



# RISK INSIGHTS

## Construction Industry Trends to Watch in 2025

The construction industry has faced many ups and downs in recent years, largely brought on by fluctuating consumer behaviors, material procurement struggles, labor shortages, project delays and inflation issues. Yet, the sector has still managed to promote economic growth. According to the U.S. Census Bureau, the construction sector recorded nearly \$2 trillion in spending during the first 11 months of 2024, representing a 6.5% increase from the same period in 2023. Nevertheless, there are still a number of potential risks that, left unmanaged, may threaten the sector's stability moving forward. As such, construction businesses should monitor several emerging developments that could impact the industry this year—including economic headwinds, legal challenges, insurance claim concerns and environmental exposures—and adjust their risk management programs accordingly. This article provides more information on construction sector trends to watch in 2025 and outlines strategies to help navigate them.

### Economic Headwinds

Inflation concerns have impacted virtually every industry in the last few years, evidenced by increasing costs for various goods and services. While the overall inflation rate has cooled after reaching a 40-year high in 2022, it continues to influence a range of costs in the construction sector. In 2025, inflation will likely keep compounding the industry's already rising material costs and total project expenses, motivating some construction companies to increase the prices of their services to maintain profitability. Inflation is also placing additional financial pressures on construction subcontractors and vendors, ultimately diminishing their balance sheets and, in severe cases, causing bankruptcy or insolvency. This issue has highlighted the value of engaging in sufficient vetting procedures for potential vendors and routinely evaluating subcontractor viability.

In addition to inflation, ongoing labor shortages and supply chain struggles are creating economic headwinds in the construction industry. According to a recent report from the National Association of Home Builders (NAHB), the sector will need to hire over 720,000 skilled workers in 2025 to keep up with project demand, which could prove difficult. To help combat labor shortages, a growing number of construction businesses are increasing workers' wages and investing more in their talent attraction and retention initiatives. In fact, the NAHB report revealed that hourly wages across the industry have risen by 4.3% in the past year. These efforts have, in turn, exacerbated operational expenses and project costs.

While the large-scale supply chain disruptions that occurred throughout the COVID-19 pandemic have since dwindled, certain construction product shortages and sourcing issues for building materials will likely press on for the foreseeable future. These supply chain difficulties are tied to a number of factors, namely global transportation delays stemming from widespread geopolitical tensions, cyberattacks and severe weather. The economic impacts of these difficulties on the construction sector are twofold. First, the prices for building materials that have become more difficult to obtain are on the rise, making construction projects more expensive to complete. Second, derailed deliveries for building materials may extend project timelines, further elevating total costs.

In light of these economic headwinds, it's imperative for construction businesses to reduce their risks by upholding responsible financial plans and practices. This may entail scaling back certain operations, promoting steady cash flow, ensuring proper debt management, fostering strong connections with stakeholders and leveraging effective marketing strategies. Regardless of economic hardships, it's essential to maintain ample insurance and secure financial protection against possible losses.

### Legal Challenges

Over the past decade, several large-scale structural disasters, such as the Grenfell Tower fire and the Surfside condominium collapse, have prompted sweeping changes to the legal framework for building safety. Although this legislation continues to evolve and may vary between jurisdictions, key changes include mandatory occurrence reporting for safety incidents that happen in "high-risk" buildings (i.e., structures with more than seven stories and multiple residential units), routine updates to aging infrastructure, and the implementation of more resilient building materials that are better equipped to withstand potential disasters. Looking ahead, construction companies that neglect to uphold these requirements may face costly legal fines and penalties and lost business opportunities. Contract breakdowns and associated construction project problems have also contributed to considerable legal challenges in the last few years. In particular, the rise in business insolvencies, mainly among larger construction companies, has compounded existing project delays and supply chain disruptions across the sector, ultimately threatening the stability of companies that are still standing. As economic headwinds persist, construction businesses will need to improve their contract management protocols to minimize insolvency-related concerns.

To mitigate their legal risks in 2025, construction businesses should consult trusted legal counsel to help them monitor the latest legislative developments and adjust their operations as needed to maintain compliance, especially as it pertains to building safety standards. Construction companies should also review their contracts to ensure this documentation properly defines insolvencies and outlines steps to limit potential project problems when they occur.

