PwC Construction and Housebuilding Outlook

September 2025

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Overall construction outlook

Overall construction outlook

Welcome to the fifth edition of our 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 insight into topics of interest in 2025 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.

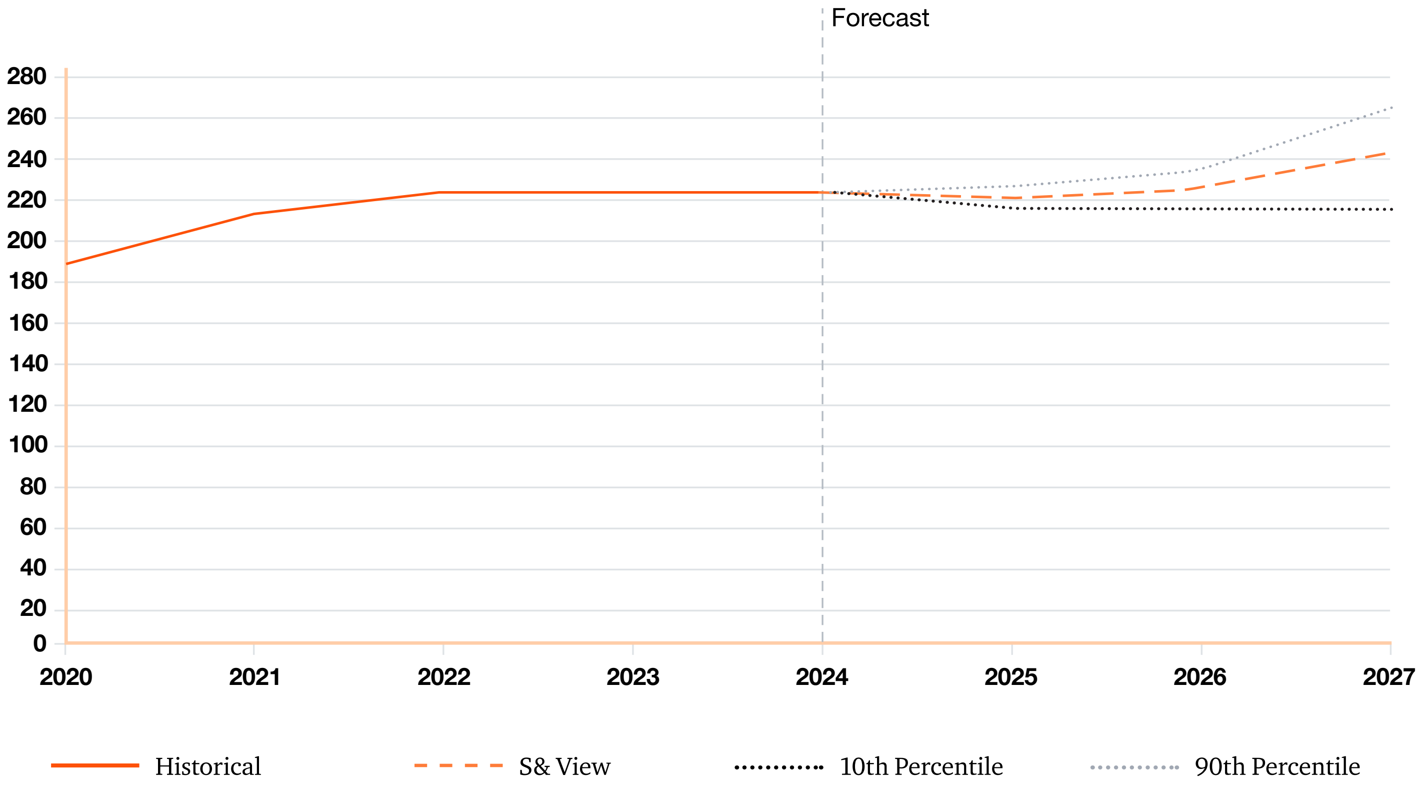
Note that all forecast figures remain subject to change and that all information is presented at 2024 constant prices.

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 Q1 2026.

Overall Construction Market

Graph of UK Total construction output forecast 2020-2027F

S& Forecast for the Overall Construction Market in the UK
£bn - set to 2024 € , 2020-2027F



	2020-22	2022-24	2025	2026	2027
CAGR	10.0%	-0.5%	1.0%	3.1%	3.6%

Despite ongoing challenges across housebuilding and commercial segments, our forecast anticipates the UK construction sector continuing to grow in 2025 with real output rising by c.1%, before further acceleration in 2026-27.

