Market Intelligence Report

Q1 2025

PICK EVERARD

Deliver better together.

This report explores the construction industry's outlook, recent regulatory changes, and key factors shaping its future. Based on insights from over 100 industry professionals, we provide the latest market perspectives from our peer group and supply chain.

Gavin Mason,
Operations Director,
Pick Everard
and Report Editor

It's been a long winter with grey weather and a lot of grey news - economic growth practically zero, headline inflation rising, increasing taxes and more geopolitical turmoil.

Positively, funding has been secured for significant infrastructure investments in HS2, and planning permission granted on some high-profile projects to signal a willingness to boost construction.

However, the industry has seen output reduce for 5 straight months and the S&P Global Purchasing Managers' Index reported a steep decline in confidence in residential and civil engineering contractors. This issue of the report examines what is choking construction output and the effect that the Building Safety Act may be having in that process, and potential solutions to resolve the issue. We also urge caution on what this will mean for price rises in the short-term as contractors seek to manage their order books.

As a multi-disciplinary construction consultancy, we are well placed to gather from our clients, contractors and supply chain partners some insights into future trends. In this edition of our report, we also look at the implementation of the Procurement Act (2023) and give an insight into how this might affect the industry.

But with some political turbulence, an uncertain outlook regarding tariffs and interest rates, we start by looking at the overall outlook for the economy.

Construction outlook

We were hoping that an economic report on the construction sector would have been more straightforward than usual, with some of the disruptors like domestic elections settling down into more normal patterns. However, the spectre of a global tariff war breaking out introduces an additional risk that could escalate out of control.

The UK would seem to be relatively well placed – our services sector accounts for most of our foreign income. Services are rarely tariffed, as historically it was a lot easier to trace goods moving across borders.

Often, these 'trade wars' have turned into a tit-for-tat process and it's possible that this situation could escalate dramatically. The other risk for the UK construction sector is that even if the UK wasn't directly affected by sanctions, building materials made abroad that weren't subject to a 'duty-drawback' would increase in price e.g. effectively paying the final duty cost for a tariffed USA good built into a Eurozone good and exported to the UK.

Another key concern is that the ambition of the UK government is to fund public service investment through growth, but without it, it leaves us in a precarious situation where services will need to be funded by steeper tax rises or increases in borrowing.

42%

Of our respondents believed price rises would be linked to tax rises and government policy.

The complication of 'rearmament' and a significant increase in military spending (possibly by £120bn each year) will be a big challenge to the fiscal responsibilities of the government.

The construction sector, and particularly, house building, was a focus of the government's growth agenda – making up 37% of construction output (Figure. 1). As part of that growth, there was the aim of building 300,000 new homes per year over each of the next 5 years. This was last achieved in the 1960s when 1 new house was built for every 14 people.

