

# Construction Industry Forecasts 2026-2028

Spring 2026 Edition - £250





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## DISCLAIMER

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

All output figures are in 2023 constant prices using the historic figures from the Office for National Statistics (ONS) – as at 15 April when the Forecasts were finalised.

All new orders figures are in 2023 constant prices using the historic figures from the Office for National Statistics (ONS).

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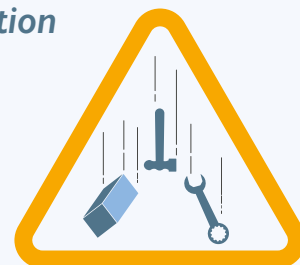
# Overview

Conflict in the Middle East and its potential impacts on the global economy, the UK economy and the construction industry cast a dark shadow over the forecasts for 2026 and 2027. It appears increasingly likely that the second half of this year will see a drop in demand and sharp cost rises. How long the global disruption and high oil and energy prices last remains uncertain at the time of writing, and the CPA has had to make assumptions about the extent and duration of the supply shock. However, based on the CPA's assumptions, construction output is now forecast to fall significantly in 2026, with growth in 2027 also adversely affected. The largest of the conflict impacts are likely to be felt on both the demand and supply side for private housing and private housing repair, maintenance and improvement (rm&i), the two largest construction sectors. In addition, the risks to the forecasts remain heavily skewed to the downside, although potential upside risks remain if the government provides stimulus to boost demand and reduces its additional cost burdens on the construction industry. In addition, all construction forecasters continue to highlight the major problems with the Office for National Statistics (ONS) construction output data on which construction forecasts are based, so users should treat the historical data with extreme caution.

At the end of last year, with the uncertainty created by the government's Autumn Budget out of the way and with an expected slight acceleration in UK growth this year, there was a degree of cautious optimism over prospects for many key construction sectors in 2026 and 2027. However, the start of this year was already challenging for construction, with persistent rain affecting activity, particularly outdoor work and the start of new projects. The hope was that better weather in March and April would lead to stronger activity, and this appeared to have occurred, although there was little evidence of any significant 'catch-up' activity delayed at the start of the year. But the Middle East conflict is likely to raise its own challenges for the UK economy and the construction industry in particular. Even if there was a resolution to the conflict on the day of the forecasts being published, a degree of permanent damage

would be done to oil production, shipping channels, and additional global uncertainty and risk would be priced in, which is likely to lead to both a spike in CPI inflation across the economy and construction product price inflation due to oil, energy and input cost rises. Privately funded construction sectors are most likely to be affected by these cost increases. In addition, privately funded construction sectors will be affected by increases in mortgage and financing costs, which will hit homebuyers and site viability,

**Construction**  
output to  
fall by  
**2.5%**  
in 2026

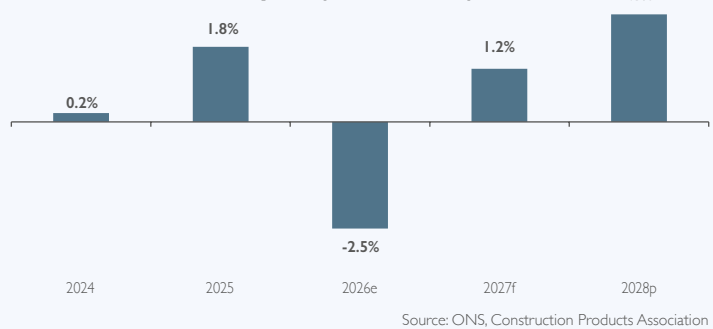


## Key Points

- Construction output falls by **2.5%** in **2026**
- Private housing output falls by **7.0%** in **2026**
- Private housing repair, maintenance and improvement to fall by **8.0%** in **2026**
- Infrastructure output to rise by **3.2%** in **2026**
- Commercial output to fall by **3.7%** in **2026**

respectively. Publicly-funded and regulated sectors are likely to be less affected by these issues and with strong pipelines of activity in some areas, clients may be more willing to accept cost rises on projects over the next 12-18 months. However, if not, these sectors may also suffer from project viability issues and major contractors' and consortia's unwillingness to sign up to large projects in an uncertain cost environment, given the increasing risk.

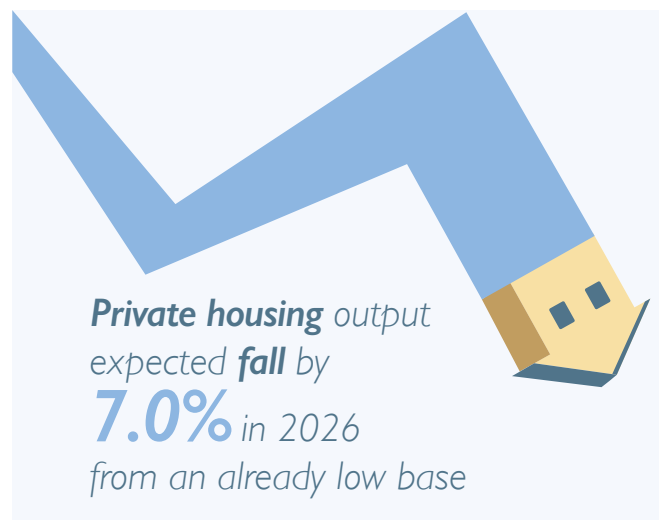
### Construction Output (% Growth)



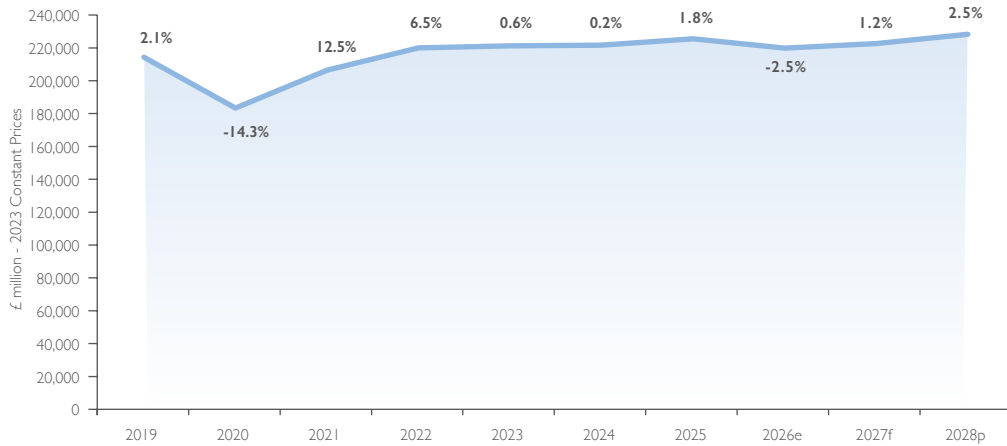
Due to the uncertainty over how long the disruption will last, how high oil and energy prices will peak, and how long they will remain at those peaks, the CPA's forecasts are based on oil prices remaining above \$100 per barrel for four months, which occurred in 2022 after Russia's invasion of Ukraine. The CPA also has an [Upper Scenario](#), which assumes oil prices remain above \$100 per barrel for 2 months.

In the CPA's forecast, construction output volumes are expected to fall by 2.5% in 2026, due to a weather-affected Q1, followed by a slowdown in demand and a sharp upturn in cost inflation in H2, driven by the impacts of the conflict in the Middle East. This is a major revision down from the 1.7% growth forecast in the CPA's Winter forecast, and the only precedents for such large downward revisions to the forecasts were during the global financial crisis in 2008, the initial Covid-19 pandemic lockdown in 2020, and the energy commodity price spikes following Russia's invasion of Ukraine. Output is still forecast to rise by 1.2% in 2027, but this is a significant revision down from the CPA's Winter forecast of 2.8%, and the growth would be from a lower base. In addition, the risks to the 2027 forecast remain firmly on the downside, as the lagged impacts of borrowing rate increases and cost rises feed through to the ground, affecting consumer confidence and spending, as well as business confidence and investment. Aside from issues arising from the recent conflict, the fundamentals in key construction sectors remain unchanged. However, as with the impacts of the energy and commodity price spikes in 2022, the recent conflict is likely to affect the cost bases of firms throughout the supply chain.

**Private housing** remains the largest construction sector, worth £41.0 billion in 2025. The fundamentals in the sector remain broadly similar to the CPA's previous forecast but the downside risks around demand have intensified. After the end of pre-Autumn Budget uncertainty at the end of November 2025, many housing commentators suggested that there was renewed optimism and there would be a rush in demand in 2026 Q1, held up by the uncertainty. However, there has been little sign of that so far. Starts activity in January and February was rain-affected and it also suffered compared with a strong comparator a year ago. House builders report that March and April activity was stronger than during the slow start to the year but the key uncertainty is what demand will be after April. Mortgage approvals from May



## Construction Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

are likely to be based on rates that have risen significantly since the Middle East conflict, and financial markets now anticipate two interest rate rises, once CPI inflation spikes, rather than the two interest rate cuts expected at the start of the year, which may lead to further rises in mortgage rates. House builders were already highlighting affordability as the key constraint, and clearly, the rise in mortgage rates will not help. House builders also remain adversely affected by housing associations continuing not to buy Section 106 affordable units, which also hits site viability. Site viability is also increasingly difficult due to the long list of the government's additional costs on house building, which will continue to increase over the next 12 months. Build-to-Rent investment remains strong, but it is increasingly directed towards existing stock, given concerns over rising construction and financing costs, and delays at the Building Safety Regulator (BSR) on high-rise buildings. The BSR high-rise delays particularly affect London, which is also where affordability and site viability problems are most acute. SME house builders still face planning delays and site viability problems, as was the case in 2025, but they will be hit hardest and earliest by mortgage rate rises. In addition, SME house builders will also be more affected by construction product cost inflation, as they do not have the resource to plan and purchase in advance. Overall, private housing output is forecast to fall by 7.0% in 2026, then remain flat in 2027.

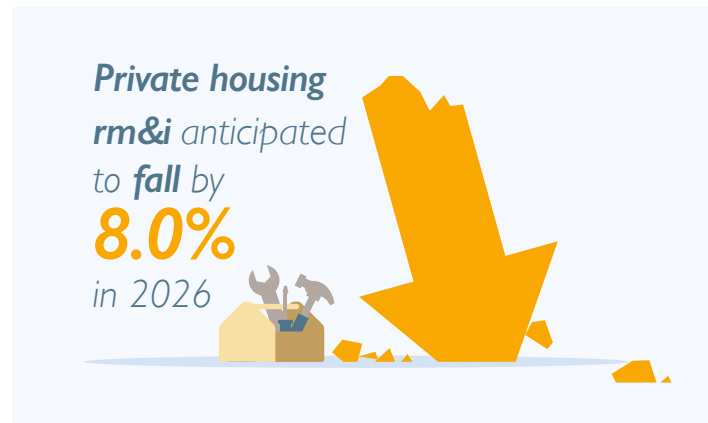
## Public & Private Sector Construction Output

£ million	2024	2025	2026	2027	2028
Change on previous year	Actual	Actual	Estimate	Forecast	Projection
Public Sector inc. PFI	54,114	55,213	56,032	57,651	59,645
	0.9%	2.0%	1.5%	2.9%	3.5%
Private Sector	167,482	170,266	163,831	164,931	168,528
	0.0%	1.7%	-3.8%	0.7%	2.2%
Total Construction	221,596	225,479	219,862	222,582	228,173
	0.2%	1.8%	-2.5%	1.2%	2.5%

Source: ONS, Construction Products Association

**Private housing repair, maintenance and improvement (rm&i)** is the second-largest construction sector, worth £38.1 billion in 2025, according to the ONS. However, the CPA has persistently highlighted major concerns it and other forecasters have about the lack of robustness in the ONS construction output data. This affects all construction sectors, but it is especially visible in the private housing rm&i data (see [Recent Data](#)).

The indications from firms across the supply chain are that private housing rm&i activity remained subdued throughout 2025, with a particular slowdown in Q4 activity. This Q4 slowdown was due to the impact of the high level of uncertainty over potential tax rises in the government's delayed Autumn Budget, which ended briefly before the usual Winter slowdown and construction shutdown. At the start of 2026, the indicators from firms in the rm&i supply chain are that activity in Q1 was weather-affected, and whilst activity in March and April improved compared to the start to the year, the concern was the potential impact of price inflation across the economy and construction cost increases on willingness to spend on discretionary, non-essential spending such as home improvement. This is particularly likely to be the case during the second half of 2026, as the full impacts of cost and price inflation feed through, and especially so given that consumer confidence was already low coming into 2026. This fall in demand may be partially offset by homeowners investing in energy security and energy efficiency, due to expected domestic energy price rises from Summer. In addition, government-funded programmes such as the Warm Homes Plan are likely to see significant investment in areas such as solar PV and heat pumps, areas which have been relatively strong in recent years. Even here, however, it is worth noting that the sector is likely to be adversely affected by the end of ECO4, with no replacement, in December 2026. Overall, private housing rm&i output is forecast to fall by 8.0% in 2026.



## Infrastructure activity set to rise by

# 3.2%

in 2026



**Infrastructure** is the third-largest construction sector, worth £34.6 billion in 2025. Energy generation and, especially, National Grid distribution work continue to grow at double-digit rates each year. Water investment is rising, and although there are concerns over the delivery of AMP8, activity is expected to increase significantly in 2026. In rail, the HS2 cost-saving 'reset' was expected to be published in March, but in light of the Middle East conflict, a revision of the potential cost impacts is likely to delay it substantially. Road investment was already subdued and expected to fall, as highlighted in previous forecasts, due to capital expenditure cuts in the new Road Investment Strategy (RIS3), which started on 1 April and was only published less than a week before. However, given the lack of clarity until recently, this is now likely to take longer to get going than previously expected, and the nominal cuts in funding are now likely to see sharper real terms cuts in volumes over the forecast period. Also in the roads sub-sector, the public element of

Lower Thames Crossing continues, but there is no sign of the private finance for the main work, which is still not expected to occur during the forecast period. Overall, infrastructure output is forecast to rise by 3.2% in 2026 and 3.4% in 2027.

**Industrial** output was worth £9.6 billion in 2025. Traditionally, the sector has been driven by warehouses and factories, which peaked in 2022 due to Amazon-style smart warehouse projects and manufacturers investing in new facilities after strong demand and global supply chain difficulties. Post-pandemic peak, the sector returned to a new normal level in 2024, and there remains a pipeline of small and medium-size warehouse and factory projects. However, most of the growth in activity has been driven by other areas. Data centre investment will increase fourfold between 2024 and 2029, with a strong pipeline of projects, although if the A.I. bubble bursts or grid capacity becomes a key constraint, this investment will not make it through to activity on the ground. In addition, in the near-term, there remain concerns about whether investors will still be keen to start new projects given economic uncertainty and rising financing costs. Gigafactories in Somerset and Sunderland are also driving activity, with additional projects in the medium-term pipeline. Finally, sector activity is also being boosted by Tata Steel and the government's £1.5 billion investment in Wales, converting its blast furnaces into electric arc steel facilities. Overall, industrial output is forecast to fall by 2.4% in 2026, then rise by 0.6% in 2027.



**Public non-housing** output was worth £14.3 billion in 2025. Activity under the Schools Rebuilding Programme appears to be accelerating, and future waves should be easier, as they won't focus on RAAC-related schools. An increase in long-term funding for defence, including new build and refurbishment of military housing, will support growth, but firms working for the Ministry of Defence have also expressed concerns that there may be short-term current spending issues that need to be addressed and may detract away from capital expenditure. Activity on the New Hospital Programme is accelerating, from a low base, and finance is available for further growth over the forecast period. In addition, increased investment is urgently needed to expand prison, probation, and court capacity. However, as ever, persistently poor government delivery continues to restrict growth rates during the forecast period. Overall, public non-housing output is forecast to rise by 3.3% in 2026 and 3.7% in 2027.

In the **commercial** sector, which was worth £24.1 billion in 2025 according to the ONS, the key drivers remain similar to the Winter forecast. Activity on smaller, high-end, high-value refurbishment and fit-out projects remains strong and is only likely to grow further medium-term as real estate agents are widely anticipating that there will be a lack of Grade A quality office space in 2028 and minimum energy-efficiency standard requirements mean that by 2030, around 70% of the existing office space may end up as 'stranded assets', unable to be let out. However, over the last few years, although there has been a small pipeline of the type of large, high-value new build commercial developments, they have not fed through to project start and have been persistently pushed back due to a combination of sharp increases in financing costs, construction costs and increased uncertainty over demand and the economic outlook. The impacts of the Middle East conflict on financing costs and on construction costs are likely to mean that these projects are once again pushed back, which was a key downside risk to commercial highlighted in previous forecasts. Also within the commercial sector, demand for student accommodation and university investment remains strong from high-profile universities, despite financial pressures on many lower-profile universities. In addition, the start dates for student accommodation projects continue to be delayed at the BSR, as well as due to site viability issues, which are likely to be exacerbated by rising financing and construction costs. Overall, commercial output is forecast to fall by 3.7% in 2026, then rise by 0.5% in 2027.

In the medium term, whilst the CPA has focused on forecasts, it has also stressed since 2021 that major economic, political and/or social disruptions should be expected each year, although firms may not be able to predict which ones they will be. As a result, going forward, firms across the supply chain will have to focus on understanding the supply chain and focusing on security of supply, not solely the cost of supply. This is particularly pertinent for house builders and main contractors, who will have to shift away from business models that tend to focus on the cost of supply, and instead focus on the security of supply. Sourcing from the cheapest place may make sense in a stable social, political, and economic environment of a decade ago, but in a volatile one, it can end up being more expensive and risky.

### **Recent Data**

Be cautious using ONS construction output data, as the ONS appears to have been overestimating output since 2022. As the CPA has frequently highlighted, the problems seem to affect all sectors but especially rm&i. The problems appear for two reasons: the ONS data appear to underestimate costs, so when removing price from its value data, it overestimates volume. Also, it may have survivor bias in its contractor survey when grossing up to the whole industry due to a rise in insolvencies. The ONS has also reported a separate substantial error in its historical data for public housing output. Construction output in February was 1.0% higher than in January, 1.0% lower than a year earlier and 2.7% higher than in January 2020, pre-pandemic, according to the ONS.

According to the ONS, private housing output in February was 4.3% higher than in January but 6.1% lower than a year earlier. The weather impact on housing activity in January and February appears to have had a greater impact on starts than on completions, which is what we would

expect. Despite some housing commentators suggesting optimism after the Autumn Budget for a rush in activity in 2026 Q1, there has been no indication of such a rush. The key fundamentals in private housing of affordability constraints, site viability issues, housing associations not buying S106 affordable homes, and delays at the BSR remain similar to last year. The annual fall was also affected by a high comparator, as private housing was still recovering in Q1 last year, ahead of the stamp duty changes, before falling away from April 2025.

The most recent data error in the construction output data was reported by the ONS this year and covers public housing. The ONS stated that it has added an extra £400-500 million per month of activity into public new housing from January 2022, more than doubling output in the sector, so much so that it raises the overall level of total construction output by 1.2%. This means there is a structural break in the data between December 2021 and January 2022, so public housing output data and total housing output data after January 2022 cannot be compared with data before 2022.

The serious problems with the ONS construction output are most obvious in the private housing *rm&i* sector, the second-largest sector, as frequently highlighted in previous forecasts. The ONS has recently revised the price deflators it uses to convert the value of private housing *rm&i* output into volume, in an attempt to address these issues. Despite this, private housing *rm&i* output in July 2025 was at its highest level on record and 59.2% higher than in January 2020, according to the ONS. In addition, the ONS data suggest that private housing *rm&i* output in the rain-affected January and February 2026 was at its third-highest and second-highest levels on record, which is clearly at odds with reports from firms in the *rm&i* supply chain. According to the supply chain, activity was subdued in January and February, exacerbated by persistent rain, although some areas of activity, such as energy-efficiency and energy security, remained strong.

Infrastructure output in February was 1.2% higher than in January but 0.4% lower than a year ago and 18.9% higher than in January 2020, pre-pandemic. Infrastructure activity in February was affected by persistent rain, although to a slightly lesser extent than in January, and activity in the roads sub-sector continued to slow due to a lack of new major projects to replace those finishing. However, apart from this, activity remained strong across major projects, programmes and frameworks already underway. Work on energy generation and, especially, distribution has remained robust and is growing strongly, although concerns were raised that water activity on AMP8 hasn't come through recently as quickly as anticipated at the start of the year.

Industrial output in February was 2.9% lower than in January and 8.4% lower than a year ago but it remained 17.5% higher than in January 2020, pre-pandemic. The most recent falls in industrial output were partly due to poor weather at the start of this year but it is clear that activity has been on a general downward trend since Spring 2025. However, activity has remained at a high level historically, due to data centre investment, activity on gigafactories and Tata Steel's work at Port Talbot.

Commercial output in 0.9% lower than in January, 6.1% lower than a year ago and 38.8% lower than in January 2020, pre-pandemic. As continually highlighted in previous forecasts, the key driver of the falls remains the few new, large office towers and retail developments in the pipeline, continuing to be pushed back due to higher construction and financing costs than when they were initially given the green light, combined with it being increasingly difficult to justify the large, upfront investment in new commercial offices and 'back to frame' refurbishments when 70% of the existing office space is below grade 'A' quality, which is where the high demand is. A more uncertain geopolitical and economic outlook, along with higher interest rates and financing costs over the past month, is also likely to mean that larger new projects are pushed back further than in the CPA's Winter forecasts. However, contractors working on small, high-quality, high-end refurbishment and fit-out continue to report that activity remains strong, alongside activity in universities and private health. High-rise student accommodation projects continue to face delays due to the Building Safety Regulator and worsening viability, despite a strong pipeline.



## Construction Industry Forecasts - Spring 2026

	2024	2025	2026	2027	2028
% annual change	Actual	Actual	Estimate	Forecast	Projection
<b>Housing</b>					
Private	40,270	41,047	38,174	38,174	38,937
	-4.9%	1.9%	-7.0%	0.0%	2.0%
Public	9,929	9,273	8,902	9,080	9,625
	-13.9%	-6.6%	-4.0%	2.0%	6.0%
Total	50,199	50,320	47,076	47,254	48,562
	-6.8%	0.2%	-6.4%	0.4%	2.8%
<b>Other New Work</b>					
Public Non-Housing	12,080	14,325	14,801	15,347	16,151
	6.3%	18.6%	3.3%	3.7%	5.2%
Infrastructure	33,958	34,610	35,703	36,917	38,192
	-8.2%	1.9%	3.2%	3.4%	3.5%
Industrial	8,028	9,597	9,369	9,425	9,601
	0.6%	19.5%	-2.4%	0.6%	1.9%
Commercial	26,352	24,084	23,187	23,296	23,686
	-3.2%	-8.6%	-3.7%	0.5%	1.7%
Total other new work	80,418	82,616	83,059	84,985	87,631
	-3.8%	2.7%	0.5%	2.3%	3.1%
Total new work	130,617	132,936	130,135	132,239	136,193
	-5.0%	1.8%	-2.1%	1.6%	3.0%
<b>Repair and Maintenance</b>					
Private Housing RM&I	37,618	38,077	35,031	35,031	36,082
	7.7%	1.2%	-8.0%	0.0%	3.0%
Public Housing RM&I	9,973	9,990	10,190	10,394	10,601
	15.8%	0.2%	2.0%	2.0%	2.0%
Private Other R&M	22,479	24,045	23,805	23,805	24,043
	8.8%	7.0%	-1.0%	0.0%	1.0%
Public Other R&M	7,517	6,697	6,831	7,104	7,104
	0.5%	-10.9%	2.0%	4.0%	0.0%
Infrastructure R&M	13,392	13,734	13,872	14,010	14,150
	11.5%	2.6%	1.0%	1.0%	1.0%
Total R&M	90,979	92,543	89,727	90,343	91,980
	8.7%	1.7%	-3.0%	0.7%	1.8%
<b>TOTAL ALL WORK</b>	221,596	225,479	219,862	222,582	228,173
	0.2%	1.8%	-2.5%	1.2%	2.5%

Source: ONS, Construction Products Association

**Note: There are known errors in the ONS data, which affect historic levels of construction output and historic growth rates**



## Key Risks

### The UK Economy and Middle East Conflict

In previous forecasts, UK economic growth was expected to continue at low, positive rates of around 1.0-1.5% per year. The full impacts of the spikes in oil and energy prices, as well as global supply disruptions, are uncertain at the time of writing, as they will depend heavily on how long the disruptions last and how long prices remain high. In addition, the impacts will depend on the extent of any shortages of key inputs, which currently do not appear to be a key risk but may develop if the disruption continues beyond the assumptions in the forecast. The extent of the issues is likely to cut UK economic growth this year by at least half, which is the [Upper Scenario](#), but, more likely, the UK economy will broadly flatline. In the [Lower Scenario](#), the UK economy enters recession in the second half of 2026. The key concern for construction activity is that it is procyclical and follows the UK economic business cycle, but, historically, is three times more volatile than GDP. This is particularly the case for the sectors in which the downgrades relative to the Winter forecast have been the largest: housing new build, rm&i, and commercial. The potential construction impacts are discussed more fully in the [Economy](#) chapter.

**3,851** construction firms  
went out of business  
in the year to  
February 2026



### Contractor Insolvencies

There were 3,851 construction insolvencies in the UK in the 12 months to February, which was 1.7% lower than in the year to January and 4.9% lower than a year earlier, according to the Insolvency Service. The CPA uses 12-month totals as monthly figures are volatile and seasonal, but it is worth noting that on a monthly basis, insolvencies in February were 8.7% higher than a month earlier, its second successive increase. Insolvencies in the 12 months to February were also 21.5% higher than in January 2020, pre-pandemic. As frequently highlighted, the CPA was expecting weakness in fundamental factors indicating rising insolvencies in 2026, but these are

highly likely to be exacerbated by the impacts of the Middle East conflict on the UK economy and construction industry in 2026 and 2027. Furthermore, insolvencies are not expected to be restricted to contractors. Small firms across the whole construction supply chain (architects, contractors, house builders, builders' merchants and distributors and product manufacturers) are expected to be particularly vulnerable to insolvencies over the next 12-18 months.

2,129 (55%) of construction firms that went out of business in the year to February were specialist subcontractors, down 2.9% from last month and 9.4% from a high base a year earlier, with peak subcontractor insolvencies in 2024. 1,521 (39%) of firms that went out of business in the year to December were main building contractors, down 1.4% from last month but up 1.2% from a year earlier. 'Only' 201 (5%) of the firms that went out of business in the year to February were civils contractors, which was 1.0% lower than a month ago but 2.6% higher than a year ago. Civils contractor insolvencies remain low as there are fewer civil engineering firms overall, but the recent rise may be concerning and we will be closely watching this in the next few months to see if February's annual rise was merely a temporary blip or whether it is a sign of distress in the civils area this year, which was not expected to be the case outside of declining roads activity, given strong pipelines of activity with funding in place.

### Building Safety Regulator Issues

Since Summer 2024, the CPA has consistently highlighted the delays at the BSR in its forecasts, and the indications from industry were that there were substantial delays of 6-9 months at the Gateway 2 stage, before construction can start, for the construction of high-rise buildings (above seven storeys or 18 metres) in which people are staying overnight. Furthermore, the industry indicated 3-4-month delays at the Gateway 3 stage after completion, before buildings can be occupied. As a result, teams cannot be stood down to move on to the next project, as they may be needed for remediation work before sign-off and occupancy. These delays are mainly attributable to residential buildings, but are not limited to them. They also include, to a lesser degree, student accommodation and hospitals.

According to the BSR, 284 Gateway 2 decisions were made in the 12-weeks to 29 March, with a 67% approval rate. New applications representing 12,975 residential units were received, and applications representing 16,721 units have been determined, of which 10,165 (61%) were approvals. It also stated that its 12-week rolling approval rate (minus invalidations and withdrawals) is improving significantly and has an average approval time of 5 months. 62% of all decisions across all Gateway 2 categories related to London cases. This represents progress and for new build starts for high-rise residential buildings, this suggests that the low point was in 2025 Q2. Starts remain low compared with 2022 but do appear to be improving gradually. The CPA still assumes that the backlog will be finally dealt with and that approvals will meet a higher level of applications within 15 weeks at the Gateway 2 stage at the end of 2026, but uncertainty still remains about delays of 3-4 months reported by developers at the Gateway 3 stage.

## The Availability and Cost of Labour

Whilst construction activity is expected to fall in 2026, there remains a long-term need for more homes, more and better quality schools, hospitals and infrastructure, as well as energy-efficiency retrofit of both the existing housing and non-housing building stock. The key issue in the medium-term, as construction activity recovers, is where the skilled workforce will be for this.

There were 2.06 million in the UK construction workforce in 2025 Q4, according to the ONS, which is broadly flat (+0.1%) compared with Q3, 3.9% lower than a year earlier and 15.0% lower than in 2019 Q1. The fall in 2025 Q2 and Q3, then remaining broadly flat in Q4, was unsurprising after house building, the largest construction sector, slowed from April 2025, and housing r&I, the second largest sector, remained subdued. In addition, the increase in employers' National Insurance Contributions and lower thresholds may have significantly affected non-essential construction employment, as firms sought to contain rising wage costs. In addition, pre-Autumn Budget uncertainty may have affected the signing-off of contracts in Q3 for new work in Q4.

The largest impacts were in UK construction self-employment, which bears the brunt of construction downturns as business models focus on subcontracting out cost, activity and risk down the supply chain. There were 0.75 million self-employed workers in UK construction (mainly skilled trades) in 2025 Q4, which was 0.9% lower than in Q3, 3.2% lower than a year ago, and 24.2% lower than in 2019 Q1. The number of employees in UK construction in Q4 was 1.0% higher than in Q3 but 4.2% lower than a year ago and 8.8% lower than in 2019 Q1.

The majority of the loss of skilled construction workers since 2019 Q1 has occurred among the older UK-born demographic, specifically those aged 50-64. 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 the departure 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).

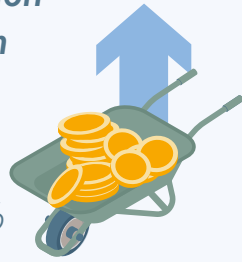
In March 2025, the Chancellor announced £625 million in investment to train up to 60,000 more skilled construction workers, who would be "site-ready". However, despite the finance, there is a lack of qualified teachers and assessors for these potential new entrants. Furthermore, construction apprenticeships 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 those who complete the Program 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.

Given that demand remains subdued overall, a lack of skills is not a key concern near-term except in buoyant areas such as commercial refurbishment and fit-out, data centres, and energy and water infrastructure. However, in the medium-term and particularly the long-term, a shortage of skilled trades is likely to be the biggest constraint to addressing the lack of homes, the need for more and better-quality infrastructure, and the Net Zero transition.

## UK construction wage inflation

was **0.5%**  
in the year to  
February 2026



# Upper Scenario

## Assumptions

- UK economic activity rises by 1.1% in 2026 despite the rise in inflation, as consumers sustain spending by utilising savings despite rising prices
- The unemployment rate remains historically low, peaking at 5.5%, with consumer spending and the persistence of skills shortages sustaining employment
- Interest rates are raised only once, by 0.25 percentage points, in 2026
- House prices rise by 2.0% in 2026 H2 as demand only gradually slows, but is offset by fewer properties coming on the market and fewer forced sellers, and repossessions remain low
- Consumer spending rises due to households reducing savings (with the savings ratio falling from 9.9% in 2025 Q4 to below 7.0% during 2026)
- Lending to businesses only gradually slows despite lending rates rising
- Business investment in 2026 remains at last year's levels before gradually accelerating in 2026 as stronger consumer spending leads to an improvement in medium-term economic prospects
- The government introduces a 'Freedom to Buy' equity loan policy in Summer 2026 to enable more demand in the housing market



## Key Effects

- Total construction output remains flat in 2026 and rises by 2.2% in 2027 as economic growth and sustained investment drive private construction and regulated sector activity next year
- Private housing output falls by 3.0% in 2026, with major house builder demand in H1 sustained before mortgage rate rises lead to demand falling in H2 and government policy stimulus enabling demand for 2.0% growth in 2027
- Infrastructure increases by 5.0% in 2026 and 6.0% in 2027 as strong areas such as energy and water continue with existing programmes despite materials cost rises
- Commercial output rises by 0.5% in 2026 and 1.0% in 2027 as expectations of vacancy rates for Grade A quality office space drive high-end new build and refurbishment projects despite cost inflation concerns
- Private housing rm&i output falls by 5.0% in 2026 due to the rising cost of projects hindering home improvement in H2 before output remains flat in 2027 as government stimulus to boost housing gradually leads to more home moves and consequent improvement activity.

## Construction Industry Forecasts - Spring 2026 - Upper Scenario

	2024	2025	2026	2027	2028
% annual change	Actual	Actual	Estimate	Forecast	Projection
<b>Housing</b>					
Private	40,270	41,047	39,816	40,612	42,236
	-4.9%	1.9%	-3.0%	2.0%	4.0%
Public	9,929	9,273	9,273	9,551	10,029
	-13.9%	-6.6%	0.0%	3.0%	5.0%
Total	50,199	50,320	49,089	50,163	52,265
	-6.8%	0.2%	-2.4%	2.2%	4.2%
<b>Other New Work</b>					
Public Non-Housing	12,080	14,325	14,898	15,643	16,738
	6.3%	18.6%	4.0%	5.0%	7.0%
Infrastructure	33,958	34,610	36,341	38,521	40,832
	-8.2%	1.9%	5.0%	6.0%	6.0%
Industrial	8,028	9,597	9,693	9,790	9,888
	0.6%	19.5%	1.0%	1.0%	1.0%
Commercial	26,352	24,084	24,204	24,446	24,935
	-3.2%	-8.6%	0.5%	1.0%	2.0%
Total other new work	80,418	82,616	85,136	88,400	92,393
	-3.8%	2.7%	3.1%	3.8%	4.5%
Total new work	130,617	132,936	134,224	138,563	144,658
	-5.0%	1.8%	1.0%	3.2%	4.4%
<b>Repair and Maintenance</b>					
Private Housing RM&I	37,618	38,077	36,173	36,173	37,258
	7.7%	1.2%	-5.0%	0.0%	3.0%
Public Housing RM&I	9,973	9,990	10,190	10,495	10,915
	15.8%	0.2%	2.0%	3.0%	4.0%
Private Other R&M	22,479	24,045	24,045	24,045	24,286
	8.8%	7.0%	0.0%	0.0%	1.0%
Public Other R&M	7,517	6,697	6,898	7,105	7,176
	0.5%	-10.9%	3.0%	3.0%	1.0%
Infrastructure R&M	13,392	13,734	13,872	14,010	14,290
	11.5%	2.6%	1.0%	1.0%	2.0%
Total R&M	90,979	92,543	91,177	91,829	93,925
	8.7%	1.7%	-1.5%	0.7%	2.3%
<b>TOTAL ALL WORK</b>	221,596	225,479	225,402	230,392	238,584
	0.2%	1.8%	0.0%	2.2%	3.6%

Source: ONS, Construction Products Association

# Lower Scenario

## Assumptions

- UK economy falls into recession due to a spike in inflation, with falls in GDP and consumer and business confidence adversely affecting consumer spending and business investment, in 2026 H2
- Interest rates raised three times in 2026 as the Bank of England takes a strong approach in response to a spike in inflation
- The unemployment rate rises to 8.0% in 2027 as consumer-facing services cut jobs in response to slower consumer confidence and spending, combined with higher business rates and National Living Wage costs
- House prices decline by 2.0% in 2026 as demand falls sharply in response to higher mortgage rates and homebuyer confidence and uncertainty
- Consumer spending volumes fall in response to higher prices, lower consumer confidence and increased concern over the wider economic outlook, including job security
- The savings ratio initially dips below 7.0% in 2026 as households use savings to fund near-term spending before cutting back on discretionary spending and it rises back above 11.0% in 2027
- Lending to businesses slows as lending rates, costs and uncertainty over UK economic growth and consumer spending prospects mean that companies focus on near-term cost-cutting
- Business investment slows as rising uncertainty means that firms' focus moves further away from long-term, large upfront investments for a long-term rate of return



## Key Effects

- Construction output falls by 4.7% in 2026, as activity falls sharply in 2026 H2 in response to sharp rises in construction product price inflation, as well as investors and clients adopting a 'wait-and-see' approach before starting on new projects in the pipeline
- Private housing output falls by 10.0% in 2026 as house builders are faced with a 'perfect storm' of conditions: mortgage rate rises, falling homebuyer confidence leading to demand declining, whilst a spike in cost inflation and additional government costs on house building hit site viability even further before 2.0% growth in 2027
- Infrastructure output rises by only 1.5% in 2026 as rising cost inflation erodes the volume of activity, whilst major projects are paused for viability assessments and repricing
- Commercial output falls by 6.0% in 2026 as fit-out activity remains strong, but new commercial tower and large entertainment project activity is pushed back into 2027 H2 due to site viability concerns
- Private housing m&I output is forecast to fall by 10.0% in 2026 and 2.0% in 2027, with spikes in consumer inflation and construction cost inflation hitting consumer confidence for discretionary, non-essential spending on home improvements more than anticipated

## Construction Industry Forecasts - Spring 2026 - Lower Scenario

	2024	2025	2026	2027	2028
% annual change	Actual	Actual	Estimate	Forecast	Projection
<b>Housing</b>					
Private	40,270	41,047	36,942	37,681	38,435
	-4.9%	1.9%	-10.0%	2.0%	2.0%
Public	9,929	9,273	8,717	8,978	9,517
	-13.9%	-6.6%	-6.0%	3.0%	6.0%
Total	50,199	50,320	45,659	46,659	47,952
	-6.8%	0.2%	-9.3%	2.2%	2.8%
<b>Other New Work</b>					
Public Non-Housing	12,080	14,325	14,591	15,130	15,753
	6.3%	18.6%	1.9%	3.7%	4.1%
Infrastructure	33,958	34,610	35,118	36,608	38,139
	-8.2%	1.9%	1.5%	4.2%	4.2%
Industrial	8,028	9,597	9,117	9,208	9,485
	0.6%	19.5%	-5.0%	1.0%	3.0%
Commercial	26,352	24,084	22,639	22,639	22,865
	-3.2%	-8.6%	-6.0%	0.0%	1.0%
Total other new work	80,418	82,616	81,465	83,585	86,243
	-3.8%	2.7%	-1.4%	2.6%	3.2%
Total new work	130,617	132,936	127,124	130,245	134,194
	-5.0%	1.8%	-4.4%	2.5%	3.0%
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Private Housing RM&I	37,618	38,077	34,269	33,584	35,263
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	8.8%	7.0%	-2.0%	0.0%	1.0%
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	0.5%	-10.9%	-2.0%	0.0%	0.0%
Infrastructure R&M	13,392	13,734	13,459	13,459	13,459
	11.5%	2.6%	-2.0%	0.0%	0.0%
Total R&M	90,979	92,543	87,846	87,160	89,275
	8.7%	1.7%	-5.1%	-0.8%	2.4%
<b>TOTAL ALL WORK</b>	221,596	225,479	214,970	217,405	223,469
	0.2%	1.8%	-4.7%	1.1%	2.8%

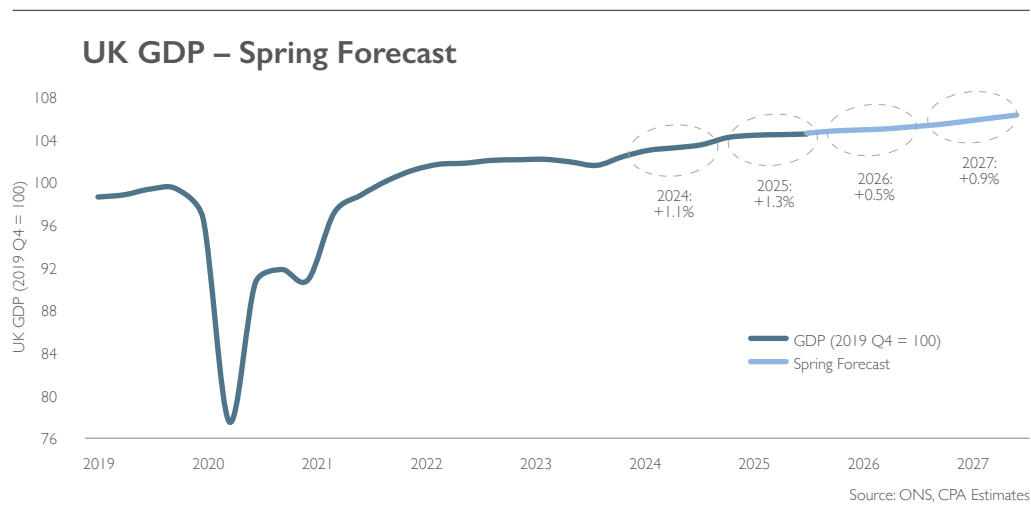
Source: ONS, Construction Products Association

# Economy

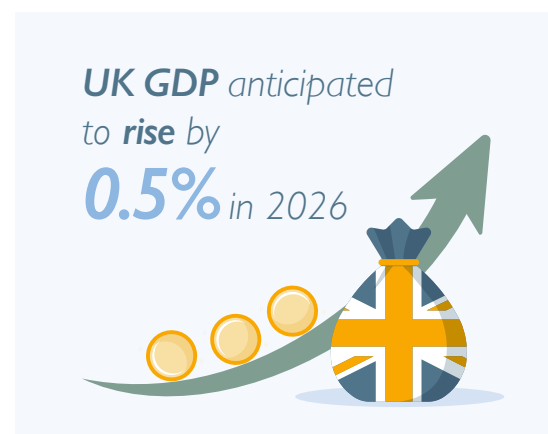
*After economic growth in the second half of 2025 was hit by unprecedented uncertainty ahead of the government's Autumn Budget, fortunes for this year were initially expected to offer slightly better growth prospects. However, most of the hard data so far are backwards-looking, and the recent Middle East conflict, the consequent supply shock and its impacts on oil, energy and key inputs are likely to lead to a spike in CPI inflation, higher interest rates, marginal GDP growth at best, falling real incomes and rising unemployment over the next 12-18 months. Even with a quick resolution to the conflict, some degree of permanent damage has been done, and, in addition, the level of uncertainty has risen considerably, and the risks are on the downside.*

The UK economy accelerated in February and outperformed macroeconomic forecasters' expectations, according to the ONS. In February 2026, UK GDP rose by 0.5% compared with January. This was substantially higher than the consensus forecast of only 0.1% beforehand, and higher than January's monthly growth, which was revised up from 0.0% to 0.1%. On a three-month basis, UK GDP in the three months to February 2026 was also 0.5% higher than the previous three months, its strongest three-month growth in 11 months, clearly indicating that economic activity in 2026 Q1 is likely to be positive. However, it is worth noting that in the latest GDP figures, growth in 2025 Q3 and Q4 was both revised down from 0.1% to 0.0%, meaning the UK economy flatlined in the second half of last year. At first glance, this suggests that the weakness in the economy last year may have ended and that there were encouraging signs for the economy overall at the start of this year.

