

Construction Industry Forecasts 2025-2027

Autumn 2025 Edition - £250





Contents

Overview	4
Upper Scenario	18
Lower Scenario	20
Economy	22
Private Housing	32
Private Housing RM&I	42
Public Housing	52
Public Housing RM&I	58
Public Non-housing	64
Public Non-housing R&M	76
Commercial	82
Private Non-housing R&M	100
Industrial	102
Infrastructure	108
Infrastructure R&M	128

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All construction figures (starts, completions, orders and output) refer to Great Britain.

All output figures are in 2022 constant prices using the historic figures from the Office for National Statistics (ONS) – as at 8 October when the Forecasts were finalised.

All new orders figures are in 2022 constant prices using the historic figures from the Office for National Statistics (ONS).

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Overview

The CPA's previous construction forecasts already highlighted key risks and uncertainties. Yet three months on, the risks and uncertainties around the impact of the government's impending tax rises on the UK economy and key sectors, such as private housing new build and repair, maintenance and improvement (rm&i), have only increased further. As a result, the forecasts have been revised down compared with earlier in the year. Key niches of construction growth remain, which will benefit some construction supply chains. However, other sectors are increasingly looking as though they will have to wait for a sustained recovery next year. Furthermore, this recovery is also likely to be slower than previously expected; therefore, the forecast for 2026 has been revised downward as well. As stated in the Summer, the only clear certainty remains uncertainty.

Overall, total construction output is forecast to grow by 1.1% in 2025 and 2.8% in 2026, which is a significant revision down from the 1.9% in 2025 and 3.7% in 2026 in the previous forecast. Firms across the whole construction supply chain (architects, cost consultants, main contractors, major house builders and developers, specialist subcontractors, builders merchants and distributors, as well as building materials and construction product manufacturers) report that, overall, activity has slowed since Spring, especially in private housing, infrastructure roads and commercial new build offices. Furthermore, firms reported that activity in private housing rm&i remains subdued. Firms are increasingly reporting that homebuyer,

homeowner, and investor confidence is becoming more fragile, exacerbated by uncertainty over the government's upcoming Autumn Budget and who will bear the brunt of the impending

tax rises (see [Economy](#)). However, demand in some smaller niche areas of construction continues to remain strong, such as data centres, gigafactories and energy infrastructure, as well as small, high-quality commercial refurbishment and fit-out.

Private housing remains the largest and most high-profile construction sector. It was worth £38.4 billion in 2024. Major house builders have reported that starts in the first quarter of the year were double-digit higher, compared with a very low base a year ago, whilst completions were single-digit higher. However, sales rates

Construction output to **rise** by

1.1%
in 2025

and

2.8%
in 2026



Key Points

- Construction output rises by **1.1% in 2025** and **2.8% in 2026**
- Private housing output rises by **2.0% in 2025** and **4.0% in 2026**
- Private housing repair, maintenance and improvement to be **flat in 2025** and rise by **2.0% in 2026**
- Infrastructure output to rise by **2.6% in 2025** and **3.9% in 2026**
- Industrial output to rise by **4.1% in 2025** and **2.6% in 2026**

have slowed considerably since March. In areas where demand has been sustained and affordability remains, house builders' site viability has been affected by the long and increasing list of additional costs imposed by the government, especially for smaller and medium-size house builders. On the other hand, in areas of the country where site viability has been maintained despite the government's additional costs, demand and affordability remain the key

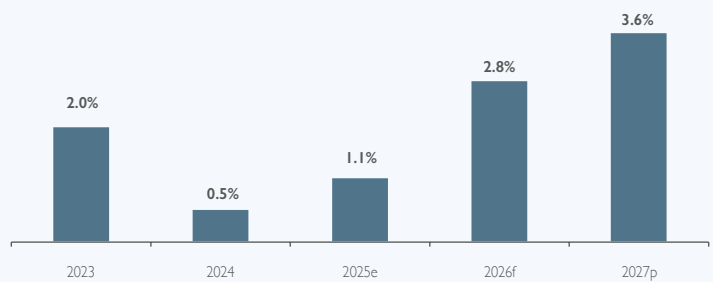
constraints. Build-to-Rent (BTR) investment remains robust, particularly outside the capital, but the majority of this investment is in the existing housing stock rather than driving increasingly costly new build. High-rise residential continues to be subdued due to persistent Building Safety Regulator delays at both Gateway 2 and 3 stages. This particularly affects new housing developments in London, which are also affected by the Greater London Authority's current requirement for 35% of new developments to be affordable and social housing.

The government continues to focus on planning, despite a lack of demand and affordability currently being the key constraint, and the Autumn Budget is likely to see the government announce further steps to ease planning, which may benefit house building beyond the forecast period. Reductions in interest rates may gradually help private housing demand, but interest rate cuts are likely to be slower than previously forecast due to stubborn inflation. Furthermore, rising concern in the financial markets around the government's debt, reflected in higher gilt rates, may also mean that subsequent interest rate cuts do not translate into similar falls in mortgage rates. In addition, the lack of government policy to enable home ownership, particularly for first-time buyers, by helping with deposits and/or mortgage rates, is likely to continue to be a constraint on homebuyer demand unless the government announces a stimulus in the Autumn Budget.

Theoretically, in the long-term, the government's announcement of the locations for its intended 12 New Towns may lead to a significant uplift in activity but, even if these were to occur, they are not expected to break ground until the next decade, well beyond the scope of the forecasts. Overall, private housing output is now forecast to rise by 2.0% in 2025 and 4.0% in 2026, a revision down from the previous forecast's 4.0% in 2025 and 7.0% in 2026.

Private housing repair, maintenance and improvement (rm&i) is the second-largest construction sector, worth £37.1 billion in 2024, according to the ONS. However, the CPA has persistently highlighted its concerns regarding the ONS construction output data, especially for rm&i, due to the energy and commodity price spikes in 2022, as well as potential problems with the ONS's sample and methodology. As a result, the ONS historical data should be treated with extreme caution.

Construction Output (% Growth)

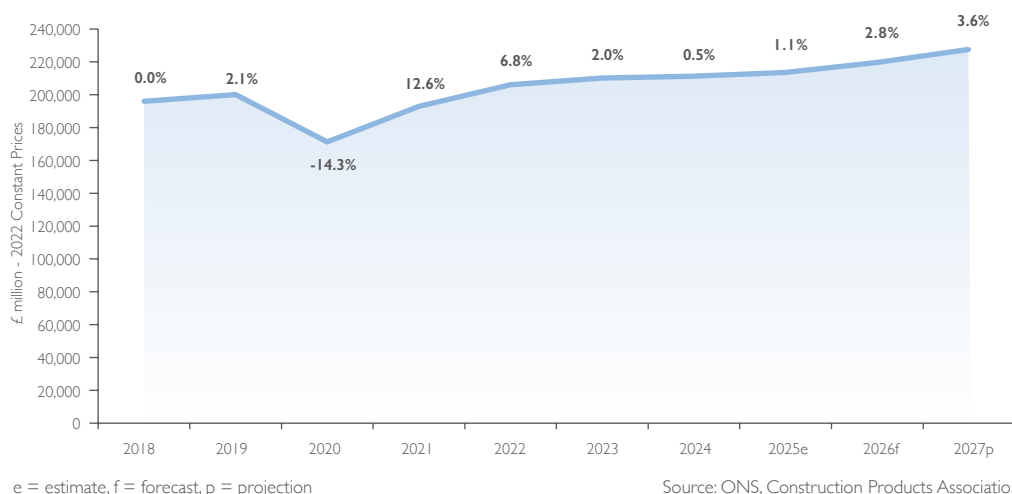


Source: ONS, Construction Products Association

Private housing rm&i
anticipated to
remain flat
in 2025



Construction Output



Due to these concerns, the ONS suspended its materials prices, producer price data, and construction output price data in March 2025, but it is still publishing its construction output data. Furthermore, the CPA has also highlighted problems in the ONS's private housing rm&i data, which appear to be occurring in 2025 and given that there is little evidence of volatility in materials input cost inflation this year, these problems appear to be in addition to the previous ONS construction output data problems highlighted by the CPA.

The indications from firms across the supply chain are that private housing rm&i activity remained subdued during the first and second quarters of 2025, although some outdoor work, such as landscaping, benefited from good weather in Q2. The CPA anticipated that households' sustained period of real wage growth, improved consumer confidence, and increased home moves would lead to a gradual rise in home improvement activity in the second half of this year and in 2026. However, despite sustained real wage growth, many households have continued to save rather than spend, primarily due to the high level of uncertainty and poor consumer confidence.

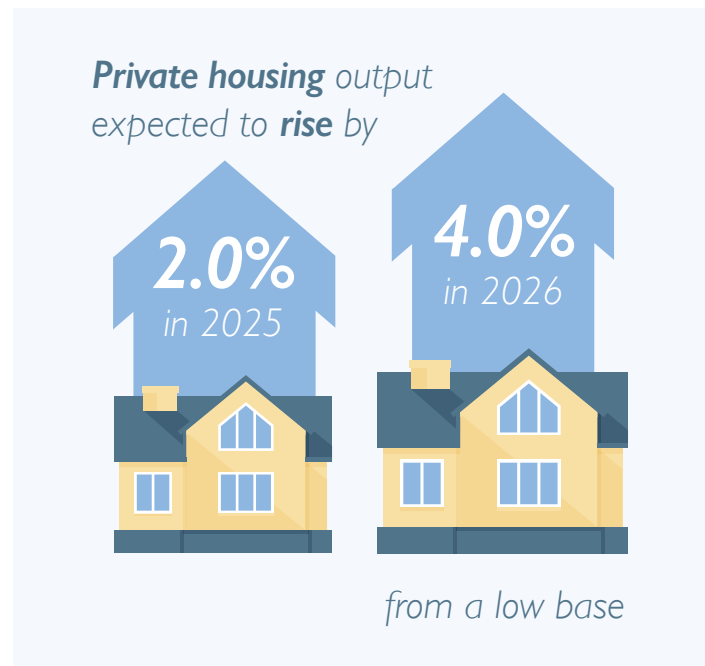
The CPA already highlighted in previous forecasts that a sustained recovery in private housing rm&i was only likely when homeowners felt confident enough to spend on discretionary items

Public & Private Sector Construction Output

£ million	2023	2024	2025	2026	2027
Change on previous year	Actual	Actual	Estimate	Forecast	Projection
Public Sector inc. PFI	48,681	49,683	50,441	51,952	53,994
	7.0%	2.1%	1.5%	3.0%	3.9%
Private Sector	162,022	162,170	163,736	168,184	174,106
	0.6%	0.1%	1.0%	2.7%	3.5%
Total Construction	210,703	211,853	214,177	220,137	228,100
	2.0%	0.5%	1.1%	2.8%	3.6%

Source: ONS, Construction Products Association

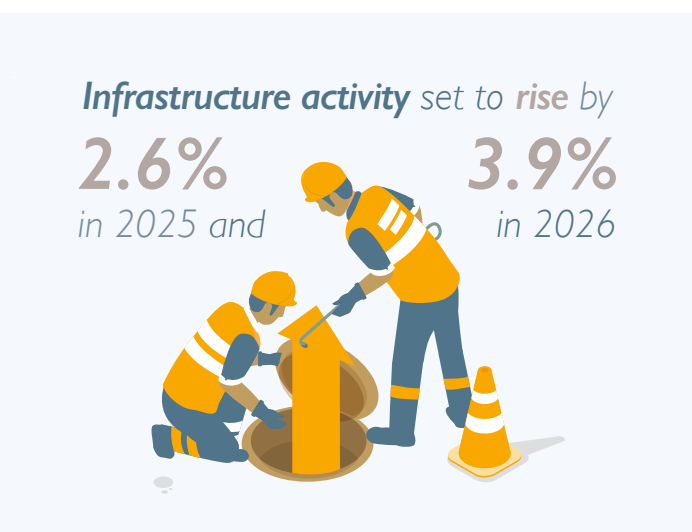
rather than save, particularly on big-ticket items. This is unlikely to occur until at least the Autumn Budget, given uncertainty over whether households will face tax increases. Furthermore, given that most rm&i tends to be subdued over Winter, this suggests that private housing rm&i recovery is only likely to be in Spring 2026 at the earliest. And, this assumes that the impending tax rises announced by the government in the Budget do not directly impact homeowners and, consequently, affect consumer confidence, which remains highly uncertain at this point. Some energy-efficiency retrofits, such as heat pumps and solar photovoltaics, subsidised by government, and essential fire safety remediation work, continue to be relatively strong small niches within the sector. Overall, private housing rm&i output is expected to now remain flat and only rise by 2.0% in 2026, a revision down from the growth of 2.0% in 2025 and 3.0% in 2026 previously forecast. Furthermore, risks to the sector remain on the downside.



Infrastructure is the third-largest construction sector, worth £29.7 billion in 2024, according to the ONS. Infrastructure activity remains very strong in some areas, particularly in energy generation, such as wind farms, and in energy distribution, due to National Grid upgrades. Activity continues on Hinkley Point C, although work has passed its peak, and on HS2, although there are rising concerns regarding whether the government's 'HS2 reset' may lead to delays going forward, without actually achieving demonstrable benefits in the long-term. In addition, the question marks continue over when major projects such as Euston station for HS2 and the Lower Thames Crossing (LTC) will actually occur, given that the government intends for them to be privately-financed. In October 2025, the UK government took control over the LTC due to concern over potential delays and cost overruns, but there is still little to suggest that main construction will begin before the end of the forecast period. In addition, despite the government's 10-year Infrastructure Strategy and £725 billion Infrastructure Pipeline, this Summer saw more roads and rail projects cancelled. As a consequence, the CPA anticipates that each year will continue to see transport projects delayed or cancelled. Road spending is expected to decline over the next few years under the new Road Investment Strategy (RIS), with headline figures indicating a cut in

funding compared to the previous RIS. The details of the new RIS have still not been published yet, despite the five-year RIS spending period starting in April. As a result, there is likely to be a hiatus in new projects near-term. Water companies' activity is still expected to ramp up in 2026, especially given the urgent need to address water quality issues. However, there is also concern that investment in AMP8 has so far been slow to materialise in terms of ground-level activity. Overall, infrastructure output is forecast to rise by 2.6% in 2025 and 3.9% in 2026.

Industrial output was worth £7.4 billion in 2024. Spikes in both large warehouse construction and factory construction during the pandemic have long since passed. However, after reaching new normal levels, both warehouses and, in particular,



factories are expected to grow over the medium-term. The warehouses sub-sector is currently being boosted by the start of larger smart warehouses and an array of small and medium-sized projects, whilst activity in the factories sub-sector will benefit from large gigafactories such as the £4.0 billion project in Somerset. However, as highlighted in previous forecasts, these very large one-off projects may be subject to delays, and sector activity may be volatile on a monthly basis in the industrial sector, which is a small sector. In addition, industrial output may be boosted by projects indirectly related to defence and renewable energy. Overall, industrial output is forecast to rise by 4.1% in 2025 and 2.6% in 2026.

Public non-housing output was worth £11.4 billion in 2024, with activity gradually accelerating on the School Rebuilding Programme this year. After initially being slow to start and then urgently needing to focus on RAAC-related schools, subsequent waves of the programme are expected to be substantially easier to deliver, allowing for earlier activity on the ground. There is a sharp increase in funding for the defence area and military housing, both new build and refurbishment, which will drive activity in the long-term, but whether this will be seen in the near-term remains a key issue. In the health sub-sector, it will be some time before the larger-value projects get underway on the New Hospitals Programme. However, activity is still expected to rise over the forecast period due to increasing government investment in the health sub-sector. In addition, theoretically, there should be a sharp increase in the capacity of prisons, probation, and courts, given that male prison capacity utilisation is currently at 99% and the Spending Review confirmed 3.1% per year increases in funding in real terms beyond the forecast period. Overall, public non-housing output is forecast to rise by 4.1% in both 2025 and 2026, which is a significant upward revision from the previous forecast of 2.2% in 2025 and 4.1% in 2026.

In the **Commercial** sector, which was worth £25.0 billion in 2024 according to the ONS, the key drivers remain similar to previous forecasts. Activity on smaller, high-end, high-value refurbishment and fit-out projects remains strong, although investors have become more cautious and price-conscious. Both construction and financing costs remain a major issue for large, new build commercial developments in the pipeline, which historically have dominated the commercial sector, and larger 'back to frame' refurbishment projects, where activity remains one-third lower than at the peak of the market in 2017. Furthermore, investors in these large commercial projects are increasingly hesitant to proceed due to growing uncertainty about the UK's economic outlook, rising borrowing costs, and the potential impacts of the government's Autumn Budget. Furthermore, the higher construction and financing costs compared to when these large commercial projects were initially envisaged remain key issues. There are still large new build commercial projects in the pipeline, as highlighted in previous forecasts. Still, overall growth in the sector will depend on when these investors feel confident enough to give the go-ahead, which is increasingly unlikely to be this year or the first half of 2026. Also within the commercial sector, student accommodation and university activity remain strong despite financial pressures on many universities. However, student accommodation projects starts are being delayed by 6-9 months at the Gateway 2 stage due to continuing problems at the BSR and then 3-4 months at Gateway 3 stage, which is also likely to impact project delivery and investors' interest in new projects. Data centres, as well as biotech and private health projects, also remain strong due to a strong appetite from investors and clear long-term rates of return. Overall, commercial output is forecast to fall by 1.9% in 2025 but rise by 2.3% in 2026. However, it is worth highlighting that over the past 18 months, the commercial forecast has persistently assumed that the larger new commercial projects in the pipeline will start in a year's time with better economic conditions, but as the recovery in economic growth and cuts to interest rates have consistently been pushed back, so has the recovery in new large commercial projects.

In terms of risks to the construction forecasts, the key negative risks include UK economic growth prospects, contractor insolvencies, the administration of ISG, delays to high-rise projects at the BSR, and the availability and cost of skilled construction labour (see [Key Risks](#)).

Recent Data

The CPA has consistently highlighted concerns about using the ONS volume of construction output data, as the ONS appears to have been overestimating output since 2022. As the CPA has frequently highlighted, the problems appear to affect all sectors but especially repair, maintenance and improvement (rm&i). The key problems appear to have arisen for two reasons: the ONS has underestimated construction costs and price inflation. Consequently, when it removed price from its construction output data, it overestimated the volume of construction output. Also, the ONS may have a survivor bias problem in its construction firm survey that it uses to estimate the value of construction output in a given month. The ONS surveys 8,000 contractors per month and grosses up to estimate the value of construction output in the whole industry. However, if it has been using the same factor to gross up for the entire industry, it may be overestimating activity since 2022 due to the rise in contractor insolvencies. It is worth noting that the ONS suspended its materials price and construction price indices in March 2025 due to reliability concerns. It is also worth noting that there now appear to be further serious problems in the ONS construction output data, which, once again, seem most prevalent in the private housing rm&i data.

Overall, total construction output in July 2025 was 0.2% higher than in June and 2.4% higher than a year ago, according to the ONS. Year-to-date construction output was 1.8% higher than a year ago, which was in line with the CPA's previous forecast of +1.9% in 2025. However, given the serious problems that appear to be in the ONS construction output data, the CPA's previous forecast being on track to meet the ONS data so far this year means very little, given the serious problems that the ONS appears to have in overestimating construction output.

According to the ONS, private housing output in July was 1.2% higher than in June and 7.6% higher than a year ago. Demand has gradually been rising throughout this year, according to the ONS. However, this is not in line with reports from house builders, which state that after a subdued January and February, demand rose but then slowed sharply in Q2 and July. Demand in areas of better affordability remains solid, but site viability is an issue due to the additional costs the government is adding to house building. In areas where site viability has been maintained, demand and affordability remain highly constrained. Also, high-rise developments continue to be affected by 6-9 month delays at the BSR.

The ONS construction output problems since 2022 are most evident in private housing rm&i, the second-largest sector. As highlighted above, the problems in the ONS data appear to be growing. According to the ONS, private housing rm&i output in March 2024 was 61.4% higher than in January 2020 and, more recently, according to the ONS, private housing rm&i output in July 2025 was 8.0% higher than in March. Again, this is not in line with the construction supply chain, which, in the main, highlights that private housing rm&i has broadly been flat so far this year. According to the supply chain, many homeowners have the finances available, but they have chosen to save rather than spend on smaller, discretionary works or start major improvement activities.

Infrastructure output in July 2025 was 0.9% lower than in June but still 5.5% higher than a year ago. Firms continue to report that activity on major projects already underway remained strong, and work remained consistent on long-term frameworks and programmes. Energy generation and National Grid capacity upgrades nationwide have driven the increases in activity so far this year, while road construction appears to be suffering from a lack of new, significant projects to replace those that have been finishing. Furthermore, although there is an intense urgency to address water quality issues, AMP8 appears to be relatively slow in ramping up so far.

Industrial output in July was 4.0% lower than in June, but still 12.5% higher than in the same month a year ago. As highlighted in previous forecasts, the quarterly breakdown by sub-sector shows that activity in the industrial sector remained volatile on a monthly basis. However, in 2025 Q2, it was boosted by a pipeline of small and medium-sized factories and warehouses after returning to a 'new normal' level last year following the temporary pandemic spike in industrial

activity. The monthly volatility in the sector appears to be driven by large one-off projects, as well as delays to these sizeable projects, such as the £4.0 billion Agratas gigafactory in Somerset, whilst, going forward, industrial output is likely to be boosted by the start of the £150 million Lidl warehouse in Morley and the Winvic 250,000 sq. ft. warehouse in Rugby.

Commercial output in July was 1.5% higher than in June but 6.5% lower than a year earlier, according to the ONS. Plus, it was 31.9% lower than in January 2020, before the pandemic. Growth in the sub-sectors of universities, private health and entertainment (hotels and stadia) has been offset by broadly flat office activity. However, as highlighted in previous updates, the broadly flat office activity masks the continued rise in small, high-quality office refurbishment and fit-out projects, which is being offset by a lack of new office developments and larger 'back-to-frame' projects. Whilst there are some larger projects in the pipeline, they continue to be pushed back, mainly due to investor uncertainty.

The UK Construction PMI, a quick, timely, small survey of purchasing managers at contractors that measures month-on-month change, was 46.2 in September, marginally higher than 45.5 in August and 44.3 in July (its lowest reading for over five years), according to S&P Global. However, it remained below the 50=no-change level, marking a ninth consecutive decline in activity, while business optimism changed little from August's 32-month low.

In September, there was a slower fall in both residential activity (46.8) and civil engineering (42.9), the weakest-performing sector, but a faster decline in commercial (46.4). A lack of new project starts was the main factor hindering activity, and order books deteriorated for a ninth consecutive month. Respondents noted subdued demand, elevated business uncertainty, and hesitancy among clients to sign off on contracts. But some firms highlighted new business related to energy projects.

There was also a ninth consecutive fall in employment numbers. Firms cited hiring freezes and the non-replacement of departing staff, although some reported a rise in the recruitment of apprentices. Some firms reported hopes of a boost from infrastructure spending, energy sector demand, lower interest rates and planning approvals. However, this was offset by concerns about the UK economic outlook, cutbacks to capital expenditure plans and reports of uncertainty among clients ahead of the government's Autumn Budget.



Construction Industry Forecasts - Autumn 2025

	2023	2024	2025	2026	2027
% annual change	Actual	Actual	Estimate	Forecast	Projection
Housing					
Private	40,105	38,427	39,196	40,763	42,802
	-14.3%	-4.2%	2.0%	4.0%	5.0%
Public	6,151	5,680	5,453	5,671	5,954
	4.5%	-7.7%	-4.0%	4.0%	5.0%
Total	46,256	44,107	44,648	46,434	48,756
	-12.2%	-4.6%	1.2%	4.0%	5.0%
Other New Work					
Public Non-Housing	10,794	11,375	11,836	12,323	12,842
	10.7%	5.4%	4.1%	4.1%	4.2%
Infrastructure	32,775	29,744	30,506	31,701	33,098
	4.1%	-9.2%	2.6%	3.9%	4.4%
Industrial	7,706	7,356	7,655	7,850	7,995
	-0.5%	-4.5%	4.1%	2.6%	1.8%
Commercial	26,416	25,008	24,521	25,076	25,769
	6.3%	-5.3%	-1.9%	2.3%	2.8%
Total other new work	77,691	73,483	74,518	76,951	79,703
	5.2%	-5.4%	1.4%	3.3%	3.6%
Total new work	123,947	117,590	119,166	123,385	128,459
	-2.0%	-5.1%	1.3%	3.5%	4.1%
Repair and Maintenance					
Private Housing RM&I	34,786	37,063	37,063	37,804	39,316
	6.8%	6.5%	0.0%	2.0%	4.0%
Public Housing RM&I	8,445	9,606	9,798	9,994	10,394
	5.5%	13.7%	2.0%	2.0%	4.0%
Private Other R&M	21,424	23,933	24,412	24,900	25,398
	10.6%	11.7%	2.0%	2.0%	2.0%
Public Other R&M	7,743	7,717	7,794	7,950	8,268
	10.9%	-0.3%	1.0%	2.0%	4.0%
Infrastructure R&M	14,358	15,944	15,944	16,103	16,264
	9.2%	11.0%	0.0%	1.0%	1.0%
Total R&M	86,756	94,263	95,011	96,752	99,641
	8.3%	8.7%	0.8%	1.8%	3.0%
TOTAL ALL WORK	210,703	211,853	214,177	220,137	228,100
	2.0%	0.5%	1.1%	2.8%	3.6%

Source: ONS, Construction Products Association



Key Risks

UK Economic Growth

The UK economy has yet to see the full impact of the rise in the National Living Wage and employers' National Insurance Contributions, and lower thresholds, on employment. Unemployment has started to rise, but the full effect will only be seen in 2026. Further rises would directly impact on consumer confidence at a time when it is already fragile and provide a negative risk to the economy, as consumption is over 75% of GDP. In addition, it would have a significant impact on housing new build and rm&i. However, the most critical risk to the forecast revolves around the government's Autumn Budget. For a second successive year, the government will be raising taxes, but with uncertainty over where the tax rises will fall. The uncertainty will also be prolonged this time as the Autumn Budget has been pushed back to 26 November, later than usual. Furthermore, although we will have more certainty by the end of November 2025, the effect of the tax rises is likely to be in 2026. If the worst of tax rises is on businesses, again, then it will affect business confidence and employment. If the tax rises affect households, then it is likely to affect already-fragile consumer confidence. As a result, the tax rises may restrict spending, investment and broader UK economic growth. Furthermore, there could also be further knock-on impacts on key construction sectors such as housing new build and rm&i, as well as commercial new build. Or, if there are spending cuts, there could be impacts on key sectors directly reliant on the government as the largest client in construction, such as schools, hospitals, defence, and prisons.

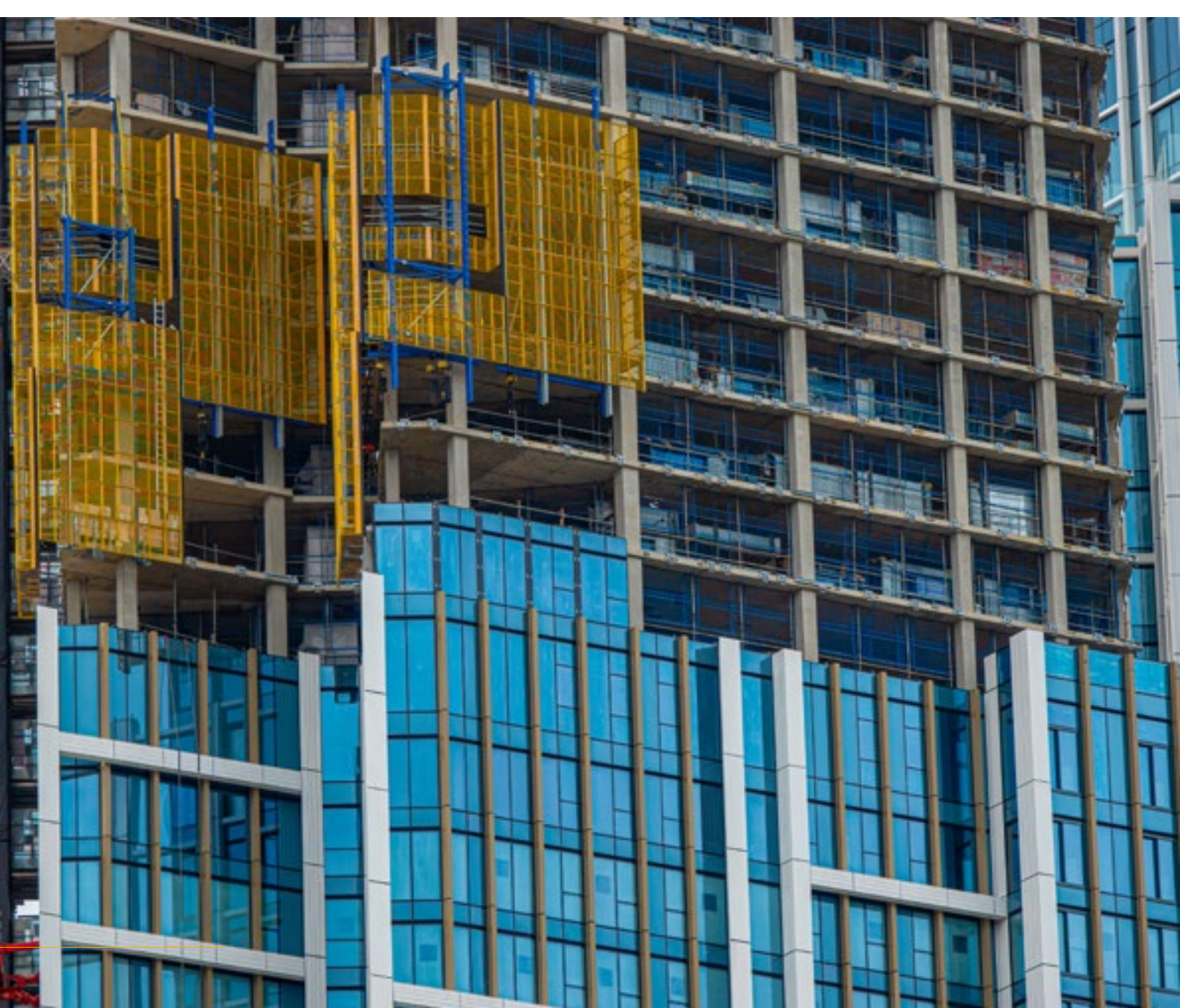
There remains a potential positive risk, highlighted in previous forecasts, that households have had a persistent period of real wage growth following the 'cost of living crisis' impacts of energy and commodity price spikes in 2022 and 2023. And, as three-quarters of the UK economy is consumption, spending, and investment could drive stronger UK economic growth near-term. However, this would require households to become more confident and less risk-averse, which is increasingly looking unlikely.

Contractor Financial Problems

The UK's sixth-largest contractor, ISG, entered administration in September 2024, making 2,200 employees unemployed. At the point of administration, it had £4.3 billion of contracts across Great Britain, with three-quarters of them in just three regions or nations: London, the South East, and Wales.

Furthermore, while the majority of concerns in the forecasts regarding the Building Safety Act have mainly been due to delays at the Building Safety Regulator, another key issue under the act is the extension of liability for building safety work from 12 years to 30 years. It was directly highlighted as a cause of Ardmore Construction going into administration in August 2025, due to the increase in historic liabilities. The key question is whether other contractors will also suffer due to the extension of liability for building safety work.

In addition, the volatile current economic conditions for the construction industry also mean that the CPA cannot rule out one of the other major contractors or developers encountering significant financial issues over the next 12-18 months due to a lack of major projects or substantial project delays affecting viability. In this case, this would also have a further knock-on impact on the cash flow and viability of specialist subcontractors.



Contractor Insolvencies

Construction insolvencies in the year to July 2025 were 0.3% lower than in the year to June and 9.5% lower than a year earlier, according to the government's Insolvency Service. As highlighted in previous CPA publications, insolvencies are volatile on a monthly basis and highly seasonal, which is why the CPA uses the 12-month totals. They were expected to rise during 2025 due to the lagged effects of September's ISG administration on the supply chain and subcontractor cash flow, as well as the ongoing impacts of the 6-9 month delays at the BSR at Gateway 2 stage on high-rise project starts. However, at this stage, construction insolvencies have continued to drop below the 2024 H1 peak. But they remain 25.3% higher than pre-pandemic levels.

3,973 construction firms
went out of business
in the year to
July 2025



The impacts of the slowdown in housing since Spring, the delays to high-rise residential building starts due to the Building Safety Regulator, the continued subdued activity in the private housing rm&i sector, rises in the National Living Wage and employers' National Insurance Contributions, along with lower thresholds, from 1 April, were also expected to cause further problems to house builders and contractors. However, these impacts seem to be taking longer to materialise, making it increasingly likely that the upturn in construction insolvencies will occur towards the end of 2025 and, primarily, in the first half of 2026. It is also worth noting that the data only covers contractors. However, subdued activity in private housing rm&i, along with increases in the National Living Wage and employers' National Insurance Contributions, as well as lower thresholds, particularly affect builders' merchants and distributors.

2,276 (57%) of firms that went out of business in the year to July were specialist subcontractors, which is flat compared with the year to June and 9.8% lower than a year earlier, which is still relative to a high comparator, as peak levels were during the first three quarters of 2024. Main building contractors were not as severely affected as specialist contractors by the pandemic due to cost inflation issues and the decline in demand for private housing new build between 2022 and 2024, or in some areas of rm&i since early 2022. However, since the start of this year, whilst the number of specialist contractors has been on a slight downward trend, the number of main building contractors has been on a gradual upward trend. In the year to July, 1,496 (38%) of construction insolvencies were main building contractors. This was 1.3% lower than in the year to June. Compared to the peak levels of a year earlier, main contractor insolvencies were 9.8% lower. However, main contractors continue to be hit by fixed-price contracts with project delays, as well as rising wage, material and product costs.

'Only' 201 (5%) of the construction firms that went out of business in the year to July were civil contractors, which was 3.1% higher than in June and 2.9% below peak levels a year ago. As highlighted previously, the low level of civil insolvencies partly reflects the fact that there are fewer civil engineering firms overall. However, it also reflects civils work occurring earlier on non-infrastructure projects, such as house building and, in infrastructure, it reflects strong demand in energy or stable work on long-term frameworks. It also reflects that some infrastructure clients are more understanding of rising costs. However, given the slowdown in new housing demand and as infrastructure appears to have slowed in recent months, particularly in road construction, that may lead to less work for civils contractors, and there may be an increase in civils contractors going under over the next 12-18 months.

Building Safety Regulator Issues

Since Summer 2024, the CPA has consistently highlighted the delays at the BSR in its forecasts, and the indications from industry were that there were substantial delays of 6-9 months at the Gateway 2 stage, before construction can start, for the construction of high-rise buildings (above seven storeys or 18 metres) in which people are staying overnight. This is mainly accounted for by, but not solely restricted to, residential buildings. It also includes, to a lesser degree, student

UK construction wage inflation

was **4.4%**
in the year
to July 2025



accommodation and hospitals.

The government announced on 30 June that responsibility for the BSR will be transferred from the Health and Safety Executive to a new arms-length body under the Ministry of Housing, Communities and Local Government (MHCLG). Additionally, it announced the introduction of a new fast-track process to expedite BSR decisions, as well as the recruitment of more than 100 new staff members. This may help in the medium-term as the key issues so far have been the lack of clear guidance, the lack of skilled in-house resource and the poor process. However, until there is clear evidence that this is improving, consistently delivering a higher number of approvals considerably quicker, and clearing the current backlog of applications, the CPA maintains its assumption,

since Summer 2024, that the issues at the BSR will not be fully resolved during the forecast period.

The Building Safety Regulator stated in September 2025 that the number of approvals at Gateway 2 stage is now equal to the number of applications on an ongoing basis. However, this is partly accounted for by a sharp fall in the number of applications. In addition, developers and contractors have also highlighted that there are 3-4 month delays at Gateway 3 stage, post-construction, as well.

The Availability and Cost of Labour

If the government is to meet its objectives of building 1.5 million homes, delivering its 10-year infrastructure strategy and Net Zero transition (decarbonisation of the energy network and retrofitting the existing stock of buildings), as well as more and better quality schools, hospitals, prisons and transport infrastructure, then a lack of available skills is likely to be the most significant issue. UK construction employment was 2.14 million in 2025 Q1, which is 278,184 fewer than in 2019 Q1 and 440,460 fewer than in 2008 Q3 (pre-financial crisis).

The majority of the loss of skilled construction workers since 2019 Q1 has been among the older demographic of UK-born construction workers, specifically those between 50 and 64 years old. This loss is not just about the number of workers, but also about the skills, knowledge, and expertise they possess. In addition, the loss has been exacerbated by a loss of younger EU construction workers in the lead-up to, and since, Brexit. Employer-sponsored visas don't work well in the UK construction industry, where 86% of employment is self-employment (making them ineligible for visas) or in SMEs (which are cash-flow reliant and lack the resources for visas).

In March, the Chancellor announced £625 million worth of investment to train up to 60,000 more skilled construction workers, which it stated would be "site-ready". However, despite the finance, there is a lack of qualified teachers and assessors for these potential new entrants. Furthermore, construction apprenticeships still have dropout rates of 50% for men and over 70% for women. Meanwhile, the aim of expanding Skills Boot Camps is unlikely to have a substantial impact, given that only around one-third of people who complete the Skills Boot Camps ultimately work in the construction industry.

There remain key questions of what type of people come into construction (i.e. whether it is a specific career choice or just a backup option that they are more likely to drop out of), what is the culture like for young people in training, what quality of training and onsite training are they getting, what prospects are there for young people after the training (the initial job but also career development, upskilling and reskilling and what is the culture like for young people on site after training? If these issues are not addressed, then the finance may be spent, but the skills issues will remain unaddressed.



Upper Scenario

Assumptions

- UK economic activity rises by 1.5% in 2025 and 1.8% in 2026, with consumer spending and services driving growth due to the lagged impact of interest rate cuts and sustained real income increases
- The unemployment rate remains below 5.0% as consumption growth and the persistence of skills shortages sustain a strong labour market
- Interest rates fall by 0.25 percentage points in 2025 Q4 and three times in 2026 as inflation concerns dissipate and the Bank of England aims to stimulate growth
- House prices rise by 3.0% in 2026 as demand gradually increases, whilst the number of properties coming on the market, forced sellers, and repossessions remains low
- Consumer spending rises due to both sustained real wage growth and households increasingly feeling confident enough to reduce savings (with the savings ratio falling from 11.7% in 2024 Q4 to 9.0% in 2026)
- Lending to businesses improves as lending rates gradually fall and consumer spending increases
- Business investment growth gradually accelerates in 2026 as stronger consumer spending leads to an improvement in medium-term economic prospects



Key Effects

- Total construction output rises by 2.3% in 2025 and 4.4% in 2026 as stronger economic growth drives private construction activity
- Private housing output increases by 3.0% in 2025 and 7.0% in 2026, driven by major house builder growth and a recovery in high-rise starts in London
- Commercial output remains flat in 2025 and rises by 3.0% in 2026, driven mainly still by strong small refurb and fit-out, but with large projects, which were pushed back due to viability concerns, finally starting on-site
- Private housing rm&i output rises by 1.0% in 2025 and 3.0% in 2026 as homeowners with finance available feel slightly more confident about spending on general home improvements, although they continue to increasingly focus on energy-efficiency retrofit and solar photovoltaic work rather than the standard home improvements activity that peaked during the pandemic 'race for space'

Construction Industry Forecasts - Autumn 2025 - Upper Scenario

	2023	2024	2025	2026	2027
% annual change	Actual	Actual	Estimate	Forecast	Projection
Housing					
Private	40,105	38,427	39,580	42,350	44,891
	-14.3%	-4.2%	3.0%	7.0%	6.0%
Public	6,151	5,680	5,680	5,907	6,203
	4.5%	-7.7%	0.0%	4.0%	5.0%
Total	46,256	44,107	45,260	48,258	51,094
	-12.2%	-4.6%	2.6%	6.6%	5.9%
Other New Work					
Public Non-Housing	10,794	11,375	11,944	12,660	13,547
	10.7%	5.4%	5.0%	6.0%	7.0%
Infrastructure	32,775	29,744	30,636	32,474	34,423
	4.1%	-9.2%	3.0%	6.0%	6.0%
Industrial	7,706	7,356	7,724	8,110	8,597
	-0.5%	-4.5%	5.0%	5.0%	6.0%
Commercial	26,416	25,008	25,008	25,758	26,531
	6.3%	-5.3%	0.0%	3.0%	3.0%
Total other new work	77,691	73,483	75,312	79,003	83,097
	5.2%	-5.4%	2.5%	4.9%	5.2%
Total new work	123,947	117,590	120,572	127,261	134,191
	-2.0%	-5.1%	2.5%	5.5%	5.4%
Repair and Maintenance					
Private Housing RM&I	34,786	37,063	37,434	38,557	39,713
	6.8%	6.5%	1.0%	3.0%	3.0%
Public Housing RM&I	8,445	9,606	9,894	10,290	10,804
	5.5%	13.7%	3.0%	4.0%	5.0%
Private Other R&M	21,424	23,933	24,651	25,391	26,153
	10.6%	11.7%	3.0%	3.0%	3.0%
Public Other R&M	7,743	7,717	7,948	8,187	8,432
	10.9%	-0.3%	3.0%	3.0%	3.0%
Infrastructure R&M	14,358	15,944	16,263	16,588	16,920
	9.2%	11.0%	2.0%	2.0%	2.0%
Total R&M	86,756	94,263	96,190	99,012	102,023
	8.3%	8.7%	2.0%	2.9%	3.0%
TOTAL ALL WORK	210,703	211,853	216,762	226,273	236,214
	2.0%	0.5%	2.3%	4.4%	4.4%

Source: ONS, Construction Products Association

Lower Scenario

Assumptions

- UK GDP growth continues to remain subdued in 2025 H2 and 2026 as the rise in employer wage costs from April 2025 and the increase in taxes at the Autumn Budget adversely affect consumer and business confidence
- Interest rates cut only once in 2026 H1 as the Bank of England takes a cautious approach to reducing interest rates in light of stubborn CPI inflation above 3.0%
- The unemployment rate gradually rises above 5.0% in 2026 as consumer-facing services cut jobs in response to higher wage costs, combined with lower household spending
- Muted house price growth as mortgage approvals and property transactions fail to recover, due to high gilt and mortgage rates
- Consumer spending volumes growth slows in 2025 H2 and 2026 H1 despite real wage growth as households take a risk-averse approach and the savings ratio remains above 10.0%
- Lending to businesses slows as lenders' borrowing rates fail to fall significantly in response to higher uncertainty over economic growth prospects
- Business investment slows as increasing uncertainty means that firms focus on near-term prospects



Key Effects

- Construction output falls by 0.7% in 2025 and rises by only 1.4% in 2026, as a slower economic recovery and fewer interest rate cuts push back sustained construction recovery
- Private housing output remains flat in 2025 and only rises by 3.0% in 2026 as affordability remains a key demand constraint, where site viability has been maintained, and the government's additional costs affect house builder site viability in areas of better affordability
- Commercial output falls by 3.0% in 2025 before remaining flat in 2026 as fit-out activity remains strong, but new commercial tower project activity is pushed back in 2027 due to viability concerns
- Private housing rm&i output is forecast to fall by 1.0% in 2025 and rise by 2.0% in 2026, as homeowners remain cautious and continue to save rather than spend, and a slower housing market means fewer home moves and consequent improvements work from new homeowners

Construction Industry Forecasts - Autumn 2025 - Lower Scenario

	2023	2024	2025	2026	2027
% annual change	Actual	Actual	Estimate	Forecast	Projection
Housing					
Private	40,105	38,427	38,427	39,580	41,559
	-14.3%	-4.2%	0.0%	3.0%	5.0%
Public	6,151	5,680	5,112	5,214	5,319
	4.5%	-7.7%	-10.0%	2.0%	2.0%
Total	46,256	44,107	43,539	44,794	46,877
	-12.2%	-4.6%	-1.3%	2.9%	4.7%
Other New Work					
Public Non-Housing	10,794	11,375	11,375	11,603	12,067
	10.7%	5.4%	0.0%	2.0%	4.0%
Infrastructure	32,775	29,744	30,041	30,642	31,868
	4.1%	-9.2%	1.0%	2.0%	4.0%
Industrial	7,706	7,356	7,430	7,504	7,579
	-0.5%	-4.5%	1.0%	1.0%	1.0%
Commercial	26,416	25,008	24,258	24,258	24,743
	6.3%	-5.3%	-3.0%	0.0%	2.0%
Total other new work	77,691	73,483	73,104	74,006	76,256
	5.2%	-5.4%	-0.5%	1.2%	3.0%
Total new work	123,947	117,590	116,643	118,800	123,134
	-2.0%	-5.1%	-0.8%	1.8%	3.6%
Repair and Maintenance					
Private Housing RM&I	34,786	37,063	36,692	37,426	38,549
	6.8%	6.5%	-1.0%	2.0%	3.0%
Public Housing RM&I	8,445	9,606	9,606	9,606	9,798
	5.5%	13.7%	0.0%	0.0%	2.0%
Private Other R&M	21,424	23,933	23,933	23,933	23,933
	10.6%	11.7%	0.0%	0.0%	0.0%
Public Other R&M	7,743	7,717	7,640	7,640	7,640
	10.9%	-0.3%	-1.0%	0.0%	0.0%
Infrastructure R&M	14,358	15,944	15,784	15,784	15,784
	9.2%	11.0%	-1.0%	0.0%	0.0%
Total R&M	86,756	94,263	93,656	94,390	95,705
	8.3%	8.7%	-0.6%	0.8%	1.4%
TOTAL ALL WORK	210,703	211,853	210,299	213,190	218,838
	2.0%	0.5%	-0.7%	1.4%	2.6%

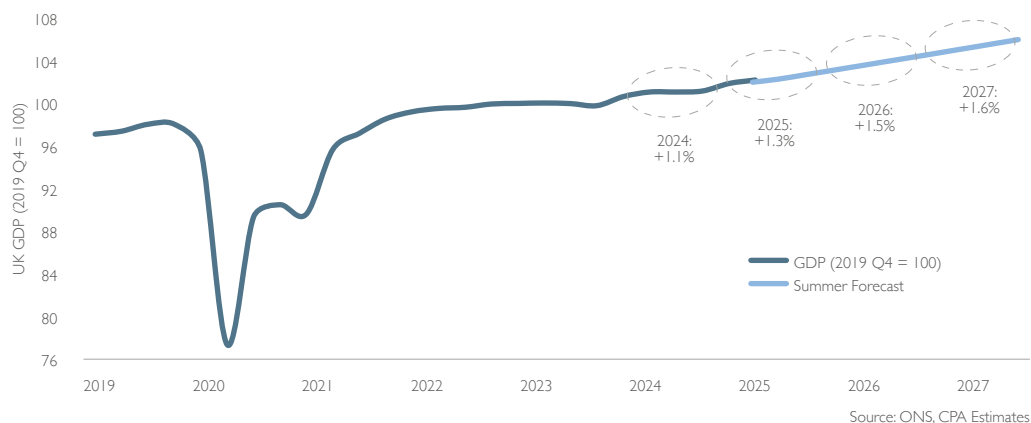
Source: ONS, Construction Products Association

Economy

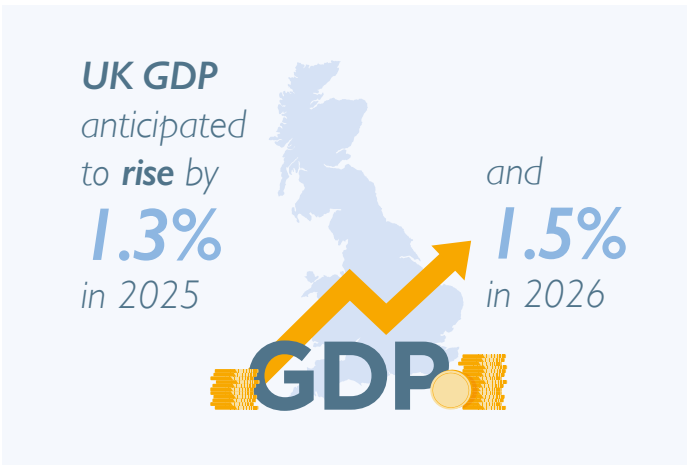
Uncertainty before the Government's Autumn Budget and where the inevitable tax rises will fall appears to be affecting both consumer and business confidence once again. The speculation itself is likely to constrain UK economic activity in the short-term, and then the tax rises themselves are likely to restrict medium-term growth prospects. In addition, stubborn inflation and the increased likelihood of fewer interest rate cuts than previously expected are also likely to hinder medium-term growth prospects. Across the forecast period, growth is still expected overall, but the growth rates are likely to be muted and significantly lower than the long-term trend. There are both positive and negative risks to the economic forecast. On the positive side, many households have considerable savings, and if they become confident enough to spend rather than save, it could boost economic growth. On the negative side, if inflation remains stubborn into 2026 and there are even fewer interest rate cuts, along with higher taxes, growth could be considerably lower than forecast.

