// Q4 2025

ARIZONA CONSTRUCTION MARKET PULSE

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SECTION ONE

ECONOMIC & CONSTRUCTION SPENDING OVERVIEW

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As we continue in 2025, the construction industry continues its upward trajectory, though moderate growth is expected in the year ahead as compared to recent years.

NATIONAL OUTLOOK //

Total U.S. construction spending rose 6.5% in 2024 (U.S. Census Bureau) and has grown by 2% in 2025 (FMI). However, in recent months estimates show that $2.14T worth of construction was put in place in July of 2025 nationally. This is almost 3.0% less than what was projected in July of 2024. So, there are signs of moderate slowing.

Strong performers in 2024 included manufacturing, public safety, and water infrastructure—each ending the year with more than 10% growth over 2023 levels. Meanwhile, multifamily, lodging, and commercial sectors experienced modest pullbacks.

The Consumer Price Index (CPI) saw a slight increase in Q3. While goods prices have leveled off, services remain elevated, and prices overall are still significantly higher than five and ten years ago.

Interest rates are expected to level-off, with the Federal Funds Rate projected to stabilize around 3.25% by September of 2026. The Federal Reserve took the first step towards this when they lowered the interest rate by 0.25% in September of 2025 and again in October.

AZ CONSTRUCTION ACTIVITY //

As of June 2025, market trends show a slowdown in Higher Ed, Industrial, Office, Retail, and Healthcare sectors. In contrast, K-12, Hospitality, Transportation, and Utilities are experiencing growth. Public spaces and Multifamily markets remain steady, according to AZBEX.

According to Rider Levett Bucknall, Phoenix saw the fourth-largest gain in construction costs, increasing by 4.8% in Q3 year-over-year.

ALMOST $244B ACROSS MORE THAN 3,000 PROJECTS IN AZ

PUBLIC PROJECTS: $62.2B

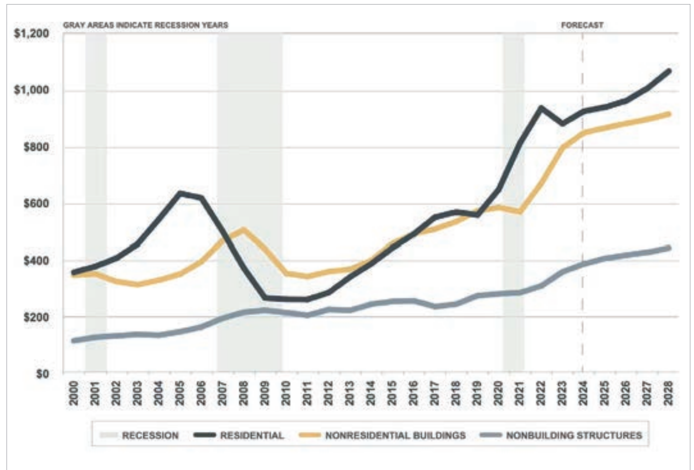
PRIVATE PROJECTS: $181.7B

*AS REPORTED BY AZBEX

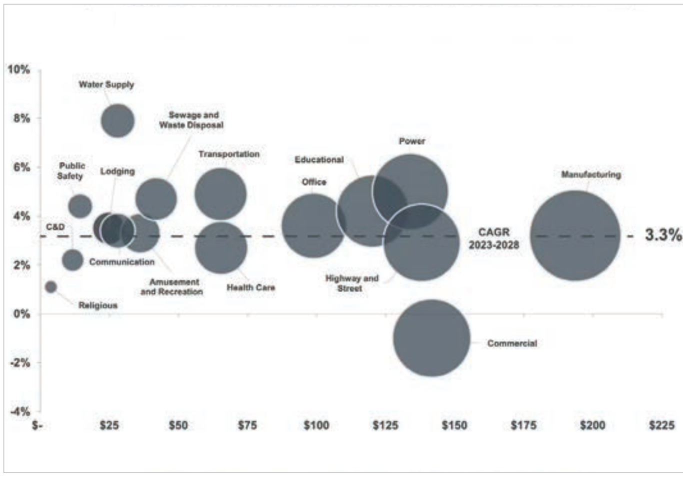
01

TOTAL CONSTRUCTION SPENDING

Estimated total construction spending put in place in the United States.