However, the key concern for the UK economy is what happens after this and the impact of the Middle East conflict, which began at the end of February. February's strong GDP growth makes it highly unlikely that 2026 Q1 contracted. Whilst economic activity in March is almost certainly likely to have been affected by the Middle East conflict, its full impact is likely to take time to be felt. Assuming that January and February's GDP figures are not revised down, then it would take a fall of more than 1.0% in GDP in March to push Q1 into a decline, which is highly unlikely. As a result, the more serious issues arising from the conflict will occur after March.



The conflict has delivered a new external supply shock to the global and UK economies. Oil and energy prices have risen sharply, geopolitical and economic uncertainty has surged, whilst financial conditions have tightened. This is particularly concerning for two reasons. Firstly, since 2020, there have been consistent major disruptions each year: the Covid-19 global pandemic in 2020, global supply chain problems in 2021, Russia's invasion of Ukraine and the consequent energy and commodity price spikes in 2022, cost-of-living issues in 2023, disruption of Red Sea shipping routes in 2024 and U.S. tariff disruptions in 2025. It was hoped that a degree of political and economic stability in 2026 would be the basis for gradual, positive growth prospects. Clearly, however, the Middle East conflict and consequent oil and energy price spikes will lead to further disruption. However, the extent of the disruption will clearly depend heavily on how long it lasts, how high oil and energy prices peak, and how long they remain at that peak.



Secondly, apart from February's better-than-expected performance, the UK economy was not especially resilient to begin with. Growth was modest, confidence was fragile, and many businesses were already grappling with weak demand, tight margins and a still-restrictive interest rate environment. A new geopolitical shock landing on top of those existing pressures increases the risk of a slowdown later this year, and potentially something worse.

Higher oil prices, tighter financial conditions, supply chain disruption and a renewed hit to business and consumer confidence are all consistent with weaker growth in Q2 and beyond. In other words, while February was strong, it may prove to be the high point rather than the start of a sustained acceleration.

In mid-April, the US and Iran announced a ceasefire, which temporarily means a fall in oil and energy prices, but they, and financial markets in general, remain uncertain and volatile. That has reduced the short-term pressure on policymakers such as the Bank of England, and it implies that the bank will not have to immediately raise interest rates, as it waits to see the full impact on CPI inflation, and any emergency support for households' energy bills, which will increase substantially. However, household energy bills are set by Ofgem under an energy price cap to smooth out volatility. The latest change was between 1 April and 30 June 2026, but this was

## Economic Indicators

	2024	2025	2026	2027	2028
	Actual	Actual	Estimate	Forecast	Projection
GDP	1.1%	1.4%	0.5%	0.9%	1.4%
Fixed Investment	1.8%	4.3%	0.5%	1.1%	1.6%
Household Consumption	-0.1%	0.8%	0.6%	1.1%	1.7%
Real Household Disposable Income	4.2%	0.9%	-2.0%	0.0%	1.0%
Government Consumption	2.9%	1.7%	1.5%	1.6%	1.7%
CPI Inflation	2.6%	3.4%	3.5%	2.8%	2.0%
RPI Inflation	3.6%	4.1%	4.2%	3.5%	2.7%
Bank Base Rates - June	5.25%	4.25%	3.75%	4.50%	4.00%
Bank Base Rates - December	4.75%	3.75%	4.25%	4.25%	3.75%

Source: ONS, Construction Products Association

## CPI Inflation set to average 3.5% in 2026

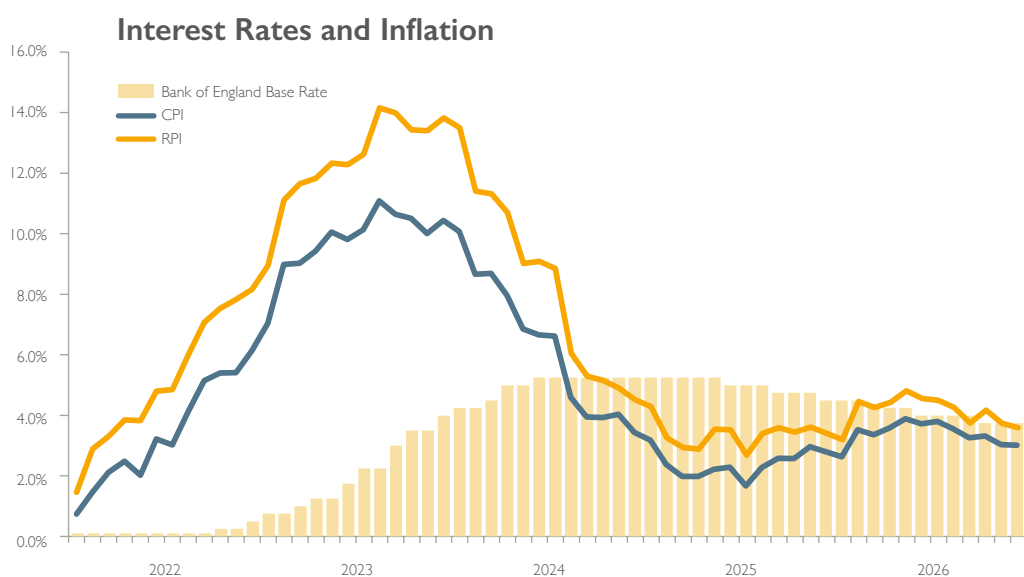


determined before the impacts of the conflict, and it was set at £1,641 per year for a typical household that uses electricity and gas, which was a decrease of 6.6% compared to the £1,758 cap set between 1 January and 31 March 2026. However, due to the conflict's impact on energy prices, the cap is expected to increase substantially on 1 July, with further increases on 1 September. For households, higher energy bills later in 2026 and in 2027 will hit disposable income again, which limits the scope for a sustained consumer-led recovery, which is important given that around 80% of the UK economy is consumption.

A greater impact is likely to be felt by industrial energy users, who do not benefit from an energy price cap. UK manufacturers are especially exposed to energy price volatility and rises, as industrial energy prices in the UK are 60% higher than those in competitor countries. The government published the British Industrial

Competitiveness Scheme (BICS) in April 2026, which it said may cut manufacturers' energy bills by "up to 25%". However, this is a previously announced 2025 scheme to help address long-term energy price issues for manufacturers. More critically, it only applies from April 2027 and, as a result, will not address issues affecting UK manufacturers' energy costs at the moment. The medium-term picture appears increasingly more challenging. Firms across the economy face a more uncertain environment, with higher risks around input costs, energy bills, shipping costs and customer demand. For manufacturers, retailers and food producers in particular, the combination of disrupted supply chains and cost pressures could prove difficult to absorb. For some energy-intensive manufacturers, energy costs can be up to one-third of total costs, which means that energy cost increases over the next 12 months will have to be passed up the supply chain and to end customers. Many firms will now need to plan for a period of slower growth, more volatile costs and sustained inflationary pressure, which would not have been in their budgets and business plans at the end of last year.

In terms of what this means for the UK economic forecasts, it suggests a pessimistic and uncertain outlook. Most macroeconomic forecasts at the time of writing were determined



Source: Bank of England, ONS

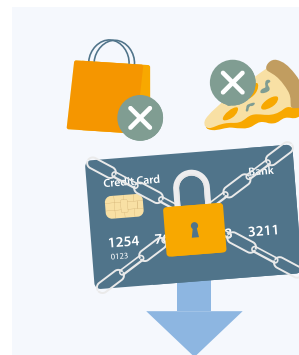
before the Middle East conflict supply shock. The majority of economic data published so far this year either covers the period before the conflict or covers the initial period of the conflict, before the full impacts are known. Even quick, timely surveys since the conflict, such as the PMI, largely reflect sentiment more than actual activity on the ground. Furthermore, most forecasts are based on demand-determining factors, which pose significant challenges in the face of a supply shock. As a result, the CPA has had to make assumptions regarding the extent and duration of the disruption. In the CPA's main forecast, oil prices remain above \$100 per barrel, and the disruption lasts for 4 months, which would be similar to 2022 after Russia's invasion of Ukraine. In the Upper Scenario, oil prices remain above \$100 per barrel, and the disruption lasts for 2 months.

The assumption that oil prices remain above \$100 per barrel for four months would suggest a significant slowdown in UK GDP growth to only 0.5% in 2026, with a pronounced deceleration in economic activity after 2026 Q1. CPI inflation, which at the start of the year was anticipated to slow from 3.0% to the Bank of England's target rate of 2.0% in the second half of the year, is now expected to accelerate with 3.5% inflation forecast for 2026 before slowing to 2.8% in 2027. This, in turn, means that real household incomes are likely to fall by 2.0% in 2026 before remaining flat in 2027. Higher inflation also implies that instead of two interest rate cuts that financial markets initially expected this year, the Bank of England is now expected to raise interest rates twice, by 0.25 percentage points, in the second half of 2026 and on one further occasion in 2027 H1, before inflation eases and the Bank begins to cut interest rates again in 2027 H2. Slower GDP growth, higher inflation, and higher interest rates are likely to mean that the UK also faces a significant rise in unemployment, from the current 5.2%. However, unemployment tends to be a lagging indicator and, as a result, the unemployment rate is now expected to peak at 6.0% in 2027.

Alongside the CPA's economic forecasts, the CPA usually highlights a range of oil price forecasts, excluding political factors, as oil prices are a key input for many manufacturers and are closely linked to energy prices more broadly. Brent crude prices averaged \$69.0 per barrel in 2025. During the conflict, oil prices briefly peaked at \$118 per barrel with initial fears that it may surpass \$130 per barrel but it has, more recently fallen below \$100 per barrel. The key to oil prices will be not only the peak but also how long they remain around that peak and the volatility around it. The volatility has been high so far and depends on news and speculation about ceasefires and the reopening of the Strait of Hormuz. The experience of the energy and commodity price spikes in 2022 was that oil prices remained above \$100 per barrel for four months before easing and averaging \$96.4 per barrel for another five months, and then, over the next 12 months, it averaged \$82.9 per barrel. However, that was during a period in which global demand and growth were considerably stronger than they currently are. Given the weakness of demand, the CPA's assumption is that oil prices will remain above \$100 for four months, after which they will broadly return to between \$65.0 and \$75.0 per barrel over the subsequent year.

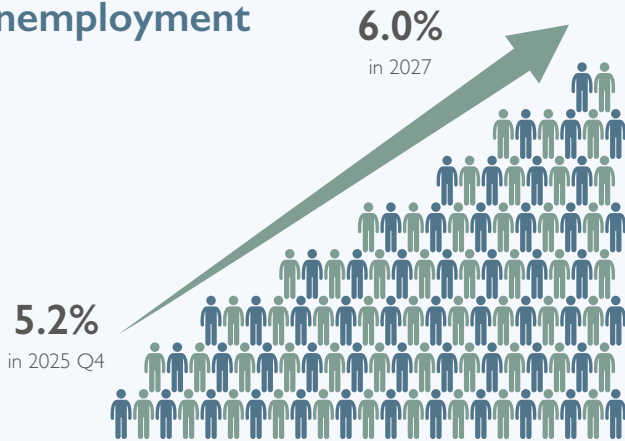
In terms of what this means for construction, the initial impacts remain double-digit percentage increases in the prices of products that use oil as a material input and fuel, leading to additional temporary surcharges. Some energy-intensive UK product manufacturers have already highlighted that the sharp rises in energy costs are likely to

**The Bank of England's**  
base rate is forecast to **rise** to  
**4.25%**  
by the end  
of 2026



**Real household**  
spending is set  
to **fall** by:  
**2.0%**  
in 2026

## Unemployment



Source: ONS, Construction Products Association

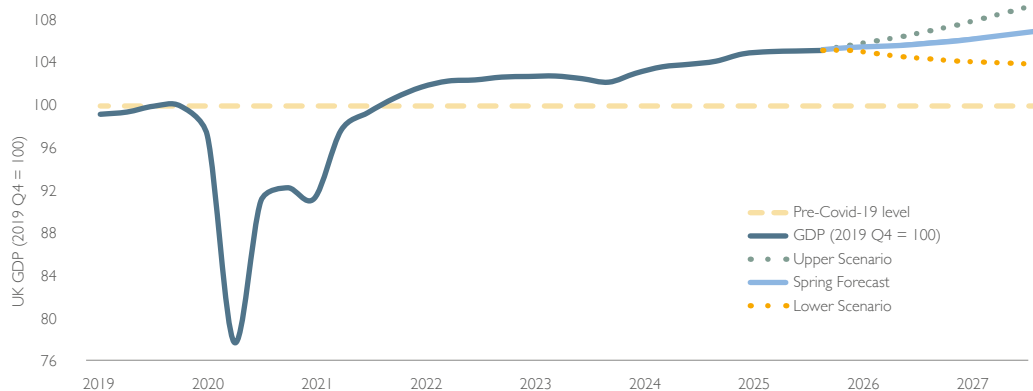
lead to double-digit percentage increases in product prices, which is unsurprising given that energy costs can account for up to one-third of total costs. Some contractors report that they have already been warned of 10-20% price increases over the next three months for certain energy-intensive products. Rising energy costs will also have an early impact on lightside products, material inputs and component costs. Imports of products from China (lighting and electrics, etc.) are likely to be affected by double-digit percentage increases in product prices and shipping costs, with separate fuel surcharges due to rising fuel costs. In addition, imported steel prices will also increase after 1 July due to the government's new import tariffs on steel in its Steel Strategy. This would be on top of expected double-digit

percentage rises in prices due to the impacts on energy, fuel and shipping costs.

Financial market concerns over how much CPI inflation would rise have driven higher swap rates, which, in turn, have raised mortgage rates. The average 2-year fixed residential mortgage rate was just 4.83% before the recent conflict, but rose to 5.90% on Wednesday, 8 April, before falling marginally to 5.89% on Thursday, 9 April. The two previously expected interest rate cuts this year will not happen, and financial markets are currently pricing in one interest rate rise this year, a revision down from the two interest rate rises in 2026 they anticipated earlier. Even without further increases due to current uncertainty, this would imply mortgage rates between 6.3% and 6.6% and significantly higher financing and lending costs. In addition, it is not only the rate that has increased substantially but the number of mortgage products available has fallen by 17% since the start of the conflict.

In addition, the additional risk and uncertainty around all costs will have to be priced in across

## UK GDP



Source: ONS, CPA Estimates

the supply chain, raising prices and affecting consumer, homebuyer, homeowner, business, client, and investor confidence, which were already subdued. They are likely to keep their 'wait-and-see' approach, rather than spending, investing or signing off on large new contracts. Despite the two-week ceasefire, the fundamentals remain the same and the full impact of disruptions still depends on how long they last, as well as how high oil and energy prices peak and how long they remain at peak, which is still unknown.

Looking back to the most recent energy price spike, in early 2022, after Russia's invasion of Ukraine, oil and energy prices rose sharply. Oil prices remained above \$100 per barrel for four months, and the CPI inflation rate peaked at 11.1%, leading to the 'cost of living crisis'. UK construction materials inflation peaked in Summer 2022 at 25.3%, which was driven mainly by price rises in energy-intensive heavy materials, especially steel and rebar.

Even now, almost four years on, UK construction materials prices in January 2026 were still 41.6% higher than in January 2020, pre-pandemic, despite inflation rates slowing as many costs, such as industrial energy costs and wage cost increases, remain permanently baked in.

Initially, the CPA did not expect prices to rise as much as they did in 2022, as construction demand in the largest construction sectors, such as housing new build and rm&i, is considerably lower than it was in 2022, making it difficult to pass on cost increases. However, even though demand remains subdued, the magnitude of the rise in input costs is likely to mean that manufacturers and importers of construction products will have to pass most of these increases through.

Initially, when the conflict first arose, the CPA's main scenario intended to assume that oil prices remained above \$100 per barrel for two months, and that may lead to around 6.0-8.0% extra product price inflation, in addition to February's construction product price inflation of 2.1% before the conflict arose. However, this appears overly optimistic with little sign of an imminent permanent resolution.

A more realistic scenario at that stage was if we were to take the construction products price increases between the products price peak during the supply chain problems in 2021 and the energy and commodity price-driven products peak in 2022 and oil prices of more than \$100 per barrel for four months, with the majority of those cost rises being passed on to house builders and contractors, then we would be looking at an additional 14-16% in products price inflation on top of the 2.1% rise in February 2026. Clearly, materials price rises would vary considerably by product, and some product prices, such as energy-intensive heavy-side products and imported products, may briefly double as a result of rising energy, fuel, and shipping costs. This was initially expected to be the CPA's [Lower Scenario](#) when the conflict arose, but is now the assumption in the CPA's forecast.

The conflict poses a significant problem for the UK government that is not currently being discussed, even beyond its impacts on GDP, real incomes, inflation, and interest rates, as the focus is on the immediate impacts. At the Autumn Budget in November 2025, the government raised taxes again as public borrowing was a concern. The government pencilled in most tax rises for the back end of Parliament, not the first 12-18 months. The government effectively bet that economic growth and tax revenue in the next 12-18 months would rise faster than the Office for Budget Responsibility (OBR) forecast. In that case, the government would be able to argue that, given its fiscal responsibility, those tax increases were unnecessary. However, the OBR revised down UK economic growth in the Spring Statement at the start of March, even before the Middle East conflict. So, the OBR will have to revise down growth again in the Autumn Budget, and it's highly likely that the government may have to raise taxes, cut spending, or both in Autumn Budget 2026 and 2027. And in its previous two Budgets, it has preferred to raise taxes over cutting spending. If it raises taxes again at the Autumn Budget 2026 or 2027, that will hit growth again, make business more difficult, and further erode already low household, homeowner, business, client, and investor confidence.

**Upper Scenario:**

- Economic growth sustained despite rising CPI inflation
- Interest rates only rise once, by 0.25 percentage points, in 2026
- Consumer spending sustained as households utilise savings
- The labour market remains resilient

The upper scenario assumes that unemployment only rises to 5.5% in 2027 as skills shortages in some key sectors support the labour market. Furthermore, despite price rises, in the near-term, households sustain spending by using savings built up over the past two years and interest rates rising only once makes only a minor difference to homebuyers, consumers, businesses, and investors.

**Lower Scenario:**

- Two quarters of economic decline in 2026 H2
- Interest rates rise three times in 2026
- Consumer confidence and spending fall significantly
- Unemployment rises to 7.0% in 2027
- Lending to businesses falls
- Business investment falls

The lower scenario envisions that the UK economy falls into recession at the end of the year as households, businesses, and investors become highly risk-averse in response to the conflict, interest rate rises and price inflation. The fall in consumer spending, business lending and business investment leads to a significant rise in unemployment, especially in customer-facing businesses that take the brunt of falls in non-essential discretionary spending.



# Private Housing

*Private housing is expected to be one of the sectors worst affected by the impacts of the Middle East conflict from the second half of 2026, due to a 'perfect storm' of mortgage rate rises exacerbating homebuyer affordability issues, and further construction cost rises adversely affecting site viability, especially with even more additional costs from the government on house building this year and next year. Without government stimulus to boost demand and reduce cost burdens, a significant fall in house building is expected, leading to a fourth successive annual fall in house building completions this year.*

Housing demand in the second half of 2025 was adversely affected by the uncertainty over potential tax rises in the government's delayed Autumn Budget. However, at the very end of 2025 and the beginning of 2026, there was a degree of cautious optimism among many housing commentators regarding the housing market and the house building sector. The end of the Autumn Budget uncertainty at the end of November led to a fall in gilt rates, and December's interest rate cut led to a gradual fall in mortgage rates. Furthermore, slowing CPI inflation at the end of 2025 and early in 2026 meant that financial markets had priced in two interest rate cuts, which were expected to lead to further falls in mortgage rates. However, the economic environment is changing substantially due to the supply shock from the Middle East conflict. The conflict will have substantial inflationary impacts on the global and UK economies (see [Economy](#)), but house building is particularly exposed, and it is likely to lead to significant cost increases for house builders and specialist sub-contractors, driven by higher fuel, energy, shipping, and construction product costs.

In addition, the general inflationary impact means that the trend of slowing CPI inflation at the end of 2025 and into early 2026 is likely to end with a spike in inflation during the second half of this year. Financial market concerns over how much CPI inflation would rise have driven higher swap rates, which, in turn, have raised mortgage rates. The average 2-year fixed residential mortgage

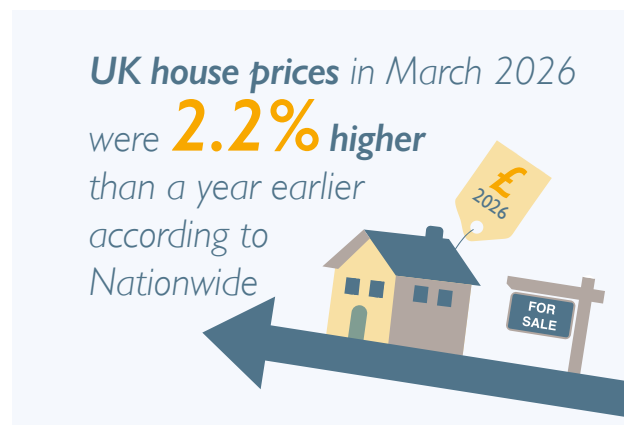
## Private Housing Starts and Completions Great Britain

	2024	2025	2026	2027	2028
	Actual	Actual	Estimate	Forecast	Projection
Starts	91,237	109,011	98,110	105,959	116,555
	-30.2%	19.5%	-10.0%	8.0%	10.0%
Completions	134,236	122,129	114,801	114,801	117,097
	-6.8%	-9.0%	-6.0%	0.0%	2.0%
Output (£m)	40,270	41,047	38,174	38,174	38,937
	-4.9%	1.9%	-7.0%	0.0%	2.0%
RM&l Output (£m)	37,618	38,077	35,031	35,031	36,082
	7.7%	1.2%	-8.0%	0.0%	3.0%

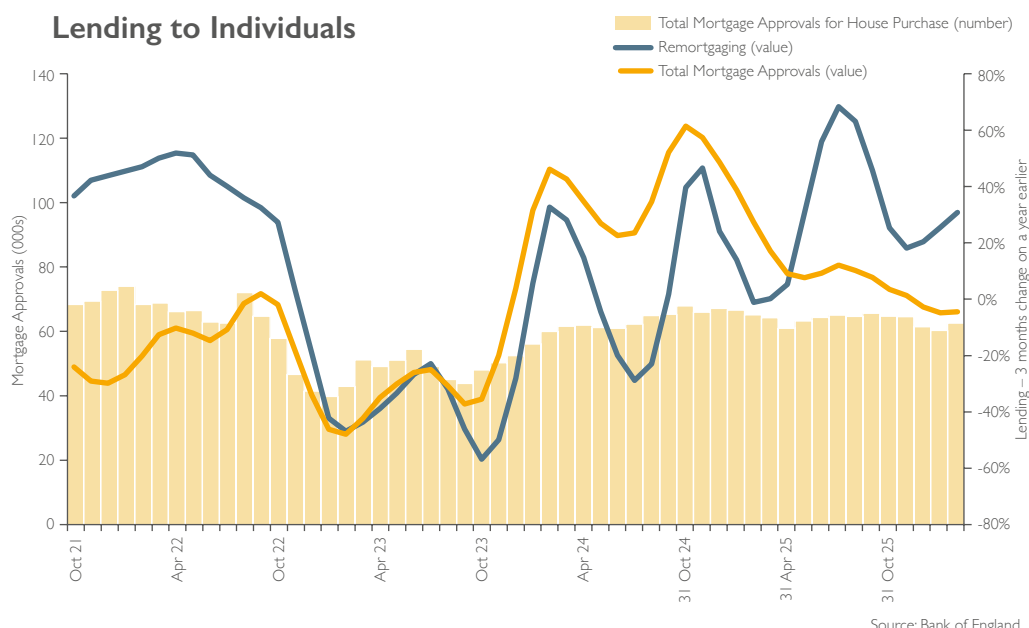
Source: MHCLG, ONS, Construction Products Association

rate was just 4.83% immediately before the conflict, but rose to 5.90% in mid-April. The two previously expected interest rate cuts this year will not happen, and financial markets have been volatile during April, pricing in between one and three interest rate rises for 2026.

Even without further increases amid current uncertainty, this would imply mortgage rates between 6.3% and 6.6%, along with significantly higher financing and lending costs. In addition, not only has the rate increased substantially, but the number of mortgage products available has fallen by 17% since the start of the conflict, and the shelf life of mortgage offers has more than halved, from 15 days to 7 days. Since the peak of the housing market, homebuyer affordability has improved significantly, although it had remained an issue before the conflict's impact. According to Nationwide, the house price-to-earnings ratio was 5.8% in 2022 Q3, but the slowdown in the housing market, combined with persistent wage inflation, caused it to fall to 4.7% in March 2026. Similarly, mortgage payments for first-time buyers were 38.4% of income in 2023 Q4, reflecting interest and mortgage rates since the peak of the market. However, interest and mortgage rates fell in 2024 and 2025, meaning that mortgage payments were 32.0% of income in 2026 Q1. Both represent improvements in affordability, but particularly in parts of the country where house prices are considerably higher than the UK average, such as London, the South East and East of England, affordability remains a key constraint. The conflict's impact on inflation is likely to cause real incomes, which were expected to rise by only 0.5% in 2026 before the conflict, to fall over the next 18 months. Furthermore, the conflict's impact on inflation has already driven higher swap rates and is likely to raise interest rates, which in turn will raise mortgage rates. As a result, affordability, which is already difficult, is likely to become even more challenging in higher price parts of the country. This is especially concerning given that first-time buyers have been a key driver of activity in recent years, which is unsurprising as the private rented sector has become increasingly unaffordable. However, this has meant that a growing number of first-time buyers have stretched themselves to access homeownership. As a result, the impact of higher mortgage rates has largely been absorbed by first-time buyers and other buyers



### Lending to Individuals



with a mortgage paying more, supporting transactions and sustaining high house prices. However, with less capacity to stretch borrowing criteria further, mortgage rate rises are now more likely to feed into lower budgets, pricing out first-time buyers. If first-time buyers do not sustain the housing market, it is highly likely that the housing market will slow over the next 12 months.

According to Nationwide, UK annual house price growth picked up to 2.2% in March, up from 1.0% in February. The pickup in house price growth suggested that the market regained momentum after the Winter slowdown. However, Nationwide stated that the sharp rise in global energy prices, driven by developments in the Middle East, represents a significant shock to the global economy. UK economic growth is likely to be slower and inflation higher than previously expected, but the impact will ultimately depend on the duration of the shock and the policy response. The outlook for interest rates is particularly uncertain, according to Nationwide, and depends on whether the demand or supply side of the economy is more adversely affected. If sustained, this could make housing more unaffordable, and consumer sentiment is likely to be hit by an uncertain outlook and the prospect of rising energy costs, with housing market activity likely to soften.

Nationwide also stated that the labour market cooled markedly in recent quarters, with unemployment rising towards the pandemic peak. However, it stated household finances are solid, with household debt at its lowest level relative to income for two decades, and significant savings buffers accumulated in recent years, although these are not evenly distributed. Nationwide hoped that this would help mitigate additional pressures, although it also highlighted that many households are still recovering from the previous cost-of-living crisis. The vast majority of existing mortgage holders are protected from the immediate impact of higher interest rates, with around 90% on fixed-rate mortgages. Also, while swap rates have risen markedly to date, the increase is much less pronounced than in the aftermath of the pandemic, and they remain at levels seen in late 2023 and early 2024.

In terms of activity on site, there were 37,300 new house building starts in England in 2025 Q4, according to the Ministry of Homes, Communities and Local Government (MHCLG). This was 23.0% higher than in Q3 and 24.5% higher than a year earlier (2024 Q4), largely as expected, since starts in 2024 Q4 remained historically low.

Overall, in 2025, total housing starts in England were 15.8% higher than in 2024, but they remained 30.3% lower than at the 2022 peak.

There were 36,720 new house building completions in England in 2025 Q4, according to MHCLG. This was 8.9% higher than in Q3 but only 1.4% higher than a year earlier (2024 Q4), which is not good, as, at the time, Summer 2024 was expected to be the low point after the housing downturn. House building completions in 2025 Q4 also remained 25.4% lower than the recent peak in 2021. Looking at the year as a whole, there were 141,810 new house building completions in England in 2025, 7.7% lower than in 2024. Completions in 2025 also fell for a third consecutive year and were

20.5% lower than at the recent 2022 peak, before the end of government housing stimulus (stamp duty holidays, Help to Buy) and before interest and mortgage rates rose sharply.

Looking at the start of this year, January and February were adversely affected by persistent rain, especially for the start of new developments. Activity overall in 2026 Q1 also suffered from a high comparator a year ago. In 2025 Q1, a year earlier, demand was still recovering ahead of the stamp duty changes, which led to a drop in demand from April 2025.

UK brick deliveries are a useful proxy for new house building starts in the absence of monthly starts data.

**UK property transactions in January 2026 were 2.1% higher than a year ago**



Deliveries in February were 0.9% lower than in January and 20.8% lower than a year earlier, according to the Department for Business and Trade. Deliveries and starts in February 2026 are usually higher than in January as house building gradually accelerates through Q1 after the Winter slowdown and both months were also affected by persistent rain, so the small monthly fall in February is concerning. Deliveries in February were 20.8% lower than a year ago, which is also concerning, and were from a relatively high level a year ago, as housing demand was still gradually recovering in 2025 Q1 before slowing again from April 2025. Deliveries in February were also 43.7% lower than the average between 2018 and 2019, which was before all the major global and UK political and economic disruptions to house building over the last six years. Year-to-date (YTD) figures only cover January and February at this point. However, in 2026, YTD deliveries were 14.7% lower than a year ago, which is concerning, as this is before the impacts of the Middle East conflict on house building.

Looking forward, house builders reported that house building starts in March 2026 were a double-digit improvement on January and February, driven by better weather and sustained demand, as buyers had mortgage offers on fixed rates before rates rose due to the impact of the Middle East conflict on swap rates. However, house builders also reported that they could not 'catch up' on most of the rain-delayed activity from January and February due to capacity and skills constraints, so most of it has largely just been pushed back.

The most recent trading updates from major house builders have been from Barratt Redrow and Crest Nicholson, in April, although both were noticeably cautious over the future outlook.

Barratt Redrow, which will have taken over from Vistry Group as the largest house builder when it reports full-year results, reported an update for its Q3, the 13-week period from 29 December 2025 to 29 March 2026. It stated that "despite heightened macroeconomic uncertainty, we expect the Middle East conflict to have limited impact on FY26 performance". Its net private reservation rate, excluding private rental sector (PRS) and other multi-unit sales (MUS) reservations, was 0.64, 3.2% higher than 0.62 a year earlier. Its net private reservation rate, including PRS and MUS, was 0.67, up 6.3% from 0.63 a year ago. It still expects to deliver total home completions of between 17,200 and 17,800 (including around 600 JV) home completions for the year to June 2026. Its total forward sales (including JVs) at 29 March 2026 were 11.2% higher at 11,395 homes compared with 10,245 a year earlier. Its private home order book was 5,643 homes, up 2.5% from 5,503 a year ago.

It also stated that its build cost inflation overall for its financial year 2026 was expected to be 2.0% overall, with an anticipated rate of around 3.0% in the second half of its financial year. However,



it also stated that higher energy costs are likely to be reflected in increased building material costs in its next financial year but, critically, it did not give any cost inflation guidance or completions guidance beyond June. It stated that “the ongoing conflict in the Middle East is contributing to increased economic uncertainty, including the potential for a more prolonged, higher-interest-rate environment and renewed cost pressures. While we currently expect any direct impact on its current financial performance to be limited, visibility beyond the current financial year remains more uncertain”.

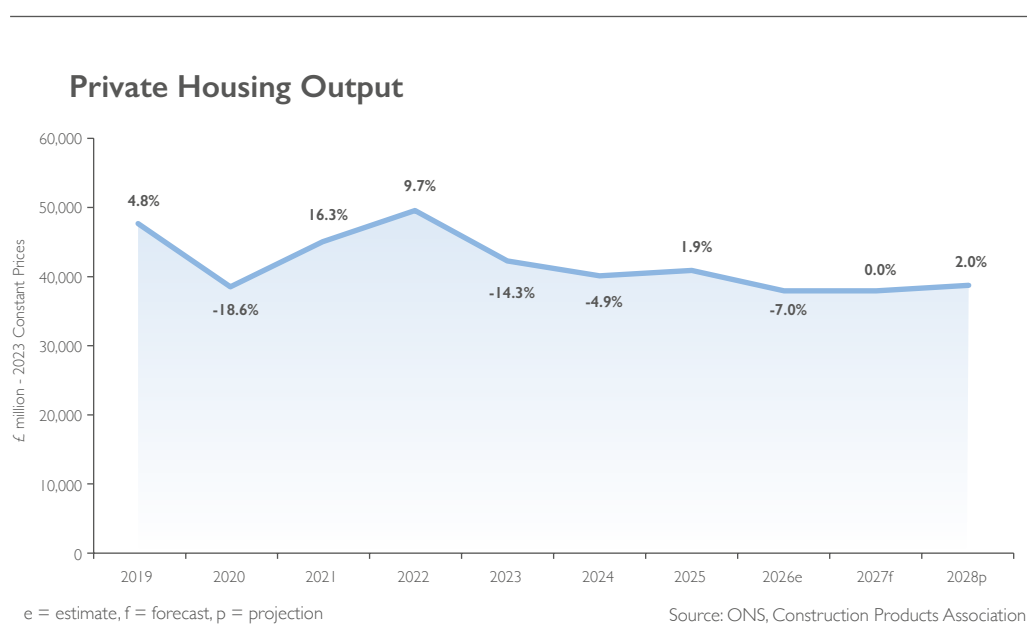
House builder Crest Nicholson, which focuses on housing building in the South East across mixed tenures, reported that “since its AGM trading update on 25 March, macro-uncertainty has increased, with the ongoing conflict in the Middle East contributing to the prospect of a more prolonged higher interest rate environment, renewed cost pressures and a deterioration in consumer confidence”.

It also highlighted a reduction in new enquiries and visitor levels, whilst, in recent weeks, there has been a marked softening in sentiment among prospective land purchasers. Buyers have become more cautious amid an uncertain outlook, leading to reduced engagement in bidding and greater reluctance to transact at market value.

Based on these early indicators, it assumes that the current economic uncertainty and trading conditions will persist for at least the remainder of its financial year, which concludes at the end of October. It also provided revised guidance, and despite its sales performance in the calendar year being in line with expectations, it is taking a more cautious view of sales rates for the remainder of the financial year, reducing its volume expectations from 1,550 to 1,700 to 1,400 to 1,500 units.

It now anticipates fewer land sales, with revenue down from previous estimates of between £75 million and £100 million to around £40 million. Given the higher level of energy costs, it has built in an expectation of higher build costs in the balance of the financial year.

Outside the potential impacts of the Middle East conflict, the fundamentals of the housing market and house building remain consistent with the CPA’s previous forecasts. However, many of these factors will also be affected by the conflict as well.



House builders continue to report that many housing associations are still not buying Section 106 (S106) affordable homes on private housing developments due to funding constraints, concerns about the quality of S106 homes, and worries that housing associations would be adding homes to their existing stock that would need refurbishment or retrofitting later. They are still purchasing social rental units at a significant discount, but there appears to be a consistent lack of appetite among housing associations for S106 affordable units. This impacts site viability for house builders. Given financial constraints, housing associations' priorities are issues with their existing stock, including basic living conditions, particularly in light of Awaab's Law, which came into force on 27 October; fire safety remediation; and decarbonisation. Housing associations are not currently focused on buying Section 106 homes or funding new build themselves (see [Public Housing RM&I](#)). In the long-term, housing associations and partner organisations such as Vistry Group will have access to £39 billion in funding over the next 10 years, with the final five years backend-loaded, for social and affordable housing from April. However, this cannot currently be used for funding the purchase of S106 homes.



In terms of the Build-to-Rent (BtR) niche, which accounted for 8.0% of completions in 2025, Knight Frank reported in January that investor demand in 2026 is likely to focus on assets that “align with the deepest pools of occupier demand, particularly in the mid-market”, which means navigating issues such as planning, building safety requirements and pressures on construction viability. More recently, the British Property Federation and Savills reported that in 2026 Q1, there were 147,670 completed units, a 12.0% rise compared with the same period a year earlier. The number of completions in London rose by 11.0% in London to 62,313, and by 12.0% in regional markets to 85,357 homes. However, completions in the year to Q1, at 15,509, were 24.0% lower than the 20,487 recorded a year earlier. The number of units under construction fell by 17.0% in Q1 compared with a year ago and the contraction in London was 29.0% compared to 11.0% in regional markets. The number of BtR homes in planning rose by 2.0% in the 12 months to Q1 compared with a year earlier to over 105,340 homes, with 41,968 in London and 63,372 in the regions. However, whilst the number of consented units increased, the number of schemes at the detailed application stage fell by 17.0% compared with the previous quarter.

