



## **National Association of Steel Framed Housing (NASH) submission to the Commerce Commission:**

### **Residential building supplies market study**

NASH is the membership organisation of parties involved in light steel framing in New Zealand. NASH membership includes all aspects of the construction supply chain from steel manufacture, importation, distribution, fabrication, design, engineering, installation along with manufacturers/suppliers of associated products. New Zealand is a leading exporter of light steel frame roll forming machinery, software and ancillary services supplying sophisticated housing markets in Australia, the US and Europe.

Light steel framing has been used in New Zealand for forty years. NASH was incorporated in 2004. NASH Design Standards covering Building Code compliance have been developed by NASH members over the last two decades and in 2019 the NASH Standards were cited by MBIE as Acceptable Solutions to the New Zealand Building Code. Light steel framing follows similar design/detailing pathways to light timber frame, and has superior performance characteristics with respect to strength to weight ratio, is non-combustible and will not rot. However, market adoption of light steel frame in New Zealand has been much slower than in comparable markets like Australia where light steel frame currently has become a viable alternative to traditional framing systems. By contrast light steel frame in New Zealand has been constant at around 10% for last decade – refer <https://www.stuff.co.nz/dominion-post/business/residential-property/9435020/The-battle-between-steel-and-wood>

## Questions on the importance of building supplies to New Zealanders

Q1 What impact is the current level of competition in the building supplies industry having on New Zealand businesses and the general public?

Missing from the preliminary issues paper are the following which are critical in looking at the competitive nature of the sector.

cyclical nature of the construction sector

proportion of building supplies imported / local manufacture

relationship between local manufacturing and the construction sector

need for scale in manufacturing to be globally competitive

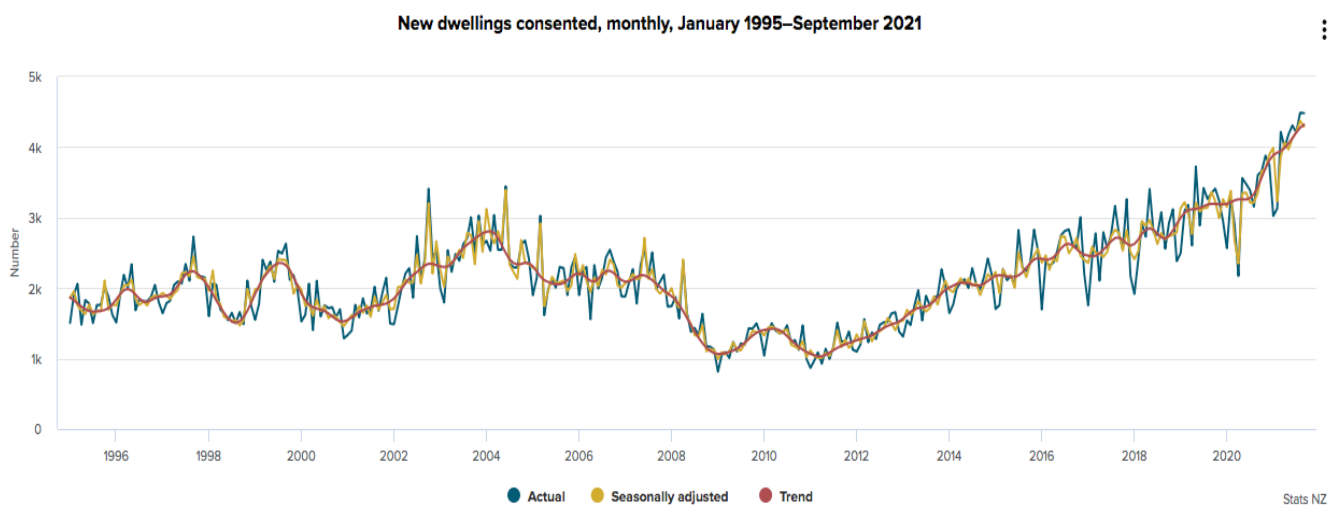
New Zealand's geography – we are a long, thin island nation, separated by Cook Strait, which necessitates holding stock in several locations to provide a modicum of customer service

housing affordability

### Cyclical nature of construction activity

Para 3 you note that *Residential building activity has been on an overall growth trend since 2012*. However the issues paper overlooks the historical boom bust nature of construction. Refer MBIE 2013 New Zealand Sectors report: Construction - *The sector experiences the highs and lows of the business cycle more acutely than the economy as a whole. In times of high demand there are bottlenecks with the supply of trained and skilled labour, with immigration often filling the gaps.*

