



RLB | Rider Levett Bucknall

FORECAST 63 |

NEW ZEALAND TRENDS
IN PROPERTY AND
CONSTRUCTION

FIRST QUARTER 2012

OFFICES AROUND THE WORLD

0508 ASK RLB

OCEANIA

AUSTRALIA

Adelaide
Brisbane
Cairns
Canberra
Darwin
Gold Coast
Melbourne
Newcastle
Northern NSW
Perth
Sunshine Coast
Sydney
Townsville
Western Sydney

NEW ZEALAND

Auckland
Christchurch
Otago
Palmerston North
Tauranga
Wellington

EMEA

MIDDLE EAST

Abu Dhabi
Doha
Dubai
Muscat
Riyadh

UK

Birchwood/Warrington
Birmingham
Bristol
London
Manchester
Newcastle
Sheffield
Welwyn Garden City
Wokingham

EUROPE

RLB|EuroAlliance
Austria
Belgium
Bulgaria
Czech Republic
Estonia
France
Germany
Greece
Hungary
Ireland
Italy
Kazakhstan
Latvia
Luxembourg
Malta
Netherlands
Norway
Poland
Portugal
Romania
Russia
Spain
Sweden
Slovakia
Slovenia
Switzerland
Turkey
Ukraine

ASIA

CHINA

Beijing
Chengdu
Chongqing
Dalian
Guangzhou
Guiyang
Haikou
Hangzhou
Hong Kong
Macau
Nanjing
Shanghai
Shenyang
Shenzhen
Tianjin
Wuhan
Wuxi
Xian
Zhuhai

INDIA

Mumbai

INDONESIA

Jakarta

MALAYSIA

Kota Kinabalu
Kuala Lumpur

PHILIPPINES

Cebu
Davao
Manila

SINGAPORE

Singapore

SOUTH KOREA

Seoul

THAILAND

Bangkok

VIETNAM

Ho Chi Minh City

AMERICAS

CANADA

Calgary

CARIBBEAN

Barbados
Grand Cayman

USA

Boise, ID
Boston, MA
Denver, CO
Hagåtña, GU
Hilo, HI
Honolulu, HI
Kennewick, WA
Las Vegas, NV
Los Angeles, CA
Monroe, WA
New York, NY
Orlando, FL
Phoenix, AZ
Portland, OR
San Francisco, CA
Seattle, WA
Tucson, AZ
Waikoloa, HI
Washington, DC

Cover: Harbour Bridge. Auckland New Zealand

Disclaimer: While the information in this publication is believed to be correct at the time of publishing, no responsibility is accepted for its accuracy. Persons desiring to utilise any information appearing in the publication should verify its applicability to their specific circumstances. Cost information in this publication is indicative and for general guidance only and is based on rates as December 2011. National statistics are derived from the Australian Bureau of Statistics (ABS) and Statistics New Zealand.

INDEPENDENT CONSULTANTS LOCAL KNOWLEDGE AND EXPERTISE GLOBAL NETWORK

RIDER LEVETT BUCKNALL

Rider Levett Bucknall are independent property market and construction cost consultants with offices located globally.

FORECAST 63

Prepared by the New Zealand Institute of Economic Research (Inc.) exclusively for Rider Levett Bucknall, Forecast is produced quarterly and provides detailed local construction market intelligence and knowledge.

CONSTRUCTION MARKET INTELLIGENCE

Forecast is supplemented by Rider Levett Bucknall's bi-annual construction market intelligence publications: the Oceania Report, International Report and Gulf Reports.

KEY POINTS IN THIS ISSUE

- **Canterbury earthquake** The rebuild has begun but it is slow. It will begin in earnest from mid-2012. The benefit will accrue mainly to residential and infrastructure construction. Non-residential construction activity of around \$3 billion will be spread over a long period of time.
- **Building activity** Non-residential construction is slowing, as the boost from public sector and RWC related work fades. Private sector work is stable at a low level. Value of non-residential construction work fell by 7.3% in the September 2011 quarter from a year earlier.
- **Building consents** Non-residential consents have stabilised at a historically low level. The value of consents in the three months to October 2011 was 6.4% lower than a year ago.
- **Building investment** The volume of non-residential building construction work will slow by 17% in the March 2012 year and 13% in March 2013 year, before recovering by 12% in the March 2014 year.
- **Building confidence** Builders are optimistic that things will pick up from the current low levels. Building investment intentions are very strong in Canterbury but depressed in the rest of the country.
- **Building costs** Non-residential building costs are beginning to rise gradually. After falling through 2007 and 2009, costs have risen modestly in the first nine months of 2011, to be up 0.8% from a year earlier. Costs will remain contained over the next year, but recover thereafter as the Canterbury rebuild soaks up spare capacity and the rest of the economy begins to recover.



