

McBains

# Construction Market Report

March 2026



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# Executive Summary

The UK construction industry has been suffering through a prolonged period of instability and is continuing to recover from a phase of consistently and undeniably difficult market conditions with caution.

It is evident that the November 2025 Budget has been the driving force to notable fiscal pressures, following the increase in national insurance contributions and 8.5% minimum wage growth for younger workers. This has proven to be a central issue throughout the industry, raising concerns over apprentice intake among employers who may be reluctant to assume the financial responsibility.

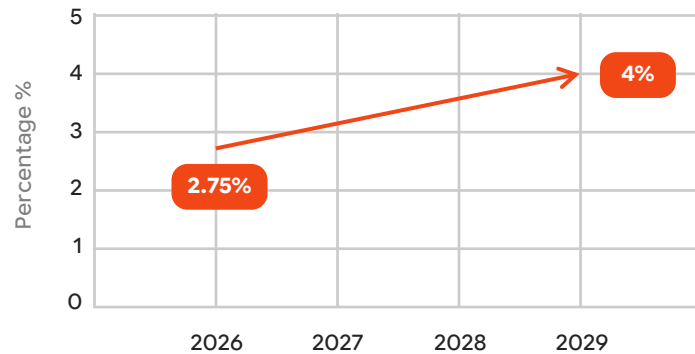
Despite a 0.3% modest growth in monthly GDP, in the year to November 2025, construction professionals have retained a guarded outlook that has shaped an increasingly risk-averse environment.

The industry's loss of **3,950** contracting firms to insolvency further contributed to a cautious attitude across the supply chain.

The housing and commercial sectors have remained constrained, while the emerging uses of energy and data centres have resulted in a new primary source of confidence. This positive outlook is underpinned by government plans to treat data centres as nationally significant infrastructure projects to streamline planning.

**Looking forward**, the report forecasts a tender price inflation increase from 2.75% in 2026 to 4% by 2029, while the Building Cost Index is expected to climb by approximately 18% by 2031.

Tender Price Inflation Forecast



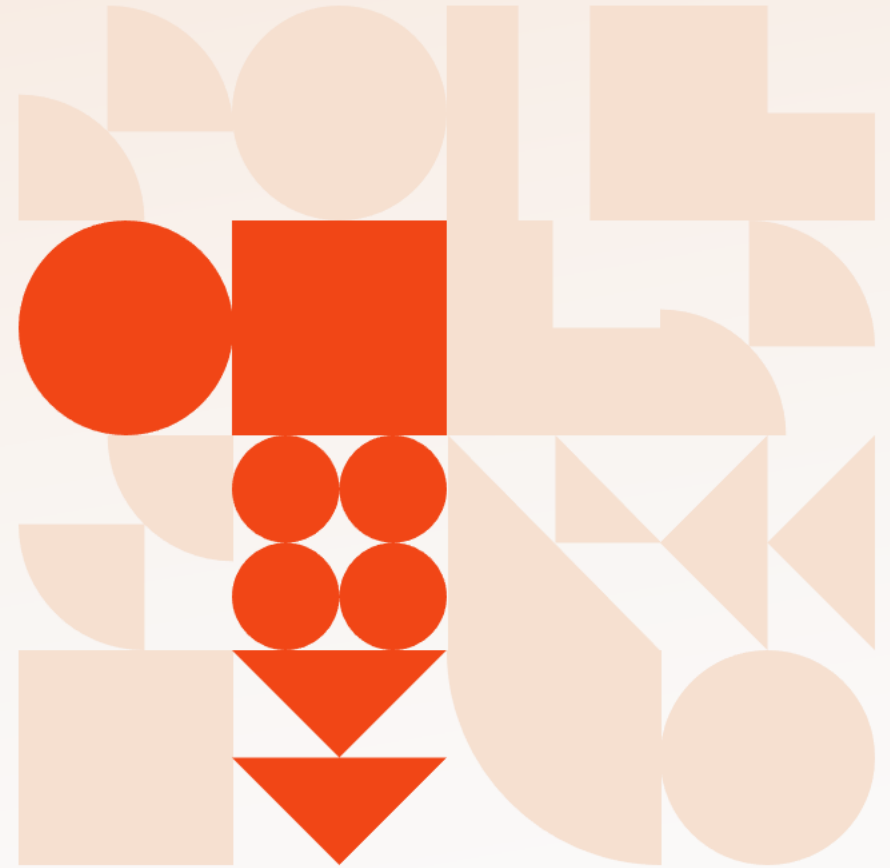
From a regulatory standpoint, the Building Safety Regulator (BSR) was formed as a standalone entity under the Ministry of Housing, Communities and Local Government as of January 27, 2026, signalling the need for stakeholders to prepare for the potential lowering of the High Risk Building height threshold to 11m. Alongside this, a potential legislative ban on retention clauses could necessitate a widespread transition in client surety arrangements.

