Construction Outlook 2026: Growth returns to the European construction sector

After declining in 2024 and stagnating in 2025, we expect renewed growth for the European construction sector this year. Confidence among contractors is rising, permits for new housing are increasing, and additional infrastructure investment is supporting the recovery

After a tough couple of years, Europe's construction sector is set to return to growth

2026: Growth returns

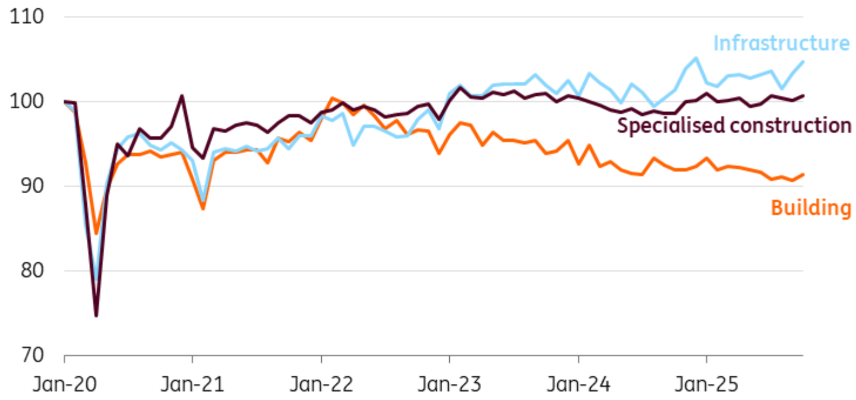
We forecast that growth will return to the EU construction sector in 2026. Production is set to increase by 1.5%. This comes after a drop of 1.5% in 2024 and zero growth in 2025. More positive signals are popping up. For instance, the confidence indicator for the EU construction sector is clearly improving. While still negative, the December reading of -3.3 was the highest in more than two years.

The building sector has declined, while infrastructure has grown

It's mainly the building sector (consisting of residential and non-residential activities) that has suffered in previous years. The main causes are higher interest rates, increased building costs, and consumers and companies thinking twice before investing in new premises amid uncertain economic circumstances. On the other hand, the specialised construction sector has profited from investments in renovation and sustainability works. The infrastructure sector has also provided some counterbalance through EU funds and investments in energy works and digital infrastructure.

Developments in subsectors differ

Development EU Construction sector volume, latest data point October 2025 (Index January 2020=100, SA)



Source: Eurostat, ING Research

In **France**, construction volume declined by 1.5% in 2025. The confidence indicator for the construction sector in France remains low, and it's not improving. The issuance of housing permits improved slightly at the beginning of 2025 but has shown signs of decline since August. Given low GDP growth, we forecast only 0.5% growth for the French construction sector in 2026.

EU construction forecast

Volume output construction sector, % YoY

	2024	2025*	2026*	2027*
Austria	-1.9%	-1.5%	1.0%	1.5%
Belgium	-1.2%	0.5%	0.5%	1.0%
France	-3.4%	-1.5%	0.5%	1.0%
Germany	-3.2%	-1.5%	2.5%	3.0%
Netherlands	-2.9%	0.5%	0.5%	1.0%
Poland	-7.7%	-1.0%	3.0%	2.0%
Spain	2.6%	3.5%	2.5%	2.0%
European Union	**-1.5%**	**0.0%**	**1.5%**	**2.0%**
Turkey	14.4%	8.0%	6.0%	4.0%

Source: Eurostat & ING Research, *2025 Estimates and 2026 and 2027 Forecasts

For the **Netherlands,** we also expect low growth rates. After a significant 2.9% contraction in 2024, we expect Dutch building volumes to increase by just 0.5% in both 2025 and 2026. Housing construction is particularly weak. Structural bottlenecks are, like in many countries, a many-headed monster. They include a shortage of building land, lengthy and complex permitting requirements, objection procedures and grid congestion. The Dutch-specific nitrogen issue (new building projects often require permits proving they won't increase nitrogen emissions) also leads to additional project postponements and cancellations.

After five years of decline, the **German** construction industry is projected to return to growth in 2026. As the largest construction sector in Europe, it contracted by more than 10% between 2020 and 2025. For 2026, a 2.5% growth rate is anticipated, driven by a gradual recovery in the new residential market and increased infrastructure investment.

