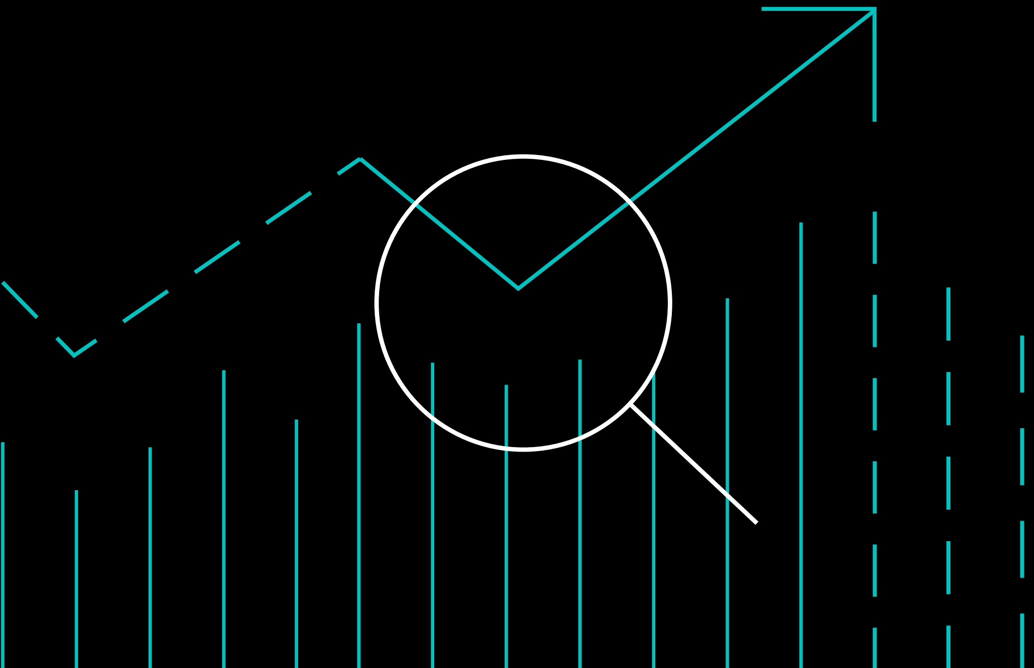
exigere

Q4 2025 Market Update



2025 has proven to be a year of sluggish GDP growth.

Opportunities exist to drive spades into the ground and kickstart the economy, but government must address ongoing industry concerns – not least the growing pains of the Building Safety Act – and deliver workable policy in the delayed Autumn Budget, if UK plc is to remain a compelling investment destination.

The year to date has been one of economic stagnation, with just 0.3% GDP growth in the three months to August.

Inflation stubbornly refuses to drop to the Bank of England's 2% target: the Consumer Prices Index (CPI) rose 3.8% in the 12 months to September 2025, unchanged from August. These September and August 2025 figures were the joint-highest recorded since January 2024, when inflation was 4%.

Price growth was driven by April's introduction of higher employer taxes, an increase in the minimum wage, and jumps in utilities prices.

It has undoubtedly been a tough time for both employers and employees after several years of inflation. However, we are also tracking positive indicators for the year ahead.

> The UK, despite its challenges, offers a sense of relative stability when viewed in contrast to the voter and sentiment swings taking place in other high-GDP Western nations in 2025.

France and Germany, for example, are experiencing significant political volatility and voter discontent around policy. Meanwhile, the US remains in almost daily political and economic flux.

And while projected GDP increases are modest – the OECD anticipates 1.4% for 2025, and 1.0% for 2026 – this still places the UK above the combined Euro member states, France, Germany and Japan in growth expectations.

The UK's position outside of the EU has allowed it to carve out favourable trade export deals with the US this summer. The Economic Prosperity Deal cut tariffs on UK goods including cars and metals being sold to the US from the end of July 2025.

The delayed Autumn Budget 2025 will hopefully bring much-needed clarity to industry and investors around government spending and taxation for 2026, ending months of speculation around mooted changes. These include updates to property taxes, housing funding and business rates. Proposed uplifts to landfill levies could have a significant impact on the construction sector.

Looking closer to industry, contractor sentiment is shifting as we head into winter, with inflation continuing to moderate across both labour and materials, and capacity materialising as reduced pipelines become evident. For example, our Q3 MEP Market Report found that MEP contractors expected a rise in turnover for FY2026. They also expect inflation to moderate to normal levels in comparison to 2023 and 2024.

