Department of
Building and Housing
Te Tari Kaupapa Whare

Building and Housing Trends: October – December 2005

Published in April 2006 by
Department of Building and Housing
PO Box 10-729
Wellington
New Zealand

This document is also available on the Department's website:
www.dbh.govt.nz

ISSN: 1176-8339 (document)

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Introduction

This is the eighth report on building and housing developments, and covers the period from 1 October 2005 to 31 December 2005.

The *Building and Housing Trends* publication is based on a combination of accessible information and forecasts from government agencies, the Real Estate Institute of New Zealand and Quotable Value Limited, as well as information and indicative statistics developed by the Department of Building and Housing (the Department) from administrative databases and other internal information. It has been prepared in line with the Department's strategy to build and enable access to sector-related information and knowledge.

Executive summary

Building and housing sector activity remained at high levels in the December 2005 quarter. However, the economy and the construction industry have begun to show signs of slowing. As a result, the Reserve Bank maintained the official cash rate (OCR) at 7.25 percent in its recent monetary policy assessments instead of continuing to increase it. Developments in the industry since the last report include the following.

Building and construction activity

Annual construction industry quarterly contributions to gross domestic product (GDP) declined for the first time since mid-2001.

The housing market

The housing market remained robust in the last quarter of 2005. However, recent observations suggest a softer market in 2006. These observations include lower house sales volumes and a decline in the rate of increase of residential building costs.

Building and housing regional trends

Building and housing markets in Auckland have slowed more quickly than for New Zealand as a whole with:

- the number of new dwelling consents in Auckland down by 36 percent during the calendar year 2005. This compares to a 17 percent fall for the whole of New Zealand for the same period.
- rental prices in central Auckland down by 0.4 percent during the calendar year 2005 compared to a general increase of 3.4 percent in New Zealand rental prices for the same period.

Building and construction costs

Residential building costs increased by 6.4 percent, non-residential costs increased by 3.1 percent, and costs for other construction such as roads and infrastructure increased by 6.9 percent during 2005. This is faster than general inflation.

Residential building trends

- Dwelling consents issued in the calendar year 2005 were 17 percent lower than 2004.
- The trend for monthly residential building consent values leveled out in 2005.

- The Reserve Bank expects declines in real fixed residential investment of 6 percent in the 2006 March year, 2.75 percent in the 2007 March year and 1 percent in the 2008 March year.

Non-residential building trends

- The number of non-residential building consents increased by 0.8 percent in the calendar year 2005.
- The trend for the monthly non-residential building consent values has been climbing steadily since mid-2003. However, the trend has declined since December 2005.

Other construction

- The value of other construction consents grew 17.4 percent during the calendar year 2005.
- The Reserve Bank expects government spending on fixed assets, which is an important component of other construction, to increase by 14.75 percent in the 2006 March year, fall by 2.75 percent in the 2007 March year and then increase 7.5 percent in the 2008 March year.

Employment in the construction industry

- The Quarterly Household Labour Force Survey shows the number of people employed in the construction industry increased by 1 percent during the December 2005 quarter.
- The Department of Labour's monthly Building Trade Vacancy Index fell 22 percent in December 2005.

Costs of renting and homeownership

- Average rents increased by 2.5 percent from the December 2004 quarter to the December 2005 quarter.
- The cost of homeownership shown by the Consumer Price Index rose by 6.9 percent over the same period.

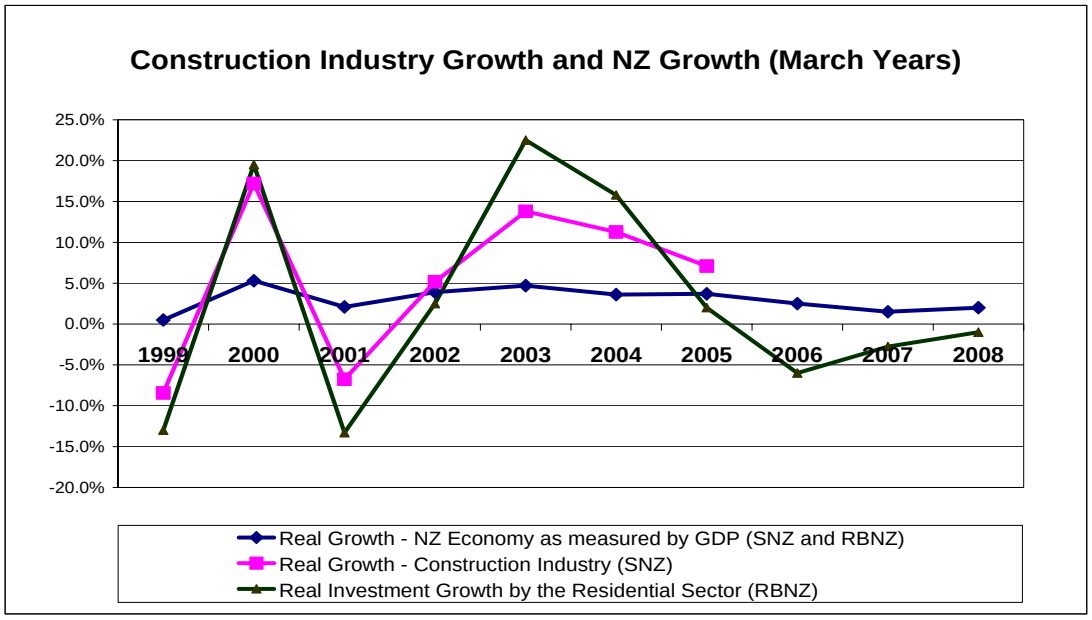
Economic growth and industry outputs

The value added to the New Zealand economy by the New Zealand building and construction industry is now 36 percent higher than it was in 2002. The construction industry in seasonally adjusted real terms grew by 4.6 percent in the March 2005 quarter, 1.7 percent in the June 2005 quarter and then fell 4.6 percent in the September 2005 quarter. More generally, however, the economy is showing signs of slowing. The annual GDP growth in the September 2005 quarter was 0.2 percent weaker than the 0.7 percent growth forecast by The Treasury (in its January 2006 Monthly Economic Indicators) for the second half of 2005.

On 9 March 2006, the Reserve Bank noted 'a key driver of strong household spending has been the buoyant housing market which, while showing signs of cooling, still remains very active' and that the housing market is a key inflation risk for the next 2 years. In response, the Reserve Bank has kept the OCR unchanged at 7.25 percent, the highest level since March 1999. The Reserve Bank currently does not expect to ease monetary policy this year. High interest rates and weak GDP growth are expected to slow the housing and building market more than other parts of the economy.

As a result, the Reserve Bank in its March 2006 Monetary Policy Statement forecasts consecutive real growth of fixed investment by the residential sector to fall by 6 percent in the March 2006 year and 2.75 percent in the March 2007 year.

Figure 1: Construction industry growth and New Zealand growth (March years)



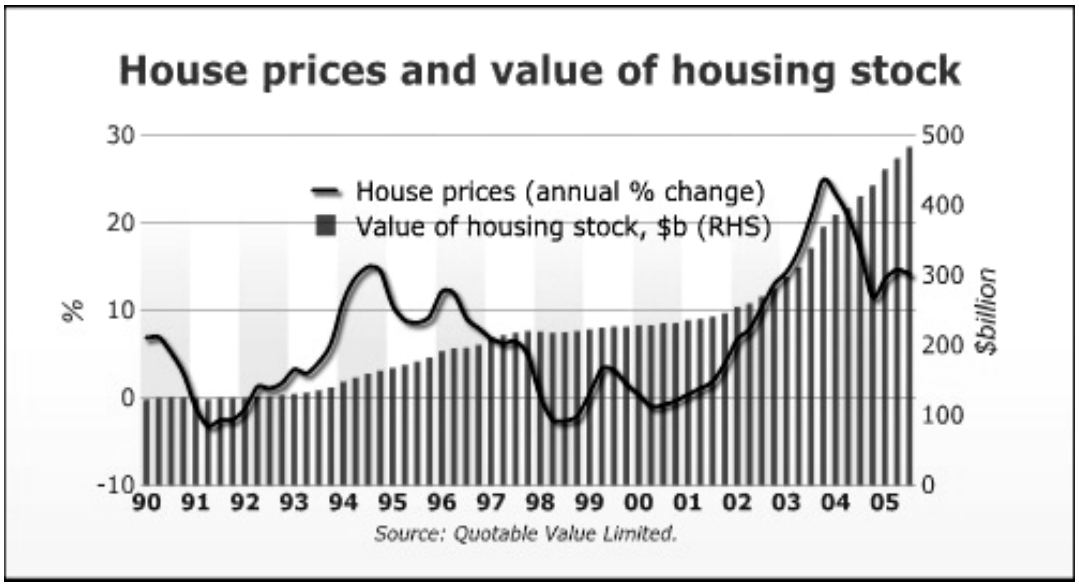
Source: Reserve Bank and Statistics New Zealand

The housing market

The housing market remained robust in the last quarter of 2005. However, recent anecdotal evidence suggests that a softer market will prevail as 2006 progresses. The housing market conditions prior to February 2006 featured the following.

