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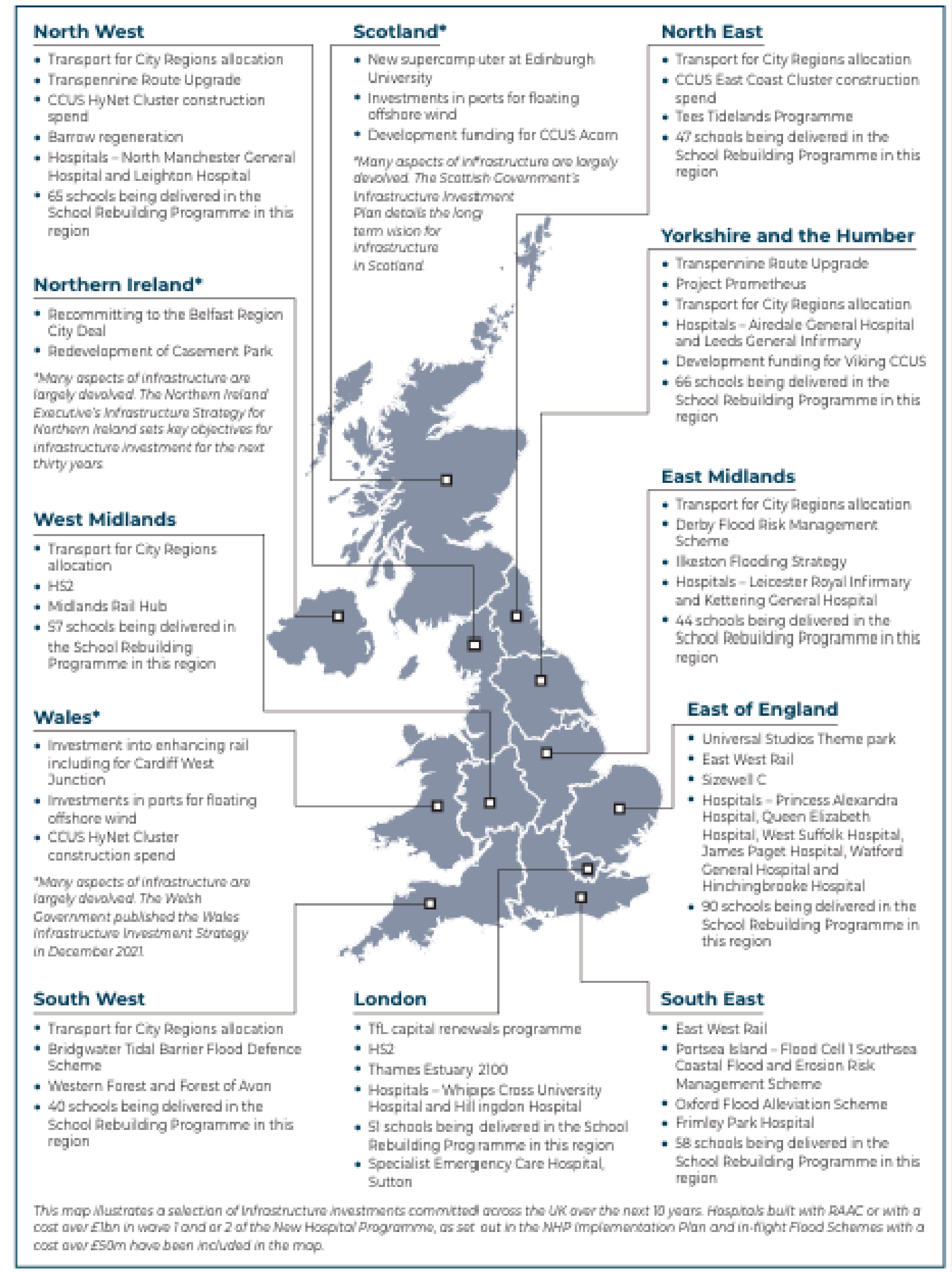
UK CONSTRUCTION MARKET UPDATE

JULY 2025

KEY INSIGHTS

- UK Government reveals their 10 year investment strategy and what that means for the sector.
- Government takes control of the Building Safety Regulator with aims to remove the backlog.
- UK inflation rates remain above 2% target in June 2025 at 3.6%.
- UK interest rates have maintained a rate of 4.25% in June 2025.
- Dalbergia TPI forecast.