Refer <https://www.mbie.govt.nz/assets/77439ddc45/Construction-report-2013.pdf>



Refer <https://www.stats.govt.nz/topics/building>

### Reliance on imported building products or inputs to building products

A recent Construction Supply Chain identified that

*90% of construction products sold in New Zealand are either imported finished products or manufactured locally from at least some imported components.*

Refer <https://www.eboss.co.nz/detailed/building-industry-insight/construction-industry-survey-highlights-suppliers-under-pressure>

Logistics is a critical issue, even for local manufacturers, most of whom rely on imported componentry – e.g. alloys added to locally manufactured metals to provide performance characteristics required.

Given the constraints / characteristics of New Zealand market, our construction sector and in particular the trade / retail distribution has a high level of choice – there being five major retailers of building products (Bunnings, Mitre 10, Placemakers, Carter and ITM)

### **Q2 How important is it for us to consider building supplies for renovations separately from building supplies used for new builds?**

Many building materials are used in both residential and non-residential building types. In addition to new builds, there is rectification work being undertaken for leaking building repairs and earthquake strengthening.

The proposed market study needs to look closely at the split between renovation and new build. While residential building activity is currently dominated by new build it is important to consider

Historical trends in new build / renovation – in periods of low new build activity there are tradesmen available for renovation

Renovation market, (particularly at periods of high new build activity) is dominated by DIY. Renovations frequently not consented (unless major) and therefore difficult to track volume / value.

New Zealand's transition to a low emission economy, and the fact that over 1.0m of New Zealand Homes were built before 2008 Energy Efficiency Standards means the future renovation market is enormous and needs to be separately looked at in the market study

### **Q3 Are there any aspects of the building supplies industry which have a particular impact on Māori?**

### **Questions on the supply chain for residential building supplies in New Zealand**

### **Q4 How does our high-level summary of the supply chain fit with your understanding?**

1. Are there any other key steps in the supply chain we should consider? If so, please explain how these steps fit into the supply chain.
2. Are there building supplies relevant to this study that have different supply chain structures? If so, please describe these building supplies and how the supply chain differs?

The high level summary is simplistic, ignores the context of how building supplies sit within the residential value chain.

Figure 1 is simplistic and ignores the impacts / constraints of:

- the regulatory framework both at a national level and at territorial authority level. For example how can a solution be seen as compliant in one jurisdiction and not in another.

Para 74 describes the evolving regulatory framework. However the context of the Building Act, Code Compliance is missing from your preliminary scoping.

- role of designer / engineer driving specification (noted in 45.1) absent from Figure 1

Figure 2 could be more usefully reformatted as a value chain, starting with

Role of Regulator (MBIE)

Role of Standards

Role of Territorial Authority

Role of Customer/End user, Designer, Engineer

Material supply (manufacturer, importer, distributor)

Tradesmen

**Q5 How does our characterisation of the key participants and the other key stakeholders in the residential building materials supply chain fit with your understanding?**

- a. Are there any other key participants or stakeholders that play a major role in the industry? If so, please explain the role of these participants or stakeholders.

The reports characterisation of key participants, (and particularly the perception of two significant vertically integrated suppliers), is dated and reflects the ill-informed media view that the material supply sector is a duopoly.

In some regions the other three building supplies merchants dominate the market supply.

