

Construction Delivery Outlook

Q4 2025 / Q1 2026



Insights Into Today's Trends

As we enter 2026, construction markets in Phoenix and Dallas-Fort Worth are transitioning into a more balanced and disciplined environment. Demand remains healthy across core sectors, but project success is increasingly driven by timing, tenant alignment, and early decision-making rather than broad market momentum. Material costs are stabilizing, supply chains are more predictable, and industrial continues to lead the charge.

This outlook provides a concise view of the market conditions shaping cost and duration today and highlights how proactive preconstruction strategy and integrated design-build execution are essential to delivering certainty in the year ahead.

– Blake Wells
Vice President of Preconstruction

The 'Why' Behind Cost and Duration

Our mission is to provide you with the latest insights into market trends and conditions. This report is a valuable resource, offering comprehensive data that not only answers the 'Why' behind current market conditions but also outlines their impact and proactive strategies to prepare for the future. With a particular focus on the design and construction sectors, this report equips us with the knowledge needed to enter the market with confidence and readiness in Dallas and Phoenix.



Demand in Our Core Markets

PHOENIX

The Phoenix market entered late 2025 showing clear signs of stabilization after several years of outsized growth and elevated delivery volumes. Across all major product types, demand remains intact, but the environment favors cost control with increased emphasis on projects that align closely with tenant demand and market timing.

The industrial sphere improved meaningfully in the second half of 2025. Net absorption accelerated while new construction deliveries slowed, resulting in a notable decline in vacancy by year-end. This shift marked the strongest demand-supply imbalance in favor of occupancy in several years. Leasing activity remained historically elevated, supported by logistics, manufacturing, and technology users, even as tenants became more selective on location. Notably, there has been a renewed shift toward larger-format buildings, signaling confidence from both occupiers and developers in long-term scaling needs. At the same time, construction activity decelerated significantly year-over-year, with fewer speculative starts moving forward. Asking rents softened modestly overall, signaling a more competitive environment, though they remain well above pre-2021 levels.

Juggernaut, Scottsdale, AZ.



TheAmericano, Scottsdale, AZ.

The office market posted its strongest quarterly net absorption since 2019, signaling renewed tenant engagement after several years of muted activity. Vacancy declined in Q4, driven primarily by Class A and B space, while older and less competitive product continued to experience pressure. Construction activity remained concentrated, focusing heavily on the tenant improvement space. Overall, the office market appears to be transitioning into an early recovery phase.

Retail continues to be the tightest sector in the Phoenix market. Construction activity increased modestly, though it remains measured relative to demand, indicating that new projects are largely need-driven rather than speculative. The sector benefits from steady population growth, household formation, and continued consumer activity, supporting sustained buildout opportunities.

Arizona



Demand in Our Core Markets

DALLAS

The Dallas–Fort Worth market entered 2026 with clear forward momentum, supported by healthy leasing demand across major sectors and a noticeably more disciplined construction pipeline. While tenants remain value-conscious and underwriting is tighter than the post-2021 surge years, the region’s fundamentals continue to favor well-timed, well-located projects, especially those aligned with active tenant demand.

Office finished 2025 with its strongest tone since before the pandemic, driven by a measurable shift back toward utilization and quality space. For the first time since 2019, Dallas recorded positive annual absorption (+1.3M SF), with Tier 1 and Tier 2 product capturing most occupancy gains. At the same time, the development pipeline tightened meaningfully: with no major Q4 groundbreakings, Dallas ended the year with 1.6M SF under development, noted as the smallest pipeline since 2012, and 83.3% of space underway already pre-leased. This combination of return-to-office mandates, flight-to-quality, and limited new supply supports a continued move toward tenant improvement activity (amenity upgrades, spec-suite programs, and targeted renovations).

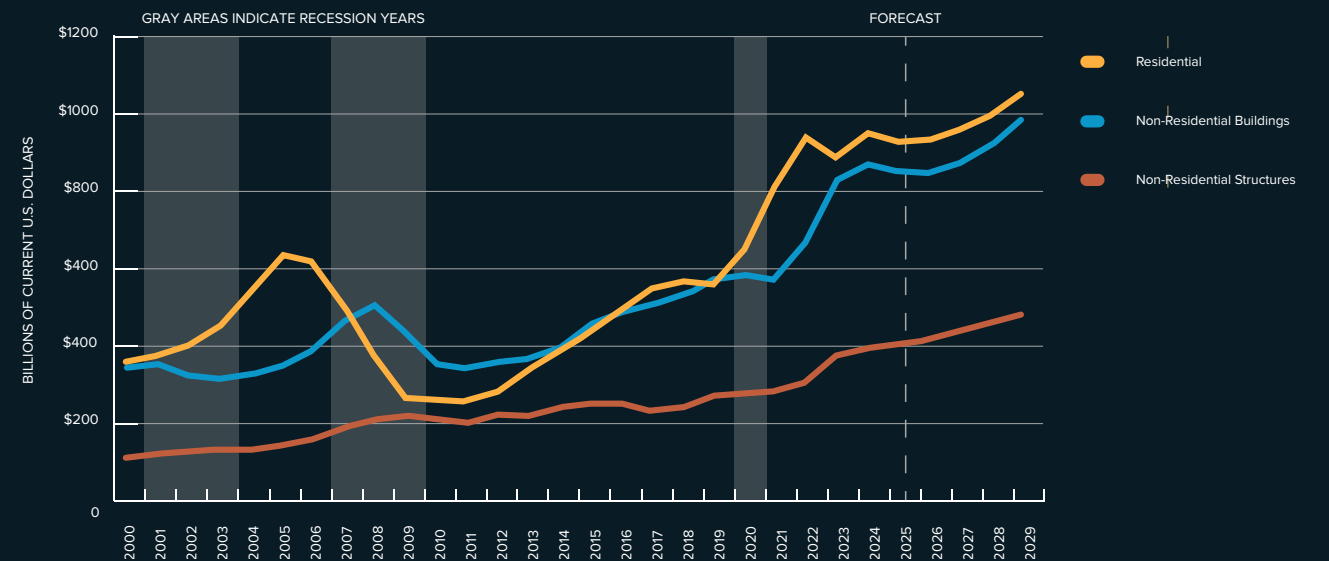
Industrial remained a demand-led story to close out 2025. DFW posted 8.1M SF of net absorption in Q4, extending the market’s long streak of positive absorption, while the vacancy rate improved to 8.7%.

