AtkinsRéalis

Project & Programme Services (PPS)

CONSTRUCTION INTELLIGENCE REPORT

Q1 2025 UK & Ireland

CONTENTS

INVEST, INVEST, INVEST – A FAMILIAR THEME

To look to the future, we also need to look at the past. After all, the history of humankind is based on cycles.

> **"British people have to spend longer than they should getting to work, pay more than they should in energy bills and can't buy the houses they want because of the failure of successive governments to think long term. Infrastructure isn't some obscure concept – it's about people's lives, economic security and the sort of country we want to live in."**

The quote is from October 2015, when George Osborne committed to spending £100bn on infrastructure by 2020, as he launched the National Infrastructure Commission with the programme to be partly funded by state asset sales.

A decade later, the sentiment still rings true. The government has pressed reset and, looking at the long term and joining the dots, this time state asset sales have been replaced by increased borrowing and redefining of state assets.

The desire to invest in infrastructure is welcomed and a raft of proposals and aims have been announced. These remain targets until detailed spending plans are defined and realised. The sector has long been calling for clarification of 10-year strategies that will provide a pipeline of work. We must wait for the spring spending review and publication of those detailed 10-year plans to get a more detailed account of where the investment is going.

INTRODUCTION

The sector faces many challenges: skill shortages, especially in the newer greener trades, and low productivity which affects construction, with its labour intensive and fragmented nature, particularly acutely. Thirdly, our ongoing adaptation to a low-carbon economy where construction, as one of the largest polluters, must find ways to reduce power consumption and carbon emissions while still using materials such as steel, concrete and glass.

The autumn budget announcement unveiled the government's strategies for the economy, including public spending and the resulting impact for construction. Revisions to the fiscal rules and tax rises will fund the increase in public spending and investment, but we must wait for the spring spending review for details on long-term spending plans.

The reaction has been mixed. The investment is welcomed but increases to employer national insurance contributions, leading to slower growth rates and higher inflation forecasts, are less popular. There is evidence that consumer confidence is dented and, with the likelihood that interest rates will remain higher for longer, this will affect viability of projects. With the wider economy lacking confidence, this will similarly impact the housing sub-sector, reducing demand and activity.

The National Infrastructure Commission's Cost Drivers of Major Infrastructure Projects in the UK (October 2024) made many valid suggestions. One key message was if you keep delivering similar projects then you become more cost-effective. We do it with roads, not high-speed train lines or nuclear plants. The development of a pipeline of projects helps establish supply chains, makes projects more cost-efficient and increases confidence to invest further.

With the impetus of government investment and increased capital spending, we need to look at how we can lead developments successfully against potential constraints. In both the UK and the Republic of Ireland, the data centre sector is ripe for growth, and we look at data centre design on page 19.

ECONOMIC OVERVIEW

The major economic challenge is to address the UK's productivity weakness. A common criticism of the UK economy since the 1990s has been the lack of private and public investment. We have routinely ranked in the bottom 10% of OECD countries for overall investment, and frequently had the lowest share of investment in gross domestic product (GDP) in the G7. The need for new training, plant and buildings is now of paramount importance.

> **As a result, the government mantra appears to be "invest, invest, invest" and in the recent budget they announced a £13.2bn (9.9%) increase in capital spending in 2025-26, and a proposed increase of £100bn of public investment over the next five years.**

This investment covers both hard infrastructure (rail, road and power, focusing on physical development) and soft infrastructure (human development and societal wellbeing, including education, healthcare and social welfare).

The transition to a net zero economy continues, bringing commercial issues into conflict with regulatory changes and new technologies. This includes the changing landscape of power infrastructure distribution, resulting in power grid instability and connection delays, bringing price uncertainty to impact businesses' energy transitions.

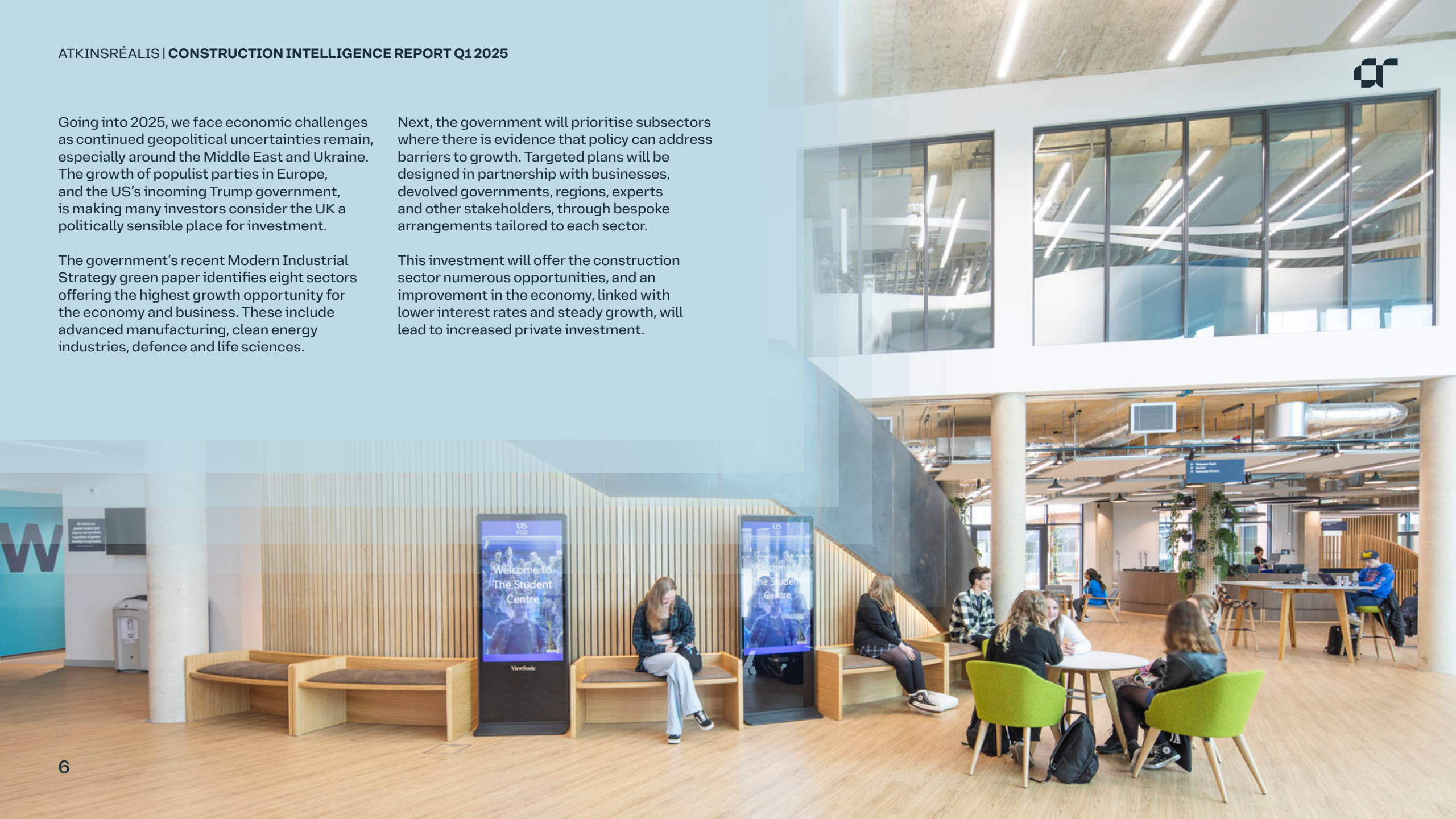
Throw in an ageing population which increases public health expenditure; lifestyle changes; offices adapting to hybrid workers; the growth of online shopping, and the development of AI, and it's clear that we need a coherent joined-up approach for property and infrastructure to address this changing environment.

