Navigating the Energy Shock:

What Rising Energy and Construction Costs Mean for Occupiers

Note: This briefing reflects market conditions and geopolitical developments as of late May 2026. The Middle East situation remains highly dynamic, with daily oil prices and diplomatic signals continuing to move; specific price references may be out of date by the time you read this. Our point of view — the structural exposure picture, the passthrough dynamics, the construction cost framework and the recommended occupier actions — is designed to hold across the range of plausible near-term scenarios. CBRE will issue a further update if the underlying picture changes materially. This briefing draws on consensus institutional forecasts and market data, Turner & Townsend's April 2026 construction cost analysis, CBRE's Energy team market intelligence and CBRE's own client benchmarking data.

Executive Summary

The Middle East conflict has triggered a significant global energy supply shock, with trade flows through the Strait of Hormuz—the world's most important energy trade route—severely curtailed since late February 2026. The result has been a sharp rise in oil and gas prices, higher near-term inflation and a delay to the monetary easing cycle that occupiers had been counting on for their capital programs.

A ceasefire in early April brought some initial price relief, but Brent crude has traded above $100 for most of May, remaining significantly above pre-conflict levels as the Strait of Hormuz stays largely closed (Trading Economics, May 19, 2026). Prices remain significantly above pre-conflict levels and have risen by over 70% compared with the same time last year. Structural damage to Persian Gulf energy production infrastructure means energy prices will not soon return to pre-conflict levels; gradual normalization is unlikely before 2028 (EIA Short-Term Energy Outlook, May 2026). Markets have already priced this in: The forward curve for Brent crude, as of mid-May, 2026, shows prices remaining significantly above pre-conflict levels for at least the next 18 months.

For occupiers, the impact affects costs related to building operations and construction and capital spending:

- **Building operating costs**, primarily energy bills for heating and power, are rising unevenly depending on geography, energy mix and contract type. European occupiers face the most acute exposure, particularly in gas-dependent markets including the U.K., Germany and the Netherlands. The U.S. is more insulated on gas price fluctuations but has exposure to oil-linked costs.

- **Construction and capital program costs are also rising.** Turner & Townsend's commodity model estimates an average 6.6% increase across 17 key construction materials under current oil price conditions, rising to 10.7% in a downside scenario where Brent rises to $125 per barrel.

1. What Happened and Why It Matters

On February 28, 2026, the U.S. and Israel launched a joint attack on Iran. The conflict rapidly curtailed trade flows through the Strait of Hormuz, the narrow waterway through which approximately 20% of the world's oil supply and a significant share of global LNG exports normally pass (EIA, World Oil Transit Chokepoints). The immediate market response was severe: Brent crude, which had been trading at around $60–$62 per barrel before the conflict, spiked to an intra-day high of approximately $120 per barrel, averaging $117 in April 2026 — the highest monthly average since June 2022 — before easing to $93 on May 28 as ceasefire negotiations continued without resolution (EIA Short-Term Energy Outlook, May 2026).

Although a temporary ceasefire took effect on April 8, 2026, the Strait of Hormuz has remained largely closed to commercial traffic. U.S.-Iran negotiations have stalled repeatedly, and as of mid-May, both sides were far apart on terms. Markets are treating this as a period of continued disruption, not resolution.

The reasons why the recent oil price pullback does not signal a return to normal are structural:

- **Physical damage to production infrastructure is done.** QatarEnergy, one of the world's largest liquefied natural gas (LNG) exporters, has confirmed that 17% of its production capacity has been destroyed and will take three to five years to repair once hostilities cease (Bloomberg, 2026). This alone will keep global gas markets tighter than pre-conflict norms well into the late 2020s.

- **Markets have priced in a long disruption.** ICE UK Brent futures pricing, as of April 14, 2026, shows forward prices remaining materially above both the six-month-ago and one-year-ago curves throughout the 2026–2028 period — the market's own verdict on the durability of the supply disruption (ICE/LSEG Datastream).