Source: FMI Forecast Q1 2025



Source: FMI Forecast Q1 2025

02

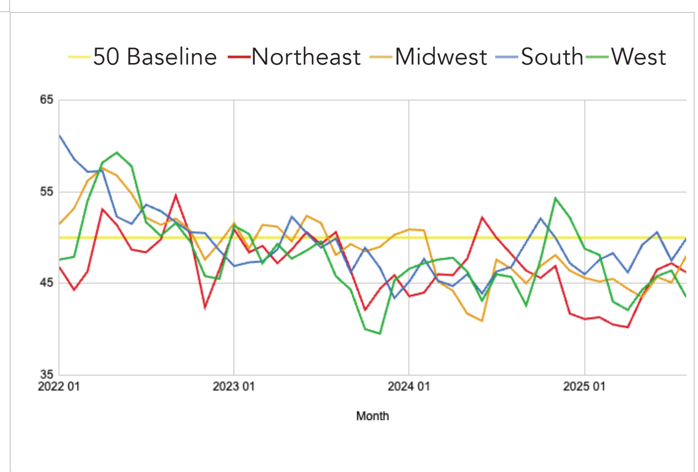
NON-RESIDENTIAL

Non-Residential Construction Spending.

03

NATIONAL ARCHITECTURAL BILLINGS

Architecture firm billings weaken significantly in December.



Source: The American Institute of Architects (AIA)

Source: S&P Global Market Intelligence

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MATERIALS PRICE

Materials price index by
S&P Global Market Intelligence.

SECTION TWO

CONSTRUCTION LABOR MARKET CONDITIONS

CONSTRUCTION LABOR MARKET CONDITIONS

The construction labor market remains stable in the short term, but ongoing challenges signal pressure on the industry's future workforce.

While current unemployment and wage trends reflect a healthy economy, labor availability, especially in skilled trades, continues to be a concern. This combination of skilled labor shortages, an aging workforce, and limited new labor supply could create long-term impacts on project staffing, timelines, and cost if not proactively addressed.

Looking ahead, by 2035, up to 20% of the current construction workforce is expected to retire due to demographic aging.

Immigration constraints further limit the pipeline of new talent entering the industry.

4.3%

NATIONAL UNEMPLOYMENT RATE AS OF AUGUST 2025

3.7%

ANNUAL WAGE GROWTH RATE AS OF AUGUST 2025

CONSTRUCTION WORKFORCE

73%

DOMESTIC WORKERS

13%

DOCUMENTED IMMIGRANTS

12%

UNDOCUMENTED IMMIGRANTS

20%

EXPECTED TO RETIRE IN 2035

Approvals of temporary work authorizations have decreased by 25% from 2024. Additionally, approvals of Visas / Green Cards is down by 15%.

We're proud to work with our partners and clients to enhance the knowledge of the construction industry for Arizona students.

We are constantly looking for innovative ways to guide students and graduates to the trade industries! In addition to construction tours and presentations, CHASSE provides a comprehensive in-house internship program. During their internship, students will gain hands-on office and field experience working alongside our teammates in multiple construction related roles.

SECTION THREE

MATERIAL PRICING TRENDS & TARIFFS

MATERIAL PRICING TRENDS

Material pricing saw a modest shift to start the year.

The Materials Price Index by S&P Global Market Intelligence dipped 0.4% in the final week of January 2025, reversing course after three straight weeks of increases. Overall, the index is tracking 7% lower than the same time in 2024!

Key drivers behind the recent drop:

Industrial Metals: Prices for all major nonferrous metals fell, driven by slower market activity and reduced short-term demand. With material pricing still below last year's levels, contractors and developers may benefit from more stable procurement conditions at least in the near term.