Headline-grabbing policy moves in early 2025, such as Trump's tariffs, did not ultimately prove to have significantly impacted the market this summer. However, just a few months on, escalating trade tensions between China and the US over rare earths – an export which has implications across key industrial, manufacturing, technology and retail sectors – has introduced fresh volatility, which may lead to further uncertainty and impact the outlook.

This quarter, we are taking an in-depth look at two sectors exposed to these wider macroeconomic forces: the London residential market, and offices in the capital.

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SECTOR OUTLOOK

Residential

The delivery of 1.5 million new homes in England – 88,000 a year in the capital – by the end of Labour's first term was an election commitment. Over a year in, this promise simply cannot be fulfilled. In London, just 2,158 private homes began construction during H1 2025, 4.9% of the government's 44,000 target for the period.

There were also few signs of momentum. The second quarter's output was worse than Q1, with just 731 new starts. Slow planning processes, rising costs linked to temporary accommodation, and delays created by the Building Safety Act gateway requirements are pushing developers to the brink.

Orwell Court - Hackney Council - residential new build

Cash-strapped councils are spending billions on hotels, Airbnbs and hostels

London has more households in temporary accommodation than the rest of England combined. Its use is at historic highs. This has created an untenable situation for London councils, crippling housebuilding budgets and council balance sheets. London boroughs collectively spent £4 million a day (£1.4 billion annually) on temporary accommodation in 2024-2025.

Temporary accommodation "represents the single biggest risk to boroughs' finances," London Councils' Executive Member for Housing & Regeneration Cllr Grace Williams said in June. She called for "urgent national policy action [and] investing far more in affordable housing."

The call from councils for immediate state-level regulatory intervention and investment is backed by industry. In September, Rob Perrins, the CEO of London's largest housebuilder Berkeley said "London's problem is simple: viability. It has become too expensive to build new homes there."

There are issues influencing sector viability outside government's control, not least global market forces driving a stubbornly elevated cost of capital and debt financing. However, there are powerful levers Westminster can pull: regulatory reform and smart assignment of government levies, and funding strategies that listen to what industry is asking for.

Berkeley's Perrins called for government to reform the Community Infrastructure Levy so these funds can be spent on social housing, and for planners and regulators to understand the time and social costs of current slow decision making.

Private developers and local councils are key to unlocking the social and affordable housing market, but they both need positive, crystal-clear central government signals and for the finances to stack up.

Gateway 2 problems persist, as Gateway 3 challenges loom

The adage that time is money rings true. Project and programme delays caused by the introduction of the 2022 Building Safety Act, and the attendant Building Safety Regulator, are well documented. These, alongside viability and funding constraints, represent one of the biggest threats to progress in Labour's housebuilding ambitions.

Just 10.7% of Gateway 2 applications for new build developments have been approved since October 2023, according to Savills. Approvals are taking 36 weeks on average. In this operating environment, it is not hard to understand why planning approvals are at historic lows.

Once projects eventually pass Gateway 2 and achieve completion, there is another challenge to be surmounted: meeting the as-yet largely untested demands of Gateway 3. This is the stage at which completed housing must be assessed by the BSR before it can be occupied. Developers this summer described sign-offs on completed projects as "glacial". Trade press reported that thousands of completed new build homes are sitting unoccupied as a result.

The ensuing financial pressure is threatening to push developers into insolvency, compounding the issue.

Industry willingness to invest must be nurtured by a committed government

There were signs of positive change this summer. The government committed £39 billion to social and affordable housebuilding over 10 years, with £11.7 billion allocated to London.

A 10-year rent settlement was also agreed, giving social landlords greater certainty in their future income stream. From April 2026-2036, they will be able to increase rents annually at CPI + 1%.

By late October, government had amended the in-progress Planning and Infrastructure Bill to give central government greater powers to 'call-in' housing projects, preventing local councils from outright refusing the projects. Powers to stop existing projects' planning permissions timing out have also been added to the Bill, which is currently making its way through parliament.

Talk at property industry summits this autumn was of cautious optimism. Despite the headwinds, London continues to outperform other major global cities in indices of the best places to live and work. There is a youthful, international, dynamic workforce that wants to be here, supporting growth.

