SteadWay

CONSTRUCTION MARKET INSIGHT GERMANY

for H2 2026



INTRODUCTION & MACRO ECONOMICS

Following a period of broad stagnation, the German economy began to regain tentative momentum in late 2025. This initial recovery was largely supported by a ramp-up in public spending following a significant debt brake reform, which stimulated domestic activity and government investment. Early 2026 initially continued this upward trend, reflecting stronger-than-expected growth conditions at the beginning of the year. At the time of our last update in January 2026, baseline projections from the European Commission reflected this optimism, forecasting GDP growth of 1.2% for both 2026 and 2027, alongside easing inflation expectations.

However, this upswing was abruptly interrupted in the spring of 2026 by an escalation of conflict in the Middle East. The resulting disruption triggered a severe energy price shock, halting the disinflationary progress made throughout 2025. Consequently, economic activity has visibly slowed heading into the summer of 2026.

Table 1 - Key Economic Indicators Germany

Indicators	2025	2026	2027
GDP Growth (%, yoy)	0.2	1.2	0,9
Inflation (%, yoy)	2.3	2.9	2,7
Unemployment (%)	3.8	4.0	3.9
Public Debt (% GDP)	63.5	65.8	68.0

Source: European Commission

The German construction industry began showing signs of stabilization in late 2025. While the broader macroeconomic environment faces renewed stagnation, total incoming construction orders rebounded notably at the end of 2025—rising by roughly 7% in real terms—signaling a tentative turnaround for the industry. However, performance across sub-sectors remains sharply divided.

Public sector and civil engineering have emerged as robust growth engines, fueled heavily by the federal government's funding plans, with real public construction volume projected to surge by 6.7% in 2026, according to early 2026 projections by DIW Berlin. Conversely, the residential construction market remains in a structural crisis. While broader economic forecasts in early 2026 anticipated a faster normalization of the housing market, current tracking from the ifo Institute indicates that residential completions will fall further to just 185,000 units in 2026—falling far short of domestic demand and government targets.

Looking ahead, the broader sector is forecast to return to real growth, finally breaking its four-year contraction streak. Baseline projections from DIW Berlin anticipate total real construction volume to grow by 1.7% in 2026 and accelerate to 3.4% in 2027, driven almost entirely by the public and commercial infrastructure boom. However, the renewed energy price shock triggered by Middle Eastern geopolitical tensions in early 2026 poses an immediate downside risk to this outlook.

INPUT COSTS

Material Costs / Energy Prices

Material costs in the German construction industry remain highly volatile and have accelerated sharply since our last update. While late 2025 saw cost relief in basic iron and steel (-5.1%), these have now reversed to positive price growth (+3.4%) as of mid-2026. Furthermore, previously moderate increases have spiked drastically; copper has surged by an astonishing 26.0% year-over-year (up from +3.5%), and timber costs have climbed further to 6.5% amid renewed supply chain friction.

Our previous report highlighted a 7.5% year-over-year decline across natural gas and electricity, offering a brief reprieve from the unprecedented 2023/2024 peaks. However, geopolitical conflicts escalating in spring 2026 triggered a severe energy price shock across Europe. This has rapidly driven up the costs of fuel (May-26: +24.2% yoy) and mineral oil products (May-26: +34.9% yoy), erasing previous disinflationary progress and severely squeezing manufacturing margins across the supply chain.

Labour Rates

Following strong trade union negotiations, a collective bargaining agreement took effect on April 1, 2026, officially closing the decades-old East-West pay gap. This resulted in a 3.9% wage increase in Western Germany and up to a 5.3% uplift in the East to achieve nationwide equalization.

As anticipated in our previous report, the statutory minimum wage officially increased to €13.90/hr on January 1, 2026.

General Contractor (GC) Markups

Based on recent tender returns we are still experiencing around 18% - 20% GC Markups on construction cost, based on a traditional single stage lump sum procurement route including full design and specifications.

Many GCs are deliberately squeezing their own profit margins to absorb the recent early-2026 material and energy price shocks, prioritizing secured order volume over high margins to weather the current market conditions.

