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Big beautiful data centers

How AI and infrastructure are giving a second wind to an ailing construction sector

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Allianz Research

Content

Executive Summary

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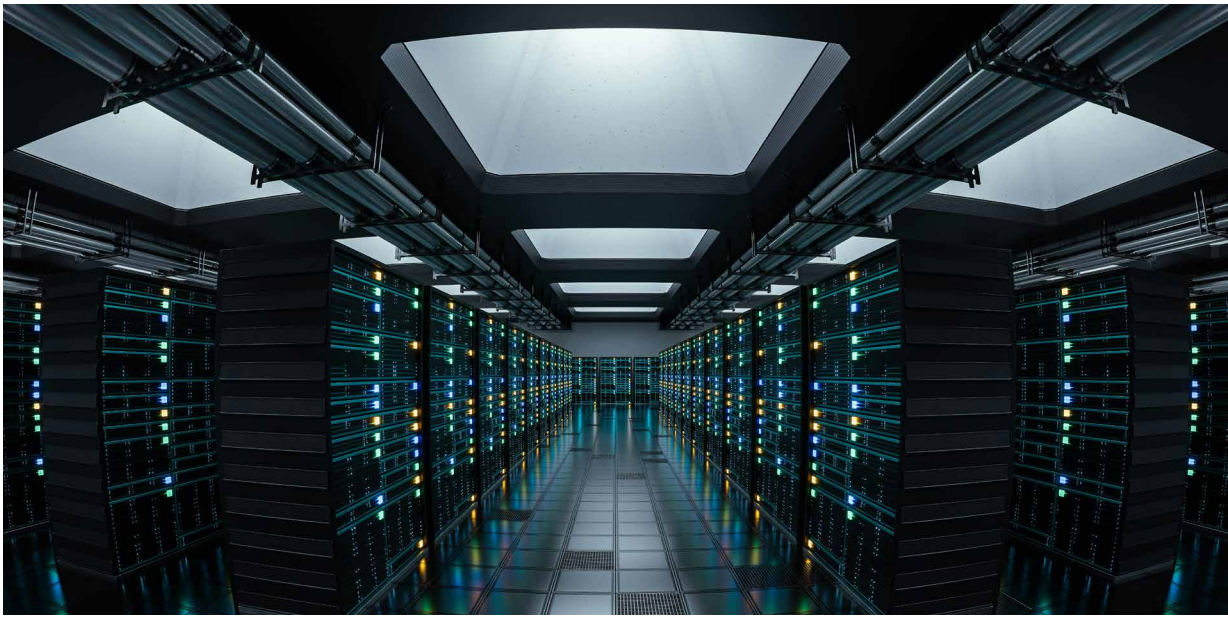
- **Generative AI has become a structural driver of construction.** The global AI boom is fueling a frenzy for data centers. In the US, 6.4 GW of data center capacity was under construction at end-2024, double the level of 2023. This alone represented about USD74bn of construction spending (i.e. excluding land, equipment, software etc.). EMEA's pipeline surged +43% y/y to close to 14 GW in planning by mid-2025 (i.e. equivalent to about EUR170bn in construction spending) and China's IT load is set to double from 4.3 GW in 2025 to above 8 GW by 2030, which represents another USD40bn construction spend. However, this frenetic pace of growth could come crashing down if grid power shortages, land scarcity and regulatory moratoria are not addressed.

- **AI and infrastructure are holding up the US construction sector amid residential woes.** The US has been spending USD2.4bn per month on average in communication construction over the last two years, +25% compared to the two years prior to the release of ChatGPT. Going forward into 2026, this pace should not slow down amid continued AI enthusiasm. However, residential construction is weighed down by affordability: With mortgage rates still high at nearly 6%, new housing permits were down -11% over the last 12 months compared to a year ago. After dipping below 1.5mn in 2025, housing completion may recover to 1.5-1.6mn units annually by 2026 but will not top the record of 2024. Overall, tight immigration policy is also weighing on the sector in the US as labor shortages remain severe and are pushing wages up.

- **Meanwhile, European housing should rebound and Germany is expected to lead the infra push.** The housing downturns of 2022-24 are giving way to stabilization in Europe, and some countries are seeing rebounds. In Sweden, for example, housing starts rose +12% y/y in H1 2025 (-55% in 2023). However, non-residential construction output growth is sluggish in the region and should remain below +2% in annual terms, though logistics and refurbishments of commercial real estate are supportive. Infrastructure output has been the stabilizer for Europe, but growth may slow to +1-2% per year by 2026–27 as fiscal constraints bite. Germany alone could see stronger momentum in 2026, thanks to its EUR500bn special fund for infrastructure.

- **In China, the infra playbook may prove insufficient to offset the ongoing housing slump.** The property downturn remains a drag in China, with residential construction likely flat or contracting through 2025. Construction growth is instead being driven by infrastructure: Local governments have issued record bonds, backing high-speed rail and metro expansions, but overall growth has moderated. Beijing has been prioritizing major infrastructure since 2023, starting with roads (RMB2.8trn in 2023), then renewables (USD1.1trn in 2024). So far in 2025, railway construction has been the fastest-growing segment. Overall, China's construction output is forecast to grow +3.2% in 2025 and about +3.5% annually over 2026-27 – well below past double-digit rates but still massive in scale.

- **Still-high input costs and interest rates are testing firms around the world.** US construction input prices rose +2.3% y/y in August 2025, and metals and concrete still stand 40% above 2020 levels. In Europe, construction insolvencies are up by double-digits in markets like France (+10%) and Belgium (+12%). Smaller developers and subcontractors are most exposed while large contractors are pivoting to chase infra and industrial projects and diversifying into data centers.

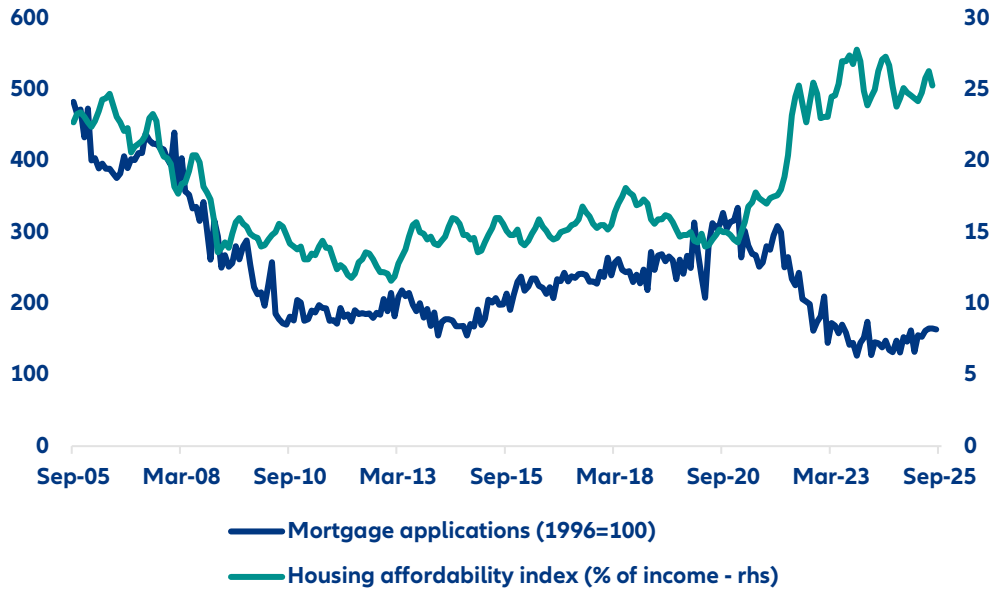


US: Big beautiful data centers despite housing & office challenges?