Source: UK Government

UK GOVERNMENT 10 YEAR INVESTMENT STRATEGY

The Government revealed their 10 year investment strategy of £725 billion, which includes:

- £39b for affordable homes.
- £120-150bn for clean energy.
- £15.6bn for urban transit.
- £70bn for health, including an additional £49 billion for the new hospital programme.
- £38bn for education, including £600m to train 60,000 more skilled construction workers
- £600m per year for maintenance of existing prisons

This investment strategy from the government will be seen as a positive step for the construction industry.

As the ONS has reported in May 2025 a decrease in construction output of 0.6%, following a 3 month period of continuous growth.

However, the government is yet to confirm how this investment strategy will be spent and when. The lack of planning might make investors cautious as to how it will be successfully executed.

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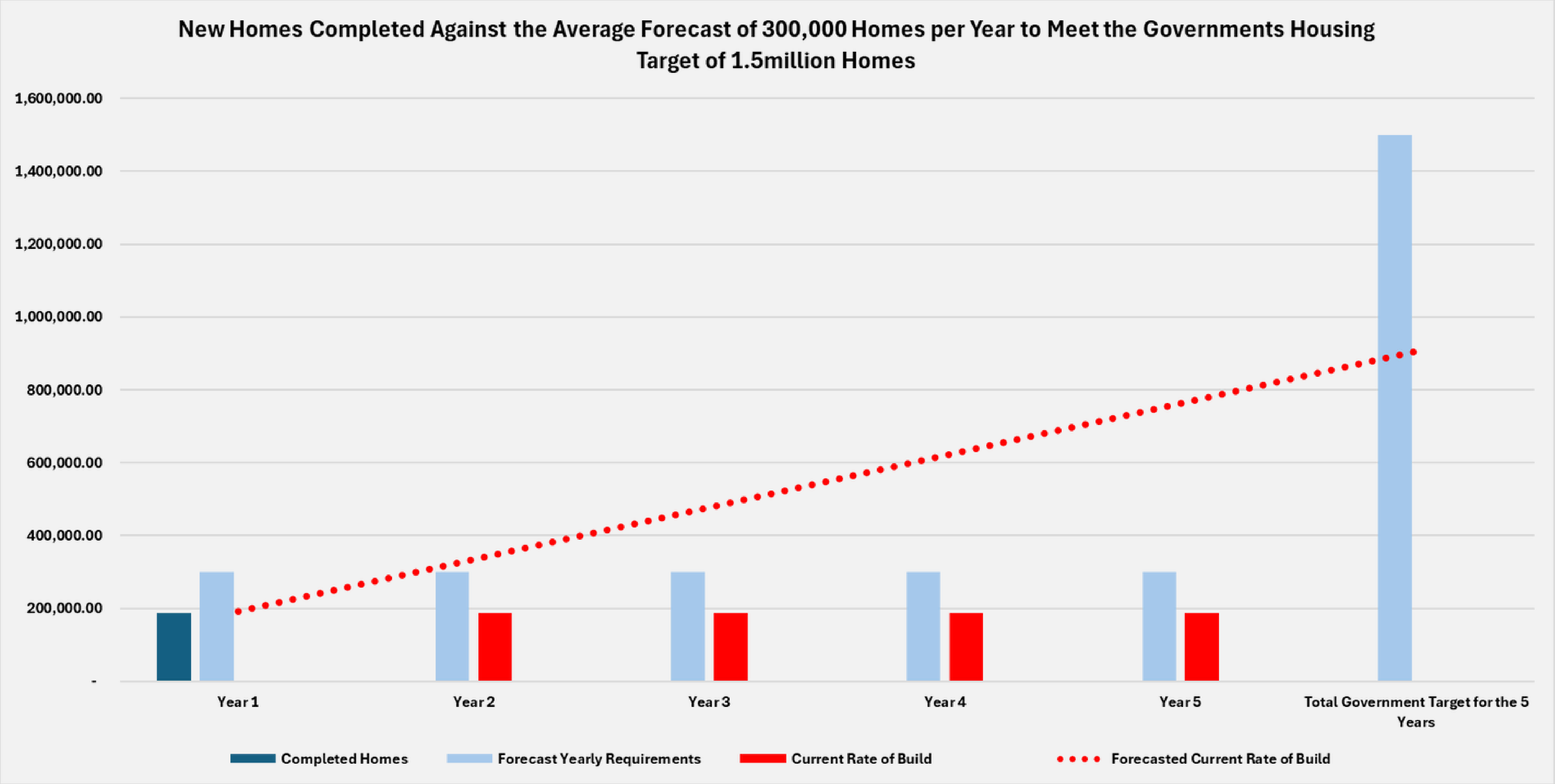
UK GOVERNMENT 10 YEAR INVESTMENT STRATEGY

This investment strategy will hopefully support the governments ambitious target of constructing 1.5 million homes in 5 years. A target of 300,000 homes per year.

