

TENDER PRICE FORECAST

for 1st Quarter 2025 is...

2.75%

Annual UK Average

▲ compared to 2.50% Annual UK Avg. for Q4 2024

A mixed outlook of slow economic growth, inflationary pressure and shifting policy dynamics are holding back growth in the sector. Constrained supply, regulatory burdens and heightened risk aversion continue to drive tender prices in the short term.

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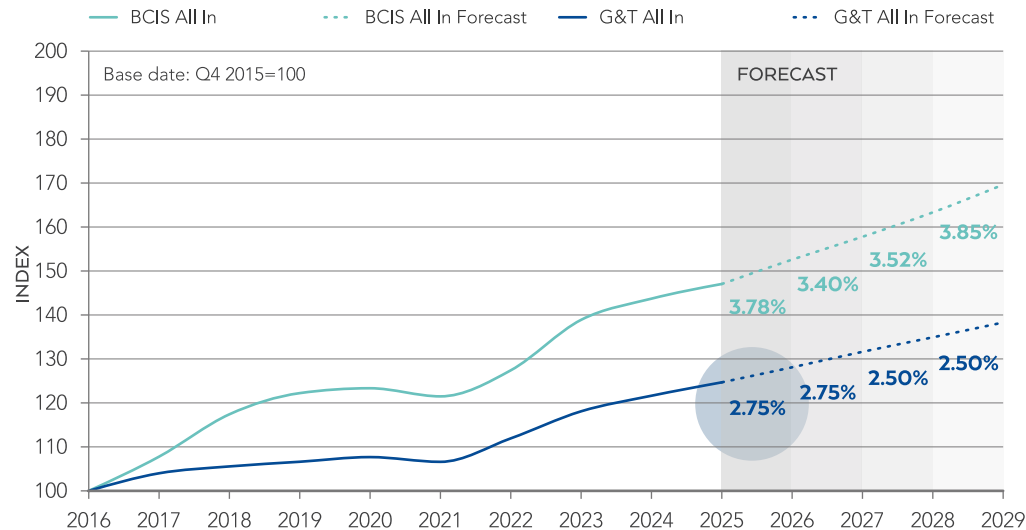
TENDER PRICE ANNUAL PERCENTAGE CHANGE Q1 2025

% Regional forecasts	2025		2026		2027		2028	
	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

Last* Q4 2024

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

TENDER PRICE TREND 'ALL UK TPI'



HOW DO WE REACH OUR TENDER PRICE FORECAST?

We conduct a detailed industry survey and consider factors including...

INPUT COSTS

- ▲ 5.4% BCIS Labour Cost Index Dec 23 – Dec 24
- ▼ -1.0% BCIS Plant Cost Index Dec 23 – Dec 24
- ▲ 3.0% BCIS M&E Cost Index Dec 23 – Dec 24
- ▼ -8.9% Fabricated Structural Steel Dec 23 – Dec 24
- ▼ -3.2% Concrete Reinforcing Bars (Steel) Dec 23 – Dec 24
- ▲ 2.7% Imported Sawn or Planed Wood Dec 23 – Dec 24
- ▲ 0.8% Ready Mixed Concrete Dec 23 – Dec 24
- ▼ -6.0% Oil Prices (Brent Crude) Feb 24 – Feb 25

KEY

Input cost arrows indicate the direction of change over the specified annual period.

- High Cost Driver
- Medium Cost Driver
- Low Cost Driver

MACRO ECONOMICS

Unless otherwise indicated, figures show annual growth rates. Arrows indicate the direction of change compared to our previous TPI.

- ▲ 0.8% UK GDP Annual Growth Rate Q4 2023 – Q4 2024
- ▲ 2.5% CPI Dec 2024 12-month rate
- ▲ 3.5% RPI Dec 2024 12-month rate
- ▼ 4.5% UK Base Interest Rate Feb 2025
- ▲ 4.4% UK Unemployment Rate Sep 2024 – Nov 2024
- ▲ 5.6% UK Wage Growth Average Weekly Earnings (Total Pay) Y-on-Y three-month average to Nov 2024
- ▲ 7.3% UK Construction Wage Growth Average Weekly Earnings (Total Pay) Y-on-Y three-month average to Nov 2024

Our Tender Price Inflation report looks at the movement of prices in tenders for construction contracts in the UK. The report examines a number of contributing factors and is further informed by our market survey and supply chain consultations. This forward forecast illustrates our view of annual tender price inflation from January to December 2025 and beyond.

OUR FORECASTS

A mixed outlook of slow economic growth, inflationary pressure and shifting policy dynamics are holding back growth in the sector. Constrained supply, regulatory burdens and heightened risk aversion continue to drive tender prices in the short term.

A much-hoped-for recovery in the construction sector has been stalled by a challenging economic and political backdrop. With inflation in the economy expected to remain above target this year, interest rate reductions may proceed at a slower pace, deterring investment and delaying project pipelines. The recent decision to raise employers' National Insurance contributions (NIC) has further weighed on business confidence, adding to labour cost pressures at a time when wage growth in the industry remains above trend.

Supply chain capacity constraints, regulatory burdens and heightened risk aversion also continue to shape market dynamics. Contractors, particularly large Tier 1 contractors, remain selective in bidding, pricing in risk amid prolonged project lead times and increasing compliance requirements. While materials cost inflation remains relatively static, labour shortages and regulatory-driven overheads are keeping tender prices elevated. As a result, inflationary pressures in the sector are expected to persist.

