

INTERNATIONAL CONSTRUCTION COSTS 2026

Taking Control



FOREWORD

Preparing for the reset

The latest edition of the Arcadis International Construction Costs report finds subdued inflation in most global construction markets. European and North American cities remain the most expensive places to build, but the rate of cost escalation has slowed in many markets.

Commercial and residential markets remain soft for now, even as unmet need continues to grow. From affordable homes to super-prime office space, short-term delays to construction projects are set to create future capacity constraints, potentially hampering the ability of cities to meet the needs of citizens.

One area where demand is abundant, and where the construction sector is rising to the delivery challenge, is the extraordinary growth in data centers (DC) and manufacturing capacity for processors, memory, and other essential components. The spectacular growth of the wider DC ecosystem has created a critical scaling challenge for the construction sector: the ability to deploy huge project teams quickly while maintaining detailed control over scope, quality, schedule, and risk.

The challenges faced by DC clients in the current market provide insight into future trading conditions as markets recover from conflict, disrupted trade, and wider uncertainty. Contractors and their supply chains are pivoting resources toward DC, energy, and utilities sectors. By the time market conditions enable the need for residential or commercial development to convert into real demand, the supply chain may have already moved on. This could leave clients in more established sectors needing to rethink how they secure supply chain capacity, putting in place new disciplines for lean, certain project delivery.

Competition to become the new client of choice is growing in many markets. In Europe and the UK, central government clients are leveraging long-term investment plans to create frameworks and partnerships.

These will promise certainty of workload in return for the supply chain's commitment to invest in capacity and productivity-boosting innovation. Technology clients can also offer large-scale opportunity, albeit on more commercial terms. For the mid-scale private client, identifying new supply chain partners, building relationships, leveraging technology, and tailoring contracts in line with market conditions are useful steps to create a platform for success.

Presently, clients face uncertainty triggered by the Gulf conflict, with continuing implications for inflation and supply chain disruption. The natural tendency is to focus on the problem at hand: fix viability, lock down risk, and start to build. But clients also need to position for recovery, a time when demand returns, and when being the client of choice will really matter.

Unmet need is everywhere; supply chain capacity is not. Clients still need to refine their plans to beat the market.



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Analysis of ICC 2026

/ ICC analysis /

Review of 2025: Treading water



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Global construction markets treaded water in 2025, even as the conditions for recovery fell into place. Progressive interest rate cuts in many markets improved prospects in finance-sensitive sectors, including housing and commercial. However, multiple factors continued to dent investor confidence, even before the Gulf crisis broke out in February 2026.

THE AFFORDABILITY CHALLENGE

Affordability remains the most persistent barrier preventing need from turning into real demand for new construction. Rising prices affected most markets, with deflation seen only in mainland China and Hong Kong. The challenge is most visible in housing, where land values, construction prices, and the cost of finance have made it increasingly difficult to maintain a healthy flow of new projects. Similar pressures are visible in commercial markets. In many locations, only sectors driven by genuine scarcity, such as data centers and high-tech manufacturing, offered

a convincing investment case in 2025. These sectors continue to attract the capability and capacity needed to deliver ambitious programs at scale.

Concentration brings risks. Just as global stock market growth has been driven by a small number of technology stocks, private sector construction is also exposed to a narrow range of growth opportunities. A recurrent theme in our global market analysis is the criticality of the data center market, which currently shows more signs of being a development megatrend than an investment bubble.

OPPORTUNITIES FOR DIVERSIFICATION

Given current market conditions, the public sector should play a major role in diversifying working. However, after the 2024 elections, many administrations have taken longer than expected to put ambitious investment plans into action. In the UK, plans to accelerate spending on hospitals and schools are unlikely to have a significant growth impact for one to two years. Germany also has ambitious plans, underpinned by reforms to the national debt brake. Elsewhere in Europe, with post-COVID-19 programs such as the Recovery and Resilience Facility winding down, there is less headroom for public investment. Delivery has remained strongest in the US, where recent data points to a pick-up in publicly funded construction, particularly in utilities including power, sewage, and waste disposal.

TARIFFS AND TRADE POLICY

One factor that had less direct impact than expected in 2025 was trade policy. As our focus on advanced manufacture highlights, the threat of US import tariffs continues to drive large-scale manufacturing investment into the US from Europe and Asia, maintaining spend at roughly double the level seen before 2022.

On the cost side, most US contractors are reporting tariff impacts, particularly for materials such as steel, where US costs are currently 30% higher than in Europe for comparable hot-rolled sections. Average construction price inflation has also been higher than normal in the US over the past year, suggesting that the supply chain is passing some of these costs to their clients. Protectionism is also spreading, with Europe and the UK introducing tighter tariff-free quotas and higher 50% tariffs on imported steel from July 2026.

Europe's move has been driven by massive global overcapacity in steel manufacture. Similar overcapacity exists in cement, glass, and ceramics. In Europe, costs are likely to rise as domestic producers increase prices behind the tariff wall. Whether the wider supply chain can do the same while markets remain soft remains to be seen.



Analysis of ICC 2026

Index insights

For 2026, we have retained our coverage of 100 key cities and thank our partners for their contribution, which is also acknowledged in the report. Data was collected before the start of the Gulf conflict. Costs have been updated to Q2 2026 price levels based on medium-term inflation trends. We have not adjusted rankings for the impact of the conflict on energy prices. Our construction industry deep dive examines a range of energy cost scenarios.

London and Geneva remain at the top of the index. Geneva continued to see relatively high construction inflation at 4% last year, whereas in London, weaker demand, particularly in residential, kept inflation at around 1 to 2%. Global construction inflation continued to be moderate in 2025. Double-digit inflation was confined to hot spots including Argentina, Nigeria,

and Turkey, while relatively high inflation in Eastern Europe subsided to around 2 to 4%. By contrast, price pressure remains unusually high in Japan, where 5 to 6% cost escalation is anticipated through 2026, and in Australia, where persistent labor shortages and low productivity continue to hold back industry performance.

US construction markets also saw rising inflation despite subdued demand, with tariffs likely to be a contributory factor. In 2024, we reported inflation in most US markets in the 2 to 3% range; in 2025, this increased to around 4%. Some cities, including Chicago and Philadelphia, saw prices rise by 6%. Five US cities remain in the top 20 rankings.

While the US dollar remained steady against the euro and sterling, appreciation in currencies including the Australian dollar and Norwegian krone has driven notable ranking changes. Oslo is now ranked 15th after a 15% rise in NOK, while Sydney moved up 10 places to 35 after a similar currency shift. Positive movements against the US dollar during the past 12 months mostly affected resource economies, including Malaysia and China.

Currency appreciation in resource economies such as Australia helped insulate them from recent commodity market shifts. Energy and fertilizer costs, for example, increased by 50% between January and April 2026. Metals markets also moved strongly through 2025, led by copper, where prices rose by over 40% to reach \$13,000 per tonne by January 2026. Aluminum prices also rose sharply following the Gulf closure.

This trend reflects increased demand, particularly from the energy transition and AI-related investment, alongside supply disruption caused by mining accidents in 2025.

The most notable downward movement in the 2026 index is Hong Kong. Once among the world's most expensive cities, it has been on a downward trend since the pandemic because of the prolonged real estate slowdown. Prices fell again in 2025, by 1 to 2%, and are expected to continue falling in 2026. With the local currency pegged to the US dollar, Hong Kong's fall to 16th in the rankings highlights how unusual current deflationary trends in China and Hong Kong are compared with upward price pressure in the UK, Europe, and the US.

We have also updated our highly serviced building index. This additional index is needed because costs for these buildings do not vary to the extent suggested by the core ICC, owing to global procurement strategies and the high value of equipment content. It is derived from a combination of modeled and project-based data.





Conclusion: Taking control

Construction industries around the world are going through a period of moderation. Outside overheated technology and transmission sectors, costs are under control, and resource availability is better balanced than it has been for some years.

This situation is unlikely to last beyond 2026. The slowdown does not reflect a lack of need for housing or infrastructure. The Gulf conflict has delayed a widely forecast recovery, even as underlying demand remains strong. There is still unmet demand for quality commercial and industrial space, an urgent need to adapt buildings for energy efficiency and climate resilience, and a large investment backlog in schools, hospitals, and other social infrastructure.

However, uncertainty linked to the Gulf conflict could still delay development, even if a resolution is close, as clients undertake further market testing and due diligence. This could also affect much-needed industrial capacity just as the public sector starts to expand long-term programs.

Some projects are proceeding despite the uncertainty, often because current market conditions allow clients to transfer a disproportionate share of risk to the supply chain. Whatever the outcome of the conflict, this approach is unlikely to be sustainable. Clients need to position their investments as the project of choice, incentivize innovation, and strengthen delivery resilience.

THREE PRIORITIES FOR
RESILIENT PROJECT DELIVERY

Invest in design optimization.

Affordability remains a major challenge, and competitive pricing alone will not solve it, particularly as energy prices continue to fluctuate. While clients cannot control the cost of finance, they can eliminate waste and risk at source through coordinated design aligned to the contract model.

This means focusing on practical measures that improve cost certainty from the outset, including:

- Investing in information management and package coordination. Tailor information requirements to the contract model and supply chain capability, using shared digital platforms.
- Designing and specifying to eliminate complexity and increase factory fabrication. A component-based approach with robust interfaces will improve site efficiency. Deal with complexity in the factory, not at the workplace.

Agree to a collaborative approach to inflation risk-sharing. In uncertain markets, clients should share the cost escalation that actually occurs rather than pay risk allowances for problems that may never arise. This aligns client and supply chain interests and reduces mispricing risk. This can be supported through measures such as:

- Finance early materials procurement. Help the supply chain lock in prices and delivery certainty.
- Delay procurement of later work. Use package strategies or allowances for finishing and fit-out to give markets more time to stabilize.
- Share some supply chain disruption risk. Modify delay penalties where disruption is outside supply chain control.

Position as a client of choice.

Clients are increasingly competing for supply chain capacity, while contractors are becoming more selective.

Being a client of choice does not depend on a long visible pipeline, but it does require a consistent market approach. This can be supported by:

- Using commercial leverage fairly and linking it to successful outcomes. Competitive pressure and aligned incentives are acceptable but must be proportionate.
- Providing a credible route to profitable work. This depends on consistent management of the project portfolio as well as individual projects.
- Getting the basics right. Consistent, decisive project management matters, including effective handling of orders and payment.



How expensive is it to build in your city?

HOW TO USE THE ICC INDEX

Explore our insights into global construction costs, including our annual comparative study of 100 cities, regional comparisons across EMEA, APAC, and the Americas, construction price inflation data, and an additional cost index for highly serviced buildings such as data centers.