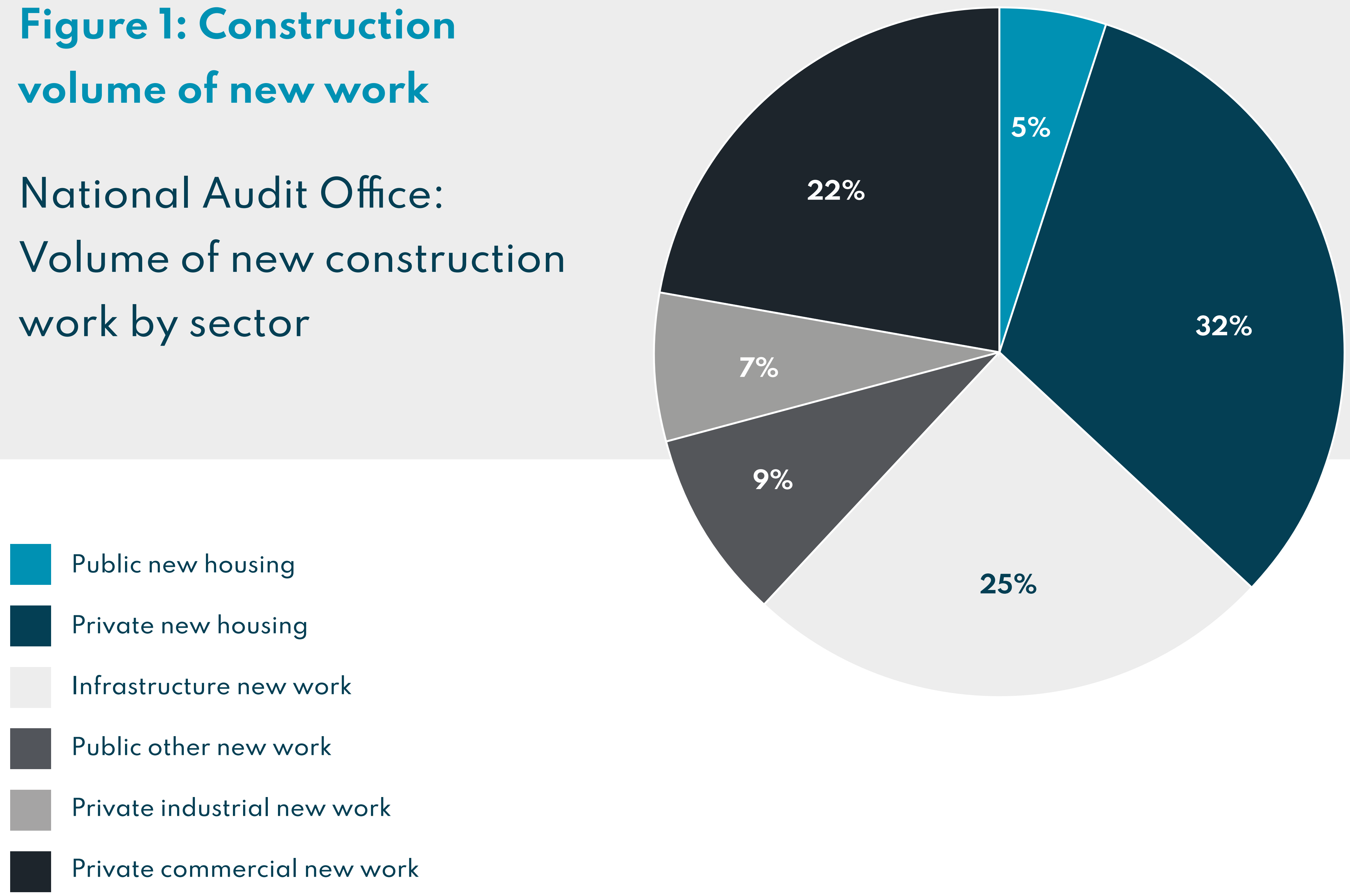
Last year we built around 220,000 or **1 house for every 43 people**. On the face of it, the economic and demographic potential to build more houses is possible, although these rates were achieved when the public sector was building c. 50% of the housing stock – today, Figure 1 would indicate it is currently under 14%.

The viability of housing schemes has been challenging with interest rate rises over the past few years, affecting sales and sale prices, while at the same time cost of construction has increased due to a variety of reasons such as inflation, sustainability and low carbon requirements and more consideration of the standards that each home needs to attain.

In terms of programme and planning, while the Labour administration has demonstrated a willingness to review and overrule planning decisions (e.g. M&S Oxford Street) a bottleneck remains in planning departments.

Figure 1: Construction volume of new work

National Audit Office: Volume of new construction work by sector



Currently, **90% of planning departments** remain under-resourced and c. 13% of those departments have less than 75% of their full complement of staff. This is in addition to the fact that the resources were reduced by 40% after 2010. In our survey carried out before Christmas, we confirmed that the industry is generally expecting prices in the market to continue to rise – 44% of respondents were expecting prices to rises between 1-3% and 53% thinking the rises will be greater than 3%.

However, we are cautious and think the industry is struggling to increase production through the impact of tight viability, interest rate uncertainty and the Building Safety Act on residential construction.

