



Department of
Building and Housing
Te Tari Kaupapa Whare

Building Industry Trends: January–March 2005



Published in July 2005 by
Department of Building and Housing, PO Box 10 729, Wellington, New Zealand.

This document is also available on the Department's website:
www.dbh.govt.nz

ISSN: 1176-8339

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Introduction

This is the fifth report about building industry trends produced by the Department of Building and Housing (the Department) and its predecessor the Building Industry Authority. It examines trends for the period 1 January 2005 to 31 March 2005.

The Building Industry Authority was subsumed into the new Department of Building and Housing (the Department) last year and, as a result, the Building Industry Trends publication is being extended to take into account the wider economic concerns of the new Department. In this publication an executive summary has been added along with a wider economic commentary, reflecting more closely the Department's areas of interest.

The Department is charged with ensuring that all New Zealanders have access to quality homes and buildings that meet their needs now and in the future.¹

This report is based on accessible information and forecasts generally available from central and local government agencies, and other organisations for the period to March 2005. It has been prepared in line with the Department's strategy to build and enable access to sector-related information and knowledge.

¹ Statement of Intent 2005/2008, Department of Building and Housing.

Executive summary

Building and construction activity

The New Zealand building and construction industry has experienced a period of high and increasing output thanks to: growth in population; the strength of the economy; relatively low mortgage rates; and social changes, which decrease the average number of people living per dwelling. Building and construction outputs are currently at high levels. The Reserve Bank in its March Monetary Policy Statement is expecting growth in building and construction to slow from current levels over the coming few years (Figure 1). The fall-off in overall growth is expected to be due primarily to residential house-building.

Residential building

The trend in monthly value of consents² declined in mid-2004 to a trough about 10 percent below the peak reached in January 2004. The trend then reversed around September and by the end of the March quarter trend monthly values were again higher than the January 2004 peak (Figure 2). However, Statistics New Zealand notes that the strong March consents figures may have been influenced by developers and others pushing forward the timing of applications for consents to avoid increases in application fees and new building requirements introduced in April through the Building Act 2004. Even though March quarter trend consent values were up somewhat, the Reserve Bank considered (in the March Monetary Policy Statement) that residential building would decline in real terms in the March 2006 and 2007 years (Figures 1 and 2).

Apartment consents have been volatile during recent quarters. Apartment consent numbers for the March year 2005 are around 190 percent above 4 years previously. Approximately 20 percent of dwelling consents were for apartments in 2004.

² In this publication, for simplicity of expression, 'consents' refers to the number of units covered by consents.

Figure 1: Construction industry growth compared with the national economy's growth

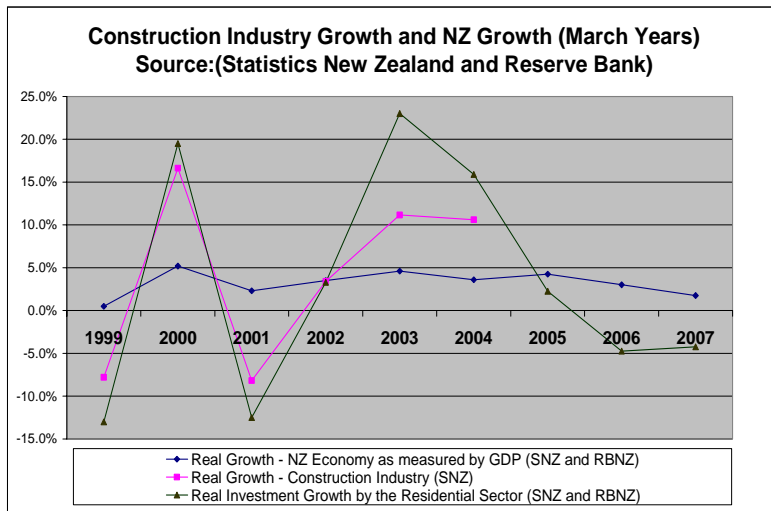
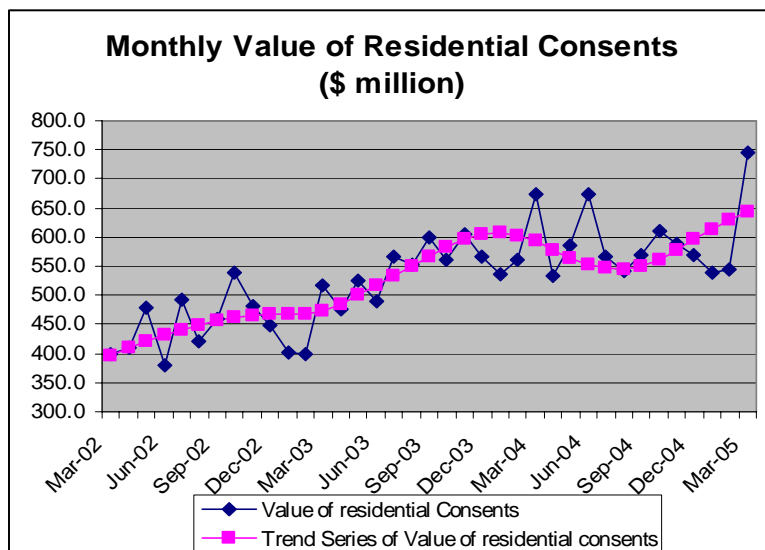


Figure 2: Residential consents



Source: Statistics New Zealand

Non-residential building

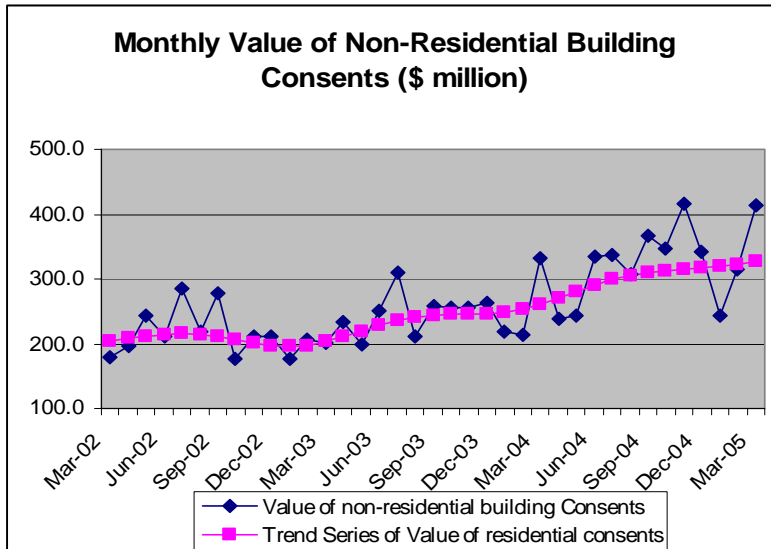
In contrast to the slowing of consents for residential construction over the middle of 2004, numbers of consents issued each month for non-residential construction increased (Figure 3). Consents translate later to actual non-residential building activity and so increasing consents in the March 2005 quarter will tend to increase actual building through the early part of the March 2006 year.

Building costs

Building costs have risen more rapidly than general inflation (Figure 4). Costs of building a small house increased by approximately 10 percent in calendar 2003, and 6 percent in 2004.

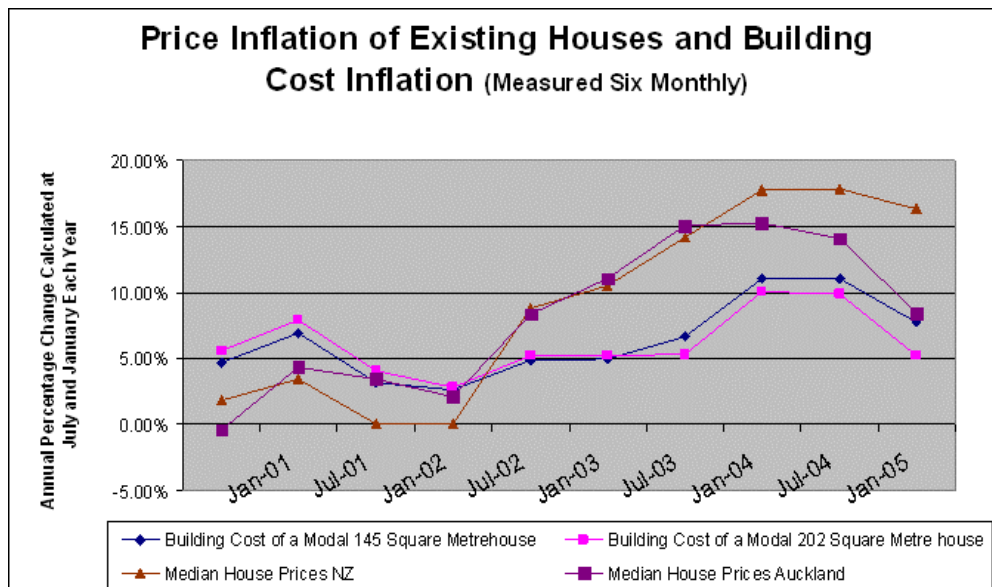
The real estate market has remained strong since 2001 according to the Real Estate Institute of New Zealand (REINZ) median prices (Figure 4).

Figure: 3 Non-residential consents



Source: Statistics New Zealand

Figure 4: Cost of houses and house building



Source: Department of Building and Housing and REINZ

Employment

The numbers employed in the industry have increased from around 110,000 in the late 1990s to around 160,000 at present (Figure 5). There are building trade skill shortages, but there are increasing numbers being trained.

Renting and home ownership

Rents are continuing to rise, but at a pace of around 3 percent per annum (Figure 6). The cost of owning and maintaining a house has risen more quickly than rents. This rise is driven by many factors including rising mortgage rates and the cost of building maintenance. As a result, the yield on rental properties has been falling.

The cost of operating a home is being driven upwards by a number of factors, including rising costs of fuel and building maintenance/construction (Figure 7).

Weathertightness

The number of claims being made to the Weathertight Homes Resolution Service (WHRS) continues to increase. Total active claims with the WHRS totalled 2167 at the end of March 2005, an increase of 244 on the 1923 active claims half a year earlier at 30 September 2004.

