



Construction Market Report

October 2026



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Executive summary

The UK construction market has moved beyond the exceptional disruption experienced between 2020 and 2023, but the outlook remains subdued and increasingly varied by sector.

Competitive tendering is helping to constrain price growth; however, geopolitical uncertainty, energy costs and material price volatility continue to present risks. Construction material prices increased by 5.9% in the year to July 2026, with materials for other new work rising by 7.2%.

A gradual recovery rather than a rapid rebound is anticipated. Construction output is anticipated to grow by 1.8% in 2027, strengthening to 2.8% in 2028, before moderating to 2.3% in 2029 and 2.1% in 2030.

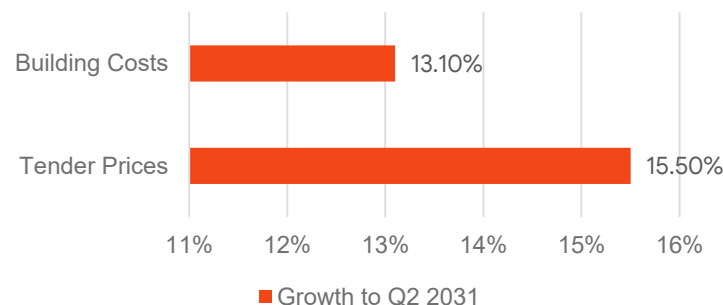
Infrastructure, healthcare, defence, energy, digital infrastructure and public sector capital investment are expected to provide important sources of future workload.

Residential remains the principal area of uncertainty, with affordability, financing costs, planning constraints and regulatory requirements continuing to affect viability.

Private speculative housing is therefore expected to recover slowly, with Build-to-Rent, affordable housing and regeneration providing greater resilience. Commercial development is also expected to remain selective, with demand increasingly focused on prime, sustainable assets and refurbishment.

Tender price inflation is expected to remain relatively moderate but persistent, broadly around 3% to 4% per annum based on McBains' assessment. BCIS forecasts tender prices to increase by 15.5% over the five years to Q2 2031, compared with building cost growth of 13.1%.

Tender Prices vs Building Costs



Key risks include labour shortages, planning delays, utility capacity constraints and material price volatility, particularly steel. Estimates in the industry suggest we will require an additional 40,000 workers per year through to 2030 in order to achieve growth.

Overall, the outlook is cautiously positive, with current competitive conditions presenting opportunities for well-funded projects. Early procurement, robust cost management and proactive supply-chain engagement will remain critical to securing value for money and managing delivery risk.

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Market outlook 2026-2031



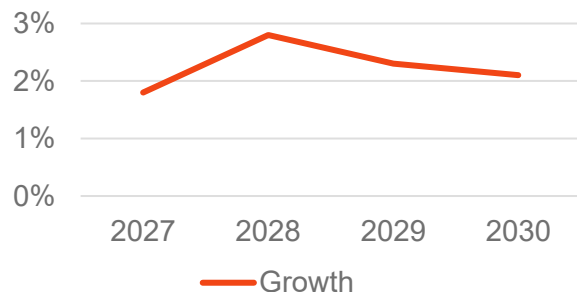
Market outlook

The construction market is expected to experience a measured recovery over the next five years rather than a rapid rebound.

Activity is anticipated to remain relatively subdued in the near term, before strengthening from 2027 onwards as confidence improves and public and private investment begins to feed through into workload.

Current CITB forecasts indicate UK construction output growth of approximately 1.8% in 2027, accelerating to 2.8% in 2028, before moderating to 2.3% in 2029 and 2.1% in 2030. This points towards a gradual recovery rather than a sharp cyclical rebound, with the strongest period of growth currently expected around 2028.

CITB Forecast – UK Construction Output Growth



Key Drivers of Future Growth

Investment is expected to be strongest in:

- **Infrastructure:** Significant growth is expected, with infrastructure output forecast to increase by 14% between 2026 and 2031, supported by major programmes across energy, water, transport and social infrastructure.
- **Defence:** Defence represents an increasingly important construction and infrastructure market, with the Ministry of Defence budget rising from £68.3bn in 2026/27 to £79.1bn by 2029/30, including significant capital investment in bases, manufacturing and strategic infrastructure.
- **Healthcare:** Healthcare capital investment is set to remain strong, with over £44bn of NHS capital expenditure through to 2029/30, alongside the longer-term £60bn New Hospital Programme and increased investment in estate condition, diagnostics and community facilities.