- Continued increases in average house prices (Quotable Value New Zealand).
- Lower house sales volumes in December 2005 and January 2006. Sale volumes fell to a local low in January 2006 (Real Estate Institute of New Zealand).
- Costs of residential building construction continued to rise, but at a declining rate.
- The mortgage debt-to-income ratio continued to rise in 2005.

Figure 2: House prices and the value of the housing stock



Source: Reserve Bank of New Zealand and Quotable Value New Zealand

Building and housing regional trends

Building and housing markets in Auckland have slowed more quickly than for New Zealand as a whole. This is indicated by:

- the number of new dwelling consents in Auckland falling by 36 percent from calendar years 2004 to 2005. In comparison, the number of new dwelling consents issued nationally fell by 17 percent in the same period.
- rental prices in central Auckland falling by 0.4 percent from calendar years 2004 to 2005, compared to a general increase of 3.4 percent in New Zealand rental prices in the same period
- average Auckland City property values (Quotable Value New Zealand) growing by 7.9 percent over the 12 months to December 2005 – lower than the average 15.8 percent rise in

all New Zealand. In comparison, the average property value grew by 20.2 percent in Christchurch and 12.9 percent in Wellington in the same period.

Many provincial and rural regions and centres enjoyed substantial building and construction growth in recent periods. Regions like Taranaki, Hawke's Bay and Waikato recorded increases in new dwelling consent numbers, property prices and rental demand, as follows.

Taranaki: New dwelling consent figures increased by 20.7 percent from calendar year 2004 to 2005. The housing market also saw an increase in average median house prices of 23.8 percent for the period October 2005 to January 2006 when compared to the same months in the previous year. Average property values in New Plymouth went up by 25.6 percent over the 12 months to December 2005.

Hawke's Bay: The region experienced a 25.4 percent increase in new dwelling consent volumes from the calendar years 2004 to 2005.

Gisborne: The number of new dwelling consents issued rose by 14.4 percent from 2004 to 2005. Average property values in Gisborne also went up by 26.8 percent over the 12 months to December 2005.

Waikato: Property values in Hamilton increased by 26.9 percent over the 12 months to December 2005. Rents in Hamilton have also gone up by 5.4 percent for the same period.

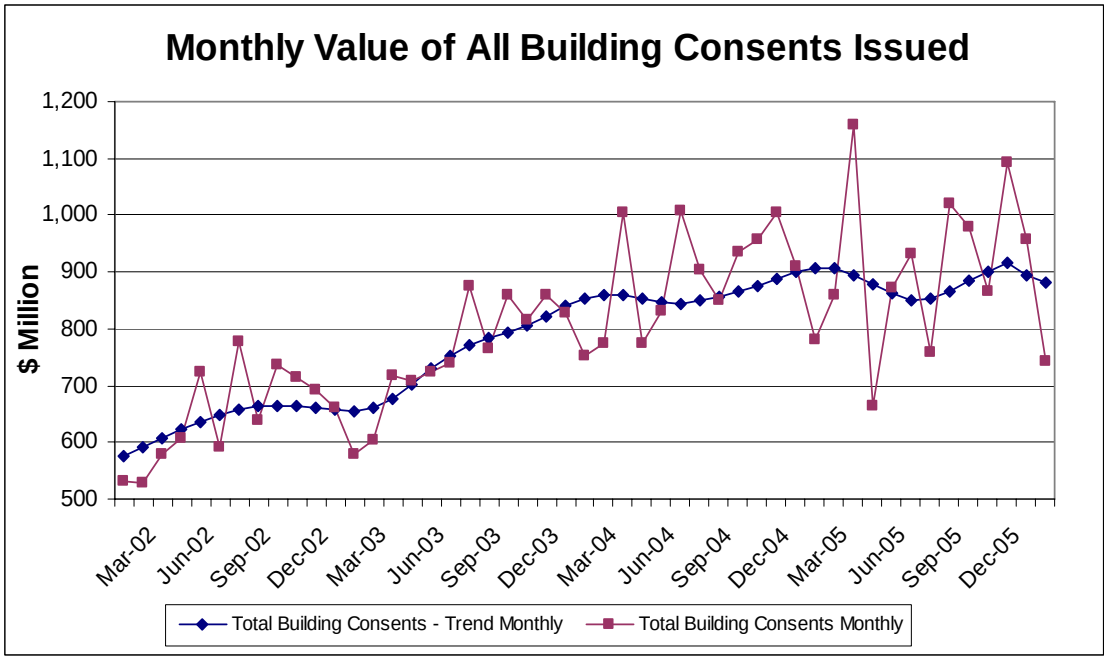
Other provincial cities like Whangarei and Rotorua also enjoyed good increases in property values over the 12 months to December 2005.

Sectoral analysis

Growth in building activity slows

The monthly value of all building consents oscillated around a stable level during 2005. Cost increases for building (6.4 percent for residential building and 3.1 percent for non-residential building from the December 2004 to December 2005 quarter) managed to hide real (volume) declines in residential building. For the year ended 2005 there was an increase of 2.1 percent in total building consent values from the calendar years 2004 to 2005, comprising a fall of 2.4 percent in residential building consent value and a rise of 11.1 percent in non-residential building consent value. The ratio of residential building consent values to non-residential building consent values is approximately 6:4.

Figure 3: Trend in the monthly value of all building consents issued

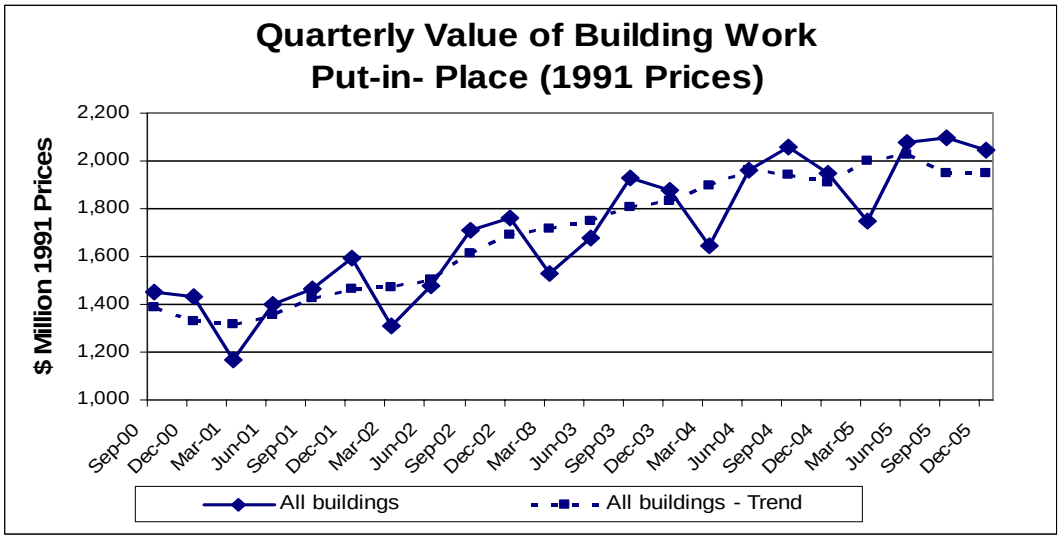


Source: Statistics New Zealand

Consent statistics are indicators of future building activity and so the downturn in consent volumes in recent times may be translated into lower building activity this year.

The real value of all building work put in place increased by 5 percent from the December 2004 quarter to the December 2005 quarter. However, the trend quarterly figures showed a decline in all building work since the September 2005 quarter.

Figure 4: Quarterly value of building work put-in-place



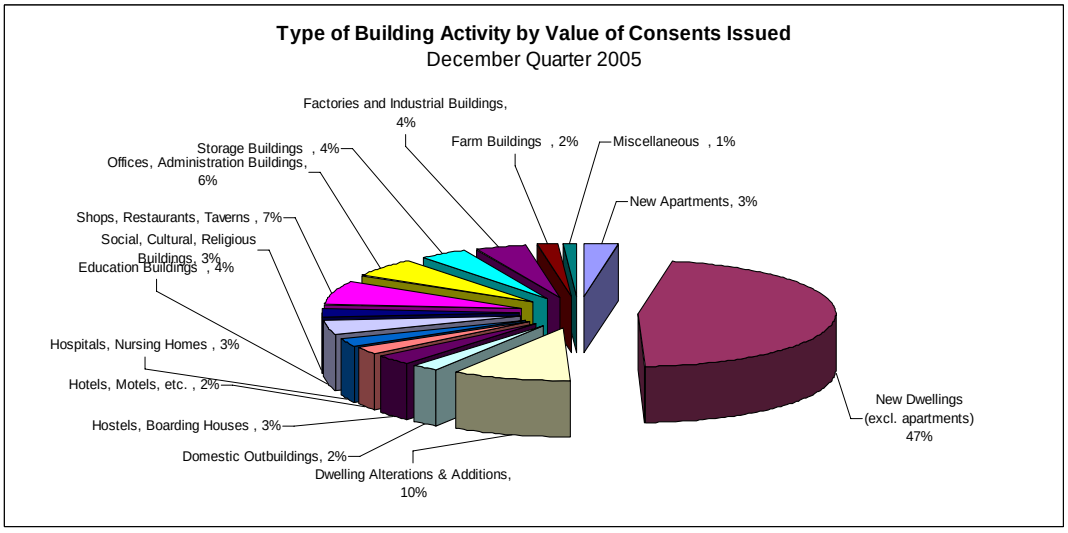
Source: Department of Statistics

The value of dwelling consents relative to the value of all consents has declined since 2003. The value of dwelling consents made up 49 percent of the value of all consents in the December 2005 quarter (Figure 5). In contrast, it was 51 percent in the December 2004 quarter and 59 percent in the December 2003 quarter.

