



Department of  
Building and Housing  
*Te Tari Kaupapa Whare*

## **Building and Housing Trends: September to December 2008**



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## Introduction

This *Building and Housing Trends* reports sector activity for the period from 1 October to 30 December 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.



## Executive summary

The global economy is in its weakest period of growth since the Second World War and New Zealand is no exception. The general economy is contracting, particularly in the building and housing sector. Forecasts from the Reserve Bank, banks and other agencies for both the sector and the wider economy have been revised downwards since the last quarter, becoming more pessimistic and now not expecting recovery until the 2010-2011 year.

In the building and construction sector, the recent history and immediate outlook are challenging. The value and volume of all building work fell during the December 2008 quarter, and the trend continues downward. Residential building shows considerable falls in volume and value, and while the value of non-residential building work grew in the December quarter, the trend for that is also now declining. Building consents, an indicator of future building work, are also falling, with each of the years to October, November and December 2008 and January 2009 having the lowest number of consents issued since the series began in June 2002. The downward trend is expected to continue through the March 2009 quarter and beyond. This lowered level of building will create future pressure, particularly on the housing market, with an expectation of inadequate supply to meet emerging housing needs over the next few years.

The downturn in the sector has flow-on consequences for sector employment. There are now fewer people employed in the sector, for fewer hours, than at the 2006 peak; the rate fell in the second half of 2008; and, with less building work, is likely to drop further. These lower employment prospects may lie behind the climbing net departure figures for those employed in construction and building-related trades in New Zealand, with a total of 1,143 people leaving the New Zealand industry in the year to December 2008. If, as is forecast, these falls or low levels of employment continue beyond the near term, there is a likelihood that the sector will lack the necessary capacity and skill level to respond effectively to any upturn in the market that may occur in late 2009 or early 2010.

Residential building costs are rising more slowly than before (an increase of only 2.9 percent in the year to December 2008 in comparison with 5.1 percent for the year to December 2007) as a result of the lower demand, and are likely to continue doing so. Non-residential costs continued to rise, up 3.0 percent in the year to December 2008 compared with 1.4 percent to December 2007, while other construction costs rose by 5.5 percent in the year to December 2008 compared with 3.3 percent the previous year. The April NZIER Quarterly Survey of Business Opinion reports that business confidence in the sector remains low, and anticipates a worsening situation for the next six months in all aspects of the industry except costs.

The housing market is continuing to slow, although not as quickly as before. The rate of decline in house prices slowed to 4.4 percent in the January 2009 year, and 2.2 percent in the February 2009 year for the whole of New Zealand (with a similar rate of slowing in Auckland), suggesting a potential levelling off in the decline in house prices. Rent increases have remained stable across all types of rental properties, and continue to show lower rates of growth than house prices since the December 2007 quarter.

Government housing assistance rose with just over 18,000 additional people receiving an accommodation supplement and 1,300 more households receiving an income-related rent. There was an increase in Housing New Zealand Corporation high priority waiting lists (Priority 'A' and 'B', with 4,150 applicants in December 2008 compared with 3,669 applicants in December 2007), continuing the climbing trend that started in June 2007 (the trend was downward in the years prior to this). Average waiting times increased for both priority 'A' applicants (up from 45 days in December 2007 to 62 days in December 2008), and priority 'B' (from 172 days in December 2007 to 190 days in December 2008).

## The economy

### *Economy slowing, forecasts more pessimistic*

- New Zealand's inflation adjusted for real GDP increased 1.7 percent in the year to September 2008, compared with the previous year's increase (to September 2007) of 2.8 percent. Quarterly GDP data shows that economy-wide GDP growth decreased 0.4 percent in the September 2008 quarter.
- Construction industry activity (value added) fell by 8.4 percent in real terms in the year to the September 2008 quarter<sup>1</sup>, compared with a 6.3 percent growth in the year to the September 2007 quarter.
- Investment forecasts have been revised down. The Reserve Bank expects that in the year to March 2009, real investment will have fallen by 7.7 percent, real residential investment by 22.9 percent, real business investment by 3.6 percent, and real government sector investment by 5.6 percent.

### *Fewer people employed in construction for fewer hours than at the 2006 peak; falling in the second half of 2008, and likely to drop further.*

- The Household Labour Force Survey estimates that 177,900 people were employed in the construction industry in the December 2008 quarter. This is 2.3 percent lower than the December 2007 quarter.
- The Quarterly Employment Survey showed that the number of paid hours in the construction industry fell 6.9 percent for the December 2008 quarter compared with the same quarter in 2007.
- The extremely low number of building consents issued in January 2009 is expected to have a negative impact on sector employment figures for coming quarters. Supporting this is the NZIER April 2009 Quarterly Survey of Business Opinion, which shows that building industry leaders expect the levels of employment in the industry to fall in the March and June 2009 quarters.

### *Inflation in the housing sector is down, rent increases are stable*

- Inflation in the housing sector has dropped to 4.3 percent in the year to the December 2008 quarter, considerably lower than the 5.2 percent in the year to the December 2007 quarter.
- Inflation for home ownership (measured by the new housing price index) was 3.1 percent in the year to December 2008, falling from 4.6 percent in the year to September 2008.
- Actual rents increased by 3.0 percent in the year to December 2008, only 0.1 percent less than for the year to September 2008 (3.1 percent). Rents have shown lower rates of growth than house prices since the December 2007 quarter.
- Household inflation, as measured by the CPI, was down to 3.4 percent in the year to December 2008, compared with 5.1 percent in the year to September 2008.

## The building sector

### *Price-adjusted value and volume of all building work fell, trend continues downward*

- The unadjusted value of all 'building work put-in-place' in the December 2008 year was \$12,544 million, down 7.5 percent from the previous year, of which residential building work was 58.4 percent.

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<sup>1</sup> The 'year to the [month] quarter' indicates year-on-year quarterly data is being reported. 'Year to [month]' is used when reporting annual data.

- Falling price-adjusted trend values<sup>2</sup> for all ‘building work put-in-place’<sup>3</sup> have continued during the quarter to December 2008, with a decrease of 4.5 percent from the September 2008 quarter, and a 17.5 percent decrease compared with the December 2007 quarter.

#### *Residential building shows steep falls in volume and value*

- The price and seasonally adjusted total value of residential building work put in place in the December 2008 quarter shows a drop of 31.4 percent from the December 2007 quarter.
- Trend values for residential building work for the quarter to December 2008 have decreased by 11.8 percent against the previous quarter, and by 30.5 percent against the same quarter in 2007.
- The number of building consents for new dwellings authorised continues a downward trend following the peak in June 2007. The number of consents for new dwelling units (including apartments) authorised in December 2008 was 35.2 percent lower than in December 2007; January 2009 figures were 53.4 percent lower than in January 2008. This trend is expected to continue through the March 2009 quarter and beyond.

#### *Value of non-residential building work grew in the December quarter, but the trend is now declining*

- Trend values for non-residential building work have grown in the December quarter by 3.3 percent from the previous quarter and by 3.5 percent over the year since December 2007.
- The value of non-residential building consents issued increased by 7.7 percent in the year to December 2008 to \$4.52 billion. The largest increases were in ‘social, cultural and religious buildings’, ‘education buildings’ and ‘Offices and administration buildings’ categories. The largest falls were in ‘Hostels and boarding houses’ and ‘Shops, restaurants and Taverns’.
- Updated (January 2009) trend values for non-residential building consents are now showing a downturn with trend values decreasing since September 2008, so non-residential building consents are now following a downward trend similar to that which appeared earlier in residential consents.

#### *Building costs rising more slowly*

- Capital, production and labour costs continue to be subject to inflationary pressures. Between the December 2007 and the December 2008 quarters, the Capital Goods Price Index measured price increases of 2.9 percent for residential building, 3.0 percent for non-residential building and 5.5 percent for other construction.
- The Producers Price Index for construction industry inputs for the year to the December 2008 quarter increased 6.4 percent, compared with 9.7 percent for all industries.
- Labour costs (as measured by the Labour Cost Index) increased 3.7 percent for building trade workers, and 3.9 percent for the construction industry generally.

## **The housing sector**

#### *House prices continued to fall, but less steeply*

- The housing market is continuing to slow, with price decreases and fewer sales in recent months.

<sup>2</sup> Trend values exclude estimated seasonal fluctuations and short-term irregular movements.

<sup>3</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.

- REINZ report the median house price for the whole of New Zealand fell by 4.8 percent in the year to December 2008, to \$328,500. This is the largest annual decline in median house prices recorded since January 2002. Median house prices declined by 4.3 percent in the year to October 2008, and by 4.1 percent in the year to November 2008.
- The median house price for Auckland fell by 4.3 percent in the year to December 2008 continuing the downward trend of the previous two quarters.
- The rate of decline in house prices slowed to 4.4 percent in the January 2009 year and to 2.2 percent for the February 2009 year for the whole of New Zealand. Similarly, Auckland median house prices showed slower reductions of 2.5 percent in the January 2009 year and 1.3 percent for the February 2009 year. This may signal a levelling off in the decline of house prices.

*Volume of house sales down by nearly a quarter on the year before, and taking longer to sell*

- REINZ report that there were 4,302 house sales during the month of December 2008. This is a decline of 23.1 percent on December 2007, and a 47.8 percent decline on December 2006, showing a continuing general downward trend in house sales volume.
- The downward trend continued with the number of sales down by 28.5 percent in the year to January 2009, and by 17.7 percent in the February 2009 year. However, the rate of decline is slowing; another possible indication that the declining market is beginning to level out.
- The median number of days taken to sell a property in December 2008 was 45 days, 25.0 percent longer than the 36 days it took in December 2007 and 55.2 percent longer than the 29 days in December 2006. This is consistent with the sales volume data, and indicates that the market continued to cool.
- Moving into the March 2009 quarter, the annual duration to sell is still increasing: by 20.4 percent (to 59 days) in the January year and 24 percent (to 62 days) in the year to February.

*Government housing assistance rose, numbers of applicants for government housing grew, and the time to house people on the lists increased*

- Government assists low-income families into affordable housing mainly through the Accommodation Supplement (AS) and Income-Related Rents (IRR). In December 2008, there were 268,785 AS recipients and 60,299 IRR tenants, compared with the figures for December 2007 of 250,397 and 58,934 respectively.
- Total government housing assistance in the September 2008 quarter was \$360 million, 7.1 percent more than provided in the September 2007 quarter.
- There were no significant changes in the composition of other benefits received by either IRR or AS recipients, but it is noted that the number of unemployment beneficiaries on AS has been growing for the past two quarters as a proportion of the total.
- 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 0.8 percent in the December 2008 quarter. Of these, the A list decreased by 19.2 percent to 223 from 276 applicants in September 2008; however, this was an increase of 78.4 percent on the same quarter for the previous year.
- The average waiting time for people on the A priority waiting list increased by 59.7 percent from 39 days to 62 days between September and December 2008, although this was a fall of 1.5 percent on the same period in 2007. The average waiting time for B priority applicants increased by 10.3 percent from 172 days in September to 190 days in

December 2008, continuing the increase of the previous quarter, and 7.7 percent longer than in the same period of 2007.