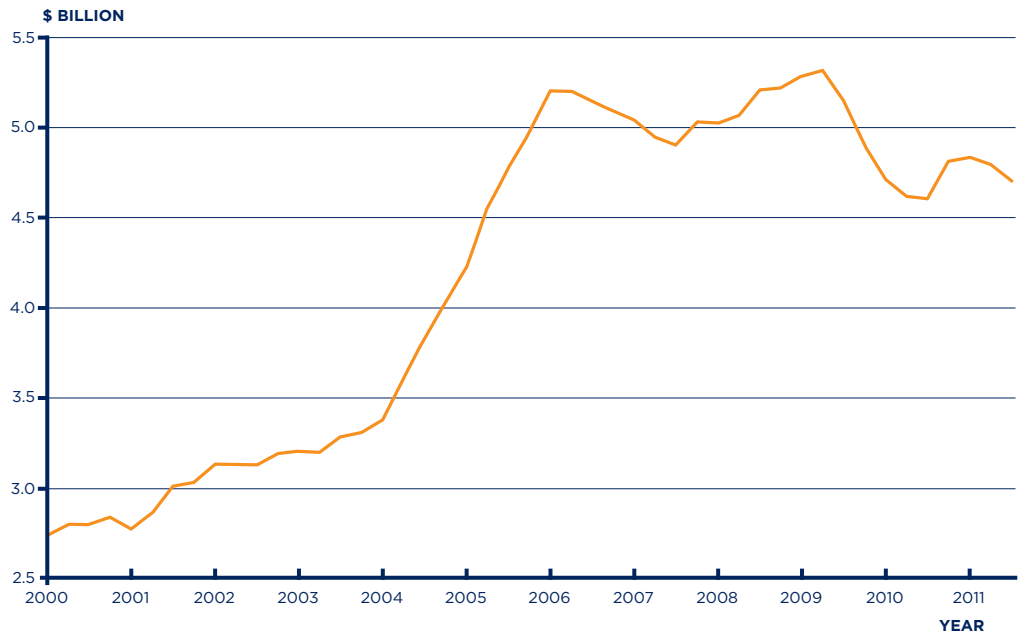
Intelligence

Rider Levett Bucknall's Smartphone app.

Download direct from your app store. Available on iPhone, Android, Windows Phone7 and Blackberry Operating Systems.

