



Department of  
Building and Housing  
*Te Tari Kaupapa Whare*

## **Building and Housing Trends: April to June 2008**



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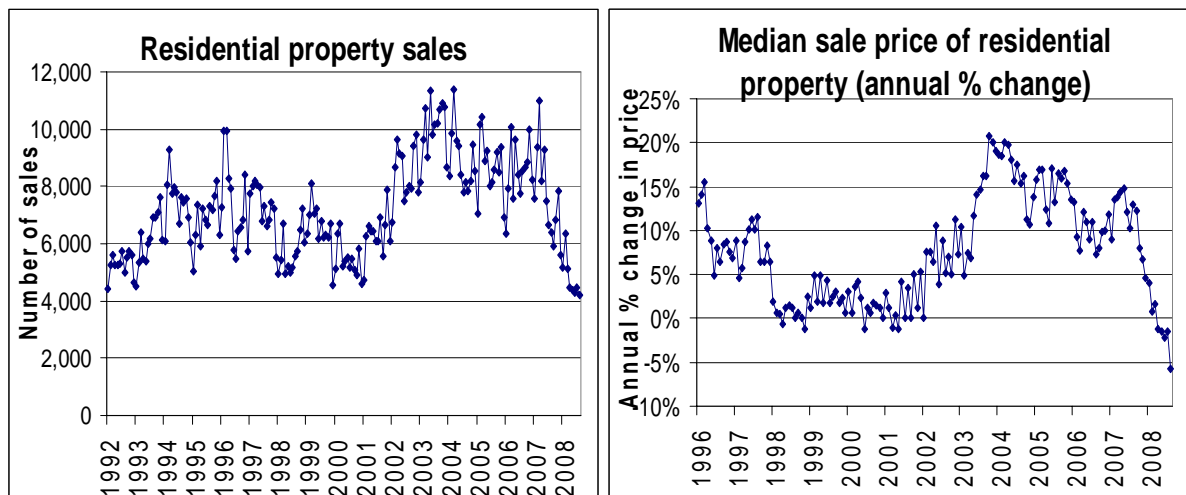
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## Introduction

This *Building and Housing Trends* publication covers the period from 1 April to 30 June 2008. It is based on accessible information and forecasts sourced from government agencies (Statistics New Zealand, Ministry of Social Development, Department of Labour, Reserve Bank of New Zealand and the New Zealand Treasury), the Real Estate Institute of New Zealand (REINZ), Quotable Value Limited and Housing New Zealand Corporation. Some of the information and data has been developed by the Department of Building and Housing (the Department) from our databases and other internal information, as well as work commissioned around current trends and impacts. Preparing this report reflects our aim of developing and improving access to building and housing sector-related information and knowledge.

## Stop Press

Trends that were evident in the June 2008 quarter have strengthened during July and August. In particular, the housing market has continued to slow, residential building consent activity has continued to reduce, and rental market conditions are more relaxed.



According to REINZ statistics, house sales volumes in August 2008 fell to 4220, a record low since 1992. Median house prices also fell 5.7 percent in the year to August 2008 (1.4 percent to July 2008) – another record low since 1992. In combination these trends indicate that the housing market is in decline. Work recently commissioned by the Department indicates that house prices are the most overvalued they have been in 50 years and forecasts price falls of 10-30 percent over the next 6-12 months. This is consistent with the latest September 2008 Monetary Policy Statement issued by the Reserve Bank of New Zealand which projects house prices to fall by 10 percent in 2008 and negative annual growth rates to persist until 2011. Similarly, the Treasury, in its latest Pre-Election Economic and Fiscal Update 2008, expects house prices to continue to fall in nominal terms, recording a 10% annual fall in March 2009 and a total fall of 11.3% from their peak in the December 2007 quarter.

Residential building consent activity is continuing along the downward trend that started in June 2007, and as a worst case, dwelling consents (excluding apartments) could fall as low as 16,200 next year. Non-residential building activity is unlikely to experience as much of a decline as residential, but is a smaller share of total construction. Future non-residential building activity levels will depend on factors such as the state of the economy and government spending on infrastructure.

Declining home ownership rates have led to increased demand for rental housing, as people who would previously have purchased a house continue to rent. There is some evidence that the supply of rental housing may now also be increasing because vendors who have failed to sell houses at prices they expected are now offering unsold houses for short-term rent. These 'accidental' landlords are likely to re-list these houses for sale when their short-term leases end, at which time the supply of rental housing could be expected to contract.

# Executive summary

## The economy

New Zealand's economic activity increased 3.0 percent in the year to March 2008 as measured by inflation adjusted or real GDP. The previous year's increase was 1.6 percent (to March 2007). Construction industry activity (value added) increased by 2.2 percent in real terms in the year to March 2008, compared to a 3.3 percent decline in the year to March 2007.

The Household Labour Force Survey estimates that there were 178,300 people employed in the construction industry in the June 2008 quarter. This is a 5.1 percent fall from the June 2007 quarter.

Inflation in the housing sector has been approximately 5 percent per year since the December 2005 quarter according to the 'housing and household utilities' group within the Consumers Price Index (CPI). Inflation in the housing sector was 5.0 percent in the year to the June 2008 quarter, which was slightly lower than the 5.1 percent in the year to the March 2008 quarter.

Inflation for home ownership was 5.2 percent in the year to the June 2008 quarter (according to the price index of the purchase of new housing), compared to 5.7 percent in the year to the March 2008 quarter. Note that the rate of inflation for median house prices continues to level off according to the Real Estate Institute of New Zealand (REINZ).

Actual rents increased by 3.1 percent in the year to the June 2008 quarter (according to the price index for actual rents), compared to 3.0 percent in the year to the March 2008 quarter.

Household inflation, as measured by the CPI, was 4.0 percent in the year to the June 2008 quarter compared to 3.4 percent in the year to the March 2008 quarter. Rents have shown lower rates of growth than house prices since the December 2007 quarter.

## The housing sector

The housing market is continuing to slow, with price decreases and fewer sales in recent months. According to REINZ, the median house price in June 2008 was \$340,000, which is a 2.2 percent decline from a median price of \$347,500 in June 2007. Except for February 2008, this is the slowest annual growth rate in median house prices recorded since January 2002. Median house prices declined by 1.1 percent in the year to April 2008, and declined 1.4 percent in the year to May 2008.

The median house price for Auckland fell 1.2 percent in the year to March 2008 and 2.2 percent in the year to June 2008.

Sales activity declined overall in the June quarter. The monthly house sales volume was 4,305 in June 2008 (see Figure 5)<sup>1</sup>. This is a 42.4 percent decline on the 7,474 transactions occurring in June 2007, and is a 48.9 percent decline on the 8,428 transactions occurring in June 2006. This means that the general downward trend in sales volumes has continued and volumes are reaching low levels not seen since January 2001.

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<sup>1</sup> REINZ sales volume figures used here are based on actual sales reported by sales agents, and are taken as of the date when a transaction becomes unconditional.

The median number of days to sell a property in June 2008 was 53 days, which is significantly higher than the 30 days it took in June 2007 and the 37 days it took in March 2006 (see Figure 6). This is consistent with the sales volume data, which suggests a cooling market.

Tenancy bond data shows that for most dwelling types, average weekly rents for new private rental tenancies have continued to rise. In June 2008, the average weekly rent was \$229 for one-bedroom flats, \$285 for two-bedroom flats, \$274 for two-bedroom houses, \$308 for three-bedroom houses and \$416 for four-bedroom houses.

## **The building sector**

The inflation-adjusted value of all 'building work put-in-place'<sup>2</sup> fell by 1.3 percent in the March 2008 quarter, when compared to the March 2007 quarter. This decrease is consistent with Gross Domestic Product (GDP) data, which indicates that construction industry output decreased by 1.6 percent in the same period.

Residential building work accounted for 62 percent of the unadjusted value of all building work in the March 2008 quarter. This contribution was below the peak of 67 percent that occurred in the June 2003 quarter.

Building consent data represents anticipated building work. The number of building consents authorised for new dwelling units (including apartments) fell 47.1 percent in June 2008, when compared with June 2007. The resulting trend for the number of consents for new dwelling units declines from June 2007 onwards.

The number of new dwelling consents is expected to ease further. Housing demand is likely to be weakened by the continued slowing of the housing market, lower annual net migration numbers and tighter bank lending criteria along with relatively high mortgage interest rates. This is consistent with the Reserve Bank's June 2008 Monetary Policy Statement projection, which forecasts a 17 percent decline in residential investment in the March 2009 year.

The actual value of non-residential building consents decreased by 18.1 percent in June 2008, when compared to June 2007. \$4.33 billion worth of non-residential building consents were issued for the year ended June 2008, which is an increase of 7.4 percent from the June 2007 year.

Capital, production and labour costs continue to be subject to inflationary pressures. Between the June 2007 and the June 2008 quarters, the Capital Goods Price Index (CGPI) measured price increases of 4.4 percent for residential building, 2.8 percent for non-residential building and 4.9 percent for other construction. The Producers Price Index (PPI) for inputs increased 6.4 percent, and labour costs (as measured by the labour cost index - salary and wage rates) increased 4 percent for trade workers and 3.4 percent for the construction industry.

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<sup>2</sup> Statistics New Zealand's building work put-in-place is a quarterly estimate of the dollar value of construction on residential and non-residential building. This data provides information on building activity levels and complements building consent statistics.

# The economy

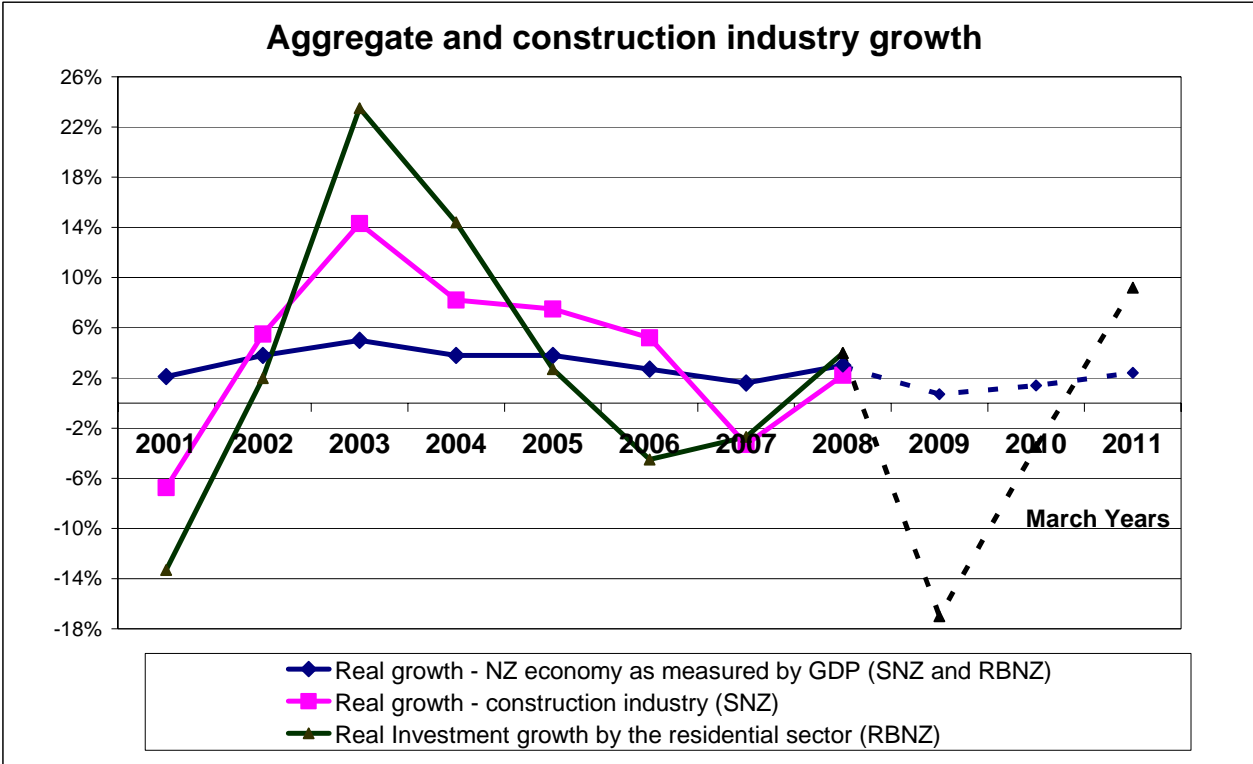
## Economic growth and industry outputs

New Zealand’s economic activity, measured by inflation-adjusted or real GDP, increased 3.0 percent in the year to March 2008. This shows a greater increase than the 1.6 percent that occurred in the year to March 2007.