The definition of residential market as “For, or directly related to, the housing of individuals” is not helpful. Increasingly in urban areas the residential market is intensifying and multi story housing typologies are becoming the norm, which are being delivered by tier one / tier two construction companies who are not included in your supply chain participants (para 43). Multi unit houses accounted for almost 50% of consents in 12 months to Nov 21 – refer <https://www.stats.govt.nz/news/building-consents-hit-new-highs-in-november>

The issues paper fails to grasp the increasing concentration of residential new build in the Auckland market, which now accounts for 42% of total national residential consents (refer <https://www.berl.co.nz/economic-insights/building-and-construction-housing-and-real-estate/are-we-running-house-building>)

**Q6 Is the structure of the supply chain changing or evolving? If so, please explain how and over what time horizon this is likely to occur?**

The report overlooks the fact that in today’s market place consumers can and do procure over the internet cutting out the distributor / manufacturer. Overseas owned construction companies frequently source supplies direct from their parent / affiliated companies overseas. The result is added competition., frequently driving down prices to a level where local suppliers cannot compete and often with non-compliant solutions that frequently fail (e.g. Mainzeal importing complete building facades from China, many of which leaked and created a costly legacy for building owners).

### **Questions of the scope of “key building supplies” to be considered in the study**

**Q7 Do you agree or disagree with our preliminary view on the "key building supplies" in scope for this study, as described in paragraphs 49-52 and Table 1? Please explain your reasoning.**

The question needs to be asked as to why the market study is confined to residential when the total value of non-residential is significant, consuming many of the same products. Total value of non-residential consents to Nov 21 was \$8.1b refer <https://www.stats.govt.nz/news/building-consents-hit-new-highs-in-november>

The preliminary issues paper defines that the major components of the market study “*are the foundation, flooring, roof, walls (structural and non-structural, interior and exterior) and insulation*”.

These are the very same components used in “building envelope” of the non-residential sector and cannot be simply isolated as residential only.

**Q8 If we focus on a narrower selection of building supplies to assess certain issues, are the factors set out in paragraph 55.1-55.5 appropriate to guide our focus? Are there any other factors we should also consider?**

The market study needs to also consider the costs of compliance borne by the local manufacturer. These are significant, including

- modern welfare, health & safety, workplace regulations frequently not borne by products imported from jurisdictions with less advanced labour laws.
- environmental compliance.
- technical compliance with NZ Building Code, whereas some imported products frequently aren't compliant – for example some imported electrical wiring, plumbing fittings, window systems and flat pack kit homes.

We acknowledge (and welcome) that MBIE is working to address these loop holes but until New Zealand has a more robust and equitable technical compliance regime these circumstances will impact upon the competitiveness in marketplace, placing local manufacturers at a disadvantage.

The study needs to look at historical context and industry (particularly government funding) have reduced competition. Traditional framing methods have barely changed in last 100 years of residential construction. These methods of construction are legitimised by national standards. Standards and Codes, which are funded by the regulator and informed by research (also largely funded by the regulator or BRANZ).

Development work for alternative residential building systems, for example earth building / natural materials or innovative solutions like light steel framing are funded entirely by industry players. This represents a serious barrier to entry, limits market acceptance, reduces competition and limits productivity improvements. refer <https://www.metals.org.nz/2021/06/08/building-code-change-drives-warmer-drier-environmentally-friendly-homes/>

**Q9 Which key building supplies do you think should be assessed in greater detail, or otherwise prioritised? Please explain your reasoning.**

To improve the competitiveness of building products market we would encourage the Commission to take a systems approach.

This should include

- Regulatory and consenting frameworks
- Procurement practices
- Bundling of whole of house material packages – bundling products around loss leaders
- Consumer preference for business as usual solutions which they are familiar with a have a track record of performance.
- Funding of selected building product research, e.g. Scion, which seeks to maintain the status quo.

**Q10 How will key building supplies evolve in the future? Will different materials become more important?**

Evolution of building supplies will continue to be tied to the past as funding and technical progress are focused on traditional building methods.

Progress of off site manufacture in New Zealand has been limited as it has almost exclusively focused on the same traditional methods of framing which are currently subsidised by the building regulator and BRANZ.

### **Questions on the unique characteristics of building in New Zealand**

**Q11 Are the characteristics set out above an accurate reflection of residential building in New Zealand? Please explain your reasoning.**

Refer answer to Question 10. Business as usual has inherent competitive advantage. What gets regulator / state funding for research and in addition MBIE funds reviews of selected existing Standards, maintaining the status quo.