High-rise activity remains slow due to BSR delays at Gateway stages 2 and 3, particularly in London, where affordability and site viability remain issues. Barbour ABI data show the change in project starts on residential buildings (7 storeys or more) since the peak in 2021 Q3. Initially, starts fell sharply for two quarters after 2021 Q3, as housing demand slowed, broadly in line with overall housing construction. However, starts picked up again from 2023 Q1, reaching 2021 average levels in 2024 Q1, unlike general house building, which remained subdued in 2023. Starts began falling again from 2024 Q2, and by 2025 Q2, they were 73.2% lower than the 2021 average. So far, 2025 Q2 appears to be the low point for starts, and they have risen since then, but from a very low base, so they remain low. Starts in 2026 Q2 were 26.1% higher than in the previous quarter and 52.6% higher than a low base a year ago, but they remained 35.6% lower than the 2021 average. The BSR says it is making progress, but developers report to us that there are still long delays at Gateway Stages 2 (5 months) and 3 (3-4 months), and that the rejection rate remains high. So, it remains difficult for developers.

Whilst there was a sharp fall in high-rise starts between 2024 Q1 and 2025 Q2, the number of mid-rise residential starts (between 3 and 6 storeys) rose from a low base between 2024 Q2/ Q3 and 2025 Q3. This reflected a shift in focus from high-rise to mid-rise, with greater certainty over time and cost, as developers didn't have to deal with BSR delays and spec changes. As there are far fewer mid-rise developments than high-rise and fewer flats per development, however, that shift to mid-rise wasn't enough to offset the sharp fall in high-rise, and it meant fewer new

Only **5,547**  
new homes  
have been  
started in London  
on **developments of 20 or more**  
private homes in 2025,  
according to Molior



homes overall. In 2025 Q4, mid-rise development starts began to decline again, and in 2026 Q1, they remained at that level, so it is too early to report a continued shift back to high-rise.

Looking at London in particular, Molior's 2026 Q1 data, which covers developments of more than 20 units, highlighted a slight improvement, with sales in Q1 30.0% higher and starts 50.0% higher, but both were from a very low base. According to Molior, London recorded 2,850 sales in 2026 Q1, but it stated that this does not reflect a recovery and that it was compared with 2025, which it described as "awful". It highlighted that the London market needs 22,000 sales per quarter to hit an annual delivery target of 88,000 homes. Critically, the majority of Q1 sales were to companies rather than to individual homebuyers. UK individuals bought only 600 homes

across London in Q1. Pre-pandemic, developers were selling primarily to individuals, whilst, in the main, they are now often exiting schemes by selling to rental operators, because they have to, given the lack of enabled demand from individuals in the capital.

House builders continue to highlight the problem of site viability. Site viability was already a key problem for house builders last year, due to the government's additional costs on house building. The government's additional costs on house builders include, but are not restricted to the:

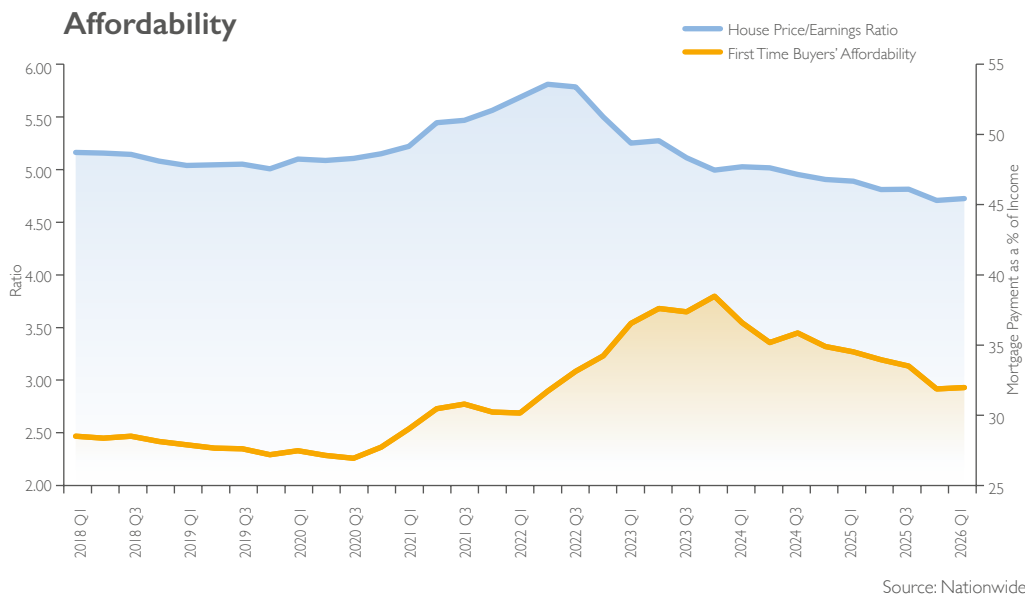
- Residential Property Developer Tax
- Biodiversity Net Gain
- Water and Nutrient Neutrality
- Section 106/CIL
- Building Regulations F,L,O and S
- Employers' National Insurance Contributions (NICs) and lower thresholds
- National Living Wage rise
- Remediation Acceleration Plan
- Landfill Tax Lower Rate Doubling on 1 April

In addition, there are extra indirect costs from the government due to the BSR's delays for buildings above 7 storeys or 18 metres, persistent planning delays, and S106 negotiation delays.

Furthermore, the problem keeps getting worse. Additionally, upcoming extra costs on house building include a 50% import tariff on steel products from 1 July as a part of the government's Steel Strategy, which was published in March, and will particularly affect the viability of larger development sites. The Building Safety Levy on each new home built will come into force in October 2026. In addition, after many delays, the government published its Future Homes and Buildings Standard in March, which will be implemented in April next year, and it will make site viability worse because the sharp cost increases cannot be passed on to potential homebuyers, given that affordability is also a key problem for house builders.

Each of these additional costs of house building imposed by the government may be justifiable on its own. But, once the government adds all of these costs to house building, many house building sites are financially unviable in many parts of the country.

Furthermore, the government's additional costs for house building this year are coming as construction product costs are rising or are set to rise sharply due to the impact of the Middle



Eastern conflict on fuel, energy, manufacturing, and import costs, worsening site viability.

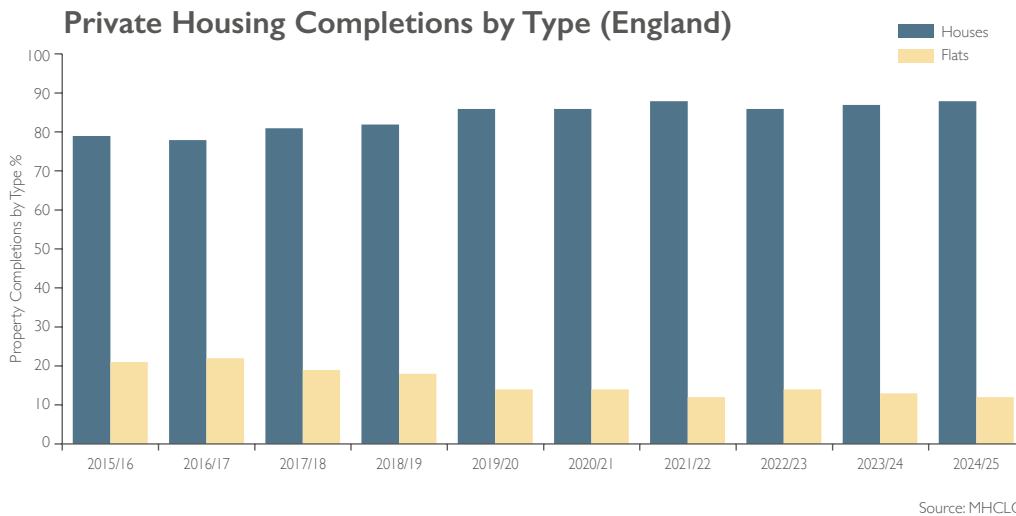
In terms of other government policy aimed at boosting new house building, as highlighted in previous forecasts, the New Towns Taskforce shortlisted 12 locations for New Towns in 2025. In March 2026, this was reduced to seven New Towns, but it states that an additional six locations, including five of the 12 original New Towns that were cut, may receive further government support through existing housing programmes. The government's ambition is that each New Town generates at least 10,000 new homes, although it is unknown whether they will still deliver the government's target of a minimum of 40% affordable housing, which the CPA highlighted at the time was unrealistic given viability concerns. Where the seven sites are genuinely New Towns and not merely extensions of existing towns or developments already being built out, the CPA maintains its assumption that the majority of main work on New Towns would only be in the 2030s.

Most major house builders reported results and trading updates before the conflict and, as a result, reflected a positive outlook for the year, in line with the CPA's previous forecasts.

Within the housing market, recent data only cover the periods before the impacts of the conflict. UK residential property transactions year-to-date only cover January and February but in 2026 they were 2.7% lower than in 2025 and 23.8% lower than in 2021, although they were still 19.5% higher than the low point of transactions in 2024. The annual fall is distorted by transactions a year ago being artificially high due to the deadline before the stamp duty changes at the end of March 2025. As a result, March 2026's transactions data may appear particularly negative compared with a year ago, but again, this will be reflective of an artificially high comparator. February transactions were 5.4% higher than in January 2020, the pre-pandemic period, and 5.9% higher than the 2005-2018 average, before the major disruptions of recent years.

There were 62,584 mortgage approvals in February, according to the Bank of England. The number of mortgage approvals was 3.9% higher than in January, a rise after four successive monthly falls, but it remained 3.9% lower than a year ago. It was also 10.0% lower than in January 2020, the pre-pandemic period, and 4.4% lower than the

**Private housing output**  
is expected to **fall** by  
**7.0%** in 2026



2018-19 average. These mortgage approvals were still before the recent impacts of the Middle East crisis on mortgage rates and on homebuyer confidence, so we are unlikely to see the full impact until 2026 Q2 at the earliest and most likely Summer 2026.

February's rise in mortgage approvals may reflect the delayed impact of December's interest rate cut on mortgage rates in January and February. However, there was increased global economic and geopolitical uncertainty at the start of 2026, even before the Middle East conflict. Previous sharp rises in mortgage rates, as occurred in 2022 and mid-2023, led to significant falls in mortgage approvals, and it would be expected that sharp rises in mortgage rates since the Middle East conflict and after expected interest rate rises in 2026, are likely to also have a significant impact on suppressing mortgage applications and mortgage approvals. In addition, the uncertainty and risks from the impacts of the Middle East conflict on the global and UK economic outlook may also have a negative impact on potential homebuyer motivation to purchase, and they may adopt a 'wait-and-see' attitude.

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

Overall, the CPA has made a substantial downward revision to its house building forecasts in light of what is ahead for the housing market and house building, more so than activity on the ground so far this year.

Given that starts represent house builder optimism about the near term, whilst output and completions are more reflective of actual activity on the ground, private housing starts are expected to fall by 10.0% this year, before a significant 8.0% rise in 2027 from a very low base. Private housing completions are expected to fall by 6.0% in 2026 before remaining flat in 2027, and output is forecast to fall 7.0% before remaining flat next year. However, the margins of error in forecasting the upcoming effects of a supply shock, as well as the responses in homebuyer

confidence and demand to mortgage rate increases, have risen sharply, especially for 2027.

**Upper Scenario:**

- Government introduces a deposit equity loan scheme to boost housing demand
- House prices remain flat in 2026 and rise by 2.0% in 2027
- High rental growth sustains homebuyer demand

If the government were to announce a deposit equity loan scheme, similar to Help to Buy, it would increase demand and signal to potential homebuyers that the government supports home purchases. This could see a recovery in property transactions, house prices, and house building earlier than anticipated, due to the direct boost from the policy, as well as the signalling impact that the government is enabling demand in the housing market. This is especially the case if first-time buyers still encounter sustained rental price growth as the only other option to purchasing.

**Lower Scenario:**

- Interest rates rise three times in 2026
- Mortgage rates rise again in 2026 H2
- Consumer confidence hit by accelerating inflation and rising unemployment
- Falling house prices in 2026 and 2027

If interest rates rise three times in 2026 due to the CPI inflation accelerating quickly in 2026 H2, this would affect housing affordability, especially for first-time buyers. More broadly, falling consumer confidence and spending, rising unemployment, falling GDP and forced sellers could exacerbate slow house price inflation, leading house builders to stop purchasing land, slow starts and focus on completions over the next 18 months.



# Private Housing RM&I

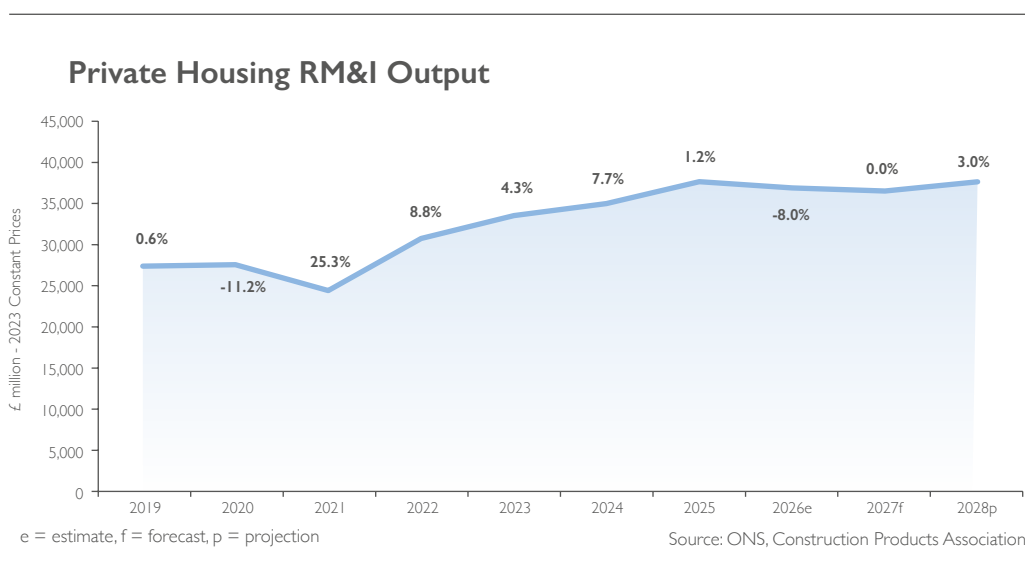
Private housing rm&i output is expected to fall significantly in 2026, with home improvement spending adversely affected by poor consumer confidence and cautious, uncertain homeowners focusing on funding increasingly expensive general spending or saving rather than discretionary, non-essential spending. Furthermore, given heightened concerns over energy prices, home improvement activity that does occur is likely to increasingly be skewed towards energy-efficiency activity, such as heat pumps and solar photovoltaic (PV), partly funded under the government's Warm Homes Plan, although insulation activity is likely to fall away after the end of this year as ECO4 ends with no replacement. As in previous forecasts, cladding remediation activity will also continue to provide a steady stream of activity throughout the forecast period.

The CPA has consistently highlighted its major concerns and a lack of reliability in the ONS construction output data since 2022 (see [Overview](#)). As a result, the users should treat the historical data with extreme caution.

As highlighted in previous forecasts, the majority of rm&i activity (around 60% per year) consists of general repairs and maintenance, providing the sector with consistent levels of activity. Apart from seasonal variations, it tends to be relatively stable, as most repairs and maintenance cannot be delayed indefinitely.

The volatility in private housing rm&i activity tends to stem from small, discretionary home improvement projects; larger refurbishments, such as conversions or extensions; or activity influenced by government policy and programmes.

The key explanatory variables in the CPA's model for private housing rm&i are residential property transactions, real wage growth, unemployment, house prices and household savings. Transactions are an early indicator for home improvement because within 6-9 months of moving into an existing home, there tends to be home improvement work activity, so that new home owners who have the finance available ensure the home is the way they would like to



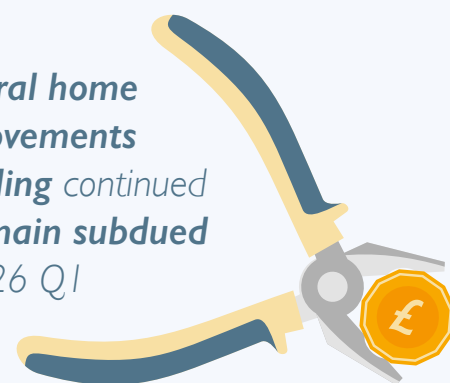
live in it as soon as possible after they have moved into it. Unemployment reflects job security and homeowners' confidence beyond sentiment-based measures such as consumer confidence, and real wage growth reflects the strength of the job market as well as finance for rm&i. House price growth is a useful variable, as it reflects the willingness to invest in larger home improvements. Research from Barbour ABI into the home improvement market highlights that areas of higher house prices, such as London, the South East and East of England, tend to reflect higher levels of home improvement, whilst areas in which annual house price growth is highest tend to reflect stronger growth in home improvement, as the incentive to invest in the home is greater. In addition, higher house prices can reflect greater housing equity, which can be used to fund home improvements.

However, activity in 2025 was subdued despite a gradual increase in home moves and strong real wage growth, which points to homeowners remaining scarred after the last spikes in energy and commodity prices in 2022, and the resulting 'cost of living' issues. This is reflected in the savings ratio, which shows that many households have available funds but are choosing to save rather than spend, especially on discretionary, non-essential items, including both small and large home improvements. Investment in the home was also adversely affected by the unprecedented uncertainty in the months leading up to the government's Autumn Budget, which was delayed to the end of November. Homeowners were well aware that there would be tax rises in the Autumn Budget, but were uncertain about who would bear the brunt of them. As a result, firms in the supply chain reported that all home improvement activity, and all but essential repairs and maintenance, slowed considerably in 2025 H2. By the time that this uncertainty was over, home improvement in 2025 was entering the seasonal slowdown in activity during Winter and the construction shutdown between December and January. Many housing commentators anticipated a rise in activity during 2026 Q1, particularly in new house building (see Private Housing), with home improvement activity delayed due to uncertainty ahead of the Autumn Budget, going ahead early in the new year. However, outdoor activity was subdued due to persistent rain in January and February, but firms reported that activity in March and early April was stronger. Some firms, however, reported difficulties in 2026 Q1 due to a hiatus in insulation activity under ECO4. The government initially stated in November 2025 that ECO4 would end in March 2026, and energy companies stopped accepting new applications for ECO4 funding. But the government changed this at a late stage and, in January 2026, stated that ECO4 would now be extended to December 2026. However, the disruptions caused by the government's ECO4 policy are likely to result in a hiatus in ECO4 activity in 2026 H1 at least.

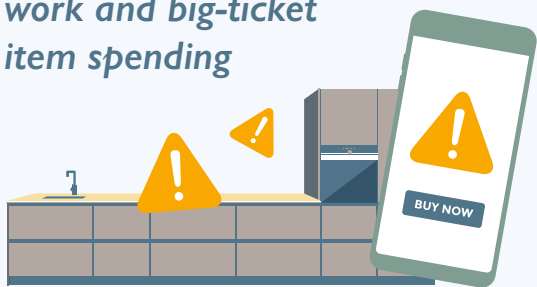
The data for the CPA's early indicators for private housing rm&i, such as house prices and real wage growth, cover the period before the impacts of the recent Middle East conflict and, as a result, would generally point towards a gradual recovery this year in home improvement, outside of government energy-efficiency schemes. However, this would assume that homeowners are confident enough to invest in home improvements, and there is little in the consumer confidence indices to suggest this, even before the Middle East conflict. Then, the impacts of the Middle East conflict on CPI inflation, real wage growth, house price growth, unemployment, savings, consumer confidence, and consumer spending on large discretionary home improvements are all likely to be negative (see [Economy](#) and [Private Housing](#)).

UK residential property transactions year-to-date only cover January and February, but in 2026, they were 2.7% lower than in 2025 and 23.8% lower than in 2021, although they were still 19.5% higher than the low point of transactions in 2024. The annual fall is distorted by transactions a year ago

**General home improvements spending continued to remain subdued in 2026 Q1**



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



being artificially high due to the deadline before the stamp duty changes at the end of March 2025. As a result, the March 2026 transaction data may appear particularly negative compared with a year ago, but again, this will reflect an artificially high comparator. February transactions were 5.4% higher than in January 2020, the pre-pandemic period, and 5.9% higher than the 2005-2018 average, before the major disruptions of recent years.

There were 62,584 mortgage approvals in February, according to the Bank of England. The number of mortgage approvals was 3.9% higher than in January, a rise after four successive monthly falls, but it remained 3.9% lower than a year ago. It was also 10.0% lower than in January 2020, the pre-pandemic period, and 4.4% lower than the 2018-19 average. These mortgage approvals were still before the recent impacts of the Middle East crisis on mortgage rates and homebuyer

confidence, so we are unlikely to see the full impact until 2026 Q2 at the earliest, and more likely in Summer 2026.

February's rise in mortgage approvals may reflect the delayed impact of December's interest rate cut on mortgage rates in January and February. However, there was increased global economic and geopolitical uncertainty at the start of 2026, even before the Middle East conflict. Previous sharp rises in mortgage rates, as occurred in 2022 and mid-2023, led to significant falls in mortgage approvals, and it would be expected that sharp rises in mortgage rates since the Middle East conflict and after expected interest rate rises in 2026, are likely to also have a significant impact on suppressing mortgage applications and mortgage approvals. In addition, the uncertainty and risks from the impacts of the Middle East conflict on the global and UK economic outlook may also have a negative impact on potential homebuyer motivation to purchase, and they may adopt a 'wait-and-see' attitude.

A key concern even before the impacts of the Middle East conflict was that, despite households having experienced real pay growth for 32 consecutive months in January 2026 and many households having finance available, consumer confidence remained subdued, leading many to continue saving rather than spending. Looking at households' confidence in their finances and willingness to spend, the NIQ (formerly GfK) Consumer Confidence Index has remained subdued, between -17 and -22, since the current government came to power in July 2024. In January 2026, it reached -16, still subdued but one point higher than in December and two points higher than in November, when the government had its Autumn Budget. However, February's [NIQ Consumer Confidence Index](#) fell back to -19, and March's fell to -21. April's index is likely to fall further over the course of this year. How far consumer confidence falls back and how long it remains at a new low point will clearly depend on how long the disruption lasts, how long oil and energy prices remain high, plus the extent to which declines in real wages, rising unemployment and worsening general economic prospects affect confidence, which is difficult to determine at this stage.

Looking at the breakdown of NIQ's consumer confidence measures in March 2026, its index for the personal financial situation over the last 12 months was -7, the same as in February but two points better than a year earlier. Expectations for the personal financial situation over the next 12 months were at +1, which was 1 point better than in November and a year earlier. The measure for the country's general economic situation during the last 12 months was -43 in March, which

was one point better than February and two points better than in January, but one point worse than a year earlier. The measure of expectations for the general economic situation over the next 12 months was -37 in March, six points worse than in February and eight points worse than a year ago. This, unsurprisingly, points to a sharp increase in concern amongst households about broader economic prospects, but it suggests that consumers have not factored in the impacts on their personal financial situation over the next 12 months, which may take longer to materialise and may see sharp falls in the next six months. The Major Purchase Index was at -18 in March, four points lower than in February and one point lower than a year earlier, pointing to the initial impact of Middle East conflict uncertainty: it has adversely affected the likelihood of larger consumer spending. However, it is worth noting that the Major Purchase Index tends to reflect purchases such as cars more than home improvement. The Savings Index was +27 in March, six points higher than in February and two points lower than a year ago, indicating that households are more focused on savings than spending.

Regarding savings, in 2019 Q4, before the pandemic and other significant disruptions to the UK and global economies, the household saving ratio was 6.3%. After an unsurprising spike to 27.5% and 21.8% during the national lockdowns, the household savings ratio returned to a more normal rate of 7.3% in 2021 Q4. The initial impact of the energy and commodity price spikes following Russia's invasion of Ukraine in February 2022 was a fall in the savings ratio, as households used their savings to sustain near-term spending. Consequently, the savings ratio fell to 3.8% in 2022 Q2. However, following this, there was a general upward trend in household savings as households became risk-averse and saved to ensure they had sufficient funds to cover general price inflation and potential unforeseen expenses. We would have anticipated that as inflation slowed and real wage growth occurred across the economy, households would gradually feel more comfortable and confident spending on small, discretionary goods and services, and then, over time, increasingly spend on larger, discretionary, non-essential goods. However, there are medium-term scarring effects of spikes in general inflation. Whilst inflation rates have slowed, they have not decreased as much as initially expected. Consequently, households focus more on price levels, which remain high, rather than solely on the rate of price increases. As a result, despite the slowdown in inflation and the rise in real wages, the savings ratio continued to rise in 2024, reaching 11.1% in Q4, as households remained concerned about whether the much-trailed tax rises from a year ago would affect them. In 2025, the savings ratio fell to 9.9% in Q2, before falling to 9.1% in Q3 and rising back up to 9.9% in Q4. Given the impact of the energy and commodity price spikes in 2022 on savings was initially to lead to a sharp falls in the savings ratio as households attempted to sustain spending short-term in the light of price rises, before gradual rises in the savings ratio over the subsequent year as households become more risk-averse, raised savings and adjusted spending patterns, a similar situation can be expected over the next 12 months.

A key factor that has not helped consumer confidence, even before the conflict, has been the weakening of the UK labour market and increases in unemployment, although overall the labour market remains historically strong due to skills shortages in some key areas.

In the Autumn Budget 2025, the government announced rises in the National Living Wage, which in April 2026 was raised to 43% higher than five years earlier, and business rate changes that have led to sharp increases for the hospitality sector. As a result, many firms, especially in labour-intensive sectors, implemented hiring freezes for non-essential staff, new hires, and replacements. This was on top of hiring freezes already implemented from April 2025, following the rise in the National Living Wage and employers' National Insurance Contributions.

**Households have continued to focus on savings and the savings ratio was 9.9% in 2025 Q4**



The UK employment rate for people aged 16 years and over was estimated at 75.1% in November 2025 to January 2026, which was marginally up from 74.9% three months earlier and 0.1 percentage points higher than the 75.0% reported a year earlier, but significantly lower than the 76.5% reported pre-pandemic. The UK unemployment rate for people aged 16 years and over was estimated at 5.2% in November 2025 to January 2026, which was up from 5.1% three months earlier, higher than the 4.4% reported a year ago and 1.2 percentage points higher than the 4.0% reported pre-pandemic. At this point, the CPA's forecast expects that the unemployment rate reaches 6.0% in 2027.

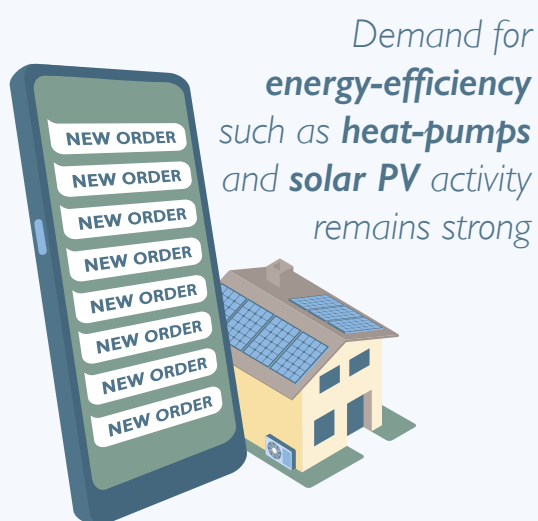
Wage growth has historically been a key driver of home improvement financing and a reflection of job security and willingness to spend, particularly on big-ticket items. Between November 2025 and January 2026, regular pay, excluding bonuses, averaged 3.8% higher than a year earlier, which was slower than the 4.6% pay growth three months ago and 5.9% pay growth a year earlier. Between November 2025 and January 2026, total pay, including bonuses, averaged 3.9% higher than a year earlier, which was slower than the 4.8% pay growth three months ago and 5.8% pay growth a year earlier. Before the conflict began, the expectation was that, even with slowing wage growth, it would be outpaced by slowing inflation. CPI inflation was anticipated to hit the Bank of England's target of 2.0% towards the end of the year but the spike in CPI inflation due to the effects of oil and energy price rises themselves, and as they spread through the rest of the economy, is likely to mean significant real wage falls over the next 12 months, especially given that unemployment is expected to rise and constrain nominal wage growth. Even before the conflict's impact, real wage growth for regular pay was only 0.4% in the year to January 2026, and over the past six months, annual regular pay growth averaged only 0.7%. This contrasts sharply with 2024, when average annual real pay growth was 3.0%.

House price growth has also historically been a driver of home improvement activity, as it increases homeowners' incentive to invest in their homes. UK annual house price growth picked up to 2.2% in March, from 1.0% in February, according to the Nationwide. The pickup in house price growth suggested that the market regained momentum after the Winter slowdown. However, Nationwide stated that the sharp rise in global energy prices, driven by developments in the Middle East, represents a significant shock to the global economy. UK economic growth is likely to be slower and inflation higher than previously expected, but the impact will ultimately depend on the duration of the shock and the policy response. The outlook for interest rates is particularly uncertain and dependent on whether the demand or supply side of the economy is more adversely affected. If sustained, this could make housing more unaffordable, and consumer

sentiment is likely to be hit by an uncertain outlook and the prospect of rising energy costs, with housing market activity likely to soften.

Beyond the main drivers of private housing repair and improvement activity in the CPA's model, government programmes also fund activity in the private housing sector, aiming to improve energy-efficiency and fire safety (primarily cladding remediation) of the private housing stock.

Regarding energy-efficiency, as highlighted in previous forecasts, the government announced £13.2 billion in funding under the Warm Homes Plan over five years, averaging around £2.6 billion per year, with a focus on areas such as solar photovoltaic and heat pumps. These two areas have been strong and are likely to increase further over the long-term. This funding is approximately double what 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. In addition, in November 2025, at the Autumn Budget, the government announced an additional £1.5 billion for the Warm Homes Plan but provided no details on how the extra finance would be used at that stage. However, the £1.5 billion additional funding was to compensate for its other key announcement affecting the sector: that ECO, which is currently approximately £1.7 billion per year and targets the upgrade of fuel-poor homes, which was due to end in March 2026, would not be extended. However, in January 2026, the government stated that it ECO4 would continue until the end of December, which would have made sense if it had been the original announcement but now it is likely to have meant a hiatus in activity in 2026 Q1 and potentially Q2, as energy companies stopped accepting applications for ECO4 in 2025 Q4 give that the scheme was originally going to end in March. After averaging 27,900 and 22,700 ECO4 measures installed per month in 2024 and 2025, respectively, there were only 14,897 installations in January 2026, down 25.3% from a year earlier.

The Boiler Upgrade Scheme (BUS), which commenced in 2022, initially allocated £450 million over three years in England and Wales, equivalent to approximately £150 million per year. It aimed to replace boilers with a grant to install an air-source heat pump (ASHP), a ground-source heat pump (GSHP), or a biomass boiler. Installations from 1 April 2022 were available with grants of £5,000 for an ASHP or biomass boiler and £6,000 for a GSHP. The government's initial target for the BUS scheme was to achieve 30,000 boiler replacements annually. However, only 15,768 applications were received for the scheme in the programme's first year, between 23 May 2022 and 31 March 2023. Only 13,739 vouchers were issued, which is less than half of the target of 30,000. In response, the government announced that, from 23 October 2023, grant levels for installing ASHPs and GSHPs would be increased to £7,500, while grants for biomass boilers would remain at £5,000. Given fixed funding for the current financial year, there will be fewer replacements than the target. However, as previously stated, the replacement rate in its first year was so low that a more significant grant and a lower target became more realistic. In April, in response to the rise in global oil prices, the government announced that BUS grant for properties heated by oil and LPG would be increased to £9,000, but provided no estimate on the number of additional installations expected.

Between May 2022 and February 2026, 117,654 grant applications have been received, with 92,775 grants issued to date and 77,549 redemptions paid out. The number of monthly grant



Private housing rm&i  
is expected to **fall** by  
**8.0%** in 2026

applications, grants issued, and redemptions paid out shows that the scheme was slow to get going in the first 18 months, during which the Boiler Upgrade Scheme averaged only 890 redemptions per month. It accelerated between November 2023 and September 2024, with monthly redemptions averaging 1,644 before ramping up in Autumn 2024. Between October 2024 and February 2026, the average monthly redemptions were 2,543, with the most recent month at 2,389, suggesting the scheme has largely plateaued over the last 18 months.

In addition to ECO4 and the BUS, in November 2022, the government announced a £1.0 billion scheme to theoretically help around 300,000 households with the cost of installing insulation. However, deployment has been very slow so far. ECO+ launched on 1 April 2023 and was subsequently rebranded as the Great British Insulation Scheme (GBIS). It ran up to 31 March 2026 and has now finished, and activity is likely to drop off, in line with previous expectations. GBIS covered 130,752 measures in 95,518 households, representing only 31.8% of its target.

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 February 2026, the Ministry for Housing, Communities and Local Government (MHCLG) reported that there were 4,745 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 4,745 buildings, 2,553 were identified as having life-critical fire safety risks that developers will remediate. Within these buildings, which pose life-critical fire-safety risks, 521 (20%) have been reported to have completed remediation. Of the buildings reported as having completed remediation, 418 (16% of all buildings with defects) received a building control sign-off. 1,181 (46%) were reported to have started or completed remediation. 329 (13%) had not yet started remediation but had plans in place. 1,043 buildings (41%) have not started and have no plans in place. This represents an increase of 38 since the January data release.

The 2,553 buildings that require remediation have an estimated cost of around £4.1 billion. This represents a decrease of £49 million since the January data release. It is worth noting that this cost is based on the self-reported work costs in the developer data report. However, if the price is unknown, it is imputed from the average reported cost by developers for each building-height band. There are now an estimated 157,000 dwellings in buildings with defects that developers are committed to remediate. Of these, an estimated 77,000 dwellings in buildings are reported as having either started or completed remediation works. Based on the start and completion dates reported by developers, 639 buildings that have not yet started are expected to commence works between 1 February 2026 and 31 January 2027, and 420 buildings which have not yet been completed are expected to complete their remediation between 1 February 2026 and 31 January 2027.

Going forward, the government outlined its Remediation Acceleration Plan in December 2024, following an agreement with major developers to expedite cladding remediation in residential buildings above 11 metres and 18 metres. It aims to ensure that by the end of 2029, all high-rise buildings above 18 metres with unsafe cladding, as part of a government-funded scheme, will have been remediated. Furthermore, by the end of 2029, every building 11 metres or

higher with unsafe cladding will either have been remediated, have a completion date, or have the landlord 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. In addition, remediation of high-rise residential buildings that include fire safety adjustments or external wall changes requires approval from the Building Safety Regulator (BSR) and there are now more remediation projects awaiting approval than new build projects. At the end of November, there were 283 cases lodged, with a median waiting time of 30 weeks to approval, but since September, the number of new applications has exceeded the number of decisions each week, particularly as the BSR's focus has been on streamlining the process for new build applications.



Overall, private housing rm&i output is now forecast to fall by 8.0% in 2026, a substantial revision down from the Winter forecast, with a range of different issues affecting the sector. Primarily, the hit to household finances and confidence is expected to be the key driver of the fall in activity this year, but the end of GBIS and the hiatus in ECO4 activity will exacerbate this. However, there will be strength in fire safety remediation and solar photovoltaic, which were previously strong areas in 2024 and 2025. In the long term, the Warm Homes Plan and, in particular, solar photovoltaic and heat pump installations will drive growth. Heightened household concern over energy prices and energy security may also spur incentives for home improvements such as solar photovoltaic systems and heat pumps, especially as these are available through government-funded schemes. But next year, activity will also be affected by low household income and confidence, as well as the end of ECO4 without a replacement. In the medium term, the key to the sector's recovery will be when households have the finance and confidence to refurbish their homes, but there is little to suggest this will be in the next 12-18 months.

#### **Upper Scenario:**

- The unemployment rate remains below 6.0% in 2027
- Inflation spikes above 4.0% briefly in 2026 H2 but then slows quickly afterwards
- Only one interest rate rise of 0.25 percentage points in 2026
- Warm Homes Plan implemented quickly

With a relatively strong labour market and inflation rising only briefly, homeowners remain broadly unaffected by a brief period of price rises. Furthermore, if the government can implement its Warm Homes Plan quickly, some areas of energy-efficiency would also benefit greatly, substantially boosting sector output.

#### **Lower Scenario:**

- Inflation spikes for a sustained period above 4.0% in 2026 H2
- Interest rates rise three times in 2026
- Unemployment rises above 6.0%

If inflation were to remain at its peak after the energy-cost-induced spike, and interest rates rose three times in 2026, combined with rising unemployment, all but the most essential maintenance could be paused or cancelled. Job insecurity and rising homeowner costs would continue to hit consumer confidence and spending power.

# Public Housing

With a significant proportion of housing association development directly linked to the general housing market, the appetite for starting these units is expected to be hindered by weaker demand. In addition, although the £39 billion, ten-year Social and Affordable Homes Programme and a ten-year rent settlement both began in April, it will take some time for schemes to move through the planning, design and procurement phases. Competing financial priorities, viability constraints and delays related to approvals for high-rise developments at the Building Safety Regulator (BSR) will also continue to limit the extent to which activity can accelerate in the near-term.

Long-term certainty for public housing provided by the £39 billion ten-year Social and Affordable Homes Programme (SAHP) and a ten-year rent settlement that began in April will be offset in the near-term by a deterioration in the housing market, a continued focus on repair, maintenance and improvement (rm&i) spending, and delays related to cost rises, planning and the BSR Gateways. Over one-third (36.6%) of affordable home completions under the previous Affordable Homes Programme were for shared ownership, which directly links demand to mortgage rates and availability and willingness and ability of homebuyers to commit to a deposit and monthly mortgage repayments. The current SAHP will target 60% of completions to be for social rent, which still leaves a considerable proportion of development reliant on other tenures at a time when mortgage interest rates are rising and confidence is weak. Moreover, this combines with existing financial pressures as housing associations and local authorities are dealing with a growing list of rm&i issues, including cladding remediation, legacy fire safety measures, decarbonisation and energy-efficiency improvements, as well as a greater focus on basic repairs and maintenance (see [Public Housing RM&I](#)). In addition, high-rise developments have been delayed in previous years by considerations around second staircases and, more recently, in the BSR Gateways approvals process. Elevated uncertainty means there are likely to be delays to schemes being planned now, especially as viability may worsen if there is a lengthy period of inflation and passthrough from high oil and energy prices.

