

Market study into residential building supplies

Submission

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Thank you for the opportunity to submit my perceptions and experience with regard to the building and construction industry in New Zealand. It is difficult to hit the nail on the head so to speak due to the lack of information available to the general public. The building supply chain in New Zealand is not exactly transparent in terms of how it operates, so I have done my best to try and draft this submission based on government releases, publically available information, corporate media releases, and personal experience.

I will footnote this submission with my history in construction, my experience of the local consenting processes, and my development of a construction system where I have been the lead stakeholder/developer for over 7 years.

NOTE: I had hoped to provide some examples using the Pt England, Auckland Tāmaki Regeneration Company as the business model being used but it is impossible without some insider information and accountants pouring through reports. The publically available financials are very complex to decipher unless the procedures/policies/contracts in place are exposed. None the less this is a very profitable venture for government(s) agencies.

The New Zealand Construction Industry

The industry itself is largely comprised of small and medium enterprises (SMEs) that do the actual construction and building work, and large, often interconnected corporations that manufacture and supply building materials. In 2018, BDO anonymously surveyed NZ construction industry businesses and generated the Construction Survey Report as linked below. The industry has changed somewhat since 2018, as a result of a global pandemic, however the report largely presents an accurate picture of the industry. BDO's report details the majority of issues faced by SMEs in the building and construction industry, as well as the returns generated by SMEs.

According to the report, the average company operating in New Zealand's building and construction sector achieves a gross margin of **close to 5%**. The report highlights that those obtaining better margins appear to be generally larger companies undertaking large projects, i.e. those companies who benefit from economies of scale, and the ability to bid for large commercial contracts.

<https://www.bdo.nz/getattachment/Industries/Real-Estate-and-Construction/2018-Construction-Survey-Results/Construction-Survey-Report.pdf.aspx?lang=en-NZ>

Why the industry is important

Article 25 of the United Nations Declaration of Human Rights identifies the right to adequate housing as a fundamental human right. That is, everyone in the world has

the right to adequate housing as part of their right to a “standard of living adequate [for their] health and wellbeing”.

However, housing has become increasingly commercialised and commoditised.

After the recession in America (global) homes became marketable as a way to flip and make large sums of money. Homes were cheap due to mortgagee sales from repossessions. Instead of developers being the single source of revenue in housing it became individuals looking to make money, thus investment for revenue. New Zealand was quite unique as a country of people who bought homes to rent due to lending restrictions far beyond most to buy.

Secondly revenue. If a building company was making 5% margin but a person was making upwards of 15-40% renovating and flipping homes, it becomes a popular way for people to commercialise a fundamental human right. There was a huge uptake in these renovation projects. DIY spawned a whole new industry in itself. Megastores such as PlaceMakers flourished, materials became readily available to the general public (at retail prices) and endless amounts of instructional videos surfaced even from product manufacturers themselves.

This did not go unnoticed. Corporations set their eyes on the market. Governments saw opportunity. Unfortunately, both have joined hands and led us to this inquiry.

What is driving the issues in the construction industry

Government investment, plain and simple. Government investment in the property market goes far beyond bricks and mortar. The banks themselves are funded by the Reserve Bank of New Zealand (RBNZ) for new home loans, and the Government profits from this. The Government is the largest home-owner and landlord in New Zealand (via Kāinga Ora), and its largest residential developer, via Kāinga Ora and schemes such as KiwiBuild. This used to be from government developed state used properties. But that changed.

Housing and Urban Development statistics

<https://www.hud.govt.nz/stats-and-insight/the-government-housing-dashboard/public-homes/>

What's more perplexing is the number stated by the Government, and what is currently held by Statistics NZ:

“Housing Minister Megan Woods said the number of properties bought was far outweighed by the amount of social housing delivered by the Government – more than 12,000 extra homes since June 2017.”

Logically, one would assume it is the Government's better interest to partner with large industries, build, market, and create methods and models for home ownership under the fictional “first home buyer” ideology. But are these a fair deal for the people buying them? That is a perspective issue, dependent on whether you are a supplier or a consumer.

Government Funding for Lending program

[Funding for Lending](#) is a policy that allows the banks to rely on the Government for money at specified Official Cash Rate (OCR).

This is fictional money (via securities), turned into real money and profits through homeowner deposit and interest rates: they use publicly-owned property to enrich profits at taxpayer expense. It is more than likely the Government is using KiwiSaver funds (to balance risk), but that is near impossible to prove unless you are privy to the actual details of the policies behind closed doors.

