Construction Industry Forecasts 2025-2027

Spring 2025 Edition - £250




construction products association

Contents

DISCLAIMER

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

All output figures are in 2022 constant prices using the historic figures from the Office for National Statistics (ONS) – as at 9 April when the Forecasts were finalised.

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

The information in this booklet has been prepared by Construction Products Association and represents the views of Construction Products Association without liability on the part of the Construction Products Association and its officers.

Overview

Excluding issues due to the potential impacts of U.S. tariffs on the global and UK economies (see the CPA Economic and Construction Impacts of U.S. Tariffs document), construction output is still expected to rise in 2025 and 2026, although weaker UK growth prospects and a slow start to construction activity in 2025 point towards more subdued rates of construction growth than in previous publications. A gradual recovery in private housing new build and an even slower recovery in private housing rm&i are still expected to be supplemented by more certain growth in most other construction sectors.

Overall, total construction output is forecast to grow by 1.9% in 2025 and 3.7% in 2026. The forecast for Spring is a slight downward revision compared with the 2.0% and 4.0% growth in 2025 and 2026 that was expected in Winter.

Construction had a relatively slow and erratic start to the year, with activity in January being weather affected, and whilst activity in February was slightly better than in January, it remained subdued. It was substantially better than a year earlier, but it is worth noting that this was compared with a low base after the low points of housing new build and rm&i in Winter 2023/24. Activity in March and early April proved to be an improvement on January and February, but both house builders and contractors alike were more cautious than six months ago regarding prospects for this year.

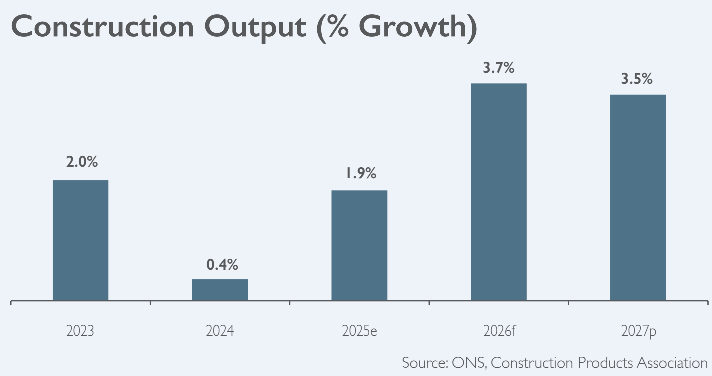
The government's Spring Statement focused on broadly maintaining capital expenditure and identifying cuts in day-to-day spending on civil service and social care to ensure it stuck to its fiscal rule. In addition, the government announced £625 million for construction skills, £2 billion for social and affordable housing short-term until the next long-term settlement, on top of the additional £350 million announced in February, plus the Building Safety Levy was delayed for a year. Plus, government also provided an additional £2.2 billion for the Ministry of Defence. This builds on the government's Autumn Budget, which provided short-term injections of £500 million in funding for affordable housing, £550 million in the School Rebuilding Programme, and £1.0 billion in maintenance, repairs, and

Construction output
*to **rise** by*
1.9%
in 2025 and
3.7%
in 2026

Key Points

- Construction output rises by **1.9%** in **2025** and **3.7%** in **2026**
- Private housing output rises by **4.0%** in **2025** and **7.0%** in **2026**
- Private housing repair, maintenance and improvement to rise by **2.0%** in **2025** and **3.0%** in **2026**
- Infrastructure output to rise by **1.8%** in **2025** and **4.5%** in **2026**
- Industrial output to rise by **1.0%** in **2025** and **2.6%** in **2026**

upgrades on the NHS estate. However, at this stage, there is little to suggest improved government delivery in terms of getting additional activity down on the ground quickly from this. The government published its National Planning Policy Framework (NPPF) in December 2024, and its Planning and Infrastructure Bill is currently going through parliament. These supply-side reforms are likely to considerably help projects get from inception to starting on site in the medium-term, but the industry is unlikely to see any significant benefits from new projects getting through the planning system as a result of these until at least 2027.

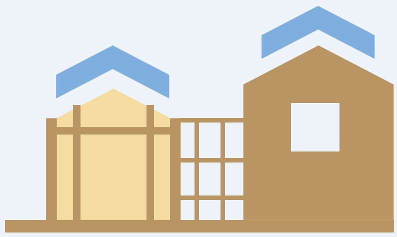


In terms of key risks, the U.S. tariff disruption poses the large threat of causing global and UK economic growth turmoil. At the very least, it has raised the level of uncertainty considerably, leading to a high degree of caution from financial markets and investors. As the tariff issue has developed so recently, there is currently no data covering the post-disruption period, and, as a result, it has not been factored into the forecasts. However, the potential impacts are explored in the CPA's accompanying briefing paper, 'CPA Economic and Construction Impacts of U.S. Tariffs'.

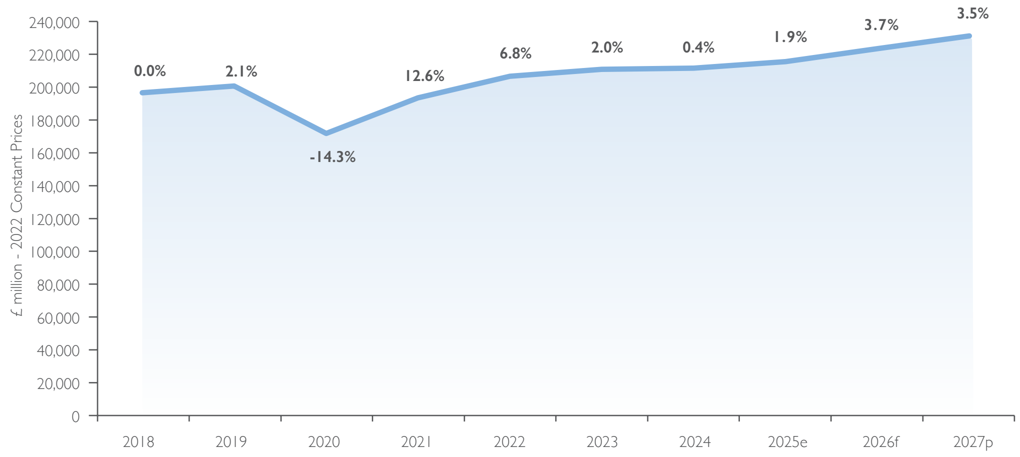
Outside of tariff disruption, the other key risks to the construction forecasts are UK economic growth prospects, contractor insolvencies, the administration of ISG, Building Safety Regulator delays to high-rise projects and the availability and cost of skilled construction labour (see Key Risks).

Private housing remains the largest and most high-profile construction sector despite the sharp decline in activity during 2023. It was worth £37.9 billion in 2024 (constant 2022 prices) despite falls of 14.4% and 5.5% in 2023 and 2024. The indications from house builders in Autumn 2024 were that the worst point of demand was at the end of 2023. Starts began to recover from a low base in the second half of 2024, although the focus primarily remained on completing existing developments. The expectation six months ago was that continued gradual rises in demand would lead to around 5-10% growth per year over the next few years, assuming no major disruptions. The slow start to the year and weaker UK economic growth prospects, combined with higher inflation for longer and potentially fewer interest rate cuts, has led to a degree of caution, however. So, overall, house builders were broadly expecting a slight revision down in expectations for this year to between 3% and 8% growth in completions this year, although this was prior to the U.S. tariff disruptions.

***Private housing** output expected to **rise** by*
***4.0%** in 2025*
and
***7.0%** in 2026*
from a low base



Construction Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

The Office for Budget Responsibility (OBR) forecasts alongside the Chancellor's Spring Statement anticipate that only 1.3 million homes will be built in the UK over the five-year parliament. This is equivalent to around 1.0 million for England compared with the government's target of 1.5 million new homes in England over the five-year parliament, implying that it expects that the government is likely to miss its house building target by around 50%, in line with previous CPA forecasts.

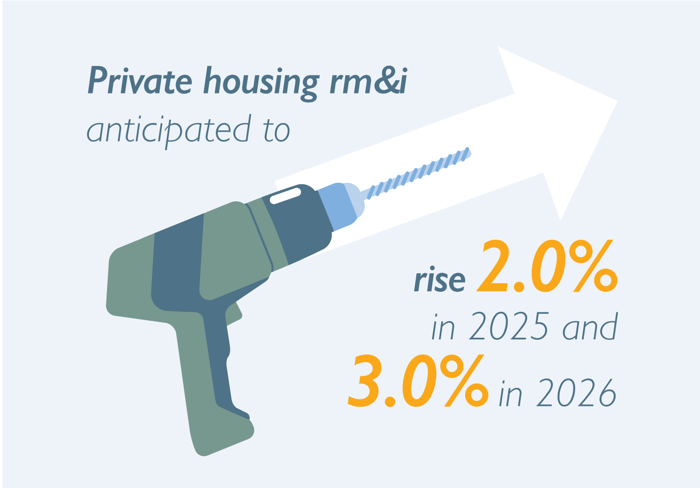
On the positive side, the government published its National Planning Policy Framework in December and its Planning and Infrastructure Bill is currently going through parliament, which may help one constraint. According to larger house builders, however, activity from the measures is unlikely to be seen down on the ground until at least 2027 due to the relatively low levels of demand and the developments already in the pipeline with planning permission. Also on the positive side for house builders, the government's Building Safety Levy will be delayed for a year and will only be imposed in Autumn 2026. However, house builders have an array of other issues adding costs. These include water and nutrient neutrality, Biodiversity Net Gain, the revised building regulations F,L,O and S and the upcoming Future Homes Standard.

Public & Private Sector Construction Output

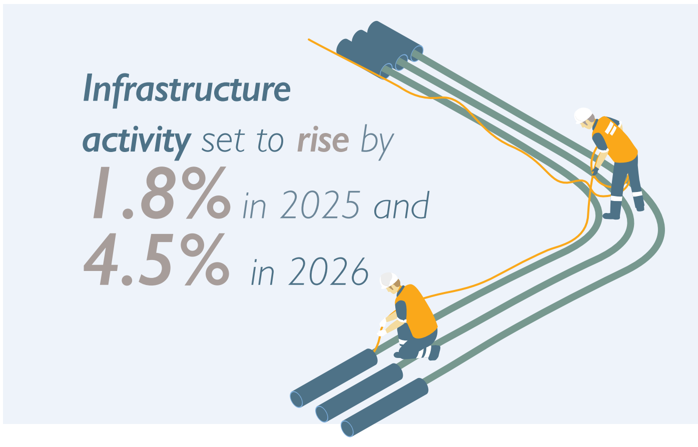
£ million	2023	2024	2025	2026	2027
Change on previous year	Actual	Actual	Estimate	Forecast	Projection
Public Sector inc. PFI	48,761	49,681	50,495	52,125	53,931
	7.2%	1.9%	1.6%	3.2%	3.5%
Private Sector	162,035	161,875	164,995	171,253	177,206
	0.6%	-0.1%	1.9%	3.8%	3.5%
Total Construction	210,796	211,556	215,490	223,378	231,136
	2.0%	0.4%	1.9%	3.7%	3.5%

Source: ONS, Construction Products Association

In addition, the house building supply chain also has the added costs from the rise in the National Living Wage and the employers' National Insurance Contributions (plus the fall in thresholds) from April. In addition, developers working on high-rise apartment blocks continue to suffer from 6-9 month delays from the Building Safety Regulator and this disproportionally affects new build housing in city centres, especially London (see Key Risks). Overall, private housing output is forecast to rise by 4.0% in 2025 and 7.0% in 2025 compared with the 6.0% and 8.0% growth in 2025 and 2026 respectively in the Winter forecasts. And, the risks remain weighted to the downside.



Private housing repair, maintenance and improvement (rm&i) is the second-largest construction sector, worth £37.3 billion (constant 2022 prices) in 2024, according to the ONS. However, the CPA has persistently highlighted its concerns regarding the ONS construction output data, especially for rm&i, since the energy price and commodity price spikes in 2022 and the historical data should be treated with extreme caution. As a result of these concerns, the ONS suspended its materials prices and producer price data in March 2025. The indications from firms across the supply chain, including architects, small contractors, builders merchants and product manufacturers, are that private housing rm&i output peaked at its highest-ever level at the end of 2021 and early in 2022 due to the 'race for space'. Later in 2022, smaller discretionary spending fell away due to 'cost of living' concerns after the energy and commodity price spikes in Spring 2022. Larger home improvement activity continued in 2022 and early 2023 but fell away afterwards. After inflation slowed and with sustained real wage growth, consumer spending would have been expected to start to recover in 2024 followed by rm&i activity in 2025, after a 6-9 month lag. However, consumer confidence has broadly flatlined since Summer last year, and rising economic concerns have led to savings being built up, rather than spent, as households take a more cautious approach. Going forward, as interest rate cuts gradually feed through, homeowners are likely to have finance available for home improvement work, but the key will be whether they are confident enough to spend it, as highlighted in previous forecasts. However, homeowner spending on energy-efficiency retrofit and solar photovoltaic work remains strong. Energy-efficiency retrofit also benefits from improved delivery of government schemes such as ECO4, the Great British Insulation Scheme (GBIS) and the Boiler Upgrade Scheme (BUS). Cladding remediation and general fire safety issues will continue to provide a consistent stream of activity in the long-term. However, it is difficult to see clear signs of this increasing activity significantly, despite house builder commitments to dealing with remediation issues before 2029, due to a lack of capacity and skills. Overall, private housing rm&i output is expected to rise by 2.0% in 2025 and 3.0% in 2026.



Infrastructure is the third-largest construction sector, worth £29.8 billion (constant prices 2022) in 2024, according to the ONS. The headlines coming from government suggest record levels of investment in roads in the near-term. However, the reality is quite different. Spending on roads projects this year will be £5.0 billion less than previously, and only two large road projects are expected to start this year. As a result, roads activity is forecast to fall this year. Outside of this, the key drivers remain similar to previous forecasts. Activity remains strong on major projects such as Hinkley Point C and HS2, whilst the Lower Thames Crossing (LTC) has been given the go-ahead as expected but construction work will still not start until 2027 at least as government attempts to first find private finance for the project, in a similar vein to the Silvertown Tunnel project, which opened in April 2025. Energy infrastructure activity, however, continues to grow from strength to strength as wind farm activity ramps up again and increases in capital expenditure in the water sub-sector to deal with high-profile water quality issues will lead to an acceleration in activity from 2026. Overall, infrastructure output is expected to rise by 1.8% in 2025 and 4.5% in 2026, slightly higher than the 1.4% and 4.1% forecast for 2025 and 2026 in Winter.

Commercial sector output was worth £25.4 billion (constant 2022 prices) in 2024, according to the ONS. Fortunes for firms working in commercial continue to depend heavily on which part of the sector firms are working in. For firms working on smaller refurbishments and the fit-out of existing commercial offices and retail buildings, activity remains strong as owners repurpose existing space and tenants move to better spaces in the so-called 'flight to quality'. New major commercial tower projects and large 'back to frame' refurbishments continue to be pushed back, and although construction cost inflation has slowed, costs remain high, and high interest rates mean that financing costs have risen compared to when projects were initiated. Activity on biotech facilities and data centres continues to remain strong, and these are two areas that may benefit in the medium-term from the government's plans to ease planning, particularly given that the demand is there from private finance for projects. The conversion of existing buildings to residential flats in urban centres or industrial and logistics facilities on the edge of cities also remains strong. It is also worth noting that demand in the student accommodation niche remains strong, although developers have noted 6-9 month delays on high-rise projects at the pre-construction Gateways within the Building Safety Act. Overall, commercial output is forecast to remain the same as in Winter. Commercial output is forecast to be flat (-0.2%) in 2025 as new office towers and large retail or mixed-use projects are pushed back into next year once again, but this is still expected to be offset by strong work on the refurbishment and fit-out of existing developments. In 2026, refurbishment activity is forecast to be boosted by delayed new tower projects in the pipeline coming through as a result of lower interest rates and financing costs, plus an improvement in wider economic prospects. Growth in 2026 is forecast at 2.7%.

Recent Data

Total construction output in February was 0.4% higher than in January, following two months of 0.3% declines, and it was 1.6% higher than a year ago. As highlighted, activity in January was affected by bad weather, so February's activity was expected to benefit slightly from catch-up activity.

Private housing output, which correlates more strongly with house building completions than starts, in February was 0.4% lower than in January but 2.7% higher than a year ago. Activity a year earlier was subdued as it only started to recover from the low point of house building activity in 2023 Q4. House building activity remains on a slow, gradual, but volatile upward trend.

The ONS problems in estimating construction output since 2022 remain most evident in private housing rm&i, the second largest sector, as highlighted in previous forecasts. According to the ONS, private housing rm&i output in March 2024 was 61.4% higher than in January 2020 despite activity due to the 'race for space' short-term spike peaking in 2021/22. According to firms in the sector, activity in January and February has been subdued so far due to homeowner caution over large, non-essential spending. However, activity in energy-efficiency and solar photovoltaic or fire safety work remained strong.

Infrastructure output in February was 0.6% higher than in January but still 2.3% lower than a year earlier, although it remained 12.1% higher than in January 2020. Firms continue to report that activity remained strong on major projects already on the ground, and work remained consistent on long-term frameworks and programmes in energy and water, although activity in water has been slow to come through on AMP8. In some infrastructure areas such as roads, as projects finish, firms report a lack of new projects to replace them. In addition, local authorities, which cover local roads and account for 97% of all roads, continue to be highly financially constrained, so they have moved finance away from new projects to essential r&m and from construction to increasing social care and housing costs.

Industrial output in February was 1.5% lower than in January, which itself was 9.6% higher than in December. Activity in the industrial sector continues to be volatile as it is a small construction sector and is subject to significant swings due to activity on large one-off projects or delays on large one-off projects such as gigafactories or smart warehouses. Outside of the few large one-off projects in industrial, there is an array of small and medium-sized new projects and expansions of existing warehouses and factories that continued to maintain activity at high levels early in 2025.

Commercial output in February was 0.5% lower than in January, 6.4% lower than a year ago, and 32.6% lower than in January 2020, pre-pandemic. As highlighted in previous forecasts, new build commercial developments in the pipeline and high-value 'back to frame' refurbishment projects continue to be pushed back due to high construction and financing (interest rate) costs. However, firms operating in the sector continued to report that smaller high-end, high-value refurbishment activity remained strong. Student accommodation and university activity remained strong despite financial pressures on some universities, whilst data centre work remained robust. However, as highlighted previously, there continue to be concerns about the impact of 6-9 month delays from the Building Safety Act and Gateway 2 on new student accommodation projects, and these delays are likely to continue medium-term.

The S&P Global UK Construction PMI was 46.4 in March, higher than the 44.6 recorded in February. As 50=no monthly change in activity, the PMI reflect another decline in activity but at a slower pace than in February (which was its fastest downturn since May 2020). However, the PMI may reflect sentiment more than activity in housing, as the supply chain reports to the CPA that activity has been improving rather than the sharp declines since Autumn 2024 that the PMI suggest.

The housing PMI was 44.7 in March, marking a sixth consecutive decline but at a slower pace than in February, which, excluding the pandemic, was its sharpest fall since early 2009, during the financial crisis. Survey respondents reported weak demand, but some suggested that easing borrowing costs helped to support confidence. The civil engineering PMI was 38.8 in March, a further decline in civils activity and its lowest level since October 2020, attributed to delayed decision-making on new projects and a subdued major infrastructure pipeline. The commercial PMI was 47.4 in March, which S&P Global described as "only moderately" falling, but the rate of contraction was the fastest since January 2021. Lower business activity was linked to lacklustre UK economic prospects and the impact of rising geopolitical uncertainty on clients' investment spending. There was a fall in staffing numbers for the third consecutive month, its steepest since October 2020. Sub-contractor usage also decreased at a solid pace in March, but higher payroll costs due to upcoming NIC and NLW rises continued to push up average cost burdens. The overall rate of input price inflation accelerated to its strongest since January 2023.

Construction Industry Forecasts - Spring 2025

% annual change	2023 Actual	2024 Actual	2025 Estimate	2026 Forecast	2027 Projection
Housing					
Private	40,051	37,859	39,373	42,129	44,657
	-14.4%	-5.5%	4.0%	7.0%	6.0%
Public	6,129	5,695	5,809	6,099	6,404
	4.1%	-7.1%	2.0%	5.0%	5.0%
Total	46,180	43,554	45,182	48,229	51,062
	-12.3%	-5.7%	3.7%	6.7%	5.9%
Other New Work					
Public Non-Housing	10,836	11,234	11,484	11,959	12,333
	11.1%	3.7%	2.2%	4.1%	3.1%
Infrastructure	32,843	29,800	30,335	31,694	32,752
	4.3%	-9.3%	1.8%	4.5%	3.3%
Industrial	7,718	7,358	7,429	7,624	7,854
	-0.3%	-4.7%	1.0%	2.6%	3.0%
Commercial	26,369	25,400	25,362	26,040	26,759
	6.1%	-3.7%	-0.2%	2.7%	2.8%
Total other new work	77,766	73,792	74,609	77,317	79,699
	5.3%	-5.1%	1.1%	3.6%	3.1%
Total new work	123,946	117,346	119,792	125,545	130,760
	-2.0%	-5.3%	2.1%	4.8%	4.2%
Repair and Maintenance					
Private Housing RM&I	34,857	37,308	38,054	39,196	40,372
	7.0%	7.0%	2.0%	3.0%	3.0%
Public Housing RM&I	8,431	9,628	9,821	10,017	10,418
	5.3%	14.2%	2.0%	2.0%	4.0%
Private Other R&M	21,406	23,655	24,128	24,611	25,103
	10.5%	10.5%	2.0%	2.0%	2.0%
Public Other R&M	7,774	7,606	7,682	7,836	8,149
	11.3%	-2.2%	1.0%	2.0%	4.0%
Infrastructure R&M	14,381	16,013	16,013	16,173	16,335
	9.4%	11.3%	0.0%	1.0%	1.0%
Total R&M	86,850	94,210	95,698	97,832	100,376
	8.4%	8.5%	1.6%	2.2%	2.6%
TOTAL ALL WORK	210,796	211,556	215,490	223,378	231,136
	2.0%	0.4%	1.9%	3.7%	3.5%

Source: ONS, Construction Products Association

Key Risks

UK Economic Growth

Even excluding the potential impacts of U.S. tariff disruption and the beginning of world trade wars in April, which may lead to sharp revisions down in global and UK economic growth or even recessions, a lack of economic growth was already a concern for the UK. The UK's economic growth was only 0.4% in 2023 and 1.1% in 2024. Over the last three months, UK economic growth forecasts for 2025 have been revised down to only 1.0%, and inflation is expected to be higher for longer. On the positive side, households have now had a persistent period of real wage growth following the impacts of energy and commodity price spikes in 2022 and 2023. And, as 80% of the UK economy is consumption, spending and investment could drive stronger UK economic growth near-term. However, this would require households to become more confident and less risk-averse, which appears difficult given increasing economic uncertainties. This was highlighted by the household savings ratio reaching 12.0% in 2024 Q4 (see Economy), with households choosing to save rather than spend or invest.

Contractor Insolvencies

According to the government's Insolvency Service, 4,031 construction firms went out of business in the year to January 2025, which was flat compared with the year to December but 8.4% lower than a year ago. This brings to an end the five previous declines in insolvencies. The CPA was anticipating that insolvencies would begin to rise again during the first half of this year, after initially peaking in 2024 H1, due to the impacts of September's administration of ISG on the supply chain, causing cash flow issues for sub-contractors as projects are delayed whilst other main contractors are found. In addition, the CPA was anticipating that the 6-9 month delays at the

Building materials inflation *in January was*

Building Safety Regulator on new high-rise buildings in which people stay overnight, such as residential and student accommodation, may also cause cash flow issues for sub-contractors and, potentially, some main contractors. However, it is worth noting that at this stage, it is just one data point, so it is too early to state clearly whether this is merely reflecting a brief, temporary blip or whether it is reflecting the start of a return to rising insolvencies during 2025 H1 as the CPA was expecting last year.

2,350 (58%) of construction firms that went out of business in the year to January 2025 were specialist sub-contractors, which is 0.4% higher than in the year to December but 7.7% lower than a year earlier. However, this is compared with peak levels early in 2024 after the sharp slowdown in house building in 2023 Q4. On a 12-month basis, specialist sub-contractor insolvencies fell for five consecutive months as house building started to recover from a low base. However, it will only be clear in the next few months whether January's sub-contractor insolvencies were just a slight blip before continuing to fall or whether they reflect the CPA's expected insolvencies increase in 2025 H1. Main building contractors have not been as severely affected as specialists, especially in January. 1,479 (37%) of UK construction insolvencies were still main building contractors. They continue to be hit by a combination of legacy projects on fixed-price contracts (that they may have bid low on), which have seen project delays, as well as rising skilled trade wage costs and high materials prices. However, the number of main building contractors in the UK that went into insolvency in the year to January 2025 was 0.4% lower than in the year to December and 10.4% lower than a year earlier.

202 (5%) of the UK construction firms that went out of business in the year to January 2025 were civils contractors, which is 1.9% lower than in the year to December and 2.4% lower than a year earlier but still low in terms of number of firms. As highlighted in previous updates, this partly reflects the fact that there are considerably fewer civils firms overall, but it also reflects civils work occurring earlier on non-infrastructure projects and more stable demand on long-term infrastructure frameworks, plus some infrastructure clients being more understanding of cost rise issues.

ISG Administration

4,031 ***construction firms in the UK went out of business*** *in the year to January 2025*

The UK's sixth largest contractor, ISG, entered administration in September 2024, making 2,200 employees unemployed. At the point of administration, it had £4.3 billion of contracts around Great Britain, with three-quarters of them in just three regions or nations; London, the South East and Wales. Other contractors and supply chains will take over these contracts, although there may be a hiatus. The larger impact is likely to be on the specialist sub-contractors. They will take a direct hit from the loss of payments and near-term workload. In addition, there is expected to be a knock-on impact from ISG's administration on insurers. Firms in the supply chain were already finding it difficult to obtain trade credit cover following the increase in insolvencies at the end of 2023 and in the first half of 2024. However, insurers appear to be disproportionately affected by larger firm insolvencies, so the difficulties of trade credit cover increased substantially after the insolvency of Buckingham Group. This is only likely to worsen due to ISG's administration. As a result, after slowing over 2024 H2, contractor insolvencies are likely to rise again in 2025 H1.

Delays to Project Starts on Higher-Risk Projects

The Building Safety Act, Gateway 2 specifically, and the Building Safety Regulator (BSR) appear to be leading to significant delays on construction project starts for higher-risk buildings. According to the Building Safety Act, higher-risk buildings are at least 18 metres high and have at least seven storeys, and are residential buildings where people sleep, including student accommodation, hospitals and care homes (both new build and work on an existing building that makes it a higher-risk building). It involves three Gateways (Gateway 1 – Before planning permission is granted, Gateway 2 – Before work can start, and Gateway 3 – Before the building can be occupied) with responsibilities for the client, main contractor and all the way down the supply chain with specific information and data requirements from all parts of the supply chain to establish a clear audit trail.

The CPA highlighted in its Summer forecasts that it had indications from the industry that increasing uncertainty around the Building Safety Act and the responsibilities, data, and information required throughout the construction supply chain appears to be delaying the approval of some projects classified as higher-risk.

Some of the delays may be due to increased scrutiny and additional administration, documentation and checks, whilst other delays appear to be due to uncertainty over what data and information are required by each part of the supply chain and what responsibilities each part of the supply chain has under the Building Safety Act. These delays have been exacerbated by the additional processes required in the planning and pre-construction Gateway 2 for high-rise buildings, which provide more detailed inspections of building regulations requirements to ensure that building safety is considered during each stage of design and construction. Also, a lack of capacity at the Building Safety Regulator may be an issue.

According to a Freedom of Information (FOI) request to the Building Safety Regulator in February 2025, from the 1,682 applications to the BSR up to January 2025, only 266 (15.8%) had been approved, which is only a marginal improvement on the CPA's FOI back in October 2024. Of the applications to January 2025:

- 99 (5.9%) were Withdrawn
- 423 (25.1%) were Invalid
- 82 (4.9%) were Rejected
- 207 (12.3%) were currently Awaiting Further Information
- 596 (35.4%) were currently Under Review
- 9 (0.5%) were still Waiting for a Case Officer

The Availability and Cost of Labour

If the government is to meet its objectives of building 1.5 million homes, delivering its upcoming 10-year infrastructure strategy and Net Zero transition (decarbonisation of the energy network and retrofitting the existing stock of buildings), as well as more and better quality schools, hospitals, prisons and transport infrastructure, then a lack of available skills is likely to be the largest issue. UK construction employment in 2024 Q4 was still 281,180 lower than in 2019 Q1 and 443,456 lower than in 2008 Q3, pre-financial crisis.

The majority of the loss of skilled construction workers in the last five years is in the older-age demographic of UK-born construction workers, so it is not just the number of workers lost but the skills, knowledge and experience. In addition, the loss has been exacerbated by a loss of younger EU construction workers in the lead up to and since Brexit. Employer-sponsored visas don't work well in the UK construction industry, in which 86% of employment is self-employment (so they are not eligible for visas) or in SMEs (that are cash-flow reliant and don't have the resource for visas).

In March, the Chancellor announced "£625 million worth of investment to train up to 60,000 more skilled construction workers". However, despite the finance, there is a lack of skilled teachers and assessors for these potential new entrants. Furthermore, construction apprenticeships still have dropout rates of 50% for men and over 70% for women, whilst its aim of expanding Skills Boot Camps is unlikely to make a substantial impact given that only around one-third of people on the Skills Boot Camps go on to work in construction.

There remain key questions of what type of people come into construction (i.e. whether it 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 are not addressed, then the finance may be spent, but the skills issues will not be addressed.

Upper Scenario

Assumptions

- UK economic activity rises by 1.2% in 2025 and 2.0% in 2026, with consumer spending and services driving growth due to sustained real income increases and positive consumer and business sentiment
- The unemployment rate remains low in 2025 and falls marginally in 2026 as consumption growth and the persistence of skills shortages sustain a strong labour market
- Interest rates are cut four times by 0.25 percentage points in 2025 and a further three times in 2026 as the Bank of England aims to stimulate growth
- House prices rise by 3.0% in 2025 and 2026 as demand gradually increases whilst the number of properties coming on the market, forced sellers, and repossessions remain low
- Consumer spending on non-essential and big-ticket items grows due to sustained real wage growth, and households feel confident enough to reduce savings (with the savings ratio falling from 12.0% in 2024 Q4 to 8.0% in 2026) and also boost spending
- Lending to businesses improves as lending rates gradually fall and consumer spending increases
- Business investment growth accelerates in 2025 as stronger consumer spending leads to an improvement in medium-term economic prospects

Key Effects

- Total construction output rises by 3.5% in 2025 and 5.2% in 2026 as stronger economic growth drives private construction activity
- Private housing output increases by 6.0% in 2025 and 9.0% in 2026 in line with stronger, broader economic growth, interest and mortgage rate falls, and real wage growth, enabling the strong latent demand for home buying
- Commercial output rises by 3.0% in 2025 and 5.0% in 2026 due to continued strong fit-out activity and new large projects, which were pushed back due to viability concerns, finally starting onsite
- Private housing rm&i output rises by 3.0% in 2025 and 4.0% in 2026 as a gradual recovery in home moves feeds through to increased home improvement activity from 2025 H2. In addition, homeowners continue to increasingly focus home improvements on energy-efficiency retrofit and solar photovoltaic work

Construction Industry Forecasts - Spring 2025 - Upper Scenario

	2023	2024	2025	2026	2027
% annual change	Actual	Actual	Estimate	Forecast	Projection
Housing					
Private	40,051	37,859	40,131	43,742	46,804
	-14.4%	-5.5%	6.0%	9.0%	7.0%
Public	6,129	5,695	5,923	6,278	6,655
	4.1%	-7.1%	4.0%	6.0%	6.0%
Total	46,180	43,554	46,053	50,020	53,459
	-12.3%	-5.7%	5.7%	8.6%	6.9%
Other New Work					
Public Non-Housing	10,836	11,234	11,683	12,384	13,251
	11.1%	3.7%	4.0%	6.0%	7.0%
Infrastructure	32,843	29,800	30,694	32,536	34,488
	4.3%	-9.3%	3.0%	6.0%	6.0%
Industrial	7,718	7,358	7,579	7,882	8,355
	-0.3%	-4.7%	3.0%	4.0%	6.0%
Commercial	26,369	25,400	26,162	27,470	28,844
	6.1%	-3.7%	3.0%	5.0%	5.0%
Total other new work	77,766	73,792	76,118	80,272	84,937
	5.3%	-5.1%	3.2%	5.5%	5.8%
Total new work	123,946	117,346	122,171	130,292	138,397
	-2.0%	-5.3%	4.1%	6.6%	6.2%
Repair and Maintenance					
Private Housing RM&I	34,857	37,308	38,427	39,964	41,563
	7.0%	7.0%	3.0%	4.0%	4.0%
Public Housing RM&I	8,431	9,628	9,917	10,314	10,829
	5.3%	14.2%	3.0%	4.0%	5.0%
Private Other R&M	21,406	23,655	24,365	25,096	25,849
	10.5%	10.5%	3.0%	3.0%	3.0%
Public Other R&M	7,774	7,606	7,834	8,069	8,311
	11.3%	-2.2%	3.0%	3.0%	3.0%
Infrastructure R&M	14,381	16,013	16,333	16,660	16,993
	9.4%	11.3%	2.0%	2.0%	2.0%
Total R&M	86,850	94,210	96,876	100,103	103,545
	8.4%	8.5%	2.8%	3.3%	3.4%
TOTAL ALL WORK	210,796	211,556	219,048	230,395	241,942
	2.0%	0.4%	3.5%	5.2%	5.0%

Source: ONS, Construction Products Association

Lower Scenario

Assumptions

- UK GDP growth continues to remain subdued throughout 2025 H1 as poor consumer confidence and stubborn inflation hinder household spending
- Interest rates cut only once more in 2025 as the Bank of England takes a cautious approach to reducing interest rates in light of inflation persistently around 3.0%
- The unemployment rate gradually rises to 5.0% at the end of 2025 as consumer-facing services cut jobs in response to higher wage costs due to the increase in National Living Wage and employers' NIC contributions, combined with lower thresholds, and lower household spending
- House price growth slows as mortgage approvals and property transactions fall due to fewer falls in interest rates than markets and lenders had factored in
- Consumer spending volumes stall in 2025 despite real wage growth as households take a risk-averse approach and the savings ratio remains significantly above 10.0%
- Lending to businesses slows as lenders' borrowing rates fail to fall significantly in response to higher uncertainty over economic growth prospects
- Business investment falls as increasing uncertainty means that firms focus on near-term prospects

Key Effects

- Construction output rises by only 0.5% in 2025 and 1.7% in 2026 as slower economic recovery and fewer interest rate cuts push back construction recovery
- Private housing output increases by 3.0% in 2025 and 5.0% in 2026 as broader house building growth remains sluggish in 2025 H1 and affordability remains a key constraint
- Commercial output falls by 2.0% in 2025 before remaining flat in 2026 as fit-out activity remains strong, but new tower project activity continues to be pushed back due to viability concerns
- Private housing rm&i output is forecast to increase by only 1.0% in 2025 and 2.0% in 2026, as households respond only gradually to real wage rises and are unwilling to use savings to fund activity due to the impact of slower economic growth, fewer interest rate cuts and blip in mortgage rates on wealth and confidence

Construction Industry Forecasts - Spring 2025 - Lower Scenario

	2023	2024	2025	2026	2027
% annual change	Actual	Actual	Estimate	Forecast	Projection
Housing					
Private	40,051	37,859	38,995	40,945	43,811
	-14.4%	-5.5%	3.0%	5.0%	7.0%
Public	6,129	5,695	5,809	5,925	6,044
	4.1%	-7.1%	2.0%	2.0%	2.0%
Total	46,180	43,554	44,804	46,870	49,854
	-12.3%	-5.7%	2.9%	4.6%	6.4%
Other New Work					
Public Non-Housing	10,836	11,234	11,234	11,459	11,917
	11.1%	3.7%	0.0%	2.0%	4.0%
Infrastructure	32,843	29,800	30,098	30,700	31,928
	4.3%	-9.3%	1.0%	2.0%	4.0%
Industrial	7,718	7,358	7,284	7,284	7,430
	-0.3%	-4.7%	-1.0%	0.0%	2.0%
Commercial	26,369	25,400	24,892	24,892	25,390
	6.1%	-3.7%	-2.0%	0.0%	2.0%
Total other new work	77,766	73,792	73,508	74,335	76,665
	5.3%	-5.1%	-0.4%	1.1%	3.1%
Total new work	123,946	117,346	118,312	121,205	126,519
	-2.0%	-5.3%	0.8%	2.4%	4.4%
Repair and Maintenance					
Private Housing RM&I	34,857	37,308	37,681	38,435	39,588
	7.0%	7.0%	1.0%	2.0%	3.0%
Public Housing RM&I	8,431	9,628	9,628	9,628	9,821
	5.3%	14.2%	0.0%	0.0%	2.0%
Private Other R&M	21,406	23,655	23,655	23,655	23,655
	10.5%	10.5%	0.0%	0.0%	0.0%
Public Other R&M	7,774	7,606	7,530	7,530	7,530
	11.3%	-2.2%	-1.0%	0.0%	0.0%
Infrastructure R&M	14,381	16,013	15,853	15,853	15,853
	9.4%	11.3%	-1.0%	0.0%	0.0%
Total R&M	86,850	94,210	94,347	95,101	96,446
	8.4%	8.5%	0.1%	0.8%	1.4%
TOTAL ALL WORK	210,796	211,556	212,659	216,305	222,965
	2.0%	0.4%	0.5%	1.7%	3.1%

Source: ONS, Construction Products Association

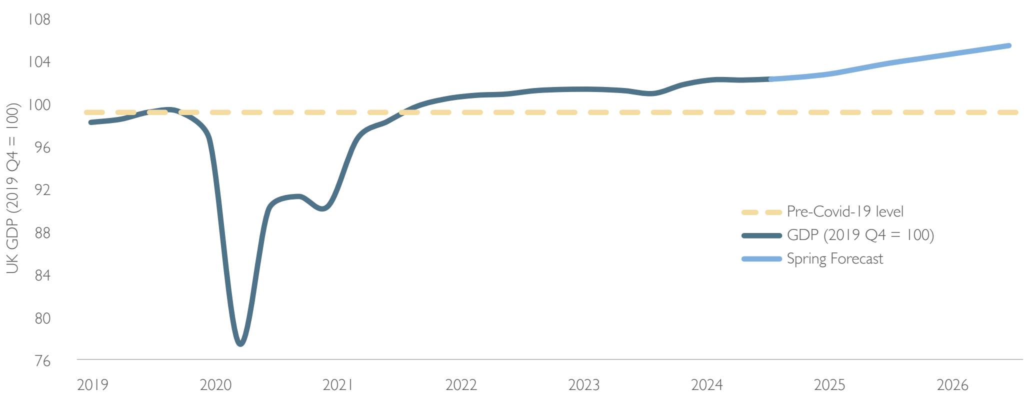
Economy

Fortunes for UK growth will be critically dependent on the impacts of the U.S. 'reciprocal tariffs' and the subsequent escalation in world trade issues on the global and UK economy. Outside of this, UK economic activity broadly flatlined in the second half of 2024 and similar prospects are expected for 2025 H1 before growth accelerates. Medium-term UK economic fundamentals are still positive, but they still only point towards slow, gradual economic growth over the forecast period, even excluding the impacts on global and domestic economic growth from trade wars. UK GDP is forecast to rise by 1.0% in 2025 and 1.7% in 2026. In terms of the key risks, on the positive side, households are having a sustained period of real wage growth, and many households have significant savings, so if consumer sentiment improves, then consumption could drive stronger growth. On the negative side, however, risks revolve around whether further cuts government spending and tax rises beyond those announced in the Chancellor's Spring Statement will be needed in the Autumn Budget if tax revenues underperform and government borrowing overshoots.

