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German construction is turning the corner, but slowly

German construction is set for a cautious recovery, with growth returning in 2026 and further strengthening in 2027. Housing and infrastructure will drive the rebound – but high costs, labour shortages, weak non-residential demand and delays will keep it gradual

The German construction sector seems to be past its worst point, but a full recovery is going to be gradual

Back to growth

For 2026 and 2027, we expect the German construction sector to start growing again. A welcome turning point, as the past years were troublesome. As the German construction sector is the largest in Europe, it contracted by more than 10% between 2020 and 2025. For 2026, a 1% growth rate is anticipated, followed by 2% in 2027, driven by a gradual recovery in the new residential market and increased infrastructure investment.

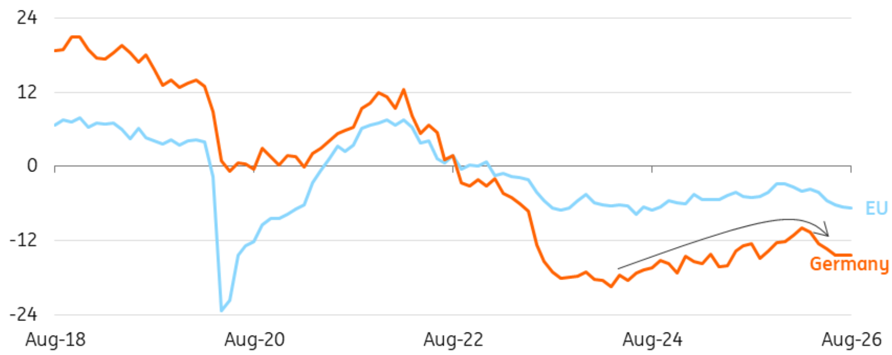
German construction underperforms

In recent years, the German construction sector has underperformed the European average. While European construction output recorded an average annual growth of 1.75% over the past five years, Germany's sector declined. Higher building material costs, increased interest rates and geopolitical uncertainty have made investors more cautious about starting new projects. Also, weaker economic growth in Germany has further weighed on demand for new real estate and infrastructure investment.

As a result, Germany's construction confidence indicator has been more negative than the European average since 2022. Sentiment improved slightly for a while but began to decline again in March this year, following the outbreak of the Iran war.

German contractors still pessimistic

Confidence indicator construction sector



Source: Eurostat, ING Research

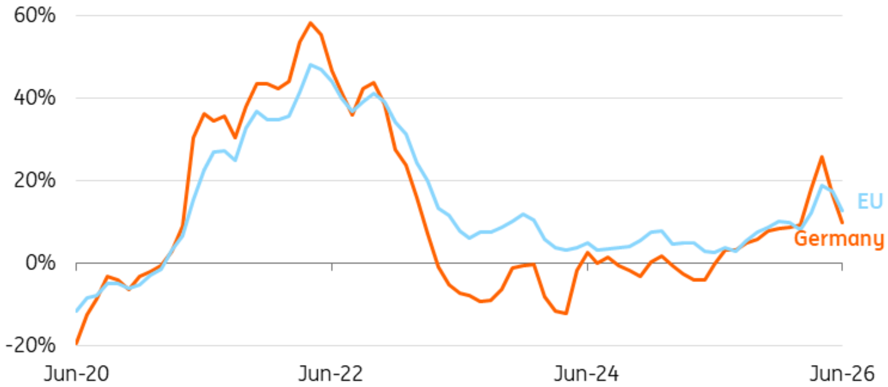
Hormuz crisis adds new uncertainty to construction costs

German contractors are feeling the effects of the conflict in the Middle East, although the direct impact of higher gas and oil prices is limited. Germany's building materials industry still relies relatively heavily on coal, making production costs less directly dependent on gas and oil. As a result, producers have faced less pressure to pass on higher energy costs.

At the same time, weak construction activity and stronger competition have limited contractors' ability to raise prices. Therefore, price expectations have increased somewhat since the start of the conflict but have moved back to pre-war levels.

