Kiwi infrastructure Ver 1.2

Reaching the international benchmark in affordable building in NZ

We thank the Commission for accepting our cross submission on the preliminary issues paper for the Market Study into Residential Building Supplies Preliminary Issues paper

Core Points

1) **High HHI ratios in building materials creates low productivity**
    a. we urge the commission to understand when there is competition on materials, its “time to Install “which is the critical point for purchasers and end users, of materials, It’s not just price
    b. We refute the Fletchers position that materials is a small % of the construction cost, Materials competition, improves innovation and productivity which acts as a catalyst for the cost of labour, - thereby impacting substantive cost % of construction

2) **The dominance of some materials is an innovation killer** and leads to other materials being accessed through same channels (i.e. fixing systems) . We urge the commission to think that some dominant materials have “tipped “where the manufacture has captured BRANZ , councils and BCA’s and dominance is entrenched in regulatory protocols .

3) **We urge the commission to study “Margin on Margin” culture** of house builders versus the vertically integrated social house builders of best practice countries. These builders own supply chains, and long run scalable contracts mean construction of quality houses at 1/3 of the NZ price

4) **Its Factually incorrect for Fletchers and Carters** to think that Kiwis only want bespoke housing

Market segment	**Housing Requirement**	**Comment**
Homeless	Quality standardised homes	Warm, safe & available
Those living in cars	Quality standardised homes	Comfortable and warm
Minimum wage community	Quality standardised homes	Passive heat efficiency
Young couples	Quality standardised homes	Starter homes to ensure affordable mortgages
Middle income people	Quality standardised homes	Give them the choice to spend their money on boats, beach houses or travel
Retired Folk	Quality standardised homes	Warm , and budget
Retirement industry	Quality standardised homes	Pass on benefits to consumers
Hospitality workers	Quality standardised homes	Study areas with passive heat
Maori	Quality standardised homes	Improvement in passive heat and quality

Market Segment	Requirement	Comment
Prada set	Bespoke Chic Chic guru fashion designs	They want standardised houses for their workers and helpers
Fly Private set	Want important houses	Pilots Stewards and stewardess are housed in standardised entry level houses
Gucci Set	Bespoke Chic Chic guru fashion designs	Helpers are accommodated in normal houses
Perini Navi Yacht owners	Bespoke Chic Chic guru fashion designs	** Crew don't need houses as they are on the boat
Porsche Racing set	Bespoke Chic Chic guru fashion designs	** they camp at the race track of are in caravans at the race meeting

What's gone wrong in NZ , is that the Economy Market segment has no scale , or vertical integration and Luxury house building techniques are used to build social houses , we urge the commission to review the South Auckland Social housing / Economy Segment housing assembly and see that essentially groups in the same asset class , are not Collaborating to execute Scalable outcomes.

During the course of the Study we urge the commission to survey several geographic regions of substantial entry level house , flat and apartment building , South Auckland is a good candidate , we urge the Commission to wear High Vis jackets, dirty hard cap boots and drive dusty beaten up Utes to chat with developers , and suppliers and catalogue, how many developers , builders , social housing groups , or Kainga Ora contractors are actually competing against each other for materials , tradespeople , subcontractors. But often using the same materials distribution facility and are being gamed off against each other. South Auckland is a working example where lack of scale is creating real pain to the taxpayer and Community housing providers groups. These supply chains and purchasing systems need a review, as the taxpayer is not getting value for money. We respect a housing crisis exists and we respect that Kainga Ora has been delivering large numbers of quality houses on time, however in this review process, Kiwi Infrastructure notes that this market study should be leveraged to create better value for the Taxpayer.

Renovations and New Builds must be treated as 2 difference market segments,

Renovations versus New builds are akin to a Classic Car restoration versus buying a new Toyota Corolla , We urge the ComCom analysts team to price up a 1970 Holden Monaro refurbishment of Motor , Gearbox and body , versus, visiting the Toyota dealer for a new Corolla car.

Same in Housing!

- also who wants to drive a 1970 Monaro to Work, when you can come in an electric Corolla ?

Renovations are luxury, New builds at scale in standard format solve real problems as in the economy class segment as scale, quality and automation come together to solve consumers needs

CASE STUDY

Fletcher Building rebates are creating corrupted incentives to NZ Consumers and builders, similar to the Hayne Royal Commission, Incumbent building companies, financially incentivise 3rd party professional advisors (LBP builders) to install sub optimum products (ie Aqualine , (shower plaster board) . Only a misguided consumers would install Aqualine in a shower box , although it passes the BRANZ test . Vila Board or Backer board (with no Porosity) is a much more suitable product) . this ComCom materials study has the potential to unearth another leaky home crisis, as the rebates paid on Aqualine, are illustrated to the commission (and the Australian, US and EU codes are looked at in terms of tiled shower box building code.

GIB plasterboard (Aqualine) is not used in Fletcher residential buildings (because its not good quality enough) .yet it is actively sold with 17% rebates , v 9% for normal board , to secure sales .

Market Barriers to OSM

We urge the commission to catalogue the substantial OSM failures around the world *(Including Katerra) and take a steppingstone approach to improvement in productivity using OSM

Step 1: Looking at Scale

Step 2: Looking at standardisation & simple sites

Step 3: looking at standard designs

Step 4: looking at the large pipelines of orders for over 20,000 houses to be to one contractor

OSM is no silver bullet, in NZ it would be nonsense to allow a existing dominant player anywhere near a Government OSM contract (other than a builder who didn't own materials manufacture.

There is no doubt a scalable OSM industry would lower costs and build a new supply chain, the problem is the transition from today's business model.

Plumbing, Drainage and Electrical must be in the study, as there is too much interplay between these merchants and Building Materials suppliers

It's essential that international benchmarking looks at BCAs and how they operate overseas and how they compete with each other in some areas. There is no market in BCA's this is market failure, there are 2 elements

1) Consenting
2) Approved materials

Don’t waste a Crisis

We agree with the Fletchers submission, there has been a boom and now a bust in NZ house building as a consequence from the 2012 trough of 18k houses to the 2021 boom of 47k, houses all predictions are a pull back as a consequence of inflation, the war , and ending of immigration for a while. This crisis must be used to deliver the transformation required, particularly in entry level segments in long run scalable contracts

Kiwi Infrastructure is committed to working with the Commission to illustrate market failure in building materials and provide workable solutions and policy recommendation, which when fixed will assist NZ to regain its status as a high house ownership society and create a pathway to “the top 10 in the OECD “

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