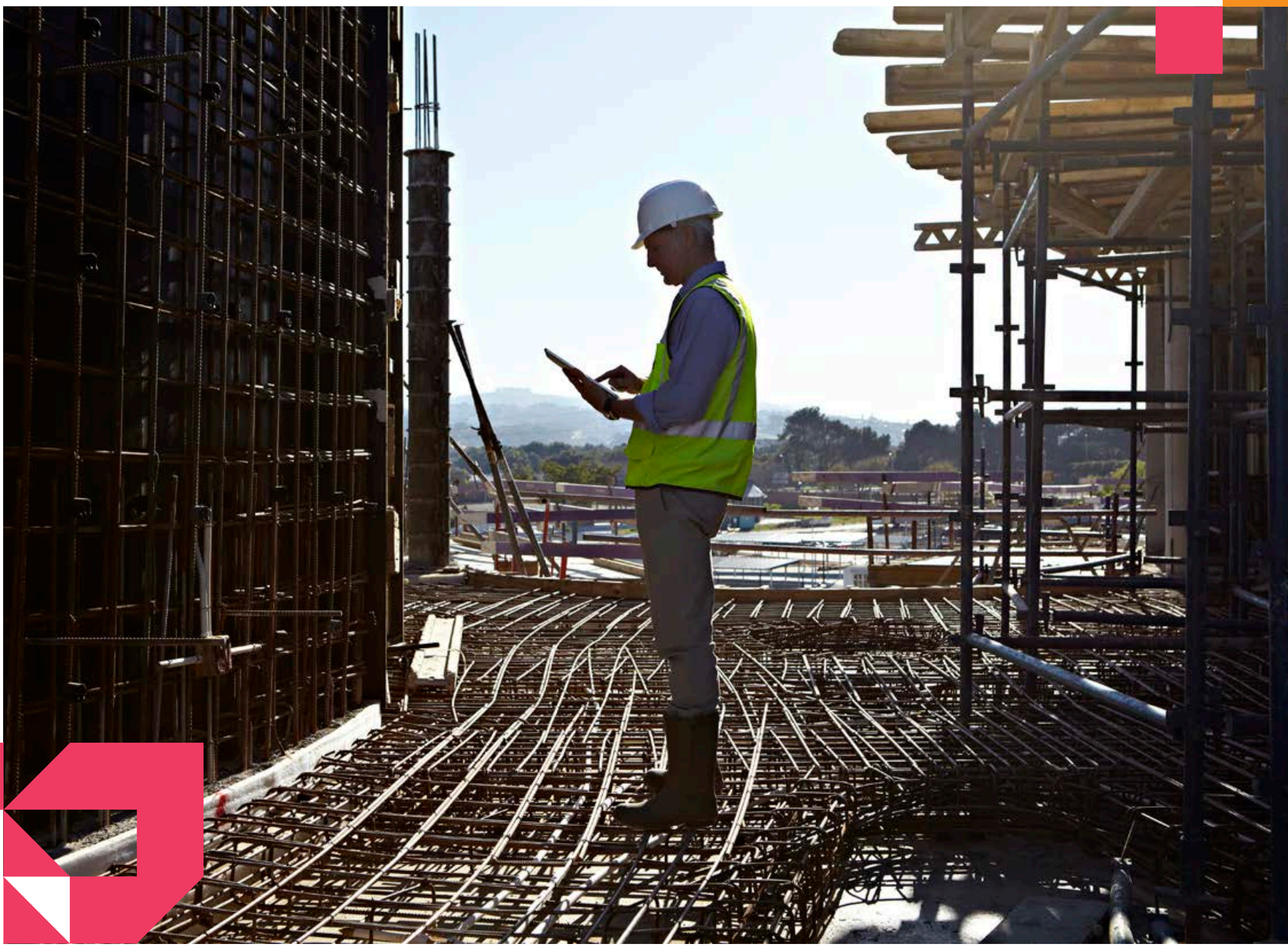
Industry in Focus

PwC Construction and Housebuilding Outlook

March 2025



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We are excited to publish the fourth edition of our PwC Construction and Housebuilding Outlook. Including an overview of the sectors' performance in 2024 and spend outlook from 2025-2027.