Planned price hikes fall back to previous levels

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



Source: European Commission, ING Research

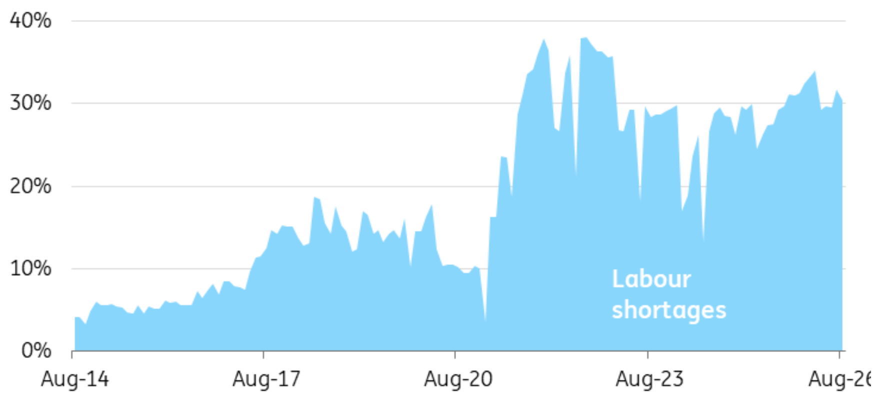
Labour shortages are structural

Labour shortages remain a serious and increasingly structural challenge in German construction. In August, 30% of German contractors reported labour shortages. This is particularly concerning because construction output has been declining for several years, which would normally reduce demand for workers. The problem is largely driven by an ageing workforce and is unlikely to disappear, especially when activity starts to improve again.

To address this long-standing constraint, companies will need to invest more in efficiency gains through industrialisation and digitalisation. Construction companies can also ease labour shortages by investing in internships and relationships with technical schools. Attracting young talent at an early stage and creating clear career paths can help companies build a more sustainable workforce.

Labour shortages are becoming structurally high

% German construction firms that have to limit the production because of labour shortages:



Source: European Commission, ING Research

Low water levels

Low water levels are creating another [supply chain risk](#) for German construction. Many raw materials used in building materials, such as sand, gravel and chemicals, are transported by inland waterways. When river levels are low, barges can carry less cargo, which increases transport costs and delays deliveries to contractors. However, the impact has remained limited until now. In August, 4.3% of construction companies reported production constraints due to material shortages. This is above the usual August level of around 1-2%, but below the 5.1% recorded during the low-water period in August 2018.

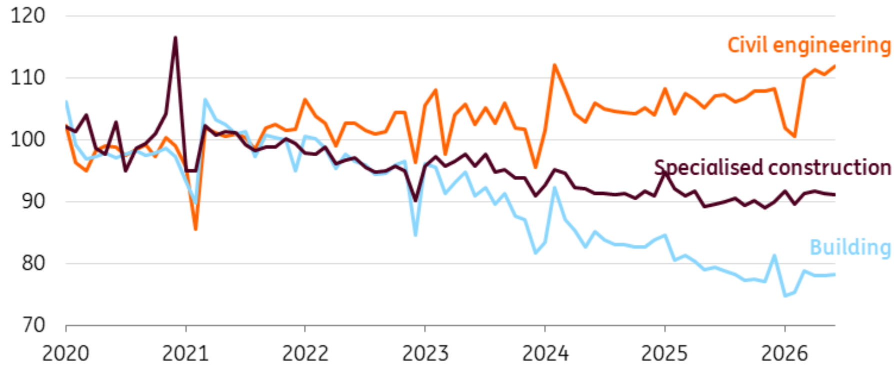
Wide differences across subsectors

Among German construction subsectors, building construction (residential and non-residential) has suffered the steepest decline, with output falling by more than 20% in recent years. Higher interest rates, rising construction costs and cautious consumers and investors amid economic uncertainty have weighed on activity. Specialised construction, such as carpentry, painting and installation work, recorded a more moderate decline.

