

Construction Industry Forecasts 2025-2027

Summer 2025 Edition - £250





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DISCLAIMER

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 7 July when the Forecasts were finalised.

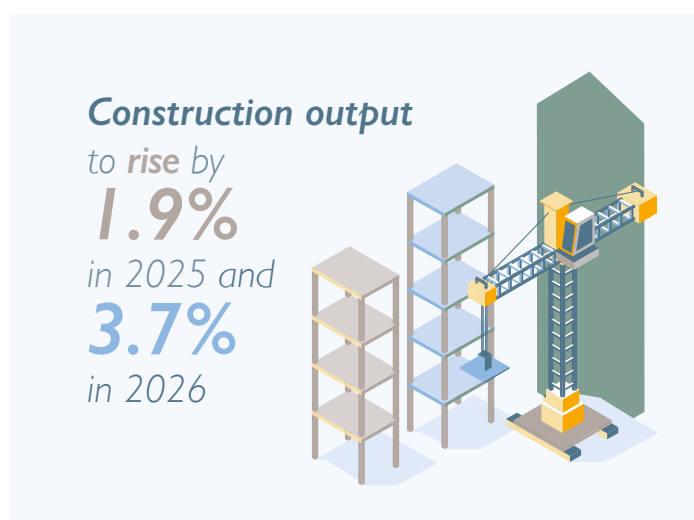
All new orders figures are in 2022 constant prices using the historic figures from the Office for National Statistics (ONS).

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Overview

The fundamentals in the construction industry remain essentially unchanged from three months ago, but the risks and uncertainties have increased significantly. On the positive side, activity for house builders continues to recover gradually, and a renewed focus from the government on capital expenditure may boost public sector house building and infrastructure in the long-term. On the negative side, in the near-term, private housing rm&i activity remains subdued, and the impact of rises in the National Living Wage and employers' National Insurance Contributions, and lower thresholds, may hit contractor margins. Furthermore, increasing concerns over government debt suggest that the government may either increase taxes again or cut back on its spending plans, potentially doing both. Construction output is still expected to rise over the forecast period, but the only clear certainty is uncertainty.

Overall, total construction output is forecast to grow by 1.9% in 2025 and 3.7% in 2026. The forecast remains the same as it was in Spring, and so far this year, output appears to have been in line with the CPA's expectations, although it has been slightly more volatile from month to month than anticipated at the start of the year. 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 activity was subdued in January and February. There was a significant increase in activity during March and April, but it eased slightly in May, followed by an uptick in June and early July.

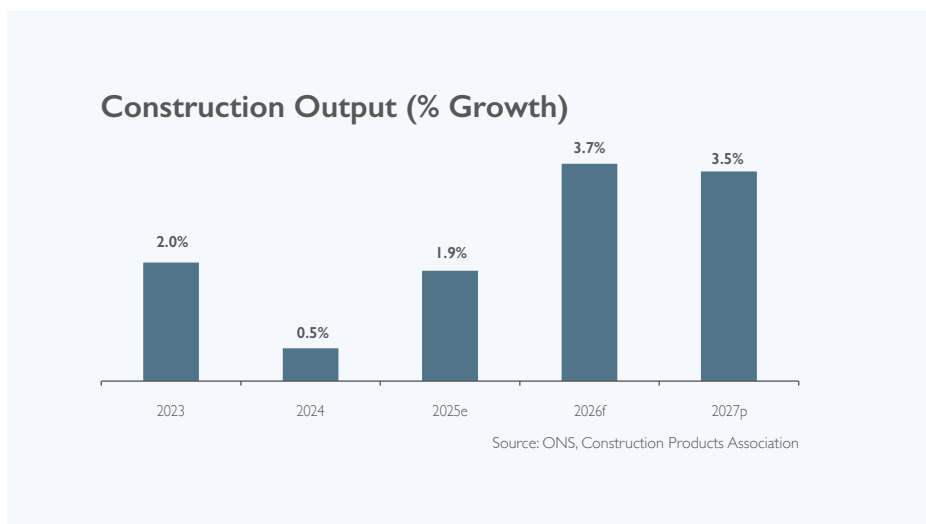


Key Points

- Construction output rises by **1.9%** in 2025 and **3.7%** in 2026
- Private housing output rises by **4.0%** in 2025 and **7.0%** in 2026
- Private housing repair, maintenance and improvement to rise by **2.0%** in 2025 and **3.0%** in 2026
- Infrastructure output to rise by **1.9%** in 2025 and **4.4%** in 2026
- Industrial output to rise by **0.9%** in 2025 and **2.6%** in 2026

Private housing remains the largest and most high-profile construction sector despite the sharp decline in activity during 2023. It was worth £38.4 billion in 2024 (in constant 2022 prices), despite falls of 14.3% and 4.2% in 2023 and 2024. So far this year, major house builders have reported that starts have been double-digit higher than a year ago, albeit compared with a very low comparator, whilst completions have been increasing by a single-digit percentage. Build-to-Rent (BTR) investment remains robust, particularly outside the capital. However, BTR completions are likely

to remain flat this year, and high-rise completions are declining due to delays from the Building Safety Regulator at the Gateway 2 stage. Small house builder demand is recovering, but government's additional costs have affected site viability. The Future Homes Standard is likely to be published in Autumn 2025 for implementation next year with a one or two year implementation period and will add to costs for smaller house builders in the forecast period whilst larger house builders are likely to increase starts in advance of the deadline but only build the majority of their homes under the Future Homes Standard towards the end of the decade.



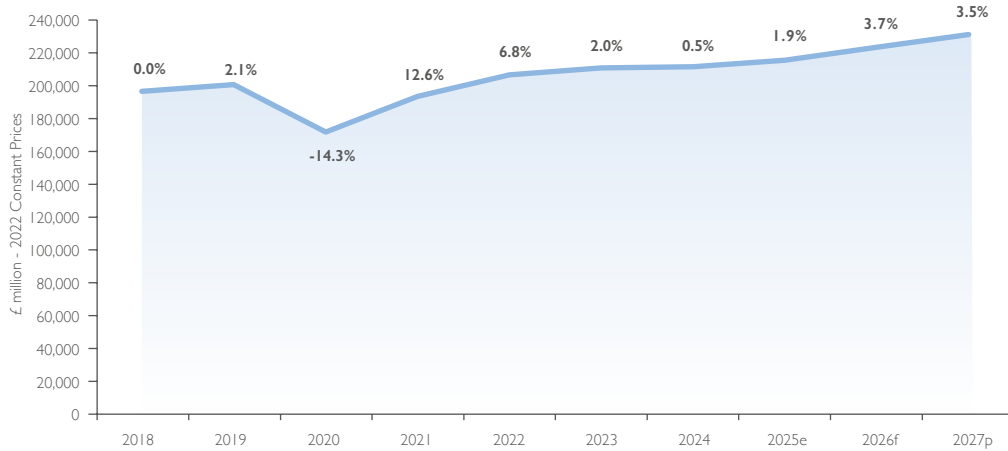
The government's National Planning Policy Framework, published last year, and its Planning and Infrastructure Bill, which has just gone through parliament, may help supply beyond the forecast period, but in the near-term, affordability will still be the key driver. Reductions in interest rates will gradually help private housing demand, but the lack of government policy to enable home ownership, particularly for first-time buyers, by helping with deposits, will continue to be a constraint. Overall, private housing output is forecast to rise by 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 (constant 2022 prices) in 2024, according to the ONS. However, the CPA has persistently highlighted its concerns regarding the ONS construction output data, especially for rm&i, since the energy price and commodity price spikes in 2022 and the historical data should be treated with extreme caution. As a result of these concerns, the ONS suspended its materials prices and producer price data, as well as the construction output price data, in March 2025.

The indications from firms across the supply chain are that home improvement projects peaked during the pandemic 'race for space' and then fell away sharply afterwards, especially since the sharp rise in price inflation and concerns over the 'cost of living'. In addition, there has also been a significant decline in homes bought, renovated, and sold in a short space of time due to the rise in refurbishment costs, financing (interest rate) costs, and the increase in stamp duty following the change in thresholds in April. Private housing rm&i activity remained subdued in Q1, although some outdoor work, such as landscaping, benefited from good weather in Q2. After almost two years of real wage growth, many homeowners currently have spare funds available for general home improvements, but they remain cautious due to the scarring effect of the inflation spikes in 2022 and 2023. As a result, homeowners are still choosing to save rather than spend, and the key to growth in the sector overall will be when these homeowners with finance feel confident enough to spend on home improvement projects. This is still expected to be towards the backend of 2025 or in early 2026, but clearly this is

Private housing rm&i
 anticipated to
 rise **2.0%**
 in 2025 and
3.0%
 in 2026

Construction Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

subject to a high degree of uncertainty, and it may be pushed back into 2026 H1, especially if tax rises in the Autumn hit households. Energy-efficiency retrofits, such as heat pumps and solar/PV, subsidised by government, and fire safety remediation work, both continue to be strong niches within rm&i. Overall, private housing rm&i output is expected to rise by 2.0% in 2025 and 3.0% in 2026.

Infrastructure is the third-largest construction sector, worth £29.7 billion (constant prices 2022) in 2024, according to the ONS. Infrastructure activity remains strong on major projects and frameworks such as Hinkley Point C and HS2. The [Spending Review](#) in June confirmed funding for HS2, and beyond the forecasts, for Sizewell C, which provides a degree of certainty. There were also large announcements of capital expenditure more generally. The government's recent [10-year Infrastructure Strategy](#) and [Infrastructure Pipeline](#) also show potential for the long-term, but the reality on the ground near-term will largely be determined by projects and programmes already in play. Road spending is expected to decline over the next few years, and more road projects were cancelled in July. Whilst rail investment is expected to rise significantly in the medium-term, the government also announced cancellations to rail projects as recently

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	50,508	52,136	54,075
	7.0%	2.1%	1.7%	3.2%	3.7%
Private Sector	162,022	162,170	165,322	171,606	177,595
	0.6%	0.1%	1.9%	3.8%	3.5%
Total Construction	210,703	211,853	215,830	223,742	231,670
	2.0%	0.5%	1.9%	3.7%	3.5%

Source: ONS, Construction Products Association

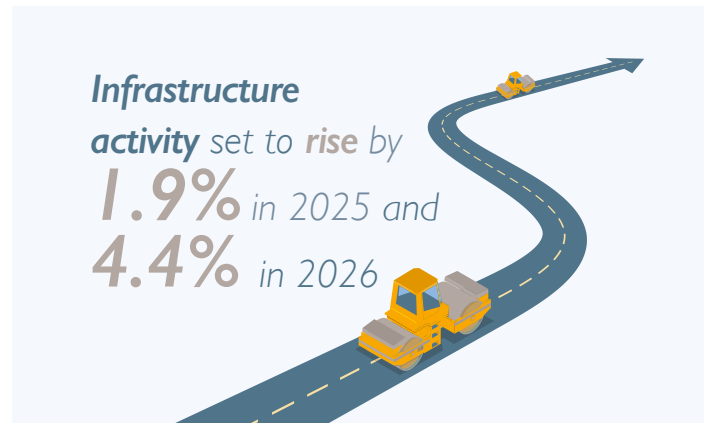
as July 2025. Water investment is already rising as water companies attempt to urgently deal with high-profile quality issues, and activity is expected to increase significantly in early 2026, although an upside risk is that water activity may start to ramp up towards the end of this year. Energy generation and, especially, National Grid distribution work continue to grow and are likely to continue doing so throughout the forecast period, in line with previous publications. Overall, infrastructure output is expected to rise by 1.9% in 2025 and 4.4% in 2026.

Industrial output was worth £7.4 billion in 2024.

Sector activity peaked during the pandemic, with spikes in both large warehouse construction to meet the peak demand for online shopping and strong factory construction, driven by manufacturing demand and capacity constraints. Since then, it has fallen away, but it has been picking up since Autumn 2024 due to an array of small and medium-sized projects in both warehousing and factories. Furthermore, industrial output will be boosted during the forecast period by projects related to defence and renewable energy, as well as large one-off gigafactories such as the £4.0 billion project in Somerset, but the size of these one-off projects means that any delays on the projects such as the pause in activity during March meant that sector output temporarily dipped and it also means that main gigafactory work has been delayed and is likely to be spread over a more extended period.

Public non-housing output was worth £11.4 billion in 2024, with activity in this year gradually accelerating on the School Rebuilding Programme. The programme focuses primarily on schools with RAAC problems that need to be addressed urgently, but the projects also encompass general refurbishments, not just RAAC issues. There is increased funding for the defence area and military housing, particularly in new build and refurbishment, which will drive activity in the medium-term. So far, however, there are few signs of improved delivery on the New Hospitals Programme, but activity is expected to ramp up during the forecast period. The Spending Review confirmed that investment in expanding prison, probation, and court capacity will average a real terms increase in total funding (capital and day-to-day spending) of 3.1% per year from 2023/24 to 2028/29, and activity is likely to gradually increase from next year. Overall, public non-housing output is forecast to rise by 2.2% in 2025, followed by a growth rate of 4.1% in 2026.

Commercial sector output was worth £25.0 billion (constant 2022 prices) in 2024, according to the ONS. Activity on smaller, high-end, high-value refurbishment and fit-out projects remained very strong at the start of 2025. However, investors have become more price-conscious over the last 12-18 months, given the rise in construction costs. 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. Investors in these large, new commercial projects are also now adopting a 'wait-and-see' attitude to increased global and UK uncertainty and risk. There remain large new build commercial projects in the pipeline, and growth in the sector will be determined by when investors feel confident enough to start these projects. Also within the commercial sector, student accommodation and university activity remain strong despite financial pressures on many universities. However, student accommodation projects are being delayed by 6-9 months at the Gateway 2 stage due to problems at the Building Safety Regulator. Data centres, as well as biotech and private health projects, also remain strong. Overall, commercial output is forecast to remain broadly flat (-0.2%) in 2025, before being boosted by delayed new tower projects finally coming to fruition due to lower interest rates and financing costs, along with a slight improvement in broader economic prospects. Growth in 2026 is forecast at 2.7%.





From a government policy perspective, assuming that the government does not cut back on its expenditure plans in the upcoming Autumn Budget, then its Spring Statement in March and Spending Review in June point towards medium to long-term growth in affordable housing, rail and energy infrastructure, as well as military housing, education and some areas of energy-efficiency retrofit.

The government's Spring Statement focused on maintaining capital expenditure and identifying cuts in day-to-day spending on civil service and social care to ensure it stuck to its fiscal rule. In addition, the government announced £625 million for construction skills to support 60,000 new "site-ready" skilled construction workers, as well as £2.0 billion in additional funding for social and affordable housing in the short-term, on top of the £350 million announced in February, ahead of the next Affordable Homes Programme being outlined in the Spending Review. Plus, in housing, the Building Safety Levy was delayed for a year. The government also provided an additional £2.2 billion for the Ministry of Defence.

The government's Spending Review provided certainty over capital expenditure to 2029/30, including HS2 and Sizewell C. It announced £39 billion for the 10-year Affordable Homes Programme, with £5.0 billion of expected private investment; however, most of this funding is not included in the Spending Review or for this Parliament. There was £13.2 billion funding for the Warm Homes Plan to 2029/30 and £10.2 billion for rail enhancements. In addition, at least £7 billion was allocated for military accommodation, including over £1.5 billion for the repair of the forces' family housing. However, although it also announced £24.0 billion of road capital funding, this represents a 17% fall in funding. While the government talks about record investment in roads, only two large road projects are anticipated to start this year, which is insufficient to offset projects that are due to finish. Furthermore, as recently as July 2025, the Secretary of State for Transport announced that two further projects, the A12 upgrade and the A47 Wansford to Sutton dualling, would be cancelled.

The government published its National Planning Policy Framework (NPPF) in December 2024, and its Planning and Infrastructure Bill has just gone through parliament. These supply-side reforms are likely to significantly help projects progress from inception to starting on site in the medium-term, but the industry is unlikely to see any significant benefits from new projects clearing the planning system as a result of these reforms until at least 2027.

In terms of risks to the construction forecasts, the key risks include UK economic growth prospects, contractor insolvencies, the administration of ISG, delays to high-rise projects by the Building Safety Regulator, and the availability and cost of skilled construction labour (see [Key Risks](#)). However, any further US tariff disruption or increase in conflict in the Middle East could have a significant impact on global and UK economic growth prospects, with knock-on effects on the construction industry.

Recent Data

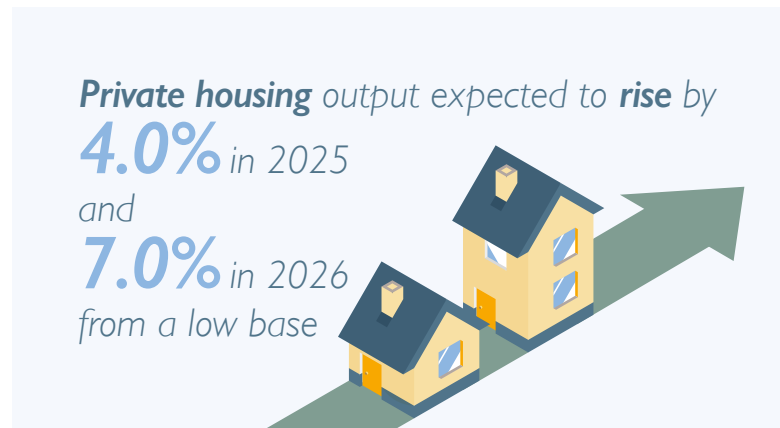
Total construction output in April was 0.9% higher than in March, following a 0.5% previous rise, and it was 3.3% higher than a year ago. The increase in April was broadly in line with industry indicators, which also pointed to a slight uptick in activity, and it was significantly higher than a year earlier.

Private housing output, which correlates more strongly with house building completions than starts, was 1.0% higher in April than in March and 7.8% higher than a low base a year ago. Activity for most major house builders and small house builders continues to recover. However, affordability remains the most significant constraint, whilst high-rise apartment developments (including some Build-to-Rent developments) are still being delayed by 6-9 months at the Building Safety Regulator.

The ONS problems in estimating construction output since 2022 remain most evident in private housing and, the second largest sector, as highlighted in previous forecasts. According to the ONS, private housing output in March 2024 was 61.4% higher than in January 2020, despite activity due to the 'race for space' short-term spike peaking in 2021/22. According to firms in the sector, following a subdued January and February 2025, activity improved in March and April due to better weather, which boosted catch-up activity and outdoor work. However, activity in the niches of energy-efficiency and solar/PV or fire safety work continued to remain strong, as highlighted in previous updates.

Infrastructure output in April was 2.0% higher than in March and 6.3% higher than a year earlier. Plus, it was 18.0% higher than in January 2020. Firms continue to report that activity on major projects already underway remained strong, and work remained consistent on long-term frameworks and programmes in water. In addition, work in the energy sector remains strong and continues to grow due to wind farm activity and National Grid capacity upgrades nationwide. However, work on roads, which has been hindered by a lack of new large projects as previous projects finish, also suffered from councils using up existing roads budgets at the end of the financial year for repairing potholes and resurfacing work on local roads in March and were slow to start on work in April during the new financial year.

Industrial output in April was 1.3% lower than in March but 17.9% higher than a year ago. Activity in the industrial sector remains volatile, as it is a small construction sector subject to significant swings due to fluctuations in activity on large one-off projects or delays on projects such as gigafactories or warehouses. For instance, it was announced in March that work stalled



at the piling stage for the first of three planned buildings at the £4 billion Agratas gigafactory in Somerset. Outside of a few large one-off projects in the industrial sector, a range of small and medium-sized new projects, as well as expansions of existing warehouses and factories, continued to maintain high activity levels early in 2025.

Commercial output in April was 1.7% higher than in March but 4.9% lower than in the same month a year ago, and 31.7% lower than in January 2020, before the pandemic. As highlighted in previous forecasts, new build commercial developments in the pipeline and 'back to frame' large refurbishment projects continue to be pushed back due to high construction and financing (interest rate) costs. However, firms operating in the sector continued to report that smaller high-end, high-value refurbishment activity remained strong. Student accommodation and university activity remained strong despite financial pressures on some universities, whilst data centre work also remained robust. However, as highlighted previously, concerns persist about the impact of 6-9 month delays resulting from the Building Safety Act and Gateway 2 on new student accommodation projects, and these delays are likely to persist in the medium-term.

More recently, the UK Construction PMI was 48.8 in June, up from 47.9 in May. 50=no monthly change, so it represents another decline in construction activity in June, but it was the slowest monthly fall since January. However, as highlighted in previous forecasts, the PMI may reflect survey respondents' sentiment more accurately than actual activity, especially in housing, as firms report to the CPA that activity has been gradually improving since Summer 2024, rather than the continual declines in activity that the PMI suggests. Alternatively, the respondents in the housing PMI may be highly skewed towards developers of high-rise residential buildings, which are affected by the BSR delays, rather than traditional house builders, which are mainly not affected by the BSR.

Commercial work fell at its fastest rate since May 2020 (45.1) according to S&P Global, which respondents attributed to subdued economic conditions and clients cutting investment. Civil engineering (44.2) fell for the sixth consecutive month. It was the weakest-performing sector, according to S&P Global. House building rose marginally in June (50.7), its first increase since September 2024, according to S&P Global; however, this is not what house builders have been reporting. The survey also showed that new orders across the construction sector fell for the sixth consecutive month at a faster rate, due to fewer tenders, intense competition for new work, and clients being more risk-averse. There was a downturn in staffing numbers due to lower demand and efforts to reduce overheads. Business expectations for the year ahead moderated in June, with around 34% anticipating a rise in output, while 18% expected a decline, indicating growth but with the lowest degree of optimism since December 2022.



Construction Industry Forecasts - Summer 2025

	2023	2024	2025	2026	2027
% annual change	Actual	Actual	Estimate	Forecast	Projection
Housing					
Private	40,105	38,427	39,964	42,762	45,327
	-14.3%	-4.2%	4.0%	7.0%	6.0%
Public	6,151	5,680	5,794	6,083	6,387
	4.5%	-7.7%	2.0%	5.0%	5.0%
Total	46,256	44,107	45,758	48,845	51,715
	-12.2%	-4.6%	3.7%	6.7%	5.9%
Other New Work					
Public Non-Housing	10,794	11,375	11,629	12,110	12,618
	10.7%	5.4%	2.2%	4.1%	4.2%
Infrastructure	32,775	29,744	30,306	31,654	32,713
	4.1%	-9.2%	1.9%	4.4%	3.3%
Industrial	7,706	7,356	7,419	7,613	7,845
	-0.5%	-4.5%	0.9%	2.6%	3.0%
Commercial	26,416	25,008	24,967	25,634	26,347
	6.3%	-5.3%	-0.2%	2.7%	2.8%
Total other new work	77,691	73,483	74,320	77,011	79,524
	5.2%	-5.4%	1.1%	3.6%	3.3%
Total new work	123,947	117,590	120,078	125,856	131,239
	-2.0%	-5.1%	2.1%	4.8%	4.3%
Repair and Maintenance					
Private Housing RM&I	34,786	37,063	37,804	38,938	40,107
	6.8%	6.5%	2.0%	3.0%	3.0%
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	95,752	97,886	100,431
	8.3%	8.7%	1.6%	2.2%	2.6%
TOTAL ALL WORK	210,703	211,853	215,830	223,742	231,670
	2.0%	0.5%	1.9%	3.7%	3.5%

Source: ONS, Construction Products Association



Key Risks

UK Economic Growth

Even excluding the potential impacts of US tariff disruptions and increased conflict in the Middle East in 2025 Q2, which may lead to revisions down in global economic activity, there are significant concerns regarding UK economic growth prospects. Despite a strong UK GDP figure in 2025 Q1, the 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. Anecdotally, firms across the economy are reporting that they have reduced new hiring and also the replacement of "non-essential staff". However, it is difficult to discern the extent to which this is occurring, the number of "non-essential staff", and how much unemployment will rise as a result. If unemployment does increase significantly, then this could adversely affect consumer confidence, which is already low. On the positive side, households have now had a persistent period of real wage growth following the impacts of energy and commodity price spikes in 2022 and 2023. And, as 80% 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 unlikely if unemployment rises.

A further complication is that the government's Spring Statement in March and Spending Review in June focused on capital expenditure, which is positive, but with significant cuts to the civil service and social care to ensure that the government sticks to its fiscal rule. However, social care will not be cut to the extent that the government anticipated in its Spending Review, and the likelihood is that the government will either need to raise taxes, cut capital expenditure, or potentially both, in its Autumn Budget. In this case, UK economic forecasts for 2026 and 2027 would need to be revised down once again. In addition, this would directly affect the private construction sector, such as private housing new build and rm&i, as well as the public construction sector, including schools, hospitals, and infrastructure, depending on where the capital expenditure cuts fall.

Major 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. Other contractors and supply chains are taking over these contracts over time, but the hiatus in work will affect specialist sub-contractor cash flow. In addition, there is expected to be a knock-on impact from ISG's administration on insurers. Firms in the supply chain were already finding insurance a key issue following the increase in insolvencies at the end of 2023 and in the first half of 2024. However, insurers appear to be disproportionately affected by larger firm insolvencies, and insurance issues increased substantially after the insolvency of Buckingham Group. This is likely to worsen further under ISG's administration. As a result, after slowing over 2024 H2, contractor insolvencies are likely to rise again in 2025 H1.

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 sub-contractors.

Contractor Insolvencies

According to the government's Insolvency Service, construction insolvencies fell in April 2025, after rises in February and March, towards the end of the financial year. 4,032 construction firms went out of business in the year to April, according to the government's Insolvency Service. This is 1.9% lower than in the year to March and 8.7% lower than a year ago, when construction insolvencies were at their peak. As highlighted in previous CPA publications, insolvencies are volatile on a monthly basis, but they were expected to rise during 2025 due to the ISG administration and the Building Safety Regulator delays. Although insolvencies decreased in April, they increased in both February and March. Furthermore, rises in the National Living Wage and employers' National Insurance Contributions, along with lower thresholds, from 1 April, are likely to increase costs and impact cash flow and viability for sub-contractors, as well



as builders' merchants and distributors. These firms are labour-intensive and disproportionately affected by government increases in wage costs, especially as they may not be able to pass on cost increases to major house builders and developers or major contractors. These effects are likely to take time to be reflected in business failures, and as a result, the immediate impact has not been seen in April's construction insolvencies.

2,334 (58%) of firms that went out of business in the year to April were specialist sub-contractors, which is 1.5% lower than in the year to March and 8.4% lower than a year earlier. However, this is compared with peak levels in early 2024 after the sharp slowdown in house building during Winter 2023. On a 12-month basis, specialist sub-contractor insolvencies fell for five consecutive months as house building started to recover from a low base, before the rises in February and March, and more recently, April's fall. However, the CPA still expects specialist contractor insolvencies to rise again in 2025.

Main building contractors have not been as severely affected as specialists; however, in the year to April, 1,508 (37%) of construction insolvencies involved main building contractors, which was 2.4% lower than in the year to March and 8.8% lower than a year ago. They continue to be hit by fixed-price contracts with project delays, as well as rising wage and materials costs. Despite April's fall, main building contractor insolvencies may still increase in May and/or June due to cost rises since April. However, anecdotally, some contractors reported to the CPA that they have paused some recruitment and replacement of non-essential staff to constrain recent wage bill rises.

'Only' 190 (5%) of the construction firms that went out of business in the year to April 2025 were civil engineering contractors, which is 3.6% lower than in the year to March and 11.6% lower than a year earlier. As highlighted in previous updates, the relatively low level of civils contractor insolvencies partly reflects the fact that there are considerably fewer civils firms overall. However, it also reflects civils work occurring earlier on non-infrastructure projects and, within infrastructure, it reflects stronger demand in some sub-sectors, such as energy, and more stable demand on long-term infrastructure frameworks in rail and water. Plus, it also reflects some infrastructure clients being more understanding of cost rise issues.

Delays to Project Starts on Higher-Risk Projects

Since Summer 2024, the CPA has consistently highlighted the delays at the Building Safety Regulator in its forecasts and that 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 accommodation and hospitals.

The most recent data from Barbour ABI on project starts highlights that new project starts on high-rise residential in the six months to 2025 Q1 were 58.0% lower than the average during 2021. The extent of the issue is now so large that many developers are not even submitting new applications until they see a significant improvement in the process and approvals. Furthermore, the indications are that investors have been pulling away from high-rise due to the persistent delays. Furthermore, there are also potential further issues awaiting developers at the Gateway 3 stage, before the building can be occupied, and where more construction activity may be needed if the BSR requires it.

A partial offset to the decline in high-rise residential has been observed in the rise in investment and project starts for mid-rise residential (three to six storeys), as developers are not required to address issues related to the BSR. Since 2024 Q3, mid-rise project starts have risen by 38%,





UK construction wage inflation

was **5.1%**
in the year
to April 2025

albeit from a low base, and this increase is insufficient to offset the declines in high-rise projects in terms of the number of buildings and, especially, the number of new homes to be built.