The US residential sector remains constrained by a housing affordability crunch. Overall US construction spending plateaued in 2024–25 after the post-Covid surge and is set for only modest growth through 2026. Yet, beneath the aggregate numbers is a tale of two industries: publicly driven construction is booming, while private real estate is undergoing a correction. The US housing market's rapid reversal is a central storyline. After the pandemic homebuying frenzy of 2020–21, when record-low mortgage rates and remote-work drove housing starts above 1.7mn units annually, the Fed's rate hikes slammed the brakes. By mid-2023, 30-year mortgage rates hit about 7.5%, the highest in over 20 years, causing housing affordability to deteriorate to its worst level since 2006. Homebuilders pulled back: single-family housing starts tumbled and permits for new housing fell continuously. By August 2025, the pace of new housing permits had dropped 11% y/y – the slowest since May 2020. Builders have also accumulated a larger inventory of unsold new homes as buyers retrenched in the face of high financing costs. Home sales, especially of existing homes, hit a slump, indirectly affecting demand for new construction. However, there are hopes of a stabilization entering into 2026. The Fed's shift to easing, combined with a cooler inflation backdrop, has brought mortgage rates down from their peak. By late 2025, 30-year mortgage rates are expected to dip closer to 6% and could fall further in 2026 if the economy softens. This should gradually revive housing demand. Indeed, big US homebuilders (many of which weathered the downturn by offering rate buydowns and incentives) are cautiously optimistic that sales will improve. Housing starts are projected to bottom out and then recover, potentially returning to an annual pace of 1.4-1.5mn by 2026. That is still below the

estimated underlying demand but an improvement from the 2023–24 trough. Another constraint is low existing home inventory: With many homeowners "locked in" to ultra-low mortgage rates from prior years and unwilling to sell, new construction may play an outsized role in meeting whatever demand emerges. In 2024, new homes made up a historically high share of homes for sale (over 30%, vs about 10-12% historically), a sign that builders could capture market share if buyers return. Nevertheless, high prices alongside high rates mean affordability remains tough (see Figure 1). As a result, the recovery in housing construction will be gradual and likely focused on more affordable segments (entry-level single-family homes, build-to-rent communities, etc.).

Figure 1: Mortgage application and home affordability in the US



Sources: LSEG Workspace, Allianz Research

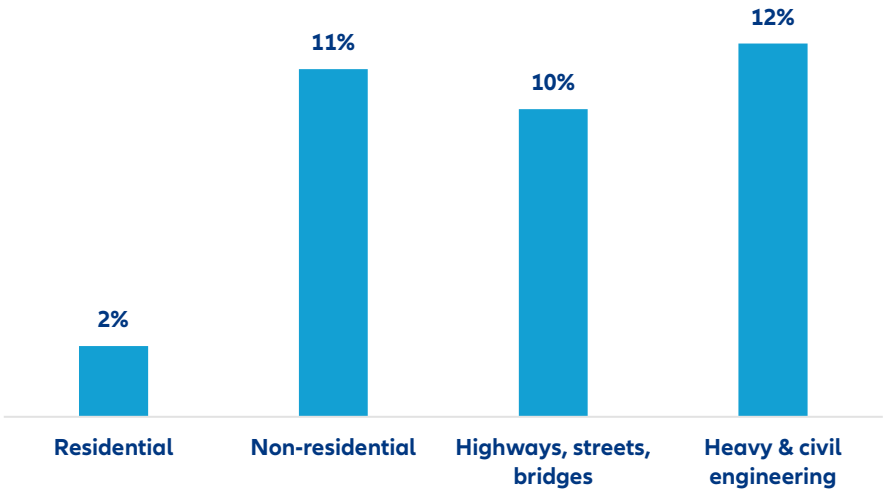
Meanwhile, the non-residential construction sector is enjoying a once-in-a-generation infrastructure investment push... The US manufacturing construction boom spurred by federal incentives (CHIPS Act, Inflation Reduction Act) and corporate strategies to onshore production led the value of manufacturing construction to an all-time high in 2023 (more than double 2021 levels). This includes semiconductor fabs (Intel in Ohio, TSMC in Arizona, Samsung in Texas etc.), electric vehicle and battery plants (numerous projects in the Midwest and South) and factories for renewable energy equipment. Such projects often cost billions and take several years to build, meaning many will continue through 2026 and beyond. Meanwhile, the Bipartisan Infrastructure Law (BIL) enacted in late 2021 injected funding into virtually every infrastructure category (see Figure 2). By 2024, money started flowing to states for thousands of projects: highway repaving, bridge replacements (notably the refurbishments of some major interstate bridges), airport terminal upgrades, public transit expansions (eg. new light rail lines in cities), intercity rail improvements, water system overhauls and broadband deployment in rural areas. The more recent One Big Beautiful Bill will also provide a tailwind from infrastructure through transportation, defense and security-related infrastructure construction spending that will come over the next few years. Consequently, through 2026, investments will continue to scale up, thanks to past and recent legislations. However, there will be a redistribution as funds for clean-energy infrastructure will be reoriented towards border, fossil fuel and defense infrastructure projects under the Trump

administration. Manufacturing construction is expected to decline by about -2% in 2025 and a further -2.5% in 2026 as some mega-projects finish and base effects normalize but the level of activity will remain very high by historical standards, keeping contractors busy.

...as well as an AI boost. The global AI race has been fueling construction related to data centers and digital infrastructure over the last couple of years. The US in particular has been spending an average of USD2.4bn per month in communication construction over the last two years, +25% compared to the two years prior to ChatGPT's release (see Figure 3). Going forward, we expect the pace of construction to remain at least at current levels as there are no datacenter on the secondary market, rental rates remain attractive and we do not foresee a pullback in AI investment broadly.

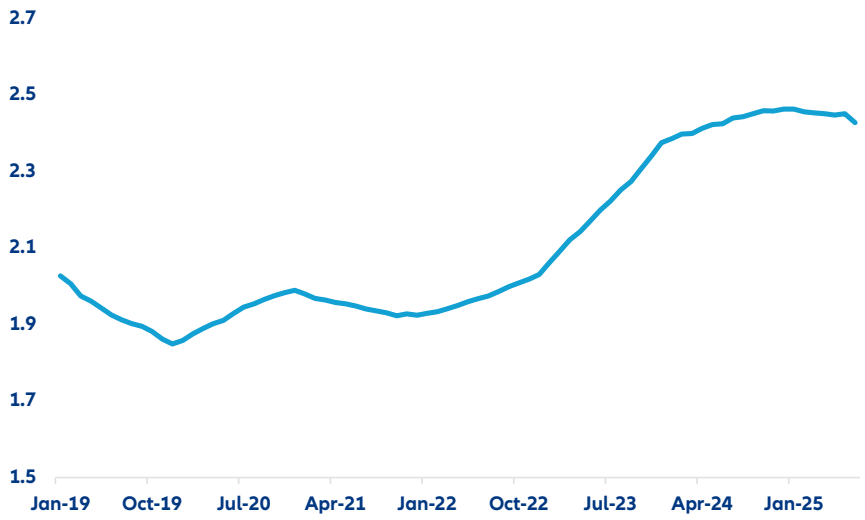
However, traditional commercial real estate is lagging. Commercial real estate construction (offices, retail, hotels) has been sluggish. Overall commercial building spending should increase by a meagre +1.5% in 2025 and rebound to +4% in 2026 in nominal terms. Office construction in particular is extremely weak: many planned office towers have been paused or canceled, given elevated vacancies and falling rents. Retail construction is somewhat better off: While e-commerce has curbed the need for new shopping malls, there is demand for certain formats like discount and grocery stores. Additionally, conversion projects (e.g. turning obsolete malls into mixed-use complexes or logistics hubs) provide some construction work. Hotels have seen renewed interest as travel has recovered – several new hotel projects are underway in cities and resort areas, albeit from a low base after the pandemic bust.

Figure 2: Changes in hours worked 2021-2024 (%)



Sources: BLS, Allianz Research

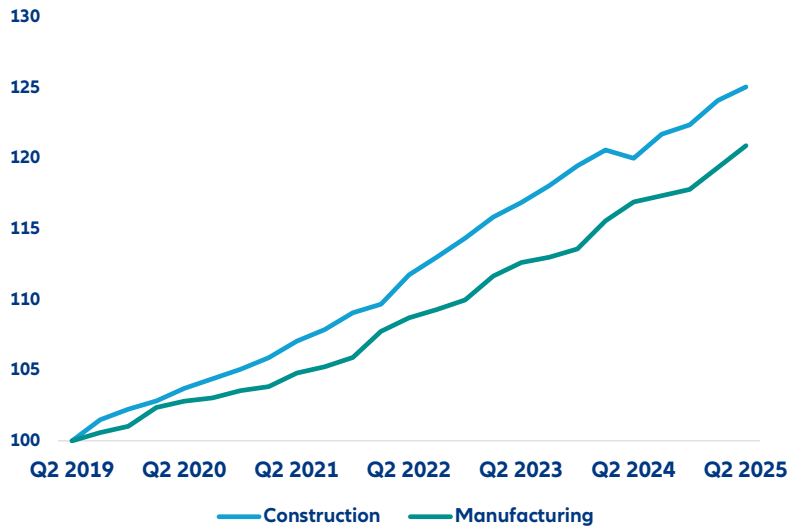
Figure 3: Communications construction spending in the US (USD bn – 12M average)



Sources: Census, Allianz Research

Labor shortages amid the tougher immigration stance are a major hurdle for the sector. The US construction industry's capacity to meet demand is being stretched by labor shortages as the sector needs roughly 0.5-0.75mn additional workers. Immigration restrictions and an aging workforce have exacerbated the shortfall. The industry has responded with record-high employment on payrolls, surpassing mid-2000s peaks. Wages for construction workers are rising faster than overall wages (see Figure 4), and firms are recruiting aggressively – often bringing in less experienced workers and training on the job. Skilled trades like electricians, welders and plumbers are in particularly short supply, especially given the specialized needs of projects like chip fabs (which require numerous specialty welders etc.). The labor issue could also become a profitability issue for US firms as it pushes up costs up and could even delay some projects.