After strong growth in the first half of last year, economic activity broadly flatlined in the second half of the year. UK GDP in 2024 Q3 was 0.0%, whilst it rose by 0.1% in Q4, according to the Office for National Statistics. This flatlining of growth was expected and highlighted in previous CPA forecasts, and it also means that GDP per person in the UK fell in both 2024 Q3 and Q4. Overall, in 2024, UK GDP rose by 1.1%.

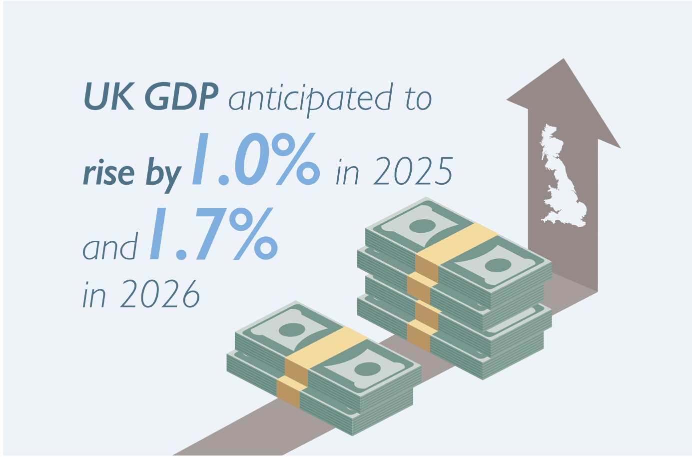
The marginal growth in the final quarter of 2024 was primarily driven by Services, which accounts for over 80% of UK GDP. Services output increased by 0.1% in 2024 Q4, with business-facing services rising by 0.1% in Q4 compared with Q3, whilst consumer-facing services was flat. Services output in Q4 was also 1.9% higher than a year earlier, whilst services sector output increased by 1.5% in 2024 overall, with business-facing services rising by 1.9% and consumer-facing services declining by 0.3%. The largest positive contribution to services growth in Q4 was human health and social work activities, which increased by 0.7%, whilst the

CPA UK Economic Forecast (Quarterly UK GDP)



Source: ONS, CPA Estimates

largest negative contributor to growth in Q4 was administration and support service activities, which fell by 1.2%.



Industrial production output fell for the third consecutive quarter, with a 0.4% decline in Q4, and it fell by 1.1% compared with a year ago. Overall, in 2024, industrial production output fell by 1.2%. The fall in industrial production in Q4 was largely driven by a 0.6% decline in manufacturing and a 2.3% decline in mining and quarrying, whilst electricity, gas, steam and air conditioning supply increased by 0.8% and water supply, sewerage, waste management and remediation activities increased by 1.5%. Manufacturing experienced no growth across 2024. There were substantial falls in the manufacture of basic iron and steel, which fell by 26.4% in Q4, after also falling in the two previous quarters. In addition, the manufacture of transport equipment fell for three consecutive quarters.

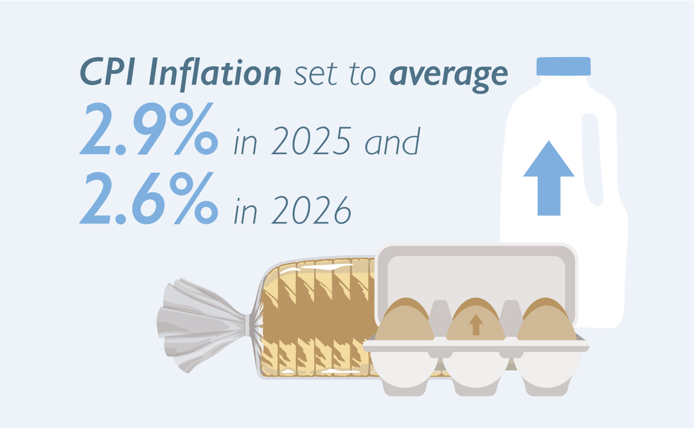
According to the ONS, construction output rose by 0.3% in Q4, following a 0.4% increase in Q3 and three consecutive quarterly falls beforehand. Construction output in Q4 was also 0.9% higher than a year ago, and overall, it increased by 0.4% in 2024. However, note that the CPA continues to have significant concerns regarding the ONS's construction output data since 2022 (see Overview – Recent Data), particularly the data for repair and maintenance, and in March 2025, the ONS suspended the publication of its materials price data due to concerns over its reliability.

On a monthly basis, UK GDP continues to be volatile. After falling by 0.2% in June and 0.1% in July 2024, GDP rose by 0.2% in August before falling by 0.1% and 0.2% in September and October, respectively. However, this was offset by growth of 0.1% and 0.4% in November and December, before GDP remained flat in January 2025. According to the ONS's first estimate of monthly GDP, which can often be revised substantially, UK GDP rose by 0.5% in February, which was not in line with most macroeconomic forecasters' expectations or other indicators of economic activity, such as the PMI data. The growth in February was driven by increases in all

Economic Indicators

	2023	2024	2025	2026	2027
	Actual	Actual	Estimate	Forecast	Projection
GDP	0.4%	1.1%	1.0%	1.7%	2.0%
Fixed Investment	0.3%	1.5%	1.5%	3.0%	3.5%
Household Consumption	0.5%	0.6%	1.2%	1.6%	1.7%
Real Household Disposable Income	2.4%	4.2%	1.4%	1.6%	1.8%
Government Consumption	1.6%	3.0%	2.6%	2.4%	2.4%
CPI Inflation	7.2%	2.6%	2.9%	2.6%	2.5%
RPI Inflation	9.7%	3.6%	3.7%	3.4%	3.4%
Bank Base Rates - June	5.00%	5.25%	4.25%	3.50%	3.00%
Bank Base Rates - December	5.25%	4.75%	3.75%	3.25%	3.00%

Source: ONS, Construction Products Association



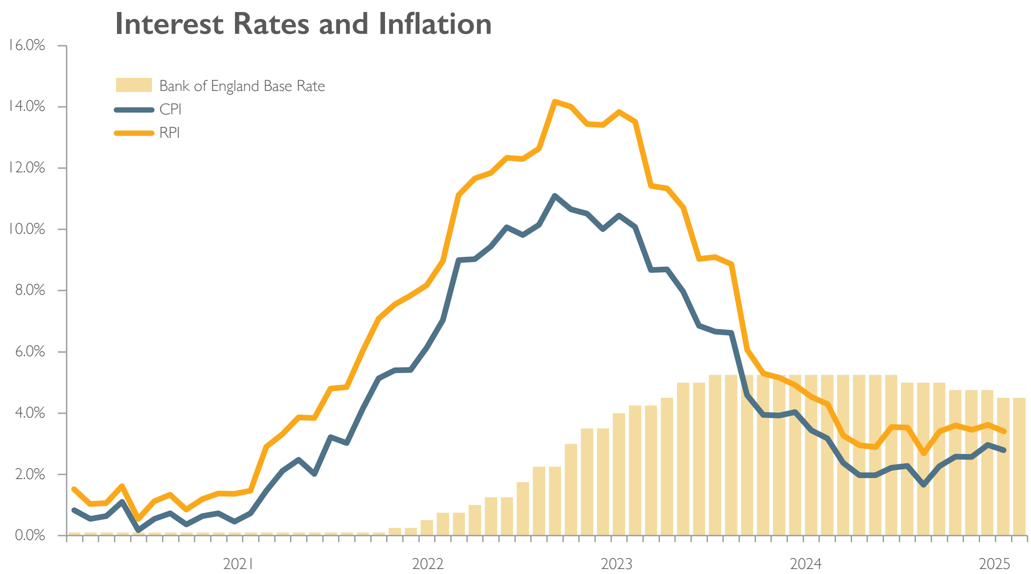
three key sectors of the UK economy, according to the ONS.

Services output rose by 0.3% in February after an increase of just 0.1% in January. Overall, the services sector grew by 0.6% in the three months to February compared with the three months to November 2024. The largest positive contributions were from administrative and support service activities, which increased by 1.9%; wholesale and retail trade in the repair of motor vehicles and motorcycles, which rose by 1.0%, and information and communication, which rose by 1.6%.

Industrial production rose by 1.5% in February after a fall of 0.5% in January. The increase in February was mainly driven by manufacturing output growing by 2.2% and electricity, gas, steam, and air conditioning supply rising by 2.0%, while water supply, sewerage, waste management, and remediation activities increased by 1.1%. Growth in these sub-sectors offset a fall of 3.0% in mining and quarrying.

According to the ONS, construction output rose by 0.4% in February, offsetting the fall of 0.3% in January. The rise in February was due to new work and repair and maintenance, which grew by 0.3% and 0.5%, respectively. Construction output showed no growth in the three months to February compared with the previous three months. New work increased by 1.2%, whereas repair and maintenance fell by 1.5%. The biggest positive contributor within new work came from public non-housing, which grew by 11.4%. In repair and maintenance, the largest negative contributor came from private housing repair, maintenance and improvement (rm&i), which fell by 3.2%.

Even though the cost of living remains an issue for many households, following the impacts of the energy and commodity price spikes during 2022 and 2023, many other households have experienced sustained real wage growth over the past two years, as nominal wage growth



Source: Bank of England, ONS

has outpaced CPI inflation. However, whether employees continue to have sustained strong wage growth now that employers face increased costs due to the rises in the National Living Wage and employers' National Insurance Contributions, and falling thresholds, from 1 April remains a key question. As 80% of GDP is from consumption and now that many households currently have spare finance, GDP growth is likely to be highly dependent on whether consumers feel confident enough to spend and whether businesses are confident enough to justify making the business case for new investments. Conversely, if households and businesses are uncertain about the economy and are scarred by previous cost increases and poor economic prospects, households may use spare finance for saving rather than spending or investing, whilst businesses may be risk-averse and focus on minimising non-essential costs rather than capital expenditure and investment. Measuring households and businesses feeling better off and more willing to spend and invest, respectively, is difficult, and consumer and business confidence indices tend to be skewed towards sentiment and are also volatile.

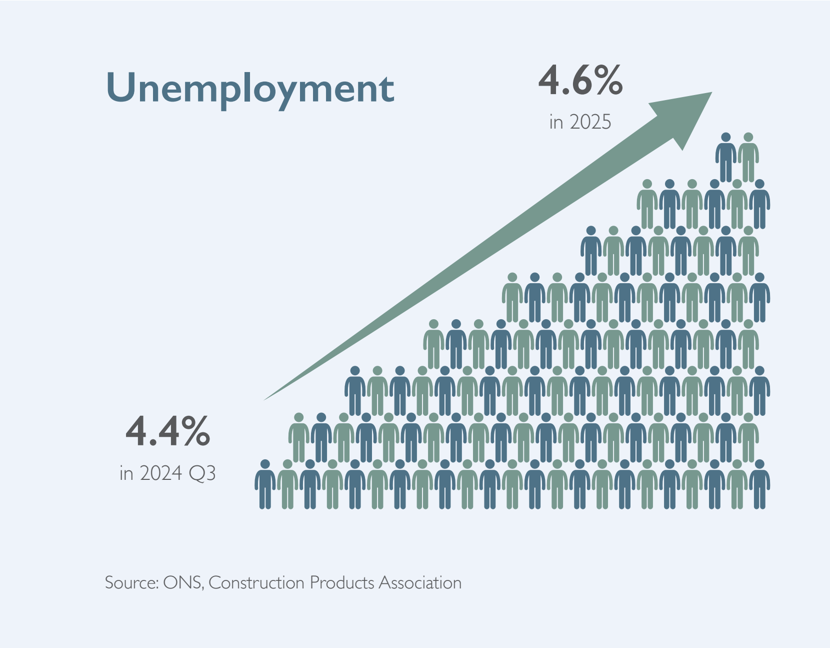
The Bank of England's *base rate is forecast to fall to* **3.75%** *by the end of 2025 and* **3.25%** *by the end of 2026*

The latest indicators on the UK economy, such as the S&P Global Purchasing Managers Indices (PMIs), point towards a mixed Q1 and cautious optimism for the year ahead. With the PMI data, 50 = no monthly change in activity; figures above 50 indicate growth in activity, whilst figures below 50 point towards a decline in monthly activity.

The UK Services PMI was 52.5 in March, up from 51.0 in February and the highest reading since August 2024, but it was still lower than the long-run series average of 54.3, and it reflected only a slight expansion. Survey respondents commented on pockets of growth in business and consumer spending, although some respondents reported challenging business conditions linked to constrained household budgets, rising risk aversion among clients and elevated geopolitical uncertainty. New work from abroad increased for the first time in four months and at the fastest pace since October 2024. Service providers pointed to successful entry into new overseas markets, and some suggested a nascent rebound in European demand, but others commented on weaker sales to U.S. clients. March data also pointed to reduced backlogs of work across the service economy despite a return to new business growth as respondents reported sufficient capacity to meet current business requirements. Relatively subdued workloads weighed on staff recruitment in March, alongside efforts to offset the expected impact of rising National Insurance costs and higher staff wages from April. Lower employment numbers have been recorded since October 2024, reflecting a combination of redundancies and the non-replacement of leavers. Expectations of business activity were favourable, with around 43% predicting an expansion over the year ahead, whilst only 14% predicted a decline.

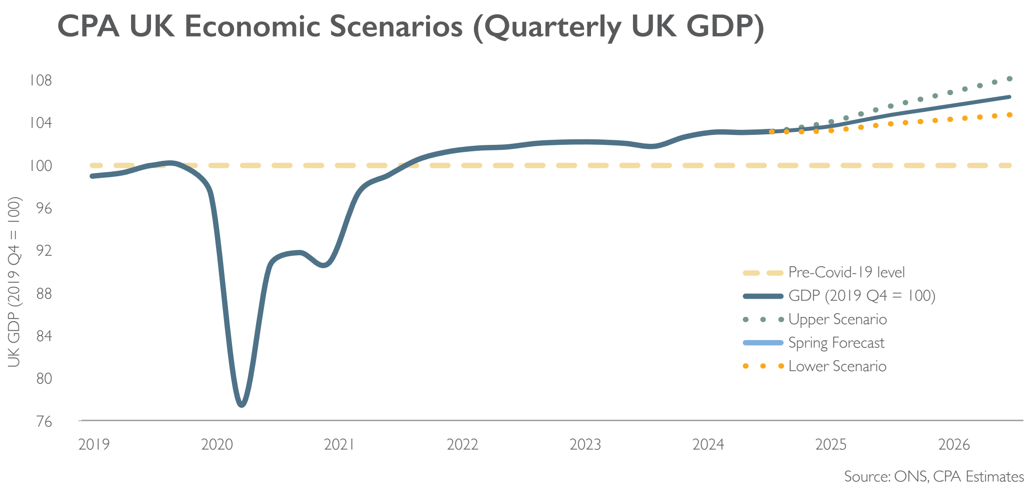
Real household spending *is set to* ***rise*** *by:* **1.2%** *in 2025 and* **1.6%** *in 2026*

The UK Manufacturing PMI in March fell to a 17-month low of 44.9 from 46.9 in February. It has now shown declines for the past six months, whilst manufacturing production has now fallen for five consecutive months and, in March, fell at its fastest pace since October 2023. The downturn was widespread, with contractions signalled across all sub-sector definitions (consumer, intermediate and investment goods) and all size categories



(small, medium and large). Small-scale producers saw the steepest decrease in output. New order intakes fell to the greatest extent since August 2023 and at one of the quickest rates since the lockdown-affected months in 2020. Manufacturers reported a tough trading environment, beset by rising geopolitical tensions, weak client confidence and economic slowdown in domestic and overseas markets, even before April's U.S. tariff volatility. Disruption to new order inflows was also caused by concerns about the forthcoming rises to the National Living Wage and employers' National Insurance Contributions due to the cost implications for manufacturers and their clients plus the possibility of tariffs. New export business contracted for the 38th successive month and at the quickest pace since August 2023. Lower intakes of new export work were mainly linked to weaker US and European demand. Some firms also noted reduced levels of new business from China, India and the Middle East. The weaker economic backdrop, combined with rising uncertainty regarding the future, had a severe impact on business confidence among manufacturers during March. Optimism slumped to its lowest in almost 2.5 years, with only 44% of companies expecting activity to rise over the coming year. Manufacturers expressed concerns around government policy (particularly the effects of National Living Wage and National Insurance contribution rises), rising global and trade tensions, cost increases, economic slowdown, recession fears and gloomy client confidence. Cost-caution also remained pervasive among UK manufacturers in March, leading to cutbacks in employment, stock holdings and purchasing activity. Staffing levels have been reduced for five consecutive months.

The UK Construction PMI was 46.4 in March, higher than the 44.6 recorded in February. As 50 = no monthly change in activity, the PMI reflect another decline in activity but at a slower



pace than in February (which was its fastest downturn since May 2020). However, as stated in previous updates, the PMI may reflect sentiment more than activity in housing, as the supply chain reports to the CPA that activity has been improving rather than the sharp declines since Autumn 2024 that the PMI suggest.

The housing PMI was 44.7 in March, marking a sixth consecutive decline but at a slower pace than in February, which, excluding the pandemic, was its sharpest fall since early 2009, during the financial crisis. Survey respondents reported weak demand, but some suggested that easing borrowing costs helped to support confidence. The civil engineering PMI was 38.8 in March, a further decline in civils activity and its lowest level since October 2020, attributed to delayed decision-making on new projects and a subdued major infrastructure pipeline. The commercial PMI was 47.4 in March, which S&P Global described as "only moderately" falling, but the rate of contraction was the fastest since January 2021. Lower business activity was linked to lacklustre UK economic prospects and the impact of rising geopolitical uncertainty on clients' investment spending. There was a fall in staffing numbers for the third consecutive month, its steepest since October 2020. Sub-contractor usage also decreased at a solid pace in March, but higher payroll costs due to upcoming NIC and NLW rises continued to push up average cost burdens. The overall rate of input price inflation accelerated to its strongest since January 2023.

The HM Treasury consensus of economic forecasters highlights the most recent forecasts from City and non-city forecasters compiled in March 2025. However, it is worth noting that even the most recent forecasts in this consensus were determined before the U.S. tariff disruptions, and consequently, their relevance now is questionable.

Of the main City and non-City macroeconomic forecasters, the average estimate for UK GDP growth in 2025 was 1.0%, slightly lower than the 1.3% anticipated three months ago and 1.2% forecast a year ago. Within the 1.0% average, the most pessimistic forecaster anticipated only 0.6% growth. The most optimistic forecaster in March expected 1.6% growth this year.

Unsurprisingly, there is a greater variation of forecasts for 2026, but almost all forecasters anticipate slightly stronger growth. Of the main City and non-City macroeconomic forecasters, the average estimate for GDP growth in 2026 was 1.3% in March. The most pessimistic forecaster anticipated only 1.0% growth in 2026, whilst the most optimistic forecaster expected 1.5% growth next year. This slightly wider range of forecasts for this year reflects different assumptions over interest rates, with some forecasters anticipating as many as four interest rate cuts but others anticipating only two cuts.

Overall, UK GDP is expected to rise by 1.0% in 2025 and 1.7% in 2026. The impact of the rise in the National Living Wage and the employers' National Insurance Contributions, and falling thresholds, announced in the Autumn Budget, is likely to hinder business prospects and investment from April onwards, with firms focusing on trying to constrain all non-essential cost growth. The forecasts for growth next year are slightly higher than consensus forecasts. Still, the poor consumer and business confidence is expected to gradually improve towards the end of this year with slightly lower interest rates and sustained real wage growth. Plus, the growing distance of time from past shocks may allow households to become less cautious, lower saving rates, and increase spending and investing. As consumer confidence rises, demand may gradually rise across durable retail goods and big-ticket discretionary items such as white goods and home improvement. These are also likely to boost business confidence and investment decisions over time after taking unexpected recent knocks due to higher wage costs from tax decisions from the government.

As highlighted in the previous forecast, the Office for Budget Responsibility (OBR)'s forecasts were likely to show that the government may be on course to miss its self-imposed fiscal rules, and it has placed great emphasis on being 'fiscally responsible'. As a result, in the Spring Statement, the Chancellor focused spending cuts on the 'difficult choices' of reducing current, day-to-day spending such as civil service and social care spending, rather than the relatively

'easier' to cut, capital expenditure on construction projects that have not been signed up to and many of which have not even had finance allocated for them.

Despite the negative consumer and business expectations near-term, the underlying economic fundamentals in the UK remain relatively strong. If economic activity improves as interest rates fall further, consumers steadily increase spending, and there is a loosening of public sector capital investment, the UK should experience a sustained period of gradual economic expansion.

Previous CPA forecasts highlighted that the sharp spikes in energy and commodity prices during 2022 and 2023 had largely fed through to the annual CPI inflation figures by Summer 2024. At that point, the Bank of England's hope was that CPI inflation would return swiftly back to its 2.0% target and be maintained. However, after hitting a low point in September 2024 of 1.7%, CPI inflation rose to 3.0% in January 2025 and only slowed marginally to 2.8% in February. It was below the 2.9% forecast by economists, according to Reuters. The marginally slower inflation was due to a fall in clothing prices, which declined 0.6% in the 12 months to February, marking the first contraction since October 2021. Core CPI inflation, which excludes energy, food, alcohol, and tobacco, fell from 3.7% in January to 3.5% in February.

However, services inflation, which the Bank of England monitors as a key measure of underlying price pressures now that the energy and commodity price spikes have passed through the annual inflation figures, remained at 5.0% in February, whilst economists had expected a slight decline to 4.9%.

Financial market traders are pricing around a 50% chance of a 0.25 percentage point interest rate cut at the next Bank of England Monetary Policy Committee (MPC) meeting in May, according to levels implied by swaps markets. Persistent price pressures have prompted the central bank to adopt a gradual approach to lowering interest rates, despite the economy's flatlining GDP. The Bank expects consumer price inflation to rise to 3.7% in Q3, primarily due to higher energy prices, before returning to around 2.5% in 2026 and only reaching its 2.0% target in 2027.

As highlighted in previous forecasts, we have yet to see the impact of the National Living Wage rise, the employers' National Insurance Contribution increases and the falling thresholds on businesses' wage costs and, consequently, after a lag, consumer price inflation. This will gradually feed through over this year. Hence, inflation is likely to remain volatile, and financial markets may react significantly to each UK GDP and CPI data point as it is published. The CPA's forecasts assume three further interest rate cuts during 2025. The first is expected in May and the second and third are likely to be in Summer and Autumn, respectively, particularly given the subdued UK economic growth in 2024 Q3 and Q4 and the expected subdued growth in 2025 H1. However, if CPI inflation continues to accelerate more than forecast in 2025, then rate cuts may be delayed. Conversely, if UK economic growth falls during 2025 H1, then rate cuts may be slightly earlier than anticipated.

The latest HM Treasury consensus of economic forecasters, compiled in March 2025, highlighted that the average estimate for CPI inflation in 2025 Q4 was 3.1%. Within this, the most pessimistic forecaster in March anticipated inflation of 4.0% in Q4, whilst the most optimistic forecaster expected 2.0% CPI inflation in the final quarter of this year, which is highly unlikely even now given January and February figures of 3.0% and 2.8%, respectively. Looking to next year, in March 2025, the average estimate for CPI inflation in 2026 Q4 was 2.4%. Within this, the most pessimistic forecaster anticipated inflation in 2026 Q4 being 3.3%, while the most optimistic forecaster anticipates inflation in 2025 Q4 slowing to just 1.7%, requiring inflation to slow considerably from current rates.

The consumers' energy price cap rose from £1,568 between 1 July and 30 September 2024 to £1,717 between 1 October and 31 December 2024, and Ofgem announced that it would rise marginally, by a further 1.2%, to £1,738 between 1 January and 31 March 2025. There was yet another slight increase to £1,849 from 1 April to 30 June 2025 before it is expected to fall by 7.0% to £1,720 between 1 July and 30 September.

A greater uncertainty revolves around oil prices. The peaks of more than $110.0 per barrel in the wake of Russia's invasion of Ukraine have long since passed, and prices during each month of 2024 bounced around $70.0 and $85.0 per barrel. More recently, there has been surprisingly little volatility since a brief spike over Summer 2024 due to concern over a potential spread of conflict in the Middle East. Since September 2024, oil prices have been between $70.00 and $75.00 per barrel until the start of the year, when oil prices rose to $79.2 per barrel, although prices fell back to $75.2 per barrel in February and $72.6 in March. However, the larger, more unpredictable changes are likely to be after the U.S. tariff disruption in April. Uncertainty and concerns over a global economic recession may lead to sharp price falls in a short period of time before fundamentals are restored to oil prices. However, at the time of writing, there is no way of determining how long it will take for fundamentals to determine oil prices and what price it will then return to.

The UK labour market remains strong despite the UK economy flatlining for the majority of 2022 and 2023, the slow growth recorded in 2024 and similar expected growth in 2025. The UK employment rate (for people aged 16 to 64 years) was estimated at 75.0% in November 2024 to January 2025, which was 0.1 percentage points higher than one quarter earlier but still 1.5 percentage points lower than between December 2019 and February 2020, pre-pandemic. Conversely, the UK unemployment rate was estimated at 4.4% in November 2024 to January 2025, 0.1 percentage points higher than a quarter earlier and 0.4 percentage points higher than between December 2019 and February 2020.

The UK economic inactivity rate was estimated at 21.5% between November 2024 and January 2025, which was 0.2 percentage points lower than in the previous quarter but still 1.2 percentage points higher than between December 2019 and February 2020. The economic inactivity rate had fallen pre-pandemic, but it rose during the pandemic and, despite fluctuations on a quarterly basis, remains higher than pre-pandemic and has persistently been above 21.0%. Increases in economic inactivity in the first year of the pandemic were mainly among those 16 to 24 years old, but after the pandemic, increases in inactivity were primarily due to those aged 50 to 64 years.

Annual growth in employees' average regular earnings (excluding bonuses) was 5.9% in November 2024 to January 2025. Growth was last higher than this from February to April 2024, when it was 6.0%. Annual growth in total earnings (including bonuses) was 5.8% from November 2024 to January 2025. This decreased from the previous three-month period, when it was 6.1%. The annual average regular earnings growth from November 2024 to January 2025 was 6.1% for the private sector and 5.3% for the public sector.

Using CPI real earnings, real regular pay rose during the year by 3.2%, and real total pay rose by 3.1%. Both real regular and total real annual growth were higher in the previous three-month period, when they were 3.4% and 3.5%, respectively. Theoretically, this real wage growth should bolster consumer confidence and spending. However, there may be scarring due to the persistent effects of spikes in inflation and real wage falls during 2022 and 2023, with high price levels and risk aversion affecting even some households with extra finance. This means that many households have focused on saving rather than spending despite rising real wages. The CPA forecasts that real household income will rise 1.4% in 2025 and 1.6% in 2026.

In 2019 Q4, pre-pandemic, the household saving ratio was just 5.9%. After unsurprisingly spiking at 27.5% and 21.8% during the national lockdowns, the household savings ratio returned to more normal rates of 7.0% in 2021 Q4. The initial impact of the energy and commodity price spikes after Russia's invasion of Ukraine in February 2022 led to falls in the savings ratio as households used savings to sustain spending, and the savings ratio fell to 4.5% in 2022 Q2. Still, following this, there was a general upward trend in household savings as households became risk averse and saved to ensure that they had sufficient finance to account for general price inflation and the increase in the cost of any potential unforeseen expenses. Despite the slowdown in inflation and the rise in real wages, the savings ratio has continued to rise, with households uncertain about when interest rates will fall. In 2024 Q2, it grew to 10.1% before a more recent expected marginal rise to 10.3% in 2024 Q3. However, contrary to expectations in previous forecasts, the savings ratio rose again to 12.0% in 2024 Q4, highlighting the uncertainty and fragility of consumer confidence. As a result, economic uncertainty and concerns are likely to ensure that the savings ratio does not fall below 8.0% over the next 12-18 months.

Looking at whether households appear confident about their finances and confident enough to spend, GfK's Consumer Confidence Index has recovered significantly since the record low of -49 reached in September 2022, with increases in confidence throughout most of 2023 and during the first half of 2024 despite the economic and political uncertainties as well as the cost of living issues continuing to affect households adversely. After rising to -19 in January 2024, its highest since January 2022, before the impacts of the energy and commodity price spikes, it fell marginally to -21 in February and March. Following this, it consistently rose to -13 in July and August, with a clear majority in the General Election providing added certainty. However, this did not last long, and consumer confidence fell sharply in September to -20 and then to -21 in October as pre-Budget uncertainty over tax increases affected consumers. Interestingly, however, post-Budget, consumer confidence rose slightly to -18 in November and -17 in December 2024, despite the negative headlines and the significant expected impact on businesses. GfK's consumer confidence index fell to -22 in January. Still, it then rose to -20 in February and -19 in March, which points towards largely flat consumer confidence between September 2024 and March 2025 but with slight monthly volatility within the margins of error.

In March 2025, GfK's measure for consumers' personal financial situation during the last 12 months was -9, which is two points worse than in February and four points higher than a year earlier. Expectations for their personal financial situation over the next 12 months were at +1, which was one point worse than in February and a year ago. In March, GfK's measure for the country's general economic situation during the last 12 months was -42, which was two points better than in February but three points worse than a year earlier. Expectations for the general economic situation over the next 12 months were at -29, two points better than February but six points worse than a year ago. The Major Purchase Index was at -17 in March, the same as in February but ten points higher than a year earlier. The Savings Index was +25 in March, five points lower than last month and the same as a year ago.

Given the negative impacts of the Autumn Budget, it was unsurprising that business confidence fell to its lowest in almost two years at the end of last year as businesses faced rising costs, reduced customer confidence and falling orders, according to the BDO business confidence indices. More recently, its Output Index rose by 0.91 points to 97.75, as a service sector recovery offset a contraction in manufacturing activity. Lower international demand for goods saw its Manufacturing Output Index fall to 88.39, its lowest reading since December 2022. This was driven by global uncertainty before the final announcement of the US tariff review on 2nd April, which has been confirmed to impact UK manufacturers, following the introduction of a 10% tariff. Resilient domestic and international sales increased services output to 98.93 from 97.71 in February. The financial services sector was a notable contributor to the overall improvement. Better weather in March will likely partially offset a challenging month for consumer-facing sectors, such as retail, hospitality and leisure, as stretched household budgets weighed on demand conditions. Business confidence rebounded slightly in March to 91.43, following a four-year low the previous month. However, the Optimism Index is still well below historic averages and lingering at levels last seen towards the end of 2022 – a period of high inflation and political uncertainty. Continued political and economic uncertainty also kept hiring intentions subdued in March, after the Employment Index registered a 12-year low of 94.30 in February. The Index rose incrementally to 94.32 last month. Still, it remained at historic lows last seen over a decade ago around 2013, when the labour market was recovering from the impact of the Global Financial Crisis.

Looking at UK business investment, the most recent figures cover 2024 Q4, during the period of the Autumn Budget but before the Budget's impacts would have affected most firms' business plans. UK business investment decreased by 1.9% in 2024 Q4 and was 1.8% above where it was in the same quarter a year ago.

The Q4 decrease was mainly caused by negative contributions from transport, which were partially offset by positive contributions from other buildings and structures and intellectual property products. The decrease in transport investment was partly a reaction to the increase in the previous quarter, where the positive growth in 2024 Q3 was mainly caused by aircraft investment.

Upper Scenario:

- Economic activity and real wages grow strongly in 2025
- Interest rates fall four more times by 0.25 percentage points in 2025
- Consumer spending rises despite negative sentiment
- The labour market remains resilient
- Lending to business increases as interest rates fall
- Business investment recovers

The upper scenario envisages that a strong labour market, savings, and credit availability sustain consumption, household spending, and business investment recovery in 2025. Consumer spending increases despite negative sentiment as households feel increasingly comfortable spending savings given real wage rises. Business lending and investment rise in the light of consumer spending, driving better economic prospects.

Lower Scenario:

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

The lower scenario envisages that the UK economy remains subdued in 2025 H1 as households become more risk-averse as unemployment rises. Both households and businesses suffer from falls in consumer and business confidence. In addition, inflation worries in 2025 and 2026 means that the Bank of England is more cautious about interest rate cuts.

Private Housing

Private house building started to gradually recover in 2024 after hitting a low point in 2023 Q4, and it is expected to improve in both 2025 and 2026, excluding impacts on the UK economy from the tariff disruptions. However, a slower start to the year anticipated in both the housing market and house building sectors points towards a slight downward revision in the private housing forecast since Winter to reflect the increase in uncertainty. Overall, private housing output is expected to grow by 4.0% in 2025 and 7.0% in 2026.

Major house builder optimism in the first quarter of 2025 has been checked slightly by increasing caution during the first quarter of the year. In addition to a slower UK economic growth forecast and an upward blip in mortgage rates after the government's Autumn Budget, activity has been slightly slower than initially anticipated in the wider housing market. Plus, there are increasing concerns over homebuyer confidence due to the raft of economic worries, although whether this represents willingness to buy or merely sentiment is not yet clear. On the positive side for house builders, in the near-term, the delay in the Building Safety Levy and the Future Homes Standard may help their margins, whilst in the long-term, the government's changes to planning may also help to boost supply.

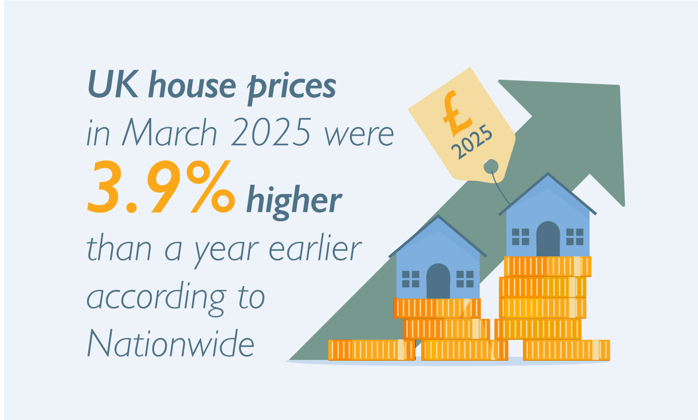
Given that major house builders cover around three-quarters of house building, it is worth noting the financial results of some of the majors to illustrate some of the effects of the housing downturn and what to expect for house building this year, given the shape of the recovery curve.

Persimmon's full-year results were published in March. It completed 10,664 homes in 2024, 7% higher than in 2023. But it was still 28% lower than in 2022 after a 33% fall in completions in 2023. 2022 was clearly a high base level due to the pandemic 'race for space', low mortgage rates, the stamp duty holiday and Help to Buy. Demand in 2023 fell sharply due to the delayed effect of mortgage rate rises in 2022 and government policy stimulus being withdrawn, whilst

Private Housing Starts and Completions Great Britain

	2023	2024	2025	2026	2027
	Actual	Actual	Estimate	Forecast	Projection
Starts	131,033	92,563	103,670	119,221	131,143
	-19.8%	-29.4%	12.0%	15.0%	10.0%
Completions	144,011	134,328	143,731	152,355	159,973
	-13.5%	-6.7%	7.0%	6.0%	5.0%
Output (£m)	40,051	37,859	39,373	42,129	44,657
	-14.4%	-5.5%	4.0%	7.0%	6.0%
RM&I Output (£m)	34,857	37,308	38,054	39,196	40,372
	7.0%	7.0%	2.0%	3.0%	3.0%

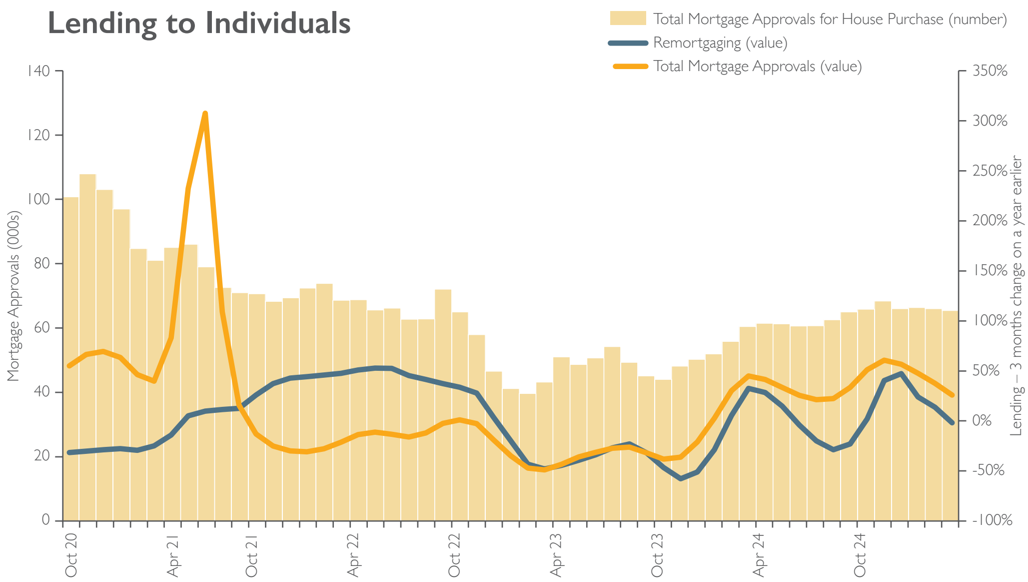
Source: MHCLG, ONS, Construction Products Association in 2024, it started to recover as mortgage rates fell slightly from mid-2023. Rising sales rates and forward sales so far this year mean it expects completions in 2025 to rise between 3% and 8% after growth last year, with single-digit cost inflation. There is a degree of expectations management from them, given all the UK economic uncertainties and geopolitical risks. However, it is in line with our forecasts and still broadly in line with the 5-10% annual growth over the next few years that house builders were expecting back in Autumn, after adjusting for higher uncertainty and a degree of expectations management. However, even based on Persimmon's higher guidance, its completions at the end of 2025 would still be 23% lower than in 2022.



Taylor Wimpey completed 9,972 homes, excluding JVs, in 2024, which is 4% lower than its 10,356 completions in 2023 and 28% lower than its 13,932 completions in 2022. However, it was also 29% lower than the 14,144 homes it completed in 2021, so its fall in demand started earlier than Persimmon's and lasted longer, but it was not as steep. Its higher year-to-date net private sales rate and a higher cancellation rate so far in 2025 mean it expects completions this year will be up by between 4% and 8%, with approximately 55% of completions in the second half of the year. This is similar to Persimmon but is from its low point last year. But, again, even at the higher end of Taylor Wimpey's guidance, its completions at the end of 2025 would still be 24% lower than at the recent peak in 2021. It also expects low single-digit cost inflation this year but "depending on the response from our sub-contractors to rising employer costs" and it will "continue to work with our supply chain to identify opportunities for savings across the business", which either means it is just highlighting a risk or that it is putting significant pressure on its sub-contractors.