While higher interest rates and subdued private sector demand remain a headwind, the short and medium-term outlook remain positive. The Bank of England is widely expected to continue rate cuts into 2026. At the same time, policy support via planning reform, increased housing and energy infrastructure commitments, and ongoing public investment in schools and hospitals are expected to underpin an increase in growth in the coming years, which is reflected in our forecast.

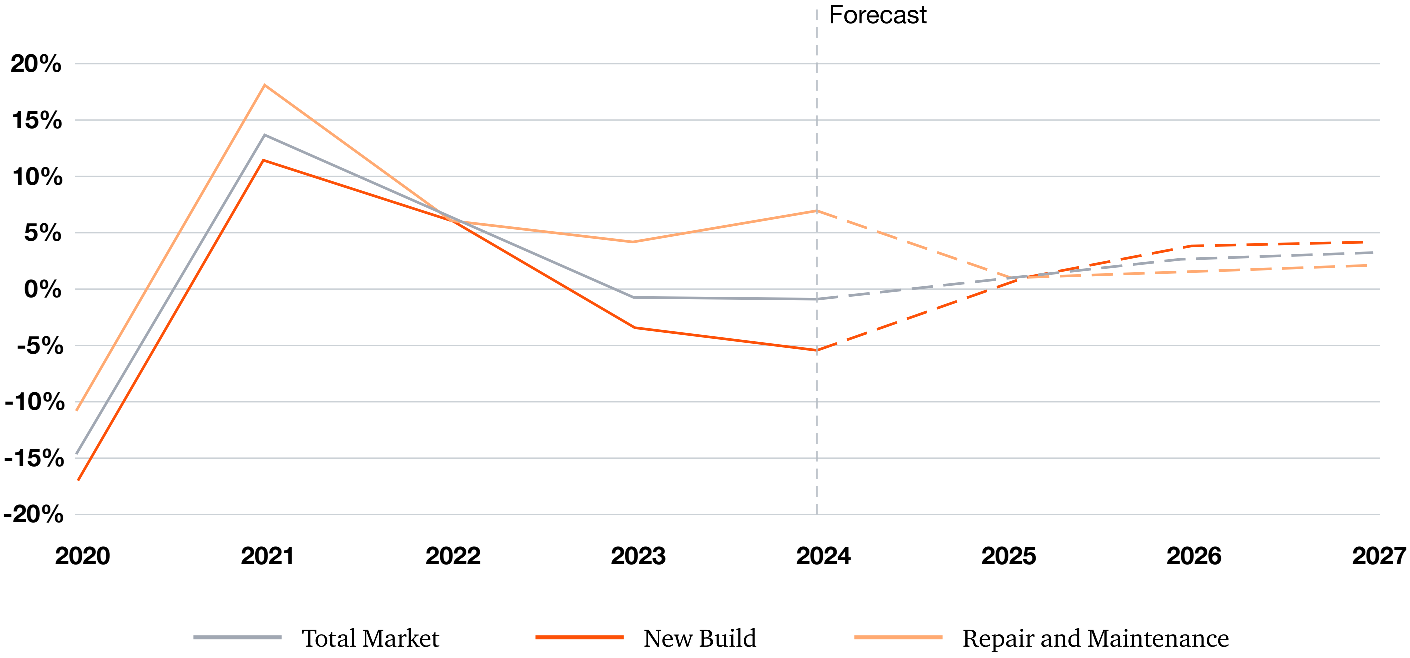
02

R&M vs New Build

R&M vs New Build

UK total construction output forecast by New Build vs Repair and Maintenance

Graph of UK Total construction output forecast 2020-2027F (R&M vs NB)



Repair and Maintenance (R&M) has begun to normalise relative to New Build in 2025, with the gap narrowing after several years of consistent outperformance. Whereas R&M activity has grown strongly since Covid, New Build is now expected to stabilise and return to growth from 2025, shifting the balance of momentum back towards new construction over the medium term.

Within R&M, we forecast a slowdown in Residential, following three years of mid-single digit real growth, as discretionary spending is subdued despite real wage growth and falling mortgage rates. Higher borrowing costs are weighing on transaction volumes, limiting post-transaction remediation spend and, activity is concentrated in compliance-driven works such as EPC upgrades and fire safety remediation.

By contrast, Non-residential R&M is expected to continue to grow strongly, driven by a "flight to quality" in commercial assets. In London, c.80% of new office space occupied in H1 2025 was refurbishment driven, reflecting landlord preference for quicker, more sustainable delivery amid limited new supply in office and retail segments. In combination with BAU activity in the sub-segment we expect stronger performance than the residential segment in 2025.