The ICC index is primarily intended to compare complete building costs. It can be used to estimate the cost of delivering a particular building function across geographies using benchmark data.

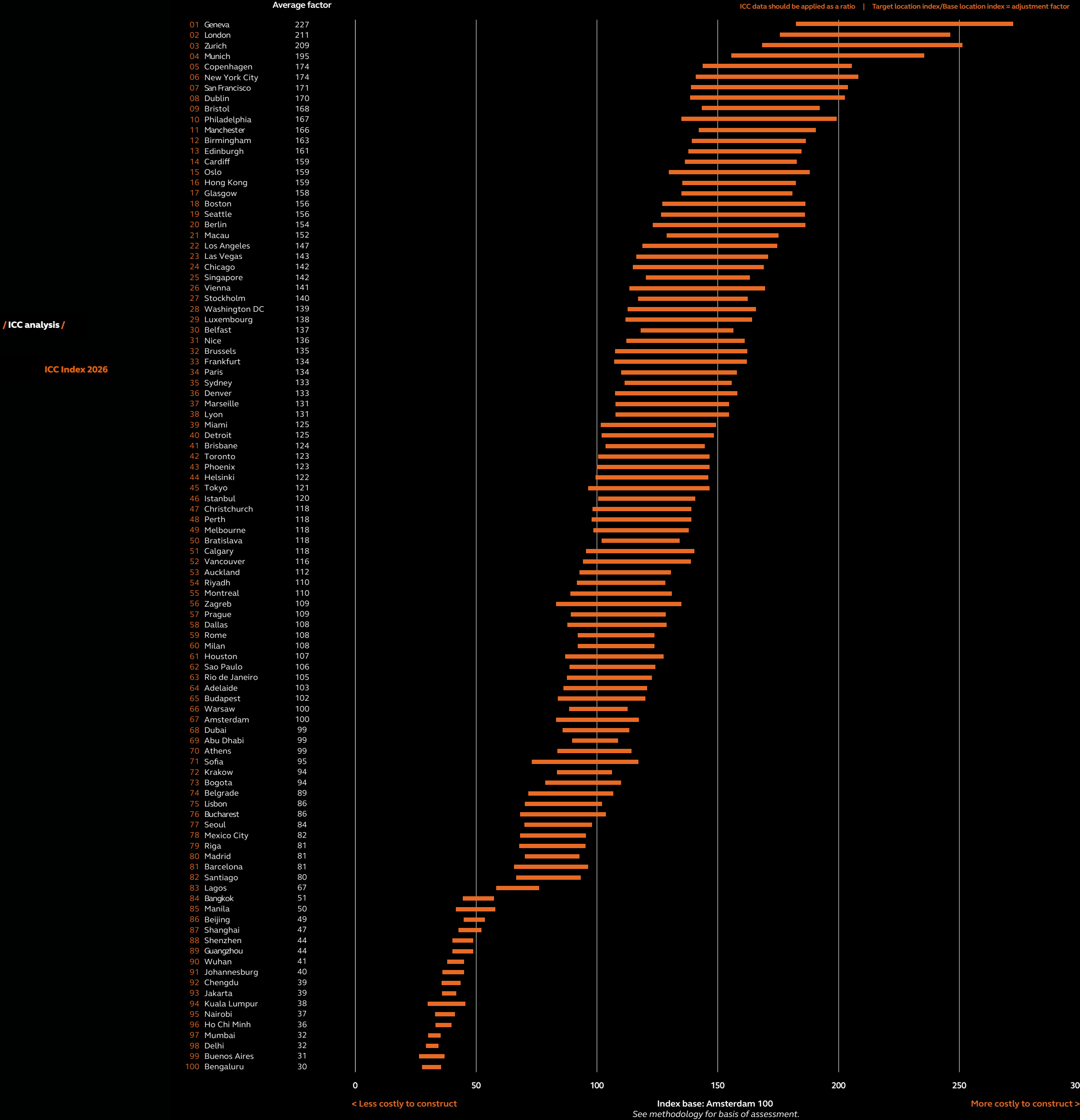
When comparing costs, it is important to consider factors such as currency, specification differences, site constraints, and location-specific requirements.

ICC data is presented as a range, allowing users to select values that reflect differences between the base and target buildings. Some cost elements, including location-specific works and utilities connections, should not be derived solely from ICC data because scope will vary by site and should be estimated from early design information. However, ICC-derived ratios can be used to adjust rates.

ICC data is not suitable for adjusting costs in highly serviced buildings such as data centers. It can only be used to estimate shell and basic services costs, and further adjustment may be needed where the base building is unusually complex.

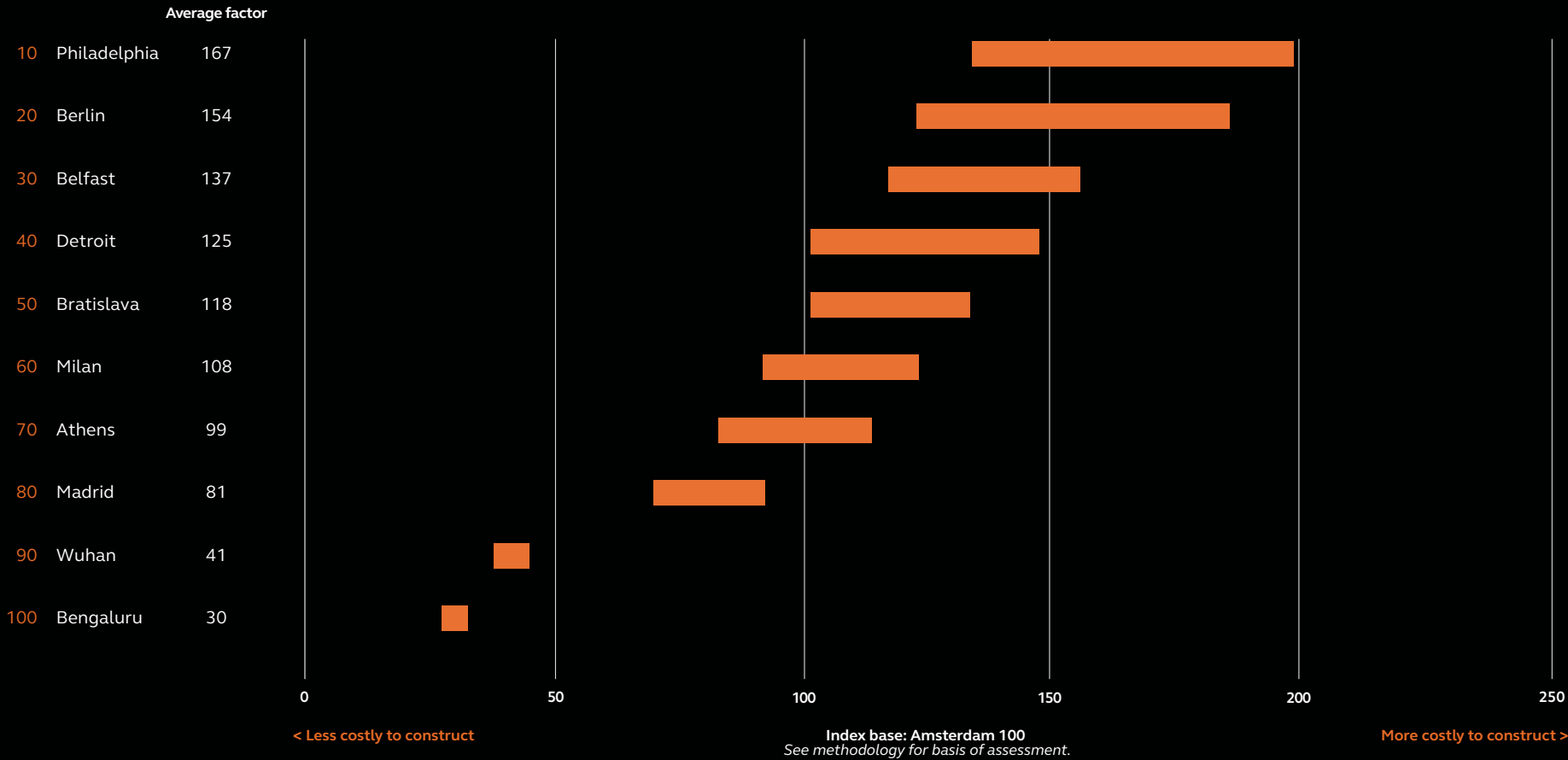
For the ICC 2026 report, we have updated the highly serviced building construction cost index, which provides a high-level view of cost differences across selected key locations.