This article provides a quantified view on the UK's spend outlook and a summary of drivers by segment, as well as an insight into topics of particular interest in 2025 and how to best position for growth in the sector.

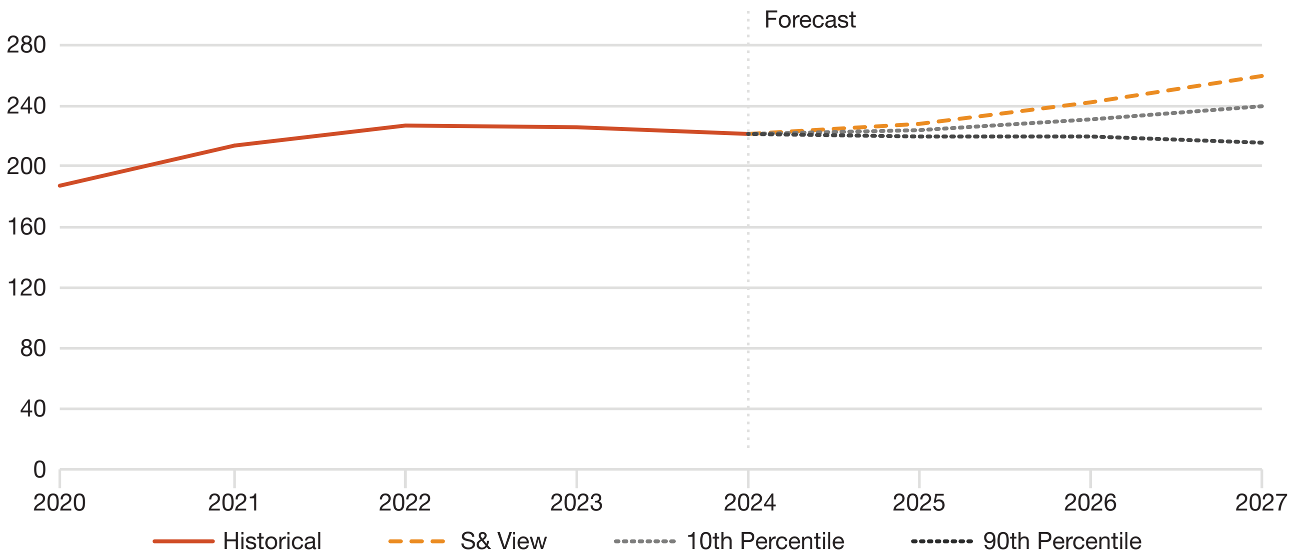
Our forecast is triangulated across publicly available information, 3rd party reports and our regular touchpoints across the built environment value chain.

Note that all forecast figures remain subject to change and that all information is presented at 2024 constant prices.

Please contact us vis Sam Edwards (samuel.edwards@pwc.com) if you have any observations or questions. The next iteration of our outlook will be published in Q3 2025.

Overall Construction Market

UK total construction output forecast
£bn - set to 2024 £, 2020-2027F



	2020-2021	2021-2024	2024-2025	2025-2026	2026-2027
CAGR	13.8%	1.2%	1.6%	3.2%	2.7%

Following a strong post-Covid recovery the UK's construction sector momentum has waned with real output decline of c.2.1% in 2024. Despite this, our outlook is positive for 2025 and the coming years, returning to real growth of c.2%.

Contraction of the sector in 2024 was primarily driven by a combination of sustaining high interest rates, investor caution in commercial and industrial settings, and delay of a number of major infrastructure projects.

