

ISSUE #6

# THE PULSE

UNDERSTANDING FUTURE DEMAND  
FOR RESIDENTIAL AND COMMERCIAL CONSTRUCTION



# INTRODUCTION

———— Welcome to **Issue #6 of The Pulse** - your quarterly degustation of local and global insights designed to help you understand the future demand for residential and commercial construction in New Zealand.

Alongside our partners **BRANZ, CreditWorks** and **Forsyth Barr**, EBOSS is proud to bring you these series of reports that combine insights and opinions from our expert contributors.

We'd also like recognise the **Ministry of Housing and Urban Development** for their continued input and contributions.

## WHAT'S INSIDE?

In order to form a vision of the future, we take available data today and arrange it for analysis over 4 logical stages:

### YESTERDAY

———— Work completed

### TOMORROW

———— Work consented,  
but not yet constructed

### TODAY

———— Work under construction

### FUTURE

———— Neither consented or  
constructed yet

## What you need to know in 60 seconds:

### YESTERDAY

- Statistics NZ experimental data series estimates that there were 43,160 residential consent completions in 2023, up +20% from 2022
- In 2022/23 median completion time of a standalone house increased dramatically from 300 to 500+ days
- We estimate that over the last 12 to 24 months, about 8% of residential consents have been cancelled
- Total mortgage lending for the first 4 months of 2024 is almost 20% higher than the same period last year, with First Home Buyer lending remaining strong and resilient in spite of the OCR at 5.5%
- The gap between cost to build and cost to buy continues to narrow with Construction CPI now back in normal range and house prices slowly making up some of their fall in value in 2023

### TODAY

- CreditWorks data continues to show positive monthly building merchant revenue with April 2024 10% higher than April 2023, and even on par with April 2022
- With activity levels still high, we expect CCCs not to fall as quickly as consents and concrete poured, but will begin to trend down as we move into the second half of 2024
- Supported by the latest Stats NZ data stating time from consent approval to first inspection now averages over 5 months (163 days)

### TOMORROW

- Consent approvals are down 20% at 7,717 for the first quarter of 2024 compared to the same period last year
- Floor area consented was down 28% on the prior year - perhaps the best indicator of future activity
- Strong net migration is driving up rental prices due to a surge in demand for housing, especially in Auckland. Could investor activity rise to meet this demand, with the return of interest deductibility?
- Commercial construction prices up 6.0% to year Dec 2023, with the value of annual non-residential building work consented at \$9.4bn for 2023 - down 1% on 2022.
- Commercial refurbishment and retrofit projects dominate the high number of education, office and retail building consent approvals in 2023, rather than new builds

### FUTURE

- New residential consent approvals falling and to remain under 36,000 annually for the next 5 years - with standalone houses expected to represent the majority of consent approvals
- The value of commercial consent approvals forecast to stabilise over the next 5 years at just under \$10bn
- Inflation continues to fall with predictions for OCR cuts to start in Q1 2025 heading to 3.5% by end 2026
- Globally, the forecasts for construction of residential and commercial buildings remains weak, particularly in Europe and China
- Weaker demand for building materials globally, suggests pricing opportunities for imported materials

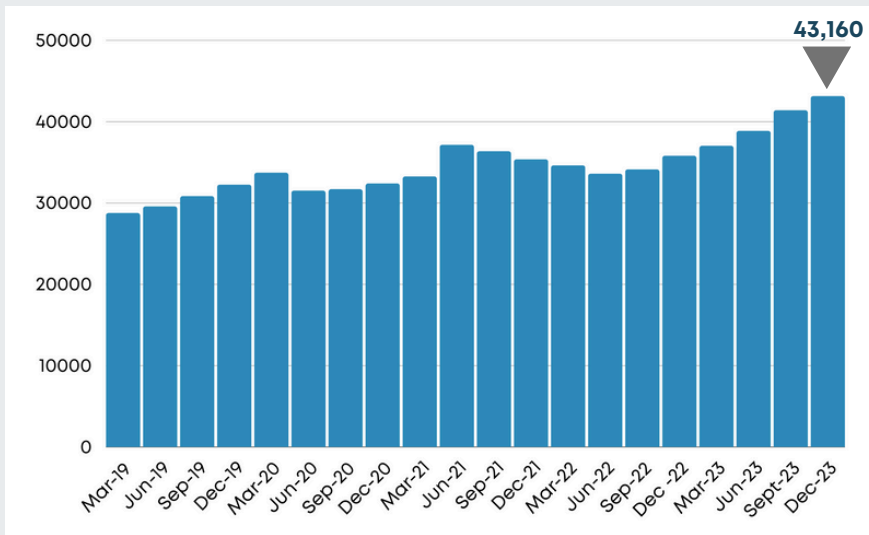
# YESTERDAY

## — Work completed

For the last 2 reports, we have used our EBOSS/BRANZ CCC (Code Compliance Certificate) model to estimate nationwide residential completions. On 4 April, Stats NZ released their own experimental dataset which showed very similar 2-year completion totals to the BRANZ/EBOSS model. Below we have replicated the Stats NZ data, which shows a record **43,160** residential consents were finished in 2023. When comparing the two data sets, we have the following observations:

### Estimated National CCCs - Quarterly 12-month Rolling

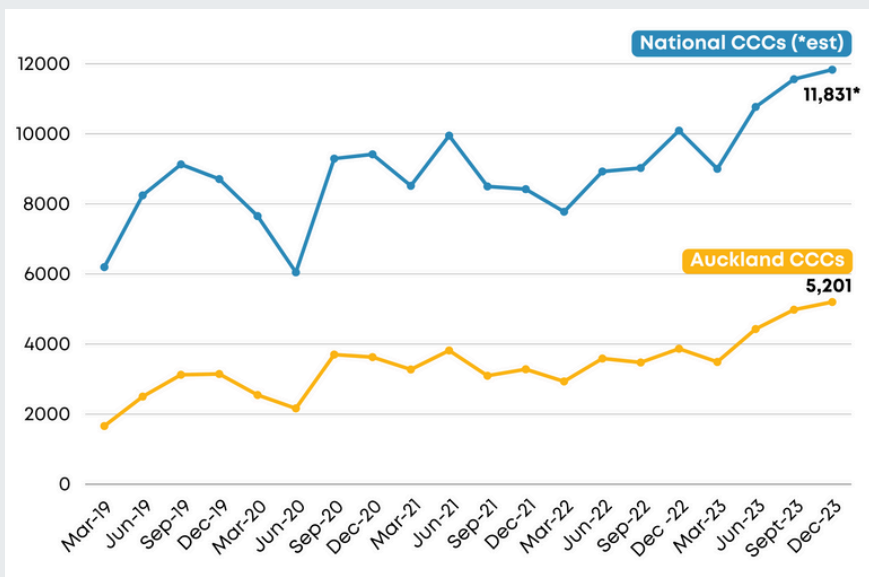
Period: Mar-19 to Dec-23



Source: Stats NZ

### Estimated CCCs - National and Auckland Region by Quarter

Period: Mar-19 to Dec-23



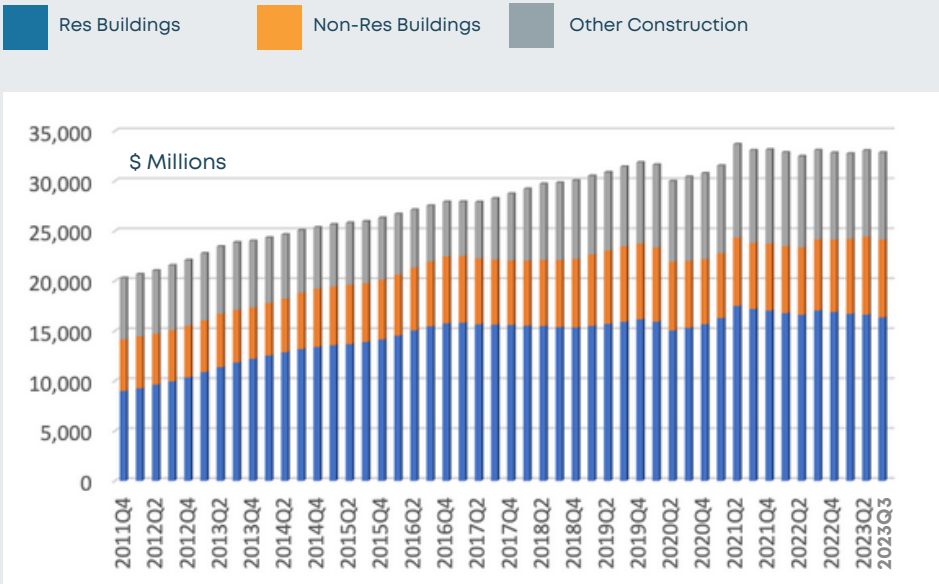
Source: Stats NZ & Auckland Council

- Projects through 2022 took longer to get started than anticipated - likely due to delays in restarting stalled projects affected by Covid impacts
- Projects in 2022/23 took longer to complete on average with the median time to completion of a stand-alone home exploding from 300 days to 500+ days
- It's likely the effects of the many cancelled consents is also dragging out these median timeframes
- We estimate that over the last 24 months, 8% of residential consents have been cancelled
- Latest Stats NZ data shows residential project starts were sluggish, taking 163 days on average from Consent Approval to First Inspection
- Time from Final Inspection to Code Completion was 60 days in June 2022.
- With YoY quarterly CCC's increasing 25% in Dec 2023, this timing could well have increased
- In Jan 2024, 74% of Auckland Council Monthly CCCs were for projects completed within 2 years of consent approval - down from 84% in Mar 2023