In addition, the Government has also committed to implementing the Building Safety Levy on all new residential construction projects by the end of the year, expected to add another **£2,500 to each new dwelling.**

A key issue, which is a focus in this report, and has received a lot of attention recently is the effects of the Building Safety Act and the Building Safety Regulator. The Act has brought about a great deal of change in terms of the design, design programme and approval of HRBs (higher-risk buildings). As the industry tries to adapt and cater for this legislation, there is a developing bottleneck in releasing schemes for construction.

Building Safety Act (BSA)

UK legislation enacted to improve building safety standards, particularly for high-rise residential buildings, featuring multiple 'gateway' approval stages during design and construction.

Building Safety Regulator (BSR)

Regulatory body responsible for enforcing the Building Safety Act, currently experiencing significant backlogs in project approvals.

The Procurement Act

Public procurement plays a crucial role in the UK economy, with government bodies and public sector organisations spending billions of pounds annually on goods, services and infrastructure.

Esther Corns, Director, Pick Everard, Head of Bidding

Originally due to go live on 28 October 2024, the Procurement Act (2023) was pushed back due to the general election and further postponed to allow the new Labour government time to revisit and to rewrite elements attached to the Act, such as updating the National Procurement Policy Statement (NPPS). This four-month delay proved necessary, as our survey data revealed a widespread lack of awareness and preparedness within the industry.

Conducted before the Act came into force, our survey found that 68% of respondents were unaware of how the changes would impact procurement and tendering processes. This reinforced the importance of the additional time to prepare and ensure a smoother transition before the Act was officially implemented on 24 February 2025.

Now live, the new Procurement Act has been a significant overhaul of the UK's public procurement framework. Replacing rules inherited from EU regulations, the new legislation aims to simplify processes, improve transparency, efficiency, and inclusivity.

Before the enforcement of the Procurement Act (2023), we asked: **Is your organisation aware of the changes and how they will affect procurement and tendering for your organisation?**

Yes	No
32%	68%

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Modernising procurement roles, the government hopes to create a more competitive and efficient system that benefits suppliers and contracting authorities.

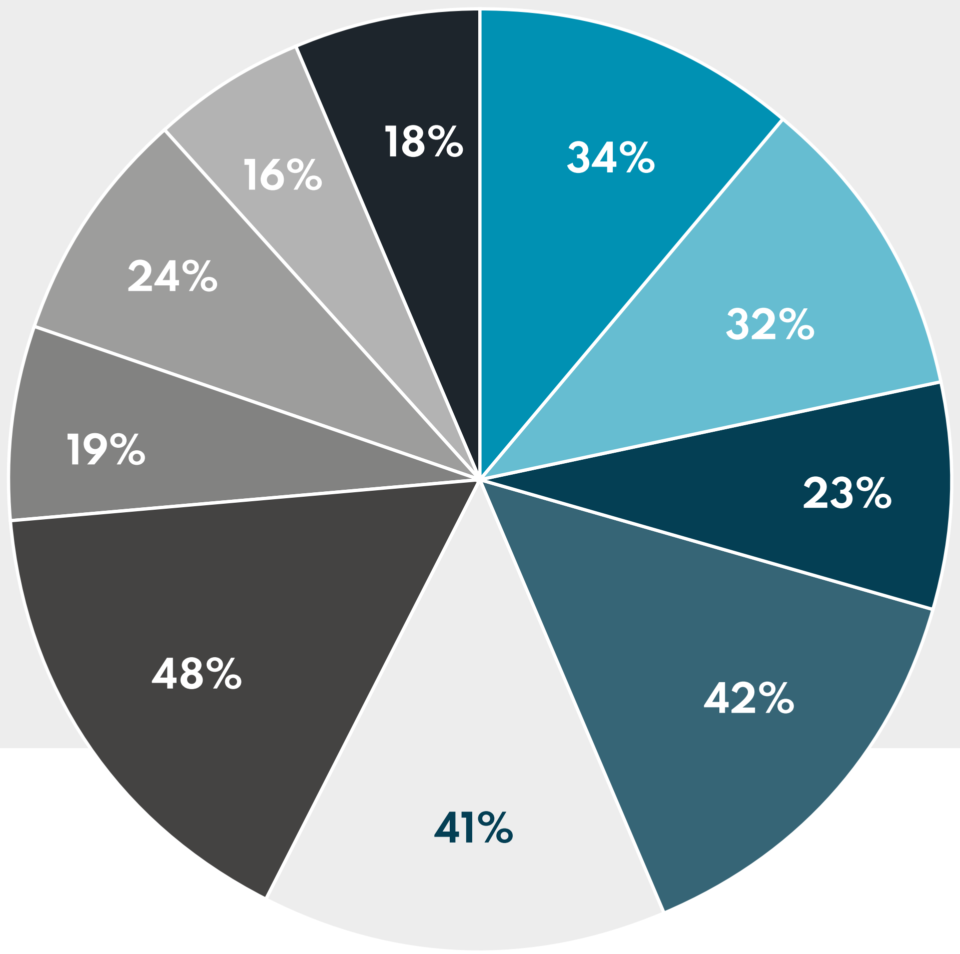
One of the key reforms of the Act is the introduction of mandatory updates and reporting throughout all stages of procurement, from pipeline planning to contract awards, feedback and overall outcomes. This was designed to increase accountability and visibility, addressing concerns that procurement decisions are often difficult to scrutinise as updates, feedback and associated information are inconsistent or not made available.