Top five UK house builder Bellway reported that for the half year ending 31 January 2025, total housing completions increased by 11.9% to 4,577 homes, compared with 4,092 a year earlier, and the average selling price was £310,581, compared with £309,278 a year ago. Its

Lending to Individuals



Source: Bank of England

private reservation rate per outlet per week increased by 18.6% to 0.51 compared with 0.43 a year earlier, including a contribution from bulk sales of 0.06 compared with 0.03 a year ago. In the seven weeks since 1 February, its private reservation rate per outlet per week was 0.76 compared with 0.67 a year earlier. Its forward order book on 16 March 2025 comprised 5,582 homes compared with 5,063 homes. It expects to deliver a full-year volume output of at least 8,500 homes, compared with 7,654 homes in the same period last year, with output weighted towards the first half of its financial year.

House builder Vistry, which is now the largest house builder by volume, operates a different business model, with 73% of its completions as partnership homes. It has also suffered from internal financial issues on its cost reporting, but it is worth highlighting that it delivered a 7% increase in total units to 17,225, compared with 16,118 a year ago. Private Rental Sector (PRS) sales represented 21% of its total unit sales, up from 13%. Section 106 (S106) affordable housing represented 27% of its total units, similar to the 28% reported a year ago, while additional affordable housing accounted for 25% of its total units, compared with 26% a year ago. However, its open market sales decreased by 15% to 4,592 compared with 5,396 a year ago. Its open market average sales price was £385,000 compared with £390,000 a year earlier with incentives of around 5% of the open market sales price.

In terms of current trading and outlook, it expects both partner-funded volumes and open market sales in 2025 to be at a similar level to those in 2024.

Some house builders are also suffering from the issues faced by housing associations. Housing associations have increasingly reacted to tight finances in recent years by focusing on the state of their existing housing stock at the expense of new build and reducing the number of Section 106 (S106) properties purchased from house builders. If housing associations and local authorities are not purchasing S106 properties from house builders, it affects the financial viability of new developments. According to the Home Builders Federation, at least 139 home building sites were currently delayed due to uncontracted S106 units, and the delivery of 17,432 affordable housing units with detailed planning permission is on hold due to a lack of registered providers' willingness to purchase properties. The additional government funding in Autumn Budget 2024 and Spring Statement 2025 may help to address a part of this. However, housing associations and local authorities primarily remain focused on issues with their existing housing stock (see Public Housing) rather than adding new properties to the stock that may also need work later.

The issues for SME private house builders remain similar to three months ago. Demand has picked up from a low base, and it is highly regional. Some SME house builders endured a worse than 20.0-30.0% peak-to-trough fall in completions that major house builders did, especially in areas where affordability remains a key constraint. However, other SME house builders in some key hotspots reported demand has improved considerably over the last 6-9 months. However, even where demand has been maintained, SME house builders continue to struggle to get applications through resource-constrained local authority planning departments. Furthermore, SME house builders also suffer more from additional planning issues such as water and nutrient neutrality and Biodiversity Net Gain (BNG), as well as already dealing with the costs of building regulations F,L,O and S.

In the Federation of Master Builders State of Trade Survey for 2024 Q4, FMB members in the house building sector reported a continued decrease in workload with a net balance of -15%, marginally better than the -17% reported in Q3, although still significantly negative. Furthermore, enquiries within house building also continued to marginally decrease, from -30% in Q3 to -31% in Q4, pointing towards further falls in activity in Q4 and 2025 Q1.

Outside of these areas, there continue to be significant delays for developers of high-rise properties, which disproportionately affect residential areas in cities, especially London. Almost 50% of new build in London is high-rise apartments. Many high-rise residential developers have reported 6-9 months delays at the Building Safety Regulator (BSR) at Gateway 2 stage. As the BSR covers buildings over 18 metres or seven storeys in which people stay overnight, it also affects student accommodation (see Commercial – Education) and some hospitals (see Public Non-housing – Health). It continues to keep many projects on hold, unable to start. Some delays have been due to a lack of capacity at the BSR, while others have been due to developer supply chains not providing the required information. It is difficult to know the extent to which each of these is the cause of delays, but a Freedom of Information request to the BSR in February 2025 highlights the status of the applications to the BSR so far (see Overview – Key Risks). Whichever the key cause is, the extent of the issues suggests that the problem will not be sorted by the end of the forecast period.

Despite hold-ups at the BSR and more constrained affordability in London, Knight Frank reported at the end of February 2025 that demand is rising for move-in-ready new homes in London, while off-plan sales continue to face challenges. However, with further interest rate cuts expected in 2025, confidence is building for a more stable or stronger year for reservations. Its survey of over 50 volume and SME house builders stated that one-third of London-based respondents expected reservation volumes in the capital to outperform 2024 this year, whilst only one-fifth anticipated lower sales. However, it is worth noting in the Knight Frank data that almost half of the respondents expected sales to remain stable in 2025.

On the positive side, the Ministry of Housing, Communities and Local Government (MHCLG) published its new National Planning Policy Framework (NPPF), post-consultation, in December 2024, and its Planning and Infrastructure Bill is currently going through Parliament. Easing planning will help house builders, especially smaller house builders, with one constraint. However, near-term planning isn't the largest constraint. Demand and costs are more significant issues. For the larger house builders, the benefits of new developments coming through due to the NPPF and Planning and Infrastructure Bill are unlikely to be seen in activity down on the ground until 2027, according to most major house builders. In addition to housing, however, government's easing of planning will also help other sectors, and the CPA's view is that whilst the focus of media is on the benefits to housing supply, some of the largest benefits will be seen in infrastructure, data centres and gigafactory activity.

According to Knight Frank's SME house builder survey in April, planning challenges eased slightly in 2025 Q1, but 60% of respondents still highlighted planning as a key concern. This is the lowest proportion since Knight Frank started its survey. However, it is still clearly high and highlights that the NPPF and the upcoming Planning and Infrastructure Bill reforms have a long way to go before house builders feel tangible effects down on the ground.

At the same time, as highlighted in previous CPA forecasts, house builders' costs continue to rise. They already have to deal with water and nutrient neutrality, Biodiversity Net Gain, the Residential Property Developer Tax, the revised Building Regulations F, L, O and S, plus the upcoming Future Homes Standard. They must also deal with the impacts of rises in the National Living Wage and employers' National Insurance Contributions, and lower thresholds, at not only their own organisation but also the impacts of these rises throughout the supply chain. Major house builders state that cost inflation is likely to only be single-digit this year, although this may be due to increased pressure on the supply chain to take the pain of rising wage and materials costs. However, one boost for house builders is that the

UK property transactions *in February 2025 were* ***28.1% higher*** *than a year ago from a low base*

government announced in the Spring Statement that the Building Safety Levy, which was due to be imposed on house builders from Autumn 2025, has been delayed a year till Autumn 2026. The Future Homes Standard is now only likely to be published towards the end of this year, for implementation in 2026, with a one-year grace period until 2027. This implies that major house builders are only likely to be building under the Future Homes Standard towards the end of the decade after a spike in starts before the end of the grace period, although clearly small house builders would be expected to be building under it during 2027.

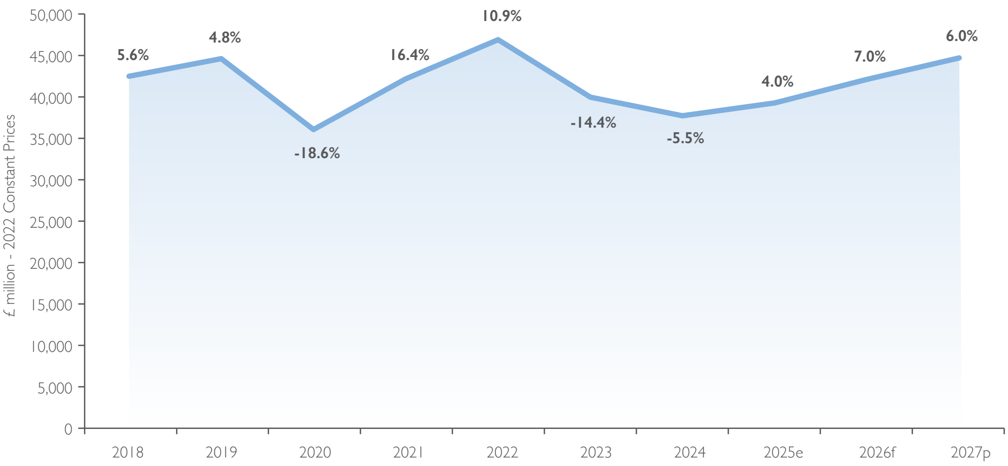
Within the housing market, the fundamentals remain broadly similar to the CPA's previous forecasts. Looking at demand in the broader housing market, there were 108,250 property transactions in February 2025, according to HMRC, which is 13.0% higher than in January and 28.1% higher than a year ago. However, this is compared with a low base in Winter 2023/24. February's monthly rise in transactions was the third successive rise as the housing market gradually recovers from the low point of demand during 2023. Excluding recent distortions, transactions were 11.4% higher than January 2020, pre-pandemic levels, as transactions moved closer to the deadline before the stamp duty changes at the end of March.

Transactions in the 2025 year-to-date period, which only include January and February, provide us with relatively little information at this stage. Transactions in March and Q1, overall, are also expected to be relatively high, followed by a dip during Q2 2025 after the stamp duty changes deadline on 1 April. As previously highlighted, we are only realistically likely to see the actual current level of demand, excluding distortions, in 2025 Q3.

There were 65,481 mortgage approvals in the UK in February 2025, according to the Bank of England. This was 0.8% lower than a month earlier, but approvals have broadly been flat since August 2024 and, in February, they were 8.2% higher than a year earlier. However, annual changes are compared with a low base at the recent low point of homebuyer demand in Winter 2023/24. The recent slight slowdowns in mortgage approvals are unsurprising, given that mortgage approvals in February take time to be reflected in transactions and, consequently, are unlikely to be for purchases completing before the end of March, which was the deadline for the stamp duty changes that took effect on 1 April.

The trend of mortgage approvals since the low point in Winter 2023/24, followed by a period of flatlining and more recent slight declines, primarily reflects the impact of the trend in mortgage rates. Going forward, mortgage approvals may slow slightly further until Summer, once we are

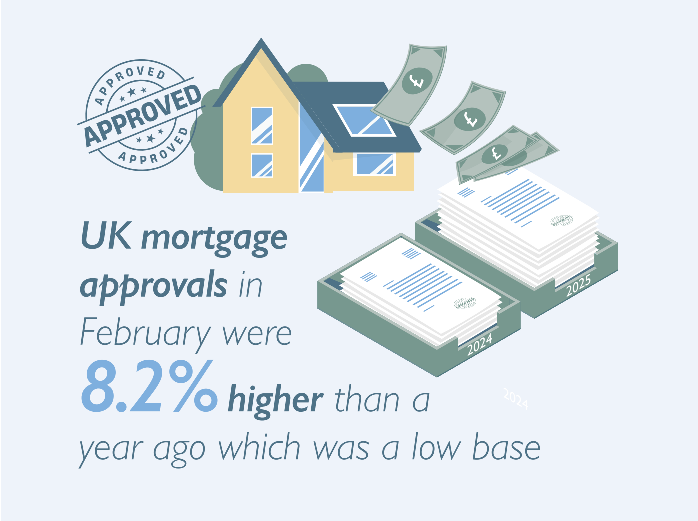
Private Housing Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

past the distortion in transactions being brought forward ahead of the stamp duty changes and then the subsequent slight dip in mortgage approvals and transactions.



Looking at house prices, the Nationwide UK house price index rose by 3.9% in annual terms in March, the same as in February. There was no monthly change in prices. It stated these price trends were unsurprising, given the end of the stamp duty holiday at the end of March. Transactions associated with mortgage approvals made in March would be unlikely to be completed before the deadline. It expects the market will remain soft in the coming months, as activity was brought forward to avoid the stamp duty changes from 1 April. But it stated that activity is likely to pick up steadily as Summer progresses, despite broader economic uncertainties in the global economy, as underlying conditions for potential home buyers in the UK remain supportive; unemployment is low, earnings are rising in real terms, household balance sheets are strong and borrowing costs are likely to moderate a little if the Bank Rate is lowered further in the coming quarters, as most analysts expect.

Its regional house price indices for 2025 Q1 indicated that Northern Ireland had the strongest price growth at 13.5%. Scotland and Wales saw annual rises of 3.9% and 3.6%, respectively. In England, growth was strongest in the North West and West Midlands, with prices up 5.9% and 5.8%, respectively. Conversely, the slowest house price growth was in East Anglia (2.1%) and London (1.9%).

The RICS UK Residential Survey reported a further sales market deterioration in March 2025, with economic concerns weighing on sentiment. Respondents were increasingly cautious on the near-term sales outlook, but 12-month expectations were still slightly positive. The new buyer demand net balance fell to -32% in March, down from -16% in February, its weakest level since September 2023. Virtually all parts of the country saw softer buyer demand. For agreed sales, the net balance of -16% deteriorated from -13% in February, the most subdued since the end of 2023. Looking ahead, three-month sales expectations returned a net balance of -18% compared with -6% in February. For the 12 months ahead, a net balance of +11% of survey participants expected sales volumes to rise, but it was the least optimistic in sixteen months. A net balance of +6% of contributors noted a pick-up in the flow of fresh listings coming onto the market, but it was lower than the average of +17% over the past six months. A net balance of +20% of respondents reported that the number of market appraisals undertaken was higher than a year ago.

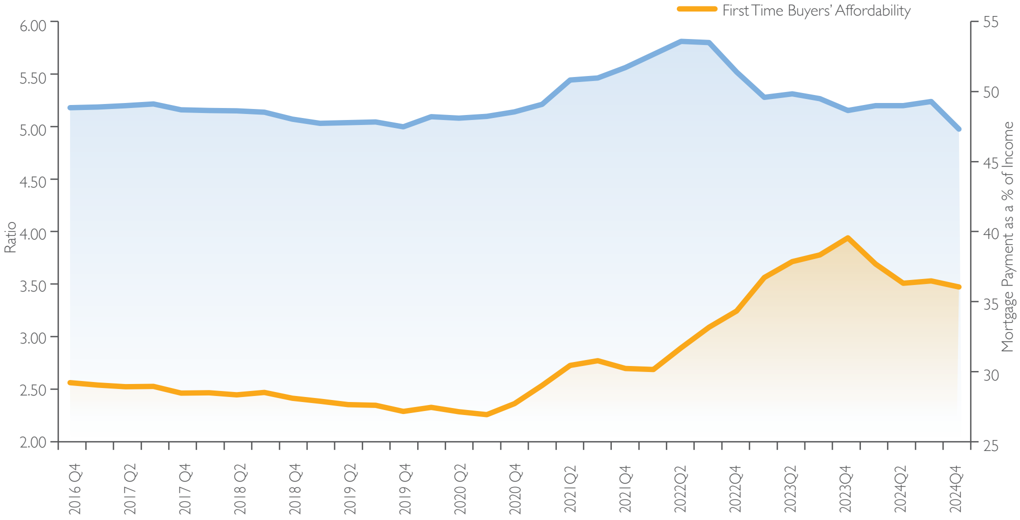
The UK house prices net balance of +2% was considerably lower than the +20% and +11% in January and February, respectively, reflecting a flat picture, but Scotland and Northern Ireland had a resilient upward house price trend. Going forward, the 3-month price expectations net balance was -26% compared with -16% in the previous month, but the 12-month price expectations net balance was +39% compared with +47%. So, respondents expected downward pressure near-term but were still positive medium-term. All regions and nations exhibited positive price expectations for the year ahead.

Looking at affordability, mortgage payments as a proportion of income were consistently increasing between 2022 Q1, when they were 30.2% of income, to 39.4% in 2023 Q4. Since then, however, a return to sustained real wage growth and slightly lower mortgage rates have meant that mortgage payments as a proportion of income have steadily fallen to 36.0%. Clearly, mortgage payments remain historically high relative to income, but at the very least, the trend

***Private house building completions** are expected to **rise** by **7.0%** in 2025 and **6.0%** in 2026*

appears to have reversed and is improving. Going forward, sustained real wage growth will help to ease affordability, but uncertainty remains about mortgage rates and payments, given the uptick in mortgage rates at the end of 2024. In the medium-term, however, mortgage payments will gradually fall as a proportion of income as interest rates are cut and mortgage rates decline over the forecast period. So, overall, mortgage payments as a proportion of income are likely to fall further in 2025 and 2026 as interest rates and mortgage rates fall. The house price-to-earnings ratio has been on a general downward trend since the peak of 5.8 during the 'race for space' peak and just before the full impact of interest rates and mortgage rates on the housing market. It has now fallen to 5.0 in 2024 Q4, its lowest since 2019 Q4. However, affordability and deposits remain an issue where house prices are, on average, five times the average earnings. This is particularly the case given that there is no government policy aimed at helping potential new homeowners, especially first-time buyers, with deposits, and 36% of first-time buyers received help from family or friends with a deposit in 2023/24, according to the English Housing Survey.

Affordability



Source: Nationwide

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

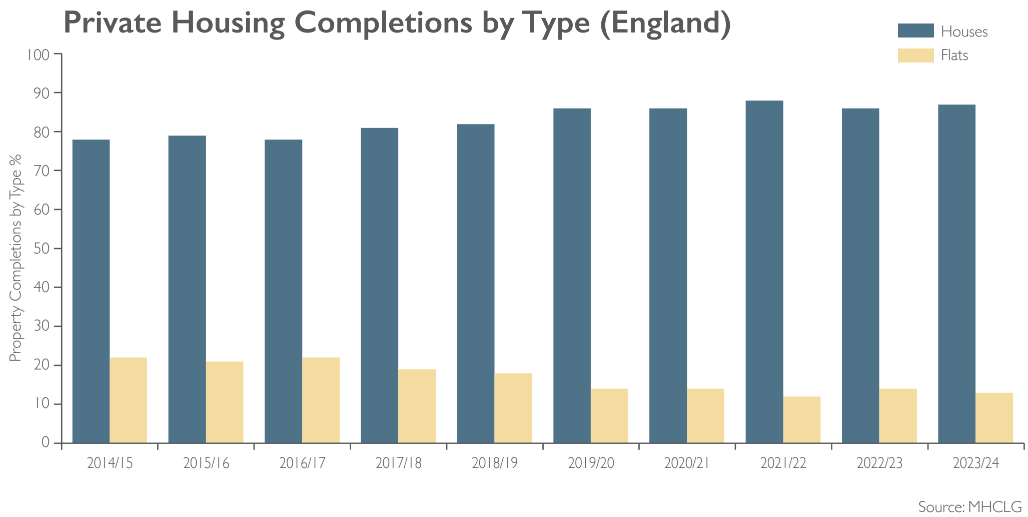
Deliveries in February 2025 were 21.4% higher than a year ago according to the Department for Business and Trade. The rise in February was expected, given that the recent nadir of housing and house building demand, housing starts and deliveries (excluding the initial pandemic lockdown) was in Winter 2023/24, a year ago.

Despite the recent rise, deliveries and starts in February remained at a low level. Deliveries were still 26.7% lower than the average between 2018 and 2019, which was pre-pandemic.

Deliveries between the nadir of housing demand during Winter 2023/24 and February 2025 indicate a gradual trend of improvement in deliveries, and house building starts from a low base (but with high monthly volatility).

The improvement in 2024 H2 and so far in 2025 pointed towards around 10-12% growth in house building starts, from a very low base, and then 4-6% growth in completions (skewed towards H2) but that was based on a stronger key Spring house builder selling season, gradually improving UK economic growth and stable political and economic conditions with gradual improvements in homebuyer and business confidence. At the moment, no one knows the full impacts of U.S. tariff changes and global trade issues on global and UK economic growth, inflation, interest rates, and homebuyer and business confidence. And a key problem for assessing house building prospects in the next 12-18 months is that none of the measures of demand or early indicators for demand in the housing market or house building sector currently published cover the impacts of the tariff changes announced in mid-April, as it is all so recent and uncertain.

Major house builder business models are based on being flexible, responding to rapid changes in economic conditions and dealing with extreme volatility. So, if demand falls away sharply from April, or even if there is a sharp increase in uncertainty, then major house builders (who build three-quarters of the new homes) can stop new developments and just focus on building out existing developments for lower levels of demand. Last month, most majors expected low single-digit growth in house building completions in 2025, so it would not take much for



completions to fall in 2025.

As the CPA's previous forecasts have persistently highlighted, demand for new flats in England remained downward for most of the past 15 years. It historically reached a peak in 2008/09, with flats accounting for 46.0% of total completions, according to MHCLG, from which 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. It has averaged just 13.0% over the last five years, which contrasts sharply with ten years ago, when it averaged 31.0%, and 15 years ago, when it averaged 44.0%.

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

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

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

Overall, private housing starts, completions and output are likely to rise in 2025 and 2026. The largest rises are likely to be in starts. However, the rise in starts reflects the low base after the spike in starts before the deadline for the building regulations F,L,O and S in June 2023, not a reflection of buoyant optimism from house builders. Starts in 2025 are forecast to recover by 12.0% from a historically low base whilst completions rise by 7.0% and output rise by 4.0%. This is slightly slower than the rises forecast in Winter. However, this reflects slower UK economic growth and higher degree of uncertainty regarding the economy and slowing sentiment in the housing market. In 2026, starts are forecast to rise by 15.0%, still from a low base, whilst completions are forecast to increase by 6.0%, and output is expected to rise by 7.0%.

Upper Scenario:

- Residential property transactions recover strongly throughout 2025
- House price growth of more than 3.0% in 2025
- Cost inflation eases
- Strong labour market

If recent rises in mortgage approvals and transactions are sustained throughout 2025 due to strong wage growth and cuts in interest and mortgage rates, this could see a robust recovery in property transactions, house prices and house building earlier than anticipated, particularly given that slower cost inflation could help to ensure that a recovery in margins is also available for house builders.

Lower Scenario:

- Interest rates remain at 4.5% in 2025
- Mortgage rates continue to tick upwards
- Consumer confidence hit by sustained interest rates
- Slow house price growth in 2025

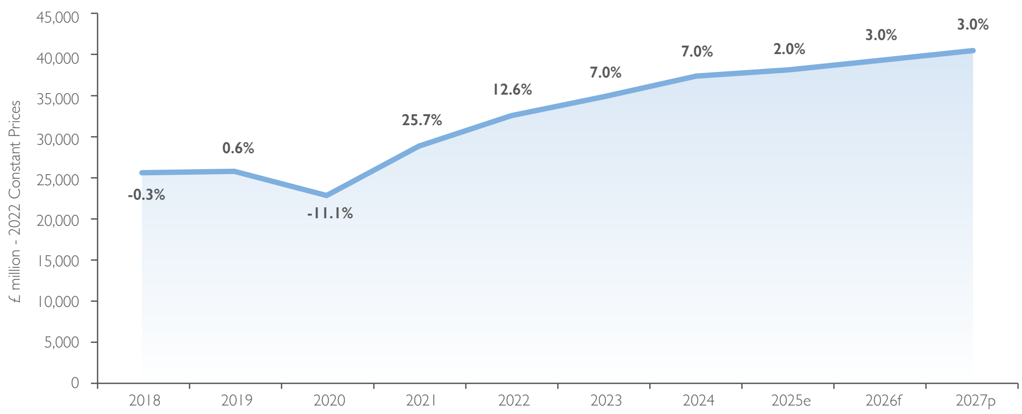
If interest rates remain stable at 4.5% as the Bank of England focuses on inflation higher than its 2.0% target, this could affect housing affordability for first-time buyers and, more broadly, it could hit consumer confidence and spending that would, in turn, hit economic growth. Slower economic growth, a further uptick in unemployment and forced sellers could exacerbate a slower housing market and lead to a slower house building recovery in 2025 and 2026.

Private Housing RM&I

Outside of small niches in the private housing repair, maintenance and improvement (rm&i) sector, such as energy-efficiency, solar photovoltaic and fire safety work, activity in rm&i remained subdued in the first quarter of 2025 and sector fortunes for 2025 Q2 are also expected to be somewhat muted, as expected in previous CPA forecasts. Excluding global economic growth concerns from U.S. tariff interventions, however, the sector was expected to improve gradually in the second half of this year, and the medium-term prospects remain cautiously optimistic. However, a lot will hinge on consumer confidence and the willingness of homeowners to be less risk-averse in uncertain times and spend rather than save. Overall, private housing rm&i output is likely to rise 2.0% in 2025 and 3.0% in 2026, weaker than forecast in Winter.

Note that the CPA has a series of concerns regarding the ONS's historical data on rm&i output (see Overview). It is worth noting that the ONS construction output data continues to be inflated by issues in the repair and maintenance data, which particularly affected private housing repair, maintenance and improvement (rm&i), and the CPA has been highlighting for over one year. According to the ONS, private housing rm&i output in October 2024 was 39.5% higher than in January 2020, pre-pandemic and was at its highest level on record in March 2024. This is not in line with any firms in the private housing rm&i supply chain (SMEs, builders merchants, product manufacturers), which report that private housing rm&i activity started to fall in 2022, the falls accelerated in 2023 H2 and January and February 2024 were subdued and exacerbated by the persistent rain and floods despite an improvement in demand. As construction inflation slows, this is likely to become less of an issue regarding the change in private housing rm&i output. However, the output level will still be artificially high and it appears to have essentially created a structural break. The issue in the ONS r&m volume of output data appears to occur as the ONS underestimates price inflation in r&m, which it uses to deflate construction output value and turn it into output volume. As it underestimates price inflation, it overestimates the volume of activity. To illustrate this, inflation in new housing peaked at 12.2% after the spikes in energy and commodity prices in 2022, according to the ONS (when construction materials price inflation peaked at 26.8%). The ONS,

Private Housing RM&I Output

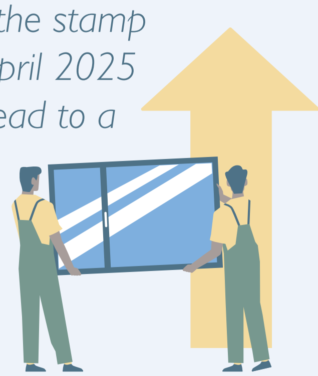


e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

however, estimated that inflation in housing r&m peaked at only 5.9% whilst firms in the sector (SME contractors, merchants and manufacturers) stated to the CPA that inflation in the sector was more than double the ONS estimate. As a result, the ONS has been consistently underestimating price inflation in r&m since Spring 2022 and overestimating the level of r&m output. In addition, the ONS construction output data also appears to have a survivor bias issue due to the large number of contractors that have become insolvent over the past year. As a result, the CPA is forecasting activity down on the ground to help inform firms regarding what is likely to be upcoming rather than trying to match the ONS historic data that will be published later for the forecast period. ***Additional note: In March 2025 the ONS suspended publication of its materials price deflators indefinitely due to concerns over its reliability whilst it attempts to address these issues.***

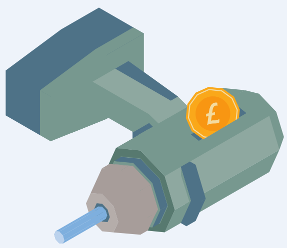
Improving property transactions *in the lead-up to the stamp duty changes in April 2025 are expected to lead to a* ***slight recovery in home improvements*** *from 2025 H2*



As highlighted in previous CPA forecasts, determining recent fortunes in the private housing repair, maintenance and improvement (rm&i) sector is proving increasingly difficult due to the unreliability of the ONS data since 2022. However, there is industry data and information from firms operating in the sector that gives a clear indication of activity in the sector.

Firms in the supply chain reported that private housing rm&i activity in the Summer was largely put on hold with a General Election, leading households to adopt a 'wait-and-see' attitude towards big-ticket item spending, and sporting events taking households' attention away from home improvements. Firms also reported that activity rose in August, but it was subdued in September and did not enjoy the usual pickup in activity due to unseasonal rain. This was partially offset by strong activity in October, November and early December before the Winter slowdown. However, firms reported that activity in 2025 has been quite volatile, so trends have been difficult to discern, with some firms reporting that activity was slow during January and February before a slight improvement in activity in March and early April. As highlighted in previous forecast publications, within the trends of the overall sector, firms working in niche areas of private housing rm&i, such as energy-efficiency, solar photovoltaic and fire safety, especially cladding remediation, continue to report that activity remains at consistently high levels, albeit not providing additional growth. Around 50% of the firms across the private housing rm&i supply chain that the CPA deals with reported that they anticipated 3% growth this year, broadly in line with the Winter forecasts, whilst the other 50% anticipated activity to remain flat this year, with recovery only likely to start in 2026. Furthermore, product manufacturers, merchants and distributors reported that they anticipated significant rises in costs in 2025 as a result of increases in energy costs combined with substantial rises in wage costs due to the impacts of the National Living Wage and employers' National Insurance Contribution (NIC) increases plus the fall in NIC thresholds.

Smaller home improvements spending *continue to* ***remain subdued***



According to small contractors in the FMB quarterly state of trade survey for 2024 Q4, firms in the repair, maintenance, and improvement sector reported a fall in workload, with a net balance of -8%, which was significantly lower than the -1% in Q3 and +1% reported in Q2, which both effectively reflected flat workloads in Q2 and Q3 given the margin of error on surveys. Firms also reported that enquiries decreased according to a net balance of -17% in 2024 Q4, a significant fall compared with -10% in Q3 and -7% in Q2. Given that enquiries feed through within six months, this pointed towards further subdued private housing rm&i activity in 2025 H1 for contractors.

Builders' merchants continued to report to the CPA that footfall has been slow in Q1 compared with a year earlier. Builders' merchants also reported to the CPA that smaller, discretionary spending, which fell away during 2022 as a result of the cost of living concerns for homeowners, remained subdued over Summer and Autumn despite the return of sustained real wage growth as consumers remained cautious. The UK's largest builders' merchant, Travis Perkins, reported its delayed financial results for 2024 in April. Its merchanting revenue was 6.2% lower in 2024 due to "depressed levels of UK construction activity and an intensely competitive backdrop". It stated that price deflation, a significant factor in H1 due to the rollover of prior year timber price reductions, eased in H2. However, it stated that its volumes worsened as the year progressed, partly due to project postponements caused by uncertainty surrounding the General Election and the delayed government budget. Toolstation's revenue was 2.5% higher, "driven by a combination of sales growth, gross margin benefits from improved purchasing and product mix and supply chain efficiencies".

Most rm&i output (around 60% per year) covers general repairs and maintenance, which provides the general levels of activity and is relatively stable, as most repairs and maintenance cannot be delayed indefinitely. The volatility in the sector tends to be due to improvements. The key explanatory variables in the CPA's model for private housing rm&i are residential property transactions, real wage growth, consumer spending, and unemployment. In addition, housing wealth and household savings are also explanatory variables as they enable activity in the sector, given that they are sources of finance for home improvement activity. Additionally, house price growth also provides an incentive to invest in increasing the value of their asset.

Looking at property transactions, there has historically been a strong positive correlation (70%) between property transactions and private housing rm&i activity with a 6-9 month lag. Consequently, there has also been a historical link with mortgage approvals, which is unsurprising given that mortgage approvals presage the vast majority of property transactions. However, it is worth noting that, more recently, over the last two years, property transactions have not fallen as much as mortgage approvals due to a significant increase in the proportion of cash purchases and bulk (investor) purchases. Cash purchases would still be expected to see home improvement activity within 6-9 months of a home move in line with the CPA model, but investor purchases are less likely to do so. In addition, it is worth noting that the change in stamp duty on 1 April may have distorted residential property transactions, with transactions from Q2 expected to have been brought forward into Q1 ahead of the deadline to avoid additional duty. However, this means that transactions in both 2025 Q1 and Q2 may not reflect the underlying level of demand so far this year.

Looking at UK residential property transactions, there were 108,250 property transactions in February 2025, according to HMRC, which is 13.0% higher than in January and 28.1% higher than a year ago. However, this is compared with a low base in Winter 2023/24. February's monthly rise in transactions was the third successive rise as the housing market continues to gradually recover from the lows of demand during 2023 Q4. Excluding recent distortions, transactions were 11.4% higher than January 2020, pre-pandemic levels, as transactions moved closer to the deadline before the stamp duty changes at the end of March. Transactions in the 2025 year-to-date period, which only include January and February, provide us with relatively little information at this stage. Overall, transactions in March and Q1 are also expected to be relatively high, followed by a dip during 2025 Q2 after the stamp duty changes deadline on 1 April. As highlighted previously, we are only realistically likely to see the actual current level of demand, excluding distortions, in 2025 Q3.

There were 65,481 mortgage approvals in the UK in February 2025, according to the Bank of England. This was 0.8% lower than a month earlier, but approvals have broadly been flat since August 2024 and, in February, they were 8.2% higher than a year earlier. However, annual changes are compared with a low base at the recent low point of homebuyer demand in Winter 2023/24. The recent slight slowdowns in mortgage approvals are unsurprising, given that mortgage approvals in February take time to be reflected in transactions and, consequently, are unlikely to be completed before the end of March, which was the deadline for the stamp duty changes that took effect on 1 April.

The trend of mortgage approvals since the low point in Winter 2023/24, followed by a period of flatlining and more recent slight declines, primarily reflects the impact of the trend in mortgage rates. Going forward, mortgage approvals may slow slightly further until Summer, once we are past the distortion in transactions being brought forward ahead of the stamp duty changes and then the subsequent slight dip in mortgage approvals and transactions.

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

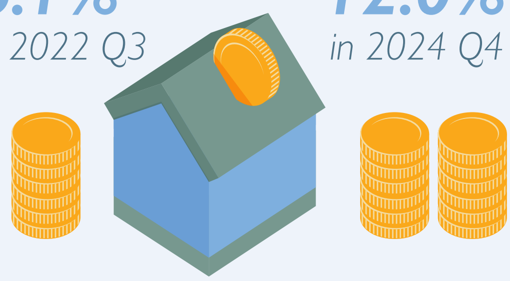
The majority of house price forecasters anticipate UK house price growth between 2.0% and 4.0%, but these forecasts were made before the U.S. tariff disruption. Furthermore, house price growth forecasts are likely to vary considerably by region, with areas outside London, South East, and East likely to underperform due to affordability issues, whilst the North, Midlands, Scotland, and Wales outperform the average.

In previous forecasts the CPA highlighted that “barring a significant shock, after the temporary blip in mortgage rates in 2024 Q4 and potentially 2025 Q1, given financial market volatility and concern over government debt, the lagged impact of falling mortgage rates in the medium-term and gradually rising mortgage approvals, plus the acceleration in house prices and an expected recovery in property transactions points towards a sustained increase in larger home improvement activity from 2025 H2”. However, it remains to be seen whether the full impacts of the U.S. tariffs and global economic uncertainty is this “significant shock”. Outside of this, the fundamentals for a gradual improvement in housing market demand remain strong. Mortgage approvals and property transactions are likely to improve if mortgage rates fall slightly, and this would be expected to lead to improved homeowner improvement activity.

Households have now seen a sustained period of real wage growth. Real wages fell for almost two years between Autumn 2021 and Summer 2023. In real terms, using CPI inflation, between November and January 2025, real regular pay rose by 3.2% compared with a year earlier and real total pay rose by 3.1% compared with a year ago. Both real regular and total real annual growth were slightly higher in the previous three-month period, when they were 3.4% and 3.5%, respectively. However,

Households have continued to focus on savings *over the past two years and the savings ratio* ***rose*** *from*

6.1% *in 2022 Q3* *and* **12.0%** *in 2024 Q4*



real wage growth remains relatively strong. However, as stated in previous forecasts, there may be scarring due to the persistent effects of spikes in inflation and real wage falls during 2022 and 2023, with high price levels and risk aversion affecting even some households with extra finance. This means that many households have focused on saving rather than spending, implying that even with rising real wages and forecasts of real household income increasing by 1.4% in 2025 and 1.6% in 2026, whether households feel confident enough to spend will be critical for home improvements.

This would certainly be what the latest savings data show. In 2019 Q4, pre-pandemic, the household saving ratio was just 5.9%. After unsurprisingly spiking at 27.5% and 21.8% during the national lockdowns, the household savings ratio returned to more normal rates of 7.0% in 2021 Q4. The initial impact of the energy and commodity price spikes after Russia's invasion of Ukraine in February 2022 led to falls in the savings ratio as households used savings to sustain spending, and the savings ratio fell to 4.5% in 2022 Q2. Still, following this, there was a general upward trend in household savings as households became risk averse and saved to ensure that they had sufficient finance to account for general price inflation and the increase in the cost of any potential unforeseen expenses. Despite the slowdown in inflation and real wages, the savings ratio has continued to rise, with households uncertain when interest rates will fall. In 2024 Q2, it grew to 10.1% before a more recent expected marginal rise to 10.3% in 2024 Q3, but despite real wage growth in Q4, the savings ratio rose to 12.0%. It is unlikely that the savings ratio in 2025 H1 will fall below 10.0% due to concern over global and UK economic growth and the impacts of government spending cuts. Outside of global economic concerns, in the medium-term, alongside sustained real wage growth, gradual falls in interest rates and economic growth, the savings ratio is expected to fall below 8.0%. However, in previous forecasts, it was anticipated that this would occur over the next 18 months, whilst it is now increasingly likely that it will take substantially longer.

Looking at whether households appear confident about their finances and confident enough to spend, GfK's Consumer Confidence Index has recovered significantly since the record low of -49 reached in September 2022, with increases in confidence throughout most of 2023 and during the first half of 2024 despite the economic and political uncertainties as well as the cost of living issues continuing to affect households adversely. After rising to -19 in January 2024, its highest since January 2022, before the impacts of the energy and commodity price spikes, it fell marginally to -21 in February and March. Following this, it consistently rose to -13 in July and August, with a clear majority in the General Election providing added certainty. However, this did not last long, and consumer confidence fell sharply in September to -20 and then to -21 in October as pre-Budget uncertainty over tax increases affected consumers.

Interestingly, however, post-Budget, consumer confidence rose slightly to -18 in November and -17 in December 2024, despite the negative headlines and the significant expected impact on businesses. GfK's consumer confidence index fell to -22 in January. Still, it then rose to -20 in February and -19 in March, which points towards largely flat consumer confidence between September 2024 and March 2025 but with slight monthly volatility within the margins of error. Within the GfK consumer confidence indices, its Major Purchase Index was -17 in March, the same as in February but better than the -27 reported a year earlier.

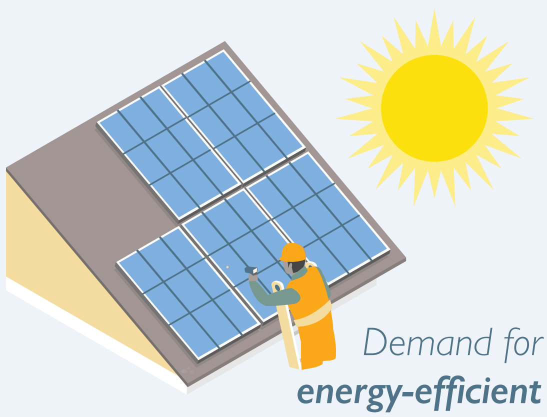
This may reflect a high degree of uncertainty from consumers who know there has been a negative fallout from the Autumn Budget regarding sentiment. However, it has not had a significant impact on them yet, given that the direct effect has been on wage costs for businesses, especially labour-intensive businesses, since April. If this is the case, then it suggests that as workers feel the knock-on impact in 2025 and 2026, there could be downward pressure on consumer sentiment if unemployment rises.