New apartments as a proportion of the total building consent value have also been declining. The proportion of new apartments is 3 percent for the December 2005 quarter, down from 7 percent in the December 2004 quarter.

The breakdown of consents for each category in the December 2005 quarter was as follows.

Figure 5: Type of building activity by value of consents issued, December quarter 2005

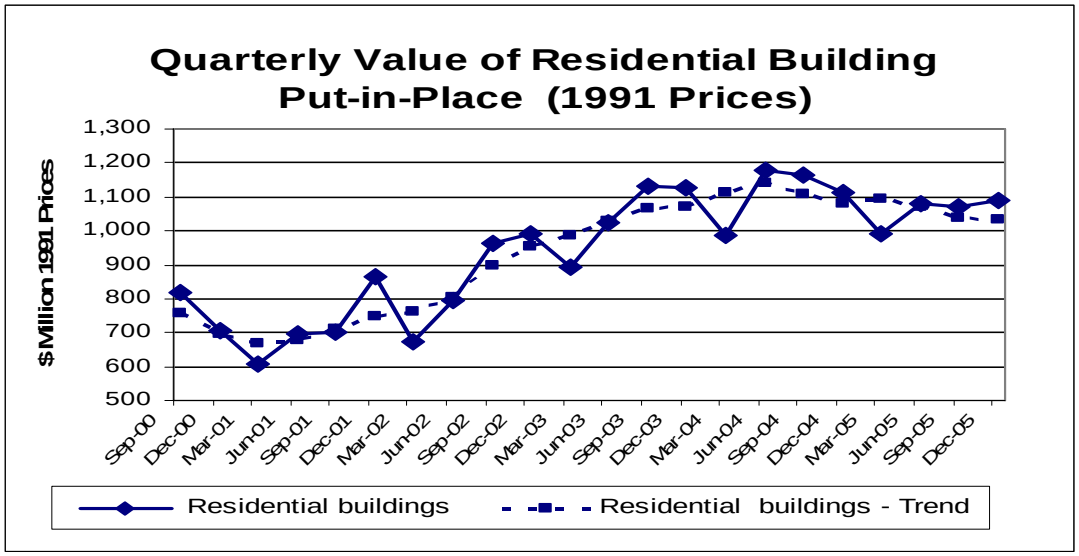


Source: Statistics New Zealand

Decreased residential construction

The real value of residential building stabilised in 2004 and began to fall in 2005 (Figure 6). As can be expected, this decline has lagged behind the decline in the number of new dwelling consents issued, which began a downward trend in December 2003 (Figure 7).

Figure 6: Quarterly value of residential building put-in-place (1991 prices)

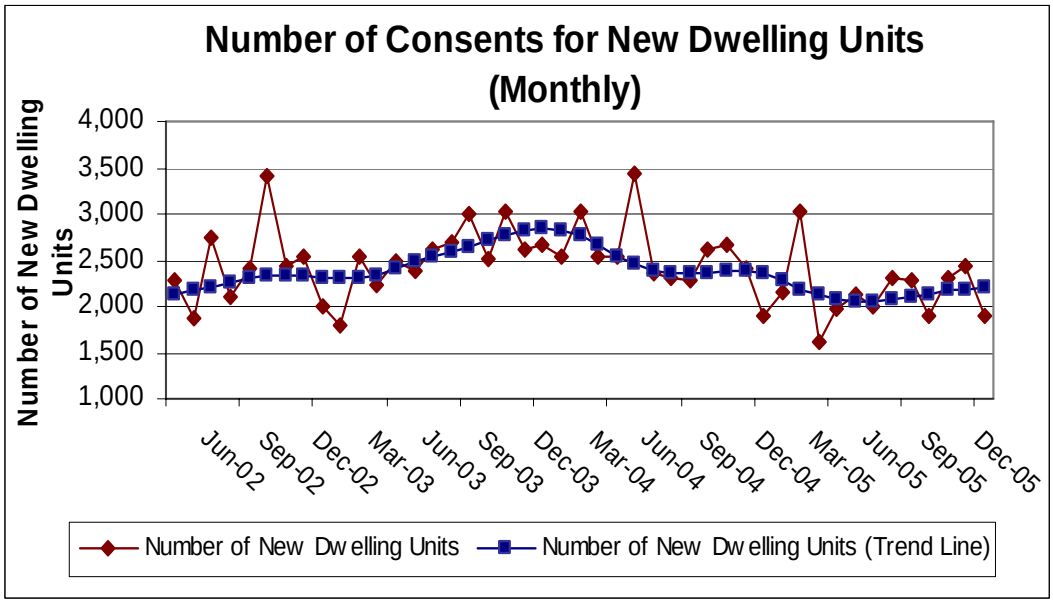


Source: Department of Statistics

Dwelling consent volumes fell by 17 percent from the calendar years 2004 to 2005. The number of building consents issued is a forward indicator of future building of new dwelling units and so, at present, suggests a gradual fall-off in residential building sector output.

Consistent with the decline in consent numbers, the Reserve Bank expects continued declines in real fixed residential investment. It is picking a real fall of 6 percent in the 2006 March year, 2.75 percent in the 2007 March year and 1 percent in the 2008 March year.

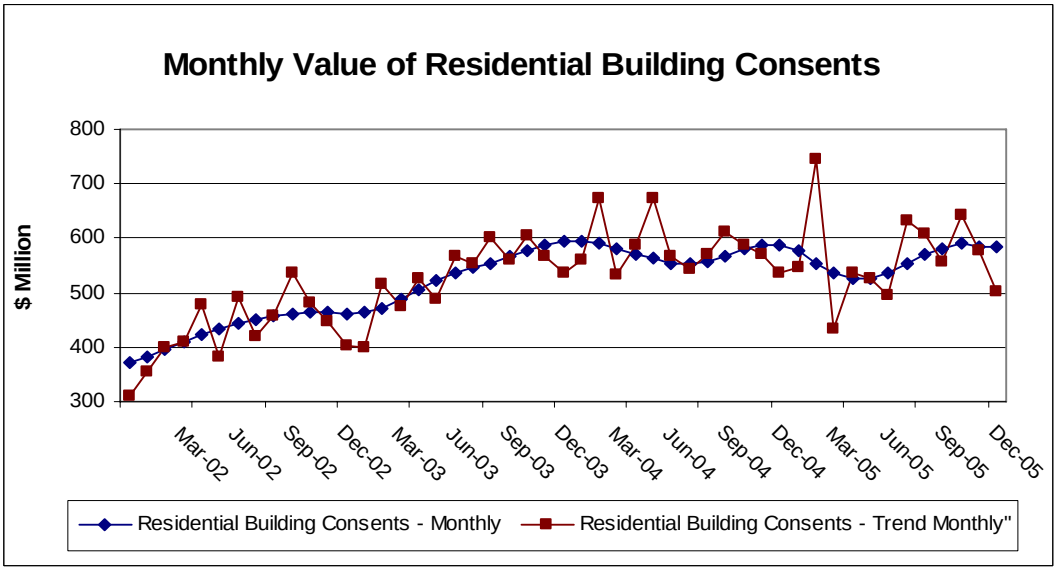
Figure 7: Monthly number of consents for new dwelling units



Source: Statistics New Zealand

The trend series in Figure 8 shows the value of residential building consents increased steadily from June 2005 as the effects of increased consent fees early in March 2005 wore off and increasing building costs kicked in. This trend series shows that the monthly value of residential building consents may have stabilised during the last quarter of 2005.