UK GDP growth has been slightly positive in 2025 Q1 and Q2. Furthermore, the indications so far are that the marginally positive growth is likely to have been maintained into Q3, with mixed fortunes across the key sectors. However, current sentiment across households and businesses appears pessimistic, with a high degree of uncertainty in the lead-up to the government's Autumn Budget. The government has all but confirmed that taxes will rise in the Budget. However, the key issue is where the tax increases will be imposed and, consequently, who will bear the burden. Furthermore, this is the second consecutive year in which taxes will rise, and the government has not given a clear signal of where the tax increases will occur, raising uncertainty for both households and businesses once again. Furthermore, the Autumn Budget has been pushed back to 26 November, which is later than usual and means that the uncertainty will be prolonged. In addition, whilst the government will inevitably increase taxes in the Budget, there also remains uncertainty as to whether the government will also cut back on some of its capital investment plans that it outlined in June's Spending Review, which it saw as critical to driving growth in the UK economy and productivity in the medium-term.

UK GDP - Autumn Forecast



The government's manifesto pledges, made before coming into office, were based on avoiding tax increases on working households, which would generally suggest increasing taxes on businesses instead. However, the government increased taxes on businesses in its last Autumn Budget, which subsequently led to a sharp fall in business confidence, an increase in business costs and, so far, a slight increase in unemployment. Conversely, if the government were to increase taxes on households, it would not only break its manifesto pledges but, more importantly, adversely affect consumer confidence, which is already fragile.



Government's necessity for increasing taxes once again, and also potentially cutting back on spending, is that since its Autumn Budget last year, government spending and borrowing has been higher than it expected, productivity is not likely to rise as quickly as it expected and some of its planned spending cuts, such as reductions in social care, have already been stymied in Parliament.

Looking at whether households appear confident about their finances and confident enough to spend, the NIQ (formerly GfK) Consumer Confidence Index unsurprisingly recovered significantly after the record low of -49 reached in September 2022, during the 'cost of living crisis'. However, more recently, there was no post-election bounce in consumer confidence a year ago and in September 2024 it was -20. Since then, it has only varied between -17 and -22 each month, highlighting a broadly consistent pessimistic sentiment amongst households. Most recently, it was -19 in September 2025.

Looking at the breakdown of NIQ's consumer confidence measures in September 2025, its index for personal financial situation over the last 12 months was -7, which is three points worse than the -4 in August but two points better than the -9 one year earlier. Expectations for personal financial situation over the next 12 months were at +4, which was one point worse than in August but seven points better than a year earlier. However, the measure for the country's general economic situation during the last 12 months was -45 in September, which was three points worse than in August but eight points worse than a year earlier. Furthermore,

Economic Indicators

	2023	2024	2025	2026	2027
	Actual	Actual	Estimate	Forecast	Projection
GDP	0.3%	1.1%	1.3%	1.5%	1.6%
Fixed Investment	0.5%	1.8%	1.7%	1.8%	2.0%
Household Consumption	-0.3%	-0.2%	0.8%	1.3%	1.6%
Real Household Disposable Income	0.8%	4.4%	1.0%	1.5%	2.1%
Government Consumption	2.1%	3.4%	2.0%	2.2%	1.7%
CPI Inflation	7.2%	2.6%	3.6%	2.7%	2.3%
RPI Inflation	9.7%	3.6%	3.9%	2.9%	2.7%
Bank Base Rates - June	5.00%	5.25%	4.25%	3.75%	3.25%
Bank Base Rates - December	5.25%	4.75%	4.00%	3.50%	3.25%

Source: ONS, Construction Products Association

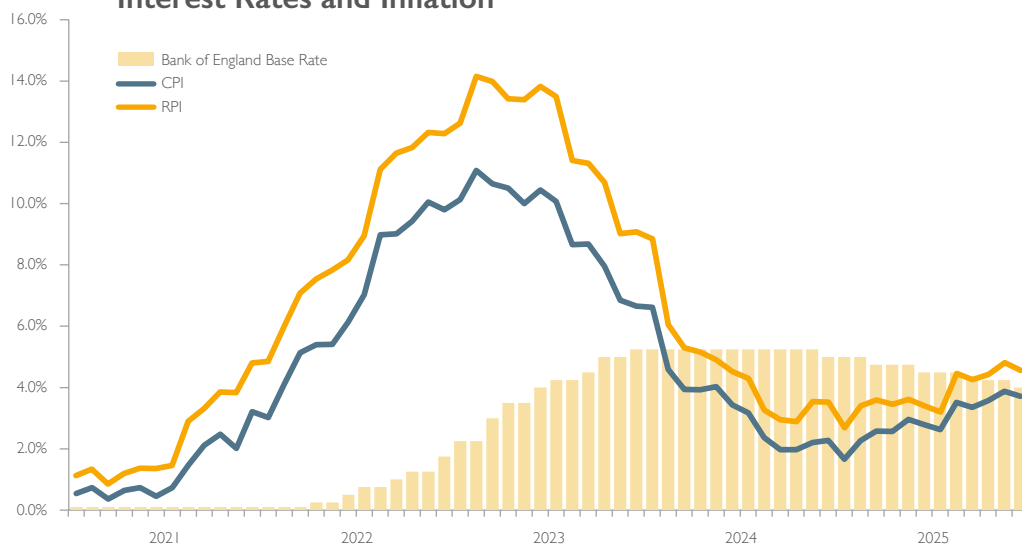
CPI Inflation set to average
3.6% in 2025 and **2.7%** in 2026



the measure of expectations for the general economic situation over the next 12 months was -32 in September, two points worse than in August and five points worse than a year ago. This points towards increased concern from households over tax rises and the impact in the broader economy. The Major Purchase Index was at -16 in September, three points worse than in August but seven points higher than a year earlier, which points towards the scarring effects of the 'cost of living crisis' and spikes in energy and commodity price spikes easing compared with a year ago, but its more recent deterioration highlights the increased uncertainty since Summer. The Savings Index was +22 in September, eight points lower than last month and one point lower than a year ago, but it still indicates that households are saving.

Looking at savings more specifically, in 2019 Q4, before the pandemic and other significant disruptions to the UK and global economies, the household saving ratio was 6.3%. After unsurprisingly spiking at 27.5% and 21.8% during the national lockdowns, the household savings ratio returned to more normal rates of 7.3% in 2021 Q4. The initial impact of the energy and commodity price spikes following Russia's invasion of Ukraine in February 2022 led to a decline in the savings ratio, as households used their savings to sustain spending in the near-term. Consequently, the savings ratio fell to 3.8% in 2022 Q2. However, following this, there was a general upward trend in household savings as households became risk-averse and saved to ensure they had sufficient finances to account for general price inflation and potential unforeseen expenses. We would have anticipated that as inflation slowed and real wage growth occurred across the economy, households would gradually feel more comfortable and confident spending on small, discretionary goods and services, and then, over time, increasingly spend on larger, discretionary, non-essential goods. However, there are medium-term scarring effects of spikes in general inflation. Whilst inflation rates have slowed, they have not decreased as much as initially expected. Consequently, households focus more on price levels, which remain high, rather than solely on the rate of price increases. As a result, despite the slowdown in inflation and the rise in real wages, the savings ratio continued to rise in 2024, reaching 11.7% in Q4, as households remained concerned about

Interest Rates and Inflation



Source: Bank of England, ONS

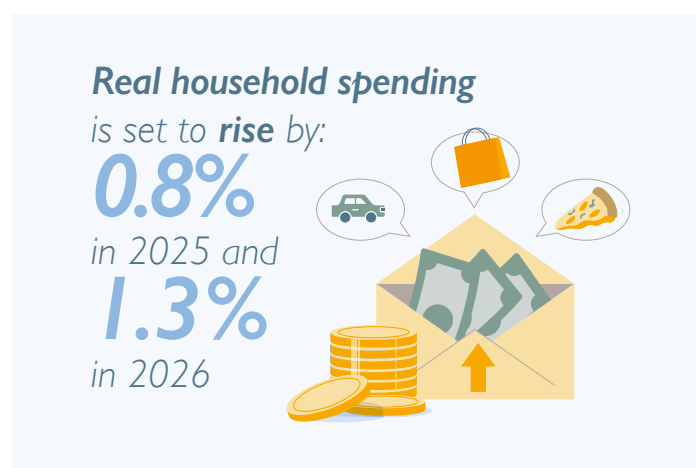
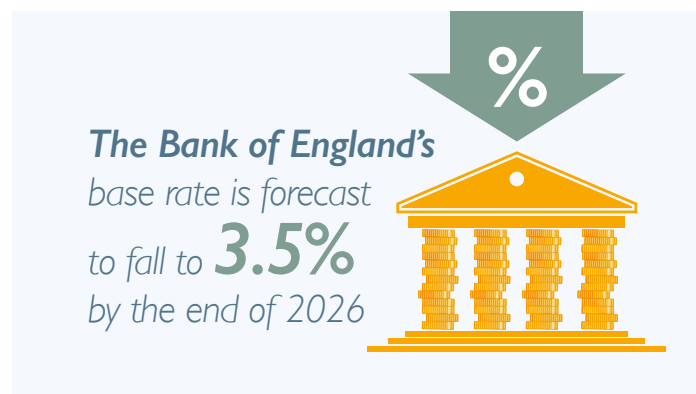
whether the much-trailed tax rises from a year ago will affect them. So far this year, the savings ratio has fallen to 10.5% in Q1 before rising marginally to 10.7% in Q2, despite an increase in global uncertainty that had a slight impact on households. As highlighted in previous forecasts, the savings ratio is likely to fall over the next 12-18 months, but not as much as previously expected. This is because inflation remains stubborn, there are likely to be fewer interest rate cuts than anticipated, and UK growth prospects remain subdued. As a result, the savings ratio is still expected to remain high by historic standards. The current forecast is that it slows slightly to 10.0% in 2025 Q4, before slowing further to 9.5% next year.

A key factor that has not helped consumer confidence or encouraged households to spend, rather than save, is the slight weakening of the UK labour market. However, it remains historically strong due to skills shortages in some key areas. In addition, since April's rises in the National Living Wage and employers' National Insurance Contributions, and lower thresholds, were announced in last year's Autumn Budget, there have also been heightened concerns over whether there will be an increase in unemployment as employers attempt to restrict overall wage bill cost inflation by hiring freezes on non-essential staff.

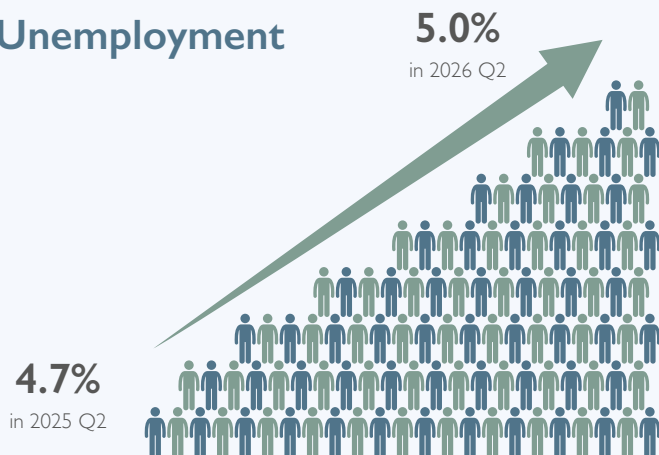
The UK unemployment rate for people aged 16 years and over was estimated at 4.8% in June to August 2025, according to the ONS. This was largely flat compared with the previous three months, 0.7 percentage points higher than a year earlier and 0.9 percentage points higher than between December 2019 and February 2020, before the pandemic and other significant disruptions to the economy. However, the other side of this is that the UK employment rate for people aged 16 to 64 years was estimated at 75.1% in June to August 2025. This is a marginal decrease of 0.2 percentage points compared to the previous quarter but 0.1 percentage points higher than a year earlier. Despite this, it remained 1.4 percentage points lower than the rate between December 2019 and February 2020. The rise in both unemployment and employment over the past 12 months suggests that the recent increase in employment has been due to a decrease in the number of people previously not in the workforce.

The UK economic inactivity rate for people aged 16 to 64 years was estimated at 21.0% in the period from June to August 2025. This was essentially unchanged compared with the previous quarter, but it was 0.8 percentage points below the rate a year ago. However, the inactivity rate remained 0.7 percentage points higher than between December 2019 and February 2020. The economic inactivity rate had fallen pre-pandemic, but it rose during the pandemic. Despite fluctuations on a quarterly basis, it remains higher than pre-pandemic levels and has persistently been above 21.0%. However, the inactivity rate has been falling over the past year.

The estimated number of vacancies in the UK fell by 9,000 (1.3%) compared with the previous quarter, to 717,000, in the period from July to September 2025. This was the 39th consecutive period where vacancy numbers have dropped compared with the previous three months, with vacancies decreasing in 9 of the 18 industry sectors. During the last month, according to the



Unemployment



Source: ONS, Construction Products Association

ONS, feedback from employers indicated that some firms were not recruiting new workers or replacing those who had left. This aligns with expectations regarding the impact of the government's increases in the National Living Wage, particularly the rise in employers' National Insurance Contributions and lower thresholds. Furthermore, it appears to be continuing. Overall, UK unemployment is expected to rise from 4.7% in 2025 Q2 to 5.0% in 2026 as businesses focus on restraining wage cost inflation. It is then expected to slow to 4.7% in 2027 as the impacts of interest rate cuts and sustained economic growth boost employment prospects in the final year of the forecast.

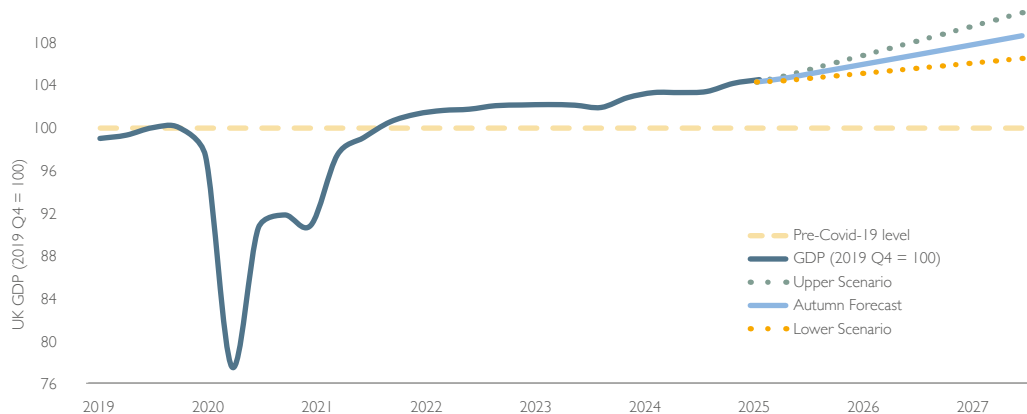
Restraining wage cost inflation is essential for many companies,

especially since for those workers who remain in employment, UK nominal wage growth remains strong. Between June and August 2025, annual growth in employees' average earnings was 4.7% for regular earnings, which excludes bonuses, and 5.0% for total earnings, which includes bonuses. In real terms, after taking account of CPI inflation, wage inflation was 0.9% for regular pay and 1.2% for total pay, which means that workers have experienced growth in real wages for 27 consecutive months since the energy and commodity price spikes eased.

Annual average regular earnings growth was 6.0% for the public sector and 4.4% for the private sector, indicating that the public sector has been driving overall wage growth over the past year. However, the public sector annual growth rate was affected by some public sector pay rises being paid earlier in 2025 than in 2024, causing a base effect. Within the private sector, the wholesaling, retailing, hotels and restaurants sector showed the strongest regular annual growth rate in earnings.

As strong nominal wage growth spreads through businesses and the economy, it is a key factor

UK GDP



Source: ONS, CPA Estimates

in sustaining consumer price inflation, especially in sectors with skill shortages. UK CPI inflation in August 2025 remained at 3.8%, the same as in July, due to higher food, restaurant and hotel prices. This was in line with analysts' expectations, as surveyed by Reuters beforehand. Food and drink price rises were a key driver again, with their prices rising 5.1% annually, compared with 4.9% in the year to July. Restaurant, hotel, and petrol prices rose, while a sharp fall in airfares helped keep CPI inflation flat overall. Services inflation, which the Bank of England closely watches as a measure of medium-term domestic price pressures, eased from 5.0% in July to 4.7% in August. Core CPI inflation, which excludes energy and food prices that spiked during 2022, slowed from 3.8% in July to 3.6% in August.

The UK appears to be an outlier amongst Western, advanced economies when it comes to inflation. While US inflation edged up to 3.0%, this increase has been driven by tariffs; in contrast, Eurozone inflation has settled at 2.0%. The UK faces additional inflationary pressures due to government policies, including raising the National Living Wage, which took effect in April, increasing employers' National Insurance Contributions, and lowering the thresholds. The majority of analysts and the Bank of England anticipate that inflation will peak at 4.0% in September and then begin to slow from October.

In previous forecasts, the CPA anticipated an interest rate cut in August and a further reduction in November. However, the CPA also warned that if inflation, particularly services inflation, remained stubborn, the Bank of England's November interest rate cut might be postponed to February 2026, which is looking increasingly likely.

Furthermore, stubborn inflation is also prompting financial markets to price in fewer interest rate cuts in 2026. Following the latest UK inflation figures, financial markets are expecting only one or two 0.25 percentage point interest rate cuts by the end of next year, according to levels implied by the swaps market.

One of the key drivers of the spikes in inflation during 2022 and 2023 was energy prices. Although the energy price peaks have passed, prices remain high, and there remains a considerable degree of volatility. Looking back to last year, the consumers' energy price cap rose from £1,568 between 1 July and 30 September 2024 to £1,717 between 1 October and 31 December 2024, unsurprisingly given higher demand over Winter. However, Ofgem announced that it would increase marginally further, by 1.2%, to £1,738 between 1 January and 31 March 2025. There was also a slight increase to £1,849 from 1 April to 30 June 2025 despite lower usage in the warmer weather. Between 1 July and 30 September 2025, there was finally a 7.0% decrease to £1,720, but this was still 10.0% higher than the same period a year earlier. Three months ago, energy price forecasters were anticipating that the energy price cap between 1 October and 30 December 2025 would fall slightly further, by 1.3%, to £1,698. However, Ofgem announced that it would rise by 2.0% to £1,755, and this may mean that inflation remains stubborn, even after the Bank of England's expected peak for CPI inflation in September 2025.

A greater uncertainty revolves around oil prices. The peak of \$120.08 per barrel for Brent Crude oil after Russia's invasion of Ukraine has long since passed. During 2024, oil prices averaged \$80.7 per barrel, but they varied between \$73.83 and \$90.1 per barrel, highlighting the continued volatility. Since the start of this year, oil prices have gradually slowed to \$64.2 per barrel in May 2025. They then rose to \$71.5 per barrel in June and subsequently slowed again to \$68.2 per barrel in August and \$68.0 per barrel in September. Excluding political issues and potential disruptions due to tariffs or the Middle Eastern conflict, the CPA anticipates that oil prices will broadly remain around \$65.0-\$75.0 per barrel over the next 12 months. This is the same as in the Summer forecasts.

The latest HM Treasury consensus of economic forecasters, compiled in September 2025, highlighted that the average estimate for CPI inflation in 2025 Q4 was 3.6%, compared with 3.2% in June when the CPA's previous forecast was put together and only 2.2% in the HM Treasury consensus forecast a year ago. Within the latest consensus forecast, the most

pessimistic forecaster in September 2025 anticipated inflation of 4.0% in 2025 Q4, whilst the most optimistic forecaster expected only 2.0% CPI inflation in the final quarter of this year, which is a surprisingly high variance across the forecasters, given that they were all looking only one quarter ahead. The high variance reflects different assumptions about economic growth, consumer spending, and the ability of firms to pass cost increases on to consumers. However, 2.0% CPI inflation in Q4 appears very unlikely, given that the Bank of England expects inflation to peak at 4.0% in September before gradually slowing.

Looking ahead to next year, the average estimate for CPI inflation in 2026 Q4 was 2.3% in September 2025, compared with a forecast of 2.4% in June. This suggests that forecasters anticipate inflation will peak higher and slow faster than they expected three months ago. However, it is worth noting that some forecasters have persistently been overoptimistic about inflation slowing in recent years. Within the most recent consensus forecast of 2.3% CPI inflation in 2026 Q4, the most pessimistic forecaster anticipated inflation at 3.2%, while the most optimistic forecaster expects inflation in 2026 Q4 to slow to just 1.6%, requiring inflation to halve compared with current rates. The CPA anticipates that CPI inflation will average 3.6% in 2025 before slowing to 2.7% on average in 2026.

Given the negative impacts of April's rise in the National Living Wage and employers' National Insurance Contributions, as well as the lower thresholds for firms' costs, combined with uncertainty from the upcoming Autumn Budget, it was unsurprising that business confidence also continued to decline.

The Institute of Directors (IoD) Economic Confidence Index, which measures business leader optimism on prospects for the UK economy, fell to -74 in September 2025 from -61 in August. This is worse than the recent record low of -72 in July 2025, marking the lowest reading of the Index since its introduction in July 2016. Business leaders' confidence in their own organisations also fell to -7 in September, from +1 in August, which equals the level recorded in November 2024, immediately following the previous Autumn Budget. This negative trend in the IoD survey was also reflected in its other key underlying indicators. Business cost expectations rose to +89 in September, from +85 in August, and this was its highest reading since its introduction in November 2017 and exceeds the previous peak of +87 in February. Within this, wage expectations increased from +42 in August to +64 in September. Business headcount expectations fell from -4 in August to -13 in September. The effects of the April rises in the National Living Wage and employers' National Insurance Contributions, along with lower thresholds and future concerns over employment regulations, continue to affect firms. In addition, business investment intentions also fell, from -8 to -20 over the same period, as uncertainty and concerns over tax rises on businesses and assets appeared to be affecting business confidence and preventing investment.

Looking at UK business investment, the most recent figures cover 2025 Q2, as the impacts of the rise in the National Living Wage, employers' National Insurance Contributions, and lower thresholds only began to take effect. In addition, it was immediately following the initial U.S. tariff disruptions and the escalation of the Middle Eastern conflict.

UK business investment decreased by 1.1% in 2025 Q2. The most significant contributors to the decrease in business investment were decreases in transport equipment and intellectual property products (IPP); ICT equipment, and other machinery and equipment, made a small negative contribution, and the only positive contribution came from other buildings and structures. However, business investment in 2025 Q2 remained 3.0% above the level seen in the same quarter a year ago, which was before the General Election and 2024 was a volatile year for transport investment. UK gross fixed capital formation (GFCF), which measures whole economy investment and includes both business and public sector investment, increased by 0.5% in 2025 Q2 and was 2.9% higher than a year earlier. On a sector basis, government investment increased by 4.1% in Q2, which points to the government currently driving UK investment



fortunes, but also highlights concerns about the sustainability of government spending and borrowing.

Overall, UK GDP is forecast to rise by 1.3% in 2025 and 1.5% in 2026, which sounds positive and represents accelerating economic growth. However, this follows on from only 0.3% growth in 2023 and 1.1% in 2024. Furthermore, as highlighted in previous forecasts, this is still considerably lower than the long-term trend annual growth rate of 2.0%, which the UK is not expected to experience until at least 2028.

The latest data on the UK economy point towards muted growth. According to the ONS, UK GDP rose by 0.3% in 2025 Q2, following the 0.7% growth in Q1 that surprised on the upside. On a monthly basis, GDP remained flat in July 2025, after growth of 0.4% in June and a fall of 0.1% in May 2025. In July, services and construction both increased according to the ONS, albeit marginally, by 0.1% and 0.2% respectively, whilst industrial production fell by 0.9%. However, note the serious concerns that the CPA has about problems with the ONS construction output data (see [Overview](#)). The 0.9% fall in industrial production was primarily due to a 1.3% decline in manufacturing output and a 2.0% drop in mining and quarrying. These were offset by increases in output from electricity, gas, steam and air conditioning supply, and water supply; sewerage, waste management, and remediation activities.

More recent data from S&P Global Purchasing Managers' Indices (PMIs) also point towards slight growth in the near-term but mixed fortunes across the sectors. In the PMI data, 50 = no monthly change in activity, so figures above 50 indicate growth in activity, whilst figures below 50 point towards a decline in monthly activity.

The UK Services PMI was 50.8 in September, a marginal expansion of business activity. However, the rate of growth eased sharply since the 54.2 recorded in August due to subdued demand. Weak sales pipelines and pressure on margins from sharply rising staff costs contributed to another decline in service sector employment. Lower staffing numbers have been recorded throughout the past 12 months. Some services firms reported a slight upturn in workloads, but many others also reported that subdued economic conditions and higher uncertainty were hitting business activity. Incoming new work increased only slightly during September and at a much slower rate than in the previous month. Respondents highlighted clients' reluctance to commit to new orders due to rising political and economic uncertainty. Plus, service companies also reported that uncertainty ahead of the Autumn Budget had led to delayed spending decisions. Furthermore, export sales fell in September after expanding at their fastest rate for 10 months during August. Challenging conditions across global markets were frequently cited by those reporting a decline in new work from abroad. Service firms also reported cautious hiring strategies and a fall in headcount due to the non-replacement of voluntary leavers, primarily because of higher payroll costs. September data indicated a sharp increase in costs linked to greater wages, food prices, utility bills and technology costs. Business activity expectations were positive in September, with 46% of companies forecasting growth during the year ahead and only 14% predicting a decline. However, optimism levels eased since August due to subdued consumer confidence, risk aversion among businesses, and concerns about near-term UK economic growth prospects.

The UK Manufacturing PMI was 46.2 in September, down from 47.0 in August. It remained below the 50=no-change level for the twelfth consecutive month, highlighting falls in activity every month over the last year and September's manufacturing PMI was a five-month low. Manufacturers reported that production had been cut back in response to weaker new business, with weak demand from both domestic and export markets. New orders fell for the twelfth month in a row, and this was linked to subdued client confidence, U.S. tariff uncertainty and the consequences of higher costs for energy and staff. Manufacturers' optimism for the year ahead also remained subdued.

The UK Construction PMI, a quick, timely, small survey of purchasing managers at contractors that measures month-on-month change, was 46.2 in September, marginally higher than 45.5 in August and 44.3 in July (its lowest reading for over five years), according to S&P Global. However, it remained below the 50=no-change level, marking a ninth consecutive decline in activity, while business optimism changed little from August's 32-month low. In September, there was a slower fall in both residential activity (46.8) and civil engineering (42.9), the weakest-performing sector, but a faster decline in commercial (46.4). A lack of new project starts was the main factor hindering activity, and order books deteriorated for a ninth consecutive month. Respondents noted subdued demand, elevated business uncertainty, and hesitancy among clients to sign off on contracts. But some firms highlighted new business related to energy projects.

There was also a ninth consecutive fall in employment numbers. Firms cited hiring freezes and the non-replacement of departing staff, although some reported a rise in the recruitment of apprentices. Some firms reported hopes of a boost from infrastructure spending, energy sector demand, lower interest rates and planning approvals. However, this was offset by concerns about the UK economic outlook, cutbacks to capital expenditure plans and reports of uncertainty among clients ahead of the government's Autumn Budget.

The ONS data and PMI point towards around 0.2% GDP growth in Q3, due to the dominance of the services sector, and 0.2% growth in Q4 is also expected, which, overall, suggests around 1.3% UK GDP growth in 2025, and the CPA's forecast is for 1.5% GDP growth in 2026. The GDP forecast for this year is in line with most macroeconomic forecasters, although the forecast for 2026 is slightly higher than consensus.

The HM Treasury consensus of economic forecasters highlights the most recent forecasts from City and non-City forecasters, compiled in September 2025.

Of the main City and non-City macroeconomic forecasters, the average estimate for UK GDP growth in 2025 was 1.2% in September, which is marginally higher than the 1.1% anticipated three months ago but lower than the 1.3% forecast a year ago. Within the 1.2% average, the most pessimistic forecaster in June anticipated only 0.8% growth, which appears highly unlikely already without a significant drop in GDP in both Q3 and Q4. The most optimistic forecaster in September expected 1.4% growth this year. This is a considerable variation across the forecasters even three-quarters of the way through the year, but this continues to reflect the high degree of uncertainty over interest rates, consumer spending, business investments and the impact of concern over tax rises pre-Autumn Budget.

Surprisingly, for once, there was a slightly lower variation of forecasts for 2026, which may point towards a convergence of assumptions over the number of interest rate cuts compared with three months ago. Forecasters continue to be cautious, as they were in June. Reflecting the greater political and economic uncertainties as well as the impacts of tax rises, the main City and non-City macroeconomic forecasters' average estimate for GDP growth in 2026 was 1.1% in September, the same as three months ago. The most pessimistic forecaster anticipated only 0.8% growth in 2026, whilst the most optimistic forecaster expected 1.3% growth next year.

Upper Scenario:

- Economic activity and real wages grow strongly in 2025 Q4 and 2026 H1
- Interest rates fall by 0.25 percentage points in 2025 Q4 and three times in 2026
- Consumer spending rises robustly in 2025 H2 despite uncertainty
- The labour market remains resilient
- Lending to businesses increases as interest rates fall
- Business investment recovers

The upper scenario envisions a strong labour market, sustained savings, and increased credit availability, which will support consumption, household spending, and business investment recovery over the next 12-18 months. Consumer spending rises despite negative sentiment, as households become increasingly comfortable with spending their savings, given real wage rises. Business lending and investment increase in response to consumer spending, driving better economic prospects.

Lower Scenario:

- Economic growth is subdued in 2025 H2 and 2026 H1
- Interest rates fall only once in 2025 H2 and twice in 2026 due to persistent inflation concerns
- Consumer confidence slows, and spending falls in volume terms in 2025
- Unemployment rises in 2025 above 5.0%
- Lending to businesses falls as firms become more focused on short-term cost-cutting
- Business investment slows as less bright prospects affect long-term major investment decisions

The lower scenario envisions that the UK economy remains subdued in the second half of 2025 as households become more risk-averse due to rising unemployment. Both households and businesses suffer from declines in consumer and business confidence. Additionally, inflation concerns in 2025 and 2026 lead the Bank of England to be more cautious about interest rate cuts.

Private Housing

House building has slowed significantly since Spring. Demand and affordability remain the biggest challenges for house builders, particularly in areas of the country where house prices are higher. Conversely, in parts of the country in which house prices are more affordable, site viability is a key problem. Major house builders still anticipate that house building will be single-digit higher than a year earlier, although this is from a very low base. However, many small and medium-size house builders are faring less well than the majors, hindered by demand, planning delays and cost issues. High-rise developers continue to suffer from delays at Gateways 2 and 3, both for new build and also changes in use from commercial developments to residential flats. As a result, private housing starts, completions and output have all been revised down across the forecast period.

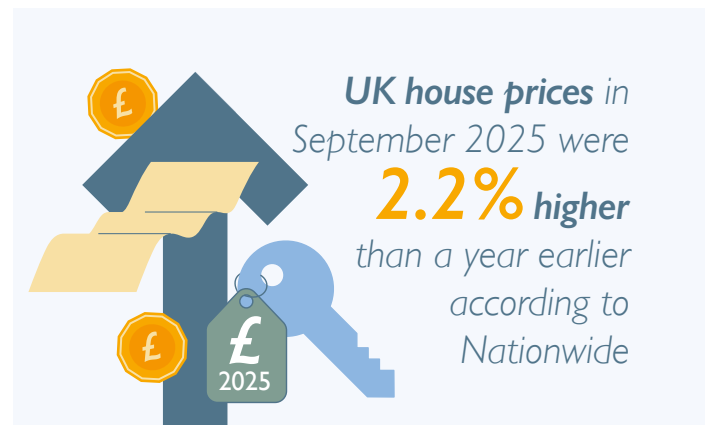
There has been a slowdown in housing market sentiment and house building activity since Spring. A dip in the broader housing market was anticipated as some homebuyers brought forward transactions from Q2 and Q3 into March due to the government's stamp duty changes on 1 April. However, the extent of the fall in consumer confidence and homebuyer sentiment since the start of April has been greater than anticipated, and there has been little sign of a significant improvement so far in Autumn. Despite this, many major house builders, who account for over three-quarters of house building, have seen single-digit positive growth in completions year-to-date compared with a year ago, and they continue to state that they anticipate a further slight increase over the next year. The one exception to this among the major house builders is Vistry Group, which has a very different business model that focuses on partnership homes and affordable housing. It experienced a decline in completions during the first half of this year compared to the same period last year. However, all major house builders focusing on open market sales have increasingly also highlighted issues affecting customer sentiment and the propensity to buy homes, including the impact of the delayed Autumn Budget on near-term customer confidence.

Private Housing Starts and Completions Great Britain

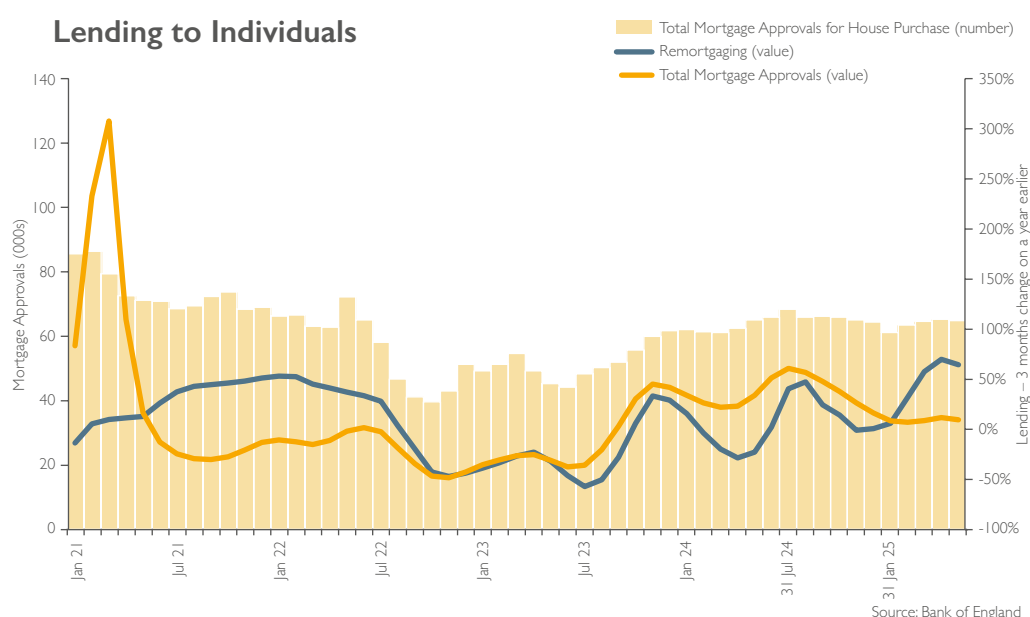
	2023	2024	2025	2026	2027
	Actual	Actual	Estimate	Forecast	Projection
Starts	131,084	91,078	98,364	110,168	125,591
	-20.0%	-30.5%	8.0%	12.0%	14.0%
Completions	144,031	134,379	135,723	141,152	149,621
	-13.5%	-6.7%	1.0%	4.0%	6.0%
Output (£m)	40,105	38,427	39,196	40,763	42,802
	-14.3%	-4.2%	2.0%	4.0%	5.0%
RM&I Output (£m)	34,786	37,063	37,063	37,804	39,316
	6.8%	6.5%	0.0%	2.0%	4.0%

Source: MHCLG, ONS, Construction Products Association

Conversely, the government continues to state that it will be building 1.5 million net additional new homes in England during the five-year parliament, and it will be taking further steps to ease planning regulations. In addition, in September, the government published its list of 12 New Towns across the country. Whilst easing planning regulations may help boost supply over the long-term, in current economic conditions and over the forecast period, demand and affordability will remain the key constraints, particularly in areas of higher house prices, such as Greater London, the East of England, and the South East. Furthermore, despite government focusing on easing planning regulations, many small and medium-size house builders continue to report that planning remains difficult at the local level. Planning consent has become easier at appeal, but it still needs to go to appeal when local councils oppose more homes, which adds extra cost and delays. In addition, whilst planning regulations may be being eased, there remains a long-term problem of declining productivity in planning departments. This appears to be due to increases in the complexity of applications, the loss of experienced planners to retirement or to the housing industry, as house builders also attempt to deal with more complex and regionally fragmented planning, fewer planners with less experience plus, in some areas, relatively new, inexperienced planners working from home and struggling to gain experience and knowledge from more experienced planners.



Regarding the government's New Towns, there is significant long-term potential if they are built, but it would be beyond the scope of the forecasts. They are a long way from being built out, and even then, the construction would be spread over a long time, so the impact on annual increases in house building is likely to be relatively low. Looking historically, the first wave of ten 1946 new towns took around four years to designate, and then approximately five years to actually start construction. In 1951, the very first, Stevenage, began completing its initial developments, growing to only 36,343 residents by 1961. Furthermore, one of the key issues



the CPA has consistently highlighted with modern UK governments is that construction policy delivery has increasingly taken longer and been less effective than in the past. The CPA is not expecting main construction on most New Towns until the next decade.

London faces a special set of circumstances, which has led to a collapse in new housing starts and a significant fall in completions. Demand has remained subdued due to high house prices. At the same time, site viability has also been affected by a Greater London Authority (GLA) general requirement for 35% of new developments to be affordable and social housing. However, indications from the GLA suggest it is looking to make this more flexible. In addition, as highlighted in previous forecasts, new housing developments in London have also been affected by delays at the Building Safety Regulator (BSR) at the Gateway 2 stage, which is after planning approval but before the project starts. The indications from industry are that these delays, of around 6-9 months, continue. Furthermore, delays at the Gateway 3 stage, before the building can be occupied, are approximately 3-4 months. These delays impact all developments above 18 metres or 7 storeys in which people will be staying overnight, and consequently also affect student accommodation and hospitals. However, most of the affected developments are housing, including new builds and changes in use, such as converting commercial offices and mixed-use commercial developments into residential flats. These disproportionately affect new housing in London, where most new homes are flats and where the majority of changes in use involve commercial and mixed-use developments. Critically, for the government, its definition of new homes for its 1.5 million new homes in England in the 5-year parliament target includes both house building completions and changes in use, so it will be affected by the sharp fall in both new high-rise developments and the fall in changes of use due to BSR delays. In contrast, the CPA's forecasts are based solely on the Ministry of Housing, Communities and Local Government (MHCLG) new housing starts and completions figures, which only reflect the decline in new build. On new high-rise residential buildings, the CPA has highlighted in previous forecasts that many developers have pulled back on new developments because they already have applications caught up in the delays at the BSR. Additionally, many investors have become reticent to invest in high-rise given the complexity, delays, and additional uncertain cost implications. The BSR was moved from being under the auspices of the Health and Safety Executive to an arms-length body under the MHCLG earlier this year. It now states that the number of approvals at the Gateway 2 stage is equal to the number of applications. However, this is partly a reflection of many developers not even submitting applications because they have so many projects already caught up in delays. Some developers are also unable to justify investment in new high-rise developments given uncertain BSR outcomes, and, as highlighted in previous forecasts, they are focusing on mid-rise developments that do not involve the BSR.

Molior monitors residential development in London and found that private housing starts on developments of 20 or more private dwellings declined to their lowest quarterly level ever in 2025 Q2, with only 731 new units commencing construction across London. So far in 2025, only 2,158 new homes have been started. 13 boroughs had zero starts on developments with 20 or more private homes so far this year. It is not only the supply-side and delays from the BSR that are the problems. Sales volumes in 2025 Q2 were also at their lowest level since late 2009, with only 1,691 sales agreed. Taking the first half of 2025, only 3,950 new homes were sold in London. Furthermore, Molior's research indicates that fewer than 1,000 homes commenced construction in London during Q3. If Q4 continues at this pace, London is likely to see only 5,000 residential construction starts on developments of 20 or more private homes overall in 2025. In addition to the issues of site viability in the light of the current 35% affordable and social housing requirement and the delays at the BSR, Molior also highlight that the high UK gilt rates in the financial markets also mean that it is difficult for pension funds and Build-to-Rent (BTR) investors to justify raising finance to invest in London developments.

However, Molior also highlighted that in 2025 Q3, some small developers, such as Mac Group, were beginning to build again in Enfield. Berkeley Group has remobilised sites that had previously slowed in London on Old Kent Road and in Southall, while Ballymore is starting initial works

at Cuba Street. As a result, it may be that 2025 H2 sees the low point for developments of 20 or more private homes, but the key to sustained growth is likely to be whether the Greater London Authority reduces its affordable and social housing requirements and whether the BSR delays can be eased. There has already been considerable speculation that the GLA is already looking to be more flexible on its affordable and social housing requirement, as it is increasingly apparent that the 35% requirement may work in a buoyant market, but it harms site viability in a subdued market, and as many housing market commentators frequently highlight, '35% of zero is zero'.

Looking beyond the capital, most major house builders have broadly maintained their targets for completions this year, despite the slowdown in housing demand. However, they anticipate that sales rates in the second half of the year will be higher, which is difficult to reconcile. However, major house builders' cancellation rates this year have been flat compared to a year ago or lower than a year ago, and they are presold for the year.

For instance, Top 5 UK house builder Taylor Wimpey reported in October that, against the backdrop of softer market conditions beginning in the second quarter, in the nine weeks to 28 September 2025, its net private sales rate was 0.65 per outlet per week compared with 0.70 a year earlier and 0.64 excluding bulk deals compared with 0.68 a year ago. Its pricing remained broadly flat with a cancellation rate of 16%, the same as a year earlier. Its sales rate for the year to date was 0.74 per outlet per week (2024 equivalent period: 0.72), and 0.69 excluding bulk deals, compared with 0.68 a year earlier. The cancellation rate for the year to date was 16% compared with 15% a year ago.

In the week ending 28 September 2025, its total order book value was £2,123 million, compared with £2,153 million a year earlier, excluding joint ventures. This represented 7,223 homes, compared with 7,709 homes a year ago. It also stated that it still remained on track to deliver full-year 2025 UK completions of between 10,400 and 10,800, but it clearly highlighted "various issues impacting customer sentiment and propensity to buy homes, including the impact of the delayed UK Budget on short-term customer confidence".

Major house builders continue to report that the inflation in materials and labour costs remains between broadly flat and small single-digit growth, due to subdued market conditions and price growth.

However, house builders continue to highlight the vast array of different cost impositions from government that are making site viability difficult in areas of better affordability. These include, but are not limited to, Biodiversity Net Gain, Water and Nutrient Neutrality, Section 106, uprated Building Regulations F,L,O and S, the rise in employers' National Insurance Contributions (NICs) and lower thresholds, the National Living Wage increase and the Remediation Acceleration Plan. In addition, there are also indirect costs from the BSR delays for high-rise, planning delays, and S106 negotiation delays. Furthermore, there are also potential upcoming extra government costs on house building such as the Future Homes Standard, the Building Safety Levy, Landfill Tax proposed reform, EPR Packaging Reform and Land Remediation Relief potential changes. Each of these extra costs from the government may be individually justifiable, but the combination of many, and most certainly, all of them has made many sites unviable. This is particularly the case for small and medium-size house builders, which are disproportionately affected by the costs as they are spreading the costs over a smaller number of units and many of them face the cost rises, such as uprated building regulations F,L,O and S, earlier than majors as their

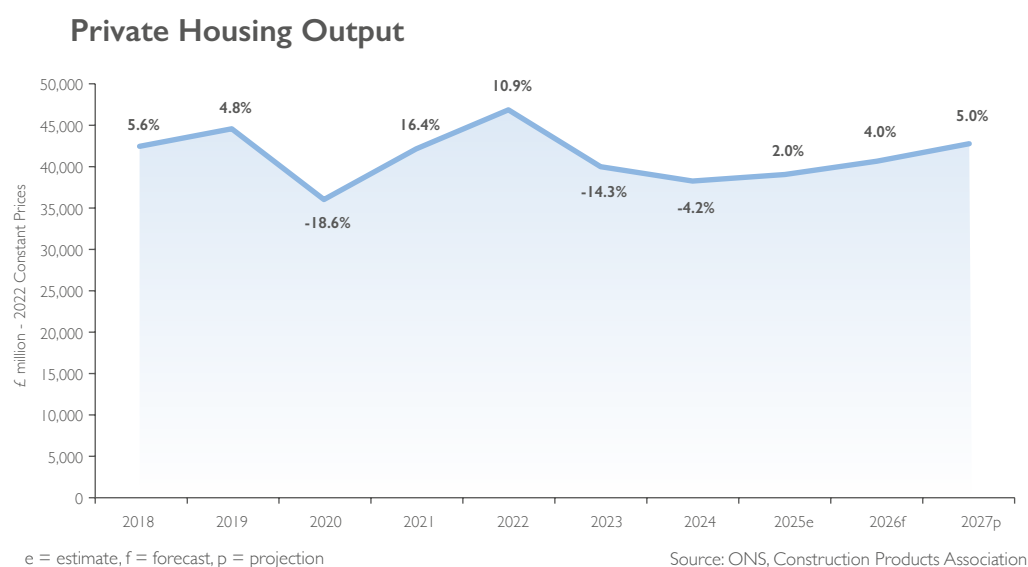
UK property transactions
in August 2025 were
1.7% higher
than a year ago



business models and finances do not allow for technically starting years' worth of new homes in advance of the end of the grace period for building under the previous building regulations.

However, as highlighted in previous forecasts, for many house builders, affordability remains the largest constraint in terms of mortgage deposits, mortgage rates, and payments. Affordability in terms of mortgage rates and payments may improve gradually as interest rates continue to fall. However, interest rate cuts are likely to be slower than expected three months ago, due to stubborn inflation and, in particular, it is increasingly likely that November's expected 0.25 percentage point cut will now be pushed back to February 2026 and that there will be fewer interest rate cuts in 2026 (see [Economy](#)). Furthermore, although interest rate cuts generally lead to mortgage rate falls, mortgage rates are determined more by gilt rates and, given financial markets' concerns about the UK government and the level of government spending, borrowing and debt, interest rate cuts over the next 12 months may not be reflected in falls in the gilt rates and mortgage rates. What we may see is that interest rate cuts are reflected mainly in an increased spread between mortgage rates and interest rates.

In terms of the deposit for a home purchase, despite real wage growth, there is little sign of a significant improvement in deposit affordability, given high house prices. There continues to be no sign of any government policy to enable private house building demand through a rebranded equity loan scheme, i.e. a Help to Buy 2-type policy, from HM Treasury or jointly between HM Treasury and house builders. Given the lack of a government policy stimulus, house builders Barratt Redrow and Persimmon, have set up their own scheme by which homebuyers need to provide a 5% equity deposit, whilst they would provide an Equity Loan covering 15% of the property's market value (up to a maximum loan amount of £100,000). The remaining 80% of the purchase price would be financed through a mortgage. If this proves to be successful in enabling more demand, then other housebuilders and lenders would be expected to work together with similar industry-led 'help to buy'-type schemes. As highlighted in its previous forecast, the Bank of England's Financial Policy Committee (FPC) announced in July 2025 plans to allow lenders to increase their share of lending at high loan-to-income (LTI) ratios above the current limit of 15%. High loan-to-income ratios are defined as those above 4.5. This could potentially help the 7.0% of prospective First Time Buyers (FTBs) who the Bank of England estimates are constrained by lenders' affordability assessments, LTI ratio caps, or do not meet the requirements of other lenders. But, the primary constraint is for the almost 80% of prospective FTBs who do not have sufficient savings to cover a 5% deposit on a median-priced



property, typically purchased by an FTB in their area. As a result, it would not address the majority of the issue, which is most acute in areas with the highest house prices, such as London, the South East, and the East of England. Affordability is less of a constraint on market activity outside southern England, which explains why the housing market and house building sectors are performing better in those areas. According to UK Finance, which represents the UK's leading lenders, the FPC's changes have improved affordability and increased demand, but only marginally so far.