The companies building the homes are dispensed funds (typically) on a schedule based on the contracts with developers. In the majority of the KiwiBuild programme, large market participants such as Fletcher Building have a direct impact on materials and are competing in the market against SMEs who are reliant on Fletcher's various manufacturing subsidiaries to supply the materials (and price the work).

Major market participants (i.e. large corporations) also interact with government directly, and have access to policymakers, committees and decision-makers that SMEs have no opportunity to reach. While there is always a requirement for large companies to build at a commercial scale, these companies are increasingly competing against SMEs in the residential and small commercial sector, and are leveraging their market power and manufacturing capability to do so. SMEs have no choice but to purchase materials from this monopolistic entity, which in turn negatively affects their potential to make a fair market return.

RBNZ homes statistics

<https://www.rbnz.govt.nz/statistics/series/lending-and-monetary/new-residential-mortgage-lending-by-borrower-type>

<https://www.mbie.govt.nz/business-and-employment/economic-development/economic-plan/transform-our-housing-market/>

NOTE: A direct link to the Fletcher Building 2021 annual report is at the end of this document with a screenshot of the corporations' divisional revenue.

Rigged System

Why is this system rigged? In simple terms, to increase revenue.

Government revenue is one of the biggest driving factors of the materials shortages and cause of housing prices. We have a media frenzy driven by shockwaves or shortages, investment, retirement etc. Not only that but the [Government itself does the marketing](#).

The economics of supply and demand [still apply to New Zealand](#).

"Affordable housing" is a worthless term in the context in which it's currently used in New Zealand, and is used as a way to encourage people into debt, and into participating in a rigged system – a system very similar to a pyramid scheme since no actual money changes hands and no land is actually bought or sold, it's just paper. The Commerce Commission must ask the question – can a home that costs more than \$850,000+ in a nation with an average annual wage of around \$55,000

really be considered affordable? Certainly it is beyond the financial means of many, and if housing is a fundamental human right, does this then point to a fundamental issue with the structure of the residential building supplies market? Returns for SMEs are not more than could be expected in a functional market – it's not often you see a builder or a plumber driving a Rolls Royce, so where does the intrinsic issue reside?

Certainly competition is not an issue amongst SMEs – where there is a plethora of market players – but given the cost, the issue must reside somewhere.

<https://www.rbnz.govt.nz/hub/news/2021/08/house-prices-above-sustainable-levels>
<https://www.rbnz.govt.nz/hub/publications/analytical-note/2022/an2022-08>

Everyone wants their pound of flesh.

Councils attach higher rates based on a home's value. Sometimes proportionate to the value of the home and improvements, but they vary assume based on the wealth of an area.

Also consenting process, plans, time, and fees which I assume are absent in most government build business models.

It's not just speculation is it?

Housing Prices

Housing NZ is [bidding against you](#). The Government is driving up prices.

With limited housing stocks, this drives up housing prices which in turn benefits the Government through interest rates. What's more shocking is that some of these homes are what are marketed as "first home buyer" homes, putting them in direct competition with inexperienced prospective buyers in an emotional auction process, a process [proven to drive prices higher](#).

If you increase prices and demand for housing using [Government-funded marketing](#), and Government bidders, it creates a cascade effect down into the cost of materials in addition to the impact on supply and demand. The Government has created a false economy, and is essentially manipulation the market for its own gain – it is in their interest for house prices to remain high.

This level of manipulation in a market would be illegal for a private company – it could be argued that the Government is creating an intergenerational Ponzi scheme.

Impacts of this building methodology/mentality

Asked what barriers still need to be addressed, Kellington points to bank finance and developers and group builders needing to take the time to understand the benefits they could get with elements of off-site manufacturing (OSM).

"We don't get paid until the home is attached to the land. Westpac have been brilliant and forthcoming for mum and dad investors. But for developers, the funding is carried by the company. I think there needs to be more understanding from the

banks to make it work. We are lucky that we build quickly so we can cover the gap in money. But there has to be a smarter way.”

<https://underconstruction.placemakers.co.nz/offsite-insight-the-future-of-building/>

Based on this logic of course the larger corporate and business have a hand up over the SMEs. It's clearly stated that banks hold the strings.

Kiwibuild and saving face

<https://www.1news.co.nz/2019/02/19/phil-twyford-adamant-that-kiwibuild-can-reach-long-term-target-of-100000-homes/>

<https://www.oneroof.co.nz/news/kiwibuild-33-complete-967-to-go-by-july-35879>

<https://www.scoop.co.nz/stories/PA2202/S00049/kainga-ora-removes-more-homes-than-it-builds.htm>

The Government operates as a dominant market player in private residential developments, and is in competition with SMEs for access to materials. They're paying landowners the cost of infrastructure for land to generate more housing stocks for more revenue.

