across the Isle of Man represents one of the most significant constraints affecting the construction sector. Stakeholder feedback consistently identified a limited, fragmented workforce which is driving both cost escalation and programme risk. The escalation in IOM based labour rates is the competition between the commercial market and the domestic market. The latter is more attractive to the small tradesman as the income can be greater than a regular job with a contractor.

2.4.1 Competitive Pressure Across Projects

- The Isle of Man operates within a finite labour pool, resulting in competition for resources when multiple projects are underway concurrently.
- Stakeholders reported that:
  - Major developments can absorb substantial portions of the available workforce for extended periods, reducing labour availability for other schemes
  - Contractors are increasingly selective in tendering, prioritising projects of sufficient size and value to justify mobilisation and resource commitment
- This dynamic leads to:
  - Labour shortages during periods of peak activity
  - Frequent reallocation of labour between projects, as contractors respond to programme pressures, shifting priorities, and commercial considerations
  - Disruption to delivery continuity and reduced overall efficiency across the sector

2.4.2 Limited Workforce and Market Structure

- The construction labour market on the Island is widely described as fragmented and capacity constrained.
- Key characteristics include:
  - A reduction in the size and capability of principal contractors, linked to a declining and inconsistent project pipeline
  - Growth in the number of sole traders and small subcontractors, particularly within traditional trades serving the domestic housing market
  - The loss of specialist trades, with some skills now largely dependent on imported labour
- Due to limited domestic capacity, the sector is increasingly reliant on:
  - Labour-only subcontractors
  - Imported labour from the UK and Ireland increase project costs, reflecting additional travel, accommodation, and management costs
- This market structure reduces overall capacity and limits the Island's ability to deliver larger or more complex projects efficiently.

2.4.3 Recruitment Challenges

- Recruitment challenges are widespread across the sector and affect both trades and professional services.
- Stakeholders identified several key issues:

    - A shrinking workforce, with tradespeople moving towards smaller domestic projects or exiting the sector altogether
    - An ageing workforce, raising concerns about long-term sustainability
    - Changes to the Isle of Man apprenticeship policy in 2024, which reduced or removed incentives for larger employers have had a disproportionate impact on the sector
- Construction firms, which traditionally play a central role in delivering apprenticeships, have responded by reducing participation, thereby limiting the intake of new entrants into the workforce.
- Additional challenges include:
    - A lack of pipeline certainty, restricting contractors' ability to invest in training and workforce development
    - Difficulty in attracting off-island workers due to uncertainty around long-term workload and opportunities

2.4.4 Productivity and Programme Impact

- The structure and availability of labour have a direct impact on productivity and programme performance.
- Key issues identified include:
    - Labour operating across both domestic and commercial markets, which can reduce productivity and output on larger commercial projects
    - Limited workforce availability extending project durations, as contractors adopt more conservative programming to manage labour risk
    - Increased preliminary costs, as longer programme durations require extended site management and overhead expenditure
    - Reduced flexibility to accelerate programmes in response to delays, due to constrained labour availability
- Collectively, these factors contribute to longer, less predictable project timelines and increased delivery risk, reinforcing the broader challenges facing the construction sector on the Island.

2.5 Local Talent Pool and Addressing Labour Shortages

The Isle of Man's construction sector is constrained by a limited and contracting talent pool, affecting both trade labour and the wider professional services market. Stakeholder feedback indicates that this is a structural issue linked to pipeline uncertainty, market scale, and lack of investment in skills development.

2.5.1 Structural Constraints in the Talent Pool

- Stakeholders identified a number of underlying structural challenges affecting the availability and sustainability of the workforce. These include:
    - A reduction in contractor and consultant capacity, driven by an inconsistent project pipeline.
    - Downsizing within professional services firms, including quantity surveyors and architects, reducing available in-house expertise.

  - The skill set of local labour force is based on developing domestic rather than commercial projects. The additional complexity of larger or brownfield schemes means that domestic skills do not transfer to them.
  - A lack of continuity in work, limiting firms' ability to invest in plant, workforce development, and training
- These factors are interrelated and self-reinforcing. Periods of reduced pipeline activity lead to downsizing and loss of capacity. In turn, this constrains the sector's ability to respond effectively when demand increases, contributing to upward pressure on costs and reduced delivery capability.