Deliveries totaled 3.6M SF (about 34% pre-leased) and the construction pipeline grew to 22.6M SF underway, keeping competition elevated but dependent on execution and tenant alignment. Manufacturing users continued to drive leasing activity, reinforcing DFW’s position as a durable logistics and production hub—and sustaining near-term buildout demand for industrial office, power upgrades, and specialized improvements.

Retail remained the tightest and most need-driven sector, with vacancy still low and rent growth accelerating. DFW retail vacancies held at 5.1%, while Q4 net absorption jumped to 1.26M SF, helping offset increased deliveries. The pipeline rose to 7.4M SF under construction, 82% pre-leased, indicating that most new development is tied to tenant commitments rather than speculative risk. Average rents increased to \$24.07/SF, up 22.6% year-over-year, reflecting continued competition for well-located space, especially in growth corridors. This environment tends to sustain steady TI demand from re-tenanting, refresh cycles, and expansions (particularly in higher-rent submarkets where landlords push to maintain positioning).

CONSTRUCTION MARKET OVERVIEW

TOTAL CONSTRUCTION SPENDING PUT IN PLACE ESTIMATED FOR THE U.S.



635 Exchange, Dallas, TX.



LGE DESIGNBUILD

LGE's Expertise: With locations in both Phoenix and Dallas-Fort Worth, our team brings unmatched expertise in construction and market variables, providing design-build solutions that help you navigate the dynamic submarkets of these thriving regions, optimize project outcomes, and capitalize on opportunities in industrial, medical office, retail, and premium office spaces.

Data Center & Infrastructure Boom

The rapid expansion of data centers and AI-driven infrastructure continues to influence construction markets well beyond the hyperscale sector. Activity in both Phoenix and Dallas is accelerating, creating downstream impacts on labor availability, material pricing, and project scheduling across commercial construction.

Phoenix remains highly attractive for AI and high-performance computing due to available land and proximity to major technology and semiconductor investment. However, power availability has become a critical constraint. Utility capacity, substation timelines, and long-lead electrical equipment are increasingly shaping project feasibility and delivery schedules, with power infrastructure often serving as the pacing factor.

Dallas benefits from its position as a national fiber hub and comparatively strong power infrastructure, making it a preferred location for large-scale data center development. As activity accelerates, demand for specialized electrical and mechanical trades continues to intensify, placing measurable pressure on regional labor availability.

Across both markets, data center construction is pulling electricians and specialty trades away from traditional commercial and tenant improvement work, while driving increased demand for switchgear, UPS systems, generators, and advanced cooling equipment. Even projects outside the data center sector are feeling these effects, as labor competition and long-lead equipment continue to influence cost and schedule assumptions.

Thunderbird Commerce Park, Scottsdale, AZ.

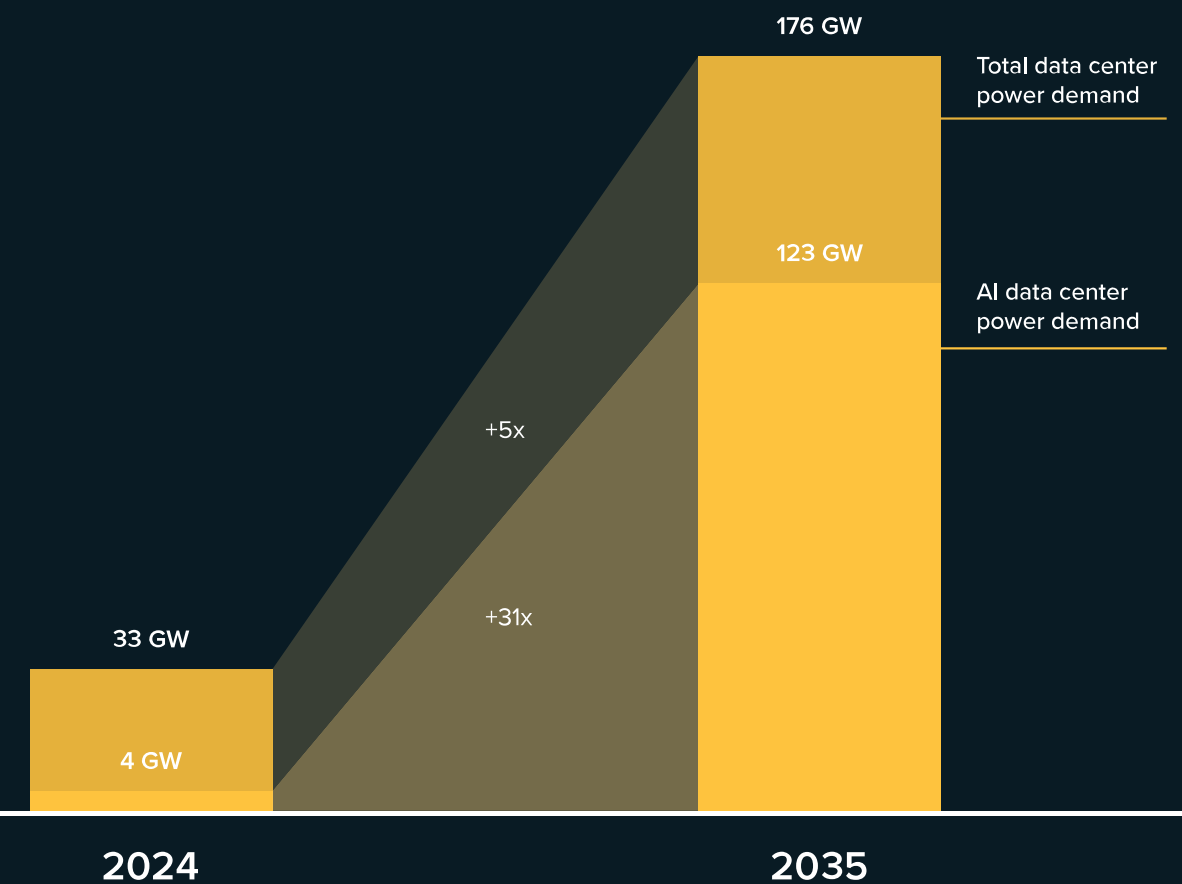


Infrastructure Intensity: By the Numbers

- **Power Intensity:** A single AI-focused hyperscale data center can draw as much electricity as 100,000+ homes, significantly increasing demand for electrical infrastructure, switchgear, and utility coordination.
- **Water Demand:** Large data centers can consume up to 5 million gallons of water per day, comparable to the daily usage of a mid-sized city, adding another layer of infrastructure constraint—particularly in water-stressed markets like Arizona and Texas.

