

NZ Building Industry Federation

Annual Report 2018

Introduction

Welcome to the 17th annual general meeting of the Federation. We meet at a time when our Industry faces a number of uncertainties in the residential market brought about in large part by the prevailing high prices for land in our major urban areas. The challenges this poses for builders in matching costs to market realities for new home buyers is unprecedented. But they are ones faced by our fellow industry participants in Canada and the U.S., among other countries. On our domestic scene the situation is further complicated by uncertainty among political and public sector figures on how best they should address the issues of dwelling affordability, social housing and emergency accommodation needs. The pressures they face can lead to a degree of questionable outspokenness on factors they mistakenly consider relevant to housing costs.

We tend to see attacks by political figures on our supply chain in this light. When the Minister of Housing, the Hon Phil Twyford, told media he wanted an inquiry into the building materials supply industry because our pricing was 30 percent higher than that in Australia, and was a significant factor in high house pricing in New Zealand, we simply had to say “not so”. Our own inquiries show that there are some products and materials on this side of the Tasman more highly priced than in Australia. But equally some are cheaper in NZ than in Australia. An “apples and apples” situation does not apply – it is more a comparison of oranges with apples! Australia does not have seismic conditions to contend with; nor the intensity of UV prevalent in NZ. Our frequent coastal salt laden winds add to specification requirements. These factors are frequently more onerous and demanding of materials and product suppliers than conditions experienced in many districts of Australia. It is certainly also valid in the house and apartment building arena to consider the high costs of an assortment of compliance and other local and central government impositions, along with high transport costs.

Our market is open to all global supply sources and the level of competition imposes a constraint on pricing and margins. What we cannot control, however, is the ever increasing cost of distribution. It is notable that in our main market of Auckland the notion of same day delivery is for the most part historic. Time delays through traffic congestion have caused freight companies to move from a quoted price for a delivery to hourly charges open to considerable variation according to vehicle volumes. Industry efficiency and productivity is markedly impacted.

Outlook

Last year we warned at our AGM that builders were struggling to come to terms with forecasts of yearly demand reaching 35000 dwellings. Today, while home construction is running at its highest level since 2004, we have a Government which requires some 10,000 homes a year to be added on average over the next 10 years to today's total of about 31,000. The pressure to build more housing is relentless. But equally relentless is the demand of consumers for “more affordable” dwelling units. But unless some innovative and fresh methodologies are developed to nullify the ongoing lift in Auckland land prices it is extremely difficult to see how the large segment of the population that considers \$500,000 a price tag out of their range can be accommodated under current market conditions.

It seems likely that our sector will come under close scrutiny from the Commerce Commission if past hyperbole from the Beehive is reflected in future action. The Government intends to give the Commission powers to proceed with market-studies where it considers such action to be justified. We believe that once legislation is passed through Parliament authorizing such studies it will be the supply chain of our industry that

gets early attention. We have to hope that those undertaking any such study of our sector have an understanding of how this industry works greater than many of those currently holding oversight responsibilities. On-the-spot service of building sites with quality products and materials of the right size and shape for the job at hand - products that can be relied on both for the timeliness of delivery and their technical attributes - are essential to build efficiency. Suppliers know this well. Question marks attach to officialdom.

There's another area that has been the subject of political hyperbole and has in the eyes of many in the industry been credited with almost mystical powers to solve our housing woes overnight. Prefabrication has almost become a holy grail for industry outsiders whose championing of its capability to transform the rate of house building has caused those in desperate need of a quick fix to clutch at it with alacrity.

Let's be clear. Prefabrication was first introduced to New Zealand in the late 1960's. Today about 90 percent of houses built in New Zealand each year utilize prefabricated wall panels and roof trusses that are manufactured in more than 100 Frame and Truss plants throughout the country. Computer controlled equipment is used to cut timber to required lengths which are then assembled using a variety of systems that include computer controlled jiggling to ensure accuracy and consistency. The largest factory in Auckland is 10,000 square metres in size and employs 120 staff. The total prefabricated frame and truss industry employs around 1500 people with a national turnover of more than \$700m.

The term "prefab" construction can refer to an extension of the existing process where panel products such as plywood or other sheathing materials may be added to the prefabricated wall frame in the Frame and Truss facility. Plans are reportedly being made for new off-site manufacturing facilities. They will be a welcome addition to the capability of existing F&T plants which are well positioned to take up further demand as required.

Overseas suppliers of prefabricated homes continue to look for supply contracts locally. Our position is that there must be a strict adherence imposed by regulators to requirements of the Building Code and New Zealand standards in respect of the quality of materials and products used in such structures. Special requirements imposed by the Code to ensure materials, products and systems are compatible with the varied conditions found in our country are there for a reason – to protect home buyers and commercial entities from obtaining supplies that are not fit for purpose in local conditions.

