economic development collaborative
SONOMA COUNTY

Construction Industry Report

2025

2025

Report Highlights

Recent Construction Performance

- The Sonoma County construction sector produced $2.68 billion in nominal gross regional product (GRP) in 2024, up 3.9% from the prior year.
- Growth driven by wildfire recovery, federal infrastructure investment, and post-COVID rebound, but is beginning to stall.
- Construction employment fell to 18,155 in Q2 2025, marking the fourth consecutive quarterly decline from its Q2 2024 peak of 18,465, with further declines projected.

National Economic Trends

- 2025 GDP growth forecast: 1.4% (down from 2.5% in 2024).
- Unemployment at 4.3%; monthly job openings down 40% since 2022 peak (Aug 2025).
- Inflation: Personal Consumption Expenditure (PCE) at 2.7%, above Fed's 2% target.
- Federal funds rate range: 3.75% - 4.00% (Oct 2025)
- 30-year mortgage rate: 6.17% in October 2025, down from 6.35% in September.

Cost Pressures & Federal Policies

- Construction material prices remain approximately 40% above pre-pandemic levels.
- Tariffs on lumber, iron, steel, copper, etc. reimposed & expanded, leading to price volatility and uncertainty for developers.
- Long-run construction output estimated to contract 4.0% if current tariffs remain in place.

Demographics & Labor Supply Concerns

- Sonoma County's population was estimated at 485,375 in 2024, down from a peak of 502,445 in 2016—a net loss of approximately 17,000 residents.
- Labor shortages and uncertainty exacerbated by immigration enforcement; undocumented workers make up 26% of California's construction workforce.

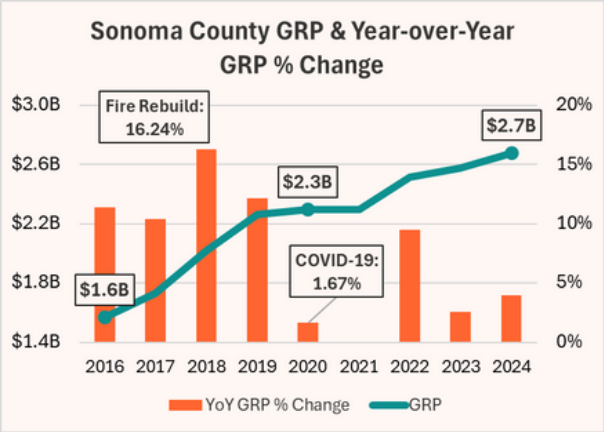
Sonoma County Real Estate Trends

- Residential construction slowing: only 1,012 housing permits issued in 2024 (lowest since 2016).
- Home sales count is trending down, for-sale listings rising— indicating decreased demand due to unaffordability.
- On the horizon: 176 major projects are planned or under development across Sonoma County, including 96 residential, 49 commercial, and 31 mixed-use.
- The SMART extension to Healdsburg is set to begin in 2026 and complete by 2028, supporting regional growth and connectivity.
- Hospitality developments continue and SB1 funding provides much-needed infrastructure improvements.

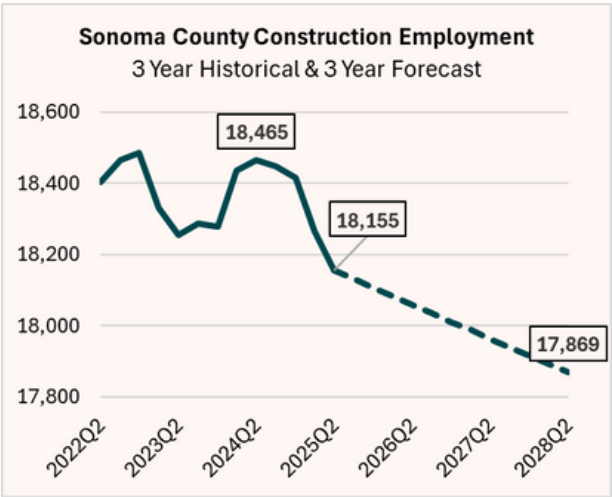
Recent Construction Performance

Industry Output

Sonoma County's construction sector generated a nominal gross regional product (GRP) of **$2.68 billion in 2024**, a **3.9% year-over-year** increase from $2.58 billion in 2023. Growth has largely been fueled by wildfire recovery, infrastructure investment through the 2021 Infrastructure Investment and Jobs Act (IIJA), and a rebound in output following earlier pandemic-related stagnation.