International Construction Costs Comparison 2026



International Construction Costs Comparison 2026 - Decile Cities

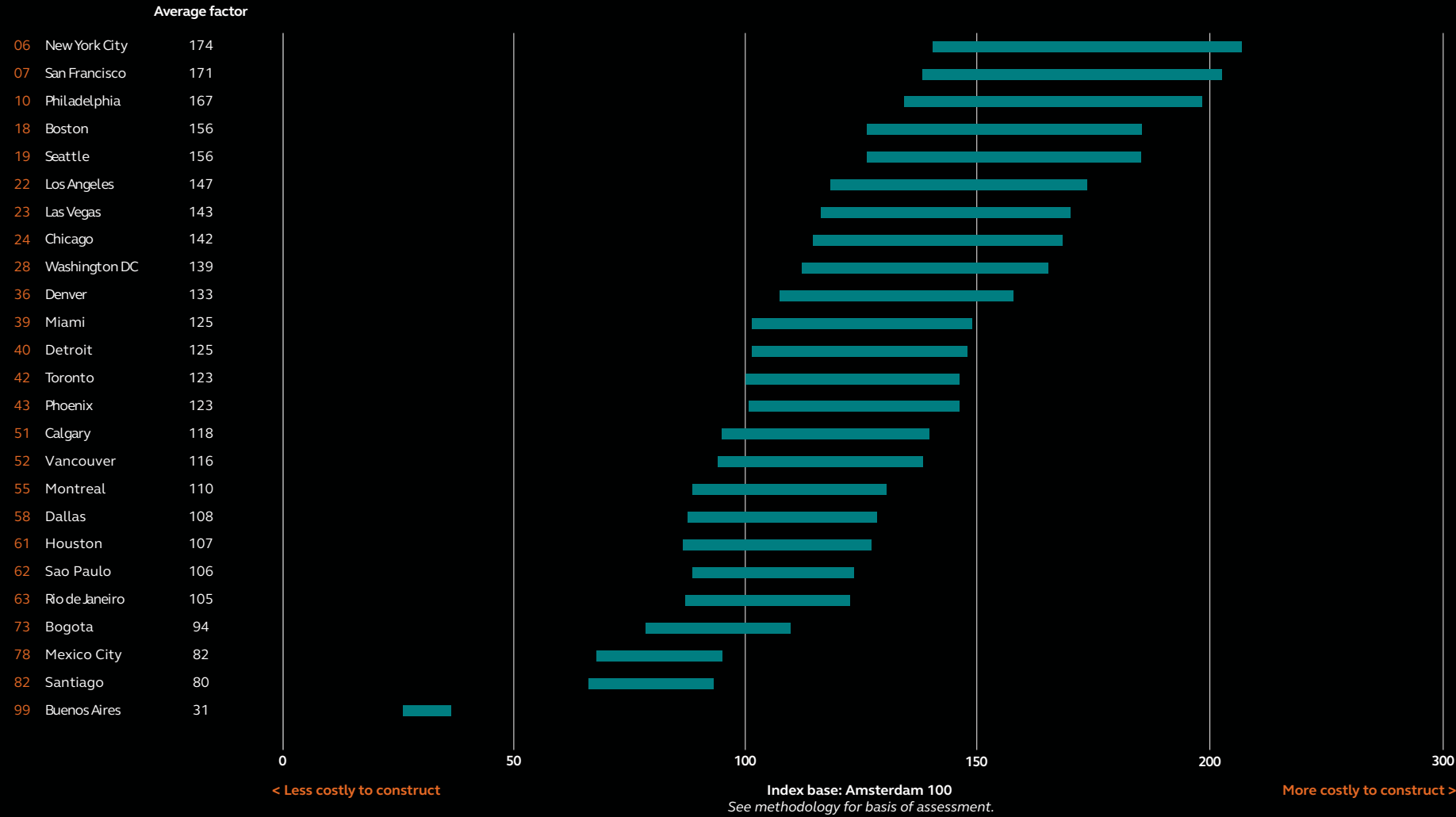
Decile Cities



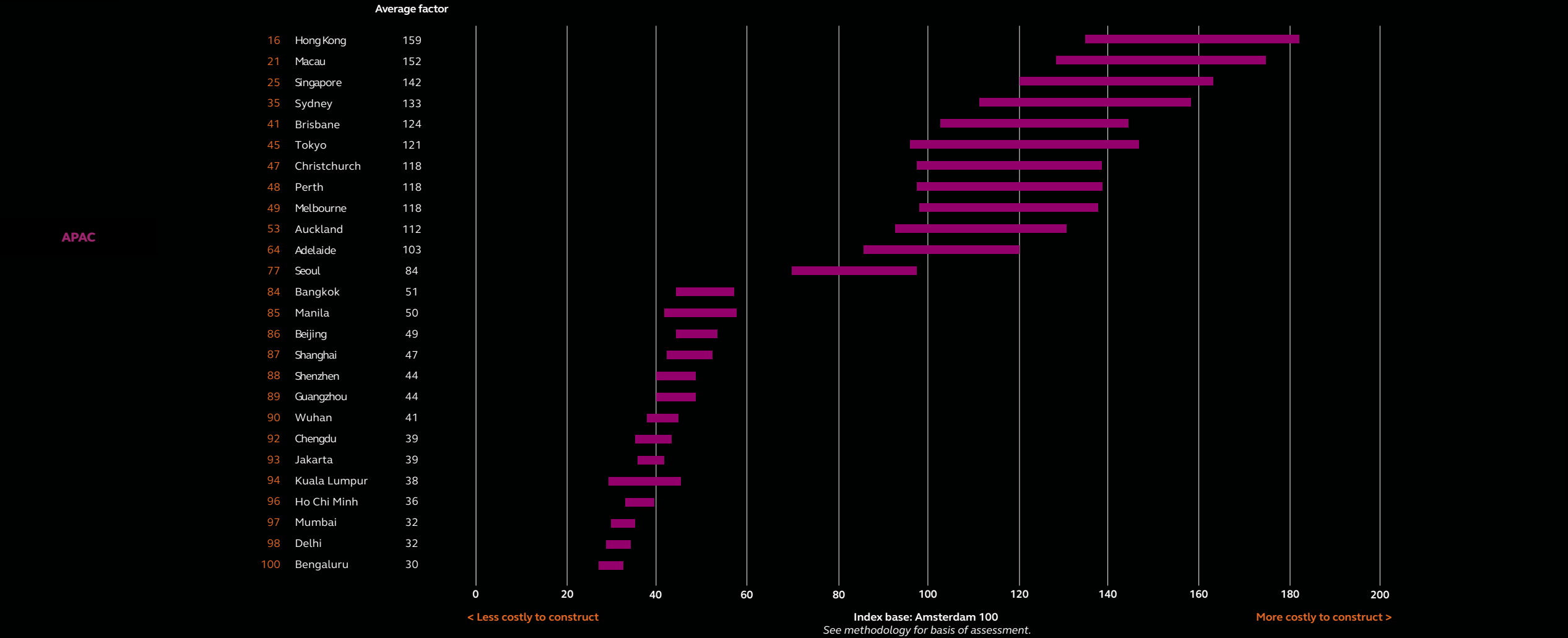
This chart summarizes the ICC data by presenting data for 10 international cities representing the decile points of the 100-city dataset. The analysis highlights the geographical distribution of higher- and lower-costing cities.

Regional Construction Costs Comparison 2026 - Americas

Americas

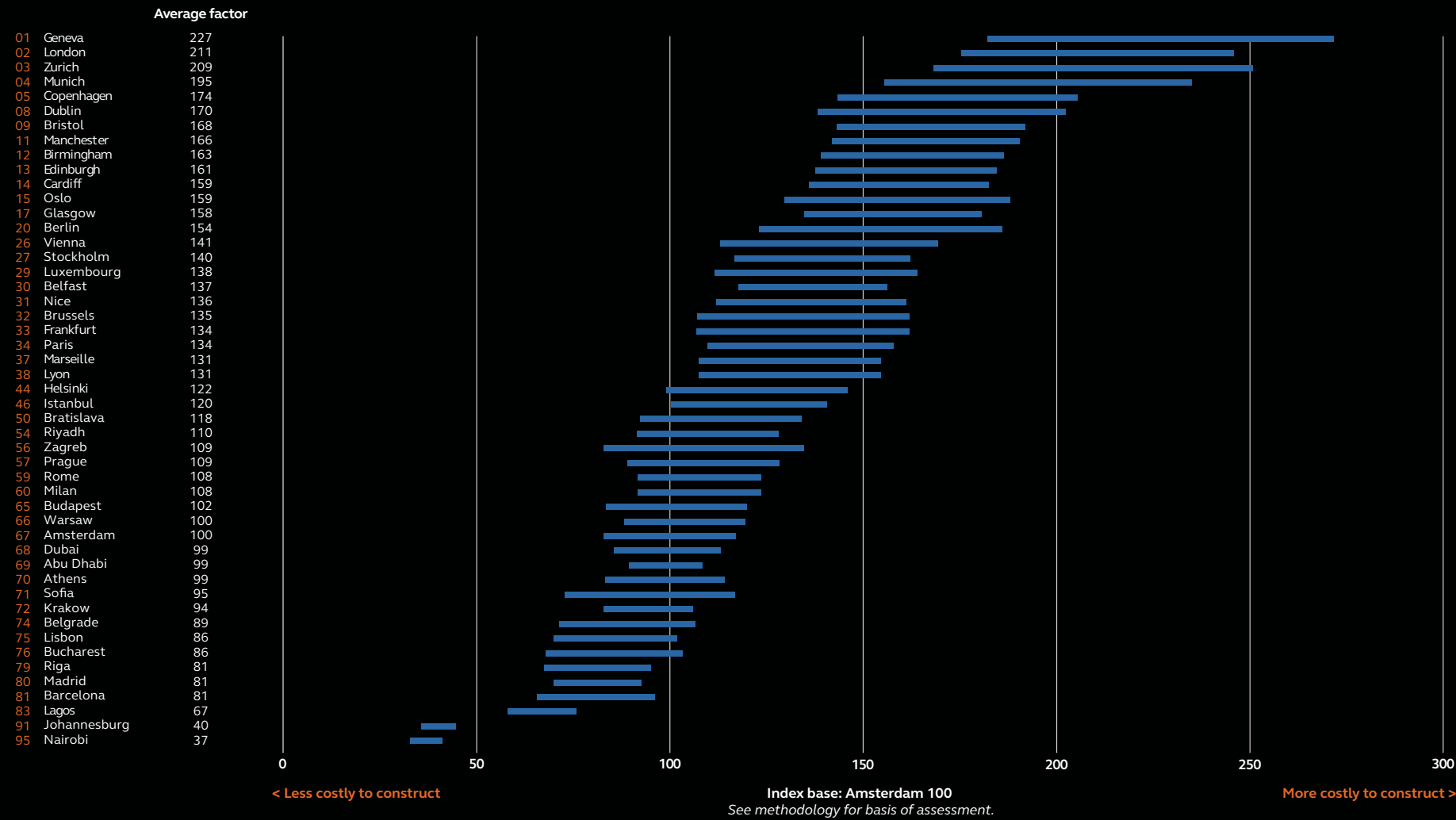


Regional Construction Costs Comparison 2026 - APAC



Regional Construction Costs Comparison 2026 - EMEA

EMEA



Highly serviced building construction costs index and insights

Our definition of a highly serviced building (HSB) is one that features building services plant and systems within the completed building shell that exceed at least 50% of the total project value. All client fit-out such as data halls, production equipment, and associated utilities are excluded from the scope of the factor. The most representative building type covered by the HSB index is a data center.

HSB index

The HSB index should also not be used to adjust costs for location-specific external works and utilities provider costs. Ratios derived from the main ICC could potentially be used to adjust the rates used.

The HSB index range is narrow compared to the main ICC. This partly reflects the application of global specification standards for some highly serviced buildings, including data centers, meaning that there is less scope for local variation. The high proportion of the value of building services plant and equipment also results in a narrow cost range, as the cost of these elements varies less from country to country than in situ construction works.

