



THIRD QUARTER 2025

# FORECAST REPORT 113

NEW ZEALAND TRENDS IN  
PROPERTY AND CONSTRUCTION

# OFFICES AROUND THE WORLD

## AFRICA

### Botswana

Gaborone

### Mauritius

Saint Pierre

### Mozambique

Maputo

### South Africa

Cape Town

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### North Asia

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Chengdu

Chongqing

Dalian

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Belgium

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Poland

Portugal

Spain

Sweden

Turkey

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Muscat

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Doha

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Riyadh

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Abu Dhabi

Dubai

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Brisbane

Cairns

Canberra

Coffs Harbour

Darwin

Gold Coast

Melbourne

Newcastle

Perth

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Christchurch

Dunedin

Hamilton

Palmerston North

Queenstown

Tauranga

Wellington

Acute Mental Health Unit, Palmerston North

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# CONFIDENCE TODAY INSPIRES TOMORROW

## RIDER LEVETT BUCKNALL

With a network that covers the globe and a heritage spanning over two centuries, Rider Levett Bucknall (RLB) is a leading independent organisation in cost management and quantity surveying, and advisory services.

Our achievements are renowned: from the early days of pioneering quantity surveying, to landmark projects such as the Sydney Opera House, HSBC Headquarters Building in Hong Kong, the 2012 London Olympic Games and CityCenter in Las Vegas.

We continue this successful legacy with our dedication to the value, quality and sustainability of the built environment. Our innovative thinking, global reach, and flawless execution push the boundaries. Taking ambitious projects from an idea to reality.

## FORECAST 113

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 construction market intelligence publication, the Oceania Market Intelligence Update and other country specific reports providing timely snapshots of market conditions and construction cost movements around the world, via commentaries from Rider Levett Bucknall directors in key locations.

## KEY POINTS IN THIS ISSUE

The long-term outlook for the construction industry remains positive, although construction demand is still weak despite lower interest rates. The latest NZIER *Quarterly Survey of Business Opinion* (QSBO) shows optimism amongst building sector firms continues to fade in the June quarter.

### Disappointing recovery in construction demand

Building Work Put in Place showed construction activity fell in the June quarter, with the increase in the previous quarter proving to be short-lived. There was a decline in both residential and non-residential construction over the quarter. Recent building indicators also suggest a weak pipeline of construction for the coming year.

### Confidence in the building sector waning

The continued disappointing recovery in construction saw confidence in the building sector fade further in the June quarter. The NZIER QSBO shows that only a net 3 percent of building sector firms expect an improvement in the general economic outlook.

### Continued weak demand is putting downward pressure on pricing power

Weak construction demand is putting downward pressure on prices in the building sector, at a time when cost pressures are intensifying. These developments are driving a further deterioration in profitability in the building sector.

### Outlook

Despite the soft construction outlook for the coming year, we continue to see a positive outlook over the longer term. The Reserve Bank of New Zealand (RBNZ) has cut the Official Cash Rate (OCR) at a rapid pace since August 2024, but the full impact of lower interest rates has been slow to flow through the New Zealand economy so far. With the RBNZ indicating at the August Monetary Policy Statement that it was likely to cut the OCR further in the upcoming October and November meetings, we expect lower interest rates to support stronger construction demand over the longer term.

# BUILDING ACTIVITY TRENDS

Stats NZ's *Building work* put in place showed a decline in construction activity in the June 2025 quarter. This follows a small lift in construction activity in the previous quarter, but the recovery has proved short-lived. Stats NZ estimates that residential construction declined by 2.9 percent while non-residential construction fell by 0.4 percent over the June quarter.

A breakdown of building work put in place by value across the regions suggests the weakness is concentrated in Auckland, Waikato and Canterbury. Meanwhile, concrete sales by region show the weakness in broader construction activity across the main centres.

Construction demand looks to be slow in responding to the sharp decline in interest rates over the past year.

When assessing the near-term indicators for construction demand, continued caution among businesses, given heightened uncertainty, appears to be weighing on private sector non-residential construction demand. In particular, demand for commercial construction has softened.

In contrast, higher global commodity prices are supporting a lift in construction demand for industrial buildings. This is particularly evident in Canterbury, as the increase in global dairy prices encourages on-farm investment.

Meanwhile, dwelling consent issuance suggests continued weak residential construction demand in the near term. The annual number of dwelling consents issued at just over 33,800 for the year to July is just below levels a year ago. This weakness largely reflects weaker demand for retirement villages and medium-density housing such as townhouses and flats. In contrast, there is an emerging recovery in demand for standalone houses and apartments.

The continued weak demand for residential construction is surprising given how much the RBNZ has cut the OCR since August 2024. Caution in the household sector has weighed on the recovery in housing demand despite lower interest rates. This has meant that house prices have been broadly flat over the past year. Weak house price growth has discouraged new residential investment, as developers need to feel confident that they will get a return on their investment before undertaking the construction of dwellings.

Across the regions, there are tentative signs of a recovery in residential construction demand in Auckland, with annual dwelling consent issuance in the region edging above 14,000 for the year to July. Dwelling consent issuance also increased in Otago, but declined in most other regions over the past year.