While this segment has been affected by weaker new construction, it has benefited from stronger demand for insulation and energy efficiency improvements as energy costs have risen. Infrastructure (=civil engineering) performed better, supported mainly by investment in railways and energy projects. There are now early signs that the government's planned infrastructure investment is beginning to reach the construction sector. We discuss each subsector in more detail below.

Decline in German building sector

Development Construction sector volume, latest data point June 2026 (Index January 2020=100, SA)



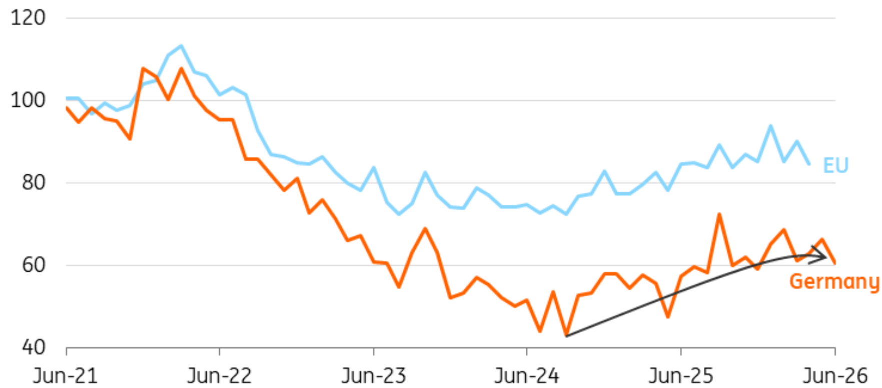
Source: Eurostat, ING Research

Recovery in new residential building

There have been signs of 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 end of 2025. By June 2026, the level was 17% higher than two years earlier but still far below the levels of 2021 and 2022, and momentum appears to have stalled a bit in recent months.

Permits edge higher but momentum weakens

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



Source: Eurostat, ING Research

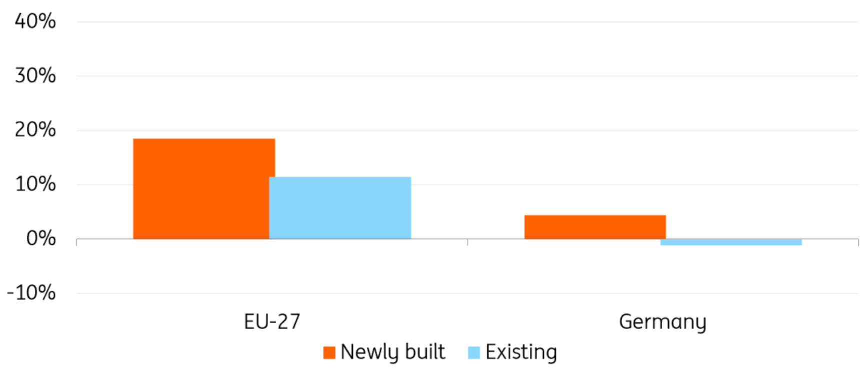
To speed up the building process, the German government has announced the ‘housing construction turbo (Bau-Turbo)' to expedite planning and authorisation of new projects in popular living areas. The federal government has introduced this measure, which could accelerate construction and move many projects forward more quickly. However, its impact will largely depend on the willingness of local authorities, who may hold back because of concerns about losing control and legal uncertainty. Lending rates have also edged up since the start of the year, while slower wage growth has put further pressure on affordability.

Business case for new houses remains complicated

Housing shortages remain severe in many German urban areas, but the business case for new housing projects is still difficult. Although permits are rising, construction costs have also increased. Builders and project developers often cannot pass these higher input costs on to buyers because prices for existing homes are still lower than they were three years ago. Buyers can choose between a new build and an existing house. If new homes become relatively more expensive because of higher building material costs, many are likely to choose an existing property instead.

