

Gardiner & Theobald

MARKET UPDATE

*A Cautious Start to 2025:
Navigating Economic Uncertainty*

Q1 2025



The UK construction sector **remains at a crossroads**—while policy signals from government appear supportive of growth, **lingering economic uncertainty**, higher **financing costs** and **supply chain pressures** continue to **temper growth prospects** in near term.



Watch our film →

AGENDA

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01

MACRO ECONOMICS & CONSTRUCTION OUTPUT

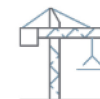
UK ECONOMIC OVERVIEW

UK skirts recession in 2024 and growth outlook is downgraded



GDP GROWTH FORECASTS ADJUSTED

Bank of England halves 2025 growth forecast to 0.75%, reflecting weaker consumer and business sentiment



UK CONSTRUCTION

PMI 48.1 (Jan 2025)

Construction activity dips as the sector adjusts to post-Budget conditions



CPI 3% (Jan 2025)

Inflation unexpectedly rises to 10-month high, with dynamics unlikely to improve meaningfully in the near-term



4.4% UNEMPLOYMENT

RATE (Oct 24 – Dec 24)

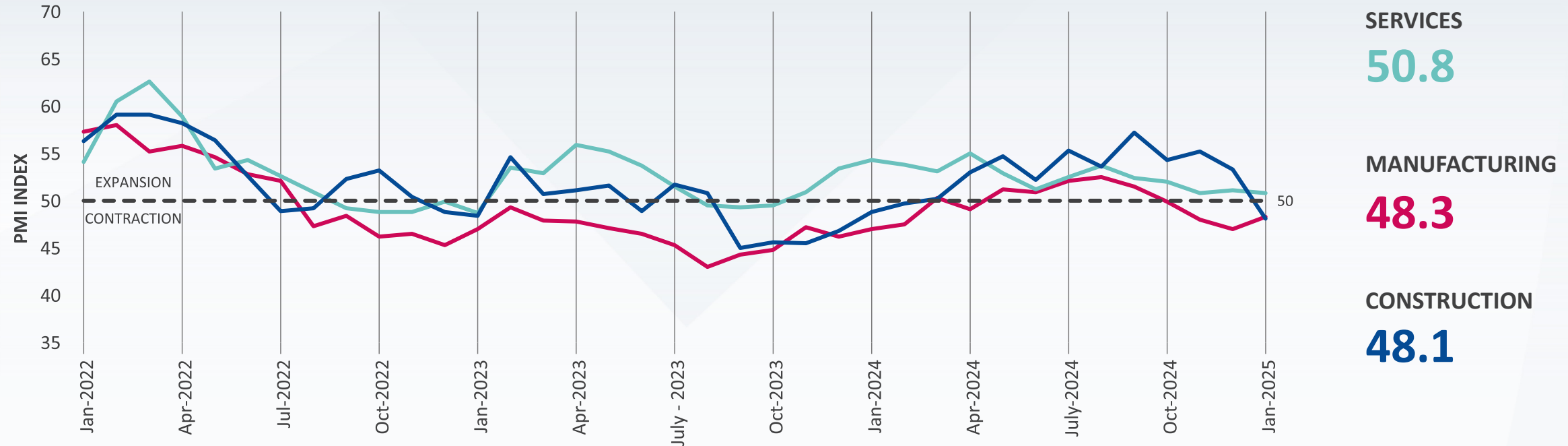
UK labour market cools after employer NIC changes, but wage growth stays resilient



INTEREST RATES EASING

Rate cut to 4.5%, but markets dial back expectations for swift reductions

UK CONSTRUCTION PMI



The 10-month streak of sustained expansion ends amid delayed decision-making and economic uncertainty...

All Categories of Work
Experience Reduction in Output

Shrinking Order Books and
Renewed Cost Pressures

Borrowing Costs and Weak
Client Confidence Result in
Subdued Workloads

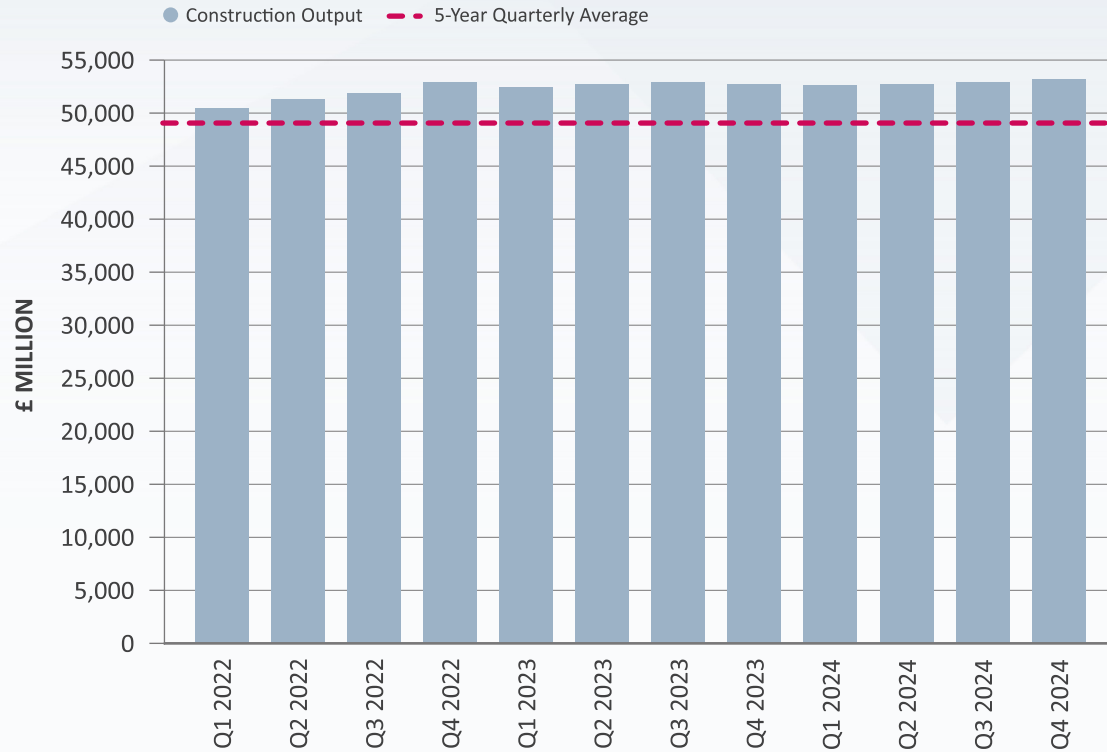
Rates Charged by Sub-
contractors Increase Sharply

Source: [S&P Global](#)

Note: The PMI is a subjective, sentiment-based index. Output and new order trends may therefore differ from official ONS data trends, which are based on hard economic data.