For some major house builders, site viability has also been hindered by housing associations not buying S106 properties, as highlighted previously.

Many housing associations state that this is due to quality issues on the S106 properties, whilst some house builders state that Housing Associations are just using it as an excuse not to buy them, as they don't want to add to a housing stock that they may need to retrofit later. Plus, housing associations are more focused on issues with their existing stock, such as basic living conditions, fire safety and decarbonisation (see [Public Housing](#)). Whichever the reason for this, there is little sign of the situation changing in the near-term. Despite the government's announcement of £39 billion over 10 years for social and affordable housing, there are no details on the actual grant rates within the new long-term funding announcement as yet. As a result, the funding announcement is unlikely to have a significant impact on S106 purchase rates, at the very least, until housing associations know how much grant they will have per new home.

One positive change since the Summer forecasts is that the government announced in October that the Water Delivery Taskforce (comprising Natural England, the Environment Agency, Southern Water and others) has reached a position so that from 1 November, a new development in the Sussex North Water Resource Zone (WRZ) can proceed after four years of delays. This means that around 4,000 homes that were previously stalled can now proceed, and it may lead to a further 17,000 being built in the long-term. Following the government's announcement, it is anticipated that Southern Water will formally change its permits with the Environment Agency and fund habitat restoration at no cost to consumers. However, it remains unclear whether there will be any cost or restriction for developers. New homes will be built to higher water efficiency standards to reduce environmental impact. Natural England will at least amend its Position Statement accordingly, before or by 1 November, and, once measures confirmed are in place, will cancel it entirely as the need for water neutrality will cease to be a requirement. The CPA's assumption at this point is that this sets a precedent and that planning applications will no longer need to demonstrate water neutrality, only the required higher water efficiency standards. If so, this may help house builders considerably by addressing water neutrality, one of the government's additional costs and delays to house building.

Within the housing market, the fundamentals remain broadly similar to the CPA's previous forecasts. Looking at demand in the broader housing market, UK residential property transactions in August 2025 were 1.7% lower than in July 2025 and 1.7% higher than a year ago, according to HMRC. Given the distortion effects of changes in Stamp Duty on 1 April, some households that were planning to move in 2025 Q2 and, potentially, Q3, brought forward transactions into Q1, if possible. This led to the inevitable spike in transactions in Q1, followed by a consequent decline in transactions in April. Since then, transactions have been gradually returning to more 'normal' levels that reflect current demand, as highlighted in previous updates. July and August are generally relatively slow months for transactions, so the key to the housing market in the near-term will be whether we see a significant pickup in September and October,

UK mortgage approvals

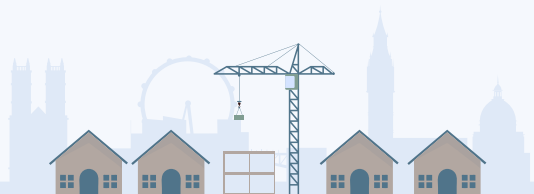
in August were

0.5%

*lower than
a year ago*



Only **2,158** new homes
have been **started in London**
on developments of
20 or more private homes,
according to Molior



before the usual Winter slowdown. Transactions in August were 3.6% lower than in January 2020, pre-pandemic, and 3.2% lower than the 2005-2018 average.

Year-to-date (January-August) UK residential property transactions in 2025 were 14.5% higher than in the same period of 2024, but this has been slowing considerably since March. As a result, estimating how much property transactions are likely to grow overall in 2025 compared with 2024 remains difficult. If transactions remain at August's levels for the rest of the year, then in 2025 they will be 8.6% higher than in 2024. However, August tends to be a subdued month for transactions, and we anticipate they will pick up slightly in September and October before slowing again as the year approaches its end. As a result, we would expect transactions in 2025 to be 9.0% higher than the low level of 2024.

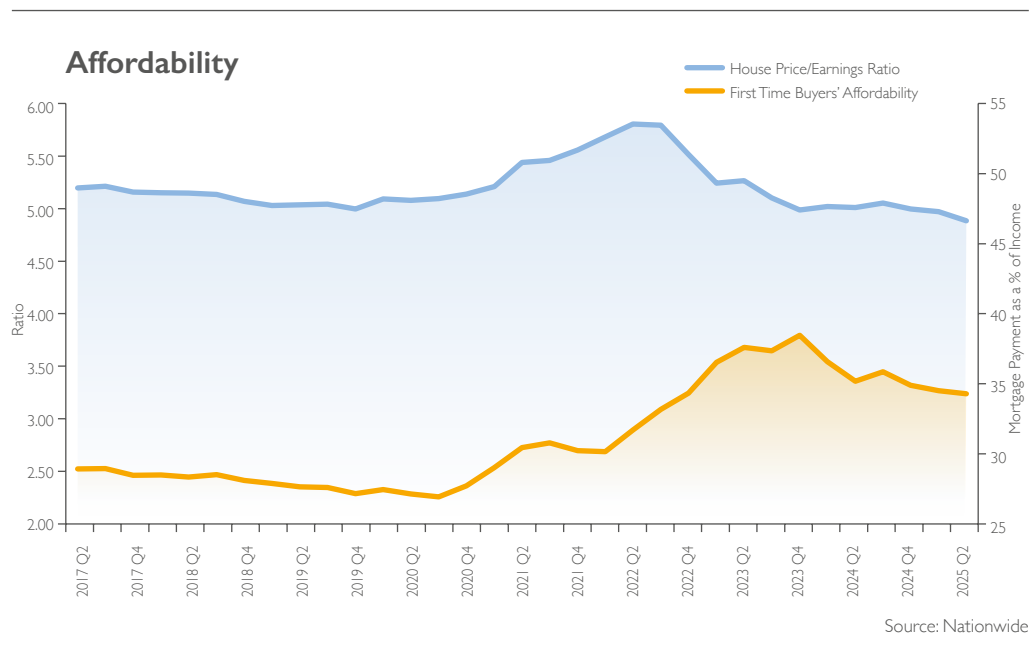
There were 64,680 mortgage approvals in the UK in August 2025, according to the Bank of England, which was 0.7% lower than in July and 0.5% lower than a year ago. It was a fall after three successive rises, but August's subdued nature isn't uncommon. The number of mortgages approved for house purchase has been around 65,000 per month, close to the pre-pandemic average. The key for the housing market near-term will be the extent to which, on the positive, August's rate cut feeds through to mortgage rate falls and approvals rise from September, but, on the negative, whether the high level of uncertainty over where tax increases in the Autumn Budget will fall affects potential homebuyers.

Since the post-stamp duty spike and dip in March and April, respectively, declines in mortgage rates were reflected in increases in approvals until August. The average interest rate on a 3-year fixed-rate mortgage with a 75% loan-to-value ratio was 4.12% in August, the lowest since August 2022. In September, mortgage rates may fall slightly further. However, there is now greater uncertainty over further declines in mortgage rates. Lenders had been pricing in a reduction in the Bank of England's base rate in November, but stubborn inflation now means there is a 50% chance this rate cut will be postponed until February 2026.

Looking at UK house prices, annual house price growth was 2.2% in September, broadly similar to the 2.1% growth in the year to August, according to the Nationwide UK house price index, which is based on mortgage offers from the lender rather than transactions. Despite ongoing uncertainties in the global economy, the underlying conditions for potential homebuyers in the UK remain broadly supportive, according to Nationwide. It stated that unemployment is low, earnings are rising at a healthy pace, household balance sheets are strong, and borrowing costs are likely to moderate further if the Bank Rate is lowered in the next few quarters, as it expects. It also stated that, providing the economic recovery is maintained, the housing market is likely to strengthen gradually in the quarters ahead.

Its regional house price indices indicate that Northern Ireland had the strongest annual house price growth of 9.6% in Q3, due to its proximity to the Republic of Ireland. Wales saw yearly house price growth rise from 2.6% in Q2 to 3.0% in Q3, whilst in Scotland it slowed from 4.5% in Q2 to 2.9% in Q3. Average prices in Northern England (the North, North West, Yorkshire & The Humber, East Midlands and West Midlands) were 3.4% higher year-on-year, whilst in Southern England (South West, Outer South East, Outer Metropolitan, London and East Anglia) house price growth slowed to 0.7%.

Its property type data showed that semi-detached properties experienced the largest rise in prices, with average prices increasing by 3.4% year-on-year. Detached and terraced properties saw similar growth, at 2.5% and 2.4%, respectively. However, flats saw a year-on-year decline of 0.3%. Looking over the longer term, flats unsurprisingly saw weaker growth than other property

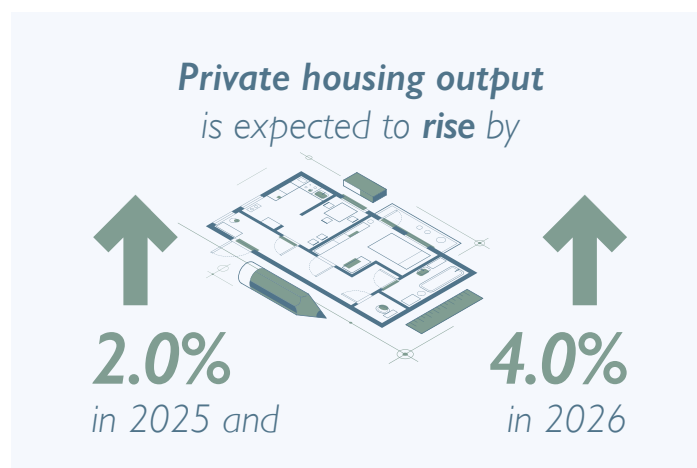


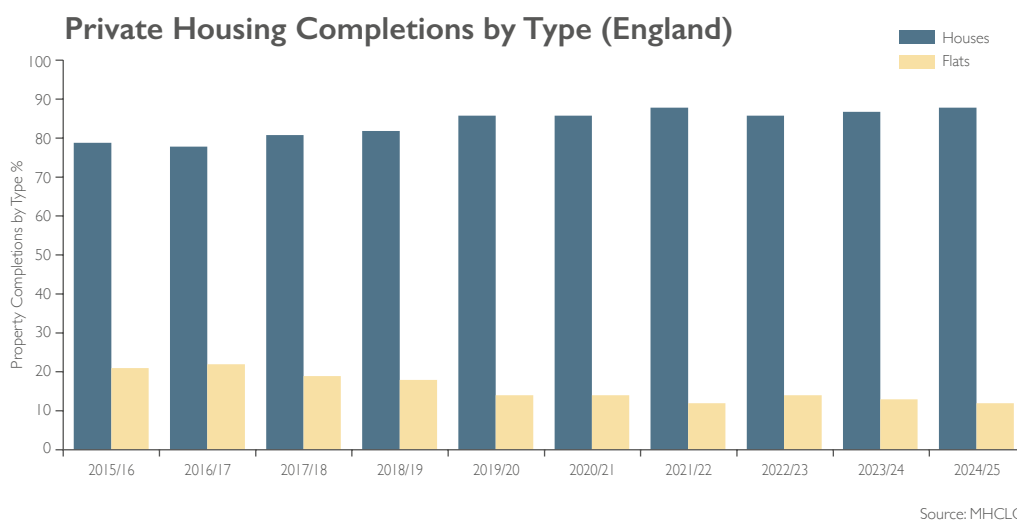
types. Over the last 10 years, the price of a typical flat has risen by around 20%, less than half the rise in the price of terraced houses.

Looking at affordability, mortgage payments as a proportion of income increased consistently between 2022 Q1, when they were 30.2% of income, and 2023 Q4, when they reached 38.4%. Since then, however, a return to sustained real wage growth and slightly lower mortgage rates has meant that mortgage payments as a proportion of income have steadily fallen to 34.9% in 2024 Q4 and then, more recently, to 34.3% in 2025 Q2. Clearly, mortgage payments remain historically high relative to income, but at least the trend appears to have reversed and is improving. Going forward, sustained real wage growth will continue to help ease affordability slightly. Furthermore, mortgage payments will gradually fall as a proportion of income as interest rates are cut and mortgage rates decline over the forecast period. Overall, mortgage payments as a proportion of income are likely to decrease further in 2025 and 2026 as interest rates and mortgage rates decline. The house price-to-earnings ratio has been on a general downward trend since reaching a peak of 5.8 during the 'race for space' peak in 2022 Q2 and Q3, just before the full impact of higher interest rates and mortgage rates on the housing market. It has now fallen to 4.9 in 2024 Q4. However, affordability and deposits remain an issue where house prices are, on average, five times the average earnings or more. This is particularly notable given that there is no government policy aimed at helping potential new homeowners, especially first-time buyers, with deposits. In 2023/24, 36% of first-time buyers received help from family or friends with a deposit, according to the English Housing Survey.

In terms of near-term early indicators of house building activity, UK brick deliveries are a useful proxy for house building starts in the absence of monthly starts data.

Deliveries in August 2025 were 19.4% lower than in July and 8.8% lower than a year ago, according to the Department for Business and Trade. August





is generally a slower month for deliveries and starts. However, the fact that deliveries were significantly lower than a year ago, even though that was still a relatively low base, is a significant concern. As highlighted previously, as the year has progressed, the annual increase has been slowing down from the high, double-digit rates, partly due to the increasing base (as demand in the first quarter of last year was very subdued), but also partly as home buyer sentiment, demand and sales rates have slowed down since March.

Despite increased uncertainty over the UK economy, including expected government tax rises and potential spending cuts, most major house builders are indicating to financial markets that they anticipate completions in 2025 will remain single-digit higher than a year ago, despite the slowdown in demand since Spring. This is also despite the base in the second half of last year being higher than the first, so annual changes each month are likely to look less favourable in the second half of this year. Conversely, growth in deliveries and starts in the first half of this year appeared strong compared with a low base in the first half of 2024. Deliveries year-to-date (January-August) in 2025 were 9.8% higher than in 2024, but the year-to-date figure has been declining throughout this year.

As the CPA's previous forecasts have persistently highlighted, demand for new flats in England remained downward for most of the past 15 years. It historically reached a peak in 2008/09, with flats accounting for 46.0% of total completions, according to the MHCLG. From this point, it steadily fell to 22.0% between 2014/15 and 2016/17, before the Grenfell Tower fire. After this, the proportion of flats fell further to 14.0% in 2020/21 and 12.0% in 2021/22 during the 'race for space', skewing demand to houses on the outskirts of cities rather than flats in cities, before rising back up to 14.0% in 2022/23 and then falling back to 13.0% in 2023/24 and 12.0% in 2024/25. As highlighted in previous forecasts, this contrasts sharply with the peak of the flats market in 2008/09, when it averaged 46.0%.

Overall, the CPA is considerably more cautious about private housing starts, completions and output in 2025 and 2026. Private housing starts in England in 2025 H1 (data for Scotland and Wales tend to be lagged) were 29.0% higher than a year earlier. However, as stated earlier, this is compared with a very low base in 2024 H1 and starts began to increase over the course of the last year. Starts in the second half of the year are unlikely to be double-digit higher than a year ago. Overall, in 2025, the starts figures are likely to be either high single-digit or low double-digit higher than in 2024. Conversely, completions in the first half of this year were 14.4% lower than

a year ago, but major house builders still anticipate that completions will be higher in the second half of this year to meet their publicly stated targets. Furthermore, completions in 2025 H2 will be compared with a low completions base a year earlier, which may boost the percentage change in completions for 2025 as a whole. Overall, private housing starts are forecast to rise by 8.0% in 2025 and 12.0% in 2026, from a very low base. Private housing completions are only predicted to increase by 1.0% in 2025 and 4.0% in 2026, whilst private housing output is expected to grow by 2.0% in 2025 and 4.0% in 2026.

Upper Scenario:

- Government introduces a deposit equity loan scheme to boost housing demand at the Autumn Budget
- House price growth of more than 3.0% in 2025 and 4.0% in 2026
- Strong labour market

If the government were to announce a deposit equity loan scheme, similar to Help to Buy, it would increase demand and signal to potential homebuyers that the government supports home purchases. This could see a recovery in property transactions, house prices, and house building earlier than anticipated, due to the direct boost from the policy, but also

indirectly through the signalling impact that the government is enabling demand in the housing market. This is especially true if unemployment remains historically low in 2026, despite slow economic growth and the lagged impact of April 2025's higher National Living Wage, rise in employers' National Insurance Contributions, and lower thresholds on businesses.

Lower Scenario:

- Interest rates only fall twice in 2026
- Mortgage rates fail to decline in 2026
- Consumer confidence hit by stubborn inflation and rising unemployment
- Slow house price growth in 2025 and 2026

If interest rates remain higher for longer due to stubborn inflation, this could affect housing affordability for first-time buyers. More broadly, it could impact consumer confidence and spending, which would, in turn, affect economic growth. Slower economic growth, a further uptick in unemployment, and forced sellers could exacerbate a slower housing market, leading to a slower house building recovery in 2026 and 2027.

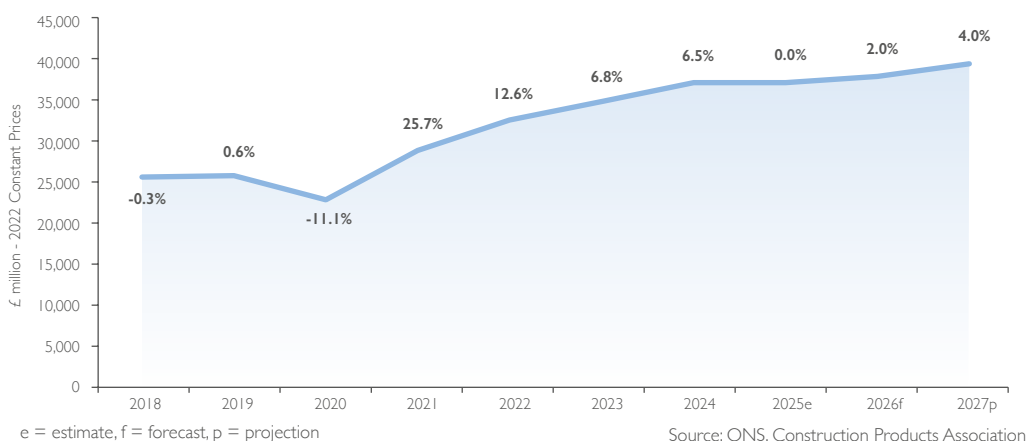


Private Housing RM&I

Private housing rm&i activity remained subdued going into the second half of 2025. This is despite many homeowners having spare finances available for non-essential improvement projects, as uncertainty and low consumer confidence have led them to prioritise saving over spending so far. Going forward, the sector's sustained recovery will continue to depend heavily on when households with savings feel confident enough to start spending on refurbishment projects, which is now expected to be in the second half of 2026. However, the big unknown is the impact of the government's tax rises in the upcoming Autumn Budget on homeowners. Fire safety work and some areas of energy-efficiency activity continue to remain strong, as they were a year ago. Overall, the volume of private housing rm&i output is forecast to remain flat in 2025, before rising by 2.0% in 2026, a downgrade from the Summer forecast.

Note that the CPA has a series of concerns regarding the ONS's historical data on rm&i output (see [Overview](#)). It is worth noting that the ONS construction output data continues to be inflated by issues in the repair and maintenance data, which particularly affected private housing repair, maintenance and improvement (rm&i), and the CPA has been highlighting for over two years. The issue in the ONS r&m volume of output data appears to occur as the ONS underestimates price inflation in r&m, which it uses to deflate construction output value and turn it into output volume. As it underestimates price inflation, it overestimates the volume of activity. To illustrate this, inflation in new housing peaked at 12.2% after the spikes in energy and commodity prices in 2022, according to the ONS (when construction materials price inflation peaked at 26.8%). The ONS, however, estimated that inflation in housing r&m peaked at only 5.9% whilst firms in the sector (SME contractors, merchants and manufacturers) stated to the CPA that inflation in the sector was more than double the ONS estimate. As a result, the ONS has been consistently underestimating price inflation in r&m since Spring 2022 and overestimating the level of r&m output. In addition, the ONS construction output data also appears to have a survivor bias issue due to the large number of contractors that have become insolvent over the past year. As a result, the CPA is forecasting activity down on the ground to help inform firms regarding what is likely to be upcoming rather than trying

Private Housing RM&I Output



to match the ONS historic data that will be published later for the forecast period. In March 2025 the ONS has indefinitely suspended publication of its materials and products price indices, and its construction output price deflators, due to concerns over its reliability whilst it attempts to address these issues. **Additional note: according to the ONS, private housing rm&i output in July 2025 was 8.0% higher than in March, which is not in line with recent information that the CPA has gained from small contractors, builders' merchants and distributors. Given that materials price inflation and insolvencies have not been as much of an issue, this suggests that the ONS may have even more problems in their construction output data than the issues highlighted previously by the CPA.**

The difficult start to 2025, highlighted in the last two forecast publications, appeared to have continued into the Summer. Furthermore, there was little sign of a September pickup in rm&i activity, although this was also potentially adversely affected by persistent rain. General home improvement activity remained subdued throughout the year so far, according to small contractors and builders' merchants, especially since Spring. However, whilst the majority of home improvement activity remained subdued, some outdoor activities, such as landscaping, increased from a low base, benefiting from particularly good weather in 2025 Q2.

As highlighted in previous forecasts, the majority of rm&i activity (around 60% per year) covers general repairs and maintenance, which provides the general, consistent levels of sector activity. Apart from seasonal variations, it tends to be relatively stable, as most repairs and maintenance cannot be delayed indefinitely. Conversely, the volatility in private housing rm&i activity tends to be due to general small, discretionary home improvement projects, larger refurbishments, such as conversions or extensions, or activity influenced by government policy and programmes.

The key explanatory variables in the CPA's model for private housing rm&i are residential property transactions, real wage growth, consumer spending, and unemployment. In addition, housing wealth and household savings are explanatory variables because they enable spending in the sector, serving as sources of finance for home improvement activity. Additionally, house price growth also provides an incentive for homeowners to invest in increasing the value of their asset.

Some of the key drivers and early indicators of private housing rm&i activity that the CPA uses, such as sustained real wage growth and the number of home moves, generally point towards a recovery in the sector starting this year, following the declines in activity between 2022 and 2024. This is why previous CPA forecasts anticipated small, positive growth in the sector in 2025, with the majority of the growth expected in the second half of the year. However, other early indicators, such as consumer confidence, unemployment, and savings, continue to point towards increasingly uncertain homeowners who may have the finances available but aren't confident enough to 'push the button' on non-essential, discretionary spending. This uncertainty has been exacerbated by the government's Autumn Budget, which, for a second successive year, will involve tax increases, but there is considerable uncertainty beforehand on who will bear the brunt of those tax rises once again. As the Autumn Budget is on 26 November, there is likely to be no end to the uncertainty until at least December, which also falls in the Winter period. This period tends to be relatively quiet for most private housing rm&i, outside of repairs and replacements of heating systems. Even after the Autumn Budget, a recovery in consumer confidence and spending will depend on its direct policy impacts on households and businesses. As with the Autumn Budget last year, the brunt of the tax increases was on businesses, through the rise in employers' National Insurance Contributions and lower thresholds,

General home improvements spending continued to remain subdued in Summer 2025



Many homeowners **have the finance** for home improvement projects but they **remain cautious on both small, discretionary work and big-ticket item spending**



rather than households. This briefly led to a slight increase in consumer confidence, until the second-round effects, as many businesses froze new hiring and the replacement of those leaving, particularly for non-essential staff.

UK residential property transactions in August 2025 were 1.7% lower than in July 2025 and 1.7% higher than a year ago, according to HMRC. Given the distortion effects of changes in Stamp Duty on 1 April, some households that were planning to move in 2025 Q2 and, potentially, Q3, brought forward transactions into Q1, if possible. This led to the inevitable spike in transactions in Q1, followed by a consequent decline in transactions in April. Since then, transactions have been gradually returning to more 'normal' levels that reflect current demand, as highlighted in previous updates. July and August are generally slow months for transactions, so the key to the housing market in the near-term will be whether we see a significant

pickup in September and October, before the usual Winter slowdown. Transactions in August were 3.6% lower than in January 2020, pre-pandemic, and 3.2% lower than the 2005-2018 average.

Year-to-date (January-August) UK residential property transactions in 2025 were 14.5% higher than in the same period of 2024, but this has been slowing considerably since March. As a result, estimating how much property transactions are likely to grow overall in 2025 compared with 2024 remains difficult. If transactions remain at August's levels for the rest of the year, then in 2025 they will be 8.6% higher than in 2024. However, August tends to be a subdued month for transactions, and we anticipate they will pick up slightly in September and October before slowing again as the year approaches its end. As a result, we would expect transactions in 2025 to be 9.0% higher than the low level of 2024.

Mortgage approvals are a near-term indicator of where we can anticipate property transactions to go. There were 64,680 mortgage approvals in the UK in August 2025, according to the Bank of England, which was 0.7% lower than in July and 0.5% lower than a year ago. It was a fall after three successive rises, but August's subdued nature isn't uncommon. The key for the housing market near-term will be the extent to which, on the positive, August's rate cut feeds through to mortgage rate falls and approvals rise from September, but, on the negative, whether the high level of uncertainty over where tax increases in the Autumn Budget will fall affects potential homebuyers.

Since the post-stamp duty spike and dip in March and April, respectively, declines in mortgage rates were reflected in increases in approvals until August. The average interest rate on a 3-year fixed-rate mortgage with a 75% loan-to-value ratio was 4.12% in August, the lowest since August 2022. In September, mortgage rates may fall slightly further. However, there is now greater uncertainty over further declines in mortgage rates. Lenders had been pricing in a reduction in the Bank of England's base rate in November, but stubborn inflation now means there is a 50% chance this rate cut will be postponed until February 2026.

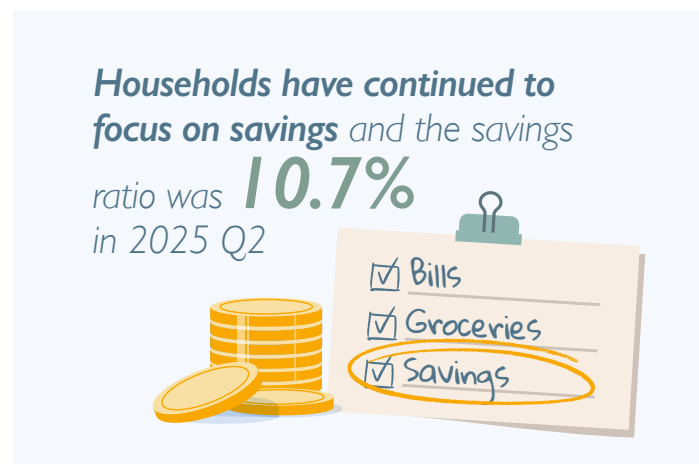
Looking at whether households appear confident about their finances and confident enough to spend, the NIQ (formerly GfK) Consumer Confidence Index unsurprisingly recovered significantly after the record low of -49 reached in September 2022, during the 'cost of living crisis'. However, more recently, there was no post-election bounce in consumer confidence a

year ago and in September 2024 it was -20. Since then, it has only varied between -17 and -22 each month, highlighting a broadly consistent pessimistic sentiment amongst households, and most recently it was -19 in September 2025.

Looking at the breakdown of NIQ's consumer confidence measures in September 2025, its index for personal financial situation over the last 12 months was -7, which is three points worse than the -4 in August but two points better than the -9 one year earlier. Expectations for personal financial situation over the next 12 months were at +4, which was one point worse than in August but seven points better than a year earlier. However, the measure for the country's general economic situation during the last 12 months was -45 in September, which was three points worse than in August but eight points worse than a year earlier. Furthermore, the measure of expectations for the general economic situation over the next 12 months was -32 in September, two points worse than in August and five points worse than a year ago. This points towards increased concern from households over tax rises and the impact in the broader economy. The Major Purchase Index was at -16 in September, three points worse than in August but seven points higher than a year earlier, which points towards the scarring effects of the 'cost of living crisis' and spikes in energy and commodity price spikes easing compared with a year ago, but its more recent deterioration highlights the increased uncertainty since Summer. The Savings Index was +22 in September, eight points lower than last month and one point lower than a year ago, but it still indicates that households are saving.

Looking at savings more specifically, in 2019 Q4, before the pandemic and other significant disruptions to the UK and global economies, the household saving ratio was 6.3%. After unsurprisingly spiking at 27.5% and 21.8% during the national lockdowns, the household savings ratio returned to more normal rates of 7.3% in 2021 Q4. The initial impact of the energy and commodity price spikes following Russia's invasion of Ukraine in February 2022 led to a decline in the savings ratio, as households used their savings to sustain spending in the near-term. Consequently, the savings ratio fell to 3.8% in 2022 Q2. However, following this, there was a general upward trend in household savings as households became risk-averse and saved to ensure they had sufficient funds to account for general price inflation and potential unforeseen expenses. We would have anticipated that as inflation slowed and there was real wage growth across the economy, households would gradually start to feel more comfortable and confident to spend on small, discretionary goods and services and then, over time, increasingly spend on larger discretionary, non-essential. However, there are medium-term scarring effects of spikes in general inflation. Whilst inflation rates have slowed, they have not decreased as much as initially expected. Consequently, households focus more on price levels, which remain high, rather than solely on the rate of price increases. As a result, despite the slowdown in inflation and the rise in real wages, the savings ratio continued to rise in 2024, reaching 11.7% in Q4, as households remained concerned about whether the much-trailed tax rises from a year ago will affect them. So far this year, the savings ratio has fallen to 10.5% in Q1 before rising marginally to 10.7% in Q2, despite an increase in global uncertainty that had a slight impact on households. As highlighted in previous forecasts, the savings ratio is likely to fall over the next 12-18 months, but not as much as previously expected. This is because inflation remains stubborn, there are likely to be fewer interest rate cuts than anticipated, and UK growth prospects remain subdued. As a result, the savings ratio is still expected to remain high by historic standards. The current forecast is that it slows slightly, to 10.0% in 2025 Q4, before slowing further, to 9.5%, next year.

A key factor that has not helped consumer



confidence or encouraged households to spend, rather than save, is the slight weakening of the UK labour market. However, it remains historically strong due to skills shortages in some key areas. In addition, since April's rises in the National Living Wage and employers' National Insurance Contributions, and lower thresholds, there have also been heightened concerns over whether there will be an increase in unemployment as employers attempt to restrict overall wage bill cost inflation by hiring freezes on non-essential staff.

The UK unemployment rate for people aged 16 years and over was estimated at 4.8% in June to August 2025, according to the ONS. This was largely flat compared with the previous three months, 0.7 percentage points higher than a year earlier and 0.9 percentage points higher than between December 2019 and February 2020, before the pandemic and other significant disruptions to the economy. However, the other side of this is that the UK employment rate for people aged 16 to 64 years was estimated at 75.1% in June to August 2025. This is a marginal decrease of 0.2 percentage points compared to the previous quarter but 0.1 percentage points higher than a year earlier. Despite this, it remained 1.4 percentage points lower than the rate between December 2019 and February 2020. The rise in both unemployment and employment over the past 12 months suggests that the recent increase in employment has been due to a decrease in the number of people previously not in the workforce.

The UK economic inactivity rate for people aged 16 to 64 years was estimated at 21.0% in the period from June to August 2025. This was essentially unchanged compared with the previous quarter, but it was 0.8 percentage points below the rate a year ago. However, the inactivity rate remained 0.7 percentage points higher than between December 2019 and February 2020. The economic inactivity rate had fallen pre-pandemic, but it rose during the pandemic. Despite fluctuations on a quarterly basis, it remains higher than pre-pandemic levels and has persistently been above 21.0%. However, the inactivity rate has been falling over the past year.

The estimated number of vacancies in the UK fell by 9,000 (1.3%) compared with the previous quarter, to 717,000, in the period from July to September 2025. This was the 39th consecutive period where vacancy numbers have dropped compared with the previous three months, with vacancies decreasing in 9 of the 18 industry sectors. During the last month, according to the ONS, feedback from employers indicated that some firms were not recruiting new workers or replacing those who had left. This aligns with expectations regarding the impact of the government's increases in the National Living Wage, particularly the rise in employers' National Insurance Contributions and lower thresholds. Furthermore, it appears to be continuing. Overall, UK unemployment is expected to rise from 4.7% in 2025 Q2 to 5.0% in 2026 as businesses focus on restraining wage cost inflation. It is then expected to slow to 4.7% in 2027 as the impacts of interest rate cuts and sustained economic growth boost employment prospects in the final year of the forecast.

*Demand for **energy-efficiency** such as **heat-pumps** and **solar/PV** activity remains strong*



On a positive note for private housing rm&i prospects, between June and August 2025, annual growth in employees' average earnings was 4.7% for regular earnings, which excludes bonuses, and 5.0% for total earnings, which includes bonuses. In real terms, after taking account of CPI inflation, wage inflation was 0.9% for regular pay and 1.2% for total pay, which means that workers have experienced growth in real wages for 27 consecutive months since the energy and commodity price spikes eased. However, as already highlighted, greater financial resources for households only benefit rm&i if households are confident enough to spend it.

Also, on the positive side for rm&i activity, the

incentive for homeowners to invest in their homes continues, albeit not at the rates seen during the 'race for space' peak during 2021 and 2022. According to the Nationwide UK house price index, based on mortgage offers rather than transactions, annual UK house price growth was 2.2% in September, broadly similar to the 2.1% growth in the year to August, and house prices rose by 0.5% month-on-month. Despite ongoing uncertainties in the global economy, the underlying conditions for potential homebuyers in the



UK remain broadly supportive, according to Nationwide. It stated that unemployment is low, earnings are rising at a healthy pace, household balance sheets are strong, and borrowing costs are likely to moderate further if the Bank Rate is lowered in the next few quarters, as it expects. It also stated that, providing the economic recovery is maintained, the housing market is likely to strengthen gradually in the quarters ahead.

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Outside of the main drivers of private housing rm&i activity in the CPA's model, government programmes also fund activity in the private housing sector, aiming at energy-efficiency retrofit and fire-safety (primarily cladding remediation) of the private housing stock.

Regarding energy-efficiency, as highlighted in its previous forecast publication, the government announced £13.2 billion of funding under the Warm Homes Plan over five years, averaging around £2.6 billion per year. This is approximately double the amount that the previous government had committed to spend on retrofitting existing homes. Alongside underspends from earlier schemes, this constitutes an estimated £6.6 billion increase in government spending, or around £1.3 billion per year. This excludes the ECO levy on energy bills, which is currently approximately £1.7 billion per year, targeting the upgrade of fuel-poor homes. However, although the Warm Homes Plan was due to be launched in October, it is increasingly likely that it will be delayed until after the Autumn Budget due to concerns over the cost of the plan and its implementation. The government plans to help upgrade five million homes through the scheme, but until we have full details of the plan and visibility to see how effectively it will be delivered, it isn't easy to include it in the forecasts. The likelihood is that most of the plan's benefits will be outside the current forecasts. However, if the plan delivers retrofit activity on the ground in the near-term, then this would provide an upside risk to the sector forecast.

Private housing
rm&i is expected
 to **remain flat**
 in 2025 and

rise by
2.0%
 in 2026



The ECO4 scheme came into force on 27 July 2022, covering almost four years until 31 March 2026. The scheme focuses on lower-income households, providing support for improving heating efficiency rather than fabric-first measures such as insulation. ECO4 especially incentivises the repair of efficient heating systems where possible. For any boiler or electric system that cannot be repaired, the focus will be on alternative sources, such as heat pumps, biomass boilers, solar/ photovoltaics (PV), or a District Heat Network.

Between the end of July 2022 and July 2025, 157,178 unique households had measures installed

under ECO4, resulting in approximately 4,248 households with measures installed per month, according to the Department for Energy Security and Net Zero (DESNZ). However, it is worth noting that this includes what DESNZ refers to as repeat households. This contrasts sharply with the previous phases of ECO programmes. On average, 21,103 households per month had measures installed. And, whilst reiterating that previous phases of ECO schemes took time to build momentum, as in previous forecasts, it is also worth highlighting that delivery under ECO initially rose between 2022 and 2024, but more recent delivery has slowed. The number of measures installed each month under ECO4 has increased from an average of 1,416 in 2022 to 4,308 in 2023 and 5,202 in 2024. However, so far, installations in 2025 have averaged only 4,946 after more than half of the year. Previous forecasts expected delivery to continue at 2024 levels, highlighting that the risks were to the upside and that delivery could accelerate. However, the likelihood is that delivery of installations peaked in 2023 Q4 and 2024 Q1. Our current forecasts anticipate remaining broadly at current installation levels of around 5,000 per month. As highlighted in previous CPA forecasts, ECO4 is still a considerably smaller programme than ECO3, which itself was smaller than ECO: Help to Heat and ECO1 and ECO2.

The government announced the Boiler Upgrade Scheme (BUS), which commenced in 2022, initially allocating £450 million over three years in England and Wales, equivalent to approximately £150 million per year. It aimed to replace boilers with a grant for installing an air source heat pump (ASHP), a ground source heat pump (GSHP) or a biomass boiler. Installations from 1 April 2022 were available with grants of £5,000 for an ASHP or biomass boiler and £6,000 for a GSHP. The government's initial target for the BUS scheme was to achieve 30,000 boiler replacements annually. However, only 15,768 applications were received for the scheme in the programme's first year, between 23 May 2022 and 31 March 2023. Only 13,739 vouchers were issued, which is less than half of the target of 30,000. In response, the government announced that, from 23 October 2023, grant levels for installing ASHPs and GSHPs would be increased to £7,500, while grants for biomass boilers would remain at £5,000. Given fixed funding for the current financial year, there will be fewer replacements than the target. However, as previously stated, the replacement rate in its first year was so low that a more significant grant and a lower target became more realistic.

Between May 2022 and August 2025, 94,663 grant applications have been received, with 81,482 grants issued to date and 61,816 redemptions paid out. The number of monthly grant applications, grants issued, and redemptions paid out illustrates that the scheme was slow to get going for the first 18 months, in which the Boiler Upgrade Scheme was only averaging 890 redemptions paid per month. It accelerated between November 2023 and September 2024, during which monthly redemptions averaged 1,644 before ramping up in October 2024.

Between October last year and August this year there were an average of 2,450 redemptions per month and this means that if the current run rate continues then in 2025, the government would reach its original target of 30,000 redemptions per year, albeit with considerably more

funding than initially envisaged, including an additional £50 million in 2024/25 after DESNZ announced in October 2024 that it had permitted Ofgem to over-allocate vouchers by up to £50 million in that financial year, bringing the total to up to £200 million. In November 2024, as part of its Warm Homes Plan, the government announced an additional £30 million for the Boiler Upgrade Scheme in the last financial year and that the budget for this financial year would be almost doubled to £295 million.

In Scotland, the Home Energy Scotland grant and loan scheme aims to incentivise private households to adopt cleaner energy and heat systems. Households can apply for grant funding of up to £7,500, with an additional £7,500 available as an optional interest-free loan. For energy-efficiency measures such as insulation, funding is available up to 75% of the combined cost, with a maximum of £7,500. The remainder of the financing requested can be taken up as an optional interest-free loan. An additional £1,500 is available for rural and island homes for both the clean heating and energy-efficiency grants. However, compared with the Scottish Government's original target of 25,000 grants per year initially and 200,000 per year towards the end of the decade, an Audit Scotland report in 2024 highlighted that grants have only averaged around 5,000 per year. The main reasons it gave for the low grants were complex advice, a slow and bureaucratic application process, and slow payments for customers and installers.

In addition to ECO4 and the BUS, in November 2022, the government announced a £1.0 billion scheme to theoretically help around 300,000 households with the cost of installing insulation. However, deployment has been very slow so far. ECO+ launched on 1 April 2023 and was subsequently rebranded as the Great British Insulation Scheme (GBIS). It currently runs to 31 March 2026. Since the start of GBIS, 96,945 measures have been installed in 75,078 households as of the end of July 2025, indicating that it has achieved only 25.0% of its target. However, by the end of December 2023, it had only gained 1.1% of its target. Consequently, the number of measures installed and the number of households upgraded rose rapidly in 2024, albeit from a low base. It is worth noting, however, that the peak of installations under GBIS occurred in October 2024, when 6,770 households had measures installed. So far this year, the monthly number of households upgraded has averaged only 4,004. The CPA had highlighted this slowdown in its previous forecasts, noting that it may be due to a Winter slowdown in activity or to rising homeowner concerns regarding the potential misuse of some types of insulation by unskilled contractors in existing homes. However, the persistence of this issue into Spring suggests that it is both of these issues, but primarily the latter. As a result, as assumed in the Spring forecasts, the rate of GBIS installations is unlikely to accelerate further. However, if GBIS installations do recover and accelerate further, with finance available, this would provide an upside risk to the private housing rm&i forecast.

In October 2025, the [National Audit Office](#) (NAO) reported that DESNZ and Ofgem believe that nearly all external wall insulation and around one-third of internal wall insulation fitted under ECO4 and GBIS have major issues requiring remediation, based on commissioned audits of 758 projects. The audits suggest that 98% of homes with external wall insulation have major issues requiring remediation 29% of homes with internal wall insulation have major issues requiring remediation. The problems indicated by the NAO may pose a downside risk to the appetite for utilising the ECO4 and GBIS schemes, particularly because the NAO also highlighted suspected fraud involving some retrofit businesses overclaiming for work done. However, it is difficult to estimate whether there will be any potential impact on demand for the schemes and, if so, to determine the extent of any fall in activity as a consequence at this point. All three major programmes are likely to benefit in the medium-term from funding under the Warm Homes Plan to 2029/30, at least.

In the near-term, a more significant driver of additional activity is the stream of urgent cladding remediation work on privately-owned residential towers taller than 18 metres.

At the end of August 2025, the Ministry for Housing, Communities and Local Government (MHCLG) reported that there were 4,655 buildings covered by the developer remediation

Fire safety activity continues to remain **robust**



contract, which is the contract that the government wrote to major housebuilders and other large developers in 2023, stating that it expected them to sign up to. This contract commits them to taking responsibility for all necessary work to address life-critical fire-safety defects arising from the design and construction of buildings 11 metres and over in height that they developed or refurbished in England over the 30 years ending in April 2022.

Of these 4,655 buildings, 2,377 were identified as having life-critical fire safety risks that developers will remediate. Within these buildings, which pose life-critical fire safety risks, 537 (23%) are reported to have completed remediation. Of the buildings reported to have completed remediation, 438 (18% of all buildings with defects) received a building control sign-off. 1,034 (44%) were reported to have started or completed remediation. 378 (16%) had not yet started remediation, but they did have plans in place.

965 buildings (41%) have not started and have no plans in place. This represents an increase of 308 since the July data release, due to recent determinations by developers that found life-critical fire defects.

The 2,377 buildings that require remediation have an estimated cost of around £4.7 billion. This represents an increase of £0.6 billion since the July data release, due to more buildings being found with life-critical fire safety defects. It is worth noting that this cost is based on the self-reported cost of work in the developer data report. However, if the price is not known, it is imputed based on the average reported cost by developers for each height band of the building. There are now an estimated 148,000 dwellings in buildings with defects that developers are committed to remediate. Of these, an estimated 69,000 dwellings in buildings are reported as having either started or completed remediation works. Based on the start and completion dates reported by developers, 559 buildings that have not yet started are expected to commence works between 1 August 2025 and 31 July 2026, and 347 buildings that have not yet been completed are expected to complete their remediation between 1 August 2025 and 31 July 2026.

Going forward, the government outlined its Remediation Acceleration Plan in December 2024, following an agreement with major developers to expedite cladding remediation in residential buildings above 11 metres and 18 metres. It aims to ensure that by the end of 2029, all high-rise buildings above 18 metres with unsafe cladding, as part of a government-funded scheme, will have been remediated. Furthermore, by the end of 2029, every building 11 metres or higher with unsafe cladding will either have been remediated, have a completion date, or the landlords will be liable for severe penalties. The incentives are designed to encourage developers to accelerate activity; however, whether this target can be realistically achieved, given the lack of skills and capacity and the requirement that remediation activity doubles, is questionable.

Builders' merchants, a significant proportion of whose sales feed directly into the rm&i market, continued to report to the CPA that footfall has been slow so far in 2025, especially during H1, and with a lower spend per customer. The Builders Merchants Building Index reported in July that total builders' merchants value sales were broadly flat (+0.1%) compared with the same month last year. However, as prices were -0.6%, this meant that the volume of sales was 0.6% higher than a year earlier. It also reported that 8 of the 12 categories had increases in sales, including Renewables & Water Saving (+3.7%), Timber & Joinery Products (+2.6%), Kitchens & Bathrooms (+1.8%) and Services (+1.7%). Conversely, significant falls in the value of sales were seen in Workwear & Safety wear (-5.3%), Decorating (-3.9%) and Heavy Building Materials (-1.1%). Year-to-date (January to July), the value of builders' merchants sales in 2025 was 1.6% higher than in 2024. Volume sales were 3.4% higher due to a 1.8% fall in prices. By value, 9 of the 12 categories sold more, with the largest increases in Renewables & Water Saving (+7.4%)

and Landscaping (+3.9%). Decorating (-2.7%) was the weakest category.

Overall, private housing rm&i output is forecast to remain flat in 2025 before rising by 2.0% in 2026, a revision down from the 2.0% and 3.0% in 2025 and 2026, respectively, in the Summer forecasts. However, given that private housing rm&i fortunes will depend heavily on when homeowners feel confident enough to spend on refurbishment projects, there is a high degree of uncertainty over the timing of the start of sustained recovery in the sector.

Upper Scenario:

- Labour market remains strong
- Inflation goes below 3.0% in 2026 Q1
- Three interest rate cuts of 0.25 percentage points each in 2026
- GBIS and BUS delivery accelerates

With a strong labour market, real wage growth and homeowners less affected by the cost of living, UK GDP may accelerate. With slightly lower inflation, interest rates, and mortgage rates, the housing market could recover more quickly than anticipated in the forecast. The property transactions recovery would boost new build and private housing rm&i activity. Furthermore, if the GBIS and BUS accelerate, then some parts of energy-efficiency would also greatly benefit.

Lower Scenario:

- Inflation sustained above 3.0% in 2026 H1
- Interest rates only cut once in 2026 H1
- Increasing unemployment

If inflation were to remain stubborn and interest rates were only cut once in 2026 H1, then, combined with rising unemployment, all but the most essential maintenance could be paused or cancelled. Job insecurity and rising homeowner costs would continue to hit consumer confidence and spending power.



Public Housing

In the near-term, housing association and local authority resources will continue to be stretched across a growing list of rm&i priorities, which has led to cutbacks in development programmes. The next £39 billion, ten-year Affordable Homes Programme and a ten-year rent settlement that will begin in April 2026 provide the certainty of long-term funding but a lack of detail, weak housing market demand, competing financial priorities and delays related to approvals for high-rise developments at the Building Safety Regulator (BSR) will limit the extent to which activity can accelerate in the near-term. It is, therefore, likely to be beyond 2026 until firmer growth rates reappear.