# YESTERDAY

## Gross Fixed Capital Formation Period: Dec-11 to Sep-23



Source: Stats NZ | BRANZ

- Construction activity remains strong as measured by expenditure on residential buildings, non-residential buildings, and other construction
- Residential remains the dominant sub-sector, contributing 50% of total activity over the previous 12 months
- Total activity was down just 0.7% from the previous year. Residential has taken the biggest hit, down 4%, but this is largely mitigated by the 9% growth in non-residential activity

## Who's Borrowing What - FHB v Investor v Other Owner Period: to April-24

	Previous years:			Monthly:			
	Apr 2022	Apr 2023	Dec 2023	Jan 2024	Feb 2024	Mar 2024	Apr 2024
<b>Total lending (\$million)</b>							
All borrower types	5,664	4,330	5,304	3,413	4,915	6,035	<b>5,927</b>
First home buyers	1,058	1,049	1,335	822	1,109	1,342	<b>1,264</b>
Other owner-occupiers	3,551	2,494	3,008	1,932	2,880	3,524	<b>3,401</b>
Investors	983	718	894	607	851	1,080	<b>1,182</b>
Business purposes	72	69	68	53	75	89	<b>80</b>

Source: Reserve Bank of New Zealand

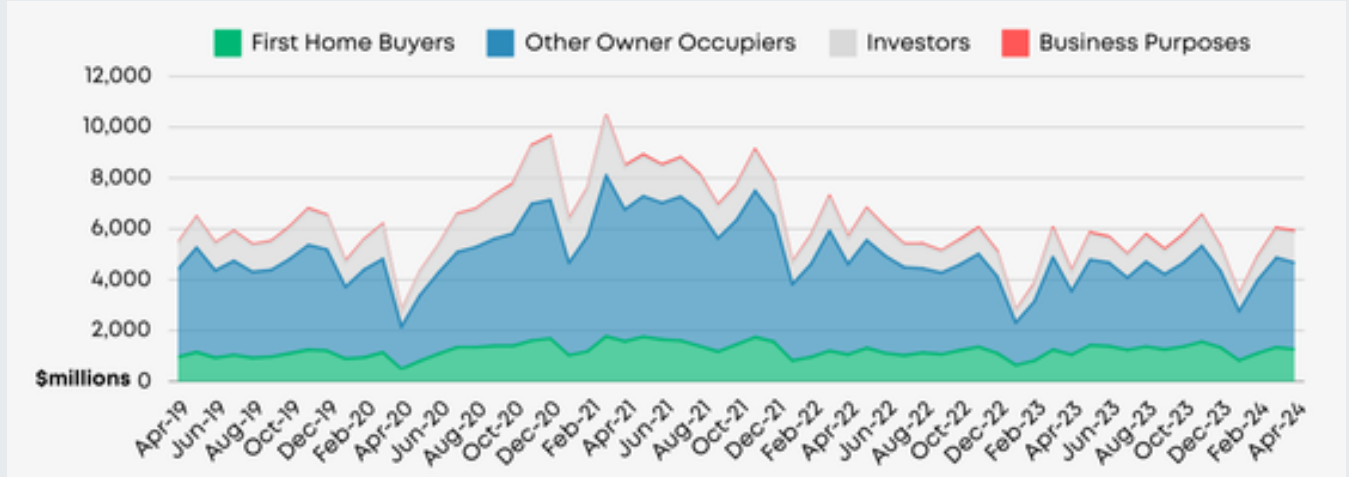
- Overall mortgage lending so far in 2024 (Jan to April) reaches \$20.3bn
- That's \$3.3bn more than the same period in 2023, but over \$10bn off the level in 2021!
- Compared to those record levels seen in 2021, owner occupier and investor activity has fallen back the most

- Latest data above shows **Investors** returning with a 2-year borrowing high being recorded in April-24
- First Home Buyers continue to remain very active, taking advantage of lower house prices, even though interest rates and loan serviceability continues to be challenging with the OCR at 5.5%
- In the first quarter of 2024, mortgage lending to First Home Buyers totalled \$3.27bn, up 20% on same period last year, and for several quarters now makes up ~23% of total lending



# YESTERDAY

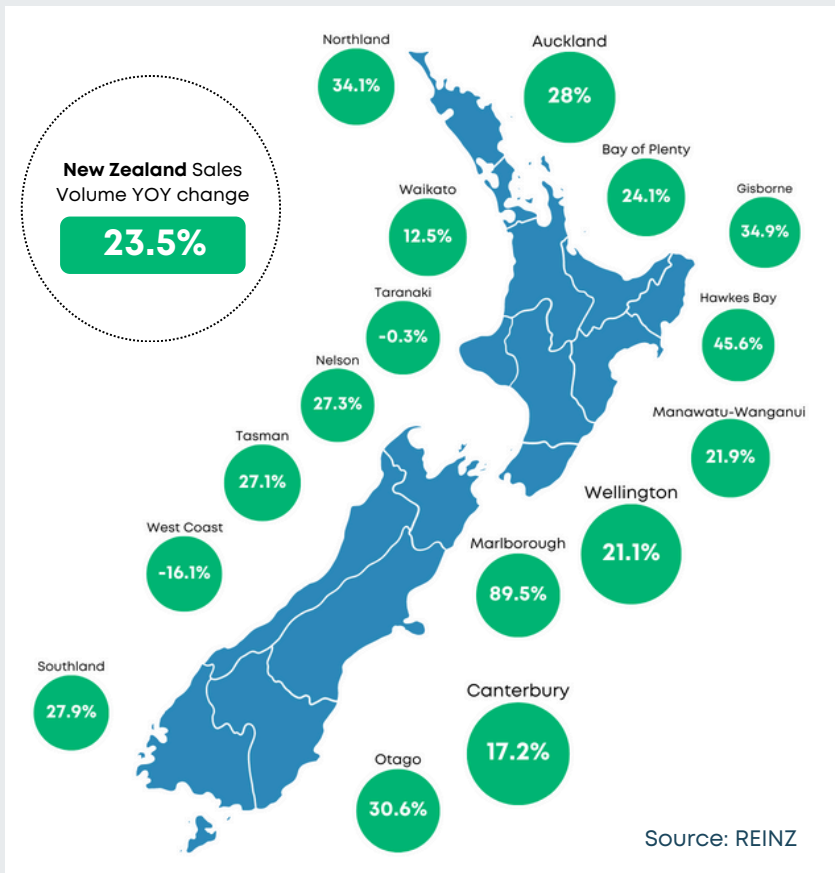
## Mortgage Lending by Borrower Type Period: Apr-19 to Apr-24



Source: Reserve Bank of New Zealand

## Residential Property Sales Volume YOY Change by Region

Period: Feb-23 to Feb-24 (seasonally adjusted)