Figure 8: Monthly trend and actual value of residential building consents

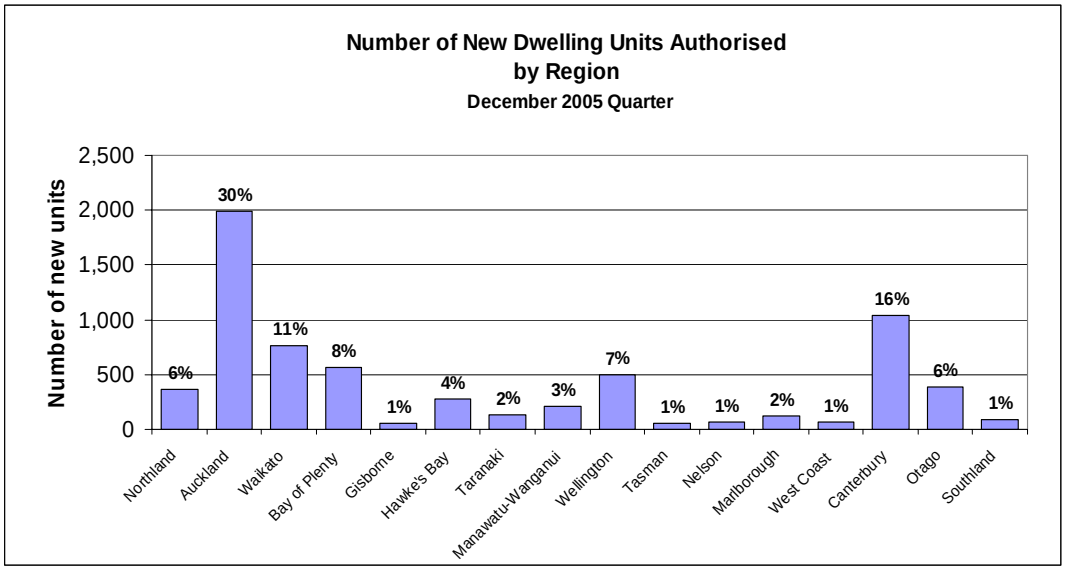


Source: Statistics New Zealand

New dwelling construction across most regions

The total number of new dwelling consents has fallen by 17 percent from the calendar year 2004 to 2005. The distribution of new dwelling consents varies across different regions in the country. The regions that experienced the decreases from the December 2004 quarter to December 2005 quarter were Auckland (-11 percent) and Bay of Plenty (-2 percent). The regions with increases in the rate of new dwellings include Waikato (1 percent), Hawke's Bay (2 percent), Taranaki (1 percent), Wellington (1 percent) and Canterbury (2 percent).

Figure 9: Regional spread of new dwelling consents (December 2005 quarter)



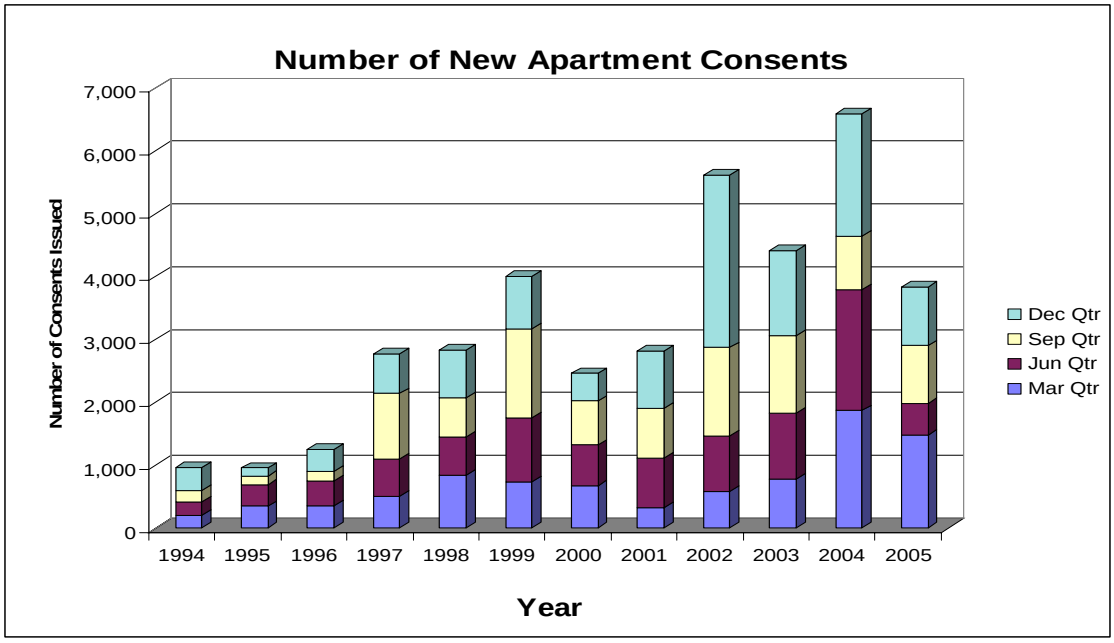
Source: Statistics New Zealand

Despite the decrease in new dwelling consent numbers from the calendar years 2004 to 2005, dwelling consent numbers grew in regions south of Auckland for the same period. Hawke's Bay increased by 25 percent, followed by Taranaki with 21 percent and Gisborne with 14 percent. In comparison, regions that experienced a large decline in new dwelling consent numbers in the same period were Auckland (-36 percent), Nelson (-35 percent) and Tasman (-34 percent).

Apartment consents have fallen

The number of apartment consents issued in the calendar year 2005 was 42 percent lower than in 2004. New apartment consents fell during all months in 2005, with the exception of March 2005. The March 2005 increase could be explained by bringing forward consents to avoid increased consent fees from 1 April 2005. The apartment figures are more volatile than other building and construction statistics reflecting the narrower base for demand and limited areas where apartments are popular.

Figure 10: Number of new apartment consents

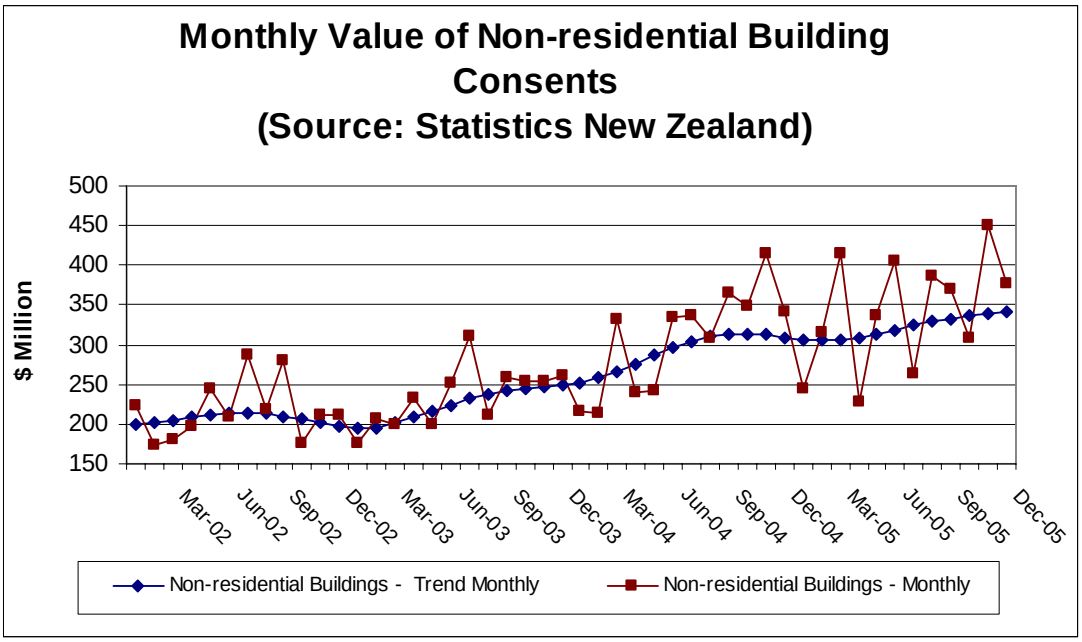


Source: Statistics New Zealand

Non-residential construction

The actual value of non-residential building consents in the calendar year 2005 was 11 percent higher than a year ago. The trend value of non-residential building consents (Figure 11) continued to display an upward tendency in the December 2005 quarter.

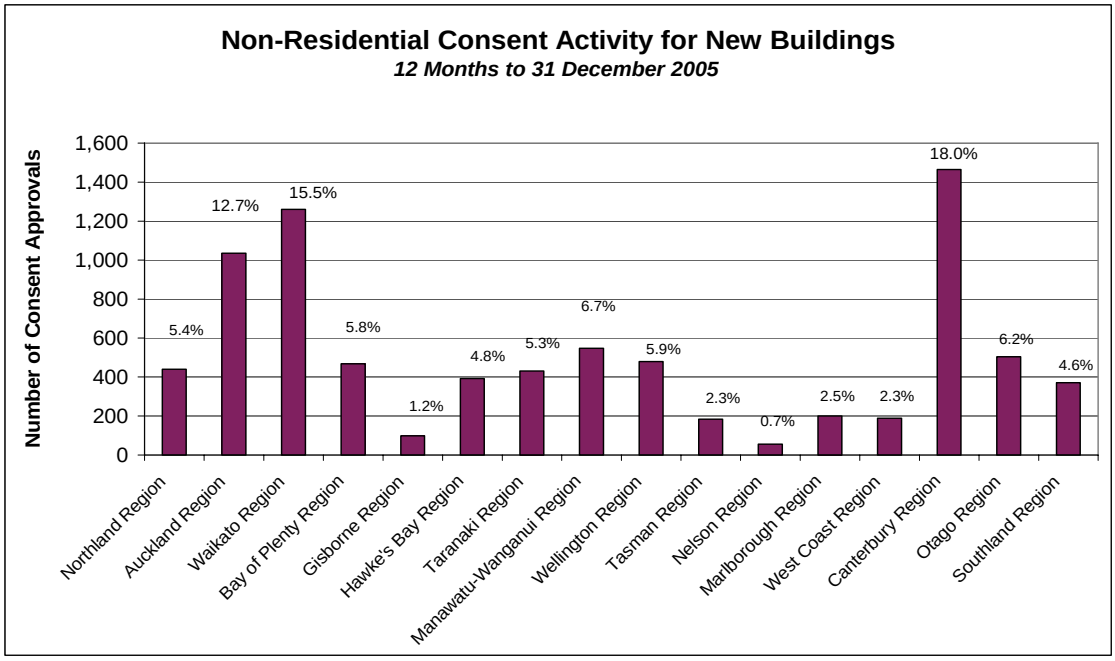
Figure 11: Monthly value of non-residential building consents