Confirmation of a £39 billion ten-year Social and Affordable Homes Programme (SAHP) beginning in 2026/27 was accompanied by a ten-year rent settlement and whilst this will shore up confidence among social housing providers for long-term planning, there is unlikely to be an immediate increase in activity as current headwinds remain in the near-term. Starts, completions and output are estimated to fall this year. Housing associations and local authorities are dealing with a growing list of rm&i issues, including cladding remediation, legacy fire safety measures, decarbonisation and energy-efficiency improvements, as well as a greater focus on basic repairs and maintenance (see [Public Housing RM&I](#)). The required increase in spending on rm&i comes against a backdrop of elevated construction costs and a largely fixed level of government funding. In addition, high-rise developments have been delayed in the BSR Gateways approvals process and given a slower than expected housing market recovery, there is still uncertainty for schemes being planned now. Prior to the announcement of the next SAHP, the government allocated an additional £850 million to the final year of the current Affordable Homes Programme (AHP), which may bring forward starts that had previously been held up due to funding uncertainty. However, it will take more time for social housing providers to plan new developments based on the full SAHP funding, particularly as further detail is still awaited. This is particularly the case for some of the larger housing associations, and especially those operating in London and the South

Public Housing Starts and Completions Great Britain

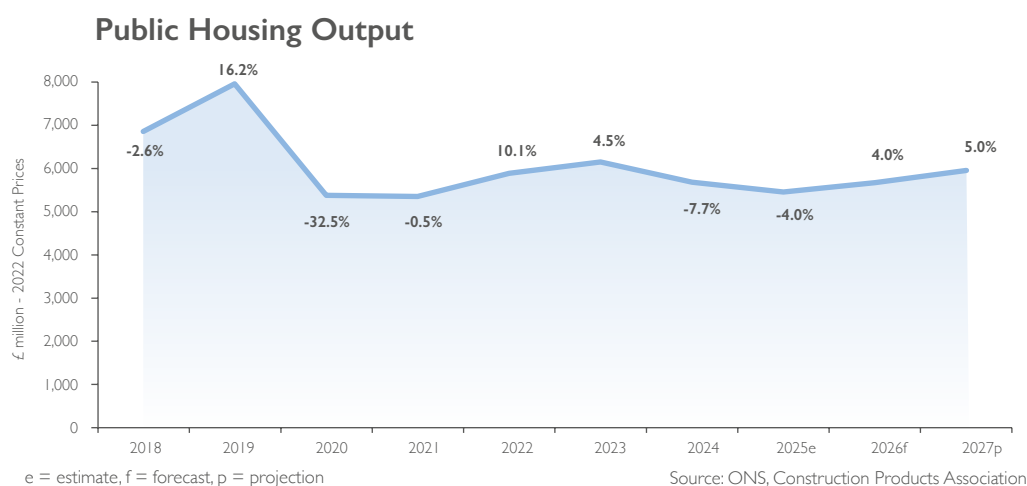
	2023	2024	2025	2026	2027
	Actual	Actual	Estimate	Forecast	Projection
Starts	41,943	36,275	35,187	37,650	39,909
	-7.8%	-13.5%	-3.0%	7.0%	6.0%
Completions	45,273	44,138	42,372	43,220	44,949
	9.0%	-2.5%	-4.0%	2.0%	4.0%
Output (£m)	6,151	5,680	5,453	5,671	5,954
	4.5%	-7.7%	-4.0%	4.0%	5.0%
RM&I Output (£m)	8,445	9,606	9,798	9,994	10,394
	5.5%	13.7%	2.0%	2.0%	4.0%

Source: MHCLG, ONS, Construction Products Association

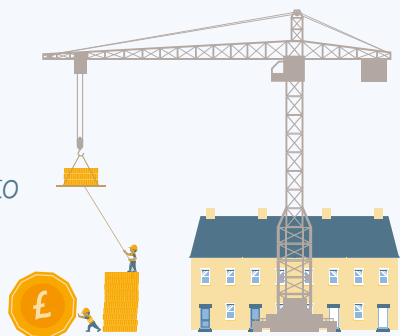
East, that have significantly reduced their development pipelines to focus on their existing stock.

Directly publicly-funded housing activity occurs through the Affordable Homes Programme. The current AHP 2021-2026 is in its final year and covers starts until March 2026. Since 2010, grant funding per unit for publicly-financed house building programmes has fallen and, more recently, been eroded further by strong cost inflation, which has also come at a time of economic uncertainty, higher interest rates and higher debt servicing costs, which have reduced both cash surpluses and interest cover (a registered provider's surplus compared to interest payable) for housing associations. This has resulted in reductions to development plans over the last few years, across the largest housing associations in particular, especially as fire safety, basic repairs and maintenance, decarbonisation and energy-efficiency improvements remain the priority for finance and resource. Up until June, social housing providers had been largely excluded from non-ACM cladding remediation funding in the Building Safety Fund.

In the Autumn Budget in October 2024, the government allocated an additional £500 million to the AHP for 2025/26, with the intention of funding an extra 5,000 homes, followed by £350 million for 2,800 extra homes in February. This takes annual funding to £3.45 billion, the highest in a decade. Overall, the AHP 2021-2026 now provides grant funding of £12.3 billion and was initially expected to provide 180,000 homes (including at least 130,000 outside London and 35,000 in the capital) over the duration of the programme. Both Homes England and the Greater London Authority (GLA) have subsequently reduced their delivery expectations and, in July 2024, the Ministry for Housing, Communities and Local Government (MHCLG) revised the total national target down to between 110,000 and 130,000 homes, so even with the additional 7,800 homes that the extra funding aims to cover, overall delivery will still be significantly lower than the original target. Providers will also be expected to increase the proportion of social rent homes to deliver at least 40,000 units over the duration of the programme, which will require either a greater proportion of grant funding or costlier market finance. After social housing providers highlighted that without information on the next programme, they were unable to plan future schemes and risked gaps in the pipeline, the government provisionally allocated £2.0 billion for 2026/27, which aims to fund the development of 18,000 new homes, covering starts for an additional year up to March 2027 and completions up to June 2029. The newly-announced SAHP 2026-2036 has confirmed funding of £39 billion, which includes £11.7 billion for GLA delivery in London. The annual allocation reaches £4.0 billion in 2029/30 and will rise in line with inflation thereafter, which suggests that up until 2029/30, annual funding will be close to existing levels. However, grant funding per unit is set to increase, based on the government's target for the SAHP to deliver 300,000 homes, which adds greater certainty to delivery. Under



Annual grant funding
on the **Social and
Affordable Homes
Programme** will rise to
£4 billion
in 2029/30



previous programmes, according to the G15 group of London's largest housing associations, grant funding represented only 12% of the value of new social and affordable home schemes. Conversely, a higher grant per unit may mean that as less cross-subsidy from open market sales is required to fund affordable operations, overall building levels by the social sector do not materially increase.

The government has also increased its focus on social rent, not just in the SAHP, but in its expectations for setting out social rent needs in local authority housing assessments and New Towns proposals. An important

consideration will be that, as developing for this tenure requires a higher grant per unit, it may be impacted more by issues affecting overall affordable housing delivery. The social rent tenure has accounted for a rising proportion of GLA-funded affordable starts in London, from 22.4% in 2017/18 to 72.8% in 2024/25. For AHP starts in the rest of England, social rent accounted for only 12.2% of affordable starts in 2023/24 and 18.9% in 2024/25, although this is higher than the 4.8% proportion under the previous SOAHP that prioritised other tenures. The SAHP targets a considerable increase to 60%. In the affordable housing statistics, it is notable that the tenure of the majority of units was not determined when the starts were registered, which suggests a considerable element of uncertainty over the future strength of the housing market and the extent to which grant funding can supplement housing associations' resources as surpluses fall and remediation work on the existing stock becomes a priority. In 2024/25, the tenure of 63.0% of starts was undecided, similar to the proportions in the previous two years.

Starts in London have been particularly affected by macroeconomic developments and delays to high-rise residential development. The GLA recorded only 2,358 affordable starts in total in 2023/24, which was a 91.9% decline from the previous year. There was no notable increase in 2024/25, when 3,991 starts were recorded, or in 2025 Q1 (347 starts). The GLA cited pauses to development whilst a new delivery target was negotiated with the Secretary of State, combined with its estimates that 38,000 homes have been delayed in the planning and design stages, whilst the technical details and implementation date for mandatory second staircases for buildings over 18 metres were determined. Delays at the Gateway 1 and Gateway 2 phases of assessment by the Building Safety Regulator are also reported to be adding around 6-9 months to the pre-construction phase, with waits of around 3-4 months at Gateway 3, post-construction. A higher proportion of housing association completions are flats compared to private sector house builders (26% in 2024/25 for the public sector compared to 12% for the private sector), which, in turn, are more likely to be in high-rise buildings. Flats accounted for 99% of housing association completions in London and one-third in the South East in 2024/25.

The annual rent-setting agreement for housing associations in England allows an increase of the CPI inflation rate in the previous September plus one percentage point and the government has confirmed that this agreement will continue for ten years from April 2026. However, it is still unknown whether it will be applied consistently, after high inflation limited the permitted rent increase in 2023/24. The Local Government Association has suggested that even with a ten-year rent settlement, it does not envisage an increase in local authority house building.

Ratings agencies have highlighted that the rising cost of borrowing means additional debt funding is unlikely to plug any shortfall in development budgets, but this is particularly pertinent for financially-constrained local authorities. In March, London Councils, which represents London's

32 borough councils and the City of London, calculated a £700 million shortfall in boroughs' housing revenue accounts from 2023/24 to 2027/28. Councils began pausing or cancelling building schemes in 2023, citing stretched budgets, rising costs and viability challenges as building regulations have been updated.

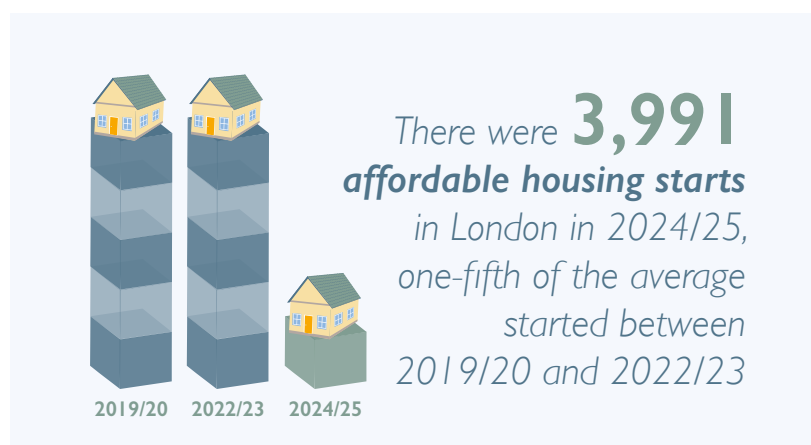
The Regulator of Social Housing (RSH) [survey for Q2](#) showed that £13.6 billion was spent on development and acquisitions in the 12 months to March 2025. £14.8 billion was forecast to be spent over the next 12 months, which was its lowest level since the pandemic. Cutbacks in development programmes were most prevalent among large housing associations, with SAHP funding not yet factored in until business plans are reviewed. Furthermore, the Q2 survey reported a broad fall in sales and the pipeline of units for affordable home ownership, with market sales at the lowest on record. In the year to March, some of the largest housing associations reported drops in completions of between 20% and 30%.

The previous government announced a £3.0 billion expansion to the Affordable Homes Guarantee Scheme in February 2024, which provides government-backed loans to social housing providers. It is intended to bring forward the delivery of 20,000 new homes, although the initial £3.0 billion scheme launched in 2020 has so far delivered only 6,290 homes across 12 providers. In addition, funding from the second tranche of the guarantees can now also be used to upgrade existing properties, which may reduce the number of new build properties delivered, given the growing list of *rm&i* priorities. The Spending Review allocated £2.5 billion in low-interest loans for social housing development, as well as £4.8 billion in financial transactions such as loans or equity investments to leverage private sector investment, which may help deliver additional units.

In Scotland, the Scottish Budget allocated £768 million to the Affordable Housing Supply Programme (AHSP) for 2025/26, after it was cut by 26.0% to £556 million in 2024/25. The funding for 2025/26 is below the £831.6 million figure allocated in 2022/23, however. Following the cut to grant funding in 2024/25, starts under the AHSP were the lowest since 2013 and completions fell 16.0%. Starts and completions in the first quarter of 2025/26 were the lowest quarterly levels since 2022 and 2015, respectively. In September, the Scottish Government announced £4.9 billion to deliver 36,000 affordable homes between 2026/27 and 2029/30.

In Wales, a five-year rent-setting policy similar to England's, of CPI in September plus one percentage point, was implemented from April 2020, although below-inflation increases were authorised in 2023/24 and 2024/25. The Welsh government is aiming to spend more than £1.0 billion on building new social housing between 2021 and 2026, including a target of building 20,000 low-carbon social homes by the end of this parliament. Grant funding has been increased in every year of the programme, from £250 million in 2021/22, to £370 million in 2024/25 and £437 million allocated for 2025/26. In 2024, Audit Wales warned that less than half of the target had been met three years into the programme, with the remainder unlikely to be delivered without significant additional spending of between £580 million and £740 million. Without additional funding, it estimates that delivery will fall short by as many as 4,140 homes. The Welsh Government is proposing a £5.53 billion follow-up scheme, also targeting 20,000 homes, that will run to March 2031.

Currently, public housing is facing elevated build costs, higher financing costs and record-low market-linked demand, reducing development appetite and activity on the ground. These macroeconomic factors also combine with competition for financial resources





against a growing list of priorities for repairs, maintenance and improvements work, as well as delays in pre-construction phases due to clearance at the Building Safety Regulator or viability issues related to second staircases. Throughout the forecast period, it is assumed that housing associations will balance the increasing need to channel finance towards cladding remediation, fire safety measures, basic repairs and decarbonisation by reducing spending on new build and the purchase of Section 106 properties from private house builders. Starts, completions and output are all forecast to fall this year, with recovery beginning in 2026 as schemes currently held up in pre-construction gateways with the Building Safety Regulator progress through to starts. Whilst the build-out of these schemes will drive activity in 2026, and see completions return to growth in that year, similar delays in the pre-construction phases are likely to occur for schemes entering the pipeline from April 2026. The government's funding allocation for the SAHP from 2026 adds certainty to the longer-term outlook, but it is likely to take some time for schemes to be planned and started given the lack of detail.

Joint ventures and partnerships between housing associations and private sector house builders increased from 2019 and such partnerships would be expected to increase in the near-term, as an insurance against the uncertain outlook for the private market. However, given the crossovers between private and public provision, in particular partnerships of this nature and the acquisition of affordable units by housing associations from private developers during the building process, ONS statistical classification of private and public sector activity may also change across starts, output and completions. From April 2020, the methodology for the Ministry of Housing, Communities and Local Government (MHCLG), house building data was changed to source completions from affordable housing supply data, rather than building control. In April 2020, the ONS also began classifying housing association house building as private sector output. This implies a structural break in the ONS split of housing output data, but given that this also coincides with the sharp declines in output due to the impacts of the social distancing restrictions imposed following the pandemic, the impact of this change is currently unclear. As with all sectors, the CPA is forecasting activity on the ground rather than matching the ONS data.

Upper Scenario:

- Demand for shared ownership increases, and open market demand recovers as the economy shows signs of strengthening
- Starts on the new SAHP increase quickly

A stronger recovery in economic growth, and particularly in the housing market, would see demand for affordable housing and market sale housing strengthen quickly at the start of 2026. This could buoy housing association confidence to proceed with activity and release a backlog of starts under the 2021-2026 AHP. Clearly, the largest upside risk for the sector arises now that the government has confirmed higher annual funding for the upcoming SAHP and an implied increase in grant funding per unit, particularly given the focus on social rent, which occurs alongside an increase in open market development, in the upper scenario.

Lower Scenario:

- A slow recovery in the housing market stalls sales and cross-subsidy from market-linked products
- An increase in local authorities declaring financial issues

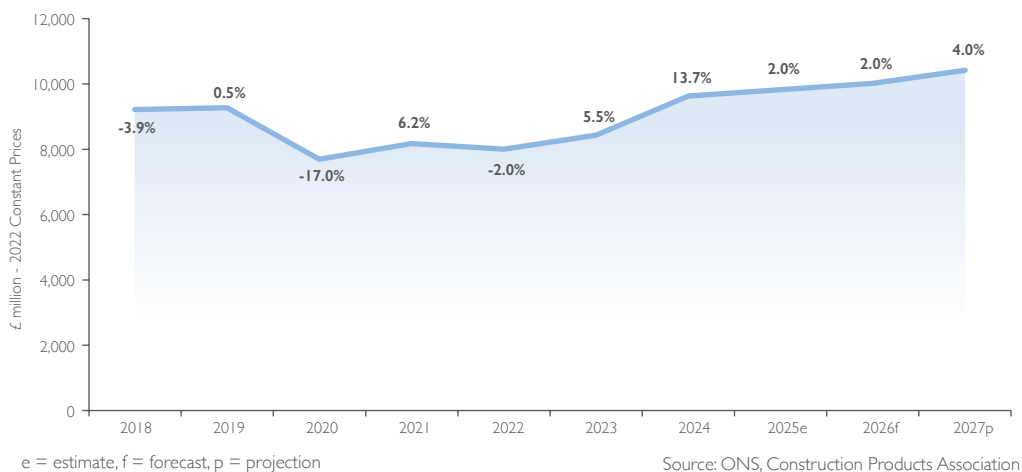
If economic growth remains slow in 2026, or if interest rates are reduced more gradually than expected in the forecast, this would reduce demand for market-linked products already under construction on the 2021-2026 AHP and entering planning on the SAHP. An increasing number of local authorities signalling financial difficulties that may require significant cuts in capital spending is also a key risk in the lower scenario.

Public Housing RM&I

Social housing providers continue to increase expenditure on repairs, maintenance and improvement of their existing stock, covering fire safety remediation and work funded through government decarbonisation programmes, as well as growing pipelines of general and reactive repairs work due to rising awareness among tenants and stronger obligations enforced by the Regulator for Social Housing and the Housing Ombudsman. However, overall grant funding has not increased markedly, which means that growth rates are expected to remain constrained, even with resources diverted from new build programmes.

There are 5.0 million dwellings in Great Britain owned or managed by housing associations and local authorities, and in recent years, the pipeline of rm&i work has expanded to address urgent cladding remediation and legacy fire safety issues, decarbonisation and energy-efficiency improvements, plus rising demand and awareness among tenants for general maintenance and improvements. New legislation, such as the Social Housing (Regulation) Act, implemented in 2023, and the Renters' Rights Bill which is in the final legislative phases, both impose shorter timescales for social landlords to make repairs. This has pushed rm&i further up the priority list for social housing providers, alongside stronger enforcement and regulation. Judgements from the Regulator for Social Housing (RSH) and investigations by the Housing Ombudsman have also increased awareness around the requirements for housing associations and local authorities to keep up-to-date data on the condition of dwellings under their management. A wave of condition surveys to comply with would be expected to increase the pipeline of repair work further. However, although the rm&i pipeline has increased, there has been little additional funding from central government, resulting in a reliance on using own resources, commercial lending and capital market funding. As a result, despite building safety works being a priority, they are more likely to be phased over several years. Even with new funding confirmed for the next Social and Affordable Homes Programme (see [Public Housing](#)), social housing providers indicate that rm&i is generally being prioritised over new development. Sector activity is forecast to grow

Public Housing RM&I Output



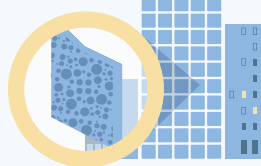


in each year of the forecast period as work accelerates on government-funded programmes, particularly given the largest tranche of the Warm Homes: Social Housing Fund (previously the Social Housing Decarbonisation Fund) saw £1.29 billion allocated in November 2024 for delivery between 2025/26 and 2027/28. The Spending Review in June also confirmed that social housing providers would now be able to access remediation funding programmes that were previously largely only available to private sector landlords and building owners. However, growth rates are expected to remain constrained at 2.0% due to limited finances, particularly for local authorities, who manage 40% of the public housing stock.

Since the Grenfell Tower fire in 2017, the focus for social housing providers has understandably shifted to improving cladding and fire safety on existing buildings. Work initially focused on remediating buildings with ACM cladding, with £400 million allocated to fully fund remediation work on social housing buildings 18 metres or over. This work is now almost complete on the 163 social housing buildings identified within this scope, according to the Ministry of Housing, Communities and Local Government (MHCLG). The remit for remediation has broadened to other types of flammable cladding and covers mid-rise buildings above 11 metres. At the end of August 2025, social housing providers had identified a total of 2,953 buildings higher than 11 metres with unsafe cladding, an increase of 290 since the end of January and 446 more than a year earlier. This was split as 1,411 buildings between 11 metres and 18 metres, and 1,542 buildings over 18 metres. Remediation is recorded as complete on 1,099 of these, with work underway on 284 buildings, and a plan in place for 991 buildings. A remediation plan has not been determined for 579 buildings. In December 2024, the government launched its Remediation Acceleration Plan, which aims to have remediation completed for all buildings above 18 metres by the end of 2029 and for buildings between 11 metres and 18 metres to either be completed or have a date for completion by this point. This is despite a [National Audit Office report](#) published in the previous month, which concluded that work was unlikely to be completed by 2035, alongside MHCLG's estimate for the total cost of cladding remediation across all tenures was £16.6 billion, with a range of between £12.6 billion and £22.4 billion. The Spending Review in June confirmed that social housing providers would be able to access all remediation funding programmes, having previously been limited to funding for the 163 buildings requiring ACM cladding remediation only in the majority of cases.

Of the **2,953**
social housing buildings
above 11 metres that have been
identified as having cladding defects:

work has
completed
on **1,099**



and has
started on
284

Source: MHCLG,
as at the end
of August 2025

The Building Safety Regulator (BSR) is also assessing high-rise residential buildings constructed using large panel systems (LPS), focusing on those built before 1970 and with a piped gas supply, which are deemed the highest risk after the Ronan Point explosion and collapse in 1968. In January 2025, a Freedom of Information request found that the BSR has identified 740 residential buildings of LPS construction, of which 350 had a piped gas supply. Of these, 202 were identified as being constructed before 1970 and with no evidence of remediation or strengthening work. Structural surveys were required to be submitted to the BSR by the end of March, which may add another stream of remediation work to the pipeline. Recent decisions by social housing providers with LPS residential buildings in their ownership highlight that demolition and rebuild are more likely, however. In June, Brighton and Hove City Council recommended the demolition and rebuild of eight LPS buildings, whilst in August, a housing association in Sunderland confirmed three of its LPS towers would also be demolished.

In June, the Scottish Government raised its estimate of the total number of private and social residential blocks above 18 metres that are likely to require remediation of external wall systems, to 250 from 105 previously. It also estimates there are 1,020 to 1,200 mid-rise residential buildings (11-18 metres) that require remediation works, resulting in a total cost estimate of between £1.7 billion and £3.1 billion over 15 years. Most recently, £52.2 million was allocated to the Cladding Remediation Programme in 2025/26, up from £41.3 million in 2024/25. Progress has been slow, however, with only 16 buildings assessed and £14.2 million spent since 2021/22, and the Local Government, Housing and Planning Committee has highlighted the risk of a significant underspend going forward. The new Housing Cladding Remediation Bill legislates for a Building Safety Levy on new development, similar to the one set for introduction in England in Autumn 2026. The Bill also allows the Scottish government to directly commission remediation work on buildings where owners have not progressed plans. Outside of cladding remediation in Scotland, Aberdeen City Council approved the demolition and subsequent rebuild of 366 council homes with reinforced autoclaved aerated concrete (RAAC) roof panels in August, which was deemed a quicker and more cost-effective solution than repairing them.

In Wales, 85 social housing buildings will be remediated under the Welsh Building Safety Programme. Of the total 459 buildings in the programme, work had been completed on 83 at the end of August, with no breakdown by tenure. The Welsh government allocated £127 million in capital investment for building safety in its final budget for 2025/26, which roughly matches the £375 million total allocation for the previous three financial years. As with Scotland, if remediation continues at its current pace, there is likely to be an underspend.

Increased scrutiny of the fire safety of residential buildings has also broadened to questions over the general quality of housing built and maintained by social landlords. High-profile cases, the newly-implemented Social Housing (Regulation) Act and the Awaab's Law proposals in the Renters' Rights Bill, which is in its final legislative phases, have led to greater awareness and demand from tenants, in turn increasing providers' focus on quality issues such as damp and mould, boiler faults and general disrepair. From 27 October, social housing landlords will have to investigate significant hazards, such as damp and mould, within 10 working days. Landlords will also have to address emergency repairs within 24 hours. From 2026, in addition to damp and mould, the law will also apply to hazards such as excess cold and excess heat, fall risks,

structural collapses, fire, electrical issues and explosions, as well as hygiene hazards. Local authorities have already reported a greater volume of repairs driven by tenant demand, leading some to place non-emergency housing repairs on hold until further notice amid increasing costs and high demand for services. In March, the Scottish government announced it intends to introduce Awaab's Law into Scottish housing legislation from March 2026. Given that this is becoming as high-profile an issue as fire safety, and fines have already been levied by the Housing Ombudsman for delays in rectifying damp and mould issues, there is clearly a push for housing associations and local authorities to divert more spending to basic r&m as well. However, this is against a backdrop of constrained finances. In March, [a survey by the Local Government Association](#) found that 57% of councils are planning to cut spending on repairs and maintenance (r&m), whilst a report from London Councils in May found that borough councils in the capital are unable to maintain spending through their Housing Revenue Accounts in real terms and will need to reduce spending on the housing stock over the next three years to avoid bankruptcy. Nevertheless, in May, Westminster Council began early procurement for its next r&m programme, valued at £500 million over five years from 2027. Anecdotally, in addition to constrained finances, housing associations may also be holding off from buying Section 106 from private house builders, as they are concerned about the quality and adding to a stock of properties on which they may need to address quality issues or retrofit.

The RSH quarterly surveys, which are based on responses from private registered providers of social housing that own or manage more than 1,000 homes, indicate that spending on both revenue repairs, which tend to be responsive repairs, and larger capitalised repairs remain at record levels. In the 12 months to June 2025, total r&m expenditure was £9.1 billion, split between £5.3 billion of revenue repairs and £3.9 billion of capital works. Expenditure of £10.3 billion is forecast for the next 12 months. However, the overall funding pot remains limited, and housing associations and local authorities have recently self-referred to the RSH, been given regulatory judgements by the RSH or investigated by the Housing Ombudsman for not undertaking repairs quickly enough, not having up-to-date data on the condition of tenants' homes or not collecting Tenant Satisfaction Measures from surveys of tenants.

Funding allocations and work on government energy-efficiency schemes are now coming through on the social housing stock. In November, £1.29 billion was allocated to the Warm Homes: Social Housing Fund, previously known as Wave 3 of the Social Housing Decarbonisation Fund (SHDF), its largest allocation to date. Delivery is intended between 2025/26 and September 2028, with £374 million for 2025/26, £459 million in 2026/27 and £459 million in 2027/28, with the bidding documents suggesting it would cover 140,000 homes. There will be a £7,500 cap per home, but more flexibility has been introduced through strategic partnerships for those delivering improvements on more than 1,000 homes. Under the previous government, £500 million was allocated to a new local authority retrofit scheme in December 2023 to fund insulation measures for 60,000 low-income households, which appears to have been relaunched as the Warm Homes: Local Grant. Delivery is targeted between 2025/26 and 2027/28, with £88 million allocated to 2025/26 and £206 million to both 2026/27 and 2027/28. The Spending Review committed £13.2 billion to the Warm Homes Plan between 2025/26 and 2029/30 and government consultations on a Decent Homes Standard and improving energy-efficiency for both the private and social rent sectors strongly suggest its target for upgrades to 5 million homes will cover both private and public housing r&m&i. However,



without further detail, including the split between private and social sector homes, it is difficult to assess. The consultation on the Decent Homes Standard proposes that it will be a regulatory requirement in social housing from either 2035 or 2037.

Between March 2022 and July 2025, 31,693 measures had been installed in 16,056 properties under the first wave of the SHDF and under Wave 2.1 (£778 million of funding allocated in March 2023), 54,102 measures had been installed in 26,107 properties. Since April 2024, when the £75.5 million 'top-up' Wave 2.2 commenced, 4,992 measures were installed in 2,341 properties. The programme is dominated by insulation improvements, which accounted for 55% of measures installed in total over the three phases. Loft insulation made up 45% of insulation installation. Doors and windows, such as double/triple-glazing or energy-efficient doors, were the next most common measure installed (18%), followed by solar/PV measures (15%).

As with the original Green Homes Grant, all registered installers on government schemes must be registered with Trustmark and, where applicable, with the Microgeneration Certification Scheme (MCS), which may limit delivery. In addition, all projects must be compliant with PAS 2035:2019. As a consequence, the constraints on installers may mean that, despite the finance available, the lack of eligible installers may hinder progress on projects, in addition to cost inflation.

The next iteration of the Energy Company Obligation – ECO4 – runs alongside government-funded schemes, with 2025/26 as its final year. It will provide funding of £1.0 billion per year for low-income and fuel-poor households. For social housing, eligibility is limited to homes in EPC band E, F or G, which is around 117,000 properties, according to the English Housing Survey. In addition, eligible measures are limited to insulation, first-time central heating, renewable heating systems and district heating. It has a target of 22,000 solid wall insulation retrofits per year. This is higher than under ECO3 (35,984 total solid wall insulation installations in three and a half years) but lower than the 145,103 measures installed during the four years of ECO1 and 2. Between April 2022 and July 2025, there were 872,267 measures installed in total under ECO4, of which 76,057 were for solid wall insulation measures across privately and publicly-owned properties, which is, therefore, on target. The Great British Insulation Scheme, previously known as the ECO+ programme, allocates a further £1.0 billion to energy-efficiency measures, distributed as £130 million in 2023/24 and £435 million each in 2024/25 and 2025/26. However, eligibility for social housing is even more constrained to avoid a crossover with existing policies and it will only cover insulation measures on properties with an EPC rating of E or below. An [NAO report](#) published in October found that a large proportion of the installations of external and internal wall insulation done through ECO4 and the GBIS have major issues requiring remediation, which may slow down take-up from social housing providers.

A £3.0 billion expansion of the Affordable Homes Guarantee scheme, which provides government-backed loans to social housing providers, was announced in February 2024, allowing funding to be used for improvements to the existing stock as well as new build. In October 2024, Barclays and Lloyds Banking Group announced £500 million each in short-term and long-term lending for social housing retrofit projects, backed by guarantees of up to £750 million provided by the National Wealth Fund, which was previously known as the UK Infrastructure Bank.

Despite a growing demand and awareness of faults, hazards, energy-efficiency improvements and decarbonisation, a key issue for social housing providers in the longer-term is that it may not be financially viable to undertake energy-efficient retrofit or fire safety remediation. Notting Hill Genesis highlighted that 15% of its 44,000 homes are currently Victorian terraces that are around 100 years old and have the lowest EPC rating, and getting such properties up to EPC C – as proposed for Minimum Energy Efficiency Standards (MEES) in the government's consultation for a new Decent Homes Standard for England – may cost as much as £100,000 per property. Instead, it may be that housing associations need to sell some of their older properties, given the extensive retrofit cost. It may be even more difficult for financially-constrained local authorities. According to the English Housing Survey for 2023/24, 27.5% of

housing association properties and 29.9% of local authority properties have an EPC rating below C, totalling 1.2 million homes. A housing association in Bristol will demolish one of its low-rise housing blocks (below 11 metres) as it cannot cover remediation costs for cladding and fire safety, and, as a low-rise building, is not included in government remediation funding programmes. Nevertheless, L&Q, one of the largest housing associations that manages 90,000 homes, has begun a 15-year major works homes upgrade programme, which aims to spend up to £300 million per year (£100 million per year in the earlier years of the programme) on bringing its properties up to an EPC rating of C by 2028, as well as a wider programme of estate and environmental improvements, mechanical and engineering works and internal decorations, including 48,000 new kitchens and 42,000 new bathrooms. In March, Southern Homes began tendering for a £1.7 billion upgrade framework covering windows, doors, roofs, kitchens and bathrooms.

Across the other nations, the Welsh Government's final budget for 2025/26 increased funding for decarbonising existing homes by 3.0% year-on-year from £92 million to £95 million. It has set a target for rented housing to achieve a minimum EPC rating of C by 2030. Plans to reach an EPC rating of A by 2033 have been dropped, however, with landlords now expected to provide an assessment of how they can improve properties to an A rating.

In Scotland, the Energy Efficiency Standard for Social Housing 2 (ESSH2) has set a deadline of December 2032 for all social housing to reach an EPC rating of B, which looks challenging given that 92% of Scotland's social housing stock is currently below this. Targets for energy-efficiency in both Scotland and Wales are considerably higher than in England, where an EPC rating of C is required by 2035 to meet the net zero target. The Scottish Government's Budget for 2025/26 allocated a total of £349 million for energy-efficiency upgrades to homes and businesses.

Growth in public housing r&m output is expected to remain restricted across the forecast period by financial constraints for the key areas of demand of cladding remediation, energy-efficiency retrofit and general repairs. The forecast assumes that these categories of work proceed as a priority, with further diversions of finance and resource away from new build projects and r&m work that can be postponed, particularly as new legislation and mandatory response timescales are implemented. As a result, public housing r&m is forecast to rise by 2.0% in both 2025 and 2026.

Upper Scenario:

- Housing associations continue to restrict new build programmes to focus on the existing stock

Housing associations have already redirected spending away from new development towards investment in the existing stock. In the upper scenario, a deterioration in demand for tenures linked to the open housing market and delays to development starts related to submissions to the Building Safety Regulator Gateways lead to further cuts in new build programmes and resources shifted further to address issues on the revenue-earning stock such as fire safety, cladding remediation, decarbonisation and general r&m, especially as legal timeframes to respond to faults and hazards are implemented from October.

Lower Scenario:

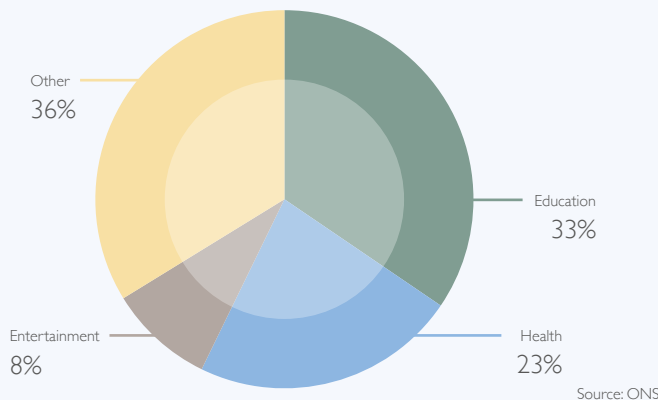
- Labour capacity constraints continue to hinder cladding remediation and decarbonisation
- Cost increases reduce volumes of work undertaken
- More local authorities struggle with budgetary constraints

Skills shortages or contractor availability are likely to remain an issue and, given that government funding focuses demand on insulation and solar PV installations, current areas of strong growth will be the most stretched for additional capacity. In addition, given that materials and labour costs remain elevated, then volumes of activity may fall, even as output values are maintained. An increasing number of local authorities signalling financial difficulties that may require significant cuts in capital spending is also a risk in the lower scenario.

Public Non-housing

Capital budgets for government departments are expected to increase over the forecast period but it will take time for increased funding to translate into higher output. Funding approved in Spending Review 2025 provides a boost for flagship investment programmes in health and education, along with funding certainty for new prisons. Details are outstanding but the potential for additional spending on improving the defence estate presents an upside risk.

Public Non-housing Output by Sub-sector 2024 (%)



Public non-housing output is forecast to increase throughout the forecast period as momentum builds on capital investment programmes in health, education and justice. Output is forecast to rise by 4.1% this year, followed by 4.1% growth in 2026 and 4.2% growth in 2027.

Spending Review 2025 outlined capital investment plans totalling over £419 billion over the 2024/25 to 2027/28 period, in current prices. Taking 2024/25 as a baseline, when investment was estimated at £114.6 billion, capital budgets are on track to rise by 14.6% in the current financial

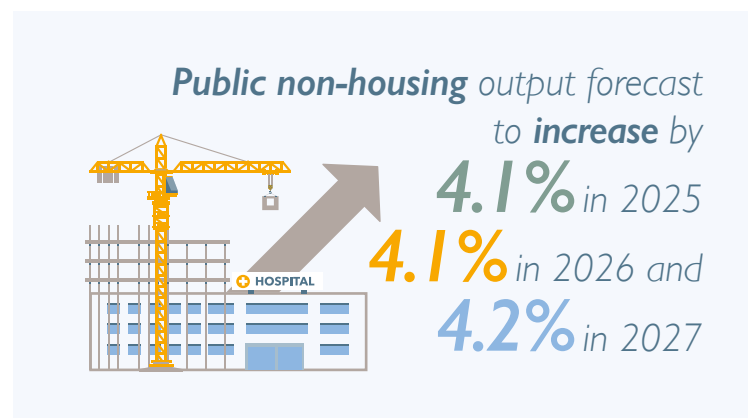
year, before increasing by 8.7% in 2026/27 to £142.7 billion. Thereafter, growth in capital nominal budgets is more muted at 1.8% in 2027/28.

Over the forecast period, the Ministry of Defence (MOD) is expected to see the largest increases in its capital budget, rising by 35% from £22.7 billion in 2024/25 to an estimated £30.0 billion in 2027/28. This allocation includes investment in technology and innovation, along with investment in property and core infrastructure. The Strategic Defence Review acknowledges the role that accommodation, and the quality of ancillary facilities, plays in strengthening retention and satisfaction and there is increased investment in MOD estates planned over the forecast period. However, the speed at which increased funding can generate meaningful output will depend on the speed at which potential projects can be planned, mobilised and delivered. Further details are expected in the forthcoming Defence Investment Plan.

For education, Spending Review 2025 set out plans to increase capital investment by 35% in 2027/28 from a very low baseline in 2024/25. Funding for the School Rebuilding Programme (SRP) will increase to support the delivery of 100 schools annually but Spending Review 2025 did not allocate additional capital funding to the further education estate beyond existing eligibility for providers to apply for funding from centralised condition funding pots.

Capital funding allocations for the Department of Health and Social Care (DHSC) and Ministry of Justice (MOJ) are also set for double-digit increases, largely expected to provide the financial support required to deliver pre-established investment plans.

Increased capital investment needs to be considered against the challenging backdrop that public sector finances currently face. According to the ONS, government borrowing in the financial year to August 2025 was £83.8 billion. This was £16.2 billion more than in the same five-month period of 2024 and the second-highest April to August borrowing since monthly records began in 1993, excluding 2020. At the end of August, public sector net financial liabilities, excluding public sector banks, were estimated to be 84.5% of GDP, 2.5 percentage points higher than at the end of August 2024.

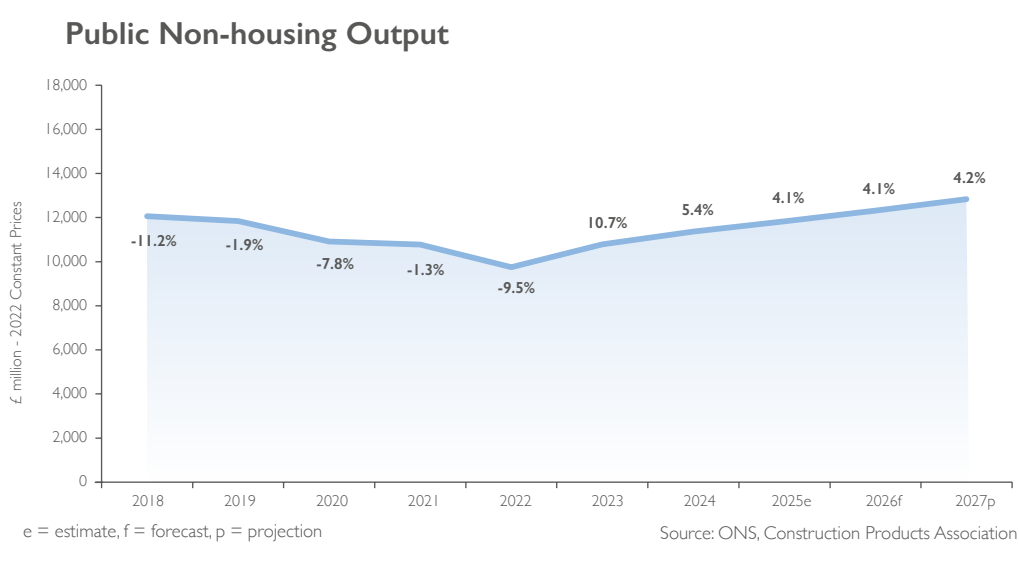


With high government borrowing, the Chancellor risks failing to meet the new fiscal rules established last year – maintaining a balanced current budget, so that day-to-day costs are met by revenues, and a reduction in public sector net debt, defined as public sector net financial liabilities, as a percentage of GDP. Ahead of Autumn Budget 2025 there is a risk that public sector capital investment may be delayed or cut.

Scotland's Budget for 2025/26 suggests capital investment across all government departments is set to increase by 14% in 2025/26, rising to £7.3 billion, up from £6.4 billion in 2024/25. Among the largest increases are a 113% uplift in the capital budget for the Scottish Prison Service and 23% growth in the allocation for health and social care. In Spending Review 2025, the Treasury allocated £20.6 billion to Scotland between 2024/25 and 2027/28.

Capital expenditure across local authorities in Scotland is budgeted at £5.04 billion in 2025/26. Investment in the school estate via the Learning Estate Investment Programme is a leading driver of increased capital spending, with provisional figures suggesting capital investment in education by local authorities rose from £678 million in 2023/24 to £1.02 billion in 2024/25 and investment in the current year is budgeted to be broadly maintained at £1.04 billion.

In Wales, total capital investment is set to rise marginally in nominal terms in 2025/26, to £3.49 billion, a 0.9% increase compared with 2024/25, but, after allowing for inflation, this equates to



a modest cut in real terms. Health and Social Care's capital budget is set at £619 million, a 7.1% increase compared with the previous financial year, whilst capital investment in education is anticipated to reduce by 9.6% to £373 million. Spending Review 2025 allocated £10.5 billion in capital funding to the Welsh Government between 2024/25 and 2027/28.

The government will explore the feasibility of using new public-private partnerships (PPP) models for taxpayer-funded projects (for example, in decarbonising the public sector estate and in certain types of primary care and community health infrastructure), where they could represent value for money and an assessment of possible approaches is expected alongside the Autumn Budget. In Wales, private finance is currently being used to deliver social infrastructure via the Welsh Government's Mutual Investment Model.

In recent months, activity has begun to pick up in the publicly-funded **education** sub-sector after years of decline. Procurement activity via the School Rebuilding Programme (SRP) has increased from a low baseline but targeted delivery of 100 schools per year is still a relatively modest ambition and clarity about the delivery plan over the next two years is still lacking. Outside of the SRP, capital budgets will remain constrained and removing RAAC from schools and colleges that are not part of the SRP, will continue to take priority in improvements funding programmes. Output stabilised after eight consecutive years of decline in 2024, and 4.0% growth is forecast this year, followed by a 5.0% increase in 2026 and 3.0% growth in 2027.

The Spring Statement set the Department for Education's (DfE) capital budget for 2025/26 at £6.8 billion, a significant 19% uplift compared with 2024/25, but only around 10% higher than 2023/24 in nominal terms. Spending Review 2025 suggests capital funding for the DfE will rise substantially in 2026/27, to £8.3 billion, before stabilising at £7.7 billion annually between 2027/28 and 2029/30. Included within this overall allocation is approximately £2.4 billion each year for the SRP, a commitment to increase annual maintenance investment in line with inflation, and £2.6 billion available from 2026/27 to 2029/30 to fund the provision of mainstream school places needed to meet future demographic needs. The government has outlined a plan to enable a further 250 schools to be selected to join the SRP over the next two years, but details are not yet available.

DfE accounts for 2024/25 show that actual capital spending of £5.6 billion during the year fell £115 million short of the estimated level. In recent years, the department has consistently underspent capital budgets. Strong cost inflation has been a factor, and it remains to be seen if available budgets can be fully utilised this year and beyond.

Funding for the SRP, which aims to rebuild or refurbish 518 schools and sixth form colleges across England, is due to increase to approximately £2.4 billion per year over the Spending Review period, up from funding of £1.4 billion in 2025/26. Since the SRP was announced in 2021, progress has been slow due to cost inflation and a shift to prioritise schools with RAAC (reinforced autoclaved aerated concrete). Responding to a Parliamentary question in April 2025, the DfE confirmed that only 28 projects in the SRP have been refurbished or rebuilt so far, but that work has started, to varying degrees, on nearly half of all schemes currently in the pipeline.

Funding is now increasing, and procurement activity has picked up pace, but details of the delivery plan for the SRP over the Spending Review period are still unclear. Schools have been prioritised according to condition and it is understood that expected delivery timeframes have been communicated to responsible bodies. The DfE plans to communicate start dates with schools at least a month in advance of project start, at which point the scope of the works will be discussed with the school and the responsible body. The DfE estimates a typical SRP project will take between two and five years to deliver.

Rebuilding schools with extensive refurbishment or reconstruction requirements, due to the presence of RAAC, will be prioritised through the SRP. In September, the DfE confirmed that RAAC has now been removed from 52 schools with targeted grant funding, an increase

compared with 39 schools at the end of March 2025. A further 71 schools with RAAC are in the process of being rebuilt under the SRP, with 52 of these projects starting under the current government. In a response to a Parliamentary question in November 2024, the Parliamentary Under-Secretary stated that 122 schools with the most extensive RAAC issues had been included in the SRP. In total, RAAC had been identified in 237 schools and colleges at this point.

SRP contracts let in recent months include a £51 million contract to rebuild Rosedale College in Hillingdon, London. The project involves the construction of two new teaching buildings, sports facilities, dining and social canopies and new infrastructure. Construction work is underway on the £45 million redevelopment of Ormiston Sudbury Academy in Suffolk after Babergh District Council granted planning approval in March. The new school will include a three-storey teaching block, a separate sports hall, and a multi-use games area. In Yorkshire, Bradford Council planners have granted permission for the £52 million upgrade of Ilkley Grammar School. Plans include the demolition of several existing teaching and sports blocks and their replacement with new teaching blocks, multi-use game areas, a sports hall and swimming pool facilities. In Northumberland, a £50 million contract has been awarded for the redevelopment of Cramlington Learning Village. Nine existing buildings will be demolished to make way for a new three-storey teaching block and learning complex. Main construction work is due to start before the end of the year.

Outside of the SRP, the contract to build a new secondary school at the Alconbury Weald development in Cambridgeshire was recently awarded. The new £37 million academy will include a three-storey main teaching block and extensive sports facilities. The start of construction work is imminent, and the first phase is due to complete in Spring 2027. In Bristol, work recently started on a £50 million contract to build the Oasis Academy Temple Quarter. The academy will accommodate 1,600 pupils over 12,200 sq. m. of floorspace.

Spending Review 2025 suggested that investment to improve the condition of the schools and colleges estate in England will rise in line with inflation, increasing to around £2.3 billion by 2029/30. It is assumed that this solely refers to School Condition Allocation funding but, as this is only one source of funding, further information is required before an informed assessment about the impact of this announcement can be made.

The DfE's £1.5 billion Further Education Capital Transformation Programme has entered its final year. Final allocations to 146 colleges totalled £286 million to be spent by the end of 2025/26. The largest allocations in the final funding round were £15 million for the NCG Group, £11.5 million for Havant and South Downs College and £10.4 million for the City of Bristol College.

In August, the government announced the locations of the ten new Construction Technical Excellence Colleges in England promised in the Spring Statement. Central government funding of £100 million has been allocated to establishing these colleges, £80 million of which is funding for capital works.

The DfE's 2025/26 capital settlement includes funding totalling £302 million to improve further education colleges across England. All further education colleges, and designated institutions, will receive a share of this funding pot. Spending Review 2025 did not specifically allocate additional

Several School Rebuilding Programme contracts were awarded in Q3 – including:

£37 million & **£52 million**

Alconbury Weald & **upgrade of Ilkley Grammar School**



Work is underway on a new
£115 million
community campus
in Ardrossan,
North Ayrshire

Source: North Ayrshire Council



capital funding to the further education estate beyond existing eligibility for providers to apply for funding from centralised condition funding pots.

Scottish Budget 2025/26 made a £512.5 million capital allocation to education and skills in 2025/26, around 3% less in nominal terms than £530.6 million in 2024/25, but significantly more than £454.8 million in 2023/24. Local authorities in Scotland expect to spend £1.04 billion on education in 2025/26, a slight increase compared with an estimated spend of £1.02 billion in 2024/25 but significantly higher than £678 million in 2023/24, due to investment in the Learning Estate Investment Programme (LEIP).