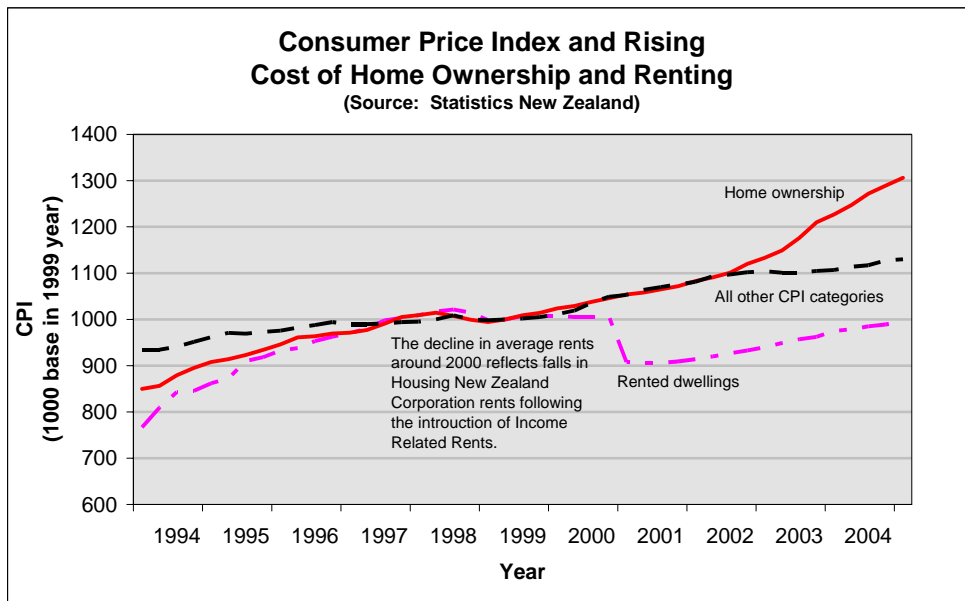
Claims arising in the Auckland area continue to far exceed claims in other regions. Over 60 percent of all claims arise there, while the Wellington area contributes approximately another 10 percent. The majority of active claims involve apartment complexes.

Figure 5: Employment



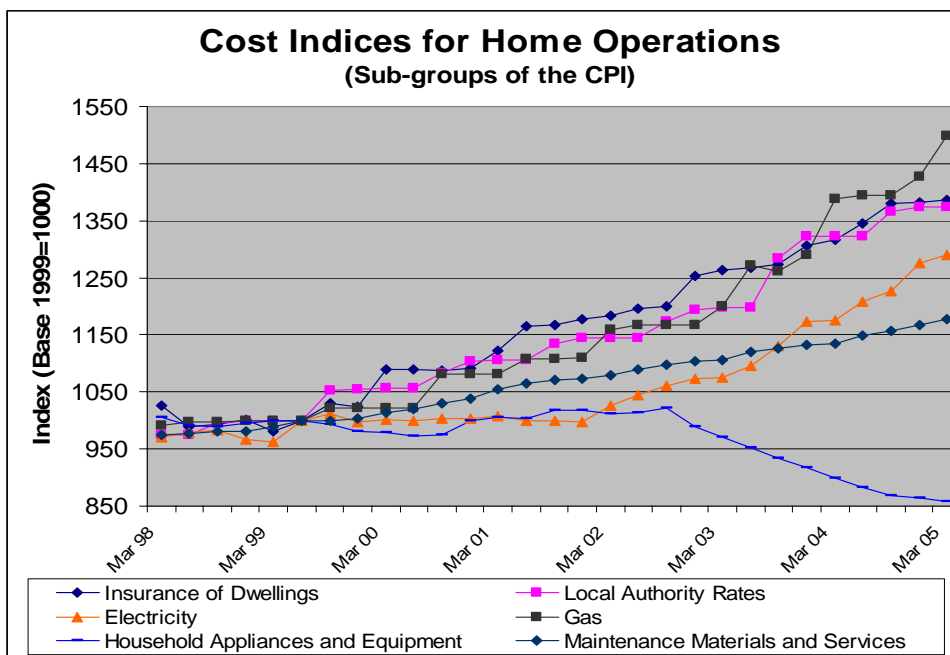
Source: Statistics New Zealand

Figure 6: The rising cost of accommodation



Source: Statistics New Zealand

Figure 7: The rising cost of home ownership and operation



Source: Statistics New Zealand

The Department records the year building consents were issued for leaky buildings. At present, the main period of failure appears to be 1993 to 2001, with 1994 the most frequent (Figure 8).

Weathertightness problems can take many years to surface. Over the 6 months to 31 March 2005 the number of claims relating to dwellings with consents issued in 1994 almost doubled from 117 at the end of September to 215.

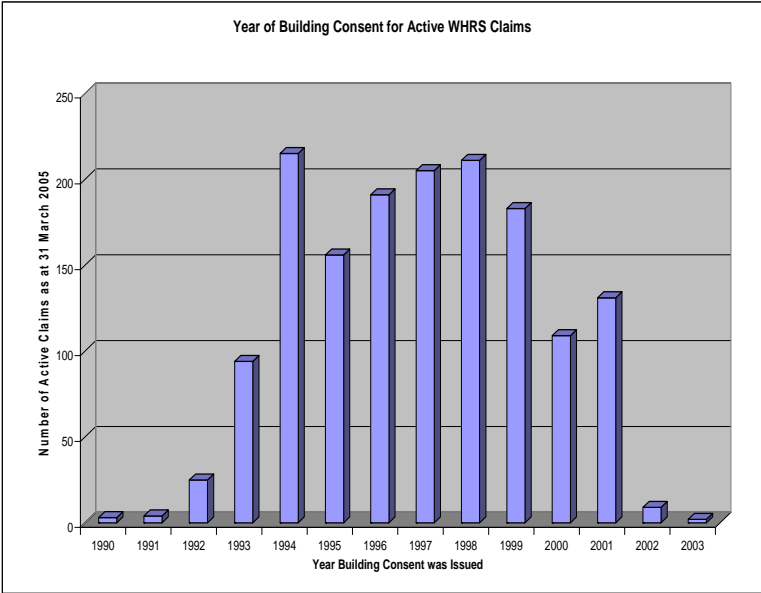
Regulatory outcomes

The 2003–2004 technical review of territorial authorities’ and certifiers’ regulatory building control work identified a number of areas where improvements are possible. These areas include resourcing of the regulatory work, weathertightness compliance, and the assessment of alternative solutions.

Housing wealth

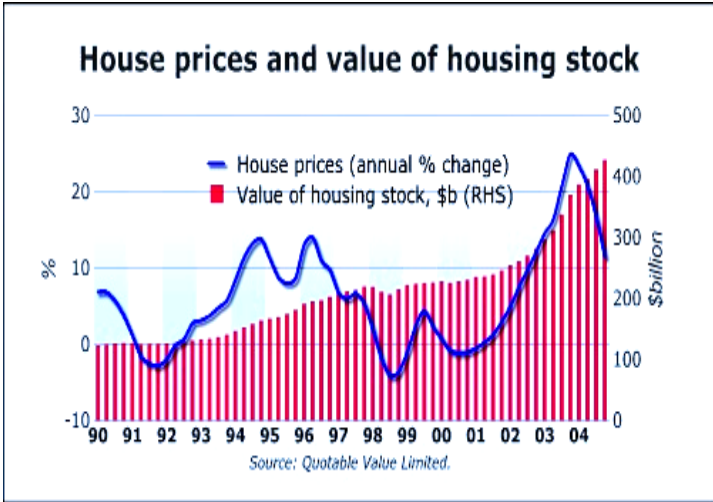
The Reserve Bank quantifies housing wealth, which it estimates exceeds \$400 billion. The rapid increase in this wealth since 2002 (Figure 9) has underpinned increasing household consumption. The Reserve Bank is expecting that house price inflation will slow over the coming years and that this will help to constrain household spending and slow domestic economic activity.

Figure 8: Year consents were issued for dwellings with claims at the Weathertight Homes Resolution Service



Source: Department of Building and Housing

Figure 9: Annual change in the value of houses and the value of all housing in New Zealand

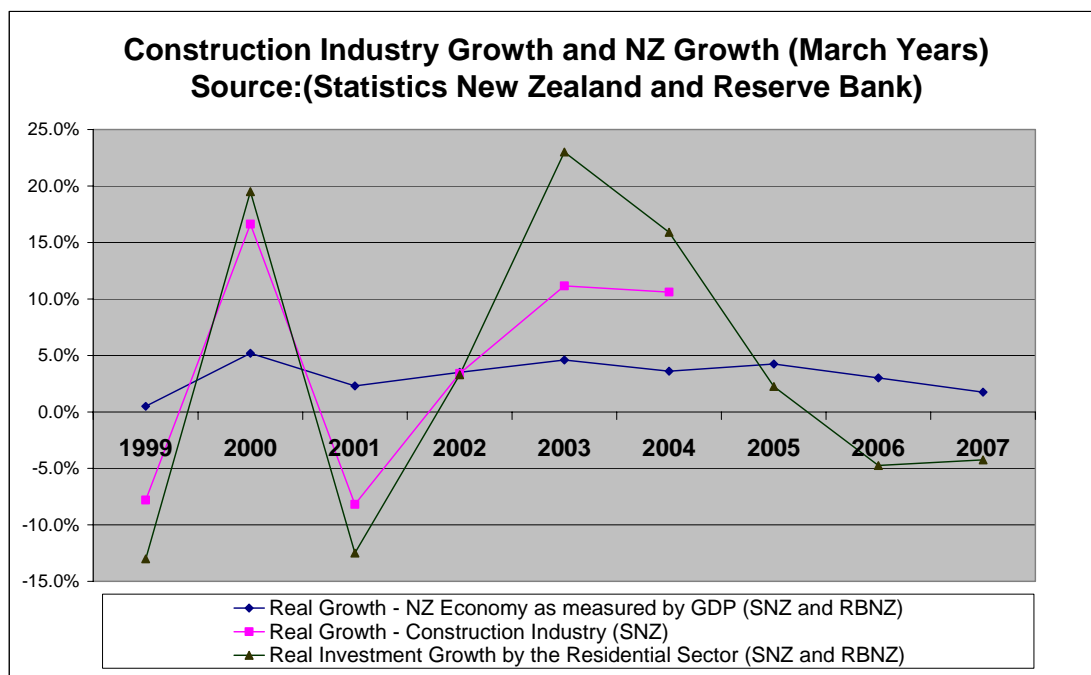


The economy

Industry outputs

In its March 2005 Monetary Policy Statement, the Reserve Bank forecasts³ that the current rapid growth in the New Zealand economy is likely to slow gradually as the high exchange rate, slower population growth and the lagged effect of the recent rises in interest rates take effect. The Reserve Bank is forecasting real growth of 3 percent in the March 2006 year, 1.75 percent in the March 2007 year and 2 percent in the March 2008 years.