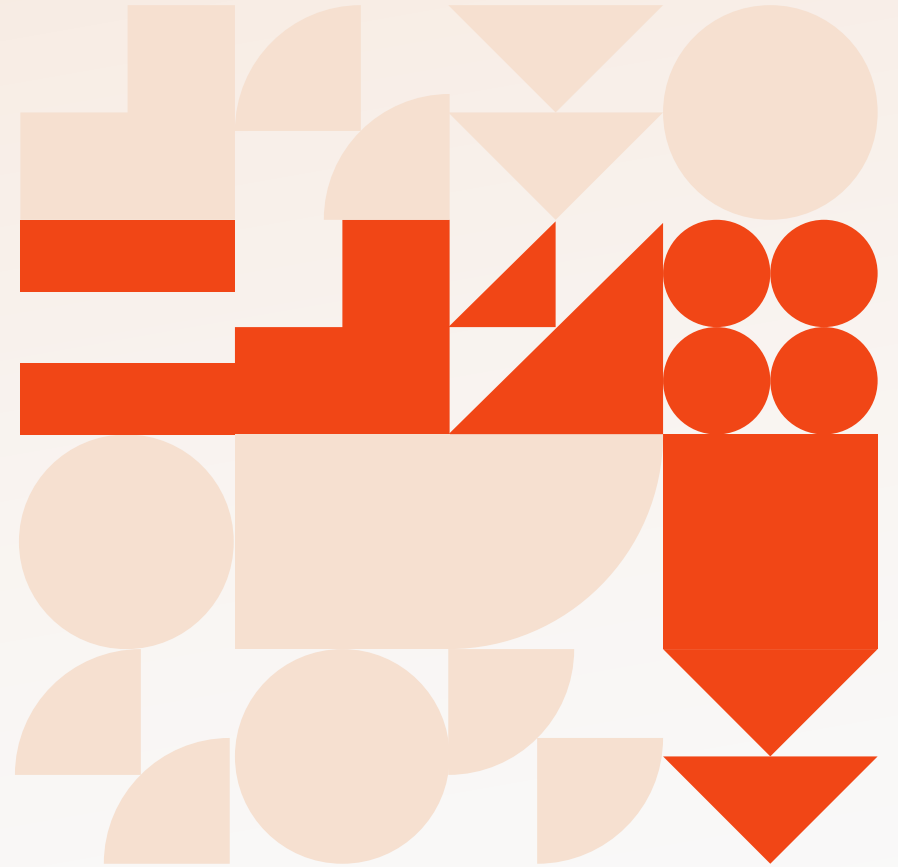
- **Data centres:** Continued rapid expansion is expected, driven by AI, cloud and hyperscale demand.
- **Public sector capital expenditure:** Government capital spending remains supportive of construction, with departmental Capital DEL increasing by 3.5% in 2026/27, alongside the Government's wider £725bn 10-year infrastructure strategy covering economic and social infrastructure

These sectors are expected to attract substantial government and private capital as the UK continues to pursue economic growth, energy security and digital infrastructure expansion.

Infrastructure output is forecast to grow 14% by 2031, supported by £725bn of long-term UK investment.

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Tender price forecast



Tender price forecast

Based on a review of industry forecasts and McBains' market assessment, tender price inflation is expected to remain relatively moderate over the coming years.