Looking further ahead, the long-term outlook for R&M remains positive given the policy environment. Structural drivers including the Building Safety Act, the Social Housing Decarbonisation Fund, and rising minimum energy performance standards are expected to underpin c.1–2% annual growth across the forecast period.

03

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			
	2020	2021	2022	2023	2024	2025F (H1)	2025F (H2)	2026F	2027F
Residential	-20.8%	17.8%	12.7%	-12.7%	-4.2% £bn 52	1.4%	-0.3%	5.2%	6.0%
NR - Commercial	-21.9%	-6.9%	-1.0%	4.7%	-5.3% £bn 28	1.7%	0.1%	3.3%	3.4%
NR - Industrial	-18.5%	3.4%	44.0%	-2.7%	-4.2% £bn 8	-0.9%	2.0%	1.0%	1.8%
NR - Other	-8.1%	-1.0%	-10.2%	9.8%	5.4% £bn13	3.0%	4.6%	4.3%	3.9%
Infrastructure	-4.1%	28.7%	2.0%	3.5%	-9.8% £bn 34	1.8%	1.3%	3.5%	3.4%
Total New Build	**-16.6%**	**11.6%**	**6.5%**	**-3.0%**	**-5.1%**	**1.6%**	**0.8%**	**4.0%**	**4.3%**

Residential

Outlook remains positive, however macroeconomic conditions have further delayed recovery of residential construction activity.

Reducing interest rates are expected to support recovery in residential construction, but we forecast a slower rebound than in our earlier edition, with real output contracting slightly in 2025 before strengthening into 2026–27 given a slower-than-expected rate cuts and ongoing challenges on both the supply and demand side. Our scepticism on the governments ambition to deliver 1.5 million homes in this Parliament is reinforced, despite the positive medium-term outlook.

Private residential construction continues to be held back by both demand and supply-side frictions. On the demand side, the housing market remains subdued despite signs of stabilisation. Following acceleration in Q1 ahead of stamp duty changes transactions have since stabilised at c.100k per month well below the c.120k monthly average seen pre-pandemic. Mortgage approvals picked up in late 2024 as rates eased, but the slow pace of monetary easing has kept affordability stretched. Developers report that incentives such as mortgage contributions and deposit assistance are increasingly necessary to sustain sales.

On the supply side, capacity remains constrained. Labour costs rose following the Autumn Budget, adding to elevated materials prices, while uncertainty around the timing of further MPC rate cuts has dampened confidence to restart delayed projects.

Housebuilders have also been cautious in adding to land pipelines, reflecting persistent planning bottlenecks. Publicly listed builders have guided to only a modest increase in completions in 2025, reflecting a focus on preserving margins rather than volumes. These market dynamics are compounded by fiscal and regulatory uncertainty. Potential NIC on rental income in addition to increased council tax on second homes raises uncertainty about the price outlook for the housing stock. Simultaneously, the struggle housebuilders face in estimating liabilities with respect to past developments and the BSA reduces risk appetite and investment capacity.

Following the Spending Review the outlook for social housing has improved, with the review confirming an uplift to the Affordable Homes Programme, taking total planned investment to £39bn over the next decade. However, competing pressures continue to constrain delivery in the short to medium term. Higher expenditure requirements linked to the Building Safety Act and EPC legislation are diverting resources to refurbishment, while tight fiscal headroom and restrictions on raising rental income limit capacity for new build. The confirmation of a long-term CPI+1% rent settlement provides greater certainty for housing associations and investors and supports an improved outlook for the subsector despite risk from some ongoing fiscal uncertainty.

Commercial

Commercial activity remains polarised, with strength in life sciences and data centres offset by persistent weakness in offices and retail.

Our forecast for commercial new build has been revised down, with output expected to remain flat in real terms in 2025 given continued decline in traditional segments, before strengthening in 2026–27 as conditions improve.

The office segment remains subdued. Investment activity is weak, with office transaction volumes reported to be around 40% lower year-on-year in H1 2025 (Savills). Vacancy outside central London has risen to its highest in two decades, and the office pipeline is now at its weakest since 2018 (Hewes). Underlying market conditions for sub-prime office space remain weak, reflective of sustained change in working patterns with businesses continuing to leverage hybrid working.

Retail new build remains structurally weak, with few new shopping centre or leisure schemes in the pipeline and development activity instead focused on refurbishment and mixed-use regeneration such as the Broadgate redevelopment in London and the Manchester Arndale refurbishment. Food store expansion also remains muted as major grocers focus on online fulfilment and convenience formats.

