



Department of
Building and Housing
Te Tari Kaupapa Whare

Building and Housing Trends: July to September 2008



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Introduction

This *Building and Housing Trends* reports sector activity for the period from 1 July to 30 September 2008 and is based on the latest information available at the time of writing. Preparing this report reflects our aim of developing and improving access to building and housing sector-related information and knowledge.

Information in this report is drawn from accessible information and forecasts 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.

Note: The Department is currently reviewing the style and content of the quarterly *Building and Housing Trends* report in response to the recent events and trends. Our intention is to update the publication to reflect current needs and concerns in the sector, and to include forward projections where possible. Feedback and suggestions would be appreciated. Please email Rowena.Cave@dbh.govt.nz.

Stop Press

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

According to REINZ statistics, there were 4,270 house sales in November 2008 continuing the low sales volume of the last quarter. The median house price also fell 4.1 percent in the year to November 2008. The combination of these trends indicate that the housing market is still in decline, although less steeply than the previous quarter. The latest December 2008 Monetary Policy Statement issued by the Reserve Bank of New Zealand projects house prices to fall by 16.0 percent by the end of 2010 (24.0 percent in real terms).

Residential building consent activity is continuing along the downward trend that started in June 2007, and NZIER forecast the number of new dwelling consents to fall to a lowest point of 16,438 in June 2009 in a medium scenario, and to 15,815 in December 2009 in the worst scenario. Forecasts and current economic conditions suggest that the downward trend in building activity is likely to continue until early 2010. However, the Reserve Bank's December 2008 Monetary Policy Statement projects further decline from current very low levels until mid-2009, before a slight recovery. The Reserve Bank suggests that the fact that there is not currently an oversupply of houses in New Zealand is likely to underpin the recovery.

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. NZIER forecast real non-residential investment to grow by 2.2 percent in the March 2009 year and to decline by 1.7 percent in the March 2010 year. The Reserve Bank forecasts that continuing difficulty in obtaining credit, weak demand and compressed profit margins will lead to less capital investment which will include a continued flat trend in non-residential investment.

Executive summary

The economy

- New Zealand's economic activity (measured by inflation adjusted or real GDP) increased 2.6 percent in the year to June 2008, compared with the previous year's increase (to June 2007) of 2.3 percent
- Construction industry activity (value added) increased by 0.5 percent in real terms in the year to June 2008, compared with a 1.7 percent decline in the year to June 2007.
- The Household Labour Force Survey estimates that 176,100 people were employed in the construction industry in the September 2008 quarter. This is 0.1 percent lower than the September 2007 quarter.
- Inflation in the housing sector has dropped to 1.4 percent in the year to the September 2008 quarter, considerably lower than the 5.0 percent in the year to the June 2008 quarter.
- Inflation for home ownership (measured by the price index of the purchase of new housing) was 4.7 percent in the year to the September 2008 quarter, falling from 5.2 percent in the year to the June 2008 quarter.
- Actual rents (given by the price index for actual rents) increased by 3.1 percent in the year to the September 2008 quarter, stable at the same rate for the year to the June 2008 quarter.
- Household inflation, as measured by the CPI, was 5.1 percent in the year to the September quarter compared with 4.0 percent in the year to the June 2008. 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.
- REINZ report the median house price for the whole of New Zealand fell by 6.12 percent to \$330,000 in September 2008, from \$351,500 in September 2007. This is the largest annual decline in median house prices recorded since January 2002. Median house prices declined by 1.45 percent in the year to July 2008, and by 5.71 percent in the year to August 2008.
- The median house price for Auckland fell by 2.2 percent in the year to June 2008 and by 4.87 percent in the year to September 2008.
- REINZ report that there were 4,499 house sales during the month of September 2008. While this shows a slight increase in sales activity from June 2008, it is a 23.67 percent fall from the 5,894 sales in September 2007, and a 48 percent decline on the September 2006 figure, showing a continuing general downward trend in house sales volumes.
- The median number of days taken to sell a property in September 2008 was 52 days, substantially longer than the 32 days it took in September 2007 and the 31 days in September 2006. This is consistent with the sales volume data, and indicates that the market continues to cool.
- Tenancy bond data shows that for most dwelling types, average weekly rents for new private rental tenancies continue to rise. In September 2008, the average weekly rent was \$227 for one-bedroom flats, \$288 for two-bedroom flats, \$272 for two-bedroom houses, \$323 for three-bedroom houses and \$405 for four-bedroom houses.

- Government assists low-income families into affordable housing mainly through the Accommodation Supplement (AS) and Income-Related Rents (IRR). In September 2008, there were 257,136 AS recipients and 60,036 IRR tenants.
- Total government housing assistance in the June 2008 quarter was \$344 million, remaining at 7.2 percent as a percentage of total housing contribution to GDP in the June 2008 quarter compared with the March 2008 quarter.
- There were no significant changes in the composition of other benefits received by either IRR or AS recipients.
- The number of people on the Housing New Zealand Corporation Priority A (“severe and persistent housing needs that must be addressed immediately”) and B (“significant and persisting housing need”) waiting lists for housing increased by 3.3 percent from 3,985 in June 2008 to 4,117 in September 2008. Of these, the A list increased from 248 applicants in June 2008 to 276 in September 2008 which is almost as high as the record increase in the previous quarter.
- The average waiting time for people on the A priority waiting list increased by one day (or 2.6 percent) to 39 days between June and September 2008. The average waiting time for B priority applicants increased by 4.9 percent from 164 days in June 2008 to 172 days in September, breaking the previous trend of declining waiting times. Demand for Housing New Zealand Corporation properties is therefore now increasing faster than it is being met.

The building sector

- Falling inflation-adjusted trend values for all ‘building work put-in-place’¹ have continued during the quarter to June 2008, with a decrease of 6.3 percent from the March 2008 quarter and a decrease of 8.3 percent compared with the June 2007 quarter.
- Residential building work accounted for 60.3 percent of the unadjusted value of all building work in the June 2008 quarter.
- Trend values for residential building work for the quarter to June 2008 have decreased by 6.7 percent against the previous quarter, and by 8.8 percent against the same quarter of 2007.
- Trend values for non-residential building work have decreased, by 4.5 percent for the June 2008 quarter but increased by 3.1 percent over the June 2007 year.
- Building consent data represents anticipated building work. The number of new dwellings authorised has been on a downward trend since June 2007, falling 41.2 percent since then. The trend indicates that the number of consents for new dwelling units (including apartments) authorised in September 2008 was 36.4 percent lower than in September 2007.
- The number of non-residential building consents increased by 50.7 percent in September 2008, compared with September 2007.
- \$4.53 billion worth of non-residential building consents were issued for the year ended September 2008, which is an increase of 10.5 percent from the September 2007 year.
- Capital, production and labour costs continue to be subject to inflationary pressures. Between the September 2007 and the September 2008 quarters, the Capital Goods Price

¹ 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.

Index (CGPI) measured price increases of 4.4 percent for residential building, 4.0 percent for non-residential building and 5.7 percent for other construction. The Producers Price Index (PPI) for construction industry inputs increased 7.8 percent, and labour costs (as measured by the Labour Cost Index - salary and wage rates) increased 4.1 percent for building trade workers and 3.7 percent for the construction industry generally.

The economy

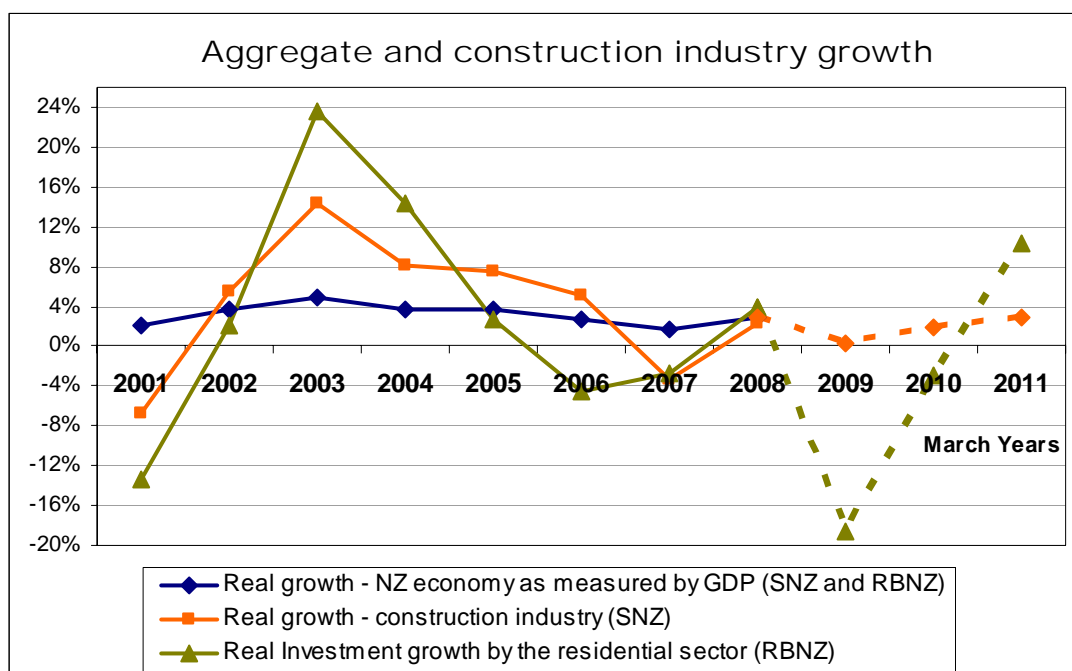
Economic growth and industry outputs

New Zealand's economic activity, measured by inflation-adjusted or real GDP, increased 2.6 percent in the year to June 2008². This shows a greater increase than the 2.3 percent that occurred in the year to June 2007.

Annual values for construction industry activity declined for each of the four quarters to September 2007, but increased 2.1 percent (revised) in the year to December 2007, by 2.5 percent in the year to March 2008, and by 0.5 percent in the year to June 2008. This can be compared with a 1.7 percent decline in the year to June 2007.