FIGURE 1

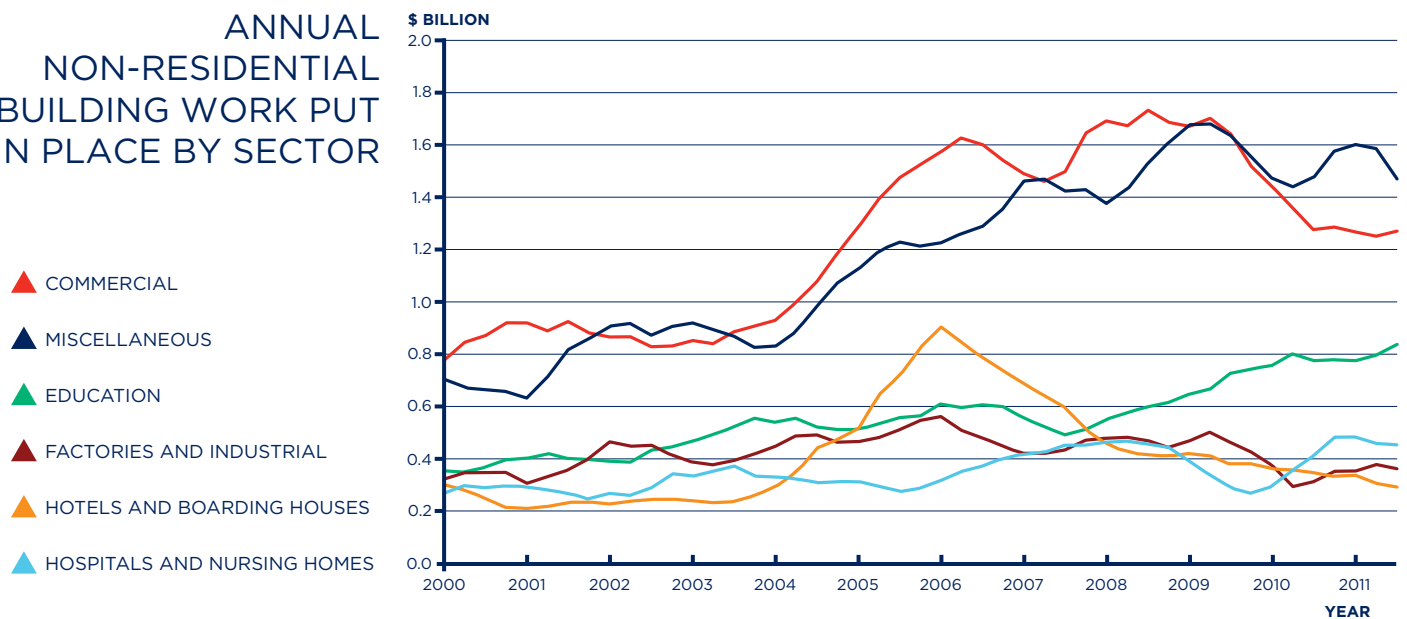
ANNUAL
NON-RESIDENTIAL
BUILDING WORK
PUT IN PLACE



Source: Statistics New Zealand

FIGURE 2

ANNUAL
NON-RESIDENTIAL
BUILDING WORK PUT
IN PLACE BY SECTOR



Source: Statistics New Zealand

BUILDING
ACTIVITY TRENDS

Non-residential building construction work is slowing (Figure 1). The value of non-residential building work fell by 7.3% in the September 2011 quarter from a year ago. The decline in activity was driven by work on miscellaneous buildings, factories and industrial buildings, and hotels and boarding houses. Construction work worth \$4.7 billion took place in the year to September 2011, up 2.2% from the previous year.

Residential building work continued to weaken. The value of work fell 18.1% in the September 2011 quarter from a year earlier, and fell 12.9% over the year ended September 2011. New building work remains depressed. Alterations and additions work had been resilient, but has slowed through the middle of 2011.

Non-residential construction performance over the year to September 2011 varied across sectors. Hotels and boarding houses declined 15%, following Rugby World Cup (RWC) related work in previous periods. Commercial buildings remained flat at a low level, reflecting subdued demand for space and high vacancy rates. Miscellaneous buildings¹ were flat, reflecting a post-RWC hangover. Public sector work remained strong, with health related work up 12% and education related work up 8%, but this is now fading. Industrial construction rose by 16% following a steep decline the previous year, but recent quarters have been soft.

¹ A category encompassing social, cultural, religious, recreational and farm buildings.



BUILDING
ACTIVITY OUTLOOK

ECONOMIC GROWTH AND BUILDING INVESTMENT

The global economic outlook is deteriorating rapidly. This will depress New Zealand's fledgling recovery. NZIER expects economic growth to average just 1.5% in 2012 and rebound to 2.9% in 2013. Slowing global growth is the key risk. Also, the Canterbury situation is worsening with deep and broad job losses and continued delays in reconstruction. Ongoing deleveraging is also slowing growth. The risks to the economic outlook are firmly to the downside, hinging critically on the path of the European debt crisis and its contagion to the rest of the world.

Non-residential construction activity is slowing. Public sector consents have slumped over the past year and private sector consents have flat-lined at a depressed level. RWC related work is now complete. Demand for new non-residential space is muted and funding is limited for speculative property development. The prognosis for the non-residential sector is very challenging for the next two years.

NZIER expects spending on non-residential buildings to slow. The volume of work will slow by 17% in the March 2012 year, 13% in March 2013 year, before recovering by 12% in the March 2014 year.