German house prices lag behind Europe

House price developments 2026 Q1 compared to 2023 Q1



Source: Eurostat, ING Research

Office and industrial market under pressure

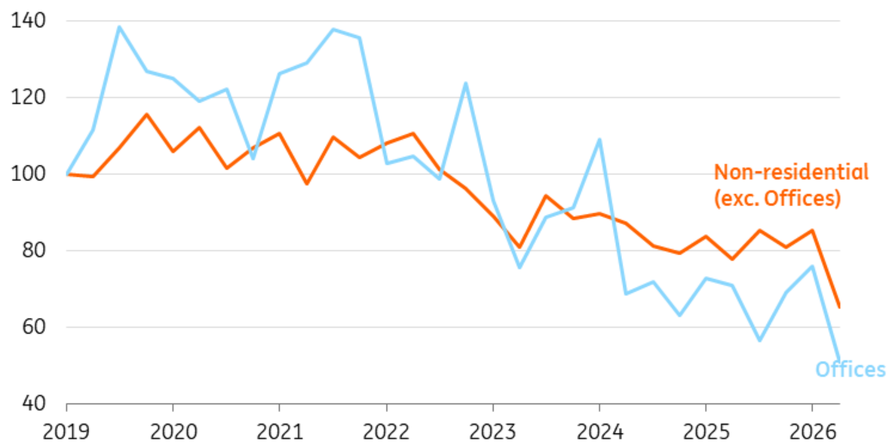
Non-residential building accounts for around 25% of total German construction output. It is a diverse subsector, covering healthcare and education buildings as well as industrial and office properties. The latter two are the largest segments, each representing about 6% of construction output in 2025.

The non-residential market has faced headwinds in recent years. The office and industrial market, in particular, has been negatively affected by economic uncertainty and the hybrid work trend in offices. This has resulted in a sharp decline in the issuance of building permits for new offices. During the second quarter of 2026, the amount of permitted floor space for new offices declined by more than 40% compared with 2022. In addition, new orders from the manufacturing sector have fallen short due to low capacity utilisation, fierce international competition and high energy prices in Europe. However, German industry has recently benefited modestly from the conflict in the Middle East.

Companies are also holding back on investment as recent crises, trade disputes, weak domestic conditions, bureaucracy and taxes are resulting in declines in the issuing of building permits for other non-residential buildings. The planned construction of several gas-fired power stations to stabilise the grid, alongside new defence-related capacity, should provide some support to demand. Yet, the outlook is very dependent on the Middle East conflict and energy price developments.

Decline of issued permits in non-residential sector continues

Buildings permits in m2 in Germany ,Index 2019 Q1 = 100 SA (Last datapoint Q2 2026)



Source: Eurostat, ING Research

Renovation market

Renovation accounts for more than 70% of Germany's total construction output, generating roughly €330bn in annual revenue.

The renovation market's share has risen steadily as new construction has weakened, but this is only part of the story. Germany's large stock of ageing buildings and infrastructure also supports structurally higher renovation volumes.

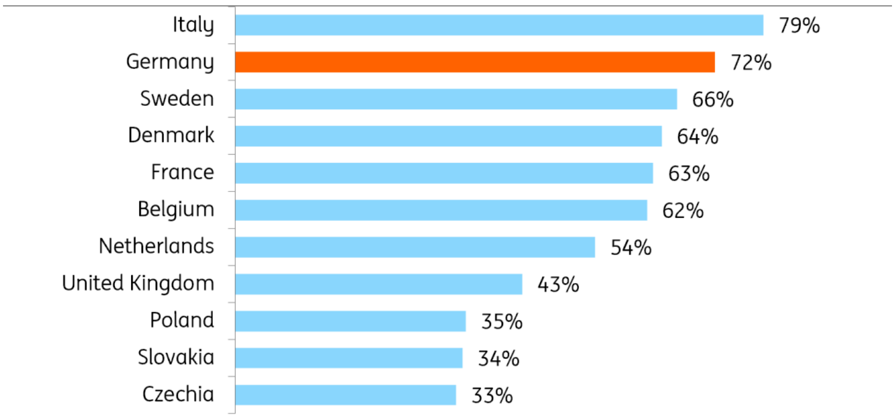
As structures age, they require repairs, upgrades and modernisation to ensure safety, functionality and efficiency. In addition, developed countries typically have stricter building codes, safety regulations and environmental standards. Compliance with these regulations often requires periodic upgrades and renovations.