- Tenancy bond data shows a slowing growth of average weekly rents for new private rental tenancies. In December 2008, the average weekly rent was \$223 for one-bedroom flats, \$283 for two-bedroom flats, \$268 for two-bedroom houses, \$318 for three-bedroom houses and \$413 for four-bedroom houses.



# The economy

## Economic growth and industry outputs

*Economy slowing, forecasts more pessimistic*

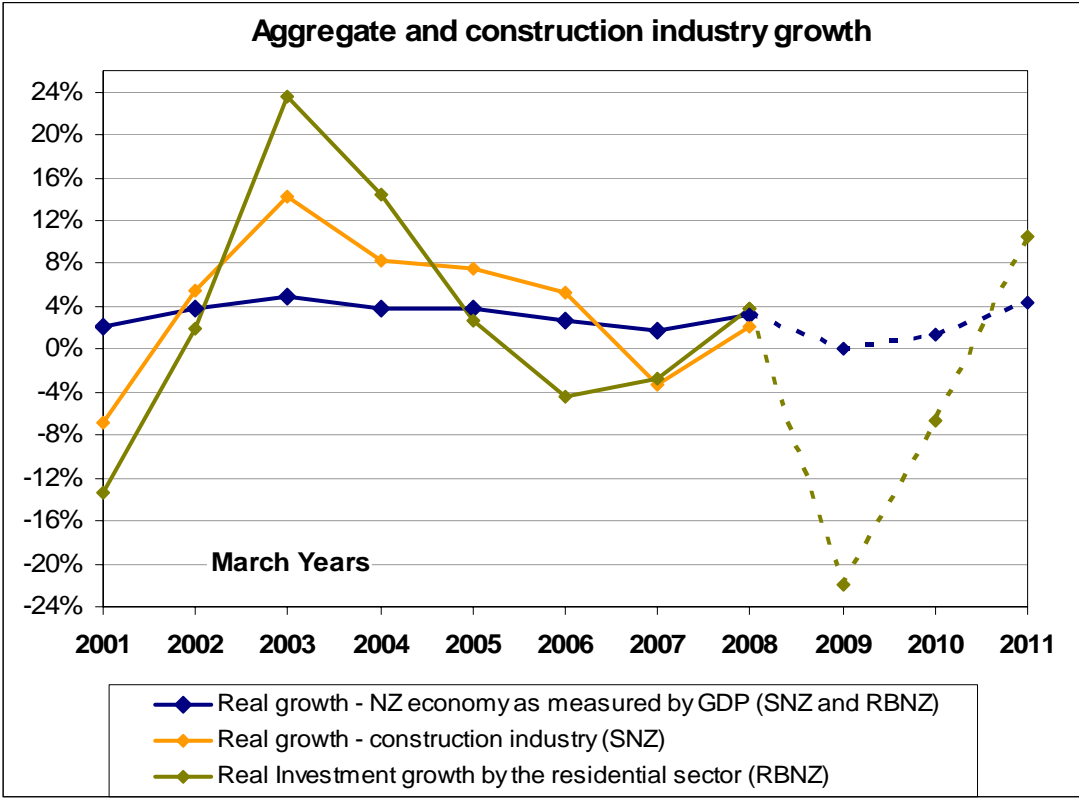
New Zealand’s economic activity, measured by inflation-adjusted or real GDP, decreased 0.4 percent in the September 2008 quarter, the third consecutive quarterly decrease. The annual growth in GDP for the September 2008 year has fallen to 1.7 percent compared with the 2.8 percent growth recorded in the year ended September 2007.

The value of construction industry activity increased in the year to the December 2007 quarter by 4.2 percent, fell 0.4 percent (revised) in the year to the March 2008 quarter; dropped another 5.5 percent in the year to the June 2008 quarter, and fell again by 8.4 percent in the year to the September 2008 quarter. This contrasts with a 6.3 percent growth in the year to the September 2007 quarter.

In its March 2009 Monetary Policy Statement, the Reserve Bank revised its forecasts downwards, predicting that real investment (as measured by inflation-adjusted Gross Fixed Capital Formation) will have decreased by 7.7 percent in the year to March 2009. Over this period, real residential investment is expected to fall by 22.9 percent, real business investment to fall by 3.6 percent, and real government sector investment to fall by 5.6 percent.

The Reserve bank and NZIER forecast that economic recovery will be slow, starting towards the end of 2009, and with slow growth in each of the March 2010 to 2013 years.

**Figure 1: Aggregate and construction industry growth**



Source: Reserve Bank and Statistics New Zealand

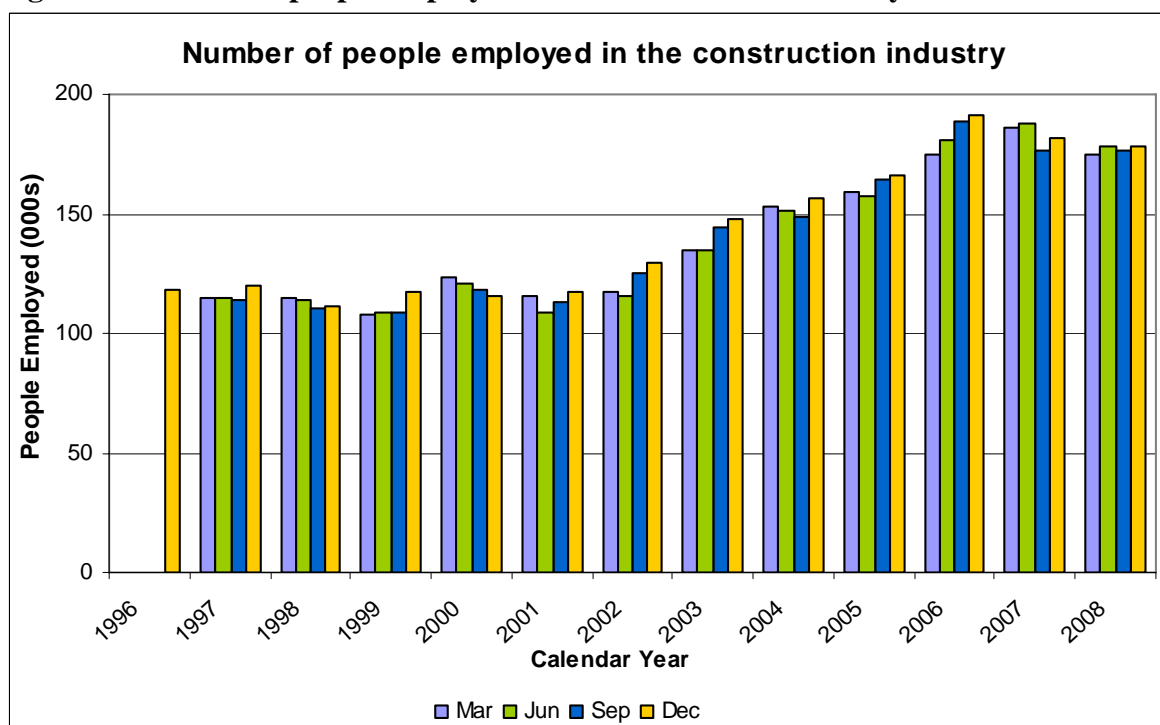
## Labour market

*Fewer people employed in construction for fewer hours than at the 2006 peak; falling in the second half of 2008, and likely to drop further.*

The number of people employed in the construction industry continued to fall after a period of strong growth that peaked at 191,700 in the December 2006 quarter. Quarterly construction industry employment numbers had fallen from 191,700 in the December 2006 quarter to 182,100 in the December 2007 quarter (a drop of 5.0 percent), and dropped a further 2.3 percent to 177,900 in the December 2008 quarter. The December employment figures in previous years have usually been slightly higher than for the preceding quarters, and this continues to be true for the December 2008 quarter as may be seen in Figure 2.

Similarly, Statistics New Zealand's December 2008 figures from the Quarterly Employment Survey reported that the number of paid hours in the construction industry fell 6.9 percent for the December 2008 quarter compared with the December 2007 quarter. Employment for all industries fell by 1.3 percent in the same period while only two other sectors (forestry & mining and manufacturing) had greater percentage reductions than construction.

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



Source: Statistics New Zealand

Although not yet showing in the reported figures, the extremely low numbers of building consents being issued will inevitably have an impact on sector employment. There has been a net departure from New Zealand of 1,143 people employed in construction and building-related trades in the year to December 2009, compared with 447 people in the industry leaving in the previous year. If, as is forecast, these low levels of employment continue beyond the near term, there is a likelihood that the sector will lack the necessary capacity and skill level to respond effectively to any upturn in the market that may occur in late 2009 or early 2010.

## Cost of purchase of new housing and renting

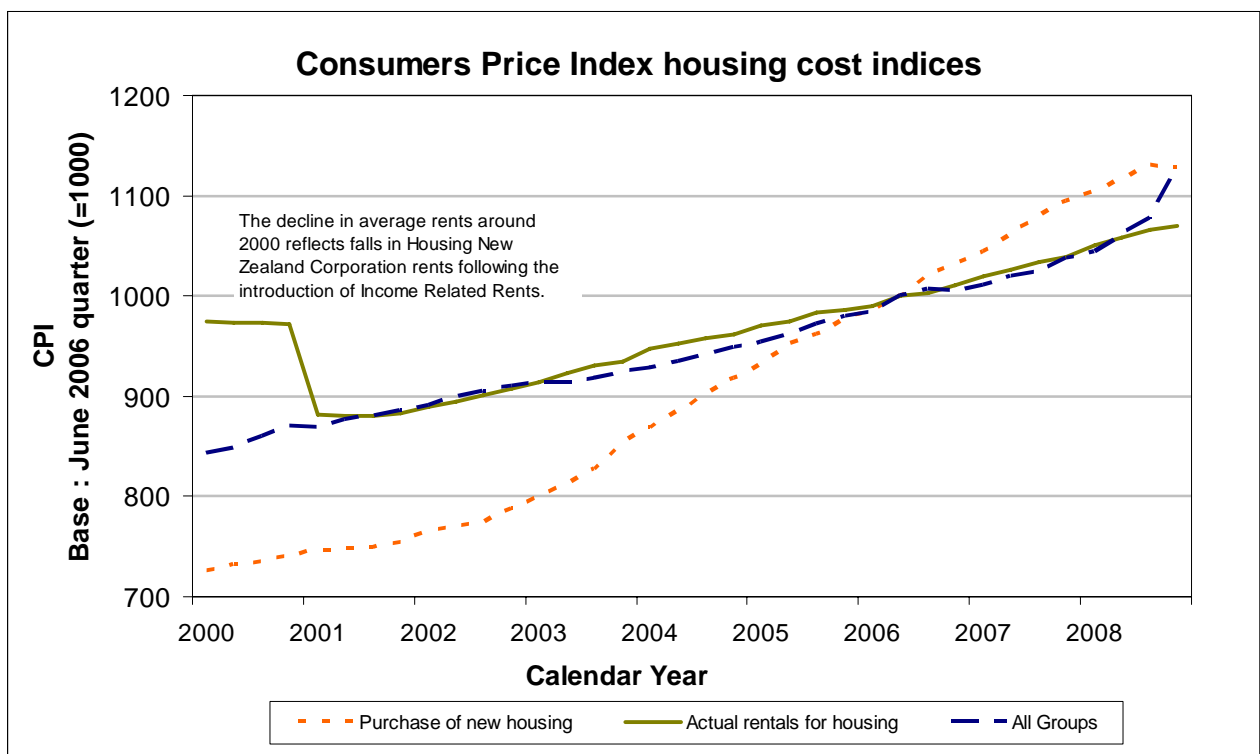
*Inflation in the housing sector is down, rent increases are stable*

Inflation in the housing sector is largely measured by movements in the 'housing and household utilities' group<sup>4</sup> of the Consumer Price Index (CPI), and had been steady at about 5 percent per annum since the December 2005 quarter. However, housing sector inflation is flattening, and increased only 0.6 percent in the December 2008 quarter compared with the previous quarter. This followed increases of 1.4 percent in the September 2008 and 1.2 percent in the June 2008 quarters. This has brought the whole-year sector inflation rate down to 4.3 percent in the year to December 2008 from 5.2 percent in the previous December year.

