

2025 CONSTRUCTION TRENDS:

Overcoming challenges and driving growth



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Executive summary

Entrenched challenges and demands in the construction industry continue: shorter project timelines, increasing costs, and pressure to do the work with fewer skilled tradespeople available to help.

The U.S. economy has rallied in recent months, and indicators hint it will continue to improve — but some construction sectors, especially commercial and multifamily builds, remain sluggish, and a promised infrastructure boom has been slower to materialize than expected.

In response to all these challenges, the construction industry is banding together. Companies are

adopting new project delivery methods — all enabled by increased technology use — that introduce collaboration earlier in the process.

This report looks at the economic forces that are impacting construction methodology, and how industry players are looking to new opportunities in artificial intelligence (AI), prefabrication and integrated project delivery (IPD) in response.

Introduction

Through 2024, many experts **warned** that a recession was looming in the U.S. Inflation was rising, alongside unemployment numbers. Toward the end of the year, the economy began to look up, so many experts finished out the year with a distinct air of cautious optimism.

The U.S. economy is in good shape, but government leaders are maintaining slow and measured behaviors to keep the momentum going. Infrastructure investment, labor force improvement and dipping interest rates all look promising for the construction industry. The rise of AI technology and robotics will also give owners, developers and contracting firms the power to do more with less, bolstering expectations for streamlining construction operations to help offset risks.

The key influences heading into 2025 include:

- The Fed decreased interest rates, but hopes that a second dip before the end of the year have been dashed. Forward momentum will be slow and measured.
- Resulting increases in construction demand have lessened.
- Construction wages have increased, but an industry labor shortage continues.
- Technology like AI, robotics and prefabrication holds possible answers to labor challenges.
- Supply chain risk appears to be a new normal and is expected to extend into 2025.

Construction companies, buckle up: The new year holds a lot of promises, but those who thrive will do so by keeping an open mind and an innovative spirit.

Global and national economic environment

Overall, 2024 was a good news story for the U.S. economy. The threat of recession shrank as customer spending grew and the labor market remained strong.

U.S. GDP increased through the first half of 2024, as did current-dollar personal income and disposable current income. However, concerns about inflation still weaken economic outlooks for the year ahead. While inflation has slowed, it hasn't settled back into "normal" terrain. The Consumer Price Index (CPI) rose 0.2% in September, with food and shelter costs up, following identical rises in July and August. Over the last 12 months, the all items index increased 2.4 percent.

After much anticipation, interest rates saw a half-point cut in September, from 5.3% (the highest in two decades) to 4.8%. It was the first cut since March 2020. The news is welcome, as lowered interest rates can have a cyclical effect on consumer spending, investment and job growth.


"When short-term borrowing costs are lower, consumers can spend more, which is the backbone of the U.S. economy," says Jay Denton, chief economist at Radix. "When businesses save on borrowing costs, they can put that back towards hiring or investments like business expansion, including more office space and equipment. This stabilizes the labor market, which leads to further economic growth."

Many hoped further interest rate cuts would come before the end of the year, but movement on that metric is slow. Much of the direction on interest rates depends on ongoing employment rates.

Luckily, overall job growth has shown strength through the latter half of 2024. Gone is the fervor of the job market post-pandemic, but the cooling allows for a more sustainable level of growth. Construction job growth has outpaced the national average since the recession — especially for specialty trade contractors, who added 120,000 new jobs through September. The demand for labor, coupled with the shortage of available workers, has maintained the upward pressure on wages. "If you want to hire people or expand, it's just a competitive market," Denton says.

All this has led to cautious optimism that will impact the early part of 2025. Goldman Sachs lowered its estimation of recession threat to 15%, essentially the same as any "normal" period."

Outlook by sector



Construction continues to be a strong driver of economic growth, but some sectors are seeing far more action than others heading into a new year. “Some markets that are heavily focused on office and multifamily construction have just stopped,” says Stewart Carroll, chief customer officer at Beck Technology. “The office world has changed since the pandemic, and there’s excess capacity there.”