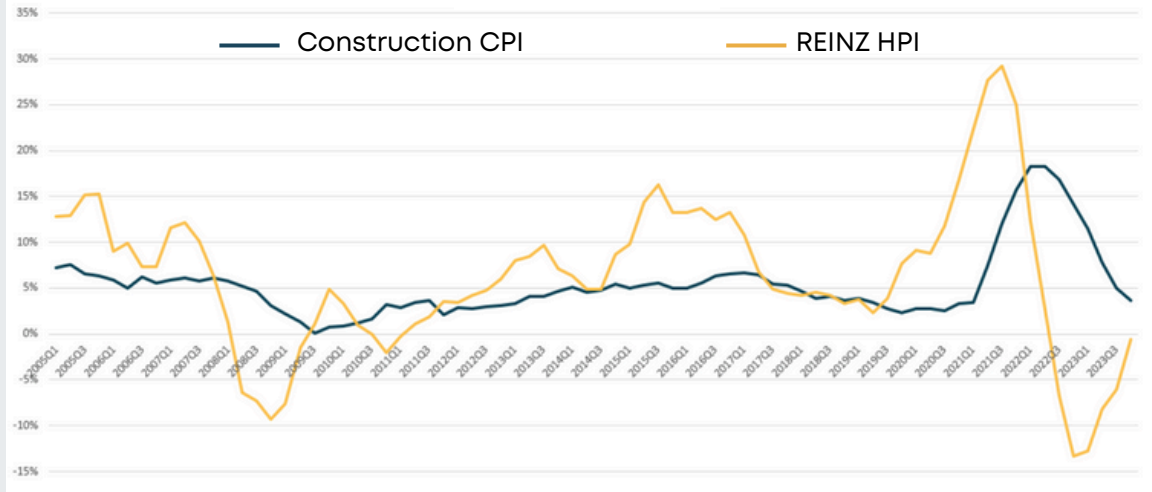
Source: REINZ

- At face value, residential sales signed up in February were up significantly compared to this time last year
- However, looking back at February 2023, sales volumes were slumping, and nationwide sales in February 2023 were down 29.8% compared to February 2022
- So a rise of 23.5% over the past year is more of a return to the norm as opposed to the market frenzy the numbers might suggest
- So whilst sales volumes might be returning to some form of normal, the number of listings on the market has shot up, with housing stock for sale reaching over 31,000 listings – the highest number since mid-2015
- Unless demand picks up further, the amount of available stock for sale might keep a dampener on price rises over the coming months



# YESTERDAY

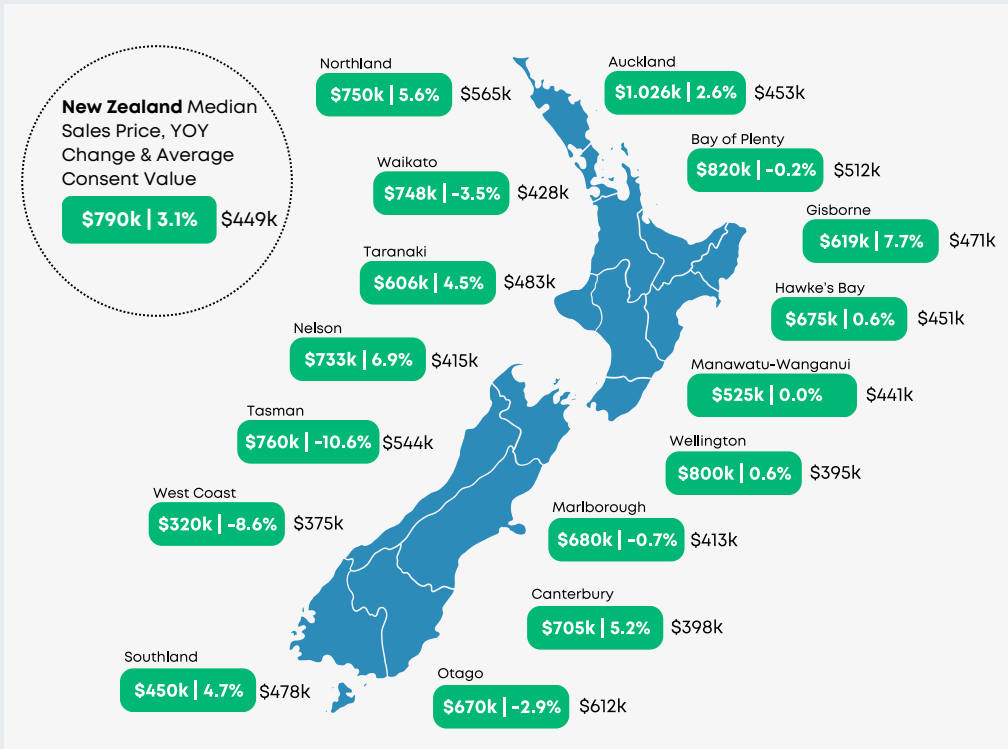
## Construction Cost Inflation vs House Price Inflation Period: Q1 2000 to Q4 2023



Source: REINZ | Stats NZ

- With reference to the chart above, **construction cost inflation** continues to fall, dropping to 3.6% in Dec 2023. It doesn't mean construction costs are falling, they're still rising - just much more slowly, and back to the longer term range of 4-6%
- At the same time, house prices are making up some of their lost values with prices currently back to where they were 12 months ago

## Cost of New Builds v Existing Period: Feb 2023 to Feb 2024



Source: REINZ | Stats NZ

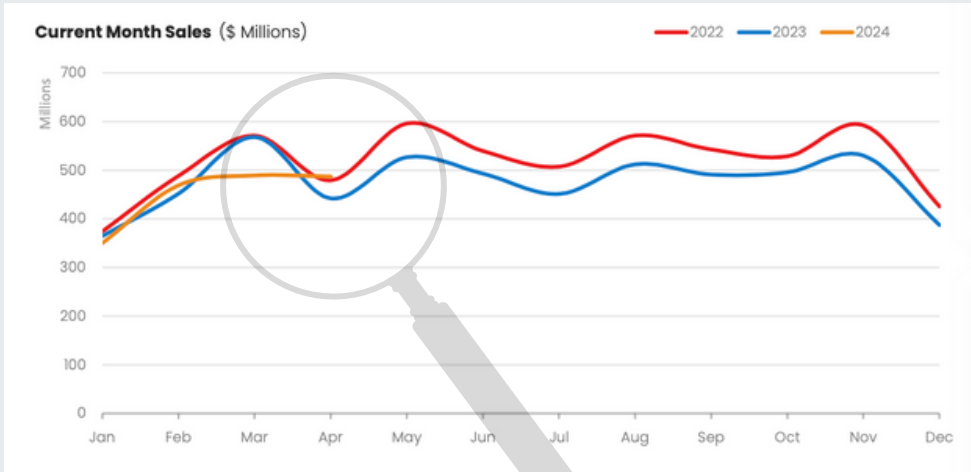
- Chart left compares REINZ regional house prices to the consented cost of new buildings
- With sales volumes lower than normal, some areas are experiencing more volatility in sales prices
- So the year on year variance is quite wide with a nationwide change of 3.1% but some regions are still experiencing lower prices than last year
- High interest rates and stretched affordability will keep a lid on house prices so still expect only a gentle rise, as opposed to a surge



# TODAY

— Work currently under construction

## Building Merchant Current Month Sales Period: Monthly to April-24



### Month-on-Month

↓ **0.5%**

Monthly sales decreased by 0.5% from March 2024 to April 2024.

### Year-on-Year

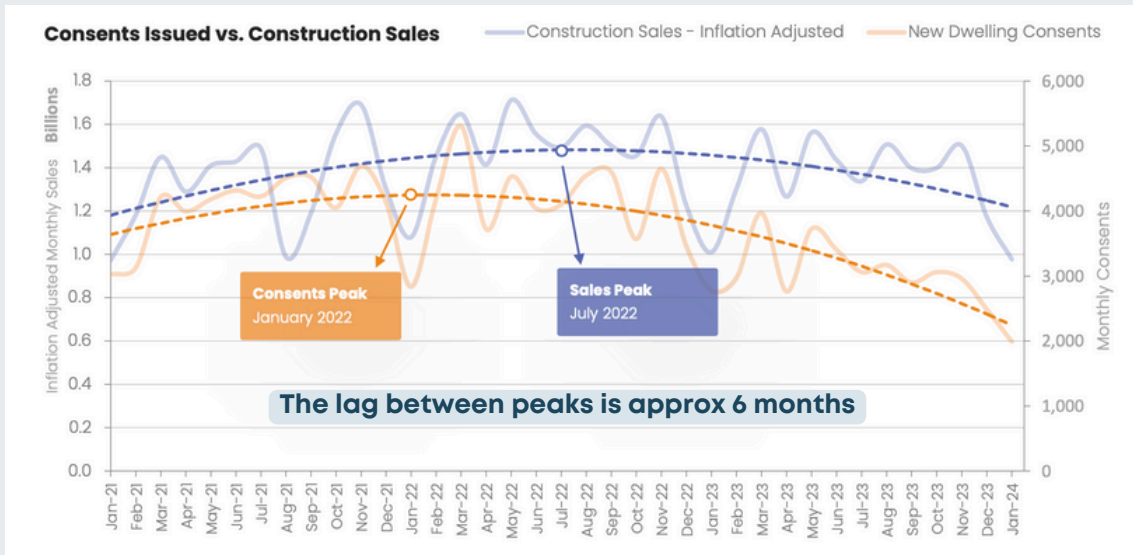
↑ **10.1%**

Monthly sales for April 2024 were 10.1% higher than April 2023.

