

BUILDING PRODUCTS OUTLOOK 2026:
POLICY TAILWINDS AND STRATEGIC M&A
DRIVE CONFIDENCE



TM CAPITAL
A DIVISION OF JANNEY

BUILDING OPTIMISM

This report is part of a continuing series on the building products sector. Future reports will address valuations, comparative multiples, and detailed dynamics of the residential, non-residential and specific product and service sectors in greater depth.

Elevated interest rates slowed housing and squeezed margins in 2025, but multiple billion-dollar deals and policy shifts point to a rebound in 2026. Residential demand weakened as borrowing costs hovered near multi-decade highs, while labor shortages and tariffs kept pressure on margins. Yet, the largest building product distributors and home improvement retailers aggressively pursued and completed acquisitions, signaling confidence in long-term fundamentals. Further, public infrastructure spending, steady remodeling demand and sustained contractor backlogs provide a robust foundation for continued activity and optimism heading into 2026.

Rate expectations shifted decisively in mid-September when the Federal Reserve delivered its first rate cut, citing cooling inflation and an underbuilt housing market. As of the week ended September 19, 2025, the average U.S. 30-year fixed mortgage rate dropped to approximately 6.26%, its lowest level since October 2024 according to *Freddie Mac*. The Fed highlighted persistent structural housing supply deficits—stemming from years of underbuilding—that heighten the sector’s sensitivity to financing costs. More broadly, the European Central Bank’s rate pause and recent cut have widened expectations for U.S. easing into 2026. While both the path and magnitude remain uncertain, recent rate moves help set a more favorable backdrop for 2026 building products demand.

IMPROVING MACRO ENVIRONMENT TO UNLOCK DEMAND

High borrowing costs have suppressed housing starts, however latent demand could be unlocked by lower rates. Even with rates drifting lower, affordability remains strained compared with the past decade. Market economists argue that a sustained sub-6% environment could rapidly re-ignite demand among first-time buyers and move-up households.

As shown in Figure 1, mortgage rates rose sharply after 2021, while housing starts receded from peak levels. This gap reflects pent-up demand: when rates decline, starts could rebound quickly, positioning the building products sector for renewed growth.

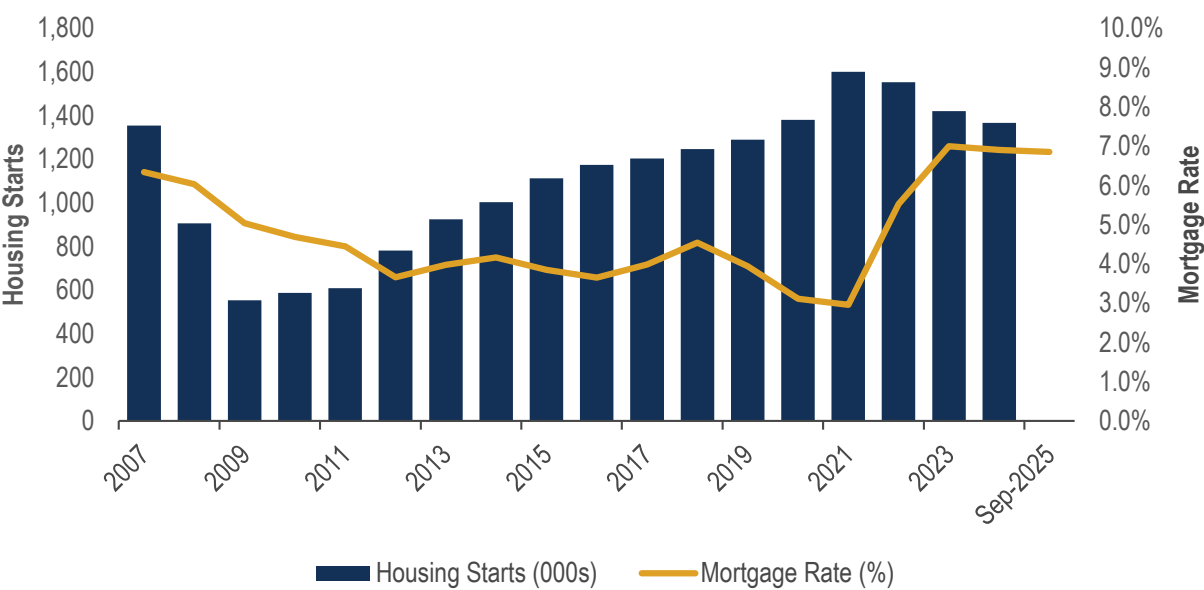


Figure 1: Mortgage Rates and Housing Starts (Freddie Mac PMMS; Census/NAHB)

LABOR MARKET - PRESSURE BUT PROGRESS CONTINUES

Labor shortages are easing slightly but wages remain high, keeping costs above pre-2019 levels. The job openings rate remains above long-run averages (Figure 2). Wage pressure is still evident, though the easing trend in 2024–2025 suggests some normalization.