Despite these headwinds, pockets of the industry remain cautiously optimistic. The Construction Products Association (CPA) forecasts continue to anticipate a rebound in overall output in 2025, and although viability concerns have stalled projects in certain areas, demand remains strong in infrastructure, energy and refurbishments markets.

Our UK weighted average tender price inflation forecasts for 2025 and 2026 remain

unchanged from last quarter at 2.75%. However, a slower-than-expected start to the year could affect the inflationary outlook, particularly if public sector work takes longer to ramp up. We also anticipate significant variations in tender pricing between different sectors. Those sectors where workload growth is weak will see increases in competitive pressure and softer levels of tender price inflation.

All forecasts in this report take account of all sectors and project sizes as a statistical weighted average, indicating an overall trend in pricing levels. It should be remembered that individual projects may experience tender pricing above or below the published average rate, reflecting the project specific components and conditions.

THE ECONOMY

Economic growth in the latter half of 2024 slowed notably, with GDP growing by 0.8% for the year—a modest figure reflective of elevated interest rates, persistent inflation and weakening consumer and business confidence.

The outlook for 2025 has deteriorated further, with the Bank of England (BoE) slashing its growth forecast to 0.75%, down from 1.5% in November 2024. The Bank warned that the economy is likely to skirt a technical recession by only the narrowest of margins. It also highlighted that the recent increase in employer National Insurance contributions will place additional strain on both job creation and prices.

Following the BoE's downbeat assessment, concerns over stagflation—the challenging mix of weak growth and high inflation—have resurfaced. Inflation is projected to peak at 3.7% in Q3 2025, primarily due to rising energy costs, before easing to around 2.5% in 2026 and returning to the 2% target in 2027.

Despite inflationary pressures, the BoE cut interest rates from 4.75% to 4.5% in February 2025, marking its third reduction in six months. The decision underscores the Bank's growing concerns over faltering economic momentum, with business investment and consumer spending showing signs of strain. However, it also highlights the difficult balancing act of supporting growth while ensuring inflation remains under control.

Despite these headwinds, underlying price pressures are expected to ease over time. The Consumer Price Index (CPI) fell unexpectedly to 2.5% in December 2024, but it remains above the BoE's target and is likely to hover above 2% for much of 2025. A decline in services inflation—often viewed as a key indicator of domestic price trends—was a welcome development. However, rising employment costs, a higher minimum wage and increased government spending could exert renewed upward pressure on prices. Additionally, protectionist trade policies from the new US administration pose a threat, particularly if tariffs on key trading partners disrupt global supply chains, drive up commodity prices, and increase costs for UK businesses and consumers.

Construction Purchasing Managers' Index (PMI) contracted for the first time in nearly a year, signalling weaker industry activity. Shrinking order books and rising cost pressures contributed to the weakest business confidence levels since October 2023. Output declined across all major sectors, with reports of subdued workloads and delayed decision-making by clients. Growth prospects remain dependent on infrastructure investment and green energy projects, but weaker planning approvals in 2024 raise concerns over the long-term pipeline.

CONSTRUCTION OUTPUT AND NEW ORDERS

Construction output – a measure of the value of work being completed on site – fell 0.2% in December 2024. New work output rose 1.1%, while repair and maintenance (R&M) work contracted by 1.8% compared to the previous month.

Sectoral performance remains uneven. Despite an improvement in December, private residential construction remains weak due to affordability pressures, high mortgage rates and a sluggish housing market. Infrastructure output is also subdued due to project delays and funding constraints. Housing repair and maintenance declined further, likely reflecting cost-of-living pressures.

In contrast, private commercial construction activity on the ground remains strong, buoyed by stronger investment in office refurbishments, retail fit-outs and repurposing of underutilised commercial space. Public sector new work (excluding infrastructure) also saw modest growth, supported by higher government spending on education, healthcare and civic projects.

Looking ahead, industry forecasts suggest construction is set for a more gradual recovery following two challenging years. The CPA expects construction output to grow by 2.1% in 2025, followed by a further 4.0% increase in 2026, driven by lower interest rates, improved developer confidence and government-backed infrastructure projects.

New construction orders fell by 2.4% in Q4 2024, reaching £9.3 billion, a further sign of weakening demand. Most sectors saw annual declines, with only public other new work and commercial construction showing growth (+8.7% and +15.1%, respectively). The strong growth in commercial construction indicates continued investment in

areas like office space, while the growth in public other new work reflects government spending in areas outside of traditional infrastructure. Notably, private housing work surged 24% Q-on-Q, suggesting developers are anticipating increased demand due to lower interest rates and planning policy changes.

The outlook for new order growth remains closely tied to the timing and scale of interest rate cuts. Lower borrowing costs could help revive stalled projects, particularly in the residential sector, while planned government infrastructure investment may offer a near-term boost. However, challenges persist—uncertainty surrounding planning reforms, Tier 1 contractor capacity constraints and ongoing labour shortages could still weigh on recovery prospects.