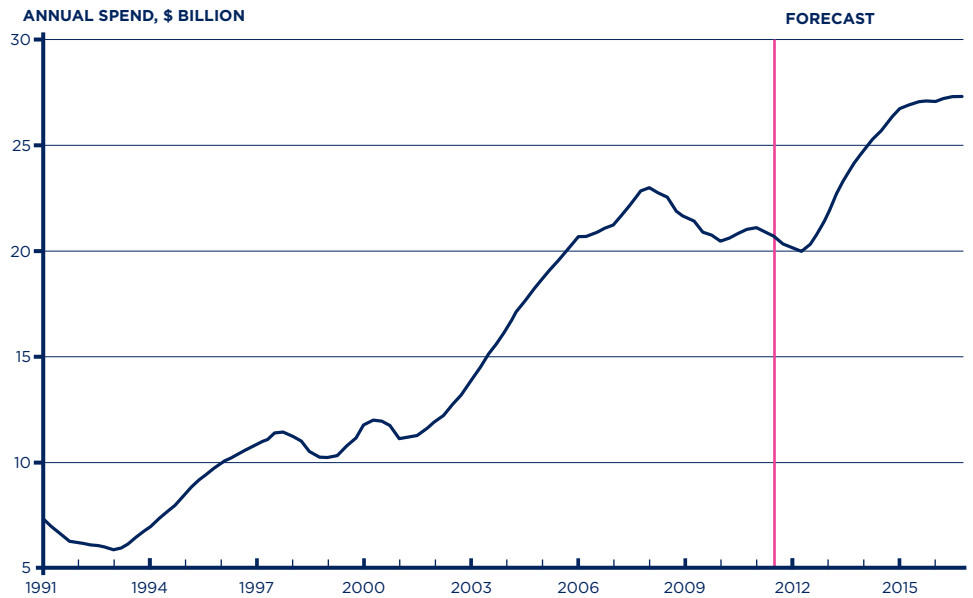
Canterbury reconstruction has been modest to date and is likely to be slow until there is greater clarity on insurance, building codes and the region's economic future. Significant reconstruction activity may not be apparent until mid-late 2012. The rebuilding programme in Canterbury is likely to be large for the residential sector, but smaller and spread over a decade for non-residential buildings. Total residential construction activity will be at least \$8b over the next 3-5 years. Significant resources (materials and labour) will be required in Canterbury and may raise construction sector inflation at the peak (around 2014).

Reconstruction of commercial buildings in Canterbury may take some time. There is approximately \$3b of work to be done, but it may be spread over a decade or more. The net impact on the sector is likely to be relatively small.



FIGURE 3

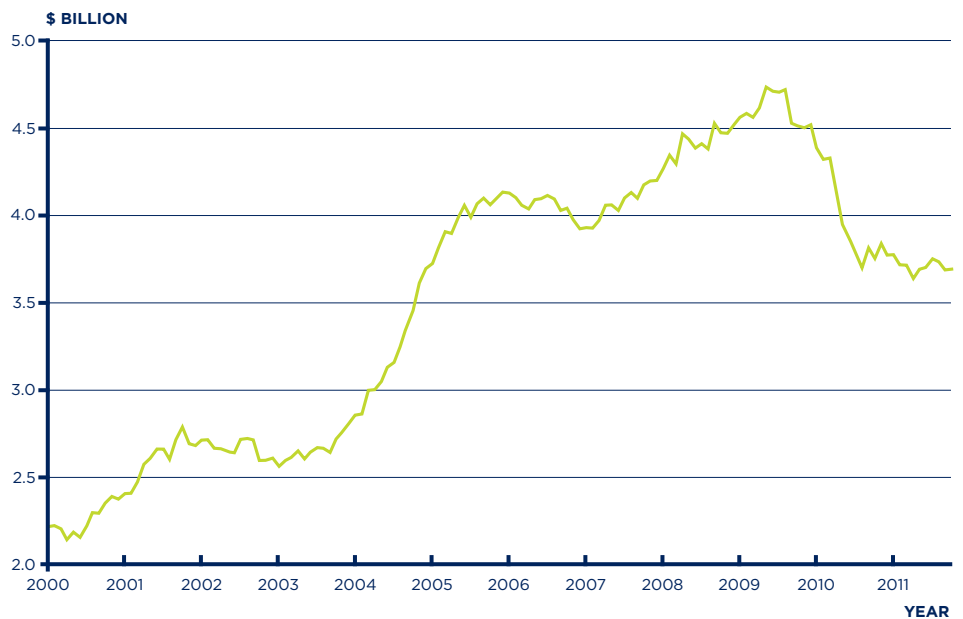
TOTAL CONSTRUCTION
ACTIVITY



Statistics New Zealand, NZIER forecast

FIGURE 4

ANNUAL
NON-RESIDENTIAL
BUILDING CONSENTS



Source: Statistics New Zealand

INTEREST RATES AND EXCHANGE RATES

Inflationary pressures have eased. After ramping up in early 2011, softening demand and increased price competition have reduced these pressures. There are emerging signs of accelerating inflation in home ownership and insurance, mainly off the back of the Canterbury earthquakes. These will not spill over to broader pricing pressures, because firms have little pricing power in the face of subdued demand. Inflation will be contained over the next 2 years.