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 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 building 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 sustained real income increases and positive consumer and business sentiment
- The unemployment rate remains low in 2025 and 2026 as consumption growth and the persistence of skills shortages sustain a strong labour market
- Interest rates fall by 0.25 percentage points three times in 2025 H2 and a further four times in 2026 as inflation concerns dissipate and the Bank of England aims to stimulate growth
- House prices rise by 3.0% in 2025 and 2026 as demand gradually increases, whilst the number of properties coming on the market, forced sellers, and repossessions remain 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 12.0% in 2024 Q4 to 9.0% in 2025 Q4 and 8.0% in 2026 Q4)
- Lending to businesses improves as lending rates gradually fall and consumer spending increases
- Business investment growth accelerates in 2025 as stronger consumer spending leads to an improvement in medium-term economic prospects



Key Effects

- Total construction output rises by 3.5% in 2025 and 5.2% in 2026 as stronger economic growth drives private construction activity
- Private housing output increases by 6.0% in 2025 and 9.0% in 2026, driven by major house builder growth
- Commercial output rises by 3.0% in 2025 and 5.0% in 2026, still driven 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 3.0% in 2025 and 4.0% in 2026 as homeowners with finance available feel confident enough to spend on general home improvements in 2025 H2, although they continue to increasingly focus on work on energy-efficiency retrofit and solar/PV work rather than the standard home improvements activity that peaked during the pandemic 'race for space'

Construction Industry Forecasts - Summer 2025 - Upper Scenario

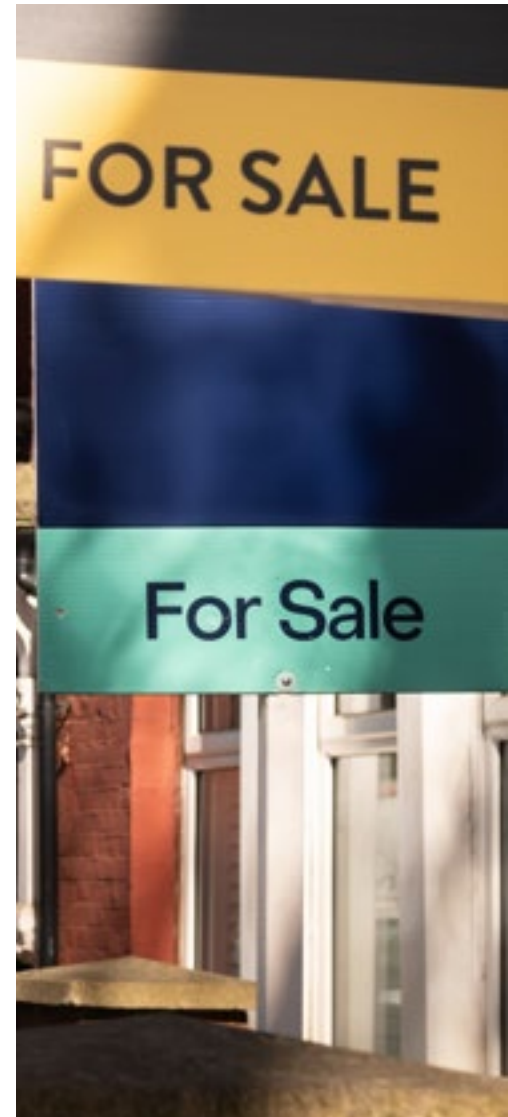
	2023	2024	2025	2026	2027
% annual change	Actual	Actual	Estimate	Forecast	Projection
Housing					
Private	40,105	38,427	40,733	44,399	47,506
	-14.3%	-4.2%	6.0%	9.0%	7.0%
Public	6,151	5,680	5,907	6,262	6,637
	4.5%	-7.7%	4.0%	6.0%	6.0%
Total	46,256	44,107	46,640	50,660	54,144
	-12.2%	-4.6%	5.7%	8.6%	6.9%
Other New Work					
Public Non-Housing	10,794	11,375	11,830	12,540	13,418
	10.7%	5.4%	4.0%	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	7,577	7,880	8,353
	-0.5%	-4.5%	3.0%	4.0%	6.0%
Commercial	26,416	25,008	25,758	27,046	28,398
	6.3%	-5.3%	3.0%	5.0%	5.0%
Total other new work	77,691	73,483	75,801	79,940	84,592
	5.2%	-5.4%	3.2%	5.5%	5.8%
Total new work	123,947	117,590	122,441	130,600	138,735
	-2.0%	-5.1%	4.1%	6.7%	6.2%
Repair and Maintenance					
Private Housing RM&I	34,786	37,063	38,175	39,702	41,290
	6.8%	6.5%	3.0%	4.0%	4.0%
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	96,931	100,157	103,599
	8.3%	8.7%	2.8%	3.3%	3.4%
TOTAL ALL WORK	210,703	211,853	219,373	230,758	242,334
	2.0%	0.5%	3.5%	5.2%	5.0%

Source: ONS, Construction Products Association

Lower Scenario

Assumptions

- UK GDP growth continues to remain subdued in 2025 H2 as the rise in employer wage costs in April leads businesses to cut employment of non-essential staff, plus it adversely affects investment
- Interest rates cut only once more in 2025 as the Bank of England takes a cautious approach to reducing interest rates in light of persistent CPI inflation above 3.0%
- The unemployment rate gradually rises to 5.0% at the end of 2026 as consumer-facing services cut jobs in response to higher wage costs due to the increase in National Living Wage and employers' NIC contributions, combined with lower thresholds, and lower household spending
- House price growth slows as mortgage approvals and property transactions fall due to fewer falls in interest rates than markets and lenders had factored in
- Consumer spending volumes stall in 2025 H2 despite real wage growth as households take a risk-averse approach and the savings ratio remains above 10.0% throughout the forecast period
- Lending to businesses slows as lenders' borrowing rates fail to fall significantly in response to higher uncertainty over economic growth prospects
- Business investment falls as increasing uncertainty means that firms focus on near-term prospects



Key Effects

- Construction output rises by only 0.5% in 2025 and 1.7% in 2026 as slower economic recovery and fewer interest rate cuts push back construction recovery
- Private housing output increases by only 3.0% in 2025 and 5.0% in 2026 as affordability remains a key demand constraint for major house builders, whilst additional costs from government disproportionately affect SME house builder site viability
- Commercial output falls by 2.0% in 2025 before remaining flat in 2026 as fit-out activity remains strong, but new tower project activity continues to be pushed back due to viability concerns
- Private housing rm&i output is forecast to increase by only 1.0% in 2025 and 2.0% in 2026, as homeowners remain cautious and continue to save rather than spend on home improvements, with a deceleration in interest rate cuts and a slower housing market meaning fewer home moves and consequent improvements work from new homeowners

Construction Industry Forecasts - Summer 2025 - Lower Scenario

	2023	2024	2025	2026	2027
% annual change	Actual	Actual	Estimate	Forecast	Projection
Housing					
Private	40,105	38,427	39,580	41,559	44,468
	-14.3%	-4.2%	3.0%	5.0%	7.0%
Public	6,151	5,680	5,794	5,909	6,028
	4.5%	-7.7%	2.0%	2.0%	2.0%
Total	46,256	44,107	45,373	47,468	50,496
	-12.2%	-4.6%	2.9%	4.6%	6.4%
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	7,282	7,282	7,428
	-0.5%	-4.5%	-1.0%	0.0%	2.0%
Commercial	26,416	25,008	24,508	24,508	24,998
	6.3%	-5.3%	-2.0%	0.0%	2.0%
Total other new work	77,691	73,483	73,207	74,035	76,361
	5.2%	-5.4%	-0.4%	1.1%	3.1%
Total new work	123,947	117,590	118,580	121,503	126,856
	-2.0%	-5.1%	0.8%	2.5%	4.4%
Repair and Maintenance					
Private Housing RM&I	34,786	37,063	37,434	38,182	39,328
	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	94,397	95,146	96,483
	8.3%	8.7%	0.1%	0.8%	1.4%
TOTAL ALL WORK	210,703	211,853	212,977	216,649	223,340
	2.0%	0.5%	0.5%	1.7%	3.1%

Source: ONS, Construction Products Association

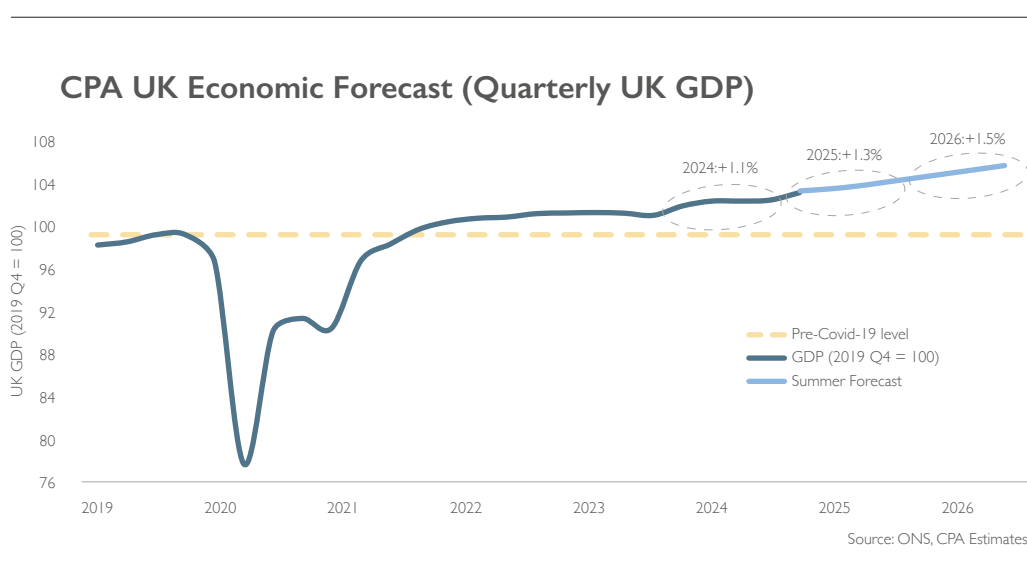
Economy

UK economic growth surprised on the upside in 2025 Q1, but with the impacts of the government's increases in business wage costs since April and impending tax rises in the Autumn Budget, medium-term growth prospects are likely to be slightly more subdued than in recent forecasts. On the positive side, the government's supply-side reforms and current focus on capital expenditure may ultimately benefit the economy in the long-term. In the short-term, however, business investment is unlikely to be strong and, as a result, growth is likely to be heavily dependent on the extent to which households, which have so far been risk-averse, are willing to spend now that there is persistent real wage growth. In addition, US tariff disruptions and the rise in conflict in the Middle East are unlikely to help risk and uncertainty levels, which is also likely to weigh upon UK growth prospects.

Overall, UK GDP is forecast to rise by 1.3% in 2025 and 1.5% in 2026, but this is still considerably lower than the long-term trend growth rate of 2.0%. Furthermore, while this represents an upward revision compared to our previous forecast of 1.1% for this year, it is primarily due to the surprisingly strong Q1 growth. Growth over the rest of this year is expected to be more muted. The forecast for GDP growth next year is a revision down from 1.7% as the impacts of higher taxes adversely affect business prospects.

After broadly flatlining in the second half of 2024, with UK GDP remaining flat in 2024 Q3 and rising by only 0.1% in Q4, GDP rose by 0.7% in 2025 Q1, surprising on the upside. Furthermore, Real GDP per person grew by 0.6% in Q1 and was 0.6% higher than a year earlier after falling in both 2024 Q3 and Q4.

Services output, which accounts for over three-quarters of the UK economy, increased by 0.7% in 2025 Q1 compared with 2024 Q4 and was 1.4% higher than a year ago. Furthermore, the quarterly growth was driven by both a 0.6% increase in business-facing services and a 0.8% rise in consumer-facing services. Drilling down into the sub-sectors, however, the largest positive contributor to services growth in Q1 was from administrative and support service activities,

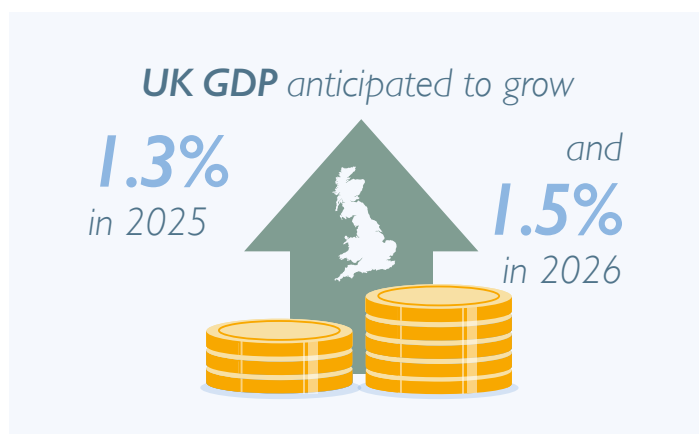


which increased by 3.7% whilst the largest negative contributor was financial and insurance activities, which fell by 0.7%, due to a 1.5% decline in financial service activities, excluding insurance and pension funding.

Industrial production rose by 1.3% in 2025 Q1, following falls in the previous three quarters, but remained flat compared with the same period a year ago. The growth in production in the quarter was primarily driven by a 1.1% increase in manufacturing and a 4.0% increase in water supply: sewerage, waste management and remediation activities. Electricity, gas, steam and air conditioning supply also increased, by 2.5%, whilst mining and quarrying fell by 0.5%. Overall, manufacturing output grew by 1.1% in Q1, following a 0.6% fall in the previous quarter. The largest positive contribution was from the manufacture of transport equipment (+2.8%), which, in turn, was driven by the manufacture of motor vehicles, trailers and semi-trailers. However, this sub-sector remained 5.5% below its level a year earlier.

According to the ONS, construction output in 2025 Q1 was estimated to have grown by 0.3% in Q1, following 0.3% growth in the previous quarter. ONS estimates that the level of construction output in Q1 was also 1.2% higher than in the same quarter a year ago. However, as highlighted in earlier forecasts, the CPA has concerns regarding the ONS construction output data (see [Overview](#)).

Whilst UK GDP in quarterly terms was positive, more recent data indicate a more pessimistic picture and less optimism over quarterly GDP going forward. UK GDP on a monthly basis fell by 0.3% in April 2025, after growth of 0.2% in March. Of the three main sectors in April, services output was the largest contributor to the monthly decline in GDP, decreasing by 0.4%. Industrial production output also decreased by 0.6%, but this was partially offset by a 0.9% increase in construction output in April 2025.



Economic Indicators

	2023	2024	2025	2026	2027
	Actual	Actual	Estimate	Forecast	Projection
GDP	0.4%	1.1%	1.3%	1.5%	1.6%
Fixed Investment	0.3%	1.5%	2.2%	1.6%	1.8%
Household Consumption	0.5%	0.6%	1.2%	1.6%	1.7%
Real Household Disposable Income	2.4%	4.2%	1.2%	1.8%	2.5%
Government Consumption	1.6%	3.0%	2.4%	2.0%	1.5%
CPI Inflation	7.2%	2.6%	3.2%	2.6%	2.4%
RPI Inflation	9.7%	3.6%	3.5%	2.8%	2.8%
Bank Base Rates - June	5.00%	5.25%	4.25%	3.50%	3.00%
Bank Base Rates - December	5.25%	4.75%	3.75%	3.25%	3.00%

Source: ONS, Construction Products Association

CPI Inflation set to average
3.2% in 2025 and **2.6%** in 2026



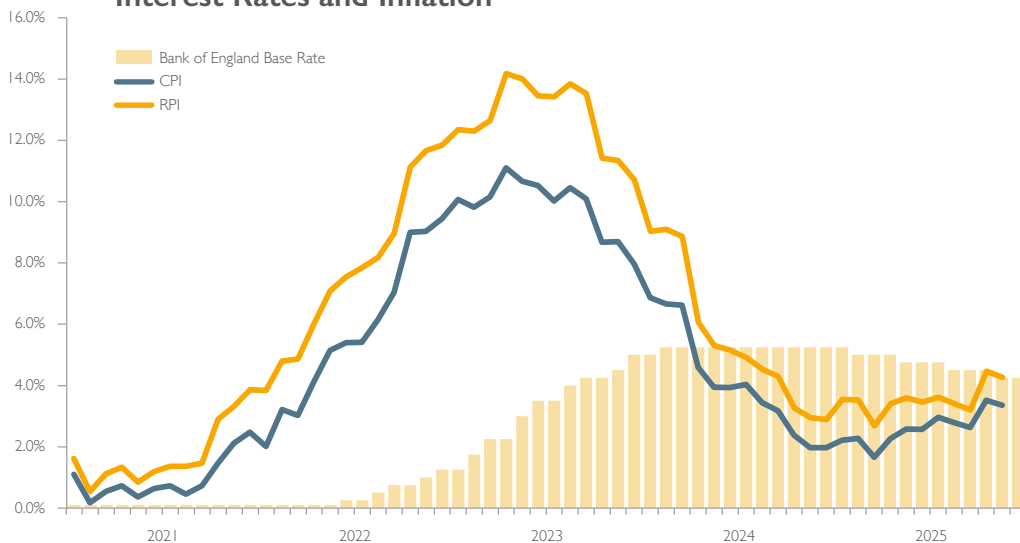
The services output fall of 0.4% in April was due to falls in the majority of the 14 service sub-sectors. The largest negative contribution in the services sector came from the professional, scientific and technical activities sub-sector, where output fell by 2.4%, following growth of 0.5% in March. This was mainly driven by legal activities (-10.2%), which was affected by the fall in property transactions during April as a result of the changes in stamp duty on 1 April. Advertising and market research also contributed negatively, with a 3.4% decline in April, which is significant as advertising and market budgets are often a bellwether for business expenditure, and declines frequently reflect companies tightening their belts and focusing on cost-cutting, rather than spending and investment.

The next largest negative contribution at the sub-sector level in April 2025 came from wholesale and retail trade; repair of motor vehicles and motorcycles, where output fell by 1.2% in the month, which largely offset the 0.9% increase in March.

Industrial production output was estimated to have declined by 0.6% in April 2025, following a 0.7% decrease in March. The decline in April was primarily driven by a 0.9% decrease in manufacturing output, as well as a 4.3% decline in electricity, gas, steam, and air conditioning supply output. These falls were partially offset by growth in mining and quarrying, as well as water supply, sewerage, waste management, and remediation activities, which increased by 3.6% and 0.7%, respectively. Manufacturing output declined by 0.9% in April 2025, following a 0.8% decrease in March. The largest negative contribution came from a 5.2% decline in the manufacture of transport equipment, following 5.0% growth in March.

According to the ONS, construction output rose by 0.9% in April, its third consecutive monthly growth. The rise in monthly output in April was due to both new work and repair and maintenance, which grew by 1.4% and 0.3%, respectively (see [Overview](#)).

Interest Rates and Inflation



Source: Bank of England, ONS

More recent indicators for the UK economy, such as the S&P Global Purchasing Managers Indices (PMIs), point towards a mixed Q2 and only cautious optimism for the year ahead. With 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 52.8 in June, up from 50.9 in May and its highest level in 10 months, but it remained below the long-run average of 54.3. Respondents attributed the rising service output levels to sales growth, which was supported by generally improving business and consumer spending. However, some service providers reported headwinds from subdued UK economic conditions, the impact of US tariffs and adverse geopolitical factors. Total new work increased marginally in June, and it was only the second monthly rise so far this year. However, the rate of new order growth was still the fastest since November 2024. Whilst domestic sales rose, export sales decreased for the third consecutive month. The UK Services PMI also highlighted a decline in employment in June, its ninth consecutive decline in services employment. The rate of job losses was slightly faster than in May, and, unsurprisingly, primarily due to elevated payroll costs and a lack of pressure on business capacity, resulting in reduced hiring. It also reported that a sharp rate of input price inflation persisted in June, with 29% reporting an increase in their cost burdens and only 1% indicating a decline. However, the overall pace of cost inflation eased to its lowest for six months, with respondents highlighting that the impact of rising payroll costs and ongoing efforts by suppliers to pass on higher National Insurance Contributions was partially offset by intense competition for new work from suppliers. Looking ahead, service providers remained optimistic about their prospects for business activity growth over the next 12 months. 44% predicted an expansion in activity compared with 15% expecting a decline. However, the degree of positive sentiment has declined since May, with many firms expressing concerns about domestic economic prospects, heightened global trade uncertainty, and geopolitical tensions.

The UK Manufacturing PMI was 47.7 in June, its highest level in five months. Although four of the five PMI constituents were consistent with a deterioration in operating performance (output, new orders, employment, and stocks of purchases), the rates of contraction eased in each of these variables. The UK Manufacturing PMI data signalled a decrease in manufacturing production in June, marking the eighth consecutive month of decline. Companies scaled back their output in response to weak market conditions, with clients offsetting higher costs through reduced demand and uncertainty surrounding government policy, tariffs, and broader economic and geopolitical risks. New order intakes also decreased for similar reasons, although the rate of decline was its slowest during the current nine consecutive months of contraction. Lower new order inflows reflected weaker intakes from both domestic and overseas clients. New export business fell for the 41st consecutive month due to declines in demand from the US, Europe, and China. Some manufacturers also reported that tariff uncertainty had affected both overseas demand and client confidence. Despite this, manufacturers' outlook

*The Bank of England's base rate is forecast to fall to **3.75%** by the end of 2025 and **3.25%** by the end of 2026*

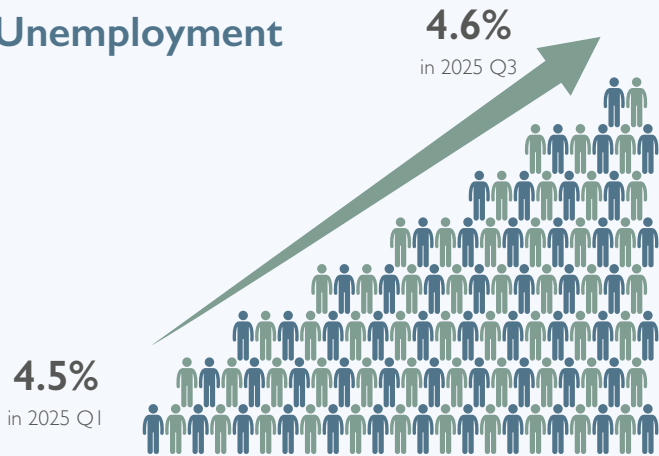


Real household spending is set to rise by:

***1.2%**
in 2025 and
1.8%
in 2026*



Unemployment



Source: ONS, Construction Products Association

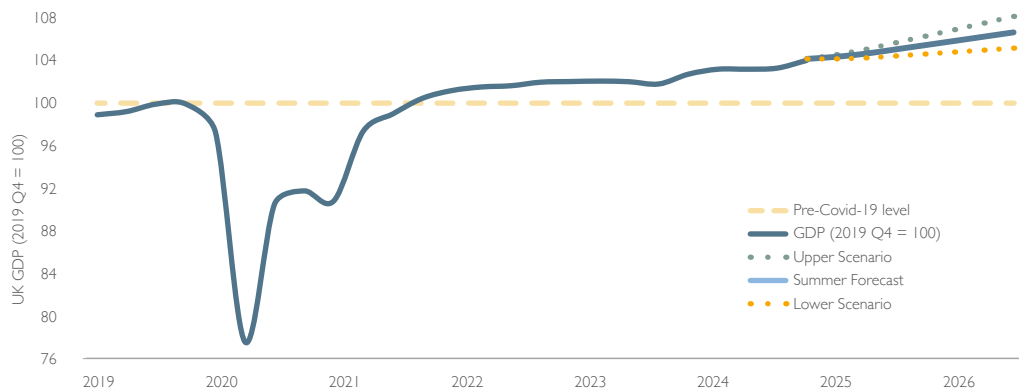
strengthened in June. Production was expected to be higher in a year, according to 46% of companies, compared to only 10% predicting a decline. This was linked to hopes for a sales recovery, new product launches, efforts to move into new markets, investment spending, organic growth opportunities, planned business expansions and diversification.

Manufacturers, however, remained concerned that government policy, tariff uncertainty and heightened geopolitical tensions could derail any moves towards greater market stabilisation. Job cuts at manufacturers were reported for the eighth consecutive month in June. The steepest job cuts were seen at larger producers. Manufacturing employment also fell to reduce excess capacity

at factories. Backlogs of work decreased for the 38th consecutive month, with the rate of contraction remaining strong. Average input costs rose for the 18th consecutive month in June. Higher input prices were linked to supplier price rises due to increased labour costs, general inflationary pressures, shipping disruption, and heightened geopolitical tensions. Chemicals, electronics, energy, food products, metals, packaging, and timber were all reported to have risen in price in the PMI. A portion of the cost increase was passed on to clients in the form of higher output prices in June, but rates of sales price inflation and input costs eased to three-month and six-month lows, respectively.

The UK Construction PMI was 48.8 in June, higher than the 47.9 in May. 50=no monthly change, so it represents another decline in construction activity in June, but it was the slowest monthly fall since January (see [Overview](#)). However, as stated in previous forecasts, the PMI since Autumn 2024 may reflect sentiment more than actual activity in housing, as the supply chain reports to the CPA that activity has been improving rather than the sharp declines that the PMI suggests.

CPA UK Economic Scenarios (Quarterly UK GDP)



Source: ONS, CPA Estimates

The HM Treasury [consensus of economic forecasters](#) highlights the most recent forecasts from City and non-City forecasters, compiled in June 2025.

Of the main City and non-City macroeconomic forecasters, the average estimate for UK GDP growth in 2025 was 1.1%, the same as anticipated three months ago but lower than the 1.3% forecast a year ago. Within the 1.1% average, the most pessimistic forecaster in June anticipated only 0.8% growth. The most optimistic forecaster in June expected 1.3% growth this year. This is a considerable variation across the forecasters halfway through the year, but it reflects the high degree of uncertainty over interest rates, consumer spending, business investments and global political and economic disruptions.

Unsurprisingly, there is a greater variation of forecasts for 2026. Unlike three months ago, when most forecasters were anticipating slightly stronger growth next year, now forecasters are more cautious. 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 June. This represents a downward revision from the 1.3% consensus forecast in March. The most pessimistic forecaster anticipated only 0.7% growth in 2026, whilst the most optimistic forecaster expected 1.5% growth next year. This slightly wider range of forecasts also reflects different assumptions about interest rates, with some forecasters anticipating as many as four interest rate cuts, whilst others anticipate only two rate cuts.

A key concern in the financial markets is the sustainability of government debt in the medium-term. The government has plans to increase capital expenditure, as outlined in the Autumn Budget 2024, the Spring Statement 2025, and, most recently, the Spending Review 2025, while adhering to its fiscal rule. These were predicated on the government achieving significant increases in tax revenue while simultaneously cutting current, day-to-day spending substantially in areas such as reducing the social care bill, implementing efficiency savings within the government, and reducing the number of civil servants. It is still early days into the government's plans, but UK GDP growth and, consequently, tax revenue are unlikely to be as high as anticipated in Autumn or Spring. Furthermore, the government's attempts to reduce its spending on social care already appear to be severely hampered. As a result, approaching the Autumn Budget 2025, the government is likely to face substantial pressure to either increase taxes further, which may harm UK GDP prospects again, or find other ways of cutting spending significantly that would enable it to stick to its fiscal rule and satisfy financial markets.

Given the negative effect the government has already experienced from raising employers' National Insurance Contributions (and lowering the thresholds), it is unlikely to focus further tax rises on businesses. However, if it raises taxes on households, that could hurt consumer confidence and spending. Plus, it may be in direct conflict with its pre-election pledge not to raise taxes for 'working people'. Furthermore, whilst the financial markets are concerned about medium-term government debt, near-term growth is likely to be driven, or not, by the willingness of households to spend. Following the energy and commodity price spikes during 2022 and 2023, falling real wages and the cost of living became a significant issue facing households. More recently, real wages have been rising for 23 consecutive months, which would normally herald sustained increases in consumer spending volumes and consumption, accounting for 80% of the UK economy. However, the scarring impact of sharp rises in the cost of living and the high level of prices, combined with rising global economic and political uncertainties, means that households with finance have chosen to save rather than spend.

Looking at whether households appear confident about their finances and confident enough to spend, GfK's Consumer Confidence Index has unsurprisingly recovered significantly since 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 only a very brief honeymoon period for the government despite a substantial majority in the General Election. Over the past year, consumer confidence has remained volatile on a monthly basis,



albeit on a slight negative trend, despite persistent real wage growth. Since the -13 in July and August 2024, consumer confidence fell sharply, to -20 and then to -21 in September and October, due to pre-Budget uncertainty over potential tax increases. As the burdens of announced tax rises fell on businesses rather than households, consumer confidence briefly rose to -18 in November and -17 in December. However, this proved to be short-lived. At the start of 2025, consumer confidence fell to -22 in January, before briefly rising to -20 in February and -19 in March. It then fell to -23 in April, rose to -20 in May, and then to -18 in June. Overall, while the changes in the indices suggest volatility, they primarily reflect a broadly negative trend between August 2024 and April 2025, with slight monthly fluctuations within the margins of error. It remains to be seen whether the rises in May and June reflect a change in the trend or, more likely, reflect the impact of better weather and a brief uptick within a broadly subdued consumer confidence picture.

According to the June 2025 GfK consumer confidence measure, its index for personal financial situation over the last 12 months was -7, which is the same as in May but three points better than a year ago. Expectations for personal financial situation over the next 12 months were at +2, which was the same as in May and two points worse than a year ago. GfK's measure for the country's general economic situation during the last 12 months was -43 in June, which was three points better than in May but nine points worse than a year earlier. Expectations for the general economic situation over the next 12 months were at -28 in June, five points better than in May but 17 points worse than a year ago. The Major Purchase Index was at -16 in June, the same as in May but seven points higher than a year earlier. The Savings Index was +27 in June, one point lower than last month and five points higher than a year ago. Overall, this suggests that consumers are finding their personal finances improving and anticipate this trend to continue, but they are much more pessimistic about the economy as a whole. Furthermore, although it suggests that consumers do feel slightly more optimistic, they remain negative about spending on big-ticket items, and they are still more likely to save than they were a year ago, despite better personal finances.

In 2019 Q4, before the pandemic, the household saving ratio was 5.9%. After unsurprisingly spiking at 27.5% and 21.8% during the national lockdowns, the household savings ratio returned to more normal rates of 7.0% 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. Consequently, the savings ratio fell to 4.5% in 2022 Q2. Still, following this, there was a general upward trend in household savings as households became risk-averse and saved to ensure that they had sufficient finance to account for general price inflation and the increase in the cost of any potential unforeseen expenses. Despite the slowdown in inflation and the rise in real wages, the savings ratio has continued to rise, with households uncertain about when interest rates will fall. In 2024 Q2, it grew to 10.1% before a marginal rise to 10.3% in 2024 Q3. More recently, the savings ratio rose to 12.0% in 2024 Q4 before falling to 10.9% in 2025 Q1, reflecting the many uncertainties in the UK economy and global political and economic risks. As highlighted in previous forecasts, the savings ratio is likely to fall over the next 12-18 months, but remain high by historic standards. The current forecast is that it falls below 10.0% in 2025 Q4 before falling to 9.0% next year.

Previous CPA forecasts highlighted that the sharp spikes in energy and commodity prices during 2022 and 2023 had largely fed through the annual CPI inflation figures by Summer 2024. At that point, the Bank of England's hope was that CPI inflation would return swiftly to its 2.0% target and be maintained. However, after hitting a low point in September 2024 of 1.7%, CPI inflation rose to 3.0% in January 2025 and only slowed marginally to 2.8% and 2.6% in February and March. More recently, UK CPI inflation jumped to 3.5% in April and was 3.4% in May, remaining considerably higher than the Bank of England's 2.0% official target. This was in line with forecasts beforehand.

Going forward, CPI inflation may be distorted by the potential impacts of any further US tariff disruptions, which could adversely affect global demand and ease inflation pressures, or, conversely, any further conflict in the Middle East, leading to increased oil and energy costs. Services inflation, which the Bank examines to gauge underlying price pressures, slowed to 4.7% from 5.4% in April, according to the ONS. Meanwhile, core inflation, which excludes commodities such as energy and fuel, slowed to 3.5% from 3.8% in April.

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, and Ofgem announced that it would increase marginally, by a further 1.2%, to £1,738 between 1 January and 31 March 2025. There was a slight increase to £1,849 from 1 April to 30 June 2025, followed by a 7.0% decrease to £1,720 between 1 July and 30 September. However, this is still 10% higher than the price cap set for the same period in the previous year. Uncertainty remains around changes to the energy price cap between 1 October and 30 December 2025, but it is currently expected to fall slightly, by 1.3%, to £1,698.

Greater uncertainty revolves around oil prices. The peaks of more than \$110.0 per barrel in the wake of Russia's invasion of Ukraine have long since passed. During 2024, oil prices were between \$75.00 and \$85.00 per barrel, except for a spike in April 2024 when they briefly went above \$90.00 before gradually falling to \$74.00 in December 2024. In January 2025, the price rose to \$79.20 per barrel before falling progressively to \$64.20 in May as concerns about global economic growth due to US tariff disruptions affected oil prices and future demand. However, as financial markets began to assume that the tariff disruptions might not cause as much significant damage as initially expected, and conflict in the Middle East led to concerns over potential supply issues, oil prices rebounded to \$71.50 per barrel in June. 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.

