Registered Master Builders Association of New Zealand Incorporated

Submission

on the Commerce Commission Residential Building Supplies Market Study

February 2022

The Registered Master Builders Association submission on the Commerce Commission Residential Building Supplies Market Study

The Registered Master Builders Association (*RMBA*) welcomes the opportunity to provide this submission on the Commerce Commission Residential Building Supplies Market Study.

About RMBA

The RMBA represents over 3,000 commercial and residential builders and are the leading sector advocates on the built environment. Our sector is a key contributor to the New Zealand economy, with every $1 million spent on house building supporting $2.6 million across the wider economy.

We are working hard to lead the change our sector needs. Ensuring we have the regulatory systems and processes, which will enable us to build faster and better. We are supporting our members to grow their capability and business acumen to ensure a strong and healthy sector; to innovate and make the most of new technologies so we meet the climate change challenge; and to attract, train and retain skilled talent. We are proud to be New Zealand's best builders.

At Master Builders we are committed to transforming the sector and rebuilding our economy. We are focused on building better homes, communities and workplaces, and ultimately better lives for all New Zealanders. We are building a better New Zealand.

Summary of the Commerce Commission Residential Building Supplies Market Study

The Minister of Commerce and Consumer Affairs (the Minister) has determined that the Commerce Commission (the Commission) carry out a study under Part 3A of the Commerce Act 1986 (Act) into any factors that may affect competition for the supply or acquisition of key building supplies used to build the major components of residential buildings (key building supplies).

Matters to be considered in the study may include, but are not restricted to:

1. The industry structure for key building supplies covered by this study.

2. The nature of competition for these key building supplies, including any industry pricing practices or acquisition requirements that impact on competition.

3. Impediments to the entry or expansion of new or innovative building supplies, such as 'green' building supplies or novel prefabricated products.

For the purposes of this study, major components of residential buildings are the foundation, flooring, roof, walls (structural interior and exterior and insulation).

Building materials make up a significant proportion of the cost of building new housing and renovations or extensions to existing housing. It is therefore important that competition is working well in the markets for key building supplies. If competition is working well, this will benefit consumers through the prices they pay for key building supplies, the quality and range of supplies available, and the level of innovation within the industry

This study provides an opportunity to consider whether competition in the supply or acquisition of key building supplies could work better for the benefit of New Zealand consumers over the long term. This includes considering how competition is operating at all levels of the supply chain and how that might change going forward.

RMBA's position on the Commerce Commission Residential Building Supplies Market Study

Overarching view

RMBA welcomes the Commerce Commission inquiry into residential building supplies. Market competition in all industries is important and we want to encourage properly functioning market forces in the building industry. This will ensure our builders have the best access and price to the building supplies they need to complete their projects, and the best opportunity for our customers to pay the best price for the best result.

We do, however, question the timing of this inquiry, and if any results will be compromised by the impact of the current global pandemic on international and domestic markets. RMBA wants to be sure that any recommendations made from the inquiry and consequences of it do not impact our industry in the long term in order to solve short term issues. Sustainability of our industry is vital, and this needs to be considered in all potential changes that are made.

A few of our comments on recurring themes are as follows:

International Markets

Approximately 70% of all products are imported or require some component of imported product, showing the heavy reliance the construction industry has on overseas markets. These markets are outside New Zealand's jurisdiction and influence. Cost of importation is a major component of supply cost, and with freight costs approximately three time what they were prior to COVID-19, these costs are inevitably being passed onto merchants, and ultimately consumers. The price increase of getting supplies to New Zealand shores is a combination of lack of shipping containers, shipments coming to New Zealand and processing space available at ports. Due to our location in the Pacific and our small population compared to other markets, we are simply not as attractive to ship to compared with larger markets.

With international markets predicted to be unstable throughout 2022, prices are expected to be high and increasingly so, however we cannot determine how long this will continue for. The current uncertainties in the international market could be a blip or could last as a mid term issue. The Commerce Commission inquiry needs to be aware of this and not over reach into markets it cannot control, whilst also understanding the influential role these markets have on what is happening to building supply prices onshore.

Innovation vs Regulation:

Innovation is vital to keeping our industry improving. If we can build better, then this will create homes which New Zealanders can live in for longer, and make homes more desirable for New Zealanders to be proud to live in. Innovation is influenced by consumer desires, legislation, regulation, and private market forces. The ability for our industry to access trustworthy and new building supplies is a crucial part of generating innovation in building.

