

Residential construction costs rising at the slowest annual pace in over 20 years

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After years of unprecedented accelerated growth, residential construction costs have stabilised, growing at the slowest annual rate in 22 years, CoreLogic's [Cordell Construction Cost Index \(CCCI\)](#) shows.

The Q2 2024 national CCCI, which tracks the cost to build a typical new dwelling, recorded a 0.5% rise, a further slowing from the 0.8% increase recorded in Q1.

During FY24, annual costs increased 2.6%, marking the smallest annual rise in the national CCCI since March 2002 (2.3%) and significantly below the pre-COVID decade average of 4.0%.

CoreLogic Research Director Tim Lawless said while the quarterly growth in residential construction costs was tracking 50 basis points below the pre-COVID decade average of 1.0%, price levels remain elevated.

"The growth in costs has finally returned within normal margins, however the price of construction is not falling and building or renovating remains almost 30% more expensive now than pre-COVID after an extended period of escalating costs," Mr Lawless said.

"It's likely the easing in the growth of construction costs over the past six months, alongside higher established housing prices, will gradually help to repair builder profit margins and flow through to providing more confidence around pricing for new builds and renovations."

On a state-by-state basis, the quarterly change in CCCI remains reasonably aligned, ranging from 0.3% in Queensland to 0.6% in NSW and Victoria.

CoreLogic Construction Cost Estimation Manager John Bennett said the Cordell costings team found the overall de-escalation in construction cost increases was due to reduced pricing volatility among materials.

He said some categories, such as timbers and metal products, which are significant for residential construction for framing, trusses, floors, cladding and roofing, have also seen a reduction in price.

"Although some categories are registering a fall in price, there are multiple factors that make up the cost to build," Mr Bennett said.

"Sustained issues across the supply chain, which plagued the industry throughout COVID have largely resolved but costs for labour for example remain elevated and contribute significantly to any residential project."

Construction costs increasing at a slower rate than inflation

Nationally CPI was up 1.0% in the March quarter compared with a 0.8% rise in residential construction costs. With construction costs rising by 0.5% in the June quarter, Mr Lawless said it is highly likely this level of growth will be well below CPI when the index is released later this month.

"Residential building costs are a key input for the housing component of the consumer price index," Mr Lawless said.

"Although rents remain a pain point for housing inflation, the slowdown in residential construction costs is a positive outcome for inflationary pressures."

Mr Lawless said May's increase in building approval figures of 5.5% came in above expectations however it was too soon to suggest this was a turning point in construction activity given approvals remain stuck around decade lows, where they've been since early 2023.

"Even with May's uptick in building approvals, we're still navigating the bottom of the approvals cycle," he said.

“Any recovery remains tentative and unconvincing given thousands of approved projects aren’t coming to fruition for a variety of reasons and building activity remains sluggish due to a substantial backlog of projects that are still progressing through the pipeline.”

For more information visit corelogic.com.au/news-research/reports/cordell-construction-cost-index