G&T TPI SURVEY FEEDBACK

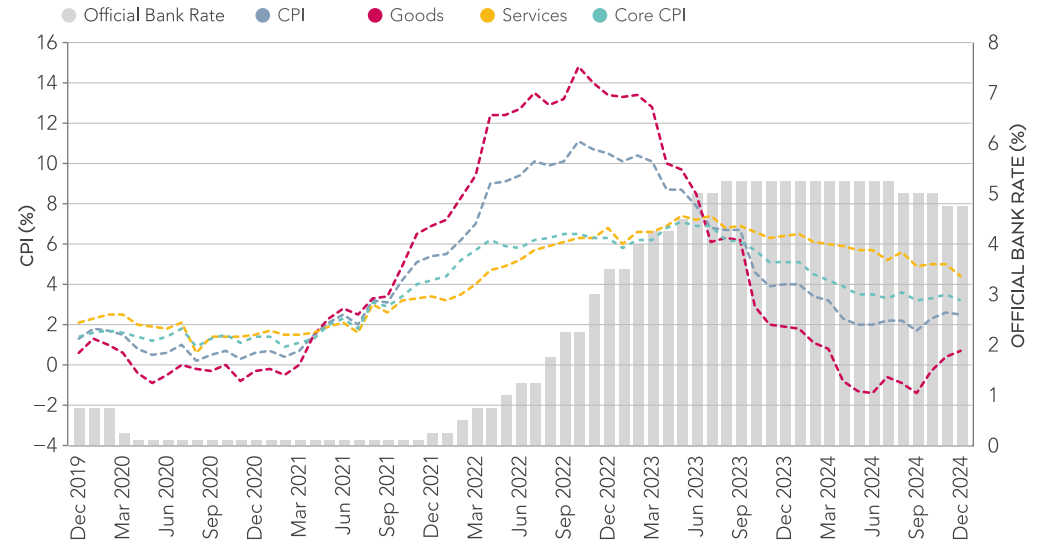
Workload

The UK construction sector is navigating a complex landscape, with a mixed outlook for workloads and tendering activity.

According to Glenigan data, project starts in 2024 rose by 20% year-on-year, driven by a 58% surge in 'major projects' (valued at £100 million or more). However, the total value of contracts awarded to main contractors fell by 4%, while detailed planning approvals fell by 19%.

The 19% decline in planning approvals is particularly concerning, as it signals a weaker future pipeline, with fewer projects advancing to construction-ready stages. This slowdown is likely due to a combination of regulatory delays—such as those associated with the Building Safety Act Gateway processes—viability pressures from high borrowing costs, and developers deferring projects amid fluctuating market confidence.

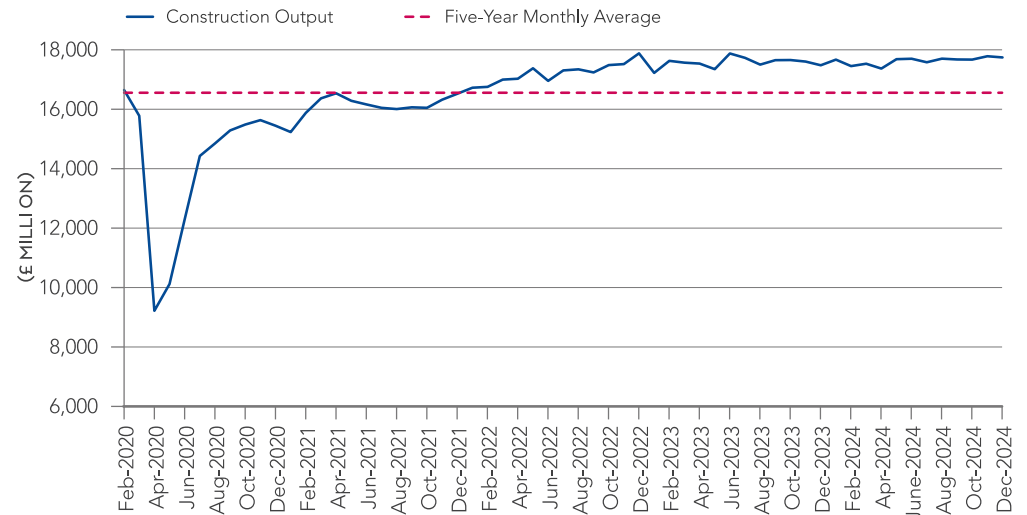
CPI GOODS, SERVICES AND CORE ANNUAL INFLATION RATES V OFFICIAL BANK RATE (UK): DEC 2014 TO DEC 2024



Source: [ONS](#), [Bank of England](#)

CONSTRUCTION OUTPUT: ALL WORK

Seasonally adjusted



Source: [ONS](#)

However, an acceleration in new orders could further strain tendering capacity, with a persistent shortage of construction workers potentially limiting contractors' ability to take on additional projects – especially as the industry works towards the government's target of 1.5 million new homes by 2029.

Findings from our TPI Survey support these trends, with respondents reporting strong enquiry levels and a healthy forward pipeline, particularly in sectors like data centres, healthcare and infrastructure. However, client hesitation remains a key challenge. This caution is most pronounced in the residential and new commercial office markets, where projects face delays due to concerns over funding, planning approvals and tenant commitments. Economic uncertainty, public spending reviews and uncertainty surrounding the pace of interest rate reductions are contributing to delays and increased caution.

The sector remains buoyant in certain areas but constrained by delayed decision-making and slow project commencements. A significant volume of work remains on the periphery, yet uncertainty continues to impede progress. A more active project environment is expected in the second half of 2025, but this will depend on resolving key challenges.

Market Conditions

Market conditions have deteriorated in recent months, with viability concerns stalling project pipelines. Projects that do make it to tender are struggling with market undercapacity. Despite lower levels of overall activity, larger contractors remain busy with established schemes, leaving fewer firms available to take on new projects. As a result, the market is caught in a cycle of high costs, limited supplier capacity and increased risk aversion, which continue to hinder recovery.