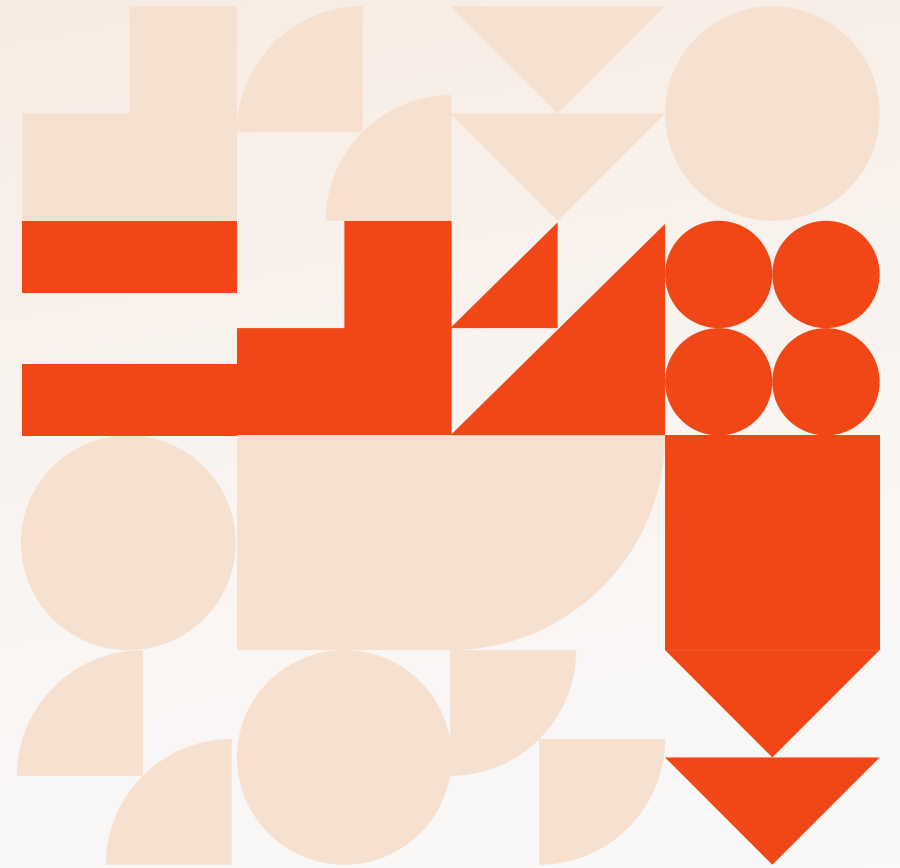
Company	Period	2026	2027	2028	2029	2030
Company A	Q2 2026	3.5	2.75	2.75	2.75	
Company B	Q2 2026	3.6	3.5	3.4		
Company C	Q2 2026	4.98	4.23	4.88	4.58	
Company D	Q2 2026	3.5	3.75	3.75		
Company E	Q2 2026	3.5	3.5	4	3.5	3.5
Company F	Q2 2026	3.98	3.83	3.75	3.68	3.49
Company G	Q2 2026	3-9	6-10	7-10	9-11	
McBains	Q4 2026	3.5	4.0	3.75	3.5	
BCIS	Q4 2026	3	2.9	2.6	2.7	2.4

This equates to cumulative inflation of approximately 15% over the forecast period, consistent with wider industry expectations and BCIS projections.

Whilst inflation remains a consideration, current levels are significantly more manageable than those experienced between 2020 and 2023.

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Key *growth* sectors

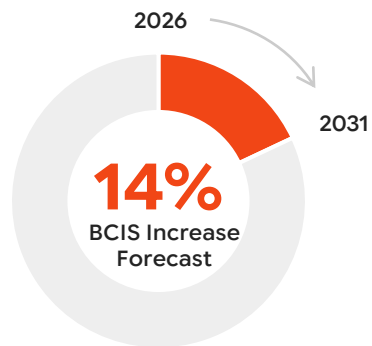


Key growth sectors

The construction market is expected to experience a measured recovery over the next five years rather than a rapid rebound.

Infrastructure

Infrastructure is expected to be one of the more resilient areas of the UK construction market over the next five years, although near-term activity is likely to remain relatively subdued.



BCIS currently forecasts infrastructure output to grow by around 14% between 2026 and 2031, with growth of just 1% expected in 2026, highlighting the gradual nature of the anticipated recovery. Longer-term demand is expected to be supported by planned investment across energy, water, transport and other infrastructure programmes.

However, the strength and timing of this growth will depend on the extent to which the substantial pipeline of committed and planned investment translates into construction activity on site.

