Market View
Spring 2026

One step forward, two steps back

Even as the construction industry's order book continues to grow, output has started to fall. Delays in project conversion are hitting home—particularly in the housing sector. The industry is facing the prospect of a very uneven recovery.

New build construction workload fell by 2.6% in the three months to December 2025, and the sector has entered a technical recession.

New construction orders continued to grow strongly in Q4 2025, up 12% annually. However, housing's recovery continues to lag.

Construction materials inflation has been flat since Q2 2025.

Commodity market inflation affecting prices of copper and aluminium took off during Q4 2025, with implications for key trades including facades and MEP.

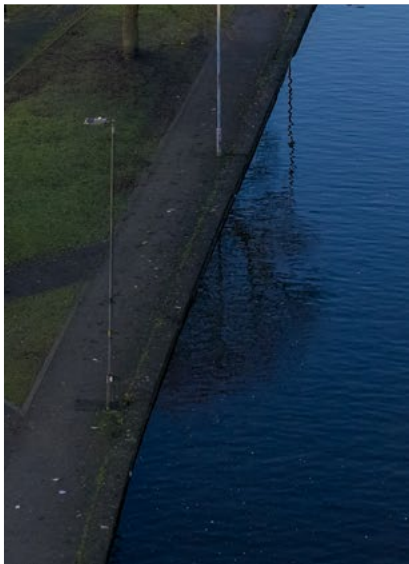
Labour markets continue to be soft, with vacancies falling by over 30% year on year.

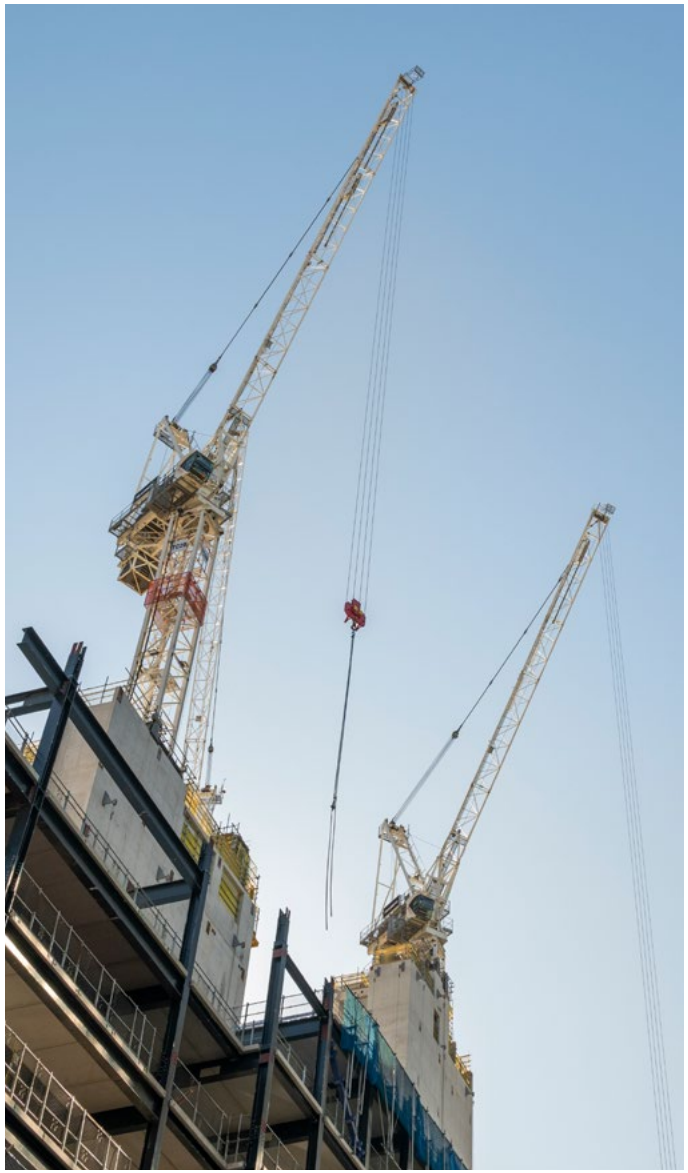
Increased competitive pressure and the reduced risk of a simultaneous recovery triggers further cuts to the Arcadis private sector building tender price forecast.

It is too early to assess the disruption triggered by conflict in the Middle East but it is likely to push prices up and workload down.

Introduction

Momentum flagged in the construction sector and the wider economy after an encouraging start to 2025. Contractor optimism fell to a four-year low point as output fell. Although 2026 started with some signs of recovery in services and manufacturing, construction remains in the slow lane triggered by affordability constraints and the viability gap. Tensions in the Middle East won't help. It's one step forward, two steps back for a shrinking sector.





Stuck in the slow lane

The UK economy grew by 1.3% in 2025. Most of this was front-loaded, with negligible growth of 0.2% in H2 2025. Latest business sentiment data from S&P and strong consumer spending data suggest a brisk start to 2026. However, the Office for Budgetary Responsibility (OBR) downgraded its 2026 growth forecast to just 1.1% in March. Since the OBR forecast was prepared, the conflict in the Middle East has reversed expectations of early cuts in interest rates and has heightened inflationary fears. The outlook is getting darker.

Construction has found itself in a much weaker state despite the prospects of a 'wall of work' from the public sector and the regulated utilities. Total annual new build output may have grown by 1.8% in 2025 compared to the previous year, but momentum slowed as the year progressed. Monthly new build output fell by 2.4% in December compared to June based on seasonally adjusted data. All sectors except for public non-residential contracted, and while poor weather might explain some of the slowdown, the root causes remain unchanged: affordability, viability, and consequent slow decision-making by clients.

Although the picture is bleak, there are signs of recovery. Our forecast shows the pipeline of future workload for the commercial and infrastructure sectors is growing strongly, even as the residential sector falters.

While some sectors do well, others—particularly the High-Risk Building (HRB) sector—will continue to face weak prospects, strengthening the two-speed market narrative.

A sustained recovery will depend on the alignment of various factors. First, it is important that the economy gets off to a good start in Q1 2026 and maintains momentum. The UK's record monthly budget surplus in January 2026 was a good start. Next, borrowing costs need to continue their downward trajectory, delivering at least the two base rate cuts forecast for 2026. Government borrowing costs also need to remain low to protect all-important fiscal headroom. Unfortunately, 10-year gilts have moved sharply up since the start of the conflict and were trading at 4.69% at time of writing.

Other factors that could contribute to recovery include greater confidence in the economy, which encourages clients and their funders to green-light projects, combined with project teams, supply chains, and stakeholders succeeding in working collaboratively to overcome cost and programme challenges.

Signs of life?

Even as construction contracted in 2025, there are signs of recovery. The sector's current recession may turn out to be an accident of timing rather than a long-term slump. The Arcadis Sentiment Index, for example, recently reached 77%—the highest reading since mid-2021—based on an internal survey.

For those looking for a turnaround, the Central London office sector currently looks most promising, given historically low vacancy rates, rising rents, growing investment activity, and a more competitive finance market. The City of London Corporation reports that work has started on half of the Square Mile space granted permission in 2025, totalling 250,000 square meters. Meanwhile, 2026 has seen the busiest start to the year since 2018 for planning activity in the City. While complex enabling works will take time to complete, there is growing confidence that a long-awaited commercial recovery may be around the corner.

Because the central government sector grew strongly in 2025, the key question is whether the pace of activity will increase. Work is presently flowing better in the defence sector, aided in part by using existing frameworks. Ten winners of the 2.0 Alliance framework to deliver the £37 billion New Hospital Programme have also been confirmed. By contrast, resource-constrained local authorities are struggling to turn needs into projects as devolution and affordability challenges continue to bite.

Outside London, latest regional crane surveys from Deloitte also report that developer sentiment is starting to shift from cautious optimism to contractual commitment. In Greater Manchester, for example, the new £1 billion Good Growth Fund has unlocked five schemes in the city region. However, despite increased optimism, not all development makes sense. Landsec, for instance, recently highlighted that the acquisition of existing retail destination assets is more profitable than greenfield development. They aim to reduce planned capital expenditure from £1 billion to £200 million in 2026.

The residential market also has a two-speed feel. A recent Barclays Business Prosperity Index found that despite a challenging end to 2025, over 80% of construction and supply chain leaders in the housebuilding market were confident about their 2026 outlook. Major house builders reported 'muted' demand in early 2026 in recent trading updates.