For schools, Scotland's Programme for Government

2025/26 suggests construction work will commence on six new schools, via the LEIP, during the year. School rebuilds confirmed in the 2025/26 Budget are: Kirkwall ASN Centre in the Orkney Islands; Brae Campus in the Shetland Islands; Hazelhead Campus in Aberdeen and Mull Campus in Argyll.

Work is underway on a new community campus in Ardrossan, North Ayrshire. The £115 million project has started a year later than planned due to remediation of the former oil refinery site upon which the new facility is located, taking longer than anticipated. The campus, expected to be completed in Autumn 2027, includes secondary and primary schools, a public library and a leisure centre with a swimming pool. Construction work has also begun on the Mayfield Community Learning Campus, a £41.8 million project to develop a new campus including Mayfield Primary School, St Luke's RC Primary School, a nursery and community facilities. The campus will also feature sports facilities, community growing space, community meeting rooms, workspaces, and a library and work is due to be completed in Spring 2027.

The Welsh Budget for 2025/26 made an additional capital allocation of £28 million to help improve the fabric of the educational estate. Capital funding for education is set at £373 million in 2025/26, a 10% reduction from 2024/25.

Design work is progressing on the redevelopment of the 300-place Heronsbridge School in Bridgend in South Wales. The project, which was delayed due to rising costs, is now expected to cost around £55 million, against an original budget of £34 million, and will be completed in time for the 2027/28 academic year, a year later than planned.

Upper Scenario:

- Construction work on SRP quickly accelerates and shovel-ready projects are prioritised

The government has confirmed that work is underway, to some extent, on half of all SRP schemes. However, the prioritisation is not yet clear. If schemes in advanced development stages are prioritised, activity on the ground could accelerate more quickly than the baseline forecast suggests.

Lower Scenario:

- RAAC schools are prioritised in the SRP over schools securing a place in earlier rounds, delaying project starts as design work progresses on these later additions.

Schools added to the SRP in earlier rounds are not automatically prioritised over RAAC-affected schemes allocated in the final round. Design development and general project planning should

be at a more advanced stage on earlier schemes. If the latest RAAC schemes are prioritised, SRP delivery could be delayed further.

Output in the **health** sub-sector covers publicly funded work on hospitals, health centres and clinics. Delivery via the New Hospitals Programme (NHP) is picking up pace after Spending Review 2025 increased near-term funding. Progress, however, is still relatively slow and the first Wave 1 schemes scheduled for delivery have a relatively low construction value. Output is forecast to increase by 4.0% in 2025. Upside risks exist, but the complexity of new hospital development and delays to previous schemes warrant caution. Output is forecast to increase by 6.0% in both 2026 and 2027.

Over the past two years, the Department of Health and Social Care's (DHSC) capital budget has increased substantially, rising from £10.5 billion in 2023/24 to an estimated £13.6 billion in 2025/26 – a 30% increase. Spending Review 2025 set a capital allocation of £14.0 billion in 2026/27, reducing to £13.5 billion in 2027/28. Beyond the current forecasting horizon, capital allocations are expected to reach £14.8 billion in 2028/29 and £14.6 billion in 2029/30.

In addition to new hospitals, capital funding will support annual investment of £6.0 billion in day-to-day maintenance and repair of the NHS estate from 2025/26, with over £5.0 billion allocated specifically to address the most critical building repairs, reducing the most serious and critical infrastructure risk in a targeted way. In September, the DHSC announced that RAAC had been eradicated from seven more NHS sites, with a further 12 set to be completed by the end of March 2026, backed by £440 million of investment in the current financial year. The government has pledged to remove RAAC from the NHS estate by 2035.

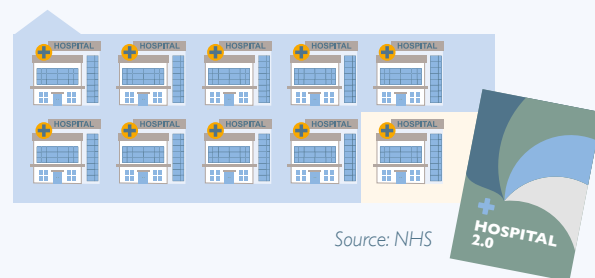
In January, the DHSC published its new plan for delivering the NHP. New hospitals will now be delivered in 5-year waves, subject to decisions made at future Spending Reviews. Once the programme has reached a steady state in the early 2030s, programme funding in each five-year period is expected to be around £15 billion. Spending Review 2025 committed to delivering 25 new hospitals via the NHP, including replacing the seven hospitals built entirely from RAAC included in Wave 1.

Wave 0 includes six NHP projects currently on site. These are the Defence and National Rehabilitation Centre in Loughborough and Bournemouth Community Hospital, which are both due to open later this year, dual-site mental health facilities worth £80 million in Bournemouth, with a 2027 completion date, a new £100 million emergency department at Dorset County Hospital, and £300 million Oriel Moorfields Eye Hospital in London, which is due to complete in 2027.

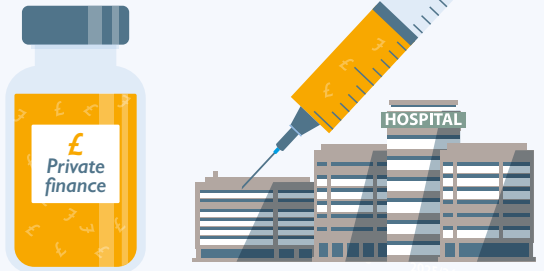
Sixteen Wave 1 schemes are scheduled to start between 2025 and 2030 – including the redevelopment of all seven hospitals most acutely affected by RAAC, five of which were added to the NHP in May 2023.

Ten Wave 1 schemes, including all seven hospitals most acutely affected by RAAC, will adopt standardised Hospital 2.0 design and all but one of these schemes is scheduled to start in 2027 or 2028. These hospitals are Milton Keynes Hospital, Hillingdon Hospital and North Manchester General Hospital, plus the hospitals needing to be urgently rebuilt due to the extensive presence of RAAC, which are West Suffolk Hospital, Hinchingbrooke Hospital, Airedale Hospital, Queen Elizabeth

*10 Wave 1 schemes will adopt
standardised Hospital 2.0 design
and **all but one** of these schemes is
scheduled to start in 2027 or 2028*



Private finance likely to play a greater role in providing healthcare facilities over the next few years



Source: Department of Health and Social Care

Hospital in Kings Lynn, Leighton Hospital and James Paget Hospital in Great Yarmouth. Frimley Park in Surrey, also acutely affected by RAAC, is the tenth project to adopt Hospitals 2.0 design and this is due to start in 2028 or 2029. With the exception of the Milton Keynes Hospital and the Hinchingbrooke Hospital, the cost of rebuilding each of these hospitals is expected to exceed £1 billion.

Hospital 2.0 schemes will largely incorporate standardised, repeatable design in which clinical departments are formed into modular clusters based on a fixed structural grid, and the procurement and the planning are centrally managed. Standardised elements are expected to account for 80% of the total design, with the remaining 20% designed by local trusts to meet site-specific requirements. The NHS expects hospitals adopting Hospitals 2.0 design to move from business case to completion in just four years. Hospitals will be fully electric, using ground and air

source heating and cooling systems. Traditional gas boiler systems will be removed in line with NHS decarbonisation targets. Every hospital in Wave 1 will feature 100% single-occupancy rooms with en-suite facilities.

Procurement is underway on NHS England's £37 billion Hospital 2.0 Alliance framework to support the delivery of the NHP over 12 years. Sixteen contractors have been shortlisted and places on the framework are expected to be awarded by the end of the year.

The remaining six Wave 1 schemes, adopting a traditional design approach, are relatively small and further advanced. Wave 1 schemes scheduled to get underway in 2025 and 2026 are the Cambridge Cancer Research Hospital, Poole Hospital in Dorset and Derriford Emergency Care Hospital in Plymouth. Enabling work is underway on the £300 million Cambridge Cancer Research Hospital and construction work started on the £180 million Derriford Emergency Care Hospital over Summer. Shotley Bridge Community Hospital in Durham, the Cornwall Children's Hospital and a new cancer centre at Brighton 3Ts Hospital are scheduled to start in 2026 or 2027.

Subject to future spending decisions, nine new hospitals are pencilled in for Wave 2 between 2030 to 2035, with a further nine provisionally allocated places in Wave 3 for construction between 2035 and 2039. While the commitment to deliver all schemes in the original NHP line up remains, construction work on 18 new hospitals originally promised by 2030 will not have commenced by the date originally set for programme completion.

Outside of the NHP, a contractor was recently appointed to deliver the East of England's first dedicated children's hospital in Cambridge that will be funded by a combination of public sector money and philanthropic donations. The planned five-storey building will include 108 inpatient beds, 16 paediatric intensive care beds, 42 day-case beds, seven operating theatres, imaging and diagnostics and a hospital school alongside a new research institute. Construction work could commence within the forecast period but start of work depends on the project attracting sufficient donations to top up available public sector funding. Until it is confirmed that sufficient funding is available, this project is excluded from the central forecast.

Main construction work is progressing on Royal Bournemouth Hospital's £91 million ward and catering block. The Coast Building will feature 110 new beds across four levels, a larger kitchen and catering facility, and modular, adaptable spaces designed to meet evolving healthcare needs

and completion is scheduled for the end of 2025. In central London, a new eight-storey elective surgical facility is being developed at Guy's Hospital. The facility will focus on non-emergency procedures and house six operating theatres. Work is due to begin in Summer 2026 and complete by the end of 2028, with the centre expected to open in 2029.

Over the medium-term, private finance could again be used to deliver public health care infrastructure. In ['Fit for the Future: 10 Year Health Plan for England'](#), published in July, the government creates a vision for the NHS in which neighbourhood health services, delivered by public-private partnerships (PPPs), could play a much greater role in preventing the need for acute care. Further details are expected in the Autumn Budget.

In Scotland, Budget 2025/26 provided capital funding of just over £1.0 billion for capital investment in health, a 22% increase from 2024/25 in cash terms. Funding will ultimately be used to progress new acute facilities, including the replacement of Monklands Hospital in Lanarkshire, Belford Hospital in the Highlands, and the delivery of a new eye pavilion in Lothian but the delivery plan is currently unclear.

No timeline has been shared for the new eye pavilion in Lothian, and the project is at a relatively early stage. Near-term, work will focus on design development and securing outline business case approval. Monklands Hospital secured planning approval in June last year and site investigation work is progressing. The £700 million new hospital aims to become NHS Scotland's net zero carbon pathfinder and construction work on site is scheduled to start when full business case approval is granted and construction is scheduled to take six years. The full business case is expected to be submitted for consideration in early 2026. Belford Hospital secured funding to continue design development to develop the business case in December 2024 and a construction start date is currently pencilled in for 2027 Q4.

The Welsh Budget for 2025/26 increased capital funding for health to £623 million, approximately 7% higher than in 2024/25 and, in May, Public Health Wales's discretionary capital allocation was set at £1.7 billion in 2025/26, of which approximately £322 million will be spent on estates.

In June, the Welsh Government announced additional funding of £70 billion for the Health and Social Care Integration and Rebalancing Capital Fund (IRCF) between April 2025 and March 2027. The IRCF was established in 2022 and initially secured funding through to 2025. Funding is helping to develop local community hubs to coordinate frontline health and social care services.

Upper Scenario:

- The full business case to redevelop Monklands Hospital in Scotland is swiftly approved and work starts on the scheme in 2027
- Construction work on Wave 1 NHP schemes builds more rapidly than anticipated

Outline business case approval for Monklands hospital was secured in June 2024 but the full business case is not expected to be finalised until early 2026. If the approval process progresses smoothly, without any complications or delays, there is a chance construction work could commence on this £700 million project within the forecast period. Similarly, there is considerable upside risk if Wave 1 schemes get underway quickly.

Lower Scenario:

- Standardised Hospitals 2.0 design is delayed, or unforeseen complications are encountered

NHP delivery from 2027 relies heavily on standardised Hospitals 2.0 design and expectations about efficiency gains are bullish. A prototype has been successfully developed but components and processes are not yet finalised. If this is delayed, or if any unforeseen complications are encountered, design and delivery of the first Wave 1 schemes to adopt Hospitals 2.0 could be delayed, impacting activity levels from 2027.

Public non-housing **other** covers construction work on publicly-funded facilities such as prisons, defence projects and civil service offices. With prisons in England at close to maximum capacity, output is set to remain at a historically high level throughout the forecast period as work to create new prison places progresses. Output is forecast to rise by 5.0% in 2025 before increasing by a further 3.0% in 2026, followed by 5.0% in 2027. The potential for the Defence Investment Plan, due to be published in Autumn, to include additional capital investment across the defence estate within the forecast period presents an upside risk.

The Spring Statement set the Ministry of Justice's (MOJ) capital budget for 2025/26 at £2.0 billion; a 17% increase compared with 2024/25. Spending Review 2025 suggests the Ministry of Justice's (MOJ) capital budget will rise from £2.0 billion in 2025/26 to £2.3 billion in 2026/27, before stabilising at this level in 2027/28 and 2028/29, and falling back to £2.0 billion in 2029/30. In May, the government confirmed £4.7 billion of this funding pot would be invested in delivering new prison places through to 2029/30.

The government's 10-year strategy to increase prison capacity plans to create 14,000 new places by 2031 – largely mirroring the former government's New Prisons Programme (NPP) but over a longer timeframe. New prisons are expected to contribute 6,500 additional places, with new houseblocks at existing prisons adding a further 6,400 places. The remaining places will be delivered through modular Rapid Deployment Cells and the refurbishment of existing facilities, aiming to bring currently out-of-use places back on stream.

Progress, however, has been impacted by numerous factors, most notably ISG, a prominent supply chain partner, falling into administration last September. Additionally, strong cost inflation, planning delays and challenging delivery conditions on existing sites, have all contributed to delays. These factors prompted NISTA to rate the MOJ's new houseblock programmes, and a programme to expand capacity at category D prisons, as red. Red indicates that successful delivery of the project appears to be unachievable within current parameters, and the project may need re-scoping and/or its overall viability reassessed. In light of these challenges, the MOJ has put aside £1.1 billion to restart stalled projects in its prison building programme – and over Summer £684.3 million of this pot was awarded to kickstart delivery of projects including new houseblocks and category D capacity expansion, along with refurbishment and general maintenance work.

Early construction work started on a new 1,700 bedspace, category B prison in Leicestershire, next to the existing HMP Gartree facility, in November 2024. Main construction is expected to start later this year and is programmed to take four years to complete. In Buckinghamshire, the new £300 million HMP Grendon Springhill 2 prison continues to progress through detailed planning. A public consultation on plans took place in June. In April, the government confirmed

that Laing O'Rourke will now deliver the 1,500 bedspace, category C "resettlement" facility following ISG's collapse.

In December last year, the Deputy Prime Minister overruled the local council and gave the green light to the planned 1,700 inmate prison on the border of Chorley and Leyland in Lancashire, close to HMP Garth and HMP Wymott. This is the final new prison to be delivered under the 10-year strategy, and in June, the High Court refused to allow local residents to appeal against the decision.

Currently, the new build prisons programme is due to complete in 2032, but planning delays and ISG's insolvency have impacted progress. NISTA forecasts that actual expenditure on this programme in 2024/25 totalled £182.8 million, against a baseline

The **MOJ** has allocated
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building programme



of £840.9 million – a shortfall of over three-quarters. With only one new prison now scheduled to break ground in 2025, an acceleration in the pace of delivery is unlikely and programme completion may be further delayed beyond 2032.

In mid-2022, the previous government allocated £500 million to the Accelerated Houseblock Development Programme (AHDP) to deliver more than 2,200 additional prison places in new modular houseblocks located on existing sites. In August, NISTA raised serious concerns about the deliverability of the programme due, primarily, to strong inflationary pressure on construction costs. Based on progress through to the end of 2024/25, NISTA took the decision to change the programme's delivery confidence rating from amber to red.

Progress has been made on the AHDP in recent months with confirmation that three schemes, first announced in 2022, are now progressing. These are HMP Wayland, HMP Channings Wood and HMP Highpoint. Collectively, these projects will provide around 1,450 additional places over the three years, alongside workshops, catering and sports facilities.

Houseblock expansion attracted a share of the MOJ's additional funding pot to kickstart stalled schemes. Over Summer, contracts were awarded for new houseblocks at HMP Birmingham, HMP Liverpool and HMP Guys Marsh. Additionally, A £237.5 million contract was awarded for the Category D Expansion Programme – that was formerly awarded to ISG. Phase one involves work at HMP Hatfield and HMP Leyhill, with phase two increasing capacity at HMP Ford and HMP Standford Hill.

In Scotland, the replacement of prisons in Inverness and Glasgow is underway and Budget 2025/26 confirmed £347 million capital investment in the prison estate in the next financial year to help progress these projects. The total capital budget for the Scottish Prison Service is £355 million in 2025/26, just over double £167 million allocated in 2024/25.

HMP Highland, which will replace Inverness Prison, was given the final go-ahead in April last year. Construction work is progressing on the £209 million scheme, which has been delayed due to significant cost escalation, and the facility is scheduled to open in 2026. When complete, it will become Scotland's first net zero prison, with improved education and health facilities to help with rehabilitation.

The Scottish Government has signed a £684 million contract to construct HMP Glasgow, after Glasgow City Council awarded planning approval in January 2024. The new facility will replace HMP Barlinnie, and construction is due to complete in 2028, three years later than originally planned due to rapid cost escalation. HMP Glasgow will be built at the former Provan Gas Works site between Blackhill and Provanmill in the city's East End.

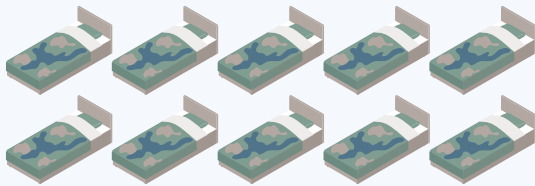
In February, the government announced that defence spending would rise to 2.5% of GDP by 2027, and to 3.0% during the next parliament, if fiscal and economic conditions allow, and Spending Review 2025 outlined plans for the Ministry of Defence's capital budget to rise from £23.2 billion in 2025/26 to £33.2 billion in 2029/30. In 2024/25, the MOD's capital budget was £22.7 billion, and, by 2027/28, it will be nearly a third higher. MOD investment in its infrastructure portfolios typically amounts to £5 billion each year.

Published in early June, the [Strategic Defence Review](#) (SDR) made a series of recommendations about how UK defence can evolve to meet the challenges currently faced from elevated geopolitical

*A contractor has been selected to deliver **new and refurbished facilities** across two East Midlands sites for the **British Army** under a **£237 million** contract*



Ten sites to receive a share of the first **£1.1 billion** tranche of **Single Living Accommodation Alliance** funding to deliver almost **1,800 new bedspaces**



Source: Defence Infrastructure Organisation

tensions. A significant capital investment was announced that will benefit several construction sectors. In terms of accommodation, new or repairs and maintenance work on Service Family Accommodation (SFA) for military personnel is classified as public housing work but similar work on Single Living Accommodation (SLA) is categorised as public non-housing. Where MOD investment delivers facilities such as factories, warehouses, or work to ports, output will be recorded in the most appropriate sector. If private finance plays a greater role in the sector following the pending Defence Housing Strategy, some investment may be classified as output in private construction sectors.

Full details of the MOD's capital investment plans are expected in the Defence Investment Plan that is due to be published later this year. The Defence Housing Strategy is also due later this year and it will set out how the overall standard of accommodation will be improved and how

funding available during this Parliamentary term should prioritise the accommodation sites that are in most urgent need of repair. The government has indicated that funding for the renewal of military accommodation will be at least £7 billion during this Parliament, including over £1.5 billion to support rapid work to fix the poor state of family housing. The Defence Housing Strategy will consider options including redesigning and remodelling the SFA estate to deliver wider societal benefit, increasing housing density where appropriate.

At this stage, it is not possible to ascertain how significant additional work to SLA will be in this sector beyond current investment plans. Currently, the Defence Infrastructure Organisation (DIO) is slowly progressing with plans to build or refurbish 40,000 single living accommodation (SLA) bedspaces for service personnel between 2021 and 2031, by adopting standardised design and a modular approach.

In August, the MOD confirmed the first tranche of sites to be developed under its £1.1 billion Single Living Accommodation (SLA) framework. This tranche will deliver nearly 1,800 new bedspaces across 10 sites, including: 228 bedspaces at RAF Waddington in Lincolnshire; 266 bedspaces at Albemarle Barracks in Northumberland; 166 bedspaces at RM Bickleigh in Devon; 315 bedspaces at Baker Barracks in Hampshire, 144 bedspaces at the Infantry Training Centre in North Yorkshire; 348 bedspaces at RM Condor in Angus and 123 bedspaces at RNAS Yeovilton in Somerset. This framework contract started in November 2024 and runs until November 2027, with the option to extend and the wider SLA Programme will run to 2034 and is targeting the delivery of 16,000 new bedspaces using a programmatic delivery model.

The Defence Infrastructure Organisation (DIO) has appointed a contractor to deliver new and refurbished facilities across two East Midlands sites for the British Army under a £237 million contract. Works under the contract include the modernisation of accommodation, medical and catering facilities at Kendrew Barracks, along with the provision of offices, storage and a band practice facility at Bulwell Army Reserve Centre. Design work is underway, and construction is due to start in Autumn 2026.

Turning to public sector office estate relocation and rationalisation, the Government Property Agency (GPA) sits within the Cabinet Office and Spending Review 2025 allocated the department capital funding of £0.5 billion in 2025/26, £0.6 billion in 2026/27, £0.5 billion in 2027/28, £0.3 billion in 2028/29 and £0.2 billion in 2029/30. However, the GPA operating model

is under review as part of a wider GPA organisational design review and an updated business case is being prepared for the Cabinet Office and HM Treasury.

Earlier this year, the GPA awarded the fit-out contract for its £133 million new build government hub in Manchester (First Street). The new office, which will accommodate 2,600 civil servants, is now scheduled to be completed in Autumn 2026. In February, the GPA's Manchester Digital Campus was awarded planning consent. The new campus will bring together several civil service departments on the former Central Retail Park in Ancoats and is expected to cost around £310 million to build. Construction is expected to start in April 2026, subject to funding approval.

Construction is underway on a £93 million GPA project to deliver the European Centre for Medium-Range Weather Forecasts at the University of Reading. The project is due to complete in early 2027.

The £111 million restoration of the Palace of Westminster's Grade 1 listed Victoria Tower is underway, and the project is expected to take six years to complete. A decision on the wider refurbishment of the Palace of Westminster has been deferred, and a revised set of options is expected to be presented to Parliament this year. Previous estimates suggest essential renovation works would cost between £7 billion and £13 billion to complete and take between 19 and 28 years if Parliament were relocated for a period of time.

Work to decarbonise the public sector estate will continue throughout the forecast period with Phase 4 of the Public Sector Decarbonisation Scheme (PSDS). Phase 4 of the PSDS was launched in September 2024 and Autumn Budget 2024 confirmed the following funding profile: £86 million in 2025/26 and £427 million in both 2026/27 and 2027/28. Phase 3 of the PSDC provided £1.4 billion of funding between 2022/23 and 2025/26.

The nature of some of the energy-efficiency work receiving funding via the PSDS may instead be captured in public non-housing r&m.

Funding of £1.0 billion has been confirmed for a National Biosecurity Centre in Surrey to enhance the country's detection, surveillance and control capabilities for high-risk animal diseases. Planning has been secured, and preparatory work is underway, ahead of main construction works starting in 2027, with completion anticipated in 2033/34. Due to project complexity and the risk of programme delays, this project is currently excluded from the baseline forecast.

Upper Scenario:

- Funding to improve and increase SLA for service personnel is allocated additional funding in the Defence Investment Plan

The central forecast assumes that the SLA Alliance programme will continue to provide a steady stream of output – as currently planned – but the need to improve the quality of accommodation for services personnel has become more urgent and, as the delivery alliance is now in place, delivering standardised solutions, expanding delivery capacity is relatively straightforward and could quickly make a tangible impact.

Lower Scenario:

- Private finance is used for public estate decarbonisation

Government plans to explore where PPP and other private finance initiatives can be used for public sector estate decarbonisation projects. This would shift activity into other sectors and impact the medium-term outlook for public non-housing.

Public Non-housing R&M

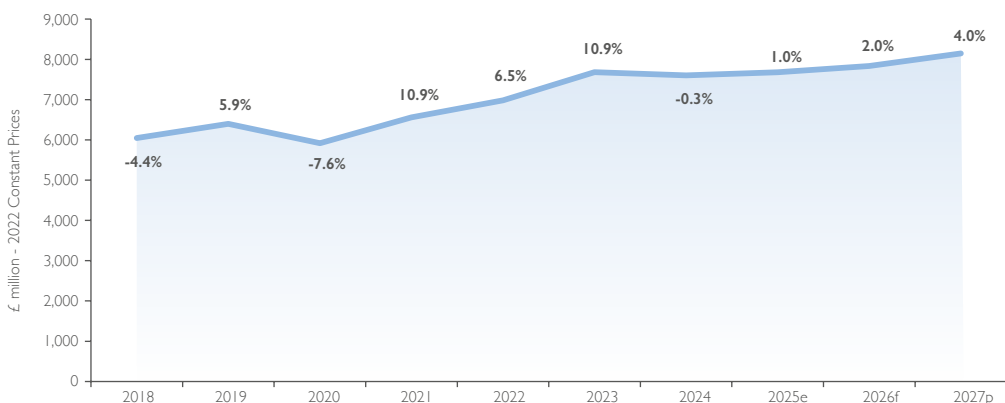
Output in the public non-housing repair and maintenance (r&m) sector, covering spending on basic repairs and maintenance carried out on schools, hospitals, prisons and the defence estate, as well as other government and local authority buildings, is being driven by funding for the decarbonisation of existing estates, plus emergency repairs in response to RAAC issues. With budgets for core repairs and maintenance work set for modest increases, further output growth is anticipated over the forecast period.

Towards the end of last year, the National Audit Office (NAO) estimated that the government's maintenance backlog had increased to at least £49 billion, after increasing steadily in recent years. The watchdog's analysis suggested that MOD properties, schools and NHS properties have a backlog totalling more than £10 billion each and make up 88% of the total backlog. Against this backdrop, there is an urgent need for a sector-wide increase in funding for basic repairs and maintenance across the public property estate.

Spending Review 2025 provided increased financial support, both from higher direct allocations to central government departments and, indirectly, from the increased financial certainty multi-year settlements provide local authorities and devolved nations to invest in planned maintenance programmes. Modest growth is forecast in public non-housing r&m output throughout the forecast period. Output is forecast to increase by 1.0% in 2025, 2.0% in 2026 and 4.0% in 2027.

Local authority budgets in England remain under pressure from cost inflation and rising demand for social care services, alongside increased costs from rises in National Insurance Contributions and sector re-organisation. In February, central government set funding for England's councils at £69 billion in 2025/26, providing a 6.8% increase in cash terms in councils' Core Spending Power compared to 2024/25. Of this, 24% is not ring-fenced settlement funding, 14% is grants for social care, 6% is other grants and the remaining 55% is council tax. Changes in the level of guaranteed funding, and changes to the allocation of grants, mean that shire districts will end up with less funding in real terms than in 2024/25 in general, whilst metropolitan districts will have the largest increases. In 2023/24, local authorities spent £21.3 billion on capital assets such as new roads, buildings, IT infrastructure and the renovation of existing assets.

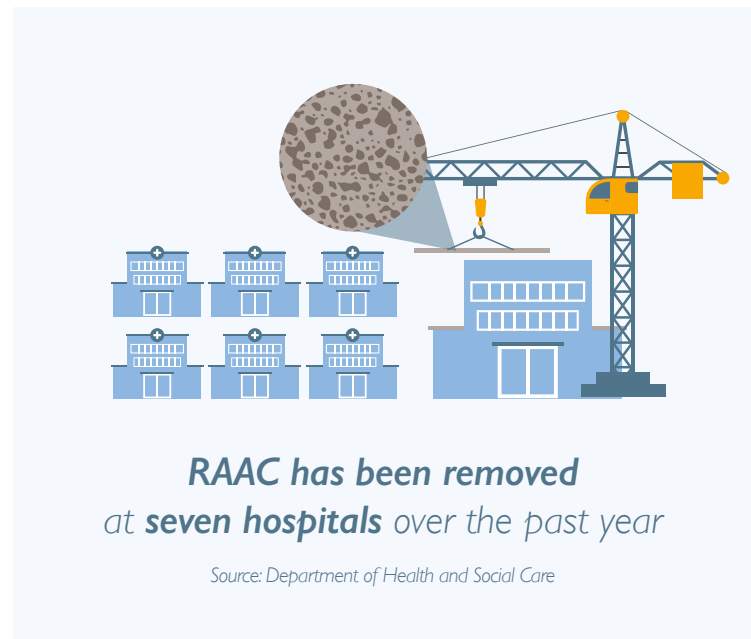
Public Non-housing R&M Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

Analysis by the NAO found that while local authority funding increased overall between 2015/16 and 2023/24 in real terms, funding per capita reduced and allocations have not kept pace with demand for services and the rising cost of delivering these services. When funding is stretched, councils face difficult decisions about where to allocate limited financial resources. Often, non-ringfenced funding earmarked for routine repairs and maintenance is redirected to other areas where the immediate need is more pressing, such as social care for children and adults. Near-term, financial pressure on councils is unlikely to ease. Recently, Unison published an analysis suggesting that councils' finances are likely to remain under pressure in 2026/27. The research predicts that local authorities will face a £4.1 billion funding shortfall next year, based on analysis of councils' financial strategy documents and information obtained through FOI requests.



In Scotland, Budget 2025/26 made £13.6 billion available for local government, 3% less than in 2024/25 in nominal terms. Capital funding accounts for £752 million of the £13.6 billion total, an 18% increase compared with £635 million in 2024/25 but still 15% down on capital spending of £887 million in 2023/24.

In Wales, Budget 2025/26 made £235 million available for local authority capital investment in 2025/26, a 2% increase compared with the draft budget. Overall, local authorities' core budget rose by 4.5% in 2025/26.

Funding to lower the carbon footprint of the public sector estate has been an important driver of activity in this sector over recent years and investment through the Public Sector Decarbonisation Scheme (PSDS) will continue to support activity this year as Phase 3c projects are completed and work builds on Phase 4 projects, although the nature of some of the energy-efficiency works receiving funding may instead be captured in public non-housing new build (see [Public Non-housing](#)).

Phase 3c of the PSDS is the final sub-phase of Phase 3, and funding totalling £611 million has been allocated to 244 projects which are due to be completed in 2025 and 2026. 112 grants were made to projects worth less than £1 million, with only 11 schemes with a construction value of over £10 million securing grant funding. NHS projects secured 39% of the funding pot in value terms, with local authorities securing 26% and further and higher education establishments securing 16%.

Phase 4 of the PSDS was launched in September 2024 and while work on this phase is due to commence this financial year, funding is heavily weighted towards 2026/27 and 2027/28. Autumn Budget 2024 allocated funding of £86 million for Phase 4 in 2025/26, with £427 million available in both 2026/27 and 2027/28. Regional funding allocations are as follows: the North East £79.0 million; Yorkshire and the Humber £111.7 million; the North West £131.6 million; the East Midlands £80.6 million; the West Midlands £89.2 million; the East of England £34.2 million; the South East £65.1 million; the South West £54.3 million; Greater London £167.1 million and projects in Wales have secured £2.5 million. In addition, £1.3 million has been awarded to projects spanning multiple regions.



A new public sector framework has been established to support and streamline estate decarbonisation work. Forty-eight firms have secured places on the £500 million Shared Business Services (SBS) framework delivering minor decarbonisation works such as insulation, glazing, solar PV, battery storage, LED lighting, controls and low-carbon heating such as heat pumps. The framework is divided into two lots, covering non-domestic and domestic buildings, and will run across seven UK regions. It will be available to NHS bodies, local authorities, housing associations and other approved public sector organisations.

For schools, maintenance funding increased by approximately 15% in 2025/26. Combined, available funding through School Condition Allocations (SCA), Devolved Formula Capital Allocations (DFCA) and the Condition Improvement Fund (CIF), totalled £2.5 billion, compared with approximately £2.2 billion in 2024/25. After allowing for inflation, funding in 2025/26 is lower than 2021/22 and 2022/23, when total funding was estimated at £2.7 billion and £2.5 billion respectively, in 2024/25 prices.

Spending Review 2025 suggested that investment to improve the condition of the schools and colleges estate in England will rise in line with inflation, rising to around £2.3 billion in 2029/30. It is assumed that this solely refers to SCA funding but, as this is only one source of relevant funding, further information is required before an informed assessment about the impact of this announcement can be made.

The SCA funding pot for basic repairs and maintenance on the schools estate in 2025/26 has been confirmed at £1.84 billion, a 15% increase from 2024/25. Multi-academy trusts stand to secure the largest share of the SCA pot, provisionally attracting £726 million, which is 29% higher than in 2024/25. Other allocations include £515 million for local authority-maintained schools, a 10% uplift compared with 2024/25, and £468 million for other institutions eligible for condition improvement funding.

Funding via DFCA in 2025/26, however, is broadly unchanged from 2024/25. The total value of the pot, in current prices, is £219 million, with multi-academy trusts securing £83 million, local authority-maintained schools being allocated £67 million, institutions eligible for condition improvement funding receiving £50 million and voluntary aided schools awarded £18 million. Some projects covered by these funds will be classified as new or improvement work, but the majority of this funding will be used for general r&m activity.

In 2025/26, 789 projects received a share of the £460 million CIF. While this is a modest increase compared with the 2024/25 pot of £450 million, only 28% of CIF funding applications were successful. In total, 2,846 applications were received, requesting total funding of £1.5 billion, highlighting the scale of need in this sector.

The need to increase investment in the existing schools estate is significant. NAO analysis estimated that the maintenance backlog in English schools was around £13.8 billion as of October 2024 but detailed condition data relating to the schools estate in England is only updated infrequently. The DfE's last Condition of School Buildings Survey ran between 2017 and 2019 and evaluated 22,031 schools across England. At this point, the estimated total cost to repair or replace defective elements in the school estate was £11.4 billion, almost double the £6.7 billion previously estimated by the DfE in 2017. Survey work for the next condition survey is currently underway and results are due in 2026.

RAAC has been removed from 52 schools with targeted grant funding, according to an update from the DfE issued in September. A further 71 schools with RAAC are in the process of being rebuilt under the School Rebuilding Programme. As of November 2024, RAAC had been identified in 237 schools and colleges, and it is assumed that the remaining RAAC issues will need to be resolved using general grant funding.

The latest data on the [condition of the schools estate in Scotland](#) was published in September 2025. The proportion of schools reported as being in good or satisfactory condition has increased to 92.0% (91.7% in 2024). This represents a 29.3 percentage point increase since 2007,

when this series of school condition statistics began and the figure stood at 62.7%. However, the actual number of schools in good or satisfactory condition fell slightly from 2,253 in 2024 to 2,251 in 2025. Good condition is defined as performing well and operating efficiently, whereas satisfactory means performing adequately but showing minor signs of deterioration.

Turning to health, latest available data suggests the overall condition of the NHS estate has continued to deteriorate. The NHS Digital 2023/24 Estates Return Information Collection (ERIC) suggests that the cost of running the NHS estate rose to £13.6 billion during the year, a 9.3% increase compared with 2022/23. Hard facilities management, including estates and property maintenance, grounds and garden maintenance, energy and waste costs, rose by 10.8% to £3.7 billion. NHS Trusts' estimate of 'backlog maintenance', investment required to restore buildings across the estate based on an assessment of risk criteria outside of planned maintenance work, increased by 17.6% to £13.8 billion.

Spending Review 2025 committed to investing £6 billion per year from 2025/26 to 2034/35 for maintenance and repair of the NHS estate, with investment targeted to reduce the level of critical infrastructure risk and eradicate RAAC.

East Kent Hospitals University NHS Foundation Trust has recently procured a £200 million capital works framework covering alterations, maintenance and small new builds, along with enabling works and external works such as car parks and drainage. Lot one covers works up to £1 million in value and is worth approximately £40 million. The second lot, worth £120 million, covers general building works valued between £1 million and £10 million and the third, and final, lot covers mechanical works with a construction cost of up to £1 million.

RAAC removal from the NHS estate is progressing. In an update issued in September, the DHSC confirmed that RAAC has been removed from seven hospitals in the past year. These were Kidderminster Hospital, Broomfield Hospital in Chelmsford, Homerton University Hospital in London, Scunthorpe General, Churchill Hospital in Oxford, Queen Victoria Hospital in East Grinstead and New Cross Hospital in Wolverhampton. By the end of the financial year, removal work is due to be completed at an additional 12 hospitals. These are: the Countess of Chester Hospital; Royal Blackburn Hospital; Royal Hampshire County Hospital in Winchester; St Mary's Community Hospital in Portsmouth; Guildford Hospital; Royal United Hospital in Bath; Rowley Regis Hospital; Queen Elizabeth Hospital in Birmingham; Clatterbridge Hospital in Liverpool; Leigh Infirmary in Wigan; North Devon District Hospital; and Stamford and Rutland Hospital.

RAAC was recently discovered at the Manchester University NHS Foundation Trust's Oxford Road site and a total of 41 hospitals remain in the programme for RAAC removal.

In Scotland, the last update on RAAC remediation across the public sector estate was published in September last year. At this point, RAAC has been identified in 39 school locations across Scotland. Remediation work had been completed at six sites and was in progress at nine additional locations. Across higher and further education estates, RAAC had been identified at 53 locations, spanning 18 institutions. 34 buildings had been fully or partially closed as a consequence and, out of the 18 institutions with RAAC confirmed on their estates, 14 planned to undertake remedial works. Minor or interim remedial works have already taken place across many of these sites. Survey work to assess the extent of RAAC across Scotland's NHS estate is ongoing due to the presence of asbestos in some locations. 560 buildings have been surveyed so far and, as of 28 August 2024, RAAC had been discovered in 51 buildings – largely requiring no further intervention other than monitoring.

Survey work to identify RAAC is also ongoing in Wales. Based on the findings to date, RAAC has been identified at two acute hospital sites across Wales – Wylabush Hospital, in Haverfordwest and Nevill Hall Hospital, in Abergavenny. Urgent but small-scale remedial work has taken place, and facilities have reopened. Ongoing monitoring will take place where urgent repairs are not required.

Where RAAC remediation is classified will depend on the extent of work involved. If more than basic remediation is required, projects are likely to be classed as public non-housing new build rather than r&m. A proportion of RAAC remediation work is nevertheless likely to be classed as basic r&m.

The MOJ's total capital budget is due to rise by 17.6% to £2.0 billion in 2025/26, and this equates to an increase of around one-third over the past two financial years as new prison projects have progressed. Constructing new prisons, and expanding existing facilities, will attract the majority of capital funding in 2025/26 and Autumn Budget 2024 stated that the prisons' maintenance budget would be £300 million in the current financial year. This is an increase compared with £220 million in 2024/25 but low relative to need. An NAO report, published in December, shared previously unpublished data from the Prison Estate Conditions Survey Programme. Latest data from this Programme suggested that the estimated cost of backlog of maintenance works required across the prisons estate had risen to £1.8 billion by the third quarter of last year, almost double the £0.9 billion estimated in 2020.

Additional MOJ funding, totalling £1.1 billion, to kickstart stalled projects in its prisons programme included some basic repairs and maintenance work. Basic repairs and maintenance work at HMPs Coldingley, Kirkham and Foston Hall is included in this funding package, along with maintenance works at HMPs Swaleside, Sudbury, Cardiff, Prescoed, Swansea and Usk, and minor refurbishment work at HMP Durham.

Capital funding for defence will increase from £23.2 billion in 2025/26, to £25.9 billion in 2026/27 and £30.0 billion in 2027/28, according to Spending Review 2025. Further details are due to be shared in the Defence Investment Plan (DIP), expected later this year. Capital investment is likely to focus on new build, but the 2025 Strategic Defence Review recognises the importance of providing good quality homes for service personnel. This suggests that additional maintenance funding may be made available during the forecast period.

The condition of buildings across the MOD estate is also coming under increasing scrutiny. One-third of Single Living Accommodation (SLA) and two-thirds of Service Families Accommodation (SFA) is in such poor condition that it is essentially no longer fit for purpose, according to a report published by the Defence Select Committee in December 2024. The report warned that the poor condition of service accommodation was affecting recruitment, retention and morale. The Committee's concerns broadly aligned with findings of the Single Living Accommodation Lived Experience Survey, published in September 2024.

Investment in SLA is classified as public non-housing, whereas construction work to improve and maintain married quarters and family homes is classified as public housing new build or repair, maintenance and improvement work.

Upper Scenario:

- Additional central government funding is allocated to maintaining the existing defence estate in the DIP

The poor quality of accommodation for services personnel has been identified as a driver of low morale and a contributing factor to high workforce turnover. Delivering new SLA is expected to be the priority but the upcoming DIP may make additional provision for basic repairs and maintenance across the existing estate.

Lower Scenario:

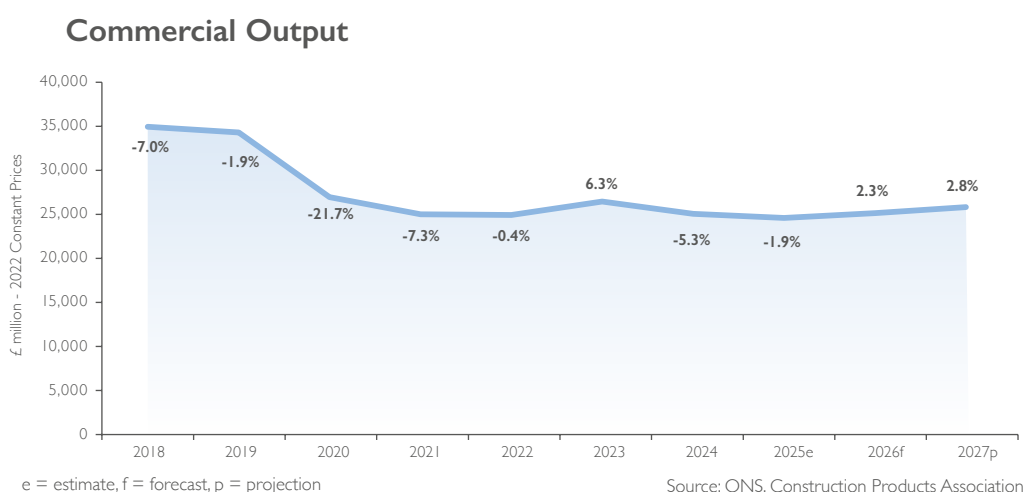
- Work to address RAAC issues is largely classified as new work

The forecast assumes a reasonable proportion of work to rectify RAAC safety issues will be low-level r&m. If more extensive remediation is required due to the nature and location of RAAC, public non-housing new work would benefit at the expense of r&m activity.

Commercial

Lingering uncertainty and weak business confidence are continuing to delay the start of large new build commercial projects that are in the early pipeline. Alongside this, higher construction and financing costs are also having a negative impact on confidence to make the large upfront investment needed for major commercial projects, despite interest rate cuts earlier this year. This is particularly the case for projects that were approved several years ago. Activity on the refurbishment, fit-out and repurposing of existing commercial buildings, as well as more niche areas of growth such as data centres and life sciences, is supporting activity but overall, the forecast for commercial output this year has been downgraded. The sector is only expected to return to growth in 2026 once confidence returns for large new build office towers to move into the construction phase.

Lingering concern over the strength of economic growth, stubborn inflation and uncertainty around what measures will be announced in the Autumn Budget have resulted in weak business and investor confidence (see [Economy](#)), which is likely to prolong the final investment go-ahead on projects awaiting contract award or construction start. Growth in commercial construction output tends to be driven by activity on large new build projects such as new office towers, leisure and entertainment venues, as well as new retail premises, private hospitals and university buildings. As these projects require a large upfront investment, they are the most sensitive to macroeconomic conditions and the most likely to be delayed until confidence improves. However, within the sector, there are still areas of growth within niches such as data centres, life sciences and student accommodation, along with a continued drive for the refurbishment and improvement of existing space, particularly in offices. With a pipeline of large new build projects at a pre-construction phase, there is an upside risk for stronger growth if investor and developer confidence returns more quickly than assumed in the forecast. The key question remains when macroeconomic conditions will be considered strong enough and interest rates low enough for this to occur. In contrast, lingering uncertainty and the continued 'wait and see' mode for



large investments poses the main downside risk. Construction work on two new office towers, which had been approved in 2021 and awarded contracts last year, started in the City of London in Summer, but with other projects sitting earlier in the pipeline, and potentially delayed by considerations around the Building Safety Act, even as non-residential buildings, the overall sector's recovery is only expected to materialise in 2026.

Illustrating how the sector is held back by uncertainty, commercial output in 2024 was 27.2% below its pre-pandemic level in 2019 and one-third (33.6%) lower than the recent peak in 2017. Refurbishment

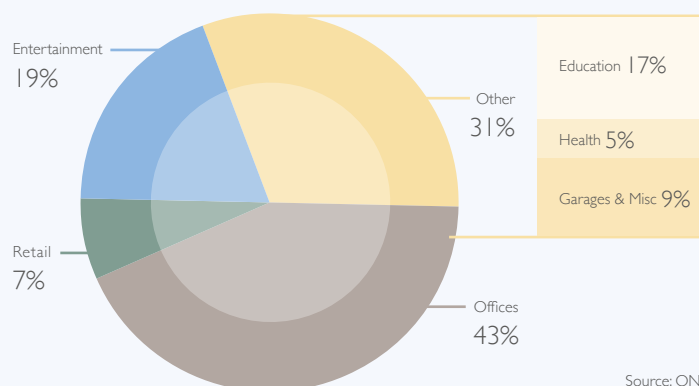
and work to repurpose or refit existing space have provided activity post-pandemic, either to appeal to new tenants taking over vacant units, to adapt workspaces to the peaks and troughs of office attendance through the week as hybrid home-office working continues, or to improve energy-efficiency. Commercial estate agents report that demand is centred on high quality space, which is attracting a notable rental premium, whilst retrofit and energy-efficiency improvements are being driven by Minimum Energy Efficiency Standards (MEES) regulations for commercial property that propose a minimum EPC rating C by 2027 and EPC B by 2030. More recently, large-scale refurbishment projects valued at £100 million or more have begun, providing activity to help counter the lack of new build office towers that has occurred over the medium-term. Demand for refurbishment is expected to remain high, and not just in the offices sub-sector. A focus on improving the quality and energy-efficiency of existing assets has also been notable in corporate strategies across retail, student accommodation and university buildings, as well as private healthcare. Nevertheless, the higher cost of energy-efficient retrofit and 'back to frame' projects relative to a 'standard' refurbishment, plus client sensitivity to cost, may be a limiting factor, and even more so in lower-rent areas, which make viability more constrained.

The retail sub-sector has displayed one of the largest reductions in size over the last decade and output is forecast to continue declining both this year and next year. As highlighted in previous forecasts, this reflects longer-term structural changes in demand that have led to retailers consolidating their store estates and, in broader terms, former retail-led developments being converted into multi-use led by residential, leisure and warehouses/logistics, even in prime locations such as Oxford Street. Grocery convenience stores, the popularity of discount or food and beverage outlets in retail parks and multi-use redevelopments of town centres will provide core activity for retail, but it is likely to be dominated by fit-out rather than large new build projects.

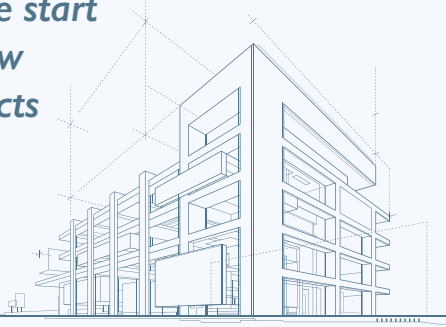
Leisure and entertainment, the second-largest commercial sub-sector, has benefited from the move to redevelop existing shopping centres or vacant store premises in town and city centres into hotels or leisure-led facilities, but major investments such as entertainment venues and sports stadia have been slow to start.