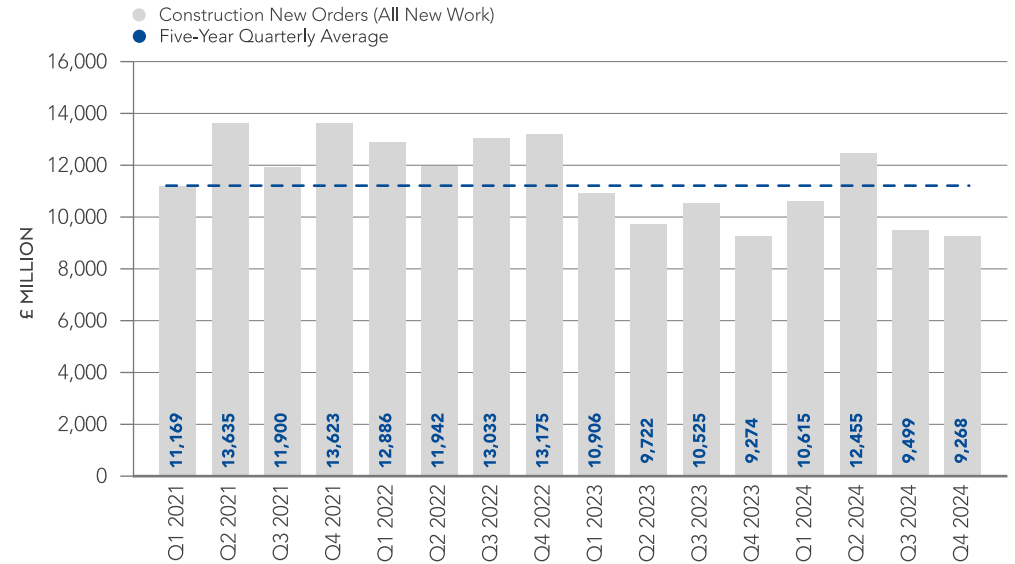
Despite weaker market activity, construction inflation is expected to remain elevated, driven by labour cost pressures, persistent inflation in the general economy and high borrowing expenses. A slow start to the year is anticipated, with rising gilt yields (ie the interest on loans issued by the UK Treasury to raise money for public spending), tight financing and high debt costs weighing on investment decisions. However, supply-side constraints, rather than demand, will primarily drive inflationary pressures.

Higher tenant and investor expectations for ESG-compliant buildings are raising base specifications, further adding to cost pressures. The Building Safety Act and Gateway 2 approvals also continue to cause delays and compliance costs. While competition among lower-tier contractors may help moderate inflation, rising labour costs, pressure on MEP trade packages and insolvency risks continue to push prices up. Recent insolvencies have weakened supply chains, forcing firms to price in higher risk allowances, insurance and financial protections, limiting pricing flexibility.

Global factors are also contributing to uncertainty. Geopolitical tensions, trade policy shifts and fluctuating global demand are impacting supply chains and material costs. Conflicts, tariffs and currency volatility could disrupt supply, particularly for energy-intensive products like steel and cement. Ongoing shipping disruptions may compound these issues, creating additional inflationary pressures for UK construction firms.

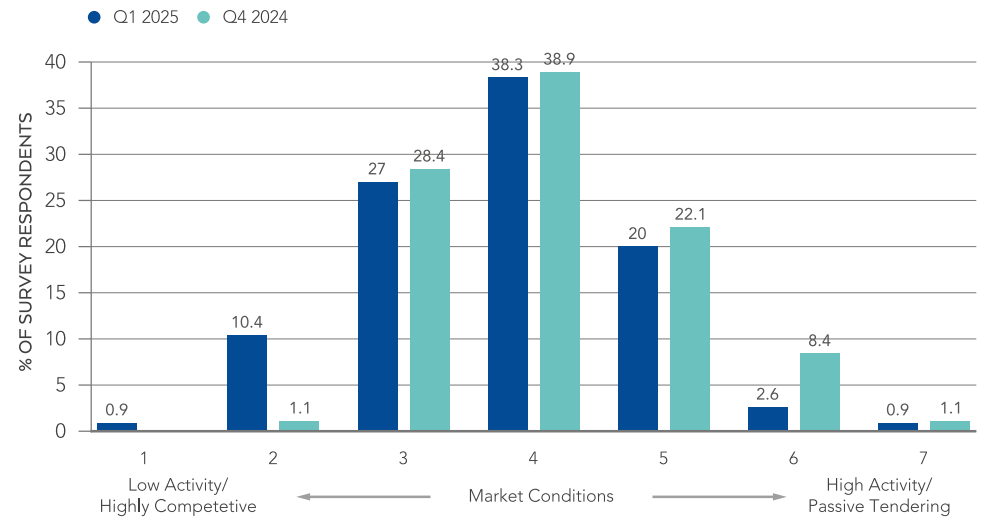
Overall, market conditions remain uncertain, shaped by UK fiscal policy, global economic dynamics, and regulatory challenges. While inflation may ease by 2027-2028, labour shortages, capacity constraints and sustained public sector investment could prolong cost inflation if supply struggles to keep pace with demand.

UK CONSTRUCTION: NEW ORDERS (ALL NEW WORK)



Source: ONS

PERCEPTION OF MARKET CONDITIONS OVER THE NEXT SIX MONTHS (UK)



Source: G&T Q1 2025 TPI Survey

INPUT COSTS

Key Inflationary Drivers

With post-budget business sentiment taking a hit and some contractors looking to pass on increased employment costs, the balance continues to tip in favour of inflation. The table below outlines the primary cost drivers alongside deflationary factors that are partially offsetting increases.

