

Home building costs drop for first time

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Home building costs have fallen for the first time since the data started to be collected in 2012 .

Residential building costs have fallen for the first time in over a decade, and that's good news for people wanting to build, and for the Reserve Bank, a property researcher says.

But the cost decline also reflects the downturn in the construction industry, which is one of the country's biggest employers.

The cost of building a "standard" three-bedroom, two-bathroom, brick-and-tile single-storey home decreased by 1.1% in the three months to June, according to the latest Cordell Construction Cost Index.

CoreLogic chief property economist Kelvin Davidson said it was the first time a fall in costs has been recorded since the data started to be collected in 2012. Previously, the lowest figures recorded were 0.3% price rises in the second quarter of 2016 and the third quarter of 2013, he said.

The June quarter's fall in costs meant the annual growth rate slowed to 0.6% from 2.3% in the first part of this year. It marked a new record low, with the previous low at 2.0% in the second quarter of 2014.

Davidson said cost increases had been slowing for some time, but the outright decline was notable, and represented a milestone in the history of the index.

It followed the industry's completion of the Covid-era surge in building consents and the resolution of the pandemic's supply chain disruptions, he said.

"Now, consents for new homes are falling, and the downturn in workloads in the sector has eased the pressure on capacity and that's flowed through to reduced building costs.

"A slowdown in the growth of average hourly wage rates, and the flattening of building materials costs has also caused a reversal in trends from the rapid growth in costs in the past few years."

The index showed the cost of some building products, including structural steel, kitchen joinery, tapware, and electrical light fixtures, actually fell. But Davidson said the slowdown in wage growth was also significant as labour costs make up about half the cost of a new build home. Lower construction costs was good news for those considering new building projects or buying from developers as they should flow through to the end product, he said.

"The easing of inflationary pressures in the industry evident in this data, and in Quotable Value and Stats NZ data which shows a slowing of cost increases, is also something the Reserve Bank will like to see." But there were two aspects to the cost shift, as it also illustrated the softer operating conditions, including the decrease in demand for new builds, that the industry was dealing with.

Davidson said higher interest rates and the increased availability of existing homes for sale were reducing demand, and there was a risk the downturn could have a longterm impact on future housing supply. While the Government was pushing for the development of new supply, recent changes to the bright line test and interest deductibility rules had reduced new build incentives for investors, he said.

"We want the construction industry to turn around because we need more housing, but for now the forecast is for softer consent numbers and subdued house-building activity.

"That means construction costs are likely to stay flat or fall further over the next few quarters, but the hope is more stable economic conditions and lower interest rates in 2025 will help revive building activity."

Certified Builders chief executive Malcolm Fleming said a decline in construction costs was "brilliant", and consistent with what his organisation's members were reporting.

There was a far more competitive environment for material producers and suppliers and for sub-trades, and that had led to a levelling of costs overall, and even falls in some prices, he said.

“While inflationary pressures are still around, there is still pressure on wages, but it is certainly not to the extent that we have seen in recent years.”

Cost declines showed the industry had gotten through the Covid-era building material availability crisis, but also reflected the sector’s downturn, he said.

“It is tough going for many in the industry. There is no two ways about that, and a big increase in demand is only likely to come when interest rates come down. They are the biggest block.”

News of the decline in construction costs is likely to please the Government, which has this year announced a number of changes to reduce the costs of building a home. They include eliminating barriers to the use of overseas building products, and streamlining the consent process.

Fleming said that collectively the Government’s changes might contribute to lowering building costs in future, and the industry supported that.

“But the tricky part is ensuring that they don’t lead to an increase in risk, so we’ll be watching that space very carefully.”