AI INFRASTRUCTURE RESHAPING U.S. POWER DEMAND

INFRASTRUCTURE GROWTH FORECAST



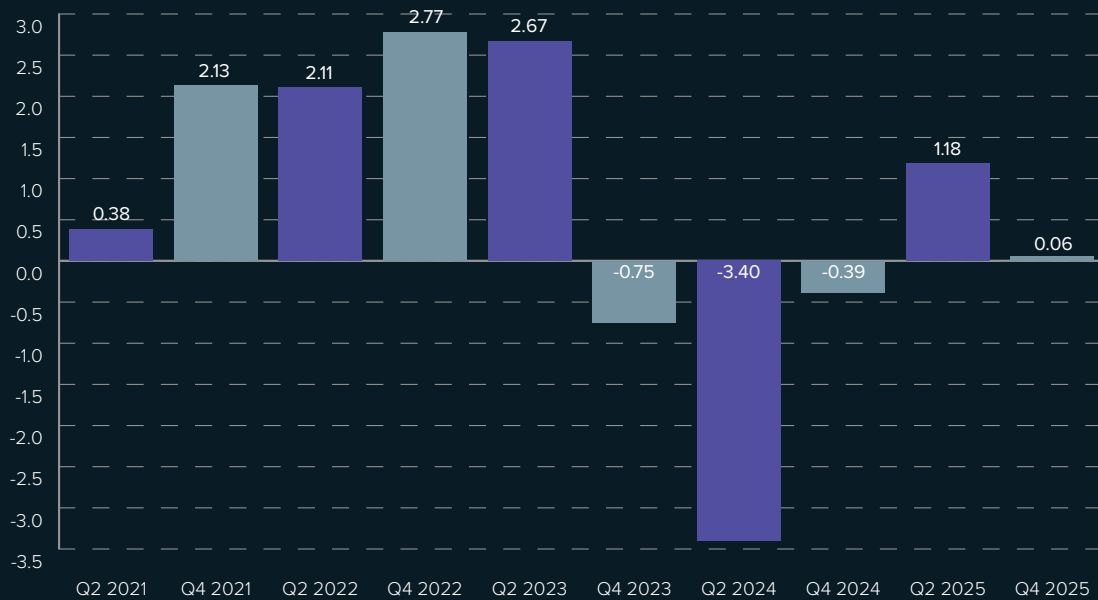
Construction Labor

PHOENIX

Arizona construction employment increased to 226,800 jobs in December, up 1,200 month over month and nearly 6,000 year over year, with growth led by building construction and specialty trades. Gains were concentrated in the Phoenix metro area, while heavy construction and the Tucson market saw modest year-over-year declines.

ARIZONA CONSTRUCTION

QUARTERLY EMPLOYMENT, PERCENT CHANGE

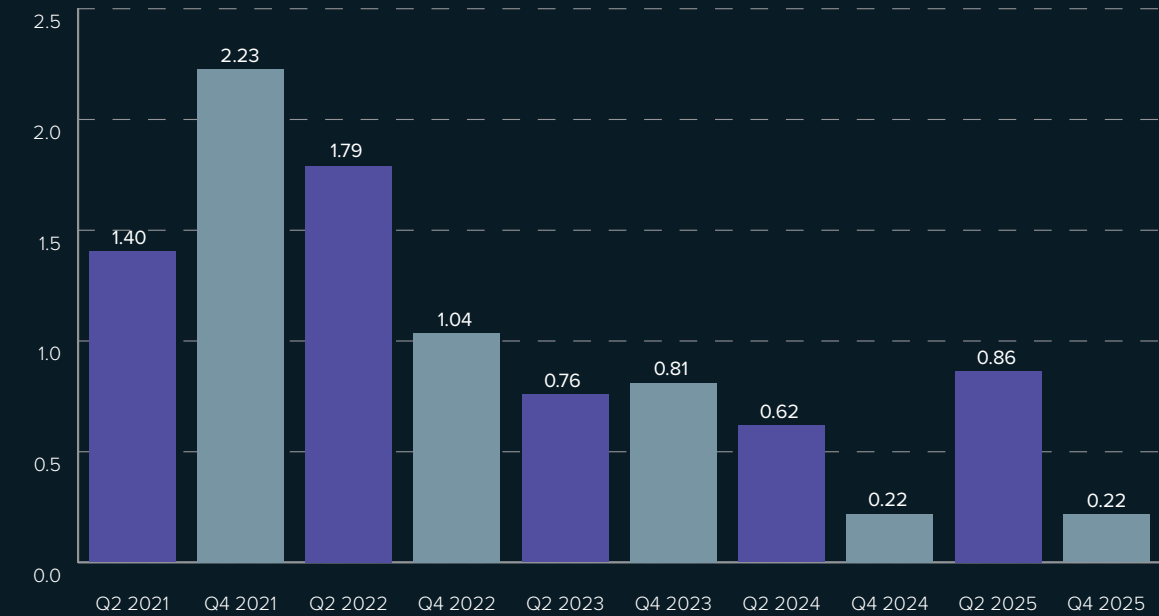


DALLAS

In Q4 2025, the Dallas construction labor market continues to experience high-volume activity, driven by major industrial and corporate projects. However, overall job growth in the region slowed due to a limited supply of new immigrant workers. While demand remains high for skilled trades, labor availability has been affected by a slight rise in unemployment to around 4.1%.