Going forward, the CPA was expecting two further interest rate cuts in 2025, in August and November, in its Spring forecasts. This remains the case in its Summer forecasts. Financial markets still expect two further cuts this year as well. However, the Bank of England is generally cautious. With the large number of distortions and uncertainties, it will want to be confident about the impacts of these distortions and potential uncertainties on inflation, especially given that inflation is already above 3.0% and given its remit is for a 2.0% target.

Another key uncertainty for the Bank of England, before it is confident enough to lower interest rates once again, will be the impact of the rise in the National Living Wage, the employers' National Insurance Contribution increases, and the falling thresholds on 1 April. The initial impact would be expected to raise businesses' wage costs, and, consequently, consumer price inflation would follow after a lag. However, given advance warning of the increases in the Autumn Budget, anecdotally, many businesses have stated that they have restricted new hiring and the replacement of non-essential staff in an attempt to maintain overall wage bills in 2025. At this point, it is difficult to know how successful this will be. However, it does suggest that the impact will either be directly on CPI inflation, assuming firms can pass the cost rises on, or it will be directly on employment, which would be expected to fall.

The latest HM Treasury consensus of economic forecasters, compiled in June 2025, highlighted that the average estimate for CPI inflation in 2025 Q4 was 3.2%, which is higher than the 3.0% three months ago. Within this, the most pessimistic forecaster in March anticipated inflation of 3.6% in Q4, whilst the most optimistic forecaster expected 2.0% CPI inflation in the final quarter of this year, which is highly unlikely even now, given CPI inflation figures year-to-date. Looking ahead to next year, in June 2025, the average estimate for CPI inflation in 2026 Q4 was 2.4%. Within this, the most pessimistic forecaster anticipated inflation in 2026 Q4 being 3.2%, while the most optimistic forecaster anticipates inflation in 2026 Q4 slowing to just 1.8%, which would require inflation to slow considerably from current rates.

The UK labour market remains strong despite the UK economy flatlining for the majority of 2022 and 2023, slow growth in 2024 and concerns over similarly weak growth expectations in 2025. Furthermore, the labour market is also likely to be adversely affected, over time, by firms attempting to restrict wage bill growth in the light of the rise in the National Living Wage and employers' National Insurance Contributions, and lower thresholds.

The UK employment rate (for people aged 16 to 64 years) was estimated at 75.1% in February to April 2025, which was 0.1 percentage points higher than the previous quarter but still 1.4 percentage points lower than the pre-pandemic period between December 2019 and February 2020. Conversely, the UK unemployment rate was estimated at 4.6% in February to April 2025, 0.2 percentage points higher than a quarter earlier and 0.7 percentage points higher than between December 2019 and February 2020.

The UK economic inactivity rate was estimated at 21.3% in February to April 2025, which was 0.2 percentage points lower than in the previous quarter but still 1.0 percentage point higher than between December 2019 and February 2020. The economic inactivity rate had fallen pre-pandemic, but it rose during the pandemic and, despite fluctuations on a quarterly basis, remains higher than pre-pandemic and has persistently been above 21.0%. However, the inactivity rate has been falling over the past year.

Annual growth in employees' average earnings was 5.2% for regular earnings (excluding bonuses) and 5.3% for total earnings (including bonuses) in February to April 2025. In real terms, annual growth was 2.1% for regular pay and 2.3% for total pay in February to April 2025. Furthermore, real wages have been rising for 23 consecutive months.

Given the negative impacts of the rise in the National Living Wage and employers' National Insurance Contributions, as well as the lower thresholds, it was unsurprising that business confidence continued to decline. The BDO Optimism Index fell in June, primarily due to weaker sentiment in the services sector. Manufacturing confidence improved in the month but remains below the historical average. Elevated labour costs, a slower pace of monetary easing and the prospect of tax rises in the Autumn are weighing on confidence.

The BDO Optimism Index declined to 91.58 in June, from 92.30 in May, remaining subdued. A deterioration in the services sector drove the fall. The Services Optimism Index fell to 91.31 in June from 92.16 in May. This decline more than offset the increase in the Manufacturing Optimism Index, which rose to 93.74 in June from 93.45 in May, buoyed by the UK's successful trade negotiations with the US, EU and India. Despite the trade deals providing manufacturers with greater clarity, confidence remained weak due to domestic headwinds. Elevated labour and energy costs, despite easing, continued to constrain businesses, as the prospect of further tax rises in the Autumn increases. Monetary policy was also not a source of optimism as stubborn inflation was expected to push the Bank of England against reducing interest rates near-term. Taken together, the BDO Optimism Index indicated fragile optimism, suggesting it was likely to remain depressed relative to historical levels over the remainder of the year.

Looking at UK business investment, the most recent figures cover 2025 Q1, before the impacts of the rise in the National Living Wage and employers' National Insurance Contributions, as

well as lower thresholds. Additionally, this was before the effects of US tariff disruptions and the most recent escalation of Middle Eastern conflict. As a result, if they are affected, most firms' business plans are likely to be more cautious in 2025 Q2 and, potentially, Q3.

UK business investment increased by 3.9% in 2025 Q1 and was 6.1% above where it was in the same quarter a year ago. The 2025 Q1 increase was mainly due to increases in transport equipment, ICT equipment, and other machinery and equipment, with a minor rise in buildings. This is partially offset by a decrease in intellectual property products (IPP). The strength of investment in transport equipment in Q1 came from the relative increase in aircraft investment compared to the previous quarter.

Upper Scenario:

- Economic activity and real wages grow strongly in 2025 H2
- Interest rates fall by 0.25 percentage points three times in 2025 H2 and four times in 2026
- Consumer spending rises robustly in 2025 H2 despite negative sentiment
- 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 in 2025 H2. Consumer spending increases 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
- 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 to 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 2025 H2 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

Halfway through 2025, private house building finds itself in a similar position to three months ago. In the long-term, government policies addressing supply-side issues may help house building, but, as highlighted in previous forecasts, the near-term will primarily be determined by demand-side factors. Fortunes for firms in the private housing sector will depend heavily on which part of the sector they are operating in. Major house builders continue to see a gradual recovery in completions, from a low base. Smaller house builders have seen an improvement in demand, but site viability remains challenging, given the numerous costs that the government continues to add to house builders. Build-to-Rent and high-rise continue to be affected by 6-9 month delays at the Building Safety Regulator. Overall, private housing output is still expected to grow by 4.0% in 2025 and 7.0% in 2026, as per the Spring forecasts.

For major house builders, who cover over three-quarters of house building, the gradual recovery in demand and the key Spring selling season have largely been in line with their expectations at the start of the year. Most of the top five house builders are still anticipating 5.0-10.0% growth per year in completions during 2025, from a low base, following the 20-30% decline in completions between 2022 and 2024. For example, Taylor Wimpey reported in April, and its guidance implies growth of between 4.0% and 8.0% in completions for 2025, with 45% of its volumes expected in the first half of the year and 55% in the second half. Similarly, Persimmon reported in May that it expects completions in 2025 to increase by between 3% and 8%. However, it highlighted macroeconomic factors, including UK economic growth, mortgage and homebuyer confidence, as well as uncertainties and geopolitical risks. On the upper end of the growth forecast for the majors, Bellway anticipates between 12.0% and 14.0% growth in completions, but, conversely, on the lower end of growth forecasts, Vistry Group, which became the largest house builder in 2024 after a 7.0% increase in completions, anticipates that sales volumes will remain flat this year. However, it is worth noting that Vistry's business model

Private Housing Starts and Completions Great Britain

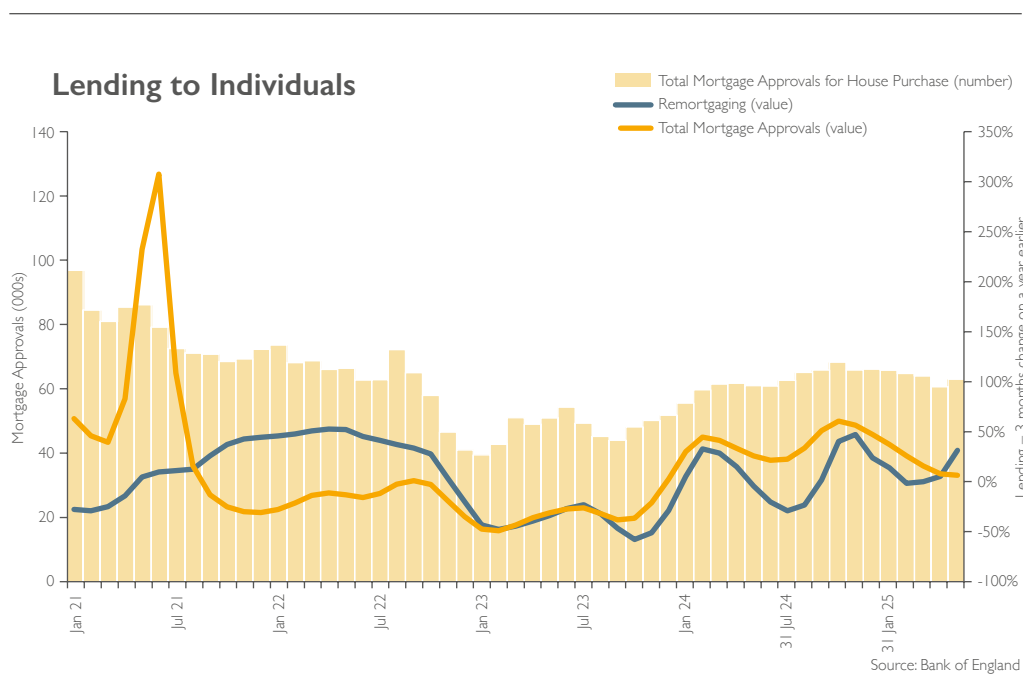
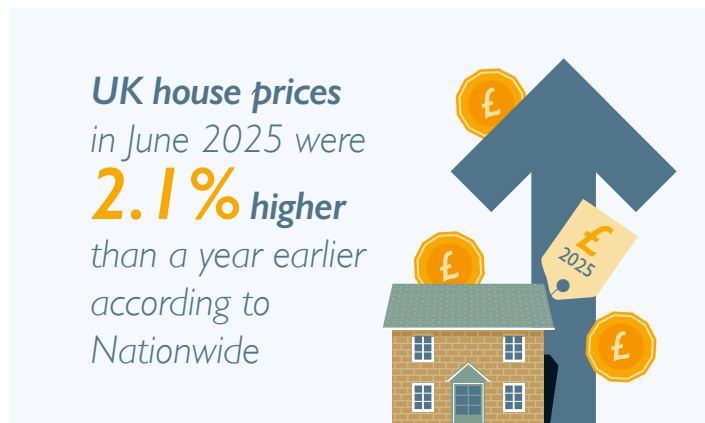
	2023	2024	2025	2026	2027
	Actual	Actual	Estimate	Forecast	Projection
Starts	131,033	92,563	105,522	121,350	133,485
	-19.8%	-29.4%	14.0%	15.0%	10.0%
Completions	144,011	134,328	143,731	152,355	159,973
	-13.5%	-6.7%	7.0%	6.0%	5.0%
Output (£m)	40,105	38,427	39,964	42,762	45,327
	-14.3%	-4.2%	4.0%	7.0%	6.0%
RM&l Output (£m)	34,786	37,063	37,804	38,938	40,107
	6.8%	6.5%	2.0%	3.0%	3.0%

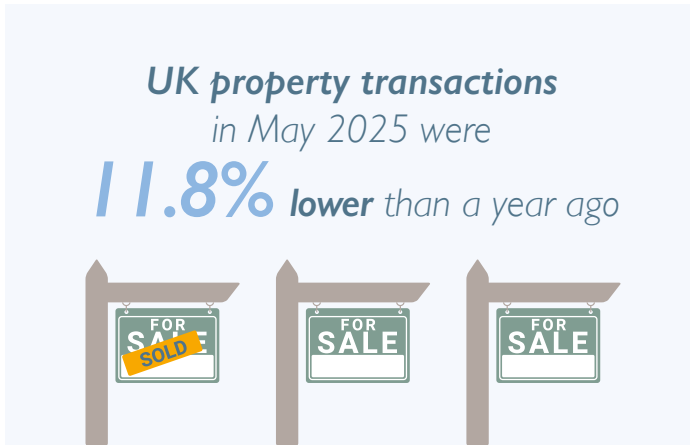
Source: MHCLG, ONS, Construction Products Association

is considerably different to the other major house builders and 73.0% of its completions in 2024 were partnership homes; 21.0% were Private Rental Sector (PRS) sales, 27.0% were Section 106 (S106) affordable housing, and 25.0% were additional affordable housing. Barratt Redrow, the second largest house builder, reported in July that its house building completions over the last year were 8.0% lower than Barratt Developments and Redrow's completions in the previous year, but that, going forward, it expects its completions to rise by between 4.0% and 7.0% in the next 12 months.

The major house builders also report that they anticipate low, single-digit cost inflation. Most recently, Barratt Redrow reported that it expects cost inflation of only 1.0-2.0% over the next year. Given that UK construction wage inflation in the year to April was already 5.1% for both regular pay (excluding bonuses) and total pay (including bonuses), even before the full impacts of the rise in the National Living Wage and the employers' National Insurance Contributions, and lower thresholds, on wage bills in the whole construction supply chain, this suggests that the hit to margin will be felt primarily by specialist sub-contractors and, potentially, merchants and distributors.

The issues for the largest house builders remain the same as highlighted in previous forecasts. Planning approvals continue to fall according to the Home Builders Federation (HBF). The number of new homes given planning approval in England during 2025 Q1 was 45,521, its lowest number since 2012, and a 21% fall compared with a year earlier. The rolling annual number of units approved in the year to 2025 Q1 was just 233,695, which was 5% lower than the previous 12-month period and the lowest 12-month outturn recorded since 2014. Given the low number of completions, this is currently unlikely to hinder activity rates, but it reflects a lack of medium-term optimism. Affordability remains the major house builders' largest constraint, in terms of mortgage deposits, mortgage rates and payments. Affordability in terms of mortgage rates and payments is likely to improve gradually as interest rates continue to fall. In terms of





the deposit, despite real wage growth, there is little sign of a significant improvement in deposit affordability given high house prices, and there continues to be no sign of any government policy to enable private house building demand through a rebranded equity loan scheme, i.e. Help to Buy 2, from HM Treasury. In July 2025, the Bank of

England's Financial Policy Committee announced 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.

For some major house builders, site viability has also been hindered by housing associations not buying S106 properties. Over 100,000 private homes and more than 17,000 affordable homes are currently stalled due to a lack of bids for Section 106 homes by housing associations and local authorities, according to the HBF. This issue may be addressed over time as housing associations receive additional funding under the new Affordable Homes Programme (see [Public Housing](#)). However, concerns remain, given that housing associations' primary focus in the medium-term is likely to remain on addressing issues with their existing housing stock, such as basic living conditions, fire safety, and decarbonisation.

In addition, despite the government's [National Planning Policy Framework](#) and the Planning and Infrastructure Bill, the planning process remains highly problematic due to a lack of resources and processes at local authority planning departments. Furthermore, around 180,000 homes are currently being delayed by water and nutrient neutrality requirements, according to the HBF. Additionally, many schemes are being hindered by wastewater connection issues and electricity grid capacity constraints.

In addition, although the government announced a one-year delay to the Building Safety Levy, it is still intended to be applied from Autumn 2026, during the forecast period. It is likely to add an extra £3.4 billion in costs, which is already on top of the Residential Property Developer Tax for larger house builders. Also upcoming is the government's Future Homes Standard, which is expected to be published in Autumn 2025, for implementation from 2026 with either a one or two-year grace period that ends in 2027 or 2028. Given the previous experience with updated building regulations, this suggests that there will likely be a sharp rise in starts before the end of the grace period, and that major house builders are only likely to build under the Future Homes Standard towards the end of the decade. However, the Future Homes Standard will also increase costs for house builders.

The issues for SME private house builders remain similar to those three months ago. Demand has picked up from a low base, and it is highly regional. Affordability remains a key issue as it

is for the major house builders, especially in the South of England. However, other SME house builders in some key hotspots reported that demand has improved considerably over the last 12 months. But, even where demand has been maintained, SME house builders continue to struggle to get applications through resource-constrained local authority planning departments. Furthermore, SME house builders also face planning issues, such as water and nutrient neutrality, as well as Biodiversity Net Gain (BNG). Smaller house builders are also disproportionately affected by the extra costs of building regulations F,L,O and S, as well as higher materials and labour costs.

Recognising some of these issues for smaller house builders, government proposed in May 2025 that; developments of up to nine homes may benefit from streamlined planning and eased BNG requirements, with faster decisions being taken by expert planning officers, not planning committees, sites of 10 to 49 homes may face more straightforward rules and fewer costs, including a proposed exemption from the Building Safety Levy and simplified BNG rules, Homes England may release more of its land exclusively to SMEs, and a new National Housing Delivery Fund providing long-term finance options, such as revolving credit facilities and lending alliances. In addition, the government also proposed a Small Sites Aggregator to bring together small brownfield sites that would otherwise not have been developed, and attract private investment to build new social rent homes and address temporary accommodation challenges. On the positive side, the government is now aware of some of the issues facing smaller house builders. On the negative side, however, without the full details of the announcements, it isn't easy to know how effective these will be and how long they will take to have an impact.

Outside of these areas, significant delays continue to affect developers of high-rise properties, which disproportionately impact residential areas in cities, particularly in London. Almost 50% of new build in London is apartments. Many high-rise residential developers have reported 6-9 months delays at the Building Safety Regulator (BSR) at the Gateway 2 stage. As the BSR covers buildings over 18 metres or seven storeys in which people stay overnight, it also affects student accommodation (see [Commercial – Education](#)) and some hospitals (see [Public Non-housing – Health](#)). In addition, given that a growing focus from major landlords in recent years has shifted towards residential developments, they are also adversely affected by BSR delays. It continues to keep many projects on hold, preventing them from starting. Some delays have been attributed to a lack of capacity at the BSR, while others have been caused by developer supply chains failing to provide the required information.

According to the BSR's latest data, published in July and covering activity from the end of 2023 to the start of 2025, it takes an average of 36 weeks to secure approval on new build projects, which is three times longer than the original 12-week target and even longer than the 19-week average at the end of 2024. Out of 2,108 total applications submitted to date, only 338 have received approval. Of the 193 applications for new buildings deemed 'higher-risk', only 15 (8%) have been approved.

The most recent data from Barbour ABI on project starts highlights that new project starts on high-rise residential in 2025 were 58.0% lower than the average during 2021. The extent of the issue is now so large that many developers are not submitting new applications until they see a significant improvement in the process and approval rates. Furthermore, the indications are that investors have been pulling away from high-rise due to the persistent delays. Furthermore, there are also potential further issues awaiting developers at the Gateway 3 stage, before the building can be occupied, and where additional construction activity may be required if the BSR necessitates it.

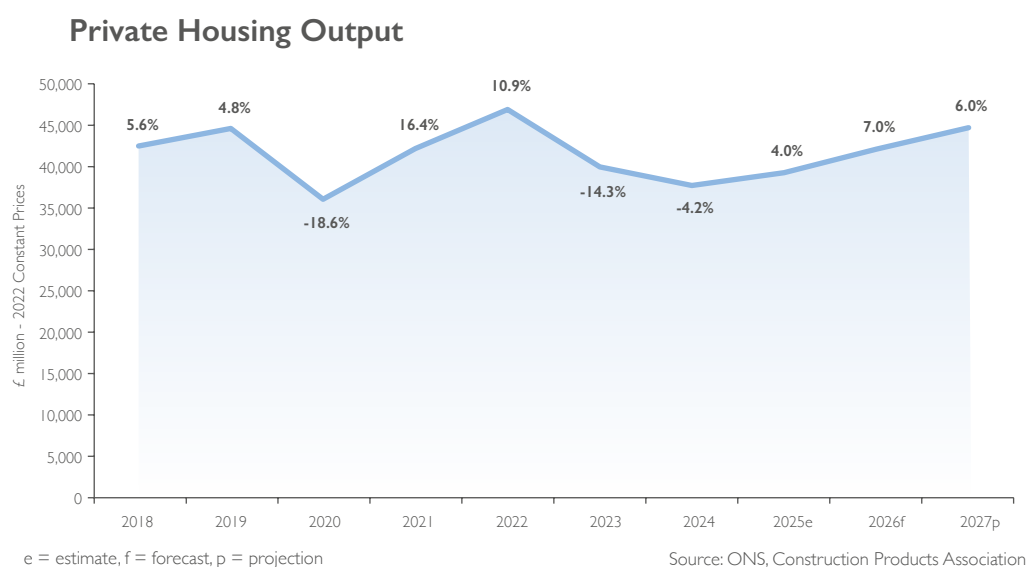
A partial offset to the decline in high-rise residential has been seen in the rise in investment and project starts for mid-rise residential (three to six storeys), as developers do not need to be involved in the issues related to the BSR. Since 2024 Q3, mid-rise project starts have risen by 38%, albeit from a low base, and this increase is insufficient to offset the declines in high-rise projects in terms of the number of buildings and, especially, the number of new homes to be built.

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 over 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.

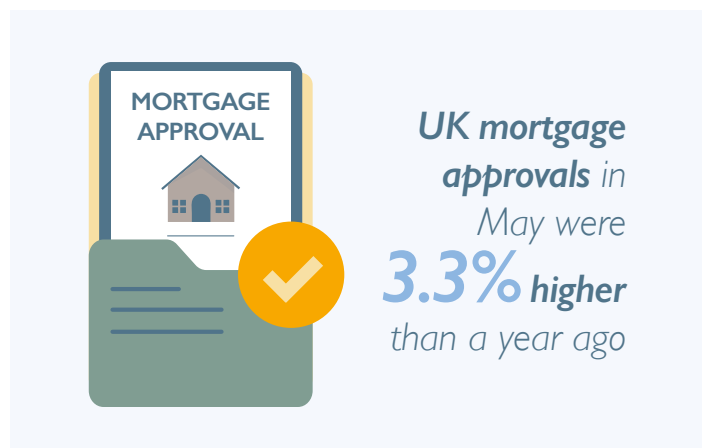
The most significant impact of the BSR delays is on London, which is the house building sector that has also been most affected by affordability issues, given the high level of house prices in the capital. According to Molinor, developments with 20 or more private homes saw private housing starts decline 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.

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 May 2025 were 25.1% higher than in April 2025 but 11.8% lower 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 brought forward transactions into March, if possible. This led to the inevitable spike in transactions in March, followed by a consequent decline in April, and a level that remained subdued in May. Beyond this, the latest level of property transactions and the time series of monthly transactions in general currently tell us little, given the distortions, and we are unlikely to see the 'true' level of transactions demand post-stamp duty changes until 2025 Q3.

Year-to-date (January-May) UK residential property transactions in 2025 were 21.6% higher than in 2024 but 3.6% lower than the recent peak in 2022, but again, the 'true' level of transactions demand in 2025 may only be apparent in 2025 Q3.



There were 63,032 mortgage approvals in the UK in May 2025, according to the Bank of England, which represents a 3.9% increase from April and a 3.3% rise from the low base of a year ago. The increase in approvals followed four consecutive monthly falls, as homebuyers rushed to complete transactions before the stamp duty change on 1 April. The housing market distortions due to the stamp duty changes were expected to have fed through to mortgage approvals in Summer 2025, and then, following a lag, in property transactions in 2025 Q3. As a result, May's mortgage approvals rise was largely expected as the housing market returns to levels that reflect current demand.



As highlighted previously, the trend in mortgage approvals since the low point in Winter 2023/24, followed by a period of flatlining and more recent declines, primarily reflects the impact of the trend in mortgage rates. However, more recently, the stamp duty distortion has also affected this trend. As the distortion now appears to have been reflected in mortgage approvals, gradual declines in mortgage rates, as interest rates fall further over the next 12-18 months, are likely to lead to slight rises in mortgage approvals as latent home buyer demand remains strong, particularly given high rental prices.

Looking at house prices, according to the Nationwide UK House Price Index, based on mortgage offers rather than transactions, house price growth slowed to 2.1% in June, from 3.5% in May. Prices also declined 0.8% month-on-month.

Nationwide stated that the slower price growth may reflect weaker demand following the increase in stamp duty in April. However, it still expects activity to pick up as Summer progresses, despite ongoing economic uncertainties in the global economy, as underlying conditions for potential homebuyers in the UK remain supportive. The unemployment rate remains low, earnings are rising in real terms, household balance sheets are strong, and borrowing costs are likely to moderate if the Bank Rate falls further, as most analysts expect.

Its regional house price indices highlight that Northern Ireland remained the strongest performer, although it did see annual price growth slow from 13.5% in Q1 to 9.7% in Q2. Scotland recorded a 4.5% yearly rise, whilst Wales saw a 2.6% increase.

In England, annual house prices rose 2.5% in Q2, slightly slower than the 3.3% yearly rise in Q1. The North had the strongest house price inflation in England, with prices in Q2 5.5% higher than a year earlier, whilst the North West had 4.2% annual house price inflation. Meanwhile, East Anglia and London experienced the slowest house price inflation, with yearly growth rates of only 1.1% and 1.4%, respectively.

The RICS UK Residential Survey, published in July 2025, reported that the headline net balance for the new buyer enquiries series was +3% in June, a significant improvement on the -22% in the previous month and the first positive figure since December 2024. However, it is still only consistent with a broadly flat picture so far, rather than an upturn. The national net balance for agreed sales was -3%, representing an improvement compared to the -25% and -28% recorded in the previous two months. Going forward, the near-term sales expectations net balance indicator was +6% compared to -2% in the previous month, which potentially suggests a slight recovery over the next three months. However, the net balance for sales expectations in the next 12 months was +5%, considerably lower than the +25% in the previous month, so respondents anticipated broadly flat sales volumes over the next year.



In terms of supply, the new instructions to sell net balance was +3% in June, down from a figure of +7% in May. This is the least positive figure over the past 12 months, implying that the recent pick-up in the flow of new listings may be slowing. Nevertheless, a net balance of +16% continued to indicate that the number of market appraisals in June was greater than a year ago, suggesting growth in the supply pipeline going forward. The net balance for house prices was -7% in June, unchanged from May, pointing towards a marginally negative trend in house prices. Within this, respondents in the South East, East Anglia and London reported a more substantial decline in house prices. However, respondents in Northern Ireland, the North West of England, Scotland and the East Midlands reported growth. Looking forward, near-term price expectations suggest

that the marginally negative trend in national house prices may persist over the next three months (a net balance of -10% compared with -11% previously), but a net balance of +24% is expected for house prices rising over the 12-month outlook.

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 the very 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 the peak of 5.8 during the 'race for space' peak in 2022 Q2 and Q3, just before

the full impact of 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.

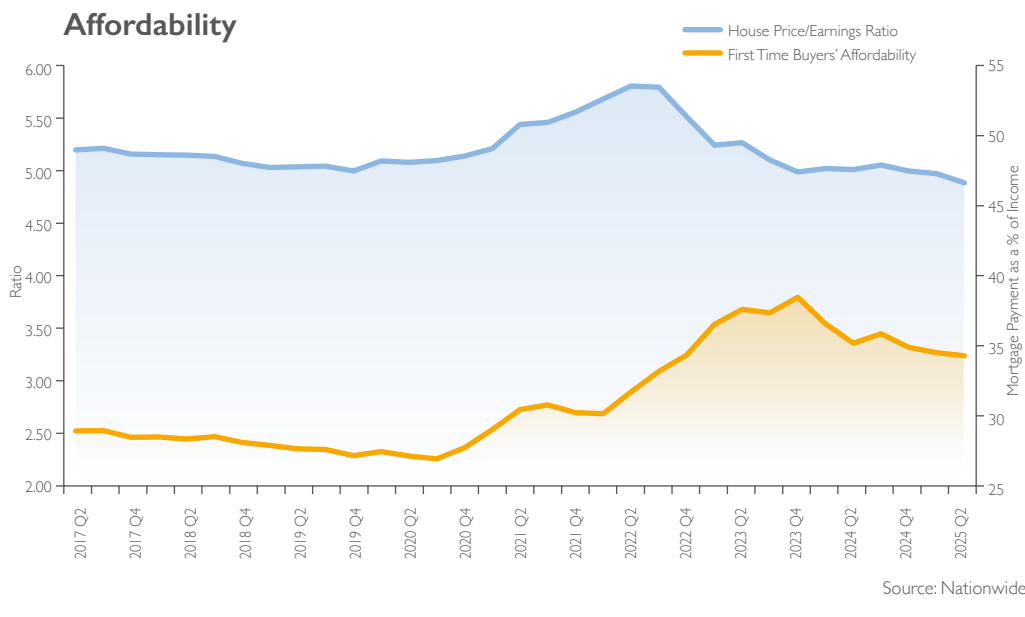
In terms of near-term early indicators of house building activity, UK brick deliveries are a useful proxy for house building starts in the absence of monthly starts data.

Private housing output
is expected to

rise by
4.0%
in 2025



and
7.0%
in 2026



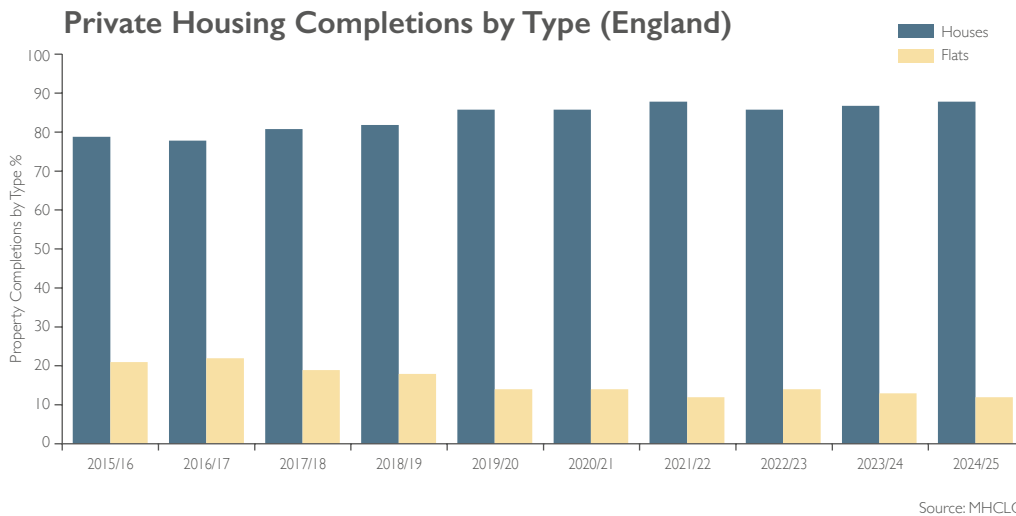
Deliveries in May 2025 were 10.6% higher than in April and 15.3% higher than a year ago, according to DBT. This was in line with house builders, who reported that house building starts were subdued in January and February but picked up in March, remained broadly flat in April and then ramped up in May as major house builders started new developments (from a low base) due to a lack of existing developments and stock, after two years of focusing on destocking during the recent housing downturn (late 2022-early 2024), to meet current demand. The 15.3% annual rise in deliveries and house building starts in May was also in line with major house builder reports that house building starts are double-digit higher than a year ago but that this is from a very low base and they also state that whilst house building starts are rising at double-digit rates compared with a year ago, house building completions are only rising single-digit on average compared with a year ago. Despite gradual recovery, deliveries in May remained 18.1% lower than the 2018-19 average, so clearly, it will take years to return to those levels of demand and activity, let alone reach the house building levels the government aims to achieve.