According to our survey the top three most important outcomes of the new legislation, as selected by respondents, are greater transparency and fairness (48%), ability to negotiate through procurement (42%) and improved market efficiency (41%). (Figure 2).

While these changes may introduce additional administrative burden on clients, especially those who are already experiencing resource issues, many believe the benefits to all parties will outweigh the challenges.

Figure 2: Outcomes of the Act's enforcement

What do you feel will be the biggest outcomes of the Act's enforcement?



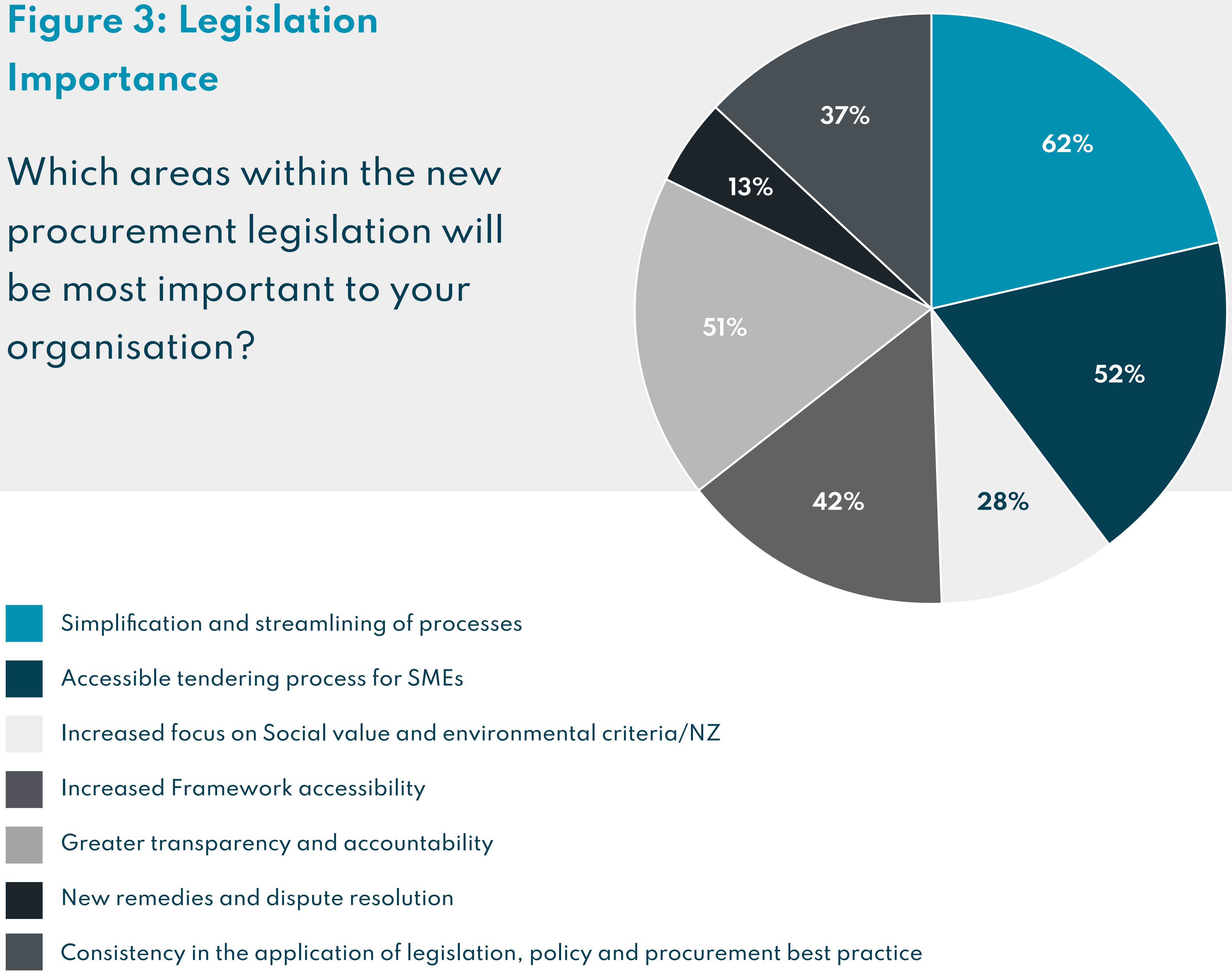
- Faster competition processes, aiding regeneration processes
- Increased focus on social value through transition to MAT
- Greater focus on the whole lifecycle of projects
- Earlier dialogue and ability to negotiate through procurement
- Improved market efficiency of procurement processes
- Fairness & Transparency
- Increased competition
- Stronger supplier diversity/inclusion
- Enhanced sustainability
- Improved risk management, due diligence and compliance