This report also explores the prominent topic of AI in the construction industry, navigating the complexities of AI smart contracts and the UK's Housing Grant and Regeneration Act 1996, discussing the emergence of the 'AI Arbitrator'.

*\*This report was finalised before the recent Middle East crisis emerged as a material market factor. The potential implications were therefore an unknown quantity at the time of forecasting and have not been incorporated.*

02

# Market *Review*



# Market Review



The Budget offers modest relief but little to excite the industry, with **stability** still some way off.

McBains Managing Director, Clive Docwra provided his thoughts on the impact of the Budget on the UK construction industry last December, emphasising that what the industry requires most is stability. However, this was not reflected in the Budget presented on 26 November 2025 by Chancellor Rachel Reeves.

Docwra highlights significant concerns over rising labour costs, particularly the increase in employers' national insurance contributions and above-inflation rises in the national minimum wage, including an 8.5% increase for 18–20-year-olds. He warns these pressures may deter employers from hiring apprentices at a time when the construction workforce is at a historic low. While he welcomes free training for under-25 apprentices in SMEs, he believes higher wages and fiscal drag from frozen tax thresholds will undermine efforts to deliver 1.5 million homes and suppress demand in an already sluggish housing market.

He also identifies missed opportunities, suggesting reform of lower council tax bands would have better supported first-time buyers than the £2m property surcharge. Additionally, he criticises the lack of meaningful net-zero incentives, favouring grants and tax breaks for retrofitting over demolition and rebuild.

Despite this, Docwra acknowledges positives, including £13bn for regional infrastructure, retained landfill tax exemptions, strengthened CIS fraud enforcement, and the potential for lower interest rates. Overall, he concludes the Budget offers

modest relief but little to excite the industry, with stability still some way off.

The UK construction market is emerging from a challenging period, with activity beginning to stabilise after sustained weakness. Private sector confidence remains subdued, particularly in housebuilding and commercial development, due to high financing costs, planning delays, labour shortages and continued cost pressures. Contractor insolvencies and thin margins have further increased risk aversion across the supply chain.

Labour and input costs remain elevated, with skills shortages compounding delivery challenges. Although inflation has eased, it has not translated into a strong rebound in new starts. Demand for new housing remains suppressed, undermining the government's longer-term housing targets.

In contrast, infrastructure and public sector-led work provide relative stability. Government-backed investment in transport, energy, healthcare and regional regeneration is sustaining parts of the market and underpinning cautious optimism for the medium term. Energy transition and utilities work, in particular, continue to attract investment.

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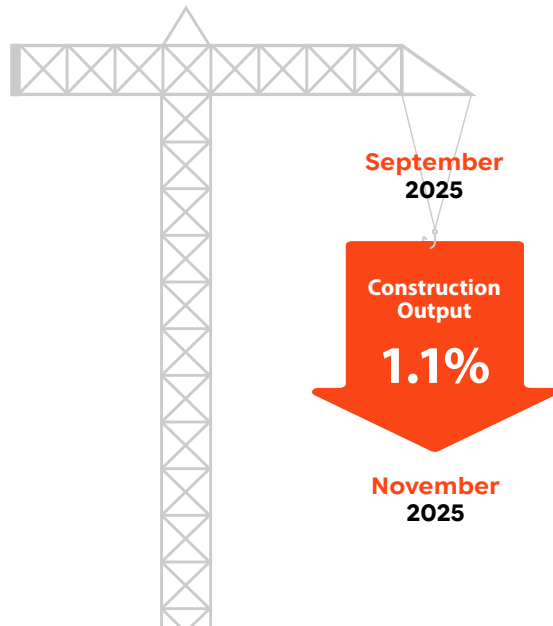
# Market Outlook



# Market Outlook

Looking ahead, industry forecasts suggest modest growth from late 2026 into 2027, assuming interest rates ease (despite these being held in February's Bank of England Monetary Policy Committee meeting) and confidence gradually returns. However, recovery is expected to be uneven and constrained by structural issues, including workforce shortages, regulatory complexity and limited balance sheet resilience among contractors.

The latest ONS figures show that UK construction activity has continued to drop, with construction output falling by 1.1% in the three months to November 2025, caused by a fall in new work and repair and maintenance (1.0% and 1.1% respectively).



The RICS UK Construction Monitor reinforces this negative trend, with a net balance of -8% in Q3 2025 for current workloads, showing weakness across most categories.

Infrastructure continues to lead sector performance, remaining the only positive area, with a net 8% rise in workloads, while public and private housing, along with private commercial and industrial sectors, show further negative movement.

