



Market Update: **The Elusive Equilibrium**

4Q 2025



Economic Overview

The industry remains cautiously optimistic amid a challenging economic environment. The OBR has conceded defeat on its bet to return to pre-financial crisis productivity levels, leading to a downgrade of its UK growth forecast.

The S&P Global UK construction purchasing managers index fell to 44.1 in October, the lowest since May 2020. The increase in Employers National Insurance contributions in April 25 has also hit the labour market driving inflation further impacting the Bank of England's ability to cut interest rates below 4%. With Consumer Price Inflation (CPI) remaining stubbornly high at 4.1% in September 25 (well above the governments 2% medium term target), the likelihood of further rate reductions are uncertain.

Construction output remains subdued, and while the governments 10-year infrastructure strategy announced in June 25 shows ambition, the absence of detail around funding and milestones has weakened market confidence. This uncertainty continues to constrain hiring confidence and internal reinvestment around technology.

The government continues to make positive signals around planning reform which is welcomed, and a recent reduction in London's affordable housing requirement from 35% to 20% offers some relief for scheme viability. Nonetheless, even at this lower threshold, developers today still face massive challenges including higher build costs, future inflation, ever changing regulatory requirements and planning delays.



Market Conditions

The start of the year brought strong anticipation around a robust recovery, however this did not materialise.

Nonetheless, the industry has remained stable without significant decline. Material costs have largely stabilized but remain susceptible to global shocks with continued increases observed in materials such as copper, rebar and aluminium.

Labour availability continues to pose a challenge, and pressures are expected to intensify in 2026 as the release of pent-up demand coincides with a surge in high-rise residential BSR approvals.

The MEP sub-contract market remains a key area of concern with data centre projects absorbing significant capacity, impacting both specialist labour and key plant lead in times with generators and transformers being of concern.

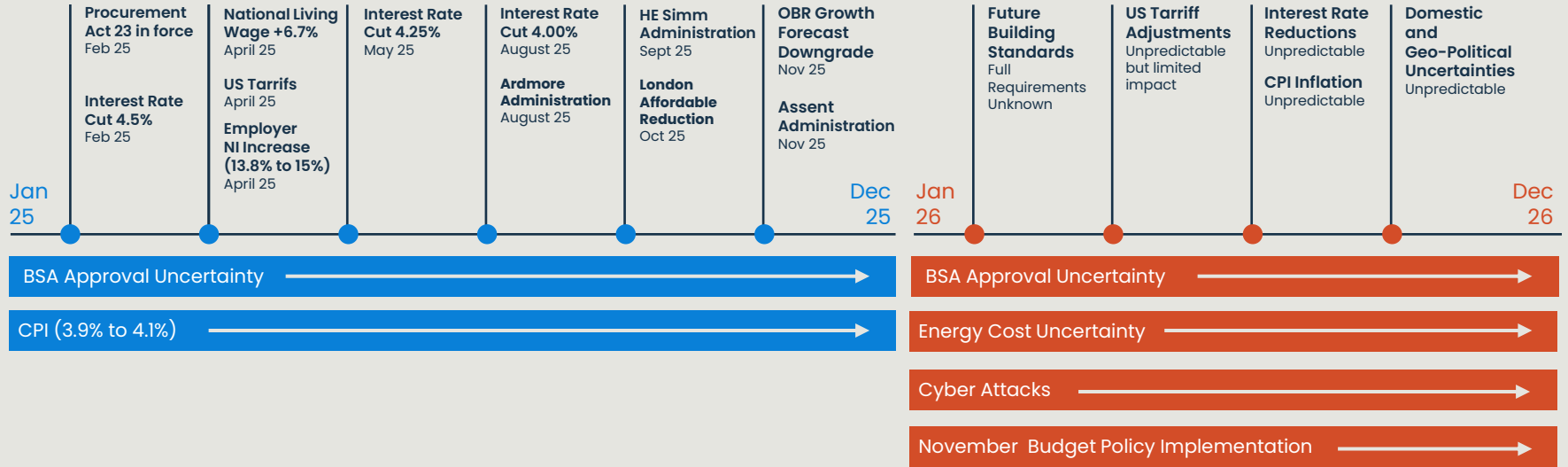
At the same time, commercial landlords are under pressure to improve EPC ratings achieving EPC C by 2027 and EPC B by 2030. These sectors offer more stability, and it is likely that the residential sector will need to offer a premium to secure the top tier of sub-contractors for their projects.

