Kiwi Infrastructure Limited (KIL)

Comments on the Market Study into Building Materials

Draft report Sept 2022

Kiwi Infrastructure applaud the Commerce Commission for a sensible start to a critical market study which should be a step forward to reduce housing costs, improve quality and sustainability, for all Kiwis .

Kiwi Infrastructure thanks the commission for its engagement and perseverance in understanding deeply complex market structure issues which are sometimes gamed.

Kiwi infrastructure is a Greenfields institutional start-up which has studied social house assembly globally, the sole purpose of Kiwi Infrastructure is to provide workable solutions to reduce the high cost of construction of social housing in NZ.

The problem trying to be solved is reduce building costs . "*NZ assembles (safe healthy) social houses at approx. $3800 , when the international benchmark price is approx. $1100*

Comments about the draft report:

The Commission's determination to overhaul the regulatory environment, and focus on simplification, competition and reduced number of BCA's is commendable

1) **More prescriptive economics of OSM need to be included**, including, the scale, capital cost of factories and the size and scope of order pipelines needed to make it a success

2) **International benchmarking needs to take place** on building materials, compliance, and Liability , also on Scaleable builders , Figure 2.4 on page 37 is a working example of the need to benchmark (if this chart was compared with Ire, Den , Swe, Fin, Nor, Uk & Au) it would be the most powerful chart in the industry, and single handed explain why costs are so high in NZ .

3) The discussion of plaster board narrative needs to include the **impact of market power which has destroyed new challenger business** looking to enter the market . Also a discussion on the impact of improved productivity in a more competitive plasterboard market needs to be highlighted (more competitive plasterboard markets benefit from better improved installation productivity .

4) **Government procurement impact needs to be canvassed** (as per the terms of reference) , its noteworthy that the Government has moved from less than 1% of the housing starts market to over 12% , with a pathway to 18% of the total market before retrofits are included **.** The impact of this scale needs to be studied in detail given the current state of the market, as Government procurement , can make substantial competition differences promptly .

a. A working case study of this is the plasterboard market , where by a substantial Kainga ora order quickly endorses new products and creates confidence to invest in training ,inventory and supply chain logistics as new systems are in place . This decision conflicts with further business allocated to the dominant incumbent Fletcher organisation, which is not in the interests of Kiwi Consumers or taxpayers as it perpetuates the current market structure and high prices .

5) Sensible and hard-earned progress has been made in the construction of social houses in NZ . Not only has the government returned to the industry , and building circa 10% of all houses built in NZ (Est 6125 houses in FY 2023) . But also an organisation has been built and new expertise has been skilled up . This augurs well for the future , what we urge now is some fine turning of this new Greenfield's Organisation Kainga Ora with a focus on costs, productivity and supply chain management , now the engine room is building houses . This is where the ComCom critique of this new government activity is really useful in this market study .

Kiwi Infrastructures Comments on the draft report

Issue	**Comment**
The regulatory review of BCA.s and BRANZ dcommendable, overdue and will assist in removing cost from construction markets	A focus on quality, and then cost is important
BCA work is sensible	We think internationally benchmarking would help . We refer to page 59 and the use of table 3.1 . The benchmark is fabulously clear
Competition between suppliers	We would urge a review of the impact of market power, in this area . We think the future is new direct supply chains when scalable contracts are delivered
Countervailing market power of merchants and suppliers	We urge the Commission to consider the impact of scalable Govt Contractors – this would facilitate new competition (we reference the Kainga Ora's purchase of Plasterboard outside the GiB board system as a working example of this . With Kainga Ora at approx. 15% of the supply chain in many markets Govt procurement can assist in fixing the broken markets .
We urge the commission to refrain from using *"tried and tested"* language and defer from Small size and distant market , but to use benchmarks and discussion of *Incumbent products with Market power* , (rather than Tried and Tested	Bad language in the draft report needs to be fixed
We would like to discuss first hand the discussion of HHI ratios in page 152	We are concerned this analysis is not telling the full story We think its strategically misguided to work on covenants , as building industry has different