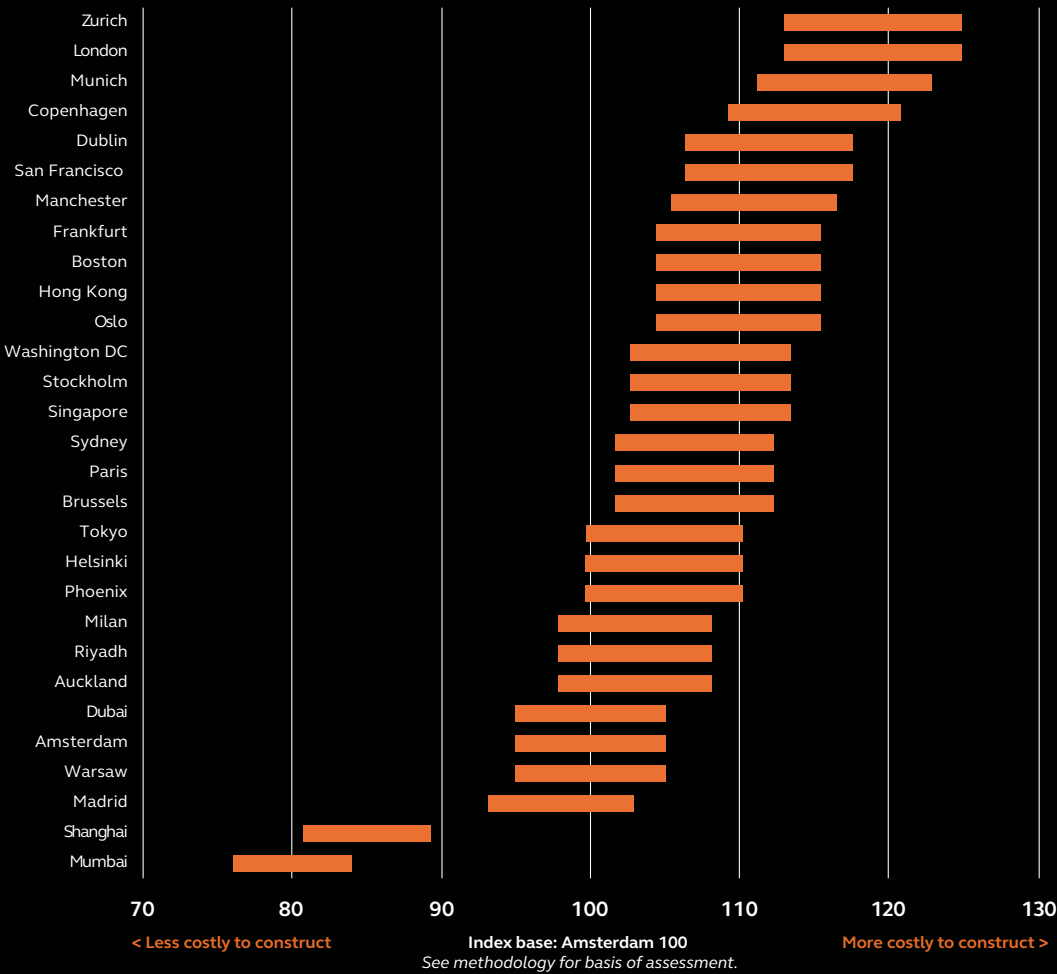
High-cost locations from the main ICC are found at the top of the rankings, including Zurich and Munich. The costs of DC development are also

elevated in the US, particularly in core locations in Virginia and San Francisco. Cost differentials between locations in Europe continued to narrow during 2025 as a result of relatively high inflation in lower-ranked cities including Amsterdam and Madrid.

The HSB index should be applied with extra care. It is intended only for buildings with a high proportion of high-value service installations and should be used exclusively to calculate building costs of the fully serviced shell.

The index can also only be used to adjust costs for projects with a similar technical function, such as comparable levels of plant diversity specified for resilience. Costs of installations within tenant/serviced areas and costs of external services, including power supply, will need to be assessed on a project-specific basis.

HIGHLY SERVICED BUILDING CONSTRUCTION COSTS COMPARISON 2026



Indicative construction inflation for key locations in 2025 and 2026

Arcadis estimates construction tender price inflation for the 12 months prior to the fourth quarter of the stated year. Costs are for building construction only and do not necessarily apply to either volume housebuilding or infrastructure.

The table provides data on construction-specific price inflation for both 2025 and 2026. This inflation reflects the changes in construction prices paid by clients, rather than the input costs paid by contractors and the supply chain.

In 2025, inflationary pressures eased in many cities in EMEA and APAC, but increased in many US cities as a result of increased material costs. Deflation continued for another year in China and Hong Kong. While there is less background inflation in many markets in 2026, the continuing impacts of high-energy costs may increase prices further. APAC is particularly exposed to rising inflation in 2026.

- Faster price growth
- Stable price growth
- Slowing price growth
- Falling prices

Americas				
	%	Change to 4Q 2025	%	Change to 4Q 2026
Boston	2.5 to 3.5		1.5 to 2.5	
Chicago	5.5 to 6.5		3.5 to 4.5	
Dallas	2.5 to 3.5		2.5 to 3.5	
Mexico City	4 to 5		3 to 4	
Miami	3.5 to 4.5		4.5 to 5.5	
New York	3.5 to 4.5		2.5 to 3.5	
Phoenix	2.5 to 3.5		4.5 to 5.5	
Rio de Janeiro	3 to 4		3 to 4	
San Francisco	2.5 to 3.5		2.5 to 3.5	
Seattle	2.5 to 3.5		5.5 to 6.5	
Toronto	3.5 to 4.5		3.5 to 4.5	
Vancouver	2.5 to 3.5		2.5 to 3.5	

APAC				
	%	Change to 4Q 2025	%	Change to 4Q 2026
Auckland	2 to 3		2.5 to 3.5	
Beijing	-0.5 to -1.5		0.5 to -0.5	
Brisbane	3 to 4		4.5 to 5.5	
Delhi	2.5 to 3.5		3.5 to 4.5	
Hong Kong	-1 to -2		-1 to -2	
Jakarta	1.5 to 2.5		4.5 to 5.5	
Kuala Lumpur	0 to 1		1.5 to 2.5	
Singapore	1.5 to 2.5		3 to 6	
Sydney	2.5 to 3.5		3 to 4	
Tokyo	4.5 to 5.5		5.5 to 6.5	

EMEA				
	%	Change to 4Q 2025	%	Change to 4Q 2026
Abu Dhabi	3.5 to 4.5		3.5 to 4.5	
Amsterdam	3.5 to 4.5		1.5 to 2.5	
Berlin	2.5 to 3.5		2 to 3	
Brussels	3.5 to 4.5		1.5 to 2.5	
Dublin	2.5 to 3.5		3.5 to 4.5	
London	2 to 3		1 to 3	
Madrid	2.5 to 3.5		2.5 to 3.5	
Paris	1 to 2		1.5 to 2.5	
Prague	0 to -1		1.5 to 2.5	
Rome	1.5 to 2.5		1.5 to 2.5	
Vienna	0.5 to 1.5		2.5 to 3.5	
Warsaw	2.5 to 3.5		2.5 to 3.5	

Global markets deep dive

Understanding the impact of the Gulf war on construction projects

The Iran war triggered a significant economic dislocation following the closure of the Strait of Hormuz. Borrowing costs increased and global growth expectations were downgraded. Even with the cessation of hostilities, longer-term disruption remains possible. This section examines the potential effects on construction projects.



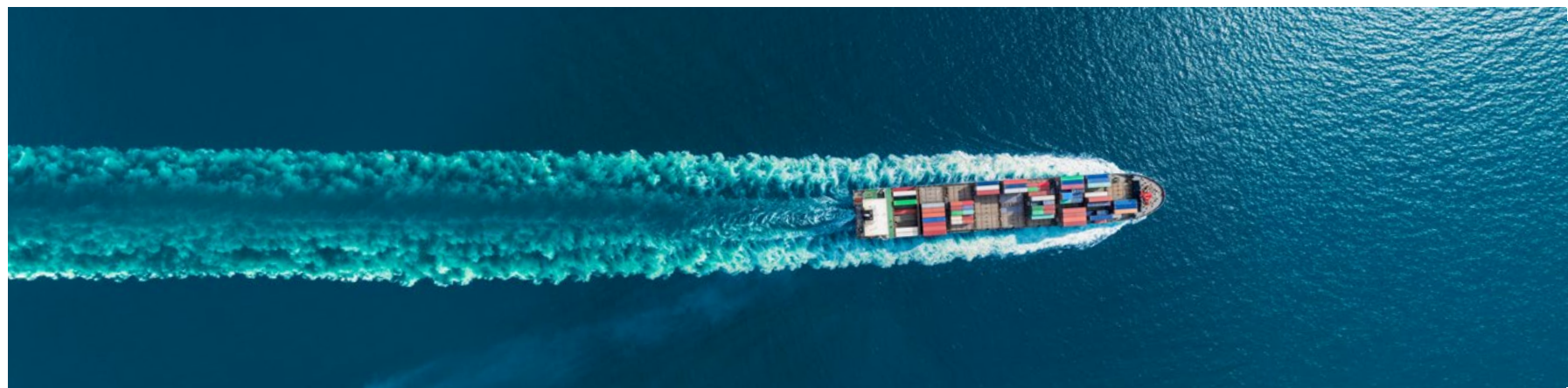
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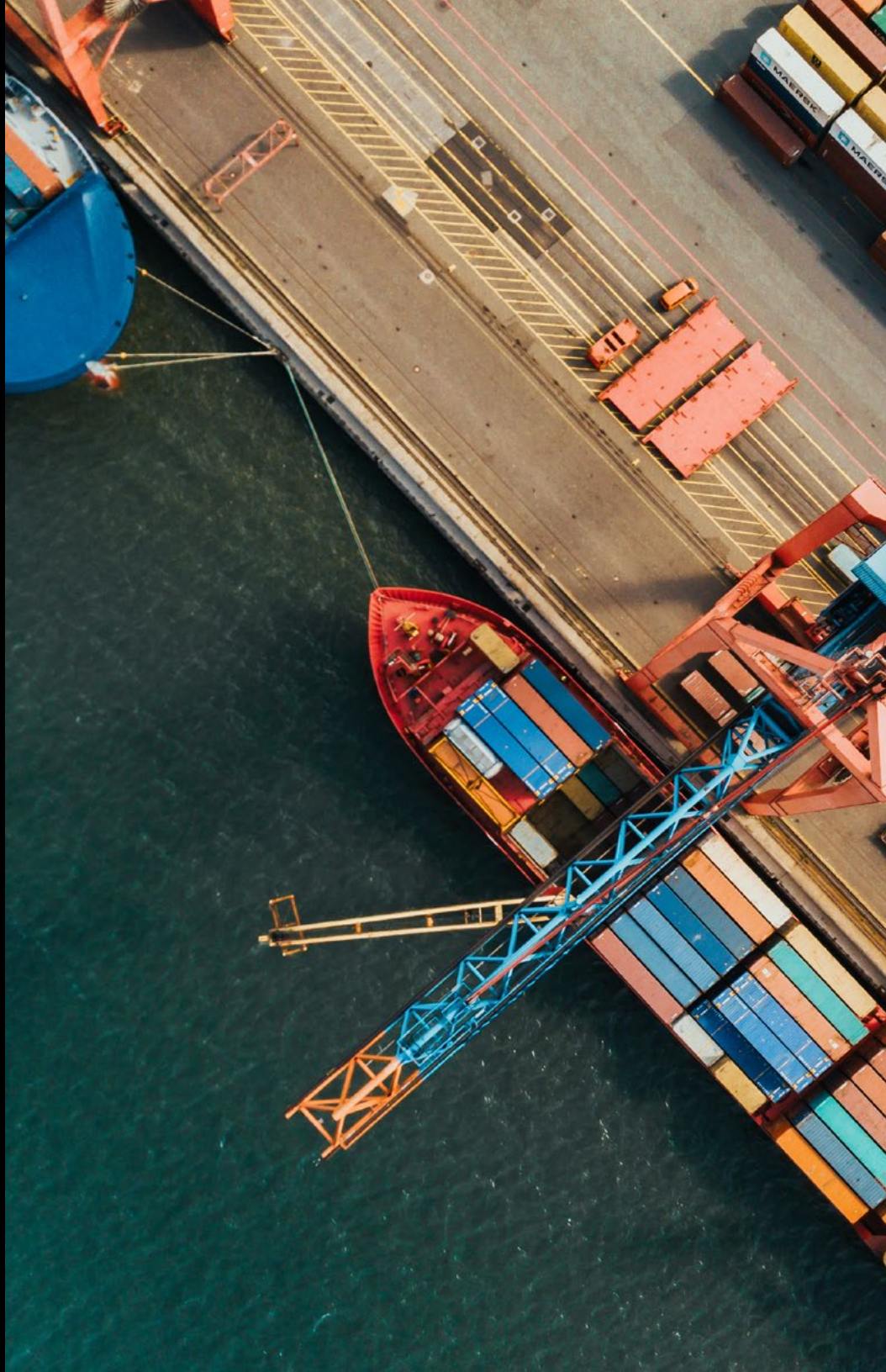