The other priority of the Procurement Act is simplifying and streamlining processes, which was voted as one of the most important outcomes to our respondent's organisations (62%), alongside improved accessibility for local suppliers and SMEs (52%).The simplification of processes, with the use of a central digital platform, will make it easier for small and medium enterprises (SMEs) to identify and compete for contracts, opening up opportunities that were previously out of reach. (Figure 3).

This shift is expected to positively impact local businesses and help stimulate local economies providing competitive rates for clients whilst also helping to deliver additional benefits to affected communities.

Figure 3: Legislation Importance

Which areas within the new procurement legislation will be most important to your organisation?



The Procurement Act's implementation will reshape how businesses interact with government procurement processes, creating opportunities and challenges. While it offers significant opportunities, especially for small businesses and local suppliers, it also presents challenges in terms of compliance, digital adaptation and increased competition.

Our survey also highlighted concerns about the Procurement Act's ability to deliver greater value for public sector operations, with more than 40% of respondents expressing doubt about its effectiveness. Over the next six to twelve months those in the industry will need to pay close attention to how the system unfolds, and the impact it will have on creating real value in the public sector.

Overall, businesses that can innovate, adapt to digital systems, and meet sustainability and ethical standards will likely thrive, while those that struggle to adjust may face difficulties navigating the evolving procurement landscape.

Do you think the new Procurement Act will provide greater value?

Yes	No
58%	42%

Obstacles to housing targets

A significant and growing issue is the Building Safety Act (BSA) and its effect on the delivery of major developments. The Construction Enquirer reported that over **90 major new build schemes were stuck with the Building Safety Regulator (BSR)**. The 12-week period for determination currently extends up to 7 months and only 2% of schemes have been determined in the promised timeframes.

The effect of the BSA, and the delays with the BSR, is adding anywhere between **12-18 months** onto the project programme.

The regulator has admitted that it has been focusing its resources on reviewing the schemes for existing buildings – e.g. changing the cladding on existing tower blocks. Meaning that new housing schemes have fallen to the back of the queue but ultimately compromises the delivery of new stock and severely hampers the construction industry.

Anecdotally, we are aware of issues within the supply chain due to the stalling of orders in the sector.