Energy Prices: Milder weather following an early-year Arctic event led to lower demand for natural gas, pushing energy prices down.

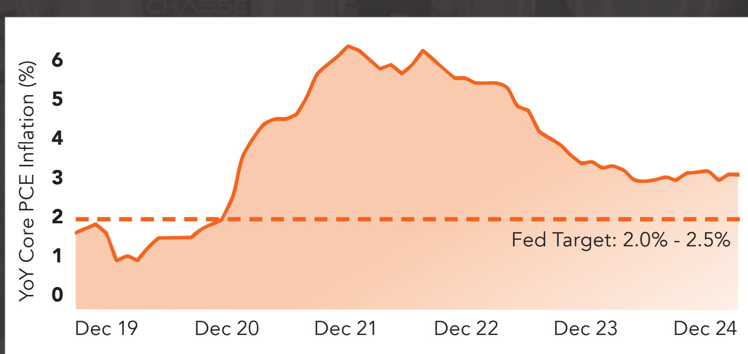
KEY TRENDS //	%	Month/Year	Year Over Year %
Material Price Index	↓ 0.4%	Jan 2025	7% lower
Producer Price Index	↓ 0.2%	from Sept 2024	4% higher

Material cost volatility easing, offering better predictability in bids.

Construction Goods Input Inflation:
↑ 2.3% year over year
↑ 52.7% in last 10 years

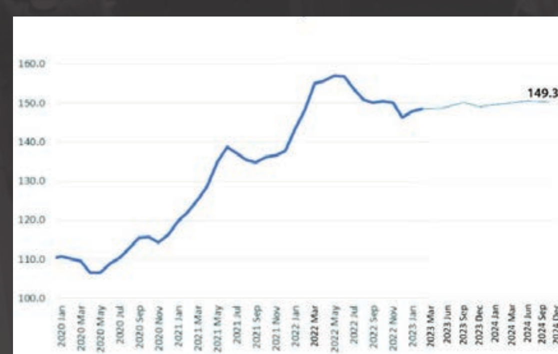
Construction Output Inflation (both relatively flat in the last 3 years):
↑ 1.1% year over year
↑ 58.6% in last 10 years

INFLATION / CONSUMER PRICE INDEX



Source: Bloomberg

PRODUCER PRICE INDEX INPUTS TO CONSTRUCTION



Source: Bureau of Labor Statistics Data

CHASSE BUILDING TEAM

TARIFFS & TRADE IMPACT ON CONSTRUCTION

Today's tariffs don't mirror the disruption seen during the COVID-19 era.

Unlike the global shutdowns and severe port congestion of that time, current conditions reflect a more stable environment. Demand is more tempered due to higher interest rates, supply chains are more diversified, and inflation has cooled with the Consumer Price Index remaining steady for over 18 months. However, tariff policies are shifting rapidly under the current administration, introducing a lot of uncertainty on cost impacts and supply risk for construction into 2026.

Stored Materials: *Our proactive approach to navigating cost escalations and material shortages. By storing materials early, we stay ahead of price hikes and supply delays.*

POTENTIAL IMPACTS OF TARIFFS

9.0%

ON CONSTRUCTION MATERIALS

4.4 - 4.8%

ON TOTAL PROJECT COSTS

*Source: Cushman & Wakefield

CONSTRUCTION INDUSTRY RISKS //

Widespread Material Exposure: Products at risk include steel, aluminum, copper, lumber, imported finishes, and mechanical / electrical sub-components. Canada, Mexico, and China supply approximately 41% of U.S. construction-related imports.

Manufacturing and Infrastructure Pressure: Tariffs will directly impact Data Centers the most due to their heavy use of metals including copper. Additionally, the tariffs will impact projects that rely heavily on structural steel, metal panels, roofing systems, and mechanical/electrical infrastructure. There remains a lot of uncertainty on the true impact tariffs will have on commercial real estate projects from both costs impacts and potential supply chain delays.