London compared to New York, Paris and Tokyo

Source: Greater London Authority

	LONDON	NEW YORK	PARIS	TOKYO
Total surface area (km²)	1,572	1,215[2] (New York City core)	105 (Département)	2,190[3] (Tokyo Metropolis)
Percent green space	33%	27%	10%	7.5%
Global Cities Index ranking (2025)	2	1	3	9
Population (million)	8.94	City: 8.8 (New York City core)	7.1 (Métropole du Grand Paris)	37.0
Median age	35.9	38[7] (2024)	36[8] (2024)	49.5[9] (2024)
Foreign-born population (%)	38.5	36.4	19.8	4.1
Gross domestic product (£bn; 2023)	593	698 (New York City core)	157 (Département)	639 (Tokyo Metropolis)
Unemployment rate (latest available; %)	6.5	5.1[12]	7.0[13]	2.6[14]
Property Price Index (2025)	18.6	14.2	16.9	16.0
City Happiness Index ranking (2025)	31	17	13	42

Structural, economic and regulatory barriers on housebuilding drag on the capital's productivity. Strong productivity in a thriving, desirable capital is essential to UK GDP growth. But with a rising population subject to ongoing inflation, it is becoming harder for people to afford to live and work in London. Greater London Authority cost of living data found 26% of Londoners reported difficulty paying rent or mortgage payments in early 2025, up from 21% in 2022.

The chorus of industry, local councils and the electorate calling for change has pushed housing high up the central government and national media agenda. This pressure is hard to ignore.

Note: Given the different geographical definitions available for each city, a strict and harmonised comparison is very difficult. Where possible, the boundary definition associated with the statistical figures corresponding to a city is provided.

> The government appears to be listening and is working to reverse decades of underinvestment in social and affordable housing. Making the Building Safety Act work – either through reform or repair of the regulator – is the next, vital step.

This will help unlock Labour's ambitious pledges, which continue to arrive in the face of the challenges. Housing Secretary Steve Reed announced plans for three new towns to begin construction before the end of the government's term in 2030, each with at least 10,000 homes, at the end of September. Crews Hill in North London has been identified as one of the most promising sites.

SECTOR OUTLOOK

Offices

Housing still has deep knots to untangle, but the office market has moved beyond the exodus it experienced starting in March 2020. Five years on, many investors in the capital have shifted from 'office curious' to 'office serious' this summer.

Full time back-to-office mandates which began in 2024 intensified in 2025, with major employers and the financial and legal services sectors in particular requiring staff in the office five days a week.

These top-tier businesses require more Grade A space – and fast. As a result, transaction volume over 50,000 sq ft was the highest recorded since H1 2019 in Q2 2025. The number of transactions over 100,000 sq ft hit its highest level since 2017. The City and the West End are performing particularly well, with single, big-ticket transactions driving this.

Confident pre-let deals also suggest the return to office is for the long term: pre-lets made up 30% of total demand in H1 2025. In the financial district, global investment manager Squarepoint pre-let space in J.P. Morgan's new office building, due for completion in 2028. In the West End, another pre-let (McDermott Will & Emery's exchange on Lazari's 7 Brook Street) was a further boost to sector confidence.

London is outperforming other global business hubs with the rental prices it is commanding, including the rest of Europe and New York. New projects attracting and stimulating investment in the sector are prioritising location, best-in-class sustainability standards, public realm benefits and occupier wellbeing. The 250,000 sq ft Row One, for example, for which exigere is cost consultant, targets NABERS UK 5* and BREEAM Outstanding accreditations on the Thames riverbank at Bankside. It will include outdoors space on all 11 storeys, retail and open public space. Work begins in 2026.

Row One - Stanhope - office new build

Refurbishments, meanwhile, are about extending and enhancing the life of still-viable buildings, and transforming them into the low-carbon, Grade A asset top employers want. Many occupiers are choosing to stay, rather than go.

We are now starting to refurbish buildings built in the 2000s, which have strong bones that can be more easily refurbished to current standards.

The refurbishment of the 780,000 sq ft 1 Angel Lane in the City is an example: a major landlord refurbishment delivering upgrades to MEP systems, reception, lift lobbies, WCs, end-of-trip facilities for those commuting by foot or bike, and external amenities.

1 Angel Lane - Union Investments - office refurbishment

AI's impact starts to be felt

Offices do, however, still face some headwinds, the long-term impact of which remains to be seen.

Talk, debate and experimentation with AI has been inescapable in 2025, and its impact on workforce headcounts has caused some uncertainty in sentiment around offices. Major employers including PwC have paused their graduate development programmes as employers experiment with utilising AI to take over entry-level work.

The Big Four all cut graduate jobs between 2023-2025, some by up to 29%. Across industries, McKinsey reports job ads dropped by 38% for roles with high exposure to AI and LLMs between 2022 and 2025.

Cost of capital remains higher than desired, but institutional capital re-enters the market

Cost of capital is an ongoing issue. However, global capital does seem to be starting to flow towards this growing source of new work, whether to Grade A new builds or for refurbishments to bring existing offices up to standard ahead of the government's 2030 EPC rating deadline for commercial properties.