However, for the HRB sector, the outlook remains cloudy, with Build-to-Rent (BTR) starts falling, the Building Safety Levy due in October, and reports that planning relaxations for London could come with unrealistic time-limited restrictions on delivery. Some projects that have gone through Gateway 2 remain stranded. Even student housing schemes are facing viability barriers, with Unite recently reporting that schemes in many university cities no longer stack up. In practice, many schemes will remain uninvestable, weakening the long-term pipeline.

Megaprojects. One step forward, two steps back

It's not just the regular building sector where smooth progress is being disrupted. The UK has a large roster of megaprojects, and as previously suggested, these are becoming increasingly important as a source of work. But as the table below shows, while some are seeing progress, others face delay for many reasons. The stop/start uncertainty of these programmes further illustrates the challenges facing UK clients and their supply chains.

	Status	+ve/-ve impact
Heathrow third runway	Owner agrees to fund development of Development Consent Order, targeting runway opening by 2035.	↑
Northern Powerhouse Rail	Proposal confirmed. Development spending only before 2030. Wider Control Period prioritising renewals over enhancements.	↑
New Hospital Programme	NHP framework in place and programme stabilised. Tight construction schedules and limited contingency leave little room for early slippage or cost overruns.	↑
HS2 Euston station	Department for Transport launches early market engagement for DBFO partner for the London terminus.	↑
AMP8 programme	Growing concern over project delivery rates so far in AMP8, suggesting that the wider programme is slipping.	↓
Leeds Metro	Revised sequential approach to route planning and business case development will delay development.	↓
Woodlands Park data centre	Judicial review permitted on grounds of incorrect assessment of environmental impact with wider implication for UK DC development.	↓
Defence Investment Plan	Plan issue delayed. Large budget shortfall and lethality priority could reduce budget for much-needed infrastructure upgrades.	↔

The challenges facing high-priority megaprojects demonstrate the continuing difficulties in bringing forward investment into the UK. They also highlight that although viability challenges are a major barrier to progress, there are many other factors triggering delay. In the short term, slow progress will dampen demand for contractor capacity. In the longer term, slow progress will start to question whether the UK's ambitious infrastructure investment plans are deliverable.

Can we fix in 2026?

In our Winter Market View, we laid out what needs to be 'fixed in '26' for the construction growth dial to start moving, from the easing of interest rates and regulatory barriers through to momentum in public programmes and improvements to power connection queues.

Three months on, we assess whether there have been any movement that points to better times ahead.

	Latest	Current grade
Interest rates	Little headroom for base rates below 3.25%. Pace of cuts may slow as a result of global tensions.	↔(?)
Regulation	BSR reforms working but most schemes still failing Gateway 2. Affordable housing requirements reduced but time limits on delivery could still leave schemes uninvestable.	↔
Public programmes	Spending period starts in April 2026. Substantial progress on framework procurement made but the crucial Defence Infrastructure Plan faces delays.	↔
Network infrastructure	Delivery capacity and viability challenges remain significant with evidence gathering of cost pressures on transmission projects.	↓
Power connections	NESO has warned of delays to the agreed connection dates for 210 energy projects with protected status, further increasing pressure on the wider connections pipeline.	↓

Table 2. Fixed in 2026 Balanced Scorecard

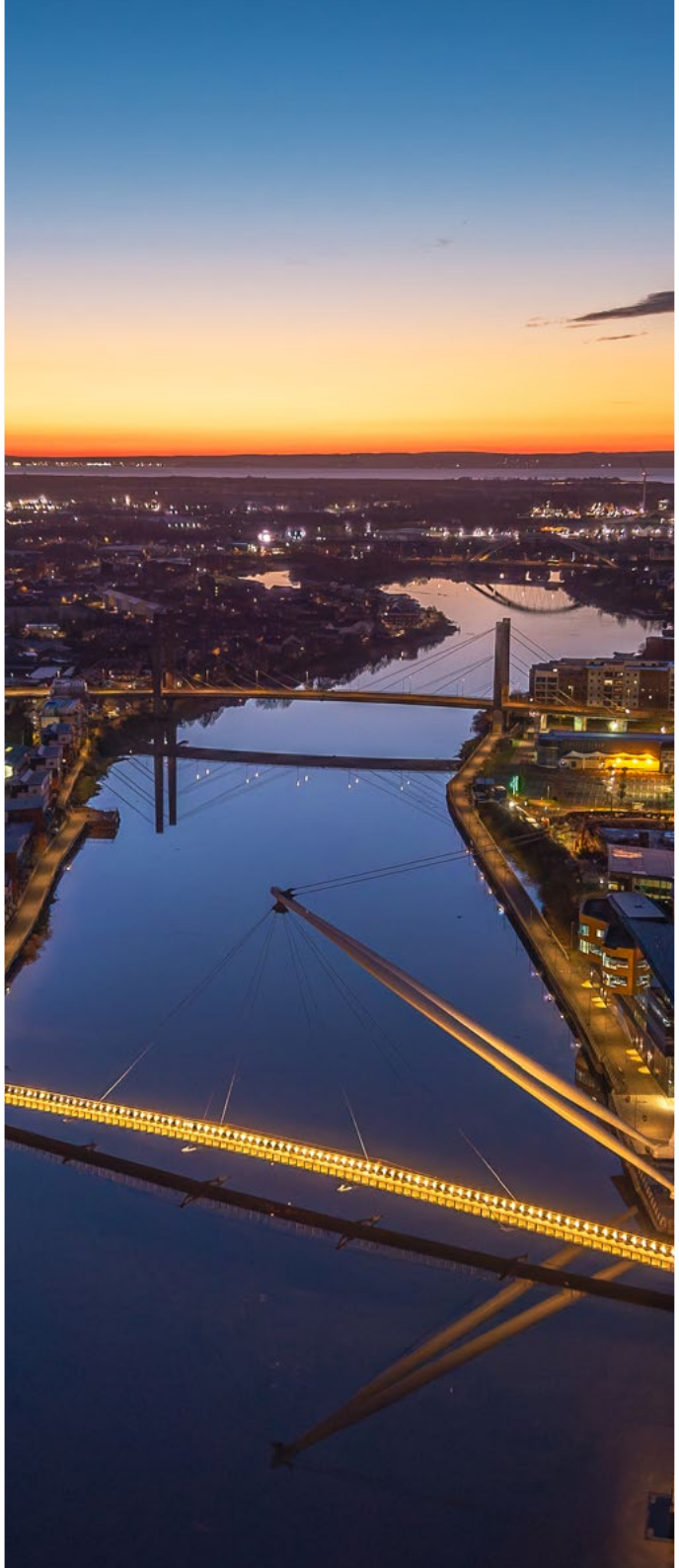
In summary, the affordability challenge remains, and while there has been some progress, the barriers that could potentially reduce market risks still exist.

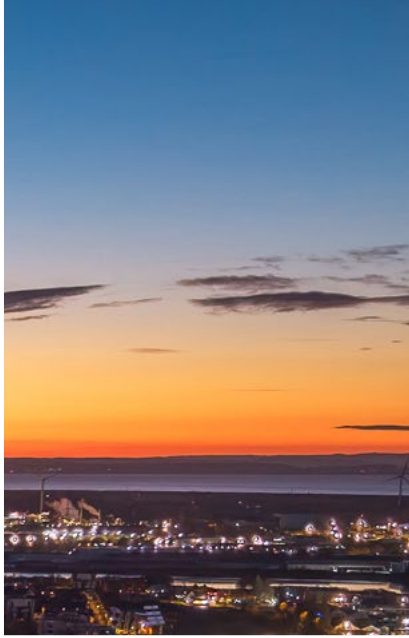
Conclusion

The start of 2026 brings a tantalising hint that commercial markets might be on the brink of recovery. This can't come quickly enough as government spending programmes ramp up at a slower rate than hoped. However, with investment only targeting prime opportunities in the top cities, it's a narrow basis for growth. Infrastructure continues to have great prospects, even as clients grapple with affordability challenges. For now, it is very much a case of one step forward, two steps back, with the risks of a simultaneous recovery diminishing.

Forecast

Latest data has highlighted the weakness of the construction sector in 2025. Short-term signals might be indicating a turning point in the cycle. Price pressures will increase as subcontractors fight to secure precious workload.