On June 12, 2025, *Barron's* reported that undocumented workers make up roughly 14% of the construction workforce, and heightened immigration enforcement is already leaving job sites short-handed and driving higher wages. *Bloomberg* added on Sept. 10, 2025, that the Congressional Budget Office cut its 2025–2032 net-immigration forecast, implying a smaller labor pool that could keep wage pressure elevated. With immigration inflows slowing, trade groups caution that federal infrastructure spending may strain the labor market—locking in elevated wages and extending project timelines through 2026.

At the same time, some builders see encouraging progress. Lennar executives said their average cycle time dropped to about 132 days in the second quarter, an 18-day improvement from last year and now below pre-pandemic levels, evidence that job-site productivity is improving as labor availability steadies. PulteGroup described labor availability as stable on its latest earnings call, noting that cost pressures remain manageable within construction budgets. These comments suggest that while policy may tighten the labor pool at the margins, operational gains and retention programs are starting to ease the bottlenecks that defined the past three years.

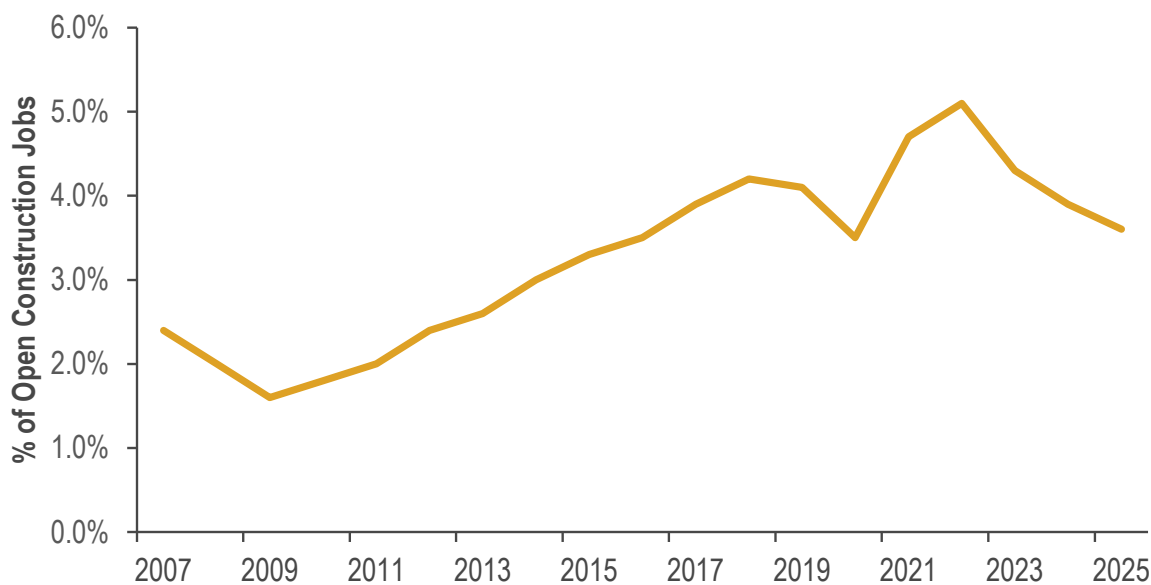


Figure 2: Construction Job Openings Rate (BLS JOLTS)

KEY MATERIAL COSTS - STEEL, LUMBER AND TRADE POLICY

Steel and lumber prices remain well above pre-2020 norms, keeping pressure on distributors, contractors and builders. Forward markets have softened on lumber, with the *Wall Street Journal* reporting a drop of more than 20% since early August 2025 as mills curb production. Steel futures, by contrast, remain firm, a sign of industrial resilience and the continued impact of tariffs. For building products companies, these price patterns feed directly into delivered costs on everything from roofing systems to fabricated glass. Any renewed volatility in trade policy could disrupt supply chains and delay project timelines, particularly for firms dependent on imports. As shown in Figure 3, both steel and lumber prices surged after 2020 and remain higher than a decade ago. Potential tariff moderation or easing input costs through 2026 could provide relief and support stronger demand as projects become more economically viable.