	consumer behaviours to supermarkets . And the major issue is scale & productivity in Economy segment . Given the limited resources of this study , we don't see covenants as a top 10 issue
The exclusive covenant analysis and vertical integration analysis	We believe this is misguided and will talk to this , it
Rebates discussion is constructive and helps explain how NZ got itself into such a mess with construction costs	Real price confusion is rife , and end consumers are misinformed and gamed on costs and discounts
Producer statements , required to secure CCC's sometimes mean bizarre procurement process ,	We urge the ComCom to look at the Producer statement culture to secure a Code of Compliance sign off . Its this culture which breeds margin on margin costs .
Chapter 8 Severely understates the impact of scalable OSM , whereby a entire new supply chain and innovation pathway would be built	All market segments including Luxury and Premium would benefit from assembly scale introduction. We need a review of this section and some more empirical targets and benefits .

What would Kiwi Infrastructure like to see in the Final Report

Item	Comment
Benchmarking costs per sqm to build social houses internationally	This is the problem that is trying to be solved, Fixing Economy market segment and all other parts of the market will be fixed as the flow on effect works
A Peer review of the vertical integration impact of the NZ industry	The Commission is confused about Market Power , Regulatory and *"Tried and Tested culture* ", (*market incumbents products with dominance and network effects)* all problems flow to back to incentives to maintain status quo
A peer review of what scale looks like in assembly of social houses	NZ is the only country in the OECD not to have a scalable assembly industry of social houses,
A definition of 3 segments of house assembly and how different supply chain systems and procurement protocols exist in each segment	The ComCom, needs to focus on the affordable market segments, its not a public problem that the Ferrari set pay too much for housing, what is a problem is Social houses which the tax payer buys to house communities, costs 4 x the international bench mark price
A customer profile analysis and accurate market shares for the 3 big merchants, Fletcher, Carters & ITM	We think more granular information is needed on this matter in chapter 5 (particularly large customers) We think the Commission is being gamed on this matter.
A recommendation that a Private insurance company is set up (similar to international) , for Building insurance	Its time to consider a structure where its not councils responsible for all building standards
A empirical analysis of the OECD benchmarks on OSM introduction on what is the minimal scale required to get a 25% drop in costs, and a 80% reduction in waste for a 50 % drop in carbon foot print	Scale rather than OSM is the first pathway to reduced costs
A new supply chain diagram for scalable OSM	The diagram is incorrect for OSM , a new diagram will explain where the cost and productivity savings are
A discussion of how Margin on Margin industry structure works through multiple product ranges , including Plumbing and Electrical	More research work on the role of the materials purchase and producer statements (the bit of paper to secure the CCC) , needs to work on . As that is where margin on margin occurs

We believe the Commission must recommend focus on prescriptive regulation and new government procurement process to increase innovation , lower prices and improve productivity in the NZ house construction markets.

We urge further benchmarking and more detailed analysis of the introduction of scalable orders and OSM in the public housing markets

About KIL

Kiwi Infrastructure has visited 32 house building factories to study international best practise in assembly of high-quality entry-level housing solutions using robotic assembly in standardised modules, and new supply chain dynamics in NZ at Scale to build for private and public social housing enterprises.

Central to this industry transformation, to adjust NZ construction costs to international best cost basis was a scalable order from central government and a new legislative framework around scalable greenfield developments focused on effective cost basis, leveraging new OSM and Panelisation technologies.

Pre Covid the Kiwi infrastructure transformation team advocated for an independent international consultant to produce a international benchmarking report to compare the cost of construction of social houses in NZ versus international best practise.

Kiwi infrastructure board was horrified and stunned at the" Deloitte Report" , paid for by Fletchers and thought that the Deloitte NZ Board embarrassed themselves with the publication of such a vested interest document which was misleading and factually incorrect in some areas .

Kiwi Infrastructure will forward to the Commission the Kiwi Infrastructure proposal to the Kanga Ora ITP process , we now have permission to have it published

Tex Edwards

Kiwi Infrastructure