UK CONSTRUCTION OUTPUT AND NEW ORDERS (ONS)

UK CONSTRUCTION OUTPUT (Q-ON-Q)



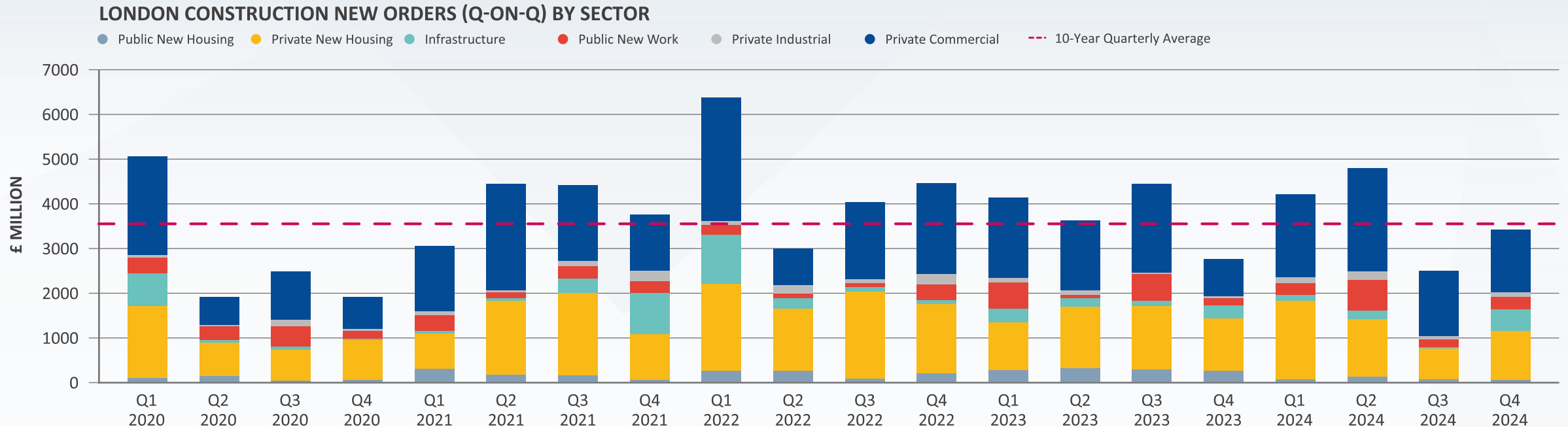
UK construction rose 0.5% in Q4 2024, outperforming the wider economy

UK CONSTRUCTION NEW ORDERS (ALL NEW WORK)



New orders decline by another 2.4% in Q4, driven by falling infrastructure and industrial demand

LONDON: NEW ORDERS (ONS)



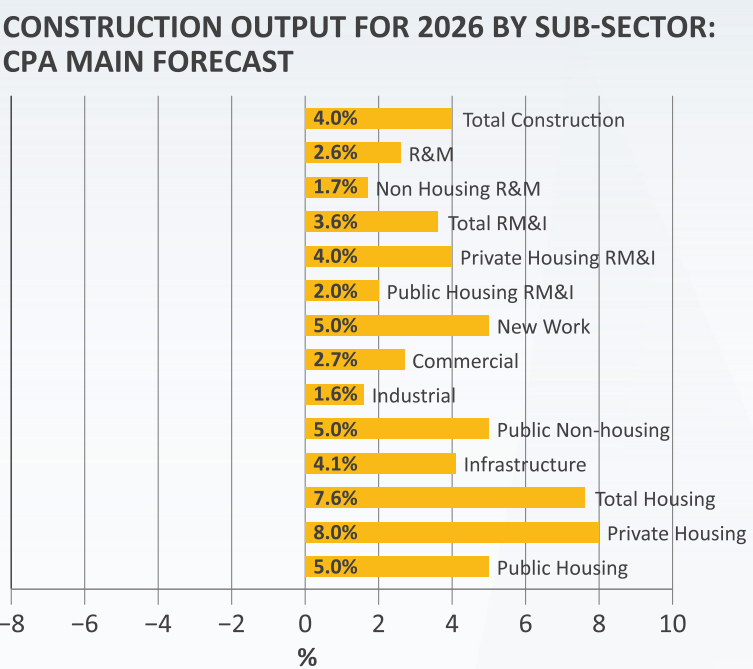
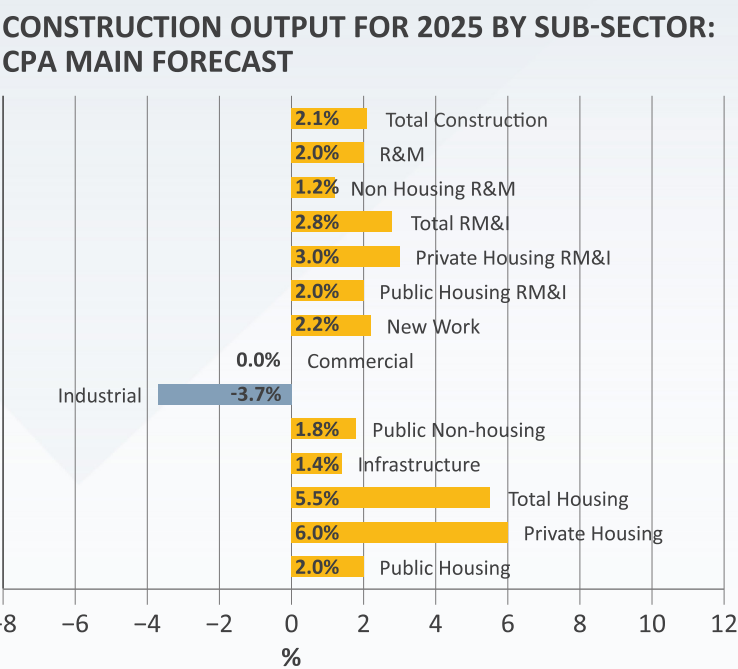
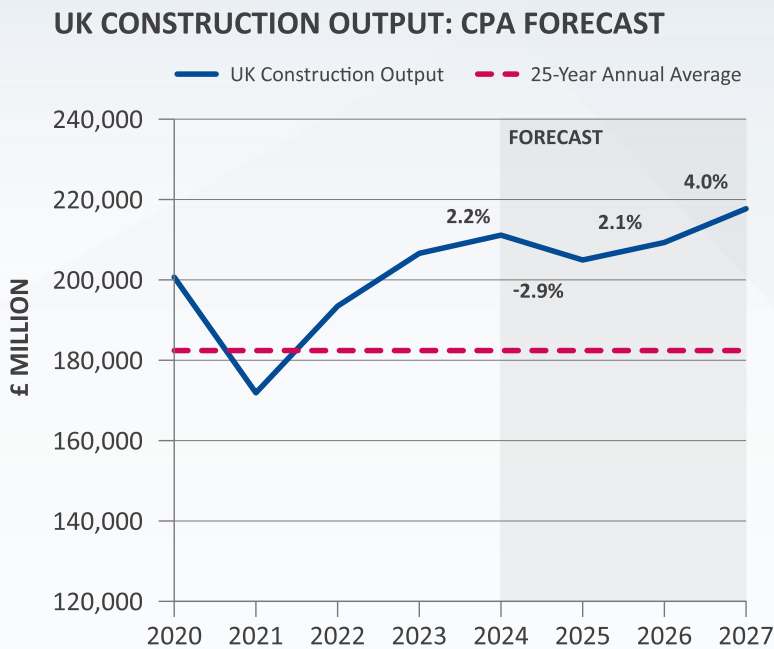
London new orders buck overall UK trend, **rising 37% in Q4 to £3.4bn**

Interest rate cuts could be the catalyst
developers need to start new schemes

London to get a boost from planning
reforms and infrastructure plans

Refurbishment remains an attractive
choice for addressing evolving occupier
requirements and ESG credentials

CPA CONSTRUCTION INDUSTRY FORECASTS 2025-2026



CPA forecasts a slower UK construction recovery amid economic uncertainty...