Material Trends

The Department of Business and Trade's (DBT) 'All-Work' index – a basket of goods that tracks price movements for construction materials – has fallen 0.7% over the past year (and 6.5% since its peak in July 2022). However, compared to early 2020 levels, before the pandemic, material prices remain approximately 37% higher.

Material price inflation has remained relatively static over the past year. However, price pressures have been more pronounced in materials used for finishing trades (eg drylining) and building services than in shell and core trades. Pricing for MEP items remains elevated, driven by high import costs and persistent demand for specialised components.

Despite these pressures, most materials are readily available, with only a few exceptions—such as fire-rated ductwork, certain electrical equipment (eg LV panels), and mechanical plant (eg air source heat pumps)—where supply remains constrained.

A notable risk factor for material prices in 2025 is tariffs, which could reverberate through global trade networks. The US has imposed a 10% tariff on Chinese imports, prompting China to retaliate with tariffs of 10-15% on a limited range of US products. Even if the UK remains unaffected by direct

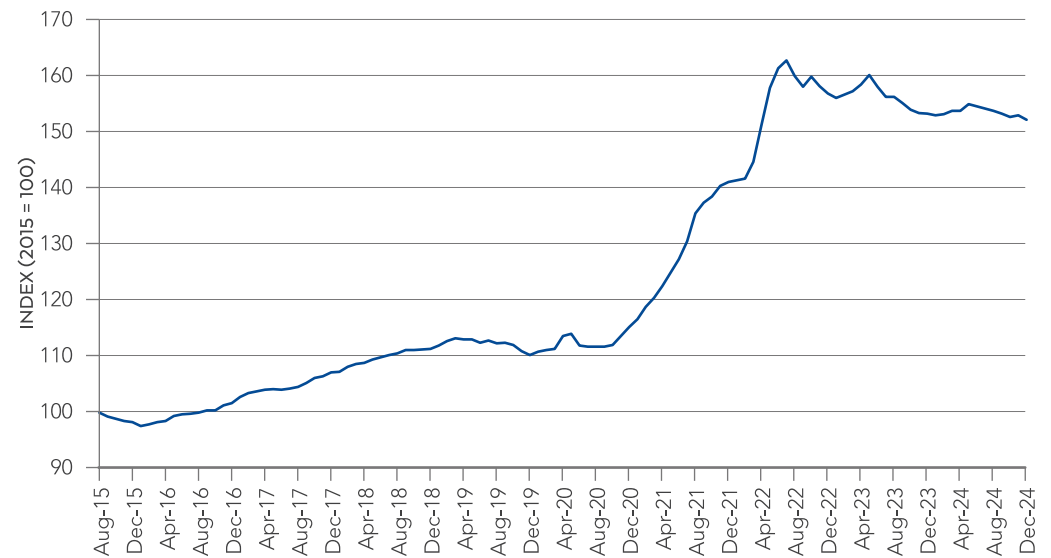
tariff increases, the indirect effects are likely to be inflationary, as disruptions in the supply of raw materials and finished products drive up costs across global markets. Sectors such as steel, aluminium and timber are particularly vulnerable, given their exposure to international trade. These price increases could filter through to UK contractors, particularly those reliant on imports for essential construction materials.

Last year, the World Bank projected that metal prices would be stable throughout 2025, reflecting only moderate growth of industrial activity in major economies, particularly China. However, the introduction of tariffs or other trade restrictions could spark volatility in the commodities market, potentially disturbing supply chains and affecting price dynamics. Given China's pivotal role as both a major producer and consumer, global commodity prices will also be heavily influenced by domestic demand conditions.

So far, stimulus measures announced at the end of 2024 have failed to significantly boost Chinese domestic demand, and the rest of the world has not been able to pick up the slack. Iron ore prices, for example, have been trending down and are expected to keep falling this year due to overcapacity in Chinese steel industry. This oversupply, combined with sluggish global demand, could keep downward pressure on industrial metal prices.

INFLATIONARY PRESSURES	DEFLATIONARY PRESSURES
<ul style="list-style-type: none"> • Rising employment costs (ie employer NIC hikes) passed on • Public sector investment absorbing private sector development capacity • Risk-averse bidding approach due to recent insolvencies • Government capital spending plans to boost demand for construction services • Potential material price inflation later in 2025 if market conditions improve • Supply chain consolidation/under capacity in the market • Increased costs associated with the Building Safety Act (including stricter compliance requirements, specialised expertise and heightened liability/insurance premiums) • Ongoing MEP pricing pressures • Strong demand from key sectors absorbing contractor capacity • Lack of planning resource causing planning delays and increasing project costs • Geopolitical tensions and supply risks supporting commodity price premiums • Labour shortages to intensify as construction activity picks up 	<ul style="list-style-type: none"> • Slowdown in new work/bidding opportunities • Pipeline uncertainty due to delayed schemes and a desire to fill gaps • Lower Tier contractors aggressively bidding for high-value projects traditionally dominated by Tier 1 firms • Falling interest rates to reduce finance costs • Subdued demand in some sectors (eg residential, new-build commercial office) intensifies competition among contractors, placing downward pressure on pricing • Government planning policy reform, alleviating bottlenecks and inefficiencies that contribute to higher expenses • Softer material prices with some materials to experience deflationary pressure in early 2025

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



Source: **DBT**

Labour Trends

The UK construction industry is experiencing sustained above-trend wage growth, driven by skilled labour shortages and a shift towards more labour-intensive renovation and refurbishment projects, which are constrained by the complexities of working within existing structures. In November 2024, average weekly earnings rose by 7.3% (on an annual, three-month average basis), significantly surpassing the long-term average of 3.1%, though this increase was partly influenced by a lower base period.

