



PwC Construction and Housebuilding Outlook

March 2026



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Overall construction outlook





Overall construction outlook

Welcome to the sixth edition of our Construction and Housebuilding Outlook, including an overview of the sector's performance in 2025 and spend outlook from 2026-2028.

This article provides a quantified view on the UK's spend outlook and a summary of drivers by segment, as well as insight into topics of interest in 2026 and how to best position for growth in the sector.

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

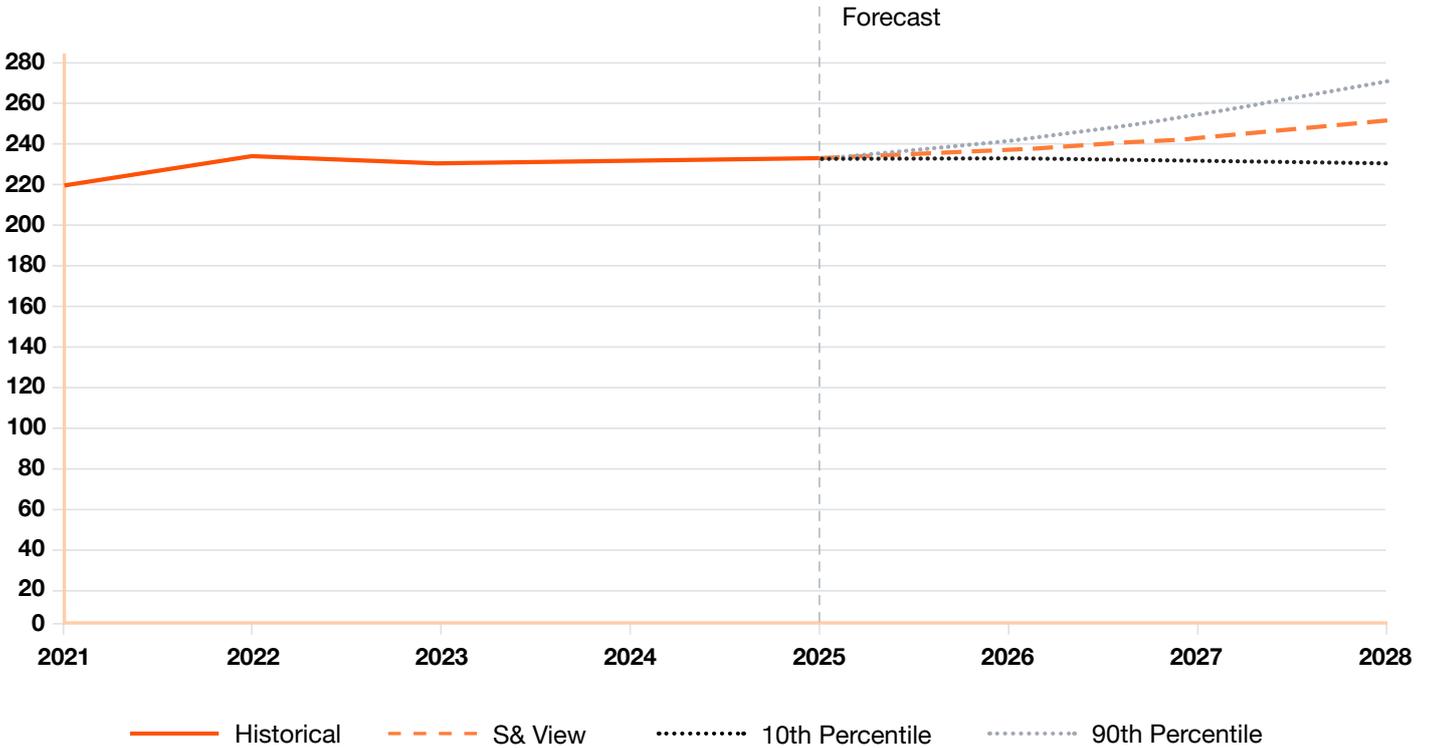
Note that all forecast figures remain subject to change and that all information is presented at 2025 constant prices.

Please contact us via Sam Edwards (samuel.edwards@pwc.com) if you have any observations or questions. The next iteration of our outlook will be published in Q3 2026.