## Public Housing Starts and Completions Great Britain

	2024	2025	2026	2027	2028
	Actual	Actual	Estimate	Forecast	Projection
Starts	36,275	34,988	34,988	36,737	38,942
	-13.6%	-3.5%	0.0%	5.0%	6.0%
Completions	44,138	42,416	40,295	41,101	43,156
	-2.5%	-3.9%	-5.0%	2.0%	5.0%
Output (£m)	9,929	9,273	8,902	9,080	9,625
	-13.9%	-6.6%	-4.0%	2.0%	6.0%
RM&I Output (£m)	9,973	9,990	10,190	10,394	10,601
	15.8%	0.2%	2.0%	2.0%	2.0%

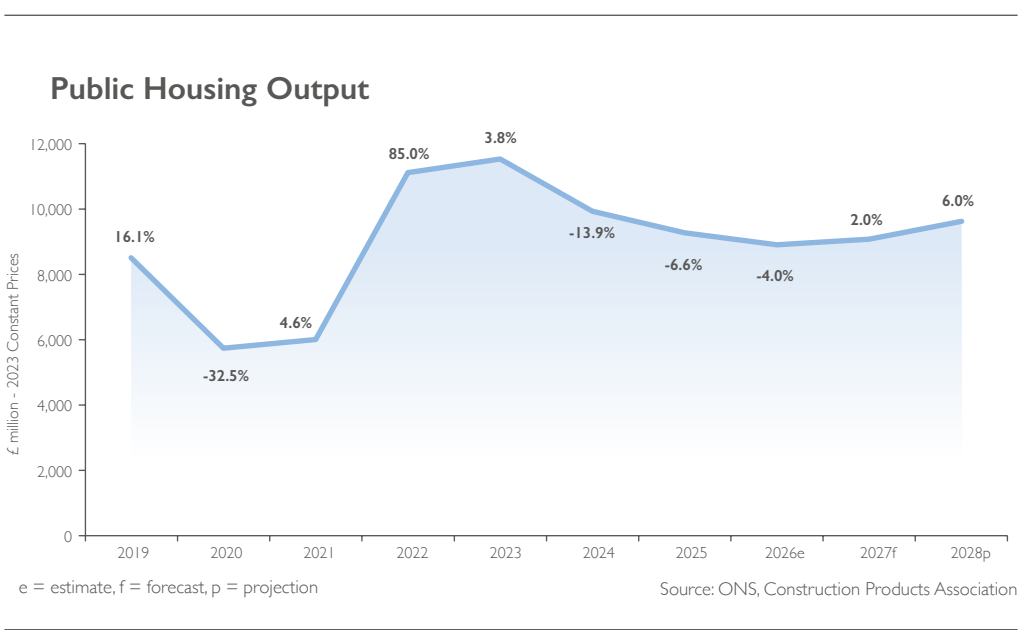
Source: MHCLG, ONS, Construction Products Association

**Note: There are known errors in the ONS data for public housing from 2022, which affect historic levels of output and historic growth rates**

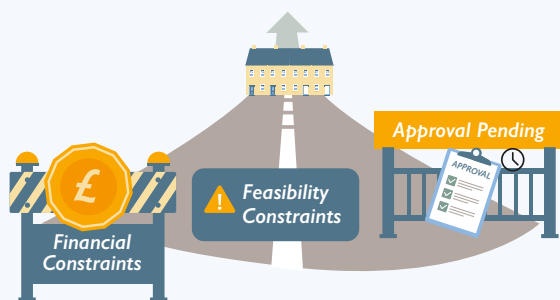
Directly publicly-funded housing activity occurs through the Social and Affordable Homes Programme, which runs from April 2026 through to 2035/36 and has confirmed funding of £39 billion. This includes £11.7 billion for GLA delivery in London and bidding opened in February. The annual allocation reaches £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. Under the SAHP, grant funding per unit is variable, determined on a case-by-case basis and it allows for flexibility over grant rates for more expensive areas or properties. For example, in January, Clarion secured additional grant funding to switch the proportion of social rent units in one of its planned developments in South London to 100% from 35% previously. Conversely, a higher grant per unit may mean that, as less cross-subsidy from open-market sales is required to fund affordable operations, overall building levels by the social sector do not materially increase.

Alongside the SAHP, the 2025 Spending Review announced that £2.5 billion in low-interest loans will be available for social housing providers between 2026 and 2030 and in March, this was reannounced by the new National Housing Bank as part of a £16.0 billion fund across all types of housing. £1.5 billion of the pot has been allocated to social housing providers in London, and £1.0 billion is for social housing elsewhere in England, with lending subject to an interest rate of 0.1%.

The government has also increased its focus on social rent, not only in the SAHP, which targets 60% of completions (180,000) to be social rent, but also 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 development 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 under the previous AHP, from 21.5% in 2017/18 to 64.8% in 2024/25. For AHP starts in the rest of England, social rent accounted for only 12.2% of affordable starts in 2023/24 and 18.9% in 2024/25, although this is higher than the 4.8% proportion under the previous SOAHP that prioritised other tenures. In the affordable housing statistics, it is notable that the tenure of the majority of units was not determined when the starts were registered, which suggests a considerable element of uncertainty over the future strength of the housing market and the extent to which grant funding can supplement housing associations' resources as surpluses fall and remediation work on the existing stock becomes a priority. In 2024/25, the tenure of 63.0%



**Competing financial priorities, viability constraints and delays related to approvals at the Building Safety Regulator (BSR) will limit the extent to which activity can accelerate in the near-term**



of starts was undecided, similar to the proportions in the previous two years, but this rose to 77.9% in the first half of 2025/26.

Starts in London have been particularly affected by macroeconomic developments, viability and delays to high-rise residential development. The GLA recorded only 2,358 affordable starts in total in 2023/24, which was a 91.9% decline from the previous year. There was no notable increase in 2024/25, when 3,991 starts were recorded, or in the first nine months of 2025/26 (2,814 starts). The GLA cited pauses in 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 have also been 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 and the government has confirmed that this agreement will continue for ten years from April 2026. However, it is still unknown whether it will be applied consistently, after high inflation limited the permitted rent increase in 2023/24. The Local Government Association has suggested that even with a ten-year rent settlement, it does not envisage an increase in local authority house building.

Ratings agencies have highlighted that the rising cost of borrowing means additional debt funding is unlikely to plug any shortfall in development budgets, but this is particularly pertinent for financially-constrained local authorities. In March 2025, London Councils, which represents London's 32 borough councils and the City of London, calculated a £700 million shortfall in boroughs' housing revenue accounts from 2023/24 to 2027/28. Councils began pausing or cancelling building schemes in 2023, citing stretched budgets, rising costs and viability challenges as building regulations have been updated.

The Regulator of Social Housing (RSH) survey for Q4 showed that £13.0 billion was spent on development and acquisitions in the 12 months to December 2025, which compares to £13.7 billion in the year to December 2024 and £14.6 billion in the year to December 2023. £15.0 billion was forecast to be spent over the next 12 months, below the three-year average forecast of £15.6 billion. Cutbacks in development programmes were most prevalent among large housing associations, with SAHP funding not yet factored in until business plans are reviewed. Furthermore, the Q4 survey reported that sales of both affordable home ownership units and open-market units remained below the three-year average. Affordable home ownership completions fell 11.2% in 2025, whilst open market completions fell 30.9%, which follows a 27.2% fall in 2024.

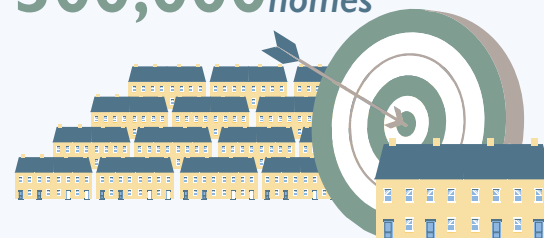
The previous government announced a £3.0 billion expansion to the Affordable Homes Guarantee Scheme in February 2024, which provides government-backed loans to social housing providers. It is intended to bring forward the delivery of 20,000 new homes, although the initial £3.0 billion scheme launched in 2020 has so far delivered only 6,290 homes across 12 providers. In addition, funding from the second tranche of the guarantees can now also be used to upgrade existing properties, which may reduce the number of new build properties delivered, given the growing list of RM&I priorities.

In Scotland, the Scottish Budget allocated £768 million to the Affordable Housing Supply Programme (AHSP) for 2025/26, after it was cut by 26.0% to £556 million in 2024/25. The funding for 2025/26 is below the £831.6 million figure allocated in 2022/23, however. Following the cut to grant funding in 2024/25, starts under the AHSP were the lowest since 2013 and completions fell 16.0%. Starts in the first half of 2025/26 fell 12.4%, whilst completions during the period were the lowest since building was paused during the pandemic. In September, the Scottish Government announced £4.9 billion to deliver 36,000 affordable homes between 2026/27 and 2029/30. The current AHSP has delivered 15,935 completions since April 2021.

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

The forecast for public housing output has been downgraded, in light of the deterioration in macroeconomic and housing market conditions, at a time when open-market demand for housing association properties is already at a record low. Throughout the forecast period, it is assumed that housing associations will continue to prioritise finance for 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. The forecasts for starts, completions and output have all been revised down to account for weaker activity on market-linked tenures and uncertainty over cost inflation lengthening viability assessments and planning for new developments under the SAHP. The recovery remains dependent on when schemes currently held up in pre-construction gateways with the Building Safety Regulator progress through to starts and when schemes start entering the pipeline under the SAHP. The government's funding allocation for the next ten years adds certainty to the longer-term outlook, but it is likely to take some time for schemes to be planned and started and the risk is that they now take longer to come through.

The **Social and Affordable Homes Programme** began in April and aims to **deliver 300,000 homes**



The ONS has indicated that there is an error in the data for public housing construction output from January 2022. In 2022, the published data show an annual growth rate of 85.0%, with over £5.0 billion added to output in that year. The error is significant enough to increase output growth for total construction by 0.5 percentage points in January 2022 and the ONS is not able to rectify the issue until October (see [Overview – Recent Data](#)). As a result, the artificially high output level should be treated as a structural break and the CPA continues to forecast activity down on the ground to help inform firms regarding what is likely to be upcoming, rather than trying to match the ONS historical data.

**Upper Scenario:**

- Allocated funding means starts on the new SAHP increase

The largest upside risk for the sector arises if allocations for bids under the SAHP come through quickly, particularly given the focus on social rent, which does not depend on wider housing market conditions. Delays related to planning, cost rises and BSR approval are still likely, however.

**Lower Scenario:**

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

If interest rates are increased more than twice during 2026, this would further reduce demand for market-linked products already under construction on the 2021-2026 AHP and for those entering planning phases on the SAHP. An increasing number of local authorities signalling financial difficulties that may require significant cuts in capital spending is also a key risk in the lower scenario.

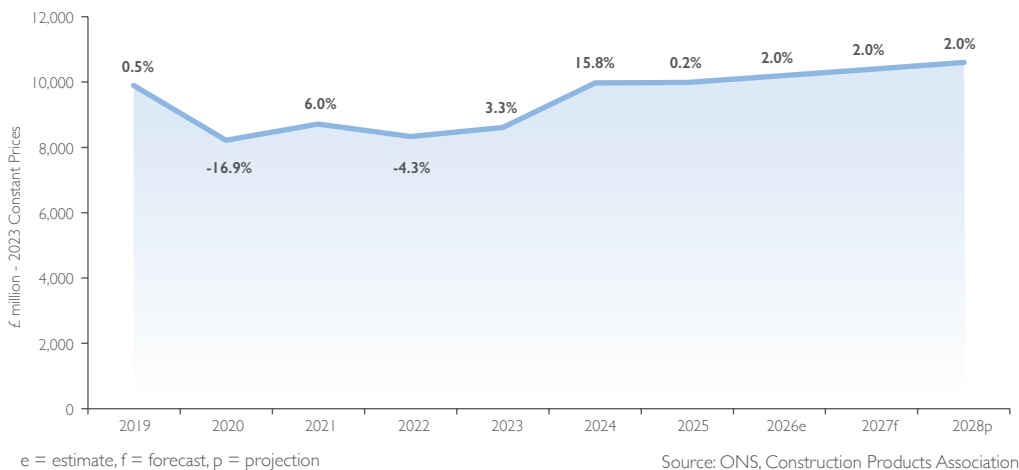


# Public Housing RM&I

With the implementation of Awaab's law in October, repairs, maintenance and improvement (rm&i) of the social housing stock are of even greater focus for housing associations and local authorities. The subsequent increase in general and reactive repairs work adds to a pipeline that had already expanded to cover fire safety remediation and work funded through government decarbonisation programmes. However, overall grant funding has not increased markedly and cost inflation is now a significant risk, which means that growth rates are expected to remain constrained, even with resources diverted from new build programmes.

In recent years, public housing rm&i has been pushed further up the priority list for housing associations and local authorities who own or manage the 5.0 million public dwelling stock in Great Britain. New legal obligations that impose shorter timescales to make repairs came into force in October and, coupled with rising demand and awareness among tenants, have increased the focus on the general condition of housing, which adds to the pipeline of work already bolstered by fire safety issues and cladding remediation, decarbonisation and energy-efficiency improvements. Judgements from the Regulator for Social Housing (RSH) and monthly maladministration reports by the Housing Ombudsman have also increased providers' awareness of the requirements for housing associations and local authorities to keep up-to-date data on the condition of dwellings under their management. A wave of condition surveys to comply with would be expected to increase the pipeline of repair work further. However, although the rm&i pipeline has increased, there has been little additional funding from central government, resulting in a reliance on commercial lending and capital market funding. As a result, despite building safety works being a priority, they are more likely to be phased over several years. Even with new funding confirmed for the next Social and Affordable Homes Programme (see [Public Housing](#)), social housing providers indicate that rm&i is generally being prioritised over new development. Sector activity is forecast to grow in each year of the forecast period as work accelerates on government-funded programmes, particularly as activity starts to ramp

## Public Housing RM&I Output



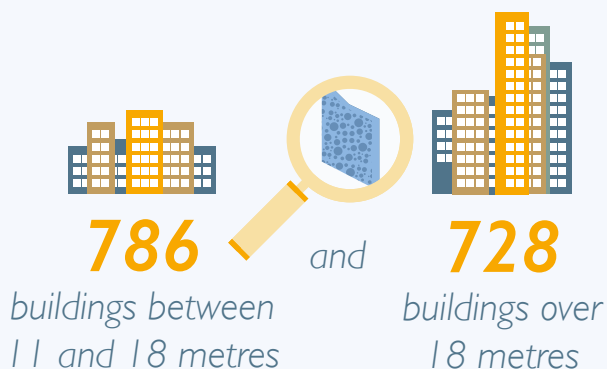


up on the largest tranche of the Warm Homes: Social Housing Fund (previously the Social Housing Decarbonisation Fund), which saw £1.29 billion allocated in November 2024 for delivery between 2025/26 and 2027/28. The Spending Review in June also confirmed that social housing providers are now able to 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.

Cladding remediation work initially focused on 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 162 social housing buildings identified within this scope, according to the Ministry of Housing, Communities and Local Government (MHCLG). The remit for remediation has broadened to other types of flammable cladding and covers mid-rise buildings above 11 metres. At the end of February 2026, social housing providers had identified a total of 1,514 buildings higher than 11 metres with unsafe cladding and registered in government cladding remediation programmes or self-funded remediation. This was split as 786 buildings between 11 metres and 18 metres, and 728 buildings over 18 metres. Remediation is recorded as complete on 633 of these, with work underway on 168 buildings, and a plan in place for 640 buildings. A remediation plan has not been determined for 73 buildings. In December 2024, the government launched its Remediation Acceleration Plan, which aims to have remediation completed for all buildings above 18 metres by the end of 2029 and for buildings between 11 metres and 18 metres to either be completed or have a date for completion by this point. This is despite a National Audit Office report published in the previous month, which concluded that work was unlikely to be completed by 2035, alongside MHCLG's estimate for the total cost of cladding remediation across all tenures was £16.6 billion, with a range of between £12.6 billion and £22.4 billion. The Spending Review in June 2025 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.

Remediation of high-rise residential buildings that includes fire safety adjustments or external wall changes requires approval from the Building Safety Regulator (BSR) and there are now more than double the number of remediation projects awaiting approval than new build projects as the BSR's focus has been on streamlining the process for new build applications. At the end of February, there were 279 remediation cases lodged, with a median waiting time of 31 weeks to approval. Remediation backlogs at the BSR have been cited by housing associations

There are **1,514**  
**social housing buildings**  
over 11 metres with unsafe cladding:



as one of the reasons for underspends on capitalised r&m in recent quarters. In April, the BSR established a new dedicated taskforce for remediation applications, with an aim of reducing average decision times below 12 weeks by December 2026.

The BSR is also assessing high-rise residential buildings constructed using large panel systems (LPS), focusing on those built before 1970 and with a piped gas supply, which are deemed the highest risk after the Ronan Point explosion and collapse in 1968. In January 2025, the BSR had identified 740 residential buildings of LPS construction, of which 350 had a piped gas supply. Of these, 202 were identified as being constructed before 1970 and with no evidence of remediation or strengthening work. Structural surveys were required to be submitted to the BSR by the end of March, which may add another stream

of remediation work to the pipeline. Recent decisions by social housing providers with LPS residential buildings in their ownership highlight that demolition and rebuild are more likely, however. In June, Brighton and Hove City Council recommended the demolition and rebuild of eight LPS buildings, whilst in August, a housing association in Sunderland confirmed three of its LPS towers would also be demolished.

The Scottish Government estimates that there are 250 private and social residential blocks above 18 metres that are likely to require remediation of external wall systems, as well as 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. At the end of January, the Scottish Government determined that 920 expressions of interest to the Cladding Remediation Programme had been identified as likely to be eligible for funding and 821 had been identified as ineligible. Progress has been slow, however, with only 16 buildings assessed and £16.5 million spent since 2021/22, and the Local Government, Housing and Planning Committee has highlighted the risk of a significant underspend going forward. The new Housing Cladding Remediation Bill legislates for a Building Safety Levy on new development, similar to the one set for introduction in England in Autumn 2026. The Bill also allows the Scottish government to directly commission remediation work on buildings where owners have not progressed plans. Outside of cladding remediation in Scotland, Aberdeen City Council approved the demolition and subsequent rebuild of 366 council homes with reinforced autoclaved aerated concrete (RAAC) roof panels in August, which was deemed a quicker and more cost-effective solution than repairing them.

In Wales, 193 social housing buildings will be remediated under the Welsh Building Safety Programme, out of the total 470 buildings in the programme. Work had been completed on 84 social housing buildings at the end of February. 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.

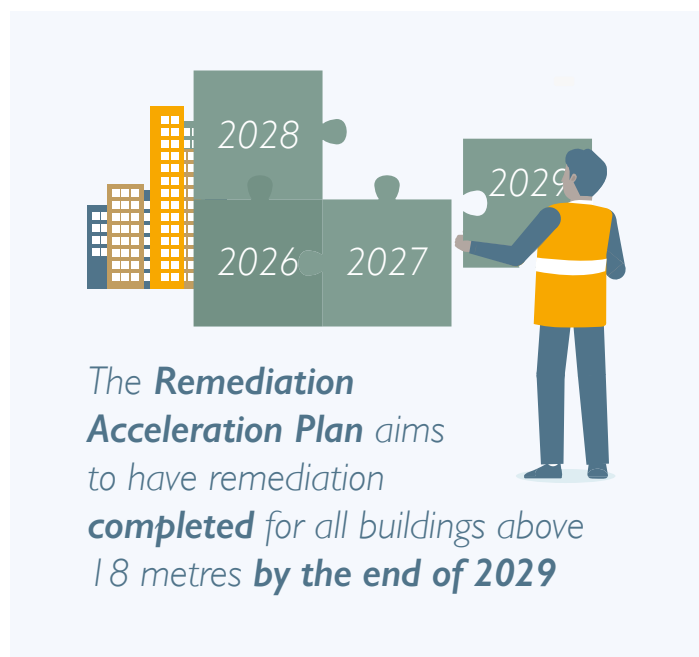
Increased scrutiny of the fire safety of residential buildings has also broadened to questions over the general quality of housing built and maintained by social landlords. High-profile cases and the newly-implemented Social Housing (Regulation) Act, which included the introduction of Awaab's Law in England in October 2025, 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. Since 27 October, social housing landlords in England must investigate significant hazards, such as damp and mould, within 10 working days. Landlords will also have to address emergency repairs within 24 hours. From October 2026, in addition to damp and mould, the law will also apply to hazards such as excess cold and excess heat, fall risks, structural collapses, fire, electrical issues and explosions, as well as hygiene hazards. The Scottish government also introduced Awaab's Law into Scottish housing legislation in March 2026. Given that this is becoming as high-profile an issue as fire safety, and fines have already been levied by the Housing Ombudsman for delays in rectifying damp and mould issues, there is clearly a push for housing associations and local authorities to divert more spending to basic r&m as well.

However, this is against a backdrop of constrained finances. In March 2025, a survey by the Local Government Association found that 57% of councils planned to cut spending on repairs and maintenance (r&m), whilst a report from London Councils in May found that borough councils in the capital are unable to maintain spending through their Housing Revenue Accounts in real terms and will need to reduce spending on the housing stock over the next three years to avoid bankruptcy. Nevertheless, last year, Westminster Council began early procurement for its next r&m programme, valued at £500 million over five years from 2027, Birmingham City Council signed up the contractors for its £3.0 billion, ten-year r&m framework in January and Haringey Council awarded contracts for its £570 million estate renovation plan in February. 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 that they may need to address quality issues or retrofit.

The RSH quarterly surveys, which are based on responses from private registered providers of social housing that own or manage more than 1,000 homes, indicate that spending on both revenue repairs, which tend to be responsive repairs, and larger capitalised repairs remain at record levels. In the 12 months to December 2025, total r&m expenditure was £9.4 billion, split between £5.4 billion of revenue repairs and £4.0 billion of capital works. Expenditure of £10.6 billion is forecast for the next 12 months, with the 12-month forecast having risen in each quarter since data started being collected in June 2022. However, there has frequently been an underspend, especially for capitalised repairs, with providers citing procurement delays, stock condition surveys and BSR backlogs.

Funding allocations and work on government energy-efficiency schemes are now coming through on the social housing stock. At the end of 2024, £1.29 billion was allocated to the Warm Homes: Social Housing Fund (WH:SHF), 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. The Warm Homes: Local Grant aims to fund insulation measures for 60,000 low-income households and 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 full Warm Homes Plan between 2025/26 and 2029/30 and a further £1.5 billion was allocated in the Autumn Budget 2025. 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. However, without further detail, including the split between private and social sector homes, it is difficult to assess. Nevertheless, the forecast assumes it will take time for activity to ramp up. The consultation on the Decent Homes Standard proposes that it will be a regulatory requirement in social housing from either 2035 or 2037, well beyond the forecast horizon.

Work on the earlier waves of the SHDF has been dominated by insulation improvements, which accounted for 53% of measures installed in total over the three phases. Loft insulation accounted for 45% of insulation installations. Doors and windows, such as double/triple-glazing or energy-efficient doors, were the next most common measure installed (18%), followed by solar PV measures (15%). In contrast, solar PV accounts for 45% of installations under the WH:SHF to date, followed by insulation (32%) and low-carbon heating (21%). In April, the government allocated an additional £100 million to the WH:SHF, which aims to support the delivery of up to 57,000 extra solar PV installations for social housing properties in the current financial year.

In the Autumn Budget, the government confirmed that the current iteration of the Energy Company Obligation, ECO4, would end in March but this has subsequently been extended to December. For social housing, work has been limited as eligibility is restricted to homes in EPC bands 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. Between April 2022 and December 2025, there were 981,217 measures installed in total under ECO4, of which 87,007 were for solid wall insulation measures across privately and publicly-owned properties, which is, therefore, on target. Given the earlier closure date previously announced, some providers have already paused applications to ECO4, so measures installed under the scheme may start decreasing well before its December end date.

A £3.0 billion expansion of the Affordable Homes Guarantee scheme, which provides government-backed loans to social housing providers, was announced in February 2024, allowing funding to be used for improvements to the existing stock as well as new build. In October, 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.

Minimum Energy Efficiency Standards (MEES) in the government's consultation for a new Decent Homes Standard for England confirm that social housing properties will be required to have a minimum EPC rating of C by 2030 in order to be rented out. The English Housing Survey for 2024/25 shows that 24.4% of housing association properties and 28.6% of local authority properties have an EPC rating below C, totalling 1.1 million homes. Despite a growing demand and awareness of faults, hazards, energy efficiency improvements and decarbonisation, a key issue for social housing providers in the longer-term is that it may not be financially viable to undertake energy-efficient retrofit or fire safety remediation. According to the English Housing Survey, 16.2% of the local authority housing stock and 14.2% of housing association properties were built before 1945. 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 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. A housing association in Bristol will demolish one of its low-rise housing blocks (below 11 metres) as it cannot cover the remediation costs for cladding and fire safety, and, as a low-rise building, is not included in government remediation funding programmes. Similarly, a 1960s tower in Camberwell, South London, will also be demolished after the council estimated the cost of remediation at £23 million. 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. Housing associations Southern Homes and Orbit have also begun tendering for r&m frameworks of £1.7 billion and £264 million respectively.

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

In Scotland, the Energy Efficiency Standard for Social Housing 2 (EESH2) has set a deadline of December 2032 for all social housing to reach an EPC rating of B, which looks challenging given that 92% of Scotland's social housing stock is currently below this. Targets for energy-efficiency in both Scotland and Wales are considerably higher than in England, where an EPC rating of C will be required. The Scottish Government's Budget for 2025/26 allocated a total of £349 million for energy efficiency upgrades to homes and businesses.

Despite a broad stream of work that is taking priority, growth in public housing r&m output is expected to remain restricted across the forecast period by financial constraints for the key areas of demand of cladding remediation, energy-efficiency retrofit and general repairs. The forecast assumes that these categories of work will continue to redirect finance and resource away from new build projects and r&m work that can be postponed, particularly as new legislation and mandatory response timescales are implemented. As a result, public housing r&m is forecast to rise by 2.0% in each year of the forecast period.

#### **Upper Scenario:**

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

Housing associations have already redirected spending away from new development towards investment in the existing stock. In the upper scenario, a deterioration in demand for tenures linked to the subdued 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 were implemented in October.

#### **Lower Scenario:**

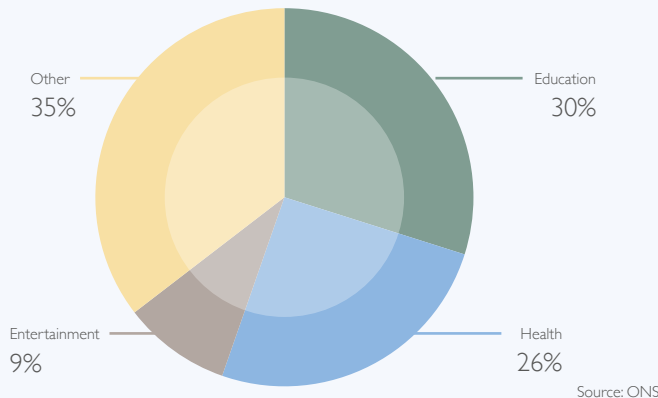
- Labour and capacity constraints continue to hinder cladding remediation and decarbonisation
- Cost increases reduce volumes of work undertaken
- More local authorities struggle with budgetary constraints

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 and inflation is expected to accelerate this year, 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 set to increase over the forecast period, and activity on new schools and prisons building programmes is gaining momentum. Health and defence programmes are taking longer to mobilise, and the outlook remains positive but dependent on the extent of cost inflation over the next 12 months.

**Public Non-housing Output by Sub-sector 2025 (%)**



Public non-housing output is forecast to increase throughout the forecast period as momentum builds in capital investment programmes in health, education, justice and defence. Output is forecast to rise by 3.3% in 2026, 3.7% in 2027 and 5.2% in 2028.

Downside risks to this projection, however, have strengthened since the Winter forecast due to the anticipated inflationary impact of the Middle East conflict. Progressing public sector development programmes amid rapid cost inflation is challenging. In strong inflationary environments, project procurement often fails when

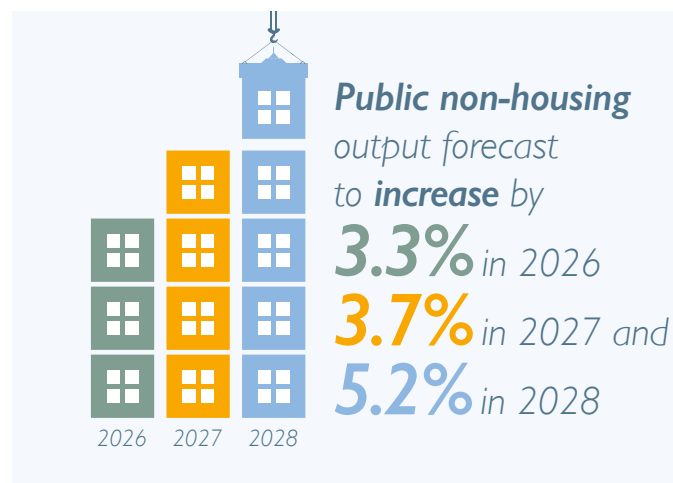
tender prices and estimated budgets vary widely. When available contingency is insufficient to bridge the gap, attempts to reduce costs through design value engineering can cause significant delays, especially when the design is highly standardised. This can quickly derail public sector capital programmes and result in available budgets not being spent. The anticipated scale of the inflationary spike from the Middle East conflict poses a downside risk to near-term delivery in this sector.

[Autumn Budget 2025](#) set a total capital expenditure limit of £130.9 billion across government departments in 2025/26, increasing to £139.1 billion in 2026/27 and £143.8 billion in 2027/28. The Department for Education (DfE) stands to see the biggest increase in capital investment between 2025/26 and 2026/27 as delivery of the School Rebuilding Programme (SRP) picks up pace, supported by a 22.1% increase in capital funding. Capital budgets for the Ministry of Justice (MOJ) and Ministry of Defence (MOD) also stand to record double-digit growth in 2026/27, with capital allocations rising by 15.0% and 12.1% respectively. After a step-change from £11.5 billion in 2024/25 to £13.6 billion in 2025/26, the Department for Health and Social Care's capital budget is due to rise by a further 2.9% in 2026/27.

The government's current budget deficit, which is borrowed to fund day-to-day public sector activities, reduced by 21.1% in the financial year to February 2026, but overall borrowing remains at a historically high level, limiting the scope for fiscal support should economic conditions deteriorate. At the end of February 2026, public sector net debt, excluding public sector banks, was estimated at 93.1% of GDP and public sector net financial liabilities excluding public sector

banks, factoring in a wider range of financial assets and liabilities other than debt, was estimated at 82.5% of GDP.

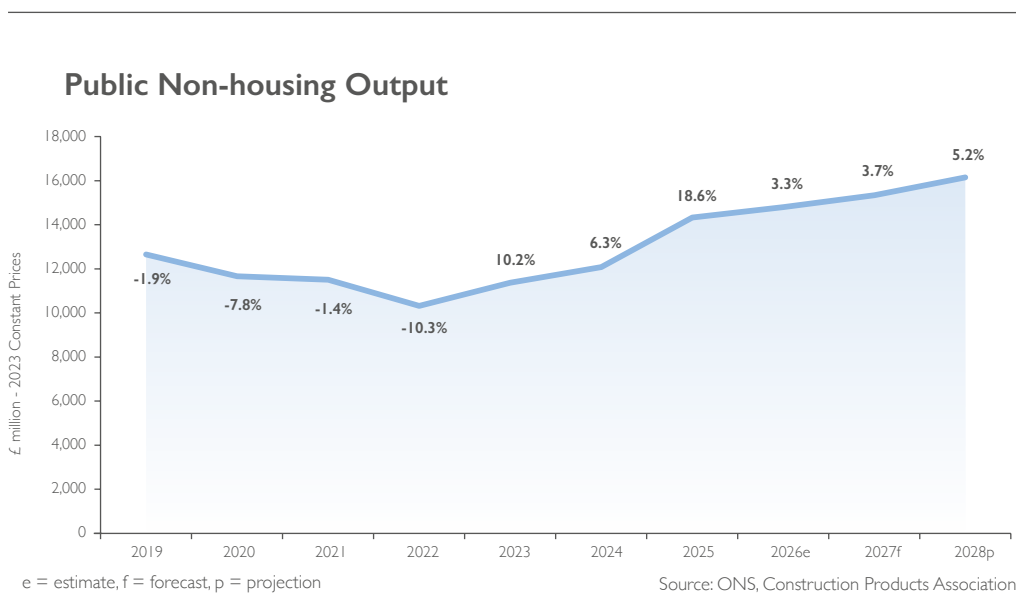
The central government published the final Local Government Finance Settlement for councils in England between 2026/27 and 2028/29 in early February. This settlement distributes £83.5 billion to local authorities in 2026/27, rising steadily to £90.5 billion in 2028/29, mostly in the form of un-ringfenced funding and council tax revenue. Over this period, local authorities' core spending power is due to rise by 6.1% this year to £78.0 billion, by 4.3% to £81.4 billion in 2027/28 and by 4.4% to £84.9 billion in 2028/29.



Increased central government funding for local authorities is proving insufficient to keep pace with cost pressures. In February, MHCLG confirmed that exceptional financial support, totalling around £1.5 billion, would be made available to 36 local authorities across England in 2026/27. A recent Local Government Association survey found that almost six in ten councils expect it will be difficult to set a balanced budget in 2026/27.

Scotland's Budget for 2026/27 suggests capital funding during the year will rise by 1.3% before allowing for inflation to £7.3 billion. Within this, the Health and Social Care and Education and Skills capital budgets are set to decline by 4.6% and 3.9%, respectively, on a nominal basis. Capital funding for Justice and Home Affairs is, in contrast, budgeted to increase by 27.4% to support the construction of new prisons in Glasgow and the Highlands.

Over the medium-term, Scottish Spending Review 2026 sets out the Scottish Government's investment plans through to 2029/30. Capital funding is expected to stabilise at close to £7.3 billion over the forecast period, reflecting a real-terms reduction. The Scottish Government's infrastructure delivery pipeline through to 2029/30, published alongside the Spending Review,



committed to ongoing support for capital projects currently in progress, but support for new capital projects was scarce. Between 2026/27 and 2028/29, capital funding for Health and Social Care is expected to rise by 6.2%, with the budget for Education and Skills increasing by 2.6%. Additional funding to support the development of the Art Works at Granton, a new cultural building in Edinburgh, will raise the capital budget for Constitution, External Affairs and Culture by 10.2% over the forecast period.

The Welsh Government's Final Budget Report 2026/27, published in January, sets a total capital allocation of £3.5 billion across all departments, excluding financial transactions, a 2.8% nominal increase compared with 2025/26. Education's capital allocation will rise by 7.3% this financial year, suggesting an increase in volumes, but a modest 1.0% uplift in the capital budget for Health and Social Care equates to a decline in real terms.

Construction activity in the publicly-funded **education** sub-sector is gaining momentum after years of decline. Procurement for the School Rebuilding Programme (SRP) has accelerated, but the target of delivering 100 new schools per year remains aspirational, and the transparency of the medium-term delivery plan remains limited. Outside the SRP, capital budgets will remain constrained, and removing RAAC from schools and colleges not part of the SRP will continue to divert condition-improvement funds from basic repairs and maintenance. Output is forecast to increase by 5.0% this year and by a further 3.0% in both 2027 and 2028.

The Department for Education's (DfE) capital budget is set to rise to £8.3 billion in 2026/27 from £6.8 billion in 2025/26, a 22% increase. This is a significant uplift from £5.6 billion in 2024/25 and will support the delivery of the SRP. Beyond 2026/27, capital funding is due to settle at £7.7 billion through to the end of 2029/30. Overall allocations comprise around £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 to meet future demographic needs. Also included within capital investment plans are approximately £560 million to reform the children's social care system and support the refurbishment and expansion of children's homes and foster care placements, and around £370 million for school-based nurseries.

The government published its ten-year strategy for the education estate in February 2026, formalising its plan for estate management, maintenance, renewal and expansion. The strategy mainly consists of ongoing programmes and work, as well as previously announced funding commitments. These include the SRP, the plan to incorporate special educational needs and disability (SEND) support within mainstream schooling and a longer-term commitment to school maintenance funding to support the transition from a reactive approach to a proactive estate management strategy underpinned by a long-term, condition-based maintenance and renewal programme. Pilots of this new Renewal and Retrofit Programme are underway in the East Midlands, Yorkshire and the Humber and the South East and the programme should be nationwide by 2029. Through to 2029/30, £710 million of funding is due to be available through this scheme for schools and colleges to tackle significant condition projects, including strengthening climate change resilience and estate decarbonisation. The outcome of the DfE's Condition Data Collection Programme 2 (CDC2) will provide greater clarity on the true scale of the estate management backlog when results are available later this year.

In December 2025, the government cancelled 28 planned free schools and placed a further 16 under review as capital investment priorities shifted. Funding will, instead, be redirected towards creating 50,000 SEND places across mainstream schools. Local authorities will receive redirected funding to retrofit and reconfigure existing schools, adding sensory rooms, breakout zones and specialist support areas.

Funding for the SRP to rebuild or refurbish schools and sixth form colleges across England is set to rise to approximately £2.4 billion per year over the forecast period, up from £1.4 billion in 2025/26. Since the SRP was announced in 2021, progress has been slow due to a severe funding

shortfall. Currently, 519 schools and colleges are in the SRP, and the application window for the next intake has recently opened.

Funding is increasing, and procurement activity has picked up, but details of the SRP delivery plan for the forecast period remain unclear. Schools have been prioritised by condition, and expected delivery timeframes have been communicated to responsible bodies. The DfE plans to communicate start dates to schools at least a month before the project begins, at which point the scope of the works will be discussed with the school and the responsible body. The DfE estimates that a typical SRP project will take between two and five years to deliver.

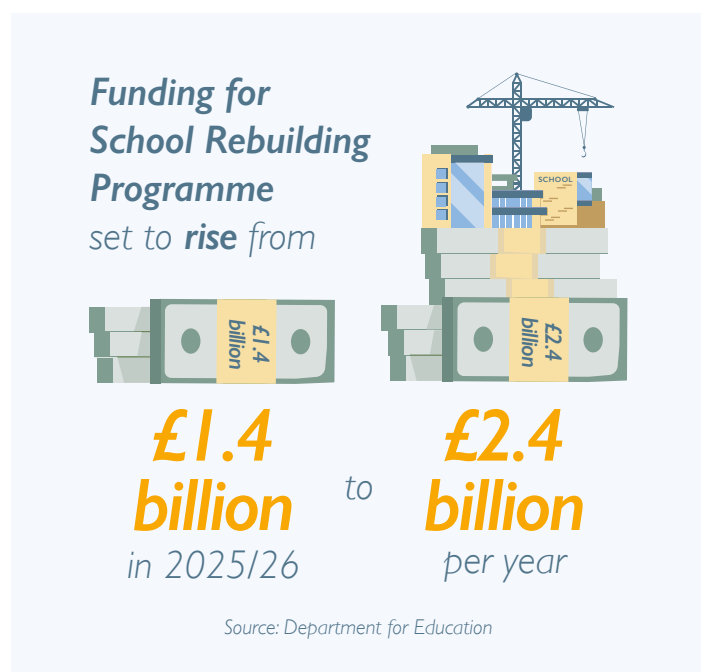
SRP contract awards continued at pace in early 2026 – for both primary and secondary schools – building on momentum in the second half of last year. Larger contracts awarded in the first quarter for replacement schools included: the £64.1 million redevelopment of Polam Hall School in Darlington; the £56.2 million redevelopment of Rivers Academy in West London; the £71.8 million redevelopment of Wales High School in Rotherham; a new £61.1 million school in the Wirral on the Mosslands School site; the £59.2 million replacement of Springfield School in Portsmouth; the £54.9 million redevelopment of The Bromfords School in Essex; the £40.4 million redevelopment of Outwood Academy Kirkby; and the £37.1 million reconstruction of The Castle Rock School in Coalville. All these schemes are due to complete between 2028 and 2031.

Places on the DfE's new Construction Framework 2025 (CF25), with an estimated value of £15.4 billion, were awarded in December. The Framework will deliver construction projects across the schools estate, from primary schools to further education buildings, and replaces Construction Framework 2021, which expired in November. CF25 is divided into lots – a national lot for projects valued over £12 million and regional lots to deliver projects with a construction cost of between £4.4 million and £12 million across England.

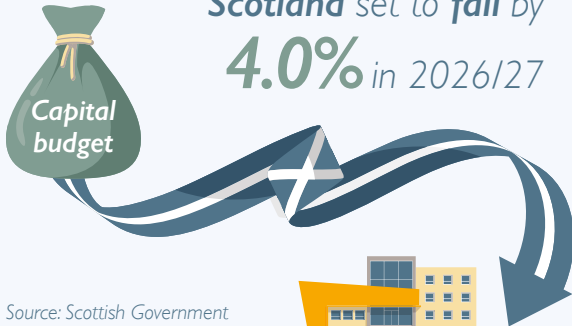
In October 2025, the DfE confirmed that RAAC has now been removed from 62 schools, up from 52 at the time of the September update. RAAC has been identified in 237 schools and colleges across England, and 123 of the most severely affected are being rebuilt through the SRP. The Government has pledged to remove RAAC from schools not included in the SRP by the end of the current parliamentary term, and it has committed to having all RAAC-affected schools within the SRP at least under construction within the same time frame.