- **European gas storage is at its lowest seasonal level since winter 2022, before Russia's invasion of Ukraine.** With capacity below 30% as of March 2026 and an EU target of 90% by November 1, Europe faces a summer of forced restocking at elevated prices. TTF European gas prices have risen a further 25% since mid-April, reaching approximately €50/MWh as of publication — 43% above year-ago levels — as LNG flows from the Gulf remain severely disrupted. While the storage target is non-binding and governments retain flexibility in extraordinary circumstances, the scale of the refilling task means most buyers cannot afford to wait for prices to fall (CBRE Energy Market Flash, March 2026).

- **Interest rate cuts are delayed.** Both the U.S. Federal Reserve and the Bank of England, which had been expected to cut rates in 2026, are now firmly on hold. Market expectations have shifted further still. The futures market now assigns a 35%–40% probability of a Fed rate hike before year-end, following a hotter-than-expected inflation report in May. The European Central Bank is expected to raise rates twice in 2026 before reversing course in 2027. The monetary easing cycle that occupiers had been counting on to lower construction financing costs has not just been delayed but replaced by a materially more uncertain rate environment in which the next move could be in either direction (CME FedWatch Tool, May 19 2026; J.P. Morgan Global Research, April 2026).

Key Takeaway

> The ceasefire creates a window of relative price stability, but the structural forces driving elevated energy costs are independent of the diplomatic timeline. Occupiers who act during this window are in a stronger position than those who wait for full resolution.

2. The Macro Picture

Inflation shock, not recession, in most markets

Consensus institutional forecasts characterize the economic impact of the oil supply shock as primarily inflationary rather than recessionary across the U.S. and Europe.

In the U.S. and Europe, growth has been delayed. Near-term GDP growth and consumer spending are weaker than previously forecast, as higher energy costs squeeze household and corporate budgets. However, once the monetary loosening cycle eventually kicks in, the forecast assumes a robust rebound. On a five-year average, GDP and inflation forecasts are broadly unchanged from pre-conflict projections for the U.S. and most of Europe.

Australia and Japan are exceptions. Both markets face weaker growth across the five-year forecast because their central banks are already responding to inflationary pressure with more aggressive monetary tightening. Australia's policy rate is expected to remain at elevated levels through 2027, giving it the tightest monetary policy of any major economy — a consensus view across institutional forecasters including Oxford Economics and Bloomberg. This is directly relevant for occupiers with significant Asia-Pacific portfolios.

China is emerging from a prolonged period of deflation, and the energy shock has pushed inflation modestly higher (+0.5 percentage points above prior forecast on a five-year average) through exposure to industrial commodity input costs. The PBoC remains in a loosening posture to support domestic demand, and 10 months of strategic oil stockpiles provide significant near-term resilience against the supply shock.

U.S. not insulated from energy cost spike

A common misconception is that the U.S., as a net oil exporter, is sheltered from the supply shock. It is not. Because oil is priced globally and transported relatively easily, U.S. domestic oil prices track global benchmarks closely, and imported goods carry the global price into the domestic economy through input costs. West Texas Intermediate (WTI) crude has traded as high as $118 per barrel since the conflict began, nearly double its pre-conflict level of $62, though prices have since eased to $93 per barrel as of May 28 as ceasefire talks continue (Trading Economics, May 2026; Turner & Townsend, April 2026).

Natural gas is different. Because gas is difficult to transport and store, there is no single global gas price. The U.S. Henry Hub price has been broadly unaffected by the conflict, remaining at around $2–$3 per million BTU. By contrast, European TTF gas prices and Asian LNG import prices have risen sharply from approximately $10 per million BTU before the conflict. TTF is currently trading at approximately €50/MWh as of mid-May 2026, with forward markets pricing elevated levels through 2027-28 (Trading Economics, May 2026; Argus Media). For occupiers, the gas cost story is largely a non-U.S. one. European portfolios face the most sustained structural exposure; Asia-Pacific markets (particularly Japan, South Korea, Singapore, and parts of Southeast Asia) face the sharpest near-term price shock.

Europe's gas vulnerability is structural

A qualitative shift in Europe's energy risk profile pre-dates the U.S.-Iran conflict but has been made acute by it. Following the post-2022 transition away from Russian pipeline gas, Europe became reliant on LNG from Qatar and the U.S. This shift introduced freight, liquefaction and re-gasification costs with no domestic equivalent and made Qatar the marginal supplier for European industrial and household energy. With gas now representing around 34% of its primary energy mix, Europe is becoming more dependent on the one fuel most vulnerable to Middle East disruption.

