

Property Council New Zealand

Submission on the Commerce Commission's Residential building supplies market study

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For more information and further queries, please contact

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Residential building supplies market study

1. Recommendations

1.1 Property Council New Zealand (“Property Council”) welcomes the opportunity to provide feedback on the Commerce Commission’s Preliminary Issues Paper on Residential building supplies market study (“the study”). We recommend the following:

- The supply chain diagram (Fig.1) better reflect developer and construction level practices;
- The construction process (Fig.2) diagram better reflect compliance in the construction process and highlight where building supply purchase decisions are made;
- Extend the scope of the building components to include structural steel and steel reinforcing;
- Assess the scope of the study within the current legislative framework to better reflect current issues within the overall building supply market;
- Extend the scope of the study to include issues such as high shipping costs, the lack of productivity, capacity issues and funding/financing for projects;
- Consider the potential impact of greater international alignment on standards within the study;
- Investigate incentives that enhance innovation and more sustainable products within the sector;
- Further research within the virtual integration space occurs; and
- Consult with Property Council and its members to discuss aspects of the residential building supply in more detail.

2. Introduction

2.1 Property Council is the leading not-for-profit advocate for New Zealand’s most significant industry, property. Our organisational purpose is, “Together, shaping cities where communities thrive”.

2.2 The property sector shapes New Zealand’s social, economic and environmental fabric. Property Council advocates for the creation and retention of a well-designed, functional and sustainable built environment, in order to contribute to the overall prosperity and well-being of New Zealand. We aim to address housing unaffordability by putting the focus on how government and industry can collaborate to build more houses, faster.

2.3. Property is New Zealand’s largest industry and fastest growing source of employment. There are nearly \$1.6 trillion in property assets nationwide, with property providing a direct contribution to GDP of \$41.2 billion (15 percent) and employment for around 200,000 New Zealanders every year.

2.4. Property Council is the collective voice of the property industry. We connect over 10,000 property professionals and represent the interests of over 650 members organisations across the private, public and charitable sectors.

- 2.5 This document provides Property Council's feedback on the Commerce Commission's residential building supplies market study. Comments and recommendations are provided on issues relevant to Property Council's members.

3. Supply Chain

- 3.1 The study provided a high-level supply chain diagram. Our members generally agreed with the diagram but note that in some areas it could better reflect the industry in practice. For example, at the construction level, builders and sub-contractors should not be grouped together as in practice sub-contractors may complete work or aspects of a job for the builder. We recommend the diagram better reflect this.
- 3.2 We note a growing trend towards developers bypassing local distributors and purchasing building supplies from international suppliers directly. This has been accurately reflected within the diagram as "direct sales", but may need more weight (or less) in the future. Currently due to supply chain issues and uncertainty of future pricing, the long-term benefits of direct sales are questionable. Furthermore, there have been shipping issues as well as a shortage of space to store goods.
- 3.3 There has also been a general move towards developers and construction merging into one single entity. This is something for the Commerce Commissions to consider, as the blurring of the construction and developer levels within this diagram may likely change overtime due to the low numbers of players within the New Zealand market. We recommend the Commerce Commission unpack this further through discussions with developers and construction sectors. Furthermore, the study focuses on products made and sold in New Zealand as opposed those that are imported. The Commerce Commission will have to be careful in its assessment as there could be unintended consequences of this.

4. Construction Process

- 4.1 The study provided a high-level summary of the construction process. We believe that this summary is over simplified. We recommend that the Commerce Commission further refine their understanding of the construction process to include both the implications of compliance in the construction process and to highlight where building supply purchase decisions are being made.
- 4.2 The diagram also demonstrates some confusion between process flow and material flow. Property Council and our members are happy to work with the Commerce Commission to discuss this in further detail.

5. Scope of Study

- 5.1 We generally agree with the scope of the study as it relates to major building components. However, we recommend that structural steel and steel reinforcing be included within the scope of materials for the study as our members see a particular challenge in this area. If the study is wanting to get closer to solving housing affordability in New Zealand, then expanding the scope to include the most relevant building supplies would be beneficial.
- 5.2 Although the study focuses on material supply, we believe that this is one of many wider issues within the industry. More of these issues will be discussed below in 7.2.

To capture a wider understanding of the issues regarding residential building materials, we recommend the study be assessed within the entire current legislative framework including Resource Management Reform, Building for Climate Change and Building Act changes. For example, increased legislative standards will have flow on effects on market availability and prices.