TEXAS CONSTRUCTION

QUARTERLY EMPLOYMENT, PERCENT CHANGE



LGE DESIGNBUILD

LGE's Expertise: LGE provides a competitive edge in navigating labor challenges by offering early project insights, faster scheduling capabilities, and increased subcontractor interest through our integrated design and construction approach. These advantages are essential in markets like Phoenix and Dallas-Fort Worth, where labor availability and timing are crucial to project success.

Supply Chain

The construction supply chain heading into 2026 is notably more stable than in recent years, though it remains shaped by policy shifts and labor constraints rather than physical shortages.

Global manufacturing conditions are mixed, but reduced stockpiling, easing transportation bottlenecks, and improved logistics reliability have led to fewer surprise disruptions. Rail volumes increased roughly 2–3% year over year, reinforcing rail as the most dependable long-haul option, while ocean freight demand remained relatively flat and trucking activity cooled following the post-tariff shipping surge. Tariff clarification has improved forecasting and procurement planning, even as elevated tariffs continue to influence sourcing strategies and encourage reshoring and alternative supply paths. Labor remains the most persistent constraint, with widespread workforce shortages contributing to schedule risk across the supply chain. Overall, the supply chain environment is more predictable than prior years but still rewards flexible sourcing and proactive coordination to maintain schedule certainty.

SUPPLY CHAIN: PAIN POINTS

Steel	<ul style="list-style-type: none"> The U.S. steel market remains strained as soft demand and new production capacity create pricing pressure. At the same time, multiple suppliers report increasing demand tied to data center construction, which is tightening availability in certain product categories and creating localized supply challenges.
Aluminum	<ul style="list-style-type: none"> The U.S. aluminum market is under significant strain as elevated tariffs and high energy costs tighten supply, drive sharp price increases, and force manufacturers to rely on imports and recycled material while new domestic capacity slowly comes online.
Electrical Gear and Large Panel Distribution Boards	<ul style="list-style-type: none"> Lead time: 42–50 weeks (AZ) Expedited options can be 35–40 weeks with extra cost (AZ) Cause: Continued high demand for commodity electronic components.

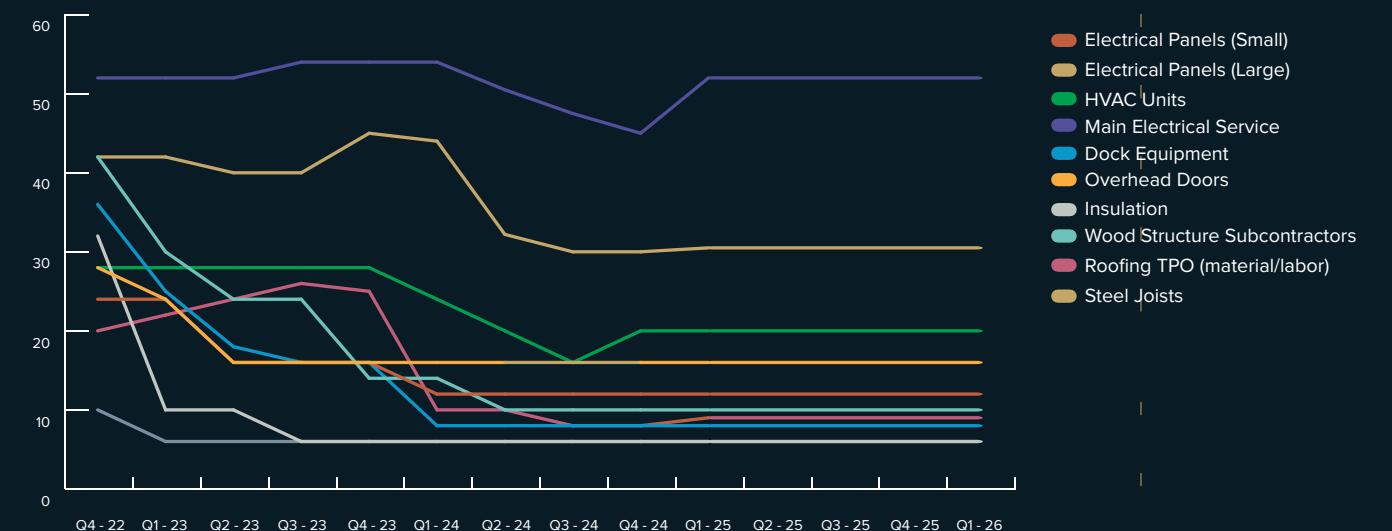
Material Costs

Material costs in Q4 2025 show signs of stability following several years of sharp volatility, though pressure remains uneven across categories. Overall construction material costs rose modestly quarter over quarter, with metals such as steel, conduit, and copper continuing to experience the most upward pressure due to tariffs, production constraints, and steady demand from data centers and infrastructure projects.

In contrast, materials like framing lumber, concrete block, and insulation have remained relatively stable or declined slightly, helping offset increases in higher-risk categories. While the pace of escalation has moderated, pricing remains sensitive to policy shifts and regional demand, reinforcing the importance of early procurement and proactive buyouts to manage cost exposure heading into 2026.