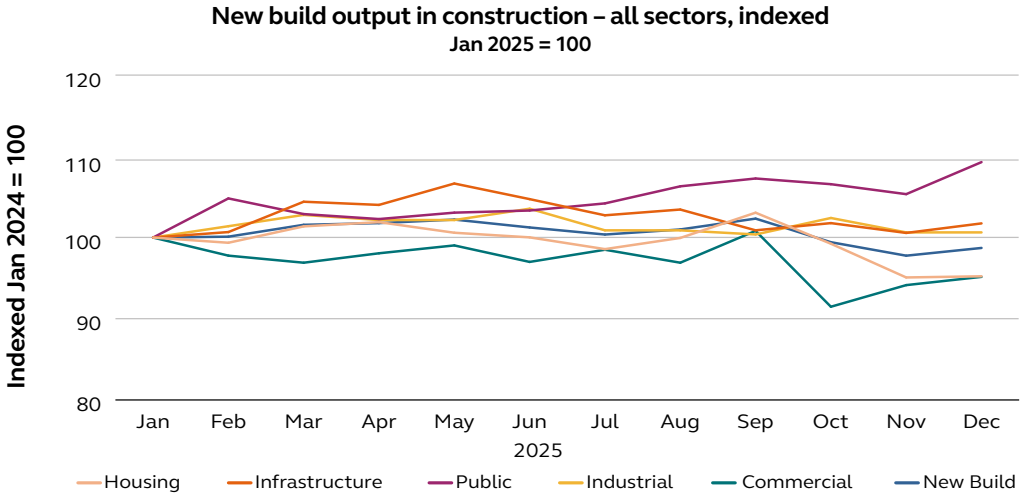


Figure 1. Change in new build output, 2024 to 2025 Source: ONS, Arcadis

Workload

Challenges for contractors have intensified, with new build construction markets entering recession in Q4 2025. Housing and infrastructure markets saw two consecutive quarters of falling output. What is happening and what will happen next?

The data shows that the housing and commercial sectors have lost out recently, and that these trends have been developing over time. The chart below plots changes in output since January 2025, showing that a strong start in infrastructure and industrial activity lost momentum in H2 2025. The public sector is the one sector that grew throughout the year.

Crucially, the slowdown was initially led by commercial sectors rather than residential. Subsequently, after two years of steady but below-par output, housing activity also fell sharply in Q4. This is important because housing activity is likely to fall further in 2026—even as the commercial sector starts to recover.

	Quarterly % change	Year-on-year change (%)
Residential	-4.0%	-2.7%
Infrastructure	-1.0%	+1.0%
Public non-residential	+1.1%	+16.2%
Industrial	+0.5%	+9.8%
Commercial	-5.2%	-11.2%
Total new build	-2.6%	-0.8%

Table 3. New build output summary, Q4 2025 and 2025 Source: ONS

Continuing contraction means that competitive pressure will keep a lid on inflation in some sectors in 2026 and 2027.

Future pipeline

By contrast, the recovery in the pipeline continues with the total value of work won up by 12% compared to a year ago. The chart shows growth over three years, smoothed to show underlying growth trends. The chart highlights several important developments:

- Four of the five sectors are showing aggregate growth over the three years.
- Recovery in the commercial pipeline has been gathering pace and is potentially the strongest sector despite recent weak performance.
- Long-delayed expansion in the infrastructure sector can be seen in the orders even if output has been flat.
- The housing pipeline continues to contract.

Housing's status as a laggard makes sense. The sector is most exposed to challenges associated with affordability and the HRB process. Improvements to Gateway Reviews have led to faster reviews. More projects are securing approval, with 33% of schemes passing the Gateway 2 milestone according to latest data.

The data suggests that long-awaited workload growth in the large commercial and infrastructure sectors should start to come through in 2026. This can already be seen in large scheme starts in London and early signs of growth in Birmingham.

Workload is likely to improve across many sectors, but the housing sector continues to face significant headwinds.

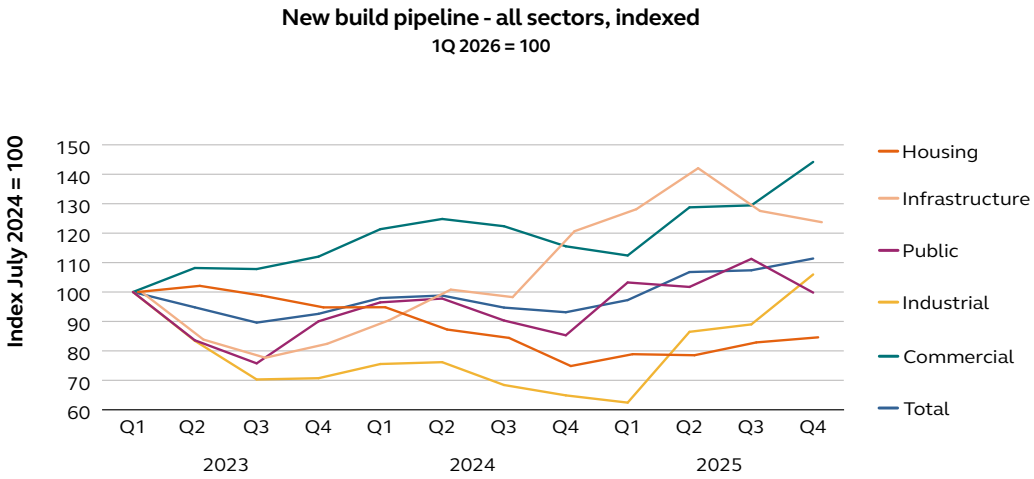


Figure 2. Change in new build pipeline, 2023 to 2025, smoothed Source: ONS, Arcadis

	Quarterly % change	Year-on-year change (%)
Residential	+14.1%	+12.6%
Infrastructure	+9.8%	+70.1%
Public non-residential	+52.0%	+43.8%
Industrial	-32.6%	+56.8%
Commercial	-25.2%	+6.5%
Total new build	-3.8%	+28.6%

Table 4. New build pipeline summary, Q4 2025 and 2025 Source: ONS

Inflation affecting energy and finished metals like copper is a significant challenge. Contractors could seek to share commodity price risk with clients given the scale of recent price movements.

Commodities

Commodity markets have been exposed to inflationary trends during H2 2025. Energy prices returned to long-term price levels have risen sharply as a result of the latest Gulf Conflict. By contrast, markets for finished metals, particularly for copper and aluminium, have seen extraordinary rates of increase, with copper now costing around 70% more than its 10-year average.

High metal prices will eventually have an impact on the cost of specialist components including electrical components, cladding, and curtain walling, but the route of transmission could be complicated by price hedging and arbitrage. High metal prices will have a particular impact on data centres, commercial buildings, and most significantly, the costs of transmission and distribution upgrades.

The table does not pick up latest energy prices which have risen sharply. Metal price trends remain elevated.

Commodity	Price, Jan 2026	Year-on-year change (%)	Price relative to long-term average
Aluminium	$2,875/tonne	+22.1	1.45
Copper	$11,785/tonne	+44.7	1.71
Iron ore	$104.59/tonne	+6.0	1.04

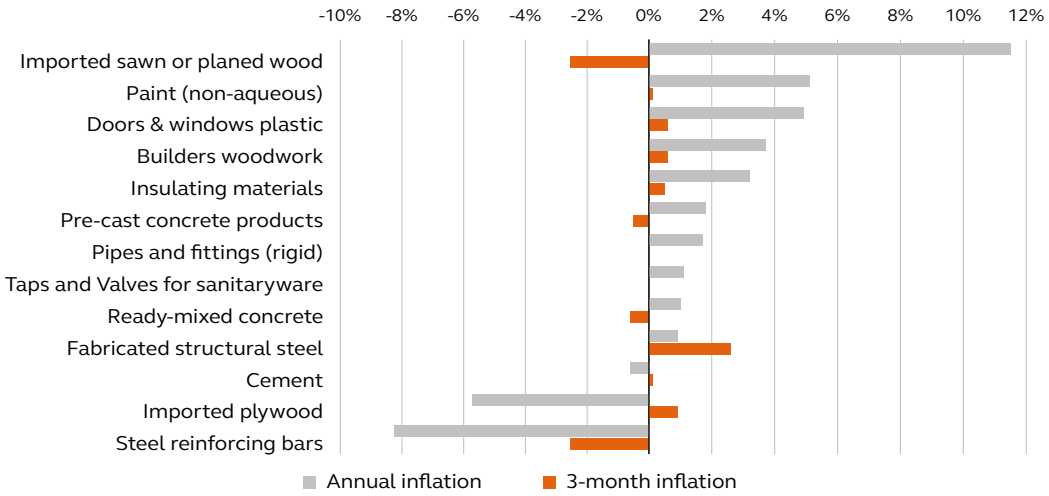
Source: World Bank, Arcadis

Materials

Across the UK economy, input inflation for goods remains subdued at 1.6% for the year to January 2026, even as services inflation, dominated by wage costs, remains sticky at 4.4%. This is despite the rampant commodities inflation highlighted elsewhere.