Figure 4: Wages in manufacturing and construction (Q1 2019=100)

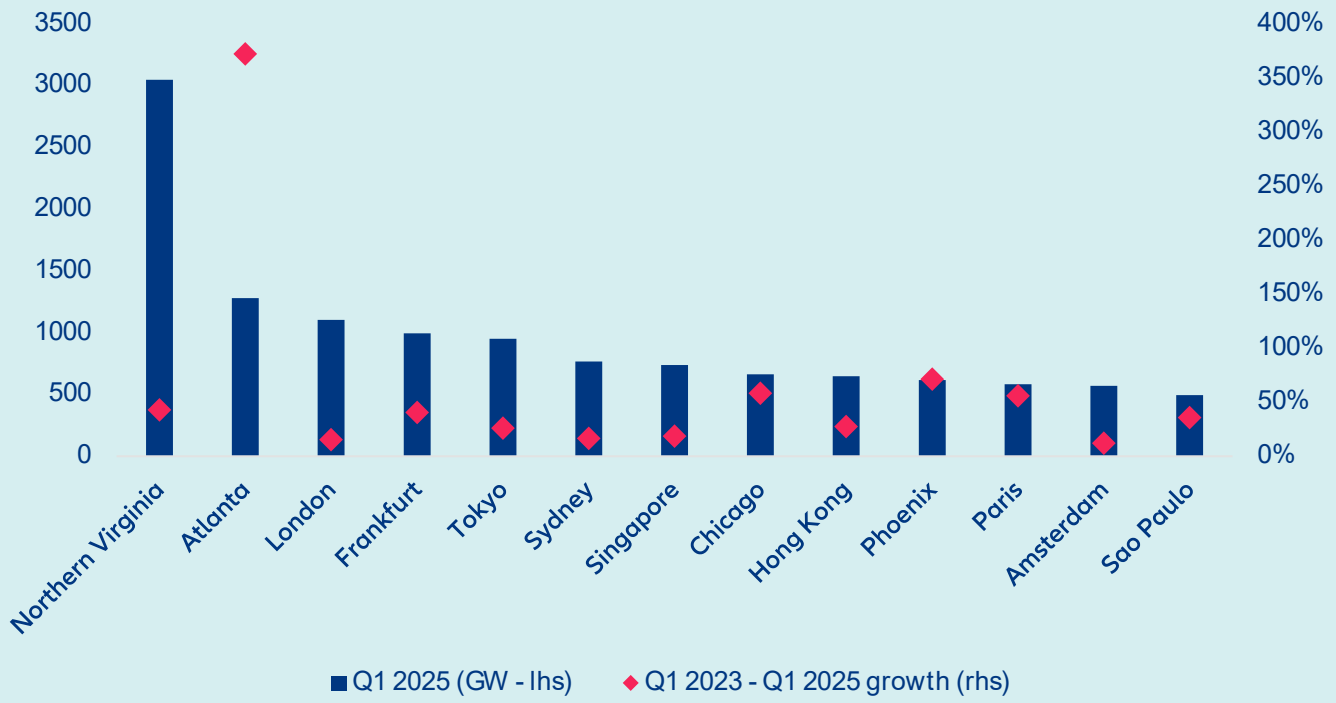


Sources: BLS, Allianz Research

AI and cloud boom drive data center construction surge

Record data center build-out in key markets. The rapid growth of generative AI and cloud services is spurring an unprecedented wave of data center construction across the US, Europe and China. In North America, major data center hubs saw supply and construction pipelines hit record levels in 2024 – primary US markets had 6,350 MW of capacity under construction at end-2024, more than double the 3,078 MW of a year earlier. That alone represented over USD74bn in construction investment (i.e. excluding land, software etc.). The total inventory in US markets jumped +43% y/y as of Q1 2025, yet vacancy ranges from 0.76% in North Virginia to 3.6% in Atlanta, underscoring how demand is outpacing new supply. Europe and the broader EMEA market is also expanding fast: The region's operational capacity grew +21% in the year to mid-2025, with another 2.6 GW currently under construction and a further 11.5 GW in planning. Cumulatively, these capacities sum up to close to EUR170bn worth of investments in construction. This represents a +43% annual increase in pipeline capacity as cloud providers and colocation firms race to add servers across both primary hubs and secondary cities. China's data center market, second only to the US, is likewise in an aggressive build-up phase. Greater Beijing alone now accounts for roughly 10% of global hyperscale capacity. Industry forecasts see China's installed IT load doubling from about 4.3 GW in 2025 to over 8 GW by 2030 as tech giants expand cloud infrastructure. Despite slightly lower costs, this accounts for close to USD 40 bn in construction spending. In Asia-Pacific overall, 3.2 GW was under construction as of early 2025, with 13.3 GW in planning, pointing to strong growth through 2026–27. All signals suggest this building boom will persist into 2026: market analysts note that AI demand is still gaining momentum, and global data center vacancy rates continue to tighten despite the new projects.

Figure 5: Data center inventory by market and 2Y growth

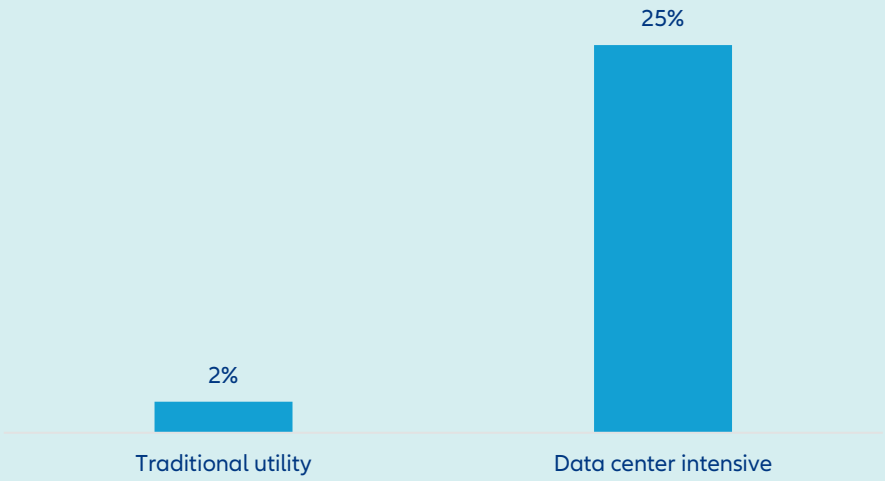


Sources: CBRE, Allianz Research

This construction surge is being fueled by massive investments from hyperscale cloud and internet companies. The leading US cloud providers – Amazon, Microsoft and Google Cloud – together now account for about 58% of all hyperscale data center capacity worldwide. Along with Meta and China's big three (i.e. Alibaba, Tencent, Baidu), these companies are pouring billions into new server farms to support surging digital demand. In 2024, hyperscalers globally spent an estimated USD210bn on data center capital expenditures related to AI deployments. For 2025, capex budgets are climbing even higher: Amazon alone plans around USD100bn, Alphabet about USD75bn and Meta approximately USD65bn – much of it directed toward AI-centric infrastructure. These staggering sums reflect a strategic "build out at all costs" mindset as companies race to provision capacity for cloud services and AI model training. Chinese tech firms are matching the pace. This push by cloud giants has also catalyzed record financing in the data center real estate sector. Industry trackers report that 2025 is set to be another record year for data center development financing as investors partner with operators to fund new construction on speculation that demand will fill facilities as quickly as they come online.