The Building Code requires homes to last at least 50 years. Homes currently built are estimated by BRANZ to have an average lifetime of 120 years. To achieve these high standards, builders rely on trustworthy and proven products that deliver. The trust in products is earned over time, through testing results, familiarity with products and real world results. This can make it hard for new products to enter the market, as they need to be proven against current established products to work well and meet regulation requirements. Onus of proof is often on the builder, and they need to reduce risk and liability where they can if a product fails. As builders are often the first point of call when a project does go wrong, builders need assurity that the products they are using will work and not have potential to damage their reputation and business financially.

Legislation certainly has a role in guiding building product supply and use. An example of this is the recent changes to H1, requiring higher amounts of insulation to be used to make new homes have better energy efficiency. RMBA supports changes to our Building Code which increases the quality of our homes; however, it was estimated that such a law change would increase the cost of a build by 10-15%. This cost is passed onto the consumer.

We are aware and have communicated to our members that MBIE is drawing up guidance around building supply substitutions as building supplies commonly used are becoming critically low and halting some projects from progressing. MBIE has involved in both determining regulation such as the Building Code, and so we expect involvement from government in assisting where they can to resolve product availability which is in part impacted by decisions they have made.

The Climate Change Response (Zero Carbon) Amendment Act 2019 will likely impact the use of materials into the future, as we work towards a carbon neutral industry. Timber use will likely increase in significance, as it is the main building supply the industry currently uses which is carbon neutral. There is certainly space for innovative products to enter and impact this, however they will have to meet building standards, and consumers will need to be comfortable with the risks associated with using new and lesser proven products. We are seeing solar panels and other environmentally friendly products used in new builds and renovations.

Consistency around New Zealand in terms of how regulations are enforced is a big issue our members are struggling with. This has only gotten worse through the global pandemic. The responsibility of interpretation and enforcement of the Building Act lies with BCA’s, and each BCA can determine how they do this. This has caused inconsistency in the regions as to what building products are acceptable and unacceptable. Builders are often finding that a technique and product used in one part of the country is not compliant in another, further influencing building supply usage and pricing across the motu.

Scope :

It is a significant omission to exclude plumbing, drainage and electrical products from this study. Building products do make up a portion of a build cost, however it should be compared with the cost of supplies for plumbing and electrical products required in a home. RMBA understands that extending the scope of the study would make the study a larger undertaking, however the cost of a building project for the consumer includes all trades and supplies required for that build, not just the builder's portion. Therefore, for the consumer to truly benefit from this study, it does need to include all industries involved in the building process. There is only so much insight and benefit a study into building supplies solely will have on consumers. We are aware that the cost of all supplies has increased and are facing pressures, and therefore all should be subject to equal scrutiny. The merchant model is also similar across all industries, and so it would be unfair to require changes to one part of the construction process and exclude other areas. RMBA is of the view that the scope should be extended to ensure comparisons across similar markets are taken into consideration and recommendations made apply across all parts of the build.

Labour Shortage:

Current labour shortages are an essential and significant impacting the cost of building, however this issue is not considered in the inquiry. As unemployment is very low, and skilled labour is hard to come by, costs for employing staff are increasing. For manufacturers, the cost of staff is built into the cost of the supplies. This is passed on through the supply chain, increasing the cost consumers are seeing. The cost of securing a team to complete the work present in a company is becoming a financial challenge that could be further impacting the cost of building supplies.

Answers to specific questions asked in the Preliminary Issues paper are below

Questions on the importance of building supplies to New Zealanders

<u>The following questions relate to paragraphs 35-39 in the Preliminary Issues paper.</u>

<u>Q1 What impact is the current level of competition in the building supplies industry having on New Zealand businesses and the general public?</u>

Competition in the building supplies industry makes up only a small portion of the overall cost of a home. New Zealand relies heavily on importing materials, and in addition to the rising cost of land, are the main issues when it comes to affordable housing. New Zealand also suffers from low population and low density of population, especially in the regions, making the market less attractive for new companies to enter. The environment for investment in the industry needs to be improved for further competition to be established in New Zealand.

<u>Q2 How important is it for us to consider building supplies for renovations separately from building supplies used for new builds?</u>

Materials used for renovations tend to be the same as those used for new builds. Renovations will use less products and less variety of products, but the products themselves are the same for all types of construction. Therefore, there would not be much benefit in considering the supplies used for new builds and renovations separately.

<u>Q3 Are there any aspects of the building supplies industry which have a particular impact on Māori?</u>

We have no further comments to make on this question.

Questions on the supply chain for residential building supplies in New Zealand

The following questions relate to paragraphs 40-47 in the Preliminary Issues paper.

Q4 How does our high-level summary of the supply chain fit with your understanding?

> a. Are there any other key steps in the supply chain we should consider? If so, please explain how these steps fit into the supply chain.