Universities across the country are in the midst of multi-year investments in new buildings for teaching and research, as well as university and privately-financed student accommodation projects, but continue to balance favourable demographic trends with higher borrowing and financing costs and risks around a dependence on continued growth in international student

Commercial Output by Sub-sector 2024 (%)



The forecast for **commercial output** has been downgraded as **lingering uncertainty** and weak business confidence are continuing to **delay the start of large new build projects**



numbers. Businesses in the commercial sub-sectors are also relatively labour-intensive, so the rise in costs related to the increase in employers' National Insurance Contributions, as well as business rates, also poses a downside risk to investment in commercial premises, as large employers look for ways to reduce expenditure.

Research by Savills found that food and beverage and leisure floorspace has increased in all major UK cities over the last decade, with over 1.0 million sq. ft. in additional space in Manchester and the City of London – increases of 76% and 28%, respectively, since 2014. In terms of the large projects that typically drive growth, large arena and sports stadium projects are in the pipeline, but there remain questions over when they will filter through to activity. The main contractor for the new £155 million Bristol Arena was selected in March 2024, allowing the enabling works to begin. However, the

project's completion has been pushed back once again, to 2027, which is three years later than the original schedule. Similarly, the contract for the new Cardiff Arena scheme was awarded in September, but its completion has been delayed until 2028 due to it requiring additional funding of £100 million after cost rises. The £350 million Gateshead Arena complex has been split into smaller phases to mitigate a rise in construction costs. Contracts were awarded for the £150 million first phase in September 2023 for a new build conference centre, but work has not yet started as the combined authority is assessing viability.

In terms of football stadium projects, work on Manchester City's £300 million stadium expansion and hotel began in 2024 and has now topped out, but other projects are still largely in the pre-construction phase. The £100 million expansion to Aston Villa's stadium was approved in October 2024 but it was scaled back in May to refurbish and extend an existing stand. These plans were approved in August, whilst funding for improvements to the local rail station, a condition of the redevelopment, was secured at the Spending Review. Work will start in 2026 for completion in 2027 H2. Elsewhere, the contract for main works on a new stand for Crystal Palace was awarded in 2024, although the club has warned that the current cost projection is 50% higher than when the project was proposed in 2018. Work was scheduled to start at the end of the 2024/25 season, but it is reportedly being paused to reconsider the scope of work. An expansion of Leicester City's football stadium received final approval at the end of 2023 after a lengthy period of planning negotiations since it was submitted in October 2021. Work will begin in 2026. Plans for a stadium expansion for Leeds United, a stadium rebuild and new hotel for Luton Town and a new £150 million stadium for Oxford United have all been launched this year. The largest project in the pipeline is Manchester United's plans for a new £2 billion, 100,000-seater stadium on a site adjacent to the current stadium, although it is only in the feasibility and planning stages. Other sports venues have also announced expansions: Wimbledon's £200 million tennis courts expansion was approved in July after a judicial review, whilst Edgbaston cricket stadium's plans for new stands and a hotel were approved in February. Plans for a £650 million redevelopment of Twickenham Stadium have been outlined, with a start date of 2027 at the earliest.

In terms of large leisure schemes, groundworks have been completed on a spa resort in Manchester and the main works contract was awarded in September. Costs have now risen from £250 million to £450 million and the scheduled completion in 2028 will be three years later than originally planned. In July, the new £100 million Eden Project in Morecambe received £2.5 million in government funding for initial design work. The government has committed

half of the project's funding overall, with the other half funded privately. In April, Comcast Universal announced it was proceeding with Bedford as the location for a European theme park. Subject to planning approval, construction would be expected to start in 2026 and last five years. The government has announced its commitment to a major investment in infrastructure around the site to support delivery. The £1.0 billion expansion of the British Library, one of the largest commercial schemes in the pipeline, has progressed in recent months. Investment was confirmed in March, the construction contract was awarded in August, with the start of work scheduled for next year, running through to 2032.

Work on film and television studios is also underway or moving through the pipeline, driven by demand from streaming platforms such as Netflix, Disney and Amazon. Projects include the redevelopment of the formerly derelict Littlewoods building in Liverpool, which is being redeveloped into a studio campus and two projects that were approved at Elstree Studios in September: a £400 million expansion for Sky and a redevelopment and extension for the BBC. Amazon acquired the Bray film studios in Berkshire in 2024 and, as part of its latest UK investment strategy, has announced it will be redeveloping the facility. However, several projects have run into difficulty. The first phase of a £450 million film studio in Sunderland received planning approval in March, as well as £25 million of government funding allocated in the Autumn Budget 2024 as part of a devolution deal for the North East. The main investor backed out in July, however. The £750 million Marlow Studios in Buckinghamshire was refused planning permission in May 2024 and was subject to a public inquiry at the start of this year and a decision is expected in November. Several years post-pandemic, streaming services and TV and film production have been cutting production spending, which adds further risk to the viability of projects yet to start. The £600 million Hollywood Sunset Studios planned in Hertfordshire was formally put on hold in March, given the change in economic conditions and production appetite, particularly on the viability of a speculative project of this size, with a feasibility study for alternative uses underway. Citing similar issues, a planned studio project at Wycombe Air Park in Buckinghamshire was also cancelled in Q1, with plans now switched to a data centre, whilst a £260 million new build studio complex in Bedfordshire that was approved in September 2023 was scrapped at the start of the year after the developer went out of business.

There is a significant and substantial demand for data centres – facilities that store IT infrastructure to run and store digital data – and it has been classified as Critical National Infrastructure. The pipeline has grown in the last 18 months, with the £800 million Google data centre in Hertfordshire and the £200 million Echelon LCY20 project in Buckinghamshire beginning in 2024. Microsoft has three data centres underway at various stages: work has started at Park Royal, north London, contracts are out to tender for Newport and it has submitted a planning application for a site on the former Eggborough power station in North Yorkshire. Microsoft has also purchased the former Skelton Grange power station near Leeds, with the intention of converting it into a data centre, logistics space, energy from waste facility and battery storage. These existing projects are likely to be included in its recent announcement of £11 billion investment in the UK. Also in the planning stages, Segro has submitted outline plans for a £271 million scheme in Slough and a £1.0 billion joint venture in Park Royal, outline plans have been approved for a £524 million data centre and communications campus in Redcar, as well as the £1.7 billion London Data Freeport in Havering with 3.55 million sq. ft. of new floorspace, which was first outlined in 2022 and started in late 2024. Plans for Europe's largest data centre, DC01UK, a £3.75 billion, 87,000 sq. m. project in Hertfordshire were approved in January and construction is expected to start in 2027, subsequently surpassed by plans for a £7.5 billion development of 15 data centre halls in Scunthorpe, spread across ten years of construction. Amazon has announced an £8.0 billion, five-year investment plan for its 'hyperscale' data centres and Blackstone's plans to invest £10.0 billion in a hyperscale data centre at the former Britishvolt gigafactory site in Northumberland were approved in March and preparatory works were given the go-ahead in August. It is important to note that despite the large value of data centre projects, they are unlikely to all be classified as construction work,

whilst some work may also be classed within the industrial sector.

Across the commercial sector, financial viability and confidence to proceed with previously signed-off projects may be affected more than in other sectors, given the already sizeable lags between project approval, contract award and the start of construction, particularly on large projects. Construction cost inflation has begun to recede, but costs remain elevated compared to pre-pandemic, when some of these projects would have first been given the investment go-ahead, whilst higher borrowing costs continue to be factored into investment decisions. Even with expectations of interest rate cuts throughout the forecast period, interest rates are not expected to return to the sub-1.0% levels seen between 2009 and 2022. For projects in the pipeline, delays relating to risk aversion and increased uncertainty will continue to lengthen the typical 12-18 month lag between contract award and construction start, and for longer than anticipated in the Summer forecasts. As a result, following a 5.3% decline in 2024, output is expected now to fall by 1.9% in 2025. Following this, as work on large office towers and leisure and entertainment venues begins, the sector's recovery is projected to occur in 2026, with growth of 2.3%.

The forecast for the **offices** sub-sector now assumes that a longer period of uncertainty and weak confidence means that decision-making remains stalled for longer than expected in the Summer forecast, and especially in advance of the Budget in November. A fall of 4.0% is forecast for 2025, down from a fall of 1.0% expected previously. As economic conditions improve throughout next year, early works on new schemes are forecast to drive growth in 2026, with main works accelerating into 2027. Risks to the forecast remain prominent. On the downside, uncertainty and confidence may not improve after the Autumn Budget, which will continue to delay decision-making and the key question is when confidence will have improved sufficiently to give the final go-ahead to the new build towers in the early pipeline. On the upside, demand is still strong for new and refurbished space and contracts were awarded for ten new office developments in 2024, each over £200 million. In addition, demolition and groundworks have already begun for new towers in the City of London. However, even for these projects, near-term economic developments and the knock-on effect on investor confidence will be a key determinant of how activity moves in line with the forecast.

The offices sub-sector accounts for over one-third of commercial output and, therefore, is a



key determinant of overall sector activity. Offices output is yet to return to its 2019 level, which, in turn, is below the levels of output that were recorded between 2015 and 2017. Demonstrating the impact of uncertainty on activity, decision-making on the large new build towers projects that typically underpin sub-sector growth has been slowed down since the EU Referendum, higher interest rates mean financing costs are substantially above what was being factored into investments and viability previously, and several years of evolving office requirements post-pandemic. Large tower projects require the largest upfront investments and, consequently, are the most affected by weak business confidence and uncertainty. There is still a pipeline of office tower projects in the planning and pre-

construction pipeline and the key question remains when investors and clients consider that economic conditions have firmed up enough for them to progress to construction and raise growth rates in the sub-sector. Concerns over global and UK growth and stubborn inflation (see [Economy](#)), as well as speculation around the Autumn Budget at the end of November, are likely to prolong the uncertainty for this year and delay decision-making until 2026 Q1 at the earliest. Groundworks began for new speculative tower projects at the end of 2024 – 2 Finsbury Square and 50 Fenchurch Street – and demolition has begun ahead of the start of work on 1 Undershaft and the 35-storey tower at 99 City Road, but it is still likely to be 2026 before there is a noticeable recovery in activity as main works accelerate. However, real estate research and commercial agents have noted lower overall starts activity in the first half of 2025. CoStar found that the volume of new office starts in the UK in H1 was the lowest in 15 years, largely attributed to development costs and funding constraints, whilst Savills also noted an increase in delays in decision-making by occupiers.

In contrast to a lack of new office towers, demand and activity for refurbishments of existing office space has remained strong over the last five years, largely driven by the 'flight to quality' for tenants seeking new space, plus energy-efficiency, net zero and decarbonisation becoming a greater corporate consideration. In London, Knight Frank reported the 2025 Q1 vacancy rate for new/refurbished space at 0.6% for the City and the lowest on record for the West End sub-market, at 0.3%, which compares to an overall vacancy rate of 9.0% for space in the capital. The increasing scale and value of improvements projects and the need for 'back to frame' refurbishments mean that this type of work has now become a key driver of sub-sector activity, particularly in the last few years given the absence of major new build projects. Hybrid working patterns that see fluctuations in occupancy throughout the week, with near to full occupancy on Tuesday to Thursday and lower occupancy outside of this have also led to refurbishment activity to attract new tenants moving from lower-quality vacated space and have increased demand for larger floorspaces to accommodate maximum occupancy mid-week. Surveys by Savills have found that more occupiers searching for new office space were looking to increase space (48%) than were looking to downsize (14%). Moreover, one-fifth of demand is from occupiers who have been in their current spaces for 10-15 years, and one-third is from those in their current office for more than 15 years, highlighting the stream of lower-quality vacant space that may add to the refurbishment pipeline.

Alongside this, the need to improve both energy-efficiency and the quality of facilities is expected to continue driving offices activity, both for new build projects and refurbishments across the forecast period. Highlighting the scale of some refurbishment projects, there are several high-value schemes in the pipeline, with work underway on schemes including Citi

Speculation around the Autumn Budget at the end of November is likely to prolong the uncertainty for this year and **delay decision-making until 2026 Q1** at the earliest





The volume of
new office starts
in the UK in 2025 H1
was the **lowest in 15 years**

Source: CoStar



Tower in Canary Wharf, the £250 million retrofit of 1 Victoria Street in Westminster and the £250 million refurbishment of Deutsche Bank at London Wall. In addition, a refurbishment and extra floor at 30 Finsbury Square and £150 million refurbishments of 25 Finsbury Circus and 125 Shaftesbury Avenue are all scheduled for completion in 2028.

A tightening of Minimum Energy Efficiency Standards (MEES) for commercial properties, which require a minimum EPC rating of C by 2028 and a minimum EPC rating of B by 2030, is a key long-term consideration for office refurbishment. Given that a large proportion of lease expiries will be for spaces occupied for more than ten years, building owners and landlords will have to choose between refurbishment or the raised risk

of 'stranded assets' – buildings that do not achieve the MEES. Savills estimates that 67.5% of the existing London office stock and 71.8% in the rest of the UK have an EPC rating of C-E, which raises the issue of what will happen to space that is not upgraded in time for the new regulations. The prospect of 'stranded assets' rises in lower rent areas where the higher cost of a full energy-efficient refurbishment makes projects unviable. The City of London Corporation is considering a fast-track route for planning permissions for retrofit projects, fewer restrictions on changes of use for office buildings that cannot be upgraded and it has now implemented its 'retrofit first' policy that encourages the retention and reuse of existing buildings over demolition and redevelopment. Scotland has yet to introduce an EPC target for non-domestic buildings, but based on a policy that mirrors that of England and Wales, Knight Frank found that 29% of Scotland's office stock has an EPC rating of E or below, with only 21% rated B or above.

It is a similar picture outside London. In the 'Big Six' cities of Birmingham, Bristol, Edinburgh, Glasgow, Leeds, and Manchester, 84% of speculative space set to be delivered over the next three years is refurbished space, according to Savills. Knight Frank found that in Sheffield, Newcastle, Aberdeen and Cardiff, construction pipelines have very few projects for 2025 and beyond, despite Grade A take-up in most cities reaching multi-year highs. In H1, take-up in Manchester and Leeds was above the pre-pandemic quarterly average, according to Savills.

In 2024, output in the offices sub-sector was 17.3% below the levels recorded in 2017, with confidence repeatedly held back by the EU Referendum, the pandemic and general economic uncertainty. So far, although major refurbishment projects have provided significant volumes of activity for the sub-sector, they have been unable to offset the lack of new office towers over the same period and given the scale of investment, are also being affected by investor uncertainty. Commercial property agents have noted an increase in occupier demand over the last 12 months, and more recently, demand for mid-size floor spaces and larger floor spaces over 100,000 sq. ft. has also risen as firms have had to accommodate fluctuating office attendance with full occupancy mid-week. Agents have also reported that employers who downsized post-pandemic are now looking to move back to larger spaces, open second sites or move from serviced offices to their own leased spaces.

This extended period of uncertainty and limited development activity also led to a fall in capital values for offices, which now appears to have bottomed out, first in the City of London last year, and more recently in Canary Wharf. Lower capital values for offices over the last three years have benefited those with the means to make countercyclical purchases, however, with large landlords and developers reported to have been buying more actively in 2024, and this

may further bolster the pipeline for refurbishment. JP Morgan, which occupies a building in Canary Wharf, is currently weighing up either a full refurbishment, which it estimates could cost £1.0 billion, or building a new tower on a site it acquired in 2008 prior to the financial crisis.

There are large new build projects, including towers, currently at an early stage, however. One of the largest in the pipeline, the 74-storey tower at 1 Undershaft, was approved at the end of 2024 after being deferred for five months due to objections over a reduction in surrounding public space. Demolition of St Helen's Tower, the existing building on the site, began in Q1 and is expected to take a year. The £700 million redevelopment of the former ITV Studios on the South Bank in London, which will be led by 900,000 sq. ft. of offices across 26 storeys, was approved in December 2024 following a judicial review in the High Court, and the demolition and early work have begun. Early works are also underway on a £300 million, 35-storey tower at 99 City Road and a £200 million, 20-storey new build Edge Liverpool Street scheme. Projects that were approved or submitted planning applications in the last six months include a 54-storey tower at 99 Bishopsgate, which received approval in February, a 31-storey tower at 130 Fenchurch Street and a 45-storey tower at 63 St Mary Axe, which was approved in July and is expected to start in 2027. The Chinese Embassy in London has also submitted a second attempt for planning approval of its redevelopment of the former Royal Mint site, which was called in by the Secretary of State in 2024 and has had a decision pushed back until December. The site of an office-led mixed-use scheme at Red Lion Court in London Bankside, which stalled when Land Securities shifted its strategy away from offices, was purchased in September with plans for construction to begin in 2026. Construction on the projects yet to receive planning approval is expected to begin beyond the forecast period.

Outside of London, large projects in the pipeline include a £500 million twin office block development at Botanic Place in Cambridge, which began in Spring, One Medlock Street and Bridge Street, plus an 18-storey tower in the northern quarter in Manchester and a £200 million offices and hotel scheme at Haymarket Yards in Edinburgh. A 10-storey office block in Birmingham's Arena Central development was approved at the end of 2024, updating a consent granted over three years ago to better reflect current market conditions. These schemes are targeting completion from 2026, when economic conditions and post-pandemic occupier trends are both expected to have settled. However, given there is still economic uncertainty and substantially higher financing costs, they remain susceptible to delays around final investment decisions and start dates, as with the large schemes approved in London.

New orders fell 24.2% in 2023 but rose 11.4% in 2024. New orders also rose in 2021 and 2022, which took new orders to the highest level since 2008, but this has not yet translated into substantial growth rates in construction, given the lag between contract award and start of construction that is common in the sub-sector. The expected rate of return on large projects is over a longer and, consequently, riskier period. Given the lingering economic uncertainty, higher build costs and financing costs that need to be taken into account in investment decisions, as well as planning delays and concern over compliance with the Building Safety Act, even as non-residential buildings, large projects are now taking much longer than the 12-18 month lag that CPA analysis has previously found between new orders and output. Although output will be supported by large-scale refurbishment work, the question remains when large office tower projects that were approved or awarded contracts since 2022 will move forward to main construction work, particularly as expectations adjust over the frequency of Bank of England rate cuts, the strength of the economy and the potential for tax rises in the Budget. The forecast assumes that decision-making on large projects will remain slow for the remainder of 2025, with main works likely to occur in 2026 and 2027. This is heavily dependent on confidence returning in early 2026. Consequently, output is forecast to fall by 4.0% in 2025, with the recovery phase beginning with 2.0% growth in 2026.



Upper Scenario:

- New towers begin construction earlier
- Broad increase in refurbishment projects

If stronger economic growth and tax rises or spending cuts in the Autumn Budget are less severe than expected, this may drive an improvement in business and investor confidence that sees a greater volume of new office tower projects start in early 2026, which underpins stronger growth rates. In addition, growth rates may also be higher if an increasing awareness of the minimum EPC B rating from 2030 drives greater refurbishment activity across offices of all sizes across the UK. Elevated costs would limit the uplift in the near-term, however.

Lower Scenario:

- Slower recovery prolongs the period of uncertainty and constrained business investment

In this scenario, a longer period of weak economic growth, tax rises that severely impact business confidence or interest rates not being reduced as much as expected in 2026 are likely to stall decision-making for longer than in the main forecast. This would delay the start of main construction work into at least 2027, even for projects that have been approved or awarded contracts.

Uncertainty and risk aversion in the **retail** sub-sector have combined with a host of longer-term structural changes that have reduced new orders and output to the lowest levels on record. In 2024, sub-sector output was only one-quarter of the volumes recorded a decade ago and one-fifth of the size it was at peak 20 years ago. Over this period, there has been a long-term downward trend in demand for retail premises, the counter-effect of the rising role of e-commerce, shifting activity towards storage and distribution and a smaller store estate. More recently, weak economic growth, higher interest rates, increasing costs for development finance and weak consumer confidence have also led to store closures and branch consolidation as retailers cut back on investment in new premises. Following the increases in employers' National Insurance Contributions from April, large retail chains have signalled further store closures this year or a shift towards spending on less labour-intensive methods, such as automation. There are areas where investment is stronger, such as units at retail parks, within the grocery and discount segments, and for retailers that have been able to acquire existing, vacant units. In common with offices, a 'flight to quality' and a rising awareness of energy-

efficiency and decarbonisation requirements also concentrate occupier and landlord demand on improving existing space. Work is, therefore, dominated by refits and refurbishment rather than new build. After years of falling capital values, purchases of lower-demand or vacant assets, such as department stores and shopping centres, are increasing, with Land Securities shifting its strategy away from new build offices to retail acquisitions for redevelopment. However, the redevelopment of large retail premises and locations is increasingly mixed-use, led by leisure, entertainment, offices or residential, thereby continuing the trend of diverting output away from the retail sub-sector. Given these factors, and with further declines in new orders in 2024, output is forecast to decline by 6.0% in 2025.

Output in the sub-sector has fallen 72.3% over the last ten years and output in 2024 was around one-fifth of the level it was at its peak in 2004. The key driver of this long-term decline has been a structural shift in consumer spending habits away from purchasing in-store to spending online, thereby redirecting investment away from 'bricks and mortar' retail premises towards warehouse facilities for logistics and storage, or larger stores that can facilitate 'click-and-collect' operations. Over the same period, the proportion of retail sales values spent online has risen from an average of 11.3% in 2014 to 27.1% in the first eight months of 2025.

Shopping centres and department stores have been particularly affected by these changes and vacancy rates have consistently been higher than for other settings, such as retail parks and high streets, as well as higher than a decade earlier. As retailers have vacated stores, either as part of estate consolidation, liquidations or relocations to higher footfall locations, consequent redevelopment of units has largely been geared towards repurposing and regeneration that move away from solely retail to mixed-use offices, leisure and residential. Similarly, formerly prime-sited department stores are now being redeveloped into mixed-use space.

Falling demand for shopping centres and department stores has resulted in sharp falls in capital values, which has driven speculative investment purchases, alongside a more recent increase in purchases by retailers in a stronger financial position for longer-term redevelopment. Main works for the redevelopment of the Wigan Galleries shopping centre began at the end of 2024 for phase one – a new market hall and food court. Further phases of the project will be led by residential and hotel/leisure facilities. Frasers Group also increased its buying activity in 2024, with the intention of refurbishing, extending and refitting vacant stores for its portfolio of brands. It appears that it has been harder to find occupiers for larger vacant stores. According to Savills, 42% of Topshop's former estate is still vacant since closure in 2019, with an average floorspace of 5,500 sq. ft. per unit. Beyond the forecast period, Westfield has announced a revised masterplan for the Whitgift shopping centre in Croydon. Its original plans for a new £1.4 billion shopping centre were cancelled in 2021 after years of delays and have now been scaled back into two mixed-use schemes: one for community use and one for retail and residential, with work scheduled to commence in 2028. Meanwhile, at the end of 2024, the Secretary of State approved the demolition of Marks and Spencer's flagship Oxford Street store for a mixed redevelopment into retail, residential, leisure and offices.

In contrast to shopping centres and department stores, retail parks and out-of-town retail have fared well over the last few years due to the drive-to convenience and the presence of supermarkets and larger floorspaces that can mix in-person and online retail operations across

Output has fallen
72.3% over the last ten years, driven by a structural shift in consumer spending habits away from purchasing in-store to spending online



*Work is dominated by **refits and refurbishment of existing retail premises** rather than new build*

SHOPPING CENTRE



a range of products. Vacancy rates, footfall and leasing activity have also outperformed other retail settings since 2020, with the out-of-town retail vacancy rate for the first half of 2025 estimated at the lowest since 2018. The presence of discount retailers, supermarkets and food and beverage outlets has been key to the appeal. According to Savills, a decade ago, 46% of occupied floorspace in retail parks was occupied by bulky goods brands such as DIY, electrical, and furniture and fittings, with the proportion now at 25%. Over the same period, the proportion occupied by discount variety stores has risen from 5% to 11% and discount grocery now accounts for 9% of occupied space, from 7% a decade ago. In Q1, Ikea announced further expansion by acquiring three

former Homebase stores in retail parks to continue its launch of small-format stores, whilst Marks and Spencer announced a £50 million upgrade of its retail park stores in the North West and 12 new food stores, repurposing former Homebase units. Chains such as Screwfix, Superdrug, Matalan and Wickes have also recently announced a focus on out-of-town locations. However, even retail parks are not immune to the repurposing away from retail. The planned redevelopments of retail parks next to Lakeside shopping centre and Beckton in East London will convert the space into warehouse and distribution units, whilst Knight Frank reported that investment volumes in retail parks have been below the five-year average since 2023 Q4.

The prospects for grocery retailing have become much more mixed over the last 6-12 months, with major supermarkets announcing cost-cutting measures to mitigate rises in business rates and increases in both the National Living Wage and employers' National Insurance Contributions. Whilst initially, measures have focused on staff cuts or changes to in-store offerings, Morrisons announced it would be closing 17 of its convenience stores. This contrasts with Sainsbury's, Tesco and Waitrose, which are operating with a focus on convenience stores, and Co-op, which aims to more than triple its number of franchise stores within three years, from 43 to over 130, due to increases in demand for delivery services through Uber Eats, Deliveroo and Amazon. Similarly, Asda's expansion over the next three years will focus on doubling its existing estate of convenience stores to 300 by the end of 2026, with new stores concentrated in the south of England. In May 2024, it also announced plans to build a new 60,000 sq. ft. superstore in West London, with a 1,500-home residential development on top in a joint venture with Barratt Homes. Iceland also has plans for 250 of its larger Warehouse stores at retail parks. Both Aldi and Lidl continue to expand, often with new build stores. In April, Lidl announced an acceleration in its planned store openings to 40 in 2025. This is more than the 25 it opened in 2024 but it is still slower than the 50 per year it was previously projecting. In September, Amazon announced that it would be closing all 19 of its grocery stores to focus on its online supermarket delivery partnerships.

Town and city centre regeneration schemes will also provide small volumes of retail work over the forecast period. However, larger regeneration projects will remain susceptible to delays or scaling back, particularly for those moving towards mixed-use led by residential and offices, which are still being affected by uncertainty over the pace of recovery. Recent projects of this nature include the redevelopment of the Wigan Galleries already mentioned, as well as the 15-20 year plan to redevelop the St Enoch shopping centre in Glasgow. Nevertheless, plans were fully approved in June for a £500 million garden village in Broxbourne, Hertfordshire, which will be led by 315,000 sq. ft. of retail space, whilst the John Lewis partnership has received planning approval for its Build to Rent residential scheme above its Waitrose stores in Bromley and Ealing.

New orders within retail declined by 14.1% in 2022, 25.4% in 2023 and 3.7% in 2024, underscoring that there is little driving demand outside of refits and repurposing of existing,

vacant space. After a 21.1% fall in output in 2024, a 6.0% decline is forecast for 2025, given increased risk aversion among retailers as operating costs rise. Given the continued weakness in the pipeline, a further decline is expected in 2026.

Upper Scenario:

- Consumer confidence and spending improve quickly

Measures of consumer confidence may improve quickly as the Bank of England enacts further interest rate cuts, and if this translates into a pickup in sales and revenues, retailer and investor confidence for expansions would also be expected to improve, despite the rising cost base.

Lower Scenario:

- Strains on disposable incomes restrict household spending in 2026
- Rising operating costs lead to store closures and expansion plans are paused

A slow recovery, weak confidence and interest rates being lowered more slowly than expected would keep household spending muted throughout 2026. This, in turn, means that investor and developer confidence is likely to worsen, particularly if it affects rental revenues from existing outlets struggling to pay. Retailers have signalled a sharp increase in operating costs due to rises in wages and taxes in 2025 and the lower scenario assumes this will accelerate the pace of store closures for retailers already struggling and pause expansion plans for those that are in a stronger position.

In the **commercial education** sub-sector, despite constrained university finances, large projects at UK universities are now progressing, adding to the privately-developed student accommodation tower projects that are moving through the early pipeline. Purpose-built student accommodation providers are balancing a mix of favourable and unfavourable dynamics for new development. On the positive side, long-term trends in domestic demographics, rising non-EU student numbers, a decline in individual HMO (houses in multiple occupation) landlords and the older university-owned stock of accommodation are increasing demand. However, a broadening focus on sustainability, safety and quality of existing buildings, higher financing costs and viability issues, alongside delays for high-rise schemes, is reducing appetite for development.

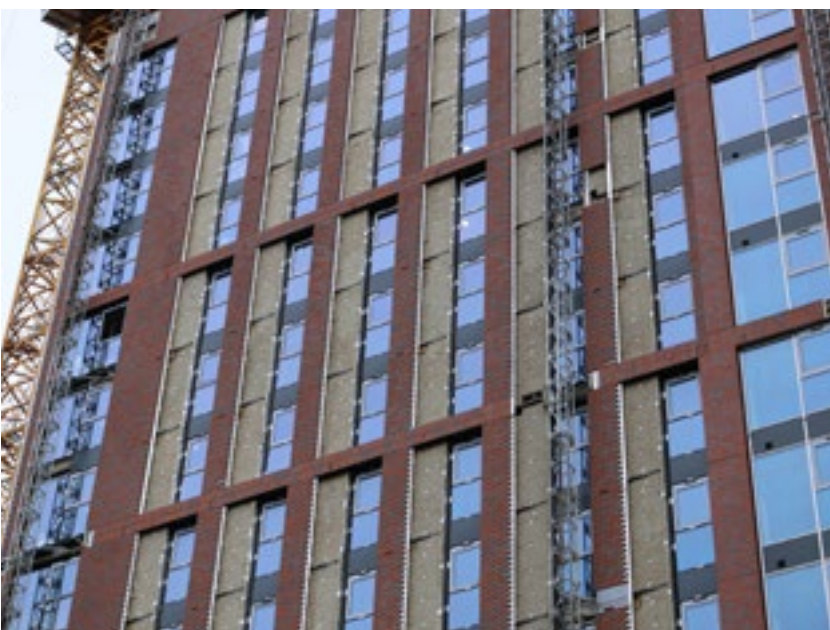
The 2023/24 annual report from the Office for Students showed a worsening financial position is forecast for universities over the next two academic years, particularly for large and medium sized institutions. A broad increase in costs, including April's increase in National Insurance Contributions, has combined with an eight-year freeze in tuition fees up to 2025/26, and means that capital spending plans are predicated on projections of higher income from increases in both domestic and international students. Between 2023/24 and 2027/28, universities reported to the Office for Students that they expect UK student numbers to increase by 26.0% and non-UK student numbers to rise by 19.5%. Recent changes to immigration rules and the Immigration White Paper published in May have added further uncertainty over the number of international students and income from fees. Since April 2024, the salary threshold applicable after graduation rose from £26,200 to £38,700 and graduate visa

Acceptances to **higher-tariff universities** for 2025/26 rose to a **new record high**



whilst acceptances to **lower-tariff universities** fell for a **fourth consecutive year**

Source: UCAS



conditions no longer allow dependants for post-graduates other than those studying for PhDs. The White Paper also proposes that the length of graduate visas be reduced to 18 months post-study, down from two years at present, as well as a potential levy on higher education providers' income from international students. A final decision will be announced in the Autumn Budget, but the government has initially proposed a 6% levy, which it forecasts will reduce international student numbers by 7,000 per year. International student visa applications declined 13.9% in 2024, following existing changes and acceptances from non-EU students fell 0.5% for the 2024/25 academic year. Nevertheless, some institutions have suggested that caps on international student numbers

recently implemented in Australia and Canada, as well as hostile international rhetoric in the United States, may be favourable for UK applications.

One year's data is too little to discern whether 2024 was the start of a trend or a blip in overseas student demand. Although student visa applications rose 6.9% in the first eight months of 2025, they were still 10.9% lower than the same period of 2023, before changes to eligibility. According to UCAS, acceptances for university entry in the 2025/26 academic year rose 2.8% in total, with the largest increase for non-EU students (6.7%). Acceptances from UK and EU students also increased, although this masks a longer-term trend of international admissions being dominated by non-EU students, who accounted for 83.6% of international acceptances for the current year. In addition, acceptances from EU-domiciled students were 65.1% lower than in 2016, whilst non-EU acceptances were 50.9% higher over the same period.

There has also been a split in applications and acceptances based on university rankings. Acceptances to higher-tariff universities rose 8.1% in 2025 to a new record high, whilst acceptances to medium-tariff and lower-tariff universities rose 1.6% and fell 1.8%, respectively. The latter fell for a fourth consecutive year.

The construction and refurbishment of student accommodation has provided a baseline level of activity over the last few years and schemes continue to enter the pipeline. Private providers and universities, or joint ventures and partnerships between the two, are investing heavily in purpose-built student accommodation, particularly given the long-term increase in international (non-EU) students and domestic demographic trends. According to the ONS's 2020 population projections, the number of 18-year-olds in the UK will increase by 4.8% over the next decade, whilst UCAS forecasts applications to UK higher education institutions will be 30% higher in 2030 compared to 2022. Knight Frank found that although delivery this year has been slowed by delays at Gateway 2 of the Building Safety Regulator's approval process and viability concerns as financing and build costs are higher, developers appear to be capitalising on a softer land market, with site sales accounting for one-third of all student accommodation deals volumes in 2024, which represented a record proportion, and suggests greater momentum building towards the end of the forecast period.

Two of the largest private student accommodation developers, Unite and Empiric, merged in September and had both previously announced a strategy that will focus on partnerships

with high and mid-ranked universities, particularly the Russell Group, where demand is viewed to be strongest, and disposals of properties linked with lower-tier institutions. Development pipelines run between 2025 and 2029 in major cities and in May, a 2,000-bed joint venture at Newcastle University received planning approval and a second joint venture with Manchester Metropolitan University – a 2,300-bed development with a value of £370 million – was confirmed. Empiric had highlighted that it considers the current economic, planning and regulatory backdrop is discouraging new development and its pipeline has shifted towards acquisitions and refurbishment and, as a result, its next capital spending plan is expected to be significantly lower than its previous five-year plan, which covers 2021-2025. In total, there are ten existing developments that it has selected for refurbishment over the next 18 months, with £3.5 million allocated for works in the remainder of its five-year plan. Projects include a 200-bed extension of an existing development in Manchester, as well as a former office block for conversion in Bristol, and a building in Glasgow already operational as student accommodation for refurbishment. Both Unite and Empiric have also highlighted that the three approval gateways under the Building Safety Act are expected to add around six months to delivery timelines, with the potential for further delays due to capacity constraints at the Building Safety Regulator (BSR). Unite's 500-bed Freestone Island development in Bristol received Gateway 2 approval in August, which took 12 months.

Large-scale refurbishment and an early focus on decarbonisation are rising up the priority list for student accommodation providers. Like other commercial and industrial buildings, education facilities are also the focus of decarbonisation and energy-efficiency improvements. JLL found that 26% of purpose-built student accommodation properties were below an EPC B rating, suggesting a stream of potential work to meet Minimum Energy Efficiency Standards (MEES).

New build schemes of 500+ beds continue to enter the pipeline, which already includes towers across UK cities. Adding to schemes awarded planning approval or contracts over the last 12 months, in Q3, contracts were awarded for Exeter University's £185 million accommodation campus, building 1,800 rooms over three years, as well as the award of contracts for LSE's 2,000-bed towers scheme in Bankside. However, with planning approval still pending, demolition is not expected to start until 2027.

Alongside accommodation work, universities have been driven to make major capital investments in education facilities to help compete at a global level and attract the higher fees paid by increasing numbers of international students. In recent years, this has moved towards large-scale, phased redevelopments or new campuses, rather than one-off departmental buildings. The University of Oxford and the University of Birmingham have multi-year investment frameworks underway, whilst work continues on the University of Bristol's new £300 million campus and Sheffield Hallam University's satellite campus in Brent, north London, which will open for the 2026/27 academic year, with further expansion planned by 2030. The University of Cambridge has a £680 million four-year construction framework, whilst the University of Warwick's record £700 million investment in campus redevelopment includes demolition, new build and repurposing existing buildings. The first project will be a 25,000 sq. m. science and engineering building, with work to start in Autumn. The University of Greenwich awarded contracts for its £300 million five-year refurbishment, rebuild and new build framework at the end of 2024, and work has topped out on the University of Huddersfield's £250 million health innovation campus. Manchester Metropolitan University's £90 million, 13-storey new library received planning approval in February, but has now been scaled back to nine storeys due to rising construction costs. Its completion date has also been pushed back from 2028 to 2030.

Capital expenditure by universities was equivalent to 9.3% of total income, on average, in the 2023/24 academic year, up from 8.7% in 2022/23 and 8.3% in 2021/22, according to the Office for Students. In the same report, universities forecast that capital expenditure would increase 26.1% in the 2024/25 academic year, but a shortfall in actual spending is common. Capital spending was 25.0% lower than forecast in 2023/24 and was 27.0% lower than projected in

2022/23 as universities protected cash flow during a period of strong inflation. Large one-off projects that have progressed in 2025 include the award of contracts for the redevelopment of Imperial College London's Great Hall into a multipurpose, convertible space for teaching and entertainment, the start of a £123 million new lecture and teaching building at the University of Southampton, which is scheduled to complete for the 2027/28 academic year, and the award of contracts for Queen Mary University of London's £49 million redevelopment of its School of Business and Management, for completion in 2027. This is the university's second project under construction, alongside the redevelopment of its Informatics and Technology Learning Building. The London School of Economics awarded a contract in August for the £100 million retrofit and extension of a teaching building.

Outside of universities, the first two projects to be funded through the Welsh mutual investment model of public-private partnership began in 2023 – an all-through school in Flintshire and three new primary schools in Rhondda Cynon Taf. However, rising build costs have led to questions over the long-term value-for-money of the resulting annual payments that will be required to be paid by the local authority. The mutual investment model framework is planned to provide up to £500 million of capital funding for education projects in Wales. The next project only progressed through in March – a £119 million scheme of two buildings for Cardiff Vale College: a vocational campus for 900 students at Barry Waterfront and a 2,000-student Advanced Technology Centre near Cardiff Airport. Completions are scheduled for 2026 and 2027, respectively.

Construction output volumes over the forecast period will be dependent on how higher education institutions, student accommodation developers and joint venture partners and contractors can deal with elevated build costs, a gradual economic recovery and costlier finance for projects in the near-term pipeline, as well as the effect of constrained university finances on future capital spending. According to research by Queen Mary University, 90 UK universities have announced redundancy or restructuring programmes, whilst the government has confirmed there will be no bailouts for insolvencies. An increase in the annual tuition fee cap for England-domiciled students from £9,250 to £9,535 from April was welcomed by higher education institutions but the increase in employers' National Insurance Contributions and falling thresholds have also been flagged as a significant cost over the same period.

Overall, with an increase in projects in the planning stages, and a 39.9% increase in new orders in 2024 now moving through to construction starts, there is continued momentum for near-term growth in the sub-sector. Growth of 6.0% is forecast for 2025, followed by 4.0% in 2026. However, some high-rise student accommodation projects are likely to be delayed awaiting Building Safety Regulator approval, whilst confidence to progress longer-term capital investment plans that rely on continued growth in international student numbers will depend on how applications are impacted by changes to visa and immigration rules in the near-term. In the first half of 2025, new orders were 37.9% lower than the same period a year earlier. Output growth of 1.0% is projected for 2027.

Upper Scenario:

- Stability in student numbers and higher international fee income improves confidence
- Individual landlords exit the market

Higher fee income from international students that increases revenues, as well as stability in applications for 2026/27 among UK and non-EU students shores up confidence to progress student accommodation schemes and university capital expenditure programmes, despite higher financing costs. A longer-term consideration for student accommodation development is that higher interest rates and mortgage repayments raise costs for individual HMO (houses in multiple occupation) landlords and reduce returns to such an extent that it is not profitable to continue, thereby redirecting demand towards larger providers.

Lower Scenario:

- Deterioration in university finances and cost rises hinder the viability of university projects
- International student numbers decline

In recent years, universities have had an increasing reliance on private sector borrowing, such as private and public bond issuance, to finance work. Appetite for bond issuance will be limited if economic recovery is slow or university finances deteriorate, leading to significant insolvency risk, which both worsen investor risk aversion. Questions also remain over the impact of EU student numbers falling to a record low post-Brexit and what would happen to capital investment plans if the decline in non-EU students in 2024 becomes a trend rather than a blip.

Output in the **commercial health** sub-sector has been over £1.0 billion per year since 2022, but this is still half of the levels seen when PFI was used by the government as a means of financing and building new hospitals. Over the last ten years, the primary driver of activity has been the construction of new facilities by private healthcare providers or privately-funded redevelopments of NHS hospitals, although this has been limited. Despite a rise in the use of private healthcare facilities due to lengthening NHS waiting lists, an increase in self-pay or privately-insured patients and a small, but increasing, proportion of NHS-funded treatments being carried out by private providers to try to ease backlogs, this has not yet translated into major expansion plans or new private hospitals. Some of the largest healthcare developers continue to highlight that higher operating costs, higher construction costs and a higher interest rate environment have reduced appetite to begin new developments over the last two years. However, in the last few years, and again, particularly post-pandemic, life science, laboratory and medical research facilities have added a stream of activity for the sub-sector, many backed by venture capital. Nevertheless, projects are largely at the planning and tendering stages and with signs of investors taking a 'wait and see' approach to macroeconomic developments and the high-profile withdrawal of investments by pharmaceutical companies adding further uncertainty, activity will be more likely to impact growth rates towards the end of the forecast period.

There are two large hospital projects entering the pipeline. The £300 million phase 4 of Great Ormond Street's expansion – the redevelopment of the main entrance and a new cancer centre – was approved in October 2023, with the demolition of the existing building in 2024 and appointment of the main contractor in January. Main construction is set to run between 2025 and 2027. Alongside this, in Wales, the Velindre Cancer Hospital in Cardiff is one of three 'pathfinder' projects trialling the nation's new Mutual Investment Model of private funding, along with a new build school and road dualling project. The full design, build and maintenance contract was valued at £562 million in 2021 when it was put out to tender, with construction accounting for around £200 million. The joint venture contract was awarded in June, when the total project cost had risen to £885 million. It is scheduled to open in 2027, with groundworks now reaching completion and main works from the end of the year. Given that the project was first approved in 2018 and was expected to have been opened this year, as well as over £300 million in additional costs, further delays to the revised schedule cannot be ruled out. A £376 million extension to the Evelina London Children's Hospital, funded through a combination of public funding and private donations, was approved in October 2021, although the NHS Trust has since put the project on hold to review options after cost increases and financial constraints at the tendering stage. In July, the Department of Health and Social Care, along with the National Infrastructure and Service Transformation Authority (NISTA) launched its market engagement process for a potential £1.0 billion of public-private partnerships to build primary and community healthcare infrastructure, running across 30 years from 2027. The funding envelope is flexible based on market uptake but as a potential precedent, the £500 million Private Investment Construction Framework ended in 2022, having procured significantly less than expected.

According to the Private Healthcare Information Network, although the number of self-funded

There are **two large hospital projects underway:**

Great Ormond Street's redevelopment of the main entrance and a **new cancer centre** and the **Velindre Cancer Hospital** in Cardiff



in-patient admissions has fallen since a peak in the first half of 2024, the number of patients accessing private in-patient healthcare through insurance has increased each year to a record-high level. The number of NHS patients who have been waiting over a year for treatment has also fallen from its peak but similarly, remains higher than in 2019. So far, increases in investment by private healthcare providers have focused on staff and expanding services at existing facilities, particularly as the NHS backlog, and the number of procedures being diverted to private providers, increases. In 2023 and 2024, 10.0% of NHS-funded treatments were carried out in private facilities, and although

this is only a small increase from 7.7% pre-pandemic, it signals the growing use of facilities due to NHS capacity constraints and the deteriorating condition of the NHS estate (see [Public Non-housing R&M](#)). The private sector accounted for 18% of elective admissions in 2024, up from 13% in 2019.

Medical research, biotech and life sciences facilities have emerged as an area of growth within the sub-sector for the medium-term, particularly in the 'golden triangle' of London, Oxford and Cambridge. Cushman & Wakefield found that UK life science companies attracted £2.84 billion in venture capital funding in 2024, marking the second-highest annual total on record, after the peak registered in 2021. Large projects are moving through the pipeline, including preliminary work on a £300 million cancer research centre in Oxford in October, funded by the Los Angeles-based Ellison Institute for Transformative Medicine, with the contract for main works awarded in March, a 22-storey life sciences wet lab in Canary Wharf, which began in September 2024, and 600,000 sq. ft. of purpose-built laboratory space at the Cambridge International Technology Park, which is scheduled to be built in phases. Projects have also been approved over the last 12 months for phase two of the Harwell Science and Innovation Campus, plus three new innovation districts in Oxford – Oxford North, a £700 million R&D district, Oxford Science Park, which is owned by the University of Oxford's Magdalen College, and Eastpoint Business Park, which has planning approval for three four-storey laboratory buildings. The redevelopment of Euston Tower in London from offices to a lab-enabled life sciences hub was both approved and awarded contracts in March. Completion is expected in 2030, with most activity beyond the forecast period.

Other cities have also established health and life science zones. In July 2024, plans were approved for a £900 million biotech campus in Stevenage, which will mix laboratory buildings, offices and manufacturing facilities across a phased development of 15 buildings and completions from the end of 2025. In Newcastle, a £500 million neighbourhood health complex was approved in April, with projects running through to 2035. Largely residential, it is a redevelopment of the former general hospital, but will include health research facilities and labs funded in a joint venture between Newcastle University and private investors. The Liverpool City Region has secured £160 million of funding for a ten-year life sciences investment zone, and confirmed projects to date include labs for the Liverpool School of Tropical Medicine, whilst a preferred contractor was selected for the £61 million Hemisphere One lab in March. The Crown Estate has also signalled a move into lab space as part of its £1.5 billion science and tech investment strategy for the next 10-15 years. It has already announced an £80 million project to convert a former Debenhams store in Oxford into life sciences labs.

Nevertheless, there have been some signs that investor appetite may be weakening. Commercial

agents have noted a 'wait and see' approach in the first half of 2025, due to economic uncertainty and a greater selectiveness towards investments. In January, AstraZeneca cancelled a £450 million expansion of its nasal flu vaccine plant in Speke, near Liverpool, after government funding was reduced. In March, Life Sciences REIT, a property investment vehicle, announced a strategic review and potential winding-down after estate valuations had consistently decreased from the highs since its establishment in 2021. More recently, in September, Merck announced the withdrawal of its research operations in the UK. It was set to occupy the £150 million Belgrove House life sciences research centre under construction in King's Cross, London. Highlighting some of the risks for new investors, according to Cushman & Wakefield, of the 3.8 million sq. ft. in the total pipeline to the end of 2027 for the 'golden triangle', only 11.0% is pre-let, which leaves 3.4 million sq. ft. reliant on speculative demand. There is also a further 5.1 million sq. ft. of space that has received planning approval.

Outside of the large projects that typically drive sub-sector growth, developer Assura, now part of Primary Health Properties, currently has two developments on site in the UK, after completing five in the year to March 2025. It has an extended pipeline of 33 new GP centres and two hospitals, as well as 14 planned capital asset enhancement projects (with a projected spend of £9 million) over the next two years. However, it did not start any new work in the year to Q1 due to tighter financial market conditions reducing viability. Primary Health Properties itself has been focusing on its existing portfolio of properties and acquisitions and has stated that rental increases of between 20% and 30% would be required to make future schemes financially viable. Adding to this, in August 2024, it acquired the UK hospital portfolio of Northwest Healthcare, a Canadian real estate investment trust (REIT), for £500 million, which further limits the scope for new build activity.

New orders in the sub-sector are volatile, given its relatively small size. New orders increased to £1.0 billion in 2024 from £606 million in 2023, reflecting the award of the contract for the Velindre cancer hospital in Wales. The construction activity on large projects such as this is likely to be spread over two or three years, so growth over the forecast period is expected to be more muted than the growth rates in new orders. Work on the Great Ormond Street expansion and life sciences work in the 'golden triangle' of London, Oxford and Cambridge is forecast to drive growth of 1.0% in 2025, before output remains flat, at the highest level in nine years, in 2026.