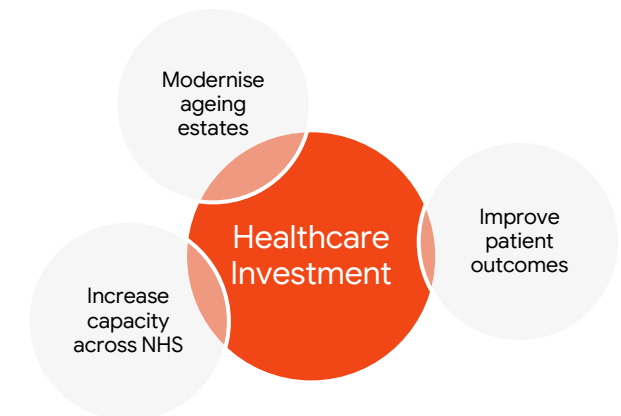
Continued infrastructure investment is likely to place pressure on contractor capacity, specialist subcontractors and skilled labour resources. As a result, early market engagement, strategic procurement and robust programme management will become increasingly important in securing value for money and managing delivery risk.

Healthcare

Healthcare remains one of the most resilient construction sectors and is expected to provide a consistent pipeline of opportunities over the coming years. Investment is being driven by the need to modernise ageing healthcare estates, improve patient outcomes and increase capacity across the NHS and wider healthcare system. Activity is anticipated across major hospital redevelopment programmes, acute

ward reconfigurations, diagnostic facilities, community healthcare centres and mental health developments.

In addition to new-build projects, significant expenditure is expected on the refurbishment and transformation of existing facilities to improve operational efficiency, sustainability and compliance with changing healthcare standards. For public sector clients and investors, healthcare continues to represent a relatively low-risk sector with strong long-term demand fundamentals and a clear strategic requirement for investment.

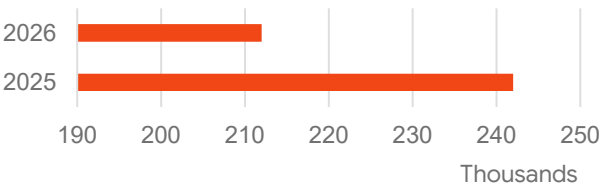


Residential Development

Whilst the long-term fundamentals of the UK housing market remain positive, the short to medium-term outlook has weakened further. The latest planning data indicates a material contraction in the development pipeline, with approximately 212,000 homes receiving detailed planning permission in England in the year to June 2026, 12% lower than the 242,000 approved a year earlier and the lowest level since 2013.

This weakness is increasingly being reflected in construction activity, with the Construction Products Association forecasting private housing output to fall by 10% in 2026 and remain flat in 2027, suggesting that a meaningful recovery is unlikely in the immediate term.

Homes receiving detailed planning permission



■ Homes Granted Planning Permission

 **12% decline**
Lowest level since 2013

Regional performance remains mixed. In Q2 2026, planning applications increased by 3% in the North West and 2% in the West Midlands, but fell by 6% in the South West and 8% in the North East compared with the previous year.

London continues to face particular affordability and viability pressures, and planning approval rates also remain comparatively lower: data based on official planning statistics shows an 82.5% approval rate in London, against 87% across England, although approval rates should not be confused with the volume of new homes consented.

The market continues to be constrained by affordability pressures, elevated borrowing costs, planning delays and increasing regulatory requirements. Potential interest rate increases in November and March would further impact mortgage affordability and buyer confidence, while the forthcoming Building Safety Levy and other policy requirements continue to add costs to already marginal developments. The cost of delivering a typical new home has increased significantly since 2020 by circa 20-25%, placing further pressure on viability.

Many housebuilders remain cautious and are prioritising only the most commercially attractive sites. As a result, we expect a slow and selective recovery rather than a significant rebound in private speculative housing.

Build-to-Rent (BTR) and affordable housing should provide greater resilience, although conditions remain mixed. BTR investment exceeded £3bn in the first half of 2026, including a record £2.2bn in Q2, demonstrating continued institutional appetite for the sector. However, this has not yet translated into stronger construction volumes, with BTR starts 79% lower year-on-year and units under construction down 21% at Q2 2026.