The private sector has added very few jobs to the economy, which affects the type of construction projects that are in demand. “Commercial office construction has been down and is likely to stay that way because there’s not a huge labor force to build for,” Denton says. Instead, federal funding to be allotted in the coming year will drive infrastructure growth.

Specifically, growth will likely come in the building of data centers, energy infrastructure and healthcare facilities in the coming year, Denton predicts. “Healthcare is going to add a significant number of jobs. It won’t just be hospitals, but also smaller suburban healthcare facilities.”

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Jay Denton
Chief Economist
at Radix

Government policy and regulation

Three years after the bipartisan infrastructure law was signed, \$454 billion in funding has been allotted to over 56,000 projects. As financing becomes more accessible with rate reductions, more companies may tap infrastructure funding.

Grants collectively worth \$830 billion, announced last April, were aimed directly at improving surface transportation routes and making them more resilient to changing climate conditions. The Federal

Highway Administration announced \$62 billion in funding for the 2025 fiscal year for 12 infrastructure programs.

Housing prices are not expected to go down any time soon. Though a crop of new houses has improved availability, borrowing rates for new buyers are higher than rates for those who already own homes, negating any incentive to sell. The Bank of America has suggested prices will climb an additional 5% in 2025 before a possible dip in 2026.

Labor market dynamics

Construction labor is in high demand and supply is low — a long-term trend. Construction workers are unemployed for the shortest duration across industries, Denton says. The tight labor market is likely to continue as many construction professionals reach retirement age, pushing wages higher for workers who remain. As fewer jobs are created, taking the incentive out of job switching, workers are increasingly **staying put**.

“High demand for construction workers is putting a lot of pressure on business owners,” Denton says, though he predicts the numbers are starting moderate to a more sustainable level. “As inflation is tamed, wages should start to moderate back to around 3 to 3.5% growth.”

Overall construction wages **increased** 4.3% over the last year. Wage levels exceed national private sector averages.

Still, in January 2024, Associated Builders and Contractors (ABC) **estimated** the construction industry would need to hire 501,000 workers in addition to normal-pace hiring in 2024 to meet the demand for labor. Recent interest rate cuts will likely spur still more building, further expanding the need for construction labor.

The labor shortage affects more than workers on job sites, Carroll says: It’s hard to find talent

to fill jobs across companies. “There just aren’t enough people coming into this industry,” he says. “A few years ago, companies were looking to do more with the people they employed. Now they’re looking for ways to do more with fewer people.”

Solutions to the labor shortage vary, but many companies are turning to new processes to make up for the shortfall. Technological tools like AI and digital platforms, upskilling current employees and integrating offsite building are expected to expand in the coming years. The market for AI in construction, for example, is **expected** to grow 24.3% by 2029.

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Technology and innovation

As the industry increasingly relies on digital tools in construction processes, companies will focus more on capturing and analyzing data to inform current and future work, Carroll says. “I think they’re starting to see that the real value in this industry is capturing knowledge and then using that knowledge as members of the team retire or leave the organization.”

They will also create further efficiencies by integrating siloed systems. To that end, do-it-all platforms are becoming more and more attractive to simplify tech procurement and integration within companies.

Artificial intelligence

While AI is capturing a lot of attention within the industry, successful use of the technology is still in its infancy. A few touchpoints already offer promising opportunities, however. For instance, AI can take 2D printouts supplied by architects and generate digital takeoffs, reducing a multi-day process into one that takes mere moments.

Further, AI tools can help make the most of the glut of data created on construction projects. “The most exciting thing about these new AI technologies is the ability to search and retrieve data from all the unstructured information that gets thrown off by construction projects,” says Andrew Zukoski, cofounder and CEO of Join Inc.

The unique nature of each construction project poses obstacles to collecting and making sense of all the available data from a construction site, and then applying it more broadly to new opportunities and experiences. That’s where AI can be a game-changer, Zukoski says. “AI makes it much easier to find and analyze data that’s relevant to answer questions or manage decisions. It lets us identify relevant opportunities for new projects and helps teams start from a better place.”