Source: Statistics New Zealand

The relative share of non-residential consent numbers across different regions in the country has remained fairly constant during the last 2 years. However, the Auckland region consent figures declined from a 15 percent share in the December 2004 quarter to a 12.7 percent share in the December 2005 quarter. Comparatively, the relative share of non-residential consents went up in Waikato, Wellington and Hawke's Bay for recent quarters in 2005.

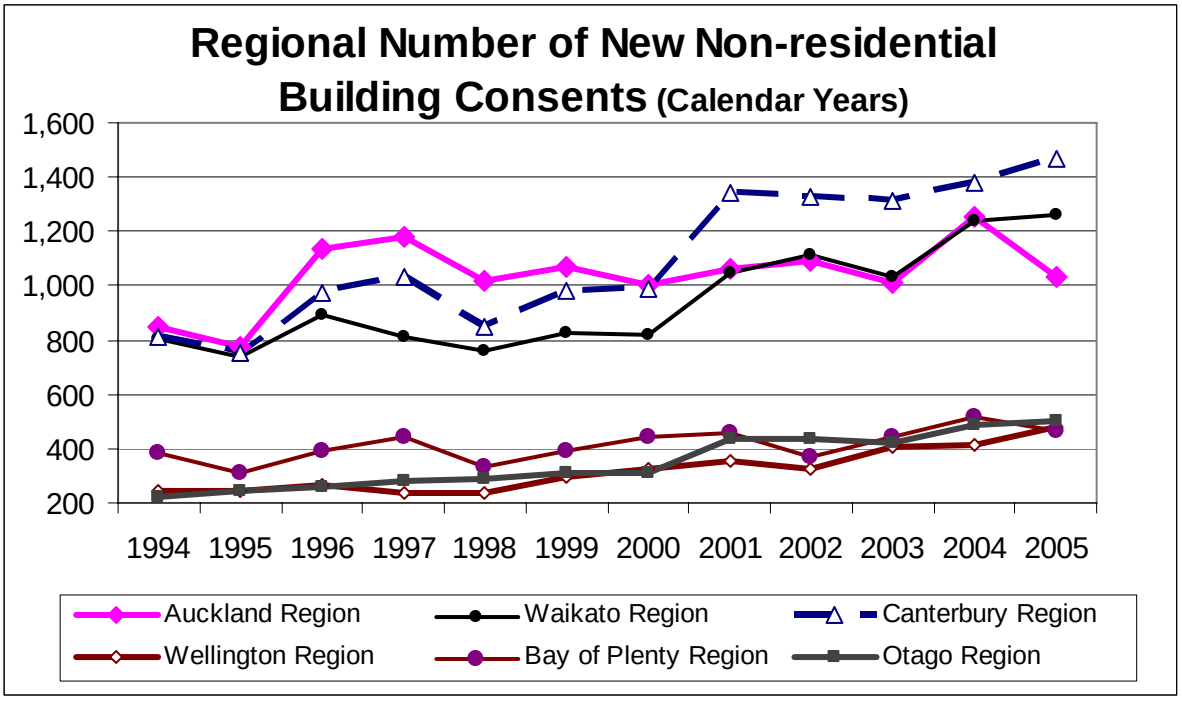
Figure 12: Non-residential consents for all regions in the year ended December 2005



Source: Statistics New Zealand

The main regions that experienced an increase in volume of non-residential consents from 2004 to 2005 were Waikato, Wellington, Canterbury and Otago. Consents issued fell in Auckland and the Bay of Plenty for the same period. Non-residential consent numbers are growing strongly in the Canterbury and Waikato regions. In recent years, consent numbers in Waikato were comparable with those issued in the Auckland region, while Canterbury has overtaken the Auckland region in terms of number of non-residential consents issued since 2001. Wellington has also enjoyed the strong growth in consent volumes since 2003.

Figure 13: Non-residential consents for major regions since 1994

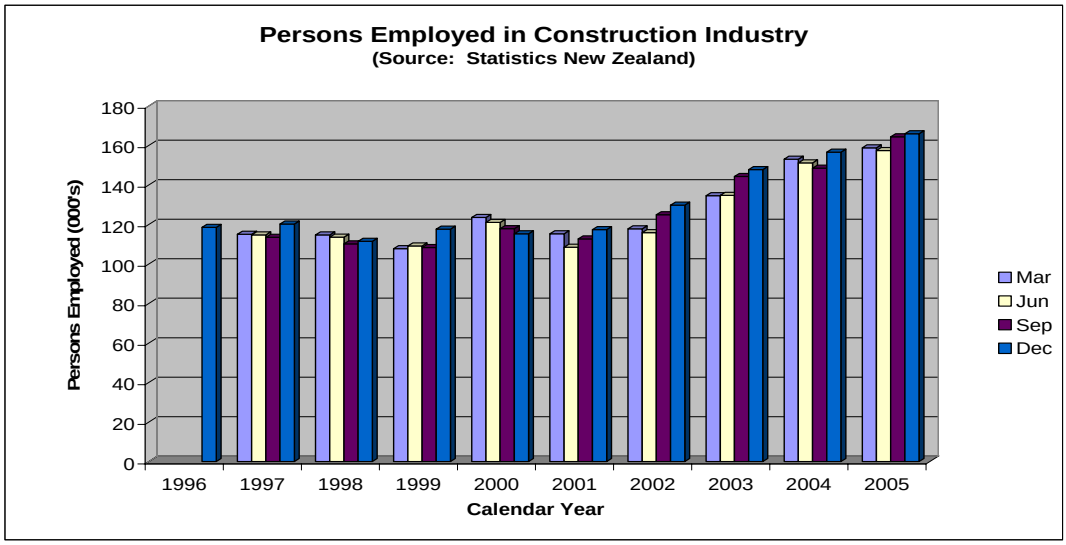


Source: Statistics New Zealand

Labour market

The number of people employed in the construction industry continued to increase according to Statistics New Zealand's Quarterly Household Labour Force Survey for December 2005. The December 2005 quarter saw a 1 percent increase in employment numbers over the September 2005 quarter, compared to a 4 percent increase during the September 2005 quarter. The marginal increase in employment of the construction industry reflects increases in industry capacity following high demand in recent years.

Figure 14: Numbers employed in the construction industry

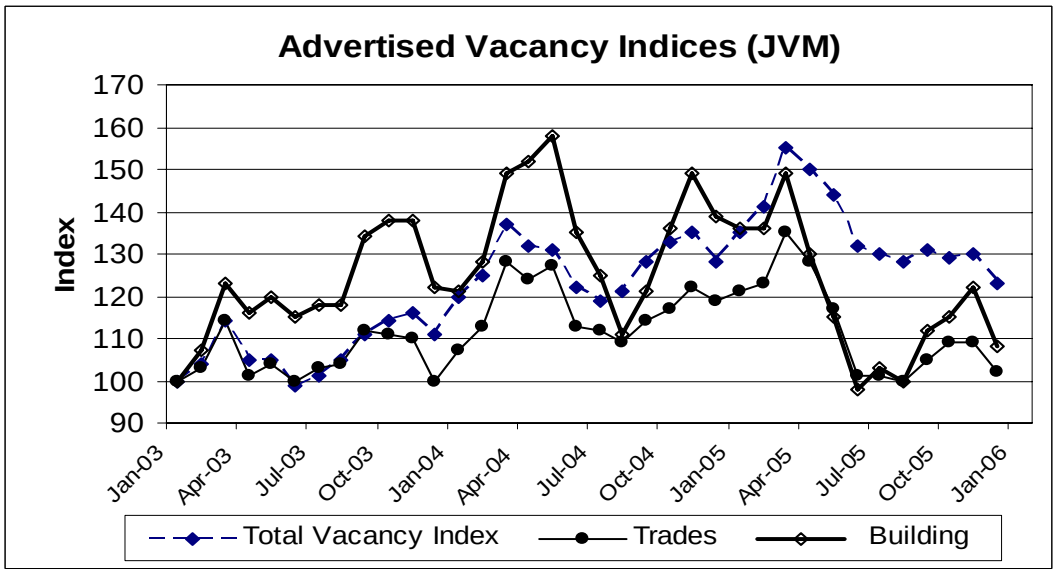


Source: Statistics New Zealand

The Job Vacancy Monitor from the Department of Labour recorded a decline for the Total Job Vacancy Index from a peak of 155 in March 2005 to 123 in December 2005. The index is still relatively high, however, suggesting the labour market is still robust.