MATERIAL LEAD TIMES

QUARTERLY INCREASE/DECREASE IN WEEKS

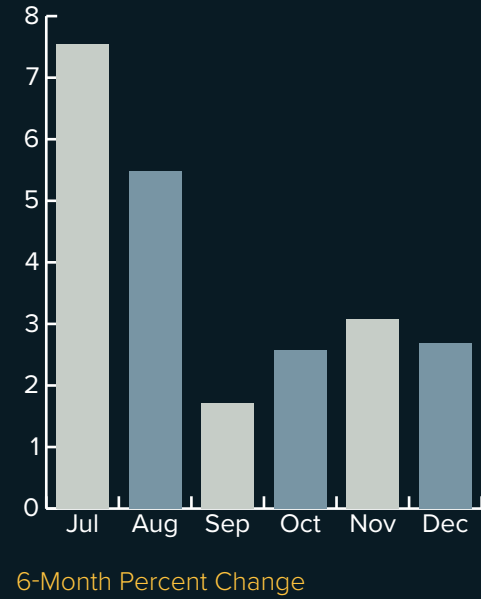
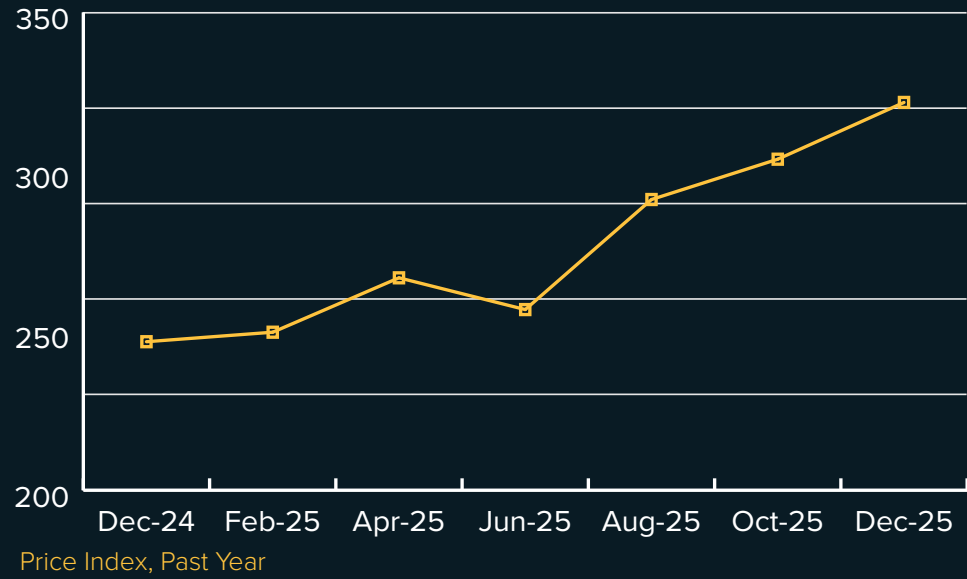


LGE | DESIGN BUILD

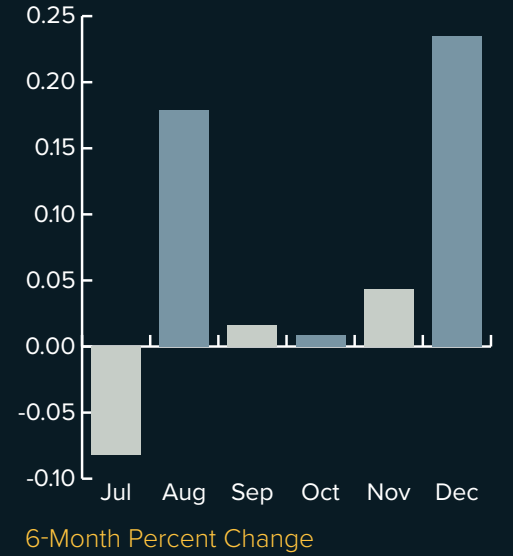
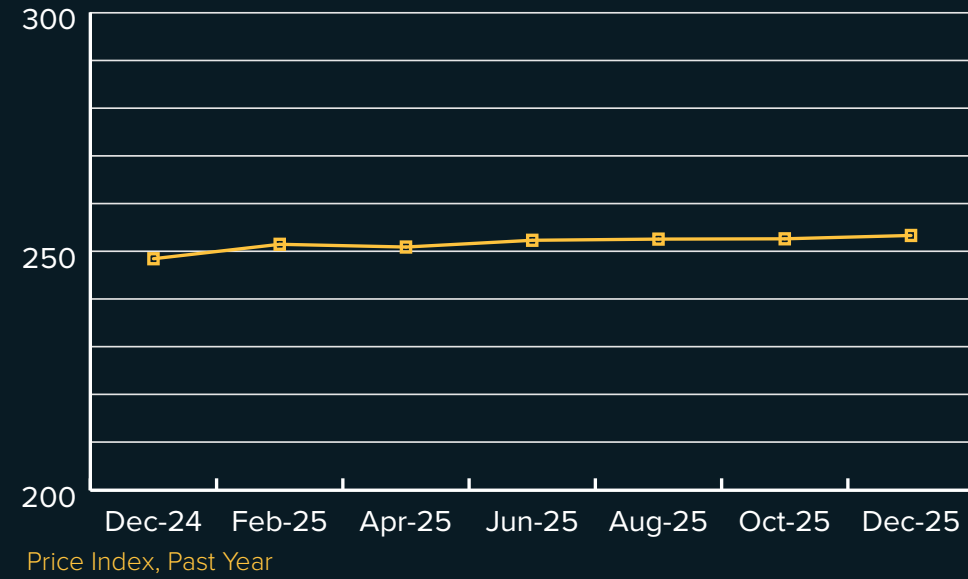
LGE's Expertise: Choosing LGE as your construction design-build general contractor ensures proactive navigation of supply chain delays through advanced procurement strategies and early project planning. Our expertise allows clients to secure materials in advance, mitigating risks from global disruptions and ensuring timely delivery, even amidst challenges like wildfires, hurricanes, and fluctuating material costs.