Traffic through the Strait accounts for 20% of global crude oil and natural gas consumption. Even as the flow of energy resumes, the risk extends beyond higher prices from elevated energy costs to the continued possibility of disruptive shortages. At the time of writing, the Strait was on track to reopen after de-mining operations. The International Energy Agency (IEA) scenario for gradual reopening from Q3 2026 is on track, but oil and gas markets are expected to remain in deficit until at least Q4. Even as trade resumes, disruption is likely to continue throughout the year.

From a construction perspective, the conflict's impacts will be felt in four areas:

- **Lower growth** — leading to reduced investment demand
- **Higher inflation** — based on direct inputs such as energy costs and indirect factors, including wages
- **Higher borrowing costs** — mostly government borrowing driven by higher debt levels and fiscal rules
- **Lower confidence and decisiveness** — influenced by risk appetite and certainty





INFLATIONARY IMPACT ON CONSTRUCTION

Construction will be exposed to inflation because many key materials, including steel, aluminum, masonry, glass, and cement, are energy-intensive.

Many schemes, especially large infrastructure projects, will also face higher plant and logistics costs. Fuel typically accounts for 15 to 20% of the cost of hired and operated mobile plant.

The rate of inflation pass-through will depend on several factors:

- **Product complexity** — More complex assemblies and equipment include a greater share of labor and value-added inputs that are less exposed to inflation.
- **Competition and pricing power** — Sectors with weak demand and spare capacity, such as residential, will see more inflation absorbed by the supply chain.
- **Procurement strategy and risk transfer** — Inflation risk sharing should reduce the level of risk premium included in bids.
- **Project timing** — Lead-in periods and program duration may affect suppliers' pricing strategies.

Arcadis has modeled the potential impact of additional inflation on a range of UK building projects, including offices and multifamily residential, considering plant, transport, materials, and higher energy costs. IMF and OECD analysis suggests the UK is more exposed to energy-related inflation because of its reliance on imported oil and gas. Countries with more self-reliant energy systems, including Australia, France, and the US, are likely to be less exposed, although higher fuel costs will still feed through.

The assessment is for additional inflation and does not consider normal background increases associated with wages and other factors.

The model enables scenario testing at different levels of energy price inflation. One set of results is shown in the table below.

Scenario		Commercial office	High-density residential
Price increase relative to Feb 2026	Brent Crude equivalent (\$ bbl.)	% increase on base cost	% increase on base cost
50% increase	105	4.0	3.0
25% increase	88	2.5	1.5
10% increase	77	1.5	0.5

Indicative inflation scenarios related to energy price increases

Source: Arcadis

With energy prices currently trading at around 10% above pre-conflict levels, the assessment suggests that prolonged disruption to Gulf oil and gas flows could add materially to 2026 inflation. However, if lower growth, higher borrowing costs, and reduced confidence translate into less workload, competition will also intensify.

Indicative building specification

Office. Midrise with piled substructure, composite steel, post-tensioned frame, PCC panel external wall cladding with aluminum windows, and part-glazed roof. MEP including A/C. Fit-out to Cat A. External works.

Residential. High-density, multi-family residential with piled substructure and shared basement. Concrete frame, PCC wall cladding with aluminum windows. MEP with centralized air-sourced heat pumps. Fixed furniture. Limited external works.



Innovation and advanced manufacture

After the gold rush: Delivering value in advanced manufacture

/ Point of view /

Investment in new industrial facilities continues at a strong pace. In December 2025, the total annualized value of industrial construction in the US was \$200 billion at current prices, marking the fourth consecutive year that investment has exceeded the \$200 billion threshold. Even as volumes remain high, the drivers of manufacturing spend are changing. Strategic reshoring into the country is becoming more significant as tariffs and quotas take effect.

The combination of Made in China 2025, the CHIPS Act, and the EU investment have created overcapacity in sectors including batteries, trailing-edge semiconductors, and active pharmaceutical ingredients (APIs).

At the same time, trade measures are forcing European manufacturers to redirect investment into additional US capacity.

Investment in duplicate capacity brings twin risks: higher construction costs in a hot market and lower returns. As a result, manufacturing clients are pursuing the lowest possible operating cost alongside the non-negotiable priorities of early revenue generation and yield optimization.

At the same time, the scale of new industrial investment is driving a sharp increase in project complexity.



David Aimable-Lina

Global Industry Executive,
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New US pharmaceutical and semiconductor plants are being designed to serve one of the world’s largest markets from day one, requiring rapid delivery at a very large scale, with capital values running into multiple billions of dollars. Projects of this size, often involving multiple production lines, demand a different mindset on systems, scalability, and integration, especially where thousands of tools must be coordinated in an increasingly constrained operating environment.

When initiating projects, clients rightly focus on site selection: power and utilities, permitting, labor availability, and financial support. However, downstream activities such as facility design, technology integration, and ramp-up to stable yield require equal attention if the investment is to succeed. A critical success factor is the project team’s ability to develop a design engineering master plan that works backward from first-batch production to front-end design innovation.

Care abouts: Key issues that project teams need to address

In a resource-constrained market, successful delivery requires a project mindset that combines efficiency with the ability to respond to complexity and absorb change.

The key challenges are:

- **Time to revenue** – Plan by production milestones rather than construction sequence, scheduling design and delivery backward from commissioning rather than forward from FEED.
- **Capital efficiency** – Deliver at the lowest viable price point by securing lower-cost inputs and driving efficiency through replication and automation.
- **Industrialization** – Remove constraints on construction speed and tool integration through a systems engineering approach, including off-site assemblies.
- **Pace of technology change** – Respond to short innovation cycles through a loose-fit approach to standardized but flexible services and interconnections.
- **Resource security** – Secure affordable and compliant energy, water, and materials through on-site generation, micro-grids, recycling, and circularity strategies.

- **Supply chain incentivization** – Use procurement to attract contractor and labor capacity, motivate the right behaviors, and remain resilient under delivery pressure.
- **Tool integration** – Recognize that the team’s capacity to coordinate interfaces can become the program constraint, particularly as the facility transitions to operation during ramp-up.

Taken together, these issues require a step change in design and delivery. Relatively fixed “model project” approaches that worked on previous programs may not succeed if they cannot respond to a more fluid operating environment. Equally, engineering solutions optimized too closely to current technology can create new constraints as tools and systems continue to evolve.

Fresh thinking, the latest digital design and project management technologies, and an assured approach to change management and risk-taking are all needed to address the delivery challenges associated with design, specification, construction, and integration. Clients understand their product and process. They need support from project teams that recognize the wider delivery equation, including the lifecycle priority for reliable output rather than simply construction completion.

Solutions: Opportunities to beat the market in manufacturing capacity delivery

Arcadis teams are led by a manufacturing mindset. We understand that the predictability and consistency of the manufacturing process are a function of the quality of the inputs, including design, specification, and QA/QC. We also recognize that new ways of working are needed to

deliver a lower cost of operation and a dependable route to faster commercial operation. To support this, we are introducing new solutions to help clients capture opportunities in fast-changing markets.

Low-cost equipment sourcing

One of the greatest constraints on manufacturing development is the availability of precision production equipment within an acceptable lead time. Assured sourcing of high-quality mechanical equipment, such as bioreactors, from low-cost producers such as China, with deep supply chain capacity, is a credible response that can deliver a CAPEX saving of 20% compared to conventional sourcing.

Overcapacity in global manufacturing means additional supply is unlikely to come onstream quickly. Clients should therefore seek access to capacity where it exists rather than where they would prefer it to be.

Our experience is that the Chinese manufacturing sector combines high robotics density, strong

productivity, and the scale to support a rapid route to market using the latest technologies.

High levels of automation also deliver a consistent product, enabling quality assurance through technical specification, audit processes, and physical checking in-country.

Clients still need local support to provide assurance and must ensure that after-sales service infrastructure is in place. However, low-cost country sourcing can meet quality, cost, and program requirements while improving the ability to deliver against challenging budgets and timeframes through access to deep and highly productive overseas supply chains.





Maximizing the potential of AI and technology

AI tools are transforming the efficiency of the design and engineering process. At the front end, generative design technologies can take the constraints of the space program, the site, and functional adjacencies to develop multiple master planning options based on millions of computations. Expert input is then focused on the logic of the modeling and the refinement of the design outputs.

As design engineering progresses, technology supports detailed scheduling and the development of a fully coordinated design. Modelling and simulation support a Quality by Design (QbD) approach that links design parameters to the end process and product, including system interfaces and equipment integration.

The result is greater assurance that the plant will meet operational requirements, supporting faster mobilization, and earlier value realization.

Digital twins also hold significant promise for advanced manufacture, although they are not yet fully exploited as part of the Industry 4.0 roadmap. Detailed component-level 3D modeling is established, but fewer clients have integrated live, whole-life operational data aligned to the wider IT-OT strategy. Over time, digital twins will support plant optimization and operational resilience. In the meantime, they are already contributing to greater assurance in the facility's design and delivery.

Design rationalization

Design rationalization has long been a powerful tool in the delivery of manufacturing plants. In previous investment cycles, a reference design approach, with locked standards and well-defined interfaces, delivered significant improvements in productivity and quality.

