



4 August, 2011

Submission to the Productivity Commission re Housing Affordability

The Building Industry Federation of New Zealand Inc (BIF) is an independent body that represents industry participants including manufacturers, importers, distributors, merchants and other service providers as they relate to and impact on the building industry. BIF is dedicated to supporting, promoting and advancing the needs of the wider building industry on issues, political developments and trends that influence the growth and performance of the industry. Members include ITM, Placemakers, Carters, Mitre10, Fletcher Manufacturing and Distribution, Nuplex, Paslode NZ, Mitek, United Industries, James Hardie and CSR Monier.

The purpose of this submission is to address questions posed in the “Issues Paper” of the Commission as they may be relevant to the performance of the materials supply chain in the New Zealand building market.

Building Controls (Page 32 – Q49-53): It has been the experience of the building supply chain that the 2004 Building Act added costs and complexities to the conduct of members’ businesses, especially in the case of manufacturers. Members of BIF complained about delays by Building Consent Authorities (BCAs) in the processing of consent applications and inconsistent approaches by various BCAs to the fit for purpose nature of products specified by architects. Complaints were common in the early years of the new system in that a product may be authorised by a BCA in one area but be rejected by a BCA in another area when in the view of the supplier there was no difference in the circumstances of use. The position was also exacerbated by a withdrawal of insurance protection from BCAs for products which were not directly Building Code compliant but acceptable under regulatory requirements for “Alternative Solutions”.

Today there is greater consistency as a result of discussions between industry participants and local government, Government action to reduce the number of BCAs in the Auckland region, greater awareness on the part of manufacturers and product distributors of the needs of BCAs and the benefit of local government efforts to raise the standards of officials responsible for overseeing local building controls. The position of insurance companies in refusing protection to BCAs in respect of “Alternative Solutions” remains of concern as a barrier to innovation in fit for purpose product supply.

Q53 asks how consent processes could be streamlined. It is the view of the BIF that these could be streamlined in respect of product through: a) A consolidation of the number of BCAs to reduce inconsistencies in approach in respect of individual products; b) advance BCA consent approval (subject to site) for standard design houses.

Q51 asks if there are specific New Zealand conditions or peculiarities that require additional more costly building controls and standards. An answer is that while seismic activity in particular areas is not confined to New Zealand, there are grounds for imposing tighter controls and standards around seismic areas subject to liquefaction, especially in the provision of steel reinforcing for concrete slabs – an added cost. Some New Zealand wind zones require specific cost raising attention through particular requirements appropriate to local conditions.

Performance of the Building and Construction Industry (Q54-Q61):

Q54: - Construction costs are higher than they need to be for a variety of reasons but a major component in housing affordability is land costs which also can be attributed to a range of factors, including: Land bank holding by developers; urban residential housing limits imposed by local government; development levies imposed by local government and delays in the consenting process

Q55 – Construction costs have risen but not at anywhere near the same rate as land costs. Inflation and the “boom or bust” nature of building industry business cycles are factors in construction performance. Shortages of skilled labour appear at times of “boom” but when extra necessary labour is trained to handle the larger workload a “bust” cycle appears (eg since recessionary conditions began to appear in 2007) and trained labour exits the industry or goes to similar positions abroad. From a supply chain perspective the current situation with Christchurch and leaky home remediation is markedly different because the chain has been operating for the past three years at well below normal activity levels.

Q56 – Costs of building materials are driven by the small scale of the market. New Zealand is in general terms a low volume, small market. Barriers to achieving greater economies of scale are low population and consumer preference for variety in design and structure rather than standardised design and prefabrication. The open nature of the New Zealand market also means it is subject to international pressure on pricing in some areas, for example steel.

Q57 – There is a high level of competition in the merchant chain, which features five national distribution companies, and among building material manufacturers. The market is fully open to overseas competition, for example from Asia and Australia. Building product manufacture in New Zealand itself is limited. This is because of the small size of the market which demands an extremely high level of efficiency from local producers to meet the limitations of volume sales and comparatively high transport costs (estimated at approximately 6 percent higher than Australia) while remaining competitive

with international suppliers. The manufacturing industry has invested heavily in providing greater certainty of product performance as a counter to overseas competition. Often the New Zealand industry has to rely on exports to underpin the financial base of its operations and currently this is not helped by the high New Zealand dollar value on international currency markets. BIF carried out four years ago a comparison between prices for a selected range of products (steel rod, galvanised nails and exterior paint) in New Zealand and Australia. We selected a small range of building materials and obtained prices at two stores in each of Melbourne, Sydney, Adelaide and two stores each in Wellington and Auckland. We averaged the six Australian store prices, converted them to NZ dollars and averaged the NZ prices. These comparisons were: Steel 12mm rod 6 metre length, Grade 300: Australia NZ\$12.01; NZ \$13.08 – differential 9% higher in NZ; 100mm x 4mm flat head galvanised nails 5kg: Australia \$52.31; NZ \$27.13; differential 48% lower in NZ; Gloss 10 litre exterior paint, Australia \$161.65; New Zealand \$143.63 – 11% lower in New Zealand. Prices varied in the Australian stores as they did in Wellington and Auckland. This was reflective of the competitive market in both countries. With respect to wood we are advised by a major market wholesale supplier that prices today for sawn timber suitable for home construction are lower than in 2003. Higher volume supply and lower transport costs provide cost advantages to wood products in Australia by comparison with New Zealand.