Figure 10: Economic and construction industry growth (forecasts based on March Monetary Policy Statement from the Reserve Bank of New Zealand)



Residential buildings

Fixed residential sector investment (mainly residential buildings) has been strong in recent years. The Reserve Bank considers that residential building investment is likely to slow during the March 2006 year leading to falling real investment in dwellings. The Reserve Bank expects real declines in the residential sector's fixed investment of: 4.75 percent in the March 2006 year, 4.25 percent in the March 2007 year and then a small rise of 0.5 percent in the March 2008 year. However, the Reserve Bank notes that residential building might not decline soon if a backlog of building work maintains production.

³ Unless otherwise stated the forecasts in this publication refer to information from the March Monetary Policy Statement of the Reserve Bank.

Non-residential buildings

Business investment picked up strongly over 2004, encouraged by capacity constraints, strong domestic demand and the higher exchange rates. However, the Reserve Bank expected when publishing the March Monetary Policy Statement that the recent surge in non-residential construction activity will continue apace into early 2005 before slowing thereafter.

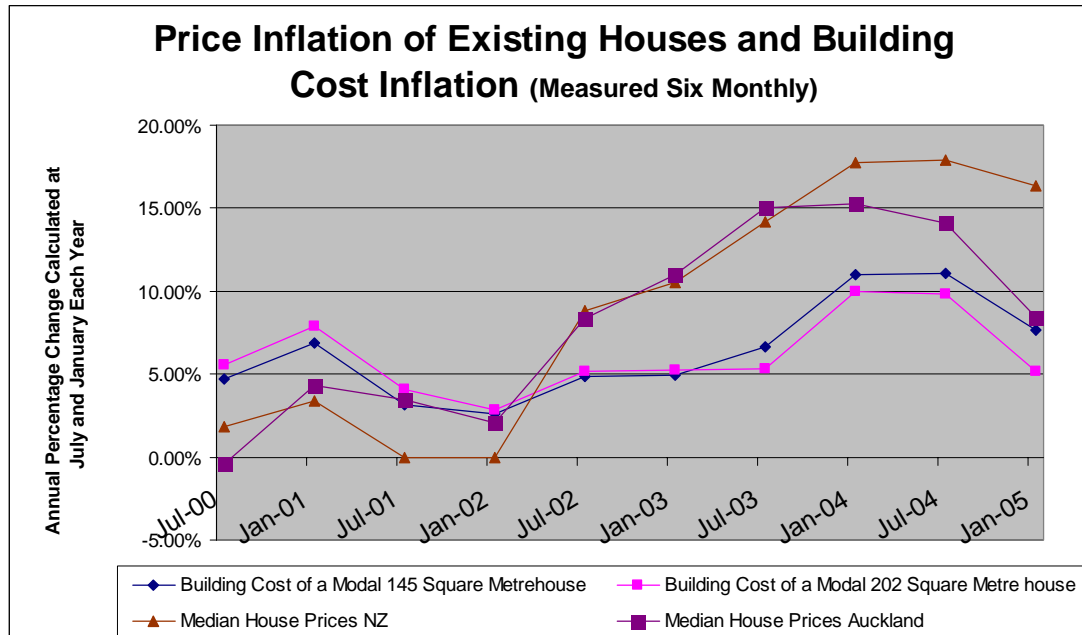
Infrastructure investment

Fixed investment (mainly infrastructure) by the government sector is forecast to increase by 4.5% in the March 2006 year, 3.75 percent in the March 2007 year and a further 1.75 percent in the March 2008 year according to the March Monetary Policy Statement. This investment should help to maintain demand for construction industry outputs.

House and building costs

According to median house price sale data from the Real Estate Institute of New Zealand (REINZ), annual existing house price inflation stood at 20 percent to 25 percent around the end of 2003. The rate of annual increase slowed in 2004 and stood at 16 percent at the end of January 2005.

Figure 11: Residential building price and cost inflation



Source: Department of Building and Housing and REINZ

Building costs have also increased over the last few years, but at a much slower rate than existing house price inflation. The increase in house prices relative to the cost of building will have encouraged people to build new houses and carry out alterations to their current homes, thus supporting the high levels of residential investment seen over the past 2 years. The costs of addressing the weathertightness issues and improved regulation of the construction and building industry may put some slight upward pressure on the costs of building.

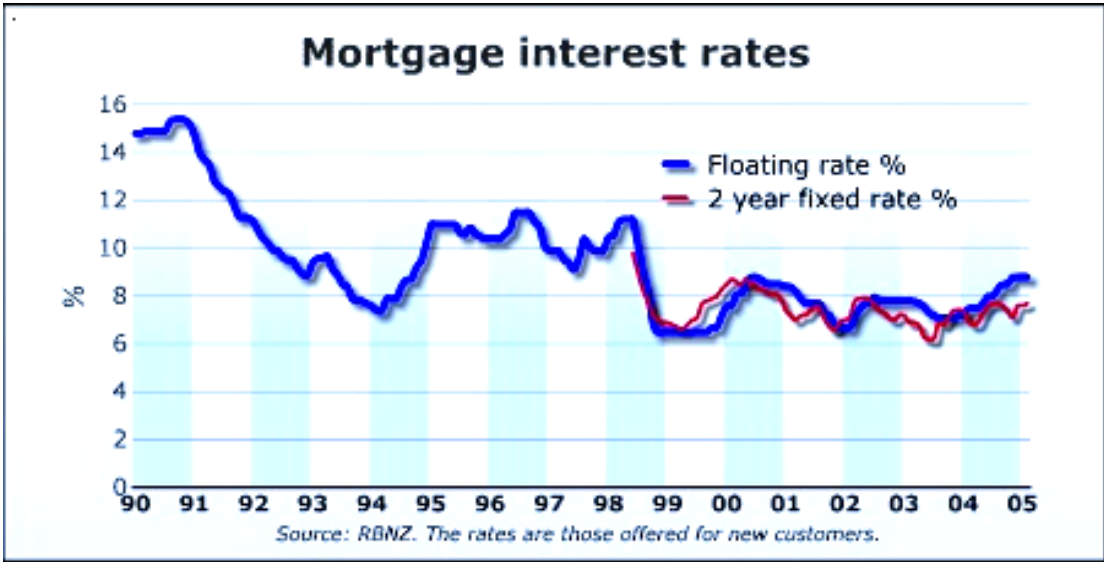
Labour supply

The building trades labour market was tight in March, with strong employment growth and increasing numbers of employees up-skilling. Unemployment for the economy fell to 3.6 percent in the December 2004 quarter, a level not seen since the early to mid-1980s but increased to 3.9 percent in March, which is still a low level. Looking ahead, wage rates are expected to rise at around 2.75 percent per annum in calendar 2005 and 2006 according to the March Monetary Policy Statement. This should help to maintain confidence and domestic spending in the short term.

Interest rates

The cost of funding capital for investment in buildings and construction has been oscillating on an upward trend for nearly 2 years. In its March Monetary Policy Statement the Reserve Bank is forecasting that 90-day bank bills will remain at or around 7 percent for the coming 3 years indicating that it does not expect the cost of funding building and construction to fall soon.

Figure 12: Floating and fixed mortgage interest rates

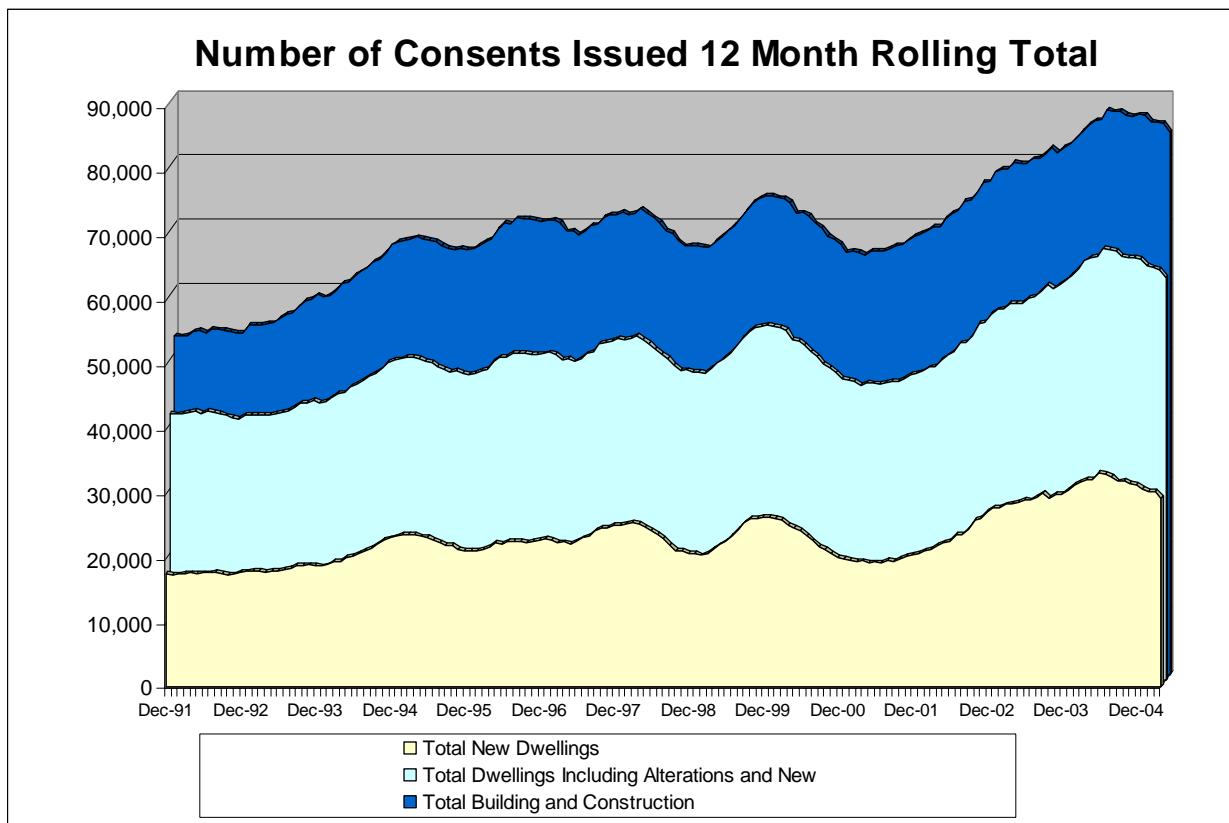


Sectoral analysis

Growth in building activity slows

During 2004 consent numbers⁴ began to fall back from high peaks reached early in the year (Figure 13). The decline was driven by a fall in residential dwelling consents that was only partially offset by non-residential consents. The movements in residential and non-residential consents are explained in greater detail later.