The government recently confirmed the condition allocation for colleges in England in 2026/27 at £307 million, a £5.0 million increase compared with 2025/26. Allocations will range from £6,000 for smaller institutions to £7.0 million for large college groups, and colleges have autonomy to direct this funding to where it is most needed. Over the forecast period, the further education college condition allocation is due to increase to £313 million in 2027/28 and £319 million in 2028/29. From 2027/28, the DfE plans to adopt a condition-based weighting to individual allocations informed by data on estate condition from CDC2.

In August 2025, the government announced the locations of the ten new Technical Excellence Colleges (TEC) specialising in construction in England. Central government funding of £100 million has been allocated to establishing these colleges via Wave 1 of the TEC programme, £80 million of which is funding for capital works. Capital funding will support the procurement



**Capital budget for  
Education & Skills in  
Scotland set to fall by  
4.0% in 2026/27**



Source: Scottish Government

and installation of specialist equipment and the reconfiguration, refurbishment, and upgrading of existing facilities. Wave 2 of the TEC programme will support the establishment of a further 19 facilities dedicated to defence, digital technology, clean energy industries and advanced manufacturing. £175 million has been committed to expanding the TEC programme over a four-year period, £137 million of which is capital funding, and the programme will be delivered jointly by the DfE, Ministry of Defence, and the Department for Business and Trade.

[Scottish Spending Review 2026](#) allocated capital funding totalling £465.2 million to Education and Skills in 2026/27, rising to £477.9 million in 2027/28 and stabilising at £477.4 million in 2028/29. Throughout this period, capital funding will remain below the £484.5 million allocated to the sub-sector in 2025/26.

The Learning Estate Investment Programme (LEIP), Scotland's long-running £2 billion capital investment programme to deliver 47 new schools across Scotland, is due to end in 2027/28. However, in September 2025 only 14 LEIP schools had been completed, with 16 under construction and 17 still at a design stage, suggesting completion by March 2028 may be challenging to achieve.

The [Welsh Budget for 2026/27](#) allocated £402 million in capital funding to education, a 7.3% increase on £375 million in 2025/26. This includes the central government's capital funding contribution to the Sustainable Communities for Learning Programme, which is jointly funded by local authorities. Private sector finance is also being used to deliver new schools and colleges through this programme via a Mutual Investment Model (MIM) (see [Commercial Education](#)).

**Upper Scenario:**

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

The 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:**

- Project procurement is delayed as inflationary pressure strengthens, restricting SRP progress

If costs increase rapidly, funding allocations for SRP projects may be insufficient to support the delivery of new schemes. In addition, concerns about the cost of completing schemes currently under construction may delay decision-making while the overall commercial impact is assessed.

Output in the **health** sub-sector covers publicly funded work on hospitals, health centres and clinics. Delivery via the New Hospital Programme (NHP) is picking up pace following the 2025 Spending Review, which increased near-term funding. However, progress remains relatively slow, and the first Wave 1 schemes scheduled for delivery have a relatively low construction value. Activity beyond 2027 depends on the success of the as-yet untested standardised Hospital 2.0 design and delivery model. Health output is forecast to increase by 3.0% this year and 4.0% next year. A 10.0% increase is forecast in 2028, assuming construction activity starts on the first Wave 1 schemes adopting the Hospital 2.0 approach.

The Department of Health and Social Care's (DHSC) capital budget has risen substantially in recent years, from £10.5 billion in 2023/24 to an estimated £13.6 billion in 2025/26 – a 30% increase. The Autumn Budget 2025 set capital allocations through to 2029/30 at £14.0 billion in 2026/27, £13.8 billion in 2027/28, £14.9 billion in 2028/29, and £15.2 billion in 2029/30.

The NHS capital settlement for 2026/27 will be allocated to three broad areas. £4.0 billion will fund operational capital and integrated care board (ICB) allocations for day-to-day operational spending and minor building works. Around £2.6 billion will be awarded to nationally allocated major programmes, including the NHP (with funding rising from around £1.0 billion in 2026/27 to over £3.0 billion by 2029/30), the RAAC eradication programme (expected to cost £432 million in 2026/27 as part of a £1.6 billion programme through to 2029/30), and funding to support the completion of existing upgrade schemes. Other national capital programme investments will receive the remaining £3.0 billion to support the delivery of constitutional standards and wider reform priorities, including diagnostics, elective and urgent and emergency investment (around £2.0 billion in 2026/27), the continuation of the additional £750 million per year Estate Safety Fund (£6.75 billion over nine years), and £426 million across the Spending Review period for primary care modernisation and neighbourhood health centres, around 50% of which is expected to be invested in delivering 40 to 50 neighbourhood health centres during this parliament through refurbishment and better use of existing facilities.

In January 2025, the DHSC established a new plan to deliver the £56 billion NHP in five-year waves, with each wave worth around £15 billion from the early 2030s. In total, the NHP aims to deliver 46 new hospitals, five of which were already open when the programme was reset. Delivery of the remaining 41 hospitals includes 19 new hospitals, 19 major additions to existing hospitals (such as a new wing or specialised clinical building), and two major refurbishments. The best course of action for one hospital is yet to be agreed upon.

Wave 0 includes seven NHP projects with a combined construction cost of around £700 million, all of which are complete or under construction and scheduled to complete before the end of next year.

Wave 0 schemes currently on site include new mental health facilities at Alumhurst Road in Bournemouth and St Ann's Hospital in Dorset, both of which are due to complete in 2026. Additionally, work to deliver a new £100 million emergency department at Dorset County Hospital is progressing, along with a new £300 million eye health facility in London for Oriel Moorfields Eye Hospital. These larger schemes are due to be completed in 2027.

Sixteen new hospitals are due to be developed through Wave 1, including the seven hospitals most acutely affected by RAAC. The cost of delivering these schemes is estimated at £16.6 billion, and construction work is planned to start on all sixteen schemes before the end of 2028/29. Ten Wave 1 schemes will adopt the standardised Hospital 2.0 design, which is still being finalised, and main construction work on these projects is unlikely to start until 2028/29. The remaining six, lower-value Wave 1 schemes, are adopting a traditional design approach and are further advanced.

So far, main construction work has commenced on one out of the six Wave 1 schemes adopting a traditional design approach, with three further schemes due to start main work on site before the end of 2026/27. Work started on a new £140 million Emergency Care Building at Derriford Hospital in Plymouth in October last year, and the project is due to be completed in late 2029. Enabling works are underway on the £300

Main construction work due to start on **4 Wave 1 NHP hospitals** before the end of 2026/27



Source: Department for Health and Social Care

million Cambridge Cancer Research Hospital, with main construction scheduled to run from mid-2026 until 2030. In Dorset, a start date for work on the next phase of Poole Hospital's redevelopment is pencilled in for Q2, and work on Brighton's new cancer centre at 3Ts Hospital is due to start in Q3. The final two NHP projects adopting a traditional design approach – Cornwall Children's Hospital and Shotley Bridge Community Hospital in Durham – are due to start construction in 2028.

Hospital 2.0 schemes will incorporate a standardised, repeatable design based on a fixed structural grid. Places were awarded under the NHS's £37 billion Hospital 2.0 Alliance framework in March. Wave 1 hospitals adopting the standardised Hospital 2.0 design are Milton Keynes Hospital, Hillingdon Hospital and North Manchester General Hospital, plus the hospitals urgently needing to be rebuilt due to the extensive presence of RAAC. These are: West Suffolk Hospital; Hinchingsbrooke Hospital; Airedale Hospital; Queen Elizabeth Hospital in Kings Lynn; Leighton Hospital; James Paget Hospital in Great Yarmouth; and Frimley Park in Surrey.

Milton Keynes Hospital will be the first hospital built to the Hospital 2.0 design and construction is due to start in early 2028. The delivery programme, however, is ambitious and all ten new hospitals adopting Hospital 2.0 principles are programmed to be on site before the end of 2028. The DHSC only expects Hospital 2.0 design and market testing to complete in April 2026. This programme will be challenging to achieve, especially as it will take time for the supply chain to adapt to the new approach and for any real-life challenges encountered with the standardised design to be resolved.

Nine new hospitals, with a forecast total cost of £14.5 billion, are pencilled in for Wave 2, with construction starting between 2030 and 2035; a further nine are provisionally allocated places in Wave 3 for construction between 2035 and 2039. The estimated cost of delivering Wave 3



Waiting Room

is £23.5 billion. 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, and funding beyond Wave 1 is subject to future spending decisions.

A recent [National Audit Office \(NAO\) review](#) of the revised NHP delivery plan concluded that it is more realistic, both in programme and cost terms. However, it raised concerns about additional maintenance costs arising from the longer delivery timeframe, particularly for hospitals built with RAAC, which are not due to be taken out of operation until 2032/33. The DHSC estimates these additional maintenance costs at between £100 million and £140 million per year. The NAO also flagged that limited funding contingency poses a risk to delivery over the forecast period and highlighted the importance of getting the Hospital 2.0 design right.

Moving forward, the Government Commercial Agency, formerly the Crown Commercial Service, intends to streamline public sector procurement by combining existing frameworks for construction works and associated services, offsite construction solutions, and ProCure24, the next iteration of the NHS framework. This new, combined framework will deliver projects spanning construction and building work, repair and maintenance services, real estate services, civil and structural engineering, prefabricated buildings, demolitions, site preparation, and modular and portable buildings. The tender process for this new, combined, framework started at the end of March and successful bidders are expected to be announced between December 2026 and March 2027. This framework will run for eight years, with an estimated maximum value of £120 billion.

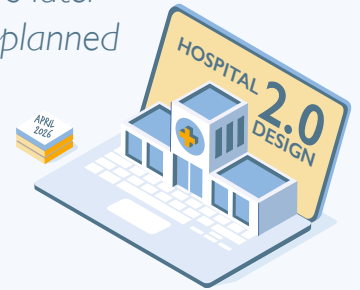
Recent contract awards through ProCure23 include a new £16.5 million integrated health facility in Weybridge. The new campus will provide maternity care, same-day urgent care, and diagnostics, and construction work is due to be completed towards the end of 2027. ProCure23 will run until April 2027 and, at the time of procurement, had an estimated total value of £9 billion.

In Scotland, capital funding for health increased by 22% to £1.1 billion in 2025/26, supporting the design and development of new acute facilities in Lanarkshire, the Highlands, and Lothian, as well as increased investment in primary care nationwide. In 2026/27, capital funding for health will fall marginally to £1.0 billion, with the Scottish Spending Review 2026 suggesting that funding in 2027/28 will fall further to £0.9 billion before returning to £1.1 billion on a nominal basis in 2028/29.

Site investigations and enabling works are progressing on the proposed £700 million replacement for Monklands Hospital in Lanarkshire.

**Hospital 2.0 design** expected to be **finalised in April 2026**, nearly 2 years later than initially planned

Source: Department for Health and Social Care



**10** contractors have secured places on the NHS's **£37 billion**

**Hospital 2.0 Alliance framework** to support the delivery of the NHP over 12 years



Source: Department for Health and Social Care

A final development decision is expected shortly, following the submission of the full business case to the Scottish Government in December last year. If approval is granted, construction is scheduled to take six years. Design development continues on the £137 million planned replacement of Belford Hospital in the Highlands. The outline business case was recently submitted to the Scottish Government, and, subject to approval, a construction start date is pencilled in for 2027 Q4. A main contractor was recently appointed to construct a new £120 million eye hospital in Edinburgh. However, a start date for the project has yet to be confirmed.

The Welsh Budget 2026/27 set the health capital budget at £626 million, a marginal 1.0% increase from 2025/26. During the forecast period, a new £33 million facility is due to be constructed at the Royal Alexandra Hospital in Rhyl, North Wales.

#### **Upper Scenario:**

- The full business case to redevelop Monklands Hospital in Scotland is swiftly approved and work starts on the scheme in 2027

Outline business case approval for Monklands hospital was secured in June 2024 and the full business case was submitted in late 2025, slightly ahead of schedule. If the approval process progresses smoothly, without any complications or delays, there is a chance construction work could commence on this £700 million project within the forecast period.

#### **Lower Scenario:**

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

NHP delivery from 2027 relies heavily on the standardised Hospital 2.0 design and expectations about efficiency gains are bullish. A prototype has been successfully developed but components and processes are not yet finalised. If this is delayed or if unforeseen complications are encountered, the design and delivery of the first WWave 1 schemes to adopt Hospital 2.0 could be delayed, impacting activity levels from 2027. Supply chain capacity for modular components may also be a constraining factor. Funding for the NHP beyond 2030 is subject to future spending decisions, and a lack of longer-term programme certainty may restrict supply chain investment in capacity expansion.

Public non-housing **other** covers construction work on publicly funded facilities such as prisons, defence projects and civil service offices. A positive outlook for this sector is underpinned by a steady stream of projects to expand and enhance facilities across the defence estate and increased activity to deliver new prison places. Output is forecast to increase by 3.0% in 2026 and by 5.0% in both 2027 and 2028. Downside risks to this projection have increased due to strengthening cost pressures but, equally, this sector may benefit if additional funding is allocated to capital projects in the defence sector when the delayed Defence Investment Plan is published.

Over the forecast period, the Ministry of Justice's (MOJ) capital budget is set to rise from £2.0 billion in 2025/26 to £2.3 billion in 2026/27, before stabilising at this level in 2027/28 and 2028/29. However, outturn investment levels by the MOJ have consistently fallen short of plans in recent years due to cost inflation and planning delays. In 2024/25, actual spend was nearly 9.0% lower than targeted.

The government's 10-Year Prison Capacity Strategy, published in December 2024, sets an ambition to expand the capacity of the existing prison estate by 14,000 places by 2031. New prisons are expected to contribute 6,500 additional places, with the addition of new houseblocks at existing prisons expected to add 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 into use.

Progress, however, has been affected by several factors, including strong cost inflation, planning delays and delivery challenges at operational sites. The failure of ISG, a prominent MOJ supply chain partner, in September 2024 had a major impact on delivery. The government has

confirmed that ISG was contracted to deliver construction projects at 11 existing prisons, along with the new 1,500-bed facility in Buckinghamshire, before its collapse. A £1.1 billion injection of additional capital funding last year has helped kick-start stalled projects across the prisons and courts estate.

Three new prisons with 4,900 additional bedspaces in Leicestershire, Buckinghamshire and Lancashire are progressing. Main construction work on a new 1,700-bedspace category B prison in Leicestershire, next to the existing HMP Gartree facility, began in November 2025. The new prison, HMP Welland Oaks, will cost £713 million to construct – far higher than initial estimates of around £300 million. Construction is expected to take four years, and the new prison is due to open in 2029.

In Buckinghamshire, the new £300 million HMP Grendon Springhill 2 prison continues to progress through detailed planning. In April 2025, the government confirmed that Laing O'Rourke will now deliver the 1,500-bed space, category C "resettlement" facility following ISG's collapse, but a start date for main construction work has not been confirmed.

In December 2024, the Deputy Prime Minister overruled the local council and gave the green light to the planned 1,700-inmate prison on the border between Chorley and Leyland in Lancashire, near HMP Garth and HMP Wymott. This is the final new prison to be delivered under the 10-year strategy. Main works have yet to start, but enabling works are underway and detailed planning is progressing.

The government's Small Secure Houseblocks (SSHB) programme aims to deliver around 1,200 new prison places, and work to create additional places is progressing at six sites. Under this programme, work is underway to increase capacity at both HMP Humber and HMP Ranby by 120 before the end of 2027. At HMP Onley in Warwickshire, 180 new category C places are being created across three 60-bed houseblocks, and work is due to complete by the end of 2026. Contracts to deliver 240 new secure places at HMP Northumberland, along with a further 240 places at HMP Lancaster Farms, were also awarded late last year. Both projects are due to complete in early 2027.

The Accelerated Houseblock Development Programme (AHDP) aims to deliver more than 2,700 additional prison places in new modular houseblocks located on existing sites. Progress has been slow since the programme was first announced in 2022 due to the impact of high inflation on construction costs. However, some progress was made in the second half of 2025 as contracts to deliver a total of 1,450 places at three sites – HMP Wayland, HMP Channings Wood and HMP Highpoint – were let.

Houseblock expansion projects received a share of the MOJ's additional funding pot to kick-start stalled schemes. Last year, contracts were awarded for new houseblocks at HMP Birmingham, HMP Liverpool and HMP Guys Marsh. Additionally, a £237.5 million contract was awarded for the Category D Expansion Programme – previously awarded to ISG. Phase one involves work at HMP Hatfield and HMP Leyhill, with phase two increasing capacity at HMP Ford and HMP Stanford Hill.

In Scotland, capital budgets for Justice and Home Affairs are set to fall sharply between 2026/27 and 2028/29. Spending Review 2026 suggests that departmental capital funding will decline from £643.3 million in 2026/27 to £476.2 million in 2027/28, and to £265.8 million in 2028/29, as work on replacement prison projects in Inverness and Glasgow is completed.

MOJ has allowed  
**£1.1 billion** of funding  
to restart stalled projects in its  
**New Prisons Programme**

Source: Crown Commercial Service



Construction work is progressing on the £209 million HMP Highland in Inverness, but the planned completion date has been delayed until late 2026 due to supply chain issues and problems sourcing materials. When complete, it will become Scotland's first Net Zero prison, with improved education and health facilities to help with rehabilitation.

In Glasgow, the main construction work is underway on a new £684 million prison – HMP Glasgow. The new facility will replace HMP Barlinnie, and construction of the 1,344-bed facility 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.

Amid heightened geopolitical tension globally, 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 one-third higher. NAO analysis of the MOD's Annual Report and Accounts for 2024/25 suggests that £4.0 billion was spent on estate management during the year, slightly higher than £3.8 billion in 2023/24.

The Strategic Defence Review (SDR), published in June 2025, made recommendations on how UK defence can evolve to meet the challenges posed by elevated geopolitical tensions. Significant capital investment was announced, which will benefit several construction sectors. In terms of accommodation, new builds or repairs and maintenance work on Service Family Accommodation (SFA) for military personnel is classified as public housing work, whereas similar work on Single Living Accommodation (SLA) is categorised as public non-housing. Where MOD investment delivers facilities such as factories, warehouses, or work to ports, output will be recorded in the most appropriate sector. If private finance plays a greater role in delivering MOD assets, investment may be classified in the relevant private construction sectors. Further details of the MOD's capital investment plans are expected in the Defence Investment Plan (DIP), but publication has been delayed.

The Defence Housing Strategy, published in November 2025, sets out an ambition to invest a further £9 billion in rebuilding, modernising and refurbishing military family housing over the next decade, in addition to the £1.5 billion allocated in the 2025 Spending Review to fund urgent repairs to SFA. Investment to increase the supply and improve the existing stock of SFA is categorised as public housing rather than public non-housing.

In January 2026, the government launched an independent review of SLA, both in the UK and overseas, to identify where further investment is most needed to improve the quality of the SLA estate. The poor state of SLA has been identified as a barrier to the recruitment and retention of armed forces personnel. A Defence Select Committee report, published in December 2024, found that one-third of SLA and two-thirds of SFA are in such poor condition that they are essentially no longer fit for purpose. The independent review is due to report on the state of UK accommodation by Summer 2026, with an assessment of overseas sites to follow by the end of the year. The potential for additional funding to be invested in the maintenance and improvement of SLA following the review period presents an upside risk to the forecast.

Meanwhile, the Defence Infrastructure Organisation (DIO) is slowly progressing with

*In Scotland capital funding for Justice and Home Affairs to **reduce by 59%** between 2026/27 and 2028/29 as work completes on replacement prisons projects in Inverness and Glasgow.*

*Source: Scottish Government*



legacy plans to build or refurbish 40,000 SLA bedspaces for service personnel between 2021 and 2031. In August 2025, the MOD confirmed the first tranche of sites to be developed under its £1.1 billion SLA framework. This tranche will deliver nearly 1,800 new bedspaces across ten sites, including: 228 bedspaces at RAF Waddington in Lincolnshire; 266 bedspaces at Albemarle Barracks in Northumberland; 166 bedspaces at RM Bickleigh in Devon; 315 bedspaces at Baker Barracks in Hampshire, 144 bedspaces at the Infantry Training Centre in North Yorkshire; 348 bedspaces at RM Condor in Angus and 123 bedspaces at RNAS Yeovilton in Somerset. This framework contract started in November 2024 and runs until November 2027.

Under the Defence Estate Optimisation (DEO) programme, a £279 million contract has been awarded to enhance and expand infrastructure at the Duke of Gloucester Barracks in Gloucestershire for the 13 Signal Regiment, which conducts defensive cyber operations for the Army. The project will deliver 248 SLA rooms and 30 SFA homes, along with technical and training buildings. Main construction is due to start in Summer 2027, with completion in 2030.

The MOD has proposed potential locations for the new UK-based munitions and energetics factories announced in the 2025 SDR. Thirteen sites have been identified as possible locations in Monmouthshire, Cumbria, Dumfriesshire, Ayrshire, Shropshire, Cheshire, Derbyshire, Essex, Worcestershire, Hampshire, Pembrokeshire and Stirlingshire and the government plans to deliver at least six new factories by the end of this parliament. Funding of £1.5 billion was announced in the SDR to deliver these factories and engineering design work has started on the first facility. Further details are expected in the DIP.

Turning to public sector office estate relocation and rationalisation, the Government Property Agency (GPA) sits within the Cabinet Office, and GPA capital investment fell by 25% in 2024/25, to £224.5 million, compared with £298.2 million in 2023/24. 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 to press ahead with planned construction projects in Darlington, Manchester and York.

In December, the GPA awarded the £86 million contract to construct the Brunswick Street Hub in Darlington. Construction started in early 2026 following the completion of ground remediation works, which began in September. Planning permission for the four-storey building was granted in August 2024; when complete, it will house around 1,700 civil servants. The project is due to be completed in early 2028.

In March, the outline business case for the GPA's Manchester Digital Campus secured Treasury approval. The new campus will bring together several civil service departments, with a focus on digital skills, on the former Central Retail Park in Ancoats and is expected to cost around £310 million to build. Enabling works are planned to start in 2026/27 with main construction following in 2027/28 to 2028/29.

The £111 million restoration of the Palace of Westminster's Grade 1 listed Victoria Tower is underway, and the project is expected to take six years to complete. A decision on the wider refurbishment of the Palace of Westminster is not expected until 2030. Options have been reviewed and re-costed by the government's Restoration and Renewal Client Board, who, in February, narrowed the choice to either a full decant or an enhanced maintenance and improvement programme including partial decant (EMI+). The full decant option would require both Houses to vacate the Palace of Westminster for most of the construction programme, estimated at 19 to 24 years. Under EMI+, the House of Lords would be decanted for 8 to 13 years while the Commons would relocate to the Lords Chamber for up to two years. EMI+ is expected to take between 38 and 61 years. In terms of cost, the total programme cost of the full decant option is estimated at between £8.4 billion and £11.5 billion, with EMI+ expected to cost between £11.8 billion and £18.7 billion. In the meantime, the Board has proposed the advanced approval of an initial £3 billion package of resilience and enabling works, including the refurbishment of Richmond House, the acquisition and fit-out of the QEII Conference Centre,

and the installation of temporary services and utilities, to support main construction works post-2030. A decision on this phase one package has yet to be taken.

Work to decarbonise the public sector estate is continuing through Phase 4 of the Public Sector Decarbonisation Scheme (PSDS). Phase 4 of the PSDS was launched in September 2024 and Autumn Budget 2024 confirmed the following funding profile: £86 million in 2025/26 and £427 million in both 2026/27 and 2027/28.

So far, funding totalling £816.6 million has been allocated through Phase 4 of the PSDS for delivery before March 2028. Funding for heat decarbonisation and energy efficiency projects has been awarded to 207 public sector organisations to support 245 projects. Phase 3 of the PSDS provided £1.4 billion of funding between 2022/23 and 2025/26. The nature of some of the energy efficiency works receiving funding via the PSDS may instead be captured in public non-housing r&m.

Government has confirmed it will consider private sources of finance – including Public Private Partnerships – to decarbonise the public sector estate (alongside or in place of government capital expenditure), where these offer value for money. HM Treasury will consider proposals based on business cases from relevant departments.

Funding of £1.0 billion has been confirmed for a National Biosecurity Centre in Surrey to enhance the country's detection, surveillance and control capabilities for high-risk animal diseases. Planning has been secured, and preparatory work is underway. Main construction work could start in 2027, and complete in 2033/34. However, due to complexity and the risk of programme delays, this project is currently excluded from the forecast.

In Scotland, Budget 2026/27 confirmed an additional £11.7 million of funding for The Art Works project to establish a National Collections Hub for National Galleries of Scotland and National Museums of Scotland. This funding is in addition to £16.4 million from the UK government. The new 13,000 sq. m. facility has been in the pipeline for nearly a decade and is expected to take three years to build.

#### Upper Scenario:

- The programme 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. With the SLA Alliance employing standardised solutions, delivery capacity can ramp up relatively quickly if additional funding is approved.

#### Lower Scenario:

- Stronger cost inflation further impacts the delivery of new prisons and houseblocks

As with the other public non-housing sub-sectors, the primary risk is that the oil price shock triggered by the Middle East conflict materially impacts UK construction costs. Near-term uncertainty about the scale of the impact may delay project procurement as the scale of the impact is understood.

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



Source: HM Treasury



# Public Non-housing R&M

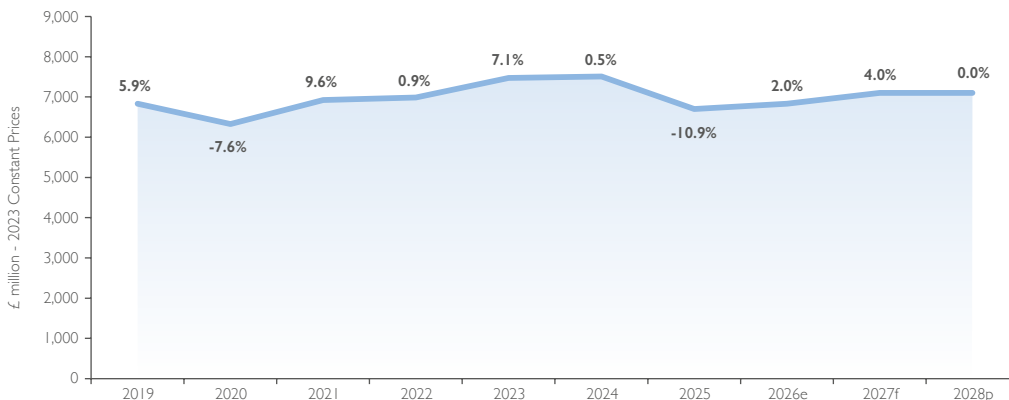
Output in the public non-housing r&m sector, covering spend on basic repairs and maintenance carried out on schools, hospitals, prisons and the defence estate, as well as other government and local authority buildings, is at a historically high level due to funding for the decarbonisation of existing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

The need for increased investment in basic repairs and maintenance is significant and growing across the health, education, defence and justice estates. Backlog maintenance across these estates was estimated at £49 billion by the National Audit Office in early 2025. The watchdog's analysis suggested that MOD properties, schools and NHS properties have a backlog totalling more than £10 billion each, accounting for 88% of the total backlog. Against this backdrop, there is an urgent need for a sector-wide increase in funding for basic repairs and maintenance across the public property estate. Spending Review 2025 provided increased financial support, both through higher direct allocations to central government departments and, indirectly, through the increased financial certainty that multi-year settlements provide to local authorities and devolved nations to invest in planned maintenance programmes. Steady growth is forecast in public non-housing r&m output this year and next. Output is forecast to increase by 2.0% in 2026 and 4.0% in 2027 before stabilising in 2028.

Central government published the final Local Government Finance Settlement for councils in England between 2026/27 and 2028/29 in early February. This settlement distributes £83.5 billion to local authorities in 2026/27, rising to £86.9 billion in 2027/28 and to £90.5 billion in 2028/29, an 8.4% increase over the period before allowing for inflation. Over this period, local authorities' core spending power is due to rise by 6.1% this year to £78.0 billion, by 4.3% to £81.4 billion in 2027/28 and by 4.4% to £84.9 billion in 2028/29.

However, increased central government funding for local authorities is proving insufficient to keep pace with cost pressures. In February, MHCLG confirmed that exceptional financial support, totalling around £1.5 billion, would be made available to 36 local authorities across

**Public Non-housing R&M Output**



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

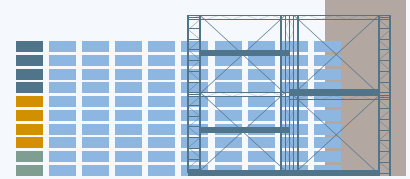
England in 2026/27. A Local Government Association survey in February found that almost six in ten councils expect it will be difficult to set a balanced budget in 2026/27.

In Scotland, Budget 2026/27 allocates a total funding pot of £15.0 billion to local government, an estimated 3.0% increase in real terms. Within this, capital funding of £681.4 million in 2026/27 represents a real-term annual decline of approximately 14.0%.

In Wales, the overall capital allocation to local authorities is expected to decline by around 3.2% before inflation is accounted for. Within this, the schools capital repairs and maintenance fund is due to increase from £24 million in 2025/26 to £40 million in 2026/27.

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) and work on Phase 4 projects will continue to support activity this year. However, the nature of some of the energy-efficiency works receiving funding may instead be captured under public non-housing new build (see [Public Non-housing](#)).

**Public non-housing r&m output**  
is forecast to rise by  
**2.0%** in 2026  
**4.0%** in 2027  
before **stabilising** in 2028



Phase 3c of the PSDS allocated funding totalling £611 million to 244 decarbonisation projects for delivery in 2025 and 2026. 112 grants were awarded to projects worth less than £1 million, while only 11 schemes with a construction value of over £10 million secured grant funding. NHS projects secured 39% of the funding pot by value, with local authorities securing 26% and further and higher education establishments securing 16%.

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

The application window for Phase 3 of Scotland's Public Sector Heat Decarbonisation Fund has opened. Public sector organisations across Scotland can apply for up to £2.5 million in grant funding for heat decarbonisation and energy efficiency projects. Capital expenditure must be made before 31 March 2027. Grant offers are expected to be issued in August. The Scottish Government awarded over £20 million in grants in the first two phases of the programme.

Capital funding for school maintenance is currently provided through three primary funding streams – School Condition Allocations (SCA), Devolved Formula Capital Allocations (DFCA) and the Condition Improvement Fund (CIF). In 2026/27, the total SCA pot is worth £1.9 billion, a 2.9% increase on 2025/26 before allowing for inflation. At £219.2 million, the DFCA allocation has broadly stabilised in nominal terms since 2024/25, which suggests a decline in real terms.

Multi-academy trusts and specialist post-16 institutions increased their share of the overall SCA funding pot in 2026/27, with allocations rising by 9.8% and 10.7% respectively. Funding allocations to local authority maintained schools, voluntary aided schools and institutions eligible for CIF declined by 0.9%, 1.6% and 2.5% respectively. Multi-academy trusts and specialist post-16 institutions also increased their share of the overall DFCA funding pot in 2026/27, with funding rising by 7.3% and 6.3% respectively.

The government recently confirmed the condition allocation for colleges in England for 2026/27 at £307 million, a £5 million increase on 2025/26. Allocations will range from £6,000 for smaller institutions to £7 million for large college groups, and colleges have autonomy to direct this funding where it is most needed. Over the forecast period, the further education college condition allocation is expected to rise to £313 million in 2027/28 and £319 million in 2028/29. From 2027/28, the DfE plans to adopt a condition-based weighting for individual allocations, informed by data from the Condition Data Collection 2 (CDC2) survey underway between 2021 and 2026.

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 for 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 that time, 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 to be released later this year.

In October 2025, the DfE confirmed that RAAC had been removed from 62 schools and colleges, up from 52 at the time of the September update. No further update has been provided since October. RAAC has been identified in 237 schools and colleges across England, and 123 schools and colleges with the most extensive RAAC issues are being rebuilt through the School Rebuilding Programme (SRP). To date, the DfE has spent £211 million on RAAC mitigation and remediation. The government has pledged to remove RAAC from schools not included in the

SRP by the end of the current parliamentary term and has committed that all RAAC-affected schools within the SRP will at least be under construction within the same time frame.

The latest data on the condition of the schools estate in Scotland was published in September 2025. The proportion of schools reported as being in good or satisfactory condition has increased to 92.0% (91.7% in 2024). This represents a 29.3 percentage point increase since 2007, when this series of school condition statistics began and the figure stood at 62.7%. However, the actual number of schools in good or satisfactory condition fell slightly from 2,253 in 2024 to 2,251 in 2025. Good condition is defined as performing well and operating efficiently, whereas satisfactory means performing adequately but showing minor signs of deterioration.

In March, the Welsh government announced an additional £40.5 million in funding to support essential capital repairs and maintenance across schools, colleges and universities in Wales. This funding will support large-scale maintenance works, such as roof and heating system renewal. £15 million will be allocated to Welsh local authorities for distribution to schools, with £25.5 million available to colleges and universities.

Spending Review 2025 allocated £6 billion per year from 2025/26 to 2034/35 for the maintenance and repair of the NHS estate. Included within this is the NHS Estates Safety Fund (ESF), for small-scale building safety works, such as repairs to leaking roofs, upgrades to faulty electrical wiring, and fire safety requirements. In 2025/26, £750 million was allocated to 175 NHS sites via the ESF and this level of funding is expected to be maintained in 2026/27. In 2026/27, funding for the NHS RAAC eradication programme is expected to total £432 million.

The condition of the NHS estate across England deteriorated further in 2024/25, despite increased investment to address backlog maintenance. Annual data on estate condition and investment, captured by NHS Digital via the 2024/25 Estates Return Information Collection (ERIC), suggests the cost of backlog maintenance across the estate rose to £15.9 billion, a 15.7% increase compared with 2023/24. During 2024/25, NHS Trusts suggest that investment to address the maintenance backlog increased by 14.5%. The cost to eradicate high-risk backlog maintenance increased at a faster rate than less urgent repair and maintenance work, rising by 27.8% during the year.

Backlog maintenance estimates quantify the investment required to complete legacy maintenance work that should have already been completed. It does not include planned maintenance programmes, and ERIC data indicates that investment in this type of work reduced during the year. Trusts reported that capital investment for changing and improving existing buildings decreased by 11.7% in 2024/25, and that hard facilities management costs, including property maintenance, decreased by 0.7%. If planned and preventative maintenance is further postponed, the cost of eradicating the backlog of maintenance will continue to rise.

In September 2025, the DHSC reported that RAAC had been removed from seven hospitals in the preceding 12 months, with remediation work due to be completed at a further 12 hospitals by the end of the financial year. Seven hospitals with the most extensive RAAC issues will be rebuilt through the New Hospital Programme, but completion of these new facilities is unlikely before 2032/33 at the earliest. In the meantime, affected hospitals will continue to operate but will require additional repairs, maintenance and mitigation work to maintain safety. The NAO estimated that, by 2025, £500 million would already have been spent on safety mitigations at these sites. An independent report published in December 2025 concluded that further

An estimated **£500 million** has been spent so far on **remediation and mitigation** at the **7 RAAC-affected hospitals** being rebuilt through the NHP

Source: National Audit Office



significant maintenance and mitigations would be required to safely extend the useful life of these sites beyond 2030.

In Scotland, responsibility for assessing, monitoring, or remediating public sector properties built using RAAC largely rests with local authorities, and the Scottish Government will not impose a deadline for the removal of RAAC from public buildings or provide additional funding for the remediation of non-residential buildings. Survey work to identify RAAC is ongoing in Wales.

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.

After rising by around a third to £2.0 billion in 2025/26, the MOJ's total capital budget is set to reach £2.3 billion in 2026/27 and stabilise at this level in 2027/28 and 2028/29. In 2025/26, constructing new prisons and expanding existing facilities will attract the lion's share of capital funding, with around £300 million allocated to maintenance. In December 2024, HM Prison and Probation Service estimated that the backlog of maintenance works required across the prisons estate had risen to £1.8 billion, double the £0.9 billion estimated in 2020, based on data gathered by the Prison Estate Conditions Survey Programme.

Capital funding for defence will increase from £23.1 billion in 2025/26 to £25.9 billion in 2026/27 and £30.0 billion in 2027/28, according to Autumn Budget 2025. Further details are due to be shared in the Defence Investment Plan (DIP), which is now scheduled for publication in mid-2026. 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 have contributed to difficulties in recruitment and retention. This could suggest that 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 and repair and maintenance work.

#### **Upper Scenario:**

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

The poor quality of accommodation for services personnel has been identified as a driver of low morale and a contributing factor to high workforce turnover. Delivering the 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:**

- Strengthening inflationary pressure impacts what can be delivered for fixed maintenance budgets – urgent, reactive, r&m activity is prioritised and planned and non-urgent maintenance is postponed

With funding for maintenance work fixed, public sector bodies may have to prioritise investment if stronger inflation erodes spending power. Against this backdrop, non-essential r&m may be delayed to ensure sufficient funding remains available for urgent and essential repairs.

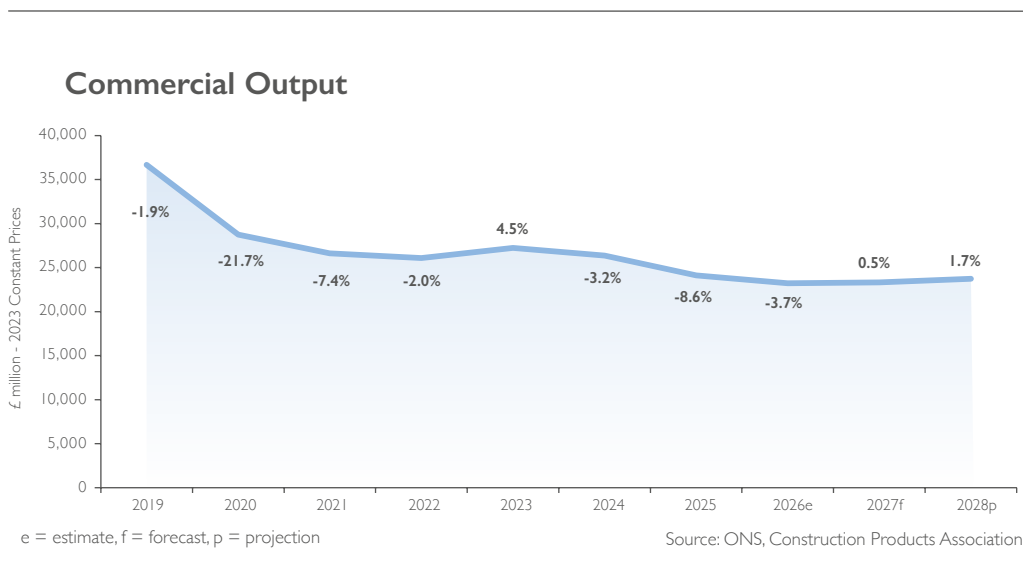


# Commercial

*The outlook for the commercial sector has weakened across the forecast period as the economic impacts of the conflict in the Middle East worsen existing levels of uncertainty and weak business confidence. Prolonged investor caution and the prospect of higher costs for construction and project finance are now expected to delay the start of large new build commercial projects that were starting to move along in the early pipeline, and pause decision-making on projects that were approved several years ago and are still awaiting the go-ahead. Notably, the early pipeline of new office towers will now take longer to move through to construction activity, resulting in another downgrade in the forecast for commercial output.*

Even before the Middle East conflict escalated, there were limited signs of growth momentum lifting or business or investor confidence improving. A further marked deterioration in confidence, which is likely to be accompanied by a spike in inflation and rising borrowing costs, is assumed to stall decision-making on the final investment go-ahead on projects awaiting contract award or construction start. The large new build projects, such as new office towers, leisure and entertainment venues, as well as new retail premises, private hospitals and university buildings that drive the sector's growth, are the projects that require a large upfront investment that is sensitive to prevailing economic conditions, sentiment and rises in costs that weaken viability. Viability was already a growing concern for developers of purpose-built student accommodation in the education sub-sector and speculative developers in the health sub-sector, particularly for biotech and life sciences facilities, largely backed by venture capital. Within the offices sub-sector, the long lags between planning approval, final investment decision, contract awards and construction start mean that new build towers that were starting to move through the pipeline and are now being paused to assess for any impacts on viability, suggesting that it will now be 2028 until we see activity on the ground.