Power, land and regulatory constraints weigh on the segment. Despite the booming demand, data center development faces growing constraints that vary by region. Power availability has emerged as the critical limiting factor worldwide. Many traditional data center hubs are grappling with electrical grid bottlenecks – for instance, limited power capacity in London, Frankfurt, Amsterdam and Silicon Valley is slowing new projects. Power constraints are extending construction timelines into 2027 and beyond as builders wait for utility upgrades. In 2024, several large US projects were delayed by transformer and power supply shortages. These power bottlenecks have prompted cloud operators to aggressively pre-lease future facilities and to seek out new locations with ample electricity (see Figure 6). Available land is another concern in densely populated metros. Key European markets imposed measures to manage data center growth – for example, the Amsterdam area maintains a moratorium on mega-facilities over 70 MW, forcing ultra-large developments to shift to other cities or more remote sites. Zoning and community opposition can also slow projects, as seen in parts of Northern Virginia where residents and officials have raised concerns about noise and the environmental impact of massive server farms. Meanwhile, stringent sustainability mandates are shaping where and how data centers get built, especially in Europe. The EU and national regulators emphasize energy efficiency, use of renewables and waste-heat recycling; many locales require new centers to meet aggressive PUE (power usage effectiveness) targets and climate goals. Operators across EMEA face mixed government responses, strict green requirements plus land and power constraints – factors that are raising costs and adding uncertainty to projects. For example, Dublin and Frankfurt now demand proof of renewable power sourcing and have capped permits annually to manage strain on the grid. In China, the government has directed growth away from congested eastern cities toward inland regions: the national "East-to-West Computing" plan is establishing eight giant computing hubs and 10 data center clusters in western provinces. Across the US, Europe and China alike, power and site availability have become key criteria in data center site selection. This is driving a diversification of locations – for instance, new US campuses are rising in regions like Phoenix, Atlanta and the Midwest where land is cheaper and power more accessible. Secondary European markets in the Nordics, Spain and Eastern Europe are seeing a surge of projects as alternatives to the FLAP (i.e. Frankfurt, London, Amsterdam, Paris) hub constraints. The need for reliable energy infrastructure and favorable local policies means data center developers are increasingly partnering with utilities and local governments to ensure long-term power supply, tax incentives and streamlined permitting for these capital-intensive facilities.

Figure 6: Annual growth in regional electricity demand in various scenarios (%)



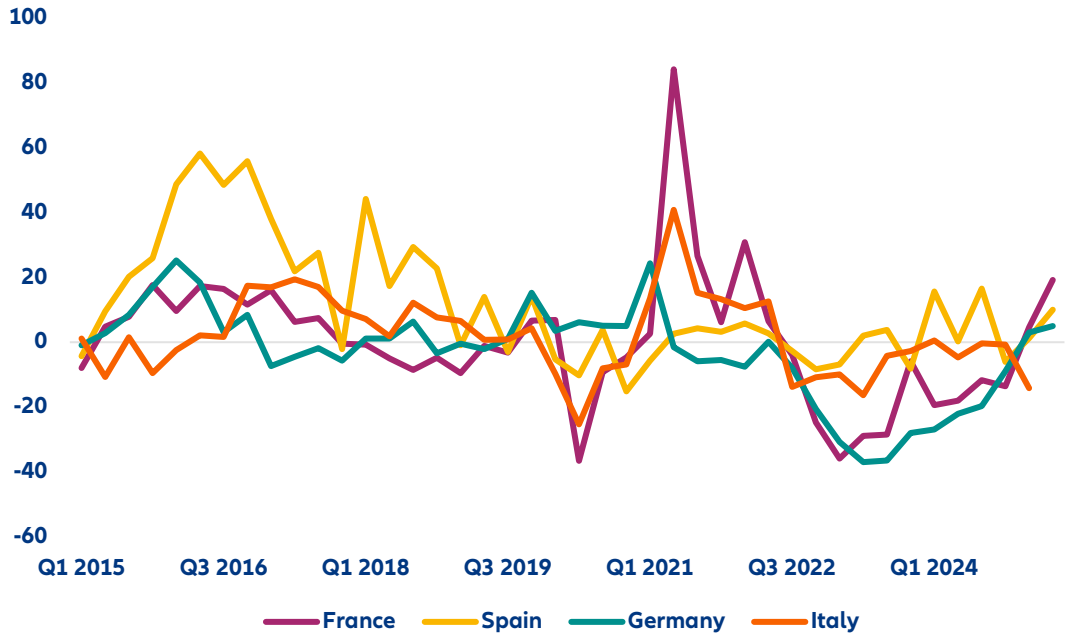
Sources: Open Energy Outlook, Allianz Research

Europe: On the path to recovery

Housing should be the main driver of Europe's construction uptick. European housing markets turned south sharply from 2022 (see Figure 7). Virtually all major economies saw declines in housing starts and permits. In the EU as a whole, building permits for dwellings dropped by double digits in 2022 and even further in 2023. Germany exemplified the downturn: it had aimed to build 400,000 apartments per year to address a housing shortage, but completions fell to about 250,000 in 2023, and permits were down over -20% y/y, making 2024 likely worse. The German government has called it a housing "crisis" and introduced measures like subsidizing interest rates for affordable housing and loosening some construction regulations to spur activity. Despite that, worst-case scenarios suggest Germany might only build about 175,000 units in 2026, far below what is needed, due to high construction costs and financing issues. Other countries like Denmark and the Netherlands also saw housing construction plummet in 2023-24. In 2026-27, new housing construction will support the sector after renovation carried it during the downturn[1]. Countries that had deep slumps could see a proportional bounce: Sweden is forecast to increase residential starts by +5% in 2025 (after a -55% fall in housing starts over 2022-23) and continue to rise thereafter. Similarly, Norway, Finland, Denmark are projected to see double-digit housing growth in 2026 in terms of housing surface completed. Meanwhile, France and Italy – which had booms in 2021 due to incentives (Italy's "Superbonus" scheme) – cooled significantly; by 2026 their housing output may still be slightly shrinking or just stabilizing (France and Italy are both expected to see housing completions decrease by -3% in 2026 vs 2025). The UK is experiencing its own housing malaise: Rising interest rates pushed mortgage affordability to a 15-year low, and new housing starts fell over 20% in 2023. The UK government's target of 300,000 homes per year remains elusive. A mild recovery by 2026 could bring UK housing starts back up slightly, helped by planning reforms and an expectation of rate cuts by the Bank of England.

[1] See our previous report: Breaking or laying bricks? How policymakers will shape the construction recovery

Figure 7: Residential building permits (% y/y)