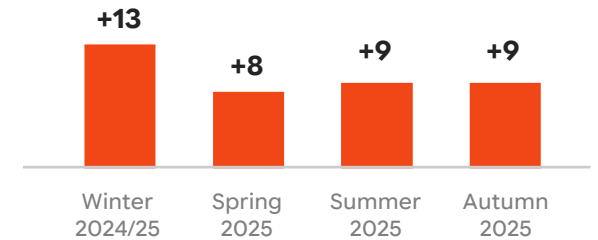
Looking ahead, the 12-month outlook is still optimistic for infrastructure, but profit margins are still predicted to experience pressure due to planning and regulations.

# Market Outlook

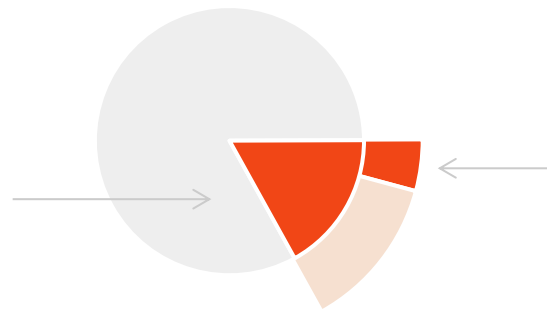
**Even with a conservative and modest outlook on output growth, the construction industry is expected to continue struggling with persistent workforce shortages.**

The Construction Industry Training Board (CITB) forecasts average UK construction output growth of around 2.1% per year through to 2029 and estimates that hundreds of thousands of additional workers will be required over the next decade to meet projected workloads. While the increasing adoption of AI may partially offset resourcing pressures – 17% of employers anticipate staff reductions within the next 12 months, with a quarter expecting reductions exceeding 10% – these impacts are most likely to affect clerical, junior managerial, professional, and administrative roles. As a result, AI is unlikely to materially alleviate shortages in core site-based and skilled trade roles, where demand is expected to remain acute.

The Chartered Institute of Personnel & Development’s (CIPD’s) net employment balance indicator remains positive despite a more moderate outlook, at +9 (meaning 9 percentage points more employers plan to hire than to cut staff). Despite the hopeful outlook, employment intentions remain below zero, at -8 at the end of 2025 – meaning more public sector employees expect staff numbers to decrease, rather than increase, over the next three months.



**17% of employers anticipate staff reductions due to AI adoption within the next 12 months**

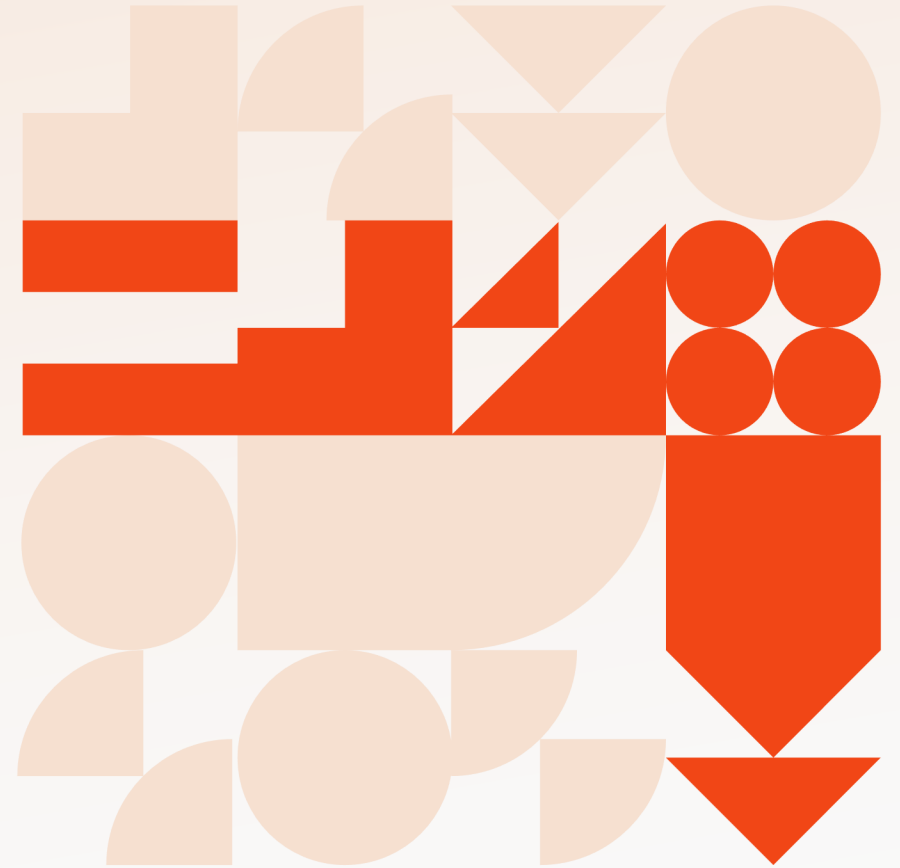


**with a quarter expecting reductions exceeding 10%**

Financial constraints remain the primary challenge, affecting 62% of firms. Reflecting a cautious outlook, the Construction Products Association has lowered its 2026 growth forecast to 2.8% from 3.7%, citing fragile confidence of buyers and investors and subdued private housing activity, combatted by the strong demand in some smaller niches of construction (data centres, energy infrastructure and small, high-quality commercial refurb and fit-out).