Construction has started to benefit from soft demand for materials during H2 2025, with prices increasing by less than 1% since June. Given weak workload in the UK and Europe, it is unclear whether manufacturers and distributors can pass on further price hikes in early 2026.

Selected material producer price indices
Changes over time (to the end of Dec 2025)



Source: DBT, Arcadis

The chart highlights that softwood has seen significant inflation in the past year, creating further headaches for the residential sector. The increase happened in Q2 2025 and is the result of a combination of reduced production in Scandinavia and a shortage of logs due to drought and infestation.

Low demand for materials will maintain downward pressure on basic construction materials, helping offset some of the pricing pressure triggered by commodity markets.

Soft labour conditions mean low inflation today, but there is potential for a bounce-back when recovery comes.

Earnings

Industry-wide earnings data continues to reflect soft market conditions. There are pockets of scarcity that will lead to trade-specific inflation, but overall, earnings growth in construction is trailing the wider economy by slightly above 1%. The recent slowdown in construction earnings growth highlights the extent to which spare capacity has grown and the potential for future earnings inflation once recovery starts.

	Construction	Whole economy
Earnings growth (real terms, excluding bonuses) (Annual, Jan 2026)	2.7%	3.9%
Vacancies (ratio, number per 100 employees) (Jan 2026)	1.8	2.3
Employment growth (Annual, Dec 2025)	(3.9%)	1.1%

Source: ONS, Arcadis

Latest vacancy data gives no sign of a pick-up in activity. Construction has 28,000 vacancies based on latest data, down over 30% year on year. Employment data also points to contraction, although well-publicised problems with the survey mean that these findings must be used carefully.

A significant development in labour markets is the introduction of the B2 language requirement for all new overseas workers. New mandatory language tests will further restrict the ability of UK contractors to secure additional resources from overseas. We continue to anticipate an inflationary labour environment once recovery commences.

Forecast summary

Construction markets may be approaching the bottom of the cycle, but it is too soon to call a recovery.

2026 has started with conflicting signals. On the one hand, the BoE has downgraded its growth forecast, and on the other, businesses and consumers are showing increased confidence. However, given uncertain conditions, clients and investors are still finding it easier to say no than to commit to large investments.

Construction is dealing with a different set of messages. Confidence remains close to rock bottom, while new build construction has seen output falling for two consecutive quarters—a technical recession. Our sector is lagging the economy, and there are few signs of a turnaround on site, even if pipeline data points to a recovery.

This perilous situation is creating winners and losers. For clients and contractors currently on site, labour and materials are plentiful, meaning that site performance and productivity is exceeding expectations. Furthermore, in the commercial sector, clients can commence large projects, including towers, even on a speculative basis, as increased rents and falling vacancy levels point to a closing of the viability gap.

However, this is a narrow window of opportunity. Few sectors have the market momentum to break through barriers of process, affordability, and uncertainty, and few clients have the confidence to try to beat the market. What's more, most contractors are sticking to contractual terms. It is not quite a buyer's market, and many pre-contract teams remain tied up in long-running two-stage procurements.

High-density residential remains the most challenged sector. Gateway 2 processes have improved, but there has been no material increase in the proportion of schemes being approved. Furthermore, viability gaps remain a significant barrier. The excessive costs of regulation is a material factor, as recently highlighted in a Financial Times article quoting Arcadis data. It demonstrated how waves of regulatory changes since 2016 have resulted in cost increases that are well in excess of background construction inflation. The Building Safety Levy will add further cost from October 2026.

Increasingly, we anticipate that construction volumes of apartment buildings will fall further in 2026 as existing schemes are completed. The effect will be to further increase levels of competition, particularly for supply chains focused on residential development and smaller scale commercial schemes.

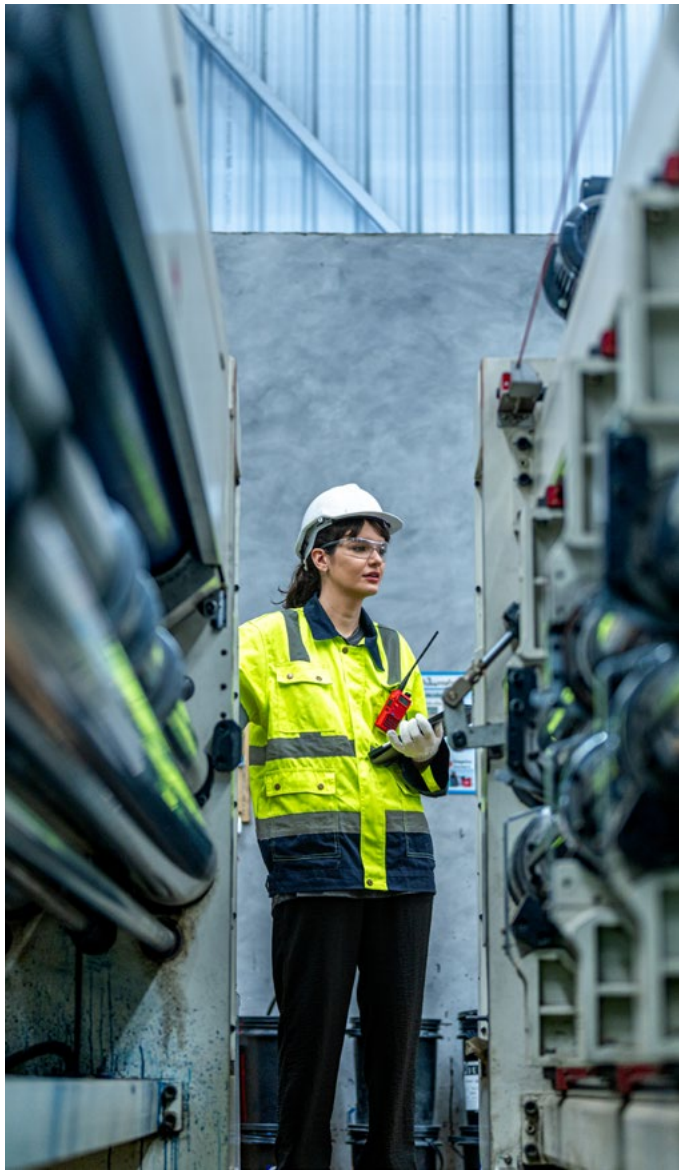
For public sector projects and for the regulated utilities, affordability remains the greatest barrier to progress. Notably, our survey shows that two-thirds of public sector respondents are seeing a pick-up in activity. For the time being, our forecast continues to anticipate that funded programmes will be delivered even if their duration stretches beyond 2030. If price inflation remains high, however, there is a growing possibility that programme volumes will fall. We have downgraded our private sector building forecast, with the residential sector expected to see the lowest price growth as competition for scarce workload intensifies in 2026 and 2027.

The top end of our forecasts remain unchanged, reflecting new inflation drivers including metal prices. With consumer price inflation now projected to fall to 2% in 2026, many construction sectors will experience real-terms price inflation for the first time since 2022. Keeping prices in check will be crucial if a tentative recovery is to take hold.

Looking beyond 2027, we continue to forecast that labour scarcity will drive above-trend inflation if workload accelerates as planned. This will particularly affect network infrastructure clients who must deliver to challenging time limits set by their regulators.

Our forecasts do not include an assessment of the impact of the Gulf Conflict.

In summary, there are some reasons to be positive, but it is a one-step-forward, two-steps-back market. The commercial sector is picking up, with rising demand driven by scarcity of the high-quality product that only the top end of the market supports. In the regulated and public sectors, programmes also follow a stop-go pattern as governance processes are challenged to balance affordability with the importance of getting things done. A recovery is coming, but the timing of its arrival is impossible to predict as progress remains so uncertain.

