



# Construction Market Update: Late 2025 to Early 2026 Insights



**Gallagher**

Insurance | Risk Management | Consulting

## Executive Summary

As 2025 winds down, the US construction sector stands at a complex intersection of opportunity and challenge. Economic uncertainty and elevated interest rates have dampened some private construction segments, particularly commercial office, while federal investments through the IIJA, CHIPS Act and Inflation Reduction Act continue to fuel momentum in infrastructure, manufacturing and clean energy projects.

Persistent labor shortages, inflationary pressures and supply chain disruption remain central concerns, but forward-thinking contractors are leveraging digital transformation, modular building techniques and workforce development to drive productivity and project resilience. Evolving regulations are also reshaping how projects are financed, permitted and delivered.

Looking ahead to 2026, owners and project leaders must maintain agility. Strategic procurement, digital investment and strong labor partnerships are essential to navigating volatility and securing long-term success in a still-evolving market.

### Industry overview and economic environment

The construction industry entered 2025 with cautious optimism. While the broader economy faces headwinds, including elevated interest rates and lingering inflation, some regions and sectors of the construction market have outperformed expectations.

Public infrastructure remains a bright spot. The IIJA continues to inject capital into roads, bridges, water systems and broadband expansion since being signed into law in November 2021. According to the US Department of Transportation's August 2025 IIJA Financial Summary, approximately \$177.5 billion in outlays have been made to date, with an additional \$431.8 billion available for future infrastructure projects through September 2026.<sup>1</sup>

Simultaneously, the CHIPS Act and Inflation Reduction Act have catalyzed major activity in semiconductor, clean energy and battery manufacturing facilities, particularly across the Midwest, Southeast and Southwest.

Private construction, however, is seeing mixed trends. Commercial office space remains challenged due to hybrid work, high vacancies and shifting urban demand. Conversely, industrial construction, especially logistics, distribution and data centers, continue to boom, bolstered by e-commerce and data center demand. Residential construction has begun to rebound slightly in select markets, though affordability and lending constraints remain limiting factors.

### Labor market, workforce and productivity

Labor shortages continue to impact the industry. The Associated General Contractors (AGC) reports that 83% of firms with open positions for craft workers report the same or greater difficulty in hiring than a year ago, despite wage growth outpacing the broader private sector.<sup>2</sup> This gap is compounded by an aging workforce, with one in five construction workers over the age of 55, and limited inflow from younger generations.

Firms are responding through increased investment in training, greater use of modular and prefabricated construction, and an acceleration in the adoption of construction technology, including AI-powered planning tools, robotics and digital twins. Construction firms investing in digital project delivery have seen some productivity improvements, along with improved safety and scheduling predictability.

Union influence is also resurging, especially on megaprojects tied to federal funding with labor and domestic content stipulations. Project labor agreements (PLAs) are increasingly common, particularly in the Northeast, California and large-scale infrastructure work. Owners should account for these dynamics in workforce planning and labor relations strategy.

## Materials pricing, supply chain and procurement

Material pricing volatility has moderated compared to the 2021-2023 peaks, but supply chain disruption and procurement complexity remain. According to the Producer Price Index (PPI), prices for key inputs such as steel and concrete are up 3%-5% year-over-year in 2025, with regional variability depending on logistics, tariffs and local demand.<sup>3</sup>

Lead times for electrical equipment and HVAC systems remain extended in some areas, driven by a mix of global supply constraints and rising demand for high-performance and energy-efficient systems. Contractors and owners continue to mitigate these challenges through advanced purchasing strategies, direct sourcing relationships and design standardization.

## Regulatory and environmental considerations

The regulatory landscape is shifting rapidly. Local, state and federal requirements are expanding around carbon emissions, energy efficiency and environmental permitting. New York, California and Washington are among the states enforcing stricter embodied carbon reporting and green building mandates, especially on publicly funded projects.<sup>4</sup>

Social responsibility considerations are also increasingly influencing construction funding and project approval, particularly for institutional investors and large developers. Projects that fail to align with these regulations may face higher financing costs or extended timelines for approval.

## Market outlook

Despite turbulence, the construction market outlook remains cautiously optimistic for the beginning of 2026. Contractors report stable backlogs averaging 8.5 months, according to ABC's Construction Backlog Indicator,<sup>5</sup> and confidence is improving in industrial, infrastructure and select residential sectors. That said, risk management, workforce planning and disciplined project controls remain critical as volatility persists.