2.5.2 Programme-Based Procurement and Pipeline Certainty

- Stakeholders demonstrated strong alignment that pipeline certainty represents the single most critical intervention to address labour shortages and capacity constraints. Feedback highlighted that:
  - A clear forward pipeline of work would provide confidence for contractors to invest in labour, plant, and skills development
  - The absence of pipeline visibility has directly contributed to downsizing and reduced market capability
- The adoption of programme-based procurement approaches, including the packaging of projects into larger programmes or frameworks, was identified as a key opportunity. This approach could:
  - Improve efficiency and consistency of delivery
  - Provide the certainty required to attract off-island contractors
  - Enable local firms to scale operations and invest in workforce development

2.5.3 Role of Financial and Government Interventions

- Financial interventions, such as the Island Infrastructure Scheme (IIS), are viewed by stakeholders as critical to enabling project viability. However, their impact is considered partial if not aligned with wider market reforms.
- Stakeholders noted that:
  - Grant support can determine whether projects proceed or are abandoned
  - Funding mechanisms alone are insufficient to address underlying labour and capacity constraints
- Additional priorities identified include:
  - Improving awareness and accessibility of support schemes, particularly for smaller developers/contractors
  - Aligning financial interventions with broader measures, including pipeline certainty, skills development, and planning reform
  - Enhancing the relevance of local education provision, with concerns raised that current college courses are not adequately aligned with construction sector needs or effective in attracting young entrants to the industry

2.5.4 Attractiveness of the Island to Contractors and Professionals

Attracting contractors and professional services to the Island requires addressing a combination of commercial, structural, and skills-related challenges.

- **Pipeline and Opportunity**
    - Firms require a consistent and predictable workload before committing long-term resources
    - In the absence of such certainty, reliance on temporary or imported labour is likely to continue
- **Commercial Viability**
    - High project costs, driven by transport, labour, and risk, reduce the attractiveness of the market
    - Stakeholders noted that Government has the potential to influence certain cost drivers, including freight costs (e.g. through control of the Steam Packet service)
- **Skills and Training**
    - There is a need for sustained investment in apprenticeship programmes and structured training pathways
    - Skills gaps exist across both traditional trades and emerging areas, including renewable technologies and modern methods of construction

2.5.5 Role of Modern Methods of Construction (MMC)

- Modern Methods of Construction (MMC) were identified by stakeholders as a potential means of addressing labour shortages and improving delivery outcomes.
- Perceived benefits include:
    - Reduced reliance on traditional, labour-intensive trades
    - Improved programme certainty and predictability
    - Increased attractiveness to off-island contractors through more standardised delivery approaches
- However, limitations remain:
    - Fully prefabricated solutions can incur significant additional costs due to transportation
    - Adoption of MMC requires sufficient scale and a consistent pipeline of projects to be commercially viable

2.6 Implications on Delivery, Cost Certainty and Programme

Stakeholder evidence indicates that the combined effects of inflation, labour shortages, planning delays, and wider market constraints are having a significant and material impact on the Island's ability to deliver projects with certainty. These pressures are influencing cost predictability, programme reliability, and overall delivery capacity.

2.6.1 Cost Certainty

- Stakeholder feedback highlights substantial challenges in achieving cost certainty across projects.
- Construction costs on the Island are reported to be approximately 18% above the UK national average, aligning them with levels typically observed in Outer London. In addition, material price increases ranging between 16% and 30% have been recorded across the supply chain.

- These factors, when combined with labour constraints, are resulting in:
  - Increased contractor contingencies to manage risk exposure
  - Frequent repricing of cost plans, estimates, and tender submissions due to ongoing market volatility
- It was further noted that, based on BCIS Tender Price Index evidence, any reductions in costs are occurring from a significantly elevated baseline compared to the original base date, limiting the overall benefit of such decreases.