We have no further comments to make on this question.

> b. Are there building supplies relevant to this study that have different supply chain structures? If so, please describe these building supplies and how the supply chain differs?

We have no further comments to make on this question.

Q5 How does our characterisation of the key participants and the other key stakeholders in the residential building materials supply chain fit with your understanding?

a. Are there any other key participants or stakeholders that play a major role in the industry? If so, please explain the role of these participants or stakeholders.

We have no further comments to make on this question.

Q6 Is the structure of the supply chain changing or evolving? If so, please explain how and over what time horizon this is likely to occur?

We have no further comments to make on this question.

Questions of the scope of "key building supplies" to be considered in the study

The following questions relate to paragraphs 48-59 in the Preliminary Issues paper.

Q7 Do you agree or disagree with our preliminary view on the "key building supplies" in scope for this study, as described in paragraphs 49-52 and Table 1? Please explain your reasoning.

RMBA agrees with the list of key building supplies in scope for this study. These materials are the ones most used by our members and used by all residential construction in both new builds and renovations. The in-scope materials are also some of the most vital, in terms of stability of the structure and what the consumer identifies as main components of a home. These are materials that have recognition on the professional side of the industry but is also recognisable to consumers.

Q8 If we focus on a narrower selection of building supplies to assess certain issues, are the factors set out in paragraph 55.1-55.5 appropriate to guide our focus? Are there any other factors we should also consider?

We have no further comments to make on this question.

Q9 Which key building supplies do you think should be assessed in greater detail, or otherwise prioritised? Please explain your reasoning.

RMBA believes that greater detail should be focused on products where supply chain issues, particularly since the emergence of COVID has had the greatest impact on residential construction being completed. What we are hearing from our members, is the lack of supply is one of the greatest barriers, particularly when combined with price. These issues of supply and price fuel each other, as market forces determine that items in short supply with high demand require a higher price point. Builders are paying price increases on supplies across the board to the meet deadlines on building projects. Examples of building products that are in short supply are plasterboard and timber. We have heard of members pausing work for long periods of time on projects due to not being able to source these materials. This causes delay for consumers, who are also paying the additional cost due to price increases being passed on.

Q10 How will key building supplies evolve in the future? Will different materials become more important?

Climate Change and the need for New Zealand to respond to it will be the strongest force in determining key building supplies in the future. The use of timber specifically will likely only increase, as wood continues to be carbon neutral and renewable. Timber framing is already common; however, timber will likely be used in more areas of building due to the industry's familiarity with it, making it an easier choice compared with newer emerging environmentally friendly materials.

Insulation will likely have a transition in its use and demand, again due to legislation changes. Changes to H1 practices in the Building Code came into effect in November 2021, changing the way insulation is installed in homes throughout the country, particularly in the central plateau and the South Island, where the annual temperature range is more volatile. The total impact of these changes is yet to be seen; however, the consumption of insulation will increase as homes are built to retain heat better than before. We are aware that the changes in H1 regulations is projected to increase the cost of building by 10-15% due to the increased used of insulation and window glazing options.

Questions on the unique characteristics of building in New Zealand

The following questions relate to paragraphs 60-63 in the Preliminary Issues paper.

Q11 Are the characteristics set out above an accurate reflection of residential building in New Zealand? Please explain your reasoning.

RMBA agrees with the characteristics of the current residential building market. New Zealand is in a unique position with regard to building challenges, due to the need to have homes which can withstand earthquakes, temperature ranges, wind and other events.

Our global location also has an impact, especially in importing product, due to materials being used in other parts of the world not being readily available in the Pacific.

Any new products in the market also need time to gain traction and acceptance in the industry. One of the main reasons for this relates to warranty, risk and liability which are often passed from one party to another, making the first port of call for any consumer issues the builder. To mitigate this risk the builders, tend to rely on the suppliers and materials they know have tenure and whose products tend to have a track record of acceptance. This has become an issue, especially recently with building supply chain constraints as some brands have become hard to source, but the product may be available from different brands and merchants which haven't been affected.

Q12 Are there any other characteristics of residential building in New Zealand which are important for us to understand?

We have no further comments to make on this question.

Question on the demand and supply chain pressures on residential construction

The following questions relate to paragraphs 64-73 in the Preliminary Issues paper.

Q13 Does our summary of the external pressures facing the residential construction industry accurately reflect the current situation? Please explain why/why not.

The summary is an accurate reflection of current external pressures in the construction industry. This includes availability due to international constraints and the ever-increasing cost of supplies that are available on shore. COVID has exacerbated these issues, with prices increasing over a quarter of 2021, equalling the annual increase of prices of 2019. Hence, why RMBA does question if this inquiry will be heavily compromised by the impact COVID has had on building supply availability.