Going into 2025, we face economic challenges as continued geopolitical uncertainties remain, especially around the Middle East and Ukraine. The growth of populist parties in Europe, and the US's incoming Trump government, is making many investors consider the UK a politically sensible place for investment.

The government's recent Modern Industrial Strategy green paper identifies eight sectors offering the highest growth opportunity for the economy and business. These include advanced manufacturing, clean energy industries, defence and life sciences.

Next, the government will prioritise subsectors where there is evidence that policy can address barriers to growth. Targeted plans will be designed in partnership with businesses, devolved governments, regions, experts and other stakeholders, through bespoke arrangements tailored to each sector.

This investment will offer the construction sector numerous opportunities, and an improvement in the economy, linked with lower interest rates and steady growth, will lead to increased private investment.



GROSS DOMESTIC PRODUCT (GDP)

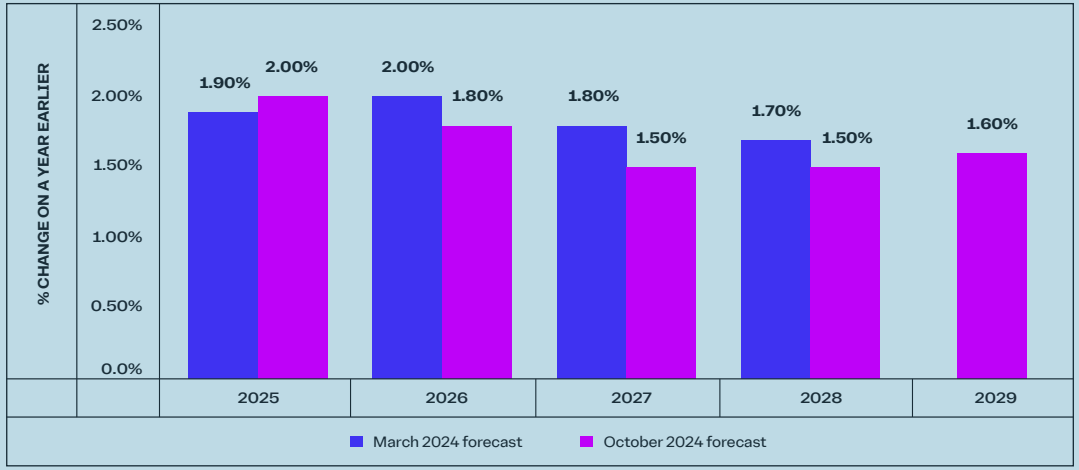
The main impetus for economic growth is increased household consumer and government spending on public projects. While the level of wage agreements has fallen, they have remained above the level of consumer inflation, leaving most households with more spending power. The rise in employer national insurance contributions may negate this as wage increases are reduced to accommodate the rise.

The Office for Budget Responsibility revised the GDP forecasts downwards, indicating an initial surge followed by reductions from 2026. They reported that indicators suggested a gradual increase in economic activity.

Growth will continue through the first half of 2025 before waning. The forecast makes no allowance for any planning reforms and assumes that private investment will be curtailed by the massive public spending surge. This goes against recent evidence from the US where increased government spending has led to more private investment.

The recent November Composite PMI fell, with suggestions that the tax increases announced in the budget have restrained some private sector activity. In contrast, the Construction PMI increased and with a value over 50 this indicates continued expanding activity in the sector.

GDP % GROWTH (2025 - 2029)



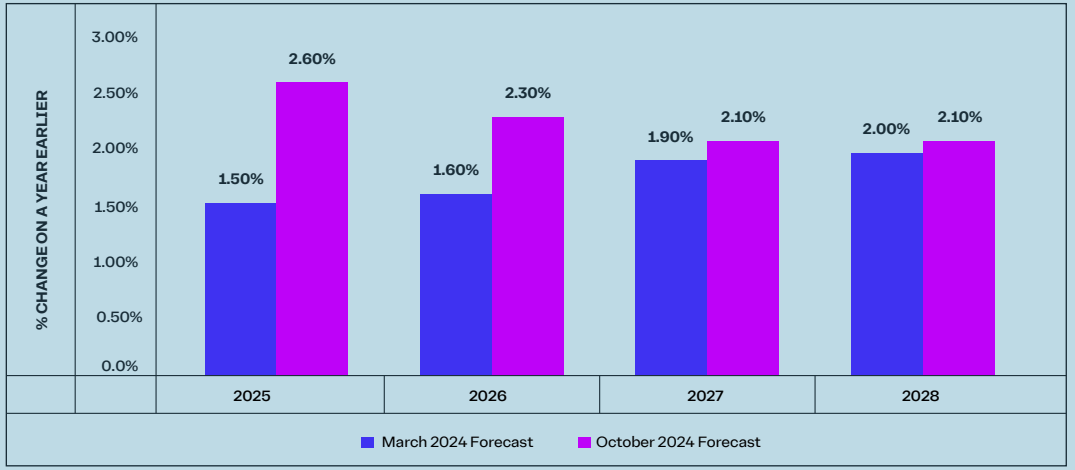
Source: OBR Economic & Fiscal Outlook October 2024 Forecast

CONSUMER PRICE INFLATION (CPI)

Generally, when the economy does well, inflation goes up, materials and labour cost more and there is greater demand as consumer spending increases. It comes as no surprise that, with the proposed investment, inflation will then be higher than previously forecast. As a result, the Bank of England is expected to maintain a higher base rate than previously forecast.

The OBR highlights significant uncertainty around the forecast for CPI inflation. Domestically, if wage growth is less persistent than we assume, this could drive lower inflation; this is less likely in the construction sector, given its labour tightness and challenges. There are also external risks to the forecast, given the continuing war in Ukraine and the widening Middle East conflicts.