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# Inflation Forecast



# Inflation Forecast

## Tender Price Forecast

| Year | Company A | Company B | Company C | Company D | Company E | BCIS  | McBains |
|------|-----------|-----------|-----------|-----------|-----------|-------|---------|
| 2026 | 3.25%     | 2.50%     | 3.00%     | 3.50%     | 3.50%     | 3.10% | 2.75%   |
| 2027 | 3.75%     | 2.75%     | 3.50%     | 3.50%     | 3.75%     | 3.50% | 3.25%   |
| 2028 | 3.75%     | 2.75%     | 4.00%     | 3.50%     | 3.75%     | 3.20% | 3.75%   |
| 2029 | 4.00%     | 3.00%     | 3.50%     | 3.50%     | 4.00%     | 3.20% | 4.00%   |

## Key Drivers of Tender Price Inflation

Tender price inflation over the next year shows a moderate drawback compared to the forecasts of the last report, which are expected to be shaped by a combination of a weak outlook and persistent cost pressures. Tender prices have not risen significantly over the past year, reflecting a subdued market in which workloads are being sustained by legacy projects. Confidence continues to be shaken, with construction displaying the highest level of insolvencies of any sector in England and Wales, which continues to suppress pricing appetite despite constrained capacity in parts of the supply chain.

At the same time, external pressures such as the speculative tariffs which may be imposed by the USA, alongside a weak overall construction outlook, could weigh on demand. However, it is forecast that upward pressure on tender prices is likely to persist due to rising labour costs and an intensifying labour shortage, which are expected to offset the current weaker market conditions and underpin modest inflation over this period.

## Implications for the Construction Industry

**Clients/Developers** - Short-term pricing may remain competitive, but heightened contractor insolvency risk and labour cost pressures increase delivery and programme risk.

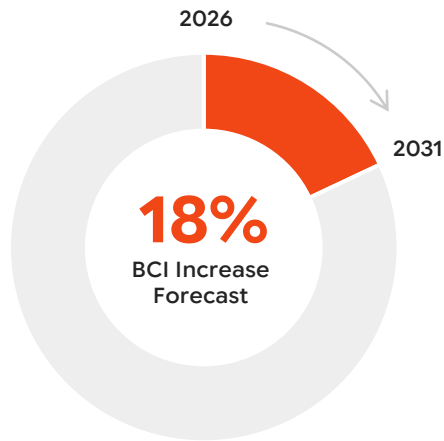
**Main Contractors** - Margins will remain under pressure as rising labour costs and slow two-stage procurement offset limited tender price growth.

**Policy makers** - Persistent labour shortages and high insolvency levels underline the need for skills investment and sector support.

Given the projected trends, stakeholders in the UK construction industry should prepare for continued uncertainty, with particular attention to labour market dynamics and regional variations.

### Building Cost Index (BCI)

The Building Cost Information Service (BCIS) forecasts an approximate 18% increase in the BCI between 2026 and 2031.

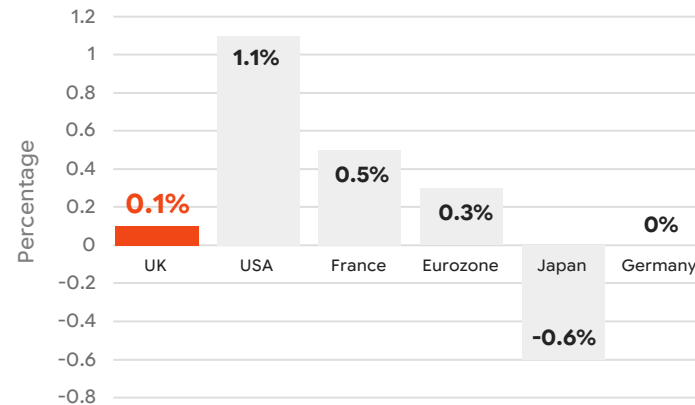


This increase is reflected in the Tender Price Index as well, with a 16% forecast increase within this period and contractor tender prices growing by 3% annually. The BCI is essential for contractors and clients while budgeting, tendering and negotiating contracts, as it reflects economic trends across the sector impacting construction costs.