This has direct implications for occupiers with European real estate portfolios. Buildings that rely on gas for heating— the dominant heating source in the U.K., Germany and the Netherlands—are exposed to a structurally more volatile and expensive gas market, not just a temporarily disrupted one.

Market	Growth Outlook	Inflation Outlook	Central Bank Response	Occupier Risk Profile
United States	Below trend but resilient	Moderately higher near-term; easing by 2027	Holding at 3.50–3.75%; cuts removed from outlook; market pricing ~35–40% probability of hike in 2026 (CME FedWatch, May 19 2026)	Moderate: oil-linked costs; gas insulated
Eurozone	Modest near-term weakness; recovery expected	Higher near-term; ECB response dampens medium-term	Expected to raise rates twice in 2026 before reversing course in 2027; timing and magnitude debated (consensus, May 2026)	High: gas-dependent; inflation amplified
United Kingdom	Weakest major European economy near-term	Highest inflation risk in Europe; could breach 5% in 2026	Held at 3.75% in April (8-1 MPC vote); "forceful" hike language introduced; next decision June 18 (BoE MPC, April 30 2026)	High: sits between inflation and growth shock camps; most at-risk of transition. BoE hinted at "forceful" rate rises if inflation persists — which would amplify occupier cost pressures further.
Australia	Weaker across 2026	Notably higher; tightest monetary response	Held at elevated levels through 2026; tightest monetary policy of any major economy (Oxford Economics, May 2026)	High: tight monetary policy compresses demand
Japan	Growth weakest of major economies	Inflation elevated into 2027	Raising rates at faster pace than previously forecast (consensus, May 2026)	High: LNG-exposed; growth weakest
China	Broadly resilient; modest headwind	Modestly higher on commodity inputs	Unchanged; strategic stockpile resilience (consensus, May 2026)	Moderate: commodity costs rising; subsidized

The forecasts and market-implied pricing cited above are as of May 19, 2026. GDP and CPI figures reflect consensus forecasts; individual institutional views differ. Rate-cut cycles are largely on hold globally as central banks weigh the inflation implications. There is currently a notable divergence between economist consensus, which broadly expects policy rates to be on hold, and market-implied pricing, which anticipates a risk of policy rate hikes.

The macro forecasts above matter to occupiers not as abstract economics but because of how they translate into cost structures. Historical data shows that energy price shocks move from global commodity markets into building-level operating costs with lags that vary by country and regulatory environment. For occupiers, the relevant questions are: How much of my real estate operating cost is energy-exposed, when will I feel the impact relative to current market pricing and what does my contract structure mean for my options? The sections below address each of these.

3. Building Operating Costs: Your Energy Exposure

Energy is a material line item, and exposure varies widely

Energy is one of the largest line items in any FM budget. IFMA benchmarks indicate that energy accounts for approximately 19% of FM operating expenditure for a typical large organization. CBRE's TCO benchmarking data, drawn from 36 enterprise clients predominantly in the technology, financial services and industrial sectors, shows a range of 10%–50%, with a median of approximately 24%.

The variation by sector is significant. Across CBRE's client base, technology and telecommunications occupiers average approximately 32% of FM OpEx on energy, driven by the power intensity of data centers, server rooms and always-on infrastructure. Industrial & logistics occupiers average approximately 29%, reflecting the energy demands of large warehouse and manufacturing footprints. Life sciences occupiers sit in the middle at around 25%, while financial and professional services firms — with predominantly office-based portfolios — average approximately 19%, broadly in line with the IFMA industry benchmark.

For occupiers in any of these sectors, the current energy price environment translates directly into budget pressure at scale (CBRE GWS TCO Benchmarking Program, May 2026). Notably, electricity accounts for the overwhelming majority of energy spend across CBRE's client base, which matters because electricity prices in most European markets are set by gas at the margin. Buildings that don't burn gas directly are still exposed through their power bills. Whatever the precise figure for your organization, the direction is the same: A sustained increase in energy costs flows directly into your occupancy cost, lease economics and the terms of your FM contracts (CBRE GWS TCO Benchmarking Program, 2025; IFMA).