Housing demand in Auckland and Otago tends to be more sensitive to interest rate changes, given the relatively large proportion of property investors in these regions. We expect the recovery in housing demand will broaden across New Zealand, and with it support a lift in residential construction from next year. The Government's introduction of the Residential Development Unit (RDU)<sup>1</sup> in underwriting certain housing developments to provide certainty for financing should also support a recovery in residential construction.

For now, the continued slow recovery in construction demand has led to a further decline in building sector confidence. The June NZIER QSBO showed that only a net 3 percent of building sector firms expect an improvement in general economic conditions over the next few months. This is well below the net 29 percent who felt optimistic in the December 2024 quarter as the RBNZ embarked on its monetary policy easing cycle.

Building sector firms reported a decline in new orders and output in the June quarter, and the weak demand is reducing pricing power in the sector. A net 35 percent of building sector firms cut prices in the June quarter, despite a net 59 percent of firms reporting costs increased over the quarter. This divergence between intensifying cost pressures and downward pressure on prices is driving a further deterioration in profitability in the construction sector.

1 <https://www.hud.govt.nz/our-work/residential-development-underwrite>

# BUILDING ACTIVITY OUTLOOK

Although recent developments indicate continued weakness in the near-term outlook for construction, the longer-term outlook remains positive, given the continued decline in interest rates. We forecast that lower interest rates will support a recovery in construction demand from 2026.

When it comes to capacity in the construction sector, the signs are mixed, as reflected in the contrast between the continued easing in residential and non-residential construction cost inflation versus civil construction cost inflation remaining elevated.

When it comes to labour supply in the building sector, firms in the latest NZIER QSBO report a divergence between the difficulty in finding skilled labour and the ease in finding unskilled labour. This contrasts with the broader New Zealand labour market, where firms generally report that it is easier to find both skilled and unskilled workers. These developments suggest that while the reopening of international borders in 2022 increased the supply of unskilled workers in the construction sector, the more specialised construction roles remain hard to fill.

Te Waihanga, the New Zealand Infrastructure Commission, reported in its *Pipeline snapshot*<sup>2</sup> for the June 2025 quarter that infrastructure projects totalled \$237.1 billion in value for the June 2025 quarter. Of this, approximately \$158.4 billion is under planning, \$15.2 billion is in procurement, and \$52.8 billion is under construction.

Compared to the March 2025 quarter, there is an additional \$23.6 billion in projects currently under planning, \$1.6 billion in procurement projects and an increase of \$6.1 billion in projects under construction.

The Pipeline snapshot shows that transport and water infrastructure continue to be the key drivers of infrastructure investment, with transport projects totalling \$148.4 billion. Meanwhile, the value of water infrastructure planned for the coming years totalled \$32.1 billion.

Te Waihanga, in June, released a draft of its National Infrastructure Plan to provide guidance on a sustainable investment path for infrastructure, offering more certainty for the construction sector.<sup>3</sup> The Rider Levett Bucknall Infrastructure Report for September contains further detail on the outlook for infrastructure construction.

## ECONOMIC BACKDROP

The Stats NZ release of June 2025 GDP showed a 0.9 percent decline in New Zealand's economic activity for the quarter. The result was much weaker than expected, and following on from the 0.9 percent increase in economic activity in the previous quarter suggests the recovery in the New Zealand economy has stalled.

The decline was broad-based across the sectors, with manufacturing and construction being the two largest contributors to this decline in GDP in the June quarter. Despite the sharp cuts to the Official Cash Rate (OCR) by the Reserve Bank of New Zealand (RBNZ) since August 2024, the full impact of the interest rate declines has been slow to be reflected in an improvement in demand.

Nonetheless, the latest NZIER QSBO shows an improvement in business confidence. A net 27 percent of firms expected better economic conditions in the coming months, with retailers feeling particularly upbeat about the general economic outlook. This optimism among retailers likely reflects expectations that, as many households reprice their mortgages at lower rates, this should support stronger discretionary spending. The recent Stats NZ data showing a 0.5 percent increase in retail sales volumes in the June quarter suggests that this recovery in retail spending is starting to take shape.

The mood was positive despite a net 23 percent of firms reporting that activity in their own business declined in the June quarter. This divergence between optimism about the general economic outlook ahead and current weak demand was pervasive across the sectors surveyed.

<sup>2</sup> Pipeline snapshot | Te Waihanga

<sup>3</sup> <https://tewaihanga.govt.nz/national-infrastructure-plan>

<sup>4</sup> <https://budget.govt.nz/budget/2025/at-a-glance/investment-boost.htm>

The lack of sales remains the dominant concern for firms, with 68 percent of firms surveyed in the NZIER QSBO reporting this as the primary constraint on their business in the June quarter. This remains in stark contrast to the 6 percent of firms that report finding labour as the primary constraint on their business. These developments highlight the continued capacity in the New Zealand economy because of weak demand.

## **INTEREST AND EXCHANGE RATES**

The RBNZ surprised markets by indicating at its August Monetary Policy Statement that further OCR cuts were likely in this cycle. This was a surprising shift in stance, given that prior communications had indicated the likely trough in the OCR for this cycle was 3 percent.