Despite the persistence of the first two factors, we expect a return to growth between 2025-2027. Further loosening of monetary policy following the split decision to only cut rates by 0.25 ppts in February, as well as planning reform and state-led infrastructure spending all are expected to contribute to a stronger construction sector performance the coming years

Comparison vs previous forecast

		2024A	2025F	2026F
Forecasting growth for overall construction market	H1 2025	-2.1%	1.6%	3.2%
	H2 2024	-2.1%	2.9%	2.7%
Percentage point difference in outlook H1 2025 vs H2 2024 by Subsegment	Residential	1.9%	-5.5%	1.5%
	NR - Commercial	1.0%	0.6%	0.6%
	NR - Industrial	3.6%	-0.5%	-0.4%
	NR - Other	2.0%	0.3%	0.3%
	Infratructure	-8.5%	-0.5%	-0.5%
	Total New Build	-0.9%	-2.1%	0.6%
	R&M Residential	1.1%	-0.2%	1.0%
	R&M Other	2.3%	0.3%	0.1%
	Total R&M	1.7%	0.1%	0.5%

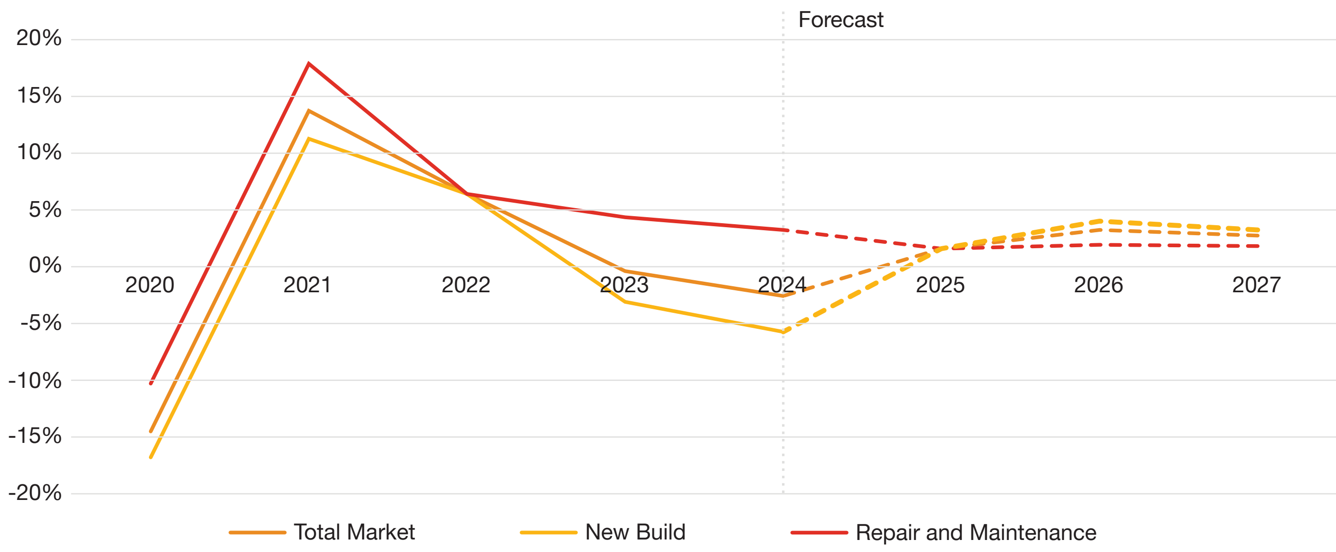
Our H2 2024 forecast a YoY contraction of 2.1% broadly in line with wider market commentators. The latest data suggests that real output declined in line with forecasts, albeit with some variation at the subsegment level. This is consistent with the relatively weak UK economy and sentiment in the second half of 2024.

Considering the changing economic and policy landscape in the UK we have revised our 2025 forecast down just over 1ppt. However, our outlook for 2026 represents c.0.5ppt. of upside compared to our previous expectations, anticipating further impact from the Governments housebuilding targets and planning reform.

Our increased caution on the 2025 forecast is largely influenced by expectations of further weakness in short-term Residential New Builds. As well as sustained weakness in other New Build categories. Below we expand on the rationale for the outlook by segment.