CPI INFLATION (2023 - 2029)



Source: OBR Economic & Fiscal Outlook October 2024 Forecast

CONSTRUCTION OVERVIEW

Headline figures are great at catching media attention. Housing promises played a critical role in both UK and Republic of Ireland elections – the UK government wants to build 1.5 million new homes during its term; the Irish government is aiming for 350,000. The UK government also wants to invest £100bn in hard and soft infrastructure.

The consensus is that the UK target, while laudable, is unachievable. Getting 1.5 million new homes through planning would be quite the achievement. Even if the proposed planning reforms took effect in 12 or 24 months and a clear vision were provided for the release of grey belt, we would face supply chain issues, and sudden large-scale increases in volume bring volatility into the marketplace.

According to UK government figures, there are around 400,000 construction firms, plus an estimated 600,000 self-employed workers. The number of people working in the sector has fallen to just over two million workers, 350,000 fewer than in 1Q2019, and may dip below two million once the fallout from ISG and other autumn insolvencies becomes evident. With over a third of workers aged 50 or over, and incomers not matching leavers, supply chain resilience to meet proposed future demand is stretched.

Industry fragmentation makes it difficult to establish total workforce skills and training requirements, especially as we need green collar workers to meet decarbonisation and net zero targets. We must also keep pace with changes brought about by new workplace technologies and regulations.

A recent report by BEAMA (the trade body representing the UK's energy infrastructure and systems sector) highlighted that 91% of its members are operating close to capacity and do not have the resources to handle fluctuations in demand.

This not only indicates a significant risk to the UK's ability to deliver the infrastructure needed for 2030 decarbonisation goals, but is also a figure representative of the entire construction supply chain.

While the headlines focus on larger high-profile casualties like ISG, Boot and Buckingham, analysis of insolvency figures reveals that around 60% are specialist installers. This is systemic in the way that contractors operate, with risk passed down the food chain. The Tier One model relies on subcontractors to deliver projects under defined contracts for a piece of work. The risk of labour and material rises are shifted to increasingly smaller and more vulnerable companies, rather than Tier Ones maintaining their own workforce in the context of an uncertain pipeline of future work.

This model means that larger companies can operate through the economic cycle, becoming increasingly management focused. The flip side is that future training needs must now be met by the smaller subcontractors. But as we have seen in the case of ISG, insolvency of a large player has a domino effect on the supply chain as the non-payments drip down the tiers, causing further failures.

Many of the woes of British industry, both construction and the wider economy, have been blamed on lack of productivity. Yet, despite a falling workforce, we have seen output increase by 4% since 2020. To improve productivity further, we need to invest in workplace technology and more training. While the promise of widespread use of modular buildings seems as far off as it was 10 to 15 years ago, we have seen some developments in offsite fabrication. Whether it's the use of floor and roof cassette systems, prefabricated facades or "plug & play" M&E systems, the traditional construction site is evolving.

The industry needs long-term commitment. A clearer and steadier pipeline will give firms confidence to invest in new plant, technologies and people, safe in the knowledge that they will still be needed in five to ten years' time.

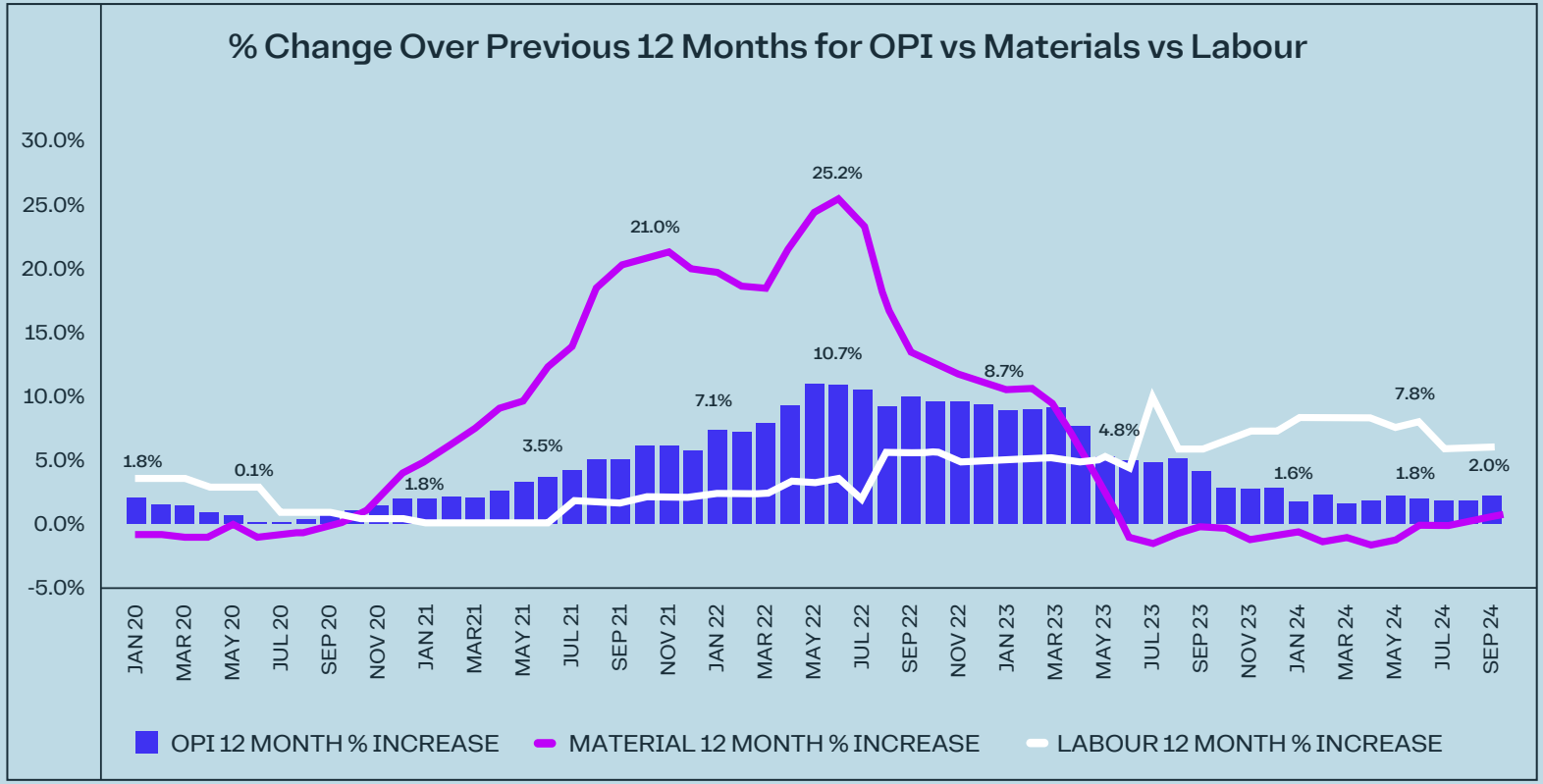
The need for training in green skills is shown by research by Aggreko. 80% of companies surveyed from UK, Germany, France and Italy, expected to increase investment in energy transitions in the next 12 months. Balancing cost and commercial viability with these goals will continue to be a challenge.