From August 2024 to August 2025, the RBNZ reduced the OCR from 5.5 percent to 3 percent. However, the full impact of this rapid pace of monetary policy easing has been slow to translate into a recovery in demand. Part of this reflects the fact that over 85 percent of mortgages in New Zealand are on fixed-term mortgage rates (with around half of this fixed for over six months). This substantial proportion of New Zealand mortgages on fixed-term rates means there will be a lag through which changes in the OCR flow into the broader New Zealand economy.

This is in contrast with economies such as Australia, where the majority of mortgages are on floating rates. This means that any changes the Reserve Bank of Australia (RBA) makes to its cash

rate have a much quicker impact on the Australian economy, as most mortgage borrowers experience the change through their floating mortgage rate.

Continued weak demand in the New Zealand economy has heightened concerns for the RBNZ that inflation will fall below its 1-3 percent inflation target band. Although sharp increases in food prices in recent quarters will likely drive annual CPI inflation to the top of the inflation target band later this year, we expect the spike to be short-lived as excess capacity drives underlying inflation pressures lower.

Beyond the near-term spike in annual CPI inflation, the RBNZ has indicated that it will likely undertake two further 25 basis point OCR cuts in the October and November meetings if economic developments evolve in line with its forecasts. The central bank highlighted its concern that continued excess capacity will lead to persistently low inflation in the New Zealand economy. Given these clear indications from the RBNZ, we forecast an OCR trough of 2.5 percent for this cycle. The release of weaker than expected June quarter GDP has increased speculation that the RBNZ will cut the OCR below 2.5 percent in order to provide more stimulus to the New Zealand economy.

The US Federal Reserve cut its policy rate by 25 basis points to a target range of 4 to 4.25 percent, its first policy rate cut since last December. Its communications suggest two further interest rate cuts this year, given signs of a weakening US labour market. The US central bank faces a tough balancing act of rising unemployment and inflation in the US economy. Concerns about the US growth outlook are supporting

the NZD/USD despite the decline in the interest rate outlook in New Zealand. We forecast the NZD/USD to track around 60 cents over the coming year, driven by growing expectations of further monetary policy easing by the US Federal Reserve.

## **BUILDING INVESTMENT**

Firms remain cautious when it comes to investment plans despite feeling more upbeat. Firms are starting to feel more positive about investment plans, particularly when it comes to investment in plant and machinery. A net 8 percent of firms expect to increase their investment in plant and machinery over the coming year. The increase in investment plans likely reflects the impact of the announcement by the Government in Budget 2025 of its Investment Boost scheme, which allows firms to deduct 20 percent of a new asset's value from that year's taxable income, on top of normal depreciation.<sup>4</sup>

There is more caution when it comes to investment in buildings, with a net 1 percent of firms reporting they expect to reduce this type of investment over the coming year.

## **BUILDING CONSENTS**

Non-residential consent issuance picked up slightly for the year to July 2025, with demand mixed across the sectors.

### **Building consents by sector**

Non-residential construction demand remained subdued over the past year, but there were variances around the sectors. Construction demand for healthcare facilities fell sharply over the past year, reflecting declines across many regions, including Auckland.



Construction demand for social buildings was also weaker over the past year, largely reflecting softness in Canterbury and Wellington. We expect a recovery in construction demand in these sectors over the longer term, given the ageing New Zealand population.

With overseas visitor numbers yet to return to pre-COVID levels, demand for the construction of new hotels remained weak over the past year. Heightened global uncertainty will likely weigh on the recovery in international tourism over the coming year, and in turn, demand for new hotels.

However, weak demand in these sectors has been offset by stronger construction demand for hostels (and other high-density accommodation), office space and industrial buildings.

The increase in construction demand for hostels over the past year has been strongest in Auckland and Canterbury, reflecting where population growth has been concentrated.

Meanwhile, there has been an increase in demand for new office space and renovated space. Demand for office construction over the past year has been strongest in Auckland and Wellington. With many workplaces considering or putting in place Return to Office policies, we expect demand for office space to continue to rise over the coming years.

Although construction demand for industrial buildings fell in Auckland over the past year, this was more than offset by stronger demand in Canterbury, and to a smaller degree, Wellington. Higher global commodity prices have supported the recovery in on-farm investment, and we expect this will remain a key support over the coming year. However, heightened uncertainty over the global growth outlook, given US tariff policies, is a key downside risk to continued investment in industrial buildings.

#### **Building consents by region**

The divergence in non-residential construction demand across the regions reflects the two-speed nature of the New Zealand economy. Continued strength in global commodity prices is supporting stronger construction demand in primary production-intensive regions, such as Canterbury and Hawke's Bay. There was also a moderately broad-based increase in construction demand in Wellington.