The RBNZ left the Official Cash Rate (OCR) unchanged at 2.50% in December 2011. NZIER expects the RBNZ to raise interest rates from mid-2013, when economic growth and inflationary pressures eventually emerge. If the global situation continues to worsen, the RBNZ may have to cut interest rates.

The exchange rate continues to be volatile, reflecting big swings in global risk appetite. The outlook for the NZD is very uncertain. NZIER expects major currencies to depreciate, because of further quantitative easing (or increasing unsterilised money supply). This will push the NZD higher on average over the next year or so. Assuming some of the global economic perils fade, the NZD will gradually drift lower thereafter.

However, in a risk event, such as a European default, the NZD will fall sharply. In such events, capital flees to perceived safe havens, leading to a rapid depreciation in the peripheral currencies like the NZD.

BUILDING CONSENTS

Non-residential building consents by value have stabilised at the lowest level since 2005 (Figure 4). Non-residential consents typically translate into actual work done around a year later. Therefore building consents provide a leading indicator of future activity levels. Consents in the three months to October 2011 were 6% lower than a year ago. In annual terms, consents fell by 2% to \$3.7 billion over the year to October 2011.

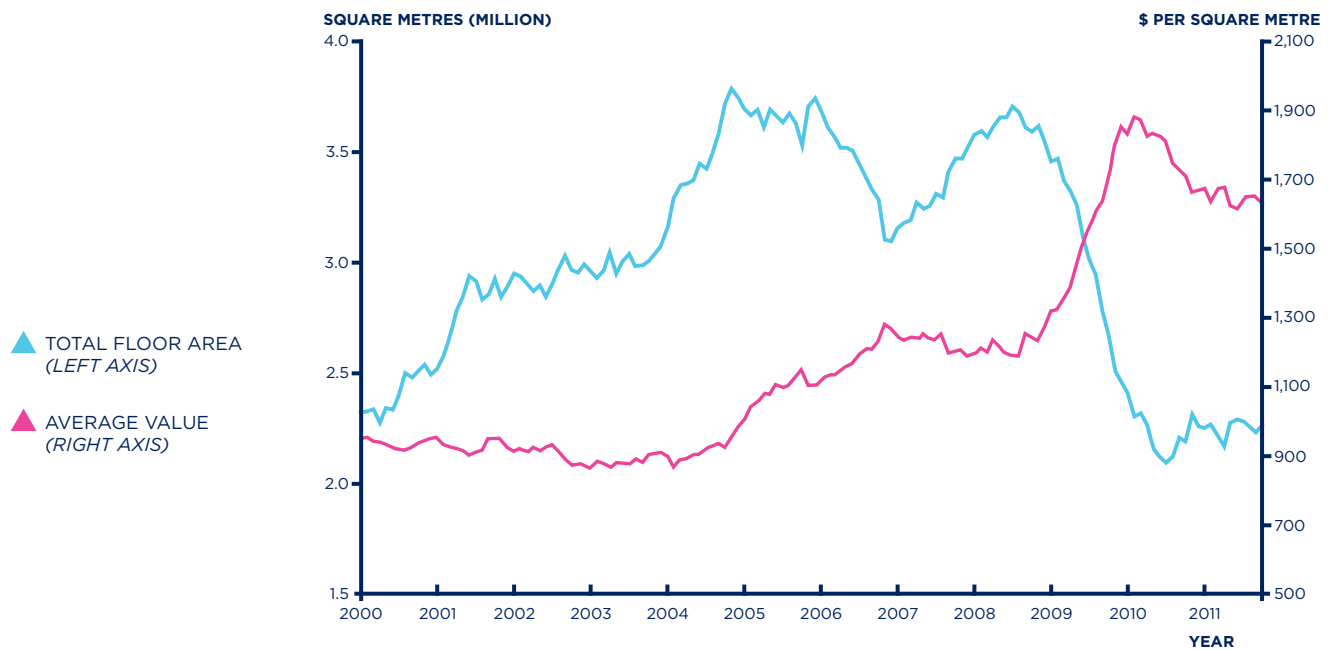
The floor area of non-residential building consents, which is a good indicator of volumes, has stabilised at the lowest since the early 1990s (Figure 5). The value of consents per square metre is stabilising, suggesting the deflationary pressures since early 2010 are easing.