Spain is also showing positive developments. The Spanish construction sector faced a significant decline between 2019 and 2022, losing more than 25% of its volume. However, the Spanish market has been recovering since 2023. We forecast 2.5% growth in 2026. In recent years, the number of building permits issued has surged. Additionally, contractor confidence in Spain is strong, and the construction industry is benefiting from robust GDP growth.

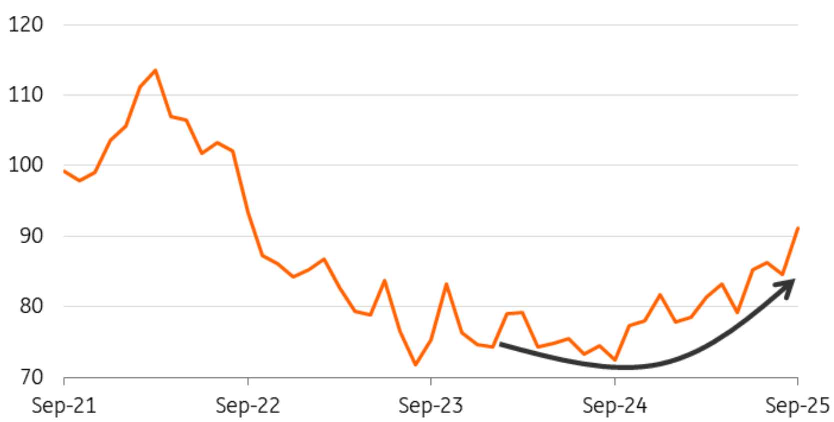
Residential building

Recovery in new residential building
There has been some improvement in the new residential market. The number of permits issued for new houses is an important indicator. Typically, it takes between one and two years from the granting of a permit to the completion of a new home. The number of permits has been increasing since the beginning of 2025. By September 2025, the level was 26% higher than a year earlier.

Housing shortages remain severe in many urban areas across Europe. Additionally, wages have increased, building material costs have largely stopped rising and housing prices are on the rise again despite slightly increased interest rates in November and December 2025. This makes the business case for new housing projects more attractive. Permit issuance is still low compared to 2021, but we expect some improvement in the residential sector in 2026 and 2027.

Recovery in number of issued building permits

EU Building permits new dwellings, SA (index 2021=100)



Source: Eurostat, ING Research

Germany follows the general European trend of improvement. Yet German building permits for new houses declined even more sharply in 2021 and 2022. To speed up the building process, the German government has announced the 'housing construction turbo (Bau-Turbo)' to expedite planning and authorisation of new projects in popular living areas. In **France**, there is also a gradual improvement. However, the latest data for September and October show that the upswing remains fragile.

The number of building permits for new houses issued in the **Netherlands** in 2025 is only slightly higher than in 2024. The disappointing growth is due to various chronic bottlenecks, including a shortage of (affordable) building land, complex project development processes and legal delays. Housing projects are regularly hindered by overloads on the electricity grid, which postpones new construction amid limited connection possibilities. In addition, the nitrogen issue, particularly relevant for the Netherlands, is causing further delays to construction projects because, in some cases, permits cannot be granted due to nitrogen emissions.

Belgium is one of the few countries that still faces a decline in the number of building permits issued. Belgium, like many other countries, struggles with time-consuming project procedures. However, that is not the whole narrative. A reduced VAT rate of 6% now applies to the demolition and reconstruction of homes. For those weighing the option of a completely new build (subject to 21% VAT) versus demolishing an existing home and rebuilding, the VAT difference may be a decisive factor.

The European affordable housing plan
Published by the European Commission in December 2025, the European Affordable Housing Plan sets out a coordinated response to the continent's housing shortages. Recognising housing as a basic right and key to social stability, the plan proposes four pillars of action: increasing supply, mobilising investment, simplifying regulations and supporting vulnerable groups. It aims to add 650,000 extra homes annually across the EU (on top of the current 1.6 million built per year), while streamlining construction rules and promoting sustainable, energy-efficient housing.

Together with this plan, the European Strategy for Housing Construction was presented. It aims to make Europe's construction industry more competitive, productive, and innovative to address the continent's housing affordability crisis. The strategy focuses on simplifying and digitalising permitting procedures, boosting innovation and the use of sustainable materials, and improving access to skilled labour. Key measures include harmonising standards, supporting modular and off-site construction and leveraging financial instruments to accelerate the deployment of new technologies.

