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Material Costs Affect Housing Affordability

Material Costs

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Despite overall inflation on a downward trend, prices for residential construction building materials as a whole have accelerated since the beginning of 2024, leaving home builders to continue to deal with higher costs.

Understanding the Impact of Rising Building Material Costs

The rise in building material costs is harming housing affordability as the **cost of softwood lumber** (<https://www.nahb.org/news-and-economics/housing->

[economics/national-statistics/framing-lumber-prices](#)), steel, aluminum and other imported materials and equipment exacerbate price volatility and drive up housing costs.

The rising material costs are made worse by uncertainties within the production process and when supplies will be available to complete homes in a timely manner. Another key concern is whether or not the homes will **appraise at the correct price** (<https://www.nahb.org/advocacy/industry-issues/appraisals>) to reflect these rising costs.

Builders are doing everything possible to avoid pricing consumers out of homes while still maintaining competitive prices necessary to operate their businesses — especially given the potential long-term impacts on consumers.

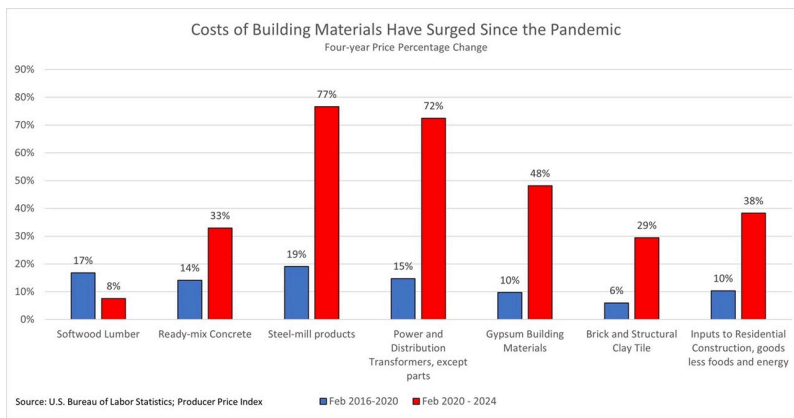
Factors Contributing to the Rise in Material Costs

Supply and Demand: As demand for building materials increases, particularly during the busy seasons for housing construction, and as supply remains limited due to various factors like global shortages and disruptions, prices naturally rise. This is a classic economic principle known as supply and demand.

Inflation: Inflationary pressures are also contributing to higher material costs. When the general cost of goods and services rises across the economy, it inevitably impacts the price of construction materials as well.

Global Factors: Many raw materials used in construction are globally traded. Factors like geopolitical tensions, trade disputes, and changes in international trade policies can disrupt supply chains and lead to price increases.

Sustainability Initiatives: There's a growing demand for eco-friendly, **sustainable building materials and green practices** (<https://www.nahb.org/advocacy/industry-issues/sustainability-and-green-building>) in the construction industry. While this is a positive trend for the environment, it can put pressure on costs as these specialty materials often come with a higher price tag.



Impact on the Construction Industry

Rising Project Costs: The most direct impact is on the cost of construction projects. With direct material cost making up a significant portion of overall expenses, even a moderate increase can significantly inflate project budgets. This can lead to delays in the production process, cost overruns, and increased financial risk for contractors and developers.

Reduced Profit Margins: For construction businesses, soaring material costs can erode profit margins. Contractors may find it increasingly difficult to price projects competitively while also covering their own rising expenses and indirect costs.

Housing Affordability: On a broader scale, the rising cost of building materials directly impacts the affordability of new housing. Higher construction costs get passed on to home buyers in the form of higher prices, making it **increasingly difficult for people to afford new homes** (<https://www.nahb.org/advocacy/top-priorities/solving-the-housing-affordability-crisis>). This can exacerbate existing housing affordability issues and slow down the overall housing market.

Home Valuations: Cost fluctuations make it more difficult for appraisals to reflect the true value of the home, because costs are rising too rapidly and builders are having to compensate on the front-end of construction by decreasing amenities available in the home. To learn more about the different approaches to appraisals,

and possible solutions, visit **Understanding Appraisal Approaches** (<https://www.nahb.org/advocacy/industry-issues/appraisals/understanding-appraisal-approaches>).

Potential Solutions to Mitigate the Effects of High Material Costs

Expanding Access: The trade war on lumber, steel, aluminum and other imported materials is needlessly pushing up housing costs. NAHB urges Congress to call on the administration to return to the table and negotiate a new **softwood lumber agreement with Canada** (<https://www.nahb.org/404?item=web%3a%7bDA8DB561-C87B-4768-86A0-11E128C890B9%7d%40en>) and to resolve the trade dispute with China.

Efficient Material Use: One way to control material costs is by being more mindful and efficient in their use. This could involve things like minimizing waste, recycling materials where possible, and ensuring optimal usage on each project. Sustainable practices can help achieve this.