Figure 13: Number of building consents

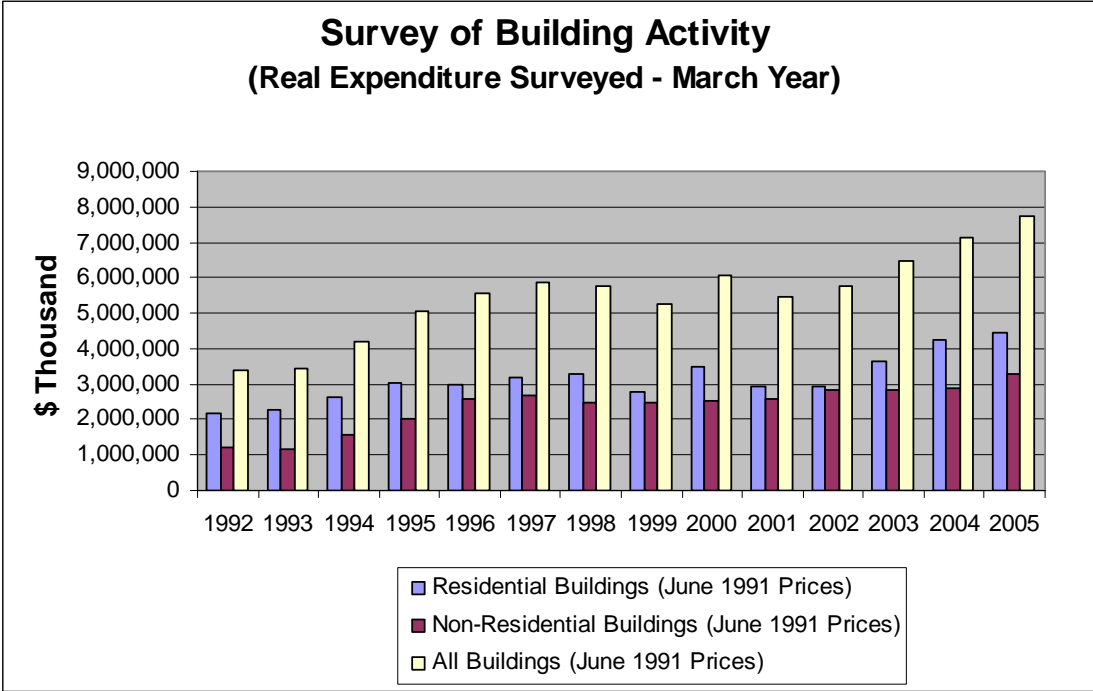


Source: Statistics New Zealand

Consent statistics are indicators of future building activity. The current consent volumes suggest that construction industry's production will not grow as quickly in 2005 as in the past few years. However, the output of the industry is at high levels relative to recent years as is indicated by the Survey of Building Activity when adjustment is made for inflation (Figure 14).

⁴ In this publication for simplicity of expression, 'consents' refers to the number of units covered by consents. For example, one consent for an apartment building can result in a large number of consents for dwelling units. There may be less actual consents issued than indicated by these statistics.

Figure 14: Real expenditure on buildings (measures the quantity of building put in place in March years. Source: Statistics New Zealand)

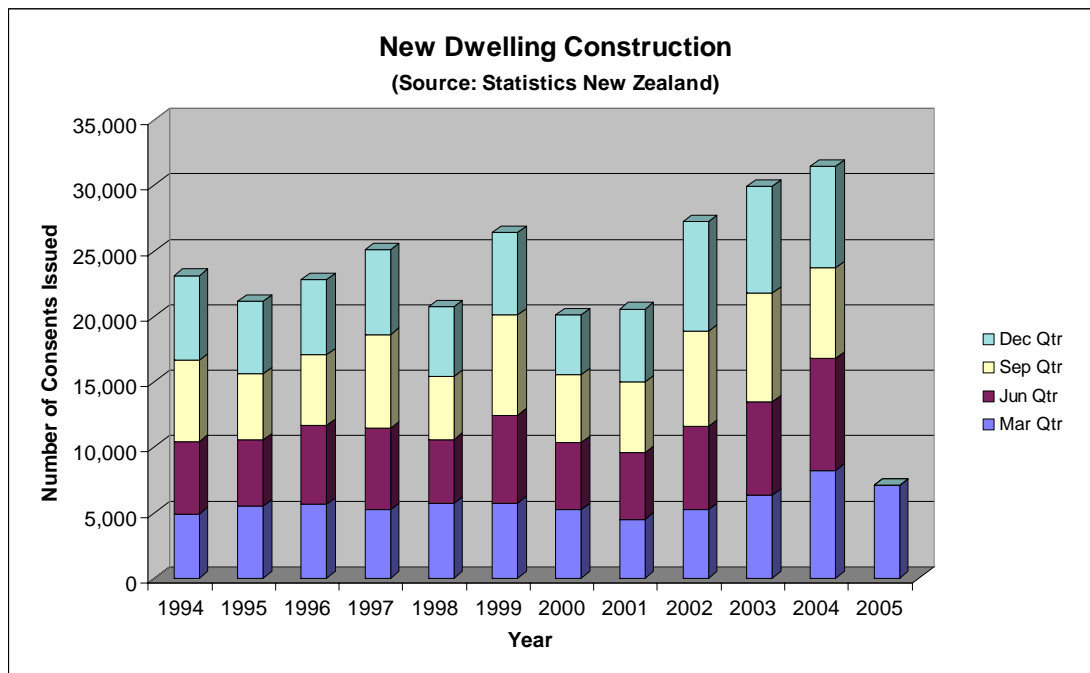


Source: Statistics New Zealand

Slowing residential construction

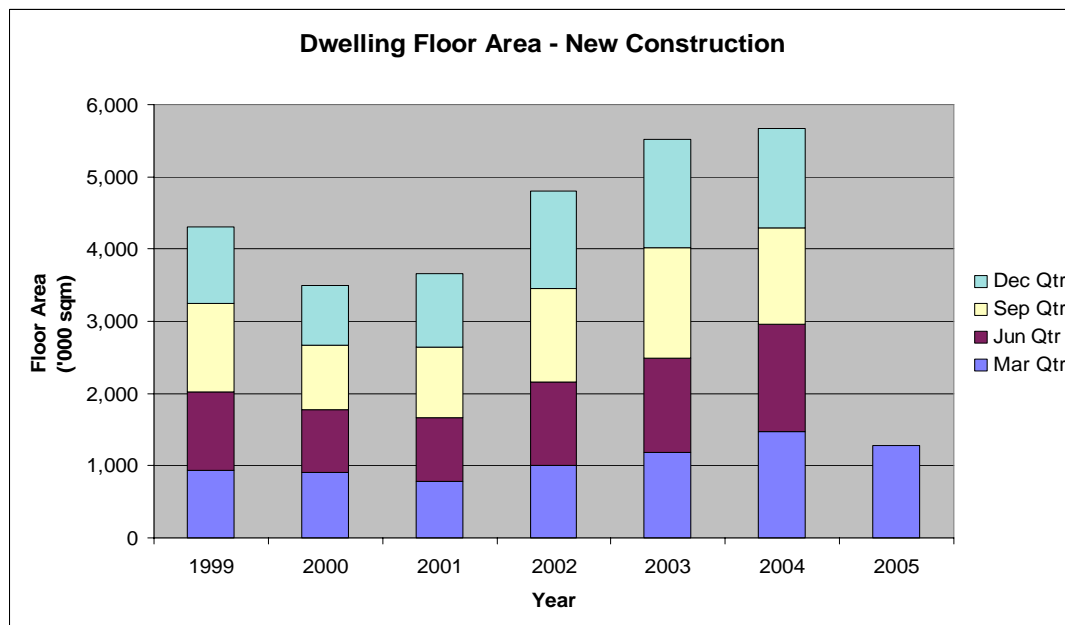
The value of consents for residential building fell quite sharply during the middle of 2004 by over 2 percent per month for some months according to Statistics New Zealand trend data (Figure 2). Over the March quarter, however, residential consents trended upwards. Even so, it is interesting to note that the number of consents in the March 2005 quarter were below those authorised in the March 2004 quarter (Figure 15).

Figure 15: Consents for new dwellings



Source: Statistics New Zealand

Figure 16: Consents for new dwellings, floor area



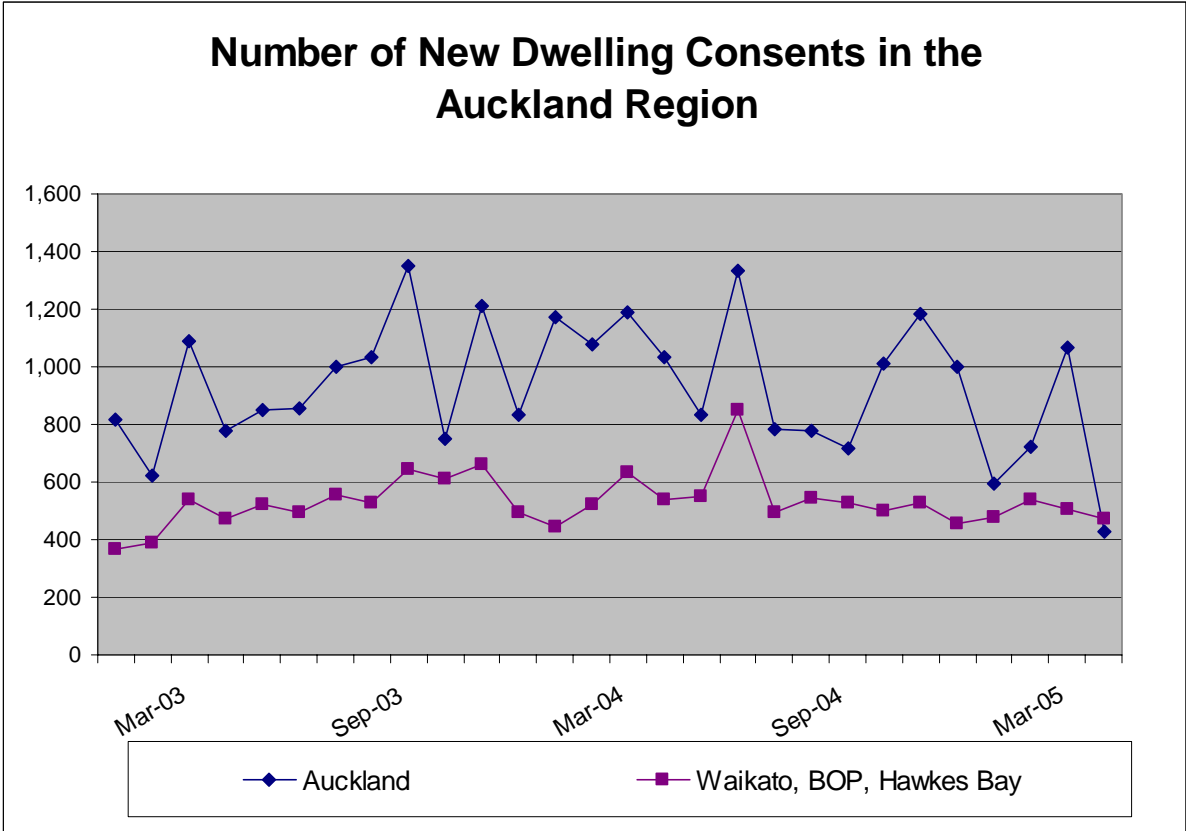
Source: Statistics New Zealand

As would be expected, the decline in the number of dwelling consents since mid-2004 has been reflected in declines in the floor area of dwellings for which consents were issued. Floor area approved in the year ended March 2005 is 6 percent lower than the corresponding 2004 year.