<https://www.kiwibuild.govt.nz/about-kiwibuild/information-for-developers/>

<https://kaingaora.govt.nz/news/changes-announced-for-kiwibuild-programme/>

How is it possible the Government is getting homes built but private SME are suffering and going under. And if the Government is receiving a fair market rate for the materials it is purchasing, why does it not provide SMEs with access to these rates?

The Winstone Wallboards (GIB) shortage

The [GIB shortage](#) during the Covid-19 pandemic pinpoints some of the significant issues with competition in the industry. Firstly, GIB operates as a de facto monopoly or at the very least has a market share that would be considered unusual in a functional market. When supply dried up, there was no alternative and many projects (at least, those undertaken by SMEs) [ground to a halt](#).

Secondly, the shortage was mostly created by business stockpiling GIB board, rather than an issue with manufacturing itself – it was an artificial demand peak. This demonstrates anticompetitive behaviour by the Fletcher Building monopoly, which was [privileging its own businesses](#) before SMEs. This is a significant competition issue, and represents an abuse of market power.

<https://www.newshub.co.nz/home/new-zealand/2022/06/how-supplies-of-plasterboard-reached-critically-low-levels.html>

With SMEs failing or unable to complete projects, this freed up labour and created a “completion” market of nearly finished homes that could be easily swallowed up by larger groups at great value, and then completed at a higher margin than typical because owners/developers had to foot completion costs.

Amazingly when this all came to a head the company who is at the centre of this scandal made overseas wallboard available and it was “accepted”.

In the past other companies who tried to do this failed but this instance the company became a savour. This major company suffered none. Its wallboard was hugely profitable, its alternative if there actually was one was readily accepted in a approvals system draconian to others seeking approvals. One would assume that compliance/appraisals were standardized, fair, and meaningful. They're not.

Failure of SME due to wallboard shortages

<https://www.nzherald.co.nz/business/tauranga-builder-fails-with-518000-shortfall-national-mp-raises-recession-fears/M3NLSNYAARHKRDEYRZ2T6MOCEY/>

<https://www.rnz.co.nz/news/national/469617/material-shortage-creating-perfect-storm-for-building-company-failure>

<https://www.newsroom.co.nz/builders-forced-to-the-wall-as-gib-shortage-becomes-critical>

BRANZ

BRANZ appraisals and approvals are simply a waste of time. Houses haven't stopped leaking, and materials haven't stopped failing under the BRANZ system. It has not improved construction materials, and the body does not provide the assurance it's designed to. It is simply a mechanism to control the supply of materials. It is telling that at least one BRANZ board member has direct links to Fletcher Building.

In fact, the only other appraisal and approvals body operating in New Zealand Beal has been "expelled" from the system. Both were listed on building.govt website, both have been removed.

So what was the principal of this appraisal and approval system if it's not legally responsible for the approval stamps it's offering home consumers, owners, and developers. Who owns and operates it? There is no accountability within the system – it exists only to service monopolistic market participants.

Additionally there is NO 100% council acceptance of this just because its BRANZ approved.

It's a loophole lined path for SMEs to get approval/permits.

The Modular Component Manufacturer Scheme

Lets throw another spanner in the works: the [Modular Component Manufacturer Scheme](#). This scheme is further proof that the building sector is weighted to benefit the existing materials and construction monopolies (including the Government).

This recently introduced approvals program is similarly biased towards the building materials monopoly. It is based on Codemark approvals – Codemark "approvals" groups have no specific agent in New Zealand, and the only agents who can provide them are based in Australia. The cost of approval under the Modular Component Manufacturer Scheme is prohibitive for anyone but corporations who can gain R&D tax credits in both countries, seek approvals at a tax benefit as overseas GST (tax) is

not deductible/refundable for NZ businesses. Amazingly, the major players are in both markets.

As with BRANZ approvals, there is also no guarantee that Codemark alone will be accepted under the Modular Component Manufacturer Scheme. However if you are given the approval under this scheme, you are guaranteed to be accepted by local councils, which essentially allows approved entities to bypass the consenting process.

This again is focused on large businesses/corporations that can afford huge factories and can stockpile materials to assure production, labour, and profits. It is 100% SPECIFICALLY geared to these large entities with the capability for OSM: there is no consideration of SMEs or market innovators.