The first year has resulted in only 186,000 new homes being built, which is significantly behind the target.

The graph shows at the current rate the forecasted total number of houses completed after the 5 years will be 930,000. This will be 570,000 homes short of the governments target.



Source: EPCs registered in the Year

GOVERNMENT TAKES CONTROL OF THE BUILDING SAFETY REGULATOR

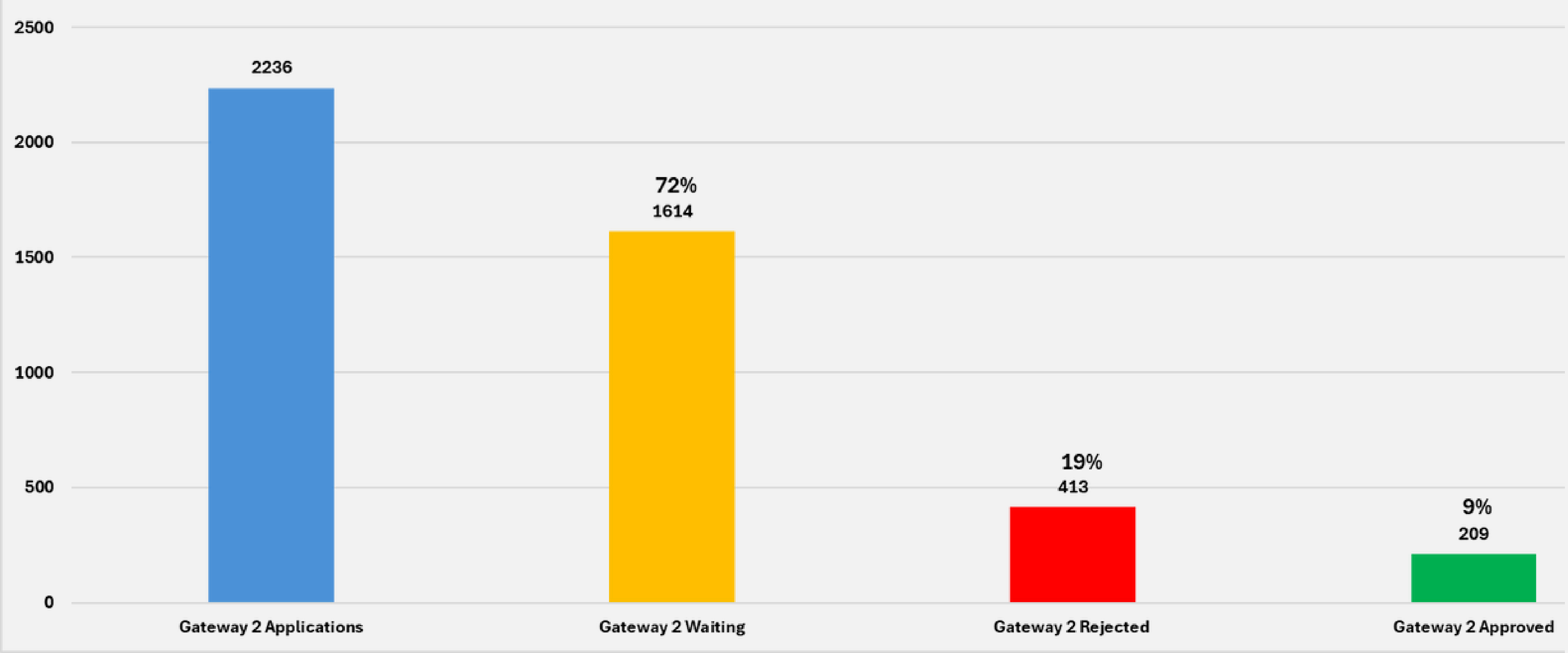
One of the continuing concerns in the residential sector is achieving BSR approval. Since the process has begun only 9% of applications have successfully passed Gateway 2.

Officials have confirmed that it takes an application 36 weeks on average to secure gateway approval, compared to the 12 weeks it is meant to.