### Macro-Economic Indicators

In the month of November 2025, monthly Gross Domestic Product (GDP) is estimated to have grown by 0.3%, following an unrevised fall of 0.1% in October 2025 and a growth of 0.1% in September 2025 (revised from a fall of 0.1%). Quarterly GDP increase in the UK market had marginal growth of 0.1% from the previous quarter, underperforming the growth of the USA, France and the Eurozone (1.1%, 0.5% and 0.3%) and overperforming Japan and Germany (-0.6% and 0.0%).

#### Quarterly GDP Growth from previous quarter

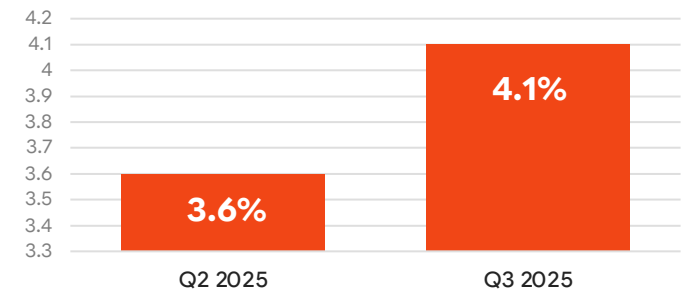


Included within these overall figures, construction output fell by 1.3% in November 2025. The plethora of obstacles faced by professionals within construction, including regulation, labour shortages and unsteady investor confidence, has caused this negative outlook.



Consumer Price Inflation (CPI) in the UK remained consistent at 4.1% in Q3 2025 from the previous quarter, and increased from Q2 2025 at 3.6%. This highlights ongoing price pressures despite signs of easing in the previous year.

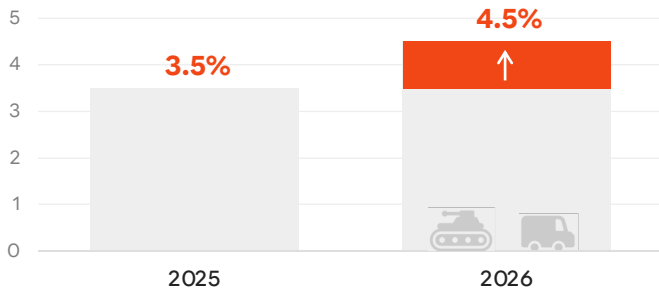
#### Consumer Price Inflation



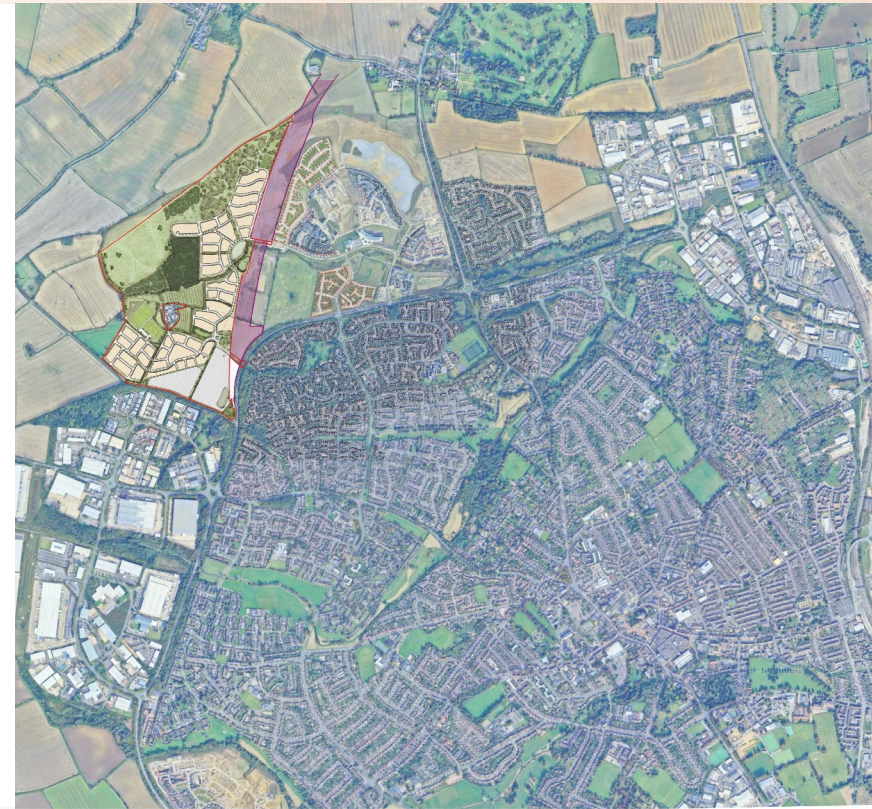
# The Impact on the UK Economy

In Q1 2026, the UK economy is facing heightened uncertainty due to instability regarding US tariffs and foreign policy, prompting both the UK and EU to reassess economic priorities. Despite this, forecasts show that UK construction is predicted to grow from 3.5% to 4.5% in 2026 compared to 2025, led by defence and transport, encouraging optimism.