The recent UK International Investment Summit showed that private investment is ready for many of the key areas such as data centres and wind farms. But we need to join the dots; the connecting infrastructure needs to be in place and a timeframe established. To combat delays in getting projects on site, the government is taking a proactive approach to planning reforms, including allowing planning officers in certain situations to approve applications without planning committee approval or direct intervention. These are encouraging measures and will help get projects on site.

This extra expenditure will bring inflation, driven by the requirement to resource materials and labour. In addition, the extra national insurance contribution will find its way into the system. Since late 2023, the sector, like the wider economy, has been reeling from the after-effects of high inflation coupled with political inertia, and this has contributed to tender prices returning to lower levels of rises. The situation has been exacerbated by overall static material costs and the introduction of new regulatory changes, leading to fewer projects coming on site.

Compared with pre-pandemic, construction projects in 2023 were taking 15% longer to complete because of supply chain issues[1]. While the situation with material supplies has now stabilised, high levels of insolvencies remain a significant problem and, as a result, projects are still taking longer as contractors seek to protect themselves by including a time margin for such eventualities. The gateway system, introduced by the Building Safety Act 2022, is still experiencing gateway sign-off delays of more than 12 weeks. These delays place strain on parties awaiting payments, especially as finance costs remain high.

The latest Output Price Indices figures released by ONS confirm that the output cost is now starting to creep up again, driven by labour costs, while we have witnessed several material companies already announcing plans to increase prices, citing the increased national insurance contributions. One potential UK scenario is an influx of materials diverted from the US, as proposed American tariffs deter imported goods. This could help keep material costs keen, to the benefit of the supply chain.



1 The Glenigan Forecast 2025-26

CONSTRUCTION FORECAST

Looking back at the last report, we said:

> **"With many analysts stating that the next economic cycle will be fuelled by private investment, there are fears of tax increases and other unwelcome news. These pose some threats that may deter or limit the immediate amount of private investment available. For contractors still looking to complete their order books for 2025, a smaller than anticipated pipeline of opportunities will force a continuation of competitive tender bids."**

The budget did bring tax increases, the main one being the rise in employer national insurance contributions. These extra costs may curtail viability on some schemes and there is a risk that companies will put off much-needed investment in training and technology. The government's budget announcement of an additional £100bn spending will have a positive impact on the property and infrastructure sectors, however, and this should start to filter through in the second half of 2025 and into 2026.

Although growth figures aren't as high as hoped, the UK economy is improving. The government's commitment to increased public spending, and the drive towards more housebuilding, together with a fall in inflation and slowly decreasing borrowing rates, will encourage more investment. But with consumer inflation forecast to remain above the 2% target, the Bank of England has repeatedly stated that inflationary pressures are still active in the economy, and it therefore expects to remain cautious with lowering the bank base rate.

The early general election, which yielded a stable political outcome and improving economic conditions, has increased confidence in the construction sector and in the second half of the year we noticed an uptick in client confidence with projects reinvestigated or taken forward. This is countered by delay of detailed government budgets and thorough sector reviews until the spring spending review, currently anticipated in June, resulting in understandable hesitancy in proceeding with projects.

2025 will witness continued investment in data centres and utilities, and while floodgates are unlikely to open in wider private investment, especially in the commercial and residential sectors, there will be more interest in taking projects forward. It will probably be 2026 before we see a noticeable increase in activity, coinciding with public sector works proceeding to site and leading to potential supply chain bottlenecks.

Wage agreements for 2024 and 2025 have fallen compared to 2023, driven by the fall in consumer inflation but these remain the main cost driver. This lull could be a temporary reprieve, given the anticipated growth in the sector coupled with the skills shortage, especially those requiring green or specialist skills. Unless there is a change in the geopolitical landscape, labour rates will continue to be the main element in future tender inflation.

The drive towards net zero will bring transformation to our power generation and distribution sectors as wind and solar farms are introduced into the grid, requiring development of new distribution networks. 2025 will see the Future Homes Standard fully implemented on new homes, following changes to Parts F & L of the Building Regulations. The Standard's aim of reducing carbon emissions has led to requirements for improved fabric efficiency, though the phasing out of gas boilers in favour of low carbon heating systems will lead to higher capital costs. With power-hungry data centres high on the investment strategy list, green trades and materials will be in demand as construction ramps up.

Increased output in the housing sub-sector will be dependent on falling interest rates and increased confidence. As this output gets under way in 2025, housing's labour-intensive trades supply chain will again be stretched.

The CLC has already raised concerns over whether stock levels and manufacturing capacity will be able to meet demand, especially as construction activity increases in Western Europe.

The increase in employer national insurance contributions will be the major contributor to rises in tender price inflation. We anticipate a 0.5 – 1.0% increase on tenders. Some of this increase will be absorbed by the legion of self-employed workers and by commercial decisions. The worst decision would be to cut financing in skills and technology as this would lead to higher costs, delays and less appetite for developers to invest in property and infrastructure.

Against a backdrop of contractors maintaining a risk-averse approach to tendering, amid continuing insolvencies and supply chain problems, the additional tendering opportunities will be welcomed but carefully scrutinised.

We should expect to see tender inflation increase for projects due to start in late 2025 and into 2026 and 2027. Looking further ahead to 2028 and 2029, construction output is expected to be around 4%, resulting in tender inflation remaining around 4 – 5%.

Our forecast is a general average across the sectors, and projects will face individual challenges. As already highlighted, the introduction of the Future Homes Standard will influence residential costs and, in the energy sector, capacity constraints will apply pressure on tenders. We model our forecast on projects with MEP at around 40% of building cost. Because MEP costs run higher than other construction costs, projects with a higher MEP content will experience continued higher inflation.

Looking further ahead, from 2026 the Republic of Ireland, as part of the EU, will introduce a Carbon Border Adjustment Mechanism (the UK will follow in 2027) on imports of carbon-intensive goods such as aluminium, cement, iron and steel. The exact level of levy is yet to be announced, but may affect projects from these dates.