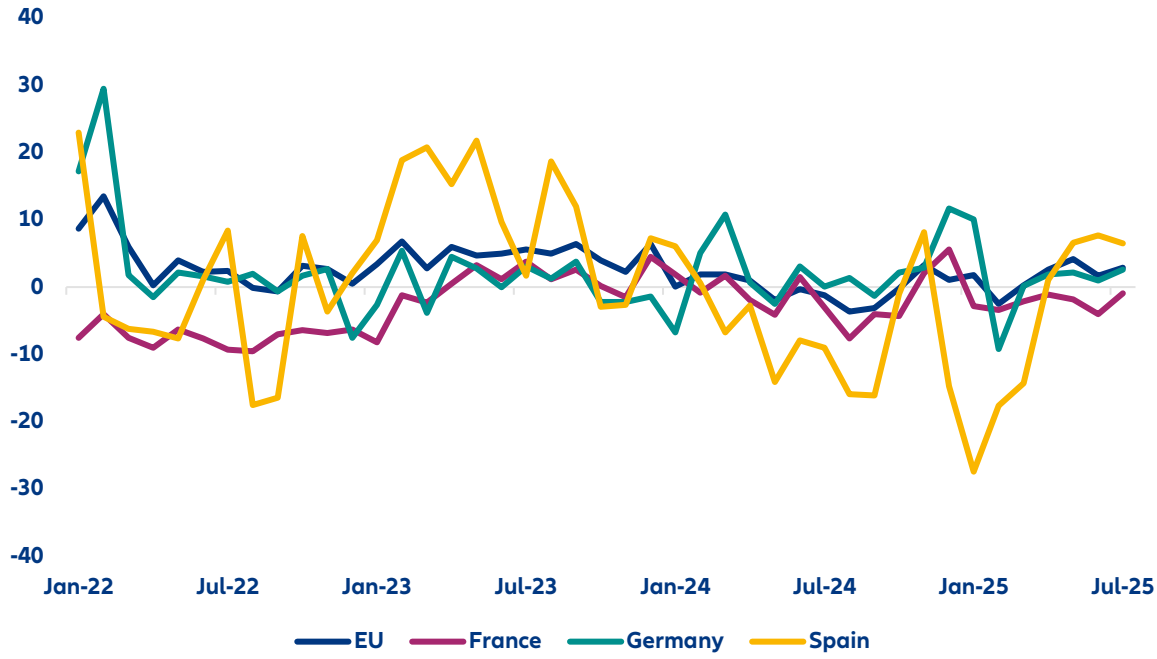


Sources: Eurostat, Allianz Research

All set for a soft landing in non-residential amid low growth and fiscal constraints. Europe's non-residential building prospects should slow down amid sluggish domestic demand and weak public finances. From 2025 to 2027, we expect only minor growth in new non-residential construction. Europe's economy is growing slowly, meaning fewer new offices, though retail centers are needed. Additionally, many European cities have oversupply in office space due to remote work trends. Amsterdam and Brussels report office vacancy rates climbing, and London's office market is seeing rents under pressure. Retail is undergoing a structural change as well, with fewer new shopping malls. Industrial/warehouse building is one relative bright spot (in line with global trends) – countries in Central Europe like Poland benefited from logistics demand and nearshoring, keeping industrial construction busy. Overall, we expect Europe's private commercial building in 2026 to remain subdued, with activity focused on refurbishing and retrofitting existing stock rather than big new developments. Among the few exceptions, Ireland shows strong construction growth, particularly in tech offices and data centers as Dublin is a major data center hub. Spain's non-residential sector might get a boost from tourism-related building (hotels, resorts) as travel fully rebounds and from some corporate expansions as its economy outperforms the Eurozone average slightly. But in aggregate, non-residential construction output in Europe will likely grow under +2% annually through 2026.

Infrastructure has been a stabilizer for Europe's construction sector recently. Even as building construction fell in 2023-24, civil engineering works continued growing, supported by EU funds and national budgets focusing on transport and energy projects (see Figure 7). The momentum is expected to carry into 2025 (many projects are mid-stream). However, by 2026-27, there should be slowdown in infrastructure growth to around +1-2% per year, marking a potential peak after a long uptrend. Western Europe has seen nearly continuous civil growth since around 2015 so this deceleration may reflect both completion of some mega-projects and budget tightening. However, Europe's need for infrastructure investment remains vast. Climate and digital policy goals are pushing for major works: expanding renewable energy (offshore wind farms in the North Sea, solar in southern Europe, new power grids across borders), building EV charging infrastructure, modernizing railways (the EU's Trans-European Transport Network projects) and more. The issue is funding. Government coffers are strained by high debt: Public debt in large economies like France, Spain and the UK is around or above 100% of GDP, limiting fiscal space. So while there is a pipeline of desirable infrastructure projects, execution may be slow unless alternate funding (e.g. the EU issuing more joint debt, increased private investment via public private partnerships) steps in.

Figure 8: Civil engineering output (%y/y)



Sources: Eurostat, Allianz Research

Germany's unprecedented fiscal stimulus for infrastructure

Germany is embarking on a historic infrastructure spending boom through 2026-2027, fueled by newly announced fiscal stimulus and long-term investment programs. The cornerstone is a EUR500bn off-budget special fund for infrastructure and climate neutrality, approved in early 2025. This 12-year fund (2025-2036) sidesteps Germany's strict debt brake and will finance projects across all levels of government. Of the total, EUR300bn is earmarked for federal infrastructure, EUR100bn for the 16 Länder (states and municipalities) and EUR100bn for the Climate and Transformation Fund (KTF). Notably, at least 20% of the fund is dedicated to green transition initiatives. This massive package marks a decisive shift after decades of underinvestment, aiming to modernize transport networks, energy systems, digital infrastructure and public facilities on an unprecedented scale. This EUR500bn commitment roughly doubles Germany's recent annual infrastructure spending over the coming decade, providing a powerful stimulus to the economy.

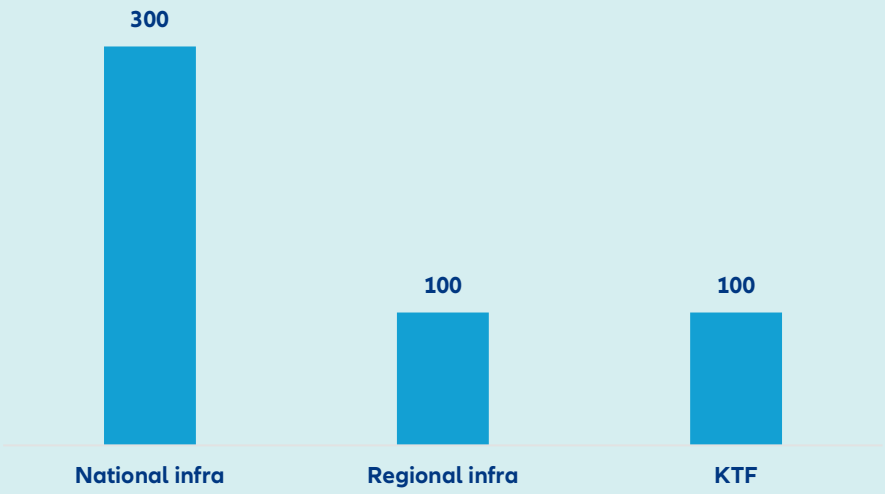
Rail first but road will also get a significant boost. Upgrading Germany's aging rail network is a top priority of the investment wave. Under the long-term "Deutschlandtakt" strategy – a plan to implement a nationwide synchronized rail timetable – the government aims to double rail passenger volumes and raise rail's freight market share to 25% by 2030. Achieving this requires massive rail investment: Deutsche Bahn (DB), the state railway, plans to invest up to EUR150bn by 2034 to modernize tracks, eliminate bottlenecks, and deploy digital signaling. By 2029, public investment of about EUR100bn is planned to overhaul Germany's railway system. Maintenance and modernization take precedence over new high-speed lines. The Transport Ministry's latest "Agenda for Satisfied Rail Customers" sets targets to renovate 42 critical rail corridors (24 by 2030, all 42 by 2036) and to refurbish 100 stations per year (1,000 stations by 2035). **These**

efforts support the Deutschlandtakt goal of more frequent, reliable service. In the interim, rail users may endure disruptions: the renovation program involves periodic closures of key routes for "general overhaul," meaning short-term pain (construction slowdowns) for long-term gain. Germany's roads will also see heightened investment, though the focus is on fixing existing infrastructure rather than large new expansions. Over 4,000 bridges on autobahns and federal highways are in urgent need of renovation after years of underfunding. The special fund explicitly targets collapsing bridges and aging highways as part of its transport allocation. Public transport is another emphasis: the popular nationwide "Deutschlandticket" (a EUR49 monthly transit pass launched in 2023) will continue to be subsidized through 2025 and beyond, supporting ridership growth alongside infrastructure upgrades. All told, transport infrastructure (rail, roads, local transit) is set to receive a large share of the stimulus, aiming to improve Germany's logistics efficiency and reduce transport emissions over time.

Energy and climate investments will not be overlooked. A key objective of the spending surge is to accelerate Germany's energy transition and climate goals. The KTF will finance a suite of green infrastructure projects and initiatives. This includes grants for building energy efficiency retrofits, electrification of heating and industrial decarbonization. The KTF also supports the expansion of electric vehicle charging networks and hydrogen infrastructure. Germany also plans to add dozens of gigawatts of wind and solar capacity this decade, plus 20 GW of new gas-fired plants by 2030 to ensure supply security. To accommodate this, the government is funding "extensive upgrades to the outdated grid network", expanding transmission lines and energy storage capacity. These investments will help integrate offshore wind farms in the north and solar in the south, addressing a notorious grid bottleneck.