BTR Investment

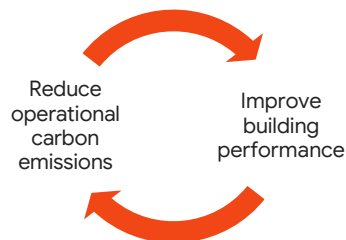
Investment	£3bn
Q2 Investment	£2.2bn record
BTR Starts	-79%
Units under Construction	-21%

Affordable housing has a stronger policy-backed pipeline, supported by the Government's £39bn Social and Affordable Homes Programme over 2026-36, of which up to £11.7bn is allocated to London, with at least 60% of homes delivered through the programme targeted as Social Rent. This should provide greater support for affordable and regeneration-led development than predominantly market-sale schemes, although delivery will remain dependent on viability, capacity and the conversion of funding allocations into construction starts.

Retrofit and Decarbonisation

The drive towards Net Zero will be one of the most significant influences on the construction market over the next five years. As organisations seek to reduce operational carbon emissions and improve building performance, investment in retrofit and refurbishment projects is expected to increase substantially. This trend is likely to be particularly evident across commercial offices, healthcare estates, educational facilities, social housing portfolios and wider public sector assets.

Rather than pursuing wholesale redevelopment, many building owners are choosing to upgrade existing assets to meet sustainability objectives, improve energy performance and maintain asset value. Consequently, demand for services such as fabric improvements, low-carbon heating solutions, renewable technologies and energy efficiency upgrades is expected to grow significantly. This will increase the importance of whole-life costing, embodied carbon assessments and asset management strategies, with investment decisions increasingly driven by both financial and environmental considerations.



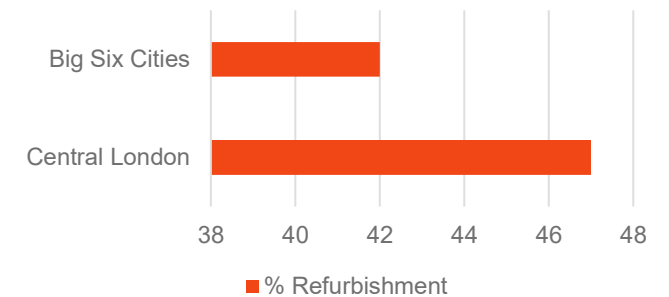
Commercial and Industrial

The commercial sector is expected to see a selective and relatively modest recovery, with investment and occupier demand increasingly focused on high-quality, sustainable assets. Whilst speculative office development is likely to remain constrained in some locations, demand for prime space remains comparatively resilient. In London, 73% of Q1 2026 office lettings were for Grade A space, while new Grade A vacancy in the City fell to just 1.1%, illustrating the shortage of high-quality accommodation. Similarly, it is reported that 92% of Central London Q1 take-up was Grade A, with 53% relating to BREEAM Excellent or Outstanding buildings.

Outside London, activity is expected to remain selective, with Manchester and Birmingham, alongside other major regional cities, benefiting from demand for better-quality accommodation; however, regional office take-up is to remain below 2025 levels during 2026. Opportunities are therefore likely to be concentrated in prime offices and the refurbishment and repositioning of existing assets, as occupiers increasingly favour modern, well-located and sustainable buildings. This is already feeding into the development pipeline, with refurbishment accounting for 47% of Central London's and 42% of the Big Six regional cities' office pipeline.

The industrial and logistics sector continues to benefit from structural changes in supply chains, e-commerce growth and increased demand for distribution facilities. At the same time, the rapid expansion of data centres and digital infrastructure is creating a significant new source of construction demand across both the industrial and infrastructure sectors. These markets are expected to attract substantial investment over the coming years and will remain important contributors to overall construction output growth