A more gradual recovery amid economic challenges

High costs and regulatory delays continue to restrain growth

Public investment could provide a boost, but fiscal constraints loom

Housing market recovery dependent on interest rates and confidence

Major infrastructure projects support growth, but delays persist

Supply chain pressures and insolvencies add to uncertainty

Source: Construction Products Association (CPA)

02

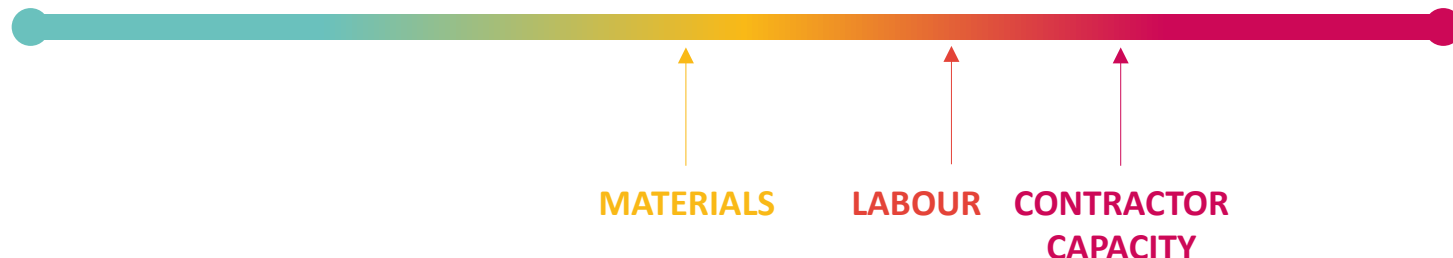
INPUT COST TRENDS – MATERIALS, COMMODITIES & LABOUR

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INPUT COST DRIVERS: SUMMARY

Low Pressure

High Pressure



MATERIALS

Stable for now, but global trade risks threaten disruption

- Material prices broadly stable, though price pressures persist in finishing materials and MEP
- US tariffs pose risk to supply chain stability, though the inflationary impact remains uncertain

LABOUR

Persistent strain from skills shortages and sector-specific demand

- Above-trend growth fuelled by shortages and a structural shift towards refurbishment
- NIC and minimum wage rises set to push costs higher

CONTRACTOR CAPACITY

Insolvencies and supply chain constraints reshape market dynamics

- Tier 1 contractors remain engaged in established schemes, limiting availability for new projects
- Clients must enhance project appeal to attract selective contractors, as rising insolvencies increase risk sensitivity

INPUT COSTS: MATERIAL PRICES

DBT: 'ALL WORK' CONSTRUCTION MATERIAL PRICES INDEX, UK



DBT 'ALL WORK' INDEX

-0.7% ▼

(Dec 23 – Dec 24)

PEAK TO CURRENT

-6.5% ▼

(Jul 22 – Dec 24)

PRE-PANDEMIC CHANGE

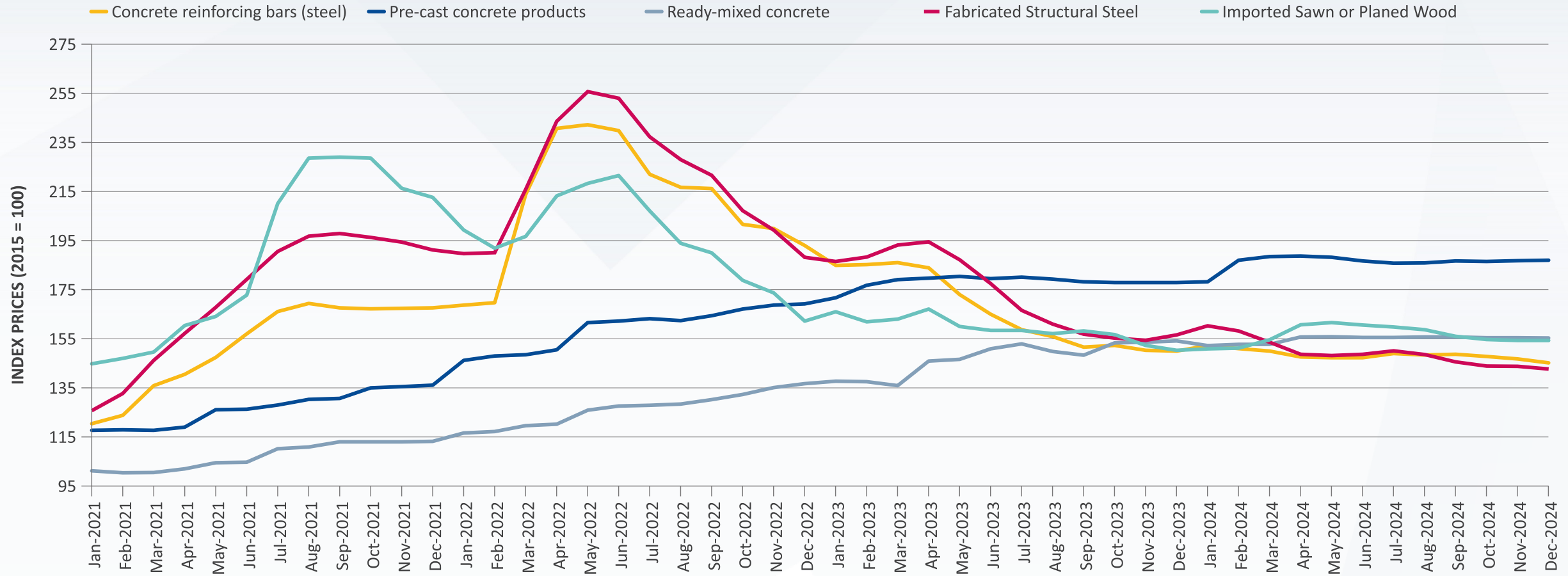
+37.0% ▲

(Feb 20 – Dec 24)

Material prices generally stable, but finishing trade materials and MEP items under pressure...

INPUT COSTS: MATERIAL PRICES

DBT: PRICE INDICES OF CONSTRUCTION MATERIALS (UK)



Most product categories experienced more stable and predictable price movements in 2024...