Inflation in the price of new housing has slowed, and was 3.1 percent in the year to December 2008, falling from 4.6 percent in the year to the September 2008 quarter.

Rent inflation continues to be lower than general price inflation. Actual rents for housing increased by 3.0 percent in the year to December 2008, only 0.1 percent less than the rate of increase as for the year to September 2008 (3.1 percent). General price inflation (as measured by the CPI all groups) was down to 3.4 percent in the year to December 2008, compared with 5.1 percent in the year to September 2008.

**Figure 3: Consumers Price Index and housing cost indices to December 2008**



Source: Statistics New Zealand

<sup>4</sup> 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.

# The building sector

## All building activity

*Price-adjusted value and volume of all building work fell, trend continues downward*

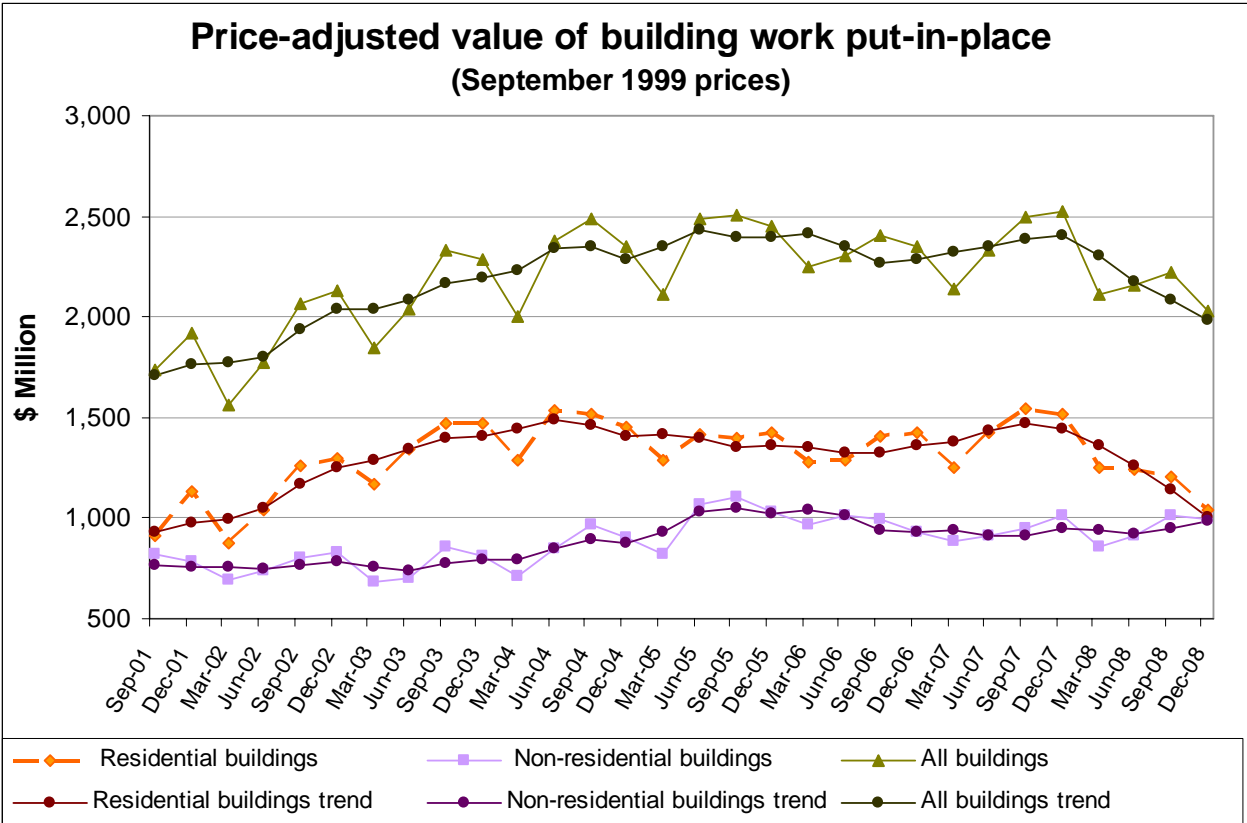
Statistics New Zealand’s quarterly data on ‘building work put-in-place’ puts an estimated gross dollar value on actual building work performed on residential and non-residential buildings.

Figure 4 shows that the trend for the price-adjusted value of all ‘building work put-in-place’<sup>5</sup> has been generally rising since September 2001, reached a high point in the March 2006 quarter then fell for two quarters, before the rising trend returned until the December 2007 quarter. Since then there has been a fairly steep downwards trend which has continued in the September and December 2008 quarters.

The unadjusted value of all ‘building work put-in-place’ in the December 2008 year was \$12,544 million, down 7.5 percent from the previous year. For the whole year, residential building work contributed 58.4 percent to the un-adjusted total value.

The trend values for all ‘building work put-in-place’, also shown in Figure 4, continued to decline during the December 2008 quarter, with a decrease of 4.9 percent from the September 2008 quarter, and a 15.7 percent decrease ( or 17.5 percent decrease when adjusted for price) compared with the December 2007 quarter.

**Figure 4: Price-adjusted value of building work put-in-place**



Source: Statistics New Zealand

<sup>5</sup> The real value of building work put-in-place refers to values adjusted for price changes (constant price values at September 1999 quarter prices).

## Residential building

*Residential building shows steep falls in volume and value*

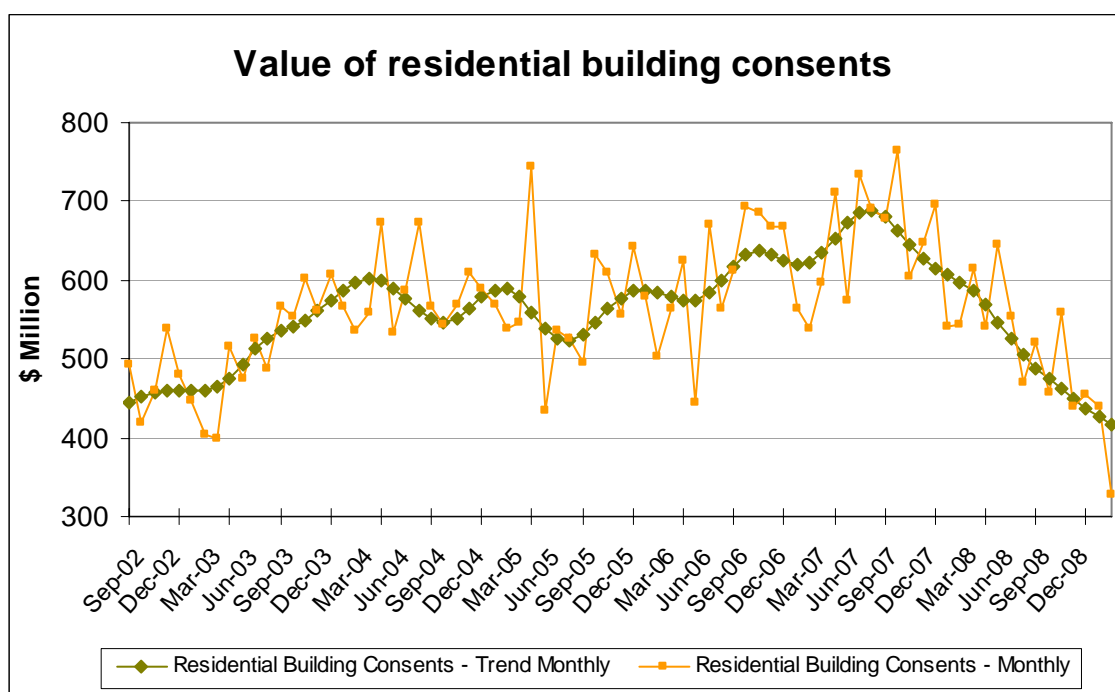
Trend values for residential building work put in place for the quarter to December 2008 have decreased by 11.8 percent against the previous quarter, and by 30.5 percent against the same quarter of 2007, as shown in Figure 14. The price and seasonally adjusted total value of residential building work put in place in the year to December 2008 shows a drop of 31.4 percent from the December 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, obtained from Statistics New Zealand. It reflects consents valued at \$5,000 or more, is in current values, and is for the December 2008 quarter. Later figures are included where available.

The unadjusted value of all residential building consents issued<sup>6</sup> in the quarter to December 2008 was 29.2 percent lower than in the same quarter in 2007.

Statistics from January 2009 show the trend value of all residential building consents has been declining since its peak at \$689 million in June 2007 to \$426 million in December 2008, and \$416 million in January 2009, as shown in Figure 5.

**Figure 5: Value of residential building consents (incl. January 2009 figures)**



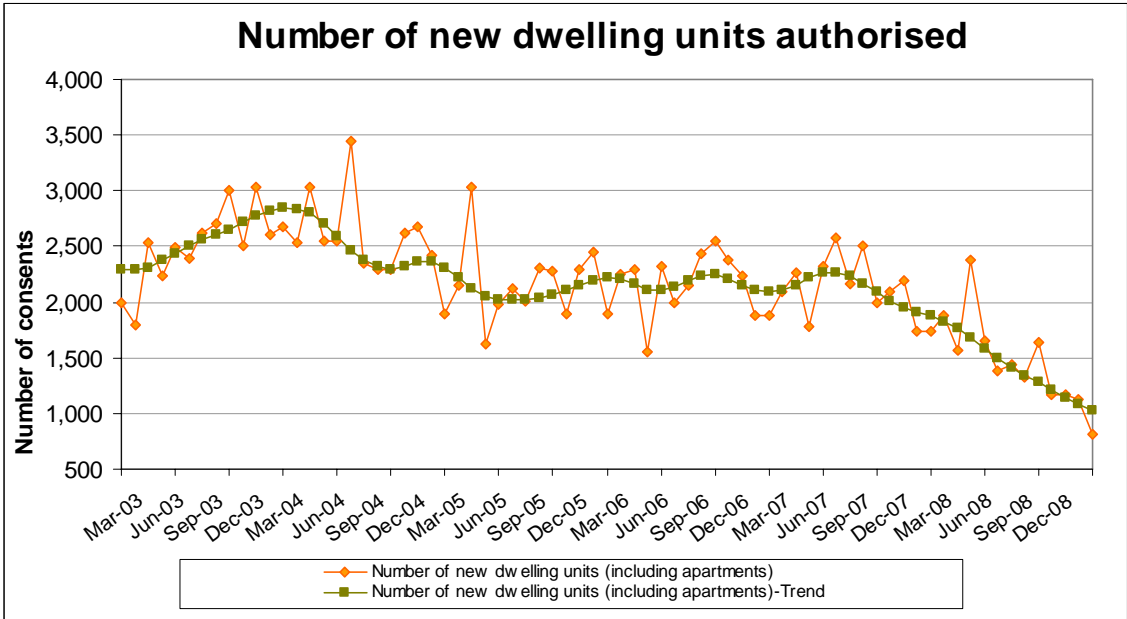
Source: Statistics New Zealand

The number of new dwellings authorised has also fallen, continuing the downward trend since June 2007. As can be seen in Figure 6, this trend continued in December 2008, when the unadjusted number of new dwelling (including apartments) authorised was 35.2 percent lower than in December 2007 and 56.2 percent lower than the peak in June 2007.