Source: Lightcast - Gross Regional Product



Source: BLS Quarterly Census of Employment & Wages

$2.68 BILLION

Generated by the Construction Industry in Sonoma County GRP!

Benchmarking Sonoma County's recent construction performance against state and national trends reveals some concern. While growth accelerated following the 2017 wildfires and again in 2022 after the pandemic, overall momentum has stalled since 2020.

Construction Labor Market Trends

This broader slowdown in construction output growth is reflected in employment, which has seen a modest decline throughout 2025. Total construction employment in Sonoma County f**ell by 112 jobs in Q2 2025**, from 18,267 to **18,155**. This marks the fourth consecutive quarter of decline from a peak of **18,465 in Q2 2024**—a **cumulative drop of 1.7%** that suggests more than seasonal variation.

The Bureau of Labor of Statistics (BLS) projects this trend to continue, with total employment forecasted to fall further to **17,869 by Q2 2028**. This decline is a product of the county's aging population, macroeconomic trends, and federal policies that will be explored further in this report.

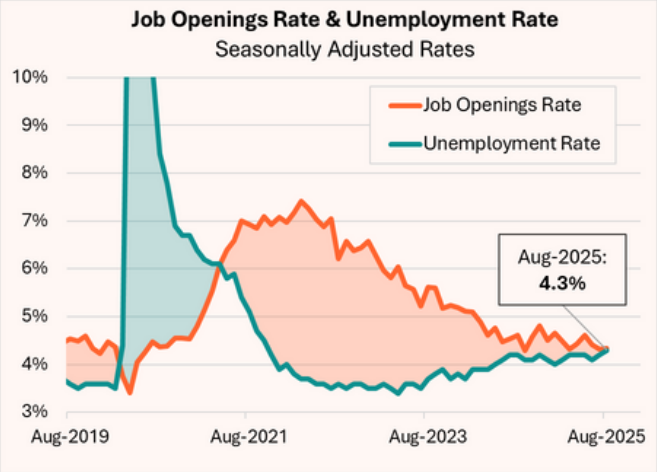
National Economic Trends

Output & Inflation

The U.S. economy continues to grow at a moderate pace in 2025, though persistent uncertainty remains. The Federal Reserve projects **real GDP growth of 1.4% for 2025,** down from 2.5% in 2024, reflecting a slowdown in consumer spending and private business investment. Inflation has eased from post-pandemic highs but remains well above the Fed's 2% target, with the **Personal Consumption Expenditures (PCE) index rising 2.7% year-over-year in August 2025.**

Labor Market & Monetary Policy

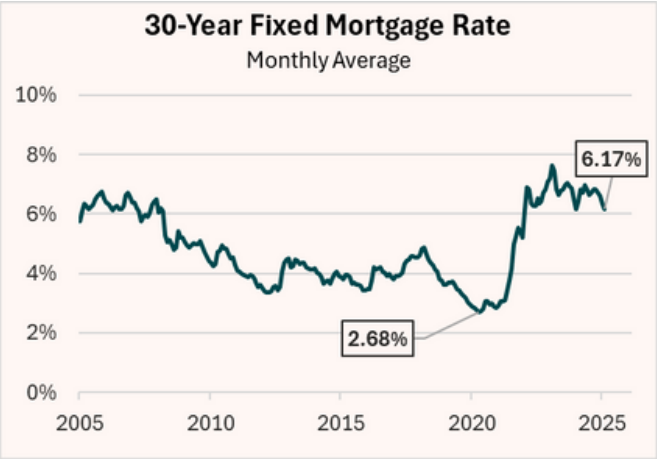
Labor market conditions continue to weaken. The **unemployment rate stands at 4.3%** and has been steadily rising. Monthly job openings continue to drop, averaging around **7.6 million in 2025—a 40% decline** from the peak of 12.13 million in March 2022. The **job openings rate has fallen to 4.3%**, crossing the unemployment rate for the first time since 2020. In October, the Federal Reserve issued a second consecutive quarter-point rate cut, lowering the **federal funds rate to a range of 3.75%–4.00%** to address rising unemployment.



Source: BLS JOLTS Data

Mortgage Rates

Movements in the federal funds rate directly influence borrowing costs across the economy, with home mortgages particularly sensitive. Although mortgage rates remain elevated by historical standards, they have eased slightly in recent months. The **average 30-year fixed mortgage rate** declined to **6.17% in October**, down from 6.35% in September—offering modest relief to prospective homebuyers in an otherwise expensive market.