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

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

Between the end of July 2022 and January 2025, 126,930 unique households had measures installed under ECO4, working out to 4,091 households with measures installed per month, according to the Department for Energy Security and Net Zero (DESNZ). However, it is worth noting that this includes what DESNZ refers to as repeat households. This contrasts sharply with the previous phases of ECO programmes. On average, 21,103 households per month had measures installed. However, as in previous forecasts, it is worth reiterating that even the previous phases of ECO schemes took time to build momentum. The number of measures installed under ECO4 has risen from an average of 1,417 in 2022 to 4,316 in 2023 and 5,213 in 2024. It is expected to continue at this level at the very least and could potentially rise over the forecast period. Despite this, however, as highlighted in CPA forecasts before the scheme came into effect, ECO4 will still be a considerably smaller programme than ECO3, which itself was smaller than ECO: Help to Heat and ECO1 and ECO2.

The government announced a Boiler Upgrade Scheme (BUS) that started in 2022, initially with £450 million over three years to 2025 in England and Wales, effectively £150 million annually. It aimed to replace boilers with a grant for installing an air source heat pump (ASHP), a ground source heat pump (GSHP) or a biomass boiler. Installations from 1 April 2022 were available with grants of £5,000 for an ASHP or biomass boiler and £6,000 for a GSHP. The government's initial target for the BUS scheme was to achieve 30,000 boiler replacements annually. However, only 15,768 applications were received for the scheme in the programme's first year, between 23 May 2022 and 31 March 2023 and only 13,739 vouchers were issued, less than half the 30,000 target. In response,



*Demand for **energy-efficient retrofit** and **solar/PV** activity remains **strong*** the government announced that from 23 October 2023, grant levels for installing ASHPs and GSHPs would be increased to £7,500, whilst grants for biomass boilers remained at £5,000. Given fixed funding for the current financial year, there will be fewer replacements than the target. However, as previously stated, the replacement rate in its first year was so low that the more significant grant and lower target were more realistic.

Between May 2022 and February 2025, there have been 72,263 grant applications, with 62,031 grants issued so far and 46,707 redemptions paid out, which indicates a significant acceleration in the scheme. As a result of the improvement in delivery, DESNZ announced in October 2024 that it had permitted Ofgem to over-allocate vouchers by up to £50 million in that financial year, to a total of up to £200 million. In November 2024, as part of its Warm Homes Plan, the government announced an extra £30 million for the Boiler Upgrade Scheme last financial year and that the budget for this financial year would be almost doubled to £295 million.

In addition to ECO4 and the BUS, in November 2022, the government announced a £1.0 billion scheme, theoretically, to help around 300,000 households with the cost of installing insulation. However, deployment has been very slow so far. ECO+ came in on 1 April 2023 and was then rebranded as the Great British Insulation Scheme (GBIS). It currently runs to 31 March 2026. Since the start of GBIS, 64,611 measures have been installed in 51,215 households up to the end of January 2025, meaning that it has only achieved 17.1% of its target. However, in January 2024, it had only achieved 1.6% of its target, so the numbers of measures installed and the households upgraded have risen from a low base. As highlighted in previous forecasts, it was always likely to start slowly and build up over time in such a scheme. The CPA highlighted six months ago that the likelihood is that the scheme has the potential for considerably higher delivery over the next financial year. Still, despite finance being available, the number of households upgraded peaked in October 2024 at 6,793 before falling each month to only 4,150 in January 2025. At this point, it is difficult to determine whether this reflects merely a Winter slowdown in activity or whether this was due to rising homeowner concern regarding the potential misuse of some types of insulation by unskilled contractors in some existing homes. In April 2025, Ofgem announced a consultation with ECO4 and GBIS on their administration, delivery, and installation standards, which will close in May. The CPA will only be able to take account of its changes once the consultation has closed and the response from Ofgem has been published. However, based on the questions in the consultation, it is not anticipated to make a significant difference to delivery.

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

At the end of February 2025, the Ministry for Housing, Communities and Local Government (MHCLG) reported that there were 4,648 buildings covered by the developer remediation contract, which is the contract that the government wrote to major house builders 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.

__Private housing rm&i__ is expected to __rise__ by **2.0%** *in 2025 and* **3.0%** *in 2026 after a difficult two years for the sector*

Of these 4,648 buildings, 1,844 were identified as having life-critical fire safety risks that developers will remediate. Within these buildings with life-critical fire safety risks, 501 (27%) are reported to have completed remediation. Of the buildings reported to have completed remediation, 412 buildings

(22% of all buildings with defects) are reported to have received a building control sign-off. 957 (52%) are reported to have started or completed remediation. 370 (20%) reported not starting remediation but having plans in place. The 1,844 buildings that require remediation have an estimated cost of around £3.9 billion. This is an increase of £0.2 billion compared with the January data release due to an increase in the number of buildings identified with defects and an increase in the average reported remediation cost per building by developers. There are an estimated 120,000 dwellings in buildings with defects that developers are committed to remediate. Of these, an estimated 65,000 dwellings in buildings are reported as having either started or completed remediation works. Based on start and completion dates reported by developers, 513 buildings that have not yet started are reportedly expected to start works, and 273 buildings which have not yet completed are reportedly likely to complete their remediation between 1 February 2025 and 31 January 2026.

Going forward, the government set out its Remediation Acceleration Plan in December 2024, after an agreement with 29 developers to speed up 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 in a government-funded scheme will have been remediated. Furthermore, by the end of 2029, every building 11 metres or above with unsafe cladding will either have been remediated, have a date for completion, or the landlords will be liable for severe penalties. The incentives are for developers to accelerate activity, but whether this target can realistically be achieved, given a lack of skills and capacity and requiring that remediation activity doubles, is questionable.

Overall, private housing rm&i output is forecast to rise by 2.0% in 2025 and a further 3.0% in 2026, which is a slight revision down in both years from the 3.0% in 2025 and 4.0% forecast in Winter due to the slow start to sector activity in 2025 and more risk aversion to spending by homeowners. Furthermore, as in previous forecasts, despite the growth in 2025 and 2026, private housing rm&i activity is not expected to return to the 'race for space' spike levels between 2020 H2 and 2022 H2, even by the end of the decade.

Upper Scenario:

- Strong labour market
- Inflation goes below 2.5% during 2025
- Four interest rate cuts in 2025
- GBIS and BUS ramp up activity quickly in response to larger vouchers

With a strong labour market, real wage growth and homeowners less affected by the cost of living, the UK economy may enjoy significant growth in 2025. With lower inflation, interest rates and mortgage rates, the housing market could recover quicker than anticipated in the forecast. The property transactions recovery would boost new build and private housing rm&i activity. Furthermore, if the GBIS and BUS continue to accelerate, the sector would greatly benefit.

Lower Scenario:

- Inflation surpasses 3.0% in 2025 H1
- Interest rates only cut once in 2025 H2
- Increasing unemployment

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

Public Housing

Housing association and local authority resources are being stretched across a growing list of rm&i priorities and increasingly being diverted away from new development. The recovery is unlikely to gain much traction this year, with delays related to approvals for high-rise developments at the Building Safety Regulator and uncertainty over a new, long-term settlement for the next affordable homes only easing after the Spending Review. It is, therefore, likely to be 2026 until firmer growth rates reappear.

The headwinds for new build public housing remain, not least due to the switch in priorities and diversion of funding, resources and investment towards the existing stock. Housing associations and local authorities are dealing with a growing list of rm&i issues on cladding remediation, legacy fire safety measures, decarbonisation and energy-efficiency improvements, as well as basic repairs and maintenance after the introduction of new legislation and regulatory judgements have drawn attention to quality and basic upkeep (see Public Housing RM&I). This increase in spending on rm&i comes against a backdrop of elevated construction costs and a largely fixed level of government funding, which means that the outlook for the sector remains challenging in the near-term, even after the overall delivery target for the current Affordable Homes Programme (AHP) was reduced significantly. The government allocated an additional £500 million to the final year of the current Affordable Homes Programme (AHP) in the Autumn Budget and a further £350 million top-up in February, alongside an intention to increase the provision of homes for social rent in England in the subsequent programme. Ahead of the Spring Statement, the government announced £2 billion in affordable homes funding to bridge the gap between the end of the AHP in March 2026 and the full announcement of the next programme, which will come at the Spending Review in June. Nevertheless, additional funding is expected to bring forward starts that had previously been held up, rather than increase house building overall and with high-rise developments delayed in the Building Safety Regulator Gateways approvals process and a slow housing market recovery there is still uncertainty for schemes being planned now. As a result, recent trading updates from large housing associations, especially

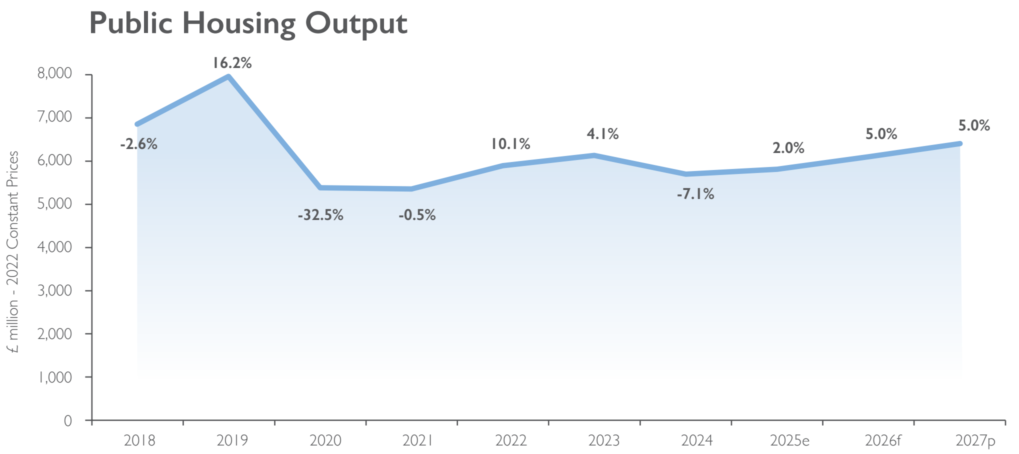
Public Housing Starts and Completions Great Britain

	2023	2024	2025	2026	2027
	Actual	Actual	Estimate	Forecast	Projection
Starts	41,503	33,461	34,465	37,222	39,083
	-8.7%	-19.4%	3.0%	8.0%	5.0%
Completions	45,273	44,032	43,151	45,309	46,668
	9.0%	-2.7%	-2.0%	5.0%	3.0%
Output (£m)	6,129	5,695	5,809	6,099	6,404
	4.1%	-7.1%	2.0%	5.0%	5.0%
RM&I Output (£m)	8,431	9,628	9,821	10,017	10,418
	5.3%	14.2%	2.0%	2.0%	4.0%

Source: MHCLG, ONS, Construction Products Association those operating in London and the South East, have highlighted a sharp reduction in starts, completions, open market sales and near-term development pipelines.

Directly publicly-funded housing activity occurs through the Affordable Homes Programme, which covers starts until March 2026, and a stop-gap funding of £2 billion covering starts to March 2027 in the absence of a full successor programme being announced. Since 2010, grant funding per unit for publicly-financed house building programmes has fallen and, more recently, been eroded further by strong cost inflation, which has also come at a time of higher interest rates and debt servicing costs, which have reduced both cash surpluses and interest cover (a registered provider's surplus compared to interest payable) for housing associations. This has resulted in reductions to development plans over the last two years, across the largest housing associations in particular, especially as fire safety, basic repairs and maintenance, decarbonisation and energy-efficiency improvements remain the priority for finance and resource and social housing providers are largely excluded from cladding remediation funding in the Building Safety Fund.

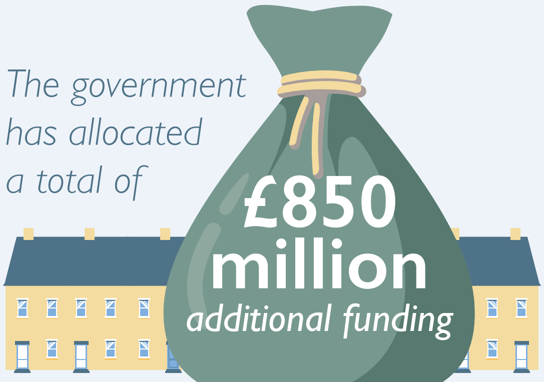
In the Autumn Budget in October, the government allocated an additional £500 million to the AHP for 2025/26, with the intention of funding an extra 5,000 homes, followed by £350 million for 2,800 homes in February. This will take annual funding to £3.45 billion, the highest in a decade, although according to the G15 group of London's largest housing associations, grant funding represents only 12% of the value of new social and affordable home schemes. This means that the AHP 2021-2026 now provides grant funding of £12.0 billion and was initially expected to provide 180,000 homes (including at least 130,000 outside London and 35,000 in the capital) over the duration of the programme. Both Homes England and the Greater London Authority (GLA) have subsequently reduced their delivery expectations and, in July, the Ministry for Housing, Communities and Local Government (MHCLG) revised the total national target down to between 110,000 and 130,000 homes, so even with additional 7,800 homes that additional funding aims to cover, overall delivery will still be significantly lower than the original target. Providers will also be expected to increase the proportion of social rent homes to deliver at least 40,000 units over the duration of the programme, which will require either a greater proportion of grant funding or costlier market finance. After social housing providers highlighted that without information on the next AHP, they were unable to plan future schemes and risked gaps in the pipeline, the government aims to bridge the uncertainty by allocating £2 billion for 2026/27. This aims to cover the development of 18,000 new homes, covering starts for an additional year up to March 2027 and completions up to June 2029. The two additional funding allocations suggest a higher grant per unit from government funding, which, if continued



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

The government has allocated a total of



for the final year of the current ***Affordable Homes Programme*** *(AHP) since the Autumn Budget*

through into the next AHP adds greater certainty to delivery. Conversely, it may mean that as less cross-subsidy from open market sales is required to fund affordable operations, overall building levels by the social sector do not materially increase.

The social rent tenure has accounted for a rising proportion of GLA-funded affordable starts, from 22.4% in 2017/18 to 46.3% in 2020/21 and 72.3% in 2023/24. It dropped to one-third in 2024/25, however, highlighting the challenges in developing this tenure. For AHP starts in the rest of England, social rent accounted for only 15.0% of affordable starts in 2023/24 and 15.3% in the first half of 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 at the starts stage, which suggests a considerable element of uncertainty over the future strength of the housing market and the extent to which grant funding can supplement housing associations' resources as surpluses fall and remediation work on the existing stock becomes a priority. For 2022/23, the tenure was undecided for 64.4% of the 26,957 affordable starts under the two affordable homes programmes, and in 2023/24, the tenure of 69.3% of starts was undecided. Furthermore, with an increased focus on social rent, not just in the AHP, but in the government's expectations for setting out social rent needs in local authority housing assessments and new towns proposals, an important consideration will be that as developing for this tenure requires a higher grant per unit, it may be impacted more by issues affecting overall affordable housing delivery.

Starts in London have been particularly affected by macroeconomic developments and delays to high-rise residential development. The GLA recorded only 2,358 affordable starts in total in 2023/24, which was a 91.9% decline from the previous year. Affordable starts totalled just 1,560 in the first nine months of 2024/25. The GLA cited pauses to development whilst a new delivery target was negotiated with the Secretary of State, combined with its estimates that 38,000 homes have been delayed in the planning and design stages whilst the technical details and implementation date for mandatory second staircases for buildings over 18 metres were determined. Delays at the Gateway 1 and Gateway 2 phases of assessment by the Building Safety Regulator are also reported to be adding around six months to the pre-construction phase. A higher proportion of housing association completions are flats compared to private sector house builders (28% in 2023/24 for the public sector compared to 13% for the private sector), which, in turn, are more likely to be in high-rise buildings. Flats accounted for all housing association completions in London and 40% in the South East in 2023/24.

The annual rent-setting agreement for housing associations in England allows an increase of the CPI inflation rate in the previous September plus one percentage point. For the 2024/25 financial year, the full rent increase of 7.7% for England was confirmed in January. The government is currently consulting on a five-year rent settlement based on the current CPI + 1% maximum annual rent rise, along with options for a seven or ten-year settlement and a 'rolling' five-year settlement. However, the real terms cut in rental revenue from 2023/24 and lack of certainty beyond this – both in terms of a long-term settlement and whether it will be applied consistently – adds to the issues constraining housing associations' ability to invest in new developments. The Local Government Association's response to the consultation calls for a ten-year rent settlement but, even in this case, it does not envisage an increase in local authority house building.

Ratings agencies have highlighted that the rising cost of borrowing means additional debt funding is unlikely to plug any shortfall in development budgets, but this is particularly pertinent for financially-constrained local authorities. Since 2018, 12 section 114 notices have been issued by local authorities, meaning that a council must pause its spending as forecast income is insufficient to meet its forecast expenditure in the current year's budget. Nottingham City Council and Birmingham City Council issued section 114 notices in 2023, and for the latter, its housing budget will be cut by £6.2 million in 2024/25 and £9.5 million in 2025/26. In March, London Councils, which represents London's 32 borough councils and the City of London, calculated a £700 million shortfall in boroughs' housing revenue accounts from 2023/24 to 2027/28. Three councils (Southwark, Islington and Waltham Forest) paused or cancelled £240 million of social housing developments in 2023, citing stretched budgets and rising costs.

The Regulator of Social Housing (RSH) survey for Q4 showed that £13.7 billion was spent on development and acquisitions in the 12 months to December 2024. £14.8 billion was forecast to be spent over the next 12 months, with £10.5 billion of this contractually committed, which represented its lowest level in five years. Cutbacks in development programmes were most prevalent among large housing associations. In addition, previous quarterly surveys have shown that development spending has been markedly below forecasts, with providers citing reduced confidence to commit to new schemes in the current economic environment, as well as delays to utility connections and planning. Contractor insolvencies have also been identified as a factor slowing progress on building already started. Insolvencies reached a decade-high at the beginning of 2024 (see Overview – Key Risks) and, therefore, remain a risk as financial constraints linger.

The previous government announced a £3.0 billion expansion to the Affordable Homes Guarantee Scheme in February 2024, which provides government-backed loans to social housing providers. It is intended to bring forward the delivery of 20,000 new homes, although the initial £3.0 billion scheme launched in 2020 has so far delivered only 6,290 homes across 12 providers. In addition, funding from the second tranche 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 the current financial year, starts under the AHSP between April and December 2024 were 12.6% lower than the same period a year earlier and, in the 12 months to December 2024, starts were at their lowest level since 2013. Completions over the first nine months of 2024/25 fell 11.5%.

In Wales, a five-year rent-setting policy similar to England, of CPI in September plus one percentage point, was implemented from April 2020, although below-inflation increases were authorised in 2023/24 and rents in 2024/25 are capped at the September 2023 CPI inflation rate of 6.7%. The Welsh government is aiming to spend more than £1.0 billion on building new social housing between 2021 and 2026, including a target of building 20,000 low-carbon social homes by the end of this parliament. Grant funding has been increased in every year of the programme, from £250 million in 2021/22, to £370 million in 2024/25 and £437 million allocated for 2025/26. In September, Audit Wales warned that less than half of the target had been met three years into the programme, with

The government has announced
£2.0 billion
Initial funding for the first two years of the next AHP
to cover 18,000 homes

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.

Overall, public housing is facing elevated build costs, higher interest rates and slower market-linked demand, reducing development appetite and activity on the ground. These macroeconomic factors also combine with competition for financial resources against a growing list of priorities for repairs, maintenance and improvements work, as well as delays in pre-construction phases. Throughout the forecast period, it is assumed that housing associations will balance the increasing need to channel finance towards cladding remediation, fire safety measures, basic repairs and decarbonisation by reducing spending on new build and the purchase of Section 106 properties from private house builders. Growth is forecast to return this year, at 2.0%, as schemes currently held up in pre-construction gateways with the Building Safety Regulator progress through to starts, although main construction work is unlikely to occur before 2026. Whilst the build-out of these schemes will drive activity in 2026, and see

completions return to growth, similar delays in the pre-construction phases are likely to occur for schemes to be delivered from April 2026, at least until details and funding levels for the full iteration of the next affordable homes programme are announced. Even then, it is likely to take some time for schemes to be planned and started.

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

Upper Scenario:

- Grant funding per unit is increased in the next AHP
- Demand for shared ownership increases and open market demand recovers as the economy shows signs of strengthening
- Starts on the AHP increase quickly

A stronger recovery in economic growth, and particularly the housing market, would see demand for affordable housing and market sale housing strengthen quickly in 2025 H2. This could buoy housing association confidence to proceed with activity and underpin starts under the remainder of the 2021-2026 AHP. Clearly, the largest upside risk for the sector is from the government's additional grant funding for the current AHP, although this is likely to bring forward activity rather than increase it overall. The upper scenario would be further bolstered by increases in grant funding per unit for the next programme, particularly given the focus on social rent, which occurs alongside an increase in open market development.

Lower Scenario:

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

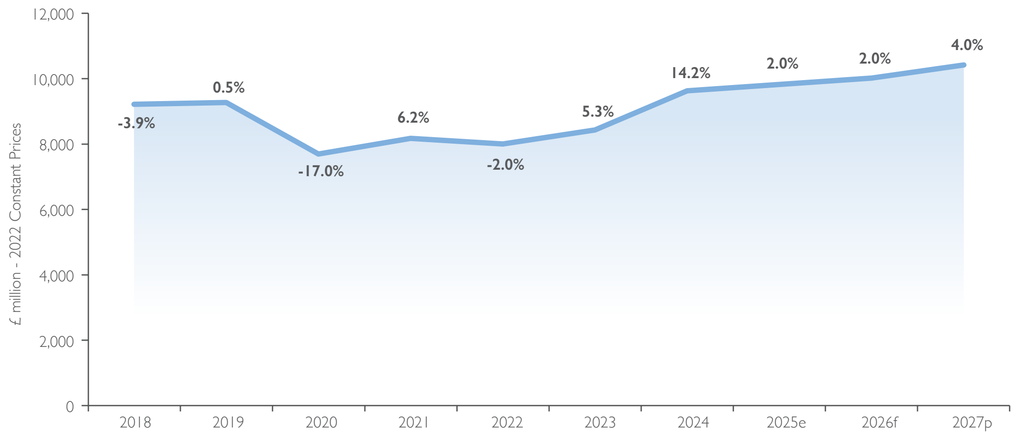
By contrast, if interest rates are reduced more gradually than expected in the main forecast in 2025, this would reduce demand for market-linked products already under construction on the 2021-2026 AHP. An increasing number of local authorities signalling financial difficulties that may require significant cuts in capital spending is also a risk in the lower scenario.

Public Housing RM&I

Repairs, maintenance and improvement of the existing stock is a key focus for social housing providers. Existing work across fire safety remediation and government-funded decarbonisation programmes is being supplemented by larger pipelines of general and reactive repairs work due to rising awareness among tenants and stronger obligations enforced by the Regulator for Social Housing and the Housing Ombudsman. However, given that funding has not materially increased and there is very limited access to government funding for cladding remediation in the social housing sector, growth rates are expected to remain constrained, even with resources diverted from new build programmes.

Housing associations and local authorities manage the repair, maintenance and improvement (rm&i) of the 5.0 million publicly-owned housing stock in Great Britain and the sector has seen an expanding pipeline of work across urgent cladding remediation and legacy fire safety issues, decarbonisation and energy efficiency improvements, plus rising demand and awareness among tenants for general maintenance and improvements. New legislation, such as the Social Housing (Regulation) Act that was implemented in 2023 and the Renters' Rights Bill that is in the final legislative phases, both impose shorter timescales for social landlords to make repairs and have pushed rm&i further up the priority list for social housing providers. Recently, stronger enforcement through regulatory judgements from the Regulator for Social Housing (RSH) and investigations by the Housing Ombudsman have also increased awareness around the requirements for housing associations and local authorities to keep up-to-date data on the condition of dwellings under their management. A wave of condition surveys to comply 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 and access to cladding remediation schemes is more limited than for private sector buildings. As a result, despite building safety works being a priority, they are more likely to be phased over a number of years. In addition,

Public Housing RM&I Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

social housing providers have reported delays due to difficulties in recruiting contractors, inflationary pressures and delays obtaining regulatory approval. Social housing providers indicate that higher-priority and higher-value activity will continue to displace other non-urgent general works on existing properties that can be delayed, with rm&i generally being prioritised over new development. Sector activity is forecast to grow in each year of the forecast period as work accelerates on government-funded programmes, particularly given the largest tranche of the Warm Homes: Social Housing Fund (previously the Social Housing Decarbonisation Fund) saw £1.29 billion allocated in November 2024 for delivery between 2025/26 and 2027/28. However, growth rates are expected to remain limited at 2.0% by the constraints on funding, the capacity for labour and materials, and the higher cost of borrowing for work outside of these workstreams.

Remediation work *has started on* **46%** *of the* **2,663** ***social housing buildings*** *above 11 metres that have been identified as having unsafe cladding*

Source: MHCLG, as at the end of January 2025

Since the Grenfell Tower fire in 2017, the focus for social housing providers has understandably shifted to improving cladding and fire safety on existing buildings. Work initially focused on remediating buildings with ACM cladding, with £400 million allocated to fully fund remediation work on social housing buildings 18 metres or over. This work is now almost complete on the 162 social housing buildings identified within this scope, according to the Ministry of Housing, Communities and Local Government (MHCLG). Understandably, the remit for remediation has broadened to other types of flammable cladding and to cover mid-rise buildings above 11 metres. At the end of January 2025, social housing providers had identified a total of 2,663 buildings higher than 11 metres with unsafe cladding, an increase of 57 since December 2024 and 711 more than December 2023. This was split as 1,281 buildings between 11 metres and 18 metres and 1,382 buildings over 18 metres. Remediation is recorded as complete on 756 of these, with work underway on 458 buildings, and a plan in place for 853 buildings. A remediation plan has not been determined for 596 buildings. Government funding for cladding remediation outside of ACM is limited, so there is clearly a much larger stream of work that will need to be self-funded by providers. A National Audit Office report published in November found that 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. It also concluded that work was unlikely to be completed by MHCLG's modelled estimate of 2035. Nevertheless, in December, the government launched its Remediation Acceleration Plan, which aims to have remediation completed for all buildings above 18 metres by the end of 2029 and for buildings between 11 metres and 18 metres to either be completed or have a date for completion by this point. A long-term strategy for social housing is expected in Spring 2025, along with a planned increase in funding for social landlords applying to government programmes.

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

In Scotland, there are 105 residential blocks in the Cladding Remediation Programme, including 95 with high-pressure laminate cladding. The Scottish government allocated £52.2 million for cladding remediation in 2025/26, up from £41.3 million in 2024/25. Progress has been slow, however, with only around £1.0 million per quarter being spent. Cumulative spend up to November 2024 was £10.2 million, with a report by the Local Government, Housing and Planning Committee highlighting the risk of a significant underspend going forward. The new Housing Cladding Remediation Bill legislates for a Building Safety Levy on new development, similar to the one set for introduction in England. The Bill also allows the Scottish government to directly commission remediation work on buildings where owners have not progressed plans. The majority of buildings in the programme are located in Glasgow and Lothian. Outside of cladding remediation in Scotland, in August, Aberdeen City Council approved the demolition and subsequent rebuild of 366 council homes with reinforced autoclaved aerated concrete (RAAC) roof panels, which was deemed a quicker and more cost-effective solution than repairing them. In March, the Scottish government announced it intends to introduce Awaab's Law into Scottish housing legislation. Mirroring the legislation in England, it will mandate social landlords to address damp and mould hazards within short, fixed timescales.

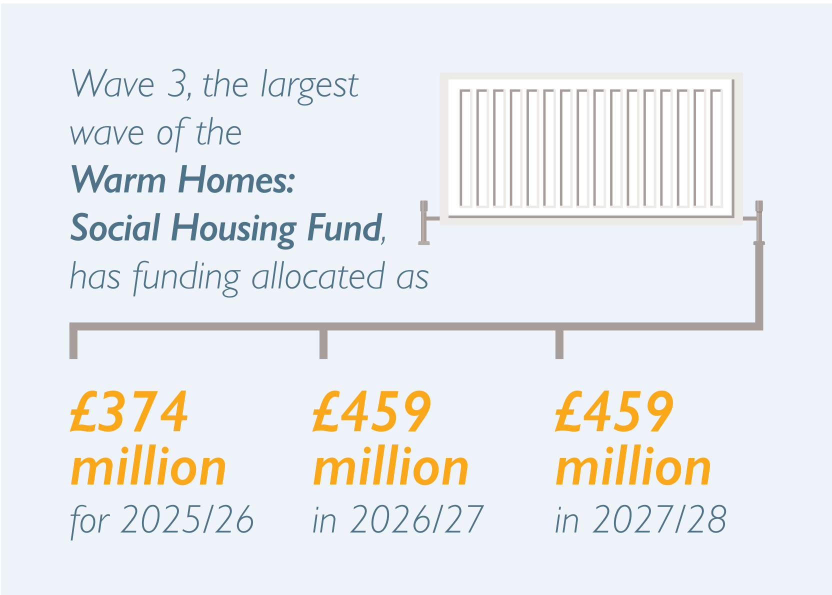
In Wales, 169 social housing buildings will be remediated under the Welsh Building Safety Programme, and 238 private sector residential buildings. Work has completed on 67 out of 407 total buildings, with no split between tenure available. The Welsh government allocated £127 million in capital investment for building safety in its final budget for 2025/26, which roughly matches the £375 million total allocation for the previous three financial years. As with Scotland, if remediation continues at its current pace, there is likely to be an underspend.

Increased scrutiny of the fire safety of residential buildings has also broadened to questions over the general quality of housing built and maintained by social landlords. High-profile cases, the newly-implemented Social Housing (Regulation) Act and the Awaab's Law proposals in the Renters' Rights Bill, which will be implemented in October, have led to greater awareness and demand from tenants, in turn increasing providers' focus on quality issues such as damp and mould, boiler faults and general disrepair. From October, social housing landlords will have to investigate damp and mould hazards within a fixed timescale. The length of time is yet to be confirmed, but an earlier government consultation suggested 14 days. Landlords will also have to address emergency repairs within 24 hours. From 2026, in addition to damp and mould, the law will also apply to hazards such as excess cold and excess heat, falls, structural collapse, fire, electrical and explosions, and hygiene hazards. Local authorities have already reported a greater volume of repairs, driven by tenant demand, leading some to place non-emergency housing repairs on hold until further notice amid increasing costs and high demand for services. Given that this is becoming as high-profile an issue as fire safety, and fines have already been levied by the Housing Ombudsman for delays in rectifying damp and mould issues, housing associations and local authorities are reporting that they are now diverting more spending to basic r&m as well. Anecdotally, in addition to constrained finances, housing associations may also be holding off from buying Section 106 from private house builders as they are concerned about the quality and adding to a stock of properties on which they will need to address quality issues or retrofit.

The RSH quarterly surveys, which are based on responses from private registered providers of social housing that own or manage more than 1,000 homes, show that spending on both revenue repairs, which tend to be responsive repairs, and larger capitalised repairs are at record levels. In the 12 months to December 2024, total r&m expenditure was £8.7 billion, with £9.8 billion forecast for the next 12 months. However, the overall funding pot remains limited, and housing associations and local authorities have recently self-referred to the RSH, been given regulatory judgements by the RSH or investigated by the Housing Ombudsman for not undertaking repairs quickly enough, not having up-to-date data on the condition of tenants' homes or not collecting Tenant Satisfaction Measures from surveys of tenants.

Funding allocations and work on government energy-efficiency schemes are now coming through on the social housing stock. In November, £1.29 billion was allocated to the Warm Homes: Social Housing Fund, previously known as Wave 3 of the Social Housing Decarbonisation Fund (SHDF), its largest allocation to date. Delivery is intended between 2025/26 and September 2028, with £374 million for 2025/26, £459 million in 2026/27 and £459 million in 2027/28, with the bidding documents suggesting it would cover 140,000 homes. There will be a £7,500 cap per home, but more flexibility has been introduced through strategic partnerships for those delivering improvements on more than 1,000 homes. Under the previous government, £500 million was allocated to a new local authority retrofit scheme in December 2023 to fund insulation measures for 60,000 low-income households, which appears to have been relaunched as the Warm Homes: Local Grant. Delivery is targeted between 2025/26 and 2027/28, with £88 million allocated to 2025/26 and £206 million to both 2026/27 and 2027/28. Further decarbonisation funding is also being considered for the Spending Review, which is now expected in June.

Between March 2022 and December 2024, 31,693 measures had been installed in 16,056 properties under the first wave of SHDF and under wave 2.1 (£778 million of funding allocated in March 2023), 22,921 measures had been installed in 11,968 properties. The programme is dominated by insulation improvements, which accounted for 57% of measures installed, followed by doors and windows, such as double/triple-glazing or energy-efficient doors (20%) and by solar/PV measures (14%).



Alongside these programmes, following an initial phase that allocated £150 million, a further £630 million was allocated for the Home Upgrade Grant scheme in October 2023, which will be used by local authorities to support low-income and off-gas grid households to carry out energy-efficiency upgrades on 30,000 properties up to March 2025. Between its start in January 2022 and December 2024, 15,888 measures had been installed at 9,425 properties. Similar to the other retrofit schemes, 32% of the measures installed were for insulation and 31% were for solar/PV.

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

The next iteration of the Energy Company Obligation – ECO4 – runs alongside government-funded schemes, with 2025/26 as its final year. It will provide funding of £1.0 billion per year for low-income and fuel-poor households. For social housing, eligibility will be limited to homes in EPC band E, F or G, which is around 117,000 properties, according to the English Housing Survey. In addition, eligible measures are limited to insulation, first-time central heating, renewable heating systems and district heating. It has a target of 22,000 solid wall insulation retrofits per year. This is higher than under ECO3 (35,984 total solid wall insulation installations between October 2018 and March 2022) but lower than the 145,103 measures installed during the four years of ECO1 and 2. Between April 2022 and December 2024, there were 653,307 measures installed in total under ECO4, of which 55,458 were for solid wall insulation measures across privately and publicly-owned properties, which is, therefore, largely on target. The Great British Insulation Scheme, previously known as the ECO+ programme, allocates a further £1.0 billion to energy-efficiency measures, distributed as £130 million in 2023/24 and £435 million each in 2024/25 and 2025/26. However, eligibility for social housing is even more constrained to avoid a crossover with existing policies and it will only cover insulation measures on properties with an EPC rating of E or below.

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

Despite a growing demand and awareness of faults, hazards, energy efficiency improvements and decarbonisation, in the longer-term, a key issue for social housing providers is that it may not be financially viable to undertake energy-efficient retrofit or fire safety remediation. Notting Hill Genesis highlighted that 15% of its 44,000 homes are currently Victorian terraces that are around 100 years old and have the lowest EPC rating, and getting such properties up to EPC C may cost as much as £100,000 per property. Instead, it may be that housing associations need to sell some older properties, given the extensive retrofit cost. It may be even more difficult for financially-constrained local authorities. According to the English Housing Survey for 2022/23, 28.0% of housing association properties and 32.5% of local authority properties have an EPC rating below C, totalling 1.2 million homes. A housing association in Bristol will demolish one of its low-rise housing blocks (below 11 metres) as it cannot cover remediation costs for cladding and fire safety and, as a low-rise building, is not included in government remediation funds. Nevertheless, L&Q, one of the largest housing associations that manages 90,000 homes, has begun a 15-year major works homes upgrade programme, which aims to spend up to £300 million per year (£100 million per year in the earlier years of the programme) on bringing its properties up to an EPC rating of C by 2028, as well as a wider programme of estate and environmental improvements, mechanical and engineering works and internal decorations, including 48,000 new kitchens and 42,000 new bathrooms. In March, Southern Homes began tendering for a £1.7 billion upgrade framework covering windows, doors, roofs, kitchens and bathrooms.

Across the other nations, the Welsh Government provided £580 million for the decarbonisation of social housing in Wales up to 2024/25, with 7,000 retrofitted to date since 2020. A total of £72 million in general capital will also be used to help accelerate the scale and pace of the decarbonisation of Welsh homes. Of this, £35 million will be used to test new funding models. The final budget for 2025/26 increased funding for decarbonising existing homes by 3.0% year-on-year from £92 million to £95 million. The Welsh government has set a target for rented housing, achieving a minimum EPC rating of C by 2030. Plans to reach an EPC rating of A by 2033 have been dropped, however, with landlords now expected to provide an assessment of how they can improve properties to an A rating.

In Scotland, the Energy Efficiency Standard for Social Housing 2 (EESSH2) targets a minimum EPC rating of D for social housing to be let from 2025. Only 4.0% of the 609,000 social sector dwellings in Scotland had an EPC rating below D according to the house condition survey for 2022 so, with sufficient finance, this may be achievable. It also sets a deadline of December 2032 for all social housing to reach an EPC rating of B, which looks more challenging given that 92% of Scotland's social housing stock is currently below this. Targets for energy-efficiency in both Scotland and Wales are considerably higher than in England, where an EPC rating of C is required by 2035 to meet the net zero target. The Scottish Government's Budget for 2025/26 allocated a total of £349 million for energy efficiency upgrades to homes and businesses.

Output increased 5.3% in 2023 and 14.2% in 2024, but growth in public housing rm&i output is expected to remain restricted across the forecast period by capacity constraints for the key areas of demand across cladding remediation, energy-efficiency retrofit and general repairs, with the cost inflation and interest rate rises experienced in 2022 and early 2023, along with any associated delays or finance constraints, limiting an acceleration in the pace. The forecast assumes that these categories of work proceed as a priority, with further diversions of finance and other resource away from new build projects and r&m work that can be postponed. As a result, public housing rm&i is forecast to rise by 2.0% in each year of the forecast period.

Upper Scenario:

- Housing associations severely cut new build programmes to focus on the existing stock

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

Lower Scenario:

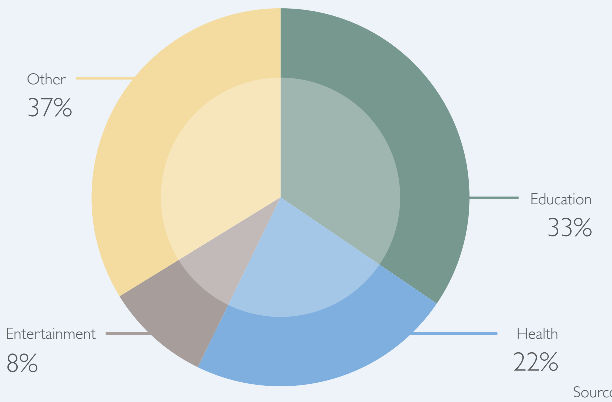
- Labour capacity constraints continue to hinder cladding remediation and decarbonisation
- Cost increases reduce volumes of work undertaken
- More local authorities struggle with budgetary constraints

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

Public Non-housing

Capital budgets are set to rise in 2025/26 but delivery of primary investment programmes across health, education and justice estates has been slow to come through. Government's financial position remains weak and economic headwinds from the escalation in global trade tensions and faltering business and consumer confidence are building. Growth is expected throughout the forecast period but the Spending Review in June will be key to determining the outlook for activity in this sector.

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



Source: ONS

Public non-housing output is forecast to increase modestly throughout the forecast period as momentum builds on capital investment programmes in health, education and justice. Output is forecast to rise by 2.2% this year, followed by 4.1% growth in 2026 and 3.1% growth in 2027.