<sup>6</sup> New residential buildings including outbuildings, plus alterations and additions.

This steep decline continued into January 2009, when the unadjusted number of new dwelling units (including apartments) authorised was 53.4 percent lower than in January 2008. The figures in our next report for the March 2009 quarter are expected to continue this downward trend.

**Figure 6: Number of new dwelling units authorised**

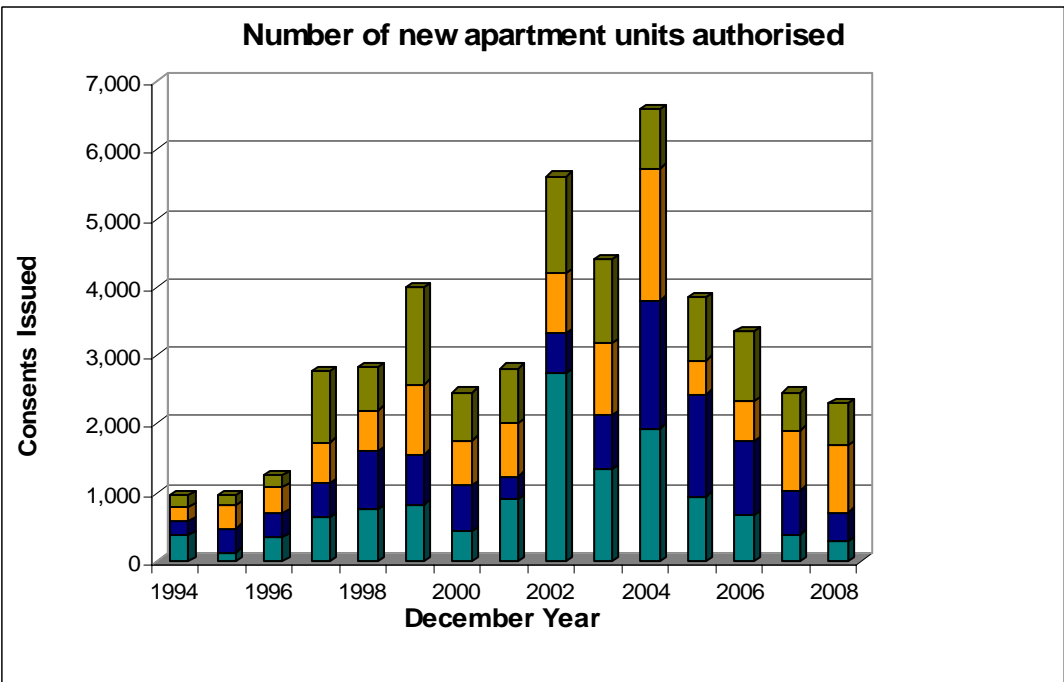


Source: Statistics New Zealand

The number of authorised apartment units can vary considerably from month to month. The number of new apartments authorised in December 2008 fell by 41.1 percent compared with December 2007. Of new dwellings authorised in December 2008, 11.2 percent were apartments, approximating the monthly average of 11.6 percent for the previous 12 months.

The annual number of new apartment authorised declined by 6.9 percent from 2,469 in the year ended December 2007, to 2,298 in the year ended December 2008. This continues the steady decline since the peak in 2004.

**Figure 7: Number of new apartment units authorised**



Source: Statistics New Zealand

This reduction in building of dwellings will create pressure in the future as emerging housing needs create a greater demand than can be supplied.

### Non-residential building

*Value of non-residential building work grew in the December quarter, but the trend is now declining*

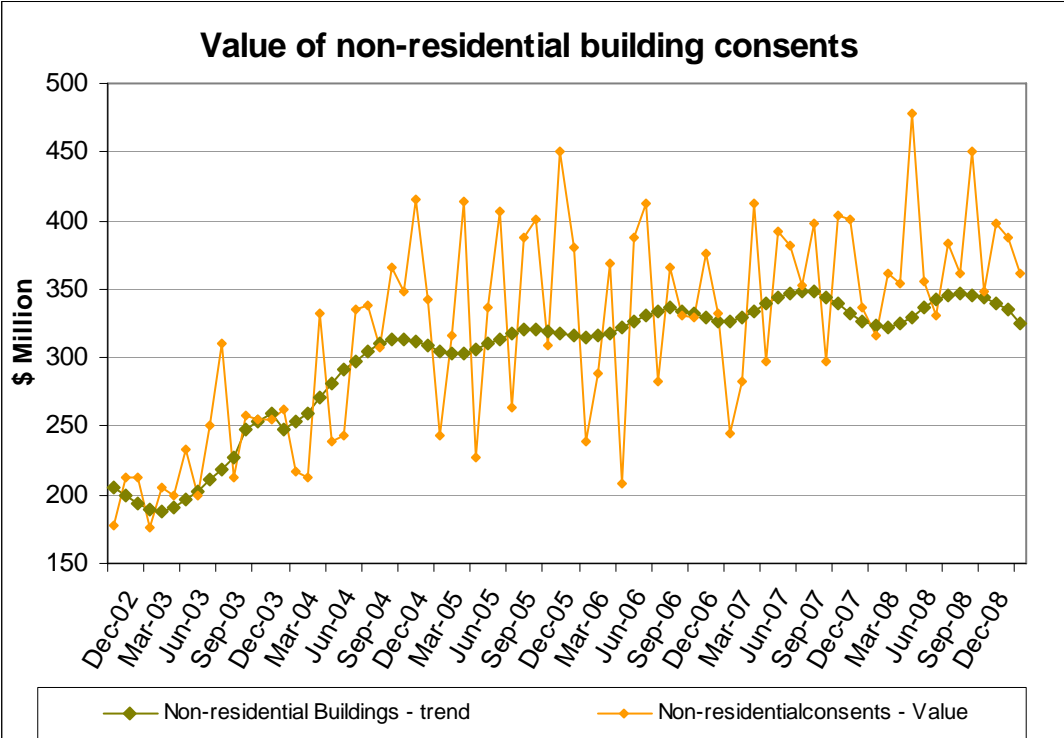
The price-adjusted and seasonally adjusted values for non-residential building work put in place for the quarter to December 2008 increased by 1.6 percent from the previous quarter, following an increase between the March and September 2008 quarters of 5.2 percent. This increase was in part due to more building jobs with a value of over \$10 million in the December quarter than usual (Figure 14).

Price and seasonally adjusted trend values for non-residential building work put in place have also grown for the last two quarters: by 2.9 percent in the September 2008 quarter and by 3.3 percent in the December 2008 quarter. Over the December 2008 year, trend values for non-residential building work increased by 3.5 percent (Figure 14).

The issuing of non-residential building consents provides an indication of future levels of non-residential building work. As shown in Figure 18, the value of non-residential building consents issued increased by 7.7 percent in the year to December 2008, compared with the previous year. The largest percentage increases in value were in the ‘education buildings’, ‘offices and administration buildings’, and ‘farm buildings’. The largest falls were in ‘shops, restaurants and taverns’, hostels and boarding houses’ and ‘hotels and other short term accommodations’. A total of \$4.52 billion worth of non-residential building consents were issued in 2008.

However, as can be seen in Figure 8, the January 2009 trend values for non-residential building consents show a downturn, with the trend values decreasing since September 2008. It appears therefore that non-residential building consents are now following a downward trend similar to that which appeared earlier in residential consents.

**Figure 8: Value of non-residential building consents**



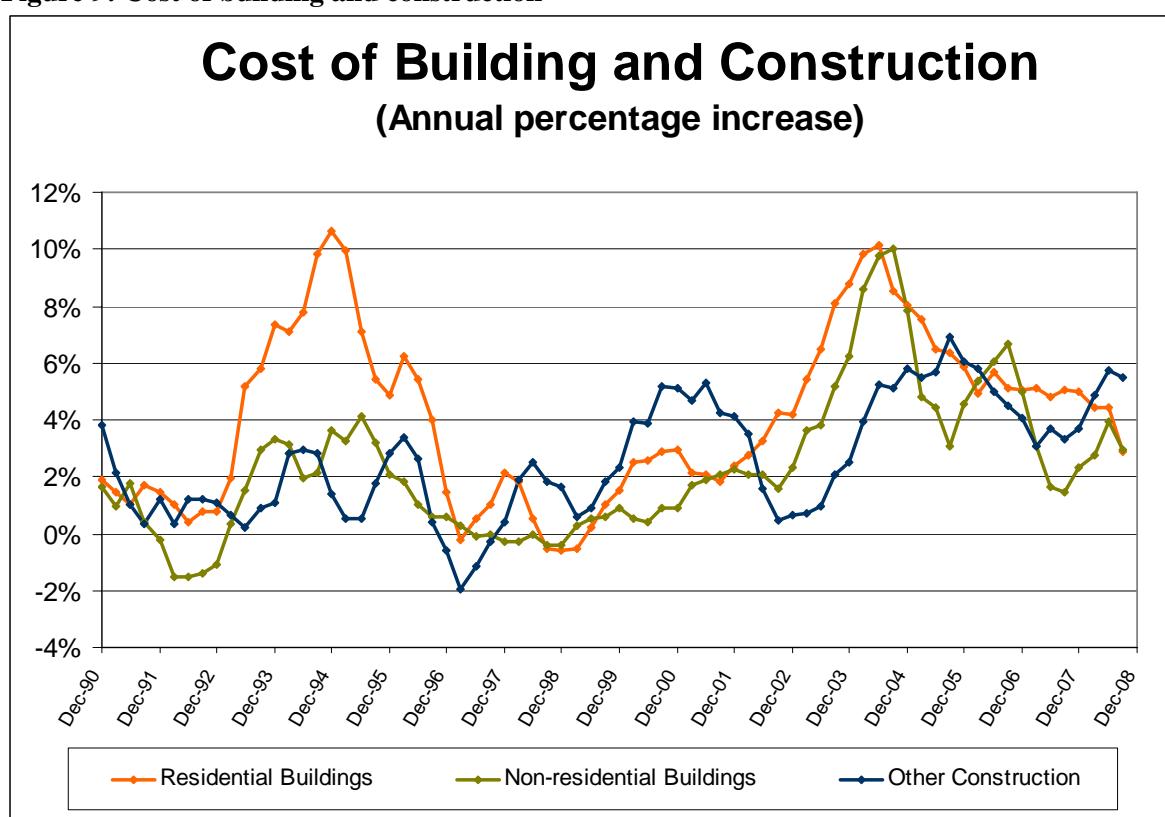
Source: Statistics New Zealand

## Building costs

*Costs rising more slowly*

The Capital Goods Price Index (CGPI) measures movements in price of various fixed capital assets in the economy. In the December 2008 quarter, the highest CGPI construction category increase from the previous quarter was for construction other than buildings. In the year to December 2008, the CGPI increase for residential building was 2.9 percent, the increase for non-residential building was 3.0 percent, and the increase for other construction was 5.5 percent (Figure 20). The increase for the overall CGPI (that is, for all industries) in the year to December 2008 was 4.1 percent.