The European Investment Bank has announced €400m in financing for new technologies with the potential to increase productivity and reduce the construction and development costs of new housing.

Non-residential building

The non-residential building sector occupies approximately 30% of total construction output in the

European Union. It is a very diverse subsector consisting of the construction of healthcare and education buildings, as well as industrial and office buildings. The latter are the largest sub-markets with a share of approximately 18% and 16% in 2025, respectively.

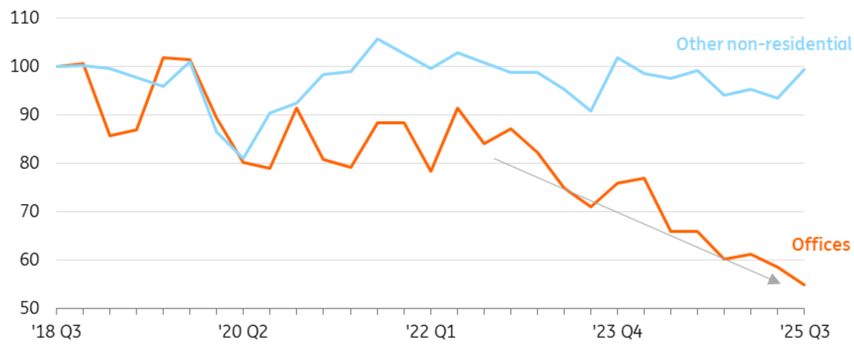
Office and industrial market under pressure
Some sub-markets have faced headwinds in recent years. The office market, in particular, has been negatively affected by the hybrid work trend and economic uncertainties. This has resulted in a sharp decline in the EU permit issuing for new offices. During the third quarter of 2025, the amount of floor space for new offices declined by more than 30% compared to 2022.

In addition, new orders from the manufacturing sector are falling short due to low production levels and low capacity utilisation across many sectors amid fierce international competition and high energy prices in Europe. Yet, new investments in defence and the money that must be spent in 2026 before the European Recovery and Resilience Facility ends (most relevant for southern European countries) are promising a return to growth for European manufacturing.

Health market and renovation show resistance
Some positive counterforces in the non-residential sector are coming from public investments in healthcare and educational buildings. In addition, renovation in the non-residential market is encouraged by energy-efficiency requirements and sustainability incentives. Therefore, despite a decline in the office market, we expect growth in most residential sub-markets in 2026 and 2027.

Sharp decline of issued permits for offices

New non-residential building permits in m2 European Union, (index 2018 Q12= 100, Seasonally adjusted)



Source: Eurostat, ING Research

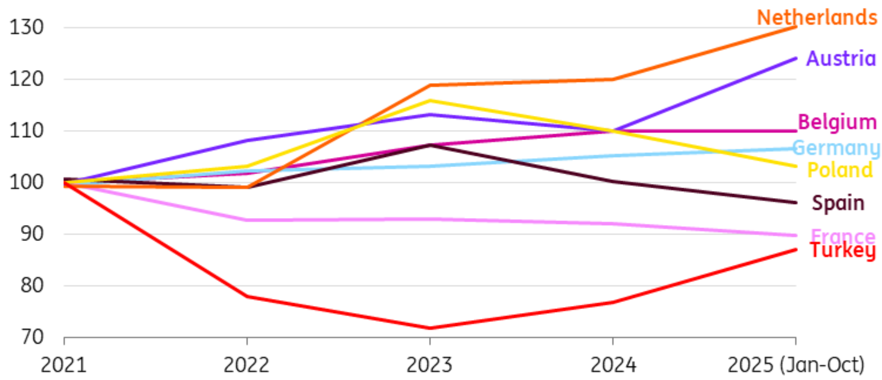
Infrastructure sector

Growth in infrastructure sector
The infrastructure sector demonstrates greater resilience to economic fluctuations compared to the non-residential sector. This is primarily due to its reliance on investments from local and national governments. In 2025, EU infrastructure investments increased by approximately 1%, thereby contributing to overall construction production volumes.