Upper Scenario:

- Rising demand for private healthcare translates into new facilities

Hospital backlogs since 2020 have already increased demand for private healthcare. In the upper scenario, this leads to private healthcare providers planning new investments in facilities that open towards the end of the forecast period, when it is assumed that developers have adjusted to interest rates settling at higher levels than pre-2022. Work on the ground would take longer to filter through to activity well into 2026, however.

Lower Scenario:

- Uncertainty leads to delays

As demonstrated by recent moves by private healthcare providers or potential occupiers to exit the UK market or focus on acquiring or improving existing facilities, uncertainty over the strength of the economic recovery and a step-change in interest rates, even as they continue to be lowered this year, are likely to constrain new development. Similarly, strong rates of cost inflation since plans were approved and contracts awarded for larger new hospitals and research facilities add a further risk of delay to these projects, particularly given the high proportion of speculative developments in life sciences.

Private Non-housing R&M

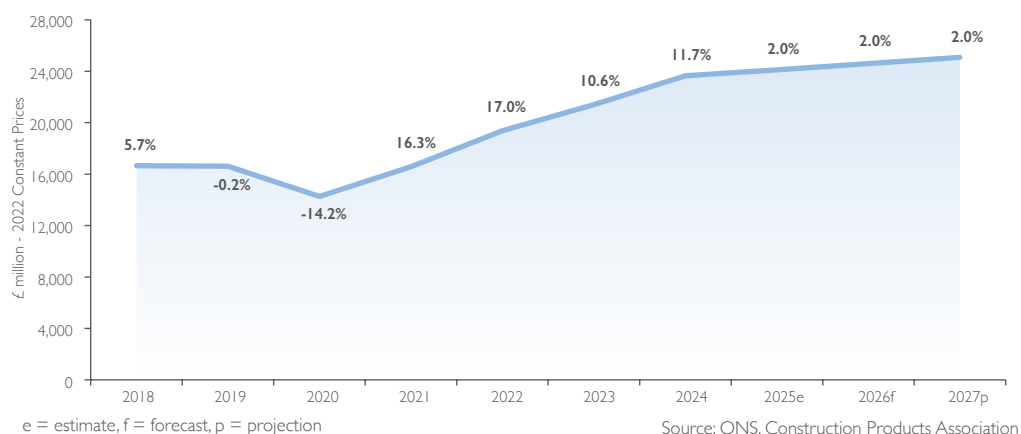
Growth in private non-housing repair and maintenance (r&m) activity is expected to be restricted by a growing preference for larger-scale refurbishments and improvements on existing properties, as well as lingering cost pressures causing delays and backlogs to routine maintenance programmes.

Output in the private non-housing r&m sector includes basic repairs and maintenance of offices, retail premises, warehouses, factories and other privately-owned non-residential properties. It is dominated by work on offices and retail units, typically framework contracts and long-term contracts. Sector output tends to be less volatile than new build, given the reliance on long-term facilities management contracts and an element of basic repairs that cannot be postponed. Still, in recent years, the discretionary, non-essential element that is dependent on macroeconomic fundamentals related to broader economic performance has been hindered by heightened uncertainty and rising costs. For example, a report from the [Office for Students](#) published in May found that higher education providers continued to report delays to routine maintenance due to higher costs, with concerns that financial strains on university finances would reduce capital investment and maintenance spending. Backlog maintenance at universities was estimated at £10 billion for 2024/25. Furthermore, a consequence of building owners across the commercial and industrial sectors undertaking larger-scale refurbishments and improvements that stretch beyond r&m, is that output from these activities is likely to be classed within new build categories.

Please note that the historic ONS figures for r&m should be treated with particular caution given the strong concerns that the CPA has regarding the ONS construction output data since 2022, which particularly affect the r&m sectors.

The drive for refurbishment has accelerated as expiring business leases mean that building owners are undertaking large-scale improvements to take advantage of the rental premium attached to high-quality space. Furthermore, refurbishment activity has been underpinned by the growing stock of vacant office space that is unlikely to be Grade A standard, as well as a focus on improving energy-efficiency credentials of buildings to avoid 'stranded assets' that do not meet the proposed minimum energy-efficiency requirements of EPC C by 2027 and EPC B by 2030. As a result, energy-efficiency and decarbonisation improvements are increasingly being seen in retail, education, factories and warehouses as well as offices, and as this will be classed as new work, it will divert activity away from r&m output.

Private Non-housing R&M Output



Ongoing remediation work offers a smaller pipeline of activity for the sector. Remediation of Aluminium Composite Material (ACM) cladding on private non-residential buildings above 18 metres is almost complete, with the Ministry of Housing, Communities and Local Government (MHLCG) monthly statistics from the end of August confirming that works have completed on 59 out of 61 student accommodation towers and 29 out of 33 high-rise hotels. Data on the extent of remediation required outside of ACM cladding has yet to be collected, but the student accommodation provider, Unite, remediated 13 buildings with HPL (high-pressure laminate) cladding in 2024 and plans to remediate 12 in 2025. Large refurbishment projects are also a consideration for private student accommodation providers, which are likely to be classified as new build rather than r&m.

Although reinforced autoclaved aerated concrete (RAAC) was used more extensively in public sector construction, it is also likely to be an issue for some private sector buildings, although the presence or condition status in the private sector has not been declared so far. Whether this is due to a lack of investigation into private buildings or whether it is because it is less prevalent in private buildings due to better maintenance is unknown at this point. The scale of remediation required will determine whether it is classified as r&m, with large remediation projects emerging in the public sector, suggesting that work is likely to be classified as new build. The Key Theatre in Peterborough announced that it would be replacing its roof in 2025 (new work), whereas the Royal & Derngate Theatre in Northampton had supports installed in its roof (r&m).

In December, the Barbican Centre in London received £191 million in funding from the City of London Corporation to support a five-year renewal plan. Although the main focus of the scheme will be upgrading existing facilities that will be classed as new build, it also includes significant urgent repairs work, which will be prioritised before the larger construction phases, which are due to start in 2027.

Outside of routine or urgent r&m that cannot be delayed and provides a baseline level of activity, discretionary r&m may benefit from any lingering reticence or delays on new build projects that would see building owners focus on maintaining existing properties. However, this will be outweighed by lower volumes of work due to past cost inflation, as well as larger-scale refurbishment and improvements that are classified as new build rather than r&m. Output volumes are expected to grow by 2.0% in each year of the forecast period.

Upper Scenario:

- Stronger focus on r&m

Inflation is set to continue slowing overall, but prices, particularly in construction, remain significantly higher than pre-pandemic. Past economic weakness and uncertainty have lengthened the lag between new orders and project starts for new build and lengthened the decision-making process for investment in projects slightly earlier in the pipeline. This would make the maintenance of existing assets and facilities a greater focus for building owners and landlords. However, current and planned remediation works on larger-scale r&m projects may be delayed by high costs.

Lower Scenario:

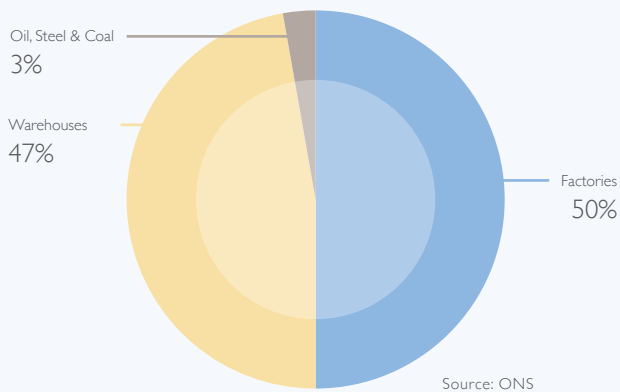
- Priority shifts to new build

If developers, contractors and investors continue to progress commercial and industrial projects through to starts on site, given completion dates scheduled for later in the forecast period when economic growth is expected to be stronger, new build could be prioritised over r&m. Building owners choosing to refurbish rather than maintain the large stock of vacant office space also becomes commonplace in the lower scenario.

Industrial

Output in the industrial sector is expected to grow throughout the forecast period. Warehouse development is settling back at 'normal' pre-pandemic levels, with large and speculative developments returning in the early pipeline. The factories sub-sector has driven recent growth, underpinned by large projects signed off in the last few years, including gigafactories and facilities to manufacture defence and renewable energy equipment. Nevertheless, the largest projects remain susceptible to a deterioration in investor and business confidence, as well as the risk of pauses and delays due to major project delivery issues.

Industrial Output by Sub-sector 2024 (%)

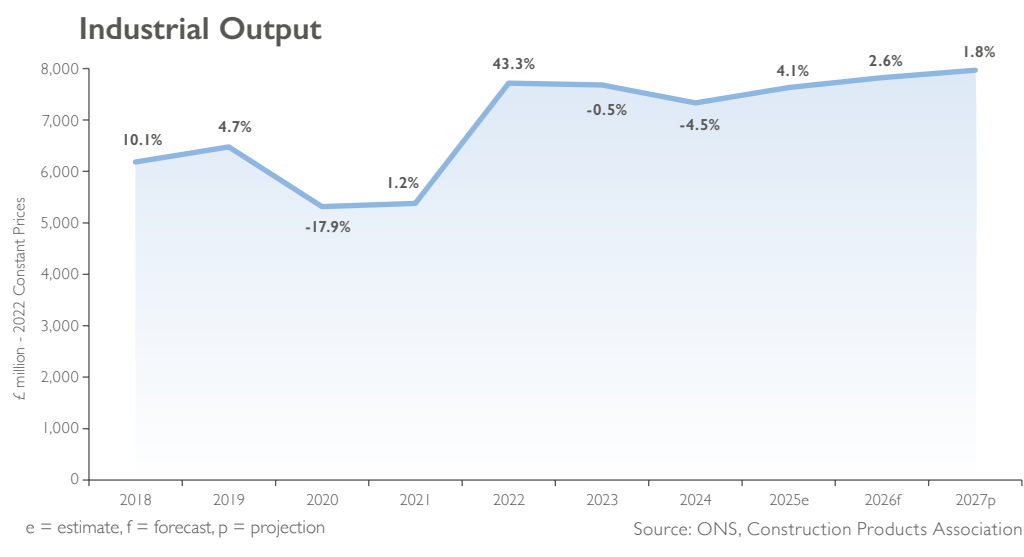


Industrial output has been volatile in recent years, buoyed by the temporary, but large, increase in demand for manufacturing capacity and warehousing space immediately post-pandemic, followed by a return to activity led by the more typical drivers. Growth in the factories sub-sector so far this year has been supported by the start of work on gigafactories to produce batteries for electric vehicles and projects related to the manufacture of equipment for renewable energy generation and defence. These projects were largely signed off in 2021 and 2022, or in the case of defence-related projects, are benefiting from an increased government focus on capital spending. Steeper falls were recorded in the warehouses sub-sector, where appetite to invest in large

floorspaces has been affected by flatlining economic growth and higher interest rates that mean a step-change in finance costs for development and construction, which had a marked impact on speculative warehouse development in particular. Although take-up and investment are reported to have picked up from the end of 2024, baseline activity is likely to remain around the more 'normal' levels seen pre-2020. Total industrial output contracted 4.5% in 2024, and growth in factories is forecast to drive overall sector growth of 4.1% in 2025. Growth of 2.6% is expected in 2026 as activity in warehouses, which typically has shorter lags between contract award, start and completion, accelerates in response to demand for custom-built space. As sector growth is typically driven by large projects, it will remain contingent on confidence and domestic and global economic developments over the remainder of 2025 and 2026.

In the oil, steel and coal sub-sector, which has historically accounted for less than 3.0% of total sector output, the government confirmed in September 2023 that it will be investing £500 million in Tata Steel's new electric arc furnace in Port Talbot, which has a total project cost of £1.25 billion. The project received planning approval in February, and with a contractor selected, the project broke ground in mid-July and the facility is expected to become operational at the end of 2027. Some work is also likely to be captured in factories.

Output in the **factories** sub-sector has displayed strong growth rates since 2024, despite three years of falls in new orders since 2022. Similar to large projects in commercial, this is likely to



reflect long lags for work that was signed off in 2020 and 2021 and then subsequently delayed due to weak economic growth, cost inflation and a step-change in interest rates impacting final decision-making on large capital investments. Large projects are currently underway to build facilities for the manufacture of renewable energy, electric vehicle batteries, and defence equipment. Meanwhile, projects progressing from the planning to tendering phase or moving from preparatory work to main work are expected to drive further growth over the forecast period. Work on the largest factory project in the pipeline, Tata Group's £4.0 billion Agratas gigafactory in Somerset, began in Summer, with completion one year later than scheduled in 2027 after pauses to reduce the redesign for a smaller floorspace. If main work gets underway quickly, this presents an upside risk to the forecast. However, on the other hand, it may also be symptomatic of investors taking a more cautious approach to demand and economic conditions, and is likely to particularly affect projects linked to automotive manufacturers or foreign investors that are directly affected by global economic uncertainty and changes to tariffs or taxes.

Nevertheless, the longer-term drivers for gigafactories remain. The Faraday Institution estimates that ten gigafactories that would each produce 20 GWh per annum will be needed in the UK by 2040, up from its estimate of seven factories in its 2020 report. Activity is coming through on Nissan and Envision AESC's second £450 million gigafactory in Sunderland, which started at the end of 2022, with a planned opening in 2026, also one year later than initially announced. The project received financial guarantees from the National Wealth Fund (NWF) and UK Export Finance (UKEF) in May. Plans for AESC's third gigafactory, also in Sunderland, were approved in September 2024. Plans to develop a gigafactory at Coventry Airport received planning approval in 2022, with the local authority likely to have to extend permissions as it has yet to find an investor. The project is a joint venture between the airport and the local authority and received £35 million for site preparations as part of funding for the





West Midlands Investment Zone in 2024 Q1. In February, hopes were raised that a battery manufacturing firm currently using the UK Battery Industrialisation Centre nearby would commit to the site for developing its own gigafactory within five years. Given the issues in attracting an investor to date, this would be unlikely to start during the forecast period.

Factories related to manufacturing equipment for renewable energy and defence are also driving current activity in the sub-sector. XLCC's £150 million sub-sea cable factory in Ayrshire was allocated £90 million in funding from the NWF in September 2024, and is scheduled for completion in 2026. Similarly, Sumitomo Electric's £350 million sub-sea cable factory, also in Ayrshire, broke ground in 2024 Q2 and is expected to complete in 2026 to supply the cabling for the Sea Link connection between Suffolk and Kent. In H1, LSEAC announced plans for a £923 million sub-sea cable factory at the Port of Tyne, whilst Siemens Gamesa received planning approval for a 61,000 sq. ft. expansion to its wind turbine manufacturing facility in Hull.

Reflecting the move by governments to increase defence spending, main works are underway on the £400 million, ten-year project to expand the Sheffield Forgemasters steelworks facility for manufacturing nuclear components for the Ministry of Defence, to be followed by construction of a test facility that has been submitted for planning approval. In May, a final investment decision confirmed construction of a new advanced gun barrel manufacturing facility in Telford, to commence production in 2027. The AUKUS security and defence partnership between the UK, Australia and the United States has also underpinned to Rolls-Royce's plans to double the size of its Raynesway nuclear submarine manufacturing facility. Construction partners were selected in September. The government's Strategic Defence Review in June announced £1.5 billion of funding to build at least six munitions and energetics factories, although no further detail was provided. Munitions factories are typically classed within public non-housing rather than industrial.

Outside of these areas, the £600 million, four-year redevelopment and expansion of the Shotton Paper Mill in North Wales has completed foundations work and plans to add a boiler building and a new combined heat and power plant to the site were approved in March. A new tissue paper mill to be built at the Humber Freeport was approved in September, with the project

now pending final investment approval. Insulation manufacturer, Knauf, confirmed in May that its £170 million new mineral wool factory would also be built in Shotton, with a start date next year and completion by the end of 2027. Saint-Gobain's plans for a new stone wool insulation factory were announced in May and follow a similar schedule. Another insulation manufacturer, Rockwool, announced plans to purchase a site for a new facility near Birmingham, which is designated specifically for manufacturing use in the council's development plan. A full planning application will be submitted by early 2026, with an aim to open the facility in 2029. In June the government selected the winner of its Small Modular Reactor (SMR) design competition, with a Rolls Royce-led consortium set to build three SMRs. Final investment decision is not expected until 2029, however, and the programme was initially due to select two bids that would each build three or four reactors. The £100 million Siemens factory in Chippenham, which will produce rail signalling and control systems broke ground in April.

The underlying driver of activity in factories is manufacturing output. Forecasts for manufacturing output point to weakness over the next two years, however. In HM Treasury's monthly comparison of independent forecasts from September, the median forecast for manufacturing output growth was for an increase of 0.6% in 2025 and 0.5% in 2026. Manufacturing businesses will be contending with higher operating costs after the rise in the National Living Wage and the employers' National Insurance Contributions, and falling thresholds, from April but more pertinently, risk aversion is likely to linger, particularly in advance of the Autumn Budget. Consequently, appetite for new capital investment not already committed is likely to decrease significantly given high levels of uncertainty around the domestic economic recovery, as well as the strength of global demand and developments related to trade and tariffs. Work is expected to continue on existing projects, driving output growth of 9.0% in 2025 and 4.0% in 2026, but the long lags between planning approval, contract award and construction start are likely to persist for projects earlier in the pipeline.

Upper Scenario:

- Investments in new manufacturing facilities progress more quickly

Clear signs of definitive investment secured for the gigafactory in Coventry would provide considerable uplift to growth prospects for the sub-sector over the second half of the forecast period, whilst shorter lags between project approval and construction start for factories in the early pipeline present a significant upside risk to sub-sector growth.

Lower Scenario:

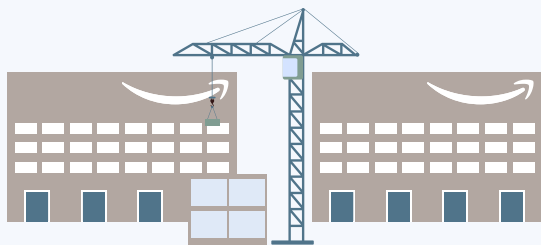
- Manufacturers delay or cancel investment plans

The forecast assumes work continues on factories already under construction but progress may slow or stop if the UK economic backdrop worsens, global economic growth slows considerably or prolonged or variable tariffs produce even greater uncertainty for manufacturers.

In the **warehouses** sub-sector, recent data has been mixed. Occupier take-up is reported to have picked up during 2025, notably for 'build to suit' space being constructed specifically for a signed-up tenant. However, take-up of units over 100,000 sq. ft. is still below the ten-year average, whilst historically high vacancy rates and an increase in second-hand space are limiting speculative development, according to commercial estate agents. Output fell 18.1% in 2024, but rose 22.7% year-on-year in 2025 H1. Conversely, new orders fell 45.7% between 2021 and 2024 and were 30.0% lower in 2025 H1 compared to the previous year, so as with the factories sub-sector, there may be a lengthening in typical lags to the start of construction.

Commercial estate agents and warehouse developers have reported a 'normalisation' of occupier demand and investment demand after the rapid growth post-pandemic. Two of the largest warehouse developers noted a pickup in occupier demand and new enquiries at the end of 2024 and the start of 2025, which were expected to lead to greater leasing activity in

***Amazon has announced it will
build two new fulfilment centres
in the East Midlands by 2027***



the second half of this year. This is mirrored in estimates for new warehouse space overall, with Knight Frank calculating that around 20 million sq. ft. of space completed in 2024, which is in line with levels last seen in 2017. It projects 24 million sq. ft. of completions for 2025, dependent on phasing. Notably, recent demand has been led by build-to-suit projects, although construction of the UK's largest speculative development began in May – 915,000 sq. ft. of space at Panattoni Park in Swindon. Market updates suggest that developers and investors are balancing expectations of rental growth for high-quality space in well-connected locations against rising economic uncertainty and higher development costs, both in terms of construction costs and financing costs. Knight Frank recorded a warehouse vacancy rate of 7.7%

in 2025 H1, which marked the highest rate since 2013 and an increase from 7.3% in 2024 and 5.5% in 2023, mainly due to an increase in second-hand space. As in the commercial sector, occupiers are placing energy-efficiency and ESG credentials as a high priority. Given that vacated and second-hand space is likely to be lower quality Grade B or C, there may also be a greater stream of improvements work, as in other non-residential sectors.

Warehouse demand from retail, linked to e-commerce or a mix of online and physical store operations, has been a structural driver behind the longer-term growth in the sub-sector. Whilst still benefiting from activity, online retail sales have been on a downward trend since 2021 and the proportion of retail sales online averaged 27.1% for 2025 so far, which compares to a spike of 36.9% in February 2021 after demand and online operations rose sharply during the pandemic. The current proportion remains higher than the 19.2% average for 2019, however. According to Knight Frank, retailing accounted for 20% of warehousing take-up in the year to 2025 Q2, behind distribution at 40% and manufacturing at 29%.

Despite current uncertainty over economic growth, operating costs and speculation ahead of the Autumn Budget, the sub-sector is expected to return to growth. The rise in e-commerce remains a favourable long-term trend, creating demand across warehousing and logistics space, including the last-mile warehousing segment. In addition, the development of gigafactories across the UK that produce lithium-ion batteries, primarily for electric vehicles (EVs), is expected to generate an additional 50 million sq. ft. of demand for industrial and warehouses space by 2040, according to Savills. However, given the past high levels of activity and strong growth in the sub-sector, there has also been a long-term decrease in industrial land space, with the Centre for London reporting a 24.0% reduction in London in the last 20 years, and a 20.0% reduction in Manchester, due to competition with residential developers.

There are still large projects in the pipeline, including a £100 million, 48-acre logistics complex in Leicestershire (G-Park) and a £100 million warehouse complex in County Durham (Forrest Park), both of which were approved before 2022, are being developed with build-to-suit units. Projects submitted for planning approval over the last 12-24 months are now progressing through to construction, including the 1.3 million sq. ft. logistics park in Crewe (Weston M6), the start of works for 505,000 sq. ft. of warehouse space at TN2 Gateway in Tunbridge Wells, a speculative 250,000 sq. ft. logistics facility at Coton Park, Rugby and the start of work for British Land's multi-level last-mile logistics hub in Southwark, with a scheduled completion at the end of the year. Another of its multi-level facilities, in Enfield, is approved but has yet to award contracts. Also in the early pipeline are a 570,000 sq. ft. development near Nottingham for Rolls Royce, 1.4 million sq. ft. of speculative space at Magna Park, and an 800,000 sq. ft. logistics park (Skelton Grange) outside Leeds. In March, demolition started on the former Honda plant in Swindon, which was in readiness for its long-term redevelopment into a £900 million logistics

park with 7.2 million sq. ft. of space. The first phase of development with planning consent includes the 915,000 sq. ft. unit alongside a second 545,000 sq. ft. facility, which is already under construction. Reflecting the expansion plans of grocery retailers, work has recently started on Lidl's £150 million 600,000 sq. ft. distribution centre in Morley, near Leeds.

Further out in the pipeline, Henry Boot Developments has launched a £100 million mid-size warehouse joint venture across three sites in Walsall, Welwyn Garden City and Markham Vale. It aims to deliver £1.0 billion of schemes over the next seven years. In December, Aviva Investors appointed a contractor for a new industrial park of four units on the former Leyland DAF site in Birmingham. Mixed-use 'employment parks' led by logistics and warehouses, along with manufacturing and office space are also adding to the pipeline. Phase 1 of a £200 million, 1.1 million sq. ft scheme at Towcester Park in Northamptonshire began in June, with plans for a 3 million sq. ft. scheme in Warwickshire submitted by the same developer.

Most noteworthy for the sub-sector has been the announcement of Amazon's investment in the UK, including a new £500 million, three-storey fulfilment centre at the Segro Logistics Park in the East Midlands in 2027, plus three other fulfilment centres in Hull, Northampton (both 2026 openings) and another in the East Midlands (2027). The shorter lead times between project approval, contract award and construction start in the warehouses sub-sector mean that the majority of work on projects entering the pipeline is likely to be completed during the forecast period.

New orders reached a record high in 2021, but fell across 2022, 2023 and 2024, underpinning the fall in activity that began in 2023. This will continue to feed through into a further fall in output this year, by 1.0%, which is less steep than the 8.0% fall expected in the Summer forecast. In line with a broader economic recovery and interest rates being reduced further, sub-sector growth returns in 2026, driven by the large projects that are currently at an early stage progressing to construction.

Upper Scenario:

- Consumer spending growth accelerates as inflation eases
- Warehousing and storage requirements related to freeports and 'nearshoring'

If strong wage growth translates into increased spending in 2026, retail activity and online spending would post stronger growth rates and support retailer expansion decisions. Post-Brexit import checks, which were introduced at the end of January 2024, after five delays, raise requirements for storage space close to all UK exit and entry points, whilst any progress on the freeports programme or sustained rises in 'nearshoring' after shipping disruptions would also boost associated warehousing requirements.

Lower Scenario:

- Costlier development finance holds back new projects
- Speculative developments are delayed or paused as confidence is significantly affected by an acceleration in inflation and economic uncertainty

A lengthy period of low interest rates that supported warehouses development ended in 2022 and if borrowing costs are reduced more gradually than assumed in the forecast, margins, yields and viability will also deteriorate further and lead to lower investment in new projects, both speculative and build-to-suit. Economic uncertainty remains the largest risk to confidence, particularly for speculative development, but a significantly slower economic recovery and/or lingering inflation will also impact confidence even for developments that are pre-let or on a build-to-suit basis.

Infrastructure

Infrastructure output is set to record steady growth over the next two years, driven by significant private sector investment in energy transmission and decarbonisation, along with strengthening activity in the air, and water and sewerage sub-sectors. For roads and rail investment, the outlook is far less certain, with reviews ongoing into existing rail projects and a lack of clarity about investment in the country's strategic roads network.

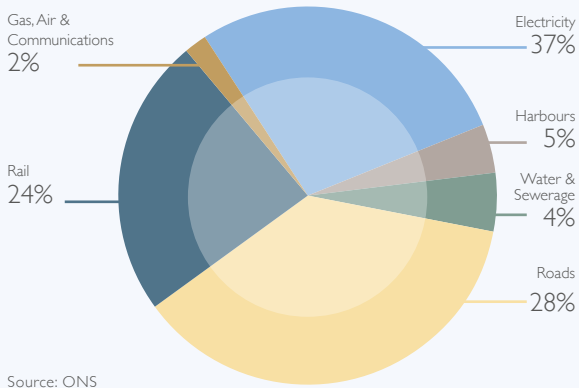
Please note that the Office for National Statistics (ONS) has issues with its measurement of the sub-sectors in infrastructure. Firstly, the ONS's methodology means that although total infrastructure overall may be fine, sub-sector output is determined by the average time between new orders and output in the medium-term, often determined by projects within five-year spending plans in regulated sectors. However, if a new order for a major project in the sub-sector is placed, this may underestimate the time taken for it to provide activity on the ground and overestimate the amount of activity earlier on. An example of this may potentially be the extent of recent growth in water & sewerage due to the Thames Tideway project. Secondly, the ONS only surveys firms that are officially classified as contractors so if the activity is done by an engineering firm then it will not be covered. This applies to all

construction sectors and firms that do construction work but are not technically contractors. However, this issue impacts most upon infrastructure. Therefore, given concerns regarding the ONS's data on infrastructure output, especially at sub-sector level, the forecasts are not purely based on the ONS output data but take into account recent industry surveys and pipeline evidence. This is particularly the case for the roads, rail and electricity sub-sectors. Please refer to the relevant sub-sectors for a more detailed explanation and specific examples.

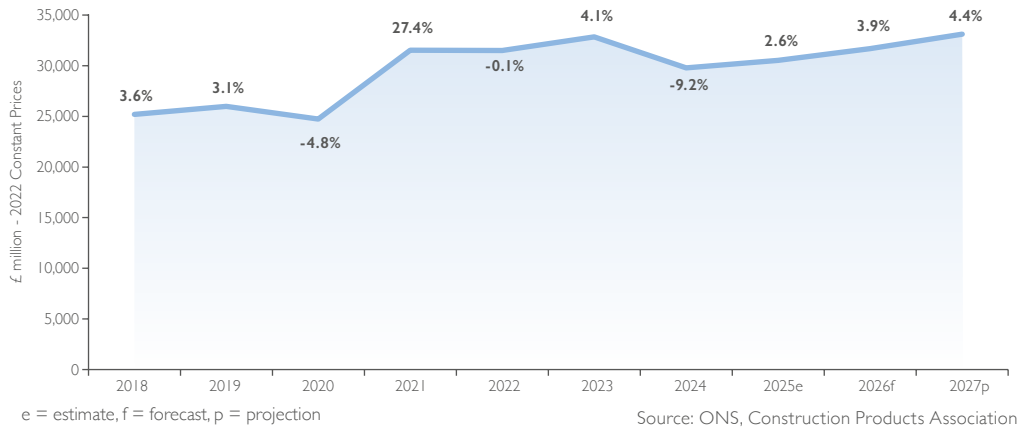
Spending Review 2025 confirmed the next tranche of funding for major infrastructure schemes, including East West Rail, the TransPennine Route Upgrade (TRU) and Sizewell C, along with settlements enabling elected mayors to press ahead with local transport investment plans. Multi-year settlements for Transport for London (TfL) and devolved nations were also positives. However, announcements largely confirmed expectations, as opposed to fundamentally improving the outlook, and key questions remain about the timeframe in which significant roads and rail projects are due to be delivered. Near-term prospects for roads and rail activity have deteriorated – as schemes have been cancelled and investment programmes are reviewed and re-programmed – whilst the medium-term outlook for these sub-sectors depends, in turn, on the outcome of these reviews.

Private sector investment in energy projects remains strong. Fears that capacity constraints may limit the pace of activity growth are, so far, not materialising, and, in the water and sewerage sub-sector, water companies are making more progress than previously anticipated with

Infrastructure Output by Sub-sector 2024 (%)



Infrastructure Output

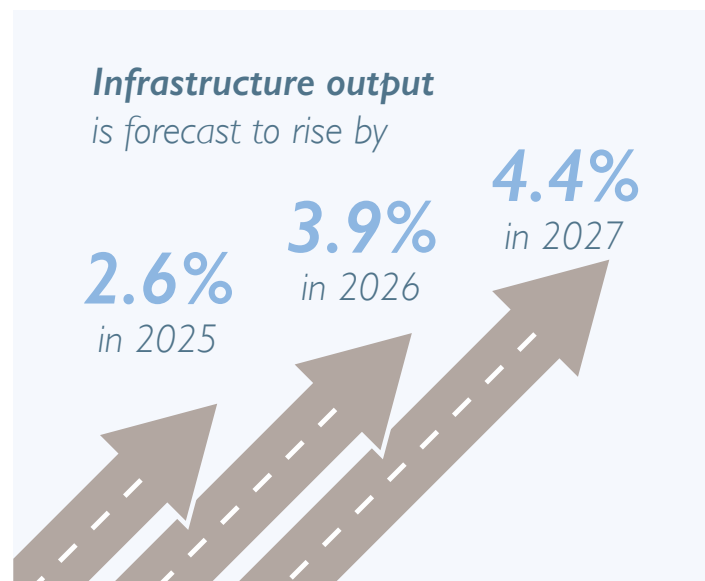


AMP8 investment plans and a significant uplift in activity is expected from next year. Due to the strength of private sector activity in 2025 to date, infrastructure output is expected to record stronger growth this year, increasing by an estimated 2.6%. The outlook for next year is marginally weaker, with output now forecast to grow by 3.9%, lower than the 4.4% increase projected in Summer, primarily due to downgrades to forecasts for the road and rail sub-sectors. In 2027, output is forecast to grow by 4.4%.

The once-in-a-generation need to upgrade the electricity grid, to incorporate renewable energy generation and meet a step-change in electricity demand, is reshaping the structure of UK infrastructure investment. Based on current projections, the electricity sub-sector's share of total infrastructure output will rise from 37% in 2024, to 44% by 2027. Roads and rail sub-sectors' share of total infrastructure output, in contrast, reduces to 25% and 20% respectively, down from 28% and 24% in 2024.

Spending Review 2025 made the following capital allocations for infrastructure projects through to 2027/28. Excluding HS2, the Department for Transport (DfT) secured funding totalling £49 billion between 2025/26 and 2026/27, and funding in 2027/28 is anticipated to be 25% higher than in 2024/25. For HS2, a further £21.3 billion will be made available between 2025/26 and 2027/28, but this equates to a modest decline in real terms and beyond 2027/28, annual investment levels reduce sharply.

The DfT's base allocation includes capital funding for elected mayors via Transport for City Regions settlements for investment in local transport priorities, including net zero buses, trams and local rail. £7.5 billion is earmarked for investment between 2026/27 and 2029/30, with allocations for the East Midlands, Greater Manchester, the West Midlands and West Yorkshire exceeding £1.0 billion over this period. Capital allocations total £291 million for 2026/27, £1.9 billion in 2027/28, £2.3 billion in 2028/29 and £3.0 billion in 2029/30. Transport for City Region settlements replace City Region Sustainable Transport Settlements from 2026/27, meaning many of the projects this funding will deliver were already included in the pipeline.





City Region Sustainable Transport Settlements totalling £5.7 billion over five years from 2022/23 were announced in Autumn Budget 2021. Projects supported by these funds are wide-ranging, from basic repairs and maintenance and minor adaptations to existing infrastructure, to major new station development and the creation of new transport links. The variety of projects covered by this fund means some work will be classified as r&m (see [Infrastructure R&M](#)).

The Department for Energy Security and Net Zero's (DESNZ) capital budget, excluding Sizewell C, is set to be sustained at a relatively high level after rising from £4.0 billion in 2024/25 to £9.4 billion in 2025/26. Between 2025/26 and 2027/28, the Department's capital budget totals £26.5 billion. The government announced additional funding of £11.5 billion for Sizewell C across the Spending Review period. The Department for Environment, Food and Rural Affairs (DEFRA) secured £8.3 billion in capital funding between 2025/26 and 2027/28, with annual capital funding increasing by 22% between 2024/25 and 2027/28.

Autumn Budget 2024 allocated £485 million to TfL's capital renewals programme in 2025/26, with funding of £2.2 billion allocated between 2026/27 and 2029/30 in the Spending Review. Ticket revenues have now recovered following the pandemic and a medium-term capital settlement from central government, will support greater capital investment and TfL plans to publish its draft business plan in Autumn. In the Spending Review, the Treasury recognised the potential growth and housing benefits of the Docklands Light Railway (DLR) Thamesmead extension and committed to working with TfL to explore options for delivery.

Spending Review 2025 allocated £7.1 billion to the Scottish Government in 2026/27, up from £6.5 billion in 2025/26 and £5.8 billion in 2024/25. However, beyond 2026/27, nominal funding is set to stabilise at around £7.1 billion per year through to 2029/30, suggesting a decline in real terms. The Welsh Government's allocation is £3.4 billion in 2025/26, £3.6 billion in 2026/27 and £3.5 billion in 2027/28.

With work on HS2 restricted to essential activity while the programme is reviewed and re-baselined, output in the **rail** sub-sector stands to reduce more sharply in 2025 than previously anticipated. Rail output is now forecast to contract by 5.0% this year, a downgrade compared with the 1.0% decline expected in the Summer forecast. Output is forecast to fall by 3.0% in 2026 before rising by 1.0% in 2027. The medium-term outlook for this sector depends on the outcome of the HS2 reset, along with the re-baselining of the next phases of East West Rail.

The government has confirmed that HS2 will suffer further delays and cost even more than previously estimated to deliver, but the extent will not be known until the HS2 Phase 1 reset is completed by mid-2026. Spending Review 2025 suggested that £7.1 billion would be made available for HS2 in 2025/26, with further allocations totalling £25.3 billion through to 2029/30 on a nominal basis. It was suggested that funding would stabilise at £7.1 billion in both 2026/27 and 2027/28 before reducing to £5.6 billion in 2028/29 and £5.5 billion in 2029/30. However, until the outcome of the project reset is known, these allocations must be treated as provisional.

The last available update on project cost was shared with the HS2 board in June 2024 and suggested that the final cost could fall in the £54 billion to £66 billion range, significantly higher than the estimated range of £49 billion to £57 billion made in the six-monthly report to Parliament in November 2023. Estimates are in 2019 prices and will be considerably higher after allowing for inflation. At that time, initial HS2 services were due to run between Birmingham Curzon Street and Old Oak Common by 2033, but the government has confirmed this is not realistic.

During the programme reset, essential construction work is progressing. In recent months, platform installation has commenced at Old Oak Common and design work on Birmingham Curzon Street is continuing, after Birmingham City Council recently approved design changes. Foundations are being laid at the new station, paving the way for main construction work to start in 2026, slightly later than previously planned. 82% of rail tunnels have now been excavated and the London tunnels team is preparing to start mining towards Euston next year. Construction is progressing across the route, with active works underway on 44 viaducts, 126 bridges, 75 embankments and 60 cuttings.

In October 2024, the government confirmed that HS2 would terminate at London Euston and committed public funding for tunnelling work between Old Oak Common and Euston. Private funding will be used to develop Euston Station and the government plans to explore the use of private capital to design, build, finance and maintain the HS2 station, and the most effective way to capture the value created by development and recycle it to repay public investment.

Network Rail's (NR) Control Period 7 (CP7), worth £44.0 billion (2023/24 prices), started in April 2024 and will run to 31 March 2029. During CP7, NR plans to invest £19.3 billion in renewals, £12.6 billion on day-to-day maintenance, £4.4 billion on operations (signalling, stations and network control) and £7.1 billion on other miscellaneous areas. £2.8 billion of total spend is planned for activities and technology to help the network cope with extreme weather events and climate change.

Review of East West Rail
is taking place and delivery of the next phases is being re-programmed



Main construction work has started on the second phase of the **£295 million** West Midlands Metro extension



In terms of renewals, planned investment includes £4.1 billion on tracks, £3.2 billion on signalling, £2.2 billion on structures and £1.8 billion on electrification and fixed plant.

In its Annual Efficiency and Finance Assessment, the Office of Rail and Road (ORR) highlighted that the first year of CP7 proved challenging for NR. In the year to March 2025, NR overspent on maintenance work by £106 million, due to higher-than-expected reactive maintenance activities, recruitment costs and training delays, reducing the expected benefits of the maintenance modernisation programme. Renewals investment fell significantly short of plans, by £327 million, due to the reprioritisation of funding to other activities. Alongside the underspend, NR underperformed by £259 million on its renewals activities, meaning that it spent considerably more than planned for what it delivered. This was most notable in signalling

activities (which accounted for 53% of the total renewals' underperformance), where delivery issues across several major schemes resulted in project delays with associated additional costs.

Work is progressing on the TransPennine Route Upgrade (TRU) – NR's long-term programme to improve the route between Manchester, Leeds and York. The latest project update from NISTA suggests the project is being delivered on time and on budget, with works to upgrade and electrify the line between York and Church Fenton recently concluding. Upgrades to the line between Huddersfield and York are scheduled to be completed before the end of the decade, with digital signalling and the section of the route between Huddersfield and Stalybridge due to be completed by the mid-2030s. Additional digital signalling capability is due to be completed in the early 2040s. 95% of the programme is now in either design or delivery and, in March, the government announced funding of £415 million for the TRU in 2025/26 to support ongoing work. Spending Review 2025 allocated further funding of £3.5 billion through to 2029/30. Subsequent phases of work scheduled to be delivered by the end of this Spending Review period are Huddersfield to Ravensthorpe, Ravensthorpe to Leeds and Leeds to Church Fenton.

Work is progressing on the East Coast Digital Programme to introduce in-cab digital signalling on the southern part of the East Coast Mainline (ECML) between London King's Cross and Grantham. Testing and commissioning is progressing on the Welwyn and Hitchin stretch of track and is due to complete in 2026. The final phase will see digital signalling progressively rolled out across the southern section of the ECML between London King's Cross and Grantham and this is expected to be fully complete by the early 2030s. Programme expenditure totalled £271.8 million in 2024/25.

As stage one of East West Rail (EWR) prepares to come into operation, plans for subsequent phases are under review. The project is being delivered in three stages. Connection stage 2 (CS2) plans to upgrade existing infrastructure between Bletchley and Bedford, whereas connection stage 3 (CS3) involves the construction of a new line between Bedford and Cambridge. Preparations are being made to start the statutory consultation process to inform outline business cases and planning applications for CS2 and CS3. Spending Review 2025 allocated £2.5 billion to support the ongoing development of EWR through to 2029/30 and the Chancellor announced that work on the Marston Vale Line extension between Bletchley and Marston Vale, will be accelerated. Work is expected to start on CS2 and CS3 before the end of the decade but the delivery plan is currently being re-programmed. Total DfT spending

on EVR in 2023/24 and 2024/25 was £6.4 billion and £3.3 billion respectively, so the Spending Review allocation of £2.5 billion in total between 2025/26 and 2029/30 is a significant reduction. It is not yet clear when the re-programming exercise will conclude but NISTA's 2024/25 major project update noted that investment in CS2 and CS3 fell significantly short of plans in 2024/25, with investment totalling £90.2 million compared with an estimated £175.3 million, and attributed this underspend to a review of the scheme's priority.

Projects securing funding through City Region Sustainable Transport Settlements will continue to progress throughout the forecast period. These include work to deliver the new £100 million Liverpool Baltic Station which is due to start in early 2026 and complete in 2028, the next phase of the £295 million West Midlands Metro extension from Wednesbury to Brierley Hill which started construction earlier this year, a new £32 million station in Goldborne upon which construction work is due to start in 2026, and a £40 million platform extension project at Leeds Station. Over the medium term, larger rail projects funded by the Transport for City Regions settlements include £2.1 billion from 2027/28 to 2031/32 for the West Yorkshire Mass Transit System but this project is currently at an early development stage.

In July, the government confirmed the final £27.6 million of funding needed to reopen the abandoned Bristol to Portishead railway line and build new stations at Portishead and Pill. This paves the way for work on this £182 million project to start in Spring/Summer 2026 and complete in 2028. Funding for this project was announced as part of a wider announcement confirming 50 roads and rail schemes – many of which had already secured funding or have a relatively low project value – alongside some significant cancellations in the roads sector.

The Scottish Government's 2025/26 Budget allocated £1.07 billion in capital funding to rail; a marginal reduction compared with £1.14 billion in 2024/25. Within this, £158.6 million is earmarked for rail infrastructure improvements and rolling stock projects and £482.0 million to network infrastructure.

Work is nearing completion on the East Kilbride Enhancement Project, part of Scotland's Railway's rolling decarbonisation programme. In addition to the electrification of the route between East Kilbride and Glasgow, the project is delivering two new stations and a 1.4km extension of the existing loop at Hairmyres. A new £16 million station opened at Hairmyres in May and, in August, a new £9 million station at East Kilbride, slightly later than planned. Work on the £144 million project is due to complete at the end of this year.

Spending Review 2025 and the ten-year infrastructure strategy outlined plans to invest at least £445 million to enhance the rail network in Wales. Through to 2029/30, the Spending Review makes £300 million available for five Burns Review stations, plus the North Wales Level Crossing, Padeswood Sidings and Cardiff West Junction. However, with the cost of delivering the five new stations identified in the Burns Review estimated at £335 million alone, the £300 million of funding available appears insufficient to fully deliver these projects and how this funding shortfall will be resolved has not yet been established.

The Welsh Government's Final Budget for 2025/26 allocated £529 million of capital funding to



transport, broadly unchanged from the draft allocation. The contract to design and build the £100 million first phase of Cardiff Crossrail tram project has been let, and public consultation is underway. The Welsh and UK governments have each confirmed funding of £50 million to cover the initial phase from Cardiff Central railway station to Cardiff Bay. The first phase of work will redevelop the network around Callaghan Square, enabling trams to connect with the existing Cardiff Bay train line, subject to approvals. Enhancements to Cardiff Central station secured planning consent in Summer 2025 but delivery of the scheme is subject to full business case approval. The planned enhancements at Cardiff Central will provide significant upgrades and improvements to the station, funded by up to £140 million from the Department for Transport, Cardiff Capital Region and the Welsh Government.

Please note that the ONS historic output figures for rail should be treated with caution given the ONS's mismeasurement of infrastructure sub-sector level data that have been further exacerbated by methodological improvements made in 2018. For example, output in the rail sub-sector increased sharply in 2017 and 2018, even though main works on Europe's largest infrastructure project, HS2, was yet to begin. The main civil engineering contracts for the first phase of the project, worth £6.6 billion were awarded in July 2017 and, as a result, new orders rose to a record high of £9.0 billion in 2017. Rail output rose 59.0% in that year and 39.2% in 2018. The divergence between new orders and output has meant that the levels of output appear inflated in 2017 and 2018, despite CP5 ending. More recently, large falls in output were recorded in 2019 and 2020 even though enabling works on HS2 continued during the pandemic and the formal start of main construction works was announced in September. Given these inconsistencies, the CPA is forecasting growth rates for actual activity on the ground.

Upper Scenario:

- Development of the HS2 station at Euston swiftly receives private sector backing and progresses without significant delay

If a private sector solution to developing Euston station is quickly found, now the government has confirmed it will fund the HS2 line extension from Old Oak Common to Euston and that tunnelling work is due to commence imminently, it could provide additional output in the later stages of the forecast period.

Lower Scenario:

- The HS2 reset results in a significant extension to the current programme

Work on HS2 is at peak levels and if the decision is made to extend the delivery programme for remaining works, it would be likely to result in a lower level of annual output over a longer period and an overall reduction in medium-term rail activity.

Work to upgrade and expand the UK's transmission grid is progressing at pace, along with the provision of additional renewable and low carbon energy supply. Output in the **electricity** sub-sector is now predicted to increase by 11.0% this year, with further growth of 11.0% anticipated next year. Growth of 7.0% is forecast for 2027. Sector capacity is the primary risk to delivery, and this is expected to restrict activity slightly as the forecast period progresses.

At Hinkley Point C, work on unit one's external structures is nearing completion. The installation of the steam generators is progressing, along with pipes, cabling and equipment. M&E systems are being installed, and testing of the electrical switchboards has commenced. Civils work on the pump house, the largest structure on the entire site, is due to be completed by year-end. The second reactor building is now watertight after the dome was craned into place in July. EDF reports that experience gained during the construction of reactor one is helping to expedite the delivery of the second, with work progressing 20% to 30% faster.

No official update on the programme has been provided since December 2024, so it is not

yet clear if this acceleration will have an impact on the overall programme. The last update on cost and programme presented a series of scenarios to reflect uncertainty associated with complex electromechanical works. Under a base scenario, reactor one would be operational in 2030, and the project cost at completion would be close to £34 billion in 2015 prices. A less optimistic scenario assumes the project's complexity has a significant impact on the time required to complete electromechanical work and testing. Under this scenario, electricity generation by reactor one would be delayed until 2031 and the cost could escalate to £35 billion in 2015 prices.

In July, the government confirmed a final investment decision on Sizewell C. With a 44.9% share, the UK government will be the largest shareholder, with La Caisse taking a 20%, Centrica a 15% share, Amber Infrastructure a 7.6% share, and EDF will hold a 12.5% share. Sizewell C is forecast to deliver power to six million homes and support 10,000 jobs at peak construction. Constructing the power station is expected to cost around £38 billion, in 2024 prices, and take at least ten years to complete. A delivery partnership was recently formed between Laing O'Rourke, Balfour Beatty and Bouygues Travaux Publics and this alliance will act as a single delivery organisation to deliver the civils programme.

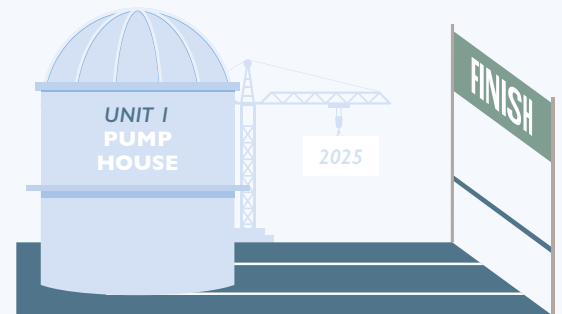
The government announced additional funding of £11.5 billion for Sizewell C across the Spending Review period, bringing public sector investment for the new nuclear facility to £17.8 billion in total. Over the current forecast period, the government has pledged to invest £8.8 billion of public funding in Sizewell C.