Several factors are expected to drive ongoing wage pressures. Increased public sector investment is set to boost demand for a limited labour pool, intensifying competition for skilled workers and pushing wages higher. A potential recovery in housing market activity could also increase construction demand, resulting in greater workloads and subsequent wage growth. Additionally, regulatory changes such as those introduced by the BSA are raising project costs as firms must meet stricter safety standards and more detailed documentation requirements. These compliance burdens are indirectly driving wage pressures, as companies compete to secure the skilled workforce needed to meet new demands.

Following the Autumn Budget, planned increases in employer NICs from April 2025, along with a reduction in the NIC threshold, will raise overall labour costs. Many firms have already begun factoring these higher costs into tenders and contract pricing, anticipating the financial impact. Most are expected to fully pass on, rather than absorb, the added tax burden. G&T's modelling suggests that these changes will result in a 1.25% increase in construction labour costs.

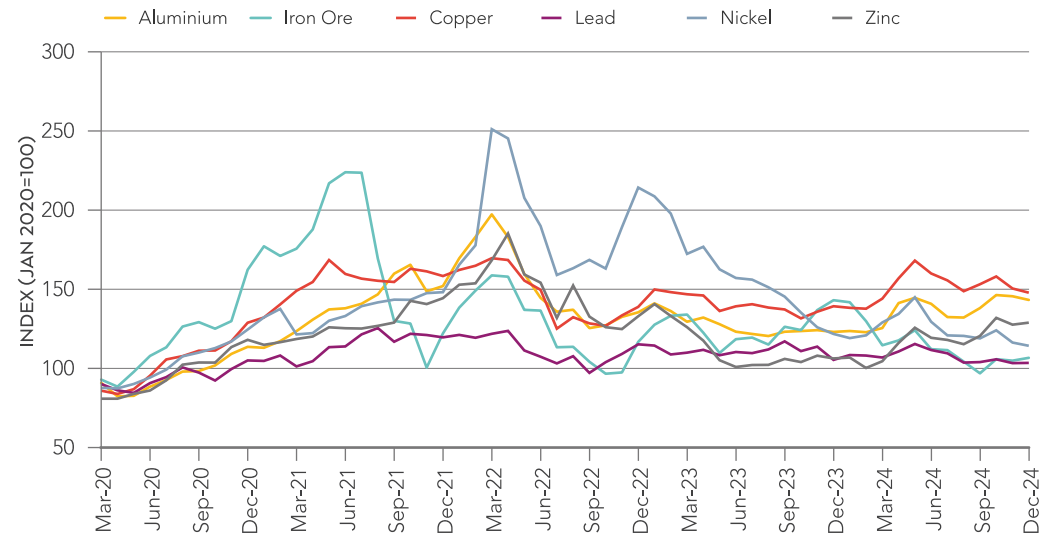
Skills shortages continue to be a significant constraint in the UK construction industry, driving wages higher, particularly in specialist trades such as MEP, cladding and fire safety. The rapid growth of sectors like data centres, gigafactories and energy infrastructure is further intensifying demand for MEP services, contributing to price pressures.

According to our TPI survey, finishing trades – including drylining, joinery and quality finishes – are facing increased price pressure. This is partly driven by the need to assume more design responsibility and risk, especially in areas like drylining and fire stopping. In contrast, earlier shell and core trades are experiencing downward pricing pressure due to increased competition and a slowdown in new project starts.

The recruitment landscape saw a slowdown in the second half of 2024, with PMI surveys indicating that job creation remained below pre-pandemic levels. Elevated cost pressures and lower workloads constrained recruitment plans, as firms sought to reduce overheads and avoid replacing departing staff. ONS data also revealed a dip in advertised vacancies in early autumn, coinciding with a decline in new orders. However, this slowdown may be temporary as firms reassess their long-term expansion plans and upcoming project starts. With industry capacity constrained, demand for specialist labour is expected to grow.

Overall, the construction labour market faces upward wage pressures due to ongoing shortages and sector-specific demand. Regulatory changes, increased public sector investment and market recovery are expected to further drive wage growth. Consequently, firms will need to carefully manage the rising cost of labour and adapt to the evolving recruitment landscape.

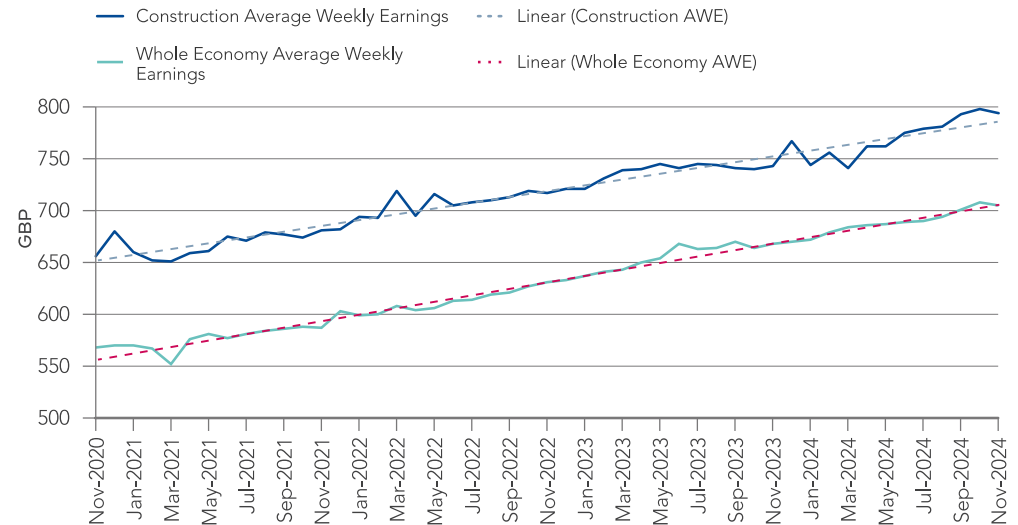
WORLD BANK COMMODITY PRICE DATA, METALS AND MINERALS: MONTHLY AVERAGE INDEX



Source: [World Bank](#)