Overall construction market

Graph of UK total construction output forecast 2021-2028F

Strategy& forecast for the overall construction market in the UK
 £bn - set to 2025 £ , 2021-2028F



	2022	2023	2024	2025	2026	2027	2028
CAGR	7.3%	-1.2%	-0.3%	1.1%	1.7%	2.9%	3.5%

Following two consecutive years of contraction, the UK construction sector returned to modest real output growth of c.1.1% in 2025, broadly in line with forecasts. Our outlook for the next three years is one of steady but strengthening growth, led increasingly by infrastructure and underpinned by improving confidence in the financing environment, with YoY growth of 3.5% forecast for 2027-2028.

The return to growth in 2025 was uneven across sectors. Delivery of public spending in health and education, and infrastructure activity in energy and utilities, provided the principal support. Private housing and commercial construction remained weak. Activity stabilised rather than rebounded, reflecting subdued private demand despite gradually improving financing conditions.

Looking ahead, growth in 2026 is expected to remain measured as private sector confidence continues to recover. Residential construction should strengthen gradually as borrowing costs ease, though affordability constraints will limit the pace of expansion. Commercial activity is likely to improve more slowly, reflecting cautious investor sentiment and soft development pipelines. From 2027 onwards, multi-year infrastructure programmes, including in energy, water and defence, are expected to drive broader growth, which should become more visible toward the end of the forecast period.

Comparison vs previous forecast

	Actual vs Forecast	Forecast vs Forecast	Forecast vs Forecast
	2025	2026	2027
September 2025	1.0%	3.1%	3.6%
March 2026	1.1%	1.8%	3.0%
Residential	0.4%	-3.2%	-1.5%
NR - Commercial	-9.0%	-1.6%	-0.6%
NR - Industrial	17.3%	0.5%	0.6%
NR - Other	13.6%	-1.3%	-0.4%
Infrastructure	-0.3%	-0.4%	0.9%
Total New Build	0.5%	-1.7%	-0.5%
R&M Residential	-0.4%	-0.5%	-1.8%
R&M Other	-0.6%	0.2%	-0.4%
Total R&M	-0.5%	-0.1%	-1.1%

Our H2 2025 report forecast a YoY growth of 1.0% broadly in line with wider market commentators. The latest data suggests that real output grew broadly in line with forecasts at the headline level but with significant variation across subsectors.

Industrial and public non-residential activity materially outperformed expectations, while commercial construction was substantially weaker than anticipated. Residential stabilised slightly more quickly than forecast, though volumes remain subdued.

Considering the challenging economic and policy landscape in the UK, we have revised our agreed 2026 forecast down by 1.4 pp, with 2027 moderated down by 0.7 pp. The downgrade primarily reflects a slower recovery in residential and commercial new build, alongside a more gradual ramp-up in infrastructure transport schemes. While industrial and public pipelines remain supportive, we now expect growth over the forecast period to be flatter and more backloaded into 2027 than previously assumed. Below we expand on the rationale for the outlook by segment.

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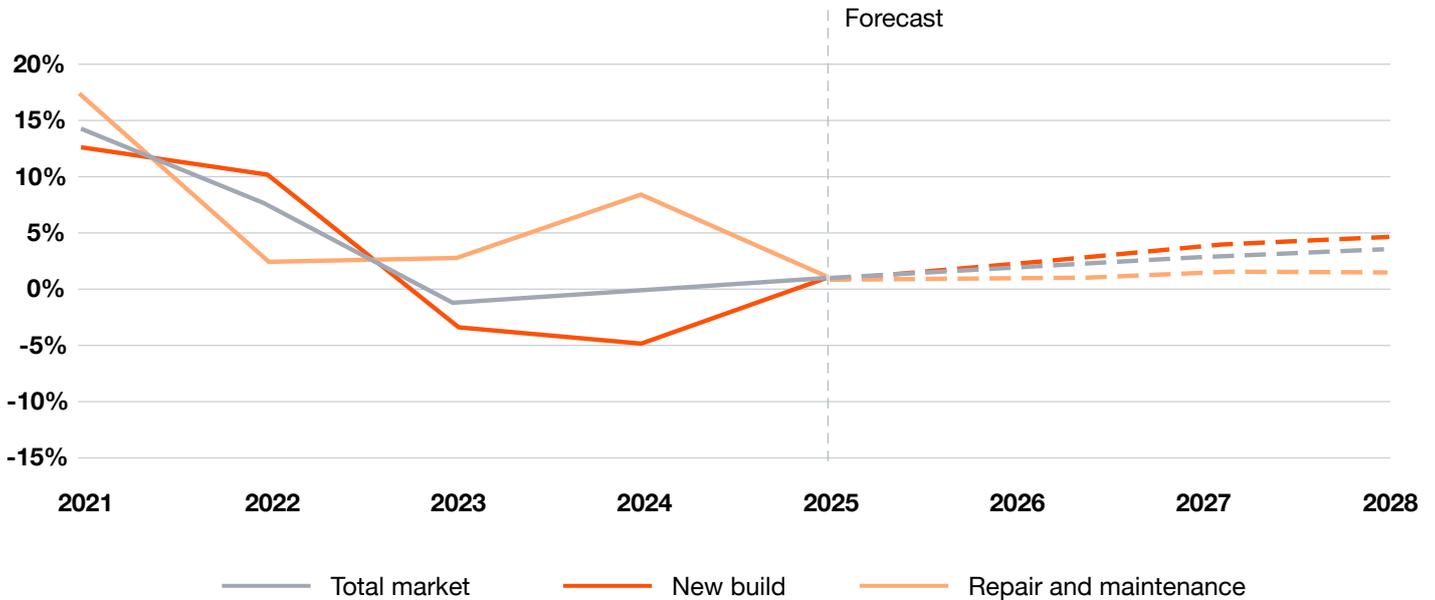