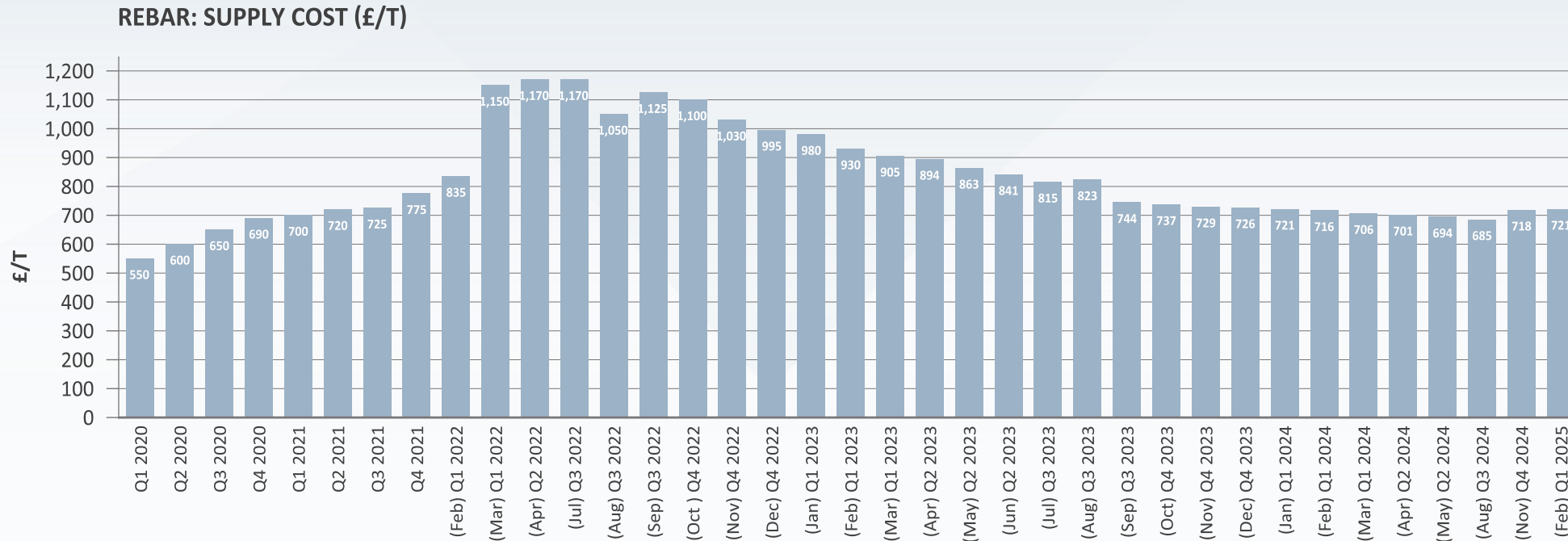
MATERIALS: RISERS & FALLERS

DBT MATERIALS RISERS AND FALLERS: QUARTERLY V ANNUALLY

● Quarterly (Sep 2024 - Dec 2024) ● Annual (Dec 2023 - Dec 2024)



REBAR PRICE TRENDS



REBAR SUPPLY COST*

+0.4%

From **£718/t** (in Nov 2024)
to **£721/t** (in Feb 2025)

Rebar prices edge higher as **global market volatility, US tariff uncertainty and decarbonisation efforts take hold...**

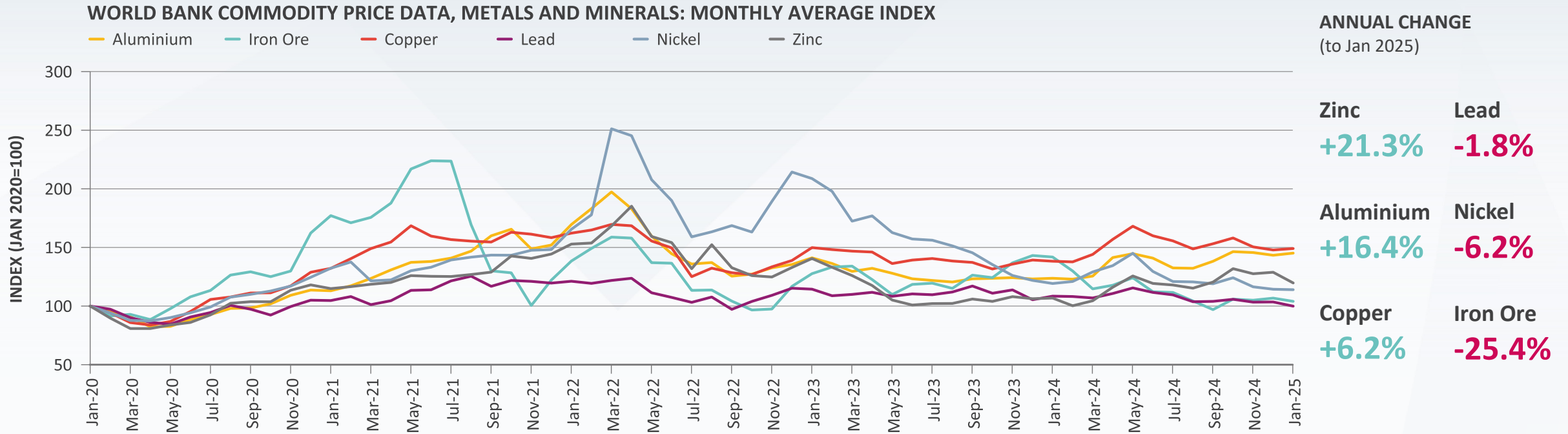
Rebar prices rise, reversing the long-term downward trend

Proposed **US tariffs fuel market volatility**, triggering speculative price movements

Risk of oversupply if producers **circumvent US tariffs by diverting steel to the UK market**

Risk of oversupply may not lead to **lower prices** due to trade protections, logistical challenges and existing trade agreements

COMMODITY PRICES



Global supply constraints, tariffs, and economic uncertainty to create volatility in metal commodity prices...

Chinese stimulus provides short-term price support, but impact may be short-lived

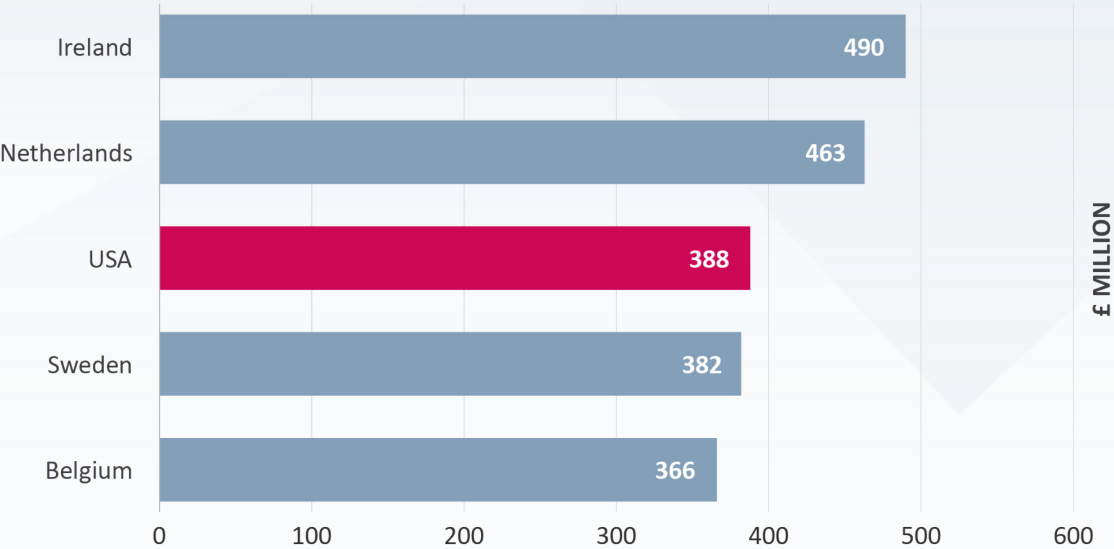
US tariffs and trade tensions create uncertainty in metals markets

Rising energy costs could impact metals prices, but lag effects may delay full impact

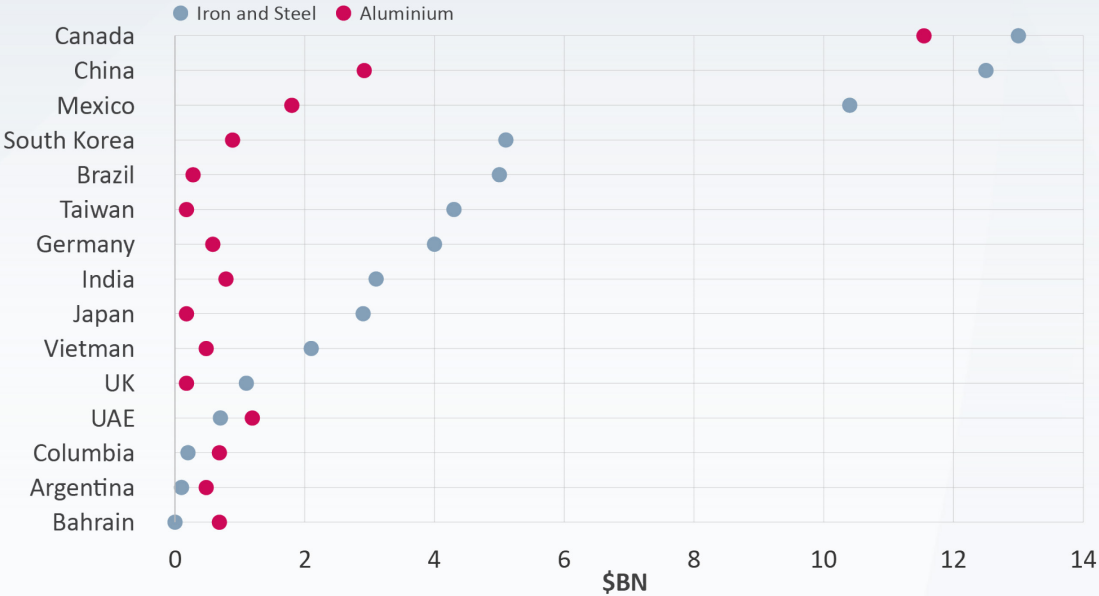
Tight supply conditions to keep base metal prices responsive to changes in global industrial activity