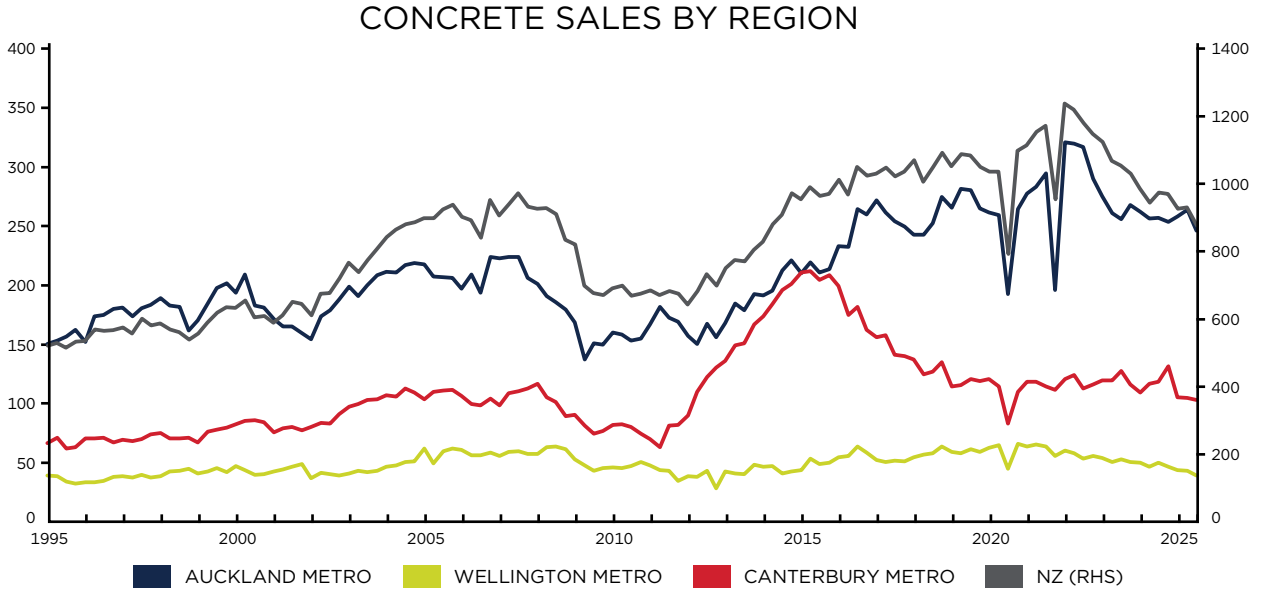
In contrast, non-residential construction demand fell sharply in Auckland and Otago. In Auckland, this decline was particularly evident in healthcare facilities, as well as industrial and storage buildings. Meanwhile, the reduction in non-residential construction demand in Otago was also broad-based across most sectors in the region.

As demand in Auckland and Otago tends to be more sensitive to interest rate changes, given the predominance of property investors in these regions, weakness over the past year is likely to reflect the hangover effects of higher interest rates. We expect the full impact of the OCR cuts since August 2024 will support a recovery in non-residential construction in these regions over the coming years.