This narrative also applies to Germany. In Eastern Europe, where new construction still plays a larger catch-up role, renovation accounts for a smaller share of the market. In addition, Germany's declining new construction volumes also lift renovation's share.

Looking ahead, we expect the renovation market to grow gradually, supported by overdue maintenance and the need to improve the sustainability of ageing buildings and infrastructure.

German share of renovation sector is large

Renovation share of total building production, 2025



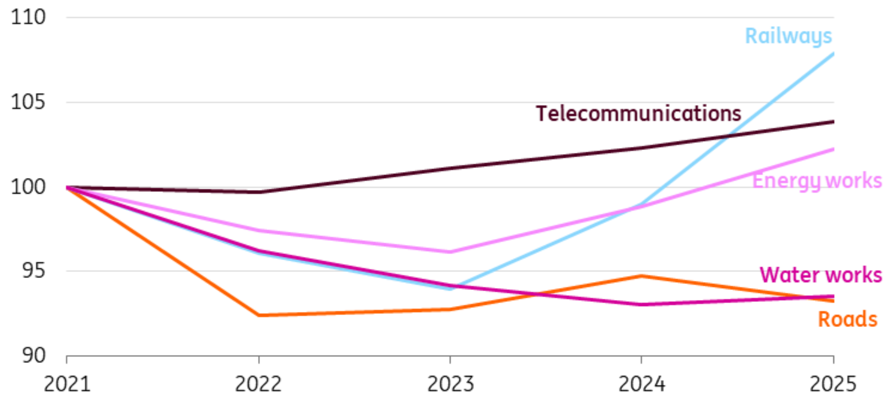
Source: Euroconstruct, ING Research

Infrastructure growth survives

In Germany, infrastructure investment continued to grow in 2025, increasing by around 1.5%. The positive trend carried into the first half of 2026, although momentum remained modest, with output rising by about 1.2% compared with the same period a year earlier. This was a good performance, as construction volumes were held back by a cold and wet winter, which temporarily disrupted activity on infrastructure sites.

Highest growth railways infrastructure investments

Volumes infrastructure subsectors Germany, Index 2021=100



Source: Euroconstruct, ING Research

Road works (more or less 20% of all infrastructure output) remain under pressure because many local authorities face budget deficits (see also below Germany's €500bn fund). Public funding is being directed towards a range of investment and spending priorities, leaving only limited support for road construction.

Telecommunications construction has recorded modest growth in recent years, supported by Germany's fibre optic rollout and investments in mobile network infrastructure. Germany still has significant catch-up potential compared with many other European countries, suggesting further investment needs in the years ahead.

The **energy sector** has been growing since 2024, driven by investments in renewable energy and the expansion of electricity grids. Growth is expected to remain strong through 2027 as Germany continues upgrading its power infrastructure to support the energy transition and rising electricity demand.

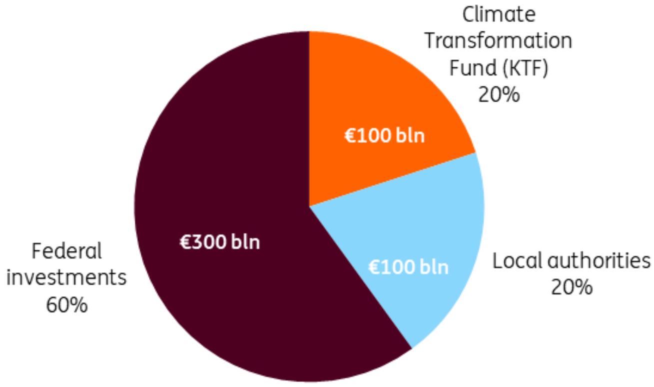
Railway construction is the only major infrastructure segment showing strong growth. The recent increase in activity is largely renovation-led rather than driven by new rail lines, with substantial federal funding and Deutsche Bahn's nationwide network renewal programme boosting spending on upgrades. A major project is the modernisation of the 278km Hamburg-Berlin rail corridor, which started in 2025. Together with the earlier refurbishment of the Riedbahn corridor, it illustrates Germany's large-scale programme to renew ageing rail infrastructure. Growth is expected to moderate from 2027 onwards as funding momentum weakens and much of the current renovation backlog has already been addressed.