In its September 2008 Monetary Policy Statement the Reserve Bank has reduced its forecasts indicating that real investment (as measured by inflation-adjusted Gross Fixed Capital Formation) will decrease by 1.9 percent in the year to March 2009. Over this period, real residential investment is expected to fall by 18.6 percent, real business investment expected to grow by 2.3 percent, and real government sector investment expected to grow by 2.4 percent.

Figure 1: Aggregate and construction industry growth



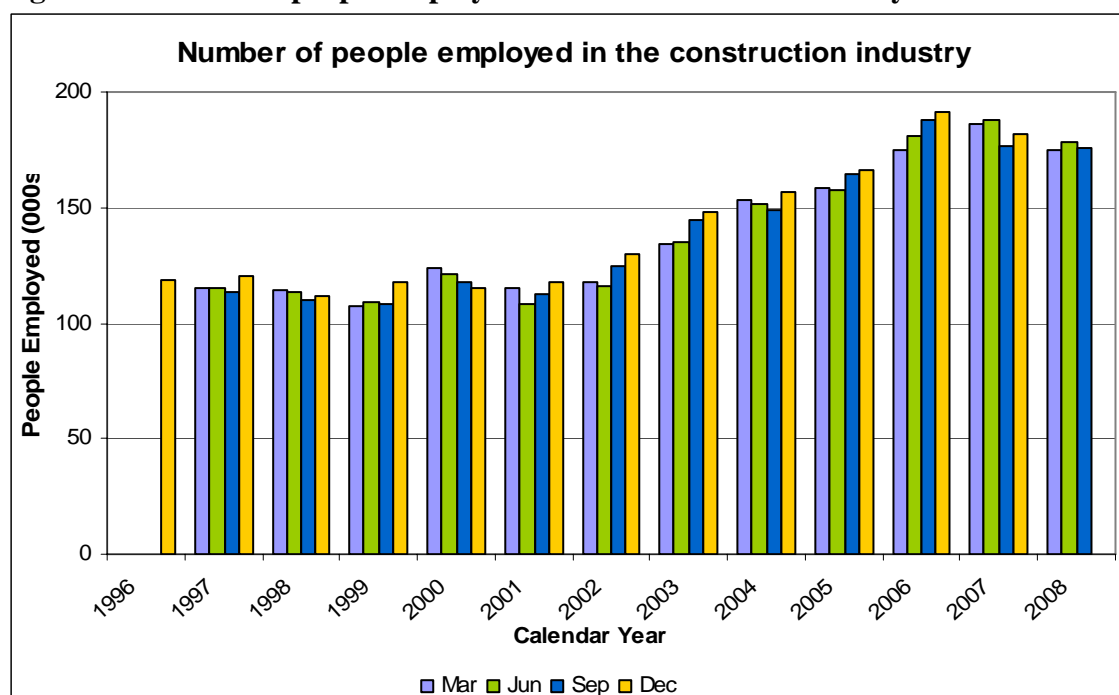
Source: Reserve Bank and Statistics New Zealand

² June data is the most recent available on this factor at the time of writing.

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. However, the Reserve Bank's September 2008 Monetary Policy Statement identifies that falling residential construction and real estate activity may be seen to be impacting negatively on employment. Quarterly construction industry employment numbers had fallen from 188,300 in the September 2006 quarter to 176,200 in the September 2007 quarter (a drop of 6.4 percent), and then were almost unchanged at 176,100 in the September 2008 quarter. This may indicate that employment in the construction industry has stabilised around this level.

Figure 2: Number of people employed in the construction industry



Source: Statistics New Zealand

Cost of purchase of new housing and renting

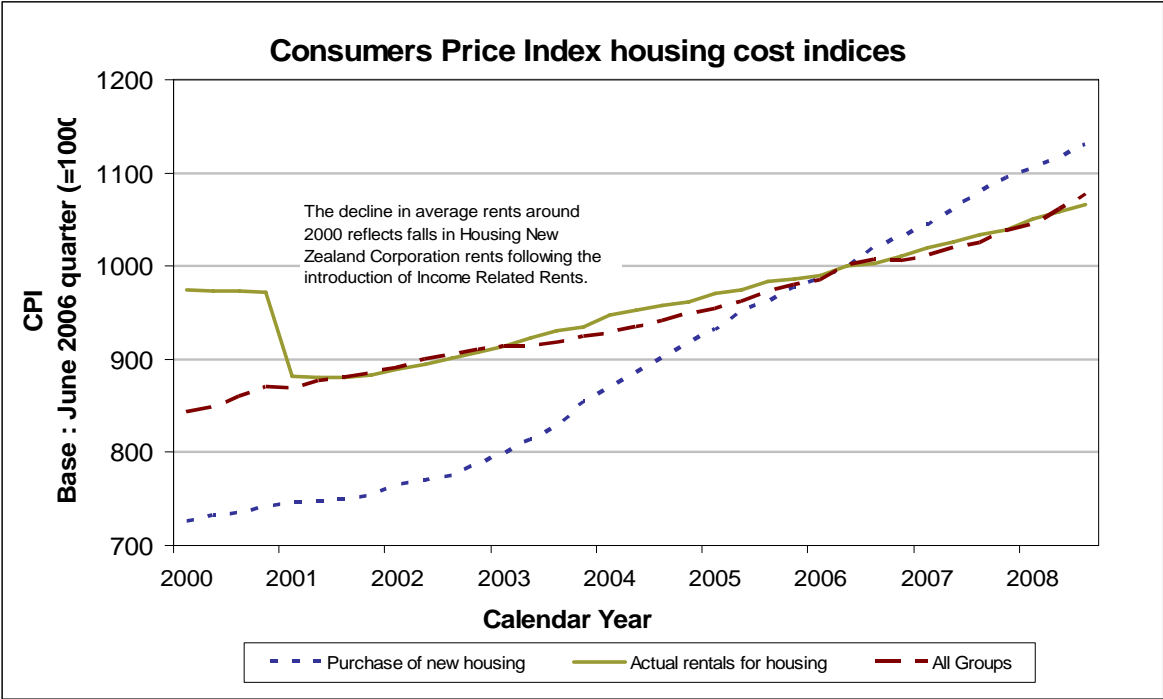
Inflation in the housing sector is largely measured by movements in the 'housing and household utilities' group³ of the CPI, and had been hovering around 5 percent per annum since the December 2005 quarter. However, housing sector inflation has started to decline, and was down to 1.4 percent in the September 2008 quarter compared with the June 2008 quarter. This followed increases of 1.2 percent in the June 2008 and 1.0 percent in the March 2008 quarters. This has brought the whole-year inflation down to 4.7 percent in the year to September 2008 from 5.1 percent in the previous September year.

Inflation in the price of new housing was 4.6 percent in the year to the September 2008 quarter, falling from 5.2 percent in the year to the June 2008 quarter. Note that the rate of inflation for REINZ's median house prices continues to show a reduction.

³ This group includes price changes in renting and the purchase of new houses (but not existing houses) and related costs such as real estate agents' fees, rates and utilities.

Rent inflation continues to be lower than general price inflation. Actual rents for housing increased by 3.1 percent in the year to the September 2008 quarter, stable at the same rate of increase as for the year to the June 2008 quarter. General price inflation (as measured by the CPI all groups) was 5.1 percent in the year to the September quarter, compared with 4.0 percent in the year to the June 2008 quarter.

Figure 3: Consumers Price Index and housing cost indices



Source: Statistics New Zealand

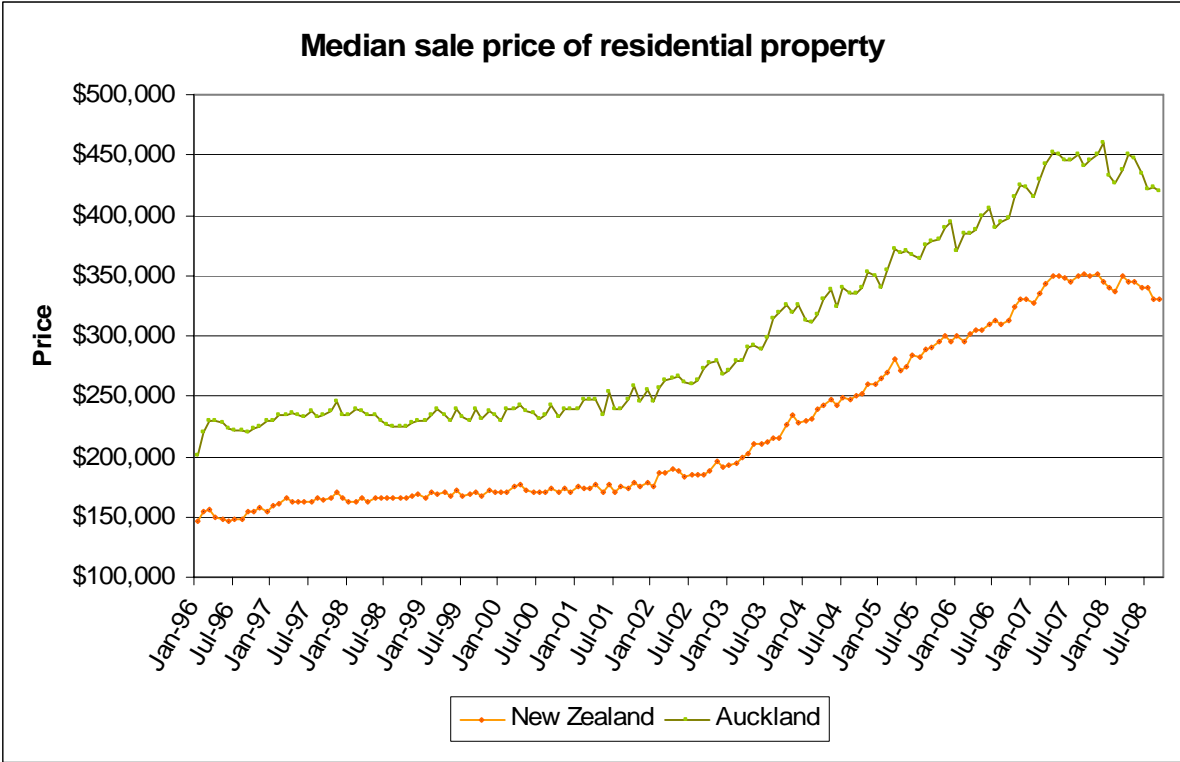
The housing sector

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 New Zealand as a whole fell by 6.1 percent from \$351,500 in September 2007 to \$330,000 in September 2008. This is the largest annual decline in median house prices recorded since the published series began in January 1992; however, this starting point was just after the previous big decline. Median house prices declined by 1.4 percent in the year to July 2008, and by 5.7 percent in the year to August 2008.