The critical question for any occupier is not what are energy prices doing but how exposed am I and when will I feel it? The answer depends on three factors: where my buildings are, what fuel those buildings primarily rely on and what kind of energy contract they have.

Geographic exposure: where the risk is concentrated

Not all markets face the same energy risk, and the gas versus electricity distinction is key. In most of Europe, electricity prices are linked to gas prices through the marginal pricing mechanism of power markets, which means that even buildings that do not use gas directly for heating are exposed to gas price volatility through their electricity bills. Buildings that heat with gas face direct exposure on top of this.

Drawing on energy intensity data and market structure analysis, the following markets are ordered by degree of exposure from highest to lowest:

- **Asia-Pacific:** Highest exposure (Japan and Singapore). Asia receives approximately 80% of Qatari LNG exports, making it the region most directly exposed to the supply loss. Japan, Singapore, South Korea and parts of Southeast Asia are most acutely affected as they import the majority of their gas and have limited ability to substitute alternative supply at short notice. Compounding the picture, replacement options are more constrained than in 2022: U.S. LNG terminals no longer have the spare capacity they had then, and European buyers are competing directly with Asian importers for the same limited pool of available cargoes. Australia is insulated on gas supply but faces the tightest monetary policy of any major economy, constraining real estate investment activity.

- **United Kingdom:** High exposure. The U.K. is heavily gas-dependent for both heating and power. The Bank of England is expected to look past the energy spike and not raise rates, a stance that would leave the U.K. as the major economy most at risk. The Ofgem price cap delays the passthrough of wholesale energy prices to consumers, but the 2022 experience showed that delay comes at a cost. When the cap released, the U.K. recorded the largest energy CPI peak of any major market at +59% year-over-year, as suppressed costs arrived all at once.

- **Germany and the Netherlands:** High exposure. Both markets have gas-linked electricity pricing and significant reliance on gas for commercial building heating. As an illustrative precedent, Germany's industrial electricity prices rose 80% between 2021 and 2023 as a direct consequence of gas price volatility (Statista, historical). While the current shock is different in magnitude and origin, the transmission mechanism (elevated wholesale gas feeding through to gas-linked power markets) is the same. More recently, CBRE's energy team has tracked front-month power prices in Germany rising 20% since the onset of hostilities, with Italy—Europe's most exposed market to Qatari LNG—seeing a 48% surge to €145/MWh.

- **United States:** Moderate and differentiated exposure. Domestic gas production means building heating costs in the U.S. are largely unaffected by the Middle East conflict. Oil-linked costs (diesel for fleet operations, asphalt and other petroleum derivatives in M&E) are material, particularly for facilities-intensive occupiers. Electricity, which accounts for the overwhelming majority of energy spend for most large occupiers, is largely insulated in the U.S. since American power markets are linked to domestic Henry Hub gas prices rather than the global LNG market. This is a meaningful distinction from European peers. The primary concern for U.S. occupiers is construction cost, not energy operating cost (see Section 4).

- **France:** Lower exposure. France's electricity grid is approximately 68% nuclear (RTE), which insulates power prices from gas market fluctuations. Buildings relying on gas heating remain exposed, but the electricity bill—typically the larger component of total energy cost—is relatively protected.

- **Nordics:** Lowest exposure. A combination of hydropower-dominated electricity and widespread district heating makes Nordic commercial buildings among the least exposed in Europe.

The passthrough lag: when will occupiers feel it?

How quickly wholesale energy prices affect occupier budgets depends heavily on geography and regulatory environment. The 2022 spike showed this clearly and the same dynamics apply today. The speed of passthrough depends heavily on regulatory environment and contract structure. In the U.S. with a largely deregulated energy market, the passthrough from oil to energy CPI was essentially immediate in 2022: Energy inflation peaked the same month as WTI crude oil peaked (June 2022) at +41.6% year-over-year. For occupiers on variable or market-linked energy contracts, exposure is felt quickly.