Turning to the expansion and enhancement of transmission infrastructure, construction work is underway on the £4.3 billion Eastern Green Link 2 (EGL2), a joint venture between National Grid and SSEN, after the project received planning consent in October last year. EGL2 is the country's largest-ever energy transmission project, running 505km between Peterhead in Aberdeenshire and Drax in Yorkshire. At Peterhead, the site's platform was completed earlier this year, and welfare facilities are now in place. June saw the pouring of reinforced concrete foundations and the start of piling for the transformer buildings, while drainage ponds and earth mounds are nearing completion. In Yorkshire, work to deliver the high voltage direct current (HVDC) converter station at Wren Hall is progressing. Additionally, this Summer saw the start of the construction enabling works for the 68km onshore underground cable in the East Riding of Yorkshire. The project's direct construction cost is estimated at £2.7 billion and is due to complete in 2029.

Enabling work is also underway on Eastern Green Link 1 (EGL1), a joint venture between National Grid and SP Energy Networks, that will see the creation of a 525kV, 2GW HVDC subsea transmission cable from Torness in East Lothian, Scotland to Hawthorn Pit in County Durham, England. Contract awards totalling £1.8 billion were made in 2024 and the project is also due to complete in 2029.

Other National Grid projects currently pressing ahead with construction work on site include: Yorkshire Green – a £400 million project to upgrade and reinforce Yorkshire's power network; the £363 million Bramford to Twinstead Reinforcement project to strengthen network resilience between Branford Substation in Suffolk and Twinstead Tee in Essex and the £230 million Grain to Tilbury enhancement project involving the construction of a new 2.2km long high voltage

*Work on **Unit 1's pump house** at **Hinkley Point C** – the largest building on the site – is due to **complete this year***



Sizewell C gets the green light

- final investment decision for the

£38 billion

project secured in July 2025

Source: Department for Energy Security and Net Zero



(400kv) cable tunnel and includes two 35m deep shafts (15m and 12m diameter respectively), headhouses and Cable Sealing End (CSE) compounds. Work on these schemes is due to be completed by 2029.

In addition, work is underway on a new Electricity Transmission Control Centre (ETCC) in Birmingham. Steel frame erection commenced during the summer months, and the project is due to be completed in 2028. The facility consolidates multiple functions to help strengthen National Grid's operational resilience as it connects more renewable energy sources to the grid. The value of this project has not been disclosed.

Ofgem has given the provisional green light to an initial £24 billion investment programme between 2026 and 2031 by electricity and gas transmission companies. The regulator's draft verdict on companies' business plans for the

RIIO-T3 period was published in July. Companies had requested permission to invest close to £35 billion in UK transmission infrastructure between April 2026 and March 2031, around two and a half times the investment planned in RIIO-T2. The draft determinations are now published for consultation, with final decisions made by the end of 2025.

Ahead of Ofgem's final decisions on RIIO-T3 investment plans, transmission companies are gearing up for delivery – establishing framework agreements to support pipeline visibility and supply chain collaboration in advance of securing project approvals. National Grid recently made the final tranche of awards under its £59 billion supply chain frameworks to support the Great Grid Upgrade programme. The £12 billion HVDC framework will run for five years, with the potential to extend for another three. The works will cover confirmed and anticipated schemes, including Eastern Green Link 4 – being delivered with SP Energy Networks – and the LionLink interconnector with Dutch transmission operator TenneT.

In July, National Grid launched a new £8 billion regional delivery framework to deliver around 130 electricity substation projects across England and Wales by 2031. The Electricity Transmission Partnership (ETP) covers substation upgrades and new builds. Contracts have not yet been signed but the initial allocation of work via this framework is expected to total £1.3 billion.

In August, Scottish Power Transmission appointed contracts to two major frameworks, both of which will run for five years with an option to extend to ten. The first, a £2.4 billion agreement covering engineering, design and construction for substations, is divided into five lots: civil engineering works, worth £700 million; construction works, worth £750 million; enabling works, worth £385 million; civil works, worth £330 million and a £235 million lot for electrical works. The second framework, worth £3 billion in total, covers the design and construction of overhead lines. This framework is divided into three lots. Lot one, worth £600 million, will deliver 400kV of HTLS (high-temperature low-sag) overhead line. Lot two, worth £1.88 billion, is for 275kV and 400kV overhead line works and, lot three, is worth £525 million and will deliver 132kV infrastructure.

In March, National Grid submitted its application for development consent for the Sea Link project, which, if approved, will establish a 138km electricity interconnector between Pegwell Bay in Kent and the Suffolk coast between Aldenburgh and Thorpeness. A decision on the development consent order application is expected to be made by mid-2026. Other projects included within the Great Grid Upgrade but due to start outside of the current forecast period

include three subsea cabling projects, Eastern Green Links 3,4 and 5, enhancement and expansion of grid infrastructure between Grimsby and Walpole, Norwich and Tilbury, North Humber and High Marnham, Chesterfield and Willington and Brainsworth to High Marnham. All of which are currently progressing through early design and consultation.

National Grid's Development Consent Order application for a new 400kV electricity transmission connection between Norwich and Tilbury has been accepted for examination by the Planning Inspectorate. The connection proposed spans approximately 180 kilometres from the Norwich Main substation via Bramford substation, a new East Anglia Connection Node (EACN) Substation and a new Tilbury North Substation, and could start construction in 2027, subject to planning consent. The project is expected to cost upwards of £790 million.

Whether work to enhance the grid will be captured in the construction output statistics will depend on the main function of the firms appointed to complete the works. If they are officially classified as a construction firm, work will be included in the construction output figures but, if their primary workstream is electrical engineering, these works may be classified in output in the ONS's other industry sectors, such as engineering.

Turning to renewable energy, the annual Contracts for Difference (CfD) auction has been the government's primary mechanism for supporting large-scale, low-carbon energy infrastructure by providing certainty on the price generators will receive for the electricity they produce since 2015. The 2024 CfD auction, Allocation Round 6 (AR6) secured funding deals for 131 renewable energy projects with an estimated capacity of 9.6GW. The overall budget for AR6 was set at £1.5 billion, significantly higher than £227 million in AR5. Of the successful applicants, the vast majority were solar schemes, with 93 solar PV projects agreed that will create an estimated 3.3GW of capacity.

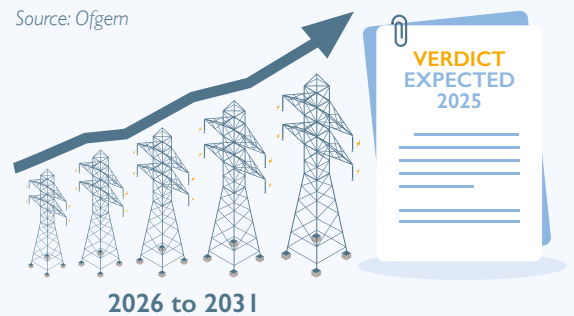
The application window for Allocation Round 7 (AR7) has now closed and results are expected to be announced in late 2025 or early 2026. The government has increased the maximum electricity price it is prepared to guarantee companies developing new wind farms during this auction in response to the inflationary pressure this sector is exposed to. The maximum guaranteed price for offshore wind farms, in 2024 prices, will be £113/MWh, up from £102/MWh last year, while for onshore wind, the maximum price will be £92/MWh, up from £89/MWh in AR6. In addition, the maximum price commitment has increased from 15 years to 20 years to help improve investment viability and lower risk.

Nine offshore wind projects were successful in AR6 after a low strike price in AR5 failed to attract a single bid and, out of these nine projects, only two were new schemes. The other seven projects had been successful during previous rounds but they opted to re-enter the AR6 auction through the permitted reduction regime to secure a higher strike price in response to strong cost pressures. Ørsted recently cancelled development of Hornsea Four, one of the two successful offshore wind schemes in AR6, due to cost pressures, both from elevated borrowing costs and construction cost inflation.

Ofgem has shortlisted 77 projects for the next stage of a government-backed long-duration

Ofgem's verdict on electricity and gas transmission firms' plans to invest **£24 billion** to enhance and expand capacity and distribution between 2026/27 and 2030/31 is expected by year end

Source: Ofgem



electricity storage (LDES) funding mechanism. The scheme is intended to unlock private investment in large-scale storage technologies that can hold electricity for eight hours or more. LDES covers a variety of technologies, from pumped storage hydro to batteries and emerging options, including compressed air and liquid air storage. The assessment process will now progress and shortlisted projects will submit detailed bids for Ofgem to review. Successful projects will be confirmed next Summer.

Spending Review 2025 allowed £400 million to support the rollout of charging infrastructure for electric vehicles but this is proving to be a challenging investment area. The Electric Vehicle Infrastructure Strategy was first published in March 2022, the former government pledged to create 300,000 public electric vehicle (EV) charge points by 2030, backed by a promise of £1.6 billion of funding through the Local EV Infrastructure (LEVI) Fund and the Rapid Charging Fund (RCF). Following a pilot for the RCF in December 2023, which concluded without grants being awarded, the government is now seeking industry views on how to support upgrading the electricity grid at motorway service areas where it is not commercially viable for industry to do so. Indicative allocations for LEVI capital funding suggest around £343 million will be available in 2024/25. Indicative regional allocations are as follows: North East £22.4 million; North West £51 million; South East £53.5 million; South West £40.1 million; West Midlands £32.8 million, Yorkshire and The Humber £36.4 million; East Midlands £33.7 million; East of England £37 million and London £35.7 million.

It is worth noting that, according to the ONS, EV charging points in the historic construction output data are classified in infrastructure electricity for existing buildings and structures but when they are a part of new buildings and structures, then the EV charging points activity will be a part of whichever sub-sector the building or structure is in. For instance, if the EV charging points are a part of a new housing development, then they will be classified in housing.

Large projects with long delivery programmes distort official electricity orders and output data. Output in the electricity sub-sector declined 5.7% in 2019 even though main civil engineering works above ground on Hinkley Point C started in September 2019. That fall was followed by growth of 21.1% in 2020 despite the impact of the first national lockdown on workforce numbers and activity on site at Hinkley Point C during the first half of the year and according to the ONS output fell by 18.5% in 2021 despite it comparing with a pandemic-impacted year before. This suggests that the ONS construction output data is not accurately reflecting activity on the ground, and as a result, the CPA is forecasting actual activity growth in the sub-sector rather than distortions in the ONS data.

Upper Scenario:

- Ofgem and the government support electricity transmission firms' higher investment scenarios

National Grid and SSEN both set out investment options in RIIO-T3 plans recently submitted to Ofgem. Finance and planning are significant hurdles to delivery but ones that can be overcome with regulator and government support. If additional investment is deemed necessary, output growth could be stronger but industry capacity would still be a constraining factor.

Lower Scenario:

- Limited specialist supply chain capacity constrains delivery and fuels inflationary pressure

Meeting UK demand will be challenging for the domestic supply chain – both in terms of specialist skilled labour and materials, especially as global investment in energy generation and transmission is increasing rapidly. Ofgem's agreement to provide advanced funding to secure supply chain capacity is useful but, ultimately, global capacity is constrained and this may significantly curb what can realistically be delivered.

Investment by water companies through the five-year Asset Management Programme (AMP) is the primary driver of activity in the **water & sewerage** sub-sector. Asset Management Period 8 (AMP8) is now underway and, with delivery frameworks established in advance, planned projects are feeding through more swiftly than is usually the case at the start of a new investment period. Although limited spare capacity in this sector, along with cost inflation, is expected to constrain the pace of delivery, output is nevertheless expected to grow strongly over the forecast period. Output is forecast to increase by 2.0% in 2025 and, in an upgrade since Summer, 13.0% growth is anticipated in 2026, followed by a 12.0% increase in 2027.

AMP8 commenced in April 2025 and, through to March 2030, water companies across England and Wales plan to invest £104 billion in total, with investment in new infrastructure and resources set to quadruple to a record £44 billion. Planned investment in AMP8, funded by a 36% increase in household water bills before allowing for inflation, includes £12 billion to reduce harm from storm overflows, £6 billion of upgrades to combat nutrient pollution, £5 billion to boost water supply, £3 billion to develop nature-based solutions and increase biodiversity on water company land and a tripling in the replacement rate of water mains pipes.

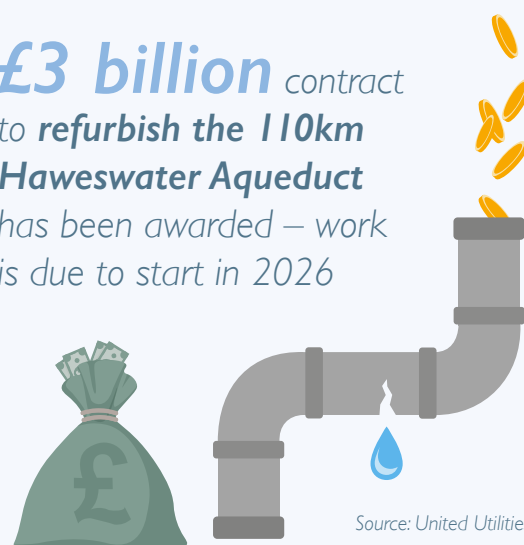
Earthworks are progressing on the Havant Thicket Reservoir in Hampshire, the UK's first new reservoir in around 30 years. The £340 million reservoir's main embankment will measure 2.8km, reaching a height of 22 metres, and the main culvert will be 220 metres long, 7 metres wide and 6 metres high. Proposals for pipelines to serve the new reservoir were recently approved and construction work on these is due to start shortly. The project is expected to be operational by 2031.

Havant Thicket is the first of ten new reservoirs being developed during AMP8 for completion before 2050. Ground investigations have taken place on the proposed site of the £362 million Broad Oak reservoir in Canterbury. Subject to the results, and pending planning approval, the reservoir is scheduled to be completed by 2033. Earlier this year, the Fens Reservoir in Cambridgeshire, the Lincolnshire Reservoir near to Sleaford and the South East Strategic Reservoir Option located near Abingdon in Oxfordshire, were all granted critical infrastructure status to help streamline the planning process, although these projects are still working through early development and are not scheduled for completion until after 2036. Construction work on these new reservoirs will predominantly occur beyond the current forecast horizon.

Improvement work recently got underway to strengthen resilience at Southern Water's Bewl Water reservoir in Kent. The £45 million project will install three 30 metre-long pipes, improve drainage and lower the risk of the dam collapsing. The project is due to complete in early 2026. Southern Water is also preparing to start work on the £61 million upgrade at its neighbouring Bewl Water Treatment Works in East Sussex which is estimated to finish in mid-2028.

In August, the government withdrew promised funding for the relocation of the Cambridge Waste Water Treatment Plant due to the impact of rising costs on affordability. The project, categorised as nationally significant infrastructure, was awarded a development consent order by the Planning Inspectorate in April 2025 and was due to receive funding from the MHCLG's Housing Infrastructure Fund. It has been indicated that the funding required from the HIF increased from £277 million to £400 million.

£3 billion contract
to **refurbish the 110km**
Haweswater Aqueduct
has been awarded – work
is due to start in 2026



Source: United Utilities

In August, United Utilities awarded the contract, worth an estimated £3 billion over eight years, to refurbish the 110km Haweswater Aqueduct that carries water from Cumbria to Lancashire and Greater Manchester. The Haweswater Aqueduct Resilience Programme (HARP) will see six tunnel sections replaced, with most of the work happening below ground. Detailed design is progressing and construction work is due to start next year.

Construction work is now underway on a new £100 million 17km drinking water pipeline across Hampshire. The Southampton Link Main, linking two underground reservoirs to a new storage tank, is expected to take three years to complete.

Market engagement is underway on the delivery of Northumbrian Water's Bran Sands Long Sea Outfall pipeline, valued at approximately £200 million. The project is comprised of an onshore headworks and pumping station, along with 2 metre-diameter onshore and offshore pipelines to discharge treated wastewater further out at sea, where nutrients are less concentrated. Delivery is expected to be phased between October 2026 and March 2030.

Thames Water has commenced procurement of its Major Projects Framework, which will see investment of up to £4 billion across AMP8 and its successor, AMP9. Initially, ten capital delivery projects at seven waste treatment sites, and two water treatment sites, with an estimated construction cost of £840 million, will be procured. The bidding process for these projects will start in November 2025.

United Utilities is investing £48 million to upgrade Lancaster Wastewater Treatment Works (WwTW) to increase stormwater storage at the site to improve water quality in Morecambe Bay. Construction work is underway and due to complete by Spring 2029. Alongside the storm upgrades, a separate project will upgrade the site's sludge treatment process. This is part of United Utilities' wider bioresources strategy, which is currently on track for completion by Spring 2028.

United Utilities has also submitted a planning application for the first phase of a ten-year upgrade plan for the Davyhulme WwTW in Greater Manchester. Initial investment, totalling £350 million over the next five years, aims to deliver new facilities to reduce the amount of phosphorus in treated water and a planning application for the first phase was submitted in August.

Other wastewater treatment projects currently on site include Severn Trent's £320 million upgrade of its Wanlip Sewage Treatment Works in Leicestershire to increase the site's capacity by nearly a quarter. Completion of this upgrade is scheduled for 2028.

**Construction work
underway on the
£320
million
upgrade of
Wanlip Sewage
Treatment Works
in Leicestershire**

Source: Severn Trent



Scottish Water is in the penultimate year of its 2021 to 2027 regulatory period and attention has turned to plans for the next investment period, spanning 2027 to 2033. The Delivery Vehicle 4 (DV4) framework carries an estimated value of £5 billion to £9 billion and includes the potential to extend for six years. DV4 will supersede Scottish Water's 2021-2027 investment period, worth around £6 billion, and will focus on managing high-value and complex construction and engineering projects across the nation. Procurement is currently underway.

Under the current investment period, work has begun on the first wave of the £500 million Improving Urban Waters programme, which will help improve water quality, reduce sewer-related debris and minimise spills from the sewer network through targeted infrastructure investments. Work



is due to complete in 2027. Work is also progressing on the third phase of an £11.5 million investment to upgrade a vital strategic rising sewer main between Renfrew and Glasgow. This project is due to be completed by March 2026.

Welsh Water secured partners to deliver just over £750 million of network improvements during AMP8 in 2024 and is currently seeking delivery partners for wastewater network services. The framework, worth an estimated £500 million, will initially run for four years, with the option to extend for a further four in annual increments. Lots are categorised as follows: £12 million for wastewater network operating services in Hereford, Powys and Gwent; £42.4 million for wastewater network operating services in the Southwest, Swansea, Valleys and Cardiff; £131.2 million for wastewater repair and maintenance in South Wales, Hereford and Powys; £90.4 million for wastewater network repair and maintenance and operating services across North Wales; and £221.6 million for services across the nation.

Welsh Water increased capital investment to £629 million in 2024/25, a 31% uplift compared with 2023/24, according to the company's latest financial results. During the year, projects attracting funding included replacing the treatment process at Cardigan Wastewater Treatment Works, improving sites at Eign and Rotherwas in Hereford, upgrading the wastewater network within Usk, increasing capacity at Bangor Beach Road wastewater pumping station and investment to renew and upgrade the water network at Trap and Llandyfan in Carmarthenshire.

Over the longer-term, Welsh Water has launched early market engagement on a plan to deliver two new major water treatment projects across two sites. The plan involves a new water treatment works at Dan-y-Castell Farm near Merthyr with a raw water pumping station at Pontsticill worth around £362 million, and a £194 million upgrade of the existing Llwyn-onn water treatment works in the Bannau Brycheiniog National Park. Welsh Water is aiming to appoint a delivery partner in the third quarter of 2028.

Please note that the ONS historic construction output figures for water & sewerage should be treated with caution given the ONS's mismeasurement of sub-sector level data. For example, in 2018, output in the water & sewerage sub-sector fell by 8.7%, despite main construction works occurring on the Thames Tideway Tunnel. Contracts for the project were awarded in February 2015 and, as a result new orders increased fivefold in that year. Output rose 58.8% in 2016 (albeit from a low base), followed by a further 57.7% to a five-year high of £2.7 billion in 2017, even though main tunnelling works on the project were yet to begin. This suggests that the ONS's construction output data is not accurately reflecting activity on the ground and is likely to have been incorporated too early in the data. As a result, the CPA's forecasts for the sub-sector focus on growth rates that are more illustrative of activity on the ground.

Upper Scenario:

- Water companies quickly ramp up activity on AMP8 projects and programmes in line with plans

While the forecast anticipates relatively strong growth, it expects a combination of capacity constraints, cost inflation and project complexity to prevent water companies fully delivering planned AMP8 investment in line with programmes. The history of underperformance relative to plans in this sector is strong. However, advanced preparation, and procurement, along with regulatory changes to strengthen accountability for under-investment in assets, may mean this assumption is too pessimistic. If this proves to be the case, growth in the first half of the AMP8 period could be stronger than the forecast suggests.

Lower Scenario:

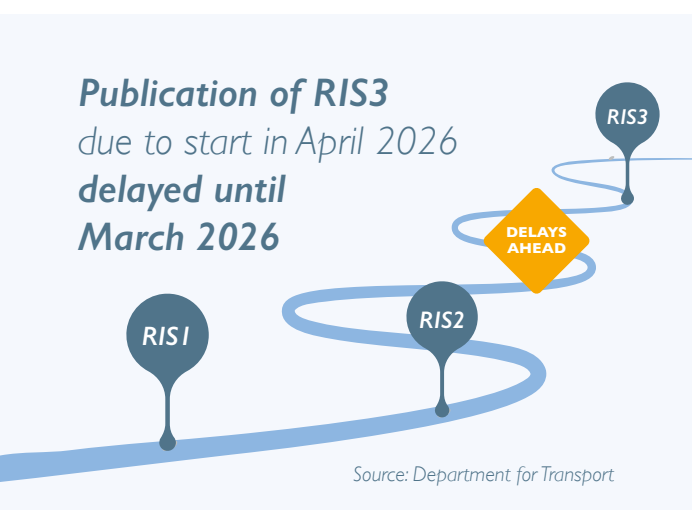
- Under-delivery in AMP7 is repeated in AMP8

Often delivery of capital investment in AMP periods fails to meet planned levels. With AMP8 promising a step-change in investment, the central assumption is that delivery will be stronger over the next five years, but this may prove to be too optimistic if cost inflation, industry capacity or regulatory barriers have a greater impact on delivery than anticipated in the central forecast.

The near-term outlook for the **roads** sub-sector remains highly uncertain. Investment in the strategic roads network is currently being funded through a lower, interim settlement and the next medium-term strategy for the country's strategic roads network, Road Investment Strategy 3 (RIS3), detailing investment plans between 2026/27 and 2030/31, is only expected to be finalised in March 2026, just before the new investment period starts in April. The headline announcements on funding suggest a cut compared to the previous RIS2 and as it will take time

for National Highways (NH), and industry, to gear up to deliver RIS3. The near-term outlook has, consequently, weakened. Output is now expected to contract by 2.0% this year, and by a further 2.0% in 2026, before modest growth of 2.0% is forecast in 2027.

RIS3, the government's long-term strategy for the management and improvement of the strategic road network (SRN), was due to start in April 2025 after the previous investment period ended in March 2025. After several delays, RIS3 is now due to start in April 2026 and NH was awarded a £4.8 billion interim settlement to finance its capital programmes during 2025/26. This settlement includes £1.3 billion for capital enhancements and



£2.0 billion for capital spending on maintenance and renewals. The interim settlement is around 4.5% lower than the estimated spend of £5.1 billion in 2024/25.

Only two new strategic roads schemes from RIS2 were scheduled to start this financial year – improvement work on the M3 at junction 9 and the major upgrade of the A47 Thickthorn junction near Norwich – and work is now underway on both. The £322 million project to improve the M3 at junction 9 includes lane widening and two new bridges built on the gyratory, allowing the M3 to increase from three lanes to four as it passes through the junction. The main contract to deliver the A47 Thickthorn junction enhancement work, valued at £153 million, was let in July after the scheme was granted development consent in February. Work includes a new 1.6km free-flow link road connecting the A11 northbound to the A47 eastbound via two new underpasses.

In July, the government cancelled two further major roads schemes from RIS2 – the £1.2 billion widening of the A12 near Chelmsford and the £100 million A47 dualling project between Wansford and Sutton.

RIS2 strategic roads schemes currently under construction include: A428 Black Cat to Caxton Gibbet; Mottram Moor and A57 Link Roads; M25 Junction 10; A417 Air Balloon; M42 Junction 6; A47 North Tuddenham to Easton and A47 Blofield to North Burlingham.

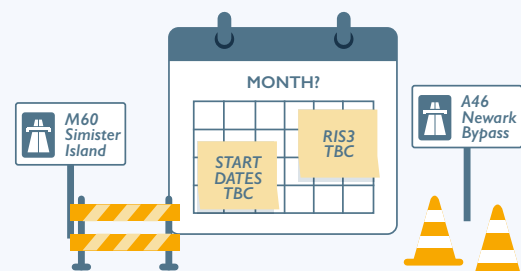
The RIS3 funding allocation, for investment between 2026/27 and 2030/31, has been set at £24.98 billion but detail about how and when funding will be spent is still limited. Further details about the infrastructure RIS3 aims to deliver is now not expected until March 2026 – a matter of weeks before the investment period commences. The DfT's high-level [draft of RIS3](#), published in August, confirmed the overall funding allocation and the widely-held expectation that investment in the strategic roads network through to 2030/31 will prioritise maintenance and renewal of the nation's existing strategic roads network over large-scale enhancements.

In July, the government confirmed that five major road schemes, which were originally part of RIS2, will be progressed during the RIS3 period. These are: £250 million A38 Derby Junctions; £200 million M54-M6 Link Road; £1.3 billion A66 Northern Transpennine; £500 million A46 Newark Bypass and £340 million M60 Simister Island Interchange. Cost estimates cited are the latest publicly available and should be treated as indicative. The delivery schedule, and updated cost estimates, for these projects will be shared when RIS3 is published.

Enabling work on the A66 Northern Transpennine project is progressing slowly, but with development consent in place and a contracting team appointed, work is ready to progress when funding is made available. Development consent is in place on the M54-M6 Link Road but a delivery partner is yet to be appointed.

In recent months, the Secretary of State for Transport has granted development consent orders to both the M60 Simister Island and A46 Newark Bypass projects and National Highways will now progress with detailed planning, subject to delivery scheduling and any legal challenges. Survey work to support the development of the A38 Derby Junctions scheme is expected to take another 12 months to complete after the scheme overcame a second legal challenge in March 2025.

*Secretary of State for Transport has granted development consent for **M60 Simister Island** and **A46 Newark Bypass** projects but start dates will not be known before publication of RIS3*



Source: Department for Transport

Phased work on the **£3.7 billion**

A9 dualling project

to upgrade 83 miles of single
carriageway between
Perth and Inverness,
is progressing

Source: Transport Scotland



In July, the government allocated a further £590 million to progress work on the Lower Thames Crossing (LTC) in 2026/27, in addition to £250 million provided in Autumn Budget 2024. The project will cost an estimated £9.4 billion to construct and private-sector financing options are still being explored. As such, main construction work on this project is unlikely to start within the current forecast period.

Cost escalation over recent years, caused by the step-change in materials prices and lengthy delays, is still impacting road projects in the pipeline. Recently, it was revealed that the cost of delivering Gloucestershire County Council's proposed upgrade of Junction 10 on the M5, which secured development consent from the Secretary of State for Transport in June, has increased by just over 45% to £363 million. Main construction work is scheduled to start in Spring 2026 but this depends on the Council successfully sourcing additional

funding. Faced with a £100 million cost increase, the City of York Council has decided to phase the delivery of its Outer Ring Road project. Initial budget estimates of £67.4 million have risen to approximately £164 million due to rising construction costs, inflation, regulatory requirements and additional technical demands.

Elsewhere, work recently started on the £45 million Howden Relief Road in East Yorkshire, which is being financed through a combination of developer contributions and council support. In Nottinghamshire, work is due to start early next year on the £42 million upgrade of the A614 and the A6097. Planned works include junction improvements and roundabout upgrades and the project is being funded by the DfT, Nottinghamshire County Council and the East Midlands Combined County Authority.

Autumn Budget 2024 increased local roads maintenance funding by £500 million in 2025/26 to approximately £1.6 billion. However, it is likely that work funded by this stream will be basic repairs and maintenance (see [Infrastructure R&M](#)). To fully access available funding, local authorities in England will need to prove progress is being made through a new annual progress reporting process. Local authorities who fail to demonstrate sufficient progress will lose a proportion of the funding for which they are eligible to receive.

In Scotland, Budget 2025/26 allocated £494 million of capital funding to the trunk road network for general maintenance and network enhancement, alongside the progression of major road projects, including dualling the A9. Further details on road investment beyond 2025/26 are expected in the forthcoming long-term strategic infrastructure plan.

Phased work on the £3.7 billion A9 dualling project to upgrade 83 miles of single carriageway between Perth and Inverness, is progressing. Construction work is underway on the 9.6km stretch of carriageway between Tomatin to Moy after a contract was awarded last year. Transport Scotland now expects this section to cost around £296m in 2024 Q2 prices. The next section to be dualled is the stretch between Tay Crossing and Ballinluig and groundwork is underway after the construction contract was awarded in July 2025. Work on this section is estimated at £257 million in 2025 Q2 prices.

Design work is progressing on a further five sections of the A9 – Killiecrankie to Glen Garry, Dalwhinnie to Crubenmore, Pitlochry to Killiecrankie, Glen Garry to Dalwhinnie and Dalraddy to Slochd – and the Pass of Birnam to Tay Crossing section is working through planning.

Other priorities for Transport Scotland in 2025/26 include progressing work to determine the most suitable procurement option for delivering the A96 Dualling Inverness to Nairn (including the Nairn Bypass) and progressing delivery of the next phase of the medium-term improvements at the A83 Rest and Be Thankful and on the statutory authorisation process for the remaining elements of the medium-term improvements and the long-term solution to prevent landslips.

A contractor has been appointed to deliver new transport links between Paisley town centre, the Advanced Manufacturing Innovation District Scotland and Glasgow Airport. Project and construction planning is progressing and funding for the £59 million project has been confirmed – the project will be financed with £38.7 million from the UK Government's Levelling Up Fund, council funding totalling £18.8 million and £1.5 million from Transport Scotland.

In Wales, Budget 2025/26 allocated £186.8 million to Strategic Road Network programmes, including funding to deliver works that will seek to avoid further deterioration of the network. This funding includes an additional £27 million to help address the significant maintenance backlog and a £25 million road improvement fund focusing on improving 100km of the network and pothole reduction and prevention.

Procurement is underway for a contractor to deliver the £145 million replacement of the A494 River Dee Bridge. Work on the crossing, linking Flintshire with the North West of England, could start next Summer and the scheme forms part of the Welsh Government's Major Asset Renewal Programme.

Please note that in a similar vein to the water & sewerage and rail sub-sectors, the ONS's mismeasurement of sub-sector level data has meant that historical figures for roads output appear inflated, contradicting other pipeline evidence and industry surveys. Data from the Mineral Products Association (MPA) showed that sales volumes of asphalt sales declined 8.6% in 2020, before rising by 12.5% in 2021. The pace of recovery in 2021 is in stark contrast to the growth reported in the official data of 75.7% that took output to a record high of £11.7 billion even though the delivery of major road projects has been impacted by planning delays. Overall, this suggests that the ONS's construction output data is not accurately reflecting activity on the ground, and as a result, the CPA is forecasting actual activity growth in the sub-sector rather than distortions in the ONS data.

Upper Scenario:

- The five major roads schemes confirmed in July 2025 progress quickly once RIS3 begins

The central forecast assumes it will take time for main construction work to start on these schemes and that cost and planning obstacles will slow progress. If work commences on these schemes within the forecast period, output growth would be stronger.

Lower Scenario:

- After a significant delay, and considerable uncertainty, it takes time for RIS3 investment to filter through

RIS3 is now only due to be published weeks before the investment period officially starts and NH has only recently completed its draft Strategic Business Plan. The central forecast assumes it will take time for RIS3 projects and programmes to mobilise but there is a risk that funding will be concentrated in the latter part of the investment period. If this proves to be the case, output would be significantly weaker during the forecast period.

Output in the **gas, air and communications** sub-sector increased in 2024, from a relatively low base after several years of limited activity. Growth was driven by expansion and enhancement programmes at Manchester, Leeds Bradford and Bristol airports and, with significant investment plans at London's Stansted and Gatwick airports approved, the medium-term outlook is positive. However, these significant projects will be delivered over several years

and activity at Gatwick is currently expected to largely fall beyond the current forecast period. Output is forecast to increase by 6.0% in 2025 and by a further 5.0% in both 2026 and 2027.

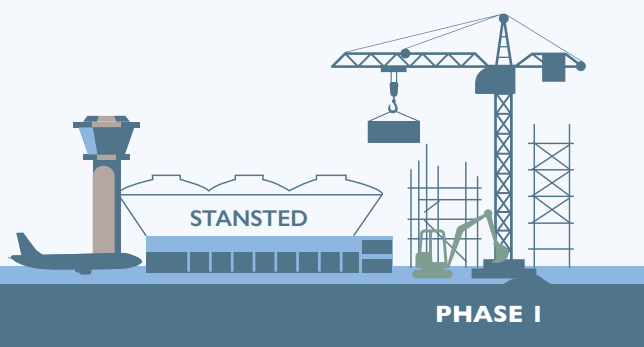
London City Airport's proposal to increase annual capacity from 6.5 million to 9 million passengers, by increasing the number of evening and early morning flights, has been approved by the government. Plans include expanding the existing terminal by 2,276 sq. m. and constructing a new three-storey passenger pier, along with eight new aircraft stands and a new taxiway. Although approval is in place, a start for the project has yet to be confirmed.

Work on London Stansted Airport's £1.1 billion expansion recently commenced. The project includes a £600 million terminal extension, with a further £500 million available to improve the existing terminal and wider airport estate. It will also deliver a 14.3MW on-site solar farm, which will support the airport's current and increasing electricity demands. The extension will allow the airport to reach its agreed passenger cap of 43 million annual travellers. Work to expand the existing terminal building is due to take between two and three years to complete, with delivery of the solar farm expected within five years.

The Secretary of State for Transport awarded London Gatwick Airport's £2.2 billion plan to bring its northern runway into routine use development consent in September, following a six-month delay during which time concerns about carbon and noise emissions were allayed. Under these plans, the Airport's existing northern runway will move by 12 metres to allow the concurrent operation of both runways. A start date for the project has yet to be confirmed and it is assumed main construction work will take place beyond the current forecast period. Core capital investment, to improve areas such as passenger experience, airport efficiency and sustainability, at Gatwick is due to increase substantially over the forecast period, from a baseline of £180.2 million in 2024/25, to £313.4 million in 2025/26, £454.2 million in 2026/27 and £593.0 million in 2027/28.

The High Court has granted permission for opponents of London Luton Airport's £2.4 billion expansion plan to challenge plans via a judicial review. Development consent for the project was granted by the former Secretary of State for Transport in April 2025 against the Planning Inspectorate's advice. The proposed project includes the redevelopment of the existing terminal and construction of a new terminal building, paving the way for the development to support an increase in annual capacity from 18 million passengers to 32 million passengers. This project is currently excluded from the forecast pending the outcome of the judicial review.

Work recently started on the
first phase of London
Stansted Airport's
£1.1 billion expansion -
a **£600 million** terminal extension



London Heathrow Airport has submitted plans to increase the airport's capacity by 50%, plans that include the construction of a third runway at the airport. Heathrow plans to invest £21 billion in the new runway and associated airfield infrastructure, £12 billion on terminal expansion and £15 billion on modernising existing terminals alongside the longer-term closure of Terminal 3. Consultation has begun and a decision is not expected until 2028 at the earliest. In the near-term, the airport's core capital investment programme is progressing and investment is scheduled to increase from an estimated £1.05 billion in 2025 to £1.29 billion in 2026.

Also in the longer-term pipeline is the next phase of Manchester Airport Group's (MAG) planned redevelopment of Manchester Airport's Terminal 3 building. The project will remodel

the entrance to the terminal, the security hall and the departure lounge – creating extra space for passengers and for new retailers, as well as updating the look and feel of the building. Terminal 1 will be decommissioned when Terminal 2 is fully operational, and part of the building will be used to expand adjoining Terminal 3.

The first phase of Leeds Bradford Airport's £100 million terminal regeneration project opened in August, and work on the second phase, involving the refurbishment of the airport's original terminal building and connecting infrastructure, is progressing and is scheduled to be completed in late 2026.

Spending Review 2025 confirmed funding of £1.9 billion through to 2029/30 for Building Digital UK (BDUK). Funding will support the ongoing rollout of gigabit-capable broadband to reach 99% of UK premises by 2032 and work on the Shared Rural Network. Autumn Budget 2024 confirmed investment of £500 million to deliver Project Gigabit and Shared Rural Network in 2025/26, so £1.9 billion through to 2029/30 suggests a 5% reduction in funding before allowing for inflation.

BDUK sits within the Department for Science, Innovation and Technology. The Department's capital budget includes research and development investment and is due to rise through to 2029/30 from £14.7 billion in 2025/26 to £15.1 billion in 2026/27, £15.7 billion in 2027/28, £15.8 billion in 2028/29 and £16.2 billion in 2029/30.

Upper Scenario:

- Work to increase capacity at Gatwick Airport quickly gets underway having recently been granted development consent

The forecast assumes work on this project will not provide a meaningful activity stream in the current forecast period. If work starts relatively swiftly at Gatwick Airport, output growth in this sub-sector could be significantly stronger during the forecast period.

Lower Scenario:

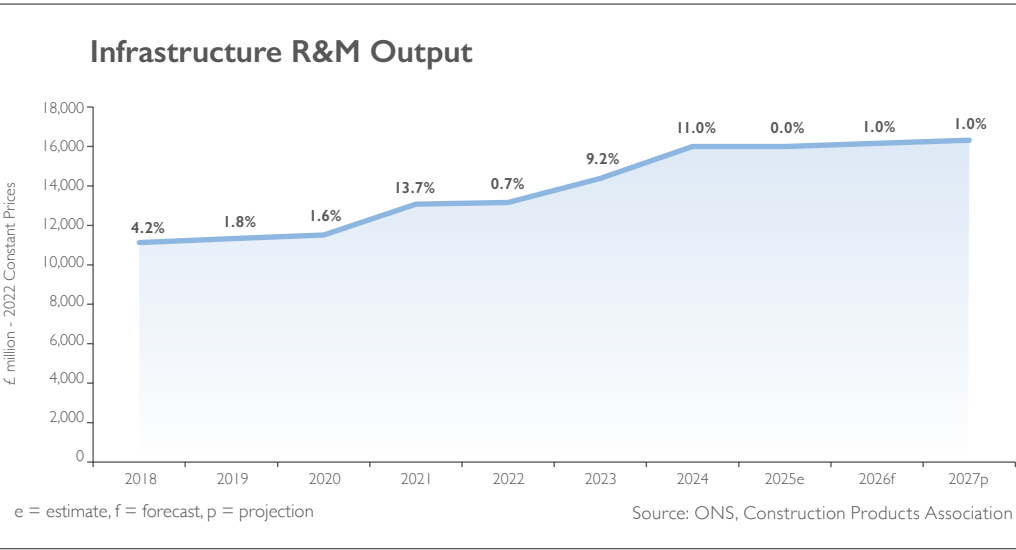
- UK airports focus on enhancements to existing facilities throughout the forecast period rather than long-term expansions or major refurbishments

Following the extreme disruption to travel experienced over the past five years, risk aversion is still elevated and airport owners may act swiftly to pause investment programmes if there is a marked decline in consumer confidence and spending or if further construction cost escalation challenges project viability.



Infrastructure R&M

As the focus turns to the next investment period across regulated sectors, there is a stronger emphasis on existing asset maintenance, which will help sustain infrastructure r&m activity. Overall, budget constraints will, however, limit the scope for growth, and the outlook suggests stabilisation at a relatively high level.



Infrastructure repair and maintenance (r&m) includes work on assets owned by utility companies, airports and energy-generating facilities, and publicly owned assets such as roads and rail, which will help sustain a high level of activity over the next three years. Output is forecast to remain flat this year and rise by 1.0% in both 2026 and 2027.

Local authority managed roads make up 99% of road length in 2024 and funding for the maintenance of local roads is provided by the Department for Transport (DfT) and the Ministry of Housing, Communities and Local Government (MHCLG) to local highways authorities, who are responsible for maintaining their road networks to an adequate standard. In Scotland and Wales the responsibility for maintaining the roads is with the respective devolved administrations. In London, councils receive transport funding from Transport for London.

Funding for local highways maintenance in England (excluding London) is estimated at £1.96 billion in 2025/26, including £500 million of additional funding for potholes, core Highways Maintenance Block and Integrated Transport Block (ITB) funding. This is nearly 30% higher than in 2024/25 but only a 14% nominal increase since 2023/24.

£1.6 billion of this total funding pot was allocated in Autumn Budget 2024 and this portion of funding was shared regionally as follows: the North of England (the North West, North East and Yorkshire and Humber) will receive £327 million, the East and West Midlands will receive £372 million, with the East of England securing around £244 million, the South East and London £322 million and the South West £300 million.

Local areas not eligible to receive City Region Sustainable Settlements or Transport for Cities funding are eligible for Local Transport Grants (LTG) from central government to

fund local transport and maintenance activity, in addition to ITB allocations. In 2025/26, LTG totalled £226 million across 21 areas, with Hull and East Yorkshire, Greater Lincolnshire and Lancashire securing the largest grants at £15.6 million, £25.3 million and £34.9 million, respectively. From 2026/27 onwards, LTG funding will replace ITB funding.

Local authorities' financial difficulties have been exacerbated in recent years, as costs increased sharply, especially the cost of providing social care, and budgets suffered cuts in real terms. Recent research by Unison suggests local authorities' financial struggles are likely to continue in 2026/27 and estimates that they will face a funding shortfall of £4.1 billion across England, Scotland and Wales. This is based on an assessment of councils' financial strategy documents and data collected through the FOI process. This suggests councils will continue to face difficult decisions about where the funding need is greatest and non-ringfenced roads maintenance funding is often diverted to meet more immediately pressing operational and support needs.

The condition of the local roads network has continued to deteriorate. The Asphalt Industry Alliance's (AIA) 2025 [Annual Local Authority Road Maintenance Survey](#) reported that the cost to tackle the backlog of repairs has increased to £16.8 billion, up from £16.3 billion in 2024. Less than half (48%) of the local road network was reported to be in good condition, with the remaining 52% stated to have less than 15 years' structural life remaining. The AIA's Road Condition Index shows that around 24,500 miles – more than one in every 10 miles – of network in England and Wales is likely to require maintenance in the next 12 months.

Furthermore, indicators suggest road conditions deteriorated further in the first half of 2025. Pothole-related vehicle breakdowns reached a high in 2025 Q2. Between April and June, the RAC attended 6,575 breakdowns involving damaged shock absorbers, broken suspension



Funding for **local highways maintenance** in England (excluding London) is estimated at **£1.96 billion** in 2025/26, **up 14%** since 2023/24 (current prices)

Source: HM Treasury



springs, and bent wheels – issues typically linked to deteriorating road surfaces. This is 9% higher than 6,050 cases attended in 2024 Q2.

National Highways (NH) has received an interim settlement to fund the improvement and maintenance of the strategic roads network during the current financial year, ahead of the delayed publication of Road Investment Strategy 3 (RIS3). The interim settlement is worth £4.8 billion in total, which is around 4.5% lower overall compared with 2024/25. Within this overall allocation, funding for operations, maintenance and renewals has increased by nearly 22%, whereas funding for capital enhancements has reduced by around 24%. Sufficient detail isn't currently available to isolate the trend in maintenance funding, but it does suggest that spending on basic road maintenance is likely to increase in 2025/26.

Now due to start in April 2026, RIS3 is widely expected to prioritise making the most of the existing network, which could lead to a greater

proportion of its capital investment programme being classified as r&m. Details of this plan are not expected to be published until March 2026, almost immediately before the next investment period starts.

Bristol City Council has announced the award of contracts under its £288 million Highways Asset Management and Civils Framework, running between 2025 and 2029. Work is divided into ten lots covering activities such as resurfacing, road marking and associated works and minor maintenance, through to larger and more complex projects.

The Scottish Government's 2025/26 Budget allocates £551 million to safety, adaptation, maintenance and improvement of the nation's trunk road network, an 11% increase compared with 2024/25.

Local councils in Wales will be able to access £120 million funding, over two years, to support repair and maintenance across local roads and pavements. The funding boost will see an extra 600km of the local road network resurfaced this financial year. Roads that are most in need of repairs will be renewed, with over 200,000 thousand potholes fixed and prevented, and pavements repaired in local authorities across Wales.

Network Rail's (NR) Control Period 7 (CP7), worth £44 billion (2023/24 prices) in total, commenced in April 2024 and runs to 31 March 2029. Excluding contingency and other costs, NR plans to spend £9.8 billion on asset maintenance during CP7 in total. Across the regions, Eastern is expected to see the largest increase in maintenance spending during CP7, with planned investment set to increase by 6.7%. In the North West & Central region, maintenance spending during CP7 is expected to rise by 2.5%, with Southern up by 2.0% and Wales & Western maintenance investment increasing by just 0.8% in real terms compared with CP6.

The Office of Rail and Road's (ORR) Annual Efficiency and Finance Assessment of NR's performance during the first year of CP7 identified several challenges, especially with maintenance activity. NR overspent on maintenance work by £106 million due to higher-than-expected reactive maintenance activities, recruitment costs and training delays, reducing the expected benefits of the maintenance modernisation programme.

Electricity distribution companies plan to invest record sums in improving and enhancing transmission networks during the next investment period – RIIO-T3 that starts in April 2026 and runs through to March 2031. The regulator published its draft determinations in early July for consultation and final determinations are expected to be made by the end of 2025. Ofgem has given the provisional green light to an initial £24 billion investment programme over the RIIO-T3 period between 2026/27 and 2030/31.

National Grid's proposed investment strategy includes £11 billion to maintain and upgrade its existing network of assets. Scottish and Southern Electricity Networks proposes a baseline investment of £ 6.1 billion over the period, which includes asset management and work to ensure resilience. SP Energy Networks proposes non-load expenditure of £523 million, which includes the replacement and refurbishment of assets, as well as inspection, maintenance and repairs to existing assets.

Ofwat approved £104 billion of investment by water companies in the AMP8 period, running from April 2025 to March 2030. Investment in new infrastructure accounts for £44 billion of this total, with the remainder being spent on maintaining and enhancing the existing network. During AMP8, water companies intend to invest considerable amounts in replacing old and failing water mains. United Utilities plans to replace 900km of pipes, Yorkshire Water plans to replace 746km of pipes, and Anglian Water plans to replace 695km of pipes. Classification between new work and r&m is also an issue in this sector, given that anything more than just basic repairs and maintenance should be classified as new work (see [Infrastructure – Water & Sewerage](#)).

Wessex Water recently appointed contractors to its minor works framework covering potable and wastewater projects in the South West. The framework will run for five years, with an option to extend for two, and work will range from basic mains replacement to treatment plant upgrades.

Procurement is underway on Manchester Airports Group's £600 million framework for small to medium projects at Manchester Airport, East Midlands Airport and Stansted Airport. The framework, due to run for five years, will cover the maintenance and improvement of airside and landside airport infrastructure. Work is categorised as building, civils or MEP and individual project value is capped at £5 million across all three categories.

Upper Scenario:

- RIS3 includes a significant amount of basic repair and maintenance work

The focus of RIS3 will be on maintaining the existing network but the forecast assumes that this will largely be defined as 'improvement' work – such as resurfacing – and, hence, be classified as new work. If a greater proportion of RIS3 investment is directed to basic repairs to the strategic roads network, growth in this sector could be significantly stronger.

Lower Scenario:

- Financial constraints for local authorities restrict non-essential repairs and maintenance

Local authorities are likely to prioritise the essential repair and maintenance of critical infrastructure over routine r&m if their finances deteriorate due to rising spending on local health and social care needs. Faced with renewed cost pressures and supply chain disruption, local authorities are also likely to scale back or cancel planned r&m works in the near-term.



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