US TARIFFS: IMPACT ANALYSIS

TOP FIVE COUNTRIES FOR UK STEEL EXPORTS: VALUE OF UK STEEL EXPORTS BY DESTINATION COUNTRY, 2023



EXPORTS TO THE US IN 2024, \$BN



Note: includes raw metals and articles made of iron, steel and aluminium.

US tariffs pose limited risks to UK growth, but inflationary effects remain uncertain...

A limited macro hit to the UK, but tariffs would weigh on global trade and growth

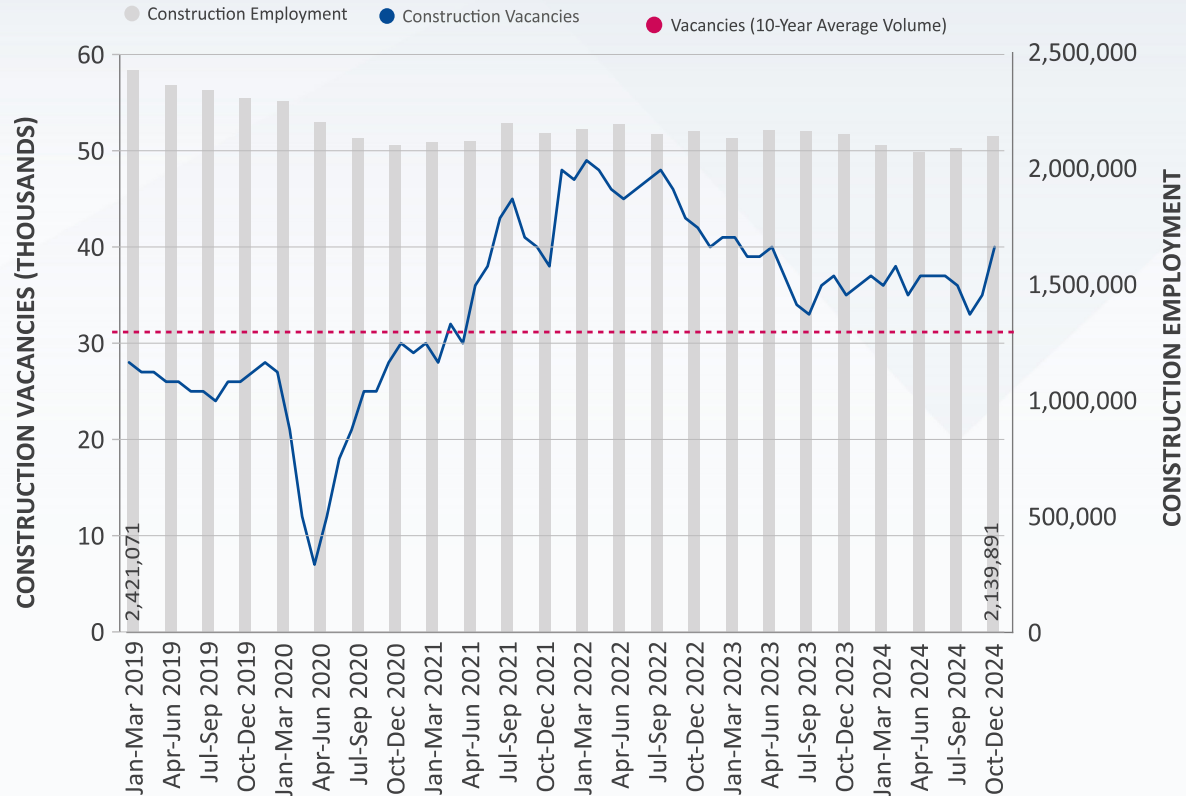
UK prices could face both upward and downward pressure, with only modest net impact

Excess supply risk: cheap Asian steel could flood the UK market

Altered trade flows could disrupt established supply chains, causing delays and cost uncertainties

LABOUR

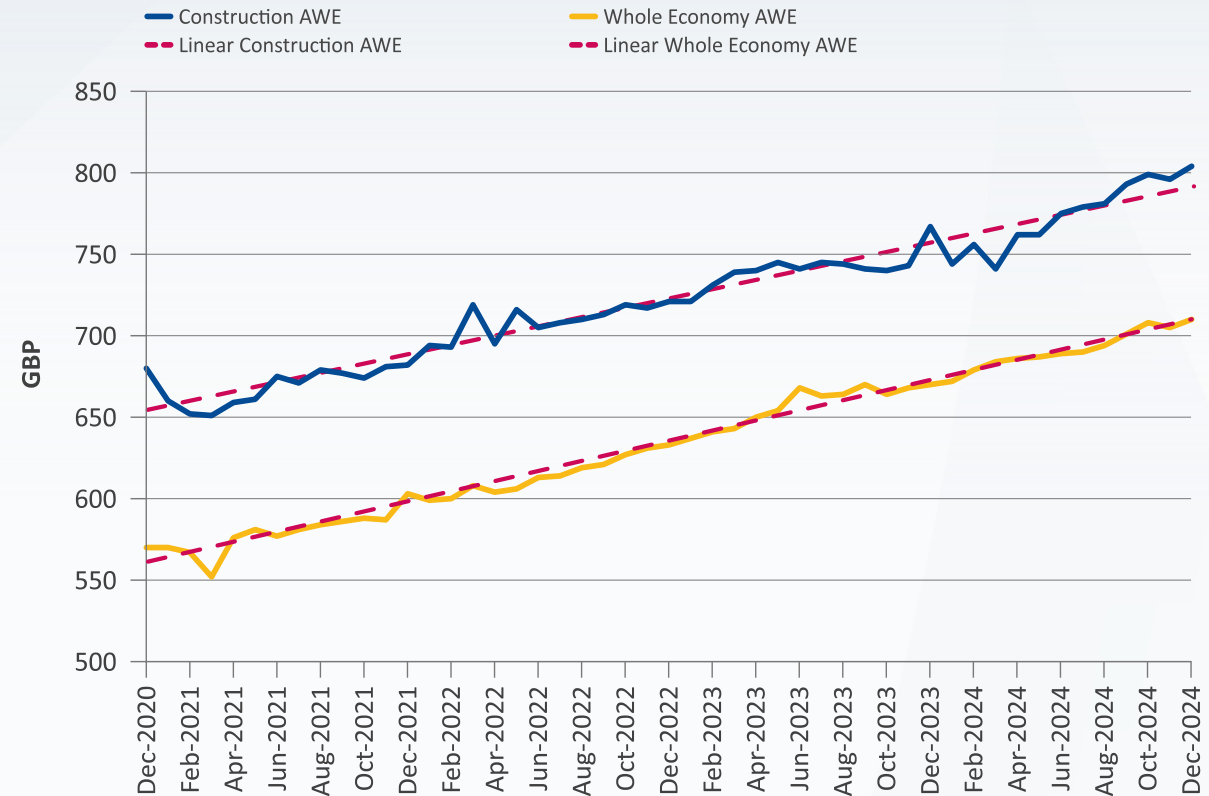
CONSTRUCTION VACANCIES VS EMPLOYMENT



Spike in construction vacancies as cautious hiring sentiment sees advertised roles unfilled for longer than usual