Annual values for construction industry activity declined for each of the four quarters to September 2007, but increased 1.8 percent in the year to December 2007 and continued to grow (in inflation-adjusted terms) by 2.2 percent in the year to March 2008. This can be compared to a 3.3 percent decline in the year to March 2007.

The Reserve Bank’s June 2008 Monetary Policy Statement forecasts that real investment (as measured by inflation-adjusted Gross Fixed Capital Formation) will decrease by 0.2 percent in the year to March 2009. Over this period, real residential investment is expected to fall by 17 percent and real business investment is expected to grow by 3.7 percent. Government spending on infrastructure is an important component of non-residential construction, and real government sector investment is expected to grow by 7.7 percent in the year to March 2009.

**Figure 1: Aggregate and construction industry growth (updated)**

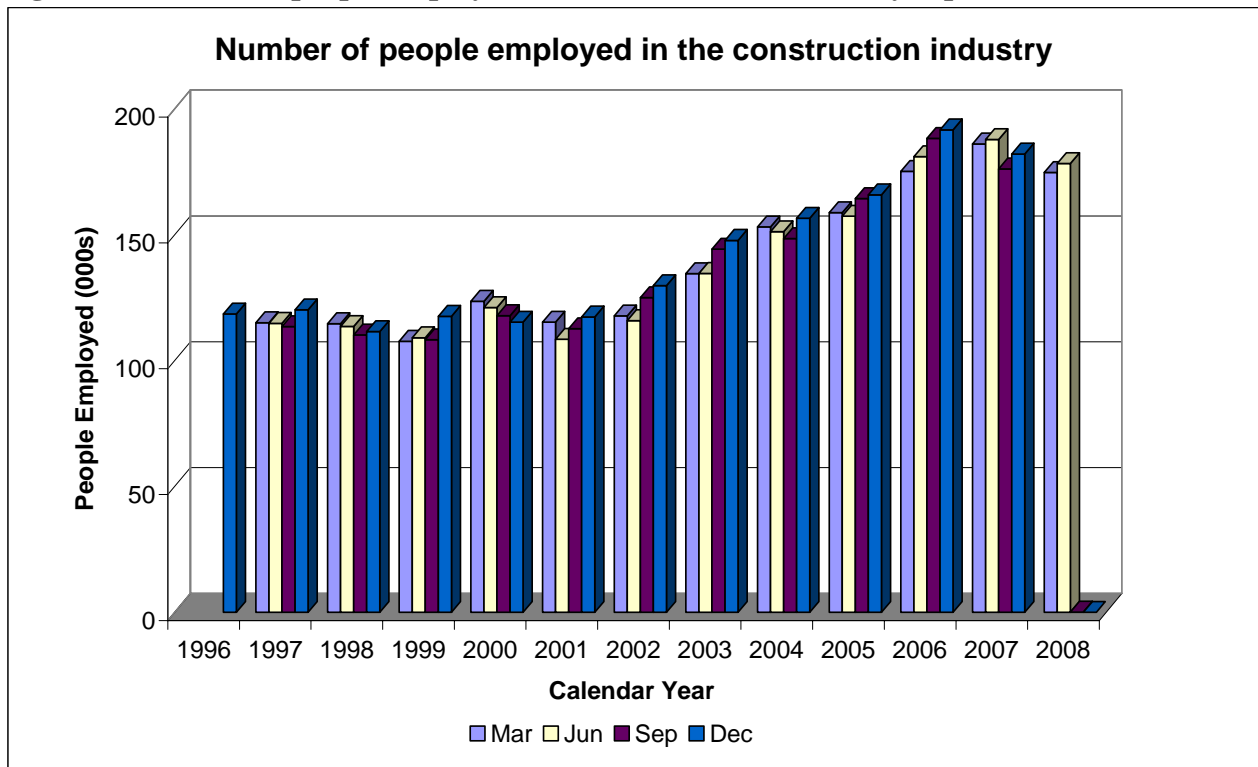


Source: Reserve Bank and Statistics New Zealand

## Labour market

The number of people employed in the construction industry has grown strongly in recent years, peaking at 191,700 in the December 2006 quarter. Quarterly construction industry employment numbers fell to 178,300 in the June 2008 quarter. This is 5.1 percent lower than the 187,900 employed in the construction industry in the June 2007 quarter

**Figure 2: Number of people employed in the construction industry (updated)**



Source: Statistics New Zealand

## Cost of purchase of new housing and renting

Inflation in the housing sector is largely measured by movements in the 'housing and household utilities' group<sup>3</sup> of the CPI, and has been hovering around 5 percent per annum since the December 2005. Housing sector inflation was 5.0 percent in the year to the June 2008 quarter, which was slightly lower than the 5.1 percent experienced in the year to the March 2008 quarter.

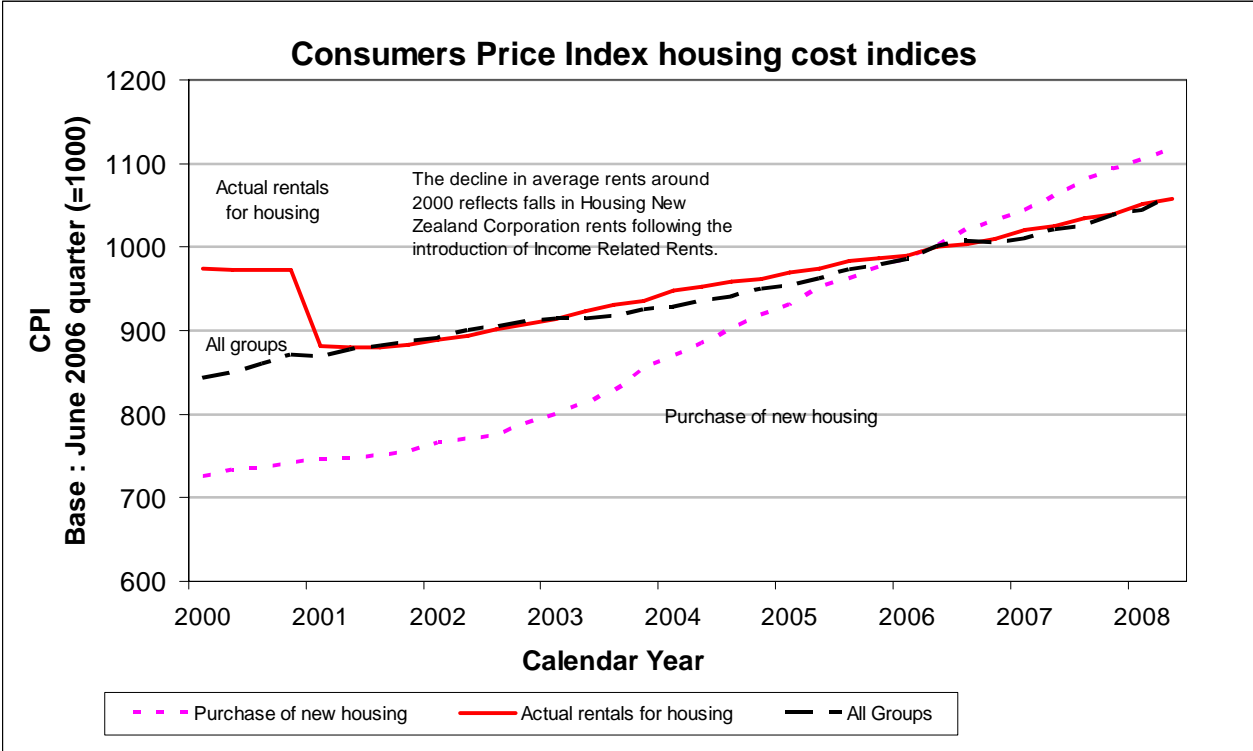
Inflation in the price of new housing was 5.2 percent in the year to the June 2008 quarter, compared to 5.7 percent in the year to the March 2008 quarter. Note that the rate of inflation for REINZ's median house prices continues to level off.

Rent inflation continues to be lower than general price inflation. Actual rents for housing increased by 3.1 percent in the year to the June 2008 quarter, compared to 3.0 percent in the year to the March 2008 quarter. General price inflation (as measured by the CPI all groups) was 4.0

<sup>3</sup> This group includes price changes in renting and the purchase of new houses (but not existing houses) and related service costs such as real estate agents' fees.

percent in the year to the June 2008 quarter, compared to 3.4 percent in the year to the March 2008 quarter.

**Figure 3: Consumers Price Index and housing cost indices (updated)**



Source: Statistics New Zealand

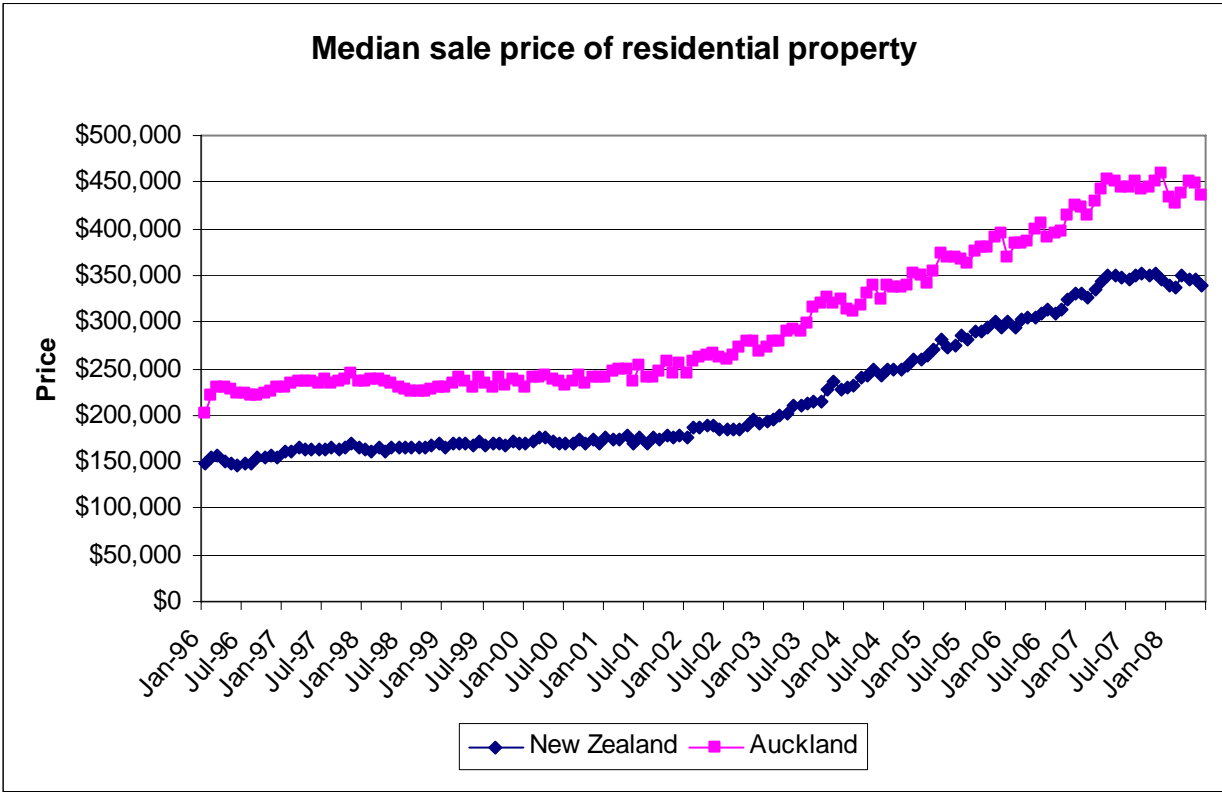
# The housing sector

## Sales price

The housing market continues to slow, with price decreases and fewer sales in recent months. According to REINZ, the median house price in June 2008 was \$340,000, which is 2.2 percent down from \$347,500 in June 2007. With the exception of February 2008, this is the slowest annual growth rate in median house prices recorded since January 2002. Median house prices declined by 1.1 percent in the year to April 2008, and declined 1.4 percent in the year to May 2008.

