

06 September 2022

**OffsiteNZ's Feedback on the  
Commerce Commission's  
Residential Building Supplies Market Study Draft Report**

**Re: OffsiteNZ's response to the 4<sup>th</sup> August 2022 Draft Report**

**Introduction**

Further to OffsiteNZ's response to the Preliminary Issues Paper and submitted on 3<sup>rd</sup> February 2022 below are some additional comments and observations that we consider important when the Commerce Commission prepares its Final Report. While we hold views on the wider draft report our current feedback is limited to offsite manufacturing and its role in improving competition for residential building supplies in New Zealand. These include flooring, roofs, walls (structural and non-structural interior and exterior) and modular components.

**General Comments**

The Commerce Commission should be congratulated on the inclusion and its general understanding that offsite manufacturing is an important lever to deliver broader competition in the construction sector. MBIE should also be congratulated in the work that they are doing in an attempt to drive offsite manufacturing forward. The Building Amendment Act could be a watershed for the industry but there is a fear that the potential of the Act will be squandered by a fragmented construction industry and lack of government commitment.

**Feedback on the Summary of preliminary findings**

- We agree that the MBIE-led Building for Climate Change (BfCC) programme will call for a significant innovative response from the building industry. However there should be significantly more emphasis in the short term to highlight the importance of the adoption of offsite manufacturing.
- We agree that regulatory and behavioural barriers incentivise sticking to 'tried and tested' building products and inhibit the entry or expansion of new or innovative key building supplies. If not addressed, these barriers will also inhibit the adoption of offsite manufacturing.

- We encourage the Commerce Commission to actively engage with international officials and offsite businesses to learn and speed up the understanding of the offsite sector and its application to New Zealand. Europe, Scandinavia, Japan, parts of the US and the UK are significantly ahead of New Zealand in embracing offsite solutions. OffsiteNZ would be happy to introduce the Commerce Commission to key contacts to help with knowledge transfer.
- We agree that innovation in offsite manufacturing does add a range of benefits which will increase competition in the markets to supply key building supplies. All residential building currently use offsite strategies (e.g. frame & truss) but the construction industry on the whole (the offsite sector is the exception) has failed to incrementally improve over the last 30-40 years. As an example, an obvious and simple incremental advancement would be for the industry standard light timber frame to shift to a basic panel system that the entire industry could use. A weather-tight home in 2 weeks (already being achieved by offsite businesses) could be achieved by the all residential builders.
- We agree that for domestic offsite manufacturers, lack of certainty around pipeline and absence of large long-term contracts remains the key challenge. The Commerce Commission should be explicit that the government has an essential role to play in providing long term support to the industry. To date this has not been the case.

### **Other Comments**

While some of our feedback may be out of scope, we note that the Commerce Commission may also consider any ancillary matters that are related to, but not explicitly covered by, the terms of reference. Some other observations and comments are as follows:

**Mandating & Incentivising.** OffsiteNZ recommends that the Commerce Commission includes in the final report the role of mandating and incentives to help support the uptake of offsite manufacturing, which in turn will drive competition. Mandating & incentives have been instrumental in international markets, particularly in the UK. In the UK it was only when the UK Treasury specified the use of offsite in government procurement that critical industry support was realised. OffsiteNZ holds the view that all NZ government construction & infrastructure procurement must have specific offsite manufacturing metrics. Adopting a “Pre-Manufactured Value” approach is recommended.

While it may seem counter-intuitive, the selective use of incentives is vital to help with competitiveness, and this is clearly evident in the UK where Homes England provides grants to Community Housing groups that choose offsite solutions. This is in recognition that an offsite business cannot be price competitive with traditional construction solutions while they are in a “start-up” phase. Incentives will help offsite businesses move from a “start-up” to a “scale-up” stage (a barrier that the Commerce Commission has already highlighted). OffsiteNZ encourages the Commerce Commission to ensure that construction sector leaders discuss and debate mandates and incentives fully. Afterall, significant incentives are provided to the film industry, IT sector and to consumers buying electric vehicles.

### **Importance of a Long-Term Vision (10+ years) and co-ordinated Approach**

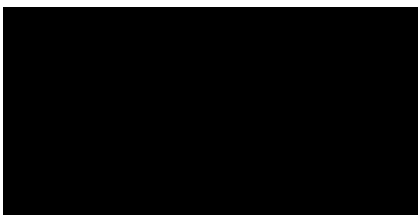
There is no clear strategy by industry leaders or the government on how offsite solutions can drive improvement in the industry. Without such a vision the construction industry will continue to focus on the short term.

Further, there is no co-ordination between government agencies regarding offsite manufacturing and a general lack of construction sector understanding of the benefits in relation to sustainability and health & safety. OffsiteNZ is hopeful that the Final Report will improve the awareness of the benefits of offsite manufacturing.

**Vertical Integration:** The Commerce Commission's conclusion that "vertical integration does not appear to be a factor affecting competition over the long term" requires further discussion and debate. The Commerce Commission needs to satisfy itself that a large vertically integrated construction firm that is extremely capable of delivering broader innovative improvements does not "drag the chain" or intentionally limit innovation at the expense of the wider construction industry. For a construction company to do so in the face of all of the challenges the industry face today and in the long term is unacceptable.

I trust this feedback is of value to the Commerce Commission. OffsiteNZ will continue to offer its expertise and looks forward to further engaging with this market study and its outcomes.

Yours sincerely,



Scott Fisher  
CEO, OffsiteNZ