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Insurance | Risk Management | Consulting

The Road Ahead: **Nine Trends Shaping Construction in Winter 2025 and 2026**



Construction



The construction industry finds itself at a pivotal crossroads, navigating a dynamic and multifaceted landscape. Persistent challenges such as labor shortages, rising costs and supply chain disruptions continue to test the resilience of industry players. At the same time, emerging trends — including advancements in technology, the growing complexity of projects and evolving risk management strategies — are reshaping the way construction firms operate and innovate.

This document explores the critical challenges and transformative trends that are shaping the construction sector. From the escalating demand for skilled labor to the rise of AI-driven solutions and alternative risk transfer options, the industry is adapting to a rapidly changing environment. By understanding these trends and proactively addressing the challenges, construction firms can position themselves for sustainable growth and success in an increasingly complex world.



Labor Force Challenges

The construction industry continues to struggle with a significant shortage of skilled workers across various trades. This scarcity drives up labor costs and can considerably delay project timelines.

See our whitepaper on [Navigating a Tight Labor Market in Construction](#). This document highlights the importance of prioritizing strategies for building and sustaining a talent pipeline, which is essential for business owners to ensure their firm's survival and success. Some of these strategies include:

- Shifting from talent retention to talent attraction
- Connecting with the new generation
- Embracing technology and innovation
- Investing time and resources in succession planning



Rising Costs and Supply Chain Volatility

Rising costs and supply chain volatility continue to pose significant challenges for the construction industry. Material costs remain elevated, with year-over-year increases often ranging between 3% and 6%, particularly for essential materials such as steel, lumber, concrete and switchgear.¹ This persistent cost inflation is compounded by ongoing supply chain disruptions, which result in unpredictable lead times and sourcing difficulties for specialized or imported components and materials. Additionally, external factors such as trade policy uncertainties and fluctuating shipping costs further complicate pricing strategies and procurement planning. These challenges underscore the importance of proactive supply chain management, including diversifying suppliers, leveraging technology for better forecasting, and exploring alternative materials to mitigate risks. Collaboration with insurance and risk management partners can also help construction firms navigate these uncertainties by developing tailored strategies to address cost volatility and supply chain disruptions effectively.

For additional information, see our whitepaper [on Navigating Supply Chain Challenges in 2025](#). This document goes over several strategies on how to help tackle supply chain disruptions including:

- Diversifying sourcing and material alternative
- Contractual protections and risk management
- Supply chain management and technological solutions
- Addressing existing supply chain disruptions



Project Size and Complexity Continue To Grow

The trend towards larger, more complex construction projects continues throughout 2025. These projects demand advanced technologies, innovative building approaches and sophisticated project management expertise to ensure efficient and successful completion. The increasing complexity necessitates better integration of Building Information Modeling (BIM), data analytics and collaborative technologies to manage project timelines, resource allocation and safety according to CMiC: Construction Management Software.

Gallagher specializes in managing and placing large, complex projects of all sizes and types. Additionally, we provide in-house Wrap administration for projects covered under a Controlled Insurance Program.



The Data Center Boom

The demand for data centers has been experiencing explosive growth in 2025, driven by factors like the increasing adoption of Artificial Intelligence (AI) and the explosion of data generation. This translates into a surge in data center construction projects but also presents challenges related to securing land, power availability and skilled labor to meet the escalating demand.

Gallagher has extensive expertise with risk management solutions for contractors who are pursuing data center projects, including robust insurance policies (professional indemnity, builder's risk and cyber risk), thorough contractual reviews to define liability and payment terms, and proactive planning for supply chain disruptions for long-lead equipment. Other approaches also involve comprehensive safety protocols, making sure there are multiple power sources, and addressing potential delays from permitting and compliance issues.



Subcontractor Challenges Escalate

Subcontractors face increasing challenges in the current construction landscape, including rising material costs due to inflation, ongoing supply chain disruptions and intensifying competition. Inflationary pressures are expected to persist, impacting project budgets and necessitating careful planning and cost management strategies. While supply chain issues may have seen some improvement from recent years, they continue to impact material availability and project timelines.



Claims Handling and the Rise of Litigation Funding

The claims handling landscape within the construction industry is becoming increasingly complex. One noticeable trend is the rise of “nuclear verdicts” in civil litigation, particularly in personal injury liability cases, driven in part by litigation funding practices.

These large verdicts impact construction firms’ financial stability and their ability to complete projects, leading to higher insurance premiums and potential disruptions. [Learn more](#) about litigation funding in the construction industry.



Business Continuity and Succession Planning as the Baby Boomer Generation Retires

Maintaining continuity is a significant challenge for construction companies, particularly those facing owner retirements or seeking to expand through acquisition or private equity involvement. Employee Stock Ownership Plans (ESOPs) and LLCs are gaining popularity as mechanisms to facilitate business transitions, offering a path for owners to exit while ensuring the longevity of the company. ESOPs, in particular, provide tax advantages and foster an ownership culture among employees.

We have a network of trusted CPA firms specializing in continuity planning. Reach out to a Gallagher representative for more information.



The AI Explosion and Its Impact on Construction

While the construction industry may have lagged in AI adoption, it is rapidly catching up. AI is poised to revolutionize various aspects of construction, from enhancing safety and tracking progress to optimizing project planning and design. AI tools are being implemented to improve efficiency, reduce errors, streamline workflows and facilitate data-driven decision-making.

Challenges related to data quality, integration with legacy systems and the need for skilled talent remain, but the industry is actively embracing AI to address its pressing needs, according to Planning, Building & Construction Today.



Alternative Risk Options for a Challenging Market

Given the evolving risk landscape, firms are increasingly exploring alternative risk transfer options, with single-parent, single-cell and group captives gaining significant traction. These innovative solutions allow companies to retain more risk, potentially reduce costs and gain greater control over their insurance programs. Captives also offer the flexibility and customization needed to address specific risks while supporting broader non-financial objectives, such as sustainability.

This trend is particularly evident in the construction industry, where captives are rapidly becoming the preferred alternative risk solution. In today's buyer's market, well-run construction companies with strong safety programs are turning to captives over traditional insurance because of their tailored, cost-effective approach that aligns with operational excellence. At Gallagher, we partner with all the leading captive providers to ensure our clients find the perfect fit for their unique needs. Whether you're exploring captives for the first time or considering a switch, we deliver customized solutions from every major provider. Even traditional construction carriers are creating captives to keep up with this shift, but with our expertise, you can stay ahead of the curve.



Conclusion

As the construction industry navigates the complexities of 2025, it is clear that both challenges and opportunities abound. Persistent issues such as labor shortages, rising costs, supply chain disruptions and subcontractor pressures continue to test the resilience of industry players. Simultaneously, transformative trends like advancements in AI, the growing demand for data centers and the increasing complexity of projects are reshaping the industry's future. The rise of alternative risk transfer options, the need for robust succession planning and the evolving claims landscape further highlight the importance of strategic planning and innovation. By embracing technology, fostering collaboration and proactively addressing these challenges, construction firms can position themselves to thrive in an increasingly dynamic and competitive environment. The ability to adapt to these trends and leverage emerging opportunities will be critical for achieving sustainable growth and long-term success in this pivotal era for the construction sector.

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

Source:

¹"Building material prices continue to rise," *LBM Journal*, 12 Apr 2024.

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