**FIGURE 1**

**Decline in construction activity across the main centres**

Quarterly cubic metres s.a., 000s

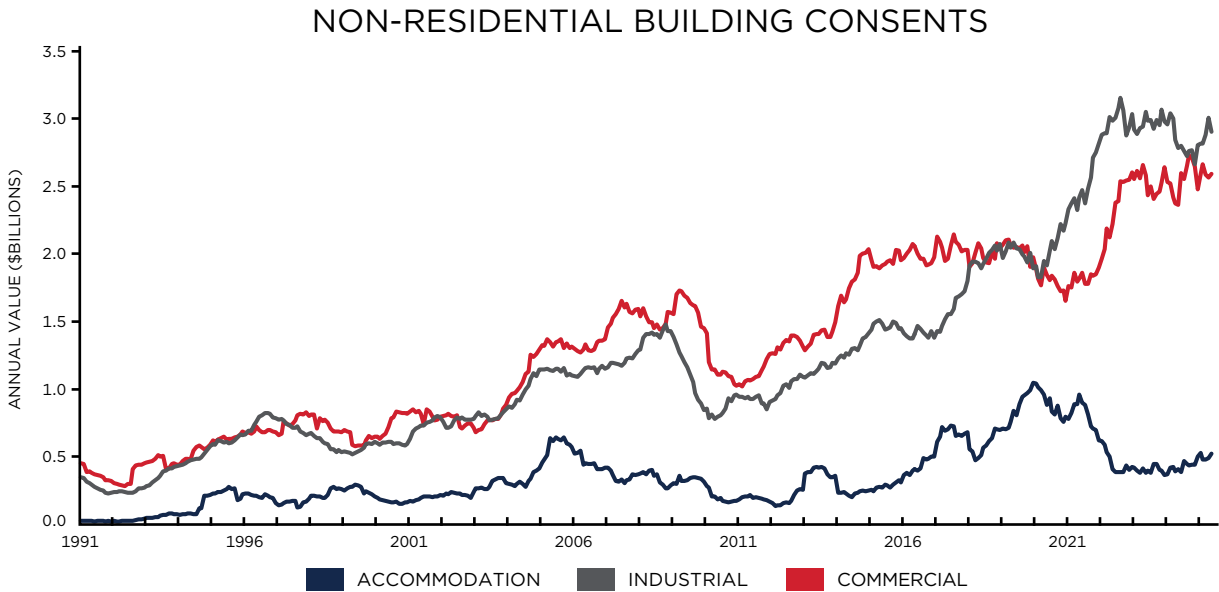


Source: Stats NZ

**FIGURE 2**

**Higher global commodity prices have supported stronger construction demand for industrial buildings**

Annual values, \$ billions

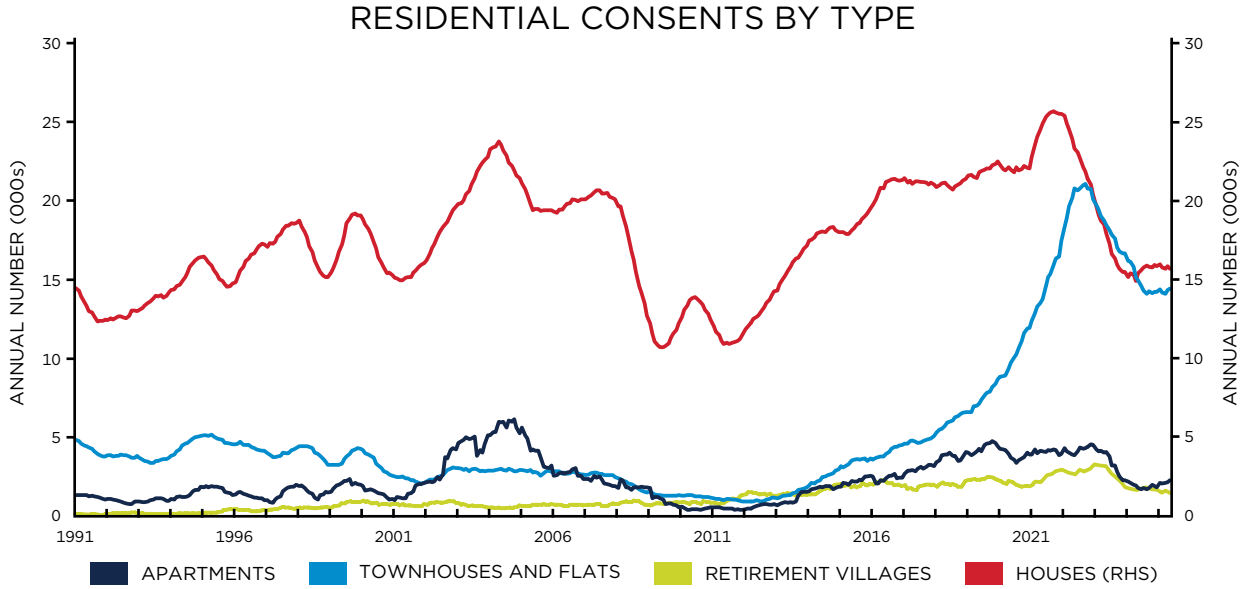


Source: Stats NZ

**FIGURE 3**

**Continued weakness in residential construction demand**

Annual number, thousands

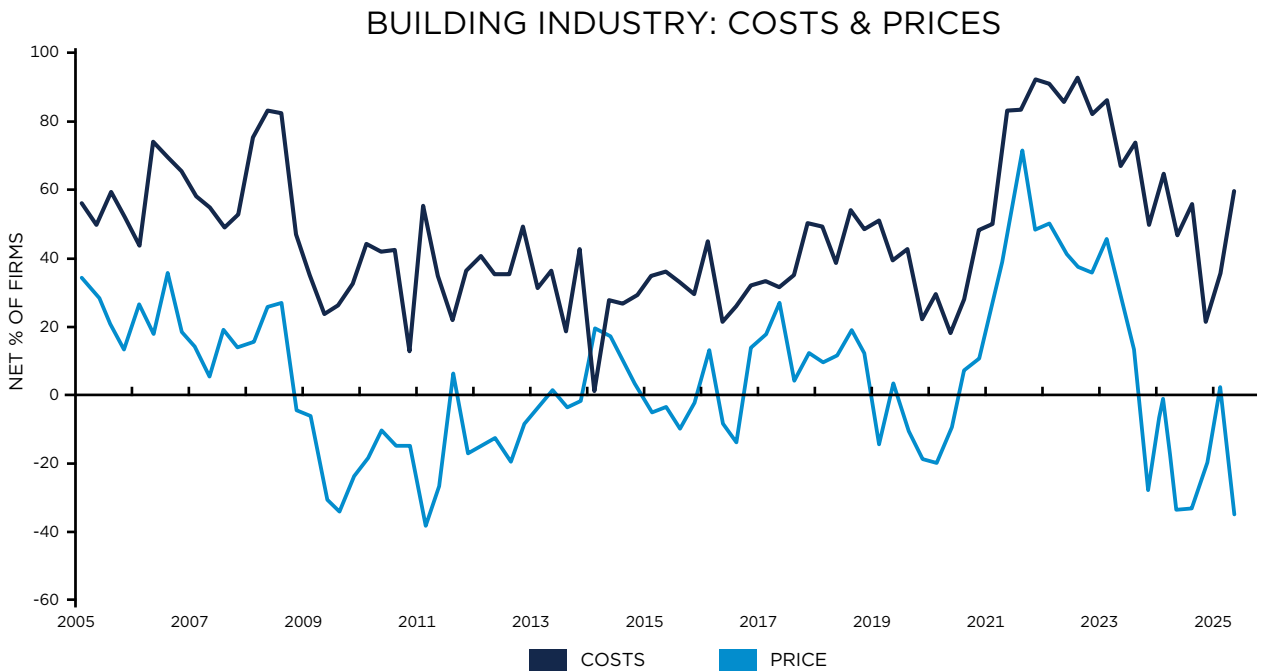


Source: Stats NZ

**FIGURE 4**

**Weak construction demand is putting downward pressure on pricing power**

Net % of firms



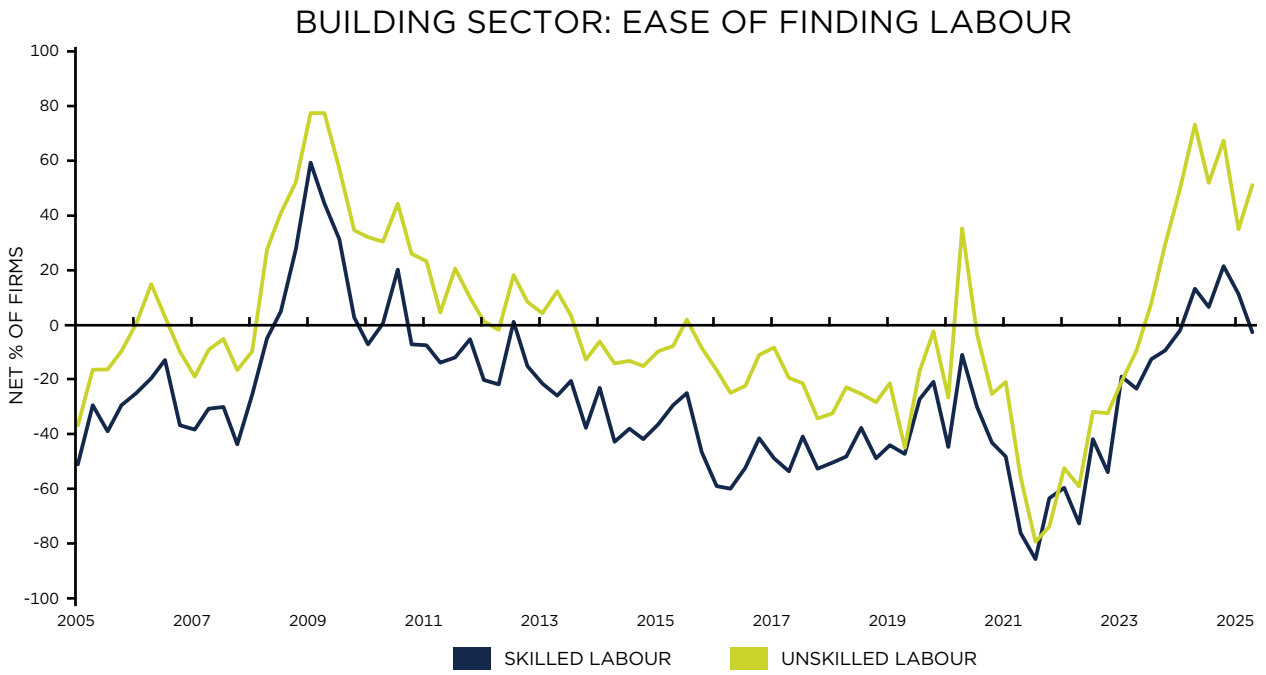
Source: NZIER



**FIGURE 5**

**Building sector firms report difficulty in finding skilled workers**

Net % of firms

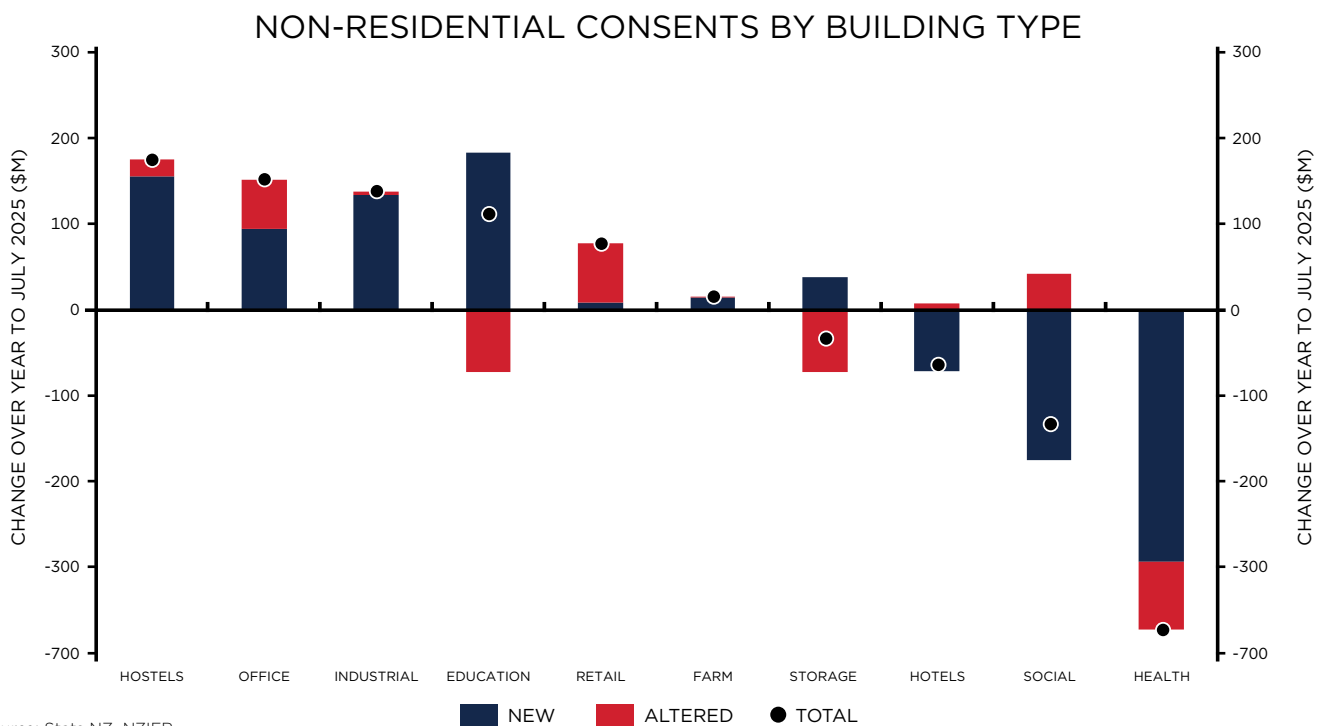


Source: NZIER