AVERAGE WEEKLY EARNINGS (UK CONSTRUCTION)

Seasonally adjusted



Source: [ONS](#)

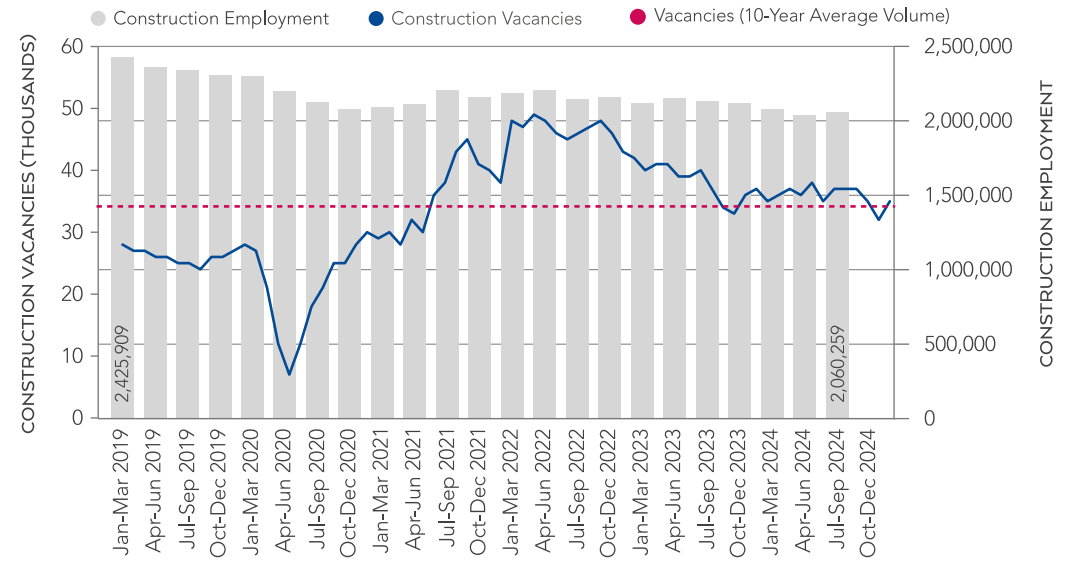
On-costs

Our Q1 2025 TPI survey suggests that Overheads and Profit (**OH&P**) levels have remained stable over the past three months, with 82% of respondents reporting no change from the previous quarter. A shrinking pool of contractors is likely to reduce competition, reinforcing selective bidding strategies to mitigate risk. While OH&P is expected to remain steady overall, some markets—such as residential and build-to-rent (**BTR**), where demand is weaker—may see slight downward adjustments as contractors look to secure work.

Meanwhile, preliminaries costs continue to rise. In Q4 2024, 44% of survey respondents reported increases across projects of all values, driven by extended Gateway 2 and 3 timeframes, NIC-related labour and staff wage cost pressures and rising insurance and bond costs. However, in a more competitive market, some contractors may limit preliminaries cost increases to maintain a competitive edge.

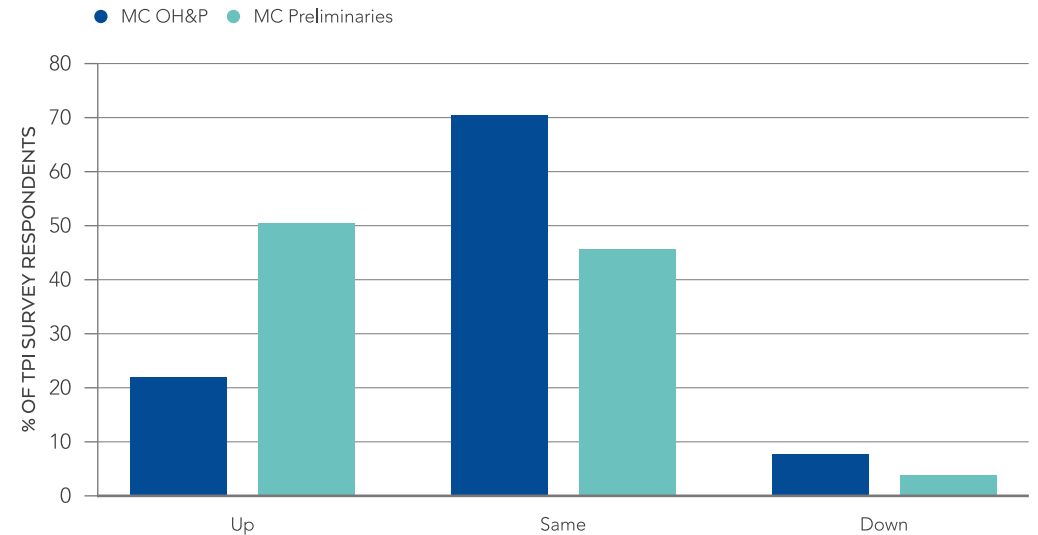
The impact of these trends is expected to vary by contractor type. Tier 1 contractors are likely to see more pronounced increases in both OH&P and preliminaries, while lower-tier contractors may experience less pressure, leading to a two-speed market. In the public sector, there have been suggestions to guarantee higher margins on large projects to ensure they remain commercially viable and attractive to bidders.