Deliveries year-to-date (January-May) in 2025 were 13.5% higher than a low base a year earlier, before house building demand and starts began to recover. Year-to-date deliveries in 2025 were also 5.9% higher than in 2023 but they remained 26.8% lower than at the recent peak of annual housing demand in 2022 during the 'race for space', when potential homebuyers were looking for more and better quality indoor and outdoor space, plus there were still low mortgage rates and government policy enabling demand (Help to Buy, stamp duty), which are all economic conditions that are not there now. So, again, it will take many years to return to 2022 house building levels, let alone the levels of house building that the government wants to see, given the lack of effective demand due to affordability issues and constraints.

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

High-rise residential projects starts in 2025 Q1 were 58% lower than the 2021 average





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%.

Within the relatively small niche of Build-to-Rent (BTR) housing, fortunes remain unchanged compared to three months ago. Over £1.1 billion was invested in the UK BTR market in the first quarter of 2025, according to Knight Frank in April. Investment was slightly lower than in 2024 Q1, but it remained in line with the long-term average for the quarter. Single Family Housing (SFH) performed strongly in the BTR niche, accounting for 50% of the total number of deals completed. According to Knight Frank, robust investment and activity levels so far suggest that the BTR sector has continued to weather broader market volatility, and it remains well-positioned to build on last year’s record investment. However, given that the US tariff disruption uncertainty disproportionately affects investors, it remains to be seen whether this will continue to be the case. Despite interest rates remaining high compared with the last 15 years, a strong appetite to fund residential rental means that there is high liquidity in the debt market, which is driving down margins and resulting in a lower all-in cost of debt. Both banks and debt funds are keen to lend, and banks have been willing to push leverage, with more prepared to offer loans with a 60% loan-to-value ratio. Competition from lenders is also leading to more innovative funding structures for lending to investors.

Mid-rise residential projects starts in 2025 Q1 rose by 38% in six months, from a low base



Of the homes currently being built, just over 40,000 are on multifamily schemes, which is 20% lower than at the same point last year. However, the number of SFH homes under construction in 2025 Q1 rose by 29% compared with a year ago. However, Knight Frank expects that build and financing costs will ease, leading to more homes at the permission stage coming forward as new starts on site in 2025, supporting future delivery. However, it also highlighted that schemes subject

to the Building Safety Act are experiencing elongated delivery timelines due to new approval gateways and capacity constraints at the Building Safety Regulator.

In 2025 Q1, there were over 130,000 completed BTR homes in the UK, with a further 56,357 under construction and 108,757 with full planning permission. Operational stock has increased by 19% over the last 12 months, led by London, Birmingham and Manchester. Outside of these core cities, BTR continued to expand its geographical presence around the UK, with 29 new local authorities adding a complete BTR scheme to supply. Knight Frank's analysis of expected completion dates for schemes currently under construction suggests that completions will end 2025 in line with 2024, but will start to decline in 2026 as developers across the residential market grapple with viability challenges and cost and regulatory pressures, particularly for urban developments. Only 28 of the 271 BTR sites currently under construction are due to complete in 2027.

Overall, private housing starts, completions and output are expected to rise in 2025 and 2026. The largest rises are likely to be in starts. However, the increase in starts reflects the low base after the spike in starts before the deadline for the building regulations F,L,O and S in June 2023, not a reflection of buoyant optimism from house builders. Starts in 2025 are forecast to recover by 14.0% from a historically low base, while completions rise by 7.0% and output increases by 4.0%. In 2026, starts are forecast to increase by 15.0%, still from a low base, whilst completions are forecast to grow by 6.0%, and output is expected to rise by 7.0%.

Upper Scenario:

- Residential property transactions recover strongly throughout 2025 H2 after the stamp duty distortion
- House price growth of more than 3.0% in 2025 and 4.0% in 2026
- Cost inflation eases
- Strong labour market

If mortgage approvals and transactions grow significantly from Summer 2025, after the stamp duty distortions have fed through the housing market, this could see a robust recovery in property transactions, house prices and house building earlier than anticipated, particularly given that slower cost inflation could help to ensure that a recovery in margins is also available for house builders.

Lower Scenario:

- Interest rates only fall once more in 2025 and twice in 2026
- Mortgage rates fail to decline in 2025 H2
- Consumer confidence hit by sustained interest rates
- Slow house price growth in 2025

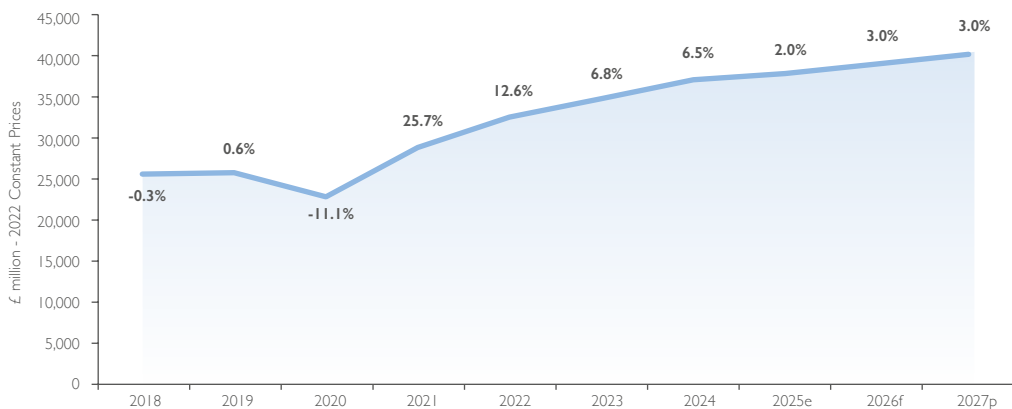
If interest rates remain higher for longer due to stubborn inflation, this could affect housing affordability for first-time buyers. More broadly, it could impact consumer confidence and spending, which would, in turn, affect economic growth. Slower economic growth, a further uptick in unemployment, and forced sellers could exacerbate a slower housing market, leading to a slower house building recovery in 2025 and 2026.

Private Housing RM&I

Private housing rm&i activity remains subdued overall, and when recovery starts, it will be heavily dependent on if, and when, homeowners feel confident enough to spend on general home improvement projects. Previously highlighted niches of activity, such as some areas of energy-efficiency and fire safety work on existing homes, remain strong, but activity in the sector is still not expected to return to the buoyant levels of activity seen during the pandemic 'race for space', even by the end of the decade. Overall, private housing rm&i output is forecast to rise by 2.0% in 2025 and 3.0% in 2026, the same as the Spring 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 one year. According to the ONS, private housing rm&i output in October 2024 was 39.5% higher than in January 2020, pre-pandemic and was at its highest level on record in March 2024. This is not in line with any firms in the private housing rm&i supply chain (SMEs, builders merchants, product manufacturers), which report that private housing rm&i activity started to fall in 2022, the falls accelerated in 2023 H2 and January and February 2024 were subdued and exacerbated by the persistent rain and floods despite an improvement in demand. As construction inflation slows, this is likely to become less of an issue regarding the change in private housing rm&i output. However, the output level will still be artificially high and it appears to have essentially created a structural break. 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

Private Housing RM&I Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

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 to match the ONS historic data that will be published later for the forecast period. **Additional note: 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.**

It was a difficult start to 2025 for most of the private housing rm&i sector. General home improvement activity remained subdued according to small contractors and builders' merchants, especially in January, February and Q1 overall. However, there was a pickup in activity in March and April, followed by a brief dip in May, before an improvement in activity in early Summer. In addition, while the majority of home improvement activity remained subdued, some outdoor activities, such as landscaping, increased from a low base, benefiting from particularly good weather.

The majority of rm&i activity (around 60% per year) covers general repairs and maintenance, which provides the general levels of sector activity and, outside of seasonal variations, it tends to be relatively stable, as most repairs and maintenance cannot be delayed indefinitely.

The volatility in sector activity tends to be due to general home improvement work or determined by government policy and programmes.

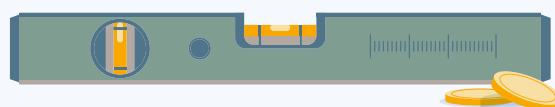
The key explanatory variables in the CPA's model for private housing rm&i are residential property transactions, real wage growth, consumer spending, and unemployment. In addition, housing wealth and household savings are also explanatory variables as they enable spending in the sector, given that they serve 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.

Looking at property transactions, there has historically been a strong positive correlation (70%) between property transactions and private housing rm&i activity with a 6-9 month lag, so that within 6-9 months of purchasing a property, there tends to be refurbishment activity as new homeowners attempt to improve their property initially. Consequently, there has also been a historical link with mortgage approvals, which is unsurprising given that mortgage approvals presage the vast majority of property transactions.

However, it is worth noting that, over the longer-term, there has been a gradual move towards fewer property transactions as affordability issues for younger homebuyers and an increasing proportion of the existing housing stock being owned by an increasingly ageing demographic means fewer transactions and less churn in the housing market.

In the near-term, it is also worth noting that, as highlighted in previous forecasts, during the recent housing market downturn between 2022 and 2024, property transactions did not decline as significantly as mortgage approvals due to a substantial increase in the proportion of cash purchases and bulk (investor) purchases. Cash purchases are still expected to result in home improvement activity within 6-9 months of a home move, in line with the CPA model; however, investor purchases are less likely to do so. In addition, it is worth noting that the change in stamp duty thresholds on 1 April distorted residential property transactions, with

**General home improvements
spending continued to
remain subdued during 2025 H1**



With **real wage growth**, many homeowners have the finance for home improvement projects but they remain **cautious on big-ticket item spending**



transactions from Q2 and potentially Q3 being brought forward into Q1 ahead of the deadline to avoid additional duty. However, this means that transactions in both Q1 and Q2 of 2025 will not accurately reflect the underlying level of demand so far this year.

Looking at UK residential property transactions, in May 2025, they were 25.1% higher than in April 2025, but 11.8% lower than in May 2024, 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 brought forward transactions into March, if possible. This led to the inevitable spike in transactions in March, followed by a consequent decline in transactions in April and a level that still remained subdued in May. Beyond this, the latest level of property transactions and the time series of monthly transactions in general currently tell us little, given the distortions, and we are unlikely to see the 'true' level of transactions

demand post-stamp duty changes until 2025 Q3.

Year-to-date (January-May) UK residential property transactions in 2025 were 21.6% higher than in 2024 but 3.6% lower than the recent peak in 2022, but again, the 'true' level of transactions demand in 2025 may only be apparent in 2025 Q3.

There were 63,032 mortgage approvals in the UK in May 2025, according to the Bank of England, which was 3.9% higher than in April and 3.3% higher than a low base a year ago. The rise in approvals followed four consecutive monthly falls, as homebuyers rushed to complete transactions before the stamp duty change on 1 April. The housing market distortions due to the stamp duty changes were expected to have fed through to mortgage approvals in Summer 2025, and then, following a lag, in property transactions in 2025 Q3. As a result, May's mortgage approvals rise was largely expected as the housing market gradually returns to levels that reflect current demand.

As highlighted previously, the trend of mortgage approvals since the low point in Winter 2023/24, followed by a period of flatlining and more recent declines, primarily reflects the impact of the trend in mortgage rates. Still, more recently, the stamp duty distortion has affected this. As the distortion now appears to have been reflected in mortgage approvals, gradual declines in mortgage rates, as interest rates fall further over the next 12-18 months, are likely to lead to slight rises in mortgage approvals. This is because latent home buyer demand remains strong, particularly given the high rental prices.

In addition, the incentive for improvement work is heavily reliant on house prices. Higher levels of house prices increase the incentive to invest in the home as an asset. This was particularly the case when interest rates were at historic lows, as investing in homes was substantially more attractive than saving, especially in areas with high house prices, such as London and the South East. In addition, high-value homes also provide greater equity that can be used to fund significant home improvement work. Furthermore, higher housing wealth increases the housing equity that can be used to fund home improvement activity.

Most forecasters anticipate house price growth in 2025 and 2026, but there is considerable variance across the forecasts, which is heavily dependent on the number of interest rate cuts that forecasters expect the Bank of England to make in the next 18 months.

Of the house price forecasts from macroeconomic forecasters in the last three months, the average forecast is for house price growth of 2.2% in the year to 2025 Q4, with the most optimistic forecaster predicting a 3.5% increase in house prices whilst the most pessimistic forecast was for only 0.6% house price growth in the year to Q4, which is unlikely given the house price growth seen so far. The average forecast from City and Non-City forecasters of 2.2% is broadly in line with the Office for Budget Responsibility's most recent forecast of 2.0% for 2025 that was made in March.

Of the house price forecasts from macroeconomic forecasters in the last three months, the average forecast is for house price growth of 3.1% in the year to 2026 Q4, with the most optimistic forecaster predicting a 4.5% increase in house prices whilst the most pessimistic forecast was for only 1.9% house price growth in the year to 2026 Q4. The average forecast from City and Non-City forecasters of 3.1% is higher than the Office for Budget Responsibility's most recent forecast of 2.5% for 2026.

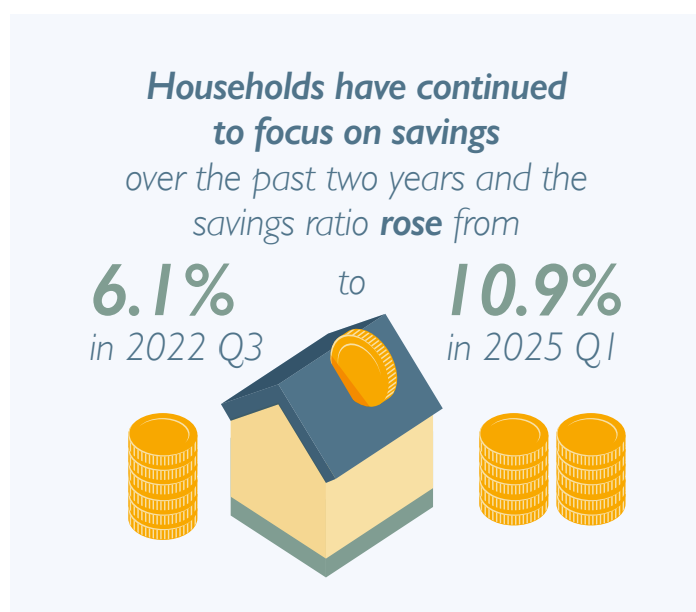
Real estate agents tend to be consistently more optimistic in their house price forecasts. Savills anticipates 3.5% house price growth during 2025 and 4.5% growth in 2026. Knight Frank forecasts 3.5% house price growth during 2025 and 4.5% in 2026, whilst CBRE anticipates house price growth of 3.4% in 2025 and 4.3% in 2026.

Overall, the house price forecasts suggest that existing homeowners will increasingly have both the incentive and the equity to finance investments in their homes, should they feel confident enough to do so.

Additionally, households have continued to experience a sustained period of real wage growth. Real wages fell for almost two years between Autumn 2021 and Summer 2023. Annual growth in employees' average earnings was 5.2% for regular earnings (excluding bonuses) and 5.3% for total earnings (including bonuses) in February to April 2025. In real terms, annual growth was 2.1% for regular pay and 2.3% for total pay in February to April 2025. Furthermore, real wages have been rising for 23 consecutive months.

However, as stated in previous forecasts, there may be scarring due to the persistent effects of spikes in inflation and real wage falls during 2022 and 2023, with high price levels and risk aversion affecting even some households with extra finance. This means that many households have focused on saving rather than spending, implying that even with rising real wages and forecasts of real household income increasing, albeit only by 1.2% in 2025 and 1.8% in 2026, whether households feel confident enough to spend will be critical for home improvements.

This is certainly what the latest savings data indicate. In 2019 Q4, pre-pandemic, the household saving ratio was just 5.9%. After spiking at 27.5% and 21.8% during the national lockdowns, the household savings ratio returned to more normal rates of 7.0% 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, and the savings ratio fell to 4.5% in 2022 Q2. Still, following this, there was a general upward trend in household savings as households became risk-averse and saved to ensure that they had sufficient finance to account for general price inflation and the increase in the cost of any potential unforeseen expenses.





Despite the slowdown in inflation and the rise in real wages, the savings ratio has continued to rise, with households uncertain about when interest rates will fall. In 2024 Q2, it grew to 10.1% before a marginal rise to 10.3% in 2024 Q3. More recently, the savings ratio rose to 12.0% in 2024 Q4 before falling to 10.9% in 2025 Q1, reflecting the many uncertainties in the UK economy and global political and economic risks. As highlighted in previous forecasts, the savings ratio is likely to fall over the next 12-18 months, but remain high by historic standards. The current forecast is that it falls below 10.0% in 2025 Q4 before falling to 9.0% next year.

Looking at whether households appear confident about their finances and confident enough to spend, GfK's Consumer Confidence Index has unsurprisingly recovered significantly since 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 no honeymoon period for the government despite a substantial majority in the General Election. Over the past year, consumer confidence has remained volatile on a monthly basis, but has generally trended slightly downward, despite persistent real wage growth. Since the -13 in July and August 2024, consumer confidence fell sharply to -20 in May and then to -21 in September and October due to pre-Budget uncertainty over potential tax increases. As the burdens of announced tax rises fell on businesses rather than households, consumer confidence briefly rose to -18 in November and -17 in December. However, this proved to be short-lived. At the start of 2025, consumer confidence fell to -22 in January, before briefly rising to -20 in February and -19 in March. It then fell to -23 in April and rose to -20 in May and -18 in June. Overall, while the changes in the indices suggest volatility, they primarily reflect a broadly slight negative trend between August 2024 and April 2025, with slight monthly fluctuations within the margins of error. It remains to be seen whether the improvements in May and June reflect a change in the trend or, more likely, reflect the impact of better weather and a brief uptick within a broadly subdued consumer confidence picture.

According to the June 2025 GfK consumer confidence measure, its index for personal financial situation over the last 12 months was -7, which is the same as in May but three points better than a year ago. Expectations for personal financial situation over the next 12 months were at +2, which was the same as in May and two points worse than a year ago. GfK's measure for the country's general economic situation during the last 12 months was -43 in June, which was three points better than in May but nine points worse than a year earlier. Expectations for the general economic situation over the next 12 months were at -28 in June, five points better than in May but 17 points worse than a year ago. The Major Purchase Index was at -16 in June, the same as in May but seven points higher than a year earlier. The Savings Index was +27 in June, one

point lower than last month and five points higher than a year ago. Overall, this suggests that consumers are finding their personal finances improving and anticipate this trend will continue, but they are much more pessimistic about the economy as a whole. Furthermore, it suggests that they feel more optimistic, albeit still negatively, about spending on big-ticket items, and that they are more likely to save than they were a year ago, despite having better finances.

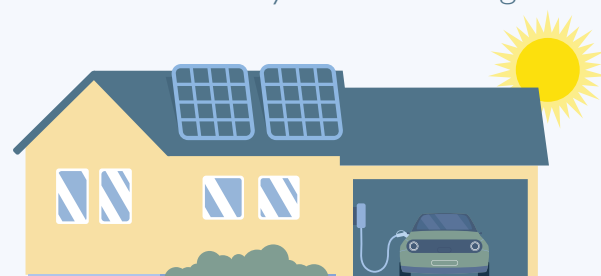
Private housing rm&i also potentially suffers from a fall in improvement activity within a small niche area based around homebuyers that purchase properties needing work, to refurbish them and sell them on relatively quickly. The increase in construction costs, financing costs (mortgage rates), and the additional stamp duty are likely to have adversely affected this niche area. According to research by real estate agents Hamptons in July 2025, the proportion of homes bought and sold within a year is expected to drop 1.3 percentage points to 2.3% in 2025, the lowest it has been since 2013, following the impacts of the financial crisis. According to Hamptons, the cost of stamp duty alone now accounts for 30% of the potential profit from buying a home, renovating it, and then selling it, and only two-thirds of these 'fixer-upper' homes are likely to make a profit in 2025.

As a result, the number of homes bought, renovated and sold for a profit dropped to 7,301 in the three months to March. This was 27.0% below the 10-year average for that period, according to the Land Registry. Over the past 10 years, the average stamp duty for a property bought, refurbished, and sold within a year has more than tripled, from £1,900 to £6,375, which has cut the average profit on these properties by 20.0%.

Hamptons reported that the average profit earned on a flipped property in England and Wales was £22,000 in 2025 Q1, which is £6,000 more than the profits earned on properties in the same period last year. However, slower house price growth and the shift towards buying, refurbishing, and then selling cheaper homes on average have meant that gross profit on these properties has almost halved since the peak of £38,000 in 2022, and remains lower than they were a decade ago. Furthermore, it stated that buying, refurbishing and selling properties quickly is only financially viable in the Midlands and North of England, where property prices and, therefore, stamp duty costs are lower. In the three months to March, 61.0% of homes bought, refurbished and sold in a year were in the Midlands, the North and Wales, which is 50.0% higher than a decade ago.

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 Q1, with a lower spend per customer. However, it is worth noting that many larger merchants in particular are also suffering from internal restructuring, a structural shift in rm&i activity from general home improvements towards energy efficiency and security (with many general home improvement projects already brought forward and completed during the pandemic 'race for space' spike in activity combined with more recent spikes in energy prices heightening concerns and skewing homeowner work to energy-efficiency and security). In addition, some major merchants are also finding that some major developers and contractors are moving more towards dealing directly with manufacturers. The Builders Merchants Building Index reported in April that year-to-date, the total value of building materials sales was 1.5% higher than a year earlier. However, within the total value, there was a considerable variation across materials and products. In the year-to-date, decorating products fell by 3.2% and kitchens & bathrooms fell by 2.7% compared with a year ago, whilst landscaping rose by 6.0% and heavy building materials rose by 2.5% compared with

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



Private housing rm&i is expected to

rise by
2.0%
in 2025



and
3.0%
in 2026

the same period of 2024. This is in line with small contractors, who reported to the CPA that project activity has been relatively subdued so far this year, although slightly higher than the low base last year. However, some areas of rm&i, such as landscaping, have been boosted by unusually sunny and warm weather.

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.

In terms of energy-efficiency, 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, excluding the ECO levy on energy bills, which is currently approximately £1.7 billion per year, targeting the upgrade of fuel-poor homes.

The government plans to help upgrade five million homes through the scheme. There are 29 million homes in the UK but, at this point, there is little clear information on the extent to which they will be 'upgraded' and whether this will focus on incentivising improvements in the majority of existing homes, in the private sector, or paying for retrofit of homes in the social housing sector. However, the government's consultations into 'Improving the Energy Efficiency of Socially Rented Homes in England' and 'A Reformed Decent Homes Standard for Social and Privately Rented Homes' point towards the finance being spread across both private housing rm&i and public housing rm&i (see [Public Housing RM&I](#)).

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. Any boiler or electric system that cannot be repaired will focus on alternative sources, such as heat pumps, biomass boilers, solar/PV, or a District Heat Network.

Between the end of July 2022 and January 2025, 140,817 unique households had measures installed under ECO4, resulting in approximately 4,142 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. However, as in previous forecasts, it is worth reiterating that even the previous phases of ECO schemes took time to build momentum. The number of measures installed under ECO4 has risen from an average of 1,416 in 2022 to 4,308 in 2023 and 5,202 in 2024. It is expected to continue at 2024 levels broadly. It could potentially rise over the forecast period, although it is worth noting that year-to-date, the average number of measures installed in 2025 has been 4,549, a slight fall from last year's levels. Furthermore, as highlighted in previous CPA forecasts, before the scheme came into effect, 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 with £450 million allocated over three years to 2025 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, and 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 the more significant grant and lower target were more realistic.

Between May 2022 and May 2025, 83,664 grant applications have been received, with 72,048 grants issued to date and 54,057 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, but accelerated rapidly between December 2023 and January 2025. However, the numbers have been starting to plateau so far this year. Due to the initial improvement in delivery in 2024, the Department for Energy Security and Net Zero (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 addition to ECO4 and the BUS, in November 2022, the government announced a £1.0 billion

Fire safety activity continues to remain robust



scheme, theoretically, to help around 300,000 households with the cost of installing insulation. However, deployment has been 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, 80,594 measures have been installed in 63,435 households as of the end of April 2025, indicating that it has achieved only 21.1% 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 measured installations under GBIS occurred in October 2024, when 6,784 measures were installed. So far this year, monthly installations have averaged only 4,036. 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.

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 May 2025, the Ministry for Housing, Communities and Local Government (MHCLG) reported that there were 4,636 buildings covered by the developer remediation 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 4,636 buildings, 2,025 were identified as having life-critical fire safety risks that developers will remediate. Within these buildings, which pose life-critical fire safety risks, 516 (25%) are reported to have completed remediation. Of the buildings reported to have completed remediation, 430 buildings (21% of all buildings with defects) were reported to have received a building control sign-off. 997 (49%) were reported to have started or completed remediation. 372 (18%) had not yet started remediation, but they did have plans in place. 656 buildings (32%) have not started and have no plans in place. This represents an increase of 139 since the April data release, resulting from developers identifying more buildings with defects between their January 2025 and April 2025 data returns.

The 2,025 buildings that require remediation have an estimated cost of around £4.1 billion. This represents an increase of £0.2 billion since the April data release, due to an increase in the number of buildings identified with defects. There are an estimated 128,900 dwellings in buildings with defects that developers are committed to remediate. Of these, an estimated 67,300 dwellings in buildings are reported as having either started or completed remediation works. Based on the start and completion dates reported by developers, 541 buildings that have not yet started are expected to commence works between 1 May 2025 and 30 April 2026, and 342 buildings that have not yet been completed are expected to complete their remediation

between 1 May 2025 and 30 April 2026.

Going forward, the government outlined its Remediation Acceleration Plan in December 2024, following an agreement with 29 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.

Overall, private housing rm&i output is forecast to rise by 2.0% in 2025 and a further 3.0% in 2026, which is the same as in the Spring forecasts. However, this forecast is heavily dependent on homeowners starting to spend some of the real wage increases and savings on home improvements towards the end of this year and, as a result, may be pushed back if households remain scarred by the inflation spikes and global uncertainty and risks, and so consequently consumer confidence does not improve. Furthermore, as in previous forecasts, despite the growth in 2025 and 2026, private housing rm&i activity is not expected to achieve the 'race for space' spike levels of rm&i activity even by the end of the decade.

Upper Scenario:

- Strong labour market
- Inflation goes below 3.0% during 2025 H2
- Three interest rate cuts in 2025 H2 and four cuts in 2026, of 0.25 percentage points each
- GBIS and BUS activity 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 quicker than anticipated in the forecast. The property transactions recovery would boost subsequent 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 2025 H2
- Interest rates only cut once in 2025 H2
- Increasing unemployment

If inflation were to remain stubborn and interest rates were only cut once in 2025, which financial markets were anticipating after the turmoil in 2025 H2, then all but the most essential maintenance could be paused or cancelled as job insecurity, rising homeowner costs, and falling real wages would continue to hit consumer confidence and spending power.

Public Housing

The Spending Review confirmed that a £39 billion, ten-year Affordable Homes Programme will begin in April 2026, alongside a ten-year rent settlement. This provides the certainty of long-term funding that social housing providers had been calling for but in the near-term, housing association and local authority resources will continue to be stretched across a growing list of rm&i priorities, whilst delays related to approvals for high-rise developments at the Building Safety Regulator will limit the extent to which activity can accelerate. It is, therefore, likely to be beyond 2026 until firmer growth rates reappear.

Funding for public housing was one of the key headlines from the Chancellor's Spending Review in June, with the government committing £39 billion to a ten-year Social and Affordable Homes Programme (SAHP) beginning in 2026/27, immediately after the current Affordable Homes Programme (AHP) ends. This was accompanied by a ten-year rent settlement continuing the current maximum yearly increase in social rents of CPI + 1%. 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. 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 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 Building Safety Regulator Gateways approvals process and given a slower than expected housing market recovery, there is still uncertainty for schemes being planned now. Prior to the Spending Review, the government allocated an additional £500 million to the final year of the current AHP in the Autumn Budget and a further £350 million top-up in February, as well as £2 billion in funding to bridge the gap between the end of the AHP in March 2026. This has been included in the latest £39 billion allocation. The additional near-term funding is expected to bring forward

Public Housing Starts and Completions Great Britain

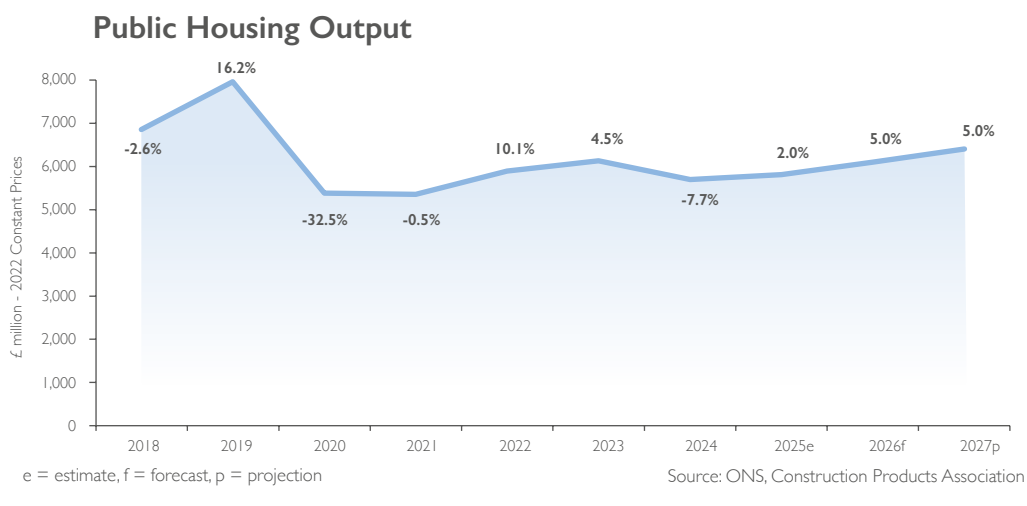
	2023	2024	2025	2026	2027
	Actual	Actual	Estimate	Forecast	Projection
Starts	41,503	33,461	34,465	37,222	39,083
	-8.7%	-19.4%	3.0%	8.0%	5.0%
Completions	45,273	44,032	43,151	45,309	46,668
	9.0%	-2.7%	-2.0%	5.0%	3.0%
Output (£m)	6,151	5,680	5,794	6,083	6,387
	4.5%	-7.7%	2.0%	5.0%	5.0%
RM&I Output (£m)	8,445	9,606	9,798	9,994	10,394
	5.5%	13.7%	2.0%	2.0%	4.0%

Source: DLUHC, ONS, Construction Products Association

starts that had previously been held up due to uncertainty. However, it will take more time for social housing providers to plan in new developments based on the newly-announced funding, given that there is no further detail, other than a funding profile that implies a pickup only from 2029/30. This is particularly the case for some of the larger housing associations, and especially those operating in London and the South 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, with additional funding of £2.0 billion covering starts to March 2027. 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 higher interest rates and 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 two 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 and social housing providers have been largely excluded from 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 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 additional 7,800 homes that additional 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-



The GLA has been allocated



for affordable homes delivery in London

2036 has confirmed funding of £39 billion, which includes the previous £2.0 billion bridge funding and £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 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, 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 AHP, 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 Shared Ownership and Affordable Homes Programme 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 at the starts stage, 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. 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 six months to the pre-construction phase. 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. For the 2024/25 financial year, the full rent increase of 7.7% for England was confirmed in January. The government has confirmed a ten-year settlement based on the current CPI + 1% maximum annual rent rise will

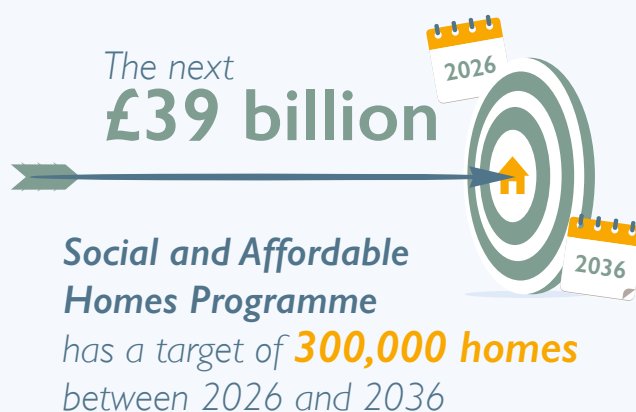
continue from April 2026. However, it is still unknown whether it will be applied consistently, after high inflation limited the permitted rent increase in 2023/24. The Local Government Association has suggested that even with a ten-year rent settlement, it does not envisage an increase in local authority 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. Since 2018, 12 section 114 notices have been issued by local authorities, meaning that a council must pause its spending as forecast income is insufficient to meet its forecast expenditure in the current year's budget. Nottingham City Council and Birmingham City Council issued section 114 notices in 2023, and for the latter, its housing budget will be cut by £6.2 million in 2024/25 and £9.5 million in 2025/26. 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 and rising costs.