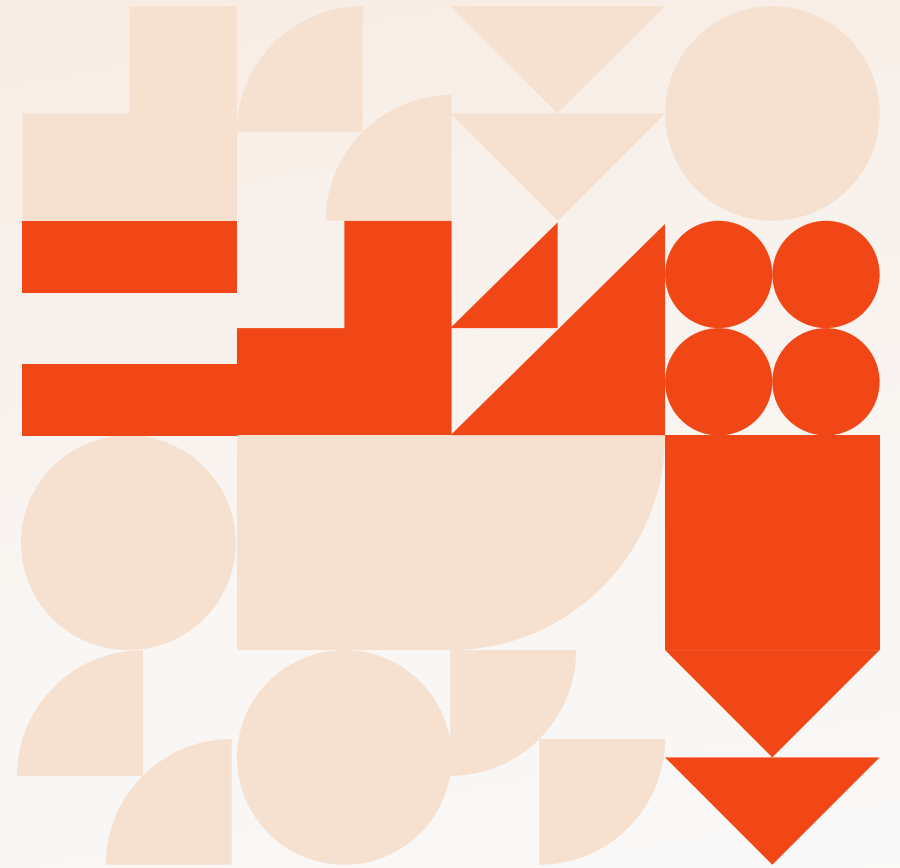
Office Refurbishment Pipeline Comparison



Nearly half of the future office development pipeline is refurbishment-led.

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Principal **risks** facing the industry



Principal risks facing the industry

Labour Shortages

The industry continues to face:

- An ageing workforce
- Skills shortages
- Rising labour costs

Labour availability remains one of the most significant challenges facing the UK construction industry. An ageing workforce, coupled with insufficient numbers of new entrants, continues to create skills shortages across both professional and trade disciplines.

Particular pressure is being experienced in mechanical and electrical services, civil engineering, site management and quantity surveying. Whilst construction output remains below historic peak levels, labour costs continue to increase as contractors compete for limited resources.

These constraints are expected to persist throughout the forecast period, maintaining upward pressure on construction costs and programme delivery.

Utility Constraints

Across the UK, access to the following utility connections is constrained:

- Electricity
- Water
- Gas connections

Utility infrastructure is becoming an increasingly important consideration in development planning and viability assessments. Across many parts of the UK, limitations in electricity network capacity, water supply infrastructure and utility connection availability are creating significant programme risks.

These issues are particularly prevalent in areas experiencing substantial housing growth, industrial development and data centre investment, where existing infrastructure is often unable to support increasing demand.

Delays in securing utility upgrades or new connections can impact project delivery timelines by many months and, in some cases, affect the overall viability of schemes. Early engagement with utility providers is therefore becoming essential to understand capacity constraints, connection timescales and associated infrastructure costs.

Skills shortages, constrained utilities and rising steel costs are expected to sustain pressure on construction delivery.

Steel Procurement & Market Conditions

The UK steel market is undergoing significant change following the introduction of new steel import controls earlier this year implemented under the Taxation (Cross Border Trade) Act 2018. On 1st July 2026, with the exception of goods under contract prior to 14 March 2026 and imported between 1st July and 30th September, the government reduced tariff-free steel import quota volumes by 51% and introduced a 50% tariff on all imported steel above this threshold. Reduced import quotas and the application of a 50% tariff on steel imported above quota levels are already contributing to increased material costs, reduced pricing certainty, and heightened supply chain risk.