**FIGURE 6**

**Reduced demand for healthcare facilities continues to drive weakness in non-residential construction**

Change over year to July 2025, \$ million



Source: Stats NZ, NZIER

**TABLE 1**

**Non-residential building consents by region and sector**

\$m of consents for the year ending July 2025; red colour shading for a decline in consents from the previous year

REGION	SECTOR									
	HOSTELS, PRISONS ETC	ACCOMODATION	HEALTH	EDUCATION	SOCIAL, CULTURAL, RELIGIOUS	RETAIL	OFFICE	STORAGE	INDUSTRIAL	FARM
NORTHLAND	0.4	2.4	27.0	42.0	15.7	21.2	14.5	35.4	30.9	14.0
AUCKLAND	146.4	44.3	237.9	482.9	154.3	271.7	867.4	566.4	359.0	26.3
WAIKATO	10.2	33.3	41.4	116.9	90.4	71.3	55.5	103.1	127.6	55.8
BAY OF PLENTY	5.2	8.0	31.0	69.6	97.9	67.1	45.0	50.8	67.0	11.3
GISBORNE	0.4	0.1	0.9	16.0	10.0	4.0	4.3	2.7	6.2	1.9
HAWKE'S BAY	7.2	9.4	23.3	46.9	42.8	37.8	74.8	46.7	30.6	10.0
TARANAKI	0.0	4.9	0.2	22.2	33.4	12.3	17.8	4.6	19.9	14.2
MANAWATŪ-WHANGANUI	4.9	10.4	8.0	21.2	7.3	29.7	83.7	111.2	13.6	15.5