Q14 To what extent are these external factors temporary or likely to continue in the long term?

COVID itself is expected to be a short-mid term issue for the industry, however the ambiguity lies in the potential fallout of COVID on international markets over the medium term, even after COVID no longer becomes a frontal issue. Merchants and manufacturers, particularly those involved with overseas markets, are changing the way they operate with product allocations into 2022 being based on 2021 volumes. We do know that product delays will continue into 2022 and the industry will naturally favour companies that have planned for higher volumes.

Q15 Would an increased use of technology, such as prefabricated housing, help to address some of the longer term pressures facing the industry? Please explain why/why not.

Prefabricated housing will help to address some of the pressures facing the industry. Housing is in high demand, and with population growth and homes being occupied by smaller household occupiers, this will not change. Prefabricated homes are able to deliver homes in a faster manner, and provide homes that are suitable for smaller households, such as couples. This will relieve some of the pressure for couples looking for a home but cannot afford to enter the market in its current state. This will relieve pressure on the market overall, which will have run on effects to housing prices and demand for certain materials used in the traditional building space.

However, modular building is not new to New Zealand, and has a history of struggling to find steady footing. Businesses have tried to experiment with modular building the in past who have now ceased trading, mainly due to a lack of scale and volume demand to sustain such businesses.

We welcome innovation that can relieve pressure from builders and improve the way our homes are built. Our industry is currently not easily able to innovate and try new techniques, as it is under time and labour constraints that make it difficult to test and try new ideas freely. If the industry can be alleviated of some of its pressures, then over time, this can allow for new, improved building techniques to take hold and become the standard.

Q16 Please describe any other examples of innovative technologies or approaches that could increase efficiency in the sector over the longer term.

The consenting process needs an overhaul. Consents are currently done by BCAs, however each BCA operates individually. We have heard from members about the lack of consistency in the consenting process. BCAs are often behind their expectation of reviewing consents, adding further to the delays for finished homes. A builder may not purchase a particular material until they have certain consents and approvals in place, which can cause further delays when the materials are not available once consents are given.

Technological innovation around the consent process, such as virtual inspections and approvals would make a difference to entire industry and make it more efficient over the long term.
The Artisan project, developed in partnership between BRANZ and Auckland Council is an example of improved technology which can be adopted to increase speed and consistency of regulation and compliance standards.

Q17 Please describe any other major external factors that are currently impacting (or have recently impacted) the New Zealand residential building industry that we should consider in this study and the time horizon over which they will impact the industry.

We have no further comments to make on this question.

Questions on the evolving regulatory framework around residential construction

The following questions relate to paragraphs 74 and 75 in the Preliminary Issues paper.

Q18 How might the regulatory changes described in paragraphs 74 and 75 affect the demand for or supply of certain types of residential building supplies?

Changes to the RMA to allow medium density housing in Tier 1 areas will see townhouses and apartments become more common. This is especially true in urban areas close to public transport with commuter lines to inner cities. Wellington City Council has released urban plans, showing that building up to six storeys will be easier to get consent for when next to a train station with a direct line into Wellington CBD. Multi unit buildings have been gaining traction over the last few years, with RMBA guarantees seeing multi units make up 40% of new Master Build Guarantees issued in the last year. This trend will likely continue, as consumers become comfortable with medium density housing. This trend will impact building supply chains, as materials such as concrete for structural walls and materials for elevators become further commonplace in new multi unit structures.

Climate Change legislation will also have big impacts in the types of building materials that are in high demand. Timber will become a valuable resource, as the industry is already familiar with it, and is carbon neutral.

Changes in legislation with the insulation becoming further commonplace will increase the use of insulation and the cost of a home. BRANZ research indicates that homes built post November 2022, will incur an average material cost increase in Zone 3 (mid range) on roof insulation of $2,600 on a single level build, increasing a further $7,000 - $9,000 with the inclusion of thermal broken windows and door products. The increase in the need of insulation is driven by making our homes have better energy efficiency, however there is a direct impact on the consumer financially from these changes.

Q19 Please describe any other major recent or ongoing regulatory changes that might affect demand for certain types of residential building supplies.

As mentioned above, changes to the Building Code and H1 regulations will shape the demand for insulation products. Insulation demand has now changed for most of the country, and projects will need to be designed and priced with higher use of insulation products in mind. Legislation changes to the Building Code will continue to shape demand for particular products to meet new requirements.