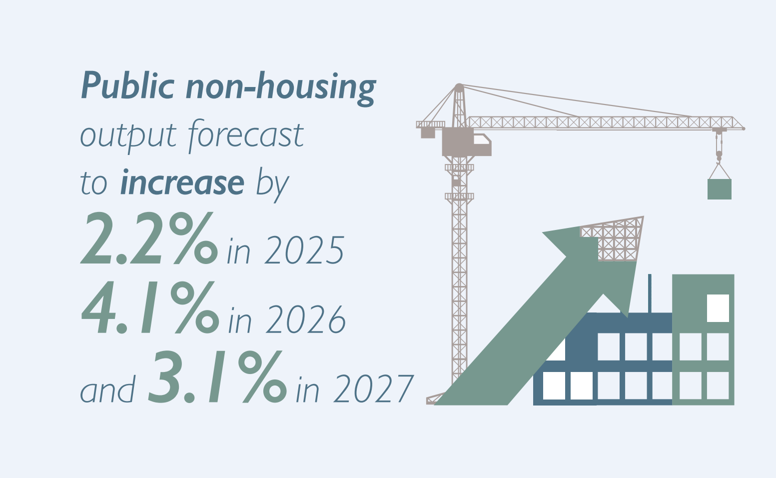
In October 2024 the Chancellor made the decision to use the broader definition of debt for its fiscal target – public sector net financial liabilities (PSNFL) – to increase scope to borrow to fund investment The ONS estimates that PSNFL stood at 82.9% of GDP at the end of February, a 2.3% increase compared with February 2024 but 12.6 percentage points less than public sector net debt. Public sector net debt includes debt accrued by local councils and state-controlled companies, in addition to central government. Public sector net debt, excluding public sector banks, was estimated at 95.5% of GDP at the end of February and remains at levels last seen in the early 1960s.

At the time of the Spring Statement in March, the Office for Budget Responsibility (OBR) had sharply downgraded its view of prospects for the UK economy in 2025 compared to projections it made six months earlier at the time of the Autumn Budget. In March, the OBR predicted that UK GDP would increase by just 1.0% in 2025, half the 2.0% rate of increase it predicted in October. The outlook for public sector net borrowing also deteriorated, with borrowing in 2025/26 anticipated to remain at £117.7 billion in March, compared with £105.6 billion in October 2024. Since the OBR published its March forecast, the outlook for global economic growth has weakened and the Chancellor will face an extremely challenging economic backdrop as capital spending plans over the next five years are set. Funding commitments set out for beyond the current financial year in the Spending Review in June will fundamentally shape the medium-term outlook for the public non-housing sector.

Departmental capital spending budgets outlined in last year's Autumn Budget were largely maintained in the Spring Statement. Across all departments, capital investment is set to total £131 billion in 2025/26, a 14.6% uplift compared with 2024/25. Defence secured a further £1.8

billion relative to the Autumn Budget, taking its capital budget for 2025/26 to £23.2 billion.

Scotland's Budget for 2025/26 suggests capital investment across all government departments is set to increase by 14.1% in 2025/26 rising to £7.3 billion, up from £6.4 billion in 2024/25. Among the largest increases are an 113% uplift in the capital budget for the Scottish Prison Service and 23% growth in the allocation for health and social care.



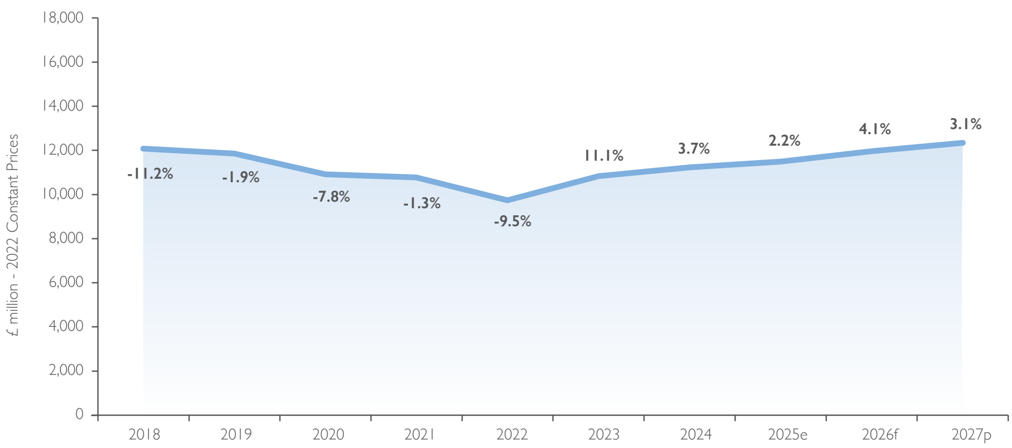
The Welsh Government has finalised its capital budget for 2025/26. In total, capital investment is set to rise marginally in nominal terms to £3.49 billion, a 0.9% increase compared with 2024/25, but, after allowing for inflation, this equates to a modest cut in real terms. Health and social care's capital budget is set at £619 million, a 7.1% increase compared with the last financial year, while capital investment in education is anticipated to reduce by 9.6% to £373 million.

Over the past decade, publicly-funded **education** work has contracted by nearly 50%. The medium-term outlook is brighter relative to the immediate past but constrained public sector budgets and the relatively modest delivery ambitions of the School Rebuilding Programme (SRP), now the primary vehicle through which new schools are delivered, suggests output levels will remain subdued historically. Output stabilised after eight consecutive years of decline in 2024 and 4.0% growth is forecast this year, followed by a 5.0% uplift in 2026 and 3.0% growth in 2027.

The Spring Budget adjusted the Department for Education's (DfE) capital budget for 2025/26 up slightly from Autumn, to £6.8 billion, a significant 19.3% uplift compared with 2024/25 but only around 10% up in nominal terms on 2023/24 after the Department's capital budget fell to £5.7 billion in 2024/25.

Autumn Budget 2024 confirmed the DfE's capital funding allocation for 2025/26, which included

Public Non-housing Output

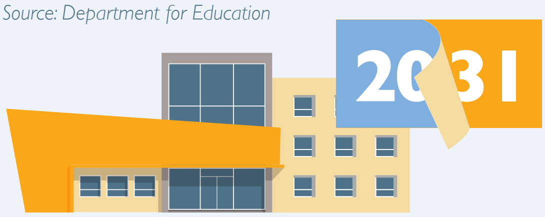


e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

Procurement of a new
£15.4 billion framework
*to **deliver new schools** over the*
next 6 years is underway

Source: Department for Education



£1.4 billion for the School Rebuilding Programme (SRP), an increase of £550 million over the current financial year to support the planned start of 100 projects across England. The Programme, which is rebuilding or significantly refurbishing 518 schools and sixth form colleges across England, has been slow to progress and consistently underperformed against targets. A Freedom of Information request by the BBC in October last year found that, as of June 2024, only 62 contracts had been awarded under the programme and only 23 schools had been completed. The DfE originally projected that 83 contracts would have been awarded by March 2023. Construction work on the programme was due to start in 2021, and a delivery rate of 50 schools per year was targeted. Government has indicated that work has started on around half of SRP projects, suggesting a significant number of schemes are currently working through design.

Rebuilding schools with extensive refurbishment or reconstruction requirements due to the presence of RAAC will be prioritised through the SRP. When responding to a Parliamentary question in November, the Parliamentary Under-Secretary for the DfE stated that RAAC had been identified at 237 schools and colleges and that a total of 122 schools with the most extensive RAAC issues had been included in the SRP and work on these schools will take an average of three to five years to complete. The Under-Secretary also stated that, as of 27 November 2024, the DfE had been informed that RAAC removal works had been completed at 30 schools with more moderate issues.

New education projects are currently being delivered by the DfE's 2021 Construction Framework (CF21), worth around £7 billion. Procurement of a new six-year framework, CF25, has started, the value of which is reportedly close to £15.4 billion, subject to confirmation in the Spending Review. The new framework is planned to run for six years, from December 2025 to December 2031, with provision for an optional two-year extension. Successful firms will deliver a mix of projects from primary and secondary schools to further education and university technical colleges.

In March, the government announced capital funding of £738 million in 2025/26 to increase the capacity of mainstream schools to meet a wider range of needs. High Needs Provision Capital Allocations (HNPCA) funding is not ring-fenced, but it is intended to support local authorities to create new school places and improve the suitability and accessibility of existing buildings. HNPCA funding has averaged £696 million over the past five years, and reached £955 million in 2023/24.

Basic needs allocations are not ring-fenced or time-limited and can be used to create places in whole new schools or through the expansion and remodelling of existing schools, although the free school presumption process is the main route by which local authorities bring about the establishment of new schools to meet the need for additional places. Across England, targeted basic needs funding reduced to £195 million in 2024/25, a 73% reduction from £746 million in 2023/24, based on anticipated need. Between 2011/12 and 2018/19, funding consistently exceeded £1 billion in current prices. £522 million of basic needs funding is allocated to 2025/26 – a sizeable increase but still historically low – rising further to £643 million in 2026/27 before reducing to £408 million in 2027/28.

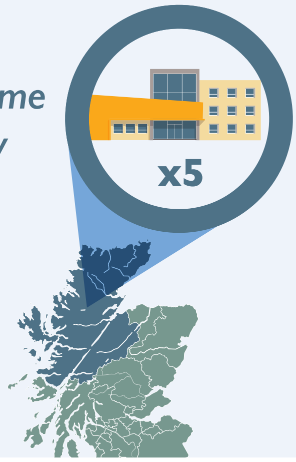
The value of the funding pot for maintaining existing school estates in 2025/26 was provisionally set at £1.84 billion, a 15% increase from 2024/25. Multi-academy trusts secured the largest share of the overall School Condition Allocations pot, attracting £721 million which is 29% higher than in 2024/25. Other large awards include £519 million for local authority-maintained schools, an 11% uplift compared with 2024/25, and £467 million for other institutions eligible for condition improvement funding.

The Devolved Formula Capital Allocations allocates funding directly to schools for their own capital spending and this stands to be broadly unchanged from 2024/25 in 2025/26. The total value of the pot, in current prices, is estimated at £219 million, with multi-academy trusts securing £82 million, local authority-maintained schools £68 million, institutions eligible for condition improvement funding £50 million and voluntary-aided schools £18 million. Some projects covered by these funds will be classified as new or improvement work but the majority of this funding will be used for general r&m activity (see Public Non-housing R&M).

Scotland's North Schools Programme *to deliver* ***five new schools*** *worth*

£333 million

Source: Scottish Government



Work recently got underway on the new £30 million Star Radcliffe Academy in Greater Manchester. The 750-place secondary school will span 6,000 sq. m. over three storeys. In Yorkshire, a contactor has been appointed to redevelop Castle Hill primary school in Todmorden. The new two-storey building has a floor area of approximately 1,500 sq. m. and construction work is expected to take 18 months. In Norwich, a contractor has been appointed to deliver the £41 million redevelopment of Hewett Academy.

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

Department for Education's capital budget set to **rise** by
19% to **£6.8 billion**
in 2025/26 Source: HM Treasury

million for Havant and South Downs College and £10.4 million for the City of Bristol College.

In addition, the DfE's 2025/26 capital settlement includes funding totalling £302 million to improve further education colleges across England. All further education colleges, and designated institutions, will receive a share of this funding pot.

A contract has been awarded to build a new £60 million campus to relocate South Tyneside College and South Shields Marine School to a city-centre site. Planning permission for the 15,000 sq. m. site was granted in 2023 and construction is due to start in Summer.

As one of its first programmes of work since it was established last year, Great British Energy plans to install rooftop solar panels on around 400 schools and hospitals with funding totalling £200 million. In England, around £80 million of funding will support installations on close to 200 schools, with £100 million earmarked for around 200 NHS sites. Remaining funding will used to support community-led clean energy projects and similar works in devolved nations.

The Scottish Budget 2025/26 made a £512.5 million capital allocation to education and skills in 2025/26, around 3% less in nominal terms than £530.6 million in 2024/25, but significantly more than £454.8 million in 2023/24. 85% of the 2025/26 funding pot will support the Scottish Funding Council's investment plans for colleges and universities.

For schools, Budget 2025/26 confirmed the delivery of four new facilities via the Learning Estate Investment Programme (LEIP) which started in 2020 and aims to deliver 47 new schools by the end of 2027/28. School rebuilds confirmed in the Budget announcement are: Kirkwall ASN Centre in the Orkney Islands; Brae Campus in the Shetland Islands; Hazelhead Campus in Aberdeen and Mull Campus in Argyll.

Scotland's North Schools Programme, a collaboration between local authorities and Hub North Scotland, will deliver five new schools, with the capacity to accommodate 3,840 students, with LEIP3 funding totalling £333 million. Hazelhead and the refurbishment and the extension of St Peter's Roman Catholic School for Aberdeen City Council, Forres Academy, Brae and Mull will be delivered by the North Schools Programme. Construction work on these schemes is expected to start within the forecast period. A successful bidder for the construction of an £80 million, 1,120 place, secondary school at Forres Academy was recently announced. Construction work is due to start shortly and complete by summer 2028. The other projects are at an earlier stage. A consultation is underway on plans for Hazelhead and design is progressing on Brae, with the full business case for the school expected in early 2026.

The Welsh Budget for 2025/26 made an additional capital allocation of £28 million to help improve the fabric of the educational estate. Capital funding for education is set at £375 million in 2025/26, a 10% reduction from 2024/25. The Sustainable Communities for Learning programme delivered 173 new and refurbished schools in its first phase between 2014 and 2019, and the second phase which ends in March 2025 is scheduled to deliver 129 new and refurbished schools. Going forward, the Welsh Government is planning to start a rolling programme of ongoing school renewal and enhancement works that will deliver 300 schools over nine years, subject to future funding settlements.

Upper Scenario:

- Funding is made available in the Spending Review to accelerate delivery of the SRP

Targeted delivery of the SRP increases to more than 50 schools per year and funding allocations in the Spending Review support an accelerated pace of delivery throughout the review period.

Lower Scenario:

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

Schools added to the SRP in earlier rounds are not automatically prioritised over RAAC-affected schemes allocated in the final round. Design development and general project planning should be at a more advanced stage on earlier schemes. If the latest RAAC schemes are prioritised, SRP delivery could be delayed further.

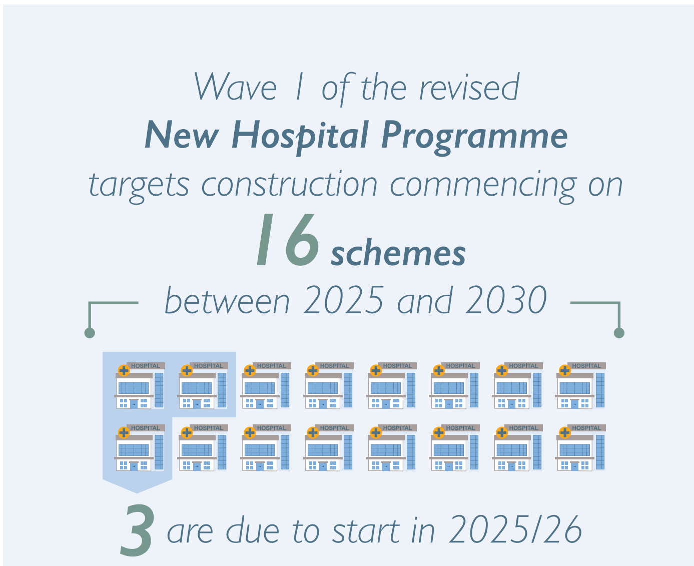
Output in the **health** sub-sector covers publicly-funded work on hospitals, health centres and clinics. With a new delivery plan for the New Hospital Programme (NHP) established, steady growth in health sub-sector output is forecast over the next three years, but the forecast assumes it will take longer for projects in the NHP to progress through to starts and main work than assumed in the government schedule. Near-term, work to deliver new hospitals in Scotland will help boost activity and output is forecast to increase by 4.0% in 2025, followed by 6.0% growth in both 2026 and 2027.

The Department of Health and Social Care's (DHSC) capital budget is set at £13.6 billion in 2025/26, a 17.2% uplift compared with 2024/25. Last year's Autumn Budget included provision for £1.5 billion towards new surgical hubs and diagnostic scanners to build capacity for additional procedures at existing facilities, over £1.0 billion to tackle RAAC across the NHS estate and to address the existing backlog of maintenance, repairs and upgrades required across the estate and a fund to provide upgrades to 200 GP surgeries across England, supporting improved use of existing buildings. Further details are expected in the June Spending Review.

Following a programme reset in 2024, the New Hospital Programme (NHP) continues to make slow progress and the government's decision to abolish NHS England in March adds further complexity. In January, the DHSC published its new plan for delivering the NHP. New hospitals will now be delivered in five-year waves, subject to decisions made at future Spending Reviews. Once the programme has reached a steady state in the early 2030s, programme funding in each five-year period is expected to be around £15 billion.

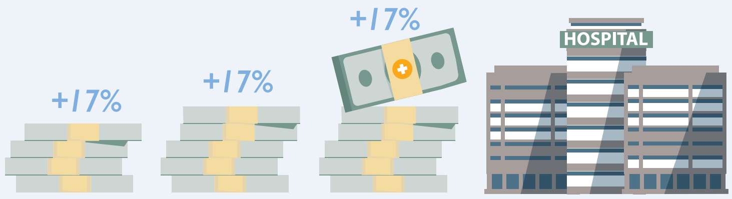
Wave 0 includes seven schemes NHP projects currently on site. These are the Defence and National Rehabilitation Centre in Loughborough and Bournemouth Community Hospital, which are both due to open later this year, dual-site mental health facilities worth £80 million in Bournemouth, with a 2027 completion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

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



Source: Department of Health and Social Care

Department of Health and Social Care's capital budget *for 2025/26 is set to* **increase** *by* **17%** *year-on-year to* **£13.6 billion**



Source: HM Treasury

affected by RAAC is due to start from 2027, and each project carries an early cost estimate of between £1 billion and £1.5 billion. However, significant mitigation work has already taken place at these hospitals and a review is currently underway to strengthen understanding about the current risk profile. The findings are due to be available in Summer 2025 and may potentially impact project programming.

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

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

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

Procurement is underway to support the new NHP implementation plan. In early March, NHS England awarded the £600 million lead consultant role on the NHP and kicked off procurement of the organisation's new £37 billion NHP Hospital 2.0 Alliance (H2A) Framework. This new 12-year delivery framework is expected to cover major capital works for hospital build, refurbishment and ancillary works, including the detailed design, construction, commissioning and hand back of major hospital schemes as part of the NHP.

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

Monklands Hospital secured planning approval in June last year and site investigation work is progressing. The new hospital aims to become NHS Scotland's net zero carbon pathfinder and construction work on site is scheduled to start later in 2025 and complete in 2031.

The Welsh Budget for 2025/26 increases the budget for capital funding for health to £619 million, a 7.1% increase from 2024/25. This investment will help to maintain and improve the NHS estate infrastructure, as well as investing in new equipment and digital technology.

Five contractors and seven consultants have been appointed to the NHS Building for Wales 2 framework to support the delivery of healthcare building projects, with a construction value of over £7.0 million, over the next four years with an option to extend to six. The framework is expected to deliver around £600 million of work in total.

Upper Scenario:

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

Construction contract signed for the
£684 million
HMP Glasgow
and work is due to complete in 2028

Source: Scottish Government

The size and complexity of these schemes, typically being developed in the vicinity of operational hospital facilities, make it likely that unforeseen complications delay progress at some sites. The main forecast assumes slow construction progress, as has been the case with previous new hospital builds, but this may prove to be a conservative estimate.

Lower Scenario:

- Near-term, the abolition of NHS England impacts procurement progress, further delaying start dates for Wave 1 NHP schemes due to start in the next 12-18 months
- Private finance is used to deliver part of the NHP

The NHP is complex and was established in 2020. Unravelling legal and procurement complexity following the abolition of NHS England may take time and could further delay the progress of schemes poised to start on site. With public sector budgets highly constrained, private sector financing options for social infrastructure are being considered once again. Private finance may be used to deliver NHP projects and this would mean resulting output is instead classified as private health.

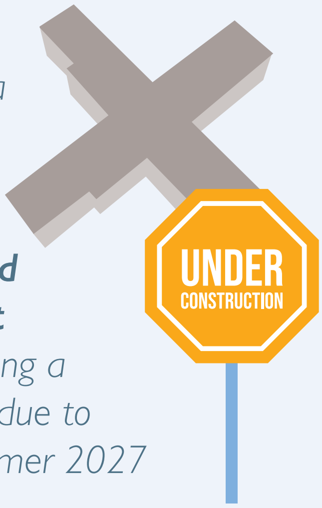
Public non-housing **other** covers construction work on publicly-funded facilities such as prisons, defence projects and civil service offices. Output increased by a further 8.9% in 2024, after a step-change in output in 2023 when activity rose by 56.1%. With prisons in England at close to maximum capacity, output is set to remain at a historically high level throughout the forecast period as work to create new prison places progresses. Output is forecast to remain flat in 2025 before rising by a further 3.0% in 2026, followed by 2.0% in 2027.

The Spring Statement set the Ministry of Justice's (MOJ) capital budget for 2025/26 at £2.0 billion, a 17.6% increase compared with 2024/25. Autumn Budget 2024 confirmed that investment in expanding the prison estate would total £2.3 billion across 2024/25 and 2025/26 and provided £300 million for prison and probation service maintenance in 2025/26, up from £200 million in 2024/25, although the majority of this work is likely to be classified as repair and maintenance (see Public Non-housing R&M).

The government's 10-year strategy to increase prison capacity plans to create 14,000 new places by 2031 – largely mirroring the former government's New Prisons Programme (NPP) but over a longer timeframe. New prisons are expected to contribute 6,500 additional places, with new houseblocks at existing prisons adding a further 6,400 places. New prisons capacity will be delivered through schemes progressing under the former NPP - HMP Gartree 2 in

Work has commenced on a ***£300 million*** *project to* ***expand HMP Highpoint*** *in Suffolk by adding a new houseblock, due to complete in summer 2027*

Source: Ministry of Justice



Leicestershire, HMP Grendon Springhill 2 in Buckinghamshire and HMP Garth/Chorley in Lancashire – and 1,500 inmate HMP Millsike in Yorkshire which recently became operational. The remaining places will be delivered through modular Rapid Deployment Cells and the refurbishment of existing facilities with a view to bringing currently out-of-use places back on stream.

Construction work started on the new 1,700 bedspace, category B prison in Leicestershire, next to the existing HMP Gartree facility, in November 2024 and is expected to be completed over four years. It will include two large educational workshops and an educational facility incorporating 26 classrooms. The collapse of ISG last September, the contractor appointed to deliver the new £300 million HMP Grendon Springhill 2 prison in Buckinghamshire, raised concern about possible delays to progress. Recently, the MOJ has confirmed that Laing O'Rourke has been appointed in the interim but a main contractor will be selected shortly.

In December last year, the Deputy Prime Minister overruled the local council and gave the green light to the planned 1,700 inmate prison on the border of Chorley and Leyland, close to HMP Garth and HMP Wymott. This is the fourth, and final, new prison included in the 10-year strategy.

In addition to the HMP Grendon Springhill 2 prison, ISG worked extensively on MOJ contracts and live projects at the time of the firm's collapse included new house blocks at HMP Guys Marsh in Dorset and HMP Liverpool, which both commenced construction in 2024. The full impact of this insolvency is still to be understood both on the progress of affected public sector projects and the firm's supply chain partners.

In mid-2022, the previous government allocated £500 million to the Accelerated Houseblock Development Programme to deliver new modular houseblocks on existing sites. Projects securing funding included HMP Hindley, HMP Highpoint and HMP Wayland. Cost inflation has impacted delivery and work only recently commenced on the expansion of HMP Highpoint in Suffolk. The £300 million project will deliver 741 additional category C prison places in three four-storey houseblocks, along with additional facilities, including a new healthcare centre and gym. Existing facilities will also be upgraded and work is scheduled to complete in Summer 2027. Funding to support further houseblock expansion, in line with the government's 10-year strategy, is expected to be announced in the June Spending Review.

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

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

The Scottish Government has signed a £684 million contract to construct HMP Glasgow, after Glasgow City Council awarded planning approval in January 2024. The new facility will replace

HMP Barlinnie and construction is due to complete in 2028, three years later than originally planned due to rapid cost escalation. HMP Glasgow will be built at the former Provan Gas Works site between Blackhill and Provanmill in the city's East End.

Capital funding for defence work is due to rise to £23.2 billion in 2025/26, an 8.4% uplift compared with last year's Autumn Budget. Capital funding totalled £22.7 billion in 2024/25, a 19% increase compared with 2023/24.

The Defence Infrastructure Organisation (DIO) is slowly progressing with plans to build or refurbish 40,000 single living accommodation (SLA) bedspaces for service personnel between 2021 and 2031, applying standardised design and adopting a modular approach. Six contractors were appointed to a delivery alliance in 2024 that aims to see 16,000 new bedspaces built over the next six years at an estimated cost of £2.0 billion. Funding for these works, and the Defence Estates Optimisation (DEO) programme, beyond 2025/26 will be confirmed in the Spending Review in June.

Contract awards in recent months include a £65 million scheme at RAF Digby in Lincolnshire to deliver 276 single occupancy en-suite bedrooms for junior ranks spread across four blocks and a new £13 million SLA block at DM Kineton in Warwickshire.

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.

Autumn Budget 2024 confirmed that the Cabinet Office will continue to progress plans for civil service hubs in Bristol (Temple Quay House) and Manchester (First Street) – both of which were already at advanced stages of construction – and the Darlington Economic Campus which was due to start on site last year, plus the refurbishment of 22-26 Whitehall and funding to support further consolidation of the Whitehall estate. The fate of other schemes in the Hubs development pipeline will be confirmed in the Spending Review in June. Government Property Agency's (GPA) latest business plan, for 2024/25, published in December last year, highlights the need for significant delivery model reform to reduce reliance on external partners, enabling a more commercial and sustainable operation in future.

Construction of the £133 million new build government hub in Manchester (First Street) is nearing completion and the internal fit-out contract has just been awarded. The new office, that will accommodate 2,600 civil servants, is now scheduled to compete in Autumn 2026.

In February, the GPA's Manchester Digital Campus was awarded planning consent. The new campus will bring together several civil service departments, with a focus around digital skills, on the former Central Retail Park in Ancoats and is expected to cost around £310 million to build. Construction is expected to start in April 2026, subject to funding approval.

Restoration of the Palace of Westminster's Grade 1 listed Victoria Tower is due to commence shortly after a £111 million negotiated contract was awarded to complete the works. The project is expected to take six years to complete. A decision on the wider refurbishment of the Palace of Westminster has been deferred and a revised set of options are expected to be presented to Parliament this year. Previous estimates suggest essential renovation works would cost between £7 billion and £13 billion to complete and take between 19 and 28 years if Parliament was relocated for a period of time – highlighting the scale and complexity of the project.

Work to decarbonise the public sector estate will continue throughout the forecast period with funding of over £1 billion allocated to Phase 4 of the Public Sector Decarbonisation Scheme (PSDS) over the next three years in the Autumn Budget. Overall, the Department for Energy Security and Net Zero's capital budget reduced from an outturn of £5.1 billion in 2023/24, to an estimated £4.8 billion in 2024/25. In 2025/26, the Department's capital budget is expected to rise to £8.4 billion, although this includes £3.7 billion for carbon capture, usage and storage (CCUS) projects.

Phase 4 of the PSDS was launched in September 2024 and the Autumn Budget confirmed the following funding profile: £86 million in 2025/26 and £427 million in both 2026/27 and 2027/28. A total funding pot of £940 million is approximately 20% lower than indicated by the previous administration. Phase 4 is taking a targeted approach to awarding grants rather than the 'first-come, first-served' approach taken in earlier rounds and applications with a lower grant carbon cost, calculated by dividing the requested grant value by the direct carbon saving, are more likely to receive funding. Phase 3 of the PSDS provided £1.4 billion of funding from 2022/23 to 2025/26. Phase 3c, the final sub-tranche of Phase 3, made up to £230 million available for decarbonisation projects in 2024/25, and £611 million for delivery in 2025 and 2026.

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

Procurement is underway on Fusion21's latest public sector decarbonisation framework. The £1.5 billion framework is split into two lots – whole house decarbonisation and decarbonisation of public sector and education buildings. Work to non-domestic buildings has an estimated total value of £500 million between 2025 and 2029. The framework will provide full UK coverage and support call-off options to enable direct awards when delivery timescales are tight. Successful bidders are expected to be announced in Q2. Work to non-domestic buildings under the original Fusion21 framework was worth up to £250 million between 2021 and 2025.

Upper Scenario:

- The latest £2.0 billion tranche of SLA funding is allocated quickly, rather than providing a steady stream of work over the next six years

The main forecast assumes that the SLA programme will continue to provide a steady stream of output. If the next tranche of funding is front-end loaded, it could provide a further boost to output during the forecast period.

Lower Scenario:

- Further cost escalation causes the construction of new prisons to be delayed once again

The NPP has already suffered from considerable cost inflation and, with funding tight, additional inflationary pressure may cause further delays, prompting the government to consider a different approach to the use, and length, of custodial sentences and to increase provision of new houseblocks on existing prison sites.

Public Non-housing R&M

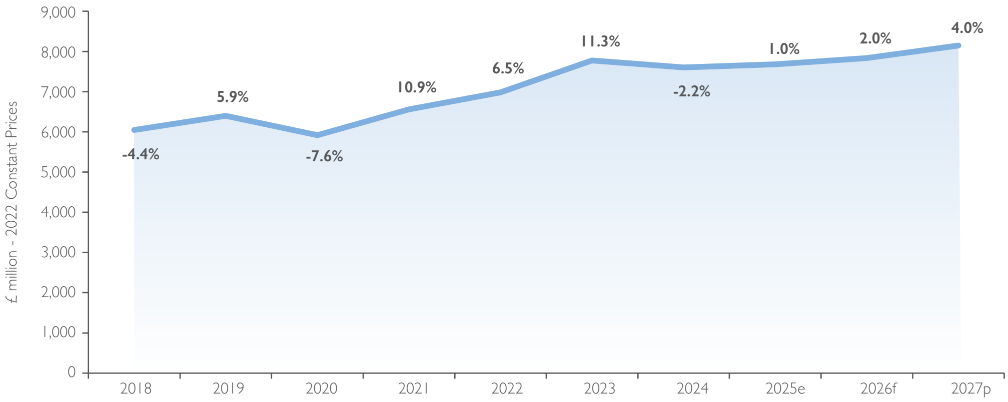
Output in the public non-housing r&m sector, covering spend on basic repairs and maintenance carried out on schools, hospitals, prisons, as well as other government and local authority buildings, is being driven by funding for the decarbonisation of existing estates, plus emergency repairs in response to the RAAC crisis. Real-term growth in departmental and local government settlements is positive but finances are still vulnerable after recent strong inflation, along with recent changes to the National Living Wage and National Insurance Contributions. Against this backdrop, public sector bodies and local authorities are likely to take a 'make do and mend' approach, prioritising essential and reactive r&m activity over larger planned r&m.

Modest growth is forecast in public non-housing r&m output throughout the forecast period. Output is forecast to increase by 1.0% in 2025, 2.0% in 2026 and 4.0% in 2027 as organisations focus on essential repairs and maintenance but the medium-term outlook for this sector depends on the outcome of the 2025 Spending Review, which is expected to take place in June.

The Chancellor's Spring Statement outlined plans to increase capital spending across government departments to £131.3 billion in 2025/26, a 14.6% uplift in nominal terms, compared with 2024/25. Health, education and justice all stand to see capital budgets increase by more than 15%, with capital budgets for the DHSC, the MOJ and the DfE planned to increase by 17.2%, 17.6% and 19.3%, respectively. Capital investment plans outlined in the Spring Statement for 2025/26 broadly align with the 2024 Autumn Budget, with the exception of an additional £1.8 billion of capital funding made available for the MOD.

The Autumn Budget included £2.1 billion to improve the condition of the school estate – an increase of £300 million compared to 2024/25 – and £220 million for prison and probation service maintenance in 2024/25 and up to £300 million in 2025/26. Plus, Autumn Budget 2024 allocated £1.0 billion of capital funding to help tackle the RAAC issue in England's hospitals, and to begin to address the backlog of maintenance, repairs and upgrades across the estate.

Public Non-housing R&M Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

Local authority budgets remain under pressure from cost inflation and rising demand for social care services, alongside increased costs from changes to National Insurance contributions and sector re-organisation. The Local Government Information Unit's (LGIU) 2025 State of Local Government Finance in England report found that fewer than one in ten senior council officials are confident in the sustainability of local government finances and 6% of councils are at risk of effective bankruptcy in the current financial year. Nearly two-thirds of councils plan to reduce spending on services this year and more than half will draw from reserves to balance the books, with many dipping into this pot for the second year in a row. Echoing findings from the LGIU report, a recent survey by the Local Government Association (LGA) reported that nearly three-quarters of responding councils felt it would be very, or fairly, difficult compared to earlier years to set a balanced budget for 2025/26 and 25% of councils say they have, or are very likely to, apply for Exceptional Financial Support (EFS) in 2026/27. Thirty councils were granted EFS in 2025/26, up from 18 in 2024/25. LGA analysis suggests councils face a funding gap of up to £8 billion by 2028/29. Against this challenging backdrop for local authorities, non-ringfenced funding for basic repairs and maintenance work risks being diverted to help meet the shortfall in delivering essential services.

Recent analysis by the National Audit Office (NAO) found that while local authority funding increased overall between 2015/16 and 2023/24 in real terms, funding per capita reduced and allocations have not kept pace with demand for services and the rising cost of delivering these services. Although the public spending watchdog noted that Core Spending Power per person was due to rise by 7% between 2023/24 and 2025/26, this is before allowing for inflation. Capital spending by local authorities has remained relatively stable since 2017/18, according to the NAO. In 2023/24, local authorities spent £21.3 billion on capital assets such as new roads, buildings, IT infrastructure and the renovation of existing assets.

In February, central government set funding for England's councils at £69 billion in 2025/26, providing a 6.8% increase in cash terms in councils' Core Spending Power compared to 2024/25. Of this, 24% is un-ring-fenced settlement funding, 14% is grants for social care, 6% is other grants and the remaining 55% is council tax. Changes in the level of guaranteed funding, and changes to the allocation of grants, mean that shire districts in general will end up with less funding in real terms than in 2024/25, while metropolitan districts in particular will have the largest increases.

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

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

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

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

Regional allocations of Phase 3c funding were as follows (to the nearest million): Greater London £145 million; South East £87 million; West Midlands £84 million; Yorkshire and the Humber £68 million; North West £53 million; North East £48 million; East of England £47 million; South West £46 million; East Midlands £27 million; Wales £1 million and cross-regional projects secured £4 million.

Phase 4 of the PSDS was launched in September 2024 and while work on this phase is due to commence this financial year, funding is heavily weighted towards 2026/27 and 2027/28. The 2024 Autumn Budget allocated funding of £86 million for Phase 4 in 2025/26, with £427 million available in both 2026/27 and 2027/28. A total funding pot of £940 million is approximately 20% lower than indicated by the previous administration. Phase 4 took a targeted approach to awarding grants rather than the 'first-come, first-served' approach taken in earlier rounds and applications with a lower grant carbon cost, calculated by dividing the requested grant value by the direct carbon saving, are more likely to receive funding. Successful applicants are due to be announced in May and all projects must be delivered by 31 March 2028.

The provisional value of the School Condition Allocations funding pot for basic repairs and maintenance on the schools estate in 2025/26 is £1.84 billion, a 15% increase from 2024/25. Multi-academy trusts stand to secure the largest share of the School Condition Allocations pot, provisionally attracting £721 million, which is 29% higher than in 2024/25. Other awards include £519 million for local authority-maintained schools, an 11% uplift compared with 2024/25, and £467 million for other institutions eligible for condition improvement funding.

Overall, provisional data suggests funding via Devolved Formula Capital Allocations will be broadly unchanged from 2024/25 in 2025/26. The total value of the pot, in current prices, is £219 million, with multi-academy trusts securing £82 million, local authority-maintained schools gaining £68 million, institutions eligible for condition improvement funding receiving £50 million and voluntary-aided schools being given £18 million. Some projects covered by these funds will be classified as new or improvement work but the majority of this funding will be used for general r&m activity.

Anticipated growth in funding for school maintenance budgets is welcome news given the deterioration in the condition of the schools estate over recent years. A highly critical report by the National Audit Office (NAO) in June 2023 suggested that 700,000 pupils were being taught in buildings believed to be past their initial design life and highlighted the large gap between the DfE's actual spending on maintenance and repairs, around £1.7 billion a year between 2016/17 and 2022/23, and the £5.3 billion that the DfE estimates is needed annually to maintain schools and mitigate the risk of building failure. Additionally, schools continue to report significant financial challenges, meaning difficult decisions about employment and investment need to be taken to maintain financial stability. Recent survey data from the National Foundation for Educational Research suggests that half of English secondary schools have been forced to cut staff to help balance the books in the past 12 months.

Official data on the condition of the schools estate in England is updated infrequently. The DfE's last Condition of School Buildings Survey ran between 2017 and 2019 and evaluated 22,031 schools across England. At this point, the estimated total cost to repair or replace defective elements in the school estate was £11.4 billion, almost double the £6.7 billion previously estimated by the DfE in 2017. Results of the next condition survey are due in 2026 and survey work is currently underway.

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

In the further education sector, the 2025/26 Condition Improvement Fund has been allocated £302 million to improve further education colleges across England. All further education colleges, and designated institutions, will receive a share of this funding pot.

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

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

Schools with extensive refurbishment or reconstruction requirements due to the presence of RAAC will also be prioritised in School Rebuilding Programme (SRP) funding allocations in 2025/26. When responding to a Parliamentary question in November, the Parliamentary Under-Secretary for the DfE stated that RAAC had been identified at 237 schools and colleges and that a total of 122 schools with confirmed RAAC have now been included in the SRP and works on these premises are expected to take an average of three to five years to complete. As of 27 November 2024, the DfE had been informed that RAAC removal works had been completed at 30 schools.

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

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

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

The MOJ's total capital budget is due to rise by 17.6% to £2.0 billion in 2025/26, and this equates to an increase of around a third over the past two financial years as new prisons projects have progressed. Constructing new prisons, and expanding existing facilities, will attract the lion's share of capital funding in 2025/26 but the Chancellor confirmed that £220 million would be invested in maintaining prison and probation service facilities in 2024/25 and that this could rise to £300 million in 2025/26.

Additional funding for prisons maintenance came ahead of a critical National Audit Office (NAO) report that was published in December and shared previously unpublished data from the Prison Estate Conditions Survey Programme. Latest data from this Programme suggested that the estimated cost of backlog of maintenance works required across the prisons estate had risen to £1.8 billion by the third quarter of last year, almost double the £0.9 billion estimated in 2020. As at March 2024, approximately 23,000 occupied prison places did not meet fire safety standards for example. Looking ahead, the government's ten-year prison capacity strategy suggests future maintenance work will be prioritised and the refurbishment of dilapidated wings and bringing cells which have been taken out of use back online, is part of the approach.

The condition of buildings across the MOD estate is also coming under increasing scrutiny. A third of Single Living Accommodation (SLA) and two-thirds of Service Families Accommodation (SFA) are in such poor condition that they are essentially no longer fit for purpose according to a recent report by the Defence Select Committee. The report warned that the poor condition of service accommodation was affecting recruitment, retention and morale. Capital funding for defence work will increase to £23.2 billion in 2025/26, a 2.2% nominal increase from 2024/25, according to the Spring Statement but £1.8 billion more than allocated in the Autumn Budget. However, the focus is on new build and there has been no indication that maintenance expenditure will change significantly over the forecast period on work included in this sector. 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 rm&i work.