Germany's €500bn fund

Germany's €500bn Special Purpose Vehicle (SPV) for Infrastructure and Climate Neutrality has now moved from political announcement to implementation, but the impact on construction activity will be gradual rather than immediate. The SPV was launched in 2025 and is designed to run until 2034, with money available for transport infrastructure, digitalisation, education, hospitals, housing construction and climate-neutral investment. The federal government, Länder and municipalities are all expected to benefit, while a sizeable share is reserved for the Climate and Transformation Fund.

"Additional" package German investments in infrastructure & climate neutrality

Special Fund 'Infrastructure and climate neutrality 2025-2034

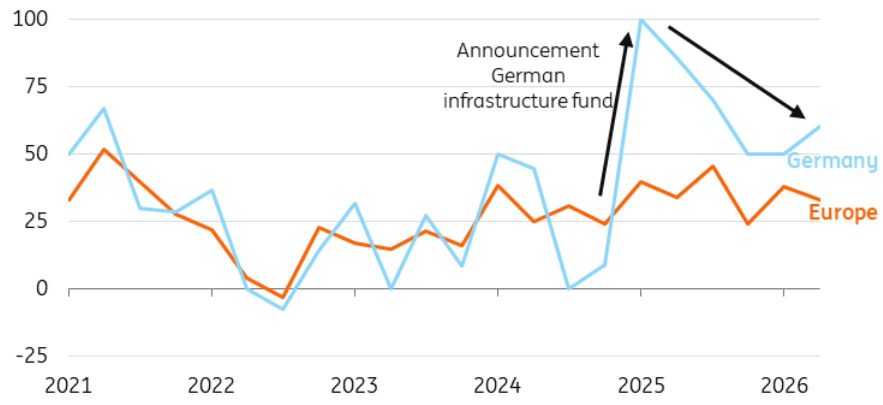


Source: Federal financial plan 2025-2029, Euroconstruct & ING Research

However, the boost will not arrive evenly, nor will it materialise overnight. The roll-out has been slower than originally planned. Administrative requirements, planning procedures and capacity constraints at federal-state and municipal levels have delayed the disbursement of some funds. The €500bn may overstate the real additional impulse for construction. Part of the special fund risks will be used to ease pressure on the regular federal budget rather than to finance new additional investment. The fund should improve order books from late 2026 onwards, but the largest effect is more likely to be seen in 2027 and beyond, once projects have moved from planning into tendering and execution.

Long-term expectations among German contractors improved only temporarily

12 months expectations infrastructure and public works



Source: RICS, ING Research

RICS survey data shows that German infrastructure professionals became much more optimistic when the €500bn infrastructure fund was first announced around a year ago. At that point, the fund was widely seen as a major additional boost for future construction activity, raising expectations for stronger order books and higher output. However, that optimism has since faded. As more details emerged, it became clear that part of the fund would also be used to fill holes, not in the roads but in existing public budgets, rather than finance fully additional infrastructure projects. As a result, expectations have become more cautious again, although they remain at a somewhat higher level. The fund still supports the medium-term outlook, but the initial euphoria has given way to a more realistic view of a slower and less powerful impulse.

German construction has passed its lowest point

All in all, the German construction sector seems to be past its worst point, but the recovery will be gradual. Residential building is starting to benefit from rising permits, renovation remains supported by Germany's ageing building stock, and infrastructure should gain momentum from the special fund over time. At the same time, weak non-residential demand, structural labour shortages, higher construction costs and implementation delays will continue to limit the pace of growth. After several difficult years, 2026 and 2027 therefore look set to mark a turning point – but not yet a strong construction boom.

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