<u>Q20 Does the regulatory environment pose challenges to the introduction of prefabricated products? If so, please explain where you see the issues and whether these will be addressed by the latest regulatory reforms.</u>

RMBA is satisfied The Building (Building Products and Methods, Modular Components, and Other Matters) Amendment Act 2021 will address most of the concerns regarding prefabricated homes regulation.

<u>Questions on impact of climate change for building supplies</u>

<u>The following questions relate to paragraphs 76-82 in the Preliminary Issues paper.</u>

<u>Q21 What are the most important 'green' building supplies for us to focus on? Why are these important?</u>

Timber is already in high demand in New Zealand and has been impacted by price increases recently. As timber is a carbon friendly building resource, it can be easily concluded that timber will continue to have an important role in the building industry and is in a great position to have further significance in how we build our homes in the future. Timber is familiar and relied upon by many builders in the country, and so need special attention due to its value in the construction industry.

Insulation also needs to be focused on as it has recently had changes in regulation requirements and is increasingly becoming the main material used to combat energy efficiency and warmth in a home.

<u>Q22 Please describe any other ways in which building for climate change might drive change and innovation in the residential construction sector.</u>

Consumer demand is changing, and consumers are now asking for more environmentally friendly options. This includes better insulation options, options around window glazing and sustainability of products used. Innovation will be encouraged in the industry simply by the power of the consumer. Market forces will make the industry want to fill the gaps that consumers see a need for, and this will drive innovation to the benefit of our environment. Many environmentally products are already available in New Zealand, and so getting these products entrenched in our building processes will be down to warranty, reliability and ultimately consumer choice.

<u>Questions on our high-level approach for our market study into residential building supplies</u>

<u>The following questions relate to paragraphs 83-87 in the Preliminary Issues paper.</u>

<u>Q23 Do you have any comments on our proposed high-level approach to the study as discussed in paragraphs 83 to 87 above?</u>

We have no further comments to make on this question.

<u>Q24 Would international comparisons of key building supplies prices provide insights into the level of competition in the industry? Why/Why not?</u>

International comparisons certainly have a place in investigating the industry. Our industry is linked globally, especially as New Zealand does rely on international supply chains to get building supplies into the country. Therefore, it would be unhelpful to disregard the international market and the role international markets and international freight systems have on building supply prices. However, New Zealand is in a unique position as it with most international markets, due to small population and isolation. The cost of freight to New Zealand has increased dramatically, and due to the lower demand compared with other countries, and the additional cost of getting supplies across oceans, does make New Zealand less attractive to international companies compared with easier returns on investment that exists in other domestic markets. Any comparison made between New Zealand and international markets need to consider any variables that New Zealand may have that other nations do not experience.

Any international comparison would also need to look at differing building standards. For example, glazing standards in Australia does not match up to New Zealand's requirements and so would not be helpful to compare prices and practices of these products.

Q25 How should we assess the levels of innovation in the industry? Is there a way to measure this or benchmark internationally?

Innovation is available to New Zealand consumers, as most products are imported, and therefore new innovative products can be imported if required. This mainly comes down to consumer attitudes, such as budget and want to stray away from known products

Q26 Would assessing the margins of the manufacturers and/or merchant sales of key building supplies provide insights into the level of competition? Why/Why not?

We have no further comments to make on this question.

Q27 Are there other assessments that would provide better insights?

We have no further comments to make on this question.

Questions on concentration

The following questions relate to paragraphs 92-97 in the Preliminary Issues paper.

Q28 On what geographic basis (eg, local, regional, national) should we assess the concentration of key building supplies. Please explain your view.

The concentration of building supplies needs to focus on the ease of access between our cities and regional areas. Our cities, especially Auckland, do have high demand and high residential building activity, however this can create an opportunity for materials to be concentrated in Auckland, making it harder for those in regions to access the supplies they need. We have heard from members in our regions, such as Taranaki, where the lack of building supplies has meant workers are sent home and projects are paused. Building supply issues are also of concern in Auckland, however the flow on effect can be greater for those in regions where demand is also high.

Q29 Are there any key building supplies which stand out as having a limited choice of suppliers? If so, please explain which building supplies.

Whilst plasterboard is dominant under one brand, there is no shortage of channels to purchase the product from, if availability exists. Therefore, while the purchase channels are numerous, the manufacturing is condensed to a limited number of suppliers. Efficiency of manufacturing is also highly regarded by builders, and so efficiency of production and availability is of significance. Pressed Metal Tiles (PMT) are limited however there is alternative roofing options. However, the availability of PMT is a great example of competition and price indicators that can exist in the market. There were only two suppliers of PMT in NZ (which made up about 20-25% of NZ roofing requirements). However, once they had merged into one entity ownership, the prices of these products have increased by 28%.