Small declines in the number of new dwelling consents authorised across most regions

When analysed geographically, 9 of the 16 regions showed a decrease in the number of residential building consents for new dwellings in the March quarter 2005, when compared with the recent past. Auckland, Tasman, Nelson and the south of the South Island showed significant declines. Gisborne, Taranaki and Westland had increased dwelling units authorised relative to a year earlier. Figure 17 below illustrates the slowing in the Auckland region against a group of provinces whose consent numbers in total have been close to stable in recent months.

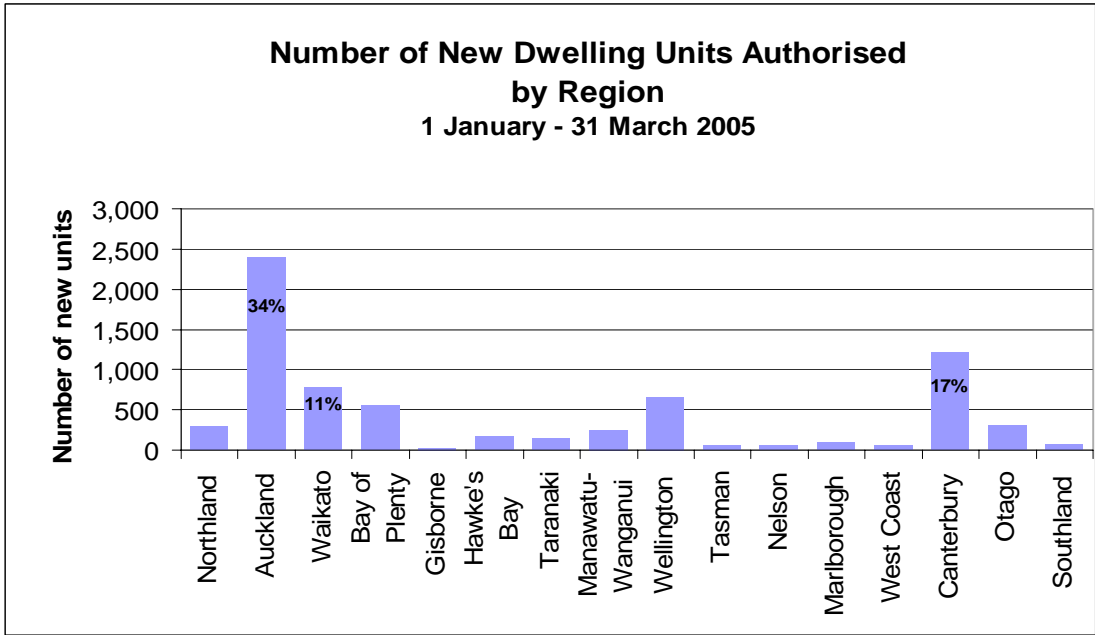
Figure 17: Number of new dwelling consents in Auckland



Source: Statistics New Zealand

Approximately one-third of all residential consents during the March quarter were issued in the Auckland region. Although Auckland is large in terms of new residential construction, the number of new dwelling units authorised has fallen since the beginning of 2004. This is a reversal of the substantial growth that has occurred in the Auckland region in 2003. In contrast, Canterbury has experienced growth and issued 17 percent of all national consents for new dwelling units in the March quarter (Figure 18). This was approximately half those issued in the Auckland region (Figure 17 and 18).

Figure 18: Dwelling units authorised by region



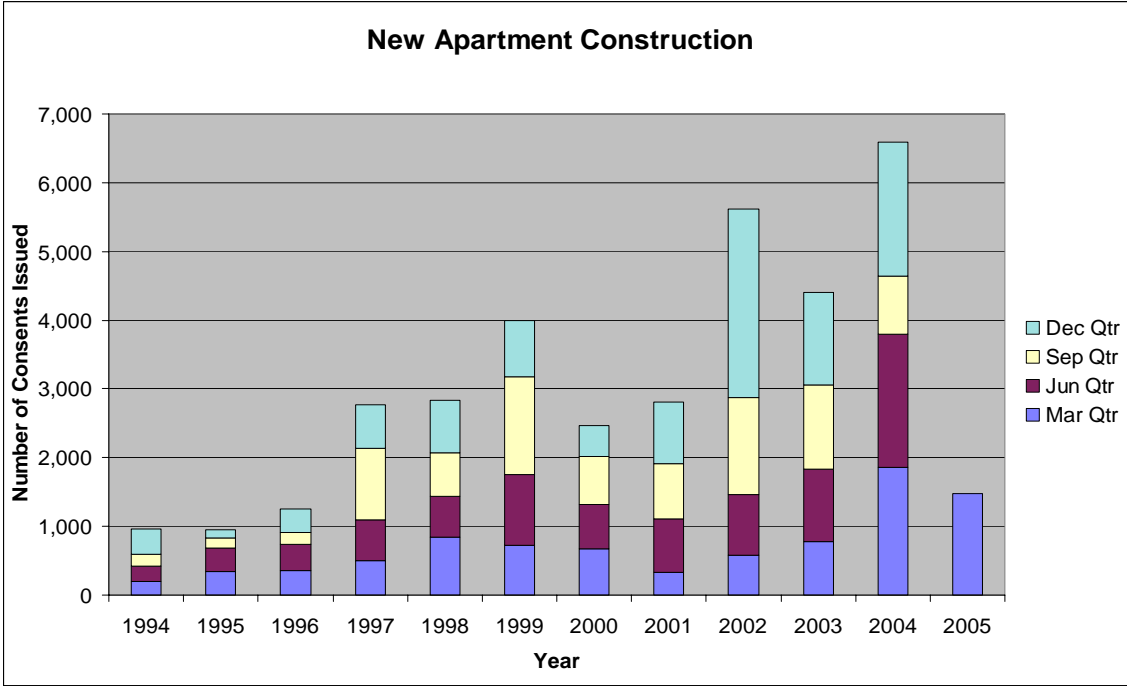
Source: Statistics New Zealand

Apartment consents are stable to rising

During the March quarter the number of consents was down on the same quarter of a year earlier. This offset the December quarter when the number was significantly higher than a year earlier (Figure 19).

However, over the 4 years ended March 2005 the annual number of consents increased by around 190 percent. As a result the proportion of apartment consents to all dwelling consents has increased rapidly. Apartments now make up around 20 percent of consents for dwellings. This is approximately 50 percent higher than for the March 2001 year.

Figure 19: Consents issued for new apartment units

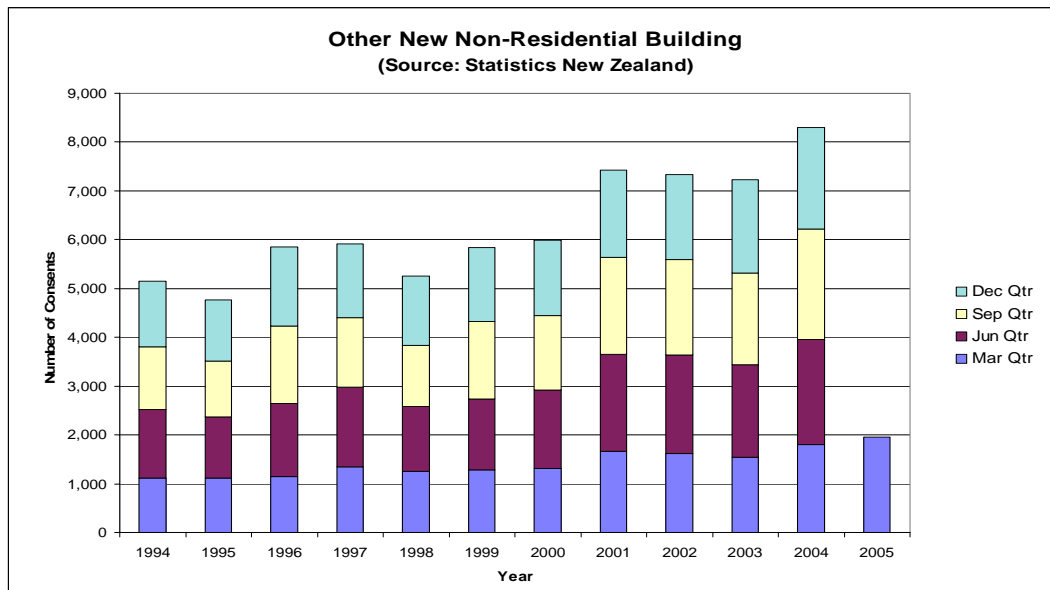


Source: Statistics New Zealand

Non-residential building is increasing

The number of consents for non-residential building increased strongly during most of 2004. The number of consents was 7 percent higher for the year ended March 2005 relative to the same period a year earlier. The quarter on quarter increase was 9 percent.