Source: [ONS](#)

AVERAGE WEEKLY EARNINGS (UK CONSTRUCTION) SEASONALLY ADJUSTED

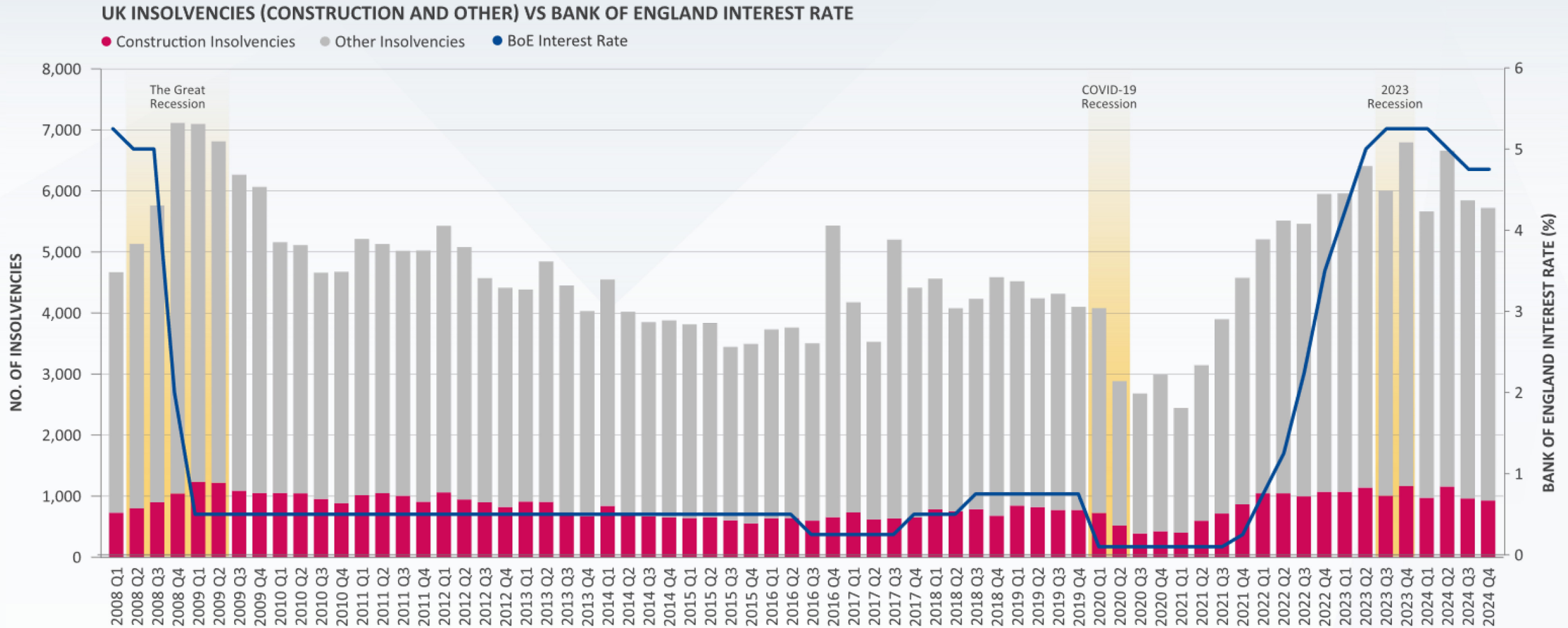


Construction earnings up 6.6% in December, driven by persistent skilled labour shortages and age-demographic trends

03

MARKET TRENDS: INSOLVENCIES, MEP UPDATE, SECTOR DEVELOPMENTS AND LONDON OFFICE PIPELINE

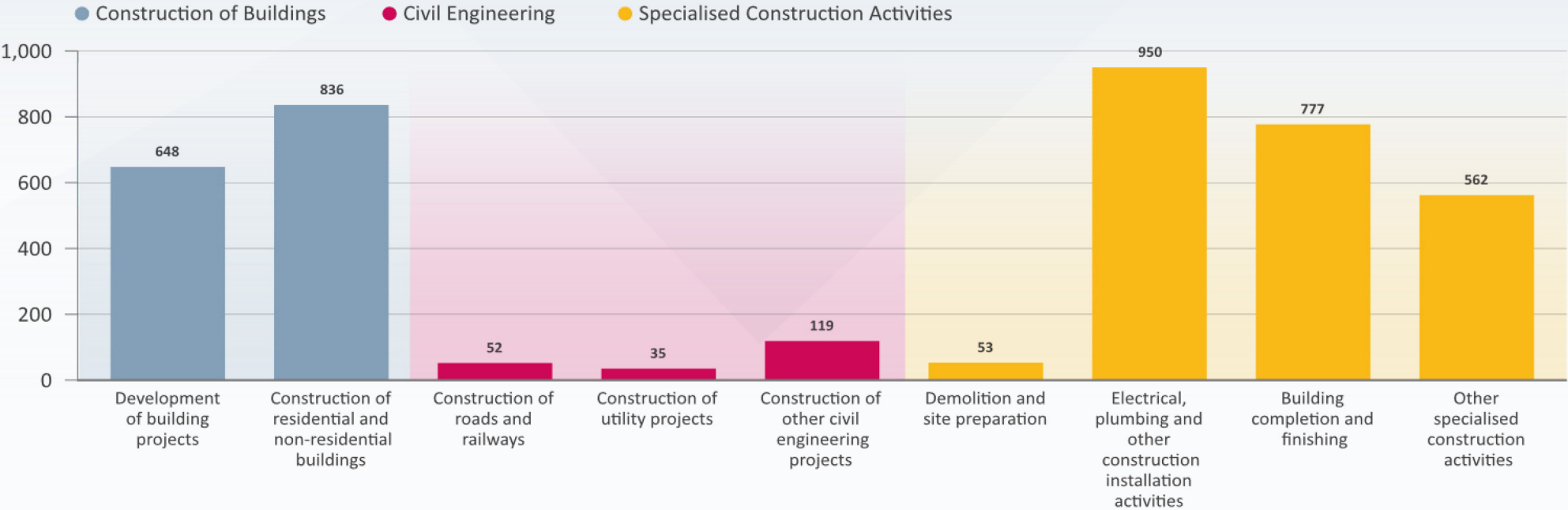
INSOLVENCIES V INTEREST RATES



Although insolvencies are falling, Q4 sees sharp rise in firms in ‘Critical Financial Distress’

CONSTRUCTION INSOLVENCIES: SMALLER FIRMS HIT HARDEST

CONSTRUCTION INSOLVENCIES IN ENGLAND AND WALES BY TYPE: YEAR TO DECEMBER 2024



INSOLVENCIES BY TYPE (YEAR TO Dec 2024)

Construction of Buildings
37%

Civil Engineering
5%

Specialised Construction Activities
58%

Smaller specialised construction firms account for **most insolvencies**

Demolition and groundworks contractors **show resilience** amid high insolvency rates