6. Unique Characteristics

- 6.1 The study noted that there are unique characteristics of residential building in New Zealand. One of these listed by the Commerce Commission is a performance and durability requirement to mitigate the risks of earthquakes and wind. We agree with this point as this reflects New Zealand's climate conditions. For example, ground conditions in New Zealand can be very poor and therefore require more foundation work than overseas.
- 6.2 Having said that, New Zealand is one of many countries who have unique geotechnic conditions. For instance, New Zealand has high standards on windows and joinery. However, Australia is highly susceptible to bush fires which is a reason they also have high standards on windows and guttering. We recommend that the Commerce Commission should consider the potential impact of greater international alignment on standards within the study.

7. Demand and supply chain

- 7.1 Our members have noticed increased fragmentation in the market which has disadvantaged small operators with regards to obtaining building supplies. Furthermore, New Zealand is normally last on the international supply chain. Although the above issues were apparent prior to the COVID-19 pandemic, they have certainly been exacerbated because of it.
- 7.2 Our members have identified several issues that extend beyond the competition of supply. We believe that without assessing these other issues, the scope for this study is too narrow. Major issues that we believe need to be assessed are, but are not limited to, issues relating to high shipping costs, the lack of productivity, capacity issues and funding/financing for projects.

8. Wider Regulatory Reform

- 8.1 The study suggests that regulatory framework adapts to emerging trends and development in the residential construction sector.
- 8.2 We agree with this point and believe that innovation is hindered by New Zealand's inability to be nimble as well as the ongoing risk and liability issues with councils. The industry-wide issue with risk and liability comes down to councils being the 'last man standing'. We have long advocated for Government to cap council liability at 20 per cent and introduce a fairer allocation of risk and responsibility across the sector. We believe the only way to fix the decentralised system is through enacting new legislation.
- 8.3 There is a lack of structural incentives for companies to trial new and innovative products. We understand that there is a high degree of risk to companies that trial new products to be tested in the market, especially when accounting for where the liability may fall. With the impending Central Government Emissions Reduction Plan, and

building for climate change workstreams, we expect that more carbon friendly and innovative products will be required, especially within the residential sector. We recommend investigating incentives that enhance innovation and more sustainable products within the sector.

9. Industry structure for key building supplies

Concentration

- 9.1 We believe that within the supply chain, developers are not incentivised to consider new products because of their brand reputational risk profile. The risk profile drops once products become the norm over time meaning innovation is not a top priority. As discussed above, there is also limited choice in New Zealand with there being much uncertainty as to whether new products will be able to remain in the market.

Vertical Integration

- 9.2 New Zealand is a small market. Currently, for innovation to occur, there needs to be an alignment of interests across the sector with risk security. We recommend investigatory research occurs within this space.

10. Nature of competition for key building supplies

- 10.1 We believe there is a lack of transparency on industry relationships. There should be less emphasis on rebate schemes with benefits flowing back to customers at the lowest prices.
- 10.2 Many small businesses in the sector lack significant access to capital. As a result, and considering the current regulatory approach to product liability, these small businesses are incentivised to minimise procurement risk. In effect, this leads to less efficient behaviour by remaining with the same distributors and products and reduces innovation in the marketplace.

11. Behaviour impediments

- 11.1 Property Council understands that there are market pressures to lock supplies and contractors in as early as possible as it is difficult to determine prices over a long term. Our members have told us that they have faced supply chain delays whilst getting prices sometimes 18-20 months later. This results in increased uncertainty around the pricing of products and can have real impact on the feasibility of projects.
- 11.2 As discussed above, New Zealand is a small country and as such sometimes experiences difficulties in maintaining a highly skilled workforce. As a result, there is less drive to make new and innovative decisions, which therefore reduces productivity over time.

12. Conclusion

- 12.1 Property Council supports the general premise and direction of the study. However, we note that there are a range of issues outside of the scope of the study that have

major impacts of demand for building supplies and the supply chain process. We recommend expanding the study to incorporate these issues discussed throughout our submission.

- 12.2 Property Council would like to thank the Commerce Commission for the opportunity to provide feedback on the study. We are willing to provide our assistance throughout the study year.
- 12.2 For any further queries contact Sandamali Gunawardena, Advocacy Advisor, via email: sandamali@propertynz.co.nz or cell 021 045 9871.

Yours sincerely,



Leonie Freeman
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