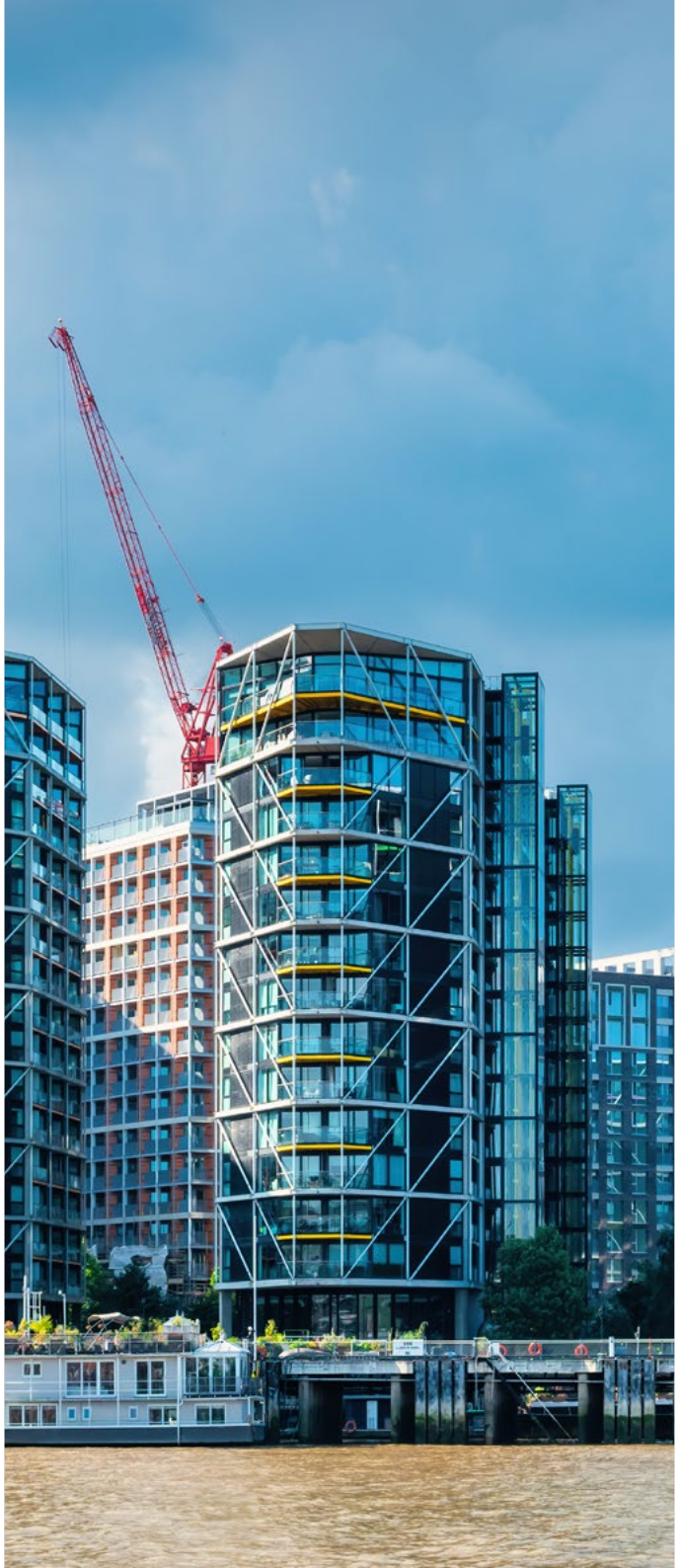


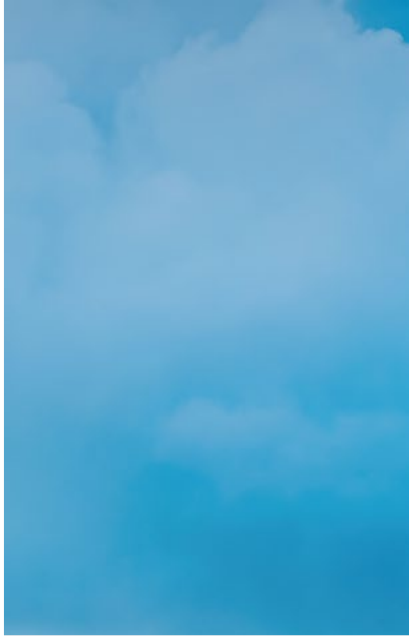
	Private Sector Construction TPI	Public Sector Construction TPI	National Civil Infrastructure TPI	National Network Infrastructure TPI
2024	1–2% (1–2%)	1–2% (1–2%)	3–6% (3–6%)	3–6% (3–6%)
2025	2–3% (2–3%)	2–4% (2–4%)	3–5% (3–5%)	4–6% (4-6%)
2026	1–3% (2–3%)	2–4% (2–4%)	3–4% (3–4%)	3–6% (3–6%)
2027	2–3% (3–4%)	3–5% (3–5%)	2–4% (2–4%)	4–7% (4–7%)
2028	4–5% (4–5%)	4–5% (4–5%)	4–6% (4-6%)	5–8% (5–8%)
2029	4–5% (4–5%)	5–6% (5–6%)	5–6% (5–6%)	5–8% (5–8%)
Total (2026 to 2029)	**11–16%**	**14–20%**	**14–20%**	**17–29%**

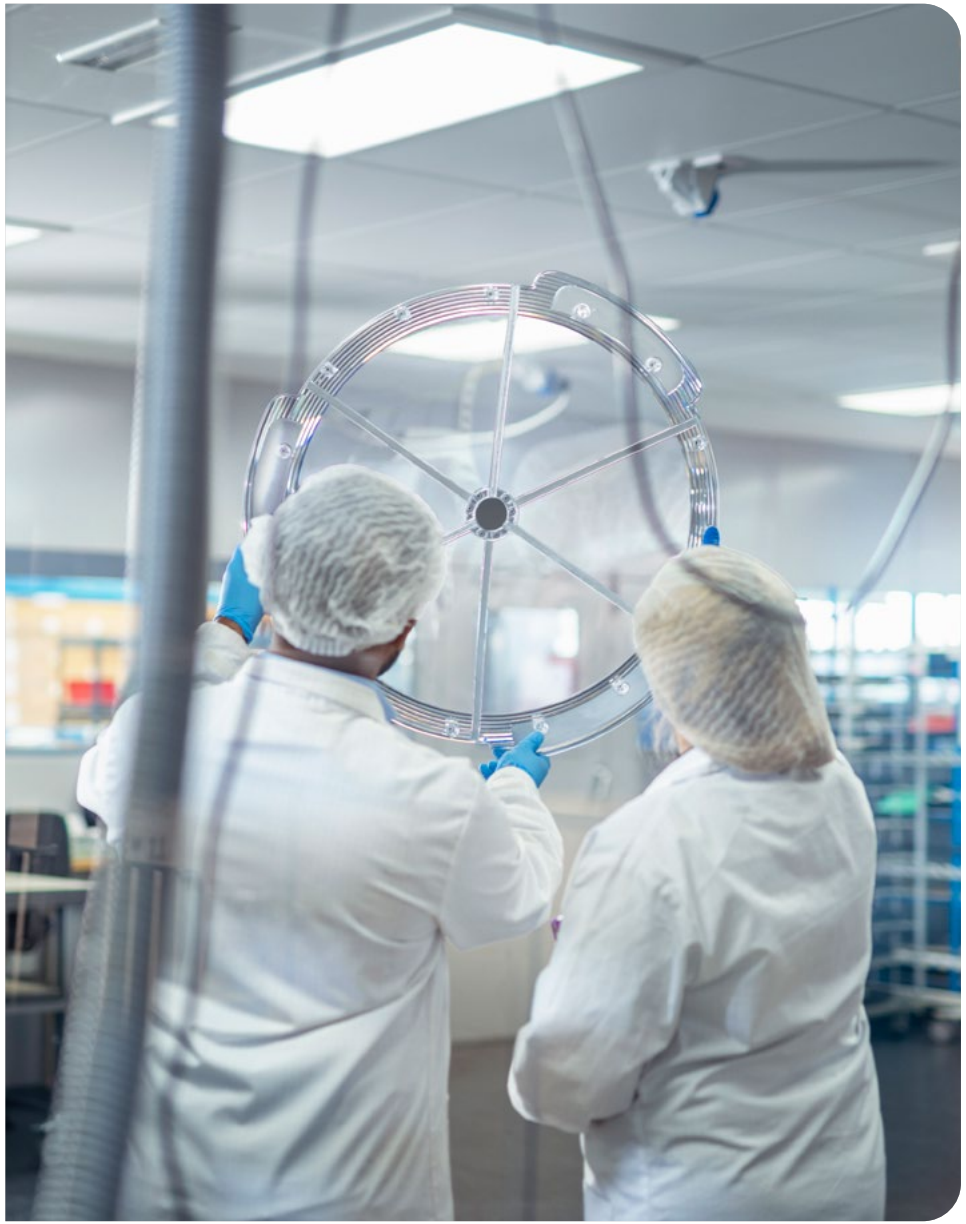
Inflationary drivers	Deflationary drivers
Materials cost increases due to commodity price movements	Affordability challenges placing downward pressure on budgets
Expected elevated levels of workload in network infrastructure and public social infrastructure	Procurement and approval delays
Lower levels of competitive pressure in framework-based procurement	Heightened subcontractor competition for workload in the private sector
Limited capacity for large project ECI and delivery in buildings	Increasing willingness to accept risk transfer in competitive markets
Attitude to risk transfer on higher-risk projects	