The median house price for Auckland fell 1.2 percent in the year to March 2008 and 2.2 percent in the year to June 2008.

**Figure 4: Median sale price of residential property (updated)**



Source: Real Estate Institute of New Zealand

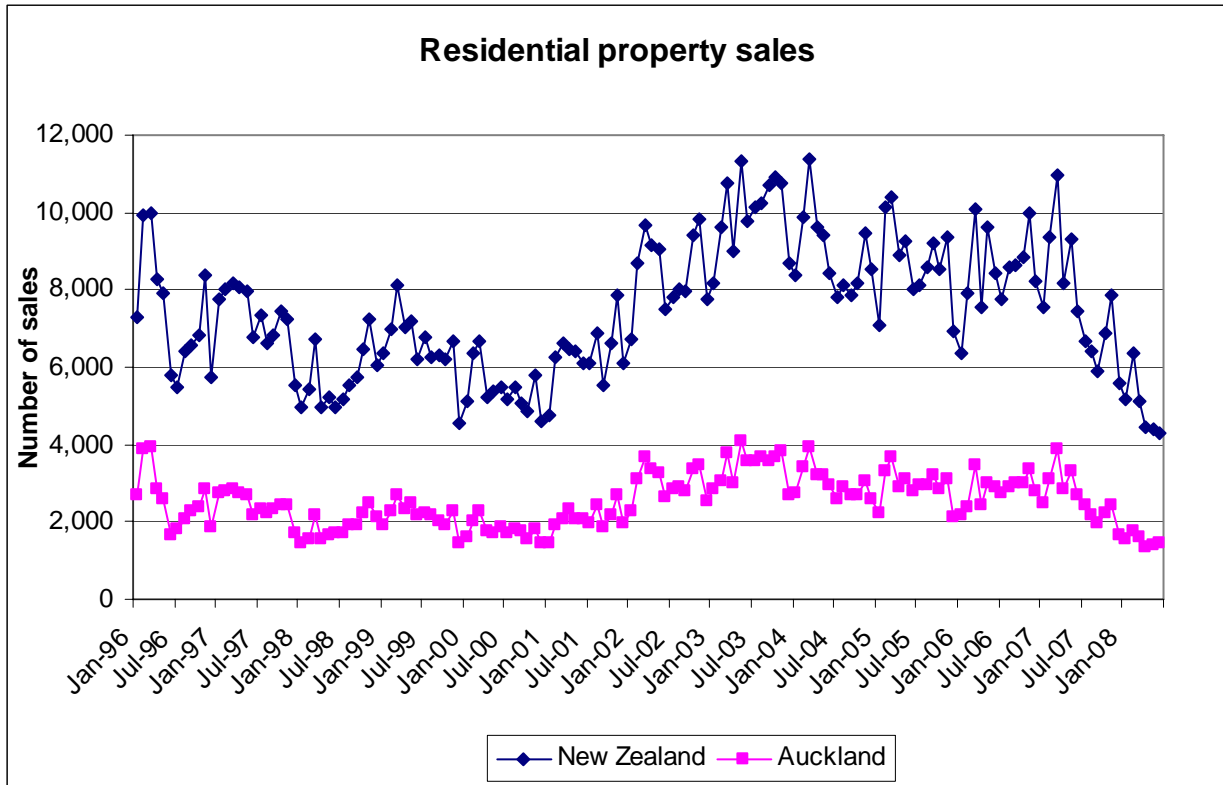
The value of New Zealand’s total housing stock increased from \$611 billion in the September 2007 quarter, to \$614 billion in the December 2007 quarter, to \$616 billion in the March 2008 quarter.

The value of housing stock grew by 4.9 percent in the March 2008 quarter when compared to the March 2007 quarter. This was below the 9.8 percent growth rate in the December 2007 quarter (compared to the December 2006 quarter) and the 13.6 percent growth rate in the September 2007 quarter (compared to the September 2006 quarter).

## Housing market activity

Overall house sales activity declined in the June quarter. Figure 5 shows that the monthly house sales volume in June 2008 was 4,305<sup>4</sup>. This is a 42.4 percent decline on the 7,474 transactions in June 2007, and a 48.9 percent decline on the 8,428 transactions in June 2006, meaning that the general downward trend in sales volumes has continued. House sales volumes are now reaching low levels not seen since January 2001.

**Figure 5: Residential property sales (updated)**

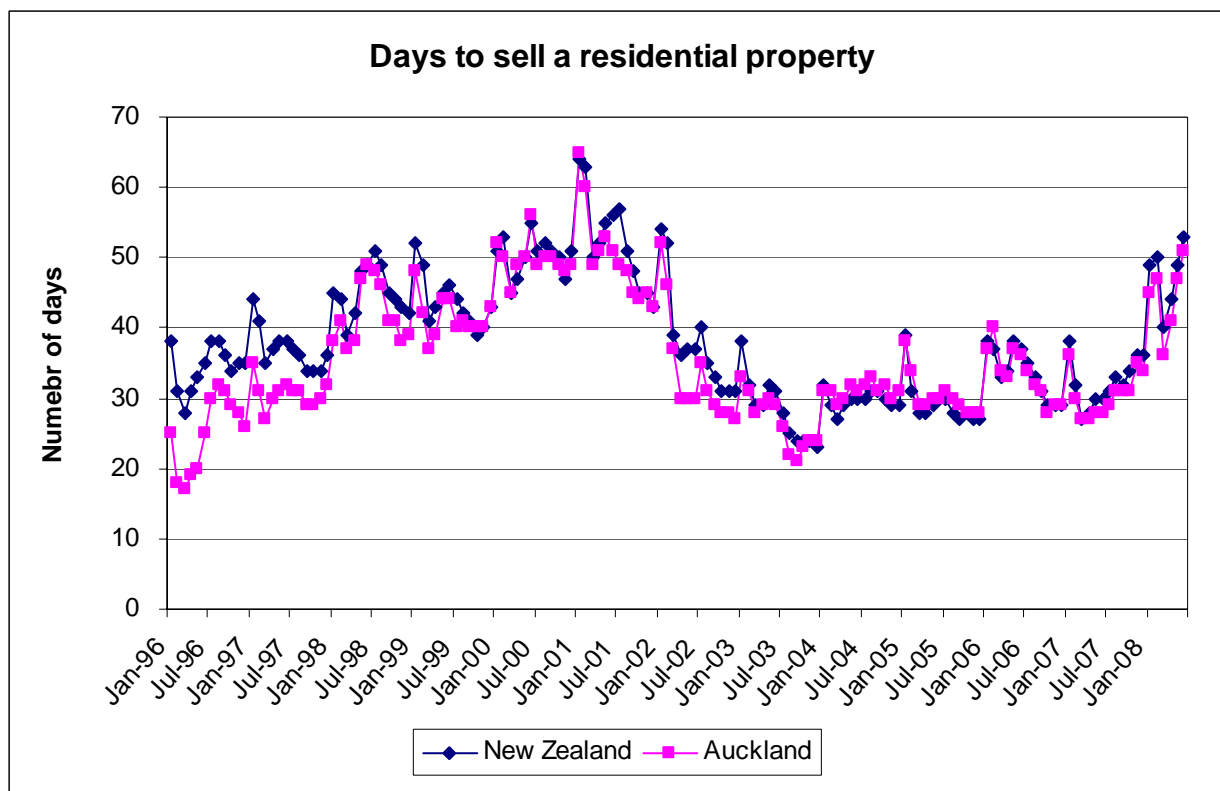


Source: Real Estate Institute of New Zealand

Figure 6 shows that the median number of days to sell a property in June 2008 was 53 days, which is significantly higher than the 30 days it took in June 2007 and the 37 days it took in June 2006. This is consistent with the sales volume data, and further supports the view that the market is cooling.

<sup>4</sup> REINZ sales volume figures used here are based on actual sales reported by sales agents, and are taken as of the date when a transaction becomes unconditional.

**Figure 6: Days to sell a residential property (updated)**



Source: Real Estate Institute of New Zealand

## Social housing assistance

The two main ways<sup>5</sup> that the government assists low-income families into affordable housing are the Accommodation Supplement<sup>6</sup> (AS) and Income-Related Rents<sup>7</sup> (IRR). As of June 2008, there were 245,510 AS recipients and 60,072 IRR tenants.

Figure 7 shows government expenditure on social housing assistance as a percentage of total housing sector expenditure<sup>8</sup> from the September 2004 quarter to the March 2008 quarter.

<sup>5</sup> Note that a variety of homeownership assistance programmes such as Welcome Home Loans are not considered as part of these statistics, because they are relatively small compared to the IRR and the AS, and focus on homeownership rather than rent relief.

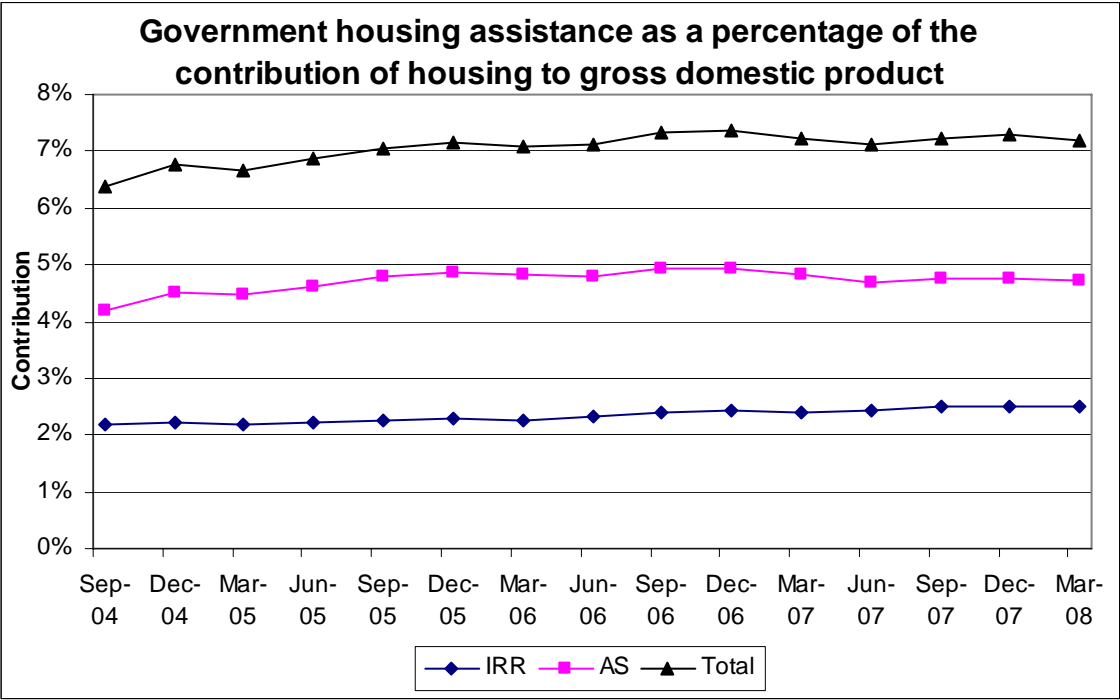
<sup>6</sup> The Accommodation Supplement is available through the Ministry of Social Development for people in private accommodation (i.e. not in social housing) who meet the income criteria. Recipients can then use the AS to offset some of the cost of their board, rent or mortgage payment.