Source: CreditWorks

- The chart above shows Building Merchants Monthly Sales for April 2024 were 10.1% higher when compared to same time last year, and even on par with April 2022, when the industry was booming
- And this trend looks set to continue in May, with early incomplete data suggesting another positive year-on-year performance

## Construction Sales Value vs New Dwelling Consents Issued Inflation Indexed to CPI | Base 1000=Dec-19



Source: CreditWorks | Stats NZ

- The chart above aims to monitor the lag between consents issued and construction-related sales, so that consents can be viewed as a more informative lead indicator for when they eventuate
- The respective peaks of these trend lines show a **6 month lag** between consents issued (Jan 2022) and overall construction sales (Jul 2022)



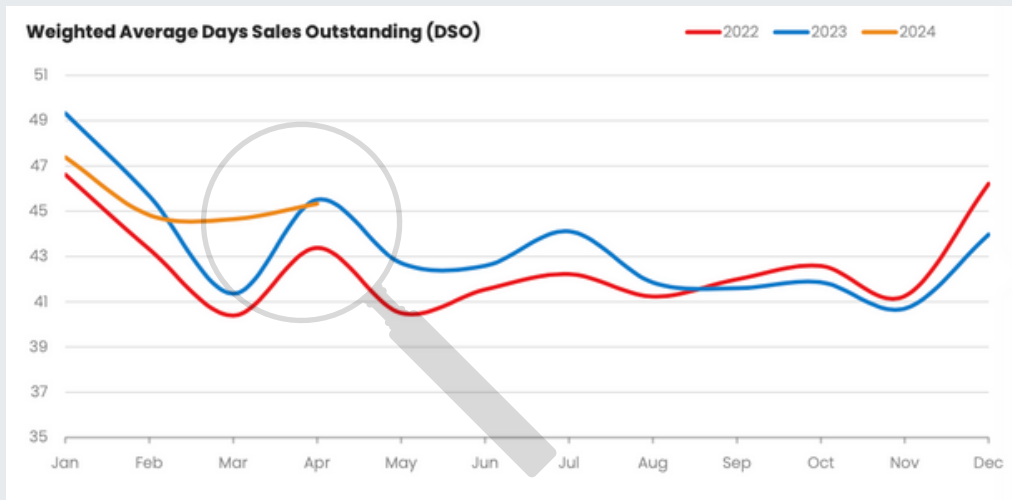


# TODAY

- The working hypothesis is that if consent approvals begin to show a sustained upswing in volume, overall construction-related sales volumes can expect a return to growth mode circa 6 months later
- Recent new dwelling consent numbers are trending down faster than construction sales
- March's Building Merchant data **below** gives us a quick health check with 'Days Sales Outstanding' suggesting that builders' cashflow is coming under increasing pressure - one to watch

## Building Merchant Days Sales Outstanding Period: Monthly to April-24

How long it takes Building Merchants to collect their account receivables



**Month-on-Month**

**↑ 1.5%**

Weighted average DSO increased by 1.5% from Mar-23 to Apr-24.

**Year-on-Year**

**↓ 0.5%**

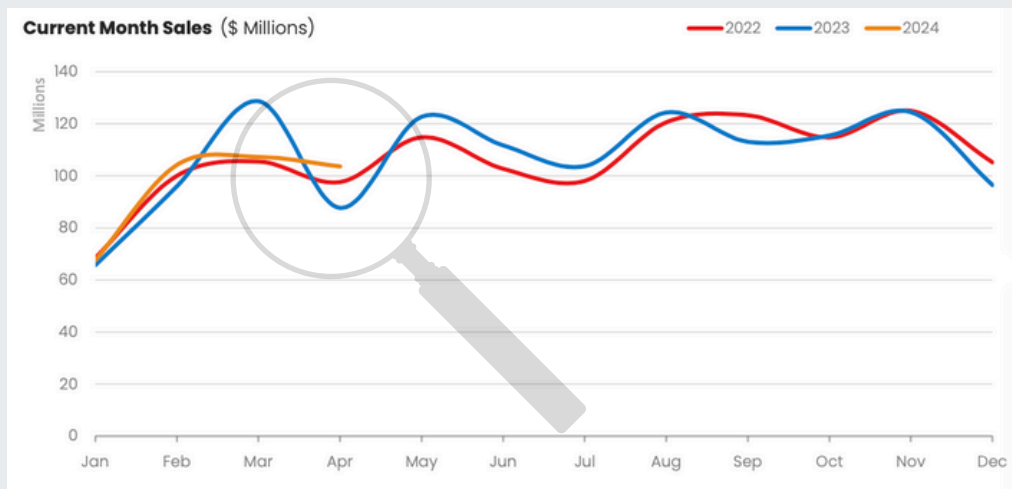
Weighted average DSO was 0.5% lower in Apr-24 vs Apr-23.

Source: CreditWorks

- The chart **below** plots Concrete Merchant Sales - seen as a good barometer of confirmed construction activity and whilst April dropped back from March levels, April is higher than both April 2023 and 2024

## Concrete Merchant Current Month Sales

Period: Monthly to April-24



**Month-on-Month**

**↓ 3.4%**

Monthly sales decreased by 3.4% from March 2024 to April 2024.

**Year-on-Year**

**↑ 18.2%**

Monthly sales for April 2024 were 18.2% higher than April 2023.

Source: CreditWorks

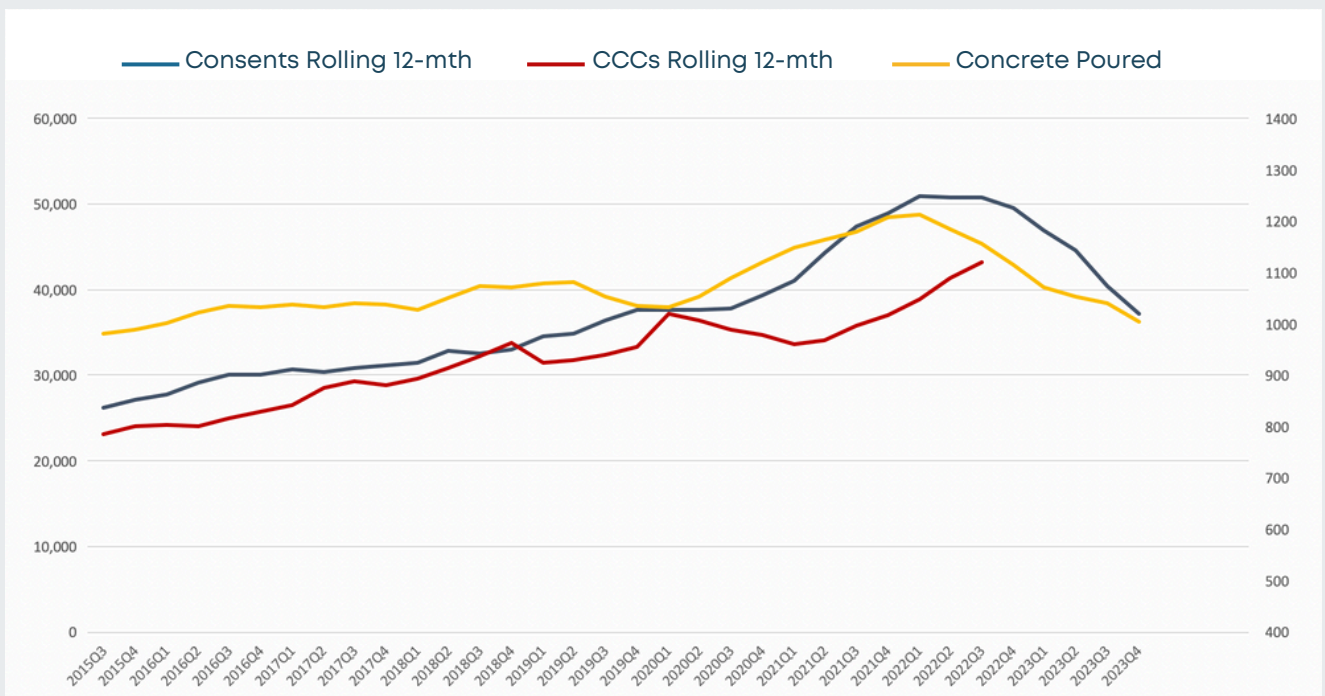


# TODAY

- Whilst building consents are a good indication of the intent to build, the volume of concrete poured can provide a measure of new construction activity with the issuance of code compliance certificates (CCCs) showing the number of completed dwellings
- The chart below shows the rolling 12 months of dwelling consents, plotted against the date the consent was issued
- To help understand the relationships we have brought CCC data forward 18 months, based on 2022/23 median time to completion of 500 days

## CCCs Issued (advanced 18 months) v Building Consents v Concrete Poured (RHS)

Period: Quarterly Sept-15 to Dec-24



Source: Stats NZ

### What does this show us?

- Consents are our leading indicator. They peaked in mid-2022 and have been trending down consistently since then. With a lack of pre-sales and development feasibility still stretched we would expect consents to continue to trend down for a while yet
- Interestingly concrete poured numbers have been falling since 2022 - does this suggest a large number of recently consented projects have not progressed, or progressed more slowly than anticipated?
- The drop in 2023 was much more subtle, suggesting timing was a larger influence
- Finally, the estimated CCCs series represents the current strong completion activity which would have been consented in early 2022
- We expect the CCCs not to fall as quickly as consents and concrete, but will begin to trend down as we move into the second half of 2024