**Figure 9: 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 indices<sup>7</sup> (which measure change in prices received by producers) and input indices<sup>8</sup> (which measure changes in the cost of production, and exclude labour and capital costs).

<sup>7</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 exclude interest and dividends, royalties and patent fees, receipts from insurance claims, government cash grants and subsidies and GST and other indirect taxes.

<sup>8</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.

The PPI input index for the construction industry increased by 6.4 percent in the year to December 2008. The PPI output index for the construction industry also rose by 3.8 percent in the year to December 2008.

The increases in the PPI indices for the construction industry were lower than those for the overall PPI. In the year to December 2008, for all industries, PPI inputs increased 9.7 percent and PPI outputs increased 9.9 percent.

The Labour Cost Index (LCI), which records changes in salary and wage rates, showed increases in the year to December 2008 of 3.9 percent for the construction industry generally and 3.7 percent for building trade workers. This may be compared with the increase in the year to December 2008 in the LCI for all industries and occupations combined, which was 3.3 percent.

# The housing sector

## Sales price

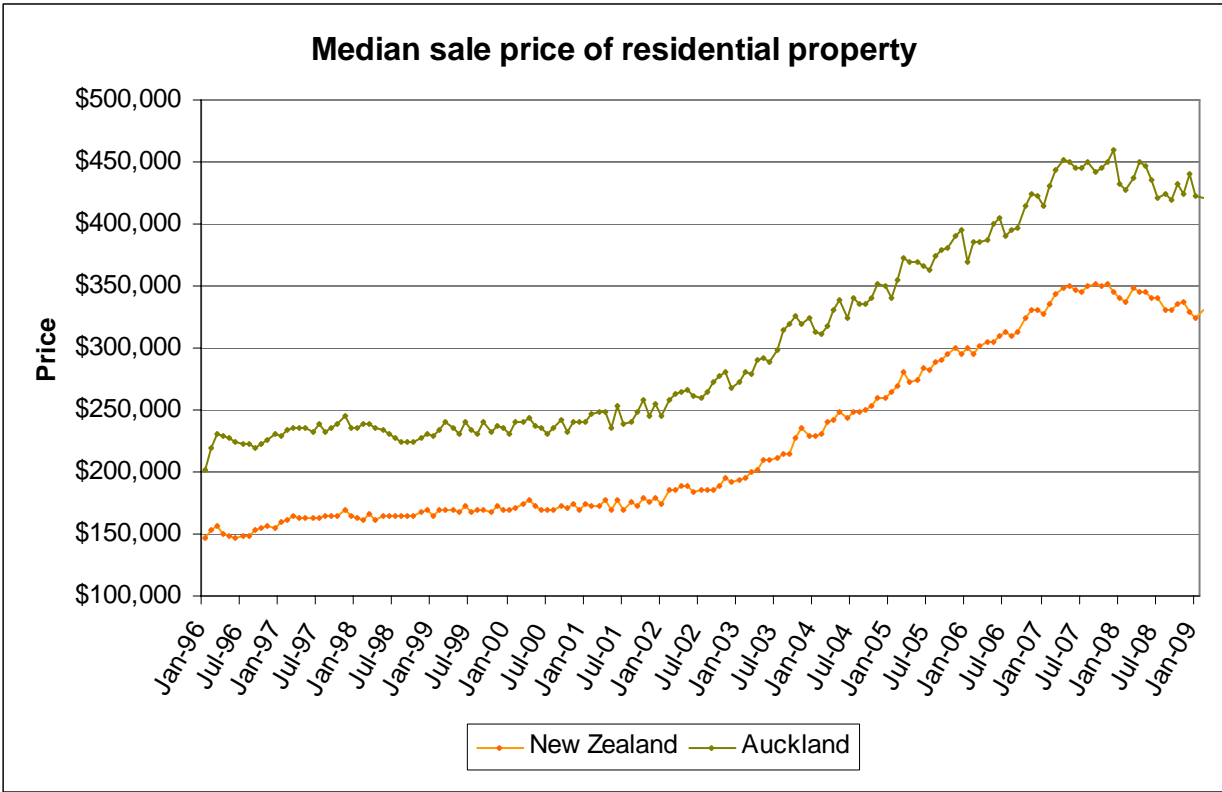
*House prices continued to fall, but less steeply*

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 4.8 percent from \$345,000 in December 2007 to \$328,500 in December 2008, following drops of 4.3 percent in the year to October 2008, and 4.1 percent in the year to November 2008.

In Auckland, the median house price fell by 4.3 percent in the year to December 2008; continuing the downward trend shown by the falls in price for October 2008 of 2.7 percent and for November of 5.6 percent.

However, in early 2009, the rate of decline in price slowed, to 4.4 percent in the January 2009 year and 2.2 percent for the February 2009 year for the whole of New Zealand. Similarly, the Auckland median house price showed a similar slowing, with a reduction of 2.5 percent in the January 2009 year and 1.3 percent for the February 2009 year. Although it is too early for any certainty, it is possible that this signals a levelling off in the decline of house prices.

**Figure 10: Median sale price of residential property**



Source: Real Estate Institute of New Zealand

The value of New Zealand’s total housing stock<sup>9</sup> increased from \$611 billion in the September 2007 quarter to \$616 billion in the March 2008 quarter. However, the value of the housing stock decreased in the September 2008 quarter to \$582 billion, falling by 4.7 percent compared with the

<sup>9</sup> RBNZ estimates: September (latest available)

September 2007 quarter. This continues from the first annual fall in June 2008 of the estimated value of housing since the fourth quarter of 1991.

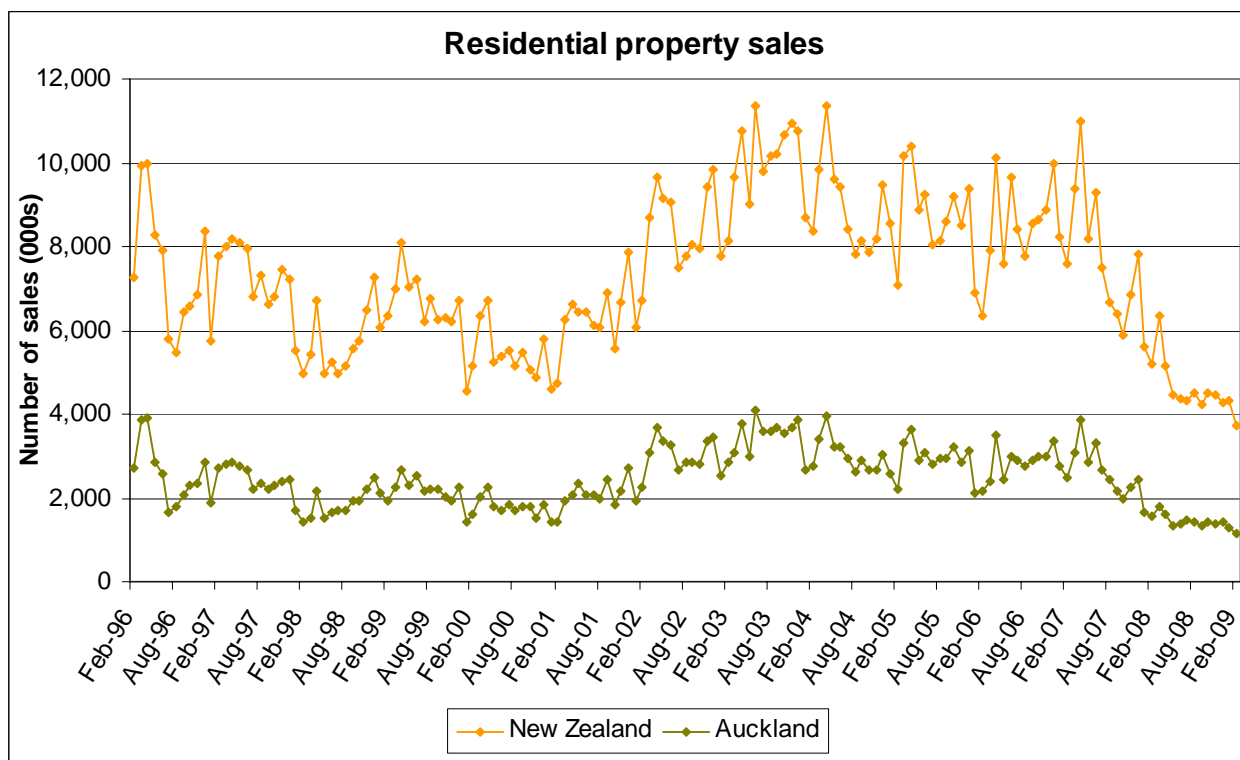
## Housing market activity

*Volume of house sales down by nearly a quarter on the year before, and taking longer to sell*

Overall house sales activity decreased slightly in the December 2008 quarter from the previous quarter. As Figure 5 shows, the monthly number of house sales in December 2008 was 4,302<sup>10</sup>. This is a decline of 23.1 percent on the 5,597 sales in December 2007, and a 47.8 percent decline on the December 2006 level of 8,245, showing a continuing downward trend in house sales volumes (as illustrated in Figure 11).

This downward trend continued into the March quarter, with further declines in the number of sales: 28.5 percent down in the year to January 2009, and 17.7 percent down in the February 2009 year. As with sales prices, above, however, the rate of decline is slowing; another possible indication that the decline in the market is beginning to level out.