WELLINGTON	11.3	5.1	177.7	113.4	82.5	76.9	397.6	36.0	229.0	10.4
NELSON	0.0	2.9	1.6	8.4	1.4	37.1	8.7	22.2	11.3	0.3
TASMAN	1.8	0.1	1.4	3.5	8.6	34.3	3.0	7.3	15.1	2.2
MARLBOROUGH	1.3	0.6	18.9	8.4	3.3	10.0	4.1	9.3	7.5	2.2
WEST COAST	1.6	2.3	0.3	2.1	15.7	2.0	9.5	3.0	1.3	3.2
CANTERBURY	73.7	68.0	200.0	198.0	155.9	138.6	90.1	328.4	281.0	51.2
OTAGO	2.5	52.8	178.1	38.5	55.5	48.3	36.8	12.9	34.6	15.8
SOUTHLAND	0.6	7.8	0.7	26.7	49.4	12.1	6.9	11.1	53.1	30.1

Source: Statistics NZ, NZIER

# BUILDING COSTS

The Capital Goods Price Index for Non-Residential Buildings (CGPI-NRB) is an official measure of cost movements in the sector. The CGPI-NRB excludes GST, and we use it as an indicator of cost escalation.

The CGPI-NRB is a national average across all building types. Therefore, we advise caution when applying the increase in the CGPI-NRB as an indicator of cost escalation for specific projects.