Labor shortages and red tape must be addressed. Construction order books are filling up: major German contractors (Hochtief, Vinci, Strabag, etc.) and engineering firms are already positioning to capture rail and highway contracts, and equipment makers for energy and telecom are seeing increased demand. However, realizing these gains will depend on overcoming capacity constraints. A chronic skilled labor shortage in Germany threatens to slow the rollout of projects. A recent study by the Cologne Institute for Economic Research (IW) finds that over 84,000 infrastructure-related jobs went unfilled between mid-2024 and mid-2025. This includes a shortfall of 38,000 construction workers – from electricians and plumbers to heavy equipment operators and track-layers – as well as thousands of unfilled posts for civil engineers, project planners and site supervisors. Another challenge is Germany's notoriously slow planning and permitting process. Streamlining environmental reviews, digitizing permit applications and cutting red tape will be key.

Figure 9: Breakdown of the Germany fiscal package (EUR bn)

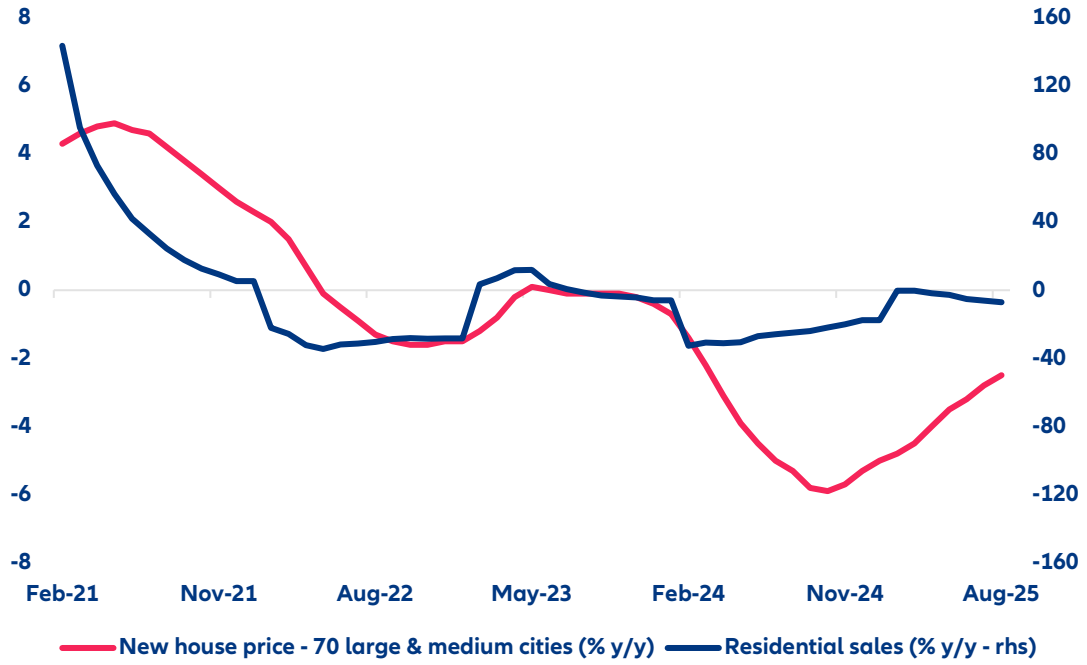


Sources: Allianz Research

China: Going big on infrastructure until housing recovers

The real estate downturn nearing its close. China's property sector began unraveling in 2021 when policymakers tightened credit to developers to curb leverage ("three red lines" policy). This exposed the fragile finances of many developers, notably Evergrande, which defaulted in 2021, and others like Country Garden, which teetered in 2023. Homebuyer confidence was shattered as construction on many pre-sold apartments stalled. New home sales plunged across 2022–2023, and prices in many cities either stagnated or fell, particularly in lower-tier cities with oversupply. By 2024, the government shifted to damage control: it eased some restrictions (e.g. lowering down payment requirements, allowing some cities to relax homebuying curbs) and the central bank cut interest rates to stimulate demand. Despite these moves, the response has been lukewarm so far – prospective buyers remain cautious amid worries about developers' health and future price declines. As a result, in the short term, China's residential construction activity will continue to contract or flatline into 2025, making it a drag on the whole industry. The share of construction output coming from real estate has dropped and is being overtaken by infrastructure. The government's hope is that by 2026 the property market will have stabilized at a new equilibrium (perhaps through consolidation with state-owned developers taking over distressed projects etc.) so that construction in housing can at least stabilize. But no rapid rebound in housing is anticipated given the structural headwinds (i.e. reversal in demographics, slower urban migration, excess housing inventory etc.).

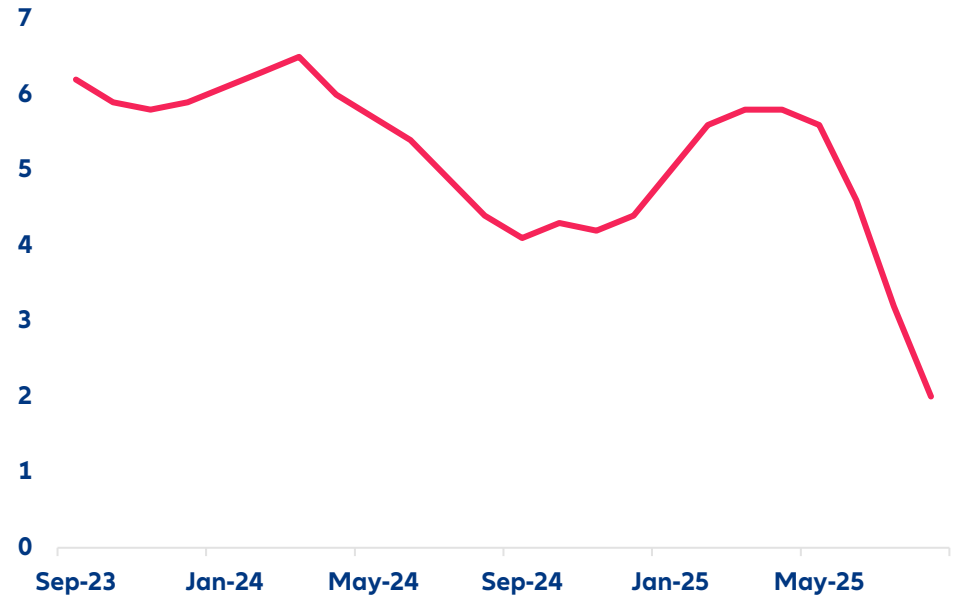
Figure 10: Residential prices and sales in China



Sources: LSEG Workplace, Allianz Research

Beijing is continuing to deploy the traditional playbook by ramping up infrastructure investment. Local governments issued special bonds (a primary funding tool for infrastructure) at record levels in 2022–2024 to fund projects. A notable example is the 468 km high-speed rail line from Yichang to Fuling that started tendering in late 2024, costing about RMB127bn – a major part of a national railway expansion plan. Urban metro systems are another area: Numerous cities are extending their subway networks, which involves extensive tunneling and station construction. China's longstanding "Broadband Silk Road" and "new infrastructure" initiatives also continue, including data centers, 5G network infrastructure and electric vehicle charging networks. China is aligning construction with its strategic goals, one of which is technological and industrial self-reliance. Hence, alongside traditional infrastructure, a lot of industrial construction is happening in sectors favored by Beijing's industrial policies. For example, China is investing heavily in semiconductor fabs despite US export controls, which means constructing new fabs and related facilities. Also, as part of the green transition, massive energy projects are underway, including renewables (China installs tens of gigawatts of solar and wind each year, requiring construction of farms and grid connections) and power grid upgrades. In 2023, Beijing concentrated its push on roads, while in 2024 the largest item was renewable energy as the country invested the equivalent to the global investment in fossil fuels. The approval of the world's largest hydro dam on the Yarlung Tsangpo river in 2024 is indicative of China's appetite for mega-projects. So far, as of August 2025, China has been pushing firmly on railway construction with close to USD71bn over the first eigh months of the year. Going forward, as the infrastructure base is already elevated, growth rates for infrastructure are likely to slow down (see Figure 11), indicating that it cannot support the construction sector alone.

