

# CONSTRUCTION COST IMPACTS

## Material Supply & Pricing

California construction costs are escalating at an annual rate of 4-5% and potentially rising to 6-8% with tariffs. As various markets change, civil infrastructure is leading the way at 22.6% volume annual growth while commercial faces the weakest outlook at just 1.5% spending growth. The critical risk is tariff exposure on steel, lumber, and high-voltage electrical components, where lead times have stretched to 59-130 weeks. Subcontractors may build explicit contingencies for imported materials (15-20%) and avoid fixed-price commitments without clear escalation clauses—transparency and risk allocation are essential in this volatile pricing environment.

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## MATERIAL TRENDS - SUMMARY MATRIX

Material	Cost Trend	Lead Times	Material Shortage	Transport / Logistics
Reinforcement Bars	High - 8.3%	Stable	Moderate	Neutral
Concrete	Stable - 1.2%	Stable	No	High
Structural Steel	High - 5.1%-22.5%	Normalizing	Moderate	Neutral
Misc. Metals	High - 22.8%	Stable	Moderate	Neutral
Carpentry	Moderate - 4%	Labor shortage	Yes	Neutral
Lumber	Moderate - 4.8%	Stable	No	Neutral
Glulams and CLT	Moderate - 4%-7%	Stable	Moderate	Neutral
Plywood	Moderate - 4.8%	Stable	No	Neutral
Melamine and Plam	Moderate	Stable	Moderate	High
Insulation	Stable	Stable	No	Neutral
Drywall	Moderate - 5%-8%	Stable	Moderate	High
Ceiling Tile	Moderate	Stable	Moderate	Neutral
Carpet Flooring	Stable	Stable	No	Neutral
Imported Stone	Moderate	Extended	Moderate	High
Domestic Tile	Stable	Stable	No	Neutral
Plumbing Fixtures	Stable	Stable	No	Neutral
Steel Piping	Moderate - 5.1%	Stable	Moderate	Neutral
Copper Piping	High - 8.5%	Moderate	Yes	High
PVC Piping	Stable	Stable	No	Neutral
Mechanical Equip.	Moderate - 3%-5%	52-80 weeks	Yes	High
Electrical Equip.	High	80-210 weeks	Yes	High

## MARKET ANALYSIS

Sector	Spending Growth 2025	Spending Growth 2026	Key Drivers / Trends
Commercial	1.50%	3.90%	Weak demand + continued rise in building costs due to pricing pressure
Multi-Family Residential	Slowed / Stalled	(Not specified)	High financing costs, oversupply in some markets; affordable housing goals unmet
Healthcare	6.00%	3.40%	Strong gains expected; continued investment in facilities
Education	Moderate growth	Improving	>\$50B in voter-approved bonds nationwide; California seeing slower uptake than U.S.
Infrastructure & Data Centers	Strong growth	Sustained high	Modernization needs, data center boom driving electrical grid upgrades; costs rising at alarming pace

## TARIFF EXPOSURE SUMMARY

Tariff Level	Material Affected
50%	Steel, Aluminum, Copper
25-30%	Kitchen cabinets, vanities, upholstered wood products, GLB derivatives
10-20%	Lumber, windows, doors, reciprocal tariffs on China/EU
Low/Indirect	Domestic products, PVC, some fixtures
50%	Steel, Aluminum, Copper

## PRIMARY CAUSES

The following are primary causes influencing the various construction material costs, lead times, shortages, and transport:

### Tariffs

Construction tariffs range from 27% on residential materials sourced from China (10–55% tariffs), 11% Mexico, 8% Canada. Steel/aluminum are already up.

### Labor Shortage

The industry needs 439,000 new workers in 2025 (potentially 499,000 by 2026), In California, 40% of construction workers are immigrants, making the labor force particularly volatile. Keeping schedules on track is becoming more difficult. This creates an opportunity for prefabrication and industrialized construction.

### Labor Costs

Labor represents 30-40% of total project costs. With 4-5% annual wage inflation becoming the baseline, plus tariffs adding 5-8% to material costs, total project escalation of 6-10% is realistic for 2025-2026.