2.6.2 Programme Certainty

- Programme delivery is being significantly impacted by delays and external dependencies. Planning processes are a key constraint, with typical determination periods of 3–6 months, and potential appeal periods extending up to 9 months. Stakeholders reported that such delays can lead to cost increases of up to 10% before construction commences. Additional delays arise from:
  - Section 13 agreements
  - Government approvals and funding cycles
- Labour constraints further exacerbate programme risks, particularly due to reliance on imported labour. Stakeholders highlighted that:
  - Projects can experience delays exceeding one year during the planning stage
  - Cost escalation of up to 10% may occur prior to the start of on-site works

2.6.3 Delivery Capacity Constraints

- The Island operates within a finite delivery capacity, which is placing increased pressure on project delivery. Key constraints include:
  - A limited pool of contractors capable of delivering projects locally
  - Reduced competition at tender stage, contributing to higher tender returns
- As a result, there is increasing reliance on off-island contractors. While this can provide additional capacity, it comes with a cost premium reflecting increased management costs and increased labour costs.
- However, smaller and mid-sized projects often struggle to attract off-island contractors due to insufficient scale, further constraining delivery options.

2.6.4 Viability and Project Delivery Risk

- Brownfield sites are generally more complex and risky schemes than greenfield sites. Often complicated solutions are needed, requiring interaction between multiple stakeholders. These can lead to increased costs due to design solutions and delays.
- Stakeholders provided clear evidence of viability challenges:
  - Many brownfield projects are not viable without grant support
  - Some schemes have been postponed or abandoned due to cost pressures and risk exposure

    - Affordable housing requirements on brownfield sites can result in units being delivered at a financial loss under current pricing structures

- Additionally, infrastructure constraints (drainage, roads, utilities) increase cost and delay delivery.

2.6.5 Achieving Viable Timeframes

- Achieving reliable and predictable project timeframes is becoming increasingly difficult. Stakeholders identified several contributing factors:
    - Prolonged planning and approval processes
    - Labour availability constraints
    - Market competition for resources
    - Ongoing cost escalation during delays
- As a consequence:
    - Programme durations are extending and becoming less predictable
    - Delivery risk is increasing across all project stages
    - Confidence in commencing construction and achieving target completion dates is significantly reduced

2.7 Implications of Increasing Land Acquisition Prices and potential end values for schemes

- Land acquisition values and end development values continue to influence the viability and deliverability of brownfield regeneration schemes on the Isle of Man.
- While increases in residential sales values, rental values, and wider market confidence can help improve development viability, land values do not always move proportionately or rationally in response to these market changes. In many cases, landowner expectations increase ahead of actual market performance, creating additional pressure on development appraisals and reducing the ability of schemes to proceed viably.
- This issue is particularly relevant within a constrained market such as the Isle of Man, where development activity is relatively limited and regeneration projects themselves may be responsible for creating the market confidence and value growth that landowners subsequently seek to benefit from.
- Stakeholders highlighted that landowners will often delay disposal of sites until they believe the market has reached an optimal position, particularly where wider regeneration activity is expected to uplift surrounding land values over time. This creates a cyclical challenge whereby early-stage regeneration schemes — often the most difficult and viability-constrained projects — struggle to proceed because landowners seek to capture future value growth before the market has fully matured.
- This issue presents a particular challenge for Government and public sector landowners. As custodians of public assets, Government has a responsibility to demonstrate value for money and achieve appropriate value from the disposal of publicly owned land. However, this objective can conflict with wider regeneration

ambitions. In many cases, publicly owned brownfield sites may need to be the first developments brought forward in order to stimulate market confidence, demonstrate delivery capability, and catalyse wider regeneration activity across surrounding areas. By progressing sites at an earlier stage in the market cycle, Government may not always achieve maximum land value in the short term, yet the delivery of those schemes may ultimately create the market conditions that allow neighbouring private landowners to benefit from increased land values and stronger development opportunities in the future.