In European markets, regulated tariff structures created a lag. In the eurozone, energy CPI responded immediately but headline consumer price inflation took seven months to reach its peak (October 2022). In the U.K., the Ofgem price cap delayed the energy CPI peak by seven months, but when it arrived it was severe (+59% year-over-year at peak). Japan, which uses government fuel subsidies, saw the peak delayed by 10 months.

Market	Energy CPI Peak (vs. oil peak)	Lag	Peak Energy CPI YoY%	Key Factor
United States	Same month (Jun 2022)	0 months	+41.6%	Deregulated market; immediate passthrough
Eurozone	Same month (Mar 2022)	0 months	+44.3%	Wholesale gas/power prices moved instantly
United Kingdom	7 months after (Oct 2022)	7 months	+59.0%	Ofgem cap delayed then amplified the peak
Japan	Same month (Mar 2022)	0 months	+20.8%	LNG import prices moved immediately
South Korea	4 months after (Jul 2022)	4 months	+28.5%	Utility tariff adjustment cycle
Australia	Same quarter (Q1 2022)	0 quarters	+18.8%	Deregulated market; immediate passthrough

Source: Oxford Economics and Refinitiv historical data. Headline CPI lags energy CPI by an additional 3–7 months in most markets.

The practical implication: Organizations whose FM energy contracts were priced before February 2026 or that are on fixed contracts due for renewal in 2026–2027 may be significantly under-costed for the period ahead. The FM budget impact of a wholesale energy spike typically follows the market by 6–12 months, meaning the full run-rate impact of the current shock likely will be felt in FM budgets from H2 2026 through 2027 even if headline prices ease somewhat from current levels.

Contract type determines exposure

Not all occupiers face the same exposure even within the same geography. The key variable is contract structure:)

- **Variable or market-linked contracts:** Occupiers on variable contracts are likely already paying higher energy costs or will at their next repricing cycle. The current window of relative price relief while the ceasefire holds and prices remain below their peak is worth considering as an opportunity to lock in a fixed price.

- **Fixed-price contracts signed before February 2026:** Occupiers are currently protected, but face a potential step-change at renewal. Occupiers whose contracts are set to renew in 2026 or 2027 will be exposed to the full market increase at that point. It is worth initiating that conversation early rather than waiting for the renewal date.

- **Fixed-price contracts with energy indexation clauses:** Some contracts include provisions that allow pricing adjustments based on energy cost indices. We recommend reviewing whether these clauses are active in existing agreements and understanding what the trigger mechanisms are.

4. Construction & Capital Programs

Diesel is the transmission mechanism

The link between oil prices and construction costs is diesel. It powers virtually every piece of machinery on a construction site, and when oil moves, diesel follows quickly and at scale. The correlation between WTI crude oil prices and U.S. diesel prices is strong and well-documented: Over the past 25 years, changes in WTI caused approximately 78% of changes in U.S. diesel prices (Turner & Townsend, April 2026). WTI crude was trading at $62 per barrel before the conflict began on February 28, 2026. It peaked intra-day at $114 on April 6, 2026. Diesel, tracking in parallel, rose from approximately $3.80 to $5.60 per gallon by April 13, a 47% increase in seven weeks. As of mid-May 2026, diesel remains approximately $5.40–$5.60 per gallon nationally — a 42%–47% increase from the pre-conflict price of $3.80 (EIA, May 2026). The U.S. Bureau of Labor Statistics Producer Price Index (PPI) for construction inputs has already increased from a 2025 annual average of 325 to an end-of-March reading of 340, reflecting the diesel surge almost immediately (Turner & Townsend, April 2026).

Material prices were already elevated before the conflict. PPI data for Q4 2025 showed year-over-year increases of 17% for copper cable and rebar, 11.8% for ornamental and architectural metalwork and 8.6% for structural steel. The conflict has occurred during an existing inflationary trend, not a normalized baseline.