UK Construction Growth Forecast



Official figures from the ONS showed a 1.1% decrease in construction output in November 2025, compared with August 2025; private housing repair and maintenance contributing the most to this. As of December 2025, the Bank of England projected CPI inflation is 3.6%, which had previously been cut to stimulate growth within the economy, returning to the government target of 2%, before the rise in inflation seen in Summer and Autumn.



**Data centres** are predicted to be predominant in construction growth during 2026 and are a part of the government’s plan for economic recovery. Under certain conditions, developers of these facilities will soon be able to apply for their schemes to be treated as nationally significant infrastructure projects, streamlining the planning approval process.

**In terms of infrastructure,** nuclear and wind energy are also big drivers.

05

# The Building *Safety* Regulator:

A Look Back and a Look Ahead





**Lee Wingate**, the Director of Civil and Structural Engineering, at McBains has provided his perspective that the Building Safety Regulator's sign-off delays back in 2025 created tough trading conditions and pushed some specialist contractors into financial difficulty, as well as adding significant financial stress to developers' already strained budgets.

As the BSR acknowledged, something had to be done. Its recent shift to a batching system and Innovation Unit under Andy Roe's leadership appears to have made visible moves through the gears to review and release projects.

The BSR and its technical partners are engaging in a more collaborative way, which is something that the industry is more used to, in terms of good quality dialogue to resolve questions in a timely manner.

The solution is gradually emerging. The BSR's batching system shows the regulator recognises it must leverage external expertise, with firms now assessing applications under BSR supervision. However, this needs formalisation. Rather than the BSR signing off on everything, accredited third parties could sign off on specific elements like the substructure, similar to the Category 1 or 2 check used in structural engineering. This would take pressure off the BSR, which could sit as an umbrella over the private sector, whose SMEs can be more agile and efficient.

Many SMEs have complex project experience and could undertake Gateway 2 and Gateway 3 sign-offs, helping shift the backlog. Through close discussions with professional bodies like the IStructE and ICE, we could bring together chartered professionals to provide experience that the BSR could leverage and get projects moving again. The HRB Registration process for experienced structural engineers is one of those initiatives and appears to be gaining some significant traction in streamlining competency verification on HRB schemes.

**John Stapleton**, Project Director of the Building Safety Compliance team at McBains, has elaborated that the BSR has acknowledged facing 'national skills shortages' with a critically short supply of competent Fire Engineers and Registered Building Control Approvers, and challenges with complex structural design expertise.



Clients are currently experiencing delays of up to 8 months for External Wall Assessments in support of the enhanced Fire Risk Assessments required by the BSA and Fire Safety Act 2021 on all multi-occupied residential buildings. These shortages create business opportunities but also present recruitment challenges and upward salary pressure for qualified specialists, with many design consultancies evaluating whether to invest in developing this capability internally or establish strategic partnerships with specialist fire safety consultancies.

With continued industry pressure for reform, now is the time to formalise and expand the use of SME expertise beyond the current pilot batching system. Such a pragmatic staged approach could provide multiple wins across the industry and ensure the building safety regime harnesses the full capacity of the UK's engineering sector.

Industry research reveals a concerning trend - many clients still believe the BSA does not apply to them. This places a greater burden on designers and contractors to:

- Educate clients about their obligations under the Act
- Clearly communicate the additional time and costs associated with compliance
- Manage expectations around project timelines and approval processes.

2026 will be an interesting period. There is potential that the current 18m height may be lowered to 11m, capturing those medium-level residential buildings (essentially 7-storeys down to 4-storeys) and pulling another 30,000+ buildings into the HRB-category in England - of which over 60% would be in London. There are obviously serious questions over whether the industry would be ready for such a change. However, the BSR is an evolving beast, and on 27 Jan 2026, the BSR became a standalone organisation, operating under