**Repair and
maintenance
vs new build**

Repair and maintenance vs new build

UK total construction output forecast by repair and maintenance vs new build

Graph of UK total construction output forecast 2021-2028F (R&M vs NB)



New build and repair and maintenance (R&M) growth rates converged in 2025, following several years of R&M outperformance. While R&M activity rose strongly post-Covid, it stabilised in 2025 and is forecast to grow modestly over the next few years. New build, by contrast, returned to growth in 2025 and is expected to maintain that trajectory with low-to-mid single digit growth over the forecast period.

Within R&M, residential activity is forecast to slow following three years of mid-single digit growth, as discretionary household spending remains subdued despite improving real wages. Higher borrowing costs have weighed on transaction volumes, limiting post-transaction improvement works, with activity increasingly concentrated in compliance-driven upgrades such as EPC improvements, fire safety remediation and Building Safety Act requirements. Growth therefore remains positive but modest across the forecast period.

Non-residential R&M is expected to perform more steadily, supported by refurbishment and upgrade activity across commercial and public estates. In offices, a continued “flight to quality” and minimum energy-efficiency requirements to come into effect in 2028 and 2030 are driving fit-out and upgrades to existing stock, while public estate programmes in health, education and defence underpin baseline maintenance demand.

New build activity is forecast to strengthen gradually over the period, reaching mid-single digit YoY growth by 2028, supported by rising investment in energy generation, electricity networks and water infrastructure, alongside sustained industrial activity linked to factory, defence and advanced manufacturing projects. Life sciences and data centre developments provide resilience within commercial markets despite a weak retail outlook. Residential construction is expected to recover slightly as monetary easing improves affordability, though borrowing costs remain above pre-tightening levels and planning delays and elevated labour costs continue to constrain pace. Broader commercial construction, particularly offices and retail, is likely to remain subdued in the near term before recovering gradually over the forecast period.

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New build market segments



New build market segments

New build by segment table

Growth rate by new build segment

Segment	Historical data					PwC S& forecast		
	2021	2022	2023	2024	2025	2026F	2027F	2028F
Residential	18.3%	20.4%	-11.3%	-6.3%	0.0% (£57bn)	2.0%	4.5%	6.7%
NR - Commercial	-7.1%	-2.4%	3.3%	-3.0%	-8.9% (£26bn)	1.7%	2.8%	3.5%
NR - Industrial	3.2%	42.0%	-4.2%	1.0%	19.3% (£11bn)	1.5%	2.4%	4.3%
NR - Other	-1.0%	-10.7%	9.0%	6.5%	18.3% (£38bn)	3.1%	3.5%	1.0%
Infrastructure	31.9%	5.0%	3.2%	-8.7%	1.0% (£147bn)	3.1%	4.2%	5.7%
Total New Build	12.4%	10.0%	-3.1%	-4.9%	1.3%	1.6%	0.8%	5.1%





Residential

The outlook remains constrained in the near term, with affordability pressures, weak transaction levels and regulatory challenges continuing to weigh on activity across public and private housing.

Following contractions in 2023 and 2024 under tight financial conditions, output stabilised in 2025, with recovery projected to accelerate later over the forecast period. While the medium-term outlook remains positive, we remain cautious regarding the Government's ambition to deliver 1.5 million homes within this Parliament, given ongoing structural and cyclical constraints.