Residential and Commercial Impacts: The U.S. remains under supplied by 1.2 million housing units, and with homebuilders already facing high costs and labor shortages, new tariffs on lumber and gypsum could further slow progress and drive prices even higher for buyers. Commercial real estate projects are especially sensitive to interest rates and capital availability. With rates expected to stay elevated, some developments may be delayed or canceled.

Input Costs Remain High: Material costs are still approximately 40% higher than pre-pandemic levels (Feb 2020). Small and mid-sized contractors are particularly vulnerable, with limited flexibility to absorb additional cost increases.

COMMODITY/INPUT COST INSIGHTS

CONSTRUCTION MATERIALS //

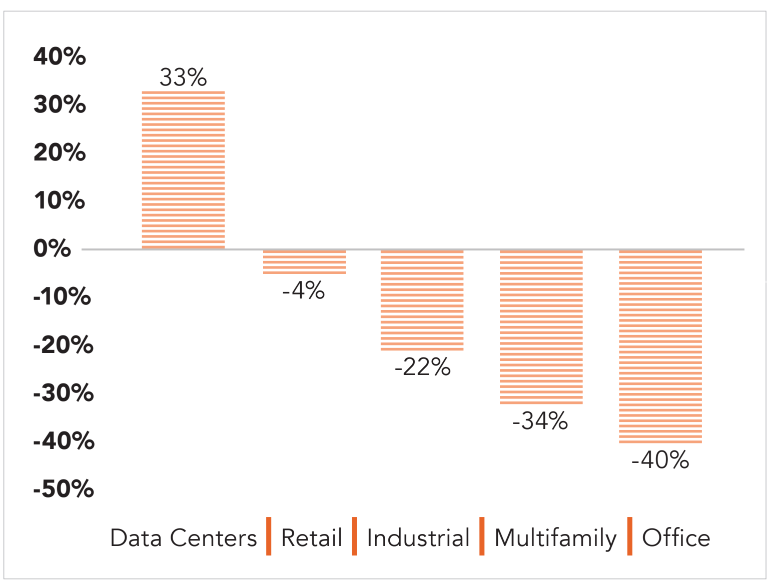
All building material costs are likely to increase near term due to current trade policy, which will impact construction costs for CRE projects.

MATERIAL	AVG TARIFF RATE	% BUY-OUT
ALUMINUM	51.9%	Imports from all countries are subject to a 50% tariff + any reciprocal tariff stacking of the foreign country.
STEEL	51.3%	Imports from all countries are subject to a 50% tariff + any reciprocal tariff stacking of the foreign country.
TEXTILES	33.0%	Imports are subject to the base tariff + any reciprocal tariff stacking of the foreign country.
GLASS	29.8%	Imports are subject to the base tariff + any reciprocal tariff stacking of the foreign country.
LUMBER	29.1%	Imports are subject to the base tariff + any reciprocal tariff stacking of the foreign country. Tariffs on Canadian lumber are set to increase to 35% in September.
CONCRETE	25.4%	Imports are subject to the base tariff + any reciprocal tariff stacking of the foreign country.
COPPER	23.9%	Semi-redefined copper imports and portions of metal products that are copper subject to a 50% tariff from all counties. Federal exemption of refined copper amounts to 55% of total copper imports.
PLASTICS	22.3%	Imports are subject to the base tariff + any reciprocal tariff stacking of the foreign country.
MASONRY	21.8%	Imports are subject to the base tariff + any reciprocal tariff stacking of the foreign country.
GYPSUM	21.0%	Imports are subject to the base tariff + any reciprocal tariff stacking of the foreign country.
ASPHALT	10.0%	Imports are subject to the base tariff + any reciprocal tariff stacking of the foreign country.

Source: Cushman & Wakefield

CONSTRUCTION PIPELINE //

A look at construction pipelines from Q2 2025 vs Q2 2024.