In Auckland, the median house price fell by 4.9 percent in the year to September 2008; however this is a slight improvement from the falls of median house prices for the year to July 2008 of 5.4 percent and that to August of 5.9 percent.

Figure 4: Median sale price of residential property



Source: Real Estate Institute of New Zealand

The value of New Zealand’s total housing stock⁴ 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. However, the value of the housing stock decreased in the June 2008 quarter to \$592 billion, falling by 2.1 percent compared with the June 2007 quarter. This is the first annual fall in

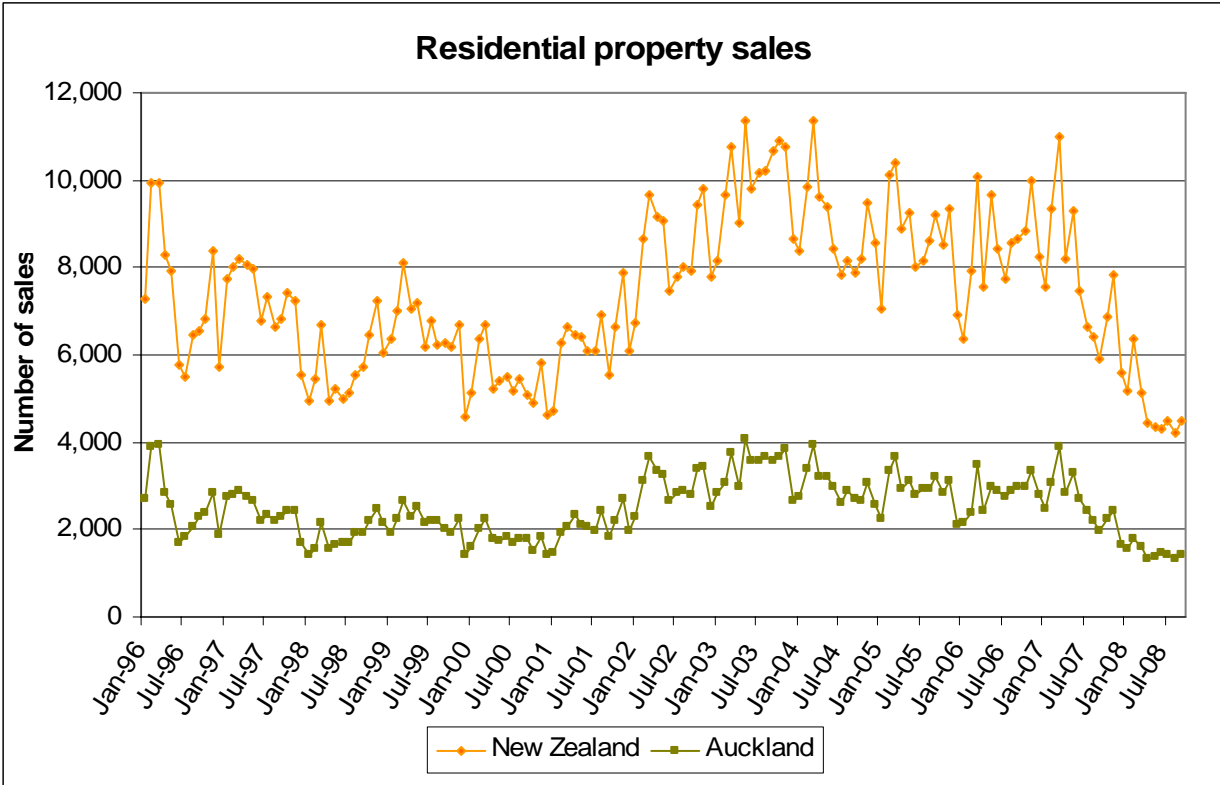
⁴ RBNZ estimates

the estimated value of housing since the fourth quarter of 1991, and follows a 4.7 percent growth in the March 2008 quarter compared with the March 2007 quarter.

Housing market activity

Overall house sales activity increased slightly in the September 2008 quarter from the previous quarter. As Figure 5 shows, the monthly house sales volume in September 2008 was 4,499⁵. This is a 23.67 percent decline on the 5,894 sales in September 2007, and a 48.0 percent decline on the September 2006 level of 8,658, showing a continuing general downward trend in house sales volumes.

Figure 5: Residential property sales

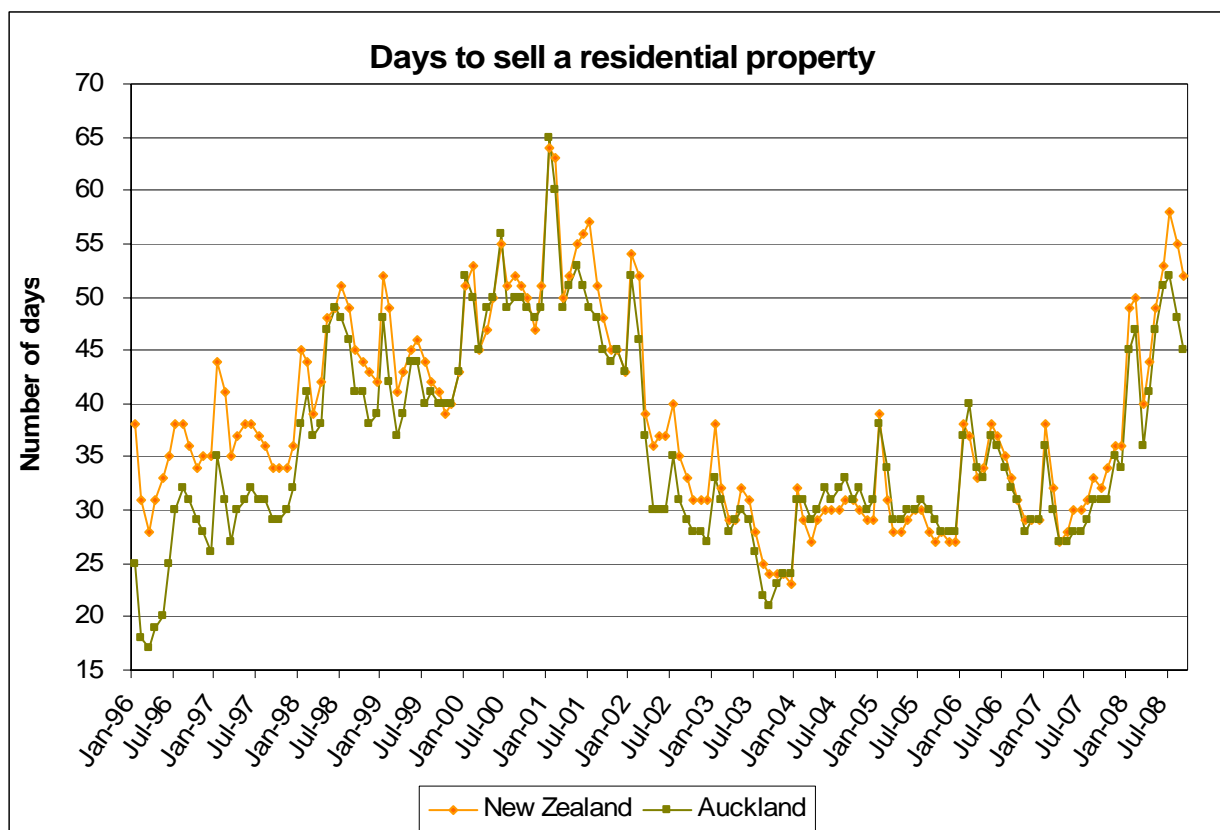


Source: Real Estate Institute of New Zealand

Figure 6 shows that the median number of days taken to sell a property in September 2008 was 52 days, substantially longer than the 32 days it took in September 2007 and the 31 days in September 2006. This is consistent with the sales volume data, and indicates that despite the slight increase in sales activity in the September 2008 quarter over the previous quarter, the market continues to cool.

⁵ 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



Source: Real Estate Institute of New Zealand

Social housing assistance

The two main ways⁶ that the government assists low-income families into affordable housing are the Accommodation Supplement⁷ (AS) and Income-Related Rents⁸ (IRR). At the end of September 2008, there were 257,136 AS recipients and 60,036 IRR tenants.

Figure 7 shows government expenditure on social housing assistance as a percentage of total housing sector expenditure⁹ from the September 2004 quarter to the June 2008 quarter.

⁶ 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 with the IRR and the AS, and focus on homeownership rather than rent relief.