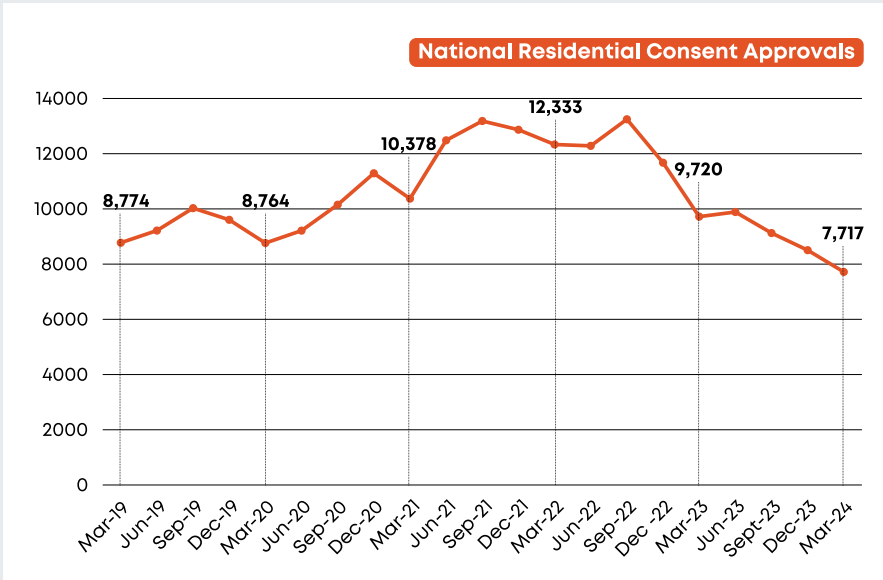


# TOMORROW

Work consented, but not yet constructed

## Quarterly Number of Current Residential Consent Approvals

Period: Mar-19 to Mar-24

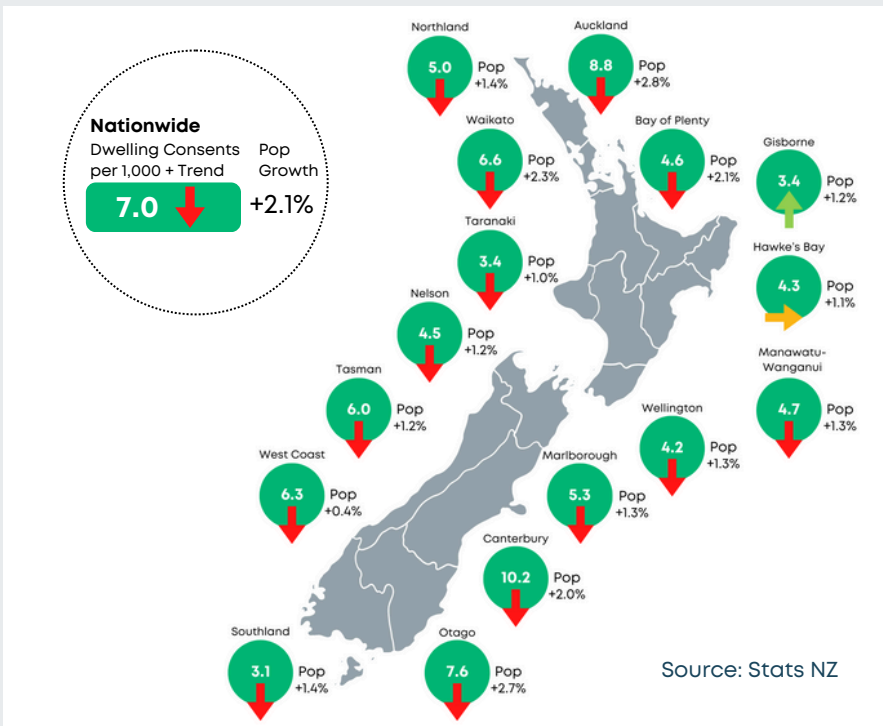


Source: Stats NZ

- Consent approvals are down 20% at **7,717** for the first quarter of 2024 compared to the same period last year
- For context, approvals are now back to levels last seen in 2018
- When thinking about the impact on demand for building materials we should also consider floor area consented, which is the best indicator for future activity. This was down 28% on the prior year

## Dwelling Consents per 1,000 Population by Region with Trend Direction and Population Growth

Period: Year to Jan-24



Source: Stats NZ

- Building consent issuance continues to fall across the country, and whilst the number of consents per 1,000 population has always been varied, some areas are falling more than others
- Whilst the Auckland Region has typically had one of the highest levels of consents per population, it has also fallen significantly, from 12.2 in the year to Jan 23, to 8.8 in 2024
- Canterbury has also seen a significant drop off from 13.3 to 10.2. That's not to say the fall in the other regions isn't notable – whilst Gisborne bucks the trend and has risen slightly – the construction intentions around the country have in the most part fallen

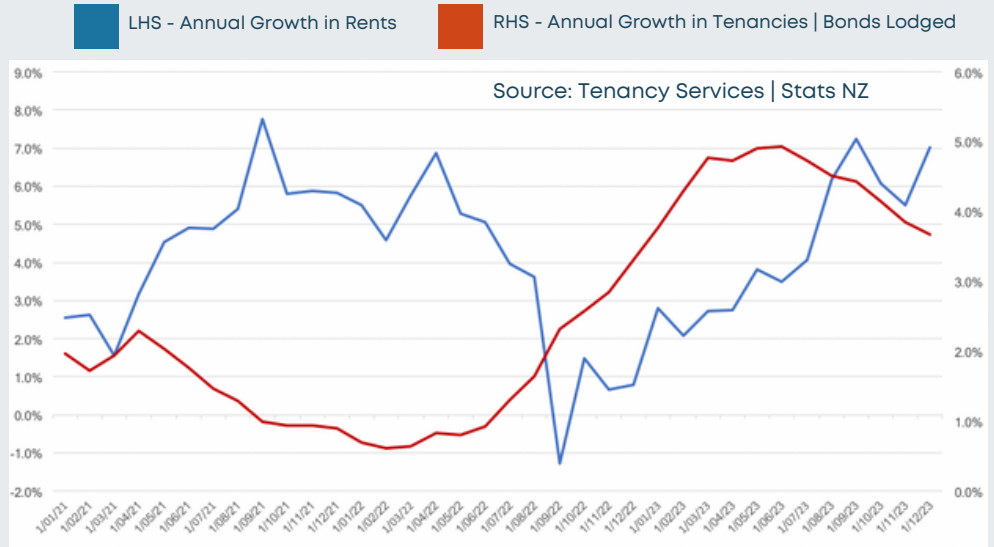


# TOMORROW

## Rental Bonds Trends

Period: Jan-21 to Dec-23

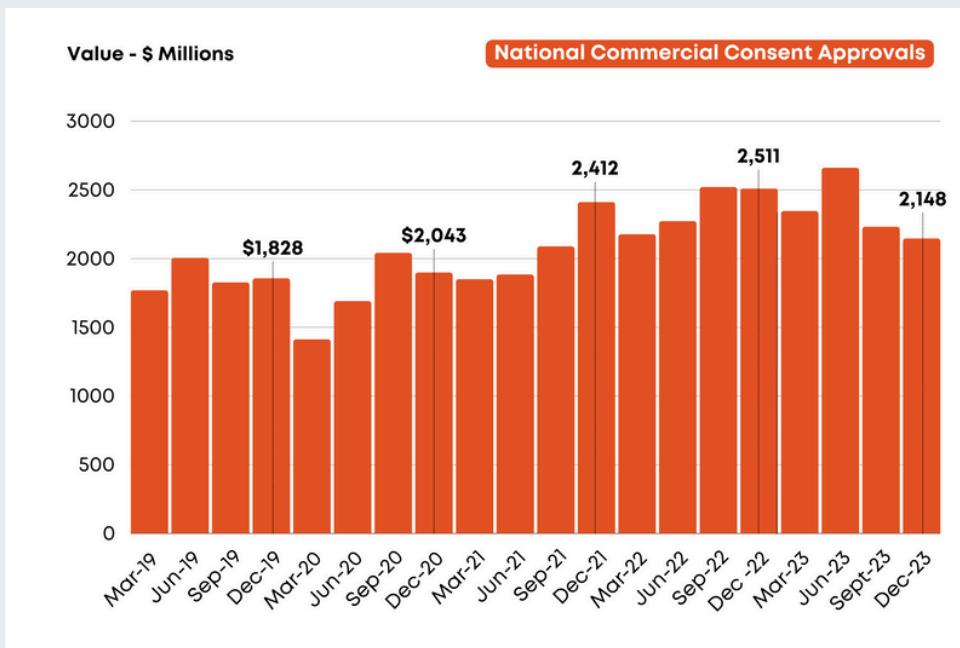
- We continue to see an increase in the number of tenancies, as measured by bonds lodged, although the rate of that growth has slowed slightly from the annual growth of 5% seen in June to 3.7% in December
- This increase in tenancies is driven by Auckland, where the annual increase sits at 3.9%