Illustrating how the sector is held back by uncertainty, commercial output in 2025 was 40.1% lower than the recent peak in 2017 and has declined in seven of the last eight years.



Refurbishment and work to repurpose or refit existing space have provided activity in the absence of new build towers, either to appeal to new occupiers 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 will

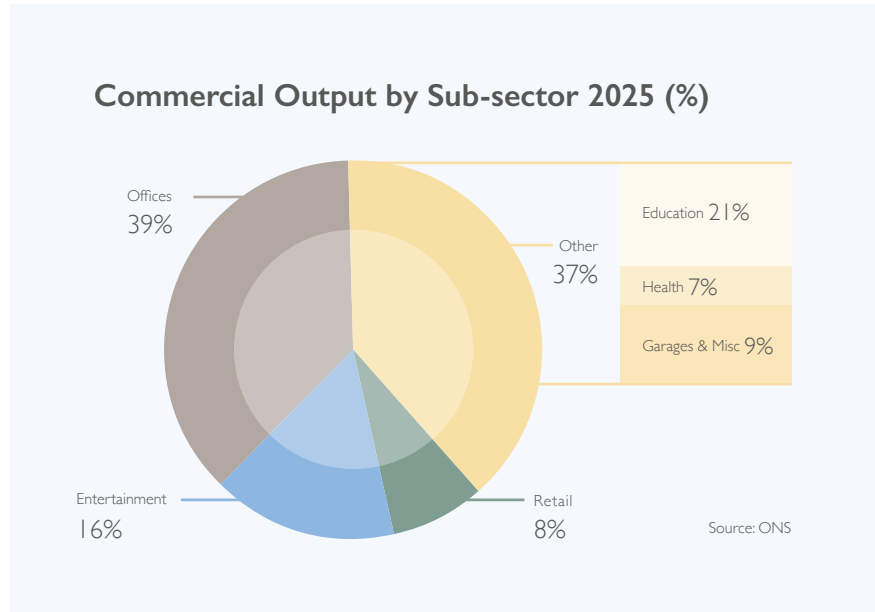
require a minimum EPC rating C by 2027 and EPC B by 2030. Some of the largest-scale office refurbishment projects underway now have a similar construction value to a new build scheme and whilst demand for refurbishment is expected to remain high, projects with a value of £200 million plus are likely to be subject to the same viability issues as new build. This is amplified by the higher cost of energy-efficient retrofit and 'back to frame' projects relative to a 'standard' refurbishment, plus client sensitivity to cost, which may be a limiting factor, and even more so in lower-rent areas, which make viability more constrained.

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

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, increasing operating costs, the international student levy from 2028/29 and its potential conflict with a dependence on continued growth in international student numbers. Businesses in the commercial sub-sectors are also relatively labour-intensive, so the rise in costs related to the increase in employers' National Insurance Contributions and the reduction in thresholds, as well as changes to business rates from April, also pose a downside risk to investment in commercial premises, as large employers look for ways to reduce expenditure.

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 into activity. The main contractor for the new £155 million Bristol Arena was selected in March



*Prolonged investor caution and the prospect of higher costs for construction and project finance are now expected to delay the start of large new build commercial projects in the early pipeline*



2024, and works began in January. However, the project's completion has been pushed back once again, to 2027, which is three years later than the original schedule. Similarly, the contract for the new Cardiff Arena scheme was awarded in September, and work started in October but its completion has been delayed until 2028 due to it requiring additional funding of £100 million after cost rises. The £350 million Gateshead Arena complex has been split into smaller phases to mitigate a rise in construction costs. Contracts were awarded for the £150 million first phase in September 2023 for a new build conference centre, but work has not yet started as the combined authority is assessing viability and a final decision, which was due to be made this year, is likely to be pushed back further. A worsening in economic conditions is the clear downside risk to

these projects progressing, especially given previous delays.

In terms of sports stadia projects, work on Manchester City's £300 million stadium expansion and hotel began in 2024 and is now at the fit-out stage, but other projects are still largely in the pre-construction phase, with original start dates from the end of 2026. Preparatory works have begun on the £100 million expansion to Aston Villa's stadium but other projects range from planning applications for stadium expansions or redevelopments for Leeds United, Oxford United and Luton Town, to feasibility assessments for Birmingham City's planned £1.2 billion new stadium and Manchester United's proposals for a new £2.0 billion, 100,000-seater stadium on a site adjacent to the current stadium. As in other sub-sectors, these projects are most at risk of being delayed or cancelled. Over the last 12 months, plans for a new stand for Crystal Palace, which had seen contracts awarded, and an expansion of Leicester City's stadium have been paused due to financial constraints. Other sports venues have also announced expansions: Wimbledon's £200 million tennis courts expansion was approved in July after a judicial review and won a High Court ruling in March, whilst the contract for Edgbaston cricket stadium's new stands and a hotel was awarded in March. Plans for a £650 million redevelopment of Twickenham Stadium have been outlined, but plans to increase the number of non-sporting events were rejected by the local authority, which may alter viability.

The same constraints will apply to the early pipeline of projects within the leisure sub-sector. Groundworks have been completed on the Therme spa resort in Manchester and the main works contract was awarded in September. Costs have now risen from £250 million to £450 million and the scheduled completion in 2028 will be three years later than originally planned. In July, the new £100 million Eden Project in Morecambe received £2.5 million in government funding for initial design work. The government has committed half of the project's funding overall, with the other half funded privately and a resubmitted planning application to halve the size of the project due to economic challenges was approved in February. In December, Comcast Universal received planning approval for its new European theme park in Bedfordshire and construction is expected to start later this year and last five years. The government has announced its commitment to a major investment in infrastructure around the site to support delivery, such as a new station on the East-West Rail line. The £1.0 billion expansion of the British Library, one of the largest commercial schemes in the pipeline, has progressed in recent months. The investment was confirmed in March 2025, the construction contract was awarded in August, with the start of work scheduled for next year, running through to 2032.

Work on film and television studios is also underway or moving through the pipeline, driven by demand from streaming platforms such as Netflix, Disney and Amazon. Projects include two approved at Elstree Studios in September 2025: a £400 million expansion for Sky and a redevelopment and extension for the BBC. Amazon acquired the Bray film studios in Berkshire in 2024 and, as part of its latest UK investment strategy, has announced it will be redeveloping the facility. In November, the £750 million Marlow Studios in Buckinghamshire received planning permission after a public inquiry. However, several projects have run into difficulty. The redevelopment of the formerly derelict Littlewoods building in Liverpool into a studio campus is yet to secure funding, whilst the main investor in a £450 million film studio complex in Sunderland backed out in July. The North East Mayor allocated £38.5 million in funding for a heavily reduced scheme of two, rather than 18, buildings. Several years post-pandemic, streaming services and TV and film production have been cutting production spending, which adds further risk to the viability of projects yet to start. The £600 million Hollywood Sunset Studios planned in Hertfordshire was formally put on hold in March, given the change in economic conditions and production appetite, particularly on the viability of a speculative project of this size, with a feasibility study for alternative uses underway. Citing similar issues, a planned studio project at Wycombe Air Park in Buckinghamshire was also cancelled in 2025, 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.

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 is expected to accelerate, adding to previous cost increases that were being factored in when some of these projects would have first been given the investment go-ahead. A rise in borrowing and financing costs will also need to be factored into investment decisions. For projects in the pipeline, delays relating to risk aversion and increased uncertainty will continue to lengthen the typical 12-18 month lag between contract award and construction start, and this is expected to be the case throughout 2026 and into 2027. As a result, the forecast has been downgraded from Winter to reflect gaps in the construction pipeline forming this year, leading to weaker growth in 2027. Further delays to commercial projects across all sub-sectors present a clear downside risk to this growth, however.

The **offices** sub-sector is particularly sensitive to uncertainty and investor caution and downside risks to the extended pipeline have intensified. Investment in new office space is high upfront expenditure and, consequently, is highly dependent on investor confidence, financing costs, economic growth and long-term returns. On the demand side, occupier demand is strong, vacancy rates for Grade A and prime properties are at record lows in central London, and the early pipeline of large new build projects is growing, with numerous schemes at the planning stages. However, even before the conflict in the Middle East, the forecast assumed that confidence was still not strong enough for the final go-ahead and that decision-making would continue to be delayed throughout 2026, even as sentiment was showing signs of improving. Now that uncertainty has increased significantly and the inflationary impact of higher oil and commodity prices raises the likelihood that interest rates and financing costs will increase, the assumption is that risk aversion will delay all schemes that are yet to start. Given the lags between approval, contract award and start dates in this sub-sector, this will be reflected in weaker construction output in 2027 and 2028 than previously expected. Preparatory and demolition works that have already begun on new schemes that started in 2025 are assumed to continue, given the initial finances committed, but the main works phases may be delayed. In the continued absence of activity on large new build offices, output will continue to be underpinned by refurbishment and redevelopments, although clients are likely to turn even more price-sensitive. Even for these projects, near-term economic developments and the knock-on effects on investor confidence will be a key determinant of how activity moves in line with the downgraded forecast.

Demonstrating the impact of uncertainty on activity, output in the sub-sector peaked in 2017, with confidence to proceed with the large new build towers projects that typically drive sub-sector growth knocked by economic developments since: the EU Referendum, the global pandemic and evolving office requirements, higher interest rates that mean financing costs are substantially above what was being factored into investments and viability previously, and several years of flatlining GDP growth. Large tower projects require the largest upfront investments and, consequently, are the most affected by weak business confidence and uncertainty, meaning there has been a long absence of new build tower projects. There is now a pipeline of office tower projects in the planning and pre-construction phases and the City of London Corporation recorded the largest number of office planning applications in ten years in 2025. The key consideration now is when investors and clients can assess and deal with the economic impacts of the Middle East conflict. Given the existing longer lags in the commercial sector, this is unlikely to be in 2026. Demolition and groundworks have begun for new speculative tower projects in the City of London, including 2 Finsbury Avenue, 50 Fenchurch Street, 1 Undershaft and the 35-storey tower at 99 City Road, but there are now questions over the strength of confidence to progress to main works as contracts will need to be signed this year. CoStar found that the volume of new office starts in the UK was the lowest in 15 years, even one year ago in 2025 H1, largely attributed to development costs and funding constraints, whilst Savills also noted an increase in delays in decision-making by occupiers and a continued preference for refurbishment projects.

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 central London, Knight Frank reported the 2025 Q4 vacancy rate for new/refurbished space at 1.0% 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 8.6% for space in the capital. The increasing scale and value of improvements projects and the need for 'back to frame' refurbishments mean that this type of work has now become a key driver of sub-sector



activity, particularly in the last few years given the absence of major new build projects. Hybrid working patterns that see fluctuations in occupancy throughout the week, with near-to-full occupancy on Tuesday to Thursday and lower occupancy outside of this have also led to refurbishment activity to attract new tenants moving from lower-quality vacated space and have increased demand for larger floorspaces to accommodate maximum occupancy mid-week. Surveys by property agents suggest that occupiers are increasingly looking to increase space, whilst demand is rising from occupiers who have been in their current spaces for more than ten years, highlighting the stream of lower-quality vacant space that may add to the refurbishment pipeline.

Alongside this, the need to improve both energy efficiency and the quality of facilities is expected to continue driving offices activity, both for new build projects and refurbishments across the forecast period. Given the scale and cost of some refurbishment projects, which can be equal to the cost of a new build tower, similarly long lags in the pre-construction phases leave these schemes vulnerable to delay, given current levels of uncertainty. There are several high-value schemes in the pipeline. Work is underway on schemes including the £250 million retrofit of 1 Victoria Street in Westminster and the main works contract was signed for the £250 million refurbishment of Deutsche Bank at London Wall in January. In addition, a refurbishment and extra floor at 30 Finsbury Square and a £150 million refurbishment of 25 Finsbury Circus began in 2025. All are scheduled for completion in 2028. The £150 million funding for the redevelopment of 125 Shaftesbury Avenue was confirmed in January, although a main contract is yet to be awarded. Further schemes, including the refurbishment and extension of the London Stock Exchange, and the refurbishments of the Bank of England, 1 Appold Street, Holborn Circus and 8 Albert Embankment, were added to the pipeline in Q1. Plans for a £1.1 billion refurbishment of 33 Canada Square in Canary Wharf were also approved in Q1. The redevelopment of 33 Cavendish Square, formerly a BHS store, into offices was also approved, although work is expected to start well beyond the forecast period, in 2029. Given these major redevelopment and refurbishment schemes are yet to start, the risk of delay has clearly increased.

The long-term drivers of refurbishment and improvement activity remain, however. 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, raising the question 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 has a fast-track route for planning permissions for retrofit projects, along with fewer restrictions on changes of use for office buildings that cannot be upgraded and it has now implemented its 'retrofit first' policy that encourages the retention and reuse of existing buildings over demolition and redevelopment. Scotland has yet to introduce an EPC target for non-domestic buildings, but based on a policy that mirrors that of England and Wales, Knight Frank found that 29% of Scotland's office stock has an EPC rating of E or below, with only 21% rated B or above.

*Increased **economic uncertainty** and the risk that increased **inflationary pressures** raise build costs and financing costs and hit viability means that **schemes yet to start** are expected to be **pushed back***



It is a similar picture outside London. In the 'Big Six' cities of Birmingham, Bristol, Edinburgh, Glasgow, Leeds, and Manchester, Grade A take-up is at multi-year highs and the office development pipelines are dominated by refurbishment projects. Knight Frank reported that Manchester is the only city that has major new build development over the next three years.

There are large new build projects, including towers, although they are at an early stage and, therefore, at most risk of delays. One of the largest in the pipeline, the 74-storey tower at 1 Undershaft, was approved at the end of 2024 after being deferred for five months due to objections over a reduction in surrounding public space. Demolition of St Helen's Tower, the existing building on the site, began in 2025 and is expected to take a year. The main works contract is yet to be awarded. The £700 million redevelopment of the former ITV Studios on the South Bank in London, which will be led by 900,000 sq. ft. of offices across 26 storeys, was approved in December 2024 following a judicial review in the High Court, and the demolition and early work have begun. Early works are also underway on a £300 million, 35-storey tower at 99 City Road and a £200 million, 20-storey new build Edge Liverpool Street scheme.

In 2025 Q4, pre-construction contracts were awarded for the Dovetail Building, with piling to start in 2026. After the Autumn Budget, JP Morgan announced that it had opted for a new build tower in Canary Wharf rather than a comprehensive refurbishment of its existing building, on a site it had purchased and completed foundation and basement works in 2008, before the global financial crisis. Its 3 million sq. ft. scheme will take six years to build. Plans are yet to be submitted, however. In January, the Chinese Embassy in London received planning approval for its redevelopment of the former Royal Mint site, which was called in by the Secretary of State in 2024. Great Portland Estate also announced a pipeline of four schemes, beginning with a refurbishment in the West End in 2026. Its new build schemes will begin from the end of 2026. Given there will be lags to contract award and construction start, work on these projects is largely expected to be pushed 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. However, given there is still economic uncertainty and substantially higher financing costs, they remain susceptible to delays around final investment decisions and start dates, as with the large schemes approved in London.

New orders fell 24.3% in 2023 but rose 11.3% in 2024 and 13.1% in 2025. 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 increased economic uncertainty and the risk that increased inflationary pressures raise build costs and financing costs and hit viability, schemes yet to start are expected to be pushed back. Even before the Middle East conflict, large projects were taking much longer than the 12-18 month lag that CPA analysis has previously found between new orders and output. The question remains when large office tower projects and major refurbishment schemes that were approved or awarded contracts since 2022 will move forward to main construction work. The forecast assumes that decision-making on large projects will stall throughout 2026, with confidence only returning slowly in 2027. Consequently, output is forecast to fall by 4.0% in 2026, with activity in 2027 expected to remain flat, a downgrade from 5.0% growth expected in the Winter forecast.

### Upper Scenario:

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

If oil prices fall and remain below \$100 per barrel in Q2, an improvement in business and investor confidence may occur in the second half of 2026. Elevated costs would limit the uplift in the near-term, however. Growth rates may be lifted if an increasing awareness of the minimum EPC B rating from 2030 drives greater refurbishment activity across offices of all sizes across the UK.

### Lower Scenario:

- Prolonged period of uncertainty and constrained business investment

In this scenario, a longer period of high oil prices and/or no improvement in business and investor confidence as conflict continues is likely to stall decision-making for longer than in the main forecast. This would delay the start of main construction work until well into 2027, even for projects that have been approved or awarded contracts.

Activity in the **retail** sub-sector has moved away from new build premises towards the refit, refurbishment and repurposing of existing or vacant units. Appetite to progress expansion plans this year will be heavily dependent on how consumers respond to an uptick in inflation and investors react to renewed and elevated uncertainty and cost rises. The forecast assumes that both consumer and investor confidence are weakened further. Even before the conflict in the Middle East, output was at a record low in 2025, with the sub-sector only one-quarter of the size it was a decade ago. The sub-sector has been hit by long-term structural change and recent economic malaise. Firstly, 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, higher-quality store estate. Secondly, and more recently, weak economic growth, increasing costs for development finance and weak consumer confidence have also led to store closures and branch consolidation. Following the increase in employers' National Insurance Contributions and reductions to thresholds in April 2025, large retail chains have signalled further store closures this year or a shift towards spending on less labour-intensive methods, such as automation, whilst the business rates revaluation in April 2026, along with the new retail multipliers announced in the Autumn Budget, is likely to negatively impact large stores and supermarkets, as well as those retailers with large storage and distribution warehouses as well. There are areas where activity is stronger, such as within the convenience grocery and discount segments, units at retail parks, and for retailers that have been able to acquire existing, vacant units, although there are signs that demand has now started to slow. Higher inflation in 2026 is also likely to keep household spending and, subsequently, retailer and investor confidence, low.

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. Counter-cyclical purchases of lower-demand or vacant assets, such as department stores and shopping centres, are also reported to have slowed in 2025, and particularly in the run-up to the Autumn Budget, although Land Securities has shifted its strategy away from new build offices to retail acquisitions for redevelopment. However, the redevelopment of large retail premises is increasingly mixed-use, led by leisure, entertainment, offices or residential, thereby continuing the trend of diverting output away from the retail sub-sector. Contractor capacity constraints for fit-out and refurbishment have also been flagged this year. Given these factors, and with consumer confidence a clear risk for the year ahead, output is forecast to fall in both 2026 and 2027.

Output in the sub-sector has fallen by three-quarters over the last ten years and output in 2025 was only 16.5% 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 12.5% in 2015 to 27.4% in 2025.

Shopping centres and department stores have been particularly affected by these changes and vacancy rates have consistently been higher than for other settings, such as retail parks and high streets, as well as higher than a decade earlier. Retail vacancy rates in 2025 Q4 ranged between 16.9% for shopping centres and 6.0% for retail parks. 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. Most recently, in March, planning approval was granted for the redevelopment of a department store in Sheffield that had been vacant for four years, into mixed-use leisure, food and drink, retail and workspace.

Falling demand for shopping centres and department stores has resulted in sharp declines in capital values, which drove speculative investment purchases or purchases by retailers in a stronger financial position for longer-term redevelopment between 2021 and 2024. Shopping centre investment volumes in 2025 were the lowest since 1995, according to Savills, however, reflecting greater investor caution. There were also no purchases of shopping centres by local authorities in 2025. Since 2016, local authorities have purchased 80 schemes, representing 24% of all transactions over the period. Work is beginning on earlier purchases, with the main works for the redevelopment of the Wigan Galleries shopping centre starting 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, acquiring nine shopping centres since 2023 with the intention of refurbishing, extending and refitting vacant stores for its portfolio of brands. It appears that it has been harder to find occupiers for larger vacant stores. According to Savills, at the end of 2024, 42% of Topshop's former estate was still vacant since closure in 2019, with an average floorspace of 5,500 sq. ft. per unit. Beyond the forecast period, Westfield has announced a revised masterplan for the Whitgift shopping centre in Croydon. Its original plans for a new £1.4 billion shopping centre were cancelled in



2021 after years of delays and have now been scaled back into two mixed-use schemes: one for community use and one for retail and residential, with work scheduled to commence in 2028. Meanwhile, at the end of 2024, the Secretary of State approved the demolition of Marks and Spencer's flagship Oxford Street store for a mixed redevelopment into retail, residential, leisure and office space.

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, rental growth and leasing activity have also outperformed other retail settings since 2020. The presence of discount retailers, supermarkets and, more recently, 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. IKEA and Marks and Spencer are both repurposing former Homebase units at retail parks, whilst chains such as Screwfix, Superdrug, Wickes and Matalan have also recently announced a focus on out-of-town locations in their expansion plans. Matalan refitted 30 of its out-of-town stores in 2025 and is planning to refit 40 stores in 2026. However, even retail parks are not immune to the repurposing away from retail. The planned redevelopments of retail parks next to Lakeside shopping centre and Beckton in East London will convert the space into warehouse and distribution units and plans have been submitted to convert a retail park in Lewisham into residential towers and a Cambridge retail park into a life sciences hub. In addition, Knight Frank reported that investment volumes in retail parks have been below the five-year average since 2023 Q4. Notably, volumes decreased in every quarter of 2025, initially reflecting a lack of available stock but hindered by investor unease later in the year.

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. In addition, changes to business rates mean that stores with a rateable value of £500,000 have been subject to a higher multiplier from April. Whilst initially, measures have focused on staff cuts or changes to in-store offerings, Morrisons announced it would be closing 17 of its convenience stores. This contrasts with Sainsbury's, Tesco and Waitrose, which are operating with a focus on new convenience stores, and Co-op, which aims to more than triple its number of franchise stores within three years, from 43 to over 130, due to increases in demand for delivery services through Uber Eats, Deliveroo and Amazon. Similarly, Asda's expansion over the next three years will focus on doubling its existing estate of convenience stores to 300 by the end of 2026, with new stores concentrated in the south of England. In May 2024, it also announced plans to build a new 60,000 sq. ft. superstore in West London, with a 1,500-home residential development on top in a joint venture with Barratt Homes. Iceland also has plans for 250 of its larger Warehouse stores at retail parks. Both Aldi and Lidl continue to expand, often with new build stores. Last year, Lidl announced an acceleration in its planned store openings to 40 in 2025. This is more than the 25 it opened in 2024 but it is still slower than the 50 per year it was previously projecting. In September, Amazon announced that it would close all 19 of its grocery stores to focus on its online supermarket delivery partnerships. Five of these have been acquired by Tesco.

Output was at a **record low in 2025**, with the sub-sector only **one-quarter of the size** it was a decade ago



Town and city centre regeneration schemes will also provide small volumes of retail work over the forecast period. However, larger regeneration projects will remain susceptible to delays or scaling back, particularly for those moving towards mixed-use led by residential and offices, which are still being affected by uncertainty over the pace of recovery. Recent projects of this nature include the 15-20 year plan to redevelop the St Enoch shopping centre in Glasgow, and the residential-led redevelopments of St John's in Preston and Crompton Place in Bolton. Nevertheless, plans were fully approved in June for a £500 million garden village in Broxbourne, Hertfordshire, which will be led by 315,000 sq. ft. of retail space.

As in previous forecasts, there is little driving demand outside of refits and repurposing of existing, vacant space. Given increased risk aversion among retailers as operating costs rise and consumer confidence remains low, further declines in activity are expected in 2026 and 2027.

### **Upper Scenario:**

- Stronger consumer confidence and spending in 2026

General consumer confidence is expected to remain weak in 2026, but there may be improvements in certain segments of retail and if this translates into a pickup in sales and revenues, retailer and investor confidence for expansions would also be expected to improve, despite the rising cost base.

### **Lower Scenario:**

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

A longer period of higher inflation than expected in the forecast would see further declines in consumer confidence and household spending throughout 2026. This, in turn, means that investor and developer confidence is likely to worsen, particularly if it affects rental revenues from existing outlets struggling to pay. Retailers have signalled a sharp increase in operating costs due to rises in wages and taxes in 2025 and with further increases in the National Living Wage and changes to business rates in April, 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, there are two main streams of work: capital investment projects at UK universities and privately-financed student accommodation projects. There is an existing pipeline of activity from both, although near-term challenges are mounting. Purpose-built student accommodation providers are balancing a mix of favourable 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, which are increasing demand, against a broadening focus on sustainability, safety and quality of existing buildings, higher financing costs and viability issues, alongside delays for high-rise schemes requiring Building Safety Regulator (BSR) approval. Similarly, universities and other higher education institutions are in the midst of cost-cutting and face renewed uncertainty over how profitability and investment will be affected by the introduction of an international student levy in 2028/29.

For universities, a broad increase in costs, including the 2025 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%. However, recent changes to immigration rules have added uncertainty over the number of international students and income from fees. Following a 13.9%

fall in student visa acceptances in 2024, immediately after the changes, acceptances rose 4.5% in 2025 and remain below the levels recorded prior to the changes. Furthermore, Autumn Budget 2025 confirmed that the government will introduce a levy of £925 per international student per year from the 2028/29 academic year, which the government assesses will cost universities around £300 million per year, equivalent to 3% of international fee income. It is also assumed to reduce international student numbers by up to 17,000 per year. On the flip side, 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.

Overall, applications to UK universities continue to increase. According to UCAS, at the main January 2026 deadline for applications for the 2026/27 academic year, total applications rose 3.1% year-on-year, with increases across UK, EU and non-EU domiciled students. Moreover, the number of applications from UK-based 18-year-olds and non-EU students both reached record highs.

These increases in student numbers have driven investment in purpose-built student accommodation over the past few years from private providers, directly by universities, or joint ventures and partnerships between the two. Whilst long-term demographic trends remain favourable, investors have been more cautious over the near-term fundamentals. Knight Frank found that although delivery this year has been slowed by delays at Gateways 2 and 3 of the BSR approval process and, particularly, rising concerns over viability as financing and build costs are higher. Signs of an easing in rental growth and lower occupancy have also been noted by providers and property agents for the current academic year.

Citing viability constraints, Unite, one of the largest private student accommodation developers, has cut its development pipeline with the deferral of its 500-bed Freestone Island scheme in Bristol and the cancellation of its Paddington development in London. It has two large joint venture projects in the pipeline: a £274 million, 2,000-bed scheme with Newcastle University, which began in January for completion in 2028/29 and a £286 million, 2,300-bed scheme with Manchester Metropolitan University. The contract for main works was awarded in February, for completion for the 2029/30 academic year. Smaller schemes at Stratford in East London and in Glasgow will complete in 2026 and 2027, respectively. In its latest trading update, Unite stated that for developments outside of London, weekly rents would need to be at least £230 for new schemes, which would directly affect demand and competitiveness. Research from Knight Frank found that at the start of the 2025/26 academic year and leasing cycle, rental growth in university-owned stock outpaced rental growth from private purpose-built student accommodation providers for the first time (4.8% compared to 0.3%), which may be the result of increased demand from price-sensitive students and families. Similarly, the proportion of UK-based 18-year-olds that have made applications to universities where they can continue living at home reached a record high in the current application cycle.

Other large schemes that have entered the pipeline include a 450-bed tower in Bristol that received Gateway 2 approval in January and a 600-bed tower in Wembley that saw contracts awarded in the same month. In March, the University of Southampton awarded a 50-year design, build and

**Purpose-built student accommodation providers** are balancing favourable long-term trends in **student numbers** against **higher financing costs** and viability issues, alongside delays for high-rise schemes requiring **BSR approval**



management contract for a new student accommodation development, comprising 1,092 new bed spaces and the refurbishment of 399 existing rooms by 2029. Knight Frank estimates that 19,600 student beds were delivered in 2025, which was 20.0% higher than in 2024 but below the five-year pre-pandemic average of 25,000. Delivery is expected to fall in both 2026 and 2027.

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).

Alongside accommodation work, universities have been driven to make major capital investments in education facilities to help them to 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 in Autumn, with further expansion planned by 2030. The University of Cambridge has a £680 million four-year construction framework, London Metropolitan University awarded a £284 million, five-year construction framework contract in April, whilst the University of Warwick's record £700 million investment in campus redevelopment includes the demolition, new build and repurposing of 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 has awarded contracts for its £300 million five-year refurbishment, rebuild and new build framework, and work has topped out on the University of Huddersfield's £250 million health innovation campus. Manchester Metropolitan University's £90 million, 13-storey new library received planning approval in 2025, but has now been scaled back to nine storeys due to rising construction costs. Its completion date has also been pushed back from 2028 to 2030.

Capital expenditure by universities has increased as a proportion of income since 2021/22, according to the Office for Students. Large one-off projects that have progressed in the last 12 months include the award of contracts for the redevelopment of Imperial College London's Great Hall into a multipurpose, convertible space for teaching and entertainment, the start of a £123 million new lecture and teaching building at the University of Southampton, which is scheduled to complete for the 2027/28 academic year, and the award of contracts for Queen Mary University of London's £49 million redevelopment of its School of Business and Management, for completion in 2027. This is the university's second project under construction, alongside the redevelopment of its Informatics and Technology Learning Building. The London School of Economics awarded a contract in August for the £100 million retrofit and extension of a teaching building.

Outside of universities, the first two projects to be funded through the Welsh mutual investment model of public-private partnership began in 2023 and are now complete and operational – an all-through school in Flintshire and three new primary schools in Rhondda Cynon Taf. However, rising build costs have led to questions over the long-term value-for-money of the resulting annual payments that will be required to be paid by the local authority. The mutual investment model framework is planned to provide up to £500 million of capital funding for education projects in Wales. The next project only progressed through in March 2025 – a £119 million scheme of two buildings for Cardiff Vale College: a vocational campus for 900 students at Barry Waterfront and a 2,000-student Advanced Technology Centre near Cardiff Airport. Completions are scheduled for 2026 and 2027, respectively.

Construction output volumes over the forecast period will be dependent on how higher education institutions, student accommodation developers and joint venture partners and contractors can deal with elevated build costs, economic uncertainty and the potential for



further increases in finance costs for projects in the near-term pipeline, as well as the effect of constrained university finances on future capital spending. 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 significant costs over the same period, with the international student levy likely to impact finances at the end of the forecast period.

Confidence to progress longer-term capital investment plans that rely on continued growth in international student numbers and rent increases will depend on how applications are impacted by changes to visa and immigration rules in the near-term, whilst it will take some time for universities to plan for the potential impact of the international student levy on long-term finances and viability. Viability is also now a primary issue for student accommodation projects. In 2025, new orders were 39.6% lower than in 2024, although orders growth in 2024 was 36.4%. Output is forecast to decline 5.0% in 2026 before remaining flat in 2027.

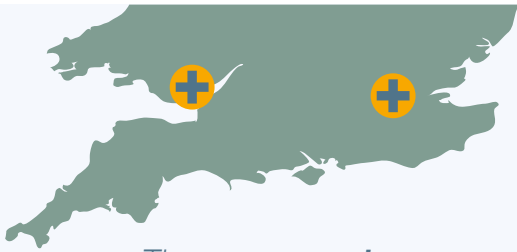
#### **Upper Scenario:**

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

Higher fee income from international students, which increases revenues, as well as stability in applications for 2026/27 among UK and non-EU students shores up confidence to progress student accommodation schemes and university capital expenditure programmes, despite higher financing costs. A longer-term consideration for student accommodation development is that higher interest rates and mortgage repayments raise costs for individual HMO (houses in multiple occupation) landlords and reduce returns to such an extent where 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



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

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

rate environment have reduced appetite to begin new developments over the last three years, despite favourable demand-side dynamics. Since the pandemic, there has been 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, but this has not translated into major expansion plans or new private hospitals funded by private developers. In the last few years and, again, particularly post-pandemic, a new stream of work has emerged in the sub-sector through the development of life sciences, laboratory and medical research facilities, many backed by venture capital. Nevertheless, projects are largely at the planning and tendering stages and with signs of investors taking a 'wait and see' approach to macroeconomic developments and the withdrawal of investments by pharmaceutical companies, adding further uncertainty, activity will be more likely to impact growth rates towards the end of the forecast period.

There are two large hospital projects now underway. Work on the £300 million phase 4 of Great Ormond Street's expansion – the redevelopment of the main entrance and a new cancer centre – began in mid-2025 and will run until 2027. It is funded through private donations. Alongside this, in Wales, the Velindre Cancer Hospital in Cardiff is one of three 'pathfinder' projects trialling the nation's new Mutual Investment Model of private funding, along with a new build school and road dualling project. It reached financial close in April 2024, after delays due to cost rises. 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, with construction at £321 million. It is scheduled to open in 2027, with groundworks and the external frame now complete. Given that the project was first approved in 2018 and was expected to open this year, as well as over £300 million in additional costs, further delays to the revised schedule cannot be ruled out.

In July 2025, the Department of Health and Social Care, along with the National Infrastructure and Service Transformation Authority (NISTA), launched its market engagement process for a potential £1.0 billion in public-private partnerships to build primary and community healthcare infrastructure, running across 30 years from 2027. This was linked in November to the NHS Neighbourhood Rebuild Programme, which aims for 250 neighbourhood health centres, 120 of which will be delivered by 2030 – either through new build or refurbishment. Repurposing and refurbishment will be prioritised in the near-term, with new build expected to begin in 2028/29 once partnership models have been set up. The funding envelope is flexible based on market

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

In the **commercial health** sub-sector, some of the largest healthcare developers continue to highlight that higher operating costs, higher construction costs and a higher interest

uptake but as a potential precedent, the £500 million Private Investment Construction Framework ended in 2022, having procured significantly less than expected.

According to the Private Healthcare Information Network, although the number of self-funded in-patient admissions has fallen since a peak in the first half of 2024, the number of patients accessing private in-patient healthcare through insurance has increased each year to a record-high level. The number of NHS patients who have been waiting over a year for treatment has also fallen from its peak but similarly, remains higher than in 2019. So far, increases in investment by private healthcare providers have focused on staff and expanding services at existing facilities, particularly as the NHS

backlog, and the number of procedures being diverted to private providers, increase. Since 2023, 10.0% of NHS-funded treatments were carried out in private facilities, and although this is only a small increase from 7.7% pre-pandemic, it signals the growing use of facilities due to NHS capacity constraints and the deteriorating condition of the NHS estate (see [Public Non-housing R&M](#)). The private sector accounted for 18% of elective admissions in 2024, up from 13% in 2019.

Medical research, biotech and life sciences facilities have emerged as an area of growth within the sub-sector in the medium-term, particularly in the 'golden triangle' of London, Oxford and Cambridge. Cushman & Wakefield found that UK life science companies attracted £2.84 billion in venture capital funding in 2024, marking the second-highest annual total on record, after the peak registered in 2021. Venture capital investment slowed in 2025, however, and was around one-third lower than the five-year average in each quarter from 2025 Q2. Large projects approved during that period are moving through the pipeline, including work on a £300 million cancer research centre in Oxford in October, funded by the Los Angeles-based Ellison Institute for Transformative Medicine, which topped out in February, One North Quay, 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. Large projects entering the early pipeline include the Crown Estate's plans for a 4.5 million sq. ft. laboratory and technology district at Harwell East, a £350 million life sciences hub approved for London Bridge in October and plans have been submitted to redevelop the Beehive Centre retail park in Cambridge into a campus with laboratories and offices. Given the mixed nature of life science campuses, some or all of the work may end up being classified in the Office for National Statistics output data as offices or manufacturing output instead.

Other cities have also established health and life science zones. In July 2024, plans were approved for a £900 million biotech campus in Stevenage, which will mix laboratory buildings, offices and manufacturing facilities across a phased development of 15 buildings and completions from the beginning of 2026. 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 laboratories 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 the main contract was awarded for the £61 million Hemisphere One lab, which will commence construction in Q2. The Crown Estate has also signalled a move into lab space as part of its £1.5 billion science and tech investment strategy for the next 10-15 years. It has already announced an £80 million project to convert a former Debenhams store in Oxford into life sciences labs.

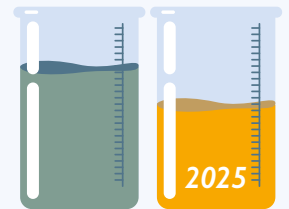
## Venture capital funding for life science facilities in 2025

was around

**one-third**

lower than the five-year average

Source: Cushman and Wakefield



Nevertheless, there have been some signs that investor appetite and occupier demand may be weakening. Commercial agents noted a 'wait and see' approach in 2025, due to economic uncertainty and a greater selectiveness towards investments. Last year AstraZeneca cancelled a £450 million expansion of its nasal flu vaccine plant in Speke, near Liverpool, after government funding was reduced, Life Sciences REIT, a property investment vehicle, announced a strategic review and potential winding-down after estate valuations had consistently decreased from the highs since its establishment in 2021, and Merck announced the withdrawal of its research operations in the UK. It was set to occupy the £150 million Belgrove House life sciences research centre under construction in King's Cross, London. Highlighting some of the risks for new investors, according to Cushman & Wakefield, of the 3.6 million sq. ft. in the total pipeline to the end of 2028 for the 'golden triangle', 29.0% is pre-let, which leaves 2.6 million sq. ft. reliant on speculative demand. There is also a further 4.1 million sq. ft. of space that has received planning approval and is yet to start at a time when take-up has fallen, vacancy rates have increased and investors are showing greater caution in the sub-sector. In 2025 Q4, the vacancy rate stood at 15.6% in Cambridge, 24.0% in Oxford and 41.8% in London.

Outside of the large projects that typically drive sub-sector growth, developer Primary Health Properties currently has three developments on site in the UK, after completing four in 2025. It has an extended pipeline of 33 new GP centres and two hospitals, as well as 14 planned capital asset enhancement projects (with a projected spend of £9 million) over the next two years. Its focus throughout 2025 was on its existing portfolio of properties and acquisitions and it has stated that the viability of future schemes is dependent on strong rental growth.

New orders in the sub-sector are volatile, given its relatively small size. New orders increased to £1.1 billion in 2024 from £1.0 billion in 2025 and £604 million in 2023, reflecting the award of the contract for the Velindre cancer hospital in Wales and life sciences projects. 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 are expected to leave output flat this year, at the highest level in nine years.

#### **Upper Scenario:**

- Rising demand for private healthcare translates into new facilities

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

#### **Lower Scenario:**

- Uncertainty leads to delays

As demonstrated by recent moves by private healthcare providers or potential occupiers to exit the UK market or focus on acquiring or improving existing facilities, uncertainty over the strength of the economic recovery and the direction and speed of changes in interest rates 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 the life sciences niche.



# Private Non-housing R&M

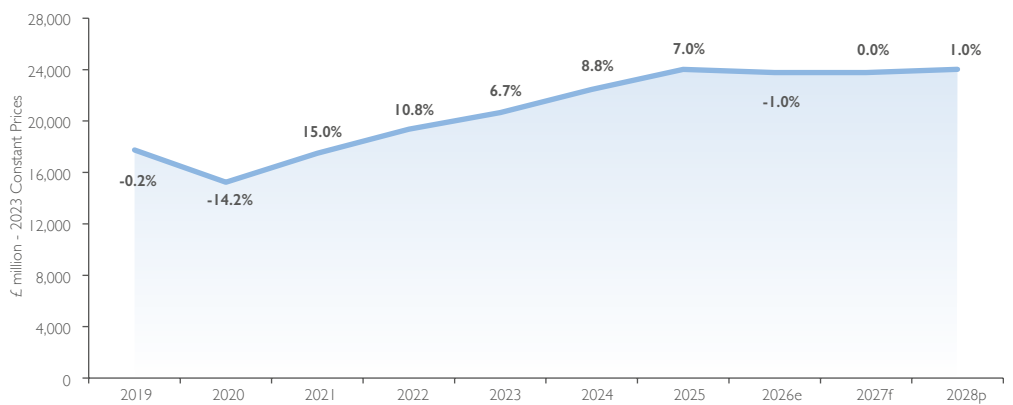
*Continued growth in private non-housing repair and maintenance (r&m) activity is expected over the forecast period. However, growth rates will be restricted by a growing preference for larger-scale refurbishments and improvements of existing properties, classed as new work, as well as lingering cost pressures and uncertainty limiting capital expenditure.*

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 and is typically through frameworks and long-term contracts. Sector output tends to be less volatile than new build, given the reliance on long-term facilities management contracts and an element of basic repairs that cannot be postponed. Still, there is a discretionary, non-essential element that is dependent on broader economic performance, which underpins business confidence and investment. In recent years, this has been hindered by heightened uncertainty and rising costs. For example, a report from the Office for Students published in 2025 found that higher education providers continued to report delays to routine maintenance due to higher costs, with concerns that financial strains on university finances would reduce capital investment and maintenance spending. Backlog maintenance at universities was estimated at £10 billion for 2024/25. Private sector building owners and landlords will also be undertaking energy-efficiency improvements ahead of the Minimum Energy Efficiency Standards changing from 2028. Research by Knight Frank found that around 80% of warehouses in the UK were built before 2000, whilst similar risks of 'stranded assets' relate to a significant proportion of offices and retail properties. However, with this driving larger-scale refurbishments and improvements that stretch beyond r&m, output from these activities is likely to be classed within new build categories instead.