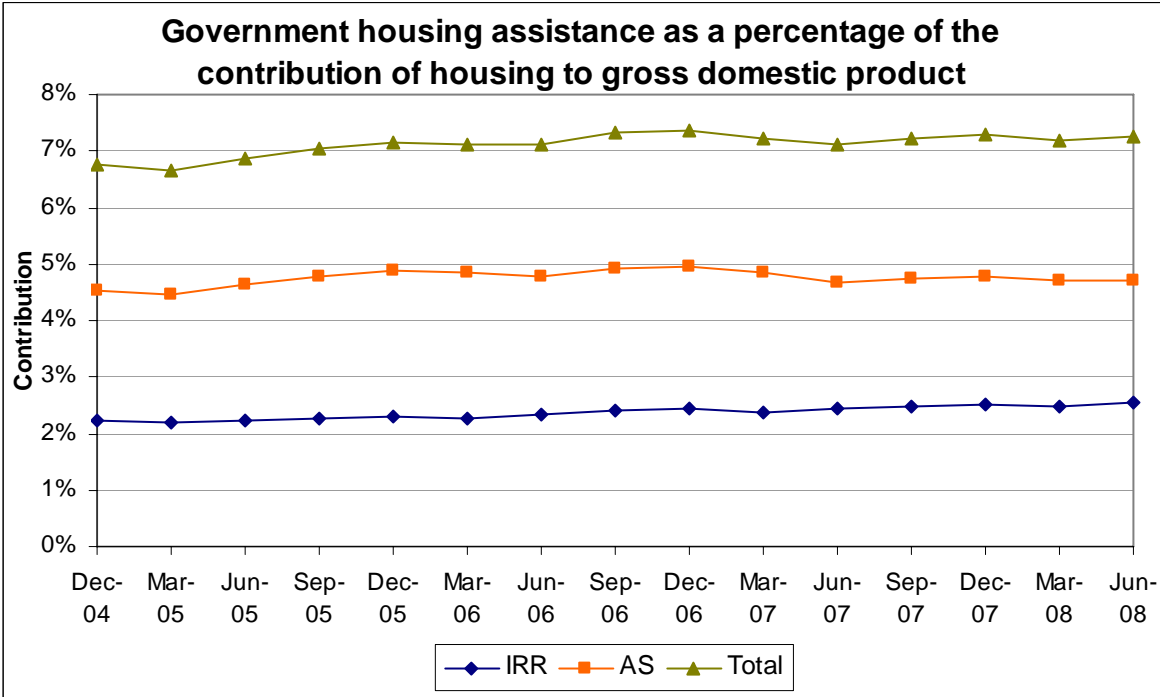
⁷ The Accommodation Supplement is available through the Ministry of Social Development for people in private accommodation (i.e. not in social housing) who meet the income criteria. Recipients can then use the AS to offset some of the cost of their board, rent or mortgage payment.

⁸ 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 50 percent 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.

⁹ 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 increased slightly from 7.2 percent in the March 2008 quarter to 7.3 percent in the June 2008 quarter. IRR assistance as a percentage of total housing contribution to GDP showed a small rise from 2.5 percent to 2.6 percent between the March and June 2008 quarters. AS assistance as a percentage of total housing contribution to GDP remained at 4.7 percent over this period. This primarily reflects a faster increase in final consumption spending on housing rather 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



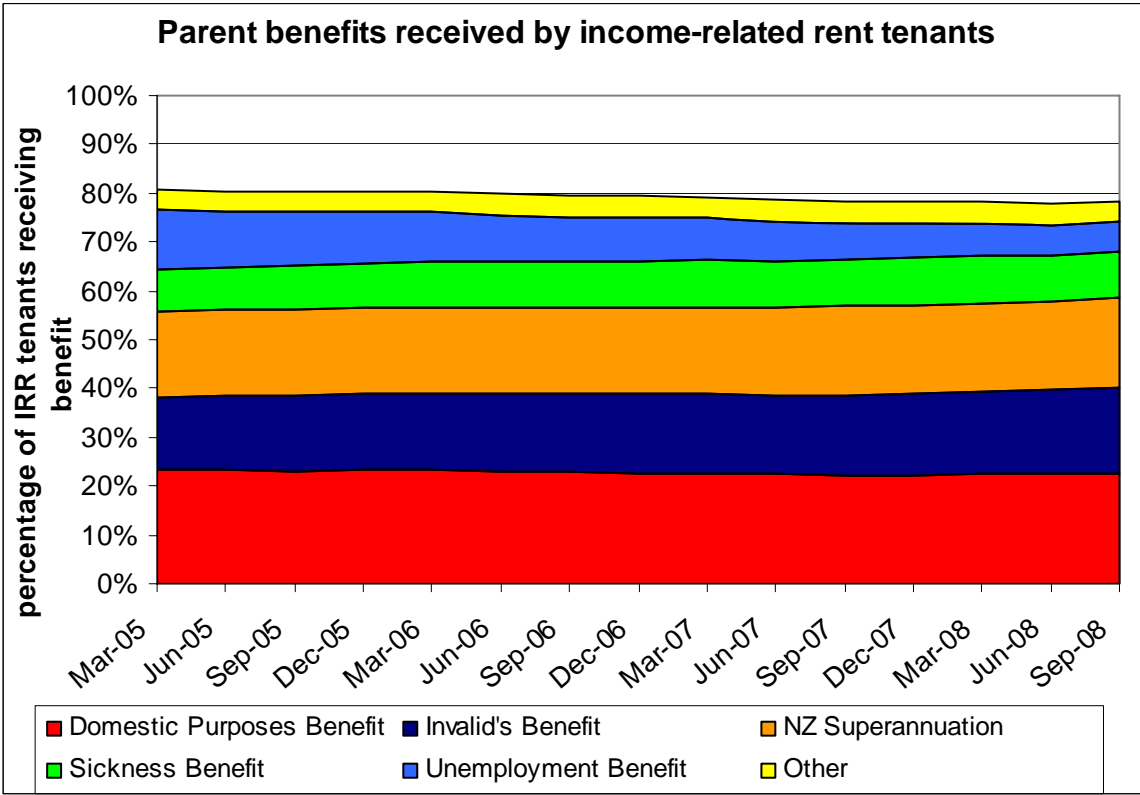
Source: Department of Building and Housing, Housing New Zealand Corporation, Ministry of Social Development and Statistics New Zealand

Total government housing assistance (as measured by IRR and AS) increased from \$342.0 million in the March 2008 quarter to \$344.5 million in the June 2008 quarter. Total government housing assistance in the June 2008 quarter was 5.0 percent more than the \$327.1 million provided in the June 2007 quarter¹⁰.

¹⁰ GDP data is not yet available for the September 2008 quarter.

There were no significant changes in the composition of benefits received by IRR tenants in the September 2008 quarter, compared with the June 2008 quarter, as shown in Figure 8.

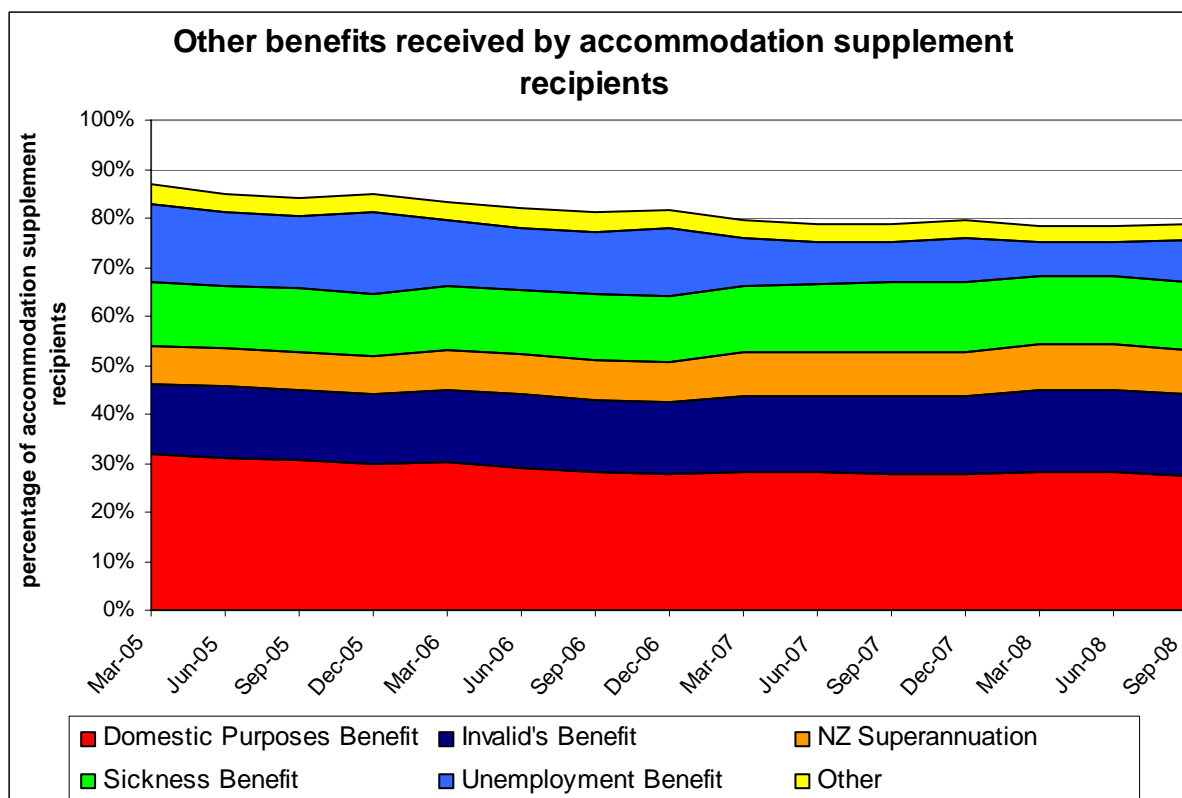
Figure 8: Parent benefits



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 September 2008 quarter, when compared with the June 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,¹¹ and applicants are divided into four groups that reflect different levels of need. The groupings are referred to as:

- A priority¹²
- B priority¹³
- C and D priority¹⁴.

¹¹ 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.