Technical buildings remain the strongest driver of activity. Oxford, Cambridge and London continue to be leading European life science markets. New schemes such as Granta Park Phase 3, Oxford North and the Cambridge Biomedical Campus are adding to a record pipeline of projects. Data centre development continues to expand, underpinned by rising demand from AI and cloud computing. Major commitments include Microsoft's £2.5bn UK expansion programme, alongside new hyperscale capacity from Equinix and Digital Realty in West London and Slough. These segments are attracting significant capital and are expected to deliver high growth across the forecast period as conditions in traditional segments normalise.

Industrial

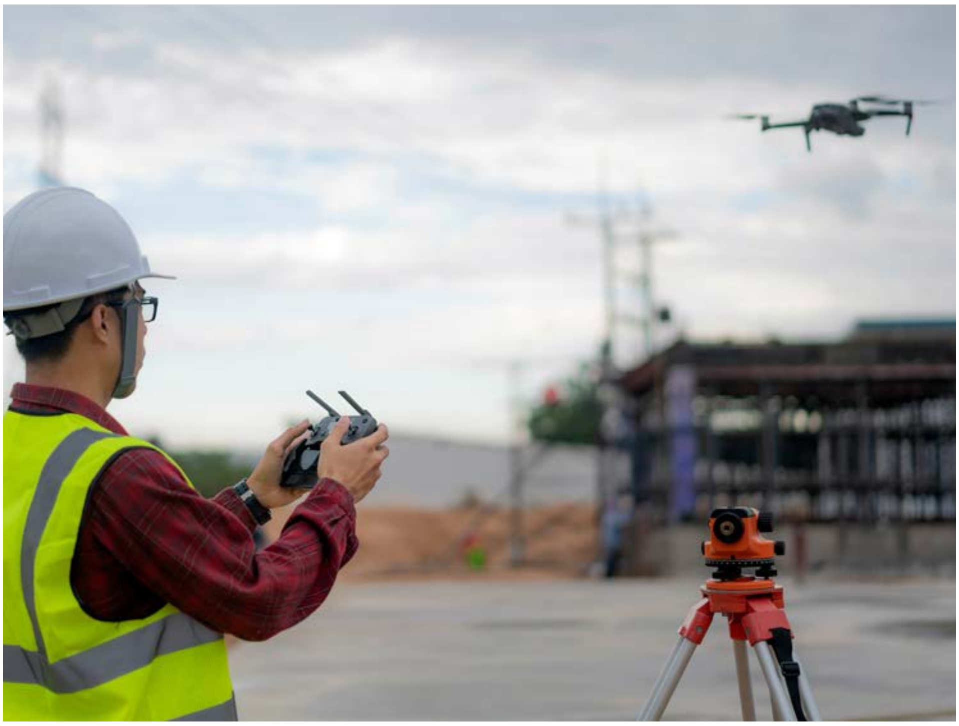
Industrial construction is benefiting from a growing factory pipeline tied to defence and advanced manufacturing, offsetting softer logistics activity.

Industrial output is forecast to grow by c.2% in 2025, a material upward revision from our earlier edition. This reflects stronger-than-anticipated factory building, driven by structural trends in energy transition, electrification and defence.

Further factory activity is supported by a pipeline of large-scale projects. Key schemes include the Tata battery gigafactory in Somerset, £1bn funding for AESC's Sunderland plant, and the continued fit-out of the XLCC cable facility in Ayrshire. Aerospace and defence investment is a key contributor to factory activity, with new Rheinmetall facilities in Telford, Rolls-Royce's small modular reactor programme in Derbyshire, and MBDA's £500m UK investment programme contributing to growth.

This level of activity is expected to be sustained in the medium term, supported by the government's £1.5bn commitment to A&D manufacturing announced in June and the structural shift in European defence spending.

By contrast, warehouse development remains slow following the wave of activity during Covid. Pipelines are materially lower than in recent years as developers scale back speculative schemes amid higher financing costs. Occupier demand is, however, supporting baseline activity in the segment, with major schemes such as DP World's £1bn expansion at London Gateway Logistics Park and Prologis' DIRFT expansion in Northamptonshire continuing to progress.



Infrastructure

Infrastructure spend continues to grow from historical highs, led by investment in energy and water.

Infrastructure output is forecast to grow by c.1.3% in 2025, reflecting a slower near-term trajectory relative to our earlier edition, namely due to delays in major transport schemes, with several road schemes cancelled and rail activity now weighted toward the later years in Control Period 7.