Figure 11: Fixed investment in infrastructure in China (% y/y)



Sources: LSEG Workspace, Allianz Research

China's construction output is expected to grow by about +3.2% in 2025, and to average around +4% annually from 2026 to 2029. This suggests that by 2026 growth might even tick up slightly as the boost from rate cuts and infrastructure fully kicks in. To put this into context, +3-4% growth for China is quite subdued by historical standards (in the 2000s, construction often grew above +10% a year), but given the higher base now, even mid-single-digit growth translates into a lot of new build. Despite the push, China's construction sector faces multiple challenges. Firstly, local governments, who make much of the infrastructure spending, are heavily indebted. Many have seen revenues drop (land sale revenues fell when the property market slumped, and tax revenues were hit by slow growth). They use local government financing vehicles to borrow for projects and there is growing concern about the sustainability of this model. In 2024, some localities delayed payments to contractors due to budget strains. The central government might have to step in with bailouts or allow more bond issuance; how it manages this will affect the pace of construction spending. Second, the property downturn does not just affect residential builders, it also hits local government finances and employment (construction is a big employer in China). If it worsens or fails to stabilize, it could drag down the economy. Conversely, a surprising rebound in housing would significantly lift construction. Third, because of trade tensions, some high-tech construction (like fabs) might face uncertainties due to sanctions or difficulty in obtaining advanced equipment, potentially causing delays or cancellations of planned facilities. If managed carefully, China will continue to be the world's largest construction market, even if its growth rate is now closer to emerging-market peers rather than the double digits of the past. The key will be ensuring these investments are productive, and dealing with the overhang of the property bust.

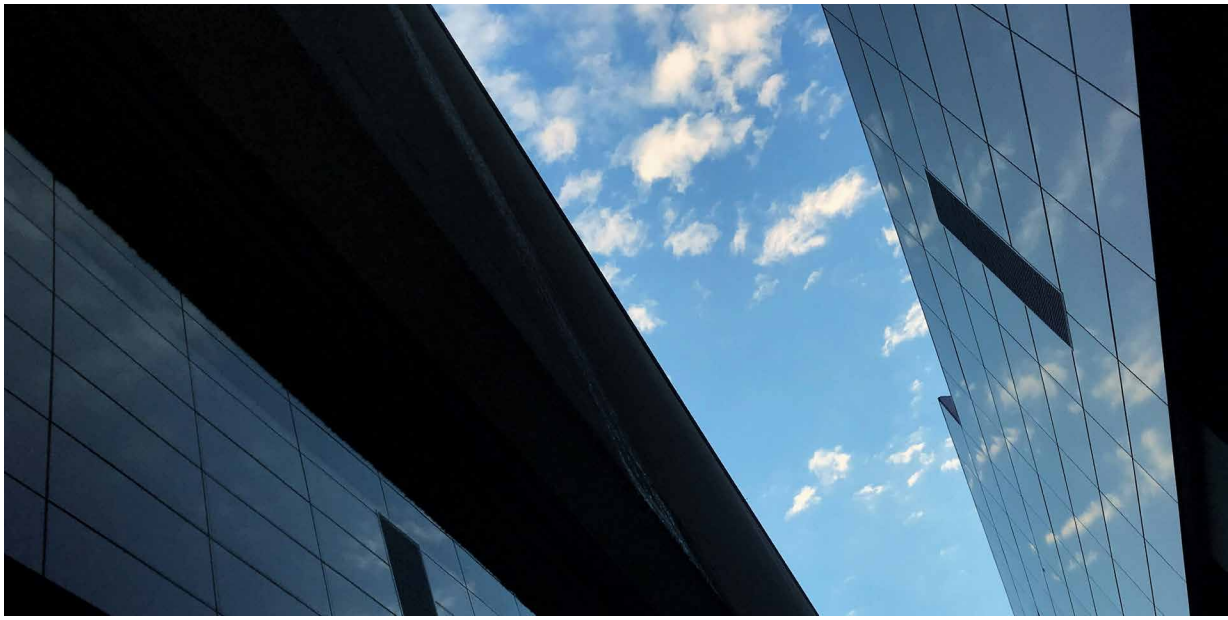
Beyond the big three markets

In the APAC region, countries like Indonesia, Vietnam and the Philippines are investing heavily in infrastructure and urban development, and India stands out as a rapidly expanding construction market. India's construction output is projected to grow by around +6-8% annually. Drivers include massive infrastructure initiatives (the Bharatmala highway program, dedicated freight rail corridors, urban metro systems in dozens of cities), a push for affordable housing (the PMAY Housing for All scheme has built millions of homes in recent years, with more to go), and booming data center and industrial construction as India attracts supply-chain diversification. With its young population and urbanization (only about 35% urban so far), India has decades of construction growth ahead. The government's capital expenditure hit a record high in 2024 (about 3.3% of GDP) and 2025/26 budgets will likely sustain this. This creates opportunities for global investors in Indian real assets and for construction firms. One showcase is the planned new Mumbai-Ahmedabad bullet train – under construction with Japanese collaboration – and futuristic projects like a new capital city for Andhra Pradesh. Elsewhere in APAC, Indonesia, for instance, has begun building a new capital city (Nusantara) from scratch in Borneo – a multi-decade project expected to cost over USD30bn and involve constructing government buildings, housing and infrastructure for up to a million residents by 2030. Vietnam is booming as a manufacturing hub; construction growth there is strong in both factories and housing. These markets do face financing constraints (relying partly on multilateral development banks and foreign partners for big projects), but their growth percentages outpace developed markets.

Still cash-rich from the petrodollar revenues from high oil prices in 2022-23, Gulf countries are embarking on ambitious construction agendas. Saudi Arabia leads with its Vision 2030 projects – the most extraordinary being "NEOM", a USD500bn futuristic city (including The Line, a 170 km linear city) which has moved from concept to early construction. Whether all parts of NEOM are realized remains to be seen, but already thousands of workers are on site and significant contracts have been awarded, indicating substantial construction activity through 2026. KSA is also building giga-projects like the Red Sea resort development, Qiddiya entertainment city and dozens of smaller cities/economic zones. Qatar and UAE are a bit past their peak (post World Cup in Qatar and Expo 2020 in Dubai) but still active – Dubai has resumed high-rise developments with renewed investor interest, and Abu Dhabi is investing in industrial zones.

In Latin America, the construction outlook is mixed. Some countries like Mexico are benefiting from nearshoring: proximity to the US has attracted new factory builds (particularly auto parts, EV batteries, electronics). Mexico's construction had been in a long slump, but 2025–26 could finally see growth as foreign investment pours in. Brazil, after years of recession and stagnation, has a housing deficit and new government focus on infrastructure (Lula's administration is reviving the housing program "Minha Casa Minha Vida" and aims to invest in rail and renewable energy). Political stability and fiscal capacity vary, so one must cherry-pick markets (e.g. Chile continues steady investment in copper mines and green hydrogen facilities, whereas Argentina's macro woes limit construction despite huge housing needs).