However, the reference design model's benefits are being reduced by the speed of innovation, shorter product cycles, and the scale of current programs. On many schemes, multiple projects are effectively being delivered within a single megaplant investment. In this context, the project design itself is becoming the reference model.

Under this model, design rationalization is best focused on adaptability and tool integration through a plug-and-play approach to near-universal primary services provision. By adopting a loose-fit, checkerboard approach to services design, rather than a process-optimized, tool-specific servicing strategy, the plant can be future-proofed, reducing long-term operating costs while increasing flexibility and resilience.

A “copy smart” approach differs from the “copy exactly” model by placing greater emphasis on process than on standards alone. This enables a faster cycle of change, testing, and approvals, which can be difficult to manage within a locked reference model.

Managing the scale and complexity of tool integration

As plants become larger and more complex, and as technology cycles accelerate, the challenge of tool integration has grown exponentially. Project teams understand its importance but may underestimate how the integration requirement scales not only with the size of the facility, but also with the additional constraints that emerge as production ramps up.

The response is a commissioning-led design approach, working backward from first-batch production, with design development specifically tasked to mitigate risks around tool installation. Technology can support this through dynamic interface management and detailed recording of the process for each connection.

Ultimately, tool integration is a management and organizational challenge, focused on minimizing the ripple effects of inevitable change, dependencies between systems, and the reduced tolerance for disruption as operations take precedence over capital delivery. By addressing interface management from the earliest stages of design and construction, project leaders can keep teams aligned to the client’s goal of an on-program start-up that delivers the expected yield and operational performance.

Conclusion: Building to perform

The gold rush phase of advanced manufacture investment is giving way to something harder: disciplined execution. In today’s market, success will not be defined by the volume of investment alone, but by the ability to convert capital into reliable, productive output at speed. That demands more than scale. It requires smarter sourcing, more flexible design, better use of technology, and much tighter

control of integration and change. The next wave of winners in advanced manufacture will be those who do not simply build capacity, but build it to perform and respond to change.





Country profiles

Europe and UK

After declining in 2024 and stabilizing in 2025, there was a possibility that 2026 might have seen growth return to the European construction sector. Improving confidence among contractors, an increasing number of permits for new housing, and extra infrastructure investment were all seen as drivers of recovery. However, recent changes to tariff regimes and three months of conflict in the Middle East pushed the European Central Bank to end the interest rate cutting cycle in Europe, raising rates in June for the first time since September 2023. This move came alongside higher inflation forecasts for this year and next, plus lower growth projections. Despite news of a recent peace deal, the continued uncertainty, coupled with an end to the EU Recovery and Resilience Facility (RRF) funding at the end of this year, mean that the prospects for a construction recovery now look fragile at best.

Belgium

Belgium's construction sector remains stagnant, restricted by high financing costs, permitting delays, and contractor capacity issues. With sentiment fragile and building permit issuance levels close to long-term lows, the situation shows little sign of changing anytime soon.

Belgium saw GDP growth of 1.0% in 2025, down marginally from 1.1% in 2024, impacted by subdued demand from key European trading partners. The OECD's latest forecast projects GDP growth falling to 0.7% in 2026 but improving slightly to 1.1% next year, with global trade uncertainty likely to weigh on exports and business investment.

The construction sector saw real terms output growth slow to 0.5% last year, from 0.8% in 2024, dragged down by a 1.2% year-on-year fall in building construction as residential and commercial building remained under pressure from elevated costs, complex permitting processes, stricter sustainability standards, and persistently high mortgage rates.

Such factors also contributed to 2025 being a record year for construction insolvencies, with Statbel data showing the sector recording 2,780 bankruptcies last year, a 6% increase compared to 2024 and 43% above the long-term average of the last 10 years.

Data centers continue to represent a key segment of the Belgian construction market, with activity accelerating sharply in 2025. Data shows the country is on track to double its national data center capacity by 2027, although new regulatory requirements around energy performance and power availability issues are a drag on progress.

The outlook for 2026 is not particularly favorable. Total building permits for new dwellings in 2025 were down 3.5% from 2024 and was the lowest annual total since 2002. Sentiment at the start of 2026 is fragile, with business confidence weakening after a brief uptick at the end of 2025. That said, consensus forecasts point to low construction growth this year of 0.8%, led by infrastructure, energy, and public works, with residential building expected to recover even slower.



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Belgium's weak construction sector shows little sign of improvement in 2026 with early data indicating building activity is still subdued, restricted by high financing costs, permitting delays, and contractor capacity issues. Faster disbursement of remaining REPowerEU funding, together with associated permitting reform, may offer some hope.



Fouad Boukhrissi

Cost Manager,
Consultancy

France

The French economy maintained modest momentum in 2025, with annual GDP growth easing to 0.9% from 1.1% in 2024, constrained by weak domestic demand and policy uncertainty. A similarly subdued outlook is expected for 2026, with various institutional forecasts, including from the OECD, aligning to growth of 0.7 to 0.9% in 2026, with risks on the downside if the effects of the Middle East conflict persist.

The construction sector continued to face headwinds in 2025, with forecasts suggesting the French construction industry is likely to have contracted by around 1.3% in real terms over 2025, owing to falling building permits, labor shortages, political uncertainty, and a high government deficit.

This, in turn, has led to a major slowdown in investment momentum. Financing costs remain above average, which has caused weak demand. Developers and clients remain cautious, leading to delayed or canceled projects rather than new starts. The outlook is not great for 2026, with sentiment among French construction firms deteriorating to its most pessimistic since October 2014.

On the residential side, data from the National Institute of Statistics and Economic Studies (INSEE) shows that the total number of dwelling units authorized in 2025 rose by 15% to 379,000—a welcome reversal following steep declines in 2023 and 2024. This was fueled by improving financial conditions and targeted government interventions.

There was also a 5% rise in housing construction starts in 2025, although this was against a cumulative fall of 21% in the previous five years.

Key drivers for growth in 2026 include energy infrastructure, transportation, and most notably, digital infrastructure, where the standout opportunity remains data center construction, driven by AI demand. Following last year's Paris AI Summit, at which a €109 billion investment was announced, activity is now moving from pledge to pipeline and construction activity is due to accelerate rapidly.

Large hyperscalers are ramping up their presence outside Paris, resulting in major technological changes in data center construction, such as the use of liquid cooling technology. In response, some investors are also changing their business models.



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While near-term prospects remain cautious, strong data center activity, together with pockets of structural demand in infrastructure, energy, and targeted housing segments, are likely to support modest construction market growth in 2026.



Hassen Naifer

Senior Cost Manager,
Places

Germany

Germany’s construction industry has faced significant headwinds in recent years, with elevated interest rates and labor and material cost inflation collectively reducing demand. Increasing infrastructure activity was leading to tentative signs of growth in early 2026, but this has now been tempered by recent geopolitical uncertainty, causing contractors to become increasingly pessimistic about the outlook.

After two years of recession, the German economy edged back into positive territory in 2025, recording GDP growth of 0.2%, primarily driven by increased household consumption and government expenditure as exports were impacted by tariffs. Three months after the Iran war started, the Organisation for Economic Co-operation and Development (OECD) downgraded its GDP forecast to 0.7% for 2026 and 1.1% for 2027, with predicted increases in public spending on defense and infrastructure offset by increased uncertainty in private investment.

The German construction sector—the largest in Europe—has suffered a torrid few years, contracting by more than 10% between 2020 and 2025. However, sentiment across construction firms rose for the first time in almost four years at the end of last year, boosted by a surge

in civil engineering activity, which saw purchasing levels rising at their fastest since 2011. Firms in that segment are beginning to benefit from the government’s €500 billion special infrastructure fund, which the German parliament approved in March 2025, with expectations that the first substantial activity will occur by the end of 2026.

In residential, total building permits for dwellings in 2025 reached 238,500, an 11% increase on historic lows in 2024. While this would be a notable reversal after several years of steep declines, it won’t feed through to activity on site until 2027. The trough in permits recorded in 2023 and 2024 are still impacting current output levels, with the German Economic Institute (IW) expecting housing completions to fall to around 215,000 units in 2026, down from 252,000 recorded in 2024.

Despite weak activity in residential and commercial markets, the pick-up in defense and infrastructure spending was feeding into pre-conflict forecasts of 2.5% growth in the overall construction market in 2026. Examples include €40 billion earmarked to modernize the railway network by 2027, plus a €50 billion investment plan from Energie Baden-Württemberg AG to expand transmission networks and build new wind, solar, and hydrogen infrastructure by 2030. Defense-related construction will gather pace as Germany ramps up military spending toward its NATO commitments. However, while civil engineering remains the key upside, geopolitical events mean the prospects for real-terms growth across the whole sector this year now look less certain.

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Power transmission and rail infrastructure projects, together with further strong demand for data centers, will continue to drive the German construction industry. However, the overall outlook for the year ahead will be governed by the effect of geopolitical events.



Mehtab Ijaz
Project and Cost Manager,
Berlin



Ireland

Just as the Irish economy appeared to become more predictable, new sources of uncertainty emerged, including a new tariff regime and disruption in the Middle East. This could slow construction's recovery after a disappointing end to 2025.

The Republic of Ireland's domestic economy grew by a robust 4.9% in 2025, according to official figures using the modified domestic demand (MDD) method. Irish GDP, which is heavily dependent on the activities of multinational companies, grew by 12.3% last year. The Central Bank of Ireland forecast an annual average MDD growth rate of 2.8% for 2026–2028. While only a marginal downgrade from its pre-Middle East conflict projections, it did warn that under a more severe energy shock, MDD growth could be reduced to just above 2%.

Ireland's construction sector demonstrated resilience last year amid cost pressures and capacity constraints. Leveraging strong public-sector pipelines and sustained housing demand, building and construction investment recorded a very healthy 9% growth in 2025. A total of 36,284 homes were completed, which was a 20% rise over 2024 and the highest annual level since 2018.

However, in terms of construction activity overall, a rapid expansion at the start of 2025 fizzled out in the second half. CSO data showed output for the year in real terms was up by 4.9% by Q4 2025, but that activity was contracting across all sectors by the end of the year.

For 2026, latest sentiment among construction purchasing managers points to greater confidence in the housing market, but potential for contraction in the civils sector. Nevertheless, demand fundamentals remain strong, and forecasts suggest continued construction growth through the year, boosted by government investment and policy-driven transformation across housing, infrastructure, and sustainability. In the data center space, a shift from clients toward power-led site origination to ensure projects can de-risk grid uncertainty will likely feature more in the years ahead.



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For 2026, Ireland's construction market will be supported by major infrastructure projects currently under procurement alongside ongoing strong housing demand. However, new sources of uncertainty such as an updated tariff regime and disruption in the Middle East could slow progress.