The value of residential consents fell sharply (15%) in the year ending October 2011. There were 13,648 dwellings approved, with 1,248 apartments and 12,400 houses. The number of new residential consents is very low compared to history. Compared to population, the number of residential consents is at the lowest level since the 1930s Great Depression.

FIGURE 5

ANNUAL TOTAL FLOOR AREA AND AVERAGE VALUE OF CONSENTS

Floor area in millions of m2, left scale; Average \$ value per m2, right scale



Source: Statistics New Zealand

TABLE 1

VALUE OF CONSENTS BY SECTOR IN THE YEAR TO OCTOBER 2011

SECTOR	ANNUAL VALUE (\$ MILLION)	SHARE OF TOTAL (%)	ANNUAL CHANGE (%)
EDUCATION BUILDINGS	698	18.9	19.0
SHOPS, RESTAURANTS AND TAVERNS	589	15.9	12.4
OFFICES AND ADMINISTRATION BUILDINGS	525	14.2	-17.0
FACTORIES AND INDUSTRIAL BUILDINGS	465	12.6	21.4
HOSPITALS AND NURSING HOMES	370	10.0	-17.2
SOCIAL, CULTURAL AND RELIGIOUS BUILDINGS	341	9.2	-33.0
STORAGE BUILDINGS	251	6.8	-7.4
FARM BUILDINGS	191	5.2	12.4
HOTELS AND MOTELS	122	3.3	23.5
HOSTELS AND BOARDING HOUSES	76	2.1	-2.3
MISCELLANEOUS BUILDINGS	66	1.8	18.2
TOTAL	3,694	100	-1.6

Source: Statistics New Zealand



CONSENTS BY SECTOR

Non-residential building consents have stabilised at a low level (down just 1.6% over the year to October 2011), following a steep fall the previous year (-16.8%).

Many sectors are rebounding from low levels. Hotels and motels, factories and industrial buildings, education, miscellaneous building consents and shops, restaurants and taverns have surged, but remain at historically low levels. Other sectors are struggling. In particular, hospitals and nursing homes are slowing after very strong growth in recent years. Social, cultural and religious buildings have slowed sharply, following a RWC related surge peaking in early 2010. Storage and office buildings continue to weaken, reflecting a weak economy and thus little demand for new space.

CONSENTS BY REGION

Consent values are mixed across regions and by type of work (Figure 6). Only four regions have seen any meaningful increase in consents: Auckland, Taranaki, Wellington and Hawke's Bay. Canterbury consents for alterations and additions have risen, but were fully offset by a decline in consents for new buildings. Other regions fell.

In the regions experiencing growth there were some common themes: more work on hospitals and education buildings; and refurbishments of offices and RWC related facilities.

In Canterbury, alterations and additions have surged for retail, office and industrial buildings. New consents are improving for industrial buildings, but this was more than offset by falling consents in most other categories.

BUILDING INDUSTRY CONFIDENCE

Building sector confidence is improving. In NZIER's September 2011 Quarterly Survey of Business Opinion (QSBO) a net² 25% of construction firms believe conditions will improve (from a net 30% in June). The QSBO survey is dominated by the residential building sector.