In contrast, the Building Trade Vacancy Index showed a slightly lower number of vacancies for building trade occupations in the last quarter of 2005 when compared with the same period in 2003 and 2004. The monthly Building Trade Vacancy Index fell 22 percent in December 2005. This may indicate an easing in the previously tight recruitment conditions in this industry.

Figure 15: Advertised vacancy indices from the Job Vacancy Monitoring Survey

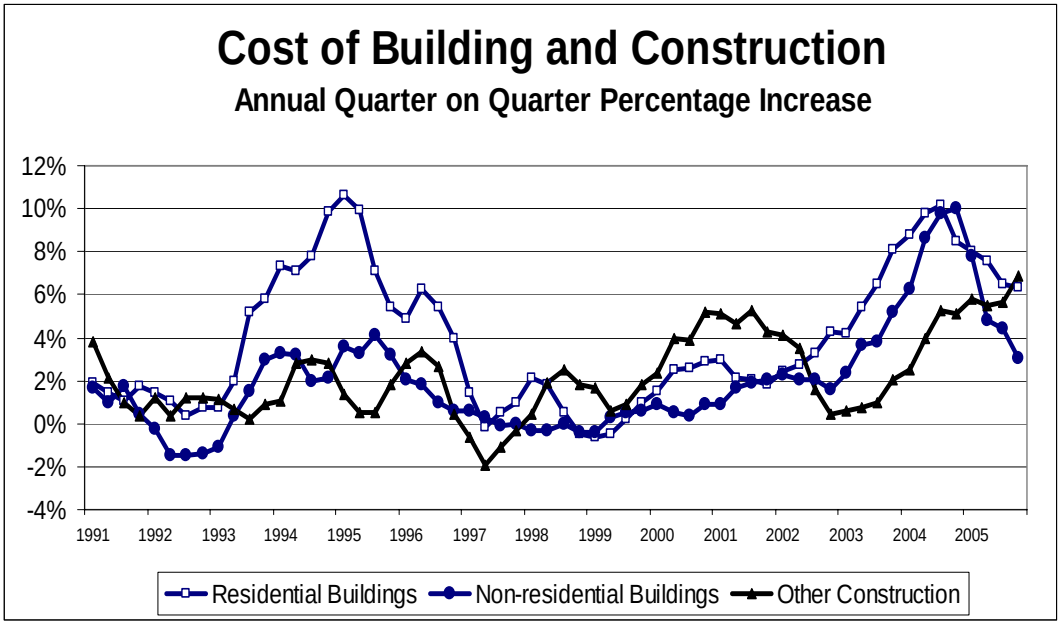


Source: Department of Labour

Increased building costs

The Department arranges for the survey of the costs of building two standard houses throughout the country. The results of this survey indicate that in July 2005 the cost of building a typical 145 square metre house in New Zealand was $1,435 per square metre, while a typical 202 square metre house cost $1,265 per square metre. The cost of building a typical 145 square metre house increased 11.2 percent for the year ended July 2005. The average cost of a 202 square metre house increased by 8.95 percent on for the year. The increased cost of building houses is consistent with the increase in cost of residential building (see Figure 16) from Statistics New Zealand.

Figure 16: Cost of building and construction (annual quarter-on-quarter percentage increase)



Source: Statistics New Zealand

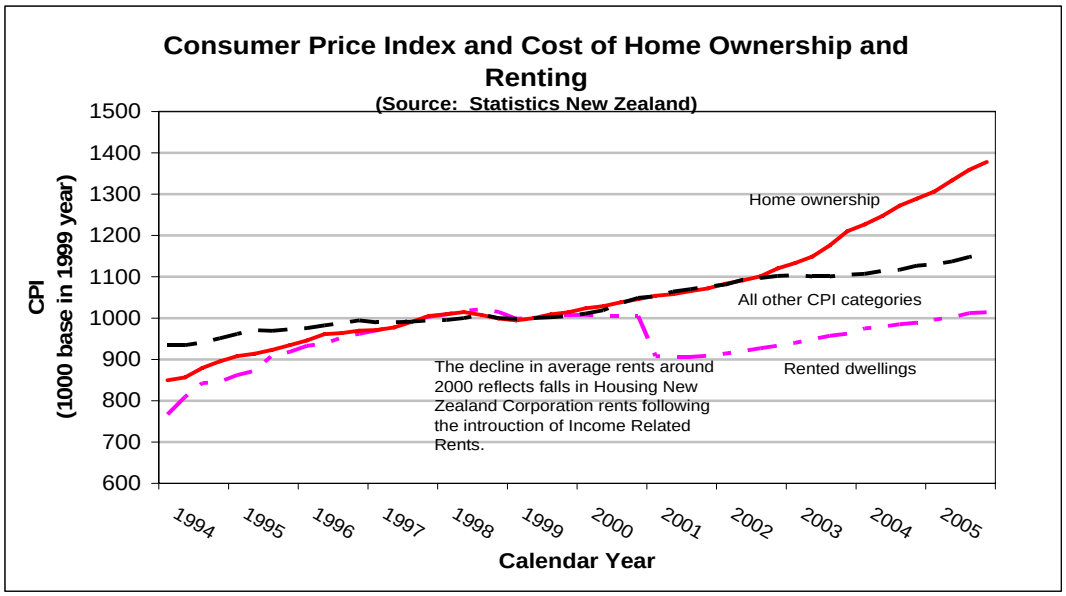
The Capital Goods Price Index from Statistics New Zealand shows that the cost of building and construction peaked for residential buildings at 10.2 percent in the September 2004 quarter and for non-residential building at 10 percent in the December 2004 quarter. Costs continued to rise in the December 2005 quarter with residential building at 6.4 percent, and non-residential buildings at 3.1 percent.

However, costs for other construction (eg, roads and infrastructure) recorded an increase of 6.9 percent for the December 2005 quarter, the largest increase in the past 5 years. The annual quarter-to-quarter percentage trend for other construction costs confirms the conclusion that increases in construction costs continue to rise in the December 2005 quarter.

Increased renting and homeownership costs

The costs of accommodation continue to increase in the December 2005 quarter. Rents rose by 2.5 percent from the December 2004 quarter to the December 2005 quarter. This increase in rent is smaller than the September 2005 quarter increase of 2.7 percent. It is also noted that rental in the December quarter increased at the same rate as general inflation, measured by the Consumer Price Index less housing costs. However, the gap between the cost of homeownership and rents continued to widen over the December quarter. In comparison, the cost of homeownership edged up by 6.9 percent between the December quarters of 2004 and 2005.

Figure 17: Consumer Price Index and cost of home ownership and renting

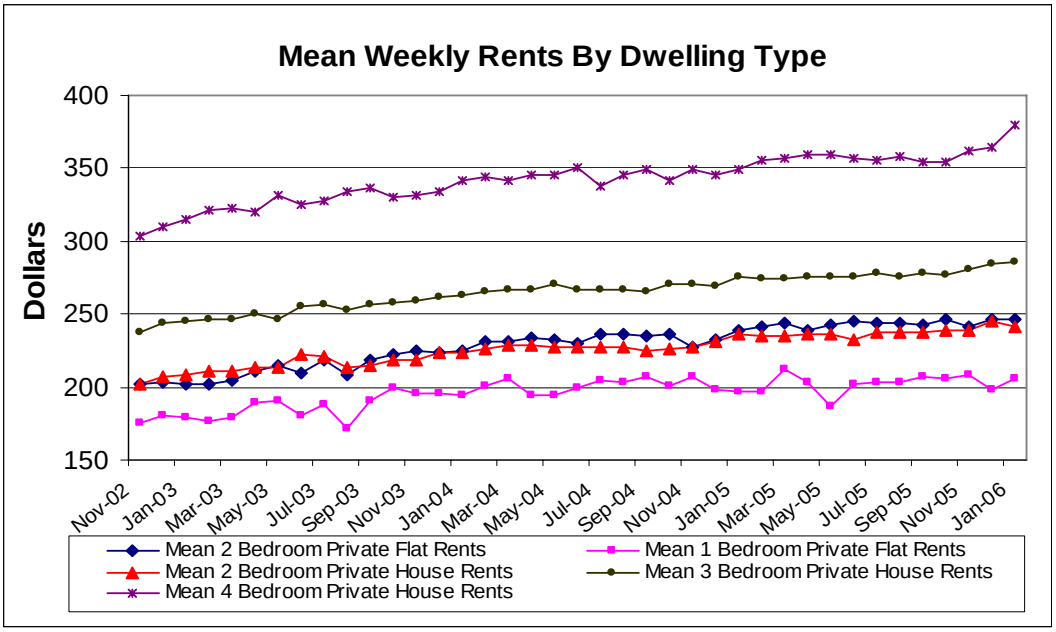


Source: Statistics New Zealand

Cost and volume of renting by dwelling type

Based on tenancy bonds lodged with the Department of Building and Housing, the countrywide rental for a one-bedroom flat from a private landlord in January 2006 averaged around $206, a two-bedroom flat around $247, a two-bedroom house $242, a three-bedroom house $286 and a four-bedroom house $380. Rents for all dwelling types have edged up over the past year, with the four-bedroom house registering the highest increase of 8.9 percent and the two-bedroom house having the lowest increase of 2.5 percent.