The Regulator of Social Housing (RSH) [survey for Q1](#) 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, with £10.7 billion of this contractually committed, which was around the lowest in five years. Cutbacks in development programmes were most prevalent among large housing associations. In addition, previous quarterly surveys have shown that development spending has been markedly below forecasts, with providers citing reduced confidence to commit to new schemes in the current economic environment, as well as delays to utility connections and planning. Contractor insolvencies have also been identified as a factor slowing progress on building projects that have already started. Insolvencies reached a decade-high at the beginning of 2024 (see [Overview – Key Risks](#)) and, therefore, remain a risk as financial constraints linger.

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 2025 Q1, the scheme accounted for 4.5% of provider funding. Bank lending accounted for 62.0% and capital market funding, such as bonds, accounted for 34%. 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 the current financial year, starts under the AHSP between April and December 2024 were 12.6% lower than the same period a year earlier and, in the 12 months to December 2024, starts were at their lowest annual level since 2013. Completions over the first nine months of 2024/25 fell 11.5%.





In Wales, a five-year rent-setting policy similar to England, 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 September, 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 slower 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. 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. Growth is forecast to return this year, at 2.0%, as schemes currently held up in pre-construction gateways with the Building Safety Regulator progress through to starts, although main construction work is unlikely to occur before 2026. 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 to be delivered from April 2026. The government's funding allocation to the next SAHP adds certainty to the longer-term outlook, but it is likely to take some time for schemes to be planned and started.

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 in 2025 H2. 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 comes now that the government has confirmed higher annual funding for the new SAHP and an implied increase in grant funding per unit, particularly given the focus on social rent, which in the upper scenario occurs alongside an increase in open market development.

Lower Scenario:

- A slow recovery in the housing market undermines the focus on market-linked products
- An increase in local authorities declaring financial issues

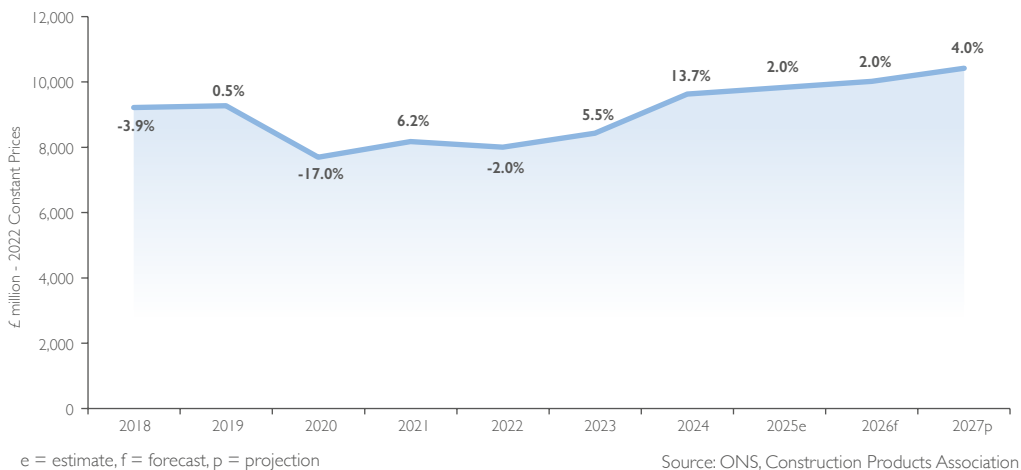
If economic growth is slower to pick up in 2025 H2, or if interest rates are reduced more gradually than expected in the forecast, this would reduce demand for market-linked products already under construction on the 2021-2026 AHP and entering planning on the SAHP. An increasing number of local authorities signalling financial difficulties that may require significant cuts in capital spending is also a risk in the lower scenario.

Public Housing RM&I

Repairs, maintenance and improvement of the existing stock is a key focus for social housing providers. Existing work across fire safety remediation and government-funded decarbonisation programmes is being supplemented by larger 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, limited social housing budgets are struggling to cover the increase in r&m pipelines and growth rates are expected to remain constrained, even with resources diverted from new build programmes.

Housing associations and local authorities manage the repair, maintenance and improvement (rm&i) of the 5.0 million publicly-owned housing stock in Great Britain and the pipeline of work has expanded across 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, which was implemented in 2023, and the Renters' Rights Bill that is in the final legislative phases, both impose shorter timescales for social landlords to make repairs and have pushed rm&i further up the priority list for social housing providers. Recently, stronger enforcement through regulatory 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 so far been little additional funding from the central government and a reliance on commercial lending. As a result, despite building safety works being a priority, they are more likely to be phased over several years. In addition, although now reported to be easing, social housing providers have highlighted delays over the last couple of years due to difficulties in recruiting contractors, inflationary pressures and delays obtaining regulatory approval. Social

Public Housing RM&I Output



housing providers indicate that higher-priority activity will continue to displace other non-urgent general works on existing properties that can be delayed, with rm&i generally being prioritised over new development. Sector activity is forecast to grow 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). Understandably, the remit for remediation has broadened to other types of flammable cladding and to cover mid-rise buildings above 11 metres. At the end of May 2025, social housing providers had identified a total of 2,719 buildings higher than 11 metres with unsafe cladding, an increase of 131 since the end of January and 842 more than December 2023. This was split as 1,326 buildings between 11 metres and 18 metres, and 1,468 buildings over 18 metres. Remediation is recorded as complete on 953 of these, with work underway on 273 buildings, and a plan in place for 997 buildings. A remediation plan has not been determined for 571 buildings. In December, 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 that 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.

The Building Safety Regulator (BSR) is also assessing high-rise residential buildings constructed using large panel systems (LPS), focusing on those built prior to 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. In June, Brighton and Hove City Council recommended the demolition and rebuild of eight large panel system LPS residential buildings in its ownership.

Remediation work is complete on **34%** & underway on **10%** of the **2,794** social housing buildings above 11 metres that have been identified as having cladding defects

Source: MHCLG, as at the end of May 2025



In June, the Scottish Government raised its estimate of the total number (private and social) of 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 around £1.0 million per quarter being spent, 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. 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, in August 2024, Aberdeen City Council approved the demolition and subsequent rebuild of 366 council homes with reinforced autoclaved aerated concrete (RAAC) roof panels, which was deemed a quicker and more cost-effective solution than repairing them. In March, the Scottish government announced it intends to introduce Awaab's Law into Scottish housing legislation. Mirroring the legislation in England, it will mandate social landlords to address damp and mould hazards within short, fixed timescales.

In Wales, 179 social housing buildings will be remediated under the Welsh Building Safety Programme, along with 269 private sector residential buildings. Work has completed on 77 out of the 448 total buildings, with no split between tenure available. 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 will be implemented in October, 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 October, social housing landlords will have to investigate damp and mould hazards within a fixed timescale. The length of time is yet to be confirmed, but an earlier government consultation suggested 14 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, falls, 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. 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 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 will 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, show that spending on both revenue repairs, which tend to be responsive repairs, and larger capitalised repairs remains at record levels. In the 12 months to March 2025, total r&m expenditure was £9.0 billion, with £9.9 billion 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. Delays to r&m programmes were reported to be easing, however. 38% of respondents reported delays, which was the lowest proportion in three years.

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. However, without further detail, including the split between private and social sector homes, it is difficult to assess.

Between March 2022 and April 2025, 31,693 measures had been installed in 16,056 properties under the first wave of SHDF and under Wave 2.1 (£778 million of funding allocated in March 2023), 43,196 measures had been installed in 21,393 properties. Since April 2024, when the £75.5 million 'top-up' Wave 2.2 commenced, 3,317 measures were installed in 1,610 properties. The programme is dominated by insulation improvements, which accounted for 56% of measures installed, followed by doors and windows, such as double/triple-glazing or energy-efficient doors (17%) and by solar/PV measures (15%).

The Scottish Government
*estimates the total cost to remediate
high and mid-rise residential buildings
between*



Alongside these programmes, following an initial phase that allocated £150 million, a further £630 million was allocated for the Home Upgrade Grant scheme in October 2023, which will be used by local authorities to support low-income and off-gas grid households to carry out energy-efficiency upgrades on 30,000 properties up to March 2025. Between its start in January 2022 and April 2025, 27,478 measures had been installed at 15,418 properties. Similar to the other retrofit schemes, 31% of the measures installed were for insulation and 33% were for solar/PV.

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 between October 2018 and March 2022) but lower than the 145,103 measures installed during the four years of ECO1 and 2. Between April 2022 and April 2025, there were 797,460 measures installed in total under ECO4, of which 61,560 were for solid wall insulation measures across privately and publicly-owned properties, which is, therefore, largely 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.

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, with funding now eligible to be used on improvements to the existing stock as well as new build. In October, 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, in the longer-term, a key issue for social housing providers 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 funds. 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 provided £580 million for the decarbonisation of social housing in Wales up to 2024/25, with 7,000 retrofitted to date since 2020. A total of £72 million in general capital will also be used to help accelerate the scale and pace of the decarbonisation of Welsh homes. Of this, £35 million will be used to test new funding models. The final budget for 2025/26 increased funding for decarbonising existing homes by 3.0% year-on-year from £92 million to £95 million. The Welsh government has set a target for rented housing, achieving 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) targets a minimum EPC rating of D for social housing to be let from 2025. Only 5.0% of the 650,000 social sector dwellings in Scotland had an EPC rating below D according to the house condition survey for 2023 so, with sufficient finance, this may be achievable. It also sets a deadline of December 2032 for all social housing to reach an EPC rating of B, which looks more 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 rm&i output is expected to remain restricted across the forecast period by financial constraints for the key areas of demand across 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. As a result, public housing rm&i is forecast to rise by 2.0% in each year of the forecast period.

Upper Scenario:

- Housing associations severely cut 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:

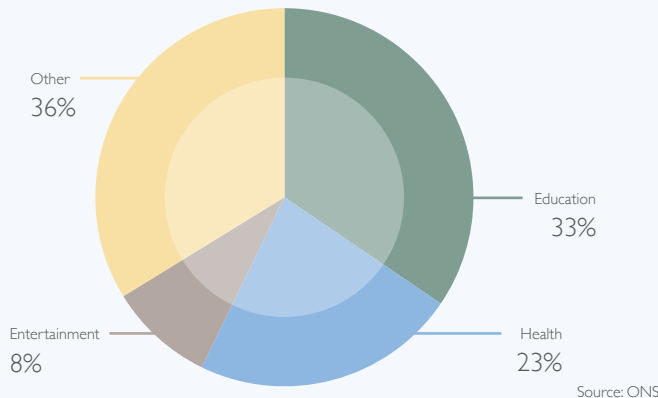
- Labour capacity constraints continue to hinder cladding remediation and decarbonisation
- Cost increases reduce volumes of work undertaken
- More local authorities struggle with budgetary constraints

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 substantially over the forecast period – but it will take time for increased funding to translate into higher output. Spending Review 2025 confirmed long-term funding for the main investment programmes in health and education, along with funding certainty for new prisons. Although full details are still outstanding, the increase set out for defence spending presents a significant 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 2.2% 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 for 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 nominal capital budgets is more muted at 1.8% in 2027/28.

Over the forecast period, the Ministry of Defence's (MOD) capital budget will increase rapidly, rising by 32% from £22.7 billion in 2024/25 to an estimated £30.0 billion in 2027/28. This allocation includes investment in technology and innovation and MOD investment in its infrastructure portfolios typically amounts to £5 billion each year. The Strategic Defence Review acknowledges the role that accommodation and the quality of ancillary facilities have in retention and satisfaction, and there is scope for investment in MOD estates to increase substantially 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% by 2027/28 from a very low baseline in 2024/25. Funding for the School Rebuilding Programme will increase to support the delivery of 100 schools per year to catch up with delivery in the near-term 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.

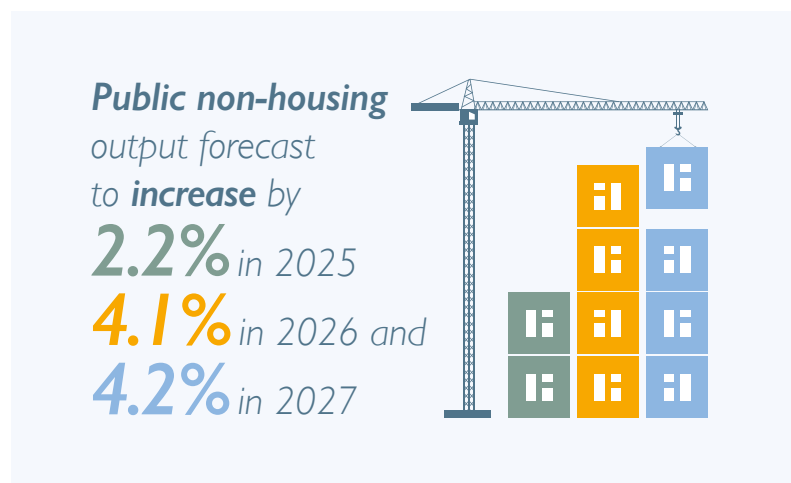
Funding allocations for the Department of Health and Social Care (DHSC) and Ministry of Justice (MOJ) will increase by 35% and 16%, respectively over the same period, intended to

provide the financial support required to deliver pre-established investment plans, namely the New Hospitals Programme and the New Prisons Programme.

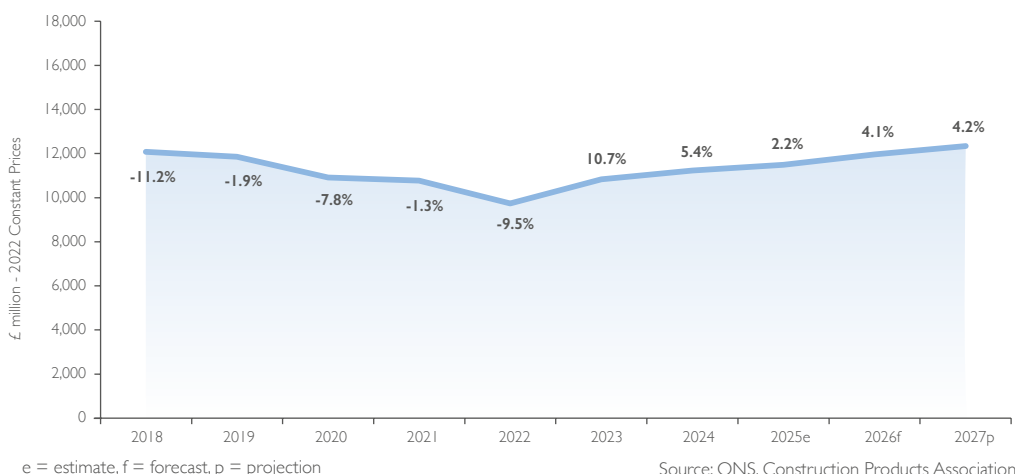
The latest figures from the ONS continue to highlight the scale of the public sector's financial challenge, which poses an ongoing downside risk to the outlook. Public sector borrowing – the difference between total public sector spending and income – was £17.7 billion in May 2025; this was £0.7 billion more than in May 2024 and the second-highest May borrowing since monthly records began in 1993, after that of May 2020. Public sector net debt excluding public sector banks was provisionally estimated at 96.4% of gross domestic product (GDP) at the end of May 2025; this was 0.5 percentage points more than at the end of May 2024 and remains at levels last seen in the early 1960s. Public sector net financial liabilities excluding public sector banks, the broader definition of debt now used in Government's fiscal target, were provisionally estimated at 83.9% of GDP at the end of May 2025; this was 2.5 percentage points more than at the end of May 2024, but 12.5 percentage points less than for public sector net debt.

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 an 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.

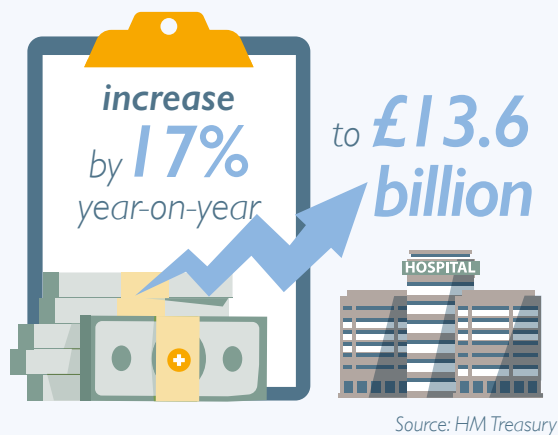
Capital expenditure across local authorities in Scotland was £3.68 million in 2023/24, and is provisionally reported as £4.48 million in 2024/25, an increase of 22%. It is budgeted at £5.04 million in 2025/26. Investment in the school estate via the Learning Estate Investment Programme is a leading driver 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



Public Non-housing Output



Department of Health and Social Care's capital budget for 2025/26 is set to



million in 2024/25 and investment in the current year is budgeted to be broadly maintained at £1.04 billion.

The Welsh Government has finalised its capital budget for 2025/26. In total, capital investment is set to rise marginally in nominal terms 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 last financial year, while 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.

In 'UK Infrastructure: A 10 Year Strategy', the government presents a vision to deliver a more efficient, co-ordinated, approach to infrastructure and sets an aspiration to invest £725 billion in delivering new infrastructure, and maintaining existing facilities, through to 2034/35. Actual

investment for the latter period will be determined by future spending decisions in a new parliamentary term.

Government will explore the feasibility of using new public-private partnership (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 used to deliver social infrastructure via the Welsh Government's Mutual Investment Model.

Within the publicly-financed entertainment sub-sector, greater certainty around medium-term funding is supporting local authority investment in sport and leisure facilities. Construction is due to start on a £27.3 million leisure centre in Bishop Auckland, and work recently got underway on a £44.5 million leisure centre in Kingston town centre for the Royal Borough of Kingston upon Thames. The facility is expected to open in Spring 2027. In May, work also commenced on a £15 million health and leisure facility for Swale Borough Council in north Kent and the project is expected to complete in July 2026. In Wales, construction work has begun on a new £38 million leisure centre in Caerphilly.

Additionally, plans to redevelop the Crystal Palace National Sports Centre in south London, for the Greater London Authority, are progressing. Pre-construction work is underway on this £130 million project, which, subject to planning and listed building consent, could start in the second half of next year.

Over the past decade, publicly-funded **education** work has contracted by 50%, in line with an estimated 42% reduction in the Department for Education's (DfE) capital budget. Over the forecast period, additional funding announced in the Spending Review for the School Rebuilding Programme (SRP) is expected to enable construction activity to pick up pace and increase near-term delivery to 100 schools per year, up from 50 previously. 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 divert condition improvement funds to basic repairs and maintenance work. Output stabilised after eight consecutive years of decline in 2024 and 4.0% growth is forecast this year, followed by a 5.0% uplift in 2026 and 3.0% growth in 2027.

The Spring Budget 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 in nominal terms than in 2023/24. 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.

SRP funding of £2.4 billion per year over the Spending Review period is an increase from funding of £1.4 billion in 2025/26, and government has announced plans to enable a further 250 schools to be selected to join the SRP over the next two years. £1.4 billion of funding in 2025/26 was approximately £500 million more than in 2024/25.

Funding is increasing but details of the SRP delivery plan over the Spending Review period have not been shared publicly yet, outside of increasing near-term delivery to 100 schools per year. 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.

Since the SRP was announced in 2021, progress has been slow. 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. The Department plans to increase the number of existing school rebuilding projects entering the delivery phase to 100, from 50 in 2023/24, and 75 in 2024/25, so work can progress more quickly.

Rebuilding schools with extensive refurbishment or reconstruction requirements due to the presence of RAAC will be prioritised through the SRP. When responding to a Parliamentary question in November 2024, the Parliamentary Under-Secretary for the DfE stated that RAAC had been identified at 237 schools and colleges and that a total of 122 schools with the most extensive RAAC issues had been included in the SRP. By 1 April 2025, the DfE was aware that RAAC had been permanently removed at 39 schools with more moderate issues via grant funding, up from 30 at the end of November last year. Work to remove RAAC from the remaining 76 schools will need to be funded through general maintenance and condition improvement budgets, which are already stretched. For context, only 28% of applications for Condition Improvement Fund (CIF) money from eligible schools and colleges were successful in 2025/26. 789 projects received a share of a £460 million pot, but this was a fraction of the 2,846 applications made, requesting total funding of around £1.5 billion.

New schools are currently being delivered by the DfE's 2021 Construction Framework (CF21), worth around £7 billion. Procurement of a new six-year framework, CF25, has started, the value of which is approximately £15.4 billion. The new framework is planned to run for six years, from December 2025 to December 2031, with the provision for an optional two-year extension.



Around **£2.4 billion**
per year for the
School Rebuilding Programme
over the forecast period

Source: Department for Education



Successful firms will deliver a mix of projects from primary and secondary schools to further education and university technical colleges.

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 (see [Public Non-housing R&M](#)).

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 DfE's £1.5 billion Further Education Capital Transformation Programme has entered its final year. Final allocations to 146 colleges totalled £286 million for spend 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.

Government has launched the bidding process for the ten new Construction Technical Excellence Colleges in England announced in the Spring Statement. 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 capital funding to the further education estate beyond existing eligibility for providers to apply for funding from centralised condition funding pots.

East Coast College recently appointed a contractor to build a new £58 million campus in Great Yarmouth. The new campus, funded through the Further Education Capital Transformation Fund, will feature a mock hospital ward, student-run hair and beauty salon, sports areas, training kitchens, restaurants, a lecture hall and digital learning suites.

Scottish Budget 2025/26 made a £512.5 million capital allocation to education and skills in 2025/26, approximately 3.0% 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 the estimated spend of £1.02 billion in 2024/25 but significantly higher than £678 million in 2023/24, due to investment in the Leaning 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.

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

The Sustainable Communities for Learning programme delivered 173 new and refurbished schools in its first phase between 2014 and 2019, and the second phase, which ends in March 2025, is scheduled to deliver 129 new and refurbished schools. Going forward, the Welsh Government is planning to start a rolling programme of ongoing school renewal and enhancement works that will deliver 300 schools over nine years, subject to future funding settlements.

Upper Scenario:

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

Government has confirmed work is underway, to some extent, on half of all SRP schemes but prioritisation is not yet clear. If schemes in advanced development stages are prioritised, activity on the ground could accelerate more quickly than the 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 for 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. With a new delivery plan for the New Hospital Programme (NHP) established, steady growth in health sub-sector output is forecast over the next three years as Wave 1 projects come on stream. Output is forecast to increase by 4.0% in 2025, followed by 6.0% year-on-year growth 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 sets a capital allocation of £14.0 billion in 2026/27, falling to £13.5 billion in 2027/28. Beyond the current forecast horizon, capital allocations are £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 billion in day-to-day maintenance and repair of the NHS estate from 2025/26, with over £5 billion allocated specifically to address the most critical building repairs, reducing the most serious and critical infrastructure risk in a targeted way. Government plans for this investment to reduce the number of hospitals containing RAAC by half and support the goal to eradicate RAAC from the NHS estate entirely by 2035.

In Scotland, Budget 2025/26 provided capital funding of just over **£1 billion** for capital investment in health, a **22% increase** from 2024/25 in cash terms



Source: Scottish Government



Over the medium-term, private finance could play a greater role in delivering health care infrastructure once again. In [‘Fit for the Future: 10 Year Health Plan for England’](#), published in July, government assumes neighbourhood health services play a much greater role in preventing the need for acute care and commits to developing a business case for the use of public private partnerships (PPPs) for neighbourhood health centres. A final decision on the use of private finance to deliver these centres is expected in the Autumn Budget.

In January, the DHSC published its new plan for delivering the NHP. New hospitals will now be delivered in five-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. In Spending Review 2025, the government committed to delivering 25 new hospitals via the NHP, including replacing the seven hospitals that were built from Reinforced Autoclaved Aerated Concrete (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. Construction work on hospitals affected by RAAC is due to start from 2027 and each project carries an early cost estimate of between £1 billion and £1.5 billion.

Wave 1 schemes scheduled to get underway earlier are the Cambridge Cancer Research Hospital, Poole Hospital in Dorset and Derriford Emergency Care Hospital in Plymouth, which are all due to start in 2025 or 2026. Shotley Bridge Community Hospital in Durham and a new cancer centre at Brighton 3Ts Hospital will follow, both of which are now scheduled to start in 2026 or 2027. Schemes starting in the first half of the five-year period are generally expected to cost less than £500 million each.

Demolition of the existing structures is nearing completion at Derriford Emergency Care Hospital in Plymouth and main construction work is due to start this Summer after government recently confirmed full funding. Work on this £200 million scheme is due to complete in 2028. Pre-construction work on the new Cambridge Cancer Research Hospital started in March and main construction work is set to begin in 2026, with completion scheduled for 2029.

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.

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 dialogue with bidders is due to complete in Autumn 2025. Places on the framework are expected to be awarded by the end of the year. Contracts for outstanding Wave 1 schemes will be awarded through the framework.

Government has confirmed that standardised delivery is a key part of the new implementation plan and new hospitals will be built through Hospital 2.0 principles. Hospital 2.0 is the programme's approach to design and delivery standardisation but it was heavily criticised by the National Audit Office in July 2023, in a report that highlighted the risk that standardised design options being considered could result in the development of hospitals that were too small. Hospital 2.0 design was originally due to be completed by the end of 2022, and then by May 2024, but work is still ongoing and no revised completion date has been shared.

Outside of the NHP, the £110 million redevelopment of Tolworth Hospital for St George's Mental Health NHS Trust recently broke ground. The facility will take two and a half years to deliver and is the final part of the Trust's 'Better Environments Programme' which delivered the £150 million redevelopment of Springfield Hospital in Wandsworth in 2023 and a £30 million contract was recently awarded to convert Barnes Hospital into an NHS mental health facility and new special educational needs (SEN) school. Work is due to complete in 2027 and the project is part of a wider transformation programme rebuilding mental health facilities across South West London.

In the North West, a £38 million project to eradicate RAAC from the Royal Bolton Hospital recently commenced. In addition to RAAC removal, the project includes the refurbishment of theatres, the replacement of mechanical ventilation and the installation of rooftop plant. Completion is anticipated in early 2027. In Essex, a contractor has been appointed to deliver a £54 million NHS diagnostic centre in Pitsea. The two-storey centre will include an eight-room endoscopy suite and offer X-rays, CT and MRI scans, blood tests and more. It will also provide a range of wellbeing services, including a purpose-built activity centre and a community library. Construction is expected to start later this year.

In Scotland, Budget 2025/26 provided capital funding of just over £1 billion for capital investment in health, a 22% increase from 2024/25 in cash terms. Funding will 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.

No timeline has been shared for the new facility 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 the full business case approval is granted, with the construction scheduled to take six years. Belford Hospital secured funding to continue design work and to develop the business case in December 2024 and a construction start date is currently pencilled in for 2027 Q4.

The Welsh Budget 2025/26 increases the budget for 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, approximately £322 million will be spent on estates.

Five contractors and seven consultants have been appointed to the NHS Building for Wales 2 framework to support the delivery of healthcare building projects, with a construction value of over £7 million, over the next four years with an option to extend to six. The framework is expected to deliver around £600 million of work.

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:

- Wave 1 NHP schemes progress without any delays and funding fully supports delivery

The size and complexity of these schemes, typically being developed in the vicinity of operational hospital facilities, makes it likely that unforeseen complications delay progress at some sites. The forecast takes a pragmatic view of likely construction progress, allowing for some delay due to the abolition of NHS England, but this may prove to be a conservative estimate.

Lower Scenario:

- Interim remedial work to hospitals entirely built from RAAC is deemed sufficient to avoid a rebuild

Significant mitigation work has already taken place at hospitals constructed out of RAAC and a review is currently underway to strengthen understanding about the current risk profile. Findings are due later this Summer but if mitigation work is deemed sufficient to reduce structural risk over the medium term, the government may take the decision to remove these hospitals from the NHP.

Public non-housing **other** covers construction work on publicly-funded facilities such as prisons, defence projects and civil service offices. Output increased by 10.5% in 2024, after a step-change in output in 2023 when activity rose by 55.1%. 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 remain flat in 2025 before rising by a further 3.0% in 2026, followed by 5.0% growth in 2027. The potential for the Defence Infrastructure 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 MOJ's capital budget will rise 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.

Autumn Budget 2024 provided £300 million for prison and probation service maintenance in 2025/26, up from £200 million in 2024/25, although the majority of this work is likely to be classified as repair and maintenance (see [Public Non-housing R&M](#)).

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 with a view to bringing currently out of use places back on stream.

In May, the government confirmed a further £4.7 billion would be invested in prisons building through to 2029/30. Development work on the three new prisons in the pipeline is progressing. 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 expected to be completed over four years.