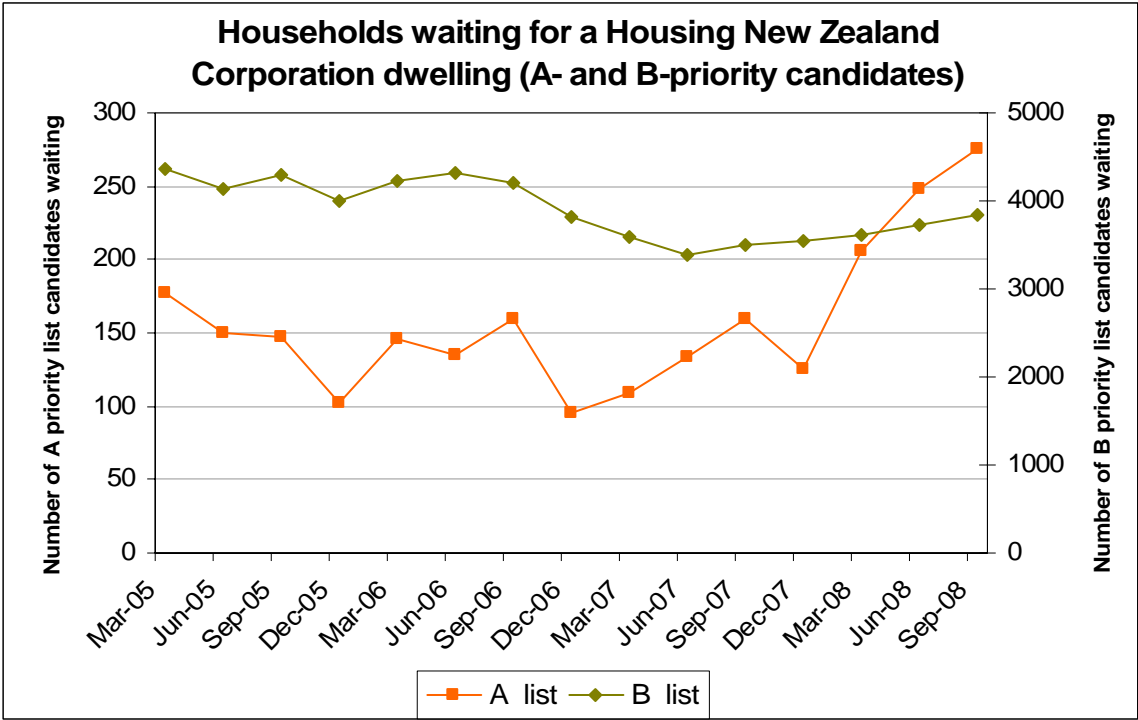
¹² 'A' priority households have severe and persistent housing needs that must be addressed immediately. The household's wellbeing is severely affected or seriously at risk due to housing circumstances that are unsuitable, inadequate or unsustainable, and there is an immediate need for action. The household is unable to access or afford suitable, adequate and sustainable housing without state intervention.

¹³ '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.

¹⁴ 'C' and 'D' priority waiting lists are for households with low to moderate housing need.

As can be seen in Figure 10, the combined A and B priority waiting lists increased from 3,985 applicants in June 2008 to 4,117 in September 2008. The A waiting list increased from 248 applicants in June 2008 to 276 in September 2008 which is almost as high as the record increase in the March quarter. The B list increased from 3,737 applicants in June 2008 to 3,841 in September.

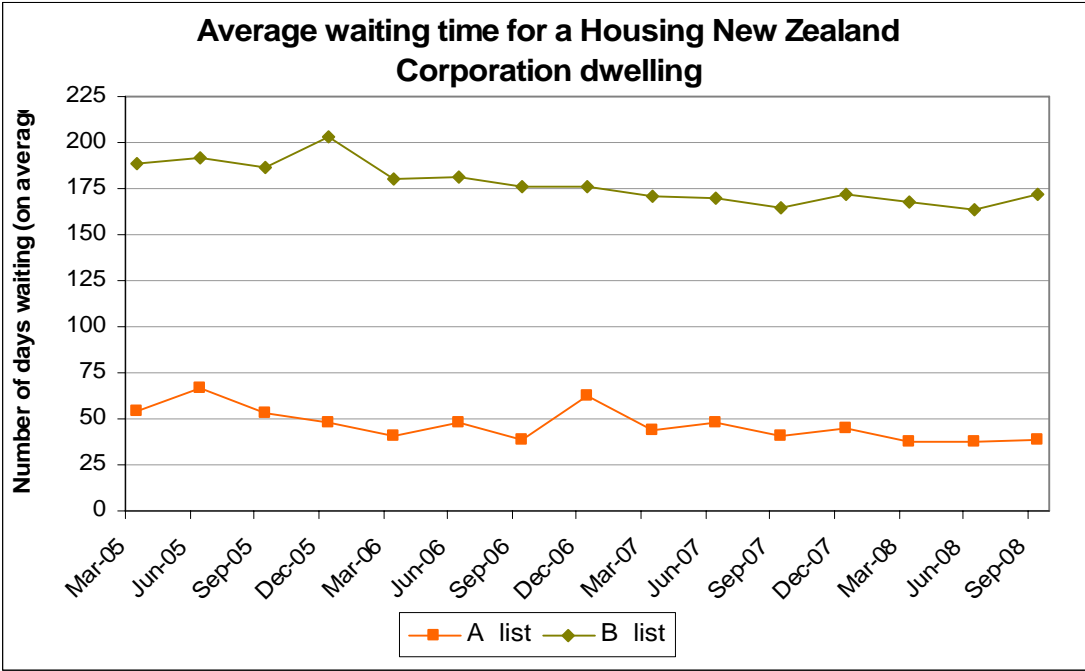
Figure 10: Households waiting for a Housing New Zealand Corporation dwelling (A- and B- priority applicants)



Source: Housing New Zealand Corporation

As shown in Figure 11, the waiting time for A priority candidates on the Housing New Zealand Corporation waiting list increased by one day to 39 days between June and September 2008. At the same time, the average time B priority applicants waited for a property increased from 164 days in June 2008 to 172 days in September 2008, breaking the previous trend of declining waiting times. This suggests that demand for Housing New Zealand Corporation properties is now increasing faster than it is being met, with consequent increase in waiting times.

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



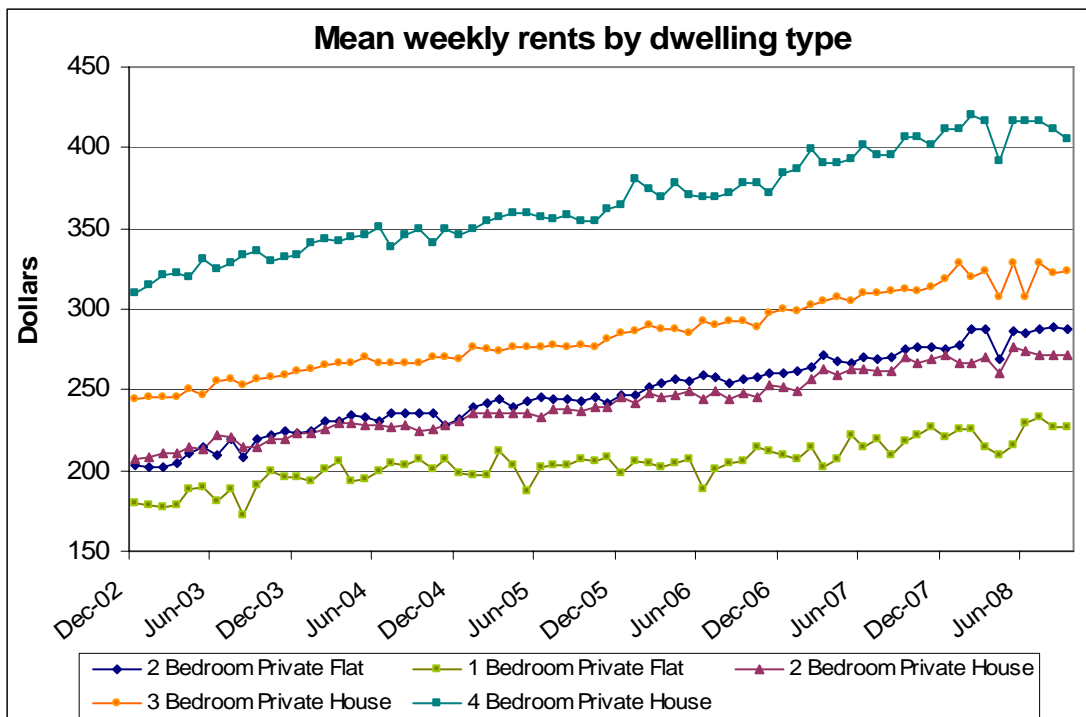
Source: Housing New Zealand Corporation

Market rent analysis

Tenancy bond data shows that for most dwelling types, average weekly rents continue to rise compared with the same period in 2007 for new private rental tenancies. In September 2008, the average weekly rent was \$227 for one-bedroom flats, \$288 for two-bedroom flats, \$272 for two-bedroom houses, \$323 for three-bedroom houses and \$405 for four-bedroom houses.

In the year to September 2008, the private market rent for a two-bedroom flat grew the most at an annual rate of 4.7 percent, followed by a one-bedroom flat at 4.1 percent, a three-bedroom house at 3.2 percent a two-bedroom house by under 1 percent; while the rent for a four-bedroom house decreased 0.2 percent over the same period. However, as can be seen in Figure 12, the rise has slowed or reversed in the September 2008 quarter.

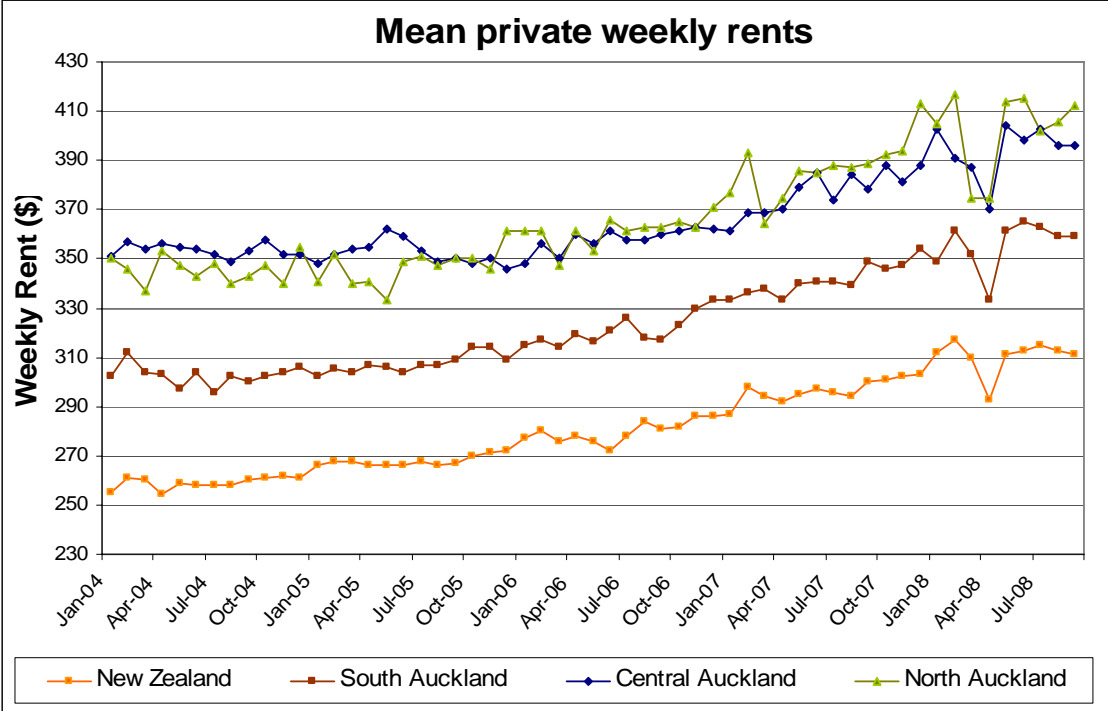
Figure 12: Mean weekly rents by dwelling type



Source: Department of Building and Housing

Overall, rents continue to increase, although at a slower rate than in the June 2008 quarter. In the year to September 2008, nationally, mean rents for new tenancies increased by 3.7 percent. Over the same period, rents for new tenancies increased by 5.9 percent in North Auckland, 4.8 percent in Central Auckland and 2.9 percent in South Auckland. At a national level, the rate of rent increases for newly established tenancies dropped towards the end of the September quarter.