Private residential construction continues to face some demand- and supply-side frictions. Housing market activity has stabilised at c.100k transactions per month, following a Q1 spike ahead of stamp duty changes, but remains well below pre-pandemic norms (c.120k) despite easing rates. Falling inflation figures have increased the likelihood of further rate cuts, which may help to lower mortgage rates and improve affordability, and decrease dependence on non-price incentives offered by developers.

On the supply side, capacity constraints persist. Labour costs rose following the 2025 Autumn Budget and materials prices remain elevated relative to pre-2022 levels. Planning delays and regulatory complexity continue to constrain land pipelines

and viability, with high-rise schemes in particular subject to extended Gateway 2 approval timelines under the Building Safety Regulator scheme. Higher council tax premiums on second homes have added some price uncertainty, although concerns about the Government introducing NICs on rental income have, for now, eased.

Public housing delivery is expected to remain subdued in the near term. Housing associations face significant financial pressure, with sector debt exceeding £130bn and higher interest costs remaining materially above pre-tightening levels. Elevated construction cost inflation has reduced scheme viability, while capital is being directed towards remediation, decarbonisation and safety compliance rather than new development. Over the medium term, however, £39bn of investment through the Affordable Homes Programme, together with the CPI+1% rent settlement, improves funding visibility and income certainty. While 2026 is likely to mark only the early phase of recovery, stronger growth is expected later in the forecast period as financial capacity stabilises, and funding allocations convert into on-site delivery.





Commercial

The outlook for the commercial sector remains weak, reflecting ongoing contraction in offices and retail, with investment in life sciences providing a partial offset.

Commercial new build activity was materially weaker in 2025 than anticipated in our previous edition, with real output contracting by approximately 9%. The contraction reflected persistent weakness in office and retail demand, where weaker occupier demand and elevated borrowing costs have undermined development viability.

Recovery is expected to be gradual, with offices remaining the primary drag. Speculative development is limited, particularly outside London, and elevated vacancy rates beyond prime Central London continue to constrain activity. Development is increasingly concentrated in prime, ESG-compliant space, reflecting the ongoing flight to quality: Grade A vacancy in the Big Six regional cities stands at c.3.6%, compared with overall regional vacancy of c.8%, highlighting weaker demand for lower-grade stock (JLL). As hybrid working patterns persist and in anticipation of Minimum Energy Efficiency Standards, refurbishment of existing buildings is being prioritised over new build.

Longer-term pipeline signals in Central London are positive: the City of London Corporation recorded its highest number of planning applications in a decade in 2025, indicating sustained commitment to prime office developments, though most of this activity would sit beyond the forecast horizon.

Retail new build remains structurally challenged. Continued weak demand for shopping centres and department stores is redirecting capital away from new developments and towards regeneration and refurbishment, as well as into logistics and distribution assets aligned with sustained e-commerce growth.

Technical buildings remain the main area of strength. Cambridge, London and Oxford continue to expand life sciences capacity, including the c.£1 billion expansion of the London Cancer Hub, c.£3bn investment in the expansion of the Cambridge Biomedical Campus, and ongoing construction of the One North Quay Life Science Building in Canary Wharf.





Industrial

Investment in large-scale manufacturing, renewable energy and aerospace and defence has driven sharp growth and established a strong forward pipeline in the industrial sector.

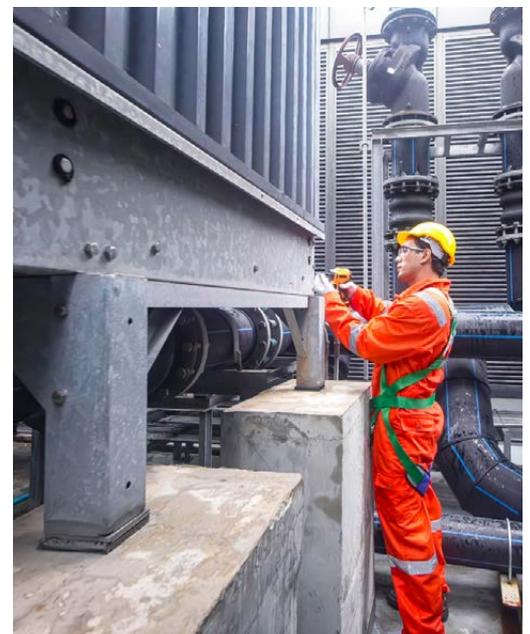
Industrial output is estimated to have risen by 19.3% in 2025 (£11bn), significantly above earlier expectations, reflecting structural trends in energy transition, electrification, and defence.