In Buckinghamshire, the new £300 million HMP Grendon Springhill 2 prison continues to progress through detailed planning. In April, government confirmed that Laing O'Rourke will deliver the 1,500 bedspace, category C "resettlement" facility after ISG, the initial main contractor, fell into administration.

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.

In mid-2022, the previous government allocated £500 million to the Accelerated Houseblock Development Programme to deliver new modular houseblocks on existing sites. Projects securing funding included HMP Hindley, HMP Highpoint and HMP Wayland. Cost inflation has impacted delivery and work only recently commenced on the £300 million expansion of HMP Highpoint in Suffolk and is due to complete in 2027. Revival of the additional houseblock approach is part of the government's 10-year strategy to deliver 14,000 additional places but details about projects, and funding, have not yet been shared.

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 the £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 by August 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



Ministry of Defence's capital budget to be 46% higher in 2029/30 compared with 2024/25

Source: HM Treasury



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, 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 tensions. 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 relevant sector. If private finance plays a greater role in the sector following the pending Defence Housing Strategy, some investment may be classified in relevant private works.

Full details of the MOD's capital investment plans are expected in the Defence Infrastructure 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. 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 SLA bedspaces for service personnel between 2021 and 2031, by adopting standardised design and a modular approach.

Six contractors were appointed to the £1 billion Single Living Accommodation – Programmatic Approach Framework Alliance 2024, targeting the delivery of 16,000 new bedspaces built over the next six years. Construction recently commenced on a new 50-bedroom SLA block at RAF Cosford in Shropshire. The £12 million scheme broke ground in July and is one of the first to be delivered under the £1 billion SLA Alliance. Completion is expected by July 2026. Other recent contract awards through the SLA Alliance include a £5.1 million contract at RAF Waddington in Lincolnshire and a £3.4 million contract at Baker Barracks in Hampshire.

Other investment plans outlined in the Strategic Defence Review includes a £15 billion commitment to securing the future of the UK's nuclear deterrent and £1.5 billion to build at least six munitions and energetics factories and commit to continuous submarine production through investments in Barrow and Raynesway, allowing the UK to produce a submarine every

18 months. However, it is likely that any associated construction will be captured elsewhere, except for munitions factories, which should be classified within public non-housing.

Other current investment programmes include the Defence Estate Optimisation (DEO), which appointed contractors to deliver £5.1 billion of work over ten years in 2023. To date, DEO has released over 1,430 hectares of surplus Defence land for commercial and residential development at 25 sites and the government's State of the Estate 2023/24 report, published in May, tracked a 2.5% reduction in the number of built assets within the defence estate.

Work is ongoing and an update by the DIO in October last year suggested that construction was underway, or had been completed, on 14 projects across the UK. Under this programme, construction recently began on a new MOD office building in Blackpool, as part of the city's Talbot Gateway redevelopment. The new 53,000 sq. ft. building will hold up to 1,100 staff from Defence Business Services.

Turning to public sector office estate relocation and rationalisation, the Government Property Agency (GPA) recently awarded the fit-out contract for its £133 million new build government hub in Manchester (First Street). The new office, that will accommodate 2,600 civil servants, is now scheduled to complete 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, with a focus around digital skills, 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 about to start 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 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.

Restoration of the Palace of Westminster's Grade 1 listed Victoria Tower is due to commence shortly after a £111 million negotiated contract was awarded to complete the works. The project is expected to take six years to complete. A decision in the wider refurbishment of the Palace of Westminster has been deferred and a revised set of options are 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 was relocated for period of time.

Work to decarbonise the public sector estate will continue throughout the forecast period with Phase 4 of the Public Sector Decarbonisation



Construction of the
£93 million
European Centre for
Medium-Range Weather
Forecasts due to start

Source: Government Property Agency



Scheme (PSDS). Phase 4 of the PSDS was launched in September 2024 and Autumn Budget 2024 confirmed the funding profile: £86 million in 2025/26 and £427 million in both 2026/27 and 2027/28. So far, grants totalling £633.6 million have been made and funding is still being allocated. Phase 3 of the PSDC provided £1.4 billion of funding between 2022/23 and 2025/26. Phase 3c, the final sub-tranche of Phase 3, made up to £230 million available for decarbonisation projects in 2024/25.

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

Funding of £1 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 forecast.

Upper Scenario:

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

The 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 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. Over recent years, this work has provided a steady, reliable, output stream and switching to private finance could impact the medium-term outlook.



Public Non-housing R&M

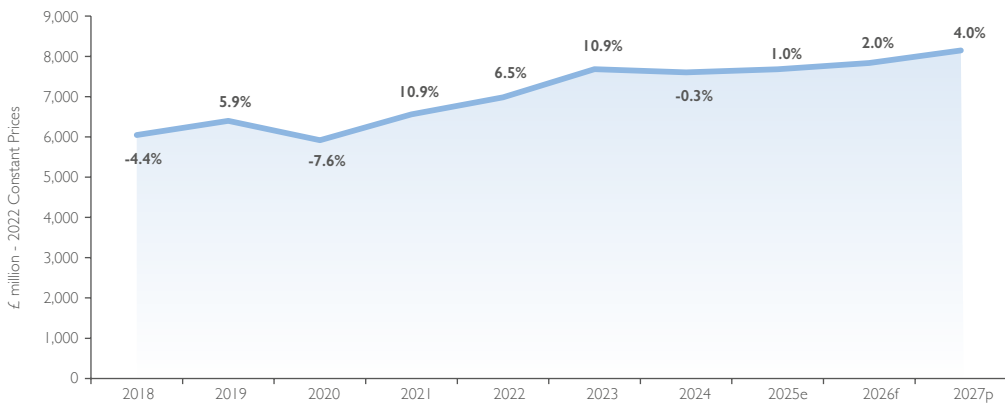
Output in the public non-housing r&m sector, covering spend on basic repairs and maintenance carried out on schools, hospitals, prisons and the defence estate, as well as other government and local authority buildings, is at an historically high level due to funding for the decarbonisation of existing estates, plus emergency repairs in response to the RAAC crisis. With budgets for core repairs and maintenance work seeing some uplift in the Spending Review, further growth is anticipated over the forecast period from this high baseline.

Towards the end of last year, the National Audit Office estimated that the government's maintenance backlog had increased to at least £49 billion, after increasing steadily over 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 provides 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 from a relatively high baseline. Output is forecast to increase by 1.0% in 2025, 2.0% in 2026 and 4.0% in 2027.

Local authority budgets remain under pressure from cost inflation and rising demand for social care services, alongside increased costs from changes to National Insurance Contributions and sector reorganisation. Recent analysis by the National Audit Office (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.

In February, the 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 un-ringfenced settlement funding, 14% is grants for social care, 6% is other grants

Public Non-housing R&M Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

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 in general will end up with less funding in real terms than in 2024/25, while metropolitan districts in particular 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.

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 spend of £887 million in 2023/24.

In Wales, Budget 2025/26 made £235 million available for local authority capital investment in 2025/26, a 2.0% 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 this 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, the final sub-phase of Phase 3, allocated funding totalling £611 million to 244 projects which are due to complete 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. The 2024 Autumn Budget allocated funding of £86 million for Phase 4 in 2025/26, with £427 million available in both 2026/27 and 2027/28. To date, just over two-thirds of Phase 4 funding has been allocated and regional allocations are as follows: North East £65.2 million; Yorkshire and the Humber £81.3 million; North West £116.8 million; East Midlands £73.4 million; West Midlands £84.3 million; East of England £29.1 million; South East £35.7 million; South West £30.0 million; Greater London £113.9 million and projects in Wales have secured £2.5 million. In addition, £1.3 million has been awarded to projects spanning multiple regions.

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 large awards stand to 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 £67 million, institutions eligible for condition improvement funding £50 million and voluntary aided schools £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 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. Results of the next condition survey are due in 2026 and survey work is currently underway.

In contrast to England, the proportion of schools in Scotland reported as being in good or satisfactory condition has been steadily increasing in recent years, rising to 91.7% of the total estate in 2024, up from 90.9% in 2023. Good condition is defined as performing well and operating efficiently, whereas satisfactory means performing adequately but showing minor signs of deterioration. During 2023/24, 41 school building or substantial refurbishment projects were completed, bringing the total number of completed school building or refurbishment projects to 1,139 since 2007/08.

The 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.

Funding pot for maintaining existing school estates to increase in line with inflation through to 2029/30

Source: HM Treasury



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

RAAC removal from the NHS estate is progressing slowly. In a recent statement, the Minister for Health confirmed that, as of 3 October 2024, RAAC has been eradicated from seven sites since February 2024 and that 47 hospital sites with confirmed RAAC now remain in England. To date, RAAC has been removed from 13 hospital sites and the seven hospitals built extensively with RAAC are being rebuilt via the New Hospitals Programme and will receive priority funding.

Schools with extensive refurbishment or reconstruction requirements due to the presence of RAAC will be prioritised in SRP funding allocations in 2025/26. When responding to a Parliamentary question in November, the Parliamentary Under-Secretary for the DfE stated that RAAC had been identified at 237 schools and colleges and that a total of 122 schools with confirmed RAAC have now been included in the SRP and works on these premises are expected to take an average of three to five years to complete. Removing RAAC from the remainder will fall to the responsible bodies using grant funding. As of 1 April 2025, RAAC had been eradicated at 39 of these schools.

In Scotland, the last update on RAAC remediation across the public sector estate was published in September last year. At this point, RAAC had been identified in 39 school locations across Scotland. Remediation work had 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, by 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 – Wityhush 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 a third over the past two financial years as new prisons projects have progressed. Constructing new prisons, and expanding existing facilities, will attract the lion's share of capital funding in 2025/26 and the 2024 Autumn Budget suggested 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. Last year's 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 £0.9 billion estimated in 2020. Government's ten-year infrastructure strategy suggests annual allocations for prisons maintenance will average £600 million between 2026/27 and 2034/35 but an anticipated annual investment profile has not been shared.

The condition of buildings across the MOD estate is also coming under increasing scrutiny. A third of Single Living Accommodation (SLA) and two-thirds of Service Families Accommodation (SFA) are in such poor condition that they are 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. While the survey tracked a marginal increase in satisfaction with the overall quality of SLA amongst Royal Navy and Royal Air Force personnel since 2022, amongst Army personnel, it had fallen by 4%. Service personnel were least satisfied with current snack preparation facilities (59%), the response to requests for maintenance/repair (56%) and WIFI provision (51%). Compared to 2022, more service personnel wanted or expected future SLA to have an ensuite bathroom, enhanced cooking facilities, a double bed and better quality WIFI.

In total, the defence estate includes approximately 133,000 permanent and temporary bedspaces in the UK and 21,000 bedspaces across the UK training estate. 56% of service personnel live in permanent SLA. In 2021, the Defence Infrastructure Organisation awarded four seven-year contracts for facilities management of the UK defence estate, worth £1.6 billion in total.

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 and acknowledges that years of squeezed maintenance funding has contributed to the difficulties in recruitment and retention. This could suggest additional maintenance funding will be made available during the forecast period.

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 and repair and maintenance).

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

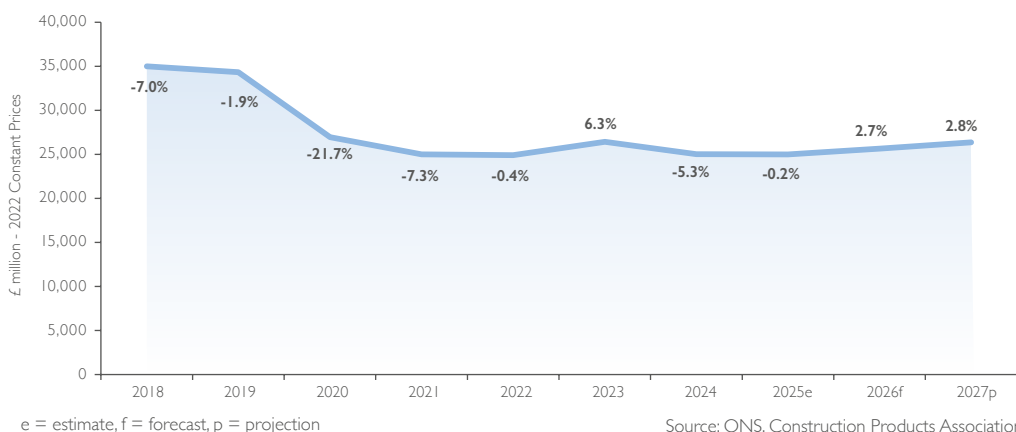
The forecast assumes a significant proportion of work to rectify RAAC safety issues will be low-level r&m. If more extensive remediation is required due to the nature and location of RAAC, public non-housing new work would benefit at the expense of r&m activity.

Commercial

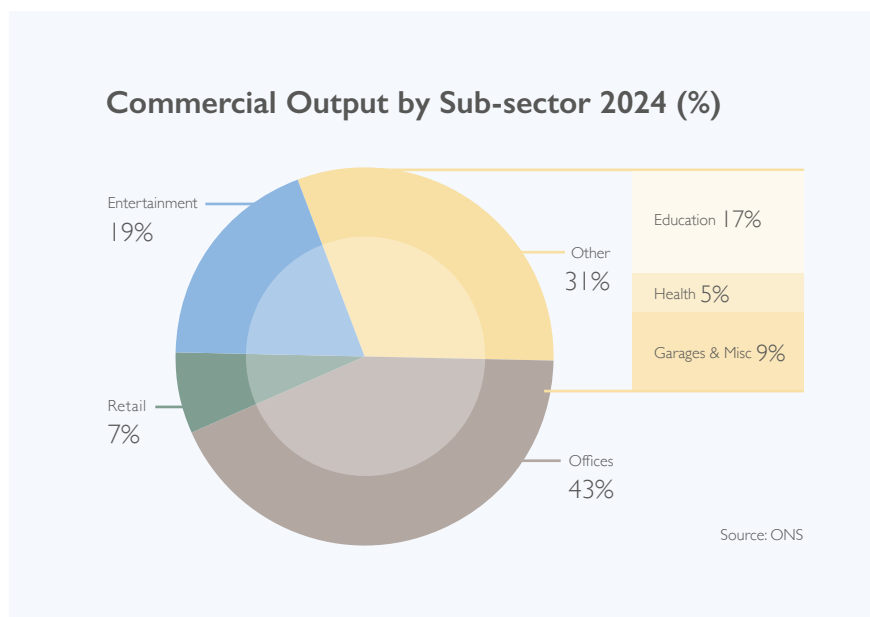
Increased uncertainty around global and domestic economic developments is still lengthening decision-making for the large new build offices and entertainment projects that are now entering the early pipeline. In addition, high financing costs continue to impact confidence for the large up-front investment needed for major commercial projects, in spite of interest rate cuts this year. A continued stream of activity from the refurbishment, fit-out and repurposing of existing commercial buildings, as well as niche areas of growth such as data centres and life sciences are supporting activity but overall, commercial output is only expected to return to growth in 2026 once large new build office towers move into the construction phase.

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 up-front investment, they are more sensitive to macroeconomic conditions, which lengthens the lags between approval, contract award and construction start. Projects that were initially given the go-ahead in 2021 and 2022 are now starting to move through to final investment decision, pre-construction and construction start. Confidence to proceed over the subsequent years was dented by the inflationary spike in 2021 and 2022, followed by higher interest rates and slow economic growth since projects were first approved. Furthermore, periods of uncertainty and unprecedented economic shocks going back as far as the EU Referendum in 2016 have seen sector output contract in six out of the last seven years, and the sector remains smaller than it was pre-pandemic. A renewed environment of uncertainty over domestic economic growth and the global impact of tariffs and tensions in the Middle East this year (see [Economy](#)) is likely to prolong the final investment go-ahead on projects awaiting contract award or construction start. However, 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

Commercial Output



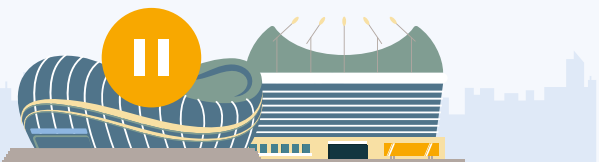
developer confidence returns more quickly than assumed in the forecast. The key question remains when macroeconomic conditions will be considered strong enough and interest rates low enough for this to occur. In contrast, lingering uncertainty and continued 'wait and see' mode poses the main downside 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 as well, 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, helping to offset 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, will be a limiting factor, and even more so in lower-rent areas.

The retail sub-sector has displayed one of the largest reductions in size over the last decade and is forecast to continue declining this year and next. 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

*Large leisure, entertainment and sporting venue projects have been **delayed or scaled back***



growth in international student numbers. Businesses in these 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 pose 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 million sq. ft. of 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, but the project's completion has been pushed back once again, to 2027, which is three years later than the original schedule. Similarly, a contractor for the new Cardiff Arena scheme was selected in April, but will be built for a delayed 2027 completion due to requiring additional funding for a £100 million cost rise. 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.

In terms of football stadium projects, work began on Manchester City's £300 million stadium expansion and hotel 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 was scaled back in May to refurbish and extend an existing stand. Plans for improvement works at the local rail station will need to be finalised before work can begin. 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 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 and a stadium rebuild and new hotel for Luton Town were both launched in the last six months. 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. Other sports venues have also announced expansions: Wimbledon's £200 million tennis courts expansion was approved in September, but will go under judicial review in July due to local objections, whilst Edgbaston cricket stadium's plans for new stands and a hotel were approved in February.

In terms of large leisure schemes, groundworks have completed on a spa resort in Manchester but costs have now risen from £250 million to £400 million and main works have been delayed to the end of the year. 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.

Work on film and television studios is now expected to have peaked, driven by demand from streaming platforms such as Netflix, Disney and Amazon. Projects on site include the redevelopment and expansion of the Ealing Studios in west London and enabling works on the

formerly derelict Littlewoods building in Liverpool, which is being redeveloped into a studio campus. 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 Spring Budget as part of a devolution deal for the North East. The first phase accounts for 360,000 sq. ft. of new space, and the contract for enabling works was put out to tender in June. Plans for future phases of around 1.3 million sq. ft. have also been submitted for planning approval. 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 £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. 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 Wycome 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 the government is consulting on them being classed as Nationally Significant Infrastructure Projects in the planning system. The previous Secretary of State refused planning permission for a 163,000 sq. m. data centre in Buckinghamshire and an 84,000 sq. m. data centre in Hertfordshire over concerns about protecting green belt land, but the current government has now approved both. The pipeline elsewhere 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 the first half of 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. 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, 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. 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 will 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 2025, interest rates are not expected to return to the sub-1.0% levels of the last 15 years. Commercial new orders fell 22.7% in 2023 but rose 16.0% in 2024. 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. As a result, following a 5.3% decline in 2024, output is expected to remain largely flat (-0.2%) in 2025. Following this stabilisation, and 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 2.7%.

The forecast for the **offices** sub-sector has been maintained at a 1.0% fall in 2025 and growth of 3.0% in 2026. Nevertheless, the risks have increased: an increase in uncertainty on the downside continuing to delay decision-making, and on the upside, strong demand for new and refurbished space and the return of new towers in the early pipeline. The forecast continues to assume that decision-making remains stalled until the end of the year, with early works on new schemes driving growth from 2026 and main works accelerating into 2027. International political and economic developments and the knock-on effect on the UK economy and business and investor confidence will be a key determinant of how activity progresses 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 that 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 are also those that require the largest up-front investments and, consequently, they are the most affected by weak business confidence and uncertainty. There is 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 a slowdown in global and UK growth (see [Economy](#)) are likely to prolong the uncertainty for this year and real estate research and commercial agents have noted lower starts activity in Q1 and Spring. 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.

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. Savills reported that in Q1, more of those searching for office space were looking to increase space (48%) than were looking to downsize (14%).

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 Tower in Canary Wharf and the £250 million retrofit of 1 Victoria Street in Westminster. Further back, the £250 million refurbishment of Deutsche Bank at London Wall is targeting the main contract award in Summer, with approvals for a refurbishment and extra floor at 30 Finsbury Square and £150 million refurbishments of 25 Finsbury Circus and 125 Shaftesbury Avenue, which are 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 has now implemented its 'retrofit first' policy that encourages the retention and reuse of existing buildings over demolition and

The 2025 Q1 vacancy rate for new/refurbished space was **0.6%** for the City and the lowest on record for the West End sub-market, at **0.3%**

Source: Knight Frank



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, with the Deloitte Regional Crane Surveys finding that five of the eight office schemes under construction in 2024 in Birmingham were major refurbishments, including the Typhoo Tea Factory and 35 Newhall Street. In Manchester, five out of six new starts in the year were refurbishments, whilst in January, Lloyds Banking Group announced plans for a £200 million redevelopment of its headquarters in Edinburgh. Across regional cities, however, development pipelines are limited. 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 Q1, 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 17.5% 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. 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 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 or open second sites.

This extended period of uncertainty and limited development activity also led to a fall in capital values for offices. This appears to have bottomed out since the second half of 2024, according to CBRE, but investor confidence on this front will need to be balanced with global economic issues and further interest rate cuts. Large office towers in London reportedly failed to sell last year as bids fell considerably short of asking prices, whilst Land Securities has paused new development for the rest of the year and will sell off £2.0 billion of its office estate over the next five years to recycle capital into residential. Canary Wharf appears to be most affected by weakened confidence, as illustrated by HSBC's announcement in June that it was moving to downsized premises in the City of London and the sale of 5 Churchill Place in February, which was 60% below its previous sale price in 2017. HSBC's 45-storey tower will be vacated in 2027 and the owners have implied a redevelopment away from offices to residential and a hotel. Lower capital values for offices over the last two 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, which may bolster the pipeline for refurbishment.

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 in December 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 South Bank, which will be led by 900,000 sq. ft. of offices across 26 storeys was also approved in December following a judicial review in the High Court and demolition has begun. Projects approved in the last 12 months include the £500 million, 23-storey redevelopment of 55 Old Broad Street, a development consisting of 63-storey and 22-storey towers at 55 Bishopsgate, a 45-storey tower at 18 Blackfriars Road, forming part of a scheme alongside two residential towers, and the redevelopment of a vacant hotel in Bloomsbury into a 19-storey offices-led tower, which avoided a judicial review in September. For these projects, enabling works are scheduled to begin in 2025 and 2026, with main works in 2027. Further back, at the planning stage, projects 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 expecting a 2027 start. 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 October and recommended for approval in June. 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, but 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 and global economic developments. The forecast assumes that decision-making on large projects will remain slow during 2025, with main works likely to occur in 2026 and 2027. Consequently, output is forecast to fall by 1.0% in 2025, with the recovery phase beginning with 3.0% growth in 2026.

Upper Scenario:

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

If stronger economic growth and larger or more frequent interest rate cuts improve business and investor confidence and more new office tower projects start this year, then growth rates will pick up more strongly from 2025. 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, global economic tensions or interest rates not being reduced as much in 2025 see no pickup in capital values, and stall decision-making for longer than in the main forecast. This would delay the start of main construction work beyond 2026, 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



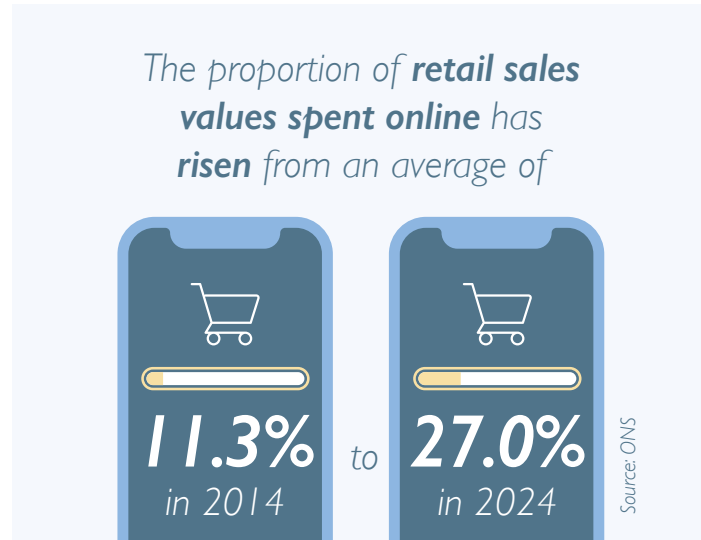
ago and one-fifth of the size it was at peak 20 years ago. Over this period, there has been a long-term downward trend in demand for retail premises, the counter-effect of the rising role of e-commerce shifting activity towards storage and distribution and a smaller store estate. More recently, weak 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 in the Autumn Budget, large retail chains have signalled further store closures this year or a shift towards spending on less labour-intensive methods, such as automation. Weaker than expected retail sales in Spring may also affect confidence, particularly if the trend continues over Summer. 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. Larger-scale redevelopments of lower-demand or vacant assets, such as department stores and shopping centres, are 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 74.6% 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 27.0% in 2024.

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. The Ingka Group, owner of Ikea, purchased the Churchill Square shopping centre in Brighton in 2023, where it is converting a vacant Debenhams unit into a city centre Ikea store and has also submitted plans for a click-and-collect unit in the centre's car park. Both are expected to complete later in 2025. Elsewhere, 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 purchases of Frenchgate in Doncaster, Princesshay in Exeter and St Nicholas Arcade in Lancaster at varying stages. It is expected to proceed with 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 redevelopment into residential, retail, 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 a range of products. Vacancy rates, footfall and leasing activity have also outperformed other retail settings since 2020, with Knight Frank estimating that the out-of-town retail vacancy rate was 6.4% in Q1, marking 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, also 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 turn 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 and Waitrose, which are operating with a focus on convenience stores, and Co-op, which aims to more than treble 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 opened in 2024 but still slower than the 50 per year it was projecting previously.

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 that are 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 approved in 2023 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 20.8% fall in output in 2024, a 6.0% decline is forecast for 2025 – a downgrade since the Winter forecast to reflect increased risk aversion among retailers as costs rise this year. Given the continued weakness in the pipeline, a further decline is expected in 2026.

Upper Scenario:

- Consumer confidence and spending improve quickly in 2025

Measures of consumer confidence may improve quickly as the Bank of England enacts further interest rate cuts this year, 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 into 2025
- Rising operating costs lead to store closures and expansion plans are paused

A slow recovery and interest rates being lowered more slowly than expected would keep household spending muted throughout 2025, in turn meaning 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 returning to the pipeline, adding to the privately-developed student accommodation tower projects that are moving through planning and early construction across the country. Purpose-built student accommodation providers highlight a mix of favourable and unfavourable dynamics for new development, with 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 balanced with a broadening focus on sustainability, safety and quality of existing buildings, higher financing costs and delays for high-rise schemes.

The 2023/24 [annual report](#) from the Office for Students showed a worsening financial position is forecast over the next two academic years, particularly for larger 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 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 2.3% for the current 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, especially given that student visa applications rose 29.3% in the first five months of 2025. At the January application deadline, total applications for university entry in 2025/26 increased 1.0%, according to UCAS, with increases in UK applicants (0.6%), those from the EU (0.3%) and non-EU students (3.1%). This across-the-board increase masks a longer-term trend of international numbers being dominated by non-EU students, who accounted for 83.2% of international applications for entry next year. In addition, applications from EU-domiciled students were 53.0% lower than in 2015, whilst non-EU applications were 89.0% higher.

There has also been a split in applications and acceptances based on university rankings. Acceptances to higher-tariff universities rose 7.5% in 2024, whilst acceptances to medium-tariff and lower-tariff universities rose 0.8% and fell 1.5%, respectively. Applications to higher-tariff universities reached a record-high at the UCAS January deadline, whilst applications to lower-tariff universities fell for a third 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 there were 16,382 beds delivered in 2024, a 3.0% increase compared to 2023, but below the five-year average of 25,000. It also found that 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, have both 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. Unite has a £1.0 billion pipeline of committed capital development for eight projects scheduled for completion between 2025 and 2029 in Edinburgh, Bristol, Glasgow and London. 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 has highlighted that it considers the current economic, planning and regulatory backdrop is discouraging new development and its pipeline has now 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 six months to delivery timelines, with the potential for further delays due to capacity constraints at the Building Safety Regulator (BSR).

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. In Q1, a detailed planning application was submitted for the University of Manchester's Fallowfield campus redevelopment, which will be led by 3,300 student bedspaces. A preferred bidder was selected in May and it is expected to start in phases from 2026, with completions between 2027 and 2030. A £90 million 836-bed scheme in Birmingham and a £55 million 544-bed scheme in Coventry were both awarded contracts in May, whilst a £70 million 25-storey tower in Glasgow was approved in June. As with other tower schemes in the pipeline, delivery schedules are subject to Gateway 2 approval with the BSR.

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, work has topped out on the University of Huddersfield's £250 million health innovation campus, and Manchester Metropolitan University opened its £280 million framework for refurbishment and upgrades to tender. The university's £90 million, 13-storey new library received planning approval in February, with demolition set to start in Autumn and project completion is scheduled for Spring 2028.

Capital expenditure by universities accounted for 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 current academic year but a shortfall in actual spend 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 progressed in early 2025 included 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

*The next project has only just progressed through the **Mutual Investment Model** of private funding in Wales, a **£119 million** scheme of **two buildings** for **Cardiff and Vale College***



university's second project under construction, alongside the redevelopment of its Informatics and Technology Learning 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 has only just progressed through – 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 institutions, student accommodation developers and joint venture partners and contractors can deal with elevated build costs, economic recovery and costlier finance for projects in the near-term pipeline, as well as constrained university finances. According to research by Queen Mary University, 70 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. The proposed levy on international student income will also add downside risk to finances and capital spend.

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 growth in the sub-sector. Growth of 5.0% is forecast for both 2025 and 2026. However, 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. 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 2025/26 among UK and non-EU students shore 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 with 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 fall in non-EU students in 2024 becomes a trend rather than a blip.

Output in the **commercial health** sub-sector is less than 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 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 12-18 months. 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 are more likely to impact growth rates towards the end of the forecast period.

There are two large hospital projects entering the pipeline after a gap following the completion of the only large project on the £500 million Private Investment Construction Framework for healthcare, a £100 million acute care hospital in Harborne, Birmingham. The final business case for 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, alongside a new build school and road dualling project. It reached financial close in April 2024 and preliminary works began in August. 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, but 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, which will be 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.

According to the Private Healthcare Information Network, although the number of self-funded and privately-insured in-patient admissions has fallen since a peak in the first half of 2024, the number of patients accessing private in-patient healthcare is 14.4% higher than pre-pandemic in 2019. The number of NHS patients that have been waiting over a year for treatment has also fallen from 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 increases procedures being diverted to private providers. In 2023 and 2024, 10.0% of NHS-funded treatments were carried out in private facilities, and

The number of patients accessing private in-patient healthcare through insurance has increased to a record-high level



Source: Private Healthcare Information Network

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 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, weighting 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. 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 and has announced early plans to convert a former Debenhams store in Oxford and redevelop Cambridge Business Park as part of its £1.5 billion science and tech investment strategy for the next 10-15 years.