- This suggests that rather than shrinking, as some commentators have suggested, the rental sector has grown to accommodate the recent high net migration
- However, that increased demand continues to put upward pressure on rents, with the rents for new tenancies sitting 7% higher in December 2023 than 12 months before

## Quarterly Value of Current Commercial Consent Approvals

Period: Mar-19 to Dec-23



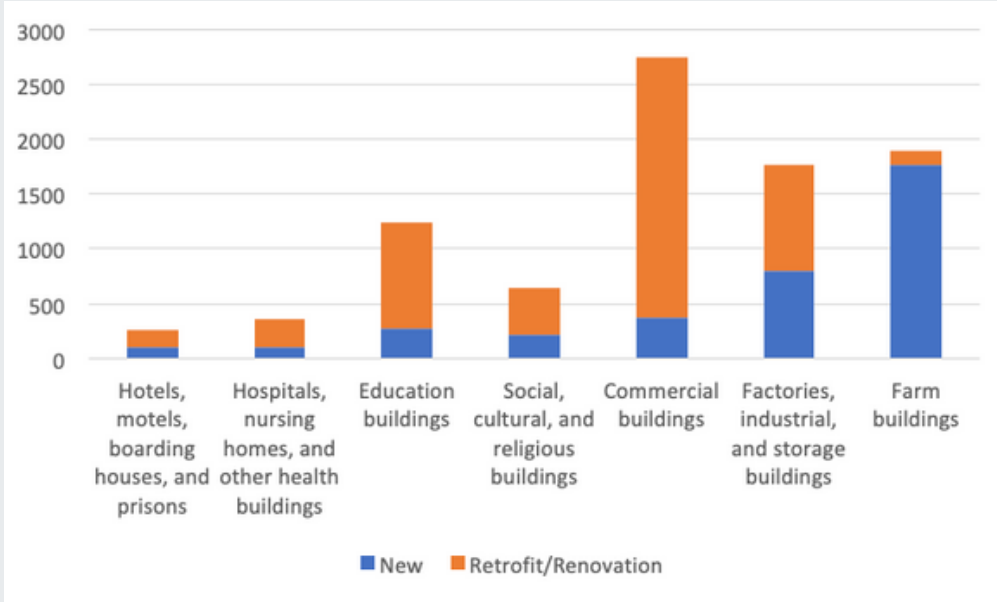
Source: Stats NZ

- Turning to commercial consent approvals by value, the quarterly levels fluctuate because of the influence of large single projects, but approvals remain steady and consistent
- This series is influenced by price changes with non-residential construction prices (as measured by the capital goods price index) up over 6.0% in the year ended Dec 2023



# TOMORROW

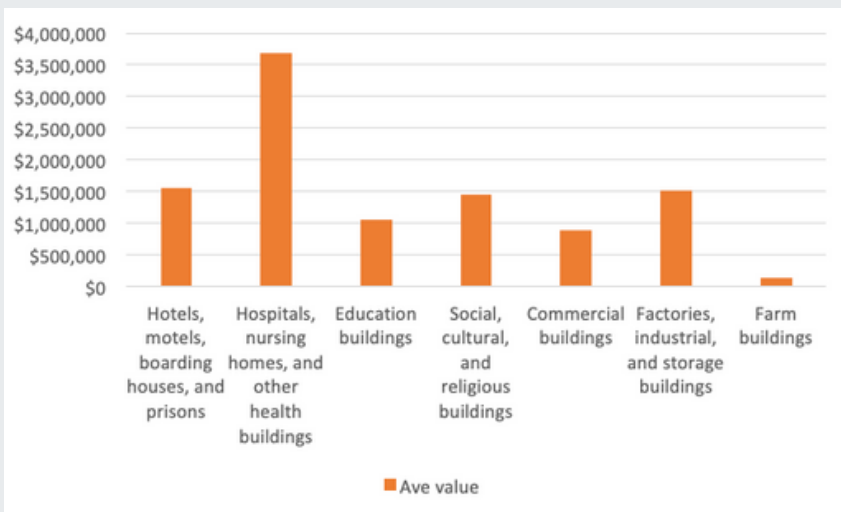
## Number of New Commercial Consent Approvals Year-ending Q4 | 2023 By Type and New vs Refit/Renovation



Source: Stats NZ

- Commercial buildings were the dominant building type over the past 12 months with over **2,750 total building consents**. The vast majority of these were alteration/addition consents (86%) and typically represent fit-outs
- Farm buildings were the next most consented building type, but have a significantly different profile, typically low-cost new builds

## Value of Commercial Approvals Year-ending Q4 | 2023 By Type and Average Value



Source: Stats NZ

- There were a relatively small number of health building consents, but they were of a high average value. The average value of a health building consent over the last 12 months was over \$3.5m
- Accommodation, education, community and industrial buildings all had an average value of over \$1 million



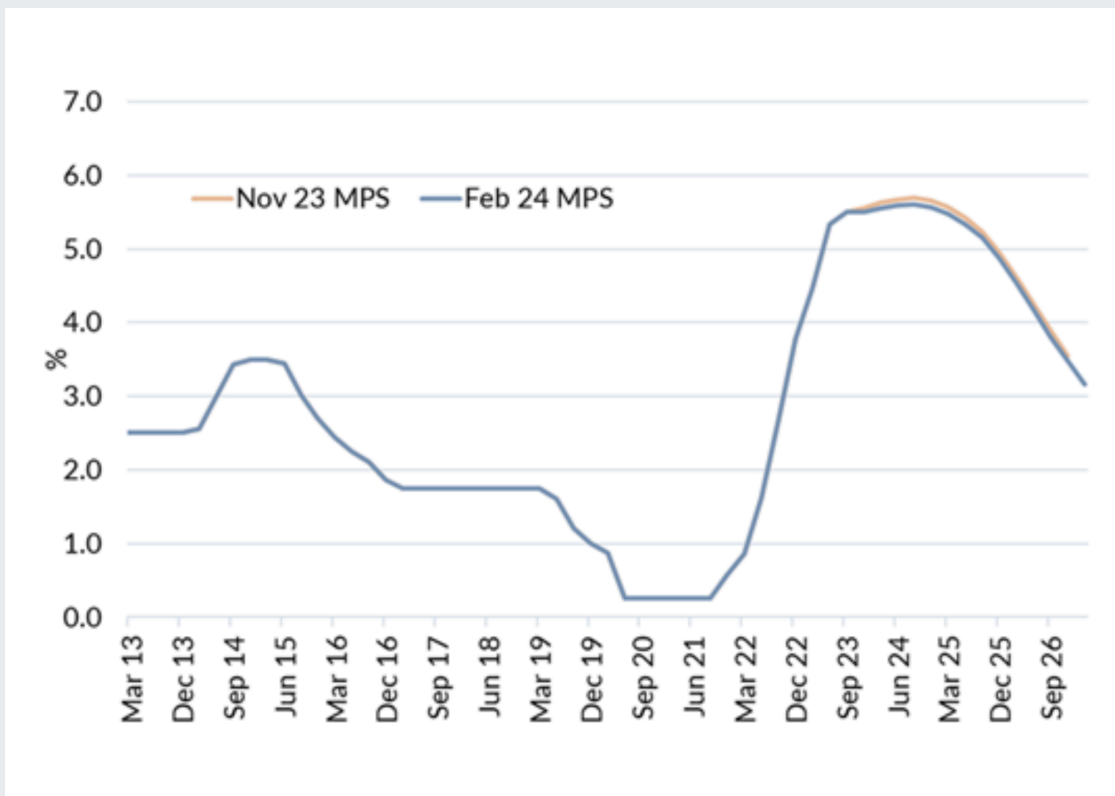
# FUTURE

## Neither consented or constructed yet

- The unemployment rate rose from 3.9% in September to 4.0% in December. This was lower than RBNZ’s estimate of 4.3% for December and suggesting the economy has continued to hold up better than expected
- Overall wage growth across all sectors increased 4.3% year-on-year in the December quarter as measured by the labour cost index. Public sector wages grew 7.4% driven by the education and healthcare sectors where pay agreements toward the end of 2023 resulted in a sizable lift for many workers
- Inflation eased to 4.7% for the December quarter, down from the prior quarter’s 5.6%.
- The biggest price gains were residential rent up 4.5%, construction cost of a new home up 3.6%, local authority rates up 9.6%. Non-tradable inflation was 5.9%, slightly higher than the RBNZ’s expectation of 5.7%