<sup>7</sup> The Income-Related Rental Subsidy is paid to Housing New Zealand Corporation by the Government to subsidise the rent of Housing New Zealand Corporation tenants on low incomes (that is below the single living-alone rate of New Zealand Superannuation, after tax, for single tenants and below the married couple rate of New Zealand Superannuation, after tax, for all other tenants). Tenants in Housing New Zealand Corporation homes are not required to pay more than 25 percent of their income in rent. The marginal proportion rises to 50percent for incremental amounts beyond the relevant rate of New Zealand Superannuation. The IRR subsidy compensates Housing New Zealand Corporation for the difference in the rent paid and the market rent on the property. As such, IRR is an indirect subsidy of social housing.

<sup>8</sup> Gross Domestic Product: Household consumption expenditure by purpose in actual current prices – Housing (series SNCQ.S2NP30CZE). Source: Statistics New Zealand.

The level of total government housing assistance as a percentage of total housing contribution to GDP fell to 7.2 percent in the March 2008 quarter from 7.3 percent in the December 2007 quarter. IRR assistance as a percentage of total housing contribution to GDP remained constant at 2.5 percent. AS assistance as a percentage of total housing contribution to GDP fell to 4.7 percent over this period and primarily reflects a faster increase in final consumption spending on housing than the increase in spending on AS during the year.

**Figure 7: Government housing assistance as a percentage of the contribution of housing to gross domestic product**



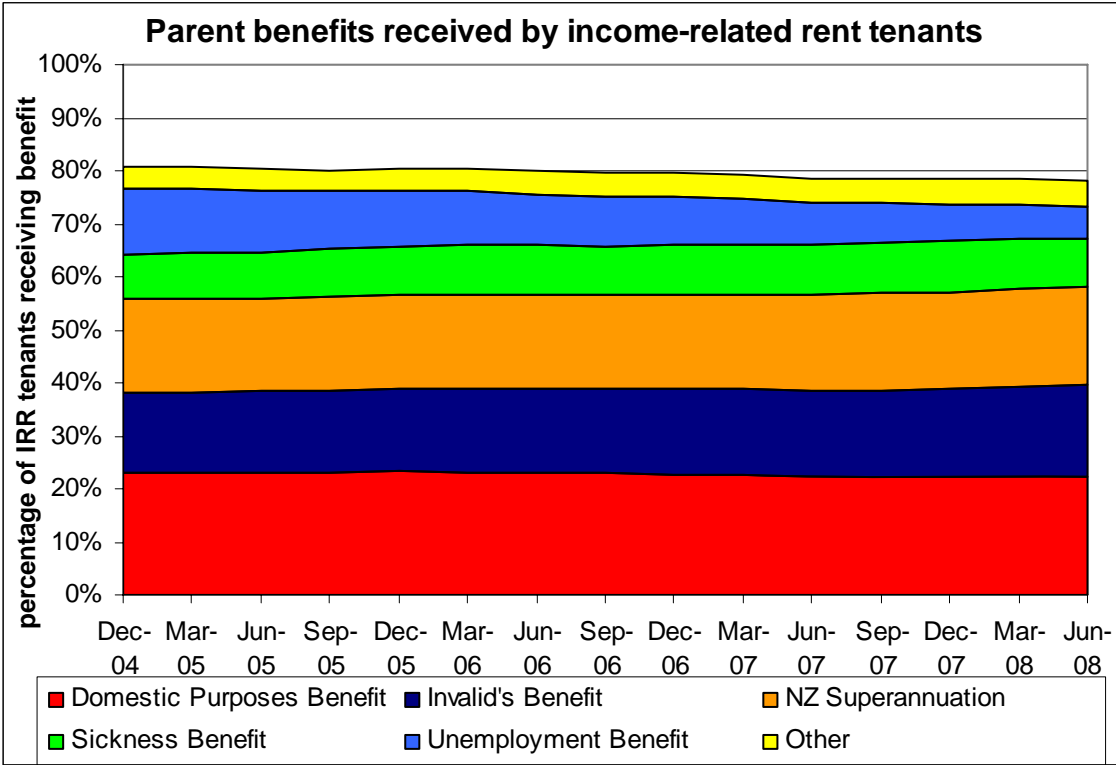
Source: Department of Building and Housing, Housing New Zealand Corporation, Ministry of Social Development and Statistics New Zealand

Total government housing assistance (as measured by IRR and AS) increased from \$340.8 million in the December 2007 quarter to \$342.0 million in the March 2008 quarter. Total government housing assistance in the March 2008 quarter was 4.0 percent greater than the \$328.9 million provided in the March 2007 quarter<sup>9</sup>.

<sup>9</sup> GDP data is not yet available for the June 2008 quarter. AS and IRR spending for the June 2008 quarter totalled \$344.4 million, which is 0.7 percent higher than the March 2008 quarter and 5.3 percent higher than the June 2007 quarter.

Figure 8 shows that there were no significant changes in the composition of benefits received by IRR tenants in the June 2008 quarter, when compared to the March 2008 quarter.

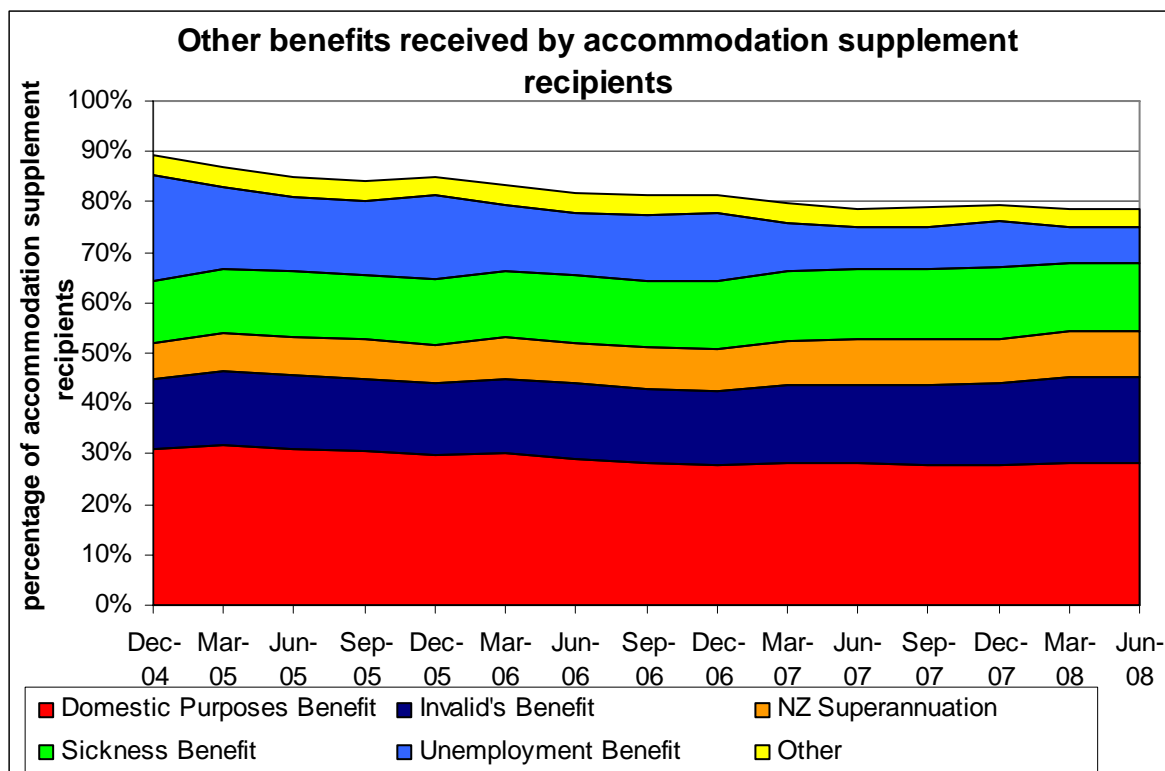
**Figure 8: Parent benefits received by tenants receiving income related rents**



Source: Housing New Zealand Corporation

Figure 9 shows that there were no significant changes in the composition of benefits received by AS recipients in the June 2008 quarter, when compared to the March 2008 quarter.

**Figure 9: Other benefits received by accommodation supplement recipients**



Source: Ministry of Social Development

Waiting list priority for Housing New Zealand Corporation housing is determined by several factors,<sup>10</sup> and applicants are divided into four groups that reflect different levels of need. The groupings are referred to as:

- A priority<sup>11</sup>
- B priority<sup>12</sup>
- C and D priority<sup>13</sup>.

<sup>10</sup> The following factors are used to determine housing needs:

- affordability – the relationship between income and current housing costs
- adequacy – the house's physical condition and structure
- suitability – house size in terms of occupants and overcrowding
- accessibility – the applicant's ability to access housing in the private sector market, taking discrimination into account
- sustainability – the ability to sustain housing in the private market.

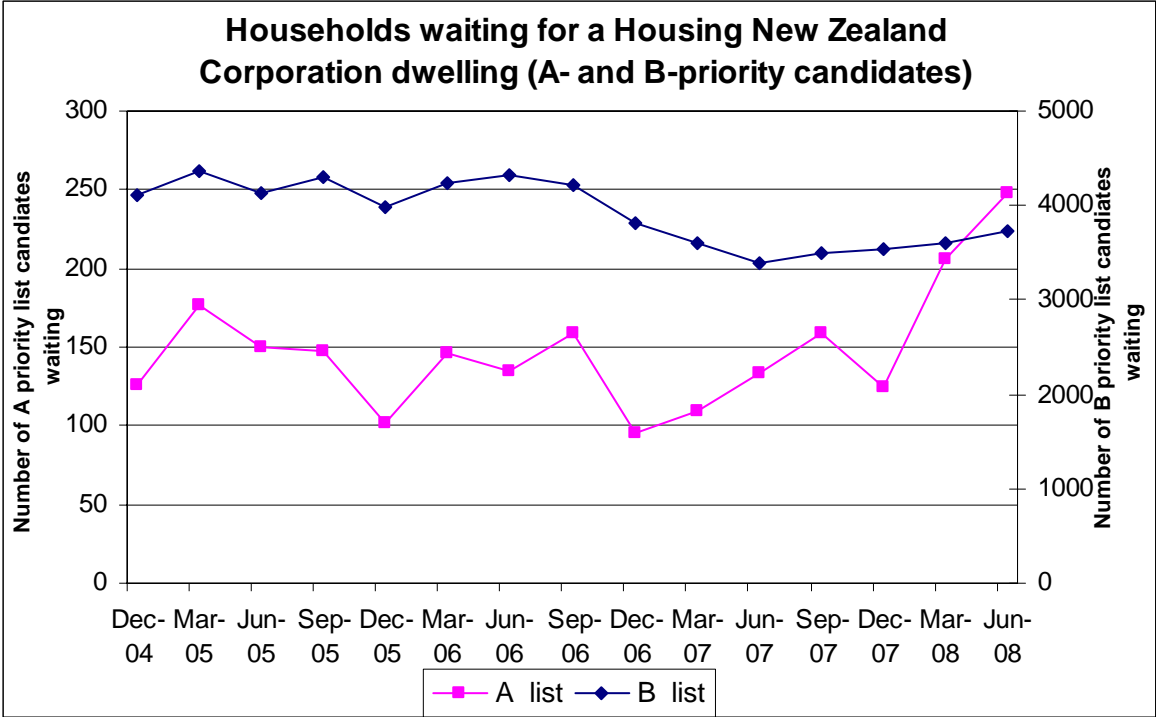
<sup>11</sup> 'A' priority households have severe and persistent housing needs that must be addressed immediately. The household's wellbeing is severely affected or seriously at risk due to housing circumstances that are unsuitable, inadequate or unsustainable, and there is an immediate need for action. The household is unable to access or afford suitable, adequate and sustainable housing without state intervention.