**Figure 11: Residential property sales to February 2009**



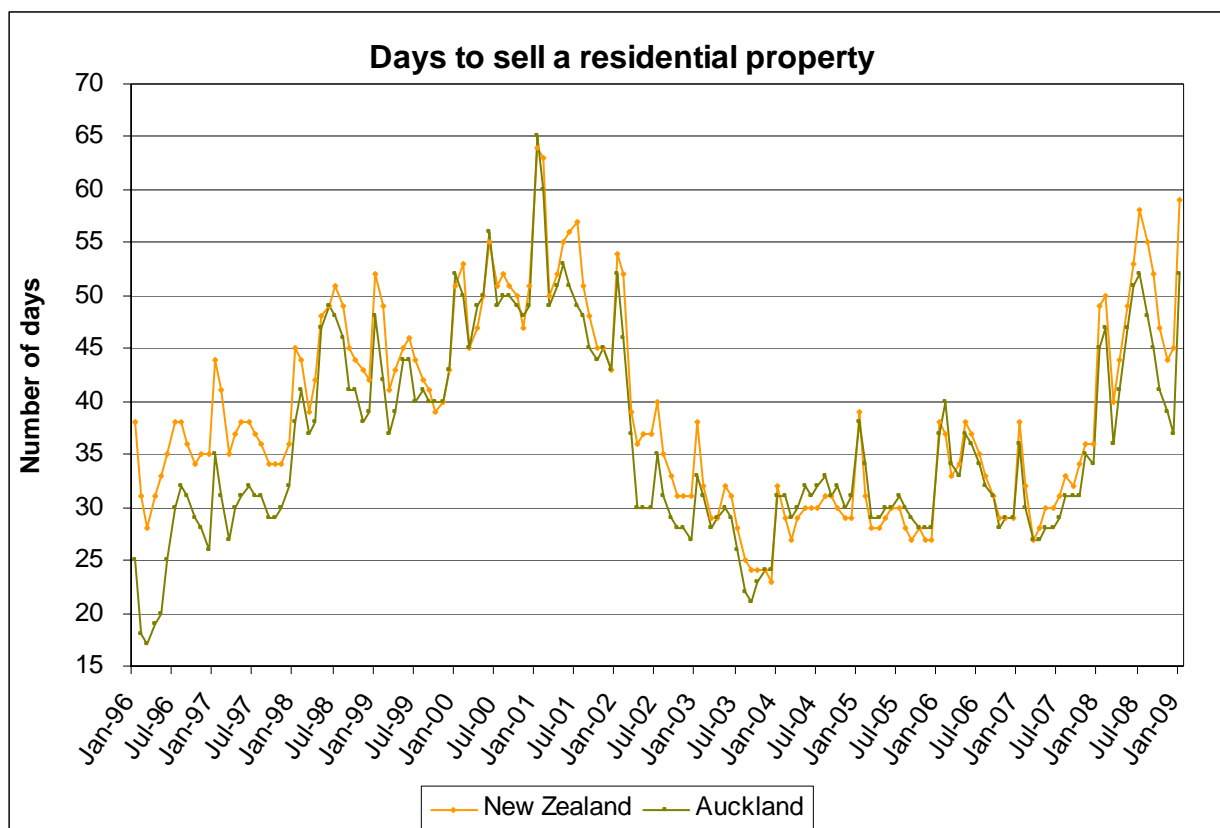
Source: Real Estate Institute of New Zealand

Figure 12 shows that the median time taken to sell a property in December 2008 was 45 days, substantially longer than the 36 days it took in December 2007 and the 29 days in December 2006. Together with the sales volume data, this indicates that the market continued to cool for the December quarter.

Moving into the March 2009 quarter, the annual duration to sell is still increasing: by 20.4 percent (10 days) in the January year and 24.0 percent (12 days) in the year to February.

<sup>10</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 12: Days to sell a residential property**



Source: Real Estate Institute of New Zealand

## Social housing assistance

*Government housing assistance rose, numbers of applicants for government housing grew, and the time to house people on the lists increased*

The two main ways<sup>11</sup> that the government assists low-income families into affordable housing are the Accommodation Supplement<sup>12</sup> (AS) and Income-Related Rents<sup>13</sup> (IRR). At the end of December 2008, there were 268,785 AS recipients and 60,299 IRR tenants.

Figure 13 shows government expenditure on social housing assistance as a percentage of total housing sector expenditure<sup>14</sup> from the September 2004 quarter to the September 2008 quarter (latest available data).

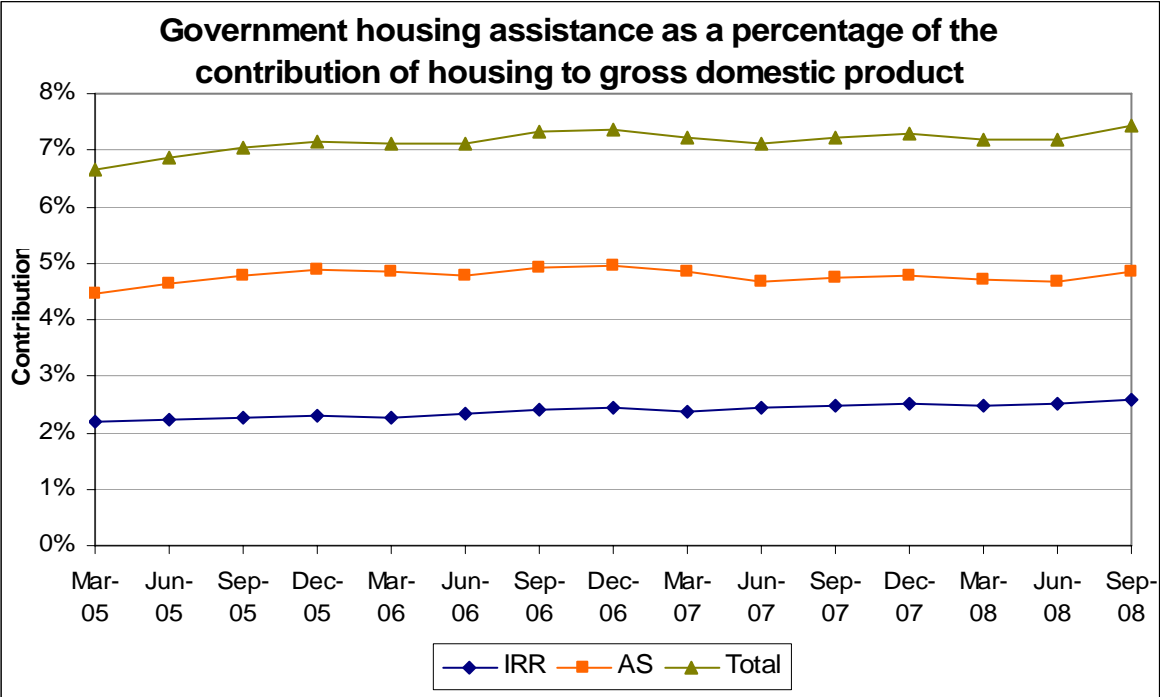
<sup>11</sup> Note that a variety of homeownership assistance programmes such as Welcome Home Loans are not considered as part of these statistics, because they are relatively small compared with the IRR and the AS, and focus on homeownership rather than rent relief.

<sup>12</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>13</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 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.

The level of total government housing assistance as a percentage of total housing contribution to GDP increased slightly from 7.2 percent in the June 2008 quarter to 7.4 percent in the September 2008 quarter. IRR assistance showed a small rise from 2.5 percent to 2.6 percent of total housing contribution to GDP between the June and September 2008 quarters. AS rose slightly from 4.7 percent to 4.9 percent of total housing contribution to GDP over this same period.<sup>15</sup>

**Figure 13: 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

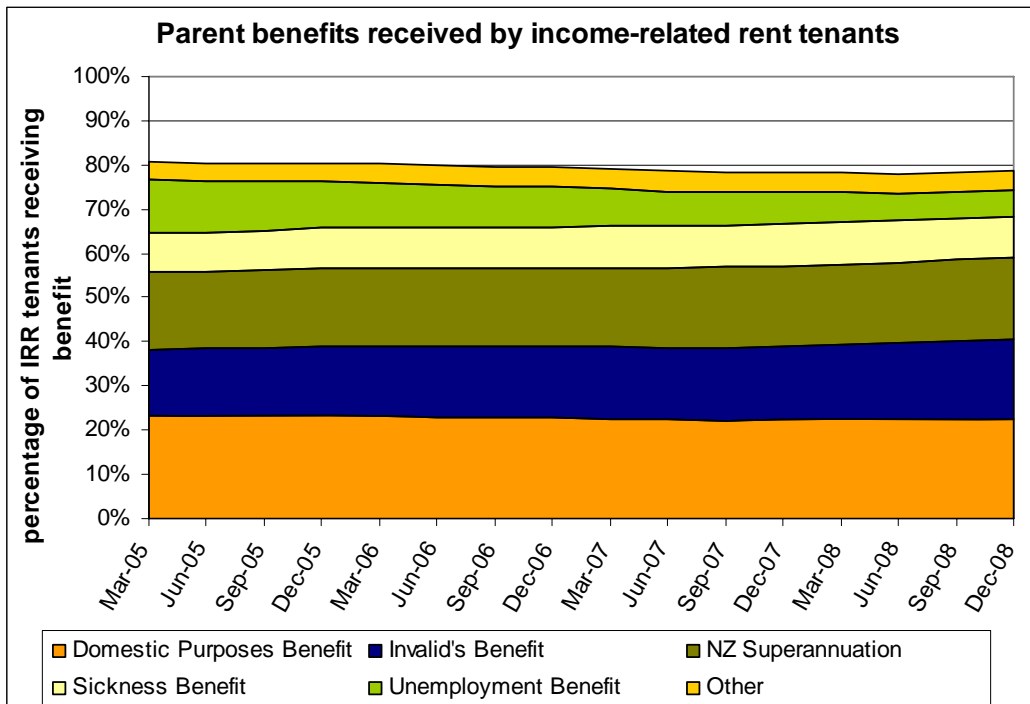
Total government housing assistance (as measured by IRR and AS) increased from \$344.5 million in the June 2008 quarter to \$360 million in the September 2008 quarter, and to \$369.9million in the December 2008 quarter. Total government housing assistance in the December 2008 quarter was 8.4 percent more than the \$341 million provided in the December 2007 quarter.

<sup>14</sup> Gross Domestic Product: Household consumption expenditure by purpose in actual current prices – Housing (series SNCQ.S2NP30CZE). Source: Statistics New Zealand.

<sup>15</sup> GDP data is not yet available for the December 2008 quarter.

There were no significant changes in the composition of benefits received by IRR tenants in the December 2008 quarter compared with the preceding quarter, as shown in Figure 14.

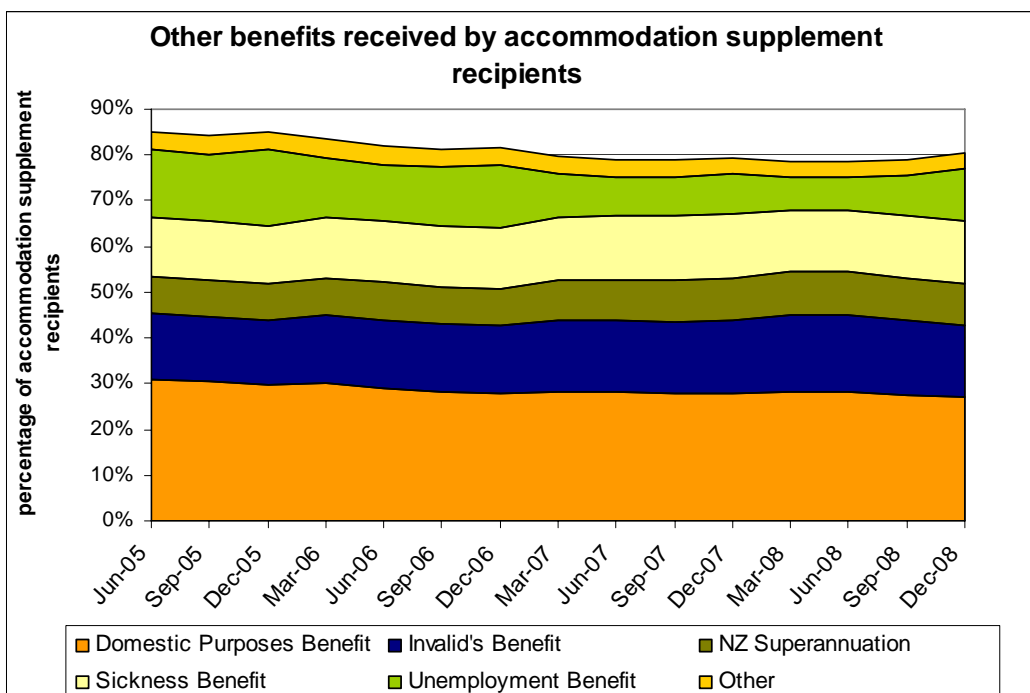
**Figure 14: Parent benefits**



Source: Housing New Zealand Corporation

Figure 15 shows that there were no significant changes in the composition of benefits received by AS recipients in the December 2008 quarter, when compared with the September 2008 quarter, although the spread in the second to top area (for Unemployment Benefits recipients) has been widening quickly since reaching its narrowest point in the June 2008 quarter. This is likely to continue.