Figure 13: Mean private weekly rents



Source: Department of Building and Housing

The building sector

All building activity

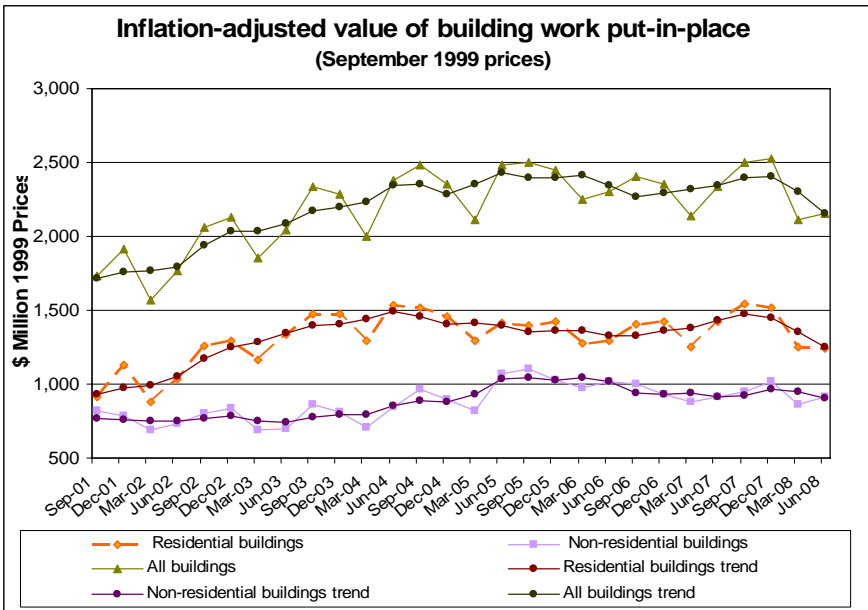
Statistics New Zealand’s quarterly data on ‘building work put-in-place’ puts an estimated gross dollar value on actual building work performed on residential and non-residential buildings. Figure 14 shows that the trend for the inflation adjusted value of all ‘building work put-in-place’¹⁵ has had a generally rising trend since September 2001. It reached a high point in the March 2006 quarter then fell for two quarters. The rising trend returned until the December 2007 quarter, since when there has been a fairly steep downwards trend which continued in the June 2008 quarter.

The unadjusted value of all ‘building work put-in-place’ in the June 2008 year was \$13,492 million, which when adjusted for inflation and seasonal variation was an increase of 0.3 percent compared with the June 2007 year. However, a recent fall in the inflation and seasonally adjusted value of building work is shown by the 7.7 percent lower level of ‘building work put in place’ during the June 2008 quarter compared with the June 2007 quarter. Building activity continues to be largely driven by residential building work, which contributed 60.3 percent to the inflation adjusted trend figure.

The trend values for ‘building work put-in-place’, also shown in Figure 14, have continued to decline during the quarter to June 2008, with a decrease of 6.3 percent from the March 2007 quarter. The trend values for June 2008 quarter also show an 8.3 percent decrease compared with the June 2007 quarter.

The inflation-adjusted and seasonally adjusted values for non-residential building work for the quarter to June 2008 have decreased by 6.7 percent from the March 2008 quarter, continuing the decline of the last three quarters. Trend values for non-residential inflation-adjusted building work, following a slight increase in the last two quarters of 2007, have also decreased for both of the last two quarters: by 0.6 percent in the March 2008 quarter and by 4.5 percent in the June 2008 quarter. In contrast, trend values for non-residential building work increased by 3.1 percent over the June 2007 year.

Figure 14: Inflation-adjusted value of building work put-in-place



Source: Statistics New Zealand

¹⁵ The real value of building work put-in-place refers to values adjusted for price inflation (constant price values at September 1999 quarter prices).

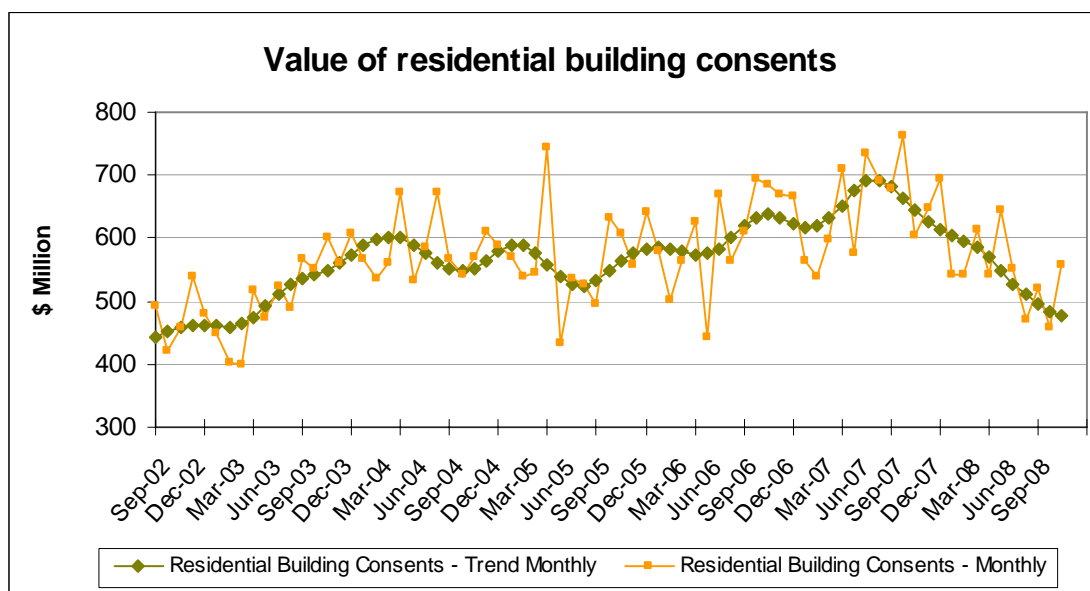
Residential building

Trend values for residential building for the quarter to June 2008 have decreased by 7.5 percent against the previous quarter, and by 14.6 percent against the same quarter of 2007, as shown in Figure 14. The inflation and seasonally adjusted total value of residential building work put in place in the year to June 2008 show a drop of 0.4 percent from the June 2007 year.

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 given here is obtained from Statistics New Zealand. It reflects consents valued at \$5,000 or more, is in current values, and is for the September 2008 quarter.

The unadjusted value of all residential building consents issued¹⁶ in September 2008 was 7.6 percent lower than in September 2007. The trend value of all residential building consents has continued to decline since its peak in August 2007 as shown in Figure 15.

Figure 15: Value of residential building consents

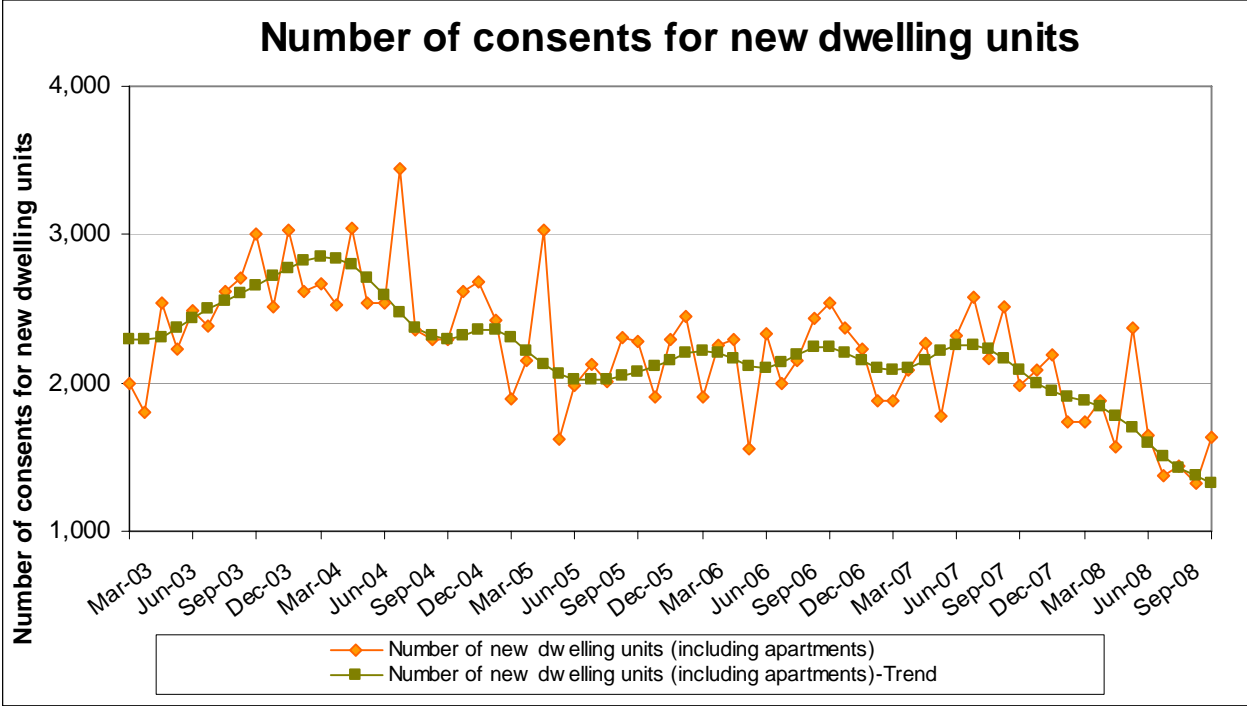


Source: Statistics New Zealand

The number of new dwellings authorised has been on a downward trend since June 2007. As can be seen in Figure 16, this trend continued in September 2008, when the unadjusted number of consents for new dwelling units (including apartments) authorised was 36.4 percent lower than in September 2007, and 41.2 percent lower than the trend peak in June 2007.