R&M vs New Build

UK total construction output forecast by New Build vs. Repair & Maintenance 2020-2027F (R&M vs NB)



Like previous years R&M continued to demonstrate resilience in 2024 with continued outperformance relative to New Build. However, our expectation is that H2 2025 marks the beginning of a period of resurgence within the New Build segment.

R&M resilience over the historical period has been driven by contributions from ongoing necessary works to support the UK's infrastructure base and building stock, as well as specific refurbishment works related to new regulation and broader ESG considerations

- Rising EPC minimums for rental residential property
- Refurbishment work related to the Building Safety Act
- Social Housing Decarbonisation fund

Given the persistence of these factors and the continuing push to modernize the UK's ageing building stock we continue to forecast the R&M sector to grow at 1-2% in the forecast period

However, the return to growth for the New Build segment represents a change from 2022-2024 where the sector exhibited year on year decline. Expected interest rate relaxation is the key enabler of this. We see various wider tailwinds from a mixture of public policy and private sector interest facilitating the return to growth. However, due to the persistence of higher rates into the first half of 2025, combined with elevated labour costs and materials shortages, we anticipate the timing of this return to growth to be in 2026 and 2027 as the sector is able to realise the benefits from more stable input costs and lower rates.

New Build Market Segments

New Build by Segment Table

Segment	Historical Data					PwC S& Forcast		
	2020	2021	2022	2023	2024	2025F	2026F	2027F
Residential	-20.8%	17.8%	12.7%	-12.7%	-5.2% £bn 52	1.4%	6.2%	4.0%
NR - Commercial	-21.9%	-6.9%	-1.0%	4.7%	-3.6% £bn 28	1.7%	2.7%	4.5%
NR - Industrial	-18.5%	3.4%	44.0%	-2.7%	-4.2% £bn 8	-0.9%	1.1%	2.4%
NR - Other	-8.1%	-1.0%	-10.2%	9.8%	3.8% £bn 12	3.0%	4.0%	4.0%
Infrastructure	-4.1%	28.7%	2.0%	3.5%	-9.8% £bn 34	1.8%	2.4%	1.3%
Total New Build	-16.6%	11.6%	6.5%	-3.0%	-5.2%	1.6%	4.0%	3.3%

Residential

Relaxation of interest rates is expected to drive growth in residential construction, following two years of decline in a tight monetary regime

While the medium-longer term sector outlook is positive, our perspective on the government goal of 1.5 million residential new homes delivered in this parliament remains sceptical due to persistent challenges facing both the public and private sector.

Private residential construction has been depressed due to challenges on both the demand and supply side. We expect demand conditions in the private sector to start improving in 2025, owing to an expected reduction in interest rates and real wage growth, further supported by increasingly prevalent non-house price incentives provided by housebuilders to support transactions. Despite demand tailwinds, the ability for the market to respond is expected to remain constrained due the tight supply environment. A rise in labour costs following the Autumn Budget, combined with uncertainty regarding rate cuts following the latest MPC meeting will cause a relatively subdued performance in 2025.

The outlook is less clear for Public sponsored housing, despite tailwinds from a £500m funding increases to the Affordable Homes Programme in the latest budget. Housing authorities have come under pressure as increased requirements for R&M spending due to legislation such as the Building Safety Act and EPC requirements combined with a lack of ability to raise revenue via rents has meant that an increased share of budgets is used towards maintenance as opposed to expansion of building stock. This is alongside broader uncertainty regarding the budget for the successor to the Affordable Homes Programme which is due to be renewed in 2026. In absence of positive legislative development, growth in the public sector is likely to lag the private sector.

Commercial

Strong growth in technical buildings is expected to drive growth in Commercial Real Estate as investor uncertainty hangs over the offices sub-segment.