Owners and project leaders should emphasize:

- Strategic sourcing and procurement resilience
- Accelerated digital adoption and training
- Forward-looking labor partnerships
- Social responsibility integration and regulatory alignment

These strategies will better position stakeholders to navigate ongoing disruption and capture the upside of long-term infrastructure and development trends.





## Claims, Loss and Litigation Trends

Construction claim frequency remained consistent throughout the first half of 2025, but loss severity continues to escalate, driven by several factors: increasingly complex project designs, extreme weather events and evolving legal dynamics. The impact is especially pronounced in general liability, builders' risk and professional liability lines. Below are key trends shaping the claims and litigation landscape:

### 1. Fire and water damage losses

- Water intrusion remains a top driver of large losses, particularly in multi-family, hospitality and wrap-up projects. Damage often stems from improperly installed or untested systems, including HVAC, plumbing and fire suppression systems.
- Fire-related claims are on the rise, with notable increases in losses from lithium-ion battery fires, particularly in temporary tools and equipment used on jobsites. Electrical faults in temporary power setups have also contributed to significant claims.
- Hot work, especially in renovation and retrofit projects, continues to represent a disproportionately high share of fire losses, despite widespread adoption of fire watch procedures and permits.

### 2. Large loss trends

- Mega-claims (\$5 million and above) have risen in both property and liability lines. These are frequently tied to alleged design defects, structural failures or multi-trade coordination issues during the course of construction.
- An increase in construction defect litigation has been observed, driven by both regulatory and judicial developments:
  - » Some states have extended statutes of repose or broadened the legal definition of an “occurrence,” opening the door to more lawsuits.<sup>6</sup>
  - » Insurers report that defects related to building envelopes, moisture control and geotechnical stability are among the most litigated issues.

### 3. Social inflation and jury awards

- Large losses are occurring with greater frequency.<sup>7</sup>
- Plaintiff attorneys are employing advanced litigation tactics, including “the reptile theory,” anchoring strategies and aggressive use of social media to frame contractor negligence.
- These dynamics are contributing to social inflation, increased litigation costs and claim values that outpace economic inflation, making it harder for insurers to predict and price risk accurately.



## Insurance Market Trends

The insurance environment of 2025 has reflected a nuanced mix of rate stabilization, coverage segmentation and strategic recalibration. While certain lines (notably property/builder's risk) remain competitive, others, particularly excess liability and costs, are not softening. Non-CAT exposures are tightening due to continued inflationary pressure, climate volatility and rising litigation severity.

### Property and builder's risk

#### Rate trends

- Single-layer property programs saw median rate decreases of 5%-7%, especially in non-CAT zones with favorable loss histories.
- Shared and layered property placements experienced less moderate movement, with a 7%-10% decrease change on average, depending on construction type and CAT aggregation.

#### Valuation challenges

- Underinsurance remains a top concern. Elevated material and labor costs have rendered many insured property values outdated, prompting valuation disputes and potential covenant breaches with lenders.
- Carriers require updated appraisals and tighter terms around agreed value clauses, replacement cost and inflation guards.

#### Builder's risk dynamics

- Capacity remains stable and has room for expansion in most US regions, but insurers in CAT-prone areas (Florida, Gulf Coast, NYC Metro, etc.) continue to require special deductibles and sub-limits to mitigate potential losses. There are alternative markets that can support the missing capacity for catastrophe perils on a project, but that capacity is limited and can drive up the total cost of the project.<sup>8</sup>
- Top loss drivers include water damage, fire, theft of high-value materials and structural failures, particularly in wood-framed, mass timber and renewables projects.





## General liability and excess

### Rate movements

- Premium rates remain in the low-to-mid single rates (+1 to +10 rate). Underwriting remains stringent, particularly for high-risk industries like construction.
- Excess and umbrella layers saw increases of 8%-15%.<sup>9</sup>
- Loss sensitive programs — A construction company with a well-managed loss-sensitive program is likely to face a smaller rate hike than one with a guaranteed cost program. However, this depends on the company's specific loss experience. A loss-sensitive program requires the insured to assume greater risk in exchange for potential savings, while a guaranteed cost program locks in a fixed premium.

### Social inflation and litigation pressure

- “Nuclear verdicts” (awards >\$10 million) are increasingly common in catastrophic injury and fatality cases.<sup>10</sup>
- Expanded interpretations of contractor liability and plaintiff-friendly jury pools are driving up claims’ severity and reserve requirements.

### Underwriting focus

- Carriers are placing greater scrutiny on:
  - » Subcontractor management
  - » Written safety protocols
  - » Incident reviews (“hot washes”)
  - » Return-to-work programs
- Firms with strong documentation, training and QA/QC oversight may benefit from preferred pricing or retention terms.