<sup>12</sup> 'B' priority households have a significant and persistent housing need. The household's wellbeing is affected in a significant and persistent way by housing circumstances that are unsuitable, inadequate or unsustainable. The household is unlikely, in the near future, to be able to access or afford suitable, adequate and sustainable housing without state intervention.

<sup>13</sup> 'C' and 'D' priority waiting lists are for households with low to moderate housing need.

Figure 10 shows that the A and B priority waiting lists increased from 3,811 applicants in March 2008 to 3,985 applicants in June 2008. The A waiting list increased from 206 applicants in March 2008 to 248 applicants in June 2008, which is higher than at any point in the past. The B list increased from 3,605 applicants in March 2008 to 3,737 in June 2008.

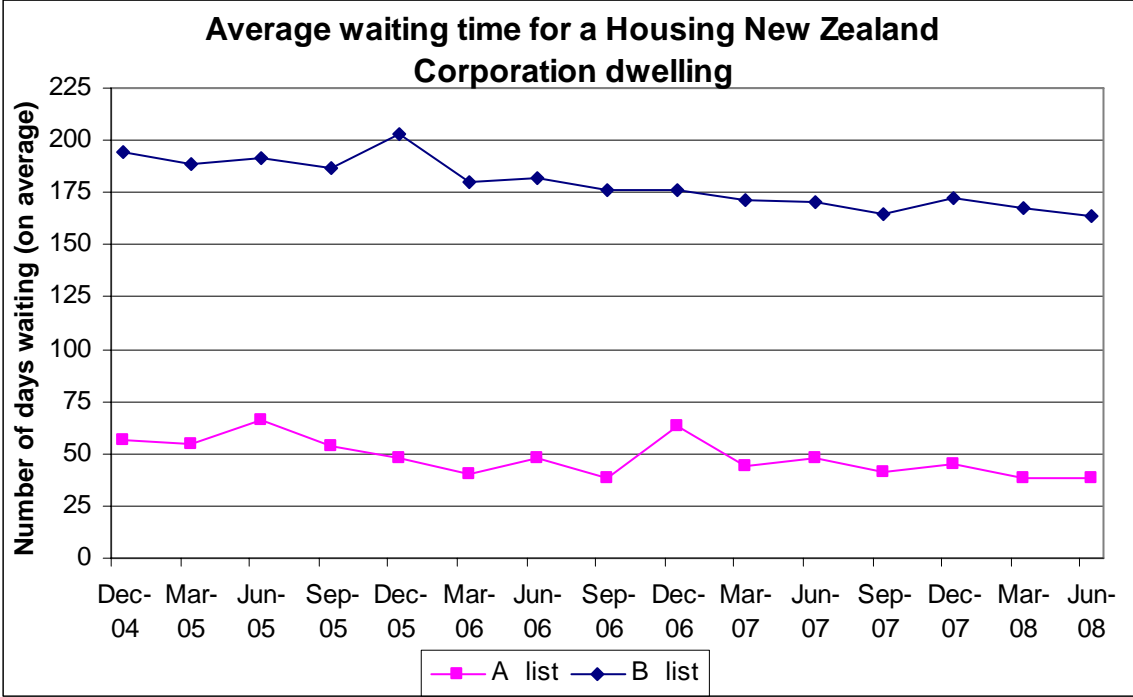
**Figure 10: Households waiting for a Housing New Zealand Corporation dwelling (A and B priority applicants)**



Source: Housing New Zealand Corporation

Figure 11 shows that the waiting time for A priority candidates on the Housing New Zealand Corporation waiting list remained constant at 38 days between March 2008 and June 2008. At the same time, the average time B priority applicants waited for a property fell from 168 days in March 2008 to 164 days in June 2008, continuing a long-run trend of declining waiting times. Combined with the total waiting list data, this suggests that demand for Housing New Zealand Corporation properties is increasing but being met more quickly, which is keeping waiting times down.

Figure 11: Average waiting time for a Housing New Zealand Corporation dwelling



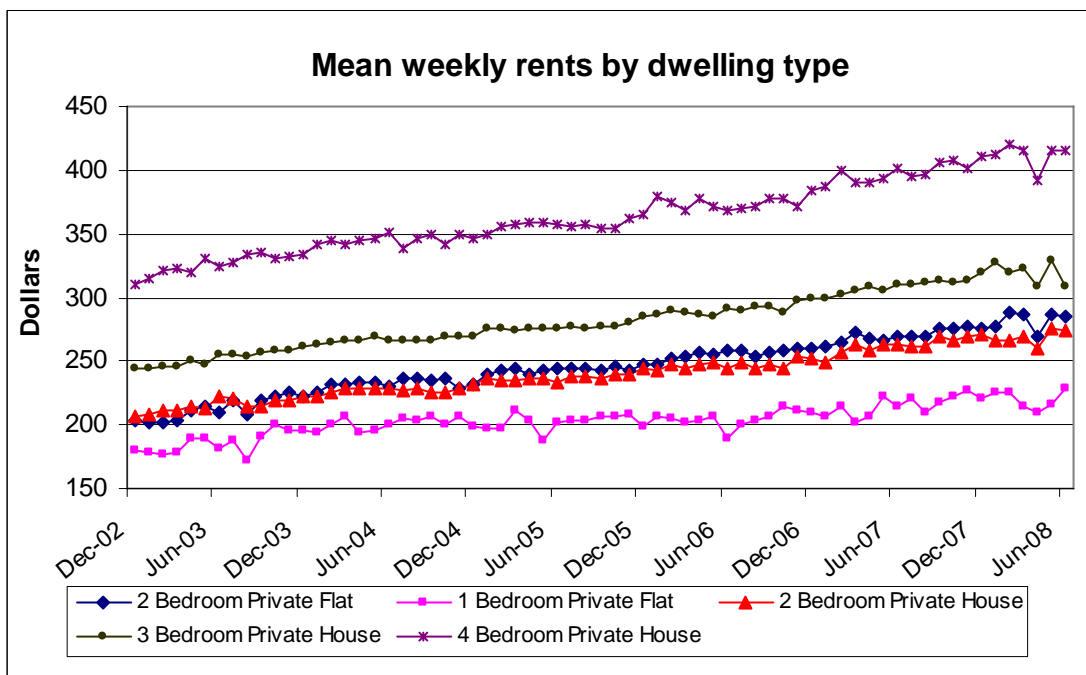
Source: Housing New Zealand Corporation

## Market rent analysis

Tenancy bond data shows that for most dwelling types, average weekly rents continue to rise for new private rental tenancies. In June 2008, the average weekly rent was \$229 for one-bedroom flats, \$285 for two-bedroom flats, \$274 for two-bedroom houses, \$308 for three-bedroom houses and \$416 for four-bedroom houses.

In the year to June 2008, the private market rent for a one-bedroom flat grew the most at an annual rate of 6.5 percent, followed by a two-bedroom flat at 5.6 percent, a two-bedroom house at 4.2 percent, and a four-bedroom house at 3.5 percent. The rent for a three-bedroom house decreased 0.6 percent over the same period.

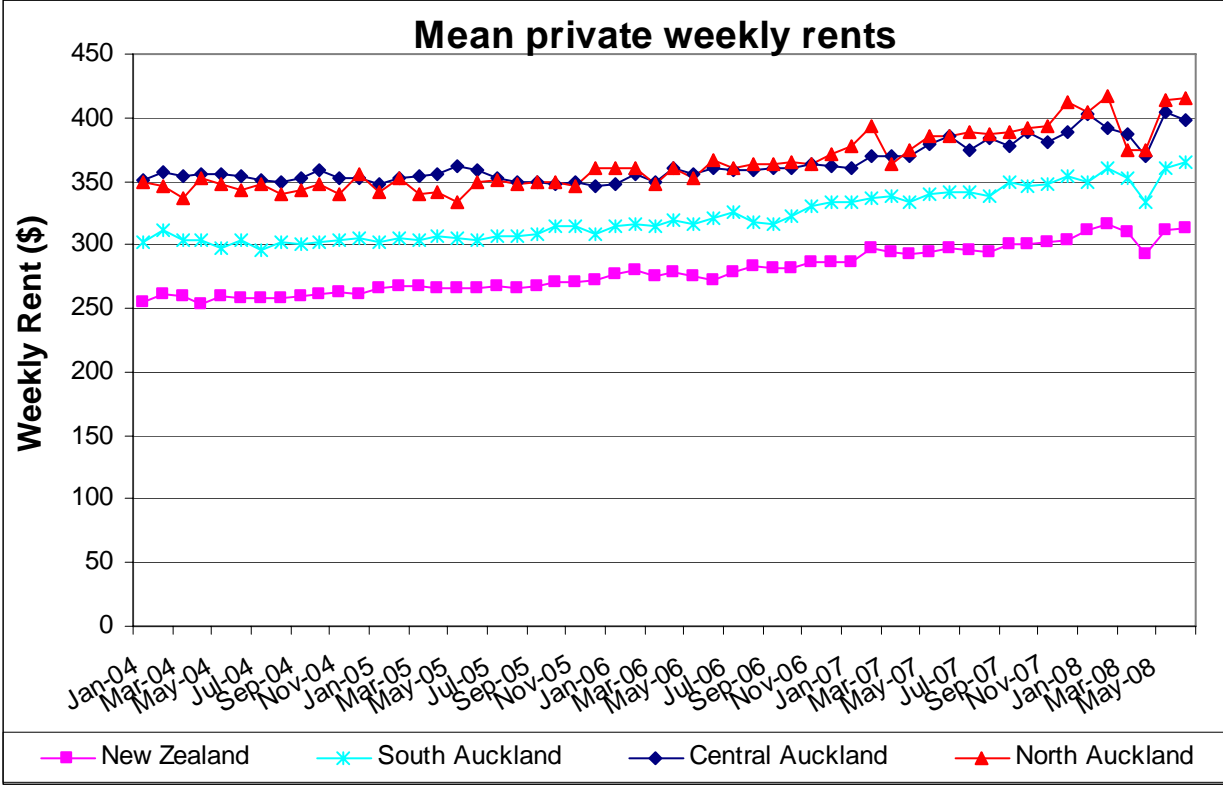
**Figure 12: Mean weekly rents by dwelling type**



Source: Department of Building and Housing

Overall, rents continue to increase. In the year to June 2008, mean rents for new tenancies increased by 5.4 percent. Over the same period, rents for new tenancies increased by 7.8 percent in North Auckland, 3.4 percent in Central Auckland and 7.0 percent in South Auckland. At a national level, the rate of rent increases for newly established tenancies remained constant during the June quarter.

Figure 13: Mean private weekly rents



Source: Department of Building and Housing

# The building sector

## All building activity

Statistics New Zealand’s quarterly data on ‘building work put-in-place’ puts an estimated gross dollar value on actual building work performed on residential and non-residential buildings. Figure 14 shows that the trend for the inflation adjusted value of all ‘building work put-in-place’ has been rising since the September 2006 quarter.