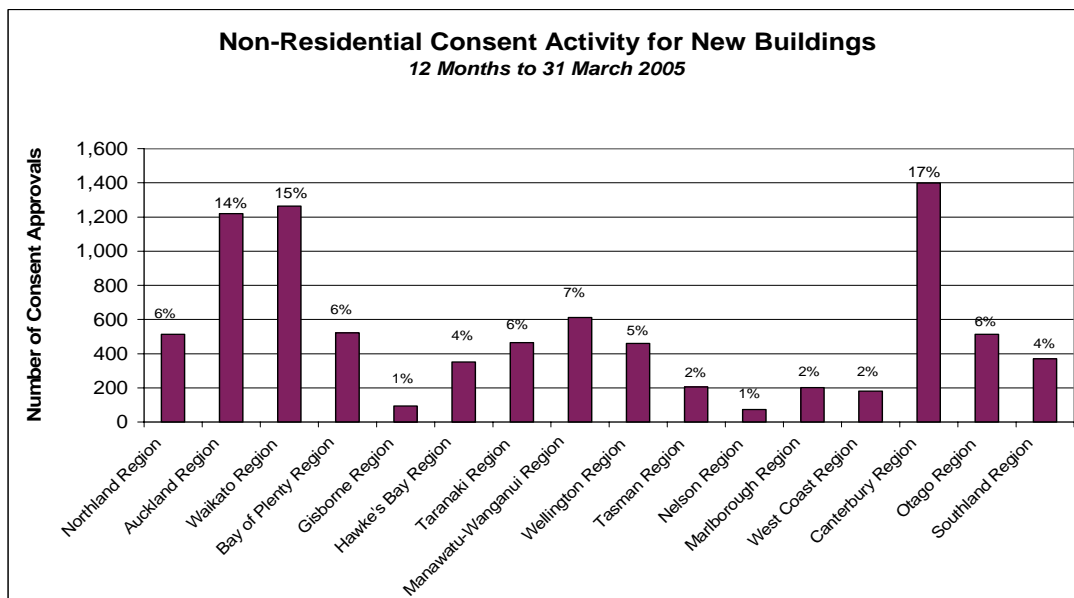
Figure 20: Consents issued for new non-residential buildings



Source: Statistics New Zealand

Economic activity and population is weighted to the north of the country so, in general, consents would tend to be weighted similarly. At present, however, the number of non-residential building consents in Auckland is lower than the Auckland region’s share of population and economic activity. Whereas, in Waikato, Canterbury and the Manawatu-Wanganui regions the number of consents indicates that investment in these regions is robust.

Figure 21: Regional non-residential consents issued for new buildings



Source: Statistics New Zealand

Labour supply

The December 2004 quarter Household Labour Force Survey results published by Statistics New Zealand reveal continued growth in employment in the construction industry during 2004, but at a slower rate than in 2003. The increase in employment reflected continued but slower growth in output.

Figure 22: Employment in the construction industry



Source: Statistics New Zealand

This slower growth in output and employment over the last year is also reflected in advertised vacancies for tradespeople recorded by the Department of Labour as part of their Job Vacancy Monitoring (JVM) survey. This survey is an indicator of demand for workers. In the JVM survey the 3-month rolling balance of advertised vacancies peaked for carpenters, builders, plumbers, electricians and their apprentices in the second quarter of 2004. This peak occurred a little later than a local peak in monthly building consent growth. The JVM vacancies and consent growth eased back in the third quarter, as pressure on the construction sector to increase output began to ease off. The Household Labour Force Survey indicates that employment in the construction industry stabilised in early 2004, before increasing more slowly towards the end of the year.

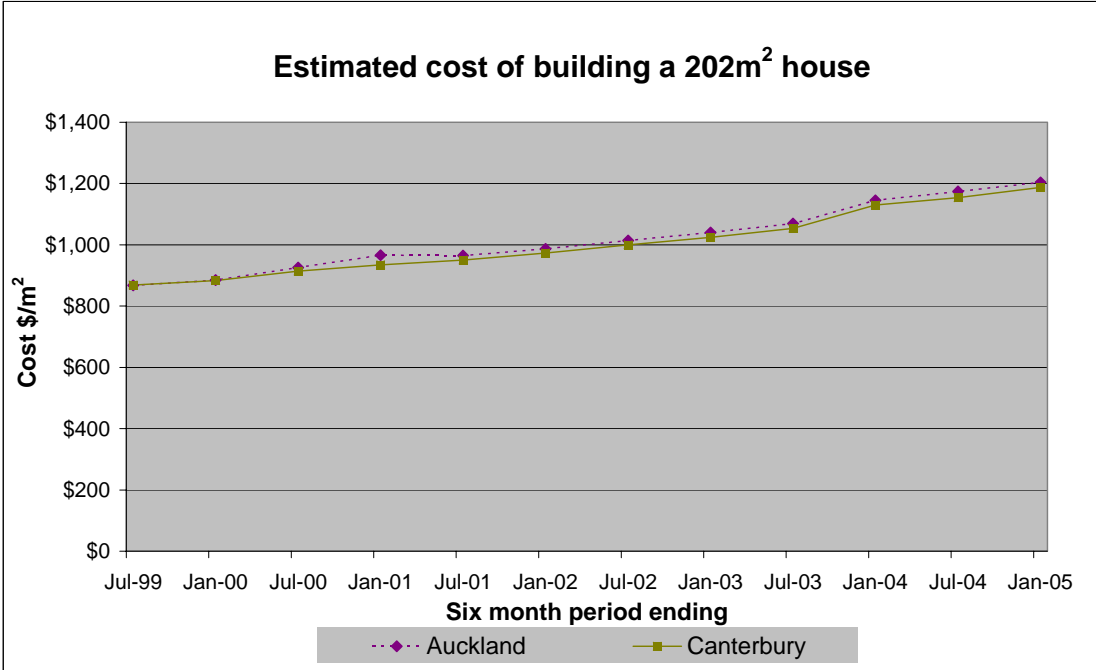
In February 2005 the Department of Labour reported a shortage of carpenters and other construction trades based on the Department of Labour Survey of Employers who have Recently Advertised (SERA). Only 38 percent of carpentry vacancies advertised by employers included in the survey were filled within 6 weeks of advertising during 2004. On average, there were just seven suitable applicants for every ten advertised positions. This was the situation for a number of trades. All SERA surveyed trades in total reported that 41 percent of positions were filled within 6 weeks and only seven suitable applicants were available for every 10 positions.

Encouragingly, training of carpenters and other tradespeople is increasing at present. The number of trainees enrolled for the carpentry national certificate level 4 qualification rose strongly in 2002, 2003 and 2004, along with electricians and other trades. However, the number of trainees achieving their qualification in 2003 and 2004 was still low considering the rapid growth in demand in recent years. The level of output from training is expected to increase sharply in a few years' time as there has recently been a large increase in the number of enrolments. The supply of carpenters in New Zealand has been diminished through net migratory outflows in the 7-year period to 2004.

Increased building costs

The Department is responsible for surveying the cost of building two theoretically standard houses throughout the country. The results of this survey indicate that in January the cost of building a theoretical 145 m² house in New Zealand was \$1,340 per square metre, and a typical 202 m² house would cost \$1,191 per square metre. The cost of building a typical 145 m² house increased 7.7 percent in the year to January. The cost of a 202 m² house increased by 5.2 percent on average.

Figure 23: Cost of building a modal larger house per metre



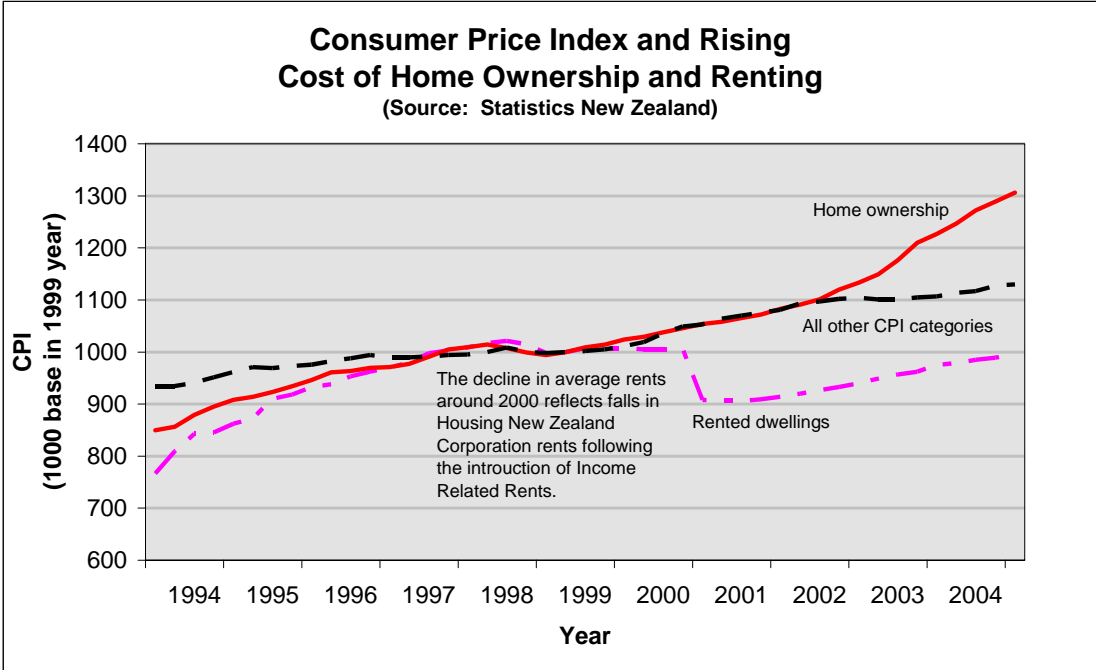
Source: Department of Building and Housing

Increased renting and house operation costs

The cost of accommodation has increased. Rents increased on average at an annual rate of 2.2 percent from the March 2004 quarter to the March 2005 quarter (Figure 24). Over the same period the cost of home ownership increased 6.4 percent. Figure 24 shows that the costs of home ownership have been increasing more rapidly than general inflation. The decline in