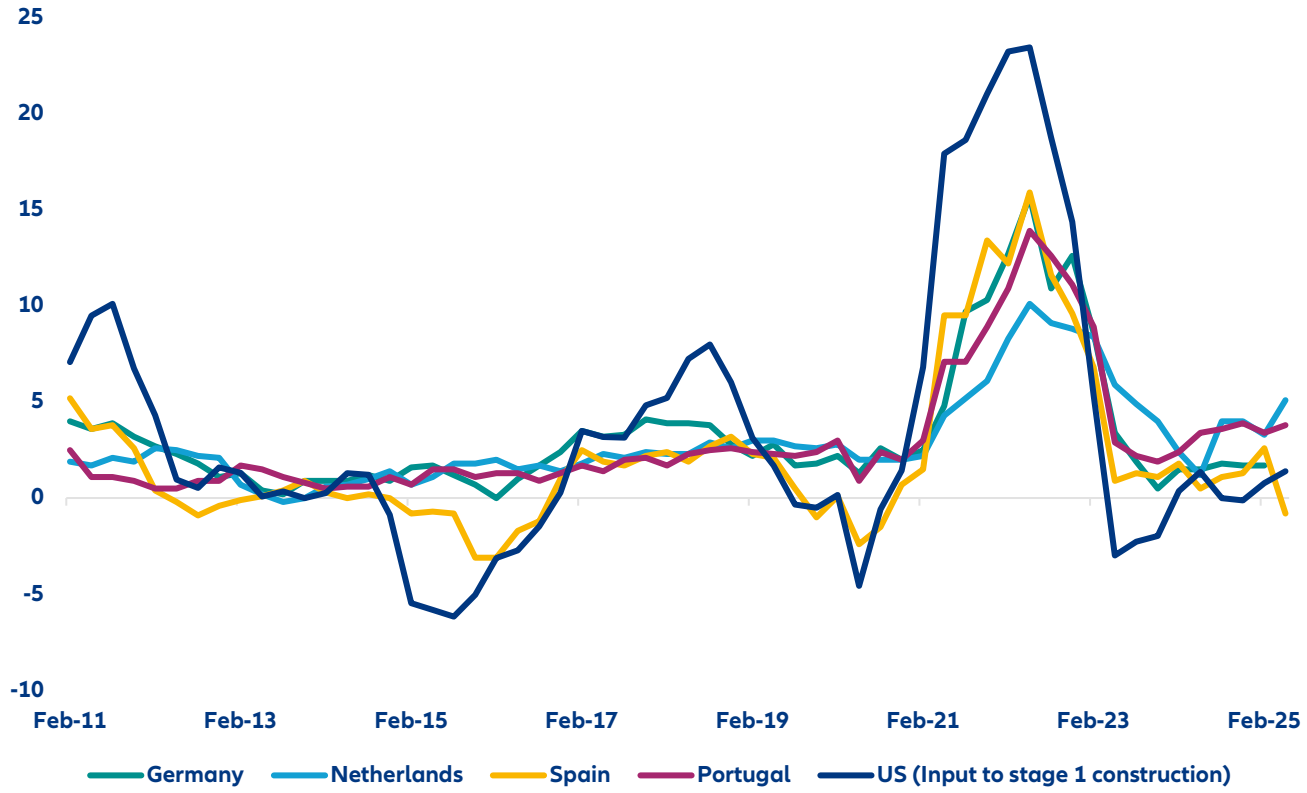
In Africa, construction is largely driven by infrastructure and urban housing for a growing population. Standouts include Nigeria (expanding ports, rails, and trying to address a housing shortfall in Lagos and Abuja) and Kenya/ East Africa (Nairobi's real estate, new expressways, and rail link to Mombasa completed recently). Africa's growth in construction is high in percentage terms (over +5% in many countries) but from a small base.



High rates and trade war: construction corporates in the crossfires

Construction input prices continue to rise, but with uneven patterns across materials and regions. In the US, overall input prices climbed +0.2 % in August 2025, pushing year-on-year gains to +2.3 % for general inputs and +2.6 % for non-residential construction. Steel, iron and other metal inputs remain key drivers of volatility. Over the 2020–2025 period, many building material cost indices have accumulated over +40% increases, notably in structural metals, wiring, insulation and heavy equipment. Elsewhere the picture is more nuanced: cost pressures are easing in Spain or Germany but still increasing in the Netherlands or Belgium (see Figure 12). Going forward, new or threatened tariffs on steel, aluminum, copper and other construction inputs could further squeeze margins and adding a risk premium into pricing for US players. In Europe, energy and carbon costs poses risks to corporate profitability. Labor also seems to be an issue across the board, with subcontractors pushing up bid prices to absorb higher wages.

Figure 12: Residential building costs (% y/y)

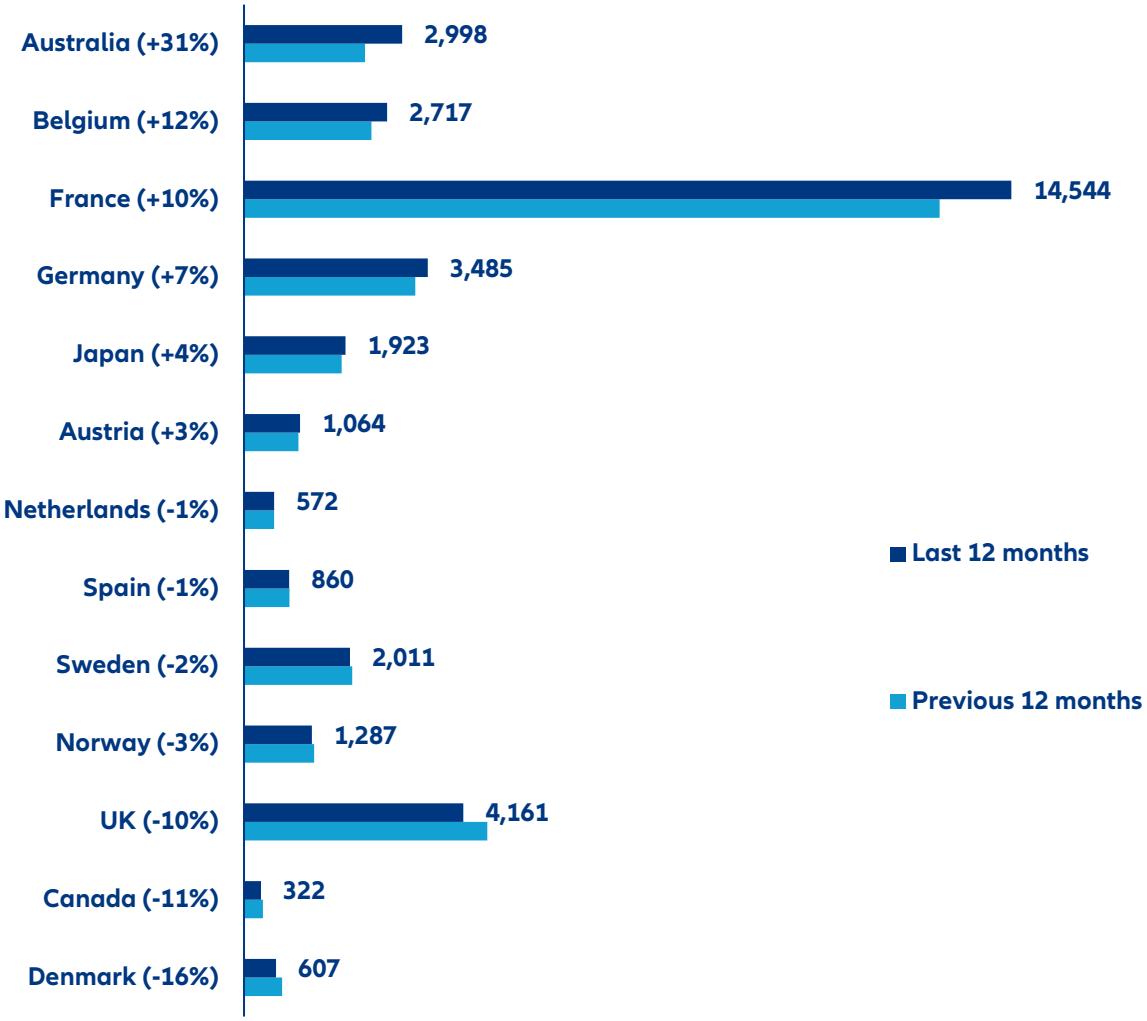


Sources: LSEG Workspace, Allianz Research

With a higher cost of capital and sluggish demand in some segments, insolvencies continue to increase. Some highly leveraged property developers, small contractors and second-tier suppliers are feeling the pressure in the current context. Requiring higher pre-sales or pre-leases before starting a project, conservative financing schemes or other risk-sharing process have been increasing. Contractors are mindful of clients' financial stability too, ensuring they get paid on time amid developer bankruptcies. In markets like France or Belgium, construction insolvencies continue to increase in double-digits (see Figure 13). Construction firms may also explore alternative funding models, like infrastructure funds or partnering with private equity for certain projects (especially where public funding falls short, private capital is stepping in via PPPs).

To thrive in the current context, corporates must adapt to both cyclical shifts and structural changes. With infrastructure and industrial activity booming, many contractors are expanding units that handle roads, rail, utilities and factories. For example, some traditionally building-focused companies are bidding on highway or rail contracts to capture infrastructure spending. Meanwhile, companies heavily exposed to weak segments like speculative office construction are diversifying into renovations or other property types (data centers, healthcare facilities). Specialization in hot niches like data center construction, EV plant construction or green retrofits is also a viable option for corporates. The challenging conditions in some markets (like residential and office downturns) are also prompting industry consolidation. Weaker firms, especially smaller subcontractors and developers, may not survive prolonged slumps or high financing costs. Stronger competitors can acquire distressed assets or businesses, expanding their market share at relatively low cost. The winners will likely be those who can deliver on the new mandates of speed, sustainability and tech-integration, all while maintaining financial discipline in a higher-cost environment.

Figure 13: Insolvencies in construction (June 2025)



Sources: national statistics, Allianz Research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