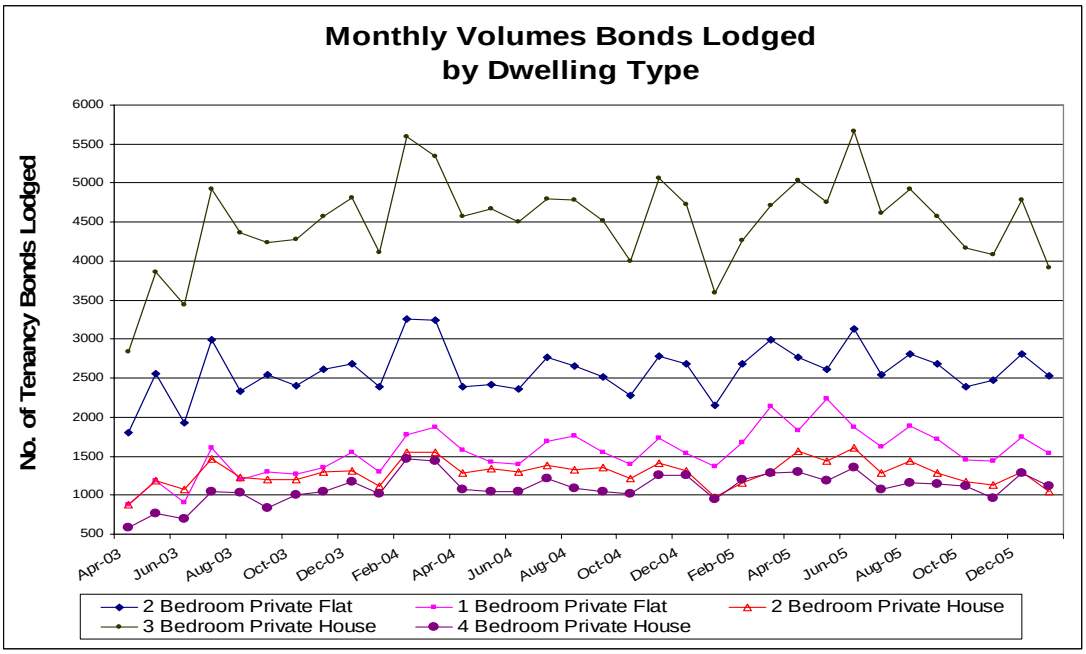
Figure 18: Mean weekly rents for various types of dwelling



Source: Department of Building and Housing

The breakdown of private bond lodgements by dwelling type showed three-bedroom houses are the most popular rental property with bonds attached, followed by two-bedroom flats, one-bedroom flats, two-bedroom houses and four-bedroom houses.

Figure 19: Monthly volume of bonds lodged by dwelling type

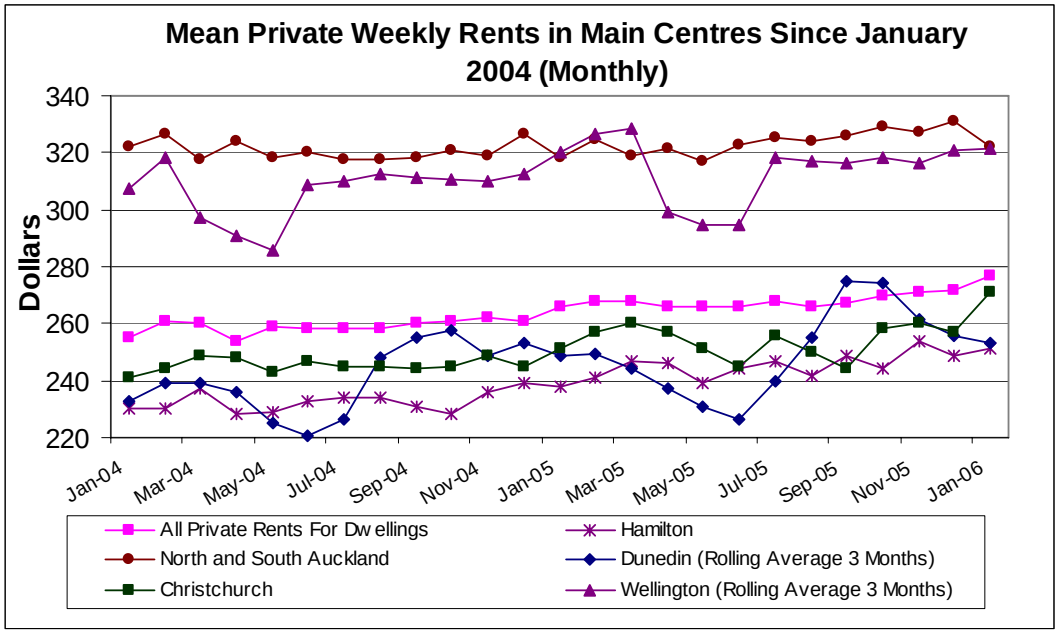


Source: Department of Building and Housing

Cost of rents in main centres

Nationwide rents of private dwellings continue to increase steadily at around 4 percent per annum from October 2005 to January 2006. All major centres experienced increases, with Hamilton recording the highest average monthly increase of 6 percent over the period from October 2005 to January 2006. However, the opposite was true for central Auckland where monthly rents fell marginally by an average of 1.3 percent for the same period.

Figure 20: Mean weekly rents in main centres since January 2004



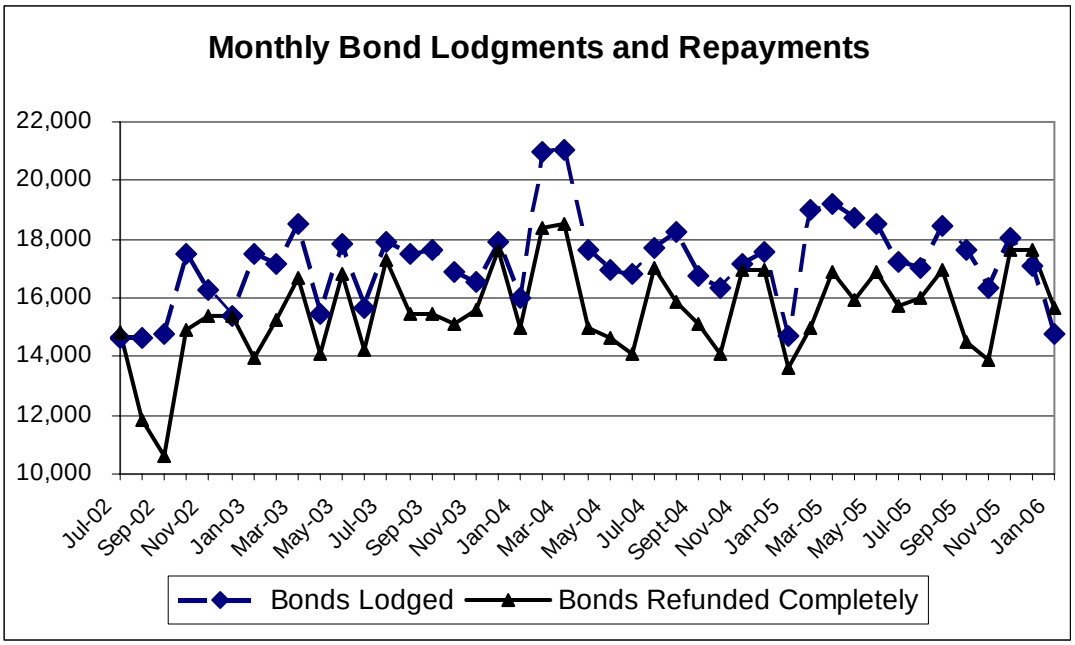
Source: Department of Building and Housing

The number of tenancy bonds lodged and repaid

The proportion of dwellings rented in New Zealand has been rising since 1991 according to the Census of Population and Dwellings. At the 1991 Census 73.8 percent of households lived in their own dwellings and did not rent. By 2001 this percentage had declined to 67.8 percent. The number of dwellings not owned by those living in them but who make rental payments totalled 359,000 in the 2001 Census. At the same time there were approximately 263,000 active bonds.