Summary	2025	2026	2027	2028
BCIS	2.27%	2.71%	3.12%	3.49%
Peer 1	2.25%	2.50%	2.50%	2.50%
Peer 2	3.00%	4.00%	4.50%	4.0%
Peer 3	3.00%	3.00%	4.00%	4.0%
Peer 4	3.00%	3.50%	3.50%	3.50%
Peer 5	3.25%	3.50%	3.75%	3.75%
Average	2.80%	3.20%	3.56%	3.54%
Our Prediction	2.50%	3.25%	3.50%	3.50%

Please note inflation may vary by project size, value, complexity, procurement route and region. Projects must always be assessed on an individual basis. Exchange rates must also be carefully monitored.



Market Conditions



Supply Chain

The last year has been challenging for most main contractors, many of whom have focused on consolidation and risk mitigation.

Fortunately, the industry has taken key lessons from both the financial crisis and the pandemic, with most main contractors operating within stronger internal governance structures. This has helped navigate the last year with most concentrating on their core sectors, existing client base, and avoiding onerous programme or cost risk responsibility.

As overhead and profit margins have tightened, the increase to Employer National Insurance has added further pressure resulting in contractors passing the cost up the line to clients. Labour remains a significant concern with many firms struggling to attract and retain senior staff.

Contractors are now approaching opportunities with greater caution, placing increased emphasis on clients track delivery record, along with proposed project funding arrangements.

There is a clear preference on partnering and negotiation with existing relationships. More due diligence is also being undertaken around project design teams and information produced to date. Pre-construction costs have increased, with contractors seeking full recovery of their actual costs to support cashflow as more projects experience delayed start dates.



Supply Chain (Cont'd)

The market is also witnessing a growing number of sub-contractors entering into the Main Contracting space for schemes valued between £5m – 15m.

These firms often have stronger balance sheets than smaller main contractors and the capability to self-deliver a significant proportion of works, making them an increasingly competitive force within this segment of the market.

Schemes under £20m are seeing a re-emergence of single stage tendering, particularly for residential projects under 18m and offer a quicker and more certain route to site. While insolvency levels have reduced compared to 2023, there remains a degree of nervousness across the market regarding contractor and sub-contractor financial stability, with cashflow remaining a critical concern.

Funders are increasingly requiring both a Parent Company Guarantee (PCG) and Performance Bond, the cost of which has risen sharply following several high profile insolvencies.

Most main contractors report declining efficiency and site productivity which is reflective of schemes failing to be completed on time. This appears to reflect a shift in workplace culture, and evolving dynamics in the relationship between main contractors and their supply chains. This is starting to be reflected in their construction programmes.



Sector Outlook – Residential

In its 2024 general election manifesto, the government made a bold pledge to deliver 1.5 million over five years.

The first year (2024) saw 217,911 homes delivered, leaving an average 320,522 per year to meet the target. Given the current economic and regulatory climate, achieving this goal appears increasingly unlikely. Nevertheless, the industry continues to sail through the storm to maintain momentum.

Volume house builders have adjusted their output to align with what the market can realistically absorb, as higher mortgage rates and difficulty saving for deposits continue to constrain buyer demand.


Meanwhile, the Build to Rent (BtR) sector continues to attract investment particularly within the multifamily sub-sector. The UK is approaching 200,000 units delivered or in construction, with another 110,000 holding full planning permission.

The BTR sector has suffered a cocktail of issues slowing its progress however there is optimism and opportunity in the market with rents expected to rise circa 4% year on year. London has also lowered affordable homes and design standard requirements which should help with housing delivery output in the coming years.



London Affordable Requirements

35% to 20%



Rent Forecast 2026

+4%



Sector Outlook – Residential (Cont'd)

Summary	Challenge	Optimism
Interest Rates	Set at 4% by the BOE's monetary policy committee which means high financing costs impacting viability. Mortgage rates remain high at 4.75% impacting new buyers.	It is anticipated that CPI inflation has peaked for the year with a drop expected in 2026. This will increase the likelihood of further interest rate cuts.
Growth Forecast	The recent OBR forecast downgrade has resulted in a potential £20bn deficit in the governments budget. This may impact upon the government's ability to provide grant funding.	Higher inflation and wage growth will help drive tax revenue to off-set the deficit. The government may also be more aggressive in its Autumn Statement at the end of November 25 driving more robust policy change.
BSA	The industry has suffered with significant delays and instability around gateway 2 sign off with 40+ weeks being seen on some projects. This is impacting viability, funding and delivery programmes.	Whilst still high, the approval process is becoming more efficient with some projects receiving approval under 27 weeks. The industry is hopeful that this continues over the next year to its original target of 12 weeks.
Future Homes Standard	A further update to regulations was expected in 2025 enhancing energy efficiency and reducing carbon emissions. Detail is still lacking however this will create uncertainty and any enhancement will add further pressure to viability.	To offer relief and another viability shock, the government may look to push the implementation of these regulations back.
Build Costs	Build costs have continued to increase with further inflation expected in the year ahead.	Material prices have stabilised however are still subject to global shocks. The labour market remains a concern. The industry will be under pressure to find more design and cost efficient solutions utilising technology and AI to help unlock viability.