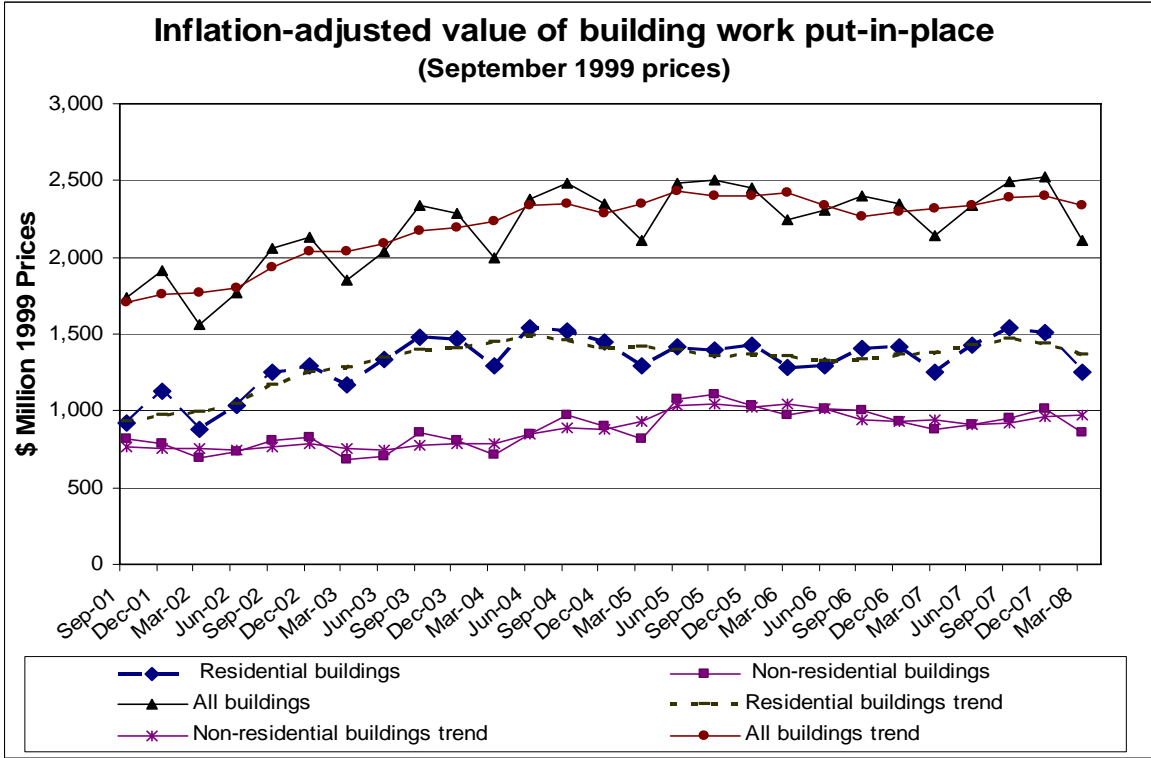
The inflation-adjusted value of all ‘building work put-in-place’<sup>14</sup> fell by 1.3 percent from the March 2007 to the March 2008 quarter. This decrease is consistent with GDP data, which indicates that construction industry output decreased by 1.6 percent in the same period.

Trend values for inflation-adjusted residential building work have decreased for the last two quarters, following a period of increases from the September 2006 quarter.

Trend values for inflation-adjusted non-residential building work have increased for the last three quarters, following a general decline from a high point in the September 2005 quarter.

Building activity continues to be largely driven by residential building work, which contributed 62 percent to the unadjusted value of all building work put-in-place in the March 2008 quarter. This is below the peak of 67 percent in the June 2003 quarter, and is a decline from 63 percent in the December 2007 quarter.

**Figure 14: Inflation-adjusted value of building work put-in-place (updated)**



Source: Statistics New Zealand

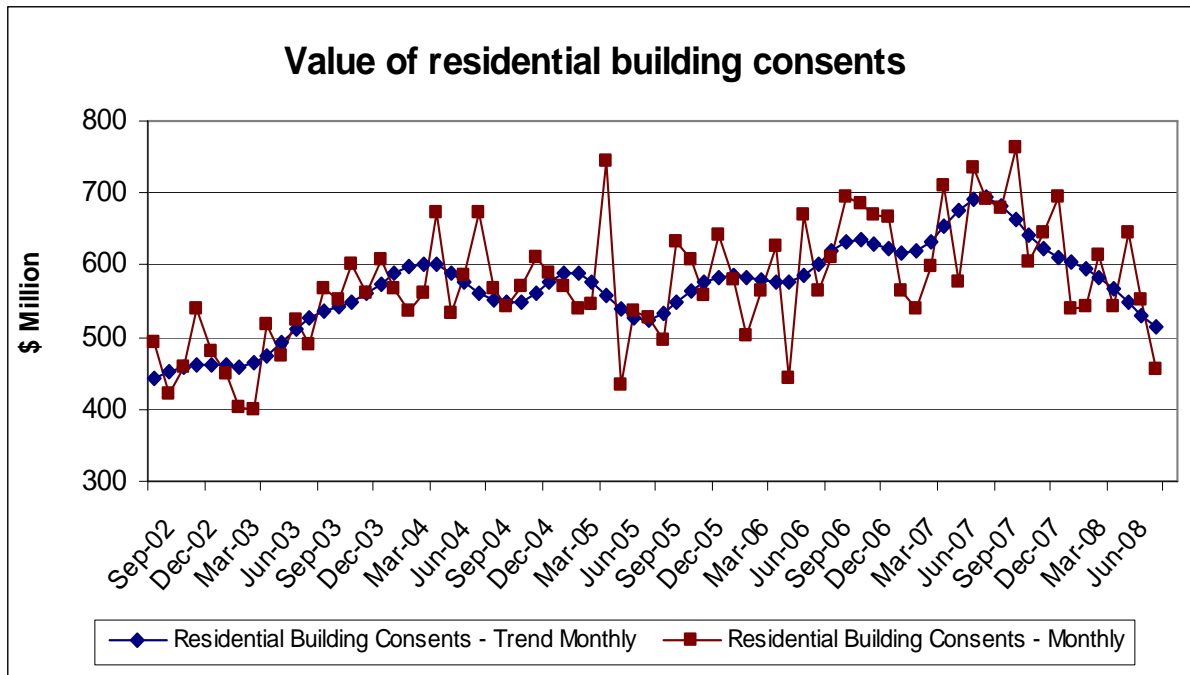
<sup>14</sup> The real value of building work put-in-place refers to values adjusted for price inflation (constant price values at September 1999 quarter prices). Data available up to the December 2007 quarter is used in this instance.

## Residential building

An indication of the volume of building work likely to occur in the future can be gained from monthly data on building consents granted by territorial authorities. Building consents data obtained from Statistics New Zealand reflects consents valued at \$5,000 or more, is in current values, and is for the June 2008 quarter.

The unadjusted value of all residential building consents issued<sup>15</sup> in June 2008 was 34.2 percent lower than in June 2007. The trend value of all residential building consents has continued to decline from its peak since August 2007.

**Figure 15: Value of residential building consents (updated)**

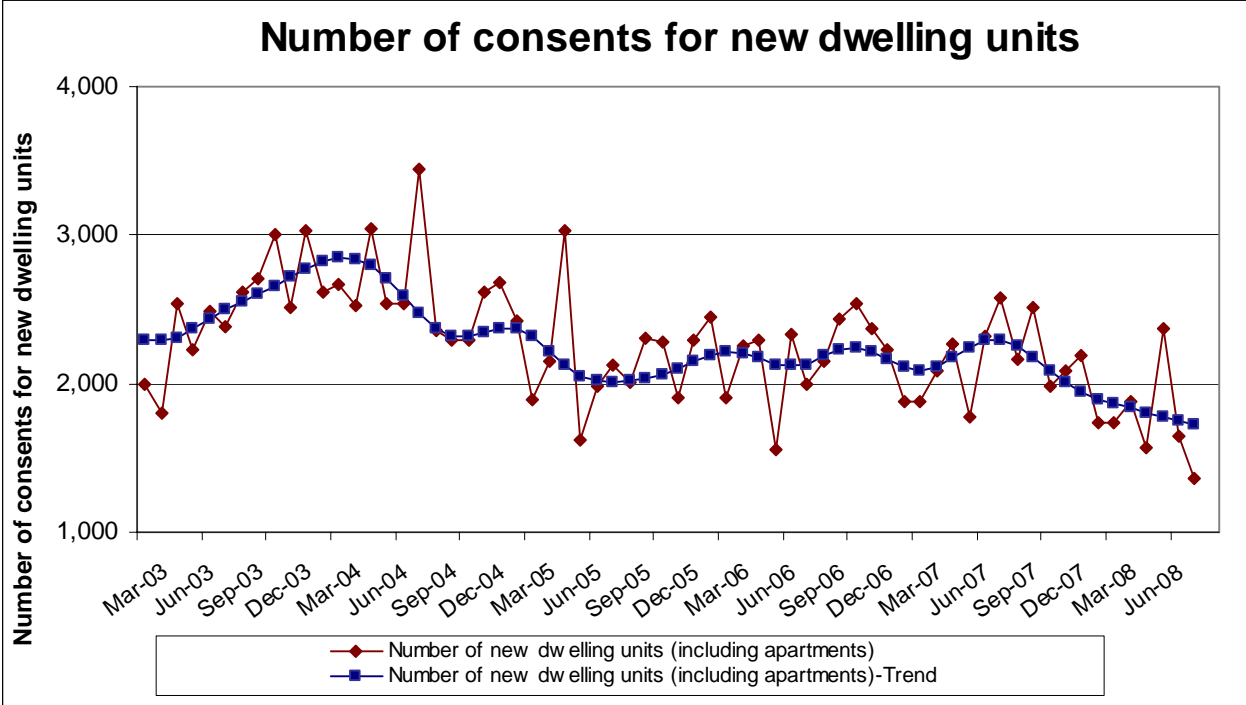


Source: Statistics New Zealand

<sup>15</sup> New residential buildings including outbuildings, plus alterations and additions.

The number of new dwellings authorised has been on a downward trend since June 2007. This trend continued in June 2008, when the unadjusted number of consents for new dwelling units (including apartments) authorised was 47.1 percent lower than in June 2007.

**Figure 16: Number of consents for new dwelling units (updated)**

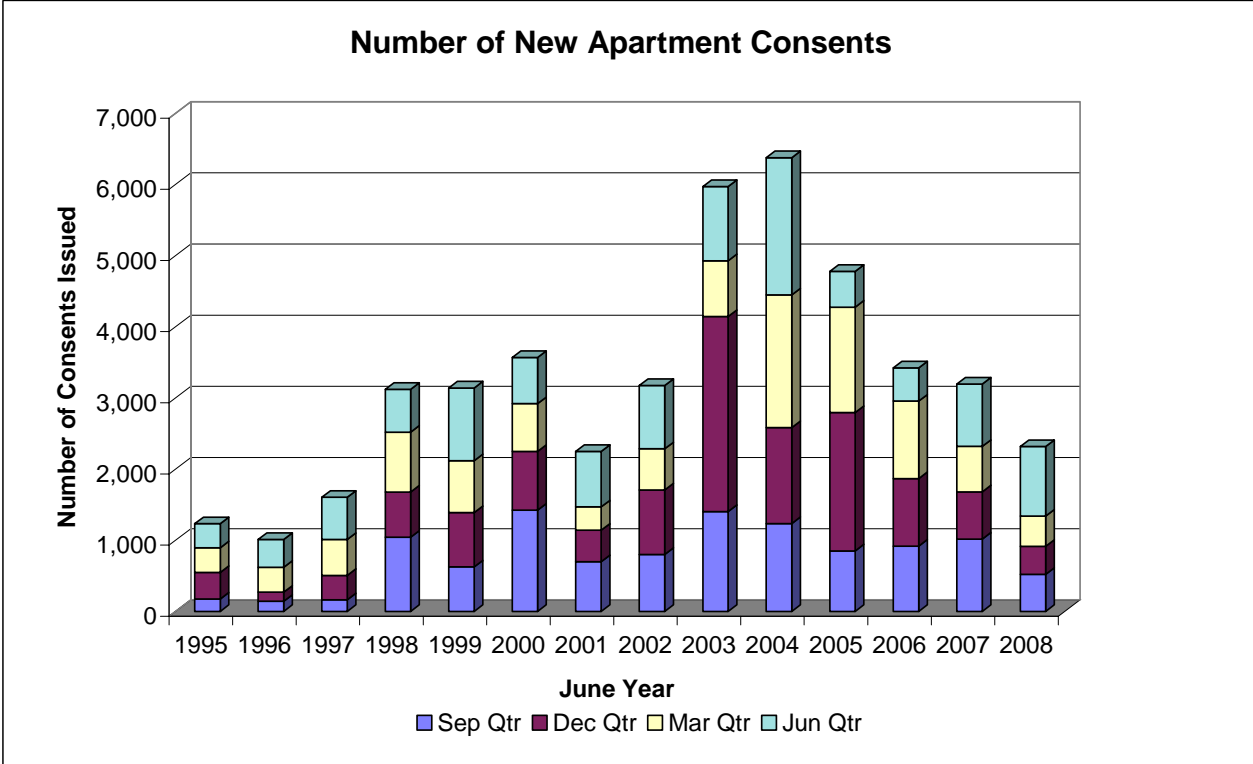


Source: Statistics New Zealand

The number of authorised apartment units can vary considerably from month to month. The number of apartment consents issued in June 2008 was 82 percent lower than in June 2007. 7.4 percent of new dwellings authorised in June 2008 were apartments, compared with a monthly average of 10.2 percent in the 12 months to June 2008.