Factory construction remains the main growth driver, underpinned by a strong pipeline of major projects including Tata's £4bn Somerset gigafactory and Nissan and Envision AESC's second and third Sunderland battery plants. Investment continues across renewable energy supply chains, particularly subsea cable and wind component manufacturing. Key schemes include LSEAC's proposed £923m cable plant at the Port of Tyne and Siemens Gamesa's Hull expansion. Aerospace and defence investment is becoming an increasingly key contributor to factory activity. The Government has committed £1.5bn in additional defence spending, with further increases under consideration. Recent projects include Rheinmetall's gun barrel facility in Telford, MBDA's Bolton weapons site expansion, and Rolls-Royce's expansion of its Raynesway nuclear submarine manufacturing facility.

Data centres continue to attract substantial capital commitments, with major operators and investors, including Microsoft, Google, Amazon and Blackstone, announcing multi-billion-pound UK projects, including Blackstone's £10bn hyperscale facility in Northumberland, approved in 2024. However, grid capacity constraints and connection delays are likely to limit near-term delivery, with larger-scale acceleration more likely from 2027 onwards.

The warehouse sub-sector has returned to more typical levels of activity following the exceptional surge seen during the pandemic. After a sharp contraction in 2024, output recovered modestly in 2025, but the underlying pipeline remains muted, with new orders significantly below their post-pandemic peak. That said, the UK's largest speculative development began in Swindon in May, and Amazon is set to open more fulfilment centres in the coming years as part of their £8bn investment plan.

Overall, the sector's medium-term outlook remains positive. Growth is expected to strengthen toward the end of the forecast period, albeit at a more measured pace than in 2025, as major defence and energy-transition programmes sustain factory workloads and data centre delivery accelerates.





Infrastructure

Energy and water are driving growth in infrastructure investment as transport activity remains subdued.

Infrastructure output growth was modest at c.1.3% in 2025, reflecting delays in major transport schemes, with several road schemes cancelled and rail activity now weighted toward the later years in Control Period 7. The composition of infrastructure work is also shifting, with private and consumer-funded sectors playing an increasingly important role.

Growth is expected to strengthen from 2026 onwards, with output rising by c.3.1% in 2026, 4.2% in 2027 and 5.7% in 2028. This improvement is underpinned by sustained expansion in electricity generation and transmission, alongside an acceleration in water and sewerage investment under AMP8.

Major nuclear projects continue to anchor long-term activity – they include construction at Hinkley Point C and early works at Sizewell C. Alongside generation, transmission investment is scaling up under Ofgem's RIIO-3 framework, with £28bn of initial approved expenditure and the potential for a substantially larger programme over the period.

In water, there is record investment under AMP8, with Ofwat's £104bn five-year spending programme through 2030, including £44bn targeted at new infrastructure and enhancements targeted at storm overflow upgrades, nutrient removal and supply resilience schemes.

By contrast, the outlook for transport remains more constrained. Rail output is expected to soften in 2026 amid uncertainty surrounding the HS2 reset. Roads activity is similarly subdued, with RIS3 prioritising maintenance and renewals over large-scale enhancements, and major schemes such as the Lower Thames Crossing unlikely to contribute materially within the forecast window.

Overall, the medium-term outlook is strengthening. Accelerating investment in energy and water is expected to drive infrastructure expansion through to 2028, offsetting transport weakness and reinforcing the sector's strategic role in supporting the UK's decarbonisation and resilience objectives.





Health, education and other non-residential

Increased public budgets in health and education underpin a healthy public non-residential pipeline over the forecast period.

Public non-residential output significantly outperformed expectations in 2025, expanding by over 18%, reflecting stronger-than-anticipated delivery in health and education. The pipeline remains healthy, with the Department for Education's budget set to rise by c.£1.5bn to £8.3bn in 2026/27 and the Department of Health and Social Care's capital budget increasing to £14bn in 2026/27.