CONSTRUCTION MATERIALS PRICE MOVEMENT

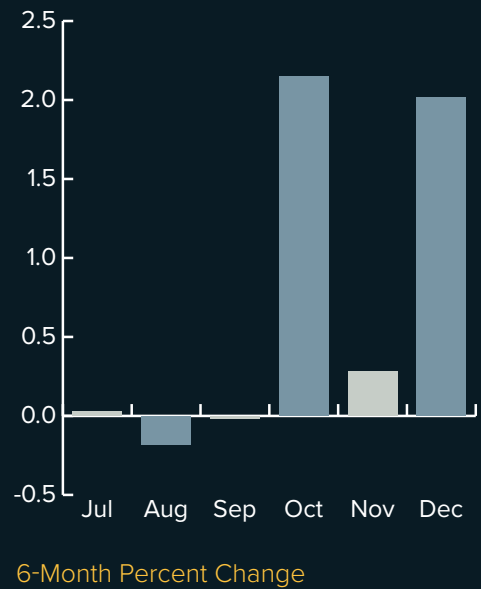
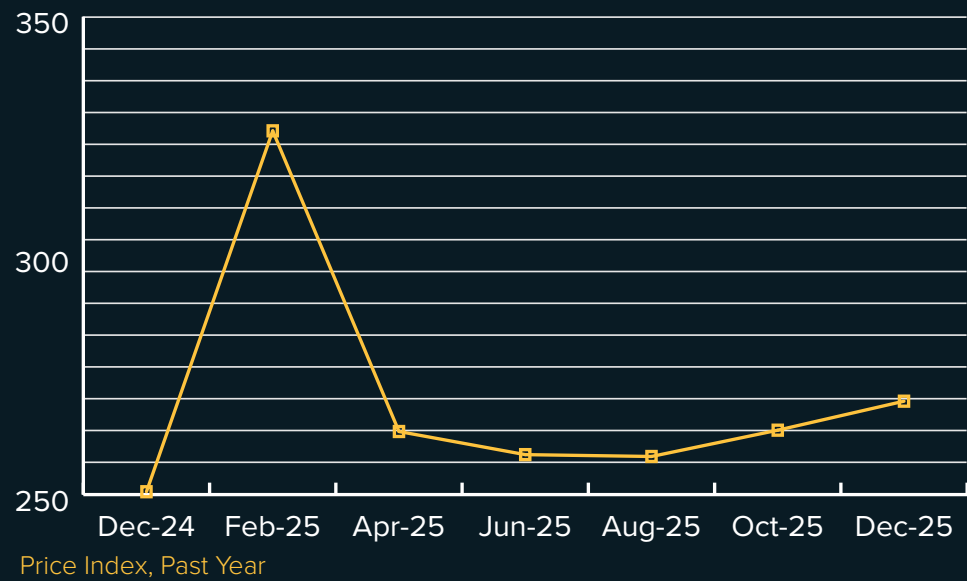
ALUMINUM MILL SHAPES



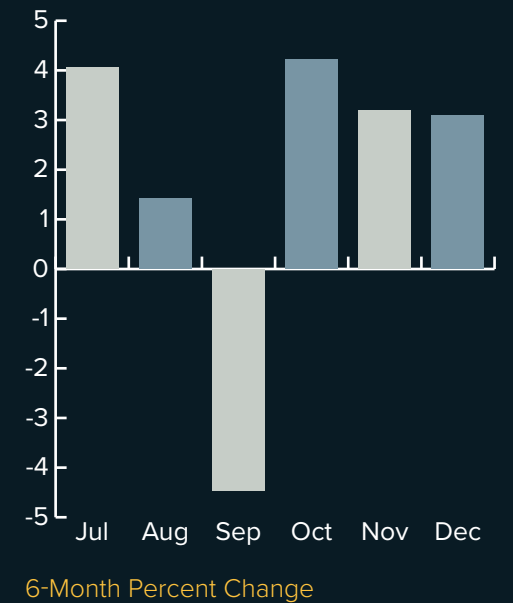
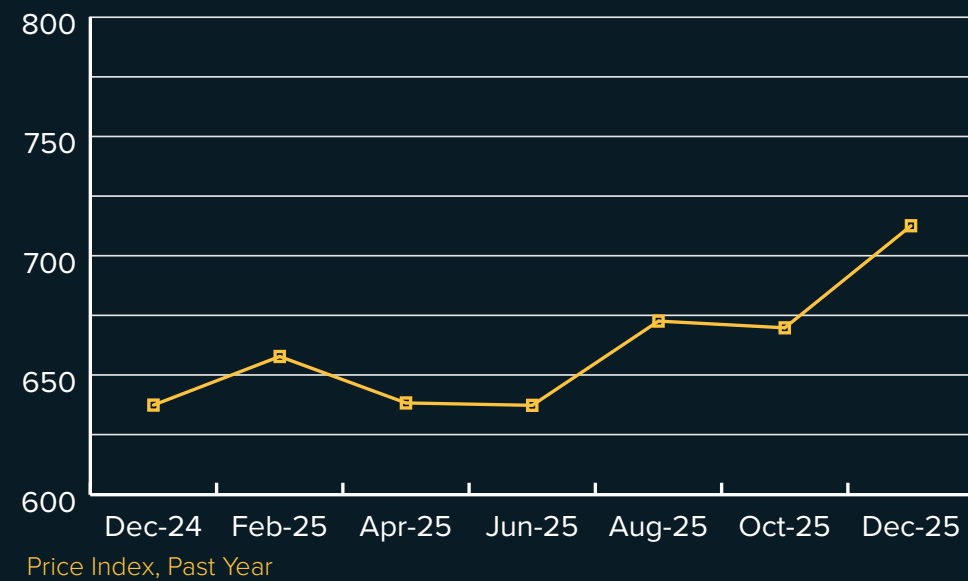
CONCRETE