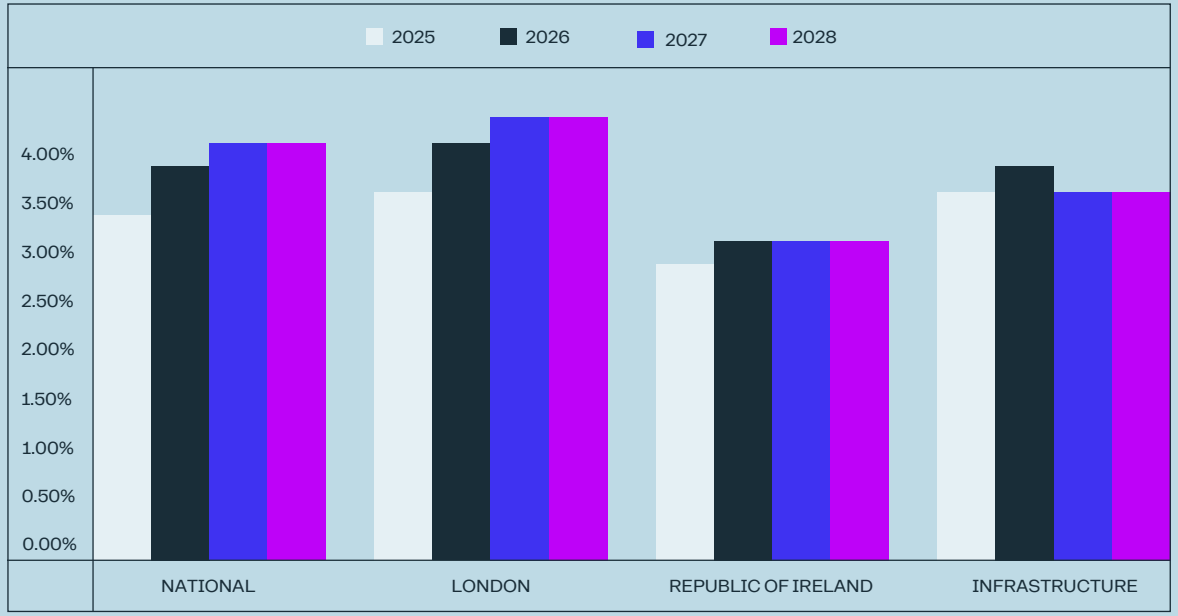
This is a general guide and building types will differ. As always, we recommend early and good communication with all members of the supply chain to achieve the best results.

Max Wilkes
Associate Director
Market Intelligence Lead

ATKINSRÉALIS TENDER PRICE FORECAST 2025 - 2028

AREA	2025	2026	2027	2028
National	3.50%	4.00%	4.25%	4.25%
London	3.75%	4.25%	4.50%	4.50%
Ireland	3.00%	3.25%	3.25%	3.25%
Infrastructure	3.75%	4.00%	3.75%	3.75%

ATKINSRÉALIS TPI FORECASTS 2025 - 2028



INFRASTRUCTURE

The UK's complex infrastructure sector remains a key driver of economic progress, fuelled by strategic investment, technological transformation, and a pipeline of high-value projects.

Inflationary pressures have partially eased, but challenges persist, including labour constraints, supply chain disruption, and fiscal uncertainty. This is reflected in the UK Construction Material Price Index (CMPI), which showed a downward trend in 2024, signalling stabilisation after significant price increases in prior years.

By September 2024, materials recorded a 0.3% fall, meaning that they had decreased by 1.2% over the previous 12 months. The cost data for materials levelled out in May 2023 and has since pointed to stabilised material costs, offering contractors greater certainty when managing procurement risks.

Considered against the backdrop of the Bank of England's decision to reduce interest rates to 4.75%, this will provide a further degree of relief for contractors, easing borrowing cost concerns and improving confidence in long-term project planning.

Cost pressures

This stability, however, is not entirely even. When looking at major urban cities outside of London, like Birmingham and Manchester, there is continued heightened cost pressure attributed to rising labour demand and material shortages. These disparities are most evident in high-value projects such as HS2, Hinkley Point C, and the Lower Thames Crossing, where contractors face elevated tender premiums. While not all of these pressures are directly linked to inflation, the combined impact of labour constraints, supply chain challenges, and risk pricing is fostering a more cautious contracting environment.

Investment in infrastructure

While challenges persist, investment in infrastructure remains strong. The National Infrastructure and Construction Pipeline (NICP) 2023 outlines a £379bn planned investment over the next decade, with £164bn allocated to the fiscal years 2023 to 2025. This substantial commitment underscores the UK's dedication to enhancing its infrastructure landscape, with a focus on energy, transport and utilities.

However, tender premiums have risen as project delivery partners adopt a more cautious approach to risk transfer, inflationary pressures, and cost exposure. Technological transformation continues to drive efficiency, with contractors adopting AI-driven design optimisation, cost analysis, and Building Information Modelling (BIM) to improve lifecycle costing and align with net zero targets.

Adoption, however, remains uneven. Barriers such as data safety, data integrity and upfront investment costs continue to slow the pace of integration. Businesses that commit to early adoption of AI and digital platforms are better positioned to realise efficiency gains, reduce lifecycle costs, and improve competitiveness in future tenders.

Forecast

Looking ahead to 2025, the global infrastructure landscape presents both challenges and opportunities for the UK's infrastructure sector. The return of a Trump administration in the US could trigger renewed global inflationary pressures through the reintroduction of trade tariffs, protectionist policies, and heightened commodity price volatility.

For UK contractors, this poses a significant threat to procurement certainty, as the UK exported approximately £1.01bn in construction materials to the US in 2023. Key materials such as steel, copper and aluminium are particularly vulnerable to tariff changes, potentially reducing the competitiveness of UK exports in the American market. Delivery partners may be forced to adjust pricing strategies to reflect these risks, further compounding the challenges already present in the global competition for key materials.

Adding to this complexity is growing global competition for resources and contracts. Infrastructure hubs in the Middle East and North America are accelerating investment in large-scale projects. The Middle East is advancing plans for smart cities and renewable energy developments, while, in North America, the incoming Trump administration signals a pivot towards traditional energy projects and increased fossil fuel investments. Despite this shift, several states and private sector players remain committed to green infrastructure and transportation system upgrades, preserving some opportunities for sustainable development. This competition is stretching supply chains, tightening labour availability, and increasing pressure on delivery capacity. To remain competitive, UK companies must strengthen procurement strategies, build agile supply chains, and develop technological capabilities to secure contracts in these rapidly evolving markets.

The scale of opportunity is clear. The global construction industry is projected to grow to $15 trillion by 2025, with substantial contributions from China, the US, India and other emerging markets. These regions are experiencing rapid urbanisation and increased government-backed investment in transformative infrastructure. The UK has an opportunity to capitalise on this growth by leveraging its expertise in energy transition projects, transport infrastructure, and net zero-aligned investments. It is worth noting that as these markets accelerate their project pipelines, competition for key resources like labour and materials is likely to intensify, requiring UK companies to remain agile and globally connected.