Q30 What are the barriers to importers of key building supplies competing effectively with domestic manufacturers?

Trust and reliability in the market for new players in the market is the most significant barrier when trying to enter the market and compete with domestic manufacturers. If a new company enters the market, and then at some stage leaves again due to not being able to get back their investment, this can heavily disrupt the industry. Builders would have to find new products and potentially retrain apprentices on replacement products which can slow productivity down. There is also the ongoing issue once a company does leave the market of product warranty's and how to claim these when the manufacturer and distributer no longer exist. As a result, many builders are nervous of new companies entering the market, as there is a chance that in taking the risk to use them fully, there could be consequences for their own business later down the line. Obviously, this factor makes it less attractive for importers to enter in the first place, creating a cycle of little change in options available.

Q31 Are there building supplies you are aware of that are not available in New Zealand, but you think would benefit New Zealanders? Please describe these supplies and benefits.

We have no further comments to make on this question.

Q32 How do economies of scale in the supply chain for key building supplies impact the number of suppliers?

We have no further comments to make on this question.

Q33 What are the main barriers to new providers of key building supplies establishing domestic manufacturing in New Zealand?

The main barrier is getting products accepted in the market due to the need for builders to have assurity that products will match up to warranty and quality standards. If this can be surpassed, then new providers will have a good chance of establishing presence in the market longer term. However, as New Zealand is a small and low population nation, the other barrier is the client base required to sustain a business where it can still make profit with lower volume requirements.

Q34 Are customers, (for example, merchants when purchasing from wholesalers, or builders when purchasing from merchants) able to constrain their suppliers due to their own size or negotiating position? Please explain why/why not?

Most builders work across multiple channels to ensure secure supply of materials. This is common practice for many builders. Some merchants have been able to dictate terms to suppliers, especially when they enter the market. This can have benefits to consumers through improved competition. An example of this is the takeover of Benchmark Group NZ by Bunnings in the early 2000s.

Questions on vertical integration

The following questions relate to paragraphs 98-102 in the Preliminary Issues paper.

Q35 Does vertical integration act as a barrier to entry/expansion for independent rivals? Does this differ for different building supplies? Please explain your view.

Vertical integration is not a barrier when entering the New Zealand market. The barriers remain in lack of customer demand and running a business from smaller volume demands. Any company which is not reliant on greater volume requirements can enter the market and has an opportunity to succeed.

Q36 Is being vertically integrated necessary to compete effectively in this sector? Please explain your view.

Vertical integration is certainly not necessary to compete in the sector, however it does provide some certainty and stability for suppliers. However, these companies also participate as expected in the market as well. Carters sells not only their timber, but timber from competitors, such as Red Stag, Kiwi Lumber and South Pacific Pine. Therefore, they are not only focussing on increasing their own profits.

Q37 What are the benefits in this industry to being vertically integrated? Do consumers benefit from this?

Efficiency is the main benefit of vertical integration, whichimproves the building experience for consumers and builders alike. If product manufacture is efficient and well run, products will be cheaper and readily available. This will allow builders to easily hit construction deadlines, and for consumer delays to be limited. Consumers can also benefit financially, as an efficient manufacture and distribution of product does usually pass down a lower cost in the end.

Q38 Are there any other factors we should be aware of in considering the vertical integration of key building supplies?

It needs to be ensured that supply does extend beyond the vertical channel. This is evident currently as supply constraints are affecting all parts of the supply process and all manufacturers.

Questions on vertical arrangements

The following questions relate to paragraphs 105-113 in the Preliminary Issues paper.

Q39 What forms do supplier rebates and loyalty payments typically take in this industry? (eg, monetary, non-monetary, lump sum etc.) Does this vary by type of building supply? If so, please explain how.

Rebates and loyalty programmes in the construction industry are similar to those in other industries. These can be in the form of trips, dinners, and lower pricing arrangements due to volumes ordered and customer loyalty. This is evident in the Governments own tendering process where they look to drive pricing lower for large scale projects and ongoing supply or service agreements. It is no different to a major company buying a fleet of vehicles and expecting a discount or service arrangement due to the volume ordered and loyalty received.

Q40 Do rebates / loyalty payments usually relate to one product or category of product, or are they often applied across multiple products or product categories?

We have no further comments to make on this question.

Q41 Do rebates / loyalty payments inform or restrict a merchant's or builder's decision about which product(s) to acquire? If so, how significant is this consideration?

Product selection is generally down to that of the customer and the designer who work with a series of products, which provide an acceptable solution against the building code with a quantified risk. If a builder is loyal to a particular merchant, they can purchase any of the products that merchant stocks, so loyalty to a particular brand is not usually a concern. Risk, liability and warranty does play into a builder's choice as mentioned in previous comments; however, these are separate considerations from market competition.