Sector Outlook – Purpose Built Student Accommodation (PBSA)

Purpose build student accommodation continues to outperform within the UK real estate market, with demand significantly outstripping supply across most university cities.

Student applications have continued to grow in the year by 2.2% with average value forecast in the region of 4 – 5%. The UK higher education sector continues to remain attractive to international students with notable growth in applications from China, Turkey and Nigeria.

Despite deals taking longer, investment volumes remain robust. The PBSA sector continues to attract record levels of capital due to strong fundamentals in the form of high occupancy levels, consistent rental growth and an under supplied market.

Due diligence remains key, with developers focusing on city data including university performance/top 100 ranking, application trends and local supply versus demand metrics to help identify the most resilient locations.

Value Growth
+3–5%

London
Manchester
Nottingham
Liverpool
Coventry

Non EU Applications
10%+ Increase

China
Nigeria
Turkey
USA

Value Decline
(3–5%)

Sheffield
Leeds
Newcastle
Cardiff

Non EU Applications

5–10% Decline
Hong Kong 5%
India – 8%
Malaysia – 10%



Sector Outlook – Purpose Built Student Accommodation (PBSA) (Cont'd)

The sector like most others, faces its own challenges, most notably:

- **Building Safety Act** – Most new PBSA schemes tend to be over 18m to achieve the most optimal appraisal requirements. This is prolongating programme significantly and creating cashflow issues for developers ahead of submitting for gateway 2. A lack of certainty around gateway 3 timescales presents further challenges as the building cannot be occupied which puts key pressure to find programme float.
- **Build Cost** – This sector has seen significant increases in build cost over the last 5 years driven by tender price inflation, building regulation changes and requirements to produce a higher end specification associated with room and amenity fit out.
- **Planning** – PBSA remains a political and socially sensitive asset class, particularly in relation to tax exemptions and place making considerations. As a result, planning applications are taking longer with local authorities scrutinising proposals more closely for community integration and housing balance impacts.
- **Upgrading old assets** – The sector has evolved at pace, which has created a two-tiered asset profile with older assets increasingly dated impacting certainty around occupancy and rental growth. Developers are reviewing legacy portfolios from a building regulation compliance, fit out and energy performance perspective to help maintain values and avoid accelerated depreciation.



Sector Outlook – Commercial

There is an undercurrent of optimism emerging in the UK office sector both in London and across key regional markets.

Despite ongoing headwinds, including valuation adjustments, high interest rates and a continued cultural shift in occupier requirements, confidence is gradually returning as developers and investors reposition assets for a new cycle of demand. Large commercial developers have undertaken a strategic review of their portfolios in a response to both market sector valuations and growth opportunity. This includes undertaking detailed assessments around office refurbishment versus new build.

There is still a stable demand for high quality, energy efficient and low carbon buildings that meet modern (and ever changing) ESG and wellbeing criteria. New build offices continue to set the benchmark for true net zero carbon performance, whilst commanding premium prime rents. However, these schemes face significant challenges in the form of extended timelines associated with design, planning and funder market confidence. New build offices also require a high capital expenditure.

Viability constraints are holding back regional office growth, with Manchester being a good example whereby a new build office scheme is only considered viable where headline rents reach approximately £55/ft², a 22% uplift on current prime rents.



Sector Outlook – Commercial (Cont'd)

In contrast, office refurbishment offers a cost effective and faster route to market with an ability to still achieve competitive prime rents on the basis that amenity spaces and technology rivals new build standards. They also align with ESG standards by reusing the existing structure and reducing embodied carbon.

It is expected over the coming year, that the market will see more office refurbishments compared to new builds.

City	Prime rent
London - City	£85/ft ²
London - West End	£170/ft ²
Aberdeen	£33/ft ²
Birmingham	£46/ft ²
Bristol	£49/ft ²
Edinburgh	£47/ft ²
Glasgow	£42/ft ²
Leeds	£43/ft ²
Liverpool	£35/ft ²
Manchester	£45/ft ²

Source: CBRE



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