CONSTRUCTION VACANCIES V EMPLOYMENT



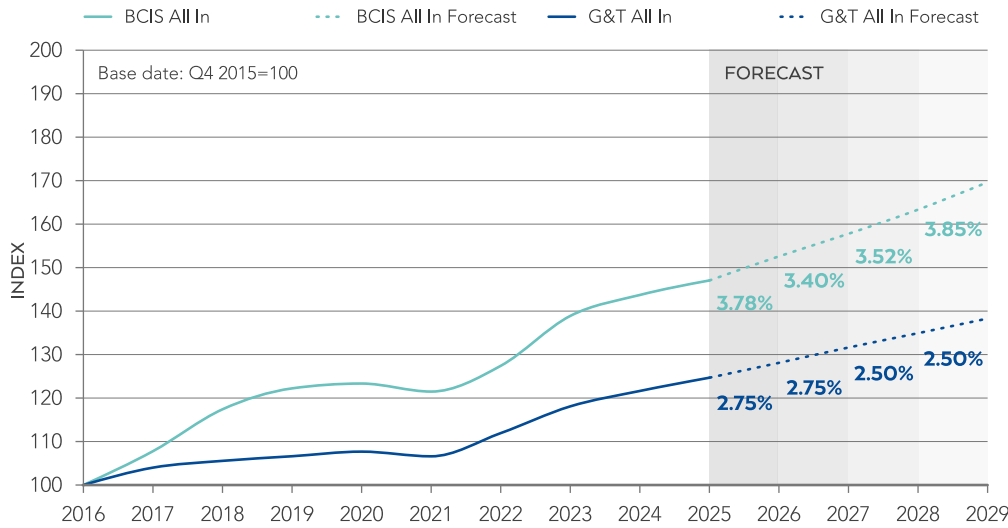
Source: [ONS](#)

INFLATIONARY PREDICTION FOR MAIN CONTRACTOR OH&P AND PRELIMINARIES OVER THE NEXT 12 MONTHS

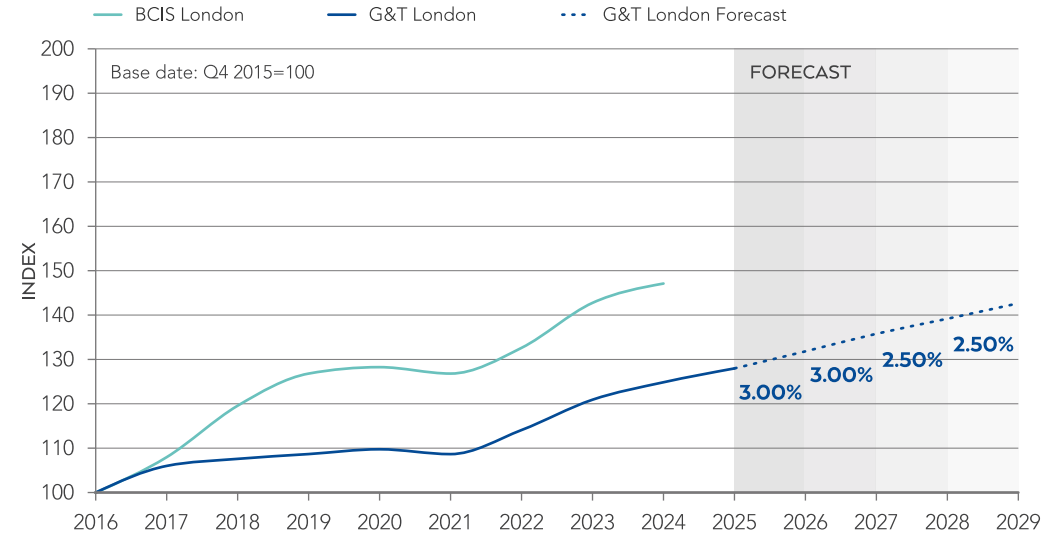


Source: [G&T Q1 2025 TPI Survey](#)

TENDER PRICE TREND 'ALL UK TPI'



TENDER PRICE TREND 'LONDON TPI'



Note: BCIS do not publish regional TPI forecasts.

TENDER PRICE ANNUAL PERCENTAGE CHANGE Q1 2025

%	2025		2026		2027		2028	
	Now	Last*	Now	Last*	Now	Last*	Now	Last*
Regional forecasts								
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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

Last* Q4 2024

COMPARISON OF PUBLISHED FORECASTS FOR TENDER PRICE CHANGE

	G&T UK AVER. Q1 2025	BCIS UK AVER. Jan 2025	G&T LONDON Q1 2025	AECOM UK ¹ Q1 2025	ARCADIS LONDON ² Winter 2024
% CHANGE					
2025	2.75	3.78	3.00	4.00	2.50 - 4.50
2026	2.75	3.40	3.00	4.50	4.00 - 5.00
2027	2.50	3.52	2.50	N/A	5.00 - 6.00
2028	2.50	3.85	2.50	N/A	5.00 - 6.00
2029	N/A	3.06	N/A	N/A	N/A

1. Aecom's forecasts are baseline UK forecasts (Q4 to Q4).
 2. Arcadis' TPI figures are for its 'London Building Construction TPI' series.