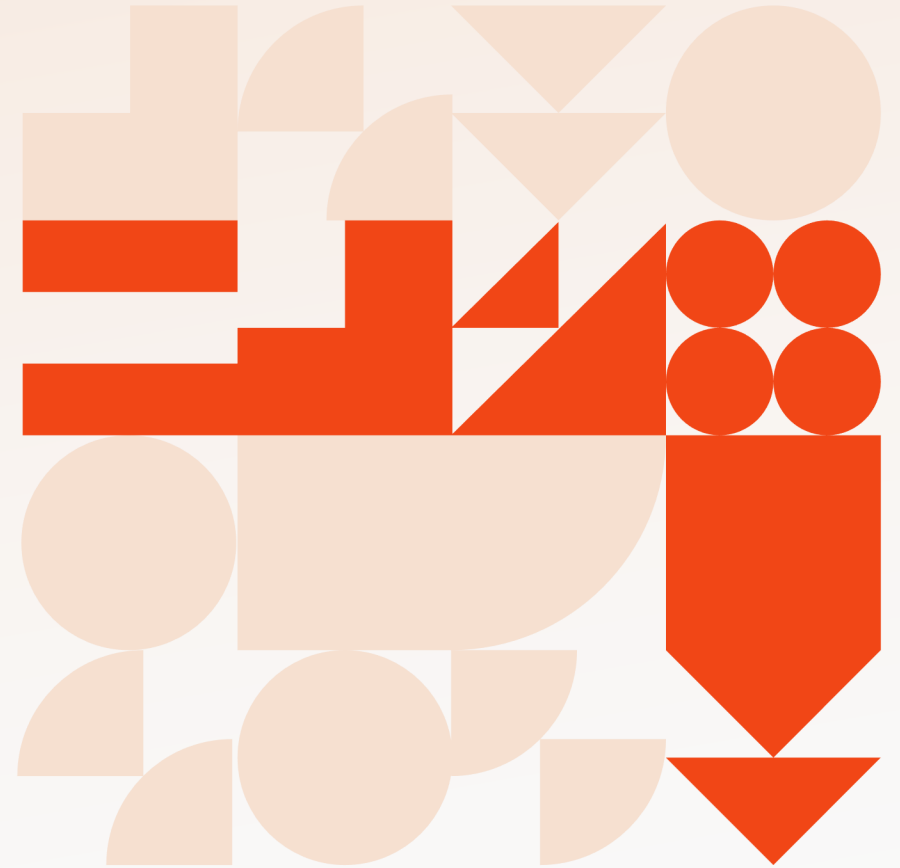
the Ministry of Housing, Communities and Local Government. This is a positive move and addresses some of the recommendations within the Grenfell Report.

Once the BSR has settled in for another 12 months with its processes, and the industry itself starts to understand the requirements, those Gateway submissions will become more familiar, and as engrained and as understood as the Building Regulations.

2026 is a time for cautious optimisation and as an industry, we need to evolve to build safer places and find the **better** way.

06

Policy *Shifts*  
and *Developments*  
in the UK  
Construction  
Industry



# Policy **Shifts** and Developments in the UK Construction Industry

## Construction Procurement Trends

The BCIS provided insight on the construction procurement preferences in the industry and how the challenges of the BSA gateways continue to influence how the construction industry approaches work, shifting away from single-stage tendering and adopting two-stage hybrid models.

Single-stage tendering, valued for offering early price certainty and fast project mobilisation, struggles to align with the complexity of the BSA gateways, particularly Gateway 2, resulting in contractors bearing imbalanced risk allocation and cost uncertainty.

As a result, the industry has noticed a change in contractor appetite for work, with contractors being more selective, evaluating the complexity of the work, client reputation and delivery requirements. Recent recorded data from BCIS reveals a steady increase in appetite to tender from 4Q 2024 to 4Q 2025. However, the number of suitable tenders continues to decline, which may be indicative of the rigorous competency requirements of the Building Safety Act.

Looking ahead in 2026, there is less financial flexibility from unsuccessful tenders, accompanied by the increasing building costs, which could promote framework agreements for contractors or reduced tendering discretion:

**“Should private sector market conditions remain sluggish, risk-led procurement could shift if contractors are forced to bid for the work that’s available and choose cash flow over caution.”**

(BCIS, 2026)

## Company Insolvencies, Poor Payment Practices, and a Possible Retention Ban for the Industry?

The rolling 12 months to November 2025 saw the construction industry experience 3,950 insolvencies, exceeding other sectors. The Late Payment Consultation operated by GOV.UK between 31st July to 23rd October 2025 expressed concerns regarding late payments, long payment terms, disputed payments and unfair retention practices with a particular interest in construction contracts.

### What to Expect (Early 2026)

A legislative amendment to Part 2 of the Housing Grants, Construction and Regeneration Act 1996 in construction contracts could either:

- Prohibit the use of retention clauses
- Require the protection of retention sums deducted and retained

If either of these amendments were passed, such changes would take place on new contracts after a prescribed date. Developers will shift towards alternative forms of surety to secure contractor performance such as performance or payment bonds. The outcome is to be decided in early 2026.

# AI and Dispute Resolution; **The New Era!**

AI tools are gaining traction and are being implemented throughout the lifecycle of construction projects. This can vary from AI-assisted design to site management and quality checks, raising concern as to which party is responsible.

As a result, greater focus should be implemented in drafting robust construction contracts and the allocation and management of risks should be clearly defined.

