

Residential building supplies market study

**He Kohinga Kōrero – Engagement with Māori on Residential Building Supplies
Market Study – Hui on 4 May 2022**

Summary of key themes

Date: 4 August 2022



Hui Session 1 – The Māori experience as suppliers, specifiers & purchasers of key building supplies

Tell us about the ways you're operating and the challenges you face supplying, specifying and purchasing key building supplies

What we heard from participants:

- The industry is broken. We are all in the same waka – both Māori and non-Māori are facing challenges in this sector.
 - The last 3-4 years has been a struggle business-wise.
 - There are potential opportunities for Māori investment groups to develop housing and become suppliers of products where there are material shortages.
 - For small construction companies, the scale of regulation and understanding this can be a barrier. Need to look around and understand the unique strategic environment. [Amotai](#) has been a big help for this. In the sector you need to learn quickly but there is a lot of whakamā (shame) to ask for help.
- There is a Treaty partner obligation, across government, to address these challenges in the residential construction sector. The key part of this is enabling Māori to do things for themselves, however council regulations issues are barriers; they need access to materials (the systems, as well as the actual building products) to get on and do their own work.
- Māori represent hugely in the labour component of the sector but there is very little representation at the decision-making and board level. There are few pathways to move up that chain.
 - May not consider that this is directly relevant to competition, but it is as Māori think differently and have different approaches to business.
 - Māori business owners are behind from the start: if there's funding, they don't know about it; they aren't on the phone lists, or the email lists.
 - Education/transparency of opportunities and role models are key to helping Māori move up the value chain.

Is competition for “key building supplies” working well? What are your experiences, in specifying (for design and build), or supplying or buying “key building supplies”, of competition for key building supplies at the moment, eg, between manufacturers/suppliers or between building supplies merchants?

What we heard from participants:

- There is a sense merchants don't want purchasers to bounce around all the time – you are usually locked into your supplier.
 - If you are a loyal client you will be able to get a better price. Merchants gain their loyalty through pricing.

- There are also reward points that are available with different merchants.
- Placemakers offer everything for the house; Bunnings offer the alternatives but are generally seen as supplying at the retail level (compared to Placemakers at the commercial level). Others only supply parts.
- Sometimes you can't get product to the regions due to the fuel and transport costs. In the rural regions the trucks just aren't coming as frequently because of these costs. This is putting pressure on the supply chain. If there is only one supplier in a region, they do control the market.
- On Waiheke Island, PlaceMakers is the only supplier. For specialised materials builders will go directly to specialist suppliers. You can get pretty much everything from PlaceMakers Waiheke; Timber World left the island a couple of years ago. This has had an effect on price. If you do not purchase from there, builders need to make a special order and wait a couple of weeks. There are other similar examples in other regions.

Are there any building supplies or methods which have particular connections with Māori or Māori building methods, or product innovation with links to Māori?

What we heard from participants:

- Builders are governed by what is specified in the plans.
 - For example, if GIB is specified in the plans that is what has to be used unless you look to use an alternative solution (though there are no other solutions currently).
 - Architects specify to Code so you can't diversify. BRANZ appraisal can cost \$180k and is an issue.
- Participants were not aware of any Māori owned suppliers to merchants. There might be some that are wholesale, but residential builders generally go to the merchant.
- Kāinga Ora has been looking into Offsite Manufacturing (OSM) solutions, and has been starting discussion with iwi, for example setting up BuildSmart (an OSM) with [Toitū Tairāwhiti](#). This does not address the supply chain issues but OSM may reduce some of the delivery timeframes with more efficient delivery – although this is some time away.
 - There are other suppliers out there who are starting to look further into these types of relationships.
 - However, this OSM doesn't necessarily solve the supply change challenges as OSM still need those products in the first place.

Hui Session 2 – The Māori experience with the Building Act regulatory and standards systems / future needs

What has your experience been with Building Act regulatory and standards systems? Are the regulatory and standards systems helping or hindering competition and innovation in key building supplies at the moment?

What we heard from participants:

- BCAs are very restrictive due to the Building Act and Building Code. NZ has become too restrictive since leaky buildings.
 - There are quite a lot of hoops to jump through to gain consent. Building consent can be costly and take a long time. The expectation and expenses associated with peer reviews of reports can be excessive.
 - Knowledge and “flair” have been taken away from the builders, is now a “paint by numbers” process. A knowledgeable builder and/or consent officer can facilitate the consenting process through a more dynamic understanding of building materials and methods.
 - Some young consent officers have come from an education background. They don’t understand the “trade” perspectives, have not been builders, which can affect decision making and lead to unnecessary increased costs.
 - The Building Code changes every six months, so it’s hard to for on-site builders to keep update. BCA staff are employed to keep updated, and their education role is critical.
 - BCAs find it hard to employ people in the consent officer space.
 - The Commission should look at the Act and Code, to bring it back to the middle, and let it not be about what is on the plans, but the builder and their record of work.
 - Although perspectives vary, a view was expressed that the risk needs to shift back to developers.
- Māori find it difficult engaging and communicating with BCAs around the country.
 - Māori like to communicate through conversation rather than by email. However, councils require communications in written form. Councils are audited every 3 months, and are risk averse, so everything is in writing. It is generationally difficult for Māori to push back against councils.
 - Some builders (or group home builders) employ people specifically to engage with the councils, though other Māori builders who don’t have this luxury struggle more with BCAs.