### Reserve Bank of New Zealand - Official Cash Rate Actual and Forecast

Period: 2012 to Sept-26

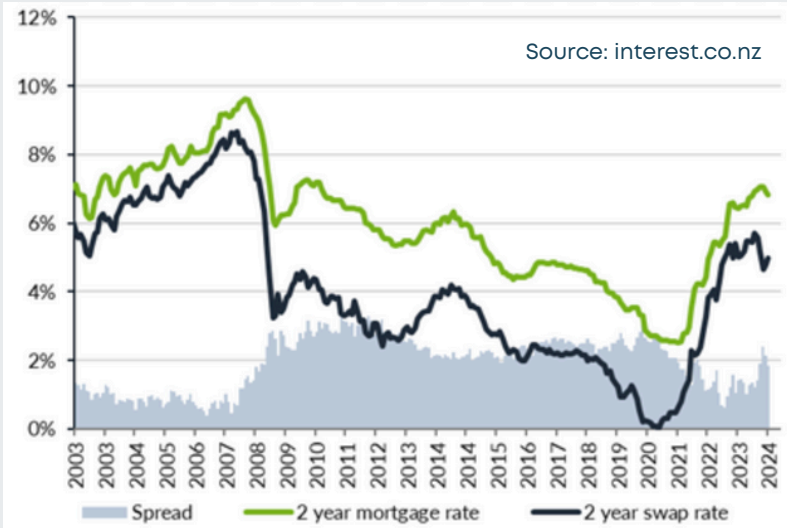


Source: RBNZ | MPS = Monetary Policy Statement

- Despite some forecasts for increases in the official cash rate (OCR), the RBNZ left it unchanged at its February review
- There was a slight reduction in the RBNZ’s own OCR forecasts which suggests the bank is comfortable with the pace of slowing in the economy

# FUTURE

## Mortgage Rates - 2003 to 2024: 2yr Swap & Fixed Rates

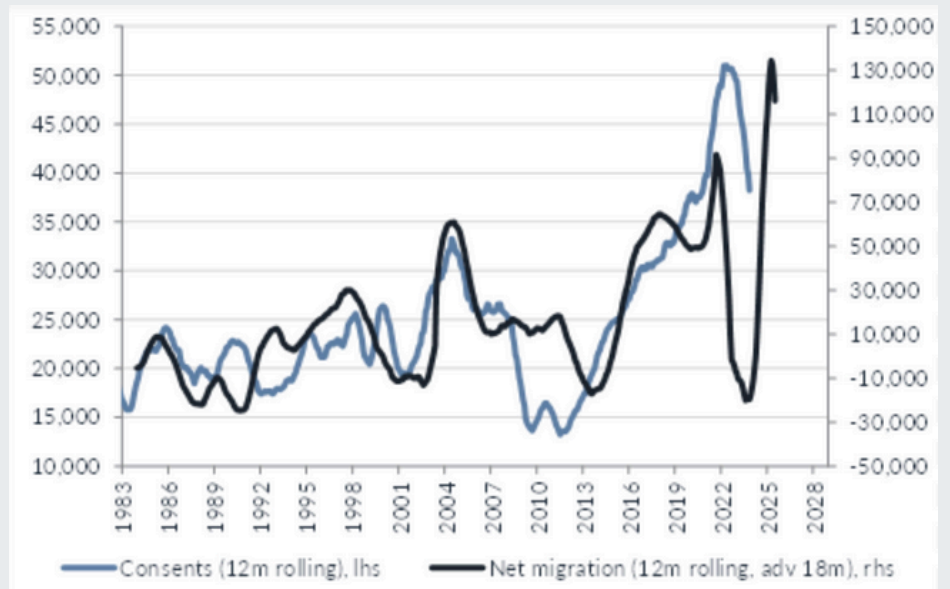


- Some banks have started lowering home loan rates after the OCR's decision to keep interest rates at 5.5%
- The reduction in mortgage rates has been less than the movement in funding costs (swap rates) which have increased slightly from their recent lows
- The margin between bank funding costs and mortgage rates remains broadly in line with historical levels

'Swap Rate' is the rate at which NZ banks borrow to lend at a fix rate to the public in NZ.

- Natural population growth combined with net inward migration is at record levels with **+145,100** estimated for 2023 calendar year
- Migration has started to roll over its peak with the three months to December annualising to +96,000 vs. the last 12-months total of +126,000
- Migration is typically a medium-term driver of housing demand and the RBNZ estimates a 2-year lag between migration and housing construction

## Residential Building Consents v Net Migration Source: Stats NZ



- This is broadly consistent with the 18-month lag between migration and residential consents shown in the chart
- Current migration levels and natural population growth suggests around 47,000 dwellings are required based on historical relationships
- Forecasting where migration stabilises is difficult, but assuming this returns to pre-pandemic levels (50,000-60,000) then history suggests 30,000+ dwellings would be required

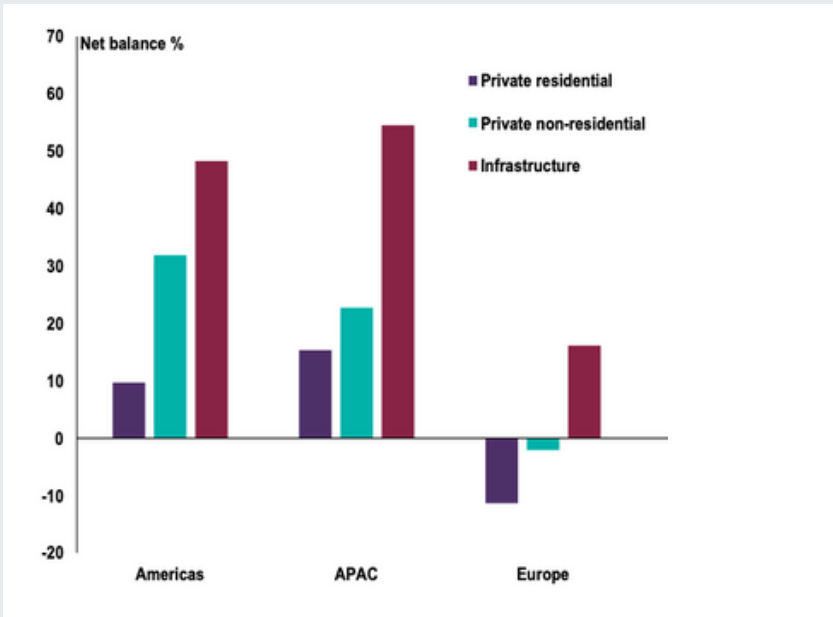


# FUTURE

## Royal Institute of Quantity Surveyors (RICS) Global Construction Monitor | Q4 2023

- Headline construction workloads globally, edge higher, driven predominantly by infrastructure
- Twelve-month construction cost inflation projections trimmed across most nations

### Global: 12-Month Workload Expectations by Region



Source: RICS - GCM Q4 | 2023

- The chart to the left confirms the scale and importance of infrastructure spending in all regions
- For the Americas and APAC in particular, the Q4 results show infrastructure expectations being upgraded relative to the third quarter
- The Americas continue to see a broad based expansion in activity, while trends are more variable across Europe and APAC
- Overall there has been a further moderation in the pressures coming from material costs

### Europe: 12-Month Expectations by Sector, Headcount & Profit



Source: RICS - GCM Q4 | 2023

- Looking more closely at Europe, survey sentiment points to a challenging outlook overall
- Private residential construction output is still anticipated to fall, albeit forward-looking sentiment is not quite as downcast as earlier in the year
- Alongside this, respondents now envisage a largely flat picture for private non-residential construction activity over the year ahead
- However, all European markets projected to see an increase in infrastructure workloads