## Insurance Claim Concerns

As social inflation drives up the cost of insurance claims, nuclear verdicts have surged. These verdicts refer to particularly high jury awards, generally those eclipsing \$10 million. According to a recent report from public relations firm Marathon Strategies, nuclear verdicts reached a 15-year high in 2023, with the number of such verdicts rising by 27% in the previous 12 months alone. The report also found that 27 of these verdicts were "thermonuclear," indicating jury awards above \$100 million. Various factors have contributed to the increase of these verdicts and subsequent insurance claim expenses, including rising litigation funding, desensitization to large verdicts, changes in the legal environment and shifting public sentiment toward businesses. Amid growing corporate distrust, businesses have been expected to meet higher standards in their operations and held more accountable for their wrongdoings.

Additionally, businesses frequently encounter juries that are sympathetic to plaintiffs. There's also a rising perception that businesses can afford the cost of damages. This means juries are less likely to have reservations when awarding significant damages to plaintiffs, resulting in nuclear verdicts. In the construction sector, these verdicts typically arise from professional liability incidents, unsustainable building practices (i.e., those that emit high carbon emissions, cause pollution or otherwise harm the environment), auto accidents and worksite safety concerns. Aside from nuclear verdicts, an increase in project disputes has exacerbated insurance claim costs in the construction industry. These disputes, which tend to rise during periods of economic hardship, have primarily stemmed from the remediation of defective operations and faulty work, building safety issues and insolvency-related failures. Since many of these concerns are projected to continue in 2025, project disputes will likely impact insurance claim expenses for months to come.

Nuclear verdicts, project disputes and related insurance claims can carry serious consequences for construction businesses of all sizes, causing lasting reputational damage, posing underinsurance concerns and creating financial difficulties. That's why it's critical for companies to better understand how to prevent them. Some strategies to consider include promoting and adhering to eco-friendly building practices, conducting regular safety education and training, properly vetting potential employees, providing ongoing worksite supervision and utilizing technology such as telematics and dashcams to promote safe driving.

## Environmental Exposures

Extreme weather events have skyrocketed in the last few decades, causing widespread damage and destruction. According to the National Oceanic and Atmospheric Administration, the United States experienced 27 separate weather and climate disasters with losses exceeding \$1 billion throughout 2024, representing the fourth worst year on record. These events impact the construction industry in multiple ways. In areas more susceptible to certain types of natural disasters (e.g. hurricanes, floods and wildfires), such events can swiftly destroy construction materials, tools, equipment and structures in the process of being built, making projects all the more costly and significantly extending completion dates. Complicating matters, the increasing prevalence and rising costs of these events have motivated many insurers to limit their coverage offerings for businesses located in natural disaster-prone areas or, in some areas, exit the market altogether. This has left some construction companies with greater exposures and minimal coverage, paving the way for substantial out-of-pocket expenses.

As previously mentioned, extreme weather events can also lead to transportation delays for construction materials, heightening supply costs and limiting the availability of essential building products. Sometimes, these supply chain issues may even require construction companies to opt for alternative, lower-quality materials to stick to project timelines. In certain climates, extreme weather may also cause dangerously high temperatures. These temperatures could threaten the safety and well-being of construction employees who spend the majority of their time working outdoors and minimize overall project productivity. Going forward, climate experts anticipate that extreme weather events will only worsen over time. With this in mind, construction companies should do what they can to enhance their natural disaster preparedness and reduce related risks, thus minimizing the potential fallout from such events. Key steps to implement include selecting safe storage areas for construction tools and equipment, leveraging weather-resistant building products, maintaining an adequate reserve of essential materials, building strong supplier relationships, diversifying supply chains by working with multiple trusted vendors located across different geographic locations, investing in tracking technology to better monitor material shipments, developing effective contingency plans, adopting occupational safety programs aimed at minimizing heat-related injuries and illnesses, and documenting natural disaster preparedness strategies for insurers.

## Conclusion

Several trends are currently impacting the construction sector, emphasizing the importance of staying informed and adaptive. By tracking these developments and mitigating any associated exposures, construction businesses can effectively position themselves to promote long-term growth and boost operational success. Contact us today for additional industry-specific risk management guidance.

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