### Strategic responses

- Bundling primary and excess programs under a single carrier can offer pricing leverage and faster claims resolution.
- Contractors should maintain market flexibility, engaging multiple carrier relationships across London, Bermuda and US domestic markets.



## Auto liability

### Rate trends

- Expect continued upward pressure on premium rates in the +7% to +15% range. Businesses with fleets of any size — especially those with hired and non-owned auto (HNOA) exposure — must demonstrate best-in-class safety protocols, including a relentless focus on driver safety programs, telematics and careful fleet management.
- Rate hikes reflect continued loss severity trends, including:
  - » Increased third-party bodily injury
  - » Distracted driving
  - » Higher repair costs due to vehicle complexity

### Risk mitigation

- Fleet-heavy contractors are investing in:
  - » Telematics and GPS tracking
  - » Driver behavior monitoring
  - » Dashcams and video event recorders
- Carriers increasingly tie pricing to safety scorecard performance and driver training compliance.

## Professional liability/Errors & Omissions

### Market tightening

- Most carriers are planning for a single-digit rate increase, especially for design build.
- In the architects and engineers sector, the challenging claims landscape means that the softening of the market is not quite as clear-cut, with most renewal rates anticipated to stay flat — although there are some pockets of small decrease for some firms.<sup>11</sup>
- Self-insured retentions (SIRs) are rising, with some accounts seeing minimum SIRs of 0.5% of gross revenue.

### Claims severity

- Structural engineering, civil sites and MEP errors continue to drive high-dollar losses.
- Rising construction costs are amplifying rework expenses, inflating damages in litigation.

### Risk management recommendations

- Contractors and design professionals are encouraged to:
  - » Maintain clear scopes of work
  - » Implement QA/QC protocols
  - » Define design responsibilities in subcontracts
  - » Purchase protective professional indemnity policies in layered structures when required

# Strategic Recommendations for Construction Leaders in Q4 of 2025 and H1 2026

Considering persistent cost volatility, increasing litigation, labor constraints and insurance tightening, construction firms must adopt a strategic, risk-informed operating model.

## 1. Strengthening risk management protocols

### Safety culture and documentation

- Reinforce site safety training by leveraging behavioral insights, real-time feedback and emerging technologies (e.g., wearables and geofencing). OSHA cites that over 60% of construction fatalities in 2024 stemmed from preventable causes like falls and struck-by incidents.<sup>12</sup>
- Maintain clear documentation of safety practices and incident investigations. This data supports favorable underwriting and can defend against liability claims.<sup>13</sup>

### Subcontractor oversight

- Use formal prequalification tools, enforce clear scopes of work and track subcontractor safety and claims histories. Subcontractor-caused incidents account for 30%-40% of large loss GL claims, according to recent Beazley research.<sup>14</sup>

### Predictive risk prevention

- Implement AI-powered analytics tools that flag patterns tied to near misses, high-risk crews or change-order-heavy projects. Firms using predictive analytics have reduced incidents by up to 20%, per FMI Corp.<sup>15</sup>

## 2. Optimize insurance program design

### Bundle and streamline coverage

- Consider bundling GL and excess liability or property and builder's risk where possible. This can reduce coverage gaps, improve claims coordination and increase leverage during renewals.

### Diversify carrier access

- US contractors should build strategic relationships with London, Bermuda and domestic specialty markets to avoid overexposure to single-market shifts and ensure continuity of capacity, particularly in distressed sectors.<sup>16</sup>

### Update valuations proactively

- With construction costs still 15%-20% above 2019 levels,<sup>17</sup> outdated valuations pose major underinsurance and covenant risks. Use third-party appraisals to validate replacement costs and satisfy lender and insurer requirements.

## 3. Invest in technology with embedded risk controls

### AI, BIM and automation

- Adopt AI and machine learning tools for estimating, scheduling and QC/QA inspections, but ensure proper model governance, training protocols and contractual review of liability issues related to tech-enabled errors.

### Cyber hygiene and resilience

- Despite limited standalone cyber liability uptake in construction, firms should prioritize:
  - » Multi-factor authentication
  - » Endpoint monitoring
  - » Regular data backups and recovery drills
- Nearly 40% of construction firms experienced a ransomware attempt in the past 18 months.<sup>18</sup>



## 4. Prioritize mental health and workforce wellbeing

### Mental health integration

- Implement Mental Health First Aider (MHFA) programs, post-incident debriefs with mental health support and access to counseling via employee assistance programs (EAPs). Firms with integrated wellness programs saw lower injury frequency and improved retention.