¹⁶ New residential buildings including outbuildings, plus alterations and additions.

Figure 16: Number of consents for new dwelling units

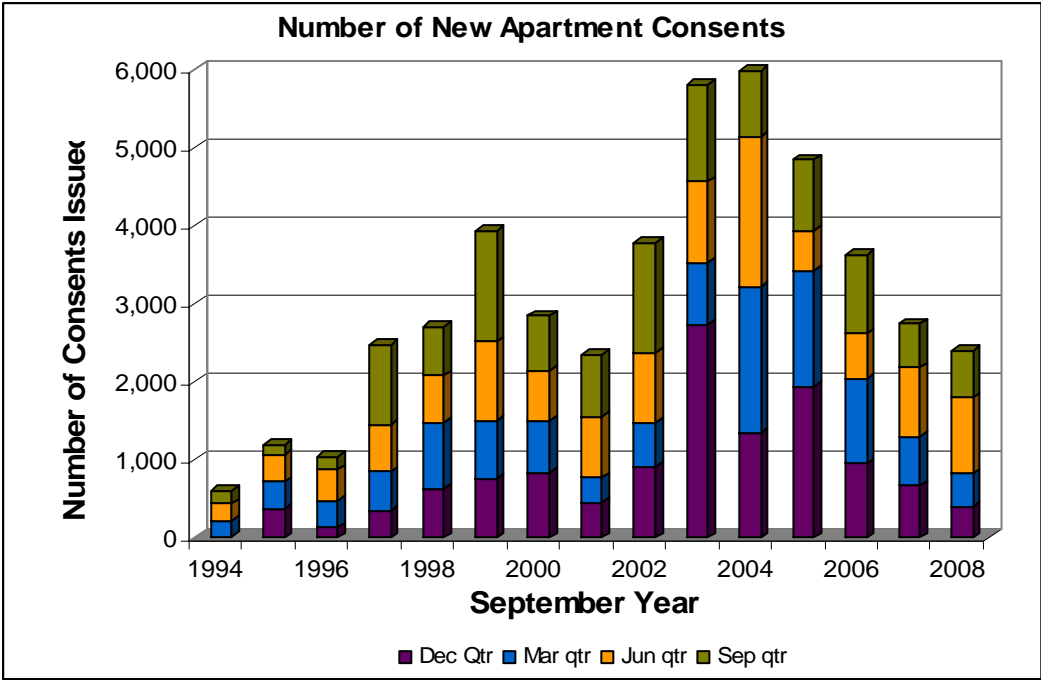


Source: Statistics New Zealand

The number of authorised apartment units can vary considerably from month to month. The number of apartment consents issued in September 2008 increased by 346.0 percent compared with September 2007. Of new dwellings authorised in September 2008, 22.4 percent were apartments, compared with a monthly average of 9.4 percent for the previous 12 months.

The annual number of authorised new apartment building consents declined by 12.5 percent from 2,741 in the year ended September 2007, to 2,399 in the year ended September 2008. This continues the steady decline since the peak in 2004.

Figure 17: Number of new apartment consents (updated)



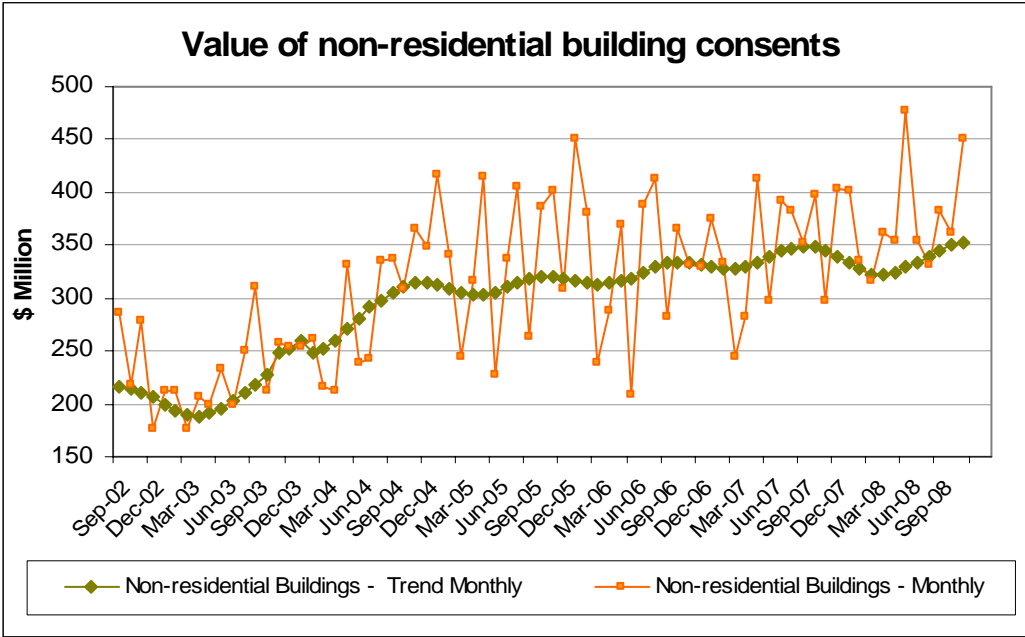
Source: Statistics New Zealand

Non-residential building

As shown in Figure 18, the number of non-residential building consents issued increased by 51.0 percent in September 2008, compared with September 2007. The largest percentage increases were in the ‘miscellaneous’, ‘social, cultural and religious buildings’ and ‘education buildings’ categories¹⁷.

For the year ended September 2008, \$4.53 billion worth of non-residential building consents were issued, which is an increase of 10.5 percent from the September 2007 year.

Figure 18: Value of non-residential building consents



Source: Statistics New Zealand

¹⁷ The remaining categories for non-residential building are ‘hostels and boarding houses’, ‘hotels, motels, etc’, ‘hospitals, nursing homes’, ‘Shops, restaurants and taverns’, ‘offices and administration buildings’, ‘storage buildings’, ‘factories and industrial buildings’, and ‘farm buildings’

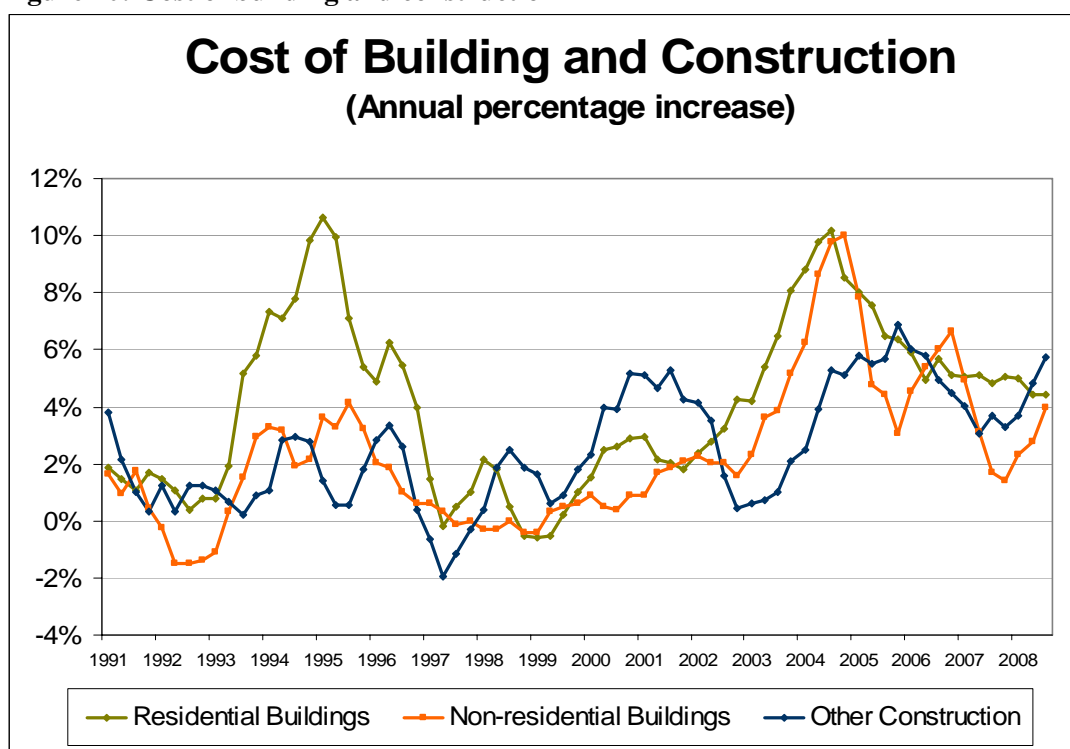
Building costs

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 September 2008 quarter, the highest CGPI increase from the previous quarter was from residential building. In the year to the September 2008 quarter, the CGPI increase for residential building was 4.4 percent, the increase for non-residential building was 4.0 percent, and the increase for other construction was 5.7 percent. The increase for the overall CGPI in the year to the June 2008 quarter was 3.8 percent.

The increase in residential building costs may be attributed to higher costs for constructing new houses.