- As a result, there is a need to balance immediate capital receipt considerations against wider economic and regeneration outcomes. If Government wishes to stimulate development activity, attract investment, and support long-term economic growth, some flexibility around land value expectations may be required, particularly on strategically important brownfield sites. This does not necessarily mean undervaluing public assets, but rather recognising that land disposal can form part of a wider economic intervention strategy intended to unlock housing delivery, job creation, town centre revitalisation, and broader market confidence.
- The assessment of land value itself is also highly complex and does not always align with what a proposed development can realistically afford while remaining financially viable. In practice, land transactions are influenced by a range of factors including vendor expectations, alternative use assumptions, future market speculation, and willingness to sell. Landowners may choose not to transact if government influences such as political or policy chances are on the horizon. If a site is of strategic importance, a higher price therefore may need to be paid to secure the land.
- Comparable evidence is commonly used within land valuation approaches as it reflects transactions between a willing buyer and willing seller operating within the market. However, comparable values do not always provide a complete reflection of development viability, particularly on brownfield sites where abnormal development costs can vary significantly between schemes. Brownfield developments frequently incur substantial remediation, infrastructure, demolition, flood mitigation, utility diversion, and site preparation costs that are not always apparent within headline land value data. In many cases, these abnormal costs are effectively netted off the land value.
- Consequently, applying gross land value assumptions from other transactions without properly accounting for abnormal costs can distort viability assessments and create unrealistic vendor expectations. Stakeholders highlighted that this issue is particularly acute on brownfield regeneration schemes where land values are often considered on a gross basis despite significantly higher development costs and delivery risks than equivalent greenfield sites.
- The use of Compulsory Purchase Order (“CPO”) powers can support site assembly and help address fragmented land ownership; however, CPO powers typically, increase the costs associated in acquiring land. Landowners may seek enhanced compensation or price in anticipated future development value during negotiations, which can increase acquisition costs and extend delivery timescales. While CPO remains an important strategic regeneration tool, it should therefore be considered as part of a wider land assembly strategy rather than a standalone solution to viability and acquisition challenges. The operation of CPO powers on the Isle of Man differs from the rest of the UK. On the Island, the process requires approval through Ministers and subsequently Tynwald, rather than proceeding through the Secretary of State. Given the closer relationship between Ministers and local communities, the use of CPO powers can present additional political and practical challenges. This is reflected in the relatively limited use of CPO powers on the Island to date. However, where there is a clear strategic need to assemble land in support of regeneration and wider economic benefits, consideration should be given to adopting a more proactive and enabling approach to the use of CPO powers as part of the Island’s long-term development and regeneration strategy.

- Traditional development exit models are increasingly evolving in response to viability pressures. Historically, many schemes relied on delivering and disposing of completed assets within relatively short development cycles in order to realise developer profit and investor returns. However, increasing construction costs, financing pressures, and constrained viability have resulted in greater focus on longer-term hold strategies. Under these models, developers or investors may retain completed assets for a period of time in order to benefit from operational income, rental growth, or long-term asset appreciation before achieving full exit value. This approach can help offset viability gaps and support more challenging regeneration schemes, but it also requires longer investment horizons, greater patient capital, and more sophisticated funding structures.
- In this context, there may be opportunities for Government and public sector bodies to adopt more flexible approaches to land transactions and partnership structures. For example, rather than seeking maximum upfront land receipts, public sector landowners could consider:
    - Deferred land payment arrangements.
    - Overage mechanisms linked to future scheme performance.
    - Equity participation within joint venture structures.
    - Land contributions into partnership vehicles.
    - Profit-sharing arrangements linked to completed asset performance.
- These approaches can help align public and private sector interests while reducing upfront viability pressure on development schemes. For example, agreeing a base land value through a joint venture structure and allowing both parties to share in future uplift above that position may provide a more balanced mechanism for unlocking development while still allowing Government to benefit from long-term value creation.
- Ultimately, rising land values continue to present a significant challenge to development viability, particularly within complex brownfield regeneration schemes where abnormal costs and delivery risks are already substantial. While stronger market values can improve confidence and investment appetite, increasing vendor expectations can equally undermine viability and delay development if not managed carefully.
- Strategic priorities may also require Government to consider delivery of brownfield land beyond their ownership. Land assembly can support Government in achieving their strategic priorities. A more flexible approach to land acquisition and partnership structures is therefore likely to be essential if regeneration delivery across the Isle of Man is to accelerate in a sustainable and economically beneficial manner.

2.8 Summary

- This section has assessed the impact of construction cost inflation and wider market conditions on the viability and delivery of brownfield development across the Isle of Man. The evidence demonstrates that a combination of sustained cost escalation, labour constraints, and structural market challenges is materially affecting the feasibility of regeneration activity.
- Construction costs on the Island have increased significantly in recent years and are now estimated to be approximately 18% above the UK national average. Tender price inflation has been particularly pronounced, with costs rising substantially since 2020 and expected to continue increasing at a rate above that of the UK. This trend is driven by a combination of factors including reliance on imported materials, rising transportation and fuel costs, and a constrained and fragmented labour market.