**Figure 15: Other benefits received by accommodation supplement recipients**



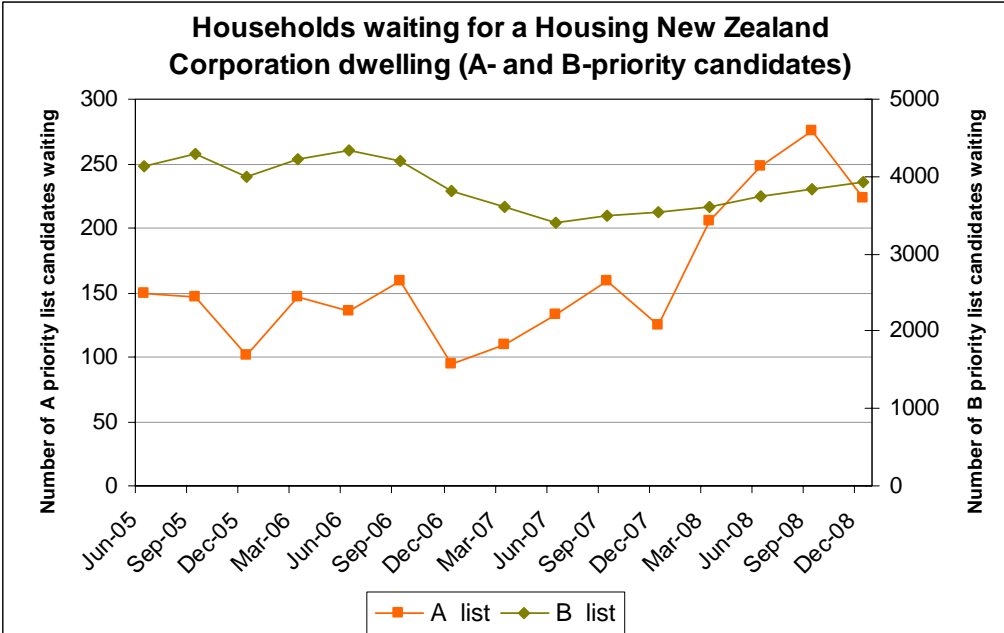
Source: Ministry of Social Development

Waiting list priority for Housing New Zealand Corporation housing is determined by several factors,<sup>16</sup> and applicants are divided into four groups that reflect different levels of need. The groupings are referred to as:

- A priority<sup>17</sup>
- B priority<sup>18</sup>
- C and D priority<sup>19</sup>.

As shown in Figure 16, the combined A and B priority waiting lists increased by 0.8 percent from 4,117 applicants in September 2008 to 4,150 in the December 2008 quarter; up by 6.06 percent from the December 2007 quarter. In the December 2008 quarter, the A waiting list decreased by 19.2 percent from 276 to 223; however, this was an increase of 78.4 percent on the same quarter of 2007. The B list increased by 2.2 percent from 3,841 to 3,927, an increase of 10.8 percent on the same quarter of the previous year.

**Figure 16: Households waiting for a Housing New Zealand Corporation dwelling (A- and B- priority applicants)**



Source: Housing New Zealand Corporation

As shown in Figure 17, the waiting time for A priority candidates on the Housing New Zealand Corporation waiting list increased by 59.7 percent from 39 days to 62 days between September and December 2008, although this was 1.5 percent less than the previous high point in the same period in 2006. At the same time, B priority applicants waited for a property 10.3 percent longer, from 172 days in September to 190 Days in December 2008, continuing the increase of the previous quarter, and 7.7 percent longer than in the same period of 2007. This suggests that

<sup>16</sup> The factors are used to determine housing needs are: affordability; adequacy; suitability; accessibility; and sustainability.

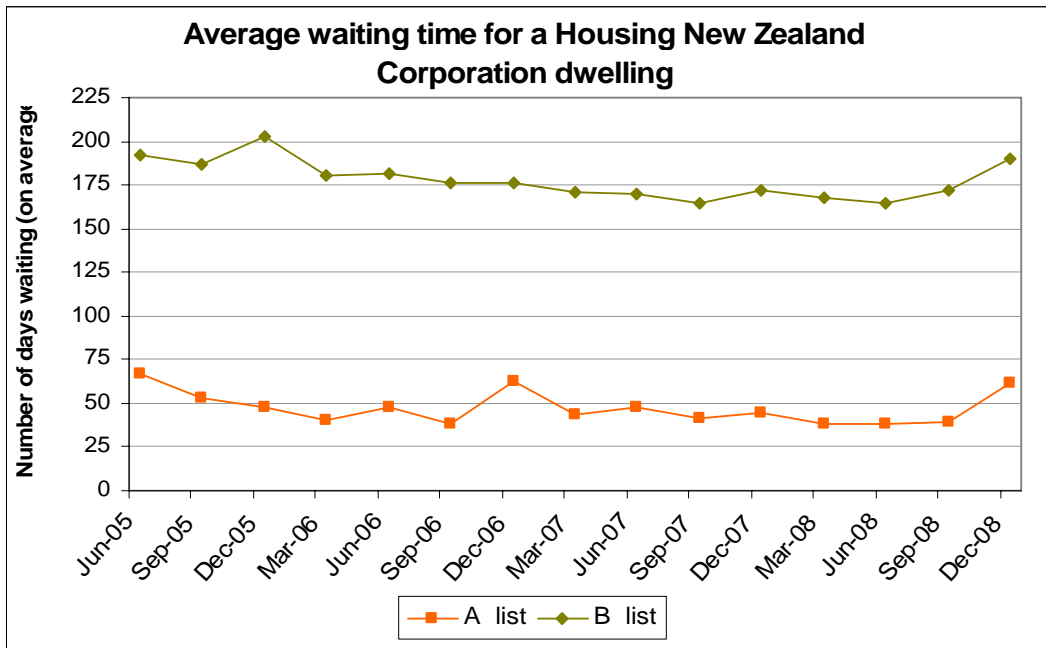
<sup>17</sup> ‘A’ priority households have severe and persistent housing needs that must be addressed immediately. The household’s wellbeing is severely affected or seriously at risk due to housing circumstances that are unsuitable, inadequate or unsustainable, and there is an immediate need for action. The household is unable to access or afford suitable, adequate and sustainable housing without state intervention.

<sup>18</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>19</sup> ‘C’ and ‘D’ priority waiting lists are for households with low to moderate housing need.

demand for Housing New Zealand Corporation properties is greater than in the same period of 2007, and continues to increase faster than it is being met, with a consequent increase in waiting times.

**Figure 17: Average waiting time for a Housing New Zealand Corporation dwelling**

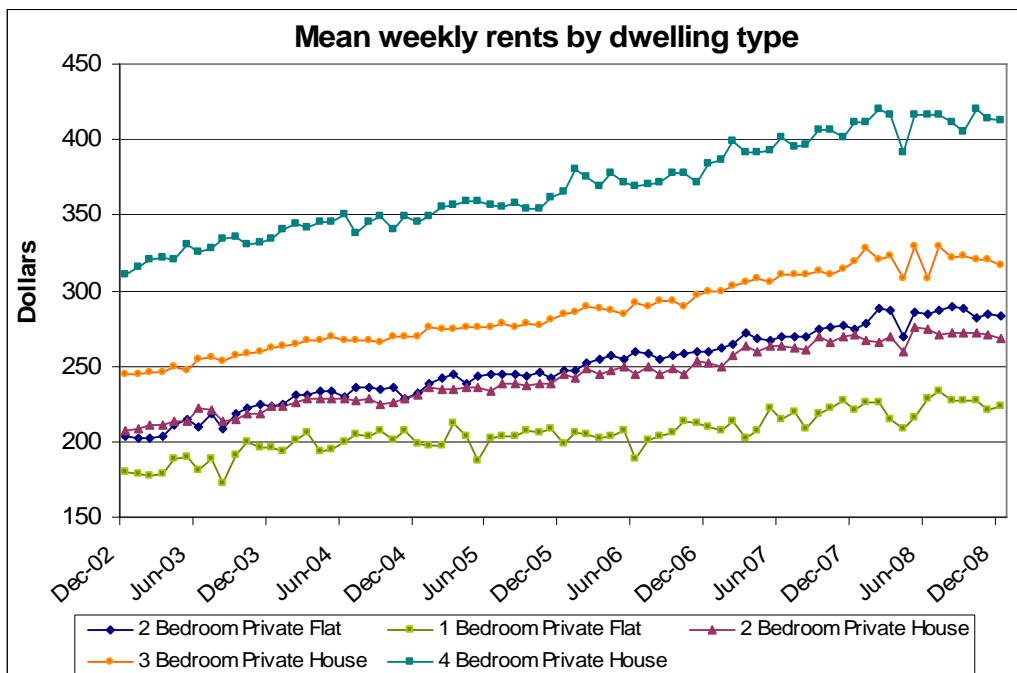


## Market rent analysis

*Rises in market rents levelling off; some types decreasing*

In the year to December 2008, the private market weekly rent for a two-bedroom flat grew the most at an annual rate of 2.9 percent to \$283, followed by a one-bedroom flat at 0.9 percent to \$223, and a four-bedroom house by 0.5 percent to \$413. Over the same period the rent for a three-bedroom house decreased by 0.6 percent to \$318, and a two-bedroom house decreased by 1.1 percent to \$268. The slowing of growth in rentals in the latter half of 2008 can be seen in Figure 18.