The four criteria listed in the issues paper are not unique to the NZ construction market. While they are characteristic of New Zealand market, the first three do not necessarily limit competition.

- All products need to meet requirements of para 62.1.
- Modern manufacturing systems can deliver bespoke as efficiently as standardised.
- Numerous plasterboard offerings providing proven structural performance are available in the New Zealand market.
- As for confidence in specifying certain brands it is also a function of Standards / Codes.

**Q12 Are there any other characteristics of residential building in New Zealand which are important for us to understand**

**Q13 Does our summary of the external pressures facing the residential construction industry accurately reflect the current situation? Please explain why/why not.**

**Q14 To what extent are these external factors temporary or likely to continue in the long term?**

Summary fails to acknowledge that some material shortages are as a result of global shortages in supply . For example timber. The timber shortage is unlikely to be resolved in the short term owing to timber growing cycles.

**Q15** Would an increased use of technology, such as prefabricated housing, help to address some of the longer term pressures facing the industry? Please explain why/why not.

Prefabricated housing still requires the same / similar materials. From a supply / demand perspective prefabricated housing may only alleviate labour shortages, not material supply issues.

Investment in prefabrication is significant and successful factory operation requires significant investment in personnel. Contrast this with traditional construction methods which in comparison have relatively low overheads, utilise sub contract labour on site and are able to respond quickly to market turndowns. Internationally, few countries have successful off site residential construction sectors, other than those countries with where daylight / climate restricts on site construction to summer months (e.g. Scandinavia).

**Q16** Please describe any other examples of innovative technologies or approaches that could increase efficiency in the sector over the longer term.

Digitised consenting/inspection processes and associated records would significantly improve efficiency, productivity and reduce associated time / costs.

**Q17** Please describe any other major external factors that are currently impacting (or have recently impacted) the New Zealand residential building industry that we should consider in this study and the time horizon over which they will impact the industry.

### **Questions on the evolving regulatory framework around residential construction**

**Q18** How might the regulatory changes described in paragraphs 74 and 75 affect the demand for or supply of certain types of residential building supplies?

Building Code reform / Building for Climate change regulations will bring about unprecedented change in a very short period of time.

NASH supports both these programmes. However we actively encourage government to look to third party, independently verified quality systems as demonstrated with HERA's Steel Certification scheme (Refer <https://www.metals.org.nz/2020/07/12/gaps-in-building-act-changes/>) and Concrete New Zealand's Ready-mix Concrete Certification scheme (refer <https://rmcplantaudit.org.nz>)

It is critical New Zealand get these regulatory changes right and that changes are informed by robust science and international best practice.

The last period of significant regulatory change resulted in the weathertightness crisis, which is still being resolved two decades on.



Q19 Please describe any other major recent or ongoing regulatory changes that might affect demand for certain types of residential building supplies.

The Building for Climate change programme focusing on embodied carbon needs to be informed by robust data. Currently New Zealand lacks a standardised and moderated approach to how life cycle analysis data should be developed /used in calculating embodied carbon. refer <https://www.metals.org.nz/2020/10/11/our-views-on-mbies-building-for-climate-change/>

Q20 Does the regulatory environment pose challenges to the introduction of prefabricated products? If so, please explain where you see the issues and whether these will be addressed by the latest regulatory reforms.

### **Questions on impact of climate change for building supplies \.**

Q21 What are the most important 'green' building supplies for us to focus on? Why are these important?

NASH draws the Commerce Commission's attention to the work that Ministry for Environment has produced with respect to a circular economy. Refer <https://environment.govt.nz/what-government-is-doing/areas-of-work/waste/ohanga-amiomio-circular-economy/>

NASH suggests that it is more appropriate to focus on "circular" rather than "green" and to ensure that criteria on which products are assessed is based on the total life cycle of the seemingly "green " product.

It is critical New Zealand has a standardised and moderated approach to data that considers

- transparency across the whole system;
- standardisation of assumptions being made;
- moderation of the comparisons being made;
- moderation of product boundaries being used;
- standardisation and moderation of the methodologies being used; and
  
- cradle to cradle scope.