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.

Refurbishment activity across privately-owned properties 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, a drive towards comprehensive refurbishments 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

## Private Non-housing R&M Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

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, health, 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.

Ongoing cladding 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 61 student accommodation towers and 29 out of 32 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 planned to remediate 12 in 2025, with a similar stream of work through to 2028. It has highlighted delays at Gateway 2 approval with the Building Safety Regulator, which have also added to its new build timescales. 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.

Financial pressures at higher education institutions have increased the backlog of maintenance at UK universities, which was estimated at £10 billion for the 2024/25 academic year, according to the Office for Students. Furthermore, a survey by Universities UK found that 60% of institutions have scaled back on r&m to existing facilities in 2024/25, up from 49% in the previous year's survey. 89% stated they may need to cut back on r&m expenditure over the next three years as a means of cutting costs.

The Barbican Centre in London received £191 million in funding from the City of London Corporation at the end of 2024 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 repair 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, delays to capital investment decisions, as well as larger-scale refurbishment and improvements that are classified as new build rather than r&m. Output volumes are expected to contract by 1.0% in 2026 and remain flat in 2027.

#### **Upper Scenario:**

- Stronger focus on r&m

Inflation is now expected to accelerate in 2026 when prices, particularly in construction, already 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 for new frameworks and long-term contracts.

#### **Lower Scenario:**

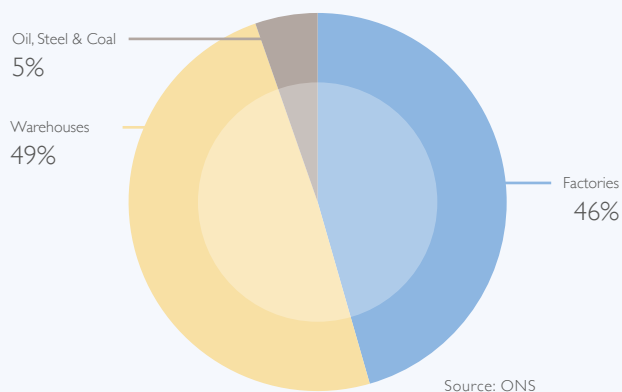
- Capital investment is held back

If building owners, landlords and investors hold back on all capital spending decisions, including maintenance spending, due to increased uncertainty and strong passthrough of higher commodity prices, a fall in r&m activity would be expected.

# Industrial

Projects in the industrial sector that are yet to receive final investment approval or start construction are at the highest risk of being delayed due to a deterioration in the macroeconomic outlook, higher construction costs and weaker business and investor confidence. Warehouse take-up and development were already settling back at 'normal' pre-pandemic levels but financing costs have already risen over the last few years and demand for build-to-suit space is still weak. Whilst large data centre schemes are added to the pipeline, delivery is likely to be constrained by grid capacity and connection issues in the medium-term. Near-term activity in the factories sub-sector is underpinned by large projects signed off in the last few years, including gigafactories and facilities to manufacture defence and renewable energy equipment but there are likely to be delays to projects yet to start given that confidence to commit to large upfront capital investments will remain weak during 2026.

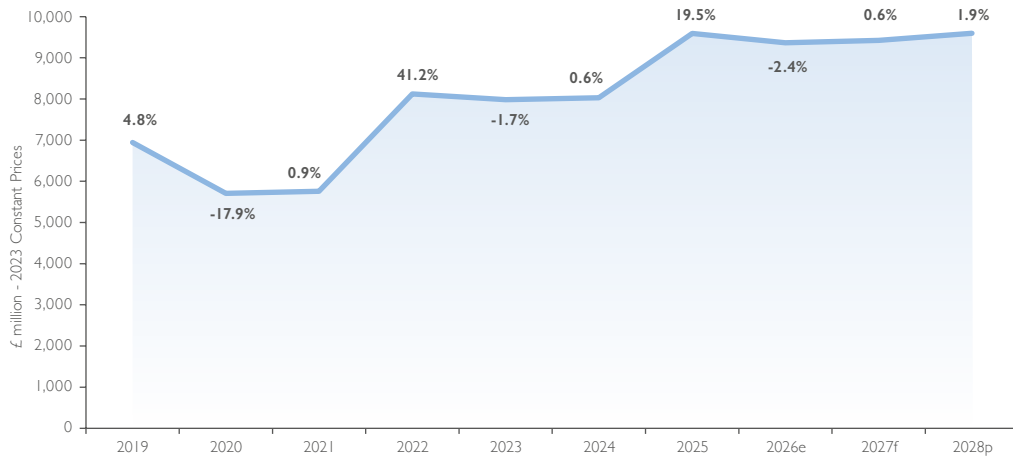
**Industrial Output by Sub-sector 2025 (%)**



Current activity in the sector is being driven by the start of work on gigafactories to produce batteries for electric vehicles and factory projects related to the manufacture of equipment for renewable energy generation and defence. Illustrating the lags for the factory projects that typically influence the sector's growth, and which require a large upfront investment, most construction underway now was largely signed off in 2021 and 2022, or in the case of defence-related projects, are benefiting from an increased government focus on capital spending. Take-up for warehouse space is strong, but an increase in second-hand space being vacated and low levels of demand for either large floorspaces or custom build-to-suit facilities mean activity is more dependent on

speculative investment. However, appetite to invest has been affected by the flatlining economic growth of previous years, which is now followed by further uncertainty and the likelihood of rising interest rates and costs of finance. As a result, although there are large schemes planned at well-connected logistics hubs, the actual volume of speculative warehouse space under construction has reduced sharply over the last 18 months. The deterioration in the economic outlook is, therefore, a major factor behind the forecast for a fall in activity this year. The ONS has confirmed that construction work on data centres is classified in the warehouses sub-sector and this continues to be a growth area, albeit skewed towards the end of the forecast period and highly dependent on A.I. investment. Large projects and hyperscale data centres have been announced over the last 12-18 months but there are two issues that may not see growth come through as quickly over the medium-term: grid capacity and competition for land with other industrial uses such as logistics and distribution.

## Industrial Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

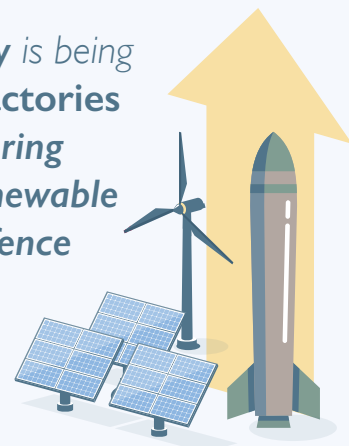
Output is expected to fall 2.4% in 2026. Although main works continue on defence-related manufacturing facilities and gigafactories, new factory starts are expected to be delayed and a contraction is also forecast for warehouse construction as both demand and investor confidence falter. As sector growth is typically driven by large projects, the return to growth over the forecast period will remain contingent on confidence and domestic and global economic developments during 2026.

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

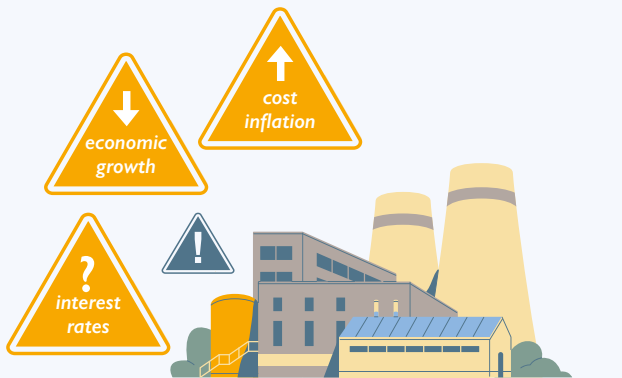
Output in the **factories** sub-sector, the largest risks to the outlook are slower economic growth, cost inflation and a reversal in the expected path of interest rates, impacting final decision-making on large capital investments.

Nevertheless, there are large projects currently underway to build facilities for the manufacture of renewable energy, electric vehicle batteries, and defence equipment, many approved several years ago in 2021 and 2022, which are expected to continue. Work on the largest factory project in the pipeline, Tata Group's £4.0 billion Agratas gigafactory in Somerset, began in Summer 2025, with completion one year later than scheduled in 2027 after pauses to reduce the redesign for a smaller floorspace. The steel framework is now complete and, if further stages of construction get 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 even before the conflict in

**Current activity is being driven by gigafactories and manufacturing facilities for renewable energy and defence equipment**



The **largest risks** to the outlook are **slower economic growth, cost inflation and changes to the expected path of interest rates** impacting final decision-making on **new capital investments**



the Middle East, a stance that will particularly affect projects linked to automotive manufacturers or foreign investors that are directly affected by uncertainty around global economic growth and cost and supply chain issues.

Nissan and Envision AESC's second gigafactory became operational in early 2026 and plans for its third gigafactory, also in Sunderland, were approved in September 2024. Plans to develop a gigafactory at Coventry Airport received planning approval in 2022, with the local authority likely to have to extend permissions as it has yet to find an investor. The project is a joint venture between the airport and the local authority and received £35 million for site preparations as part of funding for the West Midlands Investment Zone in 2024. Coventry Airport is scheduled to close in June to enable early infrastructure works to begin but hopes that a battery manufacturing firm currently using the UK Battery Industrialisation Centre nearby would commit to the site for developing its own gigafactory have still not been realised. Given the issues in attracting an investor to date, any work

beyond preliminary site preparations 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. Sumitomo Electric's £350 million sub-sea cable factory broke ground in Ayrshire in 2024 H1 and is expected to complete in mid-2026 to supply the cabling for the Sea Link connection between Suffolk and Kent. In 2025 H1, LSEAC announced plans for a £923 million sub-sea cable factory at the Port of Tyne, whilst Siemens Gamesa received planning approval for a 61,000 sq. ft. expansion to its wind turbine manufacturing facility in Hull. XLCC's £150 million sub-sea cable factory, also in Ayrshire, was allocated £90 million in funding from the NWF in September 2024, but start dates have been pushed back twice. In November, the project was officially paused after the government blocked permission for a UK-Morocco interconnector pipeline that would use its components. If cost increases affect viability for renewable energy projects, particularly for wind farms, there is a clear risk of directly-related factory projects also being delayed or cancelled.

Reflecting the move by governments to increase defence spending, main works are underway on the £400 million, ten-year project to expand the Sheffield Forgemasters steelworks facility for manufacturing nuclear components for the Ministry of Defence, to be followed by construction of a test facility that has been submitted for planning approval. The main works contract was awarded in December. In May, a final investment decision confirmed construction of a new advanced gun barrel manufacturing facility in Telford, to commence production in 2027. The AUKUS security and defence partnership between the UK, Australia and the United States has also underpinned Rolls-Royce's plans to double the size of its Raynesway nuclear submarine manufacturing facility. Construction partners were selected in September. The government's Strategic Defence Review in June announced £1.5 billion of funding to build at least six munitions and energetics factories. 13 potential sites were announced in November, with expectations that the first will begin construction this year. 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 is expected to complete this year, with a combined heat and power plant to follow. A new tissue paper mill to be built at the Humber Freeport was approved in September, with the project now pending final investment approval. Insulation manufacturer, Knauf, confirmed in May that its £170 million new mineral wool factory would also be built in Shotton, starting this year with completion by the end of 2027. Saint-Gobain's plans for a new stone wool insulation factory were announced in May and follow a similar schedule. Another insulation manufacturer, Rockwool, announced plans to purchase a site for a new facility near Birmingham, which is designated specifically for manufacturing use in the council's development plan. A full planning application will be submitted by early 2026, with an aim to open the facility in 2029.

Despite the lingering uncertainty that was present even at the end of 2025, there have still been some new projects announced in recent quarters. Italian render manufacturer Fassa Bortolo received planning approval for a new UK factory HQ in Ilkeston in February, JCB announced a £100 million upgrade to its Staffordshire facility and Howdens announced a £100 million, three-year expansion at its Runcorn factory. In March, the German manufacturer, Vestas, announced plans to build a £200 million factory for the manufacture of wind turbine components in Scotland, although the final investment decision will depend on the order volume received for work under the AR7 and AR8 contracts for difference allocation rounds.

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 April, which will include varying assumptions over the impact of the Middle East conflict, the median forecast for manufacturing output growth was for an increase of 0.4% in 2026 and 0.8% in 2027. Manufacturing businesses will be contending with higher operating costs after rises in the National Living Wage and employers' National Insurance Contributions, and falling thresholds, as well as the new higher business rates multiplier for large facilities from April 2026. More pertinently, risk aversion is likely to linger throughout 2026 as the full impact of geopolitical conflict on global supply chains and logistics is unknown and difficult to predict. Consequently, appetite for new capital investment not already committed is likely to decrease significantly, given high levels of uncertainty around the domestic economic recovery, as well as the strength of global demand and developments related to trade and input price inflation. Work is expected to continue on existing projects, but decision-making on new projects is expected to be extended, leading to a 1.0% fall in output in 2026. In addition, the long lags between planning approval, contract award and construction start are likely to lengthen for projects earlier in the pipeline.

#### **Upper Scenario:**

- Investments in new manufacturing facilities progress more quickly

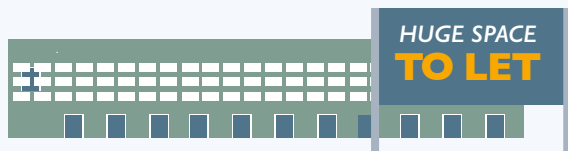
Clear signs of definitive investment secured for the gigafactory in Coventry would provide a considerable uplift to growth prospects for the sub-sector over the second half of the forecast period, whilst shorter lags between project approval and construction start for factories in the early pipeline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

#### **Lower Scenario:**

- Manufacturers delay or cancel investment plans

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

**Take-up remains weak**  
for build-to-suit warehouses  
and floorspaces of more than  
**100,000 sq. ft.**



In the **warehouses** sub-sector, recent data has been mixed and a deterioration in the economic backdrop and rising uncertainty are expected to weigh on confidence and investment this year. Occupier take-up was reported to have picked up to the highest in three years in 2025, although build-to-suit (space being constructed specifically for a signed-up tenant) take-up of typically larger, more technical space, remains low. Furthermore, take-up of units over 100,000 sq. ft. is still below the ten-year average, whilst historically high vacancy rates and an increase in second-hand space are limiting speculative development, according to commercial estate agents. New orders fell 45.7% between 2021 and 2024 and rose only 1.7% in

2025, which suggests the pipeline of construction is settling back at 'normal' pre-pandemic levels. As with all privately-financed sectors, new investment in warehouses will need to factor in a revised trajectory for interest rates and financing costs, which raises the risks around viability and this is expected to see decisions on new developments delayed.

Commercial estate agents and warehouse developers had been reporting a 'normalisation' of occupier demand and investment demand after the rapid growth post-pandemic. According to Savills, the speculative pipeline of warehouses construction peaked at 21.6 million sq. ft. in 2022 Q2, gradually reducing to only 6.1 million sq. ft. at the end of 2025. Part of this has been due to an increase in second-hand space and a fall in demand for build-to-suit warehouses. Take-up of build-to-suit space was 10.0 million sq. ft. in 2025, which is one-third lower than the five-year average before 2020. Nevertheless, there is some speculative activity underway. 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, and this is expected to worsen during 2026. Vacancy rates for existing space have increased, mainly due to an increase in second-hand space. As in the commercial sector, occupiers are placing energy efficiency and ESG credentials as a high priority. Given that vacated and second-hand space is likely to be lower quality Grade B or C, there may also be a greater stream of improvement work, as in other non-residential sectors. Savills recorded that in 2025, 78% of take-up was for Grade A space, up from a pre-pandemic average of 68%.

Despite lingering uncertainty, higher operating costs and a rise in the business rates multiplier for properties with a rateable value of over £500,000 from April, 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. Competition for land with data centre developers is also likely to be a growing issue.

There are still large projects in the pipeline, including a £100 million, 48-acre logistics complex in Leicestershire (G-Park) and a £100 million warehouse complex in County Durham (Forrest Park), both of which were approved before 2022, are being developed with build-to-suit units. Projects submitted for planning approval over the last 12-24 months are now progressing through to construction, including the 1.3 million sq. ft. logistics park in Crewe (Weston M6), 505,000 sq. ft of warehouse space at TN2 Gateway in Tunbridge Wells, a speculative 250,000

sq. ft. logistics facility at Coton Park, Rugby and the start of work for British Land's multi-level last-mile logistics hub in Southwark, with a scheduled completion at the end of the year. 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. The former Honda plant in Swindon will have a long-term redevelopment into a £900 million logistics park with 7.2 million sq. ft. of space. The first phase of development, a 915,000 sq. ft. unit, completed in March. Reflecting the expansion plans of grocery retailers, work has recently started on Lidl's £150 million 600,000 sq. ft. distribution centre in Morely, near Leeds, whilst Marks & Spencer awarded contracts for its new 1.3 million sq. ft. national food distribution centre at the Daventry International Rail Freight Terminal (DIRFT).

Further out in the pipeline, and, therefore, those projects which are most susceptible to delays due to uncertainty, Henry Boot Developments aims to deliver £1.0 billion of schemes over the next seven years, whilst approval was given for 1.6 million sq. ft. of logistics facilities at the Liverpool City Region Freeport in March. 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 ONS has confirmed that construction work on data centres will be classified within the warehouses sub-sector. The CPA had previously assumed that whilst some would be classified within industrial, the majority would be classified within the commercial sector. It is also important to note that despite the large value of data centre projects, they are unlikely to all be classified as construction work. For example, out of the £1.3 billion data centre in Wickford, Essex, submitted for outline planning approval in October, the construction element is around £500 million over seven years.

There is a significant and substantial demand for data centres – facilities that store IT infrastructure to run and store digital data – and it has been classified as Critical National Infrastructure. The pipeline has grown in the last 18 months, including large projects from Google in Hertfordshire and Microsoft, which 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, an energy-from-waste facility and battery storage. These existing projects are likely to be included in its recent announcement of £11 billion investment in the UK. Also in the planning stages, Segro has received planning approval for its £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, whilst the £1.7 billion London Data Freeport in Havering with 3.55 million sq. ft. of new floorspace, which was first outlined in 2022, is still awaiting formal approval.

Plans for Europe's largest data centre, the £3.9 billion, 87,000 sq. m. Hertfordshire Campus, were approved early last year and construction is expected to start in 2027 after the developer sold the land to the operator in October. The size of this project was subsequently surpassed by a £7.5 billion development of 15 data centre halls in Scunthorpe, spread across ten years of construction, which received planning approval in March. 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 2025, with preparatory works given the go-ahead in August. As with other large industrial and commercial projects, large lags are anticipated within the data centres niche to reflect planning delays and uncertainty over occupier demand, particularly as speculative developments underway lead to a considerable increase in supply. However, the largest constraint on activity will be grid capacity issues and connection delays, apart from those projects that are redevelopments of former power stations that already benefit from power connections.

New orders in the sub-sector reached a record high in 2021, but fell across 2022, 2023 and 2024, underpinning the fall in activity that began in 2023. There are, therefore, questions over the ONS data for industrial – and warehouses – which shows a 24.7% growth rate for 2024. The CPA forecast is for activity on the ground, rather than matching ONS data. It was previously assumed that it will take 6-12 months for newly-approved warehouse projects to move into construction but this timeline may be optimistic if uncertainty lingers. Investors and developers will need to assess the impact of potential rises in interest rates this year and assess how demand from retail and logistics responds to a more challenging economic environment. Large data centre projects are only likely to accelerate from 2027 and, even then, are reliant on quick grid connections and continued A.I. investment. Output is now forecast to contract 5.0% in 2026, compared to a fall of 1.0% forecast in Winter, reflecting lower speculative activity and potential occupiers in 'wait and see' mode for longer.

#### **Upper Scenario:**

- Warehousing and storage requirements related to freeports and 'nearshoring'

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. Freeports may also see an increased appeal for larger new developments, given relief on business rates and employers' National Insurance Contributions.

#### **Lower Scenario:**

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

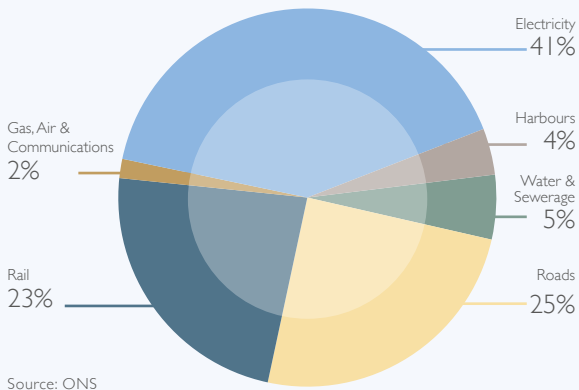
A lengthy period of low interest rates that supported warehouses development ended in 2022 and if borrowing costs are increased, margins, yields and viability will also deteriorate further and lead to lower investment in new projects, both speculative and build-to-suit. Economic uncertainty remains the 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. Data centres are likely to be subject to the same investor uncertainty, particularly if take-up is subdued this year.



# Infrastructure

Infrastructure output is forecast to increase steadily over the forecast period, driven by investment to enhance and expand the UK's energy, water, and sewerage infrastructure. However, the extensive use of energy-intensive materials in infrastructure projects exposes the sector to inflationary pressures, and the outlook has been downgraded. Viability remains stretched in privately financed sub-sectors, including offshore wind, and publicly funded transport projects are likely to be especially sensitive to cost inflation following the impact of the Ukraine war in 2022.

**Infrastructure Output by Sub-sector  
2025 (%)**

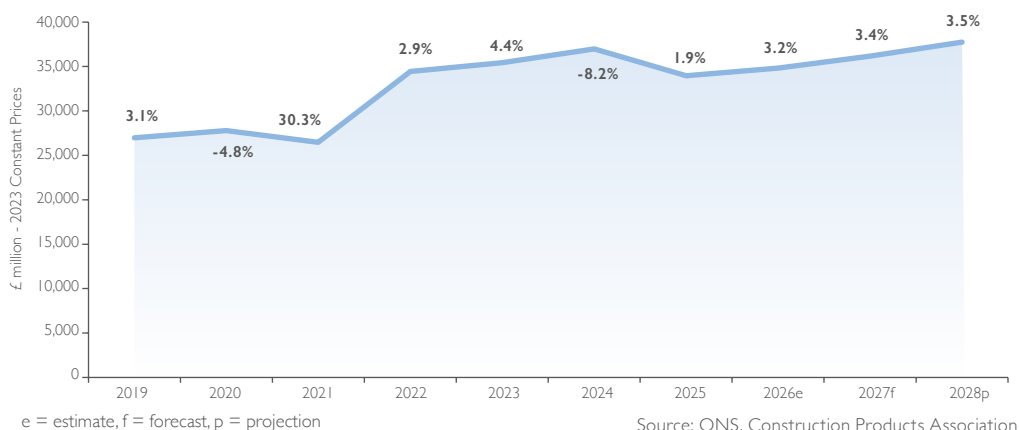


Please note that the Office for National Statistics (ONS) has issues with its measurement of the sub-sectors in infrastructure. Firstly, the ONS's methodology means that although total infrastructure overall may be fine, sub-sector output is determined by the average time between new orders and output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

Infrastructure output will be sustained by work on major energy infrastructure projects, including Hinkley Point C, Sizewell C and the expansion of the UK's electricity transmission and distribution networks, alongside strengthening momentum in the water sector as firms progress with AMP8 investment plans. However, downside risks have strengthened significantly since the last forecast, due to the anticipated inflationary impact of the Middle East conflict and uncertainty about near-term investment in roads and rail. The outcome of the HS2 reset has been delayed until Summer, and although the next Road Investment Strategy 3 (RIS3), which was due to start in April 2026, has now been published, the National Highways business and delivery plan has not been finalised. In addition, this sector is exposed to the inflationary impact of the Middle East conflict on the prices of oil, gas, aluminium and petrochemicals. Additional cost pressures may affect viability and restrict near-term delivery in both the private and public sectors. Output is forecast to increase by 3.2% in 2026, 3.4% in 2027 and 3.5% in 2028.

## Infrastructure Output



The Department for Transport's (DfT) capital budget is set to rise steadily throughout the early part of the forecast period, from £21.6 billion in 2025/26 to £23.0 billion in 2026/27 and to £24.8 billion in 2027/28 before reducing to £22.7 billion in 2028/29. The DfT's base allocation includes capital funding for elected mayors via Transport for City Regions settlements for investment in local transport priorities, including net zero buses, trams and local rail. £7.5 billion is earmarked for investment between 2026/27 and 2029/30. Capital funding for the Department for Energy Security and Net Zero (DESNZ) is set to fall from £11.4 billion in 2025/26 to £8.4 billion in 2026/27 and £9.7 billion in 2027/28, and £11.5 billion in 2028/29.

The Department for Environment, Food and Rural Affairs (DEFRA) has secured £8.4 billion in capital funding between 2026/27 and 2028/29.

TfL's 2026 Business Plan sets a capital budget of £1.88 billion in 2026/27, a 3.6% uplift compared with 2025/26. Beyond 2026/27, capital spending is expected to rise to £1.92 billion in 2027/28 and £1.93 billion in 2028/29. Autumn Budget 2024 allocated £485 million to TfL's capital renewals programme in 2025/26, with funding of £2.2 billion allocated between 2026/27 and 2029/30 in the 2025 Spending Review.

The Scottish Government's Budget 2026/27 suggests the capital funding budget for transport will rise by 11.1% to £2.3 billion in 2026/27, up from £2.1 billion in 2025/26. Capital investment in rail accounts for nearly 50% of the total, and the sub-sector's capital funding is due to rise by 3.9% in 2026/27. The capital allocation for sustainable and low-carbon travel will increase by 37.6% to £314.2 million, while the capital budget for trunk roads is set to increase by 13.6% to £632.8 million.

Beyond 2026/27, infrastructure capital investment in Scotland will be guided by the Scottish Government's next ten-year Infrastructure Strategy spanning 2027 to 2037. The Strategy is currently under consultation and due to be finalised later this year.

In Wales, Final Budget 2026/27 sets a £561 million capital allocation for transport, up by 6.1% compared with 2025/26.

**Infrastructure output**  
is forecast to rise by

**3.2%** in 2026

**3.4%** in 2027

**3.5%** in 2028



**£46.2 billion**  
spent on HS2 so far



(including **£2.6 billion** on Phase 2  
which was scrapped in October 2023)

Source: Department for Transport

With work on HS2 restricted to essential activity while the programme reset takes place, output in the **rail** sub-sector is forecast to fall by 3.0% in 2026 and remain flat at this lower level in 2027, before rising by 1.0% in 2028.

With the government's cost and programme reset for High Speed 2 (HS2) now delayed until Summer, the medium-term outlook for the country's largest rail project remains uncertain. The project's expected final cost will not be updated until the programme reset concludes. The most recent cost update was shared with the HS2 board in June 2024, suggesting the final cost could fall within the £54 billion to £66 billion (2019 prices) range, significantly higher than the £49 billion to £57 billion estimate provided in the six-monthly report to Parliament in November 2023. The current

energy price spike presents an additional commercial challenge to the delivery of HS2 and will compound the impact of the pre-war increase in copper prices, triggered by supply disruption, stockpiling, and strong demand driven by the global electrification drive. The government has confirmed that mobilisation has slowed on the rail systems and controls contracts awarded in early 2025, and that work on rail systems will not start on site until civils works have been completed.

According to the latest Parliamentary update in March 2026, £43.6 billion (nominal prices) has been spent on HS2 Phase 1 to date, with a further £2.6 billion spent on HS2 Phase 2, which was scrapped in October 2023. Civils work has accounted for two-thirds of the total spend so far on HS2 Phase 1, totalling £30.7 billion, with £2.9 billion funding station works, £2.1 billion on systems, and £7.8 billion on land, property and indirect costs. The Spending Review 2025 suggested that £7.1 billion would be made available for HS2 in 2025/26, with further allocations totalling £25.3 billion through to 2029/30 on a nominal basis. It was suggested that funding would stabilise at £7.1 billion in both 2026/27 and 2027/28, then reduce to £5.6 billion in 2028/29 and £5.5 billion in 2029/30. However, this remains provisional pending the conclusion of the project reset in the Summer. Actual spend on HS2 in 2025/26 is estimated to fall short of the budgeted spend by around £200 million due to delays to the programme of rail systems and controls works.

Civil engineering work on HS2 Phase 1 is progressing. Deep-bore tunnelling between Old Oak Common and Birmingham Curzon Street was completed in October 2025, and tunnelling on the final stretch linking Old Oak Common with London Euston commenced in 2026 Q1. By February, 70% of earthworks had been completed, and significant progress was made on major bridges, viaducts and embankments during 2025. At HS2 stations, piling work at Birmingham Curzon Street Station was completed in March, including retaining walls, and work has started on the foundations. At Interchange Station, ground investigation works are complete, and detailed design is progressing. At Old Oak Common Station, below-ground platform installation is ongoing – work has started on all six platforms – and architectural columns have been completed. Above-ground conventional construction is progressing. Blockwork trades are on-site, and public realm work has commenced. Roof assembly is the next major phase.

In October 2024, the government confirmed that HS2 would terminate at London Euston and publicly-funded tunnelling work between Old Oak Common and Euston is now in progress. The development of Euston Station and the surrounding area will be funded privately, but a solution has yet to be found. A government-backed Euston Delivery Company has been established, and procurement to appoint an engineering and design partner to develop plans for Euston Station

and the surrounding mixed-use development is underway. Work on this £300 million contract is expected to start in early 2027.

Network Rail's (NR) Control Period 7 (CP7), worth £44.0 billion (2023/24 prices), started in April 2024 and will run to 31 March 2029. During CP7, NR plans to invest £19.3 billion in renewals, £12.6 billion 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 the 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 on tracks, £3.2 billion on signalling, £2.2 billion on structures and £1.8 billion on electrification and fixed plant.

Actual investment, however, fell short of planned levels in the first year of the programme due to higher-than-anticipated expenditure on reactive maintenance and the reprioritisation of investment earmarked for renewals. NR's performance between April and October 2025 suggests underspend is also likely in year two. NR's half-year results report forecasts a £38 million shortfall in capital expenditure in 2025/26 due to underperformance in track, signalling, buildings renewals, and enhancement work. Cost inflation affected progress on several enhancement projects in the first six months of 2025/26, including Cambridge South, Darlington and the Northumberland Line, and there is a risk that increased inflationary pressure due to the conflict in the Middle East will impact delivery in the third year of CP7.

Work is progressing on the TransPennine Route Upgrade (TRU) – NR's long-term programme to improve and electrify the route between Manchester, Huddersfield, Leeds and York – after Spending Review 2025 allocated further funding of £3.5 billion to the project through to 2029/30. Work is complete on 25% of the project, and electric trains run between Manchester and Stalybridge and York and Church Fenton. Work is now focused on Huddersfield and Greater Manchester. In Huddersfield, a public consultation is underway on proposed line upgrades between Standedge and Gledholt, along with the refurbishment of Marsden and Slaithwaite stations. In Greater Manchester, NR is currently seeking planning approval for the 9.7km section between Stalybridge and Diggle (Saddlesworth). Work on this section includes modifications to ten listed bridges and the upgrade of Mossley station. The estimated cost of delivering this section is £225 million.

As Connection Stage 1 (CS1) of East West Rail (EWR) prepares to come into operation, major design changes to subsequent phases have been announced in response to public feedback. Connection Stage 2 (CS2) plans to upgrade the Marston Vale line between Bletchley and Bedford, and Connection Stage 3 (CS3) plans to deliver a new line between Bedford and Cambridge. Following consultation, more than 80 design changes, including the addition of a new station at Cambridge East to the project scope and new entrances at Cambridge and Bletchley stations, have been identified. Spending Review 2025 allocated £2.5 billion to accelerate the design and delivery of work on the Marston Vale section through to 2029/30, and pre-construction survey and design work is underway. A start date for main construction work has not been confirmed, and design changes – and cost inflation – may affect progress.



**£1.1  
billion**

*investment in*

**Northern Powerhouse Rail  
design development** *between  
2026/27 and 2029/30*

*Source: Department for Transport*



Design will also be adjusted to support the reopening of the Cowley Branch Line, which received government funding totalling £120 million in October last year. Public sector funding will be supplemented with £35 million from the Ellison Institute of Technology (EIT) and other local stakeholders to reopen the line and build stations at Oxford Cowley and Oxford Littlemore. Design is, however, at an early stage and construction work is unlikely to start on this project within the current forecast horizon.

Preparatory work is underway to support the reopening of the line between Bristol and Portishead after the project was granted funding in July 2025. This paves the way for work on this £152 million project to start in Spring/Summer 2026 and complete in 2028. This project includes new stations at Portishead and Pill. Work is also underway on Transport for Greater Manchester's £150 million upgrade programme to

boost the capacity and resilience across the Bee Network. Planned work includes maintenance, upgrades and full track replacements at several locations. Construction work is also progressing on the next phase of the £295 million West Midlands Metro extension, connecting Wednesbury to Brierley Hill. Work on the 11km extension started in early 2025 and is due to be completed in 2028. However, the new £100 million Liverpool Baltic Station, which was due to begin construction in early 2026 and complete in 2028, has been delayed due to limited contractor capacity. The project is now unlikely to complete before 2029.

Transport for London's (TfL) 2026 Business Plan sets out capital investment plans between 2026/27 and 2029/30. From a baseline of £1.7 billion in 2024/25, total capital investment is estimated to have risen to £1.8 billion in 2025/26 and is forecast to reach £1.9 billion annually between 2026/27 and 2028/29. Renewals, averaging £800 million annually, account for the largest portion of capital investment.

Construction work on the £43.9 million upgrade of Pontoon Dock station on the Docklands Light Railway is due to start in Autumn and complete in late 2028. Works include the installation of six new escalators, a mezzanine level, enhanced retail capacity and external landscaping. Funding for the redevelopment of South Kensington tube station has been approved. The project aims to improve accessibility and increase capacity. Detailed design and procurement are due to take place this year, and enabling work is due to start in late 2026.

In January, the government announced a revised plan for Northern Powerhouse Rail (NPR). NPR is set to be delivered in three phases and will include the development of new rail lines and stations, as well as upgrades to existing lines and stations. The first phase will deliver electrification and upgrade work to the Leeds-Bradford, Sheffield-Leeds and Leeds-York lines, plus a new station at Bradford and upgrades to Leeds and Sheffield stations. The second phase is due to upgrade and expand infrastructure between Manchester Piccadilly and Liverpool, whereas the third phase will build on cross-Pennine improvements delivered by the TPU programme. A funding commitment of £1.1 billion between 2026/27 and 2029/30 is for the development of design and engineering solutions, but construction work is unlikely to start within the forecast period.

The Scottish Government's 2026/27 Budget allocates capital funding totalling £1.1 billion to rail in 2026/27, a 3.9% increase compared with the 2025/26 budget, driven by additional funding for rail services rather than investment in network and rail infrastructure improvements. The allocation for rail infrastructure improvement and rolling stock projects is £132.5 million

in 2026/27, a 16.5% reduction compared with 2025/26. The capital budget for network infrastructure investment is set at £479.3 million, a 0.6% reduction year-on-year before adjusting for inflation. This is part of a wider medium-term capital funding settlement for transport: £2.3 billion in 2026/27; £2.4 billion in 2027/28 and £2.5 billion in 2028/29.

NR is seeking contractors for a £300 million rail electrification framework in Scotland, initially spanning March 2027 until February 2032. The framework will deliver the electrification of overhead lines, traction power systems, power distribution, associated ancillary works and design. Electrification work is currently underway on a £342 million project in Fife and the Borders, which is due to complete in July 2027.

The Welsh Government's Final Budget for 2026/27 set a capital budget of £561 million for transport, a 6.1% uplift from £529 million in 2025/26. Funding will support the first £100 million phase of Cardiff Crossrail, linking Cardiff Central and Cardiff Bay. Subject to final agreement on cost, work on this section could start in Summer 2026, with completion targeted for Summer 2028. The first phase consists of a dedicated Crossrail station on the south side of Cardiff Central Station and the route traversing Callaghan Square, before meeting the existing rail line running from Queen Street Station to Cardiff Bay.

With funding now secured, construction work on the £140 million upgrade of Cardiff Central station is due to start later this year. Approved works plan to increase capacity and accessibility by creating a larger concourse, in addition to improving waiting areas and enhancing the station's retail offer. Work is due to complete in 2028.

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 made £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 appears insufficient to fully deliver these projects and how this funding shortfall will be resolved has not yet been established.

Network Rail Wales and Borders recently submitted the full business case to the Department for Transport for the South Wales Relief Line Upgrade. If approved, the proposed project to upgrade 27 miles of track and deliver six new stations between Cardiff Central and Severn Tunnel Junction will progress to design and planning.

*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 £8.6 billion in 2017. Rail output rose 50.3% in that year and 37.9% 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 based on actual on-the-ground activity.*

### **Upper Scenario:**

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

Tunnelling work between Old Oak Common is due to commence imminently. If a swift privately-financed solution to the development of Euston station is found, it could provide some additional output later in the forecast period.

### Lower Scenario:

- Stronger cost inflation due to the conflict in the Middle East impacts the delivery of rail enhancement projects
- The HS2 reset makes significant changes to project scope or programme

The rail sector will quickly face strengthening cost inflation due to the extensive use of energy-intensive materials and plant, and the widespread use of inflation adjustment mechanisms in contracts. In addition, the systems phase of HS2 work could be further delayed amid rising inflation concerns. The forecast assumes that strengthening cost inflation will cause some delays to project procurement, as rising costs are factored into business plans. However, the extent of the impact will depend on the scale of the cost shift, and a larger spike in inflation, or inflation remaining high for a longer period, raise the likelihood of delays.

Output in the **electricity** sub-sector is forecast to increase 10.0% in 2026. 6.0% growth is forecast for 2027, followed by a 5.0% increase in 2028. Work to upgrade and expand the UK's transmission grid is progressing at pace, along with the construction of renewable and low-carbon energy facilities. However, downside risks to this projection have strengthened since Winter. Construction cost inflation was already elevated in this sector due to strong demand and limited spare delivery capacity and the recent oil price shock will exacerbate inflationary pressures and worsen viability, particularly for offshore wind projects.

Work on energy infrastructure in the UK will only be captured in the construction output statistics if firms appointed to complete the works are officially classified as construction companies. If their primary workstream is electrical engineering or a similar field, these works will be classified elsewhere.

EDF Energy has confirmed that the cost of delivering Hinkley Point C has increased to £35 billion in 2015 prices, up from a base-case estimate of £34 billion in 2015 prices made in 2024, and almost double the estimated £18 billion at the time of approval in 2016. Reactor one is expected to start producing electricity in 2030, which falls within the 2029 to 2031 range cited in 2024 but it is significantly later than the 2025 operational date previously targeted. Programme delays are due to a range of factors, including disruptions caused by the global pandemic, design changes required to ensure the reactor met UK regulations, the unanticipated complexity of marine works for the cooling water systems, and the impact of challenging ground conditions.