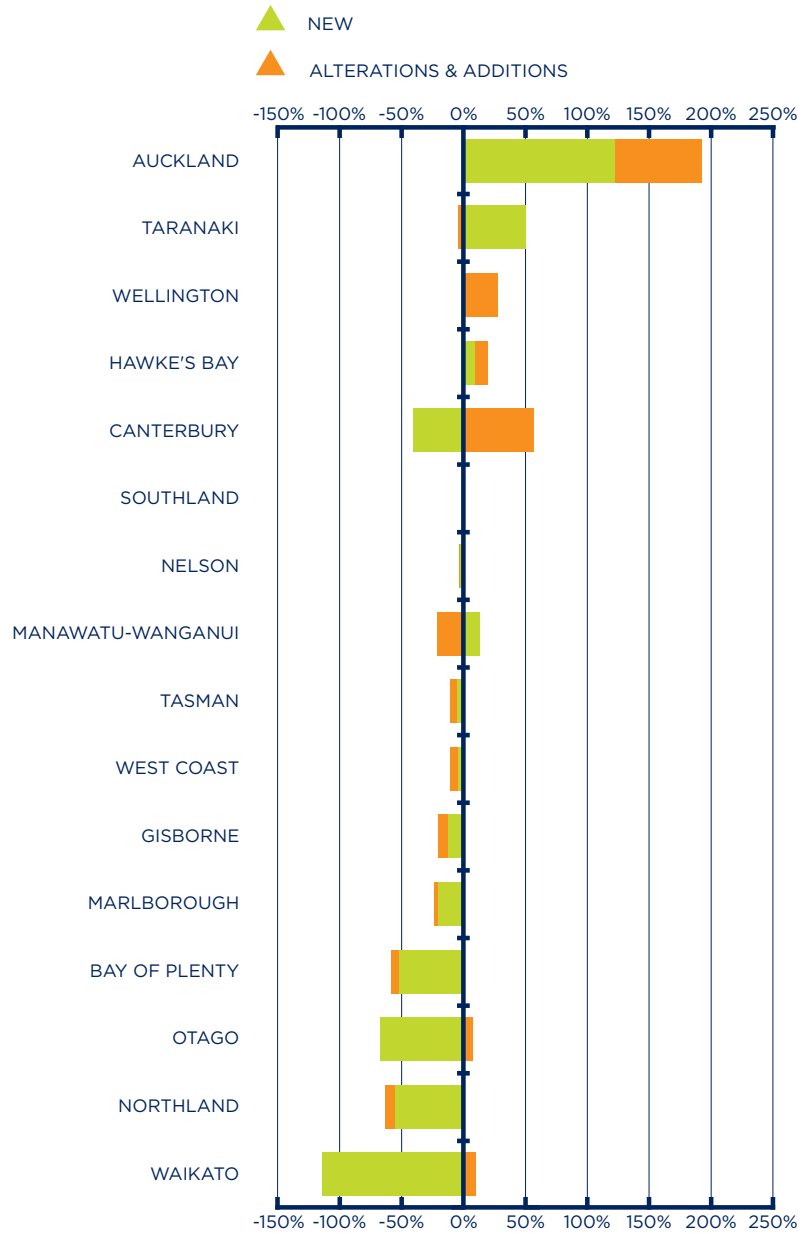
Construction output was flat in the September quarter, slowing from the June quarter (8% of firms reporting increases). New orders are also improving from a low level (-7% to +1% of firms). Building investment intentions have surged in Canterbury (+23% from -5% a year earlier). But the rest of the country remains depressed (-11% from -9% a year earlier).

² The percentage of firms reporting general business conditions to have improved minus the percentage reporting business conditions have declined, after accounting for firms that did not provide a response.

FIGURE 6

ANNUAL GROWTH IN
VALUE OF CONSENTS BY
REGION IN THE YEAR TO
OCTOBER 2011

AVERAGE ANNUAL PERCENTAGE CHANGE



Source: Statistics New Zealand

BUILDING COSTS

The Capital Goods Price Index for Non-Residential Buildings (CGPI-NRB) provides an official measure of cost movements in the sector. The CGPI-NRB excludes GST. The rate of increase in the CGPI-NRB can be used as an indicator of cost escalation. Note that this is a national average across all regions and building types. We therefore advise caution in applying the increase in the CGPI-NRB as an indicator of cost escalation for specific building projects. The Rider Levett Bucknall December 2011 Oceania Report provides local regional comment and tender price relativity between the main New Zealand and Australian centres. This publication is available at www.rlb.com or on request from any Rider Levett Bucknall office.

According to the CGPI-NRB, average building costs in the non-residential building sector are starting to rise after stabilising over 2010. The CGPI-NRB increased by 0.4% in the September 2011 quarter and was up 0.8% over the year.

