

Monopoly Watch NZ (MWNZ) is a NZ evidence based public policy analysis group

We want to promote a fundamental rethink on social houses in entry level market segments so that houses built with taxpayers' money are fundamentally re-engineered so that the New Zealand house assembly industry can deliver pricing at an international best practice cost.

We thank the Commerce Commission for engaging with Monopoly watch and setting such a high standard for analysis and enquiry.

### **We have canvassed the 25 other submissions and here is our checklist of comments**

1. Margin on Margin, culture and structure needs to be compared with international best practise
2. High HHI rations creates low productivity
3. Electrical plumbing & drains must be in the study
4. New Builds are different from Renovations and should be treated as different markets
5. OSM is a scale discussion, not a tech or innovation discussion
6. Procurement monopolies (are impacting structure) - they aren't acting as consolidators (they aren't competing against each other) ( COMPLEX POINT )
7. Deloitte report is unreliable & misleading, (not since Barings Bank's 1993 Deloitte Audit report have, we seen such nonsense)
8. Competition in BCAs is needed, this can create competition in materials
9. Benchmarking, what, where and with whom, this is critical to a successful final report
10. Don't ignore incumbency benefit, these impacts switching and innovation – particularly when many builders are not held responsible for productivity or Materials cost
11. Why do kiwis want standardised housing, but have to pay for Bespoke, is there market failure in this unmet consumer demand?
12. St Gobain v Fletchers, EU commission rules v NZ Rules, what are the regulatory remedies that it may be appropriate to discuss and debate at the early part of the conference.
13. Don't waste a crisis, after a period of boom, new house sales are now in free fall, creating a bust, transformation of this industry requires a stable backdrop.

- **Margin on Margin**

This is the concept of comparing a “economy market segment house “in NZ versus and economy market segment house in an international scalable builder “economy market segment house “

In NZ margin on products gets 2x or sometimes 3 x, this is because a market failure in Scalable homes means there is no integration where scalable contracts are in competition format . Its akin to asking cottage industries to fill a supermarket! Scalable integrated players have lower cost of capital and buy materials not from a merchant, with a rebate, but directly from manufacturer, also they are integrated with their own employees and “machines” instead of people to do the work.

### **High HHI ratios has created low productivity**

The correct way to discuss Plaster board pricing, is not “\$25 per sheet “but price installed . We suggest the Commission conduct its own desk study to review price installed in Brisbane, and Auckland (\$3.35v \$5.70m2) .

There is more to building than plasterboard, but idiocy of the NZ plasterboard market is worthy of study as a case study as to how other product monopolies aspire to

It’s the cost of fix and the complexity around regulation that the monopoly fertilises is what is worthy of study,

We note with interest the “measure up culture of windows’ in NZ versus standardisation in other markets, as a process in which dominance is persevered.

We believe that the top 10 materials & costs to look at are

- 1) Windows
- 2) Plasterboard
- 3) Timber trusses
- 4) Fixings
- 5) Concrete
- 6) Roofing
- 7) Electrical
- 8) Plumbing
- 9) BCA’s
- 10) Distribution (reliability , price and skill )

### **Electrical plumbing & drains must be in the study**

Monopoly watch struggled to find buildings (other than tents) which didn’t have Electrical, Plumbing and Drains ,- are we missing something ?

### **OSM is a scale discussion, not a tech discussion**

Monopoly Watch would like to share with the Commission the 32 international reference sites it visited with KIL (Kiwi Infrastructure limited ) , OSM is not a silver bullet , there are considerable capital , conditionality and site specific matters to launch a success in this industry

We urge the Commission to understand the difference between Bespoke OSM and Mass market OSM which produces social housing outcomes at the price point of \$1200 per sqm

Its scale which creates low risk, high quality, more efficient housing

**Procurement monopolies (are impacting structure) - they aren't acting as consolidators ( COMPLEX POINT )**

What we are trying to explain here is that if there was real competition in the distribution of Building materials, then consolidators in the sector would become specialists in the specific market segment. Today there is no saleable efficiency “economy market segment “for building standardised social housing. If there was then all the social housing would be supplied by more specialist distributors and there would be increased segment specialisation .

**Deloitte report is unreliable & misleading, ( not since Barings Bank's 1993 Deloitte Audit report have we seen such nonsense )**

The Deloitte report is paid for by Fletchers, they are a privately owned public listed company which is focused on its profitability. The report has no creditability other than to excuse Fletchers for a lack of leadership and ethical dynamism to solve one of NZ's most embarrassing problems. Cost of house construction . We urge the Fletchers Board ethics committee to review Aqualine Rebate payments with urgency .

**Competition in BCAs is needed, this can create competition in materials**

There is no market in BCA competition, international benchmarks (Reference Infrastructure NZ study – Hamesh Glenn 2018 ) , illustrates this will work

**Benchmarking, what , where and with whom**

We urge the commission to “define the construction problem to its own high standard “and then look for international best practise, either by travelling internationally or a funded desk study ( possibly using McKinsey et al )

Monopoly Watch suggests that the problem is described as

- 1)“NZ has no specialist scalable social house builders solely focused on the economy market segment
- 2) NZ builds social housing at approx. \$4k a sqm, when international best practise is \$1k “

**Don't ignore incumbency benefit**

We urge the commission to comprehensively canvas the impact of legacy building problems, particularly leaky homes where by its altered consumer and consultant preference for legacy systems, products and has had the impact of entrenching dominance, this impacts switching and innovation – particularly when many builders are not held responsible for productivity or Materials cost

**Why do kiwis want standardised housing, but have to pay for Bespoke, is there market failure in this unmet consumer demand?**

If you have dominance, why sell Economy, when you can sell expensive!! Water still flows downhill in N Z! .

Poor benchmarking and a lack of appetite for Kiwis to get on the plane and hunt out international best practise , along with an acceptance of the messages of the “blame game “ has caused the costs of construction to get out of control , a function of high cost of materials and low productivity

**St Gobain v Fletchers, EU commission rules v NZ Rules , what are the regulatory remedies that it may be appropriate to discuss and debate at the early part of the market study .**

The public policy remedy’s which may be canvassed at this early stage of the Market study are suggested as

- 1) Structural separation of distribution of building materials manufacturers from distributors when they have dominance (over 33% share)
- 2) Banning of vertically integrated manufacturers from Govt contracts
- 3) Forcing all building (\*assembly groups) to belong to independent international best practise transformation group (building accord is littered with vested interest players)
- 4) Actively advocating that a new procurement system is developed to re-create a “economy segment “housing market introducing, scale , a new supply chain and a pathway to international best practise OSM .
- 5) Stabilisation of building pipeline, there has been a boom and bust and a boom and bust , OSM and lower costs , need stability in pathway.

Monopoly Watch is stunned at the radio silence of other builders, developers, institutional investors , property owners, consumer groups, affordable housing advocacy groups . We urge those vested interest groups to swap notes and submit where appropriate and ask them to reach out to MWNZ to co-ordinate. We are particularly keen to hear from building groups and builders who we believe are missing out on extra remuneration because of improved productivity. the worlds best tradespeople are being held back by monopolists.

**Thank you for Considering the position of Monopoly Watch NZ**

**Tex Edwards  
Financial Analyst**