Source: FRED, St. Louis Federal Reserve

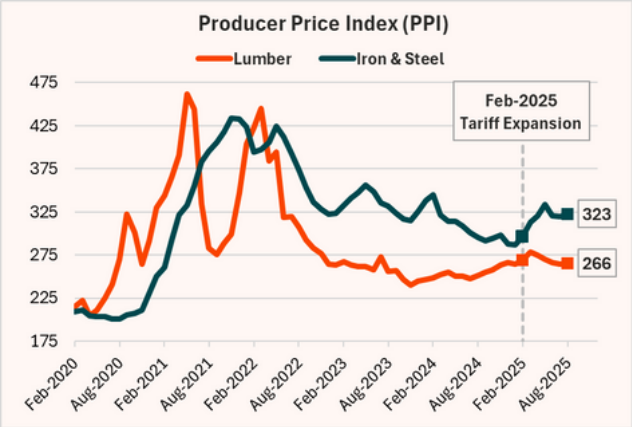
National Outlook & Sentiment

These broader national economic trends have shown considerable impact in construction activity. **National construction spending** was **down 2.8% year-over-year in June 2025**, with residential construction particularly strained by elevated interest rates and persistent supply-side challenges. The National Association of Home Builders' Housing Market Index (HMI), which measures builder confidence in the housing market, rose to 38 in October from 32 in September but remains well below the neutral benchmark of 50.

Cost Pressures & Federal Policies

Material Supply Costs

Construction material prices remain approximately **40% higher than pre-pandemic levels** and show no indication of easing under current conditions. Lumber prices dipped 3.5% in Q2 2025 but are still up 12.7% year-over-year as of October 2025. Meanwhile, key inputs like iron, steel, and copper continue to rise, driven by global demand, supply chain disruptions, and shifting trade policies.



Source: FRED, St. Louis Federal Reserve

50% ***duties on steel, copper, and aluminum***

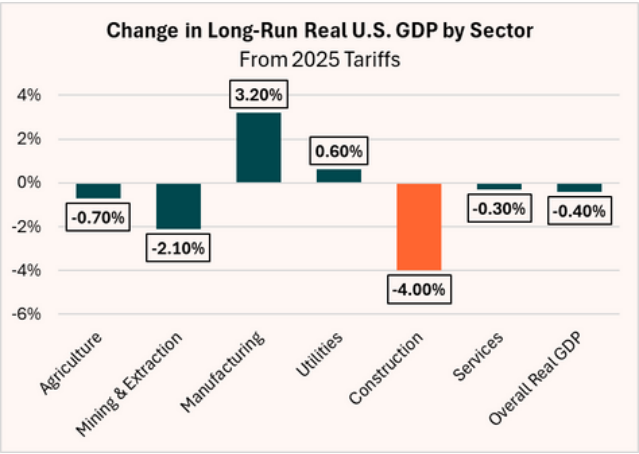
35% ***on Canadian softwood lumber***

10-15% ***on hundreds of construction-related goods***

Federal Tariffs

Compounding already elevated material costs, the imposition and expansion of tariffs in 2025—including **50% duties on steel, copper, and aluminum**, **35% on Canadian softwood lumber**; and additional levies on hundreds of construction-related imports—have introduced further cost pressures. While it is too early to assess their full impact, these measures have added significant uncertainty to project planning and timelines across the country.

The Budget Lab at Yale estimates that U.S. construction output could contract by roughly **4.0% in the long run** if the current tariff measures remain in effect. Based on current national construction GDP levels, this decline represents an estimated **$50-60 billion annual loss in sectoral output.** This projected contraction is driven by rising input costs, ongoing supply chain disruptions, and reduced investment tied to elevated material prices and trade uncertainty.



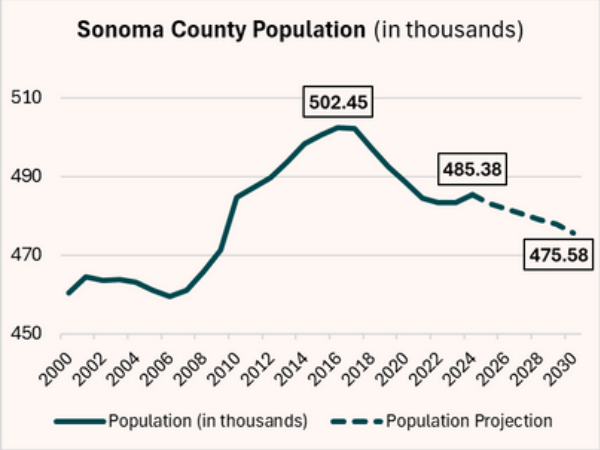
Source: The Budget Lab at Yale: State of U.S. Tariffs; GTAP v7

Demographics & Labor Supply Concerns

Sonoma County's Declining & Aging Population

Sonoma County's population was estimated at **485,375 in 2024**, down from a peak of 502,445 in 2016—a **net loss of approximately 17,000 residents**. Although the population has seen a slight increase from the 2023 low of **483,386**, projections from Lightcast suggest that the overall downward trend is likely to continue, with the population expected to **decline to approximately 475,580 by 2030**.

