

Submission to the Commerce  
Commission on the residential  
building supplies market study  
draft report

# On behalf of Mike Greer & Tex Edwards

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## 1.0 Introduction

Thank you for accepting our conference narrative, our persona is “what is a sensible market-based solution to this broken market “.

## 2.0 Recommendation

Our recommendation to the Commission on the final report is, to use the levers in the Commission’s toolbox to make recommendations which start the long journey of fixing the cost basis of “*economy market segment construction*”.

### 2.1 Scale and continuity

The first step is to ensure that scale and continuity of contract is used to deliver high quality standardised homes in scalable project volumes. It is expected that this will reduce the cost of Kainga Ora’s construction by up to 50% (this means building at approximately \$1,200 per sqm).

A contract of 21,000 houses over 7 years to an experienced operator and who does not own vertically integrated materials would achieve this reduction. New Zealand consumers would benefit from this scale and continuity of contracts such as this through lower cost housing and an approved housing supply model.

The 1936 contract between Fletcher Construction and the New Zealand state is noteworthy in this regard. Economists in the Commission need to study why an incumbent (in the current vertically integrated basis) should be disqualified from such a contract.

### 2.2 The role of Government procurement

An output of the conference was that the OECD’s worst of Government procurement methods were evidenced, whereby a Government agency’s sub-contractors were competing against each other for materials (South Auckland Kainga Ora sites).

The success of the New Zealand Government in the rapid institutional rebuild is a under reported achievement. Tens of thousands of houses built, a new organisation established, a new skill base and tens of thousands of sections becoming build ready.

We believe the Commission must exercise its in house economists to advocate long term scalable contracts. This will:

- kick start not just substantial price reductions, but also
- OSM,
- green buildings, and
- higher EPC ratings for New Zealand consumers.

The economic impact of scale is:

- new supply chains,
- new building materials,
- recycling and reduction of waste,
- increased opportunities for training and development within the construction sector, and
- a competitive reaction from the monopolistic incumbents

## 2.3 Recommendations for action in the final report which would lead to benefits for NZ consumers

| Recommendation  | Comment   | Time frame |
|---|---|------------|
| Scalable contracts                                      | Government procurement means 50% of all new houses need to be built in scale                  | 2023       |
| EPC ratings   | Introduce these into New Zealand  | 2028       |
| EPC rental ratings                                      | Introduce this into New Zealand   | 2030       |
| EPC mortgage ratings                                    | Introduce these into New Zealand  | 2032       |
| Recycling of building waste                             | Set staggered targets   | 2026       |
| Government procurement from vertically integrated firms | Change procurement methods  | 2024       |
| OSM   | Set targets of 50% of new housing supply procured by Government (across the housing spectrum) | 2030       |
| BCA reform  | Commence processes to reduce to five BCA's across New Zealand                                 | 2024       |
| Risk  | Permit 3 <sup>rd</sup> party insurance companies to start operations                          | 2024       |
| Māori participation and ownership                       | Māori should own its own EPC rating agency, and BCA   | Now        |

## 3.0 Conclusion

The New Zealand Government has kick started state intervention in house building. Serious progress is being made and we urge the Commission to consider using their economists to navigate a better pathway, as the this state intervention matures.

We believe that the marginal cost of construction could almost halve if the international best practice of scalable multiyear, standardised contracts were to be initiated.

We urge the Commission to recommend 7-year contracts building 3,000 houses per annum in three standardised designs, in high quality sustainable EPC rated formats.

We urge the Commission to publish draft target dates for OSM introduction, EPC ratings, green building materials use and mandatory recycling of demolition materials.

We are available to meeting to share our experience in more detail with Commissioners.

We thank the Commerce Commission for undertaking the market study.

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