ASPHALT & TAR PAVING MIXTURE

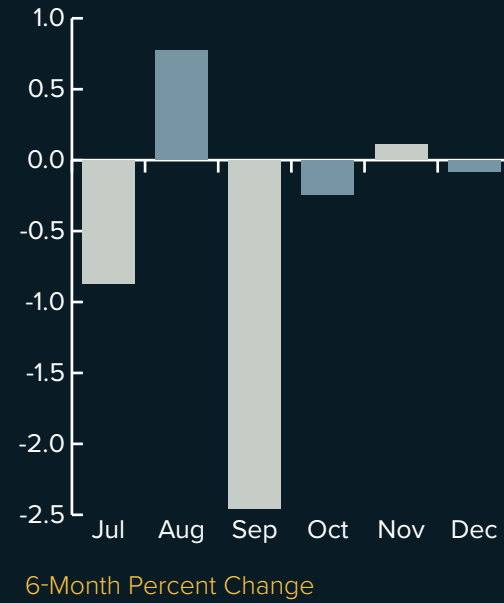
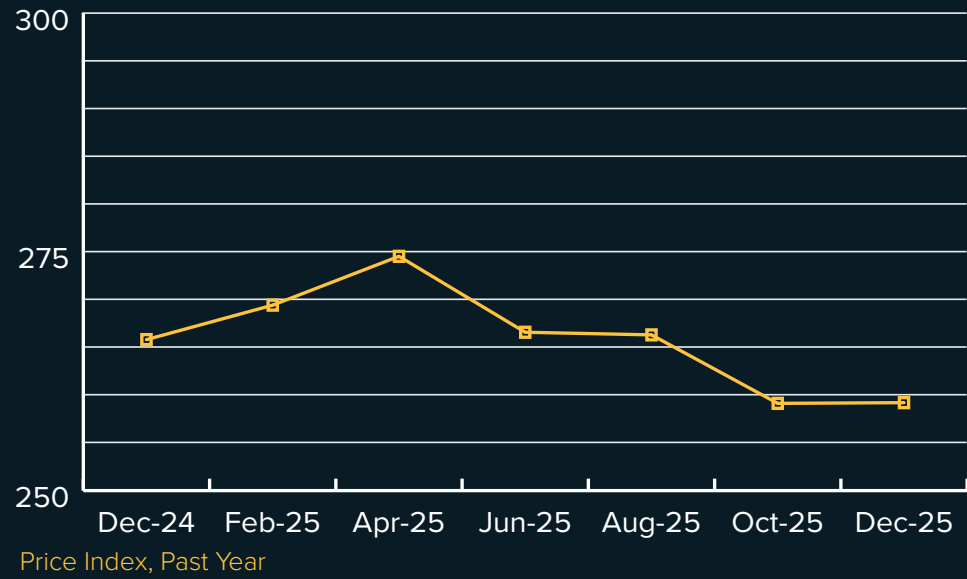


COPPER

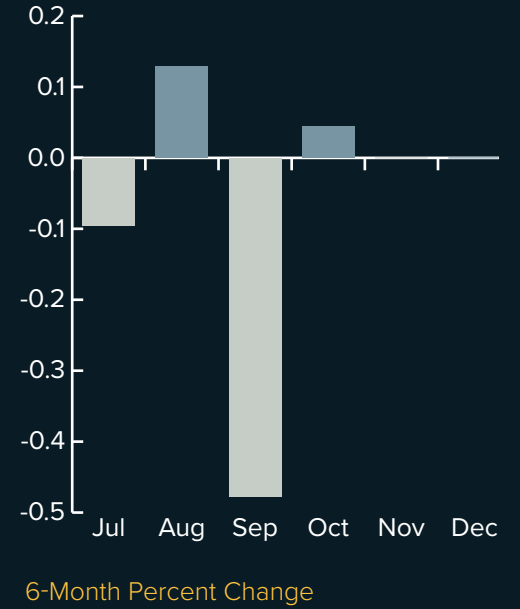
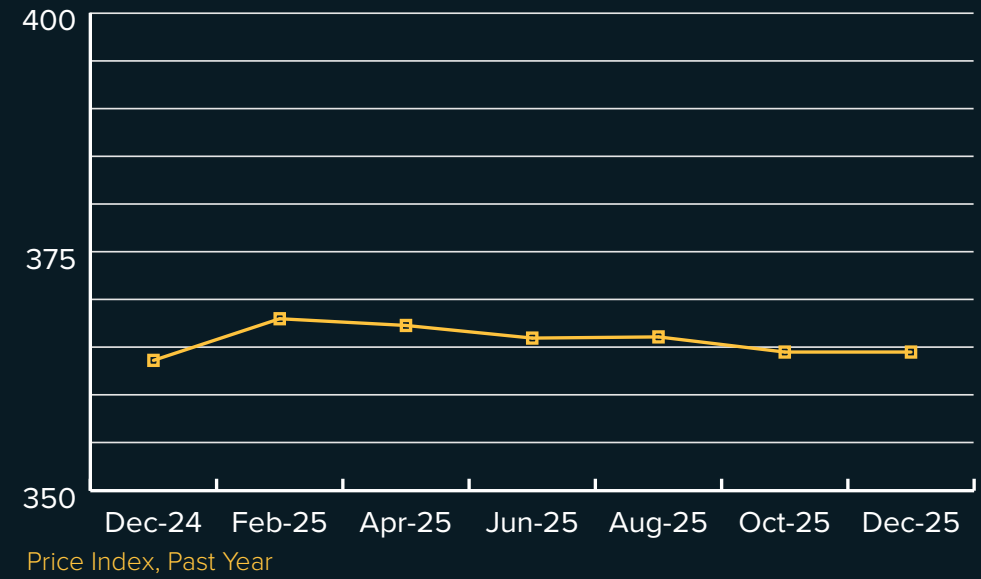