Quantifying the impact: T&T's commodity model

Turner & Townsend's U.S. construction economics team has modelled the passthrough of WTI crude oil prices into a weighted basket of 17 key construction commodities that underpin a typical large occupier fit-out or capital project. The results, updated as of April 20, 2026:

Commodity	Post-Conflict Baseline ($100 WTI)	Downside Scenario ($125 WTI)
Diesel Fuel	+28.4%	+53.4%
Steel Mill Products	+20.4%	+31.0%
Asphalt	+14.8%	+27.1%
Fabricated Structural Steel	+7.4%	+11.9%
Steel Pipe & Tube	+7.2%	+11.4%
Copper Wire & Cable	+6.3%	+9.4%
PVC Pipe	+3.6%	+6.7%
Softwood Lumber	+6.0%	+6.0%
Ready Mix Concrete	+1.5%	+2.1%
Cement	+1.0%	+1.0%
Basket Average (17 commodities)	+6.6%	+10.7%

Source: Turner & Townsend U.S. Construction Economics, April 2026. Post-conflict baseline assumes WTI at $100/bbl with 50% Section 232 tariffs on steel and aluminum already embedded. Downside scenario assumes WTI at $125/bbl. 12-month forward price change forecast.

The basket average of 6.6% under current conditions means that a project budgeted before February 2026 likely will be materially under-costed on materials alone before accounting for any labor cost movements, supply chain delays or the compounding effect on subcontractor pricing. In the downside scenario, a 10.7% materials cost increase is significant enough to change project viability for marginal programs.

What this means in real terms

To translate these percentages into tangible numbers, Turner & Townsend's 2025 Global Office Fit-Out Cost Guide provides useful benchmarks across the major occupier markets. London is currently the most expensive city globally for office fit-outs at US$551 per square foot for a high-specification project; New York follows at US$527 per square foot, with Tokyo and Singapore comparable to mid-tier European markets.

Mechanical and electrical services—HVAC, electrical systems and plumbing—are among the most energy-cost-sensitive components of a fit-out. M&E typically accounts for 20%–45% of total fit-out cost depending on the region and specification. The following indicative calculations illustrate the order of magnitude:

Market	Fit-out cost (high spec)	M&E est. at 30%	6.6% uplift on M&E	10.7% uplift on M&E
London (10,000 sqm)	US$59.3M	US$17.8M	~US$1.2M	~US$1.9M
New York (10,000 sqm)	US$56.8M	US$17.0M	~US$1.1M	~US$1.8M
Paris / Munich (10,000 sqm)	~US$43M	US$12.9M	~US$850K	~US$1.4M

Source: Illustrative calculations based on Turner & Townsend Global Office Fit-Out Cost Guide 2025. M&E estimated at 30% of total fit-out cost based on industry benchmarks. T&T commodity model uplift applied to M&E component only; actual project impact will depend on specification, scope, and contract structure.

These are order-of-magnitude figures for a single project. For occupiers with multiple active or planned construction programs across a global portfolio, the aggregate exposure is considerably larger. Any program budgeted before February 2026 should be reviewed against these benchmarks.

Supply chain & timing risks

Beyond commodity costs, the conflict has introduced supply chain disruptions that affect procurement timelines as well as prices. QatarEnergy and Aluminum Bahrain have formally declared force majeure on export contracts—legally suspending their delivery obligations—meaning customers have no contractual recourse and must source materials elsewhere (Bloomberg, 2026). Supply chain rerouting away from the Strait of Hormuz adds 10–14 days to lead times for components routed via the Cape of Good Hope. For projects with tight program timelines, these delays compound the cost impact: Late delivery of critical components can trigger liquidated damages or acceleration costs that dwarf the underlying material price increase.

5. What Occupiers Should Do Now

The ceasefire creates a window, not a resolution. Prices have pulled back from their peak, supply chains are partially normalizing and there is time to act before the next escalation or the winter demand cycle tightens markets further. The following guidance is differentiated by situation.

For occupiers with sizable European and Asia-Pacific building portfolios

- **Review energy contract type and renewal dates immediately.** Clients on variable contracts or approaching fixed-contract renewal in 2026–2027 are facing a potential step-change in energy costs. The current price **relief window is the right moment to lock in fixed pricing, not wait for further falls.**

- **Understand your gas vs. electricity exposure by market.** In Europe, U.K., German and Dutch portfolios are most exposed; French and Nordic portfolios are relatively protected on electricity. In Asia-Pacific, Japan, South Korea, Singapore and parts of Southeast Asia face the sharpest near-term LNG price shock, while Australia is insulated on gas supply but exposed to the tightest monetary policy of any major economy. Request a per-market energy cost analysis from your FM team if this data is not already tracked.