Contractors and sub-contractors that had schemes in their order book/pipeline can't start, and this creates a dangerous situation of unused capacity within the construction sector.

The end result of companies absorbing costs without income could create problems of insolvency in the short to medium term or cost recovery and price inflation in the longer term. Both would seem to be particularly unhelpful scenarios for the purposes of building houses or maintaining cost control.

In the short-term, however, we are anticipating that clients with funded approved schemes to see a cost benefit from the industry, as contractors scramble to secure their order books.

The regulator has pledged to clear a 122 project backlog by April, but with the complications of finding the resources to approve the schemes, it will be a considerable achievement if it is accomplished. There is a risk that if it does, a lot of work will be released straight into the market, creating an immediate capacity issue.

Building Safety Act

Patrick King, Director, Digitize

We spoke to Patrick King at Digitize, one of Pick Everard's supply chain partners, about the challenges facing the Building Safety Regulator and how adopting technological solutions can help the industry navigate them.

The Building Safety Act (BSA) has introduced several challenges beyond the bottleneck it is currently creating. This bottleneck has been exacerbated by a shortage of qualified fire engineers, project managers, and designers who fully understand their new roles and responsibilities.

Additionally, the limited availability of approved inspectors is causing delays in the approval process, particularly for Gateway Two and Three submissions. Clearly, efficiency in preparing, reviewing, and certifying applications and buildings is crucial to overcoming these challenges.

Gateway Requirements

Mandatory approval stages introduced by the Building Safety Act, adding 6-12 months to project timelines according to the document.

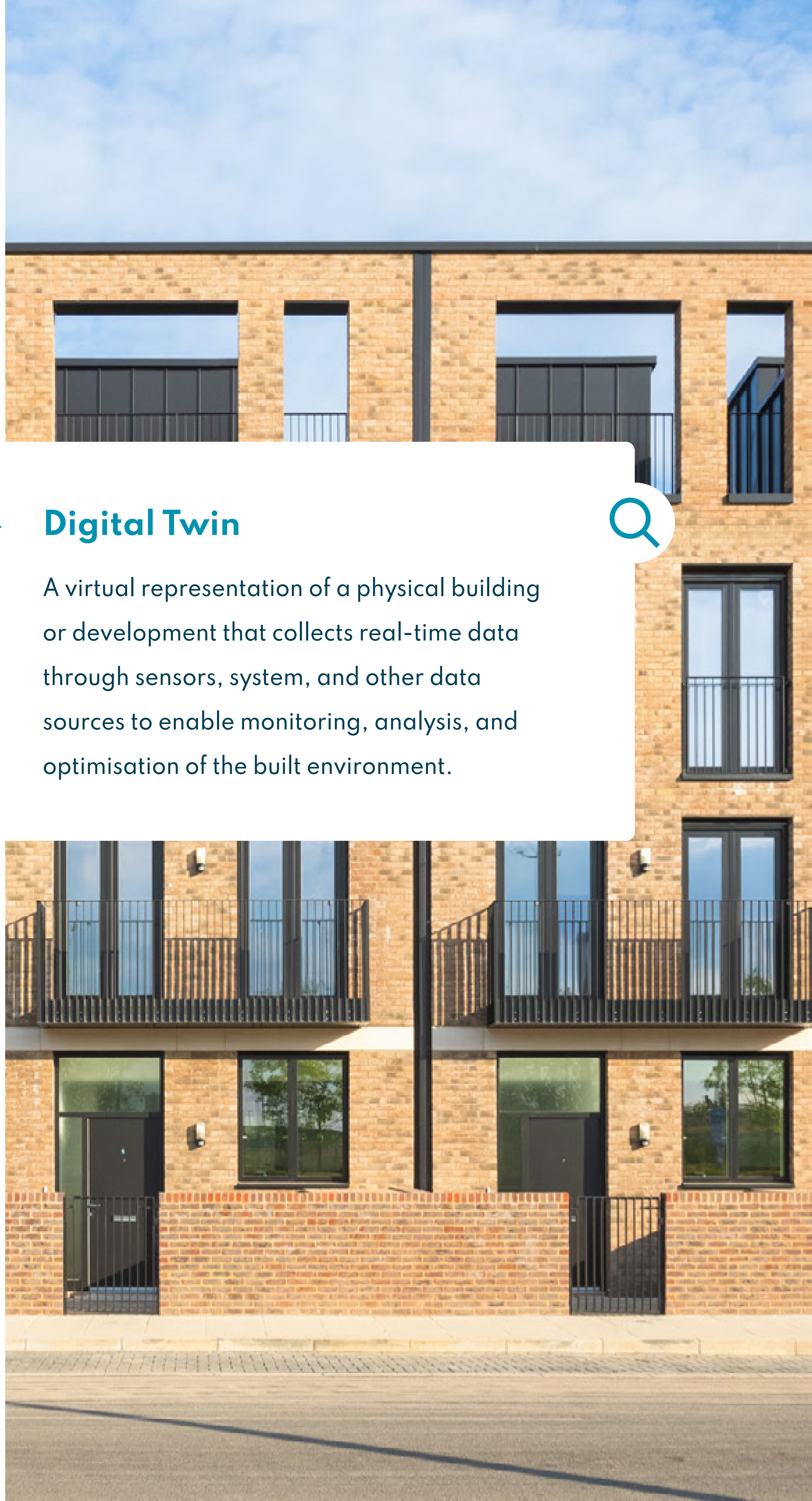
The role of digital twins and AI in meeting housing delivery targets