The delays to the approval process are starting to impact subcontractors as projects become delayed. With piling companies, as one of the first subcontractors on site, such as Van Elle reporting significant loss in revenue.

As a result of the delays in BSR approvals, the government has taken control from the HSE and allocated it to the Housing Ministry. As part of this, staff numbers are to increase by 100, to include engineers and building inspectors with the aim to help clear the back log.

BSR GATEWAY FIGURES



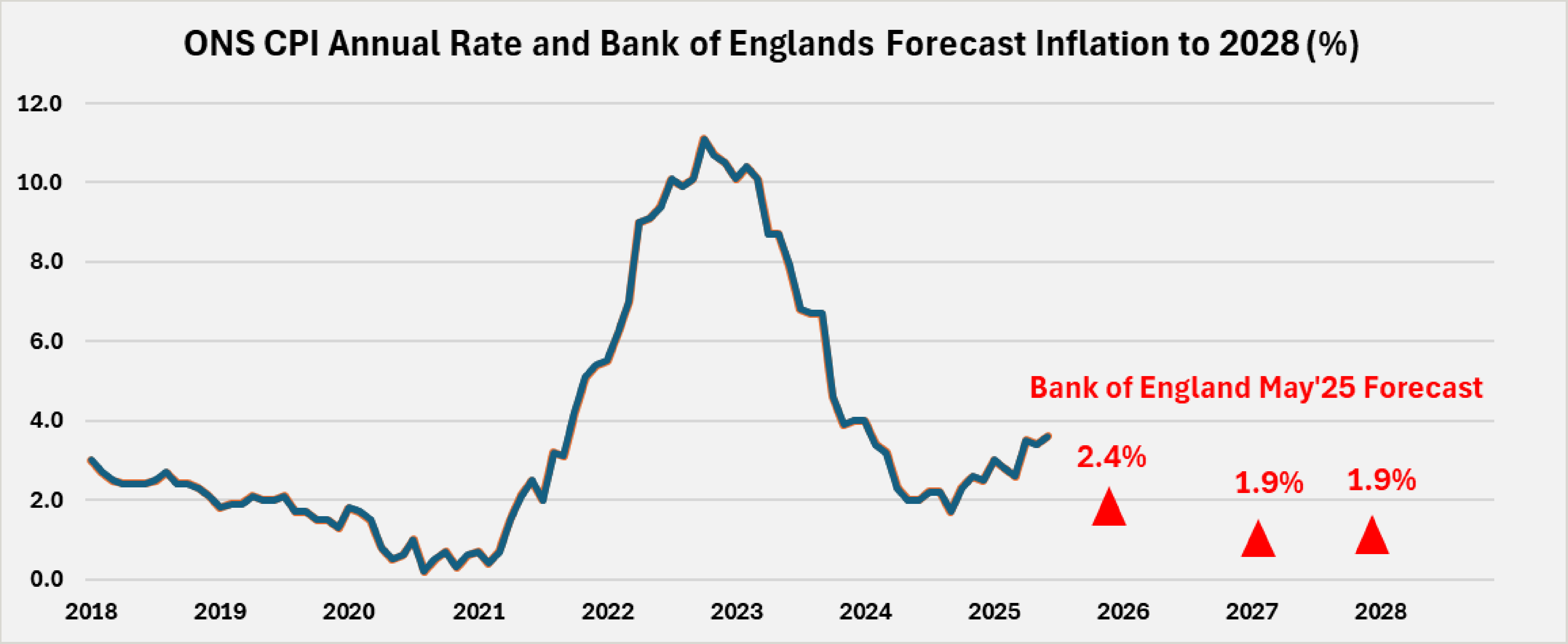
Source: Cast

INFLATION RATES

The Consumer Price Index shows that the inflation rate has remained above the 2% target in June 2025, coming in at 3.6%.

This rate is at an 18 month high and increasing faster than predicted, it may exceed the predicted high of 3.7% for 2025. This increase can be attributed to current conflicts which are keeping fuel and food prices up.

If inflation continues to remain high this will keep interest rates high, reducing the availability of affordable finance, making schemes less viable for developers.