- On RMA and spatial planning, there is perception that councils “protect their own silo”, and do not show openness or support developers in achieving the Council’s intended plans.
 - Some councils haven’t listened to the Māori perspective such as issues around Māori land ownership, and the community focus for Māori.
 - For example, Māori or Pacifica value community spaces, which could be included in the planning of a subdivision.
- Developers have experienced challenges with some aspects of funding building, such as being unable to borrow to build on land. Kiwibank is the only bank that will assist with the papakāinga model.¹
- The Licenced Building Practitioners (LBP) scheme was raised. Councils (BCAs) teach and instruct builders, but it’s not clear whether they are liable, and it appears liability falls back to the builders.
 - Inspectors in some areas are helpful and provide useful guidance to builders, but this not the case across all of Aotearoa.
 - There are limited resources for Māori to resolve issues with inspectors.
 - Building authorities are ranked. Their focus is on keeping their ranking high and ticking boxes, and so not focussed on working *with* the builders.
- Councils around the country are meant to do things the same way, but they don’t.
 - If you try to build the same house in different regions, you will receive very different requests for information from different councils – ranging from 10 RFIs to 50 RFIs.
 - Currently 3 months is standard for gaining consent. It’s meant to be 20 working days. Whereas a standard home build used to take 6-8 months it is now taking 12-14 months.
- While different councils can have their own rules, and there are also differences within individual consent officers of a BCA, and the various interpretations of the rules.
 - If you have a change of personnel mid-process, it is even more difficult, as requirements might change, and processes may need to be repeated for the new consenting officer.
 - This all just adds time and cost to the building process. And that goes to the price of the house. Material shortages are increasing the risks of building a house too.

¹ Papakāinga: Māori living together communally on ancestral whenua. See: <https://www.tpk.govt.nz/en/whakamahia/maori-housing-support/supporting-new-homes-and-papakāinga>.

- Haven't seen good examples of relationship building or engagements between consenting officers and Māori land-owners, which is important to Māori. Town planners are a bit more sophisticated in terms of how to work with Māori. But the types of interactions with Councils are more differentiated and less productive.
- Some councils may not give approval to innovative models even when all requirements are met.
- Need to challenge councils around what they are doing in dealing with Māori in terms of their Treaty obligations, for example:
 - What is the culture of the council?
 - Is there a Māori Ward appointed?
 - Are the council set up to support these conversations when they arise?
 - Councils could engage with local Māori within the hapu and build council-Māori relationship to support when issues arise.

Specification of products

What we heard from participants:

- An example was provided of a builder having a discussion with a designer about not specifying the GIB brand, but there is a need to be careful not to specify an "un-regulated" plasterboard product.
 - This occurs because "it's the way it always has been". It is common practice for GIB to be specified.
 - If it is listed because of GIB's bracing elements, it is not a straightforward swap out.
 - It was suggested that the Commission should ask why GIB has a monopoly on the market. If you dismantle their monopoly power, the market will change.
- GIB isn't the only product with high concentration. There are other key products in NZ with just 1-2 suppliers. It's not clear whether this is because of the size of the NZ market, or there are other factors at play.
- Other examples are Pink Batts, some types of timber. They are commonly used by every designer. It was suggested that common products in use overseas were not used here due to the kickbacks and rebates provided to builders to use the common products.
- The loss of creativity in building can be linked to how the building consent officers are trained – if they come through the trade they understand how to supplement materials; otherwise they do not and cannot justify changes to materials (eg in an onsite audit).

Product certification and appraisal

What we heard from participants:

- Barriers arise from the structure of how to gain appraisal: the knowledge required, the engineering components required. It all adds to the cost.
 - If it's going to cost 180K to get an appraisal, and there is a risk of being turned down, that is an expensive up-front cost.
 - Smaller firms are not doing it because of the need for a large financial backing.
- Some Māori around the motu are looking at the same investments, rather than something different than they've always done. For example, why are Māori not investing in a factory to start making plasterboard?
 - We are a bit like fossils, just looking at the tested ways of making pūtea, not keen on going outside the box.
 - Why not let Māori be the innovators with the limited pūtea they have got.
- Regarding Government involvement in bringing overseas examples of OSM buildings to NZ for whanau to put on their land:
 - Expectations in terms of housing types that can be funded are set by Kāinga Ora, Ministry of Housing and Urban Development and Te Puni Kōkiri.
 - Other options may exist that are cheaper than traditional timber framed buildings in the OSM space.
 - Not aware of other options being funded by central Government at this stage.
 - Once you have your plans for a building, you can copy paste that across different sites. But the challenge lies in educating the councils, and the manufacturers overseas.
 - An example was provided where the OSM manufacturer didn't appreciate the impact of swapping products.
- Kāinga Ora had a number of off-site manufacturers coming in and were looking to build or bring in 1,000 OSM homes.
 - NZ factory-built houses are pretty easy, as the OSMs have relationships with Councils. It's harder for international OSM operators, due to onsite inspection requirements and achieving quality assurance.
 - Over the last 12 months, the price of shipping has trebled. This is a major issue, shipping has ended up costing a third of the full price of the unit – so all savings went to the shipping.
- In terms of supporting Māori investment and manufacturing, it would be good to see investment outside of primary sector. There is some: Ngāti Toa are investing in Toa ITM, and there are three or four Māori build partners which Kāinga Ora are looking to work with.