Nevertheless, the majority of life sciences schemes in this long-term pipeline are expected to reach construction beyond the forecast period. Research from Savills highlighted that in Oxford, two-thirds of the projects in the pipeline are subject to planning approval and three-quarters are scheduled to complete beyond 2026. Similarly, half of projects in Cambridge are at a pre-planning stage and only 11% of the development pipeline is currently under construction. In London, 180,000 sq. ft. of new or refurbished space was delivered in 2024, compared to 655,000 sq. ft. entering the pipeline this year. Furthermore, according to Cushman & Wakefield, of the 4.3 million sq. ft. in the total pipeline to the end of 2027 for the 'golden triangle', only 12.0% is pre-let, which leaves 3.7 million sq. ft. reliant on speculative demand.

Outside of the large projects that typically drive sub-sector growth, developer Assura currently has two developments on site in the UK, after completing three in the first half of 2024. 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. Adding to this, in August, 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. Similarly, Primary Health Properties 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.

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 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 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

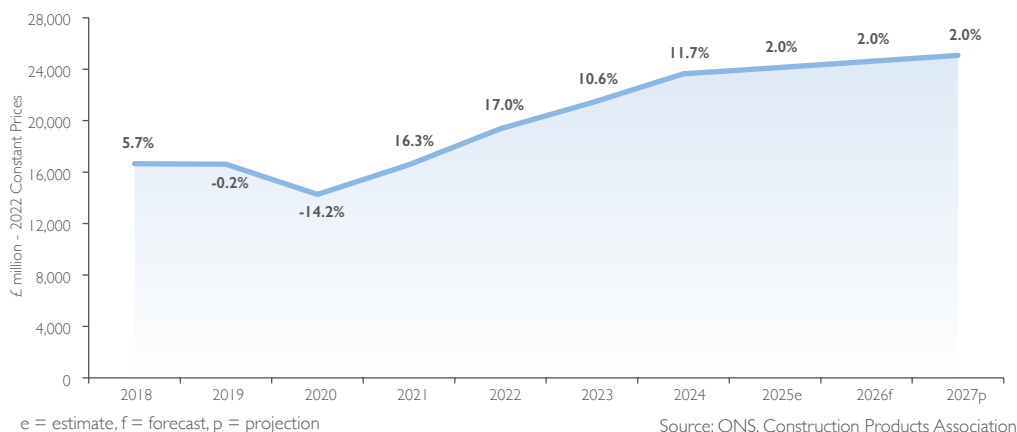
Growth in private non-housing repair and maintenance (r&m) activity is expected to be restricted by a growing preference for larger-scale refurbishments and improvements on existing properties, as well as lingering cost pressures causing delays and backlogs to routine maintenance programmes.

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, 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 and a potential government levy on international fee income 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 February confirming that works have completed on 59 out of 60 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. Empiric's results for 2024 highlighted that 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. Empiric closed one of its Southampton properties for the 2023/24 academic year in order to undertake a full refurbishment across rooms and amenities, as well as to improve energy-efficiency, fire safety and decarbonisation and has 10 more properties earmarked for similar works. Under its five-year capital expenditure programme running to 2025, it still has £3.5 million left to spend on refurbishment, £10.1 million on fire safety and £4.2 million on decarbonisation and green initiatives.

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 still 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. In September, the Key Theatre in Peterborough announced that it would be replacing its roof in 2025, whereas the Royal & Derngate Theatre in Northampton had supports installed in its roof.

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 planned 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:

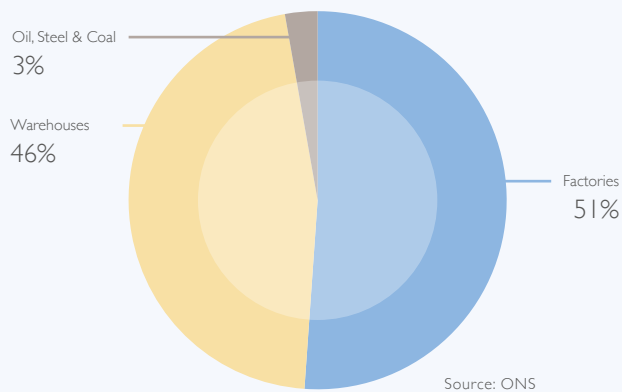
- Priority shifts to new build

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 return to growth this year, strengthening in 2026 and 2027 as growth comes from both factories and warehouses. Warehouse development is settling back at 'normal' pre-pandemic levels, with speculative development returning in the early pipeline. Output in the factories sub-sector has proved more resilient over the last 12-18 months, supported by large projects signed off in the last few years such as gigafactories, as well as the manufacture of renewable energy and defence equipment. Nevertheless, the largest projects remain susceptible to a deterioration in investor confidence in an environment of economic uncertainty or pauses and delays due to major project delivery issues.

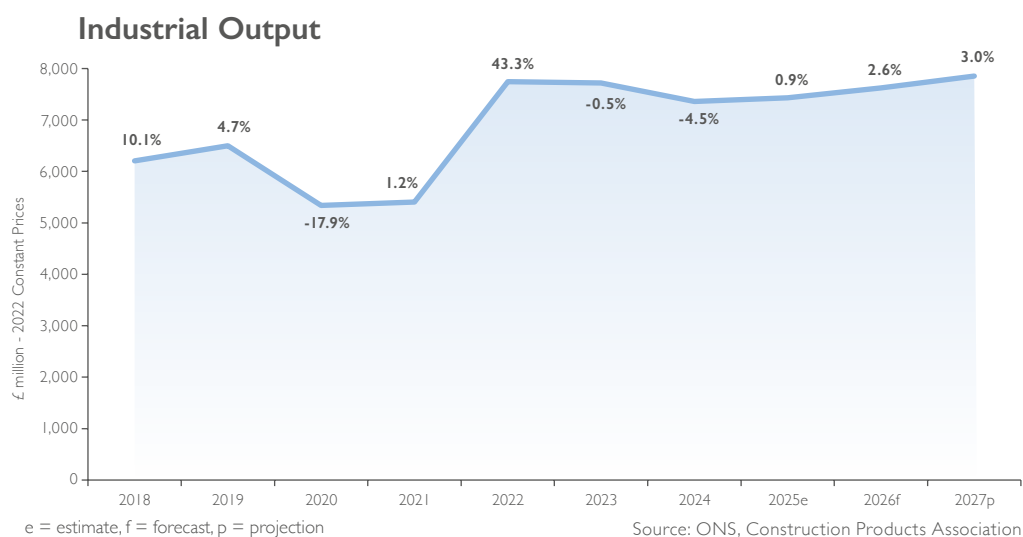
Industrial Output by Sub-sector 2024 (%)



Output in the industrial sector is dominated by the factories and warehouses sub-sectors, which accounted for 96.9% of total sector output in 2024. Activity reached a recent peak in 2022, led by a post-pandemic increase in demand for manufacturing capacity and warehousing space. As these temporary factors faded, sector output decreased in 2023 and 2024. Activity in the factories sub-sector has more recently been buoyed 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, which were largely signed off in 2021 and 2022 or in the case of defence-related projects, are benefiting from the links to 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, 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 in 2025 is forecast to drive overall sector growth of 0.9%. Growth of 2.6% is expected in 2026 as activity in both factories and warehouses accelerates. As growth is typically driven by large projects, they are also the investment decisions that will be most dependent on confidence and global economic developments over 2025.

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.



Output in the **factories** sub-sector increased sharply in 2024. Interestingly, this follows three years of falls in new orders since 2022 and similar to large projects in commercial, is likely to reflect work that was signed off in 2020 and 2021 and then subsequently delayed due to flatlining economic growth, cost inflation and a step-change in interest rates impacting final decision-making on large capital investments. Currently underway are large projects building facilities for the manufacture of renewable energy and defence equipment, whilst projects that are now progressing from the planning to tendering phase or moving from preparatory work to main work are expected to drive further growth in 2025 and 2026. The largest factory project, Tata Group's £4.0 billion Agratas gigafactory in Somerset has seen work start this Summer, with completion one year later than scheduled in 2027 after pauses to 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 particularly for those such as automotive manufacturers that are directly affected by global economic uncertainty and changes to tariffs.

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 is yet to find an investor. The project is a joint venture between the airport and the local

Work has started on the Agratas
GIGAFACTORY
*in Somerset, with completion in 2027,
 one year later than scheduled,
 after pauses to redesign
 for a smaller floorspace*



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 sign up to the site for the development of 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 National Wealth Fund 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. In May, LSEAC announced plans for a £923 million sub-sea cable factory at the Port of Tyne. Reflecting the move by governments to increase defence spending, main works are underway on the BAE Systems shipbuilding facility in Govan, Strathclyde, whilst the £400 million, ten-year project to expand the Sheffield Forgemasters steelworks will see main works on the facility for manufacturing nuclear components for the Ministry of Defence throughout 2025, followed by a test facility that has been submitted for planning approval. The AUKUS security and defence partnership between the UK, Australia and the United States has also led to Rolls-Royce's plans to double the size of its Raynesway nuclear submarine manufacturing facility. Design partners were selected in January. 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. 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. Further back in the pipeline, and expected to support further sub-sector growth next year, the redevelopment of The Forum shopping centre in Stevenage was approved in February 2023 and will provide 400,000 sq. ft. of new advanced manufacturing space, highlighting the extent of repurposing away from retail (see [Commercial](#)). In March, Siemens Gamesa received planning approval for a 61,000 sq. ft. expansion to its wind turbine

manufacturing facility in Hull, whilst the £100 million Siemens factory in Chippenham, which will produce rail signalling and control systems broke ground in April. 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 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 June, the median forecast for manufacturing output growth was for growth to remain flat (0.1%) in 2025 and rise 0.5% in 2026, down from 1.0% three months earlier. Manufacturing businesses will be contending with higher operating costs after the increase in the National Living Wage and the employers' National Insurance Contributions, and falling thresholds, from 1 April but more pertinently, risk aversion is likely to increase and 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 gigafactories progress

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 an earlier start for main works at the Agratas gigafactory would boost near-term growth rates.

Lower Scenario:

- Manufacturers delay or cancel investment plans

The main forecast assumes work continues on factories already under construction but progress may slow or stop if 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 since the end of 2024, and notably for 'build to suit' space that is being built specifically for a signed-up tenant. However, vacancy rates are at their highest since 2013 and moving into Q2, commercial estate agents have reported occupiers holding off expansion plans as operating costs rise due to increases in National Living Wage and employers' National Insurance Contributions, and lower thresholds, whilst business investment has also been noted as being more cautious given increased global economic uncertainty. Output fell 19.9% in 2024, but rose 13.1% year-on-year in 2025 Q1, marking the first increase in eight quarters.



Quarterly new orders are volatile but were 8.9% higher on a four-quarter total basis in Q1.

Commercial estate agents and warehouse developers have reported that warehouse take-up in 2024 and 2025 Q1 was at the levels seen in 2019, which is likely to represent a 'normalisation' of occupier demand and investment demand after the rapid growth post-pandemic. Knight Frank recorded a vacancy rate of 7.3% in 2024 and 2025 Q1, which marked the highest rate since 2013 and an increase from 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, with around three-quarters of leases for Grade A space in 2024. 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. As a consequence, development fell sharply in 2024, with two of the largest warehouse developers reporting large falls in completions for the year: completions halved for Tritax Big Box and fell 40% for Segro. Both noted a pickup in occupier demand and new enquiries at the end of 2024 and start of 2025, which is expected to lead to greater leasing activity in 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.

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 2024 and 26.7% in the first five months of 2025, which compares to a spike of 37.5% 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 22% of warehousing take-up in the year to 2025 Q1, behind distribution at 39% and manufacturing at 28%.

Despite current uncertainty, as interest rates continue to be lowered and occupiers and potential occupiers assess expansion plans, 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 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 and the award of contracts for British Land's multi-level last-mile logistics hub in Southwark, with a scheduled completion of 2025 Q3. 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.

Further out in the pipeline, Greggs announced plans for a new distribution centre in Kettering in July, which is awaiting planning approval but is scheduled to be operational in 2027. Henry Boot Developments has also 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 will 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 8.0%. In line with a broader economic recovery and interest rates being reduced further in 2025, 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 2025, 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:

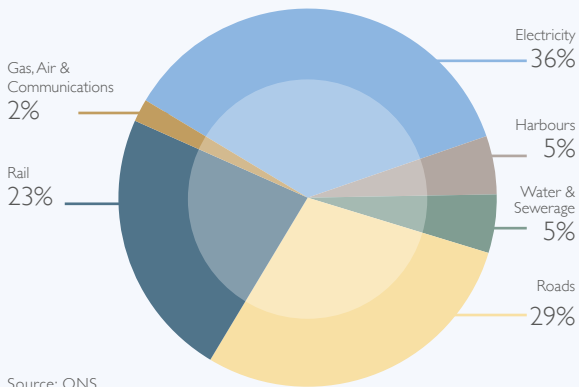
- Costlier development finance holds back new projects
- Speculative developments are delayed or paused as confidence is significantly affected by an acceleration in inflation and economic uncertainty

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 be maintained at a relatively high level as work progresses on major projects such as HS2 and Hinkley Point C, along with offshore wind and transmission enhancement projects in the energy sector. The Spending Review confirmed future funding for key rail projects, and subsequently five major projects to improve the strategic road network have been confirmed. However, two major schemes have been cancelled and funding and detail for the Road Investment Strategy 3 are yet to be published.

Infrastructure Output by Sub-sector 2024 (%)



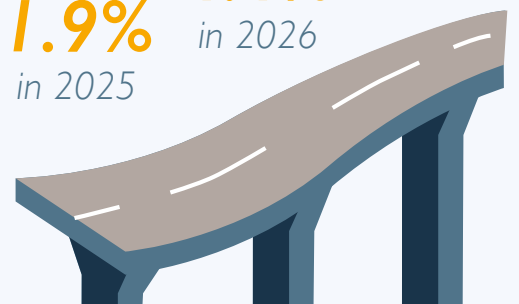
Please note that the Office for National Statistics (ONS) has issues with its measurement of the sub-sectors in infrastructure. Firstly, the ONS's methodology means that although total infrastructure overall may be fine, sub-sector output is determined by the average time between new orders and output 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.

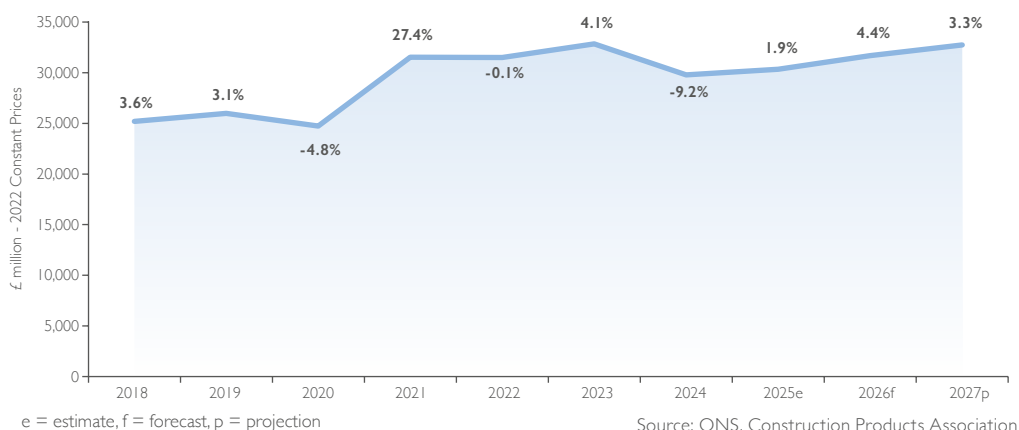
[Spending Review 2025](#) provides greater certainty on public sector capital investment through to 2029/30, confirming the next tranche of funding for major schemes including East West Rail, the TransPennine Route Upgrade (TRU) and Sizewell C, along with sizeable settlements enabling elected mayors to press ahead with significant local transport investment. Multi-year settlements for Transport for London (TfL) and devolved nations were also

Infrastructure output
is forecast to rise by

1.9% in 2025
4.4% in 2026
3.3% in 2027



Infrastructure Output



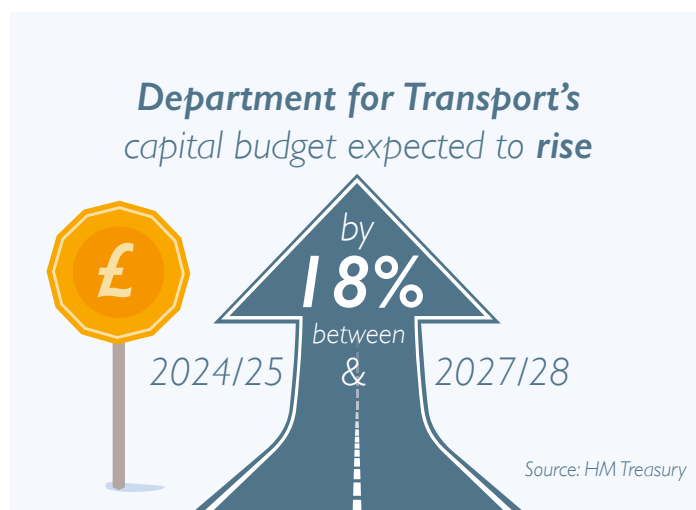
positive. However, announcements largely confirmed expectations, as opposed to fundamentally improving the outlook, and a question mark remains over the level of roads investment over the forecast period, with detail on Road Investment Strategy 3 (RIS3) still pending. The outlook for infrastructure overall is largely unchanged from Spring. Output is forecast to increase by 1.9% in 2025, 4.4% in 2026 and 3.3% in 2027.

Greater certainty over the medium-term pipeline is a positive for the construction supply chain but public finances are stretched and external risks to financial stability are elevated. Latest figures from the ONS continue to highlight the scale of the public sector's financial challenges. Public sector borrowing – the difference between total public sector spending and income – was £17.7 billion in May 2025; this was £0.7 billion more than in May 2024 and the second-highest May borrowing since monthly records began in 1993, after that of May 2020.

Cost inflation also presents a prominent downside risk in this sector and, after decades of major projects being delayed, the government's ability to deliver in line with plans will be important, to attract, and sustain, private investment - an ambition set out in the government's 10-year infrastructure investment strategy. Alongside a voluntary initiative supported by the UK's largest workplace pension providers to invest 10% of their workplace portfolios in assets that boost the economy such as infrastructure, property and private equity by 2030, the use of Public Private Partnerships (PPPs) and other private finance models will become increasingly important.

Further details are provided in relevant sections but Spending Review 2025 made the following capital allocations through to 2027/28 that are likely to have a bearing on the forecast. Excluding HS2, the Department for Transport (DfT) secured funding totalling £49 billion between 2025/26 and 2027/28, 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.

Sizewell C secured an additional £8.8 billion of public funding between 2025/26 and 2027/28 and

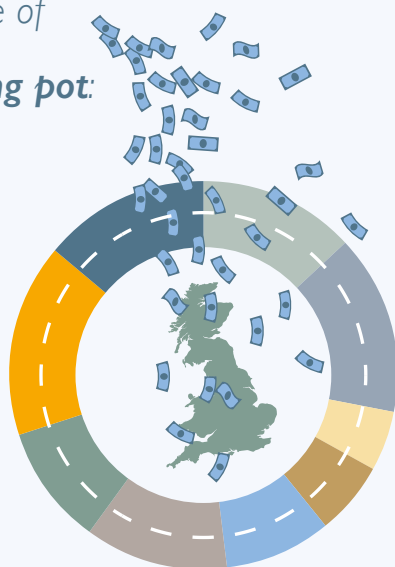


Transport for City Regions settlement

2026/27 to 2029/30 – share of

£7.5 billion funding pot:

- East Midlands **14%**
- Greater Manchester **16%**
- Liverpool City Region **10%**
- North East **12%**
- South Yorkshire **9%**
- Tees Valley **6%**
- West of England **5%**
- West Midlands **15%**
- West Yorkshire **13%**



Source: Department for Transport

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 billion over this period. Capital allocations total £291 million in 2026/27, £1.9 billion in 2027/28, £2.3 billion in 2028/29 and £3.0 billion in 2029/30. Transport for City Regions 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 to 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](#)).

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 Spending Review 2025. Ticket revenues have now recovered following the pandemic and a medium-term capital settlement from central government will support greater capital investment. 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 through to 2029/30 suggesting a real-term decline. The Welsh Government's allocation is £3.4 billion in 2025/26, £3.6 billion in 2026/27 and £3.5 billion in both 2027/28 and 2028/29.

the Department for Energy Security and Net Zero's (DESNZ) capital budget, excluding Sizewell, 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 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.

The DfT's base allocation includes capital funding for

The Scottish Government's Infrastructure Investment Plan (IIP), spanning 2021/22 to 2025/26, was published in February 2021, and has been extended to include 2026/27. Development of the next IIP is underway and is due to be shared for consultation later this year. The Welsh Government published its 10-year investment strategy in December 2021 and this long-term plan is underpinned by a series of Infrastructure Finance Plans (IFP) that bring forward capital programmes with the greatest potential to deliver planned outcomes over the medium-term.

There is also a pipeline of work forming in the harbours and waterways sub-sector. The Crown Estate plans to invest £350 million in onshore infrastructure to support the UK offshore wind supply chain. Funding will target the development of ports and related infrastructure essential to accelerating offshore wind project delivery. This is alongside £200 million investment in the Scapa Deep Water Facility in the Orkney Islands and the £170 million Immingham Green Energy Terminal. In addition, London Gateway's £1 billion expansion will add two further 400m-long all-electric berths, enabling the facility to accommodate six of the world's largest container ships. Start of work is imminent and is programmed to take four years to complete.

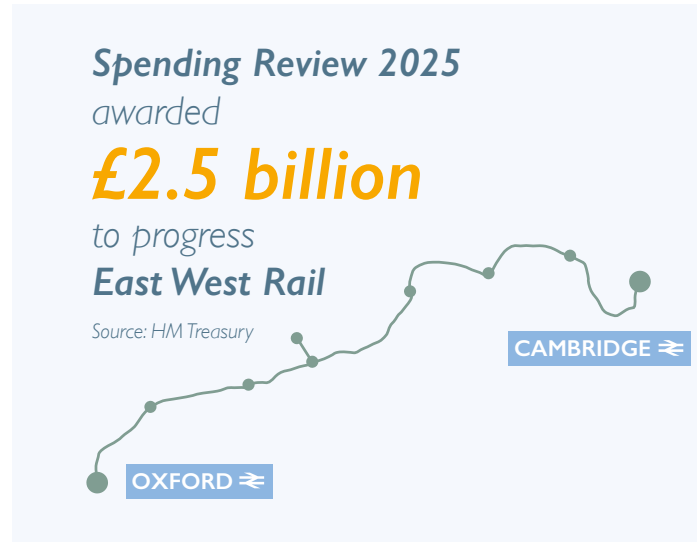
£2.65 billion is being invested in flood and coastal risk management between April 2024 and March 2026. Allocations for more than 700 projects in 2025/26 total £660 million and an additional £140 million is being prioritised for 29 ready to deliver projects, including £42.8 million for the Bridgwater Tidal Barrier Flood Defence Scheme and £35.2 million for Derby's Our City, Our River project.

Beyond 2025/26, the government's ten-year infrastructure strategy sets out plans to invest £7.9 billion of capital funding in flood management schemes between 2026/27 and 2035/36, while Spending Review 2025 committed £4.2 billion (capital and resource) over three years from 2026/27 to building and maintaining flood defences in England.

With civils work at peak construction, delivery of HS2 Phase 1 will sustain near-term activity in the **rail** sub-sector but the outcome of the programme 'reset', due mid-2026, will have a bearing on the medium-term outlook. Government has confirmed the current programme is undeliverable. Network Rail's Control Period 7 got off to a lacklustre start but funding for the continuation of work to upgrade infrastructure and electrify track between Manchester and York and the next phase of East West Rail is a positive development. Rail output is expected to largely flatline over the forecast period, with 1.0% falls expected in 2025 and 2026, followed by growth of 1.0% in 2027.

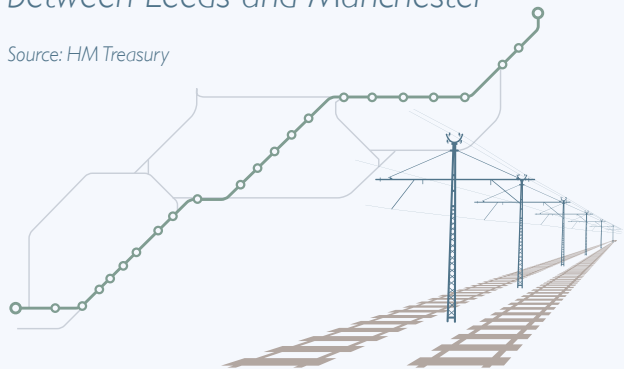
Over nine months into an 18-month reset period, government has confirmed that HS2 will suffer further delays and cost even more than previously estimated to deliver. Earlier this year, the Public Accounts Committee (PAC) called HS2 a "casebook example" of how not to run a major project, criticising lack of leadership, failings in the working relationship between the DfT and HS2 and lack of consideration about achieving value for taxpayers.

The six-monthly report to Parliament in July 2025 confirmed that £37.9 billion has been spent on HS2 Phase 1 to date, in current prices. This includes £26.4 billion on civil engineering, £2.3 billion on stations and £2.0 billion on systems, with land and property and indirect costs accounting for the remainder. In 2025/26, nominal spend on Phase 1 civils works is expected to total £5.4



TransPennine Route Upgrade
awarded a further
£3.5 billion
through to 2029/30 to support
electrification and upgrade work
between Leeds and Manchester

Source: HM Treasury



billion, with stations development costs £0.6 billion and systems £0.3 billion. Through to 2029/30, the Comprehensive Spending Review confirmed that capital investment totalling £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. Funding is expected to total £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. A revised estimate of the total cost of the project will be updated following the programme reset, expected mid-2026. However, with £37.9 billion invested to date, and a further £25.3 billion allocated in Spending Review 2025, spend on HS2 Phase 1 is expected to hit £63.2 billion by the end of the decade, significantly higher than an estimate of £49 billion to £57 billion it made in the six-monthly report to Parliament in November 2023. Significant revisions to project cost and programme are likely following the reset.

HS2 recently procured contracts for track systems and, as the programme review continues, the focus is on improving productivity and pressing ahead

with civil engineering work. According to the latest construction update, issued in March 2025, more than 75% of HS2 tunnelling is complete and work has started on two-thirds of viaducts and over half of the route's bridges. 72% of foundation columns have been installed, 58% of earthworks excavation is completed, 35% of total steel and 32% of viaduct segments have been installed. At Old Oak Common station in West London, foundations were completed in February, after excavation of the basement box completed in Summer 2024, while at Curzon Street station work to install supporting concrete columns is progressing and construction of the station building will start this year.

In October 2024, Government confirmed that HS2 would terminate at London Euston and it committed public funding for tunnelling work between Old Oak Common and Euston. Private funding will be used to develop Euston Station and 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, including a Tax Increment Financing-style mechanism. A Euston Delivery Company will be established to oversee these private finance and development proposals for the station and a partnership between The Crown Estate and Lendlease was recently formed to support commercial, life sciences and residential development above, and around the station, progressing regeneration of the surrounding area.

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. Within CP7, Network Rail (NR) plans to invest £19.3 billion in renewals, £12.6 billion in day-to-day maintenance, £4.4 billion in operations (signalling, stations and network control) and £7.1 billion in 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.

In terms of renewals, planned investment includes £4.1 billion for tracks, £3.2 billion for signalling, £2.2 billion on structures and £1.8 billion for electrification and fixed plant. Due to inflationary pressure, investment volumes during CP7 will fall marginally short of CP6 levels.

Under CP7, work is progressing on the East Coast Digital Programme, which is upgrading control systems on 100 miles of track between London and Grantham on the East Coast Mainline. The first phase of the project recently completed, and work is continuing between Welwyn and Hitchin. The project is worth around £1.9 billion in total and is due to run until 2030. Work is also nearing completion on the Midland Mainline Upgrade Programme to increase the capacity of overhead lines south of Bedford and the £140 million upgrade and capacity expansion project at Darlington Station, which is due to complete at the end of this year. Just over a year later than planned, the £100 million Wigan to Bolton electrification scheme is nearing completion. Electrification of this 6.5-mile stretch connects with the TransPennine Route Upgrade (TRU), enabling the introduction of 6-car electric services on this route.



Spending Review 2025 allocated £2.5 billion to support the ongoing development of East West Rail (EWR) through to 2029/30, which is low relative to approximate capital spending on the project by DfT of £6.4 billion in 2023/24 and £3.3 billion in 2024/25. The project is being delivered in three stages. Services recently started running on Connection Stage 1, linking Oxford to Bletchley, and the Spring Budget announced that work on the Marston Vale Line extension between Bletchley and Marston Vale, will be accelerated. Connection Stage 2 (CS2) will extend the line from Oxford to Bedford, and, finally, Connection Stage 3 (CS3) will complete the connection between Oxford and Cambridge, via Bedford and Bletchley. CS2 and CS3 are still in planning and a consultation on plans for new stations and services closed earlier this year. A commitment has been made to deliver CS2 before the end of the decade, but it is not yet clear if available funding will be sufficient to deliver both the Marston Vale extension and CS2.

Work is progressing on the TRU – Network Rail’s long-term programme to improve the route between Manchester and York. 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. Electrification and enhancement work is currently progressing on the Leeds and Normanton lines between Church Fenton and York, due to complete in the first half of 2026, and the Manchester to Stalybridge section which is scheduled to complete by the end of this year. 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.

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 only at an early development stage.

In July, 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. Confirmation of 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 allocates £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 for network infrastructure.

Work is nearing completion on the £139.8 million 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 new stations at East Kilbride and Hairmyres and a 1.4km extension of the existing loop at Hairmyres and is scheduled 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, 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 is 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 2025/26 allocates £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 the Cardiff Crossrail tram project has been let. Both the Welsh and UK governments have confirmed funding of £50 million each to cover the initial phase from Cardiff Central railway station to Cardiff Bay. First phase work will redevelop the network around Callaghan Square, enabling trams to connect with the existing Cardiff Bay train line, and a new platform at Cardiff Central. Design is programmed to complete by Autumn and work on the ground is due to start in late 2025. Construction work could complete by early 2028.

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 58.9% in that year and 39.3% 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 that 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 delay to the current programme

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

Electricity is a buoyant sub-sector driven by work to bolster energy security and progress the country's grid decarbonisation agenda. The project pipeline is sizeable, but sector capacity is struggling to meet burgeoning demand and strong cost inflation. Due to these constraints, electricity output is forecast to sustain a moderate annual growth rate over the forecast period, increasing by 6.0% in 2025, 10.0% in 2026 and 5.0% in 2027.

At Hinkley Point C, work on unit one's external structures is nearing completion and, internally, the installation of equipment is progressing, and the 245-tonne dome for the second reactor is scheduled to take place over Summer. EDF reports that experience gained during the construction of reactor one is helping expedite construction of reactor two, estimating construction is progressing at 20% to 30% faster, and nearly 60% of sections are now being manufactured offsite and craned into place. 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 around risk 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.

Sizewell C secured additional **£11.5 billion** of public funding in the Spending Review

Source: HM Treasury



Under this scenario, electricity generation by reactor one would be delayed until 2031 and the cost could escalate to close to £35 billion in 2015 prices.

