Dear ComCom

The Frame and Truss Manufacturers Association represents the great majority of frame and truss prefabrication suppliers in New Zealand. Prefabricated timber frame and truss based construction is the most common mode of residential building representing over 90% of new developments.

Our main concern with the study is that by your own admission, the direct materials in a building represent around 20% of the total cost of a new home (probably based on the 2018 Deloitte study). Given that you are focussing the study on the core material components to ensure structure and weather tightness being foundation, flooring, roof, walls (structural and non-structural, interior and exterior) and insulation, that will be an even smaller proportion and maybe only 10% of the total cost. Our concern is that the study may make no significant improvements in the understanding of the total cost of new build housing and the affordability concerns.

Overall we believe that the construction materials supply sector in new Zealand is competitive and efficient within certain constraints. There are a number of general factors impacting on why some materials are more expensive in New Zealand compared to some other countries such as the following;

- Relatively small market and lack of economies of scale for local manufacturers.
- Specific technical and regulatory requirements under the building code which make it more expensive for suppliers (particularly overseas suppliers) to comply with, or unattractive for the potential volume.
- Cost of importation.

These factors are beyond the power of individual manufacturers / importers / suppliers to change significantly.

Our detailed response to certain specific questions in the issues paper follow below.

Q1 What impact is the current level of competition in the building supplies industry having on New Zealand businesses and the general public?
FTMA believe that within the constraints and special factors operating in New Zealand, the industry is competitive. There may be some exceptions but overall we see that the main causes of higher costs for consumers are largely outside of the material supply industry's control.

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

The issues paper indicates that consented renovation / extensions work may represent about 10% of the value of new build work. We suspect that this may be an underestimate and that the value of renovation work which is not consented (not requiring consent) would be a significant proportion as well.

Q3 Are there any aspects of the building supplies industry which have a particular impact on Māori?
Maori make up a very significant proportion of the personnel in the material supply sector and the building sector. It is important that Maori participate fully in opportunities for training, apprenticeships and gaining trade qualifications to improve job skill levels. More generally, the materials supply and building sector employ a lot of people for whom English is not their first language and there can be barriers due to low levels of literacy and numeracy.

Q4 How does our high-level summary of the supply chain fit with your understanding?
Reasonable – however in the specific case of frame and truss supply, a separate step of off-site manufacture or assembly occurs between the based material supply (timber in this case) and the builder. A similar situation exists in some other sectors such as windows and made to order structural steel assemblies. These are all bespoke solutions made to order for specific building projects.

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?
Reasonably accurate from a high level view. We are aware of a small but increasing proportion of building industry participants seeking to circumvent the traditional supply structure such as by direct importing. This might be a temporary phenomenon due to current high demand and logistical difficulties.

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?
As above there are certainly short term frustrations and concerns with the ability of the traditional supply chain to meet product volume and new product option demands. It is difficult to indicate the rate of this demand change. Overall in the long term as consumers become more aware of new technologies and options available overseas, the desire will be to have these available in New Zealand which may not be viable to manufacture locally or import even due to market size, location, technical requirements and other constraints.

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?
Table 1, Roof – should also contain truss or other structural support for roofs. The sheets, tiles and membranes cannot hold themselves up.

Q9 Which key building supplies do you think should be assessed in greater detail, or otherwise prioritised?
In our view, more effort should be put into understanding why certain high industry concentrations are occurring in New Zealand (probably higher than is many other markets). As you point out, high industry concentration can have reasonable justifications

that benefit consumers, or can lead to excessive market power. So we recommend that you try to understand the wider picture driving the tendency to high industry concentrations rather than pick on particular companies, products or sectors.

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

We believe that there will be more demand for evidence of sustainability and net environmental impact of building materials and the building process overall. For example, it is understood that the building sector is one of the largest generators of solid waste. What can be done to reduce waste, and / or reuse redundant materials more effectively? Materials that can portray a good case in this light may become more important.

Q11 Are the characteristics set out above an accurate reflection of residential building in New Zealand?

This is reasonable and largely as set out in our introduction above.