The number of bonds being lodged and repaid (Figure 21) would suggest that over the last 3 years this trend towards renting has continued, with the number of bonds lodged each month exceeding refunds except at the seasonal low points for lodgements of December and January. The strength of the trend to renting is, however, uncertain. The number of bonds lodged will not accurately indicate the number of tenanted dwellings, since some properties have no bond attached or lodged, and some properties have a number of bonds attached.

Figure 21: Monthly bond lodgement and repayments



Source: Department of Building and Housing

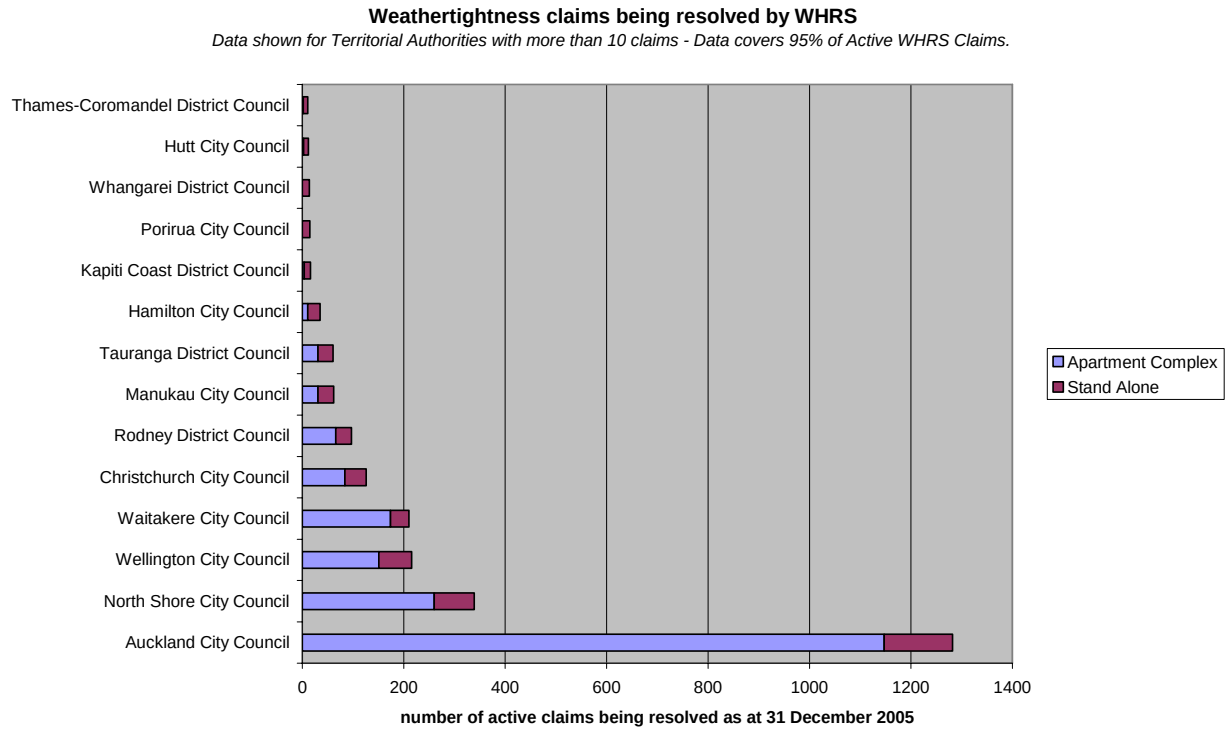
Building quality and performance

Weathertightness issues

The Weathertight Homes Resolution Service (WHRS) was set up by the government in November 2002 to help homeowners resolve disputes over leaky homes. The WHRS was transferred into the Department of Building and Housing in July 2005.

The number of claims being made to the WHRS continues to increase with claims totalling 3947 at the end of December 2005. Of the active claims[1] (2639), around three-quarters have arisen in the Auckland region[2] while the Wellington area contributed another 8 percent and Christchurch 5 percent. Seventy-five percent of active claims involve apartment complexes.[3]

Figure 22: Active weathertightness claims being resolved by the WHRS



Source: Department of Building and Housing

[1] An active claim is one where the claim has neither been closed by the claimant nor resolved. It includes claims that may have been placed on hold by the claimant. Claims may only be closed or placed on hold by the claimant under the WHRS Act 2002.

[2] For this analysis the Auckland region is defined as properties within the Auckland City, North Shore, Waitakere, Manukau, and Rodney territorial authorities.

[3] The term 'apartment complex' covers properties where a multiple claim may arise against common parties. For example, it includes the situation where an established dwelling has been moved, and two or more dwellings have been erected in its place by the same developer/builder/architect. They may or may not be common property, and there may or may not a body corporate structure.

The WHRS registers a claim and then an assessor inspects each affected property. If the report upholds the claim, an offer is made by the WHRS to help resolve claims using either mediation or adjudication. At the end of December 2005 2993 assessment reports had been prepared. Of these, 253 were prepared in the December quarter, 316 were prepared in the September 2005 quarter, 431 were prepared in the June 2005 quarter, 325 in the March 2005 quarter and 386 in the December 2004 quarter.

The increased awareness of weathertightness risk factors, and the changed and changing building regulatory framework and environment, should decrease claims in future periods and limit the majority of these claims to buildings constructed prior to 2004.

Building Code waivers

Section 67(1) of the Building Act 2004 allows a building consent authority that is a territorial authority to grant an application for a building consent subject to a waiver or modification of the Building Code. This power has traditionally been used infrequently by territorial authorities.

Twenty waivers were issued during the December quarter (Table 1) – two-thirds of the long-term average of 30 waivers per quarter. This figure is up from the September quarter.

C3 Spread of Fire waivers feature prominently in the December quarter figures, making up 35 percent of total waivers. This is consistent with the past quarter figure average of approximately 33 percent of total waivers. In the December quarter 57 percent of the C3 Code waivers arose from a building being too close to a boundary. In these situations the Building Code requires measures to be taken to prevent spread of fire to adjacent property. Territorial authorities often waive the fire-rating requirement where these boundaries are beside public parks or rights of way, or other areas that are not going to be built on. In some cases the title is marked so that, in the event of any building being erected on the adjacent area, the waiver could be withdrawn. The remaining 43 percent of C3 waivers were granted for car parks held under individual titles, usually in apartment buildings. Where each car park has a unit title it can be held under separate ownership, in these cases the Building Code requires a firewall between adjacent parks. Generally, due to impracticality, territorial authorities waive this requirement on the condition that nothing other than a vehicle is stored in the park.

The remaining thirteen waivers during the December quarter relate to Building Code clauses B1, B2, C2, E1, E2, F5 and F7 with no trends emerging.

Table 1: Building Code waivers

	B1 Structure	B2 Durability	C2 Means of escape	C3 Spread of Fire	E1 Surface Water	E2 External Moisture	F5 Construction and Demolition Hazards	F7 Warning Systems	Total
Buller DC	1	0	0	0	0	0	1	0	**2**
Clutha DC	0	0	1	0	0	0	0	1	**2**
Hastings DC	0	0	0	1	1	0	0	0	**2**
Napier CC	0	0	0	2	0	0	0	0	**2**
Nelson CC	0	1	0	0	0	0	0	0	**1**
New Plymouth DC	0	0	0	1	0	0	0	0	**1**
Rodney DC	3	0	0	0	0	0	0	0	**3**
Tauranga CC	1	0	0	2	1	0	0	0	**4**
Waikato DC	1	0	0	0	0	0	0	0	**1**
Wellington CC	0	0	0	1	0	1	0	0	**2**
Total	**6**	**1**	**1**	**7**	**2**	**1**	**1**	**1**	**20**

The Department continues to monitor territorial authorities' use of Code waivers to determine whether they highlight any problem with the Building Code or other performance issues.

Update on regulatory developments

During November and December the Department, the Institution of Professional Engineers New Zealand and the New Zealand Society for Earthquake Engineering carried out a seminar series on earthquake-prone buildings in seven centres throughout New Zealand to promote the new earthquake risk assessment process for existing buildings. These were attended by 270 people, principally structural engineers and territorial authority representatives. The seminar presented to engineers the tools and methodology for assessing earthquake-prone buildings, a key requirement in the new Act.

An independent report, *Report to the Department of Building and Housing: Review of Design and Construction of Slender Precast Concrete Walls*, was published in December along with the Department's response to it. The development of new types of slender precast concrete wall panel in recent years has raised concern in the design profession about the behaviour of these wall panels in earthquakes and fires. The report investigates a number of issues and makes recommendations. The Department has reviewed the report and supports some of the

recommendations. It is a significant report that has been keenly anticipated by industry. It provides guidance on issues that have been of concern to designers as, to date, there have been no definitive guidelines.

A proposal to amend the New Zealand Standard NZS 3604 Timber Framed Buildings and cite the amendment in Building Code Compliance Documents was released for public comment jointly with Standards New Zealand in December. This amendment incorporates amended design information and tables resulting from the new timber verification and grading regime now included in the Timber Structures Standard, but not yet cited in Building Code Compliance Documents. This is a significant change for the timber and house building industry. The date for receiving public submissions on the proposal was 17 March 2006.