In the spotlight: aviation markets

A clear signal of future demand is in the aviation sector. The International Air Transport Association (IATA) predicts that global passenger numbers will double by 2043, with an average annual growth rate of 3.6%. This surge will be driven by rising demand from Asia Pacific and the Middle East, where significant investment in airport expansion and terminal capacity-building is under way. While Europe and North America are expected to see slower growth, demand for airport renewal and infrastructure upgrades will remain steady. For UK suppliers, this presents an opportunity to support both domestic airport expansion and international airport infrastructure contracts, especially as aviation expansion becomes a core feature of global tendering pipelines.

The EU's Global Gateway initiative adds further momentum for growth. This ambitious plan outlines 46 flagship projects for completion by 2025, each aimed at enhancing cross-border connectivity and developing sustainable infrastructure. With a focus on investments in energy, digital infrastructure and transport links, these projects align directly with the UK's priorities for net zero compliance and transport modernisation.

This initiative presents an opportunity for UK operators to act as delivery partners for major EU-funded projects, particularly as sustainability alignment becomes a core criterion for bid success.

In this rapidly evolving environment, UK industry leaders must remain agile, proactive and globally connected. Growing global competition for resources, the threat of inflationary pressures from US trade policy, and surging demand for infrastructure in aviation, smart cities and green transport will require businesses to strengthen procurement strategies, embrace digital transformation and prioritise sustainable delivery. Those that establish themselves as leaders in sustainability, digital transformation and risk management will be best positioned to capture global opportunities and secure growth in an era of unprecedented change.

James Dalton
Regional Director

SECTOR UPDATE

MODERN MANUFACTURE

Designing the sustainable data centres of the future

Data centres are the present and future of society; they are the backbone of digital infrastructure and are critical to our lives. With the development of AI technology, could data centres become a courageous hero in the climate crisis battle? Can the industry step up to the challenge?

Let's explore some of the areas where data centres could be more sustainable in the future.

1. Reducing or neutralising the carbon impact of the build

The construction of a data centre building is typically carbon intensive. Significant building services plant is installed and often duplicated. Many metals are used in the structure and equipment. Their components are often transported internationally. All this contributes to a large embodied carbon footprint.

Re-use of legacy buildings or structures to house data centres means that we can avoid much of the embodied carbon of the construction. Options include mines, department stores, offices and even cinemas.

If new construction is required, circular economy and low carbon material options should be prioritised, including reused materials, nature-based regenerative materials, and high recycled content materials. Timber structure construction should be prioritised where possible, otherwise low carbon approaches to conventional structural materials should be specified, such as deconstructable low carbon steel, and low carbon concretes.

2. Separating the development from reliance on the power grid

Developers need not rely on the power grid as the primary source of energy for a data centre. Instead, they could become power generators, feeding not only their own buildings but those of the local community. This is becoming a major consideration for new developments, as additional land is bought and purposed for energy generation.

A move to self-generating data centres could lower the carbon intensity of the power grid, smoothing demand patterns and improving the infrastructure's ability to connect renewable technologies.

3. Enhanced operational efficiency

Existing and new data centres will benefit from improved efficiencies in the plant they operate. This will go hand in hand with new strategies that lower energy use.

Site selection for data centres is often driven by power availability, cost and data connectivity. If power availability became less of a consideration, in favour of sustainability, we would see more data centre developments in colder climates, where free cooling could be deployed all year round. This reduces energy use as well as the amount of power generation required.

4. Transferring energy for community benefit

A crucial part of sustainable development is engagement with the local community and environment.

There are a few examples where two separate organisations share energy for mutual benefit. Obvious options for heat transfer from data centres include:

- Domestic hot water and heating for local residential areas
- Process heat for industry
- Leisure centres
- Farming

All the above have the effect of reducing data centre plant loading, although resilience will remain a factor. The other effect, particularly in farming, is the reduced need to import out-of-season food, cutting transportation impact.

5. Improving the environment as part of the development

Modern sustainable design methods encourage enhancements to the environment as part of any development. For example, we can look at the thermal envelope of the building, typically formed of blank facades. This provides an opportunity where, with appropriate orientation on a site, they can be optimised for integrating bio-solar technology. This approach brings a range of benefits, particularly for dense urban sites where achieving biodiversity net gain can be challenging.

6. Climate-resilient design

Understanding the climate risks and incorporating these into data centre design is essential for a climate-resilient digital economy. In particular, reviewing the temperature parameters used to specify cooling systems, and allowing headroom by not running cooling systems close to their threshold in order to save costs, can enhance resilience.

With drought situations playing an increasingly important role in UK data centre design, revised design of water-consuming cooling strategies may need to be considered alongside water neutrality.

In summary, data centre design needs to adapt, with all these aspects considered. The industry has a responsibility to drive this change. Data centres can be sustainable, the cloud can be green, and we have the tools to achieve this. With the right motivations in place, the digital revolution should facilitate a world where technology and nature co-exist in harmony.

James Outram
Associate Director

REGIONAL UPDATES

LONDON & SOUTH EAST

Market conditions remain challenging in London and the South East, with viability a key issue across all sectors of the industry. The South East anticipated a tough 2024, due to ongoing issues of cost and viability; however, the market possibly did not anticipate this would last as long as it has. The reality is that, at the close of 2024, key national economic indicators were lukewarm at best.

However, bright spots are emerging, with Deputy Labour Leader Angela Rayner an advocate for the industry in London, and evidence that planning submissions are increasing. Echoes of 1970s stagflation, including flatlining growth towards the end of 2024 and increasing rates of inflation, flag a warning that only very cautious optimism is justifiable at this stage.

Key fiscal adjustments present both challenges and opportunities. While these measures could raise input costs, they could also drive investment in energy efficiency and green construction methods.

Statement project approvals

The government has made statement approvals of some large schemes spread across the capital, which sets a standard for the removal of red tape promised in the Labour manifesto. These include the 309.6 metre-high behemoth 1 Undershaft, due to be (with the Shard) the City of London's joint-tallest structure; the £250m Deutsche Bank city HQ, and the potential demolition and re-build of Marks & Spencer's flagship Oxford Street store, all of which had previously been blocked by Michael Gove. Additionally, to match this, applications have been submitted for 3,600 homes in east London, demonstrating confidence that the capital remains a safe bet for investment.

Planning policy

The government has implemented a new approach to achieving environmental and biodiversity net gain targets. The policy gives developers the opportunity to pay into a restoration fund, with a delivery body then taking responsibility to restore ecology in local communities. Angela Rayner believes this will boost feasibility, removing the red tape that has long constrained housing and infrastructure projects.

Updates to the National Planning Policy Framework (NPPF) aim to streamline the planning process while maintaining standards. Key changes include expedited approvals for high-priority developments, potentially reducing project timelines. This includes a brownfield-first approach, but the government has also promoted the use of the newly defined grey belt, which research has found could amount to 1-3% of the existing green belt area and unlocking enough sites for 200,000 to 300,000 new homes. This is highly significant for London and the South East, with Knight Frank suggesting that 41% of the grey belt could exist in greater London.