EDF, the majority stakeholder in Hinkley Point C, has secured £4.5 billion in debt financing from US private capital group Apollo. This additional finance helps to address a funding shortfall that arose after EDF's project partner, the China General Nuclear Power Group (CGN), ceased financing the project once it had fulfilled its contractual commitments in 2023. Since then, EDF became the sole project funder through voluntary equity.

The government announced additional funding of £11.5 billion for Sizewell C across the 2025 Spending Review period, bringing public sector investment for the new nuclear facility to £17.8 billion in total. The UK government is partnering with La Caisse, Centrica, Amber Infrastructure and EDF to deliver the facility, that recently secured a final investment decision. The UK government will

be the largest equity investor in the project, with a 44.9% stake and private investors will be protected from cost overruns. The final cost of the new nuclear power station is rumoured to have doubled since 2020 to an estimated £40 billion, in 2025 prices.

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.

Construction work is underway on £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. The contract to install 69km of high voltage direct current (HVDC) land cables was awarded in December and is due to complete in 2029. The project's direct construction cost is estimated at £2.7 billion. Construction 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 due to complete in 2029.

Enabling work started on Yorkshire Green – a £400 million project to upgrade and reinforce Yorkshire's power network – last year after planning consent was awarded in March 2024. The project will deliver a new 400kV and 275kV electricity connection and associated infrastructure, along with 7km of new overhead lines, underground cables and two substations, to link two existing overhead lines.

Main construction works recently commenced on the £363 million Bramford to Twinstead Reinforcement project to strengthen network resilience between Bramford Substation in Suffolk and Twinstead Tee in Essex. The project received development consent in September 2024 and is due to complete in 2029.

After planning was awarded earlier this year, construction work is underway on National Grid's £230 million Grain to Tilbury enhancement project involving the construction of a new 2.2km

long high voltage (400kv) cable tunnel and includes two 35m deep shafts (15m and 12m diameters respectively), headhouses and Cable Sealing End (CSE) compounds. Work is due to complete in 2029.

In London, main construction work recently commenced on the £290 million North London Reinforcement Project to support connections to renewable energy generation. Works include the replacement of existing 275kV overhead line with a 400kV overhead line to enhance the line's capacity, along with associated works to the substations at Pelham, Rye House, Waltham Cross, Brimsdown, Tottenham and Hackney. Work is due to complete in 2027.

Work has commenced on what will be the UK's largest substation at Uxbridge Moor, neighbouring existing Iver substation in Buckinghamshire. The value of the project, for National Grid Electricity Transmission, has not been disclosed and the project is due to complete in 2029.

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 with the Great Grid Upgrade 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.

SSEN Transmission's £690 million upgrade of the electricity transmission network on the Isle of Skye was recently granted consent by the Scottish Government. The project involves replacing 137km of existing overhead power lines between Fort Augustus and Skye to improve energy security and support renewable energy development.

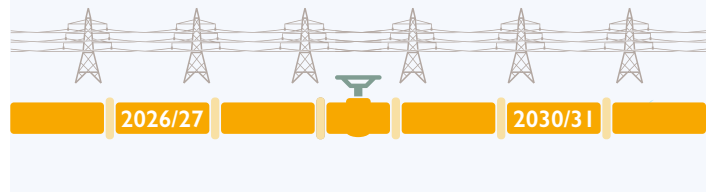
In Wales, National Grid plans to invest £235 million upgrading the electricity network between Pentir and Trawsfynydd in the North West. Subject to planning permissions and other relevant consents, the upgrade work is planned to start in Spring 2026 and take approximately three years to complete.

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 over a 15-year period since 2015. The 2024 CfD auction (AR6) secured funding deals for 131 renewable energy projects with 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.

Allocation Round 7 (AR7) is expected to open for applications in August, with results expected to be announced in late 2025 or early 2026. If government's Clean Power 2030 targets are to stand any chance of being achieved, AR7 will need to secure significantly higher capacity than AR6. By 2030, offshore wind is expected to meet half of the country's electricity demand but

Ofgem has provisionally given the green light to **investment totaling £24 billion** to **enhance electricity and gas transmission between 2026/27 and 2030/31**

Source: Ofgem



In London, construction is underway on the

£290 million

North London Reinforcement Project

to support connections to renewable energy generation



Source: National Grid

high cost inflation, and elevated borrowing costs, continue to impact the viability of offshore wind projects.

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 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.

Other offshore wind developments are progressing. Construction has commenced on ScottishPower's £4 billion East Anglia THREE offshore windfarm, which is expected to generate 1.4GW and supply electricity to more than 1.3 million homes. Construction of all 95 wind turbines is scheduled to complete in early 2026. In the Irish Sea, the £4.8

billion Mona Offshore Wind Farm was recently awarded development consent. The 1.5GW project includes up to 96 wind turbines and four offshore substation platforms.

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. In the Electric Vehicle Infrastructure Strategy 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). A pilot for the RCF in December 2023 concluded without grants being awarded and 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 as housing.

The ten-year infrastructure strategy pledged to support investment of more than £8.3 billion through Great British Energy (GBE) and Great British Energy – Nuclear to develop, build and operate clean energy projects across the UK to generate a return for taxpayers. The government will publish a Statement of Strategic Priorities for GBE later in 2025.

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 19.2% 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 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

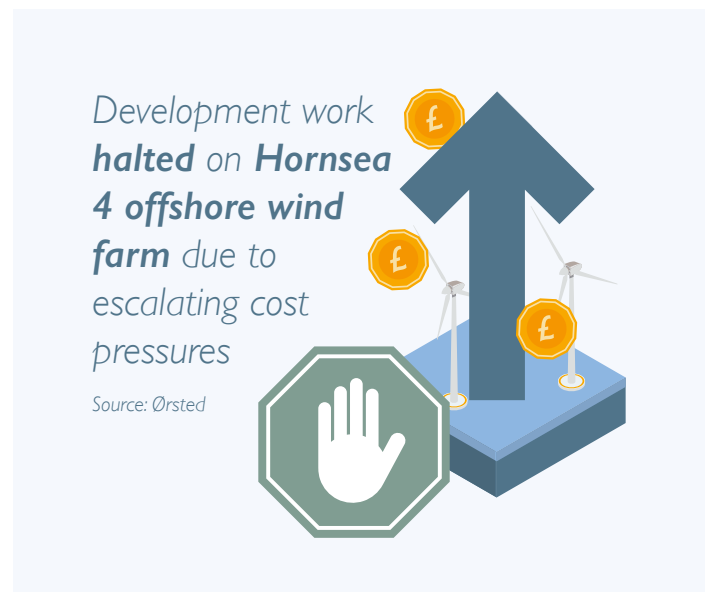
Meeting UK demand will be challenging for the domestic supply chain – both in terms of specialist skilled labour and materials, especially as global investment in energy generation and transmission is increasing rapidly. Ofgem's agreement to provide advanced funding to secure supply chain capacity is 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 early indications suggest water companies are ready to mobilise investment plans more swiftly than is usually the case at the start of a new investment period. Water companies consistently underdelivered in AMP7 but delivery frameworks are in place and several large, strategically important, infrastructure projects are poised to start. Output is forecast to increase by 2.0% in 2025, before growing by 11.0% in 2026 and 10.0% in 2027.

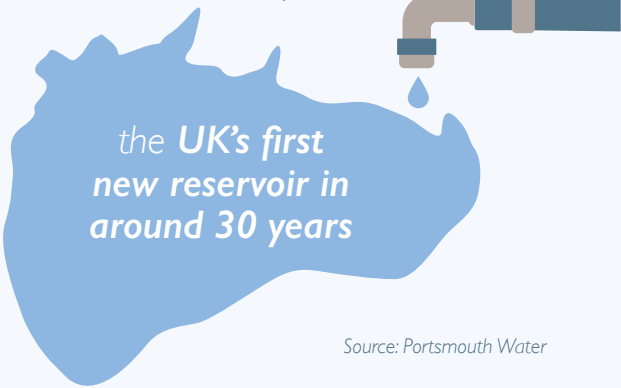
Water companies' eighth asset management period (AMP8) sets an ambition to invest £104 billion between April 2025 and March 2030. Investment in new infrastructure and resources is set to quadruple to a record £44 billion. Planned investment in AMP8, funded by a 36% increase in household water bills before allowing for inflation, includes £12 billion to reduce harm from storm overflows, £6.0 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.

Six companies have exercised their right to request a redetermination of Ofwat's final determinations by the Competition and Markets Authority (CMA). These companies are Anglian Water, Northumbrian Water, Thames Water, Southern Water, South East Water and Wessex Water. The review process is underway and is due to complete in March 2026.

Water companies have consistently failed to meet agreed environmental and investment targets. Ofwat published its review of water company performance in 2023/24 in October last year and its conclusions were damning. No company met the regulator's criteria for 'leading'



Construction work has started on Portsmouth Water's **Havant Thicket Reservoir** in Hampshire



Source: Portsmouth Water

performance for the second consecutive year and overall companies reported a net sector underperformance payment of £157.6 million during the year. Most recently, Ofwat issued fines to both Thames Water and Northumbrian Water, to penalise their failure to comply with legal obligations in their wastewater operations. Thames Water received a £104.5 million penalty, the largest in Ofwat's history, after the regulator uncovered a series of failures by the company to build, maintain and operate adequate infrastructure to meet its obligations. The order requires Thames Water to agree remediation plans with Ofwat within six months. In June, Northumbrian Water agreed a £15.7 million enforcement package with the regulator after admitting to wastewater failings. Under this arrangement, this money will be used to improve infrastructure in the region.

In addition to this, interim findings from the Independent Water Commission's review of the water sector in England and Wales called for closer

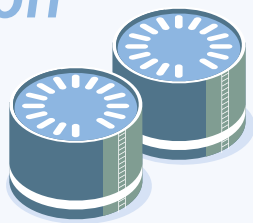
supervision of water companies, called for longer-term strategic planning and prioritisation, and criticised the lack of knowledge about overall asset condition. The Commission's final verdict, expected over Summer, could trigger further regulatory change in the sector, which may have implications for the type, and scale, of investment by water companies.

Construction work has started on Portsmouth Water's Havant Thicket Reservoir in Hampshire, the UK's first new reservoir in around 30 years. The £340 million project is set to span 160 hectares, hold 8.7 billion litres of water, and take six years to complete. 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 2029.

Development work is progressing on several large schemes, upon which construction work is scheduled to start in the next two years. United Utilities recently announced the preferred bidder to deliver its largest infrastructure project since privatisation – the Haweswater Aqueduct Resilience Programme. The project, to refurbish the 110km aqueduct is expected to cost between £2.5 billion and £2.9 billion and main construction work is scheduled to start in 2026. The construction phase is expected to take eight years. In the sewerage sector, Thames Water recently awarded the contract to deliver a £400 million upgrade of its Coppermills Water Treatment Works in Walthamstow. Works include a new high lift pumping station and slow sand filter recirculation and run-to-waste system and is due to commence on site in the first half of 2026, with completion scheduled for 2032.

Anglian Water has signed a new five-year contract with its Integrated Operational Solutions (IOS) Alliance spanning 2025 to 2030. This agreement renews a decade-long partnership and will oversee investment of around £400 million over the contract period, delivering a range of works from laying new mains to constructing pumping stations. Southern Water has commenced market

Thames Water recently awarded the contract to deliver a **£400 million** upgrade of its **Coppermills Water Treatment Works** in Walthamstow



Source: Thames Water

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engagement ahead of procuring its £50 million Andover Link Main pipeline to share water between Andover and Hampshire. Work on this project is expected to start in April 2026 and complete in 2030. In Worcestershire, Severn Trent Water is progressing with a £21 million upgrade of the Worcester Sewage Treatment Works to reduce phosphate discharges into local waterways. Construction recently commenced and the project is expected to reach completion by 2027.

However, cost escalation and wet weather in 2024 have impacted the delivery of Anglian Water's £500 million strategic pipeline programme to transport water from North Lincolnshire to Essex. Delivery was paused in 2024, but work has recently recommenced on sections running between Elsham and Bexwell.

Scottish Water is in the penultimate year of its 2021 to 2027 regulatory period, worth around £6.0 billion. Attention has turned to plans for the next investment period, spanning 2027 to 2033, and procurement for delivery partners is underway. 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. It will focus on managing high-value and complex construction and engineering projects across the nation.

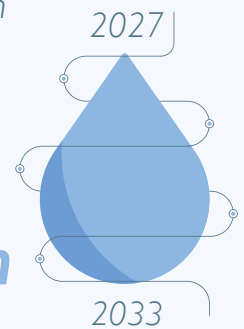
Under the current investment period, work has begun on the first wave of the £500 million Improving Urban Waters programme that will help improve water quality, reduce sewer-related debris and minimise spills from the sewer network through targeted infrastructure investments. Work is due to complete in 2027. Work is also progressing on Scottish Water's £38 million investment to upgrade trunk water mains between Peterhead and Ellon. The project started in September 2024 and is due to complete in Summer 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.

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.

Procurement underway on
**Scottish Water's next
six year investment
period – starting in 2027
and worth between
£5 - £9 billion**

Source: Scottish Water





Upper Scenario:

- Water companies quickly ramp up activity on AMP8 projects and programmes

Consultancy and delivery frameworks are in place at many water companies, and this could support work starting quickly on AMP8 investment. The forecast assumes 2025 will be a transition year as design and planning progresses to support an uplift in activity on the ground from 2026 but this could be too cautious.

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 as firms balance stakeholder objectives.

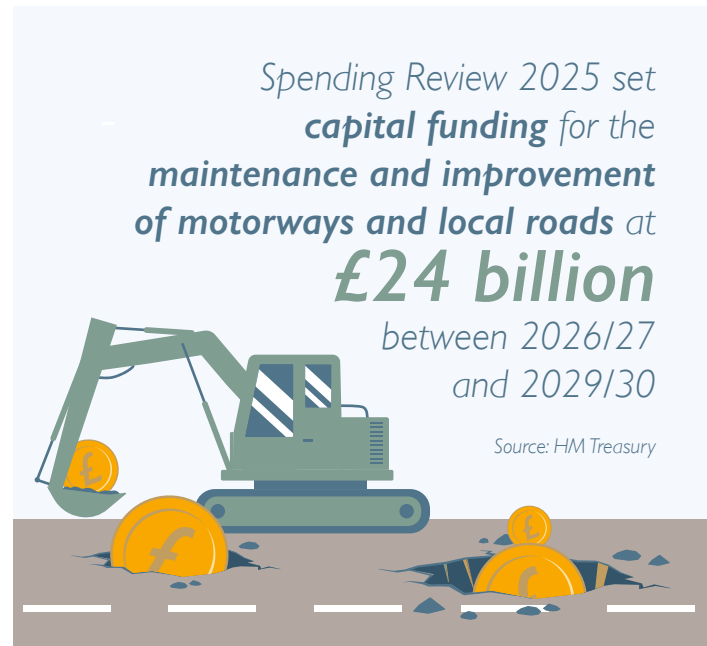
The near-term outlook for the **roads** sub-sector remains uncertain. Investment in the strategic road network is currently being funded through an interim settlement and the next medium-term investment strategy for the country's strategic roads network, Road Investment Strategy (RIS3), has still not been published. Spending Review 2025 provided high-level details of total roads funding through to 2029/30, and government has subsequently provided some clarity on certain projects, but lack of detail makes the level, and timing, of funding difficult to assess. As there are few major projects in the near-term to replace work now completing, roads output is forecast to contract by 1.0% in 2025, before increasing modestly in 2026 and 2027 by 1.0% and 2.0% respectively and scenarios are explored at the end of this section.

In March, the government announced a £4.8 billion interim settlement to finance National Highways in 2025/26. This funding settlement includes £1.3 billion for capital enhancements and £2.0 billion for capital spending on maintenance and renewals. In line with a stronger focus on maintaining, rather than enhancing the existing network, interim settlement funding will be used to replace 1,315 lane-kilometres of asphalt road surface, complete 22 lane-kilometres of concrete road construction and to mitigate 41 flooding hotspots, along with progressing work on 76 structural renewal schemes, 49 of which are already in progress. The £4.8 billion settlement is around 4.5% lower than an estimated spend of £5.1 billion in 2024/25.

Spending Review 2025 set capital funding for the maintenance and improvement of motorways and local roads at £24 billion between 2026/27 and 2029/30, including £1 billion to enhance the road network and create a new Structures Fund that will repair major structures like bridges, flyovers and collapsed roads.

Simplistically, this suggests total annual investment of approximately £6.0 billion over the next four years in current prices. However, a breakdown between the funding allocations for local roads and the strategic roads network, along with the annual funding profile, and clarity on exactly what is included within this allocation, is needed to support more robust analysis. Budgets for local roads maintenance totalled approximately £1.96 billion this year, while funding for National Highways is £4.8 billion so an annual allowance of £6.0 billion could equate to a double-digit decline.

In July, government confirmed that five major roads schemes, which were originally part of RIS2, will be progressed during the Spending Review period. These are: the £250 million A38 Derby



Five
strategic roads schemes
from RIS2 secure funding

Two
have been cancelled
and remaining schemes
are under review



Source: Department for Transport

Junctions; the £200 million M54-M6 Link Road; the £1.3 billion A66 Northern Transpennine; the £500 million A46 Newark Bypass and the £340 million M60/M62/M66 Simister Island Interchange.

With development consent in place, and preparatory works underway, work on the M54-M6 Link Road could start relatively quickly once a new delivery partner is appointed, and the start of main construction work on the A66 Northern Transpennine project is pencilled in for early next year. Development consent has yet to be granted for the M60 junction 18 Simister Island Interchange and a final decision on the DCO for the A46 Newark Bypass is expected in October 2025. Survey work to support 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.

The cancellation of two further major road schemes was also announced in July: the £1.2 billion widening scheme on the A12 near Chelmsford and the £100 million A47 dualling project between Wansford and

Sutton. Schemes that are still on hold pending funding decisions include A52 Nottingham Junctions, A27 Worthing and Lancing improvements and A46 Coventry Junctions upgrade.

The government's announcement in July included details of 28 funded projects from across the Major Road Network and Large Local Major Programme, ten of which are already under construction, and the majority of the remaining 18 schemes are relatively small. Larger schemes securing new funding include the North Hykeham Relief Road in Lincolnshire, and the North Thanet Link in Kent, with estimated delivery costs of £200 million and £60 million respectively. Early design work is progressing on the North Thanet Link while a public inquiry is underway on the Lincolnshire scheme. Other local schemes will remain under review.

Progress is being made on the two new strategic roads schemes scheduled to start this financial year, but significant revisions have been made to the delivery cost of both schemes. Work on the M3 at junction 9 began in 2025 Q1 and is progressing. The project is now expected to cost between £268 million and £322 million. Improvement work between the A47 Thickthorn Junction and A11 is scheduled to start in the fourth quarter and complete in 2028. National Highways has revised the cost estimate for this project from £100 million to over £200 million.

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 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 the 2024 Autumn Budget. The project will cost at least £9.4 billion to construct and a recent Freedom of Information request revealed that, by March 2025, £1.2 billion had already been spent on this project, with planning costs accounting for £26.9 million and public and stakeholder consultations for £28.9 million. How project delivery will be financed is still being explored. Additional public funding in 2026/27 will support further work on developing a "regulated asset base" funding model, similar to that used to deliver the Thames Tideway sewer, to attract private finance. Main construction work on this project is unlikely to start within the forecast period.

Several local authorities are pressing ahead with large road improvement and enhancement schemes. Gloucestershire County Council's £249 million improvement scheme at junction 10 on the M5 recently secured planning permission. Preparatory works are due to start this summer, with major construction set to begin in Spring 2026 and completion targeted for 2028. Herefordshire Council is preparing to tender the first construction phase of its Hereford Western Bypass project. Worth around £35 million, phase one will provide 3.6 kilometres of single carriageway, linking the A49 with the A465. Work is due to start in early 2026, with completion anticipated for the end of 2028. In its entirety, the project is expected to cost around £190 million.

North Somerset Council has awarded the contract to deliver part of the £31 million A38 improvement scheme in North Somerset. The improvement scheme covers nine locations along the stretch from Barrow Street junction near Barrow Tanks to the Edithmead Roundabout at junction 22 of the M5 motorway. In Yorkshire, a contract has been appointed to deliver a £45 million relief road in Howden by East Ridings of Yorkshire Council. The link road will connect the A614 Thorpe Road to Station Road (B1228). The scheme, set to start in July and expected to take around two years, will involve the building of four roundabouts and the development of roadways across current farmland areas. In Leeds, work recently started on a £44 million bypass upgrade between Leeds and Bradford and is due to take 18 months to complete.

Birmingham City Council plans to establish a new Highways and Infrastructure Works Framework, with an estimated value of £640 million. The framework is designed to cover a broad scope of projects across the West Midlands, from minor highway improvements to major infrastructure developments. The framework agreement will stretch over an estimated period of eight years, from January 2026 to January 2034. Liverpool City Council has also appointed contractors to a new £850 million Highways Planned Works Framework. The framework is divided into two lots. Lot one, worth £200 million, covers projects valued up to £1.5 million, while lot two is worth £650 million for contracts exceeding that amount. The framework is to last for four years and will cover various planned highways works, including road resurfacing, infrastructure upgrades, traffic signal improvements, active travel schemes and bridge maintenance.

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 roads investment beyond 2025/26 is expected in the forthcoming long-term strategic infrastructure plan.

Work on the £3.7 billion A9 improvement project is continuing. Construction has started on dualling 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 £296 million at 2024 Q2 prices. The next section of the A9 Dualling project is between Tay Crossing and Ballinluig and procurement is underway. Interested contractors have been shortlisted for the £22 million project. A contract is expected to be awarded shortly, with project completion expected towards the end of 2028. Also, market engagement recently started on Transport Scotland's £205 million contract to dual the Pitlochry to Killiecrankie section of the A9. The project involves the design and construction of the 6.4km single carriageway section into a dual carriageway.

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.

In Wales, the focus is also on maintaining rather than enhancing the strategic road network. 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.

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 76.9% that took output to a record high of £11.8 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

The 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 all five schemes within the forecast period, output growth would be stronger.

Lower Scenario:

- Cost pressures continue to impact progress on roads schemes
- Detail on RIS3 confirms a 17% cut to the budget for the strategic roads network

Materials and labour costs are still increasing, after the 2022 step-change in pricing triggered by the start of the Ukraine war. Cost escalation could continue to impact the progress of existing schemes. Further detail on the headline announcement of £24 billion for roads investment that confirms a significant cut in spending over the next four years would materially reduce the forecast.

Output in the **gas, air and communications** sub-sector bounced back in 2024, increasing by over 30% but from a 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 Luton airports

approved, the medium-term outlook is positive. The forecast anticipates growth through to 2027 and, with major investment proposals at Gatwick still awaiting the green light from planners, risks are weighted to the upside. Output is forecast to increase by 6.0% in 2025 and by a further 5.0% in both 2026 and 2027.

Work on the first phase of a £100 million terminal regeneration project at Leeds Bradford Airport is due to complete in Summer. The new, three-storey, 9,500 sq. m. terminal extension provides additional aircraft stands, along with more seating and enhanced amenities. Following the completion of phase one, work will begin on redeveloping the existing terminal and further

London **Stansted Airport's**

£1.1 billion

expansion plan

is due to start this year



infrastructure enhancements, and work is due to complete in 2026.

Work is nearing completion on Bristol Airport's new £60 million transport interchange hub and multi-storey car park. Work forms part of an investment programme to support an increase in annual passenger numbers from 10 million to 12 million by extending the existing terminal building by 20,000 sq. m. to 70,000 sq. m. Longer-term, the airport hopes to increase terminal floor area to 130,000 sq. m. to support an annual increase in passenger number to 15 million. A public consultation is currently underway and, if plans are successful, the second extension could be open by 2036.

Work is nearing completion on the final phase of Manchester Airport's £1.3 billion transformation programme. The first phase of the programme doubled the size of Terminal 2 and the final phase, worth £440 million, included refurbishment of the existing part of the expanded terminal building. Work on the final phase of this programme is due to complete in the second half of 2025. In May, Manchester Airport Group (MAG) announced investment plans to redevelop 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.

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. The expansion plan includes increasing the size of the existing terminal by 2,276 sq. m. and building a new three-storey passenger pier, eight new aircraft stands and a new taxiway. Although approval is in place, a start for the project has yet to be confirmed.

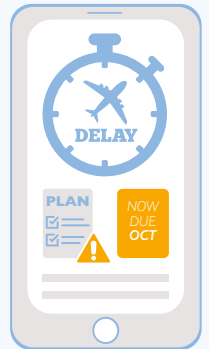
London Stansted Airport's £1.1 billion expansion plan is due to start this year. Plans include a £600 million terminal extension, alongside another £500 million to improve the existing terminal and wider airport estate. It will also deliver a 14.3MW on-site solar farm, which will support the airport's 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.

Over the longer term, Manchester Airport Group plans to increase London Stansted Airport's annual passenger limit to 51 million over the next 20 years to maximise the potential of the existing single runway. A planning application was submitted in June.

As Heathrow Airport prepares to submit a revised proposal for a new third runway to the government in Summer, enhancement work on existing assets is ongoing. Planned capital investment at Heathrow is anticipated to increase from an estimated £1.05 billion in 2025 to £1.29 billion in 2026. Upgrade work will take place across all terminals and will include improvements to baggage delivery and decarbonisation work.

The government's verdict on London Gatwick Airport's £2.2 billion plan to bring the airport's existing northern runway into routine use has been delayed by six months and is

*Decision on London
Gatwick Airport's
£2.2 billion
expansion plan
delayed by 6 months,
now due in **October***





now expected on 27 October. While the government is “minded to approve” the proposal, a few issues around carbon and noise emissions are still to be resolved. Currently, the northern runway is only used when the main runway is closed. Construction is now unlikely to begin until 2027 at least, with completion anticipated in the early 2030s at the earliest. Until the development consent is granted, and there is greater certainty around work starting on site, this project is excluded from the forecast.

Work is currently underway to deliver a £140 million pier extension at London Gatwick Airport, and the airport recently announced a £250 million five-year partnership with Vital

Energi, a renewable energy firm, to support decarbonisation across its estate. Planned work will see approximately 50 buildings, including its North and South terminals, engineering facilities and office spaces, transition to zero carbon heating systems. This will involve phasing out natural gas and installing low-carbon technologies such as heat pumps, alongside measures to improve energy efficiency across the site by 2030.

A legal challenge has been launched against London Luton Airport's £2.4 billion expansion plan, which was approved by the Secretary of State for Transport in April on the grounds that development consent was granted unlawfully. The 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. Luton Rising, the airport's owner, confirmed receipt of a pre-action protocol letter in May and no further update has been provided. The forecast assumes work will not start within the current forecast period.

In April, the government backed the South Yorkshire Mayor's proposal to invest £30 million of public funding to support the reopening of Doncaster Sheffield Airport. Doncaster Council agreed a 125-year lease on the former Doncaster Sheffield Airport last year following negotiations with landowner the Peel Group. Secretary of State for Transport has elected not to call in the decision regarding the airspace at the hub, avoiding a further hurdle in its reopening. It is understood that the airport operator requires a loan from the South Yorkshire Mayoral Combined Authority to meet the additional cost of reopening, estimated at £100 million, and a final decision on whether to reopen the facility is expected shortly.

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:

- Expansion plans at Gatwick Airport get the green light from the government and work starts within the forecast period

The forecast assumes work on this project will not start in the current forecast period but if the planning decision is positive, work could start relatively swiftly at Gatwick Airport. Concurrent delivery of significant projects at Gatwick, Luton and Stansted Airports would drive a step-change in sub-sector output.

Lower Scenario:

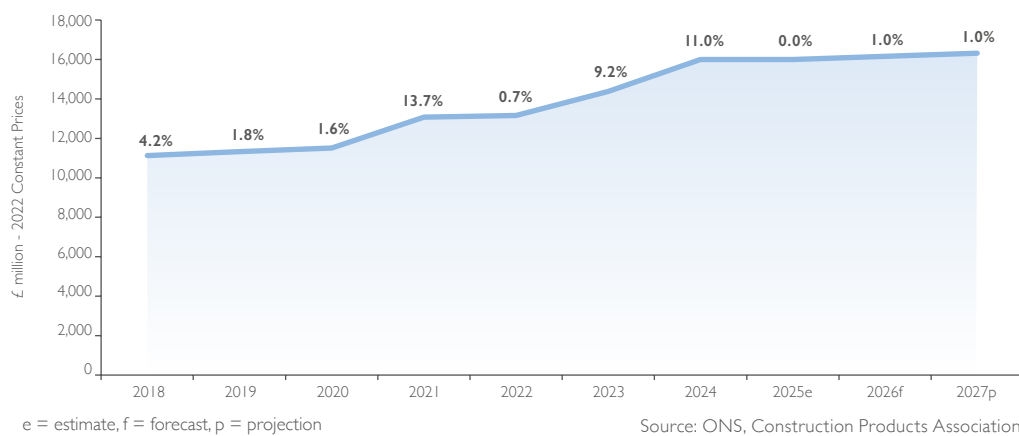
- UK airports focus on enhancements to existing facilities throughout the forecast period rather than long-term expansions or major refurbishments

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 at a high level. Overall, budget constraints will, however, limit the scope for growth, and the outlook suggests stabilisation at a relatively high level.

Infrastructure R&M Output



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 expand 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, plus core Highways Maintenance Block and Integrated Transport Block 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. 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.

Survey evidence suggests the overall condition of local roads continues 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 of structural life remaining. The AIA's Road Condition Index shows that around 24,500 miles – more than one in every 10 miles – of the network in England and Wales is likely to require maintenance in the next 12 months.

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%. There is insufficient detail 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 likely 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.

In terms of local roads, Windsor and Maidenhead borough council is tendering for a £114.8 million highways maintenance framework that is due to start in April 2026 and run until March 2033. The framework will ensure the safety and upkeep of roads, footways, bridges, drains, public rights of way, and highway trees within the borough. Meanwhile, Essex County Council has announced plans for a new £2.5 billion Highways Maintenance Contract to replace the current Highways Strategic Transformation Contract when it ends in March 2027. The contract will run for seven years and work will include the design and delivery of improvement schemes, in addition to routine repairs and maintenance.

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 potholes fixed and prevented, and pavements repaired in local authorities across Wales.

The Network Rail (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 spend during CP7 is due 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. However, progress during the first year of CP7 has been affected by inflationary pressure and cost overruns. The ORR recently identified that Network Rail faces a significant funding gap of £488 million in England and Wales and there is a risk that maintenance investment will be scaled back to help balance the books.

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](#)).

Northumbrian Water recently appointed a contractor on an eight-year wastewater maintenance framework, worth up to £160 million. Under the framework, the successful contractor will provide 24/7 maintenance and rehabilitation services, including manhole replacements, pipework repairs and emergency responses such as clearing sewer blockages.

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 mechanical, electric and plumbing (MEP) and the 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, so, be classified as new work. If a greater proportion of RIS3 investment really 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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