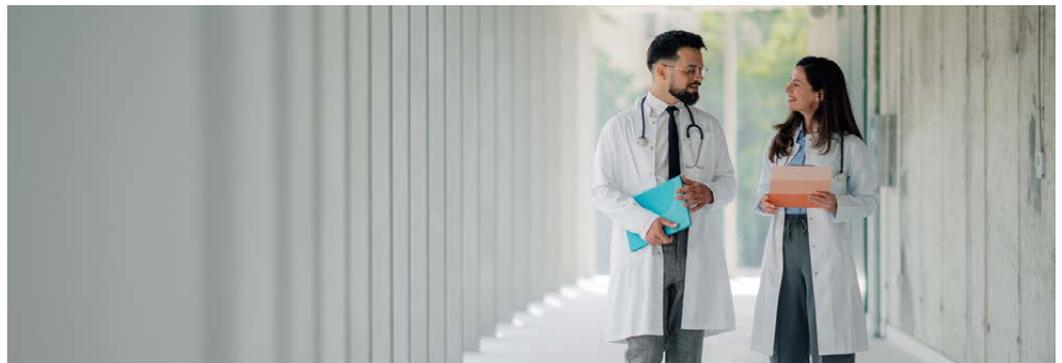
In health, momentum is building under the New Hospitals Programme (NHP), supported by the uplift in the Department of Health and Social Care capital budget. Wave 0 schemes are progressing on site, while Wave 1 projects are expected to begin construction from 2027. Plans for 250 Neighbourhood Health Centres and continued NHS estate maintenance funding further support activity. After strong growth in 2025 and 2026–27, output is expected to stabilise at a higher base.

Education construction has also strengthened. The increase in the Department for Education's capital budget in 2026/27 is accelerating the School Rebuilding Programme, with funding materially above prior years. The programme will continue

to address aerated concrete remediation and wider estate condition issues, while investment in Special Educational Needs and Disabilities capacity and technical colleges is expected to support output growth over the next two years.

Across the wider 'other' public non-residential subsectors, a steady stream of projects under the Prison Capacity Strategy, rising Ministry of Defence investment to rebuild and refurbish military family housing over the next decade, and the Government Property Agency's hub programme, including opening office buildings in Darlington (construction from 2026) and Manchester (opening in late 2026) — supports a stable pipeline over the forecast period. However, cost inflation, supply chain constraints and departments' ability to convert capital allocations into timely delivery remain key risks.

Overall, while the funding backdrop is stronger than in recent years and supports continued expansion, the outsized growth recorded in 2025 is unlikely to be repeated, with the segment returning to more sustainable rates of increase through the remainder of the forecast period.



04

**The UK
infrastructure
opportunity**



Value creation and consolidation within the construction industry

In 2026, activity across infrastructure, built environment services and non-residential R&M is expected to grow further, driven by ageing UK infrastructure and Government programmes. The stronger engineering and construction players will maintain diversified order books, pursue targeted, value-accretive M&A, and continue optimising operations to protect and enhance margins.

Infrastructure remains one of the strongest growth areas in UK construction. Government backed programmes across healthcare, education, energy, rail, water and flood defence are driving long-term capital deployment nationwide. The Planning and Infrastructure Act (December 2025) should further accelerate delivery by streamlining approvals and reducing friction across major projects.

At the same time, private capital continues to flow into digital infrastructure and energy transition assets, where structural demand remains strong.

This backdrop is shaping M&A strategy. Engineering and construction groups are pursuing acquisitions to deepen capability and increase capacity in energy, water and rail, positioning themselves to capture larger shares of expanding frameworks. A diversified order book remains central to stable revenue growth.

However, growth alone is not enough. Margins remain under pressure from supply chain instability, labour constraints and residual inflationary effects. Value is increasingly determined by execution: disciplined bidding, robust pricing, tight contract management, and efficient deployment of labour and assets. Digital tools and real-time performance tracking are no longer optional; they are core margin protection levers. Investors are scrutinising whether businesses can convert revenue growth into sustainable cash generation.

Alongside infrastructure, non-residential R&M and broader built environment services continue to expand, supported by ageing UK building stock and recurring service demand. The sector has seen sustained consolidation and investment, a trend likely to continue into 2026. Acquirers are seeking geographic scale, broader end-to-end capability and greater labour density to strengthen competitive positioning.

But consolidation only creates value if integration delivers. Synergies must be realised through back-office rationalisation, procurement scale, and streamlined operating models. Benefits need to be quantified, tracked and translated into cash to support further buy-and-build strategies.

In a growing but margin-sensitive market, scale without discipline destroys value. The businesses, or investor, that combines strategic M&A, operational rigour and hard-edged synergy delivery will convert sector growth into durable returns.





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