Long-term Contracts: Locking in material prices through long-term contracts can provide some protection against sudden price increases. This allows for better budgeting and planning, although it does depend on the stability of the supplier-customer relationship.

Negotiation and Lean Construction: Contractors can negotiate directly with suppliers for better prices and work with them to find efficiencies in the construction process. Lean construction principles can help streamline operations and reduce waste.

Alternative Materials: Exploring alternative or unconventional materials that are more cost-effective can be another strategy. This could involve using recycled materials, lesser-known suppliers, or innovative materials that offer similar performance at lower costs.

Proactive Purchasing: Buying materials well in advance of when they'll be needed can help lock in prices and avoid the risk of future price hikes. This requires good planning and coordination with suppliers.

Key Considerations Regarding Rising Material Costs

It's important to note that while these strategies can help manage the impact of rising material costs, they won't completely eliminate the challenges.

The construction industry will likely need to adapt to this new reality of higher material prices for the foreseeable future. This could involve things like rethinking project designs to be more cost-effective, finding new sources of funding to cover increased costs, and unfortunately, the inevitable passing of some of the increased costs onto customers through higher prices.

The construction industry faces a significant labor shortage, with the number of **construction job openings** (<https://www.nahb.org/news-and-economics/housing-economics/state-and-local-data/state-wage-and-workforce-demand-data>) on the rise. This shortage is due to a combination of factors, including outsized retirement levels, megaprojects in several private and public construction segments, and cultural factors that encourage too few young people to enter the skilled construction trades.

On the other hand, the semiconductor sector could face a shortage of up to 90,000 workers over the next few years, highlighting the diverse nature of labor shortages across industries.

The uncertainty surrounding material costs, production costs, and overhead costs presents a significant challenge for both the home building industry. Rising costs and supply chain disruptions are eroding construction profit margins, making it increasingly difficult for businesses to operate profitably.

To address these challenges, both industries will need to adopt innovative strategies and technologies. For example, automation and digitization can help improve efficiency and reduce labor costs. Additionally, collaborating with suppliers and implementing just-in-time inventory management can help mitigate the impact of supply chain disruptions.

However, the most critical factor will be attracting and retaining a skilled workforce. This will require investing in **workforce development and training programs** (<https://www.nahb.org/advocacy/top-priorities/workforce-development>), as well as creating a more appealing work culture and providing competitive compensation.

By addressing these challenges and adapting to the evolving market conditions, both the construction and home building industries can navigate the uncertainty and thrive in the future.

Adapting to the Changing Material Cost Landscape

The fluctuations in building material costs and availability are fundamentally reshaping the home building industry. As material costs rise and supply becomes increasingly unpredictable, builders will be forced to adopt more efficient practices and innovative solutions throughout the production process to stay competitive. This could involve everything from optimizing inventory management to embracing new technologies and materials.

At the same time, the changing material landscape is prompting a reevaluation of business models and project strategies. Some builders may need to shift their focus towards **more affordable and adaptable housing solutions** (<https://www.nahb.org/other/consumer-resources/types-of-home-construction>), while others may explore partnerships and collaborations to share costs and risks.

By embracing new practices, technologies, and business models, builders can not only weather the current challenges but also position themselves for success in a

rapidly changing market. With the right strategies and mindset, home builders will be able to thrive in the face of uncertainty.

In the News

Material Costs

Apr 03, 2025

In Win for NAHB, Canadian Lumber Exempt from Trump's Global Reciprocal Tariffs

(<https://www.nahb.org/blog/2025/04/lumber-reciprocal-tariffs>)

Material Costs | Economics

Mar 21, 2025

Cost and Tariff Uncertainty Weighs on Markets

(<https://www.nahb.org/blog/2025/03/eoe-summary-cost-tariff-uncertainty>)

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([https://www.nahb.org/blog/blog-search#&f:Topics=\[Material%20Costs\]](https://www.nahb.org/blog/blog-search#&f:Topics=[Material%20Costs]))

(<https://www.nahb.org/advocacy/top-priorities/building-materials-trade-policy>).

ADDRESSING THE SUPPLY CHAIN CRISIS

NAHB is urging policymakers to help resolve supply chain issues that are hindering housing affordability and the broader economy.

More information

(<https://www.nahb.org/advocacy/top-priorities/building-materials-trade-policy>)

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CANADIAN SOFTWOOD LUMBER

The United States must reduce the tariffs on Canadian lumber shipments and resume negotiations with Canada on a lumber trade deal.

More information

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(<https://www.nahb.org/news-and-economics/housing-economics/national-statistics/framing-lumber-prices>).

FRAMING LUMBER PRICES

See an overview of weekly price changes in the framing lumber market.

More information

(<https://www.nahb.org/news-and-economics/housing-economics/national-statistics/framing-lumber-prices>)