**Sizewell C workforce**  
has risen to  
**2,000** on site, with  
**contracts** valued at  
**£3 billion**  
awarded to suppliers

Source: Sizewell C

Work on unit one's external structures is nearing completion. The installation of the steam generators is progressing, along with pipes, cabling and equipment. M&E systems are being installed, and testing of the electrical switchboards has commenced. Civils work on the pump house, the largest structure on the entire site, was scheduled to complete by the end of 2025. The second reactor building is now watertight after the dome was craned into place in July. EDF reports that experience gained during the construction of reactor one is helping to expedite delivery of the second, with work progressing 20% to 30% faster. The facility's second nuclear reactor arrived onsite in January and tunnelling is about to start on the second of three fish protection tunnels.

In Suffolk, Sizewell C achieved financial close in November 2025 and raised around £5.5 billion of

new finance to enable full-scale construction work to start. Civil Works Alliance (CWA), a delivery partnership formed between Laing O'Rourke, Balfour Beatty and Bouygues Travaux Publics in 2025, will act as a single delivery organisation for the civils programme. Constructing the power station is expected to cost at least £38 billion, in 2024 prices, and to take more than a decade to complete. The agreements on private investment to build the new nuclear power station have been reached through a Regulated Asset Base (RAB) model.

Nearly £1.0 billion in contracts for works relating to Sizewell C have been awarded so far, and the project's current workforce totals close to 2,000 people. Major off-site supporting infrastructure work is underway, including two new roundabouts on the A12 to improve site access and ease congestion, as well as on-site enabling works.

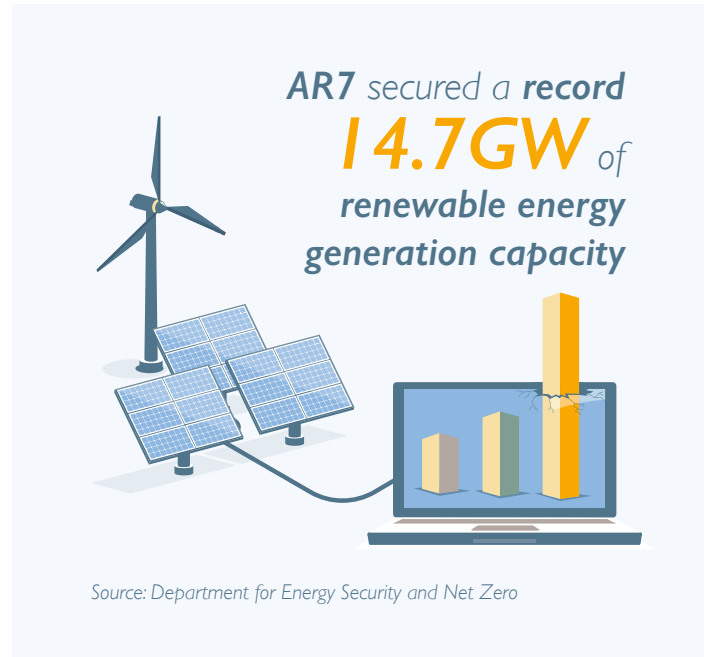
Through to 2024/25, the government had invested £1.7 billion in developing Sizewell C and the Spending Review 2025 committed a further £14.1 billion of public sector funding to the project between 2025/26 and 2029/30. Public funding for Sizewell C in 2025/26 was set to rise to £2.7 billion, increasing to £2.9 billion in 2026/27 and £3.2 billion in 2027/28.

In November, the government announced that the UK's first small modular nuclear reactor (SMR) – led by publicly-owned Great British Energy Nuclear (GBE-N) and using reactors designed by Rolls-Royce SMR – will be developed at Wylfa on Anglesey in North Wales. A £300 million contract to support the deployment of the reactor technology at the Wylfa site was awarded in April. Subject to development consent and regulatory approval, construction work on the £2.5 billion project could start as early as next year, but this project is excluded from the forecast until the start date is confirmed. Initial plans allow for three SMRs on the site, but the site has the capacity to host up to eight mini-reactors.

Turning to the expansion and enhancement of transmission infrastructure, Ofgem published its Final Determinations for firms during the RIIO-T3 investment period in December, to upgrade grids, boost resilience and support the country's shift to electrification. The regulator's Final Determinations for RIIO-3, which started in April 2026 and runs through to March 2031, approve an initial £28 billion of expenditure. Of that, £17.8 billion is earmarked for gas networks and £10.3 billion for electricity transmission. Overall, Final Determinations are 16% higher than the Draft Determinations and Ofgem says the total programme across gas and electricity could reach about £90 billion by 2031 once all projects and phases are accounted for. The regulator will release further funding when requirements and costs become clearer.

National Grid is making progress with its RIIO-T3 investment plan. Electricity transmission and distribution projects currently progressing on site include: Yorkshire Green – a £400 million project to upgrade and reinforce Yorkshire's power network; the £363 million Bramford to Twinstead Reinforcement project to strengthen network resilience between Branford Substation in Suffolk and Twinstead Tee in Essex and the £230 million Grain to Tilbury enhancement project involving the construction of a new 2.2km long high voltage (400kV) cable tunnel and includes two 35m deep shafts (15m and 12m diameter respectively), headhouses and Cable Sealing End (CSE) compounds. Work on these schemes is due to complete by 2029.

Main construction work is 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 high voltage



direct current (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.

Contracts with a value of close to £6 billion have been awarded for HVDC converter station construction and subsea and underground cable supply for Eastern Green Links 3 and 4. Eastern Green Link 3 (EGL3) plans to connect Aberdeenshire in Scotland with West Norfolk in England via a 690km link, capable of transporting enough energy to support around two million homes. Subject to relevant approvals, construction work is due to start in 2028 and complete in 2033. Eastern Green Link 4 (EGL4) is a proposed subsea tunnel connecting Fife in Scotland with West Norfolk in England. Contracted works include the provision of converter stations and the supply of subsea and underground power cables. The link will span 640km and transfer 2GW of electricity. Subject to planning consent, main construction could begin in 2028 and complete in 2033.

In early 2026, SSEN Transmission awarded contracts worth £1.8 billion for two major subsea links in the north of Scotland. Early work has commenced on the first of the two links – Spittal to Peterhead, a 203km subsea electricity link that will transfer renewable power from Caithness to Aberdeenshire – and the start of main construction work is imminent. The second is a proposed link between the Western Isles and the Scottish mainland, which is at an earlier development stage. Enabling work is progressing as design is developed and refined. Both projects are part of SSEN Transmission's £29 billion Pathway to 2030 programme.

Procurement is underway for National Grid's £80 million high-voltage cable installation framework, covering the installation of 66kV and 132kV cable circuits, earth wires, continuity conductors, and telecommunications ducts. The framework is due to start in May 2026 and run until May 2027, with the possibility of a 12-month extension to May 2028.

In Wales, National Grid has submitted planning applications for network upgrades in the north west of the country. Proposed works include the upgrade of Pentir and Trawsfynydd substations, replacement cabling beneath the Glaslyn estuary between Wern and Minffordd in Porthmadog, and the construction of a new substation around Bryncir. Subject to planning approval, construction work is due to commence in Summer.

In terms of construction projects related 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 for the past decade. Allocation Round 7 (AR7), the 2025 procurement round, agreed a record 14.7GW of renewable capacity across wind, solar and tidal generation. By type this included: 8.4GW of fixed and floating offshore wind capacity through 12 schemes; 4.9GW of solar capacity across 157 schemes; 1.3GW of onshore wind capacity via 28 schemes; and 20.9MW of tidal power through four projects. Construction for these onshore wind, solar PV, and tidal schemes is due to start between 2027 and 2029, with offshore wind projects generally expected to start after 2029, except for Norfolk Vanguard East, which may start in 2028/29. In response to the energy price shock, the government has announced plans to advance the next renewables auction. AR8 will now take place in July 2026.

In recent years, strong cost inflation has challenged viability and impacted the delivery of offshore wind schemes. Projects have been cancelled and out of the nine successful schemes in AR6, only two were new. The other seven projects had been successful during previous rounds but opted to re-enter the AR6 auction to secure a higher strike price. Overcoming the viability hurdle will become increasingly challenging for these schemes as cost pressures build.

The major upgrade of Dinorwig pumped storage hydroelectric power station in North Wales is about to commence. An investment totalling £300 million was recently approved to refurbish two of the site's six turbine-generator sets. Major components will be replaced, including turbine and generator shafts, and work is due to complete in 2029. National Grid is currently upgrading the circuits connecting Dinorwig to the wider grid.

Large projects with long delivery programmes distort official electricity orders and output data. Output in the electricity sub-sector declined 8.3% 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 22.3% 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 17.4% 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:

- Projected demand supports electricity transmission and distribution firms' higher investment scenarios and Ofgem approves additional investment

National Grid and SSEN have set out plans to invest significantly more than their proposed baselines during the RII0-T3 period, and Ofgem remains open to approving additional investment to meet evolving needs. Finance and planning are hurdles to delivery but ones that can be overcome with regulator and government support. If this additional investment is deemed necessary, output growth could be stronger than the forecast suggests, provided the additional funding is not simply used to cover stronger cost inflation.

### Lower Scenario:

- Middle East conflict exacerbates already strong demand-driven inflationary pressure in this sector

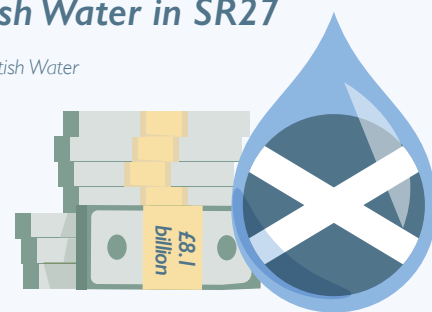
Strong demand in this sector, driven by the need to decarbonise the energy supply and expand grid capacity, was already generating additional cost pressure in this sector before the recent energy price shock. Further cost inflation may quickly impact project viability and deter investment. Tight viability in offshore wind makes investment particularly susceptible to renewed inflationary pressure, especially as the schemes due to start construction earlier in the forecast period have secured a relatively low strike price.

Investment by water companies through the five-year Asset Management Programme (AMP) is the primary driver of activity in the **water & sewerage** sub-sector. Asset Management Period 8 (AMP8) is now underway and, with delivery frameworks established in advance, planned projects are starting to feed through. AMP8 hopes to deliver a step-change in capital investment, but the sector's track record of delivering in line with plans is poor, and anecdotal evidence suggests on-the-ground delivery was slower than expected in the first year. With delivery frameworks in place, output is expected to rise significantly over the forecast period, with 13.0% growth anticipated in 2026, followed by 12.0% in 2027 and a further 5.0% in 2028. But challenges remain and the forecast assumes that AMP8 will prove too ambitious to deliver in its entirety.

Water companies' eighth asset management period (AMP8) commenced in April 2025 and, through to March 2030, water companies across England and Wales have secured regulatory approval from Ofwat to invest a total of £104 billion. The scale of AMP8 is unprecedented, and, at £44 billion, investment in new infrastructure and resources is set to quadruple compared with AMP7. In

Capital funding totalling  
**£8.1 billion**  
approved for investment by  
**Scottish Water in SR27**

Source: Scottish Water



**Procurement underway on new  
£5.7 billion  
White Horse Reservoir project  
in Oxfordshire – enabling work  
could start in 2027**

Source: Thames Water



in addition to the £104 billion approved by Ofwat, the Competition and Markets Authority (CMA) ruled in March that the five water companies that disputed the regulator's determinations can increase revenue by a further £463 million, around 17% of the amount requested. Higher financing costs will absorb a large proportion of this additional funding but some extra finance will also be invested in supply resilience and pollution reduction measures.

Water companies generally failed to meet investment targets during AMP7, which ran between 2020 and 2025. Despite performing relatively poorly in terms of outcomes, most firms overspent against agreed allowances due to higher-than-expected reactive maintenance expenditure, adverse weather, and unexpected increases in input costs (energy, chemicals, materials, and labour).

Earthworks are progressing at the Havant Thicket Reservoir in Hampshire, the UK's first new reservoir in around 30 years. The £340 million reservoir's main embankment will measure 2.8km, reaching a height of 22m, and the main culvert will be 220m long, 7m wide and 6m high. Construction work recently started on a £41 million project to build two 4.6km pipelines linking the new reservoir to Bedhampton Pumping Station. The project is expected to be operational by 2031.

Thames Water is seeking a contractor to design and deliver its £5.7 billion White Horse Reservoir project, formerly known as the South East Strategic Reservoir Option, near Abingdon in Oxfordshire. Enabling work could start on site in 2027 H2, subject to relevant approvals, but main construction work is unlikely to start within the forecast period. This reservoir is one of nine new reservoirs currently progressing through early design and planning, which are due to be delivered before 2050.

Essential repair and improvement work is set to commence at Aldenham Reservoir in Hertfordshire following the recent appointment of a contractor. Work includes replacing an existing dam bank and delivering a reinforced-concrete spillway.

Work is expected to start later this year on United Utilities' £3.0 billion project to refurbish the 110km Haweswater Aqueduct over eight years. The Haweswater Aqueduct Resilience Programme (HARP) will replace six sections of aging tunnel infrastructure and detailed design is progressing. Construction work is now underway on a new £100 million 17km drinking water pipeline across Hampshire. The Southampton Link Main, linking two underground reservoirs to a new storage tank, is expected to take three years to complete.

Procurement is underway for Anglian Water's £1.5 billion Major Infrastructure Delivery Framework. Initial projects for delivery under this framework include key programmes related to coastal waters improvements, alongside process technology and storage infrastructure. The contract is set to commence in July 2026, for an initial term of five years with an option to extend for a further five years.

Southern Water is seeking to appoint contractors to its £1.3 billion Sustainable Drainage and Habitat Restoration Framework, running from June 2026 until June 2031, with the potential to extend for three years. The framework will support projects to improve biodiversity, create sustainable drainage systems, install nature-based land management solutions, restore habitats and provide environmental monitoring.

Construction work on Thames Water's £80 million upgrade of the Slough Sewage Treatment Works is due to start in early 2027. Planned improvements at this facility also include expanding treatment capacity and enhancing pollutant discharge controls. Severn Trent has awarded a contract for the £45 million upgrade of Rugby Newbold Sewage Treatment Works. Construction work is due to start later this year and complete in 2028. The work is expected to increase the facility's permitted dry weather treatment capacity by 28%. United Utilities has begun a £34.4 million upgrade at its Crewe wastewater treatment works, which aims to reduce levels of ammonia and phosphorus discharged into the River Weaver.

In Cheshire, work is underway on a £48 million project to upgrade the sewer network around Knutsford. The first phase of the project involves tunnelling a 1.8km underground pipeline from the Moor Pool pumping station to the Knutsford wastewater treatment works, with the second phase focusing on the health of the local watercourse. The project is due to complete in 2027.

Scottish Water is in the penultimate year of the SR21 regulatory investment period, spanning 2021 to 2027 and it has published its final business plan for SR27, covering investment in 2027 through to 2033 period. Total funding of £13.4 billion over the SR27 period is proposed, including a capital allocation of £8.1 billion for expenditure on pipes, treatment works, and related infrastructure. The final capital allocation is £400 million lower than suggested in the draft plan due to affordability pressures but, overall, the plan sets an ambition to increase asset maintenance spending by 24% compared with SR21. During SR27, Scottish Water plans to invest £1.29 billion in water treatment asset maintenance and enhancement, £686 million in water distribution infrastructure, £427 million in abstraction and raw water transfers, and £318 million in water storage facilities.

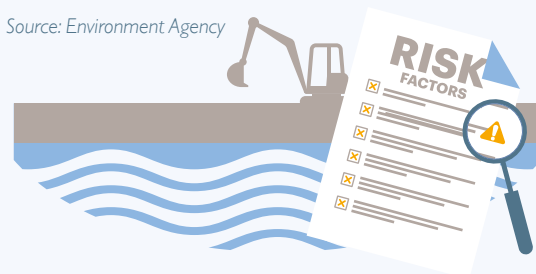
Procurement is underway on the Environment Agency's £5.5 billion Collaborative Delivery Framework 2 (CDF2). CDF2 is due to run from February 2027 until February 2035 and will support the Agency's maintenance, refurbishment, and construction programmes across a range of assets from flood and coastal risk management to biodiversity. Work under CDF2 will include nature-based and hard engineering projects, and the framework is divided into three lots. Lot 1 covers strategy, appraisal, and design services, with Lots 2 and 3 covering detailed design and construction services for lower- and higher-value projects.

In Wales, £85 million funding for flood and coastal erosion risk management has been announced for spending in 2026/27. Overall funding includes £43 million of capital funding for new schemes.

*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 8.0%, 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 59.6% to a five-year high of £2.9 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  
£5.5 billion  
framework to deliver  
Environment Agency work,  
including flood and  
coastal risk management**

Source: Environment Agency



### Upper Scenario:

- Delivery of AMP8 projects and programmes accelerates significantly after a slow start

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

### Lower Scenario:

- AMP8 investment fails to meet expected levels once again, with near-term delivery challenges exacerbated by strengthening cost inflation

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

The near-term outlook for the **roads** sector remains uncertain. Now that the funding for the Road Investment Strategy (RIS3) is confirmed, it falls to National Highways (NH) to finalise and secure DfT approval for its implementation plan. This process will inevitably take time and is unlikely to produce RIS3 activity this year, leading to a projected 4.0% decline in output in 2026. Sector investment remains highly vulnerable to energy-driven cost inflation, and downside risks to the forecast have increased significantly.

The long-awaited [Road Investment Strategy 3 \(RIS3\)](#), setting out investment plans for the country's strategic road network (SRN) between April 2026 and March 2031, was published by the Department for Transport in March, just one month before its start date. Total funding of £24.98 billion over this period comprises £17.5 billion in capital funding, for renewals, enhancements and other capital expenditure, and £7.5 billion in resource funding, which includes repair and maintenance activity. Annual funding is set to total £4.9 billion between 2026/27 and 2028/29, rising to £5.0 billion in 2029/30 and £5.2 billion in 2030/31. £8.4 billion out of a total capital budget of £17.5 billion will be spent on renewals, with only £3.8 billion allocated to enhancements across the investment period. The remaining £5.2 billion will deliver other capital works. The resource budget, including maintenance spending, is broadly set at £1.5 billion annually throughout the forecast period.

Since the RIS2 investment period ended in March 2025, NH has been financed by an interim £4.8 billion settlement, which included £1.3 billion for capital enhancements and £2.0 billion for capital spending on maintenance and renewals. The settlement was around 4.5% lower than the estimated spend of £5.1 billion in 2024/25. RIS3 funding is significantly lower than the £27.4 billion funding envelope for RIS2, of which £14.1 billion was allocated to capital enhancements.

It now falls to NH to finalise its Strategic Business and Delivery Plan for the RIS3 period before the detailed investment plan and project programme are understood. However, the funding profile for enhancements – contracting by over 50% between 2026/27 and 2028/29 before increasing sharply in the final year of the RIS3 period – indicates that major enhancements are likely to start in the later stages of the RIS3 period. In July 2024, the government confirmed that only five major road enhancement schemes will start during RIS3, all of which were originally part of RIS2. These schemes are: the A38 Derby Junctions; the M54-M6 Link Road; the A66 Northern Transpennine; the A46 Newark Bypass; and the M60 Simister Island Interchange.

During the forecast period, construction work will also continue on the 11 RIS2 strategic roads schemes currently underway. These include the A428 Black Cat to Caxton Gibbet, the Mottram Moor and A57 Link Roads, the M25 Junction 10, the A417 Air Balloon, the M42 Junction 6, the A47 North Tuddenham to Easton and the A47 Blofield to North Burlingham.

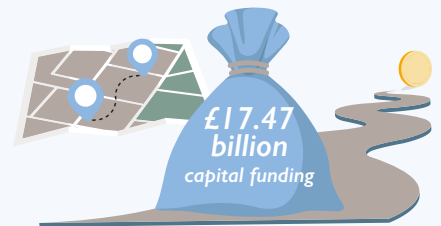
As anticipated, maintaining and improving existing assets will be prioritised during the RIS3 period. The renewals budget is set to total £1.5 billion in 2026/27, increasing by 21.1% to £1.8 billion in 2027/28 before stabilising in the £1.7 billion to £1.8 billion range through to 2030/31. Targeted delivery during RIS3 includes the replacement of 9,024km of asphalt road surface, progress work on 111 significant structure schemes, the delivery of 190 flooding sub catchment mitigations and the renewal of 12,650 roadside technology assets. Work is also due to start on 15 large renewal schemes, each valued at over £50 million.

Improving the condition of 152km of concrete road surfaces is also a RIS3 objective, and contractors have been appointed on NH's £968 million framework to replace ageing concrete surfaces across the SRN. The Legacy Concrete Roads Reconstruction programme will run for six years and support RIS3 and RIS4 investment to improve concrete road surfaces, which form an estimated 5% of the SRN.

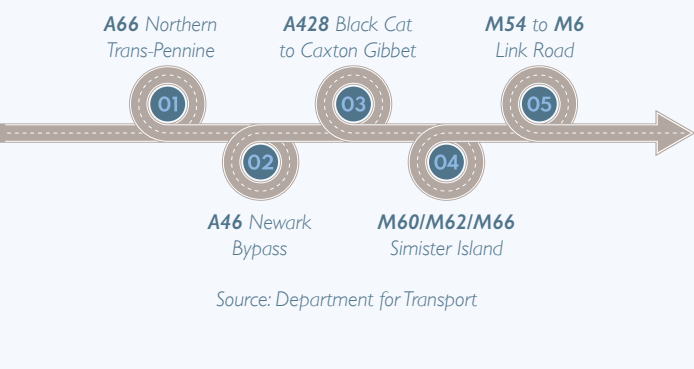
A new £165 million fund has been established as part of RIS3 to support housebuilding sites that have stalled due to a lack of finance for necessary transport infrastructure. The Growth and Housing Accelerator Fund will focus on locations close to motorways and A-roads across England, and NH will shortly invite local authorities to register developments for consideration.

**£17.47 billion**  
of **capital funding available**  
for **RIS3**, peaking at an  
**annual allocation of**  
**£3.67 billion**  
in the final year 2030/31

Source: Department for Transport



## Five major road enhancement schemes due to be delivered during RIS3



Autumn Budget 2025 allocated a further £891 million in public sector funding to the Lower Thames Crossing (LTC), following the scheme securing planning consent in March 2025. So far, £1.67 billion of public-sector money has been committed to progressing LTC design and enabling works before a private-sector partner is appointed. The Regulated Asset Base (RAB) model remains the government's preferred financing option for the construction and long-term operation of the tunnel, and the government currently expects the private sector transfer to take place in 2028.

Enabling work is about to start on the first, £35 million, phase of the Hereford Bypass. Phase one includes the construction of a 3.6km link between the A49 and A465. Main construction is anticipated to begin in December, with the first phase scheduled for completion by the end of 2028. Early work is also underway on the £43

million Nottingham A614/A6097 corridor scheme after approval was granted late last year. Main construction on the planned junction improvement work is due to start over the Summer.

Past cost inflation continues to impact the road enhancement pipeline as renewed upside inflationary risk mounts. Shropshire Council has now cancelled plans to develop the Shrewsbury North West Relief Road, after initially pausing development in June last year, due to its projected cost more than doubling to £162.4 million.

In Scotland, Budget 2026/27 sets out plans to significantly increase capital investment in the nation's trunk road network. Capital funding in 2026/27 is due to rise by 13.6% to £632.8 million, up from £556.9 million in 2025/26.

Phased work on the £3.7 billion A9 dualling project to upgrade 83 miles of single carriageway between Perth and Inverness is progressing. With capital funding now confirmed, dualling work is expected to be complete on 50% of the route by 2030, with completion of the entire project targeted by 2035.

Construction work is underway on two sections of the A9 – Tomatin to Moy and Tay Crossing to Ballinluig. The 9.6km stretch between Tomatin to Moy is due to cost £296 million (2024 Q2 prices) and be operational by Spring 2028. The Tay Crossing to Ballinluig section of the A9 dualling project spans 8.2km. Work on this section is estimated at £257 million (2025 Q2 prices) with completion targeted by the end of 2030. Procurement is currently underway to appoint a delivery partner for the £296 million (2023 Q2 prices) contract to dual the Pitlochry to Killiecrankie section of the A9. A contract award is expected in Autumn 2026 and completion is targeted before the end of 2030.

Design work is progressing on the remaining five sections of the A9: Dalraddy to Slochd; Glen Garry to Crubenmore; Pass of Birnam to Tay Crossing; Killiecrankie to Glen Garry and Crubenmore to Kincaig. Construction contracts are due to be awarded for the Dalraddy to Slochd section by Autumn 2027 and on the Glen Garry to Crubenmore section by Summer 2028.

Glasgow City Council has begun a three-year, £139 million programme to upgrade roads, pavements and street lighting, £20 million of which is ring-fenced for carriageway resurfacing. Funding will be used to resurface more than 600 streets and to replace approximately 9,000 street lighting columns, alongside drainage improvement work and structural maintenance.

The Welsh Government's Draft Budget for 2026/27 suggests the capital allocation for strategic road network operations and renewals will rise by 4.8% from £186.8 million in 2025/26 to £195.3 million in 2026/27.

*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 79.5% that took output to a record high of £12.8 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 when the RIS3 period starts

The forecast assumes it will take time for main construction work to start on these schemes and that delivery will be staggered. If work commences on all five schemes within the forecast period, output growth would be stronger, albeit skewed towards the final year.

#### **Lower Scenario:**

- A resurgence in materials price inflation due to the conflict in the Middle East restricts delivery of RIS3 enhancement projects

The forecast assumes it will take time for RIS3 projects and programmes to mobilise, but there is a risk that inflation in the cost of energy-intensive materials, such as bitumen and asphalt, may have a greater near-term impact. Road investment was significantly affected by the inflationary impact of the energy and commodity price spikes after Russia's invasion of Ukraine, as investment decisions were delayed and projects postponed. If oil and commodity price inflation continues for longer than assumed in the forecast, there is a risk that rapid cost escalation will trigger a further period of paralysis in decision-making.

UK air passenger numbers reached record highs in 2025 and airport operators stepped up capital investment. Output in the **gas, air and communications** sub-sector is forecast to rise strongly throughout the forecast period as core investment to maintain and enhance existing assets increases alongside a strong pipeline of planned expansions. Output is forecast to increase by 3.0% in 2026 and 4.0% 2027. Investment plans in this sub-sector, however, risk being affected by the Middle East conflict, directly through disruptions to logistics and higher fuel costs, and indirectly through possible impacts on demand as consumers face another inflationary shock.

London Stansted Airport's £1.1 billion expansion programme secured planning permission in December 2025. Pre-construction design work is underway, and a decision on the project's delivery timeframe is expected later this year. The project includes a £600 million terminal extension, with a further £500 million available to improve the existing terminal and wider



## Start date for main construction still to be confirmed

for extensions at  
**London Stansted Airport**  
and **London Luton Airports**



airport estate. It will also deliver a 14.3MW on-site solar farm, which will support the airport's current and growing 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 expected to take between two and three years to complete, with delivery of the solar farm expected to take five years.

A start date for the £2.4 billion expansion of London Luton Airport is also awaited. Planning consent was granted by the government in April 2025, and the High Court dismissed a legal challenge questioning the legality of this approval in December. The project plans to increase annual capacity from 18 million to 32 million passengers and includes the redevelopment of the existing terminal building and the construction of a new terminal building. This project is currently excluded from the forecast until a start date is confirmed.

Core capital investment, to improve areas such as passenger experience, airport efficiency and sustainability at London Gatwick Airport is due to rise over the forecast period, from a baseline of £313.4 million in 2025/26, to £454.2 million in 2026/27 and £593.0 million in 2027/28. However, a legal challenge was lodged against the approval of Gatwick's wider £2.2 billion expansion plan in September last year. These plans include repositioning the airport's existing northern runway to enable concurrent operation of both runways, thereby accommodating an estimated 100,000 additional flights per year by the late 2030s. If the judicial review is allowed to proceed, the court will consider whether the decision to grant development consent was lawful and whether any legal errors require it to be quashed or remade. This project is also excluded from the forecast until a start date is confirmed.

In 2026, London Heathrow Airport's core capital investment programme is set to increase from £1.05 billion in 2025 to £1.29 billion. Work will begin on a phased revamp of Terminal 4, including construction of a multi-storey car park and an upgraded check-in area, as well as a dedicated baggage-handling system for Terminal 2. The airport's next five-year business plan, due to start in 2027, sets out capital investment plans totalling £10.0 billion to maintain and enhance existing assets, and is currently being reviewed by the Civil Aviation Authority. Plans include investment of £4.9 billion to optimise airport operations, £2.2 billion to increase capacity and £0.5 billion in digital upgrades. If approved, it will mark a significant uplift in core capital investment from the previous period which was impacted by Covid and totalled £3.6 billion.

Birmingham Airport plans to invest £300 million over the next four years. Planned works include improvements to the airfield, new stands, lighting replacement and runway maintenance, along with improvements to baggage handling systems. The airport is also planning a series of retail and hospitality upgrades inside the terminal, including new food and beverage outlets and general refurbishment.

London City Airport's proposal to increase annual capacity from 6.5 million to 9 million passengers by increasing the number of evening and early-morning flights has been approved by the government. Plans include increasing the size of the existing terminal by 2,276 sq. m. and constructing a new three-storey passenger pier, along with eight new aircraft stands and a new taxiway. Although approval is in place, a start for the £500 million project has yet to be confirmed.

Manchester Airport Group's (MAG) planned redevelopment of Manchester Airport's Terminal 3 building is underway. 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 appearance of the building.

Work on Bristol Airport's medium-term enhancement strategy is continuing. In February, the Airport awarded a £30 million terminal extension contract to support an increase in passenger numbers to 12 million per year. The two-storey extension will infill the area between the existing terminal building and the departure gates, almost doubling the existing commercial space and delivering a new domestic arrivals reclaim area.

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.

#### **Upper Scenario:**

- Luton and/or Gatwick Airports overcome legal challenges and swiftly progress with planned expansion

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

#### **Lower Scenario:**

- The impact of strengthening inflationary pressure on construction costs and travel demand due to the Middle East conflict prompts UK airport owners to delay expansion and improvement plans

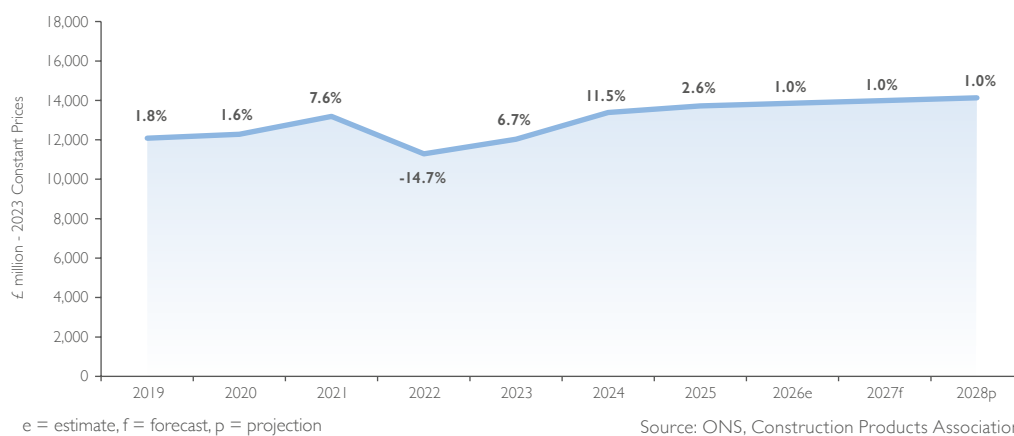
Following the extreme disruption to travel experienced over the past five years, risk aversion is still elevated and airport owners may act swiftly to pause investment programmes if there is a marked decline in consumer confidence and spending or if further construction cost escalation challenges project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



# Infrastructure R&M

As the focus shifts to the next investment period across regulated sectors, there is a stronger emphasis on existing asset maintenance. Overall, budget constraints will, however, limit the scope for growth, particularly as the inflationary risk increases and the outlook suggests stabilisation at a relatively high level rather than the stronger growth rates forecast for new build.

## 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 expand by 1.0% per year through to 2028.

Local authority-managed roads make up 99% of the road network by length 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.

The condition of the local road network in England and Wales has further deteriorated. The [Asphalt Industry Alliance's Annual Local Authority Road Maintenance \(ALARM\) survey](#) for 2026 found that local authorities now face a record backlog maintenance liability of £18.62 billion, up by 10.8% since last year's survey. Increased funding has delivered a marginal uplift in the proportion of the local roads network reported to be in good structural condition, but the magnitude of this improvement is low relative to the 17% increase in central government and local authority budgets for local roads maintenance over this period. Almost 16% of the local road network is reported to have less than five years of structural life remaining.

The DfT's 2025 annual road condition survey, released in January 2026, also suggests a deterioration in road condition. Overall, 52% of local authorities reported that A roads were

in worse condition in 2025 than in 2015, with only 26% reporting an improvement and 22% reporting no change. Since 2018, the proportion of A roads with a road surface condition rating of green, meaning no maintenance or investigation work is required, has fallen from 74% to 67%. The proportion classified as amber has increased from 23% in 2018 to 28% in 2025, while the proportion classified as red has risen from 3% to 5% over the same period. An amber classification indicates that maintenance may soon be required, while a red classification suggests the road surface should already have been considered for maintenance.

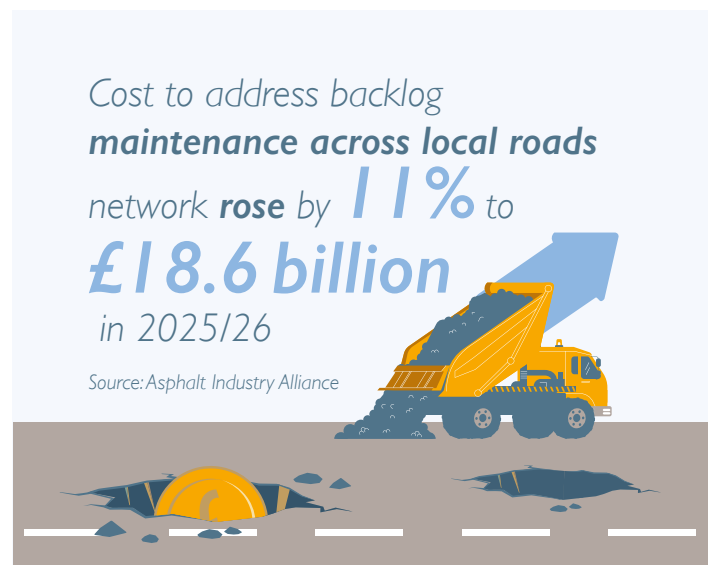
[Road Investment Strategy 3](#) (RIS3), setting out investment plans for the country's strategic road network (SRN) between April 2026 and March 2031, was published by the Department for Transport in March, only one week before its start date. RIS3 seeks to make the most of the existing network, which could lead to a greater proportion of its capital investment programme being classified as r&m. Total funding of £24.98 billion over this period comprises £17.5 billion in capital funding, for renewals, enhancements and other capital expenditure, and £7.5 billion in resource funding, which includes repair and maintenance activity. Annual funding is set to total £4.9 billion between 2026/27 and 2028/29, rising to £5.0 billion in 2029/30 and £5.2 billion in 2030/31. £8.4 billion out of a total capital budget of £17.5 billion will be spent on renewals, with only £3.8 billion allocated to enhancements during the investment period. The remaining £5.2 billion will deliver other capital works. The resource budget, including maintenance spending, is broadly set at £1.5 billion annually throughout the forecast period.

Since the RIS2 investment period ended in March 2025, NH has been financed by an interim £4.8 billion settlement, which included £1.3 billion for capital enhancements and £2.0 billion for capital spending on maintenance and renewals. The settlement was around 4.5% lower than the estimated spend of £5.1 billion in 2024/25. RIS3 funding is significantly lower than the £27.4 billion funding envelope for RIS2, of which £14.1 billion was allocated to capital enhancements.

The DfT suggests that capital funding totalling £7.3 billion will be made available for local highways maintenance between 2026/27 and 2029/30. £5.2 billion of the total pot is baseline funding, with £2.1 billion available if performance criteria are met. Highways maintenance block funding is due to increase from 2027/28 after stabilising at £1.6 billion in 2026/27. Funding is set to rise to £1.7 billion in 2027/28, £1.9 billion in 2028/29 and reach £2.1 billion in 2029/30. Funding will support work on carriageways, footways, cycleways, bridges and lighting columns.

Regional local highways maintenance allocations across the period are as follows: South East £1.5 billion; South West £1.5 billion; East of England £1.2 billion; North West £800 million; West Midlands £800 million; East Midlands £700 million; Yorkshire and the Humber £500 million; London £300 million; and the North East secured £30 million. Some mayoral strategic authorities already receiving City Region Sustainable Transport Settlements or, from 2027/28, Transport for City Regions settlements, will receive maintenance funding through those consolidated transport settlements rather than separate baseline grants.

Procurement is underway on Tameside Council's five-year £45 million highways maintenance framework. The framework is split into eight lots covering specific investment areas such as resurfacing, drainage and minor civils work. Meanwhile, Devon County Council is seeking delivery partners for its £78 million minor engineering works framework contract, covering works such as highways maintenance, structures maintenance and improvement work, and flood



and coastal risk management. The framework period is due to start in April 2026 and end in March 2030.

Local areas not eligible to receive City Region Sustainable Settlements or Transport for Cities funding are eligible for Local Transport Grants (LTG) from central government to fund local transport and maintenance activity. The total LTG fund is set to total £397 million in 2026/27, rising to £497 million in 2027/28 and £597 million in 2028/29.

The Scottish Government's 2026/27 Budget allocates £611.2 million to safety, adaptation, maintenance and improvement of the nation's trunk road network, a 6.1% increase compared with 2025/26.

Network Rail's (NR) Control Period 7 (CP7), worth £44 billion (2023/24 prices) in total, commenced in April 2024 and runs to 31 March 2029. Excluding contingency and other overhead 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.

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

Transport for London (TfL) has awarded a £99.2 million contract for the maintenance of railway bridges and structures across its network, scheduled to run from April 2026 until March 2031. The framework will deliver planned preventive and reactive maintenance services, helping to improve the safety and reliability of the capital's rail infrastructure.

Energy transmission companies plan to invest record sums in maintenance and expansion during the next investment period – RIIO-T3 that starts in April 2026 and runs through to March 2031. Ofgem's Final Determination committed to £10 billion of upfront investment by electricity transmission companies but acknowledged that required network upgrades over the next five years could total £70 billion. Further funding will be released when system needs become clearer. In its Final Determination, the Regulator approved £3.2 billion of upfront funding, a £0.7 billion increase compared with its Draft Determination, to support increased asset maintenance and investment in IT and cybersecurity. The Final Determination for gas distribution was £14.6 billion, allocated to investment in maintaining safe, reliable networks. Investment to maintain existing gas transmission and distribution and electricity transmission infrastructure will be significant over the forecast period, but anything beyond basic repairs and maintenance should be classified as new work (see [Infrastructure – Electricity](#)).

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](#)).

**Upper Scenario:**

- As cost inflation strengthens, a hiatus in more extensive refurbishment and enhancement work increases the need for urgent repairs and maintenance activity

If a resurgence in construction cost inflation triggers a hiatus in more extensive refurbishment work across infrastructure sub-sectors, the need to invest in critical and reactive r&m work may increase as asset condition deteriorates.

**Lower Scenario:**

- Financial constraints and strong inflationary pressure restrict local authority capital investment to non-essential repairs and maintenance

Local authorities may prioritise the essential repair and maintenance of critical infrastructure and scale back routine r&m activity if their finances deteriorate. Faced with renewed cost pressures and supply chain disruption, local authorities may scale back or cancel planned r&m works in the near term to help balance budgets.





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