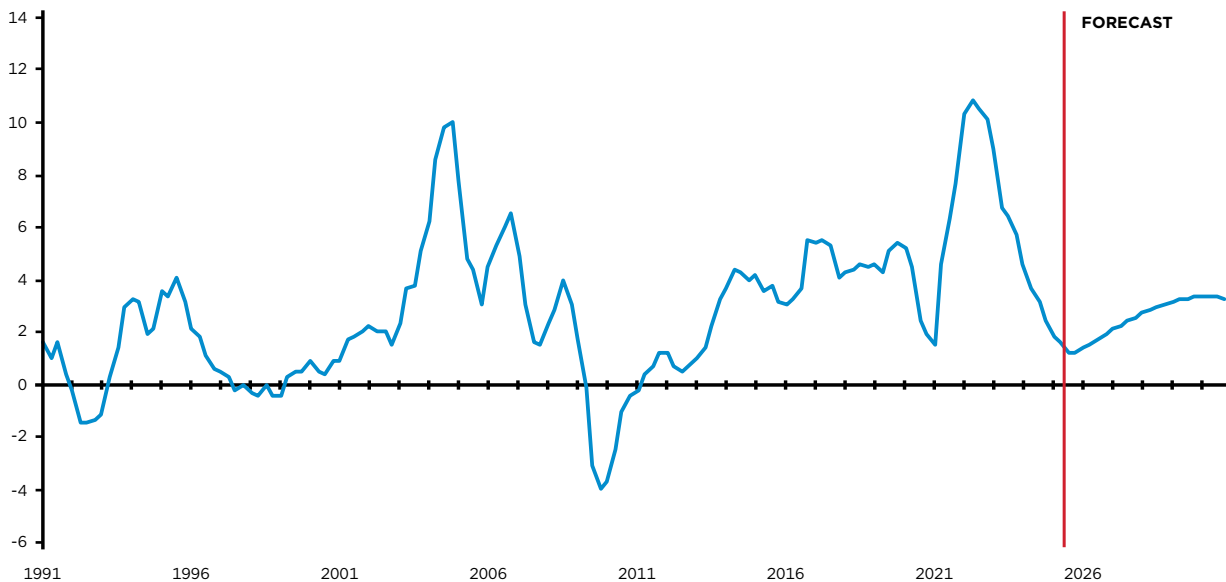
Non-residential construction cost inflation eased further in June 2025, with the 0.4 percent increase over the quarter bringing the annual inflation rate in non-residential construction costs to 1.6 percent. This continued decline in non-residential construction cost inflation to historically low levels suggests spare capacity remains in the construction sector. Building sector firms report that weak construction demand is reducing their pricing power, despite intensified cost pressures.

We forecast that non-residential construction cost inflation will ease further over the coming year, given the weak pricing power in the sector. We forecast that annual non-residential construction cost inflation will ease to around 1.2 percent by the end of this year. Beyond that, we expect the recovery in construction demand to reduce spare capacity in the construction sector and support a modest lift in construction cost inflation from 2026.

**FIGURE 7**

## Non-residential building cost inflation

CGPI-NRB, annual % change



Source: Statistics NZ, NZIER forecasts

**TABLE 2****Non-residential building cost index<sup>5</sup>**

YEAR	QUARTER	INDEX	QUARTERLY % CHANGE	ANNUAL % CHANGE
2022	MARCH	951	2.8	10.3
	JUNE	985	3.6	10.9
	SEPTEMBER	1000	1.5	10.5
	DECEMBER	1018	1.8	10.1
2023	MARCH	1037	1.9	9.0
	JUNE	1052	1.4	6.8
	SEPTEMBER	1065	1.2	6.5
	DECEMBER	1076	1.0	5.7
2024	MARCH	1085	0.8	4.6
	JUNE	1091	0.6	3.7
	SEPTEMBER	1099	0.7	3.2
	DECEMBER	1103	0.4	2.5
2025	MARCH	1105	0.2	1.8
	JUNE	1109	0.4	1.6
	SEPTEMBER	1113	0.3	1.3
	DECEMBER	1116	0.3	1.2
2026	MARCH	1121	0.4	1.4
	JUNE	1126	0.5	1.5
	SEPTEMBER	1132	0.5	1.7
	DECEMBER	1138	0.5	2.0
2027	MARCH	1145	0.6	2.1
	JUNE	1152	0.6	2.3
	SEPTEMBER	1160	0.7	2.4
	DECEMBER	1168	0.7	2.6
2028	MARCH	1176	0.7	2.7
	JUNE	1185	0.8	2.9
	SEPTEMBER	1194	0.8	3.0
	DECEMBER	1204	0.8	3.1
2029	MARCH	1214	0.8	3.2
	JUNE	1224	0.8	3.3
	SEPTEMBER	1234	0.8	3.3
	DECEMBER	1244	0.8	3.3
2030	MARCH	1254	0.8	3.4
	JUNE	1265	0.8	3.4
	SEPTEMBER	1275	0.8	3.3
	DECEMBER	1284	0.7	3.2

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.

Source: Statistics NZ, NZIER forecasts

<sup>5</sup> Stats NZ has reweighted and rebased the CGPI in the December 2022 quarter. The update includes structural changes to better align with the national accounts. As a result, there have been historical revisions to CGPI levels. This does not affect the percentage changes each quarter. Further detail on these historical revisions can be found at: <https://www.stats.govt.nz/methods/price-index-methods-updates-for-the-december-2022-quarter/>

# RIDER LEVETT BUCKNALL OFFICES

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

## New Zealand

Auckland	+64 9 309 1074
Christchurch	+64 3 354 6873
Dunedin	+64 3 409 0325
Hamilton	+64 7 839 1306
Palmerston North	+64 6 357 0326
Queenstown	+64 3 409 0325
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