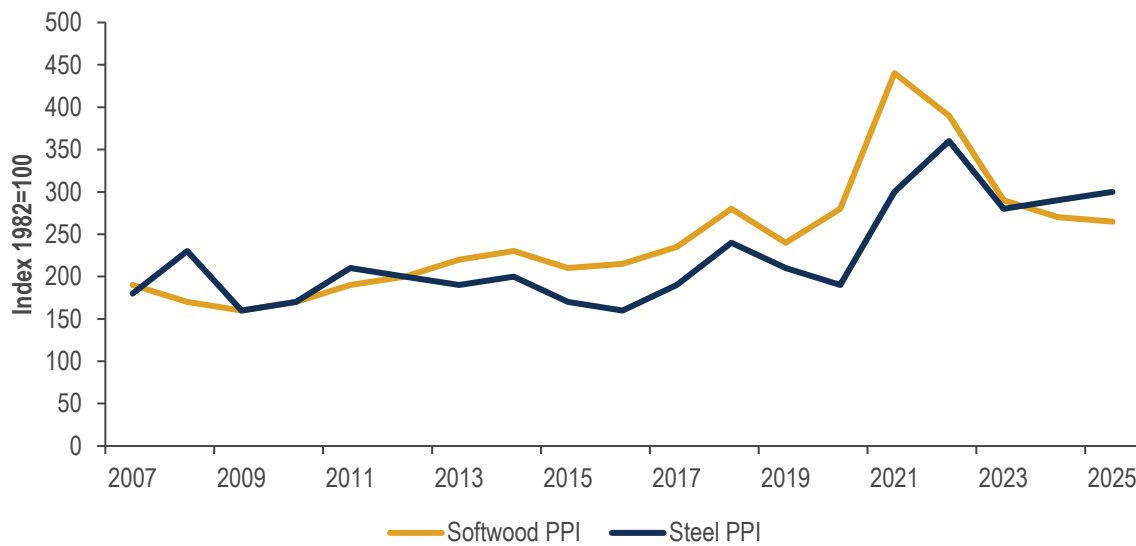


Figure 3: Steel and Softwood Lumber PPI (BLS/Fred)

M&A REMAINS STRONG AND SIGNALS SECTOR OPTIMISM

Large-scale acquisitions underscore strategic confidence in the sector's long-term demand profile and are expected to sustain momentum for further dealmaking. Several public equity analysts note that corporate buyers are pursuing scale even in a high-cost capital environment, signaling conviction that consolidation will secure pricing power and margin stability. The willingness to commit at these valuations suggests executives are preparing for renewed expansion in 2026.

Home Depot has moved aggressively, acquiring SRS Distribution (~\$18.25B) and GMS (~\$5.5B), a strategy that deepens its Pro channel presence. Lowe's has also pursued sizable acquisitions, completing the \$8.8B acquisition of Foundation Building Materials to accelerate their "Total Home" strategy, acting as Pro customers' one-stop provider, plus the \$1.3B acquisition of Artisan Design Group, a leading interior finishes player. QXO, led by Brad Jacobs, closed its contested \$11B acquisition of Beacon Roofing Supply and publicly committed to building a \$50B platform. Leadership commentary reinforces this confidence: Home Depot CEO Ted Decker said that "some relief on mortgage rates... could help spur demand for larger-scale projects." Lowe's CEO Marvin Ellison added, "We are going to reach a point where the customer is going to say, I've got to invest in this home." Jacobs of QXO remarked, "We intend to make QXO very big, as quickly as possible."

Acquirer	Target	Enterprise Value (\$B)	Date Closed
Home Depot	SRS Distribution	\$18.25	Jun-2024
Home Depot	GMS	\$5.5	Sep-2025
Lowe's	Foundation Building Materials	\$8.8	Oct-2025
Lowe's	Artisan Design Group	\$1.325	Jun-2025
QXO	Beacon Roofing Supply	\$11.0	Apr-2025

Figure 4: Major M&A Transactions in Building Products (*Reuters, WSJ, Barron's, Bloomberg*)

2026 - SEVERAL PATHS FOR GROWTH

Robust infrastructure spending, a \$500+ billion U.S. remodeling market and strong contractor backlogs provide a solid demand floor and multiple growth avenues heading into 2026. Analysts at Goldman Sachs and JPMorgan have highlighted remodeling and infrastructure as the ballast of the sector, noting that federal outlays and demographic-driven home upgrades give distributors and contractors consistent revenue streams even when new residential starts falter. Together, these categories act as stabilizers that offset the volatility of new construction.