Upper Scenario:

- Additional central government funding is allocated to maintaining schools, hospitals, prisons and SLA on defence estates in the Spending Review

With backlog maintenance across the public sector estate at record high levels, political pressure is building to address the backlog, especially in health and education buildings. If the Spending Review allocated additional funding to the maintenance of existing buildings as well as the new build programmes, the nature of this work could swiftly boost public non-housing r&m output.

Lower Scenario:

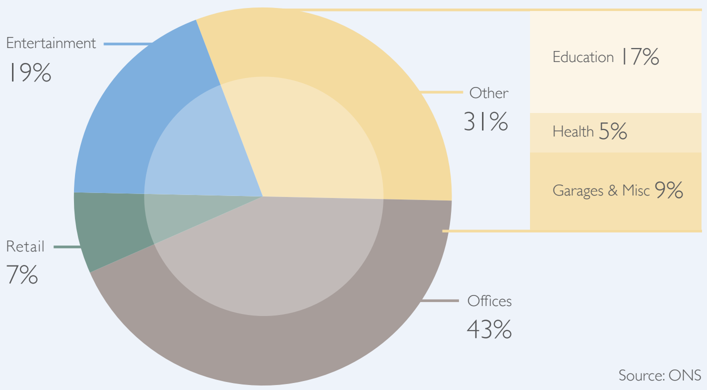
- Work to address RAAC issues is largely classified as new work

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

Commercial

Given the large up-front investment needed for major commercial projects, although new build offices and entertainment projects are now entering the early pipeline, final decision-making continues to be held back by uncertainty and the step-change in interest rates and financing costs. Despite a continued stream of activity from the refurbishment, fit-out and repurposing of existing commercial buildings, as well as niche areas of growth such as data centres and life sciences, commercial output is only expected to return to growth in 2026 as large new build office towers move into the construction phase.

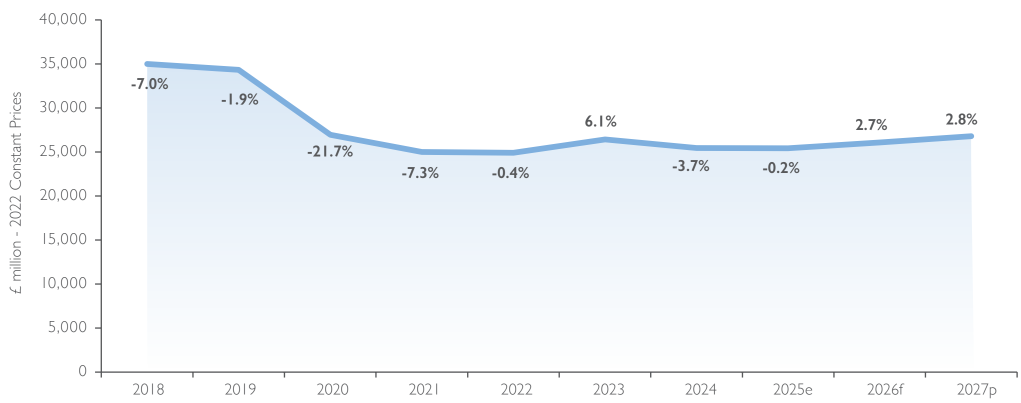
Commercial Output by Sub-sector 2024 (%)



Source: ONS

Growth in commercial construction output tends to be driven by activity on large new build projects such as new office towers, leisure and entertainment venues, as well as new retail premises, private hospitals and university buildings. As these projects require a large up-front investment, they are more sensitive to macroeconomic conditions, which lengthens the lags between approval, contract award and construction start. The inflationary spike in 2021 and 2022, followed by higher interest rates and slow economic growth, means that confidence

Commercial Output

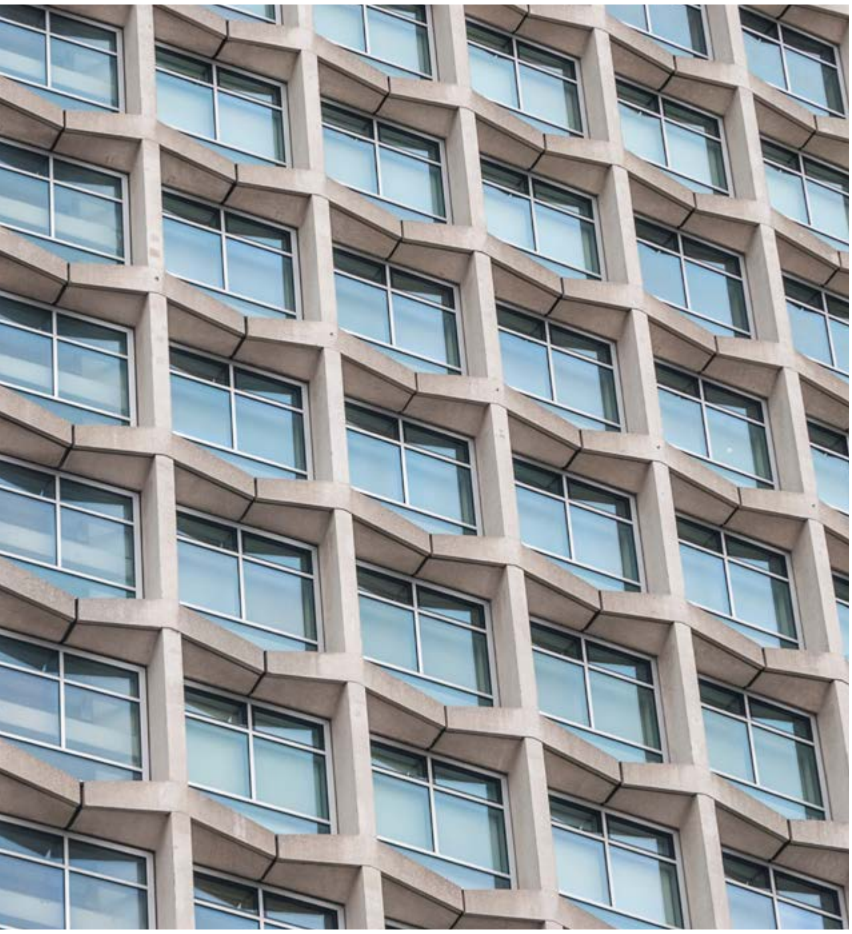


e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

is likely to have been dented markedly since projects were first approved. Furthermore, periods of uncertainty and unprecedented economic shocks going back as far as the EU Referendum in 2016 have seen sector output contract in six out of the last seven years, and the sector remains smaller than it was pre-pandemic. A renewed environment of uncertainty over domestic economic growth and the global impact of tariffs this year (see Economy) are likely to prolong the final investment go-ahead on projects awaiting contract award or construction start. However, there are still niche areas of growth, such as data centres, life sciences and student accommodation, along with a continued drive for the refurbishment and improvement of existing space, particularly in offices. With a pipeline of large new build projects at a pre-construction phase, there is an upside risk for stronger growth if investor and developer confidence returns more quickly than assumed in the forecast. The key question remains when macroeconomic conditions will be considered strong enough and interest rates low enough for this to occur. Construction work on two new office towers, which had been approved in 2021 and awarded contracts last year, started in the City of London in Summer, but with other projects sitting earlier in the pipeline, and potentially also delayed by considerations around the Building Safety Act, the overall sector's recovery is only expected to materialise in 2026.

Illustrating how the sector is held back by uncertainty, commercial output in 2024 was 26.1% below its pre-pandemic level in 2019 and almost one-third (32.6%) lower than the recent peak in 2017. Refurbishment and work to repurpose or refit existing space have provided activity post-pandemic, either to appeal to new tenants taking over vacant units in offices and retail, to adapt workspaces to the peaks and troughs of office attendance through the week as hybrid home-office working continues, or to improve office amenities. Commercial estate agents report that Grade A office space is attracting strong demand and a notable rental premium, whilst current Minimum Energy Efficiency Standards (MEES) regulations for commercial property propose a minimum EPC rating C by 2027 and EPC B by 2030. More recently, large-scale refurbishment projects valued at £200 million or more have begun, helping to offset the lack of new build office towers that has occurred over the medium-term. Demand for refurbishment is expected to remain high, and not just in the offices sub-sector. A focus on improving the quality and energy efficiency of existing assets has also been notable in corporate strategies across retail, student accommodation and university buildings, as well as private healthcare. Nevertheless, the higher cost of energy-efficient retrofit and 'back to frame' projects relative to



a 'standard' refurbishment, plus client sensitivity to cost, will be a limiting factor, and even more so in lower-rent areas.

The retail sub-sector has displayed one of the largest reductions in size over the last decade and is forecast to continue declining this year and next. As highlighted in previous forecasts, this reflects longer-term structural changes in demand that have led to the conversion of previously retail-led developments, even in prime locations such as Oxford Street, into mixed-use led by residential, leisure and warehouses/logistics, the latter to facilitate operations linked to the rise in online shopping. Grocery convenience stores, the popularity of discount or food and beverage outlets in retail parks and multi-use redevelopments of town centres will provide core activity for retail, but it is likely to be dominated by fit-out rather than large new build projects. Leisure and entertainment, the second-largest commercial sub-sector, has benefited from the move to redevelop existing shopping centres or vacant store premises in town and city centres into hotels or leisure-led facilities, but confidence to start new major investments such as entertainment venues and sports stadia is still being hindered by the scarring effects of inflation for consumers, businesses and contractors. Universities across the country are in the midst of multi-year investments in new buildings for teaching and research, as well as university and privately-financed student accommodation projects, but continue to balance favourable demographic trends with higher borrowing and financing costs and risks around a dependence on continued growth in international student numbers. Businesses in these sub-sectors are also relatively labour-intensive so the rise in costs related to the increase in employers' National Insurance Contributions, as well as business rates, also pose a downside risk to investment in commercial premises, as large employers look for ways to reduce expenditure.

Other niche areas of growth exist in commercial new build, but they are subject to the same uncertainty and cost constraints. One of these is leisure and entertainment venues. Research by Savills found that food and beverage and leisure floorspace has increased in all major UK cities over the last decade, with over 1 million sq. ft. in additional space in both Manchester and the City of London – increases of 76% and 28%, respectively, since 2014. In terms of the large projects that typically drive growth, large arena and sports stadia projects are in the pipeline, but there remain questions over when they will filter through to activity. The main contractor for the new £155 million Bristol Arena was selected in March 2024, allowing the enabling works to begin, but the project's completion has been pushed back once again, to 2027, which is three years later than the original schedule. Similarly, the new Cardiff Arena scheme has also been delayed further to a 2027 completion due to requiring additional funding for a £100 million cost rise. The £350 million Gateshead Arena complex has been split into smaller phases to mitigate a rise in construction costs. Contracts were awarded for the £150 million first phase in September 2023 for a new build conference centre but work was still yet to start at the end of Q1.

Following the completion of Everton's £550 million new stadium, football stadium projects are still largely in the pre-construction phase. The £100 million expansion to Aston Villa's stadium was approved in October 2024, after a new build events venue was removed from initial phases to accelerate delivery of the stadium upgrade. The local authority has requested improvements to the local train station before work can begin, however. Elsewhere, the contract for main works on a new stand for Crystal Palace was awarded in August, although the club has warned that the current cost projection of £150 million is 50% higher than when the project was proposed in 2018. Work is scheduled to start at the end of the 2024/25 season. Work began on Manchester City's £300 million stadium expansion and hotel in May, whilst an expansion of Leicester City's football stadium received final approval at the end of 2023 after a lengthy period of planning negotiations since it was submitted in October 2021. Work will begin in 2026. Plans for a stadium expansion for Leeds United and a stadium rebuild and new hotel for Luton Town were both launched in the last six months. The largest project to enter the early pipeline since the Winter forecasts is Manchester United's plans for a new £2 billion, 100,000-seater stadium on a site adjacent to the current stadium. Other sports venues have also announced expansions: Wimbledon's £200 million tennis courts expansion was approved in September, but will go under judicial review in July due to local objections, whilst Edgbaston cricket stadium's plans for new stands and a hotel were approved in February.

In terms of large leisure schemes, groundworks have completed on a spa resort in Manchester but costs have now risen from £250 million to £400 million and main works are now expected to start at the end of the year. In July, the new £100 million Eden Project in Morecambe received £2.5 million in government funding for initial design work. The government has committed half of the project's funding overall, with the other half funded privately. In April, Comcast Universal announced it was proceeding with Bedford as the location for a European theme park. Subject to planning approval, construction would be expected to start in 2026 and last five years. The government has announced its commitment to a major investment in infrastructure around the site to support delivery.

Work on film and television studios is also underway or moving through, driven by demand from streaming platforms such as Netflix, Disney and Amazon. Projects on site include the redevelopment and expansion of the Ealing Studios in west London and enabling works on the formerly derelict Littlewoods building in Liverpool, which is being redeveloped into a studio campus. A £260 million new build studio complex in Bedfordshire was approved in September 2023, and the first phase of a £450 million film studio in Sunderland received planning approval in March, as well as £25 million of government funding allocated in Spring Budget 2024 as part of a devolution deal for the North East. The first phase accounts for 360,000 sq. ft. of new space and the contract for enabling works was put out to tender in June. Plans for future phases of around 1.3 million sq. ft. have also been submitted for planning approval. However, the largest project in the pipeline is currently stalled. The £750 million Marlow Studios in Buckinghamshire was refused planning permission in May 2024 and was subject to a public inquiry at the start of this year. Several years post-pandemic, streaming services and TV and film production have been cutting production spending, which adds further risk to the viability of projects yet to start. The £600 million Hollywood Sunset Studios planned in Hertfordshire was formally put on hold in March given the change in economic conditions and production appetite, particularly on the viability of a speculative project of this size, with a feasibility study for alternative uses underway. Citing similar issues, a planned studio project at Wycome Air Park in Buckinghamshire was also cancelled in Q1, with plans now switched to a data centre.

There is a significant and substantial demand for data centres – facilities that store IT infrastructure to run and store digital data – and the government is consulting on them being classed as Nationally Significant Infrastructure Projects in the planning system. The previous Secretary of State refused planning permission for a 163,000 sq. m. data centre in Buckinghamshire and an 84,000 sq. m. data centre in Hertfordshire over concerns about protecting green belt land but the current government called in planning appeals for both projects. In December, the scheme in Iver, Buckinghamshire was subsequently approved.

There has been over
1 million sq. ft.
in ***additional food & beverage and leisure space*** *in* ***Manchester*** *and the* ***City of London*** *since 2014 –* ***increases*** *of* ***76%*** *and* ***28%*** *respectively*

The pipeline elsewhere has grown in the last 18 months, with the £800 million Google data centre in Hertfordshire and the £200 million Echelon LCY20 project in Buckinghamshire beginning in the first half of 2024. Microsoft has three data centres underway at various stages: work has started at Park Royal, north London, contracts are out to tender for Newport and it has submitted a planning application for a site on the former Eggborough power station in North Yorkshire. Microsoft has also purchased the former Skelton Grange power station near Leeds, with the intention of converting it into a data centre, logistics space, energy from waste facility and battery storage. Also in the planning stages, Segro has submitted outline plans for a £271 million scheme in Slough and a £1.0 billion joint venture in Park Royal, outline plans have been approved for a £524 million data centre and communications campus in Redcar, as well as the £1.7 billion London Data Freeport in Havering with 3.55 million sq. ft. of new floorspace, which was first outlined in 2022 and submitted for planning approval in 2024 Q2. Plans for Europe's largest data centre, DC01UK, a £3.75 billion, 87,000 sq. m. project in Hertfordshire were approved in January, whilst Amazon has announced an £8.0 billion, five-year investment plan for its 'hyperscale' data centres and Blackstone's plans to invest £10.0 billion in a hyperscale data centre at the former Britishvolt gigafactory site in Northumberland were approved in March. It is important to note that despite the large value of data centre projects, they are unlikely to all be classified as construction work, whilst some work may also be classed within the industrial sector.

Across the commercial sector, financial viability and confidence to proceed with previously signed-off projects may be affected more than in other sectors, given the already sizeable lags between project approval, contract award and the start of construction, particularly on large projects. Construction cost inflation has begun to recede, but costs remain elevated compared to pre-pandemic when some of these projects will have first been given the investment go-ahead, whilst higher borrowing costs continue to be factored into investment decisions. Even with expectations of interest rate cuts throughout 2025, interest rates are not expected to return to the sub-1.0% levels of the last 15 years. Commercial new orders fell 22.7% in 2023 but rose 15.9% in 2024. For projects in the pipeline, delays relating to risk and issues around higher construction costs, concern over the strength of the economic recovery going into 2025 and the impact of higher interest rates on consumer and business demand are assumed to lengthen the typical 12-18 month lag between contract award and construction start. As a result, following a 3.7% decline in 2024, output is expected to remain largely flat (-0.2%) in 2025. Following this stabilisation, and as work on large office towers and leisure and entertainment venues begins, the sector's recovery is projected to occur in 2026, with growth of 2.7%.

The **offices** sub-sector accounts for over 40% of commercial output and, therefore, is a key determinant of overall sector activity. Offices output is yet to return to its 2019 level, which, in turn, is below the levels of output that were recorded between 2015 and 2017. A key reason for this has been that decision-making on the large new build towers projects that typically underpin sub-sector growth has been slowed down by economic uncertainty since the EU Referendum. In addition, higher interest rates mean that financing costs are substantially above what was being factored into investments and viability previously, whilst requirements for office space continue to evolve post-pandemic. Large tower projects are also those that require the largest up-front investments and, consequently, they are the most affected by weak business confidence and uncertainty. There is a pipeline of office tower projects in the planning and pre-construction pipeline and the key question remains when investors and clients consider that economic conditions have firmed up enough for them to progress to construction and raise growth rates in the sub-sector. Concerns over a slowdown in global and UK growth (see Economy) are likely to prolong the uncertainty for this year. Two new speculative tower projects began construction in 2024 – 2 Finsbury Square and 50 Fenchurch Street – and demolition began ahead of the start of work on 1 Undershaft, but it is still likely to be 2026 before there is a noticeable recovery in activity.

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. Knight Frank found that for offices in London, since 2020 Q1, take-up for new or refurbished space has risen 28.6%, whereas take-up for of second-hand space has fallen 35.8%. More indicative of the demand for higher-quality, take-up of floorspace with the highest BREEAM and EPC ratings has risen 87.2%. In addition, 2024 Q4 vacancy rates for new/refurbished space were also recorded at 0.6% for the City and the lowest on record for West End sub-market, at 0.3%, which compares to an overall vacancy rate of 9.1% for London. 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.

Alongside this, the need to improve both energy efficiency and the quality of facilities is expected to continue driving offices activity, both for new build projects and refurbishments across the forecast period. Highlighting the scale of some refurbishment projects, there are several high-value schemes in the pipeline, with work underway on schemes including Citi Tower in Canary Wharf, the former Goldman Sachs HQ on Fleet Street and Woolgate Exchange. Large-scale projects that entered the pipeline in the last 12 months included the £250 million retrofit of 1 Victoria Street in Westminster, which awarded contracts in February, the £250 million refurbishment of Deutsche Bank at London Wall, which is targeting the main contract award in Summer, as well as a refurbishment and extra floor at 30 Finsbury Square and a £150 million refurbishment of 25 Finsbury Circus, which is scheduled for completion in 2028.

A tightening of Minimum Energy Efficiency Standards (MEES) for commercial properties, which require a minimum EPC rating of C by 2028 and a minimum EPC rating of B by 2030, is a key long-term consideration for office refurbishment. Given that a large proportion of lease expiries will be for spaces occupied for more than ten years, building owners and landlords will have to choose between refurbishment or the raised risk of 'stranded assets' – buildings that do not achieve the MEES. Savills estimates that 67.5% of the existing London office stock and 71.8% in the rest of the UK has an EPC rating of C-E, which raises the issue of what will happen to space that is not upgraded in time for the new regulations. The prospect of 'stranded assets' rises in lower rent areas where the higher cost of a full energy-efficient refurbishment makes projects unviable. The City of London Corporation is considering a fast-track route for planning permissions for retrofit projects, fewer restrictions on changes of use for office buildings that cannot be upgraded, as well as consulting on a 'retrofit first' policy in its longer-term strategy to 2040. Scotland has yet to introduce an EPC target for non-domestic buildings, but based on a policy that mirrors that of England and Wales, Knight Frank found that 29% of Scotland's office stock has an EPC rating of E or below, with only 21% rated B or above.

It is a similar picture outside London, with the Deloitte Regional Crane Surveys finding that five of the eight office schemes under construction in 2024 in Birmingham were major refurbishments, including the Typhoo Tea Factory and 35 Newhall Street. In Manchester, five out of six new starts in the year were refurbishments, whilst in January, Lloyds Banking Group announced plans for a £200 million redevelopment of its headquarters in Edinburgh. Across regional cities, however, space under construction is among the lowest volume in the last decade. Knight Frank found that in Sheffield, Newcastle, Aberdeen and Cardiff, construction pipelines have very few projects for 2025 and beyond, despite Grade A take-up in most cities reaching multi-year highs.

In 2024, output in the offices sub-sector was 17.2% below the levels recorded in 2017, with confidence repeatedly held back by the EU Referendum, the pandemic and general economic uncertainty. So far, although major refurbishment projects have provided significant volumes of activity for the sub-sector, they have been unable to offset the lack of new office towers over the same period. Commercial property agents have noted an increase in occupier demand over the last 12 months and more recently, demand for mid-size floor spaces and larger floor spaces over 100,000 sq. ft. has also risen as firms have to accommodate fluctuating office attendance with full occupancy mid-week. Agents have also reported that employers who downsized post-pandemic are now looking to move back to larger spaces or open second sites.

With property agents reporting rises in take-up and, more recently, increases in pre-letting activity, large new build projects have begun entering the early pipeline as confidence returns and post-pandemic working patterns settle. Nevertheless, lingering uncertainty over the strength of economic growth and a step-change in financing costs, even as interest rates are lowered further this year, is expected to lengthen decision-making on start dates. The fall in office capital values appears to have bottomed out since the second half of 2024, according to CBRE, which is also likely to improve investor confidence, albeit slowly, given global economic issues are likely to lead to hesitancy from overseas capital. Large office towers in London reportedly failed to sell last year as bids fell considerably short of asking prices. Canary Wharf appears most affected by weakened confidence, illustrated by HSBC's announcement in June that it was moving to downsized premises in the City of London and the sale of 5 Churchill Place in February, which was 60% below its previous sale price in 2017. HSBC's 45-storey tower will be vacated in 2027 and the owners have implied a redevelopment away from offices to residential and a hotel. Lower capital values for offices over the last two years have benefited those with the means to make countercyclical purchases, however, with large landlords and developers reported to have been buying more actively in 2024, which may bolster the pipeline for refurbishment.

There are large new build projects, including towers, currently at an early stage, however. One of the largest in the pipeline, the 74-storey tower at One Undershaft, was approved in December after being deferred for five months after objections were raised over a reduction in surrounding public space. Demolition of the St Helen's Tower, the existing building on the site, began in Q1 and is expected to take a year. The £700 million redevelopment of the former ITV Studios on South Bank, which will be led by 900,000 sq. ft. of offices across 26-storeys was also approved in December following a judicial review in the High Court. Projects approved in the last 12 months include the £500 million, 23-storey redevelopment of 55 Old Broad Street, a development consisting of 63-storey and 22-storey towers at 55 Bishopsgate, a 45-storey tower at 18 Blackfriars Road, forming part of a scheme alongside two residential towers, and the redevelopment of a vacant hotel in Bloomsbury into a 19-storey offices-led tower, which avoided a judicial review in September. For these projects, enabling works are scheduled to begin in 2025 and 2026, with main works in 2027. Further back, at the planning stage, projects include a 54-storey tower at 99 Bishopsgate, which received approval in February, a 31-storey tower at 130 Fenchurch Street and plans for a 63-storey tower at 63 St Mary Axe, which were submitted in March and is expecting a 2027 start. The Chinese Embassy in London has also submitted a second attempt for planning approval of its redevelopment of the former Royal Mint site, which was called in by the Secretary of State in October. Construction on all of these would be expected to begin beyond the forecast period.

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

New orders fell 24.2% in 2023 but rose 11.4% in 2024. New orders also rose in 2021 and 2022, which took new orders to the highest level since 2008, but this has not yet translated into substantial growth rates in construction, given the lag between contract award and start of construction that is common in the sub-sector. The expected rate of return on large projects is over a longer and, consequently, riskier period. Given the lingering economic uncertainty, higher build costs and financing costs that need to be taken into account in investment decisions, as well as planning delays and concern over compliance with the Building Safety Act, even as non-residential buildings, large projects are now taking much longer than the 12-18 month lag that CPA analysis has previously found between new orders and output. Although output will be supported by large-scale refurbishment work, the question remains when large office tower projects that were approved or awarded contracts since 2022 will move forward to main construction work, particularly as expectations adjust over the frequency of Bank of England rate cuts and global economic conditions. The forecast assumes that decision-making on large projects will remain slow during 2025, with main works likely to occur in 2026 and 2027. Consequently, output is forecast to fall by 1.0% in 2025, with the recovery phase beginning with 3.0% growth in 2026.

Upper Scenario:

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

If stronger economic growth and larger or more frequent interest rate cuts improve business and investor confidence and more new office tower projects start this year, then growth rates will pick up more strongly from 2025. In addition, growth rates may also be higher if an increasing awareness of the minimum EPC B rating from 2030 drives greater refurbishment activity across offices of all sizes across the UK. Elevated costs would limit the uplift in the near-term, however.

Lower Scenario:

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

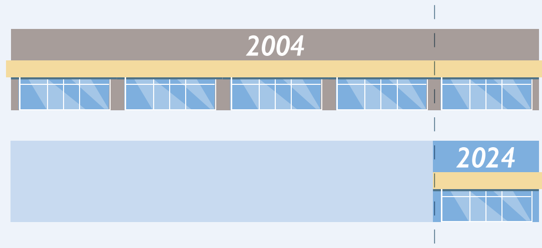
In this scenario, a longer period of weak economic growth, global economic tensions or interest rates not being reduced as much in 2025 see no pickup in capital values, and stall decision-making for longer than in the main forecast. This would delay the start of main construction work beyond 2026, even for projects that have been approved or awarded contracts.

Uncertainty and risk aversion in the **retail** sub-sector has combined with a host of longer-term structural changes that have reduced new orders and output to the lowest levels on record. In 2024, sub-sector output was only one-quarter of the volumes recorded a decade ago and one-fifth of the size it was at peak 20 years ago. Over this period there has been a long-term

downward trend in demand for retail premises, the flipside to the rising role of e-commerce shifting activity towards storage and distribution. More recently, weak economic growth, higher interest rates, increasing costs for development finance and weak consumer confidence has led to store closures and branch consolidation as retailers cut back on estate investment. Following the increases in employers' National Insurance Contributions in the Autumn Budget, large retail chains have signalled further store closures this year, or a switch towards spending on less labour-intensive methods such as automation. There are areas where investment is stronger, such as retail parks, within the grocery and discount segments, and for retailers that have been able to acquire existing, vacant units. In common with offices, a 'flight to quality' and a rising awareness of energy efficiency and decarbonisation requirements also concentrate occupier and landlord demand on improving existing space. Work is, therefore, dominated by refits and refurbishment rather than new build. Larger-scale redevelopments of lower-demand or vacant assets such as department stores and shopping centres are increasingly for mixed-use led by leisure, entertainment, offices or residential, thereby continuing the trend of diverting output away from the retail sub-sector. Given these factors, and with further declines in new orders in 2024, output is forecast to decline by 6.0% in 2025.

Output in the sub-sector has fallen 74.1% over the last ten years and output in 2024 was around one-fifth of the level it was at its peak in 2004. The key driver of this long-term decline has been a structural shift in consumer spending habits away from purchasing in-store to spending online, thereby redirecting investment away from 'bricks and mortar' retail premises towards warehouse facilities for logistics and storage, or larger stores that can facilitate 'click-and-collect' operations. Over the same period, the proportion of retail sales values spent online has risen from an average of 11.3% in 2014 to 27.1% in 2024.

Shopping centres and department stores have been particularly affected by these changes and vacancy rates have consistently been higher than for other settings such as retail parks and high streets, as well as higher than a decade earlier. As retailers have vacated stores, either as part of estate consolidation, liquidations or relocations to higher footfall locations, consequent redevelopment of units has largely been geared towards repurposing and regeneration that move away from solely retail to mixed-use offices, leisure and residential. Similarly, formerly prime-sited department stores are now being redeveloped into mixed-use space. Falling demand for shopping centres and department stores has resulted in sharp falls in capital values, which has driven speculative investment purchases, alongside a more recent increase in purchases by retailers in a stronger financial position for longer-term redevelopment. The Ingka Group, owner of Ikea, purchased the Churchill Square shopping centre in Brighton in 2023, where it is converting a vacant Debenhams unit into a city centre Ikea store and has also submitted plans for a click-and-collect unit in the centre's car park. Both are expected to complete later in 2025. Elsewhere, main works for the redevelopment of the Wigan Galleries shopping centre began at the end of 2024 for phase one – a new market hall and food court. Further phases of the project will be led by residential and hotel/leisure facilities. Frasers Group has also increased its buying activity, with the purchases of Frenchgate in Doncaster, Princesshay in Exeter and St Nicholas Arcade in Lancaster at varying stages. It is expected to proceed with refurbishing, extending and refitting vacant stores for its portfolio of brands. Beyond the forecast period, Westfield has announced a revised masterplan for the Whitgift shopping centre in Croydon. Its original plans for a new £1.4 billion shopping centre were cancelled in 2021 after years of delays and have now been scaled back into two mixed-use schemes: one for community use and one for retail and residential, with work scheduled to commence in 2028. Meanwhile, at the end of 2024, the Secretary of State approved the demolition of Marks and Spencer's flagship Oxford Street store for redevelopment into residential, retail, leisure and offices.



Output in the sub-sector
has ***fallen*** **74.1%**
over the last ten years and output in 2024 was ***around one-fifth*** *of the level it was at its peak in 2004*

In contrast to shopping centres and department stores, retail parks 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, such as click-and-collect or click-and-deliver across a range of products. Vacancy rates, footfall and leasing activity have also outperformed other retail settings since 2020, with Knight Frank estimating that the retail park vacancy rate is also 1.8 percentage points lower than pre-pandemic, at 6.5% in 2024 Q4. The presence of discount retailers, supermarkets and food and beverage outlets has been key to the appeal. According to Savills, a decade ago, 46% of occupied floorspace in retail parks was occupied by bulky goods brands such as DIY, electrical, and furniture and fittings, with the proportion now at 25%. Over the same period, the proportion occupied by discount variety stores has risen from 5% to 11% and discount grocery now accounts for 9% of occupied space, from 7% a decade ago. In Q1, Ikea announced further expansion by acquiring three former Homebase stores in retail parks to continue its launch of small-format stores, whilst Marks and Spencer announced a £50 million upgrade of its retail park stores in the North West. However, even retail parks are not immune to the repurposing away from retail. The planned redevelopments of retail parks next to Lakeside shopping centre and Beckton in East London will turn space into warehouse and distribution units, whilst Knight Frank reported that investment volumes in retail parks have been below the five-year average since 2023 Q4.

The prospects for grocery retailing have become much more mixed over the last 6-12 months, with major supermarkets announcing cost-cutting measures to mitigate rises in business rates and increases in both the National Living Wage and employers' National Insurance Contributions. Whilst, initially, measures have focused on staff cuts or changes to in-store offerings, Morrisons announced it would be closing 17 of its convenience stores. This contrasts with Sainsbury's and Waitrose, which are operating with a focus on convenience stores, and Co-op, which aims to more than treble its number of franchise stores within three years, from 43 to over 130, due to increases in demand for delivery services through Uber Eats, Deliveroo and Amazon. Similarly, Asda's expansion over the next three years will focus on doubling its existing estate of convenience stores to 300 by the end of 2026, with new stores concentrated in the south of England. In May 2024, it also announced plans to build a new 60,000 sq. ft. superstore in West London, with a 1,500-home residential development on top in a joint venture with Barratt Homes. Iceland also announced plans in May for 250 of its larger Warehouse stores at retail parks. Both Aldi and Lidl continue to expand, often with new build stores, but both have slowed the pace of expansion in recent years. Aldi plans 30 new openings in 2025, compared to 35 in 2024, whilst Lidl has dropped its annual openings from 50 to 25.

Town and city centre regeneration schemes will also provide small volumes of retail work over the forecast period. However, larger regeneration projects will remain susceptible to delays or scaling back, particularly for those that are moving towards mixed-use led by residential and offices, which are still being affected by uncertainty over the pace of recovery. Recent projects of this nature include the redevelopment of the Wigan Galleries already mentioned, as well as the 15-20 year plan to redevelop the St Enoch shopping centre in Glasgow. Nevertheless, plans were approved in 2023 for a £500 million garden village in Broxbourne, Hertfordshire, that will be led by 315,000 sq. ft. of retail space, whilst the John Lewis partnership received planning approval for its Build to Rent residential scheme above its Waitrose store in Bromley in July, with a similar scheme in Ealing also submitted.

New orders within retail declined 14.1% in 2022, 25.4% in 2023 and 3.7% in 2024, underscoring that there is little driving demand outside of refits and repurposing of existing, vacant space. After a 19.0% fall in output in 2024, a 6.0% decline is forecast for 2025 – a downgrade since the Winter forecast to reflect increased risk aversion among retailers as costs rise this year. Given the continued weakness in the pipeline, a further decline is expected in 2026.

Upper Scenario:

- Consumer confidence and spending improve quickly in 2025

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

Lower Scenario:

- Strains on disposable incomes restrict household spending into 2025
- Rising operating costs lead to store closures and expansion plans are paused

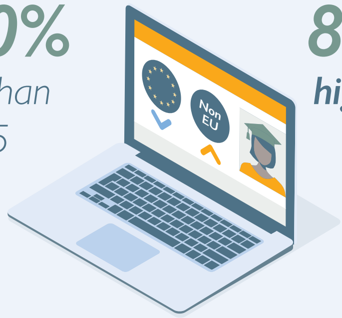
A slow recovery and interest rates being lowered more slowly than expected would keep household spending muted throughout 2025, in turn meaning that investor and developer confidence is likely to worsen, particularly if it affects rental revenues from existing outlets struggling to pay. Retailers have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

In the **commercial education** sub-sector, despite constrained university finances, large projects at UK universities are returning to the pipeline, adding to the privately-developed student accommodation tower projects that are moving through planning and early construction across the country. Purpose-built student accommodation providers highlight a mix of favourable and unfavourable dynamics for new development, with long-term trends in domestic demographics, rising non-EU student numbers, a decline in individual HMO (houses in multiple occupation) landlords and the older university-owned stock of accommodation balanced with expanding sustainability requirements, higher financing costs and delays for high-rise schemes. The Office for Students forecasts that by the start of the 2025/26 academic year, up to three-quarters of higher education providers could be in a financial deficit, with rising costs and an eight-year freeze in tuition fees up to 2025/26 meaning that capital spending plans are predicated on projections of higher income from increases in both domestic and international students. Changes to immigration rules, namely the increased salary threshold applicable after graduation (which rose from £26,200 to £38,700) and graduate visa conditions that no longer allow dependants for post-graduates other than those studying for PhDs, have added further uncertainty over income from student fees. International student visa applications declined 13.9% in 2024 following these changes and acceptances from non-EU students fell 2.3% for the current academic year. Nevertheless, some institutions have suggested that caps on international student numbers recently implemented in Australia and Canada, as well as negative international rhetoric in the United States, may be favourable for UK applications.

University applications *for 2025/26 from*

EU-domiciled students *were* **53.0%** ***lower*** *than in 2015*

whilst ***non-EU applications*** *were* **89.0%** ***higher*** *than in 2015*



Source: UCAS

One year's data is too little to discern whether 2024 was the start of a trend or a blip in overseas student demand. At the January application deadline, total applications for university entry in 2025/26 increased 1.0%, according to UCAS, with increases in UK applicants (0.6%), those from the EU (0.3%) and non-EU students (3.1%). This across-the-board increase masks a longer-term trend of international numbers being dominated by non-EU students, who accounted for 83.2% of international applications for entry next year. In addition, applications from EU-domiciled students were 53.0% lower than in 2015, whilst non-EU applications were 89.0% higher.

There has also been a split in applications and acceptances based on university rankings. Acceptances to higher-tariff universities rose 7.5% in 2024, whilst acceptances to medium-tariff and lower-tariff universities rose 0.8% and fell 1.5%, respectively. Applications to higher-tariff universities reached a record-high at the UCAS January deadline, whilst applications to lower-tariff universities fell for a third consecutive year.

The construction and refurbishment of student accommodation has provided a baseline level of activity over the last few years and schemes continue to enter the pipeline. Private providers and universities, or joint ventures and partnerships between the two, are investing heavily in purpose-built student accommodation, particularly given the long-term increase in international (non-EU) students and domestic demographic trends. According to the ONS's 2020 population projections, the number of 18-year-olds in the UK will increase by 4.8% over the next decade, whilst UCAS forecasts applications to UK higher education institutions will be 30% higher in 2030 compared to 2022. Knight Frank found that there were 16,382 beds delivered in 2024, a 3.0% increase compared to 2023, but below the five-year average of 25,000. It also found that developers appear to be capitalising on a softer land market, with site sales accounting for one-third of all student accommodation deals volumes in 2024, which represented a record proportion, and suggests greater momentum building towards the end of the forecast period.

Two of the largest private student accommodation developers, Unite and Empiric, have both announced a strategy that will focus on partnerships with high and mid-ranked universities, particularly the Russell Group, where demand is viewed to be strongest. Unite has a £1.0 billion pipeline of committed capital development for eight projects scheduled for completion between 2025 and 2029 in Edinburgh, Bristol, Glasgow and London, plus a 2,000-bed joint venture at Newcastle University, which is awaiting planning approval. A second joint venture with

Manchester Metropolitan University is expected to be finalised in Q2. Empiric has highlighted that it considers the current economic, planning and regulatory backdrop is discouraging new development and its pipeline has now shifted towards acquisitions and refurbishment and, as a result, its next capital spending plan is expected to be significantly lower than its current five-year plan, which covers 2021-2025. In total, there are ten existing developments that it has selected for refurbishment over the next 18 months, with £3.5 million allocated for works in the remainder of its five-year plan. Projects include a 200-bed extension of an existing development in Manchester, as well as a former office block for conversion in Bristol, and a building in Glasgow already operational as student accommodation for refurbishment. Both Unite and Empiric have also highlighted that the three approval gateways under the Building Safety Act are expected to add six months to delivery timelines, with the potential for further delays due to capacity constraints at the Building Safety Regulator (BSR).

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

New build schemes of 500+ beds continue to enter the pipeline, which already includes towers across UK cities. In Q1, a detailed planning application was submitted for the University of Manchester's Fallowfield campus redevelopment, which will be led by 3,300 student bedspaces. It is expected to start in phases from 2026, with completions between 2027 and 2030. A 500-bed tower in Stratford, East London is expected to start this year after a contractor was selected in March but is another scheme which has highlighted that delivery schedules are subject to Gateway 2 approval with the BSR.