Supply chain feedback suggests steel prices have risen by approximately 30% during 2026, with further increases anticipated as importers, stockholders and even domestic mills adjust pricing in response to the new measures.

The introduction of the Carbon Border Adjustment Mechanism (CBAM) in January 2027, coupled with ongoing geopolitical and energy market volatility, is also expected to sustain inflationary pressure across the sector. As a result, projects remain exposed to cost escalation, particularly where procurement or programme delays occur. Early decision-making and timely procurement will be critical in mitigating potential budget increases.

Structural Steel Market Update 2026

The previous safeguard regime has been replaced with a revised import quota system, substantially reducing the volume of tariff-free steel that can enter the UK. Once import quotas are exhausted, a 50% tariff is applied to additional imported steel.

The measures are intended to protect and strengthen domestic steel production; however, they are already creating upward pressure on the cost of structural steel, reinforcement and fabricated steelwork. This is particularly relevant where projects rely on imported steel products or stockholder supply chains.

Pricing certainty has also reduced considerably. While fixed quarterly rates were commonly available this time last year, some suppliers are now only offering price holds for periods as short as 24 hours, reflecting heightened market volatility and uncertainty.

Further cost pressure is anticipated with the introduction of the CBAM in January 2027. The new carbon taxation regime will apply additional costs to certain imported materials and is expected to further influence steel pricing and procurement strategies. The introduction of CBAM makes carbon intensity a direct factor in trade competitiveness and steel pricing.

CBAM also coincides with the gradual withdrawal of free EU Emissions Trading System (EU ETS) allowances. From 2026, free allocations will be reduced by 2.5%, with the reduction rising to 5% in 2027 and accelerating thereafter, reaching nearly 50% by 2030 before the allowances disappear entirely in 2034, according to the EU CBAM legislation.

Expected CBAM Impact on Structural Steel

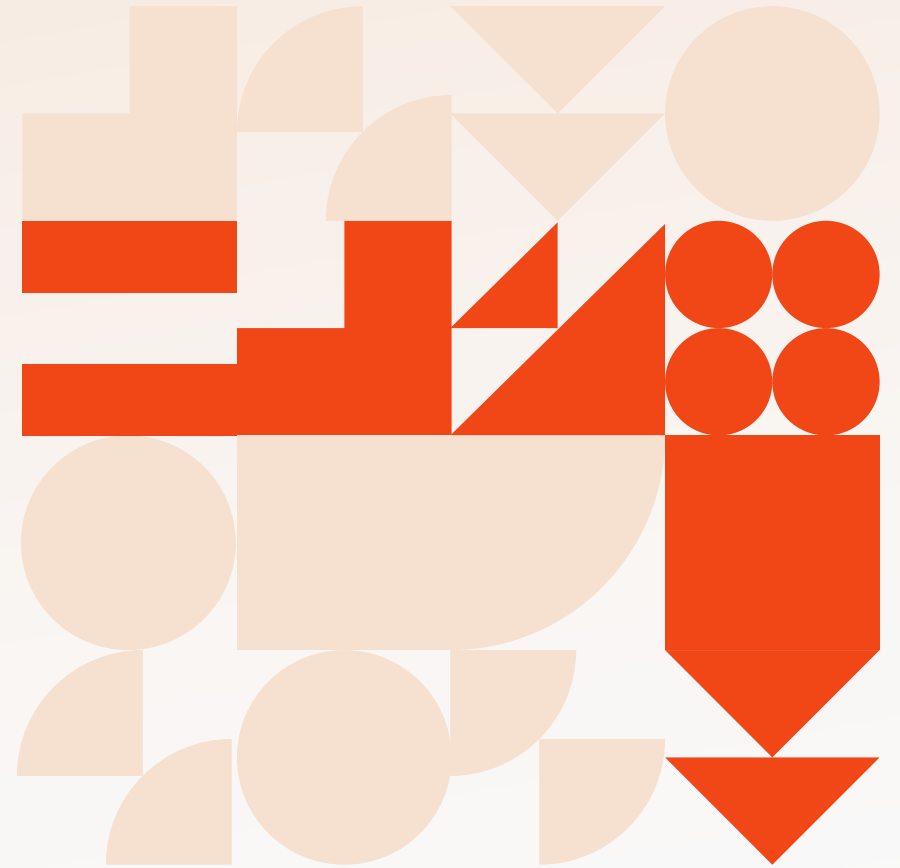
2026-2027	Minimal (<1%)
2028-2029	Low to moderate (1-3%)
2030-2031	Moderate (3-8%)
2032-2034	Significant (5-15%+) depending on carbon intensity and ETS prices