This may be vital in getting close to the 1.5 million new homes targeted by the government over its parliamentary term. RICS has lobbied the government to make changes to legislation around the empty homes crisis, with research suggesting there could be 1.5 million empty homes in the UK. In some areas of London, reports suggest that up to 30% of homes are empty (the highest figure seen in the country). RICS has also drawn attention to Vancouver's empty homes tax which, if replicated in the UK, could help alleviate pressure on house prices.

In 2025, compliance with the Future Homes Standard becomes mandatory. This means homes will be built with 75-80% fewer carbon emissions than those built before 2023 Building Regulations changes. However, it will also increase construction costs, which may exacerbate viability issues.

Office activity

According to the Winter 2024 Deloitte London Crane Survey, new construction activity in London declined by 12% over the last quarter. Large-scale life science developments account for over a third of new construction volume and are the sole drivers of new activity in the King's Cross and Docklands submarkets. The survey reported a significant drop of 57% in refurbishment levels. Notably, for the first time in four-and-a-half years, the volume of new-build traditional offices slightly surpassed refurbishment projects. With developers revisiting schemes previously placed on hold, the downturn is likely to be short-lived.

Data centres

The rise of data centres continues to boost London construction, with the area set to become a key hub in the UK's rapidly growing data centre market, driven by increasing demand for AI and cloud storage infrastructure. Areas such as Docklands, Slough and west London are attracting significant investment due to their connectivity, existing industrial infrastructure, and proximity to major tech firms. These projects not only strengthen London's digital economy, but also create opportunities for construction firms specialising in high-tech builds.

Supply chain and insolvency

Supply chain disruptions and construction delays are likely to persist, affecting project completion rates across the sector. Contractors report that ongoing labour shortages will be a key driver of price increases over the next year, prompting them to carefully assess their project pipelines and the risks they are willing to undertake.

Insolvencies also remain a prominent concern in the market, with the ripples of ISG, Henry Construction and others still felt throughout the industry. As the market begins to recover from these large insolvencies, it provides an opportunity for other firms to grow and fill the gap left by these large Tier One contractors.

Charlie Radbone
Regional Director

Navpreet Chatha
Quantity Surveyor

Sam Smith
Assistant Quantity Surveyor

REPUBLIC OF IRELAND

The November general election saw a coalition between Fine Gael and Fianna Fáil fall just short of the 88 seats required to govern, meaning that smaller parties and independents would be needed. During campaigning, housing and cost of living were the major issues for the electorate. On review of the manifestos, both parties are relatively aligned, committing to investment in infrastructure, healthcare, education and housing.

Fianna Fáil committed to build a healthcare surgical hub in the North West and open new hubs, invest in state-owned childcare facilities, reduce class sizes, build more public nursing homes, and increase home building to 60,000 dwellings a year, including 10,000 affordable homes and 12,000 social houses a year. Fine Gael also wants to increase childcare capacity, allocate €2bn to rural regeneration development, facilitate and incentivise jobs in renewable infrastructure, deliver 300,000 homes by 2030 (60,000 a year) and build 5,000 new inpatient beds by 2031.

Like many European countries, Ireland faces a housing crisis, needing an estimated 70,000 homes a year to be built over a decade, to meet demand. During 2023, only 33,000 were completed despite the many initiatives put in place. The population is expected to increase by 1 million people by 2040, a 20% increase from 5.1 million people in 2022.

As well as housing, Ireland needs to invest in water, electricity and transport schemes. It is reported that 20% of all power in Ireland is consumed by data centres and this is expected to rise to 30% by 2030. Ireland was once the location of choice for many hyperscale cloud providers, due not only to its location, climate, talent and low corporate tax rate, but also its reliable and robust network infrastructure. However, in 2021, CRU, Ireland's energy and water regulator, raised concerns about the environmental and capacity impacts of data centres on the country's energy infrastructure. In 2022, Ireland's state-owned electric power transmission operator EirGrid issued a moratorium on data centres in Dublin until 2028.

Even with these restrictions, Ireland is still seeing investment. Both AWS and Google have announced new developments to construct 42,585 and 72,400 m² respectively. In a bid to reduce the climate impact, Google Ireland Ltd has signed a 14-year Power Purchase Agreement (PPA) with Power Capital Renewable Energy for 58 megawatts of new-to-the-grid capacity from the Tullabeg Solar Farm.

Data centres are imperative to the Irish economy, creating employment opportunities, stimulating innovation and attracting further investments.

The presence of data centres supports a thriving ecosystem of related industries, including construction, technology services and infrastructure development. Additionally, according to a study conducted by IDA Ireland, data centres contributed more than €7bn of economic activity in Ireland over the previous seven years, with a forecasted further €7bn over the next five years.

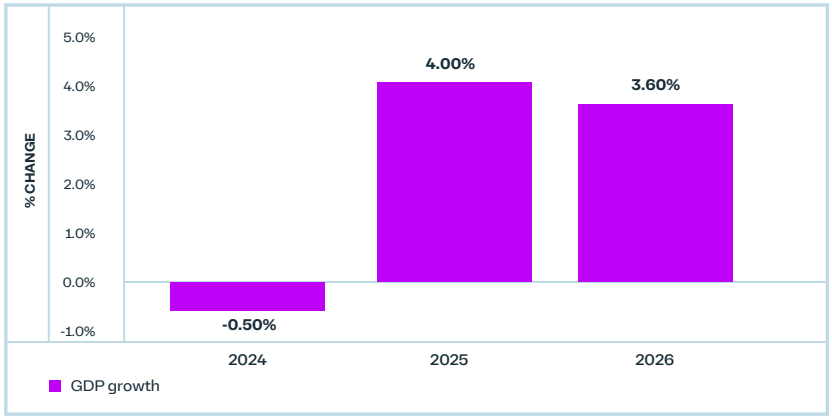
The structure of the Irish economy is underpinned by its ability to attract overseas investment and its low 15% rate of corporation tax makes it an attractive investment for multinationals, especially American firms. Following the US election, Irish politicians are keeping a wary eye on Donald Trump's intention to reduce US corporate tax to 15% and introduce tariffs on EU imports. The US is Ireland's largest trading partner, accounting for 28% of Irish exports. These measures could make overseas investment in Ireland more difficult.

Economy

Ireland's GDP is expected to decline by 0.5% in 2024, because of a contraction in the multinational sector in the first half of the year. Domestic activity grew by 2%, reflecting the unpredictability in multinational dominated sectors that are strong in the Irish economy. The first half of 2024 saw exports increase, led by a return to growth in pharmaceutical trade and continued strength in computing and other service exports, all of which are expected to contribute to economic growth.