Infrastructure outlays have risen steadily from under \$100B in 2019 to \$160B projected in 2025 (Figure 5). This spending provides market demand even during residential slowdowns (Figure 6).

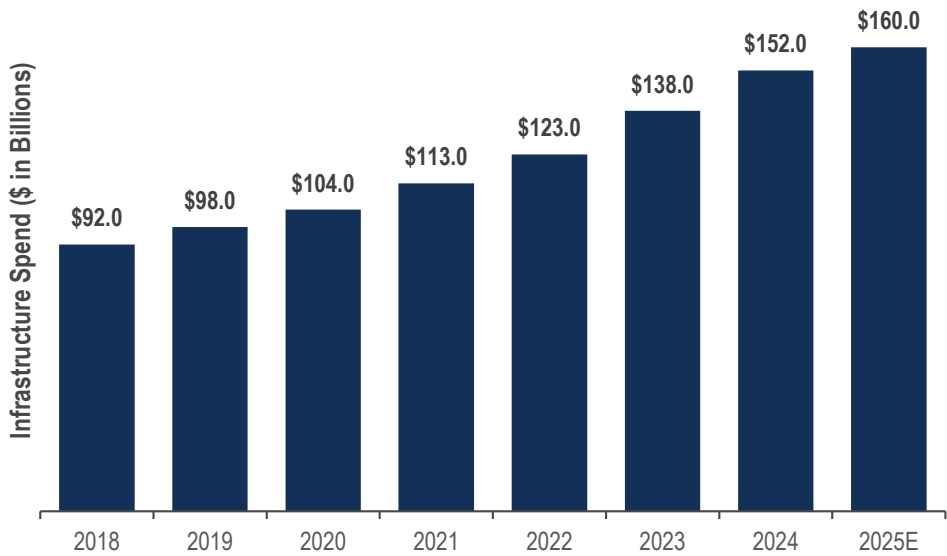


Figure 5: Public Infrastructure Spending (US Census Bureau)

Harvard’s LIRA index shows remodeling stabilizing after pandemic highs (Figure 6). Remodeling activity is being driven by an aging housing stock, elevated home equity and homeowners choosing to upgrade rather than move amid high mortgage rates. Energy-efficiency incentives and continued demand for maintenance and replacement projects continue to support this segment.

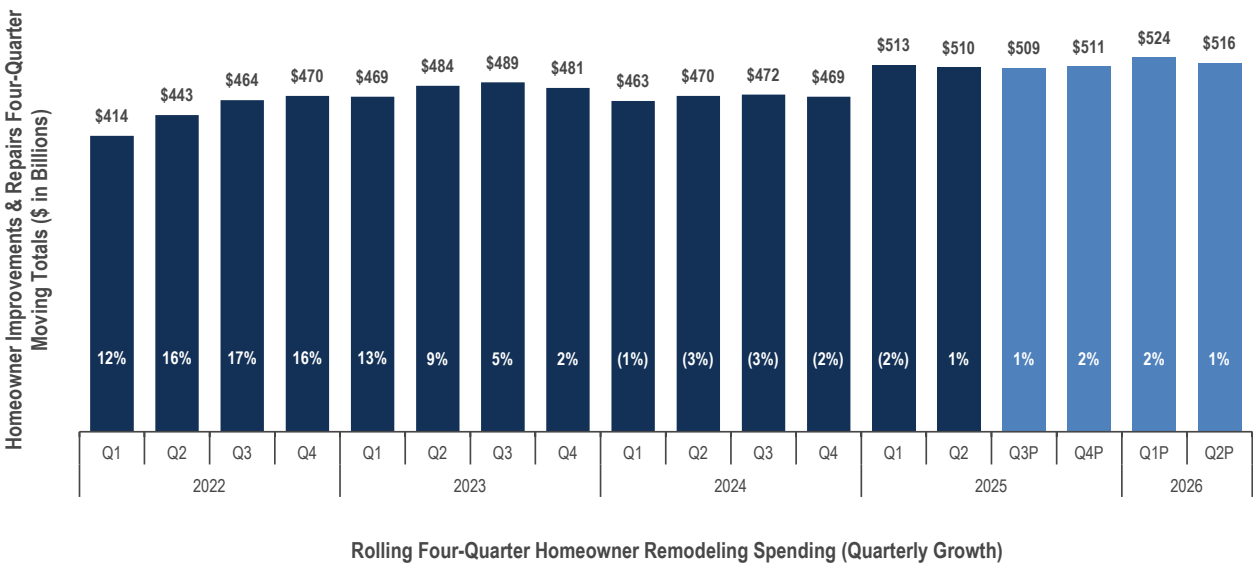


Figure 6: Remodeling Growth Projections (Harvard JCHS LIRA)