Project Implications

The principal commercial risk to construction projects is programme delay. Any slippage in design approvals, procurement activities or construction milestones is likely to increase exposure to inflation, supply chain risk and market repricing. Looking ahead, the combined effects of UK steel trade controls, CBAM implementation, geopolitical instability and ongoing energy market volatility are expected to sustain inflationary pressure across the steel sector. While material availability and lead times remain broadly stable, suppliers continue to include risk allowances within quotations to account for future market uncertainty.

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Recommendations for *clients*



McBains **recommendations** for clients

To maximise project success and minimise risk, the following actions are recommended:



Procure Early

Early engagement with contractors and supply chains can secure market interest and improve cost certainty.



Develop Clear Project Briefs

Well-defined project scopes continue to attract the most competitive tender responses and reduce cost growth during delivery.



Allocate Risk Appropriately

Balanced risk allocation remains critical in maintaining competition and avoiding unnecessary pricing premiums.



Maintain Cost Discipline

Robust value management throughout design development is essential to preserve affordability and project viability.

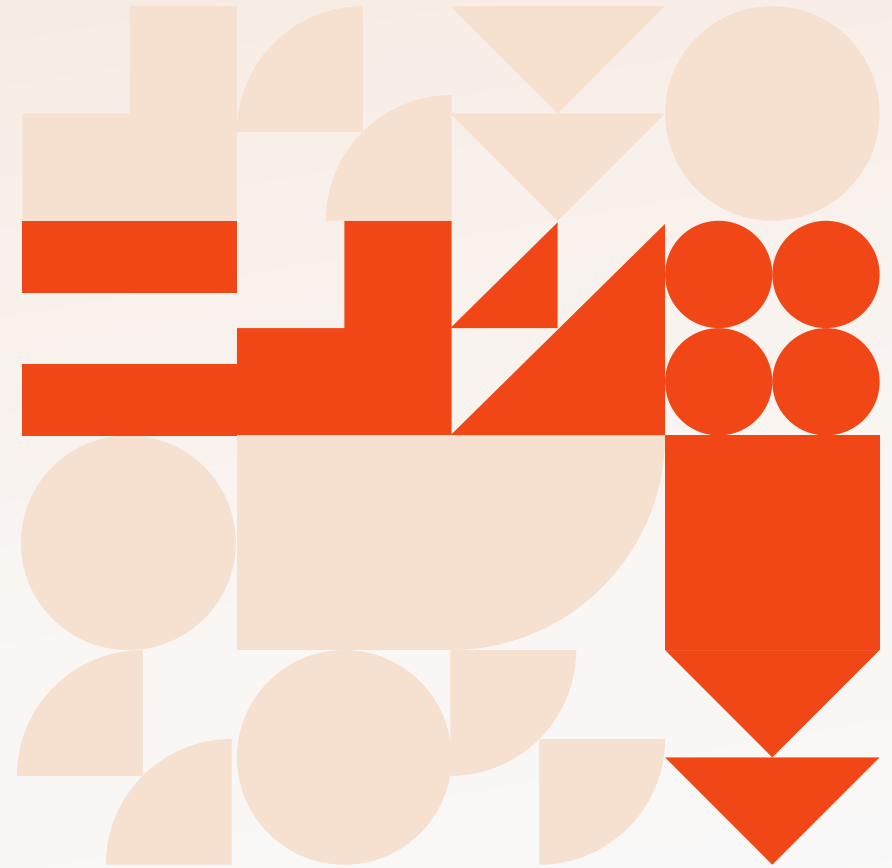


Undertake Rigorous Due Diligence

Financial and technical due diligence should remain a key component of investment governance given ongoing pressures within parts of the contractor supply chain.

07

How McBains
can support



How
we can
support





We believe in finding the better way

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