- **Review FM budget adequacy for 2026/27.** The 2022 precedent shows that the full FM budget impact of a wholesale energy spike typically arrives 6–12 months after the market move. Budgets set before February 2026 are likely under-costed for the period ahead. A contingency review now is preferable to a midyear budget variance.

For occupiers with active construction or fit-out programs

- **Re-baseline pre-conflict project budgets against current commodity costs.** Turner & Townsend's model estimates a 6.6% average increase in construction material costs at $100 WTI. Any program approved before February 2026 should be reviewed against this benchmark; the gap will be project-specific but is material for energy-intensive scopes.
- **Accelerate procurement of at-risk materials.** Steel, copper and asphalt are the most exposed categories. Where programs allow, locking in supply commitments now reduces the risk of both price escalation and availability disruption.
- **Review contract terms for inflation protection.** Force majeure clauses, change-in-law provisions and energy indexation clauses may all be relevant to the current situation. CBRE's commercial team can advise on which clauses are active in your specific contracts.
- **Stress-test program viability against the downside scenario.** At $125 WTI, the commodity basket averages a 10.7% increase. For marginal programs, this may change the investment case. It is better to surface this now than at contract award.

For occupiers with planned but not yet committed capital programs

- **Do not defer indefinitely.** The structural damage to Gulf LNG capacity means energy-linked construction costs are unlikely to normalize to pre-conflict levels for at least two to three years. The current window of relative stability may be as good as it gets in the near term.
- **Build in cost contingency now.** Any capital program going to approval in the next 12–18 months should include a materials cost contingency that reflects the current environment, not the pre-conflict baseline.

For all occupiers

- **Treat the ceasefire as a planning window, not a reset.** The forward pricing curve tells you what sophisticated energy markets think about the trajectory of prices, and it does not show a return to $60 Brent in the near term. Planning assumptions should reflect market pricing, not optimistic hopes for resolution.
- **Engage your CBRE account team.** The exposure picture and associated response varies significantly by geography, contract structure and portfolio profile. The analysis in this briefing provides a framework; account teams can help translate it into a view that is specific to your circumstances.

6. Outlook and What to Watch

Energy price normalization remains contingent on a diplomatic resolution that has yet to materialize. Under a base case where the strait reopens to consistent commercial traffic, the EIA projects Brent falling to $89/barrel by Q4 2026 and $79/barrel in 2027; UBS forecasts a somewhat slower descent to $85 by March 2027. Oil price forecasts from credible institutions currently span a meaningful range, reflecting genuine uncertainty about the pace of Gulf production recovery. The European gas picture is clearer: Forward markets are pricing TTF well above pre-conflict levels through 2027-28 because Qatar's LNG capacity reduction is a physical constraint that no diplomatic agreement can immediately fix (EIA Short-Term Energy Outlook, May 12 2026; UBS Oil Price Forecast, May 15 2026).

The escalation scenario — a wholesale resumption of hostilities — would push WTI toward $125 per barrel, triggering the 10.7% construction material cost inflation modelled by Turner & Townsend. Supply chains would tighten significantly and FM budget pressures would intensify.

Three indicators are worth monitoring closely in the coming weeks:

- **Progress in U.S.-Iran negotiations.** Any meaningful movement toward reopening the Strait of Hormuz will be the primary driver of energy price reduction.
- **Qatar LNG restart progress.** Any signals from QatarEnergy on production capacity restoration timelines will affect the gas price outlook, particularly for European and Asian markets.
- **Central bank signaling.** Watch for any shift in Fed or Bank of England communication about the timing of rate cuts. A more rapid return to easing than currently priced would reduce construction financing costs and provide some offset to material cost inflation.

CBRE will provide updates as the situation develops. For portfolio-specific analysis, including a review of energy contract exposure and capital program cost risk, please contact your CBRE Enterprise FM account team.

Sources and Acknowledgements

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