CONSTRUCTION MATERIALS PRICE MOVEMENT

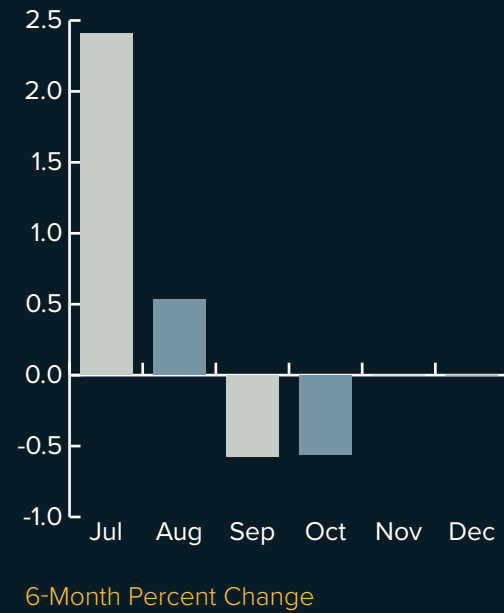
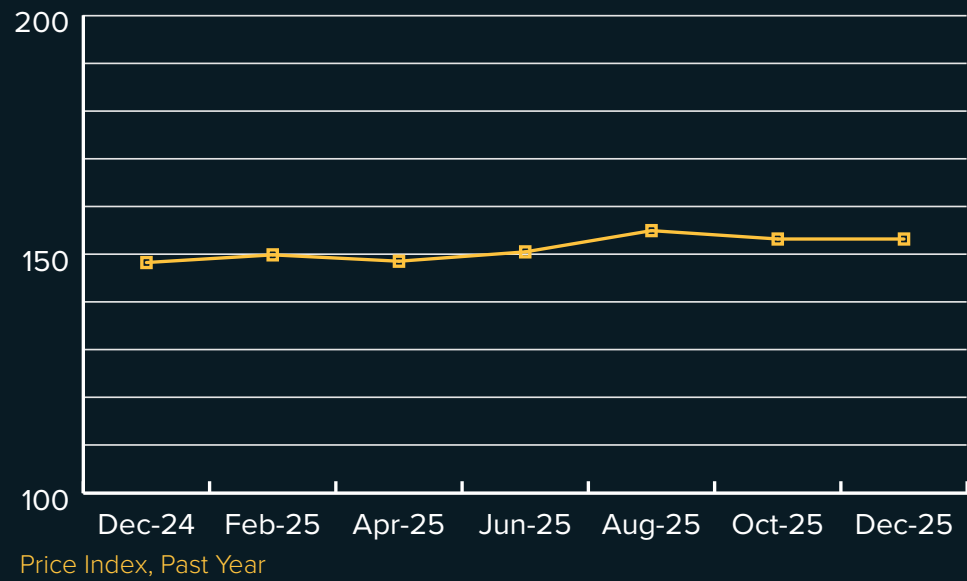
LUMBER



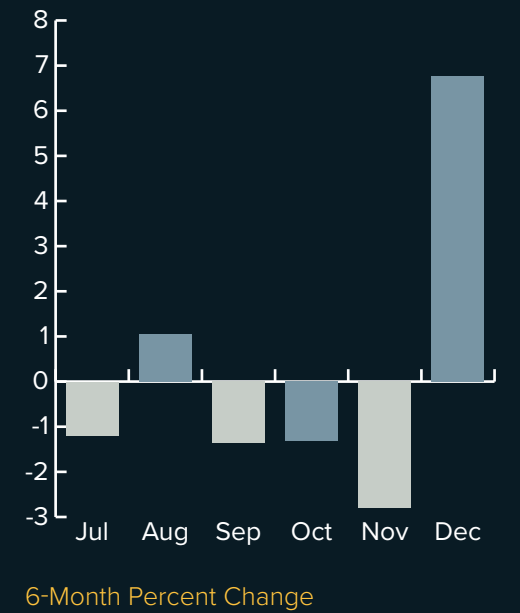
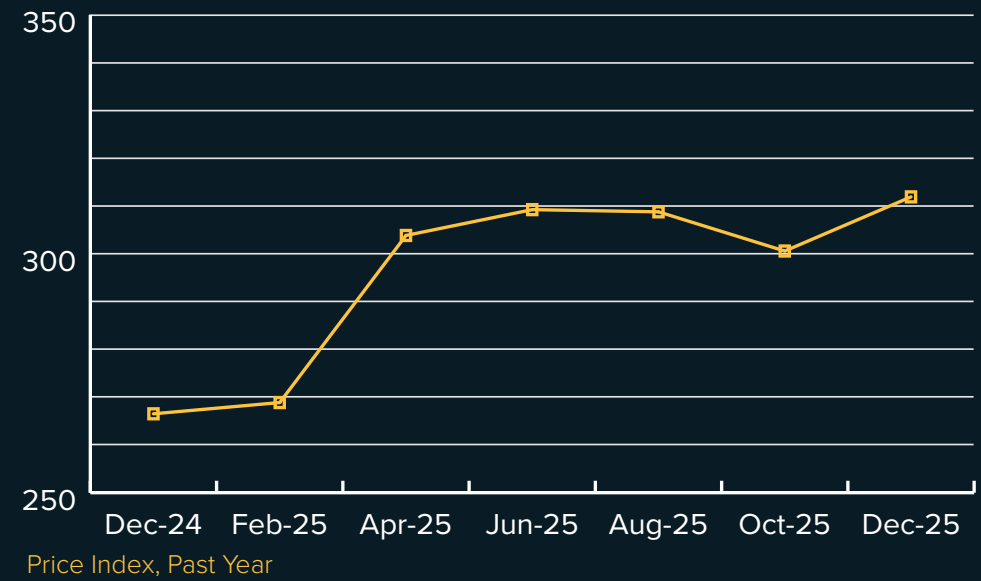
GYP SUM



FLAT GLASS



STEEL MILL PRODUCTS



Real Design Build.



Why Design Build

A STRATEGIC APPROACH FOR PHOENIX & DALLAS

With LGE, you get more than just a design-build label – you gain a true partner. From concept to completion, your design and construction are seamlessly connected to keep your project on track, drive innovation, and deliver results you can count on.

 Accelerated Project Delivery	 Single Point of Responsibility	 Improved Efficiency from Start to Finish
 Cost Certainty and Savings	 Collaborative, Integrated Team Approach	 Trusted Advisor Partnership
 Enhanced Quality Control	 Reduced Risk and Fewer Change Orders	 Single Contract Simplicity
 Greater Owner Control	 Flexibility and Adaptability	 Predictable Outcomes
 Streamlined Communication	 Sustainability and Resource Efficiency	 Early Constructability Insight

Final Thought

As market conditions continue to normalize, we remain encouraged by the depth of opportunity across Phoenix and Dallas-Fort Worth. While today’s environment demands thoughtful planning and strong execution, it also rewards collaboration, transparency, and early alignment. At LGE, we value the trust our clients place in us and remain committed to being a steady partner, providing insight, coordination, and leadership to help navigate complexity and capitalize on the opportunities ahead. We look forward to continuing to build alongside you in 2026 and beyond.

– Grant Blunt & Ray Catlin
Regional VP of Arizona & Regional VP of Texas

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S&P Global Market Intelligence – We deliver unrivaled insights and leading data and technology solutions
Gordian – Construction Cost Insights Report: Q4 2025
FINFROCK – 15 Benefits of Design-Build Construction for Commercial Projects

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