CONSTRUCTION COST TRENDS & FORECASTS

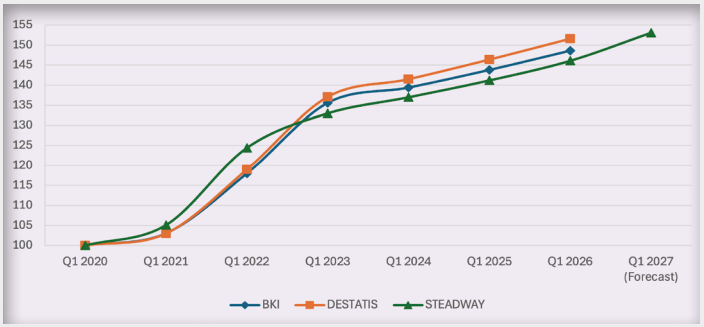
In our previous previous market insight report, construction cost inflation had shown signs of stabilizing toward pre-2020 levels. Annual cost inflation eased to between 3.3% and 3.5% by the end of 2025, down from 3.5% in H1 2025, with full-year 2026 cost inflation expected to hover between 3.0% and 4.0%, based on the assumption of stable macroeconomic conditions. However, the underlying cost drivers have decoupled from these expectations. While our previous forecast assumed that falling energy prices would continue to offset rising labor and material costs, the 2026 energy price shock and subsequent surges in key raw materials have increased contractor input costs. Despite these input pressures, final tender prices have remained contained because general contractors are actively compressing profit margins to secure volume in a subdued residential and commercial market.

Table 2 - Comparison of Construction Cost Indices

Construction Price Index	BKI	Destatis	SteadWay
Q1 2020	100,0	100,0	100,0
Q1 2021	103,0	103,0	105,1
Q1 2022	118,0	119,0	124,4
Q1 2023	135,6	137,1	133,0
Q1 2024	139,4	141,5	137,0
Q1 2025	143,8	146,4	141,2
Q1 2026	148,6	151,3	145,7
Q1 2027 (forecast)	TBC	TBC	151,9

The graph below illustrates how construction cost inflation has slowed down, from 2024 to now, to similar levels experienced before 2020 (3% yoy) but there are no signals currently suggesting construction costs decreasing (deflation) into 2027. As contractors reach the limits of margin absorption and pass higher input costs through new tender returns, we currently expect overall construction cost growth to exceed our previous 3.0% to 4.0% forecast range for 2026 – see our Q1 2027 revised forecast index of 153.1 below (representing 4.8% year-on-year growth).

This 4.8% forecast is, however, under significant risk as a direct result of the current conflict in the Middle East. There is optimism that the market can re-adjust quickly, re-stabilising material and energy costs and minimizing the impact on construction cost, but no guarantee. The historical impact of the supply chain disruption on construction cost in 2021/2022 can be seen in Table 2.



Note: To create a like-for-like baseline of the published data from the BKI (Construction Cost Information Centre of the German Chamber of Architects) and Destatis (Federal Statistical Office of Germany) we have set the base date for BKI and Destatis at 2020 for comparison purposes with our cost data analysis.

PRICE TRACKER (Q3 2026)

Description of Work	Indicative Rates (€)		
	Unit	Lower Range	Upper Range
Concrete (slab; C45/55; XC1)	m^3	€200	€250
Formwork (standard)	m^2	€60	€80
Rebar (B500)	t	€2.000	€2.500
Structural Steel (HEB)	t	€3.500	€4.500
Ductwork (standard)	m^2	€70	€80
Cable Trays (perforated steel; 100 - 300mm)	m	€80	€90
Pipework (steel pipes; DN 20 - 25; hot water)	m	€25	€30
Pipe Insulation (DN 20 - 25; 50mm thick)	m	€20	€30
Plasterboard Walls (125mm thick; Rw,P 56dB; non fire rated)	m^2	€90	€100
Plasterboard Suspended Ceiling (standard; non fire rated)	m^2	€60	€70
Carpet (standard office)	m^2	€40	€50
Glazed Partitions (D 100mm; 37dB; non fire rated)	m^2	€450	€550
Floor Screed (cement; 5kN; excl. insulation)	m^2	€30	€40
Raised Access Flooring (5kN; 150mm - 450mm)	m^2	€130	€150
Raised Access Flooring (8kN; server room; 150mm - 450mm)	m^2	€230	€250
Timber Door Single Leaf, T0 (37dB)	Nr.	€1.200	€1.600
Timber Door Single Leaf, T30 (37dB)	Nr.	€2.500	€3.500
Steel Door Single Leaf, T0	Nr.	€2.500	€3.000
Steel Door Single Leaf, T30	Nr.	€3.500	€4.000
Glass Aluminium Door Single Leaf, T30	Nr.	€5.000	€6.000

All the above rates exclude VAT and General Contractor's markups and are based on blended averages. They are purely intended as indicative and would vary depending on project specifics, such as location, size and type of building project. The materials described above represent a broad cross section of works in a typical building project. The range of unit rates quoted are on a supply and install basis and are pure generic in nature.

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This publication must be treated as an indicative guide only, as the information provided is based on averages across various types and sizes of projects in varying locations, with varying degrees of complexity. Project specifics must be carefully reviewed and analysed on a case-by-case basis and should be reviewed regularly with your SteadWay team in order to determine the appropriate base cost for the project.