The annual number of authorised new apartment building consents declined by 26.1 percent to 2,359 in the year ended June 2008, from 3,194 in the year ended June 2007.

**Figure 17: Number of new apartment consents (updated)**



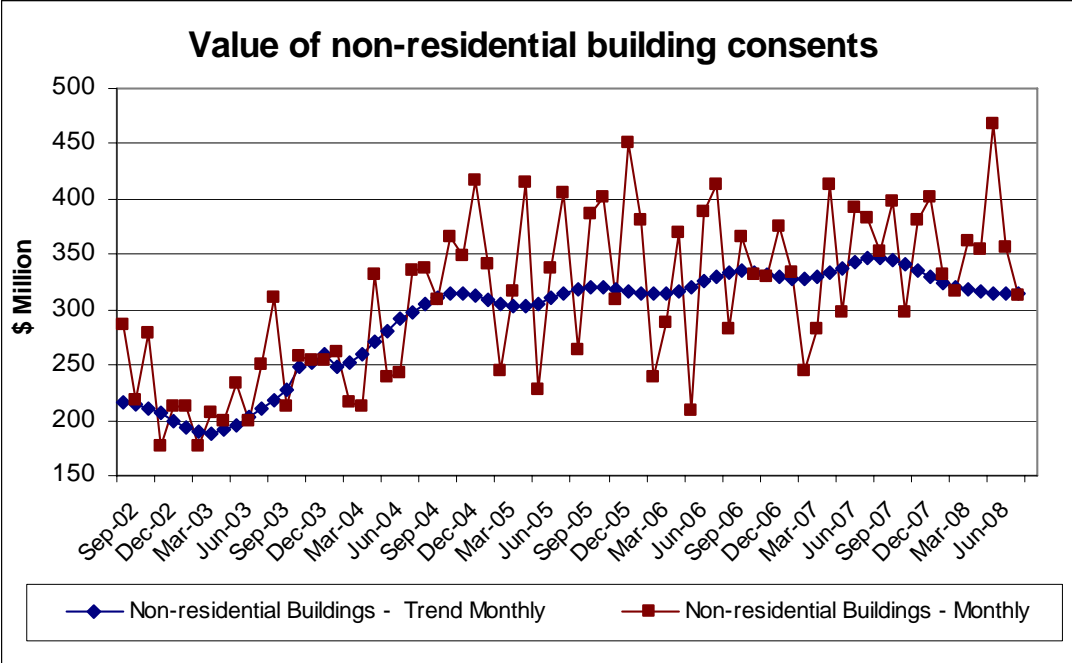
Source: Statistics New Zealand

### Non-residential building

The actual value of non-residential building consents decreased by 18.1 percent in June 2008, when compared to June 2007. The largest declines were in the ‘shops, restaurants and taverns’ and ‘social, cultural and religious buildings’ categories<sup>16</sup>.

For the year ended June 2008, \$4.33 billion worth of non-residential building consents were issued, which is an increase of 7.4 percent from the June 2007 year.

**Figure 18: Value of non-residential building consents (updated)**



Source: Statistics New Zealand

<sup>16</sup> The remaining categories for non-residential building are ‘hostels and boarding houses’, ‘hotels, motels, etc’, ‘hospitals, nursing homes’, ‘education buildings’, ‘offices and administration buildings’, ‘storage buildings’, ‘factories and industrial buildings’, ‘farm buildings’ and ‘miscellaneous buildings’

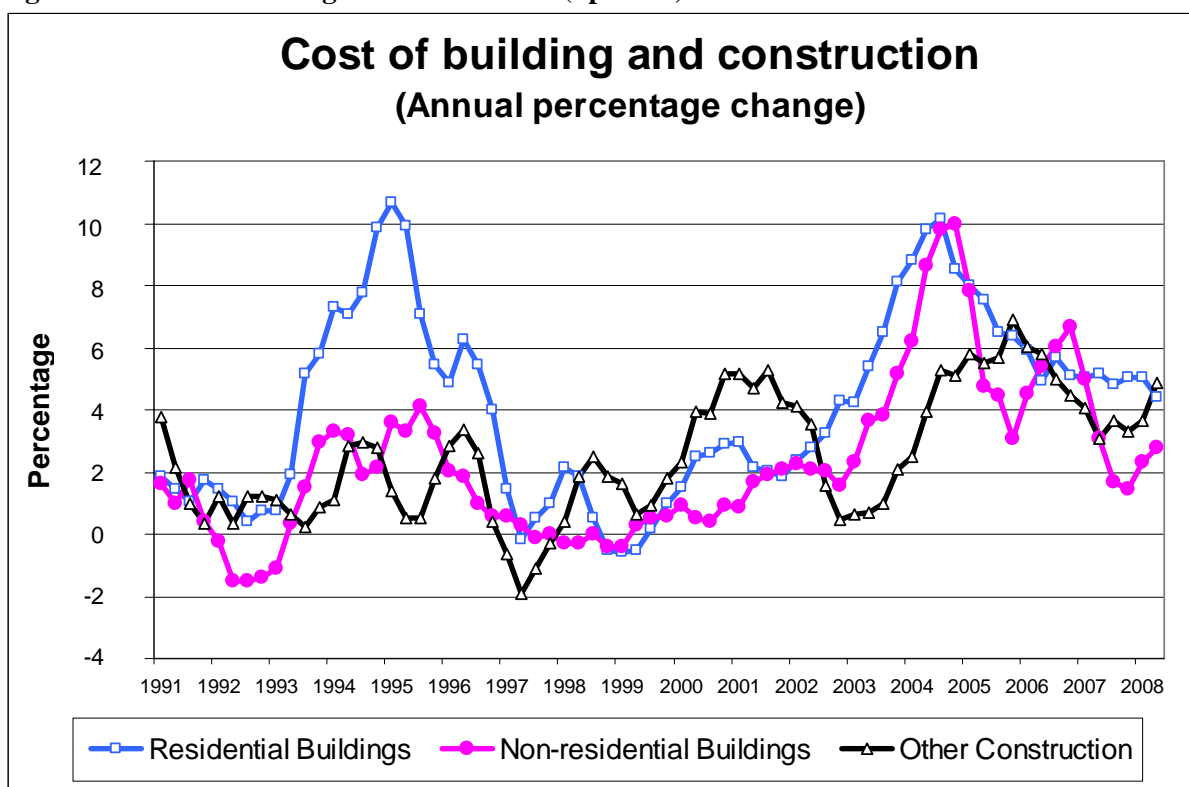
## Building costs

The various building cost indicators for capital, production and labour costs indicate that there are inflationary pressures in the construction industry.

The Capital Goods Price Index (CGPI) measures movements in price levels of various fixed capital assets in the economy. In the June 2008 quarter, CGPI increases were higher for residential building and other construction than for other industries. In the year to the June 2008 quarter, the CGPI increase for residential building was 4.4 percent, the increase for non-residential building was 2.8 percent, and the increase for other construction was 4.9 percent. The increase for the overall CGPI in the year to the June 2008 quarter was 3.1 percent.

The most common explanation cited for the increase in residential building costs was higher prices for construction components. Higher non-residential building costs are explained by higher prices for reinforcing steel products and increased costs for structural steelwork in the construction of shops, offices, warehouses and factories. Higher raw material costs for pipes in construction of urban drainage and sewerage systems, and increases in suppliers' prices for components needed for telecommunication works are the main reasons for the increase in other construction costs.

Figure 20: Cost of building and construction (updated)



Source: Statistics New Zealand

Another cost indicator, the Producers Price Index (PPI), measures change in the levels of prices for the production sector of the economy. The PPI comprises output indices<sup>17</sup> (which measure

<sup>17</sup> The PPI output indices cover the prices of primary products, manufactured goods, revenue from renting and leasing, the provision of services, capital work undertaken by own employees and margins on goods purchased for resale. The output indices

change in prices received by producers) and input indices<sup>18</sup> (which measure changes in the cost of production, and exclude labour and capital costs).

The PPI input index for the construction industry increased by 6.4 percent in the year to the June 2008 quarter. The PPI output index for the construction industry also rose by 6 percent in the year to the June 2008 quarter.

The increases in the PPI indices for the construction industry were higher than those for the overall PPI. In the year to June 2008 and for all industries, PPI inputs increased 11.8 percent and PPI outputs increased 8.5 percent.

The Labour Cost Index (LCI), which records changes in salary and wage rates, showed an increase of 3.4 percent for the construction industry and 4.0 percent for trade workers in the year to the June 2008 quarter. The increase in the LCI for all industries and occupations in the year to the June 2008 quarter was 4.0 percent.

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exclude interest and dividends, royalties and patent fees, receipts from insurance claims, government cash grants and subsidies and GST and other indirect taxes.

<sup>18</sup> The PPI input indices cover the prices of materials, fuels and electricity, transport and communication, commission and contract services, rent and lease of land, buildings, vehicles and plant, business services, insurance premiums less claims. The output indices exclude wages and salaries (measured in the Labour Cost Index), capital expenditure (measured in the Capital Goods Price Index), ACC levies, land tax, government licence fees, road user charges, rates, royalties, patent fees and bad debts and donations.

# Other developments in the building and housing sector

## Weathertightness

The following information provides a 'snapshot' of recent developments in weathertight services.

In 2007/08 the Weathertight Services Group:

- received and processed claims for 1,029 dwellings
- commissioned 1,230 assessments and addenda of leaky homes, quantifying the extent and cause of claimants' homes leaking, cost to repair, and identifying parties to each claim
- spent a total of \$9.04 million on assessments<sup>19</sup>
- successfully mediated 71 cases lodged with the Weathertight Homes Tribunal (the Tribunal)
- commenced the second phase of the development of the Weathertight Consumer Awareness Programme which will continue until the end of the calendar year
- provided advice and presentations to 203 claimants during 2007
- closed 650 claims, and reduced the number of claims on hold from 2,071 at 1 April 2007 to 577 at 30 June 2008

The June quarter accounted for claims for 384 dwellings and assessment and addendum reports for 310 dwellings of the annual total.

To date, the Weathertight Services Group has developed a communications action plan, the ConsumerBuild weathertight pages have been updated in liaison with Consumer NZ, and numerous websites that carry weathertight information have been brought up to date. Discussions have also been held with stakeholders, and articles have appeared in numerous journals.

Each claim requires either an eligibility or full assessment to be carried out. These assessments are carried out by a group of contracted experts, who are appointed based on their knowledge, skills and experience. These assessors' reports provide an accurate and thorough indication of damage by defect, including the nature of defect, location, cause, damage and estimate of cost to repair. This provides a basis for mediators or adjudicators to determine settlement. A detailed estimate of full remedial costs, provided by a quantity surveyor, adds to the rigour of the report.

The two methods generally used to resolve claims by the Tribunal are adjudication and mediation. Most claims are resolved by mediation. The details of the negotiated settlements are confidential to the parties, and are therefore not reported. In many cases it is agreed that a party will carry out repair work instead of paying money.