Sector summaries

We examine current market conditions affecting major sectors in UK construction markets. These insights are compiled with support from Arcadis' sector experts.







Advanced manufacturing – step change

The transition of the UK's industrial base toward high-margin, high-risk advanced manufacturing represents a significant opportunity for consultants and contractors armed with the specialist skills and experience needed to deliver complex, digitally integrated facilities.

The advanced manufacturing segment brings together many of the sectors promoted through the UK's Modern Industrial Strategy, including life science, defence, space, and agri-technology. Collectively, advanced manufacturing employs 760,000 people and generates £82 billion in GVA. The strategy targets increasing inward investment to £39 billion per annum by 2035. There are many factors driving growth, ranging from energy transition for EVs and batteries, to national security and resilience for defence and agri-technology.

Despite the scale of opportunity, the sector faces challenges. The government's Office for Investment has been hugely successful in attracting inward investment, supported by an attractive investment allowance regime. However, the UK's expensive energy infrastructure and constrained energy grid are significant headwinds affecting viability. Initiatives to address this include the promotion of AI zones and Industrial Strategy Zones in locations with enhanced energy connectivity and the British Industrial Competitiveness Scheme, which aims to reduce energy costs by £35–40/MWh from 2027 onwards.

Meeting the needs of clients in the advanced manufacturing sector requires specialist expertise. Requirements for clean rooms and other ultra-stable environments are common with an associated requirement for highly complex and resilient MEP service installations. Furthermore, the integration of digital technologies into all aspects of the design, build, and integration with manufacturing processes benefits from the blending of construction and manufacturing capabilities. In practice, much of the UK construction's skills base is grounded in legacy MEP solutions, so while the skills in delivering complex installations are well-established, an upgrade is often needed with respect to innovative technologies and working methods.

In summary, the advanced manufacturing sector offers a strong pipeline of work for construction businesses with a track record in the sector and exposure to the latest digital and process technologies.

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Strategic highways – changing priorities

National Highways' third Road Investment Strategy (RIS3) commences in April 2026. The five-year control period represents a £25 billion investment in the strategic road network, highlighting the importance of the network as a growth driver. The draft settlement excludes Lower Thames Crossing where public works are already fully funded, with the final phase being delivered as a separate Public Private Partnership programme.

The RIS3 portfolio represents a significant shift in emphasis on renewals, with over half the budget focused on the permanent replacement of elements of the existing asset base. For example, RIS3 will include a programme involving the reconstruction of 400 miles of legacy concrete roads from the 1960s and 1970s. An additional structures programme is focused on repairs and upgrades to some of the 3,000 bridges on the network that have weight restrictions or other repair requirements. These works recognise a significant technical challenge for the supply chain involving complex works in operational environments.

While there is no committed list of enhancements in the draft RIS3 settlement, RIS3 is expected to include several enhancement projects. Some of these will likely be brought forward from earlier RIS periods, and others represent a balance of long-standing national priorities including the dualling of the A66 and regional priorities such as the A38 Derby Junctions programme. Future enhancements could be supplemented with private funding where appropriate or could be enabled by private-sector business cases. An example of the latter is the proposed M5 Junction 22A, which will access the Gravity Smart Campus and its associated battery gigafactory.

National Highways is currently undertaking procurement for the RIS3 programme. Future renewals work will be let under a refreshed Scheme Delivery Framework 2 worth £14.5 billion, which will consolidate pavement works, general civil engineering, and other activities into a single framework. Currently, there is less clarity on the procurement strategy for enhancements, which could use several public framework routes aligned with the characteristics of the project.

The timing of RIS3 is good. The programme is expected to offer solid, dependable workload over the full duration of the control period. It should attract main contractors at a range of scales, enabling the supply chain to maintain a degree of diversification. National Highways remains an ambitious client with exacting net-zero targets and a performance management system focused on safety and quality, as well as carbon reduction and a rigorous focus on exceptional end-customer experience. After a single-year interim programme, the industry will be pleased to see the return of a long-term investable programme across the Strategic Road Network.

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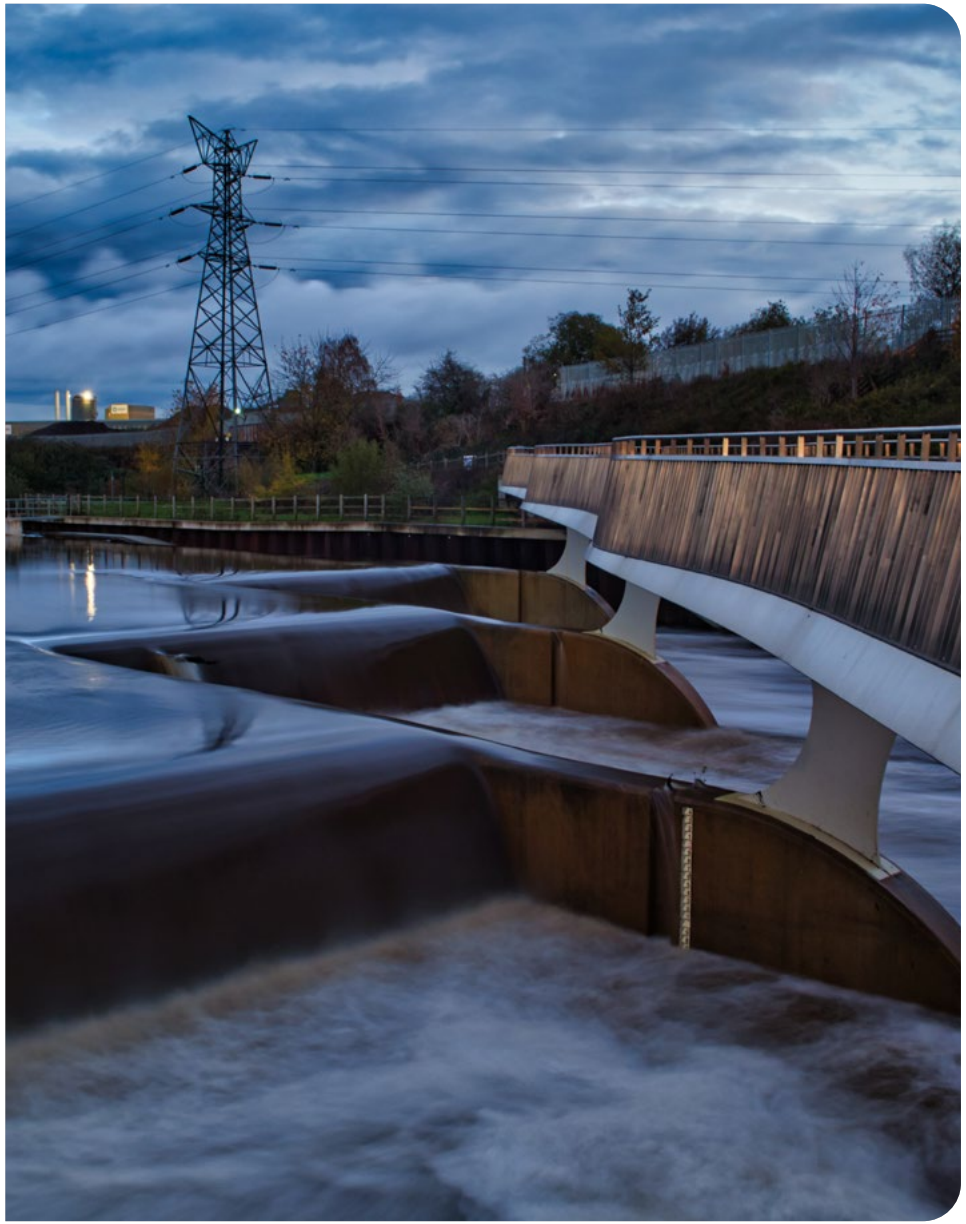

Flood management – boosting benefits through simplification

A new funding cycle for flood management in England starts in April 2026, underpinned by a new simplified funding policy from the Department for Environment, Food, and Rural Affairs (DEFRA) promising £10.5 billion in funding over a 10-year period. With many communities facing flood risks in the aftermath of a very wet winter, changes in the priorities of the programme will be of great importance to many stakeholders.