### Leadership buy-in

- Have senior executives sponsor mental health initiatives and integrate psychological safety into safety KPIs. Visible leadership commitment is critical to cultural change.

### Monitor and adapt

- Use anonymous surveys, wearables or fatigue detection systems to monitor workforce stress levels. Adjust site conditions, shift durations and break protocols as needed.

## 5. Align with social responsibility standards

### Sustainable and resilient design

- Adopt low-carbon materials, prefabrication and climate-resilient design principles. Firms using such practices report improved bid competitiveness and risk scoring with insurers and lenders.<sup>19</sup>

### Social responsibility and governance

- Promote diverse hiring, community partnerships and ethical labor practices. This not only mitigates reputational risk but may impact litigation outcomes and insurability in future renewal cycles.

### Disclosures

- Begin reporting against frameworks like LEED, WELL orGRESB, even if not required. Transparency can lead to improved underwriting outcomes and access to impact-aligned capital pools.<sup>20</sup>

### Conclusion

The firms best positioned to thrive in late 2025 and beyond will not only build but build strategically, with an integrated view of risk, workforce health, social responsibility and insurance relationships. These strategic moves offer both defensive value (risk reduction) and offensive value (market competitiveness).



## Footnotes

<sup>14</sup>"Infrastructure Investment and Jobs Act (IIJA) Funding Status Report," *U.S. Department of Transportation*, 30 Sep 2025.

<sup>24</sup>"2025 Workforce Survey Analysis," *AGC*, 2025.

<sup>34</sup>"Producer Price Indexes (PPI)," *U.S. Bureau of Labor Statistics*, 16 Jul 2025.

<sup>44</sup>"U.S. Green Building Council (USGBC) Policy Watch," *Public-Policies.usgbc.org*, Midyear 2025.

<sup>54</sup>"Construction Backlog Indicator," *ABC*, Jul 2025.

<sup>64</sup>Hickman, Ann. "Construction Defect Litigation Trends and the Legal Landscape," *IRMI*, 16 Aug 2025.

<sup>74</sup>"Top Construction Judgments," *Travelers*, May 2025.

<sup>84</sup>"Builder's Risk Market Sees More Capacity for Large-Frame Construction," *RPS*, 2025.

<sup>94</sup>"Interim Report 2025," *Beazley*, 2025.

<sup>104</sup>"Nuclear Verdicts in Construction: Trends and Tactics," *IRMI*, Jul 2025.

<sup>114</sup>"2025 Management and Professional Liability Market Outlook," *RPS*, 2025.

<sup>124</sup>"Construction Focus Four Training," *OSHA*, 2025.

<sup>134</sup>"Safety Documentation as Underwriting Differentiator," *Zurich North America*, 2025.

<sup>144</sup>"Subcontractor Risk and Large Loss Review," *Beazley*, 2025.

<sup>154</sup>"Predictive Analytics in Construction Safety," *FMI Corp*, 2024.

<sup>164</sup>"Excess Liability Capacity Considerations," *Lloyd's Market*, 2025.

<sup>174</sup>"Turner Construction Cost Index," *Turner Construction*, Q2 2025.

<sup>184</sup>"Cybersecurity in Construction: 2025 Data Trends," *ENR*, 2025.

<sup>194</sup>"Sustainability Benchmark Report," *Dodge Construction Network*, 2025.

<sup>204</sup>"GRESB Infrastructure Standards and Insurance Alignment," *GRESB*, 8 Sep 2025.

We do more than help protect your business. We help build it.

AJG.com The Gallagher Way. Since 1927.



The information contained herein is offered as insurance industry guidance and provided as an overview of current market risks and available coverages and is intended for discussion purposes only. This publication is not intended to offer financial, tax, legal or client-specific insurance or risk management advice. General insurance descriptions contained herein do not include complete Insurance policy definitions, terms, and/or conditions, and should not be relied on for coverage interpretation. Actual insurance policies must always be consulted for full coverage details and analysis.

Gallagher publications may contain links to non-Gallagher websites that are created and controlled by other organizations. We claim no responsibility for the content of any linked website, or any link contained therein. The inclusion of any link does not imply endorsement by Gallagher, as we have no responsibility for information referenced in material owned and controlled by other parties. Gallagher strongly encourages you to review any separate terms of use and privacy policies governing use of these third-party websites and resources.

Insurance brokerage and related services provided by Arthur J. Gallagher Risk Management Services, LLC License Nos. IL 100292093 / CA 0D69293

© 2025 Arthur J. Gallagher & Co., and affiliates & subsidiaries | GPUS106465