Fintan Kenny

Senior Commercial Director

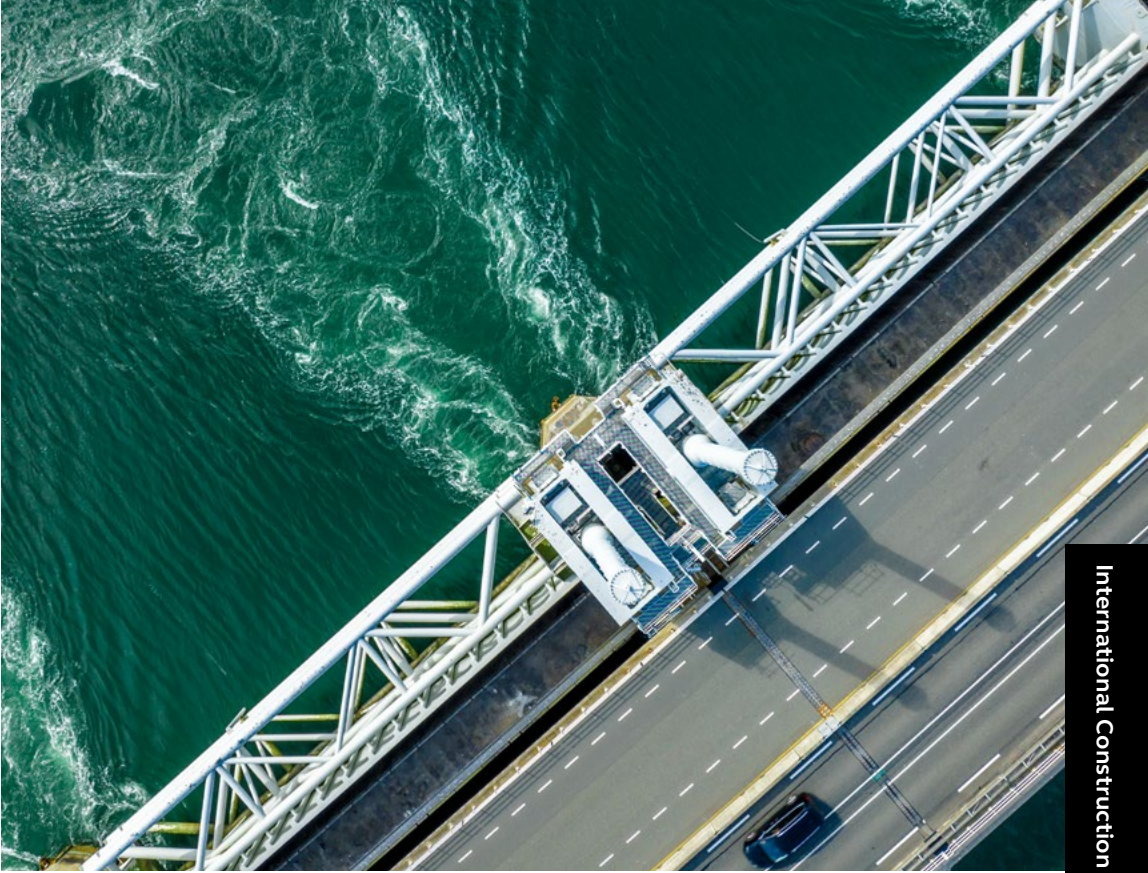
Netherlands

The Dutch economy grew by 1.9% in 2025, a notable acceleration from 1.1% in 2024, driven by improved government spending and stronger growth in exports. Further economic growth is expected in 2026 and 2027, albeit at lower rates of 1.0% and 1.4% respectively according to the OECD, with rising prices following the energy crisis starting to dampen consumption according to more recent economic forecasts.

Dutch construction sector activity almost mirrored that in the wider economy, witnessing a modest 0.5% volume output growth for the year, representing a significant turnaround from the 2.9% contraction recorded in 2024. The expansion in 2025 was supported by improved investor confidence and increased spending on transport, renewable energy, and public infrastructure projects. However, the sector still faced higher material costs, while residential construction remained under pressure. Construction permits for new homes totaled almost 86,000 units last year, down 9% from 2024, with nitrogen emission rules, grid congestion, land shortages, and lengthy permitting processes continuing to hold back delivery.

There was some good news, with Statline data on construction insolvencies revealing there were 488 last year, a fall of 21% from the 9-year high of 618 in 2024.

The infrastructure segment was the standout performer last year, with the volume of activity rising by 7% across 2025, driven by sewerage improvements, flood defense reinforcement, and power grid expansion to support the energy transition. Data center construction continued to be another bright spot, with demand from cloud providers, AI workloads, and sovereign digital infrastructure driving a pipeline of new projects. Due to the continued embargo on new connections in the Amsterdam region, the market is expanding to include cities such as Rotterdam, Zwolle, and Groningen. Early 2026 indicators and surveys suggested cautious improvement in contractor sentiment, particularly in infrastructure and energy sectors, though residential developers remain concerned by financing and regulatory hurdles.



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Insight into risks, costs, and cost trends, together with proactive management and fair settlement are essential to keep construction projects affordable and feasible. This applies to the client, contractor, installer, subcontractor, and supplier.



Ted Peek

Head - Commerce and Business
Development, Cost, and Data
Management

Spain and Portugal

While Spain's economic growth moderated in 2025 compared to the previous year, the 2.8% increase in GDP saw the country again outperform the euro area average by a significant margin. In Portugal, the economy saw growth of 1.9%, the same as in 2024. The OECD recently marginally upgraded its growth forecast for Spain this year to 2.2%, while downgrading its GDP prediction for Portugal to 1.8%, even as final RRF disbursements are expected to boost public investment.

Spain's construction sector expanded strongly in 2025, with output estimated to have grown by around 4% in real terms, slightly ahead of the forecast 2.5% in Portugal. Drivers include falling interest rates, lower levels of construction cost inflation compared with 2024, and a rush to use NextGenerationEU funds before the window closes. Infrastructure was the standout performer in Spain, boosted by RRF monies channeled into transport and renewable energy projects. In the residential sector, housing starts are forecast to have reached 135,000 in 2025 according to Euroconstruct, representing a 5.5% increase on 2024 totals.

In Portugal, meanwhile, latest data from Statistics Portugal also highlights robust activity in the housing sector, with the number of new dwellings completed rising by 9% in the three months to September and the number of new residential dwelling permits up by 7% in the same period, following a 20% rise in the previous quarter.

Looking ahead, growth in Iberia is being driven by data centers—especially in Aragón, Madrid, and Lisbon—EV- and battery-related industrial projects, renewable energy infrastructure, and transport upgrades, alongside highly resilient hospitality and logistics sectors. However, sustained workload is putting pressure on skilled labor availability and specialist trades, particularly mechanical, electrical, plumbing, and digital infrastructure expertise. This contributes to longer lead times and firmer pricing in in-demand sectors.



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2025 tested the sector's discipline more than its ambition. Grid constraints, labor pressure, and tighter capital conditions forced clients and contractors alike to be more strategic and selective, but the market responded with greater collaboration, earlier procurement engagement, and sharper risk management. This underlines that well-positioned, resilient markets like Spain continue to attract high-quality investment.



Emilio Garcia
Head of Cost Management,
Iberia

UK

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 contracted. In 2026, construction remains in the slow lane, impacted by affordability constraints and the viability gap, although prospects in infrastructure are looking up, despite further uncertainty from the Middle East conflict and the prospect of a fifth prime minister in the last five years.

The UK economy grew by 1.3% in 2025. However, most of this was front-loaded, with negligible growth of 0.2% in H2 2025. Latest OECD forecasts suggest growth of 0.9% this year, rising marginally to 1.1% in 2027 as conflict in the Middle East has reversed expectations of early cuts in interest rates and has heightened inflationary fears.

Construction has found itself in a much weaker state despite the prospects of significant programs of work from the public sector and the regulated utilities. Although total annual new build output grew by 1.8% in 2025 compared to 2024, momentum slowed as the year progressed, and all sectors except public non-residential contracted at the end of the year. Indeed, overall new build output fell for two consecutive quarters since the summer, indicating a technical recession.

The root causes remain unchanged: affordability, viability, and consequential slow decision-making by clients.

Further evidence of a two-speed market continues to develop. Some sectors, such as commercial and infrastructure, are seeing signs of recovery with the pipeline of future workload growing strongly. However, the residential sector continues to sputter, particularly the High-Risk Building (HRB) sector where many schemes face viability challenges despite passing through the Gateway 2 process. The UK has a large roster of megaprojects, which are becoming increasingly important as a source of work, including big expansion programs in energy and water network infrastructure and a major program of data center development.

However, slower than expected progress with some of these will likely dampen demand for contractor capacity.

Latest construction forecasts for 2026 have been downgraded significantly, from growth of about 1.7% to a contraction of 2.5%. Economic and construction product price inflation resulting from the Middle East conflict have now been added to the already existing pot of ongoing economic uncertainty, weak demand, and high interest rates.



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Construction markets may be approaching the bottom of the cycle, but it is too soon to call a recovery. Greater optimism in some commercial and public sector markets is not being matched elsewhere, especially in residential. While there are some reasons to be positive, it is currently a one-step-forward, two-steps-back market.



Christian Betts
Senior Commercial Director



Country profiles

Asia-Pacific

Across the region, the key structural themes shaping near-term growth remain broadly consistent: digital infrastructure investment is accelerating rapidly; infrastructure and energy transition programs are providing reliable public sector workloads; and residential construction is showing tentative signs of stabilization after a difficult period of elevated costs and suppressed demand, or in some cases, oversupply. However, the fall out from the conflict in the Middle East introduces further downside risk. Forecast growth rates remain vulnerable, not only to trade protectionism, but also to the broader macroeconomic and supply chain impacts of global geopolitical conflict.

Australia

Australia’s economy improved from 2024’s historic low, and construction delivered solid growth. Yet the sector’s structural weaknesses remain, and industry data suggests that the key constraint is timing, not demand. The upside is that targeted interventions, including procurement restructuring, are proving effective in breaking bottlenecks.

Economic growth recovered from the 32-year low of 1.1% in 2024 to 1.8% in 2025, helped by real wage growth as inflation eased and interest rate cuts filtered through to households. Despite conflict in the Middle East, the OECD expects similar growth this year and next, although their forecasts are about 50 basis points below earlier predictions.

Construction output strengthened meaningfully in 2025. Australian Bureau of Statistics-based reports show the sector expanded by around 3.7% in real terms, driven by transport infrastructure, renewable energy investment, renewed housing activity, and strong industrial projects. Residential construction was a standout, lifting 8.3% year on year—its strongest performance since 2016.