Flood management is a devolved responsibility, and Scotland and Wales will both be re-examining priorities in the light of heavy flooding this winter.

The funding allocation represents a continuation in levels of annual investment determined by the previous government but provides the sector longer-term programme commitment and confidence through to 2035/36.

As a result, in England, the Environment Agency (EA) will use the simplification agenda to promote smaller schemes with a value of under £3 million now fully funded. Larger schemes over £3 million are expected to secure 10% co-funding, which will boost the viability of many schemes. The policy expands the range of benefits that can be considered in the investment appraisal, and also sets some strategic goals to ensure fair distribution of investment nationally with a focus on the most deprived communities.

In common with Network Rail and National Highways, the EA will prioritise the refurbishment of existing assets to improve the condition of its vast asset base. This is partly a reflection on the cost pressures that have affected large, more complex, new build schemes. By shifting the programme's emphasis to a larger number of smaller investments, EA anticipates delivering a larger aggregate benefit, shared across a much wider range of communities and businesses.

The EA's primary focus is on investments to manage fluvial and coastal flooding, leaving responsibility for surface water flooding largely with Unitary and County Councils. Surface water flood risk has become more of a concern as flood-prone land continues to be released for residential development. Mitigation measures tend to be small scale, typically Sustainable Urban Drainage Systems (SUDS), Property Flood Resilience (PFR), or Nature-Based Solutions (NBS) that can also play a role in improving water quality. The new funding policy will bring a renewed focus and financial support for these types of interventions.

Consultant frameworks in connection with the new spending period are in the process of being finalised. However, the procurement of new design and build teams to deliver the workload will complete by Spring 2027. Large portions of the programme spend through to FY 27/28 are committed to projects currently in development and construction. This means that projects benefitting from the new policy are likely to be seen progressing to construction from FY 28/29 onwards.

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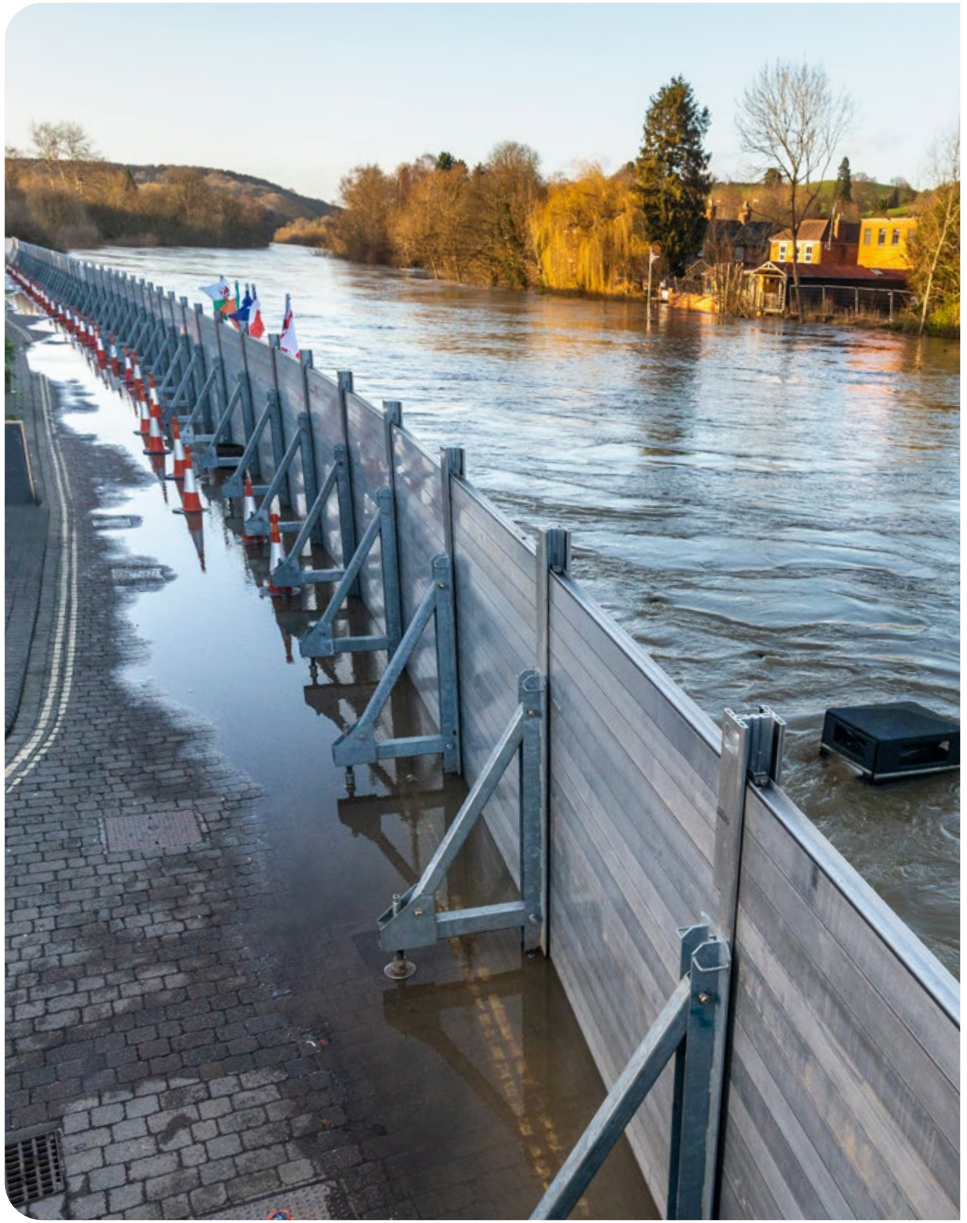
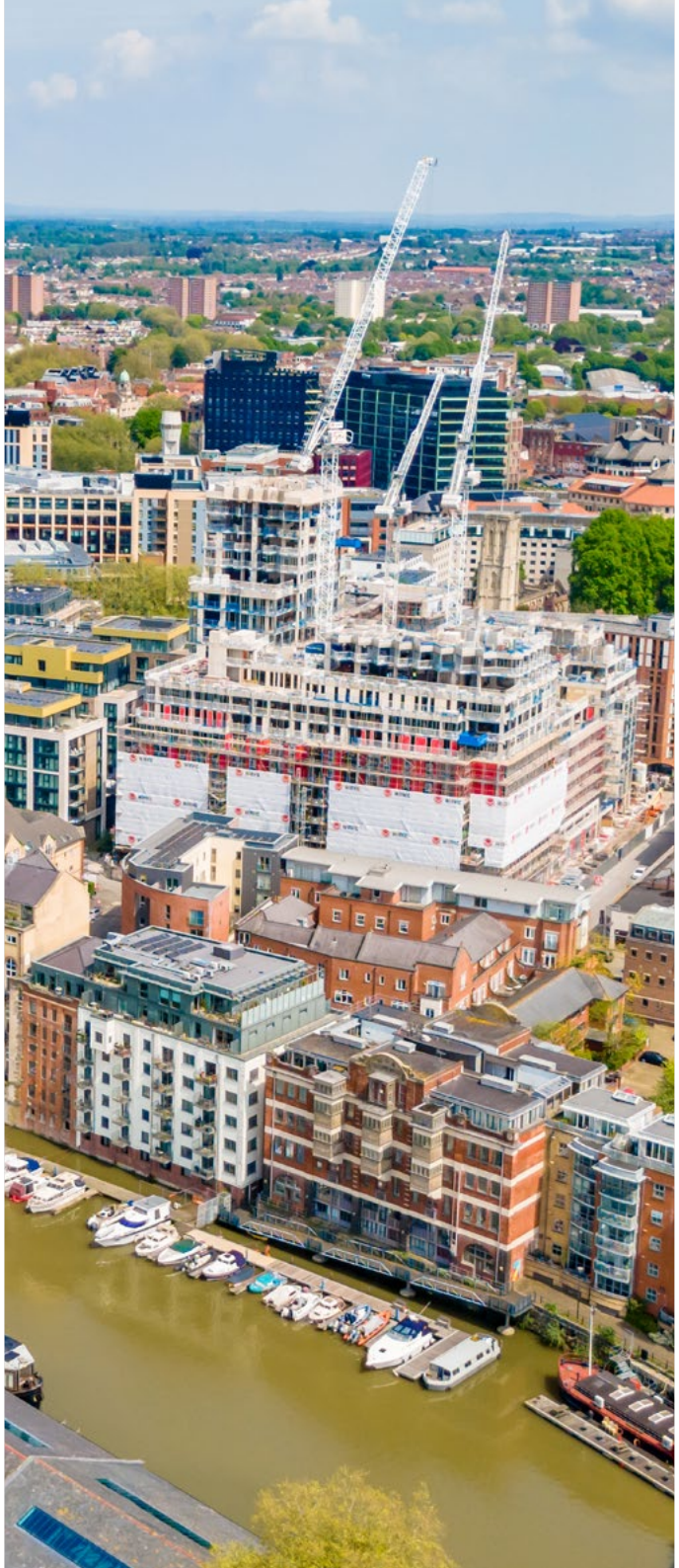