Source: Cushman & Wakefield

High interest rates, cautious (but improving) bank lending and the recent wave of supply are all contributing to softer construction activity. Further cost increases from tariffs will likely exacerbate these development challenges in the near term.

Trade policy uncertainty is just as impactful as the tariffs themselves. With trade policy in constant flux, pricing volatility and uncertainty around future cost expectations may hinder new development and slow the CRE construction pipeline. Greater clarity will be needed before market participants can confidently underwrite projects with more predictable material cost expectations.

SECTION FOUR

SUPPLY CHAIN & LOGISTICS OUTLOOK

Supply chain conditions remain mixed as we enter the fourth quarter of 2025, with continued inventory and order backlog constraints.

As material and labor shortages persist in critical areas, CHASSE Building Team stays proactive with procurement timelines and maintains flexibility in sourcing strategies.

Overall, procurement of materials is significantly better than 3 years ago; however, challenges still persist that could impact project timelines.

Over the past year, the **Inventories Index** has generally stayed below 50, signaling that manufacturers have been reducing inventories. Although there were brief periods of growth — such as March 2025, when the index reached 53.4 — the overall trend since late 2024 has been one of contraction. As of September 2025, the index registered 47.7, up from 43.9 a year earlier.

Backlog of Orders Index: In September 2025, the backlog index was at 46.2 which is up from 44.7 in August 2025. However, with this metric remaining below 50, it's a sign of contraction. More manufacturers are reporting on decreasing backlogs rather than increasing.

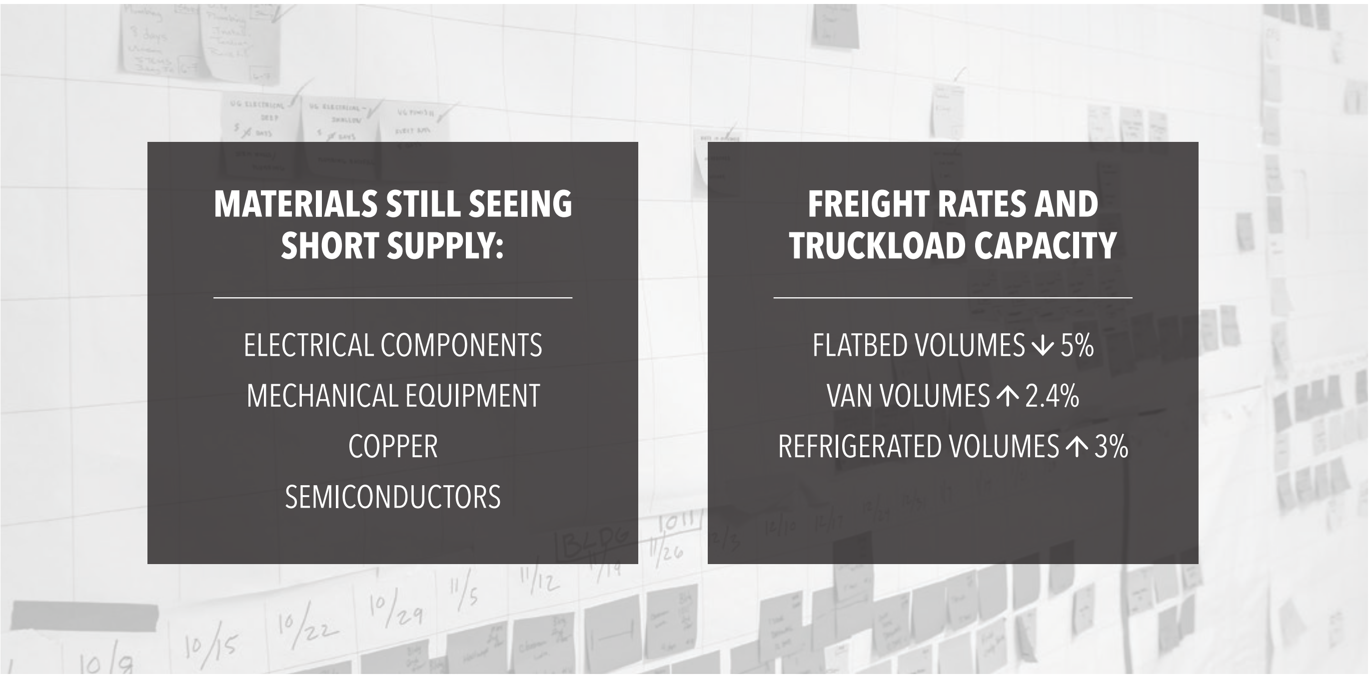
Sector Highlights: Despite overall contraction, Primary Metals, Fabricated Metal Products, and Electrical Equipment continue to report growth in backlogs.