Figure 20: Cost of building and construction



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 indices¹⁸ (which measure change in prices received by producers) and input indices¹⁹ (which measure changes in the cost of production, and exclude labour and capital costs).

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

19 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

The PPI input index for the construction industry increased by 7.8 percent in the year to the September 2008 quarter. The PPI output index for the construction industry also rose by 5.3 percent in the year to the September 2008 quarter.

The increases in the PPI indices for the construction industry were lower than those for the overall PPI. In the year to September 2008 and for all industries, PPI inputs increased 13.6 percent and PPI outputs increased 9.8 percent.

The Labour Cost Index (LCI), which records changes in salary and wage rates, showed an increase of 3.7 percent for the construction industry generally and 4.1 percent for building trade workers in the year to the September 2008 quarter. The increase in the LCI for all industries and occupations in the year to the September 2008 quarter was 3.6 percent.

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. From 1 July to 30 September 2008 the Weathertight Services Group (WSG):

- received and processed claims for 201 dwellings
- commissioned 264 and completed 320 assessments and addenda of leaky homes, quantifying the extent and cause of claimants' homes leaking, cost to repair, and identifying parties to each claim
- provided advice and presentations to 190 claimants and potential claimants during a total of 100 meetings
- closed 87 claims including 43 resolved claims
- spent \$1.929 million from 1 July 2008 to 30 September 2008 on direct costs associated with providing of assessment reports for claimants
- successfully mediated 32 cases lodged with the Weathertight Homes Tribunal (the Tribunal)
- continued with the second phase of the development of the Weathertight Consumer Awareness Programme which will run until the end of the calendar year.

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.

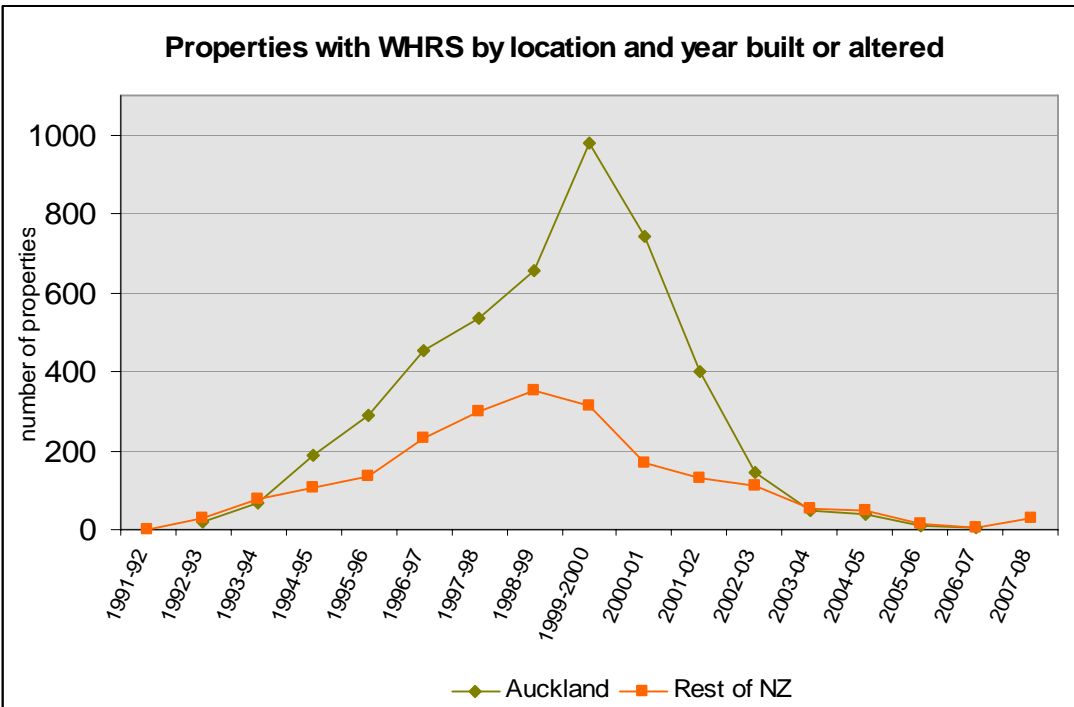
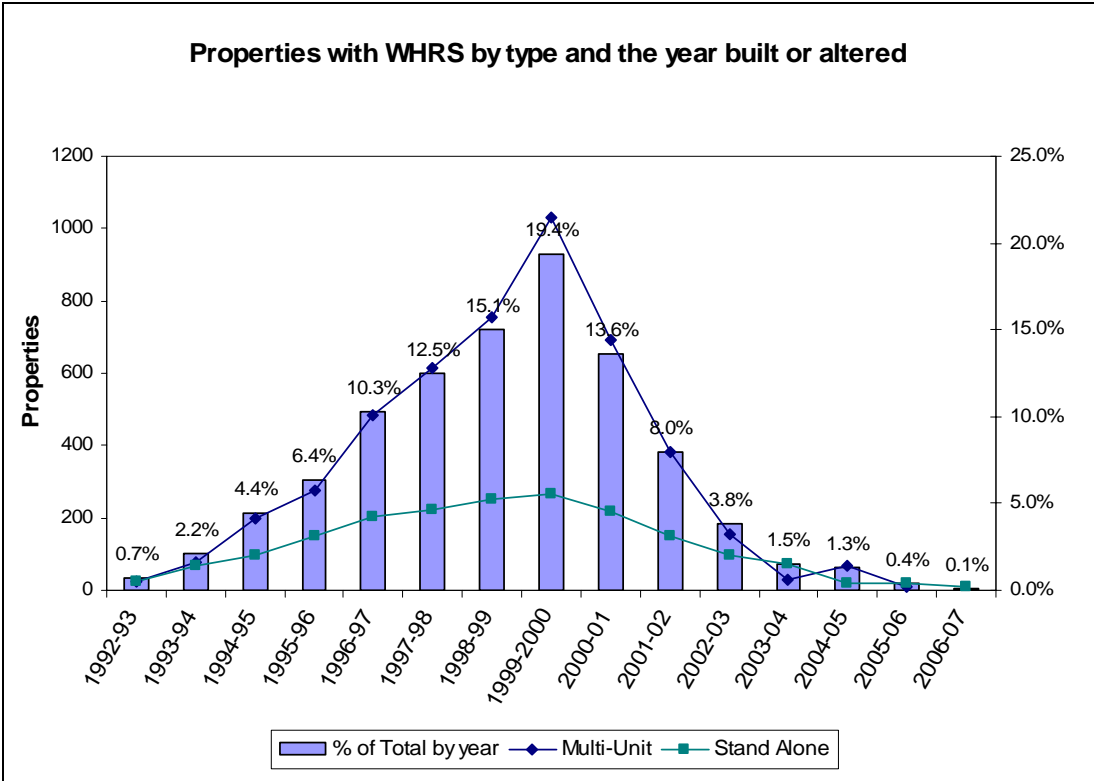
The two methods generally used to resolve claims by the Tribunal are adjudication and mediation. The mediators are provided by the Department of Building and Housing. Most claims (90 percent between 1 July and 30 September 2008) are resolved by mediation. The details of the negotiated settlements are 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 <http://www.justice.govt.nz/wht/home.asp>.

It is necessary to point out that statistics of settlement outcomes from Tribunal under-represent the actual Weathertight outcomes. 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 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.

To date, the Weathertight Services Group has developed a communications action plan for Phase Two of the Weathertightness Consumer Awareness Programme. The ConsumerBuild Weathertight pages have been updated in liaison with Consumer NZ. Articles have appeared in Consumer magazine reminding consumers about the 10 year statutory limitation period. Numerous websites that carry weathertight information have been brought up to date. Discussions

have been held with stakeholders, and articles have appeared in journals and newspapers. A programme has been developed for contact with Territorial Authorities. A more regular contact is planned for areas of highest weathertight issues. Two checklists, Buying a House and Maintaining your Home, have been updated and also translated into traditional Chinese and Korean. Some 20,000 of these checklists have been circulated to the Local Territorial Authorities, Citizens Advice Burros, Real Estate agents, organisations like BRANZ, Master Builders, BOINZ etc.



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 4 November 2008, the Department had processed a total of 624 determinations. Approximately 70 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 4 Nov 2008
Cladding/weathertightness	1	68	144	89	80	53
Access and facilities for people with disabilities	5	2	4	4	4	8
Fire safety	1	2	8	5	1	3
Surface water	2	2	0	5	0	1
Swimming pool fencing	1	0	2	4	4	0
Structure/ durability	0	1	1	1	6	6
Interior environment and facilities	0	1	2	1	3	3
Land subject to natural hazards	0	1	1	3	2	1
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	22
Total	11	77	166	129	141	100

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

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 remainder of the North Island (Thames-Coromandel, Franklin, Auckland and areas north) on 30 September 2008. The new requirements took effect in the South Island and the North Island Central Plateau last year and the balance of the North Island in mid 2008.

Consultation on the proposed Compliance Document for simple housing

Consultation on a proposed Compliance Document for simple housing closed at the end of August 2008 and analysis of submissions is proceeding.

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.

The Starter Home Design Competition is intended to accompany the consultation on the Compliance Document. The competition encourages designers, architects, builders and students to use their creativity to come up with innovative designs and solutions for good quality, affordable homes that offer flexibility and functionality for first-home buyers. The competition will run between September and November 2008. The winning designs will be announced in the New Year. One of the winning designs will be built by the Housing New Zealand Corporation.

The Compliance Document will be published once the design competition is complete in order to consider ideas generated by the competition.

Backcountry huts

In late September Cabinet approved changes to the New Zealand Building Code to simplify consenting for Department of Conservation (DoC) backcountry huts. Amendments come into effect on 31 October 2008.

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.

Backcountry huts that are in remote and inaccessible locations (assessed on a case-by-case basis by the Director General of Conservation) are exempt from the requirements to have certain

features that are not consistent with their intended use, such as smoke alarms, potable water supply, artificial lighting, and ramps and accessible toilets for wheelchair users.

The Department is currently consulting on a proposed Compliance Document for Back Country Huts intended to accompany the Building Code changes and to make it easier for DoC to build and replace backcountry huts in the future.