Refer <https://www.metals.org.nz/wp-content/uploads/2020/10/Metals-New-Zealand-submission-on-the-Building-for-Climate-Change-Programme-MBIE-discussion-documents.pdf>

**Q22** Please describe any other ways in which building for climate change might drive change and innovation in the residential construction sector.

Following on from questions 19 & 22 – life cycle is critical – to achieve our 2050 goals residential construction needs to reduce, re-purpose, recycle rather than landfilling our building supplies at end of life. The residential value chain must undergo significant change to achieve our goals.

### **Questions on our high-level approach for our market study into residential building supplies**

**Q23** Do you have any comments on our proposed high-level approach to the study as discussed in paragraphs 83 to 87 above?

The high level approach proposed in para 84, (66.1 – 66.3) treats the market for key building supplies in isolation from the rest to the residential value chain, which effectively constrains material supply and impacts upon competitive nature of supply.

Para 86.4 – assessment of factors affecting competition needs to include compliance with relevant Codes and Standards.

#### Building supplies and delivering to New Zealand’s Living Standards framework

Should the Commerce Commission’s market study not also include the value delivered to New Zealand across the four capitals. Least cost imported price, (which may be subsidised in country of manufacture), delivers little value to New Zealand Inc, particularly when compared with locally manufactured products.

Local manufacturing provides significant value across human and social capital measures, while maintaining high environmental standards required by New Zealand regulations and delivering valuable local jobs (while complying with international labour laws) and paying tax.

Is the market study’s focus on least price or fair value?

**Q24** Would international comparisons of key building supplies prices provide insights into the level of competition in the industry? Why/Why not?

International comparisons of key building supplies prices are of limited value. 45,000 housing starts is small and our market is seismically, climatically and geographically challenged.

**Q25** How should we assess the levels of innovation in the industry? Is there a way to measure this or benchmark internationally?

Levels of innovation are low. Benchmarking could prove problematic owing to unique characteristics of building in New Zealand (Q11) and Qu 24 with respect to scale and Qu 1 re cyclic nature of residential demand / supply in New Zealand.

Q26 Would assessing the margins of the manufacturers and/or merchant sales of key building supplies provide insights into the level of competition? Why/Why not?

The complexity of accessing this data and normalising it is an enormous undertaking – which for manufacturers would be unreasonable at a time of significant change. To be of value you would also need to obtain similar data on imported products.

Q27 Are there other assessments that would provide better insights?

### **Questions on concentration**

Q28 On what geographic basis (eg, local, regional, national) should we assess the concentration of nature of the market key building supplies. Please explain your view.

Nationally, owing to small size of market, scale and need for compliance with Codes/Standards.

Q29 Are there any key building supplies which stand out as having a limited choice of suppliers? If so, please explain which building supplies.

Q30 What are the barriers to importers of key building supplies competing effectively with domestic manufacturers?

Q31 Are there building supplies you are aware of that are not available in New Zealand, but you think would benefit New Zealanders? Please describe these supplies and benefits.

Q32 How do economies of scale in the supply chain for key building supplies impact the number of suppliers?

Q33 What are the main barriers to new providers of key building supplies establishing domestic manufacturing in New Zealand?

Refer Question 9 and in particular who funds Standards and Codes of Practice. Business as usual is predominantly funded by MBIE / Standards. Alternatives are funded by manufacturers / sector stakeholders.

Q34 Are customers, (for example, merchants when purchasing from wholesalers, or builders when purchasing from merchants) able to constrain their suppliers due to their own size or negotiating position? Please explain why/why not?

### **Questions on vertical integration**

Q35 Does vertical integration act as a barrier to entry/expansion for independent rivals? Does this differ for different building supplies? Please explain your view.

Refer our response to Question 5a.

Q36 Is being vertically integrated necessary to compete effectively in this sector? Please explain your view.

Q37 What are the benefits in this industry to being vertically integrated? Do consumers benefit from this?

Q38 Are there any other factors we should be aware of in considering the vertical integration of key building supplies?

### **Questions on vertical arrangements**

NASH member channels to market generally lie outside the traditional building supplies chain. NASH members fabricate and supply direct to residential builders / construction companies. It is not uncommon for NASH members to supply out of their local market or even between islands. The frames / trusses are light, strong and easily transported by trailer.