The logistics landscape continues to shift, offering some relief on pricing but early signs of tightening capacity.

Freight rates have fallen after a January 2025 spike, spot truckload rates have shown signs of softening or moderation while contract truckloads have seen a slight increase.

Truckload capacity remains in surplus across the U.S., but signs of narrowing are emerging.

The current trend shows the gap between spot and contract rates are shrinking. Two indicators of this are the shrinking gap between spot and contract rates and the trucking capacity is beginning to tighten according to DAT Freight & Analytics. For builders and developers, this could mean moderate logistics costs in the short term—with a need to monitor closely for potential tightening as 2025 progresses.



MATERIALS STILL SEEING SHORT SUPPLY:

ELECTRICAL COMPONENTS

MECHANICAL EQUIPMENT

COPPER

SEMICONDUCTORS

FREIGHT RATES AND TRUCKLOAD CAPACITY

FLATBED VOLUMES ↓ 5%

VAN VOLUMES ↑ 2.4%

REFRIGERATED VOLUMES ↑ 3%

STRATEGIC CONSIDERATIONS FOR BUILDING

Align Early on Budget and Scope
Set clear expectations for scope, schedule, and budget at the beginning of design to minimize costly changes later in the project.

Account for Market Conditions in Preconstruction
Factor in current material and labor availability when making design decisions. Choosing simplified details or readily available materials can reduce risk. Evaluate material and system choices not only for upfront cost but also for long-term maintenance and energy efficiency.

Prioritize Flexibility in Design
Incorporate options or alternates to allow substitutions if specific materials or systems become delayed or overpriced.

Stay Aware of Incentives and Policy Changes
Monitor federal, state, and local programs, including funding opportunities, tax credits, and evolving energy codes, that could influence project direction or unlock savings.

Engage Builders Early
Early collaboration with the contractor—your partners at CHASSE—helps identify and create solutions for constructability challenges, procurement risks, and add value engineering opportunities before they impact cost or schedule.

This report is designed to inform our Clients, Partners, and Project Teams with an overview of the current supply chain conditions and construction costs impacting our industry today. **While we cannot control market forces, we can control how we respond, by staying proactive and *HUSTLING* to find innovative solutions that drive value for our partners.**

As we continue navigating these challenging conditions, one thing remains certain: our commitment to transparency and excellence will never waver. Our teams, alongside our trade partners, are working tirelessly to collect and analyze the most current market data available. This insight allows us to support informed decision-making for the design teams and owner partners we proudly serve.

FROM OUR TEAMS ...

"A cliche in the construction industry currently lands within the procurement challenges we are all facing. They are unprecedented. However, what is unique about this has been the shift in everyone coming together to develop deeper, stronger and ultimately better relationships to execute projects."

"Our trade partners and suppliers are a vital extension of our team. We've been having deliberate conversations to stay ahead of and informed of their scheduling commitments and lead times. This is just one of the many steps our team, trade partners included, are taking to deliver for our clients in an ever-changIng market space."

NOTES

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Check out how we're "Building to make a difference ... " at CHASSE.us!