- Labour availability represents a critical constraint. The Island operates within a limited workforce, characterised by skills shortages, reduced contractor capacity, and an increasing reliance on subcontract and imported labour. These conditions have resulted in higher labour costs, reduced productivity, and extended project durations. Competition between projects for the same labour pool further exacerbates these pressures, reducing efficiency and increasing delivery risk.

- The absence of a consistent and visible pipeline of development has compounded these issues. Without long-term certainty, contractors and consultants are unable to invest in workforce development, training, or operational capacity. This has led to a contraction in both construction and professional services capability, further increasing reliance on off-island resources and contributing to higher overall project costs.

- Planning and procurement processes also present significant challenges. Delays in planning approvals and inconsistencies in decision-making introduce additional uncertainty and cost risk. Projects frequently experience prolonged pre-construction periods, during which inflationary pressures continue to increase costs, often eroding viability before construction commences.

- Brownfield development is particularly affected by these conditions. Such sites typically involve complex technical requirements and significant abnormal costs, including remediation, infrastructure provision, and site preparation. These factors, combined with wider market pressures, result in heightened sensitivity to cost inflation and increased reliance on public sector support to achieve viability. In many cases, schemes are either delayed or do not proceed without intervention.

- Land acquisition dynamics further constrain development. Landowner expectations often do not align with underlying development viability, particularly where anticipated future value uplift is priced into current transactions. This creates additional barriers to scheme progression, particularly for early-stage regeneration projects that are critical to establishing market confidence. It will be important for the public sector to create a strategy for land transactions that can be supportive in enabling wider regeneration objectives to be realised.

- The cumulative impact of these factors is a reduction in both cost certainty and programme reliability. Contractors are increasingly incorporating higher contingencies to manage risk, while project timelines are becoming longer and less predictable. Delivery capacity across the Island is limited, and competition is reduced, further increasing tender returns and project costs.

- In conclusion, construction cost inflation and associated market conditions are having a significant and systemic impact on the viability and deliverability of brownfield development on the Isle of Man. Addressing these challenges will require coordinated intervention, including the establishment of a stable project pipeline, targeted financial support mechanisms, investment in skills and labour capacity, and more flexible approaches to land and partnership structures. Without such measures, the delivery of regeneration schemes is likely to remain constrained, limiting wider economic growth and development potential.

Appendix 1- Stakeholder Interview Questionnaires

Construction Cost Inflation

Since around 2016 what factors would you say are the major factors in increasing construction costs?

- Materials
  - Has the closure of HSS and other builders merchants impacted on the cost and availability of materials?
  - Is there sufficient stocks of materials available or do you face waits in getting products.
  - Do you have to order direct from the UK for specific materials?
- Labour Costs
  - Is there sufficient skilled labour readily available on the island?
  - Are there any particular trades / skills that you have problems procuring – both traditional and green collar workers.
  - Do you need to use sub-contractors from the UK (or Ireland)?
  - If so, is this trend increasing?
  - If you don't mind me asking what premium is involved with bringing labour over?
- Transport Costs
  - How does the impact of fuel increases affect your business?
  - When you are tendering for projects how does the risk of increased costs affect your pricing?
- Regulatory Changes
  - How have the changes to the ban on fossil fuel heating in 2025 affected your costs?
  - Circling back to labour did you have problems with skilled labour for the changes?
- Are there any other factors contributing to costing decisions, such as insolvencies, lack of guaranteed work pipeline?
- Would a consistent pipeline contribute to steadier construction costs and better margins?
- What in your opinion would be one thing that would help steady construction costs on the Island?

Appendix 2 - Terms of Reference

Review of the Impact of Rising Construction Costs on Brownfield Regeneration and MDC and Government's Existing and Future Strategy

1. Purpose

To assess how rising construction costs are affecting the viability of brownfield regeneration on the Isle of Man and to evaluate the implications for both the Manx Development Corporation (MDC) and Government's existing and future strategy. The review will also examine the effectiveness of current Government support mechanisms—including Department for Enterprise (DfE) schemes such as the Island Infrastructure Scheme (IIS)—and identify further options to promote private or public/privatesector development of brownfield sites.