Main contractors face **pressure** from **fixed-price contracts** and **delayed payments**

Civil engineering firms less **impacted** due to **steady revenue** from **publicly funded projects**

THE CHANGING LANDSCAPE OF THE M&E MARKET

Ongoing pressures in the M&E market: **demand-driven complexity, supply shortages, and rising costs...**



Demand led change

- Complex MEP packages are driving large contract values – package now split in lieu of single package
- MEP-led projects such as Data Centres and Plant Replacement absorbing significant market capacity



Supply led change

- Continued loss of trade across Tier 1 + 2 markets
- Risk of material shortages as major projects and clients absorb supply chain capacity through bulk buying



Price impact

- Ongoing pressure on specialist subcontract trades due to lack of capacity and workload (Fire + ICT)
- Preliminaries costs rising due to cost of living, labour shortages, enhanced CDP design
- Project delays creating potential gaps in trade order books
- New regulations (eg BS9991)



Mitigation

- Ensure design meets RIBA gateways to de-risk the tender
- Potential early design stage involvement from specialist trades
- Proactive planning through warming up the market ahead of tender list
- Tender list selection to reflect live market push and pull

[Read our latest M&E survey →](#)

KEY SECTOR TRENDS: WHAT ARE WE SEEING?



Commercial office

- Strong demand in occupier fit-out market with high volumes of work tendered
- New build: difficulties from an appraisal perspective
- Lack of supply for market-leading, sustainable buildings
- Limited pool of contractors to deliver big projects



Residential

- Funding markets keen to invest, but there is a perceived lack of sites
- Strong demand for super-prime and PBSA
- Gateway 2 (BSA) slowing projects down and impacting viability
- Schemes stuck in protracted planning process



Infrastructure

- Significant planned investment across transport, utilities and energy
- Supply market constraints are increasing project costs
- Workload pressures resulting in lengthy project delays
- Geopolitical pressures to drive defence spending



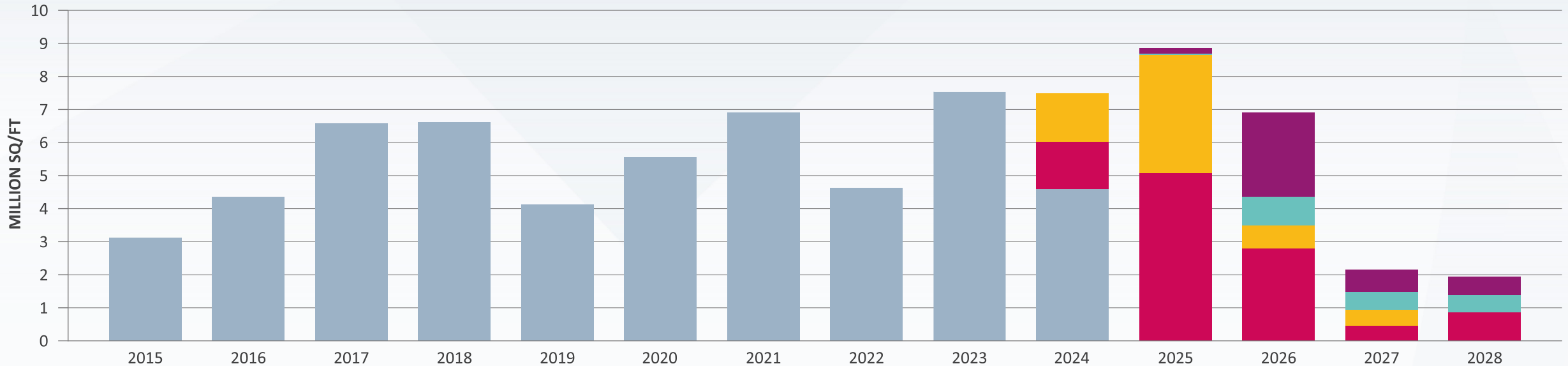
Healthcare & Life Sciences

- NHP: green light to move ahead but some hospital schemes deferred
- Significant pipeline of backlog hospital maintenance work
- Life Sciences activity less buoyant, with fewer new enquiries
- Some base build schemes paused over funding issues and oversupply concerns

DELOITTE LONDON OFFICE CRANE SURVEY (WINTER 2024): KEY TRENDS

CENTRAL LONDON: FUTURE OFFICE DEVELOPMENT PIPELINE

Completed Under Construction - Available Under Construction - Let In Demolition/strip out - Available In Demolition/strip out - Let Permission Granted - Available Permission Granted - Let



After a period of low transaction volumes and inactivity in the investment market, **appetite for London assets is increasing...**

2024 competitions projected at **7.5 million sq ft** – down from previous projections

Challenging macro-environment has led to delays, capping delivery rates

Tenant demand to absorb all premium office space coming through the pipeline

Despite geopolitical risks, developers are positive that pipelines will be maintained

04

TRENDS IN KEY TRADES

KEY TRADE ANALYSIS – OVERVIEW

Low Pressure

High Pressure



COMPETITIVE

- Demolition/Enabling Works
- Earthworks
- Substructure

BALANCED/STABLE

- Façades
- Carpentry/Joinery
- Finishes
- Preliminaries
- OH&P
- Steelwork
- Concrete
- Lifts

HIGHER INFLATION

- MEP
- Drylining

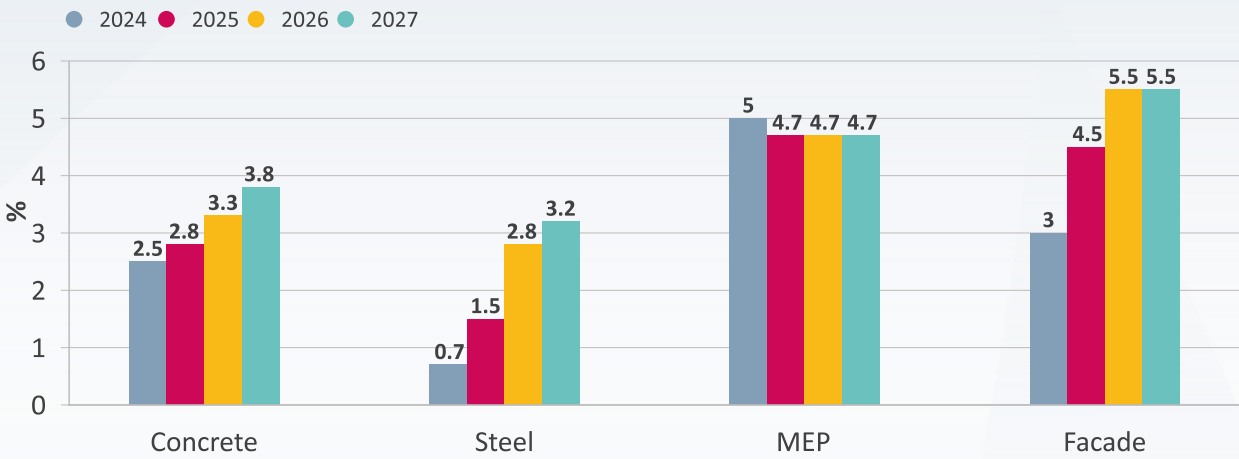
G&T BASKET OF GOODS: RESULTS

Package	Inflation (Exc. Preliminaries and OH&P)	Inflation (Inc. Preliminaries and OH&P)
Substructure	-0.9%	-0.7%
Steel	0.94%	2.30%
Concrete	2.33%	2.46%
Facade	-1.10%	0.00%
MEP	6.60%	8.60%

MARKET

- 1. **Planning & Regulatory Challenges** – Industry-wide delays persist due to complex planning processes and the Building Safety Act, slowing project progress, especially in residential development.
- 2. **Sector Activity & Market Confidence** – London remains highly active in commercial and life sciences, while interest rate reductions are boosting investor confidence, gradually unlocking stalled schemes.
- 3. **Materials Costs & Programme Delays** – Materials costs remain stable, but projects face 6–12 month delays due to market uncertainties, funding challenges and regulatory hurdles.