The New Build Commercial sector suffered a c.4% contraction in 2024, due to continued delays as prices respond to a higher interest rate environment, coupled with the impact of previous years inflation. This combined with broader investor uncertainty on new working practices has led to particularly acute challenges in office space which accounts for c.1/3rd of the commercial real estate sector. Despite its overall performance, 2024 showed initial indications of a turnaround in the sub-sector, with commencement of high-rise projects at 50 Fenchurch Street and 2 Finsbury Square. More broadly activity in 2024 was supported by Data Centre growth with several projects commencing in the year, most notably Google's £800m data centre in Hertfordshire.

In 2025 we forecast c.1-2% growth in the New Build Commercial sector, followed by continued strength in 2026 and 2027. We anticipate particularly strong growth in Technical building segments such as Life Sciences and Data Centres.

- Life Sciences activity is expected to increase from c.1.2 million square foot under development in 2024 to c.4.5 million in 2025 with landmark projects such as One North Quay and Phase 2 expansion of the Cambridge Biomedical Campus
- Data Centre investment has continued to accelerate following its classification as Critical National Infrastructure in 2024 with £25bn of total investment committed since H2 2024 with Blackstone and Amazon announcing hyperscale projects worth £10bn and £8bn respectively

Furthermore, we expect Commercial R&M activity to grow due to proposed requirements for commercial rental buildings to reach EPC C by 2027 and EPC B by 2030. Whilst no concrete regulation has come into force yet, the scale of such refurbishment will be significant, with Savills estimating upwards of £60bn required to retrofit existing office buildings. As a result, we expect tailwinds as a result of proactive activity with potential upside from expected regulatory changes.

Industrial

Continued strength in manufacturing is expected to support a high level of activity despite some return to baseline in logistics

Industrial activity declined slightly in 2024 from £8.7bn to £8.4bn, although this remains 10-15% higher than pre-Covid activity levels. The bulk of activity in the sub-sector is derived from logistics (warehouses) and manufacturing. Warehouse activity declined during the year due to some reversion to the mean following accelerated growth during Covid and the following years due to the step-change of demand in e-commerce. Manufacturing has exhibited strength arising from activity in the defence sector and other manufacturing associated with the energy transition.

We forecast a slight decline in 2025 before a return to growth in 2026 and 2027. Manufacturing is expected to continue to show strength with projects such as Sumitomo Electrics £350m factory in Ayrshire and the £250m redevelopment of land north of Stanstead Airport for an Industrial estate. The near-term outlook for logistics is more conservative with Knight Frank reporting pipeline for 2025 at the lowest level since 2018, c.30% lower than the previous year. However, the sub-segment is expected to continue to benefit from growing e-commerce penetration with large projects such as Amazons £500m warehouse plan in the East Midlands supporting our positive medium-term forecast.

Infrastructure

Continued expansion of the energy sector is expected to support growth in Infrastructure, which remains at a historically high level despite YoY decline.

The overall outlook for Infrastructure spending remains positive. Despite an ease in demand due to passing peak spend on major projects such as HS2 and Openreach FTTP roll-out, and wider project delays in the transport sub-segment. spending remains c.20% higher than pre-Covid levels following a c.10% 2024 decline.

We forecast real terms spending to grow c.2% p.a. in the forecast period. Demand in transport segments is expected to remain, but growth is expected to be primarily driven by the energy sector, particularly nuclear and offshore wind. In both sectors ongoing activity is high, with a very significant pipeline of projects, with potential final investment decision regarding the £40bn Sidwell C project anticipated in the Spring and a further 50GW of offshore wind under development/pre-planning, over triple the current capacity. Furthermore, the long-term outlook for the energy subsector is attractive as the sector appears well positioned to benefit from long-term tailwinds as demand for AI and other cloud computing services drives faster than anticipated growth in electricity requirements. We expand further on this topic in our later section 'Infrastructure for the Future'.