An essential difference between the Australian and New Zealand building materials markets is transport. Australia has the benefit of high volume residential building (some 100,000 housing starts last year against 14,000 in New Zealand), with accompanying cost savings in volume transport by rail. New Zealand manufacturers face cost impositions in distribution between the North and South Islands because of the need to use ferries or shipping services to get freight from one island to the other. For example, building materials scheduled for delivery from Auckland to Nelson may well be sent in a container from Auckland to Wellington, shipped across Cook Strait to Picton and carried on to Christchurch for unloading and the materials transhipped back to Nelson. Transport cost savings are frequently a significant factor in decisions of Auckland manufacturers to establish a plant in the South Island. In summary, there are scale, statutory compliance and quality differences between the Australian States and New Zealand. However, in virtually every stock line an Australian, Asian or elsewhere alternative is available to NZ consumers. Price, however, is not their only consideration. Product performances, availability, local fit for purpose and after sales service is equally as important, as well of course whether the BCA will accept it.

Q58 – Anecdotal evidence within the industry suggests that more standardisation has not taken place in New Zealand because of consumer preference for individuality in home design and construction. Building executives in Australia say this is a significant reason for cost differentials with New Zealand.

Q59 – Skills shortages are of major concern. They appear to be an offshoot of the boom and bust cycles that have been a feature of industry activity. The extra skills requirement for the Christchurch rebuild, leaky building remediation and normal activity rates is expected to be in the order of thousands over the next five years. This need is considered likely to have an inflationary impact, although in respect of the supply chain it has been operating for the past two years at only 60 percent of capacity and hence has a good deal of slack to take up before any possible shortfall in product supply becomes generally noticeable. Bottlenecks in activities are more likely to arise from shortages of specialist labour, such as brick layers, tilers, plumbers and plasterers, than from materials supply shortages. A particular concern is that many potential new entrants to the industry see it as a “no go” industry to enter because of fears that the claimed approaching “boom” will turn to “bust” and leave them either jobless or forced to go overseas to look for work.

Q60 – Differences in productivity between residential and commercial construction is not an area in which we have particular expertise.

Q61 – Inquiries in respect of the reasons for “systemic failure” in the industry which led to the leaky buildings crisis would suggest that a prime factor was “people failure”. This occurred across the board at briefing, design, consenting, construction, inspection and maintenance phases.

General: A comparison of housing costs must take into account, in our view, the fact that since 1974 the increase in the average house area has almost doubled – from 110 square metres to 199 square metres. In the same period the average price of house construction has lifted from \$13,708 to \$280,489, with the per square metre cost rising from \$125 to \$1411. Square metre housing construction costs rose 10 percent in the year to March 2007, six percent in the comparable period for 2008, six percent in 2009, one percent in 2010 and by two percent in 2011. A broad random sampling by BIF covering a pricing comparison of 46 materials between the 2010 and 2011 years showed few increases above six percent and a majority of products either static or lower (some spectacularly so). Among significant in use products Hardie linea classic wallboard rose five percent in price between 2010 and 2011; Gib board standards (10mm and 13mm) showed no increase; Pink Batts Ultra gradings were static in price; Readimix structural concrete 20 MPA 19mm rose five percent; steel rebar DEF RND GR 500MAX6M HD15 fell 10 percent and steel mesh NO465 XD095M 5M2 rose seven percent; paint price variations included increases of between eight percent and 16 percent while ranges of whiteware and piping for wet areas were generally static or lower in price.

A suspicion lingers in the building sector that consumers do not really understand the impact of what some in the industry term “the bureaucracy cost of construction”. This is probably because consumers pay consent fees, inspection fees, reserve contributions, development levies, research imposts and building charges all in one cheque to their principal contractor. Consumers therefore have no way of realising the variations in these costs which occur from council to council.

Nor do consumers have a clear path to check areas of cross-subsidisation which may evolve in the application of money received from these various charges. A question for the Commission might be: How do we get consistent application of levy and fee systems, as well as planning principles?

There has also been some discussion in the industry of the role that home ownership plays in furthering the small business culture which underpins a great deal of the country's economic activity. Many economists tend to focus on claims that New Zealanders place too much of their capital wealth in passive home ownership, perhaps for eventual capital appreciation, and lesser sums into investment vehicles such as stocks and shares, managed funds and venture capital projects that may generate economic growth. This approach to home ownership tends to downplay the role of home ownership as a lever for access to capital needed to fund privately owned small business start-ups and borrowing for growth. Banks find the surety of a lien over a home attractive to small business lending. Without such an asset to use as security thousands of small businesses would not be started. This special value of the house as a base for capital raising by home owners in a country dependent on SMEs for a large proportion of business growth is, in our view, too often overlooked.

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