Furthermore, current reports estimate Sonoma County to have a **median age of 43.5 years**—five years higher than California's median of 38.4. As of 2024, roughly **36% of the population is aged 55 or older**, significantly higher than the expected average of 30% for a county of similar size. This aging population reflects the region's high cost of living and recent net out-migration, both of which exacerbate local labor supply shortages.

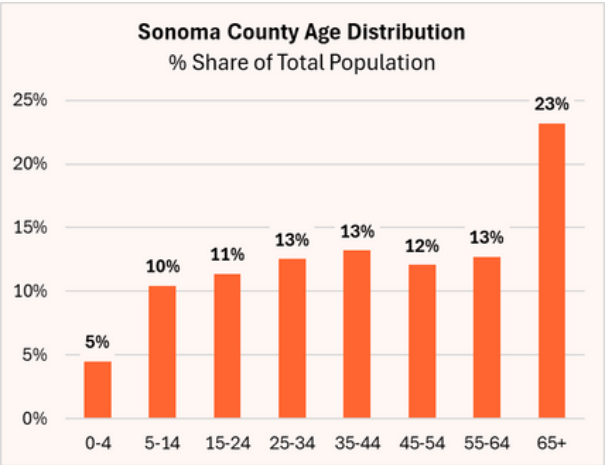


Source: FRED, St. Louis Federal Reserve and Lightcast

Undocumented Workers

Intensified immigration enforcement poses an additional risk to the state and local construction labor supply. **Immigrants make up 41% of the California's construction labor workforce, with an estimated 26% being undocumented**.

A mass deportation policy could **reduce California's construction GDP by nearly 16%**, according to the Bay Area Council Economic Institute. While some builders already report labor loss and retention challenges, the broader impact on construction activity under current policies remains unclear. Nonetheless, these challenges could further strain and already limited labor supply.

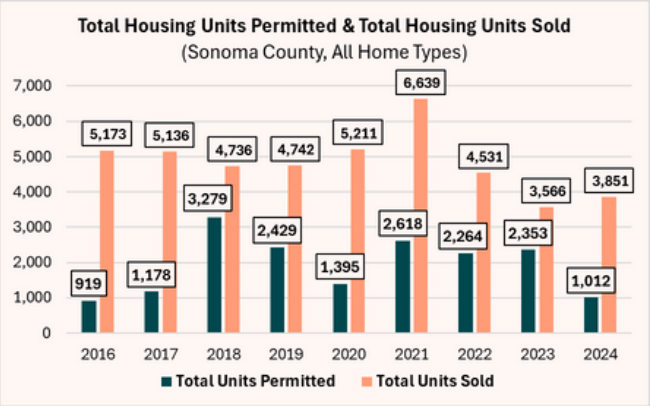


Source: Esri Business Analyst - Population Metrics

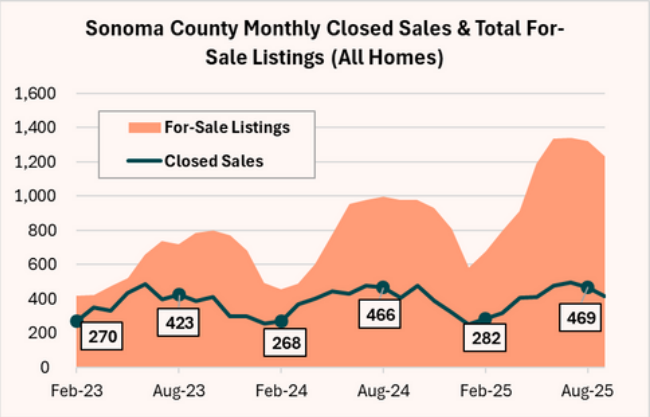
26% of California's Construction Laborers are Undocumented Workers

Source: Bay Area Council Economic Institute: The Economic Impact of Mass Deportation in California

Sonoma County Real Estate Trends



Source: U.S. Department of Housing & Urban Development, Building Permits Database & Bay Area Real Estate Information Services (BAREIS); Year End Statistics