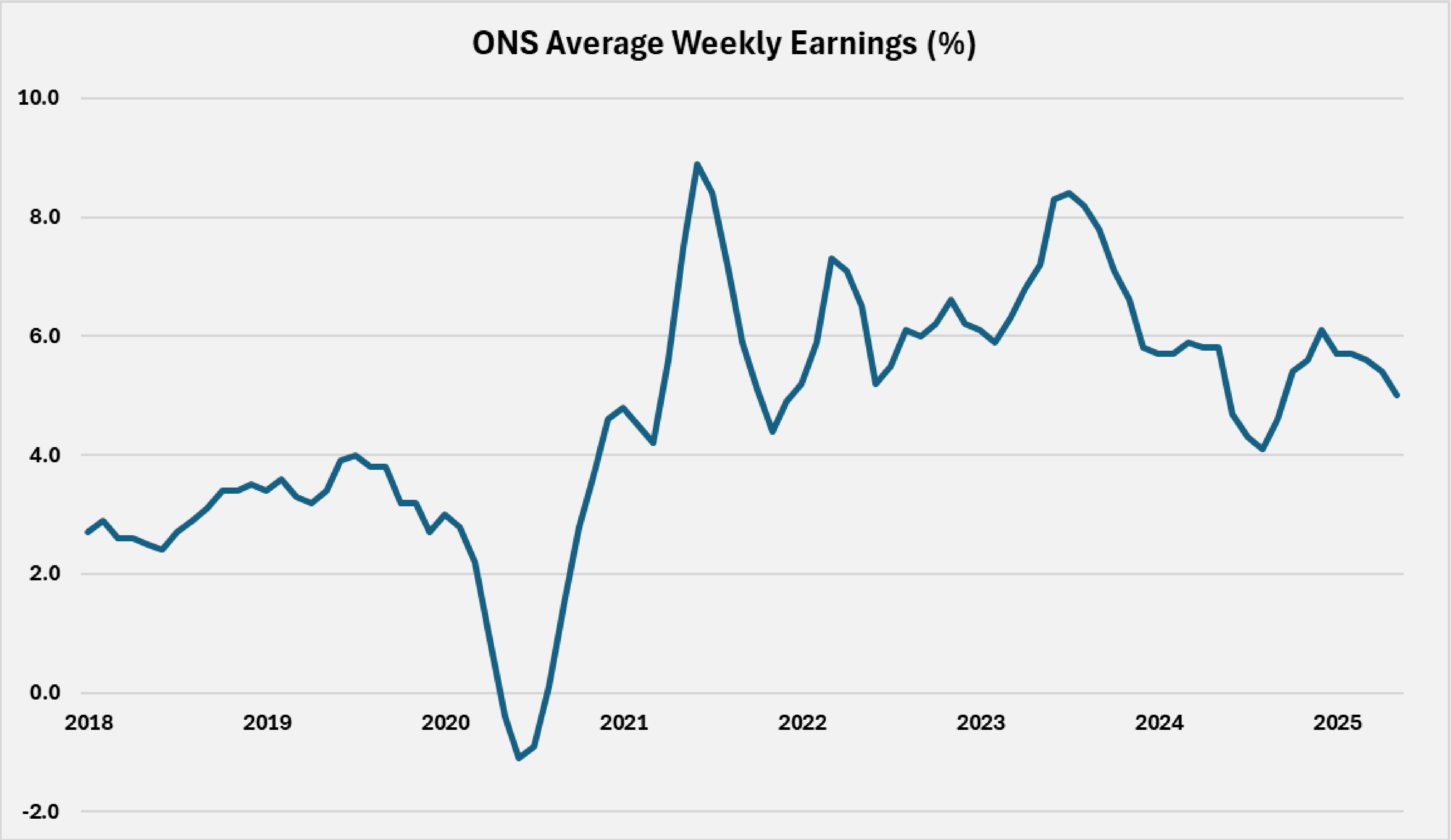


Source: Bank of England Monetary Policy Report May 2025 and Office of National Statistics: CPI annual Rate 00:All (Items 2015=100)

INTEREST RATES

UK interest rates have maintained the current rate of 4.25% in June 2025.
It is anticipated that interest rates will continue to fall, however, the recent increase in inflation has come sooner than expected and may complicate the decision to reduce the interest rates.

To further complicate the decision, the UK unemployment rates have increased to a four year high of 4.7%. However wage growth has slowed down to 5.0%, from an average of 6.0% at the start of 2025. This combination gives the Bank of England the opportunity to lower the interest rates.



Source: Office of National Statistics: AWE: Whole Economy Year on Year Three Month Average Growth (%)

DALBERGIA TENDER PRICE INDEX FORECAST

A comparison of published TPI data for 2025 and beyond shows that previously wide variations in company forecasts have now converged, indicating growing expectations of market suability.