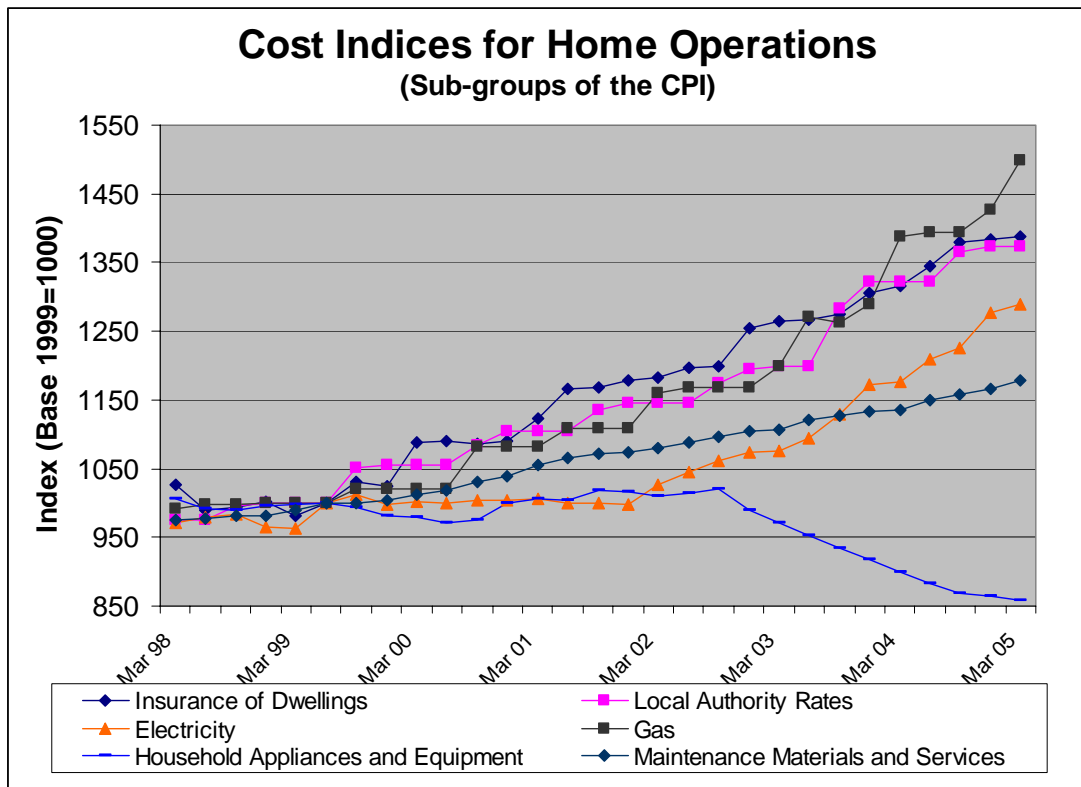
average rents in 1999 to 2001 (Figure 24) is due to Housing New Zealand’s introduction of income-related rents. Recent rises in household operation costs have been driven by the costs of electricity and gas, construction costs, and rates (until recently) (Figure 25).

Figure 24: Cost inflation and accommodation



Source: Statistics New Zealand

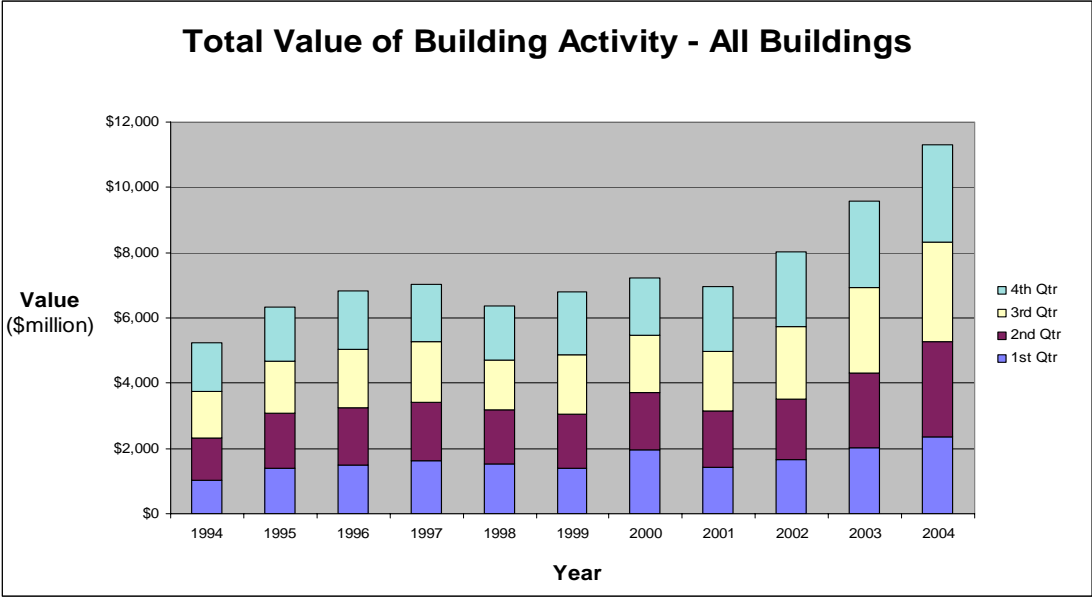
Figure 25: Cost of home operation



Increased value of building activity

Consents are forward indicators of actual building and construction. Statistics New Zealand also collects information on the trend in the level of building work put in place. Although this survey does not include all builders, it is an indicator of actual building activity. During 2004 the value of surveyed building activity accelerated strongly relative to 2003, reflecting the rapid rise in consents until the start of 2004. Consents data is growing (Figures 2 and 3) suggesting that building put in place may also grow during the June and September 2005 quarters.

Figure 26: Value of building activity (statistics New Zealand, survey of work put in place)



Source: Statistics New Zealand

Building quality and performance

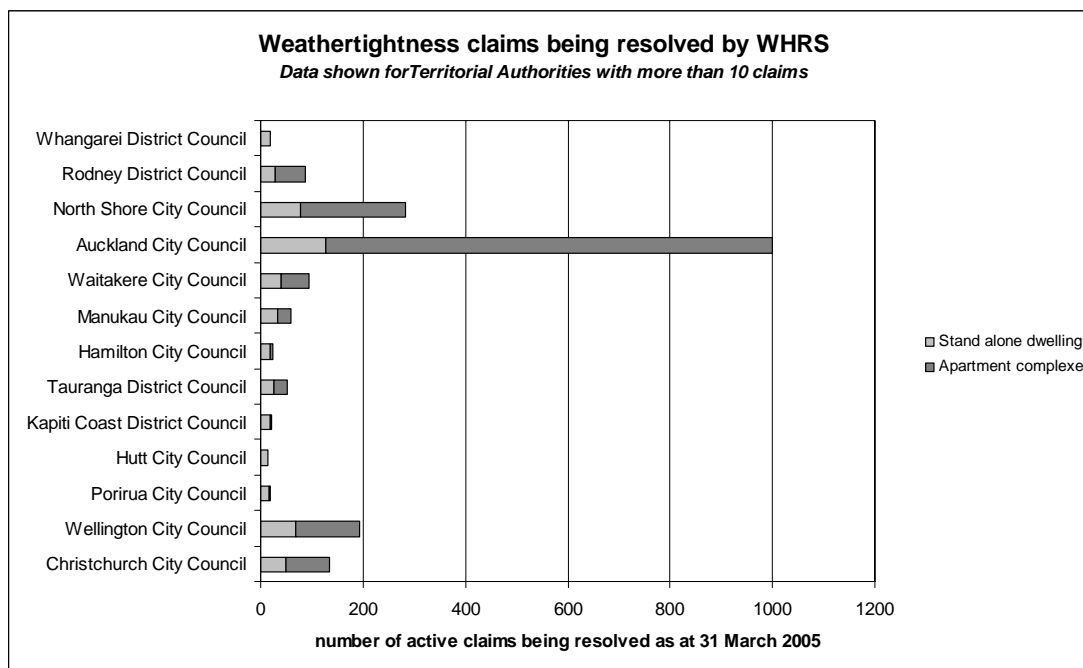
Weathertightness issues

The Weathertight Homes Resolution Service (WHRS) was set up by the government in November 2002 to help owners resolve disputes over leaky homes. This service will be moving to the Department of Building and Housing in July 2005.

The number of claims being made to the WHRS continues to increase with total active claims with the WHRS totalling 2167 at the end of March 2005, an increase of 244 on the 1923 active claims half a year earlier at 30 September 2004.

Claims arising in the Auckland area continue to far exceed claims in other regions. Over 60 percent of all claims arise there while the Wellington area contributes another 10 percent. The majority of active claims involve apartment complexes.

Figure 27: Weathertightness claims by territorial authority



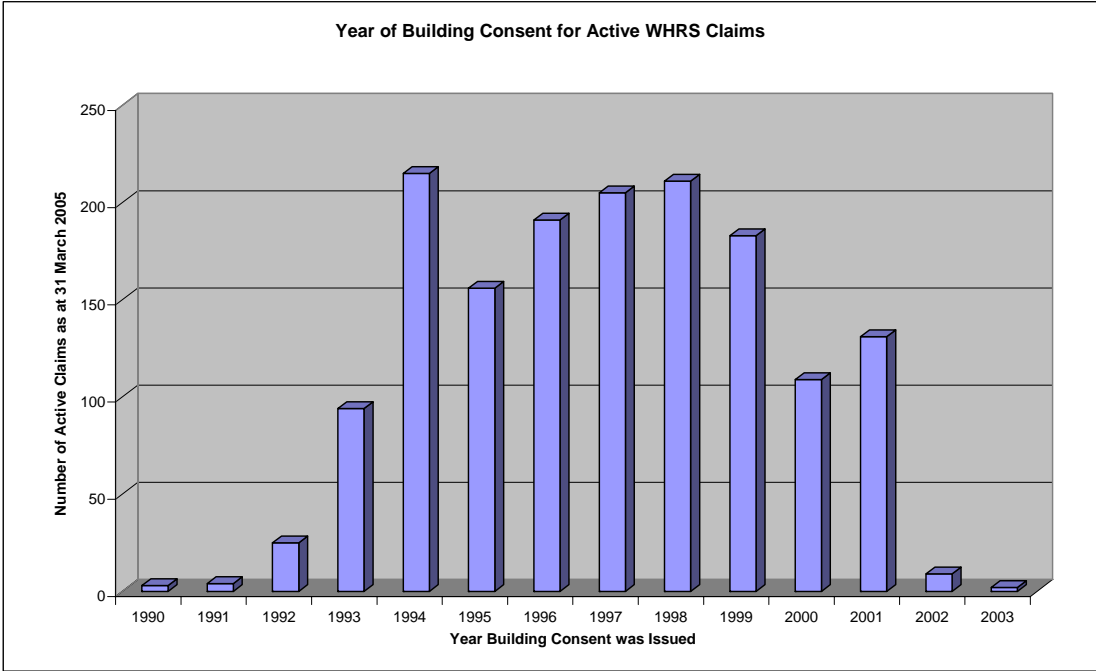
The WHRS registers a claim and then an assessor inspects each affected property. If the report upholds the claim an offer is made by the WHRS to help resolve claims using either mediation or adjudication. At the end of March 2005, 1758 assessment reports had been prepared up from 1359 at the end of December 2004.