Non-conforming products

We have over the past year continued our campaign for greater attention to be paid by regulators to the incidence of non-conforming building products reaching consumers. Substitution of non-specified products pose a risk to both home owners and builders alike – the latter on occasions being unaware of the liabilities they assume should the substituted product prove defective. Pleasing to us is strong interest being taken by laboratory accreditation agency IANZ in the subject. It has scheduled a workshop on the issue which will be attended by MBIE and has welcomed our contribution toward a solution for dealing with NCPs. This contribution, a three tiered assurance system, was agreed at our 15th AGM attended by Building Minister Nick Smith. He subsequently referred it to MBIE for review and action. We are told by MBIE that we can expect action later this year.

We have also continued to work with GS1 on the contribution its National Product Catalogue (NPC) can make toward both traceability and confirmation of product qualities. GS1 is now engaged with MBIE on the role that the NPC can play in lifting the capability for regulators to better police Building Code and Standards compliance.

Industry Representation

Through the year we have continued our advocacy on behalf of the supply chain. Much of this work has centred on NCP's and we have worked closely on issues with MetalsNZ, Frame and Truss Association, the WPMA and CCANZ. It was unfortunate early in the year that some of our members were involved in issues of steel quality. The cases underlined again the importance of Standards in our building system and the need to have these easily understood and unambiguous. In that regard I would like to thank Board member Stephen Walker for his input on our behalf to a variety of wood and wood products standards. These Standards are among the most contentious in our industry and Stephen's contribution to resolving a variety of issues that arise in deliberations on them has been outstanding. Thanks go also to Pacific Steel and Steel & Tube for their putting forward nominations from among their executives to work on Joint Australian – New Zealand Standards related to steel; to John Beveridge for his representations on our behalf to the Building Research Advisory Council (BRAC); and to Ruth Brash and Jason Bardell as our representatives on GS1.

We have worked closely with the Construction Strategy Group (CSG) during the year and with the Construction Industry Council (CIC). Mark Malpass of Steel&Tube will join me as a Board member and Bruce as Executive Director on the CSG later in the year. The work of these two bodies has done much to counteract perceptions of fragmentation in the industry. There is much greater alignment across the industry on issues to be addressed and the means of dealing with them. Partner materials organizations along with RMBA and CBANZ have been active in this process.

Strategic priorities

Regular reviews of our strategic priorities are carried out by your Board to ensure they remain in line with our mission: To deliver value to the building materials' supply chain by identifying, advocating and delivering positive outcomes on issues of importance to members. These are:

- Product Assurance
- Consent and Compliance
- Procurement
- Build quality
- Skills availability

To which has been added:

- KiwiBuild/housing affordability.

It is fair to say that we have been disappointed by the slow progress made by MBIE in dealing with the priorities they stated for their forward work programme in the past year. The programme embraced reviews of product assurance measures such as the Building Code, Standards, Determinations, the consent and compliance role of BCAs and home warranties. While these align with our priorities for attention it is apparent that Industry would feel much more comfortable if the pace of reform were accelerated. Constant changes of Ministers and shuffling of staff at MBIE have done little to engender a view that there is a strong understanding in the public sector of why the Industry seeks change that embraces better consistency in the consent and compliance process, an improved regulatory environment to deal with NCPs and more even handed contracting procurement policies.

Accounts

The modest surplus reflected in the 2016-17 accounts is reflective of a continuing tight rein on expenditure. We have not increased member subscriptions for some five years in spite of a growing range of public sector actions that have required our attention. We anticipate that the 2017-18 year will reflect a similar end of year position. Membership has remained steady but if an increase in subscriptions is to be avoided in coming years it would be helpful to boost numbers from among those who benefit from our activities but choose not to join the co-operative effort.

Board

Your Board met on five occasions during the year. Membership has increased from 11 to 12 with the co-option of Alan Bones and Tim Thodey following the resignation of Dave Taylor mid-year. Your Board works well together and I appreciate the time they give to BIF matters and for their support. Our policy remains to ensure a reasonable sharing of representation among merchants, manufacturers and importers and I am pleased to note that members have made themselves available for re-election. I should like to record my thanks to Dave Taylor for his contribution to our deliberations.

Conclusion

Little is static in this Industry. We can expect the “unexpected” over the next 12 months as the public sector grapples to create a successful environment for the Government’s KiwiBuild project. To date detail on how this will operate has been scant. Officials and Ministers are still seeking to determine just how the projected build programme can be carried out and meet the goals of affordable, social and emergency housing. A Productivity Commission Report on carbon emissions may present concerns for manufacturing members, especially in the steel and concrete industries. We will resist any moves that may weaken the product assurance system and continue to press for adoption of our three tier model. We will also pursue with partner organisations the case for government funding of joint Australia-New Zealand Standards as an integral part of our current standards system. We are in a good position to continue our work in furthering the interests of our supply chain members.

Gordon Buswell
Chairman
NZ Building Industry Federation

19 June, 2017