2. Objectives

Assess the Impact of Construction Cost Inflation and Market implications

- Quantify the impact of construction cost inflation on brownfield regeneration viability.
- Impact of land acquisition costs
- Commentary on local market capacity and values for completed schemes
- Assess implications for development risk, investor appetite, and programme delivery.

Evaluate MDC's Performance and Strategic Position

- Review MDC's performance within a high-cost environment.
- Assess the suitability of MDC's strategic direction, including its long-term asset-holding model.

Examine Financial Sustainability

- Evaluate how rising costs affect MDC's financial sustainability, funding requirements, and risk profile.
- Analyse the implications of higher subsidy requirements and alternative funding approaches.

Review Effectiveness of Existing Government Support

- Assess the performance and impact of relevant DfE schemes, including the Island Infrastructure Scheme.
- Determine whether current mechanisms sufficiently support brownfield delivery.

Identify Further Options to Promote Private-Sector Development

- Explore policy, financial, regulatory and partnership interventions that could increase private-sector involvement in brownfield regeneration.
- Benchmark against comparable jurisdictions.
- Provide a SWOT analysis of identified opportunities to ensure that related risks are identified.

Provide Recommendations

- Set out actions available to MDC, Treasury, DfE and Government to improve brownfield regeneration outcomes.
- Present strategic options for MDC's future model.
- Recommend enhancements to existing Government schemes and potential new tools.

3. Scope

In Scope

- Economic and financial impact of rising construction costs and markets on brownfield regeneration.
- MDC's role, governance, objectives, strategy and delivery performance.
- MDC's financial sustainability and future viability.
- Review of DfE schemes including IIS.
- Assessment of additional options for private-sector-led brownfield development.
- Comparative analysis with other jurisdictions.

Out of Scope

- Broader housing policy not directly linked to brownfield regeneration.
- Non-brownfield infrastructure development.

4. Key Issues

- How substantially have rising construction costs reduced brownfield viability?
- How effectively has MDC adapted its strategy and delivery model?
- Are existing DfE schemes sufficiently addressing barriers to brownfield regeneration?
- What further measures could Government deploy to promote private-sector development?
- What is MDC's long-term strategic and financial viability?
- Does Government's existing strategy remain appropriate, or should it be revised?

5. Methodology

Document & Data Review

- MDC financial statements, project appraisals, business plans, and feasibility assessments.
- Construction cost inflation data and market intelligence.
- DfE scheme documentation, uptake data, and case studies.

Stakeholder Engagement

- MDC Board and senior management.
- Treasury, DfE, Department of Infrastructure, Cabinet Office.
- Local developers, industry bodies and construction sector representatives.

Benchmarking

- Comparison with UK and international regeneration bodies facing similar cost challenges.
- Review of incentive schemes and funding models in relevant jurisdictions and associated benefits and risks as well as appropriateness to the Island situation.

Options Analysis

- Scenario testing of MDC's future role and funding requirements.
- Evaluation of improvements or reforms to DfE schemes.
- Assessment of new interventions to stimulate private-sector activity.

6. Governance

- **Sponsor:** Isle of Man Treasury
- **Reporting:** Final report submitted to Treasury for presentation to Tynwald
- **Review Team:** Treasury officers with external support as required

7. Deliverables

- **Interim Findings Note (end of Week 3):**
    - Early impact assessment
    - Summary of stakeholder feedback
    - Emerging strategic and financial considerations

- **Final Report (end of Week 6):**
    - Full analysis of cost impacts
    - Assessment of MDC's strategic and financial viability
    - Review of Government schemes (including IIS)
    - Options to support private-sector brownfield development
    - Recommendations for MDC and Government strategy

8. Timeline (6 Weeks)

Week 1–2: Evidence Gathering

- Document review and cost analysis
- Rapid stakeholder interviews
- Review of DfE schemes including IIS

Week 3–4: Analysis and Options Development

- Viability modelling
- Assessment of MDC strategy and performance
- Benchmarking and identification of additional private-sector options
- Interim findings shared with sponsor

Week 5–6: Finalisation

- Drafting of full report
- Internal review and revisions
- Submission of final report and recommendations