Institutional money is returning to the London office market, after private equity was the only story in town for two years. Institutional funds and Real Estate Investment Trust (REITs) interest indicate a growing perception of long-term stable returns in the sector.

It is important to note that this increase in activity applies mostly to Grade A office space, in prime locations. Fringe areas remain a concern, and London's overall vacancy rates remain above pre-pandemic averages. The office sector's long-range trajectory, however, is heading upwards.

Regulatory changes, and new commuting patterns will see further changes. Challenging the norm remains imperative for viability

Evolving occupancy rates are leading to re-assessments of office space and usage requirements.

In July, the British Council for Offices (BCO) published a report finding that office utilisation has stabilised at an average of 66% post-pandemic, down from the longstanding benchmark of 80% office utilisation. This equates to an effective density of 15 sq m per occupant, up from the previous 12.5 sq m.

The BCO said the revised 66% rate carries "significant implications" for office design and infrastructure planning. While escape routes are fixed by legislation at 6 sq m per occupant, services like lifts and toilets are based on assumed maximum occupancy. Among the report's recommendations are providing services via incremental modular units and mothballing floors or deactivating surplus toilets and lifts, to align operational costs with actual usage.

The City Property Association (CPA) is also questioning assumptions around what sustainable, affordable office design looks like. It has warned that the London Plan's cycle space rules for offices may unintentionally have a negative impact on scheme viability and sustainability.

CPA research found only around 14% of cycle storage is currently being used in the capital. Commuters instead are choosing on-street hire bikes or post-pandemic, are commuting from further afield, meaning they are not bringing their own bikes in to work.

Lime bikes saw an 85% increase in usage in 2024, with nearly half of Londoners aged 18-34 now using them weekly

Delivering cycle storage to London Plan standards is therefore leading to extensive areas of unused, carbon-intensive basement space, making it tougher for buildings to achieve net zero. "The costs are so high that the financial and environmental impact of unrequired space risks undermining the viability of new schemes," the CPA said.

Looking ahead, a ban on upwards-only rent reviews in leases of commercial property in England and Wales has also been proposed by UK government. There is concern that this could make investment harder as it removes certainty of returns, particularly for investors requiring long-dated, stable returns.

Considering the shifts in the way people commute and work, we must continue to challenge how we as an industry develop, cost, design and build offices. New developments must be aligned with evolving usage patterns and occupancy levels if they are to be financially viable.

The sector must offer stable, thought-out returns – backed with well-thought-out regulation from government – if London offices are to remain competitive with alternative investment opportunities.

Folgate Building - CLI Dartriver - office refurbishment ©Paul Riddle

Infrastructure

It feels like a confident time for infrastructure. In June, Labour announced a 10-year infrastructure strategy, bringing welcome guidance for industry. £725 billion of investment was confirmed across sectors including advanced manufacturing, clean energy, the creative industries, defence, life sciences and financial services.

This long-term plan was also backed up with confirmation of shorter-term spending allocations, including £14.2 billion for new nuclear project Sizewell C, £15.6 billion for transport projects, and £9 billion for maintenance work on health, education and justice estates in 2025-26.

Projects which facilitate collaboration between industry, academia, and government are emerging. For example, exigere is advising on Berkeley Green, a 600,000 sq ft science new build project in Gloucestershire. A brownfield site is set to be redeveloped to create a world-class hub for nuclear and clean energy research and development: the scheme will provide state-of-the-art laboratories, office and manufacturing space, and education and training facilities.


Berkeley Green - Chiltern Vital Group - science new build

A collaborative approach between state, industry and the science sectors, to create projects with multiple outputs, is proving important to getting projects past proposals and into construction. Given the cost of new infrastructure, questions remain over whether isolated infrastructure projects are viable, and when and how they should be built. Some sectors lack a cohesive programme of work, and there is still the question of how sufficient skilled labour will be sourced to build these wide-ranging projects.

However, as BCIS commented at the time, "it is no use waiting for high materials costs and labour shortages to be resolved. These are long-term problems, and waiting for the markets to brighten is only going to stall momentum on major initiatives."

Contractor sentiment and TPI

The drop-off in order books is generally reflected by a decreasing pipeline, driven by a prolonged lack of investment, we are seeing that competitiveness and hunger from the supply chain, not seen for some time, has returned. Now is a good time to procure.