Spotlight

Hot spots and not spots

In this Spotlight, we update our analysis of regional data published by ONS to provide greater insight into dynamics affecting local markets. The analysis firstly seeks to understand which regions have seen a material change in workload by comparing average levels of output and orders (pipeline) for the period 2024 to 2025 with the long-term trend for the period back to Q1 2015. An extra dimension looks at whether growth across all of 2025 was up or down compared to 2024.



As highlighted in our forecast, it has been a case of one step forward and two steps back with respect to pipeline and workload. While the long-term pattern of above-trend output continued in Eastern Regions, the difference between hot spots and not spots has narrowed, with peaks of workload in the North East and Wales dropping away and with activity levels starting to normalise elsewhere. Yorkshire and the Humber continues to see strong levels of above-trend activity—at 17% above the long-term trend—but the absolute volume started to fall a little in 2025. Further significant changes during the year include the Eastern region, which has been boosted by strong infrastructure activity and saw double-digit growth in 2025.

Despite a year-end drop-off, seven regions saw output growth through 2025—an improvement on 2024, when no regions recorded expansion, reflecting a strong first-half performance. The South West, Eastern, and South East regions led the way. In the Eastern region, infrastructure spend was the dominant factor, while activity in the South East and South West was boosted by housing and public sector work. Infrastructure acted as a swing factor in Scotland. Meanwhile, Wales was the weakest region last year, seeing double-digit percentage declines across all segments except industrial, where output levels returned to the long-term trend. London saw a 7% drop-off in output in 2025 versus 2024 as infrastructure and commercial activity sank.

From an orders perspective, the forward pipeline continues to be a problem, reflecting weak orders during most of 2023 and 2024. All regions apart from Scotland continue to lag their long-term orders growth trend in Q1 2026. The key issue is whether the trend gap is narrowing and whether orders increased in 2025 compared to 2024.

	Workload	Pipeline
North East	**+3%**(+)	**-15%** (-)
North West	**-8%** (+)	**-8%** (++)
Yorkshire and the Humber	**+17%** (-)	**-8%** (-)
East Midlands	**+1%** (+)	**-18%** (-)
West Midlands	**-3%** (-)	**-5%** (++)
Eastern	**+1%** (++)	**-4%** (-)
London	**+4%** (-)	**-12%** (++)
South East	**-5%** (+)	**-6%** (+)
South West	**0%** (++)	**-3%** (-)
Wales	**0%** (-)	**-11%** (++)
Scotland	**-9%** (+)	**+5%** (++)

Source: ONS, Arcadis

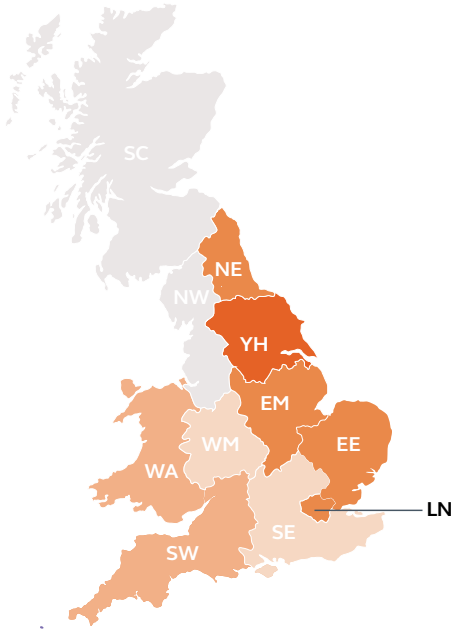
Explanation of the table:

Data in bold represent the trend rate for workload and orders in comparing the average level in 2024 and 2025 with the long-term average for the period 2015 to 2025.

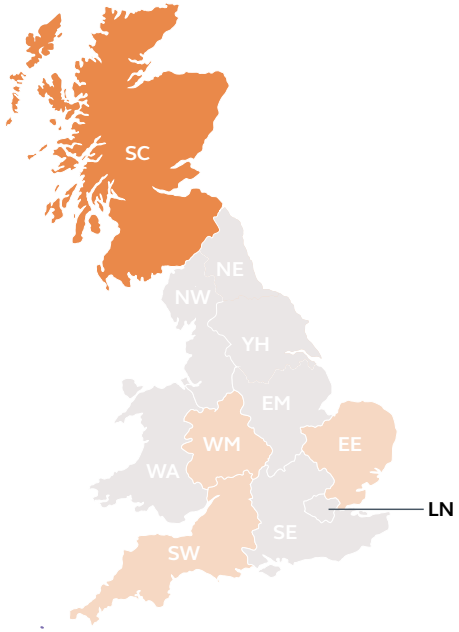
Data in brackets represent short-term movement of workload and workforce based on full year-on-year change between 2024 and 2025. (=) is no movement. (+) and (-) is movement less than +/-10%. (++) and (--) is movement greater than +/-10%.

Data is sourced from ONS: Construction New Orders Table 6 and Sub-national Construction Output Table 1. New Orders and Output data is deflated to constant prices at 2025 price levels.

Workload



Pipeline



Above +6% | +1 to +5% | No change | -1% to -5% | Below -6%

Interestingly, regions that have been lagging for the past two to three years appear to be in recovery, with the North West, South East, and West Midlands all closing what has previously been a significant gap of more than 20% in the pipeline. Only one region has seen a marked deterioration—the North East, which is also consistent with the slowdown in output.

Annual growth data can be interpreted either as a pick-up in activity or as evidence of an unpredictable pipeline. The latter applies to Scotland and Wales, where the pipeline grew by 50% and 100% respectively compared to 2024 totals. By contrast, the North West, West Midlands, and London saw robust growth in order books in 2025, indicating a more sustained recovery. Infrastructure made a significant contribution, while the commercial pipeline in London and the North West grew by more than 20%. By contrast, seven regions saw a double-digit percentage decline in commercial awards, highlighting how narrow that sector recovery may be.

Combining all the data, a recovery in 2025 is as hard to spot in regional markets as it is in sectors. Yorkshire and the Humber has been a standout for workload in recent years compared to the long-term average, but the region lost momentum last year. The South West and Eastern regions are close to their long-term growth trend and saw expansion across a range of sectors in 2025. From a pipeline perspective, the momentum is shifting toward the North West, West Midlands, and even the South East, which have long been overshadowed by London. For clients in the North East and Yorkshire and the Humber, their slowdown over the past two years could come as a welcome relief.

Arcadis

Our world is under threat from climate change and rising sea levels to rapid urbanisation and pressure on natural resource. We're here to answer these challenges at Arcadis, whether it's clean water in Sao Paulo or flood defences in New York; rail systems in Doha or community homes in Nepal. We're a team of 36,000 and each of us is playing a part.

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