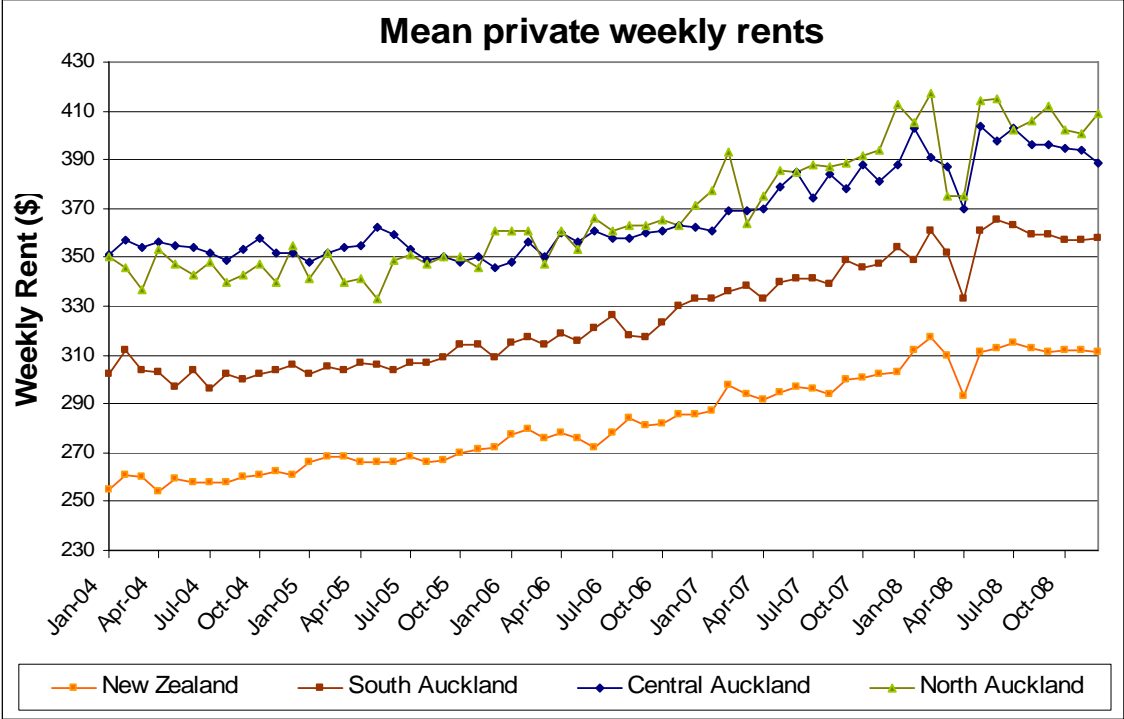
**Figure 18: Mean weekly rents by dwelling type**



Source: Department of Building and Housing

Overall, rents generally continue to increase in the December 2008 quarter, although at a slower rate than in the previous two quarters. In the year to December 2008, mean rents for new tenancies increased by 2.4 percent nationally. Over the same period, rents for new tenancies decreased by 1.0 percent in North Auckland, increased by 0.3 percent in Central Auckland and 1.1 percent in South Auckland. At a national level, Figure 19 shows how the rate of rent increases for newly established tenancies dropped towards the end of 2008.

**Figure 19: Mean private weekly rents to December 2008**



Source: Department of Building and Housing

# Other developments in the building and housing sector

## Weathertightness

The following information provides a 'snapshot' of recent developments in Weathertight Services. From 1 October to 31 December 2008 the Weathertight Services Group (WSG):

- received and processed claims for 263 dwellings
- commissioned 370 and completed 360 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 174 claimants and potential claimants during a total of 83 meetings
- closed 148 claims including 43 resolved claims
- spent \$1.831 million from 1 October to 31 December 2008 on direct costs associated with providing assessment reports for claimants
- successfully mediated 45 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 (87 percent between 1 October and 31 December 2008) are resolved by mediation. The details of the negotiated settlements are confidential to the parties and are therefore not reported. In some cases it is agreed that a party will carry out repair work instead of paying money.

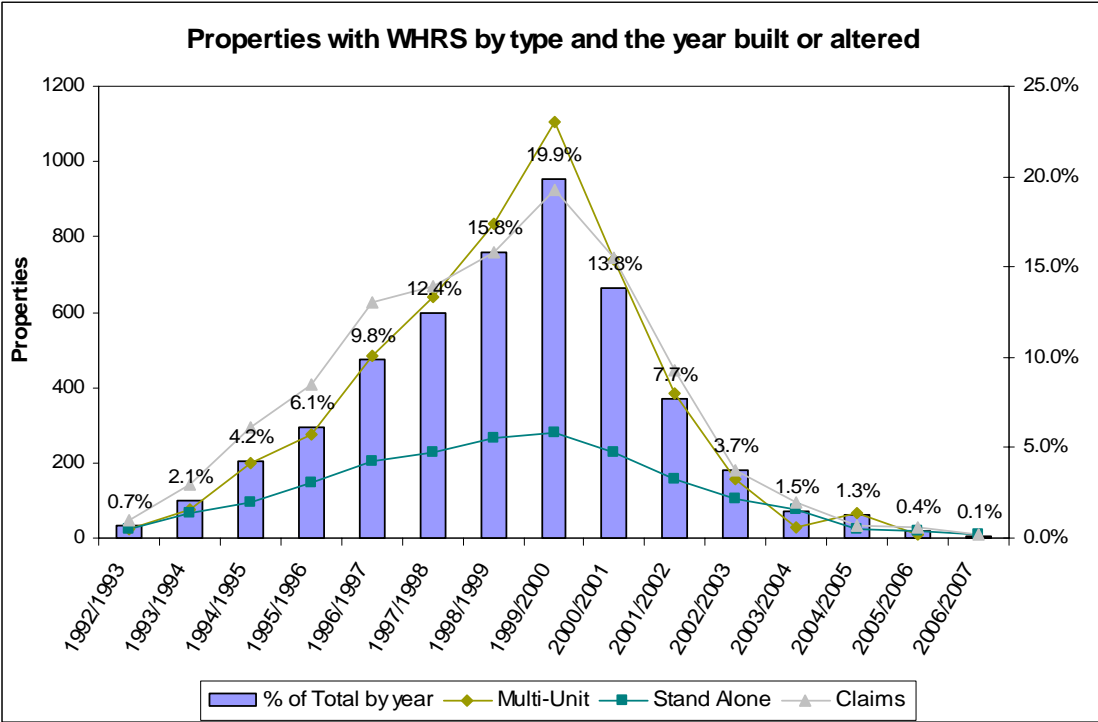
The outcomes of all adjudications are publicly available on the Ministry of Justice website <http://www.justice.govt.nz/wht/decisions/default.asp>

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.

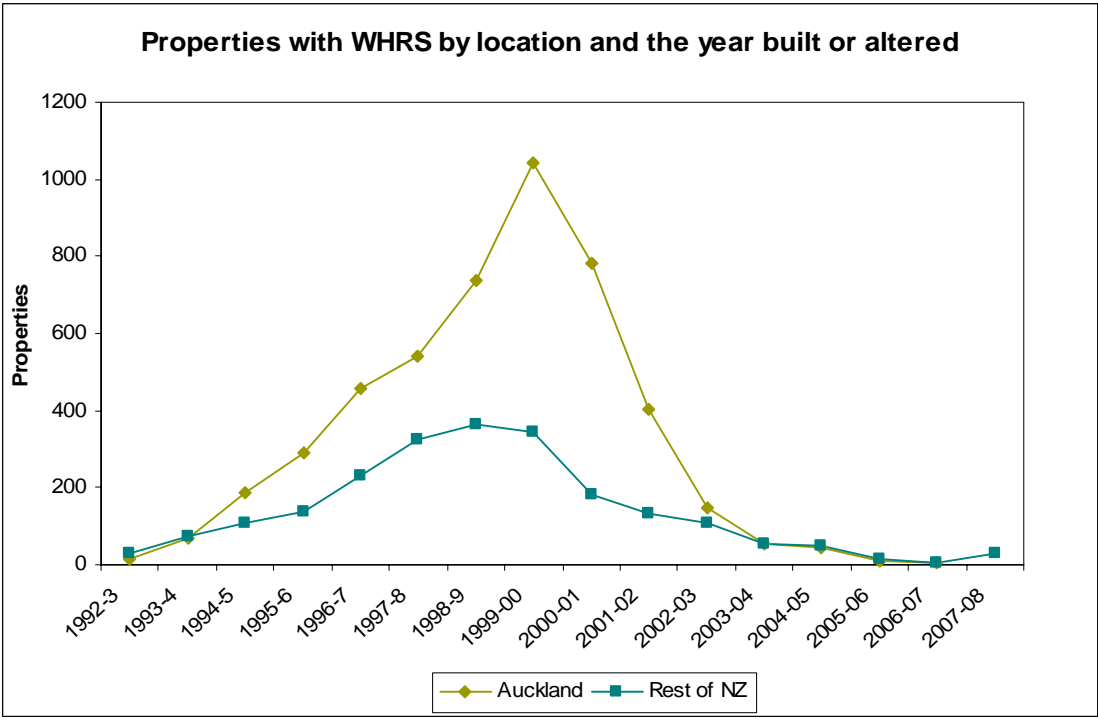
To date, the Weathertight Services Group has developed a communications action plan for Phase Two of the Weathertightness Consumer Awareness Programme. The ConsumerBuild Weathertight pages have been updated in liaison with Consumer NZ. Articles have appeared in Consumer magazine reminding consumers about 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 and territorial authorities, Citizens Advice Bureau, real estate agents and organisations such as BRANZ, Registered Master Builders Federation (RMBF) and Building Officials Institute of New Zealand (BOINZ).

**Figure 20 : Properties with WHRS by type and year built or altered**



**Figure 21: 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 3 March 2009, the Department had processed a total of 661 determinations. Approximately 68 percent of these were related to cladding and weathertightness issues.

**Table 1: Building Act Determinations**

<b>Building Controls Determinations</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>to 3/3/2009</b>
Cladding / Weathertightness <sup>1</sup>	1	68	144	89	80	66	3
Access and facilities for people with disabilities <sup>2</sup>	5	2	4	4	4	10	0
Fire safety <sup>3</sup>	1	2	8	5	1	3	1
Surface water <sup>4</sup>	2	2	0	5	0	1	0
Swimming pool fencing <sup>5</sup>	1	0	2	4	4	3	0
Structure <sup>6</sup>	0	1	1	1	6	7	1
Interior environment and facilities <sup>7</sup>	0	1	2	1	3	3	0
Land subject to natural hazards <sup>8</sup>	0	1	1	3	2	1	0
Barrier <sup>9</sup>	1	0	3	2	1	4	2
Other (refusal to issue CCC, etc) <sup>10</sup>	0	0	1	15	40	26	6
<b>Total</b>	<b>11</b>	<b>77</b>	<b>166</b>	<b>129</b>	<b>141</b>	<b>124</b>	<b>13</b>

1. Cladding / Weathertightness includes assessment of monolithic claddings and other weathertightness matters.
2. Access and facilities for people with disabilities including accessible routes, ramps, lifts, toilets etc
3. Fire Safety includes emergency egress, fire cells, alarms, smoke detectors, and messaging to emergency services.
4. Surface Water refers to storm water and surface water run-off from one property to another.
5. Swimming pool fencing - compliance with the Fencing of Swimming Pools Act.
6. Structure includes safeguard from injury, loss of amenity and protection of other property.
7. Interior environment and facilities - this category includes laundering, personal hygiene, and management of internal moisture.
8. Land subject to natural hazards include issues such as coastal erosion, and land subject to flooding and instability,
9. Barriers includes deck barriers, stair balustrades and similar.
10. Other: includes refusal to issue BC, CCC for procedural reasons other than code compliance.