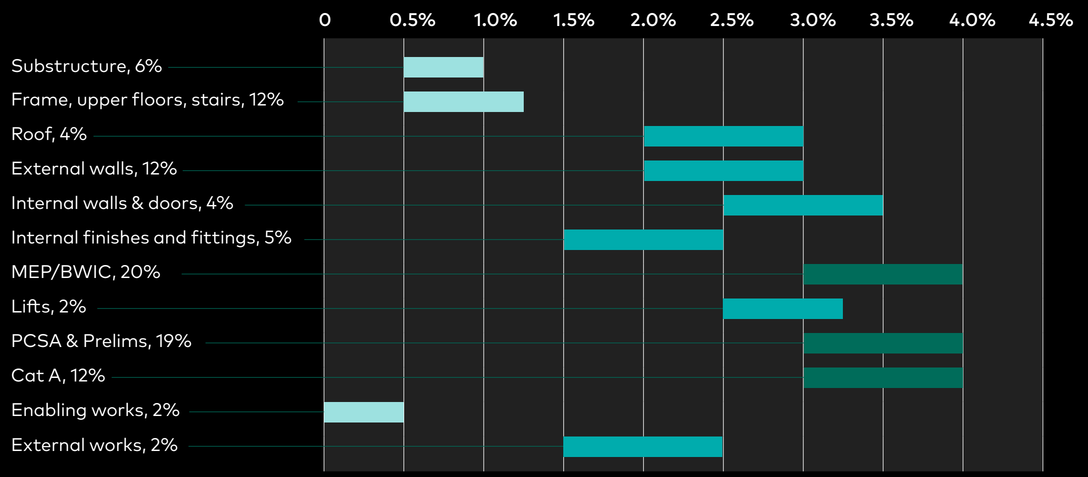
However, contractor sentiment does vary between contractors, markets and project size and complexity. Right now, Tier 1 contractors are still feeling relatively robust; there is capacity in the earlier trades, but the majority are still busy, with order books filled in the near to medium term.

Our TPI predictions

December : December change (%)

SENSITIVITY RANGE	2023	2024	2025	2026	2027	2028
LOW			1.5%	1.0%	1.5%	2.0%
BALANCED	4.0%	2.5%	2.75%	3.0%	3.75%	3.5%
HIGH			3.0%	5.0%	6.0%	6.0%

Our package TPI 2025



In contrast, many Tier 2/3 contractors are hungry for work. As a result, we are beginning to see some strong swings in tender prices and volatile pricing.

Construction insolvencies declined in 2025 – a positive indicator of a stabilising market – but they do continue. The total number of construction firms becoming insolvent in the 12 months to the end of August 2025 was 3,934, a 9.0% decrease on the 4,322 insolvencies recorded in the year to August 2024.

There is therefore an ongoing flight to quality of contractor, driven by the need for reassurance that contractors will remain viable and able to fulfil their contract.

History suggests markets tend to bounce back sharply after downturns and periods of flatlining. Late 2025 and into 2026 may prove to be an opportune moment to buy and invest – in projects, people and resources. Investing in people and refining processes and behaviours now means industry will be ready when issues improve.

With continued market uncertainty, our Q4 2025 forecasts of TPI have stabilised and moderated, and we have seen marginally reduced levels of inflation compared with those predicted for 2025. As the market takes longer to return than expected, we are forecasting reduced TPI for 2026.

Conclusion

From polling the industry, talking with partners and attending autumn conferences and events, we have noticed a sense of muted optimism. This cautious positivity is focused on looking to the horizon, beyond short-term volatility.

Nevertheless, these short-term problems, which we have explored in this market update, must be overcome for such optimism to be valid.

Government and regulators can either be barriers or enablers of progress: responsive, clear policy that answers industry's needs and provides reassurance to capital markets is key to releasing the market.

The public has been promised more homes, thriving places to live and work, and better infrastructure by government. For housing, this demands that Westminster resolve its regulatory and planning issues. For the office and infrastructure markets, this requires the government to build a safe, smart, predictable place to land for global capital.

The construction industry has collectively become used to operating amidst broader macroeconomic volatility.

The standout performers are those that can deliver certainty in this environment: doing what they say they will, on time, on budget, and in close collaboration with project and programme partners. Schemes that get the fundamentals of design and procurement right will be able to provide the certainty and reassurance investors need.

While conversation in the near-term centres on resolving regulatory issues and riding out international trade bargaining, we must also keep an eye on the longer-term and the prospect of regulatory issues improving. Once BSA problems are solved – and we believe the government is keen to do so – we may discover another problem: a scramble for resources. Additional labour, materials and head office talent will all need to be sourced once bottlenecks are cleared.

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