Health, Education and miscellaneous Non-Residential

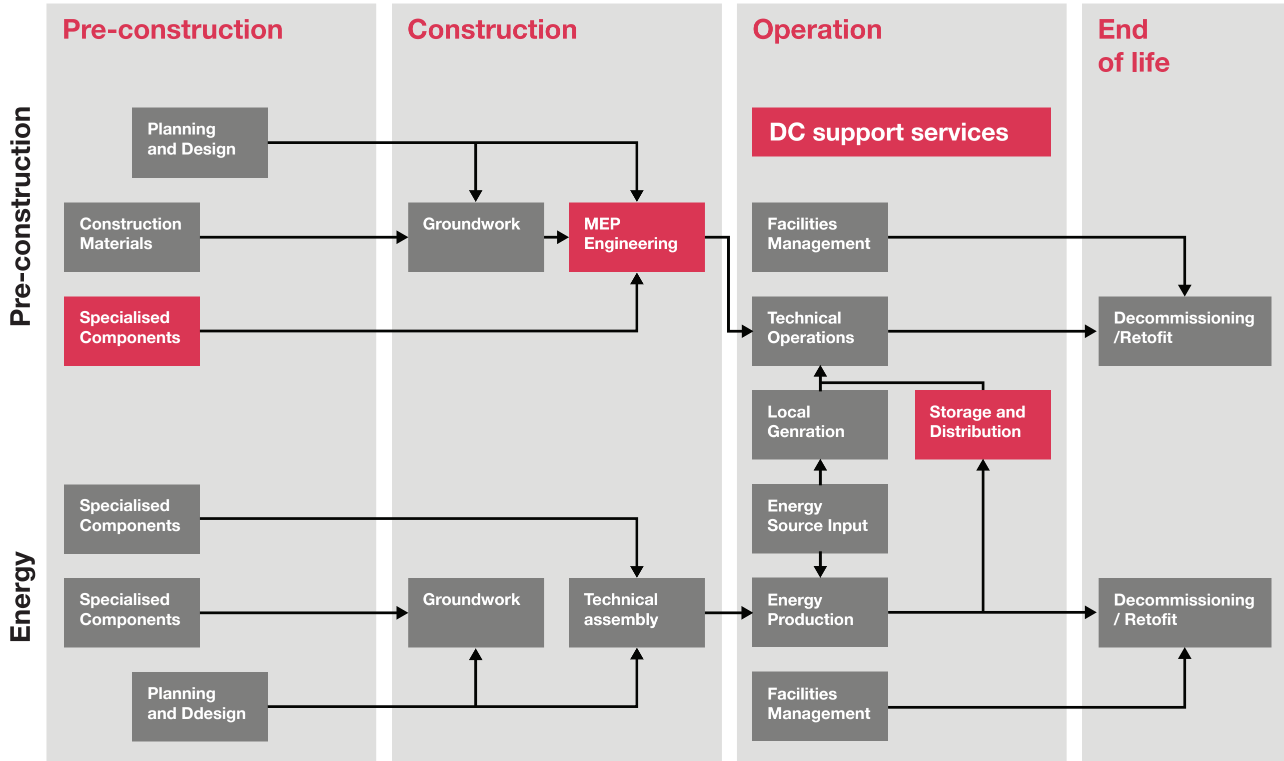
Larger capital budgets for key government departments are expected to drive rising activity.

Ongoing work as part of the New Hospital Programme and the School Rebuilding Programme has supported in year spend growth of c.4% in New Build. While the sector continues to remain relatively underfunded compared to pre-Covid level we anticipate strong growth in the forecast period, up to c.4% in 2027. This is driven by to the relaxation of government borrowing rules to the Public Sector Net Financial Liabilities framework enabling larger capital budgets for the Departments of Education and Health as well as a sharp increase in activity in the corrections sector due to the ongoing capacity constraints in UK prisons.

R&M activity in the sector is also expected to perform strongly given the challenges posed by RAAC replacement and as a route to expand capacity of key public buildings through refurbishment and retrofit works.

Data Centre and Energy Tailwinds

Investment into Data Centres and associated energy demand will present significant opportunities for suppliers across the Data Centre and Energy Infrastructure value chain.