Source: NorCal MLS Alliance & BAREIS Monthly Closed Sales

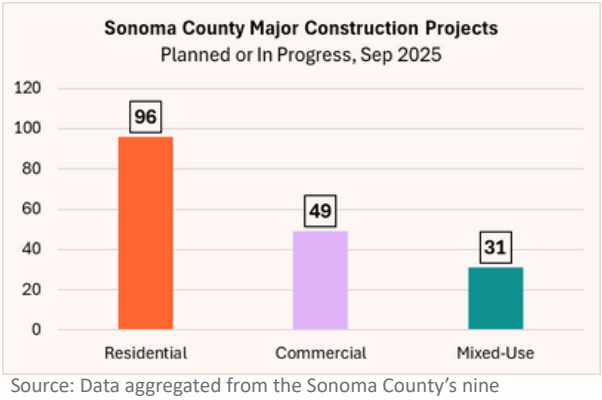
Residential Real Estate

The county's demographic decline, coupled with various macroeconomic uncertainties, have begun to materialize in its real estate market. While the broader construction industry has experienced modest growth since 2021 (see pg. 1), residential construction has been trending downward. In 2024, only **1,012 housing permits were issued**—the lowest annual total since 2016, when 919 permits were granted.

This slowdown is also evident in housing sales. Although total home sales held steady year-over-year in August 2025, they remain well below both the 2021 peak and pre-pandemic levels. At the same time, for-sale listings have increased significantly, and median listing prices have begun to decline—signaling a market adjustment driven by affordability constraints and buyer hesitation. Despite these short-term shifts, the region continues to face a significant housing shortage.

Planned and In-Progress Construction Projects

Looking ahead, despite economic concerns and recent slowdowns in residential activity, there remains **strong momentum and opportunity for growth** across the county. Numerous developments are approved, underway, or in the planning stages across cities such as Santa Rosa, Healdsburg, and Windsor. Altogether, Sonoma County and its nine incorporated cities report **96 residential**, **49 commercial**, and **31 mixed-use major construction projects** in the pipeline.



Source: Data aggregated from the Sonoma County's nine incorporated cities and from Permit Sonoma for unincorporated areas.

Urban Development & Public Infrastructure Expansion

The SMART Board recently awarded a construction contract to extend the **Sonoma-Marin Area Rail Transit (SMART)** line to **Healdsburg**, with construction set to begin in **January 2026** and completion expected by **late 2028**. This extension represents a major catalyst for current and future growth in Sonoma County, enhancing regional connectivity and supporting transit-oriented development.

Several developments are planned or underway in support of the SMART system and the growing preference of increasing mixed-use, transit-oriented developments. These include:

- **Santero Way Station Area Development (Cotati)** – A mixed-use, transit-oriented development designed to increase walkability and density near the Cotati SMART station and is currently planned.
- **Meridian at Petaluma North Station** – 131 residential units (including supportive housing), future commercial space, and a dedicated SMART station site that is currently in development and planned to be completed in 2026.
- **SMART Village (Santa Rosa)** – A six-story mixed-use project adjacent to the Railroad Square station, featuring 110 residential units and ground-floor retail, with direct pedestrian access to the station. This project is currently in the pre-development stage.

These projects reflect evolving market preferences and state policy shifts aimed at increasing urban density and expanding housing supply. Recent California legislation—including **SB-9** (lot splits and duplexes), **SB-10** (upzoning near transit), and streamlined ADU regulations—could facilitate additional infill development as local adoption increases.

Despite performance concerns in the wine and tourism sectors, hospitality development activity in the county remains strong. Projects like the Hyatt Place Sonoma Wine Country, located near the Charles M. Schulz–Sonoma County Airport, and the Cotati Hotel—which is set to restart construction pending a new financing agreement—display continued investment in the county's hospitality sector. In total, there are four hotel projects, representing 335 rooms, currently in construction, with many more set to begin construction in the near future.

Additionally, Sonoma County is advancing a range of major public infrastructure and capital improvement projects. The County Board of Supervisors recently approved over **$14.5 million in SB1-Road Maintenance and Rehabilitation Account** for the 2025–26 construction season, targeting rural and secondary roads across the region. This is an addition to the **Infrastructure Investment and Jobs Act (IIJA)** which has allocated millions of dollars to Sonoma County projects since 2021. Amid macroeconomic uncertainties and local challenges, these developments paint a picture of optimism and growth for Sonoma County's construction industry and the broader regional economy.

Trevor Bagan
November 2025

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