Mediation and adjudication may occur before or after the remedying of the weathertightness defects. Many of these problems require the expertise of skilled builders and designers, experienced in leak detection and correction. Building reports prepared by WHRS assessors will generally list the defects and often suggest remedies. It is then left up to individual owners to engage overseers and builders to carry out the work or, in the case of a court ruling, make

suitable arrangements with nominated building personnel to make restitution as directed. In general, the work of the WHRS is completed at the end of mediation, arbitration or other settlement.

The Department continues to track the year of building consents issued for dwellings exhibiting weathertightness failure. Over the last two quarters the number of claims related to dwellings with consents issued in 1994 increased by almost double from 117 at the end of September 2004 to 215 at the end of March 2005. Over the same period, claims for dwellings with consents issued in 2001 nearly quadrupled from 32 to 131. It may take many years after the completion of a dwelling for weathertightness failures to become obvious. Thus, the number of failures, particularly for more recent years, may rise. However, the increased awareness of weathertightness risk factors, and the changed and changing building regulatory framework and environment, should decrease claims for recent years and limit the majority of these claims to buildings constructed prior to 2004.

Figure 28: Year of issue of building consents for active Weathertight Homes Resolution Service claims. (Note that some claims have no year for consent attached and so are not included in this figure.)



Update on regulatory developments

Fire Safety Compliance Documents

The Department sought public comment on proposed changes to the Compliance Documents for Building Code Clauses C Fire Safety and F7 Warning Systems. These related to changing the minimum fire resistance ratings for fire separation, changes to requirements for early childhood centres, and incorporating the latest revisions to three New Zealand Standards. These proposals

took account of research conducted in New Zealand and deliberations by industry working groups.

Guidance on the assessment of alternative solutions

The Department sought public comment on a guidance document *Assessing Alternative Solutions*, intended to provide guidance on how to assess proposals for building work that do not follow details provided in the Acceptable Solutions.

Energy efficiency Compliance Document

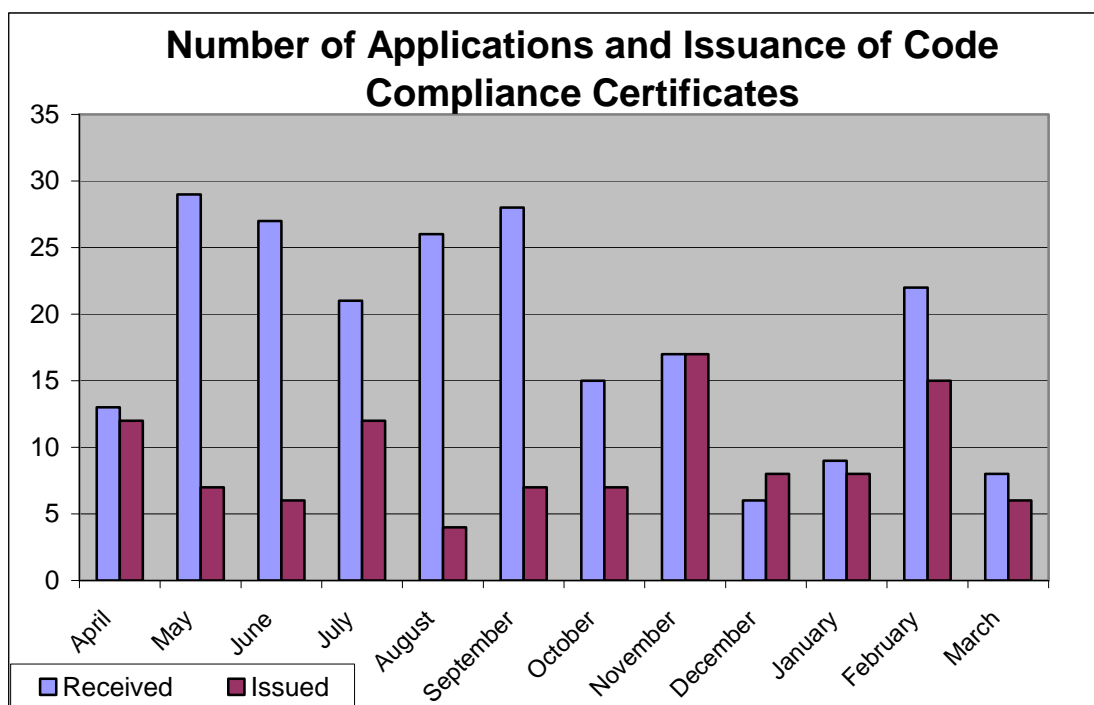
The Department sought public comment on a proposal to cite the Standard NZS 4218: 2004 'Energy Efficiency – Small Building Envelope' in the Compliance Document for Building Code Clause H1 Energy Efficiency to replace the 1996 version. This followed a well-attended seminar series around the country conducted by BRANZ and SNZ in early December 2004 explaining the amendments.

Determinations

The Department of Building and Housing is still receiving a large number of applications for determinations. The majority relate to disputes over the failure of territorial authorities to issue code compliance certificates for monolithic-clad buildings built without cavities.

Of particular note is the receipt of five applications for determinations for buildings designed with only a single means of escape from fire. These buildings are alternative solutions as they are greater than 25 metres in height.

Figure 29: Number of applications for and issuance of code compliance certificates

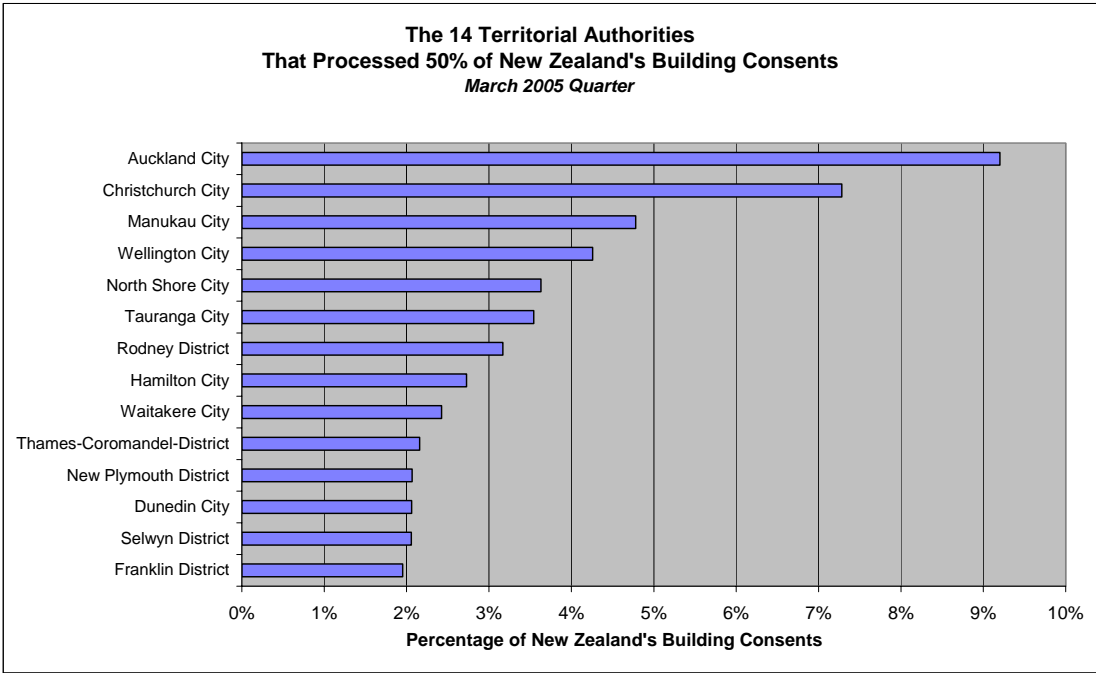


Building regulation

Half of New Zealand’s building regulation activity is undertaken by 14 territorial authorities. Auckland City is generally the largest issuer of consents, but the proportion has been rising over the last half year from around 8.5 percent of consents to over 9 percent in the March quarter. In some parts of the Auckland region the number of consents is low relative to population, for example, in Manukau and Waitakere cities.

In contrast, consents are high relative to the local population in some provincial cities, in particular Tauranga (3.5 percent), New Plymouth (2.1 percent) and Thames-Coromandel (2.2 percent), which are growing strongly. This may reflect the ripple of the building and housing growth of recent years out to those areas that were not affected quickly. There is also growth in consents in a number of authorities where there are high concentration of lifestyle blocks, such as Rodney District (3.2 percent) and Waimakariri (1.5 percent).

Figure 30: Consents by issuing territorial authority



Source: Department of Building and Housing

Building Code Waivers

Section 67(1) of the Building Act 2004 allows a building consent authority that is a territorial authority to grant an application for a building consent subject to a waiver or modification of the Building Code. This power has traditionally been used infrequently by territorial authorities. Eighteen waivers were issued during the March quarter (Table 1). The figure of 18 waivers continues to bring down the long-term average of approximately 30 waivers per quarter. Historically, approximately a third of the waivers are made to Code Clause C3 Spread of Fire.

C3 Spread of Fire waivers also featured prominently in the March quarter making up two-thirds of the total. Fifty percent of these C3 Code waivers involved the placing of a building close to a boundary. In these situations, the Building Code requires measures to be taken to prevent spread of fire to adjacent property. The territorial authority often waives the fire rating requirements where these boundaries are beside public parks or rights of way, or other areas that are not going to be built on. The title to the property receiving a C3 waiver may also be marked so that the waiver may be withdrawn if any building is to be erected on the adjacent area affected by the waiver. The remaining 50 percent of C3 waivers were granted for apartment car parks held under individual titles. In these cases, the Building Code requires a firewall between adjacent parks. However, generally territorial authorities waive this requirement on the condition that nothing other than a vehicle is stored in the park. The resultant fire risk in these conditions is minimal.

The remaining six waivers during the March quarter related to Building Code Clauses B1 Structure, B2 Durability and E1 Surface Water. No trends emerged.

Table 1: Building Code waivers

	B1 Structure	B2 Durability	C3 Spread of Fire	E1 Surface Water	Total
Auckland CC	0	0	5	0	5
Tauranga CC	3	0	0	2	5
Dunedin CC	0	1	0	0	1
Manukau CC	0	0	2	0	2
Napier CC	0	0	4	0	4
New Plymouth DC	0	0	1	0	1
Total	3	1	12	2	18

Source: Department of Building and Housing