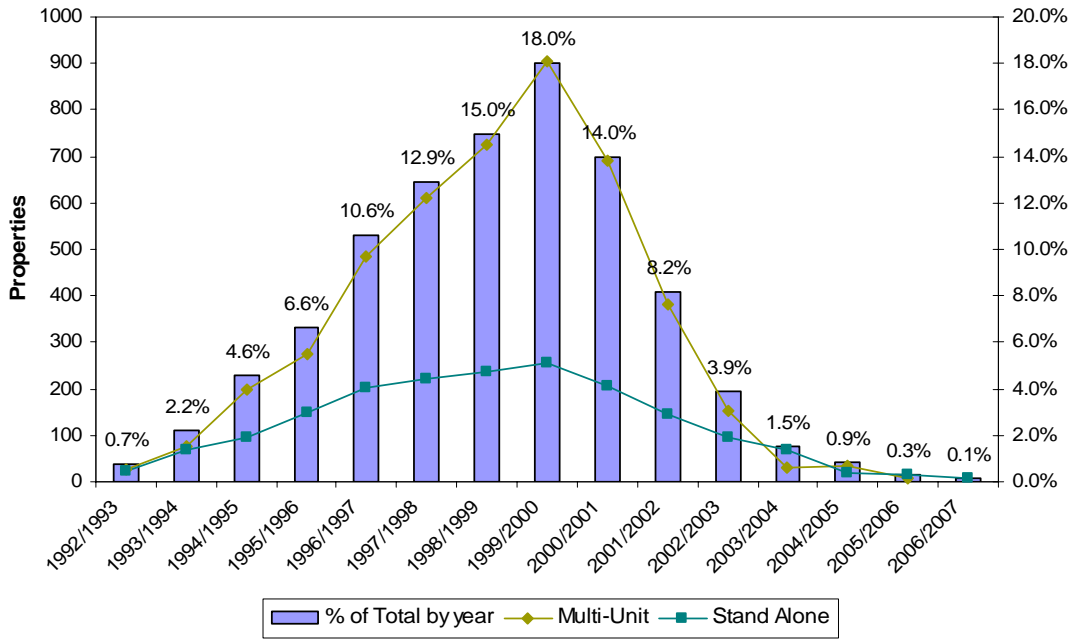
The outcomes of all adjudications are publicly available on the Ministry of Justice website.

However, it is necessary to point out that statistics of settlement outcomes either mediated or adjudicated by the Tribunal under-represent the actual Weathertight outcome. The Tribunal exists to resolve only those claims where the parties have been unable to reach agreement. Statistics of settlement outcomes therefore exclude the many instances where settlements have been privately negotiated between the parties, or where a satisfactory outcome has been addressed through other avenues. These parties have typically relied on the administrative resources of the Weathertight Homes Resolution Service to get to a point where settlement can be reached.

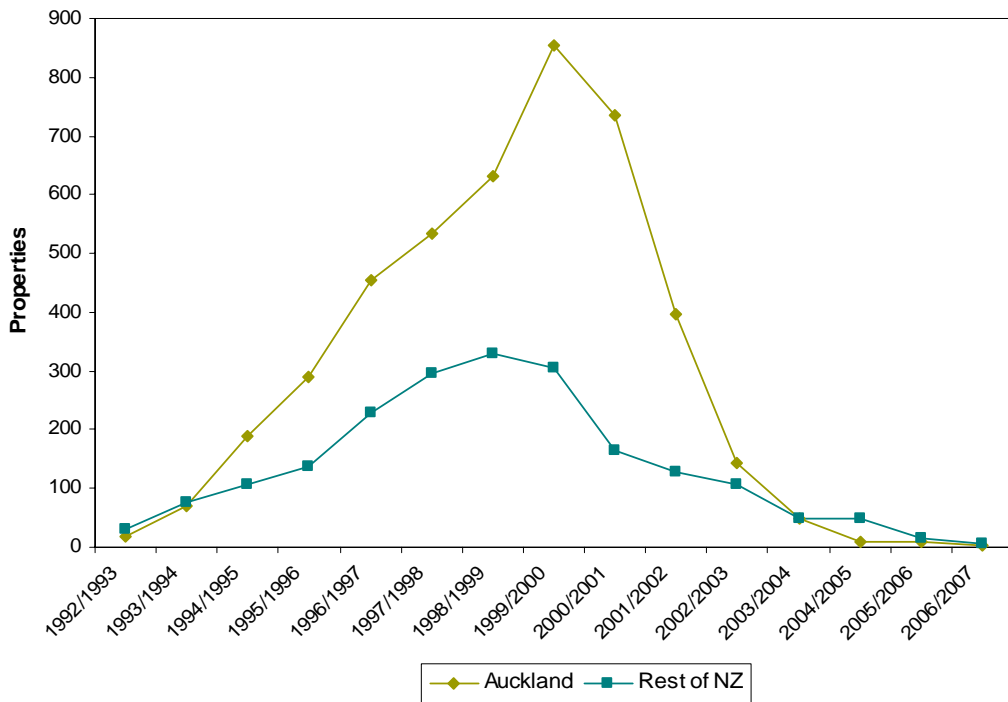
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<sup>19</sup> Claimants were charged only \$500 for their assessor's report (or \$1,500 for multi-unit assessor reports).

### Properties with WHRS by type and the year built or altered



### Properties with WHRS by location and the year built or altered



## Building Act determinations

The Building Regulations contain the New Zealand Building Code, and the Building Act 2004 contains rules about building consents and inspections. The Department sometimes receives requests to clarify interpretations of the Building Code and territorial authorities' functions and powers under the Building Act. The Department then decides on the request (that is, makes a determination) about a particular situation.

The number of determinations has increased since 2003. As at 25 August 2008, the Department had processed a total of 583 determinations. Approximately 72 percent of these were related to cladding and weathertightness issues.

**Table 2: Building Act Determinations 2003–2007**

Calendar year	2003	2004	2005	2006	2007	Up to 28 Aug 2008
Cladding/weathertightness	1	68	144	89	80	43
Access and facilities for people with disabilities	5	2	4	4	4	7
Fire safety	1	2	8	5	1	2
Surface water	2	2	0	5	0	1
Swimming pool fencing	1	0	2	4	4	0
Structure/ durability	0	1	1	1	6	5
Interior environment and facilities	0	1	2	1	3	3
Land subject to natural hazards	0	1	1	3	2	0
Barrier	1	0	3	2	1	3
Other (eg, refusal to issue a code compliance certificate, modification of building consent)	0	0	1	15	40	17
Total	11	77	166	129	141	81

**Notes:**

- 1 'Cladding/weathertightness' refers to monolithic claddings and other related weathertightness matters.
- 2 'Access and facilities for people with disabilities' includes routes, ramps, lifts, toilets etc.
- 3 'Fire safety' determinations include matters such as emergency egress, fire cells, alarms, smoke detectors, and messaging to emergency services.
- 4 'Surface water' determinations concern stormwater and surface water run-off from one property to another.
- 5 'Swimming pool fencing' must comply with the Fencing of Swimming Pools Act.
- 6 'Structure' includes structure for safeguarding injury, loss of amenity and protection of other property.
- 7 'Interior environment and facilities' includes laundering facilities, personal hygiene facilities, and management of internal moisture.
- 8 'Land subject to natural hazards' refers to determinations concerning coastal erosion, and land subject to flooding and instability.
- 9 'Barrier' refers to desk barriers, stair balustrades and the like.
- 10 'Other' includes refusal to issue a building consent or a code compliance certificate for procedural reasons other than Building Code compliance.

Source: Department of Building and Housing

## **Update on the Department's work programme**

### **A) Building Code and Compliance Document development**

#### **Improved thermal performance requirements for houses in the lower North Island**

New requirements for improved thermal performance (insulation) in all new houses took effect in the North Island, south of the Franklin and Thames-Coromandel Districts, on 30 June 2008. The remainder of the country (Thames-Coromandel, Franklin, Auckland and areas north) followed on 30 September 2008. The new requirements took effect in the South Island and the North Island Central Plateau last year.

#### **Consultation on the proposed Compliance Document for simple housing**

In June 2008, the Department sought public comment on a proposed Compliance Document for simple housing.

The objective of the Compliance Document is to provide in one place, all the information and requirements necessary to produce a simple, affordable house. This will make it easier for designers, builders and building officials to deliver such projects. A further objective is to promote simplification, standardisation and an appropriate choice of house sizes. The Compliance Document should be particularly beneficial to first home buyers (those in the "starter" market), retirees who are downsizing their property, or anyone who wants a standard, simple house.

The proposed Compliance Document is different from existing Compliance Documents, in that it includes all the Building Code requirements for this specific building type, rather than providing a means of compliance with individual Building Code Clause(s). By bringing this information together in a single document, the Compliance Document aims to encourage efficiencies in the delivery of simple houses.

Considerable industry input went into the development of the proposed Compliance Document. The Department has worked closely with a Sector Reference Group, comprised of representatives of the industry (including builders, developers and designers), and councils.

#### **New loading Standard referenced**

The Department referenced the new loading Standard AS/NZS 1170 in June 2008 by including it in Verification Method 1 under the Building Code Clause B1, Structure. This decision followed extensive public consultation.

The new Standard, which is in five parts, reflects the latest understanding of structural loads, including those imposed by earthquakes.

The Department has cited the Standard with amendments to make it suitable for use as a Verification Method.

Highlights of the new Verification Method include:

- the design process must involve an experienced structural engineer, such as a Chartered Professional Engineer (CPEng)
- the loads on vehicle barriers in buildings have been increased by a factor of three or more
- snow loads for Canterbury, Otago and Southland are higher

- earthquake resistance requirements in low seismic hazard areas may be reduced where the project is large enough to justify a special study
- a 0.5 kPa wall face load that applies when wall support is removed following a fire (that was in NZS 4203, but not in AS/NZS 1170.1) has been reinstated
- the *Design of Reinforced Concrete Masonry Structures Standard*, NZS 4230: 2004, is cited in place of the 1990 edition
- rules for loads on balustrades have been clarified.

The new Verification Method takes effect on 1 December 2008, following a six-month transitional period.

## **Backcountry huts**

In May 2008, the Department sought public comment on proposals to change the New Zealand Building Code to simplify consenting for Department of Conservation (DoC) backcountry huts. Consultation on the proposals closed in late June.

DoC manages almost 1,000 backcountry huts throughout the conservation estate. They have been used by generations of domestic and foreign visitors alike, and are a major part of New Zealand's cultural identity. Many backcountry huts will be due for replacement in the next few years.

Backcountry huts provide essential shelter and are used by fully independent, physically fit visitors. To ensure that consenting requirements for backcountry huts reflect their special character, they would be exempt from certain requirements that apply to other buildings, but that are not consistent with the huts' intended use and the profile of their visitors.

Under the proposals, backcountry huts would not need to have smoke alarms, potable water supply, artificial lighting, and ramps and accessible toilets for wheelchair users.

## **B) Guidance**

### **Guidance on citing the new Loading Standard**

The Department published a practice advisory for users of the new Verification Method for Structure, explaining its most important features and the changes from the previous Standard. This was widely distributed, particularly to structural engineers.

### **New online calculator for toilet facilities in buildings**

The Department has published a new online calculator to help designers calculate the number of toilet facilities required in new public buildings and buildings that are undergoing a change of use. The calculator simplifies the complex manual calculation provided in Acceptable Solution G1/AS1. It will also simplify consenting and compliance checking by building consent authorities.

The online calculator uses two methods to calculate the number and type of facilities needed:

- the building type and the number of occupants
- the building type and occupant densities multiplied by the floor area of the building to get the number of occupants.

The calculator delivers a variety of options, including unisex and single sex facilities. Results can be saved in PDF format or printed.

The calculator is published as 'guidance', in accordance with section 175 of the Building Act 2004. It does not change any of the current requirements, which have been in place since 2000. Acceptable Solution G1/AS1 will still be needed to provide details, for example where toilets are needed, toilet layouts, privacy and accessible facilities.