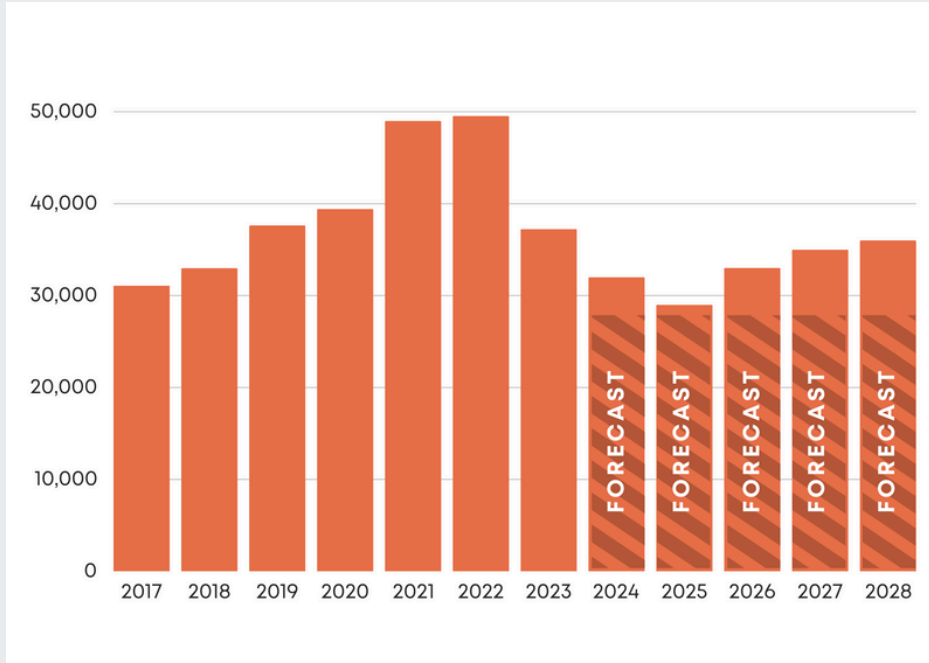




# FUTURE

## Residential Dwelling Consent Actuals and Forecasts

Period: 2017 to 2028



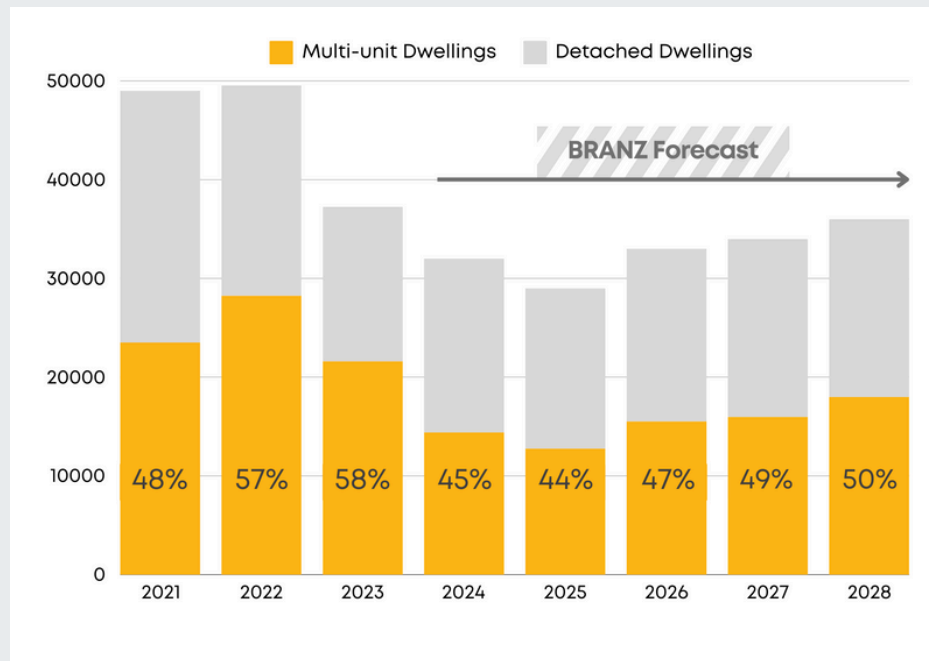
Source: BRANZ

- BRANZ forecast new residential building consents to fall away from the record highs of the last couple of years - falling to 29,000 in 2025
- This drop in residential consents will be largely driven by a fall in consents for multi-unit dwellings, and there's several factors underpinning this thinking:

1. Banks will typically require pre-sales for multi-units which are currently difficult
2. Standalone dwellings are more resilient to changing economic conditions than multi-units
3. Consent completions have remained higher for longer, due to the record multi-unit approvals, and the longer lag time between planning and completions for multi-units
4. High build costs can make the feasibility of brownfield development uneconomic
5. And likely changing government policies from infill housing to greenfield developments will impact too

## Residential Dwelling Consent Actuals and Forecasts

Multi-unit Dwellings vs Standalone Houses Period: 2021 to 2028



Source: BRANZ

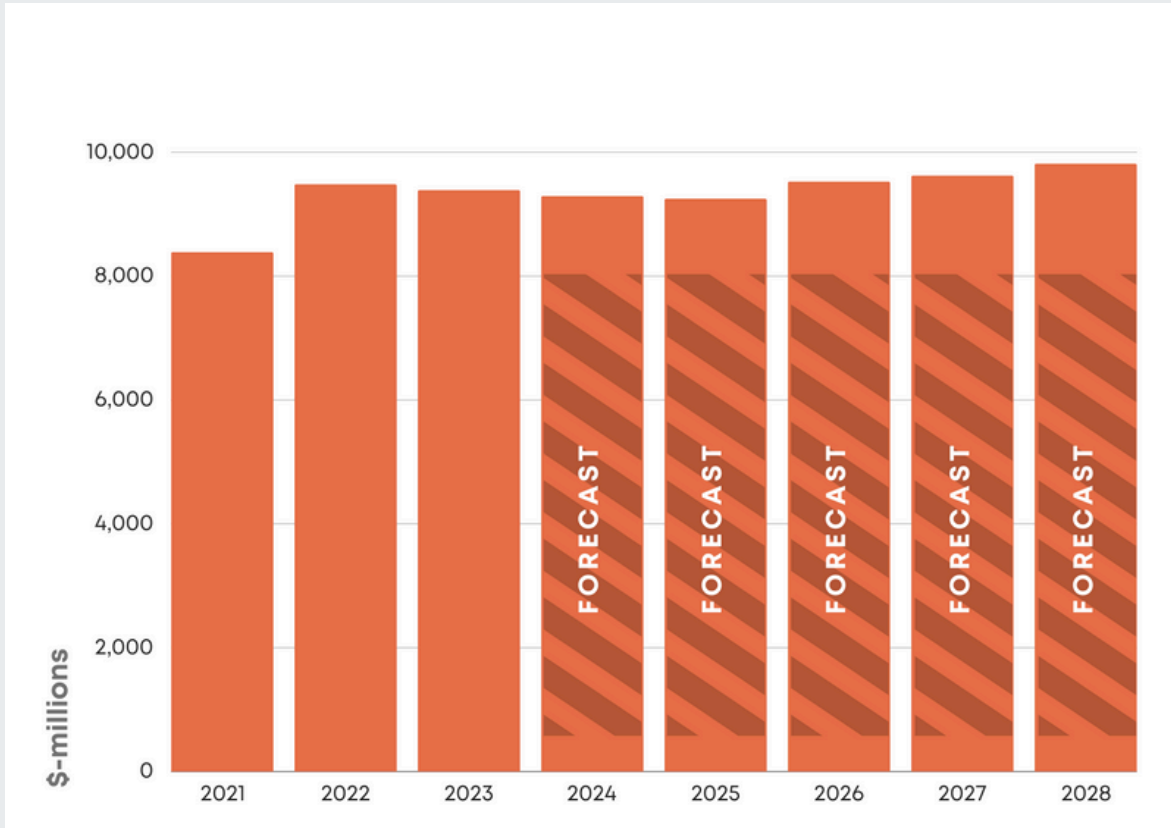
- The outcome is for standalone housing to regain the dominant building type over this period, expected to represent 53% of dwellings consented over the next 5 yrs



# FUTURE

## BRANZ Annual Commercial Consents Value - Actuals and Forecasts

Period: 2021 to 2028



Source: BRANZ

- We expect non-residential activity to remain relatively strong against the headwinds facing the residential sector
- Our forecast is for relatively modest falls in consented non-residential work of about 0.5-1% per annum for the next couple of years
- There is a strong pipeline of privately initiated projects in the non-residential sector which will support activity
- Almost 50% of the projects that are anticipated to start this year are office and retail projects
- Something to watch closely is that education projects have been a big part of the growth in commercial construction of late. Over \$5.4 billion was invested into the Government's school property portfolio since the 2018 Budget, spread over 2,100 schools and more than 15,000 school buildings
- **In March, the Government announced** there would be an urgent inquiry into the school property system, with a press release stating planned projects were "unrealistic and unaffordable" - they added that property projects will include standard, repeatable plans instead of unique designs
- The Ministry of Education has now confirmed 352 school projects at 305 schools are being reviewed due to cost escalations, with at least 20 "ready to go" school projects having their funding pulled



# THANKS TO OUR CONTRIBUTORS



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## Feedback

We trust that this report has provided some valuable insights. We will develop this resource over time, and warmly accept any feedback on the usefulness of information and opportunities to include other key drivers impacting our industry.

Don't hesitate to contact us at: [matthew@eboss.co.nz](mailto:matthew@eboss.co.nz) or [dom@eboss.co.nz](mailto:dom@eboss.co.nz)

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