Alongside accommodation work, universities have been driven to make major capital investment in education facilities to help compete at a global level and attract the higher fees paid by increasing numbers of international students. In recent years, this has moved towards large-scale, phased redevelopments or new campuses, rather than one-off departmental buildings. The University of Oxford and the University of Birmingham have multi-year investment frameworks underway, whilst work continues on the University of Bristol's new £300 million campus and Sheffield Hallam University's satellite campus in Brent, north London, which will open for the 2026/27 academic year, with further expansion planned by 2030. In 2023 Q4, the University of

Cambridge selected contractors for a £680 million four-year construction framework, whilst the University of Warwick announced a record £700 million investment in campus redevelopment, which includes demolition, new build and repurposing existing buildings. The first project will be a 25,000 sq. m. science and engineering building, with work to start in Autumn. Also in the last six months, the University of Greenwich tendered its £300 million five-year refurbishment, rebuild and new build framework, work started on the University of Huddersfield's £250 million health innovation campus, and Manchester Metropolitan University opened its £280 million framework for refurbishment and upgrades to tender. The university's £90 million, 13-storey new library received planning approval in February, with demolition to start in Autumn and project completions scheduled for Spring 2028.

Capital expenditure by universities accounted for 8.8% of total income, on average, in the 2022/23 academic year, up from 8.3% in 2021/22, according to the Office for Students. This is projected to rise to 10.0% in 2024/25 and 2025/26, although capital expenditure was 27.0% lower than projected in 2022/23 as universities protected cash flow during a period of strong inflation. Large one-off projects that progressed in early 2025 included the award of contracts for the redevelopment of Imperial College London's Great Hall into a multipurpose, convertible space for teaching and entertainment, and 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.

Outside of universities, the first two projects to be funded through the Welsh mutual investment model of public-private partnership began in 2023 – an all-through school in Flintshire and three new primary schools in Rhondda Cynon Taf. However, rising build costs have led to questions over the long-term value-for-money of 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. However, the annual report for 2023/24 showed that other projects are in the early stages of planning submissions, with no final plans or full business cases submitted to the Welsh Government.

Construction output volumes this year and next will be dependent on how institutions, student accommodation developers and joint venture partners and contractors can deal with elevated build costs, economic recovery and costlier finance for projects in the near-term pipeline, as well as constrained university finances. According to research by Queen Mary University, 70 UK universities have announced redundancy or restructuring programmes, whilst the government has confirmed there will be no bailouts for insolvencies. An increase in the annual tuition fee cap for England-domiciled students from £9,250 to £9,535 from April was welcomed by higher education institutions but the increase in employers' National Insurance Contributions and falling thresholds have also been flagged as a significant cost over the same period.

With an increase in projects in the planning stages, and a 39.9% increase in new orders in 2024 now moving through to construction starts, there is continued momentum for growth in the sub-sector. Growth of 5.0% is forecast for both 2025 and 2026. However, confidence to progress longer-term capital investment plans that rely on continued growth in international student numbers will depend on how applications are impacted by changes to visa and immigration rules in the near-term. Growth of 1.0% is projected for 2027.

Upper Scenario:

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

Higher fee income from international students that increases revenues, as well as stability in applications for 2025/26 among UK and non-EU students shore up confidence to progress student accommodation schemes and university capital expenditure programmes, despite higher financing costs. A longer-term consideration for student accommodation development is that higher interest rates and mortgage repayments raise costs for individual HMO (houses in multiple occupation) landlords and reduce returns to such an extent that it is not profitable to continue, thereby redirecting demand towards larger providers.

Lower Scenario:

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

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

Output in the **commercial health** sub-sector is less than half of the levels seen when PFI was used by the government as a means of financing and building new hospitals. Over the last ten years, the primary driver of activity has been the construction of new facilities by private healthcare providers or privately-funded redevelopments of NHS hospitals, although this has been limited. Despite a rise in the use of private healthcare facilities due to lengthening NHS waiting lists, an increase in self-pay or privately-insured patients and a small, but increasing, proportion of NHS-funded treatments being carried out by private providers to try to ease backlogs, this has not yet translated into major expansion plans or new hospitals. Some of the largest healthcare developers continue to highlight that higher operating costs, higher construction costs and a higher interest rate environment have reduced appetite to begin new developments over the last 12-18 months. However, in the last few years, and again, particularly post-pandemic, life science, laboratory and medical research facilities have added a stream of activity for the sub-sector, many backed by venture capital. Nevertheless, projects are largely at the planning and tendering stages and are more likely to impact growth rates towards the end of the forecast period.

There are two large hospital projects entering the pipeline after a gap following the completion of the only large project on the £500 million Private Investment Construction Framework for healthcare, a £100 million acute care hospital in Harborne, Birmingham. The final business case for the £300 million phase 4 of Great Ormond Street's expansion – the redevelopment of the main entrance and a new cancer centre – was approved in October 2023, with the demolition of the existing building in 2024 and appointment of the main contractor in January. Main construction is set to run between 2025 and 2027. Alongside this, in Wales, the Velindre Cancer Hospital in Cardiff is one of three 'pathfinder' projects trialling the nation's new Mutual Investment Model of private funding, alongside a new build school and road dualling project. It reached financial close in April 2024 and preliminary works began in August. The full design, build and maintenance contract was valued at £562 million in 2021 when it was put out to tender, with construction accounting for around £200 million. The joint venture contract was awarded in June, when the total project cost had risen to £885 million. It is scheduled to open in 2027, with groundworks now reaching completion and main works from the end of the year, but given that the project was first approved in 2018 and was expected to have been opened this year, as well as over £300 million in additional costs, further delays to the revised schedule cannot be ruled out. A £376 million extension to the Evelina London Children's Hospital, which will be funded through a combination of public funding and private donations, was approved in October 2021, although the NHS Trust has since put the project on hold to review options after cost increases and financial constraints at the tendering stage.

According to the Private Healthcare Information Network, although the number of self-funded and privately-insured in-patient admissions has fallen since a peak in the first half of 2024, the number of patients accessing private in-patient healthcare is 14.4% higher than pre-pandemic in 2019. The number of NHS patients that have been waiting over a year for treatment has also fallen from peak but similarly, remains higher than in 2019. So far, increases in investment by private healthcare providers have focused on staff and expanding services at existing facilities, particularly as the NHS backlog increases procedures being diverted to private providers. In 2023 and 2024, 10.0% of NHS-funded treatments were carried out in private facilities, and 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.

NHS

Great Ormond Street Hospital's

selected main contractor

*The **main contractor** for the next phase of **Great Ormond Street Hospital's** privately-financed expansion **was selected** in January*

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

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

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

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

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

Upper Scenario:

- Rising demand for private healthcare translates into new facilities

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

Lower Scenario:

- Uncertainty leads to delays

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


H
EMERGENCY
South Entrance

Private Non-housing R&M

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

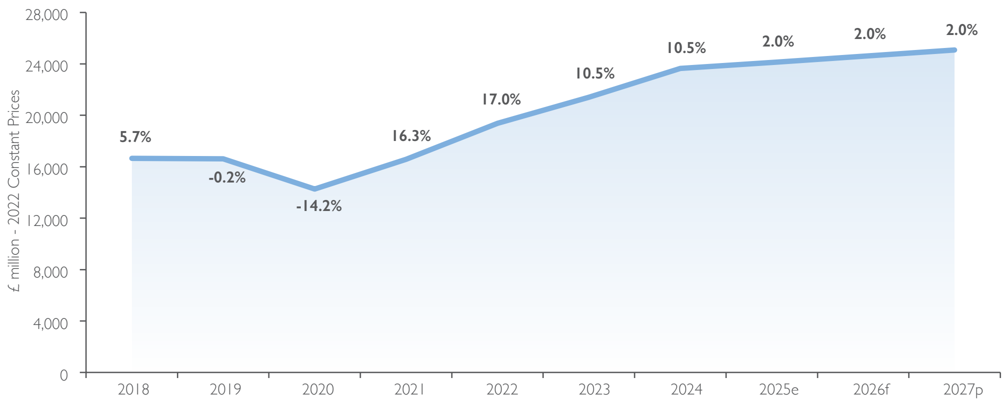
Output in the private non-housing r&m sector includes basic repairs and maintenance of offices, retail premises, warehouses, factories and other privately-owned non-residential properties. It is dominated by work on offices and retail units. Typically, sector output tends to be less volatile than new build, given the reliance on long-term facilities management contracts and an element of basic repairs that cannot be postponed. Still, in recent years, the discretionary, non-essential element that is dependent on macroeconomic fundamentals related to broader economic performance has been hindered by heightened uncertainty and rising costs. For example, a report from the Office for Students published in May found that higher education providers were reporting delays to routine maintenance due to higher costs. In addition, as building owners across the commercial and industrial sectors undertake larger-scale refurbishments and improvements that stretch beyond r&m, output is likely to be classed within new build categories.

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

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

A stream of 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

Private Non-housing R&M Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

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 57 out of 60 student accommodation towers and 29 out of 33 high-rise hotels. Data on the extent of remediation required outside of ACM cladding is yet to be collected, but the student accommodation provider, Unite, remediated 13 buildings with HPL (high-pressure laminate) cladding in 2024 and plans to remediate 12 in 2025. Empiric's results for 2024 highlighted that large refurbishment projects are also a consideration for private student accommodation providers, which are likely to be classified as new build rather than r&m. Empiric closed one of its Southampton properties for the 2023/24 academic year in order to undertake a full refurbishment across rooms and amenities, as well as energy efficiency, fire safety and decarbonisation and has 10 more properties earmarked for similar works. Under its five-year capital expenditure programme running to 2025, it still has £3.5 million left to spend on refurbishment, £10.1 million on fire safety and £4.2 million on decarbonisation and green initiatives.

Although Reinforced Autoclaved Aerated Concrete (RAAC) was used more extensively in public sector construction, it is also likely to be an issue for some private sector buildings, although the presence or condition status in the private sector is so far undeclared. Whether this is due to a lack of investigation into private buildings or whether it is because it is less prevalent in private buildings due to better maintenance is unknown at this point. The scale of remediation required will determine whether it is classified as r&m, with large remediation projects emerging in the public sector suggesting that work is likely to be classed as new build. In September, the Key Theatre in Peterborough announced it would be replacing its roof in 2025, whereas the Royal & Derngate Theatre in Northampton will be installing supports to its roof.

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

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

Upper Scenario:

- Stronger focus on r&m

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

Lower Scenario:

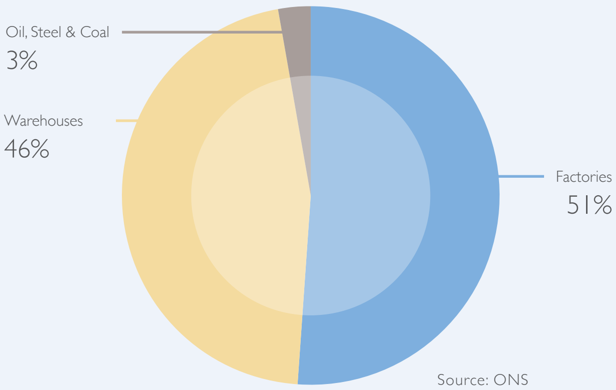
- Priority shifts to new build

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

Industrial

Output in the industrial sector has diverged across the two primary sub-sectors of activity, with warehouse development bottoming out from its pandemic-related peak and settling at a lower level that reflects an environment of higher interest rates and lower demand for large floorspace. In contrast, output in the factories sub-sector has proved more resilient over the last 12-18 months, supported by large projects signed off over the last five years related to gigafactories, as well as the manufacture of renewable energy and defence equipment. As these dynamics play out, the overall sector is expected to return to growth this year, strengthening in 2026 and 2027, although large projects remain susceptible to a deterioration in confidence.

Industrial Output by Sub-sector 2024 (%)

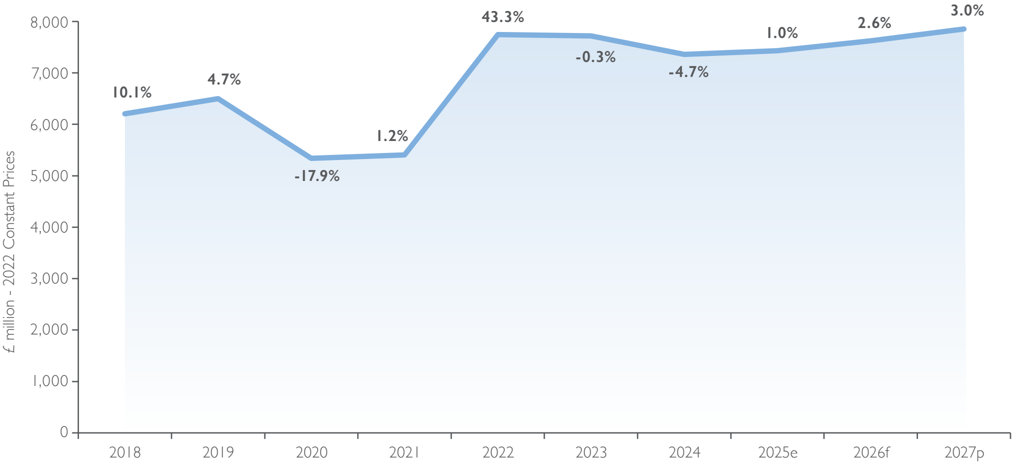


Source: ONS

Output in the industrial sector is dominated by the factories and warehouses sub-sectors, which accounted for 96.9% of total sector output in 2024. Activity reached a recent peak in 2022, led by a post-pandemic increase in demand for manufacturing capacity and warehousing space. As these temporary factors faded, sector output decreased in 2023 and 2024. Activity in the factories sub-sector has more recently been buoyed by the start of work on gigafactories to produce batteries for electric vehicles and projects related to the manufacture of equipment for renewable energy generation and defence, which were largely signed off in 2021 and 2022. This contrasts with the continued – and steeper – falls in output from the warehouses sub-sector where appetite to invest has been affected by flatlining economic growth and higher interest rates that mean a step-change in finance costs for development and construction, which has had a marked impact on speculative warehouse development in particular. Although take-up and investment are reported to have picked up from the end of 2024, activity is likely to return to more ‘normal’ levels seen pre-2020. Balancing the current, different sub-sector dynamics, total industrial output contracted 4.7% in 2024, and growth in factories in 2025 is forecast to drive overall sector growth of 1.0%. Growth of 2.6% is expected in 2026 as activity in both factories and warehouses accelerates. As growth is typically driven by large projects, they are also the investment decisions that will be most dependent on confidence and global economic developments over 2025.

In oil, steel and coal, which historically has 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, main construction is scheduled to start in Summer 2025. It is now highly unlikely that the proposed Whitehaven coal mine in Cumbria will go ahead after the High Court rejected its planning approval in September. The move to electric arc furnaces in UK steelmaking, which do not require coal for power, is also likely to have weakened the business case for the project.

Industrial Output



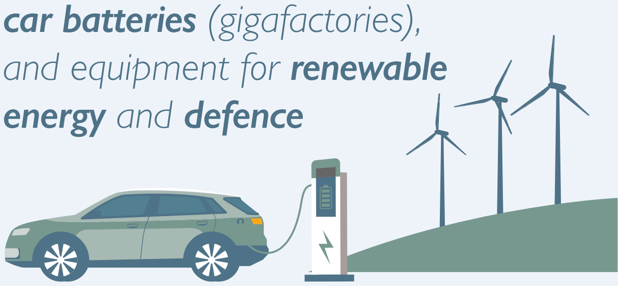
e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

Activity in the **factories** sub-sector increased sharply in 2024. Interestingly, this follows three years of falls in new orders since 2022 and similar to large projects in commercial, is likely to reflect work that was signed off in 2020 and 2021 and then subsequently delayed due to flatlining economic growth, cost inflation and a step-change in interest rates impacting final decision-making on large capital investments. Currently underway are large projects building facilities for the manufacture of renewable energy and defence equipment, whilst projects that are now progressing from the planning to tendering phase or moving from preparatory work to main work are expected to drive further growth in 2025 and 2026. Since the Winter forecasts, the largest factory project, the £4.0 billion Tata Group's Agratas gigafactory in Somerset has been delayed for the design to be scaled back. It is now expected to start in Summer, with completion one year later than scheduled in 2027. Evidently, this presents a significant upside risk to activity and growth if activity gets underway quickly. However, on the flipside, it may also be symptomatic of automotive manufacturers taking a more cautious approach to demand and economic conditions, which may worsen in light of the heavily uncertain global tariff environment.

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

*Near-term growth will be driven by work on projects related to **electric car batteries** (gigafactories), and equipment for **renewable energy** and **defence***



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

Factories related to manufacturing equipment for renewable energy and defence are also driving current activity in the sub-sector. Work completed on SeAH Wind's £300 million monopile manufacturing plant in Teesside in March, whilst XLCC's £150 million sub-sea cable factory in Ayrshire was allocated £90 million in funding from the UK Infrastructure Bank (now the National Wealth Fund) in September 2024, and is scheduled for completion in 2026. Similarly, Sumitomo Electric's £350 million sub-sea cable factory, also in Ayrshire, broke ground in 2024 Q2 and will complete in 2026. Reflecting the move by governments to increase defence spending, main works are underway on the BAE Systems shipbuilding facility in Govan, Strathclyde, whilst the £400 million, ten-year project to expand the Sheffield Forgemasters steelworks will see main works on the facility for manufacturing nuclear components for the Ministry of Defence throughout 2025, followed by a test facility that has been submitted for planning approval. The AUKUS security and defence partnership between the UK, Australia and the United States has also led to Rolls-Royce's plans to double the size of its Raynesway nuclear submarine manufacturing facility. Design partners were selected in January.

Outside of these areas, the £600 million, four-year redevelopment and expansion of the Shotton Paper Mill in North Wales has completed foundations work and plans to add a boiler building and a new combined heat and power plant to the site were approved in March. Further back in the pipeline, and expected to support further sub-sector growth next year, the redevelopment of The Forum shopping centre in Stevenage was approved in February 2023 and will provide 400,000 sq. ft. of new advanced manufacturing space, showing the extent of repurposing away from retail (see Commercial). In March, Siemens Gamesa received planning approval for a 61,000 sq. ft. expansion to its wind turbine manufacturing facility in Hull, whilst the £100 million Siemens factory in Chippenham, which will produce rail signalling and control systems broke ground in April. Insulation manufacturer Knauf has announced a £170 million new mineral wool factory, and at the end of 2024 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. However, highlighting that decisions on large investment decisions are still being delayed, Brompton's proposed £100 million headquarters and bicycle factory on a 100-acre wetland site in Kent received planning approval after a delay of two years, but was subsequently put on hold given a backdrop of significantly lower demand and falling profits.

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 March, the median forecast for manufacturing output growth was for growth to remain flat in 2025 and rise 1.0% in 2026. Manufacturing businesses will be contending with higher operating costs after the increase in employers' National Insurance Contributions and falling thresholds raises from April but more pertinently, risk aversion is likely to increase and appetite for capital investment is likely to decrease significantly given high levels of uncertainty around the domestic economic recovery, as well as the strength of global demand and developments related to trade and tariffs. Work is expected to continue on existing projects, driving output growth of 9.0% in 2025 and 4.0% in 2026, but the long lags between planning approval, contract award and construction start are likely to persist for projects earlier in the pipeline.

Upper Scenario:

- Investments in gigafactories progress

Clear signs of definitive investment secured for the gigafactory in Coventry would provide considerable uplift to growth prospects for the sub-sector over the second half of the forecast period, whilst an earlier start for the Agratas gigafactory would boost near-term growth rates.

Lower Scenario:

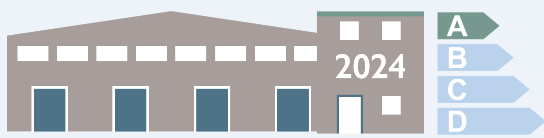
- Manufacturers delay or cancel investment plans

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

In the **warehouses** sub-sector, output has fallen sharply since a pandemic-related spike in activity in 2022. Investor and developer confidence had already been dented by the step-change in financing costs brought about by higher interest rates, in addition to demand returning to more 'normal' pre-2020 levels and reduced demand from retailers as cost rises led to a pausing or reassessment of expansion plans. Output began falling from its peak in the second quarter of 2023, as the higher cost of finance has particularly impacted large speculative builds, which previously accounted for the majority of new floor space. Occupier take-up began to pick up towards the end of 2024, and notably for 'build to suit' space that is being built specifically for a signed-up tenant. However, an increase in vacancy rates, and falls in new orders over the last three years, point to another year of contraction in construction output in 2025. Output fell 21.0% in 2024, with an 8.0% fall forecast for 2025, before modest growth of 1.0% in 2026.

Commercial estate agents have reported that warehouse take-up in 2024 returned to levels seen in 2019, which is likely to represent a 'normalisation' of occupier demand and investment demand after the rapid growth post-pandemic. Knight Frank recorded a vacancy rate of 7.3% in 2024, which marked the highest since 2013 and an increase from 5.5% in 2023. As in the commercial sector, occupiers are placing energy efficiency and ESG

*Occupiers are placing **energy efficiency** and **ESG credentials** as a **high priority**, with commercial estate agents noting over* **70%** *of **new industrial leases** were for **Grade A buildings** in 2024*



credentials as a high priority, with around three-quarters of leases for Grade A space over the last 12 months. Given that vacated and second-hand space is likely to be lower quality Grade B or C, there may also be a greater stream of improvements work, as in other non-residential sectors. As a consequence, development fell sharply in 2024, with two of the largest warehouse developers reporting large falls in completions for the year: completions halved for Tritax Big Box and fell 40% for Segro. Both noted a pickup in occupier demand at the end of 2024, which is expected to continue into 2025. This is mirrored in estimates for new warehouse space overall, with Knight Frank calculating that around 20 million sq. ft. of space completed in 2024, which is in line with levels last seen in 2017. It projects 15 million sq. ft. of completions for 2025. Notably, recent demand has been led by build-to-suit projects, with speculative development still weak. Even before the rise in global economic uncertainty this year, developers were balancing expectations of rental growth for high-quality space in well-connected locations against existing domestic economic uncertainty and higher development costs – both in terms of construction costs and financing costs.

Official ONS data has shown a contraction in sub-sector output since 2023 Q2 and in 2024, output was 21.0% lower than in 2023. Prior to the Bank of England tightening monetary policy and its base rate reaching a 15-year high of 5.25% in August 2023, interest rates did not move above 0.75% between 2009 and 2022, so investors are now facing considerably higher financing costs than they have been accustomed to, even with interest rates now at 4.50% and further decreases likely during 2025 and 2026.

Warehouse demand from retail, linked to e-commerce or a mix of online and physical store operations, has been a structural driver behind the longer-term growth in the sub-sector. Whilst still benefiting activity, online retail sales have been on a downward trend since 2021 and the proportion of retail sales online averaged 27.1% for 2024, which compares to a spike of 37.5% in February 2021 after demand and online operations rose sharply during the pandemic. The current proportion remains higher than the 19.2% average for 2019, however. Still, online retailers accounted for only 7.0% of warehouse transactions in 2024, according to Savills, compared to an average of 22.0% since 2018. Demand from the manufacturing sector, which saw demand for storage facilities surge after capacity and production rapidly increased in 2020, has also settled back at lower levels.

Nevertheless, as interest rates continue to be lowered and the UK economic recovery strengthens, the sub-sector is expected to return to growth. The rise in e-commerce remains a favourable long-term trend, creating demand across warehousing and logistics space. Knight Frank expects stronger growth in the last-mile warehousing segment, partly driven by the grocery sector, including 'dark stores' for rapid delivery grocers, provided they remain profitable, as well as renewed interest from Amazon for smaller last-mile space. In addition, the development of gigafactories across the UK that produce lithium-ion batteries, primarily for electric vehicles (EVs), will generate an additional 50 million sq. ft. of demand for industrial and warehouses space by 2040, according to Savills. In addition, CBRE reported that industrial capital values stabilised in 2023 and rose throughout 2024. However, this follows a 21.0% fall in capital values in 2022, with the largest falls for the largest floor spaces (greater than 300,000 sq. ft). Knight Frank has also reported take-up in London and the South East is shifting towards smaller units (less than 250,000 sq. ft.). Given the past high levels of activity and strong growth in the sub-sector, there has also been a long-term decrease in industrial land space, with the Centre for London reporting a 24.0% reduction in London in the last 20 years, and a 20.0% reduction in Manchester, due to competition with residential developers.

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

Land's multi-level last-mile logistics hub in Southwark, with a scheduled completion of 2025 Q3. Another of its multi-level facilities, in Enfield, is approved but has yet to award contracts. Also in the early pipeline are a 570,000 sq. ft. development near Nottingham for Rolls Royce, 1.4 million sq. ft. of speculative space at Magna Park, and an 800,000 sq. ft. logistics park (Skelton Grange) outside Leeds. In March, demolition started on the former Honda plant in Swindon, which was in readiness for its long-term redevelopment into a £900 million logistics park with 7.2 million sq. ft. of space. So far, full planning approval has been received for a 1.25 million sq. ft. warehouse unit.

Further out in the pipeline, Greggs announced plans for a new distribution centre in Kettering in July, which is awaiting planning approval but is scheduled to be operational in 2027. Henry Boot Developments has also launched a £100 million mid-size warehouse joint venture across three sites in Walsall Welwyn Garden City and Markham Vale. It aims to deliver £1.0 billion of schemes over the next seven years. In December, Aviva Investors appointed a contractor for a new industrial park of four units on the former Leyland DAF site in Birmingham.

Most noteworthy for the sub-sector has been the announcement of Amazon's plans for a £500 million, three-storey fulfilment centre at the Segro Logistics Park in the East Midlands. This is the retailer's first announcement of large new space in two years and reverses its previous stance of cancelling or pausing warehouse expansion plans. The shorter lead times between project approval, contract award and construction start in the warehouses sub-sector means the majority of work on projects entering the pipeline will be completed during the forecast period.

New orders reached a record high in 2021, but fell in each year since 2022, underpinning the fall in activity that began in 2023. This will continue to feed through into a further fall in output this year, by 8.0%. In line with a broader economic recovery and interest rates being reduced further in 2025, sub-sector growth returns in 2026, driven by the large projects that are currently at an early stage progressing to construction.

Upper Scenario:

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

If an uptick in consumer confidence at the end of 2024 translates into increased spending in 2025, retail activity and online spending will post stronger growth rates and support expansion decisions. Post-Brexit import checks, which were introduced at the end of January 2024, after five delays, raise requirements for storage space close to all UK exit and entry points, whilst any progress on the freeports programme or sustained rises in 'nearshoring' after shipping disruptions would also boost associated warehousing requirements.

Lower Scenario:

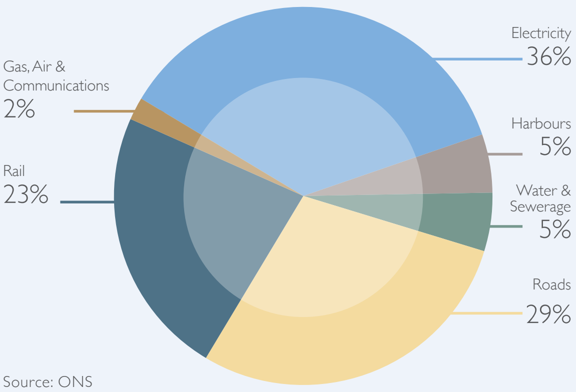
- Costlier development finance holds back new projects
- Speculative developments delayed or paused confidence is significantly impacted by an acceleration in inflation and economic weakness

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

Infrastructure

Infrastructure output is set to be maintained at a relatively high level as work progresses on major projects such as HS2 and Hinkley Point C, along with offshore wind and transmission enhancement projects in the energy sector and the start of the new AMP8 control period in water & sewerage. However, considerable uncertainty remains around the future of several roads schemes in the pipeline and the possible implications of the HS2 business case 'reset'. It is hoped the forthcoming Spending Review in spring will provide more clarity on the outlook.

Infrastructure Output by Sub-sector 2024 (%)



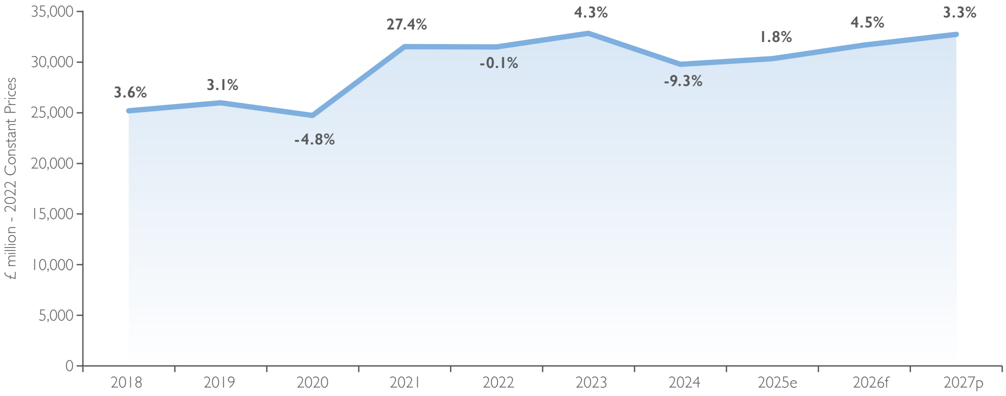
Source: ONS

Please note that the Office for National Statistics (ONS) has issues with its measurement of the sub-sectors in infrastructure. Firstly, the ONS's methodology means that although total infrastructure overall may be fine, sub-sector output is determined by the average time between new orders and output in the medium-term, often determined by projects within five-year spending plans in regulated sectors. However, if a new order for a major project in the sub-sector is placed, this may underestimate the time taken for it to provide activity on the ground and overestimate the amount of activity earlier on. An example of this may potentially be the extent of recent growth in water & sewerage due to the Thames Tideway project. Secondly, the ONS only surveys firms that are officially classified as contractors so if the activity is done by an engineering firm then it will not be covered. This applies to all construction sectors and firms that do construction work but are not technically contractors. However, this issue impacts most upon infrastructure. Therefore, given concerns regarding the ONS's data on infrastructure output, especially at sub-sector level, the forecasts are not purely based on the ONS output data but take into account recent industry surveys and pipeline evidence. This is particularly the case for the roads, rail and electricity sub-sectors. Please refer to the relevant sub-sectors for a more detailed explanation and specific examples.

The near-term outlook for infrastructure is one of growth but until longer-term public sector spending plans are revealed in the Spending Review in June, uncertainty remains with several planned roads enhancement schemes still at risk and Roads Investment Strategy 3 (RIS3) funding still to be confirmed. Plus, the HS2 reset and pressure to cut costs add further uncertainty. Outside of roads and rail, the outlook is brighter and work in electricity, aviation and water & sewerage is set to return the sector to growth in 2025 and beyond. Infrastructure output is forecast to increase by 1.8% in 2025, 4.5% in 2026 and 3.3% in 2027.

Infrastructure output *is forecast to rise by*
1.8% *in 2025* *and* ***4.5%*** *in 2026*

Infrastructure Output



e = estimate, f = forecast, p = projection

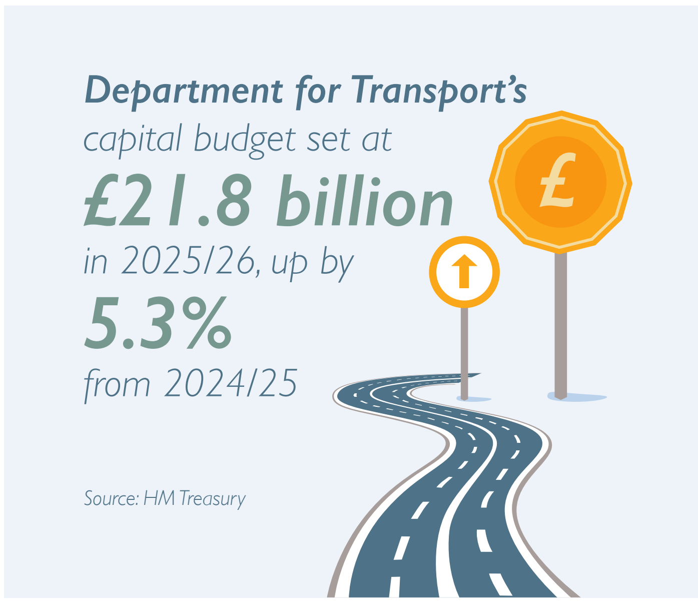
Source: ONS, Construction Products Association

Spring Statement 2025 confirmed the Department for Transport's capital budget will total £21.8 billion in 2025/26, a 5.3% increase in nominal terms from 2024/25. The Department for Environment, Food and Rural Affairs' capital budget is set to increase from £2.3 billion in 2024/25 to £2.7 billion in 2025/26, 17.4% growth in cash terms.

Scottish Budget 2025/26 plans to increase capital investment in transport modestly in 2025/26, from £2.0 billion in 2024/25 to £2.1 billion. Support for offshore wind is set to increase from less than £10 million in 2024/25 to £162.5 million in 2025/26 and the budget for tackling the effects of climate change is set to increase by 80% in 2025/26, rising to £72.9 million.

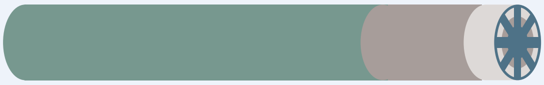
The Welsh Government published its Final Budget for 2025/26 in February. In cash terms, total capital funding is anticipated to increase by 0.9% in 2025/26, suggesting a decline in real terms investment. Capital spending on transport was set at £529 million, a 15.7% increase from 2024/25.

With public sector finances highly constrained, government interest in unlocking the potential for the private sector to finance strategic infrastructure is growing once again. While the funding approach has yet to be confirmed, government is exploring private sector financing solutions for the delivery of the £9 billion Lower Thames Crossing, for example, but the National Audit Office has warned that the National Infrastructure and Construction Pipeline needs to be more detailed and reliable to ensure private investor confidence is maintained in UK infrastructure projects and that risk transfer must be carefully considered to ensure value for tax payers. The Infrastructure Project Authority is expected to publish an updated infrastructure pipeline alongside the upcoming 10-year Infrastructure Strategy.



Now at peak construction, work on HS2 will sustain near-term activity in the **rail** sub-sector but the outcome of the programme 'reset', due mid-2026, will have a bearing on the medium-term outlook, plus the start of Network Rail's Control Period 7 has been slow to ramp up and ongoing cost

75% *of* ***HS2 tunnelling is complete***



and ***work has started*** *on* ***two-thirds of viaducts*** *and* ***over half of the route's bridges.***

Source: HS2

pressures suggest meaningful catch-up is unlikely over the next six months. Rail output is expected to largely flatline over the forecast period, with 1.0% falls expected in 2025 and 2026, followed by growth of 1.0% in 2027.

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

The outcome of the HS2 business case review is not expected until mid-2026 and, in December 2024, the DfT was unable to estimate the project's final cost. As part of the business case reset, HS2 will comprehensively review the costs and schedule to strengthen certainty over schedule and ensure that the railway is built at the lowest feasible cost, seek to rebalance commercial relationships with suppliers to share risk and provide incentives to boost productivity and to ensure the right skills and capabilities exist within the HS2 organisation to deliver effectively. The reset comes as the Public Accounts Committee (PAC) called HS2 a "casebook example" of how not to run a major project. The inquiry's findings, published in February, are highly critical about the lack of leadership, the failure of the working relationship between the DfT and HS2 and the failure to appropriately balance the need to protect the landscape and environment with cost and value considerations for taxpayers.

The latest available information on project cost was shared with the HS2 board in June 2024 to suggest the final cost could fall in the £54 billion to £66 billion range, significantly higher than an estimate of £49 billion to £57 billion it made in the six-monthly report to Parliament in November 2023. Estimates are in 2019 prices and will be considerably higher after allowing for inflation. Under the current programme, initial HS2 services are due to run between Birmingham Curzon Street and Old Oak Common by 2033 but the programme reset could result in significant adjustments.

Autumn Budget 2024 confirmed government support for HS2 Phase 1 terminating in Central London at London Euston after this section was put on hold by the previous government in early 2023. A government commitment to fund tunnelling work between Old Oak Common and London Euston, with a private-sector solution being sought for the development of a new HS2 station at Euston, is a positive development but it is not yet clear when work on this section will commence.

Currently HS2 plans to operate services between Birmingham and Old Oak Common initially before completing the Euston extension. As it currently stands, work on the Euston cavern, crossover tunnels, portal, scissor box and retained cut will be started at a later date than anticipated and HS2's shaft and headhouse sites at Adelaide Road and Canterbury Works will also remain on pause over the next two years.

Network Rail's Control Period 7 (CP7), worth £44.0 billion (2023/24 prices), started in April 2024 and will run to 31 March 2029. Within CP7, Network Rail (NR) plans to invest £19.3

billion in renewals, £12.6 billion on day-to-day maintenance, £4.4 billion on operations (signalling, stations and network control) and £7.1 billion on other miscellaneous areas. £2.8 billion of total spend is planned to be on activities and technology to help the network cope with extreme weather events and climate change. One year into the period and anecdotal feedback suggests progress has been slow and work is reportedly being rescheduled and reduced amid ongoing cost pressures. 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.

HS2 programme 'reset' *due mid-2026.* ***Services unlikely to be running by 2033*** *as currently planned*

Final testing is taking place on the £760 million connection stage 1 (CS1) of East West Rail (EWR), linking Oxford to Bletchley and Milton Keynes, ahead of passenger trains running later this year. The Autumn Budget reaffirmed a commitment made by the previous administration to delivering EWR in full – connecting Oxford and Cambridge – and that funding will be made available to accelerate the Marston Vale Line extension between Bletchley and Marston Vale. A commitment has been made to delivering CS2 between Bletchley and Bedford before the end of the decade and a consultation on plans for new stations and services provided by CS2 and CS3 recently closed. Further details on the funding available for this project are expected in the June Spending Review.

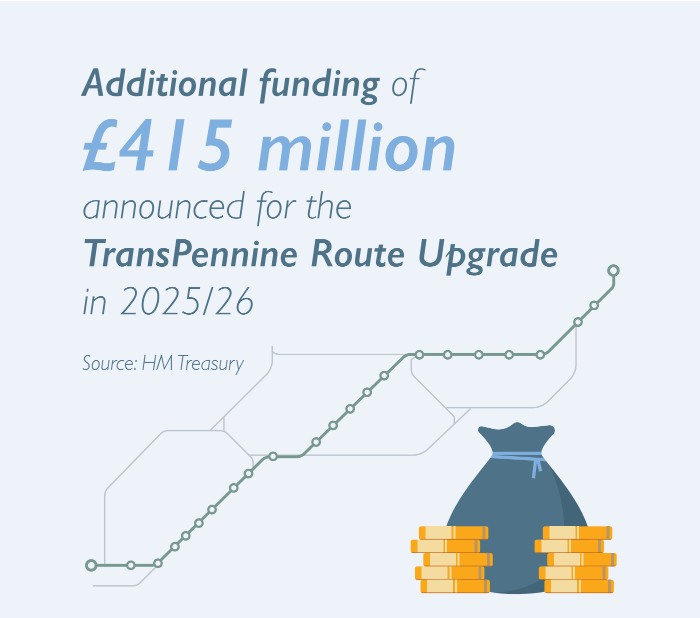
Work is progressing on the TransPennine Route Upgrade (TRU) that is electrifying 76-miles of track to improve connectivity in the north of England, and the government recently reaffirmed a commitment to deliver the project in full – electrifying the line all the way between York and Manchester, via Leeds and Huddersfield. In March, the government announced further funding of £415 million for the TRU in 2025/26 to support ongoing work. This takes approved programme funding to £7.3 billion out of an estimated total cost of between £9 billion and £11.5 billion.