Still, the use of AI in construction is still in its infancy. Many construction companies are using AI for less complex tasks, such as to streamline communications like emails and meeting minutes, optimize supply chains and improve safety design. “There’s a natural skepticism in construction because it carries high risk and low rewards,” he says.

Early successes will be in AI technologies that are built seamlessly into the processes of

other digital products. “We can start layering AI into tools to suggest next actions based on the data and experience of the company. In that context, users can choose to take or ignore the suggestion without the intimidation of stand-alone AI tools,” Carroll says.

Since the industry is still exploring the capabilities and risks of AI technology, the focus remains on understanding and checking its work before acting on it.

Prefabrication

Prefabrication, which has always held a small share of the construction market revenue, is garnering increased attention with demonstrated success in other parts of the world.¹⁴ Offsite building can help alleviate labor shortages: It reduces the need for onsite labor and improves quality assurance efforts. This leads to more sustainable construction projects.

Still, manufacturing pieces of buildings offsite does present some natural challenges at scale, and prefabrication needs to be considered another tool in the box, not a magical solution to all construction challenges. Significant barriers include transportation and logistics, along with the demand for flexible and customized construction products. “Prefab thrives in standardization,” Zukoski says. “There’s a fundamental tension between the desire for uniqueness and those sorts of repeatable things.”

These challenges may mean that successful use of prefabrication will have specific use cases, rather than being used for entirely completed buildings. Hotel and condo developers, for example, might realize the benefits of repeated modules more than most. Repeatability often means the loss of choice, so it has to be applied appropriately.

Prefabrication may be more suited to producing repeated elements of buildings, rather than entire buildings themselves. “Let’s focus on things that are irrelevant to (aesthetic) design,” Carroll says. “Pieces like ductwork or wall panels can be prefabbed, which can always fit regardless of what designers do with the entrance or facade of the building.”

Ongoing risk factors and solutions

Going into the next year, builders face some significant headwinds — but they also have innovations and solutions to weather them.

Supply chain disruptions **remain** common, due to global political instability and climate disasters. In response, companies have spread their supply chain footprints in the last few years and have prioritized dual sourcing for many materials. Still, there is a lot of room to better manage these risks.

Integrated Project Delivery (IPD)

Supply chain risk squeezes contractors trying to shorten building schedules. The industry's response is to procure materials earlier and to overlap construction activities. Both solutions are possible with earlier collaboration with more stakeholders.

“One of the big reasons that owners are adopting collaborative project delivery methods is the ability to overlap activities,” Zukoski says.

The design process must support earlier materials procurement by first firming up those areas of design. “Procurement to design coordination is an exciting opportunity opened by these collaborative delivery methods.”

Increased data management and analysis needs

Increasing overlap between construction stakeholders calls for earlier and more robust collection of data to be shared, organized and accessed by more team members.

“There’s a lot more information flying around,” Zukoski says. “There’s a huge need to communicate really effectively with stakeholders who have different backgrounds. That’s a skill set that is becoming more and more important, particularly in manufacturing.”

By boosting process integration, construction teams can automate mundane activities, improve communication and collaboration with other teams, and harness the construction data for better performance over time.

“People are working to get access to as much data as they can,” Zukoski says. “There’s a lot of work in integration for that reason. Platform systems that already have some sort of data access as a natural product of the work process that is being managed inside of them.

Those sorts of systems are going to be best positioned to deliver value on top of the data.”

“We see more and more companies moving to platforms to capture data and improve coordination and communication amongst the stakeholders,” Carroll adds, “because it allows for better decision making earlier in the process.”

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Conclusion

Construction owners and contractors can look forward to a year of promise. However, taking advantage of this promise will involve making strategic decisions about the tools and processes involved in building projects. Increased collaboration, especially through earlier contractor involvement in projects, offers many opportunities to improve efficiency and project quality.

Construction management platforms that allow data to be collected, analyzed, organized and disseminated will become even more

important for contracting teams. AI tools will help companies get the most out of the construction data to improve these processes.

The key to the future in construction is working together effectively, using improved systems to get the most out of every dollar spent.

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