PACKAGE TENDER PRICE FORECAST



- 4. **Contractor Pressures & Insolvency Risks** – Substructure contractors are underpricing at tender to secure work, leading to unsustainable margins and rising insolvencies. Upfront payment demands from suppliers are adding financial strain.
- 5. **London Market Outlook** – Short-term opportunities are limited, but large private commercial developments are expected in the long term. Data centres remain a strong sector, with delays in liquid-to-liquid cooling technology expected to ease by late 2025.

Source: G&T Note: The table shows average package changes over a six-month period (July 2024-Jan 2025)

G&T BASKET OF GOODS RESULTS

Rising Costs, Programme Challenges and Intensifying Competition...

Risks & Challenges



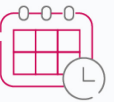
- 1) Skilled Labour Shortages** – Labour constraints are driving up costs and limiting the availability of competent sub-contractors.



- 2) Competitive Market Dynamics** – With some firms eager to secure work after a slow year, pricing remains competitive, but costs are expected to rise as demand picks up.



- 3) Currency & Cost Inflation** – The weakening Pound against the Euro is increasing import costs, adding further inflationary pressure.



- 4) Uncertain Project Timelines** – Many projects remain in the pipeline, but unclear start dates make forecasting difficult, increasing financial and operational risks.



- 5) Unsustainable Pricing Strategies** – Intensifying competition is leading to unsustainably low bids, threatening contractor viability and straining supply chains.

Programme



- 1) Investment Delays & Extended Decision-Making** – Greater due diligence and cautious investment slowing project timelines.



- 2) Building Safety Act Impact** – Gateway approvals extending lead-in times for HRBs.



- 3) Cost Pressures & Value Engineering** – Delays as VE options are explored but now is an opportune time to proceed before prices rise.



- 4) Long Lead Times for Key Equipment** – High demand for generators and switchgear requiring upfront payment and extended delivery times.

05

MARKET CONDITIONS

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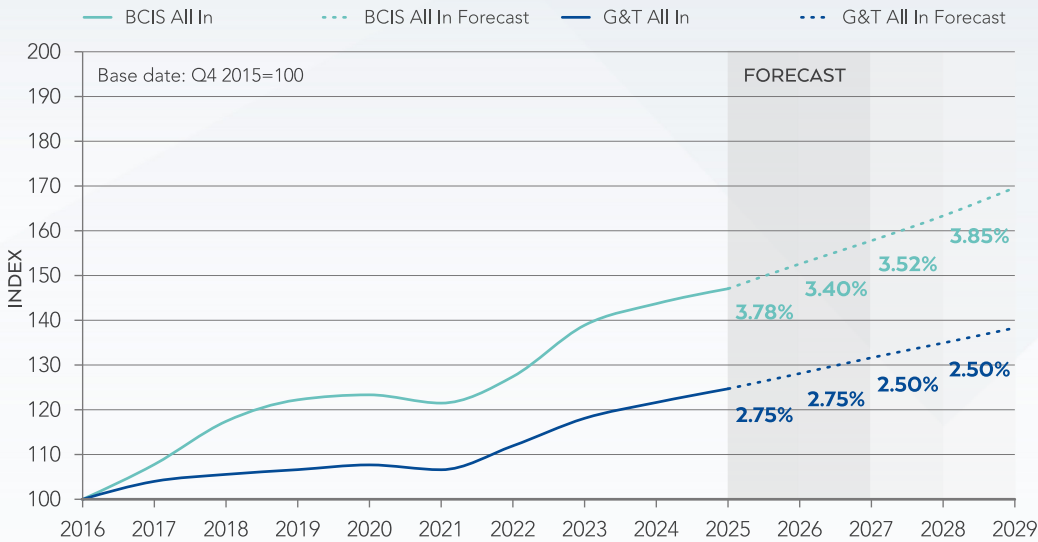
In our latest TPI, we noted the following market conditions in the UK construction sector:

- **Weakened market activity and ongoing viability concerns**
- Large contractors are still busy, reducing market capacity
- **Financing challenges weigh on public sector investment decisions**
- Supply chain risks and insolvencies increasing pricing pressure
- Gateway 2 bottlenecks stalling high-rise projects in pre-construction
- **Inflationary pressures persist despite lower construction activity**
- Regulatory and ESG pressures adding to costs and delaying project timelines
- **Global uncertainty impacting supply and costs**

Read the latest [TPI Report](#) →

TPI Q1 2025: OVERVIEW

TENDER PRICE TREND ‘ALL UK TPI’



TENDER PRICE ANNUAL PERCENTAGE CHANGE Q1 2025

%	2025		2026		2027		2028	
Regional forecasts	Now	Last*	Now	Last*	Now	Last*	Now	Last*
Greater London	3.00	3.00	3.00	3.00	2.50	2.50	2.50	N/A
South East	2.75	3.00	3.00	3.00	2.50	2.50	2.50	N/A
South West	2.25	2.50	2.50	2.50	2.50	2.50	2.50	N/A
East (Anglia)	3.00	3.50	3.00	3.00	2.75	2.75	2.50	N/A
Midlands	2.75	2.75	3.00	3.00	3.00	3.00	2.50	N/A
Wales	2.25	2.25	2.50	2.25	2.50	2.50	2.50	N/A
Yorks & Humber	2.00	2.00	2.00	2.00	2.25	2.00	2.25	N/A
North West	2.50	2.50	2.50	2.50	2.50	2.50	2.50	N/A
North East	2.00	2.00	2.00	2.50	2.50	2.50	2.50	N/A
Scotland	2.75	2.75	2.50	2.50	2.75	2.50	2.75	N/A
Northern Ireland	2.25	2.25	2.50	2.50	2.50	2.50	2.50	N/A
UK Weighted Average	2.75	2.75	2.75	2.75	2.50	2.50	2.50	N/A

Our forward forecasts show annual tender price inflation (Jan-Dec)

Last* Q4 2024

UK AVERAGE

Tender Price Forecast (2025)

2.75%

LONDON

Tender Price Forecast (2025)

3.00%

A mixed outlook of slow economic growth, inflationary pressure and shifting policy dynamics are holding back growth in the sector...

A much-hoped for recovery in the construction sector has been stalled by a challenging economic and political backdrop. Constrained supply, regulatory burdens and heightened risk aversion continue to drive tender prices in the short term. The recent decision to raise employers’ National Insurance contributions (NIC) has further weighed on business confidence, adding to labour cost pressures.

Please note: G&T’s TPI forecasts take account of all sectors and project sizes as a statistical average, indicating an overall trend in pricing levels. Individual projects may experience tender pricing above/below the published average rate, reflecting the project specific components and conditions.

06

KEY TAKEAWAYS

KEY TAKEAWAYS



Uncertain outlook as market dynamics remain challenging



Economics and politics have combined to dampen optimism



Labour costs and supply chain pressures keeping inflation elevated



Lower finance costs could ease viability pressures and unlock stalled projects

Find out more about our market intelligence and how we can help →

GT GARDINER
& THEOBALD