If a customer is not satisfied with the products being used, they are able to specify which products they would like to be used. If a builder did decline this request (which is uncommon), competition across the market in terms of building companies is high, and so a customer would have options to change builder.

Q42 Is tying of products or product "systems" a prevalent practice? What levels of the supply chain are characterised by tying arrangements?

There are some suppliers which require certain ancillary products to be "tied" together, for example, some building wrap suppliers required use in conjunction with particular adhesive tapes. This is generally because the supplier carries the warranty risk, and if a product does fail, they want to ensure the products being used correctly and are compliant under the New Zealand Building Code.

Q43 Are exclusivity agreements prevalent? What levels of the supply chain are characterised by exclusivity agreements?

As far as we are aware, exclusive agreements are not prevalent. Most builders, whether large or small companies, use a variety of merchants for their supply requirements.
Most builders will have a preferred merchant and this decision is usually based on history, ability to supply and service, but most importantly their local relationship strength.
Builders buy based on supply, price, quality, and relationship.

Given supply issues these supply relationships are a little strained, so supply currently tends to be coming from locations where product is available.

Q44 Do the benefits of rebates and pricing pass through to end-consumers? Why/Why not?

Competition in the builders' space is currently strong, and so customers do have range in choice when choosing a builder. Builders that benefitting from rebates and pricing will be passing this onto the consumer so that they can compete effectively with other builders in the market.

Q45 Are there any other factors we should be aware of in considering the vertical arrangements of key building supplies?

We have no further comments to make on this question.

Questions on accommodating behaviour

The following questions relate to paragraphs 114-118 in the Preliminary Issues paper.

Q46 Is accommodating behaviour likely to be an issue in this industry? Please explain why/why not.

Due to strict anti-competition rules and companies being aware of the penalties associated with this, accommodating behaviour is unlikely.

Q47 How transparent is pricing for key building supplies?

Pricing for key building supplies is very transparent. Due to competition between merchants, and retailers taking part in a 'lowest price commitment' programme, builders are aware of the pricing available to them. Consumers also have the ability to compare prices online, and use per square metre pricing for comparative purposes.

Q48 Are there any other factors we should be aware of in considering accommodating behaviour in building supplies?

We have no further comments to make on this question.

<u>Questions on regulatory and standards systems</u>

<u>The following questions relate to paragraphs 119-132 in the Preliminary Issues paper.</u>

<u>Q49 Do the regulatory and standards systems (eg, product accreditation framework, building code and standards or consent process) make it easy or difficult for new and innovative building supplies to enter the New Zealand market and establish a presence? Please explain any difficulties posed and your view on whether it would be beneficial to make it easier for new suppliers to enter the New Zealand market.</u>

The challenge for new products entering the market from a regulatory perspective is the need for these products to match up to our Building Code. These products need to be fit for purpose for a minimum of 50 years, and so having testing models in place to prove can be difficult. BRANZ does have resources available on product testing, however there can be limits in capacity. Additionally, all new products which enter the market creates risk which ultimately sits with the builder as long the product falls under a warranty scheme.

We would not recommend changing regulations and standard systems in order for new products to enter the market easily, as these are in place to minimise risk and ensure quality of build for New Zealanders.

<u>Q50 What impact does the current regulatory environment have in encouraging or discouraging a move to 'green' building supplies?</u>

Legislation and regulation certainly has a role is encouraging a move towards green building supplies. Changes to H1 regulations in 2021 has meant that new builds will require higher insulation standards, with the intention of making homes retain heat better, which will then impact energy efficiency and the whole life carbon embodiment of a home. The Climate Change Response (Zero Carbon) Amendment Act 2019 will also encourage the industry to move towards an environmentally friendly future in order to meet our carbon neutral status by 2050. Climate Change and becoming environmentally friendly as an industry is a hot topic right now, and we expect this to continue.

Consumer demand will dictate the ultimate change to green supplies, as it is the consumer who decides what they would like their home to be. For example, solar panels are up to the consumer choice and installation will depend on consumer priority and price.

<u>Q51 Does the current regulatory regime favour incumbent suppliers over new entrants? If so, please explain how.</u>

RMBA does not believe that new entrants are restrained from a regulatory perspective. There are very little barriers stopping a supplier from entering the market.

<u>Q52 Does the current regulatory regime encourage vertical integration (including, for example, in-house product compliance) or vertical arrangements in the sector? If so, please explain how.</u>

No – there are not many challenges from a regulatory perspective.