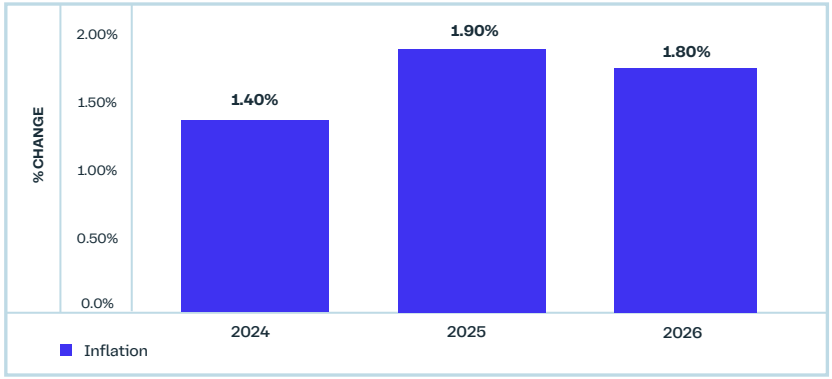
Economic activity is projected to rebound with growth of 4.0% in 2025 and 3.6% in 2026, aided by a strong labour market, low headline inflation and a favourable external environment. Headline inflation is set to remain low over the forecast horizon. Consumer inflation is expected to remain low over the forecast horizon; however, wage growth is expected to keep core inflation elevated.

GDP GROWTH (% CHANGE PER ANNUM)



Source: European Commission Nov 2024

INFLATION (% CHANGE PER ANNUM)

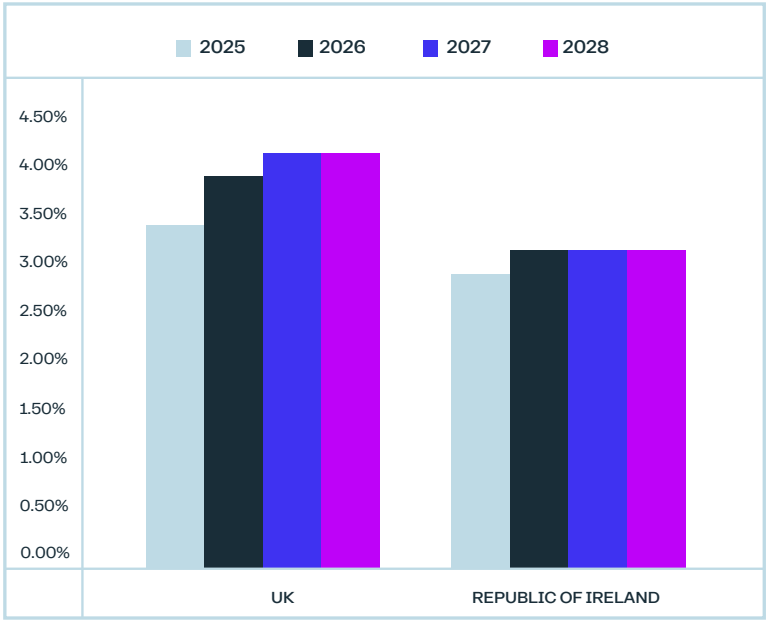


Source: European Commission Nov 2024

ATKINSRÉALIS TENDER PRICE FORECAST 2025 - 2028

AREA	2025	2026	2027	2028
UK	3.50%	4.00%	4.25%	4.25%
Ireland	3.00%	3.25%	3.25%	3.25%

ATKINSRÉALIS TPI FORECAST 2025 - 2028



CONSTRUCTION OVERVIEW

The recent BNP Paribas Real Estate Ireland Construction Total Activity Index recorded an index of 49.4 in October, up marginally from 49.0 in September, which indicated that activity again fell slightly. This was despite the largest growth in the housing sub-sector since May 2022. Housebuilding dominates construction output with almost 60% of the industry dedicated to it. It contracted in 2023 but saw a steady rise in 2024, with many schemes commencing due to deadlines for the development levy waiver and the water connection charge refund. These projects must be completed by mid-2026 and this will provide a boost for output.

To improve the planning process, in October 2024 the Houses of the Oireachtas passed reforms to the planning system including the introduction of statutory timelines for all consenting processes. Key reforms include greater mandatory alignment of all tiers of planning, improving consistency; improvements to the planning judicial review processes, and creation of Urban Development Zones, which will facilitate a more plan-led approach to development, increasing certainty at the master-planning stage. Among other measures, local authorities will receive longer-term more strategic 10-year plans.

Ireland has historically been slow to adopt non-traditional construction methods. One of the main reasons for this is procurement issues surrounding public works. The government's Housing for All plan has identified Modern Methods of Construction (MMC) as a potential solution to increase the pace at which new homes are constructed and has thus reformed the procurement options available within the capital works management framework for enabling design and build contracts.

In December 2022, the Department of Further & Higher Education, Research, Innovation & Science (DFHERIS) published its Report on the Analysis of Skills for Residential Construction & Retrofitting 2023–2030. The report indicates a need for over 50,000 new entrants into the construction sector in this period, from professional, craft, operative and other trade routes. Currently around 20,000 construction apprentices are being trained.

The introduction of the Climate Action Plan 2024 is a step towards achieving net zero by 2050. It is the start of a realisation that initial targets are unlikely to be achieved in the timeframe, and includes the measure that all new dwellings must meet Zero Emission Standard by 2030. The plan contains focus areas to accelerate decarbonisation and regulation changes to meet this. Nearly zero energy buildings and retrofitting will play a significant part in the labour market requirements, and therefore investment in green skills and technologies are required.

Ireland's growing population and increasing immigration means that the education system needs new schools and redevelopment of existing stock to meet modern standards. The Department of Education (DoE) has committed to a record level of investment. Over 200,000m² of school buildings are scheduled for completion in 2025, including 28 new build and 61 extensions. The DoE is currently tendering for integrated delivery partners through ADAPT 4.

Demand for commercial offices has fallen, as the Dublin office market is now well supplied and new starts have diminished as existing projects reach completion. Offices continue to redefine themselves and meet changing tenant needs and ESG requirements. Demand for high quality space in core areas remains, presenting developers with an opportunity to meet this demand.

Ireland's attractiveness to multinationals means that data centres, technology hubs and pharmaceutical developments provide a significant impact on the economy. These sectors and associated logistics hubs are expected to see continued growth but face many challenges in the form of increasing sustainability requirements, labour shortages and supply chain issues.

The emerging threat of tariffs mean that companies will continue to look away from global sourcing, a trend that started with the pandemic, with companies looking to diversify their supply chains and using more resilient and often local sources. Savills recently reported that Ireland is not considered a popular location for this process due to limited infrastructure. As a result, the government is seeking to improve existing infrastructure, as demonstrated by work on the Celtic Interconnector pipeline to bring electricity from mainland Europe to supplement existing supplies, an initiative essential to maintaining international investment in these power-hungry developments.

Jason Elliot
Director

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