Dalbergia forecasts TPI at 3.0% for 2025, with rates gradually decreasing over the next three years.

DALBERGIA UK TPI

YEAR	TENDER PRICE INDEX
2025	3.0%
2026	3.5%
2027	3.4%
2028	3.3%

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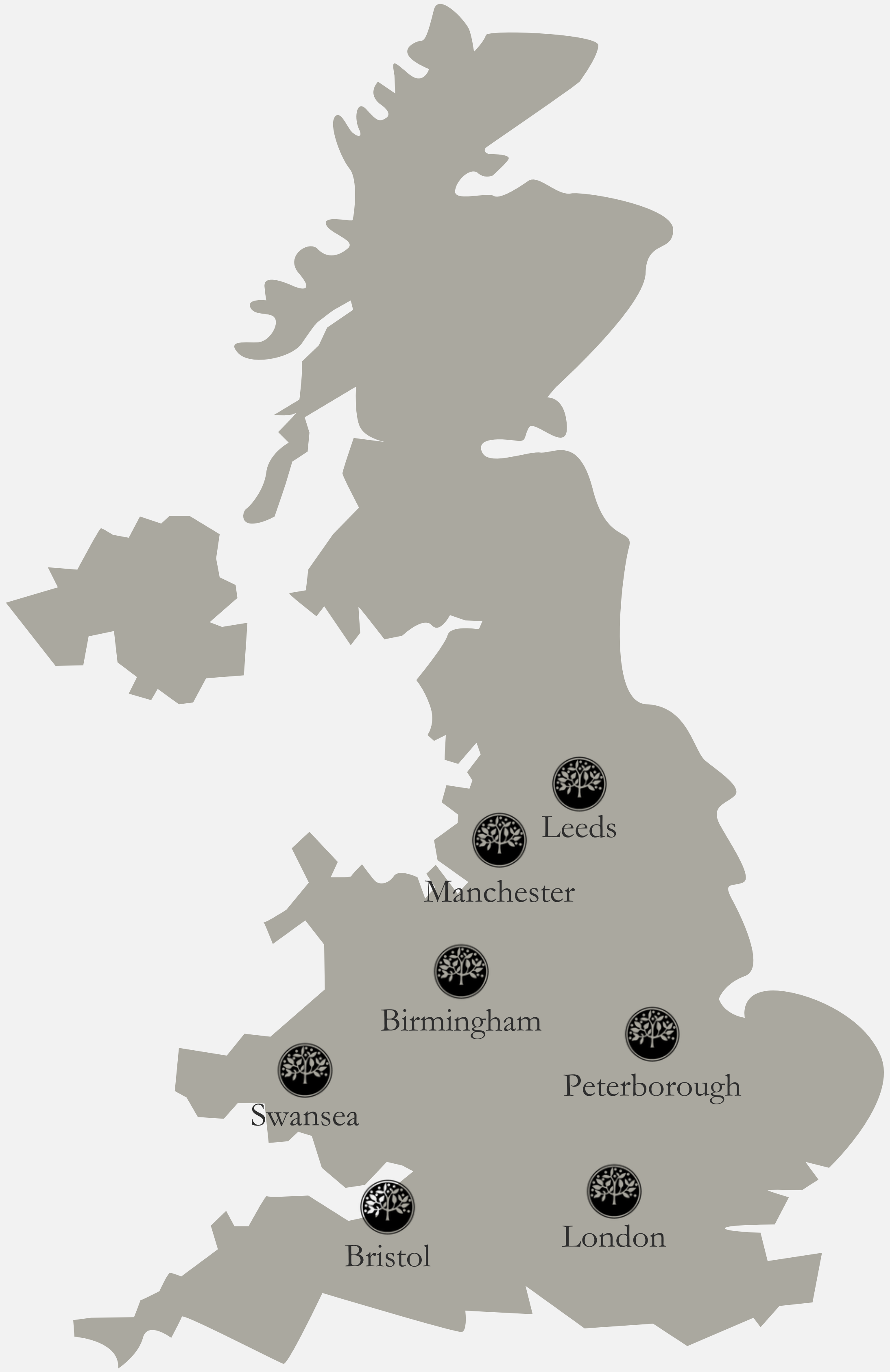
Since inception, we've advised on £10bn of real estate and infrastructure assets. With a portfolio of over 250 live projects and 70+ clients, we're committed to delivering the highest quality service.

As an independent consultancy, we offer the flexibility to tailor our approach to each client's needs.



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