The subsector continues to benefit from essential investments in the energy transition, notably in new power grids and digital infrastructure. Conversely, emerging challenges are evident in drinking water, as both population growth and climate change lead to more frequent droughts across many regions.

Highest infrastructure sector growth in the Netherlands

Volumes infrastructure sector, Index 2021=100



Source: Eurostat, ING Research

The **Dutch** infrastructure sector has witnessed the strongest growth rates in recent years. In 2025, volumes are likely to have increased by around 7%. We expect lower growth in 2026. The volume increases are mainly due to increased maintenance and investment to comply with the European Water Framework Directive and to support climate adaptation. This leads to projects such as sewerage improvement and flood defence reinforcement.

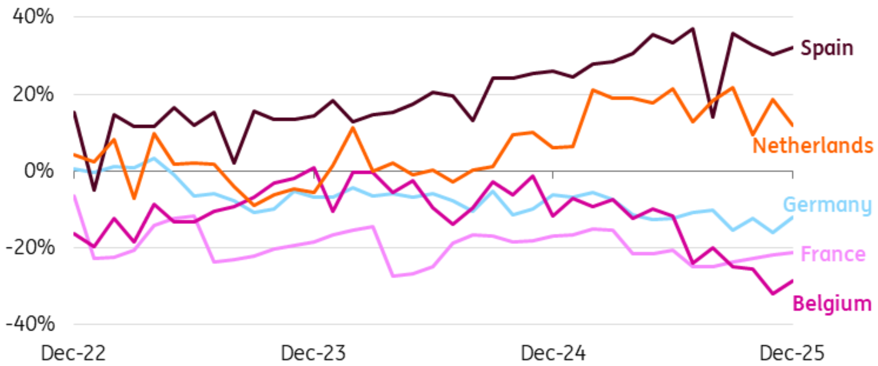
The nitrogen issue (new building projects often require permits proving they won't increase nitrogen emissions) is still a burden, especially for new projects. In response, the central government put some large new infrastructure projects on hold and transferred these funds to renovation and maintenance work that often doesn't require a specific permit. In addition, billions of euros are invested in expanding the Dutch power grid and advancing the energy transition.

In **Germany**, infrastructure investment rose by about 1.5% in 2025. Germany last year introduced a €500bn plan for infrastructure and climate investments, aiming to expand further in the years ahead. The infrastructure fund, however, is not entirely new. It also involves reallocating money from the regular budget, with a significant amount designated for railway projects. Thanks to bureaucratic hurdles in Germany, these projects are unlikely to reach the market before the end of 2026.

By the end of 2025, an EC survey shows that German infrastructure builders remain pessimistic about their order books. However, another survey (the RICS market survey) indicates that German infrastructure professionals are now significantly more optimistic about their outlook for the next 12 months – especially after the announcement of the infrastructure fund. This optimism aligns with expectations that the first substantial investments will occur by the end of 2026.

Infrastructure companies in Germany, France and Belgium pessimistic about their order books

Evolution of order books in the EU infrastructure sector, SA



Source: European Commission, ING Research

In **Belgium**, infrastructure volumes declined slightly in 2025. Furthermore, contractors in the infrastructure sector are expressing greater pessimism about their order books. This sentiment is largely due to two major projects – the Oosterweel (Ringroad Antwerp) and Princess Elisabeth Island (offshore wind energy hub) – having reached their construction peaks. Additionally, investments from local authorities have also plateaued following the 2024 municipal elections.

Building prices

No substantial price increases expected

Few contractors planned to increase their sales prices in December 2025. Contractors do not need to pass on higher input costs, and they are still facing strong competition due to production declines in 2024 and zero growth in 2025. However, the proportion of EU contractors planning to raise sales prices has risen slightly, on balance, from 7% in December 2024 to 9% in December 2025.

More – but still few – contractors plan to raise sales prices

Balance of EU construction companies that expect to increase -/- decrease output prices (over the next 3 months)

Source: European Commission, ING Research

In particular, more contractors in the **Netherlands** intend to demand higher prices over the next three months. On balance, more than 40% of Dutch contractors are planning to increase their sales prices. Few **German** builders still intend to raise sales prices, but thanks to improving market conditions, more of them see opportunities to do so. By comparison, in **France**, the majority of building firms are even planning to decrease sales prices amid sluggish demand.

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