Our medium-term outlook has been revised up, with real-term growth of c.3–4% expected in 2026–27. The uplift is driven by expanding investment in energy and water. In energy, major projects include ongoing construction at Hinkley Point C, early works following recent approval of Sizewell C, and National Grid's £16bn transmission programme to reinforce the UK network. Offshore wind connections continue to expand, with 50GW in the development pipeline, and investment in EV charging infrastructure is scaling rapidly.

Water is also entering a period of unprecedented investment under AMP8, with Ofwat approving a record £104bn programme for 2025–30. This includes £44bn in enhancement spend targeted at storm overflow upgrades, nutrient removal and supply resilience schemes, significantly above AMP7 levels.

Together, these commitments underpin a stronger medium-term outlook, reflected in an active M&A market for vendors in the infrastructure value chain. While transport remains a drag in the near term, accelerating investment in energy and water is expected to drive infrastructure growth across the forecast period. We elaborate on trends in the sector in further detail later in our 'The UK Infrastructure Opportunity' feature.

Health, Education and other Non-Residential

Accelerated deployment of capital budgets supports strong performance of other non-residential segments.

Our forecast for public non-residential output has been modestly revised up, with growth of around 4-5% in 2025. This reflects stronger delivery in health and education than anticipated, with continued strength supported by government funding allocations and a clearer pipeline of refurbishment schemes.

In Health, output is being lifted by the ramp-up of hospital maintenance and modernisation projects. The £1bn allocation to the NHS estate in the Autumn Budget is beginning to translate into activity, with schemes such as Moorfields Oriel hospital and a wide base of backlog maintenance works supporting output despite delays to projects such as Whipps Cross and Leeds Teaching hospital redevelopments.

Education construction also retains strong momentum. The £550m increase to the School Rebuilding Programme is now supporting more than 100 projects in delivery or procurement, while universities across the UK continuing to invest in specialist research facilities and purpose-built student accommodation.

Other public non-residential continues to exhibit strength. Local authorities are progressing refurbishment and decarbonisation programmes for civic buildings, police and fire stations, while continued investment in the Defence Estate Optimisation Portfolio and expansion of the Ministry of Justice capital budget for prisons supports a steady pipeline of work through the forecast period.

04

The UK infrastructure opportunity

The UK infrastructure opportunity

The Infrastructure Services sector is in a period of sustained growth, with record investment in Power and Water. To support Government and Regulator objectives and capitalise on this opportunity, multi-disciplined capabilities are required, and operational discipline remains critical.

This remains a resilient, high-growth market segment, with particularly high growth opportunities in Power and Water given the scale of investment via AMP8 and the ongoing expansion of energy demand due to our electrification. For service providers, this presents a significant commercial opportunity to expand into specialist capability areas that demonstrate high growth and margin potential. Such services will become critical to infrastructure delivery and operations, as rising regulatory standards and efficiency pressures shape the next phase of build-out. Direct participation in infrastructure build also strengthens the ability to secure long-term O&M contracts, embedding service provision across the full asset lifecycle.

To deliver shareholder value through the cycle it is essential that providers exercise commercial discipline in project selection and capital deployment. While the capex cycle presents clear growth opportunities, not all projects or acquisitions will generate sustainable value. Firms must balance the attraction of higher-margin opportunities with the need to maintain earnings quality and resilience. Selective exposure to capital-intensive projects in power and water can provide upside in buoyant markets, but overreliance on projects revenue creates a risk of lower resilience. Ultimately, diversified groups with exposure across infrastructure verticals and to different work types are most likely to emerge as winners in the sector.

Operational execution is as important as market positioning. Strong balance sheets, clear visibility of project cashflows, and disciplined working capital management are critical to sustaining value in a sector characterised by long contract cycles and cost volatility. Investors are particularly focused on how service providers manage supply chain dependencies, labour availability, and regulatory compliance, as these can erode margins quickly if not tightly controlled. The ability to demonstrate repeatable delivery models, standardised project governance, and robust risk management influences investor confidence and valuations.

Equally, disciplined capital deployment remains essential in a buoyant M&A market. While M&A is an important route to build capability, premium valuations in power and water mean that assessment of synergies, earnings quality and sub-sector dynamics will be critical to sustaining returns. Even in verticals where prospects are more modest, platforms pursuing buy-and-build can deliver strong, sustainable IRRs, provided acquirers remain disciplined on hurdle rates and capital allocation.

Thank you

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