Digital Twin and AI technologies offer transformative potential in addressing the UK's housing delivery challenges. These technologies could revolutionise the entire development process, from planning through to construction and ongoing building management.

In the planning system, Digital Twins/GIS Mapping can create virtual environments for testing development scenarios, enabling automated compliance checking and real-time impact assessments. AI-powered systems could transform planning departments by automating application validation, recognising patterns from previously approved schemes, and optimising resource allocation. This technological support is crucial given that only 1 in 10 council planning departments are currently fully staffed.

For Building Safety Act compliance, Digital Twins provide a comprehensive solution for managing the additional gateway requirements that are currently adding 6-12 months to project timelines. These platforms can automate documentation preparation, enable real-time safety monitoring, and streamline compliance tracking. This integration could significantly reduce manual checking requirements while enhancing risk management and safety standards.

In construction delivery, Digital Twin technology aids project management capabilities to optimise resource allocation, and quality assurance tracking. These systems can help address the persistent skills gap by creating virtual training environments, capturing knowledge from experienced staff, and enabling remote expertise sharing. This technological support is particularly valuable given the industry's ongoing challenges with competency requirements and resource constraints.



Digital Twin

A virtual representation of a physical building or development that collects real-time data through sensors, system, and other data sources to enable monitoring, analysis, and optimisation of the built environment.

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Implementation of these technologies requires a structured approach. Near-term actions should focus on pilot programs in leading authorities, comprehensive training initiatives by government, training bodies like Construction Industry Training Board (CITB), Chartered Institute of Building (CIOB), and development of industry data standards. The long-term vision should encompass a fully integrated planning system with automated compliance processes and real-time performance monitoring. However, successful implementation faces challenges including initial investment costs, training requirements, and the need for cultural change within the industry.

The government has a crucial role in enabling this technological transformation through setting standards, providing funding support, establishing training programmes, and creating an appropriate policy framework, as the Prime Minister stated: "Artificial Intelligence will drive incredible change in our country".

While Digital Twins and AI offer significant potential to help achieve the housing delivery target by reducing processing times, improving resource efficiency, and enhancing safety compliance, success requires substantial investment in digital infrastructure, industry-wide adoption of new technologies, comprehensive training programs, and supportive policy frameworks. This technological revolution, combined with appropriate training and role creation, could provide the foundation for getting the UK's housing delivery back on track while ensuring high standards of safety and quality.

GIS Mapping

Geographic Information System technology that integrates with Digital Twins to create spatial representation of developments and their environment.

AI-powered Systems

Artificial intelligence solutions that can transform planning processes through automated validation, pattern recognition, and resource optimisation.

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