As discussed earlier in the report, Data Centre (DC) construction is expected to drive growth in Commercial real estate over the forecast period. Global demand for DC's is driven by increasing computing requirements, not least from growing usage of AI and large language models (LLMs) but also as part of ongoing trends related to cloud migration, use of streaming services and IoT proliferation. The UK remains a leading destination for DC investment, accounting for c.20% of the Europe's spend in 2024 owning to a friendly legislative environment and strategic geographic location, combined with suitable network infrastructure.

While Data Centre construction is a tailwind across the value chain there are a number of areas best positioned to benefit from the rise in activity. From a materials perspective, manufacturers of specialised components from GPU's to server racks and specialised wiring components are seeing unprecedented demand for products. Further along the value chain, MEP contracting firms have seen tailwinds due to the importance of cooling and spend is expected to continue to grow with rising rack density and power consumption. Finally, in the operations stage there are a number of services required to prepare and maintain DC's for activity e.g installation of building management systems and maintenance services for critical operations. Across the value chain we expect to see 'best-in-class' providers perform strongly given the high costs associated with DC downtime and the less price sensitive nature of end client.

Given the huge power consumption of DC's there are going to be secondary impacts into the energy sector. In particular we see strong demand for high voltage batteries and transformers essential in meeting DC energy demands alongside grid infrastructure investments. Navigating shortages will be essential in completing projects and cementing the UK's position as a leading hub.

Value Creation Opportunities

Construction companies are faced with a number of challenges which have the potential to disrupt their ability to retain market share, and dilute margins. Labour shortages and labour retention continue to remain a challenge in the construction industry.

The shortage of labour has driven up competition, and therefore costs, putting additional pressure on margins. As a result, there has been an increase in M&A activity in the sub-contractor market – focussed on both extending capacity and capabilities - which is set to continue.

Engineering and Construction companies are also encountering **cost pressures** which has driven the need for value creation within their businesses. These include:

1. Unplanned delays on schedule, which protract labour and equipment costs on site. Such costs are rarely recoverable and impact margin on construction projects. Several construction companies are moving towards greater vertical integration along the construction value chain. This ensures skill in-house and de-risks the construction programme to ensure required specialist skills are available on time, protecting the construction schedule, and, the bottom line on projects. A continued drive towards digital innovation in the management of prelims is also helping construction companies manage their assets more efficiently and preserve construction margins.
2. Supply chain disruptions, including continued changes in international trade dynamics, are likely to drive continued cost reduction activity within construction companies as they seek to review procurement practices and operational practices to procure materials, equipment, and services at the best rates. Streamlining and tech-enabling operations to ensure the most cost-efficient use of resources will continue to be an area of focus in this dynamic market.
3. Upcoming legislation, such as the Procurement Act 2023 (enforced in 2025) and Carbon Border Adjustment Mechanism (to be enforced in 2027) which are driving a push towards more sustainable practices within the Engineering and Construction industry. This is likely to drive greater M&A activity in the industry as Engineering and Construction companies bolt-on (or divest assets) which will support their ability to meet requirements (e.g., net-zero targets). BGEN acquisition by M Group in 2024 is one such example of M&A activity to build additional sustainability capability.

Whilst construction activity remains subdued within housebuilding (despite the Government's target of 5 million new homes by 2029) and public infrastructure, there is a **steady pipeline of activity in some sectors** such as data centre construction and fit out across Europe. The current climate is likely to prompt additional M&A activity as companies seek to:

1. Divest non-core business to focus on their long-term strategy for growth. For example, the recent sale of Keltbray's Infrastructure business is likely to allow greater focus on their core offering within the built environment sector. There is also a growing trend of companies contemplating divesting non-core assets, which are gaining interest from strategic buyers.
2. Acquire assets which strengthen their capabilities and resource to pursue additional market share in growing end sectors. For instance, Suir Engineering's recent acquisition of Taylor and Fraser, a small MEP company bolsters their ability to deliver further data centre construction projects.

Contact us

Do not hesitate to get in contact if you would like to discuss any of the explored themes.

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