Insolvencies remain a major pressure point, with official data recording a 21% rise in construction firm failures in FY 2024 to 2025,

reflecting ongoing cost strain. However, the deeper structural issue is the widening gap between approval and delivery of schemes. Project pipelines are large, funding is committed, and approvals accelerated late in 2025, yet fewer projects are reaching site. Extended pre-construction phases, slower mobilization, and fragmented procurement have led to many projects remaining stuck after approval.

However, solutions are available. In one recent case, Arcadis deployed a procurement restructure to restore contractor confidence and allow a project to proceed.

Looking ahead, governments are now moving to relieve these constraints. Accelerated approvals, clearer institutional frameworks such as New South Wales’ Housing Delivery Authority, re-sequenced programs including Queensland’s health infrastructure pipeline, and early mobilization for Brisbane 2032 venues are all aimed at restoring delivery flow. Public clients are also engaging earlier and setting more predictable pipelines to ease the shift from planning to construction.



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Despite project approvals surging, delivery stalled in 2025, resulting in further cost inflation. But there are potential solutions to unlock progress.



David Ball
Director - Cost and
Commercial Management

Mainland China and Hong Kong

While both mainland China and Hong Kong saw sustained economic growth in 2025, their construction markets both contracted, driven by continued slumps in private sector residential activity. Infrastructure and data centers provide opportunities for growth in 2026.



China's economy officially saw growth of 5.0% in 2025, the same as in 2024, boosted by household consumption and export diversification away from the US. However, expansion decelerated as the year progressed, and as China transitions into the 15th Five-Year Plan period (2026–2030), the government has set a growth target this year of 4.5% to 5%, which is the lowest range in decades. Leaders warn of growing “difficulties and challenges” in the economy, compounded by the continued deep downturn in the property market, which remains “in a period of adjustment”.

Hong Kong's economy is forecast to grow by 2.5% to 3.5% in 2026 after expanding by 3.5% in 2025, marking the third successive year of GDP improvement. Despite downside risks to the economic outlook due to tensions in the Middle East, growth was 5.9% in 1Q 2026—the strongest quarterly rise in nearly five years. In construction, the story has been less encouraging, with official data

showing that total construction output fell by 4.5% in real terms in 2025. Despite a 6.2% rise in public sector output, the overall figure was negative due to a 19.2% real terms contraction in private sector activity. Part of this was due to lower residential development, with Housing Bureau data showing 18,400 private housing units were completed last year, still slightly ahead of the long-term average of 18,000, but down from the 10-year high of 24,300 in 2024.

Despite strong public infrastructure and utility investment, China's construction market contracted by 1.1% in 2025, according to latest estimates. Aside from some US tariff impact, it was a deep real estate downturn which was the main contraction culprit, with real estate development investment falling by over 17%, while new construction starts declined by over 20%. Residential now accounts for less than 60% of the Chinese construction market, down from a pre-pandemic peak of 68%.

At the start of 2026, demand is contracting and competitive pressures are intensifying, leading to sentiment in construction falling to a 5-year low PMI score of 48.2 in February. However, forecasts suggest construction market growth of 1.3% this year, with a rebound supported by government financial incentives and loans directed at energy and industrial construction. 10 new nuclear reactors were approved in April 2025. The data center construction market in China is forecast to increase again in 2026, with major internet firms expected to spend over US\$70 billion on data centers, with a focus on new liquid-cooled projects.

In Hong Kong, the contraction in private sector work continues to fuel intense tender competition heading into 2026. Private construction is projected to stay subdued in the coming year, given recent declines in total gross floor areas with consent to commence and start notifications.

Instead, public sector projects are likely to remain the key anchor for overall construction activity in Hong Kong this year, with work on schemes like the Kai Tak Smart and Green Mass Transit System due to start in 2026.

“Conventional new-build development in Greater China faces margin compression from declining starts in 2026, while urban renewal, retrofit, and net zero projects emerge as primary growth drivers. In Hong Kong, optimizing the project procurement model to lower risk premiums on major schemes will be crucial to ensure delivery. We forecast a moderate 1.5% decline in construction costs for 2026, driven by reduced demand, heightened competition, and stable material costs amid shifting sector dynamics.



Joe Chan
Head of Cost and Commercial Management,
Greater China

Country profiles

North America

The North American construction market is currently navigating a period of cautious transition, following a year characterized by high borrowing costs and material inflation. Trade tariffs appear to have had more of an effect in the US than on other global regions or in neighboring Canada. With ongoing uncertainty around tariffs, together with the potential for long-term economic disruption caused by conflict in the Middle East, the outlook for the construction sector is muted, although high-growth sectors such as data centers, semiconductors, and life science projects will continue to drive activity, despite recent hikes in copper and aluminum prices.

Canada

Despite turbulent trade and investment conditions, Canada's economy saw a modest rise in 2025, boosted by solid growth in the construction sector, where infrastructure and housing investment were major standouts.

Despite a drag from US tariff measures that hit Canadian exports, the country's economy still managed to grow by 1.1% in 2025, boosted by a rise in government capital spending under new Prime Minister Mark Carney. Port development and improvement projects was a standout emerging market and is expected to continue increasing in 2026, driven by the combined aims of reducing barriers to infrastructure development across Canada, and by plans to diversify trade away from the US. Several port initiatives are being supported by the Major Projects Office, including the Contrecoeur Container Terminal development near Montréal and projects in Churchill, Manitoba. Liquefied natural gas pipeline and port development in British Columbia and the Roberts Bank Terminal 2 scheme in Vancouver are also prominent.

In rail, the Alto high-speed line and a major expansion and electrification of the GO rapid transit network are among the schemes moving forward.

Statistics Canada reported a 4.8% real terms rise to CAD\$254 billion in the total investment in building construction in 2025, although the overall figure masks a two-speed market, with reductions in industrial and commercial investment offset by gains in residential activity. Overall, the sector is estimated to have grown 2.2% in real terms in 2025—a solid performance given headwinds from US tariffs on steel, aluminum, and timber. The outlook is positive too, with a record high of 308,600 residential building permits issued last year, together with strong growth in the value of institutional permits, aided by some large hospital schemes, and gains in commercial building approvals.

There was also better news regarding construction insolvency filings, with the total for 2025 falling by 16% to 742—the first annual total decrease since 2020.

November's 2025 federal budget brought with it about CAD\$32 billion in new construction-related spending over the next five years, according to analysis by the Canadian Construction Association. However, workforce constraints, rising costs, and supply chain disruption linked to geopolitical conflict could impact delivery. Meanwhile, data center construction growth looks set to continue, with over 35 upcoming colocation and hyperscale projects across Canada expected to contribute approximately 10 gigawatts of new capacity in the next few years, especially in Ontario and Alberta.



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Federal spending on transit, ports, energy, defense, and healthcare is expected to drive further construction growth in 2026.



Catherine Bruen

Business Unit Leader,
Cost and Commercial

USA

The impact of tariffs and general uncertainty is leading to static or even slight contraction in construction markets across several sectors. This trend is expected to continue in 2026, although further stellar growth in data center activity will provide a bright spot.

The US economy slowed in 2025, growing by 2.2% compared with 2.8% in 2024. While business investment grew healthily, driven by AI expansion, this was offset by the 43-day federal government shutdown and by residential investment falling in every quarter last year. The OECD recently maintained its GDP forecast for 2026 at 2.0%, and marginally upgraded predictions for 2027 to 1.8%, despite ongoing tensions in the Middle East.

The construction sector contracted last year, with US Census Bureau data showing that the total value of construction put in place fell 1.4% in 2025. Public construction held up, supported by federal infrastructure spending, but was not enough to offset private sector contraction. Bureau data showed that total housing starts fell 0.6% last year, while housing permits for construction declined 3.6% to 1.43 million.

A recent survey by the Associated General Contractors of America (AGC) found that 70% of construction firms were affected by tariffs last year, with 40% raising bid prices and

20% adding price-adjustment clauses to contracts. Cost pressures look set to continue in 2026, as additional tariff changes announced in February and the ongoing Iran conflict will fuel further disruption and uncertainty, as recent construction sentiment surveys indicate.

Construction of data centers, power facilities, and healthcare projects provide the strongest opportunity for growth. Data center investment spending in the US is estimated to have topped \$425 billion in 2025, and growth is continuing this year. ConstructConnect data shows 76 data center projects are due to start in the US in the first half of 2026, valued at over \$88 billion. Such demand has driven costs per square foot sharply higher over the past five years, at a compounded annual growth rate of 18% since 2020. Despite this, many data center clients appear undeterred by potential further cost increases caused by tariffs and are instead maintaining momentum.



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Our biggest challenge in 2025 was undoubtedly capturing the market's price point for delivering projects against the backdrop of tariffs and the price stability of imported materials. Contractors were still eager to win work, but there was a lot of uncertainty for them. Buying early, locking prices where possible, or seeking alternatives were the way to go. Stability and certainty were harder to achieve. 2026 may have similar challenges and also be impacted by other world events that will flow through the industry.



David Hudd
National Discipline Leader,
Cost and Commercial
Management

Methodology

The Arcadis International Construction Cost Index covers 100 cities. The index is based on a survey of construction costs which covers 20 building functions. This data is supplemented by a review of market conditions in each city combined with the professional judgment of a global network of experts.

We collect indicative cost ranges for each building function for each city. The low and high range costs for each building type are converted into US dollars (USD). They are normalized and indexed against the cost range for equivalent buildings in Amsterdam, where Amsterdam = 100. We calculate an index range for each city comprising the low and high values for each of the 20 building types.

The data was collected in the first quarter of 2026.

Costs used to calculate the index are based on buildings delivered to local specification standards, meeting both functional requirements and quality expectations.

As a result, the index compares the relative costs of delivering the same building functions in a city, and also reflects the different levels of quality expectation reflected in a specification.

Costs covered in the index exclude land, demolitions, external works and services, and risk allowances. This means that major sources of variability are removed from the index. Similarly, we exclude costs of professional fees and local sales taxes.

The index does not take into account purchasing power parity. The construction cost data used in the index is current as of the second quarter of 2026. The exchange rates used to calculate the index were current on 27 May 2026.



We would like to thank the following organizations for their support in providing data for the ICC 2026 report.

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About Arcadis

Arcadis is a leading global partner, delivering some of the world's most transformative projects with businesses, cities, and industries. With 36,000 people active in more than 30 countries, we bring together the best minds from around the world to deliver intelligent products and solutions across the environment, energy, water, buildings, transport, and infrastructure sectors. We take design, engineering, architecture, and consultancy to the next level, advising clients at every step of every project, and combining our human and digital intelligence to co-create environments that reflect our clients' and stakeholder needs. We are committed to solving today's greatest challenges, creating a blueprint for a better future, designed to thrive.

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