



Residential building supplies market study
Commerce Commission

22nd January 2022

Re: NZCIC response to Preliminary Issues Paper

Tena koutou katoa

The New Zealand Construction Industry Council (NZCIC) is the peak industry association in the construction industry and is the cohesive voice driving industry well-being and performance for a better built environment for Aotearoa New Zealand. Our member associations cover innovation, construction, manufacturing, compliance, engineering, design, safety, people, and research across the sector. A list of member associations can be found at <https://nzcic.co.nz/#membership>

NZCIC's mission is to lead a thriving construction industry, supported by the four capitals of the natural environment, social cohesion, human capability and financial and physical capital. A thriving industry requires a competitive building product market, providing product at a fair price to the consumer, as well as considering quality, resilience, embodied carbon and environmental impacts.

NZCIC supports the market study of residential building supplies, however we are concerned the study will be influenced by the current abnormal market conditions, and that the terms of reference are narrow.

Currently the industry is subject to abnormal national and international pressures resulting from the COVID 19 pandemic which has disrupted supply and caused significant inflationary pressure on building products, coinciding with a period of unprecedented demand for housing and infrastructure. The industry has not faced this type of supply chain disruption for decades, illustrated by the prevalence of fix price contracts in the construction market, which until the last 12 months have been the norm for at least twenty years.

There is much debate about the relative costs of building product in Aotearoa New Zealand and major concern at the rising cost of housing. A 2018 study by Deloitte concluded that building products account for 18-23 percent of total housing costs. Therefore, if a house cost \$600,000 in 2018 the material costs would be expected to be around \$120,000 (20%). That same house is now likely to cost over \$1 million; even if building product prices have doubled they will account for 24% of the cost. Our point is there are multiple pressures on the cost of housing and a market study into the cost of building product alone is unlikely to provide an insight into the systemic causes of housing affordability.

In our view, the structure and scope of the market study as outlined in the Preliminary Issues Paper will provide an insight into the supply chain and the market forces at play, but believe a broader study is needed to understand the systemic issues underpinning housing affordability.

We have received some specific comments from our members regarding the accuracy of some initial assertions, however we believe it is not appropriate for NZCIC to comment on specifics, and that specific feedback is best provided by the experts in each market segment.

NZCIC has advocated broadly to maintain and improve the quality of building products and systems used in the industry, including advocating compulsory third party accreditation of critical building products. We advocate for similar third party verification of embodied carbon content of product as we move to reduce operational and embodied carbon from the construction of buildings and infrastructure. We are fully aware that imposition of such quality controls adds cost to product, however we firmly believe this cost is more than recovered when considering the whole of life cost of a building. This assertion has been borne out by the financial and human costs of the leaking building crisis which has had a considerable impact on the economy and taken a huge toll on the financial, physical and mental wellbeing of affected homeowners, as well as builders and the supply chain.

It is useful to analyse how difficult it is for lower carbon products to enter and compete in the market. Questions regarding barriers to entry for new and alternative products must be balanced against the risk and liability of product failure for the life of the asset. For example, a ten or twenty percent saving on the cost of a cladding product will be insignificant if the cladding needs to be replaced one or more times before the building reaches its intended life span.

In summary, NZCIC supports the purpose of the market study of the cost of residential building products, however we believe the study needs to factor in the current abnormal market drivers, as well as other factors effecting housing affordability and consider product durability, embodied carbon and environmental impacts.

NZCIC believes specific answers to your questions are best provided by our members who are experts in their specific sector of the industry. NZCIC will be happy to assist with communications around the study to broader industry through our communications platforms.

Ngā mihi nui



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