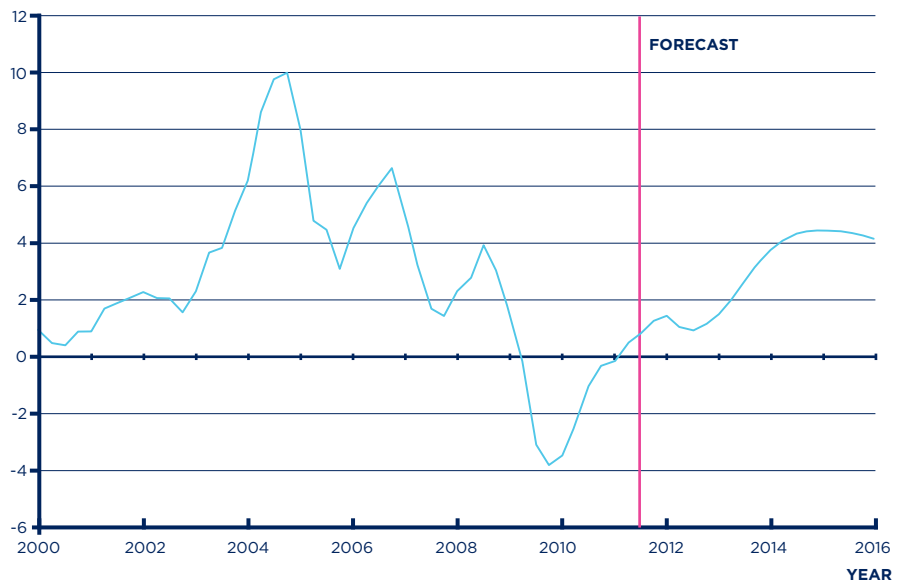
NZIER's latest forecast of the annual percentage change in the CGPI-NRB is shown in Figure 7 and Table 2. Building costs will remain moderate over 2012, but gradually rise thereafter in line with recovering activity in the sector, which will be supplemented by Canterbury reconstruction. These construction cost forecasts are based on the assumption of a 10 year Canterbury rebuild.

There is emerging evidence of building inflationary pressures in civil construction, which has been the major area of work in Canterbury so far. Labour costs are also beginning to rise from their low, although remain modest to date. As the Canterbury rebuild ramps up, this may push up construction cost inflation. However, this will depend on how quickly the work happens and the state of demand elsewhere in the country.



FIGURE 7
NON-RESIDENTIAL
BUILDING COST
ESCALATION

ANNUAL PERCENTAGE CHANGE IN
THE CGPI-NRB



Source: Statistics New Zealand, NZIER forecast

TABLE 2
NON-RESIDENTIAL
BUILDING COST INDEX

Notes: The current and forecast CGPI-NRB is a national average, which does not differentiate between regions or building types. We therefore advise caution in applying the increase in the CGPI-NRB as a measure of cost escalation for specific building projects.

* These forecasts are based on an assumption of a 10 year rebuild.

YEAR	QUARTER	INDEX	QUARTERLY CHANGE (%)	ANNUAL CHANGE (%)
2008	MARCH	1363	1.0	2.3
	JUNE	1371	0.6	2.8
	SEPT	1393	1.6	4.0
	DEC	1390	-0.2	3.0
2009	MARCH	1384	-0.4	1.5
	JUNE	1369	-1.1	-0.1
	SEPT	1350	-1.4	-3.1
	DEC	1337	-1.0	-3.8
2010	MARCH	1336	-0.1	-3.5
	JUNE	1336	0.0	-2.4
	SEPT	1336	0.0	-1.0
	DEC	1333	-0.2	-0.3
2011	MARCH	1334	0.1	-0.1
	JUNE	1342	0.6	0.4
	SEPT	1347	0.4	0.8
FORECAST*				
2012	DEC	1350	0.2	1.3
	MARCH	1353	0.2	1.4
	JUNE	1356	0.2	1.0
	SEPT	1360	0.3	0.9
2013	DEC	1365	0.4	1.1
	MARCH	1373	0.6	1.5
	JUNE	1384	0.8	2.1
	SEPT	1396	0.9	2.7
2014	DEC	1410	1.0	3.3
	MARCH	1425	1.1	3.8
	JUNE	1441	1.1	4.1
	SEPT	1457	1.1	4.3
2015	DEC	1473	1.1	4.4
	MARCH	1489	1.1	4.4
	JUNE	1505	1.1	4.4
	SEPT	1521	1.0	4.4
2016	DEC	1536	1.0	4.3
	MARCH	1551	1.0	4.1

Source: Statistics New Zealand, NZIER forecast



**For further information please contact Grant Watkins +64 4 384 9198
or your nearest Rider Levett Bucknall office.**

0508 ASK RLB (NZ)

NEW ZEALAND

Auckland	+64 9 309 1074
Christchurch	+64 3 354 6873
Otago	+64 3 409 0325
Palmerston North	+64 6 357 0326
Tauranga	+64 7 579 5873
Wellington	+64 4 384 9198

www.rlb.com