Impact of sustainability and climate change on build decisions and innovation

What we heard from participants:

- There are changes in November, specifically regarding insulation requirements.
 - All insulation thresholds will be lifted and thermally broken windows will be required around NZ. The industry does not make products at the moment that will be able to perform to the higher standards – such as insulation in a 90mm cavity that will meet the new requirements.
 - Thermally broken windows add \$10-15K to the house cost and may not be necessary for all social houses, in all regions, such as in the far North.
 - There may be a requirement to change from 4x2 to 6x2 as the standard framing timber dimension (increasing the insulation cavity from 90mm to 140mm). There is a view that the industry is just not ready yet.
- There is some uncertainty currently, as to how industry will meet all the rules when they come in, and a sense that industry has been left to come up with the solutions.

Hui Session 3 – Reflections and the most important factors you would like us to consider

Based on what we've heard today, is competition for key building supplies working well? Are there any other issues you'd like us to know about?

What we heard from participants:

- There is limited merchant competition in some regions.
 - For example, Waiheke Island only has PlaceMakers. TimberWorld left.
 - A participant heard that ITM was looking at moving to Waiheke Island, but there is no suitable land.
- The New Zealand market is not overly competitive.
 - Fletchers controls the market. It's hard for other merchants to compete against that.
 - NZ's small population possibly limits the potential for multiple large corporates.
- It is tough to break into the industry.
 - Profit margins are low at the merchant level.
 - Some iwi have looked to purchase merchant stores.
 - There aren't a lot of domestic manufacturers in New Zealand. A lot comes from overseas.
- There are issues with timber.
 - It's difficult to get timber – example of pre-nail factory in Wellington having days off work because of this.

- Kiwi Lumber is being sold in Australia cheaper than H1.2 is in NZ and is potentially higher quality.
- We have more timber going into our houses now, due to changes following the Christchurch earthquakes. This is because of the bracing element and strengthening.
- Move to 6x2 timber would affect cost of building. This would affect windows, insulation etc. A participant suggested talking to Master Builders.
- LVL is being put into more houses now – it wasn't around 10 years ago. But it's difficult to find it.
- Other points discussed.
 - Rebates are generally across a mix of both individual products and total spend. It's not a lot but helps offset costs elsewhere (eg, helps with purchases of tools).
 - The recent example of Wellington construction company going bankrupt is an example of competition gone wrong – risks of fixed price contracts.

If there are issues with competition for key building supplies currently, what are some possible solutions that you would like us to explore?

What we heard from participants:

- Financial institutions to look at funding of developments on Māori land.
- Could look at generic specifications from designers (architects/engineers etc).
 - Performance-based specification of products, rather than specifying by brand.
 - This would encourage competition.
- Off-site manufacturing (OSM).
 - OSM is on average about \$750m2 cheaper than traditional on-site building.
 - OSM is relatively new. It takes time to get the specs right (eg 18 months).
- Pine trees are being planted for carbon credits. Could require that these trees are maintained/pruned so that they can be harvested in the next 25 years.

Is there anything else you think we should consider as part of this market study?

What we heard from participants:

- Help get Māori involved in the different building opportunities available – we don't compete on even levels.
 - It's hard for Māori to break into Government contracts.
 - In respect of challenges around social housing, Māori have unique housing needs with intergenerational aspects.

Additional points – from follow up with interested parties who registered for the hui but were unable to attend on the day

- Service is a large part of the equation for competition between merchants (as well as pricing). The biggest issue is delays in receiving supply of materials.
- There are some unique challenges with papakāinga developments. The need for houses to be relocatable limits options for building supplies (eg, need timber piles, limited options for cladding). Papakāinga requires resource consent associated with discharging water on rural land.
- Competition for key building supplies is not working well, noting that Fletcher Building and Carter Holt Harvey have strong long-term relationships with the Crown and local government.
- The current regulatory and standards settings don't support alternative ways of building low cost homes.
- There is the potential for greater use of alternative delivery models such as structural insulated panels and passive homes.
- Suggested opportunities for us to consider as part of the study included:
 - government support for suppliers of alternative products, noting that Kāinga Ora has the largest build programme in the country;
 - government support for pathways for trades, such as young apprentices;
 - greater education for BCAs, as well as those trying to use the system; and
 - de-regulation, by looking at standards more broadly than currently.