Additional funding of £415 million for the TRU programme was announced as part of a wider £1.7 billion funding package for the north, although the majority of this had been previously announced and was already factored into the forecast. Previously announced work included the new £100 million Liverpool Baltic station, which is due to start later this year and complete in 2028, and funding for the ongoing development of the West Yorkshire Mass Transit, which is at a relatively early development stage and a business case is expected in the Autumn.

In February it was announced that the £152 million project to bring the abandoned Portishead line back into use may still go ahead after a funding agreement between the West of England Combined Authority and the government was reached. The project was previously due to be funded by the Restoring Your Railway fund that was cancelled by government last year. If a final funding agreement is reached, and subject to DfT approval of the full business case, work could start in late 2025 and complete in 2027.

Work is progressing on the £295 million extension of the West Midlands Metro from Wednesbury to Brierley Hill. Financed by the City Region Sustainable Transport Settlements, the new extension is due to complete in 2025. In Cornwall, the third stage of the £56.8 million Mid Cornwall Metro, partly funded by the Levelling Up Fund, recently entered its third stage. Construction work is now underway to build a 400 metre passing loop at Goss Moor, designed to facilitate simultaneous operations for both long-distance and local trains on the busy Newquay to Par route.

Autumn Budget 2024 allocated £485 million to TfL's capital renewals programme in 2025/26



and a longer-term funding settlement is anticipated in the forthcoming Spending Review to support forward planning. Schemes TfL intends to develop through to 2030, if supported by central government in the Spending Review, include the DLR extension to Thamesmead and the Bakerloo Line Extension.

Turning to recent progress on live major projects, as at the end of December 2024 TfL reports that the Piccadilly line upgrade is on track to complete in 2027 Q4, with a cost to date of £1.3 billion and £1.7 billion to go – with a steady spend profile over the remainder of the delivery period. TFL's rail and station enhancements programme is ongoing, with planned spend of £142 million in 2025/26. Scheduled works include a new station entrance at West Ham and the first phase of a new station entrance and Northern line ticket hall at Elephant & Castle and projects to expand step-free access to the network at Colindale, Leyton, Northolt, West Hampstead, Alperton and Arnos Grove. £641 million is also due to be invested in London Underground's ongoing renewals programme in 2025/26. Overall this reflects a relatively stable investment profile on TfL rail projects.

Work is ongoing on several new stations including the new £211 million station at Cambridge South and the £140 million redevelopment of Darlington station. Darlington station is on track to complete this year but Cambridge South is now expected to open in 2026 due to external factors. Work is due to start on the £100 million Liverpool Baltic station after funding was confirmed in the recent Budget. Construction is due to commence this year and complete in 2027.

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

Work is underway on the £139.8 million East Kilbride Enhancement Project, part of Scotland's Railway's rolling decarbonisation programme. In addition to the electrification of the route between East Kilbride and Glasgow, the project is delivering new stations at East Kilbride and Hairmyres and a 1.4km extension of the existing loop at Hairmyres and is scheduled to complete at the end of this year.

The Welsh Government's Final Budget 2025/26 allocated £529 million of capital funding to transport, broadly unchanged from the draft allocation. The contract to design and build the £100 million first phase of Cardiff Crossrail tram project has been let. Both the Welsh and UK governments have each confirmed funding of £50 million to cover the initial phase from Cardiff Central railway station to Cardiff Bay. First phase work will redevelop the network around Callaghan Square, enabling trams to connect with the existing Cardiff Bay train line, and a new platform at Cardiff Central. Design is programmed to complete by Autumn and work on the ground is due to start in late 2025. Construction work could complete by early 2028. The second phase currently doesn't have funding but plans to connect Cardiff Bay Station to Pierhead Street.

A full business case for a planned £140 million upgrade to Cardiff Central Station was submitted last year and a funding decision is expected in Autumn. Planning documents, detailing works including a larger concourse and additional gate-lines, are due to be submitted shortly. If approved, the project will take up to three years to complete.

Please note that the ONS historic output figures for rail should be treated with caution given the ONS's mismeasurement of infrastructure sub-sector level data that have been further exacerbated by methodological improvements made in 2018. For example, output in the rail sub-sector increased sharply in 2017 and 2018, even though main works on Europe's largest infrastructure project, HS2, was yet to begin. The main civil engineering contracts for the first phase of the project, worth £6.6 billion were awarded in July 2017 and, as a result, new orders rose to a record high of £9.0 billion in 2017. Rail output rose 58.9% in that year and 39.3% in 2018. The divergence between new orders and output has meant that the levels of output appear inflated in 2017 and 2018, despite CP5 ending. More recently, large falls in output were recorded in 2019 and 2020 even though enabling works on HS2 continued during the pandemic and the formal start of main construction works was announced in September. Given these inconsistencies, the CPA is forecasting growth rates for actual activity on the ground.

Upper Scenario:

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

Now government has confirmed it will fund the HS2 line extension from Old Oak Common to London Euston, output could be stronger in the latter part of the forecast period if a private sector solution to developing Euston's HS2 station is quickly found.

Lower Scenario:

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

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

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

In December 2024, the government published the 'Clean Power 2030 Action Plan: A new era of clean electricity', setting out ambitious plans to reduce dependency on fossil fuels by delivering 43-50GW of offshore wind, 27-29GW of onshore wind, and 45-47GW of solar power, plus 23-27GW of battery capacity and 4-6GW of long-duration energy storage, alongside the development of technologies including gas carbon capture utilisation and storage and hydrogen – delivered with largely private sector money. To support investment, government is seeking to speed up planning, reform existing grid connection processes and streamline the auction process through which renewable energy generation agreements are determined.

In December last year, installation of Britain's first nuclear reactor for more than 30 years was completed at Hinkley Point C and activity on the project is nearing peak levels with headcount on the project set to hit 15,000. No update on the anticipated cost and completion timeframe has been provided in 2025 to date and the last update in 2024 presented a series of scenarios to reflect uncertainty around risk with complex electromechanical works. Under a base scenario, reactor one would be operational in 2030 and the project cost at completion would be close to £34 billion in 2015 prices. A less optimistic scenario assumes the project's complexity has a significant impact on the time required to complete electromechanical work and testing. Under this scenario, electricity generation by reactor one would be delayed until 2031 and the cost could escalate to nearer £35 billion in 2015 prices.

EDF, the majority stakeholder in Hinkley Point C, continues to seek additional investment to help

A final ***investment decision*** *for*

Sizewell C

is now expected ***in June*** *as part of the* ***Spending Review***

finance the project after EDF's partner, the China General Nuclear Power Group (CGN), stopped its funding after fulfilling its contractual commitment in late 2023. Hinkley Point C is now being funded exclusively by EDF through voluntary equity.

With all but one of the UK's existing nuclear power fleet due to be shut down in 2030, timing of the completion of Hinkley Point C is crucial. Last year EDF took the decision to keep four of its existing UK nuclear power stations open for longer than previously planned to help maintain UK energy security until Hinkley Point C is brought into operation. Once completed, Hinkley Point C is expected to provide power to 6 million homes, meeting around 7% of the UK's electricity needs.

A long-awaited final investment decision for Sizewell C is now expected in June as part of the Spending Review. Cost escalation is reportedly impacting investment negotiations, with the anticipated cost of delivering the new nuclear power station rumoured to have doubled since 2020 to £40 billion, in 2025 prices. The 2024 Autumn Budget committed £2.7 billion of public sector funding to continue developing the project in 2025/26 and work on supporting infrastructure is progressing. Contracts to deliver a new 6.5km Sizewell Link Road and other supporting infrastructure were let in March. Subject to a final Spending Review decision, the government has suggested that up to £5.5 billion of additional public money could be made available to help make the project investible.

Ofgem is currently reviewing electricity and gas transmission companies' business plans for the RIIO-3 period spanning 2026 to 2031. The regulator will share Draft Determinations for review by Summer 2025 and Final Determinations are expected to be agreed by late 2025 before the RIIO-3 delivery period starts in April 2026. Investment in RIIO-3 is likely to mark a step-change in investment compared with RIIO-2 as firms work at pace to expand and enhance electricity transmission networks.

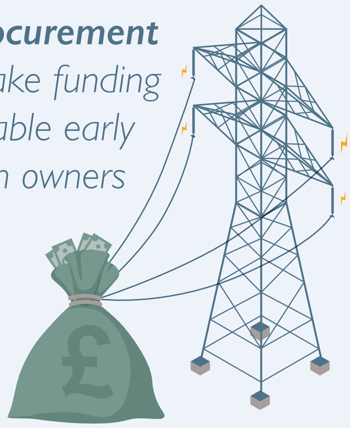
National Grid's RIIO-T3 Business Plan details planned investment of up to £35 billion in UK transmission infrastructure between April 2026 and March 2031. This is around two and a half times the investment planned in RIIO-T2. The headline figure includes over £11 billion to maintain and upgrade National Grid's existing networks, plus finance to fund construction of the first three approved grid expansion and enhancement projects being fast-tracked through the Accelerated Strategic Transmission Investment (ASTI) process.

SP Energy Networks' RIIO-T3 Business Plan sets out plans to invest £10.6 billion in its transmission network between 2026 and 2031, over three times more than the £3.4 billion in the RIIO-T2 plan. Around three-quarters of proposed spend, £7.9 billion, relates to load-related investment to reinforce the transmission system due to changes in generation or demand, along with the cost of connecting new generation with customers. Proposed non-load investment, to replace and refurbish existing assets, is £523 million over the investment period. Included within the plan are 12 new major transmission substations, 450km of existing circuit upgrades, 87km of reconductored overhead lines and 35km of underground cable replacement.

Scottish & Southern Electricity Networks' (SSEN) Transmission Business Plan for the RIIO-T3 period sets out plans to invest up to £31.7 billion - £6.1 billion in baseline spend, £16.2 billion in committed investment that is still subject to external approval and £9.4 billion in potential future expenditure. Breaking down the £16.2 billion committed but still subject to external approval

*New **Advanced Procurement Mechanism** will make funding from **RIIO-T3** available early to allow transmission owners to secure **supply chain capacity in advance***

Source: Ofgem



segment, ASTI project account for £13.4 billion of the total, with Large Onshore Transmission Investment (LOTI) projects accounting for £2.0 billion of this total. The baseline plan includes £1.42 billion in load-based investment, with non-load investment attracting £1.37 billion.

To help support progress on projects planned for delivery in RIIO-T3, Ofgem recently announced the introduction of an Advanced Procurement Mechanism (APM) which will make funding available to enable transmission owners to secure supply chain capacity in advance of the official start of the next controlled investment period to ensure construction starts promptly when projects receive necessary approvals development approvals. Ahead of the formal start of the RIIO-T3 period, the new APM will bring forward allowances of around £4 billion, that wouldn't otherwise be available until specific funding milestones were achieved, to secure necessary supply chain capacity and to help overcome potential capacity constraints.

Construction work has commenced on £4.3 billion Eastern Green Link 2 (EGL2), a joint venture between National Grid and SSEN, after the project received planning consent in October last year. The contract to install 69km of high voltage direct current (HVDC) land cables was awarded in December and is due to complete in 2029. The project's direct construction cost is estimated at £2.7 billion. Construction work is also underway on Eastern Green Link 1 (EGL1), a joint venture between National Grid and SP Energy Networks, that will see the creation of a 525kV, 2GW 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.

Enabling work started on Yorkshire Green – a £400 million project to upgrade and reinforce Yorkshire's power network – last year after planning consent was awarded in March 2024. The project will deliver a new 400kV and 275kV electricity connection and associated infrastructure, along with 7km of new overhead lines, underground cables and two substations, to link two existing overhead lines. Main construction works are due to start shortly and the £363 million Bramford to Twinstead Reinforcement project to reinforce the network between Branford Substation in Suffolk and Twinstead Tee in Essex is progressing. The project received planning consent from the Secretary of State for Energy Security and Net Zero in September 2024. Main construction is on track to start in the first half of this year, with completion due in 2028.

In March, National Grid submitted its application for development consent for the Sea Link project, which, if approved, will establish a 138km electricity interconnector between Pegwell Bay in Kent and the Suffolk coast between Aldeburgh and Thorpeness and construction could start in 2026.

SSEN Distribution recently appointed contractors to its £450 million framework to improve the north of Scotland's local electricity networks. Work will see the existing network of wooden poles renewed and reinforced, substations updated and improvements made to the underground network.

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

Turning to renewable energy, the annual Contracts for Difference (CfD) auction has been the government's primary mechanism for supporting large-scale, low-carbon energy infrastructure by providing certainty on the price generators will receive for the electricity they produce over a 15-year period since 2015. The 2024 CfD auction (AR6) secured funding deals for 131 renewable energy projects with an estimated capacity of 9.6GW. The overall budget for AR6 was set at £1.5 billion, significantly higher than £227 million in AR5. Of the successful applicants, the vast majority were solar schemes, with 93 solar PV projects agreed that will create an estimated 3.3GW of capacity.

Nine offshore wind projects were successful in AR6 after a low strike price in AR5 failed to attract a single bid for offshore wind projects. Out of the nine offshore wind projects agreed in AR6, only two were new schemes – Hornsea Four and the first phase of East Anglia Two – while seven projects with CfD awards from previous auction rounds re-entered the auction through the permitted reduction regime to secure a higher strike price.

Ahead of the AR7 later in 2025, government is consulting on proposed changes to the current contracts for difference approach to support increased delivery via the mechanism. Proposed changes include extending contract terms beyond 15 years to reduce overall project cost and a relaxation of the eligibility criteria for fixed-bottom offshore wind projects to permit projects that have not yet obtained full planning consent to participate in near-term allocation rounds. The consultation recently closed and any changes are expected to be adopted in AR7, which is set to open in Summer 2025.

The process for connecting renewable energy generation to the grid is currently under review to ensure the right connections are delivered quickly. Currently, connections work on a first-come, first-served, basis, with some schemes waiting a decade or more to get plugged in. Earlier this year, Ofgem consulted on proposals to introduce a new connections system that prioritises the connection of generation projects that can be operational quickly and make a significant contribution to meeting the government's clean power targets. The consultation closed in March and the outcome is expected quickly.

Large projects with long delivery programmes distort official electricity orders and output data. Output in the electricity sub-sector declined 5.7% in 2019 even though main civil engineering works above ground on Hinkley Point C started in September 2019. That fall was followed by growth of 21.1% in 2020 despite the impact of the first national lockdown on workforce numbers and activity on site at Hinkley Point C during the first half of the year and according to the ONS output fell by 19.2% in 2021 despite it comparing with a pandemic-impacted year before. This suggests that the ONS construction output data is not accurately reflecting activity on the ground, and as a result, the CPA is forecasting actual activity growth in the sub-sector rather than distortions in the ONS data.

Upper Scenario:

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

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

Lower Scenario:

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

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

Investment by water companies through the five-year Asset Management Programme (AMP) is the primary driver of activity in the **water & sewerage** sub-sector. Asset Management Period 8 (AMP8) is now underway and early indications suggest that although water companies are ready to mobilise investment plans more swiftly than is usually the case at the start of a new investment period, there still appears to be a short hiatus before plans move into the delivery phase. Water companies consistently underdelivered in AMP7 but, based on evidence to date, AMP8 looks set to break the trend, subject to industry capacity constraints. Output is forecast to stabilise in 2025, as programmes gear up before growing by 12.0% in 2026 and 10.0% in 2027.

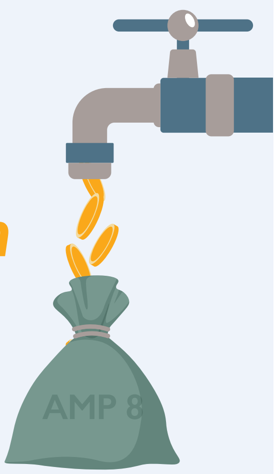
Water companies' eighth Asset Management Period (AMP8) commenced in April 2025 and, through to March 2030, water companies across England and Wales plan to invest £104 billion in total, with investment in new infrastructure and resources set to quadruple to a record £44 billion. Planned investment in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

Six companies have exercised their right to request a redetermination of Ofwat's final determinations by the Competition and Markets Authority (CMA). Companies that have requested a review are: Anglian Water; Northumbrian Water; Thames Water; Southern Water; South East Water; and Wessex Water. The next step will be for Ofwat to formally make references to the CMA, which will then have six months to make its own determinations, with the option to extend for a further six months if necessary. At Price Review 19, which determined prices and permitted investment during AMP7, four companies appealed Ofwat's decision and the appeals led to modest increases in expenditure allowances of up to 6.6%.

Ofwat published its review of water company performance in 2023/24 in October last year and no company met the regulator's criteria for 'leading' performance for the second consecutive year and overall companies reported a net sector underperformance payment of £157.6 million during the year. Progress towards reducing pollution and leakage was particularly poor, with nine out of 11 firms reporting an increase in pollution incidents in 2023. Only one company, Hafren Dyfrdwy, met its own pollution reduction commitment in 2023. Water companies committed to reduce pollution incidents by 30% during AMP7 but only a 2% reduction was achieved in the first four years of the programme. Overall, the performance of three water firms was determined to be 'lagging behind' with all other water companies' performance deemed to be 'average'. Penalties levied by Ofwat for poor performance have totalled more than £470 million since 2020.

Water companies
plan to invest
£104 billion
in ***AMP8***

Source: Ofwat



The Water (Special Measures) Act 2025 received Royal Assent in February. The new legislation gives Ofwat additional powers to set requirements for companies on remuneration and governance, including prohibiting performance-related executive pay, and to issue penalties more quickly, without having to direct resources to lengthy investigations. It will also introduce independent monitoring of every sewage outlet, with water companies required to publish real-time data for all emergency overflows. Discharges will have to be reported within an hour of the initial spill and increases the ability of the Environment Agency to bring forward criminal charges against water executives who break the law.

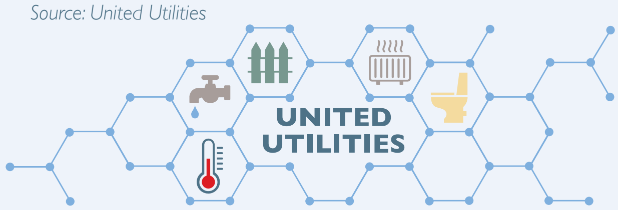
The future of the UK water sector is under review by the Independent Water Commission, chaired by Sir Jon Cunliffe, and a call for evidence is currently underway. The Review will focus on six key areas: the strategic management of water; the regulatory system; pricing and economic regulation; environmental and drinking water regulation; water company ownership models and asset health and supply chains. The Commission will make recommendations to government on developing a sufficiently robust and stable regulatory framework to attract the investment needed to clean up British waterways and speed up infrastructure delivery.

__United Utilities__ is the latest water company to announce its framework partners to support delivery of its

£13.7 billion

AMP8 investment plan in __water and wastewater infrastructure__

Source: United Utilities



In June 2023, Ofwat approved the acceleration of 33 approved infrastructure projects from AMP8 with a total value of £2.2 billion. Storm overflow schemes, including work to improve water quality at Ilkley and to provide Lake Windermere greater protection from spills, secured close to £1.7 billion of the advanced funding pot. Other schemes included smart metering and water supply and water quality schemes. Delivery of these schemes is currently underway.

United Utilities is the latest water company to announce its framework partners to support the delivery of its £13.7 billion AMP8 investment plan in water and wastewater infrastructure. Furthermore, planning permission is in place for the firm's £2.5 billion Haweswater Aqueduct Resilience Programme to carry out crucial upgrades on the 110km aqueduct spanning the Lake District through Lancashire to Greater Manchester to ensure its continued performance and longer-term sustainability. United Utilities plans to award the main delivery contract for this project in the first half of 2025, with a view to construction work starting in 2026. The construction phase is expected to take eight years.

Construction recently started on the Havant Thicket Reservoir in Hampshire, the first new reservoir to be constructed in the UK in around 30 years. The £340 million project is set to span 160 hectares, hold 8.7 billion litres of water, and take six years to complete. Anglian Water recently secured planning for its planned £400 million new wastewater treatment plant in Cambridge. Development consent had been expected in 2024 and the project has secured £277 million funding from the Housing Infrastructure Fund.

Scottish Water is in the fourth year of its 2021 to 2027 regulatory period. Interim accounts for the six months to September 2024 report that planned capital investment totalled £413 million in the period, 3% higher than in the first half of 2023/24. Responsive repair and refurbishment costs totalled £132 million. Between April 2021 and September 2024, planned investment spend is £112 million higher than the Final Determination but responsive repair and refurbishment investment is down by £209 million.

Attention has turned to the procurement of Delivery Vehicle 4 (DV4), which is set to run from 2027 to 2033. The framework carries an estimated value of £5 billion to £9 billion and includes the potential to extend for six years. DV4 will supersede Scottish Water's 2021-2027 investment period, worth around £6 billion, and will focus on managing high-value and complex construction and engineering projects across the nation.

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

Work on the Environment Agency's (EA) Collaborative Delivery Framework (CDF1) is progressing. The existing framework is progressing investment of £2.6 billion between 2023 and 2027 and procurement is underway on Collaborative Delivery Framework 2 (CDF2), which will succeed CDF1 from 2027. Initial estimates suggest CDF2 will invest £5.5 billion in EA assets and will be used for projects in the range of £1 million to £75 million, covering technical consultancy and construction work that supports asset management, maintenance, refurbishment and construction programmes of work.

Autumn Budget 2024 confirmed that spending on strengthening flood resilience would total £2.4 billion over 2024/25 and 2025/26. Included within this is funding is £43 million for the Bridgewater Tidal Barrier Flood Defence Scheme in Somerset and £35 million for the Derby Flood Risk Management Scheme.

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

Upper Scenario:

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

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

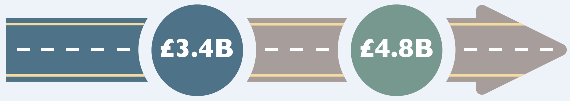
Lower Scenario:

- Under-delivery in AMP7 is repeated in AMP8

Often delivery of capital investment in AMP periods fails to meet planned levels. With AMP8 promising a step-change in investment, the central assumption is that delivery will be stronger over the next five years but this may prove to be too optimistic as firms balance stakeholder objectives.

Strategic **roads** investment will be funded through an interim settlement in 2025/26, worth around 6% less than budgeted in 2024/25, and the third Road Investment Strategy (RIS3) will be set out in the June Spending Review. The current five-year Road Investment Strategy (RIS2) expired at the end of March 2025. Beyond 2025, investment in the UK's strategic road network is likely to focus on renewals and maintenance rather than enhancements in response to the challenges of aging roads infrastructure – it is estimated that over 70% of the National Highways' network of roads and bridges will be over 45 years old by 2025. Roads output is forecast to contract by 1.0% in 2025, before increasing modestly in 2026 and 2027 by 1.0% and 2.0% respectively.

In March, the government made a £4.8 billion interim settlement available for investment in the UK's Strategic Road Network in 2025/26, of which £3.4 billion will support capital investment. This funding settlement includes £1.3 billion for road renewals and £2.0 billion for capital spending on maintenance and renewals. The £4.8 billion total settlement is a reduction compared with an estimated spend of £5.1 billion by National Highways (NH) in 2024/25, which included £1.7 billion for enhancements, £1.2 billion for renewals and £363 million in operational and maintenance capex.



£4.8 billion

interim settlement *available for investment in the UK's* ***Strategic Road Network*** *in 2025/26, of which*

£3.4 billion

will support ***capital investment***

Source: Department for Transport

New roads schemes originally due to be developed under RIS2 have been cancelled or delayed by recent governments, with the A5036 Princess Way, the A358 Taunton to Southfields, the M27 Junction 8 Southampton and the A1 Morpeth to Ellingham all scrapped in the Autumn Budget. A decision on seven new build legacy projects from RIS2 is expected in the forthcoming Spending Review. These schemes are: A38 Derby Junctions; M54-M6 Link Road; A66 Northern Transpennine; A46 Newark Bypass; M60/M62/M66 Simister Island Interchange; A47 Wansford to Sutton and the A12 Chelmsford to A120.

The interim spending allocation announcement was accompanied by news that two new projects will start this financial year – a £280 million improvement project on the M3 at Junction 9 and a £100 million scheme on the A47 at Thickthorn Junction.

After securing funding in the Autumn Budget, dualling work on the Blofield to North Burlington and North Tuddenham to Easton sections of the A47 is underway. Both projects will cost an estimated £100 million and are due to complete in 2026/27. Dualling work on the Wansford to Sutton stretch also started in 2024 and is due to complete in 2026.

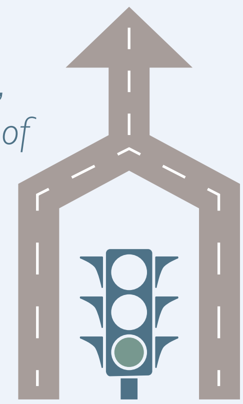
After a lengthy delay, the Lower Thames Crossing (LTC) finally received a Development Consent Order (DCO) in March - a decision had initially been expected nine months earlier in June 2024. Construction work on this £9.4 billion project is expected to start in late 2026, or early 2027, with a targeted completion date of 2032. Private finance is likely to play a part in delivering the scheme under a "regulated asset base" model as was used in the delivery of the Thames Tideway sewer and further details are expected in the Spending Review.

Works to start on two ***major roads schemes****, with a combined value of*

£380 million,

in ***2025/26***

Source: National Highways



Transport for London's capital investment plan for 2025/26, worth £2.53 billion in total, makes £132 million available for Major Road Network funded schemes, including work at Gallows Corner, Brent Cross and the Croydon Flyover.

In Scotland, Budget 2025/26 allocated £494 million of capital funding to the trunk road network for general maintenance and network enhancement, alongside the progression of major road projects, including dualling the A9 and improving the A83. Main construction work on dualling the Tomatin to Moy stretch of the A9 is still due to start in

Spring after preparatory works began in October last year. The scheme is now estimated to cost £257 million, compared to an estimated £197 million when the business case was first approved. Completion is scheduled for Spring 2028. On the A83, solutions are being sought to reduce the impact of landslips on the Rest and Be Thankful stretch, which is approximately 64km north-west of Glasgow and provides a critical transport connection to Argyll and Bute. Public exhibitions took place in January and no subsequent update has been provided.

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

£9.4 billion

Lower Thames Crossing

*granted **planning consent***

Source: National Highways

Please note that in a similar vein to the water & sewerage and rail sub-sectors, the ONS's mismeasurement of sub-sector level data has meant that historical figures for roads output appear inflated, contradicting other pipeline evidence and industry surveys. Data from the Mineral Products Association (MPA) showed that sales volumes of asphalt sales declined 8.6% in 2020, before rising by 12.5% in 2021. The pace of recovery in 2021 is in stark contrast to the growth reported in the official data of 76.9% that took output to a record high of £11.8 billion even though the delivery of major road projects has been impacted by planning delays. Overall, this suggests that the ONS's construction output data is not accurately reflecting activity on the ground, and as a result, the CPA is forecasting actual activity growth in the sub-sector rather than distortions in the ONS data.

Upper Scenario:

- RIS3 includes all remaining RIS2 enhancement projects

No further major project cancellations could strengthen output growth and levels of activity over the medium term.

Lower Scenario:

- Remaining seven major new roads projects are cancelled or postponed beyond RIS3

The main forecast assumes a few outstanding RIS2 schemes will progress but if this proves not to be the case, the outlook will be significantly weaker.

Output in the **gas, air and communications** sub-sector bounced back in 2024, increasing by over 30% but from a low base after several years of limited activity. Growth was driven by expansion and enhancement programmes at Manchester, Leeds Bradford and Bristol airports and, with significant investment plans at London's Stansted and Luton airports approved, the medium-term outlook is positive. The forecast anticipates growth through to 2027 and, with major investment proposals at Gatwick still awaiting the green light from planners, risks are weighted to the upside. Output is forecast to increase by 6.0% in 2025 and by a further 5.0% in both 2026 and 2027.

London ***Luton Airport's***

£2.4 billion

expansion ***granted planning permission*** *but start date yet to be confirmed*

Work on the first phase of a £100 million terminal regeneration project at Leeds Bradford Airport is due to complete in Summer. The new, three-storey, 9,500 sq. m. terminal extension provides additional aircraft stands, along with more seating and enhanced amenities. Following completion of phase one, work will begin on redeveloping the existing terminal and further infrastructure enhancements and work is due to complete in 2026.

At Bristol Airport work is underway on a new £60 million transport interchange hub and multi-storey car park. Work is due to complete in Summer 2025 and forms part of an investment programme to support an increase in annual passenger numbers from 10 million to 12 million by extending the existing terminal building by 20,000 sq. m. to 70,000 sq. m. Longer-term, the airport hopes to increase terminal floor area to 130,000 sq. m. to support an annual increase in passenger number to 15 million. A public consultation is currently underway and, if plans are successful, the second extension could be open by 2036.

Work is nearing completion on the final phase of Manchester Airport's £1.3 billion transformation programme. The final phase, worth £440 million, includes the construction of a new pier and second security hall, extending the departure lounge to include 27 new shops and restaurants and airfield reconfiguration. Work is due to be completed in the second half of 2025. Next on Manchester Airport Group's agenda is investment to improve facilities and enhance the passenger experience at Terminal 3 and further detail on plans is expected shortly.

London City Airport's proposal to increase annual capacity from 6.5 million to 9 million passengers, by increasing the number of evening and early morning flights, has been approved by the government. The expansion plan includes increasing the size of the existing terminal by 2,276 sq. m. and building a new three-storey passenger pier, eight new aircraft stands and a new taxiway. An anticipated start date has yet to be confirmed.

A start date for London Stansted Airport's expansion plan is still to be announced. Planned investment includes a £600 million terminal extension, alongside another £500 million to improve the existing terminal and wider airport estate. It will also deliver a 14.3MW on-site solar farm, which will support the airport's current and increasing electricity demands. The extension will allow the airport to reach its agreed passenger cap of 43 million annual travellers.

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

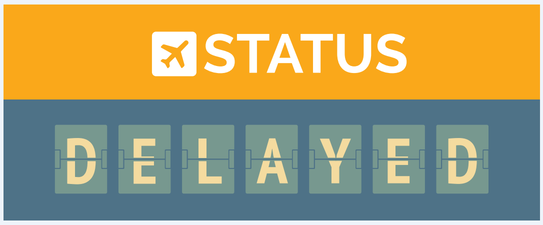
The government's verdict on London Gatwick Airport's £2.2 billion plan to bring the airport's existing northern runway into routine use has been delayed by six months and is now expected on 27 October. While the government is "minded to approve" the proposal, a few issues around carbon and noise emissions are still to be resolved. Currently, the northern runway is only used when the main runway is closed. Construction is now unlikely to begin until mid-2026, with completion anticipated in the early 2030s.

London Luton Airport's £2.4 billion expansion plan was approved by the Secretary of State for Transport in April. Development consent was granted, paving the way for the development to support an increase in annual capacity from 18 million passengers to 32 million passengers. Approved work includes the redevelopment of the existing terminal and the construction of a new terminal building. A start date for the project has yet to be confirmed and the central forecast assumes work will not start within the current forecast period.

Decision on London ***Gatwick Airport's***

£2.2 billion

expansion plan ***delayed by 6 months*** *– now due in* ***October***



Project Gigabit, the government's £5 billion programme to deliver reliable broadband to hard-to-reach locations across the country, launched in March 2021 to replace existing programmes such as Superfast, Local Full Fibre Networks and Rural Gigabit, and Shared Rural Network. Between April 2024 and November 2024, three new Project Gigabit contracts were awarded covering Lincolnshire and East Riding, Cheshire and North Yorkshire plus the Scottish Government launched the first Project Gigabit procurements in Scotland, covering the Border areas and East-Lothian, and Dundee, Aberdeenshire and Moray.

Autumn Budget 2024 confirmed investment of £500 million to deliver Project Gigabit and Shared Rural Network in 2025/26 and the Department for Science, Innovation and Technology's capital budget would increase from an estimated £13.7 billion in 2024/25 to £15.1 billion in 2025/26. The Chancellor's Spring Statement saw the 2024/25 estimate reduce to £13.3 billion, with the 2025/26 capital budget now set at £14.7 billion.

The government's target to make gigabit broadband available to 85% of the UK by 2025 is on track. ThinkBroadband's latest estimate suggests that 85.4% of UK premises are now able to access a gigabit-capable connection, up from 84% at the time of its April 2024 update.

Upper Scenario:

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

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

Lower Scenario:

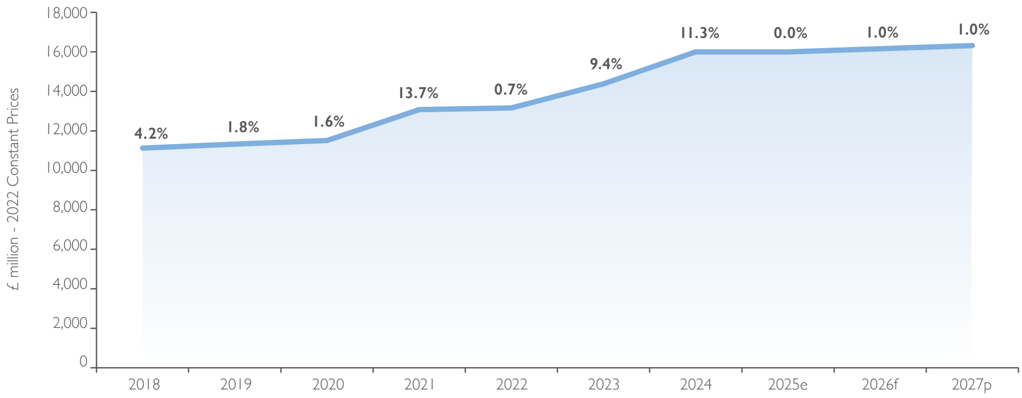
- UK airports focus on enhancements to existing facilities throughout the forecast period rather than long-term expansions or major refurbishments

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

Infrastructure R&M

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

Infrastructure R&M Output



e = estimate, f = forecast, p = projection

Source: ONS, Construction Products Association

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.

Local authority managed roads made up 97% of road length in 2024 and funding for the maintenance of local roads is provided by the Department for Transport (DfT) and the Ministry of Housing, Communities and Local Government (MHCLG) to local highways authorities, who are responsible for maintaining their road networks to an adequate standard. In Scotland and Wales the responsibility for maintaining the roads is with the respective devolved administrations. In London, councils receive transport funding from Transport for London. Funding for local highways maintenance in England (excluding London) is due to rise to £1.96 billion in 2025/26, including £500 million of additional funding for potholes, core Highways Maintenance Block and Integrated Transport Block funding, nearly 30% higher than in 2024/25 but only a 14% nominal increase since 2023/24.

£1.6 billion of this total funding pot was allocated in Autumn Budget 2024 and this portion of funding was shared regionally as follows: the north of England (the North West, North East and Yorkshire and Humber) will receive £327 million, the East and West Midlands will receive £372 million, with the East of England securing around £244 million, the South East and London £322 million and the South West £300 million. Alongside additional funding, central government is introducing an incentive mechanism that will see 25% of the additional £500 million included in the funding pot withheld until authorities can demonstrate delivery which intends to help to ensure funding isn't diverted and invested in other areas.

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

With a commitment to Road Investment Strategy 3 (RIS3) delayed until at least the June Spending Review, National Highways (NH) has received an interim settlement to fund the improvement and maintenance of the strategic roads network during the current financial year. The interim settlement is worth £4.8 billion in total, which is around 6% lower overall compared with 2024/25, but the capital allocation for maintenance and renewals has increased sharply. In 2024/25, the latest available information from NH suggests around £363 million of capital expenditure was allocated to operations, maintenance and renewals in 2024/25, whereas the interim settlement makes close to £2.0 billion available for comparable activity – a more than five-fold increase. Now likely to start in April 2026, RIS3 is widely expected to prioritise making the most of the existing network, which could lead to a greater proportion of its capital investment programme being classified as r&m.

West Yorkshire Combined Authority plans to invest £125 million in highways maintenance and improvement over the next two years, as part of the City Regional Sustainable Transport Settlement scheme. The largest part of this funding, totalling £105.2 million, will go towards asset management including road repairs and resurfacing, and the maintenance of structures and drainage. Funding will enable work on approximately 450 miles of road – around 8% of the road network in the region.

Network Rail's (NR) Control Period 7 (CP7), worth £44 billion (2023/24 prices), commenced in April 2024 and will run to 31 March 2029. During this investment period, NR plans to invest £19.3 billion in renewals, £12.6 billion on day-to-day maintenance, £4.4 billion on operations (signalling, stations and network control) and £7.1 billion on other miscellaneous areas. However, it was recently revealed that NR has had to remove, alter or postpone some asset renewal projects due to cost pressures and anecdotal evidence suggests work through CP7 has, so far, been slow to filter through.

Network Rail has appointed suppliers on a £750 million framework for the supply of reactive and emergency minor works across its Wales and Western region. The initial framework term runs for five years, with an option to extend for up to three years. In the Western region, £262 million is allocated for reactive minor civils works and £225 million for minor work to buildings, while in Wales £150 million is allocated to minor civils works and £112 million to minor buildings works.

In the South-East, supply agreements have been reached on Trenitalia c2c's £240 million building and civils framework for maintenance of tis lines between London and Essex. The framework has an initial term of four years, with the potential to extend the agreement for a further four. Planned work is classified as follows: £68 million for multidisciplinary building and civils works; £6 million for station building and roofing works; £4 million for internal station improvement works; £39 million for bridges; £15 million for ancillary civils; £13 million for canopies and £95 million for platforms.

Electricity distribution companies plan to invest record sums in improving and enhancing transmission networks during the next investment period – RIIO-T3 that starts in April 2026 and runs through to March 2031. Firms have submitted plans to the regulator for review and approval and the regulator will share its final verdict later this year. National Grid's proposed investment strategy includes £11 billion to maintain and upgrade its existing network of assets.

Scottish and Southern Electricity Networks proposes baseline investment of £6.1 billion over the period, which includes asset management and work to ensure resilience. SP Energy Networks proposes non-load expenditure of £523 million, which includes the replacement and refurbishment of assets, as well as inspection, maintenance and repairs to existing assets.

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

Southern Water intends to appoint framework contractors to deliver £48 million of minor civil works across the south-east of England. The framework will cover low-complexity concrete repairs, road reinstatements, ducting, core drilling and concrete bases.

Manchester Airports Group has appointed consultants and contractors to its £550 million airfield framework to deliver a range of basic improvement and maintenance works over the next five to eight years. Within this, the planned renewals and reactive support tranche of work is worth £185 million.

Upper Scenario:

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

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

Lower Scenario:

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

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

The Construction Products Association is the leading organisation that represents and champions construction product manufacturers and suppliers. This vital UK industry defines our built environment, providing the products and materials needed for homes, offices, shops, road, railways, schools and hospitals. Our industry directly provides jobs for 407,900 people across 27,533 companies and has an annual turnover of £68.6 billion.

The CPA produces a range of economic reports that provide its members, policy-makers, and wider industry with a detailed understanding of the construction market to facilitate planning and business development. Members of the Association are entitled to receive these insights at no additional cost. Non-members can make one off purchases or subscribe for a full information package.

To learn more, please contact our Economics team at **020 7323 3770**, visit **www.constructionproducts.org.uk** or follow us on Twitter **@CPA_Tweets**.




ISBN: 978-1-909415-57-7

April 2025

Construction Products Association
26 Store Street
London
WC1E 7BT
Tel: 020 7323 3770
www.constructionproducts.org.uk