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

As discussed, the materials cost is just one component of the cost of building, and not that large a cost. There should be more focus on understanding the more holistic causes of higher costs including labour, land costs, consenting and connections to services. In doing so, as you say it is important to exclude the short term effects of the COVID epidemic. One aspect may be a cultural preference for bespoke individual housing designs. New Zealanders do not appear to be receptive to high density generic housing which may be lower cost but lack character and amenity.

Q13 – Q17

Prefabrication and panellisation may help and these methodologies are already present in New Zealand albeit to a limited extent. Off-site frame and truss manufacture is a basic form of prefabrication and panellisation and a number of our members are exploring how they can develop their capacity and capabilities further in this direction. Ultimately New Zealand will still face an economy of scale and remoteness problem. For example, a prefabricated house manufacturer in central Europe or north America can service a market of 200 million people or more by road transport. We will never have that domestic market potential. To containerise and sea freight pre-fabricated buildings is possible but at much higher cost and difficulty. In addition, the technical and regulatory requirements in New Zealand may make it less attractive for overseas suppliers given the market size. Talk to some of the companies who have been trying to introduce prefabricated homes to New Zealand. It is not an easy process.

Q18 – Q20

We have responded to the MBIE consultations on the main new legislations as noted - Building (Building Products and Methods, Modular Components, and Other Matters) Amendment Act, the
Building for Climate Change Programme and the review of the Resource Management Act. While we see that much in these initiatives is well intentioned and with good technical

basis in some areas, we struggle to see how any of it will reduce the cost of residential building. To the contrary we believe that most of the new requirements under the revised legislations will increase complexity of compliance and increase total cost of building.

Q21 – Q22 Impact of climate change for building supplies

We recommend that ComCom do not pursue this aspect of the industry. This is because the legislation does not significantly impact on the cost of building materials right now and the technical requirements and assessment tools are not yet fully developed which means that the supply sector will be awash with rent seeking and partisan claims which are not yet verified.

Q23 – Q27

Yes we believe that it will be useful to understand the supply structure including the competitive landscape, natural and structural impediments to market access and barriers to introduction of new technologies. However unless there is clear evidence of cartel behaviour or other illegal market behaviour we do not believe that it is appropriate for ComCom to make judgements on what are acceptable margins in the sector. Direct comparison of costs of similar items in New Zealand compared to similar markets such as Australia may be useful. For example, drywall sheets (plasterboard) and basic structural timber are more expensive in New Zealand than in Australia (even allowing for currency and GST rate differences). That may be a fact but try to understand what is driving the situation rather than assume that New Zealand suppliers are making excessive margins.

Q28 – Q60

Most of the issues raised in these questions are covered at least in part above, or FTMA is not able to comment on. We have a few additional comments as follows.

We believe that the study should be nationally focussed and with references to similar market situations such as Australia.

There are numerous examples of building materials available in other markets and not present in New Zealand. Given the national market size, remote location and resource availability, it may not be reasonable to expect the same variety of product offerings that might be available in Europe, North America or even Australia. For example there are many suppliers of structural timber internationally who find it impractical or unattractive to participate in the New Zealand market. We believe that the main cause of this is the durability requirement of the building code for which the acceptable solutions do not have any (or very few) international equivalents. Hence we find that these options are not

practically available in New Zealand market because it is too difficult for the suppliers considering the size of market and potential return.

We recommend against chasing behaviour such as “accommodation”. Unless there is clear evidence of deliberate price fixing, market sharing or other clearly illegal behaviour, leave it be. The market is complex and many suppliers compete in commodity sectors where there is little if any product differentiation and market pricing tends to be flat (commodity). In these circumstances rapid market price matching is natural and other terms of trade can become important points of differentiation such as rebates and loyalty agreements. Businesses will work out their own way to maximise their profitability – that is what they are in business to do. Providing that it is legal how they do that should not be your concern.

Do not hesitate to contact us for any additional information.

Regards

Peter Carruthers
Member Services Manager

Frame & Truss Manufacturers Association of New Zealand

FTMA
NEW ZEALAND