Contractor backlogs remain above nine months (Figure 7), providing significant visibility into nonresidential demand and supporting a stable outlook for suppliers heading into 2026.

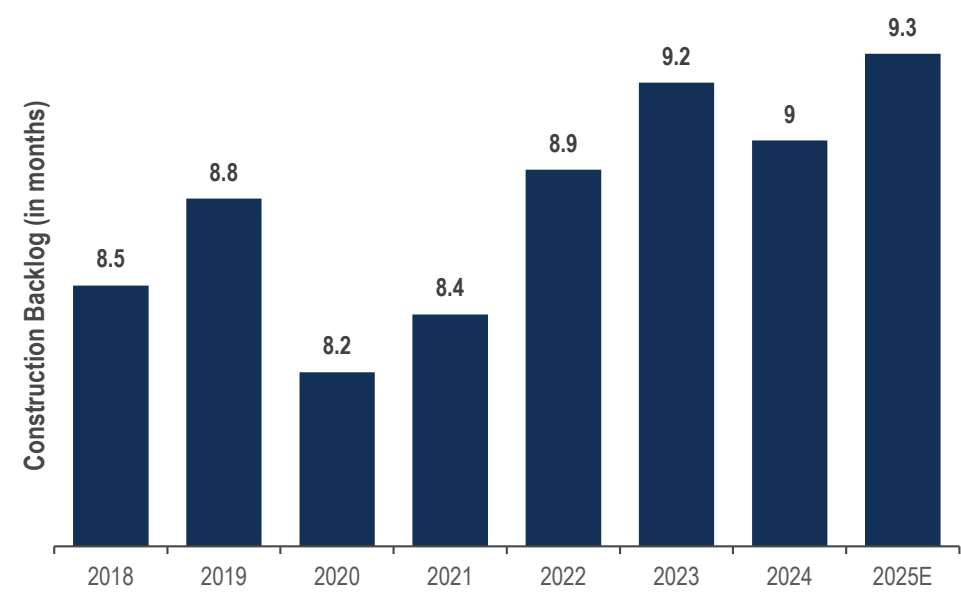


Figure 7: Construction Backlog Indicator per Associated Builders and Contractors (ABC)

POSITIONING FOR A 2026 REBOUND

Optimism for 2026 is grounded in several converging forces: expected rate cuts, steady remodeling demand, rising public infrastructure spending and ongoing strategic consolidation. Large M&A transactions highlight confidence that demand will strengthen as financing becomes more accessible, and potential tariff relief could reduce input costs and improve project economics.

For private equity investors, these dynamics suggest a sector entering 2026 with strong visibility and durable tailwinds despite broader macro uncertainty. For private owners evaluating strategic options, the combination of policy shifts and renewed consolidator activity creates a more favorable backdrop than what has characterized the past two years.



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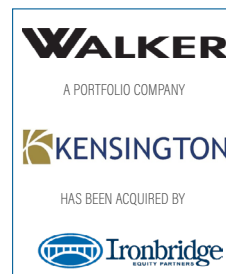
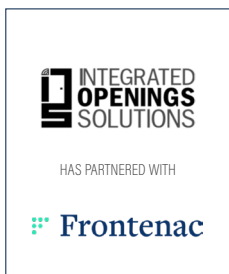
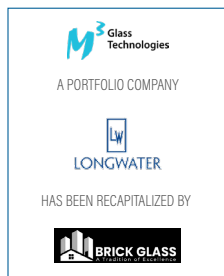
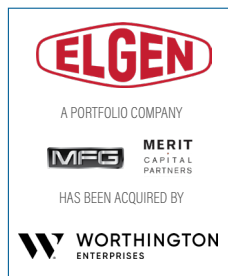


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SELECTED BUILDING PRODUCTS TRANSACTIONS



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