## **2025 launched the 'AI Arbitrator'**

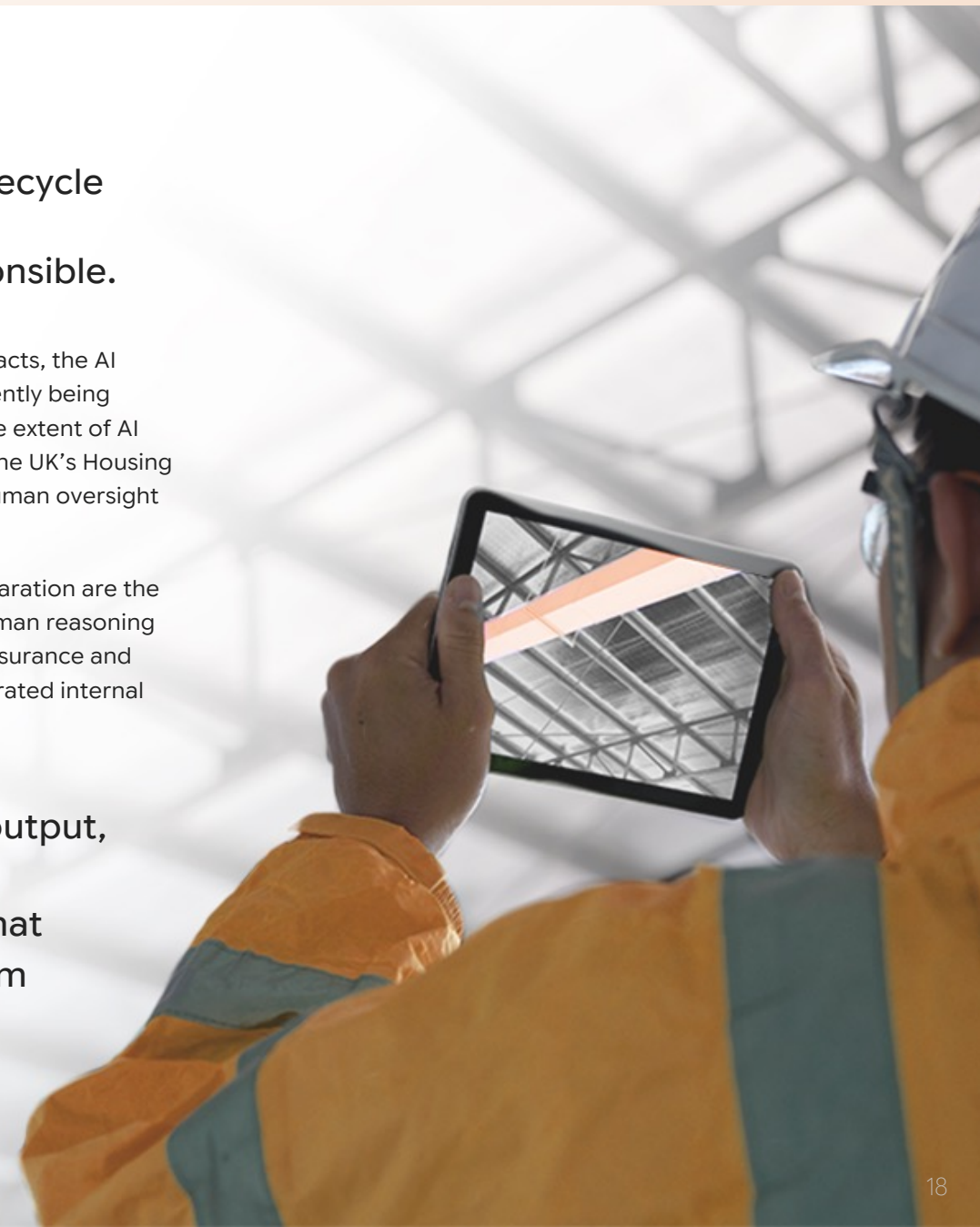
sparking discussions on normalising AI tools within the sector, indicating effective dispute resolution in managing cases and evidence handling in 2026. The industry body, the Chartered Institute of Arbitrators (CI Arb), has provided guidance on ensuring transparency, governance and supervision of AI tools.

Smart contracts are on the rise in construction, beneficial for their ability to provide transparency and accountability to complex projects using blockchain records. AI contracts can significantly reduce late payment disputes, the driver of many disputes as these contracts can auto-release payments based on programmed milestones.

While AI can assist in the preparation of contracts, the AI Arbitrator for document-only disputes is currently being piloted internationally. However, in the UK, the extent of AI use in contractual spaces remains limited by the UK's Housing Grant and Regeneration Act 1996, ensuring human oversight in arbitration.

Other concerns surrounding contractual preparation are the enforceability of statutory backing, lack of human reasoning and the risk of cyber security; all challenges insurance and liability professionals are requesting demonstrated internal governance on.

**For effective and reliable AI output, companies require organised internal data and to ensure that challenges that may arise from the use of AI are addressed within contracts.**



# McBains

We believe in finding the better way

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