<u>Q53 Does the current regulatory regime encourage the offer of 'systems' of products? If so, please explain how.</u>

We have no further comments to make on this question.

Q54 Are there any other factors we should be aware of in considering the regulatory and standards systems for building supplies?

The consenting process and the role of BCA's in the building industry and supplies. BCA's processes are inconsistent and inflexible, and so getting variations of products approved can be challenging. This needs to be improved through an overhaul of the consenting system, and consistency across BCA's through implementing electronic systems.

Questions on behavioural impediments

The following questions relate to paragraphs 133-138 in the Preliminary Issues paper.

Q55 Who are the key decision-makers for key building supplies?

The consumer is ultimately the decision maker on which products and designs are used. This is in conjunction with guidance from builders and designers. Builders will encourage the use of products which have minimal risk, to ensure quality and reduce liability risk over the long term. This is to the benefit of consumers, as they are using trusted products from suppliers who are efficient and run well.

In terms of merchants, and supplies available on the market as a whole, management and procurement teams will be deciding products to stock, based on history, logistical ability, financial strength and warranty provisions.

Q56 How do decision-makers choose the most appropriate building supplies to use?

a. Do decision makers default to choosing building supplies which have been used in the past? If so, please explain why,

   Our homes are the largest investment and most important purchase most New Zealanders will make in their lifetimes. Our builders recognise the importance of the role they have in delivering the best homes possible. Building projects often do use the same products they have in previous projects and can default to a particular brand and product. This is due to familiarity with the products and brands, and trust in those products. Homes need to last a century or more, and so using high quality and trustworthy products are important to the industry to ensure that homes are delivered to the highest standard possible.

b. Do decision-makers on key building supplies have full information available to them to make informed decisions? How costly is it to obtain this information?

   BRANZ publications and Better brands have information on building supplies. This is available to everyone and is free to access.

c. What role do warranties or other guarantees have in the decision to choose the key building supplies?

Warranties and guarantees are critical for our builders when deciding in which products to use. Homes need to meet Building Code requirements, and so the builder needs to be sure that products will last, and can be proven to last, for at least fifty years. If a product does fail, it is the builder who is the first point of call, and so there is risk to the builder in using untested or lesser-known products. If a supplier exits the market, this exacerbates the risk.

Q57 Do the incentives of the decision-makers on key building supplies align with the interests of consumers?

RMBA believes our members have the consumers best interests in mind when selecting building supplies. Using products with high reputations, and that deliver results benefits consumers in having assurance their home is one of quality.

Q58 Are there any other factors we should be aware of in considering decision-makers' behaviour in respect of building supplies?

We have no further comments to make on this question.

Questions on other issues and prioritisation

The following questions relate to paragraphs 139-140 in the Preliminary Issues paper.

Q59 Are there any other issues not raised in this paper that could impact competition in key building supplies?

Current labour shortages are an issue not considered in this paper that needs to be considered for building supplies. As unemployment is very low, and skilled labour is hard to come by, costs for employing staff are increasing. For manufacturers, the cost of staff is built into the cost of the supplies. This is passed on through the supply chain, increasing the cost consumers are seeing. The cost of securing a team to complete the work present in a company is becoming a financial challenge that could be further impacting the cost of building supplies.

Q60 Which potential issues do you think should be the priority issues to focus on? Please detail the reasons why.

We have no further comments to make on this question.

Conclusion

RMBA recognises that the current residential building supply market is not operating as efficiently as it could be. Housing is high demand, and so building supplies are in increasingly high demand to fulfil New Zealand's housing needs. We welcome the Commerce Commission inquiry into residential building supply competition and any recommendations that could improve the way the market operates. However, the building supply market is influenced by not only competition internally, but by government regulation and international market forces. These are out of reach for the Commerce Commission to control, however, continue to determine which supplies are the most needed, and which way the price of these products trend.

Registered Master Builders does not agree with the timing of the current inquiry. COVID-19 has impacted the market significantly, and this is expected to be a short to mid term issue. Any regulatory changes made from this report may have lasting effects, but were made to tackle a short term issue. We do believe that some results from this inquiry may be compromised due to the current global pandemic.

We continue to support our members and the building industry where we can in navigating the challenges in acquiring building supplies, but we continue to recognise the limits that any industry body has in truly impacting global and governmental influences. Therefore, we understand the challenge ahead for the Commerce Commission in their inquiry in covering the residential building supply market to a high standard.

RMBA thanks you for the opportunity to contribute through this submission.

We are keen to remain involved in this important strategy for New Zealand and are available to appear in person to talk to our submission if required.

David Kelly

CEO

Catherine Richards

Policy and Advocacy Advisor