As such we are not in a position to provide an informed response to questions on vertical arrangements or accommodating behaviour.

Q39 What forms do supplier rebates and loyalty payments typically take in this industry? (eg, monetary, non-monetary, lump sum etc.) Does this vary by type of building supply? If so, please explain how.

Q40 Do rebates / loyalty payments usually relate to one product or category of product, or are they often applied across multiple products or product categories?

Q41 Do rebates / loyalty payments inform or restrict a merchant's or builder's decision about which product(s) to acquire? If so, how significant is this consideration?

Q42 Is tying of products or product "systems" a prevalent practice? What levels of the supply chain are characterised by tying arrangements?

Q43 Are exclusivity agreements prevalent? What levels of the supply chain are characterised by exclusivity agreements?

Q44 Do the benefits of rebates and pricing pass through to end-consumers? Why/Why not?

Q45 Are there any other factors we should be aware of in considering the vertical arrangements of key building supplies?

### **Questions on accommodating behaviour**

Q46 Is accommodating behaviour likely to be an issue in this industry? Please explain why/why not.

Q47 How transparent is pricing for key building supplies?

Q48 Are there any other factors we should be aware of in considering accommodating behaviour in building supplies?

## Questions on regulatory and standards systems

Q49 Do the regulatory and standards systems (eg, product accreditation framework, building code and standards or consent process) make it easy or difficult for new and innovative building supplies to enter the New Zealand market and establish a presence? Please explain any difficulties posed and your view on whether it would be beneficial to make it easier for new suppliers to enter the New Zealand market.

Refer response to Question 11,

Q50 What impact does the current regulatory environment have in encouraging or discouraging a move to 'green' building supplies?

Refer response to Question 21,

Q51 Does the current regulatory regime favour incumbent suppliers over new entrants? If so, please explain how.

Refer response to Question 9 / 33,

Paragraph 128 implies that international building supply manufacturers exited the market owing to the burden placed on them by the regulatory and compliance environment.

There is a multiplicity of reasons for international suppliers exiting the New Zealand market. Some have retired as they needed capacity to service their home markets (and could do that more profitably). Others have failed to provide adequate levels of technical support and finally others have provided a sub-standard, non-competitive offering to the New Zealand market.

Meanwhile New Zealand manufacturers continue to thrive in the same regulatory and compliance environment.

Q52 Does the current regulatory regime encourage vertical integration (including, for example, in-house product compliance) or vertical arrangements in the sector? If so, please explain how.

Q53 Does the current regulatory regime encourage the offer of 'systems' of products? If so, please explain how.

A systems approach is critical to deliver a well-functioning home, which is in itself a complex system. Frequently supplier technical literature focuses on how their product performs, rather than how their product performs as part of a tested, proven building system. Not all products have similar properties, sometimes a simple substitution can result in system failure as the materials are incompatible.

The weathertightness crisis of 1990's is classic costly example of systems failure.

Q54 Are there any other factors we should be aware of in considering the regulatory and standards systems for building supplies?

### **Questions on behavioural impediments**

Q55 Who are the key decision-makers for key building supplies?

Owners of the distribution of building supplies. NASH is not in a position to comment.

Q56 How do decision-makers choose the most appropriate building supplies to use?

1. Do decision makers default to choosing building supplies which have been used in the past? If so, please explain why,
2. Do decision-makers on key building supplies have full information available to them to make informed decisions? How costly is it to obtain this information?
3. What role do warranties or other guarantees have in the decision to choose the key building supplies?

Q57 Do the incentives of the decision-makers on key building supplies align with the interests of consumers?

Q58 Are there any other factors we should be aware of in considering decision-makers' behaviour in respect of building supplies?

Product substitution is an issue as substitute products may potentially affect the performance of the building system.

### **Questions on other issues and prioritisation**

Q59 Are there any other issues not raised in this paper that could impact competition in key building supplies?

Q60 Which potential issues do you think should be the priority issues to focus on? Please detail the reasons why.

The impact of regulations on the cost of the building, both direct and indirect costs. All costs at any point in the supply chain will be passed on to the final buyer.