In recent years, there has been a significant increase in factory framing/housing. In order to protect production, pricing, and labour these materials must be stockpiled to account for production figures. Thus assuring continuous production, completed homes, and profits; its mass a mass production business.

The Commerce Commission needs to consider how this may evolve in the future, and how it may affect the number of participants who can continue to operate in the market by being priced out, due to the expense or availability of materials controlled by a monopoly (and where priority is given to government agencies or residential subsidiaries of these corporations).

Policy and Planning

So why is it so hard to fix a system that monopolises an industry? A monopoly that has caused more problems than it has solved Why is it so hard to fix this?

Let's look at another government-managed system: Land Transport New Zealand. LTNZ fact "I can modify a vehicle that travels at the maximum speed limit, risk my life and those around me, and I can get it complied easier and cheaper than the requirements of the building regulation and councils."

Real example- <https://www.stuff.co.nz/business/130050343/petition-asking-for-national-recognition-of-tiny-homes-fails>

So what is the issue of tiny homes/grid free living if not for the revenue factor. Same materials, methods, same purpose accept the money lending requirement and the acceptance. Why are the building regulators and policy makers against this if not that?

I 100% agree that there needs to wastewater permits etc.. but it's still a technically legal dwelling. ***Mechanism need to be developed and put into place immediately.*** Not only to protect this property right but to curtail the government monopolisation of the process for profit.

Ultimately it's the value of improvements, the rates, and revenue that become hard to address, but why? It is not in the governments' better interest to having you live mortgage free. It's the money plain and simple.

Recently it was suggested by the labour government to “tax” freehold homes. Now it seems quite hard to find media to reiterate this suggested policy.

So meeting with industry over the issue isn't just meeting with the top 5 or 10 players. It's meeting with the whole industry sector and meeting them in the middle. Not monopolizing.

To give an idea of the impact in any industrial area of individual forward thinking; Elon Musk invested \$100 million into making a successful reusable rocket. The US government has invested over \$300 million into making a non-reusable rocket which hasn't even left the ground with payload or people.

So if we are to “change the world” it's obviously NOT going to be led by government. It's going to lead by everyday people.

Bigger issues in the construction industry- Government monopolization of how it's done

Firstly control (BRANZ) of how it's done hasn't worked. Houses still leak, materials still fail.

Materials are being monopolized at the cost of SMEs, i.e. tax payers.

<https://www.stuff.co.nz/business/129468354/gib-shortage-over-due-to-construction-industry-slowdown>

The major player in this, the government. The government has allowed a central play due to market strength i.e. dominance of small and medium business. As the above stuff article shows materials are stored till when builders can install them, then instead of buying as needed. The majority of the projects are governments, and the government employees this major player because of this dominance. The government is fully aware of this and the publicly published profit statement of the main organization clearly shows this. Remember this is also during a time when there were “COVID” issues and labour shortages. No telling what impact this had in the employment and contracting sectors either working for, contracted to, or in competition to this juggernaut govt/private partnership. However the government would or should be fully aware of their actions but without care.

Lets look at one of the only publically available reports.

Fletcher Building Financial Report 2021 <https://fletcherbuilding.com/assets/4-investor-centre/annual-reports/2021-annual-report.pdf>

Fact: Many government entities have shares in Fletcher Building, which means the Government has a vested interest in ensuring its success. Not only is the Government profiting in free land (higher profit margins than typical developer/builder), they're profiting from the lending, and profiting from their shareholding in what one would consider a dominant incumbent player in the markets. So no wonder there is a push for 100,000 new homes. It's profitable for

them, unaffordable for you, but the Government controls the lending rules. We can make it work.

This is a car dealer tactic to make that luxury vehicle more accessible to you even though they know you can't afford it.

Based on this methodology you can see why Fletcher Building have had tremendous growth and profit in the construction sectors.

And you know what, if the interest rates go up, you default; we keep your real money and keep you in the hole for any other losses. Honestly what government does this to its people? It profitable because we still have that home, you just lost with a gamble.

To sum this up

I find it pretty hysterical that government asked the commerce commission to review the issues in the construction industry. Duck and cover, dodge and weave distraction from the whole core of what this is all about. If you follow any path in this industry you are led to one source, the government. They control the rules/regulation, permitting, contracting, taxes, money lending, conditions of employment, and they seek your review of the system they created?

I would personally suggest a reverse role of this market study: follow the money back up to the contract and then look at this from the perspective of the failed SMEs and what fairness this Government-created system offered them. Ask who took over their failed projects and at what benefit. I'm not privy to these facts or the actual contracts currently in play on the government-funded programs.